



West Contra Costa Unified School District

2017 General Obligation Refunding Bonds &
Tax Rate Management

Presentation to Board of Education
July 19, 2017



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Prior Board Items

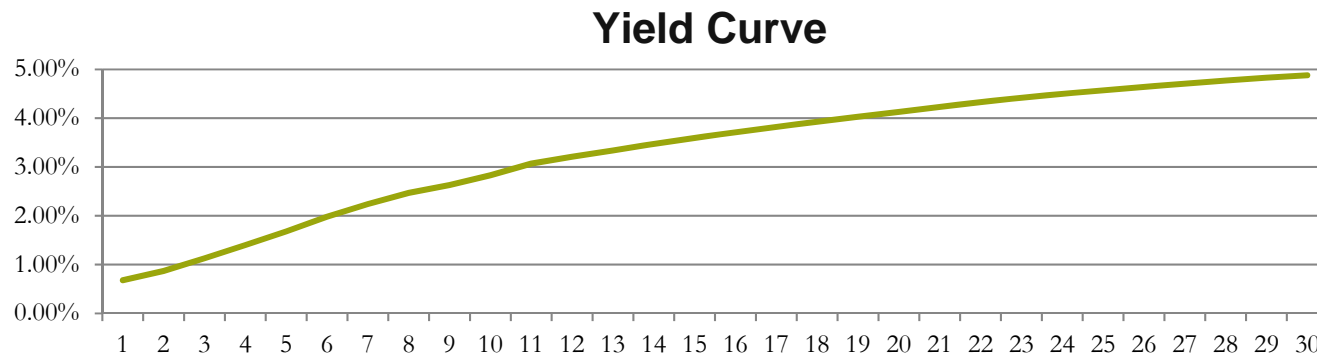
- On October 19, 2016 KNN Public Finance (“KNN”) presented a Board report regarding a potential refunding of District bonds in accordance with Board Policy (BP) 7214.3.
- On November 16, 2016 District staff requested direction from the Board to proceed with selecting the refunding bond finance team in conjunction with a 2017 refunding.
- At the November 16, 2016 meeting, the Board provided direction to proceed with the process for evaluating a 2017 refunding.
- Additionally, at the November 16, 2016 meeting the Board appointed KNN as the Financial Advisor, Nixon Peabody as Bond Counsel/Disclosure Counsel and to issue a Request for Proposals in order to select the Underwriting firm/firms.
- The District released a Request for Qualifications for Bond Underwriting Services (RFQ #1617-04) on January 4, 2017.
 - The process concluded with a recommendation to the Board on March 29, 2017 with JP Morgan and Piper Jaffray as underwriters for the 2017 Refunding transaction and Stifel Nicolaus as a third co-manager for future larger issues, if negotiated.

I. Overview of Bond Refunding



Introduction to Refunding Bonds

- Similar to refinancing a home mortgage.
- Paying off existing debt by borrowing money in a lower interest rate environment could lead to savings, which are passed on to the taxpayers. Refunding bonds may only be issued legally if taxpayers will save money.
- A refunding can be used to restructure debt, which can be useful for tax rate management.
- Unlike a home mortgage, “cash-out” refundings are not allowed. Districts may not generate additional project funds (without using voter approved bond measure authorization) from a refunding (Attorney General Opinion No. AG 06-1102).



Refunding & Restructuring Policy- B.P. 7214.3

- Adopted on April 24, 2013
- Purpose of Refunding & Restructuring Policy:
 - Identify policy objectives relating to refunding transactions
 - Improve the quality of the decision making processes
 - Provide a basis for the determination of when it is advantageous for the District to issue refunding bonds
- Refunding Objectives:
 - Providing net present value debt service savings, and/or
 - To aid with tax rate management, and/or
 - Adjusting the debt service structure to meet identified objectives



B.P. 7214.3 (continued)

- Policy Guidelines include:
 - Current refundings should achieve present value savings of at least 4%;
 - Advance refunding should achieve present value savings of at least 4% with negative arbitrage not to exceed present value savings.
 - 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.



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.

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 savings on respective dates of issue based on refunded par amount*

II. 2017 GO Refunding Bonds



2017 Refunding Update

- At current market rates, an advance refunding of the District's Series C-2 Build America Bonds and certain maturities of the Series B Bonds, in combination with tax stabilization from the County, will allow 2005 Measure J to maintain a tax rate of \$60 per \$100,000 of assessed value through 2019/20, based on at least 4% annual growth in assessed values.
- Nixon Peabody (District's bond counsel) has determined refunding the Series C-2 Build America Bonds should be done as a taxable issuance in order to address potential federal tax issues associated with advance refunding the Series C-2 Bonds.
- The District's financing team has evaluated a taxable refunding of the Series C-2 Build America Bonds and determined it sufficiently meets guidelines outlined within the Refunding and Restructuring Policy in addition to meeting tax rate management goals as mentioned above.
- Furthermore, the financing team has determined a cross-over structure for refunding the Series C-2 Bonds would maximize taxpayer savings as the federal subsidy for that issue would be preserved through their August 1, 2019 call date.



