
October 9, 2013

**California Association of County Treasurers and Tax Collectors:
Overview of K-14 Technology Funding Alternatives**

Prepared by:

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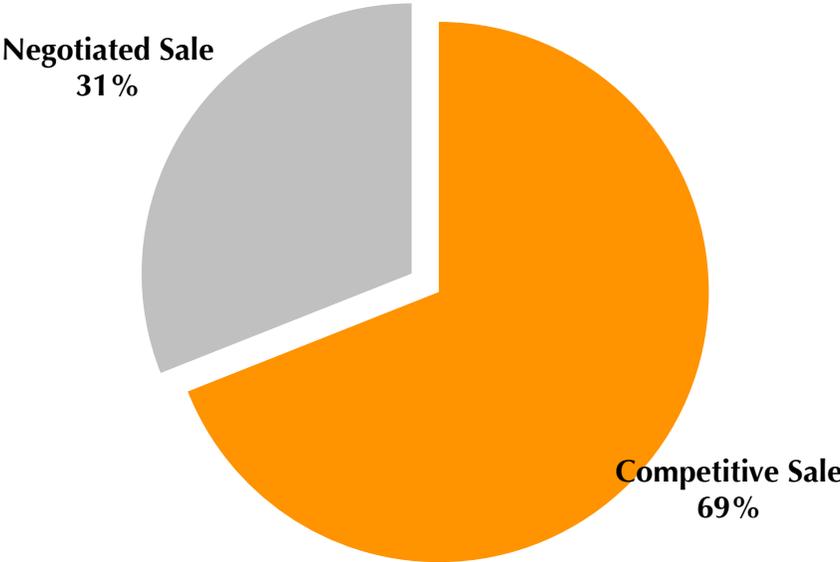
Dale Scott & Company: **Introduction**

Dale Scott & Company: Introduction

DS&C Serves as Financial Advisor to California's K-14 Districts

- **Experience.** Has served California's K-14 districts on hundreds of transactions for over two and a half decades.
- **Leadership.** Consistently ranked among the leading independent financial advisory firms in the State.
- **Innovation.** Hold US Patents for GO Bond Reauthorizations® and Ed-Tech Bonds™
- **Client-Driven.** Statewide reputation for solid, practical advice combined with a history of client-driven innovations.
- **Independence.** Committed to representing only our clients without ties to investment banks, commercial banks, architects or developers.

DS&C GO Bond Financings: 2012 to date (new money)



Dale Scott & Company: **Introduction**

Statewide Base of Clients (representative listing)

District	County
Amador County USD	Amador
Calaveras USD	Calaveras
Central USD	Fresno
Orland USD	Glenn
Calipatria USD	Imperial
Corcoran USD	Kings
Kern HSD	Kern
Konocti USD	Lake
Shaffer Union SD	Lassen
Pomona USD	Los Angeles
Yosemite USD	Madera
Soledad USD	Monterey
Fullerton Jt. UHSD	Orange

District	County
Hemet USD	Riverside
Los Rios CCD	Sacramento
Colton USD	San Bernardino
Chula Vista ESD	San Diego
Stockton USD	San Joaquin
Jefferson UHSD	San Mateo
Goleta Union ESD	Santa Barbara
East Side UHSD	Santa Clara
Dixon USD	Solano
Sonoma Valley USD	Sonoma
Red Bluff Union ESD	Tehema
Sonora UHSD	Tuolumne
Oxnard UHSD	Ventura

K-14 Technology Funding: **Overview**

Proposition 39 Permits the Financing of Technology

SECTION TWO. FINDINGS AND DECLARATIONS

The people of the State of California find and declare as follows:

(a) Investing in education is crucial if we are to prepare our children for the 21st Century.

(b) We need to make sure **our children have access to the learning tools of the 21st Century like computers and the Internet**, but most California classrooms do not have access to these technologies ...

Proposition 39 Permits the Financing of Technology

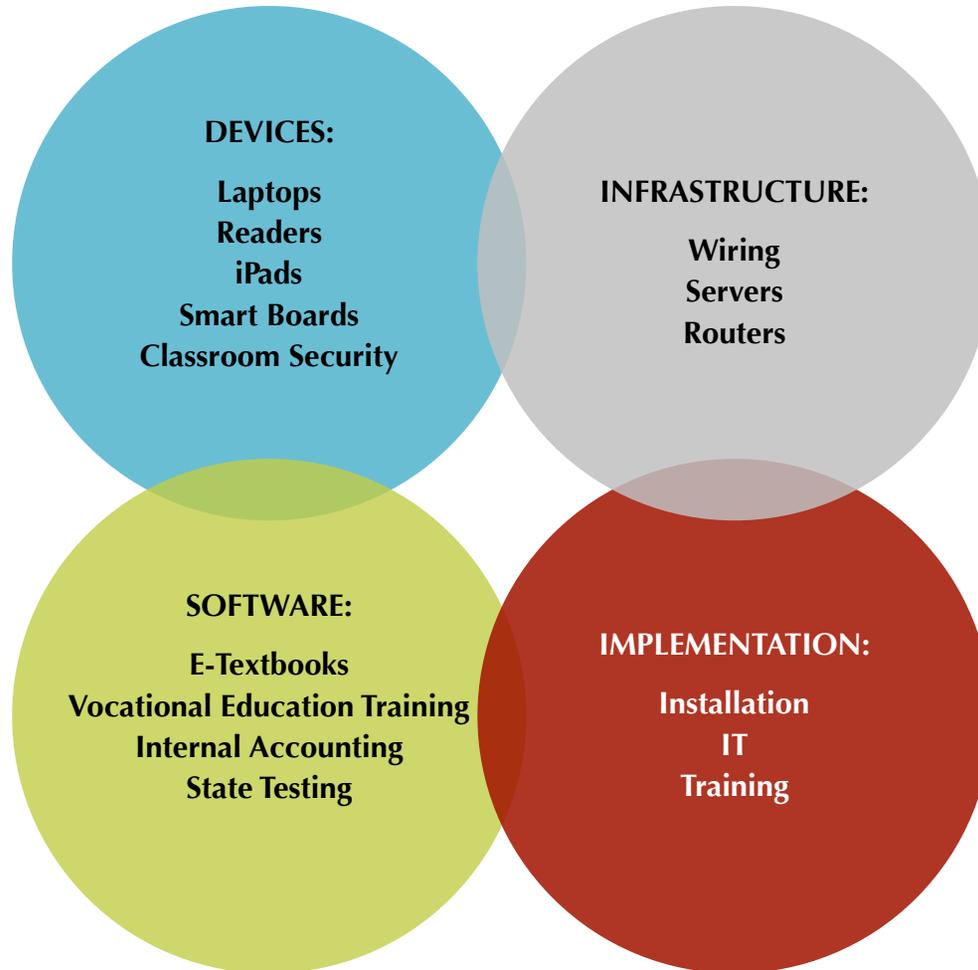
SECTION FOUR

Section 1 of Article XIII A of the California Constitution is amended to read:

(3) Bonded indebtedness incurred by a school district, community college district, or county office of education for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters of the district ...

CACTTC: K-14 Technology Needs?

