

# COVID-19 2020, Now What?! What's on the Horizon for California K-12 Education Facilities Finance

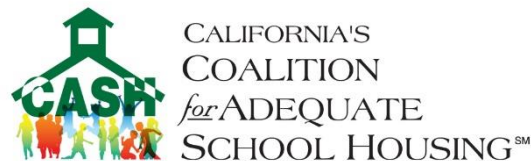
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# Political Context in the Pandemic

- **Governor Newsom, Year 2**
  - 2019: Vetoed 16.5% of bills
  - Relationship between the Legislature and Administration – accountability and oversight
- **Legislature is focusing on top priorities in 2020**
  - COVID-19 crisis response and recovery
  - Affordable housing and homelessness
  - Disaster response and recovery
  - Sunset extensions
- **SB 89 and SB 117 – Early COVID-19 emergency funding**
  - SB 89 provides up to \$1 billion for statewide response
  - SB 117 provides \$100 million to schools for PPE, supplies, labor to clean facilities

# Political Context in the Pandemic, Cont'd.

- **Governor Newsom's May Revision**
  - Estimates \$54.3 billion deficit
  - Budget solutions include increased revenues, reduced spending, borrow from special funds, deferrals, Federal support
  - \$19 billion reduction in K-14 Proposition 98 minimum guarantee
  - 10% reduction to Local Control Funding Formula base grant and supplemental/concentration grants
- **Legislative Analyst's Office anticipates two scenarios:**
  - \$18 billion deficit in "U-shaped" recession
  - \$31 billion deficit in "L-shaped recession
- **Local/community funding opportunities are important during economic downturns**

# March 2020 Local Bond Results

<b>Total Measures: 149</b>		<b>Total Need Shown: \$17,331,378,000</b>		
	<b>Total Passed</b>	<b>% Passed</b>	<b>Total Need Passed</b>	
<b>Total Bonds: 121</b>	<b>44</b>	<b>36%</b>	<b>\$6,782,975,000</b>	
K-12 Bonds: 113	42	37%	\$5,039,975,000	
CCD Bonds: 8	2	25%	\$1,743,000,000	
<b>Total Parcel Taxes: 28</b>	<b>14</b>	<b>50%</b>		
K-12 Parcel Taxes: 27	14	52%		
CCD Parcel Taxes: 1	0	0%		

