Questions & Answers from Capital Appreciation Bond (CAB) Public Forums

The questions below were gathered from community members at the CAB Public Forums held on September 23, October 2, and October 4, 2014 at Rancho Bernardo High School, Black Mountain Middle School, and Midland Elementary School.

Dale Scott

1. What does Dale Scott receive for doing this?

If the District elects to move forward, and utilize the services of Dale Scott, his company would receive compensation at such time when the refunding occurred. As for the amount of compensation, the District has not negotiated a specific proposal with Mr. Scott.

2. Did Dale Scott contribute to the campaign to approve the bonds?

No, Dale Scott did not contribute to the campaign to approve the bonds.

3. How did Dale Scott get the Board to approve the $100 for $1 CAB deal?

Dale Scott was not involved in any way in the approval of the CABs.

4. Will you obtain an independent third party to determine the so called savings amount upon which the compensation to Dale Scott is determined?

Yes, we are getting an independent review of the Dale Scott proposal.

5. Has the board solicited any other providers to perform what Dale Scott is proposing and if not, why not?

The District has made no decision to proceed at this point. Should the District decide to proceed, the Board could decide to solicit proposals from other financial advisors.

6. What if markets don't behave at Dale Scott's expectations?

The District will set parameters for the refunding. If these parameters cannot be satisfied, the refunding would not occur.

7. Mr. Bennett, what's your motivation to sell this proposal to us taxpayers? Who is the "we"?

Mr. Ron Bennett is the CEO of School Services of California and has worked as a fiscal consultant in the district for nearly 15 years. He will receive no financial gain from this proposal. When Mr. Bennett uses the term "we," he is referring to the school district.

8. Why can't we see the presentation from Dale Scott?

This presentation was posted on the District website on October 13, 2014.

Why?

9. Why did we need a billion dollar bond deal to move forward with our school district and why do I have to pay that money?

There is a misconception that the District did a "billion dollar" bond deal. The CABs were the last series of bonds issued out of five separate series of bonds totaling $377 million. The total capital facilities project was $542 million. (The District received over $168 million of additional capital facilities funds outside of the SFID bond measures). The payback for the $377 million of bonds (a total of five separate bonds issuances) is $1.6 billion. The payback covers a span of 48 years that began in 2004 and will be completed in 2051.

Issuing the 2011 series as CABs resulted from the need to :

- **Pay off a short term lease revenue bond (LRB) issued in 2008 to ensure remaining 18 projects were completed as quickly as possible and to avoid inflationary construction cost increases.**
- **Guarantee that the cumulative tax rate per year did not exceed $55/$100,000**

All parcels in the SFID are taxed at the rate of $55 per $100,000 based on the assessed valuation by the San Diego County Treasurers assessment. This tax rate covers the payments for both Prop C and Prop U. It must be remembered the voters of Poway Unified School District clearly directed the District to (a) not increase the tax rate above $55/$100,000 and (b) extend the period for which the tax would be issued (Proposition C was approved as a tax rate extension of Proposition U).

10. How is it possible that a company can come in now and fix this when we were told that there was no way out when the bond first happened?

There is a misconception that the District was told there was no way out of the bonds. The District has always understood that the outstanding bonds (debt) could be refunded but it would require the increase of the $55/$100,000 tax rate. The majority of voters casting a ballot on Proposition C (more than 55%) did not want to increase taxes. Their preference was to extend the period in which taxes would be imposed.

11. Why are we hearing something different now?

Dale Scott approached the District and we are sharing the information he provided us with the community.

12. What will restructuring the bonds accomplish?

Restructuring the bonds will accomplish the following:

- Reduce the overall principal and interest to be paid over the life of the current outstanding bonds. The amount of this principal/interest reduction is currently unknown since the District does not know what the cost will be to refund the outstanding debt.
- Increase the voter approved tax rate of $55/$100,000. The amount of this increase is currently unknown since the District does not know what the cost will be to refund the outstanding debt. (Under the current scenarios being considered, it is estimated that the tax rate per $100,000 of assessed valuation could increase between $7 - $14 per year.)
- While the exact amount of principal/interest reduction and the increase in the tax rate cannot be currently calculated, the Board

of Education would set parameters establishing the minimum overall savings and the maximum tax rate to be achieved. If the savings and tax rate increase cannot be achieved within the parameters set by the Board, the restructuring would not happen and there would be no additional cost to the District or the taxpayers.

