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FUNDING STRATEGIES

navigating a challenging economy

Private businesses, investors, homeowners, government agencies and public school districts are feeling the effects of the global financial meltdown. While school districts wrestle with mandates to slash budgets, many districts still need to address critical facilities planning, design and construction issues.

For this issue of Funding Strategies, we contacted the experts in school financing at SNW (Seattle-Northwest Securities). SNW is an investment bank and broker-dealer specializing in tax-exempt underwriting and sales, as well as trading and sales of taxable and tax-exempt fixed-income securities.

Trevor Carlson, Senior Vice President of Public Finance and Manager of SNW's Washington School Finance Group, and Dave Taylor, Senior Vice President of Public Finance and Chairman of the Board of SNW, shared with us the following information on what school districts need to know about financing capital projects in the current economic climate.

START PLANNING EARLY

While discussion of future bond packages might easily be sidelined during times of turmoil, both Carlson and Taylor advise school districts to prioritize ongoing planning activities. "Economic scenarios are more complicated than ever and they are changing very quickly," says Carlson. "Make sure that your district's capital projects committee, your legal counsel, financial advisors, underwriters, and architects are on board early as they will give you advice to help steer recommendations in the right direction."

BUILD A FLEXIBLE PLAN

"In this uncertain economic environment, flexibility on the financing side is key to success," says Taylor. Given the increased market volatility, school districts should consider a wider range of possible financing structures, interest rates, and assessed values. In addition, districts can add more contingency to accommodate future unknowns, such as the potential for declining tax collections.

"More than ever, we are advising school districts to build in flexibility and use conservative assumptions in the financing plan," says Carlson. "There are still many unknowns, particularly on the real estate side in projecting tax rates."

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>
> *Trevor Carlson, Senior Vice President of Public Finance and Manager of SNW's Washington School Finance Practice*

Building flexibility and additional contingency into the financial plan provides school districts with greater ability to meet goals for tax rates and to complete the capital projects approved by voters.

EXPLORE ALTERNATIVE FINANCING

"The American Recovery and Reinvestment Act (ARRA) has the largest reworking of federal tax-exempt bond programs since 1986. Many of these changes and additional programs have some impact on school districts. In particular, the Build America Bonds (BABs) and the Qualified School Construction Bond (QSCBs) programs may be important to school districts considering financing capital expansions or renovations."
Source: School District Finance Update - Stimulus Act Education Bond Programs, SNW Industry Report, March 26, 2009

It is important to understand that the ARRA programs do not represent new authority for school districts to borrow money. "Districts will still need to get voter approval or approval to borrow under existing state statutes." explains Taylor. "The intent is to provide a different way for the Federal government to provide incentives to borrowers such as subsidized interest rate payments and zero interest loans."

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While the ARRA provides some new programs, applicability is based on individual circumstances and the details of implementation are awaiting further clarification from the federal government.

"If school districts have upcoming elections, we may be able to find ways to use the ARRA programs to transfer benefits," says Taylor. "We think some of the new subsidies may have value in buying more project for the same tax rate, or buying the same project for a lower tax rate."

Whether districts use the traditional bond market or consider new ARRA programs, SNW structures financing to meet the following three goals:

- Achieve the tax rate communicated to voters
- Maximize the capital project fund deposit so the money is in the bank for construction
- Secure a low interest rate/attractive borrowing cost

Since the ARRA program expires in 2010, it important for school districts to move quickly if there is interest in exploring additional subsidies and lower tax rates.

UNDERSTAND MARKET DYNAMICS

"In 2009, there has been a dramatic shift away from 2008's lack of liquidity," says Carlson. "Lending rates appear to be stabilizing and credit markets are working fairly efficiently on a worldwide basis."

While some municipal issuers were not able to find buyers late last year, municipal issuance has increased in 2009 and the tax exempt market is functioning well. Because they are backed by the pledge of tax payers, school bonds are considered high quality bonds, which are actively being sought by municipal investors. "This is really a great time to be borrowing on behalf of the district's tax payers as interest rates are low and construction bids are more competitive than a year ago," says Carlson.

KEEP IT LOCAL

Despite the economic downturn, school districts in Oregon and Washington continue to pass bond and levy packages. In Oregon's November 2008 election, voters approved over a billion dollars of education bonds statewide.

Oregon school districts also received a significant boost forward with the November 2008 passage of Measure 56, which relaxed the "double-majority" rule mandating voter turnout requirements for elections. School districts statewide now have more flexibility in scheduling their bond and levy elections because the double-majority is no longer required in May and November elections. However, the measure maintains the double-majority requirement for September and March elections.

"This is terrific news going forward," says Taylor. "The recession will not last forever and Oregon school districts will have more options in the timing of future elections for building capital projects."

Election results in Washington are also bucking the downward trend in the overall economy. Combined results of the February and March 2009 elections show 38% of Washington school districts that ran bond measures were successful. This positive result is close to the approximately 40% statewide approval rates by voters for school bonds each year in 2005, 2006, and 2007 elections; and it far surpasses the 2008 school bond approval rate of only 23% statewide.

With the disclaimer that each district's situation is different, Carlson says, "We are seeing some signs of life that voters think schools are important and are willing to tax themselves to keep capital projects moving forward at the local level."

Regardless of economic ups and downs, consistent communication is one of the best strategies for school districts seeking voter support. Implementation of a long term communications plan keeps the public up to speed on what is happening within the school district. In addition to laying the foundation for a capital campaign, districts should create opportunities to talk with the community about their mission of educating youth, as well as positive results in academic achievement. It is important to focus district communications on tangibly demonstrating how the district's work relates to the average person – whether or not they have kids currently in school.

Both Carlson and Taylor advise districts to maintain optimism for voter approval in upcoming elections. "Stay upbeat and do not abandon all hope. If people like what the district is doing, if they believe in the projects, and if they trust leaders to spend the money wisely, there is a good chance communities will still vote for local bond measures," says Taylor.

For more information, contact Trevor Carlson at (206) 689-2741 or Dave Taylor at (503) 275-8303.

The purpose of Funding Strategies is to explore how school districts secure funding for projects. Please contact Mahlum for more information, or if your district would like to be featured.

Seattle
206.441.4151
Portland
503.224.4032
mahlum.com
info@mahlum.com