California Association of County Treasurers and Tax Collectors

School Finance Handbook for TTCs

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Prepared by the CACTTC School Finance Committee

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- GFOA Best Practices Related to Debt Issuances
- LA County White Paper
- Government Code
- Education Code
- AB 182
- Municipal Advisor Rule
- Municipal Securities Rulemaking Board (MSRB)

Section 1

Purpose

The purpose of this handbook is to provide guidance and best practices on California school district debt financing policies, practices, and procedures. This handbook provides information for Treasurer-Tax Collectors who are involved in school district debt finance but can also be a useful tool for school districts, boards of education, finance professionals, and any other stakeholders in the school district debt finance process. The School Finance Committee has attempted to consolidate best practices and legal requirements from a variety of sources and has provided hyperlinks throughout the document for ease of obtaining source information.

The purpose of the CACTTC school finance committee that prepared this document is to review and analyze issues in the California school debt issuance arena relevant to TTC's; Review legislative, structural, legal, financial and ethical processes to ensure best practices; and educate CACTTC committee and general members accordingly. The Committee's focus is on education of Committee members and CACTTC general members on school finance issues.

Summary of School Debt Financings and Legal Authority

General Obligations Bonds -	California Constitution, Article XIII A, Section 1 and Article XVI, Section 18 Gov't Code § 53506 and following Education Code § 15100 and following
Lease Financing (Certificates of Participation or COPs) -	California Constitution Article XVI, Section 18
Mello Roos Tax Bonds -	Govt Code, The Mello Roos Act, § 53311 and following
Tax and Revenue Anticipation Notes (TRANs) -	Govt Code § 53820 through 53859.09 (generally issued under 53850 and following)

Section

2

School District Common Sense Guidance for G.O. Bond Issuance

This Section is divided into three phases as follows:

PHASE I: Pre-Ballot Bond Evaluation and Community Outreach
PHASE II: Preparing to place a Bond on the Ballot
PHASE III: Following Bond Approval and/or Prior to Each Bond Sale

PHASE I: Summary of Pre-Ballot Bond Evaluation

- **Determine long term facility needs**
- **Determine cost estimates associated with facility needs**
- **Determine possible financing sources including pay-as-you-go; State construction funds; developer fees; and bond financing**
- **Determine appetite for voter approved bond financing**
- **Engage community to get their input on facility needs and financing options**
- **Gather district wide economic and assessed valuation information and trends to determine order of magnitude of bonding capacity**

During PHASE I, the Treasurer-Tax Collector has a limited role in assisting the district. The T-TC could help review economic and assessed valuation information.

PHASE I: Pre-Ballot Bond Evaluation and Community Outreach

1. Completion of a facility master plan identifying capital facility needs for new construction, expansion, modernization and major deferred maintenance with projected cost estimates. ***The purpose of this study is to ensure that the Proposition 39 Project List is thoughtful and complete. The district may need to hire a facility consultant or architect to assist in this process. It is becoming more common to include technology in facility master planning for bond issuance purposes. Districts should seriously consider pay-as-you-go for technology device acquisition.***
   Responsible Party: District Chief Business Official (CBO) and/or Director of Facilities

2. Clear documentation of eligibility for State school construction/modernization grants and status and expected timing of State funds. ***This ensures that the taxpayers bond dollars are leveraged with available grant dollars to maximize the amount of projects that can be completed or to minimize the size of the bond, depending on the specifics of the district's needs. The district may need to hire a facility consultant or architect to assist in this process.***
   Responsible Party: District CBO and/or Director of Facilities.

3. Thorough reporting of all local facilities funding options, including developer fees, redevelopment pass-through, special taxes, etc.; ***This ensures that the taxpayers bond dollars are leveraged with other local sources to maximize the amount of projects that can be completed and/or to minimize the size of the bond, as above, as well as to ensure that projects are properly related to restricted revenues, and to identify issues of fairness in terms of the distribution of financial responsibility. The district may need to hire a mitigation consultant to assist in this process.***
   Responsible Party: District CBO and/or Director of Facilities

4. Development of an expenditure schedule based on project budgets and a cash flow analysis which relates the timing of revenue and expenditures (including adjustments for inflation). This cash flow analysis will allow for insight into when bond issuance is needed and confirmation of the risks in the plan that bonds will be able to be issued efficiently and in a timely manner. This will also allow for the iterative analysis of project expenditures and facilities revenue sources, so that a feasible plan can be established at the outset, as well as adjusted in response to actual experience. ***When the bond amount is determined, and the timing of each issuance, it should be checked to ensure compliance with limitations on the maximum projected tax levy and the district's expected bonding capacity.***
   Responsible Party: District CBO

5. Contact with the County Assessor's and County Auditor-Controller's office to review assessed valuation trends and determine appropriate assumptions for projections. Every County can provide historical assessed value information, by assessed value category for several years (usually a minimum of 10 years, and in many counties 20 or more years). In general, assessed valuation projections should not exceed the average of the most recent 20 years of historical data; ***This ensures that the tax rate pledge and projections are reasonable and acts as a safeguard to prevent excessive taxes and loss of bonding authority caused by exceeding the Proposition 39 tax rate promises and legal limits, respectively.***
   Responsible Party: District CBO, Financial Advisor.