2017 Refunding Statistics and Potential Savings*

- The Election of 2005, Series C-2 Build America Bonds and the Election of 2005, Series B Bonds maturing August 1, 2018 and a portion maturing August 1, 2019 are the identified refunding candidates.
- Essentially, refunding the Series C-2 Bonds generates the savings, and refunding the Series B Bonds manages, along with County property tax rate stabilization, the 2005 Measure J tax rate through 2019/20.
- At current interest rates, the refunding bonds, in addition to contributing to tax rate management, provide savings of approximately \$6.40 million over the life of the bonds. In present value terms, savings are \$5.44 million or 9.64% of bonds refunded.

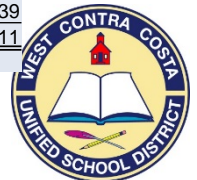
Series B and Series C-2 BABs

Dated Date	8/1/2017
Delivery Date	8/1/2017
Arbitrage yield limit	4.017%
Escrow yield	1.346%
Value of Negative Arbitrage	(\$2,936,851.32)
Bond Par Amount	\$60,480,000.00
True Interest Cost	4.051%
Average Coupon	4.023%
Average Life	15.82630622
Par amount of refunded bonds	\$56,475,000.00
Average coupon of refunded bonds	8.444%
Average life of refunded bonds	15.63036742
PV of prior debt to 08/01/2017 @ 4.017199%	\$76,085,248.82
Net PV Savings	\$5,446,816.11
Percentage savings of refunded bonds	9.64465004%

Series B and Series C-2 BABs

Date	Prior Net Debt Service	Refunding Net Debt Service	Savings	Present Value to 8/1/2017
8/1/2018	\$1,802,000.00	\$0.00	\$1,802,000.00	\$1,732,718.57
8/1/2019	\$1,950,000.00	\$0.00	\$1,950,000.00	\$1,800,891.18
8/1/2020	\$3,012,772.98	\$2,408,491.50	\$604,281.48	\$541,699.50
8/1/2021	\$3,012,772.98	\$2,893,491.50	\$119,281.48	\$106,913.12
8/1/2022	\$3,012,772.98	\$2,896,221.00	\$116,551.98	\$100,607.99
8/1/2023	\$3,012,772.98	\$2,897,571.00	\$115,201.98	\$95,729.54
8/1/2024	\$3,012,772.98	\$2,897,636.00	\$115,136.98	\$92,061.07
8/1/2025	\$3,012,772.98	\$2,896,206.00	\$116,566.98	\$89,631.62
8/1/2026	\$3,012,772.98	\$2,898,711.50	\$114,061.48	\$84,507.83
8/1/2027	\$3,012,772.98	\$2,895,010.00	\$117,762.98	\$83,825.59
8/1/2028	\$3,012,772.98	\$2,900,232.00	\$112,540.98	\$77,313.66
8/1/2029	\$3,012,772.98	\$2,898,694.00	\$114,078.98	\$75,387.43
8/1/2030	\$3,012,772.98	\$2,900,819.00	\$111,953.98	\$71,317.74
8/1/2031	\$3,012,772.98	\$2,901,054.00	\$111,718.98	\$68,544.69
8/1/2032	\$3,012,772.98	\$2,899,999.00	\$112,773.98	\$66,596.96
8/1/2033	\$23,912,772.98	\$23,622,279.00	\$290,493.98	\$158,197.54
8/1/2034	\$33,745,781.40	\$33,362,844.00	\$382,937.40	\$197,369.68
Total	\$100,576,603.12	\$94,169,259.50	\$6,407,343.62	\$5,443,313.72
PV of savings from cash flow				5,443,313.72
Plus: Refunding funds on hand				3,502.39
Net PV Savings				<u>5,446,816.11</u>

* Subject to change based on market conditions at the time of sale.



Savings Scenario Analysis*

- The following table is a quick reference guide to highlight how interest rate movements would affect the proposed 2017 Refunding issuance.
- In the event interest rates were to increase from current market by approximately 50 basis points (i.e. .50%), savings would not meet the Refunding & Restructuring Policy guidelines.
 - Additionally, an increase of 50 basis points would impact the District's ability to manage 2005 Measure J tax rates through 2019/20.

Interest Rate Change	Total Net Present Value Savings	PV Savings as % of Refunded Bonds
1.00%	(\$1,281,857)	-2.27%
0.50%	\$1,970,884	3.49%
Current Rates	\$5,446,816	9.64%
-0.50%	\$9,186,137	16.27%
-1.00%	\$13,189,779	23.36%

* Subject to change based on market conditions at the time of sale.



