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PIEDMONT UNIFIED SCHOOL DISTRICT
ADMINISTRATION BUILDING
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SEISMIC SAFETY BOND PROGRAM
FINANCIAL SUMMARY

Between March 2005 and November 2012, the Piedmont Unified School District conducted a comprehensive program to seismically strengthen or replace school facilities to meet or exceed current standards for life safety. This $69.1 million seismic safety program was completed on the original schedule and budget in 2012. (Please refer to the *Seismic Safety Bond Program Summary* for more information about the school facilities and scope of improvements to life safety.) What follows is the financial summary of the seismic safety program.

The Seismic Safety Bond Program Budget

The budget for the Seismic Safety Bond Program (SSBP) was originally set at $69,156,161, including the following mix of State and local funds:

- Local bond funding up to $56 million, as authorized by Piedmont voters in March 2006;
- State bond funding originally estimated at $12 million, for seismic strengthening under Proposition 1D (November 2006) and accessibility enhancements and facility modernization under Proposition 1A (November 1998); and
- City and community funds of $1,200,000 contributed toward the cost of constructing the new Havens playfield and new Havens Schoolmates facility.

Original SSBP Financing Plans

Originally, the District anticipated issuing the local SSBP bonds in phases, beginning in 2006 and ending in 2010. The bond sales would be structured to meet the cash demands of the multi-phase seismic program and comply with various restrictions on the issuance of school bonds (these restrictions are described below). This plan was based on the assumption that State seismic and modernization funding for each school project would be paid to the District within a few months after State allocation of the funds. (Also discussed below, the State temporarily halted these payments due to the State economic crisis, requiring the District to modify its original financing plans.)

In California, the sale of school bonds is subject to the following:

- statutory restrictions on the aggregate debt issued by the school district, adjusted annually as previously-issued school bonds are retired;
- statutory limits on the estimated tax rate that will be required to repay bonds; and
- growth in assessed local property values, which in turn determines the amount of property taxes available to repay bonds.

Specifically, California Education Code section 15270 imposes two distinct limits on the sale of school construction bonds. First, the *aggregate debt* issued by the district (the “bonding capacity") may not exceed 2.5% of the assessed value of the district's taxable property. Second, the bonds may be issued only if the estimated *tax rate* levied to repay the bonds does not exceed $60 per year per $100,000 of the assessed value of taxable property within the district.

The District's original goal in structuring the SSBP bond sales was to limit the amount of debt service and taxes in the early years of the SSBP, when school bonds issued in 1994 were still being repaid. (The 1994 bonds paid for improvements to Wildwood, Beach, Piedmont Middle, and Piedmont High Schools, Witter Field, and other District facilities.) According to this plan, the District would issue a mix of Current Interest Bonds and Capital Appreciation Bonds, and the tax impact of the SSBP bonds would not exceed $20 per $100,000 of assessed valuation until 2020. Starting in 2020, as the 1994 bonds were paid off, the tax impact of the SSBP would gradually increase from $20 to the statutory limit of $60 per $100,000 of assessed valuation.

Based on this financing structure, and projected growth in assessed property values, the last of the SSBP bonds were expected to be fully repaid by 2045, with the tax rate at $20 per $100,000 for the first 12 years, then $60 per $100,000 thereafter. The underlying assumptions were based on information available in 2005 and 2006, when the bond plan was developed. At that time, the difference in interest rates between a Current Interest Bond and a Capital Appreciation Bond was 0.15% to 0.55%, and the average annual growth rate in assessed property values in Piedmont for the prior 10 years (from 1996/97 through 2005/06) was 7.00%.

Effect of the State Budget Crisis on SSBP Financing Plans

As indicated above, based upon established practice, the District anticipated that State funding for each school project would be received within a few months after the District demonstrated its eligibility for the funds. However, the unprecedented State economic crisis unsettled the SSBP financing plans just as the construction phase of the SSBP was getting underway in 2008 and 2009. The payment of State funds to all school districts was unexpectedly and indefinitely halted. At the same time, the nationwide recession created uncertainty about growth in assessed local property values, which also affected the timing of local bond sales.

