

Pacifica School District

District Financial Analysis: Facilities

by

Isom Advisors,
a Division of Urban Futures, Inc.

May 31, 2017



Goals

This presentation is intended to cover a few different topics

Pacifica School District

1. Understand funding options for facilities needs
2. Direction for next steps in relation to fiscal support
 - a. Oddstad Workforce Housing Project
 - b. Support for Capital Repairs and Capital Improvements/Projects

About the Firm

Introduction

Meeting your financial challenges and saving you money

Pacifica School District

- ❖ Isom Advisors is a full service planning, campaign, and financial advisory firm that serves California school districts
- ❖ The leading financial advisor to school districts for since 2011 based on number of financings.
- ❖ We are independent with no conflicts of interest
- ❖ Our staff has over 50 years of experience providing honest advice and the highest level of service
- ❖ Strong references from our clients
- ❖ Regional experience includes:
 - Albany USD
 - Bayshore ESD
 - Cabrillo USD
 - Campbell UHSD
 - Gilroy USD
 - La Honda-Pescadero USD
 - Livermore USD
 - Martinez USD
 - Moraga USD
 - San Bruno City SD
 - South San Francisco USD
 - Walnut Creek SD



"When I was a district superintendent considering a bond program, I turned to Isom Advisors first. They are honest, provide the highest level of service, and most importantly, get the job done."

Dr. Wes Smith
Executive Director, ACSA

2016 Bond Program Successes

Assisted 73 school districts with passing bond measures in 2016

Pacifica School District

❖ Isom Advisors worked on 73 successful K-12 bond measures (out of 74) in June and November 2016.

June 2016 Isom Advisors G.O. Bond Successes		
District	County	Amount ⁽¹⁾
Albany USD	Alameda	\$25.0
Albany USD	Alameda	\$70.0
Ballico-Cressy ESD	Merced	\$6.5
Black Butte ESD	Shasta	\$4.0
Cutler-Orosi USD	Tulare	\$16.0
Cuyama JUSD	Santa Barbara	\$6.0
Fairfield-Suisun USD	Solano	\$249.0
Franklin McKinley ESD	Santa Clara	\$67.4
Gilroy USD	Santa Clara	\$170.0
Hermosa Beach ESD	Los Angeles	\$59.0
Junction ESD	Shasta	\$3.5
Kelseyville USD	Lake	\$30.0
Kingsburg ESD	Fresno	\$10.0
Klamath Trinity USD	Humboldt	\$6.5
Livermore USD	Alameda	\$245.0
Pope Valley ESD	Napa	\$4.0
San Antonio ESD	Monterey	\$2.1
Santa Paula USD	Ventura	\$39.6
Walnut Creek ESD	Contra Costa	\$60.0
Wasco ESD	Kern	\$9.7
Wasco ESD	Kern	\$9.4

⁽¹⁾ In Millions

November 2016 Isom Advisors G.O. Bond Successes (A)		
District	County	Amount ⁽¹⁾
Arcata ESD	Humboldt	\$3.4
Armona ESD	Kings	\$6.5
Bayshore ESD	San Mateo	\$7.0
Brawley ESD	Imperial	\$14.0
Burton	Tulare	\$6.5
Campbell UHSD	Santa Clara	\$275.0
Cardiff ESD	San Diego	\$22.0
Cascade ESD	Shasta	\$8.9
Chico USD	Butte	\$152.0
Chowchilla ESD	Madera	\$13.0
Coalinga-Huron USD	Fresno	\$39.0
Coming HSD	Tehama	\$8.3
Cotati Rohnert Park USD	Sonoma	\$80.0
El Centro ESD	Imperial	\$22.1
Exeter USD	Tulare	\$18.0
Galt HSD	Sacramento & San Joaquin	\$36.0
Garvey ESD	Los Angeles	\$40.0
Guadalupe ESD	Santa Barbara	\$5.8
Guadalupe ESD	Santa Barbara	\$5.6
Guerneville ESD	Sonoma	\$7.0
Hanford ESD	Kings	\$24.0
Hanford HSD	Kings and Tulare	\$33.0
Healdsburg USD	Sonoma	\$67.0
Huntington Beach ESD	Orange	\$159.8
Imperial USD	Imperial	\$40.0
Jacoby Creek ESD	Humboldt	\$2.7