- Property owners may not receive a financial benefit from the restructuring for a period of approximately 30 years.

13. What changed to allow the CABs to be refinanced?

This is a misconception. The CABs have always had the ability to be refinanced. However, refinancing would require that the tax rate be increased above the $55/$100,000. Mr. Scott's proposal provides a method that contains no risk to the District's general operating budget, and allows specific parameters to be established, as explained in number 12 above.

14. Was this the plan all along?

The District's plan was always to issue all series of bonds for both Proposition U and Proposition C in a manner to ensure that the District kept their commitment to the taxpayers not to exceed $55/$100,000 even though the District was legally allowed to assess the taxpayers $120/$100,000 ($60/$100,000 for each Proposition). This plan included issuing bond anticipation notes (BAN), current interest bonds (CIB), and capital appreciation bonds (CAB).

15. When were voters informed that CABs were under consideration and when did voters say "use CABs?"

Ballot measures requesting approval for the issuance of general obligation bonds must meet the criteria established in both California Education Code, and California Election Code. There are several places in the Official Ballot from the February 5, 2008 election that provided supporting information:

- The Official Ballot – Local Propositions – PUSD SFID 2007-1 – Prop C – stated at the end of the statement:
  "To provide safe and modern school facilities... without an estimated increase in tax rates."

- County Counsel Impartial Analysis states:
  "The interest rate on any bond, which is established at the time of bond issuance, cannot exceed 12% per annum. The final maturity date of any bond can be no later than 25 years after the date of bonds issued pursuant to the Education Code or not later than 40 years after the date of bonds issued pursuant to the Government Code."

- Tax Rate Statement:
  (c) ….based on assessed valuations….is $0.0547 per $100 ($54.74 per $100,000) of assessed valuation. It is estimated that the highest tax rate would apply in the 2035-2036 tax year based on assessed valuations available at the time…

- Exhibit "C" of the official ballot further states:
  - Stabilization of Existing Tax Rates: It is the intention of the Poway Unified School District, on behalf of the Improvement District, that the existing maximum tax rates which may be levied to pay for the bonds of existing School Facilities

Improvement District No. 2002-1 of the Poway Unified School District…fifty-five dollars ($55) per year per one hundred thousand dollars ($100,000) of taxable property… shall not be increased as a result of the authorization and issuance of bonds by the Improvement District as described in this bond measure.

Such bond proposition is also for the purpose of making the Poway Unified School District eligible for State matching funds.

Board

16. Did the Board really know that when we borrowed a dollar, we would have to pay back $100?

This is an inaccurate statement. The District borrowed at total of $377 million. The total debt is $1.6 billion so the accurate payback ratio is 4.2611:1. If you add in the additional $168 million of capital facilities funds used for the projects, the overall payback ratio is reduced to 2.96:1.

17. How many of the school board members voted for the bond? Are there members not here that were on the Board at the time?

All Board members seated at the time voted for all of the five series of bonds. Jeff Mangum and Linda Vanderveen are no longer on the Board. The CABs were voted on by all Board members seated at the time. However Marc Davis had just been seated when the item was presented to the Board in 2010.

18. Why does the Board feel they have the authority to do this without any authorization from the voters? How is it possible that you can make whatever decision you want – where is that written down?

The Board does not have the ability to make whatever decision they want. They do, however, have the legal ability to increase the total tax rate to $60/$100,000 for both Prop U and Prop C. (California Ed Code Section 15270 … *requirements of Section 18 of Article XVI of the California Constitution in the case of indebtedness incurred pursuant to this chapter at a <u>single election</u>, by a unified school district, would not exceed sixty dollars($60) per year per one hundred thousand dollars($100,000) of taxable property when assessed…)*

19. When is the Board looking at making a decision?

No specific date has been set for when this decision will be made.

20. Why did the Board answer questions at RBHS and not at Midland Elementary?

Some of the questions asked could not be addressed at the RBHS forum. It was decided that it would be better for all to collect all questions and provide electronic responses so that all concerned members of the community could review the questions and responses without having to attend one of the forums.

Bonds

21. Who owns the current bonds? Investors, both private and institutional?

It is unknown who the current private bond holders are. We do know if the bonds were sold to institutions and/or retail buyers.

