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Newsflash:

Chawanakee Unified School District was able to move forward with the construction of a new high school using a bridge loan despite the suspension of State funding, with the help of Capitol PFG.

Public Finance Perspectives

Update on the 2009 TRAN Season: Impact of the State Revenue Deferrals on General Fund Cash Flow



On May 7, the Legislative Analyst's Office provided a sobering assessment of California's Cash Flow Crisis. School districts and other public agencies can expect further delays and cuts

in funding due to the unprecedented amount of borrowing needed in order for the State to fund operations between July and December. The assessment projects over \$20 billion in cash flow financing, which is up from the \$13 billion the State projected in February. The State is hoping to reduce the need to a more manageable level, however, this will be difficult and federal intervention at the State and local level may be necessary.

Consequently, districts will require reliance on Tax and Revenue Anticipation Notes ("TRANs") in order to satisfy general fund cash flow requirements. TRAN proceeds allow issuers to maintain a reasonable cash balance until receipt of property taxes and other revenues. Historically, districts receiving a majority of their revenue limit via property taxes, find that their general fund goes negative early in the fiscal year since property tax revenue isn't received until December. Now districts are experiencing the additional cash flow burden of needing to advance payments from the State due to the State's inability to fully fund education in a timely manner.

Traditional TRANs Structure

Under the Government Code, TRANs can be issued on or after July 1 of

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Redevelopment Entitlements Simplified

Legislation approved by the State in September 2008 (AB 1389) has brought a renewed interest in understanding a school districts redevelopment entitlements. It has also brought with it a lot of confusion.

Redevelopment Overview

The California Community Redevelopment Act was enacted in 1945 and gives cities and counties the authority to form redevelopment agencies to attack problems of urban decay. For districts, it is the financial aspect of redevelopment law that is relevant.

A redevelopment agency is an independent legal entity, but can be thought of as an arm of the city or county by which it was formed. Once a redevelopment agency is formed, in order to function, each agency must adopt at least one redevelopment plan. A redevelopment plan establishes long-term planning goals as well as implementation policies and procedures to the redevelopment of a designated geographical area.

Redevelopment is funded by what is

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"There are a number of techniques for districts to cost effectively access the market in spite of the July deferrals."



TRANS (Continued from Page 1)

each year. Districts are obligated to repay TRANS from revenues received during the fiscal year.

Most districts issuing TRANS receive the highest credit ratings e.g., SP-1+ from Standard & Poor's ("S&P") and MIG-1 by Moody's Investors Service ("Moody's"). In order to receive such credit ratings, districts project sufficient cash to fully repay the TRANS at fiscal year end.

These high credit ratings garner lower borrowing costs. In years past, districts could expect to pay a relatively small premium of approximately 0.5% to 1.0% for selling a TRAN without a credit rating. However, there are few institutional buyers of nonrated TRANS in the current market. In our opinion, districts issuing nonrated TRANS can expect interest rates above 2.5% while TRANS with the highest credit ratings can expect to pay about 1%.

There May Be Alternative Options in These Times of State Deferrals

As a result of the State's decision to defer State aid payments until July, S&P has received many inquiries about whether such deferred revenue can be used to demonstrate that a district has sufficient cash to repay a prior year's TRAN. Capitol PFG believes S&P has signaled a change in credit rating policy that may allow for investment grade credit ratings when relying on such deferred revenue. On April 28, 2009, S&P released a report entitled "S&P's Approach to Rating TRANS Will Reflect Liquidity Risk," which indicated that although typically deferred cash is not subject to the TRANS credit analysis, if a district obtains a legal opinion stating that the cash received after fiscal year end is attributable to the prior fiscal year, such cash can be included.

However, such legal opinions may be elusive when it comes to State deferrals. Clearly, from the perspective of school districts, the deferrals are attributable to the prior fiscal year. However, from the State's perspective, the deferrals are being made in order to push the obligation into the subsequent fiscal year to avoid being included in the Proposition 98 calculation.

Seek Sound Financial Advice

There are a number of techniques for districts to cost effectively access the market in spite of the July deferrals or delayed receipt of property taxes. Such advice depends on the unique cash flow needs and financing resources of the district. Some options for broad consideration include issuing multiple TRANS, borrowing from the county treasurer, and structuring a TRAN with a maturity beyond 12 months. However, a string of audits by the IRS in the early 2000s have chilled issuances beyond 12 months. Districts should consult an experienced financial advisor to review the options that most appropriately fit the district's particular needs.

