

Measure AA: Fallbrook Union High School District \$45.0 Million Bond Measure Brief Summary

SDCTA **SUPPORTS** Measure AA. The Fallbrook Union School District proposed bond measure meets key provisions of SDCTA's Bond Support Criteria. The application submitted by the District outlines the need of the District, plans, and draft budgets for each of the proposed projects. The descriptions of the projects submitted have been thoroughly vetted, and no reason has been found that would prevent the District from executing the projects.

- Fallbrook Union High School District is proposing a \$45.0 million Proposition 39 General Obligation Bond measure.
- The measure would increase the current tax rate by a legal maximum of \$30 per \$100,000 of assessed valuation (AV).
- The District is making a commitment to keep the tax rate at a maximum of \$26.50 per \$100,000 of assessed valuation, the amount approved in a previous bond election in 1994. The estimates were made using both a 3% and 4% assessed valuation growth assumption.
- Current cost estimates outline \$39.8 million in projects.
- Total cost of the bond, expected to be issued in four series over eight years, is estimated to be \$85,500,000 including principal and interest.
- If State Building Funding becomes available, the District plans to expand renovation of existing classrooms.
- The program is based on several facility condition assessments completed since the last formal Facilities Master Plan was created in 2004.
- The District's facilities needs assessments include several modernization and construction needs including utility improvements, classroom upgrades, security systems, and new facilities, with cost estimates broken down by priority.
- The District did **NOT** include an updated ongoing Deferred Maintenance or Major Repair and Replacement funding plan.
- The District has adopted all SDCTA best practices.

Measure AA: Fallbrook Union High School District \$45.0 Million Bond Measure

SDCTA Position:

SUPPORT

Title: *“Measure AA: Fallbrook Union School District \$45.0 Million Bond Measure”*

Election: November 2016 General

Description: The issuance of \$45.0 million of Proposition 39 General Obligation Bonds with an increase in property taxes by a maximum of \$30 per \$100,000 of assessed value to fund school modernization.

Jurisdiction: Local

Vote: 55% Super Majority

Fiscal Impact: Total cost of the bond, expected to be issued in four series over eight years, is estimated to be \$85,500,000 including principal and interest. The District is making a commitment to keep the tax rate at a maximum of \$26.50 per \$100,000 of assessed valuation, the amount approved in a previous bond election in 1994.

Rationale:

The Fallbrook Union School District proposed bond measure meets key provisions of SDCTA’s Bond Support Criteria. The application submitted by the District outlines the need of the District, plans, and draft budgets for each of the proposed projects. The descriptions of the projects submitted have been thoroughly vetted, and no reason has been found that would prevent the District from executing the projects.

Background:

Fallbrook Union High School District operates a Comprehensive High School, Continuation High School, and Independent Study High School on one campus. It serves over 2,300 Ninth through Twelfth Grade students from Fallbrook, Vallecitos, the Fallbrook Naval Weapons Station, and parts of the Camp Pendleton Marine base.

Fallbrook’s campus was primarily constructed between the years of 1955 and 1964. Many additions have been made since that time, including with the proceeds from a \$23 million bond approved in 1994. The tax rate for this bond was set at \$26.50 per \$100,000 of assessed valuation.

Following the addition of a new Director of Maintenance in 2015, the District began conducting condition assessments to determine which modernizations and improvements were needed at the campus. While \$67 million in projects were identified in the review, the District modified the project list by priority and is suggesting the approval of a \$45.0 million bond to address the most pressing improvements. These include

- Deferred maintenance (roofing)
- Utility improvements (electrical, water, and sewer)
- Classroom upgrades (complete interior modernization for oldest rooms)
- New STEM/CTE Facilities

- Security and safety systems (fire, public address and access control)
- Swimming pool renovation

The District plans to apply for matching funds from the State should they become available, and use that funding in accordance with projects outlined in the approved bond resolution. The bond is meant to be structured as an extension of the 1994 tax rate, without a tax rate increase to Fallbrook property owners.

Proposal:

On August 8, 2016, the Fallbrook Union High School District Board of Trustees voted to place a \$45.0 million school bond measure on the November 8, 2016 ballot.

The ballot question expected to be put before voters will read as follows:

“Without increasing tax rates, shall Fallbrook Union High School District repair and upgrade aging classrooms and school facilities, including deteriorating roofs, plumbing and electrical systems; improve campus safety/security; upgrade career-training facilities, classrooms, and science labs supporting instruction in math, engineering, technology, science and skilled trades preparing students to be college and career ready; by issuing \$45,000,000 in bonds at legal interest rates, with independent citizens oversight, annual audits, no money for administrators, and all funds staying local?”

The District has submitted its request for support from the San Diego County Taxpayers Association (SDCTA). The request included materials intended to satisfy the SDCTA Bond Support Criteria. Those materials have been reviewed and an analysis of the results is provided below. A summary table of the analysis can also be found at the end of this report.

