Mt. Diablo USD News Update

Where Kids Come First

April 10, 2012

As we approach the middle of the spring fundraising season, I want to thank parents, staff, and local businesses for all that you do to enhance our children's educational program. Your efforts make a real difference in the quality of our children's education at a time when we must do more with less. We are truly grateful that you choose to invest your time and energy to benefit our children.

Measure C Update

In June 2010, voters in our District approved Measure C, a $348 million bond measure, to renovate and upgrade schools throughout the District. This successful election followed an earlier bond measure approved by voters in 2002. At the time of the 2010 election, voters supported maintaining a combined tax rate of $60 per $100,000 of assessed value between the 2002 and 2010 Measure C bond issuances.

Recently, a district-wide group of community members requested the Board consider increasing the combined tax rate above the $60 per $100,000 of assessed value in order to avoid issuing more costly Capital Appreciation Bonds and having to prolong the completion of construction projects. Increasing the combined tax rate above $60 would also allow the district to take advantage of current historically low interest rates, more stable construction prices, and to accelerate the completion of projects so our current students would see benefits sooner.

Based on this request, the Board held a study session on April 2nd. The first question was whether the Board has authority to go above a combined rate of $60 per $100,000 of assessed value. Each time a unified school district passes a Prop 39 bond measure, the local School Board has authority to issue bonds that increase the tax rate to $60 per $100,000 of assessed value. Therefore, the Board can legally increase the combined tax rate above $60. From the study session Board members agreed that taking advantage of historically low interest rates, stable construction costs, and selling bonds now allowing the District to get projects done significantly sooner makes financial sense. However, they believe it is important to ensure that the broader community has more information and an opportunity to give input. To view the Power Point that was shared at that meeting, visit http://esb.mdusd.k12.ca.us/attachments/162e8255-a090-4517-8df7-30b7b632a526.pdf

The purpose of this newsletter is to provide you with information in response to five key questions:

1. How has the District been financially responsible over the past two years with bonds that voters have approved?
2. What projects have been started and completed to date?
3. What are the advantages and fiscal impacts of accelerating the bond sales?
4. What are some possible bond issuance options?
5. How can parents and other community members get their input to the Board?

1. How has the District been fiscally responsible over the past two years with voter approved bonds?

Since Measure C passed in June 2010, the District has issued $121 million in bonds. Advance planning by the Board and District staff led to MDUSD to become one of only 40 school districts nationwide to receive federal Clean Renewable Energy Bonds. These construction bonds provided $59.5 million in federally subsidized bonds for our 12.1 megawatt solar project, creating a greener California and saving local taxpayers over $29 million in interest payments.

As interest rates have declined over the past two years, the District has wisely sought opportunities to refinance bonds from the Election of 2002 authorization. Three series of refunding bonds have been issued saving property taxpayers $13.6 million in interest payments.

The District will continue to seek ways to save taxpayers' money as well as issue the remaining $227 million Measure C bonds in a fiscally responsible manner.

2. What projects have been started and completed to date?

Due to the state budget crisis, a majority of the initial bond sales have focused on projects that positively impact the School District General Fund. Measure C allowed us to positively protect our bottom line by:

- Retiring General Fund construction debt that cost the district $1.4 million annually
- Implementing a 12.1 megawatt solar project that will:
  - ✓ Result in annual savings of $3 million on utility costs
  - ✓ Raise $3 million a year for five years through the California Solar Initiative

Measure C, along with additional facilities funds, has allowed us to begin additional construction projects:

Technology

- Computer network upgrades to increase school site and classroom bandwidth and speed
- New Smartboards, LCD projectors, and document cameras for Concord and Ygnacio Valley HS
- Equipment for Project Lead the Way Engineering program at Northgate HS

Site Upgrades

- New heating and air conditioning systems (first phase of 8 sites to be completed by September)
- Window replacement at College Park HS
- Water, sewer, and electrical to football stadium at College Park HS
- Paving at Concord HS
- Stadium Lights at Northgate and Ygnacio Valley HS

New construction

- Science laboratory classrooms for Clayton Valley and Mt. Diablo HS

3. Why accelerate the timeline for bond sales, and what is the financial impact of accelerating the timeline?

As mentioned earlier, a group of community members with ties throughout the District recently requested that the Board consider increasing the combined tax rate above $60 per $100,000 to avoid issuing more costly Capital Appreciation Bonds. This would also allow the district to take advantage of the historically low interest rates, stable construction prices, and to accelerate the completion of projects so our current students would see benefits sooner. To do so, however, would require an increase to the tax rate that property owners are currently paying.

