

Santa Maria Joint Union High School District 2004 School Bond Election

SUMMARY

To understand how school bonds are issued and how the funds are used, the Grand Jury reviewed the Santa Maria Joint Union High School District (SMJUHS) facility developments based on the bond issue passed in the 2004 election. General Obligation (GO) bonds are often used to finance school facility improvements. They are approved by the voting residents within the school district. Repayment of these bonds is important since it puts a financial burden upon future generations. This report addressed community concerns about the utilization of school bond funds, in SMJUSHD in particular. The Jury found that the planned repayment schedule is reasonable but the debt service should be scheduled by fiscal rather than calendar year. When interim financing is necessary, all associated fees and interest should be incorporated within the financial plan. In the case of Certificates of Participation (COPs), they should only be used as interim financing.

INTRODUCTION

The use of GO bonds allows school districts to finance school facility improvements. The improved facilities will cover a 25-year period, justifying projecting the cost of the bonds over that period. To expand school facility improvement projects, the SMJUHS uses several forms of funding to supplement GO bonds. These funds include Joint Use funding by both the state and the City of Santa Maria, State School Facility Program funding, State Deferred Maintenance Funding and SMJUHS COP funds.

The Grand Jury conducted this study by reviewing the 2004 bond issue, SMJUHS documents, and conducting interviews with representatives of SMJUHS, the County Auditor-Controller and the School Bond Oversight Committee.

OBSERVATION AND ANALYSIS

School Bonds

Following voter approval, a series of GO school bonds is issued through a financial institution such as a bank to pay for school construction projects. The authorized bonds are generally issued over a period of years as the funds are needed. There are two types of GO bonds - series bonds and capital appreciation bonds (CABs). Series bonds pay interest semi-annually. At the maturity date of each series bond, the principal is paid. The set of series bonds issued has various maturity dates. The interest on a CAB is compounded semi-annually but both interest and principal are not paid until bond maturity. CABs typically have a maturity date near the end of the 25-year bond payment period.

In the 2004 election, the electorate voted in favor of a \$79,450,000 bond issue using Proposition 39 to support the development of school facilities in the SMJUHSD. Proposition 39 is unique in that it allows voter approval with 55% of the vote. It also allows financing of the furnishing and equipping of school facilities. Proposition 39 requires an oversight committee. The 2004 election approved funding to acquire, construct and improve existing school facilities.

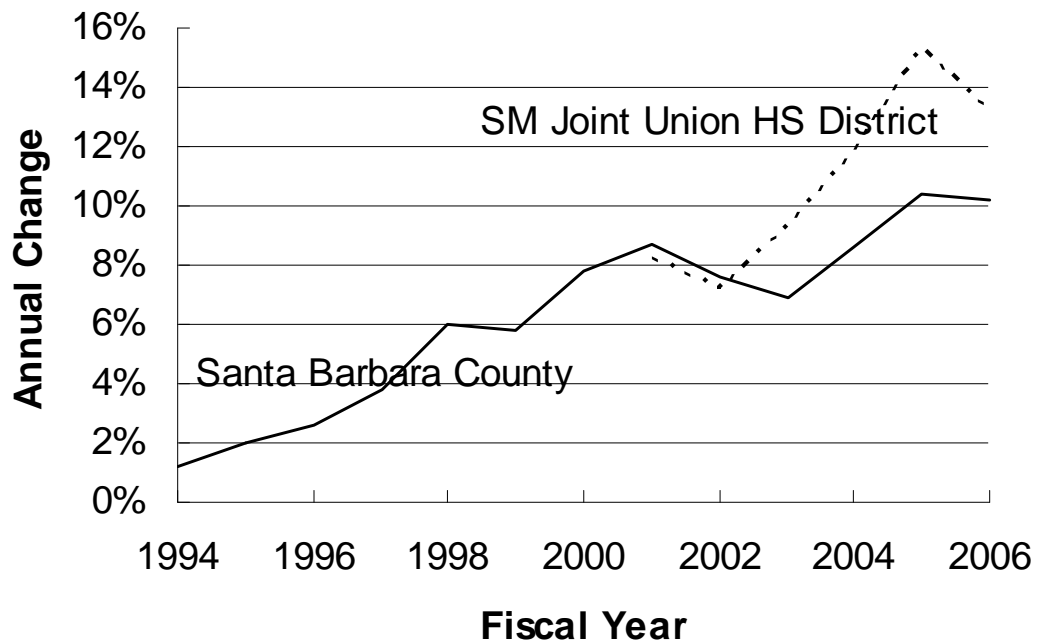
The GO bonds authorized by the 2004 election will be issued as the need arises. The first "Series 2005" issue was sold on February 23, 2005 with a total face value of about \$35 million. See Appendix A for a listing of these bonds.