6. Acquire Single family housing AV data table showing how many homes are assessed at various values from Assessor or where commercially available. This table of data is often a valuable tool in establishing the average and or/median tax per single family residence. This data is also utilized to determine the appropriate AV growth rate projections that might be influenced by "unlocked" Proposition 13 property value to be realized when homes are sold in the future; ***This is an additional method of cross-checking AV growth assumptions for reasonableness by evaluating the potential for AV growth from existing homes.***
   Responsible Party: District CBO, Financial Advisor.

7. An open process whereby the public and other interested parties have ample opportunity to understand the facility master plan and financial implementation plan (including bond measure information) and provide comments and input prior to the Board decision to call for a bond measure to be placed on the ballot; ***This process is necessary under the Brown Act for the Board to understand the details of the plan and to consider the reaction of the community to the bond proposal.***
   Responsible Party: District Governing Board, Superintendent, CBO, Director of Facilities.

8. Consideration of an independent, statistically valid community/voter opinion survey that identifies voter support for specific projects, tax thresholds, bond authorization and bond repayment term prepared by a professional polling firm with a statistically determined margin of error of less than 5%; ***This survey allows the district and the Board to understand community sentiment related to the tax, the projects and the bond beyond the small subset of citizens who may address the Board as part of the process and allows the Board to consider whether the expenditure of staff time in preparing bond materials, district funds spent on objective communications with the public and County election costs should be incurred based on a reasonable expectation of community support. This survey should be conducted by a firm that will not financially benefit from the passage of a bond or requires that a bond be attempted and/or succeed in order to be paid for their effort and expense in preparing the community opinion survey. The survey firm should be selected through a competitive and open process, such as a Request for Proposal.***
   Responsible Party: District CBO, Financial Advisor, Public Opinion Survey Firm.

9. The Governing Board members should lead a community engagement effort involving stakeholder groups, which may include taxpayers, voters, citizens, district employees etc.,. Expenses related to the preparation of impartial information can be paid for by the district to ensure public input during Phase I. ***Because parents of school age children are often a minor percentage of the population, the district should develop a communication strategy to reach out and explain its intentions and rationale to the rest of the community as part of educating the public prior to the Board's decision to order the election in order to make sure that any concerns that may exist are aired prior to the adoption of the order of election.***
   Responsible Party: District Governing Board and Superintendent.

PHASE II: Summary of the process of preparing to place a Bond on the Ballot

- **Should have contracts with independent financial advisor and bond counsel firm**
- **Be careful to not engage in bond campaign activities**
- **Start considering competitive bond sale**
- **Determine if Proposition 39 bonds are needed or not**
- **Carefully describe projects and develop ballot language**
- **Determine maximum tax rate limit if Proposition 39 bonds are decided upon**
- **Conduct open Board discussions and community outreach so the community understands the needs and the bonding requirements**

The Treasurer-Tax Collectors recommend and can assist with the RFP process to engage financing team members. T-TCs also recommend competitive bond sales for all General Obligation bond issuances. T-TCs can also assist districts with Proposition 39 tax rate analysis including assessed valuation estimates, debt service schedules, and estimated interest rate levels for proposed bonds.

PHASE II: Preparing to place a Bond on the Ballot

1. Contracts with an independent financial advisor and bond counsel firm should be in place prior to ordering the election. A competitive RFP process to select a financial advisor and/or bond counsel is recommended consistent with recommended best practices of the GFOA. Additionally, RFPs should not specify that bonds will be sold on either a negotiated or competitive basis in order to maintain flexibility to achieve the lowest interest rate on any particular bond issuance. Since the negotiated bond sale method is specifically not recommended for school district general obligation bonds, a decision to utilize this method should be well-justified and documented by the district's independent financial advisor. If a negotiated sale is determined to be best, a Request for Proposal process should be utilized to select an underwriter(s). Conflicts of interest by and among bond professionals should be explored, and eliminated. ***A great deal of work and advice often occurs prior to the drafting of the resolution ordering an election. Bond sizing scenarios, project list development, legal advice on restrictions on use of bond proceeds, expenditure tests and statutory deadlines and activities are often occurring months prior to the beginning of the bond election campaign. While these professionals can be paid on a contingent basis, their contracts should clearly state their compensation and services to be rendered prior to the ordering of an election. Issues regarding expenditures and contributions can be discussed with bond counsel to ensure that the district is making the proper legal distinctions and following legal restrictions contained in the Education Code and Government Code.***
   Responsible Party: District CBO, District General Counsel, Bond Counsel

2. A school district cannot engage a campaign consultant as campaign activities are prohibited by school employees as part of their job duties, on district property, or using district equipment. However, a campaign committee can engage a consultant. Should a campaign consultant be engaged, this campaign consultant must be supervised by the campaign committee. This consultant should be asked to provide a timeline, list of key activities and a budget for election activities taking into consideration the projects, costs and tax rates that were presented to the public as part of the public outreach process, including the community opinion survey. Because the cost of a campaign consultant is prohibited from being funded from public funds including bond funds, an arrangement where an underwriter, financial advisor or any other bond team consultant provides such services for "free" or at a reduced cost in expectation of future compensation for services related to selling the bonds is unethical conduct on the part of school district officials. Furthermore, there is an obvious conflict of interest arising from a contingent fee recipient advising the district or community as to the viability of pursuing a bond measure. ***Further, though district funds may not be spent on the campaign, the cost of the campaign should be considered because communities have other fundraising related to schools (PTA, sports and club boosters, educational foundations, and campaign committees for parcel tax measures), and generally all fundraising for the benefit of schools should be consistent with district policy and reflect the priorities of the district.***
   Responsible Party: District Governing Board, Superintendent, General Counsel, and Campaign Consultant

