West Contra Costa USD

Potential June 2014 Bond Measure

Presentation to the Facilities Subcommittee

January 14, 2014

1300 Clay St., Suite 1000, Oakland, CA 94612
phone 510-839-8200 fax 510-208-8282
A Division of Zions First National Bank

New Programs

- Since the economic collapse, the District has re-worked its bond program to achieve much more stability.
  - In 2009, we learned (among other things) that assessed values don't always increase and that there are weaknesses in the program funding model.
  - We made a decision to prioritize tax rate management first, repayment structure second, and that we should ask the voters for what is necessary to run a reasonable program.
  - 2010 Measure D was a somewhat smaller program based on the concept of a long-term program, adjusted over time, with an emphasis on always looking at both the current issuance and the next issuance.
  - 2012 Measure E was a similarly structured program designed to allow for the acceleration of annual expenditures.

Moving Forward

- At this point, the District has been stabilized and is likely able to provide ongoing funding through fiscal year 2024-25.
  - Combined programs (including 2005 Measure J) were designed to provide $125 million in funding in alternative years through calendar 2023.
  - In issuing the Series 2013 Bonds, the financing team concluded that the $125 million sizing would not preclude the issuance of another $125 million in Series 2015 Bonds.
  - The facilities improvement cash flow is under regular review, and facilities staff remain mindful to not break ground without concluding that funds will be available to complete the project.

Potential Risks

- Still, there are risks that might prove disruptive to the program as it moves forward.
  - Current pace of program expenditures (nearly $100 million in annual expenditures) exceeds targeted pace of program funding.
  - Assessed value growth has not met targeted levels (average of 4% through full repayment) and future growth remains uncertain.
  - Upcoming work at Pinole Valley High School is expected to take up a disproportionate amount of funding in the coming years.
  - During this period, funding may become necessary to fund urgent facilities needs, for emerging technology needs, or for tax rate stabilization.
  - Lack of assessed value growth over the long-term may threaten access to remaining 2005 Measure J authorization entirely.

Public Support

- Recent polling data suggests that there continues to be strong public support for the bond program.
  - It is clear that the community takes pride in the achievements of the bond program.
  - Completed projects are well received and planned projects eagerly anticipated.
  - A recent public opinion survey suggests that more than 55% of likely voters are in support of providing additional funding for the program provided that the cost is below $36 per $100,000 of assessed value.
  - District leadership is strongly committed to providing first class facilities to all students throughout the District on an equitable basis.

Concerns

- At the same time, there are some aspects of the bond program that are worthy of concern.
  - The District currently has a significant amount of bonds outstanding, particularly relative to the size of its tax base.
  - Combined current annual tax rates supporting the District's facilities program are approaching $300 per $100,000 of assessed value.
  - The District has placed bond measures on the ballot in two recent elections – June 2010 and November 2012.
  - The District has nearly $600 million in bonds that have been authorized by the voters but not yet issued.
  - Given the current status of the District's facilities, its bond program, and the extent of future uncertainties, there is no way to guarantee that a new bond measure, however large, will complete the District's program once and for all.

Authorization Amount

- It is currently unclear how much authorization the District might seek in connection with this new measure.
  - Consistent with past practice, the District has not identified a discrete project or set of projects to fund with proceeds from the new bond measure.
  - While the District has indicated its desire to match the maximum tax rate impact of the new program to the $36 per $100,000 of assessed value threshold identified by the voter survey, such tax rate is not determinative of a specific authorization amount.
  - There are a number of reasons why the District should consider sizing methodologies different than those used to determine the sizing of 2010 Measure D and 2012 Measure E.