The repayment schedule of all bonds issued under a given election is limited by statute to no more than \$30 per \$100,000 (0.03%) of assessed property values within the school district. At the time the "Series 2005" bonds were issued, the total assessed value (AV) of taxable property within the SMJUHSD was \$8.1 billion for fiscal year (FY) 2004-2005. This allowed a bond debt service of \$2.4 million in FY 2005. The "Series 2005" debt service for FY 2005 is scheduled as \$1.1 million, much below the allowable limit. Since the assessed values are expected to increase each year, the scheduled bond debt service (repayment) can also increase.

As seen in Appendix A, the Series 2005 GO bond have debt service that falls due each year in February and August. The bonds were issued by calendar year debt service, yet repayment of this debt service is done in fiscal years ending in June. As seen in FY 2029, two of the large CAB bond issues fall due in the same fiscal year but not in that same calendar year. As a result, the debt service in FY 2029 is \$7.35 million, exceeding the projected limit of \$6.5 million (.03% of AV). Future bond issues need to take fiscal year debt service into account.

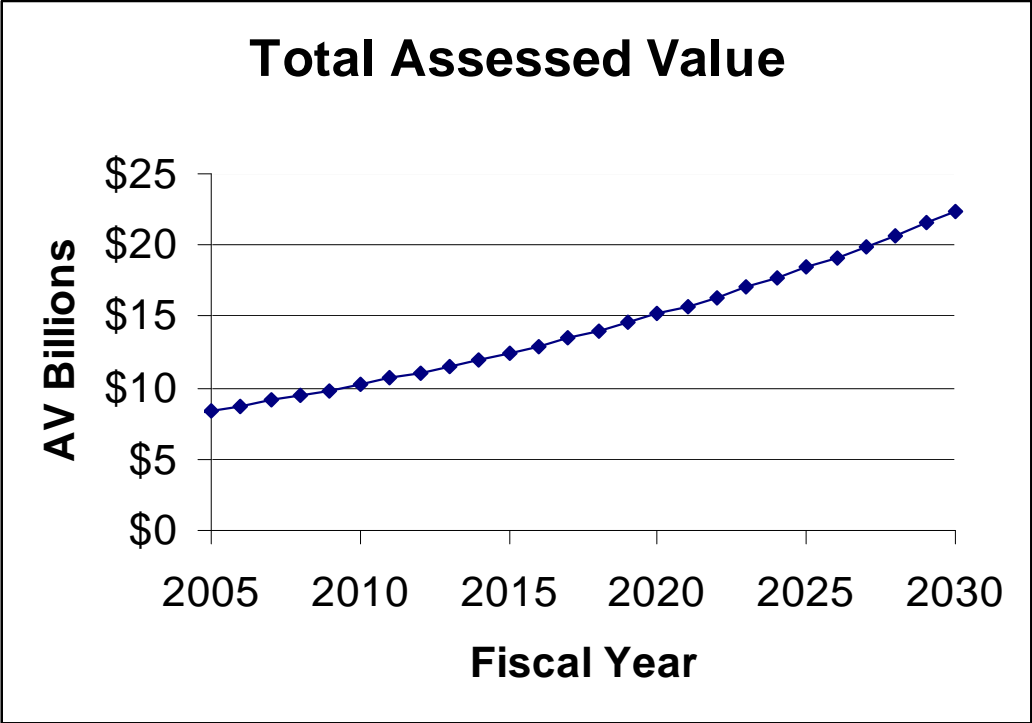
Utilizing projected increases in the school district AV to finance school bond issues is a common practice, but this puts a heavier financial burden upon future generations. The following chart shows changes in the school district total AV and the Santa Barbara County total AV changes.

