West Contra Costa USD

Bond Program Overview

November 4, 2016

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

I. General Obligation Bond Overview

General Obligation Bonds

- Voter approved general obligation bonds are the primary tool by which California school districts fund needed facility improvement projects.
  - Voters approve the total principal amount of bonds to be issued
  - The District agrees to use the bond proceeds to complete projects identified to the voters at the time of the election.
  - *Ad valorem* property taxes are levied on all parcels in the District sufficient to pay debt service on the bonds.
  - California law places limits on outstanding debt of school district – par cannot exceed 2.5% of assessed value for unified school districts, absent a wavier.
  - Laws provide the framework for the structuring of bond programs.
  - California law also has been changed from time to time to revise requirements for the issuance of general obligation bonds, including the passage of Prop. 39 (2000) and AB 182 (2013).

Proposition 39 (2000)

- Proposition 39 was a California Constitutional amendment (along with companion legislation) that added an alternative voter threshold for general obligation bonds issued by school and community college districts:
  - Instituted a 55% approval threshold as an alternative to a two-thirds (2/3) voter requirement, which continues as an alternative. The following are requirements introduced specific to the 55% option:
  - A list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list of projects.
  - The governing board must conduct annual financial and performance audits to ensure that the bond funds have been used only for projects listed in the measure.
    - Legislation required the governing board to appoint a citizen's oversight committee to inform the public on the expenditures of the bond proceeds.
  - Projected tax rate may not exceed a maximum amount at the time of issuance of each series of bonds ($60/$100,000 of assessed value for unified school districts).

AB 182 (2013)

- AB 182 was approved by the Governor and State Legislature in 2013, and went into effect on January 1, 2014
- No school bond series can exceed a 4:1 debt service to principal ratio
- Current Interest Bonds – Bonds that pay interest semiannually
  - Can be issued under the education or government code. Education code allows a maximum maturity of 25 years, government code allows up to 40 years.
  - For current interest bonds between 30 and 40 years, two consecutive board meetings are required for approval, and the board must find that the assets financed have an expected useful life at least as long as the term of the bonds
- Capital Appreciation Bonds (CABs) – Deep discount bonds that defer "interest" payment until maturity, in the form of an increased bond value paid at maturity
  - Required to be issued under the education code (25 year maximum maturity)
  - Required to have a 10-year or earlier optional call
  - Board needs two consecutive meetings to approve the issuance of CABs
  - Generally have a higher interest expense relative to current interest bonds

Implementing a Bond Program

- Approved bond programs are implemented over a period of time and need to weigh several factors:
  - Project timing considerations and cash flow
  - Project cost considerations
  - Interest rate and investor interest
  - Assessed valuation growth and tax rate considerations

Participants in a New Money Bond Transaction

- **Board of Education** – sets policy, approves refunding plan and financing documents.
- **District Staff** – manages overall planning and execution of the financing for the District, and provides District information for planning and disclosure work by the financing team.
- **Financial Advisor** – develops the plan of finance, manages the financing team, and oversee all aspects of financing pursuant to District direction, with a focus on protecting District's interests and achieving lowest borrowing costs.
- **Bond counsel** – prepares legal documents and issues legal and tax opinions.
- **Disclosure counsel** – outlines disclosure obligations, prepares preliminary/final official statements and issues disclosure opinion.
- **Underwriter(s)** – in a negotiated sale assists with structuring the financing, investor outreach, and sells the bonds to investors.

External Participants

- **Rating Agencies** – evaluate credit quality of issuers and assign ratings which investors use to base investment decisions. Higher ratings typically result in lower interest rates.
- **County Assessor**–responsible for determining annual assessed valuation within Contra Costa County.
- **County Auditor-Controller** – responsible for calculating and levying taxes within Contra Costa County.
- **Bond Investors** – includes retail and institutional parties interested in purchasing bonds and ultimately dictate the interest rates associated with each bond sale.

AV Growth and Bond Debt Service

- For GO bonds yet to be issued, variations in assessed value and assessed value growth assumptions impact projections of debt service capacity.
- Factors in determining annual debt service capacity include:
  - Target tax rate
  - Current assessed value
  - Annual assessed value growth
- For Prop. 39 55% voter approval bond measures, a unified school district may not issue new general obligation bonds if upon issuance future tax rates are projected to exceed $60 per $100,000 for unified districts. Two-thirds approval bond measures do not have a tax rate limit on issuing bonds.
- For all bond measures, a unified school district may not issue new general obligation bonds in excess of the statutory debt limit of 2.5% of district assessed value, unless granted a specific waiver by the State Board of Education.