22. If I were a bondholder, why would I sell my bonds?

You would sell the bonds if you needed cash. You could be willing to sell your bonds if you were offered a high enough incentive (premium).

23. Won't we be paying a premium on these bonds if we refund now?

Yes.

24. What is the lifetime over which the facilities are being serviced by the bonds?

The modernization of the 25 projects are anticipated to last, without requiring major renovations or repairs, for 30 to 40 years.

25. Can any of you guarantee how many or which bonds may be purchased back?

No, we cannot guarantee how many or which bonds may be purchased back.

26. Do you expect the people here to believe that the bondholders are not already aware of what is being contemplated?

We believe there has been enough publicity to expect that most bond holders know that the District is contemplating a refunding of some bonds at a premium.

27. Does Barclays own any of our bonds? If so, they should be excluded.

We do not believe so, but we are confirming and will update when we know.

10/31/2014 Update: No, Barclays does not own and PUSD Capital Appreciation Bonds.

28. How often do these refinancing opportunities occur?

According to California law bonds can be refinanced whenever a savings to the taxpayers can be achieved.

29. What good will it do to reissue bonds at this point?

Refunding the bonds at this point would reduce the amount of debt service taxpayers will be responsible for in the future. It is important to realize time value of money and that a reduction in debt service tomorrow does not always create a reduction in taxes when calculating "net present value." Some taxpayers voiced objections over the last issuance of bonds and were concerned that the final principal and interest of outstanding debt would not be paid off until 2051.

30. What is the issue date of the previous CAB? What is the interest cap?

The last issuance of CABs was in August, 2011. The true interest cost (TIC) was 6.9%

31. If we can renegotiate 10% or 20%, why can't we renegotiate all of it?

The proposal currently under consideration was presented to the Board with two possible scenarios and the projected overall savings and related potential tax rate increases. It is important to remember there is no guarantee that any of the bonds can be repurchased within the parameters established by the Board. The two examples provided represent reasonable expectations of what might be accomplished to lower the overall present value cost while limiting the necessary tax rate increase to accomplish this. (See response to item number 12.)

32. Does the refinancing allow room in case of an (economic) catastrophe?

The District will proceed with the refunding only if savings in the overall total cost of debt service is guaranteed. If the refunding is accomplished, no "economic catastrophe" can change that amount.

Costs

33. What is this going to cost us?

Since the amount of CABs which might be sold back is uncertain, the District cannot provide a specific cost at this time. The District could set cost parameters in the event the Board elects to move forward with this process. (See response to item number 12.)

34. How are the savings going to come back to us?

As stated earlier and presented by Dale Scott, the first reduction would only occur in approximately 18 years. The savings would come back as a reduction in property taxes. Prior to that time, property owners will receive an increase in their property tax bill to make debt service payments on the refunding bonds.

35. If we don't do anything when we start paying these bonds in 2034, how much will the new bill be?

Based on projections made in 2010, the cost will remain at $55/$100,000 of assessed valuation.

36. What is the cost of financing? Could you give me a dollar amount?

Since the District has not decided on whether the community is willing to increase their current property tax bill in exchange for a reduced property tax bill in the future, the cost of the financing has not been provided, to date. If the District pursues the refunding of the CABs with CIBs, proposed fee schedules will be requested from the participating consultants/attorneys. This would be the appropriate time for the District to negotiate the fees being proposed by the parties participating in the transaction.

37. Can someone determine what the true savings or cost is in net present value?

The concept of "Net Present Value" is very easy to describe and calculate. The difficulty is what discount rate should be applied. The existing Finance Team of the District has provided preliminary calculations to the District using a discount rate of 4.00%. At a 4.00% discount rate, an existing property owner experiences no savings under the net present value calculation.

38. If you use normal inflation figures, in 38 years what is the tax going to be?

The tax rate is expected to be less than $55/$100,000 of assessed value in 38 years under the current program. As for the tax on a property in 38 years, it will be dependent on the assessed value of said property.

39. Can you provide the lifetime schedule year-by-year of the current situation and the proposed (situation)?

At this time the District can only provide a schedule of the annual debt service under the current situation. The actual tax rate and individual dollar amount of taxes can only be provided based on assumptions made regarding increased assessed valuation (AV) of individual properties, and the total AV of the SFID. (See chart - attachment A) For the refunding proposal no exact information can be provided. However, using information provided by Dale Scott for a Pro Rata refunding of 10% and 20%, the District can provide a sample analysis on a property valued at $355,399. (Analysis - attachment B)

40. What do you expect the price to be for $10,000 worth of bonds?

That amount is unknowable at this time. If the District decides to implement this proposal, parameters would need to be set. (See response to item number 12.)