Four Components of Successful Tech Plan



CACTTC: **Challenges That Must Be Met**

Five Challenges in Designing a Successful Tech Funding Plan

- **Term of Financing:** Does amortization match useful life of asset?
- **Replenishment:** Is obsolete equipment replaced?
- **Risk:** Is there interest risk to the district/taxpayer?
- **Simplicity:** Is the program simple to administer?
- **Interest Costs:** Are borrowing costs as low as possible?

Alternative #1: **Tech Carve-Out GO Bonds**

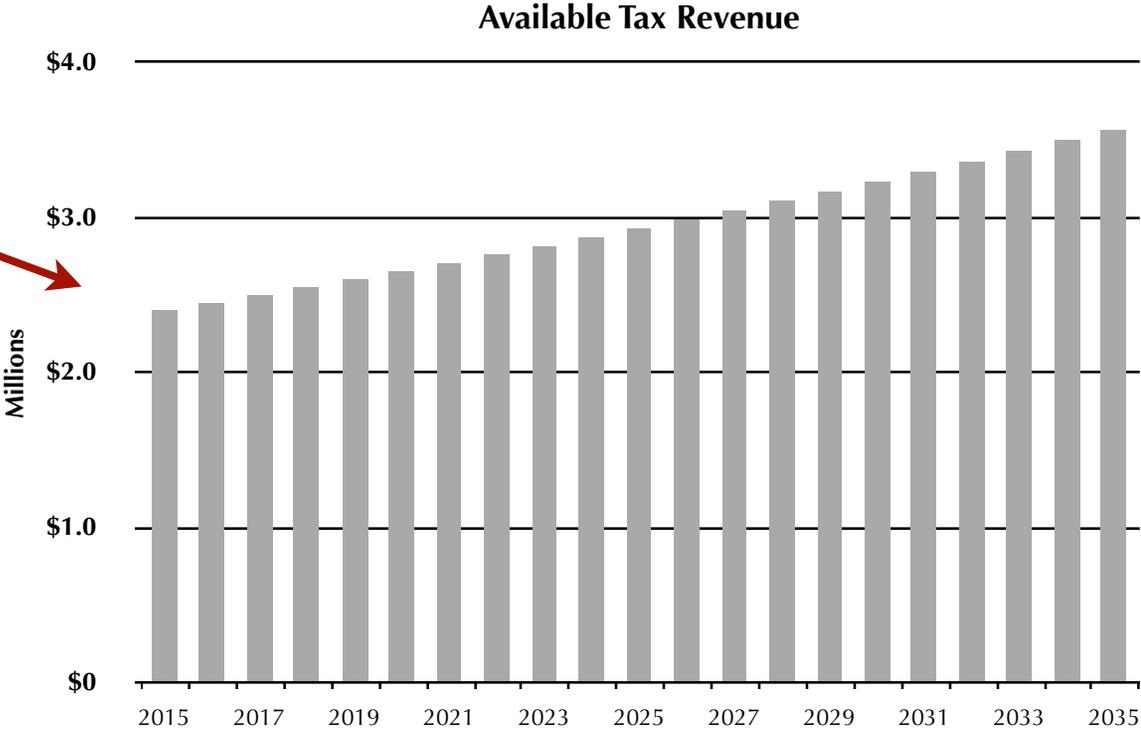
CACTTC: Tax Base

Conventional GOs Designed for Leveraging Upfront Funding

\$30/\$100,000 tax rate on \$7.75 billion AV produces \$60 million of tax revenue over 21 years



- \$7 to \$8 billion AV examples:**
- Antioch USD (Contra Costa)
 - Bakersfield City ESD (Kern)
 - Burlingame ESD (San Mateo)
 - Gilroy USD (Santa Clara)
 - Hemet USD (Riverside)
 - New Haven USD (Alameda)
 - Upland USD (San Bernardino)
 - Vallejo City USD (Solano)
 - Walnut Valley USD (LA)
 - Westminster ESD (Orange)



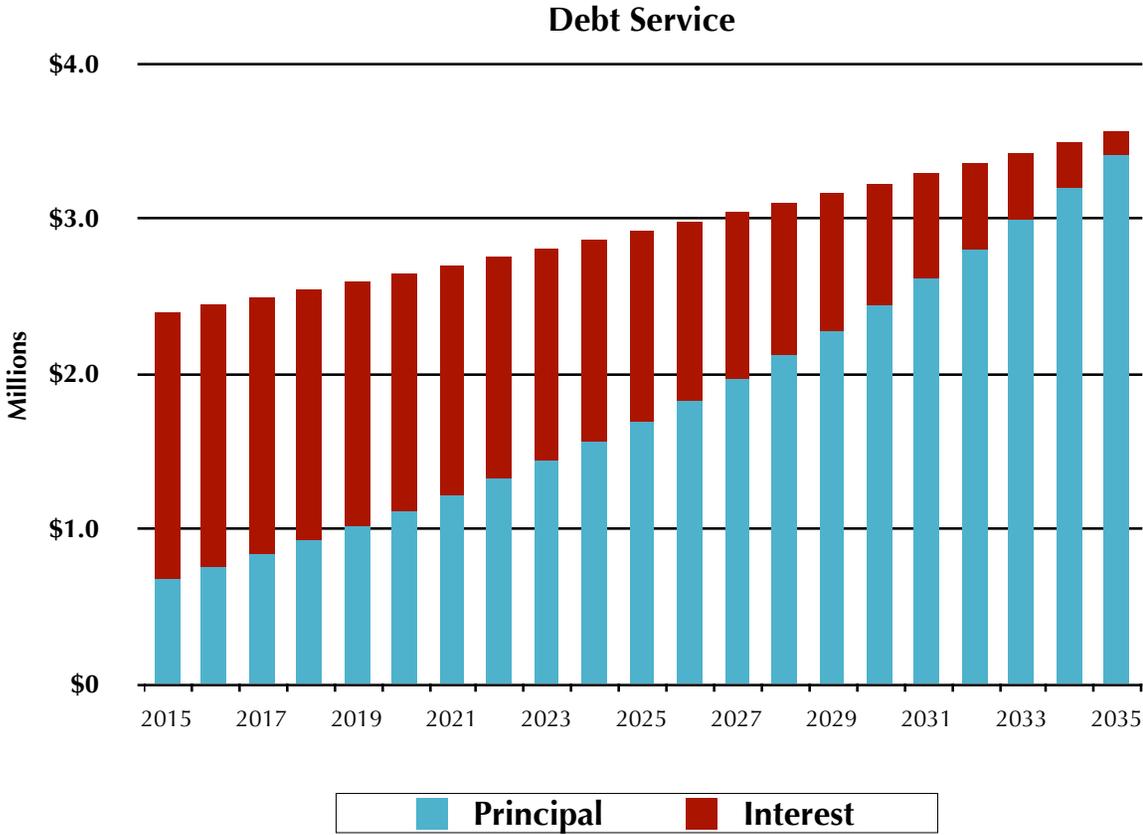
Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

CACTTC: Tech Carve-Out

Conventional GOs Designed for Leveraging Upfront Funding

Table 1: Conventional GO Bond			
	Principal	Interest	Total
Facilities	\$0.00	\$0.00	\$0.00
Tech	\$0.00	\$0.00	\$0.00
Total	\$37.10	\$22.90	\$60.00
Debt ratio			1.62:1