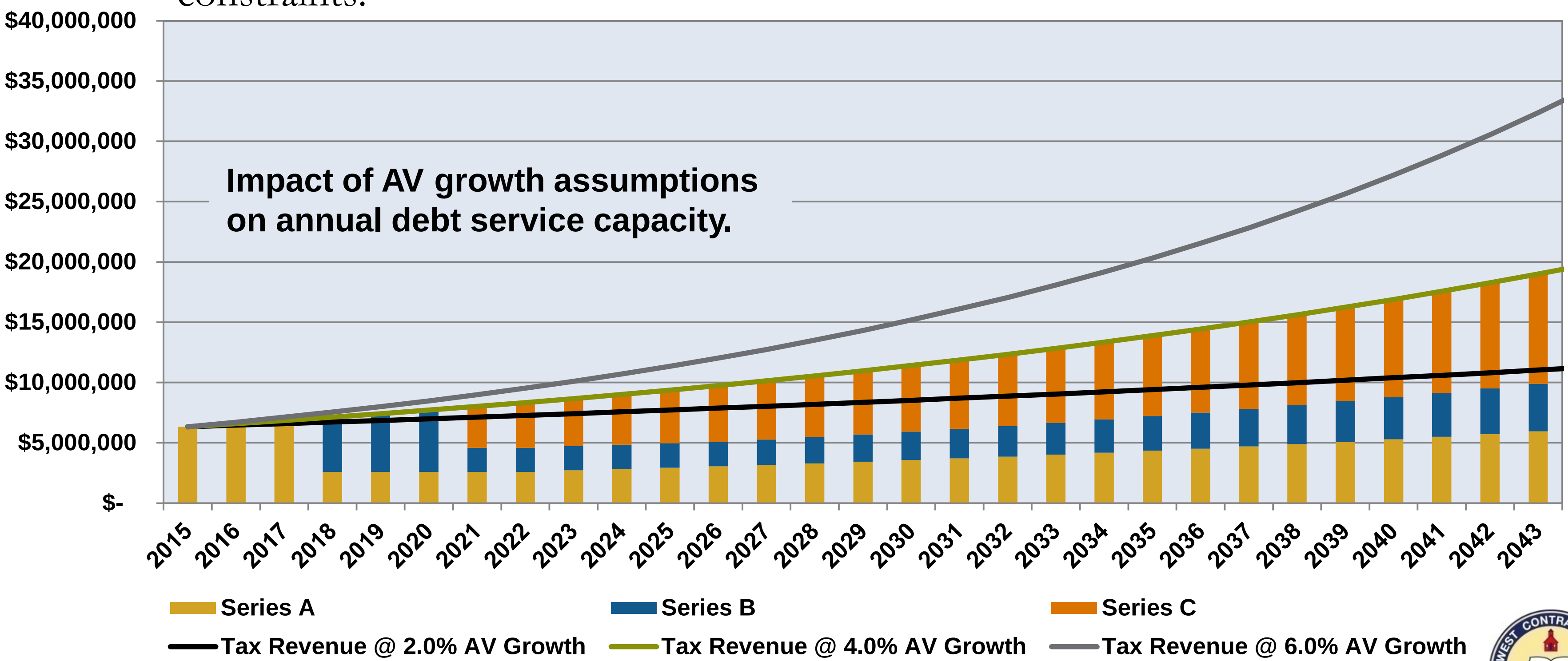
Tax Rate Targets

- Tax rate statements accompany general obligation bond measures presented to the voters for approval. Tax rate statements estimate tax year and rate after first series of bonds are issued, after last series are issued and the tax year and rate of the highest tax rate.
- The District usually also presents its best estimate of future annual tax rates for the duration of the bond program. In Contra Costa County tax rates are determined separately for each bond measure authorization.
- Estimated tax rates are not binding on the District, though the District may consider an estimate made during the bond measure campaign a political promise or target it wishes to keep.
- Tax rates may exceed estimated targets due to lower than projected growth in assessed value and/or accelerated issuances of new bonds. Conceptually, tax rate formula is:

$$\text{Annual Tax Rate} = \frac{\text{Annual Debt Service Less Other Sources}}{\text{Annual Assessed Value}}$$

Structuring General Obligation Bonds

- Assessed value is typically projected to increase on a year-over-year basis. This results in increasing tax revenue projections over time.
- Due to project constraints as well as other factors, many school districts tend to choose escalating repayment structures that fit into projected tax revenue constraints.



Method of Sale

- There are two methods of sale for municipal bonds:
  - **Competitive Sale.** In a competitive sale, bonds are offered to multiple underwriters on a pre-selected day/time using an on-line bidding platform. The bonds are sold to the underwriter offering to purchase them at the lowest true interest cost (i.e. overall cost of funds).
  - **Negotiated Sale.** In a negotiated sale, an underwriter or underwriting syndicate is selected at the outset of the financing, and interest rates are negotiated between the underwriter and the District (with the assistance from its Financial Advisor) at the time of the sale. Transactions are often sold by negotiated sale in order to provide an opportunity to better educate investors and respond to investor questions and input, among other reasons.
- In advance of each sale, the District should weigh factors such as debt structure, market conditions, and credit considerations to determine the most advantageous method of sale.

Sample Bond Issuance Schedule

- A typical GO bond financing schedule would be approximately 3-4 months, once a financing team is in place.

Week	Task
1-2	Financing Team Meeting Legal and Disclosure Document Drafting
3-5	Document Drafting & Editing, evaluate alternative bond structures
6-7	Document Drafting & Editing Rating Agency Presentation Drafting
8-10	Rating Agency Presentation Board Approval of Financing (2 board meetings required in certain cases)
11-12	Bond Marketing, Investor Outreach Pricing
14	Closing

II. The District's Bond Program

The District's Debt Summary

- District voters have approved bonds on 6 occasions since June 1998.
- Measures approved after 2000 used Proposition 39 requirements.

	Yes Vote*	Required Vote	Authorized Amount	Authorization Utilized	Remaining Authorization
1998 Measure E	75.70%	66.60%	$40,000,000	$40,000,000	$0
2000 Measure M	77.50%	66.60%	$150,000,000	$150,000,000	$0
2002 Measure D	71.80%	55.00%	$300,000,000	$299,997,483	$2,517
2005 Measure J	56.90%	55.00%	$400,000,000	$322,409,708	$77,590,292
2010 Measure D	62.60%	55.00%	$380,000,000	$250,000,000	$130,000,000
2012 Measure E	64.40%	55.00%	$360,000,000	$235,000,000	$125,000,000
TOTAL			$1,630,000,000	$1,297,407,192	$332,592,809

* Data from smartvoter.org

Summary of Prior Refunding Bonds

- The District has refinanced its bonds 5 times since 2009 for interest savings and to manage tax rates.
- These refundings are saving taxpayers a total of **$59 million** over the life of the bonds, or **$39 million** on a net present values basis.

