

KERNTAX MAKING A DIFFERENCE: PROP. 39, 2000, SCHOOL FACILITIES LOCAL VOTE ACT OF 2000

THE SITUATION

Before the passage of Proposition 39 in 2000, about 55% of local school bond ballot questions succeeded in getting the previously required 2/3 vote. In the wake of its passage, about 85% of local school districts are passing with the 55% approval requirement which authorizes property taxes above one percent. The proposition stated bonds could only be issued if the tax rate levied by a school district, at a single election, would not exceed thirty dollars (\$30) per year per one hundred thousand dollars (\$100,000) of taxable property when assessed valuation is projected by the district to increase in accordance with Article XIII A of the California Constitution.

The rate is \$30 for elementary and high school districts; \$60 for unified districts; and \$25 for community college districts. Bonding capacity is 1.25 percent for elementary and high school districts; 2.5 percent for unified and community college districts. Many times, districts have significantly overestimated future assessed valuation growth, which resulted in tax rates significantly larger than \$30. A few locally will top \$75.

KernTax has been actively watching school bond tax measures since 2005. The Rim of the World Unified School District in Lake Arrowhead issued the most expensive bond issuance to date in California. It issued \$283,612 in bonds in 2010. By the final maturity date in 2039, the district taxpayers will have to pay \$6.65 million in principal and interest—\$23.45 for every \$1 borrowed. Locally, in 2011, Fairfax Elementary School District issued \$1.02 million in capital appreciation bonds. By the final maturity date in 2048, the district's taxpayers will have to pay \$15.6 million—\$15.25 for every \$1 borrowed. This was the wakeup call for KernTax to start monitoring actual bond issuances.



KERNTAX'S RESPONSE

Since 2007, KernTax's school bond evaluation process has evolved. The current process weighs these factors: Past bond performance; analysis of needs and wants; review of the actual project list; evaluation of the new bond proposal; and the District's openness and transparency. Based on this data, the KernTax Board decides to support, oppose or take "no position" on the bond issuance. Post-election, KernTax now appraises, in advance, bond issuances based on Total Debt Service (TDS) which is principal plus interest and fees. In 2017, well-structured, 30-year current interest bonds have a TDS of 1.80; 25-year bonds are 1.60; 15-year bonds are 1.30, and 5-year bonds are under 1.10.

THE RESULTS

In 2016, KernTax evaluated 15 school bond measures in Kern County. The team worked with the Kern Community College District to craft a \$503 million bond measure, over 25 years, with five-consecutive, five-year bonds, with total interest and fees under \$40 million; that is a TDS of 1.08. This TDS saves district taxpayers \$360 million over 25 years. The Kern High School reduced its bond measure from \$660MM to \$444MM and reduced the length of bond issuance from 30 years to 10-15 years, with a TDS of 1.20. Since 2007, KernTax engagement with school districts has helped Kern County taxpayers avoid over \$2 billion in school bond payments.