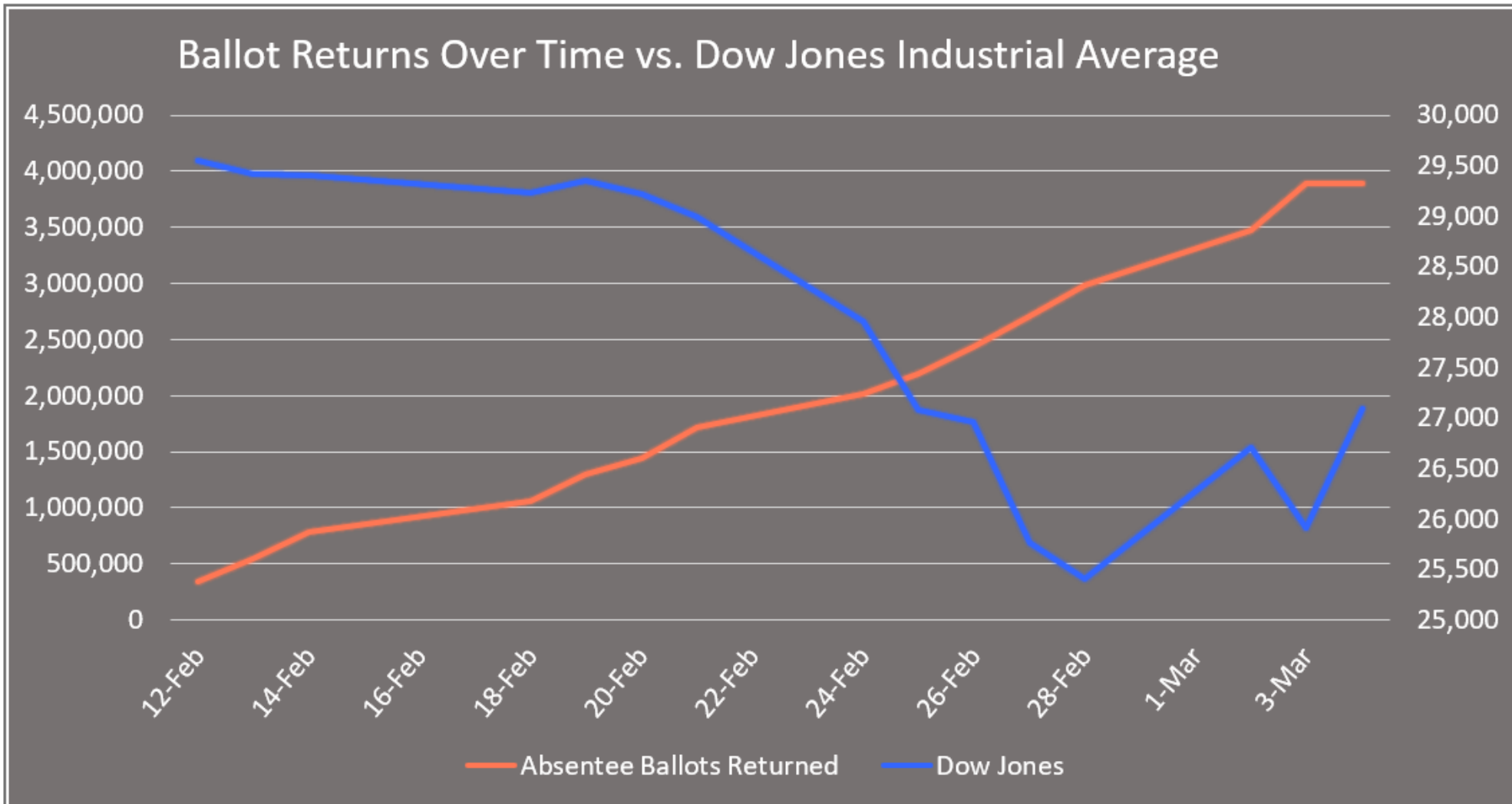
# Local Bond and Proposition 13 Results

- *The Public Preschool, K-12, and College Health and Safety Bond Act of 2020* [Proposition 13] failed on March 3, 2020
  - 47.0% Yes vote
  - Proposition 13 would have provided \$15 billion for school facilities, including \$9 billion for K-12
- **Local bond passage rate was dramatically lower than average**
  - March 2020 passage rate was 36%
  - Since 2001 – average passage rate is 84%

# What Explains the Dismal March 2020 Results?

- No one reason explains the defeat of the state and local bonds
- A variety of contributing factors:
  - A negative voter mood
  - Concerns about waste, debt, and taxes
  - No progressive voter turnout surge
  - Voting obstacles were more likely to impact core supporters
  - The use of “Prop 13” elicited strong reactions from some voters
- Significant declines in support from core bond supporters: Democrats, voters over 40, voters of color, Bay Area residents
  - Coronavirus concerns impacted turnout
  - Stock market drop impacted late voters
- For local bonds – AB 195 ballot label requirements impacted outcomes

