

# LET'S BOND!

**GUIDELINES FOR DETERMINING  
ALLOWABLE BOND EXPENDITURES**

# GENERAL OBLIGATION BONDS

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- **Backed** by the **full faith** and **credit** of the **issuing agency**
- Paid for by **increasing local property taxes** above the limit imposed by **Proposition 13**
- Because they involve an increase in property taxes, they **require voter approval**

# GENERAL OBLIGATION BONDS

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are commonly used to finance:



**SCHOOLS/  
COLLEGES**



**LIBRARIES**



**HOSPITALS**



**PRISONS**

# WHO PAYS? THE TAXPAYERS DO!

A tax is levied on **property tax bills of the voters** in the county(ies) that **passed the ballot measure** supporting the general obligation bonds.

**SANTA CLARA COUNTY**  
**UNSECURED PROPERTY TAX BILL**  
**FOR FISCAL YEAR JULY 1, 2013 - JUNE 30, 2014**  
Tax Information: 408-606-7900  
Pay your taxes on-line at [www.sctax.org](http://www.sctax.org) using an e-Check or major credit card. See website for payment instructions.

**IMPORTANT MESSAGES**  
This bill is the result of an audit of property by the Assessor's Department. If an adjustment is required, call Assessor's Department at 408-543-0000.  
Section 520 Assessment for 2013-2014, Section 521.4 & 521.5 Code.

**ASSESSMENT NUMBER** 13-002100-0  
**TAX RATE AREA** 017-120  
**BILL ID** 186446  
**BILL DATE** 07/07/2013

**MAILING ADDRESS**  
[Redacted]

**ASSESSOR ACCOUNT** [Redacted]

**Contact Information**  
TAX INFORMATION: 408-606-7900, [info@sctax.org](mailto:info@sctax.org), [www.sctax.org](http://www.sctax.org)  
CHIEF OF ASSESSOR: 408-299-6400, [assessor@sctax.org](mailto:assessor@sctax.org), [www.sctax.org](http://www.sctax.org)  
ASSISTANT: 408-299-6400, [info@sctax.org](mailto:info@sctax.org), [www.sctax.org](http://www.sctax.org)

**TAXABLE PERIOD** : 07/01/2013 - 06/30/2014  
**PRORATION FACTOR** : 100.00%

	Assessed Values	Tax Rate	Tax Amount
Land	0		
Improvement-Fixture	0		
Improvement-Structure	0	0.000071	
<b>Total Land &amp; Improvements</b>	<b>1,321,877</b>		<b>14,663.41</b>
Personal Property	1,321,877	0.011106	
<b>Total Assessed Value</b>			<b>14,663.41</b>
<b>Total Taxes</b>			<b>14,663.41</b>

**LOCATION** : [Redacted]  
**PARCEL NUMBER** : 01330193  
**JANUARY 1, 2008 ASSESSEE** : [Redacted]  
**DESCRIPTION** : 821 - ELECTRONICS MFG AND LAB

	Amount Paid	Amount Due
Taxes	14,663.41	
Delinquent Penalty 10%	0.00	
Section 2922 Penalty	0.00	
Section 506 Interest	3,677.31	
Collection Fee	0.00	
Returned Check Charge	0.00	
Cost	0.00	
444 Interest	18,360.72	
<b>Total Amount</b>	<b>0.00</b>	<b>18,360.72</b>
<b>Reduced Assessment Credit</b>		

**Amount Due** 18,360.72  
**Delinquent After 02/28/2013**

**DELINQUENT TAXES CONSTITUTE A LIEN ON YOUR PROPERTY AND WILL DAMAGE YOUR CREDIT RATING.**  
**BALANCE DUE BY DELINQUENT DATE. PENALTIES AND FEES WILL ACCRUE IF U.S. POSTMARK IS AFTER THE DELINQUENT DATE.**

**SANTA CLARA COUNTY UNSECURED PROPERTY TAXES - PAYMENT STUB**

Please write your assessment number on the check.  
Send this stub with your payment.  
Do not make, tape or paper clip payments.

**ASSESSMENT NUMBER** 13-002100-0  
**TAX RATE AREA** 017-120  
**BILL ID** 186446

**2013-2014**  
**18,360.72**  
**PAY BY 08/31/2013**  
\$18,875.08 due after 02/28/2013. Includes penalty of \$1,668.34 and \$40 Collection Fee.