3. Projects need to be selected and described for the bond resolution and Voter Handbook/Voter Pamphlet description of the measure. Depending on the nature of the projects, a construction contingency and a detailed cost estimate should be included prior to finalizing the project list to ensure that sufficient funds will be available to complete all projects; ***Districts may choose to create a tiered priority list of projects to balance the interest of completing as many projects as possible with the need to contain expectations given that projects often have unanticipated additional costs.***
   Responsible Party: District CBO

4. Prior to Board action, it is recommended that the district consult with the County Treasurer's Office regarding the proposed bond structure, bond planning process, and expected bond sale approach, including whether bonds are expected to be sold under the Government Code or Education Code authority and why. ***The Treasurer's office can provide assistance and/or feedback on AV projections, bond structure, etc.***
   Responsible Party: District CBO, Financial Advisor.

5. A board presentation clearly laying out the assumptions included in the bond plan including the AV growth rates by year (and on average), projected interest rates, projected term of each issuance, expected use of CABs and long-term CABs, proposed uses of bond premium (if any) and issuance costs. If CABs are proposed to be used, make sure that the requirements of AB 182 are satisfied. These requirements are more fully detailed in Phase III, #13 below. ***With the project list, tax rate and AV projections finalized, the projected schedule of issuance of bonds can be finalized and presented to the Board and community including number, timing and amount of each bond series, debt structure (including final maturity and financing costs associated with each issuance as well as interest rate and investment assumptions).***
   Responsible Party: District CBO, Financial Advisor.

6. A preliminary Resolution ordering the election should be drafted for the Board and should be accompanied by a staff report that formally documents the research and decision making process and includes information as to amount of the bonds, timing and number of series of bonds, final maturity, intention to issue under the Government Code or the Education Code and a suggested project list; ***This formally documents all of the work described above and includes the legally and politically binding key elements of the capital facility and bond plan and will become the core document for the Citizen's Oversight Committee's work and the district staff's reference document for project selection and debt and tax rate monitoring.***
   Responsible Party: District CBO, Bond Counsel, Financial Advisor.

7. A Tax Rate Statement is statutorily required which describes the expected tax levy after the first and last series of bonds are issued, and the expected maximum. The assumptions and analysis of the data presented in the Tax Rate Statement should be kept readily available. This Statement should accompany the district resolution and the Voter Handbook that includes total bond authorization, number of bond series, projected maximum and average tax rates and final year tax levy estimates. This document will be provided at the same time as the election resolution -- usually 7 to 10 days in advance of the Board meeting. Changes can be made up to the time the Board votes on the resolution to order the election, if necessary; ***This is the politically (and at maximum Proposition 39 tax rates) legally binding projection of tax rates on which taxpayers will base their voting decision.. Future objections to the bond***

program, if any, are best addressed by referring to this document which is the single most important financial disclosure made to taxpayers in the conduct of the bond.
Responsible Party: District CBO, Financial Advisor.

PHASE III: Summary of the Process Following Bond Approval and/or Prior to Each Bond Sale

- **Understand bonding capacity and how it affects overall bond authorization in the context of a long term, multiple issuance bond program**
- **Develop bond structure and if Proposition 39 bonds make sure all AB 182 requirements are met**
- **Seriously consider competitive sale for any GO bond issuance**
- **Update AV estimates**
- **Make sure Citizens Oversight Committee requirements are met**
- **Make sure the School Board and the public understands the bond structure and repayment amounts**
- **Don't forget continuing disclosure requirements**

The Treasurer-Tax Collector can be a vital resource for the district during this phase but only if we are informed of the issuance. It is a best practice to include the County Treasurer-Tax Collector, Auditor-Controller, and Assessor in the Interested Parties list at the beginning of the bond issuance development process.

PHASE III: Following Bond Approval and/or Prior to Each Bond Sale

1. Prior to and in between bond sales, the district must obtain a bonding capacity certificate from the Auditor-Controller which states the maximum amount of debt that the district can incur pursuant to Education Code Section 15102 or 15106 depending on if the district is a unified district or not; ***In many cases the bonding capacity can be less than the authorized amount and/or less than the amount needed to complete certain authorized projects causing the district to have to prioritize, scale back, or postpone certain authorized projects.***
   Responsible Party: District CBO, Financial Advisor.

2. Prior to and in between bond sales, annually monitor tax rate setting to ensure that tax rates are reasonably tracking projections and will remain below the maximum Proposition 39 statutory rate of $25, $30 and $60 per $100,000 of AV for community colleges, elementary/high school districts and unified districts, respectively; ***Monitoring of tax rates ensures that the district positions itself to accelerate or postpone bond issuances and the related projects and is an internal warning system for the potential to have issuing authority temporarily suspended when the maximum Proposition 39 tax rates are breached.***
   Responsible Party: District CBO and Financial Advisor.

3. Prior to and in between bond sales, annually provide continuing disclosure documentation, calculate arbitrage rebate (as required), provide documentation to credit enhancers (if any and as required), provide updates and information to rating agencies (as requested) and track opportunities to refinance bonds at lower interest rates for the benefit of taxpayers; ***The continuing disclosure and rating surveillance activities ensure continued access to the capital markets at the lowest possible cost to taxpayers while the refunding monitoring ensures that taxpayers can further improve their tax rates by periodically refinancing existing bonds and reducing interest cost. For refunding bonds, the rule of thumb is that for a bond issuance to be worth refunding there should be a Net Present Value savings of at least 3%-5% per the GFOA recommended best practice. Make sure costs of issuance are included when calculating the NPV savings.***
   Responsible Party: District CBO, Financial Advisor.

