



OREGON SCHOOL BOND MANUAL

THE PURPOSES AND PROCEDURES
FOR BORROWING

18TH EDITION



FEBRUARY 2026

OREGON **SCHOOL BOND** **MANUAL**

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AND PROCEDURES
FOR BORROWING**

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18TH EDITION
FEBRUARY 2026

Foreword

The *Oregon School Bond Manual* was written to help school district, education service district and community college officials understand their long- and short-term borrowing options.

This newly updated 18th edition is the result of a collaboration between the Oregon School Boards Association, Piper Sandler & Co. and Hawkins Delafield & Wood LLP. It was reviewed by Lauren MacMillan, Piper Sandler & Co.; Carol McCoog and Sarah Dickey, bond counsel, and Jennifer Cordova, tax attorney, Hawkins Delafield & Wood LLP; Howard Moyes, operations and policy analyst, Oregon Department of Revenue; Leanna Heiman, OSCIM Program and TAP administrator, Oregon Department of Education; Jackie Olsen, executive director, Oregon Association of School Business Officials; and Morgan Allen, Coalition of Oregon School Administrators deputy director of policy and advocacy; and produced at OSBA. Individual chapters were contributed by Angie Peterman, former executive director of the Oregon Association of School Business Officials, and Marcia Latta.

Please keep in mind as you use this manual that although best efforts were made to provide current information, you must rely on advice from your attorney or bond counsel on issuing or administering debt.

If you have questions or suggestions regarding this manual, you may contact one of the following:

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We believe this manual, which is based on state and federal laws, rules, and regulations in effect in January 2026, will be extremely useful for your finance team and will help them successfully issue debt when the need arises. We welcome your feedback.



Emielle Nischik, executive director
Oregon School Boards Association

Go to the OSBA website to view, download or print this manual, which contains all the details you need to understand the long- and short-term borrowing options for school districts, education service districts and community colleges.

osba.org/bbb-materials

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DISCLAIMER

In producing the Oregon School Bond Manual, the authors and editors used their best efforts to provide the most accurate information and materials for reference in planning for and issuing debt. Content is based on state and federal laws, rules and regulations in effect in January 2026. Consequently, the authors can make no warranty or representation as to the accuracy and completeness of the information and materials provided in this manual at the time it may be used. Only the advice of an attorney who is legally authorized to advise you offers legal protection against the personal liability of officials who take action on financial matters.

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Introduction

“Begin at the beginning and go until you come to the end; then stop.”

Lewis Carroll

Oregon school districts, education service districts (ESDs) and community colleges (“districts”), like other municipal entities, borrow money for two general purposes:

- ▶ To finance capital projects and major purchases that are too expensive for payment from current operating budgets
- ▶ To make up for timing mismatches that occur between required expenditures and the receipt of property taxes and state funds

In both cases, school districts, ESDs and community colleges may borrow money directly from financial institutions or equipment vendors or sell debt in the public market.

This 18th edition of the Oregon School Bond Manual is designed to help the boards and staffs of Oregon school districts, ESDs and community colleges accomplish borrowing as efficiently as possible.

The manual includes information about kinds of borrowing, procedures for borrowing, the professional assistance needed to meet federal and state borrowing requirements, tax treatment of interest on debt obligations, explanations of ratings and types of credit enhancement, securities law concerns and other topics. We’ve included a discussion of Oregon’s Local Budget Law as it relates to debt issuance and a glossary of municipal finance terms.

Note: This manual does not include borrowings designed to address a district’s unfunded Public Employees Retirement System (PERS) liability. PERS transactions are not traditional borrowings for capital projects or cash flow deficits. Districts considering using debt instruments to fund PERS

liabilities should consult legal and financial service professionals with specific expertise in PERS financings.

What’s Inside?

Chapter 1, The Financing Team and Public Debt Markets, outlines how bonds and other securities are sold through public debt markets; the professionals required to assist districts with their borrowing needs; and the roles and responsibilities of boards and district staff in the borrowing process.

The next three chapters include descriptions of the borrowing process for long- and short-term debt.

Chapter 2, General Obligation Bonds, describes general obligation bond requirements including the use of proceeds, debt limitations, classification of taxes and structuring repayment schedules. General obligation bonds typically can be used to finance capital costs over an extended time period and are repaid through an additional property tax levy. Districts must have voter approval to issue general obligation bonds.

Chapter 3, Financing and Lease-Purchase Agreements, lists requirements for entering into lease-purchase agreements or issuing full faith-and-credit obligations (FFCOs). Lease-purchase agreements and FFCOs typically are used to pay the costs of acquiring equipment and buses, for building construction or remodeling, or any real or personal property item. The use of lease-purchase agreements and FFCOs does not require voter approval but is typically repaid from existing resources.

Chapter 4, Short-Term Borrowings, includes information about tax (and revenue) anticipation notes (TANs or TRANs), bond anticipation notes (BANs) and grant anticipation notes (GANs). Districts use these methods of short-term borrowing when they have a temporary mismatch between the receipt of funds and required expenditures.

Chapter 5, The Bond Election Process, has information on election dates, ballot title requirements, voting by mail, gathering and utilizing community input, conducting successful bond elections, and election do's and don'ts for public officials.

Chapter 6, Federal and State Tax Treatment, describes federal and state laws and rules that regulate the investment and use of bond proceeds. Topics include basic information about the complex issues involved with tax-exempt status, including changes in use, arbitrage, investment and yield restrictions; rebate, registration and reimbursement rules; and IRS reporting requirements. Interest on bonds issued by school districts is generally exempt from federal and state income tax, but failure to comply with federal and state rules can cause such interest to become taxable retroactively. To avoid any problems, districts should consult with bond counsel when dealing with federal and state tax treatment issues.

Chapter 7, Federal Securities Law Disclosure Requirements, outlines the Securities Act of 1933, Securities Exchange Act of 1934 and Securities and Exchange Commission Rule 15c2-12 standards for disclosure and requirements for continuing disclosure. Again, this area of federal law is complex. It is wise to work with underwriters, municipal advisors

and bond counsel in complying with disclosure and continuing disclosure requirements.

Chapter 8, Credit Analysis, Ratings and Bond Insurance, explains bond ratings, rating agencies and the services they provide, the factors considered in determining ratings, whether districts should apply for a rating and bond insurance options. A municipal advisor or underwriter can explain rating options that best suit the circumstances.

Chapter 9, Refundings, discusses the three reasons to consider refinancing ("refunding") debt obligations: debt service savings; debt restructuring; or change in legal status of debt covenants. It also describes types of refundings. Because of the complexity of state and federal regulations involved in refunding transactions, issuers contemplating refundings should seek the advice of bond counsel and underwriters or municipal advisors early in the process.

Chapter 10, Local Budget Law, deals with those sections of the law that apply to debt. Topics covered include establishment of capital projects and debt service funds, bond repayment structuring, appropriation and other debt service issues.

Chapter 11, The OSCIM Program, explains how legislation approved in 2015 made it possible for districts to potentially receive state matching grant funds after passing a local bond measure for capital costs. Each chapter includes a checklist of important steps districts should follow and answers to frequently asked questions.

Appendix I is a glossary of municipal finance terms.

Appendix II lists, by chapter, the citations for state and federal laws referred to in this publication.

Appendix III contains a brief

description of interest rate exchange agreements or swaps. An important typical feature of municipal debt is that, if properly structured, the interest on that debt is not subject to federal or state income taxes. This tax-exempt status enables public education institutions to borrow at lower interest rates than are available to individuals or private businesses.

To protect the tax-exempt status of their debt obligations, school districts, ESDs and community colleges must diligently comply with all pertinent state and federal laws, rules and regulations.

In addition, investors will not purchase tax-exempt bonds without a bond counsel's opinion. Consequently, this manual cannot substitute for the advice of a duly appointed bond attorney on any procedure or transaction that involves the issuance or administration of municipal debt.

The Financing Team and Public Debt Markets

“Earn nicely, spend wisely and you will live happily.”

Oscar Auliq-Ice

Nationwide, billions of dollars in municipal bonds are issued every year. The U.S. Securities and Exchange Commission (SEC) estimates a current total of \$4 trillion in outstanding municipal bonds. Issuers, in addition to school districts, ESDs and community colleges, include the full range of municipal jurisdictions:

- ▶ States, cities, counties
- ▶ Municipal power authorities
- ▶ Transportation districts
- ▶ Urban renewal agencies
- ▶ Hospital districts
- ▶ Housing agencies
- ▶ Park, fire and water districts
- ▶ Private universities and other types of 501(c)(3) non-profits such as hospitals and museums

Oregon's share of the national market historically represents approximately 1.26 percent. Oregon's school districts, ESDs and community colleges represent roughly 0.38 percent.

Municipal securities generally are tax exempt, meaning the interest payments are not subject to federal income tax, nor typically to

state personal income tax of the bondholder. This tax-exempt status makes municipal bonds a desirable investment for investors who are willing to accept lower interest rates in exchange for the tax advantages municipal bonds offer. To establish and maintain tax-exempt status for debt obligations, districts must comply with all federal and state laws, rules and regulations that relate to public debt. This chapter introduces the financial and legal experts available to assist districts in borrowing money in compliance with current regulations. It describes their roles and the roles and responsibilities of the board and district staff. In addition, it includes information about the public debt market where municipal bonds are sold.

The Financing Team

Federal and state laws, rules, and regulations governing public debt are complex and constantly changing. Consequently, the district's first step in any borrowing is to identify its borrowing team, which should include:

Six Steps for Successful Borrowing

- Develop a long-term capital construction and improvement plan.
- Identify potential municipal and professional experts, e.g., bond counsel, underwriter or municipal advisor.
- Engage financial and professional experts.
- In consultation with the financing team, determine funding needs and the appropriate type of borrowing, and obtain voter approval if a general obligation bond.
- In consultation with financing team, structure debt and sell the bonds.
- Adopt policies and procedures to maintain the borrowing's tax-exempt status and comply with continuing disclosure obligations, if applicable.

- ▶ The issuer (board members, the superintendent/president, business official and other appropriate staff)
- ▶ Underwriter and/or municipal advisor
- ▶ Bond counsel

In addition to these financing team members, districts may encounter other participants during the process of issuing and administering bonds:

- ▶ Paying agents who serve as a liaison between the district and the investors who own the district's bonds
- ▶ Regulatory groups such as the Oregon State Treasury, the Internal Revenue Service and the Securities and Exchange Commission
- ▶ Rating agencies
- ▶ Firms that calculate arbitrage rebate liabilities

Because municipal bonds are sold under the laws of 50 different states, the municipal market is often more regional than national.

While Oregon school district, ESD and community college bonds are usually sold to investors nationwide, districts are likely to find that financial consultants and bond counsel for their issues come from regional or local service providers who understand local laws, regulations and customs. This is true for local issuers in other parts of the country as well.

The Issuer

The issuer is the school district, ESD or community college that issues or enters into the debt obligation. The issuer, both before and after closing, is responsible for fulfilling all legal requirements for the debt. (For purposes of this manual, the terms district and issuer are used interchangeably.)

The district board authorizes the process through resolutions.

District staff (usually the business manager/chief financial officer or superintendent/president) are delegated authority by the board to execute transaction details.

The issuer's roles in the financing process are as follows:

Board of directors – The district's board of directors must make the major policy decisions related to any financing. For general obligation bonds, the key components of the policy decision are included in two resolutions, one that authorizes the election and one that authorizes the financing and sets the general terms of the transaction (passed after the election is successful). For other types of debt, only the resolution authorizing the financing is required.

Whether the board is involved in a more detailed role or prefers to delegate the authority to authorized district officials varies from district to district. The board has certain responsibilities to fulfill, either actively or through delegation:

- Directing the preparation of a long-term capital construction and improvement plan.
- Determining the district's funding needs in consultation with members of the financing team.
- For general obligation (GO) bonds, adopting a resolution (prepared by bond counsel) authorizing the election, ballot title and reimbursement, if required.
- Adopting a resolution (prepared by bond counsel) authorizing the issuance and sale of the bonds. For general obligation (GO) bonds, the resolution must establish the tax classification to pay the bonded indebtedness as outside Oregon constitutional limits.
- Authorizing the method of sale and the execution of all

issuance-related documents and contracts.

- If desired, causing publication of the notice declaring that bond proceed uses are authorized by Oregon constitutional limits. The notice must be published within 15 days after the authorizing resolution is adopted.

District staff – Depending on the district's size and administrative structure, the superintendent/president, business manager/chief financial officer or other district staff have responsibility for financing process details. District staff, following board direction, selects and oversees financing team members.

After selecting financial experts and bond counsel, district staff works with them through the preliminary debt analysis and structuring, the election process (if applicable), and the authorization, sale, execution and delivery of the bonds. Specifically, staff responsibilities include:

- Providing bond counsel with a project description and draft wording for the ballot title and resolution.
- Providing financial consultants with the required disclosure information for the preliminary and final official statements and reviewing the documents.
- Providing information required by rating agencies and bond insurers.
- Applying for the Oregon School Bond Guaranty program for GO bonds.
- Overseeing and participating in the bond sale process. This includes approving bond pricing (either through negotiation or bid) and assisting bond counsel by providing all requested closing documentation.
- Directing establishment of capital project funds for the

deposit and investment of bond proceeds (including calculating and paying rebate, if any, during the life of the bonds) and debt service funds to account for the payment of principal and interest on the bonded debt.

- Budgeting for debt service for the specific type of bonded indebtedness and obtaining budget committee and board approval as required by the Local Budget Law.
- Filing the appropriate form with the county assessor to levy for debt service.
- Complying with agreements to provide continuing disclosure to market participants.

Legal and Financial Services

The two key professional services needed on public debt issues are (1) legal and (2) financial services. A summary of these roles follows.

Bond counsel is an attorney or firm of attorneys that specializes in municipal debt law. Investors usually require an opinion of a nationally recognized bond counsel listed in the "Red Book." Bond counsel provides two services in the debt financing:

- Ensures all state and federal tax and securities law requirements are met.
- Provides an opinion to investors that the district's debt is valid and binding and whether interest paid on the debt is exempt from federal and state income taxes.

Specifically, bond counsel assists a district by:

- ▶ Determining which financing options and uses of proceeds comply with state statutes, the Oregon Constitution and federal tax laws
- ▶ Drafting election resolutions and authorizing bond resolutions for board consideration, approval and adoption

- ▶ Working with the district to draft the ballot title and explanatory statement for general obligation bonds
- ▶ Drafting or reviewing and commenting on portions of the preliminary and final official statements, preparing or reviewing the notice of sale for a competitive bid sale, or reviewing the bond purchase agreement for a negotiated sale
- ▶ Preparing closing documents, including a non-litigation certificate, tax certificate and the Internal Revenue Service information filing
- ▶ Coordinating the execution of closing documentation by the authorized district representative and the delivery of the bonds
- ▶ Issuing an approving legal opinion
- ▶ Preparing and distributing transcripts of the proceedings to the financing team

Counsel may also be retained to assist with preparing the official statement.

Financial Services

There are two areas in which districts use financial services when issuing debt:

1. Planning for and structuring the issue to best fulfill the district's goals, including providing projections of anticipated costs to taxpayers, generally prior to the election where applicable, and
2. Selling the bonds and obtaining proceeds.

The first service may be provided by either an underwriter or a municipal advisor; the second is provided by either an underwriter (for a public sale) or a bank (for a direct bank placement). In Oregon, these services are considered contracts extended in connection with the issuance of obligations and are not subject to state bidding requirements under ORS 279A.025(2)(q)(A).

Regulatory Differences Between Municipal Advisors and Underwriters

Municipal advisors and underwriters are regulated by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory arm of the Securities and Exchange Commission. MSRB rules distinguish between the role and responsibilities of these two service providers. An underwriter must 'deal fairly' with an issuer, but has no explicit fiduciary responsibility to the issuer. A municipal securities professional serving as a municipal advisor, whether working at a brokerage/underwriting firm, or at a private municipal advisory firm, has a fiduciary responsibility to the issuer. That means the advisor must act in the issuer's best interests without regard to their own financial or other interests. A firm cannot provide municipal advisory services and serve as an underwriter or placement agent on the same transaction. Under Oregon law, there is no requirement to hire a municipal advisor, except in the case of certain advance refundings (see Chapter 9 - Refundings). To sell publicly offered bonds via a competitive sale, the issuer must work with a municipal advisor. If a private placement is contemplated, the underwriter may instead serve as the placement agent.

Municipal securities professionals at brokerage firms and independent municipal advisors are both subject to registration with the SEC. The MSRB continues to improve disclosure and standards in this area and districts should visit the MSRB website (www.msrb.org) for the most recent rules and regulations under which underwriters and advisors must conduct business. The website is also an excellent source of information regarding the municipal market in general.

The Government Finance Officers Association website (www.gfoa.org) and its Best Practices are also a great resource for issuers, specifically in the formation of the financing team.

Whether using an underwriter or municipal advisor, a district should expect its chosen municipal securities professional to assist with the following services:

- ▶ Providing information and preparing analysis on bond issue structure and timing of sale
- ▶ Providing the district with a cost of issuance estimate for inclusion in the size of an issue
- ▶ Providing debt service and tax rate information for use in district information about the bond election for general obligation bonds
- ▶ Providing estimates of proposed debt structure tax rate impacts for general obligation bonds
- ▶ Preparing a financing schedule
- ▶ Reviewing the authorizing resolution and other legal documents
- ▶ Preparing or reviewing the preliminary and final official statement
- ▶ Evaluating the need for a rating and developing a ratings strategy
- ▶ Evaluating use of the Oregon School Bond Guaranty or bond insurance
- ▶ Preparing a rating presentation and preparing staff for discussion with rating analysts
- ▶ Assisting with the application for the Oregon School Bond Guaranty program for general obligation bonds, if desired
- ▶ Filing required documentation with the Oregon Municipal Debt Advisory Commission
- ▶ Developing bid specifications for use in the official notice of

sale if using a competitive bid

- ▶ Arranging for and/or coordinating the sale of the bonds
- ▶ Assisting in closing the transaction and preparation of a closing memorandum detailing where funds will be sent at closing

Underwriters are securities firms that purchase debt from a district and resell it to investors in the bond market. The underwriter may purchase the bonds by bid at a public sale or through direct negotiation with the district. In a negotiated sale, the underwriter typically performs some or all of the structuring duties required by the district prior to the bond sale.

School attorney – While bond counsel provides the key financing documents and resolution forms, some districts involve their local attorney to ensure that the district remains in compliance with local laws relating to meetings, filings and other official district actions related to the financing. The local school attorney may:

- Provide legal counsel to the board, the superintendent/ president and the business manager, clerk or deputy clerk.
- Help monitor the bond election and monitor board meetings to ensure compliance with public meetings laws and with the school district's policies and procedures.

Pricing advisor – In a negotiated sale only, a district may wish to engage a municipal advisor in a limited capacity to evaluate the pricing terms offered by the underwriter. The pricing advisor typically:

- Consults with the district on its financing priorities.
- Participates in pre-pricing discussions with the district and underwriters.
- Assists in negotiating pricing terms with underwriters.

- Delivers a letter that evaluates the pricing terms.

Registrar/paying agent – The registrar/paying agent is a corporate trust department of a commercial bank. The district designates the paying agent to:

- Receive debt payments from the district that the agent uses to make interest payments to registered bond owners on the payment dates and to redeem principal on redemption dates.
- Keep the official records relating to bond ownership.

Escrow trustee – For some refundings, an escrow trustee (usually the same firm as the paying agent) holds funds deposited in a refunding escrow that are dedicated to paying off the district's outstanding debt. The escrow trustee publishes the redemption notice, as required, and makes the debt payments on the refunded bonds until the call date from the escrow fund. There also may be an escrow trustee on lease-purchase financings. For "full faith-and-credit obligations," the escrow trustee is the issuer of the certificated interests in the issuer's financing agreement and also performs the tasks of the paying agent.

Rating agencies – Provide an independent evaluation of the district's credit relative to bond issues and similar credits nationally. The defined rating scales allow an investor anywhere to quickly judge the credit quality of an Oregon district even though that investor may know nothing specifically about the district or its community. Applying for a rating is an economic decision that should help lower borrowing costs; it is not a legal requirement.

Credit enhancement – Private firms or, in the case of the state of Oregon, the state can provide credit enhancement that additionally secures the debt. There are three key kinds of credit enhancement providers:

Tax Exemption Benefits to Investors

| Bond | 3.35% tax-exempt from municipal issuer | 5.00% taxable U.S. Treasury |
|--------------------------------|--|-----------------------------|
| Cash investment | \$10,000 | \$10,000 |
| Interest | 335 | 500 |
| Less: Federal income tax (33%) | – | (165) |
| Net return | 335 | 335 |
| Yield after taxes | 3.35% | 3.35% |

Taxable equivalent yield = tax-exempt rate / (1-marginal tax rate)

Note: This simple example does not account for credit quality and liquidity differences between a municipal security and a U.S. Treasury obligation. Tax brackets are determined by filing status and income level and may be changed by lawmakers.

- Bond insurers, for a one-time premium, offer irrevocable insurance policies that will pay the district's debt service if the district should ever default on its debt payment obligations.
- The Oregon School Bond Guaranty (OSBG) Program run by the Oregon state Treasury allows the State to guaranty payment of debt service for school district and community college general obligation bonds.
- Bank letter of credit (LOC). For both an upfront fee and ongoing annual fees, commercial banks may offer to guarantee the debt of a municipal issuer. Bank LOCs are more common on variable rate debt than long-term debt.

The use of some form of credit enhancement is an economic decision that may help lower borrowing costs; it is not a legal requirement.

Arbitrage rebate services – “Arbitrage” is the term used to describe the potential profit an issuer might realize from borrowing at a low interest rate and then investing proceeds in a higher yielding investment. With some exceptions, the federal government requires jurisdictions that borrow on a tax-exempt basis

to repay such “arbitrage” profit to the federal government. There are firms that specialize in providing arbitrage calculation services to tax-exempt bond issuers. Many districts engage these firms to monitor and calculate any rebate liability. (See Chapter 6, Federal and State Tax Treatment, for a further explanation of arbitrage rebate rules.)

Oregon State Treasury (Debt Management Division) – The Debt Management Division of the Oregon State Treasury serves as a clearinghouse for information. With the exception of approving advance refundings, the treasury does not approve or disapprove any local debt issuance plans or take positions on local debt issuance. However, for advance refundings, the Debt Management Division must review and approve advance refunding plans submitted by the underwriter or advisor.

The Debt Management Division oversees the Oregon School Bond Guaranty Program, tracks overlapping debt statistics and maintains a calendar of upcoming Oregon municipal debt issues.

Oregon Department of Education – Issuers who are awarded an OSCIM Grant (see Chapter 11) are required to submit documents to the Oregon

Department of Education and sign a grant agreement. Many of the required documents will be prepared in conjunction with the bond sale and available after closing. The district must hire local counsel, however, to provide an opinion on the grant agreement and pass a separate resolution authorizing the district to enter into the grant agreement.

The Investors

Investors loan districts money by purchasing the district's debt. Because interest on municipal debt is usually exempt from federal and state taxes, these investors are looking to shelter income from taxation. The demand for tax-exempt debt is always subject to investors' evaluation of tax-exempt securities versus higher yielding but taxable investments such as stocks or U.S. Treasury bonds. (See table, Tax Exemption Benefits to Investors, left.)

When deciding on the relative value of a tax-exempt offering, investors are not only looking at the bond yield but also its relative value as far as maturity structure, future liquidity and its credit quality. The weighting given to credit quality and liquidity can explain why a tax-exempt bond may often trade at a yield equal to or higher than a comparably termed U.S. Treasury security.

In a public sale, districts typically have no direct contact with investors who purchase the district's debt. The underwriter is the district's agent in contacting investors and selling the debt to them. Many different investors may purchase smaller pieces of a district's bond issue. The competition between investors who all want to buy a piece of the issue can help lower the interest rates issuers receive. Districts should understand what kinds of investors purchase municipal securities.

Most investors who purchase municipal securities are seeking a fixed rate of return on their investment that is exempt from federal (and, where applicable, as in Oregon, state) income tax. These investors range from individuals (retail investors) to large institutional investors such as property and casualty insurance companies, money market funds or mutual funds. The classes of investors who purchase municipal securities are:

- ▶ Retail: Individual investors
- ▶ Retail proxies: Bank trust departments, investment advisors, tax-exempt mutual funds and tax-exempt money market funds (sometimes referred to also as "professional retail")
- ▶ Institutional: Property and casualty insurers, corporations and bank portfolios

Sometimes districts will actually sell their securities directly to investors. This generally occurs when vendors finance equipment or when a district places an issue directly with a bank portfolio department as if it were a bank loan.

Sometimes an issuer may place an issue directly with a commercial bank. The issuer's authority (e.g., to issue a general obligation bond or a full faith and credit issue) does not dictate the method of sale. The authorizing resolution can be written to allow flexibility for a public offering or private placement. For some issues (particularly those that are smaller and shorter term) the issuer may find that a commercial bank may wish to buy the entire issue. In this circumstance the issuer may forego many of the costs and regulatory burdens of a public securities offering.

The Underwriter

Underwriters buy bonds from an issuer and resell them to investors. Underwriters not only find investors for the district's bonds, they reduce the risk of the transaction for the issuer. Once the underwriter offers to purchase the entire bond issue, the issuer is no longer at risk if all of the bonds don't sell or if the interest rates rise.

Because investor interest in tax-exempt debt fluctuates with profitability and the relative

supply of tax-exempt bonds in the market, it is the underwriter's job to find the most aggressive set of buyers for a district's offering on the day it comes to market.

Sometimes, underwriters join together in a syndicate. Having more than one underwriter spreads the financial risk among underwriters if the bond sale does not go well. When there is more than one underwriter in a deal, one firm leads the transaction while the others take secondary roles. The lead firm is called the lead underwriter or senior manager. Other underwriters are called co-managers. There may be one or several co-managers.

The senior manager is responsible for interacting with the issuer, setting pricing terms for the bonds, managing the sale and allocating bonds to all investors at the sale's conclusion. Co-managers assist in the bond sale but generally have no other role.

Syndicate firms agree on a target percentage of the bonds to sell. For example, the senior manager may get 70 percent while a co-manager may get 30 percent. These percentages are only

Negotiated Sale Process

| 10-14 days before pricing | Seven days before pricing | Two days before pricing | One day before pricing | Pricing/ Sale day | About 2 weeks after pricing |
|---|---|---|---|--|---|
| <input type="checkbox"/> Rating received <input type="checkbox"/> Preliminary Official Statement (POS) finalized and distributed | <input type="checkbox"/> Underwriter's sales force begins premarketing calls to investors <input type="checkbox"/> Use of selling group reviewed | <input type="checkbox"/> Underwriter updates the issuer on market conditions <input type="checkbox"/> Financing goals reviewed | <input type="checkbox"/> Preliminary pricing call with underwriter, issuer (and municipal advisor, if any) <input type="checkbox"/> Market conditions reviewed and comparable pricing analyzed <input type="checkbox"/> Preliminary interest rates determined | <input type="checkbox"/> Official order period begins <input type="checkbox"/> Orders compared against available bonds <input type="checkbox"/> Pricing adjustments determined as necessary <input type="checkbox"/> Underwriter offers to purchase <input type="checkbox"/> Final numbers packet prepared and purchase agreement signed | <input type="checkbox"/> Closing documents signed <input type="checkbox"/> Funds delivered to issuer |

guidelines; actual orders dictate the number of bonds each firm receives at the end of the sale. However, if bonds go unsold, these percentages dictate each manager's liability for the unsold bond inventory.

Selling group members are not syndicate members. Selling group firms are securities firms that are granted the opportunity to put in orders for a new bond issue and may have brokerage offices in the district, thereby augmenting the ability of the district to sell bonds locally if that is desirable.

Unlike co-managers, selling group members have no liability to take bonds if the sale goes poorly, nor are they required to order any bonds.

Method of Sale

Municipal offerings are typically sold via one of three methods:

1. A negotiated sale, where the underwriter is selected as part of the finance team up front and participates in the structuring and sale of the issue.
2. A competitive or public bid, where a municipal advisor helps structure the issue and then the issue is put out for the best bid from underwriters.

3. A non-public offering to a bank as a loan or to a small group of investors as a private placement.

These options are briefly described below.

Negotiated sale – By negotiating the sale of a bond issue, the district maintains control over which underwriting firm structures and markets its bonds.

Negotiated sales make up about 70 percent of all municipal sales by volume.

If a district negotiates the bond sale with an underwriter, the district gains flexibility in adapting to changing market conditions and investor coupon preference. Taking into account the district's need for project money, the underwriter selects the timing of an offering to allow time for disclosure preparation, securing a credit rating and selecting a date that does not compete with other local bond sales of similar issues. Once a target sale date is selected, the underwriter monitors the market and advises the district whether the sale should be accelerated or moved back, depending on market conditions.

When the week of sale arrives, the underwriter provides preliminary

interest rate estimates to the district, along with any available information regarding comparable sales. The day before the sale, the underwriter schedules a pricing discussion with the district to discuss market conditions and confirm the interest rates that the underwriter will offer to investors the next day.

The actual sale happens quickly, with the formal sale (order period) typically beginning early in the morning and lasting 60 to 90 minutes. Districts may attend the pricing in person at the underwriter's office or perform the necessary tasks remotely. The underwriter reviews the results with the district and recommends whether any adjustments are necessary to conclude the sale process.

Once the district and underwriter agree on terms, the underwriter provides the district a bond purchase agreement that is the legally binding sale document.

Issuers may also choose to employ a municipal advisor in a negotiated sale, along with the underwriter. The municipal advisor's role may be comprehensive (e.g. assists in all aspects of structuring and advises on the pricing terms) or may be more limited (e.g. only advises on the pricing terms).

Competitive bid sale

Competitive sales typically comprise about 20-25 percent of municipal sales each year.

In a competitive sale, the terms of the issue – size, structure, maturity dates and amounts, and redemption provisions – are determined prior to the sale and distributed in a notice of sale. Bids are submitted by underwriters via electronic bidding platforms.

