SANTA ANA UNIFIED SCHOOL DISTRICT

Frequently Asked Questions Regarding Capital Appreciation Bonds related to Measure G

In recent months, both local and national media outlets have reported on the use of long-dated Capital Appreciation Bonds ("CABs") by California school districts. Santa Ana Unified School District has had a very successful General Obligation Bond ("GO Bond") program that includes the use of long-dated CABs. Here is a list of frequently asked questions and responses related to SAUSD's issuance of CABs.

1. What is the difference between the various bonds the District has issued?

To fund the modernization and new construction that has occurred on school campuses in the district, the Santa Ana Unified School District has issued a combination of Current Interest Bonds (CIBs), Qualified School Construction Bonds (QSCBs), Build America Bonds (BABs) and Capital Appreciation Bonds (CABs).

- **CIBs** begin paying interest immediately after issuance—similar to a mortgage payment which begins the month after the closing of a home purchase—and typically have a lower interest rate.
- **QSCBs** are CIBs in which the federal government provides a federal interest subsidy which has effectively lowered the interest rate to below 1%.
- **BABs** are CIBs that also provide a federal subsidy like QSCBs of 35% of the interest cost.
- **CABs** require no payments until their maturity date(s), at which time both accrued interest and principal are repaid based on taxes levied by the county treasurer.

This combination of bonds, including CABs, made it possible to receive bond funds in a short amount of time and provided the District the opportunity to take advantage of low construction costs and low interest rates while capturing State Matching Funds. Without the use of CABs, the District's facilities program would have had to essentially shut down until additional funding could be made available through CIBs. This would have left several projects incomplete or never started.

Below is a list of the School District's General Obligation (GO) Bonds detailing all of the School District's 2008 GO Bonds that have been sold (excluding any refunding).

Table 1: Breakdown of all GO Bonds Sold – Election of 2008

Issue	CIBs	CABs	BABs	QSCBs
2008 Election GO Bonds, Series A – 2008 issue	$94,235,000	$5,762,856		
2008 Election GO Bonds, Series B - 2009 issue		$34,861,114		
2008 Election GO Bonds, Series C – 2009 issue				$19,240,000
2008 Election GO Bonds, Series D – 2010 issue	$6,445,000	$2,146,011		
2008 Election GO Bonds, Series E – 2010 issue			$19,775,000	
2008 Election GO Bonds, Series F – 2010 issue				$17,535,000

2. What are the reasons the School District chose to issue CABs?

School facilities will be used for many generations. CABs allowed the District to spread part of the burden of paying for school facility improvements out to the future. This gives some relief to current taxpayers who might otherwise pay what could be considered more than their fair share and result in an inflated tax rate.

CABs also allow school districts to make the most of their General Obligation Bonds by accessing dollars near the time the bond is passed, therefore taking advantage of current low construction costs. If it were not for the CAB portion of the District portfolio, construction would have had to wait until bond dollars were available. In many cases, during that delay, inflation can rise and construction costs can increase. The District also needed to issue CABs to capture a portion of state funding, especially COS and ORG that had deadlines.

Including CABs as part of the District's portfolio also allowed the District to receive state funds. It is important to note that there are three conditions that must be met in order to receive state funds: 1) facilities must be eligible, 2) the state must have funds, and 3) a school district must demonstrate local match, which is the GO Bond. The issuance of CABs allowed the District to have local match funds available. The combination of these factors resulted in the issuance of CABs.

It is important to view bond issuances as a whole given the many layered components of a comprehensive finance program. The District issued CABs in order to maximize the amount of CIBs and federal subsidy bonds that could be issued while keeping the tax rate within $1 per 100,000 of assessed property value of the maximum tax rate estimated in 2008.

Therefore, although the School District issued CABs at rates higher than the CIBs or federal subsidy bonds, the overall repayment ratio for the 2008 comprehensive bond issuance (Measure G) was 3.2 to 1 – well within the 4 to 1 standard State Treasurer Bill Lockyer recommends.