4. Prior to the first bond sale and until the final bond proceeds are spent, meet quarterly (or more often if necessary) with the Citizen's Oversight Committee (COC) to provide ongoing information on project construction and bond related expenditures; ***The COC will continue to meet for so long as there are remaining bond proceeds to spend or unissued but authorized bonds to be sold. The COC is the internal control that ensures that expenditures are undertaken on approved projects and that cost saving construction methodologies are considered.***
   Responsible Party: Director of Facilities.

5. In accordance with the Education Code, conduct annual financial and performance audits of the bond program; ***These two audits support and document the representations made to and the findings of the COC in their monitoring function over the bond proceeds expenditures.***

Responsible Party: District CBO, District Auditor.

6. Annually present the results of the performance and financial audits to the Citizen's Oversight Committee and provide staff assistance in the development of the annual report of the Committee; ***All findings of the performance and financial audit are presented to the COC and the district board ensuring that the appointed committee, the elected representatives and the public itself can independently verify compliance with the terms of the bond and the project list.***
   Responsible Party: District CBO, District Auditor.

7. Prior to each bond sale, contact the Treasurer-Tax Collector and Auditor-Controller to make them aware of the planned issuance of debt and discuss the mechanics and level of County assistance and involvement that both parties expect as the financing process progresses. ***Each County has differing expectations for district communications, financing materials, pricing calls, legal document review and tax rate setting information. It is best to clearly communicate with the County so that all parties understand each other's preferences and expectations.***
   Responsible Party: District CBO, Bond Counsel, Financial Advisor.

8. Prior to each bond sale, obtain most recent AV from County Assessor along with any projections offered by the County and prepare a comparison of actual to the original projection and to historical rates of AV growth. Provide a revised set of growth estimates, reflecting market conditions at the time, and adjust total combined debt service (including the pending series) to meet the original tax rate pledge (as nearly as possible) and to avoid breaching the maximum Proposition 39 limit described above; ***Each bond sale necessitates a fresh projection of AV growth rates, interest costs, bond amortization and bond structure – reflecting the nature of a process that operates on estimates at the time of placing the measure on the ballot, and subsequently thereafter, until all of the bonds are sold.***
   Responsible Party: District CBO, Financial Advisor.

9. Prior to a bond sale where the County is issuing bonds on behalf of the district, contact County Counsel and County Treasurer for procedures, guidelines and schedules for processing necessary documents and information as part of Board of Supervisor's approval process. Up to 120 days may be required to complete the process starting with agendizing the district board's action item; ***Bonds issued under the Government Code have a 40 year maximum maturity. Each County has adopted its own policies, procedures and guidelines and this area of the process can vary greatly from location to location.***
   Responsible Party: District CBO, Bond Counsel, Financial Advisor.

10. Prior to each bond sale, confirm or renew contracts for any lapsed services including bond counsel, advisors and underwriters prior to Board authorization of the issuance of bonds; ***Most contracts from consultants will extend for the duration of the bond program. There are occasions, however, when individuals and firms involved in the original bond election and issuance are no longer available to provide continuing services for subsequent bond issuances – necessitating a new selection process and contract approval by the Board. If prior bonds were issued on a negotiated basis, this is a great time to consider issuing the next series of bonds on a competitive basis by simply not renewing or updating a contract with the underwriter.***
    Responsible Party: District, District Counsel.

11. Prior to each bond sale, prepare project funding list with initial estimates of funding needs for pending projects including the reimbursement of any internally borrowed funds and up to 36 months of expenditures giving highest priority to urgently needed projects and projects for which there are available State matching funds; ***Because the bond process operates on assumptions, the cost and scope of projects will change with the passage of time, the development of more specific designs and changes in market conditions as the construction industry moves through booms, busts and periods of stability. As the district revises budget estimates and State grant funding eligibility and applications, the list of projects will expand or contract until the final bond and State dollar is spent. It is also becoming more common for districts to issue bonds to fund technology needs. It is strongly suggested that districts consider the pay-as-you-go method for technology device acquisition. The short useful life of technology devices makes issuing long term debt a very costly option for the taxpayers and approaches the edge of the legal boundaries that the useful life of the assets match the bond maturity and that the assets be capital in nature.***
    Responsible Party: District CBO, District Facilities Director.

12. Prior to each bond sale, prepare revised estimates of available bonding capacity establishing assumptions on final maturity, AV growth rate, use of premium, interest rates, prepayment provisions and number of bond series. The magnitude and use of premium has recently become a heated topic. Premium should only be generated for the purpose of creating coupon levels that the market can digest and not to arbitrarily increase the amount of proceeds of a bond series. Additionally, the use of premium is restricted to deposit to the debt service fund per Education Code Section 15146. ***The determination of the 36 months of expenditures is the starting point in designing a responsive financing structure that will express itself in terms of final maturity and bond structure. The use of Capital Appreciation Bonds (CABs) should be minimized (especially on the longer end of the maturity scale) as this bond structure is very expensive for future taxpayers. Excessive premium generation can give the appearance that the district is trying to generate more proceeds than what the bond authorization allows. If all premium is deposited into the debt service fund then it is not a significant issue but if the premium is used to pay costs of issuance or interest costs on refunding non-voter approved debt, CACTTC views this as a questionable legal practice.***
    Responsible Party: District CBO, Financial Advisor.

