



Presentation to School Facilities Task Force

Capital Financing Options for School Districts

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Overview – Capital Financing Options

Funding Option

✓ GO Bonds

✓ FFC Obligations

✓ Local Option levy for capital

✓ Construction Excise Tax

Repayment / Collateral

⇒ New, unlimited property tax levy

⇒ Unconditional pledge of existing general fund monies

⇒ New, limited property tax levy

⇒ Excise tax on new construction projects by square footage.



General Obligation Bonds

- ✓ Payable from property taxes.
- ✓ Considered most secure form of municipal debt.
- ✓ May be used for “capital costs” with useful life of one year or more. Average life of the financing may not exceed average life of assets being financed. Cannot finance “routine” maintenance or supplies.
- ✓ GO bond levies are outside M5 and M50 rate limits, not subject to compression.
- ✓ Four election dates annually: March, May, September and November. May and November subject to single majority; March and September require double majority.



GO Bond State Legal Restrictions

- ✓ **K-12 debt limits: GO bonds outstanding cannot exceed 7.95% of Real Market Value. Limit does not apply to non-voted debt such as “Full Faith and Credit” obligations.**
- ✓ **Ballot authorizes a \$ amounts of bonds. May not authorize a \$ per thousand levy rate.**
- ✓ **Ballot title must be filed 61 days prior to the election. Must provide ‘detailed description’ of use of proceeds, state maximum amount of borrowing and set maximum maturity.**
- ✓ **Bond proceeds and interest earnings on bond proceeds can only be used for projects authorized in the ballot title or to pay debt service.**
- ✓ **Interest on bonds is exempt from State of Oregon personal income tax.**

Federal Legal Restrictions

- **Bonds are generally exempt from federal income tax if:**
 - **Proceeds are used for public purposes.**
 - **There is a 'reasonable expectation' that 85% of proceeds will be spent within 3 years.**
 - **Districts observe limitations on ability to earn interest profits on proceeds (arbitrage regulations).**
- **Districts may reimburse themselves for expenditures made prior to a bond sale if a reimbursement resolution is approved by the board.**

Oregon School Bond Guarantee Program

- **Constitutional amendment approved in 1998. State guarantees payment of debt service on school district GO Bonds. State can withhold operating funds if used.**
- **Districts receive State's rating (Aa1 or AA+), which is second highest available, results in lower interest rates.**
- **Districts apply to State Treasury to receive "Certificate of Qualification"**
- **\$250 application fee. Fee of 0.03% of total debt service. District must also pay for at least one rating**

2014-15 Election Schedule

Election Date	County Filing/ Voters' Pamphlet Deadline	Ballots Mailed
March 11, 2014*	January 9	Feb. 21 - 25
May 20, 2014	March 20	May 2 - 6
September 16, 2014*	July 17	Aug. 29 - Sept. 2
November 4, 2014	September 4	October 17 - 21
March 10, 2015*	January 8	Feb. 20 - 24
May 19, 2015	March 19	May 1 - 5

- ✓ **All elections are by mail.**
- ✓ **Dates apply to both G.O. bonds and Local Option Levies.**

*** Subject to double majority provisions.**

Measure 68 – XI-P Bonds

- Measure 68 - constitutional amendment approved in May 2010. Added authority for State to issue GO bonds on behalf of K-12 districts, similar to existing authority for Higher Ed and CCs.
- Created matching grant program – requires school districts to provide matching locally approved GO.
- “Match” has been interpreted as meaning that local share must at a *minimum* equal State share. It can be larger but cannot be smaller. In other words, the State could provide \$10m for a \$25m local GO, but could not provide \$10m for a \$2m local GO.
- OSBA bill in 2013 session (SB 273) would have authorized \$200m in bonds for various priorities including seismic projects, full day kindergarten, PE. ODE assigned responsibility for drafting administrative rules to implement program.
- Discussion of similar allocation approach as used on past federally subsidized programs (QSCB/QZABs).

