County School Facilities Consortium

CSFC
County School
Facilities Consortium

Case Studies of Successful COE Facilities Projects

Government
Financial
Strategies
inc.

Presented by Lori Raineri
September 25, 2012

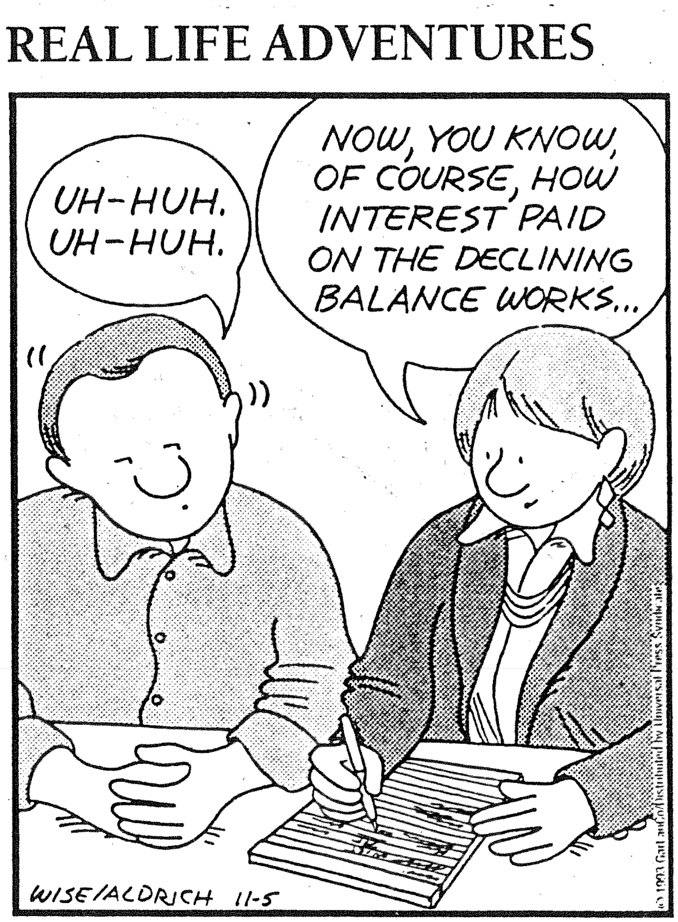
Introductions

- Lori Raineri, President, Government Financial Strategies
  - Certified Independent Public Finance Advisor
  - Certified Fraud Examiner

Today's Agenda

- Review of COE Responsibilities & Functions
- Case Studies of Successful Facilities Projects

Ars Longa, Vita Brevis



Medical science has yet to discover the bone in your head that makes you nod knowingly when you don't have a clue.

- ✔ **Questions throughout - please!**
- ✔ **Questions after and later - We're here to help!**

The Role of a COE

- Provide leadership, resources, and support to school districts
- Administer State laws and policies
- Monitor the financial condition of school districts
- Oversee the reorganization of school district boundaries
- Serve as an appeal board for certain school issues
- Supplement traditional schools with educational programs

Diverse Opportunities & Challenges

Outdoor Education Program

Energy Bill Savings

Property Seller Donation

Redevelopment Revenue

Property Trade

Solar Energy Academy

Rental Revenue

Community School

Private Business Use

Charter School

State Funding

Qualified Zone Academy Bonds

Your Work is Complex

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

5 Case Studies of Facilities Projects

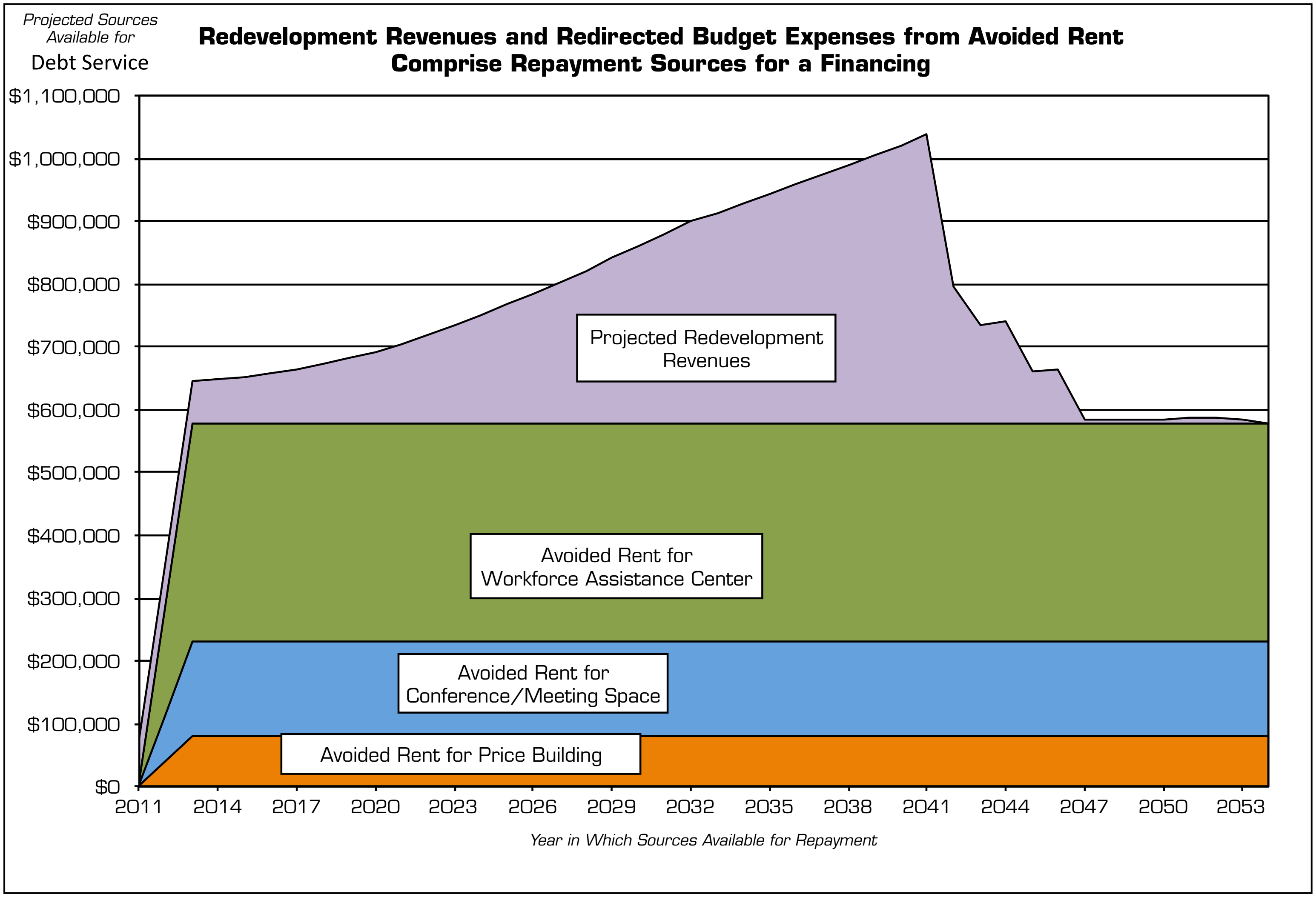
- Administration Facility – New Construction
- Administration Facility – Acquisition/Retrofit
- Outdoor Education Camp
- Solar Energy Academy & Equipment
- Charter and Community Day Schools