13. Prior to each bond sale, prepare a Board presentation incorporating the project funding list and bonding capacity analysis to update the district board on status of the existing financings, proposed new financings and availability of State grant funding, bond funding and developer fees or mitigation (where applicable) as an information item for discussion seeking direction from the Board as to whether to proceed with an issuance of additional bonds in the following 120 to 180 days. If CABs are expected to be used, the additional requirements of AB 182 must be followed including but not limited to: disclosure of the financing term and time of maturity, repayment ratio; an analysis containing the total overall cost of the bonds that allow for the compounding of interest; A comparison to the overall cost of current interest bonds; The reason bonds that allow for the compounding of interest are being recommended; and a copy of the disclosure made by the underwriter in compliance with Rule G-17 adopted by the MSRB. Further, if CABs are expected to be used, the financing resolution shall be publicly noticed on at least two consecutive meeting agendas, first as an information item and second

as an action item; ***Each bond issuance is commonly accompanied by a formal presentation to the Board recapitulating the terms of the prior issuances and projecting and estimating the impact of an additional issuance. This presentation is another opportunity to review the status of the bond and capital facility programs and is required to be presented in open session with an opportunity for public comment***
Responsible Party: District Governing Board, District CBO, Financial Advisor.

14. Prior to each bond sale, prepare district resolution and, in the case of a bond where the County acts as issuer on behalf of the district, a County resolution, as well as a purchase contract and official statement; ***The Board and members of the public are also given another opportunity to review the terms of the bond financing and provide questions and comments to the Board at the time that the issuance resolution is considered by the Board of Education and again when considered by the Board of Supervisors.***
Responsible Party: District CBO, District Counsel, Bond Counsel.

15. Prior to each bond sale and after production of a final draft official statement, prepare a credit rating agency/credit presentation for at least one and as many as three rating agencies (based on the likely value of additional ratings) in order to secure the best possible rating(s). ***Another external control is the process of soliciting a rating from the credit rating agencies or credit enhancement from a bank or bond insurer. The credit rating agencies criteria for GO bond ratings include, among other factors, the cumulative tax rates for all district indebtedness, the reasonableness of the assumed rate of AV growth, the rate at which principal is retired, the average life of the debt and the final maturity debt. The opinions of the rating agencies are provided in written form and highlight the strengths and weakness of the community, the district and its management and the bond structure.***
Responsible Party: District CBO, Disclosure Counsel, Financial Advisor.

16. Prior to each bond sale, review drafts of all documents with district staff to identify inaccuracies or issues/concerns that arise as a result of due diligence prior to seeking approval from the district Board or the Board of Supervisors; ***A further source of internal and external control is the process of preparing, reviewing and modifying bond documents that requires counsel, the underwriter and the financial advisor to perform due diligence to ensure the accuracy of documents provided to the school board and the Board of Supervisors, if applicable.***
Responsible Party: District CBO, Bond Counsel, Disclosure Counsel, District Counsel, County Treasurer, Underwriter and/or Financial Advisor.

17. Prior to each bond sale where the County acts as issuer on behalf of the district, documents and analyses are periodically distributed to the County Treasurer and County Counsel for comments, as requested or appropriate; ***A further source of external control is the review of documents, financial analysis and bond pricing information by the County Counsel and the County Treasurer as the case may be.***
Responsible Party: District CBO, Bond Counsel, Disclosure Counsel, Underwriter or Financial Advisor.

18. Prior to each bond sale, bond counsel is present at the time of Board consideration of resolutions and approval of documents to explain the contents of the documents, answer questions and explain any special duties or representations that the Board may assume as a

result of approving the resolutions; ***In order to ensure that the Board is aware of the terms and content of the documents provided to it for its approval, a representative of bond counsel typically attends the Board meeting where the bond resolution is considered for adoption.***
Responsible Party: District Governing Board, District CBO, Bond Counsel.

19. Prior to each bond sale where the County acts as issuer of the bonds on behalf of the district, County Counsel and bond counsel coordinate documents and address potential legal concerns and process issues; ***Another form of external control includes the review of documents by outside counsel including District Counsel and County Counsel.***
Responsible Party: County Board of Supervisors, District CBO, Bond Counsel, District Counsel County Counsel.

20. The best way to ensure that a competitive interest rate is achieved on the bonds so the taxpayers pay the lowest interest rate possible is to sell the bonds on a competitive basis, not a negotiated basis. When a competitive sale process is utilized, and prior to each competitive bond sale, the financial advisor and bond counsel will prepare a bid form to be sent with a copy of the official statement to underwriters for the purpose of soliciting bids for the district's bonds. If a negotiated sale is warranted due to market or political conditions, the justification should be clearly stated to the Board; ***Unfortunately, the current financial structure for GO bonds lends itself to negotiated sales because of the need for political contributions required to fund the bond ballot measure. This causes a "pay-to-play" conflict of interest, but barring changes in legislation, it is currently not illegal. However, the best practice recommended by Treasurer-Tax Collectors is a competitive bid process for the sale of GO bonds.***
Responsible Party: District, Financial Advisor.

