West Contra Costa USD

General Obligation Bond Program
Refunding Information and Strategy Recommendation

Presentation to the Board of Education
May 15, 2013

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Refunding Policy

- Last month, the District approved a board policy regarding the refunding of outstanding bonds.
  - The District has a large bond program and is an active issuer of both new money and refunding bonds.
  - The District takes pride in its active management of its bond program and wishes to implement best practices that set the standard for California school district issuers.
  - District staff and the financing team had identified bond refunding as an area that would benefit from a more pro-active (and less reactive) approach.
  - A proposed policy was prepared, reviewed by District staff and the financing team, presented to the Board for a first reading on April 10th, and approved by the Board on April 24th.

Key Elements of the Policy

- The refunding policy emphasizes four key elements.
  - Provides clear definitions of relevant terms.
  - Describes the District's primary objectives in issuing refunding bonds.
  - Establishes minimum standards which future refundings must meet.
    - Refundings will generate a minimum net present value savings of $1 million.
    - Refundings will generate a net present value savings of 4% of refunding par for both current refundings and advance refundings.
    - For advance refundings, refundings will generate present value savings in excess of negative arbitrage.
    - Refundings will not extend the maximum term of the financing.
  - Defines a process for pro-actively reviewing both proposed refunding strategy and comprehensive refunding information with the Board on an annual basis.

Objectives of the Presentation

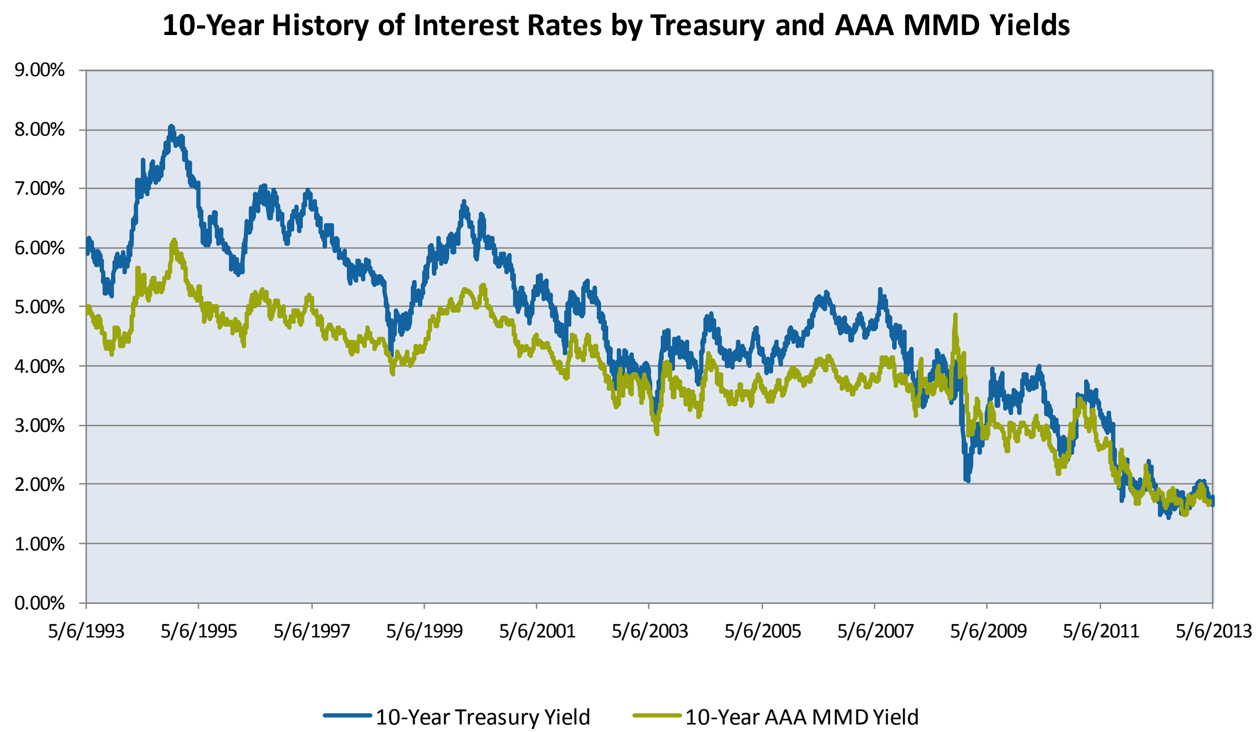
- Tonight's presentation will focus on four objectives.
  - To describe the current interest rate environment and discuss it in historical context.
  - To describe the current status and anticipated constraints of the District's bond program on a measure-by-measure basis.
  - To describe each of the individual series of bonds outstanding in connection with each measure from the standpoint of identifying opportunities and limitations with regard to refunding opportunities.
  - To propose a strategy for pursuing such refunding opportunities in the coming months.

Strategic Priorities

- The proposed strategy will reflect the following strategic priorities.
  - To be pro-active in taking advantage of the current low interest rate environment both to produce taxpayer savings and alleviate constraints in existing bond programs.
  - To be mindful of the District's need to retain flexibility to continue to manage constraints as they develop into the future.
  - To be aware of the ways in which taking advantage of current opportunities restricts future flexibility both on current refundings and advance refundings (though in different ways and to different degrees).
  - To be aware that low interest rate environments significantly increase the effectiveness of refunding transactions done for restructuring purposes but are not essential to their utility.

