



LET'S BOND!

**GUIDELINES FOR DETERMINING
ALLOWABLE BOND EXPENDITURES**

Presented By Ann Kennedy

GENERAL OBLIGATION BONDS

- **Backed** by the **full faith** and **credit** of the **issuing agency**
- Paid for by **increasing local property taxes** above the limit imposed by **Proposition 13**
- Because they involve an increase in property taxes, they **require voter approval**

GENERAL OBLIGATION BONDS

are commonly used to finance:



**SCHOOLS/
COLLEGES**



LIBRARIES



HOSPITALS



PRISONS

WHO PAYS? THE TAXPAYERS DO!

A tax is levied on **property tax bills of the voters** in the county(ies) **that passed the ballot measure** supporting the general obligation bonds.

SANTA CLARA COUNTY
UNSECURED PROPERTY TAX BILL
FOR FISCAL YEAR JULY 1, 2013 - JUNE 30, 2014
Tax Information: 408-606-7900
Pay your taxes on-line at www.sctax.org using an e-Check or major credit card. See website for payment instructions.

ASSESSMENT NUMBER 13-002100-0
TAX RATE AREA 017-120
BILL ID 186446
BILL DATE 07/07/2013

MAILING ADDRESS
[Redacted]
[Redacted]
[Redacted]

ASSESSOR ACCOUNT [Redacted]
Contact Information
TAX INFORMATION: 408-606-7900
scta@scta.org
www.scta.org
CHANGE OF ADDRESS: 408-259-5400
addresschange@scta.org
www.scta.org

IMPORTANT MESSAGES
This bill is the result of an audit of property by the Assessor's Department. If an adjustment is required, call Assessor's Department at 408-543-0000.
Escrow (Lien) Assessment for 2013-2014, Section 531.4 (b) & 7 Code.

Proration
TAXABLE PERIOD: 07/01/2013 - 06/30/2014
PRORATION FACTOR: 100.00%

Assessed Values	Tax Rate	Tax Amount
Land	0	0
Improvement-Fixture	0	0
Improvement-Structure	0	0
Total Land & Improvements	0.000071	0
Personal Property	0.011106	14,663.41
Total Assessed Value	0.011106	14,663.41
Total Taxes		14,663.41

LOCATION: [Redacted]
PARCEL NUMBER: 01330193
JANUARY 1, 2008 ASSESSEE: [Redacted]
DESCRIPTION: 821 - ELECTRONICS MFG AND LAB

Charges	Amount Paid	Amount Due
Taxes	14,663.41	18,360.72
Delinquent Penalty 10%	0.00	
Section 2902 Penalty	0.00	
Section 506 Interest	3,677.31	
Collection Fee	0.00	
Returned Check Charge	0.00	
Cost	0.00	
444 Interest	18,360.72	
Total Amount	0.00	
Reduced Assessment Credit	0.00	

Amount Due 18,360.72
Amount Paid 0.00
Balance Due 18,360.72

DELINQUENT TAXES CONSTITUTE A LIEN ON YOUR PROPERTY AND WILL DAMAGE YOUR CREDIT RATING.
BALANCE DUE BY DELINQUENT DATE. PENALTIES AND FEES WILL ACCRUE IF U.S. POSTMARK IS AFTER THE DELINQUENT DATE.

SANTA CLARA COUNTY UNSECURED PROPERTY TAXES - PAYMENT STUB

Please write your assessment number on the check.
Send this stub with your payment.
Do not make, tape or paper clip payments.

ASSESSMENT NUMBER 13-002100-0
TAX RATE AREA 017-120
BILL ID 186446

2013-2014
18,360.72
PAY BY 08/31/2013
\$18,876.08 due after 02/28/2013. Includes penalty of \$1,668.34 and \$40 Collection Fee.

**AKE
HECKS
LYABLE**
SANTA CLARA COUNTY COLLECTOR
County Government Center, East Wing
70 West Hedding Street
San Jose, CA 95110-1767

0300022A13 00120A20L67 0001A360727 0001A790L3

JUNE 1986

California voters approve **Prop 46**

NOVEMBER 2000

California voters approve **Prop 39**
Strict Accountability in Local School
Construction Bonds Act of 2000



PRIOR BOND LAW VS. PROP 39 BOND

Specific Project list	Voluntary	Mandatory
Oversight Committee	Voluntary	Mandatory
Annual Audits	Voluntary	Mandatory
Permissible Use	Acquisition and improvement of real property (includes land and portables but not furnishings and equipment)	Acquisition and construction of school facilities and furnishings, equipping and leasing of school facilities



WE PASSED THE BOND!

Now what?