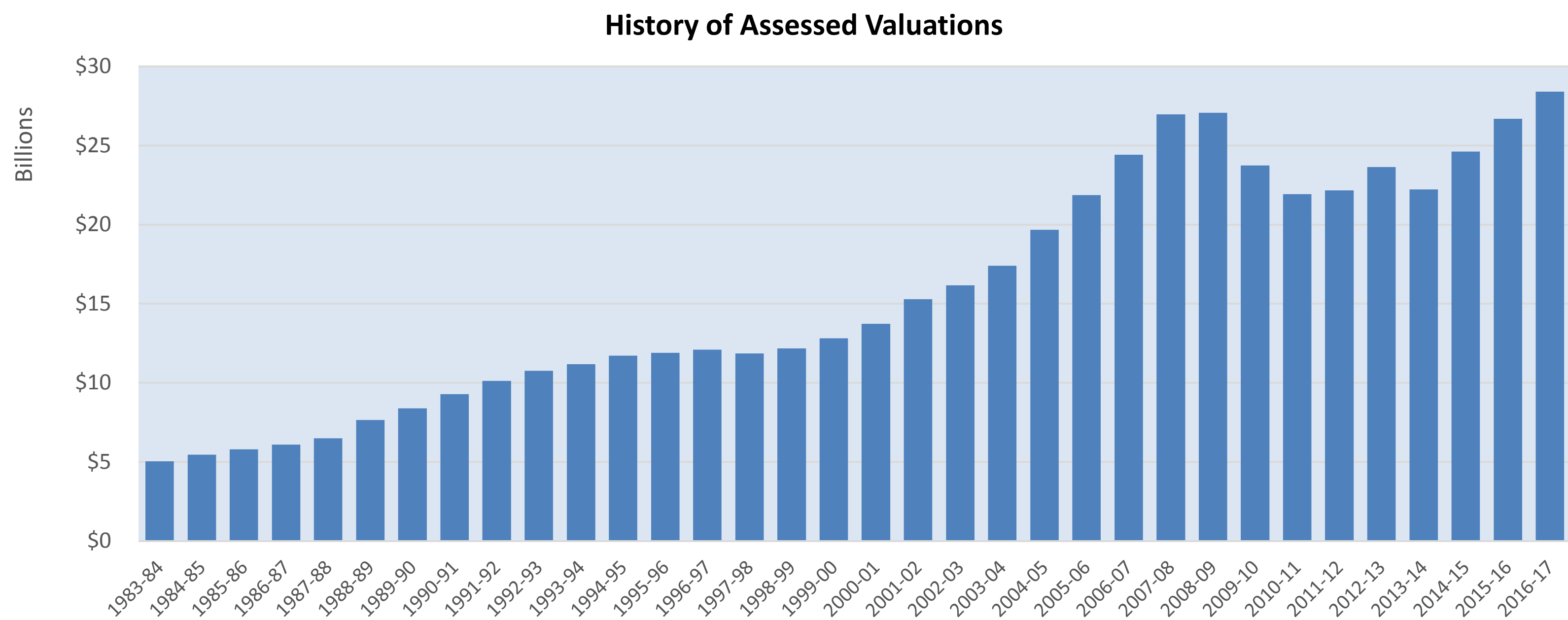
Issuance Date	Amount	Series	Actual Savings	Present Value Savings*	PV Savings %*
9/3/2009	$57,860,000	2009 GO Refunding Bonds	$14,129,245	$2,516,407	4.4
8/25/2011	$85,565,000	2011 GO Refunding Bonds	$8,130,709	$7,370,086	8.6
7/10/2012	$98,200,000	2012 GO Refunding Bonds	$12,545,510	$9,511,400	9.8
8/13/2014	$77,460,000	2014 GO Refunding Bonds	$10,305,384	$9,602,569	11.1
3/15/2016	$65,940,000	2016 GO Refunding Bonds	$14,086,164	$10,430,284	16.1
TOTAL			**$59,197,012**	**$39,430,746**	

**Present value savings on respective dates of issue as percent of refunded par amount*

- The District has a refunding policy. See Appendix.

The District's Assessed Value

- The District's assessed valuation growth has been uneven in the recent past:
  - 25-Year compounded annual growth rate: 4.41%
  - 15-Year compounded annual growth rate: 4.50%
  - 5-Year compounded annual growth rate: 5.25%
  - 2016-17 growth was 6.41%



The District's Tax Rate History

- The District has been able to maintain their tax rate target in connection with each of their bond programs.

	1998 Measure E	2000 Measure M	2002 Measure D	2005 Measure J	2010 Measure D	2012 Measure E
1998/99	$6.10	N/A	N/A	N/A	N/A	N/A
1999/00	$12.50	N/A	N/A	N/A	N/A	N/A
2000/01	$20.40	N/A	N/A	N/A	N/A	N/A
2001/02	$18.00	$6.90	N/A	N/A	N/A	N/A
2002/03	$16.10	$25.00	$11.50	N/A	N/A	N/A
2003/04	$12.30	$45.40	$48.70	N/A	N/A	N/A
2004/05	$16.10	$46.90	$52.30	N/A	N/A	N/A
2005/06	$11.50	$43.70	$48.90	N/A	N/A	N/A
2006/07	$10.50	$38.60	$48.70	$16.50	N/A	N/A
2007/08	$9.00	$34.20	$44.20	$16.10	N/A	N/A
2008/09	$9.30	$36.50	$48.40	$28.80	N/A	N/A
2009/10	$10.50	$55.20	$58.10	$59.00	N/A	N/A
2010/11	$11.30	$55.60	$60.00	$60.00	N/A	N/A
2011/12	$8.60	$55.60	$60.00	$60.00	$48.00	N/A
2012/13	$8.70	$55.60	$60.00	$60.00	$31.40	N/A
2013/14	$10.20	$55.60	$60.00	$60.00	$48.00	$48.00
2014/15	$8.70	$55.60	$60.00	$60.00	$48.00	$48.00
2015/16	$6.50	$55.60	$60.00	$60.00	$48.00	$48.00
2016/17	$5.80	$38.60	$60.00	$60.00	$48.00	$48.00
Target	**$26.40**	**$55.60**	**$60.00**	**$60.00**	**$48.00**	**$48.00**

Bonding Capacity Limit Waiver

- Section 15106 of the Education Code provides that a unified school district may only issue general obligation bonds up to 2.5% of the assessed value of property within the district.
- Section 33050 of the Education Code allows the State Board of Education ("SBE") to waive any provisions of the Education Code, following a public hearing on the matter (with certain exceptions).
- Previously, the District has requested and received four waivers of its bonding capacity, as shown below:

Date	Bonds to which Waiver Applies	Adjusted Bonding Capacity Limit (%)	Expiration Date
November 2002	2002 Measure D	3.00% of AV	November 2007
May 2009	2005 Measure J	3.50% of AV	May 2014
March 2011	2010 Measure D	5.00% of AV	December 2021
May 2013	2012 Measure E	5.00% of AV	December 2025

- As of November 3, 2016, the District's remaining bonding capacity with the waivers is approximately $365 million.
- Statutory debt capacity with the waivers will change with variations in assessed value as well as the amount of remaining debt, as the District pays off prior bonds.

Looking Ahead: 2010 Measure D and 2012 Measure E

- 2010 Measure D and 2012 Measure E are currently the only "active" measures for District bond program.
- Both measures have been designed around tax rates at $48/$100k of assessed value and annual AV growth assumptions at 4%.