Interest Rates - 1

- By any number of measures interest rates remain at or near historic lows.



Interest Rates – 2

- In fact, as reflected by the MMD index, interest rates are significantly lower now than they were when the District refunded bonds on three recent occasions.

National AAA MMD Rates at time of Pricing (*)

Maturity	(5/10/13)	2012 Refunding (6/19/12)	2011 Refunding (8/10/11)	2009 Refunding (8/1/2009)
5-year	0.78%	0.79%	0.90%	1.70%
10-year	1.81%	1.86%	2.26%	2.99%
15-year	2.33%	2.46%	3.00%	3.66%
20-year	2.62%	2.81%	3.45%	4.13%
25-year	2.84%	3.09%	3.79%	4.58%
30-year	2.93%	3.15%	3.84%	4.64%

**California rates may be slightly higher than national rates.*

Preview of Conclusions

- The District should strongly consider refunding all remaining callable Series C Bonds under 2002 Measure D on a current basis.
- The District should consider leaving the Series A Bonds under 2005 Measure J out of any 2013 refunding or refunding only a portion of such bonds (in large part because such a refunding will be an advance refunding).
- Many of the District's bonds are not attractive refunding candidates because (1) they are recent refunding transactions themselves (and therefore issued at relatively low interest rates), (2) they have been issued under special circumstances with regard to federal subsidies, (3) they are non-callable, or (4) they require long escrow periods.
- Particularly as constraints remain, the District should continue to be mindful of maintaining flexibility to restructure its bond programs.

Advance Refundings

- The concept of advance refundings plays a significant role in these conclusions.
  - Bonds that are currently callable can be refunded without complication.
  - Bonds that are not callable until a future debt can be refunded today through a process called advance refunding.
  - In an advance refunding, refunding bond proceeds are deposited in an escrow account and invested in treasury securities until the future call date when they can be used to call bonds.
  - In today's market, "negative arbitrage" in these escrow accounts significantly limits the ability of advance refundings to produce present value savings.
  - In addition, federal tax law prohibits past advance refundings from being advance refunded again (one bite at the apple).

Call Features

- Refunding opportunities are best for bonds that are currently callable.
  - Ten year call protection on new bonds has been an industry standard for many years.
  - Bonds that are non-callable can be refunded for restructuring purposes but can never be refunded in a way that creates present value savings.
  - As we just discussed, in markets like today's, long call dates are a significant draw on the economics of advance refundings.
  - We should be aware of the ways that pursuing refundings today (on both a current and advance basis) will restrict our ability to refund bonds in the future because of the call feature on the new refunding bonds.
  - We should also be aware that an advance refunding done today will completely restrict these bonds from being refunded on a tax-exempt basis for the next ten years[1].

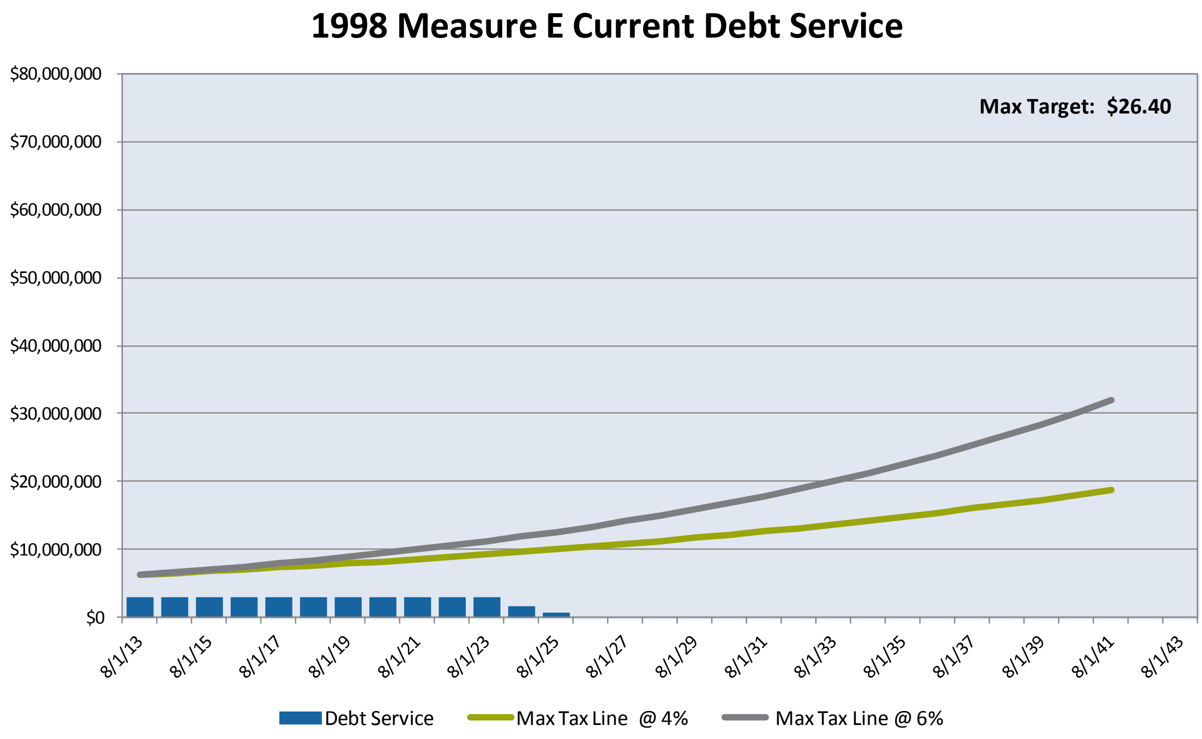
[1] Assuming the new refunding bonds will be sold with a ten year call provisions.

