



# School District of Broward County, Florida

## Financial Advisory Committee Meeting

December 17, 2019

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PFM Financial Advisors LLC

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## Agenda

- I. Municipal Market Update
- II. Florida School District Finance 101

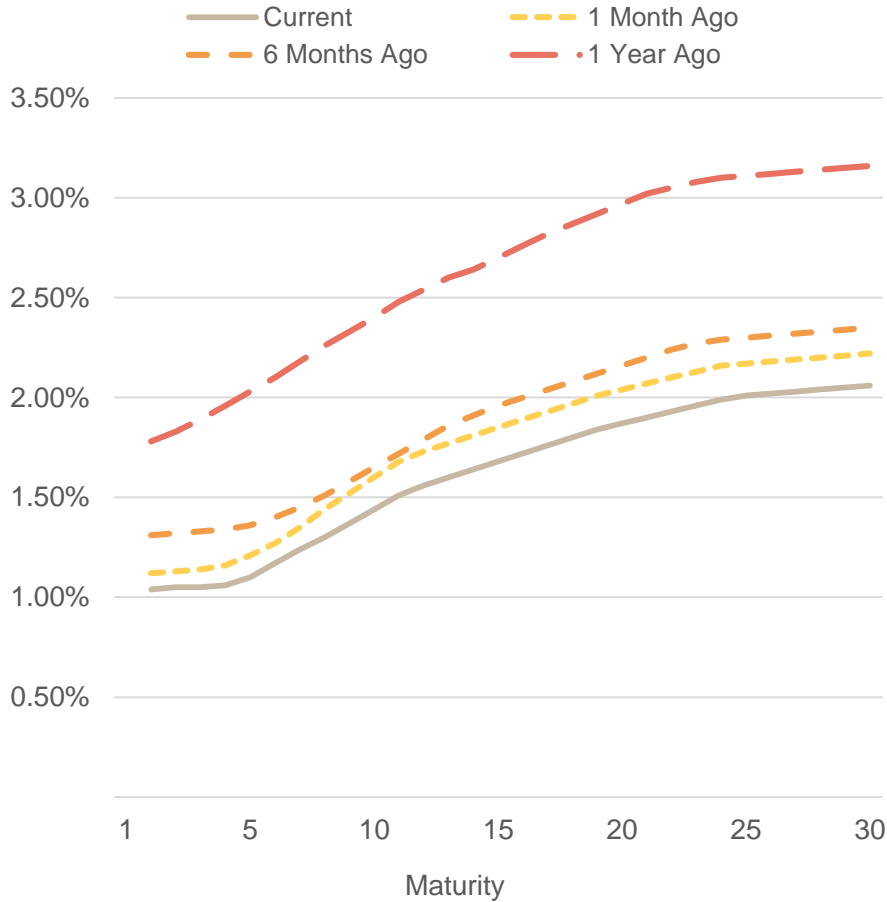


# I. Market Update

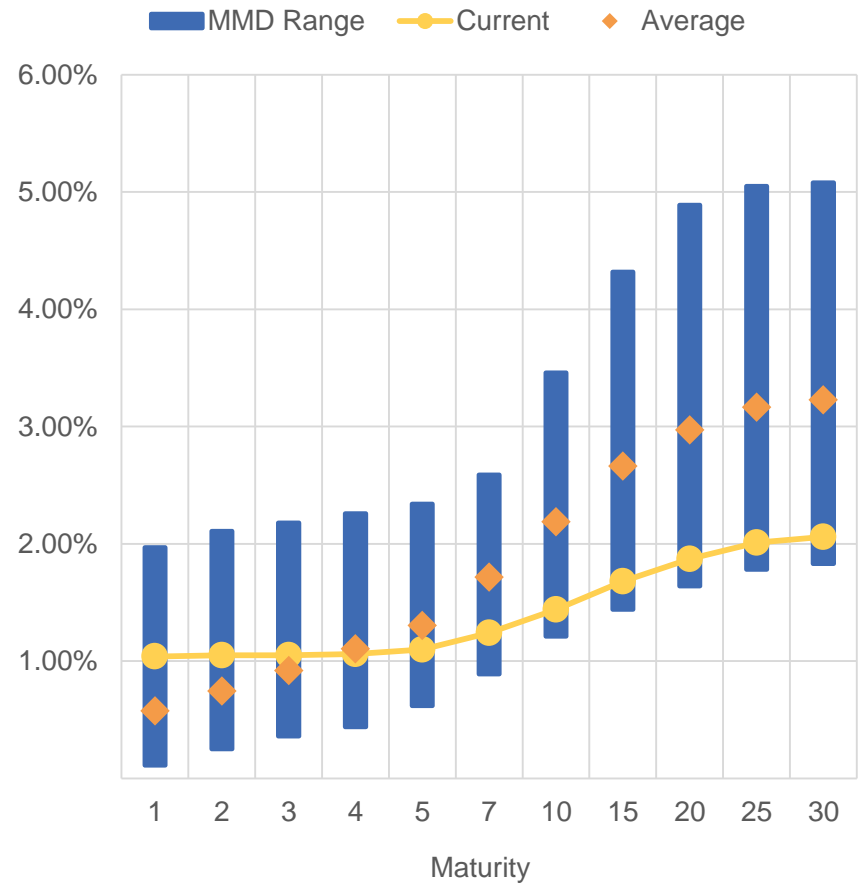


# Municipal Market Interest Rates

## MMA AAA G.O. Curve



## MMD Ranges Over Past 10 Years





# Historical Interest Rates

Market Yields: December 2009 to December 2019



	10 Year UST Bond	10 Year AAA MMD
Current: 12/12/19	1.89%	1.44%
Average: 2009 - Current	2.40%	2.19%
Difference	-51 bps	-75 bps

