West Contra Costa USD

Series 2013 Bonds

Presentation to the Board of Education

September 11, 2013

KNN public finance

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A Division of Zions First National Bank

Purpose of the Presentation

- Tonight's presentation will cover three primary objectives.
  - Describe financing plan for the Series 2013 Bonds (which will be known for legal purposes as the Election of 2010, Series B Bonds and the Election of 2012, Series A Bonds).
  - Describe the impact of the recent increase in interest rates on the financing plan.
  - Provide context for how the financing plan fits within the District's broader bond program.

Series 2013 Bonds

- The District is moving forward on the planned issuance of the Series 2013 Bonds.
  - The general contours of the financing plan has been a work in progress over the past several years.
  - Communication between facilities and finance is as strong as it has been.
  - The rating and investor outreach strategies have been developed and fine tuned.
  - The bottom line is that the bond issuance process itself has become more routine as the communication infrastructure has improved.
  - Key Dates:
    - Bond approval: Wednesday, September 25th
    - Sale of bonds: Thursday, October 17th
    - Bond closing: Thursday, October 31st

Series 2013 Bonds

- The issuance of the Series 2013 Bonds concludes another eventful year for the District's bond program.
  - Decision to place 2012 Measure E on the ballot, voter approval, and application for bonding capacity waiver.
  - Capital appreciation bond crisis and AB 182.
  - Ongoing discussions regarding timing, sizing, and structure of Series 2013 Bonds and of remaining authorized but unissued bonds.
  - Unexpected decrease in the tax base value in 2013-14.

Sizing

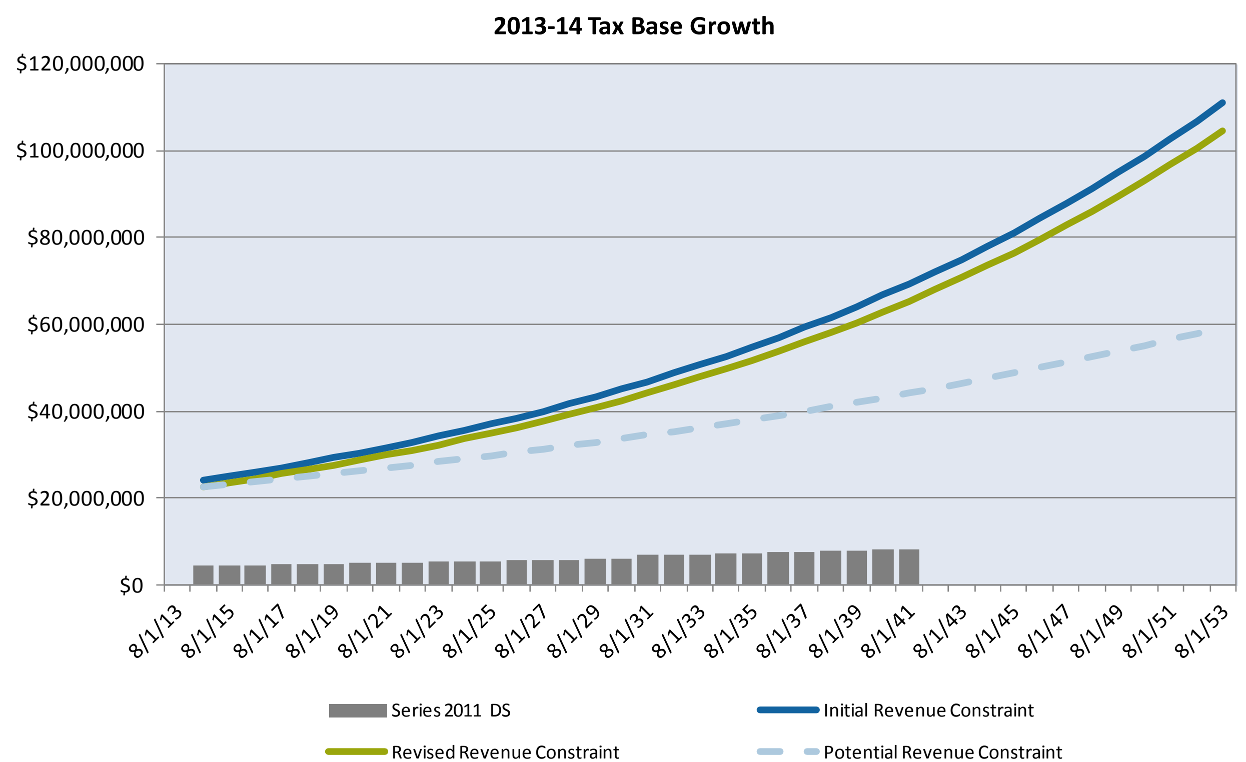
- The resolution will call for a not-to-exceed financing size of $125 million.
  - The original financing plan developed in connection with 2012 Measure E called for the District to issue $125 million of bonds in alternate years from 2013 through 2021 (with a final, smaller issue in 2023).
  - The District has been able to move quickly on projects and there was some hope that this schedule could be significantly accelerated with upsized issues in both 2013 and 2015 (provided strong tax base growth).
  - With the unexpected decrease in tax base growth in 2013-14, the financing team has set aside hopes of accelerating the schedule for the time being.