Taxable Refundings

- The finance team is not recommending that the District issue taxable bonds to refund otherwise non-refundable bonds at this time.
  - Some California school districts have recently refunded bonds that were otherwise non-refundable (primarily advance refundings that are not currently callable) with taxable bonds.
  - Taxable bonds are used because such bonds, if issued on a tax-exempt basis, would be issued in violation of federal tax code.
  - Taxable bonds are typically issued at rates that are 1.15x to 1.55x higher than for comparably rated tax-exempt bonds of similar maturity.
  - Given that (1) it is unclear that such a structure will provide relative economic benefit; (2) issuing bonds on a taxable basis does not solve any negative arbitrage issues; (3) that such a structure will certainly reduce program flexibility; and (4) that such "creative" solutions have not been a good match for this District's high profile bond program in the past, the financing team is recommending against issuing taxable refunding bonds at this time.

1998 Measure E

- 1998 Measure E is an unconstrained program.



Note: The $26.40 per $100,000 assessed value maximum tax rate target shown is based on the estimated maximum disclosed in the tax rate statement. The 1998 Measure E bond election was not held under Proposition 39.

1998 Measure E

- Given that all bonds issued in connection with 1998 Measure E are now non-callable, there are no attractive refunding opportunities with regard to bonds issued in connection with 1998 Measure E.

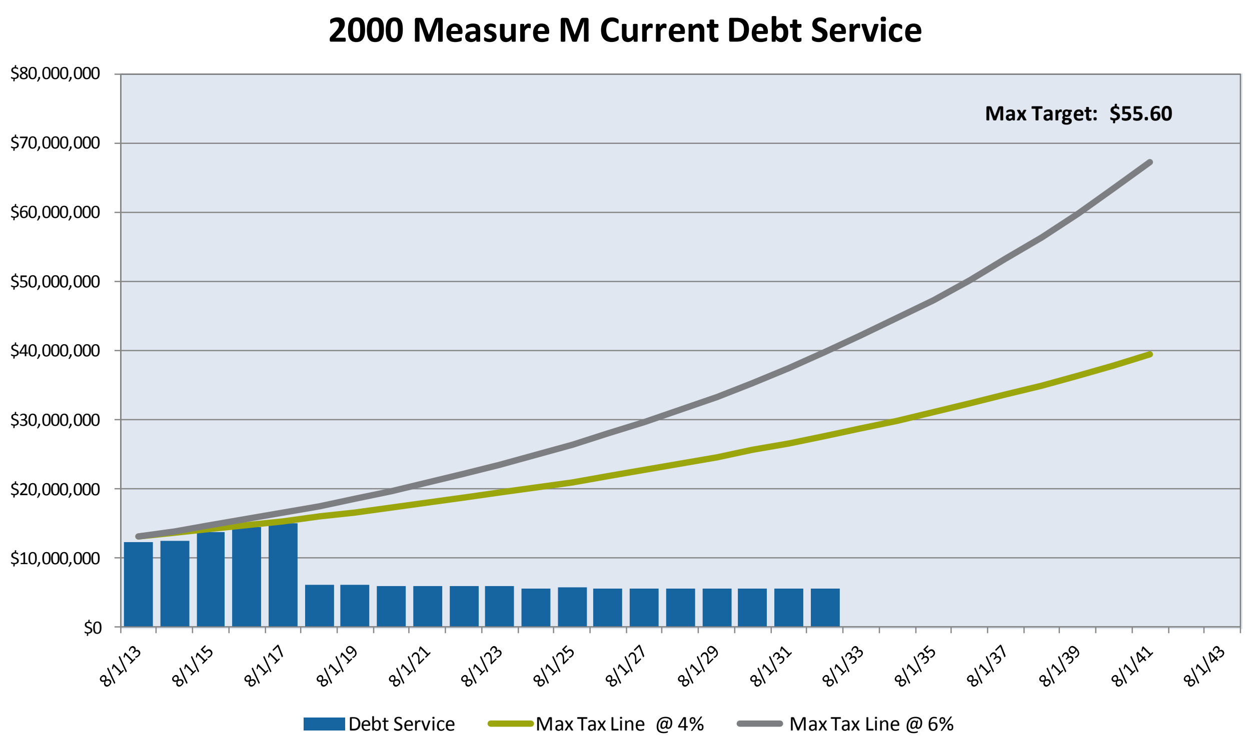
West Contra Costa Unified School District

1998 Measure E Authorization

Dated Date	Series	Original Par Amount	Outstanding Par Amount	Call Feature	Comment
11/6/2001	2001 GO Refunding Bonds, Series A	$28,610,000	$17,335,000	Non-Callable	
11/6/2001	2001 GO Refunding Bonds, Series B	10,255,000	6,415,000	Non-Callable	
	Total	$38,865,000	$23,750,000		

2000 Measure M

- At this point, it seems reasonably likely that tax rates with regard to 2000 Measure M will remain below targeted maximums without further intervention. In other words, the program is unlikely to be constrained.



