



## Oakland Unified School District

\$120,000,000 General Obligation Bonds  
Election of 2012, Series 2013

Report to Board  
September 25, 2013

## Introductions

▪ KNN Public Finance (Financial Advisor)

- Ms. Ruth Alahydoian
- KNN is an Oakland firm with 17 employees.



Financial  
Advisor

▪ Siebert Brandford Shank (Lead Underwriter)

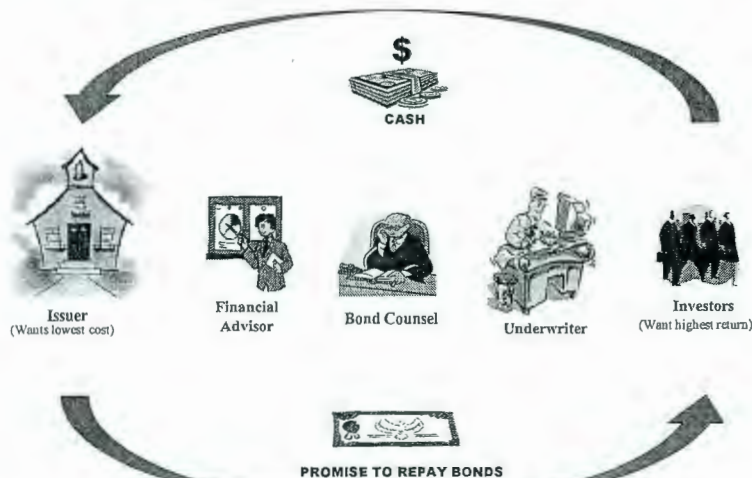
- Peter Wong
- Christen Senegal (OUSD Intern)
- SBS & Co. is a national underwriting firm with headquarters in Oakland.



Underwriter



## Bond Basics



## Oakland USD's G.O. Bonds

- General Obligation Bonds are approved by voters and repaid by taxpayers.
- Voters approved Measure J in 2012 for a total authorization amount of \$475 million. Series 2013 for \$120 million is the first issue under this authorization
- Prior to Measure J, voters approved 1994 Measure C (\$169.73 million), 2000 Measure A (\$303 million), and 2006 Measure B (\$435 million).
- The District has \$355 million of Measure J and \$65 million of Measure B still to issue.

	Measure C	Measure A	Measure B	Measure J	Total
Total Authorized:	\$ 169,730,000	\$ 303,000,000	\$ 435,000,000	\$ 475,000,000	\$ 1,382,730,000
Issued Against Authorization:	169,730,000	303,000,000	370,000,000	120,000,000	962,730,000
Still available to be issued:	\$ -	\$ -	\$ 65,000,000	\$ 355,000,000	\$ 420,000,000
Amount Outstanding:	\$ 118,351,481	\$ 254,013,519	\$ 350,315,000	\$ 120,000,000	\$ 842,680,000



## 2013 G.O. Bonds - Challenges

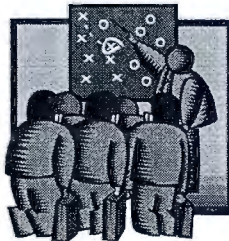
- **Credit issues** – The lack of a current audit continues to challenge the District’s ability to issue bonds in several ways:
  - Investors that bought bonds last year were expecting the audit to be complete by July 2012; they needed some assurance that progress was being made toward getting an independent audit.
  - Without bond ratings, the District’s bonds are not as liquid as other G.O. bonds – investors cannot easily trade the bonds once they have bought them.
  - Many bond investors cannot buy unrated bonds; those that can need to do extra due diligence.
- **Disclosure issues** – The latest audit by the SCO did not provide an opinion on the financial statements and claimed that the District’s “accounting records were deficient and certain supporting data was not available.”
  - The disclosure materials provided by the District to investors had to provide as accurate and thorough description of the District’s financial situation as possible given uncertainty created by the audit.



