

# Sweetwater Union High School District Community Facilities District Revenue & Expenditure Review



Amphitheater at Eastlake High School

**David Taussig & Associates, Inc.**

5000 Birch Street, Ste. 6000

Newport Beach, CA 92660

Phone: 800-969-4382

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# Presentation Overview

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- Purpose/*Areas Reviewed*/Data Sources
- Expenditure Permissibility Review
- Revenue Collection Review
- Debt Issuance Review (Policies and Procedures)
- Cost Allocation Plan
- Conclusions/*Recommendations*

# Purpose of Report

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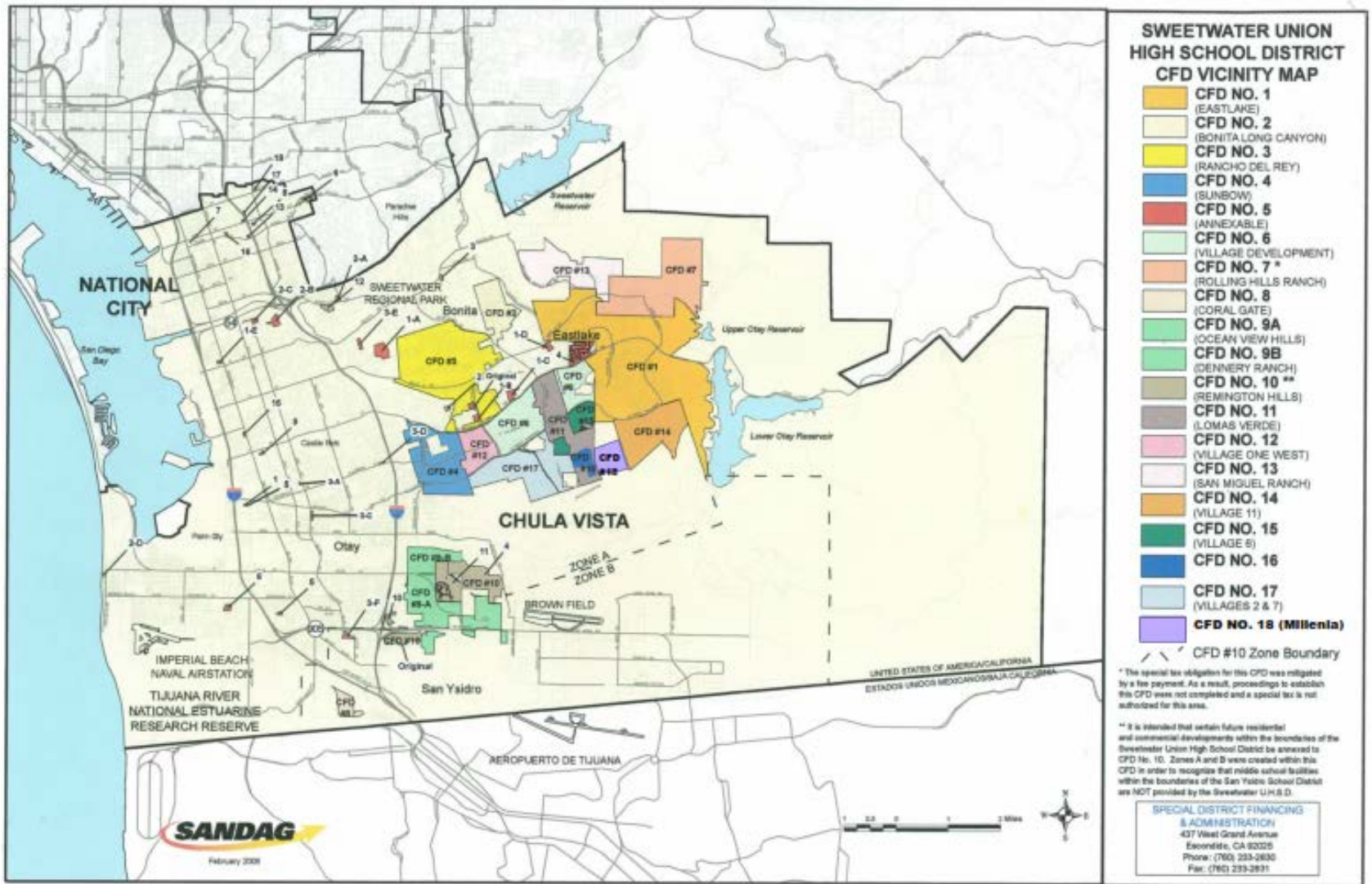
- As part of an effort to promote transparency and to answer taxpayers' questions and concerns regarding the CFD program, the School District engaged David Taussig & Associates (DTA) to review various aspects of the program
- DTA performed a comprehensive review of:
  - CFD expenditures
  - CFD revenues
  - CFD debt issuance policies and procedures
  - The proposed Cost Allocation Plan
- DTA's work product is a report titled "Final CFD Revenue and Expenditure Review" (Report) dated February 4, 2015

