

Increased Transparency Requirements for Local Bonds

Background

Local educational agencies (LEAs) have developed debt management policies to provide guidelines for the issuance of general obligation bonds, certificates of participation (COPs) and other forms of indebtedness. Although issuing debt can be an appropriate method of financing capital projects, prudent fiscal management and consistent monitoring of such debt issuance is required to preserve a district's creditworthiness, budget, and financial solvency.

Assembly Bills 2274 and 2551

To make debt financing more transparent to taxpayers and community members, the State of California has approved two new bills that become effective January 1, 2015: Assembly Bill (AB) 2274 (Gordon) and AB 2551 (Wilk).

AB 2274 requires the California Debt and Investment Advisory Commission (CDIAC) to, among other things, maintain contact with state and municipal bond issuers, underwriters, investors, and credit rating agencies to improve the market for issuances of state and local government debt.

AB 2551 requires that all bond issuances proposed by a county, city, district and/or political subdivision, or by any agency, department or board thereof, be submitted to the voters for approval.

AB 2274

AB 2274 allows the CDIAC to require any information deemed necessary about the debt issuance. Before AB 2274, the CDIAC could only require the sale date, name of the issuer, type of debt, and estimated principal. AB 2274 also authorizes the CDIAC to charge a fee for administering the program. The bill requires that all state and local agencies do the following:

- Require all agencies to notify the CDIAC of any debt issuance, including refinancing and other secondary issuances.
- Notify the CDIAC of any proposed debt issuance of state or local government no later than 30 days prior to the sale of any debt issue.
- Notify the CDIAC of final sale no later than 21 days after the sale of the debts.

FCMAT

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- Ensure that a copy of the final official statement for the issue accompanies the report of final sale. If there is no official statement, the issuer shall provide each of the following documents, if they exist, along with the report of final sale:
 1. Other disclosure document.
 2. Indenture.
 3. Installment sales agreement.
 4. Loan agreement.
 5. Promissory note.
 6. Bond purchase contract.
 7. Resolution authorizing the issue.
 8. Bond specimen.

AB 2551

AB 2551 requires that, for any local bond election after January 1, 2015, a statement be mailed to the voters with the sample ballot for the bond election no later than the 88th day before the election; the statement shall include the following:

- The best estimate from official sources of the tax rate that would be required to be imposed to fund that bond issue during the fiscal year after the first sale of the bonds.
- The best estimate from official sources of the tax rate that would be required to be imposed to fund that bond issue during the fiscal year after the last sale of the bonds, if the bonds are proposed to be sold in series, and an estimate of the year in which that rate applies, based on assessed valuation.
- The best estimate of the highest tax rate that would be required to be imposed to fund that bond issue, and an estimate of the year in which that rate will apply. The words “tax rate” as used in this chapter mean tax rate per one hundred dollars (\$100) of assessed valuation on all property to be taxed to fund a bond issue described in Section 9400 of the Elections Code.
- The best estimate of the total debt service, including the principal and interest that would be required to be repaid if all the bonds are issued and sold.

Additional Assistance

For additional assistance, LEAs should contact their respective oversight agencies. LEAs may also visit FCMAT’s website at www.fcmat.org and submit an online request for assistance, or contact FCMAT Deputy Executive Officer Anthony L. Bridges at (661) 706-0561 or Fiscal Intervention Specialist Eric D. Smith at (805) 975-9313.