Review of SDCTA Bond Support Criteria:

Program Description, Budget & Funding, Execution Plan

The condition assessments conducted by the District with the help of contractors identified several more projects than could be funded using the District’s maximum debt capacity. After evaluation with the help of PJHM Architects, the District has outlined its focus for the bond program to prioritize those projects that would fall into the parameter of the bond amount, and that are most supported by the community according to a survey conducted by True North Research. Figure 1 below outlines the estimated cost of district projects funded with each bond series.

Figure 1: Estimated Project Costs

Projects	Series 2017	Series 2020	Series 2022	Series 2025	Total
Security & Safety	5,000,000				5,000,000
Deferred Maintenance (Roofs)		1,000,000	1,000,000	1,481,250	3,481,250
New STEM building	1,073,000	5,020,750			6,093,750
Classroom Upgrades		3,077,250	8,773,000	8,974,750	20,825,000
Utility Improvements	2,500,000				2,500,000
Deferred Maintenance (Pool)	1,200,000	675,000			1,875,000
Total	9,773,000	9,773,000	9,773,000	10,456,000	39,775,000

Planning and approval of projects would mostly take place in 2017 and 2018, and most actual project work would begin in May 2018. The District provided a rough project completion timeline to the SDCTA:

- Safety and security have been identified as the District’s highest priority issues, with projects beginning in 2017.
- Bond funded deferred maintenance roofing projects are set to begin using the funds from the Series 2020 and Series 2025 bonds.
- The new STEM building planning and site preparations would start with the Series 2017 bonds. The STEM building and other classrooms can be used to house students while old science classroom buildings are upgraded. Sequencing the upgrades in this manner would reduce the requirement for temporary classroom buildings over the life of the project.
- Most utility improvements will likely take place in the summers of 2018, 2019, and 2020 to avoid disruption during the school year.
- The main swimming pool and pump house will be upgraded from the Series 2017 bonds, and the diving pool will be upgraded from the Series 2020 bonds.¹

Ballot Resolution and Language

On August 8, 2016, the District adopted the final ballot language and tax rate statement. The District has submitted language to SDCTA that outlines the ballot question, as well as other items pertaining to SDCTA’s best practices.

On July 25, 2016, the FUHSD Board of Trustees formally adopted the SDCTA’s Independent Citizens’ Oversight Committee Best Practices, SDCTA School Construction and Professional Services Procurement Best Practices, and SDCTA recommended policy regarding the use of Capital Appreciation Bonds. The District also included within the draft ballot resolution its intent to pursue

¹ Information taken from Fallbrook Union High School District’s endorsement request application.

practical opportunities to incorporate joint-use within its bond program and SDCTA recommended provisions regarding fair and open competition for all District construction projects.

The project list that will be presented to voters identifies the several improvement projects that may be funded with the bond money. The language, however, does not outline the various projects by priority as has been outlined in the District's Facilities Needs Assessment. Voters will be unable to determine when each project is scheduled for completion.

Deferred Maintenance Funding

In response to a severe economic emergency facing the District for the 2009-10 fiscal year, the previous superintendent and assistant superintendent decided that all flexible categorical program revenues, including revenue received for Deferred Maintenance, would be diverted to help balance the budget through fiscal year 2012-13.

In 2013-14 the state completely eliminated the state categorical matching funding source for the schools' deferred maintenance program, leaving schools to fund these programs using their general operating budgets. The District has noted this change as a large reason that it is in need of further maintenance funding.

Since 2012, both the Federal and State budgets have provided one-time revenues to the District for discretionary uses. The District chose to use the majority of those revenues to address its deferred maintenance backlog, but these resources have been insufficient.

In December of 2015, the District's new Director of Maintenance arrived having 30 years of experience and has since been working to bring maintenance needs to the attention of District staff. Long-term maintenance programs are being treated with high priority in budgetary discussions for the future. The District hopes to use the bond funds to improve current facility conditions and help staff maintain them properly as time passes.

SDCTA "Envisioning and Managing Legitimate and Effective Public School Bonds" Course:

The SDCTA recommends that senior staff, Board members, or Independent Citizen Oversight Committee members from each school district attend SDCTA's "Envisioning and Managing Legitimate and Effective Public School Bonds" Course. This course covers financing, construction, and governance in regards to school facilities bonds. Fallbrook Union High School District's Superintendent, Board of Trustees Vice President, and Chief Business Officer attended SDCTA's bond course on May 13, 2016.

Fiscal Impact:

The District has made a commitment to the residents it serves that it will maintain a tax rate of \$26.50 per \$100,000 of assessed property valuation, which was approved by voters in the 1994 bond measure. The District is limited to \$30 per \$100,000 of assessed valuation under the Prop 39 - 55% voter approval bond initiative restrictions.

The District’s financial advisor, Fieldman, Rolapp & Associates and underwriter, Stifel, Nicolaus & Company each prepared two financial scenarios for the District. Each firm has made estimates considering that the tax rate will remain at \$26.50, while one scenario was based on a 3% assessed valuation growth assumption and one was based on a 4% assessed valuation growth assumption.

The District’s 10-year AV growth average was 1.76%. Generally, SDCTA recommends that “the assessed value growth assumptions within any proposed financing will be the lesser of a) the average of the past ten years or b) 5%.” However, SDCTA is aware that the recession affected the property values of all Districts, and thus believes it would be appropriate to allow the District to instead use its 20-year average of 4.62% AV growth in the process of determining projected AV growth. While 3% and 4% are not overly conservative assumptions, they are lower than the 20-year average for the District and are believed to be appropriate in making tax rate estimates.