21. When a negotiated sale is the method of issuing bonds, all but the most sophisticated issuers are well served to have the expertise of an independent financial advisor to act on behalf of the district in the process of negotiating the sale of the bonds. The financial advisors role most often begins prior to the decision to place a bond measure on the ballot, but it is also recommended to involve an independent financial advisor at later stages of the financing process – even as late as the week before bond pricing if the district only wants help evaluating the performance of the underwriter at negotiated sale. Additionally, the district or Treasurer-Tax Collector should consider utilizing an independent pricing consultant to help insure the district is receiving the best possible market execution and interest rates for the taxpayers. ***While it is a best practice to have professional representation when negotiating a bond sale, most districts will have the benefit of a professional advisor for the duration of the financing process. County Treasurers encourage districts that are not selling GO bonds at competitive sale, to be professionally represented by an advisor.***
Responsible Party: District CBO, Financial Advisor.

22. Prior to each bond sale, the underwriter/financial advisor will prepare a pre-sale pricing analysis with debt service payments, comparable financings (ratings, coupons, yields, security type), and credit market comment to be discussed with the district, the Treasurer, the financial advisor and the underwriter's trading desk on the day prior to sale in the case of negotiated financings where market conditions warrant; ***When market conditions and bond structure warrant, a pre-sale document including market comparables of other recently issued***

debt with similar ratings and debt instruments can be used to ensure that a negotiated pricing compares favorably with other recent sales in the marketplace – indices are often used to create an "apples-to-apples" comparison to debt issued more than a couple of days prior to the new bond issuance. It is the financial advisors job to make sure that the underwriter is using the most applicable comparisons.
Responsible Party: District CBO, Financial Advisor and Underwriter.

23. Prior to each bond sale, actual, real time bond pricing comparables in the marketplace are compared to coupons and yields on the district bonds and order balances and over-subscriptions are addressed prior to authorization and award by the district often with the telephonic presence of the County Treasurer; ***The best comparables are those for financings in the market at the same time as the district bonds – especially competitive sales and sales by firms other than the district's underwriter(s).***
Responsible Party: District CBO, Financial Advisor and Underwriter.

24. A purchase contract including maturity schedules, sinking fund payment schedules, coupons, yields, premium, true interest cost, underwriter's discount, bond insurance or LOC bank fees (if any), costs of issuance (when paid from premium) and prepayment provisions are reviewed by the financial advisor, underwriter(s) and bond counsel prior to district signing and County signing in the case of Government Code bonds; ***The purchase contract is primarily for the benefit of the district, and therefore the taxpayers, and binds the underwriter to the terms of award of sale that initially occurs verbally at the end of the pricing process.***
Responsible Party: District CBO, Bond Counsel, Underwriter's Counsel, Financial Advisor and Underwriter.

25. Debt service data is provided to the County Auditor-Controller and Treasurer-Tax Collector so that future tax-rate setting and levies can be tied to debt service payments established through pricing and sale of the bonds; ***This is a critical area of cooperation that prevents errors that might result in a failure to levy a tax and the need to levy a double tax in a subsequent year and/or to incur interest on an interim loan for the payment owed to investors. Providing debt service in advance of bond pricing also enables districts to discuss County reserve requirements, if any, so that the first year's levy does not exceed the tax rate statement's disclosed amount because of supplemental levies above the amount needed for debt service for reserves deemed to be reasonably required by the County Treasurer and/or County Assessor.***
Responsible Party: District CBO, Financial Advisor or Underwriter.

26. A post closing analysis is prepared for the district and/or the County by the financial advisor or underwriter that documents the process, the sale, the comparable bond transactions, the costs of issuance, recaps the objectives and the outcomes, the final bonding assumptions, the projected schedule for additional bond issuances (if any) and incorporates financial information provided to the County Auditor-Controller and Treasurer-Tax Collector for future tax rate setting and levies. This presentation may be submitted on a written basis or presented to the Board in open session following the bond closing. ***This document serves as the final and complete financial summary of the actual bond sale. A copy of this document is typically given to members of the Board, as well as district staff, and represents another internal control that verifies that the tax rate, bond term, interest rate and AV growth assumptions ultimately utilized by the district and its finance team***

were within the range of the projections provided to the Board at the time of bond presentation and the vote on the bond issuance resolution which followed.
Responsible Party: District CBO, Financial Advisor.

SOME POSSIBLE IDEAS TO ADDRESS BOND ACCOUNTABILITY CONCERNS:

1. A table setting forth estimated debt service, AV growth rate assumptions and timing of the issuance of bonds should be provided to the Board at the same meeting as the resolution ordering an election is being considered for adoption; ***The purpose of this provision is to ensure that elected district officials and the public are able to see the AV growth rates that would need to occur to keep their tax rate pledge in tact and the total payments that will be made by taxpayers based on the number of series, period of amortization, security types utilized and interest rates assumed.***

2. A table setting forth historical assessed valuation growth rates by year for at least 10 to 20 years (when available from the Assessor) should be provided to the Board at the same meeting as the resolution ordering an election is being considered for adoption. In general, AV growth projections should not exceed the average of the most recent 20 years of AV growth. ***The purpose of this provision is to provide context for elected district officials to compare growth rate assumptions to historical actual growth rates to help in evaluating whether the projections they are approving are realistic in light of past and future AV trends.***