Projects

- The financing size will allow the District to complete certain projects that are nearing completion and begin funding for certain projects just getting underway (including the Pinole Valley High School project).
  - Projects nearing completion: De Anza HS, and Gompers/LPS.
  - Projects getting underway: Pinole Valley HS, Portola MS, El Cerrito Stadium, Nystrom, Ohlone, Kennedy Science Wing, Richmond Swim Center.
  - Additional technology funding is already underway.

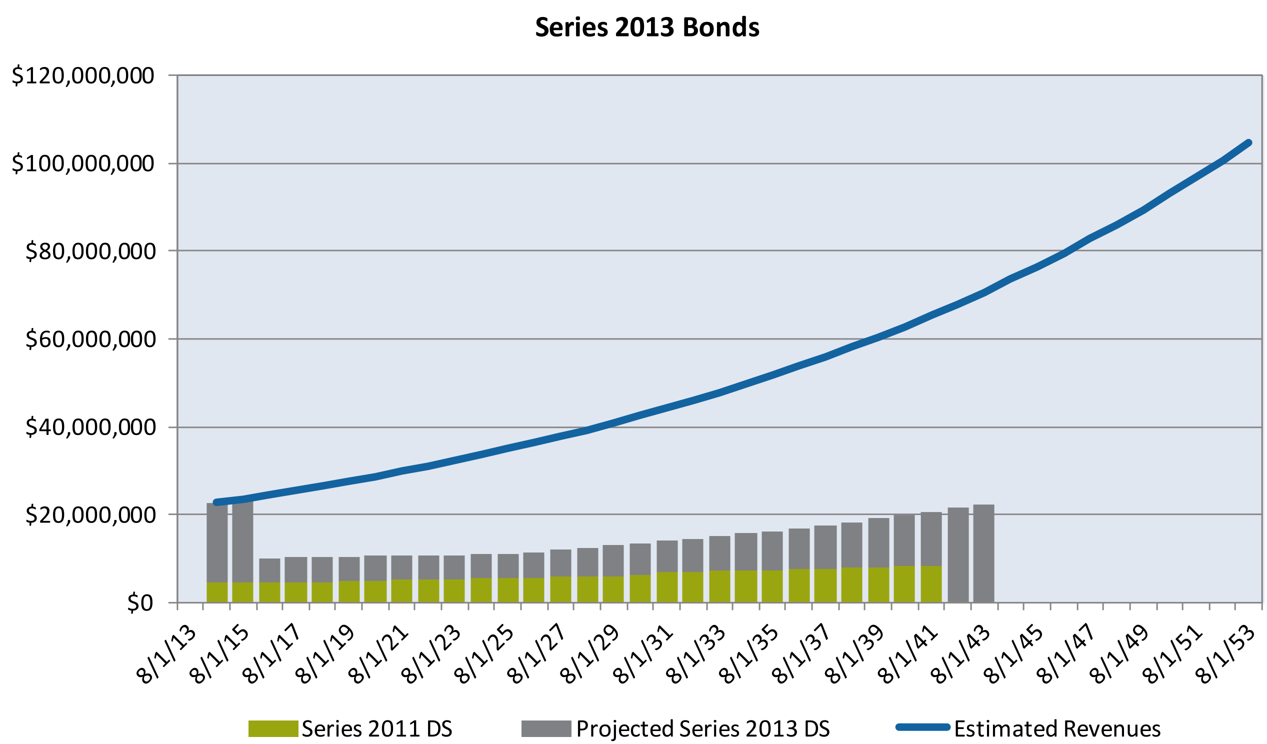
2013-14 Tax Base Growth

- The unexpected decrease in tax base growth in 2013-14 is already having an impact on the overall program, and has the potential (though unlikely) to have a major impact.



Structure

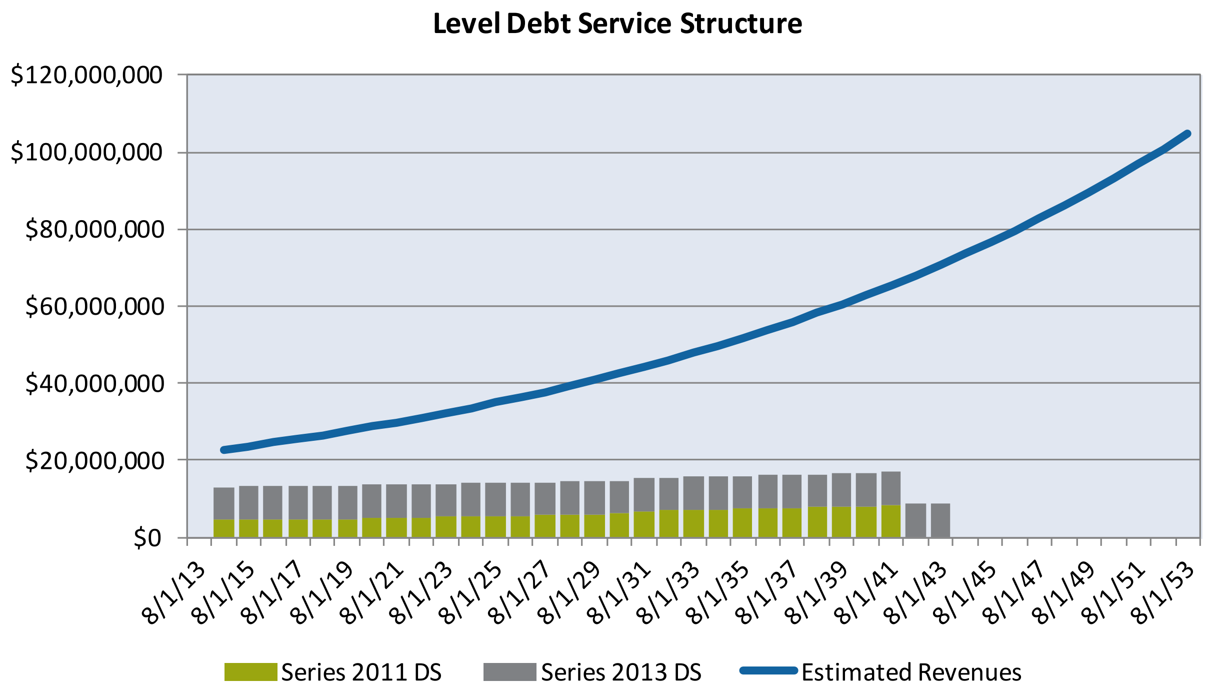
- The structure of the Series 2013 Bonds will be established to repay bonds quickly over the next two tax years and to accommodate the issuance of authorized but unissued bonds in the future.