Assessed Value Change

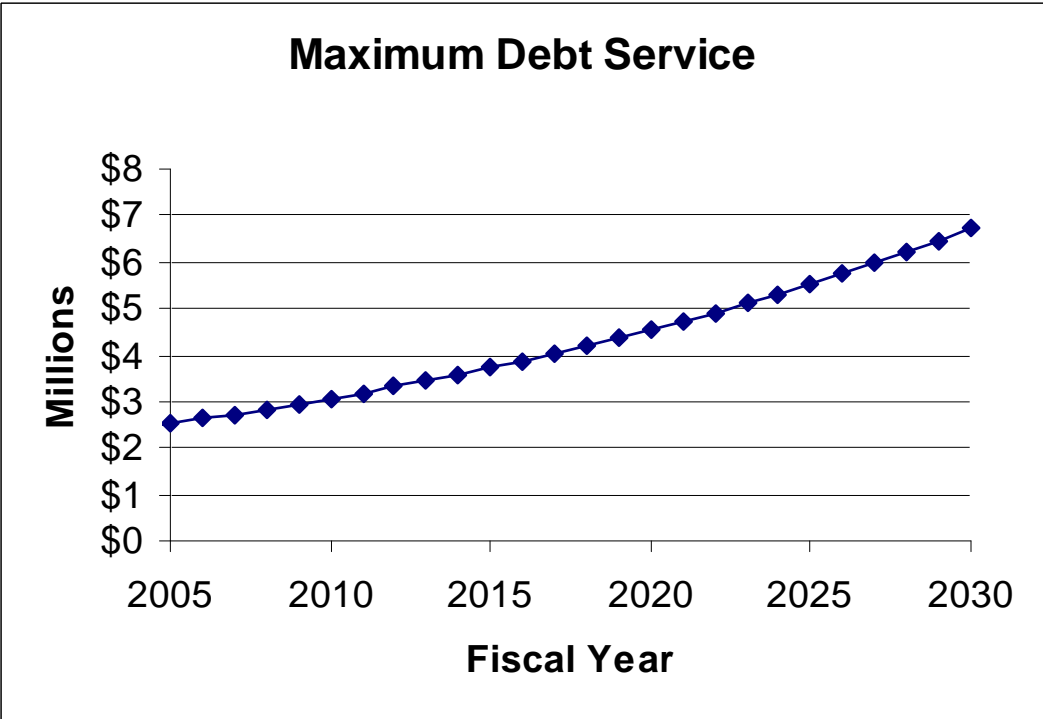


The total AV in the school district has increased substantially in the last five years. The rate of increase can also decline, as seen in 2002 and 2006. The bond issue debt reduction schedule over 25 years depends upon this increase in assessed value.

The expected total AV in the SMJUHSD is shown in the next chart. The chart represents future AV increases estimated by the Santa Barbara County Auditor-Controller of 4% per year to support bond debt service. This rate is based upon a projected decline in growth from its current peak. The projected estimate of assessed value increases almost threefold over 25 years, which the Grand Jury finds to be realistic.



The available debt service for repayment of the SMJUHSD bonds is shown on the next chart.



The available debt service increases each year as it follows the expected total AV within the school district. The total bond debt service schedule is planned not to exceed the limit of \$30 per \$100,000 (0.03%) of AV. Subsequent bond issues authorized by the 2004 election can be issued when the total AV increases sufficiently to support their debt service.

