Frequently Asked Questions
About the Seismic Safety Bond Program

March 2010

This FAQ is intended to provide an update on the Seismic Safety Bond Program approved by Piedmont voters in March 2006, with a focus on the financial aspects of the program. Since the passage of the bond, the Board authorized further engineering and risk analysis, solicited community input, and deliberated to develop the following goals:

- Complete the entire seismic safety program as originally planned
- Address seismic safety risks in priority order
- Keep the planned projects on track, avoiding costly delays or interruptions to the program
- Maximize the amount of useable classrooms in the school facilities which would be available after a major earthquake

The School District is at a critical point in the Seismic Safety Bond Program. The State budget crisis has slowed the payment of State matching funds to local school districts for facility modernization, including an estimated $11 to $13.5 million to the District. As a result, the Board of Education will need to determine whether it is possible to proceed with the next phase of the program without receiving any State matching funds. Specifically, the Board will need to determine whether it is possible to complete construction of the Wildwood project, and the development of Beach construction documents, during the 2010/2011 academic year as originally planned, relying on a combination of local bond sales and bridge financing.

The determination whether it is possible to proceed with the next phase without State matching funds will be made based on: revised and updated budget and cash flow information prepared by program manager David Burke; advice from financial advisor Ruth Alahydoian of KNN Public Finance, concerning whether and when projected property tax revenue is sufficient to issue additional (voter-authorized but not yet issued) bonds; and the availability of bridge financing mechanisms such as Bond Anticipation Notes ("BANs").

Over the past several months, the Board has been reviewing the program and project budgets, cash flow needs, and bond financing options, in light of uncertainties around State funding. Given these capital needs and State funding uncertainties, the Board's current goal is to:

- Keep as many options open as possible in order to finance the remaining projects in the most cost-effective manner possible.

1. What are the major program milestones and what is the current status of each milestone?

Year	Milestone	Status	Targeted Completion
2005	Tier I Risk Analysis	✓ Completed	
2006	Seismic Safety Bond Authorization	✓ Completed	
2007	Detailed Engineering, Risk Analysis	✓ Completed	
2008	Planning Phase - Scope & Design	 ✓ Completed	
2009-10	Construction Phase I ▪ Maintenance Facility ▪ PHS ▪ Havens ▪ Ellen Driscoll	 ✓ Completed o In Progress o In Progress o In Progress	 Spring 2010 August 2010 Spring 2010
2010-11	Construction Phase II ▪ Wildwood	Planning for construction to begin in summer	TBD - Tentative August 2011
2011-12	Construction Phase III ▪ Beach	Construction documents in progress	TBD Tentative August 2012

2. What projects are included in the Seismic Safety Bond Program?

The multi-year construction program consists of:

- Rebuilding the District's Maintenance Facility and Havens Elementary School
- Retrofitting the Ellen Driscoll Playhouse, PHS Quad/Library/Classroom Building, PHS Student Center, and 1930's construction at Wildwood and Beach Elementary Schools

3. How were the projects prioritized?

Projects were prioritized based on the level of seismic safety risks identified in the engineering investigation and analysis of buildings on each campus.

4. What is the total estimated budget to complete the entire program?

Based on the engineering analysis and planning work completed, the total estimated budget for the entire program is approximately $69.2 million. This includes contingencies for each project and the overall program.

5. How will the construction program be funded?

Three major funding sources will be used: 1) $56 million local bond authorization approved in March 2006; 2) $1.2 million from the City for the Schoolmates replacement and installation of artificial turf on the Havens Playground; and 3) estimated $11 - $13.5 million in State matching funds from the "Kindergarten – University Public Education Facilities Bond Act" approved by voters in November 2006 for the School Facilities Construction Program.

6. What is the bond financing strategy for the Seismic Safety Bond Program?

The multi-year bond financing strategy takes into consideration: 1) the capital and cash flow needs of the construction program over time; 2) bonding capacity given the rate of local assessed value growth, the rate at which outstanding bonds are retired, and statutory debt capacity constraints; 3) tax rate limitations, and 4) the availability of funding from other state and local sources.

The bond measure initially anticipated a series of bond issues, beginning in 2006 and ending in 2010, using a combination of current interest and zero coupon bonds. The goal of this financing structure was to limit the amount of debt service and taxes during the early years of the bond program, until prior bonds (issued in 1994) were fully paid off. As such, the tax impact of the new bonds was originally designed to be limited to an increase of $20 per $100,000 of assessed valuation until 2010, then gradually increased until the tax impact of the new bonds reached a maximum of $60 per $100,000 of assessed valuation. Based on this structure and the projected growth in assessed property values, the bonds were expected to be fully paid off around the year 2045.

