West Contra Costa USD

Capital Appreciation Bonds

Presentation to the Facilities Subcommittee

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Capital Appreciation Bonds

- School district use of capital appreciation bonds continues to be in the news.
  - Articles in connection with Poway Unified School District began to appear in early August.
  - The articles pointed to practices that were already of concern to County Treasurers, many school districts, and certain members of the public.
  - Next month, the California Association of County Treasurers and Tax Collectors (CACTTC) is expected to approve policy guidelines for counties in connection with school bond issues.
  - Last week, California Treasurer Bill Lockyer announced that he will work with lawmakers next year to introduce legislation to limit the issuance of CABs.

Other Areas of Concern

- Although CABs have garnered most of the attention, there are a variety of practices that increase the cost of funding construction projects through general obligation bonds.
  - Long maturities (beyond 25 or 30 years).
  - Escalating debt service.
  - "Wrap-around" debt service structures.
  - Policy questions surrounding how costs of new facility construction should be shared by current and future taxpayers.

Use of CABs

- The significant use of CABs by California school districts is driven by four major factors.
    - Bond authorizations that are relatively large relative to tax base size.
    - Proposition 39 limitations on annual tax rate.
    - Proposition 39 voter threshold, level of public support, impact of tax rate commitment on level of voter support.
    - Declines in tax base following the economic downturn of 2008.

West Contra Costa USD and CABs

- The District has issued CABs on four occasions since 1998.

Issue Date	Series	Amount of Original Issue	Original Amount of Repayment	Ratio	Amount Currently Outstanding	Current Amount of Repayment	Ratio
8/11/2004	Election of 2002, Series C (CABs)	29,999,377	97,455,000	3.25	27,523,014	93,955,000	3.41
10/19/2005	Election of 2002, Series D (CABs)	99,998,106	259,360,000	2.59	90,817,414	246,720,000	2.72
9/03/2009	Election fo 2005, Series C-1 (CABs)	52,084,759	190,830,000	3.66	52,084,759	190,830,000	3.66
6/24/2010	Election of 2005, Series D-2 (CABs)	2,499,949	33,820,000	13.53	2,499,949	33,820,000	13.53
		184,582,191	581,465,000	3.15	172,925,137	565,325,000	3.27

