



COLORADO

Department of Education

Introduction to Bonds

An introduction to setting your bond levy for Colorado school districts. A great fit for districts who just passed a bond for the first time!

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General Obligation Bonds

- From Investopedia:
- What Is a General Obligation Bond?
 - A general obligation bond (GO bond) is a [municipal bond](#) backed solely by the credit and taxing power of the issuing jurisdiction rather than the revenue from a given project. General obligation bonds are issued with the belief that a municipality will be able to repay its debt obligation through the imposition of an ad valorem property tax in an amount sufficient to repay the bonds. No assets are used as [collateral](#).
 - You are **REQUIRED** to levy enough taxes to pay the debt service



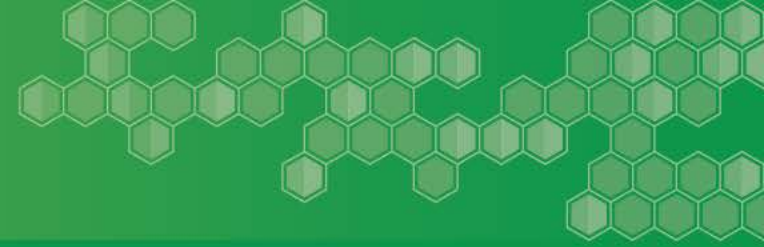
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How do GO Bonds work?

- Bonds are debt of the issuer, investments for the buyer
- Bonds typically come in \$5,000 increments
- Bonds can be sold at “par” (face value), or at a premium or a discount
- Bonds are typically tax-exempt (double tax-exempt for Colo) meaning interest income is not taxed to the investor and the issuer gets a lower tax-exempt interest rate upon sale.
- Unlike a mortgage, each bond has its own maturity and interest rate.
- Each bond has its own interest rate. Interest is typically paid semi-annually
- Example:
 - Glenn wants to invest \$5,000 in a bond that matures in 4 years that is safe and minimizes tax consequences
 - Glenn calls his investment broker and asks for a school district bond maturing in 4 years
 - Glenn is charged \$5,000 up front (if sold at par), receives interest every 6 months at the stated rate
 - Glenn gets his \$5,000 back upon maturity



Sequence of Activities



- Election Question approval.
- District approves the mill levy (including an amount sufficient to pay the bond debt service).
- Board approval of financing document/bond resolution.
- Development of the Preliminary Offering Statement (POS).
- Sale of the bonds.
- Bond Closing & Receipt of Funds.
- Role of the Paying Agent
 - Manages the funds, if desired
 - Makes payments to investors
 - Other miscellaneous tasks
- Moneys received to pay debt service on bonds MUST be held by a custodian or the county treasurer under state law.
- Construction Begins
 - District manages the funds from the bond sale to pay contractors
 - Chart of Accounts
 - Bond Proceeds/Principal 41-000-00-0000-5110-000-0000
 - Bond Proceeds/Premium 41-000-00-0000-5120-000-0000
 - Bond Issuance Costs 41-601-00-5100-0330-000-0000



Who's Your Friend?

- Bond Counsel

- Contact bond counsel early to assist with the election question and all other TABOR deadlines & requirements.
- Leads the effort to develop a Prelim Offering Statement (POS)
- Renders a tax opinion on the tax-exemption of the bonds

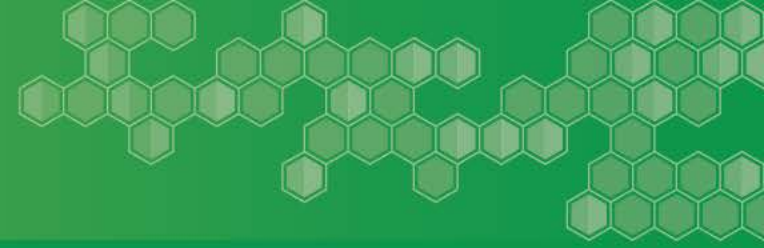


- Bond Underwriter/Financial Advisor

- Assists with the development of the structure of the offering
- Coordinates the logistical end of the sale
- Works in partnership with bond counsel
- Leads the “sale” of the bonds