A notice of sale, which is posted on a bidding platform, contains the bidding rules, constraints, and the method for evaluating the bids the district receives. Since there is no purchase agreement

Competitive Sale Process

| 3-4 weeks before the sale | 1-2 weeks before the sale | Sale day | About 2 weeks after sale |
|---|--|--|---|
| <input type="checkbox"/> Issue structure and bid constraints determined | <input type="checkbox"/> Notice of Sale distributed electronically <input type="checkbox"/> Preliminary Official Statement (POS) distributed electronically | <input type="checkbox"/> Bids received from underwriters <input type="checkbox"/> Award of bonds to lowest bidder <input type="checkbox"/> Structure adjusted as needed <input type="checkbox"/> Final numbers packet <input type="checkbox"/> Good faith deposit sent to the issuer | <input type="checkbox"/> Closing documents signed <input type="checkbox"/> Funds delivered to issuer |

signed on the sale date, a good faith deposit is typically required to be sent that day to the issuer by the winning bidder. The district establishes these terms in consultation with its municipal advisor and bond counsel.

Bidders (underwriters or syndicates of underwriters) base their bids on the salability of the district's debt, market conditions, and their pool of potential bond purchasers. The successful bidder establishes its reoffering prices to investors by considering comparable sales, what investors are willing to pay, and the supply of bonds in the market waiting to be sold.

In a competitive bidding, the district hopes to receive numerous bids in response to its notice of sale, thereby increasing its chances of paying the lowest possible interest rate on its debt. To increase the odds of this happening, the bond sale should be set at a date and time when the bond market is most receptive to a new issue. Bids typically are calculated by the true interest cost (TIC) method, which takes into account the time value of money in the effective interest rate. TIC is defined in the Appendix I.

The financing team should set the bond sale date after consulting the Oregon State Treasury's Debt

Management Division's Oregon Bond Calendar.

Ideally, a sale should be held at a time when the market is not saturated with other local or national issues. Resizing or restructuring the maturity schedule to react in response to the coupon structure bid by the underwriter is restricted by the bid constraints set in the notice of sale.

Private Placements – Placing debt directly with a bank comprises about 5-9 percent of the national municipal bond market, according to the Securities Industry and Financial Markets Association (SIFMA). Depending on market conditions and the structure of the issue, the interest rates banks are able to offer may be competitive with the public debt market. Districts may also simply wish to pursue a private placement because of reduced disclosure requirements, a shorter issuance timeline, no credit rating requirements and lower issuance costs.

However, banks have particular structure and term requirements so this may not be a cost-effective option for everyone. Districts should discuss the option with their underwriter/placement agent or municipal advisor.

While a district could simply

call up their local bank and negotiate a deal to purchase the bonds directly, this may lead to both higher costs and undesirable provisions. Having bond counsel and a municipal advisor or placement agent involved can help the district avoid such provisions that banks may try to include. A placement agent can also help the district obtain a competitive interest rate by soliciting bids from a wide audience of banks.

There is no official statement prepared in a private placement. Instead, a brief term sheet which outlines the security, terms and key financial information is prepared and circulated to banks. After bank responses are received, the district reviews them with the financing team and selects a bank offering the most favorable terms. The district is not required to simply award to the lowest interest rate; other factors, such as prepayment provisions and required covenants, may come into consideration. In addition, as discussed in Chapter 7, disclosure of bank loan terms to the securities market may be required if the district has outstanding debt in the public market on or after Feb. 27, 2019.

Interest Rate Swaps and Other Derivative Products

Oregon municipalities, including school districts, ESDs and community colleges, have broad legal authority to use an alternative set of financial management tools, subject to certain requirements under the Oregon Administrative Rules of the Oregon State Treasury. While interest-rate-exchange agreements (swaps) and their various permutations are not debt per se, they are related and based on debt that was or will be issued. These financial tools are generally outside the scope of this manual, although

Private Placement Process

| 3-4 weeks before bids due | 2-3 weeks before bids due | Bids due | 2-4 weeks after bids due |
|---|---|---|---|
| <input type="checkbox"/> Issue structure and terms determined | <input type="checkbox"/> Term sheet circulated to banks | <input type="checkbox"/> Bids received from banks <input type="checkbox"/> Select bank offering most favorable terms <input type="checkbox"/> Interest rate locked <input type="checkbox"/> Structure adjusted if needed | <input type="checkbox"/> Closing documents signed <input type="checkbox"/> Funds delivered to issuer |

this manual describes some basics about these instruments where they may be applicable. Issuers wanting to know more about these financial instruments should contact their financial consultants and bond attorneys.

For the most part, swaps have limited application to Oregon school districts, ESDs and community colleges because of certain risks and the prevalence of fixed-rate general-obligation borrowing. See "Interest Rate Swaps with General Obligation Bonds" in Chapter 2 and see Appendix 3 for a brief discussion of interest rate swaps.

Frequently Asked Questions about the Financing Team and Public Debt Markets

Q: How much time does district staff have to spend on a bond issue? Can't we just hire someone to take care of it?

A: The district relies on a number of financial industry professionals to guide it through the issuance process. However, the district has ultimate legal responsibility for the bond issue. Consequently, district officials must understand the process and all the implications of actions taken.

Q: What official actions must the district's board take on a bond election and sale?

A: There are two actions:

- 1) Adopt a resolution authorizing the election and ballot title
- 2) Adopt a resolution authorizing issuance of the bonds after a successful election

How much the board participates in the details of the process outside these actions varies by district. Typically the board is more involved in determining the projects and borrowing amount than in the subsequent details of the bond issuance process. If the district is a recipient of the OSCIM Grant, a third resolution is required that authorizes the district to enter into the grant agreement.

Q: How does a district engage finance industry professionals?

A: Districts have authority to engage service professionals, according to board policy, in any manner that best fits the district's particular situation. Bond counsel, underwriter

and municipal advisory services are not subject to public contracting rules pursuant to ORS 279A.025(2)(g)(A).

Q: When should the district engage financial consultants and bond counsel? How are they paid if the district doesn't have the money for fees unless the bond passes?

A: Districts should engage financial consultants and bond counsel as early as possible. Many finance industry professionals are paid on a contingency basis. This means they do not charge for services until the bond issue passes and sells. Districts should ask potential service providers whether they would work on a contingency fee basis. If not, find out what fees will be charged if the election fails or an issue does not close for some reason.

Q: What is the difference between a competitive bid sale and a negotiated sale?

A: In negotiated sales, the district engages the bond underwriter prior to the bond sale. The underwriter usually does the structuring and analytical work for the bond issue, then, during the sale, underwrites and sells the bonds as well.

In a competitive bid sale, the district engages a municipal advisor to structure the bonds and provide other analyses. The bonds are then sold to the highest bidding underwriter at an advertised bid opening.

Q: Can we sell our bonds to members of our own community? Our local brokers want some of the bonds to sell.

A: A district can direct its underwriter to give preferential allocations to investors

from within the district's boundaries. To do this, the district must use a negotiated sale so that the district retains control over the actions of its underwriter(s). However, local investors typically cannot absorb the entire bond issue and may be turned off by the low interest rate that is being offered.

In addition, local sales campaigns may not be the cheapest way to sell bonds, nor is selling tax-exempt bonds to local residents necessarily the most "suitable" investment for those individuals if they are not in the highest tax bracket. Consequently, local sales campaigns can conflict with the district's responsibility to get the lowest possible interest rates for its taxpayers and may expose the district to risk that bonds are not sold to investors for whom this would be the most appropriate investment. Districts should consult with their financial service providers about including its community in a bond sale without raising issue costs.

Q: Our board members and staff want to buy some of the bonds to show support for the district. How do we do that?

A: The district board and staff must exercise caution here. Technically what is "good" for the board and staff as "investors," i.e., higher interest rates, is "bad" for the district's taxpayers. Because the board and staff have responsibility for approving final interest costs, the potential for a conflict of interest is clear.

General Obligation Bonds

“Education costs money, but then so does ignorance.”

Sir Moser Claus

School districts, education service districts and community colleges are authorized to issue general obligation bonds and notes to finance capital construction and improvements. General obligation bonds must be approved by district voters and are secured by the district's full faith and credit and the district's property taxing authority. Voter approval of a bond measure authorizes a district to sell bonds in a par, or face, amount not to exceed the amount specified on the ballot and levy taxes in the amount necessary to pay the principal and interest on the bonds.

General Obligation Bond Requirements

Use of proceeds – Districts are authorized to issue general obligation bonds upon approval of a majority vote in a May or

November election with no voter turnout requirement or a majority vote in a March or September election with a 50 percent voter turnout requirement.

General obligation bond proceeds can be used only for capital costs as defined by Article XI, Sections 11L of the Oregon Constitution.

The constitution defines “capital costs” to mean costs of land and other assets having a useful life of more than one year, including costs associated with acquisition, construction, improvement, remodeling, furnishing, equipping, maintenance or repair.

Note, the weighted average life of the bonds may not exceed the weighted average useful life of the capital costs that they finance. For example, if all you are financing are laptop computers, the financing term cannot be 30 years. However,

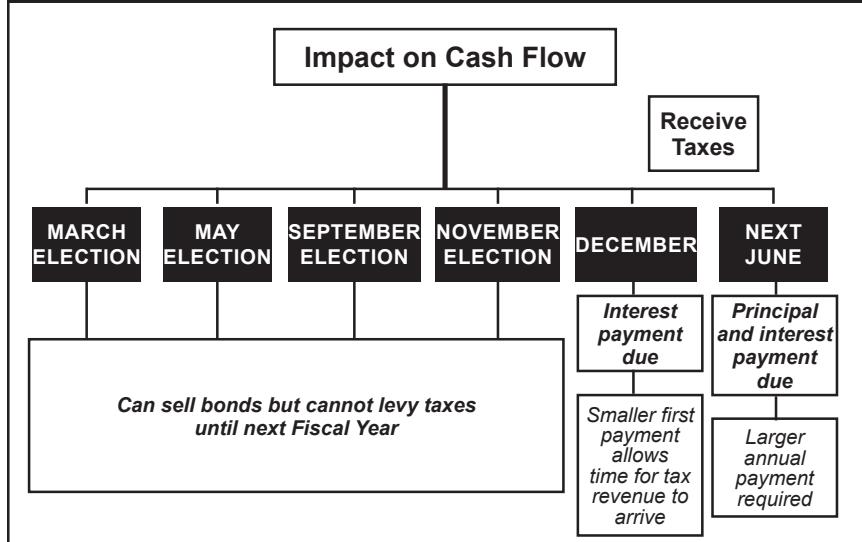
Nine Steps to General Obligation Bonds

Districts considering the use of general obligation bonds for capital costs should:

- Complete a long-range facility plan and facility assessment that meet requirements for the Oregon School Capital Improvement Matching (“OSCIM”) Program.
- Select and retain an underwriter or municipal advisor and bond counsel.
- Establish a community advisory committee to assist in the planning process to determine the scope of the projects to be financed by the bonds and the size of the bond issue.
- Conduct community research – surveys, focus groups, school community meetings – to determine voters’ understanding of the need and support for the proposed projects.
- Establish a planning calendar with specific targets for progress to the election and for anticipated completion of the project(s).
- Submit a facility assessment, long-range facility plan, application and related documents for the OSCIM program.
- Finalize the scope of the project(s) and the size of the bond issue, including all applicable construction and bond issuance costs and fees.
- Finalize the ballot title and adopt an election resolution and a subsequent authorizing resolution.
- Develop budgets for both capital projects and debt service funds.
- Provide for ongoing compliance with any continuing disclosure or federal tax law provisions.

¹ An ESD county education bond district (CEBD) is formed under ORS 328.304 as follows: A CEBD may be formed if two-thirds of the component school districts with at least a majority of the students approve a resolution creating the CEBD. The boundaries of the CEBD must be coterminous with the boundaries of the school districts that have administrative offices within the boundaries of one county within the ESD.

Selecting the Election Date



since most districts finance a variety of projects, which may include computers and vehicles with shorter lives, but also include new buildings or major renovations to existing buildings which have longer lives, it is not at all atypical to have “average” useful lives vastly exceed 20 or even 30 years.

Capital costs do NOT include costs of routine maintenance or supplies.

In addition to meeting the constitutional and statutory restrictions, school districts, ESDs, and community colleges may only issue bonds for the purposes authorized in the statutes that give those entities the authority to issue bonds.

Under ORS 328.205, school districts 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

▶ 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 payment of debt

Community colleges have a separate statutory authority, ORS 341.675, to fund projects with bond proceeds. Community colleges are authorized to use bond proceeds for the following purposes:

- ▶ To acquire, construct, reconstruct, improve, repair, equip or furnish a college building or buildings or additions thereto
- ▶ To acquire or improve all property, real and personal, appurtenant thereto or connected therewith, including self-financing facilities
- ▶ To fund or refund outstanding debt and provide for payment of debt

The use of bond proceeds, and any interest earned through investment of the proceeds before they are spent, is also limited by the purposes that are identified in the ballot title authorizing the issuance of the bonds.

Examples:

- ▶ A school district whose ballot title specifically sought authorization to build and equip a new elementary school may not use some portion of the bond proceeds to remodel the high school
- ▶ A school district or community college that includes the purchase of property in its ballot title but does not include the demolition of the existing structures on that property may find it cannot use bond funds to pay demolition costs

Districts wishing to maintain flexibility in the use of bond proceeds should be careful not to restrict the ballot title language too severely. A discussion of the ballot title requirements for general obligation bonds is included in Chapter 5.

Debt limitations – State law limits the amount of outstanding general obligation debt school districts, ESDs and community colleges may have at any time. The limit is based on the district’s real market value of taxable property and the number and kinds of grades the district serves. In general, debt limits are as follows:

- ▶ For a district that operates grades K-12, this translates into a debt limit of 7.95 percent of the district’s real market value.
- ▶ For ESDs, 7.95 percent of the ESD’s real market value.
- ▶ For community colleges, the debt limit is 1.50 percent of real market value of taxable property.

Note that although Measure 50 reduced property values for purposes of taxation (creating the “assessed” value), it did not affect the actual market value (“real market” value) or a district’s debt capacity.

In most cases, large districts

are unlikely to approach their debt limits. However, very small districts may find that the cost of constructing new buildings pushes them close to, or over, their debt limits. Consequently, small districts should exercise caution in determining the size of a bond issue.

Notice of classification of uses

– The district may give notice of its adoption of an ordinance or resolution specifying the authorized uses of proceeds of bonded indebtedness within 15 days after the adoption of the authorizing action in its newspaper of record, in the form described in ORS 305.583(10). This process shortens the time period for challenging the uses of bonded indebtedness proceeds to within 60 days after the adoption of the resolution or ordinance. If such notice regarding the authorized use of proceeds is not published, a petition to challenge the use of bonded indebtedness proceeds may be filed within 180 days after the questioned use of the proceeds is made.

ORS 305.587 provides that when a petitioner challenges the authorized use of proceeds of bonded indebtedness, the tax court will construe the language in the measure authorizing the indebtedness liberally to allow the government unit to provide the facilities or services approved by the voters. However, if the court finds the challenged use of proceeds was not authorized under applicable law, it may prohibit the expenditure or fashion another remedy that does not impair the security of the bondholders or the value of the bonds in accordance with ORS 305.586.

Structuring Long-Term Bond Issues

School districts have substantial leeway in structuring debt issues for the public debt markets. Given

the complexity and constantly changing nature of debt investors' preferences, districts are urged to consult with their underwriters or municipal advisors early in the process about market expectations and the likely repayment implications of the district's debt plans. Such early consultation will assist the district in developing the best possible debt management plan.

In general, a district has four primary considerations in any given debt financing:

- ▶ Raise sufficient funds, in a timely manner, to meet the district's project requirements
- ▶ Meet estimated tax rate projections communicated to the public during the election campaign
- ▶ Provide for future debt capacity
- ▶ Raise the funds in a cost-effective manner

Each of the following issues directly affects the amount a district will refer to voters and the district's ability to repay that debt in the most cost-effective manner possible.

Project fund requirements –

The most important variable affecting debt issue size is the project's estimated cost. Normally, estimates include the estimated cost of the project(s) and a reasonable contingency amount to cover inflation and unexpected events. The district may also have access to earnings on the project fund that can be used to reduce the par amount of the bond issue; however, such earnings can only be projected, and districts should be extremely cautious about relying upon such estimates to "plug" a project cost hole. The district's underwriter or municipal advisor can estimate project fund earnings based upon anticipated construction draw schedules.

The money in the project fund will

earn interest until it is expended. In the case of a construction project, these interest earnings, even if subject to arbitrage rebate (see Chapter 6, Federal and State Tax Treatment), can be substantial. These additional earnings are considered bond proceeds just like the initial sale proceeds received at closing. These proceeds must be used only for the project or to pay debt service on the bonds. The project fund earnings cannot be used for any other purpose.

Issuance costs – The sale of debt in the public markets is highly regulated. Bringing a debt issue to market generally requires the use of experts who specialize in municipal bond transactions (see Chapter 1). Consequently, the issuance of debt comes with certain transaction costs that should be included as part of the bond issue. The district's municipal advisor or underwriter can project the likely issuance and underwriting expenses.

The issue then can be properly sized to pay for these expenses and still have sufficient funds remaining to pay all project costs. Issuance costs generally include fees for bond counsel, municipal advisor, registrar/paying agents, rating agencies, the Oregon School Bond Guaranty Program and/or other credit enhancement costs and other state regulatory fees, and underwriting fees. There may also be travel expenses related to the issuance process and other miscellaneous expenses.

Issuance costs vary, depending on the size, credit quality, term, complexity of the debt issue, and market conditions. They may range from as little as \$35,000 for a very small issue to more than \$500,000 for large or complex transactions (exclusive of underwriting fees). Underwriting fees may vary from .25 percent

or less of the issue amount for a highly rated, short-term issue to 2.0 percent or more for smaller, longer term, unrated issues. Issuance expenses are almost always paid from bond proceeds and are not due until after the bond issue has closed. Some application fees may be paid prior to closing and districts can reimburse themselves from bond proceeds.

Market Premium and Discount –

Voters authorize a district to sell a maximum par amount of bonds. However, investors may prefer to buy bonds at prices that may either exceed the par amount (a “premium”) or at a price lower than the par amount (a “discount”). Depending on market conditions, these market premiums or discounts may amount to a significant difference from the par amount of bonds.

In case of market premiums, the district has the option of retaining the amount received in excess of par or selling less to generate a certain amount for projects. Any premium retained is considered additional bond proceeds and may be only used for project costs outlined in the ballot title. It is important to note that premiums received above the par amount are generated by commensurately higher interest payments on the bonds. Consequently, while the district is receiving more in the way of proceeds than the par, it is also paying additional interest cost as well. However, additional premium paid upfront reduces the ultimate yield to the investor so that the premium structure still provides the lowest cost to the district. Further, if overall interest rates are low and the district has been conservative in the interest rate assumptions used in their levy rate projections, districts may be able to accept the additional premium without exceeding the levy rate projections

communicated to voters. Districts are well advised to ask their financial consultants to use a cushion for interest rates when making levy rate projections to be prudent and allow for flexibility when it comes time to sell the bonds.

The opposite condition – market discounts – can be a more serious problem for general obligation bond issuers. Under such conditions, the district cannot simply offer more par bonds to make up the discount because voters have authorized a maximum par amount. The district should work with its underwriter or municipal advisor to attempt to minimize the loss of proceeds under such a market scenario. If market discounts are the market “norm” when the district is formulating its election request, the district should ask its finance professionals how to size up the par amount request to account for possible market discounts at the time of sale. Market discounts can become an issue with interest rate increases.

Issue Affordability and Tax Rates

Once a district decides on the size of its bond request, it can then determine how to structure bond issue terms to best achieve its affordability goals. The most cost-effective method of financing is the method that best matches the issue size and repayment structure to the district’s (and its taxpayers’) financial ability to meet the debt obligation.

Taxpayers do not pay a set levy rate and voters do not approve a levy rate. However, a levy rate estimate is typically provided in the ballot title as it is the best way for voters to estimate how much the bonds will cost them. Each year, districts provide the county assessor with the amount

to levy (comprised of annual debt service plus estimated collection delinquencies). The resulting levy rate is determined by the assessor, after dividing the levy amount by the total taxable assessed value (not real market value) of the district per \$1,000. Then, for an individual taxpayer, that rate is applied to the taxpayer’s assessed value, resulting in the amount owed for that fiscal year.

Consequently, the art and science of translating a dollar of par amount needed for projects into a debt service structure and estimated tax rates is a critical part of evaluating the affordability of the district’s bond request.

Budgeting and Cash-Flow Concerns

Districts must be careful to structure initial bond repayments on a schedule that allows for adequate collection of the initial year’s tax levy. Districts must submit notice of the tax levy for bonds by July 15 unless the county assessor grants an extension (usually until early or mid-September). Initial collections will not be available until November or December. If a district sells debt after the tax levy has been submitted, collections will not be available until the following fiscal year.

Districts must also account for the levy impact created by early payment discounts and uncollected taxes every year. Because there are no prior year collections yet to offset uncollected taxes, the tax rate in the early years can spike up higher than anticipated or a district may not collect enough to make the debt service payment and may need to borrow from another fund.

Consequently, in the first years of a new bond property tax levy,

a district will need to account for current year uncollected taxes not offset by prior year tax collections and early payment discounts. Districts must also assure they include the necessary taxes in their initial budgets sufficient to pay the first year's debt service payment. Of particular concern is the authorization to levy taxes during the budget process when a district holds a May election. In some situations, district budgets may be finalized before the results of the election are known. If the district does not have proper approval to levy taxes for debt service from their budget committee, they will not be able to collect taxes in the following fiscal year. However, for May elections, there is an option for a district to request an extension on their tax certification form and complete a supplemental budget no later than Sept. 15.

Debt Repayment Schedules

The district's underwriter or municipal advisor can prepare issue structures to achieve the district's desired repayment impact. Simple examples of various structures include:

- **A level debt structure**, in which debt service each year is about equal

- For general obligation bonds, a **level levy rate** structure, in which the debt repayment is designed to achieve an approximately level tax rate every year, based on projections for future assessed value growth
- A **step down structure** that decreases in debt service to allow room for future debt issuance before the issues' final maturity
- A **combination** of these approaches, designed to produce a particular debt service and/or tax rate impact

Specific Debt Repayment Options

Several specific structuring options relating to general obligation bonds are discussed in this section. The structure of a bond issue, i.e., the timing and manner of principal and interest payments, should coincide with the district's repayment plan.

Maturity schedule – A general obligation bond issue's final maturity is limited by the terms of the ballot title. Most school district, ESD and community college bonds are sold to mature over 20 to 30 years, but shorter or longer maturities are possible. The weighted average maturity of the bond may not exceed the

weighted average useful life of the projects being financed. The optimal maturity period for individual districts depends on the relative tax rates that a longer or a shorter maturity produces and the rate that is deemed most acceptable to taxpayers. Generally, extending the term will increase the total interest cost but reduce the annual payment and levy rate.

Structuring goals – The most important consideration in determining bond issue size and structure is balancing project requirements with affordability. Affordability can be measured in several ways. However, with general obligation bonds that are repaid from property taxes, affordability translates into the tax rates paid by taxpayers. The interest cost borne by the issuer is passed on to taxpayers through the amount levied.

One measure of affordability, then, is the tax rate's impact on the taxpayer over the life of the bond issue; others break the cost down into different chunks (such as annual cost per average assessed values or monthly cost per average taxpayer). The district should also consider the cost of any outstanding debt and any future debt plans as well.

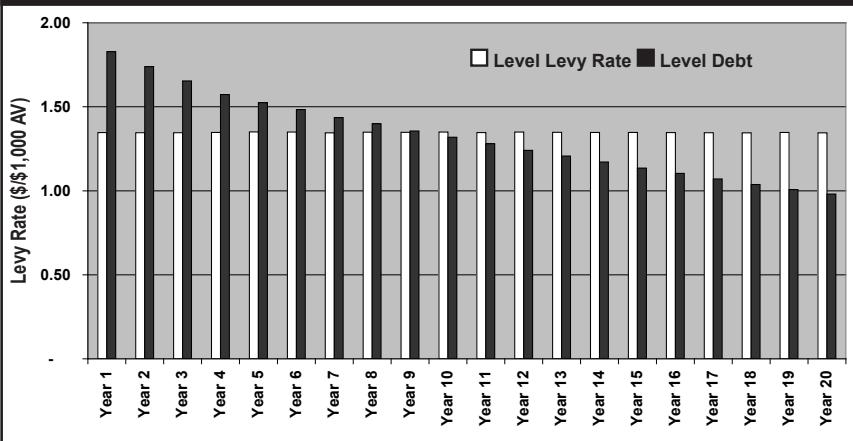
Here are several repayment plans and their impact on tax rates:

Level debt service – The new issue is structured to produce a debt service schedule that is relatively level each year. This is akin to the standard fixed rate home mortgage. In the early years, debt service is primarily interest. In the later years, debt service is primarily principal.

Level debt service for general obligation bonds produces higher tax rate impacts in the early years and declines over the life of the issue as a result of the growth in the district's assessed value.

Level principal – A level amount

Basic Structure Choice – Oregon School District Example



of principal is repaid each year. This results in declining total debt service each year because interest expense is reduced as principal is repaid. A level principal repayment plan is rarely used in Oregon because it produces high tax rate impacts in the early years of the financing.

Level levy rate – Debt service is structured so that the resulting tax levy rates are projected to be more or less the same each year. This structure accounts for estimated growth in assessed value and the corresponding increase in repayment resources. This structure, on average, defers principal repayment slightly to account for increasing assessed values. It tends to be the most popular structure used by districts. A level levy rate plan can significantly reduce taxpayers' early year tax rates compared to the level debt service approach.

Two of these plans, level debt service and level levy rate, are represented in the graph on page 16.

All of these approaches to repayment may be affected by the amount and repayment terms of a district's outstanding debt.

Districts should always take into account the combined effect of new, outstanding and anticipated debt in the future when structuring a new debt issue.

Structuring Types of Long-Term Bonds

There are several kinds of debt instruments that can be used when selling bonds.

A bond is simply a formal written promise to repay a specified dollar amount at a certain time with a stated rate of interest. The kinds of structures that Oregon districts can offer are limited to four:

- Current coupon bonds
- Deferred interest bonds
- Convertible deferred bonds
- Variable rate bonds

A bond sale may include more than one type of bond. For example, districts may sell a portion as current coupon bonds and a portion as deferred interest bonds in order to meet the target projected levy rate.

Current coupon bonds are the most frequently issued bond types in the municipal debt markets. Current coupon bonds pay interest at a fixed interest rate every six months until they are redeemed or mature.

The first interest payment date may not be exactly six months from the date of issue. It is not unusual for the first interest payment date to be as short as three months (a "short first coupon") or as long as 12 months (a "long first coupon"). It should be no longer than 12 months. Otherwise, the bond may qualify as a discount bond and be subject to unforeseen tax implications.

Varying the first coupon period is often necessary to put a district on its preferred interest payment schedule (typically with interest payments in December and June to keep them in the same fiscal year) regardless of the date the bonds are initially sold. Once the first coupon date is set, all following interest payments occur at six-month intervals.

Current coupon bonds are often sold with "serial" maturities. By using serial maturity dates, the bond issue's total principal amount is split into pieces that mature each year, i.e., serially, over the life of the issue as opposed to having the entire principal amount come due in a single year.

Current coupon bonds usually are sold in minimum principal denomination sizes of \$5,000. Because these bonds are the most common instruments in the public debt markets, they usually carry the lowest fixed interest rates for the type of credit quality offered.

A district's underwriter or municipal advisor may

recommend combining some of the serial maturities into one or more "term" bonds. Term bonds are consecutively maturing current coupon bonds aggregated and sold as a single nominal maturity. For example, rather than finding investors to purchase bonds maturing serially in years 18, 19, 20 and 21 at different interest rates, the combined amount of bonds could be sold as a term bond nominally maturing in 21 years with one interest rate.

To avoid a larger lump sum payment at maturity, however, term bonds are subject to mandatory annual redemption according to the serial current coupon bonds aggregated to form them. So, in the above example, portions of the term bond principal would "sink," or be paid, in years 18, 19, and 20, with the final portion of principal paid in year 21. Term bonds carry a single rate of interest, despite the mandatory redemption schedule. Creating a term bond helps attract investors who may have minimum denomination requirements but it may increase the interest cost to the district.

Deferred interest bonds (also known as zero coupon or capital appreciation bonds) pay no interest until they mature; interest accretes and is paid in a lump sum at maturity. Principal can be scheduled to mature serially, as the desired structure allows. These bonds sell at prices far lower ("deep discounts") than their maturity value.

Issuers may sell deferred interest bonds because they can receive and use bond proceeds now and defer payments. For districts, this can lower tax rates in the early years of debt repayment when they may have other debt still outstanding. The drawback to issuers is that deferred interest bonds typically carry higher interest rates than current coupon bonds. In addition, they may not be subject to early prepayment

or the call provision may further increase the interest cost. Finally, they do not offer a premium structure, so no additional proceeds will be forthcoming from these types of bonds. Because of these higher costs and the deferral of interest, districts should carefully weigh whether the higher costs are a good tradeoff for the increased flexibility deferreds may offer for the debt service structure, timing of bond sale and other factors.

Convertible deferred bonds – Convertible deferred bonds are bonds that combine the features of deferred interest bonds and current interest bonds. Typically, a convertible deferred bond starts as a deferred interest bond and interest accretes but is not paid, then “converts” to paying current interest at a specified future date. The conversion date is usually not more than two years from the original issuance date but may be longer depending on market conditions and district goals. The amount of time between the issuance date and the conversion date will affect the pricing of the bonds.

Convertible deferred bonds are sometimes used to bridge short-term debt service spikes caused when a new issue is layered on top of existing debt. Convertible deferred bonds can be used only under certain market conditions and issue sizes. Convertible deferred bonds typically carry higher interest rates than regular current coupon bonds but may be more cost effective than using deferred interest bonds for the same purpose. Convertibles also may carry a bond premium under certain market conditions, unlike deferred bonds that carry none.

Variable rate bonds – Variable rate debt is debt where the interest rate is reset on a very

short-term basis, usually weekly. Because the rate is a very short-term rate, variable rate bonds may carry low interest rates compared to contemporaneously issued long-term fixed-rate bonds. However, because the rate floats with market conditions, variable rate bonds involve interest rate risk. Even though variable rate debt can have many advantages, the difficulty of correctly calculating and levying property taxes to support a floating rate debt instrument makes variable rate debt problematic for general obligation bond issuers. Variable rate debt may be simulated by using interest rate swaps. (See “Interest Rate Swaps,” Chapter 1.)

