

Show Me the Money!



Part 1: How do I pay for building a sustainable school?

January 26, 2011

Overview – Sources of Funding

1. “Equity type” sources?

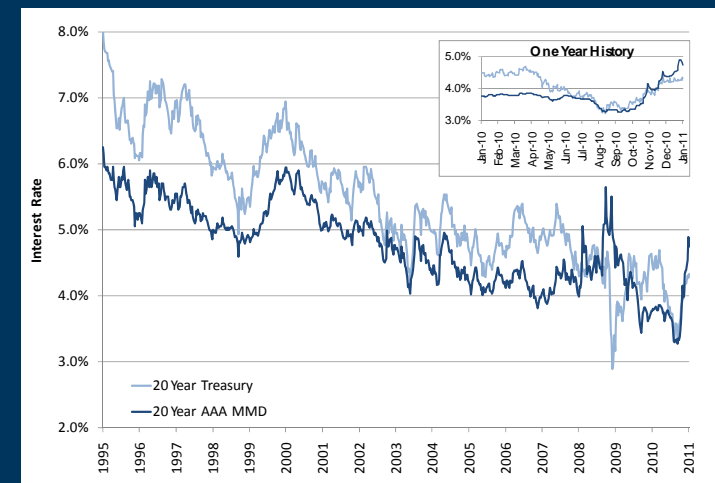
- Grants
- New Markets Tax Credits
- Public private (and non-profit) partnerships
- State of Oregon – Measure 68 X1-P Bonds?



OR

2. Borrow?

The reality is that “borrowing” is the primary source of funding for K-12 school and community college capital projects.



Overview – Capital *Financing* Options v. Operating Options

Capital

Funding Option

- ✓ GO Bonds
- ✓ FFC Obligations
- ✓ Local Option levy for capital

Repayment / Collateral

- ⇒ New, unlimited property tax levy
- ⇒ Unconditional pledge of existing general fund monies
- ⇒ New, limited property tax levy



Operating

Funding Option

- ✓ Local Option levy for operations
- ✓ Construction Excise Tax
- ✓ Tax Anticipation Notes

Source of Funds

- ⇒ New, limited property tax levy
- ⇒ New excise tax on new construction projects by square footage
- ⇒ Borrowing for cash flow purposes in advance of tax collections



Capital Financing Option 1: General Obligation Bonds

- ✓ Payable from unlimited property taxes.
- ✓ Considered most secure form of municipal debt.
- ✓ May only be used for capital costs with useful life of one year or more. Measure 68 still excludes routine maintenance or supplies.
- ✓ Levies for GO bonds are outside M5 and M50 rate limits.
- ✓ Require simple majority voter approval at May or November elections or double majority approval (majority approval and majority turnout) in March and September.
- ✓ Can be used for QSCBs and QZABs (if you were allocated).



Capital Financing Option 2: Full Faith and Credit Obligations

- ✓ Voter approval not required.
- ✓ Can be used for capital items where GO authority is unavailable or too limited.
- ✓ Based upon an unconditional promise to repay debt. Repaid from existing resources; no new taxes authorized.
- ✓ Repayment term limited to useful life of items being financed.
- ✓ No legal limit for school districts on how much is issued. Capacity limited by source of revenue available to repay debt. Annual debt service should be no more than 5-10% of general fund revenues.
- ✓ Pooled borrowing program (OSBA Flexfund) or stand-alone financing is available.
- ✓ Can be used for QSCBs and QZABs (if you were allocated).



Capital Financing Option 3: Local Option *Capital Levy*

- ✓ Local option levies present an alternative for raising additional capital or operating funds from property taxes.
- ✓ Available for capital (10 years or useful life of project, whichever is less). Local option for operations has 5 year limit.
- ✓ Can be levied as fixed dollar amount or rate per thousand.
- ✓ Requires simple majority voter approval at May or November elections or double majority approval at March and September elections.
- Because local option levies are subject to compression, a G.O. bond levy is a superior source of financing.