Proposed Financing Schedule

Date	Item
July 18, 2017	FSC Presentation – 2017 Refunding Update
July 19, 2017	Board Presentation – 2017 Refunding Update
July 25 or 26, 2017	Meeting with Rating Agencies
August 9, 2017	Board Approval of Bond Documents
August 23, 2017	Pricing
September 6, 2017	Closing



III. Tax Rate Calculation & Long-term Projections



Tax Rate, Assessed Value and Debt Service

- Variations in assumptions of assessed value and annual assessed value growth impact projections of bond tax rates and annual debt service.
- Conceptually, the basic relationship between tax rate, debt service and assessed value is:

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

- 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.



Tax Rate Targets

- 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.
- For Proposition 39 bond measures (i.e. 55% voter approval), 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 of assessed value.
- Proposition 46 bond measures (i.e. 66.7% voter approval) do not have a tax rate limit on issuing bonds.
- Once issued, tax rates for all general obligation bonds are set solely to be sufficient to pay debt service, without limit as to tax rate.
- Tax rates may exceed estimated targets due to lower than projected growth in assessed value and/or accelerated issuances of new bonds.



The District's Tax Rate History

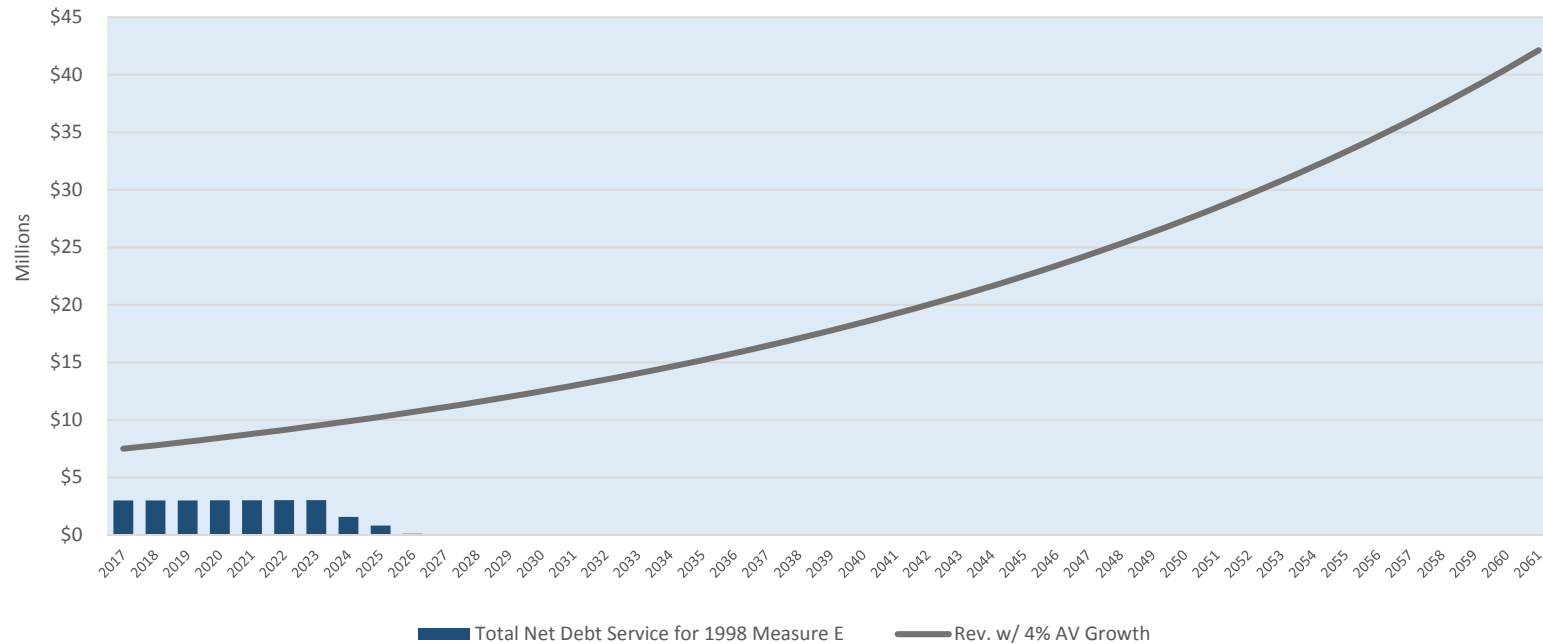
- The District has been able to maintain their tax rate target in connection with each of their bond programs.