# March 2020: Late Voting Absentees Impacted by Economy



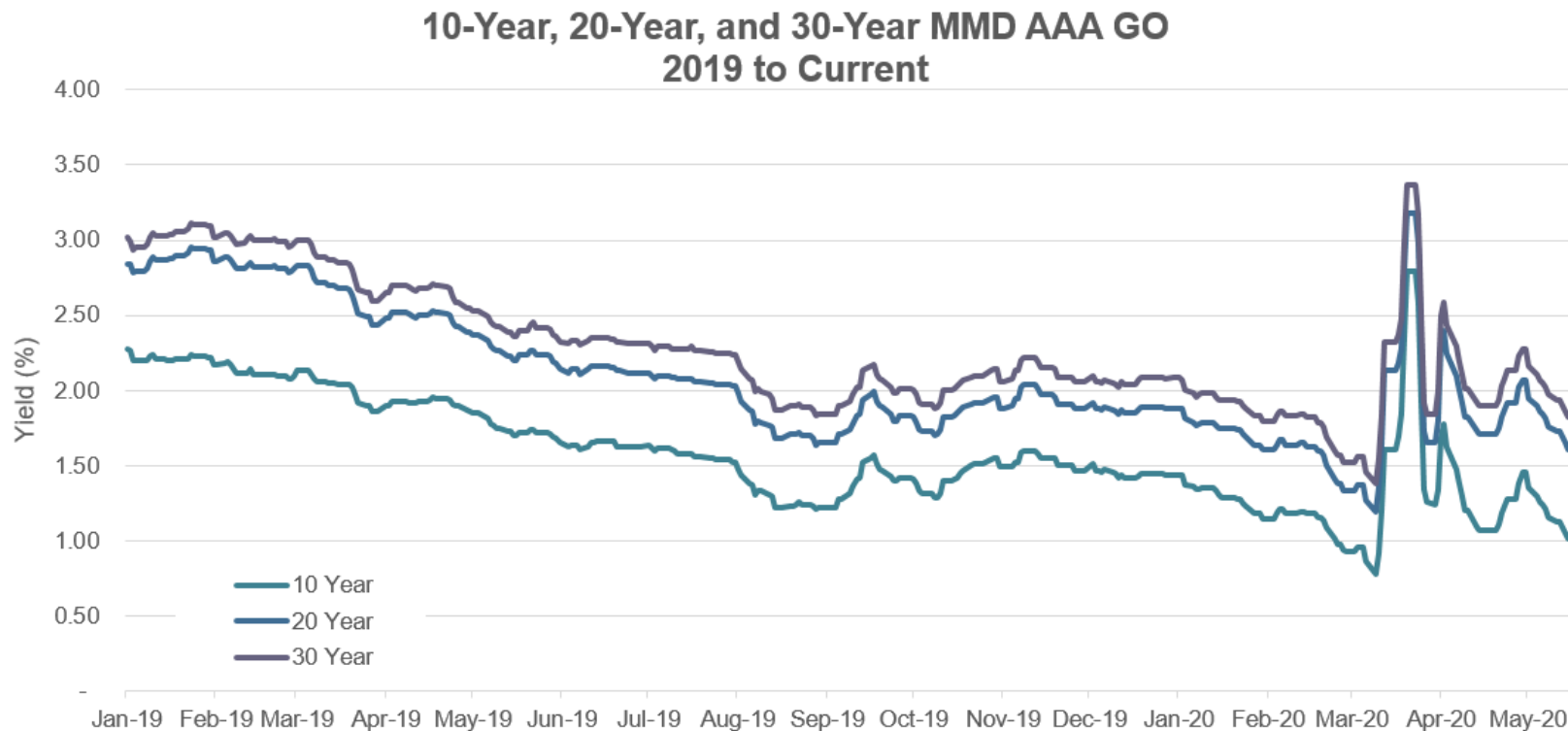
# SB 268/AB 195 – Local Bond Ballot Labels

- SB 268 (Wiener, 2019) VETOED due to transparency concerns
- Addressed the issues created by AB 195 (2017) for local tax measures
  - State rate, duration, amount raised annually on the ballot label
  - Difficult to accurately state for bonds
- AB 195 creates significant voter confusion and decreases support in polling by 5 to 15 %
- SB 268 created a new option for local bonds and tiered taxes:
  - Exempt from AB 195 and instead add “See Voter Guide for tax rate information” on the ballot label
  - New financial disclosures in the Voter Guide