Madera COE - Instructional Support

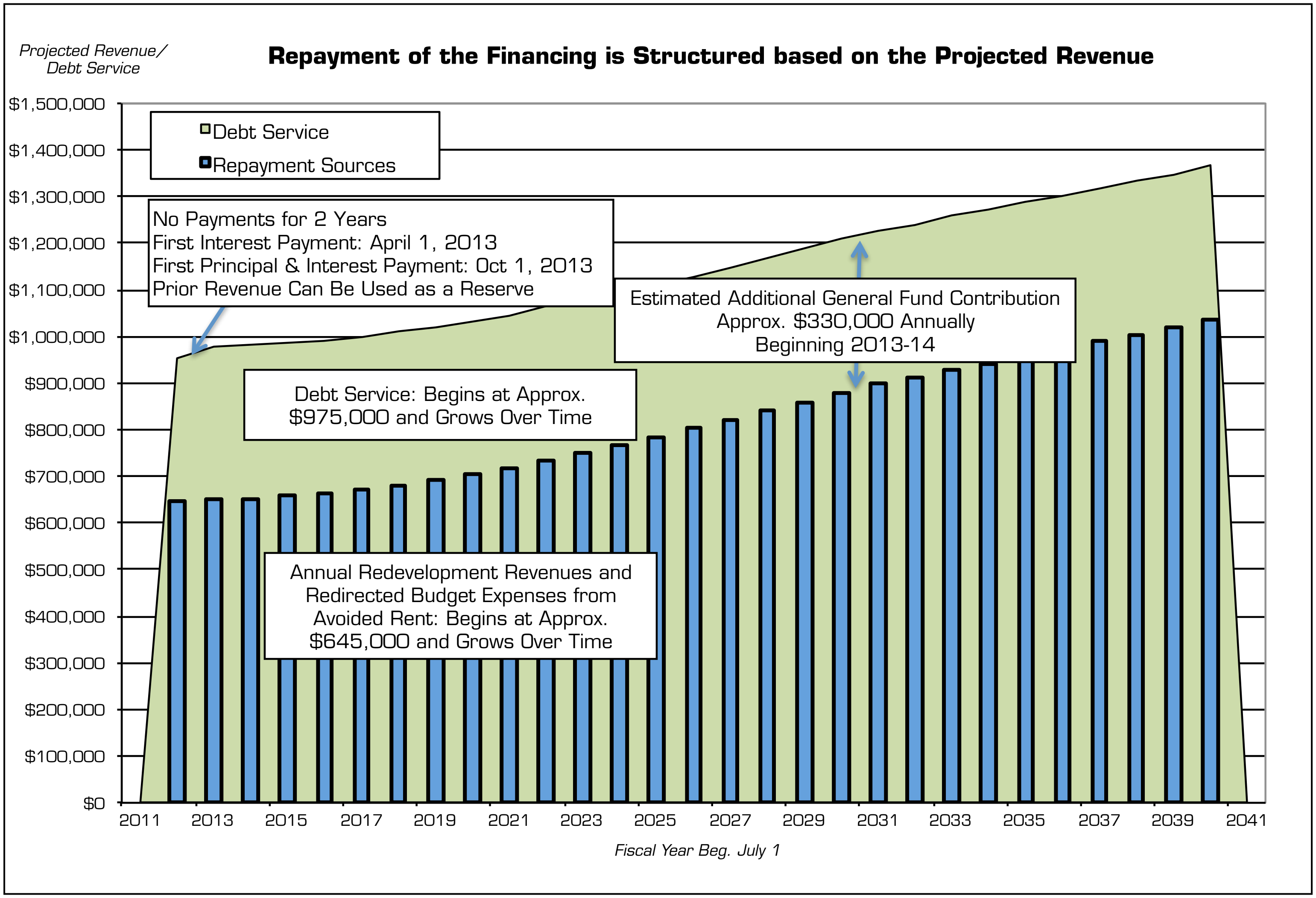
- Last year, the Madera County Office of Education wanted to build an instructional support center. This would accommodate a number of functions including:
  - Teacher and Administrator Training
  - Conference and Meeting Space
  - Educational Resource Center
  - Hospitality Academy for Pioneer Technical Center
  - County Office of Education Administration
- The County Office of Education would no longer need to rent or lease space for these activities.
- The estimated hard cost of construction was $11 million.