Increasing the combined rate above $60 per $100,000 of assessed value enables the district to:

1. Avoid more costly bonds known as Capital Appreciation Bonds (CABs) and sell Current Interest Bonds (CIBs), which will greatly save property owners on overall interest costs.
2. Take advantage of historically low interest rates. In January 2012, the bond market hit an all-time low at 3.60%. Interest rates have never been lower for school districts looking to make facility improvements through bond financing. Over time, these low rates will save taxpayers tens of millions of dollars in interest.
3. Take advantage of current stable construction costs. Since the 2010 low, construction costs have increased a modest 2.75%. When the economy was strong between 2005-2008, the District regularly saw annual increases above 15.0% on construction projects.
4. Accelerate the completion of school projects to provide our children with new classrooms and facilities upgrades now.

As the Board considers accelerating the issuance of 2010 Measure C Bonds, the Board is weighing several factors:

- The tax rate and length of the bonds
- How soon funds are available to complete bond projects
- The types of bonds being sold (CABs vs. CIBs) and the associated interest costs

4. What are some possible bond issuance options?

***Current Interest Bonds vs. Capital Appreciation Bonds* –** Current Interest Bonds (CIBs) are bonds where investors receive regular interest payments throughout the life of the bond. These might be the type of bond you would invest in during retirement to ensure that you received a specific amount of income on an annual basis. Total debt service, principal plus interest, is lowest with CIBs.

Capital Appreciation Bonds are bonds where regular payments are forgone during the life of the bond and only paid at maturity. In exchange for deferring all of the interest, Capital Appreciation Bonds bear a higher interest rate. An example of this is a home loan where the homeowner only pays interest costs for the first five or ten years of the loan. At the end of the interest only time period, the homeowner would see a significant increase in their monthly mortgage. These types of loans general have higher interest rates than a

30 year fixed interest loan. Capital Appreciation Bonds allow school districts to keep their combined tax rate at a lower level, but still issue bonds based on assessed value growth of their community in the outlying years.

Recently, Acalanes HSD issued $30 million in Capital Appreciation Bonds. Their total debt service on these bonds will be approximately $120 million, but using Capital Appreciation Bonds allowed them to maintain their $30 tax rate since they don't have to make any current payments. If Acalanes sold Current Interest Bonds, their total debt service would have been below $60 million. Put another way, Acalanes HSD property taxpayers are paying an additional $60 million in interest costs because the District did not want to increase the tax rate above the $30 rate.

This is the question our school Board is grappling with: *Increase the annual tax rate above the combined rate of $60 and save more than $400 million in interest payments, or maintain the existing combined tax rate of $60 and pay more than $400 million in higher borrowing costs?*

Current Option MDUSD is Following

Currently, our bond program focuses on maintaining a combined tax rate for the 2002 and 2010 Measure C of $60 per $100,000 assess value.

Based on the current path and today's interest rates, the District could issue approximately $50 million in bonds in 2012 followed by a subsequent bond sale in 2015 for $23 million. The remaining balance of $155 million could be issued in 2026. In order to maintain the estimated $60 tax rate approved by voters in June 2010, the District would issue some combination of CIBs and CABs which would bring the total borrowing costs to an estimated $908 million. This would be similar to the Acalanes example where they issued $30 million in bonds and have a principal and interest payback of $120 million.

It is important to keep in mind that there are several variables that can influence bond sales including assessed value growth, interest rates, bond terms, and types of bonds sold. Any change to these variables can accelerate or postpone the timing by which the District might receive funds as well as determine the final borrowing costs.