OPM: Putting it all together

Lane Community College Downtown Center Project



Total Project Cost:	\$34,900,000
Funding Sources	
Article XIX Bonds	\$ 8,000,000
College Matching Source - GO Bonds	9,000,000
City Contribution	8,000,000
Enterprise Fund	2,000,000
Energy Grant	550,000
Sustainability Incentive	400,000
NMTC Equity	4,711,727
Additional Sources	2,238,273
Total Sources	\$34,900,000

- ✓ This is about as good as it gets! Even so, note that at least 71% is still “borrowed” by somebody.
- ✓ Unfortunately, not likely replicated for most school districts. Community colleges may have more success. Chemeketa and Clatsop have both successfully leveraged New Market Tax Credits.

Back to Reality: “Debt is good. Debt works.” . . .

- ✓ OPM is elusive, complicated and at best, never nearly enough!
- ✓ If you have to borrow, what do you need to know to get started, prepare for an election and be prepared to execute a transaction?

Let us begin . . .

First you need a team

Financial Consultant and Bond Counsel are key team members

✓ **Financial Consultant (a.k.a “Investment Banker” or “Financial Advisor”)**

- Works with Issuer to determine bond size and structure
- Assists Issuer in evaluating tax rate impacts
- Provides guidance on timing of sale
- Plans and executes the sale and coordinates closing of the Bonds
- If financial institution, may also underwrite (i.e. purchase the bonds from the district and resell them to investors) bonds.



Financing Team

✓ Bond Counsel

- Provides guidance on eligible projects under Oregon law
- Assists Issuer in preparing ballot title
- Prepares legal documentation authorizing sale of bonds
- Provides guidance on federal tax law ramifications
- Provides investors with required validity and tax opinions



You Have Legal Restrictions

- ✓ K-12 debt limits: Districts may issue General Obligation bonds totaling no more than 7.95% of Real Market Value. This does not apply to non-voted debt such as “Full Faith and Credit” obligations or pension bonds.

(Realistically, voters are your true constraint on GO debt.)

- ✓ Ballot authorizes a \$ amounts of bonds. May not authorize a \$ per thousand levy rate.
- ✓ Bond proceeds, some reimbursement grants and interest earnings on bond proceeds must be used only for projects in the ballot title (and may also be used for costs of issuance).
- ✓ These same proceeds must also be used for capital costs as detailed by Measure 68 and as limited by Federal tax law. Routine maintenance and supplies not allowed.
- ✓ Interest on bonds is exempt from State of Oregon personal income tax.

Sizing Your Bond Issue

- Step 1: Perform needs analysis and determine project costs
- Step 2: Add issuance costs: assume 1.00%-2.00% of issue amount, depending on size and market conditions
- Step 3: Consider whether to adjust for anticipated interest earnings and “market dynamics”
- Step 4: Analyze tax impact and repayment structures
- Step 5: “Iterate” to alter tax rate impacts and to make changes to project list, as necessary.

Debt Repayment Options

⇒ Two most important things to remember:

1. Debt service repayment can be tailored to your specific and unique circumstances,

and



2. Structuring of repayment plan should take place simultaneously with sizing process. One “informs” the other.

⇒ Proper structure of your debt service (before the election) may be crucial to your election success.

