General Shafter School District

Funding Facilities Needs with General Obligation Bonds

GENERAL SHAFTER
General Shafter School District

Government Financial Strategies

Presented by Lori Raineri
September 3, 2015

Presentation materials provided for distribution at the meeting. Please see meeting record for verbal commentary and discussion.

Our Agenda for Today

- Introductions
- Role of Financial Advisor
- Overview of General Obligation Bonds
- Pro-Forma General Obligation Bond Financial Plan:
  - Without Grapevine Development
  - With Grapevine Development
- For Reference

Introductions

- Lori Raineri
  - President & founder, Government Financial Strategies
  - Certified Independent Professional Municipal Advisor
  - Certified Fraud Examiner
  - Serves on the Board of State and National Organizations
    - California League of Bond Oversight Committees
    - National Association of Municipal Advisors
    - Collaborative for High Performance Schools
- Government Financial Strategies
  - Public finance consulting firm dedicated to helping public agencies meet their capital needs
  - Established in 1988

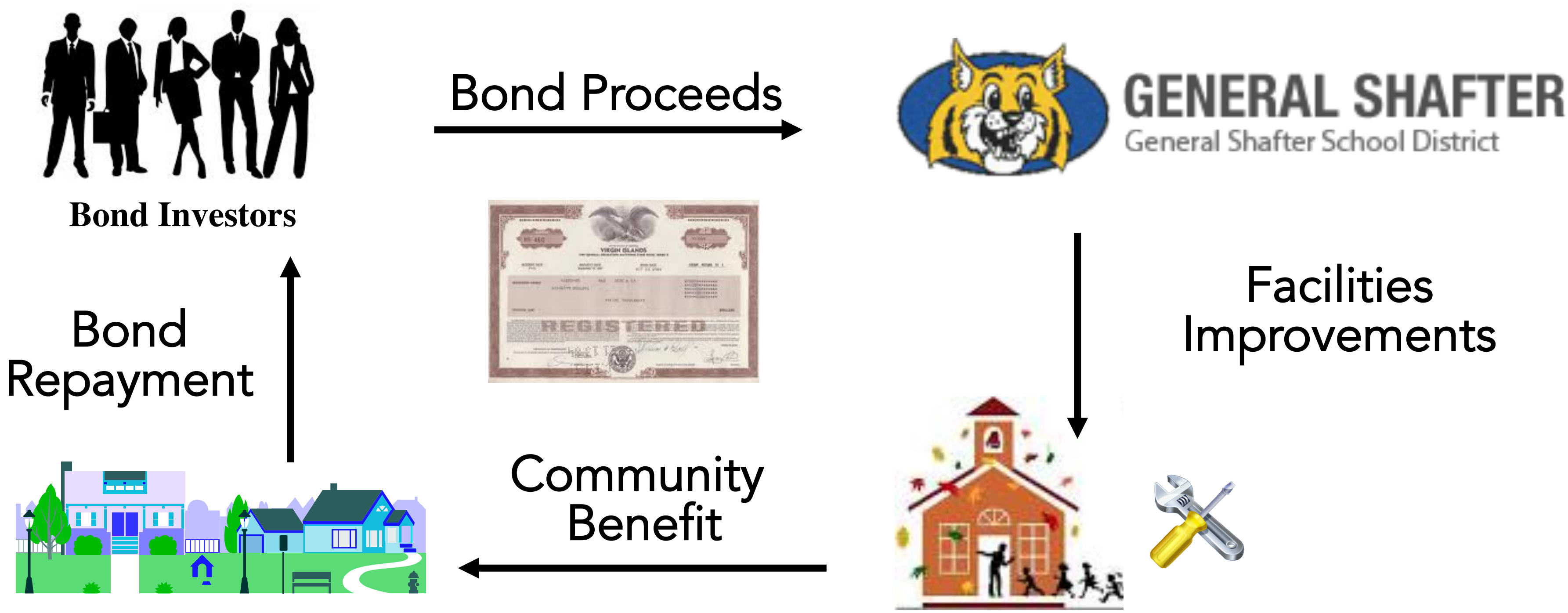
Role of Financial Advisor

- *Fiduciary* duty to the District
- Provide *independent* financial analysis and advice
- Activities *regulated* by the Securities and Exchange Commission and the Municipal Securities Rulemaking Board as a result of the Dodd-Frank Act of 2010
  - Government Financial Strategies is registered with both regulating agencies

General Obligation Bonds

- Common in California since the early 20th Century
  - In 1978, Proposition 13 superseded authority
  - In 1986, restored at 2/3 voter approval level
  - In 2000, 55% voter approval measures allowed with additional accountability requirements
    - Maximum projected tax levy and specified citizens' oversight
- "Full Faith and Credit Bond" - Unlimited taxing authority
- "Ad Valorem" taxation
- Bonding capacity limited to 1.25% of AV for union districts (2.50% of AV for unified districts)
- County is responsible for ongoing administration
- No political discretion

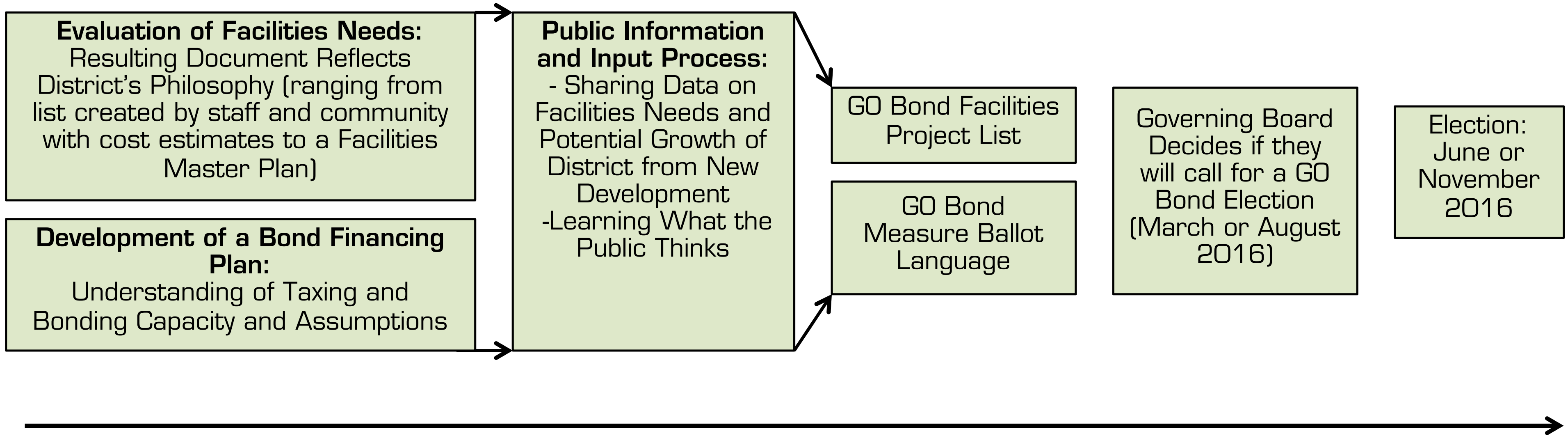
A Bond is a Loan



- A bond is a loan. Just like a home mortgage, a general obligation bond allows the taxpayers to buy and receive the benefit of the facilities now, and pay for them over time.

Timeline and Process

Overview of Process for a General Obligation Bond Measure



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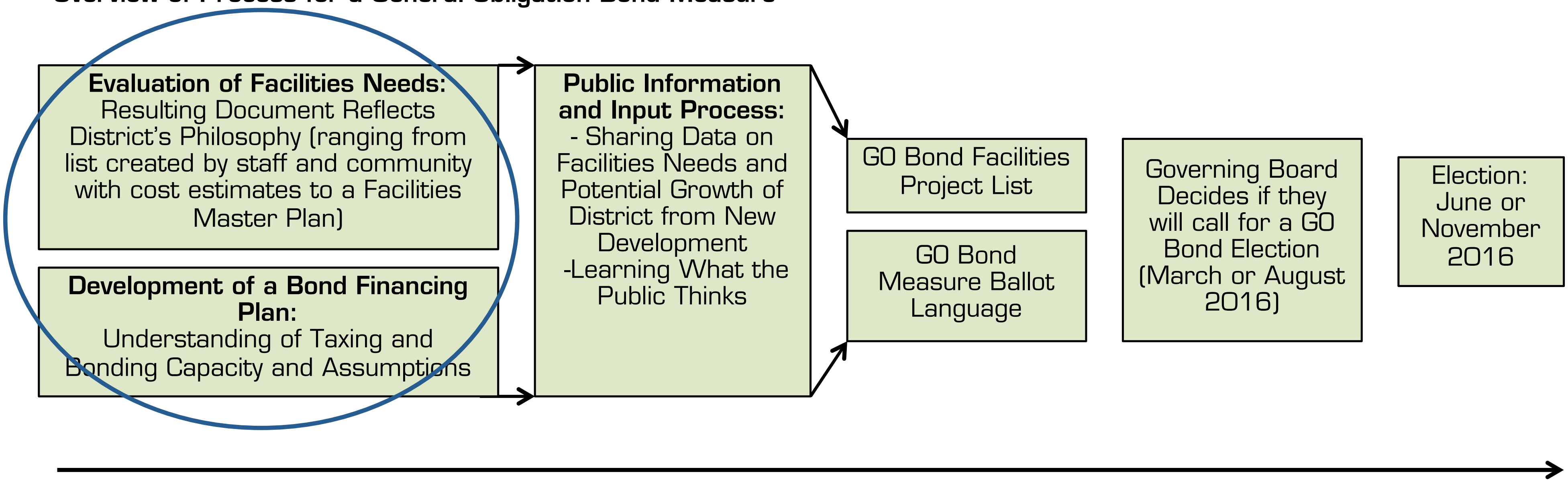


Evaluation of Facilities Needs

- Facilities plan should guide facilities decisions
- Some items to consider as a starting point:
  - Adequacy
  - Safety
  - Staff and community input
  - Data needed
  - Potential need for external assistance
  - Range of results from a simple needs analysis to facilities master plan

✔ *Most appropriate process and result should reflect the General Shafter community culture.*

Development of Bond Financing Plan

- Elements of Plan
  - Tax Base Analysis
    - Historical and projected assessed value
  - Bonding capacity (maximum bonds outstanding)
  - Taxing capacity (maximum projected tax levy)
  - Interest rate assumptions
  - Facilities funding cash flow needs
  - 3-year Expenditure Reasonable Expectations Test
  - ✔ *Are assumptions justified and reasonable?*

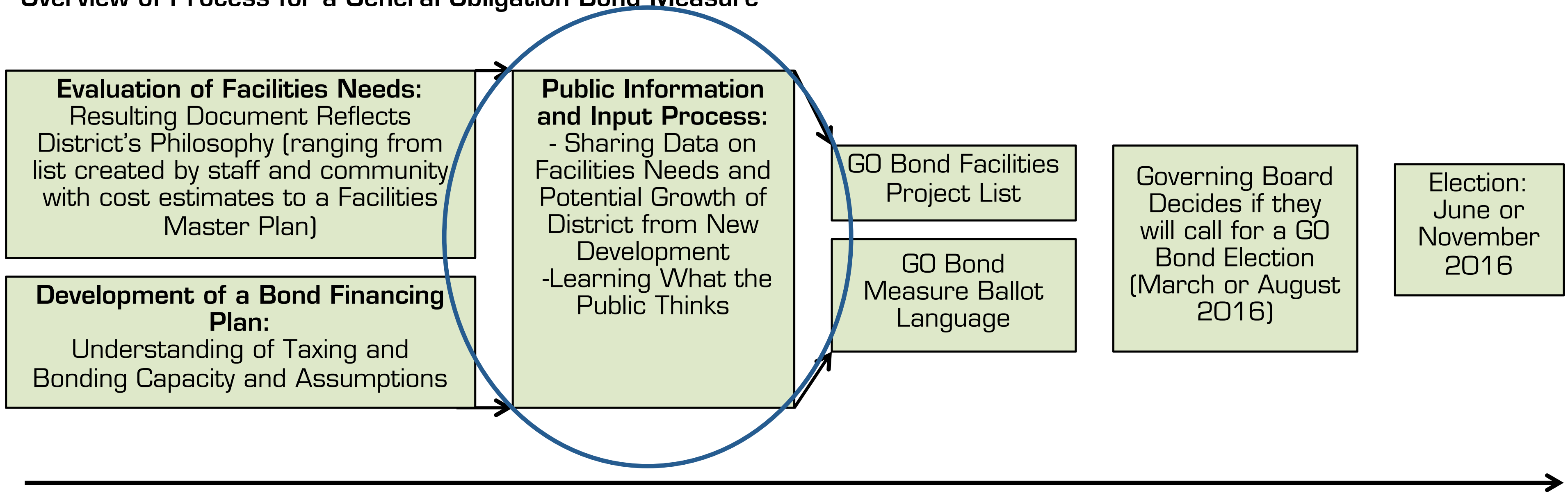
✔ *Sound pre-election bond financial planning maximizes chances of successful post-election bond issuance*

Ballot Language, Project List, Tax Rate Statement, and Ballot Arguments

- Drafted by bond counsel with input from District, public opinion survey firm and financial advisor
- Board Resolution and Ballot Statement
  - Education Code 5320 - 5329
  - Elections Code Section 13247 dictates 75 word limit
- Project List
  - 55% accountability measure in both CA Constitution Article VIII A and Education Code 15264 - 15288
- Tax Rate Statement
  - Elections Code 9400 et seq.
- Ballot Arguments
  - Elections Code 9500 et seq.

