# Bond Case Briefs

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## Are California School District GO Bonds Misunderstood?

California local governments have increasingly found themselves the subject of unfavorable press, with cities and school districts being the focus. We offered some perspective on cities facing fiscal distress in our Stockton: Omen or Outlier and California Tremors white papers and thought it would be helpful to explore school districts given the sizable cuts to education at the state level since the onset of the recession.

The most fundamental question of any municipal bond is its security pledge and how that pledge is paid. In the case of California School District general obligation (GO) bonds, debt service is repaid from a voter-approved, unlimited, dedicated, debt service property tax levy. This levy is collected by the County Treasurer, not the school district, and is distributed directly to the bond trustee — a lockbox flow of funds structure. The County Treasurer is required to levy an amount sufficient to meet debt service without limit as to rate or amount. Despite our confidence that school GO bonds will be paid, we also consider relative value since market prices are closely correlated with rating agency ratings. While school district fiscal health is important to consider, we do not believe budget stress will ultimately affect GO bond repayment, due to the flow of funds structure. As a result, reports indicating California school GO bond repayment is at risk, if state aid cuts continue, may be misguided.

It may be tempting to favor California school GO bonds over state GO debt since the California state constitution requires appropriation of education funds to local school districts first and state GO debt service appropriation second. However, we believe this approach is flawed because California school GO bonds are paid from a district's local tax base, not state aid. California school district GO bonds are a separate security from the State.

Read the white paper at:

https://www.columbiamanagement.com/content/columbia/pdf/CALIFORNIASCHOOLS.PDF

Ty Schoback, Senior Analyst, Tax-Exempt Fixed Income Research

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