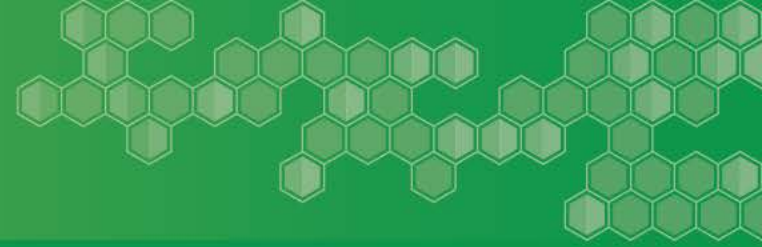
Key Dates



- Assessed Valuation
 - Preliminary AV usually released in August
 - Final AV usually received in November (contact assessor to get an ETA of final report)
- Receipt of mill levy worksheet from CDE
 - Usually comes around the end of November/early December
- Adoption of mill levies by Board of Education by 12/15
 - May need a special BOE meeting
- Certification to County Assessor/Board of County Comm. by 12/15
- Submission to CDE (Mill Levy Worksheet) by 12/15



Setting the Bond Levy



- The Bond Levy must be set in December along with the other mill levies. If the bond sale is after the certification dates, an estimated amount needs to be calculated & certified to pay for the first year's debt service. Check with your underwriter/FA.
- Failure to levy the property taxes to pay for bond debt service could result in a default
- Colorado school districts qualify for state intercept program (AA-/Aa2) that will pay school district debt service if district is unable and then collect from districts equalization the following year.



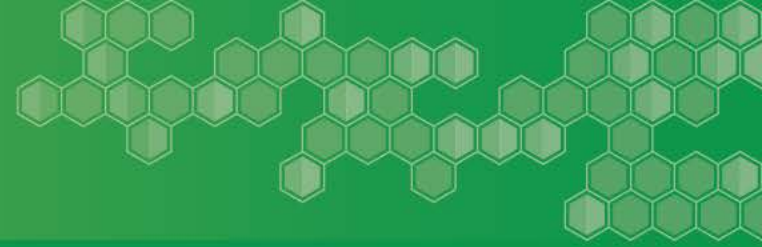
Materials Needed to Calculate the Bond Levy

- Bond Election Question
- Final Assessed Valuation (prelim AV can get started)
- Bond Levy Template (Sample provided by CDE)
- Interest Rate Assumption- interest rate should be fixed but may vary per maturity
- Bond Debt Service Schedule (Principal and Interest)
- One Full Year of Property Tax Collections by County pay date





The Bond Levy Template



Your District Name
Bond Debt Service Model

2022						2023					
Assessed Valuation				Revenue		Assessed Valuation				Revenue	
Bond Mill Levy				\$0	Interest Rate	Bond Mill Levy				\$0	Interest Rate
Collection %	Bond Redempt Fund Beg Bal				1.00%	Bond Redempt Fund Beg Bal					1.00%
%		Interest	Revenues	Debt Svc	Cash Balance		Interest	Revenues	Debt Svc	Cash Balance	
0.0001	-January	0	0		0	-January	0	0		0	0
0.0580	-February	0	0		0	-February	0	0		0	0
0.3636	-March	0	0		0	-March	0	0		0	0
0.0134	-April	0	0		0	-April	0	0		0	0
0.2556	-May	0	0		0	-May	0	0		0	0
0.0416	-June	0	0		0	-June	0	0		0	0
0.2236	-July	0	0		0	-July	0	0		0	0
0.0151	-August	0	0		0	-August	0	0		0	0
0.0065	-Sept	0	0		0	-Sept	0	0		0	0
0.0035	-Oct	0	0		0	-Oct	0	0		0	0
0.0099	-Nov	0	0		0	-Nov	0	0		0	0
0.0005	-Dec	0	0		0	-Dec	0	0		0	0
0.9914			\$0					\$0			