**AKE CHECKS PAYABLE TO:**  
SCTAX COLLECTOR  
County Government Center, East Wing  
70 West Hedding Street  
San Jose, CA 95110-1767

0300022A13 00120A20L67 0001A360727 0001A790L3

# JUNE 1986

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California voters approve **Prop 46**

# NOVEMBER 2000

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California voters approve **Prop 39**  
**Strict Accountability in Local School**  
**Construction Bonds Act of 2000**



# PRIOR BOND LAW VS. PROP 39 BOND

Specific Project list

Voluntary

Mandatory

Oversight  
Committee

Voluntary

Mandatory

Annual Audits

Voluntary

Mandatory

Permissible Use

Acquisition and improvement  
of real property (includes land  
and portables but not  
furnishings and equipment)

Acquisition and  
construction of school  
facilities and  
furnishings, equipping  
and leasing of school  
facilities



**WE PASSED THE BOND!**

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Now what?

# REGULATIONS

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Expenditures made with Bond proceeds must meet **State** and **IRS** requirements



**You can't spend the money on anything you want!**





# REGULATIONS

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- Must be used for **capital expenditure**
- **Useful life** calculation

**NO OPERATING EXPENSES ALLOWED!**



# REGULATIONS

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- **Risk when there is non-compliance**
  - Loss of tax exempt status
  - Penalties
  - Potential impact on credit rating
- **Opportunities for the future**
  - If a program is identified as having operated out of compliance, approvals, validations and authorizations can be challenged in the future.



# STATE REGULATIONS

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- Projects/expenditures must **follow the intent of the law**
- **Project type** must be represented in the ballot language
- Expenditures must be **related to the scope** of a project represented on the **Board Approved Specific Project List** (project name, scope and budget)

# PUBLIC PERCEPTION

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- Can cause one of the **greatest challenges** to a **current** and or **future program**
- **Should not be disregarded**



# THINGS TO CONSIDER...

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- **Short term** purchases financed over **long term**
- Unmet **promises**
- **Changing** plans
- Dollars spent on **re-dos**

**Purchases must meet IRS and State regulations!**

# TYPES OF PURCHASES

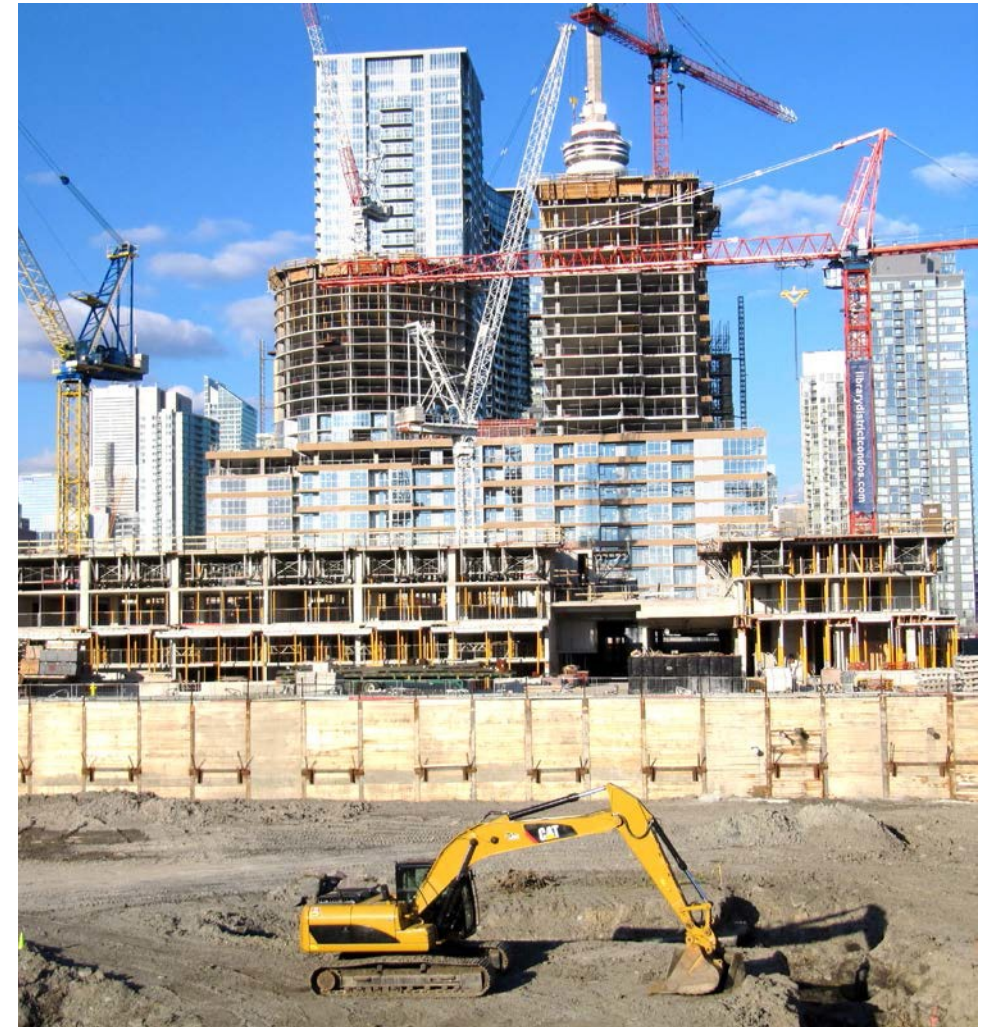
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- ✓ **New construction**
  - ✓ **Renovation**
  - ✓ **Small capital repairs**
  - ✓ **Site improvements**
  - ✓ **Infrastructure**
  - ✓ **FF&E**
  - ✓ **Technology**

