West Contra Costa USD

General Obligation Bond Program Update and Sizing of Series 2013 Bonds

Presentation to the Board of Education

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Summary of Tonight's Presentation

- Tonight's presentation is designed to accomplish four objectives.
  - Provide a current status report on the District.
  - Describe the existing proposed financing plan and the context under which such plan was developed.
  - Propose a strategy with regard to determining the appropriate size of the 2013 bonds and potential sizing for the 2015 bonds and future bonds.
  - Established a low and high parameters for the sizing of the next two series of bonds.

Bond Program Status

- The bond program is moving ahead largely as planned.
  - 2012 Measure E was designed to allow the District's re-envisioned bond program to proceed at an accelerated pace (and with less reliance on deferred debt service structures), and the measure was approved by voters in November.
  - The District knew that issuance of any bonds under 2012 Measure E would require a waiver of the 2.50% statutory bonding capacity limitation, and the waiver was achieved last month.
  - At this point, the District is turning attention to establishing the sizing of the 2013 bonds in preparation for a sale in the third quarter (or early fourth quarter).

Waiver Achieved

- Last month's approval of the District's waiver request has provided the District with significant flexibility to continue to implement its bond program.
  - The State Board of Education approved the District's request to waive the statutory bonding capacity limitation subject to conditions.
  - The conditions included limitations as to the bonds that the waiver applied to (2012 Measure E[1]), the amount of bonds that could be outstanding under the waiver (not more than 5% of the then-current assessed values), and the period of time for which the waiver would apply (through 12/31/25).
  - Although the 5% limitation does not allow for the issuance of all authorized but unissued bonds today, continued tax base growth and repayment of bonds are expected to allow for the issuance of all bonds under the proposed financing plan (with room to spare).
  - Under current projections, the amount of bonds outstanding at any given time is not expected to exceed 4% of the then-current assessed values.

[1] The State Board of Education typically limits a bonding capacity waiver to a specific bond authorization. The District has previously achieved waivers in connection with 2005 Measure J and 2010 Measure D.

Future of the Bond Program

- It is continually important that the District continue to manage its bond program in a way that maintains the public trust.
    - Voters have been generous with their votes and their financial commitment to this program.
    - The District has run the program in a way that has satisfied the public.
    - The District's bond program has been under a significant amount of scrutiny, especially so in recent years.
    - A number of local agencies, community organizations, and public officials stood with the District in connection with its recent waiver effort.

Program History - Pre-Financial Crisis

- Prior to the financial crisis of 2008, the District adopted bond management practices that seemed appropriate given the District's history of strong tax base growth.
  - All past and current programs have been based on the assumption of long-term tax base growth.
  - Past programs were often accelerated (with increasing amounts of deferred debt service) when strong tax base growth suggested an increase in long-term revenues (sometimes by issuing CABs).
  - The District adopted a program funding model (as opposed to a project funding model) under which new series of bonds were issued to replenish the bond fund as necessary and projects commonly straddled bond series.
  - Through such practices, the District was able to fund projects sooner than originally planned and at lower construction costs than would have been expected.

Program History - Financial Crisis of 2008

- The world-wide financial crisis of 2008 nearly brought the District's bond program to a halt.
  - Between tax years 2009-10 and 2010-11, the District's tax base declined by nearly 20%.
  - Such declines reduced both immediate bond program revenues and projected long-term revenues.
  - Such tax base decreases created tax rate pressures on prior bond programs and significantly constrained new bond issuance under 2005 Measure J.
  - The District continues to address tax rate issues resulting from the financial crisis on a year-to-year basis.
  - The District issued a final series of bonds under 2005 Measure J in the summer of 2009[1] in an effort to secure a soft-landing for the program, and began an effort to re-envision its overall bond program to suit the new reality.

[1] From a financing plan perspective, the 2010 Series D Bonds were in many ways an extension of the summer 2009 issue (largely because of delays in implementing the Qualified School Construction Bond program in California).

