San Diego County Taxpayers Association
Taxpayers watchdog since 1945
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Proposition D: Dehesa School District $3.0 Million Bond Reauthorization Measure Brief Summary

SDCTA is **NEUTRAL** on the Dehesa School District $3.0 Million Bond Reauthorization Measure. In 2010, SDCTA supported Proposition M with the understanding that some projects could not be completed as proposed if special financing through the State's Qualified School Construction Bond (QSCB) program did not materialize. Being a single campus district, with oversight responsibilities for three charter schools in other San Diego communities, the Dehesa School District may be using an inefficient organizational structure and should consider consolidating with a neighboring district.

- Dehesa School District is proposing the reauthorization of $3.0 million in bonds, representing the remaining portion of the $5.5 million initially authorized in 2010 under Proposition M.
- The first and only issuance under Proposition M occurred in July for $2.5 million and is expected to reach the voter approved $30 per $100,000 of assessed value rate.
- The measure would increase the current tax rate by a maximum $30 per $100,000 of assessed valuation (AV) to total $60 per $100,000 of assessed valuation (AV) for school projects.
- The average assessed value of a home in the District is $383,802; therefore, homeowners should be prepared to pay on average an additional $115 in property taxes.
- Although the District qualified for low interest state bonds, that financing is dependent on the state and it is unknown when and if that funding will materialize.
- The District failed to get low interest financing from the state, by no fault of their own, the District attempted to get local businesses to contribute. This effort took time and ultimately was unsuccessful.
- If the measure does not pass, the District has said that they will not resort to capital appreciation bonds (CABs).
- If the bond is reauthorized, $3.7 million in interest payments must be made starting immediately.

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Dehesa School District Bond Reauthorization Measure

Board Action: **OPPOSE**

Title: *"Proposition D: Dehesa School District $3.0 Million Bond Re-authorization Measure"*
Election: November 2012 General
Description: The reauthorization of $3.0 million of Proposition M (2010) approved bonds with an increase property tax of $30 per $100,000 of assessed value to fund school construction.
Jurisdiction: Local
Vote: 55% Super Majority
Fiscal Impact: Allows for completion of projects at current depressed construction costs, without use of long term capital appreciation bonds.
Status: Will be on November Ballot

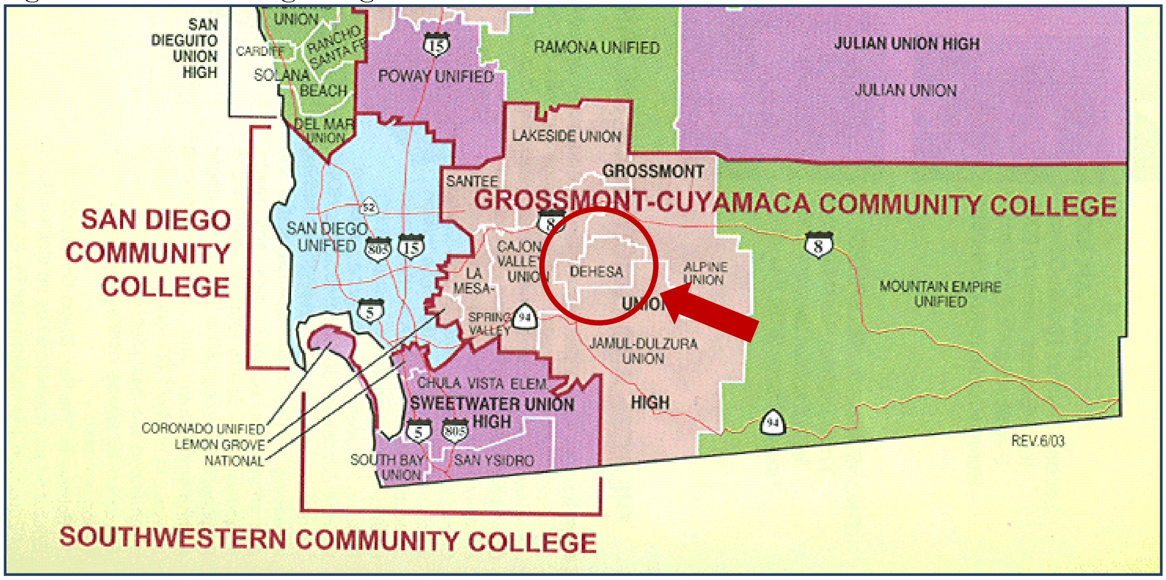
Rationale:

SDCTA is neutral on the Dehesa School District $3.0 Million Bond Reauthorization Measure. In 2010, SDCTA supported Proposition M with the understanding that some projects could not be completed as proposed if special financing through the State's Qualified School Construction Bond (QSCB) program did not materialize. Being a single campus district, with oversight responsibilities for three charter schools in other San Diego communities, the Dehesa School District may be using an inefficient organizational structure and should consider consolidating with a neighboring district.