3. Why didn't the School District issue more CIBs instead of CABs?

Had the District only issued Current Interest Bonds, the tax rate for this issuance would have been significantly higher and many projects would not have been initiated and completed for our students.

In addition to providing school facilities and qualifying for state funding, the School District balanced the following when it issued its GO Bond program:

- Historically low interest rates,
- Temporarily available federal subsidies,
- Limited State matching dollars,
- Capital facility start and stop costs,
- The need for school facilities, and
- Tax rate for tax payer (multiple staggered issuances reduce risk of an inflated tax rate but also require the use of CABs).

4. What are the repayment ratios for the School District's GO Bonds?

The table below details these repayment ratios:

Table 2: Repayment Ratios for all bonds sold

Issue	Construction/Escrow Proceeds	Principal and Interest Payments(1)	Repayment Ratio
2008 Election GO Bonds, Series A – 2008 issue	$99,997,856	$203,886,137	**2.9:1**
2008 Election GO Bonds, Series B – 2009 issue	$34,861,114	$339,254,408	**9.7:1**
2008 Election GO Bonds, Series C – 2009 issue	$19,240,000	$25,652,109	**1.3:1**
2008 Election GO Bonds, Series D – 2010 issue	$8,591,011	$11,848,098	**1.55:1**
2008 Election GO Bonds, Series E – 2010 issue	$19,775,000	$42,384,618	**2.1:1**
2008 Election GO Bonds, Series F – 2010 issue	$17,535,000	$20,781,605	**1.2:1**
Total	**$199,999,981**	**$643,806,976**	**3.2:1**

(1) Principal and Interest payments reflect any expected subsidy payments to be received from the US Government.

5. How long will the taxpayer repay the GO Bonds?

The last maturity associated with the 2008 election is on August 1, 2046. There is no remaining authorization to issue more Measure G GO Bonds. Therefore, no additional GO Bonds will be issued that would extend the repayment period.

6. Does the issuance of CABs affect the District's credit rating?

No. In fact, the School District has opportunities that some other school districts do not have as a result of maintaining very high credit ratings with the national credit rating agencies. As a result of higher ratings from the national credit rating agencies the School District was able to issue CABs at rates that are not considered exorbitant. The School District's general obligation bonds have credit ratings of "AA-" with Standard & Poor's and "Aa3" with Moody's Investor Services. Many school districts have lower credit ratings resulting in higher borrowing costs.

7. Did the maximum tax rate the District projected in 2008 for the Measure G Bond program increase?

Yes. In 2008, the District consultants estimated that the maximum tax rate for the Measure G Bond valued at $200 million would be approximately $28.10 per $100,000 of assessed valuation (A.V.). This rate was the best estimate at the time. This tax rate is affected by both interest rates and assessed valuation. After issuing all $200 million in general obligation bonds, the tax rate has seen an increase to $38.15 per $100,000 of assessed valuation over the projected maximum rate. To put this in perspective, the difference between $28.10 and $38.15 is $10.05 per $100,000 of assessed valuation. The median assessed valuation of a single family home in the district is $360,000, so the average single family property owner paid $36.18 more for all of 2013 than was projected during the 2008 Election. Now that Measure G's total authorization has been issued, the maximum tax rate for Measure G during the duration is projected to be approximately $49.70 in 2041.

8. Should taxpayers be concerned that the tax rate will skyrocket in the future?

No. In fact, the School District regularly looks to lower the interest rates that tax payers pay on the GO Bonds. Most recently, the School District refunded $19,050,000 in GO Bonds which saved the taxpayers $6,511,125. The School District works with its finance team to regularly monitor the interest rate environment to look for such opportunities.

In addition, annual taxes, when collected, are deposited as required by statute into a debt service fund held by the County on behalf of the District's taxpayers. SAUSD does not budget or handle these funds, though they are reported in the District's Financial Statements. The County makes the debt service payments when due to the paying agent, who then pays the bondholders.