Year	Series	2010 Measure D	2012 Measure E	Total
	Previously Issued	$250,000,000	$235,000,000	$485,000,000
2018-19	Elec. 2010 Ser. E Elec. 2012 Ser. D	65,000,000	60,000,000	125,000,000
2020-21	Elec. 2010 Ser. F Elec. 2012 Ser. E	65,000,000	65,000,000	130,000,000
		$380,000,000	$360,000,000	$740,000,000

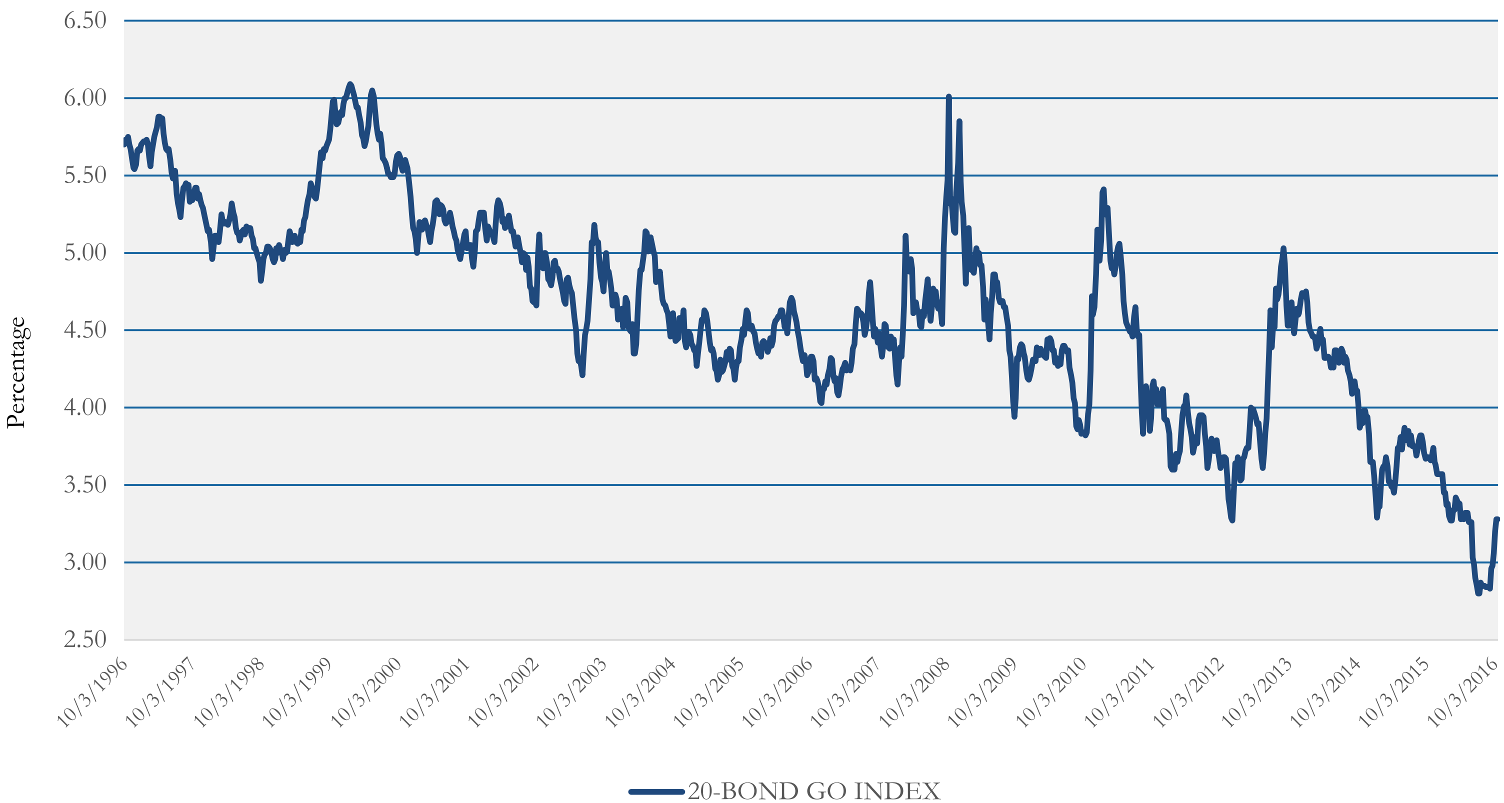
*Issuance amounts are subject to change based on future A.V. growth, market conditions, interest rates at the time of sale, and structure assumptions.

Ratings

- The District's ratings have improved significantly through time.
  - District ratings have improved dramatically over the last decade:
    - In August 2003, Moody's, Standard & Poor's and Fitch ratings were NR / A- (stable) / A – (negative).
    - In 2016, Moody's, Standard & Poor's and Fitch ratings are Aa3 (stable) / AA- (stable) / AA+ (stable).
  - Fitch's AA+ rating is based solely on the District's tax base and the County tax collection and bond payment systems established in State law, and not at all on the District's credit or operations.
    - While reflecting the correct understanding of California school bond credit and security, Fitch requires bankruptcy opinions which so far are expensive to obtain, for every issue for which this kind of rating is sought. Moody's, Standard & Poor's and Fitch regular or "issuer" ratings all focus on school district operations as well or even predominantly.
  - The most recent ratings reports have discussed credit strengths, such as the District's solid financial position and reserves.
  - Credit challenges include overall debt levels as well as pension and OPEB costs.

Municipal Bond Interest Rates

- The District has been a consistent issuer of bonds in different interest rate environments.
- The Bon Buyer-20 index is an index of 20-year general obligation bond maturities.



Spread to MMD AAA GO Index by Financing

- The District's interest costs as represented by interest rate spread in basis points to the MMD AAA GO Index (on the day of sale) have been trending downwards in recent years.
- Differences in coupons affect interest rate spread. In general, high coupons have lower spreads, par coupons higher spreads.
- Also, spreads tend to narrow with lower overall market interest rate levels and widen with higher levels..