Background:

Dehesa School District (District), established in 1876, consists of only one elementary school located in the City of El Cajon. The District also has oversight responsibilities for three charter schools in Mission Valley, the college area, and Escondido that act as revenue streams for the district.

Figure 1: Dehesa and Neighboring School Districts



Source: San Diego County Office of Education

Three General Obligation (G.O.) Bond Measures have passed in the District (previous measures in 1950, 1970, and 2010). The 1950 bond issue was a $38,000 (nominal dollars) G.O. bond that allowed the District to construct its administration building. The District's 1970 bond was for $160,000 (nominal dollars) and was used to construct the District's kindergarten area.

In 2010, SDCTA endorsed Dehesa School District's $5.5 million general obligation bond measure Proposition M citing that "the District has demonstrated adequate need for facility upgrades." Specifically, the District has been unable to accommodate grades seven and eight for several years despite technically being a K- 8 school and the belief that it is the will of the community for local middle school facilities to be provided locally.

While Dehesa School District has been told by the state that they qualify for Qualified School Construction Bond (QSCB) funding, it is uncertain if and when this money will become available. The QSCB program exists under the American Recovery and Reinvestment Act of 2009, and essentially allows for states to give no, or very low, interest loans to school districts. The District also attempted to get financial support from prominent community businesses with no success. After these setbacks, the District decided to go ahead with GO bonds. Without access to QSCB financing, the current voter approved tax rate cap of $30 per $100,000 is expected to be reached by the very recent issuance of $2.5 million of GO bonds.

In July of this year, the District issued $2.5 million in GO bonds bringing them to their limit of $30 per $100,000 of assessed value. Although property values have declined (3.4% in the last two years), this is not the major issue causing the District to be unable to collect sufficient tax revenue to continue funding improvements. The major issue is the inability to receive low interest bonds from the state that they did qualify for. When SDCTA endorsed

Prop M in 2010, it was predicted that if this financing did not come through, only 3.0 million of GO bonds would be issued.

Proposal:

The proposition would require the decertification of the remaining $3.0 million in authorized but unissued bonds to prevent the issuance of additional debt. In their place, $3.0 million in bonds would be re-authorized along with an increased tax rate beyond that which was authorized by the voters in 2010.

The Dehesa School District has proposed a bond measure for the November 2012 election that reads as follows:

> *"To increase student computer/ technology access; repair, equip and construct classrooms/ science lab/ library/ school facilities; and reduce overall borrowing costs, shall $3,000,000 of Dehesa School District bonds, previously approved by voters in November 2010, be authorized through issuance of new bonds, with no increase in total authorized District debt, interest rates below legal limits, independent citizen oversight, no money for administrator salaries, and all funds spent locally and not taken by the State?"*

Staff has said that the following SDCTA recommended policy language regarding the use of CABs will go to their governing board on September 13 for adoption by resolution:

> *"In connection with the sale of any bonds, capital appreciation bonds (CABs) should only be pursued if it can be demonstrated that their use will result in less debt service than other bond structures or other financial alternatives. Other financing options that should be compared to the potential use of CABs include additional voter approved tax increases. It is further stipulated that the District will not authorize the sale of any form of Capital Appreciation Bonds or Convertible Capital Appreciation Bonds without review by the District's citizens' bond oversight committee. Defensible assumptions for growth in assessed value shall be used for development of any proposed financing method."*

Tax Rate Implications:

This bond would require residents to pay a tax of up to $30 per $100,000 of assessed property value. This amount is in addition to the $30 per $100,000 of assessed property value authorized by Proposition M in 2010. The average assessed value of a home in the District is $383,802; therefore, homeowners should expect to pay on average $115 in property taxes more than if it does not pass. The tax is scheduled to take effect in 2014 and will last through 2050.

Fiscal Impact:

If the remaining $3.0 million in bonds cannot be reauthorized, the Dehesa School District has communicated to SDCTA staff that they would not choose to delay repayment of bonds into the future by issuing capital appreciation bonds (CABs). While the governing board may ultimately decide differently, if this bond passes, there will be less need and pressure to use capital appreciation bonds. Using traditional current interest bonds (CIBs), total interest costs are projected to be approximately $3.7 million. The District can only do this if the bonds are reauthorized.