⁽¹⁾ In Millions

November 2016 Isom Advisors G.O. Bond Successes (B)		
District	County	Amount ⁽¹⁾
Konocti USD	Lake	\$29.6
Lawndale ESD	Los Angeles	\$27.0
Lemoore HSD	Kings	\$24.0
Live Oak USD	Sutter	\$14.0
Lodi USD	San Joaquin	\$281.0
Mariposa County USD	Mariposa	\$24.0
Martinez USD	Contra Costa	\$120.0
Mattole USD	Humboldt	\$2.0
Moraga ESD	Contra Costa	\$33.0
Mountain View SD	Los Angeles	\$57.0
Muroc JUSD	Kern	\$21.0
Novato USD	Marin	\$222.0
Pierce USD	Colusa and Yolo	\$15.0
Pioneer SD	Kings	\$7.0
Reef Sunset USD	Kings	\$12.0
Shasta HSD	Shasta	\$56.9
Simi Valley USD	Ventura	\$239.0
Sonoma Valley USD	Sonoma	\$120.0
Soquel ESD	Santa Cruz	\$42.0
South Bay ESD	Humboldt	\$4.0
South Whittier ESD	Los Angeles	\$29.0
Waugh ESD	Sonoma	\$4.0
Westminster ESD	Orange	\$76.0
Williams USD	Colusa	\$11.0
Windsor USD	Sonoma	\$62.0
Winters USD	Solano and Yolo	\$17.0

⁽¹⁾ In Millions

Source: Isom Advisors

Facility Funding Sources

Capital Facilities Needs

The District has identified a number of capital facility needs

Pacifica School District

❖ **Workforce Housing:**

- The District is exploring the possibility of building workforce housing on the Oddstad property.

❖ **Capital Repairs and Improvements/Projects:**

- It has been nearly 20 years since the District's last general obligation bond measure and the District has modernization needs throughout the District.
- Capital repairs and improvements/projects are currently being funded by the general fund.

Facility Funding Sources

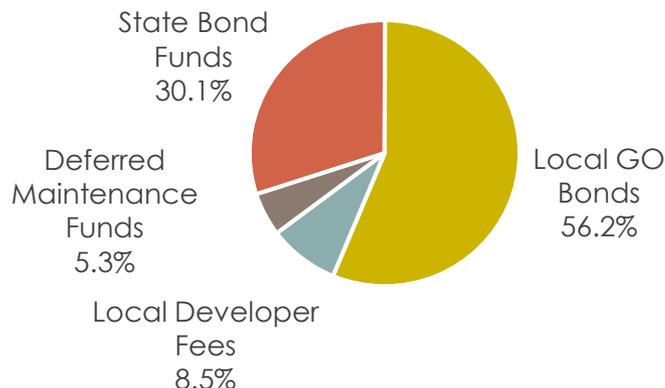
General obligation bonds are the main source of funding

Pacifica School District

- ❖ A study in 2012 estimated that about \$118 billion was spent on K-12 school facilities in California during the preceding 14 years.

- These figures do not include the millions of dollars from annual school operating budgets that are used for facilities operation, maintenance, and security.

Source of Funding for CA K-12 Infrastructure



- ❖ General obligation bond elections continue to be a primary source of funding for capital projects.
 - In November 2016 alone, 159 bond elections for K-12 school districts were passed for a total par amount of over \$15.7 billion.

Sources of Funding for Facilities

The District has identified a number of capital facility needs

Pacifica School District

- ❖ The District is interested in making sure that there are different funding sources for the two main types of projects:
 - General-Fund Backed Debt for the Oddstad Workforce Housing Project
 - General Obligation (GO) Bonds for capital repairs and improvement/projects

General-Fund Backed Debt

General Fund-Backed Debt

TRANs and COPs

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❖ **Tax and Revenue Anticipation Notes (TRANs)**

- Used to fund cash flow deficits.
- Maximum maturity is 15 months.
- Does not require voter approval.