Est. Repayment Ratio: 2.40 to 1.00

Level Debt Service Structure

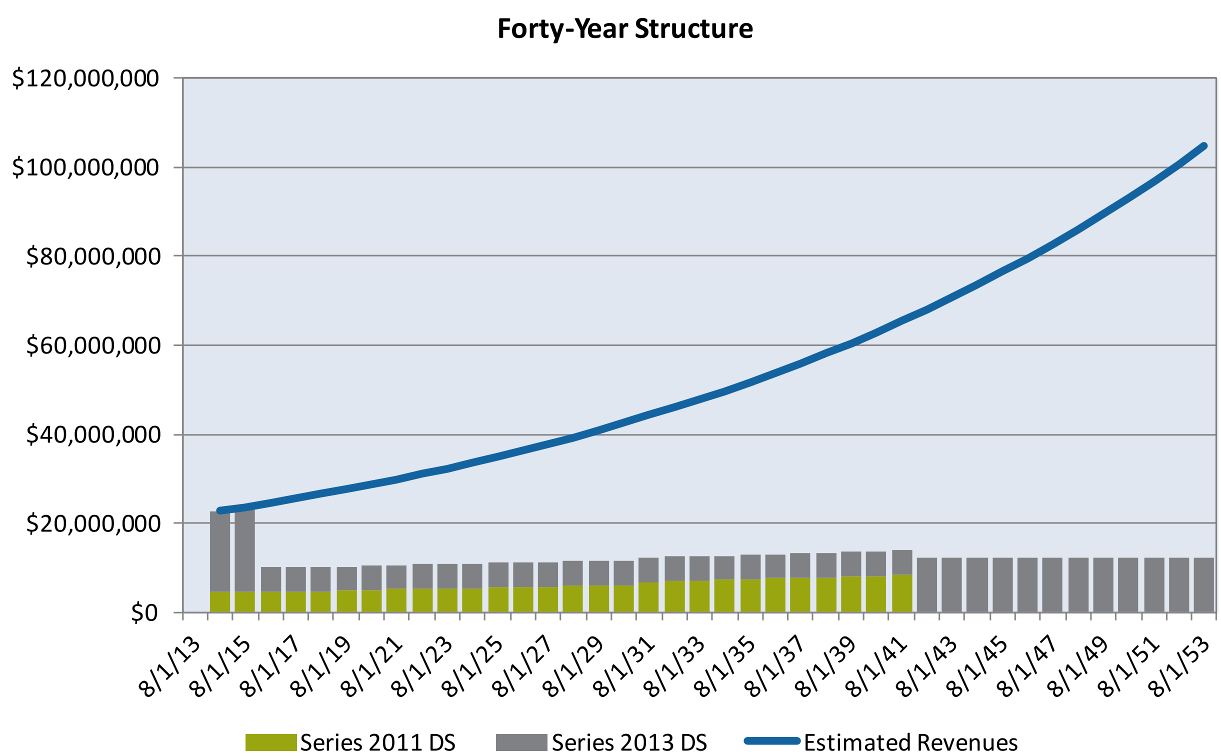
- Repaying the bonds with level debt service would provide a lower costs, but would decrease future flexibility in the program.



Est. Repayment Ratio: 2.25 to 1.00

Forty-Year Structure

- Although extending the financing term to forty years would create additional flexibility, the cost of repayment will increase significantly.