Note: The $55.60 per $100,000 assessed value maximum tax rate target shown is based on the estimated maximum disclosed in the tax rate statement. The 2000 Measure M bond election was not held under Proposition 39.

2000 Measure M

- The likelihood to remain below targeted maximums is dependent on future tax base growth and may make use of available tax rate stabilization funds.

Bond Year Ending	Gross Debt Service	Less Tax Rate Stabilization Funding [1]	Less Other Required Adjustments	Net Debt Service	Projected Tax Rate [2]	
8/1/13						
8/1/14	12,538,350	0	0	12,538,350	51.00	[2]
8/1/15	13,874,150	0	0	13,874,150	54.35	[2]
8/1/16	14,537,550	0	0	14,537,550	54.76	[2]
8/1/17	15,092,213	0	0	15,092,213	54.66	[2]
8/1/18	6,146,463	0	0	6,146,463	21.41	
8/1/19	6,112,213	0	0	6,112,213	20.47	
		0	0			

[1] Based on information provided by the County, we are estimated that $3,050,000 in tax rate stabilization funds will be available subsequent to August 1, 2013.

[2] Projected tax rate assuming 4% annual tax base growth. The District may request that the County levy taxes at this estimated maximum to provide additional tax rate stabilization funding.

2000 Measure M

- From a call feature perspective, there appears to be no attractive refunding opportunities with regard to bonds issued under 2000 Measure M.

West Contra Costa Unified School District

2000 Measure M Authorization

Delivery Date	Series	Original Par Amount	Outstanding Par Amount	Call Feature	Comment
9/3/2009	2009 Refunding (Portion)	$47,215,000	$35,710,000	8/1/2019 at 100	Portion cannot be adv ref.
8/25/2011	2011 Refunding (Portion)	33,960,000	31,225,000	8/1/2021 at 100	
7/10/2012	2012 Refunding (Portion)	40,370,000	40,370,000	8/1/2022 at 100	Portion cannot be adv ref.
	Total	$121,545,000	$107,305,000		

2000 Measure M

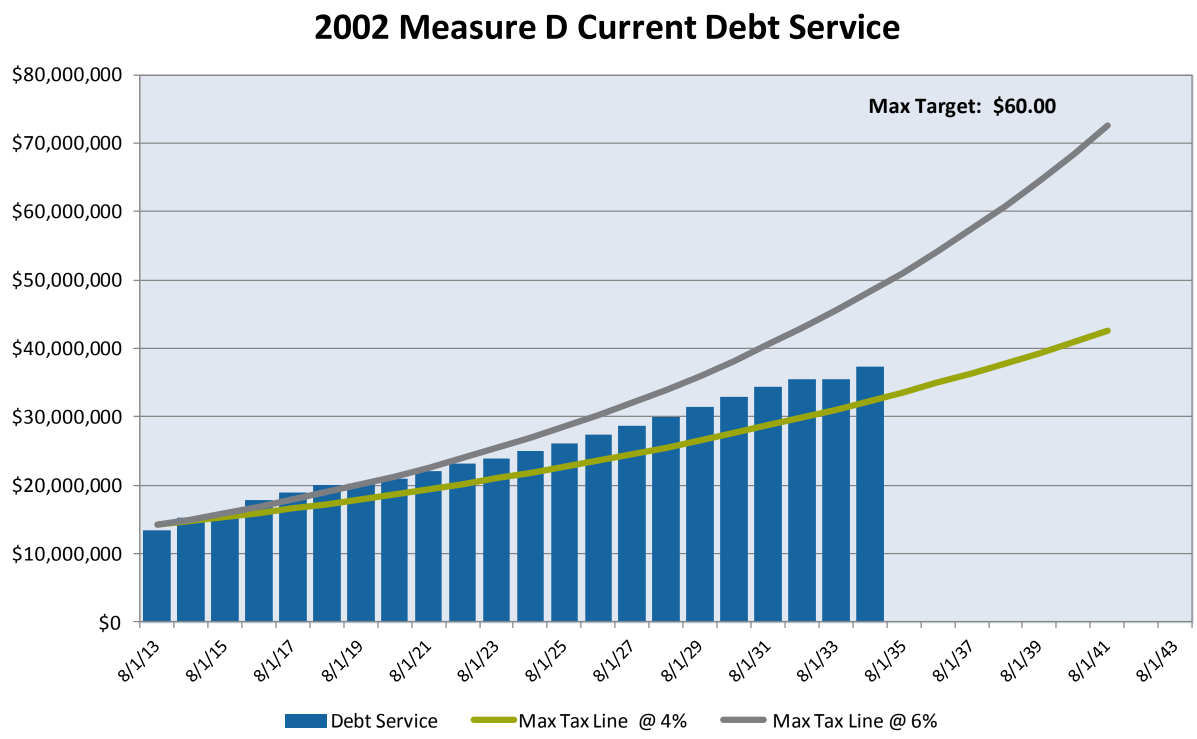
- A series-by-series analysis confirms this conclusion.