Timeline and Process

Overview of Process for a General Obligation Bond Measure

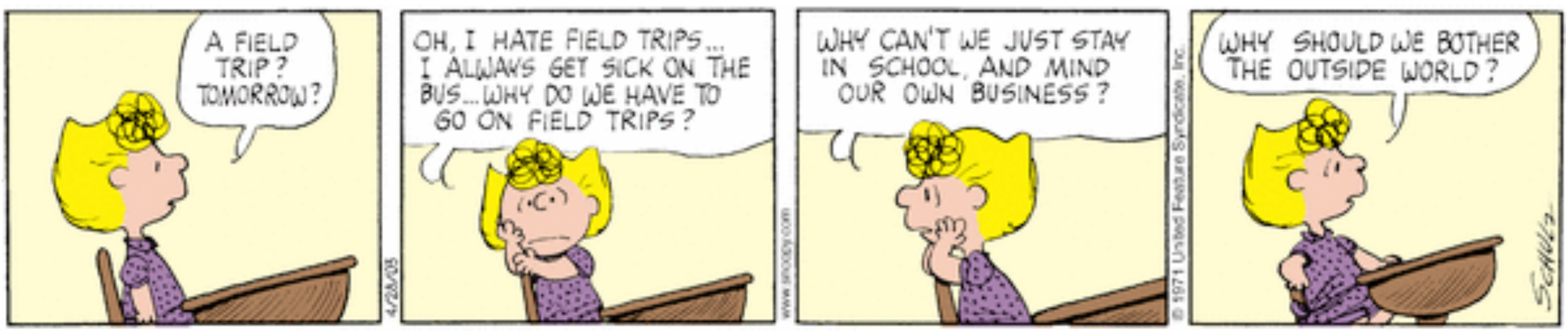


Public Information and Input

- The District is allowed to engage in sharing information with the public, and should do so
  - Public information, not campaigning
  - Bond counsel will provide guidance

- Some items to think about:
  - Does the public know about the condition of the facilities?
  - Does the public know about the District and how finances are managed?
  - Does the public know how good schools improve property values?
  - Does the public know about the potential for future development?
  - What do we know about voters (as compared to our traditional constituency of parents, staff and students)?

A School Bond is a Community Endeavor



Takeaways From 2014

California School Revenue Measures November 2014*			
	Total	Pass	% Passing
School Bond 55%	112	91	81%
School Bond 2/3	1	0	0%
School Parcel Tax 2/3	8	8	100%

California School Revenue Measures – November Comparison						
	Nov 2008		Nov 2010		Nov 2012	
	Total	% Pass	Total	%Pass	Total	% Pass
School Bond 55%	92	92%	63	75%	105	86%
School Bond 2/3	3	67%	0	--	1	100%
School Parcel Tax 2/3	21	81%	18	11%	25	64%

* CaliforniaCityFinance.com Local Revenue Measure Results November 2014, November 2012, November 2010, and November 2008

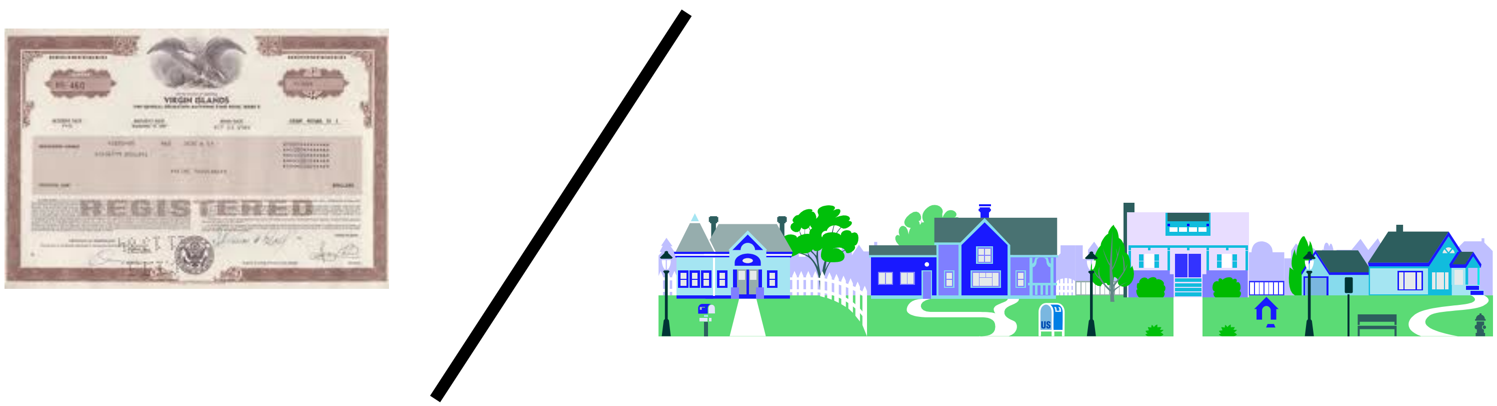
Pro Forma Bond Financial Plans for General Shafter SD - Key Legal Constraints

- Bonding Capacity: limit on amount of outstanding bonds (this is for all bond measures combined)
  - 1.25% of total assessed value for union districts
    - Education Code 15268✔
  - 2.50% of total assessed value for unified districts
    - Education Code 15270(a)

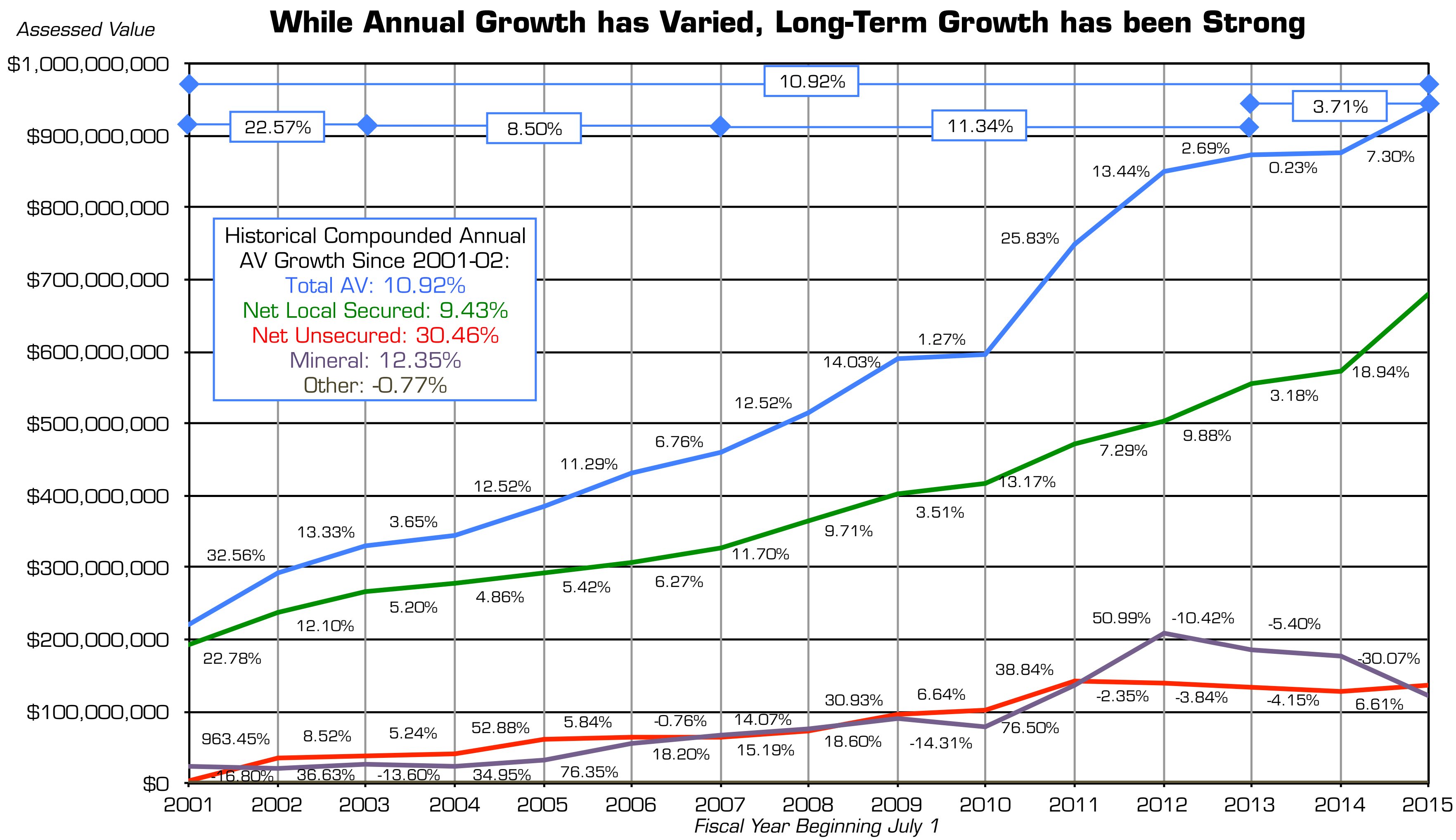
- Taxing Capacity: limit on maximum projected tax levies (this is for 55% voter approval bond measures only)
  - $30 per $100,000 of assessed value for union districts
    - Education Code 15268✔
  - $60 per $100,000 of assessed value for unified districts
    - Education Code 15270(a)

G.O. Bond Tax Rates

- Bond tax rate ≈ debt service ÷ assessed value
- Each property in the District pays its pro rata share, based on its individual assessed value (not market value)