Re-Envisioning the Bond Program

- Rather than shutting down the program, the District re-envisioned the bond program so that it could continue on a more sustainable basis.
    - Rather than issue such bonds with increasingly aggressive assumptions and increasingly deferred debt structures, the District chose to suspend new bond issuance under 2005 Measure J with more than $77.6 million remaining to be issued.
    - The District sought a new authorization which was approved by 62.62% of voters in June 2010.
    - 2010 Measure D was based on a financing plan that called for bonds to be issued in alternate years from 2011 through 2019 in bi-annual amounts of approximately $76 million.
    - In part because of concerns about the slowing pace of the program, the District sought a second new authorization which was approved by 64.39% of voters in November 2012.
    - 2012 Measure E was based on a financing plan that called for bonds to be issued, along with remaining 2010 Measure D bonds, from 2013 through 2021 in bi-annual amounts of approximately $125 million.

Current Program Status

- At this point, the District is considering how to best employ its considerable assets to addressing its remaining facility needs.
  - The District has nearly $718 million in remaining authorization ($77.6 million under 2005 Measure J, $280 million under 2010 Measure D, and $360 million under 2012 Measure E).
  - The District has an existing plan to issue such bonds in alternate years from 2013 through 2023 in bi-annual amounts of $125 million, but has broad flexibility to adjust such plan[1].
  - The District has recently achieved a bonding capacity waiver from the State Board of Education that would allow it to issue up to $465 million in bonds today absent any additional constraints as are mentioned below.
  - The District is also constrained by Proposition 39 tax rate limitations, target tax rate limitations of $48 per $100,000 of assessed value on the two most recent measures, limitations based on the District's sense of prudent debt management practices, and ongoing concerns related to tax rate management of the 2002 Measure D and 2005 Measure J bond programs.

[1] Recent discussions have focused on the possibility of decreasing the size of the 2013 bonds and increasing the size (perhaps significantly) of the 2015 bonds.

Proposed Bond Issuance

- The current financing plan calls for bonds to be issued in alternate years through 2023.

Original Proposed Financing Plan [1]

	2005 Measure J	2010 Measure D	2012 Measure E	Total
Issued	**$322,409,709**	**$100,000,000**	**$0**	**$422,409,709**
2013[1]	0	60,000,000	65,000,000	125,000,000
2015[1]	0	60,000,000	65,000,000	125,000,000
2017	0	60,000,000	65,000,000	125,000,000
2019	0	60,000,000	65,000,000	125,000,000
2021	0	40,000,000	85,000,000	125,000,000
2023	77,590,292	0	15,000,000	92,590,292
Total	**$400,000,000**	**$380,000,000**	**$360,000,000**	**$1,140,000,000**

[1] The District has broad flexibility to adjust the original financing plan. Recent discussions have focused on the possibility of decreasing the size of the 2013 bonds and increasing the size (perhaps significantly) of the 2015 bonds.

Sizing Decisions

- In a long-term bond program, sizing decisions are typically re-evaluated in connection with the sale of each series of bonds.
  - New information emerges regarding program objectives, project needs, project costs, tax base growth, and interest rates.
  - Priorities can change based on a variety of factors.
  - Although sizing decisions typically maintain the basic structure of the original financing plan, significant re-envisioning can sometime occur.

Recommended Framework

- The financing team recommends that the District consider the sizing for the Series 2013 bonds in light of the following funding needs.
  - The District will need to provide funding to complete all projects that are currently nearing completion.
  - The District will need to evaluate the costs of all projects that now getting underway, provide funding for at least two years of cash flow needs for these projects, and be aware that funds to complete these projects will need to come from Series 2015 proceeds.
  - The District will need to consider other high priority projects and evaluate where they fit into the overall financing plan.

Projects Nearing Completion

- The District has a number of projects that are well underway and scheduled for completion in the near future.