# NEW CONSTRUCTION AND RENOVATION

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- “Bricks and Mortar”
- Capital Improvements
- Pay attention to the **Building Envelope**
- Scope should be **clearly defined** regarding what’s **in** and **out** of the project





# SM ALL CAPITAL REPAIRS

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- **Must be a capital improvement, not an operational issue**  
(e.g. Elevator Repair)





# SITE IMPROVEMENT

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- **Safety & Accessibility** (e.g. Lighting, ADA, irrigation)
- Beautification? **No!**



# INFRASTRUCTURE

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## Utilities



## Technology





# FURNITURE, FIXTURES & EQUIPMENT (FF&E)

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- Allowable for the **support of education**



What about a refrigerator  
for a staff break room?

# EQUIPMENT

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- Mobile equipment is **sometimes allowable** (e.g. a generator used for a specific construction project.).
- Automobiles are allowable when the **ballot language includes** the purchase of them.





# FIXED VS. MOBILE

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Why do we care?

# FIXED VS. MOBILE HARDWARE

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For the **Measure B Bond Programs** this was defined to be:

✓ Allowable items: Laptops

✗ Non-allowable items: Phones, subscriptions for internet services

“used for, and or in support of, education”



**ARE  
TABLETS  
ALLOWED?**

# HARDWARE

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- **Educational Support**
  - Student/Faculty
  - Administration





# SOFTWARE

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- **Integral to Equipment Function** –Allowable
- **Enterprise System** –Only components essential to operation of the equipment
- **Stand Alone Packages** –**No!**



# **CAPITAL vs. NON-CAPITAL EXPENDITURE**

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**To Acquire vs. To Use**

# TO ACQUIRE

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- If an expenditure results in the **purchase of a license/item** (the **District has ownership of the item** after the purchase is made) then the expenditure **could be considered a capital expenditure**.
- General accounting definitions related to thresholds must also apply.

# TO USE

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- If the expenditure results in a **right to use (license)**, then **ownership is not gained** from the purchase and likely this expenditure is a **non-capital expenditure** and therefore **not acceptable** in most circumstances under the bond.

# ASSET TRACKING IS REQUIRED

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**All furniture, fixtures, equipment and technology purchases must be tracked if purchased with bond dollars.**

**It is an audit requirement.**



# BAD MONEY, AKA: THE 5% RULE

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The IRS will **allow 5%** of general obligation bonds (calculated per series) to be spent on **non-capital** expenditures.



**Don't assume... track!**

# NON-ALLOWABLE EXPENDITURES

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- **✗ Extended Maintenance/ Performance plans**
- **✗ Purchases made on a payment schedule**
- **✗ Service Plans**
- **✗ Decommissioning**
- **✗ Warranties**
- **✗ Training**
- **✗ Licensing**
- **✗ “Beautification projects”**
- **✗ Supplies**