QSCBs/QZABs

- **Federal stimulus package provided subsidized bonding programs for school districts known as “Qualified School Construction Bonds” and “Qualified Zone Academy Bonds.”**
- **Multiple iterations of programs, but most successful format provided a direct subsidy for up to 100% of the interest cost of a bond issue.**
- **36 Districts took advantage of QSCBs between 2009 and 2011; 15 took advantage of QZABs, for \$254.1 million in total.**
- **QSCBs have expired, but QZABs still exist. Authorization is approximately \$4m/year.**
- **QZABs may be used for rehab or repair; equipment; instructional materials and teacher development. Need 10% private contribution, and 35% of students must be eligible for free and reduced lunch**

ODE Allocation Rules for QSCBs/QZABs

- Between 2009-2010, Oregon was allocated approximately \$220 million in QSCBs and \$34m in QZABs.
- ODE developed allocation rules as follows:
 - Two allocation periods per year (January and July).
 - Allocations made on a first come, first served basis, with prioritization for first time applicants.
 - Allocations had to be used within 6 months, with a 3 month extension allowed if GOs were approved during the 6 month period.
 - If bonds were not approved, allocations reverted to State for reallocation to next on list.
 - ODE set maximums on allocations given to any single district.

Oregon QSCB Financings

Issuer	Credit Type	Sale Date	Principal Amount	Interest Rate	Tax Credit Rate	Net Rate
Subsidy QSCBs						
Oregon School Boards Association ⁽¹⁾	FFCO	01/19/12	\$ 3,762,000	4.625%	4.860%	0.000%
Eugene School District No. 4J	GO	07/26/11	15,000,000	4.700%	5.200%	0.000%
Lebanon School District	FFCO	07/12/11	1,895,000	5.130%	5.130%	0.000%
Tigard-Tualatin School District	GO	07/11/11	10,000,000	2.818%	5.190%	0.000%
Bandon School District	GO	07/01/11	1,500,000	N/A	5.390%	0.000%
Newberg School District	GO	06/26/11	15,000,000	3.925%	5.110%	0.000%
Lincoln County School District	GO	06/22/11	15,000,000	3.925%	5.090%	0.000%
Forest Grove School District	GO	01/11/11	20,000,000	5.900%	5.440%	0.460%
Imbler School District	GO	12/09/10	4,000,000	5.700%	5.370%	0.330%
Oregon School Boards Association ⁽²⁾	FFCO	09/29/10	8,630,000	5.050%	4.800%	0.250%
Ontario School District No. 8C	GO	07/21/10	18,500,000	5.584%	5.270%	0.314%
Philomath School District No. 17J	GO	07/15/10	29,498,267	5.472%	5.360%	0.112%
Springfield School District No. 19	FFCO	06/30/10	3,000,000	4.000%	5.270%	0.000%
Central School District No. 13J	FFCO	06/24/10	2,000,000	5.360%	5.360%	0.000%
Oregon School Boards Association ⁽³⁾	FFCO	06/04/10	5,975,000	5.500%	5.560%	0.000%
Klamath County School District	FFCO	05/10/10	2,000,000	5.750%	5.380%	0.370%
Tax Credit QSCBs						
Dallas School District	GO	01/14/10	8,600,000	0.900%	4.370%	0.900%
Salem-Keizer School District 24J	GO	12/02/09	31,760,000	1.250%	5.750%	1.250%
Hermiston School District No. 8R	GO	11/19/09	31,760,000	1.300%	5.950%	1.300%
Total			\$ 228,618,337			

(1) Pooled Full Faith and Credit Obligation for 3 School Districts

(2) Pooled Full Faith and Credit Obligation for 8 School Districts

(3) Pooled Full Faith and Credit Obligation for 9 School Districts

Full Faith and Credit Obligations

- ✓ **Voter approval not required.**
- ✓ **Based upon an unconditional promise to repay debt. Repaid from existing resources; no new taxes authorized.**
- ✓ **Repayment term limited to useful life of items being financed.**
- ✓ **No legal limit for school districts on how much is issued. Capacity limited by source of revenue available to repay debt.**



Local Option *Capital* Levy

- ✓ **Local option levies allow increase in property taxes for either operating or capital purposes. Capital has 10 year limit (or useful life of project, whichever is less). Operations has 5 year limit.**
- ✓ **Can be levied as fixed dollar amount or rate per thousand.**
- ✓ **Subject to compression under Measure 5 and Measure 50, making amount collected unpredictable, hard to explain, and inequitable between property owners.**
- ✓ **Subject to same voter approval requirements as GO bonds.**
- ✓ **There was a bill in last session to take local option levies outside of Measure 5 and 50 limits, however it did not advance past a hearing.**
- ✓ **Because local option levies require voter approval and are subject to compression, GO bonds are a superior financing option for capital.**

Construction Excise Tax

Taxing authority for school districts based on new square footage. Dedicated to capital construction. Locally determined.