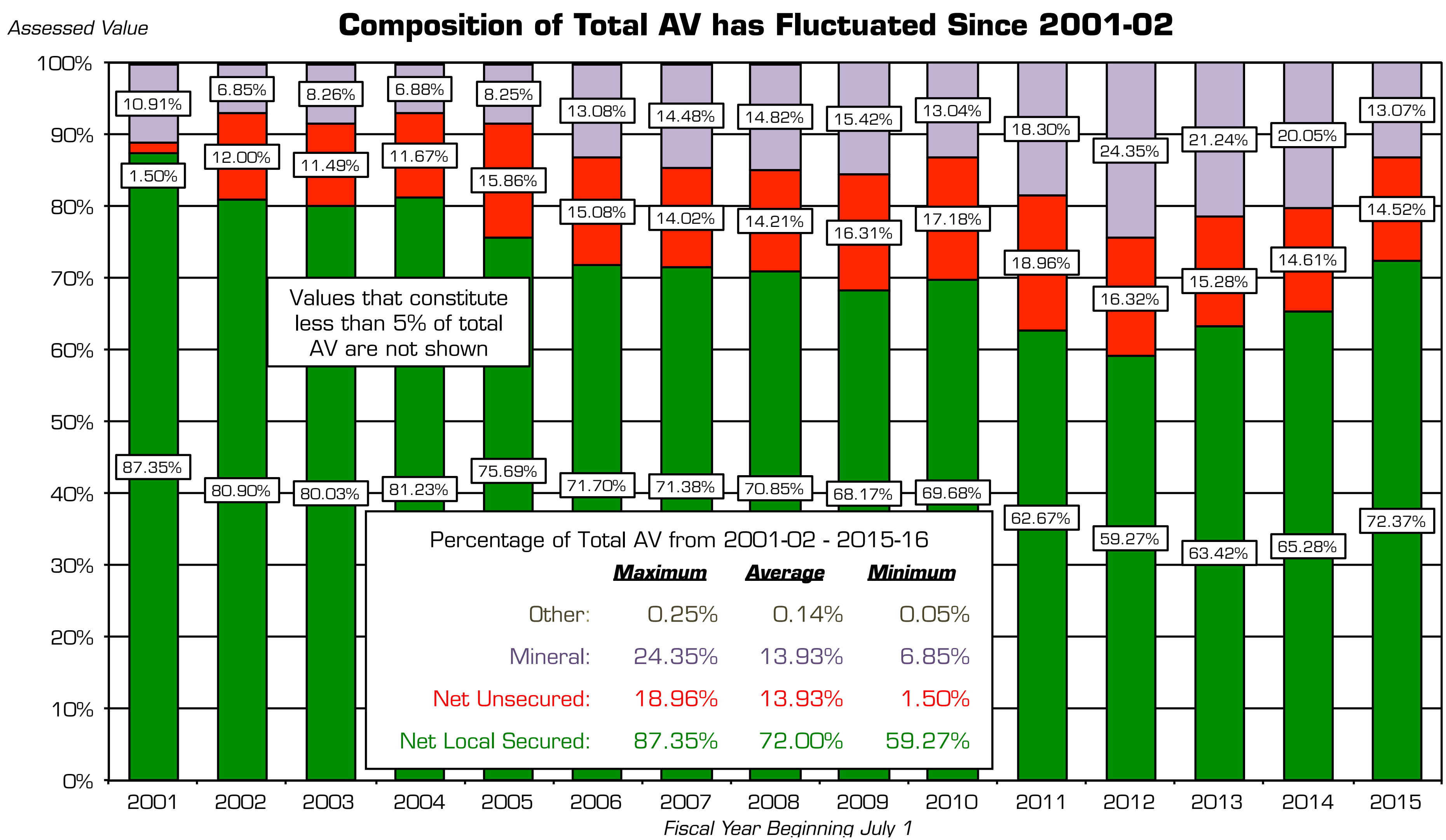


Tax Base Is Volatile and Complex

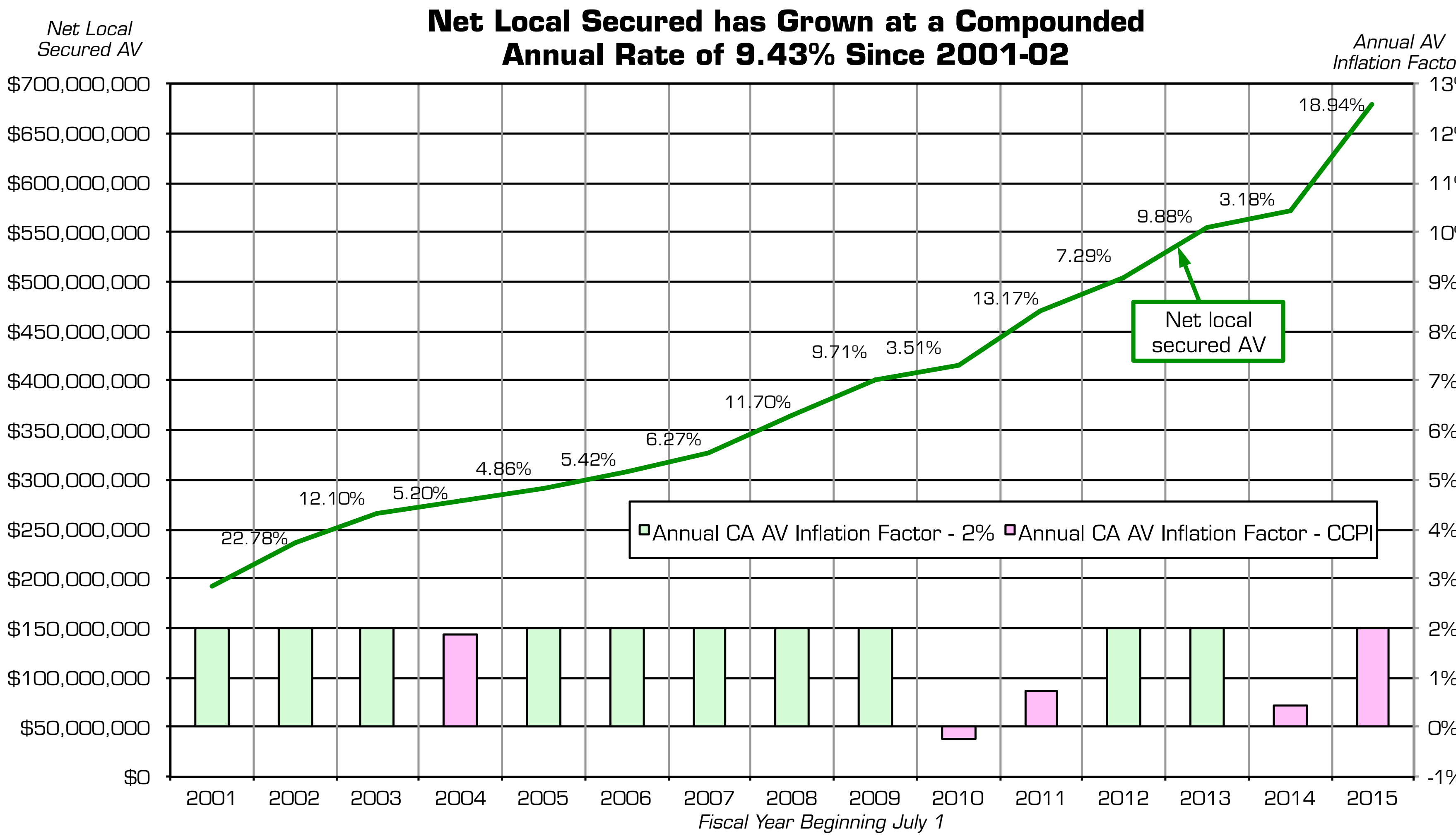


Historic assessed value (AV) provided by the Kern County Auditor-Controller's Office. The District's total AV is comprised of net local secured, net unsecured, mineral (oil) and other (utility & homeowners' exemption). Changes shown are annual changes. 2015-16 AV is preliminary.

Understanding Components is Key



Net Local Secured is Largest Component



Historic assessed value (AV) provided by the Kern County Auditor-Controller's Office. Annual California AV inflation factor provided by the California Sate Board of Equalization, and is the lesser of the annual change in the CA CPI or 2%. The District's total AV is comprised of net local secured, mineral (oil), utility, homeowners exemption, and unsecured. Changes shown are annual changes. Annual California AV inflation factor provided by California State Board of Equalization, and is the lesser of the annual change in the CA CPI or 2%.

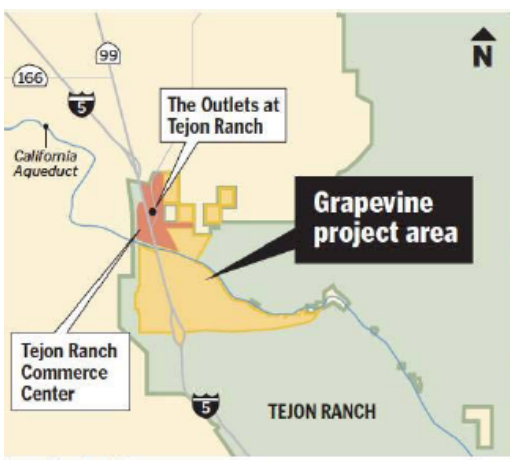
Reasons Assessed Value Can Change

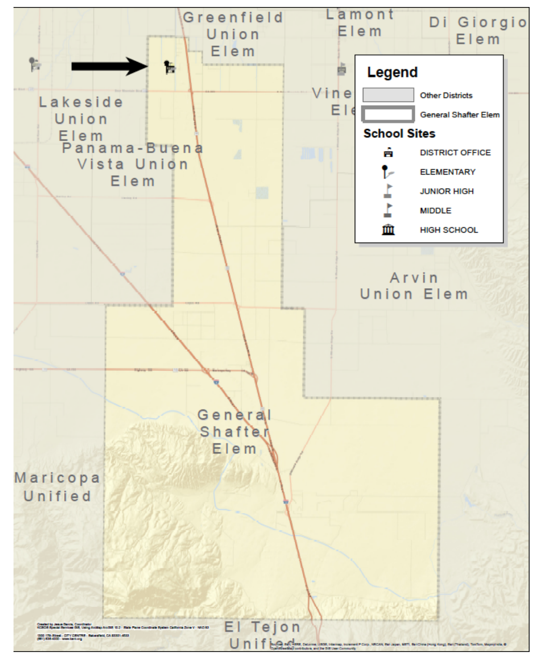
(for most properties)

- Pursuant to Proposition 13 (and embodied in Article 13A of the California Constitution), a school district's property tax base can change for four reasons:
  - Properties are sold (and reassessed at the sale price).
  - Properties are improved (and reassessed with the value of the improvement).
  - A year passes (each property's assessed value increases by the <u>lesser</u> of 2% or the change in the California Consumer Price Index).
  - Market value of one or more properties declines below assessed value - assessed value can be adjusted downward to the market value. If market value subsequently increases, assessed value can "catch up" to pre-decline AV plus allowable adjustments (e.g. 2% annual increase).