The District issued the first $14,999,934 million in bonds in August 2006, and an additional $19 million in bonds in October 2009. As such, the District has $22 million in remaining bond authorization that has been approved by voters but has not yet been issued ($56 million total authorization - $34 million issued to-date).

7. What are the legal constraints concerning issuance of the remaining bonds?

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

- According to KNN, the District's current bonding capacity is $13.2 million.
- The current tax rate for the outstanding Seismic Safety Bond Program bonds is $41.06 per year per $100,000 of taxable property.

8. How has the budget crisis affected the State's matching fund program for public school construction?

In response to the budget crisis, the State Treasurer's Office has slowed the release of funds for these projects. The State Allocation Board (SAB) is keeping track of State approved projects and placing them on an "unfunded list" of public school construction projects. Projects from the list currently are funded on a first come first serve basis as additional proceeds from the sale of State General Obligation (GO) bonds become available. Timing of the receipt of state funding for our projects remains uncertain.

Recently, the SAB approved District applications for Seismic Safety Bond Program projects already under construction. The SAB approved unfunded allocations of $475,867 for the PHS Student Center, and an additional $442,321 for portions of new square footage at Havens Elementary. At its upcoming March meeting, the SAB will consider the District's application for $3,206,447 for the remainder of the Havens project. In addition, the application for $578,439 in state seismic retrofit funding for the Quad/Library building at PHS will be reviewed by the SAB for an unfunded approval at its March 24, 2010 meeting. If approved, these additional SAB allocations would also be unfunded, yet fully committed to PUSD at a future date.

9. What impact does the absence of State funding have on the current program?

At the time of the bond election, the District anticipated that the total amount authorized by the voters would not be needed all at once, and that the gradual increase in assessed value would keep pace with the need to issue the bonds. Unfortunately, given the economic crisis, several factors have accelerated the need for funds and at the same time hampered the growth of the tax base: the delay in payment of State matching funds has increased the need for cash, while the slowdown in the economy and in home sales has resulted in much slower growth in assessed values than anticipated.

In the absence of State funding, the timing of the next phase of the Seismic Safety Bond Program remains uncertain. To complete the projects that are underway and proceed with construction at Wildwood and the development of construction documents for Beach, the District will need all $22 million of its remaining authorization (the amount approved by voters but not yet issued). However, as noted above, the District's current bonding capacity is $13.2 million.

The original plan was that $10 million of the $22 million remaining need would come from State matching funds as part of the State's School Facilities Construction Program, and $12 million would come from District general obligation bonds. The remaining $10 million of locally authorized general obligation bonds would be issued in the future for use in completing the Beach Elementary School project.

10. In the absence of State funding, what direction has the Board given to the staff and Program Management Team?

The Board has directed the staff and Program Management Team to remain on the critical path of completing the Wildwood construction and Beach construction documents. Specifically, the Board has:

- authorized the Beach construction document phase to begin;
- asked staff to secure the Emery Unified School District school site for the 2010-11 school year;
- authorized staff to begin the Wildwood Lease-Leaseback selection process;
- requested staff to continue with the Wildwood move logistics and planning;
- asked the Program Management Team to continue to update the budgets as construction progresses and provide a comprehensive budget presentation to the Board in March and May;
- requested the District's financial advisor to develop bond financing options, given the absence of State funds, appropriate bond structuring tools, and current estimated cash demands of the program.

11. What bond structuring tools are being considered by the Board?

<u>Capital Appreciation Bonds (CABs)</u> can by used to keep payments low in the near term and delay interest payments farther into the future. Interest rates for CABs are about 1.5 percentage points higher than current interest bonds. Use of CABs would enable bond repayment to stay within the tax rate limitation of $60 per $100,000 of a property's assessed value, a requirement of Proposition 39 bond authorizations.

Bond Anticipation Notes (BANs) can be issued for a term of up to five years, and must be replaced with long-term permanent bonds by the end of the term. BANs are not counted against bonding capacity and the interest rate, due to the shorter term, is lower when compared to a regular bond. There is some risk associated with a BAN because it postpones the long-term permanent bond issuance into the future. We do not know now what the interest rate will be when the permanent bond is issued.

Qualified School Construction Bonds (QSCBs) are a new option available to public school districts through the Federal Stimulus Package's American Recovery and Reinvestment Act (ARRA). QSCBs are targeted for shovel ready public school construction projects nationwide. These bonds have been authorized by the federal government and are available to districts through a two year lottery program that was administered by each state beginning last year. The bonds provide federal tax credits for bond holders in lieu of interest, which significantly reduces an issuer's cost of borrowing. To clarify, the savings from QSCBs when compared to a regular $12 million bond issuance could be as much as $35 million over the life of the bonds. PUSD entered the lottery program last year. Unfortunately the District's lottery number was not selected. Given the potential borrowing cost savings, the District plans to apply again for funds through this program this year. According to the District's financial advisor, the details of the application process will be communicated to California school districts sometime this spring.