Rates as of December 12, 2019



## **II. Florida School District Finance 101**



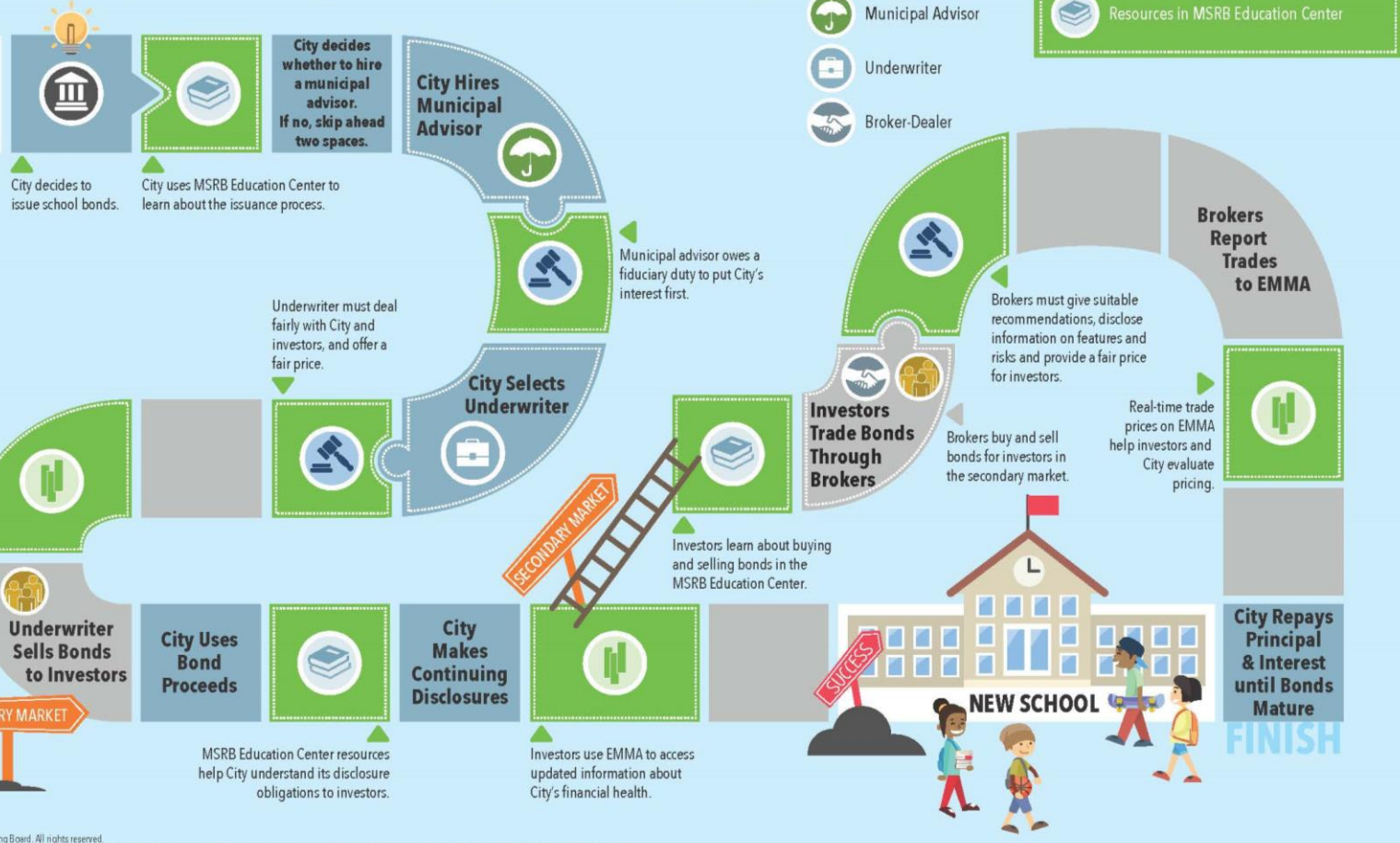
# Municipal Market 101

The nearly \$4 trillion municipal securities market provides state and local governments with access to capital for important infrastructure projects. Follow a city as it navigates Muniland to finance a new school, and learn how the Municipal Securities Rulemaking Board protects the city and its investors along the way.



**OVERCROWDED SCHOOL**

**START**



## PLAYERS

- City Officials
- Investors
- Municipal Advisor
- Underwriter
- Broker-Dealer

## MSRB ROLE

- Regulation of Municipal Advisors, Underwriters and Broker-Dealers
- Transparency through Electronic Municipal Market Access (EMMA®) Website
- Resources in MSRB Education Center



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## Overview of Financing Process



- Determine project cost & timing
  - Identify source of repayment
  - Size & structure the bonds
  - Determine method of sale
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- Board approval, if required
  - Public notice & hearing, if required
  - Tax analysis & due diligence
  - Prepare disclosure document (official statement)
- 

- Obtain ratings, if needed
  - Obtain credit enhancement, if needed
  - Underwriter & investor reach out
  - Sell & price the bonds
- 

- Closing, transfer of proceeds
- Investment of bond proceeds
- Begin project & track progress
- Make principal & interest payments
- Monitor for refinancing opportunities
- Comply with disclosure and arbitrage regulations