Early-redemption or call provisions – Bonds are normally sold with provisions that allow an issuer to prepay the bonds prior to their stated maturity date. In the municipal bond market, prepayment is referred to as redeeming or “calling” the bonds. For example, early redemption may allow a district to refinance the bonds to take advantage of lower interest rates (see Chapter 9). There are two variables in early-redemption provisions:

- ▶ The date(s) on which the bonds may be redeemed
- ▶ The price(s) at which the bonds may be redeemed

Investors do not like early-redemption provisions because they create uncertainty. However, the market does not penalize issues with early-redemption provisions if the provisions conform to reasonable market standards. While market standards can change over time, a typical long-term municipal bond call provision is approximately 10 years after issuance, at par (no call premium). Districts should consult with their underwriter or

municipal advisor to determine which redemption provisions are most appropriate for the district's issue.

Interest rate swaps with general obligation bonds – Issuers of general obligation debt face particular issues in using swaps. The risk of an involuntary termination payment (see “Interest Rate Swaps” in Chapter 1 and a general discussion of swaps in Appendix III) is the biggest concern. Under current law, the issuer may not levy an unlimited property tax to pay the termination payment. Consequently, a termination payment would have to be paid from a district's general fund. Because a termination payment could be substantial, an issuer of unlimited property tax-based debt would be unlikely to take that risk.

Frequently Asked Questions about General Obligation Bonds, *continued*

Q: What is a general obligation (GO) bond?

A: A bond is simply a type of loan. Investors loan money to a municipality for specific capital projects. A bond normally carries a fixed interest rate payable semiannually until the bond matures. A bond issue usually includes principal that matures on different dates so that the entire principal does not come due on a single date. General obligation bonds issued by Oregon municipalities are secured by the issuer's ability to levy an additional property tax which is unlimited in rate or amount, not subject to Oregon constitutional tax limits, on all taxable property within its jurisdiction to repay the bond's debt service.

Q: Do school districts, ESDs and community colleges need voter approval to issue general obligation bonds?

A: Yes. If a district wishes to borrow money with an unlimited property tax pledge, the district must have voter approval to do so.

Q: How can general obligation bond proceeds be used?

A: General obligation bond proceeds may be used only for those projects and costs listed on the ballot. Oregon law also limits the use of bond proceeds to capital costs and uses specified in district statutes, as further described on page 13.

Q: Can districts use general obligation bonds for operating purposes?

A: No. Bond proceeds may be used only for capital costs. However, a district can use

GO bond proceeds to pay for capital projects otherwise paid out of the general fund, thus freeing up general fund dollars that could be used on operations.

Q: What other limitations apply to the use of GO bond proceeds?

A: A district should consult bond counsel to discuss the use of proceeds related to any given bond issue. In general, districts should not use general obligation bond proceeds for assets with a useful life of less than a year or routine maintenance or supply items.

Q: Are there legal restrictions on the size of bond issues?

A: Yes. State law limits the amount of outstanding general obligation debt a school district, ESD or community college may have at any time. The school district limit is based on the district's real market value and the number and kinds of grades the district serves. In general, debt limits are as follows:

- ▶ For K-12 districts and ESDs the debt limit is 7.95 percent of the district's real market value.
- ▶ For community colleges the debt limit is 1.50 percent of real market value.

Note that even though Measure 50 reduced property values for the purposes of taxation (creating "assessed" value), it did not affect real market value or a district's debt capacity. Also note that a district's debt capacity includes any outstanding bonded debt.

Q: How long does it take to receive bond proceeds once the voters approve a bond issue?

A: It depends. If the district is ready to proceed with the project immediately, a bond issue can be structured, sold and closed in as little as two months. Generally, however, the issuance process takes about three months from start to the receipt of money at closing. Districts receiving an OSCIM Grant are required to sell at least the matching amount of GO bonds within nine months of the election.

Q: What is arbitrage?

A: Arbitrage is profit derived from price differences. For example, if you can simultaneously buy an item for \$1 and resell it for \$2, you have made arbitrage profits. In the bond market, arbitrage is sometimes possible because municipalities can borrow at tax-exempt interest rates that are lower than taxable reinvestment rates. Thus, for example, a district might be able to borrow at 4 percent tax-exempt and reinvest the proceeds in a taxable security paying 6 percent. Federal tax law strictly regulates state and local municipalities' ability to earn and keep arbitrage profits. In fact, unless an issuer qualifies for specific exemptions, federal regulations prohibit either earning or keeping the arbitrage profits from tax-exempt bond issues. (See Chapter 6 for a more detailed discussion of these rules.) When interest rates rise, districts would be prudent to retain arbitrage consultants to track earnings on an annual basis.

continued

Frequently Asked Questions about General Obligation Bonds, *continued*

Q: How can the district make arbitrage and avoid rebate?

A: Federal rules either prohibit the earning of arbitrage in the first place or require the rebate of any arbitrage earnings to the federal government. However, the rules provide some exceptions. A district must qualify for an exemption from these rules before it may earn arbitrage or be allowed to keep any arbitrage earnings. (See Chapter 6 for a more detailed explanation.)

Even though you may not be able to earn arbitrage profits, a district can keep investment earnings up to the interest rate it is paying on the debt. Interest earnings on bond proceeds are subject to the same uses as the original bond proceeds and may not be used for operating purposes.

Q: How much does it cost to issue bonds?

A: A number of issuance expenses are incurred in issuing bonds. The total expense varies according to issue size, structure and credit quality. Issuance costs may be as little as \$35,000 for small issues or more than \$500,000 for large issues. In addition, the issuer pays underwriting fees, which may vary from 0.25 percent to 2.0 percent of the bond proceeds. This amount is determined by the size, credit quality and type of debt issued.

Q: How does the district pay these issuance costs?

A: Issuance expenses can be paid from bond proceeds. When determining the size of the bond issue, the district should ask its municipal advisor or underwriter to estimate the likely issuance costs. These costs may be added to the bond authorization amount being requested from the district's electorate.

Financing and Lease-Purchase Agreements

“Money cannot buy happiness; it can, however, rent it.”

Anonymous proverb

Oregon school districts, ESDs and community colleges have authority to enter into lease-purchase and similar financing agreements without voter approval. Such agreements can be used to finance a wide variety of capital items including certain supplies, equipment and maintenance projects prohibited under Oregon constitutional limitations for general obligation (GO) bonds. Under ORS 271.390, the estimated weighted average life of these financing agreements may not exceed the estimated dollar weighted average life of the real or personal property that is financed.

These agreements also can be used to purchase land, modular buildings and pay for construction of new facilities, major maintenance, and renovation of existing facilities that might be financed with voter-approved bonded debt but may be more

easily financed with a lease-purchase agreement.¹

Master lease-purchase agreements are also authorized under ORS 271.390.

In many respects a financing or lease-purchase agreement is similar to a bond issue. Districts borrow money from an investor and “finance payments” are made to that investor until the obligation is paid. Finance payments under such agreements contain a principal component and an interest component. When used for public purposes and properly structured, the interest is exempt from federal and state income taxes, resulting in relatively low borrowing costs.

There are significant differences, however.

Financing/lease-purchase debt service is typically paid from and secured solely by all legally available district funds.

Seven Steps for Using Lease-Purchase Financing

Districts considering the use of lease-purchase type financing should:

- Identify projects or assets to finance.
- Determine whether public sale, bank loan, or vendor financing is best.
- Select and retain bond counsel and municipal finance professionals.
- Adopt a resolution authorizing the lease-purchase agreement and the other documents necessary to execute a lease-purchase agreement.
- Execute either a purchase agreement, bank loan or vendor financing.
- Budget for the payments related to the lease-purchase transaction as a lease payment in the district’s general fund.
- Provide for ongoing compliance with any continuing disclosure or federal tax law provisions, including potentially providing a material event notice to the Electronic Municipal Market Access of the lease/purchase financing.

¹ “Lease-purchase agreements” and “financing agreements” are interchangeable terms and used as such throughout this chapter.

In financing and lease-purchase agreements, there is no authority to levy additional property taxes to pay debt service as there is for repayment of general obligation bonds. Thus, the district must use available resources (likely the general fund) to make payments. Financing/lease-purchase agreements do not require voter approval. A financing agreement may be divided into smaller pieces and sold to investors under the title of a "Full Faith and Credit Obligation" (FFCO).

Investors do not consider FFCOs to be as safe as GO bonds because there is not a dedicated property tax levy and, therefore, demand a higher interest rate to compensate for the higher risk.

The maximum term or maturity of a FFCO is determined by the district's available resources and by the property being financed. FFCOs typically have a maximum maturity of 5 to 30 years. The estimated weighted average life of the FFCO cannot exceed the estimated dollar-weighted

average life of the property financed.

Note: Financing or lease-purchase based transactions used to be marketed under the term "certificates of participation" or COPs. In Oregon, financing or lease-purchase transactions that carry the unconditional promise to pay from the general fund are now typically marketed under the term of "full faith-and-credit obligations" or FFCOs, representing the issuer's unconditional promise to pay.

Financing Agreement Requirements

Oregon districts may enter into financing agreements and issue FFCOs for which the obligation to repay is binding and can be enforced in court. In effect, this makes a lease-purchase agreement, or a FFCO, an obligation payable from the district's general fund.

Because this obligation is binding, a district typically will not need to provide additional security such

as collateral in the item being financed. In most instances, the district's promise to repay the lease-purchase obligation from its lawfully available funds, including amounts held in the district's general fund, is more valuable to investors than a security interest in the property being financed.

Two basic documents are required for a lease-purchase type financing. A third document is required if the issue is sold to public investors. Bond counsel should draft the required documents:

► **Board resolution(s)**

authorizing the terms of the lease-purchase agreement must do the following:

1. Include a not-to-exceed principal amount and maturity
2. Identify the projects to be financed and deem them necessary
3. Authorize the execution of other documents and the taking of other actions necessary to complete a lease-purchase transaction
4. Approve the selection of the lessor/lender and appointment of the financing team members such as bond counsel and underwriter or placement agent

The resolution may deal with these items in detail or it may delegate the responsibility for setting terms, such as the interest rate, to specified district officials. In such cases, parameters such as maximum principal amount and interest rate may be set in the resolution with the actual amounts and rates set later by district staff in conjunction with the financing team.

► **A financing agreement** is between the district as the lessee or borrower and the lessor or lender. The agreement may include

Comparison of General Obligation Bonds and Lease-Purchase/Financing Agreements

| CHARACTERISTIC | GENERAL OBLIGATION BONDS | LEASE-PURCHASE/FINANCING |
|--|--|---|
| Project to be financed | Restricted by ballot title Oregon Constitution and ORS 328.205 | Broad authority under ORS 271.390 and 332.155 |
| Authorization | Board resolution with voter approval | Board resolution only |
| Nature of debt service security | Additional property taxes | District's existing resources within general fund |
| Lessor/Lessee required | No | Yes (also called lender and borrower) |
| Eligible for OSBG | Yes | No |
| Escrow Agent | No | Sometimes |
| Paying Agent | Yes | No (Combined with escrow agent if certificated and not needed if not) |

language specifying the issuance of FFCOs and the use of an escrow agreement. The financing agreement incorporates terms established in the resolution and provides details of the property to be financed, payment schedules, security provisions and other matters.

The form of a financing agreement should always be subject to negotiation. A district should not execute any lease-purchase agreement without having it reviewed by bond counsel.

- An **escrow agreement** is required for a publicly offered FFCO financing. In addition to the basic resolution and the financing agreement, a

FFCO issue usually requires the execution of an escrow agreement. The parties to this document are the district and the escrow agent. The escrow agreement usually is a separate document but may be combined with the financing agreement.

The escrow agreement is needed because the district's repayment obligation is being sold to investors as separate units and documentation is needed to provide the terms of this division.

An escrow agreement will define the duties of the escrow agent, how payments are to be made to the investors, the actions that the escrow agent may take if the terms of the

financing or lease-purchase agreement or the escrow agreement are violated and other items.

Because of the credit strength of a district's binding obligation to pay debt service from its general fund, debt service reserves are not usually necessary for financing agreements or FFCOs. However, districts should note that equipment vendors may have different requirements for lease-purchase acquisitions of their equipment.

Frequently Asked Questions about Lease-Purchase Agreements

Q: What is the difference between a “lease-purchase agreement” and a “financing agreement”?

A: Just the name. Both terms are used and are issued under the authority of ORS 271.390.

Q: How do lease-purchase issues differ from GO bond issues?

A: In most respects they are similar. Both offer interest that is exempt from federal and state income taxes in most cases. Interest is typically paid semi-annually, and principal is paid annually. There are important differences:

- A district cannot levy property taxes outside of the permanent rate to pay debt service on a lease-purchase issue as it can to pay debt service on a general obligation bond.

- Principal and interest on a lease-purchase issue must be paid from a district's existing resources.
- A lease-purchase issue has no ability to levy additional property taxes to pay debt service. Investors do not consider lease purchase issues as safe as general obligation bonds and, therefore, demand a higher interest rate to compensate for the higher risk.
- General obligation bonds require voter approval while lease-purchase issues do not.

Q: Is voter approval needed to issue lease-purchase agreements?

A: No. Voter approval is not required.

Q: What can be financed through lease-purchase issues?

A: A lease-purchase issue

may be used to finance real or personal property including routine supplies and maintenance as long as they can be capitalized to the property that is financed. Lease-purchase proceeds, like GO bond proceeds, cannot be used to finance working capital.

Q: What are full faith-and-credit obligations (FFCOs)?

A: FFCO is simply a marketing name for lease-purchase agreements that are divided into smaller pieces and sold in the public markets like bond issues. School districts, ESDs and community colleges have authority to enter into lease-purchase agreements and they also have authority to authorize an escrow agent to issue certificated securities based on those agreements.

continued

Frequently Asked Questions about Lease-Purchase Agreements, *continued*

Q: Will the districts have to give a mortgage or security interest in the property financed with the lease-purchase issue proceeds?

A: No. Investors usually do not believe that the property financed by a lease-purchase issue has value to them if a district defaults on debt service. Therefore, investors do not believe a mortgage or security interest on that security has value. Instead, investors rely on the promise to pay from all lawfully available funds lease-purchase agreement, and the ability to sue and obtain monies from a district's general fund.

Q: How large can a lease-purchase issue be?

A: There is no legal limitation. However, the district and investors must be comfortable with the district's ability to pay the debt and satisfy the underwriter or lender that it will have sufficient resources to pay debt service over the life of the lease-purchase issue. Once issued, debt service on a lease-purchase issue is a binding obligation. (Lease- purchase agreements

or FFCOs may be redeemed, or paid off early, however, depending on the specific terms of the issue.)

The district also must be able to show potential purchasers where it will get the monies to pay debt service. Will it redirect current resources or does it have additional resources to service the debt?

Q: How long does the district have to spend the proceeds of a lease-purchase issue?

A: Based on federal tax rules, proceeds of a lease-purchase for capital generally must be spent within three years of the date of issue.

Q: How long will it take to get the money from a lease-purchase issue?

A: Depending on the method of sale, it will take about two to three months to get the money from the lease-purchase issue once the district has made a decision to proceed.

Q: What is the maximum term for lease-purchase issues?

A: The maximum term or maturity for the lease-purchase issue is determined by the district's available

resources and by the property being financed. Typically, FFCOs have a maximum maturity of five to 15 years, although some issues go as long as 30 years. The estimated weighted average life of the lease-purchase issue cannot exceed the estimated dollar weighted average life of the property financed.

Short-Term Borrowings

"Let us ... live within our means, even if we have to borrow the money to do it with."

Charles Farrar Browne

Oregon school districts, ESDs and community colleges use short-term borrowings to fund various cash-flow mismatches. The short-term borrowings authorized for Oregon districts that are described in this section:

- ▶ Tax (and revenue) anticipation notes (TANs or TRANs), which may be used to fund short-term cash flow deficits
- ▶ Bond (or grant) anticipation notes (BANs or GANs), which may be used to accelerate receipt of anticipated proceeds of long-term borrowing or grants
- ▶ Other short-term credit facilities

TANs or TRANs

School districts, ESDs and community colleges are authorized to issue short-term notes to meet current expenses in anticipation of tax collections or other budgeted revenues. Such notes are referred to as tax anticipation notes (TANs) or tax and revenue anticipation notes (TRANs). The need for these instruments often reflects the mismatch between the spike in expenses in September as the school year begins and the receipt of property taxes in November. Voter approval is not required to issue TRANs.

Issue size – Under ORS 287A.180, the amount of TRANs issued cannot exceed 80 percent of the district's budgeted basic state support, tax levies and other budgeted revenues; and they must mature within 13 months after they are issued.

Federal tax law limits the maximum size of tax-exempt TRAN issues based on a fairly complicated set of formulas. These formulas take into consideration a variety of factors, including the issuer's anticipated fiscal year cash-flow deficit, amount of prior year's expenditures paid from prior year revenues, the average cash balance maintained by the issuer in the past, and the total amount of tax-exempt debt the issuer expects to deliver for all purposes during the calendar year. Tax-exempt debt includes general obligation bonds, full faith-and-credit obligations and leases.

TRANs may also be sold on a taxable basis and market conditions may make that option more attractive than tax-exempt debt.

The maximum permissible TRANs issue is generally larger than the actual anticipated deficit. Issuers may also be eligible to borrow without projecting a deficit, if the cash balance is projected to be low enough. Issuers should work

Seven Steps for Using TRANs

- Prepare a cash-flow projection.
- Select and retain an underwriter or municipal advisor and bond counsel.
- Size the TRANs issue in consultation with your underwriter or municipal advisor and bond counsel.
- Determine the length of borrowing.
- Adopt a resolution authorizing the TRANs.
- Budget for the TRANs in a debt service account used solely to pay the principal and interest on the TRANs.
- Execute the transaction via either a market sale or bank loan.

with their municipal advisors, underwriters and bond counsel to maximize the financial benefits that may be derived from their TRANs issues.

Interest earnings on TRANs

– Federal law allows school districts to borrow at tax-exempt interest rates and, as long as they follow federal rules on sizing, to invest the proceeds in higher rate taxable securities. Thus, districts are allowed to “arbitrage” TRAN proceeds. Districts must expend a portion of the proceeds for the cash-flow deficit. Over the life of the borrowing, the investment earnings may help offset the interest costs of borrowing.

Repayment – Districts must repay TRANs no later than 13 months after the TRANs are issued. TRANs are payable from state support, tax levies or other budgeted revenues whose collection is anticipated at the time the TRANs are issued, plus earnings.

The district must establish a repayment account for depositing property taxes, revenues and earnings upon receipt. The account must be maintained until there are sufficient funds to retire the TRANs. Monies in the repayment account may be invested, as provided by law, in investments that mature no later than the TRANs’ maturity date.

Structuring TRANs

Like bonds, TRANs do not come in a “one size fits all” format. A district may choose between fixed rate notes or floating rate instruments. The term can be as long as 13 months or as short as the cash flow deficit itself. Two basic models are outlined below.

Fixed Rate Notes – The traditional method of issuing TRANs is to borrow for nearly the full 13-month term at a fixed rate. Under certain market conditions and the correct sizing for tax law

purposes, this TRAN structure may produce an “interest free” borrowing. Here is how this can work:

The district identifies its projected deficit for mid-November, just prior to the receipt of the bulk of its property tax levy. The district borrows early in July at a fixed tax-exempt rate of, say, 3 percent with the borrowing due the following June 30. The district invests the money in short-term taxable investments at, say, 3.5 percent until it is needed to pay operating expenses in November. In November, the district uses the money (for a couple of weeks to pay operating expenses, then restocks the TRAN investment account with enough in property taxes to repay the debt at year-end. The money is again reinvested (let’s say at 3.4 percent) from December to end of June. Under the right market conditions, the investment earnings more than offset the interest cost over the life of the issue.

Note: Not all market conditions produce this opportunity. Available reinvestment rates may often be insufficient to cover the interest cost. Under such scenarios, the district might consider a shorter repayment period on a fixed rate note or look at the alternative shorter-term floating rate/line of credit TRAN.

Floating Rate/Line of Credit

TRAN – Rather than issue a longer term fixed-rate note, a district may wish to establish a line of credit with a local bank to fund just the cash flow deficit. Under this approach, a district would draw on the line of credit as needed to cover pending deficits. The line of credit typically would be repaid as soon as the district received its major tax turnover in November or early December. This approach minimizes the interest accrual on the borrowing but forgoes

any possible offsetting interest earnings allowed under the federal tax rules. This line of credit type structure can be a good choice when market conditions do not allow for making arbitrage interest earnings. Banks’ willingness to provide such lines of credit is dependent on market conditions and these products may not always be available.

BANs and GANs

BANs and GANs are methods by which districts can accelerate receipt of cash from either bonds being sold in the future or grants being received in the future. Often, the sole security for these short-term note issues is the district’s ability to sell bonds (BANs) or the assurance the district will receive the grant (GANs). Unless the takeout financing is assured, investors are unlikely to purchase the district’s notes. At times the district may be required to also secure the note with its full faith and credit.

If TRANs or BANs are issued in anticipation of taxes or bond proceeds, they are subject to the limitations described in those sections.

Use of GANs by Oregon school districts, ESDs and community colleges is rare because sizable grants are unusual. The first notable issue of GANs was in response to the state of Oregon lottery bond program initiated in 1998. A number of districts used GANs to accelerate the receipt of the state bond money by one year. GANs must mature not later than 13 months after the GANs are issued.

Frequently Asked Questions about General Obligation Bonds

Other Short-Term Financing

In addition to TRAN, BAN and GAN financings, districts are authorized by ORS 287A.180 to borrow money on an interim basis in a number of other ways. Districts can enter into credit agreements, or issue notes, warrants, short-term promissory notes, commercial paper or other obligations to provide interim financing to acquire capital assets. Capital asset obligations must mature not later than five years after they are issued.

Q: What is a TAN or TRAN?

A: A TAN or TRAN is a short-term borrowing to fund projected fiscal year cash-flow shortfalls due to timing considerations. Districts may not receive property tax or state revenues on a schedule that matches their expenditure requirements. Consequently, these districts may need to borrow to meet their immediate needs and TRANs are an instrument to accomplish that borrowing.

Q: Do TRANs always pay for themselves?

A: No. It depends on whether the issue is exempt from rebate and whether the interest rates available on investments are high enough over the course of the life of the TRAN to offset the TRAN's interest and borrowing costs.

Q: How much may a district borrow?

A: Under state law, a district may borrow up to 80 percent of its budgeted resources. However, most districts restrict the borrowing size to fit under federal tax rules.

Q: What happens if a district borrows more than the federal rules allow for arbitrage?

A: It is not illegal to borrow more than the federal rules allow for arbitrage. However, if a district does borrow more than federal rules allow, then the district must either borrow on a federally taxable

basis or restrict the yield on the investment of TRANs proceeds to the yield on the TRANs. For example, if the arbitrage yield limit on a district's borrowing was 3 percent, then the district may not invest TRANs proceeds at a yield higher than 3 percent. The proceeds of the borrowing would be yield restricted.

Q: When should a district borrow and repay?

A: State law does not permit TRANs to extend more than 13 months after the date the obligations are issued. The issue's optimal timing and repayment depends on several factors. The most important is timing the cash flow to be available to cover the projected deficit. In certain interest rate environments, the best option is to borrow just before the deficit occurs and repay immediately after tax or revenue resources are available to fund the repayment. In other rate environments, it is better to borrow for as long as possible and earn interest on the proceeds while they are not needed to cover the cash flow deficit. Your municipal finance professional and bond counsel can help identify which option best fits the district's circumstances in any given year.

The Bond Election Process

“Somehow we must be able to show people that democracy is not about words, but action.”

Eleanor Roosevelt

Oregon school districts, ESDs and community colleges must seek voter approval if they wish to issue general obligation bonds. Authorization requires a simple majority vote in any May or November election (with no turnout requirement) or a “double majority” vote in a March or September election (a majority approval with at least 50 percent voter turnout). Note, only May and November election dates are eligible for the OSCIM grant (school districts only).

Ballot Title Process

Election dates – School measures can be submitted to voters on the following dates (ORS 255.345).

Simple majority, no turnout requirement for approval:

- ▶ Third Tuesday in May
- ▶ First Tuesday after the first Monday in November

Double majority:

Simple majority, 50 percent turnout required for approval:

- ▶ Second Tuesday in March
- ▶ Third Tuesday in September

For a current election calendar with filing deadlines, visit the Oregon Secretary of State’s elections website, <http://sos.oregon.gov/elections/Documents/current-elections-calendar.pdf>

Notice of election – Districts must file two forms prior to an election. SEL 805, the request for ballot title form, includes the ballot title, drafted by bond counsel, and is due 81 days prior to an election. After receiving the SEL 805, the county clerk must publish the notice of receipt of ballot title and measure election in the newspaper of general circulation in the district. Electors have seven business days from the district’s filing of the SEL 805 with the county to challenge the ballot title.

The SEL 803, containing the final ballot title, and the explanatory statement if required, must be filed 61 days prior to the

Eight Steps for Conducting a GO Bond Election

- Apply for TAP grants. Retain certified contractors to prepare long-range facility plan and facilities assessment per the OSCIM guidelines (school districts only).
- Organize and use a broad-based community advisory committee to review and prioritize facility needs and recommend a bond amount.
- Conduct community research – surveys, focus groups, community forums – to determine voters’ understanding of the need and support for the project(s). Consider whether to exclude projects that have very low community support.
- Set an election date and follow Oregon statutes for placing the bond measure on the ballot and conducting the election. Allow a minimum of six months prior to the election for information sharing.
- Apply for an OSCIM grant prior to the election (school districts only).
- Determine district and community representatives’ roles and responsibilities in providing information about and advocating for the bond measure. Be sure that staff understand the restrictions on political activity by public employees.
- Identify the kinds of information the district should provide voters about the bond measure.
- Identify the kinds of activities an advocacy committee should conduct for turning out a majority “yes” vote.

election, but it cannot be filed until the seven-business-day referral period has passed. An explanatory statement is required to be included in the SEL 803 in counties that are preparing a voter pamphlet. Oregon law requires the ballot title to provide "a reasonably detailed, simple and understandable description of the use of bond proceeds" (ORS 250.037(3)). Districts

should write the ballot title using messages from survey data, so that it reflects community priorities and is easy for voters to understand.

The district's bond counsel should review the district-drafted ballot title on both forms SEL 805 and SEL 803 before submission to ensure that they meet all legal and statutory requirements. **Failure to consult with bond counsel**

could result in an invalid ballot title and election.

Measure filing considerations – School districts and other local governments often wait until close to the filing deadline to officially file their measures for two reasons:

- ▶ They want to make sure bond costs are as accurate as possible and all elements to be paid for with bond proceeds are included in the ballot title.
- ▶ They want to continue the discussion about the need for and benefits of the bond measure with community groups without violating election law. Under ORS 260.432, once the district officially files a measure with the county clerk, discussions of this nature, or district communications that include information of this nature would be considered advocacy and are prohibited by law.

Under ORS 260.432, once a measure is officially filed, "no public employee shall solicit any money, influence, service or other thing of value or otherwise promote or oppose any political committee or promote or oppose the nomination or election of a candidate, the gathering of signatures on an initiative, referendum or recall petition, the adoption of a measure or the recall of a public office holder while on the job during working hours."

Voting by Mail

The vote by mail law (ORS 254.470) requires all Oregon elections to be conducted by mail: county clerks must mail ballots to registered voters not more than 20 days before the date of the election and not later than the 14th day before the election. Ballots for out-of-state Oregon voters may be mailed 29 days before the election. ORS 253.065 requires county clerks to mail ballots to voters who are in

Ballot Title Wording Requirements

The ballot title includes a caption, question and summary. Wording requirements are as follows:

CAPTION: No more than 10 words.

Suggested wording: **(Name) district General Bond**

Authorization for (key purpose) so that the first words voters see are the district name and the measure's primary purpose(s).

QUESTION: No more than 20 words plus required second sentence (ORS 250.035, 250.037).

Suggested wording: **Is (name) district authorized to (key purposes) by issuing general obligation bonds in an amount not exceeding (dollar amount)?**

Required second sentence (does not count in word count): **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.**

SUMMARY: No more than 175 words (ORS 250.035) **plus** required first sentence for March and September elections only (ORS 250.036).

Required first sentence for March and September elections only: **This measure may be passed only at an election with at least a 50 percent voter turnout.**

The 175-word summary describes the major effect of the referral. It must be "a reasonably detailed, simple and understandable description of the use of the proceeds." Districts may list items using bullets and use survey data to present issues in terms that reflect community priorities and concerns. The summary should be easy for the voter to read and understand. School districts with an OSCIM grant award may mention receipt of the grant and that it is contingent upon the measure passing. Districts often include a levy rate estimate, although it is not required.

EXPLANATORY STATEMENT: No more than 500 words (ORS 251.345 and OAR 165.022-0040); available only in counties that publish voters' pamphlets for elections. The 500-word explanatory statement can describe the measure in more detail than the Ballot Title summary. However, the explanatory statement should be impartial and as easy to read and understand as the summary. Content should be developed using survey data to present proposal in terms that reflect community priorities and concerns.

the military no later than 45 days before each election.

The deadline to register to vote is 21 days prior to an election.

Ballots must be postmarked by Election Day or received by county clerks by 8 p.m. on Election Day. Voters may return ballots by mail or in person to the county elections office or drop them at official ballot drop sites. If your district has a measure on the ballot, check with the county clerk for the schedule for mailing ballots and for the locations of official ballot drop sites.

Determining the Bond Amount with Community Input

Successful bond measures require community ownership. The district should involve key community leaders in a broad-based community advisory committee charged with reviewing and setting priorities for district facility needs as a first step toward generating community ownership of the district's facilities and any potential bond measure.

In addition, the district should consider hiring a professional survey firm to conduct a random-sample telephone survey to assess voter understanding of the need and support for the community advisory committee's recommendations. Boards should use any survey data to make decisions about the final bond levy proposal and include the survey messages in the ballot title and election materials.

Note: Surveys can be paid for with district funds if the survey is part of the board's decision-making process and occurs before the board adopts the resolution to put the measure on the ballot.