Assumes interest rate of 4.50%



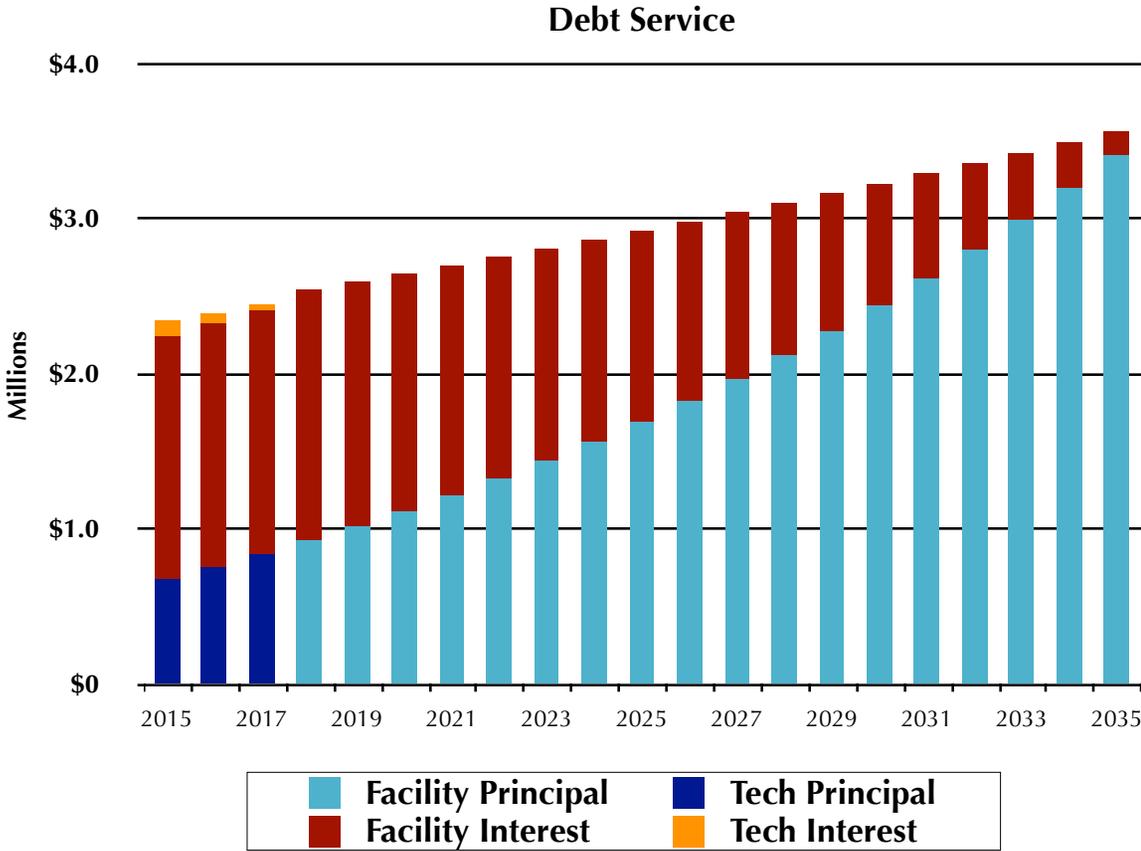
Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

CACTTC: Tech Carve-Out

Tech Carve-Out Presumes Facility Principal Repayment Is Delayed

Table 2: Tech Carve-Out			
	Principal	Interest	Total
Facilities	\$34.90	\$22.70	\$57.60
Tech	\$2.20	\$0.20	\$2.40
Total	\$37.10	\$22.90	\$60.00
Debt ratio			1.62:1

Assumes interest rate of 4.50%



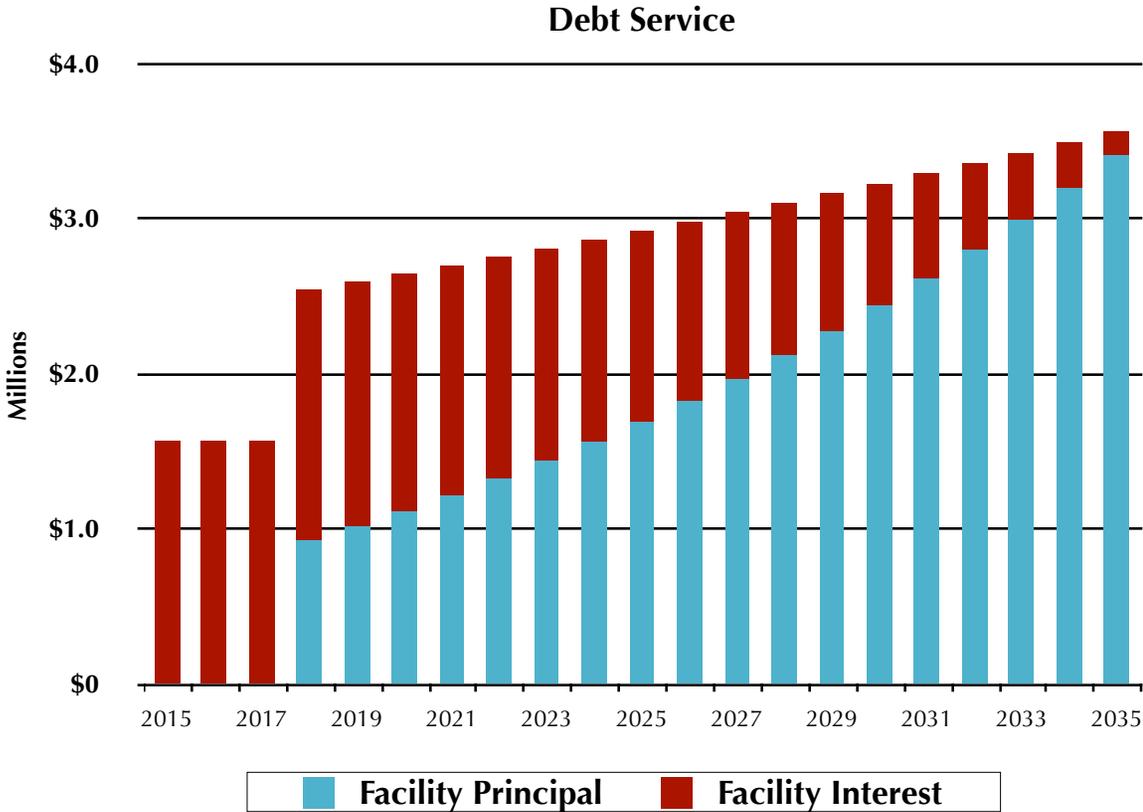
Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

CACTTC: Tech Carve-Out

Tech Carve-Out Presumes Facility Principal Repayment Is Delayed

Table 2-A: Facility Portion of Tech Carve-Out			
	Principal	Interest	Total
Facilities	\$34.90	\$22.70	\$57.60
Tech	\$0.00	\$0.00	\$0.00
Total	\$34.90	\$22.70	\$57.60
Debt ratio			1.65:1