❖ **Certificates of Participation (COPs)**

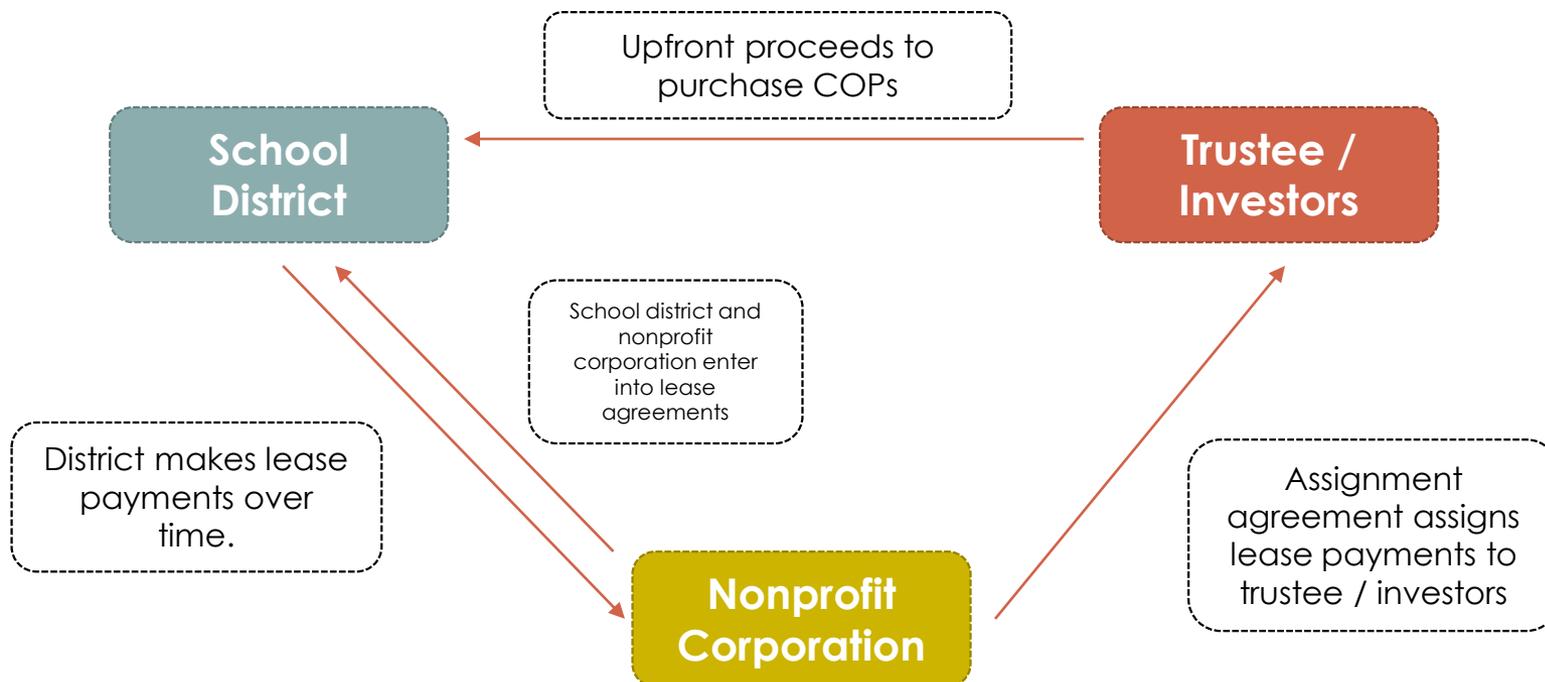
- Typically used to fund capital improvements.
- Requires an asset for lease documents.
- Maximum maturity must match useful life or property leased.

COP Legal Framework

There is a well-established legal framework for COPs

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- ❖ A COP financing enables a school district to borrow funds over multiple years without voter approval.



Funding Workforce Housing



Past projects have utilized certificates of participation (COPs)

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❖ San Mateo County Community College District and Santa Clara Unified School District both utilized general fund backed Certificates of Participation (COPs) to fund their workforce housing projects.

- Both COPs were issued on a tax-exempt basis.
- Both COPs were also backed by the issuer's general fund (not specifically rental revenue).



