Debt Overview and
Qualified School Construction Bonds

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Presentation Outline

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II. Sarasota County Schools

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Capital Funding Alternatives for Florida School Districts

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Capital Funding Alternatives for Florida School Districts

- **General Funding Sources**
  - **State**:
    - PECO (Public Education Capital Outlay)
    - CO&DS (Capital Outlay & Debt Service)
  - **Local:**
    - Capital Outlay Millage
      - Base Capital Outlay Millage (1.5 mills)
      - Discretionary Millage (0.25 mills) – used for capital or operating (split)
      - Critical Needs Millage (0.25 mills) – used for capital or operating (no split)
- **Other Funding Sources**
  - Sales Tax
    - Local Government Infrastructure Surtax (1 penny)
    - School Capital Outlay Surtax (1/2 penny)
  - General Obligation Bonds
  - Other Referenda Options

General Funding Sources

- **PECO and CO&DS are direct state funding sources which provide minimal funds for local construction**
- **Base Capital Outlay Millage (COM) Revenue –**
  - Each District ***may*** levy up to 1.5 mills to fund construction, maintenance, technology, transportation and to make lease payments
  - Funds can be used for "pay as you go" programs or to make lease payments
  - Up to 75% of the amount levied can be used to make lease payments (there are certain exceptions to this provision)
- **Discretionary Capital Outlay Millage Revenue –**
  - In addition to base COM, each District ***may*** levy up to 0.25 mills which can be split between operating and capital
- **Critical Needs Capital Outlay Millage Revenue –**
  - In addition to base COM, each District ***may*** levy up to 0.25 mills which can be used for operating or capital
  - Requires supermajority vote of Board for implementation
  - Starting FY 2012 will require voter approval via referendum

Discretionary Funding Options for School Districts

- **The Florida Legislature has created a variety of optional funding sources. All require a referendum.**

- <u>Short Term Millage Options</u>
  - 2 Year for operating or capital
    - Article VII Section 9(b), Florida Constitution; Section 1011.73(1) Florida Statutes
  - 4 Years for operating
    - Section 1011.71(6) and Section 1011.73(2) Florida Statutes
- <u>Other Referenda Options</u>
  - General Obligation Bonds
    - Section 1011.40 – 1011.55, Florida Statutes
  - Sales Tax Options
    - Section 212.054, 212.055(2) – Local Government Infrastructure Surtax and Section 212.055(6)- School Capital Outlay Surtax

Sarasota County Schools

Certified Taxable Assessed Value/Capital Outlay Millage

- The table below provides the District's certified taxable assessed values as well as the funds generated by the capital outlay millage.

Sarasota Schools - Certified School Taxable Value/Capital Outlay Millage				
Fiscal Year	Tax Year	Certified Taxable Assessed Value (1)	Capital Outlay Millage (2)	50% of Capital Outlay Millage
2001	2000	23,783,800,000	45,189,220	22,594,610
2002	2001	26,366,100,000	50,095,590	25,047,795
2003	2002	29,933,800,000	56,874,220	28,437,110
2004	2003	34,139,700,000	64,865,430	32,432,715
2005	2004	38,833,200,000	73,783,080	36,891,540
2006	2005	46,518,000,000	88,384,200	44,192,100
2007	2006	59,015,100,000	112,128,690	56,064,345
2008	2007	62,685,300,000	119,102,070	59,551,035
2009	2008	55,844,000,000	92,840,650	46,420,325
2010	2009	49,299,100,000	70,251,218	35,125,609
2011	2010	44,664,700,000	63,647,198	31,823,599
2012	2011	45,932,500,000	65,453,813	32,726,906
2013	2012	49,465,500,000	70,488,338	35,244,169
2014	2013	53,044,800,000	75,588,840	37,794,420
2015	2014	57,022,800,000	81,257,490	40,628,745

Capital Outlay Millage reduced from 2 mills to 1.75 mills.

Capital Outlay Millage reduced from 1.75 mills to 1.50 mills.

