West Contra Costa USD

Update on 2014 GO Bond Refunding

Presentation to the Facilities Subcommittee

May 13, 2014

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. Refunding Overview

What is a Refunding?

- Similar to refinancing a home mortgage.
- Paying off existing debt by borrowing money in a lower interest rate environment leads to savings, which are passed on to the taxpayers.
- Additionally, a refunding can be used to restructure debt, which can be beneficial for other purposes.

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.

Participants in a Refunding Transaction

- **Board of Education** – sets policy, approves refunding plan and financing documents.
- **District Staff** – liaison with financing team, assist with gathering District information, and executing the financing.
- **Financial Advisor** – develop the plan of finance, manage the financing team, and oversee all aspects of financing, 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)** – assist with structuring the financing, investor outreach, and facilitate sale of bonds to investors (negotiated sale).
- **Verification agent** – verifies the refunding calculations.

II. West Contra Costa USD 2014 GO Bond Refunding Objectives

Potential GO Bond Refunding Objectives

- Help manage tax rates to honor commitments to taxpayers and to comply with statutory requirements.
- Achieve savings for taxpayers by reducing bond debt service.

Measure by Measure Summary

- Based on our projections and the availability of tax rate stabilization funds, the District should expect to meet its tax rate targets in 2014-15 on five of its six bond measures even in the absence of tax base growth.

Measure	Tax Rate Target	Achievability
1998 Measure E	$26.40	Under all circumstances
2000 Measure M	55.60	With use of tax rate stabilization fund
2002 Measure D	60.00	Requires refunding, cash deposit and/or strong AV growth, depending on tax rate growth
2005 Measure J	60.00	May not need help, or else tax rate stabilization funds and/or refunding with use of tax rate stabilization fund
2010 Measure D	48.00	Under all circumstances
2012 Measure E	48.00	Under all circumstances

- However, unless assessed valuation growth is 8% or higher, tax rates for 2002 Measure D bonds are projected to exceed the target $60 rate in 2014-15 absent other strategies.

Addressing the Funding Gap

- To the extent that tax base growth does not allow the District to meet its tax rate target regarding its 2002 Measure D Bonds, we are evaluating a variety of alternatives, some of which may need to be used in combination.
  - Refunding existing 2002 Measure D Bonds to reduce payments coming due in 2014-15.
  - Depositing existing bond proceeds in the 2002 Measure D debt service fund (to the extent legally appropriate).
  - Issuing new bonds under 2010 Measure D or 2012 Measure E to redeem existing 2002 Measure D Bonds as provided in the ballot language.
  - Allow County to levy in excess of tax rate targets.

III. Refunding Candidates and Savings Analysis

2002 Measure D Issuances – Refunding Candidates

Delivery Date	Series	Original Par Amount	Outstanding Par Amount	Call Feature
8/11/2004	Series C (Current Interest Bonds)	$40,000,000	$24,640,000	8/1/2014 @ 100
8/11/2004	Series C (Capital Appreciation Bonds)	$29,999,377	$26,783,541	Non-Callable
10/19/2005	Series D	$99,998,106	$88,289,681	Non-Callable
8/25/2011	2011 Refunding (Portion)[1]	$51,605,000	$48,705,000	8/1/2021 @ 100
7/10/2012	2012 Refunding (Portion)[2]	$57,830,000	$57,830,000	8/1/2022 @ 100 [3]
Total		**$279,432,483**	**$246,248,222**	

[1] The District's 2011 General Obligation Refunding Bonds partially refunded the Election of 2000, Series C bonds on a current basis, and they also partially refunded the Election of 2002, Series A and B bonds on a current basis.

[2] The District's 2012 General Obligation Refunding Bonds refunded the Election of 2000, Series C bonds on a current basis, the Election of 2002, Series A and B bonds on a current basis, and partially refunded the Election of 2002, Series C bonds on an advance basis.

[3] Only a portion of the bonds are eligible to be advance refunded.

2002 Measure D Refunding Candidates

- Because the Series C Current Interest Bonds ("Series C CIBs") have no principal maturing in 2014-15 or 2015-16, a refunding with current interest bonds would not generate enough interest cost savings in 2014-15 and 2015-16 to meet the target tax rate in those years.
- Alternatives include using convertible capital appreciation bonds to refund the Series C CIBs or additionally refunding certain maturities of the Series C Capital Appreciation Bonds ("Series C CABs").