Effective use of advisory committees:

- ▶ Identify up to 30 community members who represent key

groups in your community to review and prioritize facility needs. Make sure the committee represents a cross-section of community groups: builders, Realtors, the Chamber of Commerce or other key business groups, city and county planners, the fire marshal's office, the ministerial association, parents, school district classified and licensed employees, senior citizens, and any other organization or agency that has recent experience with major building or renovation projects.

- ▶ Send personal invitations to potential representatives asking them to serve on the committee. Describe the task. Provide a timeline that indicates how many meetings or hours will be required.
- ▶ Once the committee is formed, review and discuss the district's facility needs and establish a timeline for addressing those needs based on the desired completion date and election date.
- ▶ Provide appropriate administrative and secretarial support.
- ▶ Follow open meetings law requirements. The facility review committee is an advisory committee to the board. Its meetings are public meetings. Notice requirements are the same as for board meetings.
- ▶ Make sure meeting minutes and the committee's final report are distributed widely so that all staff and other community members become aware of the district's needs.
- ▶ Follow the committee's advice as closely as possible in determining bond projects and amounts.

Conducting a Community Survey

Random-sample telephone surveys of district voters continue to be the most reliable way of testing voter understanding of and support for an issue. This kind of survey can be paid for with district funds if the survey is informational only, is conducted as part of the board's decision-making process and is prior to the board's approval of the resolution to put a measure on the ballot.

For statistically accurate results, the number of voters polled will depend on the number of registered voters in a district. Surveys generally cost about \$1,000 per minute, but costs vary, depending on district size and survey sample size. Districts should conduct a 10- to 15-minute survey (about 40 questions, including three to five open-ended questions) with +/- 5 percent accuracy. Questions about the measure should be specific, including the amount of the levy, the estimated tax rate, project components and their costs as well as other issues that may influence the board's decision.

Conducting Successful Bond Elections

A school board's decision to put a GO bond on the ballot should trigger a number of district information and community-sponsored activities. These activities should involve a cross-section of key community members in the decision-making process, show voters the merits of the district's proposal, and help advocacy committees focus on methods of gaining voter support.

Roles and responsibilities

Following are roles and responsibilities for board members, administrators, staff, parents, students and community

members in a bond election campaign.

School board members

- ▶ Involve a broad cross-section of community members in determining building/bond priorities. Follow community members' advice as closely as possible in determining bond projects and amount.
- ▶ Conduct a community survey to determine community understanding of and support for the bond proposal and its various components.
- ▶ *Unanimously* approve the final bond proposal. This is important for demonstrating the need for the bond and generating community support.
- ▶ Become advocates. School board members are not restricted by public employee election law. Participate in community-run campaign activities. Volunteer to accompany district personnel giving informational presentations so that you can encourage those present to vote yes for the measure. As long as board members are not using district staff time or resources, they can, and have a responsibility to, advocate for passage of measures they have voted to put on the ballot. (See Election Do's and Don'ts for Public Officials, page 31.)

Superintendent and administrators

- ▶ Help the board identify staff, parents and other community members who should be involved in planning and/or campaign processes.
- ▶ Provide information about the bond to staff, parents and community groups/members and be prepared to answer their questions.
- ▶ Assist in voter registration efforts and in providing opportunities

for public discussion of the bond measure.

- ▶ Support advocacy as appropriate. (See Election Do's and Don'ts for Public Officials, page 34.)

Staff

- ▶ Know about the bond measure; be prepared to provide information and answer student, parent and community questions. Be careful not to advocate for the measure during work hours.
- ▶ Volunteer to work with the community advocacy campaign during non-work time. (See Election Do's and Don'ts for Public Officials, page 31.)

Parents and community leaders

- ▶ Know about the bond measure and be prepared to answer questions about what the measure means for students.
- ▶ Volunteer to take leadership roles in or work with the community advocacy campaign.

Students

Generally, students should not be involved in campaign activities. Teachers should not suggest that they participate in the advocacy effort. However, high school and community college students in civics classes, student councils or clubs sometimes ask to be involved and there are some appropriate tasks for them:

- ▶ Conducting voter-registration drives to register 18-year-olds and recent high school graduates
- ▶ Contacting alumni to encourage them to vote
- ▶ Writing informational articles for the student newspaper
- ▶ Helping produce video or PowerPoint presentations about the bond measure

Preparing district information

- ▶ Use survey data to write the

175-word ballot title summary and 500-word voters' pamphlet explanatory statement. Have bond counsel review the ballot title and explanatory statement.

- ▶ Use the 500-word explanatory statement to prepare a brief (one-page) summary of the bond proposal to use at presentations and for staff and others to use for quick reference in talking about the bond proposal. OSBA recommends the district send this summary to the Secretary of State's Elections Division (elections.sos@state.or.us) for review to be sure it is free of advocacy.
- ▶ Meet with all staff and parent groups to discuss the bond proposal. Tell them it is important for them to be informed and able to answer questions from the public. Respond to and record all staff/parent questions for reference in producing district newsletters and other bond informational pieces.
- ▶ Establish and maintain a section on the district's website with all pertinent and current information about the bond. Make it possible for patrons to ask questions and get immediate answers electronically.
- ▶ Meet with community groups as requested to discuss the bond proposal. If possible, arrange presentations that include a district representative to present the facts and a board member or advocacy committee representative to advocate support.
- ▶ Consider producing two mailings to community members regarding the bond proposal. The first mailing, sent to all households and out-of-state voters, should include a summary of the facilities committee's report,

details regarding the bond amount, and election and voter-registration information. The second mailing, to all registered voter households, should include the ballot title and explanation, questions and answers, and election information. If all this information is included in the first mailing, consider a second mailing of an oversize postcard a month to six weeks prior to the election, repeating key information about the measure.

- ▶ The 2016 motor voter law substantially increased the number of registered voter households by automatically registering voters through driver's license renewals. To target mailings to likely voters, review voter data. Voter lists can be targeted to reach voters who have voted in every, or almost every, recent election.

District information guidelines

Information provided in all district communications, including websites, PowerPoint and video presentations, must be factual, impartial and free of any words or references that could be considered advocacy. Detailed guidelines for producing impartial information and other issues related to ballot measures are included in the Secretary of State's *2018 Election Law Summary and 2018 Restrictions on Political Campaigning by Public Employees* publications available online at www.oregonvotes.gov on the Voting & Elections website under Election Laws, Rules and Publications and then Manuals and Tutorials. See also the *Quick Reference on Political Campaigning for Public Employees*. To ensure that factual information about a measure is advocacy-free, districts can ask the Elections Division to review election-related materials. Submitting district fact sheets,

newsletters and presentations to the Elections Division for review and then following the division's advice helps keep communications advocacy-free. Send requests for review to elections.sos@state.or.us.

Districts also must be cautious about the links included on their websites. A district cannot provide a link to a political action committee (PAC) website on the district's website unless links are provided to opposing committees as well. This also means measure information should not include a PAC's contact information and must not include any encouragement for readers to volunteer for a PAC or other support or opposition efforts related to a measure such as phone banks. In addition, a district should not allow one political group to use its facilities unless all groups have the same opportunity.

Community advocacy campaign activities

- ▶ An advocacy committee should have at least three months to conduct a campaign.
- ▶ The advocacy committee should have a simple organization focused on identifying and turning out the number of "yes" voters required to pass the bond measure. (See pages 35-37 for a suggested campaign organization.)
- ▶ Activities to reach identified voters should be personalized, such as phone calls, letters, handwritten postcards, and hand-addressed brochures along with door-to-door canvassing in key precincts.
- ▶ An effort should be made to reach those most likely to vote:
 - ▶ Voters requesting early mail ballots for all elections
 - ▶ Newly registered voters
 - ▶ Voters with preschool and school-age children

- ▶ Targeted groups of older voters who support education issues

▶ The advocacy committee should check parent and staff lists against the voter-registration list to see if a voter-registration drive is required to register more parents and all in-district staff. This activity should take place early in the campaign and can be conducted by parent, high school and community college groups early in the school year.

- ▶ Activities should be prioritized based on available resources – volunteers, dollars and in-kind contributions – and listed on the campaign calendar developed for accomplishing campaign goals.

- ▶ A delegation of district and committee members should attend an *OSBA Bonds, Ballots and Buildings Conference* to find out more about successful campaign strategies and available resources.

Political Action Committee registration rules

Following are the rules for registering political action committees for community advocacy to support a school district, ESD or community college bond or local option measure:

- ▶ If a district is considering putting a bond or local option measure on the ballot, but has not officially filed that measure with the county clerk, community members can organize an advocacy group (political action committee) to support that measure before the district officially files the measure. The group can give itself a name, appoint a treasurer, open a bank account, collect contributions and make expenditures. A political action committee must file a Statement of Organization within three business days of first receiving a contribution or

making an expenditure. Forms may be found on www.oregonvotes.org. Election Laws, Rules and Publications and then Manuals and Tutorials. The treasurer must keep careful records of all the group's financial activities.

- As soon as the district officially files the measure with the county clerk, the measure is certified and given a number. At that time, the advocacy group must complete and file forms with the Secretary of State Elections

Division, not the county clerk. The forms are in the *Secretary of State's 2016 Campaign Finance Manual*, available online at <http://sos.oregon.gov/elections/Documents/campaign-finance.pdf>. The treasurer, from that point on, must account for and file on the appropriate state forms all of the committee's contributions and expenditures.

The Secretary of State's Elections Division cautions districts to follow the preceding rules and NOT try to file earlier as a miscellaneous

committee. School bond/local option advocacy committees do not fit the definition of a miscellaneous committee.

School committees that file as miscellaneous committees and do not support multiple candidates and measures would face penalties if someone questioned their activities. This is more of a concern now that all political action committee campaign contributions and expenditure reports are online on the state's ORESTAR system for anyone to review.

Election Do's and Don'ts for Public Officials

The following guidelines provide some general legal principles found in case and statutory law (ORS 260.432). School district, ESD and community college board members and administrators are encouraged to consult the Oregon School Boards Association (800-578-6722 or 503-588-2800 or info@osba.org) or their attorney when specific questions arise.

Don't use district resources – School districts, ESDs and community colleges cannot use public resources to advocate a position on a ballot measure. Public resources mean money, staff time during working hours, vehicles or travel allowances, or facilities and equipment.

examples: Employees cannot do research or write speeches designed to advocate a position on a ballot measure. Employees cannot charge travel expenses to the school district, ESD or community college for attending a meeting at which they advocate a campaign position. A board secretary cannot draft a board resolution that takes a position on a ballot measure before the board has officially taken action on the resolution. (Following a board action, the board secretary can format

the resolution to comply with a standard format used for resolutions.)

Do provide information – Elected board members may use public resources to develop and distribute objective material on the effects of a ballot measure. Such material must be informational, providing the public with a fair presentation of all relevant facts and may not advocate a position.

examples: Employees can be asked to do research and prepare impartial, factual information that fairly assesses the effects of a measure on the district/ESD/community college and the community. Boards and staff can use such information in meetings with individuals, organizations, the news media, legislators, civic leaders, special interest groups and others to explain objectively the measure's impact. Measure proponents or opponents can also use the information gathered.

Do check content, intent – Give careful consideration to style, tenor and timing when creating informational documents. The distinction between legitimate research/information efforts and

improper campaign advocacy may be difficult to determine for specific cases. When in doubt, check with the district's attorney or send the information document to the Secretary of State Elections Division (elections.sos@state.or.us) for review.

Do speak out – Elected board members may campaign fully for or against any ballot measure as long as they don't use public resources. The courts recognize the right, if not the duty, of elected officials to speak out on major issues, particularly on matters that affect the constituents they serve. Board members can speak without restriction as long as public resources are not involved in any way. The board member can use district-prepared materials for reference because these materials are public records available to anyone.

Do take positions – Elected boards of school districts, ESDs and community colleges can take a position on a ballot measure provided public resources are not used to advocate that position. Board resolutions for or against a ballot measure must be drafted by a board member, not by the superintendent/president or board

continued

Election Do's and Don'ts for Public Officials (continued)

secretary. The board secretary can make copies of the proposed resolution and include the drafted resolution in board packets sent out before the board meeting. On resolutions that take a position on a ballot measure, the superintendent/president can prepare information that indicates the impact that ballot measure would have on the district/ESD/community college, but must make that information balanced and impartial.

Following passage of a resolution, the board secretary can retype the resolution to conform to the district/ESD/community college format. The superintendent/president may not endorse the board's action, but can sign the resolution strictly "attesting to the action taken" and as the official clerk. Label the signature as such on the signature line.

If the district/ESD/community college normally includes information on board meeting actions in a regular district publication, the action the board took on the ballot measure resolution can be included as

part of the listing of board actions, but should not be specifically highlighted. Board action to support or oppose a ballot measure should be included in the board's official minutes.

Don't campaign on district time – School district, ESD and community college employees can campaign outside their hours of employment and without the expenditures of public funds. Employees must not be required or coerced to aid in a campaign. During working hours, employees can say "Here are the facts; please vote." They can say "Vote yes" on their own time.

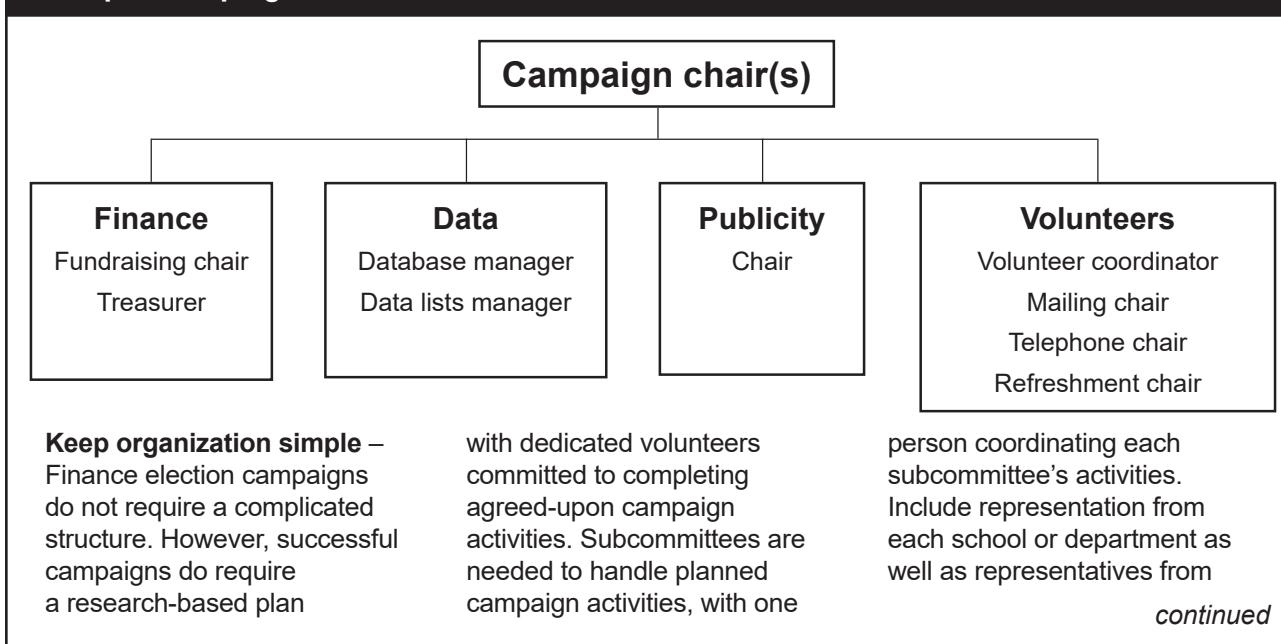
A superintendent/president attending a meeting as the representative of the district/community college cannot advocate passage of a ballot measure. The superintendent or president can provide information on how a ballot measure would impact the district but should provide information that is balanced and impartial. If an employee of the district/ESD/

community college wants to advocate a position on a ballot measure, that employee must make it perfectly clear before speaking at a public gathering that such opinions are personal and are not given in the employee's official position. If such opinions are given at a public gathering, the district/ESD/community college cannot pay for any part of that employee's appearance, such as the cost of the meal or travel expenses.

Do provide public forums – School districts, ESDs or community colleges may provide, at public expense, a forum in which the opponents and proponents for a ballot measure are given equal time to present their views. A forum may not be provided to one side but denied to the other.

For further information, see *Restrictions on Political Campaigning by Public Employees* from the Elections Division at http://sos.oregon.gov/elections/Documents/260.432_quickref.pdf

Sample Campaign Structure



Sample Campaign Structure (*continued*)

employee unions and key local businesses/community groups as campaign volunteers and as subcommittee members.

Have one leader – Assign one person to coordinate the overall campaign. Campaign organizations tend to be democratic. While this is necessary to attract dedicated volunteers, make every effort to ensure that one person is in charge and campaign goals are clear. That person is either the committee chair or the hired campaign consultant, if the campaign is large enough and has enough money to hire a campaign consultant. People move in and out of campaigns with both good and bad ideas. The consultant or chair's job is to keep the campaign on target and on schedule.

If the leader wants to share the responsibility, some campaigns name co-chairs. Others have a chair and a consultant. The chair or one of the co-chairs should be a highly organized person who can keep the whole campaign on track, make sure subcommittee work is coordinated and all research-based activities are completed. Some districts also need a well-known and respected community leader as co-chair to give the advocacy effort credibility.

- **Campaign chair(s)/consultant:**

- ▶ Coordinates all facets of the researched-based campaign and makes sure the committee sticks with and carries out the research-based plan 100 percent.
- ▶ Prepares agendas for meetings.

▶ Establishes the following subcommittees and appoints chairs who have overall responsibility for subcommittee tasks.

▶ Keeps in contact with all subcommittee chairs to be sure their tasks are being accomplished as scheduled.

- **Finance committee:**

Raises the dollars and finds the in-kind contributions (printing, postage, office space and supplies, phone bank locations, food, etc.) needed for the campaign. The treasurer files all of the required forms and reports with the Secretary of State's Elections Division ORESTAR system (oregonvotes.org).

- **Data committee:**

Responsible for making sure the campaign has all of the voter information and lists needed for phoning, mailings and door-to-door activities. This requires creating and maintaining the campaign's voter database or working with the county elections office and/or a commercial list service to provide voter lists as needed.

- **Publicity committee:**

Prepares all campaign literature based on survey research-identified themes and messages. This committee designs the materials to meet campaign requirements and has them produced in time to meet campaign deadlines.

- **Volunteers committee:** Key to the campaign's success.

▶ *The volunteer coordinator* recruits and assigns volunteers by distributing sign-up sheets to the

schools/departments and groups willing to send volunteers and coordinating the times each school/department/group is assigned to work. The most important task is to follow up to make sure the required number of volunteers is present for each night of phoning, each mailing and door-to-door activity.

▶ *The mailing chair* is responsible for all campaign mailings. This person should be familiar with current mailing requirements and procedures. The mailing chair also works with the volunteer coordinator to be sure there are enough volunteers for the scheduled dates for mailings.

▶ *The refreshments chair* is responsible for making sure there are beverages and snacks for all activities that involve volunteers.

Other volunteer subcommittees may be required depending on the campaign strategy based on the committee's analysis of survey and other research data.

▶ *The telephone chair* must be available each night phoning takes place to be sure volunteers have direction and guidance. This person is responsible for providing training as well as for supervising the phoning.

▶ *The door-to-door chair* is responsible for working with the database manager and elections office to produce walking lists; with the volunteer coordinator to recruit volunteers and to prepare lists and information

continued

Sample Campaign Structure (*continued*)

packets for the canvass; and with the refreshments chair to arrange starting and ending locations for canvassing where refreshments can be served. In addition, the door-to-door chair may need to

get appropriate permissions from the city or county for volunteers to go door-to-door.

Frequently Asked Questions about Elections

Q: When can districts vote on a bond authorization?

A: There are four election dates each year (ORS 255.185):
Simple majority, no turnout requirement for approval:
► Third Tuesday in May
► First Tuesday after the first Monday in November
Double majority: Simple majority, 50 percent turnout required for approval:
► Second Tuesday in March
► Third Tuesday in September
Filing deadlines are on the Oregon Secretary of State's elections website - oregonvotes.org.

Q: When does the double majority requirement for elections apply?

A: There is no turnout requirement for May or November elections. However, there is a 50 percent voter turnout requirement for March and September elections.

Q: Is there any limit to the number of times a district can submit a measure to voters?

A: No. However, the county does charge the district election costs for each election. In addition, multiple elections can erode a district's credibility with voters and exhaust district officials, staff and volunteers.

Q: Is there a disadvantage to voting by mail?

A: No. Voting by mail increases voter turnout and may help districts voting in March or September reach the 50 percent turnout requirement.

Q: Which election is the best for school bond measures?

A: Districts need to consider survey data and their community's characteristics in choosing an election date. Statistics indicate that school bond levies do better in May and November elections. March and September elections require a 50 percent voter turnout. Property tax bills are mailed at about the same time ballots are mailed for November elections and may impact a measure's success. However, turnout tends to be higher in November even-year elections.

Q: What can a district tell voters about the election?

A: Districts can provide factual information about the measure and tell voters what the results would be if the measure passes or doesn't pass. District information must be impartial and avoid advocacy. For example, "The ABC district is asking voters to consider a bond" is

information. "The ABC district is asking voters to approve a bond" is advocacy.

Q: Who decides what's advocacy and what's information? What's the penalty for violating the law?

A: The district has the responsibility to review all election-related materials and activities paid for with public funds or involving public employees to be sure they are advocacy-free. If a community member believes something the district produces advocates a positive or negative vote, that individual can file a complaint with the Secretary of State.

The Elections Division reviews the complaint. If the district and/or employees are found in violation of the law, they may be fined.

If a public official "expends any public money in excess of the amounts, or for any other or different purposes than authorized by law," that official can be sued by the county district attorney or taxpayer from that district (ORS 294.100 (2)).

continued

Frequently Asked Questions about Elections, *continued*

Q: Can school board members engage in advocacy activities?

A: Yes. They can engage in advocacy activities at any time as long as no public funds are involved.

School boards can pass resolutions in support of or in opposition to measures. The action can be reported in board minutes and board reports, but no public funds should be used for any further publication of the action.

Q: Can district employees engage in advocacy?

A: Yes, as long as these activities take place outside of work hours and do not involve use of public resources.

Q: Can the campaign committee hold meetings in district buildings?

A: Yes, if the campaign committee is treated like other community groups that request use of the same district facility.

Districts should check and follow board policies for facility use.

Q: Can the advocacy committee use a district copy machine or make phone calls using district phones?

A: In general, the advocacy committee should find non-district sources for printing and phoning. However, if the district makes these resources available to the public, then a campaign committee can use the district copy machine and phones provided the committee is treated like all other community groups or members of the public that are allowed to use these resources.

Q: Can the district put a link on its website to the advocacy committee website?

A. No. A district should not put a link on its website to an advocacy (political action)

committee website. This also means a PAC's contact information and requests to volunteer for PAC activities should not be included on the district's website or in other district information, or communicated using district email addresses. However, if a district wants to provide links related to a measure on its website, the district may do so providing all (pro and con) PAC websites are included.

Q: Does the school district pay for the cost of the election? And how much is that?

A. Yes, the county elections office will bill the school district for the proportionate share of the cost of running the election, similar to May school board elections. The cost will vary depending on how many other issues and entities are sharing in the cost of the election.

Federal and State Tax Treatment

"A child of 5 could understand this.

Fetch me a child of 5."

Groucho Marx

The Internal Revenue Service maintains a program to audit outstanding tax-exempt debt issues; consequently, districts must carefully monitor the use and investment of all funds related to a tax-exempt borrowing as well as the use of all assets financed with tax-exempt debt. Failure to comply with applicable federal rules can result in the tax-exempt debt becoming taxable, retroactive to its date of issue.

This section is a brief overview of an extremely complex area of law. It is intended to acquaint district officials with current rules and regulations.

Note: Federal tax rules may change frequently whether through amendments to the Internal Revenue Code, federal Treasury regulations, and/or new IRS rulings. Failure to comply with these changes can result in severe financial and legal consequences to the issuer.

Bond counsel advises districts regarding compliance with these requirements prior to debt issuance

but generally does not monitor post-issuance events that may affect a debt's tax-exempt status. As a result, district business officials should track applicable federal tax requirements and consult with bond counsel regarding any investments of bond proceeds and uses of bond-financed assets that may have an adverse effect on the tax-exempt status of the district's outstanding debt.

Avoiding Private Activity Bond Status

The Internal Revenue Code generally prohibits governmental issuers from using the financed assets in a manner that provides significant benefit to non-exempt persons. The IRS definition of non-exempt persons includes non-profit organizations and the federal government as well as profit-making businesses and individuals acting in a trade or business capacity.

U.S. Treasury regulations finalized in 1997 employ complex rules to determine whether non-exempt

Six Steps for Complying with Tax Requirements

- Follow bond counsel's advice in structuring the debt issue prior to issuance so that the issue meets all federal and state tax-exempt status requirements.
- Adopt post-issuance compliance policies and procedures.
- Monitor changes in tax law, rules and regulations regarding the status of tax-exempt debt.
- Consult bond counsel before investing bond proceeds or making any changes in the use of bond-financed assets to avoid any adverse effects on the debt's tax-exempt status.
- Make sure the district complies with all bond registration and IRS reporting requirements.
- Make sure the district understands, tracks and complies with all rebate requirements.

persons derive a benefit from financed assets and, if so, whether this benefit exceeds permissible limits over the life of the borrowing. These rules focus on whether a non-exempt person has preferential rights regarding the use of bond-financed property (private use) and whether the bonds are secured by private property or are expected to be repaid from payments derived from the privately used property.

Permissible limits on private benefit range from 5 to 10 percent depending on the type of use. These limits generally are measured over a term beginning on the bond issue date or on the placed-in-service date, whichever is later. They end on the expiration of the financed asset's expected life or on the final borrowing maturity date, whichever is earlier.

The most common type of preferential use occurs when bond-financed assets are leased or managed by non-exempt persons. Except for certain short-term arrangements, leases of bond-financed property are always treated as preferential use.

Management contracts relating to bond-financed assets, such as contracts for providing food service, transportation services or general school administration, are treated as preferential use unless the management contract's terms comply with IRS safe-harbor guidelines. Bond counsel should review any proposed management contract that involves bond-financed property, regardless of whether the bonds are yet to be issued or have been outstanding for years.

Management contract guidelines established by the IRS provide generally that a management contract will not be treated by the IRS as resulting in private use if:

- ▶ Compensation paid to the manager under the agreement is reasonable and in no way based on the net profits derived from the operation of the managed property, and the manager does not, in substance, bear any share of net losses from the operation of the managed property.
- ▶ The district exercises a significant degree of control over the use of the managed property.
- ▶ The term of the management agreement, including renewal options, does not exceed the lesser of 30 years or 80 percent of the weighted average reasonably expected economic life of the managed property.
- ▶ The manager agrees in writing not to take any tax position that is inconsistent with its role as a service provider with respect to the bond-financed property.
- ▶ The manager does not have any role or relationship with the district that substantially limits the district's ability to exercise its rights under the contract.
- ▶ The district, rather than the manager, bears the risk of loss from damage or destruction of the property.

Change in Use

In the event an issuer decides to sell a tax-exempt debt-financed asset prior to the debt's retirement, the issuer should consult with bond counsel before the sale. Unless handled properly, the sale may be treated as fostering private use, and federal law may require the district to take remedial action. Similarly, if a district, contrary to its original expectations, decides after completion of a debt-financed project to lease a portion of the asset to a private person or enter into a management contract

with a private person, the district should consult with bond counsel before making the change.

Arbitrage and Investment Restrictions – General

The Internal Revenue Code regulates the investment of bond proceeds. These regulations are referred to as the arbitrage rules.

Arbitrage is the positive difference between the investment yield on unspent bond proceeds and the yield on the district's bonds (the arbitrage yield).

There are two sets of rules governing these investments, yield restriction rules and rules requiring rebate of arbitrage earnings to the federal government.

Failure to comply can cause the bonds to become taxable retroactively.

Yield Restriction Rules

Bond proceeds may not be invested at a yield in excess of the arbitrage yield plus 0.125 percent, unless there is an applicable exception. Yield restriction rules apply even to issues that are exempt from rebate. In many cases, tax-exempt debt issue proceeds are governed by one of the following exceptions:

- **Proceeds expenditures on the financed projects**
 - Proceeds for construction and acquisition projects may be invested at an unrestricted yield for a three-year period beginning on the issue date of the bonds if, on the bond issue date, the district expects that the following will be true:
 - ▶ At least 85 percent of the debt's sale proceeds (less any amount deposited in a reserve fund) will be spent within three years of the issue date
 - ▶ Within six months from the issue date, the district will incur substantial binding obligations that will require the expenditure

of at least 5 percent of the debt's sale proceeds

- The district will pursue completion of the project with due diligence

- **Reasonably required debt service reserve funds** – If a debt service reserve fund is required, the reserve fund may be financed from issue proceeds and invested at an unrestricted yield to the extent its size does not exceed the least of the following:

- 10 percent of the issue proceeds (as defined by the federal tax regulations)
- The maximum annual debt service of the borrowing
- 125 percent of the average annual debt service on the issue

Additional district resources may be deposited in a reserve fund but must generally be yield restricted. The requirement to fund a debt service reserve fund will be determined by market conditions and credit quality at the time of sale. In recent years, most debt issues have not had to meet this requirement.

- **Bona fide debt service fund** – Amounts designated by a district to pay debt service may be invested at an unrestricted yield, provided that the debt service fund is depleted at least once each year except for a carryover amount equal to the investment earnings in that fund in the preceding year or one-twelfth of the preceding year's debt service.

- **Refunding amounts** – Amounts designated to pay debt service on another debt issue generally may be invested at an unrestricted yield if they are used to pay debt service on another issue within 90 days after receipt of the funds.

- **Yield Reduction Payments**

– In many cases, proceeds that do not fall into any of the exceptions described above and are therefore subject to yield restriction may still be invested at a yield in excess of the arbitrage yield. In such case, the district will often need to make "yield reduction payments" to the federal government in order to reduce the net earnings to the district on such proceeds to the arbitrage yield plus 0.125 percent. Any such yield reduction payments would be made in the same manner and at the same time as rebate payments as described below.