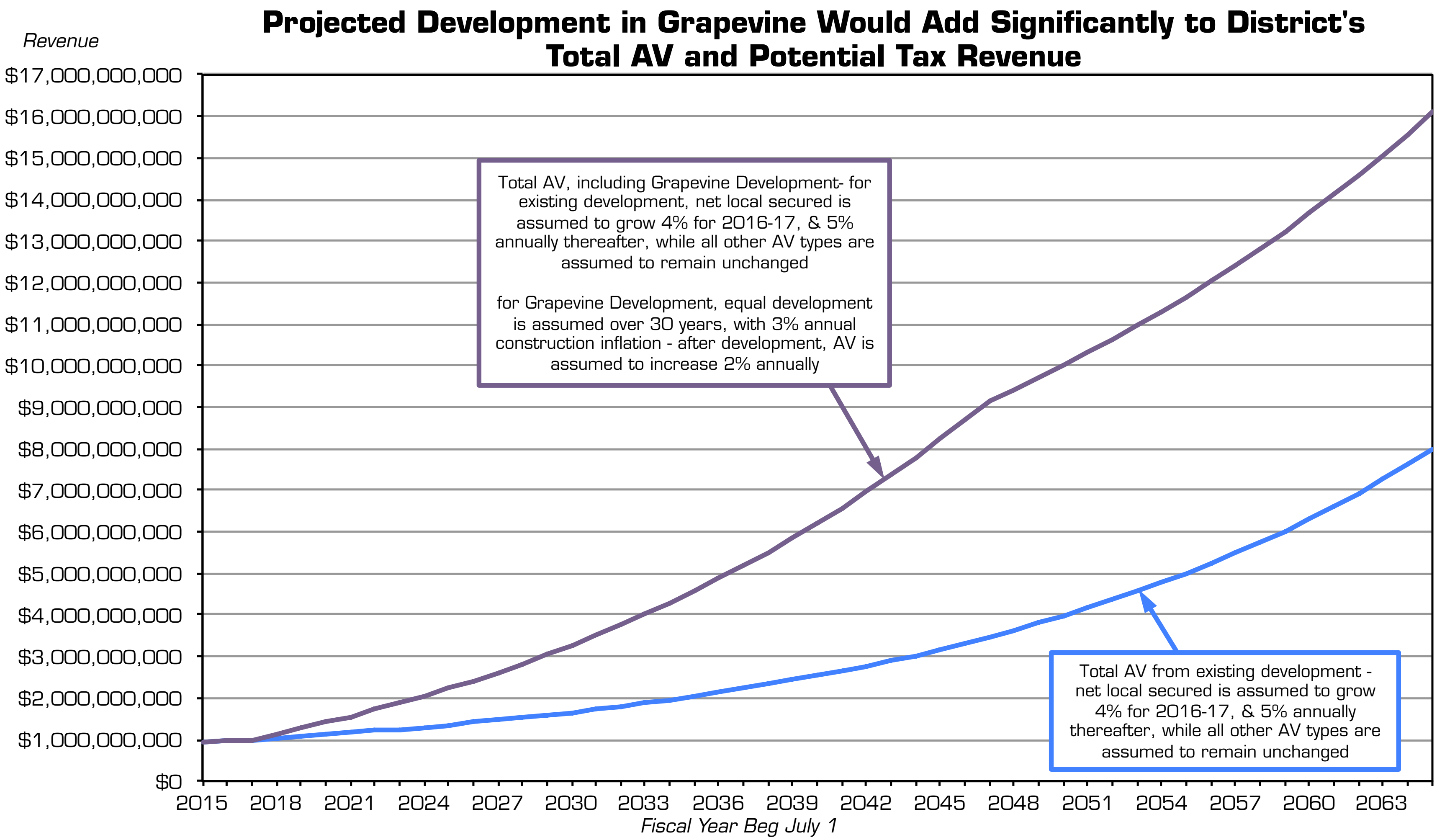
Grapevine Development Would Increase AV

- Up to 12,000 new homes and 10.7 million square feet of commercial development
- New homes = improvement to property = reassessment with value of improvement
- Two pro forma bond financial plan scenarios:
  - Baseline without Grapevine Development
  - With Grapevine Development





AV Increase Assumption Depends on Grapevine Development

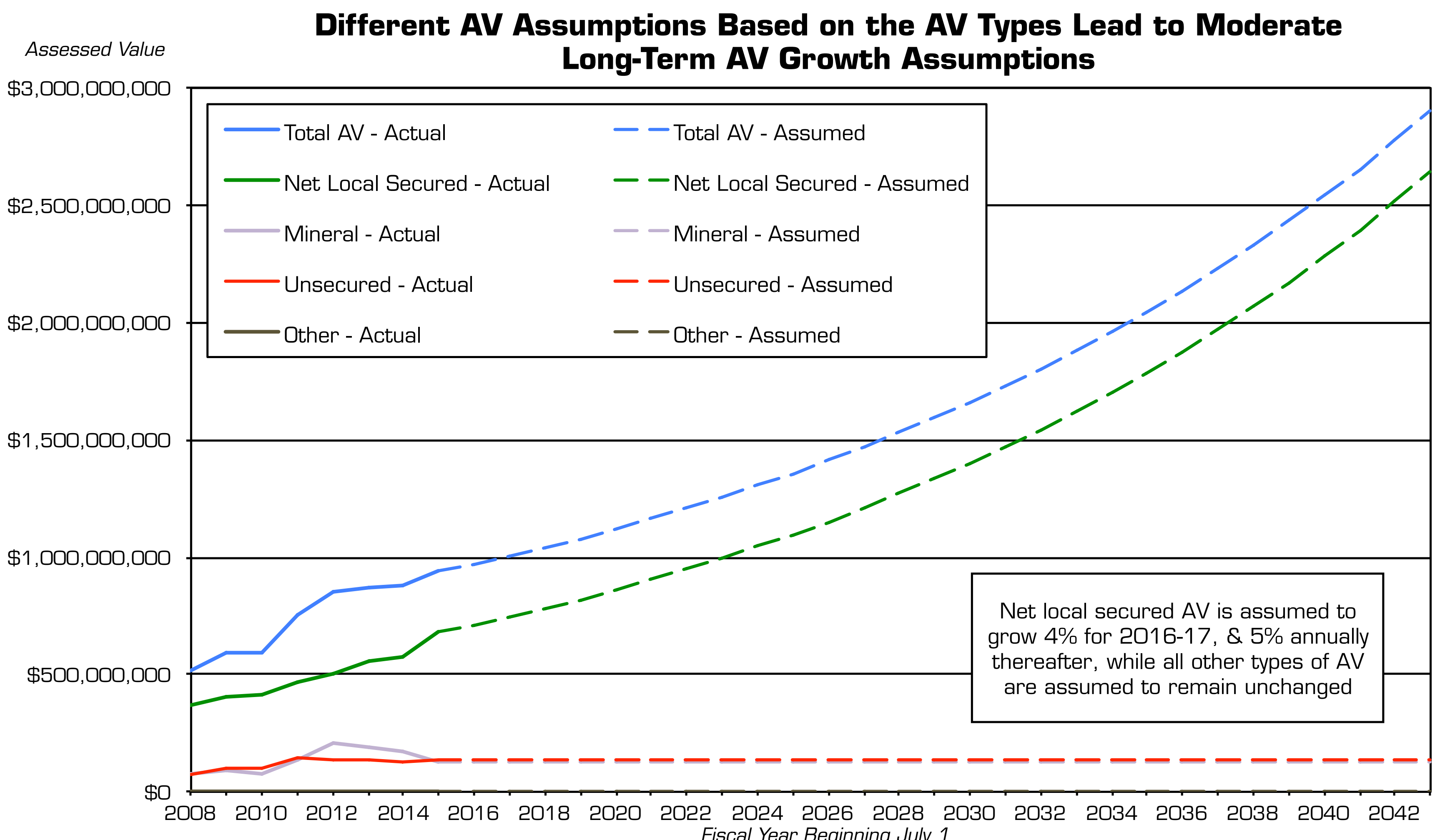


Notes: assumes net local secured growth of 4% for 2016-17, & 5% annually thereafter, while all other types of AV are assumed to remain constant. Grapevine development is assumed to occur at constant rate over 30 years and assumes a 3% annual construction inflation rate; thereafter, Grapevine Development property is assumed to increase at 2% annually. A $30 annual tax levy per $100,000 of AV is assumed.

Baseline Pro Forma Analysis: Without Grapevine Development

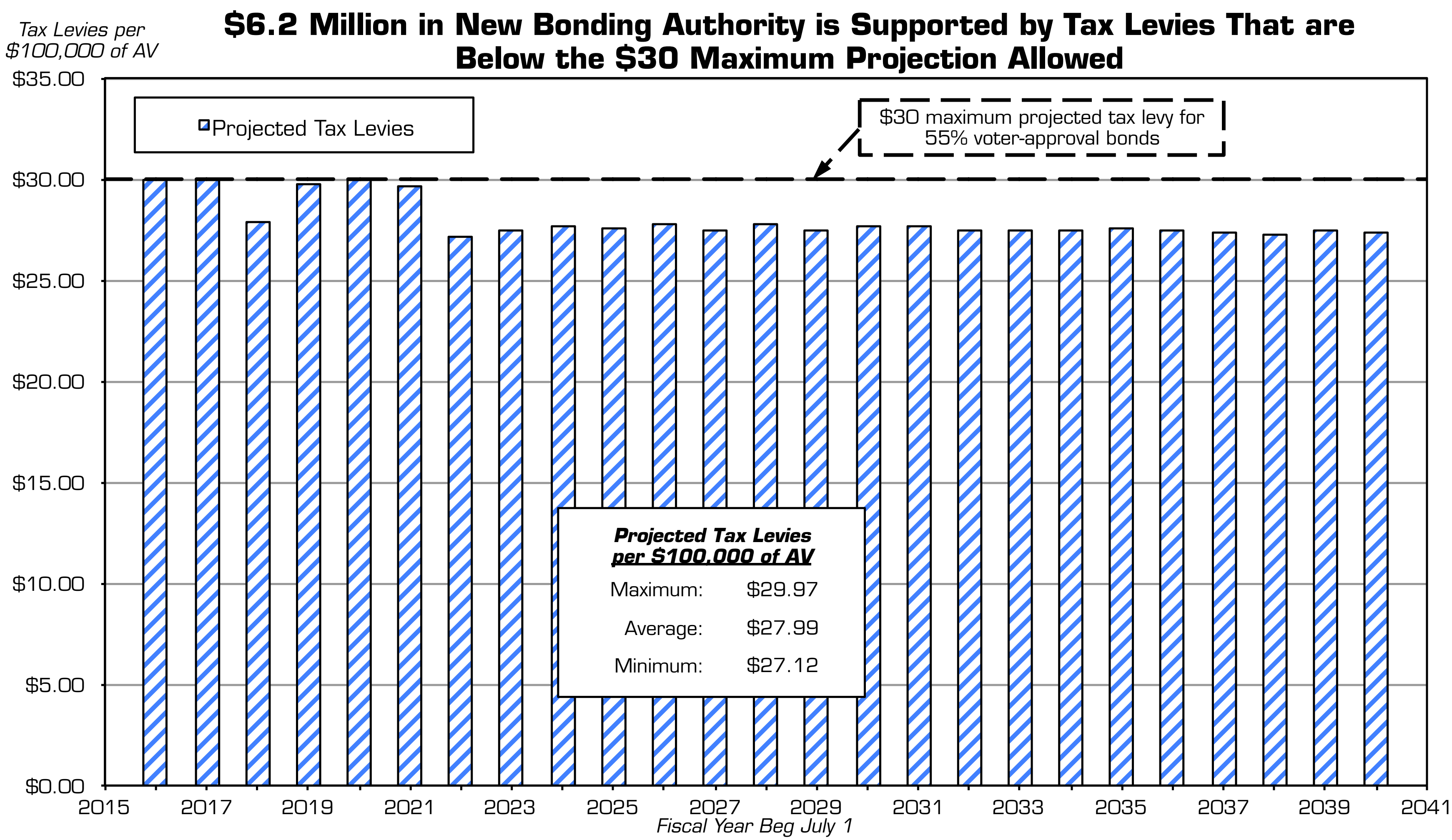
- Pro Forma Analysis Without Grapevine Development

