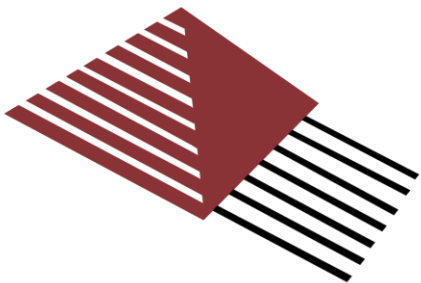


# **Preliminary Funding Plan for Dr. Marcus Foster Educational Leadership Campus**

*Prepared by*

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*November 18, 2015*



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# Executive Summary

- District's Board of Education has:
  - Asked District staff to move forward with design of the Dr. Marcus Foster Educational Leadership Campus, including:
    - New Educational Leadership Center to replace former Paul Robeson Building
    - New Dewey Academy High School to replace former Dewey Academy
  - Authorized an initial Project cost of \$75 million
  - Authorized Project funding of up to \$49 million in general obligation (GO) bond proceeds from Measure J, per the October 8, 2015 Board approved spending plan
- This will require at least \$26 million in additional Project funding outside of Measure J

# Background on PEI

- PEI is California's leading expert in the area of facilities funding for local education agencies (LEAs) by redevelopment agencies (RDAs)
- PEI is redevelopment consultant to the State's Fiscal Crisis and Management Assistance Team (FCMAT), as well as Alameda County Office of Education and Oakland Unified School District, and has provided consulting and training services regarding RDAs and impacts of dissolution of RDAs to hundreds of LEAs Statewide
- PEI is one of the nation's leading experts in the area of facilities funding for LEAs using federal income tax credits
- PEI is tax credit consultant to Oakland Unified School District, and has structured, managed, and closed nearly \$745 million in tax credit-related financings nationwide, including more than \$650 million for LEAs

# District Project

- The Dr. Marcus Foster Education Leadership Campus includes:
  - New Educational Leadership Center (ELC) to the east on current site of Dewey Academy High School (1111 2<sup>nd</sup> Avenue)
  - New Dewey Academy to the west on current site of Paul Robeson Building (1025 2<sup>nd</sup> Ave.)



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# Funding Plan

- PEI has identified the following funding sources available for Project:
  1. Restricted facilities portion of RDA Pass-Throughs
  2. New Markets Tax Credits (NMTCs)
  3. Qualified Zone Academy Bonds (QZABs) for furniture, fixtures, and equipment (FFE) only

# RDA Revenues

- Pre-RDA dissolution, District received only one TYPE of RDA revenue: Pass-Throughs
- Post-RDA dissolution, District received three TYPES of RDA revenue:
  - Pass-Throughs
  - Residual Distributions
  - Asset Liquidation Revenues
- One Funding Plan for Project is:
  - 56.7% of facilities portion of Pass-Throughs per AB 1290
  - 100% of Residual Distributions and Asset Liquidation Revenues (which are offsets against State Aid and received by District for benefit of State)

# RDA Pass-Throughs

- Even though Legislature dissolved all RDAs effective Feb. 1, 2012, RDA Projects continue to exist, and tax increment and RDA Pass-Throughs continue to be paid
- Pre-RDA dissolution, RDA Pass-Throughs were paid by warrant from former Oakland RDA
- Post-RDA dissolution, RDA Pass-Throughs are now paid by electronic funds transfer from County Auditor-Controller (A-C)

# RDA Pass-Throughs

- Without RDA dissolution, Pass-Throughs to District were projected to continue from FY 2015-16 for eight years for one RDA Project and for 27 to 39 years for other eight RDA Projects
- With RDA dissolution, Pass-Throughs are required to terminate once all bonds and other enforceable obligations of former RDA have been repaid (which may NOT be accelerated)
- With RDA dissolution, Pass-Throughs to District now projected to continue from FY 2015-16 for eight years for one RDA Project and 27 years for all eight other RDA projects



# RDA Pass-Throughs

- In three years after RDA dissolution, restricted facilities portion of Pass-Throughs to District increased from \$2.83 million in FY 2011-12 to \$3.72 million in FY 2014-15—an average annual growth rate of 9.5%
- Through FY 2014-15, historical access valuation growth in all nine Projects was 6.52% per year, including 4.80% in FY 2014-15

# RDA Pass-Throughs

- Assuming only 2% annual access valuation growth in future for all nine RDA Projects for next 27 years from FY 2015-16, PEI projects:
  - Facilities portion of Pass-Throughs of **\$179 million**, increasing from projected \$3.96 million in FY 2015-16 to \$10.57 million in FY 2040-41
  - Facilities portion of Pass-Throughs may be used to repay certificates of participation (COPs)—a tax exempt lease-purchase financing mechanism previously used by District
  - 25 year COPs financing capacity of Pass-Throughs at 5% interest rate of **\$75 million** in FY 2017-18
  - Unused Pass-Throughs through FY 2016-17 of **\$5.9 million**
  - Many LEAs throughout State have used Pass-Throughs to repay COPs over 25 to 30 future years, and continue to do so

