

# The Impact of Recent Legislative Changes on School Bonds

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## Presenters:

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# Session Objectives

- ◆ Review of recent legislative actions effecting school bond programs
- ◆ Discussion of I&S Tax Rate, including \$0.50 cap implications
- ◆ Discussion of IFA and EDA qualifications and timing

# Finance and Facilities Issues

- ◆ What comes first?
  1. Board Approval and Administration Responsibilities
  2. Selection of an Architect
  3. Selection of a Financial Advisor
  4. Input from the Community and Staff
  5. Determination of the Project(s) that must be financed and built
  6. Bond Process

# Selection of an Architect

1. Best interest of the district
2. Previous experience with the district or other districts in the area
3. Different types of projects that have been completed with a satisfied customer
4. Reputation
5. Value
6. Communication
7. Follow-up

# Architect Responsibilities

1. Facility Study
2. Bond Issue
3. Design and Development
4. Specifications
5. Working relationship with the contractor
6. Working relationship with the school district
7. Oversee bid process
8. Oversee project development
9. Make payment recommendations
10. Recommend final payment and final approval of project

# Selection of a Financial Advisor

1. Experience of the individual FA with the District
2. Experience of the individual FA with other Districts
3. Firm Experience with School Districts
4. Communication Ability
5. TRUST
6. Value

# Financial Advisor Responsibilities

1. Work with District Staff to recommend the best financing method
  - ♦ GO, L/P, Notes, QZAB's, etc.
2. Recommend most appropriate structure for debt
  - ♦ Taking into account current and future debt needs
  - ♦ I&S tax rate implications
  - ♦ Estimate of the State aid the district is eligible to receive
3. Assist or advise in choosing a Bond Attorney
4. Assist in Calling a Bond Election

# Financial Advisor Responsibilities

5. Assist with Public Information
6. Complete IFA application for the TEA
7. Advise and Assist in the Sale and Delivery of the Bonds
  - ◆ Includes Sale type, Underwriters, PSF, IFA Amendments, investments, account set up, etc.
8. Monitor Outstanding Debt for refunding Opportunities
9. The FA works for the District and only can make recommendations

# Review of Important Issues

- ◆ Do your homework before selecting an architect and financial advisor
- ◆ Seek legal advice
- ◆ Someone must be in charge
- ◆ Keep track of all phases of the project
- ◆ Schools must be built to TEA School Facility Standards
- ◆ Know how much money is being spent, where it is being spent, and what it is being spent on
- ◆ Keep the Board and the public informed

# Recent Legislative Changes

- ◆ Compressed Tax Rate
- ◆ Bond and Tax Elections
- ◆ Bonds and Bond Taxes (including bond usage)
- ◆ Permanent School Fund

# Compressed Tax Rate

- ◆ Previously capped at \$1.50 for M&O
  - State was not paying their fair share
  - State 35% Local 65%
- ◆ 06-07 compressed back to \$1.33 + \$.04
- ◆ 07-08 compressed back to \$1.00 + \$.04
  - Provides opportunity to vote bonds

# I&S \$0.50 Rule

- ◆ History and Implications

- \$0.50 max for I&S approved since 92-93
- Principal and Interest

- ◆ Property Value Factor

- EDA goes up, Property Value goes down
- Property Value goes up, EDA goes down

# Unlimited Tax Bonds

1. Election must be held on a Uniform election date
  - ◆ Has caused a glut of bonds and construction
2. Bonds are supported by I&S Taxes
  - ◆ Maximum local effort \$0.50
  - ◆ Most Districts receive State Aid through IFA & EDA
    - ◆ Property Values & ADA affects State Aid
3. Sale Methods
  - ◆ Competitive, Negotiated, and Private Placement
4. PSF
5. Attorney General Approval

# Permanent School Fund

- ◆ Created with a \$2,000,000 appropriation by the Texas Legislature in 1854 expressly for the benefit of the public schools of Texas
- ◆ Bond Guarantee Program in jeopardy of “maxing out”
- ◆ Commissioner can approve bonds with a value of up to 2-1/2 X value of Permanent School Fund to receive AAA rating
  - Industry is working with the State Legislature and the IRS to increase the multiple
  - Private Bond Insurance would be available

# Funding Assistance

- ◆ IFA
- ◆ EDA
- ◆ QZAB
- ◆ NIFA

# Instructional Facilities Allotment - IFA

- ◆ IFA enacted by HB1 of the 75<sup>th</sup> Legislature (1997).  
The Program is designed to provide assistance in making debt service payments on "Qualifying Bonds".
  - Awarded only for debt used for construction or renovation of Instructional Facilities
- ◆ Funding Awarded Based Upon Property Wealth/Student
  - Contingent on Funding made available from the State

# IFA Basics (Continued)

## ◆ IFA Funding Available – Round 9

- \$87,500,000 appropriated from the State
- Application Due Date is June 16, 2008
  - ◆ Ranked by Wealth per ADA
- Successful Election must be held prior to submittal of application
- No future funding set after June 16, 2008

## ◆ Previous Funding

- Round 8 - June 15, 2006
  - ◆ \$50,000,000 appropriated from the State
  - ◆ Funded applicants that had a Wealth per ADA of \$108,204 or lower.
- Round 7 – June 15, 2004
  - ◆ \$20,000,000 appropriated from the State
  - ◆ Funded applicants that had a Wealth per ADA of \$63,344 or lower.