The Vision

Planned Financing Repayment Sources



Planned Debt Service Budget



Financing Results

COMPETITIVE BIDDING RESULTS Bid #	Name of Bidder	True Interest Cost (TIC%)	Approximate Difference in Present Value From Winning Bid
1	**Southwest Securities, Inc.**	**6.133557%**	**n/a**
2	Hutchinson, Shockey, Erley & Co.	6.230593%	$166,311
3	Stone & Youngberg LLC	6.385378%	$285,462
4	Morgan Stanley & Co Inc	6.949515%	$1,402,764

- ✔ ***The COE received nearly $500,000 more for the project from the financing than budgeted.***
- ✔ ***Debt service payments were lower than budgeted by, on average, $46,000 annually – a total of $1.3 million over the 30 year term.***

A Potential Wrinkle in the Plan?

- Redevelopment agencies (RDAs) were eliminated as a result of legislation signed into law June 2011 and upheld by the California Supreme Court in December 2011.
- County Auditor-Controllers are required to pay LEAs the amount that would have been paid had the RDA not been eliminated, and subject to the same percentage of revenue limit offset as what LEAs previously had.
- However, a trailer bill passed in June 2012 calls for the RDA revenues to stop once the RDA debt has been repaid.
- In Madera, the RDA debt is scheduled to be repaid in 2038, three years earlier than planned.
- New legislation and risk mitigation steps are being pursued.

The Facility

- **The Instructional Support Center is under construction and expected to be completed in October 2012.**

Yolo COE - Administration Facility

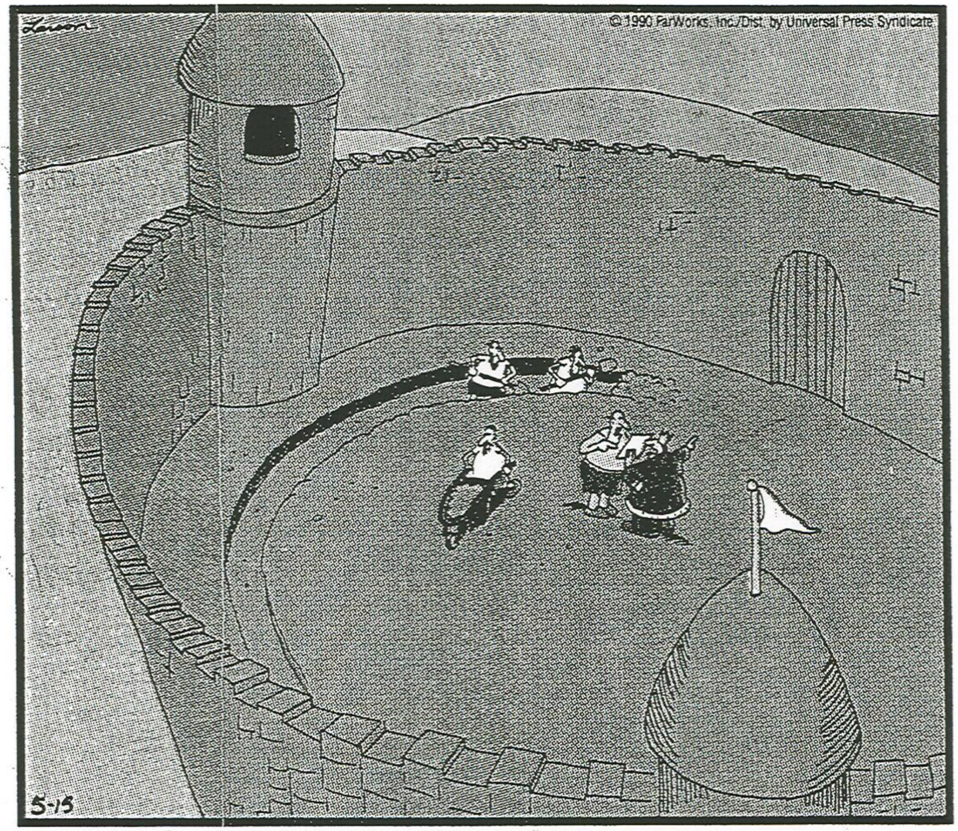
- In early 2004, the Yolo COE began the process of looking for new central facilities for administration facilities.
- YCOE had been renting 28,000 square feet of space in Woodland, for which the lease expired in 2005.
  - The costs of leasing and maintaining the facility were increasing.
  - The layout was not satisfactory.
  - There was insufficient space for expansion.
- YCOE formed a project team including COE staff, a real-estate broker, an architect, and a financial advisor.
- YCOE also wished to leverage its redevelopment revenues in the acquisition of new space.