Net Local Secured AV Assumed to Increase



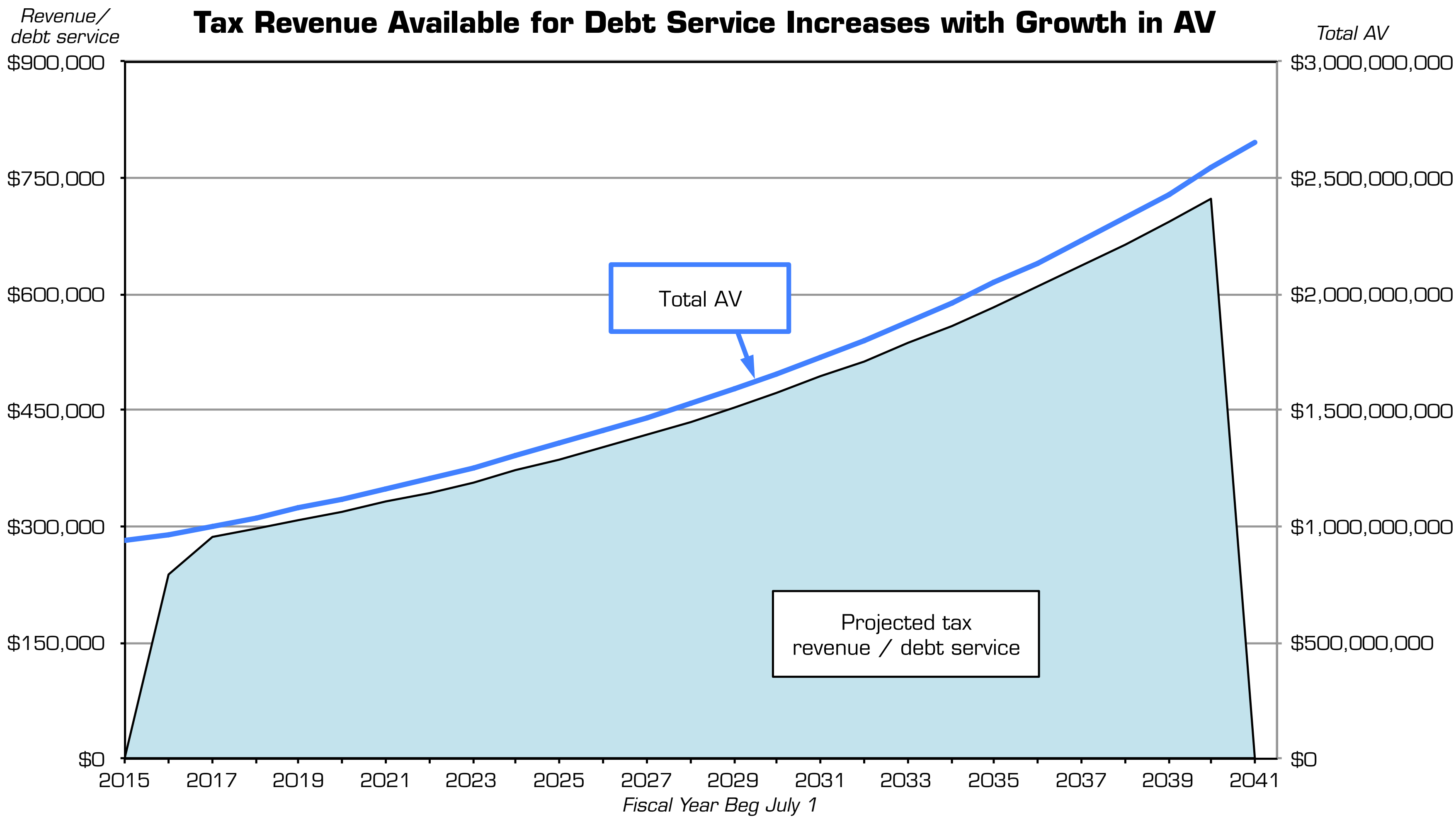
Historic assessed value (AV) provided by the Kern County Auditor-Controller's Office; 2015-16 AV is preliminary The District's total AV is comprised of net local secured, net unsecured, mineral (oil), and other (utility & homeowners exemption). As homeowners exemption & unsecured components are relatively small and tend to be subject to less predictable volatility, the AV focuses on net local secured. Mineral valuation is based on the lesser of two calculation methodologies, one taking proven reserves at market values less expenses, the other is based off base year values. With depletion rates varying by oil field and unknowable future oil prices making AV projections for mineral values nearly impossible to project over the term of a general obligation bond, mineral values are assumed to remain unchanged.

Taxing Rates ≤ $30 / $100,000 AV



Notes: tax levies based on assumed issuance with "AAA" MMD rates as of Aug 26, 2015, plus 125bp for assumed "A" rating of bonds, plus increases for potential rate changes before bond issuance (+125bp for 2016). Net local secured AV is assumed to increase 4% for 2016-17, & 5% annually thereafter, while all other AV types are assumed to remain unchanged. Net collection assumes County reserve policy (first 10 months of following FY debt service) less assumed revenue. Assumed revenue based on historical data for other Kern Co. districts: unitary revenue = 3% of debt service + reserve collection, other revenue = 1.0% of debt service + reserve collection, & additional receipts = 5% of debt service + reserve - prior reserve. Reserve collected by County applied to last payment.

Stable Tax Rate → Bond Payments Grow w/Proj. AV



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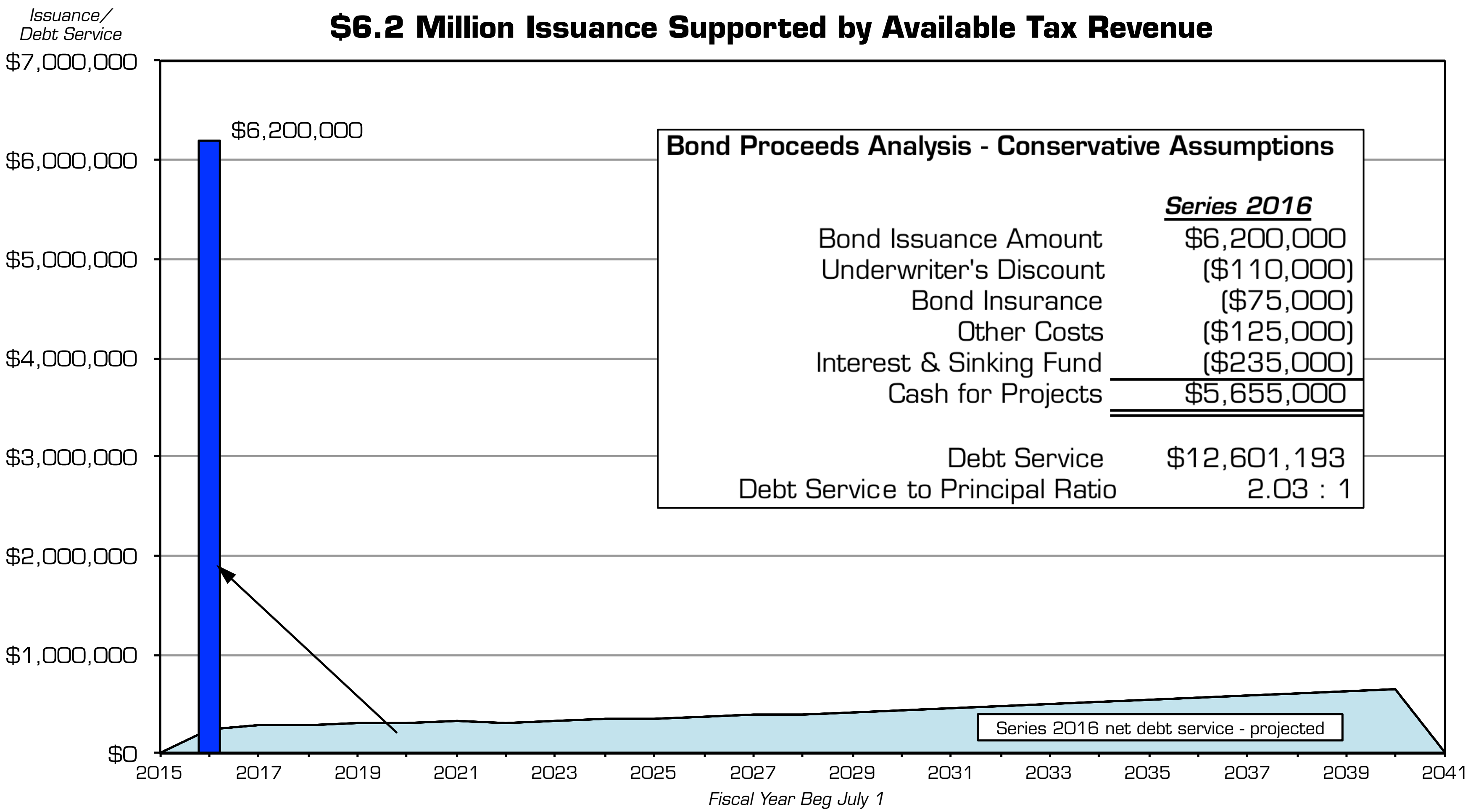
Conservatively Projected Proceeds



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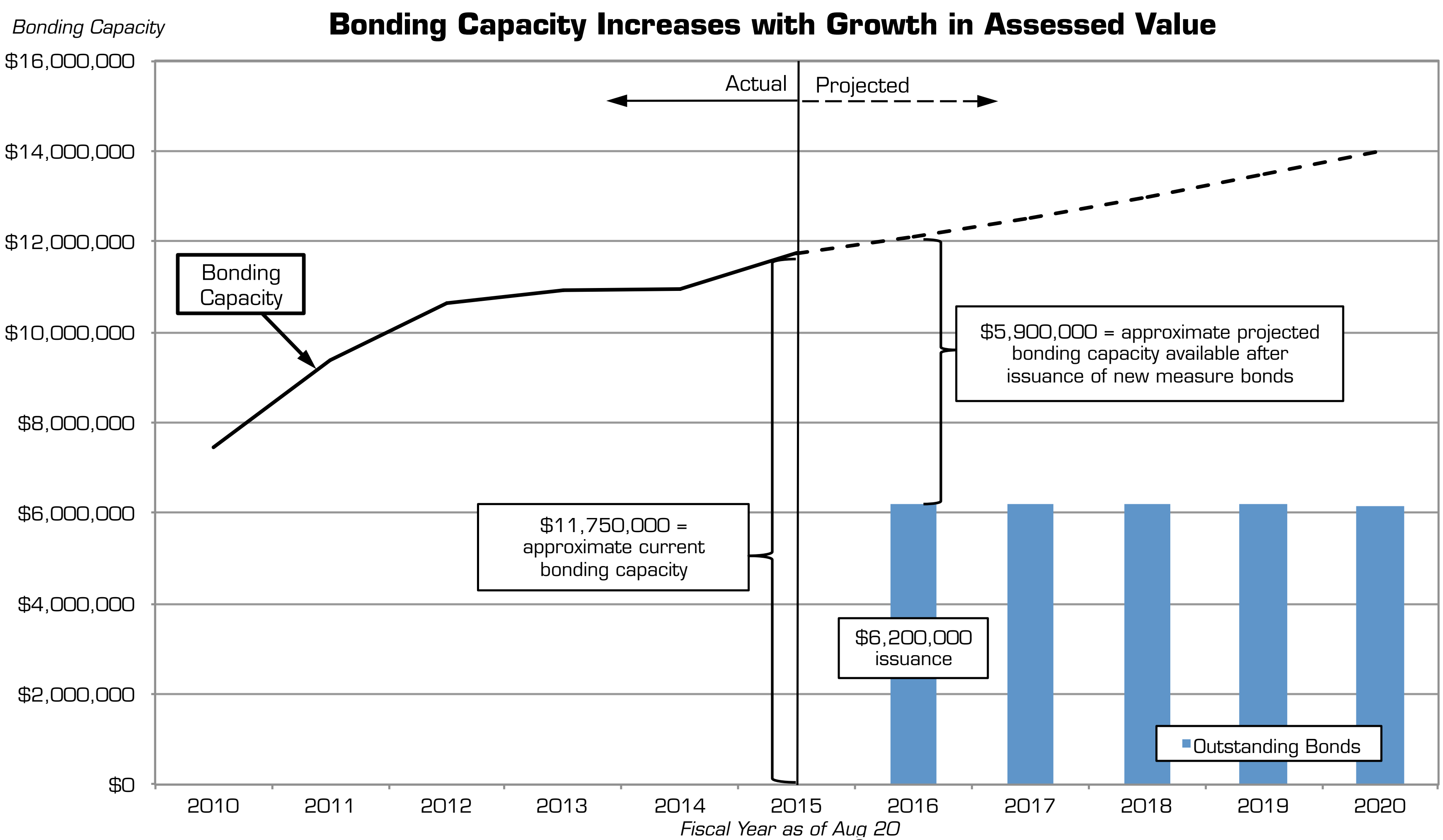
Bonding Capacity Sufficient