# Background

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- Beginning in 1986, the School District has used Mello-Roos Community Facilities Districts (“CFDs”) to mitigate the impact of new development on school facilities.
- The School District currently has 18 CFDs:
  - CFD No. 1 (Eastlake)
  - CFD No. 2 (Bonita Long Canyon)
  - CFD No. 3 (Rancho Del Rey)
  - CFD No. 4 (Sunbow)
  - CFD No. 5 (Annexable)
  - CFD No. 6 (Village Development)
  - CFD No. 8 (Coral Gate)
  - CFD No. 9A (Ocean View Hills)
  - CFD No. 9B (Dennery Ranch)
  - CFD No. 10 (Annexable)
  - CFD No. 11 (Lomas Verde)
  - CFD No. 12 (Village One West)
  - CFD No. 13 (San Miguel Ranch)
  - CFD No. 14 (Village 11)
  - CFD No. 15 (Village 6)
  - CFD No. 16 (McMillin - Village 7)
  - CFD No. 17 (Villages 2 and 7)
  - CFD No. 18 (Millenia)

# CFD Vicinity Map



# Areas Reviewed

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- Expenditure Permissibility
  - i. Debt service and lease payments
  - ii. Non-facilities expenditures
  - iii. Payments for construction of new school facilities
  - iv. Payments for modernization/rehabilitation of existing school facilities
  - v. Payments for furnishings/equipment
  
- Revenue Collection
  - i. Consistency between amounts levied and received
  - ii. Special tax levied in accordance with RMA
  - iii. Special tax rates correctly applied
  - iv. Efforts to collect delinquent special taxes
  - v. Prepayments
  - vi. Interest earnings
  
- Debt Issuance Policies & Procedures
  
- Cost Allocation Plan

# Data Sources

- DTA used the following data sources in its review:
  - Revenue and expenditure records from DotMatrix, Quickbooks, and TrueCourse accounting systems
  - Invoices, contracts, receipts, payroll records, journal entries provided by the School District
  - Facilities Funding Summary Matrix provided by School District's legal counsel, Bowie Arneson Wiles & Giannone (BAWG)
  - US Bank account statements
  - County of San Diego apportionment reports and delinquency reports
  - Official Statements and other bond documents for the bonds and COPs
- Some information was clarified or supplemented by consultations with the School District and/or the School District's special tax consultant, Special District Financing & Administration (SDFEA)
- DTA would like to acknowledge that School District, BAWG, and SDFEA fully cooperated with all of our requests for data and provided said data in very short turnaround times.



# Data Source: Facilities Funding Summary Matrix

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- In the first phase of the overall CFD project, School District's legal counsel prepared the Facilities Funding Summary Matrix (Matrix).
- The Matrix summarizes requirements of CFD formation and bond documents with regards to annual administration expenditures, authorized facilities, term of the special tax levy, and application of State funds and general obligation bonds credits.
- DTA relied on the Matrix for the Report and did not independently verify any of the determinations indicated in the Matrix.