Assumes interest rate of 4.50%



Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

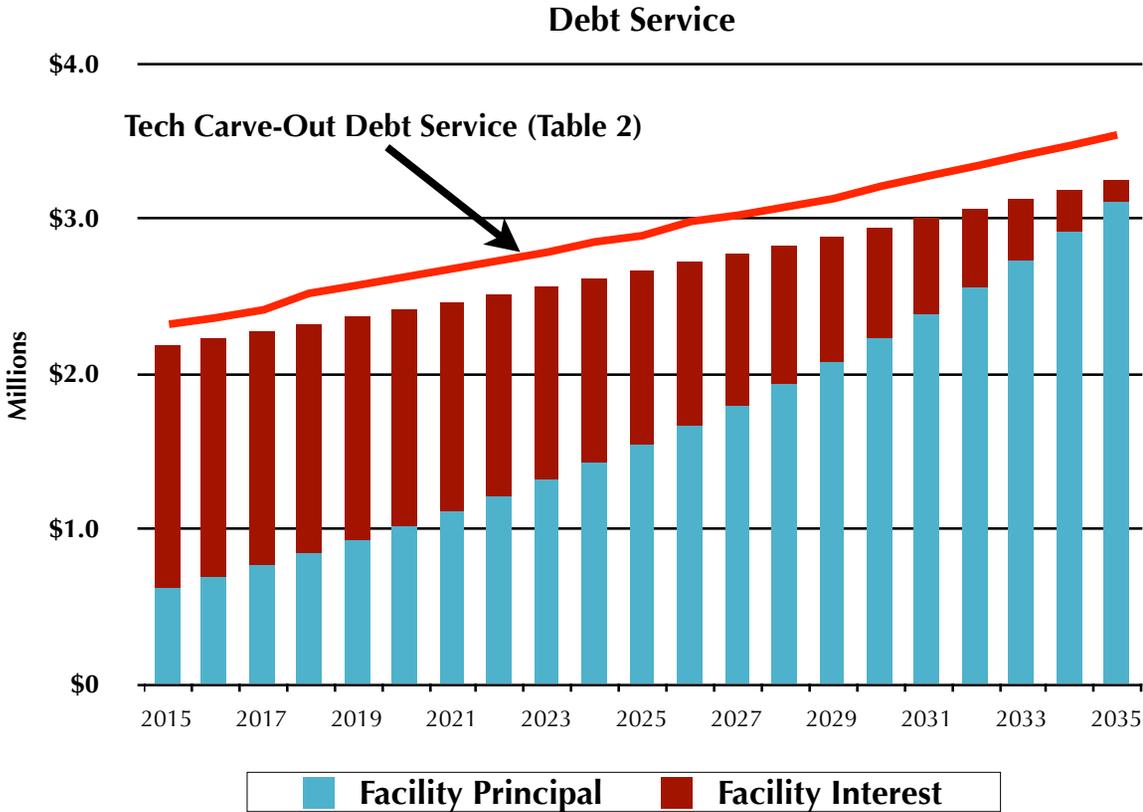
CACTTC: Tech Carve-Out

Tech Carve-Out Results in \$1.1 million in Added Interest Costs

Table 2-B: Facility without Tech Carve-Out			
	Principal	Interest	Total
Facilities	\$34.90	\$21.60	\$56.50
Tech	\$0.00	\$0.00	\$0.00
Total	\$34.90	\$21.60	\$56.50
Debt ratio			1.62:1

Assumes interest rate of 4.50%

Table 2-C: Full Cost of Tech Carve-Out	
Principal	\$2.2
Interest on Tech	\$0.2
Additional Interest	\$1.1
Total	\$3.5
Debt ratio	1.59:1



Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

CACTTC: Challenges That Must Be Met

Five Challenges in Designing a Successful Plan

	Tech Carve-Out Bonds	Endowment Bonds	Ed-Tech Bonds™
Amortization matches useful life of asset?	X		
Replaces obsolete equipment?	X		
No interest rate risk to taxpayers/district	✓		
Simplicity?	✓		
Low cost of borrowing?	X		

Alternative #2: **Endowment Bonds**

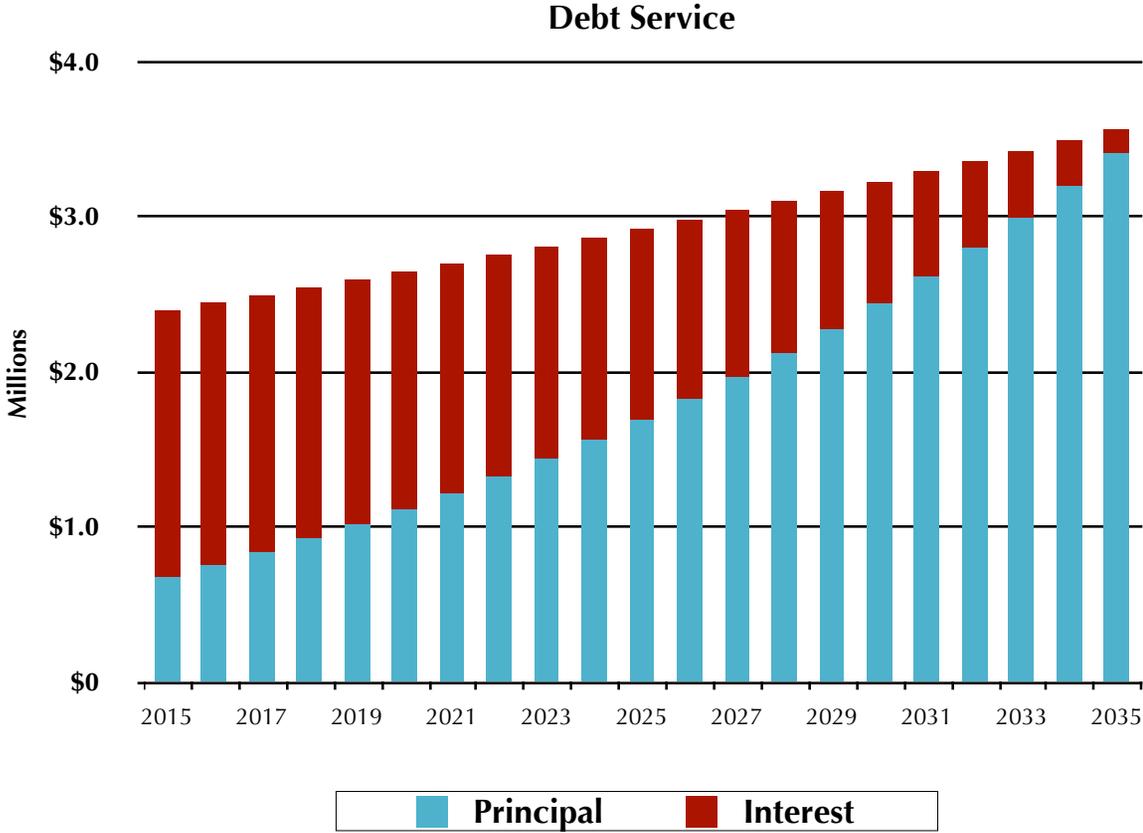
CACTTC: Endowment Bonds

Endowment Bonds Require Ongoing Investment of Bond Proceeds

Table 3: Endowment Bond			
	Principal	Interest	Total
Facilities	\$0.00	\$0.00	\$0.00
Tech	\$37.10	\$22.90	\$60.00
Total	\$37.10	\$22.90	\$60.00
Debt Ratio			1.65:1