# Overview of Financing Team





## Top Investors of Debt Issued by Broward Schools

Investors	Estimated Holdings (\$MM)
Fidelity Management & Research Company (Fixed-Income Division)	\$171.34
Thornburg Investment Management Inc	70.17
The Vanguard Group, Inc.	59.13
USAA Investment Management Company	39.00
Western Asset Management Co (WAMCO)	31.25
State Farm Insurance Companies	23.74
Allstate Investments LLC	23.53
Mellon Capital Management Corporation	23.52
Liberty Mutual Insurance Group	23.22
Hartford Investment Management Company	19.13
Pinebridge Investments LLC	16.82
Fidelity Management & Research Company	13.92
Nuveen Asset Management, LLC	13.81
Robert W. Baird & Co., Inc.	13.36

Source: Regulatory Filings as of October 30, 2019



## Syndicate of Underwriters

- For negotiated sales, using a syndicate of underwriters can generally improve the sale of bonds
  - Individual firms may lack the ability to underwrite entire transactions on their own
  - Multiple firms can be strategically organized to garner broader interest – different types of institutional and retail buyers

### Senior/ Co-Senior Manager

- Leads syndicate
- Assists with structuring of bonds
- Assists with credit package
- Manage marketing of bonds and institutional investor communication

### Co-Managers

- Provide greater network to sell bonds
- Provide additional capital to underwrite bonds
- Provide additional color on marketplace



# Capital Funding Options for Florida School Districts

## ◆ General Funding Sources

### ➤ State

- Public Education Capital Outlay and Debt Service (PECO) Trust Fund
- Capital Outlay and Debt Service (CO&DS) Trust Fund