1) Actual through FY 2010 and projections thereafter based on State of Florida March 2010 Ad Valorem Estimating Conference.

2) Based on 2 mills through fiscal year 2008, 1.75 mills in fiscal year 2009 and 1.50 mills thereafter.

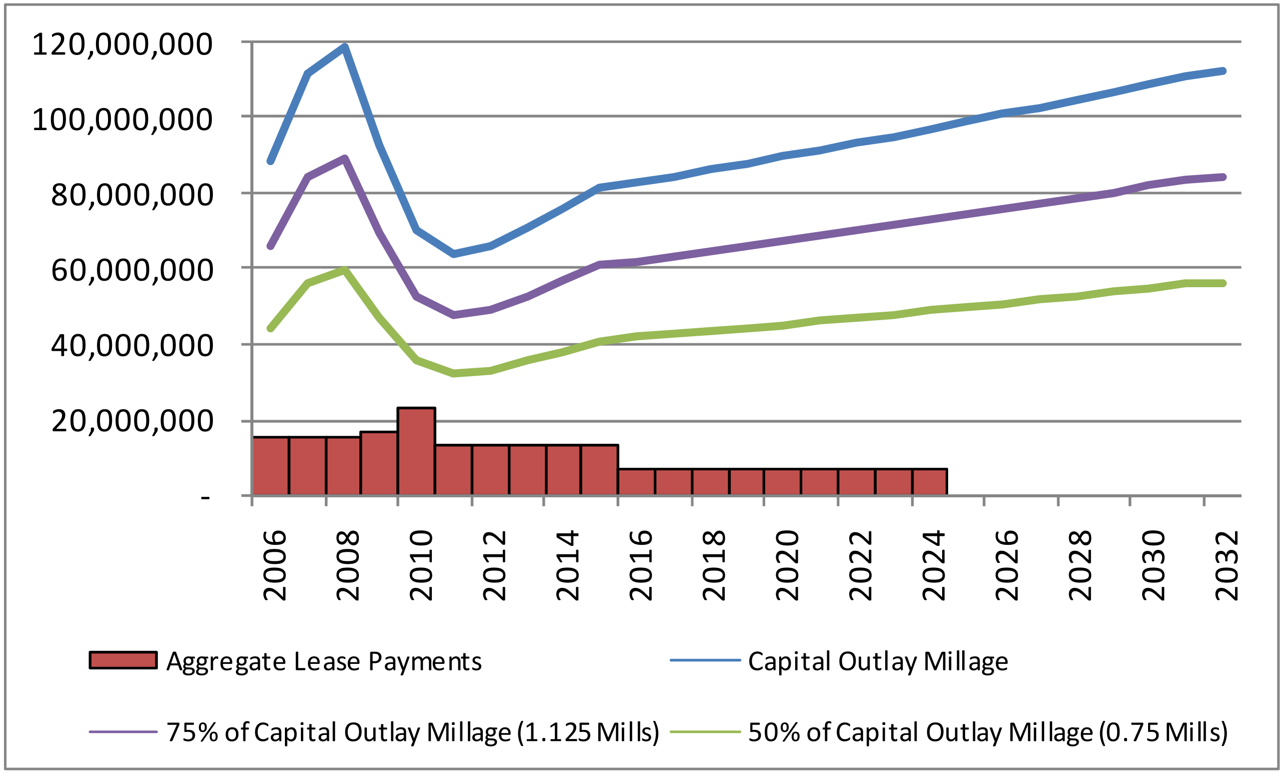
Certificates of Participation – Annual Lease Payments

- The table below provides the District's annual lease payments on its outstanding Certificates of Participation.