New Facility Identified

- After considering several other options, a 74,000 square foot building located on 6.19 acres was identified.
  - Formerly the headquarters of Valley Media, a wholesale music distribution company which declared bankruptcy in 2002.
  - Was owned by a prominent Sacramento area real estate investor.
  - Was mostly empty and unimproved, but approximately 24,000 square feet was being rented to two private companies.
  - Provided sufficient space for current and future office needs, conference facilities, and rental revenues.

Good Planning is Important!

THE FAR SIDE



Suddenly, a heated exchange took place
between the king and the moat contractor.

Financial Feasibility

- A financial feasibility cash flow projection was prepared, specifically tailored to financing the purchase and improvement of this building.
- Projected annual revenues included:
  - Redevelopment revenues
  - Rental Revenues
- Projected annual expenditures included:
  - COP debt service and administration
  - Repair and maintenance
  - Utilities
  - Property taxes
  - Other

✔ *Projected cash flow showed that General Fund contributions would be required, but at acceptable levels.*

Overview of Purchase Transaction

- The purchase transaction included:
  - YCOE trading a no longer needed site to the seller.
  - Seller donating the $65K difference between the appraised value and the lower purchase price.
  - Donation from a private developer.

- The remaining purchase price was funded with a combination of cash on hand and borrowed proceeds.

- The cash on hand was allocated to the portion of the building being rented (possible because a wall separated the areas).
  - Under Federal regulations, it would not have been possible to finance the rented area at tax-exempt interest rates.

Purchase Transaction Detail

Project Costs	
Appraised Value of Property:	$5,250,000
Less: Seller Donation:	- $65,360
Purchase Price:	$5,184,640
Purchase Price:	$5,184,640
Improvements:	$1,575,000
Furniture & Equipment:	$525,000
Other:	+ $1,160,125
Total Costs of Project:	$8,444,765
Funds/Revenues Available	
Value of Property Traded To Seller:	$770,750
Donation from Developer:	$250,000
Redevelopment Funds on Hand:	+ $800,000
Total Non-Financed Funds/Revenues Available:	$1,820,750
Total Costs of Project:	$8,444,765
Total Non-Financed Funds/Revenues Available:	- $1,820,750
Amount To Be Financed:	$6,624,015

Maintaining Fully Tax-Exempt Financing

Purchase Price:	$5,184,640
% of Building Space Used by Private Tenants:	x 33.50%
Amount of Purchase Price Attributable to Space Used by Private Tenants:	$1,736,854
Purchase Price:	$5,184,640
% of Tax-Exempt Proceeds That Can be Spent on Privately Used Space:	x 5.00%
Amount of Tax-Exempt Proceeds That Can be Spent on Privately Used Space:	$259,232
Amount of Purchase Price Attributable to Space Used by Private Tenants:	$1,736,854
Amount of Tax-Exempt Proceeds That Can be Spent on Privately Used Space:	- $259,232
Funds/Revenues Required to Avoid Taxable Borrowing:	$1,477,622
Non-Financed Funds/Revenues Available to Purchase Property:	$1,820,750

Financing

COMPETITIVE BIDDING RESULTS Bid #	 Name of Bidder	 True Interest Cost (TIC%)	Approximate Difference in Present Value From Winning Bid
1	**Morgan Stanley DW Inc.**	**4.786574%**	**n/a**
2	Stone & Youngberg, LLC	4.839144%	$57,241