As discussed below, in order to keep the construction on schedule and manage cash-demand and cash-flow, the District had to continually adjust to changing variables.

Issuance of SSBP Bonds

- ***August 2006 Bond Sales***

The District issued the first $14,999,934 million in SSBP bonds in August 2006. This issuance was a combination of $10 million in Current Interest Bonds (CIBs) to be repaid by August 2025 and $4,999,934 in Capital Appreciation Bonds (CABs) to be repaid by August 2031. Moody's Investor Service assigned the bonds an Aa3 rating. The interest cost on the CIBs was 4.63% with a repayment ratio of 1.66. The interest cost on the CABs was 5.24% with a repayment ratio of 3.01. The bond structure allowed the District to stay within the estimated tax rate of $20 per $100,000 of assessed value per year, as originally planned.

Among other things, these bond sales funded the temporary relocation of Havens students into portable classrooms on the Havens blacktop, making it possible to close the classroom wing that was structurally unsafe and vulnerable to collapse. The sale of these CIBs and CABs also funded detailed engineering studies, architectural and construction drawings, construction planning, project management and other necessary pre-construction services and work.

In the 2006/2007, 2007/2008, and 2008/2009 tax years, the first three years in which taxes were assessed under the SSBP program, taxes for the SSBP bonds were approximately $19.00 per $100,000 of assessed property value.[ii] Nonetheless, with no State funding yet available, it was already clear that the District would have to sell bonds on an accelerated schedule to keep the construction on schedule, causing the tax rate to increase (before 2020) above the $20 per $100,000 of assessed property value.

Starting in early 2009, Ruth Alahydoian of KNN Public Finance, the District's bond financing consultant, presented updates and options for the District based on the suspension of State matching payments, lower than projected increases to local assessed property values, and changed market conditions including a significant increase in the interest rate for CABs. Ms. Alahydoian made multiple presentations to the Board of Education and the SSBP Citizens' Oversight Committee about the need to revise the original bond plans based on these new realities.[iii]

The Board solicited public input on these options and deliberated at public meetings throughout 2009. The Board discussed the trade-offs of keeping the projects on schedule and avoiding the safety and cost implications of delay, or adhering to the original plan of limiting SSBP taxes to $20 per $100,000 of assessed property value until 2020. The Board determined that it was in the community interest to keep the projects on schedule rather than adhere to the $20 limit.

- ***October 2009 Bond Sales***

In October 2009, the District sold an additional $19 million in CIBs to be repaid by August 2034. Moody's Investor Service again assigned the bonds an Aa3 rating. The interest cost on the CIBs was 4.50% with a repayment ratio of 1.98.

With these local bond funds and the contributions from the City of Piedmont, the District completed: new construction of Havens Elementary School; renovation of Ellen Driscoll Auditorium; renovation of Piedmont High School; replacement of the Piedmont Middle School fire alarm system;. These "Phase One" projects were completed on schedule without receiving any of the State matching funds, although features of these projects were deferred to reduce costs and thereby maximize the cash on hand.

In the 2009/2010 tax year, taxes for the SSBP bonds were approximately $41.00 per $100,000 of assessed property value.

In Spring 2010, with no State funding yet available, the Board needed to decide whether to proceed with the Wildwood Project in 2010-2011 as originally scheduled. The District had sufficient remaining bond authorization and bonding capacity to pay for the Wildwood project, but once again selling SSBP bonds ahead of the original schedule meant once again raising the tax rate.

By that point, the American Recovery and Reinvestment Act (ARRA) created a new kind of bond, called Qualified School Construction Bonds (QSCBs), that provide federal tax credits for bondholders in lieu of interest. In California, QSCBs were made available to school districts on a limited basis by lottery, and required repayment within 15 years.