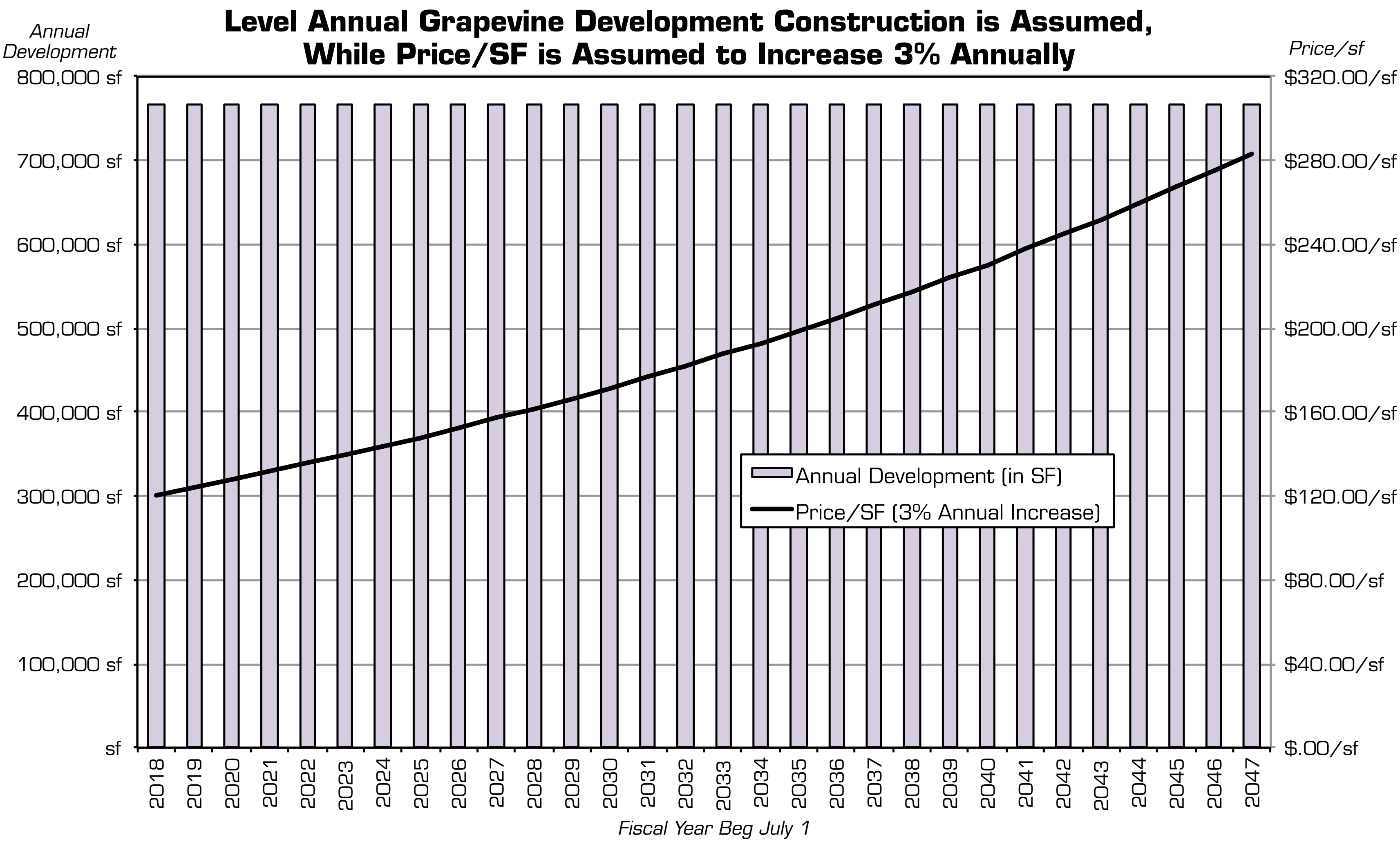


Note: The District's statutory legal bonding capacity limitation is 1.25% of the District's total assessed value. Projected bonding capacity is based on 2015-16 AV, and assumes net local secured AV growth of 4% for 2016-17, & 5% annually thereafter, while all other AV types remain constant. Bonding capacity is as of August 20 when secured roll becomes "equalized." Values rounded.

Pro Forma Analysis: With Grapevine Development

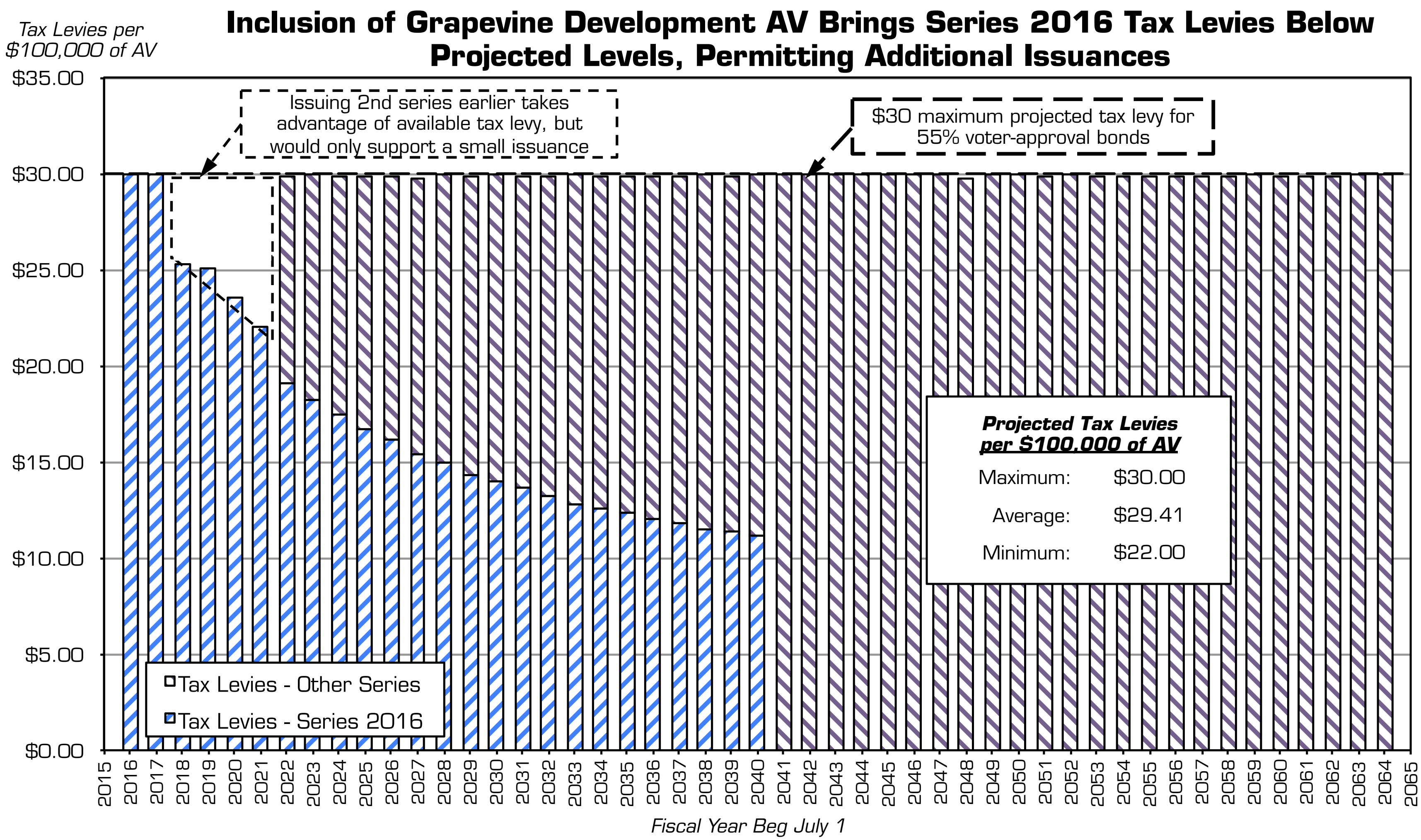
- Pro Forma Analysis With Grapevine Development

Assumed Buildout of New Homes



Notes: Total Grapevine Development provided in units from *The Grapevine Master Plan, Kern County, CA*, by Myers Research - November 2014. Square footage and average price per square foot calculated. With 766,623 sf of development per year for 30 years assumed, total devleopment is 22,998,697 sf.

Taxing Rates ≤ $30 / $100,000 AV



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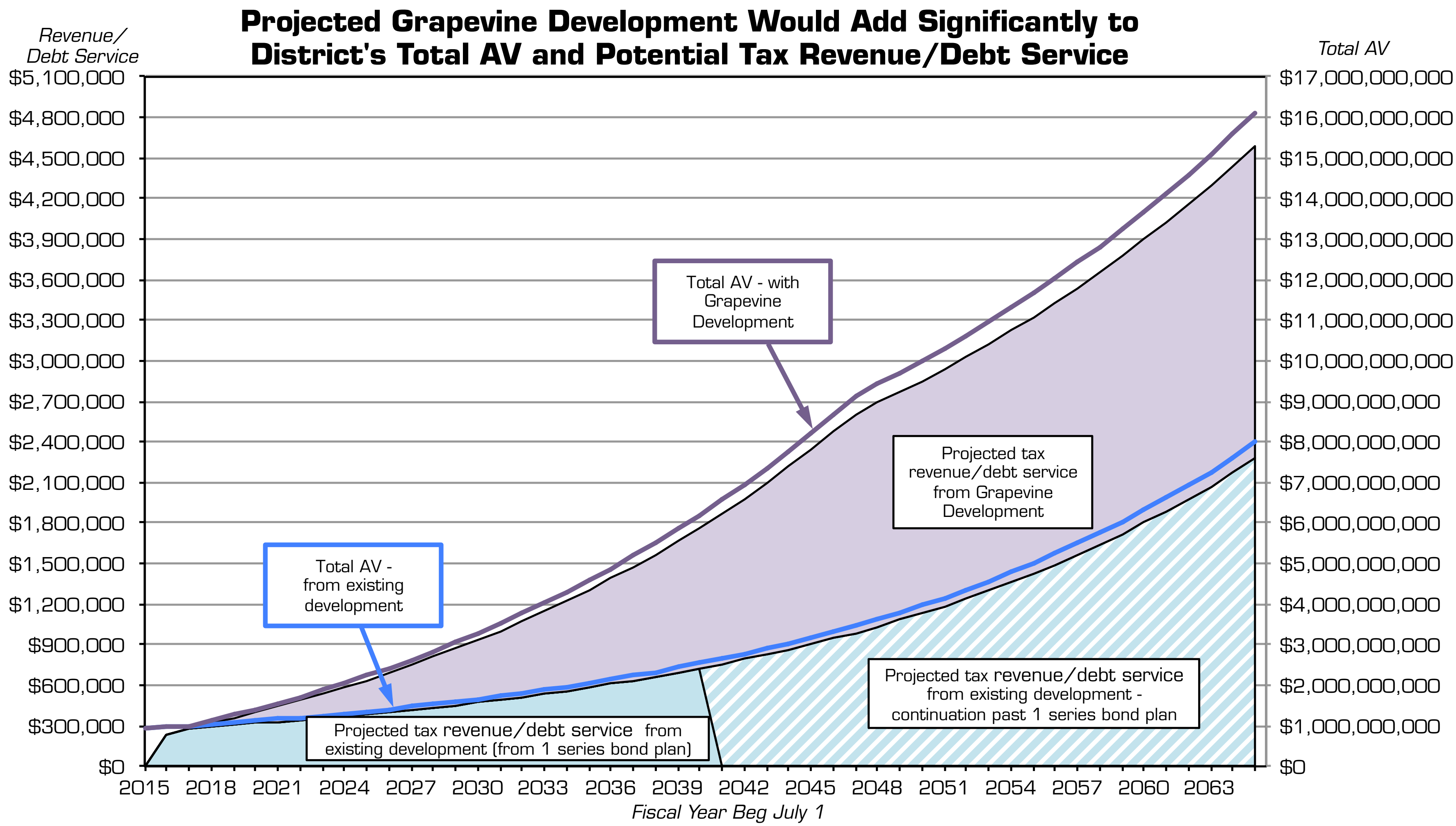