Year Ending	Election of 2002, Series C (Current Interest Bonds)		Election of 2002, Series C (Capital Appreciation Bonds)	
	Principal	Interest	Principal	Interest
2015	$0.00	$1,193,835.00	$814,827.75	$600,172.25
2016	$0.00	$1,193,835.00	$882,657.00	$737,343.00
2017	$1,035,000.00	$1,172,617.50	$948,556.80	$891,443.20
2018	$1,085,000.00	$1,128,343.75	$731,640.00	$768,360.00
2019	$1,135,000.00	$1,081,168.75	$692,250.00	$807,750.00
2020	$1,190,000.00	$1,030,275.00	$1,039,227.00	$1,340,773.00
2021	$1,250,000.00	$975,375.00	$1,169,186.20	$1,660,813.80
2022	$0.00	$947,250.00	$1,172,700.00	$1,827,300.00
2023	$0.00	$947,250.00	$1,109,550.00	$1,890,450.00
2024	$0.00	$947,250.00	$1,294,778.00	$2,405,222.00
2025	$0.00	$947,250.00	$1,327,711.00	$2,682,289.00
2026	$0.00	$947,250.00	$1,359,591.80	$2,980,408.20
2027	$1,695,000.00	$904,875.00	$1,390,162.90	$3,299,837.10
2028	$1,785,000.00	$817,875.00	$1,417,674.75	$3,637,325.25
2029	$1,880,000.00	$726,250.00	$1,440,850.50	$3,989,149.50
2030	$1,980,000.00	$629,750.00	$1,462,424.50	$4,362,575.50
2031	$2,085,000.00	$528,125.00	$1,481,061.90	$4,753,938.10
2032	$2,195,000.00	$421,125.00	$1,499,082.50	$5,170,917.50
2033	$2,315,000.00	$308,375.00	$1,626,772.50	$6,023,227.50
2034	$2,440,000.00	$189,500.00	$1,967,736.00	$7,812,264.00
2035	$2,570,000.00	$64,250.00	$1,955,099.90	$8,314,900.10
Total	**$24,640,000.00**	**$17,101,825.00**	**$26,783541.00**	**$65,956,459.00**

Potential Refunding Savings – 2002 Measure D

- Under current market conditions, a refunding of the Series C Current Interest Bonds could generate as much as 8% net present value savings but not help the District meet it's tax rate target of $60 in 2014-15 or 2015-16.
- By using convertible capital appreciation bonds to refund the Series C Current Interest Bonds, the District could meet it's tax rate target in 2014-15 but not in 2015-16, absent other strategies.

Refunding – 2002 Series C Current Interest Bonds

	Scenario 1 (Base Case)	Scenario 2
Types of Bonds Utilized	Current Interest Bonds	Current Interest, Convertible Capital Appreciation Bonds
Total Principal Redeemed	$24,640,000.00	$24,640,000.00
Prior Debt Service	$41,144,907.50	$41,144,907.50
Refunding Debt Service	$37,951,650.00	$38,988,461.84
Debt Service Savings	$3,193,257.50	$2,156,445.66
Net Present Value Savings	$2,169,174.94	$1,818,417.68
Percentage Savings (Refunded Bonds)	8.80%	7.38%
True Interest Cost	4.04%	4.14%

* Subject to change based on debt structure and market conditions.

Potential Refunding Savings – 2002 Measure D

- Scenario 3 refunds the 2015 and 2016 maturities of the Series C Capital Appreciation Bonds in addition to the Series C Current Interest Bonds.
- Scenario 3 appears to keep a $60 tax rate in 2014-15 and 2015-16 at an A.V. growth rate of 4.00%.
- Scenario 3 raises tax rates in all years subsequent to 2015-16, but still generates positive savings overall without extending the final maturity.