# IFA Funding Calculation

- ◆ Based Upon Annual Debt Service on Proposed Debt
  - Limitation is  $\$250 \times \text{ADA} = \text{Level of Maximum State Assistance}$
- ◆ Calculation of Allotment (State vs. Local)
  - Guarantee \$35 per penny per ADA

# IFA Funding Calculation - Example

## ◆ Assumptions

- ADA = 10,000
- Taxable Value = \$1,000,000,000

## ◆ Calculation of Limitation of Assistance

- $\$250 \times 10,000 = \$2,500,000$  Annual Debt Service

## ◆ Calculation of IFA Assistance

- Guarantee \$35 per penny per ADA
  - ◆ Taxable Value \$1,000,000,000
    - \$0.01 generates \$100,000 locally
    - Per ADA then is  $\$100,000/10,000 = \$10.00$
    - States Share is  $\$35.00 - \$10.00 = \$25.00$
  - ◆ Calculated as a percentage:
    - IFA 71.43
    - Local 28.57%

# IFA Funding in Dollars \$\$\$

- ◆ Total Borrowing Amount with \$2,500,000 of Annual Debt Service Payments

- Based upon a 30 Year Schedule at 5.00%
  - ◆ Approximately \$40,350,000

- ◆ Annual Debt Service Payment - \$2,500,000

- IFA 71.43% - \$1,785,750
- Local Share 28.57% - \$714,250
  - ◆ Tax Rate Increase to pay Local Share
    - \$0.0714
  - ◆ As Taxable Value increases the IFA award will decrease, however the \$0.0714 local tax rate will not need to increase

# Existing Debt Allotment - EDA

- ◆ EDA enacted by subchapter B of Chapter 46 of the Texas Education Code by the 76<sup>th</sup> Legislature (1999). The Program is designed to equalize tax rates used to pay debt service.
  - Guarantees \$35 per penny per ADA
- ◆ Was Continued by the 2007 Legislature
  - Required a payment prior to August 31, 2007
- ◆ Must be Continued again by the 2009 Legislature
  - Will Require a payment prior to August 31, 2009
- ◆ EDA awarded for all Facilities (not just instructional)
  - No Application required
  - Can not receive IFA and EDA for the same Bonds
- ◆ If EDA is rolled forward during the next Biennium, the District must issue the Bonds and have a debt service payment on the Bonds prior to August 31, 2009

# EDA Strategy

- ◆ To Qualify for EDA, Districts must make a bond payment without State Assistance on EDA Bonds.
  - If EDA is rolled forward like past years, the District will be notified Spring 2009 that EDA will be available
  - If at this time District has voted and unissued Bonds, the District must issue the Bonds and make a payment with no EDA prior to August 31, 2009
    - ◆ The payment will assure acceptance into the EDA, however, if no local tax effort was made, then EDA money will not be appropriated until the 2011 biennium
  - Future years will receive EDA Assistance at the same level as IFA
  - As Taxable Value increases the EDA award will decrease

# Qualified Zone Academy Bond - QZAB

- ◆ QZAB's are a federal program for renovation of existing teaching facilities
- ◆ Offers bond purchasers a Federal Tax Credit
  - Lowers the interest rate for the District to about 1%
- ◆ District must establish a Zone Academy
  - To qualify, the campus must either be in an Empowerment Zone or have at least 35% of student population qualifying for free and reduced price
  - Must develop, with a business partner, a new academic program for the Academy that will improve student education
  - Must get a contribution having a Present Value of at least 10% of the proceeds of the issue
- ◆ Issue Debt Obligations through any of the options available to Districts

# New Instructional Facilities Allotment - NIFA

- ◆ NIFA enacted by SB4 of the 76<sup>th</sup> Legislature (1999).
  - The Program provides support for operational expenses associated with the opening of a new instructional facility
  - A reimbursement of \$250 per student in average daily attendance in the first year of operation of the new campus, plus \$250 for each additional student in the second year of operation
  - Only completely new campuses are eligible for funding
- ◆ The total amount appropriated for the program is limited by statute to \$25 million per year
- ◆ There are no spending requirements associated with this allotment



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