Maturity	2011	2012	2013	2014	2015	2016
1	35	-	12	-	0.18	0.16
2	60	-	10	-	0.22	-
3	-	-	25	12	0.26	-
4	-	-	35	14	0.24	-
5	-	-	-	14	0.26	-
6	-	-	-	23	0.27	-
7	-	-	-	29	0.25	-
8	-	-	48	36	0.32	-
9	129	106	58	41	0.41	-
10	131	114	68	50	0.57	-
11	132	113	79	55	0.59	-
12	137	120	83	60	0.61	-
13	134	120	88	61	0.65	0.36
14	143	120	93	66	0.65	0.35
15	142	120	98	67	0.66	0.85
16	142	-	90	67	0.63	0.81
17	-	-	90	67	0.63	0.80
18	-	-	90	70	0.63	0.81
19	-	-	90	67	0.63	0.81
20	-	115	90	67	-	0.81
21	119	-	-	68	-	-
24	-	-	-	-	0.65	-
25	-	-	-	-	-	0.65
29	-	-	-	-	0.65	-
30	-	-	-	-	-	0.64
38	-	-	-	-	1.23	0.84

III. Bond Measure Detail

1998 Measure E (non-Prop. 39)

- The District issued its 1998 Measure E Bonds in four series over time.

Date	Name	Amount	Type of Bonds	Type of Sale	Effective Interest Rate	Repayment Ratio
8/18/98	Series A	$10,000,000	CIBs	Competitive	4.8724%	1.75
2/9/99	Series B	$10,000,000	CIBs	Competitive	4.8339%	1.74
2/7/00	Series C	$10,000,000	CIBs	Competitive	5.5900%	1.90
8/9/00	Series D	$10,000,000	CIBs	Competitive	5.1824%	1.84
		$40,000,000				

Note: CIBs are Current Interest Bonds, with semi-annual interest payments.

1998 Measure E (non-Prop. 39)

1998 Measure E Summary	
Authorization	$40.0 million
Issued	$40.0 million
Currently Outstanding	**$18.4 million**
Remaining Authorization	$0
Target Tax Rate	$26.40 per $100K AV

2000 Measure M (non-Prop. 39)

- The District issued its 2000 Measure M Bonds in three series over time.

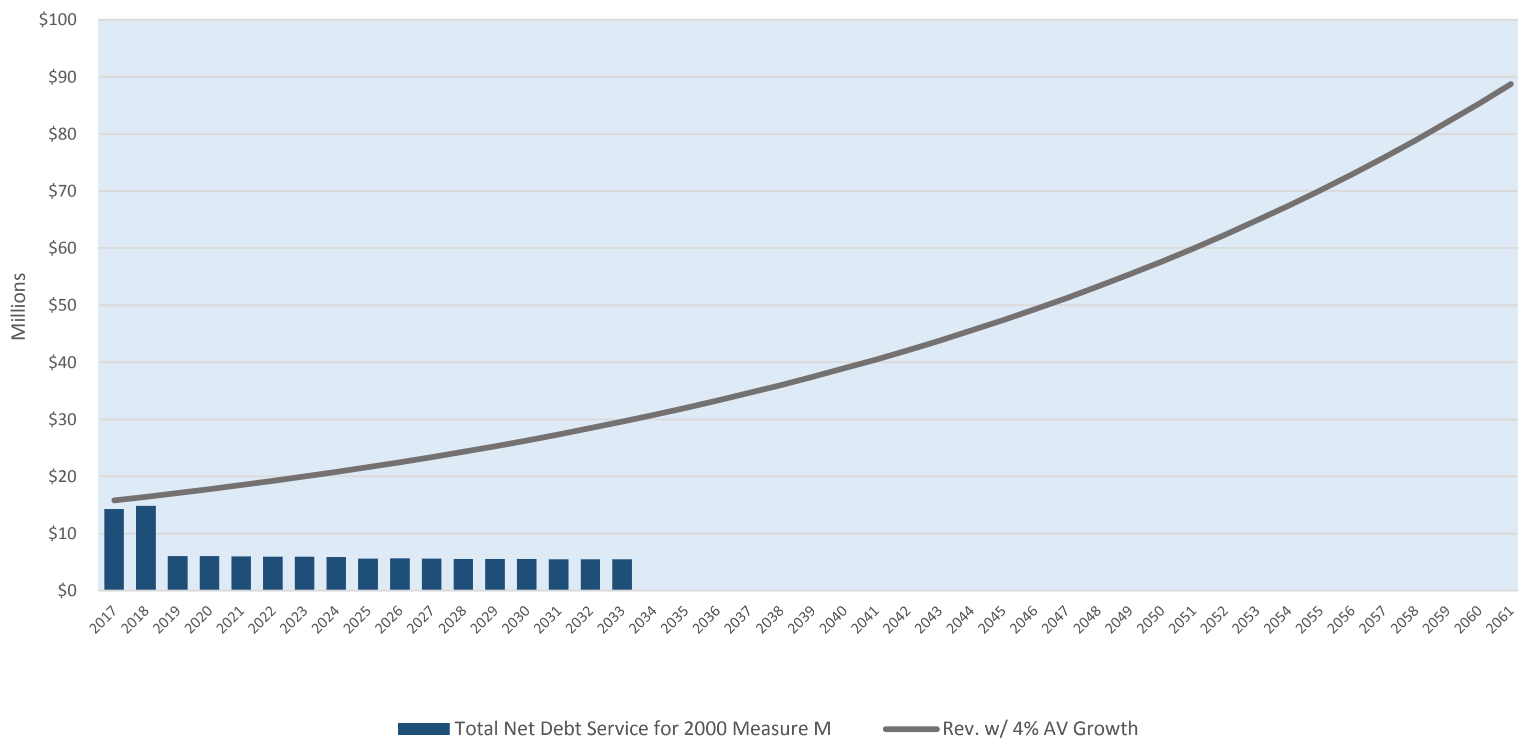
Date	Name	Amount	Type of Bonds	Type of Sale	Effective Interest Rate	Repayment Ratio
5/15/01	Series A	$15,000,000	CIBs	Competitive	5.0503%	1.97
2/26/02	Series B	$40,000,000	CIBs	Competitive	4.8265%	1.93
4/22/03	Series C	$95,000,000	CIBs	Competitive	4.5805%	1.85
		$150,000,000				

Note: CIBs are Current Interest Bonds, with semi-annual interest payments.