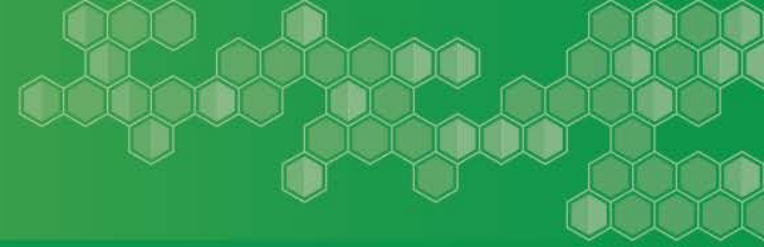


Key Levy Components

- District Assessed Valuation (AV) for coming year
 - Can use preliminary AV to get started
 - Need to update to final AV once received (late Nov/early Dec)
 - Make sure you use “net” AV after Tax Increment Financing (TIF)
- Bond Election Question – The ballot question sets out the maximum principal, maximum annual repayment cost and the maximum total repayment cost
- Bond Debt Service Schedule (from Bond Underwriter)
 - Calendar Year Principal & Interest by payment date
- One Calendar Year Property Tax Collections by month
 - Allows for cash flow considerations in the template



Template Example



- Contact Glenn or Mark for sample spreadsheet models



- Board Meeting Cover Sheet
- Resolution
- Spreadsheet with 2-year comparison
 - Consider setting to maximum annual total repayment in first year, per ballot language, to guarantee the first year Principal & Interest payments with some extra in case of abatement.
- CDE Spreadsheet (sent from Tim Kahle)
 - Confirm the final NAV matches final from Assessor. Adjust if necessary and communicate with Tim on any differences.
 - Add the Bond mills to CDE sheet. Only district knows the correct amount.
- Assessor's Notice of Final Valuation for all funds.



Mill Levy Worksheet for BOE Adoption

Blank School District					
COMPARISON OF YEAR 2020 and 2021 MILL LEVY RATES AND REVENUES					
	Dec 2019 Certified YEAR 2020	Dec 2020 Final YEAR 2021	Change		
Assessed Valuation:	\$ 30,268,220	\$ 30,502,190	233,970	0.8%	
Components:	<u>Mills</u>	<u>Mills</u>	<u>Mills</u>		Tax Impact
General Fund Levy	20.715	20.715	-		-
Bond Levy	6.616	6.150	(0.466)		(10.00)
Education Plan Levy (MLO)	14.733	14.960	0.227		4.87
Mill Levy Before Abatement Levy	42.064	41.825	(0.239)		(5.13)
Abatement Levy	0.574	0.410	(0.164)		(3.52)
Total Levy	42.638	42.235	(0.403)	-0.9%	-\$8.64
Sample Market Value	\$300,000	\$300,000	Annual Property Tax Increase (Decrease)		
Assessed Value at 7.15% (2020)	\$21,450	\$21,450			
7.15% (2021) of Market Value	\$21,450	\$21,450			
Total Mills	42.638	42.235			
District Property Taxes	\$914.59	\$905.94	(\$8.64)		





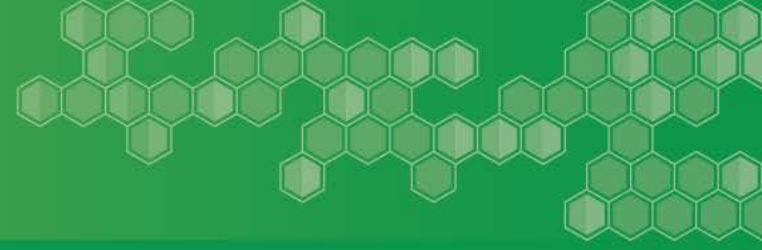
Bond Accounting & IRS Requirements

- Accounting Funds related to bond projects:
 - Fund 41 is used to manage construction expenses
 - Fund 31 is used to collect property taxes & make debt service payments
 - BEST Bond Matching requirements
- Arbitrage = The difference between the reinvestment of construction proceeds during construction period and the average interest rate of the bonds (see counsel)
- Arbitrage Considerations
 - District must have a reasonable expectation of spending 85% of funds (bond proceeds less costs of issuance) within 3 years.
 - District must spend 100% of funds within 5 years.
 - District must file IRS Form 8038 for sale, typically filed by bond counsel
 - There must be an arbitrage calculation upon completion of construction spending but no later than 5 years
 - District is required to maximize interest earned on construction proceeds.
 - Any arbitrage gains/profits must be refunded to the IRS, unless within the allowable time period.
 - Strongly consider hiring an arbitrage compliance consultant for the calc.





Questions?



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