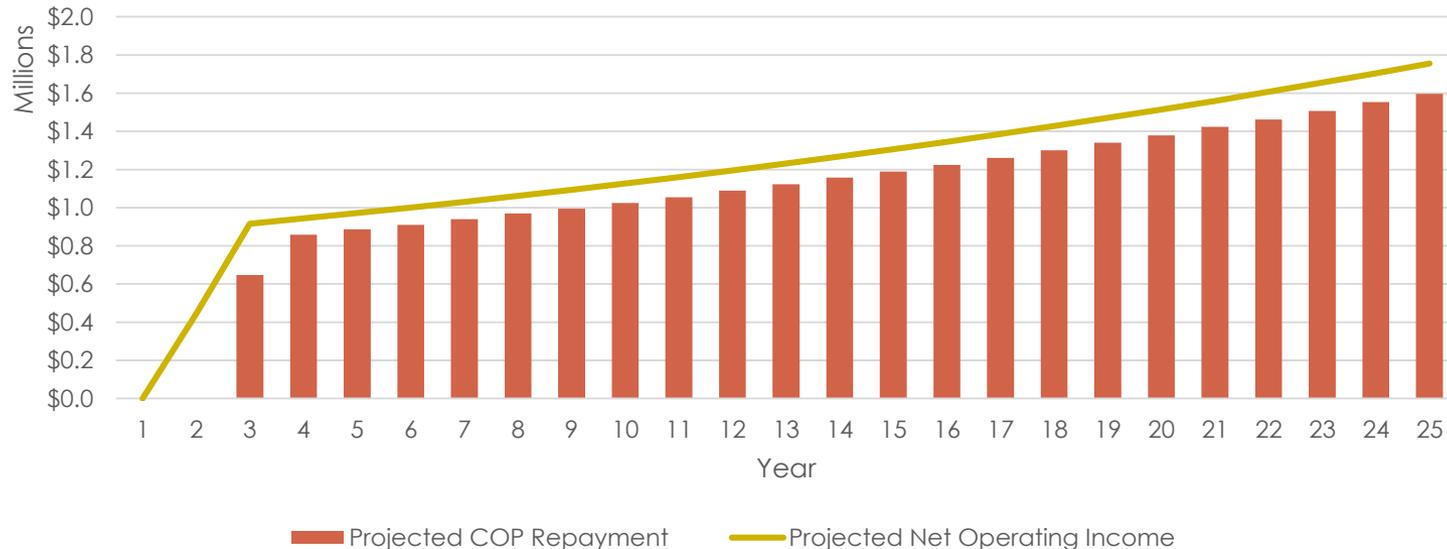
COP Repayment Structure

Matching COP repayment to projected revenues

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- ❖ We would structure the COPs to ensure that there is a “cushion” between projected revenues and projected COP payments, or sufficient coverage.

Comparison of Projected Net Operation Income versus COP Repayment



- Our current analysis suggests that the repayment period will need to be at least 25-years for sufficient coverage.

Additional Considerations

There are other factors to consider

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- ❖ There are additional factors that we need to consider if we move forward with the COP financing.
 - **State and Tax Law:** We need to make sure that we address any legal questions including whether workforce housing is considered a “school facility”.
 - **Timing of the Issuance:** We want the financing to occur after it becomes clear that the District will move forward but before it incurs significant expenses.
 - **Construction Phase:** We will raise sufficient funds to offset interest costs for the first three years during the construction phase before rents come in (“capitalized interest”).
 - **Interest Rate Environment:** Repayment amounts for the COP will depend on the interest rate environment at the time of issuance and can make a significant impact on the economics of the plan.

General Obligation Bonds

General Obligation Bonds

Background

Pacifica School District

- ❖ General obligation (GO) bonds are the most common financing mechanism used by California school districts to make capital facility improvements.
- ❖ A District will need to get voter approval to issue GO bonds.
 - Under Proposition 39, general obligation bonds can be passed with 55.0% approval (as opposed to 66.7% for parcel taxes).
- ❖ The GO bonds are repaid by District taxpayers.
 - Due to the security of the GO bonds, they typically have lower borrowing rates than general-fund backed debt (of the corresponding maturity).
- ❖ GO bond proceeds can be used for school facilities, including furnishing and equipping of school facilities under Proposition 39.

District Bond & Assessed Value History



District's tax base has grown by 66% since 2004

Pacifica School District

Pacifica ESD Historical Assessed Value		
Fiscal Year Ending	Total Value	% Change
2005	\$3,284,796,354	N/A
2006	3,562,962,201	8.47%
2007	3,866,296,193	8.51%
2008	4,163,618,195	7.69%
2009	4,396,370,222	5.59%
2010	4,321,403,976	-1.71%
2011	4,323,501,175	0.05%
2012	4,367,053,136	1.01%
2013	4,596,557,468	5.26%
2014	4,601,779,096	0.11%
2015	4,831,809,782	5.00%
2016	5,160,544,323	6.80%
2017	5,456,216,142	5.73%
Average		4.38%

Source: San Mateo County Auditor

- ❖ In 1997, District voters approved an \$30.0 million bond measure at 71.0% voter support.
- ❖ District has no remaining authorization.
- ❖ Current 2016-17 tax rate for the district is \$31.10 per \$100,000 of assessed valuation.