2000 Measure M (non-Prop. 39)

2000 Measure M Summary

Authorization	$150.0 million
Issued	$150.0 million
Currently Outstanding	$72.4 million
Remaining Authorization	$0
Target Tax Rate	$55.60 per $100K AV



2002 Measure D

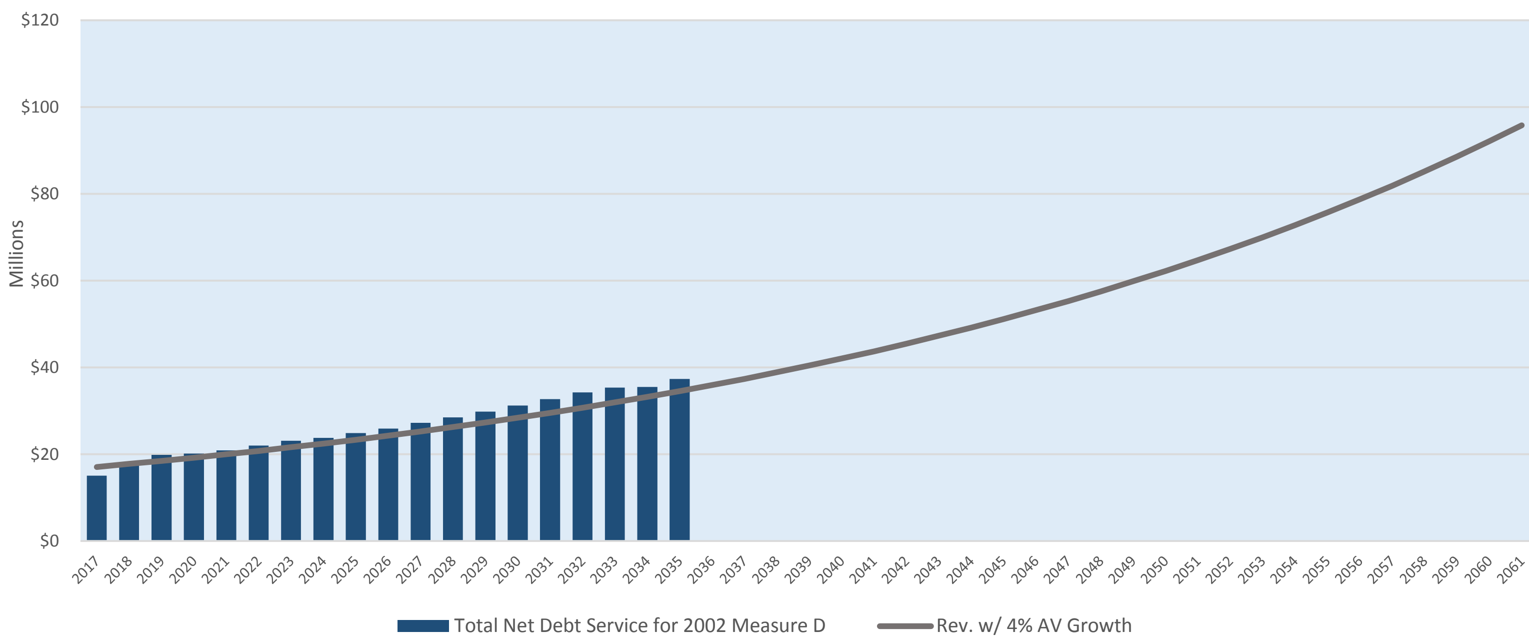
- The District issued its 2002 Measure D Bonds in four series over time.

Date	Name	Amount	Type of Bonds	Type of Sale	Effective Interest Rate	Repayment Ratio
6/26/02	Series A	$30,000,000	CIBs	Competitive	4.8206%	1.90
8/25/03	Series B	$100,000,000	CIBs	Competitive	4.7018%	1.84
8/11/04	Series C	$69,999,377	CIBs and CABs	Competitive	5.1860%	2.48
10/19/05	Series D	$99,998,106	CABs	Competitive	4.8838%	2.56
		$299,997,483				

Note: CIBs are Current Interest Bonds, with semi-annual interest payments. CABs are Capital Appreciation Bonds, deferring interest to final maturity.

2002 Measure D

2002 Measure D Summary	
Authorization	$300.0 million
Issued	$300.0 million
Currently Outstanding	$221.7 million
Remaining Authorization	$2,517.00
Target Tax Rate	$60.00 per $100K AV



2005 Measure J

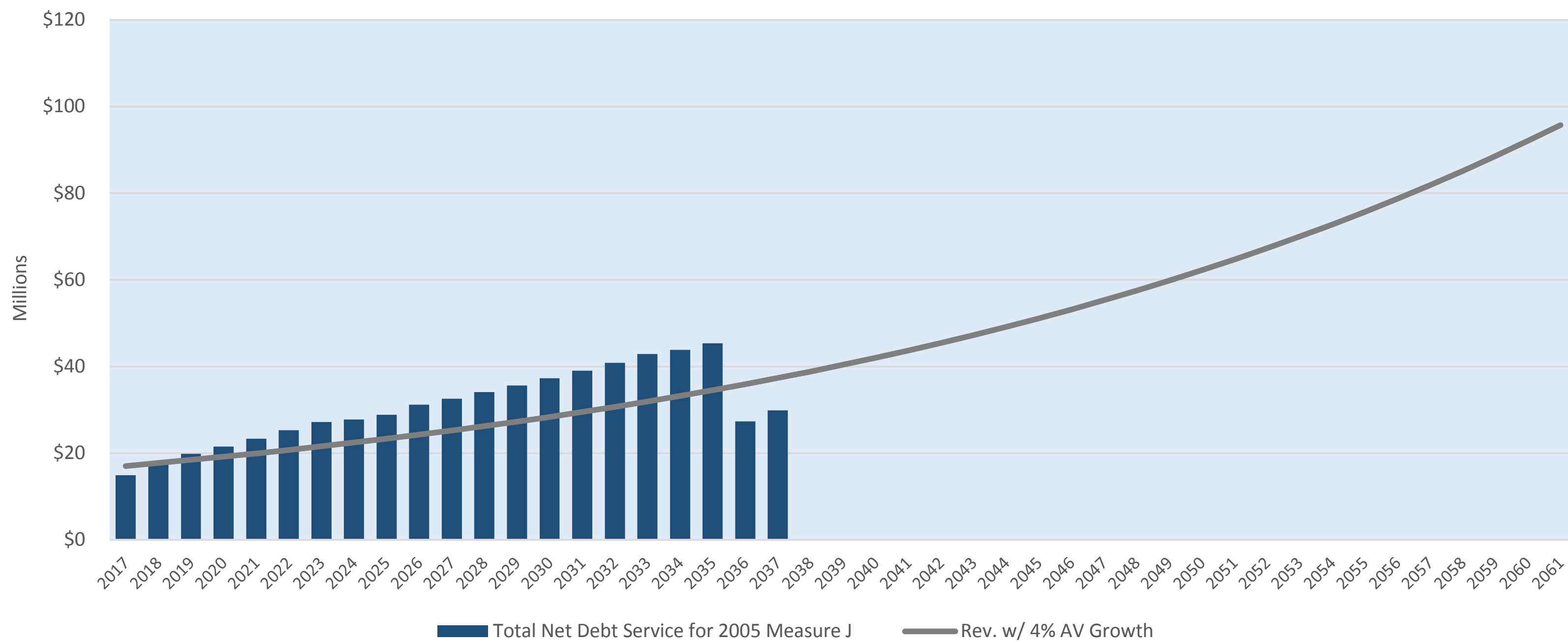
- Over time, the District issued four series under 2005 Measure J and has approximately $77 million in bonds remaining to be issued.
- The District issued $52.8 million of Series C Bonds as Build America Bonds and $25.0 million of Series D bonds as Qualified School Construction Bonds.
- The interest rates on the Build America Bonds and Qualified School Construction Bonds were federally subsidized.