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# Expenditure Permissibility Review (1986-1987 to 2013-2014)

# Special Tax Expenditures

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- Special taxes may be levied in each CFD to pay for:



East Hills Academy

- i. Debt service
- ii. The acquisition, construction, equipment and finance costs of school facilities (“pay-as-you-go” facilities)
- iii. Administrative expenses
- iv. Reserve Fund replenishment
- v. Any other payments permitted by law

# Debt Service (2004-2005 to 2013-2014)

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- Currently, there are four (4) outstanding long-term obligations repaid by special taxes:
  - Special Tax Revenue Bonds Series 2005A
  - Special Tax Revenue Bonds Series 2005B
  - Certificates of Participation (COPs) Series 2005 Refinancing
  - Public Financing Authority Series 2013 Refunding Revenue Bonds
- COPs Series 2003 was paid off in September 2013, ahead of its last scheduled maturity date of September 2015.
- All other bonds and COPs have been paid off or refunded.

# Debt Service (2004-2005 to 2013-2014)

- DTA aimed to verify that all debt service and lease payments were made in full, and on time from CFD funds.
- Part 1: We reviewed and analyzed the amounts transferred from CFD accounts to bond Trustee accounts on or before each payment date from September 1, 2005 to March 1, 2014.

Debt Service Payment Date	Debt Service Amount Due	Amounts Transferred to US Bank	Percent Difference
3/1/2014	\$2,922,913	\$2,922,913	0.00%
9/1/2013	\$12,799,072	\$12,879,739	0.63%
3/1/2013	\$3,879,072	\$3,879,072	0.00%
9/1/2012	\$12,634,159	\$12,634,159	0.00%

- We determined that sufficient funds were available for debt service and lease payments for all payment dates.

# Debt Service (2004-2005 to 2013-2014)

- Part 2: We reviewed and analyzed debt service and lease payments made by bond Trustee to bondholders and COP holders.

Debt Issue	Debt Service Amount Due	Amounts Paid by US Bank	Percent Difference
Series 2005A Special Tax Revenue Bonds	\$4,576,000	\$4,576,000	0.00%
Series 2005A Special Tax Revenue Bonds	\$1,125,052	\$1,125,052	0.00%
Series 2005 COPs Refinancing	\$1,724,225	\$1,724,225	0.00%
Series 2013 Refunding Revenue Bonds	\$1,115,620	\$1,115,620	0.00%

- We affirmed that all debt service and lease payments were made by bond Trustee accurately and timely for the four (4) outstanding issues from issuance to March 1, 2014.

# Sampling Method for Expenditures

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- The School District provided DTA with revenue and expenditure records from the following accounting systems:
  - DotMatrix (fiscal years 1986-1987 to 1991-1992)
  - Quickbooks (fiscal years 1992-1993 to 2009-2010)
  - TrueCourse (fiscal years 2010-2011 to 2013-2014)
- DTA selected a random sample of records to review. Based on the statistical method for selecting optimal sample sizes, DTA randomly selected approximately 400 records from approximately 17,000 total records to yield a 4.84% margin of error at a 95.00% confidence level.
- We assumed that the subsets of annual administration and facilities expenditures are also representative samples of their respective subtotals.

# Review Method for Expenditures

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- DTA used the descriptions in the accounting databases and documentation such as invoices, contracts, and receipts, provided by the School District, as well as discussions with the School District, to determine:
  - The category of the expenditure:

CFD annual administration	HS/MS new construction
CFD formation	HS/MS rehabilitation
Debt obligations costs of issuance	HS/MS furnishings
  - The goods or services provided
  - The CFD that paid the expenditure
- We then evaluated the expenditure for permissibility under the Matrix (and in addition, for administration expenditures, the RMA).