Refunding – 2002 Series C Current Interest Bonds and Series C Capital Appreciation Bonds	
	Scenario 3
Types of Bonds Utilized	Current Interest Bonds
Total Principal Redeemed	$26,471,213.80
Prior Debt Service	$44,604,907.50
Refunding Debt Service	$43,251,538.19
Debt Service Savings	$1,353,369.31
Net Present Value Savings	$2,302,703.37
Percentage Savings (Refunded Bonds)	8.28%
True Interest Cost	3.85%

* Subject to change based on debt structure and market conditions.

Summary of 2002 Refunding Strategies

	Overall Debt Service Savings	Net Present Value Savings	2014-15 Tax Rate Target	2015-16 Tax Rate Target	Comments
Scenario 1	$3,193,257.50	$2,169,174.94 (8.80%)	No	No	
Scenario 2	$2,156,445.66	$1,818,417.68 (7.38%)	Yes	No	Generates positive savings in all years but requires the use of Convertible CABs
Scenario 3	$1,353,369.31	$2,302,703.37 (8.28%)	Yes, assuming 4.00% growth	Yes, assuming 4.00% growth	Adds to tax rates (negative savings) in later years, but no use of Convertible CABs

Note: Results are subject to change based on actual interest rates at time of sale and actual assessed value growth.

2005 Measure J Issuances – Refunding Candidates

Delivery Date	Series	Original Par Amount	Outstanding Par Amount	Call Feature
5/17/2006	Series A	$70,000,000	$60,735,000	8/1/2014 @ 101
7/15/2008	Series B	$120,000,000	$115,025,000	8/1/2018 @ 100 [1]
9/3/2009	Series C-1	$52,084,759	$52,084,759	Non-Callable
9/3/2009	Series C-2 (Build America Bonds)	$52,825,000	$52,825,000	8/1/2019 @ 100
9/3/2009	2009 Refunding Bonds	$57,860,000	$41,780,000	8/1/2019 @ 100
6/24/2010	Series D-1 (Qualified School Construction Bonds)	$25,000,000	$25,000,000	Extraordinary Redemption [2]
6/24/2010	Series D-2	$2,499,949	$2,499,949	Non-Callable
Total		**$279,432,483**	**$246,248,222**	

[1] Callable only for bonds maturing after 8/1/2029.

[2] “Make whole” call provision.

