The Nuts and Bolts of Bonds

OSBA Bonds & Ballots 2016
Question #1: What exactly is a bond, anyway?
Answer: Bonds are loans that are broken into pieces and sold to investors.

School Districts use bonds for major capital projects that cannot be financed on a pay as you go basis.
Question #2: What is a ‘tax exempt’ bond?
Answer: With any loan, borrowers have to repay principal AND interest. Interest is ‘income,’ and is usually subject to tax.

However, most bonds sold by municipalities are NOT subject to federal or Oregon income tax, lowering the interest rate.
Question #3: What is a ‘general obligation’ bond?
Answer: GO bonds are secured by property taxes and the district’s “full faith and credit”. Debt service is repaid by an additional property tax levy, and is therefore subject to voter approval.
Question #4: When can you ask voters to approve GO bonds?
Answer: There are four election dates every year for GO bond authorization: March, May, September and November. May and November are NOT subject to double majority.
Question #5: How much can I ask for?
Answer: Under Oregon law, K-12 districts are subject to a GO debt limit of no more than 7.95% of Real Market Value.

That’s a REALLY big number that would lead to very high property tax rates.

Realistically, what voters are willing to approve is your true constraint.
Question #6: Which election gives me the best outcome?
Answer: That’s a tricky question . . . The overall passage rate for School Districts since 2000 has been 53%, but since 2010, May has been significantly better than November.
Other factors to consider in election date selection

<table>
<thead>
<tr>
<th>MAY</th>
<th>NOVEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy budgeting of debt service payments for the following fiscal year.</td>
<td>Election occurs after completion of budget and levy cycles. So, debt service cannot be paid until the following FY, leading to higher interest in first year.</td>
</tr>
<tr>
<td>Can hit the summer construction season immediately with shovel-ready projects.</td>
<td>Election occurs right after property tax bills arrive</td>
</tr>
<tr>
<td></td>
<td>Typically has higher turnout, particularly in presidential years. But there may be other things competing for attention.</td>
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</tbody>
</table>

Bottom line: Select the election that works best for YOUR District and YOUR community.
Question #7: Are there any ways to improve my odds?
Answer: SB 447!!

Thank You, Senator Devlin!
SB 447 specifics

- SB 447 authorizes State to provide approximately $123m to match school district GO bonds.
- Minimum match is $4 million or amount of local bonds, whichever is less. Maximum of $8m.
- Formula determines exact amount, based on property wealth per ADMw and poverty statistics.
  - For majority of SDs, actual calculated amount is less than $4m, so most will receive minimum.
  - Only 36 SDs are eligible for more than the minimum.
  - Only 14 SDs would be eligible for more than $8m if no maximum was set.
SB 447 Specifics (cont’d)

- 60% of funds allocated in rank order based on property wealth and poverty. 40% will be allocated ‘First in Time’.
- Those with SMALLEST property values per student and HIGHEST student poverty percentages will have highest priority ranking.
- Funds will be divided between three elections: May 2016, November 2016 and May 2017 elections.
- Highlights of program, application form and ranking charts can be found here:

  http://www.ode.state.or.us/search/results/?id=398
Application due date for May election was January 15, 2016. Due dates thereafter are expected to be July and January.

ODE determines and notifies those who qualify in both pots shortly after due date so info can be used in campaigns.

Districts will be asked to submit final election resolution within a month after notice of qualification.

ODE will also maintain a waiting list for those who choose to proceed with election.

Those on waiting list will face choices about how to describe State program and related levy impacts in ballot title.
## Round 1 Applications – Priority Ranking