Period Ending	Series 2003	Series 2004	Series 2009	Aggregate Lease Payments
7/1/2010	9,566,113	6,082,349	7,272,469	22,920,930
7/1/2011		6,081,355	7,272,219	13,353,574
7/1/2012		6,085,425	7,275,819	13,361,244
7/1/2013		6,081,750	7,275,619	13,357,369
7/1/2014		6,082,550	7,272,869	13,355,419
7/1/2015		6,084,750	7,271,869	13,356,619
7/1/2016			7,272,819	7,272,819
7/1/2017			7,272,219	7,272,219
7/1/2018			7,275,219	7,275,219
7/1/2019			7,271,994	7,271,994
7/1/2020			7,274,331	7,274,331
7/1/2021			7,272,081	7,272,081
7/1/2022			7,275,831	7,275,831
7/1/2023			7,276,019	7,276,019
7/1/2024			7,274,225	7,274,225
	9,566,113	36,498,179	109,105,600	155,169,891

Current Debt Profile

- The below graph outlines the District's annual lease payments as compared to the funds generated by the capital outlay millage.
- Through fiscal year 2008, the District was able to levy 2 mills for its capital outlay. In fiscal year 2009 the legislature reduced this to 1.75 mills in order to utilize 0.25 mills for operations. Again in fiscal year 2010 the capital outlay millage was reduce 0.25 mills, resulting in 1.50 mills being available for capital.



Current COP Credit Ratings

- The below table provides underlying COP credit ratings for all Florida School Districts. Sarasota Schools possesses the highest ratings (along with Hillsborough County Schools) of any District in the State.

District	Moody's	S&P	Fitch		District	Moody's	S&P	Fitch
Sarasota	Aa2	AA-	AA		Polk	Aa3	A	A+
Hillsborough	Aa2	AA-	AA		St. Lucie	Aa3	A	A+
Leon	Aa3	--	AA		Manatee	Aa3	A-	A+
Duval	Aa3	AA-	AA-		Marion	Aa3	--	A+
Orange	Aa3	AA-	AA-		Volusia	Aa3	--	A+
Palm Beach	Aa3	AA-	AA-		Monroe	A1	A+	--
Seminole	Aa3	AA-	AA-		St. Johns	A1	A	--
Collier	Aa3	AA-	--		Clay	A1	--	A+
Lee	Aa3	A+	AA-		Alachua	A1	--	--
Broward	Aa3	A+	AA- neg		Miami-Dade	A1	A	--
Brevard	Aa3	--	AA-		Martin	--	A+	AA-
Okaloosa	Aa3	--	AA-		Lake	--	A	A+
Indian River	Aa3	A+	A+		Sumter	--	A	--
Citrus	-	A+	A+		Flagler	--	A-	A+
Osceola	Aa3	A	A+		Hernando	--	A-	A+
Pasco	Aa3	A	A+		Santa Rosa	--	A-	--

Qualified School Construction Bonds

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Introduction – *ARRA Program Overview*

- The $787 billion American Recovery and Reinvestment Act of 2009 (the "Act") was signed into law on February 17, 2009.
- The Act is intended to stimulate economic growth through federal spending in areas of education, health care, housing, and transportation.
- The Act includes various spending initiatives for State and local governments, as well as provisions and enhancements related to municipal bond issuance and the laws governing their type and use.
- The Act created a new type of municipal bond called **Qualified School Construction Bonds ("QSCBs").**

Qualified School Construction Bonds (QSCBs)
Original Tax Credit Structure

- Initial program was structured as taxable bonds with bondholders receiving a federal tax credit against income and seek to provide issuers with a 0% cost of funds
- U.S. Treasury sets
  - the tax credit rate daily *(currently 5.49%)*
  - the maximum term on bonds monthly *(currently 17 years)*
  - the permitted sinking fund yield monthly *(currently 4.33%)*
- Proceeds can be used for the construction, rehabilitation or repair of a public school facility, acquisition of land on which a public school will be constructed, and acquisition of equipment to be used in a public school facility
- **Federal Davis-Bacon prevailing wage rules and other federal program compliance is required**
- The national limit set by the Act includes $11 billon in 2009 and $11 billion in 2010.
  - 60% of the limit is allocated to States
  - 40% of the limit is allocated directly to large Local Educational Agencies