Project	Scheduled Completion
Ohlone Elementary - phases I and II	Second Quarter 2013
De Anza High School - replacement campus	Third Quarter 2013
Nystrom Elementary - abatement	Fourth Quarter 2013
Peres Elementary - modernization	First Quarter 2014
De Anza High School - phase II	Second Quarter 2015
Leadership / Gompers - replacement campus	Fourth Quarter 2015

Projects Getting Underway

- Other projects are just getting underway and needing funding from the next series of bonds.

Project	Scheduled Start Date	Potential Completion
Technology Projects	First Quarter 2013	Fourth Quarter 2015
Portola Middle School - replacement campus	Second Quarter 2013	Fourth Quarter 2015
El Cerrito High School - stadium	Third Quarter 2013	Third Quarter 2014
Kennedy High School - swim center	Third Quarter 2013	Fourth Quarter 2014
Coronado Elementary - replacement campus	Third Quarter 2013	Third Quarter 2015
Kennedy High School - science building	Third Quarter 2013	Fourth Quarter 2015
Pinole Valley High School - replacement campus	Third Quarter 2013	Third Quarter 2018
Nystrom Elementary - modernization	First Quarter 2014	Second Quarter 2016
Ohlone Elementary - phases III and IV	Third Quarter 2014	Second Quarter 2017

Future Projects

- Additional planning is needed before other high priority projects can get underway.

Master-Planned Projects	Additional Projects
Fairmount Elementary	Cameron Elementary
Hercules Middle/High	Lake Elementary
Highland Elementary	Olinda Elementry
Montalvin Elementary	Shannon Elementary
Richmond High School	Riverside Elementary
Stege Elementary	
Valley View Elementary	
Wilson Elementary	

Sizing the Series 2013 Bonds

- From a bond sizing perspective, the following questions should guide the Board's consideration:
  - How much Series 2013 Bond proceeds (along with cash currently on hand) will be required to completely fund projects nearing completion.
  - How much will it cost to fund projects getting underway and how much of such costs will be funded with Series 2013 Bond proceeds.
  - How will the District fund costs associated with projects getting underway that will not be funded with Series 2013 Bond proceeds and how reliable are such sources.
  - What is the District's long-term strategy regarding future projects and what factors are most important in developing such strategy.

Alternative One

- To the extent the District wishes to stay the course, it might make sense to issue fewer bonds in 2013 and to issue more bonds in 2015.
  - Due primarily to the receipt of State matching funds, the District has a significant amount of cash on hand.
  - Projects requiring funding from this series will not be completed within two years and can receive additional funding from the Series 2015 bonds.
  - The fewer bonds that the District issues in 2013, the more repayment capacity is retained for future years.
  - It seems possible that strong tax base growth over the next several years might allow for significant acceleration of the program beginning in 2015.
  - The District should be aware that such a strategy represents something of a return to the program funding model that proved problematic just a few years ago.

Max-Out Strategy (no CABs)

- To the extent the District wishes to accelerate the program, the financing team recommends a maximum issue amount of $380 million between the 2013 and 2015 issuances.
  - Such sizing would consume all projected available revenues between now and 2045 accessible through the issuance of current interest bonds.
  - After such issuances, the District's bond program would need to pause pending the return of sustained robust tax base growth.
  - The max-out strategy creates a challenge in terms of the District's ability to access certain projected future revenues (particularly between 2046 and 2053).
  - Such challenge might be met by setting some existing authorization aside in favor of another new authorization.
  - A willingness to issue capital appreciation bonds or to exceed the current target maximum tax rate of $48 per $100,000 of assessed value would also provide additional proceeds and/or flexibility under this strategy.

Potential to Make Adjustments

- The District's decision regarding the sizing of the 2013 bond issuance need not rule out either the "stay-the-course" or the "max-out" strategy in the intermediate term.
  - The structure of a 2013 bond issue in the contemplated range would not be materially different whether the District was contemplating a similarly sized issue in 2015 or a much larger issue.
  - The District does not commit itself to program acceleration until it breaks ground on a new project or re-locates existing students.
  - What is critical is that the District is secure in how it will access funding at the time it makes such commitment.
  - It is possible we will learn something new about future tax base growth in the District between now and 2015.