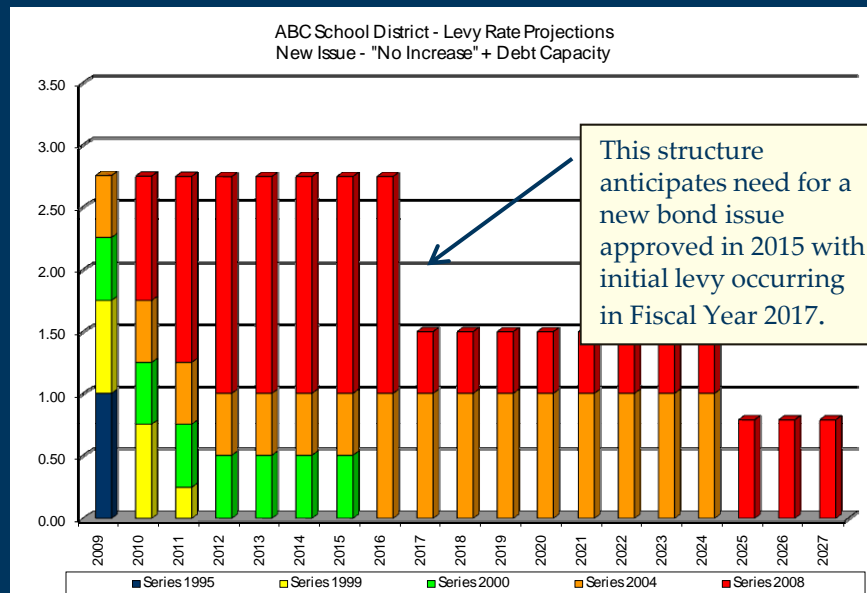
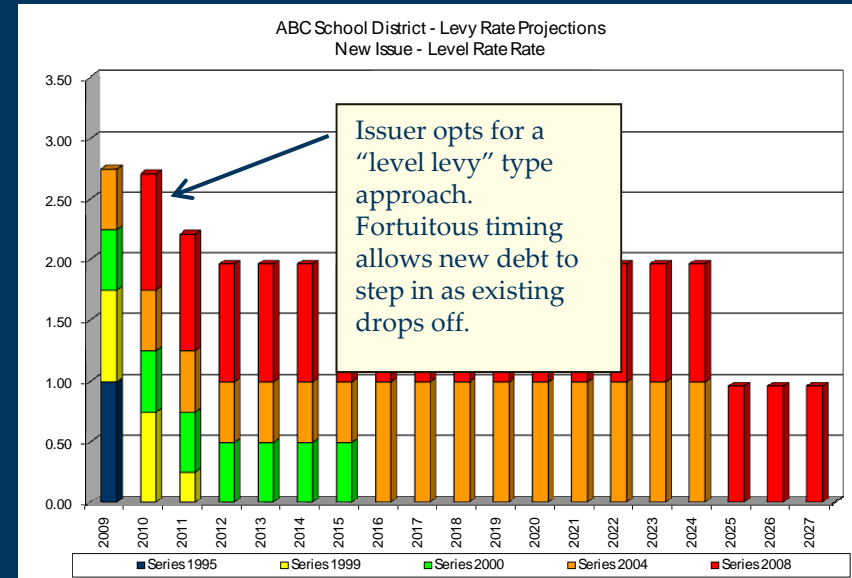
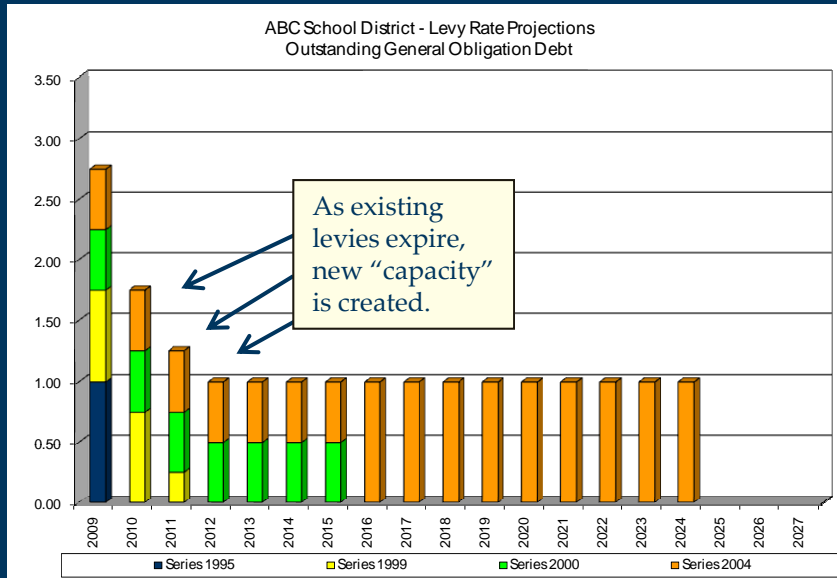
Debt Repayment Options

A balancing act:

- ✓ **Length of Issue** — *What maturity do you want?*
 - Useful life of items being financed
 - Trade-off between annual and overall cost
 - Specific community priorities and relationship with other outstanding debt
- ✓ **Number of Issues**
 - Authorized total can be split into multiple issues
 - Federal tax law may require
 - G.O. bond authorization can “mimic” capital serial levy
- ✓ **Levy Impact**
 - Level debt vs. level levy structures?
 - Focus on single issue or combined debt burden?
 - Future debt plans?