# Recent Historical AAA-Rated General Obligation Tax-Exempt Rates

- MMD rates set new record lows after Brexit in July 2016 but rose in the wake of the 2016 Presidential election.
- In December 2016, the Federal Reserve increased the target fed funds rate for the first time in over a year. They continued to practice their strategy of gradual rate increases in 2017 by implementing three additional rate hikes.
- In July 2019, the Federal Reserve reversed course and cut the target fed funds rate for the first time in 10 years on the back of trade war fears with China and increasing global economic weakness.
- In March 2020 the municipal market hit all-time record lows at various points on the curve and have been volatile since due to the Coronavirus.



# Historical U.S. Treasury Rates

- Yields for the 10-Year, 20-Year and 30-Year maturities of U.S. Treasury Bonds stayed within a tight band between mid-2005 and late 2008, when the credit crisis caused rates to spread out between maturities.
- Rates fell in June 2016 subsequent to Brexit but rose significantly in the wake of the 2016 Presidential Election. Since the beginning of 2020, rates have been very volatile both up and down due to the Coronavirus.

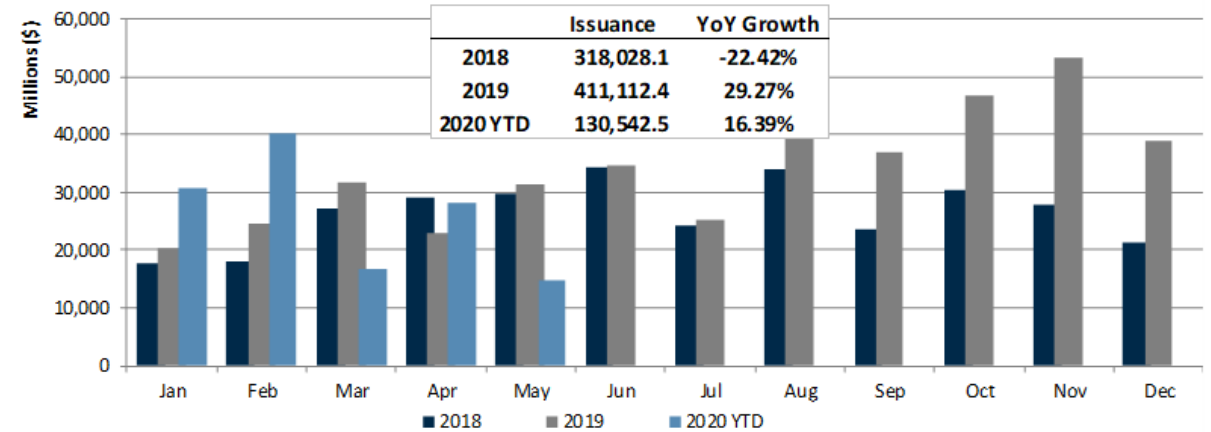


# Themes for the Municipal Market Today and Going Forward

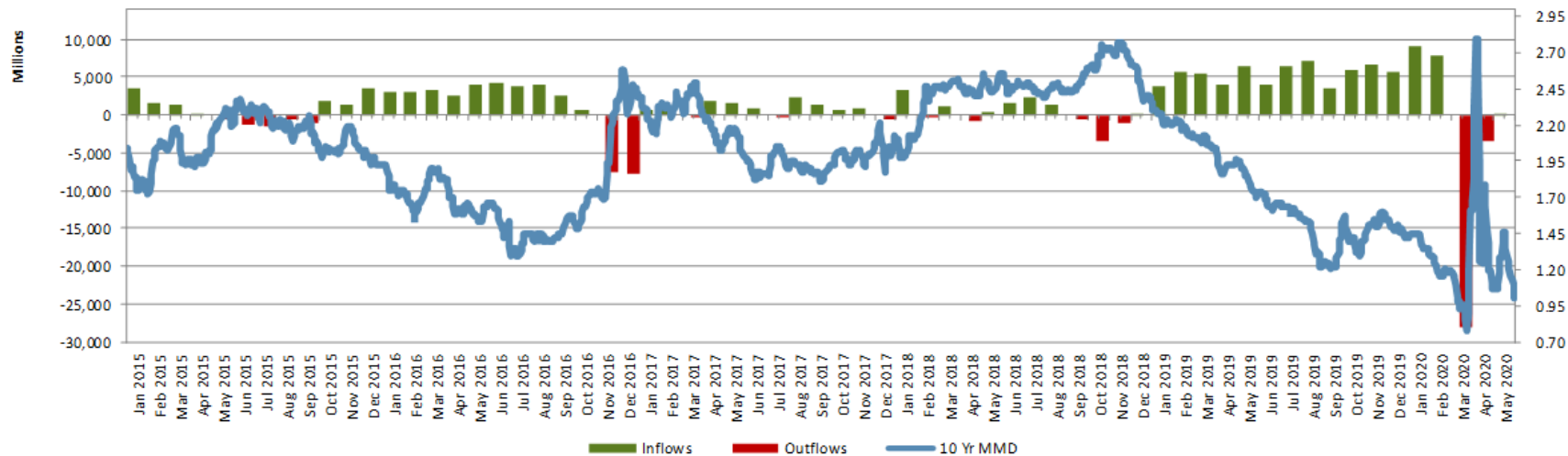
## Current Market Themes

- Fed cuts rates 100 bps in emergency meeting
- 2020 municipal supply
- 1st Week of inflows after 2 weeks of outflows
- Muni/UST ratios very high
- US has the most cases of COVID-19 in the world

### U.S. Municipal Long-Term Issuance Trends



### Municipal Fund Flows and 10-Year MMD



\*Issuance data as of 5/18/2020  
Source: Bloomberg

# Federal Opportunities

- **Maintenance and Operations**
  - Municipal Liquidity Facility (MLF)
  - Tax and Revenue Anticipation Notes (TRANS)
  - Working Capital Loans (WCLS)
- **Facilities Funding**
  - Future Federal Infrastructure Legislation?
  - Reinstatement of Tax Credit/Federal Subsidized Bonds
  - Reinstatement of Tax Exempt Advance Refundings