REGULATIONS

Expenditures made with Bond proceeds
must meet **State** and **IRS** requirements



You can't spend the money on anything you want!



REGULATIONS

- Must be used for **capital expenditure**
- **Useful life** calculation

NO OPERATING EXPENSES ALLOWED!



REGULATIONS

- **Risk when there is non-compliance**
 - Loss of tax exempt status
 - Penalties
 - Potential impact on credit rating
- **Opportunities for the future**
 - If a program is identified as having operated out of compliance, approvals, validations and authorizations can be challenged in the future.



STATE REGULATIONS

- Projects/expenditures must **follow the intent of the law**
- **Project type** must be represented **in the ballot language**
- Expenditures must be **related to the scope** of a project represented on the **Board Approved Specific Project List** (project name, scope and budget)

PUBLIC PERCEPTION

- Can cause one of the **greatest challenges** to a **current** and or **future program**
- **Should not be disregarded**



THINGS TO CONSIDER...

- **Short term** purchases financed over **long term**
- Unmet **promises**
- **Changing** plans
- Dollars spent on **re-dos**

Purchases must meet IRS and State regulations!

TYPES OF PURCHASES

- 
- ✓ New construction
 - ✓ Renovation
 - ✓ Small capital repairs
 - ✓ Site improvements
 - ✓ Infrastructure
 - ✓ FF&E
 - ✓ Technology

NEW CONSTRUCTION AND RENOVATION

- “Bricks and Mortar”
- Capital Improvements
- Pay attention to the **Building Envelope**
- Scope should be **clearly defined** regarding what’s **in** and **out** of the project



SMALL CAPITAL REPAIRS

- **Must be a capital improvement, not an operational issue**
(e.g. Elevator Repair)



SITE IMPROVEMENT

- **Safety & Accessibility** (e.g. Lighting, ADA, irrigation)
- Beautification? **No!**



INFRASTRUCTURE

Utilities



Technology



FURNITURE, FIXTURES & EQUIPMENT (FF&E)

- Allowable for the **support of education**



What about a refrigerator
for a staff break room?

EQUIPMENT

- Mobile equipment is **sometimes allowable** (e.g. a generator used for a specific construction project.).
- Automobiles are allowable when the **ballot language includes** the purchase of them.





FIXED VS. MOBILE

Why do we care?

FIXED VS. MOBILE HARDWARE

For the **Measure B Bond Programs** this was defined to be:

✓ Allowable items: Laptops

✗ Non-allowable items: Phones, subscriptions for internet services

“used for, and or in support of, education”



**ARE
TABLETS
ALLOWED?**

HARDWARE

- **Educational Support**
 - Student/Faculty
 - Administration



SOFTWARE

- **Integral to Equipment Function** – Allowable
- **Enterprise System** – Only components essential to operation of the equipment
- **Stand Alone Packages** – **No!**



CAPITAL vs. NON-CAPITAL EXPENDITURE

To Acquire vs. To Use

TO ACQUIRE

- If an expenditure results in the **purchase of a license/item** (the **District has ownership of the item** after the purchase is made) then the expenditure **could be considered a capital expenditure**.
- General accounting definitions related to thresholds must also apply.

TO USE

- If the expenditure results in a **right to use (license)**, then **ownership is not gained** from the purchase and likely this expenditure is a **non-capital expenditure** and therefore **not acceptable** in most circumstances under the bond.

ASSET TRACKING IS REQUIRED

All furniture, fixtures, equipment and technology purchases must be tracked if purchased with bond dollars.

It is an audit requirement.



BAD MONEY, AKA: THE 5% RULE

The IRS will **allow 5%** of general obligation bonds (calculated per series) to be spent on **non-capital** expenditures.



Don't assume... track!

NON-ALLOWABLE EXPENDITURES

- ✗ Extended Maintenance/Performance plans
- ✗ Service Plans
- ✗ Warranties
- ✗ Licensing
- ✗ Supplies
- ✗ Purchases made on a payment schedule
- ✗ Decommissioning
- ✗ Training
- ✗ "Beautification projects"
- ✗ "Policy projects"