# Non-Facilities Expenditures (1986-1987 to 2013-2014)

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- DTA reviewed a sample of 72 non-facilities expenditures. The School District classified each as:
  - i. Annual CFD administration,
  - ii. CFD formation, or
  - iii. Debt obligations costs of issuance
- We analyzed a subset of 65 annual administration expenditures from the School District's accounting databases, and evaluated their permissibility under the Matrix.
- Payees included:

MuniFinancial	US Bank
SDFA	GCR, LLP
Willdan	BAWG
- We believe that the School District's annual administration expenses were in accordance with the Matrix and RMAs, and that such expenses were standard and regular.



# Summary of Facilities Authorized by CFD

CFD No.	High School Facilities			Middle School Facilities		
	New Construction	Modernization/ Rehabilitation	Furnishings/ Equipment	New Construction	Modernization/ Rehabilitation	Furnishings/ Equipment
1	X	X	X	X	X	X
2	X	X	X	X	X	X
3	X	X	X	X	X	X
4	X	X	X	X	X	X
5	X	X	X	X	X	X
6	X	X	X	X	X	X
8	X		X			
9A	X	X	X			
9B	X		X			
10	X	X	X			
11	X		X	X		X
12	X		X	X		X
13	X	X	X	X	X	X
14	X		X	X		X
15	X		X	X		X
16	X	X	X	X	X	X
17	X	X	X	X	X	X
18	X	X	X	X	X	X

Source: Facilities Funding Summary Matrix

# New Construction

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- DTA reviewed a sample of 47 new construction expenditures which included:
  - Land acquisition costs for San Ysidro High School (High School #12)
  - Legal services relating to the Technology Improvement Project
  - Division of the State Architect inspection services for various improvements at Eastlake High School
  - Professional services related to legislative advocacy and consulting for school finance and state funding
- We determined that the sample of new construction expenditures were permissible.

# Rehabilitation/Modernization

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- DTA reviewed a sample of six (6) rehabilitation/modernization expenditures which included:
  - Design services for upgrading the heating, ventilating, and air conditioning system at Bonita Vista High School
  - Services related to fire sprinkler system at Eastlake High School
  - Labor and materials to remove existing flooring and install new at Eastlake Middle School
- We determined that the sample of modernization/rehabilitation expenditures for high school and middle school facilities were permissible.

# Furnishings/Equipment

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- DTA reviewed a sample of three (3) furnishings/equipment expenditures which included:
  - Lease of 30' ramps for Eastlake High School
  - Science furniture and equipment delivered Chula Vista High School
- We determined that the lease of ramps for Eastlake High School was permissible.
- We conservatively assumed that the science furniture and equipment expenditure in the amount of \$44,833 delivered to Chula Vista High School was unrelated to the CFD program, as funding for Chula Vista High School does not come from CFD special taxes.

# Expenditure Permissibility Review

## Conclusions/Recommendations

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- As all debt service and lease payments were made accurately and timely, DTA does not recommend any changes to debt service payment procedures.
- All but one (1) of the sampled expenditures were found to be permissible. DTA recommends that, as the School District reviews all expenditures in detail to implement the Cost Allocation Plan, the School District reimburses the applicable CFDs for any non-CFD expenses incurred.
- It is DTA's understanding that the School District already has purchasing policies and procedures in place to properly account for expenditures; therefore, DTA recommends continued adherence to such policies and procedures in the future.

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# Revenue Collection Review (1994-1995 to 2013-2014)

# Special Tax Revenues (1994-1995 to 2013-2014)

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- DTA aimed to verify that the special tax amounts levied were reasonably consistent with the amounts received by the County and distributed to the CFDs.
- DTA created a schedule of special tax amounts levied across all CFDs. We then compared the amounts levied to the current secured amounts received and distributed to date.
- The fiscal year-end delinquency rates across all CFDs were low, ranging from 0.83% in fiscal year 2013-2014 to a high of 7.39% in fiscal year 2007-2008.