# Proposition 51 Implementation

- Annual bond sale amounts for School Facility Program projects (approximate, per budget):
  - 2017-18: \$650 million
  - 2018-19: \$650 million
  - 2019-20: \$1.5 billion
  - 2020-21 (proposed): \$1.5 billion
    - *Advocates requesting more to stimulate economic recovery and fund critical school construction projects*

# Status of Proposition 51

- Prop 51 is oversubscribed by over \$1 billion
- Acknowledged List
  - New Construction: \$683.7 million
  - Modernization: \$925.7 million
  - **Total: \$1.609 billion**

*The Acknowledged List is the backlog of applications submitted beyond existing bond authority. Voters would need to pass a new bond to fund these projects and future submittals.*

# November 2020 Election – What to Expect

- Local bond/tax measures
- Presidential election = emotional electorate
- Fight for Congress = outside spending in key areas of the State
- Split roll ballot measure (“Schools and Communities First”) could affect political climate
- Economic climate in general

# Post-COVID 19 Polling

- Right Track / Wrong Track improving, surprisingly
- Early polls suggest voters want to protect their community
- Bonds can be economic stimulus programs
- Coronavirus is politicized



# School Facilities and Finance Legislation

- AB 2088 (O'Donnell) – retires the use of the number “13” for naming statewide ballot measures
  - *Not moving forward in 2020*
- AB 3021 (Ting) – creates \$300 million program to provide resiliency grant funding and technical assistance to LEAs for installation of energy storage systems
  - *Not moving forward in 2020. Proponents are shifting focus to a revenue bond proposal*
- SB 884 (Dodd) – allows LEAs to offer make-up instructional days during summer school session, with reimbursement from the State
  - For LEAs who lost at least five instructional days in a single year, or at least 10 cumulative days in two out of three consecutive school years, due to natural disasters/emergencies
  - *Passed by Senate Education Committee May 12, 2020*