3. There could be a "Safe Harbor" provision for districts to issue bonds under the Government Code for up to 40 years under the same terms of independence as the Education Code provisions for 25 year bonds. Since the most significant material difference between the two provisions is the additional 15 years of amortization (both allow multiple series of escalating debt, tax-exempt and taxable bonds, QZABs, CABs and Convertible CABs), the Safe Harbor rule should be conditional on setting a reasonable rate of AV growth and a reasonable multiple of interest to principal. For AV growth limitations under the Safe Harbor, an AV growth rate of not to exceed the average of the historical 20 year growth rate in any year would be a reasonable limitation to qualify for Safe Harbor treatment. As far as debt service limitations, AB 182 set the legal limit at a 4:1 debt service ratio. This is still a relatively high ratio and it is recommended that a best practice limit should be closer to 3:1. This would still allow for a reasonable amount of flexibility in debt structuring (especially second and subsequent series of bonds which tend to be back-loaded with principal amortization). ***The purpose of the Safe Harbor provisions is to encourage districts to pursue bond financings with more reasonable AV growth assumptions and to reduce the workload of Counties on issuances that are based on reasonable, conservative assumptions. A "safe harbor" provision will encourage districts to structure their bonds, prior to ordering an election, to fit within these guidelines. districts could still come to the County for bonds that don't meet these guidelines -- as there are sometimes reasonable circumstances that would argue for operating outside the Safe Harbor guidelines.***

4. A certificate indicating whether the district has completed a facility master plan, calculated grant eligibility under the School Facility Program (or its successors) for basic growth and modernization projects and held at least two public meetings related to the proposed bond issuance could be provided to the Board at the same meeting that the resolution ordering an election is considered for adoption. *districts should not be required to have completed any or*

all of these elements and this proposed exhibit is intended only as a disclosure of best practice activities. ***The purpose of this provision is to provide elected district officials guidance as to the best practices and expectations for professional planning including planning facility construction, seeking matching funding where available and providing reasonable opportunity for citizens to comment.***

5. A copy of a notice of intent to order an election should be sent to the County Treasurer, and County Office of Education (with all of the items described in 1, 2, 3, and 4 above) at least 30 days prior to the Board meeting where the resolution will be considered for adoption. This is similar to the practice for COPs with County Offices of Education and gives the interested parties a chance to review and comment on the plan prior to the ballot measure being authorized. ***The purpose of this provision is to allow oversight and bond-related agencies a chance to comment on the assumptions and structure of a proposed bond at a time in the process when such comments can be considered by elected district officials before ordering the election. Once the district board has placed the measure on the ballot, such comments and concerns can no longer be incorporated into the bond plan without disrupting the bond amount (and project list), timing of bond sales or tax rate that was presented to voters in the Election Handbook/Voter Pamphlet.***

6. For financings that do not qualify for "Safe Harbor" treatment, it may be necessary from time-to-time for the County to seek advice from professional consultants that are familiar with the issuance of bonds generally or school bonds, in particular. In order to avoid a conflict of interest, or the appearance of a conflict of interest, any consultants retained by the County to provide expert advice should agree to abstain from representing any school districts within the County during their term of engagement and for a reasonable period of time thereafter. ***The purpose of this provision is to address any concerns of the County that a particular district or a bond of a particular district is being approached with underlying assumptions that are unreasonable and/or outside the mainstream of such transactions as they are being completed by other similar districts elsewhere in the State.***

7. With regard to bond election campaign contributions by underwriters and other financial professionals involved in the issuance, disclosure of these contributions in the Preliminary Official Statement (POS) and Official Statement (OS) for the bond offering should be considered. ***Pay-to-play activities are an ongoing issue and this type of disclosure would increase the transparency of any type of campaign contributions by finance professionals that would benefit from the bond issuance.***

Section 3

Non-Voter Approved Debt Process and Requirements

This section is designed to provide school districts necessary information to comply with Education Code Section 17150 regarding public disclosure requirements for proposed non-voter approved debt. The most common types of non-voter approved debt include:

- Certificates of Participation (COP)
- Revenue Bonds
- Direct Capital Lease
- Land Bank
- any other non-voter approved agreement to finance school construction

Once a school district board completes the disclosure process and approves the issuance of non-voter approved debt, it is recommended that the district continue to communicate with the Treasurer-Tax Collector and make sure that they are on the interested parties list for the financings as the Treasurer-Tax Collector can be a useful resource during the financing process. Additionally, many of the steps in Phase III of the "School District GO Bond Best Practices" section are still applicable to non-voter approved debt.

The following form and general instructions are designed to provide school districts with a best practices template to satisfy the public disclosure requirements of Education Code Section 17150. This information and supporting documents, such as debt repayment schedules evidencing the ability of the district to repay the obligation, must be made available to the County Superintendent of Schools and the County Auditor at least 15 days prior to the date the governing board will take action on the proposed non-voter approved debt issuance. Within 15 days of the receipt of the information the County Superintendent of Schools and/or the County Auditor may comment publicly the capability of the school district to repay that debt obligation.

For Counties that do not have combined Auditor-Controller and Treasurer-Tax Collector offices, additional communication would be required between the offices for the Treasurer-Tax Collector to be notified of non-voter approved debt prior to a school district board approval.