SMJUHSD Construction and Improvements

The SMJUHSD has planned an ambitious school facility development program with seven major projects and a total budget of \$127.0 million. All improvements in the 2004 School Bond Election are included in these projects. The planned cost of these projects in millions is as follows:

New High School	\$60.0
Righetti High School upgrade	\$11.3
Santa Maria High School upgrade	\$15.5
Pioneer Valley High School upgrade	\$7.0
Alternate Educations improvements	\$13.8
District-wide improvements	\$5.5
Support Services Center upgrade	\$13.9
Total	\$127.0

The school district office maintains files on each project when it is initiated. The files include bid documentation, purchase orders, contracts, insurance and bonding documentation, board certification documents and publication documents. Appendix B lists the 43 planned projects.

Need for a New High School

The projected school enrollment was reviewed in “Demographic Analysis and Projection 2006-2016,” prepared by a consultant and dated March 15, 2006.¹ Data indicate that there will be no need for a new high school in the SMJUHSD until about 2012.

¹ “Demographic Analysis and Projection 2006-2016,” Rob Corley, March 15, 2006.

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Project Funding

The costs that exceed the 2004 Bond Election value of \$79.5 million are being paid by separate funding totaling \$47.6 million. Additional funding includes: Joint Use Funding from the City of Santa Maria, Deferred Maintenance Funding from the State, School Facility Program Funds from the State and development fees paid by local developers.

Joint Use Funding: The Pioneer Valley High School pool is funded partially by Joint Use Funding by the City of Santa Maria, with the agreement that the facility will be used by both the school district and the city.

Deferred Maintenance Funding (DMF): The Righetti High School and the Santa Maria High School improvements are partially paid for by a DMF project paid by the state. The size of the DMF funding is an annual amount of 1% of the school district operating revenue, half from the state, half from the district general fund.

School Facility Program (SFP) Funding: SFP funding helps pay facility-related indebtedness for school financial hardships and is authorized by the State Allocation Board. School districts qualify for these funds if they have issued at least 60% of their total bonding capacity. These state funds are planned to pay 50% of the new high school construction costs.

Certificate of Participation (COP) Funding: COPs are used to provide interim funding. These funds are essentially a loan against the school facilities. The use of COP financing allows a school district to indirectly incur debt without voter approval.

SMJUHSD sold \$18.0 million in COPs in 2001 and \$12.0 million in 2003. Most of this debt was repaid in 2005, leaving a \$2.2 million balance. This balance is equal to only 4% of their annual expenses, the lowest for county school districts. This is the proper use of COP funding until other funds are available.

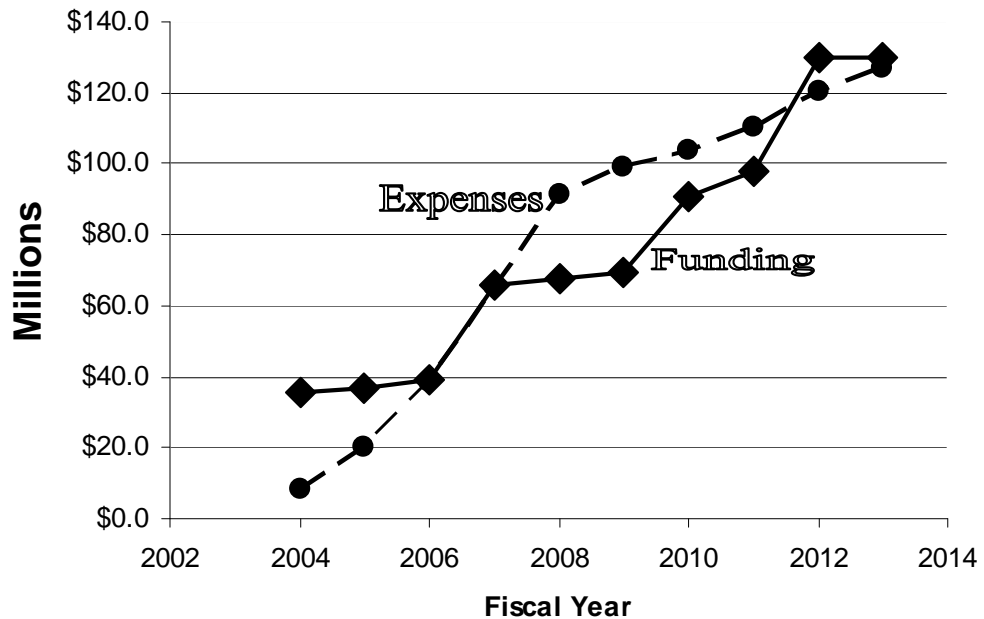
Planned funding for the school facilities in millions is:

2004 Bond Election	\$79.5 million	
State SFP	\$30.0 million	
City Joint Use	\$.8 million	
State DMF	\$3.9 million	(approx. \$.5 million per year)
Developer Fees	\$10.0 million	(estimate)
State Modification Funding	\$.8 million	(this was prior funding)
Total funding	\$129.9 million	

Cash Flow

Despite the fact that the \$127 million school development expenses are covered by \$129 million in funding, the funding will not be available in a timely manner to cover expenses during the construction period. Some of the funding sources are not typically available until near the end of construction, i.e. California State matching funds for the new high school. Appendix C is a financial schedule for both construction costs and funding. Listing of costs by year and the cumulative sum of these costs is compared to the yearly available funding. As shown in Appendix C, there will be a cash shortfall beginning in FY 2008 of \$24 million, peaking in 2009 at \$30 million. Interim funding will be required in order to cover this shortfall projected to last four to five years. Typically COPs are used for this purpose. This interim funding could cost \$6 million, assuming fees of 8% per year. This expense is currently not included in the financial planning for the SMJUHSD developments. The chart below shows the currently planned cumulative expenses and funding.

CASH FLOW



Oversight Committee

The oversight committee required by the 2004 bond election is comprised of 10 local citizens. They are an active watchdog group monitoring the use of the bond funds. The committee holds regular monthly meetings with published minutes, publishes an annual report and makes site visits. The committee has asked the school board to prioritize and schedule the projects which utilize the bond funds.

FINDINGS

Finding 1

The ability to issue additional bonds is contingent upon the total district assessed value continuing to increase. The County Auditor-Controller has used realistic estimates of 4% each year for increases in district-assessed valuation.

Finding 2

The debt service of the school bonds puts a heavy burden on the school district for many years, but the schedule of repayment for the “Series 2005” bonds is well within the limit of \$30 per \$100,000 of assessed value over the next 25 years.

Finding 3

The Santa Maria Joint Union High School District has made prudent use of Certificates of Participation by using them only on an interim basis and minimized risk by timely repayment.

Finding 4

The bonds were issued by calendar year debt service, yet repayment of this debt service is done in fiscal years ending in June.

Finding 5

The oversight committee, formed to monitor the “Series 2005” bond issue, is an effective watchdog.

Finding 6

School development cash flow will have a shortfall for four to five years, requiring interim financing not currently scheduled, with interest and fees of potentially \$6 million.

RECOMMENDATIONS

Recommendation 1

When Certificate of Participation financing is found to be necessary, it should be used only on an interim basis.

Recommendation 2

For future bond issues, debt service for General Obligation bonds should be scheduled by fiscal rather than calendar year.

Recommendation 3

Whenever interim financing is required, all associated fees and interest should be incorporated into the financial plan.

Recommendation 4

A funding reserve should be developed to cover the debt service in fiscal year 2029 for the “Series 2005” bonds.

REQUEST FOR RESPONSE

In accordance with Section 933(c) of the California Penal Code, each agency and government body affected by or named in this report is requested to respond in writing to the findings and recommendations in a timely manner. The following are the affected agencies for this report, with the mandated response period for each:

Santa Maria Joint Union High School District – 60 days

Findings	1, 2, 3, 4, 5, 6
Recommendations	1, 2, 3, 4

Santa Barbara County Auditor-Controller – Information only

APPENDICES

APPENDIX A

The “Series 2005” bond issues amortization schedule

APPENDIX B

Project List as of 2006

APPENDIX C

Facility Development Cash Flow

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APPENDIX A
“Series 2005” Bond Issues
(rounded to nearest dollar)