Tax on new square footage

- **Maximum of \$1.05/sq. ft. residential**
- **Maximum of \$.53/sq. ft. non-res. (\$26,400 cap)**
- **Paid by person undertaking the construction at the time permit is issued**

Minimum Exemptions

- **Private Schools; Public Bldgs; HUD Affordable Housing; Hospitals; Churches; Agriculture Bldgs; non-profit senior care facilities**

Annual Rate Increases

- **Increases in construction cost index**
- **Determined by Dept. of Revenue**

Construction Excise Tax, Cont.

Steps for implementation

- 1) Adopt long-term facilities plan
- 2) Enact construction excise tax
- 3) Enter into IGA with local governments Cities & Counties
- 4) Begin collections

Intergovernmental Agreement

- Negotiated with entity that will collect tax on behalf of the district
- Must contain: Collection duties & responsibilities
- School District account to deposit funds & frequency of deposits
- Administrative fee for local government; no more than 4%

Construction Excise Tax, Cont.

Allowable Expenditures

- **Capital Improvements**
 - **Acquisition of Land**
 - **Construction, reconstruction or improvement of school facilities; and related costs**
 - **Acquisition or installation of equipment, furnishings or other tangible property**
 - **Payment of obligations to finance or refinance capital improvements**
- **Does NOT include “operating costs” or “routine maintenance”**

Other Funding Programs

- **State Facilities Grants**
- **SB 1149 Funding**

School Funding Matrix

Funding Source	Funding Source Description	Maintenance and General Operations	Major Capital Projects	Other (Sustainability, Seismic)
Local Fund Sources		Can funds be used for this purpose?	Can funds be used for this purpose?	Can funds be used for this purpose?
Local General Funds	Funds collected from local taxing authority (Property Tax).	Yes. Must compete with all funding needs of a District.	Yes. Must compete with all funding needs of a District.	Yes. Must compete with all funding needs of a District.
Construction Excise Tax	Construction taxes may be imposed on improvements to real property that result in a new structure or additional square footage in an existing structure.	No.	Yes.	Conditional. Must be a Capital Project.
Local Option Tax	With voter approval, district may levy local option taxes that is over and above funds provided through the SSF. Subject to compression. Capacity for revenues varies from District to District. State equalization grants available.			
General Obligation Bonds	Bonds are secured by the full faith and credit of the government issuing them and an unlimited property tax levied against all properties within the district. Subject to approval by electors..	Operations, no. Maintenance, yes, if not 'routine' and if be authorized within the bond title.	Yes, if in ballot title	Yes, if in ballot title.
Full Faith and Credit Obligations	Indebtedness that may used for capital construction and improvements. Payable from existing resources. Not subject to voter approval	Operations., no. Maintenance	Yes	Yes

School Funding Matrix (cont'd)

Funding Source	Funding Source Description	Maintenance and General Operations	Major Capital Projects	Other (Sustainability, Seismic)
State Fund Sources		Can funds be used for this purpose?	Can funds be used for this purpose?	Can funds be used for this purpose?
State General Funds	Funds collected from income taxes and made available to Districts through formula.	Yes. Must compete with all funding needs of a District.	Yes. Must compete with all funding needs of a District.	Yes. Must compete with all funding needs of a District.
State Other Funds	Funds from other state sources such as lottery, highway, etc.			
Construction & Maintenance Public School Facilities Grants (ORS 327.300)	Subject to the rules of the State Board of Education, the Superintendent of Public Instruction shall make grants to school districts that apply for the purpose of construction and maintenance of public school facilities.			
State School Fund Grants (ORS 327.008)				
Oregon School Bond Guaranty Program	Allows the State to guaranty qualified general obligation bonds of eligible school districts. Allows bonds to be rated on the States current credit rating.	No funds provided. This is a credit enhancement only.	No funds provided. This is a credit enhancement only.	No funds provided. This is a credit enhancement only.
Federal Fund Sources		Can funds be used for this purpose?	Can funds be used for this purpose?	Can funds be used for this purpose?

School Funding Matrix (cont'd)

Funding Source	Funding Source Description	Maintenance and General Operations	Major Capital Projects	Other (Sustainability, Seismic)
Other Fund Sources		Can funds be used for this purpose?	Can funds be used for this purpose?	Can funds be used for this purpose?
Qualified Zone Academy Bonds	Subsidized tax-credit borrowing option similar to QSCBs. Must be used for rehabilitation & repair of facilities, is targeted at schools with free and reduced lunch, needs 10% private match.	Same as GOs or FFCs.	No	Maybe if rehab and repair
Other (Donations, SB 1149 Funds; Facility Use and other Revenues	Other funds may come from Revenue generating programs or other programs which make the funds available for expressed purposes.			