Fiscal Year	Amount Levied	Current Secured Apportioned	Percent Difference
2013-2014	\$24,328,419	\$24,126,922	-0.83%
2012-2013	\$24,298,918	\$24,044,089	-1.05%
2011-2012	\$23,561,689	\$23,171,769	-1.65%
2010-2011	\$22,858,138	\$22,472,222	-1.69%
2009-2010	\$22,233,458	\$21,401,397	-3.74%

# Special Tax Levy (2013-2014)

- DTA verified that the fiscal year 2013-2014 maximum special tax rates listed in the Special Tax Levy Report are correct.

CFD No.	FY 2013-2014 Maximum Special Tax Rate	FY 2013-2014 Actual Special Tax Rate	Percent of Maximum	CFD No.	FY 2013-2014 Maximum Special Tax Rate	FY 2013-2014 Actual Special Tax Rate	Percent of Maximum
1	\$663.55	\$650.54	98.04%	10	\$0.5553/sq. ft.	\$0.5444/sq. ft.	98.04%
2	\$673.75	\$660.54	98.04%	11	\$0.4818/sq. ft.	\$0.4723/sq. ft.	98.04%
3	\$0.479/sq. ft.	\$0.470/sq. ft.	98.04%	12	\$0.3979/sq. ft.	\$0.3723/sq. ft.	98.04%
4	\$0.479/sq. ft.	\$0.470/sq. ft.	98.04%	13	\$0.3786/sq. ft.	\$0.3712/sq. ft.	98.04%
5	\$0.510/sq. ft.	\$0.500/sq. ft.	98.04%	14	\$0.4855/sq. ft.	\$0.4760/sq. ft.	98.04%
6	\$0.4696/sq. ft.	\$0.4603/sq. ft.	98.04%	15	\$0.5108/sq. ft.	\$0.5008/sq. ft.	98.04%
8	\$0.327/sq. ft.	\$0.321/sq. ft.	98.04%	16	\$0.7953/sq. ft.	\$0.7797/sq. ft.	98.04%
9A	\$877.63	\$860.42	98.04%	17	\$0.5058/sq. ft.	\$0.4959/sq. ft.	98.04%
9B	\$421.46	\$413.20	98.04%	18	\$0.5564/sq. ft.	\$0.5455/sq. ft.	98.04%

- The CFDs are permitted to levy on both Developed and Undeveloped Property at up to 100% of the applicable maximum rates to meet the Annual Special Tax Requirement, and DTA affirmed the actual fiscal year 2013-2014 levy is within this limitation.
  - Assumes each component of the fiscal year 2013-2014 Annual Special Tax Requirement (debt service, administrative expenses, and facilities expenditures) is justified by actual need



# Special Tax Levy Audit (2013-2014)

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- Although it was outside of original scope of work, at the request of the School District, DTA performed a limited audit of the application of the fiscal year 2013-2014 special tax rates to each parcel in each CFD.
- Based on parcel data provided by SDFEA, DTA programmatically applied the expected fiscal year 2013-2014 maximum and actual tax rates to each parcel in each CFD.
  - Of the approximately 31,000 parcels for which special taxes were levied in fiscal year 2013-2014, DTA found discrepancies between the actual and expected amounts levied for a total of eight (8) parcels:
    - two (2) age-restricted units in CFD No. 6
    - six (6) residential units in CFD No. 9A
- SDFEA is currently researching the discrepancies.

# Efforts to Collect Delinquent Taxes (2013-2014)

- DTA aimed to verify that the School District took sufficient efforts to collect delinquent taxes.
- We determined the School District's fiscal year-end and prior-year delinquency rates, and reviewed School District action with regards to property owners with delinquencies, including demand letters and foreclosure actions.