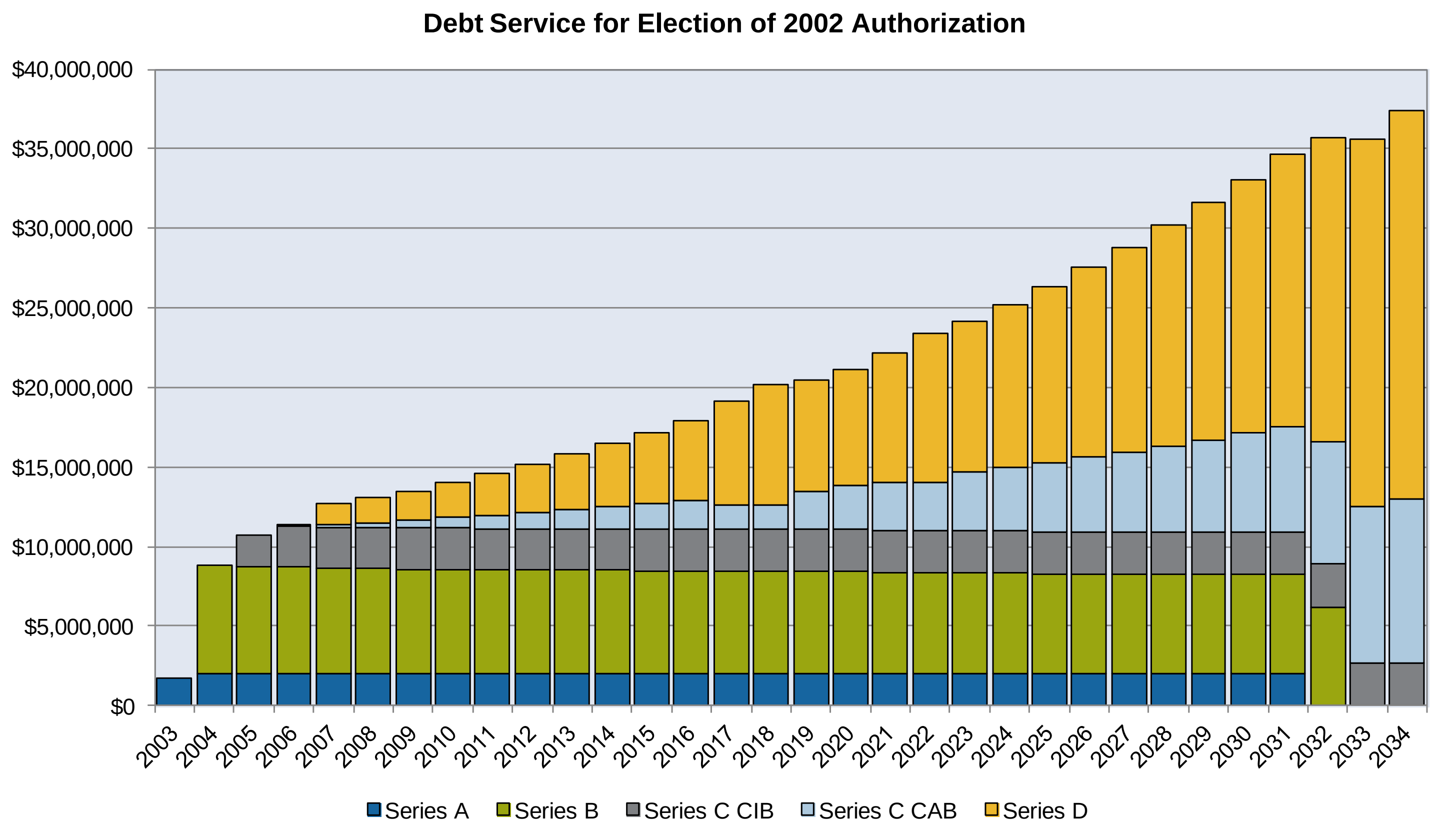
2002 Measure D

- The District issued approximately $170 million in CABs in connection with its 2002 Measure D bond program.

Issue Date	Series	Amount of Original Issue	Amount Currently Outstanding	Status
6/26/2002	Election of 2002, Series A	30,000,000	0	Refunded in 2011 and 2012.
8/25/2003	Election of 2002, Series B	100,000,000	0	Refunded in 9/11 and 6/12.
8/11/2004	Election of 2002, Series C (CIBs)	40,000,000	25,545,000	Partially refunded in 6/12.
8/11/2004	Election of 2002, Series C (CABs)	29,999,377	27,523,014	Non-callable.
10/19/2005	Election of 2002, Series D (CABs)	99,998,106	90,817,414	Non-callable.
		299,997,483	143,885,428	

2002 Measure D Structure

- The purpose of the CABs was to wrap around prior debt service in connection with the 2002 Measure D bonds.



Accelerated Issuance

- A significant reason the CABs were utilized in connection with the 2002 Measure D bond program was that issuance was accelerated from what was originally contemplated at the time of the election.

Year	Proposed Issue Size	Proposed Aggregate Issue Size	Actual Issue Size	Actual Aggregate Issue Size	Difference
2002	30,000,000	30,000,000	30,000,000	30,000,000	0
2003	30,000,000	60,000,000	100,000,000	130,000,000	70,000,000
2004	30,000,000	90,000,000	69,999,377	199,999,377	109,999,377
2005	30,000,000	120,000,000	99,998,106	299,997,483	179,997,483
2006	30,000,000	150,000,000	0	299,997,483	149,997,483
2007	30,000,000	180,000,000	0	299,997,483	119,997,483
2008	40,000,000	220,000,000	0	299,997,483	79,997,483
2009	40,000,000	260,000,000	0	299,997,483	39,997,483
2010	40,000,000	300,000,000	0	299,997,483	(2,517)
	300,000,000	300,000,000	299,997,483	299,997,483	(2,517)

Mitigating Factors

- There are a number of factors that distinguish the District's use of CABs in 2004 and 2005 from the practices making news today.
  - Financings were done in a relatively low interest rate environments.
  - CAB to current interest bond spread was relatively narrow (0.50% to 0.75%).
  - Both financings achieved relatively low interest rates (5.25% and 4.95%, respectively, for the 2004 Series C Bonds and the 2005 Series D Bonds).
  - Repayment ratios were relatively low even at initial issuance.

