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Dear Oregon School Superintendents and Financial Officers:

As you embark on the beginning of a new academic year in Oregon's schools, I first want to take a moment to recognize your efforts to provide an exemplary education to our next generation. Thank you for everything you do.

In addition, I want to extend an offer of assistance from the Oregon State Treasury when it comes to helping you choose the best path to meet your pressing capital needs. As you are well aware, school districts everywhere are facing challenges to provide the best-possible classrooms and vital educational facilities. The needs are acute and yet the options are highly constrained.

Against that backdrop, I want to help ensure Oregon districts are prepared to make the best choices about school bonds. Some of the options available today may seem reasonable in the short-term, but run the risk of being a bad financial bargain for taxpayers in the long-run. There are several examples from across the United States where school district officials have turned to a controversial financing tool known as "zero coupon" or "capital appreciation" bonds, which are a financing tool that should be utilized with extreme caution, if at all, because of the potential costs.

Depending on how they are structured, these bond issuances run the real risk of being irresponsible and reckless if they cost taxpayers millions in extra payments and, as a result, jeopardize education opportunities for thousands of children. One of the major bond rating firms, Fitch Inc., has alerted borrowers that capital appreciation bonds can "materially weaken" their debt profile.

According to Fitch, the appeal of capital appreciation bonds is that the interest and principal payments can be deferred for years or even decades, but the bond proceeds are available immediately to pay for capital projects. In addition, because payments are delayed, they can be repaid with a larger population in growing areas, and also can be timed to go into effect when other financial obligations expire—allowing districts to not raise new revenue to pay for them.

But the trade-offs can be extreme. One outrageous example of capital appreciation bonds is in Poway United School District near San Diego, California where, according to the Voice of San Diego, the district structured a $105 million bond so that payments won't begin for 20 years – but the total bond repayment amount will cost taxpayers an estimated $1 billion in total.

You can read a news article about Poway schools and an August 29 notice from Fitch Ratings, by linking to the Oregon State Treasury web site and going to the "newsroom" page.

Many fast-growing districts in California, Florida, and Texas have utilized capital appreciation bonds and a handful of Oregon districts have sold them. There are many ways to structure school project bonds and I understand that the financial situations of no two districts are alike. As such, it is appropriate that different styles of financing tools are available. Yet it is incumbent on public leaders to be diligent to ensure that Oregonians – both today and in future generations -- are not saddled with unreasonable levels of debt repayments.

Public debt is a powerful tool, but it needs to be used wisely.

The Debt Management Division at the State Treasury is top-flight and we stand ready to be a resource if your district is considering options when it comes to financing your critical capital projects. If you are mulling a bonded project, please do not hesitate to contact us.

Again, thank you for everything you do on behalf of our schoolchildren. You are helping to build a stronger future for them, for our communities, and for Oregon.

Sincerely,

Ted Wheeler
Oregon State Treasurer

c: Oregon Department of Education
Confederation of Oregon School Administrators
Oregon School Boards Association
Oregon Education Association
Oregon School Employees Association

Cited sources:

- "Where Borrowing $105 million will cost $1 Billion: Poway Schools." SignOn San Diego, Aug. 6, 2012.
- "Capital Appreciation Bonds may pressure school districts," Fitch Ratings, Aug. 29, 2012