Rebate

The second set of investment rules requires rebate to the federal government of any positive arbitrage above the bond yield unless certain exceptions are met. The Internal Revenue Code provides the following exceptions:

- **Bona fide debt service fund exception** – A bona fide debt service fund (as described above) established by a school district, ESD or community college is exempt from rebate if the bonds or FFCOs are fixed rate and have an average maturity of at least five years and/or the average annual debt service due on the bonds or the FFCOs does not exceed \$2.5 million. In the case of bonds or FFCOs that do not fall into one of those two categories, a bona fide debt service fund is still exempt from rebate for any year in which the gross investment earnings in such fund do not exceed \$100,000.

- **Small issuer exception** – No rebate is required if, as of the obligation's issue date, the school district or ESD reasonably expects to issue:

- Not more than \$5 million of tax-exempt obligations within the calendar year for all purposes or

- Up to \$15 million of tax-exempt obligations during the calendar year provided any amount in excess of \$5 million is attributable to construction of primary or secondary public school facilities.

Under this test, any borrowings issued on a federally tax-exempt basis count toward the \$5 million and \$15 million limits.

- **Six-month spending exception** – No rebate is required (except with respect to amounts deposited in a reserve fund) if 100 percent of the proceeds (excluding amounts in reserve funds on which rebate must be paid in any event) and investment earnings are spent within six months of the issue date.

- **Eighteen-month spending exception** – No rebate is required (except with respect to amounts in a debt service reserve fund) if no part of the issue is a refunding issue (or a borrowing for working capital expenditures) and sale and investment proceeds are spent quickly enough to hit the following targets:

- at least 15 percent within 6 months of the delivery date,
- at least 60 percent within 12 months, and
- 100 percent within 18 months.

Certain exceptions apply for amounts held back on the final date as a retainage and for certain de minimis amounts.

- **Two-year spending exception** – No rebate is required (except with respect to amounts in a debt service reserve fund) if no part of the issue is a refunding issue

(or a borrowing for working capital expenditures), at least 75 percent of the sale and investment proceeds are used for construction expenditures, and sale and investment proceeds are spent quickly enough to hit the following targets:

- at least 10 percent within 6 months of the delivery date,
- at least 45 percent within 12 months,
- at least 75 percent within 18 months, and
- 100 percent within 24 months.

Certain exceptions apply for amounts held back on the final date as a retainage and for certain de minimis amounts.

Even if the district believes it has complied with one of the rebate exceptions, it should have bond counsel, an accounting firm or another expert review its determination.

If any borrowing proceeds do not qualify for a rebate exception, the district must compute and, if necessary, pay rebate to the federal government every five years. Each rebate payment, except the final rebate payment, must be paid in an amount that, when added to the future value of any prior rebate payments, assures that at least 90 percent of the rebate amount is paid. Any remaining rebate amount must be paid within 60 days of the bonds' final scheduled maturity or earlier redemption. The district is not required to file any forms with the IRS unless rebate is actually owed. As discussed above, any yield reduction payments owed to the federal government must be paid in the same manner and at the same time as rebate payments.

Even though rebate owed does not have to be paid for five years

after the bond sale date, districts should calculate their rebate liability annually until all of the bond proceeds are spent. That way if an amount is owed, the district can reserve that amount for later payment to the federal government. If the district does not wish to track the liability itself, it can hire a firm that specializes in arbitrage rebate calculations. Districts that accrue a rebate liability should check with auditors regarding proper accounting procedures.

Bank Qualified Obligations

Issuers may benefit from interest rate savings by designating its bonds as qualified tax-exempt obligations. This designation is available to districts that reasonably expect to sell \$10 million or less in tax-exempt debt in the calendar year (certain current refundings are not taken into account in making this determination). This special designation is permitted by Section 265(b)(3) of the Internal Revenue Code, which provides an exception to the rule that prohibits banks and other financial institutions handling tax-exempt obligations from deducting their interest expense allocable to owning tax-exempt bonds.

Registration

The Internal Revenue Code requires registration of most new issues of tax-exempt securities with maturities of one year or more. The bonds must be in registered form, i.e., the bond register maintained by the bond registrar records the names and addresses of all registered bond owners and all subsequent bond owners. Securities may be registered in certificate form or in full book-entry form:

- ▶ When registered in certificate form, investors hold the physical certificates representing the principal amount of bonds they own (most often in denominations of \$5,000 or multiples of \$5,000)
- ▶ When registered in a full book-entry system, certificates are not issued to investors and all processing is accomplished electronically

In each instance, the bonds are identified according to the number assigned to an issue (CUSIP number), the interest rate and the year of maturity.

The Depository Trust Company, a depository company in New York, is the most frequently used entity for electronically processing the receipt and payment of principal and interest to bond owners. The cost for this service is charged to the bond purchaser, not the district. Electronically processed debt service payments should provide a net saving to the district since the electronic system may reduce paying agent fees.

IRS Information Reports – Form 8038-G

The Internal Revenue Code requires school districts, ESDs and community colleges issuing tax-exempt debt to file information reports with the Internal Revenue Service (IRS Form 8038-G or IRS Form 8038-GC).

The report contains information on the district, the issue, the property financed, and such other information as may be required by the Treasury Department. Bond counsel will prepare this document as part of the bond closing documentation. This requirement applies to all tax-exempt obligations including small equipment leases.

Reimbursement Rules

Federal tax laws permit issuers to reimburse themselves for certain prior expenditures initially paid for from sources other than proceeds of a borrowing. These reimbursements are subject to significant constraints. Generally, only capital expenditures may be reimbursed. Issuers may not reimburse themselves for prior payments for debt service or operating expenditures.

To preserve the ability to subsequently reimburse itself for most expenditures, a district must put in place a declaration of intent to reimburse no later than 60 days after paying an expenditure for which reimbursement will be subsequently sought. This declaration must describe the general category of expenditures to be reimbursed, e.g., school construction, purchase of school buses, or purchase of equipment. It also must identify the maximum amount of debt expected to be issued to finance the project for which the expenditures to be reimbursed are a part.

The reimbursement declaration may be done by board resolution or by any person to whom the board has delegated the power to make such declarations. The declaration does not commit the district to issue debt, but should not be made unless the district reasonably expects to issue debt (assuming all required approvals are obtained).

Once a reimbursement declaration is in place, federal tax law provides that reimbursement must occur (if it occurs at all) within certain specified periods:

- For issuers who qualify for the \$5 million or \$15 million rebate exception described on page 40, reimbursement must occur no later than the later of three years after the expenditure is actually paid,

or three years after the project of which the expenditure is a part is placed in service.

- For issuers who do not qualify for this rebate exception, reimbursement must occur no later than 18 months after the later of (a) the date the expenditure is paid or (b) the date on which the project is placed in service, but in no event more than three years after the expenditure is paid.

No reimbursement declaration is required for preliminary expenditures such as architectural, engineering, survey, soil testing and similar costs as long as they do not exceed 20 percent of the bond issue from which they are paid. In addition, no reimbursement declaration is required to reimburse a de minimis amount of expenditures of not more than the lesser of \$100,000 or 5 percent of the bond issue.

Also, no reimbursement declaration is required for expenditures that are made after the related borrowing is issued. However, these expenditures must be reimbursed with bond proceeds not later than within 18 months after the date of payment or the date the financed project is placed in service, whichever date is later, and in no event later than 5 years after the related borrowing is issued.

ARRA and Other

Tax-Advantaged Debt

Although districts predominantly issue tax-exempt obligations to secure lower financing rates, there have been other varieties of obligations issued by districts that, while not federally tax-exempt, have other tax advantages that have enabled districts to obtain favorably low financing rates.

For example, the 2009 American Recovery and Reinvestment Act

("ARRA") offered districts the ability to issue certain types of "tax-advantaged debt" other than tax-exempt debt to lower the cost of borrowing. Another type of tax-advantaged debt was Qualified Zone Academy Bonds, a federal program developed in 1997 to provide a low-cost financing option for school districts.

Districts can no longer issue these types of tax-advantaged debt; however, many districts did issue one or more of these tax-advantaged bonds in the past and have continuing post-issuance compliance obligations with respect to such debt. Many types of tax-advantaged debt carried restrictions and limitations similar to those that apply to tax-exempt obligations; however, they often had unique requirements as well.

It is also important to note that some of these issues may have been structured with a sinking fund where issuers make annual deposits and hold the funds until the debt is paid at maturity. If your district has any of these bonds outstanding, it's critical to understand the terms and ensure they are managed correctly.

Any district that has issued one of these types of tax-advantaged debts should consult with its bond counsel to determine the specific requirements applicable to its debt. Tax-advantaged bonds that may have been issued by districts include Build America Bonds, Recovery Zone Economic Development Bonds, Qualified School Construction Bonds, Qualified Energy Conservation Bonds, and Qualified Zone Academy Bonds.

Written Post-Issuance Compliance Procedures

The tax requirements that apply to tax-exempt or tax-advantaged debt are numerous and any district that has issued, or is

considering issuing, such debt, may want to consider adopting written procedures that will assist it in addressing these compliance obligations in the future. Although adopting written post-issuance compliance procedures is not currently required by federal tax law, the IRS strongly encourages the adoption of such procedures. The 8038 form filled out by districts has a box to check if a district has or does not have such procedures. Further, participation in the Oregon School Bond Guaranty Program is contingent

on a district having such procedures for securities and tax compliance. In addition, the IRS has specified that such written procedures should contain certain key characteristics, including making provision for:

- ▶ Due diligence review at regular intervals;
- ▶ Identifying the official or employee responsible for review;
- ▶ Training of the responsible official/employee;
- ▶ Retention of adequate records

to substantiate compliance (e.g., records relating to expenditure of proceeds and the use of bond-financed facilities);

- ▶ Procedures reasonably expected to timely identify noncompliance; and
- ▶ Procedures ensuring that the issuer will take steps to timely correct noncompliance

Any district interested in pursuing the adoption of written post-issuance compliance procedures should consult with its bond counsel.

Frequently Asked Questions about Federal and State Tax Treatment

Q: Why should school districts care about federal tax law? Aren't school borrowings tax-exempt?

A: In 1988, the U.S. Supreme Court held that the federal Constitution did not prohibit federal taxation of state and local bonds. Congress has, by statute, made many types of school district, ESD and community college borrowings exempt from taxation, but has imposed numerous conditions these bonds must satisfy to be, and remain, tax-exempt. These conditions restrict permissible uses of borrowed monies and affect investment of borrowed monies prior to their expenditure.

Q: How do federal tax laws restrict borrowing expenditures?

A: School districts, ESDs and community colleges may not borrow on a tax-exempt basis to finance assets that benefit private businesses. These rules are known as the private activity rules.

For example, districts are very limited in their ability to lease bond-financed

educational or athletic facilities for use during non-school hours, except on a short-term basis. Also, contracts with private parties to manage various aspects of district operations, e.g., food service, are subject to strict rules if the manager uses tax-exempt bond-financed assets in providing services to the district.

Q: Does federal tax law affect what a district may do with financed assets after they are placed in service?

A: Yes, federal tax restrictions apply as long as the related tax-exempt debt is outstanding.

Q: Do these restrictions prevent a district from changing the use of bond-financed assets or from selling assets if the district later decides it is prudent to do so?

A: Federal tax law does not prevent a change in use of bond-financed assets unless that use is by private parties. However, if a change in use does involve private parties

(such as a sale of bond-financed land to a developer), then tax law generally requires the district to take some remedial action to preserve the tax-exempt status of the bonds that financed the asset. For example, a district might be required to dedicate the sale proceeds to redeeming some of the tax-exempt debt. Or, in certain circumstances, the district might be permitted to choose between dedicating the sale proceeds to redeeming debt or using the proceeds to acquire additional district assets within a reasonable period of time.

Q: What are arbitrage rules?

A: Federal tax arbitrage rules impose restrictions on a district's investment of money borrowed on a tax-exempt basis. These rules govern the purchase and selection of permissible investments. They can require districts to restrict the yield on bond proceed investments and to rebate a certain portion of the investment proceeds to the federal government.

Frequently Asked Questions about Federal and State Tax Treatment, *continued*

Q: What is yield restriction?

A: If a district fails to spend borrowed monies within a reasonable period of time, federal tax law can require a district to restrict the yield on the investment of unspent monies to the yield on the related borrowing. This can be accomplished, in certain circumstances, by making yield reduction payments to the federal government.

Q: Rebate sounds like a tax. What is it?

A: Rebate is like a tax, but it is governed by different rules. Under these rules, if a district is fortunate enough to invest borrowed funds at a yield in excess of its costs, federal tax law will sometimes require the district to pay the excess investment earnings to the federal government.

For example, if a district subject to rebate borrows money on a tax-exempt basis at 4 percent and invests the money prior to its expenditure at an average yield of 5 percent, the value of the 1 percent spread would have to be rebated.

Q: Do all districts have to pay rebate?

A: No. There are a variety of rebate exceptions that exempt tax-exempt obligations from rebate. One exception applies to districts that expect to issue less than specified amounts of tax-exempt debt (either \$15 million or \$5 million) during the year.

Federal Securities Law Disclosure Requirements

"When someone goes on a board, even if it is the school board, I want them to be as mindful of disclosure and securities laws as directors of a corporate enterprise. I have no patience with municipal officials who say 'We didn't understand.'"

Arthur Levitt

Because school district, ESD and community college bonds and other debt obligations are considered municipal securities, they are subject to federal securities laws. There are two main federal laws regulating the issuance and sale of securities, the Securities Act of 1933 and the Securities Exchange Act of 1934. Section 3(a)(2) of the Securities Act exempts from registration "any security issued or guaranteed by ... any State of the United States, or by any political subdivision of a State, or by any public instrumentality of one or more states"

Because school districts, ESDs and community colleges are political subdivisions of the State of Oregon, their debt obligations are exempt from the Securities Act's cumbersome registration requirements that apply to corporate debt issuers.

Although bonds of political subdivisions are generally exempt from registration, they are not exempt from the antifraud provisions of the federal securities laws. Court-developed federal antifraud principles that apply to corporate securities transactions generally apply to municipal securities as well. (See Section 17

of the Securities Act and Section 10(b) of the Exchange Act.) These provisions prohibit any person, including municipal bond issuers, from making false or misleading statements of material fact, or omitting any necessary material facts, in connection with an offer, purchase or sale of any security. This chapter gives districts basic information about the disclosure requirements under federal securities laws. Bond counsel can answer specific questions about these requirements and can assist districts with compliance.

New Issue Disclosure

The adequacy of disclosure for municipal securities is tested against the same objective standard that applies to corporate securities. Under this standard, a fact is material if there is a substantial likelihood that, under all circumstances, the fact would be significant to a reasonable investor. In other words, there must be a substantial likelihood that investors would view the fact's disclosure as significantly altering the information made available.

To comply with anti-fraud rules, municipalities intending to sell their bonds in the public markets prepare a disclosure document,

Four Steps for Complying with Disclosure Requirements

- Carefully review all federal securities law disclosure requirements with financial consultants and bond counsel.
- Follow financial consultants' and bond counsel's guidance in assembling and presenting required information.
- Set up a timeline and process for meeting annual continuing disclosure reporting requirements.
- Follow through with material events notifications when required.

Sample Cover Page of Official Statement

OFFICIAL STATEMENT DATED SEPTEMBER 1, 2021

\$33,800,000

Sisters School District No. 6 Deschutes and Jefferson Counties, Oregon General Obligation Bonds, Series 2021

DATED: September 21, 2021 ("Date of Delivery")

DUE: June 15, as shown on the inside cover

PURPOSE — The \$33,800,000 General Obligation Bonds, Series 2021 (the "Bonds") are being issued by the Sisters School District No. 6 (the "District"), located in Deschutes and Jefferson Counties, Oregon. The Bonds are being issued to finance capital costs for the District and to pay the costs of issuance of the Bonds. See "Purpose and Use of Proceeds" herein.

MOODY'S RATINGS — "A1" underlying; "Aa1" enhanced. See "Oregon School Bond Guaranty" and "Ratings" herein.

NOT BANK QUALIFIED — The District has NOT designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended (the "Code").

BOOK-ENTRY ONLY SYSTEM — The Bonds will be issued, executed and delivered in fully registered form under a book-entry only system and registered in the name of Cede & Co., as owner and nominee for The Depository Trust Company ("DTC"). DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased.

PRINCIPAL AND INTEREST PAYMENTS — Interest on the Bonds will be paid on December 15, 2021 and semiannually thereafter on June 15 and December 15 of each year to the maturity or earlier redemption of the Bonds. Principal of and interest on the Bonds will be payable by the District's Paying Agent, initially Zions Bancorporation, National Association, to DTC which, in turn, will remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Bonds at the address appearing upon the registration books on the last business day (the "Record Date") of the month preceding a payment date.

MATURITY SCHEDULE — See inside front cover.

REDEMPTION — The Bonds are subject to optional redemption prior to their stated maturities as further described herein.

SECURITY — The Bonds are general obligations of the District. Pursuant to ORS 287A.315 the District has pledged its full faith and credit and taxing power to pay the Bonds. The District has covenanted for the benefit of the owners of the Bonds that the District shall levy annually, as necessary, a direct ad valorem tax upon all of the taxable property within the District which is sufficient after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, and other legally available amounts to pay all Bond principal and interest when due. This tax shall be in addition to all other taxes of the District and this tax shall not be limited in rate, amount or otherwise by Sections 11 or 11b of Article XI of the Oregon Constitution. The Bonds do not constitute a debt or indebtedness of Deschutes or Jefferson Counties, Oregon, the State of Oregon, or any political subdivision thereof other than the District.

Payment of the principal of and interest on the Bonds when due is guaranteed by the full faith and credit of the State of Oregon

under the provisions of the Oregon School Bond Guaranty Act. See "Oregon School Bond Guaranty" within.

TAX MATTERS — *In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the District ("Bond Counsel"), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In the opinion of Bond Counsel, interest on the Bonds is exempt from State of Oregon personal income tax under existing law. See "Tax Matters" herein for a discussion of the opinion of Bond Counsel.*

DELIVERY — The Bonds are offered for sale to the original purchaser subject to the final approving legal opinion of Bond Counsel. It is expected that the Bonds will be available for delivery to the Paying Agent for Fast Automated Securities Transfer on behalf of DTC, on the Date of Delivery.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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commonly called the official statement. The official statement is prepared in a preliminary and final form:

- The preliminary official statement (POS) contains all material information except for terms related to bond pricing, i.e., maturities, interest rates, premium or discounts, terms of redemption, and other features established at pricing.
- The final official statement (OS), prepared after pricing, supplements the POS by inserting the pricing terms.

In the official statement, a school district, ESD or community college must disclose all information that is material to an investment in the bonds. Determining exactly what information is material, however, is a fact-specific inquiry.

There is no legally prescribed form that an official statement must take. Organization and presentation of information is determined more by custom and practice. Issuers may follow general disclosure guidelines such as those published by the Government Finance Officers Association. There also are more specific examples that serve as useful reference points, such as official statements prepared by other school districts, ESDs, community colleges or municipal jurisdictions that have issued general obligation debt in Oregon. (See page 46 for sample official statement cover page.) Official statements for recent bond issues can be found on the Municipal Securities Rulemaking Board's EMMA (Electronic Municipal Market Access) system: <https://emma.msrb.org>.

SEC Rule 15c2-12 Standards for Disclosure

In 1982 the Washington Public Power Supply System defaulted

on more than \$2 billion of municipal bonded debt issued to finance the construction of two nuclear power plants. In 1983 the Securities and Exchange Commission investigated the default to determine whether federal securities anti-fraud provisions were violated in the bond sale.

As a result of this investigation, and pursuant to its power under Section 15(c) (2) of the Exchange Act to make rules reasonably designed to prevent fraud, the SEC instituted Securities and Exchange Commission Rule 15c2-12.

This was the commission's first exercise of its rulemaking authority directed at disclosure activity in the municipal market. Rule 15c2-12 does not directly regulate municipal security issuers. Instead, it requires an underwriter in a primary public offering of municipal securities with an aggregate principal amount of \$1 million or more to:

- Obtain and review an official statement that has been deemed final by an issuer, prior to making a purchase, offer, or sale of municipal securities
- Provide, in negotiated sales, the issuer's most recent preliminary official statement (if one exists) to potential customers
- Deliver to customers, upon request, copies of the final official statement for a specified period of time
- Contract to receive, within a specified time, sufficient copies of the issuer's final official statement to comply with the rule's delivery requirement and the requirements of the Municipal Securities Rulemaking Board rules

Rule 15c2-12 does not directly

regulate the content or quality of disclosure, but it does regulate the timing and production of disclosure documents by underwriters in municipal security transactions.

In its March 1994 Interpretive Release, the SEC noted that while progress had been made in first issue market disclosure practices since Rule 15c2-12 was instituted, secondary, or updated, market disclosure was still deficient.

On the basis of findings such as these, the SEC began efforts to amend Rule 15c2-12 to require secondary market disclosure for municipal securities.

Continuing disclosure – Effective July 3, 1995, the SEC required continuing disclosure for municipal securities unless they qualified for an exemption.

Continuing disclosure, in general terms, means a process of providing financial and other material information to the marketplace on a regular basis for as long as securities are outstanding. In the recent past, the SEC has undertaken initiatives to carefully scrutinize the compliance of both issuers and underwriters with continuing disclosure obligations, which in some cases has resulted in fines. Further, non-compliance could lead to future difficulty in marketing bonds. Districts would be well advised to do everything possible to ensure compliance with these rules.

Rule 15c2-12, as amended, does not apply to bonds and other municipal securities issued before July 3, 1995.

For most school district, ESD and community college bond issues, the district is required to provide full disclosure. Some may be subject only to a Limited Continuing Disclosure, because the aggregate amount of bonds

outstanding of the issuer at the time of issuing new securities was less than \$10 million.

The district's undertaking to provide continuing disclosure may be included in the bond resolution, or in a separate agreement or certificate entered into for the benefit of bondholders. However, an underwriter must receive reasonable assurance regarding the continuing disclosure commitment before agreeing to act as underwriter. This means that in negotiated offerings, assurance is obtained at the time the district signs the underwriting agreement or bond purchase contract.

In competitive offerings, the disclosure commitment should be included in the issuer's notice of sale and must comply with Rule 15c2-12 requirements. If the district's commitment does not fully comply with the rule's requirements, underwriters may not submit bids. In fact, there have been instances of underwriters abstaining from the bid process for this reason.

Continuing Disclosure

Agreements. Typical district filing requirements under a Continuing Disclosure Agreement include:

Annual financial information – Annual financial information must be disclosed on a continuing basis under Rule 15c2-12.

The SEC defines annual financial information as:

"Financial information or operating data, provided at least annually, of the type included in the final official statement with respect to an obligated person."

Typically, the financial information provided is the audited financial statements.

Operating data – The SEC defines operating data as a subset of annual financial information that refers to

quantitative information given in the official statement to help investors place the financial information in context. Economic and demographic data normally are not considered annual financial information subject to update.

Rule 15c2-12 does not prescribe form and content criteria for the annual financial information.

However, the official statement must include the categories of information that will be updated on an ongoing basis.

Typically, operating data include a district's real market value and assessed value, amount or rate of property taxes levied and collected, outstanding indebtedness, major taxpayers, and the appropriate measure of enrollment that determines State funding levels.

The undertaking must also specify the date by which the annual financial information will be provided, i.e., so many days following the end of the issuer's fiscal year, and it must describe the accounting principles used in preparing the annual financial information, including whether or not audited financial statements will be prepared. Districts must also file notification of any failure to file annual financial information prior to the deadline.

OS model for annual update – Since the continuing disclosure amendments were added to Rule 15c2-12, the official statement has assumed greater significance because it serves as the template for future disclosure. The official statement establishes the financing elements that are material and, therefore, subject to ongoing disclosure. Issuers and obligated persons should carefully consider both the content and the context of the financial information presented in the official statement. Rule 15c2-12 requires annual updating

of the type of certain financial information and operating data included in the official statement.

A district may choose to meet Rule 15c2-12's financial information requirements by filing an Annual Comprehensive Financial Report (ACFR). If this approach is taken, districts should pay special attention to make sure the ACFR contains the required operating data. The district does not have to include the entire ACFR in the official statement. However, to the extent that information overlaps, e.g., tables, charts, audited financial statements, the overlap should be identical. Investors in the secondary market should not have to deduce from the ACFR information the type of data that was contained in the official statement.

Material events – In addition to annual disclosure of financial information, Rule 15c2-12 requires timely notice (not in excess of 10 business days after the occurrence of an event) of the following events:

- ▶ Principal and interest payment delinquencies
- ▶ Non-payment related defaults, if material
- ▶ Unscheduled draws on debt service reserves reflecting financial difficulties
- ▶ Unscheduled draws on credit enhancement reflecting financial difficulties
- ▶ Substitution of credit or liquidity providers or their failure to perform
- ▶ Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security

- ▶ Modifications to rights of security holders, if material
- ▶ Bond calls, if material, and tender offers
- ▶ Defeasances
- ▶ Release, substitution or sale of property securing repayment of the securities, if material
- ▶ Rating changes
- ▶ Bankruptcy, insolvency, receivership or similar event of the obligated person; (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.)
- ▶ The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such

actions, other than pursuant to its terms, if material

- ▶ Appointment of a successor or additional trustee or the change of name of a trustee, if material

Typical material events for Oregon school districts, ESDs and community colleges might be a ratings change or notice of bond calls due to a refunding. For example, a district's undertaking to provide notice of material events extends to a notice regarding a change in the state of Oregon's credit rating, if the district takes part in the Oregon School Bond Guaranty Program. In addition, the SEC amended Rule 15c2-12 to include two additional material event disclosures that apply to debt issued in the public market on or after Feb. 27, 2019. These two material events are:

- ▶ Incurrence of a financial obligation of the obligated person if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material.
- ▶ Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties

“Financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii); the term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule

These requirements will require that districts track obligations such as bus leases, energy financings and other private placements, and may require that districts report details of such obligations on the Municipal Securities Rulemaking Board's EMMA (Electronic Municipal Market Access) within 10 business days of incurrence. Districts who issue public debt should work with their financing team to understand these disclosure requirements and develop procedures to comply with them.

National Repositories – Effective July 1, 2009, the EMMA system became the sole repository for ongoing disclosures by municipal issuers. The EMMA system makes disclosure more readily available to investors, similar to the SEC's EDGAR system for corporate disclosure. More information about EMMA can be found at www.emma.msrb.org.

Amending Disclosures – Generally, the undertaking to provide continuing disclosure may not be modified after the fact. However, an undertaking that includes an amendment provision may comply with Rule 15c2-12 if the following conditions are met:

- The amendment must be made in connection with a change in circumstances that arises from a change in legal requirements; change in law; or change in the identity, nature, or status of the obligated person or type of business conducted
- This disclosure undertaking, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the primary offering, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any change in circumstances

- The amendment does not materially impair the interest of bondholders, as determined either by parties unaffiliated with the issuer, such as a trustee or nationally recognized bond counsel; or the bondholders must approve the amendment

In addition, the next filing of financial information must explain, in narrative form, the reasons for any amendment and the impact of the change in the type of operating data or financial information being provided.

Terminating Continuing Disclosure Obligations –

A district's continuing disclosure obligations end when it ceases to have any liability for payment on the bonds. According to the SEC, this occurs when the bonds are redeemed in full or in cases of legal defeasance and release of any lien securing the bonds.

Exemptions to Rule 15c2-12 –

School districts, ESDs and community colleges should be

aware of the following exemptions from Rule 15c2-12:

- Issues of less than \$1 million in aggregate principal amounts are exempt from both Rule 15c2-12's new issue and continuing disclosure requirement
- Issues in large minimum denominations of \$100,000 or more are exempt from Rule 15c2-12 if one of the following is true:
 - ▶ They are privately placed with no more than 35 sophisticated investors
 - ▶ They have a maturity of nine months or less
 - ▶ They may be optionally tendered at par value at least every nine months

Effectively, this means that most private placements and variable rate issues are exempt from Rule 15c2-12. Districts should note, however, that they may be required to disclose material information related to such

borrowings under the material event disclosure requirements, as discussed in more detail on page 49.

Short-term notes and other municipal securities whose stated maturity is 18 months or less, e.g., tax anticipation notes, are exempt from the financial information continuing disclosure requirements of Rule 15c2-12. However, districts must still provide timely notice of material events.

Frequently Asked Questions about Federal Securities Law Disclosure Requirements

Q: Are school district bonds and other debt obligations subject to federal securities laws?

A: In most cases, yes. School district, ESD and community college bonds, like other municipal securities, are exempt from the Securities Act registration requirements. However, they are subject to the anti-fraud rules that prohibit any person from making false or misleading statements of material fact, or omitting any necessary material facts, in connection with the offer, purchase, or sale of a security.

Q: What kinds of facts are material and, therefore, subject to disclosure?

A: A fact is material if there is a substantial likelihood that, under all circumstances, the fact would be significant to a reasonable investor. There must be a substantial likelihood that the fact's disclosure would have significantly altered the information made available to investors.

Q: What does continuing disclosure mean?

A: Continuing disclosure generally means a process of providing financial and other material information to

the marketplace on a regular (usually annual) basis and notice of material events within 10 business days of their occurrence for as long as the bonds are outstanding. Rule 15c2-12 is the statutory basis for the continuing disclosure requirements that apply to municipal securities' issuers.

Q: What kinds of information must be continually disclosed?

A: Annual financial information and certain listed material events.

continued

Frequently Asked Questions about Federal Securities, *continued*

Q: Are there any exemptions from Rule 15c2-12's continuing disclosure requirements?

A: Yes. Exemptions may be based on:

- The size of the bond issue in question
- The issue's maturity
- The terms on which the security is offered

Q: What happens if a district fails to comply with continuing disclosure requirements?

A: Bondholders' rights and remedies depend on what the authorizing documents for the bonds provide.

A breach of continuing disclosure obligations does not trigger a bond default. However, Rule 15c2-12 requires the issuer to disclose any failure to provide continuing disclosure as and when required in subsequent official statements for the

next five years, and repeated failures to comply may result in underwriters being unwilling to underwrite your issue. Note also that, in the past, the SEC has undertaken initiatives to carefully scrutinize the compliance of both issuers and underwriters with reporting continuing disclosure obligation compliances, which in some cases has resulted in fines.

Districts would be well advised to do everything possible to ensure compliance with these rules.