<table>
<thead>
<tr>
<th>District Name</th>
<th>Bond Amount</th>
<th>Priority List</th>
<th>OSCIM Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nyssa 26</td>
<td>$4,000,000</td>
<td>2</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Ontario 8C</td>
<td>$4,000,000</td>
<td>17</td>
<td>$4,000,000</td>
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<tr>
<td>Echo 5</td>
<td>$4,000,000</td>
<td>19</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Adrian 61</td>
<td>$945,000</td>
<td>24</td>
<td>$945,000</td>
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<tr>
<td>Falls City 57</td>
<td>$2,000,000</td>
<td>25</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Milton-Freewater Unified 7</td>
<td>$12,500,000</td>
<td>32</td>
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<tr>
<td>Centennial 28J</td>
<td>$85,000,000</td>
<td>37</td>
<td>$7,095,543</td>
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<tr>
<td>Jefferson 14J</td>
<td>$26,000,000</td>
<td>41</td>
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<tr>
<td>Mapleton 32</td>
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<tr>
<td>South Umpqua 19</td>
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<tr>
<td>Yoncalla 32</td>
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<td>56</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Gaston 511J</td>
<td>$9,400,000</td>
<td>64</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>McMinnville 40</td>
<td>$89,400,000</td>
<td>72</td>
<td>$7,145,433</td>
</tr>
<tr>
<td>South Lane 45J3</td>
<td>$35,000,000</td>
<td>76</td>
<td>$4,000,000</td>
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<tr>
<td>Hood River County</td>
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<td>112</td>
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<tr>
<td>Lowell 71</td>
<td>$4,000,000</td>
<td>118</td>
<td>$4,000,000</td>
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<tr>
<td>Junction City 69</td>
<td>$11,000,000</td>
<td>134</td>
<td>$4,000,000</td>
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<tr>
<td>Tillamook 9</td>
<td>$4,000,000</td>
<td>138</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Rainier 13</td>
<td>$2,000,000</td>
<td>168</td>
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<tr>
<td>Condon 25J</td>
<td>$3,000,000</td>
<td>185</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Nestucca Valley 101J</td>
<td>$23,168,000</td>
<td>193</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Arlington 3</td>
<td>$3,000,000</td>
<td>194</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Sisters 6</td>
<td>$10,700,000</td>
<td>196</td>
<td>$4,000,000</td>
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## Round 1 Applications – First in Time

### OSCIM Program First-in-Time List Recipients

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<tr>
<th>District Name</th>
<th>Bond Amount</th>
<th>OSCIM Grant</th>
</tr>
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<tr>
<td>Athena-Weston 29RJ</td>
<td>$ 4,000,000</td>
<td>$ 4,000,000</td>
</tr>
<tr>
<td>Siuslaw 97J</td>
<td>$ 35,000,000</td>
<td>$ 4,000,000</td>
</tr>
<tr>
<td>Yamhill-Carlton 1</td>
<td>$ 16,200,000</td>
<td>$ 4,000,000</td>
</tr>
<tr>
<td>Molalla River 35</td>
<td>$ 75,000,000</td>
<td>$ 945,000</td>
</tr>
<tr>
<td>Central Linn 552</td>
<td>$ 30,000,000</td>
<td>$ 2,000,000</td>
</tr>
<tr>
<td>Corbett 39</td>
<td>$ 18,000,000</td>
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</tr>
<tr>
<td>Gaston 511J</td>
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</table>
Question #8: How do I calculate the levy rate impact on my taxpayers?
“Does ‘high-rise’ refer to the building or the budget?”
**Answer:** The assessor calculates the levy rate using an arithmetic equation.

\[
\frac{\text{Debt Service Due + Delinquencies}}{(\text{District Assessed Value}/1,000)} = \text{Bond Levy Rate}
\]

- \[
\frac{950,000 + 50,000}{($1 \text{ billion}/1,000)} = $1.00
\]
- \[
\frac{950,000 + 50,000}{($500 \text{ million}/1,000)} = $2.00
\]
- \[
\frac{950,000 + 50,000}{($2 \text{ billion}/1,000)} = $0.50
\]

Levy rates can and will fluctuate over the life of an issue, depending on the actual growth rate in AV.