	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

1998 Measure E (non-Prop. 39)

1998 Measure E Summary

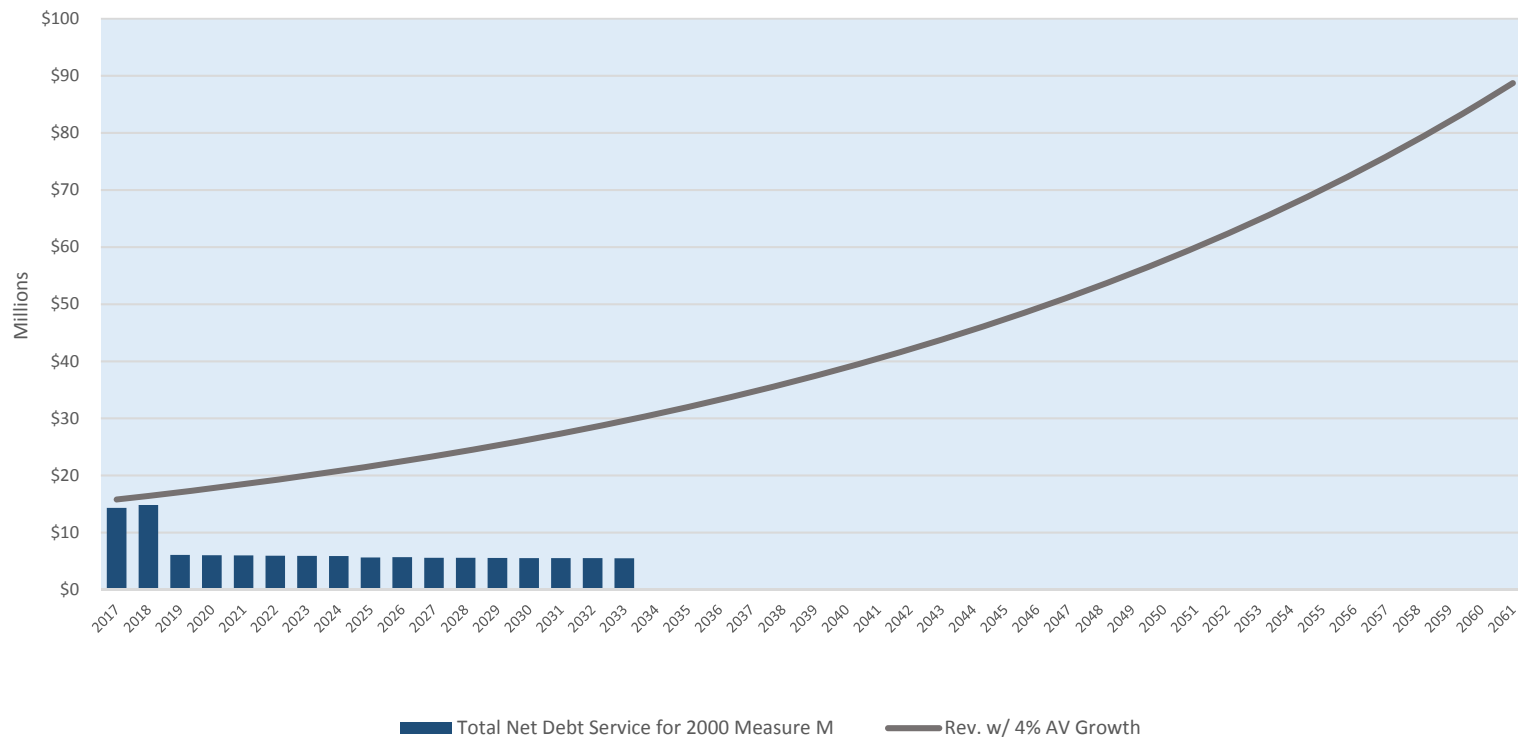
Authorization	\$40.0 million
Issued	\$40.0 million
Currently Outstanding	\$18.4 million
Remaining Authorization	\$0
Target Tax Rate	\$26.40 per \$100K AV