### ➤ Local

- Capital Outlay Millage (1.500 Mill Revenues)
  - Pay as You Go (Pay-Go)
  - Certificates of Participation (COPs)

## ◆ Other Funding Sources – Local Option

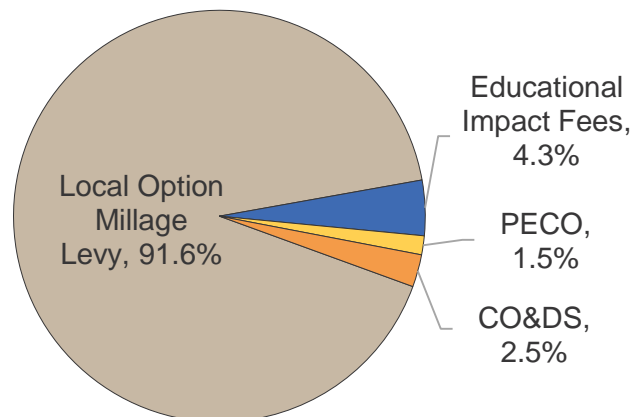
- Sales Tax
  - Local Government Infrastructure Surtax (1 penny)
  - School Capital Outlay Surtax (1/2 penny)
- General Obligation Bonds
- Impact Fees
- Other Referenda Options



## Sources of Capital Outlay Funding

- The primary source of revenue for school construction, renovation and maintenance purposes is derived from the Local Option Millage Levy portion of local ad valorem taxes

	<b>FY 2019 Budgeted Amount</b>
<i>Local Sources</i>	
Local Option Millage Levy (1.500 @ 96%)	\$295,600,000
Educational Impact Fees	14,000,000
<i>State Sources</i>	
Florida Public Education Capital Outlay Program (PECO)	4,800,000
Capital Outlay & Debt Service Funds (CO&DS)	8,200,000
<b>Total</b>	<b>\$322,600,000</b>





## General Funding Sources

### ◆ PECO and CO&DS

- Direct state funding sources that provide minimal funds for local construction

### ◆ Capital Outlay Millage – 1.50 Mill

- Each District may levy up to 1.50 mills to fund construction, maintenance, technology, transportation and make lease payments – additional levy requires voter approval
- Funds can be used for Pay-Go programs or to make lease payments on COPs
- Up to 75% of the amount levied can be used to make lease payments (with exception for COPs issued prior to 2009)
  - The credit rating agencies generally do not look favorably upon using more than 50% of capital outlay millage for lease payments