Capital Appreciation Bonds

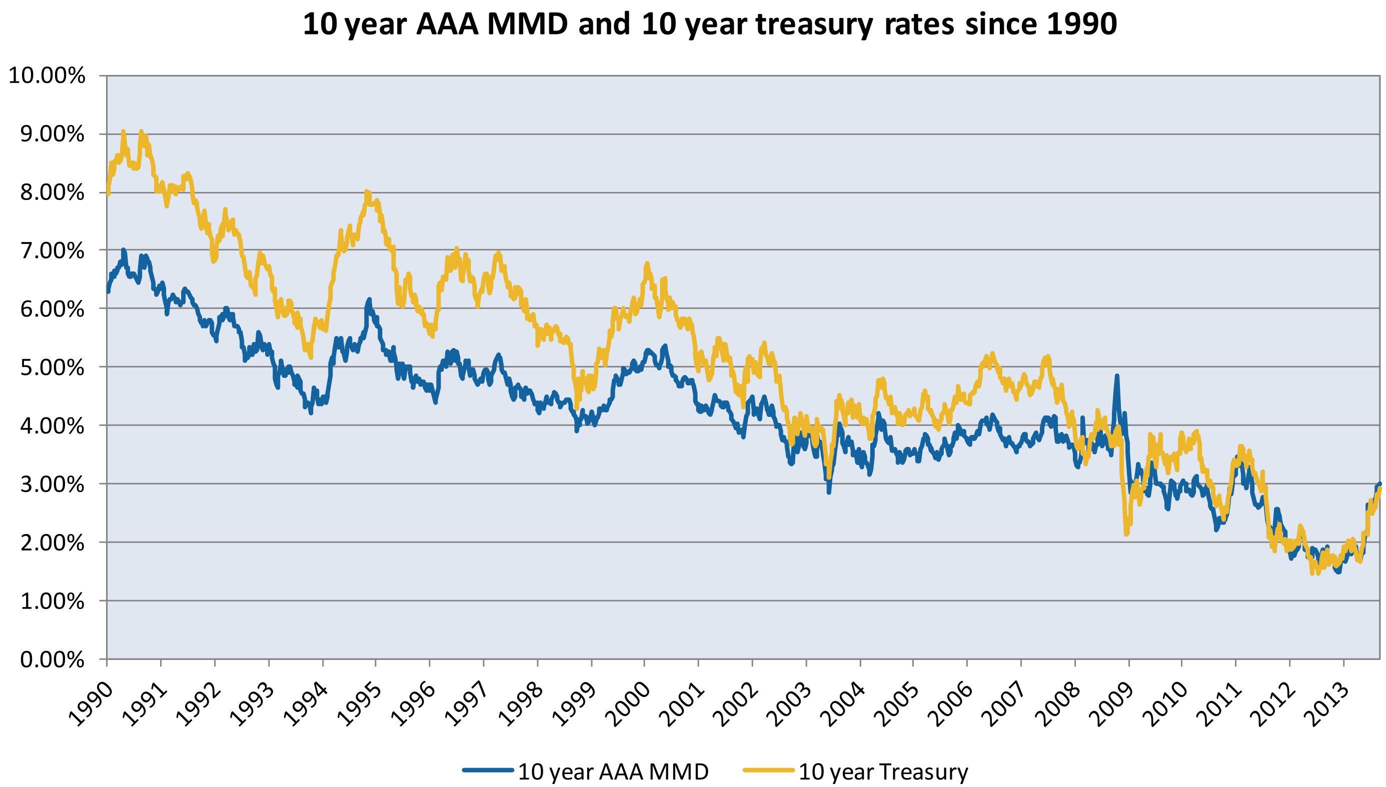
- It remains our hope that the bond program will be able to be implemented without the use of capital appreciation bonds (CABs).
  - Capital appreciation bonds have been much in the news for more than a year.
  - It appears as if AB182 will be signed by the Governor and become effective on January 1st.
  - Under AB182, California school districts will not be able to issue capital appreciation bond with terms longer than twenty-five years (it now appears as if the ability to issue current interest bonds with a maximum term of forty years will remain in place).
  - Both the 2010 Measure D bond program and the 2012 Measure E bond program were designed to avoid the use of CABs (but without much room to spare).
  - The approach of the financing team is that CABs will remain on the table as an alternative provided that they remain legal and can be used consistently with prudent debt management practices.

Timing

- The decision to issue bonds in October was based primarily on District cash flow needs.
  - The financing team has been monitoring the District's cash balances and cash flow expenditures on a regular basis since last fall.
  - Thanks in part to the receipt of state matching funds over time, the District's cash balances available for bond projects have remained higher than expected through the beginning of summer.
  - The decision was made to issue bonds in October, late enough in the year to allow the expenditure of proceeds and save on interest expense but prior to the coming holidays and the anticipated ramp up of expenditures associated with new projects.