KNN estimated that, if the District obtained authorization to issue $10 million of SSBP bonds in the form of QSCBs, the District would save the SSBP and Piedmont taxpayers approximately $35 million in interest payments, as compared with the interest costs of CIBs and CABs.

Nonetheless, QSCBs would require an increase in the tax rate to $60 per $100,000 of assessed property values to meet the 15-year repayment requirement.

Again, the Board solicited public input and deliberated on the trade-offs of staying on schedule, with comparatively low construction costs, an established construction management team in place, and access to a temporary school site in Emeryville. The Board considered the safety and financial costs of delay, as well as the tax implications for the community. The Board weighed the overall savings to the community of using QSCBs against the near-term tax increases.[iv]

The Board determined that it was in the public interest to apply for and take advantage of QSCBs, because the long-term savings to the community outweighed the near-term increase in the tax rate.

- ***June 2010 Bond Anticipation Note Sales***

In June 2010, in order to keep the Wildwood project on schedule while the District sought authorization to issue QSCBs, the Board sold $12 million in Bond Anticipation Notes (BANs). BANs allow a district to borrow money against the district's capacity to issue bonds in the future. BANs can be issued for a term of up to five years and typically have a lower interest cost than bonds because BANs are for a short term. The BANs, which had an interest cost of 3.54%, had to be replaced with $12 million in permanent bonds by May 2015.

ARRA does not allow QSCBs to be used to retire BANs. For that reason, the Board balanced the need to raise money to keep construction on schedule against the interest in preserving its ability to take advantage of QSCBs if they became available in the future. By issuing $12 million in BANs, the District preserved the ability to sell $10 million (the remaining bond authorization after retiring the BANs) in QSCBs.

As discussed below, the District ultimately obtained approval to issue QSCBs. If the District had *not* obtained federal authorization to issue QSCBs, the only alternative would have been to issue the final $22 million of SSBP bonds in the form of CABs, to comply with the statutory tax rate limit of $60 per $100,000 of assessed property value. (This was discussed by the Board on September 14, 2010.)

The District used funds from the BANs, and $4.7 million of State matching funds that had finally arrived, to complete "Phase Two" -- renovation of Wildwood Elementary School and design of the Beach Elementary School renovation. As above, several features of these projects were deferred to reduce costs, maximize the cash on hand, and keep the SSBP on the original construction schedule.

In the 2010/2011 tax year, taxes for the SSBP bonds were approximately $37.70 per $100,000 of assessed property value.

- ***May 2011 Bond Sales: Qualified School Construction Bonds***

In December 2010, the District obtained federal authorization to issue $10 million in SSBP bonds in the form of QSCBs. The tax rate implications were again discussed by the Board on February 9, 2011 (http://www.piedmont.k12.ca.us/aboutpusd/agenda.minutes/KNN_020911.pdf).

In May 2011, the District issued the QSCBs, with an interest cost of 0.49%, repayment ratio of 1.07, and repayment date of May 2026.

The District then used a combination of the remaining cash on hand, the funds from the QSCBs, and the availability of bridge financing to proceed with construction of the Beach Project ("Phase Three"). In December 2011, the State released $8.45 million to the District, making it possible to complete all remaining projects on the original schedule.[v]

In the 2011/2012 tax year, and each year since, taxes for the SSBP bonds were approximately $60.00 per $100,000 of assessed property value.

- ***August 2013 Bond Sales: BAN Refunding***

To repay the BANs, meet the accelerated repayment requirements of the QSCBs, and comply with the statutory tax rate limitation of $60 per $100,000 of a property's assessed value, the District issued the final $12 million of SSBP bonds in the form of CABs. CABs keep payments low in the near term by delaying the start of interest payments. (The District began repayment of the first set of CABs in August 2011, and will begin repayment of the second set of CABs in August 2027, when there will be sufficient taxes levied within the allowable tax rate.)