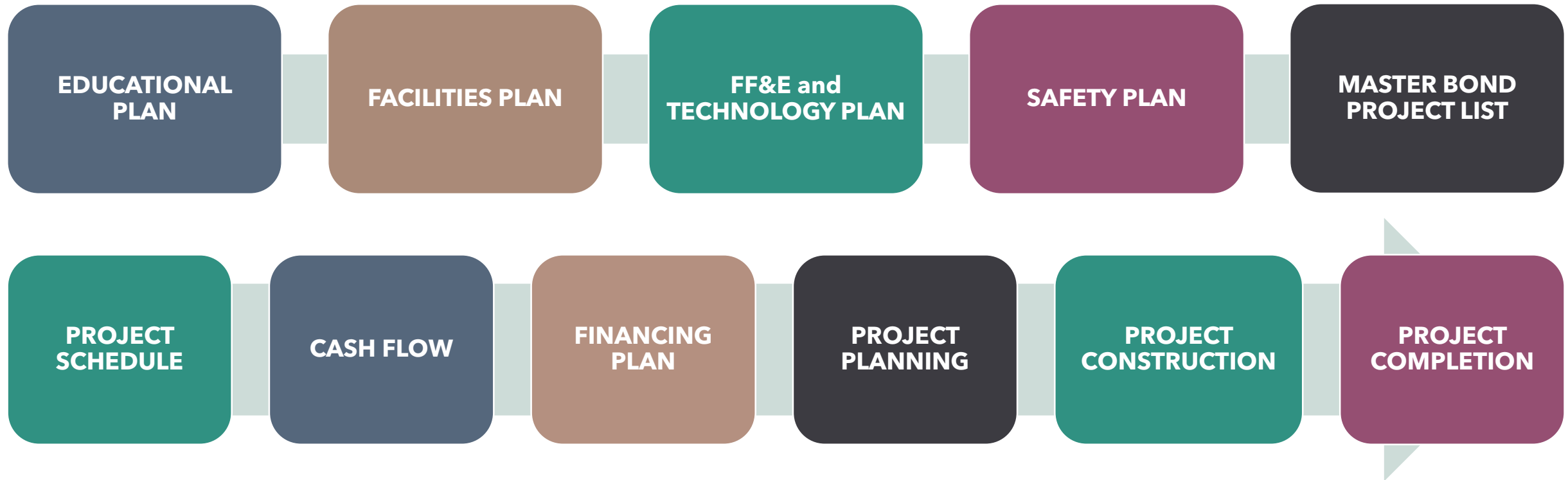
CAUTION



The following are only acceptable under very specific circumstances and within specific formula calculations done by Bond and Tax Counsel and should only be pursued with bond funds when legal counsel is consulted.

- **Life Cycle Management** – Legal counsel will support this up to decommissioning. Decommissioning is not an allowable bond expense.
- **Renting/Leasing** – Only under very specific conditions!
- **Income generation** – Bond expenditures that result in income generation must be reviewed by Bond Counsel.
- **Avoid** - “Forced” Industry Standard and Bundling

THE IMPORTANCE OF PLANNING



Planning and tracking is key

When a program is challenged, the program must be able to show how it is following a **Board Approved** plan.

THE IMPORTANCE OF PLANNING

- The Plan(s) must be verified against the **Master Bond Project List/Ballot Language**
- Incorporate **risk tolerance** decisions
- **Guide the process**
- The purchases must conform to the **Facilities and Technology Plans** for the District. These should be written documents, approved by the Board of Trustees.

THE IMPORTANCE OF PLANNING

- **Technology Master Plan** – The Technology Master Plan for the District provides the guiding principles and plan for the District as a whole.
- **Operational Plan for Technology**
- **Tracking/documentation** – Again, this is of the utmost importance and care should be taken that the documents represent the reality of the situation.

SAFEGUARD FOR COMPLIANT PURCHASES

- **Discuss** all “grey area” purchases – think like an auditor
- **Communicate project goals** with cash flow to **underwriters** during bond sale planning activities
- **Document intent** and **purchase** – how it fits into the plan
- **Follow your plan** or edit your plan as appropriate through the **proper amendment process**
- **Bond Counsel** – seek out counsel when appropriate

ADDITIONAL CRITERIA FOR PURCHASES

- All Purchase Requisitions must have the **project name, project number and scope documented**
- All purchases must have a **budget**
- All Purchase Requisitions should **tie to a plan**
- All purchases must **meet accountability requirements** for capital expenditure (i.e. hardware supporting education, infrastructure supporting technology), **IRS** and **State regulation compliance** and **District Standards**
- All purchases must go through the **standard approvals**

QUESTIONABLE PURCHASES

Purchases that may not clearly fall into the ballot language, bond list or are not a capital expenditure

DEPENDENT PURCHASES

If the purchase results in an item that will be dependent upon other components or infrastructure, and is not part of an approved written scope or plan, then the purchase should be reviewed.
(Examples: Security Cameras, IP Phones, Hand Dryers)

TRYING OUT OUR EVALUATION ABILITY

- Bird Remediation
- Outreach Program
- Five-year Educational Plan Update
- Auto purchase
- Leaf blower
- Elevator repair
- Landscape installation



...allowable expenditure?

QUESTIONS?