## Strategy for Selling Bonds

To attract interest in the non-rated bonds, the lead underwriter, Siebert Brandford Shank, recommended the following strategy:

- Give investors plenty of time to review the disclosure document and ask questions prior to the pricing.
- Provide opportunities for investors to hear directly from key District officials.
- Build strong interest in the District’s bonds before entering the market to create price competition.
- Keep pricing thoughts “close to the vest”—approach sale like a corporate transaction.



## Investor Outreach

- Recorded "Investor Roadshow" – August 2013 – Superintendent Yee, Deputy Supt. Hal and State Trustee Naylor prepared a recorded presentation that is made available online for interested investors.
- One-on-one conversations– Deputy Supt. Hal had conference calls with the following investors:



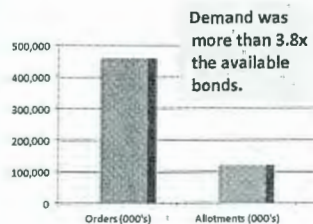
Investor	Purchased Bonds?
Wells Capital Management	✓
Putnam	✓
Harvey Capital	✓
Vanguard	✓
Franklin Templeton	✓
Charles Schwab	



## Bond Sale

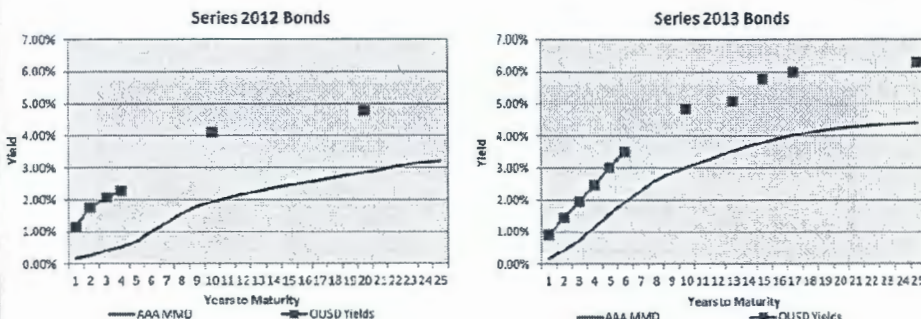
- 27 investors placed orders this year. Last year, 12 investors placed orders.
- With high investor demand, the District was able to sell bonds at reasonably low interest rates for a non-investment grade transaction.

Buyer	Orders (000's)	Allotments (000's)	Excess Demand (000's)
American Century	25,000	5,000	20,000
Blackrock	25,000	5,000	20,000
Capital Research	25,000	5,000	20,000
Citi Tailor	3,000	3,000	-
Columbia Management	32,495	15,115	17,380
Deutsche	9,000	5,000	4,000
Fidelity	53,530	13,610	39,920
Franklin	5,000	5,000	-
Goldman Sachs Asset Mgmt	25,000	4,000	21,000
Granite Capital	400	525	-
Gurtin	33,595	4,500	29,095
Harvey Capital	2,500	1,050	1,450
John Hancock	4,000	1,000	3,000
MacKay Shields	7,000	3,500	3,500
Piper Member	35,400	225	35,175
Private Income Capital Mgmt	400	400	-
Putnam	19,745	4,150	15,595
Rochester Funds	2,000	2,000	-
Standish	25,000	5,000	20,000
Vanguard	35,485	8,000	27,485
Wells Capital Management	79,025	29,425	49,600



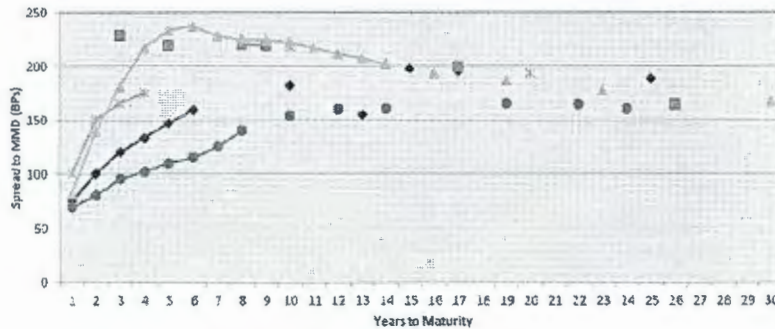
## Overall Low Interest Cost

- Overall Interest Cost of the borrowing: 6.10%
- Repayment ratio of total repayment versus bonds issued: 1.90 to 1
- Weighted Average spread to MMD: 163 basis points (1.63%)



