

## **Audit and Finance Agenda Item**

**Meeting Date:** August 31, 2009

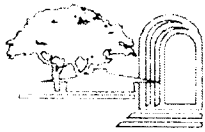
**Title of Item:** Future Measure C bond Issuances

### **Background and Analysis:**

Attached is a memorandum from Vice Chancellor Dunn to Interim Chancellor Brandy outlining a series of planning issues that are under consideration as staff plans for the next issuance of Measure C.

### **Recommendation:** (Information Only)

Submitted by:	Andy Dunn, ext. 6201
Additional contact names:	
Is backup provided?	Yes



**FOOTHILL-DE ANZA**  
**Community College District**

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August 25, 2009

To: Mike Brandy, Interim Chancellor  
From: Andy Dunn, Vice Chancellor, Business Services

Re: Measure C Bond Issuances

On June 6, 2006, the voters of the district approved Measure C, a \$490.8 million General Obligation bond measure. The district filed a validation complaint the next day and it was responded to by two parties. In May 2007, \$250 million of this authorization was issued in two series, however; use of these proceeds was restricted by the taxpayer lawsuit. The litigation was resolved in the districts favor in the spring of 2008 and the district then began program implementation in earnest. As of June 30, 2009, the district spent approximately \$50 million and earned approximately \$20 million in interest leaving roughly \$220 million in proceeds available.

Measure C was originally programmed under the assumption that Assessed Valuation (AV) would grow at an annual rate of 4% and the corresponding tax rate was then estimated at \$21.72/\$100,000 of AV through 2039. AV within FHDA has actually grown at an average of more than 7% over the past 15 years. That rate however slowed to just over 4% for the 2009-10 year. Because of AV growth exceeding expectations since the 2006 election we estimate that we could maintain the \$21.72/\$100,000 tax rate under the original amortization schedule with only 3.39% annual growth in AV. A fifteen year history of AV levels is depicted in an attachment to this memo.

Because of the significant downturn in the real estate market and the associated impacts to AV, in terms of gauging the timing of subsequent bond issuances, it is important that we now analyze not only anticipated bond expenditures but also encumbrances and ultimately our capacity to issue. This presents a paradigm shift in terms of risk assessment. Although we currently estimate we will fully expend the Series A and B proceeds by September 2011 we project that we will have fully committed these proceeds by October 2010. As we do not want to be in a position of recommending a contract award to the board without having available cash resources and allowing approximately six months from the point we begin an issuance process until we have such proceeds in hand we anticipate formally initiating the next bond issuance in the first quarter of calendar year 2010. The Measure C spending and encumbrance plan is reflected in the Measure C elsewhere in this agenda.

Federal tax law allows two expenditure tests for sizing bond issuances; either a requirement to spend 85% within three years or a similar spend down requirement within five years, with certain threshold tests along the way. As noted above, the district's initial issuance was in two series; one of which supported two large complex projects and was issued under the five year spend down rule. The Measure C litigation notwithstanding, the bond team is largely on schedule to meet these spend-down requirements.