✔ ***Interest savings helped debt service payments come under budget.***

Result

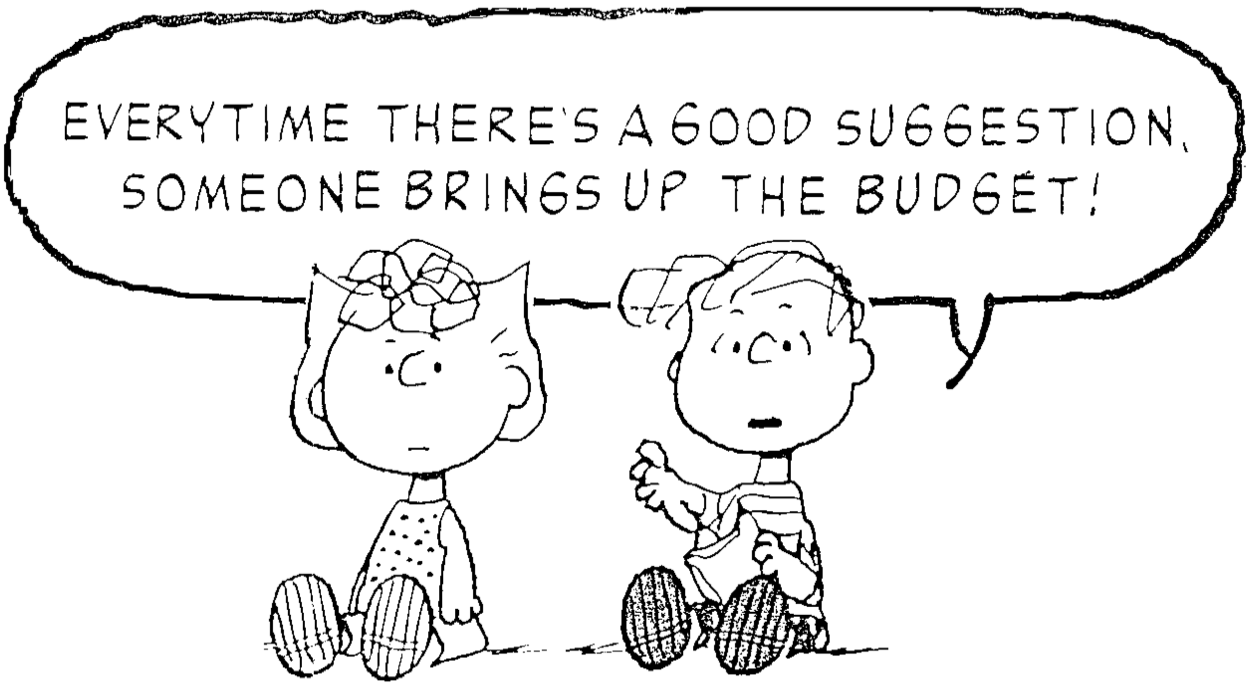
Sutter COE - Camp Purchase

- The Sutter COE had operated the Camp Woodleaf outdoor education program at a site in northeast Yuba County since 1969.
- The program was self-supporting - participating school districts paid a fee per student.
- The site was owned by a private entity - the COE leased space during the time the program was operated each year.
- In 2007, the COE was informed by the owner that the lease with the COE would not be renewed after it expired in 2009.
- The Sutter COE began looking for a new location for the outdoor education program.

Opportunity

- The COE identified that Shady Creek, an 130 acre camp site located in Nevada County, was for sale and would fulfill the needs of the program, as well as accommodate additional camp usage opportunities
- The site opened in 1999 as a private school and was later used as a campground business.
- The site was well developed, with a swimming pool, cabins, dining hall, etc.
- The property had gone into bankruptcy and was controlled by the private investor group which had provided financing to the prior owner.
- The COE saw the opportunity to acquire the property needed to continue its outdoor education program at a very good price.
- A 2004 appraisal showed the value of the property to be $5.78 million

Can We Afford It?



The Vision Meets The Details

- **A detailed 30 year (the life of the financing needed) cash flow projection was prepared taking into account:**
  - **Projected revenue sources (e.g. student fees, rents, etc.)**
  - **Projected expenditures (over 30 line item expenditures were considered, including COP debt service, various staff salaries, food, maintenance, etc.)**
  - ✔ ***The cash flow projection showed that a $4.4 million cash purchase price would allow positive cash flow over the 30 year term of the COP financing.***

- **A purchase price of $5.78 million was agreed to, comprised of:**
  - **$4.4 million cash**
  - **$1.38 million seller charitable donation**

Execution

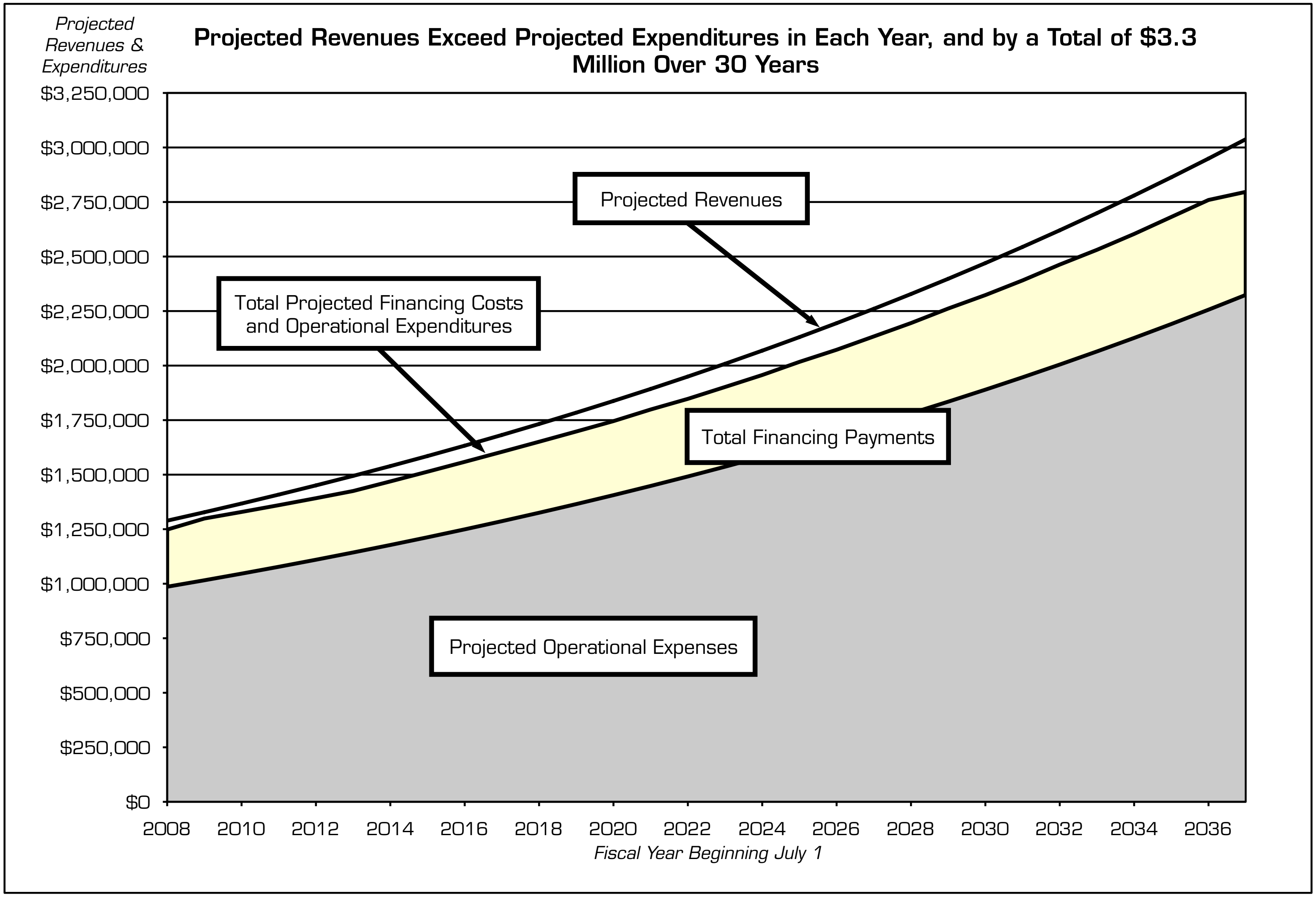
- The financing plan was presented to the Board in December 2007. The COPs were sold in February 2008.
  - Interest rates increased between December and February, but still allowed for a strong projected positive cash flow.
    - The Bond Buyer 20-Bond Index increased 65 basis points, from 4.46% to 5.11%.
- The real estate transaction closed in March 2008.
- The program's name was changed to reflect the new location.