Date	Name	Amount	Type of Bonds	Type of Sale	Effective Interest Rate	Repayment Ratio
5/17/06	Series A	$70,000,000	CIBs	Competitive	4.6332%	1.86
7/15/08	Series B	$120,000,000	CIBs	Competitive	5.1485%	2.01
9/3/09	Series C	$104,909,759	CABs and CIBs	Negotiated	6.2609%	2.86
6/24/10	Series D	$27,499,949	CABs and CIBs	Negotiated	3.7685%	2.03
		$322,409,708				

Note: CIBs are Current Interest Bonds, with semi-annual interest payments. CABs are Capital Appreciation Bonds, deferring interest to final maturity.

2005 Measure J

2005 Measure J Summary	
Authorization	$400.0 million
Issued	$322.4 million
Currently Outstanding	$311.7 million
Remaining Authorization	$77.6 million
Target Tax Rate	$60.00 per $100K AV



2010 Measure D

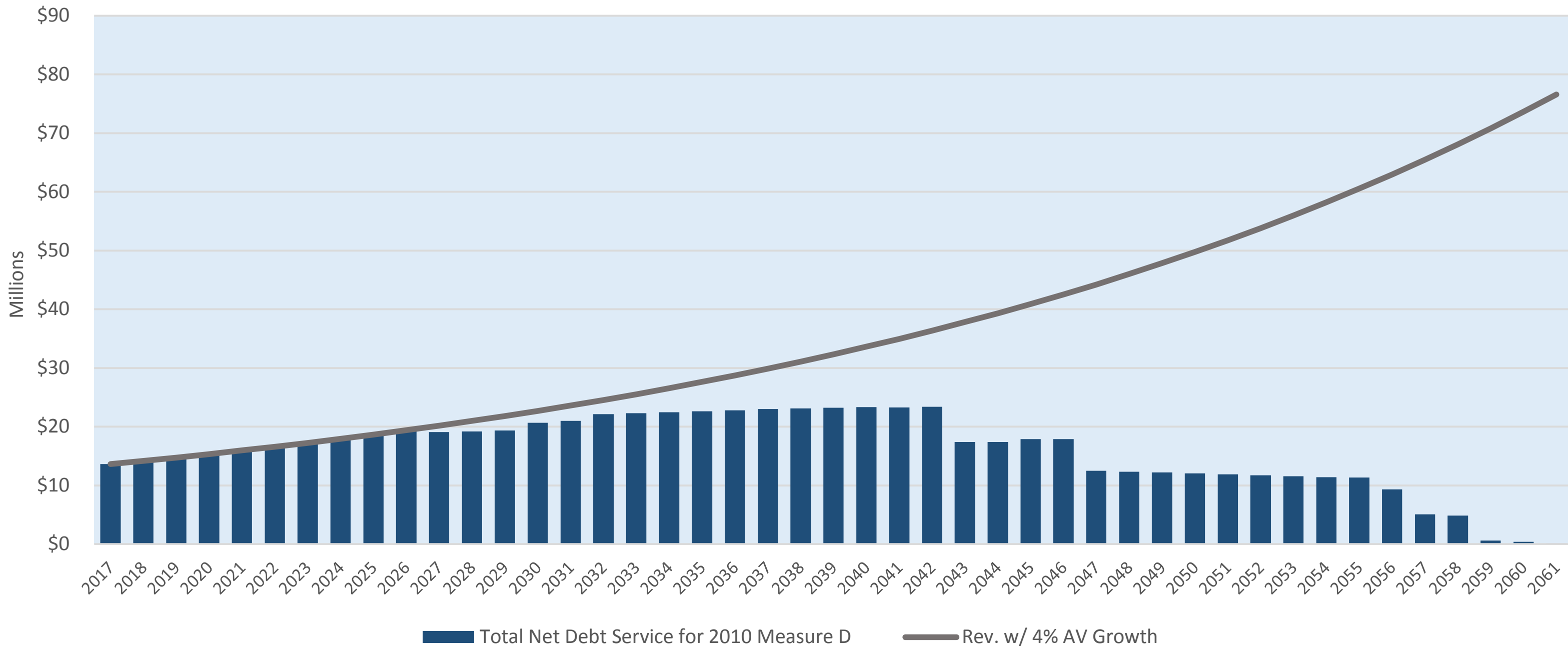
- The District has issued bonds for 2010 Measure D in 2011, 2013, 2015 and 2016.
- The District issued $21.0 million of federally subsidized Qualified School Construction Bonds as a part of Series A.

Date	Name	Amount	Type of Bonds	Type of Sale	Effective Interest Rate	Repayment Ratio
11/22/2011	Series A	$100,000,000	CIBs	Negotiated	4.40%	1.95
10/31/2013	Series B	$40,000,000	CIBs	Negotiated	5.06%	1.17
3/12/2015	Series C	$50,000,000	CIBs	Negotiated	4.01%	2.07
3/15/2016	Series D	$60,000,000	CIBs	Negotiated	3.78%	2.08
		$250,000,000				

Note: CIBs are Current Interest Bonds, with semi-annual interest payments.