## Discretionary Funding Options for School Districts

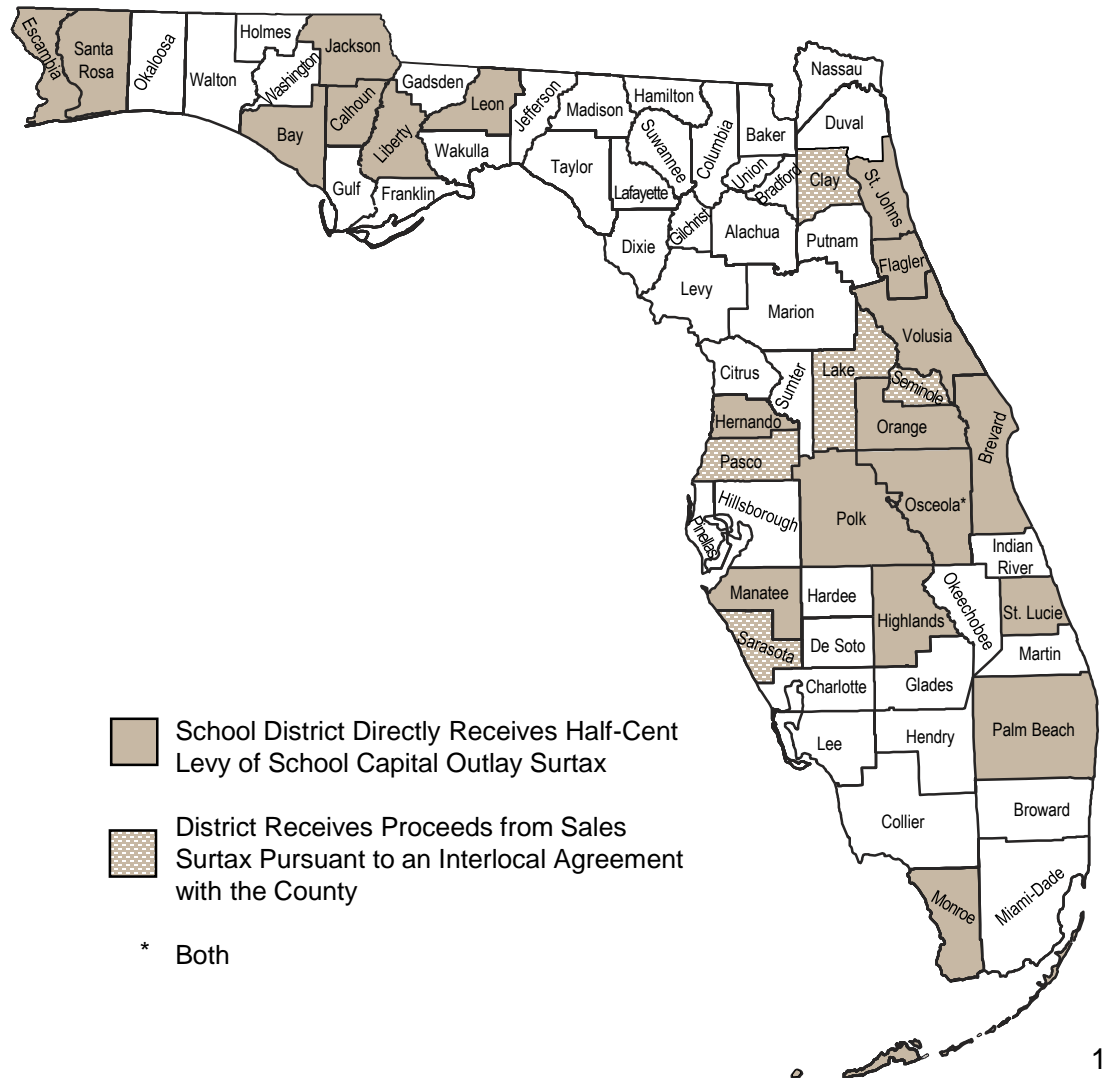
- The Florida Legislature has created a limited amount of discretionary funding sources for operations and capital, all of which require a referendum
  
- Short Term Millage Options
  - 2 Years for Operating or Capital
    - *Article VII Section 9(b), Florida Constitution; Section 1011.73(1) Florida Statutes*
  - 4 Years for Operating
    - *Section 1011.71(6) and Section 1011.73(2) Florida Statutes*
  
- Other Referenda Options
  - General Obligation Bonds
    - *Section 1011.40 – 1011.55, Florida Statutes*
  - Sales Tax Options
    - *Section 212.054, 212.055(2) – Local Government Infrastructure Surtax and 212.055(6)- School Capital Outlay Surtax*



## Local Discretionary Sales Surtax Levies

• The map to the right shows which school districts in Florida currently receive revenues from the proceeds of a Local Discretionary Sales Surtax Levy, through either:

1. School Board authorization to directly impose a sales surtax levy (0.5%), if approval is obtained by referendum
2. Distribution pursuant to an Interlocal Agreement with the governing county, which is authorized to impose a sales surtax levy (0.5% or 1%) if approval is obtained by referendum