- ❖ District's 2016-17 assessed value is approximately \$5.5 billion; twelve-year average assessed value growth rate is 4.38%.
- ❖ District's gross bonding capacity is approximately \$68.2 million (1.25% x assessed value); District's outstanding G.O. bond debt is approximately \$12.2 million; District's net bonding capacity, or current debt limit, is approximately \$56.0 million.

Potential GO Bond Proceeds

District can generate \$48.0 million with a \$30 tax rate

Pacifica School District

Pacifica ESD Bond Proceeds at Varying Tax Rates ⁽¹⁾				
Tax Rate per \$100,000	Series A 2018	Series B 2020	Series C 2022	Total Bond Proceeds
\$19.00	\$10,200,000	\$10,200,000	\$10,200,000	\$30,600,000
\$25.00	\$13,400,000	\$13,400,000	\$13,400,000	\$40,200,000
\$30.00	\$16,000,000	\$16,000,000	\$16,000,000	\$48,000,000

*(1) Assumes AV growth of 3.50% and 30 year bond terms; Preliminary – Subject to change
Source: Isom Advisors*

- ❖ With projected annual assessed value growth of 3.50%, the District can generate up to \$48.0 million
- ❖ At more aggressive growth rates or a longer bond program, the District could generate up to \$54.0 million
- ❖ Depending on tax rate selected and assessed value assumptions, District can generate significant proceeds

Alleviating General Fund Pressures

Bond may be able to provide general fund relief

Pacifica School District

- ❖ General obligation bonds may be able to provide general fund relief by using bond money for:
 - Capital facility improvements
 - Technology upgrades
 - Fixtures, furniture and equipment
 - Energy efficiency projects (lowering utility bills, 'green' projects)
 - Applicable bond related salaries

- ❖ General obligation bonds cannot pay for day to day operating expenditures including salaries for teachers, classified employees, administrators, as well as books and materials and programs

San Mateo County Bond Elections

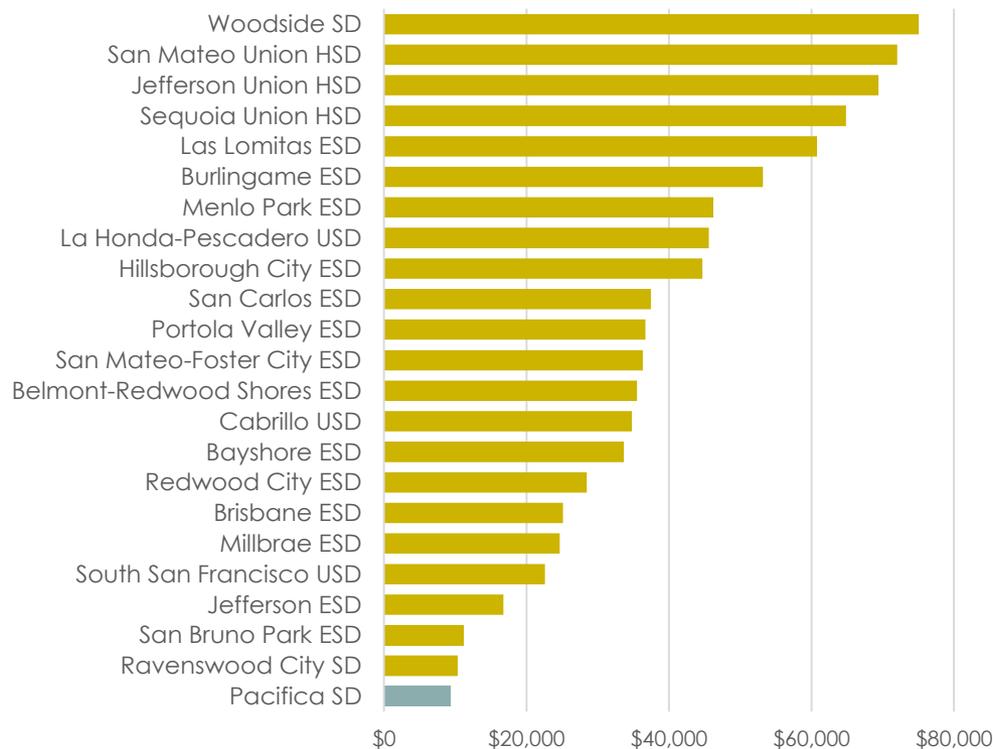
San Mateo County voters have been supportive of schools

Pacifica School District

- ❖ San Mateo voters have also been very supportive of general obligation bonds.
- ❖ The average bond dollar passed per student in San Mateo County is \$39,000; the same figure for Pacifica School District is \$9,360 per student.