Delivery Date	Series	Amount Outstanding [1]	Initial Call Date	Present Value Savings [2]	Negative Arbitrage [2]
9/3/09	2009 Refunding (Portion)	$35,710,000	8/1/19	($1,530,000)	($1,400,000)
8/25/11	2011 Refunding (Portion)	31,225,000	8/1/21	(2,180,000)	(1,860,000)
7/10/12	2012 Refunding (Portion)	40,370,000	8/1/22	(6,700,000)	(5,920,000)

[1] Amount outstanding as of today for the portion of each bond series attributable to 2000 Measure M.
2] Present value savings and negative arbitrage levels are based on a DBC monitor analysis assuming proportionate savings and prepared by the financing team. Other sets of assumptions and other structures will generate different results.

2002 Measure D

- 2002 Measure D remains a significantly constrained program.



Note: The $60.00 per $100,000 assessed value maximum tax rate target shown is based on the estimated maximum disclosed in the tax rate statement. In addition, the 2002 Measure D bond election was held under Proposition 39, though no bonds remain authorized but unissued as of this date.

2002 Measure D

- From a call feature perspective, the Series C Bonds (CIBs) appear to be good refunding candidates.

West Contra Costa Unified School District

2002 Measure D Authorization

Delivery Date	Series	Original Par Amount	Outstanding Par Amount	Call Feature	Comment
8/11/2004	Series C (CIBs)	$40,000,000	$25,545,000	8/1/2013 at 101	
8/11/2004	Series C (CABs)	29,999,377	27,523,014	Non-Callable	
10/19/2005	Series D	99,998,106	90,817,414	Non-Callable	
8/25/2011	2011 Refunding (Portion)	51,605,000	49,915,000	8/1/2021 at 100	
7/10/2012	2012 Refunding (Portion)	57,830,000	57,830,000	8/1/2022 at 100	Portion cannot be adv ref.
	Total	$279,432,483	$251,630,428		

2002 Measure D

- A series-by-series analysis confirms this conclusion.

Delivery Date	Series	Amount Outstanding[1]	Initial Call Date	Present Value Savings [1]	Negative Arbitrage [2]
8/11/04	Series C (CIBs)	$25,545,000	8/1/13	$2,485,000	$0
8/11/04	Series C (CABs)	27,523,014	Non-Callable	NA	NA
10/19/05	Series D	90,817,414	Non-Callable	NA	NA
8/25/11	2011 Refunding (Portion)	49,915,000	8/1/21	(3,555,000)	(3,040,000)
7/10/12	2012 Refunding (Portion)	57,830,000	8/1/22	(9,645,000)	(8,515,000)

[1] Amount outstanding as of today for the portion of each bond series attributable to 2002 Measure D.

[2] Present value savings and negative arbitrage levels are based on a DBC Monitor analysis assuming proportionate savings and prepared by the financing team. Other sets of assumptions and other structures will generate different results.

2002 Measure D

- By reducing payments in the early years through refunding (and assuming tax base growth at 4% per year and availability of tax rate stabilization funds), tax rates might be maintained below targeted levels through tax year 2016-17.

Bond Year Ending	Current Gross Debt Service	Less Refunding Savings [1]	Less Tax Rate Stabilization Funding [2]	Less Other Required Adjustments [3]	Net Debt Service	Projected Tax Rate
8/1/13						
8/1/14	$15,299,785	($573,385)	$0	$0	$14,726,400	60.00
8/1/15	15,987,635	(672,179)	0	0	15,315,456	60.00
8/1/16	17,743,935	(1,168,055)	(647,806)	0	15,928,074	60.00
8/1/17	18,994,650	0	(2,330,463)	(98,990)	16,565,197	60.00
8/1/18	20,004,188	0	0	(2,776,382)	17,227,806	60.00
8/1/19	20,306,450	0	0	(2,389,533)	17,916,917	60.00
		$2,413,619	$2,978,269	$5,264,905		