**Districts CANNOT guarantee a rate; actual rate paid will depend on AV in future.**
Question #9: What repayment options do I have?
Answer: Many! Things to think about:

- Length of Issue
  - Useful life of financed items?
  - Annual vs overall cost
  - Specific community priorities
- Levy Impact
  - Focus on single issue or combined debt burden?
  - Future debt plans?
Expiration of existing bonds creates capacity for new bonds issued at "no tax rate increase"
Combined “Continuation” Levy

New bonds structured to fill current window and create future opportunity for additional bonds.
Level Levy of New Issue

New bonds sold with a level levy structure

Existing Debt

Bond Rate

Question #10: Who are the players that will bug me through the financing process?
Answer: Before the election, there are two key categories of service providers: financial professionals and legal professionals. Most will not charge fees prior to the election.
A financial professional - either an Underwriter or a Municipal Advisor - provide the following financial services:

Pre-election:
- Bond structuring, tax rate calculations
- Review of ballot title

Post-election:
- Coordinate schedule of events
- Prepare disclosure documentation
- Assist with bond rating
- Assist with bond sale
- Coordinate closing details
**Bond Counsel** is a specialized attorney that provides bond-related services, including:

- Guidance on eligible projects under Oregon law
- Assistance with preparing ballot title
- Preparation of documentation authorizing bond sale
- Guidance on federal tax law ramifications
- Providing investors with required validity and tax opinions

Both financial and legal professionals will likely require an engagement agreement prior to providing services.
Question #11: What projects can GO bond proceeds be used for?
Answer: There are both State and Federal limitations on how you can use the money.
Use of Proceeds: STATE Constitutional Limits

Proceeds must used as follows:

- For “capital costs” with a useful life of 1 year or more
- “Capital Costs” means:
  - Land and other assets
  - Acquisition
  - Construction
  - Improvement
  - Remodeling
  - Furnishing and equipping
  - Maintenance or repair
Eligible projects are those where the “weighted average life” of bonds does not exceed the “weighted average life” of assets.

Projects that are “routine” maintenance or supplies are not eligible.

Technology, furnishings and large scale maintenance projects would all qualify.
Under ORS 328.205, SDs may issue bonds for the following projects:

- Acquire, construct, reconstruct, improve, repair, equip or furnish a school building or school buildings or additions thereto.

- Fund or refund the removal or containment of asbestos substances in school buildings and for repairs made necessary by such removal or containment.
State Statutory Limits (cont’d)

- Acquire or improve all property, real or personal, to be used for district purposes, including school buses.
- To fund or refund outstanding debt and provide for payments of debt.

Ballot Title Limits:

- District ballot title (to be discussed later) is usually your most detailed limitation.
FEDERAL Tax Law Limits

- Because interest payments on these bonds are exempt from federal tax, the federal government also has limits on how bond proceeds can be used.

- In general, public purpose projects are ok.

- However, there may be limitations on ‘partnerships’ that a school district might have, with, for example, non-profits.

“A child of five could understand this. Fetch me a child of five.”

- Groucho Marx
Question #12: Who helps to write the ballot title?
**Answer:** Bond Counsel assists the issuer in preparing the ballot title.

Communications staff are also sometimes involved.
Question #13: What goes into the ballot title?
Answer: The ballot title must contain:

• a not-to-exceed amount
• a not-to-exceed maturity
• a description of identified projects
The Board of Directors of the SD approves the ballot title through the adoption of an election resolution.

Cannot guarantee a $ per thousand levy rate, but CAN provide estimate of projected levy rate.

The list of identified projects should include both those to be funded with bond proceeds and SB 447 grant proceeds. They should not be separated out, but the total should include all projects.
Question #14: What is an explanatory statement?
Answer: The explanatory statement appears in the voters’ pamphlet under ORS 251.345. It’s an impartial, simple and understandable statement explaining the measure and its effect.
Ballot Dos and Don’ts

The ballot title and explanatory statement shall:

- Contain required legal language.
- Be impartial (advocacy vs. information).
- Not exceed word limits under ORS 250.035; and
- Contain “a reasonably detailed, simple and understandable description of the use of proceeds” under ORS 250.037
Question #15: Can I get back the money I spent before I passed the bond?
Answer: It depends...
Reimbursement - GENERAL

General

Declaration of Official Intend (DOI)

- Reimbursement Period (runs from when $ actually paid).
  - Starts 60 days before DOI.
  - Ends no later than the later of 18 months (3 years for small issuers) after expenditure paid or date project placed in service.
Reimbursement - EXCEPTIONS

Exceptions

- De Minimis (lesser of $100,000 or 5% of proceeds).
- Preliminary expenditures (architect, engineering, etc. but can’t exceed 20% of issue price).