Qualified School Construction Bonds (QSCBs)
Revised Build America Bond Structure

- The initial tax credit structure was not well received by investors and the majority of transaction completed required a supplemental coupon to be paid.
- In a effort to make the program more appealing to investors and more cost effective for issuers, HIRE Act, H.R. 2847 that was signed into law in March by President Obama. H.R. 2847 allows districts the option of issuing QSCBs in a manner similar to the popular Build America Bonds (BABs) program.
- Under the BABs structure, the district would issue taxable bonds and receive a direct rebate/subsidy payment from the U.S. Treasury equal to the lesser of:
  - the tax credit rate established at time of pricing and
  - the actual taxable rate on the bonds
- The direct rebate/subsidy program should generate broader demand, like BABs, increasing both investor and issuer participation in both programs.

QSCBs – *Sinking Funds*

- QSCBs offer issuers the ability to keep interest earnings on a sinking fund in excess of their cost of borrowing
  - Earnings result in “principal forgiveness”
- The sinking fund may be invested up to a Permitted Sinking Fund Yield (“PSFY”)
  - Set by the U.S. Treasury on a monthly basis
  - Current rate is 4.33%.
- Assuming a $45.7 million QSCB with equal annual sinking fund installments over a 17-yr term and an investment yield of 4.3%, the District would generate $13.8 million of investment earnings
- Essentially, the District receives $45.7 million in bond proceeds and pays back principal amount of $31.9 million

2010 COPs – Proposed Plan of Finance

Series 2010 COPs – Plan of Finance

- The District is preparing for the issuance of Certificates of Participation to fund the construction of Booker High School, Venice High School, and SCTI Phase 3.
  - The estimated size of the borrowing is $138.5 million
- Option 1: Financing completed with traditional tax exempt/QSCB hybrid
  - Assumes District receives $45.5 MM of QSCB allocation to fund Booker High School and the remaining amount is funded through tax-exempt COPs
- Option 2: Financing completed as 100% traditional tax-exempt
  - Assumes no QSCB allocation is received from the State

Option 1: Tax-Exempt / QSCB Hybrid

- Issuance of $92.5 million of traditional tax exempt certificates to fund Venice High School and SCTI Phase 3 and $45.5 million of QSCB to fund Booker High School.
  - Final Maturity: July 1, 2027 (17 year financing) – maximum term for QSCB
  - All in True Interest Cost: 2.27%
  - Following issuance, the District will be utilizing approximately 0.57 mills for lease payments (based on projected 2010 TAV from State)

Period Ending	Series 2004	Series 2009	Series 2010 (Tax-Exempt)	Series 2010 (QSCB)	Aggregate Lease Payments
7/1/2011	6,081,355	7,272,219	8,442,708	2,286,983	24,083,264
7/1/2012	6,085,425	7,275,819	8,441,108	2,286,983	24,089,334
7/1/2013	6,081,750	7,275,619	8,440,308	2,286,983	24,084,659
7/1/2014	6,082,550	7,272,869	8,440,158	2,286,983	24,082,559
7/1/2015	6,084,750	7,271,869	8,440,508	2,286,983	24,084,109
7/1/2016		7,272,819	8,441,208	2,286,983	18,001,009
7/1/2017		7,272,219	8,442,108	2,286,983	18,001,309
7/1/2018		7,275,219	8,441,708	2,286,983	18,003,909
7/1/2019		7,271,994	8,442,308	2,286,983	18,001,284
7/1/2020		7,274,331	8,442,558	2,286,983	18,003,872
7/1/2021		7,272,081	8,442,558	2,286,983	18,001,622
7/1/2022		7,275,831	8,442,038	2,286,983	18,004,852
7/1/2023		7,276,019	8,444,750	2,286,983	18,007,752
7/1/2024		7,274,225	8,445,000	2,286,983	18,006,208
7/1/2025			8,442,000	2,286,983	10,728,983
7/1/2026				2,286,983	2,286,983
7/1/2027				2,286,983	2,286,983
	30,415,830	101,833,131	126,631,020	38,878,711	297,758,692