School District	2016-17 Tax Rate	Comb Elem & High
Jefferson Union HSD	\$80.00	
Bayshore ESD	\$25.10	\$105.10
Brisbane ESD	\$23.50	\$103.50
Jefferson ESD	\$68.00	\$148.00
Pacifica SD	\$31.10	\$111.10
San Mateo Union HSD	\$41.50	
Burlingame ESD	\$56.80	\$98.30
Hillsborough City ESD	\$25.60	\$67.10
Millbrae ESD	\$43.00	\$84.50
San Bruno Park ESD	\$24.80	\$66.30
San Mateo-Foster City ESD	\$54.60	\$96.10
Sequoia Union HSD	\$39.10	
Belmont-Redwood Shores ESD	\$73.70	\$112.80
Las Lomitas ESD	\$48.50	\$87.60
Menlo Park ESD	\$35.70	\$74.80
Portola Valley ESD	\$25.00	\$64.10
Ravenswood City SD	\$37.60	\$76.70
Redwood City ESD	\$46.10	\$85.20
San Carlos ESD	\$64.60	\$103.70
Woodside SD	\$47.00	\$86.10
Cabrillo USD	\$83.20	
La Honda-Pescadero USD	\$64.60	
South San Francisco USD	\$46.70	

Average Bond Dollar Passed per Student

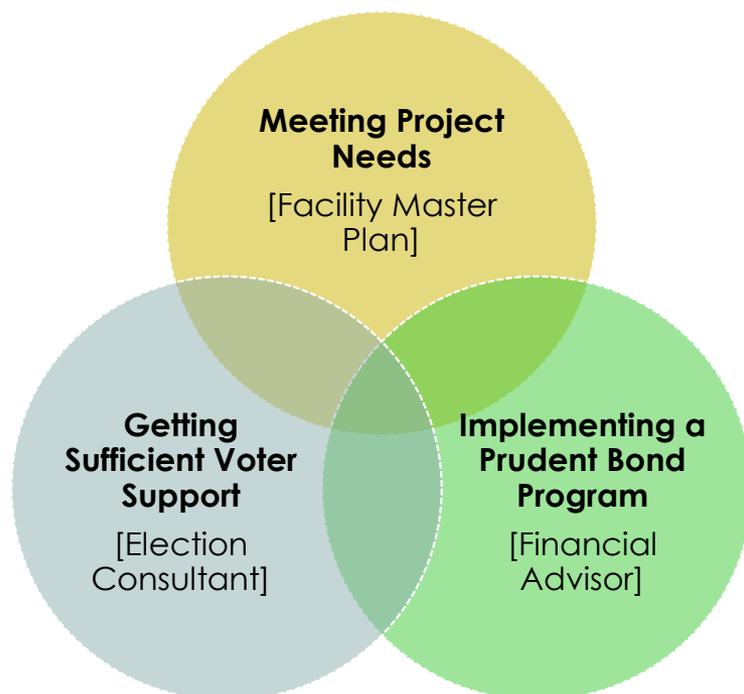


Balancing Objectives

Three main elements in a bond election

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- ❖ School districts often balance a few objectives as they begin to explore a general obligation bond election.



- A survey can provide information on:
 - ✓ What projects voters are willing to support.
 - ✓ What amount of bonds voters are willing to support.
 - ✓ What election dates are feasible for the District.
 - ✓ How sensitive voters are to different tax rate levels.

Discussion/Direction for Next Steps

A few next steps to discuss

Pacifica School District

- ❖ Our recommended next steps:
 - Complete the District's facility master plan.
 - Begin exploring the feasibility of a 2018 general obligation bond election.
 - Consider passing a reimbursement resolution.

Appendix

Parcel Taxes and Bonds

Bonds can be approved with a lower voter threshold

Pacifica School District

- ❖ The two most common types of voter approved sources of funding are parcel taxes and general obligation bonds

	Parcel Tax	General Obligation Bond (Proposition 39)
Voter Threshold	66.7% (two-thirds) required	55.0% required
Election Dates	May generally be held on any Tuesday	Must be held on the same day as a statewide primary, general or special election, or at a regularly scheduled local election
Use of Proceeds	Can be used for any purpose specified in the ballot	May be used only for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property
Exemptions	Can provide exemptions (such as to senior citizens)	No exemptions allowed