Q: What material event disclosures were added in 2019 under the Rule 15c2-12 amendment?

A: There are two material events that districts that issue bonds on or after Feb. 27, 2019, must now disclose. Generally, these disclosures require that districts disclose the incurrence of material financial obligations, and the

occurrence of any defaults, events of acceleration, termination events, modification of terms, or other similar events, which reflect financial difficulties. These new requirements will require that districts track obligations such as bus leases, energy financings and other private placements, and may require districts to report details of such obligations on EMMA within 10 business days of incurrence.

Districts that issue public debt on or after Feb. 27, 2019, should work with their financing team to understand these new disclosure requirements and develop procedures to comply with them.

Credit Analysis, Ratings and Bond Insurance

"Honest criticism is hard to take, particularly from a relative, a friend, an acquaintance or a stranger."

Franklin P. Jones

A district's primary goal in issuing any type of debt is to obtain financing for projects while also obtaining competitive interest rates. The interest rate on any debt issue is directly related to investors' perceptions of the bond's value. Consequently, credit quality is a major factor investors use in determining a bond's value as an investment.

This chapter describes bond ratings and the rating agencies that assign them. After reviewing the information in this chapter, districts may consider applying for a rating, using the Oregon School Bond Guaranty Program, or purchasing bond insurance to enhance their ratings. Districts should seek the advice of their municipal advisors or underwriters about which option may produce the best borrowing results.

Ratings and Rating Agencies

A district can often improve its bond marketing and obtain lower interest rates by obtaining a debt rating from a nationally recognized credit rating agency. These agencies are for-profit corporations that analyze the credit quality of debt issues. The district pays the

rating fee, which is based on the security and size of the bond issue. While a rating is not legally required, any district wanting to sell debt in the public markets should begin with the assumption that a rating will be necessary to obtain competitive interest rates.

The rating agency assigns a rating, e.g., A, AA, AAA, to the issue. In general, the higher the debt rating, the lower the interest rate investors will accept.

There are three major rating agencies that analyze school district, ESD and community college debt:

- ▶ Moody's Investors Service, Inc.
- ▶ S&P Global Ratings
- ▶ Fitch Ratings

All three agencies use a standardized series of rating symbols. For example, Moody's rates long-term debt issues on a scale of Aaa (the highest category) to D (a security that is in default). The lowest rating that Moody's considers investment grade is Baa3. The other agencies use similar letter scales, which are provided on the following page. Separate rating symbols are

Four Steps for Obtaining a Credit Rating and/or Credit Enhancement

- Review rating factors with district's underwriter or municipal advisor to determine likely bond rating outcome.
- Ask underwriter or municipal advisor to outline pros and cons of applying for a rating or purchasing bond insurance.
- Analyze the potential interest rate benefit of applying for a rating or purchasing credit enhancement.
- With the underwriter's or municipal advisor's assistance:
 - Apply for a rating
 - Apply for the OSBG Program
 - Arrange to qualify the issue for bond insurance

assigned to short-term debt obligations such as tax and revenue anticipation notes (TRANS) or variable rate bonds. An assigned rating represents the rating for all of a district's outstanding debt of that kind. Different kinds of debt may have different ratings. For example, a district may have one rating for its general obligation bond debt and another for its full faith-and-credit obligation debt.

Determining a Rating

In general, a particular rating is assigned to a debt issue based on a rating agency's opinion regarding the probability of timely principal and interest payments. Rating agencies consider a number of factors in determining the probability of repayment including:

Financial performance – A rating agency reviews prior budgets and audited financial statements to determine if adequate resources are available to operate the district and pay debt service. For debt being repaid primarily from property tax collections, a rating agency considers general fund balance levels, tax levies, the schedule for state funding payments, concentration of property ownership by large taxpayers, real market and assessed value growth, tax delinquencies and similar data.

Debt structure – A rating agency examines how the debt issue is structured to determine the following:

- ▶ Whether repayment is deferred or accelerated
- ▶ The length of the debt related to the financed improvements useful life
- ▶ The district's plans for future debt issuance
- ▶ Long-term liabilities and fixed cost ratios

Local economic conditions –

A rating agency evaluates the district's local economy and factors that could affect the district's ability to repay debt:

- ▶ Levels of income and growth or decline
- ▶ Diversity and strength of the local employment base
- ▶ Building activity
- ▶ Population growth

A rating agency also may evaluate other economic and demographic criteria to determine a district's long-term ability to repay its debt.

Environmental, Social and Governance (ESG) factors –

Rating agencies also consider certain environmental, social and governance factors into their credit rating analysis.

Environmental risk factors include:

- ▶ Physical climate risks (drought, seismic, wildfires, etc.)
- ▶ Natural capital
- ▶ Resource management
- ▶ Waste and pollution

Social risk factors include:

- ▶ Health and safety
- ▶ Human capital
- ▶ Demographic and societal trends

Governance risk factors include:

- ▶ Risk management and financial strategy
- ▶ Organizational structure
- ▶ Transparency and reporting
- ▶ Cybersecurity

Administration and management – The expertise and stability of a district's top management is another factor in assigning a rating. This evaluation is based on contact with administrative personnel, examination of management policies and procedures, and other documents as well as other more objective criteria.

Please note that there is no completely objective means used to assign a rating. The factors described here and other criteria used by a rating agency are subject to interpretation. Districts are compared to national peer groups, not just to neighboring or similarly sized Oregon districts.

Assigning Ratings

Rating agencies use similar processes for assigning a debt rating. An analyst evaluates the credit quality of the issue under review according to their rating methodology for the particular credit. This analysis is used to develop a rating recommendation.

The analyst then takes the recommendation to a rating committee. The rating committee usually consists of two or more members, most senior to the analyst. The committee reviews the recommendation and votes to assign a rating. Generally, the rating assigned is the one the analyst has recommended.

Comparison of Rating Agency Categories Investment Grade Debt

| Moody's Investors Service | S&P Global | Fitch Ratings |
|---------------------------|------------|---------------|
| Aaa | AAA | AAA |
| Aa1 | AA+ | AA+ |
| Aa2 | AA | AA |
| Aa3 | AA- | AA- |
| A1 | A+ | A+ |
| A2 | A | A |
| A3 | A- | A- |
| Baa1 | BBB+ | BBB+ |
| Baa2 | BBB | BBB |
| Baa3 | BBB- | BBB- |

However, it is not unusual for a rating committee to assign a rating other than the recommended rating.

A district may appeal a rating if it feels the assigned rating is inappropriate. However, appeals are seldom granted and then only on the basis of relevant new information that changes the committee's view.

Each rating agency publishes their rating methodology which summarizes the key factors considered in assigning the rating. Districts should review the methodology to be conversant in the factors the rating analysts will be concerned about and what might be considered a red flag.

Deciding to Apply for a Rating

School districts, ESDs and community colleges are not required by law to seek a rating. Some debt can be successfully issued without a rating. Issuing debt without a rating may sometimes produce a better result than issuing debt with a very low rating. Or, if an entire debt issue is being sold to a bank portfolio, the bank may not require a rating. Also, if the issue is small and short-term the benefit of obtaining the rating may not outweigh the cost. Reasons a district should apply for a bond or other debt issue rating:

- ▶ The rating will save the district money through lower interest costs
- ▶ The district has rated bonds outstanding and wishes to maintain its rating

Determining whether to apply for a rating should be made only after consultation with the district's financing team. In addition, the rating fee and costs for preparing ratings materials should be more than offset by lower interest costs before a rating is obtained. The district's underwriter or municipal advisor can provide the information

necessary to make a decision to seek a rating.

There may be good reason to pursue ratings from two rating agencies. Some investors may require two bond ratings in their investment policies. Typically, the cost of getting two ratings is only worthwhile if the bond issue is sufficiently large to justify the additional cost.

Surveillance Ratings Reviews

While a rating is assigned for a specific bond credit issued at a specific time, the rating process continues over the life of the bond issue. Rating agencies routinely review credit material related to a district and may find reason to revise or change a rating. Rating agencies may contact the district directly and ask for updated information regarding the district's financial status. These "surveillance" rating reviews should be taken just as seriously as an original rating application. Districts may wish to seek assistance from their municipal finance professionals when faced with a surveillance rating review.

Should an ongoing rating review result in a rating change either up or down, the district will be obligated to report this rating change as a "material event" to EMMA under its continuing disclosure responsibilities. See Chapter 7 for details of continuing disclosure responsibilities.

The Oregon School Bond Guaranty Program

The State Treasury offers a credit enhancement program for Oregon school districts, ESDs and community colleges. The Oregon School Bond Guaranty (OSBG) Program (<http://www.oregon.gov/treasury/Divisions/DebtManagement/LocalGov/Pages/Oregon-School-Bond-Guaranty.aspx>) insures the

payment of principal and interest on general obligation bond issues that qualify for the program.

The OSBG program is designed to replace or enhance the use of underlying ratings or bond insurance. **Lease-purchase or full faith-and-credit issues are not eligible for the program.**

Districts may apply for OSBG enhancement by submitting a simple form to the State Treasurer accompanied by a small application fee. Eligible issues include all voter approved school district, ESD and community college general obligation debt.

Bond issues that use the OSBG program are assigned the same overall rating as the state of Oregon's general obligation bond rating at the time of their issue.

The enhanced rating may be obtained from any one or more of the three ratings agencies that rate the state's debt. The state charges a one-time fee based on a percentage of the total debt service, payable at closing.

The application for the OSBG program requires submission of a post-issuance policy and certain other materials. The district may choose to utilize OSBG's rating in addition to its own "underlying" rating, or alone for the same fee.

A decision to use the OSBG program is an economic one. Districts should seek their underwriter's or municipal advisor's advice about the OSBG program and how its use may interact with underlying ratings and with bond insurance.

Bond Insurance

The Oregon School Bond Guaranty program has supplanted the use of private bond insurance for general obligation bonds in recent years. However, private bond insurance may be of value to issuers of lower rated full faith and credit obligations. Districts may also enhance investors' reception

of the bonds by obtaining a municipal bond insurance policy. Certain insurance companies specialize in issuing these policies. For payment of a one-time premium at the time of issuance, these companies will insure the principal and interest payments on bonds or other debt obligations. The premium is a one-time cost that may be paid with bond proceeds and the policy, once issued, is irrevocable.

Districts purchase bond insurance because the rating agencies will then substitute the bond insurer's rating for the issuer's rating or layer the insurer's rating on top of the issuer's underlying rating. Where the insured rating is higher than the issuer's own rating, bond insurance may have value. Bond insurance can be used in conjunction with, or separate from, the OSBG program.

To make an informed decision regarding bond insurance, a district should consult with its municipal advisor or underwriter. The cost for bond insurance can be substantial and its market value can fluctuate. Consequently, districts should incur this cost only when the interest rate savings from the higher rating are projected to exceed the insurance premium.

Frequently Asked Questions about Credit Analysis, Ratings and Bond Insurance

Q: Does a district need credit enhancement? If it does, is something wrong with the district's credit?

A: Seeking credit enhancement does not mean a district has poor credit. Credit enhancement, such as the Oregon School Bond Guaranty, or bond insurance, can be a means of improving an issue's credit. Investors rely on credit enhancement to guarantee debt service payments, which reduces the risk of default and helps to lower interest costs.

Q: How large an issue can be sold without a rating or insurance?

A: A rating or bond insurance substantially increases the number of buyers willing to consider a district's bonds, if the interest rate is reasonable. The market for non-rated and uninsured issues is limited. Issues of as little as \$1 million can benefit from a rating or insurance.

Q: How many ratings should the district get?

A: Whether or not to get a rating and how many to get is a judgment call. The district's

underwriter or municipal advisor can help determine the pros and cons of applying for more than one rating. Generally, the larger the issue, the more likely multiple ratings may be advantageous.

Q: Does the district have to make an in-person presentation to a rating agency?

A: No. Face-to-face presentations with rating analysts usually are not necessary. Typically, presentations are handled by sending documents and information to the rating agencies and following up with a phone call or Zoom meeting to answer questions. However, there may be occasions where a personal presentation is best. In such situations, the ratings analyst may want to come visit the issuer rather than vice versa.

Q: What can the district do to influence its general-obligation bond rating?

A: Much of the rating for a general obligation bond issue hinges on the district's economic base, employment levels and other factors that are out of a district's control. Controlled factors include

balanced budgets, strong fund balances and good management, including having and meeting the appropriate policies, which may include a fund balance policy, a debt management policy, and an investment policy. However, because these are analyzed over at least five years, the district must plan ahead if it hopes to influence its rating by improving these factors.

Q: Are there other forms of credit enhancement? What about letters of credit?

A: Other kinds of credit enhancement are unusual on general obligation bonds. Letters of credit are issued by commercial banks to back certain kinds of municipal debt. However, these letters are rarely used for school district, ESD or community college issues because they are more expensive and restrictive than the OSBG program, standalone ratings or bond insurance.

Refundings

"Thrift is an attractive idea until you get down to the specifics."

Mason Cooley

From time to time, it may be in the best interest of a school district, ESD or community college to refinance bonded debt for general obligation bonds, lease-purchase agreements or full faith-and-credit obligation issues. Refinancing bonded debt is called refunding, and is typically done to:

- ▶ Take advantage of lower interest rates to achieve debt service savings; or
- ▶ Restructure the debt service repayment schedule; or
- ▶ Make a change in the legal status of debt covenants or comply with federal tax law

In a refunding, new bonds are sold and the proceeds are used to pay off the refunded bonds or make the interest and principal payments on some or all existing refunded bonds until the prepayment date. The issuer pays the new debt service on the refunding debt issue and any unrefunded portion of the old issue (some maturities may not be prepayable and will remain outstanding until maturity). An issue can even be refinanced before it is prepayable (also known as "callable" or "subject to call") by using the technique known as advance refunding. (See section on advance refundings, page 58.)

Issuance of general obligation refunding debt does not require voter approval. Property taxes levied to pay principal and interest on such general obligation refunding bonds are not subject to Oregon constitutional property tax limits, same as new money general obligation bonds.

Refundings are subject to specific and technical Internal Revenue Service regulations that materially impact the structure and timing of refunding transactions. Additionally, federal and state law regulates certain advance refundings.

Because of its complexity and the regulations involved in a refunding transaction, issuers contemplating refundings should seek the advice of bond counsel, underwriters or municipal advisors early in the process.

Reasons for Refunding

Following is a more detailed discussion of the three reasons issuers typically refund debt. The math of refundings works the same for refunding general obligation bonds and refunding FFCOs. There are, however, some differences in the legal requirements between refunding FFCOs and refunding general obligation bonds.

Four Steps for Refunding Borrowing Issues

- Consider refunding a bond issue if interest rates drop, the debt service repayment schedule needs adjustment or the legal status of debt covenants requires changes
- Employ bond counsel, an underwriter and/or municipal advisor to assist in determining whether refunding is feasible and to make sure all state and federal laws and regulations are followed
- Establish a savings goal if refunding for savings
- Establish and maintain appropriate debt service accounts as required by Oregon's Local Budget Law

Debt service savings – The most common reason for refunding an outstanding issue is to take advantage of lower interest rates. Just as with a home mortgage, if interest rates decline substantially after the issuance of a debt issue, an issuer may be able to refinance the old issue with a new issue and achieve substantial debt service savings, even after paying all costs associated with the new issue.

In the case of general obligation bonds, the debt service savings are passed on to the district's taxpayers in the form of lower taxes. In the case of an FFCO, the debt service savings become an additional resource to the district.

Savings usually are measured by their present value, i.e., the total savings over the life of the refunding discounted to their value in today's dollars.

In refunding for debt service savings, an issuer usually refunds only the callable portion of the outstanding bond issue. Savings can only be generated if the refunded bonds can be redeemed before their maturity dates. While an escrow can be designed to pay the interest costs on bonds that are not callable (as is done for advance refundings), the issuer is still paying the original interest cost on the non-callable bonds.

When only a portion of an outstanding bond issue is refunded for savings purposes, for a period of time, the district actually has two issues outstanding after the refunding: (1) the unrefunded portion of the old issue and (2) the new refunding issue. However, in a refunding completed for savings, the combined annual debt service for these two issues will be lower than the old issue's original debt service.

Debt restructuring – Refunding

an issue allows a district to restructure its outstanding debt. The old debt is paid off by the new issue's proceeds and the district can structure its new debt to better suit current circumstances and future expectations. For example, a district may wish to consolidate several debt issues into a single new issue and restructure the debt in a way to produce a different annual debt service payment, shorten (or lengthen, if allowable) the final maturity or adjust the projected tax rate impact. Or a district may wish to restructure a lease-purchase to better match the district's changing cash resources.

Changing legal covenants – If an issue is refunded and there are no longer any bonds outstanding for that issue, legal restrictions relating to the issue are terminated. This allows the issuer to remove restrictive legal covenants.

While unlikely to be a concern with general obligation bonds, legal restrictions may be a concern with lease-purchases. For example, a district may have pledged a security interest in a property or equipment lease-purchase and may wish to void that pledge of security. A new lease-purchase may be sold (with more favorable legal covenants) to refund and defease the old lease, thus releasing the district from the old issue's more restrictive covenants.

A refunding may be undertaken to accomplish any one or a combination of these three purposes.

Types of Refundings

There are three basic types of refundings: current refundings, advance refundings and forward refundings. The type of refunding an issuer must use depends on the transaction's timing compared

to the first available date on which the old debt may be called or redeemed. The state of Oregon and the Internal Revenue Service have different definitions for current and advance refundings.

Current refundings – Under Oregon law, a current refunding is one in which the new refunding bond transaction is closed within one year of the next available call date of the debt to be refunded. Under state law, current refundings are not subject to any regulations other than those that apply to other general obligation bonds, lease-purchases or FFCOs. However, federal law has a slightly different time period for current refundings: By their definition, the closing date of the refunding transaction must be within 90 days of the refunded bond's next redemption date.

In a current refunding, the new debt proceeds are either used to pay off the refunded bonds upon closing of the refunding bonds or held (sometimes in a very short escrow) to make one or a few payments, i.e., the payment required to call and retire all of the old debt and pay any accrued interest costs on the next available call date. Refundings that fall outside state and federal timelines are considered "advance" refundings (see section below) and will have additional restrictions and requirements.

Advance refundings – Under Oregon law, an advance refunding is one in which the new refunding bond transaction is closed more than one year before the next available call date of the debt being refunded. Under federal law, advance refunding bonds close more than 90 days before the refunded bond's next available call date. In an advance refunding, an escrow is required. The escrow must make all

interest and principal payments on the debt being refunded until the first available call date of the old debt. An advance refunding by state of Oregon standards must be approved by the Office of the State Treasury (OST) and are subject to certain requirements as part of that approval process. Among other requirements, an issuer must employ an independent registered municipal advisor to provide a letter to OST recommending the desirability of the refunding plan. The treasurer's office charges a fee to review advance refundings. Under federal law, should a refunding take place more than 90 days from the redemption date, the bonds must be sold on a taxable basis pursuant to changes to federal tax law made in 2018. Depending on market conditions and the terms of the existing debt, there may be debt

service savings associated with a taxable transaction.

Forward refundings – A forward refunding is used where the bonds to be refunded are not permitted to be advance-refunded on a tax-exempt basis. Rather than sell the bonds on a taxable basis, or wait until the bonds' call date (and exposing itself to the risk of rising interest rates), the issuer wishes to lock in interest rates now. The issuer sells bonds on a tax-exempt basis now to be delivered on a specified future date within 90 days of the redemption date of the refunded bonds when the issuance would become a "current" refunding under federal tax law.

Forward refundings are not as common as advance and current refundings. They are more complicated and carry an additional risk and interest rate penalty.¹

One of the risks (or costs) of a forward refunding is the rate lock agreement, which is a hedging agreement that provides that, at the expected forward delivery date, if the bonds are not issued AND interest rates are lower at that time than they were on the sale date, the district will need to make a payment to the bond purchaser/bank.

¹ *The economic benefit of forward refundings also can be achieved through the use of interest rate swaps. For example, the issuer can enter into a swap now that does not start until a future date. In that way, the issuer can lock in future fixed rates and ensure the success of the refunding without waiting to see what happens to interest rates in the future. Interest rate swaps, however, entail certain risks that must be carefully evaluated before an issuer commits to a financing plan. In particular, current Oregon state law prohibits an issuer from levying property taxes to make a termination payment on a swap.*

Frequently Asked Questions about Refunding Bonds

Q: What is a refunding?

A: A refunding is a refinancing of outstanding debt. A new issue of debt is sold and the proceeds are used to pay off some or all of an old issue, while the district starts making payments on the new, refunding issue of bonds. A refunding does not raise new money but simply provides for the refinancing of outstanding debt.

Q: Why would a district want to refund an old issue?

A: The most common reason is to reduce debt service costs when interest rates decline. Refundings also may be used to change legal debt covenants or restructure an outstanding debt issue's payment schedule and terms.

Q: Do districts need voter approval to refund general obligation bond issues? How about refunding for a lease-purchase issue?

A: Voter approval is not required for refinancings of either type of issue.

Q: How far do interest rates have to decline before a refunding might produce savings?

A: Generally, rates must be 1 to 3 percentage points lower than the interest rates locked in when the bonds were first sold before refunding produces meaningful savings. The ultimate feasibility depends on the size of the issue, call date, call price, term to maturity and other factors. Nominal rates could even stay the same

but as we move out in time and down the yield curve, savings may be achieved. For instance, when bonds are originally sold, if the final maturity is 20 years away, but a refunding is done 10 years after the original issue, the final maturity is now only 10 years away.

Q: Are refundings subject to different federal and state laws than other kinds of debt issues?

A: Yes. Both the U.S. Treasury and Oregon have rules that apply specifically to advance refundings. These rules are more restrictive than rules applying to new money bond issues. Issuers should involve bond counsel and an underwriter or municipal

continued

Frequently Asked Questions about Refunding Bonds, *continued*

advisor early in the process to ensure compliance with all federal and state laws and regulations.

Q: Who gets the savings on a refunding?

A: Whoever is paying the original debt service gets the savings. For a general obligation bond, the savings are passed on to the district's taxpayers in the form of lower taxes. For a lease-purchase issue, the debt service savings become an additional resource to the district.

Q: What is an advance refunding?

A: Unlike a home mortgage, most bond issues cannot be prepaid at any time but can be retired (redeemed or called) only after a certain date. A typical provision is that the district will be able to prepay the issue without penalty beginning 10 years after issuance. In an advance refunding, the issuer sells new bonds before the old debt issue can be redeemed or called.

The money is deposited in an escrow that makes all principal and interest payments on the refunded debt, then provides the funds to call and retire all the refunded debt on the first available call date. An advance refunding allows an issuer to lock in savings now even though the old debt cannot be called for some period of time. Beginning in 2018, advance refundings can only be issued on a federally taxable basis.

Q: What is a forward refunding?

A: A forward refunding allows the issuer to sell bonds on a

tax-exempt basis and lock in interest rates now rather than sell the bonds on a taxable basis, or wait until the bonds' call date (thereby exposing itself to the risk of rising interest rates). A forward refunding is used when the bonds to be refunded are not permitted to be advance refunded under federal tax law. Under a forward refunding the issuer agrees now to issue bonds on a specified future date when the issuance would become a "current" refunding under federal tax law.

Q: Why refund only a portion of an old issue?

A: A district can save money only on the portion of the existing debt that is callable. Therefore, districts often only refinance the callable portion of the debt. That means that, after the refunding, for a period of time, the district may have two issues outstanding: (1) the unrefunded portion of the old issue until the redemption date, and (2) the new refunding issue. In a refinancing undertaken for debt service savings, the debt payments on the new debt are kept low in the early years such that the combined payments are lower than what would have previously been the case. Certain maturities may also have very low coupon rates and not be economical to refinance so districts may choose to leave them out of the refunding.

Q: Does the district need to budget for the old debt once it is refunded?

A: No budget is required for the portion of the old debt that is being paid by the escrow.

However, the district must continue to budget (and collect taxes for) any portion of the old debt that was not refunded.

Q: What are present value savings?

A: Present value is an economic term that translates future savings/costs into current dollars. Present value incorporates the concept that a dollar received today is worth more than a dollar received tomorrow. In a refunding, most debt service savings occur over a multi-year period. The present value of those savings provides an issuer with a means of valuing the savings in today's dollars.

Local Budget Law

“Never spend money before you have it.”

Thomas Jefferson

When school district, ESD or community college voters approve a bond issue, certain requirements must be met to conform to Oregon's bonding and Local Budget Law. This section outlines the steps districts must take to comply with local budget law requirements.

Capital Projects Fund

Federal tax law and the Department of Revenue OAR 150-294-0420 require districts to establish a capital projects fund to account for the resources and expenditures of bond sale proceeds. The estimated resources and expenditures must be shown on the budget detail sheets. (See examples later in this chapter.) When the district receives bond proceeds, they must be deposited in a capital projects fund. The fund will account for all revenue and expenditures associated with the project.

Districts must annually forecast capital projects fund revenues and expenditures for budget committee and board approval. Bond proceeds must be spent for the purpose(s) for which the bonds were issued. Any proceeds in excess of the principal from the

bond sale must be placed with the principal in the capital projects fund for bond projects or in a debt service fund to repay the bonds.

Debt Service Fund

A debt service fund is a fund established to account for principal and interest payments on long-term debt, including outstanding bonded debt. There may be several bond issues accounted for in one debt service fund. However, districts should set up a separate account for each bond issue. Transactions to record the redemption of outstanding bonds with proceeds from refunding bonds also are recorded in a debt service fund. Accounting for FFCOs/lease purchases and general obligation bonds should not be mixed in the same debt service fund.

ORS 328.260 provides for a debt service fund and a tax levy to pay the principal and interest.

Resources for this fund must be held in an interest bearing account. Any earnings accruing from such investment must be used to pay the principal and interest.

Resources in a debt service fund cannot be diverted or used for any other purpose. Transfers from a

Six Steps for Meeting Budget and Accounting Requirements

- Establish a capital projects fund to account for bond issue proceeds and expenditures.
- Establish a debt service fund to pay principal and interest on outstanding debt.
- Work with bond counsel and financial consultants to structure debt and to be sure debt payments are budgeted according to law.
- Ensure budget resolution includes debt service levy
- Annually levy property taxes to pay principal and interest due on general obligation bonds.
- Audit and report all financial activity to the board and public.

debt service fund are not allowed in most cases. However, if bond documents allow a transfer, districts can make the transfer only if:

- The transfer is lawfully made from a debt service fund to repay an inter-fund loan.
- A surplus remains after all interest and principal is paid. The district can then dissolve the fund and transfer the balance to any fund originally designated by the governing body, or included in the bond contract. However, when estimating the amount of tax levy needed for the final year, the tax levy should be adjusted for any available resources within the fund. This will result with no or very minimal amount of remaining fund balance.

Payments for bond principal and interest must be appropriated from a debt service fund. Only interest and principal repayments may be made from a general obligation debt service fund. Continuing expenses, such as registrar fees, must be paid from an operating fund, such as the general fund, or a capital projects fund. (Note that in most cases, registrar fees can be front loaded into an upfront fee and paid out of bond proceeds.) The final-year tax levy should be adjusted to levy only the amount

sufficient (less current fund resources) to cover the principal and interest payments for that final year.

Exceptions

Districts do not have to adopt a supplemental budget in three instances:

1. For bonds or other obligations that were approved by voters and sold during the current fiscal year.
2. For bonds or other obligations issued during the current year to refund previously issued bonds or other obligations.
3. For the issuance of revenue bonds. (However, since school districts, ESDs and community colleges normally do not issue revenue bonds, exceptions one and two are more pertinent.)

In the year following an occurrence of above items, these monies must be budgeted. Remember that to levy taxes to pay debt service, the debt service fund must be included in the regular district budget. No statute allows the district to increase its tax levy after the budget is adopted.

Specifically ORS 294.338(4) states:

Subsection (1) of this section does not apply to the expenditure during the current year or current budget period of the proceeds of

the sale of the following bonds as defined in ORS 287A.001, or to the expenditure during the current year or current budget period of other funds to pay debt service on those bonds:

- (a) Bonds that are issued under ORS 287A.150 and for which the referral period described in ORS 287A.150 ended after the preparation of the budget of the current year or current budget period;
- (b) Bonds that were approved by the electors during the current year or current budget period; or
- (c) Bonds issued during the current year or current budget period to refund previously issued bonds or obligations.

Structuring Issues

Forecasting principal payments on bonds is relatively straightforward and easily obtained from the bond amortization schedule. The first payment should be limited to line up with the district's property tax collection cycle. Subsequent principal payments occur at 12-month intervals.

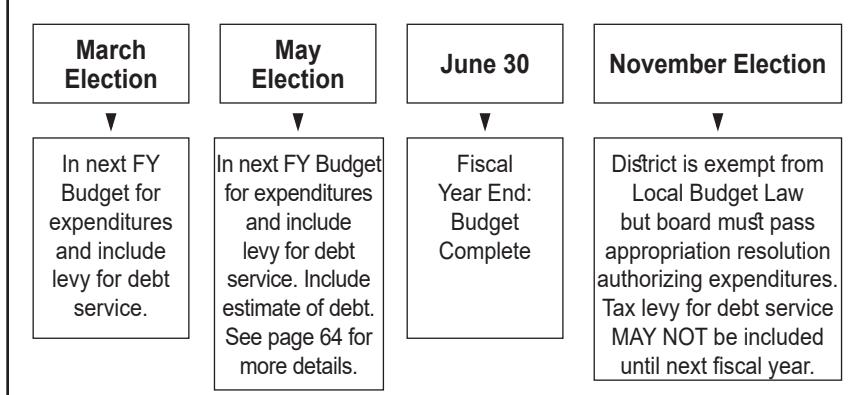
Scheduling initial principal and interest payments is a structuring issue. Districts should refer to bond counsel and financial consultants for guidance.

Budgeting Principal and Interest

Oregon's bonding and local budget law require local governments to forecast debt service obligation requirements. This includes disclosure of principal and interest due dates and amounts. Consideration of these due dates determines when property tax revenues are collected.