Project Management:

SDCTA did, along with its endorsement, recommend that the District hire a project manager for its bond program. Wayne Oetken is the consultant that has been hired to provide this support.

With the first and only Prop M issuance occurring in July of this year, no Prop M projects have been initiated. The district has said that the project list has not changed since we reviewed Prop M. The project list provided by the District at that time is as follows:

- Upgrade classrooms with up-to-date computers and technology.
- Build a science lab.
- Replace temporary portable classrooms that have exceeded their useful life with new permanent classrooms.
- Build a new library, including for joint use.
- Construct additional classrooms, administrative offices, and other educational facilities.
- Provide an outdoor pavilion for P.E. and other community and school activities.

This project list was compiled after two different consultants provided support on this effort.

- A 2008 facilities condition inspection was performed by the consultant Johnson Controls who conducted a school-wide inspection to determine the condition of the facilities. The inspection determined, among other things, that:
  - Existing windows in several buildings need to be replaced because they were single pane and not shatter resistant.
  - Several classroom doors lack panic hardware.
  - An entire row of modular classrooms is in need of new roofing and carpeting.
  - A multi-classroom unit and the current library need new HVAC units.
  - The campus-wide fire alarm system needs to be upgraded to be up to code.
- In 2009, the firm NTC Architects was hired to develop the district's Facilities Needs Assessment and Master Plan. The Master Plan addressed the issues noted by Johnson Controls, as well as recognized the districts goals to enhance library, art, science, music, and physical education facilities and provide adequate classroom space to expand enrollment to grades 7 and 8. Altogether, the Master

Plan outlines construction of eight new buildings totaling 25,643 square feet at an average projected price of $251 per square foot, construction of a new outdoor pavilion (9,212 square feet), and renovation of two existing buildings. The total construction costs are estimated to be $10,964,300.

As funding permits, the construction is to be completed in the following phases:

- Phase One: A two story structure that would have three classrooms and restrooms on the lower level. The upper level would have two middle school classrooms and a science lab. This building would take approximately $5 million, (including soft costs) but we have assurance that the State would pay for the upper level. The concern is when the money from the State will materialize. This phase would be funded using the $2.5 million recently issues bond November 2010 bond funds as well as $2.5 million from the November 2012 reauthorization bond if it passes.
- Phase Two: A single story block of five classrooms and it is estimated that it will take approximately $2.5 million including soft costs. This would be funded with the funding from the State if and when it does release the 1.5 - 3.0 million qualified for in phase one.
- Phase Three: A two or three classroom single structure for kindergarten and transitional kindergarten classrooms. Funding for this is not anticipated.

Policy Discussion:

At this juncture, there are essentially policy options available for the District: (1) change the scope of work, (2) issue capital appreciation bonds, or (3) reauthorize the remaining bonds.

District staff has said that if the reauthorization fails, they would go with a one-story building, waiving the State funding that they qualify for. Phase two would not occur until additional funding is available likely from waiting for property values to rise. Projects would be delayed and rising construction costs would diminish the buying power of the bond over time.

In order to continue construction on schedule and avoid initial interest payments, the District could issue capital appreciation bonds allowing the District to delay making interest payments until 2043, and extending the payment period through 2073. As a whole, it is projected that total interest payments under CABs will be approximately 13.5 million under reauthorization and 3.7 million if CABs are used. District staff has said that this is not being considered, however the ultimate decision will be that of the governing board.

Alternatively, the District could continue to fund construction projects if it reauthorizes the remaining $3.0 million of funds by imposing a tax of up to $30 per $100,000 of assessed property value. This would be in addition to the tax levied in accordance with the initial bond authorization in 2010. In the end, both CABs and reauthorization will allow for projects to be completed on schedule. Ultimately, reauthorization will do so with increased property taxes for approximately the next 30 years, whereas CABs will defer payments for decades allowing more interest to accrue on the principle, and interest to accrue on interest.

Bond revenues will be allocated to projects that were clearly delineated in the Needs Assessment and Master Plan. These documents, along with the potential of State funds, were the basis for the SDCTA supported Proposition M Bond in 2010. SDCTA supported Proposition M with the understanding that some projects could not be completed as proposed if special financing through the State's Qualified School Construction Bond (QSCB) program did not materialize. Given the funding challenges, the project list from 2010 should be reconsidered along with whether the District should merge with a neighboring district.

Arguments in Favor:

Reauthorization of the remaining bonds is the best alternative to waiting for property values to rise and issuing capital appreciation bonds for the following reasons:

1) The District is working with the consultant Wayne Oetken to help ensure effective project management.
2) Proposition D would minimize project cost escalation, by allowing for the completion of bond projects without delay.
3) The measure allows the voters who approved Proposition M in 2010 to benefit from the projects.