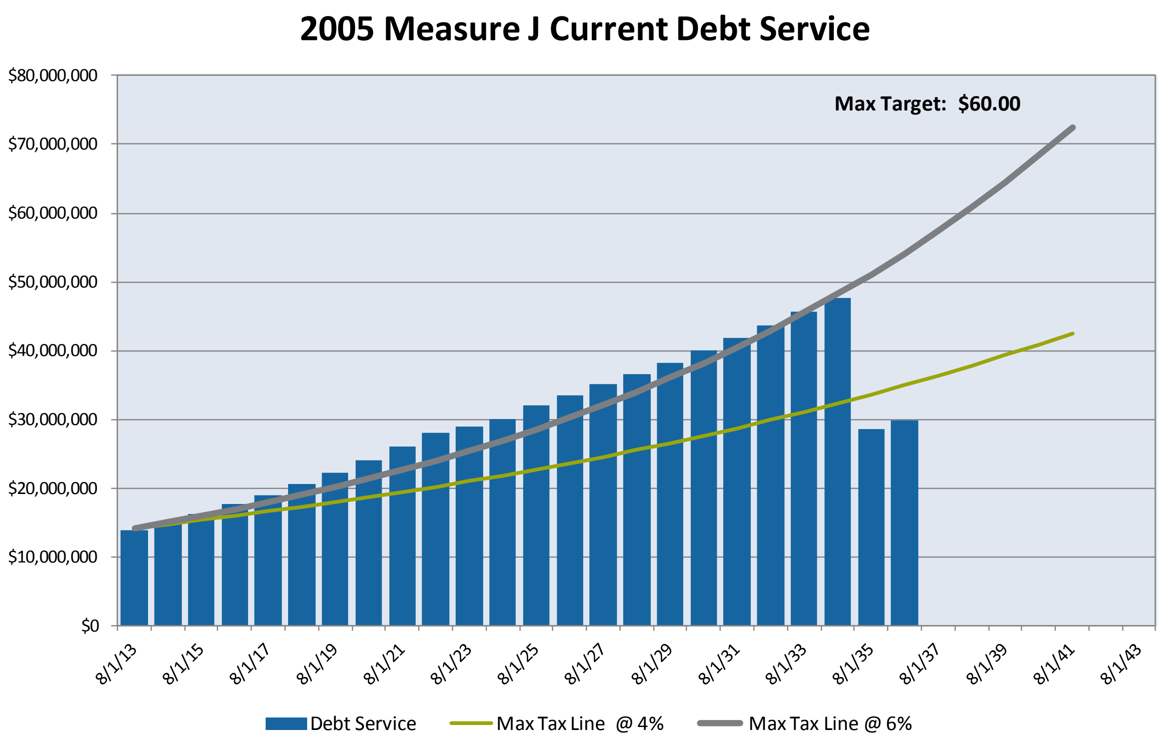
[1] Refunding savings are estimated based on a present value savings of $2,235,000 (or 90% of current projection).

[2] Based on information provided by the County, we are estimating that $3,305,000 in tax rate stabilization funds will be available subsequent to August 1, 2013 (90% of which are shown here).

[3] Additional adjustments (from tax base growth, additional tax rate stabilization, refunding savings, application of future bond proceeds, or other sources) will be required to maintain tax rates below targeted levels.

2005 Measure J

- 2005 Measure J remains the District's most significantly constrained program.



Note: The $60.00 per $100,000 assessed value maximum tax rate target shown is based on the estimated maximum disclosed in the tax rate statement. In addition, the 2005 Measure J bond election was held under Proposition 39, and future bonds must be issued within the projected $60 maximum statutory requirement.

2005 Measure J

- Given substantial balances of tax rate stabilization funds, tax rates might be maintained below targeted levels through tax year 2016-17 even without including 2005 Measure J bonds in the 2013 refunding.

Bond Year Ending	Gross Debt Service	Less Tax Rate Stabilization Funding [1]	Less Other Required Adjustments [2]	Net Debt Service	Projected Tax Rate
8/1/13					
8/1/14	$15,017,043	($290,643)	$0	$14,726,400	60.00
8/1/15	16,238,643	(923,187)	0	15,315,456	60.00
8/1/16	17,579,618	(1,651,544)	0	15,928,074	60.00
8/1/17	19,009,306	(1,903,303)	(540,805)	16,565,197	60.00
8/1/18	20,561,206	0	(3,333,400)	17,227,805	60.00
8/1/19	22,230,306	0	(4,313,388)	17,916,917	60.00
		$4,766,677	$8,187,593		

[1] Based on information provided by the County, we are estimating that $5,295,000 in tax rate stabilization funds will be available subsequent to August 1, 2013 (90% of which is shown here).

[2] Additional adjustments (from tax base growth, additional tax rate stabilization, refunding savings, application of future bond proceeds, or other sources) will be required to maintain tax rates below targeted levels.

2005 Measure J

- Still, from a call feature perspective, the Series A Bonds appear to be good refunding candidates.

West Contra Costa Unified School District

2005 Measure J Authorization

Delivery Date	Series	Original Par Amount	Outstanding Par Amount	Call Feature	Comment
5/17/2006	Series A	$70,000,000	$61,280,000	8/1/2014 at 101	
7/15/2008	Series B	120,000,000	115,025,000	8/1/2018 at 100	Only for bonds maturing after 2028.
9/3/2009	Series C-1	52,084,759	52,084,759	Non-Callable	
9/3/2009	Series C-2	52,825,000	52,825,000	8/1/2019 at 100	Also subject to extraordinary call.
9/3/2009	2009 Refunding (Portion)	10,645,000	10,645,000	8/1/2019 at 100	Portion cannot be adv ref.
6/24/2010	Series D-1	25,000,000	25,000,000	Non-Callable	Subject to extraordinary call.
6/24/2010	Series D-2	2,499,949	2,499,949	Non-Callable	
	Total	$333,054,709	$319,359,709		

2005 Measure J

- A series-by-series analysis confirms this conclusion.