## Comparable Sales (Graph)

- Yields in the municipal market are typically compared to the Municipal Market Data ("MMD") yield curve, a benchmark projection of where a "AAA" rated bond would price on a given day.
- Oakland USD bonds had a weighted average spread of 163 basis points (1.63%) to MMD, similar to Inglewood USD bonds which carried a A2/AA- insured rating.



## Cost of Selling Unrated Bonds

- The District's bonds have been non-rated since 2011 due to the lack of current audit reports.
- Municipal bond investors demand a premium on bonds that are not rated due to liquidity and credit concerns.
- While impossible to quantify the exact premium the District is paying as a result of selling its bonds unrated, we have estimated a potential cost by using an "A" rated scale interest rates from the day of pricing.

Scenario	Not-Rated Scale	"A" Rated Scale	Difference
Par Amount	\$120,000,000	\$120,000,000	-
TIC	6.05%	4.99%	1.06%
Total Net Debt Service	\$228,236,569	\$205,132,837	\$23,103,732
Present Value of D.S @ 6%	\$122,052,486	\$111,056,071	\$10,996,415



## Costs of Issuance

- All of the costs of issuance will be paid from funds set-aside by the underwriter in a special costs of issuance account held by US Bank N.A.

Service	Provider	Cost (Estimate)
Underwriters	Siebert Brandford Shank & Piper Jaffray	\$836,111
<b>TOTAL paid to Underwriter</b>		<b>\$836,111</b>
Financial Advisor	KNN Public Finance	\$90,000
Reimbursable Expenses	KNN Public Finance	\$5,000
Bond Counsel / Disclosure Counsel	Orrick	\$90,000
Legal work for 2012 Election	Orrick	\$35,000
Posting & Printing POS / OS	ImageMaster	\$4,000
Continuing Disclosure Services	DAC	\$2,500
Arbitrage Rebate Services	Arbitrage Compliance Specialists	\$3,000
Paying Agent Fees + COI Admin	US Bank	\$3,500
Data	Cal Munl Data	\$2,000
Housing Data	Data Quick	\$250
Reimbursable Staff Time	Oakland USD	\$25,000
Bond Election Reimbursables	Oakland USD	\$223,857
Contingency for Other Bond Costs	Oakland USD	\$15,893
<b>TOTAL paid from COI account</b>		<b>\$500,000</b>
<b>Total Estimated Costs of Issuance</b>		<b>\$1,336,110</b>



## Ongoing Responsibilities

---

- Certain ongoing responsibilities required of the District as (1) an issuer of voter-approved debt, (2) a beneficiary of federal tax-exempt status, and (3) a user of the public debt markets.
  - Expend bond proceeds on **appropriate projects**.
  - Expend bond proceeds over **appropriate time period**.
  - Comply with I.R.S. **arbitrage rebate** regulations.
  - Submit annual reports related to **continuing disclosure**.



---

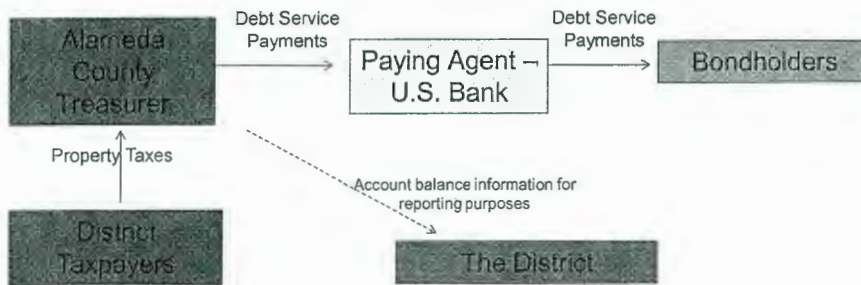
## Appendix:

## General Obligation Bonds & Tax Base



## General Obligation Bond Repayment

- General Obligation Bonds are repaid from a dedicated tax on real property within the District.
- The tax rate is set annually by the County Auditor to generate sufficient tax revenue to pay principal and interest when due.
- The District has no access to the bond repayment funds. Payment is made directly by the County.