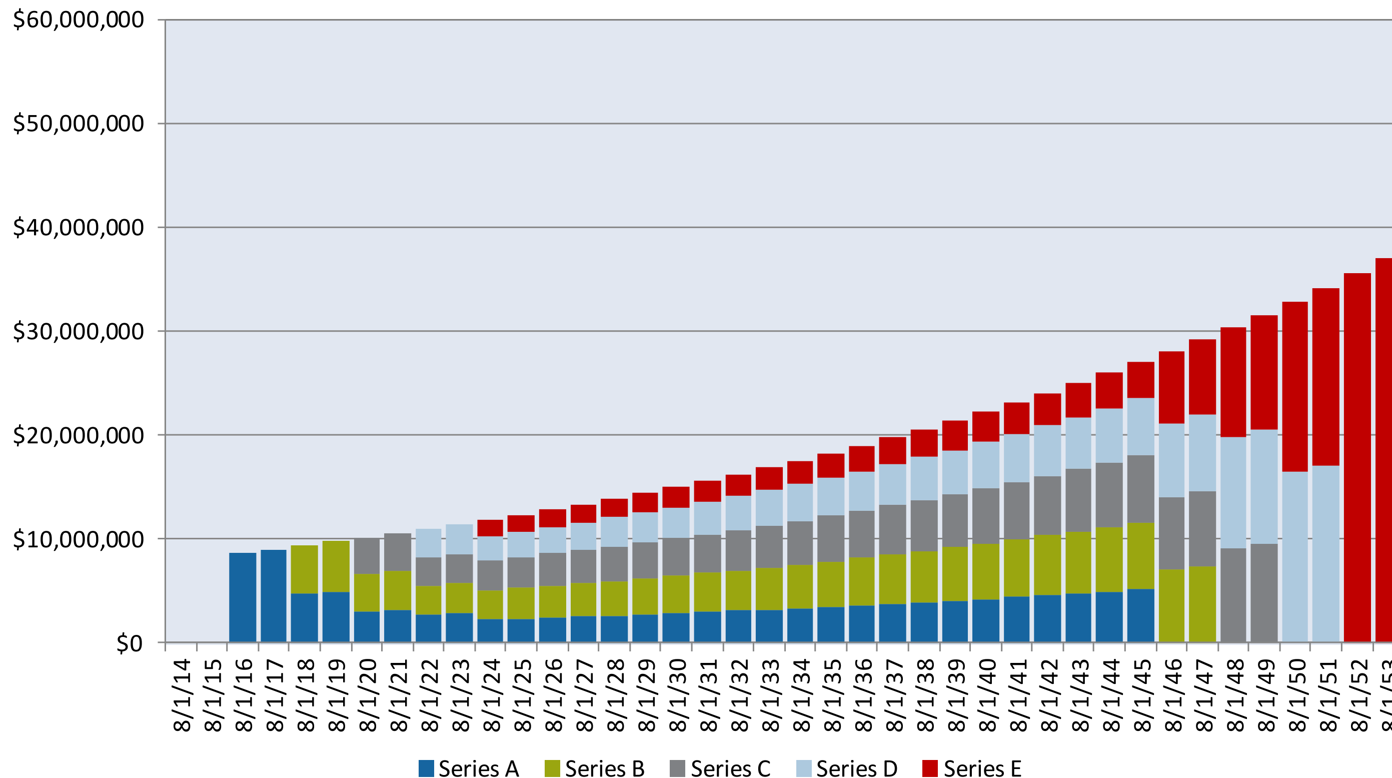
Alternative One

- A similar structure to the 2010 Measure D program and 2012 Measure E program results in a sizing of $260 million.

Size of Authorization	$260 million
Maximum Tax Rate Target	$36 per $100,000 AV
Term of Capital Program	Twelve Years
Bond Issuance Schedule	Alternate Years from 2015 through 2023
Term of Repayment	30 Years for Each Series
Repayment Structure	Escalating at 4%
Assumed Interest Rate	5.75% for Each Series
Overall Repayment	$670 million
Overall Repayment Ratio	2.6 to 1
Assumed Tax Base Growth (Implementation)	4% per year through 2023-24
Assumed Tax Base Growth (Long-Term)	4% per year thereafter
Average Tax Rate Impact	$36 per $100,000 AV

Alt One – Repayment Structure

- A program with a relatively long implementation period and higher escalation of repayment will have a higher repayment ratio.