For example, if a payment's due date occurs July through November, the debt service budgeting must occur in the prior

Budget Impact of Election Choice



continued on page 65

Sample Budget Pages

Oregon Department of Education
255 Capitol St. NE
Salem, Oregon 97310

CAPITAL PROJECTS FUND

Budget detailed estimate sheet

Requirements Resources
July 1, ____ to June 30, ____

School District _____
County _____

Page _____

| ACCOUNT CODE DESCRIPTION (1) | Actual Data for Prior Two Years | | Budget This Year | | Budget Next Year | | | | |
|--|------------------------------------|-------------------|-----------------------------|------------------------|---------------------|------------------------|-----------------|----------------|-------------------------|
| | Second Year (2) | First Year (3) | Adopted (Amended) (4) | No. of Empl. (5) | Proposed (6) | No. of Empl. (7) | Approved (8) | Adopted (9) | No. of Empl. (10) |
| | | | | | | | | | |
| RESOURCES | | | | | | | | | |
| 1510 Interest on Investments | | | | | \$175,000 | | | \$175,000 | \$175,000 |
| 5100 Long-Term Debt Financing Sources | | | | | | | | | |
| 5110 Bond Proceeds | | | | | 7,000,000 | | | 7,000,000 | 7,000,000 |
| Total RESOURCES | | | | | \$7,175,000 | | | \$7,175,000 | \$7,175,000 |
| REQUIREMENTS | | | | | | | | | |
| 4150 Facilities Acquisition and Construction | | | | | | | | | |
| 300 Purchased Services | | | | | \$30,000 | | | \$30,000 | \$30,000 |
| 382 Legal | | | | | 125,000 | | | 125,000 | 125,000 |
| 383 Architect/Engineer Services | | | | | | | | | |
| 389 Bond Issue Expenditures | | | | | 60,000 | | | 60,000 | 60,000 |
| Total PURCHASED SERVICES | | | | | 215,000 | | | 215,000 | 215,000 |
| 520 Buildings – Acquisitions and Improvement | | | | | 6,960,000 | | | 6,960,000 | 6,960,000 |
| Total EXPENDITURES | | | | | \$7,175,000 | | | \$7,175,000 | \$7,175,000 |

Bond issue expenditures include printing costs, bond counsel, financial consultants, costs relating to obtaining a rating and other related issue costs.

Forecasted interest earnings on investment of bond proceeds.

Proceeds from the sale of bonds.

Note: When the capital projects fund is closed, any remaining money should be transferred to the debt service fund to help retire any remaining debt.

Sample Budget Pages

Oregon Department of Education
255 Capitol St. NE
Salem, Oregon 97310

DEBT SERVICE FUND

Budget detailed estimate sheet

School District _____
County _____

Requirements Resources
July 1, _____ to June 30, _____

Page _____

| ACCOUNT CODE DESCRIPTION (1) | Actual Data for Prior Two Years | | Budget This Year | | Budget Next Year | | | | |
|--|------------------------------------|---------------------------|-----------------------------|------------------------|---------------------------|------------------------|---------------------------|---------------------------|-------------------------|
| | Second Year (2) | First Year (3) | Adopted (Amended) (4) | No. of Empl. (5) | Proposed (6) | No. of Empl. (7) | Approved (8) | Adopted (9) | No. of Empl. (10) |
| RESOURCES | | | | | | | | | |
| 1112 Prior Year Taxes | \$3,472 | \$3,115 | \$2,875 | | \$3,200 | | \$3,200 | \$3,200 | |
| 1510 Interest on Investments | 867 | 811 | 750 | | 795 | | 795 | 795 | |
| 5400 Beginning Cash Balance | <u>13,220</u> | <u>12,560</u> | <u>12,000</u> | | <u>11,150</u> | | <u>11,150</u> | <u>11,150</u> | |
| Total RESOURCES EXCEPT TAXES | 17,559 | 16,486 | 15,625 | | 15,145 | | 15,145 | 15,145 | |
| 1111 Current Taxes Taxes Required to Balance | | | | | | | | | |
| Total DEBT SERVICE RESOURCES | <u>41,621</u> \$59,180 | <u>42,858</u> \$59,344 | <u>42,640</u> \$58,265 | | <u>43,018</u> \$58,163 | | <u>43,018</u> \$58,163 | <u>43,018</u> \$58,163 | |
| REQUIREMENTS | | | | | | | | | |
| 5110 Debt Service | | | | | | | | | |
| 610 Bond Principal Issue dated 3/1/ <u> </u> \$20,000 Issue dated 4/1/ <u> </u> 7,000 | \$23,000 | \$25,000 | \$25,000 | | \$27,000 | | \$27,000 | \$27,000 | |
| 620 Bond Interest Issue dated 3/1/ <u> </u> \$17,520 Issue dated 4/1/ <u> </u> 3,255 | | | | | | | | | |
| Total EXPENDITURES | <u>23,620</u> 46,620 | <u>22,420</u> 47,420 | <u>22,115</u> 47,115 | | <u>20,775</u> 47,775 | | <u>20,775</u> 47,775 | <u>20,775</u> 47,775 | |
| 7000 Unappropriated Ending Fund Balance For Interest Due in Second Ensuing Year | | | | | | | | | |
| 820 Reserve for Next Year Issue dated 3/1/ <u> </u> \$8,760 (due 9/1/ <u> </u>) Issue dated 4/1/ <u> </u> \$1,628 (due 10/1/ <u> </u>) | | | | | | | | | |
| Total DEBT SERVICE REQUIREMENTS | <u>12,560</u> \$59,180 | <u>11,924</u> \$59,344 | <u>11,150</u> \$58,265 | | <u>10,388</u> \$58,163 | | <u>10,388</u> \$58,163 | <u>10,388</u> \$58,163 | |
| Estimate of all resources except current year property taxes. | | | | | | | | | |
| Do not combine separate sales. Budget different line items for each issue outstanding. | | | | | | | | | |
| Budgeted requirements always equal budgeted resources. | | | | | | | | | |
| Use unappropriated ending fund balance for any payments that come due between July 1 and November 15 for which other revenue in debt service is not available. | | | | | | | | | |
| Obtain exact amounts for principal and interest due from the bond amortization schedule in your audit report. | | | | | | | | | |

fiscal year as an unappropriated ending fund balance and be carried forward as a net working capital.

Special Rules for May Elections

In instances where a district's voters approve the issuance of general obligation bonds at a May election, the district may adopt a budget including estimated requirements to pay the debt service on these bonds in the ensuing year or each of the years of the ensuing budget period (where biennial budgets are prepared). Revisions to ORS Chapter 294 also allow for the utilization of a supplemental budget pursuant to ORS 294.477 for the purpose of levying a tax to pay debt service or to adjust the amount of the debt service resulting from a May election. The requirements are very specific to the May election and require the district to request an extension of time to certify their tax levy to the County Assessor

pursuant to ORS 310.060, as the levy cannot be imposed until the bonds are sold. If you are dealing with a May election, be certain to carefully review the revised statutes and rules prior to finalizing your budget.

Appropriation

Appropriation authority must be granted from the district's board prior to the expenditure of funds. Before adopting the appropriation resolution, local budget law must be satisfied in one of the following situations:

- Estimates must be included in a proposed budget, which is subsequently approved by the budget committee and adopted by the board
- Supplemental budget must be adopted by the district's governing body
- The district must use the authority granted by ORS 294.338(4) (excluding debt service)

Failure to Budget Debt Service Requirement

If local budget law is not followed, it may not be possible to levy for debt service. If the tax required to pay bond principal and interest payments is not levied or there is a shortfall in collections, the district is legally required to use other available resources to make debt service payments. The district may increase the tax levy in the following year to reimburse the fund that covered the shortfall, but that may be very costly.

Resources

The Oregon Department of Revenue Property Tax Division can assist with all budget-related questions for bond issues. They can be reached at 503-945-8293. The Oregon State Treasury Debt Management Division can also answer general questions about bonds at 503-378-4930.

Frequently Asked Questions about Local Budget Law

Q: What is a capital projects fund?

A: A capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, including revenues from bond proceeds and the expenditures for the projects approved by the voters.

A school district, ESD or community college may have other sources of revenue in this fund. For example, a capital projects fund could include interest earnings from investments or proceeds from the sale of district property.

Q: What is a debt service fund?

A: A debt service fund is a separate set of accounts in the budget that is used to account for and pay the principal and interest on long-term debt, including bonded debt.

Q: Is budgeting for the revenue and expenditures in these funds required?

A: Yes. Oregon's Local Budget Law requires that all governmental funds be budgeted. There is one exception for bond proceeds that are received in the same year that voters approve the bond issue.

For example, if voters approve a bond issue at the November

election, bond proceeds could be received in January. The board could pass a motion to approve spending bond proceeds during the months of January through June. However, the district must budget the funds and the bond levy in the new fiscal year.

Q: Our district has two outstanding bond issues. For budget purposes may we combine payments in one line item in our budget?

A: No. Local Budget Law requires that the issues be itemized separately in the budget document.

continued

Frequently Asked Questions about Local Budget Law (continued)

Q: May our board borrow or transfer GO debt service funds?

A: No. By law these funds must be used exclusively for paying the principal and interest on outstanding GO bond issues. There are two exceptions:

- ▶ If the board initially transferred funds as an inter-fund loan into the debt service fund to fund a payment, repayment of that loan is authorized.
- ▶ If, after all bonded debt is repaid, a surplus remains, the board may transfer the remaining balance to any fund originally designated by the board.

Q: What happens if the debt service fund does not have enough funds to make a principal and interest payment at the due date?

A: The district may have to use existing resources to make

up the shortfall, which could include taking out a short-term loan, if necessary. These expenses can be reimbursed from subsequent tax levies; however, that would increase the tax rate associated with the reimbursement period. Or the district may be able to call upon the Oregon School Bond Guaranty program. To the extent the state makes the payment on behalf of the school district, however, they, too would require reimbursement in subsequent years.

Q: What local or state sources are available if a district has questions about budgeting procedures for bonds or other borrowing issues?

A: Various sources are available to assist districts in this process.

Oregon Department of Revenue, Property Tax Division, can answer questions on the Local Budget Law. (503-945-8293)

Oregon State Treasury, Debt Management Division can assist in questions on bonded debt. (503-378-4930)

Q: May registrar or trustee fees on a bond issue be paid from the debt service fund?

A: No, only principal and interest payments may be made from the debt service fund. However, registrars and trustees are usually willing to bundle their fees into one upfront expense that can be paid out of bond proceeds.

"I have enjoyed great satisfaction from my climb of Everest and my trips to the poles. But there's no doubt that my most worthwhile things have been the building of schools and medical clinics."

Sir Edmund Hillary

Oregon School Capital Improvement Matching (OSCIM) Program

The Oregon School Capital Improvement Matching Program is managed by the Oregon Department of Education's Office of School Facilities. The OSCIM program was established in 2015 with support from the Oregon School Boards Association and other education advocates to help districts fund major capital projects. OSCIM provides matching grants to districts that pass a local general obligation bond in an effort to encourage communities to support local bonds.

The Legislature allocates OSCIM funding each regular session for the upcoming biennium. For the 2025-27 biennium, \$162.8 million was made available: \$50 million appropriated by the Legislature, \$70.8 million in lottery funds, and \$42 million rolled over from 2023-25. Funding is divided evenly across the four election cycles for new commitments, and any unallocated funds from one election roll into the next. Matching amounts increased beginning with the May 2024 election, based on a state funding formula and adjusted for inflation. To administer the OSCIM program and support facility planning more broadly, ODE established the Oregon Office of School Facilities in 2015. In addition to managing the OSCIM program, the office administers technical assistance grants for facilities assessments, long-range facility planning, and other specialized assessments. The office is also responsible for providing funds for testing and remediation for lead in water and

maintaining a statewide facilities database.

Grant Awards

OSCIM awards funding through two processes: the **Priority List** and the **First-in-Time (FIT) List**. Districts apply before the election so they can reference potential funding in their bond campaign. Applicants are notified whether they receive a commitment or are placed on a wait list.

Priority List

(66% of available funds)

Applications are ranked by assessed value per student, adjusted for poverty. This ensures districts with the greatest need receive most of the funding.

First-in-Time (FIT) List

(34% of available funds)

Districts must apply between 8 a.m. and 12:30 p.m. on the designated day. Eligible applications enter a randomized lottery.

Districts that do not pass their bond must reapply for any future election cycle. To be considered, an application must include a complete long-range facility plan and facility assessment. Grant funds may only be used for costs listed in the ballot title, so districts should review language carefully with bond counsel.

Each election will have its own application cycle, and districts may only apply for matching funds one time per election. For November elections, applications are due in July, and for May elections, applications are due in December.

The grant amount awarded to a district is the lesser of the general obligation amount approved by local voters and the maximum grant for which the district is eligible. Maximum grant amounts are determined by a quartile-based funding formula tied to assessed value (AV) per student, ranging from \$6.126 million for districts with the highest AV per student to \$12.252 million for districts with the lowest. The Priority List and Funding Formula document is posted on the OSCIM Program's webpage. In all cases, a district's OSCIM award may not exceed the amount approved in the local bond sale.

Districts on the waiting list may receive a partial funding commitment, depending on the amount remaining once guaranteed districts receive their allocation.

Applications

Application deadlines are announced via ODE's GovDelivery bulletin, which is distributed to superintendents, K-12 public information officers, business managers, and facilities managers. Deadline information is also included in the Frequently Asked Questions (FAQs) on the OSCIM Program webpage.

Long-range facility plans and facility assessments are due **two weeks prior** to the application deadline and must meet established program standards. Because the Statewide School Facility Assessment (SSFA) Program is underway, districts may use their SSFA reports to meet the Facility Assessment requirement for the OSCIM grant application.

Grant Agreements and Spending Requirements

After passing a bond, districts must submit required documents and execute a grant agreement

before receiving OSCIM funds. Most documents come from the bond transcript prepared after the bond sale. The agreement also requires a reliance letter from bond counsel and an opinion from general counsel.

Districts must sell bonds equal to at least the OSCIM matching amount within **nine months** of the election. Grant funds are reimbursed through ODE disbursement requests. Districts must spend OSCIM grant funds within **three years** of the state's bond sale for the grant, which may occur before or after the district signs its agreement. Districts should confirm deadlines with ODE.

Technical Assistance Program (TAP) Grants

The Technical Assistance Program (TAP) helps districts plan for capital improvements, address deferred maintenance, understand enrollment trends, and communicate facility needs to their communities. In 2026, the four TAP grants available are:

- 1. Long-Range Facility Planning – \$40,840**
- 2. Seismic Assessment – \$25,525**
- 3. Asbestos Hazard Assessment – \$25,525**
- 4. Engineered Wood Roof Systems Assessment - \$10,210 for districts with up to four long-span facilities; \$25,525 for districts with five or more long-span facilities**

Beginning in 2025, districts may use Statewide School Facility Assessment (SSFA) reports to satisfy the Facility Assessment requirement for the OSCIM grant application. To avoid duplicating efforts, the Facility Assessment Grant offered through TAP will be discontinued in 2026.

The Long-Range Facility Planning Grant supports development of

a plan to ensure facilities meet enrollment and educational needs over the next 10 years.

The Seismic Assessment Grant supports districts' applying to Business Oregon's Seismic Rehabilitation Grant Program.

The Asbestos Hazard Assessment Grant helps districts meet Asbestos Hazard Emergency Response Act requirements for asbestos inspection, surveillance and staff training.

The Engineered Wood Roof Systems Assessment Grant helps districts identify, assess and document the condition of long-span engineered truss and glulam beam systems, with priority given to systems that are 50 years or older.

TAP awards up to \$1.5 million in grants for the current year, with future award amounts subject to available funding

TAP Application Process

Applications are scored using preference points specific to each grant type, with a maximum of six preference points for school districts and five preference points for Education Service Districts. TAP funds applications in descending point order beginning with those that receive the maximum points and continuing until available funds are fully allocated.

By statute, the application period runs from Jan. 15 to Feb. 15, with the deadline adjusted to the preceding Friday if Feb. 15 falls on a weekend. Awards are typically announced in mid-March, and districts must complete grant-funded work by Dec. 31 of the following year and submit invoices and final reports for reimbursement.

Glossary of Municipal Finance Terms

This glossary gives Oregon School Bond Manual readers quick and easy-to-understand definitions of municipal finance terms used in this publication. A more extensive glossary is available on the Municipal Securities Rulemaking Board's website, www.msrb.org.

Accrued interest – The amount of interest earned on a security from the date of issue up to, but not including, the date of delivery or closing; or from the last interest date up to, but not including, the date of purchase.

Accreted value – The nominal value, at any given point in time, of a security such as a capital appreciation bond, deferred interest bond or some deeply discounted interest-paying original issue discount bond on which all or a portion of the investment return is received in the form of an accretion from an initial principal amount to the maturity or redemption value. See *deferred interest bonds*.

Ad valorem tax – A property tax computed as a percentage of value of taxable property.

Advance refunding – The refinancing of an outstanding issue by a new issue, more than 90 days (under federal law) or more than one year (under state law) prior to the date on which the outstanding issue can be redeemed. The proceeds of the new issue are deposited in an escrow account that pays the debt service of the issue being refunded. See also *defeasance*.

Alternative minimum tax (AMT) – AMT is applicable to income of certain tax-exempt “private activity” bonds for the purpose of assuring that all individuals with substantial income will pay some amount of federal income tax.

Annual financial information – The type of financial information or operating data about the issuer or any other obligated persons

that is included in the final official statement. Rule 15c2-12 obligates underwriters for most municipal securities’ primary offerings to ensure that the issuer or other obligated persons provide such information or data on an annual basis to EMMA. See *continuing disclosure and EMMA*.

Anti-fraud provisions – This term usually refers to the provisions of federal law prohibiting fraud (typically in the form of material omissions or misstatements) in the issuance and sale of securities, regardless of whether such securities are subject to registration with the SEC. These provisions include Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 and other related rules.

Arbitrage – With respect to municipal bonds, arbitrage occurs when interest earned on bond proceeds exceeds interest paid on the bonds. Federal income tax laws generally restrict the ability to earn arbitrage in connection with a tax-exempt issue.

Arbitrage bonds – Bonds that violate federal arbitrage regulations. If the Internal Revenue Service finds that bonds are arbitrage bonds, the interest becomes taxable and must be included in each bondholder’s gross income for federal income tax purposes. More often, the issuer may make payments to the IRS in lieu of the bonds being declared taxable.

Arbitrage certificate – See *no-arbitrage certificate*.

Assessed valuation – The value set on real and personal property as a basis for imposing taxes. It is the lesser of the property's maximum assessed value or real market value. See *real market value*.

Average life or average maturity of bond issue – The aggregate life of all bonds (in years) divided by the number of bonds. The average maturity reflects how rapidly the issue's principal is scheduled for repayment.

Ballot title – The wording that appears on the ballot, which, if approved by voters, authorizes bond issuance for the purpose(s) described in the ballot title. The ballot title includes a 10-word caption, a 20-word question and a 175-word summary, plus additional required wording in the question and summary from ORS 250.035 and ORS 250.037.

Bank qualified – This designation is given to a public purpose bond offering by the issuer if, in the calendar year of such offering, it reasonably expects to issue no more than \$10 million of tax-exempt bond proceeds. When purchased by a commercial bank for its portfolio, the bank may receive a tax deduction for the interest cost of carry for the issue, which may translate to lower interest rates offered to issuers. A bond that is bank qualified is also known as a "qualified tax-exempt obligation."

Basis point – One one-hundredth of one percent (0.0001). One hundred basis points equal one percent. Used in pricing bonds and discussions of bond yields.

Bid – A statement of what a bank or syndicate of banks will pay for an entire bond issue in a competitive sale, implying an offer to purchase the bonds. The highest dollar bid, i.e., the bid with

the lowest true interest cost, is the winning bid.

Bond – A written evidence of debt representing a promise to pay a specified sum of money, called the face value or principal amount, at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate.

Bond anticipation note (BAN) – Notes issued by public agencies to obtain temporary financing for projects that eventually will be financed on a long-term basis through the sale of bonds. The BAN is repaid when the bonds are sold. BANs also may be retired from other revenue.

Bond counsel's opinion – Opinions that usually address:

- ▶ Whether the issuer's bonds are valid and binding obligations
- ▶ The source of payment or security for the bonds
- ▶ Whether and to what extent interest on the bonds is excluded from an owner's gross income for federal income tax purposes and is exempt from taxes, if any, imposed by the issuer's state

Bond insurance – A guarantee by a bond insurer to pay the principal and interest on municipal bonds as they become due should the issuer fail to make required payments. Bond insurance typically is acquired in conjunction with a new issue of municipal securities, although insurance may be available for outstanding bonds trading in the secondary market.

Bond purchase agreement (BPA) – An agreement between an issuer and the bond underwriter setting forth the terms of sale, i.e., price of securities, any premium or discount, interest rates, conditions to closing, restrictions on the

issuer's liability in case of termination. In a competitive sale, the notice of sale and the bid form replace the BPA.

Bond rating – Designations assigned to bonds by credit rating agencies that give relative indications of credit quality.

Bond registrar – The institution (usually a bank or trust company) identified on the security as the agent designated by the issuer to maintain the bond register and make principal and interest payments. See *paying agent*.

Bond resolution – A resolution passed by a governing body authorizing the issuance of securities. The resolution also may contain the covenants and restrictions for the issue. For a competitive sale, the bond resolution also includes or authorizes the notice of sale.

Bonded debt – The portion of an issuer's total indebtedness represented by outstanding bonds.

Bondholder – The owner of a municipal bond. The owner of a registered bond is the person whose name is noted on the bond register. In the case of a book-entry bond, the beneficial owner may often be treated as the bondholder for purposes of certain rights.

Book-entry-only bonds – Securities that are not available to purchase in a physical form. Book-entry-only bonds are accounted for through a centralized system for the holding and accounting for ownership and transferring ownership.

Broker/Dealer – A firm that is engaged in effecting securities transactions for the accounts of others.

Call – Exercise of the issuer's right to prepay bonded debt prior to the specified maturity date and demand surrender of the bonds for redemption, refunding or sinking fund purposes on a specific date at a specified price.

Call date – The date on which bonds may be called for redemption.

Call premium – The amount the issuer promises to pay in excess of par value when bonds are redeemed prior to the maturity date.

Call price – The specified price, at or above par value, paid by the issuer upon redemption of bonds prior to maturity.

Callable bonds – Bonds that are redeemable by the issuer prior to the specified maturity date at a specified price at or above par value.

Capital appreciation bonds – See *deferred interest bonds*.

Capital lease – A lease that, for accounting and financial reporting purposes, is characterized by a term that spans all or a major portion of the leased property's useful life.

Capital projects fund – A budgetary fund used to account for financial resources to be used for the acquisition or construction of major capital facilities. Establishment of a capital projects fund to account for construction and improvements funded by bonds is required by Oregon's budget law.

Capitalized interest – A portion of bond issue proceeds that is used to pay interest on the bonds for a specific period of time (usually the bond project's construction period).

Cash flow financing – Financing in which an issue's proceeds are used to pay the issuer's current

expenses in anticipation of future taxes or revenue. These issues are sometimes called TRANS, TANS or RANS (tax and/or revenue anticipation notes).

Certificate of participation (COP) – See *full faith-and-credit obligations (FFCOs)*.

Closing date – The date on which all documents relating to a new securities issue must be finalized and signed. After an issue is declared closed, bond counsel authorizes the exchange of money and securities. See *delivery date*.

CUSIP (Committee on Uniform Security Identification Procedures) – CUSIP was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, United States government, and corporate securities. CUSIP numbers are assigned to all new publicly offered debt issues. Issuers are assigned a six-digit base CUSIP, which applies to all of their debt of the same security type, and each maturity is assigned the base CUSIP, plus three additional digits to create a unique nine-digit identifier. CUSIP numbers are used to make continuing disclosure filings on EMMA and can be found on the maturity schedule in the official statement.

Competitive sale – The sale of municipal securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities. When bonds are sold at a competitive sale, the issuer typically specifies all of the terms of the issue other than interest rates and purchase price. The bonds are awarded to the underwriter presenting the best bid based on the criterion specified in the notice of sale.

Constitutional limits – In Oregon, the maximum amount of tax on property that can be collected from an individual property in each limitation category. (Article XI, section 11b, Oregon Constitution)

Continuing disclosure – Disclosure of information relating to municipal securities provided to the marketplace by the issuer of the securities or any other entity obligated with respect to the securities, after the issue has closed. Such disclosures include, but are not necessarily limited to audited financial statements, annual operating data and material event notices provided by the issuer or obligor to various information repositories for the benefit of holders of the issuer's securities under Rule 15c2-12.

Continuing disclosure agreement or undertaking – The agreement or undertaking by the issuer of municipal securities or an obligated person with respect to such securities to disseminate annual financial information and event disclosures as provided for under Rule 15c2-12. A continuing disclosure agreement may also provide for more frequent or additional disclosures beyond Rule 15c2-12 requirements. Continuing disclosure filings are currently made on EMMA. See *EMMA and MSRB*.

Convertible bond – A bond with a fundamental feature that changes in a prescribed manner at a future date, such as a deferred interest bond that "converts" to paying current interest.

Costs of issuance – The expenses associated with the sale of municipal securities issues, including such items as underwriter's spread, legal fees and rating costs.

Coupon – The interest rate at which a bond pays interest. The coupon may be different from a bond's yield. See *yield*.

Covenants – Agreements made by the issuer regarding repayment, security, pledges and the use of funds.

Cover bid – The second-best bid received at a competitive sale.

Credit enhancement – A credit support purchased by the issuer to raise the credit rating on a debt issue. The most common credit enhancement for Oregon school districts, ESDs and community colleges is the Oregon School Bond Guaranty Program. See *OSBG*.

Current coupon bonds – Bonds that pay interest, at a fixed interest rate, every six months until they are redeemed or mature.

Current refunding – Under federal tax law, a refunding transaction where the municipal securities being refunded mature or are redeemed within 90 days or less from the date of issuance of the refunding issue. Under Oregon statutes, a current refunding is defined as a redemption within one year of the date of issuance of the refunding issue.

Dated date – The date of an issue from which the bondholder is entitled to receive interest, even though the bonds actually may be delivered at some later date.

Debt limit – The statutory or constitutional limitation on the principal amount of outstanding debt that an issuer may legally incur. In Oregon, the limitation for school districts, ESDs and community colleges is based on a percentage of the district's real market valuation of all taxable property within the district.

Debt service – The amount of money necessary to pay the

interest and principal required during a given time period.

Debt service fund – The fund established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Different bond issues of the same type may be tracked within the same debt service fund through separate accounts.

Debt service reserve fund – Fund maintained by the issuer or designated trustee for a portion of bond proceeds as required by law and the bond resolution. A reserve fund is often required for revenue bonds to maintain sufficient revenues to pay debt service in the event of a shortfall but is never used for general obligation bonds.

Debt service schedule – A table listing the principal and interest payments necessary to meet debt service requirements over the period of time that the bonds are outstanding.

Default – Breach of some covenant, promise or duty imposed by the bond contract. The most serious default occurs when the issuer fails to pay interest or principal when due. Other "technical" defaults occur when the issue fails to comply with financing document covenants.

Defeasance – Termination of the rights and interests of bondholders and their lien on the pledged revenues in accordance with bond contract terms for a prior bond issue. Defeasance usually occurs with the refunding of an outstanding bond issue by provision for future payment through escrow, of principal and interest on the prior issue.

Deferred interest bonds – Bonds that pay all interest only at maturity. Deferred interest

bonds normally have maturity values (including all compounded interest) of \$5,000 and thus sell at substantially discounted values when originally issued. See *accreted value*.

Delivery date – The date bonds are delivered to and paid for by the original purchaser. See *closing date*.

Denomination – A bond's face amount or par value that the issuer promises to pay on the maturity date. Most municipal bonds are issued in a minimum denomination of \$5,000.

Depository Trust Company (DTC) – DTC is a central securities certificate depository through which members make security deliveries among themselves using computerized bookkeeping entries. Most municipal bond issues close through DTC.

Derivative or derivatized security – A product, whose value is derived from an underlying security, structured to deliver varying benefits to different market segments and participants. The term encompasses a wide range of products offered in the marketplace including interest rate swaps, caps, floors, collars and other synthetic variable rate products. See *interest rate swap contract*.

Direct and overlapping debt statement – A list of all outstanding debt issues covering any portion of an issuer's jurisdiction. Self-supporting debt is subtracted to show net debt.

Discount – The difference between the price paid for the bond and its par value.

Discount bonds – Those bonds selling at less than par value.

Double exemption – A term applied to bonds paying interest

that is exempt from both state and federal income taxes.

Double majority – In Oregon, a term that refers to an election where at least 50 percent of the registered voters eligible to vote in the election cast ballots and more than 50 percent voting approve the question.

Downgrade – The lowering of a bond rating by a rating agency. Downgrading makes the bonds less creditworthy and, typically, less valuable to an investor.

Due diligence – The thorough investigation of a bond issue, usually by the underwriter or its counsel. Such inquiry is made to assure that all material facts are fully disclosed to potential investors and that there are no material omissions or misstatements of fact in the official statement.

Electronic bid – The process of submitting a competitive bid for a new municipal securities issue through any of several proprietary services that facilitate the collection of bids by electronic means.

EMMA – Electronic Municipal Market Access System. A centralized online system for free access to municipal disclosure. Also the sole location to file all continuing disclosure material. Operated by the MSRB.

Escrows – Bond proceeds invested in securities until certain conditions described in the bond documents occur. Proceeds may be used for new projects or for refunding a bond issue.

Escrow verification report – In a refunding, a report, prepared by a certified public accountant or other independent third party, demonstrating that the cash flow from investments purchased with the proceeds of the refunding bonds and other moneys are sufficient to pay the principal and interest on the refunded bonds

that are being defeased.

Face value – The par value, i.e., principal or maturity value, of a security that appears on the face of the bond document. See *denomination*.

Facsimile signature – The reproduction of a signature by engraving, imprinting, scanning, stamping, or other means.

Federal funds – Immediately available funds representing non-interest bearing deposits at Federal Reserve banks. Federal funds are actively traded among commercial bank members of the Federal Reserve system. Federal funds usually are used in payment for new municipal securities issues at closing.

Federal funds rate – The interest rate at which federal funds are traded.

Financial or municipal advisor – A municipal advisor who provides the issuer with advice regarding the structure, timing, marketing, fairness of pricing terms, bond ratings and other similar matters related to a new issue of municipal bonds. Such advisors must be registered with the SEC and the MSRB, and have a fiduciary responsibility to the issuer.

