KNN public finance

TO: Constance Hubbard, Superintendent, Piedmont USD
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FROM: Ruth Alahydoian

RE: Bond Options

DATE: July 6, 2009

As the District's Board considers the difficult decision of the appropriate parameters for the next issue of general obligation bonds, I would like to provide the following options and analysis for their review.

**Decision to be made**: On Wednesday, the Board will be passing a resolution regarding their intent to move forward with the next series of bonds under the Seismic Bonds authorization passed by voters in 2006. Because of changes in the economy and in the bond markets, the original intention that the Seismic Bonds would only add about $20 per $100,000 of assessed value to the existing tax bill, for a total tax of $120 per $100,000 assessed value, is presenting some challenges. At the same time, the federal stimulus package has presented an opportunity to issue tax-credit bonds with little to no interest to repay. The County calculates tax rates for the coming year in August and must have at least an estimated debt service schedule to set the tax rates accordingly. We are looking to the Board to provide a tax rate goal that we will then work with to provide an estimate of the tax collection requirement to the County. When the bonds are sold, we will structure the bonds within the tax collection generated by that tax rate.

**Assumptions.** Five options were discussed at the Wednesday, July 1 Board workshop. For each option I have assumed the same assessed value growth:

| Fiscal Year | Growth in Assessed Values from Prior Year |
|---|---|
| 2009-10 | 4% |
| 2010-11 | 2% |
| 2011-12 | 3% |
| 2012-13 | 4% |
| 2013-14 and thereafter | 5% each year |

Two other constraints that are held constant are the statutory debt capacity, currently limited to $28 million, and the statutory maximum (estimate) for the Seismic Bonds, limited to $60 per $100,000, using a reasonable estimate for A.V. growth.

In addition, I have assumed current market interest rates for "AA" rated bonds (the District's rating is Aa3). Actual rates will depend on market conditions at the time the bonds are sold. Thus, everything presented here is an estimate only and for comparison purposes based on current rates.

To allow for ease of comparison, I have calculated the total interest paid over the life of the bonds for each option, assuming a total issue amount of $25 million, the total interest cost (or "TIC") for each option which takes into account the time value of money (TIC is more of a present value calculation than total interest paid is.), the tax rate for the Seismic Bonds (including the bonds issued in 2006), the combined tax rate for all outstanding bonds, and the repayment term for that particular option.

**Option 1**: ***Qualified School Construction Bonds ("QSCBs").*** As part of the federal stimulus package passed by Congress and signed by the President in February 2009, a new type of bonds called a Qualified School Construction Bond (QSCB) was authorized. Only $11 billion of QSCBs are authorized for 2009, and another $11 billion will be authorized in 2010. For each QSCB issued, the federal government will provide a tax-credit in lieu of tax-exempt interest. The State of California has authority to allocate $770 million in QSCBs to California school districts. The State just announced the application process: applications are due by August 25; in the event they are oversubscribed, the will allocate based on a lottery system. The maximum per District is $25 million. One of the resolutions for the Board's approval on Wednesday states the intent of the Board to apply for an allocation of up to $25 million of QSCB authorization from the State. Assuming the District receives some authorization, the QSCBs can be issued as part of the District's general obligation bond program. Taxpayers will only have to repay interest, through the usual tax collection process, but no interest.

| Option 1 – QSCBs | |
|---|---|
| **Total interest** | $0 |
| **Total present value of interest** | 0% |
| **Additional tax per $100,000 for Measure E (including 2006 Bonds)** | 2010 – 2016 = $55 per $100,000 AV<br>2019-2025 = $60 per $100,000 AV |
| **Combined total tax** | $143 to $150 per $100,000 AV |
| **Term of repayment of 2009 Bonds** | 16 years, to 2025 |

If the District receives less than the $25 million allocation, which is likely, QSCBs can be incorporated into any of the other options to help reduce overall interest costs and shorten the repayment term.

**Option 2:** ***Without regard to tax rate, but at lowest overall interest cost (present value of interest).*** If the maximum tax constraint of $120 per $100,000 AV was not a limitation, what would be the most cost efficient option (excluding QSCBs described in Option 1 above)? I assume all current interest bonds that mature within 25 years.

| **Option 2 – No Tax Constraints** | |
|---|---|
| **Total interest** | |
| **Total present value of interest** | 5% |
| **Additional tax per $100,000 for Measure E (including 2006 Bonds)** | 2010 – 2034 = $60 per $100,000 AV |
| **Combined total tax** | $148 to $155 per $100,000 AV |
| **Term of repayment of 2009 Bonds** | 25 years, to 2034 |

**Option 3:** ***Current model, as presented at July 1 workshop, but assuming NO QSCBs (this is actually the "Option 1" from the March presentation.*** Given the uncertainty with getting QSCB authorization, I've gone back to the March option of $__ million in currents and $__ million in CABs.

| **Option 3 – July 1 Model** | |
|---|---|
| **Total interest** | |
| **Total present value of interest** | 6.64% |
| **Additional tax per $100,000 for Measure E (including 2006 Bonds)** | 2010 – 2015 = $28 per $100,000 AV<br>2015-2044 = $60 per $100,000 AV |
| **Combined total tax** | $120-125 per $100,000 AV |
| **Term of repayment of 2009 Bonds** | 35 years, to 2044 |

**Option 4:** ***Maximum combined tax rate at $130 per $100,000.*** The maximum we can issue is $19 million, $9.5 million in current interest bonds, $9.5 million in CABs.

| **Option 4 – $130 maximum combined tax rate** | |
|---|---|
| **Total interest** | |
| **Total present value of interest** | |
| **Additional tax per $100,000 for Measure E (including 2006 Bonds)** | 2010 – 2015 = $28 per $100,000 AV<br>2015-2044 = $60 per $100,000 AV |
| **Combined total tax** | $130 per $100,000 AV |
| **Term of repayment of 2009 Bonds** | 35 years, to 2044 |

**Option 5:** ***BANs.*** Issue as much as possible in Bond Anticipation Notes (BANs) with a five year term. BANs must be replaced with a regular, long term bond issue before they mature. These numbers assume the BAN is replaced in 2014 with long term bonds with interest rates as if they were issued now. That is, no consideration is made for inflation or other possible changes to interest rates over . the next five years.

| **Option 5 - BANs** | |
|---|---|
| **Total interest** | |
| **Total present value of interest** | 3.75% for BANs, ___ for long term Bonds |
| **Additional tax per $100,000 for Measure E (including 2006 Bonds)** | 2010 – 2014 = $50 per $100,000 AV<br>2015-2039 = $60 per $100,000 AV |

| | |
|---|---|
| **Combined total tax** | $145 per $100,000 AV |
| **Term of repayment of 2009 Bonds** | 30 years, to 2039 |

**Hopefully these options help frame the decision of what the tax rate goal should be for 2009-10, thus determining the structure of the next series of Seismic Bonds.**