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OAKLAND UNIFIED SCHOOL DISTRICT

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Memo

To Board of Education

From Vernon Hal, Chief Financial Officer

Board Meeting Date August 31, 2009

Subject Update on Bond Program

Action Requested: No action required – presentation only. Status report presented by Ruth Alahydoian of KNN Public Finance on the sale of the District's general obligation (GO) bonds this summer.

Background: Measure B was approved by voters in March 2006. It authorized $435 million in general obligation bonds for capital facilities projects. The District issued $130 million in 2006. This summer the District issued an additional $185 million from Measure B.

The bonds are repaid from a special tax on properties in the District. Bonds are issued according to State and Federal (IRS) regulations. They are a debt obligation that carries long term responsibilities for the District.

This presentation will provide an overview of the District's bond program and the results of this summer's 2009 bond issue.

Discussion: The presentation attached to this Memo provides a summary of the District's general obligation bond program and the results of the sale of $185 million of bonds this summer. The District was able to take advantage of two types of bonds authorized by the American Recovery and Reinvestment Act (ARRA), which resulted in lower interest rates for taxpayers.

Fiscal Impact: The issuance of the 2009 Bonds provide $185,000,000 for the District's facilities program. Repayment will be from an annual tax set, levied and collected by Alameda County. Costs of issuance were incorporated into the over-all cost of the bonds, and paid directly by the bond purchaser.

Recommendation: None – status report only.

Attachments: Presentation: 2009 General Obligation Bond Issue – Post-Sale Summary

Oakland Unified School District

Report to Finance and Human Resources Committee

2009 General Obligation Bond Issue – Post-Sale Summary

July 22, 2009

KNN public finance

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A Division of Zions First National Bank

Oakland USD's G.O. Bonds

- General Obligation Bonds are approved by voters and repaid by taxpayers.
- Voters approved Measure B in 2006 for a total authorization amount of $435 million.
  - $315 million has been issued to date, leaving $120 million for a future issue.
- Prior to Measure B, voters approved bond measures in 1994 and 2000.
  - 1994 Measure C - $169.73 million
  - 2000 Measure A - $303 million

Name	Dated Date	MEASURE C Original Par	MEASURE A Original Par	MEASURE B Original Par	Total Principal Outstanding	Interest Rate	Comments
Series A	5/23/1995	$ 12,200,000			**$ -**		REFUNDED
Series A	5/23/1995	18,315,640			-		REFUNDED
Series B	7/30/1997	9,999,977			-	5.18%	REFUNDED
Series C	5/20/1998	*Refunding*			-	5.08%	REFUNDED
Series D	5/20/1998	5,999,277			-	5.40%	REFUNDED
Series E	5/1/1999	10,000,000			-	5.09%	REFUNDED
Series F	4/1/2000	75,000,000			**1,495,000**	5.85%	PARTIALLY REFUNDED
Series 2001	6/1/2001	38,215,107			-	5.10%	Issued as one series;
Series 2001	6/1/2001		61,999,893		-	5.10%	REFUNDED
Series 2002	8/1/2002		100,000,000		**94,490,000**	4.92%	
Series 2005	8/31/2005		141,000,000		**136,335,000**	4.38%	
Series 2006	11/28/2006			130,000,000	**116,690,000**	4.45%	
Series 2009	8/1/2009			185,000,000	**185,000,000**	5.76%	
Issued against Authorization:		**$ 169,730,000**	**$ 302,999,893**	**$ 315,000,000**			
2007 Refunding	8/1/2007	$196,415,000			**192,150,000**	4.48%	
TOTAL OUTSTANDING					**$ 726,160,000**		

2009 G.O. Bonds

- When planning for a bond sale, there are four key areas to consider.
  - ***Timing*** – The 2009 Bonds were scheduled to correspond to the District's facilities program cash flow needs. Existing funds were expected to be expended by August 2009.
  - ***Sizing*** – The Series 2009 Bonds are the second to be issued under the 2006 election. The Bonds were sized based on the District's needs for program costs over the next two years.
  - ***Debt Structure*** – The Series 2009 Bonds repayment schedule is designed to meet the targeted tax rate goals of the District - .
  - ***Bid Structure*** – A negotiated sale was recommended given the following issues:
    - Bond market changes over the past year have created challenges for lower-rated issuers.
    - District's credit rating is not strong; pre-marketing would be required to attract investors.
    - New federal stimulus bonds require a negotiated process, working closely with underwriting team.