In order to maintain a tax rate of \$26.50, the District will likely have to issue the bonds in more than one series. The district is anticipating issuing the bonds in four (4) series during 2017, 2020, 2022, and 2025. Total cost of the bond, including principal and interest, is estimated to be \$85,500,000.

Figure 2 below shows a summary of the bond program. The estimates were provided by PJHM Architects, an architectural and research firm specializing in educational and civic projects. PJHM used a 4% factor for inflationary construction costs for a period of 4 years in their estimates. The following estimates were for a \$41.5 million bond measure, but SDCTA has not received estimates for the new \$45.0 million bond measure.

Figure 2: Estimated Bond Proceeds

Bond Proceeds	Series 2017	Series 2020	Series 2022	Series 2025	Total
Bond Par Amount	10,375,000	10,375,000	10,375,000	10,375,000	41,500,000
Issuance Costs	431,250	431,250	431,250	431,250	1,725,000
Net for Projects	9,943,750	9,943,750	9,943,750	9,943,750	39,775,000

Fallbrook Union High School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Program Description	Yes	Yes	1) Bond proposal is for \$45 million
			2) Bond will have 4 issuances over the next 8 years
			3) Project list focuses on safety & security projects, roofing, new STEM buildings, utility improvements, pool renovation, and classroom upgrades
			4) Project list within proposed ballot resolution is site specific
Program Budget and Funding	Yes	No	1) Bond financing scenarios made using 3% and 4% assessed valuation growth rates
			2) Costs associated with borrowing included, but NOT interest revenues
			3) Bond funds sufficient to complete project list without state funding
			4) The District aims to maintain the added tax rate of \$26.50 that was approved in its 1994 bond measure
			5) The District will be using 25 year Current Interest Bonds as the debt financing mechanism
Cost Estimation and Feasibility	Yes	No	1) General project cost estimates provided by PJHM architects following several condition assessments
			2) Potential project list based on assessments included more projects than could be funded
			3) Projects prioritized by community support
			4) Reduced project cost estimates total \$39.8 million
			5) Preliminary budget based on projected bond issuances and priority
			6) Evidence for estimated costs for each project NOT included
Program Justification	Yes	Yes	1) The District justifies the need for the measure to complete \$39.8 million in needs
			2) Many of the District's 50-60 year old buildings have reached their useful or expected life span and need to be replaced to support 21 st century learning
			3) There are currently no State Building program funds available to school districts in need of facility funding
Facilities Master Plan & Facilities Needs Assessment	Yes	Yes	1) A Facilities Master Plan has been provided
			2) A Facilities Needs Assessment has been provided

Fallbrook Union High School District Bond Support Application and SDCTA Bond Support Criteria			
Criteria Item	Info Provided?	Criteria Met?	Comments
Program Execution Plan	Yes	Yes	1) Bond issuance schedule has been provided
			2) Estimated program and project timelines have been provided
			4) District is prepared to hire a construction manager or contract with a construction management firm
Fair and Open Competition	Yes	Yes	1) District adopted language stating that the District will promote fair and open competition for all District construction projects within its ballot resolution on July 25, 2016
Bond Financing & Technology	Yes	Yes	1) District adopted provisions regarding the use of Capital Appreciation Bond as board policy on July 25, 2016
Deferred Maintenance and Major Repair & Replacement Plan	Yes	No	1) A funding plan to eliminate deferred maintenance and address ongoing routine maintenance needs has NOT been included
			2) A history of deferred maintenance funding plans has been included, but actual deferred maintenance funding history has NOT been verified
			3) The District hopes to use the bond funds to improve current facility conditions and help staff maintain them properly as time passes.
Complete Ballot and Resolution Language	Yes	Yes	1) Ballot language and resolution for \$45.0 million was adopted on August 8, 2016
			2) Ballot language outlines project list by site
Provision for an "Independent Citizens' Oversight Committee"	Yes	Yes	1) District adopted SDCTA ICOC Best Practices via resolution on July 25, 2016
Adoption of SDCTA School Construction and Professional Services Procurement Best Practices	Yes	Yes	1) District adopted SDCTA School Construction and Professional Services Procurement Best Practices via resolution on July 25, 2016
Certification of Governing Board Members and Oversight Committee Members	Yes	Yes	1) The Board of Trustees Vice President, Superintendent, and Chief Business Officer attended the SDCTA "Envisioning and Managing Legitimate and Effective Public School Bonds" course on May 13, 2016
Limited Use of District's "Education" Funds	Yes	Yes	1) SDCTA staff has reviewed ballot measure references in District materials and has not found a violation in regard to SDCTA's Standards for Publicly Funded Advocacy For or Against Ballot Measures
Joint Use of Facilities	Yes	Yes	1) District has included language within the ballot resolution intent to pursue practical opportunities to incorporate joint-use
Opposition to Special Elections			
Follow-Up Bond Requirement			