Delivery Date	Series	Amount Outstanding [1]	Initial Call Date	Present Value Savings [2]	Negative Arbitrage [2]
5/17/06	Series A	$61,280,000	8/1/14	$4,185,000	($1,300,000)
7/15/08	Series B	115,025,000	8/1/18	(12,415,000)	(14,770,000)
9/3/09	Series C-1	52,084,759	Non-Callable	NA	NA
9/3/09	Series C-2	52,825,000	8/1/19 (BABs)	NA	NA
9/3/09	2009 Refunding (Portion)	10,645,000	8/1/19	(460,000)	(415,000)
6/24/10	Series D-1	25,000,000	Non-Callable	NA	NA
6/24/10	Series D-2	2,499,949	Non-Callable	NA	NA

[1] Amount outstanding as of today for the portion of each series of bonds attributable to 2005 Measure J.
[2] Present value savings and negative arbitrage levels are based on a DBC Monitor analysis assuming proportionate savings and prepared by the financing team. Other sets of assumptions and other structures will generate different results.

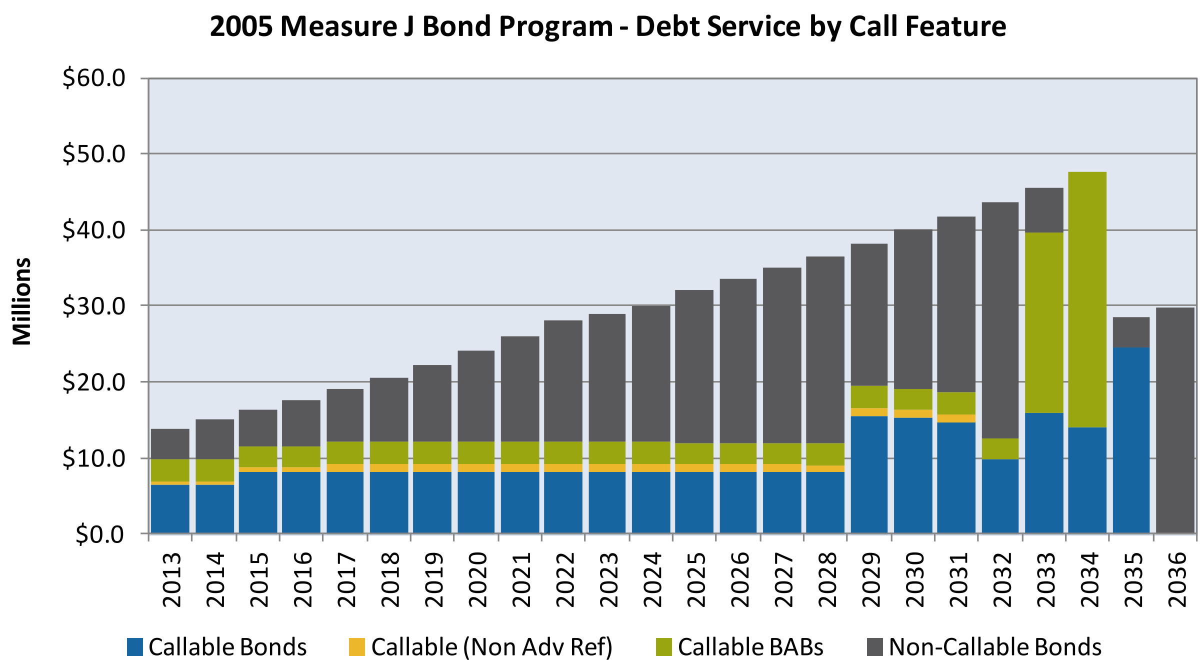
2005 Measure J

- There are a number of reasons, however, not to include these bonds (or at least not all of these bonds) in the contemplated refunding.
  - Absent the return of robust tax base growth, 2005 Measure J will remain a constrained program for the foreseeable future.
  - An advance refunding of these bonds will make them un-refundable on a tax-exempt basis until 2023[1].
  - The District has few other refunding opportunities in connection with this 2005 Measure J.
    - Series C-1, Series D-1, and Series D-2 bonds are non-callable (or essentially non-callable).
    - A significant portion of the 2009 Refunding Bonds are not advance refundable before August 1, 2019.
    - The balance of the 2009 Refunding Bonds, the Series B Bonds, and the Series C-2 Bonds have significant remaining call protection.
  - In other words, 2005 Measure J is a significantly constrained program and, once the Series A Bonds are refunded, there will be little opportunity for further refunding until 2018 and 2019.

[1] Or whatever initial call date is established for the refunding bonds.

2005 Measure J

- The limitations to the District's flexibility is demonstrated in the following chart.