Examples of Structuring Considerations



Structuring choices should be unique to your community's needs.

Converting a Bond Authorization into a Capital Levy?

Portland School District's Innovative Idea

Unique PPS circumstances:

- ✓ Renovation or reconstruction of schools (vs. new schools)
- ✓ Limited capacity to handle projects in any given year
- ✓ Sheer number of facilities needing reconstruction requires a 30 year schedule.
- ✓ Need to control tax rate levy



This set of circumstances points to an ongoing capital levy. However, the limits on using a capital levy in Oregon make them virtually impossible to use.

Converting a Bond Authorization into a Capital Levy?

Portland School District's Innovative Idea

Solution?

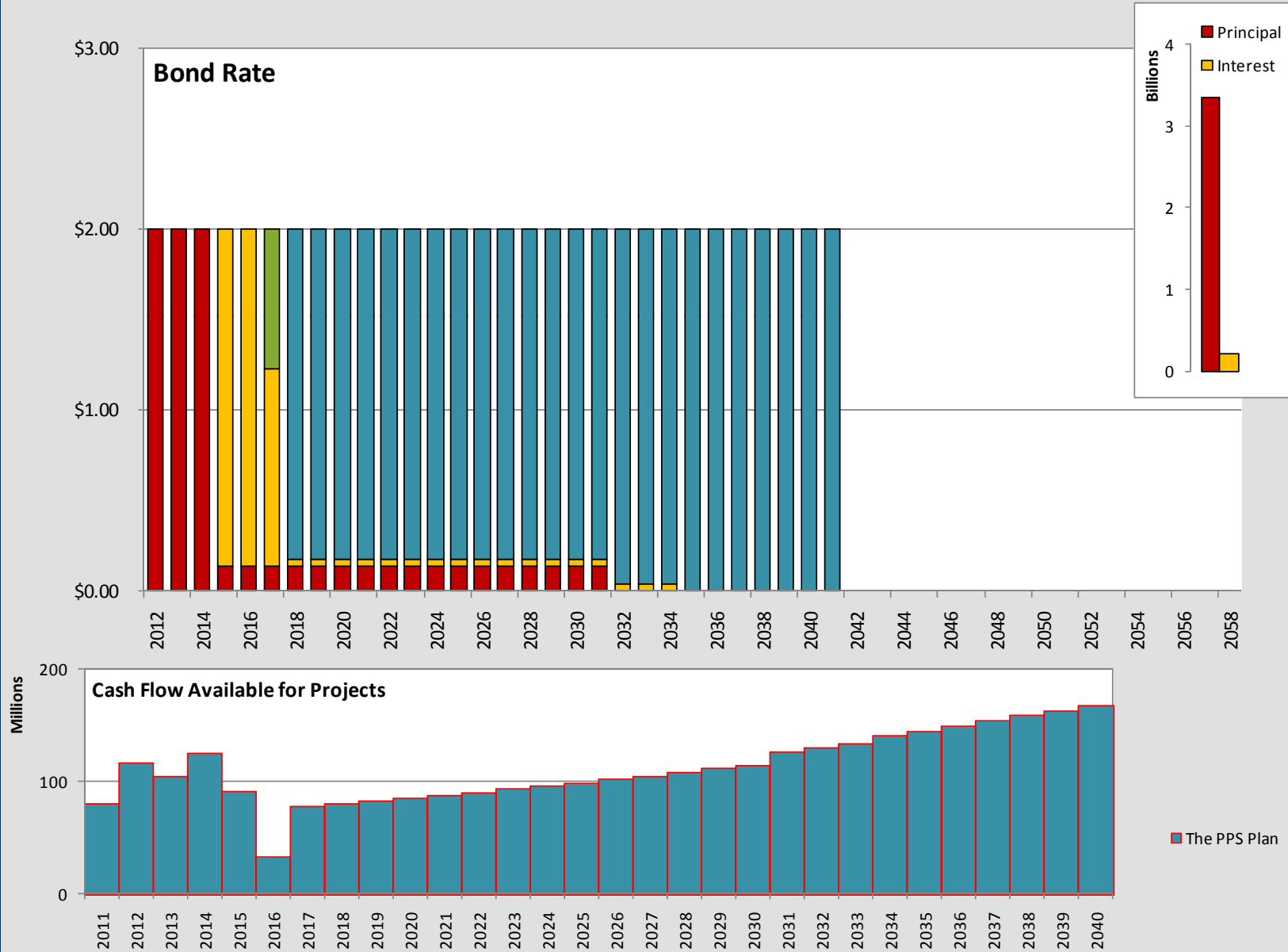
- ✓ Multiple bond issue requests
- ✓ Issue debt as one year obligations based on levy capacity changes in assessed value
- ✓ Use longer term debt only when needed to stay within levy constraints.