Financing Results

COMPETITIVE BIDDING RESULTS Bid #	Name of Bidder	True Interest Cost (TIC%)	Approximate Difference in Present Value From Winning Bid
1	**Morgan Stanley & Co. Incorporated**	**5.790935%**	**n/a**
2	M. L. Stern & Co. LLC	6.023441%	$146,737

- ✔ ***The market moved against the COE - interest rates increased during the months leading up to the bond sale.***
- ✔ ***Total debt service over 30 years was $650,000 more than planned, but still below revenues with a positive cash flow.***

Projected Cash Flow - Post COP Sale



San Joaquin COE - Energy Academy

- Last year, the San Joaquin County Office of Education wanted to offer education on energy and reduce its energy budget by installing solar equipment.
- In financing the project, the COE decided to add a special feature: Qualified Zone Academy Bonds (QZABs).
- Benefit: Federal government subsidizes the interest cost.
- Federal Regulations
  - An academy: any school or program within a school
  - At least 35% of students eligible for free/reduced lunch
  - 10% private business donation (cash or in kind)
  - QZAB proceeds must be spent on modernization, equipment, and/or teacher training.

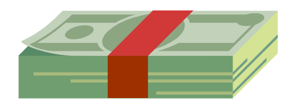
Plan for GreenIT New Energy Academy

- An academy offering education on a variety of energy topics:
  - *Energy Career Pathways*: operation of solar modules and careers in the energy sector
  - *Energy Tracking Data*: tracking and analysis of solar modules using internet-based monitoring tools
  - *Energy Ambassadors*: raise energy conservation awareness
  - *Energy Audits*: assess the COE's energy profile and work towards energy efficiency
  - *Electric Vehicle Charging Stations*: maintenance and operation of two vehicle charging stations
  - *Semi-Annual Sustainability Fairs*: participation in energy fairs and informational booths

Matching Need with Financing

- **The COE borrowed $2.8 million by issuing QZABs to purchase equipment for an outdoor solar learning laboratory**
  - **Electrical, metering, and installation equipment**

- **10% Match Private Business Donations:**
  - **PG&E Solar Schools Program: $200,000 cash**
  - **PG&E Community Relations: $30,000 cash**



  - **SolarCity: $50,000 in-kind contribution of vehicle charging stations, guest speakers and curriculum**

- **150 Business Club Partners**
  - **Commit to meet with students for 1 hour a month for 5 years with 0 financial obligation**
  - **Businesses learn about schools and help educate students**