- Reimbursement of district from SB 447 grant funds is subject to a different set of rules to be discussed in the next session.
Question #16: How long do I have to spend the money?”
Answer: It’s complicated.

Welcome to the fun world of Federal tax law!
Federal Tax Laws

- Early Issuance (85% Rule)
- Reimbursement Resolution
- Arbitrage and Rebate
  - General Rule
  - $5 Million Small Issuer Exception
- Bank Qualification
- Private Use (also State constitutional issue)
- Tax Audits
Examples of possible private use:

- Sale of financed property
- Lease of financed property
- Other private rights to financed property

Does your District have a system for monitoring private use of financed facilities on a regular basis?
Document Retention

- Retain documentation to establish tax-exempt status of the bonds on audit (e.g. invoices, construction contracts, investments and expenditure records, contracts for use of financed facility).

- Bond term plus 3 years (including refunding bonds).

- Does your District have a system for retaining bond-related documents for the required retention period?
Question #17: Can you give us a real life example of how all of this worked?
Answer: We sure can!

Welcome to Woodburn.
Woodburn School District: Quick Facts

- Woodburn City population: around 24,750.
- 60% Hispanic or Latino (Oregon average 11.7%).
- 60% speak other than English at home (Oregon average 14.8%).
- 26% below poverty level (Oregon average 16.2%).
- 100% of Woodburn SD students receive free lunch.
- Last passed a bond in 1995 after 3 times on the ballot.
- Failed again in 2000 (60% no), 2006 (61% no), and 2009 (68% no).
Bond Planning

- Began in January 2013 with a goal of putting a Measure on the May 20, 2014 ballot.
- Called our Underwriter and our Bond Counsel.
- Hired a Consultant to do a Facility Assessment and develop a Project List
The Teams

- Formed **Bond Planning Committee**, including:
  - School Board;
  - Superintendent; and
  - Director of Business

- Formed **Organizing Team** which added:
  - Maintenance Supervisor;
  - Cabinet Members;
  - Underwriter, Bond Counsel, and Consultant

- Formed **Review Team** which added: Parents, Business Leaders, Elected Officials, Principals, Teachers, Classified Staff, Confidential Staff, and Students
The Process

- Hired DHM Research to conduct survey.
- Completed the Facility Assessment and Project List.
- Began Team meetings in August 2013.
- Divided our Facility Assessment into three major categories:
  - Program or capacity needs;
  - Structural/Mechanical/Abatement needs; and
  - Extend the Life of our Fixed Assets by 20 Years
The Process (cont’d)

- Held Review Team meetings until early 2014 when we had a good list of Projects to present to general public.
- Held regular public meetings at every school.
- Made presentations at community meetings (e.g. Rotary).
- Regular communications via website and local newspaper.
- Conducted tours of facilities for public.
- Measure went on ballot as a ‘replacement measure’ as the last bond would be fully paid in 2015.
- Set goal for new bond of trying not to increase the rate per $1,000. This also drove our “not to exceed” amount.
We lost the May 20, 2014 election by only 37 votes.
Next Steps

- May 19, 2015 ballot

- Communicate, communicate, communicate

- We did not change our not to exceed amount.

- We emphasized the estimated rate per $1,000.

- More meetings, more information, repeating the message from the previous year.
The Result!

Woodburn SD passes bond on second try

Created on Wednesday, 27 May 2015 01:00 | Written by Tyler Francke

INDEPENDENT PHOTO: TYLER FRANCHE - A group of volunteers, Woodburn school board members and district staff celebrate the passage of the district’s $65 million bond measure last week at Abby’s Legendary Pizza.

Cheers, hugs and a jubilant atmosphere characterized the crowd of about 50 people who gathered at Abby’s Legendary Pizza last week to watch the results of the vote on the Woodburn School District’s proposed $65 million bond issue.
Questions?
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