Advantages:

- ✓ Control bond levy rate
- ✓ Maximize amount of proceeds within levy constraint
- ✓ Minimize interest cost; maximizes construction proceeds
- ✓ Allows for flexibility and changes inevitable in longer term construction plans

Converting a Bond Authorization into a Capital Levy?

The PPS Plan



2011-12 Election Schedule

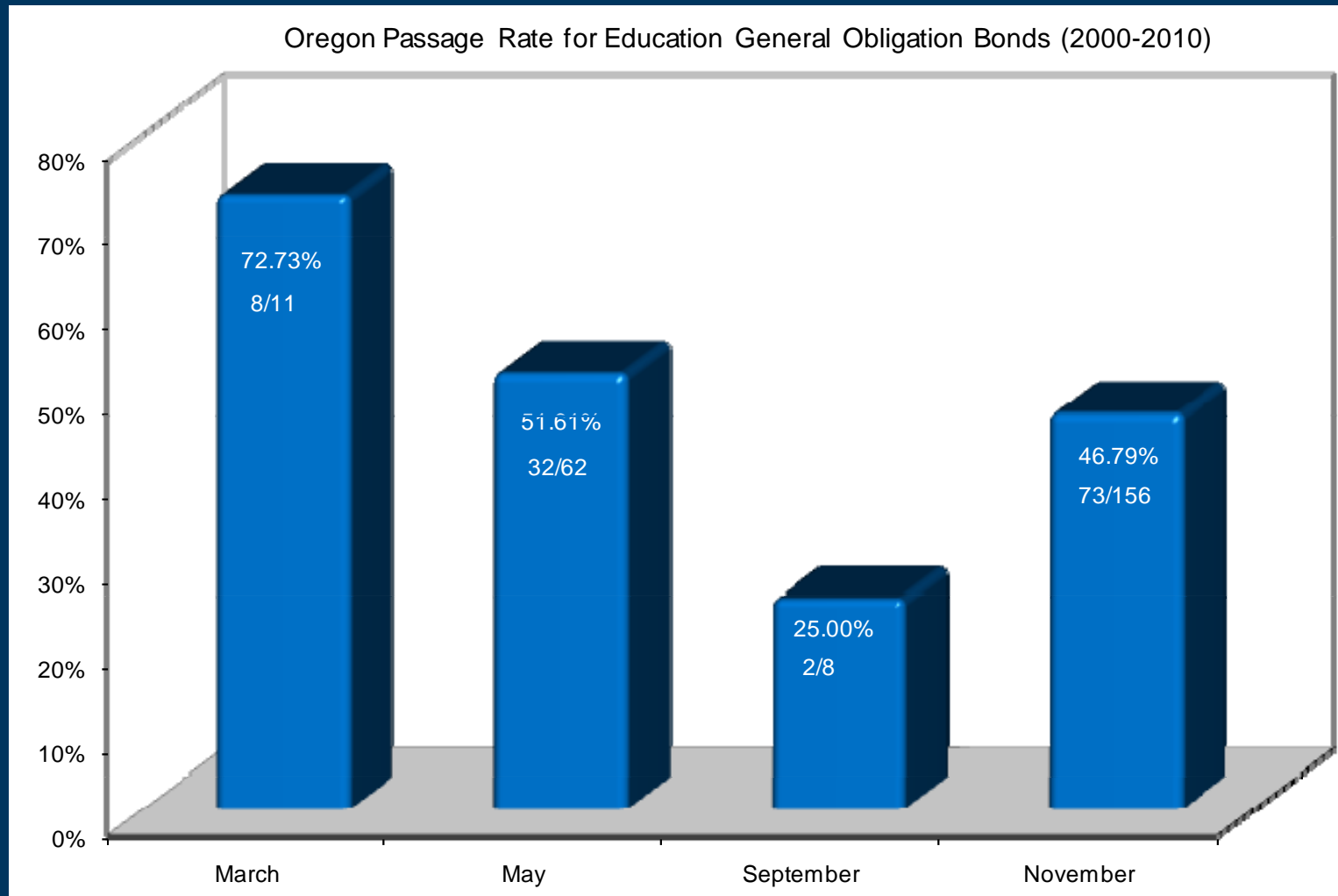
Election Date	Filing Deadline / Voters' Pamphlet Deadline	Ballots Mailed
May 17, 2011	March 17	April 27 - May 3
September 13, 2011 *	July 14	August 24 - August 30
November 1, 2011	September 1	October 12 - October 18
March 6, 2012 *	January 5	February 15 - February 21
May 15, 2012	March 15	April 25 - May 1
September 11, 2012 *	July 12	August 22 - August 28
November 6, 2012	August 30	October 10 - October 16