41. What kind of interest rates do you expect to pay?

In the existing municipal bond market, the District could potentially sell CIBs with a 25 year amortization at a rate of approximately 4.00%.

42. Do you have a cap on interest rates for the money you borrow?

For Prop C and Prop U, the bond language stated not more than 12.00%. Since that time, under Assembly Bill 182, which was passed in Calendar Year 2013 and enacted on January 1, 2014, the maximum interest rate permitted by law is 8.00%.

43. What prepayment penalties do you see in the buyback process?

The District would not be subject to any "pre-payment penalties," if it elected to implement the refunding of the CABs. The District would be subject to negotiations with the current bondholders of the CABs and their desire to make a profit.

44. How many years would the deal shorten the payment of these bonds?

Under the Pro Rata proposals put forth by Dale Scott, the payment schedule would not be shortened. Instead, the existing property taxpayers would be trading higher tax bills today in exchange for lower tax bills in the future. If Dale Scott was authorized to negotiate with the bondholders of the last maturity, a single year of shortening could occur.

45. How long are these rates locked in for?

In both instances, the current and the proposed, the District has and would sell fixed rate bonds. This means the interest rates on the bonds do not change. As for the tax rates, they can increase/decrease as needed to pay debt service on the bonds. This means the tax rates for the next 18 years would be higher under the proposed structure than the current structure.

46. How will we finance the improvements our schools will need before this bond is paid off?

The SFID program anticipated that the 24 schools that received expansion and or modernization would not need any major renovations for 30-40 years.

On-going deferred and routine maintenance will need to be included in the District's annual general operating budget. Until such time that the Legislature provides clarity regarding the state's, school districts', and local taxpayers' responsibilities in providing funding for safe, healthy, and adequate school facilities including major improvements and construction, the answer to this question remains uncertain.

Taxes

47. What is an SFID?

School Facilities Improvement District.

48. Why do we have to pay all these taxes when we don't even have children?

The SFID tax is a property-related special tax. California law states that a special tax does not need to specifically benefit the property being taxed. However, increased property values and other community benefits are an "indirect" benefit to all PUSD taxpayers.

49. Are you going to come back to us and raise taxes again?

There are no plans currently to increase taxes.

50. If we live in a Mello-Roos home and our tax becomes paid off, do we then start paying these taxes?

No, only parcels in the SFID are obligated to pay the SFID taxes

51. What will the impact be on tax rates 20-40 years out?

Under both the current financing, and the proposed refinancing, it is estimated that tax rates for the current SFIDs will begin decreasing on an annual basis.

52. Is the County Assessor going to raise our taxes or is he legally prevented from doing so?

The County Assessor has the right to raise your taxes and is not prevented from doing so.

The San Diego County Treasurer has the obligation to collect adequate taxes to ensure the payment of principal and interest for the annual SFID bond payments. The District has worked with the County and has established an escrow fund that receives any surplus taxes collected from the SFID taxpayers annually and will use those escrowed funds to ensure the $55/$100,000 remains constant. If there is an instance where there is inadequate revenue in the taxes collected and the escrow fund to pay the current year's principal and interest due, the County Treasurer has the authority to increase the tax to cover the deficit. The proposed refunding will raise your taxes for approximately the next 18 years, compared to the current structure.

53. How many years would the higher tax payments be in place?

Based on projections prepared by Dale Scott, the taxes under the proposed structure will be higher for a period of 18 years when compared to the current structure.

54. What is the difference between property taxes and the taxes levied by voter approved school bonds?

Property taxes = 1% of current assessed value of the property.

SFID-voter approved school bond taxes = $55/$100,000 of assessed value of the property.

55. What about those of us who bought in the 1970's before many schools were built? Will we be affected?

Anyone who pays property taxes in the SFID will be taxed the $55/$100,000

Options

56. Why isn't this put out for bid?

The District has made no decision to proceed at this point.

57. Why aren't we hearing from more organizations?

The District has made no decision to proceed at this point.

58. Has any other entity approached the Board with a solution?

No other entity has approached the Board.