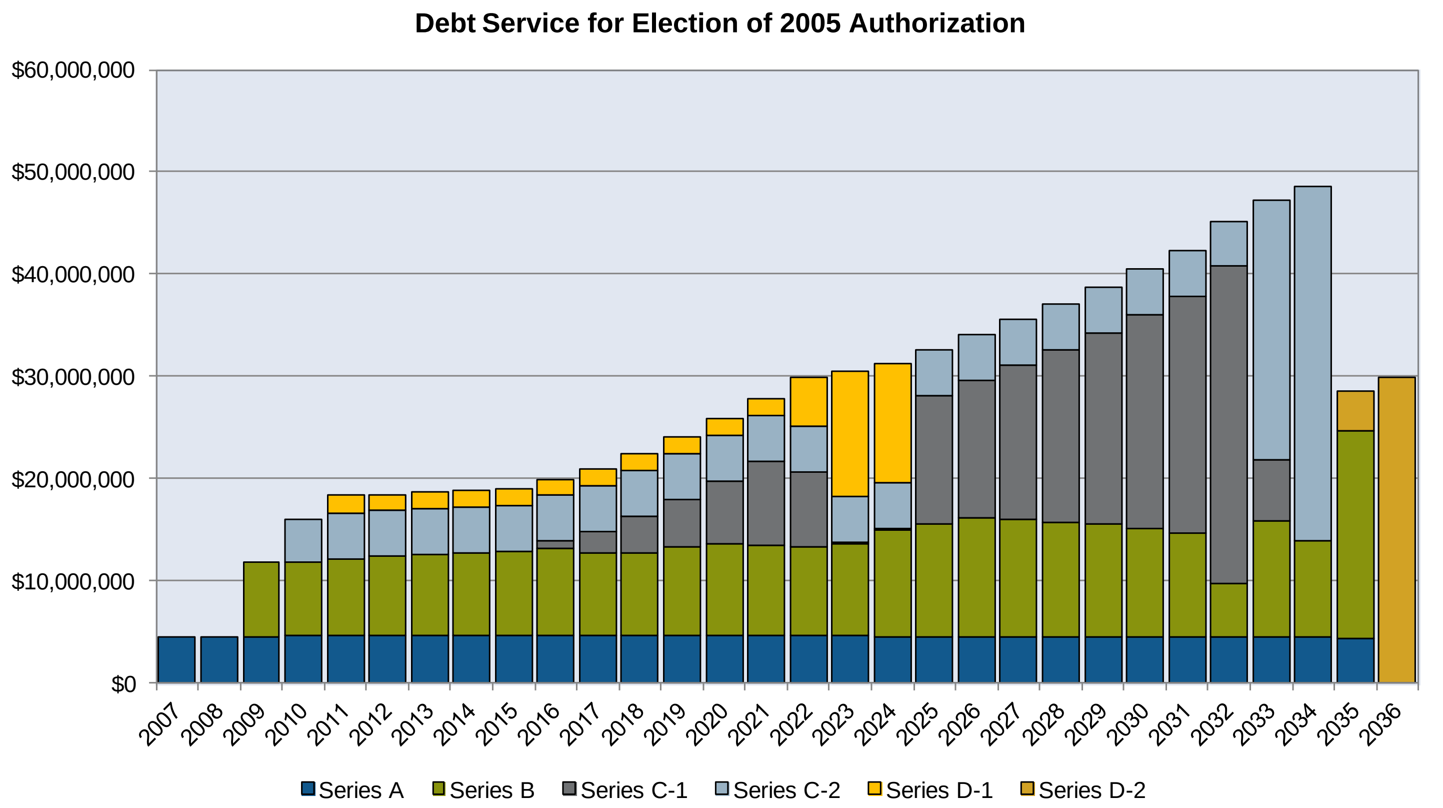
2005 Measure J

- The District issued approximately $55 million in CABs in connection with its 2005 Measure J bond program.

Issue Date	Series	Amount of Original Issue	Amount Currently Outstanding	Status
5/17/2006	Election of 2005, Series A	70,000,000	61,280,000	Partially refunded in 9/09
7/15/2008	Election of 2005, Series B	120,000,000	115,025,000	Partially refunded in 9/09.
9/03/2009	Election fo 2005, Series C-1 (CABs)	52,084,759	52,084,759	Non-callable.
9/03/2009	Election of 2005, Series C-2 (BABs)	52,825,000	52,825,000	Subsidies complicate refunding.
6/24/2010	Election of 2005, Series D-1 (QSCBs)	25,000,000	25,000,000	Make whole call only.
6/24/2010	Election of 2005, Series D-2 (CABs)	2,499,949	2,499,949	Non-callable.
		322,409,709	308,714,709	

2005 Measure J Structure

- The purpose of the CABs was to wrap around prior debt service in connection with the 2005 Measure J bonds (and to leave room for the possible allocation of QSCBs).