12. Of the remaining $22 million needed to complete the current projects, Wildwood construction, and Beach construction documents, when will the funds be needed?

At minimum, the District needs approximately $10 million this Spring to complete the projects currently in progress. In the absence of State funds, if the Board decides to proceed with the Wildwood retrofit construction and Beach construction documents, the District will need an additional $12 million by Fall 2010.

13. What options are being considered by the Board to finance the current projects, Wildwood construction, and the Beach construction documents?

The following options were reviewed by the Board on January 13, 2010 in a presentation by KNN:

Option	Actions	Assumptions/Issues
1	2010 - Issue $13 M in bonds, $9 M in BANS 2014 – Replace BANs with a long-term bond	Interest rates may be higher in 2014
2	2010 – Issue all $22 M as a BAN 2014 – Replace BANs with a long-term bond in 2014	Interest rates may be higher in 2014
3	2010 – Issue $22 M in bonds	Assumes PUSD asks CDE for a debt limit waiver, and it is granted
4	2010 - Apply for a QSCB allocation & if received, issue maximum possible of QSCBs with the rest in bonds	Assumes PUSD asks CDE for a debt limit waiver, and it is granted Assumes QSCB allocation is received

At the meeting, the Board discussed various permutations of the options above in order to finance the remaining projects in the most cost-effective manner possible. Given the significant cost savings associated with QSCBs, the Board agreed that it would be prudent to fund as much of the remaining program with this instrument as possible.

14. Why has the Board directed staff to apply to the California Department of Education (CDE) for a debt limit waiver?

Given the current uncertainties surrounding the timing/availability of State funding, the Board has asked staff to keep as many financing options open as possible to continue on the critical path of completing the current projects, Wildwood retrofit construction, and Beach construction documents.

As noted above, Education Code section 15270 limits the aggregate bonds issued by the district to 2.5% of the district's taxable property. Under Option 3 or Option 4 above, the proposed bond issuance would exceed the District's current 2.5% debt capacity of $13.2 million.

Given the significant cost savings associated with QSCBs, the Board would like to fund as much of the remaining program with this instrument as possible. To take advantage of this opportunity, the District would need to apply to the CDE for a debt limit waiver. If granted, the waiver would raise the debt capacity from the statutory limit of 2.5% of total assessed value to 2.79% of total assessed value.

The District is <u>not</u> seeking a waiver of the tax rate limit of $60 per year per $100,000 of taxable property.

15. Is it possible that the District would obtain but not use the debt limit waiver?

Yes, as long as the District used a financing option, or combination of bond structuring tools that did not exceed its current debt capacity of $13.2 million. For example, if the Board decided to pursue either Option 1 or Option 2 above, there would be no need to use the waiver.

16. When will the Board decide the bond amount and structure for its next issuance?

Given the cash flow demand to complete the current projects, the Board must decide by March 24, 2010 the bond amount and structure for its next issuance. A minimum of approximately $10 million is needed to complete the current projects.

17. What will happen if the State matching funds are delayed indefinitely?

The District plans to complete as much of the Seismic Safety program as possible using the bond money approved by the Piedmont voters in 2006. This may mean completing the projects currently underway, completing the Wildwood retrofit project and Beach construction documents, and then suspending the program until the State money is received.

If the District completes the Wildwood construction in 2010/2011 as originally planned, and no State matching funds are received during the next year, the District will not be able to proceed with construction of the Beach project until State matching funds are received. Once received, it is anticipated that the State funds will cover the full cost of the Beach project, estimated at $9.7 million, including project contingencies.

18. Given the State budget crisis, will the State be issuing any more General Obligation (GO) bonds to support the State's matching fund program for school construction projects?

Yes. As noted earlier, the State has slowed but not halted the release of funds for school construction projects. According to the State Treasurer's Office, the Office of Public School Construction (OPSC) received more funding from calendar year 2009 publicly offered GO bond issues than any other department. As of February 1, 2010, the State has approximately $8.7 billion in authorized but unissued GO bonds for the State's School Facility Construction Program. It was reported at the State Allocation Board meeting on February 24, 2010, that the State Treasurer's Office expects to issue $4 to $7 billion of GO bonds in the first six months of 2010. Up to $2 billion in tax-exempt bonds will be sold in early March, and up to $2 billion in taxable/Build America Bonds will be sold on March 25, 2010. Additional sales may be issued in April and/or June, and up to $7 billion may be issued in the second half of 2010. Historically, a portion of the proceeds from the State's GO bond issuances is used to fund school construction projects on the SAB's "unfunded list" described earlier. According to our consultant, the SAB will receive $376 million from the $2 billion bond sale in early March 2010.