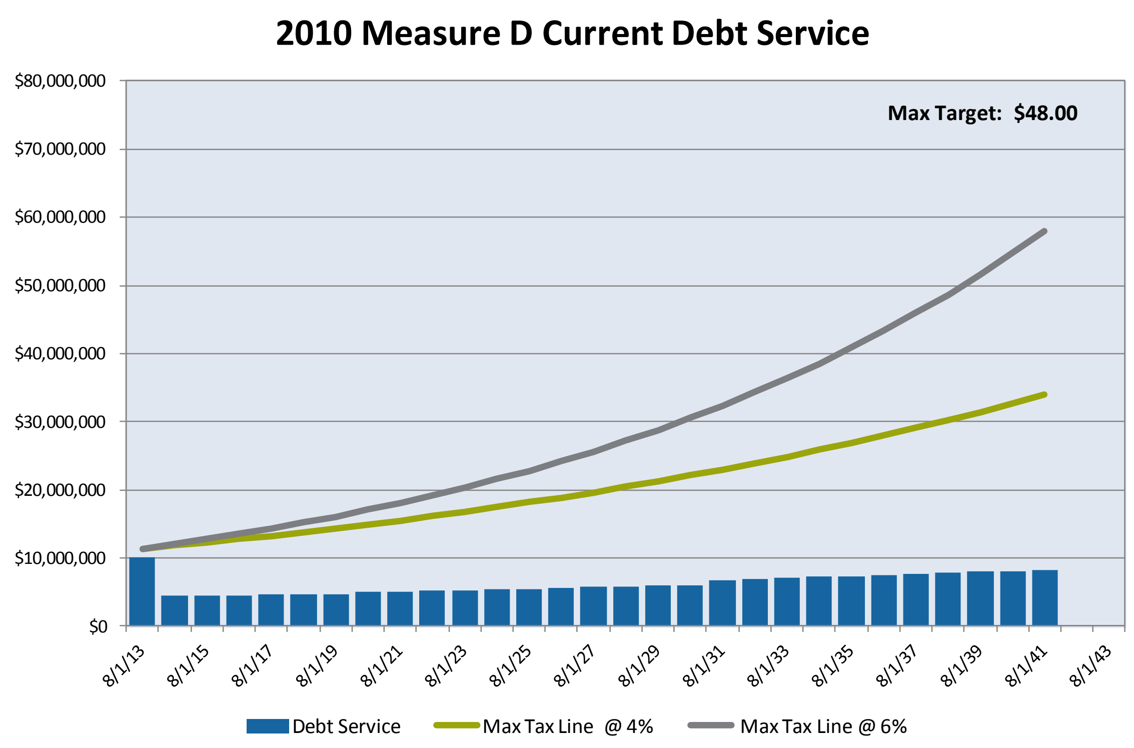


2005 Measure J

- It would not be unreasonable to pursue any of the following options (listed in order of financing team recommendation).
  - Leave all of the 2005 Measure J Series A Bonds out of this contemplated refunding.
  - Include a pro-rata portion of the 2005 Measure J Series A Bonds in the contemplated refunding.
  - Include selected maturities of the 2005 Measure J Series A Bonds in the contemplated refunding.
  - Include all of the 2005 Measure J Series A Bonds in the contemplated refunding.

2010 Measure D

- 2010 Measure D is clearly an unconstrained program.



Note: The $48.00 per $100,000 assessed value maximum tax rate target shown is based on the estimated maximum disclosed in the tax rate statement. In addition, the 2010 Measure D bond election was held under Proposition 39, and future bonds must be issued within the projected $60.00 maximum statutory requirement.

2010 Measure D

- From a call feature perspective, the Series A Bonds (the only bonds outstanding under this authorization) are not good refunding candidates.

West Contra Costa Unified School District
2010 Measure D Authorization

Delivery Date	Series	Original Par Amount	Outstanding Par Amount	Call Feature	Comment
11/22/2011	Series A	$79,000,000	$72,385,000	8/1/2021 at 100	
11/22/2011	Series A-1	21,000,000	21,000,000	Non-Callable	Subject to extraordinary call.
	Total	$100,000,000	$93,385,000		

2010 Measure D

- A series-by-series analysis confirms this conclusion.

Delivery Date	Series	Amount Outstanding	Initial Call Date	Present Value Savings [1]	Negative Arbitrage [1]
5/17/06	Series A	$72,385,000	8/1/21	($12,355,000)	($11,960,000)
7/15/08	Series A-1	$21,000,000	Non-Callable	N/A	N/A

[1] Present value savings and negative arbitrage levels are based on a DBC Monitor analysis assuming proportionate savings and prepared by the financing team. Other sets of assumptions and other structures will generate different results.

Maturity-by-Maturity Analysis

- Largely as a result of longer call dates, no individual maturity of an issue outside of 2002 Series C or 2005 Series A are reported to be good refunding candidates.
  - Outside of the two series previously discussed, no other District bonds are callable before August 1, 2018.
  - With five year investment rates at 0.60%, negative arbitrage creates a significant draw on refunding results for all maturities of all bonds with long call dates.
  - In the absence of negative arbitrage, the callable maturities of the 2005 Series B Bonds would be attractive refunding candidates.

Review of Conclusions

- The District should strongly consider refunding all remaining callable Series C Bonds under 2002 Measure D on a current basis.
- The District should consider leaving the Series A Bonds under 2005 Measure J out of any 2013 refunding or refunding only a portion of such bonds (in large part because such a refunding will be an advance refunding).
- Many of the District's bonds are not attractive refunding candidates because (1) they are recent refunding transactions themselves (and therefore issued at relatively low interest rates), (2) they have been issued under special circumstances with regard to federal subsidies, (3) they are non-callable, or (4) they require long escrow periods.
- Particularly as constraints remain, the District should continue to be mindful of maintaining flexibility to restructure its bond programs.

Next Steps

- The refunding information is being presented to the Board of Education tonight for information and comment.
  - The presentation of materials is consistent with the bond refunding policy approved by the Board of Education last month.
  - District staff is seeking the Board of Education's input on the recommendation to pursue a refunding of the District's remaining 2002 Series C Bonds and none or only a portion of the District's 2005 Series A Bonds in connection with the sale of the 2013 new money bonds later this year.
  - This material was also presented to the Facilities Subcommittee last night for input and comment.