Decreases in AVs

- The primary reason for the use of CABs in connection with the 2005 Measure J bond program was that assessed values in the District decreased significantly beginning in 2008-09.

TAX YEAR	SECURED	UTILITY	UNSECURED	TOTAL	GROWTH RATE	3-YEAR AVERAGE	4-YEAR AVERAGE	5-YEAR AVERAGE	6-YEAR AVERAGE	7-YEAR AVERAGE	8-YEAR AVERAGE	9-YEAR AVERAGE	10-YEAR AVERAGE
1989-90	7,960,496,013	25,842,777	404,862,882	8,391,201,672	NA	NA	NA	NA	NA	NA	NA	NA	NA
1990-91	8,820,252,394	27,810,091	445,745,183	9,293,807,668	10.76%	NA	NA	NA	NA	NA	NA	NA	NA
1991-92	9,560,963,024	29,352,627	527,131,921	10,117,447,572	8.86%	NA	NA	NA	NA	NA	NA	NA	NA
1992-93	10,168,626,140	18,860,952	563,704,654	10,751,191,746	6.26%	8.63%	NA	NA	NA	NA	NA	NA	NA
1993-94	10,543,809,466	21,765,116	612,302,635	11,177,877,217	3.97%	6.36%	7.46%	NA	NA	NA	NA	NA	NA
1994-95	11,060,198,941	32,489,980	619,430,514	11,712,119,435	4.78%	5.00%	5.97%	6.93%	NA	NA	NA	NA	NA
1995-96	11,325,170,613	32,313,118	532,789,718	11,890,273,449	1.52%	3.42%	4.13%	5.08%	6.03%	NA	NA	NA	NA
1996-97	11,539,491,478	27,220,140	526,135,436	12,092,847,054	1.70%	2.67%	2.99%	3.65%	4.52%	5.41%	NA	NA	NA
1997-98	11,323,304,579	30,775,028	507,359,356	11,861,438,963	-1.91%	0.44%	1.52%	2.01%	2.72%	3.60%	4.49%	NA	NA
1998-99	11,559,015,972	38,285,203	573,242,173	12,170,543,348	2.61%	0.80%	0.98%	1.74%	2.11%	2.70%	3.47%	4.28%	NA
1999-00	12,166,311,974	38,694,311	605,325,851	12,810,332,136	5.26%	1.98%	1.91%	1.83%	2.33%	2.56%	3.02%	3.67%	4.38%
2000-01	12,891,483,315	38,578,988	803,452,252	13,733,514,555	7.21%	5.02%	3.29%	2.97%	2.73%	3.02%	3.14%	3.49%	4.03%
2001-02	14,425,070,001	50,470,907	819,530,920	15,295,071,828	11.37%	7.94%	6.61%	4.91%	4.37%	3.96%	4.07%	4.06%	4.28%
2002-03	15,264,716,553	47,769,561	845,837,829	16,158,323,943	5.64%	8.07%	7.37%	6.42%	5.03%	4.55%	4.17%	4.24%	4.21%
2003-04	16,523,400,415	47,437,220	832,007,819	17,402,845,454	7.70%	8.24%	7.98%	7.44%	6.63%	5.41%	4.95%	4.57%	4.59%
2004-05	18,694,802,748	34,877,710	942,323,175	19,672,003,633	13.04%	8.80%	9.44%	8.99%	8.37%	7.55%	6.36%	5.85%	5.41%
2005-06	20,898,373,912	35,233,047	937,524,349	21,871,131,308	11.18%	10.64%	9.39%	9.79%	9.36%	8.77%	8.00%	6.90%	6.38%
2006-07	23,394,796,810	32,996,057	996,599,562	24,424,392,429	11.67%	11.96%	10.90%	9.85%	10.10%	9.69%	9.13%	8.41%	7.38%
2007-08	25,972,526,364	12,872,037	986,267,215	26,971,665,616	10.43%	11.09%	11.58%	10.80%	9.94%	10.15%	9.78%	9.28%	8.61%
2008-09	25,968,908,280	12,850,519	1,080,701,277	27,062,460,076	0.34%	7.48%	8.40%	9.33%	9.06%	8.57%	8.92%	8.73%	8.38%
2009-10	22,527,198,702	12,079,880	1,206,474,766	23,745,753,348	-12.26%	-0.50%	2.55%	4.27%	5.73%	6.01%	5.97%	6.57%	6.63%
2010-11	20,862,423,058	12,710,612	1,052,023,491	21,927,157,161	-7.66%	-6.53%	-2.29%	0.51%	2.28%	3.82%	4.31%	4.45%	5.15%
2011-12	20,967,316,009	10,792,683	1,192,454,380	22,170,563,072	1.11%	-6.27%	-4.62%	-1.61%	0.61%	2.12%	3.48%	3.95%	4.12%
2012-13	22,393,219,395	10,751,749	1,228,955,895	23,632,927,039	6.60%	0.02%	-3.05%	-2.37%	-0.24%	1.46%	2.68%	3.83%	4.22%
				Three-Year Average:	0.02%								
				Five-Year Average:	-2.37%								
				Ten-Year Average:	4.22%								
				Fifteen-Year Average:	4.95%								
				Twenty-Year Average:	4.21%								