Date	Principal Debt Service	Rate	Interest Debt Service	Principal Plus Interest Debt Service	Fiscal Year Debt Service	Calendar Year Debt Service
8/1/2005			\$534,365	\$534,365		\$534,365
2/1/2006			\$608,771	\$608,771	\$1,143,136	
8/1/2006	\$625,000	3.000%	\$608,771	\$1,233,771		\$1,842,541
2/1/2007			\$599,391	\$599,396	\$1,833,166	
8/1/2007	\$895,000	3.000%	\$599,396	\$1,494,396		\$2,093,791
2/1/2008			\$585,971	\$585,971	\$2,080,366	
8/1/2008	\$1,075,000	3.000%	\$585,971	\$1,660,971		\$2,246,941
2/1/2009			\$569,846	\$569,846	\$2,230,816	
8/1/2009	\$425,000	3.000%	\$569,846	\$994,846		\$1,564,691
2/1/2010			\$563,471	\$563,471	\$1,558,316	
8/1/2010	\$105,000	3.000%	\$563,471	\$668,471		\$1,231,941
2/1/2011			\$561,896	\$561,896	\$1,230,366	
8/1/2011	\$235,000	3.000%	\$561,896	\$796,896		\$1,358,791
2/1/2012			\$558,371	\$558,371	\$1,355,266	
8/1/2012	\$370,000	3.000%	\$558,371	\$928,371		\$1,486,741
2/1/2013			\$552,821	\$552,821	\$1,481,191	
8/1/2013	\$520,000	3.125%	\$552,821	\$1,072,821		\$1,625,641
2/1/2014			\$544,696	\$544,696	\$1,617,516	
8/1/2014	\$680,000	3.200%	\$544,696	\$1,224,696		\$1,769,391
2/1/2015			\$533,816	\$533,816	\$1,758,511	
8/1/2015	\$850,000	4.000%	\$533,816	\$1,383,816		\$1,917,631
2/1/2016			\$516,816	\$516,816	\$1,900,631	
8/1/2016	\$1,040,000	3.400%	\$516,816	\$1,556,816		\$2,073,631
2/1/2017			\$499,136	\$499,136	\$2,055,951	
8/1/2017	\$1,240,000	3.750%	\$499,136	\$1,739,136		\$2,238,271
2/1/2018			\$475,886	\$475,886	\$2,215,021	
8/1/2018	\$1,460,000	3.900%	\$475,886	\$1,935,886		\$2,411,771
2/1/2019			\$447,416	\$447,416	\$2,383,301	
8/1/2019	\$1,700,000	4.000%	\$447,416	\$2,147,416		\$2,594,831
2/1/2020			\$413,416	\$413,416	\$2,560,831	
8/1/2020	\$1,960,000	4.000%	\$413,416	\$2,373,416		\$2,786,831
2/1/2021			\$374,216	\$374,216	\$2,747,631	
8/1/2021	\$2,035,000	4.000%	\$374,216	\$2,409,216		\$2,783,431
2/1/2022			\$333,516	\$333,516	\$2,742,731	
8/1/2022	\$2,525,000	4.000%	\$333,516	\$2,858,516		\$3,192,031
2/1/2023			\$283,016	\$283,016	\$3,141,531	
8/1/2023	\$2,850,000	4.000%	\$283,016	\$3,133,016		\$3,416,031
2/1/2024			\$226,016	\$226,016	\$3,359,031	
8/1/2024	\$3,195,000	4.125%	\$226,016	\$3,421,016		\$3,647,031
2/1/2025			\$160,119	\$160,119	\$3,581,134	
8/1/2025	\$3,565,000	4.250%	\$160,119	\$3,725,119		\$3,885,238
2/1/2026			\$84,363	\$84,361	\$3,809,481	

APPENDIX A
“Series 2005” Bond Issues
(continued)