## CAUTION

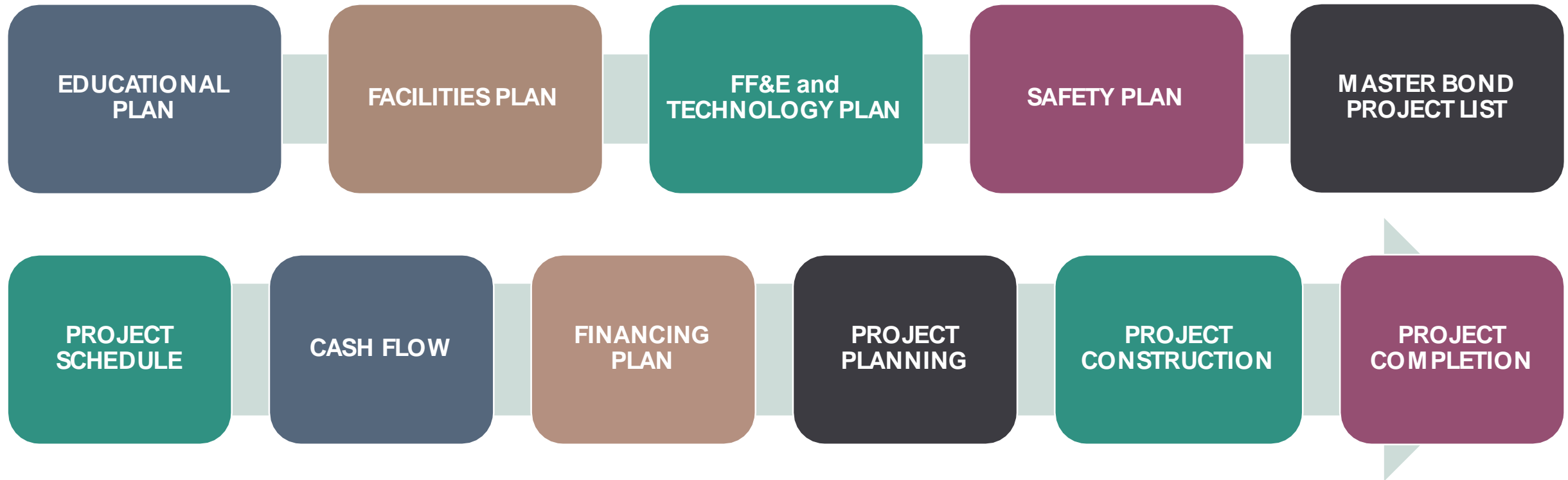


The following are only acceptable under very specific circumstances and within specific formula calculations done by Bond and Tax Counsel and should only be pursued with bond funds when legal counsel is consulted.

- **Life Cycle Management** – Legal counsel will support this up to decommissioning. Decommissioning is not an allowable bond expense.
- **Renting/Leasing** – Only under very specific conditions!
- **Income generation** – Bond expenditures that result in income generation must be reviewed by Bond Counsel.
- **Avoid - “Forced” Industry Standard and Bundling**



# THE IMPORTANCE OF PLANNING



**Planning and tracking is key**

When a program is challenged, the program must be able to show how it is following a **Board Approved** plan.

# THE IMPORTANCE OF PLANNING

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- The Plan(s) must be verified against the **Master Bond Project List/Ballot Language**
- Incorporate **risk tolerance** decisions
- **Guide the process**
- The purchases must conform to the **Facilities and Technology Plans** for the District. These should be written documents, approved by the Board of Trustees.

# THE IMPORTANCE OF PLANNING

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- **Technology Master Plan** –The Technology Master Plan for the District provides the guiding principles and plan for the District as a whole.
- **Operational Plan for Technology**
- **Tracking/documentation** –Again, this is of the utmost importance and care should be taken that the documents represent the reality of the situation.

# SAFEGUARD FOR COMPLIANT PURCHASES

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- **Discuss** all “grey area” purchases –think like an auditor
- **Communicate project goals** with cash flow to **underwriters** during bond sale planning activities
- **Document intent** and **purchase** –how it fits into the plan
- **Follow your plan** or edit your plan as appropriate through the **proper amendment process**
- **Bond Counsel** –seek out counsel when appropriate

# ADDITIONAL CRITERIA FOR PURCHASES

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- All Purchase Requisitions must have the **project name, project number and scope documented**
- All purchases must have a **budget**
- All Purchase Requisitions should **tie to a plan**
- All purchases must **meet accountability requirements** for capital expenditure (i.e. hardware supporting education, infrastructure supporting technology), **IRS** and **State regulation compliance** and **District Standards**
- All purchases must go through the **standard approvals**

# QUESTIONABLE PURCHASES

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Purchases that may not clearly fall into the ballot language, bond list or are not a capital expenditure

# DEPENDENT PURCHASES

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If the purchase results in an item that will be dependent upon other components or infrastructure, and is not part of an approved written scope or plan, then the purchase should be reviewed.  
(Examples: Security Cameras, IP Phones, Hand Dryers)

# TRYING OUT OUR EVALUATION ABILITY

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- Bird Remediation
- Outreach Program
- Five-year Educational Plan Update
- Auto purchase
- Leaf blower
- Elevator repair
- Landscape installation



...allowable expenditure?

**QUESTIONS?**