Assumes interest rate of 4.50%

- 1. Require special treatment in order to comply with IRS 3-year rule
- 2. Available funding augmented by investment earnings



Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

CACTTC: Endowment Bonds

Endowment Bonds Require Ongoing Investment of Bond Proceeds

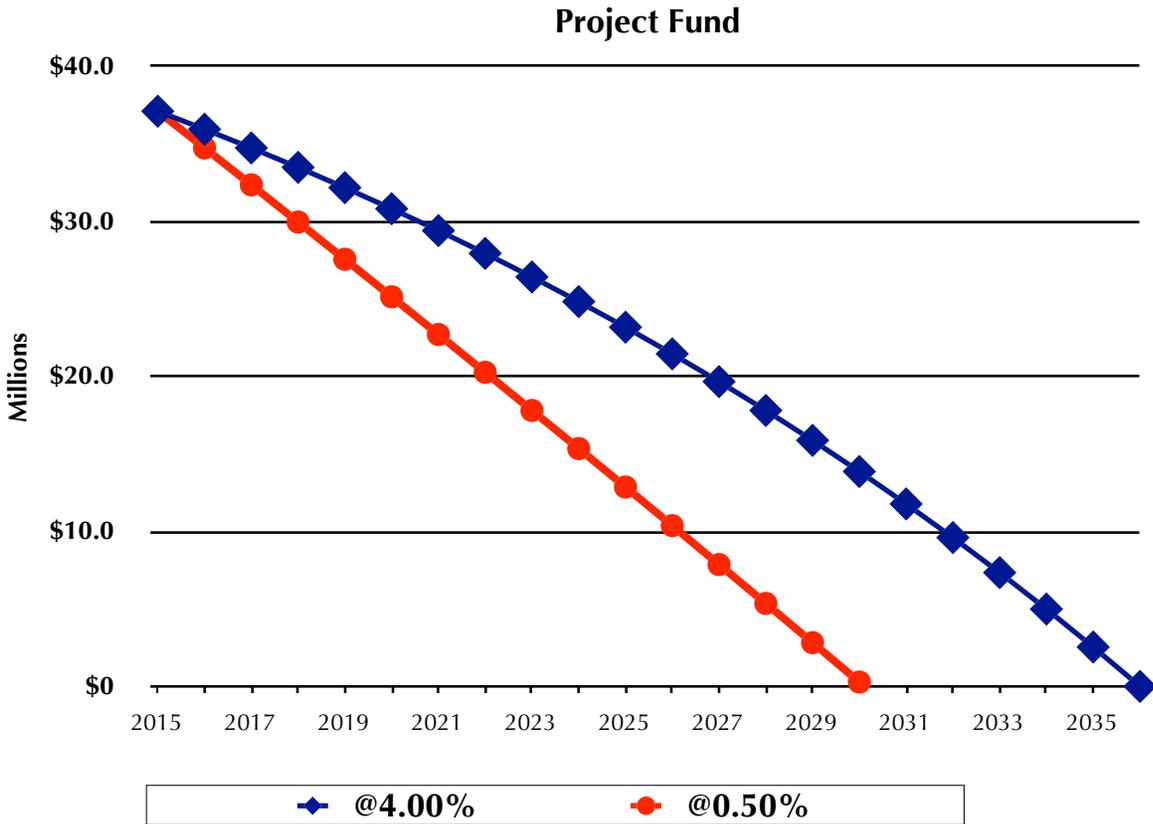


Table 3-A: Endowment Bond	
Bond Funds	\$37,100,000
Interest Earnings @ 4.00%	\$16,300,000
Total	\$53,400,000

Assumes level drawdown of \$2.4 million per year

Table 3-B: Endowment Bond	
Bond Funds	\$37,100,000
Interest Earnings @ 0.50%	\$1,320,000
Total	\$38,420,000

Assumes level drawdown of \$2.4 million per year

CACTTC: Challenges That Must Be Met

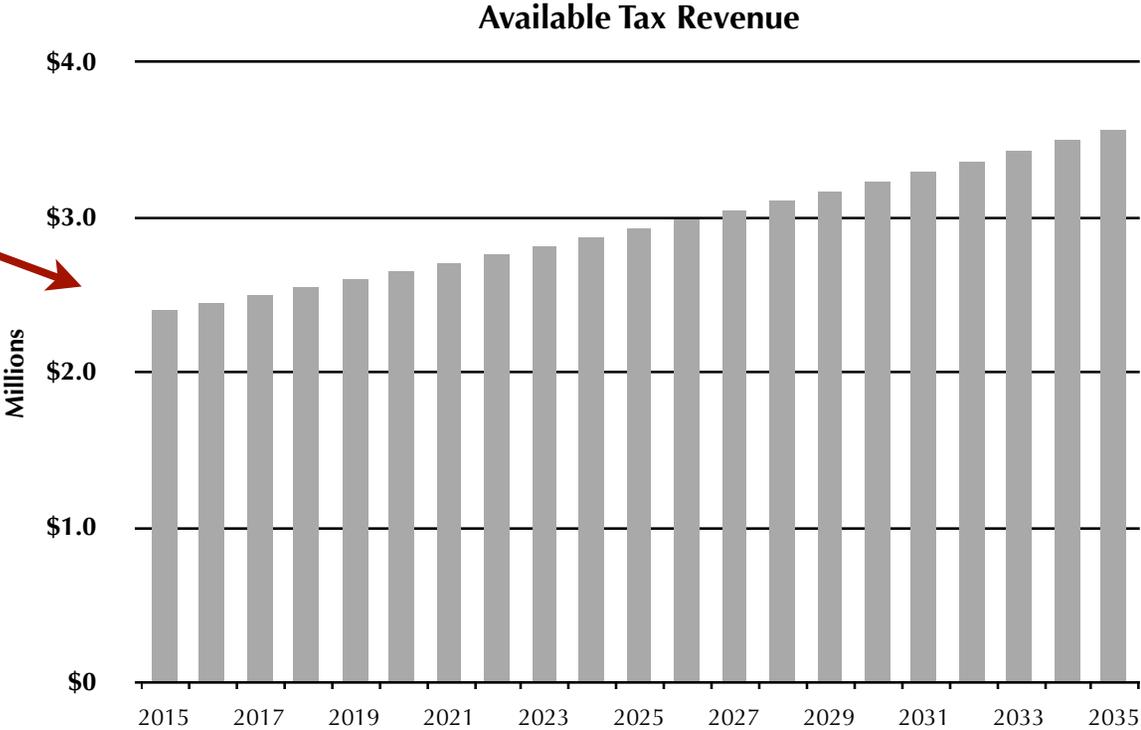
Five Challenges in Designing a Successful Plan

	Tech Carve-Out Bonds	Endowment Bonds	Ed-Tech Bonds™
Amortization matches useful life of asset?	X	X	
Replaces obsolete equipment?	X	✓	
No interest rate risk to taxpayers/district	✓	X	
Simplicity?	✓	X	
Borrowing costs as low as possible?	X	X	