2000 Measure M (non-Prop. 39)

2000 Measure M Summary

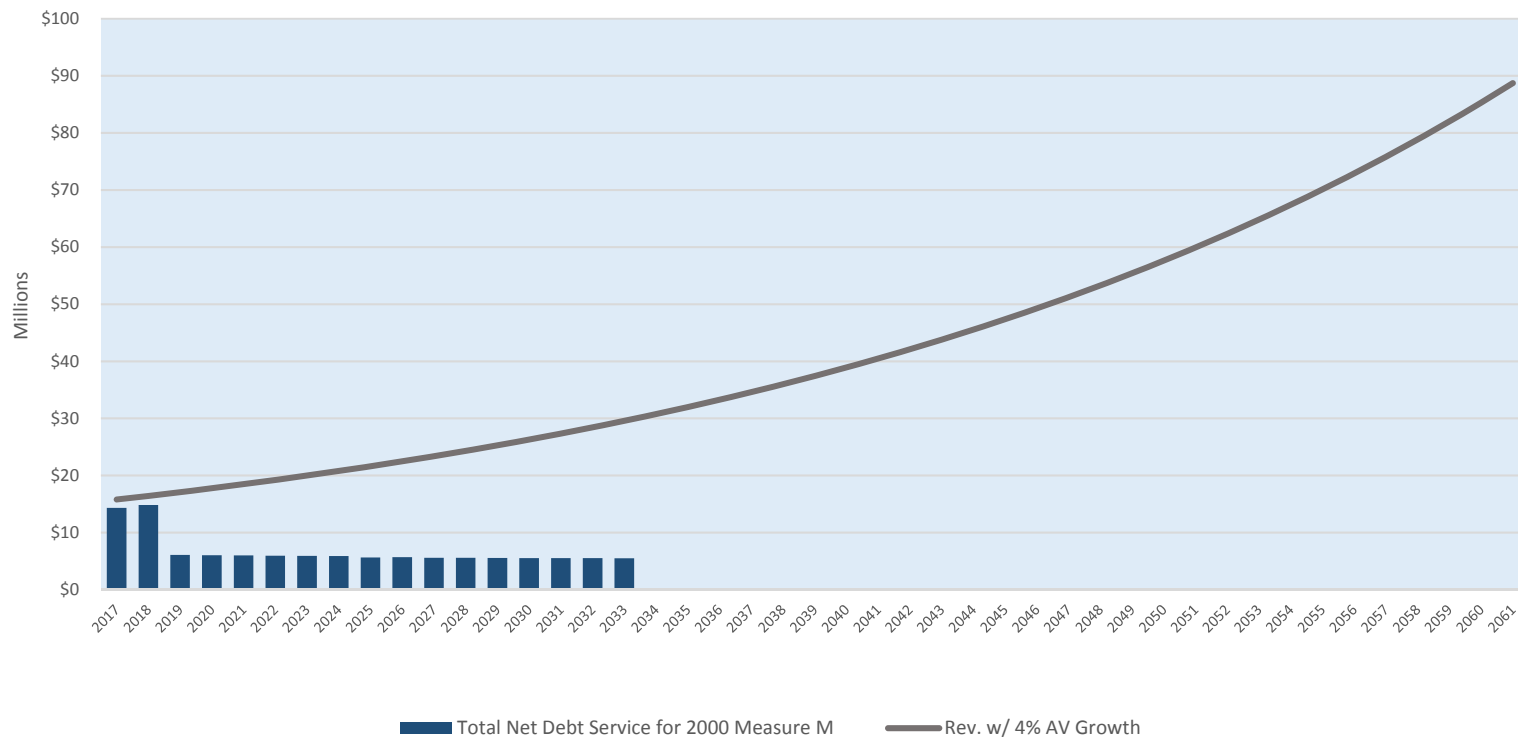
Authorization	\$150.0 million
Issued	\$150.0 million
Currently Outstanding	\$72.4 million
Remaining Authorization	\$0
Target Tax Rate	\$55.60 per \$100K AV



2000 Measure M (non-Prop. 39)

2000 Measure M Summary

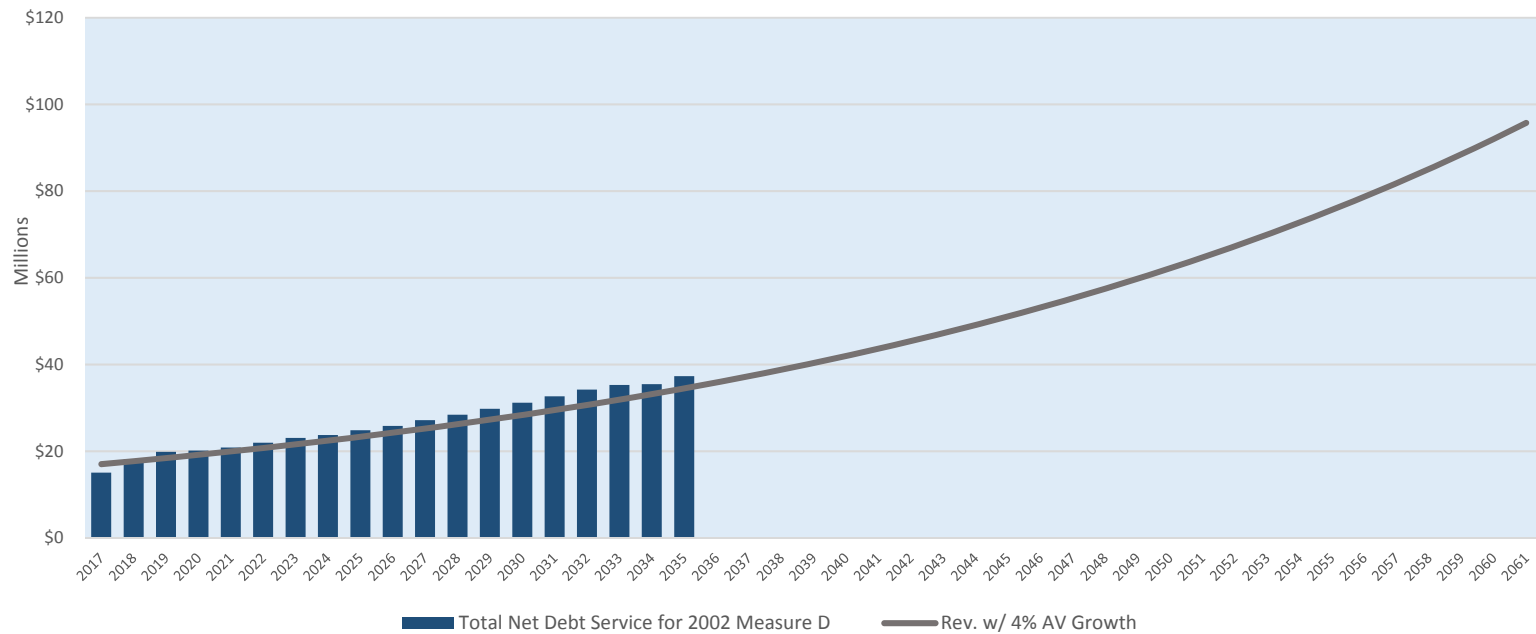
Authorization	\$150.0 million
Issued	\$150.0 million
Currently Outstanding	\$72.4 million
Remaining Authorization	\$0
Target Tax Rate	\$55.60 per \$100K AV