Date	Principal Debt Service	Rate	Interest Debt Service	Principal Plus Interest Debt Service	Fiscal Year Debt Service	Calendar Year Debt Service
8/1/2026	\$3,970,000	4.250%	\$84,363	\$4,054,363		\$4,138,725
2/1/2027					\$4,054,363	
8/1/2027	\$1,084,038	6.450%	\$3,420,962	\$4,505,000		\$4,505,000
2/1/2028					\$4,505,000	
8/1/2028	\$1,058,014	6.450%	\$3,626,987	\$4,685,000		\$4,685,000
2/1/2029					\$4,685,000	
8/1/2029	\$1,054,402	6.450%	\$3,920,599	\$4,975,000		\$4,975,000
2/1/2030	\$481,769	6.500%	\$1,893,231	\$2,375,000	\$7,350,000	\$2,375,000
Total	\$35,000,000					

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**APPENDIX B
PROJECT LIST AS OF November 2006**

**Project
No.**

1	New High School #4	\$60,000,000
Righetti High School Projects		
2	Replace asphalt track with an emulsified covering	\$200,000
3	Install students' records file storage system	\$150,000
4	Provide erosion control and storm drain repairs, add stairways	\$250,000
5	Install teaching walls in classrooms	\$200,000
6	Replace paving throughout parking lots and physical education areas	\$225,000
7	Increase restroom facilities	\$300,000
8	Upgrade existing electrical and replacement classrooms	\$300,000
9	Reconfigure existing parking lots, bus lanes and entrances and exits	\$300,000
10	Build an additional physical education facility	\$800,000
11	Renovation of Industrial Arts classrooms, add a metal roof	\$1,500,000
12	Renovate Administration/Student Services Building, new metal roof	\$1,800,000
13	Replace portable classrooms, relocate the maintenance structure	\$2,400,000
14	Build a swimming pool	\$2,000,000
Santa Maria High School Projects		
15	Replace roofing on Arts building	\$50,000
16	Repair sidewalks and install handicapped access points	\$90,000
17	Replace deteriorated concrete throughout the campus	\$100,000
18	Replace roofing on administration building	\$125,000
19	Replace asphalt track with an emulsified covering	\$180,000
20	Repair courtyard area after portables are removed	\$160,000
21	Install teaching walls in classrooms	\$200,000
22	Replace old windows and framing, including lead abatement	\$400,000
23	Electrical upgrades to accommodate modern technology	\$500,000
24	Replace deteriorated covered walkway	\$500,000
25	Upgrade weight room, improve restroom in the gymnasium	\$620,000
26	Replace stadium seating and pressbox; build restrooms, athletic equipment storage and address accessibility issues	\$700,000
27	Upgrade Ethel Pope Auditorium, replace roofing, windows, stage flooring, lighting and sound systems and handicap issues	\$900,000
28	Remove portable classrooms, Broadway St. area, build six classrooms	\$1,600,000
29	Replace portables with permanent buildings for 2,000 students	\$2,000,000
30	Complete modernization of library/classrooms	\$2,000,000
31	Build a swimming pool	\$2,000,000
32	Build a cafeteria/multi-purpose room, including added restrooms	\$2,500,000
Pioneer Valley High School Projects		
33	Build a football stadium at PVHS	\$3,000,000
34	Build a Performing Arts Center at PVHS	\$4,000,000

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Alternative Education

35	Expand facilities to accommodate an Opportunity School program	\$800,000
36	Replace portable classrooms with permanent buildings	\$3,000,000
37	Upgrade Delta high school in Orcutt	\$5,000,000

District-wide, (all schools)

38	Provide student furniture	\$2,000,000
39	Provide student computers for technology support	\$2,000,000
40	Provide infrastructure to support student technology	\$1,500,000

Support Services Center, (SSC), District Administrative Office

41	Re-roof SSC building (full building)	\$600,000
42	Re-asphalt front parking lot at SSC	\$150,000
43	Create offices for Curriculum Department, Special Ed, Special Projects, Migrant & Bilingual Services and larger board room	\$350,000

This list of projects is a plan, subject to building costs and other development problems. The breakdown of these projected will be modified to fit the funding available.