Financing Results

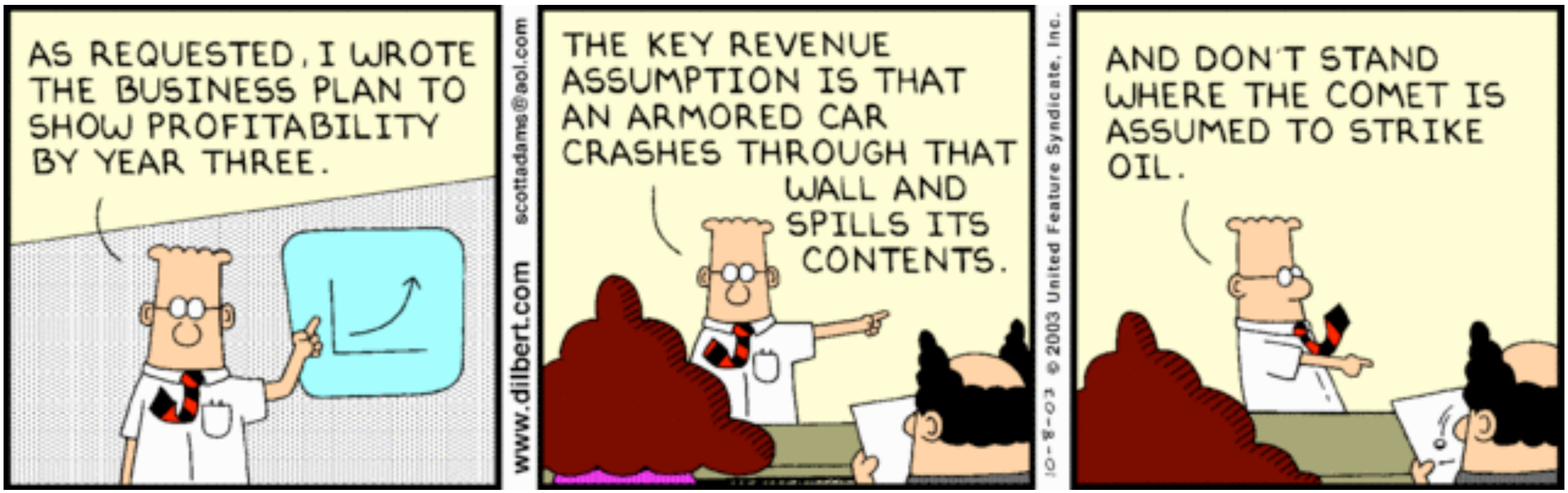
COMPETITIVE BIDDING RESULTS

Bid #	Name of Bidder	Taxable Interest Rate	QZAB Subsidy Rate[1]	Net Interest Rate	True Interest Cost (TIC%)[2]	Approximate Difference in Present Value From Winning Bid
1	**Bank of America**	**5.83%**	**5.18%**	**0.65%**	**0.71%**	**n/a**
2	Bank of Stockton	7.00%	5.18%	1.82%	1.82%	$280,312
3	Green Campus Partners	7.18%	5.18%	2.00%	2.00%	$327,237
4	Municipal Asset Management	7.64%	5.18%	2.46%	2.46%	$398,015

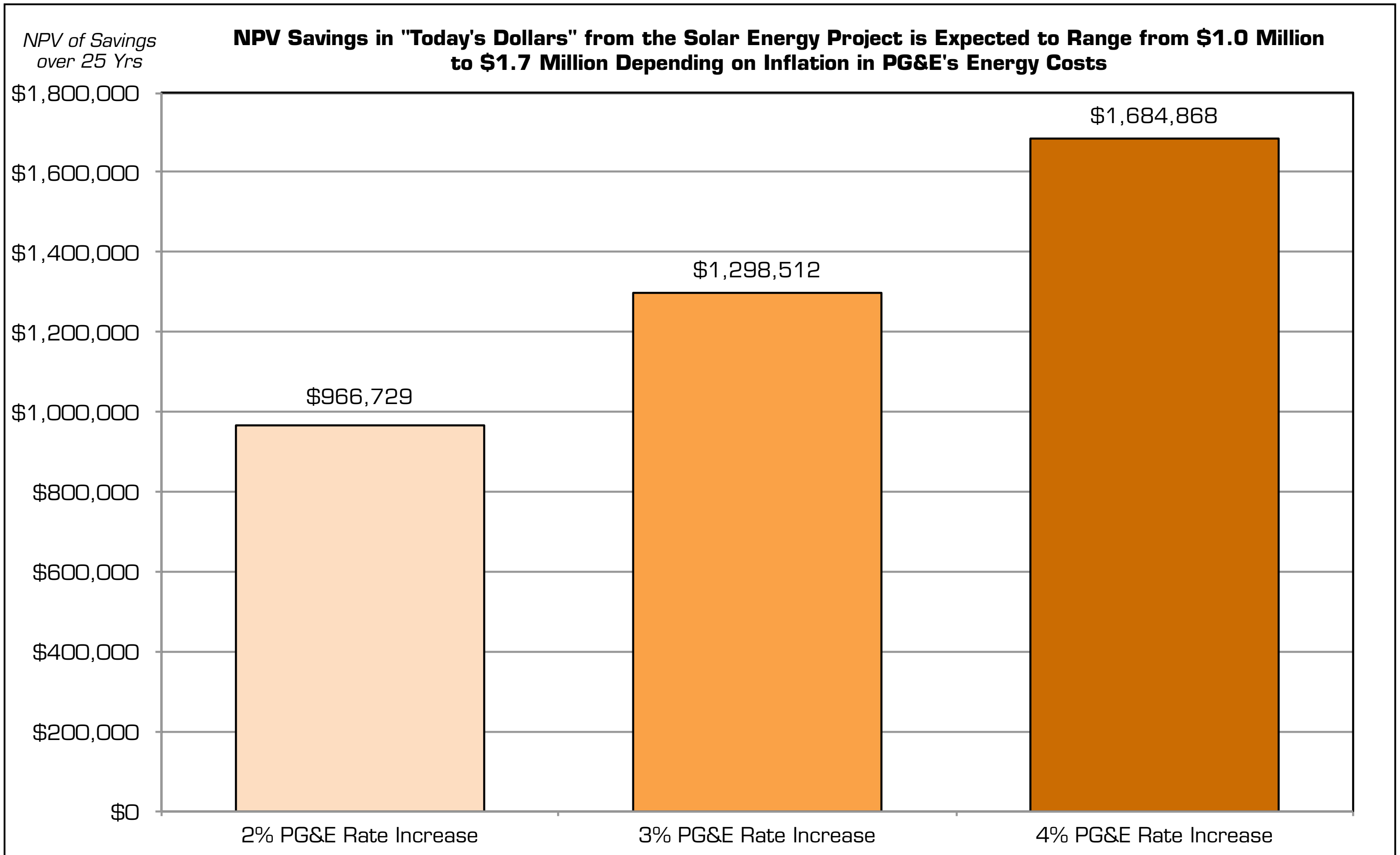
[1] QZAB subsidy rate as of July 15, 2011 is 5.18% and subject to change.
[2] TIC includes any upfront fees and expenses required by the lender.