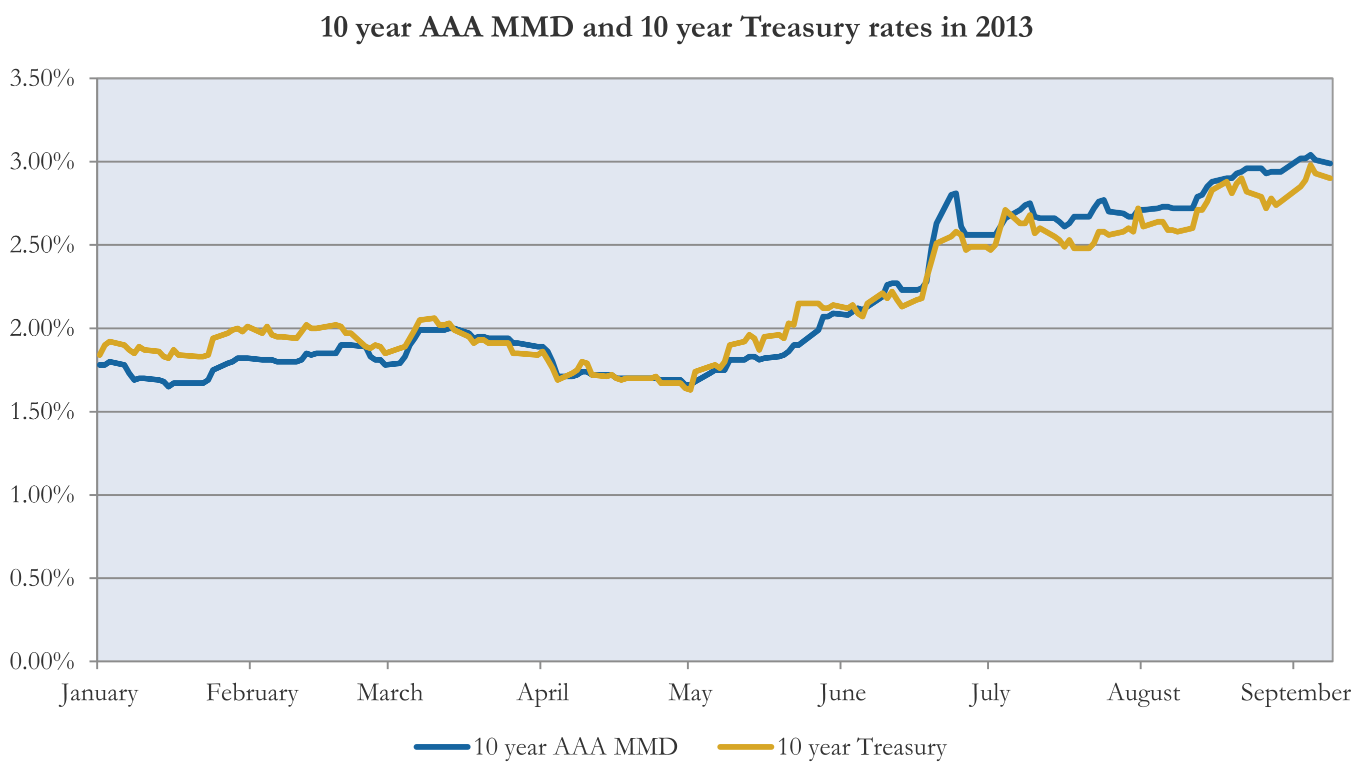
Interest Rates #1

- From a long-term perspective, interest rates remain remarkably low.



Interest Rates #2

- Since May, however, interest rates have moved significantly higher.