Arguments Against:

1) Reauthorization would impose a second property tax increase before the effects of the first are felt by local property owners. Proposition M passed in 2010, but the district just issued all of the current interest bonds that the approved tax rate would support in July.
2) Being a single campus district, with oversight responsibilities for three charter schools in other San Diego communities, the Dehesa School District appears to be using an inefficient organizational structure and should consider consolidating with a neighboring district before asking taxpayers to make additional infrastructure investments.

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Appendix A: Assessed Value Assumptions and Estimated Debt Service

Dehesa School District

New Money $ 2,900,000

Assessed Valuation			Estimated Debt Service						Tax Rate
FYE	Assessed Valuation	Increase						Total	
1998									
1999									
2000									
2001	168,395,094								
2002	190,350,853	13.04%							
2003	240,881,542	26.55%							
2004	251,117,678	4.25%							
2005	265,123,875	5.58%							
2006	311,491,185	17.49%							
2007	341,965,770	9.78%							
2008	370,591,258	8.37%							
2009	386,904,568	4.40%							
2010	372,085,240	-3.83%							
2011	366,089,843	-1.61%							
2012	359,378,233	-1.83%							
	5 year average	-0.72%	10 year average	4.73%					
Estimated Assessed Valuation			FYE 2013	FYE 2017					30
2013	366,565,798	2.00%	-					-	
2014	377,562,772	3.00%	113,269					113,269	30.00
2015	390,777,469	3.50%	117,233					117,233	30.00
2016	404,454,680	3.50%	121,336					121,336	30.00
2017	418,610,594	3.50%	125,583	-				125,583	30.00
2018	433,261,965	3.50%	64,989	64,989				129,979	30.00
2019	448,426,133	3.50%	67,264	67,264				134,528	30.00
2020	464,121,048	3.50%	69,618	69,618				139,236	30.00
2021	480,365,285	3.50%	72,055	72,055				144,110	30.00
2022	497,178,070	3.50%	74,577	74,577				149,153	30.00
2023	514,579,302	3.50%	77,187	77,187				154,374	30.00
2024	532,589,578	3.50%	79,888	79,888				159,777	30.00
2025	551,230,213	3.50%	82,685	82,685				165,369	30.00
2026	570,523,270	3.50%	85,578	85,578				171,157	30.00
2027	590,491,585	3.50%	88,574	88,574				177,147	30.00
2028	611,158,790	3.50%	91,674	91,674				183,348	30.00
2029	632,549,348	3.50%	94,882	94,882				189,765	30.00
2030	654,688,575	3.50%	98,203	98,203				196,407	30.00
2031	677,602,675	3.50%	101,640	101,640				203,281	30.00
2032	701,318,769	3.50%	105,198	105,198				210,396	30.00
2033	725,864,926	3.50%	108,880	108,880				217,759	30.00
2034	751,270,198	3.50%	112,691	112,691				225,381	30.00
2035	777,564,655	3.50%	116,635	116,635				233,269	30.00
2036	804,779,418	3.50%	120,717	120,717				241,434	30.00
2037	832,946,698	3.50%	124,942	124,942				249,884	30.00
2038	862,099,832	3.50%	129,315	129,315				258,630	30.00
2039	892,273,326	3.50%	133,841	133,841				267,682	30.00
2040	923,502,893	3.50%	138,525	138,525				277,051	30.00
2041	955,825,494	3.50%	143,374	143,374				286,748	30.00
2042	989,279,386	3.50%	148,392	148,392				296,784	30.00
2043	1,023,904,165	3.50%		307,171				307,171	30.00
2044	1,059,740,810	3.50%		317,922				317,922	30.00
2045	1,096,831,739	3.50%		329,050				329,050	30.00
2046	1,135,220,850	3.50%		340,566				340,566	30.00
2047	1,174,953,579	3.50%		352,486				352,486	30.00
2048	1,216,076,955	3.50%		364,823				364,823	30.00
2049	1,258,639,648	3.50%		377,592				377,592	30.00
2050	1,302,692,036	3.50%		390,808				390,808	30.00
Net Present Value Totals			1,427,868	1,462,386	-	-	-	2,890,254	30.00
		2,900,000	1,400,000	1,500,000	-	-	-	Max Tax Rate	30.00
Discount Rate			5.00%	6.00%				Min Tax Rate	30.00
Issue Period			30	32	-	-	-	Avg Tax Rate	30.00