APPENDIX C
Santa Maria Joint Union High School District
Facilities Development Cash Flow

PROJECT FUNDING PLAN, November 14, 2006

Source of Funding	New #4	RHS	SMHS	PVHS	Alt. Ed.	District Wide	SSC	Misc	Funding Totals
2004 Bonds	\$30,000,000	\$10,425,000	\$14,625,000	\$7,000,000	\$8,800,000	\$5,500,000	\$1,100,000	\$2,000,000	\$79,450,000
State SFP	\$30,000,000				\$5,000,000				\$35,000,000
Santa Maria Share Funds				\$775,000					\$775,000
Deferred Maintenance Fund		\$1,387,000	\$2,521,000						\$3,908,000
Developer Fees		\$300,000	\$50,000	\$449,994				\$9,200,006	\$10,000,000
State Mod Fund			\$800,000						\$800,000
Total Funding	\$60,000,000	\$12,112,000	\$17,996,000	\$8,224,994	\$13,800,000	\$5,500,000	\$1,100,000	\$11,200,006	\$129,933,000

SCHEDULED YEARLY EXPENSES BY PROJECT

Fiscal Year	New #4	RHS	SMHS	PVHS	Alt. Ed.	District Wide	SSC	Inflation & Projects	Total Expenses
2004-2005	\$400,000	\$600,000	\$6,615,000	\$0	\$0	\$550,000	\$150,000		\$8,315,000
2005-2006	\$7,000,000	\$1,550,000	\$710,000	\$1,500,000	\$0	\$550,000	\$600,000		\$11,910,000
2006-2007	\$5,800,000	\$3,250,000	\$5,300,000	\$3,500,000	\$0	\$550,000			\$18,400,000
2007-2008	\$22,000,000	\$1,650,000	\$0	\$2,000,000	\$0	\$550,000	\$350,000		\$26,550,000
2008-2009	\$22,600,000	\$1,600,000	\$900,000		\$800,000	\$550,000			\$26,450,000
2009-2010	\$2,200,000	\$2,675,000	\$2,000,000		\$0	\$550,000			\$7,425,000
2010-2011					\$4,000,000	\$550,000		\$500,000	\$5,050,000
2011-2012					\$5,000,000	\$550,000		\$500,000	\$6,050,000
2012-2013					\$4,000,000	\$550,000		\$5,500,000	\$10,050,000
2013-2014						\$550,000		\$6,300,000	\$6,850,000
Total Expenses	\$60,000,000	\$11,325,000	\$15,525,000	\$7,000,000	\$13,800,000	\$5,500,000	\$1,100,000	\$12,800,000	\$127,050,000

SCHEDULED YEARLY FUNDING BY PROJECT

Fiscal Year	CCUM. EXPENSES	2004 Bonds	State SFP	City Share	DFM	Developer Fees	Sate Mod. Funds	Total Funding	CCUM. Funding	Cash Flow
2004-2005	\$8,315,000	\$34,998,222					\$800,000	\$35,798,222	\$35,798,222	\$27,483,222
2005-2006	\$20,225,000				\$500,000	\$500,000		\$1,000,000	\$36,798,222	\$16,573,222
2006-2007	\$38,625,000			\$775,000	\$500,000	\$1,000,000		\$2,275,000	\$39,073,222	\$448,222
2007-2008	\$65,175,000	\$25,000,000			\$500,000	\$1,000,000		\$26,500,000	\$65,573,222	\$398,222
2008-2009	\$91,625,000				\$500,000	\$1,500,000		\$2,000,000	\$67,573,222	-\$24,051,778
2009-2010	\$99,050,000				\$500,000	\$1,500,000		\$2,000,000	\$69,573,222	-\$29,476,778
2010-2011	\$104,100,000	\$19,451,778			\$500,000	\$1,500,000		\$21,451,778	\$91,025,000	-\$13,075,000
2011-2012	\$110,150,000		\$5,000,000		\$500,000	\$1,500,000		\$7,000,000	\$98,025,000	-\$12,125,000
2012-2013	\$120,200,000		\$30,000,000		\$408,000	\$1,500,000		\$31,908,000	\$129,933,000	\$9,733,000
2013-2014	\$127,050,000								\$129,933,000	\$2,883,000
Totals		\$79,450,000	\$35,000,000	\$775,000	\$3,908,000	\$10,000,000	\$800,000	\$129,933,000		