2002 Measure D

2002 Measure D Summary

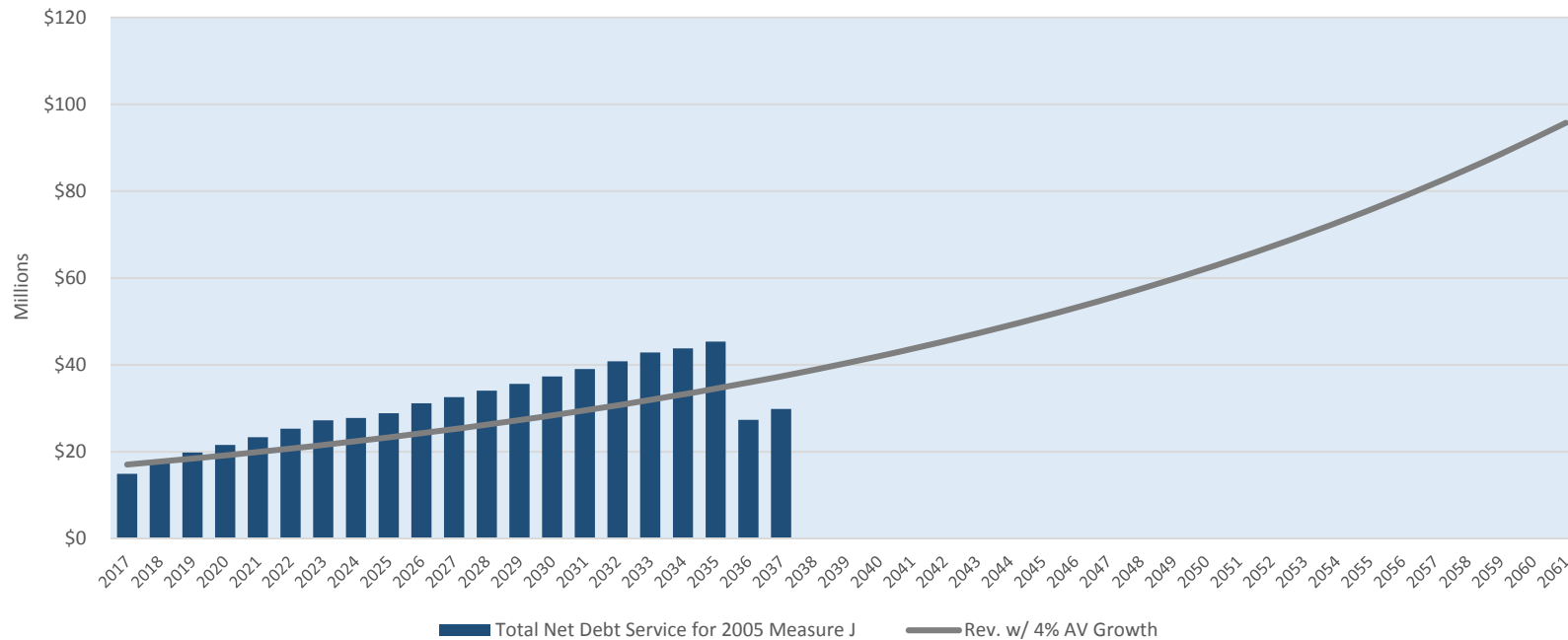
Authorization	\$300.0 million
Issued	\$300.0 million
Currently Outstanding	\$221.7 million
Remaining Authorization	\$2,517.00
Target Tax Rate	\$60.00 per \$100K AV