New Bonds Created by ARRA

- Federal Stimulus package ("ARRA") created new bond types:
  - **Build America Bonds – "BABs**"– taxable (rather than tax-exempt) bonds that can be issued by any municipal issuer.
    - Bonds are sold at taxable interest rates, which are higher than tax-exempt rates.
    - Federal government provides a subsidy every year to offset the higher interest cost.
    - Could result in overall lower interest cost – depends on market rates on a given day.
  - **Qualified School Construction Bonds - 'QSCBs"**
    - Specifically for school construction projects
    - Bond holders are given a tax credit by the federal government in lieu of interest paid by the issuing school district.
    - OUSD qualifies as one of 100 largest school districts (per Federal parameters) for a direct allocation of $26 million in QSCB Bonds.
- The District was able to take advantage of both new bond types, resulting in savings to taxpayers.

Underwriting Team

- The District's selection of the underwriting team was thorough and resulted in three firms participating in the marketing and sale of the District's 2009 Bonds.
  - Requests for proposals were sent to 16 firms; 10 responses were received.
  - Based on written responses, in person interviews were conducted with 5 firms
  - Based on in person interviews, 3 firms were selected to work with the District.

Initial RFP Sent to:	Response Rec'd	Interviews	Final
Backstrom McCarley Berry & Co., LLC			
Barclays Capital	✔		
Blaylock Robert Van, LLC	✔		
Citigroup Global Markets Inc.			
De La Rosa & Co., Inc.	✔	✔	
Goldman, Sachs & Company	✔		
Henderson Capital Partners, LLC			
JP Morgan Securities	✔	✔	✔
Merrill Lynch & Co., Inc. / Bank of America	✔		
Morgan Stanley & Co. Incorporated	✔	✔	
Piper Jaffray & Co.	✔	✔	✔
Siebert, Brandford Shank & Co., LLC	✔	✔	✔
Stone & Youngberg LLC	✔		
Wedbush Morgan Securities			
Wells Fargo Bank			
Loop Capital			

*Firms in **bold** are based in Oakland.*

Use of Federal Stimulus Bonds

- Use of federal stimulus bonds brought new investors to the beleaguered bond market, increasing competition and reducing the interest rates, thereby reducing bond repayment costs

- **Series 2009B: Build America Bonds (BABs) - $70,795,000**
  - Issued as taxable bonds – interest rates look higher than other bonds, HOWEVER,
  - District will receive 35% of interest costs as a subsidy from the Federal Government.
    - Semiannual rebate paid directly to County for bond repayment.
  - BABs resulted in interest costs that were .45% less than the tax-exempt rates.

- **Series 2009C: Qualified School Construction Bonds (QSCBs) - $26,320,000**
  - District will pay a supplemental interest rate of 2.82% to compensate for lower rating.
  - Tax collections will be set aside in a separate "Sinking Fund" until bonds are due in 2024.

- District is likely to receive another QSCB allocation in 2010.

Oakland's Credit Challenge

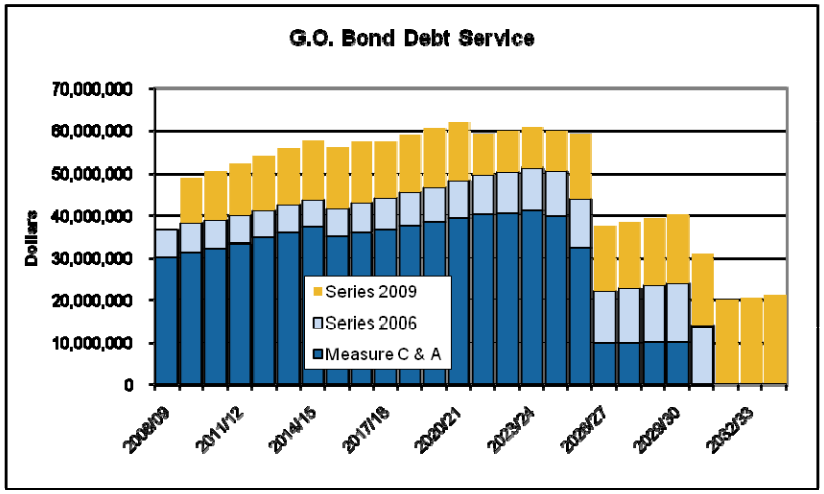
- Credit ratings:
  - Moody's: **Baa1** (UPGRADE!) with positive outlook
  - Standard & Poor's: **BBB+** with stable outlook