Alternative #3: **Ed-Tech Bonds™**

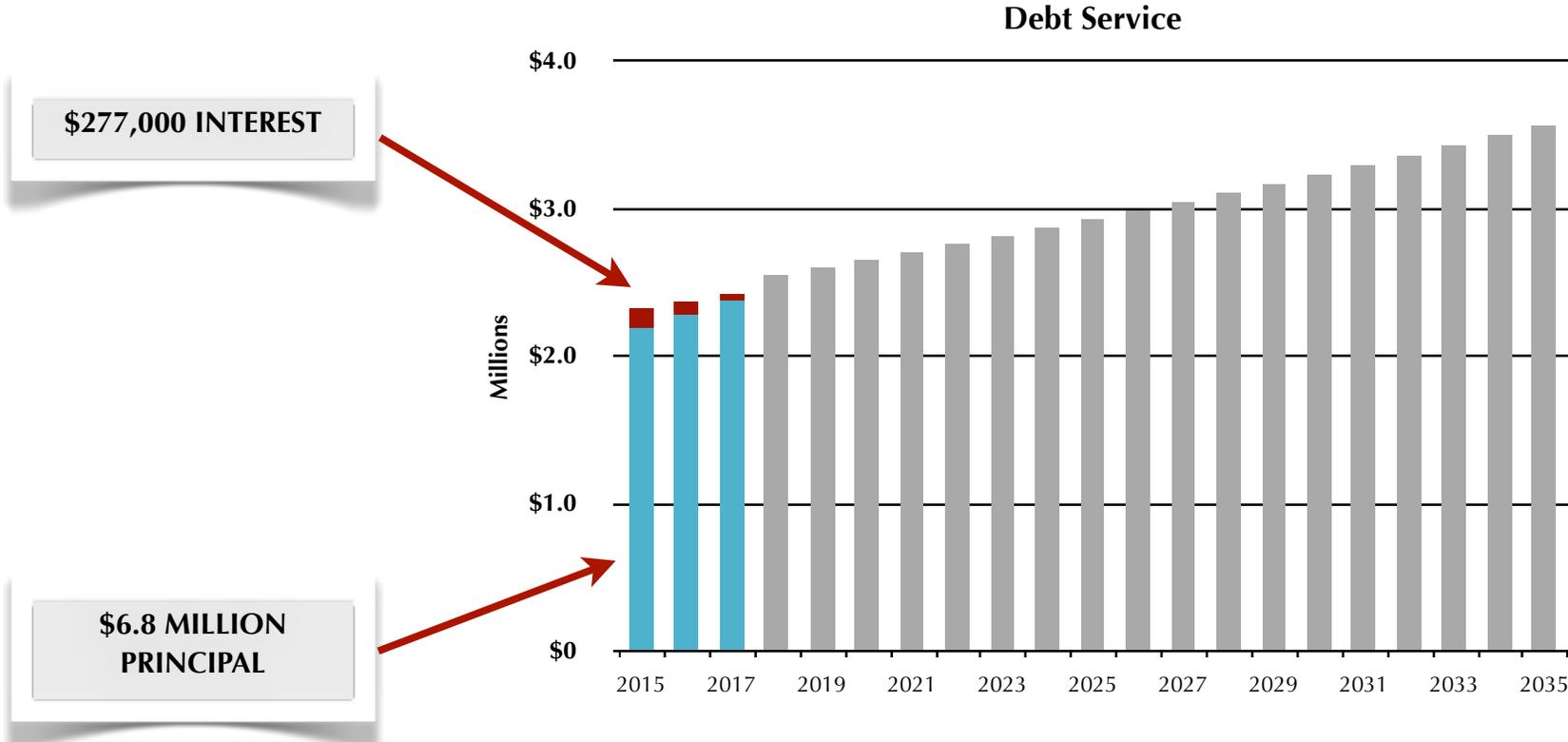
Ed-Tech Bonds™ Amortization Matches Technology Useful Life

\$30/\$100,000 tax rate on
\$7.75 billion AV produces
\$60 million of tax revenue
over 21 years



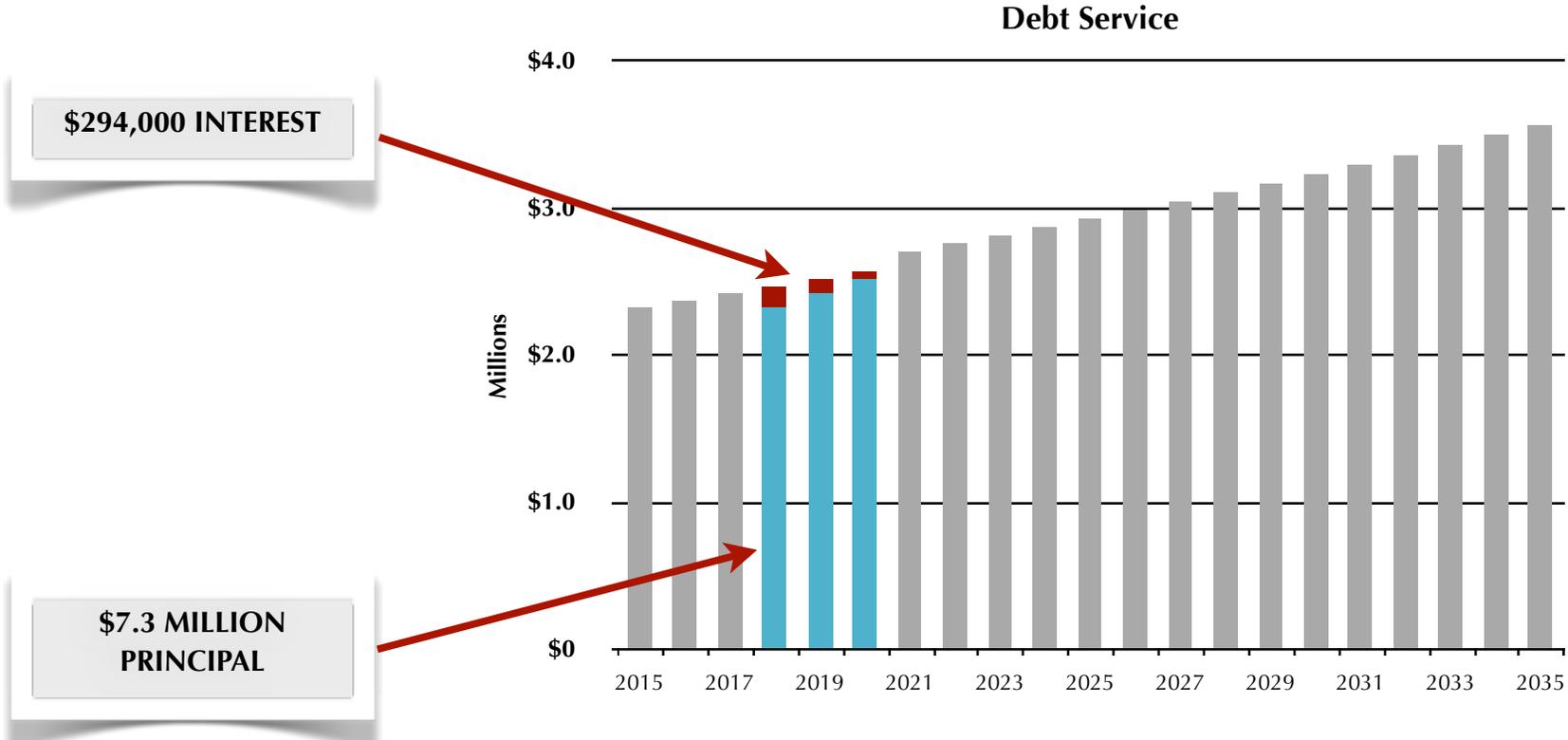
Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