## Overlapping & Neighboring Tax Base

- The underlying tax base and credit quality of Oakland USD's Bonds is comparable to other Oakland area issuers.

Entity	Moody's	S&P	Fitch
City of Oakland	Aa2	AA-	--
Peralta Community College District	Aa3	AA-	--
Emery Unified School District	Aa3	A+	--
San Leandro Unified School District	Aa3	A+	--
Alameda Unified School District	Aa2	AA-	--
Piedmont Unified School District	Aa2	AA	--

- Oakland Unified School District
- City of Oakland
- City of Emeryville
- Peralta Community College District
- Alameda County
- Piedmont School District
- BART

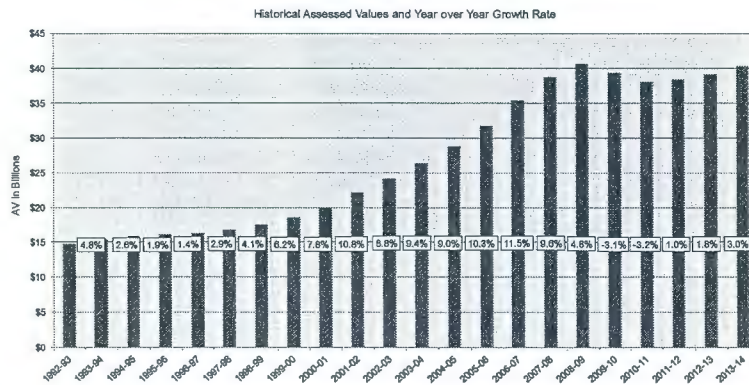




## Assessed Values

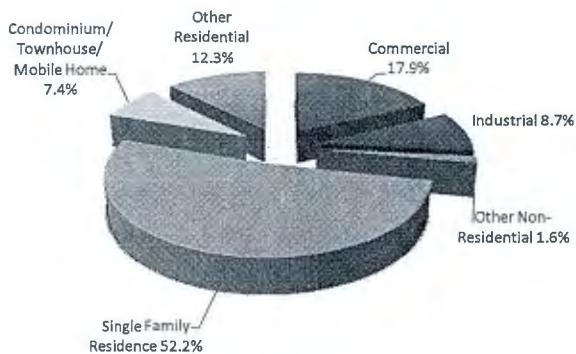
- After only a mild decline, assessed values are growing again and are now close to 2007-2008 levels.

20 yr. avg. growth:	5.03%
15 yr. avg. growth:	5.84%
10 yr. avg. growth:	4.46%
5 yr. avg. growth:	-0.11%



## Assessed Valuation by Land Use (2012-13)

- The property base is diverse, with 72% residential, 18% commercial, and 10% industrial/other.



Source: California Municipal Statistics, Inc.

## 2012-13 Top Ten Taxpayers

- The top 10 taxpayers are diversified – no concentration.