- ✔ ***The net interest rate proposed was 0.65%, and due to favorable changes in the market, was later locked in at 0.57%!***
- ✔ ***The estimated savings compared to a traditional financing with an interest rate of 6% and a term of 30 years is $3.1 million.***

Assumptions in the Plan are Key



Net Energy Savings Across Assumptions



Notes: NPV discount rate to account for inflation assumed to be 3%. Avoided electricity costs based on 19¢ PG&E average rate. Assumes 25 year useful life of solar equipment. First 20 years of O&M costs are included in SolarCity's proposal, the remaining years estimated assuming a 2% inflation rate. Inverter replacement cost estimated per SolarCity and assumed to occur in year 20.

The Solar Installation

- A ribbon-cutting ceremony was held on March 29, 2012.
- The solar equipment shades a parking lot and supplies energy to the nearby COE administration building.

Calaveras COE - Two Schools, One Need

- In 2004, Calaveras County Office of Education had two very different schools with a common need.
  - Mountain Oaks charter school had active parent involvement and focused on homeschooling children.
  - Mountain Ranch community school (now called Calaveras River Academy) served at-risk students.
- With an emphasis on individual instruction, the schools had common facilities needs:
  - Core facilities were needed by both schools.
  - Yet they were not needed full-time by either school.

The Solution

- Shared core facilities
  - Gymnasium
  - Outdoor play areas
  - Performing arts center
  - Food service
  - Some classrooms and labs

- Retained independent identities and some separation
  - Entrances
  - Drop-offs
  - Common areas

Kicking Off the Process

- Architect firm RFQ process
  - Dedicated full day to interview 6 firms
- Facilities committee established
  - COE administration, school administration, and parents
  - Provided input on design, student needs, etc.
- Community meeting held
  - To present the project and invite public input

Funding

- The construction cost of the shared school was $10.7 million.

- The project was 100% State funded.
  - Proposition 55 Statewide $10 billion bond measure for K-12 had been approved by voters earlier in the year.
  - COE received automatic financial hardship eligibility.
  - COE also qualified for small school district benefits:
    - » Three year eligibility lock critical as Mountain Oaks became a charter school one month following eligibility approval by the State Allocation Board.
    - » Additional project funds also provided.

The Facility

Appendix

- **Overview of COE Financing Options For Capital Projects**

County Offices Cannot Take Out A Loan

Constitutional Debt Limit

- **California Constitution, Article XVI, Section 18(a):**

  > ***"No county, city, town, township, board of education, or school district, shall incur any indebtedness . . . exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the voters of the public entity voting at an election to be held for that purpose […]"***

  ✔ ***In other words, the voters must authorize long-term "debt"***

Two Ways For COEs to Borrow Money

- **Notes**
- **Lease-Purchase Agreements (including Certificates of Participation)**

✔ ***County Offices are not authorized to pursue voter approved bonds***

Notes

- Short term borrowing in "anticipation" of specified revenue
- Examples: tax and revenue anticipation notes ("TRANs"), grant anticipation notes ("GANs"), etc.
- TRANs are used to fund short-term operational cash flow shortfalls, not facilities projects
- Notes do not violate constitutional debt limit either because they are short-term (e.g. TRANs) or because repayment is from a "special fund" and/or is contingent (e.g. GANs)

Lease-Purchase & COPs

- **Despite the name, from a financial standpoint a lease-purchase agreement is not the same as a lease or rental agreement, it is more like a loan.**
- **Lease-purchases can be used to finance equipment and real property projects.**
- **Lease-purchases are not "debt" because either the obligation to repay is contingent on an annual budget appropriation (= "annual appropriation" structure) or "use and enjoyment" of the asset leased (= "abatement" structure).**
- **Certificates of Participation ("COPs") are a method of packaging a lease-purchase to look like a bond for sale to traditional bond investors in the municipal bond market.**

> ***"Certificates of Participation evidencing . . . fractional . . . interests . . . in rental payments."***

Choosing COPs or Standard Lease-Purchase

- **COPs are more expensive to issue than a standard lease-purchase; however:**
  - **Access to the conventional bond market provides lower borrowing rates ("points" vs. interest rate)**
    - ✔ ***The longer the borrowing term and the larger the borrowing amount, the more likely COPs will be more cost effective than a standard lease-purchase***
  - **The conventional bond market accepts longer term and larger borrowings than leasing companies**

✔ ***Although the issuer may have a specific repayment source in mind (e.g. developer fees), lease-purchases & COPs are ultimately an obligation of the general fund.***

Qualified Zone Academy Bonds ("QZABs")

- Originally authorized by Taxpayer Relief Act of 1997 – currently funded by ARRA (2009).
- Effectively allows for borrowing at relatively low interest rate (e.g. 1% - 2%) because lender receives tax credit or borrower receives interest subsidy.
- Permitted expenditures - rehabilitate, repair and equip a public school facility to house a "qualified zone academy" (may not be used for new construction). Can also be used for instructional materials and teacher training.
- Must apply to CDE for issuance authorization and there are certain application requirements.
- Maximum per academy - $5 million (can submit applications for up to 6 academies, for a total of up to $30 million).