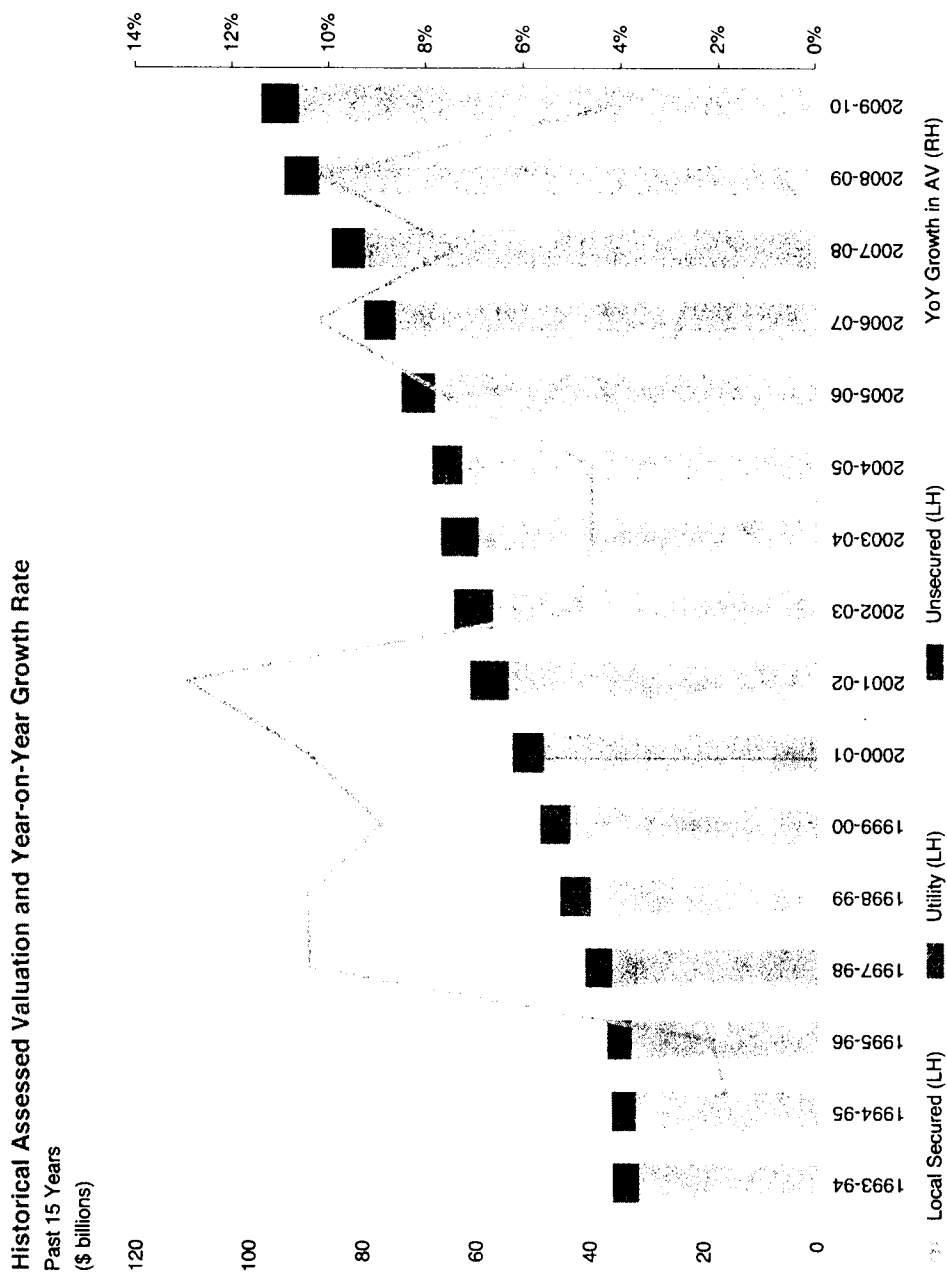
As two major program components, Scheduled Maintenance and Technology Refresh are anticipated to have a 15 year life we have been studying the relative merits of a taxable issuance. This approach would allow us to avoid the spend-down requirements noted above and create a type of endowment for these long term program elements. However, the interest earnings on these bonds must be considered concurrently with the higher costs being imposed on taxpayers. This type of issuance would only make sense if market conditions were correct and the district created a restricted reserve that would allow these funds to be metered out over the next 12-15 years. This process is further complicated by recent cutbacks in key state categorical programs including Scheduled Maintenance and Instructional Equipment for which we could have used Measure C resources as a source of matching funds and would have otherwise supplemented these program areas.

In conclusion, we will continue to analyze the timing of the next tax exempt issuance and study the relative merits of a taxable issuance.

C: Charles Allen  
Hector Quinonez  
Bernata Slater

Attachments

## Historical Assessed Valuation Levels



- The District's service area in Santa Clara County has experienced robust growth in AV over the past fifteen years, with a compounded annual growth rate of 7.34%
- The District's AV growth slowed to 4.01% in FY2009-10
- As the District plans future Measure C issuances of GO Bonds, examining tax rates based upon different AV growth scenarios will be helpful to making structuring and sizing decisions