Repayment Ratio 2.6:1

Outside Limit

- There are a number of reasons that we wouldn't want to go beyond an authorization amount of $260 million.
  - No developments over the past four years suggest that we should use a more aggressive sizing methodology than the one we used for 2010 Measure D and 2012 Measure E (in fact, the opposite may be true).
  - There are certainly reasons that the District would want to signal to the public that the bond program is getting over the hump and beginning to operate on an even more sustainable basis.
  - One of the things we continue to learn is that the amount of flexibility provided by a new bond measure is in proportion to the level of conservativeness in the assumptions.

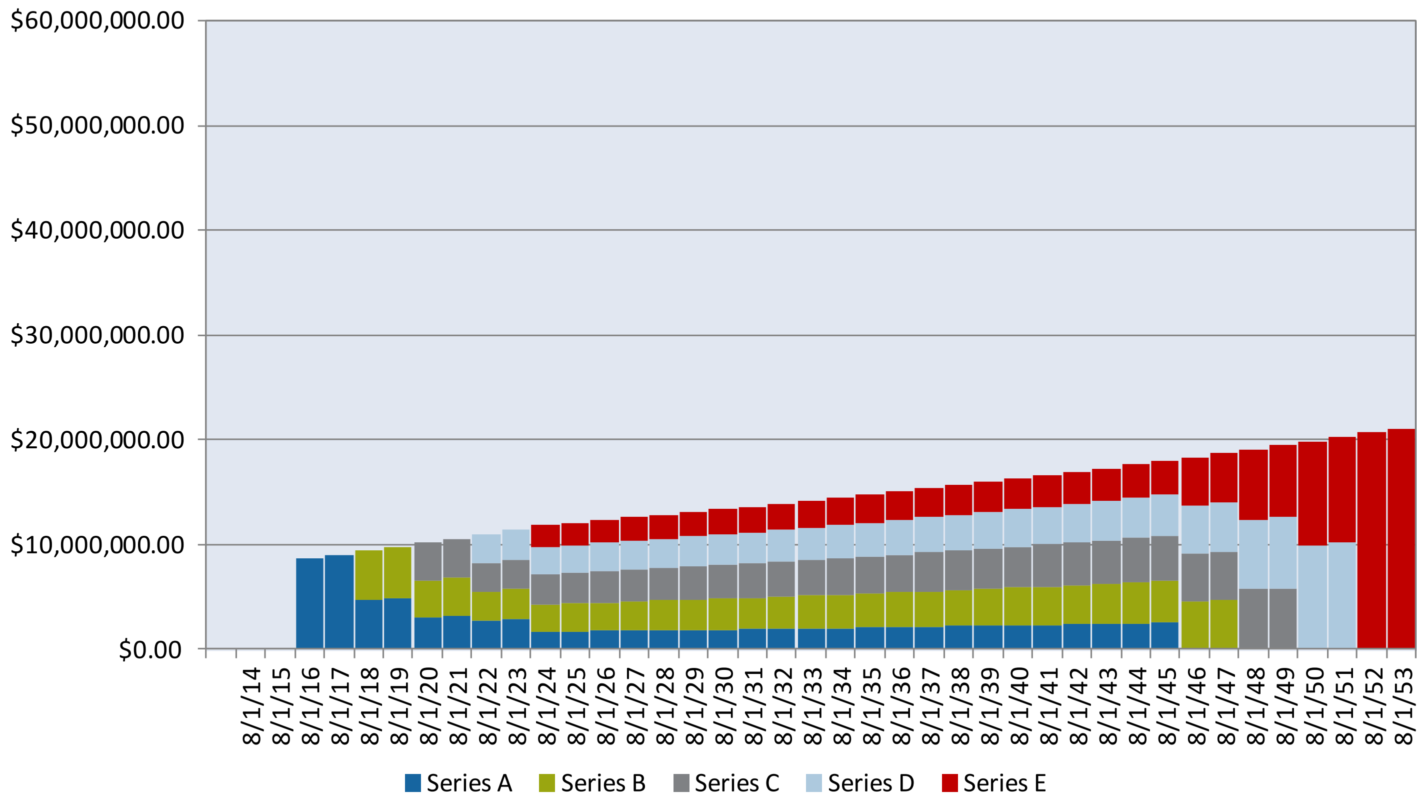
Alternative Two

- By lowering the assumed escalation on repayment to 2% results in a sizing of $215 million.

Size of Authorization	$215 million
Maximum Tax Rate Target	$36 per $100,000 AV
Term of Capital Program	Twelve Years
Bond Issuance Schedule	Alternate Years from 2015 through 2023
Term of Repayment	30 Years for Each Series
Repayment Structure	Escalating at 2%
Assumed Interest Rate	5.75% for Each Series
Overall Repayment	$505 million