# Affordable Housing

- Options to provide K-12 workforce housing using underutilized school property assets
- Barriers/challenges
  - Controlling costs of financing, construction, operations
    - Affordable rents versus attracting private investors
  - District control of occupancy requirements
- Workforce housing local bonds
  - Jefferson UHSD – the first in the nation!
- The politics of housing

## Affordable Housing, Cont'd.

- AB 3001 (Bauer-Kahan) – clarifies workforce housing is an authorized expense for local bonds
  - *Not moving forward in 2020*
- AB 3308 (Gabriel) – clarifies that school districts receiving Federal tax credits can give occupancy preference to their own employees
  - *Assembly Housing and Community Development Committee – May 20, 2020*

# Assembly Bill 3001 (Bauer-Kahan) – Amendments to Education Code Section 15100(a)

Except as otherwise provided by law, the governing board of ~~any a~~ school district or community college district may, when in its judgment it is advisable, and shall, upon a petition of the majority of the qualified electors residing in the school district or community college district, order an election and submit to the electors of the school district or community college district, as applicable, the question whether the bonds of the school district or community college district shall be issued and sold for the purpose of raising money for the following purposes:

- (1) The *acquisition or lease of real property for school facilities, including, but not limited to, the* purchasing of school lots.
- (2) The *construction or acquisition of school facilities, including, but not limited to, the* building or purchasing of school buildings.
- (3) The *reconstruction, rehabilitation, or replacement of school facilities, including, but not limited to, the* making of alterations or additions to ~~the school building or buildings~~ *school buildings*, other than as may be necessary for current maintenance, operation, or repairs.
- (4) The repairing, restoring, or rebuilding of ~~any school building~~ *school facilities, including, but not limited to, a school building*, damaged, injured, or destroyed by fire or other public calamity.
- (5) The supplying of *school facilities, including, but not limited to,* school buildings and ~~grounds~~ *grounds*, with furniture, equipment, or ~~necessary apparatus of a permanent nature.~~ *necessary or useful for the operation of the school facilities.*
- (6) The permanent improvement of the school grounds.
- (7) The refunding of any outstanding valid indebtedness of the school district or community college district, evidenced by bonds, or of state school building aid loans.
- (8) The carrying out of the projects or purposes authorized in Section 17577.
- (9) The purchase of schoolbuses ~~the~~ *with a* useful life of ~~which is~~ at least 20 years.
- (10) The demolition or razing of ~~any~~ a school building with the intent to replace it with another school building, whether in the same location or in any other location.

# Assembly Bill 3001 (Bauer-Kahan) – Amendments to Education Code Section 15100(a)

For purposes of subdivision (a), “school facilities” means a building, facility, structure, or real property improvement used or operated in conjunction with one or more public schools or community colleges, including, but not limited to, all of the following:

- 1) Classrooms
- 2) Academic buildings
- 3) Auditoriums
- 4) Libraries
- 5) Laboratories
- 6) Research or training facilities
- 7) Administrative offices or buildings
- 8) Health offices or facilities
- 9) Dormitories
- 10) Dining halls
- 11) Student centers or unions
- 12) Housing for students, faculty, or school or district employees
- 13) Sports facilities
- 14) Maintenance, storage, or utility facilities
- 15) Other related buildings, facilities, structures, or real property improvements used for student instruction, conducting research, or training, or for operating a school facility
- 16) All necessary, usual, or useful attendant and related buildings, facilities, structures, or real property improvements, including, but not limited to, streets, parking, and supportive services facilities or structures, required or useful for the operation of a school facility

