



# West Contra Costa USD

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A Division of Zions First National Bank

# Establishing Interest Rates

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- In a negotiated bond sale, interest rates are established through a negotiation with selected underwriters.
  - Interest rates need to be high enough to attract investors (but they don't need to be infinitely high).
  - The interest rate that it takes for a prospective investor to become a buyer depends on a wide variety of factors and is different from investor to investor.
  - It is the job of the underwriting firm to know what investors are likely to be interested in buying the District's bonds at the lowest interest rate.
  - There is significant subjectivity in determining the value of a given bond, and each member of the financing team has a role to play in providing the lowest borrowing cost to the District.

# Impact of Interest Rates

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- To the extent the District is able to negotiate lower interest rates, the debt service required to repay the bonds will be lower.
  - For general obligation bonds in California, lower debt service translates to lower taxpayer costs.
  - In a program like the District's, the lower taxpayer costs are likely to be used to accelerate payments and build future flexibility.
  - To the extent that robust tax base growth returns, low interest rates might contribute to the District's ability to accelerate issuance or de-escalate future repayment.
  - Regardless, the District has a fiduciary duty to its taxpayers to achieve the lowest possible interest rates.

# Magnitude of Differences

- Because of the amount of money being borrowed and the term over which it is repaid, relatively small differences in interest rates will make significant differences in total repayment costs.

Structure	FV Repayment		PV Repayment	
	@4.50%	@4.75%	@4.50%	@4.75%
Level Debt Service	\$184,174,629	\$189,628,362	\$100,000,000	\$102,961,175
DS with 4% Escalation	\$209,252,145	\$216,914,912	\$100,000,000	\$103,661,978

Note: Assumes \$100 million financing with 30-year term.

# Factors Impacting Interest Rates

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- The interest rate established for individual bond issues and individual bonds within each issue is influenced by a number of factors.
  - Market conditions – both for credit markets generally and the California municipal market in particular.
  - Average weighted maturity of a bond issue or term of an individual maturity of bonds.
  - Ratings and other credit factors.
  - Investor appetite for bonds.

# Recent Bond Sales

- In recent years, the District and its financing team has implemented new practices based on post-sale analysis of each bond sale.

Date	Transaction	Comment
July 15, 2008	GOBs, Election of 2005, Series B	District's last competitive sale.
September 3, 2009	2009 GOBs, Election of 2005, Series C-1 2009 GOBs, Election of 2005, Series C-2 2009 GO Refunding Bonds	District's first negotiated sale; net road show; small base of investors carries transaction; significant unsold balances.
June 24, 2010	GOBs, Election of 2005, Series D-1 GOBs, Election of 2005, Series D-2	Relatively small transaction; sole-managed by Piper.
November 22, 2011	GOBs, Election of 2010, Series A GOBs, Election of 2010, Series A-1	DeLaRosa added as co-manager; more robust investor outreach included net road show and one-on-one meetings; significant increase in investor participation.

# Negotiated Sale

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- In a negotiated sale, the selected underwriter reaches out to investors in a pro-active manner.
  - An underwriter (or underwriters) is selected well in advance of the sale.
  - Knowing that they will have bonds to sell incents salesmen to spend more time pre-marketing the bonds.
  - Such pre-marketing is especially helpful to the extent that additional information is important in understanding credit or other issues.
  - Depending on circumstances, underwriting spreads can be lower for negotiated sales.

# Net Road Show

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- By using a net road show, a municipal bond issuer is able to communicate with and answer questions from interested investors in a formal setting.
  - A net road show is essentially a conference call in which a public agency makes a presentation to any investor who chooses to participate.
  - The presentation is carefully scripted and the materials reviewed by disclosure counsel prior to the call.
  - In the event the net road show is made in connection with a specific financing, materials presented must come from material included in the preliminary official statement.
  - For those investors who are unable to participate at the scheduled time, net road shows are typically posted for on-line access at any time.



# One-on-One Investor Meetings

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- One-on-one investor meetings allow an issuer to establish a more personal connection with an individual investor, but introduce concerns about selective disclosure.
  - One-on-one investor meetings can be held face-to-face or by conference call, rather than or in addition to a net road show, and in connection with or between specific bond issues.
  - Material included in the presentation must meet the same standard as material included in the net road show presentation.
  - Participation in such one-on-one meetings can be determined by investor request or through District invitation.
  - Any plan to conduct one-on-one meetings should be pre-approved by the District's bond counsel and/or disclosure counsel.

# Posting of Documents

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- Providing easy access to specific, formal financial documentation is appreciated by many investors.
  - For the District, such financial documentation might include the board approved budget, the first and/or second period interim reports, the unaudited actuals, and/or the audited financial statements.
  - Material can be posted on the District website (perhaps in a specific investor relations section) or on the Electronic Municipal Market Access website (more commonly known as EMMA).
  - Postings may or may not be accompanied by an invitation to contact the District with any questions.
  - Lack of easy, real-time access to the most recent financial reports is the most common complaint heard by KNN from investors.

# Limitations – Selective Disclosure

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- The District's desire for increased investor outreach needs to be balanced against legal concerns about appropriate methods of disclosure and selective disclosure.
  - The Preliminary Official Statement is the official offering document for a municipal bond transaction.
  - To the extent an issuer discloses all relevant disclosure information in the POS, there should be no need to supplement this information with additional disclosure to specific investors.
  - In addition, disclosure of information beyond what is contained in the POS invites questions of selective disclosure.
  - In recent years, the SEC has been increasingly vocal about its desire to both enhance municipal disclosure and to bring it into closer alignment with standards of corporate disclosure.
  - The SEC regulates corporate disclosure by requiring that all publicly traded companies must disclose material information to all investors at the same time.

# Role of Preliminary Official Statement

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- The preliminary official statement is the financing document through which a bond issue is described to investors.
  - POS describes the bonds and the sources of repayment for the bonds and provides relevant financial information about the District and its tax base.
  - POS is distributed to investors (typically in electronic form) one or two weeks prior to the scheduled sale of securities.
  - POS must contain information needed for a potential investor to make an informed investment decision and must not contain any material misstatements or omissions.
  - In general, public agencies are well advised to err on the side of full disclosure, particularly with regard to potentially negative information known at the time of issuance.

# Moving Ahead

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- Heading into the next bond sale, the financing team expects to implement an investor outreach program with the following elements.
  - Continue posting financial documents on EMMA following Board approval.
  - Conduct non-transaction-related net road show following the posting of the District's second period interim report in March (with potential for follow-up calls upon request).
  - Conduct net road show in connection with the District's next issuance of bonds (whether this summer or at some later date).
  - Evaluate desirability of one-on-one investor meetings subsequent to March outreach efforts.

# Ever-Changing Environment

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- The District should keep in mind that we are operating in an ever-changing environment and should expect ongoing adjustments to the program.
  - Prior to the financial crisis, investor demand was relatively high and credit spreads were relatively narrow (seller's market).
  - As credit spreads widened in the wake of the financial crisis, the District found itself paying higher interest rates than other school districts of similar credit characteristics.
  - Despite some positive developments (ratings upgrades, increased investor participation, and narrowing spreads), District bonds continue to sell at higher rates than comparably rated school districts.
  - As long as the District continues to receive post-sale feedback that it is paying higher rates than other similar credits, we will continue to make recommendations designed to close that gap.