2010 Measure D

2010 Measure D Summary	
Authorization	$380.0 million
Issued	$250.0 million
Currently Outstanding	$221.8 million
Remaining Authorization	$130.0 million
Target Tax Rate	$48.00 per $100K AV



2012 Measure E

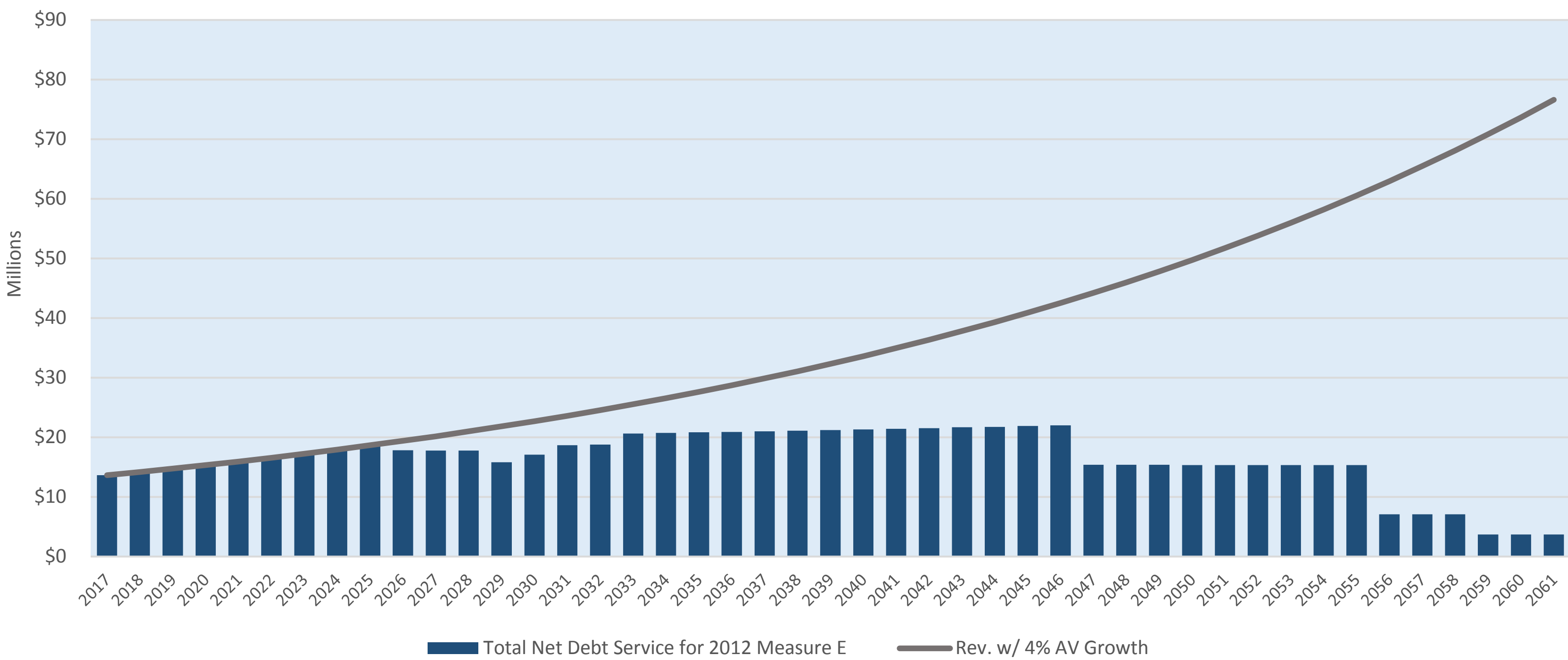
- The District issued 2012 Measure E bonds was in 2013, 2015 and 2016.

Date	Name	Amount	Type of Bonds	Type of Sale	Effective Interest Rate	Repayment Ratio
10/31/2013	Series A	$85,000,000	CIBs	Negotiated	5.03%	2.04
3/12/2015	Series B	$85,000,000	CIBs	Negotiated	4.08%	2.12
3/15/2016	Series C	$65,000,000	CIBs	Negotiated	3.76%	1.87
		$235,000,000				

Note: CIBs are Current Interest Bonds, with semi-annual interest payments.

2012 Measure E

2012 Measure E Summary	
Authorization	$360.0 million
Issued	$235.0 million
Currently Outstanding	$211.0 million
Remaining Authorization	$125.0 million
Target Tax Rate	$48.00 per $100K AV



IV. Summary

Summary

- The District has successfully issued 24 new money and seven refunding series of bonds since 1998.
- Over $1.2 billion in proceeds for projects in the District.
- The District has made it a priority to meet its tax rate targets and has successfully done so in every year in the past.
- The District has emphasized transparency in its bond program and requests regular reports from its financing team, all of which are made available publicly.

Appendix

Terminology

- There are two types of refundings; current and advance refundings.
  - Current refunding – A refunding transaction where the bonds being refunded will mature or be redeemed within 90 days or less after the issuance of the refunding bonds.
  - Advance refunding – A refunding transaction where the bonds being refunded will not mature or be redeemed within 90 days or less after the issuance of the refunding bonds.
- Capital Appreciation Bonds – A bond which pays no interest on a periodic basis, but accretes (increases) in value from the date of issuance (delivery date) to the date of maturity.
- Convertible Capital Appreciation Bonds – A convertible capital appreciation bond is a bond which compounds interest for a fixed period of time, usually between 5 and 10 years, and then pays interest periodically like a serial or term bond.

West Contra Costa USD Refunding Policy

- The Board adopted a refunding policy (B.P. 7214.3) on April 24, 2013.
- The policy stipulates minimum guidelines when evaluating potential refunding opportunities.
- The highlights of the policy include:
  - Current refundings should achieve present value savings of at least 4%;
  - Refundings should achieve $1 million of present value savings and a minimum of $100,000 annual savings;
  - The term of the debt should not be extended;
  - Refundings should be structured to achieve level annual debt service savings, or to level out overall debt service, or to maintain tax rates; and
  - Refundings may be utilized to manage tax rate commitments to voters.