September 2009 Bonds

- The bonds issued in September 2009 represent a middle-ground effort to respond to unprecedented economic circumstances.
    - Original plan was to issue all $210 million in remaining 2005 Measure J authorization.
    - Significant concern about providing sufficient funding for projects underway.
    - News grew progressively worse during the course of the year.
    - Questions regarding overall cost of financing and of ability to make Proposition 39 certification.
    - In the end, the solution was (1) to downsize the bonds and (2) to limit the use of CABs through refunding.
    - Refunding plan and other factors allowed CAB portion of the bonds to be reduced from $105 million to $52 million.

Lessons from 2009

- In many ways, the District has been extremely successful in implementing a "next generation" bond program in response to the dramatic changes brought on by the global economic collapse.
  - Commitment to shift from exclusively program funding model to a model that incorporates principles of project funding.
  - Willingness to set aside old authorization and to continue the program with new bonds.
  - Commitment to moving forward at a more modest pace.
  - Willingness to use new authorization (and other tools) to stabilize tax rates in the short-term.

Summary of Repayment Ratios

- Overall, the ratio of bonds outstanding to repayment for District bonds is reasonable.

	Amount Outstanding (2)	Repayments Remaining (1), (2)	Ratio
1998 Measure E	$26,795,000	$38,458,488.50	1.44
2000 Measure M	$88,755,000	$135,525,037.50	1.53
2002 Measure D	$214,072,284	$512,756,997.50	2.40
2005 Measure J	$319,359,709	$734,007,438.14	2.30
2010 Measure D	$100,000,000	$190,834,802.92	1.91

Avoiding CABs

- The best way for a school district to limit its use of CABs is to do what it can to avoid the situations that most commonly have led to their use.
  - Seek smaller authorizations relative to tax base size.
  - Establish tax rate targets below $60 Proposition 39 maximums.
  - Adopt a more modestly paced construction program, and be willing to slow projects further upon negative news on economic growth.

2012-13 Tax Rates

- Earlier today, the County Board of Supervisors approved general obligation tax rates of tax year 2012-13.

Measure:	1998 Measure E	2000 Measure M	2002 Measure D	2005 Measure J	2010 Measure D	Aggregate
Target Maximum Tax Rate:	26.40	55.60	60.00	60.00	48.00	250.00
Estimated Tax Rate [1]:	12.50	55.60	60.00	60.00	38.00	226.10
Actual Tax Rate:	8.60	55.60	60.00	60.00	31.40	215.60

[1] Estimated at the time of the August 14, 2012, Facilities Subcommittee meeting.

Good News

- The establishment of 2012-13 tax rates at such levels is good news for the District and its taxpayers.
  - It represents an extension of the District's perfect record of maintaining general obligation bond tax rates below targeted levels (forty-six in a row!).
  - The continued perfect record reflects the pro-active management of the District, its board, and its staff – refunding and restructuring, tax-rate-buy-down, tax-rate-stabilization etc.
  - It suggests that the critics (who have suggested that the District had underestimated the tax rate impact of its bonds) were wrong.
  - At $215.60 per $100,000 of assessed value, it is nearly $35 less than the aggregate target rate approved by voters (with tax rates for 2000 Measure M currently scheduled to decrease dramatically after tax year 2016-17 and tax rates for 1998 Measure E currently scheduled to expire after tax year 2024-25).

2012 Measure E

- The campaign for 2012 Measure E is well underway.
    - The campaign is well-funded, the endorsement list is long, and the phone banking is underway.
    - The additional bond measure (the District's sixth since 1998) reflects the community's support for continued school improvements.
    - The plan represents a responsible way of accelerating project expenditures (relative to issuing more 2010 Measure D bonds earlier than scheduled).
    - Even with approval of 2012 Measure E, the District will need to be pace its expenditures if it wishes to avoid overly deferred debt service structures.