Performance audit

Opportunities for the State to Help School Districts Minimize the Costs and Interest Paid on Bond Debt

Joint Legislative Task Force on School Construction Funding

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Why we did this audit

- School districts and educational service districts issued $6.9 billion in general obligation bonds in 2003 through 2007
  - They paid $317 million in interest and underwriter fees
- The state has an interest in helping districts save money related to construction
  - Bulk of school funding comes from state
  - State spends up to $800 million every biennium on school construction

Why we did this audit

- The audit's goal: Help districts minimize the amount of tax dollars spent on interest and fees
- We modeled the audit on successful work completed in other states, including:
  - Oregon
  - New Jersey
  - Missouri
  - The results of these audits were consistent with industry studies and academic research



Objectives

- Does the State of Washington provide districts with adequate guidance on how to sell general obligation bonds in the most cost-effective manner?
- If guidance is not sufficient, what are the resulting costs and what can be done to reduce them?



Scope and methodology

- January 1, 2003 through December 31, 2007
- Nearly 290 district-issued general obligation bonds reported to the state Department of Commerce
- Our audit used statistical analysis. As a quality control measure, our statistical analysis was examined by an independent firm, which re-performed our work and affirmed our results.



What we found

- Although some districts obtained competitive rates on their general obligations bonds, districts as a whole could have saved $44.6 million to $79.4 million over five years by following best practices for issuing general obligation bonds.
- The state can help districts save money by providing guidance on how to sell bonds.



What we found

- Ninety-three percent of district debt was issued using a negotiated approach, most of which occurred without the assistance of an impartial financial advisor
- Seven percent of district debt was issued competitively, all of which occurred with the assistance of a financial advisor
- Negotiated sales were refinanced nearly three times more frequently than competitive sales during this five-year period



Best Practices

- Using independent financial advisors and keeping the underwriter and advisor roles separate
- Financial advisors can help districts select the best method to issue debt based on a thorough analysis of the credit rating, the financing features, the structure of the debt and other factors
- Financial advisors can inform districts about the interest rates they should pay



Recommendation

- We recommend the Office of the Superintendent of Public Instruction work with school districts, educational service districts and the Office of the State Treasurer to develop guidance and training that follow best practices to incur lower costs on bond sales.



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