New Money Bonds

- The increase in interest rates is not likely to have a significant impact on the pace of the current bond program (at least not yet).
  - In designing the new bond program, an emphasis was placed on building in additional flexibility.
  - Specifically, the pace of the bond program is designed to avoid situations in which the sizing of an upcoming bond issue will be impacted by unanticipated negative developments.
  - In addition, the financing model has been prepared using interest rate projections above then-current levels.
  - Because additional costs are spread over thirty years or more, interest rate changes are significantly less impactful than changes in tax base growth.

Refunding Bonds

- The increase in interest rates will mean, however, that the anticipated refunding bonds no longer meet established standards.
  - At a presentation delivered on May 15th, the financing team identified the following 2002 Measure D bonds as attractive refunding candidates – all remaining callable Series C Bonds.
  - Such bonds were identified as attractive candidates based on their savings potential, their structural benefit, and other factors.
  - At that time, it was expected that up to $25 million in bonds might be refunded to produce nearly $2.5 million in present value savings with all maturities producing savings at the targeted levels.
  - Based on interest rate movements, a maturity-by-maturity analysis indicates that only $5 million of these bonds produce savings at the targeted levels in the current market.
  - With savings of less than $390,000, the refunding does not meet the overall $1 million present value savings target established in the District's refunding policy.

2014-15 Tax Rates

- Absent a significant decrease in the District's tax base, it appears that 2002 Measure D will meet its tax rate target in 2014-15 without refunding savings.

Year	Gross DS	Less: Tax Rate Stabilization Funding	Net Debt Service	Estimated Tax Rate
2012-13				
2013-14	$15,299,785	-$1,582,211	$13,717,574	$60.00
2014-15	$15,987,635	-$1,719,462	$14,268,173	$60.00
2015-16	$17,743,935	$0	$17,743,935	$72.34
2016-17	$18,994,650	$0	$18,994,650	$74.46
2017-18	$20,004,188	$0	$20,004,188	$75.40
	Total:	**-$3,301,673**		

Underwriting

- The Series 2013 Bonds will be sold by negotiated sale.
  - Bonds may be sold by competitive or negotiated sale.
  - Our recent practice has been to sell bonds through negotiated sale.
  - Our current team of Piper Jaffray and De La Rosa & Company have demonstrated their ability to price the District's recent bond transactions aggressively and at underwriting spreads that have been consistent with market levels.
  - In addition, representatives of such firms have provided significant ongoing banking support in developing the current bond program and in implementing the District's investor outreach program.

Rating Issues

- The District plans to make a presentation to all three major rating agencies this coming Thursday and to receive ratings by the end of the month.
  - The District's current bond ratings – "Aa3" from Moody's, "A+" from Standard & Poor's, and "A+" from Fitch – are as high as the District's bond ratings have been in twenty years.
  - The District has received a number of rating increases in recent years (either in rating or in outlook).
  - The financing team will be making an argument for a rating upgrade into the double-A category based on relatively high reserve levels maintained despite significant economic pressures, positive long-term financial developments, and the potential positive ongoing impact of the local control funding formula.
  - Rating reports will be reviewed with the Facilities Subcommittee and the Board of Education in October.

Investor Outreach

- The District's investor outreach program has been developed around three key elements.
  - Presenting information to the investor community by way of a net road show and/or individual investor meetings in connection with upcoming financings.
  - Providing investor access to key financial documents upon board approval.
  - Communicating our interest in becoming the "gold standard" with regard to investor outreach to the investor community.
  - The extent to which specific outreach is made to individual investors will be based on solicited feedback to the finance team, generally, and the underwriting team, specifically.
  - All investor communication is governed by an investor relations policy approved by the Board of Education earlier this year.

WCCUSD Bond Program

- The approach to this financing reflects the continued evolution of the District's bond program.
  - The economic collapse of 2008 put the District's bond program at risk at a time when significant needs remained.
  - The District responded by re-committing itself to its vision of first class facilities for all of its students and by pursuing pathways to this vision that were better suited for a new reality.
  - These pathways included new authorizations designed around the concepts of flexibility, sustainability, and positive stories.
  - The District has also implemented a number of best practices with regard to the pro-active management of its bond program.