Ed-Tech Bonds™ Amortization Matches Technology Useful Life



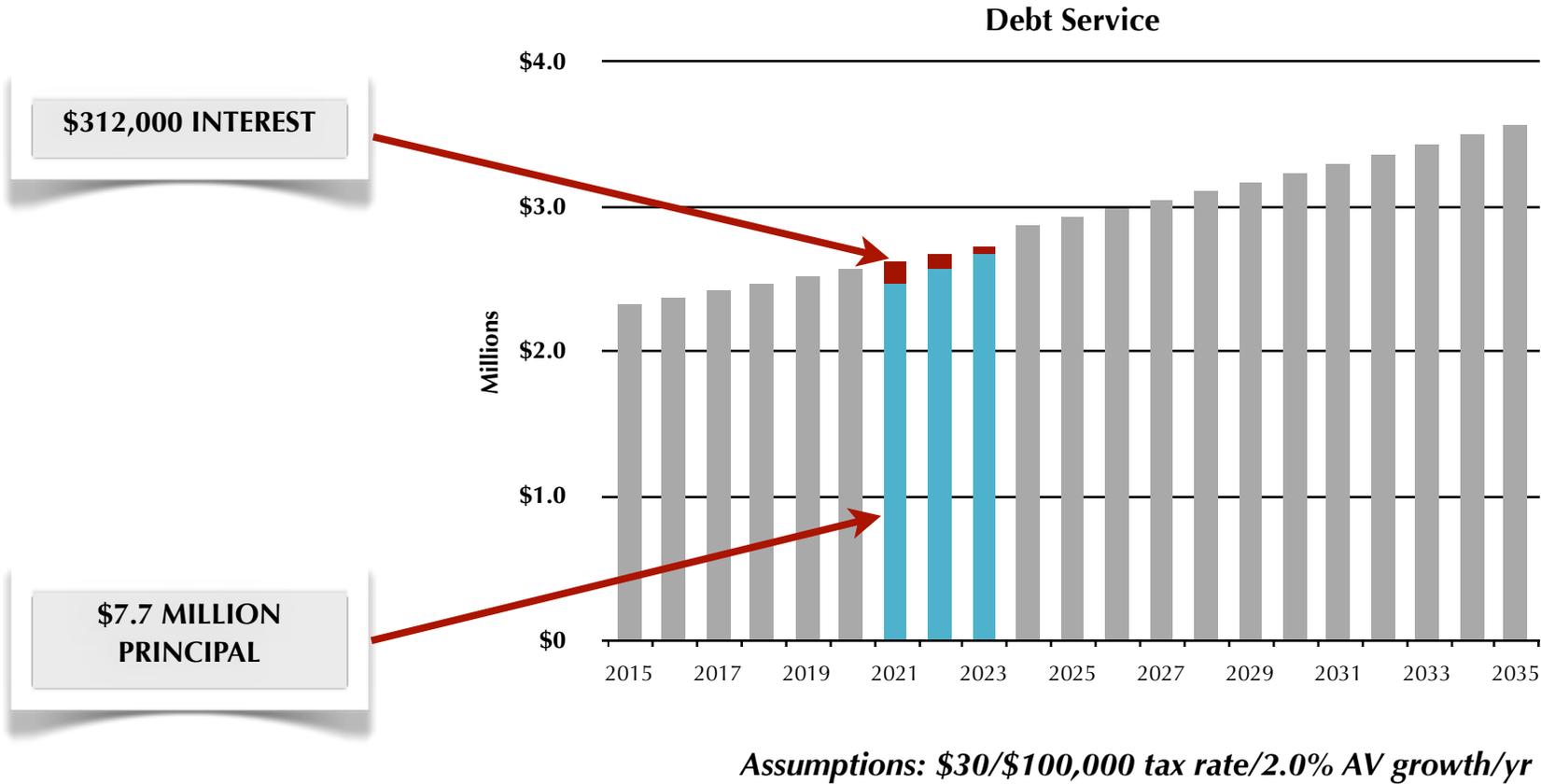
Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

Ed-Tech Bonds™ Amortization Matches Technology Useful Life



Assumptions: \$30/\$100,000 tax rate/2.0% AV growth/yr

Ed-Tech Bonds™ Amortization Matches Technology Useful Life



Ed-Tech Bonds™ Offer Ongoing Tech Funding *and* Protect Taxpayers

Table 4: Ed-Tech Bonds™ P & I

	Principal	Interest	Total
Series A	\$6.84	\$0.28	\$7.12
Series B	\$7.26	\$0.29	\$7.55
Series C	\$7.70	\$0.31	\$8.01
Series D	\$8.20	\$0.33	\$8.53
Series E	\$8.70	\$0.35	\$9.05
Series F	\$9.20	\$0.37	\$9.57
Series G	\$9.77	\$0.40	\$10.17
Total	\$57.67	\$2.33	\$60.00
Debt Ratio			1.04:1

Ed-Tech Bonds™ Short-term Structure Provides:

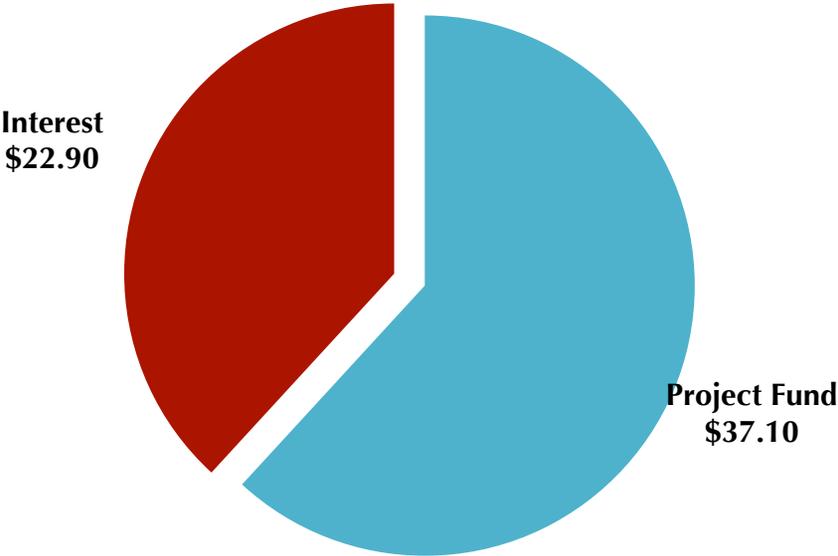
- Ongoing, replenishable source of tech funding
- Modest increases in outstanding debt
- Built-in fiscal restraint
- Low borrowing costs
- Greater certainty of estimated tax rates