# RDA Pass-Throughs

- Pass-Through constraints include:
  - Actual future assessed valuations growth could be unexpectedly low, due to adverse future economic conditions or natural disasters
  - Legislature could change RDA dissolution law in future to allow additional reductions in duration (though this is unlikely)
  - Using Pass-Throughs to fund COPs for Project involves higher interest rates (e.g., 5%)
  - Refunding of COPs typically restricted during first 10 years , but terms may be negotiated to allow earlier refunding

# Tax Credits

- Federal income tax credits available for Project include New Markets Tax Credits (NMTCs) and QZABs (for furniture, fixtures and equipment only)
- Tax Credits are provided to investor in-lieu of cash paid by District
- Tax Credits create subsidy to District which is equivalent to GRANT—creates cash equity for District
- Eligibility requirements must be met (low-income students or census tract, etc.)
- Restrictions on use of funds are imposed
- Usually awarded through competitive application process

# Tax Credits: Eligibility for NMTCs

- NMTC proceeds may be used for refinancing, new construction, renovation, working capital, closing costs, almost anything
- Primary eligibility—facility in “low-income” census tract (1025 2<sup>nd</sup> Ave. is within qualifying “low-income” census tract)
- Also might be able to qualify based on 60% or more student population (at school facility being funded) from “low-income” families
- Authority to use NMTCs is allocated by Dept. of Treasury to independent Community Development Entities (“CDEs”) that have discretion on what projects to support (LIIF, LISC, and many more)
- Can be used to leverage tax exempt financing (e.g., GO Bonds or COPs)

# Tax Credits: Advantages and Constraints

- Grant equivalent subsidy equals about 40% for QZABs and 25% NMTCs
- Process for obtaining tax credit financing is significantly more complicated and takes additional time relative to traditional financing
- QZAB funding requires private donations equal to 10% of QZAB funding
- NMTC allocation typically not committed until construction project is almost ready to begin
- With large construction project, use of NMTC investment should be limited to specified portion of project to which NMTC investment applies

# Preliminary Funding Plan for Project: Part 1

\$75,000,000 Est. Total Cost

	Min GO Bonds/ Max RDA COPs	50% GO Bonds/ 50% RDA COPs	Max GO Bonds/ Min RDA COPs	Max GO Bonds/ Max RDA COPs
<b>Net Proceeds from GO</b>		<b>34,200,000</b>	<b>48,265,000</b>	<b>48,265,000</b>
Interest Rate		4.00%	4.00%	4.00%
Term		25	25	25
Annual D/S		2,189,209	3,089,537	3,089,537
Funding Source		Tax Increase	Tax Increase	Tax Increase
QZAB Tax Credit	4,000,000	4,000,000	4,000,000	4,000,000
NMTC Tax Credit	20,000,000	20,000,000	20,000,000	20,000,000
<b>Tax Credit Subsidy</b>	<b>6,600,000</b>	<b>6,600,000</b>	<b>6,600,000</b>	<b>6,600,000</b>
<b>Net Proceeds from RDA COPs</b>	<b>68,400,000</b>	<b>34,200,000</b>	<b>20,135,000</b>	<b>75,000,000</b>
Interest Rate	5.00%	5.00%	5.00%	5.00%
Term	25	25	25	25
Annual D/S	6,094,324	3,047,162	1,793,994	6,682,372
Funding Source	RDA PTs	RDA PTs	RDA PTs	RDA PTs
<b>Total Net NEW Funding</b>	<b>75,000,000</b>	<b>40,800,000</b>	<b>26,735,000</b>	<b>81,600,000</b>
<b>TOTAL Funding</b>	<b>75,000,000</b>	<b>75,000,000</b>	<b>75,000,000</b>	<b>129,865,000</b>

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# Preliminary Funding Plan for Project: Part 2

\$75,000,000 Est. Total Cost

	Min GO Bonds/ Max RDA COPs	50% GO Bonds/ 50% RDA COPs	Max GO Bonds/ Min RDA COPs	Max GO Bonds/ Max RDA COPs
<b>Existing RDA PTs through FY 2016-17</b>	<b>5,872,593</b>	<b>5,872,593</b>	<b>5,872,593</b>	<b>5,872,593</b>
<b>Net Proceeds from Asset Management COPs</b>	<b>4,464,962</b>	<b>4,464,962</b>	<b>4,464,962</b>	<b>4,464,962</b>
Interest Rate	5.00%	5.00%	5.00%	5.00%
Term	25	25	25	25
Annual D/S	360,000	360,000	360,000	360,000
Funding Source	Ground Lease	Ground Lease	Ground Lease	Ground Lease
<b>Total POTENTIAL Additional Funding</b>	<b>10,337,555</b>	<b>10,337,555</b>	<b>10,337,555</b>	<b>10,337,555</b>
<b>POTENTIAL Total New Funding</b>	<b>85,337,555</b>	<b>51,137,555</b>	<b>37,072,555</b>	<b>91,937,555</b>
<b>POTENTIAL Total Funding</b>	<b>85,337,555</b>	<b>85,337,555</b>	<b>85,337,555</b>	<b>140,202,555</b>
<b>POTENTIAL Additional Supportable Costs</b>	<b>10,337,555</b>	<b>10,337,555</b>	<b>10,337,555</b>	<b>65,202,555</b>



# Questions

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# Contact Information

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