Below are the following documents that could be provided to school districts to help them satisfy the disclosure requirements:

- Education Code Section 17150
- Disclosure of non-voter approved debt general instructions
- Disclosure of non-voter approved debt information form

DISCLOSURE OF NON-VOTER APPROVED DEBT GENERAL INSTRUCTIONS

Pursuant to Education Code Section 17150

1) Please submit this form to the County Superintendent of Schools at least fifteen (15) days prior to the date the district's governing board will take action on the non-voter approved debt issuance (the initial approval to proceed with the financing).

2) This form is to be used for all new and refunded issuances of non-voter approved debt.

3) Attachments to this form are to include: debt repayment schedule, evidence of the ability of the school district to repay the obligation, multi-year financial projections for the funds pledged for the repayment, including assumptions used, and the calculations or data analysis to substantiate growth or revenue projections.

Specific Instructions:

1. **Type of Issue**: Indicate the type of debt instrument, i.e. Certificates of Participation (COP), Direct Capital Lease, Land Bank, Revenue Bonds, or any agreement to finance school construction.
2. **Board Approval Date:** The initial date the board approved proceeding with the debt issuance, along with the date the actual issuance is expected to be approved by the board.
3. **Amount of Issue:** The total dollar amount the district is borrowing, including any amounts to refund existing debt issuances.
4. **Anticipated Date of Sale:** The date the debt instrument is expected to be purchased by the investor(s).
5. **Interest Rate %:** The expected rates of interest payable on the debt instrument for the term of the issue. If variable rate, indicate what drives variability, expected rate ranges, and the highest rate of interest that can be charged.
6. **Bond Counsel and Financial Advisory/Underwriter**: Provide the company and individual contact person handling your debt financing.
7. **Purpose of the Issue:** Describe the projects to be covered by the debt issuance, i.e., building a multi-purpose room, district match to state school building project, refunding existing debt issuance for lower interest rate.
8. **Proposed method of sale**: negotiated or competitive
9. **Pledged Source(s) of Funds for Debt Repayment as Indicated in the Official Statement**: Indicate the sources of the funds the district is expecting to receive to repay this debt obligation as indicated in the official debt disclosure document (O.S.), i.e., state school building project apportionments, developer fees, and revenue limit apportionments. Provide analysis of projections for developer fees and/or calculations of anticipated student attendance growth for revenue limit pledges.

DISCLOSURE OF NON-VOTER APPROVED DEBT INFORMATION FORM

In accordance with Education Code Section 17150, the following information is being provided to the County Superintendent of Schools and the County Auditor Controller:

School District_____ Date _____

District Contact_____ Phone _____

Type of Issue _____

Anticipated Board of Approval Date _____

Amount of Issue $ _____

Anticipated Date of Sale _____

Anticipate Interest Rate _____%

Bond Counsel _____

Bond Counsel Contact _____ Phone _____

FinancialAdvisor/Underwriter_____

Financial Advisor/Underwriter Contact_____ Phone _____

Purpose of the Issue _____

_____

Pledged Source(s) of Funds for Debt Repayment as indicated in Official Statement

_____

Proposed Method of Sale_____

Alternate Sources of Funding Available for Debt Repayment

_____

Attach copies of:

1. Official Statement Debt Repayment Schedule
2. Multi-year Financial Projections and Assumptions for all funds (General Fund, Capital Facilities, etc.) Pledged for Debt Repayment (Include calculations/backup to support anticipated revenue stream.)

Section 4

Best Practice Questions TTCs Should Ask

Prior to School Board Approval

- What is the purpose of the bonds?
  School facilities, cash flow, refunding

- If refunding, what is the NPV savings?
  The rule of thumb is that for a bond issuance to be worth refunding there should be a Net Present Value savings of at least 3%. Make sure costs of issuance are included when calculating the NPV savings. Refer to Section 2.Phase III.2

- Is the TTC on the Interested Parties List (IPL)?
  The only way to stay informed on a bond issuance is to be on the IPL.

- Have you chosen the financing team?
  The Financial Advisor (FA) should be completely independent of the underwriter. Bond Counsel should be a reputable firm with a proven track record in public finance.

- How were the financial team members chosen?
  RFP Process is recommended.

- What is the proposed method of sale?
  Consider competitive sale. Refer to Section 2.PhaseIII.19

- Have there been any bond campaign contributions made by any members of the financing team?
  If so, some consideration should be given to disclosing that information in the POS and OS.

Prior and/or During Bond Structuring

- What is the proposed method of sale?
  Consider competitive sale. Refer to Section 2.PhaseIII.19

- What is the proposed structure of the bonds?
  Ask to see the spreadsheet(s) prepared by the FA or the underwriter showing bond structure (CIBs, CABs, etc.), assessed valuation (AV) estimates, tax rate estimates.

- For Proposition 39 bonds, have the tax rates been exceeded for any future year based on current outstanding bonds?
  If they have, why are they trying to issue more?

- What are the Assessed Valuation (AV) projections?
  AV projections should be based on reasonable growth assumptions.

- If Capital Appreciation Bonds (CABs) are part of the proposed structure, ask why?
  CABs are very costly to the taxpayer.

Prior to Pricing

- If negotiated, have comparable deals been provided for analysis and comparison?
  The FA should pick (or at least review) the comparable deals.

- If negotiated, is the underwriter willing to hold unsold bonds?
  The underwriter should be willing to hold unsold bonds at the same interest rate as if they received orders.

- Will premium be generated and if so how much? What will the premium be used for?
  Premium should not be excessive and should be deposited into the debt service fund. Premium used to pay costs of issuance is a questionable legal practice.