Option 2: Traditional Tax-Exempt

- Issuance of $138 million of traditional tax exempt certificates to fund Booker High School, Venice High School, and SCTI Phase 3.
  - Final Maturity: July 1, 2025 (15 year financing)
  - All in True Interest Cost: 4.14%
  - Following issuance, the District will be utilizing approximately 0.62 mills for lease payments (based on projected 2010 TAV from State)

Period Ending	Series 2004	Series 2009	Series 2010	Aggregate Lease Payments
7/1/2011	6,081,355	7,272,219	10,548,458	23,902,032
7/1/2012	6,085,425	7,275,819	12,660,400	26,021,644
7/1/2013	6,081,750	7,275,619	12,661,700	26,019,069
7/1/2014	6,082,550	7,272,869	12,661,400	26,016,819
7/1/2015	6,084,750	7,271,869	12,659,350	26,015,969
7/1/2016		7,272,819	12,660,400	19,933,219
7/1/2017		7,272,219	12,659,250	19,931,469
7/1/2018		7,275,219	12,661,250	19,936,469
7/1/2019		7,271,994	12,659,650	19,931,644
7/1/2020		7,274,331	12,662,650	19,936,981
7/1/2021		7,272,081	12,657,650	19,929,731
7/1/2022		7,275,831	12,659,575	19,935,406
7/1/2023		7,276,019	12,658,750	19,934,769
7/1/2024		7,274,225	12,662,000	19,936,225
7/1/2025			12,657,750	12,657,750
	30,415,830	101,833,131	187,790,233	320,039,195

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Comparison of Financing Options

	Option 1 Hybrid QSCB & Tax-Exempt COPs	Option 2 Tax-Exempt COPs
Principal Amt of Tax-exempt COPs	91,220,000	135,650,000
Principal Amt of Taxable QSCB BABs	45,725,000	0
Total Par Amount	136,945,000	135,650,000
Total Principal	136,945,000	135,650,000
Total Interest Payments	86,714,470	52,140,233
Total QSCB Sinking Fund Earnings	(13,842,214)	0
Total Federal Subsidy Receipts	(44,307,525)	0
Total Payments	165,509,731	187,790,233
Net Debt Service Benefit of QSCBs	(22,280,503)	0
All-In True Interest Cost	2.27%	4.14%

QSCB – Case Study

QSCBs – *Case Study*

Citrus County Public Schools – Series 2010 COPs

- The District received $35 million of 2009 QSCB allocation to finance improvements to Crystal River Senior High School
- The District also needed to finance $12 million of improvements to Crystal River Primary School
- PFM assisted the District with the creation of a combined financing plan to optimize its borrowing costs:
  - $35 million Certificates of Participation Series 2010A (QSCB)
  - $12 million Certificates of Participation Series 2010B (traditional tax-exempt)
- PFM recommended delaying the sale in order to allow passage of HIRE Act, H.R. 2847, which allowed the District to take advantage of BAB structure.
- **The net result was a combined cost of capital of -0.14%[1]**

[1] Assumes sinking fund payments are invested at maximum permitted sinking fund yield of 4.30%

Conclusion

Conclusion

- Because of the various restrictions regarding use of proceeds and timing of expenditures, most financings end up including some blend of QSCBs, BABs, traditional tax-exempt (and now potentially QZABs).
- The “pecking order” based on lowest cost and minimizing complications is as follows:
  - QSCB - (lowest cost and still relatively flexible)
  - QZAB – low cost, but not flexible
  - BABs – lower interest rates relative to tax-exempt rates on maturities greater than 15 years
  - Tax-Exempt – most flexible, lower interest rates on maturities less than 15 years
- Key point is to iteratively work through the District’s projects and obtain the optimal mix of financing and flexibility.