59. Why are we going sole source?

The District has made no decision to proceed at this point.

60. Has the Board thought about other things in addition to this small proposal?

The Board has not thought about other options at this time.

Next Steps

61. If it goes to a public vote, who pays to put it on the ballot?

The District will be required to pay the cost to place the measure on the ballot.
If the District decides to have a special election, they will be required to pay and the vote will need a two-thirds majority in order for it to pass.

62. What is the urgency? Why not delay this decision five years?

There is no urgency. The Board and the District were trying to respond to the resurgence of public comments.

63. The presentation is incomplete. Where can I see more information?

Please visit our District website.

64. What more will we know in 2016 than we know now?

There may be more opportunities for the District to consider at that time.

65. What is going to prevent this or future boards from continuous refinancing?

The District will continue to review outstanding debt and consider refundings if there are savings and if the refundings meet the parameters of the debt policy. (See response to item number 28.)

66. What are you going to do about the information gap?

We are providing as much information as possible at Board Meetings, Community Forums, and on our website.

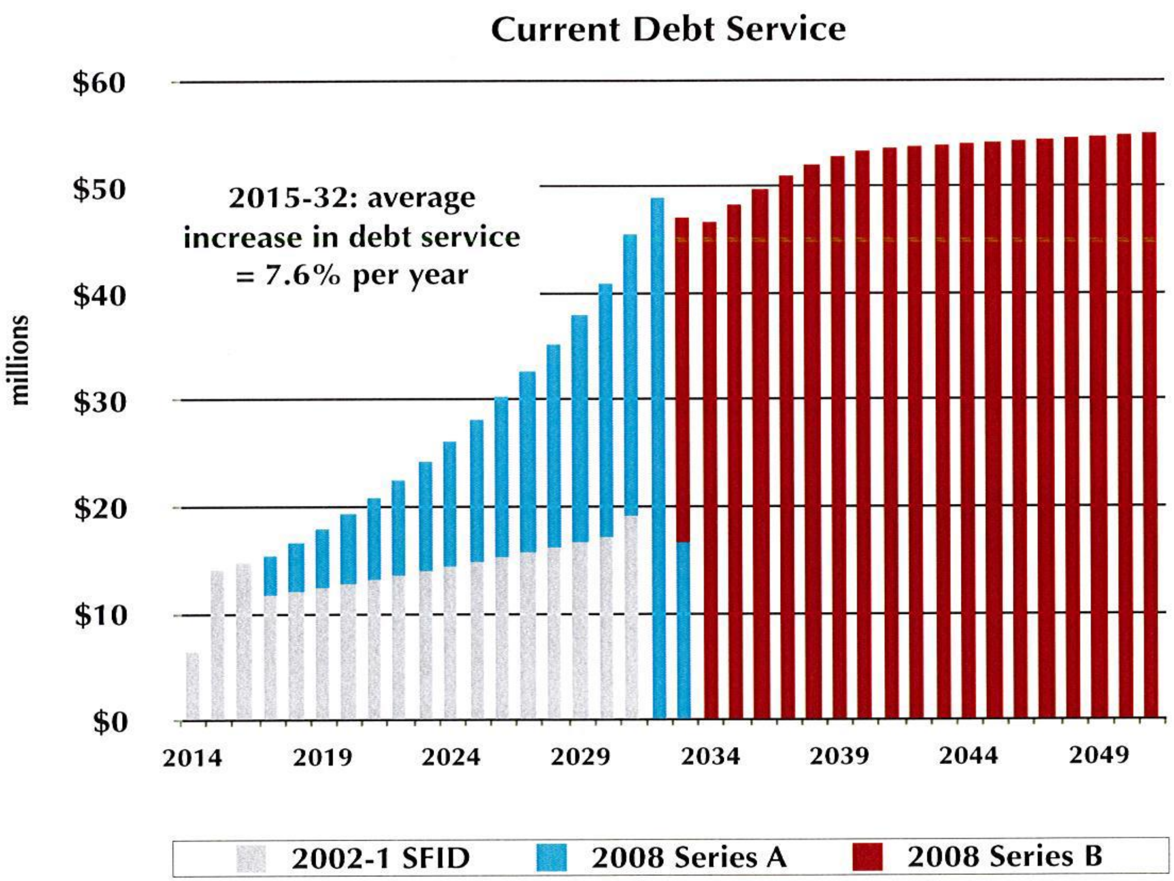
67. What are the guarantees?