Overall Repayment Ratio	2.3 to 1
Assumed Tax Base Growth (Implementation)	4% per year through 2023-24
Assumed Tax Base Growth (Long-Term)	4% per year thereafter
Average Tax Rate Impact	$29 per $100,000 AV

Alt Two – Repayment Structure

- Not surprisingly, by adjusting the assumption for escalation, we reduce the repayment ratio considerably.



Repayment Ratio 2.3:1

Increased Flexibility

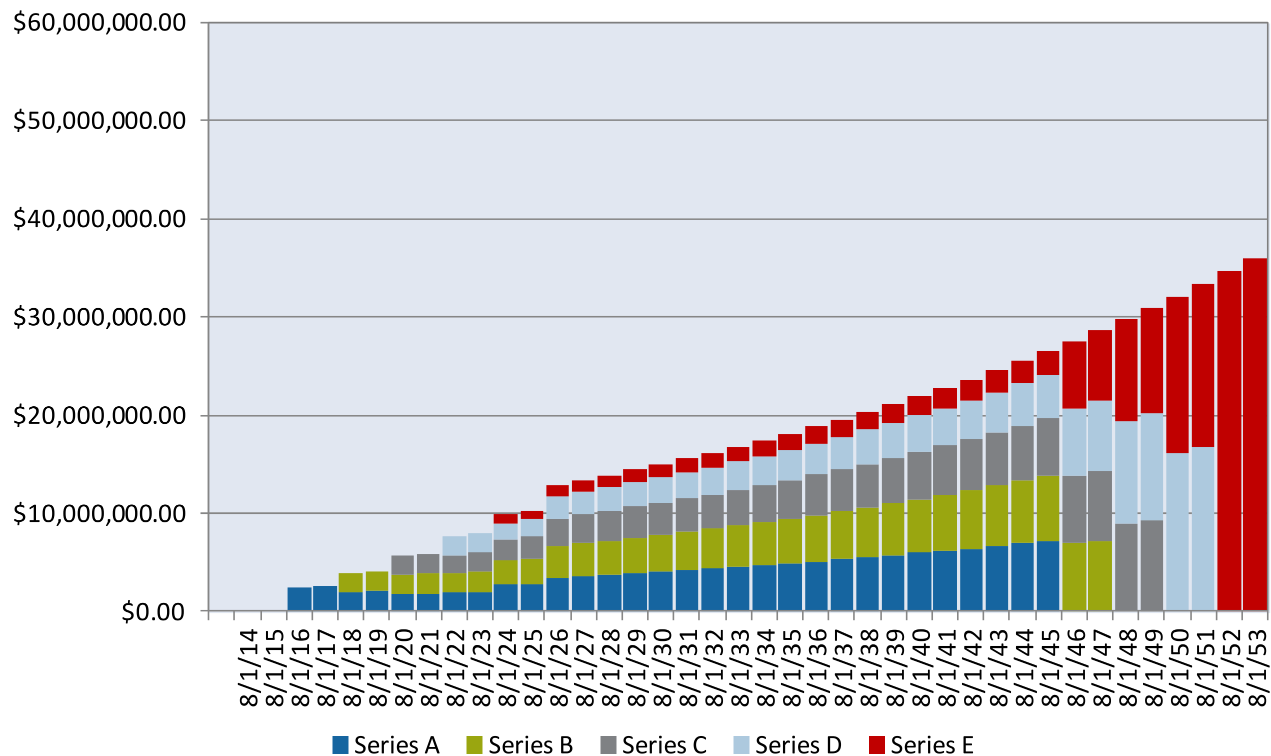
- Because the original assumptions are more conservative, Alternative Two will provide the District with more flexibility.
  - To the extent that growth in assessed values does not meet targeted levels, the original issuance schedule can be met by increasing the escalation rate without placing the maximum tax rate obligation at significant risk.
  - Given the maximum tax rate target, there is little risk of exceeding Proposition 39 maximums and a strong likelihood that bond proceeds could be accessed even in a worst case scenario.
  - Such flexibility might be used to accelerate the program or retained as insurance in the event of either emerging needs or of growing constraints to the 2010 Measure D or 2012 Measure E bond programs.