2005 Measure J

2005 Measure J Summary

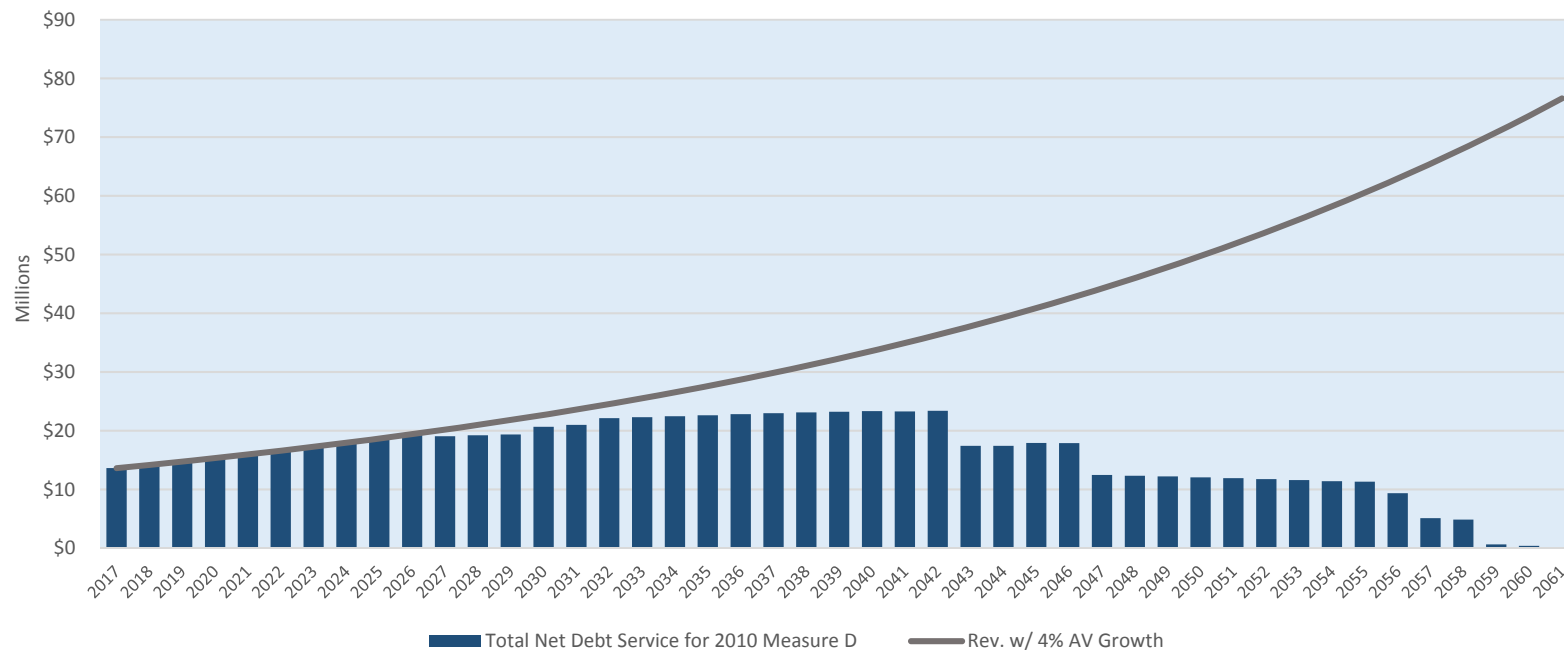
Authorization	\$400.0 million
Issued	\$322.4 million
Currently Outstanding	\$311.7 million
Remaining Authorization	\$77.6 million
Target Tax Rate	\$60.00 per \$100K AV