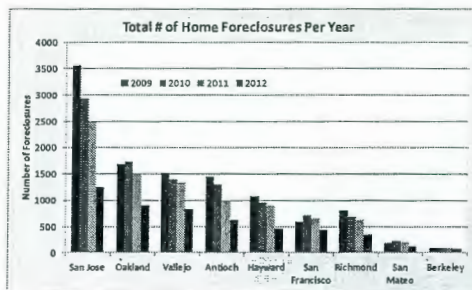
Property Owner	Primary Land Use	2012-13 Assessed Valuation	% of Secured*
CIM Oakland LP	Office Building	\$453,851,855	1.25%
OCC Venture LLC	Office Building	236,324,495	0.65%
SIC Lakeside Drive LLC	Office Building	184,469,180	0.51%
Kaiser Foundation Health Plan Inc.	Office Building	146,180,919	0.40%
Digital 720 2nd LLC	Shopping Center	128,264,362	0.35%
1800 Harrison Foundation	Office Building	125,009,321	0.34%
Oakland Property LLC	Office Building	125,000,000	0.34%
555 Twelfth Street Venture LLC	Office Building	118,911,753	0.33%
Suncal Oak Knoll LLC	Planned Residential	116,856,652	0.32%
Clorox Company	Office Building	103,302,957	0.28%
		<b>\$1,738,171,494</b>	<b>4.77%</b>

\* 2012-13 Local Secured Assessed Valuation: \$38,271,770,017



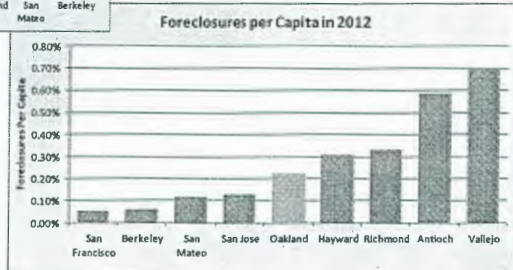
Source: California Municipal Statistics, Inc.

## Foreclosure Information



- Home foreclosures in the City of Oakland have significantly declined since 2010.

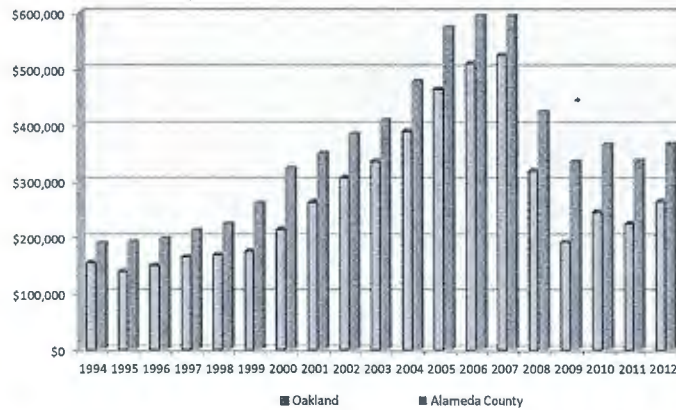
- On a per capita basis, Oakland's foreclosures are relatively low.



Source: DataQuick; DQNews.com

## Median Home Sale Prices

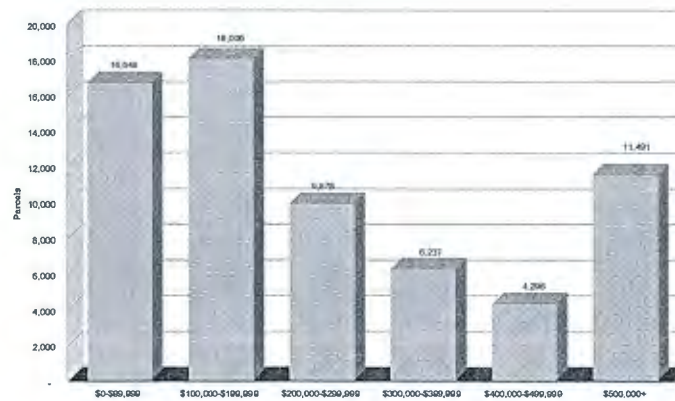
- The median home sale price in the City of Oakland in 2012 was \$264,000, an increase of 17% from the median home sale price in 2011.



Source: DataQuick; DQNews.com

## Single Family Residential Parcels by A.V. Range 2012-13

- With over 60% of parcels valued less than the median sales price of \$264,000, there is potential for growth from home sales over time.



Source: California Municipal Statistics, Inc.