There is no "one size fits all" solution, and many advisors will opt for an easy solution. Districts with relatively strong financial resources will continue to have less difficulty in implementing cash flow strategies. Typically, these districts achieve the best results by issuing an independent TRANS. Districts who require flexibility of key borrowing provisions such as timing, set-aside dates, and creditworthiness should carefully analyze their cash flow needs to implement a cash flow strategy that is responsive and cost effective.

Redevelopment (continued from page 1)

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called "tax increment". When a redevelopment project area is formed, the assessed value of the project area is frozen. Any property tax revenue generated from subsequent increases in assessed value is diverted to the redevelopment agency. This diverted tax revenue is called "tax increment". As a result, the other taxing entities within the boundaries of the redevelopment project area lose that portion of their property tax revenue. To make up for this, provisions have been included in redevelopment law, whereby, redevelopment agencies pass-through a portion of their tax increment to each affected taxing entity.

Pass-Through Entitlements

A school district's pass-through entitlements vary depending on the year in which the redevelopment project area within their boundaries was formed or amended. There are essentially 3 categories of redevelopment project areas as they relate to school district pass-through payments: (1) Pre-1985, (2) 1985-1993, and (3) Post 1993.

Pre-1985 Project Areas

For those project areas formed before 1985, there is no specific statute related to a formula for pass-through payments from a redevelopment agency to a school district. However, a redevelopment agency may have negotiated what is called a "pass-through agreement" with a school district. Such agreement typically provides for a portion of the tax increment to be passed through to a school district. This pass-through revenue is available to a school district, 100% outside the revenue limit and available for facilities projects. In fact, such revenue must be spent by the school district on facilities projects that benefit the redevelopment project area from which the revenue was from.

1985-1993 Project Areas

For those project areas formed or amended from 1985 through 1993, based on the findings from a 2001 case (*Santa Ana Unified School District v. Orange County Development Authority* 90 Cal. App. 4th 404), referred to as the Santa Ana Decision, a school district must receive pass-through payments from the redevelopment agency. Such payments can take the form of either a pass-through agreement or what are referred to as "2% Payments". This pass-through revenue is available to a school district, 100% outside the revenue limit and available for facilities projects. Again, such revenue must be spent by the school district on facilities projects that benefit the redevelopment project area from which the revenue was from.

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Tax Credit Bonds May Work for You



Recently, on April 24, School Innovations & Advocacy published an article written by Capitol PFG's Jeff Small regarding Federal legislation designed to bring \$25 billion to public education nationwide through the use of tax credit bonds. This article addressed benefits of financing mechanisms such as: Qualified Zone Academy Bonds ("QZABs"), Qualified School Construction Bonds ("QSCBs"), Clean Renewable Energy Bonds ("CREBs") and Build America Bonds ("BABs").

These bonds can be used for a variety of facilities improvement projects and will result in low borrowing costs for your district. To find out if these Bonds can be of benefit to your district, you can find Jeff's article on Capitol PFG website (www.capitolpfg.com) under Articles, or just give us a call.



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Sound Advice has Arrived . . . Master Planning



Now is a good time to review and update your facilities master plan. During this economic slowdown, districts are able to take a step back and analyze their projected enrollment and capacity and determine whether new facilities are needed. Additionally, since many district are no longer playing catch up, they can evaluate those improvements that are needed to modernize facilities and meet educational program needs.

As with most facilities plans, numerous funding sources are needed. Some of the Federal Tax Credit bonds may be a good supplement to the traditional funding mechanisms available.

This is also a good time to evaluate how your district can generate revenue from facilities. Under the Civic Center Act, Capitol PFG has completed Facility Use Fee Studies to justify fees charged by districts for the use of facilities. Just because financially times are tough, don't neglect your district's capital assets.

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Post 1993 Project Areas

For those project areas formed or amended after 1993, a statutory formula governs the amount of pass-through payments that a redevelopment agency must pay each affected school district. The money received by a school district from a Post 1993 Project Area is subject to a revenue limit split, meaning, that a portion of the revenue is considered to be property taxes for the purpose of determining the district's revenue limit backfill amount from the State. The remainder of the payment is available outside the revenue limit, for capital facilities projects benefiting the redevelopment project area. It is these payments that are the subject of the recent State legislation, AB 1389. This legislation was essentially enacted so that the State could confirm that it was not losing revenue to redevelopment.

Evaluating Pass-Through Entitlements

Capitol PFG has worked with numerous districts to:

- Identify redevelopment project areas within a district's boundaries;
- Determine the pass-through funding formula attached to each project area;
- Calculate a district's redevelopment entitlements;
- Track whether payments have been received by the district;
- Determine whether payments have been properly accounted for.