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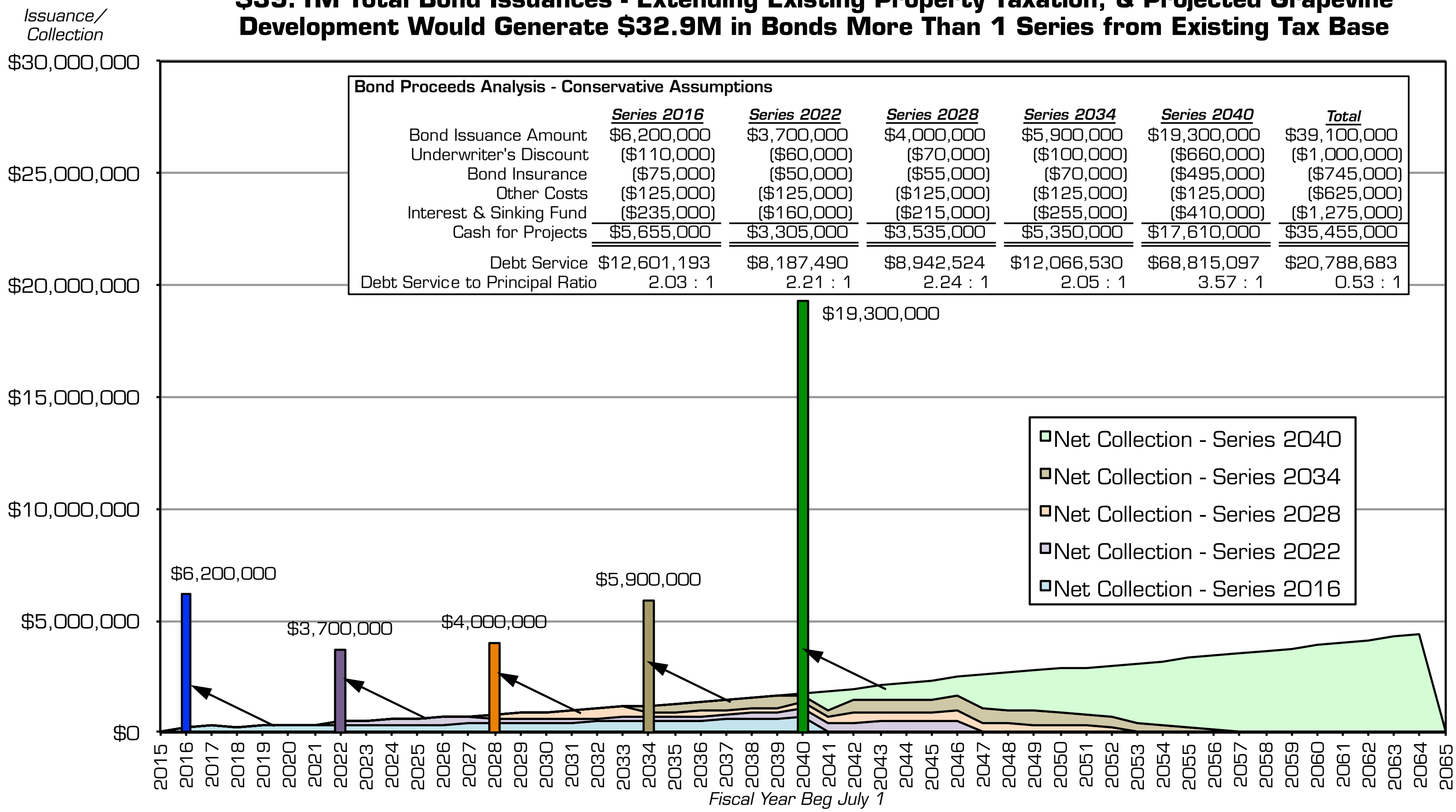
Conservatively Projected Proceeds

$39.1M Total Bond Issuances - Extending Existing Property Taxation, & Projected Grapevine Development Would Generate $32.9M in Bonds More Than 1 Series from Existing Tax Base

Bond Proceeds Analysis - Conservative Assumptions

	Series 2016	Series 2022	Series 2028	Series 2034	Series 2040	Total
Bond Issuance Amount	$6,200,000	$3,700,000	$4,000,000	$5,900,000	$19,300,000	$39,100,000
Underwriter's Discount	($110,000)	($60,000)	($70,000)	($100,000)	($660,000)	($1,000,000)
Bond Insurance	($75,000)	($50,000)	($55,000)	($70,000)	($495,000)	($745,000)
Other Costs	($125,000)	($125,000)	($125,000)	($125,000)	($125,000)	($625,000)
Interest & Sinking Fund	($235,000)	($160,000)	($215,000)	($255,000)	($410,000)	($1,275,000)
Cash for Projects	$5,655,000	$3,305,000	$3,535,000	$5,350,000	$17,610,000	$35,455,000
Debt Service	$12,601,193	$8,187,490	$8,942,524	$12,066,530	$68,815,097	$20,788,683
Debt Service to Principal Ratio	2.03 : 1	2.21 : 1	2.24 : 1	2.05 : 1	3.57 : 1	0.53 : 1



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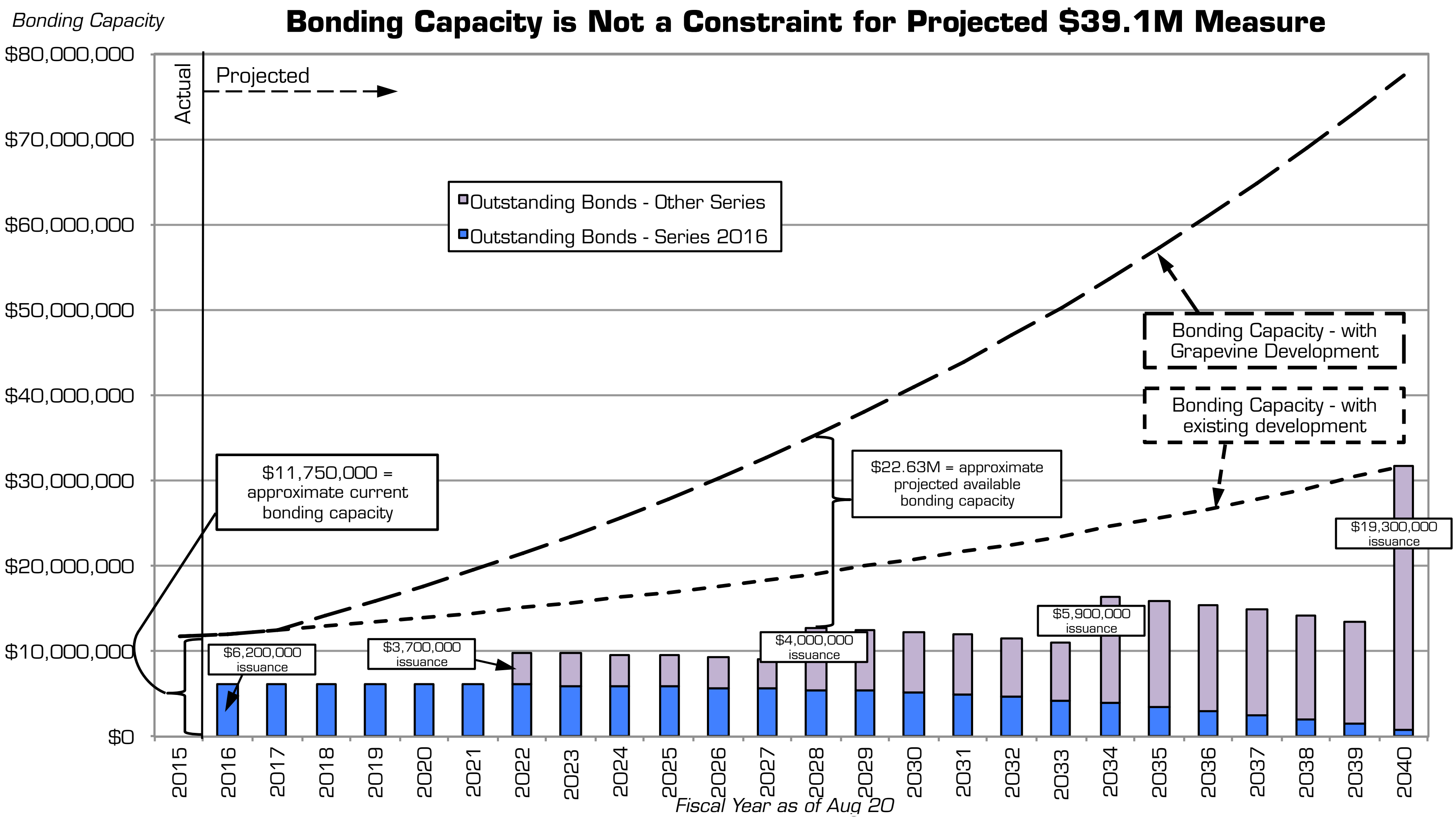
Bonding Capacity Sufficient



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Additional Considerations

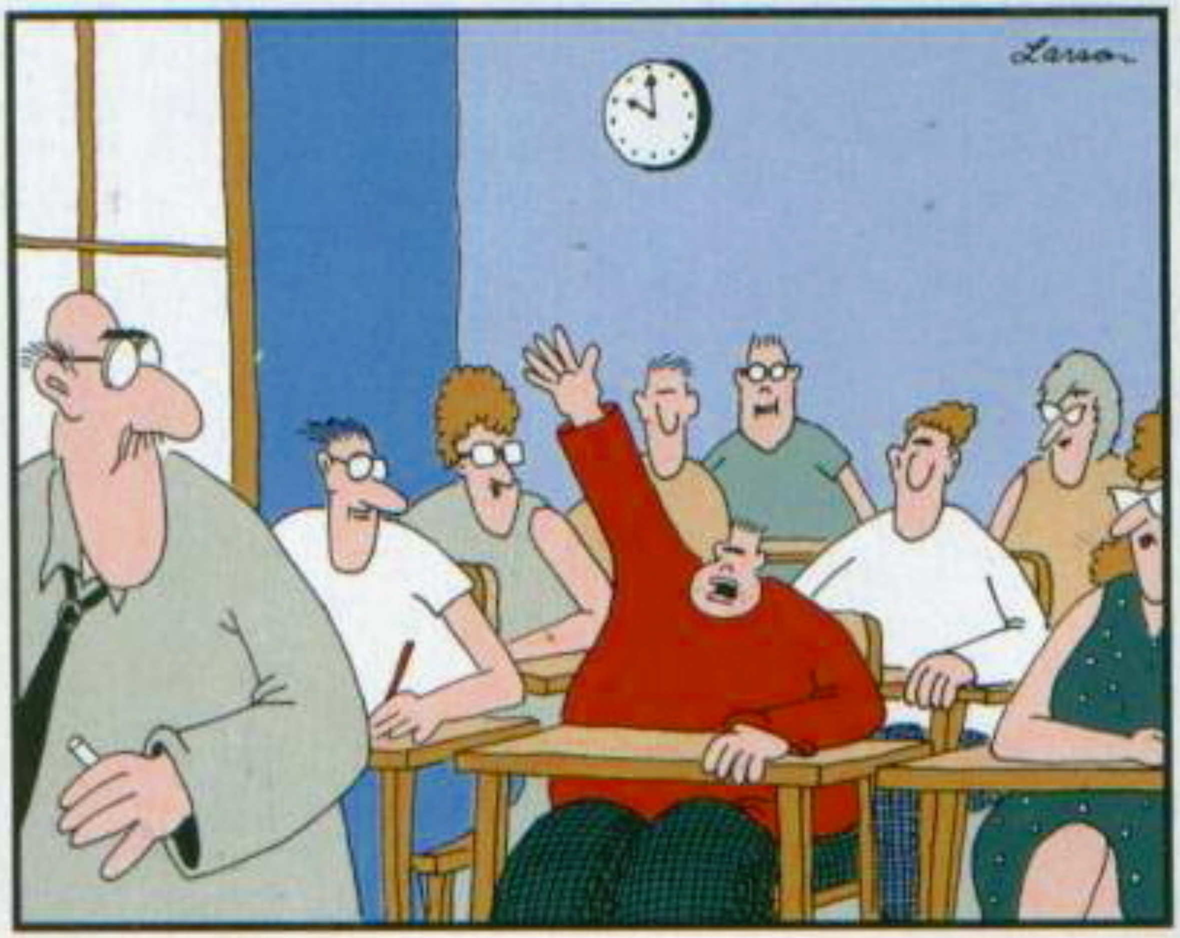
- Put bond measure on 2016 ballot, based on current conditions
  - Current tax base not sufficient to take care of existing needs
- Can put a larger authorization amount on ballot so that we can issue more bonds with future growth in AV
- There is no guarantee that the amount of bonds we can issue, given AV and tax rate constraints, will be sufficient to support future needs

Sample June 2016 Bond Election Schedule

- We need to understand the timing requirements to preserve options.