New Options Under Consideration

Sell the remaining $227 million today – There are two options to consider in regard to selling the remaining $227 million today:

Option 1 would increase the tax rate to $89.53, have a 30-year term, and use some CABs in order to maintain a lower tax rate. Under Option 1, the total borrowing costs would be an estimated $603.8 million.

Option 2 would have lower borrowing costs totaling $417.8 million in principal and interest (nearly $200 million less than Option 1), but requires an increase to the tax rate to $110.29. The term on Option 2 would be 25 years.

Options 1 and 2 demonstrate the fundamental relationship between tax rates and borrowing costs. If the District increases the tax rate, it will save property taxpayers nearly $200 million in this scenario. If, however, the District wants to keep a lower tax rate (in this case $89.53) and issue bonds, it comes with a higher overall cost of borrowing.

Sell a portion of bonds today with the balance to be sold in the future – Another consideration is to sell bonds in two or more issuances. While these options would delay receiving all bond proceeds by a few years, it could be a less expensive alternative allowing for a more modest tax rate increase but also lowering the overall cost of borrowing.

Under *Option 3*, the District increases the combined tax rate to $89 in 2012 followed by an additional increase to $95 per $100,000 of assessed value starting in 2015. Option 3 does not use any CABs and has a 25-year term, so the overall Total Debt Services is low at $385 million.

The following table presents the different options that the District is considering in light of the recent community members' request to accelerate the bond sales:

	Current Path	**Option 1**	**Option 2**	**Option 3 (2)**
	Bonds with CIBs and CABs	**One Bond sale, some CABs**	**One Bond sale, no CABs**	**Bonds sold next 3 years**
Issue Date/s	2012, 2015, 2026	2012	2012	2012, 2015
Bond Structure	CIBs & CABs	CIBs & CABs	CIBs Only	CIBs Only
Financing Term	25 years	30 years	25 years	25 years
Bond Issuance Amount	$49M, $23M, $155 M	$227 M	$227 M	$150 M, $77 M
Total Interest	$681 M	$376 M	$190 M	$158 M
Total Debt Service	**$908 M**	**$603 M**	**$417 M**	**$385 M**
Tax Rate per $100K of assessed value (1)	$60.00	$89.53	$110.29	$89.00, $95.00

Note: All the above analyses are based on market interest rates and subject to change due to variations in actual interest rates, bond terms, and types of bonds sold at the time of the sale as well as the District's construction schedule.

(1) Combined 2002 & 2010 Election tax rate

(2) In order to keep a CIBs only structure and access all remaining bond funds in 2015, tax rate would need to be increased to $95.00

5. **How can parents and other community members get their input to the Board?**

There are significant benefits to accelerating the bond issuances, but there are multiple variables that go into informing that decision and selecting a path. The "best path" will be determined by which variables people believe are most important:

- getting facility improvement projects completed as quickly as possible to maximize lower construction costs
- minimizing overall borrowing costs by increasing the amount above the combined rate of $60 per $100,000 assessed value and utilizing lower interest rates
- maintaining the current combined tax rate of $60 per $100,000 assessed value, but having higher borrowing costs due to higher interest rates and a longer project timeline

If you would like clarification around any one of the many issues addressed in this newsletter or would like to provide your feedback and opinion, please feel free to drop by one of the public forums being held the week after spring break. Below are the dates, times, and locations of the public forums. The forums will be facilitated by staff and be appropriately publicized so that Board members can attend to listen to the dialogue. The format of the public meetings will be a Power Point presentation followed by a question and answer time. At the end of each public forum, we will pass out and collect a survey similar to the random phone survey that we will be conducting to gather community input. The results of the survey will be shared with the Board at the April 23 Board meeting.

Date	Location	Time
Monday, April 16	Riverview MS Multi Use Room	6:30 p.m.
Tuesday, April 17	College Park HS Multi Use Room	6:30 p.m.
Wednesday, April 18	Ygnacio Valley HS Library	6:30 p.m.
Thursday, April 19	Monte Gardens Multi Use Room	6:30 p.m.