CBOC Questions Related to Bond Spending Timeline

Background Information Concerning 3-Year Spending Requirement

The District issued $18 million in Series C bonds for Measure G on July 13, 2016.

Federal Tax Code and the related Arbitrage Certificate signed by the District requires, among other things, that the District certify that it reasonably expects that at least 85% of the bond proceeds will be spent in 3 years.

If, for any unforeseen reason the spending expectations are not realized, the District should document the circumstances that led to the change in expectations. In addition, the District should develop a strong plan for spending the unspent proceeds in a timely manner, as well as proceed diligently to enter into binding design/construction contracts that will commit such proceeds.

In addition, for unspent proceeds at the end of the three-year period, the tax-exempt proceeds become yield-restricted. For this reason, investments of such remaining proceeds must be closely monitored to ensure that the investment yield does not exceed the bond yield.

Current Status and Recommendations

The three-year period for Series C ends on or about July 13, 2019. At that time, the District should have spent approximately $15 million of the $18 million that was issued, leaving approximately $3 million. As of June 30, 2018 the District had $12 million in Measure G funds remaining. At this time, the District has spent approximately $6 million of the $18 million issued for Series C. It appears unlikely that the District will achieve the 85% spending threshold by July 13, 2019. Therefore, it seems appropriate that the District should consider the following actions.

1) Document the circumstances that led to the change in spending expectations.

    a. According to the District's construction managers, the District's financial issues and resulting Qualified Financial Status on May 1, 2017 and subsequent conditional approval of its Adopted Budget on September 1, 2017 diverted attention away from proceeding on Bond projects. The District did not regain Positive certification of its financial condition until January 26, 2018
    b. In addition, in December 2017 the District issued a Request for Qualifications and Proposals for a Facility Master Plan. The District was seeking to determine if a new direction was needed with respect to facility improvement and therefore determined that it was necessary to temporarily delay bond spending. While it was anticipated that the delay would last only a few months, the selection of an architectural firm took several months longer than expected, concluding on August 6, 2018.

2) Develop a strong plan for spending the unspent proceeds and proceeding diligently to enter into design/construction contracts

    a. The District has entered into a design contract to develop an updated Facility Master Plan, including bond project plans to be funding by remaining Measure G funds
    b. The District is also proceed with bid documents to implement a large HVAC replacement project at the high school

3) If, at the end of three years, the District has not expended 85% of the bond proceeds from Series C, the District must monitor investments to ensure that the investment yield does not exceed the bond yield, or make yield-reduction payments to the IRS. (Note: Investment yields have been far below bond yields for many years and it is highly unlikely that yield-reduction payments will be required.)

4) While yield-reduction payments are not likely to be required, the IRS has other enforcement options that could become onerous. Therefore, it is best to proceed with a strong plan to spend the required bond proceeds in a timely manner.