# John Baracy, Managing Director Raymond James & Associates, Inc.

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John R. Baracy is a Managing Director in the Los Angeles public finance office of Raymond James & Associates, Inc. Mr. Baracy began his public finance career in 1994 and has experience in all facets of the municipal finance business. He specializes in the management, structuring and sale of California K-12 Education and Community College District new money and refunding general obligation bonds, certificates of participation, tax credit bonds, Mello-Roos bonds and tax and revenue anticipation notes. In addition to managing the introduction of these financings into the market, Mr. Baracy performs debt capacity, general obligation bond tax rate and credit analyses, charter school finance analyses, California K-12 education finance legislation analyses, and evaluates the investment of bond proceeds. Throughout his career, he has completed more than 525 financings totaling over \$9.50 billion.

Mr. Baracy graduated with a Bachelor of Science degree from Arizona State University with an emphasis in Finance. Mr. Baracy maintains his Series 7, 50 and 63 licenses with FINRA and frequently presents for California K-12 school district advocacy groups such as CASH, CASBO and CSBA. Mr. Baracy is currently on the CASH Board of Directors.

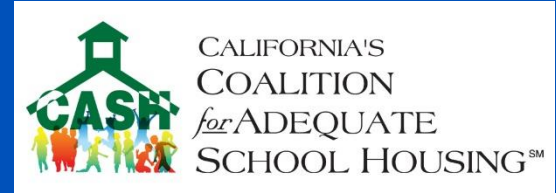


# Jared Boigon, Partner TBWB Strategies



- Jared is a founding partner of TBWB Strategies
- Extensive grassroots campaign and media consultant experience; also public sector
- TBWB Strategies: bond and parcel tax elections
- Over 400 successful local funding measures
- Work in all parts of California
- Helped raise tens of billions of dollars in voter-approved revenue
- Helped elect mom to Denver City Council (she served 8 years at-large)
- 2 daughters in San Francisco Public Schools

# Rebekah Cearley, Legislative Advocate Coalition for Adequate School Housing



Rebekah Cearley is a legislative advocate for education entities, with a focus on school facilities issues. She has over a decade of experience in the State advocacy sector, helping clients from small associations to large companies navigate the State budget, legislative, and regulatory processes.

The Coalition for Adequate School Housing is the preeminent statewide organization representing school facility professionals in both the public and private sectors. CASH provides advocacy, leadership development, educational opportunities, and resources within the school facilities arena. CASH advocacy ensures there are State funds to build new, renovate, and maintain K-12 schools. CASH is dedicated to making sure the students of California have access to quality, safe and healthy environments that foster learning and success.



# Donald Field, Attorney Orrick, Herrington & Sutcliffe



Mr. Donald Field is a Partner in the Public Finance Department of Orrick, Herrington & Sutcliffe LLP and the leader of Orrick's School Finance/General Obligation Bonds Practice Group. He is also a member of Orrick's Assessment/Mello-Roos Practice Group, Leasing Practice Group and Revenue Practice Group. He has extensive experience, as both bond counsel and disclosure counsel, in the financing techniques used by school districts, cities and counties in California. His practice focuses on local governmental infrastructure financing, including general obligation bond financing, land-secured financing and municipal lease financing. He has appeared as a panelist and lecturer for numerous organizations, including the Coalition for Adequate School Housing, the California Community College League, the Associated Press News Editor's Council, the League of California Cities and the California Society of Municipal Finance Officers. Mr. Field is the principal author and editor of the third edition of *The XYZ's of California School District Debt Financing*, published by Orrick in 2005. Mr. Field was named as one of the Top 25 Municipal Lawyers of 2011 in California by the Los Angeles and San Francisco Daily Journal.

Orrick, Herrington & Sutcliffe LLP has maintained a substantial practice in the area of public finance for over a century. It has been the premier bond counsel firm in California throughout that period, and has been ranked first in the country for most of the last twenty years in total volume of financings for which it served as bond counsel.



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