- ✓ Check with your County elections office to verify filing deadlines.
- ✓ All elections are by mail.
- ✓ Dates apply to both G.O. bonds and Local Option Levies.

* Subject to double majority provisions.

What are your odds?

48.5% of all G.O. education bond issues from March 2000 to November 2010 have passed.



Ongoing Ballot Title Issues

- ✓ Maximizing flexibility vs. specifying projects
- ✓ Separating projects in multiple ballot titles?
- ✓ Estimating levy impact — yes or no?
- ✓ Refinancing of existing obligations — needs to be in ballot if that is under consideration
- ✓ Using the explanatory statement in the voters' pamphlet
 - 500 words
 - file at same time as ballot title

Sample Ballot Title - Caption and Question

NOTICE OF MEASURE ELECTION

____ SCHOOL DISTRICT NO. ____
____ COUNTY, OREGON

NOTICE IS HEREBY GIVEN that on Tuesday, March 12, 2002, an election will be held within the boundaries of ____ School District No. __, ____ County, Oregon. The election will be conducted by mail. The following question will be submitted to the qualified voters thereof:

CAPTION: [10 words]

__ SCHOOL DISTRICT NO. __
GENERAL OBLIGATION BOND AUTHORIZATION

QUESTION: [20 words]

Shall the District be authorized to issue general obligation bonds to expand existing facilities at the __ Elementary and High Schools? If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of Sections 11 and 11b, Article XI of the Oregon Constitution.

Sample Ballot Title - Summary

SUMMARY: (175 words)

[This measure may be passed only at an election with at least a 50 percent voter turnout]

If approved, measure provides funds to:

- Construct and furnish additional classrooms, library and restrooms at the High School;
- Construct and furnish additional classrooms and restrooms at the Elementary School;
- Relocate maintenance facilities;
- Construct cafeteria, restrooms and relocate kitchen to west side of Elementary School; and
- Pay bond issuance costs.

Bonds will not exceed \$10,000,000 and will mature in 21 years or less.

Now that you have passed the bond . . . Federal Legal Restrictions

- Bonds will be exempt from federal income tax if certain rules are observed:
 - Proceeds must be used for public purposes.
 - Proceeds must generally be spent within 3 years.
 - Limitations on ability to earn interest profits on proceeds (arbitrage regulations).
 - Reimbursement regulations — limitations on ability to reimburse district for prior expenditures related to bond projects.
- Federal regulators such as the SEC are scrutinizing municipal securities much more carefully, which has led to new regulations governing municipal advisors and continuing disclosure.
- SEC requirement to “deem final” your preliminary official statement.
- 10b-5 liability extends broadly to any fraudulent activity “in connection with” the purchase and sale of securities.
- Misstatements or omissions in any material information an investor might reasonably be expected to rely upon.