	Fiscal Year 2008-2009	Fiscal Year 2009-2010	Fiscal Year 2010-2011	Fiscal Year 2011-2012	Fiscal Year 2012-2013
Total Delinquency As of 7/23/2014	\$9,402	\$17,243	\$21,923	\$39,053	\$69,432
Total Levy	\$21,543,275	\$22,233,458	\$22,858,138	\$23,561,689	\$24,298,918
Total Delinquency Rate As of 7/23/2014	0.04%	0.08%	0.10%	0.17%	0.29%

- DTA believes the School District took reasonable and sufficient efforts to collect delinquent special taxes in fiscal year 2013-2014.

# Interest Earnings (2013-2014)

- DTA aimed to verify that interest earnings from County pool and inter-fund loans were correctly calculated and deposited, and that inter-fund loans complied with Education Code Section 42603.
- We reviewed County pool interest deposits to CFD accounts.
- We reviewed data relating to a random sample of loans made by CFDs made during fiscal year 2013-2014, and verified the calculation of quarterly interest owed. We then compared the amount of interest owed to the actual amount of interest deposited.

Quarter	CFD No.	Interest Owed	Interest Deposited	Percent Difference
1 <sup>st</sup> Quarter	2	\$540	\$540	0.00%
2 <sup>nd</sup> Quarter	13	\$76	\$76	0.00%
3 <sup>rd</sup> Quarter	13	\$79	\$79	0.00%

- We determined that:
  - i. Inter-fund interest earnings were accurately calculated and deposited to School District CFD accounts in a timely manner
  - ii. Inter-fund loans were in compliance with Education Code Section 42603, which requires that loans made be repaid within the same fiscal year
  - iii. Inter-fund loans had no impact on the special tax rates or the capacity of the CFDs to pay expenditures

# Prepayments (2013-2014)

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- DTA aimed to verify that the two (2) prepayments that occurred during fiscal year 2013-2014 were calculated and applied correctly.
- We determined that the prepayment calculations were consistent with the prepayment formulas in the relevant documents.
- In addition, we affirmed that the School District used the prepayment proceeds in accordance with RMA and bond documents.

# Revenue Collection Review

## Conclusions/Recommendations

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- As special tax levies were consistent with receipts, interest earnings were accurately calculated and deposited, and prepayments were correctly calculated and applied, DTA does not recommend any changes to procedures regarding those items.
- The fiscal year 2013-2014 special tax levy was in accordance with the RMAs. For clarity regarding the Annual Special Tax Requirement, DTA recommends that the School District identify and document anticipated CFD-eligible school facilities needs each year.
- The fiscal year 2013-2014 special tax rates were applied correctly to 30,629 of 30,637 (99.97%) parcels. DTA recommends that SDFEA, upon reviewing and researching the discrepancies, work with the School District to make necessary corrections.

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# Debt Issuance Policies & Procedures Review (1994-1995 to 2013-2014)