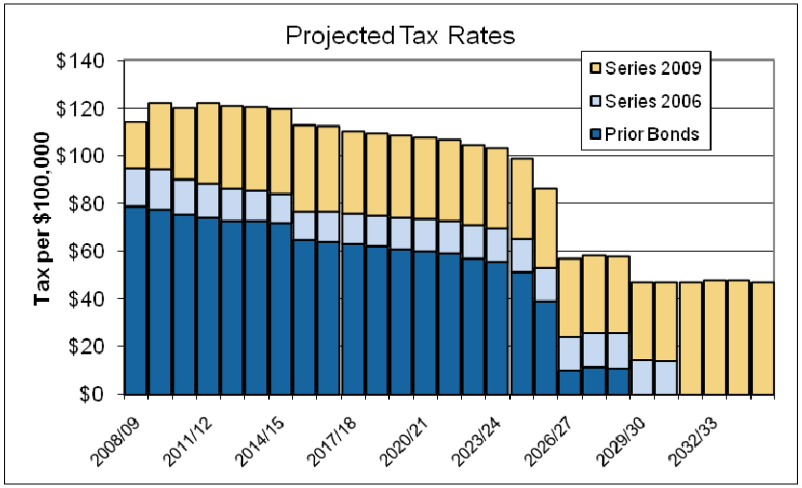
- Credit Concerns:
  - 2 years behind in Audited Financials (June 30, 2007 and June 30, 2008)
  - History of financial difficulties
  - Financials not stellar yet, and pressure from State cuts
  - Declining enrollment; growth in charters.
  - Transition to local control, new Superintendent
  - City of Oakland has large number of foreclosures fuel declining property values.
  - Crime in Oakland makes national headlines regularly.

- Credit Strengths:
  - Transition to local control and appointment of new Superintendent.
  - Budget deficits have been controlled; ending balance is stable.

Debt Service Structure and Tax Rates

- Tax rate commitment to voters is $48 for Measure B.
- 2009 Bond repayment will be well within $48 limit.
- AV growth assumptions:
  - 2009-10: -1%
  - 2010-11: 0%
  - 2011-12: 2%
  - 2012-13 & after: 3%





Ongoing Responsibilities

- Certain ongoing responsibilities attach to the District as (1) an issuer of debt, (2) a beneficiary of federal tax exempt status, and (3) a user of the public debt markets.
  - Payment of **Costs of Issuance.** (Funds established with Paying Agent should cover all costs.)
  - Reimbursement of prior (and future) expenditures.
  - Expenditure of proceeds on appropriate projects.
  - Expenditure of proceeds over appropriate time period.
  - Establishment and monitoring of investment program.
  - Compliance with **arbitrage rebate** regulations.
  - Submittal of annual reports related to **continuing disclosure**.
  - Repayment of bonds.
  - Establishment of annual tax rates.

Costs of Issuance

- All of the costs of issuance will be paid from the special costs of issuance account maintained by US Bank National Association. Any amount remaining in the COI account after 90 days will be transferred to the debt service fund.

Service	Provider	Total
Underwriter	JP Morgan, Piper, Siebert	$1,530,503
TOTAL Underwriter Compensation		**$1,530,503**
Financial Advisor	KNN Public Finance	$120,000
Bond Counsel	Orrick, Herrington & Sutcliffe LLP	$155,000
Dislcosure Counsel	Orrick, Herrington & Sutcliffe LLP	$135,000
Rating Agency	Moody's	$64,750
Rating Agency	Standard & Poor's	$37,000
Printing of POS and OS	Imagemaster	$13,000
Continuing Disclosure	DAC	$2,500
Arbitrage	Arbitrage Compliance Specialists	$5,000
Paying and Fiscal Agent	US Bank	$7,195
Contingency	Returned to JP Morgan	$555
TOTAL to be paid at closing from COI account funded by Underwriter		**$540,000**
Total Estimated Costs of Issuance		**$2,070,503**