Fiscal agent – An agent, usually an incorporated bank or trust company, designated by a government to act for it in any of several capacities in the sale, administration and payment of bonds and coupons. See *paying agent*.

Floating-to-fixed rate swap – An agreement whereby an issuer synthetically converts variable rate debt to fixed rate debt through an interest rate swap.

Forward – A contract (variously known as a “forward contract,” “forward delivery agreement” or “forward purchase contract”) wherein the buyer and seller

agree to settle their respective obligations at some specified future date based upon the current market price at the time the contract is executed.

Forward refunding – A refunding mechanism that allows the issuer to lock in interest rates now available rather than wait until the bonds’ call date (and exposing itself to the risk of rising interest rates). A forward refunding is used when the bonds to be refunded are not permitted to be advance refunded under federal tax law. Under a forward refunding the issuer agrees now to issue bonds on a specified future date when the issuance would become a “current” refunding under federal tax law.

Forward swap agreement – An agreement whereby two parties enter into an interest rate swap agreement to begin at a future date.

Full faith-and-credit obligation (FFCO) – In Oregon, a marketing term used to describe obligations typically issued under authority of ORS 271.390. A certificate showing participation through ownership of a “share” of lease payments or a financing or lease-purchase agreement. In Oregon the district’s general fund normally is pledged to support repayment of principal and interest on an FFCO. The acquired equipment or asset is not typically pledged as security.

General obligation bonds (GO bonds) – In Oregon, GO bonds are bonds secured by the pledge of the issuer’s full faith, credit and property taxing authority. GO Bonds are subject to voter approval (except for refundings).

Good faith deposit – A deposit required as part of acceptance of an underwriter’s winning bid in a competitive sale. The good faith deposit helps assure that the underwriter actually will fulfill the

terms of its winning bid at closing. Good faith deposits are delivered by wire transfer after the winning bidder is selected.

Gross bonded debt – The total of an issuer's bonds backed by a general obligation pledge, including any bonds that may be self-supporting.

Gross proceeds – Under federal tax law, gross proceeds are the total proceeds of a bond issue, including the original proceeds, the investment return on obligations acquired with the bond proceeds (including repayment of principal), and amounts used for or available to pay debt service on the issue.

Guaranteed investment contract (GIC) – An investment, secured by a contract with a financial institution, that guarantees a fixed rate of return and a fixed maturity.

Interest payment date – Date on which interest is due and payable.

Interest rate swap contract – A contract entered into by an issuer or obligor with a swap provider to exchange periodic interest payments. Typically, one party agrees to make payments to the other based upon a fixed rate of interest in exchange for payments based upon a variable rate. Interest rate swap contracts typically are used as hedges against interest rate risk or to provide fixed debt service payments to an issuer dependent on a specified revenue stream for payment of such debt.

Interim financing – Financing used between the time capital construction or improvement projects begin and the closing of the long-term bond issue, usually in the form of a short-term note. See *bond anticipation note*.

Internal Revenue Code – The Internal Revenue Code of 1986,

as amended, governs issues of taxation related to bonds.

Investment banker – A person or firm assisting an issuer in developing debt plans and bond issue structures and who typically also arranges and completes the underwriting and sale of the debt.

Investment grade – A credit designation given municipal securities that have a high probability of being paid. Bonds rated "BBB" or higher by Standard & Poor's or Fitch Ratings or "Baa" or higher by Moody's Investors Service, Inc., are generally considered investment grade.

Investment of proceeds – State law governs the allowable investment of bond proceeds. Permitted or qualified investments are reviewed carefully by rating agencies, credit providers and investors. Interest earnings, with some exceptions, are subject to rebate.

Investor – The ultimate buyer of any number of bonds from an issue, who intends to hold the bonds for investment purposes.

Issue – Bonds or notes sold on a contemporaneous (or nearly contemporaneous) basis in one or more series that are authorized under the same bond contract.

Issuer – A state, political subdivision, agency or authority that borrows money through the sale of bonds, notes or other types of debt obligations.

Kicker bond – A callable high-coupon bond sold at a premium and priced to a specific call date. The actual yield realized by the investor increases or "kicks up" if that call is not exercised.

Lease-purchase agreement – A contract that is called a lease but actually is a purchase or sale for which payments are made in installments over time. Lessee

acquires ownership as well as use of the leased property for the lease term. The lease typically specifies a date on which title to the property changes hands.

Lease-purchase financing – A long-term financing lease that may be sold publicly to finance capital equipment or real property acquisition or construction. The lease may be resold as full faith-and-credit obligations or lease-purchase revenue bonds.

Legal opinion – An opinion concerning the validity of a securities issue with respect to statutory authority, constitutionality, procedural conformity, and usually the exemption of interest from federal and state income taxes. A law firm recognized as specializing in public borrowings, often referred to as bond counsel, usually renders the legal opinion.

Lessee – The person or agency that agrees to lease specific property from a lessor (vendor) for a specified number of lease payments. The lease payments include principal and interest components and are made over a specified period of time.

Lessor – The entity (usually private in Oregon) that agrees to participate in a lease agreement to facilitate the lessee's ability to borrow money through issuance of full faith-and-credit obligations or lease revenue bonds. The lessor typically assigns all duties, including collection of lease payments and payments to investors, to a trustee.

Letter of credit (LOC) – A commitment, usually made by a commercial bank, to honor demands for debt payment upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment. In municipal financings, bank letters of credit are sometimes used as additional

sources of security for issues of municipal notes, commercial paper or bonds, with the bank issuing the letter of credit committing to pay principal of and interest on the securities in the event that the issuer is unable to do so. A letter of credit also may be used to provide liquidity for commercial paper, variable rate demand obligations and other types of securities.

Level debt service – An arrangement of serial bond maturities in which the amount of principal maturing increases at approximately the same rate as the amount of interest declines, resulting in substantially equal annual debt service payments over the life of the bonds.

Level levy rate – A repayment plan for general obligation bonds that structures debt service so that the resulting tax projected levy rates are estimated to be approximately the same each year. This structure, on average, defers principal payments slightly to account for increasing assessed values.

Limited tax bond – A bond secured by a pledge of a specified tax (usually the property tax) that is limited as to rate or amount.

Liquidity – The relative ability to convert a security into cash without substantial transaction costs or reduction of value.

Local option tax – In Oregon, a voter-approved taxing authority that is in addition to the taxes generated by the permanent tax rate. Local option taxes can be used for general operations, a specific purpose or capital projects. They are limited to five years unless they are for a capital project, then they are limited to the useful life of the project or 10 years, whichever is less. Local option levies, however, are

subject to compression before the permanent operating tax rate.

Manager or senior manager – The underwriter that serves as the lead underwriter for a bond issue. The manager may or may not enlist “co-managers” to assist in the underwriting and sale of the bonds. See *syndicate*.

Mandatory redemption – Circumstances that require the call or redemption of outstanding securities, usually at par value.

Material event disclosure

– Disclosure of certain enumerated events affecting a municipal security as required by Rule 15c2-12 in a continuing disclosure agreement. See *continuing disclosure*.

Maturity – The date when a security’s principal amount becomes due and payable.

Maturity schedule – A schedule, arranged by dates and amounts, that shows when a bond issue’s principal matures.

Minor portion – Under the federal Tax Reform Act of 1986, the minor portion is the portion of bond proceeds that may be invested at an unrestricted yield (an amount not exceeding the lesser of 5 percent of issue proceeds or \$100,000).

Municipal Securities Rulemaking Board (MSRB) – An independent, self-regulating organization established by the Securities Amendments Act of 1975. The MSRB is charged with primary rulemaking authority over dealers, dealer banks and brokers in municipal securities. The MSRB also runs the EMMA disclosure site and provides general information about municipal securities to both issuers and investors.

Nationally Recognized Municipal Securities Information Repository

(NRMSIR) – An entity designated by the SEC to receive final official statements, material event notices and annual financial information under Rule 15c2-12. The NRMSIR’s role has since been replaced by the MSRB EMMA site.

Negative arbitrage – Investment of bond proceeds and other related funds at a rate below the bond yield.

Negotiated sale or underwriting

– A sale of securities that is negotiated with a single underwriter, or underwriting syndicate, selected by the issuer.

Net direct debt – All an issuer’s bonds that are backed by and paid for by an unlimited property tax levy.

Net interest cost (NIC) – An outdated method of calculating bids for new municipal securities issues. The NIC is computed as either:

- ▶ Dollar cost: total scheduled coupon payments plus bid discount (minus bid premium), or
- ▶ Interest rate: total scheduled coupon payments plus bid discount (minus bid premium) divided by bond year dollars.

NIC does not differentiate between the value of interest paid immediately and interest paid in the future and, therefore, can produce misleading comparisons. See *true interest cost*.

Net lease or triple net lease – A lease in which operational costs, including maintenance, taxes and insurance, are paid by the lessee and are not part of the lease payments.

No-arbitrage certificate – A certificate prepared by bond counsel and signed by the issuer stating that the sale of the security and investment of

proceeds will not violate IRS arbitrage regulations.

No-litigation certificate – A certificate prepared by bond counsel and signed by the issuer stating that no pending litigation against the issuer will interfere with the pledges and covenants made by the issuer for repayment of debt service.

Non-appropriation clause – A clause in a lease-purchase financing agreement stating the lease will terminate if the governing board does not annually appropriate the lease payment. Oregon school districts, ESDs and community colleges normally do not employ a non-appropriation clause because it leads to higher interest rates.

Non-callable bond – A bond that cannot be redeemed by the issuer before its maturity date.

Notes – Short-term promises to pay specified amounts of money, secured by specific sources of future revenues, such as taxes, federal and state aid payments or bond proceeds.

Notice of sale – An official document prepared by or for the issuer describing the terms of sale for an anticipated new competitive bid offering of municipal securities. The notice of sale (NOS) generally contains the date, time and place of sale, amount of issue, type of security, amount of good faith deposit, basis of award, name of bond counsel, maturity schedule, method of delivery, time and place of delivery and bid form. Issuers use the notice to solicit bids from prospective underwriters for a competitive bond sale. The NOS and the underwriter's bid form constitute the legal sale contract.

Offering price – The price or yield at which the underwriter or members of an underwriting

syndicate for a new issue offers the securities to investors.

Official statement – A comprehensive document prepared by or for the issuer containing detailed information about the security being offered, the issuer and the security pledged for payment of the issue. The official statement is similar to a prospectus. See *preliminary official statement*.

Oregon School Bond Guaranty (OSBG) – A program offered by the Oregon State Treasury that guarantees the debt service payments on qualified Oregon school bond issues. All general obligation bonds offered by Oregon school districts, ESDs and community colleges are eligible for the program. Full faith-and-credit obligations are not eligible. The OSBG program charges a fee, payable at closing, based on the par amount of the bonds guaranteed.

Original issue discount – The amount by which a security's par value exceeds its public offering price at the time it is originally offered for sale to an investor.

Original issue premium – The amount by which a security's original offering price exceeds its par value at the time it is sold to an investor.

Original proceeds – The net amount an issuer receives from an issue's sale after all issuance expenses are paid.

Original purchaser – The person or firm, usually an underwriter, who purchases an issue directly from the issuer.

OSCIM – Oregon School Capital Improvement Matching

Over issuance – A bond issue where the issue's original proceeds exceed by more than 5 percent the amount necessary to fund the purpose(s) of the issue.

Overlapping debt – That portion of other jurisdictions' debt for which taxpayers of a particular municipality are responsible, e.g., services or facilities shared by several municipalities.

Par value – The principal amount of a bond or note that must be paid at maturity. The par value is also referred to as the face amount of a security. The amount approved by voters for a general obligation bond authorization.

Paying agent – The institution (usually a bank or trust company) identified on the security as the agent designated by the issuer to make interest and principal payments. See *bond registrar*.

Point – One percent of par value. Because municipal dollar prices are quoted relative to \$1,000, a "point" is worth \$10 regardless of the actual denomination of the bond.

Preliminary official statement or red herring – A version of an official statement in preliminary form without pricing, yield or maturity information. The preliminary official statement is used by the issuer or underwriter(s) to inform the public of a pending bond sale prior to receipt of bids in a competitive sale or prior to the assignment of an interest rate and offering price in a negotiated sale. Orders for the security may not be taken based on a distribution of these preliminary documents. A statement to this effect is usually printed in red on the cover page and thus the preliminary document is often referred to as the "red herring."

Premium – The amount by which the price paid for a security exceeds the security's par value. Premium is generated when a bond's coupon rate is higher than the bond's yield.

Present value – The value in "today's dollars" of a payment or

stream of payments expected to be received in the future, discounted at a given interest rate.

Present value savings – Difference expressed in terms of current dollars between the debt service on a refunded bond issue and the debt service on a refunding bond issue.

Pricing advisor – A consultant who provides a fairness letter to an issuer or its agent regarding the pricing of a new issue of municipal securities.

Pricing date – In a negotiated sale, the date the interest rates and original issue prices are finalized to determine yield to maturity. In a competitive sale, the date bids to purchase the issue are due.

Principal amount – The face amount of a bond, exclusive of accrued interest, payable at maturity; or the aggregate principal amount of the issue.

Private placement – The original placement of an issue with one or a few investors, usually banks, life insurance companies, pension funds or other financial institutions.

Proceeds – The amount paid to the issuer by the initial purchaser, usually the underwriter, of a new issue. Bond proceeds equal the principal amount of the bonds issued, plus premium or less discount, plus accrued interest.

Project – The bond issue proceeds' stated use.

Public offering price – The price at which a new issue of municipal securities is offered to the public at the time of original issuance. This price, sometimes referred to as the "initial offering price," is equal to the par value less original issue discount or the par value plus original issue premium, as appropriate. It usually is expressed as a percentage of par.

Ratings – Evaluations of notes' and bonds' credit quality usually made by independent rating services.

Rating agencies – Organizations that provide publicly available ratings of the credit quality of securities issuers, such as Moody's Investors Service, S&P Global Ratings, and Fitch Ratings.

Rebate – Requirement imposed by Tax Reform Act of 1986 whereby issuers of bonds must pay the Internal Revenue Service an amount equal to any arbitrage profit earned from bond investment proceeds. Payments are due at least every five years and are subject to certain exceptions.

Real market value – Real market value of all property, real and personal, means the amount in cash that could reasonably be expected to be paid by an informed buyer to an informed seller, each acting without compulsion in an arm's-length transaction occurring as of the assessment date for the tax year. In Oregon, real market value may differ from assessed value. See *assessed value*.

Redemption – Also referred to as a call, redemption is the prepayment of an outstanding debt prior to its stated maturity date.

Refunding – A procedure whereby an issuer refinances an outstanding bond issue by issuing new bonds. Issuers refund bonds to reduce interest costs, restructure the payment of the debt or remove restrictive covenants in the security documents.

Registered bond – A bond whose owner is designated on records maintained for this purpose by a registrar. Transfer of ownership can only be accomplished when

the registered owner properly endorses the securities and the transfer is recorded in the registration books.

Registrar – The person or entity responsible for maintaining records on behalf of the issuer that identify the owners of a registered bond issue.

Reoffering price – For new issues coming to market, the price at which bonds are offered for sale to investors by the underwriter(s).

Reoffering scale – The prices and/or yields, listed by maturity, at which the underwriter offers new issue securities for sale to the public.

Reprice – In the case of a new issue of municipal securities, the process by which the interest rates and/or public offering prices are changed from the rates and/or prices established during the initial pricing, generally as a result of substantially higher or lower investor interest in the new issue than initially expected or significant changes in market conditions.

Restructure – A repricing of a new municipal securities issue including changing the principal amounts and/ or maturity schedule of the offering. In some cases this involves more significant modifications to the structure of the new issue.

Rule 15c2-12 – An SEC rule under the Securities Exchange Act of 1934 requiring underwriters to receive, review and disseminate official statements prepared by issuers of most primary offerings of municipal securities and to obtain continuing disclosure agreements from issuers and other obligated persons to provide material event disclosures and annual financial information on a continuing basis. See *Continuing Disclosure and EMMA*.

Sale date – See *pricing date*.

Scale – See *reoffering scale*.

Secondary market disclosure – Disclosure of information relating to outstanding municipal securities made following the end of the underwriting period by or on behalf of the issuer or other obligor. See *continuing disclosure*.

Selling group – A group of dealers and brokers that are asked to join in the offering of a new securities issue, but are neither liable for any unsold balance nor share in the underwriting syndicate's profits.

Serial bonds – Bonds that mature annually, or semiannually, over a number of years.

Short-term debt – Debt with a maturity of one year or less after the date of issuance.

Sinking fund – A fund established by bond issuers, generally required in the bond resolution, that is increased through time to retire some of the outstanding bonds before their maturity or to reduce the risk of bond default.

SLGS – An acronym (pronounced "slugs") for State and Local Government Series issued by the U.S. Treasury Department. These securities are backed by the full faith and credit of the U.S. government. They may be ordered only on behalf of state and local issuers to fulfill yield restriction requirements imposed by federal tax law.

Special tax counsel – A municipal bond lawyer or legal firm that specializes in Internal Revenue Code compliance.

Spread – With respect to new issues of municipal securities, spread is the difference between the price paid to the issuer for the new issue and the prices at which the securities are initially offered to the investing public.

Swap – A sale of a security and the simultaneous purchase of another security for purposes of enhancing the investor's holdings. The swap may be used to achieve desired tax results, to gain income or principal, or to alter various features of a bond portfolio, including call protection, diversification or consolidation, and marketability of holdings.

Syndicate – A group of underwriters formed for the purpose of participating jointly in the initial public offering of new securities issues. A senior manager leads the underwriting syndicate and works directly with the issuer in structuring the issue. "Co-managers" usually participate only in the sale of the bonds.

Synthetic refunding – An agreement between an issuer and counter-party entered into in connection with outstanding bonds that the issuer is not permitted to advance refund on a tax-exempt basis under the Internal Revenue Code. The agreement is designed to generate debt service savings that the issuer would realize if it were permitted to advance refund the outstanding bonds.

Tax-exempt municipal lease – A long-term financing lease, e.g., a lease with an option to purchase, which, for Internal Revenue Service purposes, is a state, local or other governmental agency obligation.

Tax anticipation note (TAN) – A short-term note issued in anticipation of the future receipt of proceeds from taxes assessed by the issuer.

Tax and revenue anticipation note (TRAN) – A short-term note issued in anticipation of the future receipt of proceeds of taxes assessed by the issuer and of revenues received from other sources.

Tax Reform Act of 1986 – Federal tax legislation that substantially changed existing federal income tax laws. The 1986 legislation imposes severe restrictions on local governments for the issuance of debt securities with interest exempt from federal income tax.

Taxable security – A bond or other security that does not qualify for an exclusion from gross income under federal tax law. Corporate, U.S. government and agency debt generally is federally taxable. In some cases, municipal securities also are taxable under federal tax law.

Temporary period – Under Section 148 of the Internal Revenue Code, the temporary period is the period of time during which bond proceeds can be invested at unlimited yields. However, the investments still may be subject to rebate.

Term bonds – Bonds that are issued with a single stated maturity date, but typically include a mandatory redemption schedule of principal prior to final maturity. Term bonds and serial bonds are often combined in one issue.

Transcript of proceedings – Collection of all documents relating to an issue. The transcript is prepared and distributed by bond counsel.

Transferred proceeds – A federal income tax concept applicable to refunding. Transferred proceeds refer to the proceeds of a prior bond issue that are unexpended on the date

the prior issue is discharged. Such proceeds are treated as a transfer to the refunding bond issue for investment yield limitation purposes.

True interest cost (TIC) – A method of computing interest cost or rate for new securities that involves the annual discount rate. TIC is the preferred method for calculating the effective interest cost of an issue structure because it accounts for the time value of money. See *net interest cost (NIC)*. The TIC is sometimes called the internal rate of return, or the net effective interest rate.

Underlying rating – The rating assigned by a rating agency to a security that has a credit enhancement without regard to credit enhancement or the ratings assigned to the issuer's other securities that have the same features and security structure but do not have credit enhancements.

Underwriter – A dealer that purchases a new issue of securities for resale. The underwriter may acquire the bonds either by negotiation with the issuer or by award on the basis of a competitive bidding. The underwriter assumes all risk (profits or losses) for selling the new issue.

Underwriter's counsel – A firm of municipal bond attorneys hired by the underwriter to prepare the official statement in a negotiated underwriting and review all documents and agreements.

Underwriting spread – An amount representing the difference between the price at which the underwriter buys securities from the issuer and the price at which they are reoffered to the investor.

Variable rate – An interest rate, sometimes referred to as a

“floating rate,” on a security that changes at intervals according to market conditions or a predetermined index or formula.

Yield – The rate of return earned on an investment based on the price paid for the investment, the interest earned during the period held and the selling price or redemption value of the investment.

Yield curve – A graph that plots market yields on securities of equivalent quality but different maturities at a given point in time.

Yield to call – The rate of return an investor earns from payments of principal and interest, with interest compounded semi-annually at the stated yield, presuming that the security is redeemed on a specified call date (if the security is redeemed at a premium call price, the amount of the premium is also reflected in the yield). Yield to call takes into account the amount of the premium or discount at the time of purchase, if any, and the time value of the investment.

Yield to maturity – A yield concept based on the assumption that the security is held to maturity and that all interest received over the life of the bond is invested at the same yield.

Zero coupon bonds – Bonds that bear no periodic interest but are marketed at substantially below face amount. The maturity value an investor receives is equal to the principal invested plus interest earned compounded semi-annually at the original offering yield to maturity. See *deferred interest bonds and current coupon bonds*.

Legal References

Chapter 1: The Financing Team and Public Debt Markets

ORS 279A.025 describes the application of public contracting code.

Chapter 2: General Obligation Bonds and Notes

ORS 287A.335 describes the legal parameters for interest rate swap agreements.

ORS 305.580 describes exclusive remedies for certain determinations.

ORS 305.583 governs notice and publication requirements.

ORS 305.586 and ORS 287A.145 provides guidelines for fashioning remedies for misspent bond proceeds.

ORS 305.587 provides that where a petitioner challenges the authorized use of proceeds of bonded indebtedness, the tax court will construe the language in the measure authorizing the indebtedness liberally to allow the government unit to provide the facilities or services approved by the voters.

ORS 328.205 describes the projects for which school districts may issue bonds.

ORS 328.304 describes formation of an ESD county education bond district (CEBD).

ORS 334.125 requires ESDs to contract general obligation bonded indebtedness through a vote of all those within the ESD's boundaries or through creation of a county education bond district.

Article XI, Section 11L of the Oregon Constitution defines capital costs for general obligation bonds secured by property taxes.

Article XI, Sections 11 and 11b of the Oregon Constitution also describe additional conditions that must be met to levy property taxes.

Chapter 3: Lease-Purchase and Financing Agreements

ORS 271.390 authorizes lease-purchase and other financing agreements.

ORS 332.155 also authorizes lease-purchase agreements for school districts.

Chapter 4: Short-Term Borrowings

ORS 287A.180 prohibits TRANS from exceeding 80 percent of the district's budgeted basic state support, tax levies and other budgeted revenues and requires that the TRANS mature within 13 months after they are issued. In addition ORS 287A.180 authorizes districts to borrow money in a number of other ways including entering into credit agreements, or issuing notes, warrants, short-term promissory notes, commercial paper, or other obligations to provide interim financing to acquire capital assets or in anticipation of taxes, grants or other revenues.

Chapter 5: The Bond Election Process

ORS 250.035 lists ballot title requirements.

ORS 250.036 includes required first sentence of ballot titles for

all elections except general elections in even-numbered years.

ORS 250.037(3) requires the ballot title for general obligation bonds to provide a reasonably detailed, simple and understandable description of the use of bond proceeds.

ORS 251.345 and OAR 165.022-0040 relate to the 500-word ballot explanation.

ORS 253.065 requires county clerks to mail out ballots to long-term absent electors no later than 45 days prior to each election.

ORS 254.470 requires county clerks to mail ballots to registered voters not sooner than 18 days before the date of the election and not later than the 14th day before the election.

ORS 255.085 specifies filing requirements for the notice of election.

ORS 255.185 specifies election dates.

ORS 258.036 sets the procedure for contesting election results.

ORS 260.432 relates to restrictions on activities of public employees during working hours.

ORS 294.100 (2) says that any public official who “expends any public moneys in excess of the amounts or for any other or different purpose than authorized by law,” shall be civilly liable for the return of the money if the expenditure constitutes malfeasance in office or willful or wanton neglect of duty.

Oregon Secretary of State’s *2018 Election Law Summary* and the *2018 Restrictions on Political Campaigning by Public Employees* publications available

online at <http://sos.oregon.gov> include detailed guidelines for producing impartial information and other issues related to ballot measures.

Chapter 6: Federal and State Tax Treatment

The Internal Revenue Code of 1986 (the “Code”) regulates the use and investment of all funds related to tax-exempt borrowing as well as the use of all assets financed with tax-exempt debt.

Section 265(b)(3) of the Code provides an exception to the rule that prohibits banks and other financial institutions handling tax-exempt obligations from deducting their interest expense allocable to owning tax-exempt bonds.

IRS Form 8038-G or IRS Form 8038GC are forms districts must use to file information reports with the Internal Revenue Service.

Chapter 7: Federal Securities Law Disclosure Requirements

The Securities Act of 1933 (the Securities Act) and the Securities Exchange Act of 1934 (the Exchange Act) are the two main federal laws regulating the issuance and sale of securities.

Section 3(a)(2) of the Securities Act exempts from registration “any security issued or guaranteed by ... any State of the United States, or by any political subdivision of a State, or by any public instrumentality of one or more states....”

Section 17 of the Securities Act and Section 10(b) of the Exchange Act and paragraph (b) (5) of Securities and Exchange Commission Rule 15c2-12 provide federal antifraud principles that apply to corporate securities transactions and municipal securities.

The Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”) is designed to prevent fraud by regulating disclosure activity in the municipal market.

Chapter 8: Credit Analysis, Ratings and Bond Insurance

The Oregon School Bond Guaranty (OSBG) program replaces or enhances the use of underlying ratings or bond insurance by insuring the payment of principal and interest on bond issues that qualify for the program.

Chapter 10: Local Budget Law

ORS Chapter 287A governs the creation of municipal debt.

Federal tax law and the Department of Revenue OAR 150-294-420 specify Capital Projects Fund requirements

ORS 287A.150 is the procedure for municipalities to issue revenue bonds.

ORS 294.338 is the exception to the Local Budget Law regulating expenditure of bond proceeds during the current year or current budget period.

ORS 328.260 describes the debt service fund and tax levy to pay principal and interest.

ORS 328.265 grants the county treasurer authority to certify a tax levy to the county on behalf of the district.

Chapter 11: The OSCIM Program

ORS 327.008 and 329.488 were amended under Senate Bill 447, creating the Office of School Facilities and the Oregon School Facilities Database.

Interest Rate Swaps and Other Derivative Products

As of Jan. 1, 2004, all Oregon municipalities including school districts, ESDs and community colleges received broad legal authority to use a new set of financial management tools, subject to certain requirements under the Oregon Administrative Rules of the Oregon State Treasury. While interest-rate-exchange agreements (swaps) and their various permutations are not debt per se, they are related and based on debt that was or will be issued. These financial tools are generally outside the scope of this manual, although some basics about these instruments are described throughout the manual where they may be applicable. Issuers wanting to know more about these financial instruments should contact their financial consultants and bond attorneys. For the most part, swaps have limited application to Oregon school districts, ESDs and community colleges because of certain risks and the prevalence of fixed-rate general-obligation borrowing. See "Interest Rate Swaps with General Obligation Bonds" in Chapter 2.

What is an interest rate swap? An interest rate swap is an agreement between two parties to trade cash flows based on different interest rates. One party is the bond issuer and the other (the "counterparty") is the swap provider. One party pays a fixed rate and the other party pays a floating (variable) rate based on an industry index. Rates are applied to a "notional amount," i.e., the amount on which the interest amounts are calculated. No principal is exchanged and the swap is not, by itself, debt. It is

simply a way to manage interest rate risk based on debt that was or will be issued.

Why do a swap? There are some potential benefits to swaps:

- ▶ Saving money on new debt service issues
- ▶ Locking in savings on a refunding that can only be done in the future
- ▶ Locking in fixed rates now for a future new money bond issue
- ▶ Offsetting adverse changes in interest earned on investments

Swaps can be executed in the process of a new bond issue or can be executed based on outstanding debt. For example, an issuer may issue variable rate debt and enter into an interest rate swap to fix the rate. Under certain market conditions, this may produce a fixed rate cash flow at a lower rate than if the issuer originally issued fixed rate bonds. In another example, an issuer with a large amount of outstanding fixed rate debt might wish to take on variable rate exposure. Rather than issue its new debt as variable rate, the issuer could enter into a swap that changes some of its fixed rate obligation to variable.

For issuers of general obligation bonds, the most likely use of a swap may be to lock in fixed rates for debt that will be issued in the future. This may be in the form of a district with a bond authorization that it wishes to sell in several pieces over a multi-year period. Or it may be in the form of capturing refunded savings now that could otherwise only be accomplished years in the future if interest rates allowed.

What are the risks? There can be significant risk involved in a swap depending on how the transaction is structured. Perhaps the most significant risk for a municipal issuer is “termination risk.” If a swap is terminated before its maturity, one side or the other may owe a payment. Swap agreements provide that only the issuer may voluntarily terminate the swap. A swap provider may not terminate early. However, an involuntary termination payment may be triggered by a default, e.g., a bankruptcy by the swap provider. Under such a scenario, an issuer could be liable for a

significant termination payment to the bankrupt swap provider.

Additionally, issuers may need to “voluntarily” terminate a swap to refinance outstanding associated debt. In the financial crisis of 2008-09, many municipal issuers were forced into “voluntary” terminations in order to exit the auction rate security market when it collapsed.

Other risks include “basis risk,” which simply means that the variable rate index on which the swap payments are based does not accurately track the actual interest rate payments the issuer makes on its variable rate bonds.

This would expose the issuer to extra costs not covered by the swap.

Swaps are complicated financial tools that entail certain risks including but not limited to the risks described here. Issuers should engage competent financial and legal assistance in evaluating whether an interest rate swap may be an appropriate instrument and to fully review and understand all of the financial risks involved.