2010 Measure D

2010 Measure D Summary

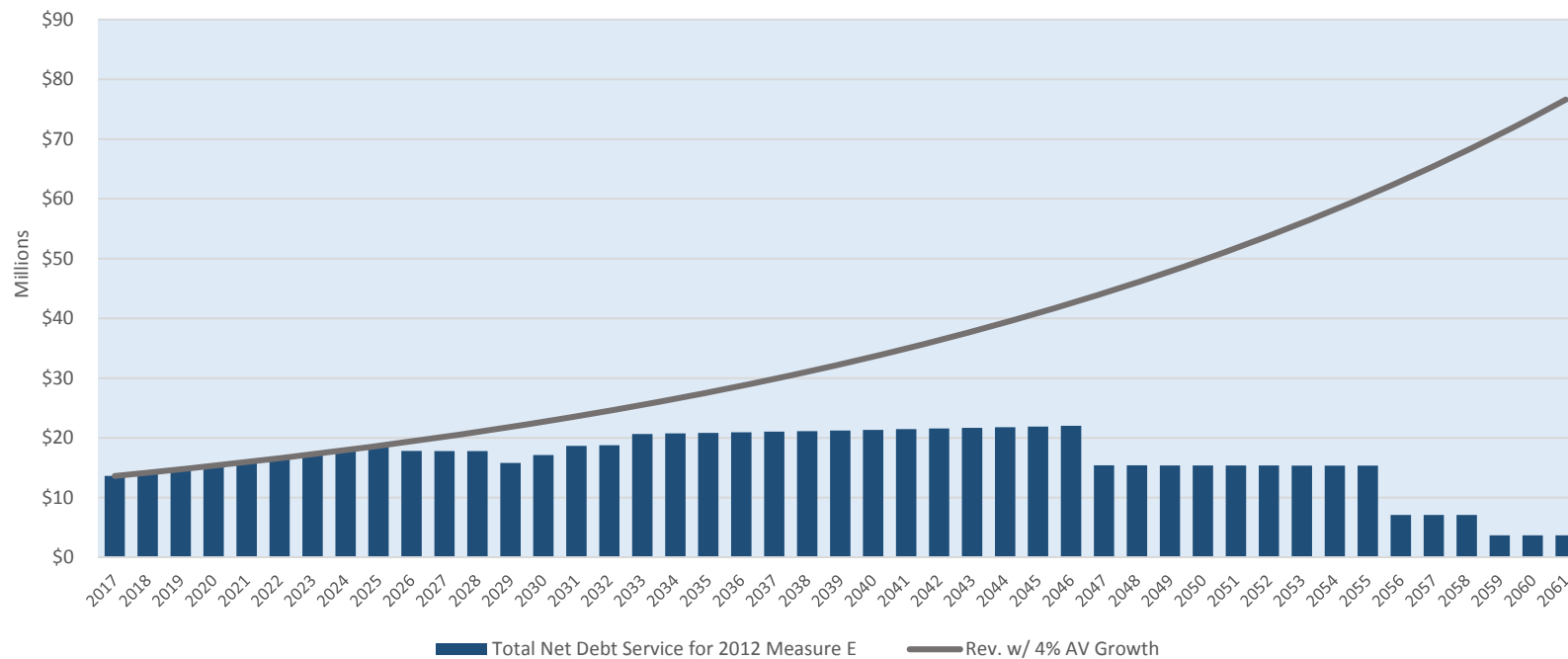
Authorization	\$380.0 million
Issued	\$250.0 million
Currently Outstanding	\$221.8 million
Remaining Authorization	\$130.0 million
Target Tax Rate	\$48.00 per \$100K AV



2012 Measure E

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



Appendix



Appendix- Terminology

- **Aggregate Present Value Savings:** The present value savings in each year of the refunding transaction added together.
- **Net Debt Service Savings Approach:** A method to calculate refunding savings that accounts for the difference in interest earnings of the debt service reserve funds of the refunded and refunding bonds.
- **Net Present Value Savings:** A method of calculating the aggregate amount of savings on a refunding transaction taking into consideration the time value of money and net of all issuance fees.
- **Present Value Savings:** In each semi-annual period, the present value of the debt service on the refunding bonds is subtracted from the present value of the debt service on the refunded bonds using the arbitrage yield on the refunding bonds as the discount rate.



Appendix- Terminology

- **Basic legal test (Govt. Code Sects. 53550 – 53569)** – Refunding Bonds may be issued without voter approval only when the new debt service is less than the old and the term of the debt is not extended. Resulting savings are passed on to the taxpayers.
- **Debt Restructuring** - A refunding can be used to restructure debt, which can be useful for tax rate management.
- **Current Refunding** – A refunding transaction where the bonds being refunded will mature or be redeemed not more than 90 days after the issuance of the refunding bonds.
- **Advance Refunding** – A refunding transaction where the bonds being refunded will mature or be redeemed more than 90 days after the issuance of the refunding bonds.
 - **Limited to One Advance Refunding** – In a sequence of tax-exempt refundings of a given new money issue, only one can be an advance refunding; the number of current refundings in a sequence is unlimited.



Appendix- Terminology

- **Crossover Refunding**

- Refunding escrow pays the debt service on the refunding bonds until the redemption date of the prior bonds (“crossover date”), plus funds redemption of the prior bonds.
- Until the crossover date, the issuer continues to pay the debt service on the prior bonds, and after pays debt service on the refunding bonds.
- Principal amortization of the refunding bonds typically begins after the crossover date.
- Crossover refunding will generate more savings than a conventional advance refunding when the first optional call date of the prior bonds is multiple years in the future, but does not provide debt service savings prior to the crossover date.

Participants in a Refunding Transaction

- **Board of Education** – set policy, and 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** – prepare legal documents and issue legal and tax opinions.
- **Disclosure Counsel** – outline disclosure obligations, prepare preliminary/final official statements and issue disclosure opinion.
- **Underwriter(s)** – assist with structuring the financing, investor outreach, and facilitate sale of bonds to investors (negotiated sale).
- **Verification Agent** – verify the refunding calculations.



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.
- **County Auditor-Controller** – responsible for calculating and levying school district taxes for bonds.
- **Bond Investors** – includes retail and institutional investors; their buying decisions ultimately dictate the interest rates associated with each bond sale.



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