Potential Refunding Savings – 2005 Measure J

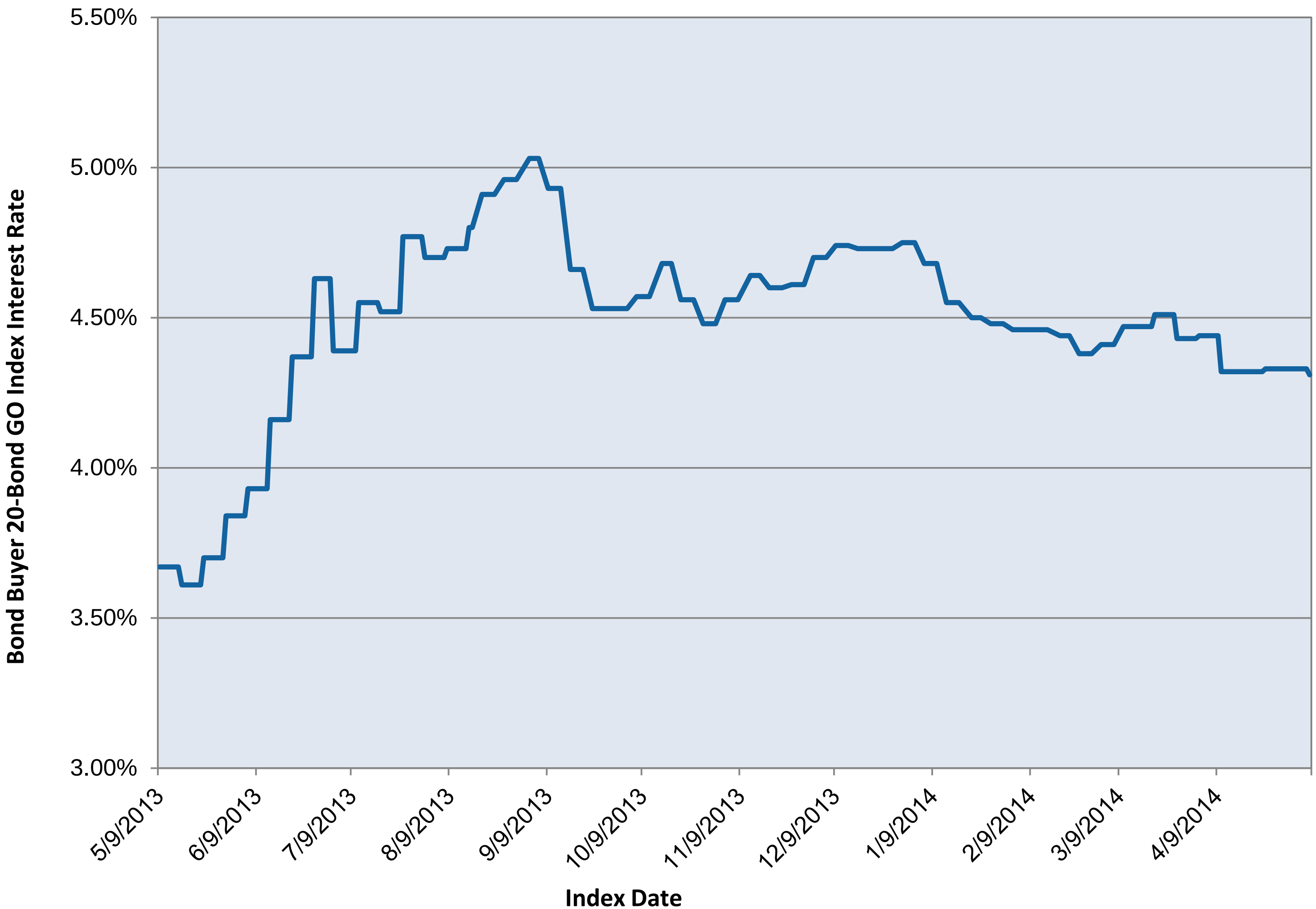
- Under current market conditions, a 2014 refunding of 2005 Measure J, Series A could generate as much as 9% NPV savings (depending on structure) and effectively decrease outstanding debt service.
  - Scenario 1 keeps tax rates at $60 for 2014-15 and maximizes savings.
  - Scenario 2 keeps tax rates at $60 for 2014-15 and 2015-16 but has less savings.
- The actual refunding candidates will be based on the overall tax rate management strategy and we are evaluating potentially withholding a certain amount of bonds from the refunding for future flexibility.

Refunding – Election of 2005, Series A Bonds

	Scenario 1 (Uniform Savings)	**Scenario 2** (Front Loaded Savings)
Types of Bonds Utilized	Current Interest	Current Interest
Total Principal Redeemed	$59,025,000.00	$59,025,000.00
Prior Debt Service	$95,896,900.00	$95,896,900.00
Refunding Debt Service	$88,330,318.75	$89,848,565.97
Debt Service Savings	$7,566,581.25	$6,048,334.03
Net Present Value Savings	$5,315,526.19	$5,008,177.33
Percentage Savings (Refunded Bonds)	9.01%	8.48%
True Interest Cost	3.90%	3.93%

* Subject to change based on debt structure and market conditions.

Interest Rates



IV. Schedule

Activities to Date

- Working group has convened on several occasions.
- Financing schedule has been distributed, targeting pricing and closing in July, subject to market conditions and after 2014-15 tax rates are known.
- Board of Education authorizing resolution has been drafted.
- Credit rating process is underway with meeting dates set.
- Refunding candidates have been identified (by measure and series).
- Strategies to close tax rate target funding gap have been evaluated and vetted with bond counsel.
- Savings have been evaluated under alternative financing structures.

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 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.

Bond Pricing Process

- Bond Pricing Process
  - Pre-sale marketing and investor outreach (Underwriter, District, Financial Advisor)
  - Gather comparable sale data, evaluate secondary market trade history (Financial Advisor)
  - Develop initial interest rate scale, in consultation with Financial Advisor and District (Underwriter)
  - Solicit orders from bond investors during pricing period (Underwriter)
  - Adjust final interest rate scale based on strength of investor demand (Underwriter, Financial Advisor)