The only guarantee is that we will not refinance the CABs unless there is a savings for the taxpayer.

Poway USD: Current Debt Service

Attachment A

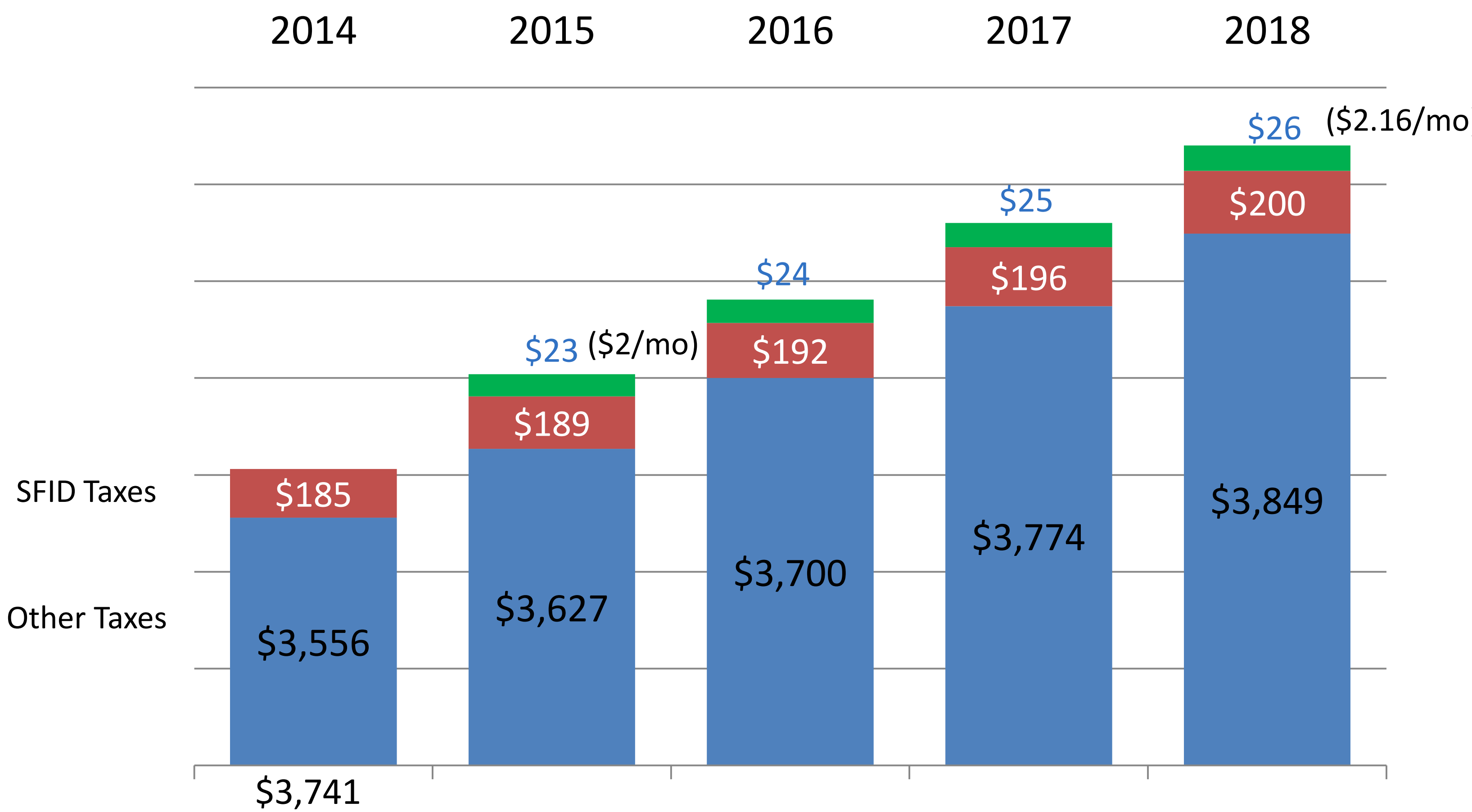
CABs Issued to Remain Below Projected Tax Rate Limit



Very Rough Estimate

Attachment B

Assumptions - $7.00 increase per $100,000 AV



		+2%	+2%	+2%	+2%
AV	$335,399	$342,107	$348,949	$335,928	$363,047