The interest cost on the CABs is 6.226% with a repayment ratio of 5.33. At the time of issuance, the interest rates for CABs were roughly 1.5 percentage points higher than the rates for CIBs. These CABs, which must be repaid by 2043, are "callable" beginning in 2023 – the District may refinance/refund the CABs starting in 2023 if future interest rates result in lower payments. KNN works with the District to identify opportunities to refinance/refund bonds to save the taxpayers money, and the District has repeatedly refinanced/refunded the 1994 bonds over the past ten years resulting in significant savings. Specifically, in 2009, the $13.145 million refunding of bonds originally issued in 1994 resulted in a reduction of $1,832,949 in debt service (over the remaining repayment term of those bonds). In 2005, the reduction in bond repayment was $2.501 million, and in 2001 the reduction was $1.555 million.

As of August 2013, all SSBP bonds have been issued. The bonds must be fully repaid by 2043. The overall interest rate on the combined total of SSBP bond funds is 4.84%. The overall repayment ratio for the SSBP program – the ratio of total repayment (principal and interest) to initial bond proceeds (principal) – is 2.57:1. As mentioned above, the aggregate debt issued by a school district may not exceed 2.5% of the district's taxable property. The assessed value of the District's taxable property is now nearly $3.4 billion. The bonding capacity of the District is now roughly $84.6 million. The aggregate debt from all SSBP and pre-existing bonds is under $73.5 million.

SSBP Financing Summary

Although the Seismic Safety Bond Program was completed both on schedule and on budget, the original financing plans were modified several times to keep the SSBP on schedule while adapting to the delay in cash payments from the State, lower than expected increase in property values, higher than expected interest rates for CABs, and lower overall cost of QSCBs. Although these changes to the original financing plans resulted in a higher-than-originally-planned tax rate between 2009 and 2020, the changes resulted in significant overall cost savings in the SSBP program.

The District continually reevaluated and readjusted the financing plans, with public discussion and public input, and with the tax rate at the forefront of every discussion. At each point, the Board determined the community interest was to keep the projects on schedule and avoid the safety and financial costs of delay, and to take advantage of BANs and QSCBs to reduce the overall cost of the bond program, rather than to keep the tax rate at $20 per $100,000 of assessed value until 2020.

According to KNN, the overall cost to the taxpayers of the SSBP bond program is significantly less than the cost of the original bond plan. In other words, the total bond repayment will be lower, because the District issued fewer CABs than originally planned and because the overall repayment period (30 years rather than the originally-planned 40 years) is shorter.

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[ii] Alameda County provides one combined tax rate for all school district bonds. KNN Public Finance, the District's bond finance consultant, calculated this rate for the SSBP bonds by splitting the tax rate proportionally among the 1994 bonds and SSBP bonds based on debt service.

[iii] KNN's March 25, 2009 presentation to the Board can be seen here:
http://www.piedmont.k12.ca.us/aboutpusd/agenda.minutes/bondupdate.pdf
KNN's July 1, 2009 presentation to the Board can be seen here:
http://www.piedmont.k12.ca.us/aboutpusd/agenda.minutes/070809bondpresentation.pdf

[iv] Public deliberation of these issues can be reviewed here: January 13, 2010 (http://www.piedmont.k12.ca.us/aboutpusd/agenda.minutes/Bond%20Program_Options_KNN_Pres.pdf); February 10, 2010 (http://www.piedmont.k12.ca.us/aboutpusd/agenda.minutes/Bond%20Program_Options_KNN_Pres.pdf); March 24, 2010 (http://www.piedmont.k12.ca.us/aboutpusd/agenda.minutes/032410update_bond_financing.pdf); and April 28, 2010 (http://www.piedmont.k12.ca.us/aboutpusd/agenda.minutes/bond_issuance_2010.pdf).

[v] The District is now scheduled to receive roughly $5 million more in State seismic and modernization funds than the $12 million originally estimated. Nonetheless, all of the State money will be received after completion of the specific projects for which it was paid. Although the aggregate funding received from the State exceeded original estimates, the SSBP budget of $69.1 million remained the same. The District may keep the additional State money provided that it is used for life/safety, modernization and accessibility improvements to school facilities.