Assumes interest rate of 2.50%

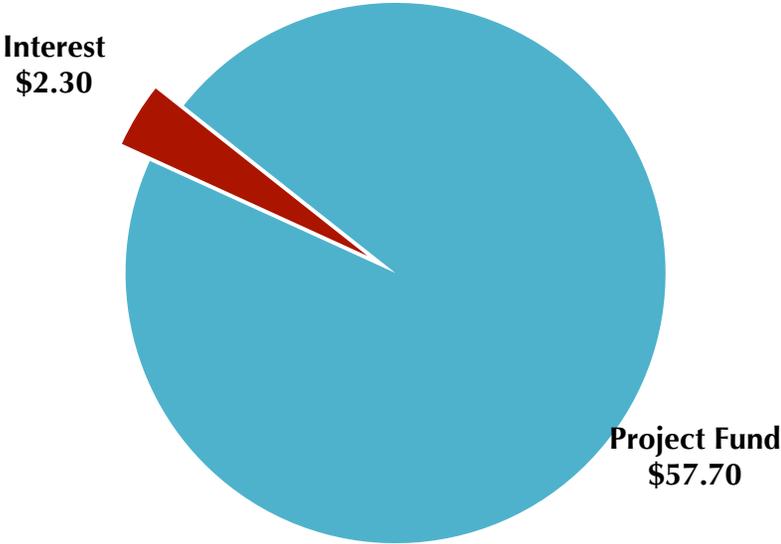
CACTTC: Comparison

Ed-Tech Bonds™ Eliminate Nearly All Borrowing Costs

Carve-Out/Endowment Financing



Ed-Tech Bonds™



CACTTC: Challenges That Must Be Met

Five Challenges in Designing a Successful Plan

	Tech Carve-Out Bonds	Endowment Bonds	Ed-Tech Bonds™
Amortization matches useful life of asset?	✗	✗	✓
Replaces obsolete equipment?	✗	✓	✓
No interest rate risk?	✓	✗	✓
Simplicity?	✓	✗	✓
Low Borrowing Costs?	✗	✗	✓

Ed-Tech Bonds™ Provide Long-Term, Low Cost Funding Solution

SOLVES CURRENT & FUTURE TECH FUNDING NEEDS:

- Ongoing stream of funding for up to 30 years
- Funding for devices, infrastructure, software and implementation
- Adaptable to future tech funding needs

SENSIBLE FINANCING:

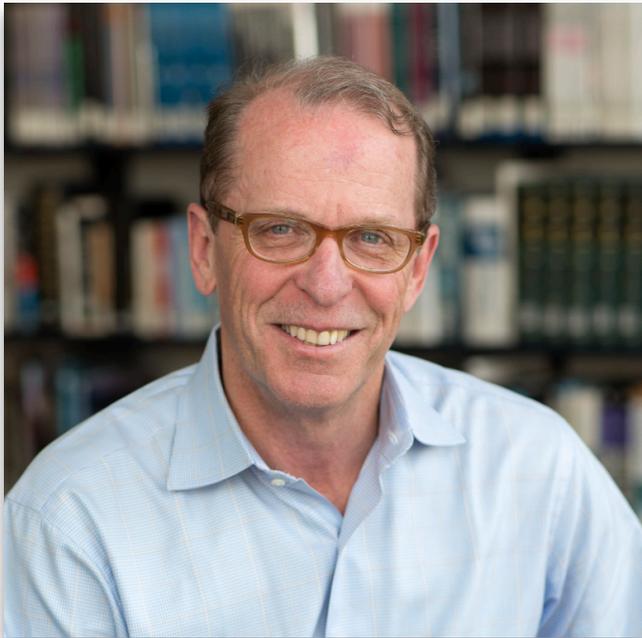
- Matches life of loan to life of asset
- Low Debt Ratio (1.05:1)
- Uses low cost, short term interest rates

ACHIEVABLE POLITICS:

- Strong voter support for technology
- 55% voter approval required
- Only one election required

Dale Scott & Company: **Background** |

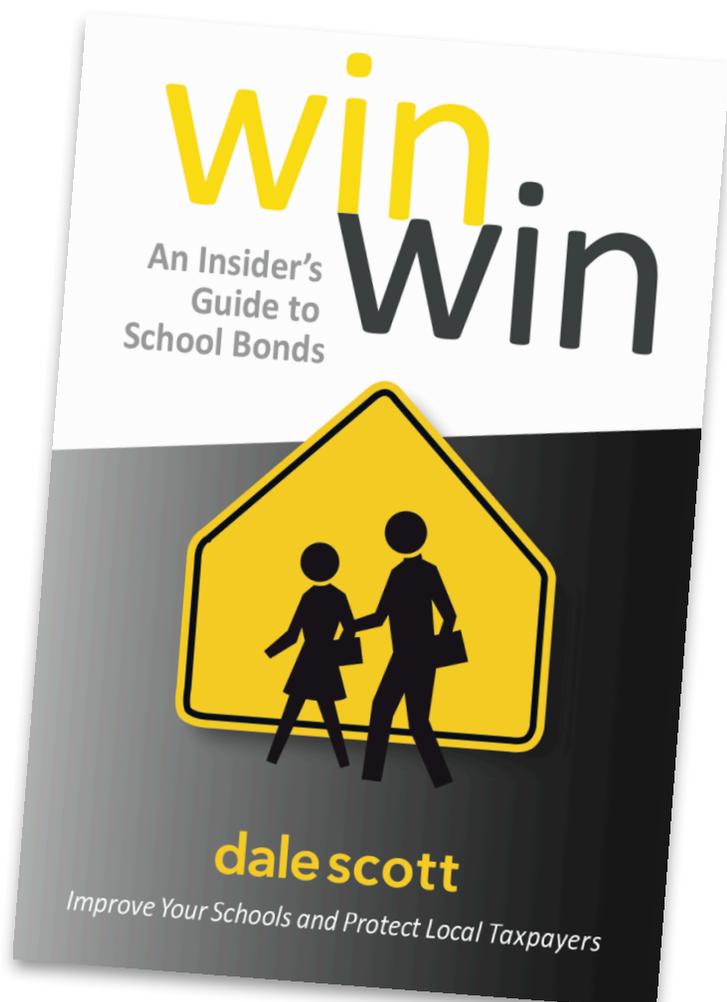
Dale Scott & Company: **Resume**



Dale Scott (President of Dale Scott & Company) has worked with California's school and community college districts for over 25 years, serving as a financial advisor and campaign manager on hundreds of California's school and community college districts voter-approved GO bond financings and elections. His firm (DS&C), headquartered in San Francisco, provides financial advisory consulting services throughout the State and is consistently ranked among the leading advisors in the State.

Widely viewed within the school bond industry as one of the most innovative thinkers, Dale holds two patents from the United States Patent and Trademarks Office for financing mechanisms for school district debt. He is also a frequent speaker on the subject of school district finance and has appeared before numerous taxpayer organizations and statewide school district symposiums.

Mr. Scott started his career as an investment banker on Wall Street and prior to forming DS&C, managed Wells Fargo Bank's Public Finance Department. He is a graduate of Napa Valley High School and Napa Community College, and has a Bachelor's Degree from San Francisco State University and a Master's from Harvard University.



WIN WIN

An Insider's Guide to School Bonds

To upgrade facilities, California's 1,000+ K-14 districts must ask voters to pass General Obligation bonds raising local property tax rates. With insight and humor, **Win Win** by Dale Scott, California's leading schools financial advisor, demystifies the often-complex but potentially transformative process of planning, structuring, passing, and selling K-14 GO bonds.

"Packed with information, yet easy to read. A Win Win for concerned taxpayers and citizens across the state."

Donald P. Wagner
Assembly Member, 68th District