# Efforts to Ensure Timely Payments

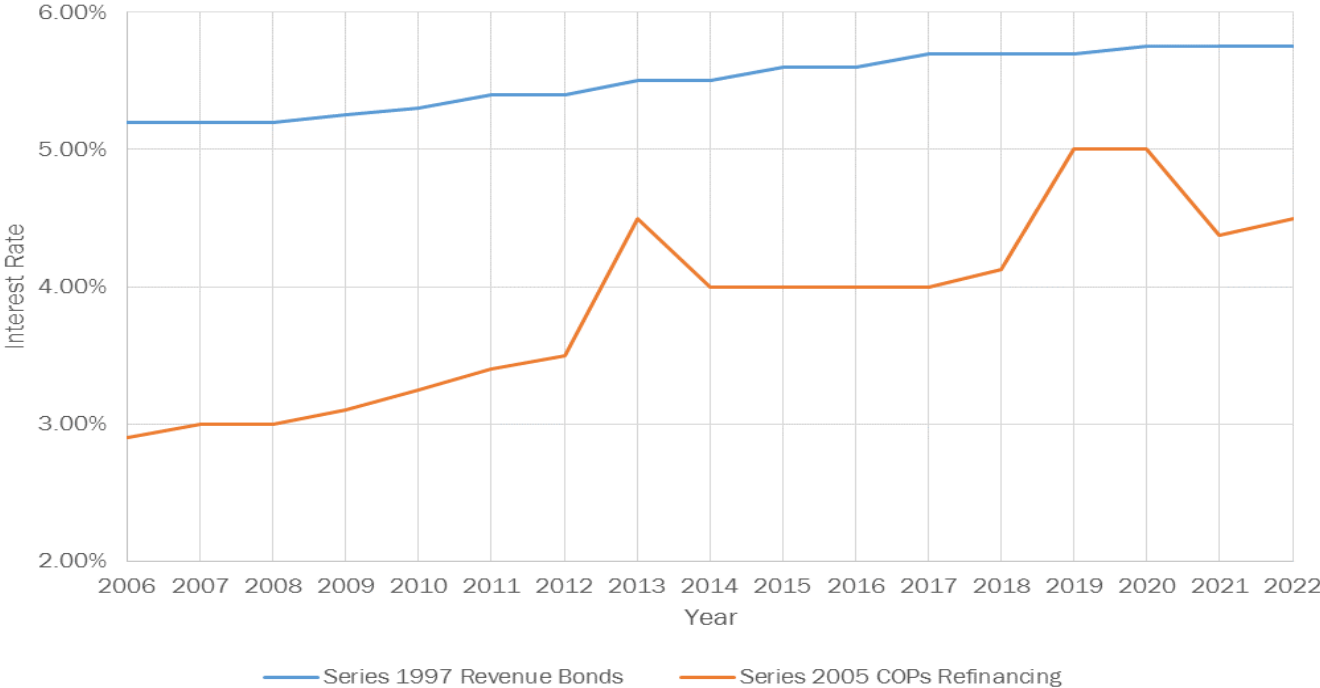
- DTA aimed to verify that the School District has sufficient policies and procedures in place to endure timely debt service and lease payments.
- DTA evaluated the following, and believes that the School District has sufficient policies and procedures in place:

Government Finance Officers Association Recommends:	School District practice?
Trustee for any outstanding obligations invoice the public agency a minimum of 30 days in advance of the debt service or lease payment due date	YES
Public agency verify Trustee invoice against the bond debt service schedule or COP lease payment schedule	YES
Public agency utilize electronic funds transfer to assure transfer to the trustee in a timely manner	YES

# Efforts to Exercise Early Call/Refinancing

- DTA believes that reasonable and sufficient efforts were taken by the School District to exercise an early call and/or refinancing when beneficial to stakeholders.