DATE	ITEM	RESPONSIBILITY
In Process	Initial demographic/financial research and analysis to determine funding potential of existing tax base (completed) and tax base increase resulting from Tejon Ranch development.	Govt. Financial Strategies
Thursday, September 3, 2015	**Board Meeting:** Information presentation regarding potential bond measure and public engagement process.	Govt. Financial Strategies
September 2015	Bond counsel selection process - develop list of potential firms, obtain fee quotes, and select firm.	Govt. Financial Strategies District
To be Determined	Public engagement process. Further Information:	District Govt. Financial Strategies
October 2015 - November 2015	Development of bond measure facilities and financial plan.	Govt. Financial Strategies
Tuesday, December 8, 2015	**Board Meeting:** Presentation of proposed bond measure facilities and financial plan. Informal approval of plan by Board.	District Govt. Financial Strategies
December 2015	Development of bond resolution and ballot statement.	Bond Counsel District Staff Govt. Financial Strategies
Tuesday, December 29, 2015	**Board Agenda Deadline:** Bond resolution and related documents delivered for Board Agenda packet.	Bond Counsel District
Tuesday, January 5, 2016	**Board Meeting:** Board considers resolution calling for election.	School Board Bond Counsel
Friday, March 11, 2016	Statutory deadline for filing election resolution & tax rate statement with County (88 days prior to election).	District
Tuesday, June 7, 2016	**Election Day.**	**District Voters**

Questions or Comments?



"Mr. Osborne, may I be excused?
My brain is full."

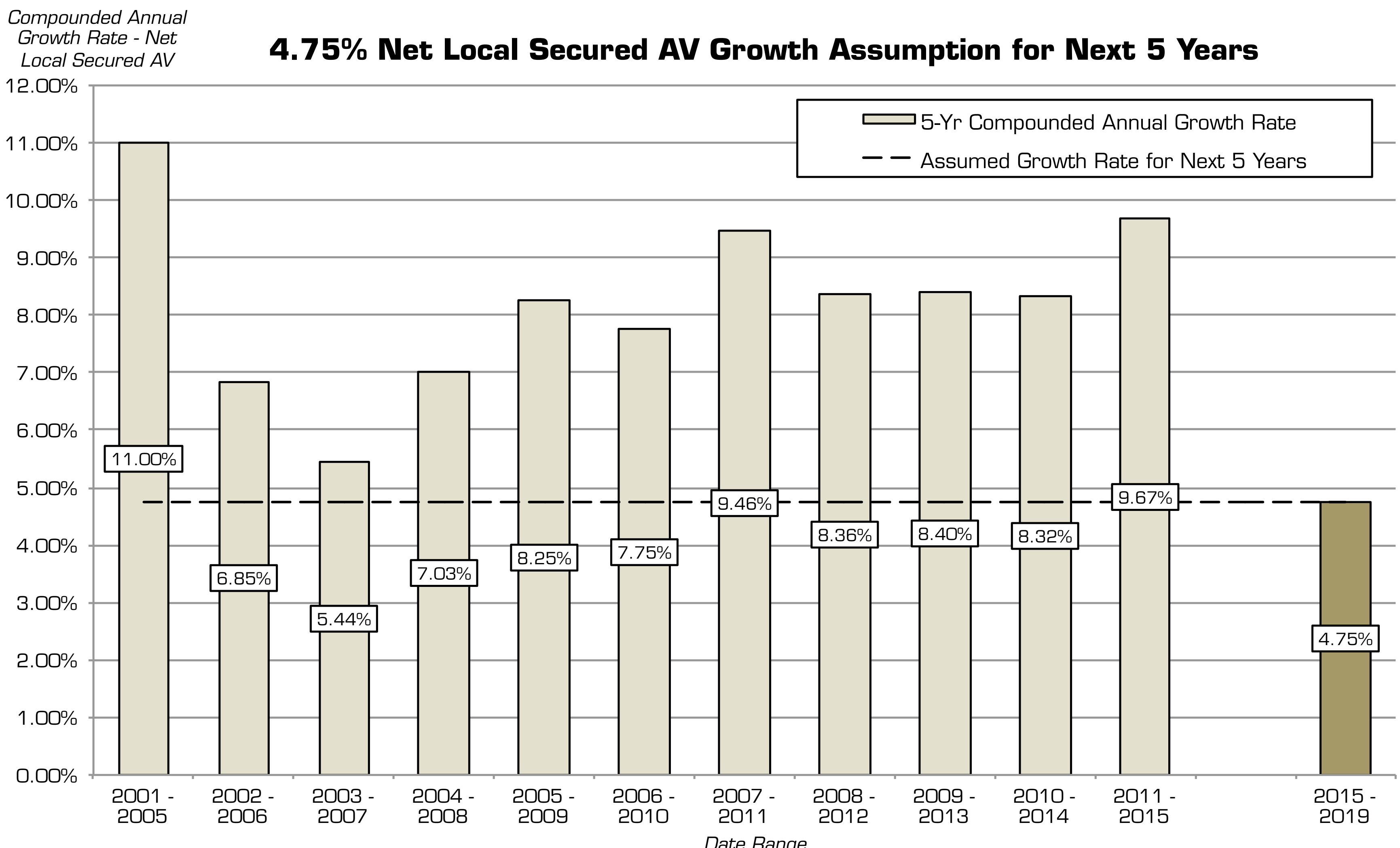
For Reference

- Assessed Value
  - Assumptions - Historical Tests
- Additional Information Regarding General Obligation (G.O.) Bonds

Assessed Value

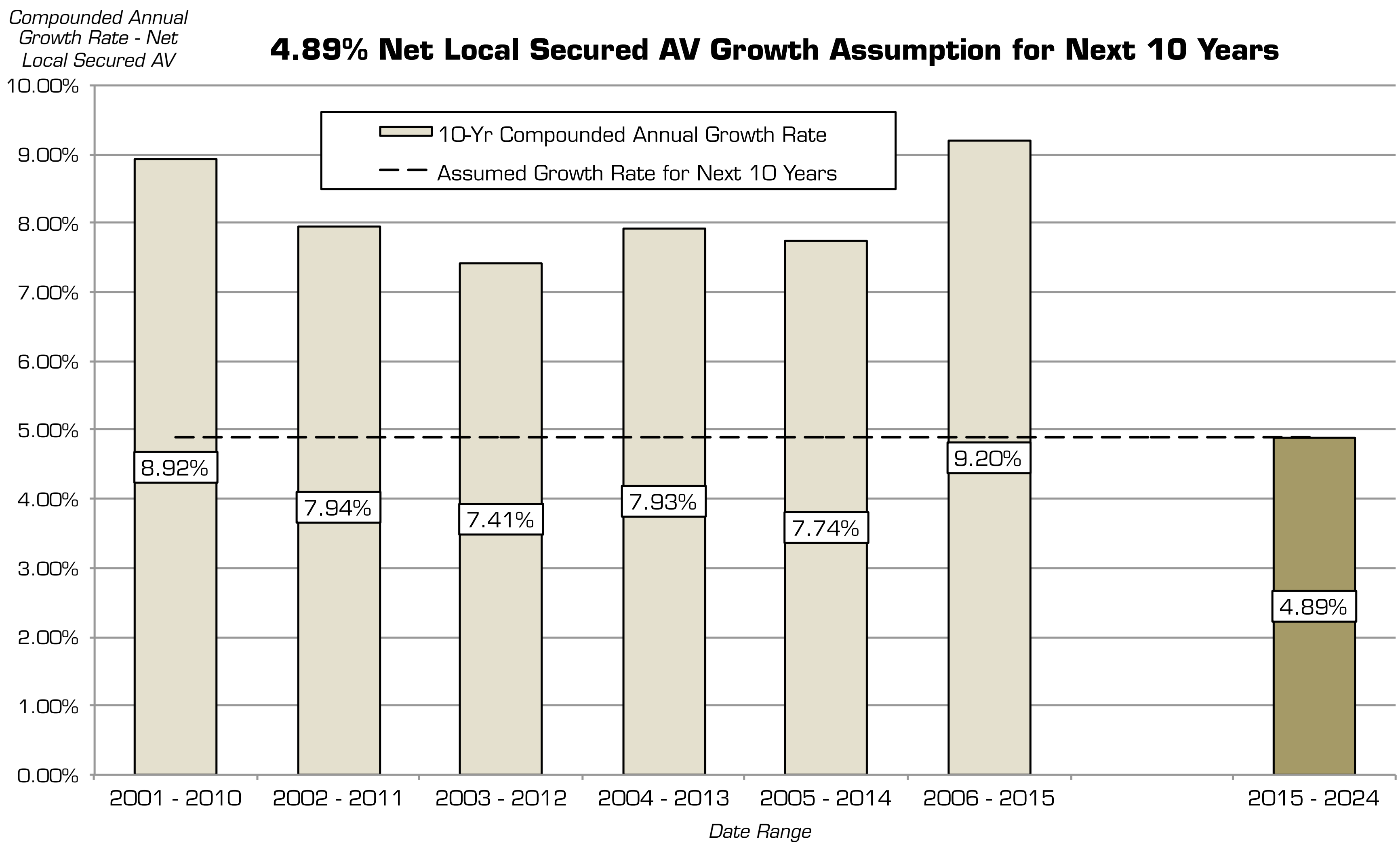
- Assumptions - Historical Tests

Historical AV Analysis - 5 Year Periods



Historical data from Kern County Auditor-Controller's office; 2015-16 AV is preliminary. Net local secured AV is assumed to increase 4% for 2016-17, & 5% annually thereafter, while all other AV types are assumed to remain unchanged.

Historical AV Analysis - 10 Year Periods



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Additional Info. Regarding G.O. Bonds

- Comparison of 2/3 vs. 55% Voter Approval Bonds

2/3 vs. 55% Voter Approval G.O. Bonds

Subject	55% Voter Approval	Two-Thirds Voter Approval
Board Approval Required To Place Measure on Ballot	Two-thirds	Majority
Allowable Election Dates	Primary or general election, regularly scheduled local election, or statewide special election	Any Tuesday that is not the day before or the day after a State holiday, or within 45 days of a regularly scheduled election
Maximum Projected Tax Rates/Levies	For unified district, $60 per $100,000 of assessed value; for union district, $30 per $100,000 of assessed value	No projected maximum tax rate
Bonding Capacity (i.e. Maximum Bonds Outstanding)	2.5% of assessed value for unified districts and 1.25% of assessed value for union districts	2.5% of assessed value for unified districts and 1.25% of assessed value for union districts
Audits	Independent financial and performance audits must be conducted annually	None specifically required
Oversight Committee	If election is successful, Board must establish independent citizens oversight committee within 60 days of Board adoption of resolution declaring election results	None specifically required
Allowable Expenditures	Construction, reconstruction, rehabilitation, or replacement of school facilities, including furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities	Acquisition or improvement of real property
Facilities List	State Constitution requires a list of the specified school facilities project(s) to be funded	No requirement for a specific facilities list