Alt Three – Advantages

- The advantage of such an alternative would be to recognize that current annual tax rates in the aggregate are relatively high but expected to decrease in the years ahead.
  - At $281.80 per $100,000 of assessed value, the combined 2013-14 tax rate is as high as it has ever been (though it remains within target maximums on a measure by measure basis).
  - Repayment obligations are scheduled to decrease significantly on both the 2000 Measure M Bonds (after tax year 2016-17) and on the 1998 Measure E Bonds (after tax year 2022-23).
  - Such a modified wrap-around structure will allow the District to generate the same $215 million as above and stay within the same maximum tax rate impact at $36 per $100,000 of assessed valuation while keeping the combined maximum at $300.00 per $100,000 of assessed value.
  - The trade-off is that long-term escalation will increase from 2% to 3.90%.

Alt Three – Repayment Structure

- One disadvantage is that, all other things being equal, both the overall repayment and the repayment ratio will increase.



Repayment Ratio 2.9:1

Mitigating Immediate Tax Impact

- The idea of mitigating immediate tax rate impact by deferring repayment can be applied to any size authorization.
  - Given the relatively high current tax rate and a schedule that provides for decrease in payments on some bond programs in the not-too-distant future and the fact that this is an ongoing, unified bond program, some deferral of repayment makes sense.
  - Clearly we'd want to make some payments in the early years (if only to avoid the use of CABs and the criticisms typically leveled against "no-tax-rate-increase" bond programs).
  - The idea of transitioning from a measure by measure standard with regard to tax rate management to a program-wide target may be something worth considering as we move into the future.

Alternative Four

- A fourth way to consider the authorization is simply as an insurance policy.
  - To the extent the District is comfortable with the currently scheduled pace of the program, the District may want to consider the potential 2014 bond explicitly as an insurance policy.
  - Under such a scenario, proceeds would be accessed only as necessary to keep the pace of the program, to replace 2005 Measure J proceeds to the extent they are not accessible, and to provide tax rate stabilization for prior bond measures.
  - KNN would recommend an issue size of $195 million for such an authorization, but such an amount could be adjusted higher or lower.
  - The District would represent the maximum tax rate impact at $36 per $100,000 of assessed value based on the survey results.

Summary of Alternatives

- A summary of the four alternatives discussed this afternoon is provided below.

Alternative	Advantage	Amount	Repayment Ratio
Alternative One	Maximizes size	$260 million	2.6:1
Alternative Two	Increase flexibility	$215 million	2.3 :1
Alternative Three	Mitigates immediate tax impact	$215 million	2.9 :1
Alternative Four	Insurance for current program	$195 million	N/A