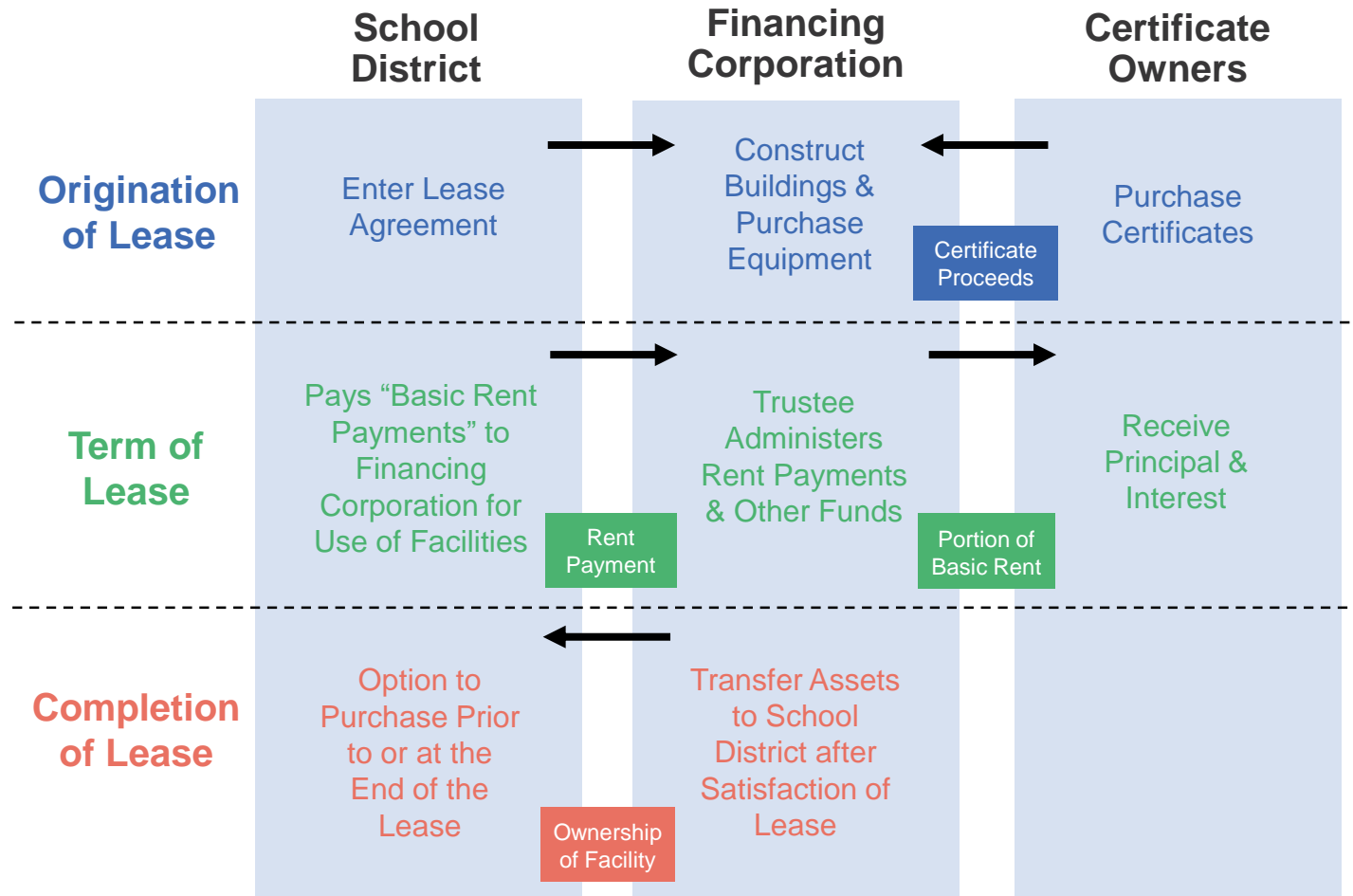






## Mechanics of Certificates of Participation (COPs)

- COPs are the most common financing structure for Florida school districts





## Basic COP Financing Documents

Document	Parties	Description
<ul style="list-style-type: none"><li>• Master Lease Purchase Agreement</li></ul>	Lessor/Lessee	Defines overall terms of lease agreement
<ul style="list-style-type: none"><li>• Lease Schedule</li></ul>	Lessor/Lessee	Defines specific terms of individual lease
<ul style="list-style-type: none"><li>• Ground Lease</li></ul>	Lessor/Lessee	Defines terms of site lease
<ul style="list-style-type: none"><li>• Master Trust Agreement</li></ul>	Lessor/Trustee	Defines overall terms of COPs transactions
<ul style="list-style-type: none"><li>• Supplemental Trust Agreement</li></ul>	Lessor/Trustee	Defines specific terms of individual COPs issue
<ul style="list-style-type: none"><li>• Assignment Agreement</li></ul>	Lessor/Trustee	Assigns lessor's interests in leases/ground leases to trustee