Continuing Disclosure Compliance Securities and Exchange Commission Rule 15c2-12

Requires issuers of municipal securities of over \$1,000,000 in aggregate principal amount and certain “obligated persons” to enter into a written agreement for the benefit of the holders of the securities to provide:

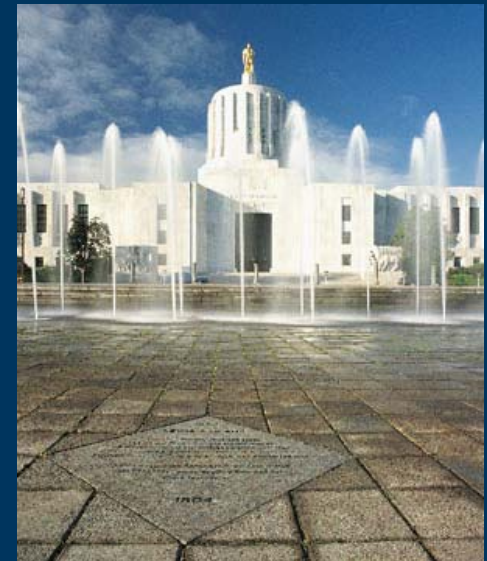
- ✓ Annual Financial Information
- ✓ Notice of certain Material Events
- ✓ Notice of any failure to provide required Annual Financial Information
- ✓ Non compliance reported in subsequent offering documents
- ✓ Filing on EMMA

Investment Policy & Proceeds

- State & Federal laws require interest earnings be used for projects under ballot title or for payment of debt service.
- Construction funds are subject to federal arbitrage/rebate rules. Should be in place prior to receipt of bond proceeds.
- Governed by O.R.S. 294 statutes.
- If investment horizon (construction period) is longer than 18 months, the policy needs to be sent to the Oregon Short Term Fund Board (STFB) for their review and comment.
- O.R.S. 294.035 dictates types of investment securities.
- Short Term Fund Board has a sample policy on their website.

What's new?

- Federal stimulus package programs expired on 12/31/2010 and are unlikely to be renewed on previous terms. However, \$60 million of QSCB authorization was carried forward, as was \$22 million of QZAB authorization.
- Some proposals to reauthorize BAB program.
- Measure 68 modifies terms for use of proceeds, adds authority for State to issue General Obligation bonds on behalf of school districts.
 - New constitutional authority (X1-P) for State to issue bonds to fund grants to K-12 schools for capital construction
 - Similar to program now in place for community colleges
 - Matching grant program – requires school district to provide matching local G.O.
 - Some legislation would limit uses (e.g. energy efficiency, full day kindergarten).
 - ODE charged with drafting administrative rules; implementing legislation has been introduced this session
 - Not expected to be funded this biennium



What's "Old"? Qualified Zone Academy Bonds (QZABs) and Qualified School Construction Bonds (QSCBs)

- QSCBs have \$60 million authorization remaining; however ODE has gone through preliminary allocation process. Expired with other ARRA provisions on 12/31/2010.
- QZABs were reauthorized by lame duck Congress. \$4.76 million allocation to Oregon for 2011.
- Based on *tax-credits*, not tax exemption.
- Need 10% private business contribution; 35% of schools must be eligible for free and reduced lunch.
- May be used for capital projects, including teacher training. If repaid with GO authority, however, subject to M50 limitations.
- Historic Oregon annual allocation approx \$4 million.

What's "Old"? QECCBs/CREBs = Energy Related Financing Tools

Qualified Energy Conservation Bonds (QECCBs)

- Tax credit for 70% of tax credit ("interest") cost. Issuer sells taxable bonds, and is responsible for any supplemental interest required by investor.
- National volume cap of \$3.2 billion. Allocation process based on population of state. 70% of allocation must be used for government purposes; 30% may be used for private activity bonds.
- Oregon allocation was approximately \$39.32 million. Process for allocation has not been determined by ODOE.
- This program is ongoing.
- Applicable to broad array of renewable and efficiency projects.



Clean Renewable Energy Bonds (CREBs)

- Available to municipalities that install renewable energy generation facilities such as windmills, solar panels, geothermal and other facilities.
- Financed assets can be leased to private parties and power generated can be sold to private parties.
- Competitive allocation process through the U.S. Treasury.

Summary

- ✓ Major capital projects will almost always require borrowing.
- ✓ Engage experts early to assist with finance plan.
- ✓ Make sure your projects are allowable for general obligation bonds.
- ✓ Bond structures need not be “one size fits all.” Structure to your specific needs and opportunities.
- ✓ Recognize you are issuing securities that are subject to state and federal securities and tax laws and ongoing disclosure responsibilities.
- ✓ Set up investment procedures ahead of closing.

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