Comparison of Series 1997 Bonds and 2005 COPs Refinancing Interest Rates



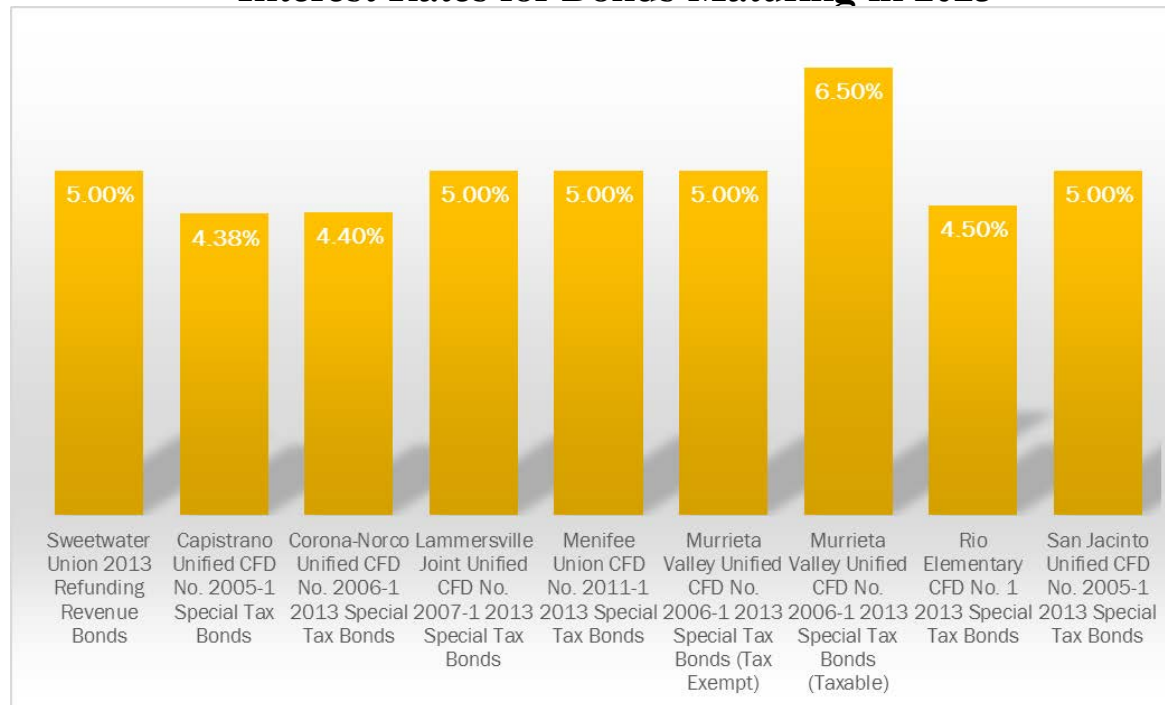
Source: The Official Statements



# Efforts to Ensure Competitive Interest Rates

- DTA believes that the efforts taken by the School District's financial advisor were sufficient for obtaining competitive interest rates on the obligations.

**Comparable School District CFD Bonds Issued September 2013-November 2013  
Interest Rates for Bonds Maturing in 2025**



Source: The Official Statements

# Debt Issuance Policies & Procedures Review

## Conclusions/Recommendations

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- DTA believes that School District policies and procedures with regards to ensuring timely payments of debt service, exercising an early call or refinancing, and ensuring competitive interest rates, are appropriate and sufficient. We do not recommend any changes at this time.

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# Cost Allocation Plan

# Summary of the Allocation Method

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- DTA reviewed a draft of the Cost Allocation Plan prior to its implementation.
- The Cost Allocation Plan allocates debt service and lease payments, annual administration expenditures, and high school and middle school facilities expenditures to each CFD.
  - Facilities expenditures are allocated to each CFD based on its share of the total applicable levy.
  - Administration expenditures are allocated to each CFD based on the number of parcels levied.
  - Debt service and lease payments are divided into high school and middle school new construction/rehabilitation/furnishings portions, then allocated to each CFD based on its share of the total applicable levy.
- The School District intends to use the Cost Allocation Plan to re-allocate costs to each CFD from fiscal year 1986-1987 (first year of levy) to present.

# Analysis

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- DTA prepared a Financial Model to model the flow of funds under the new allocation in each year.
- Does the Cost Allocation Plan work mathematically?
  - The Cost Allocation Plan works mathematically – that is, results in no insufficient or negative allocations of payments on obligations or costs in almost all years.
- Is the Cost Allocation Plan fair and equitable?
  - Because of the balancing inherent in the CFD levy term limits, and because each CFD is levied near 100% of its maximum amount for its entire term, DTA believes that each CFD will eventually pay its fair share of the costs, and the Cost Allocation Plan will be reasonably fair and equitable to all CFDs.
- Is the Cost Allocation Plan legal?
  - The School District's legal counsel has determined that it is legal.

# Conclusions/Recommendations

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- DTA recommends explicitly adding CFD formation costs and debt obligations costs of issuance to the Cost Allocation Plan, so that such items can be properly allocated.
- DTA recommends that the School District implement the Cost Allocation Plan, with said additions, as soon as practicable, and adopt policies and procedures to properly implement the Plan.

# End of Presentation

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Questions & Answers