

**Oakland Unified School District  
Office of the State Administrator  
October 29, 2008**

**LEGISLATIVE FILE**

**To: Vincent Matthews, State Administrator  
Board of Education**

File ID No. 08-2472  
Introduction Date 10-29-08  
Enactment No. \_\_\_\_\_  
Enactment Date \_\_\_\_\_  
By \_\_\_\_\_

**From: Roberta Mayor, Interim Superintendent  
Leon Glaster, Chief Financial Officer Consultant**

**Subject: Paying Off District's Certificates of Participation (COPs)**

**Action Requested:**

Adoption by the State Administrator of Resolution No. 0809-0063 authorizing the repayment in full of certain outstanding lease obligations (Certificates of Participation or "COPs") directly payable by the District, and to refinance the portion of outstanding COPs that are related to the loan to Chabot Observatory and Science Center as specified in said resolution.

**Background:**

Long term lease obligations are also called Certificates of Participation (COPs) and are used by school districts to finance capital projects that cannot be financed through the general obligation bond program. Oakland USD has issued COPs to pay for certain energy saving modernization projects prior to the approval of general obligation bond measures. COPs were also issued to pay for portable classrooms to accommodate class size reduction. The most recent COPs were issued to purchase and install computer information systems.

Series	Issue Date	Final Maturity	Outstanding	Source of Repayment	Purpose
Series G – Chabot portion	6/17/99	8/1/2024	\$8,110,000	Payments from Chabot	Loan to Chabot Observatory during construction
Series G – District portion	6/17/99	8/1/2024	\$1,130,000	Facilities Fund (Fund 25)	Refinanced prior COPs for CSR and energy efficiency projects
Series H	7/15/99	11/1/2014	\$6,810,000	Facilities Fund (Fund 25)	Refinanced prior COPs for energy efficiency projects
Series J	1/8/2002	8/1/2010	\$1,335,000	General Purpose Fund (Fund 1)	Purchase & installation of BiTech computer system
<b>TOTAL</b>			<b>\$17,385,000</b>		

The credit crunch being felt throughout the world has also had an effect on the District's outstanding COPs. Because the COPs are variable rate, the interest rate is determined each week, depending on market conditions and demand. Historically, variable rate obligations have allowed the District to pay short term interest rates on long term debt.

Leon Glaster, CFO  
Re: Paying Off COPs  
October 29, 2008  
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From 2001 through 2007, the interest rate on the COPs averaged from 1.30% to 5.13% a year. The average from 2001 to today is approximately 3%.

Unfortunately, beginning in June, the interest rates for Series G and Series H have shot up to around 10%. This is directly related to the credit rating of the bond insurer, Ambac, who insures the Series G and Series H COPs. Fitch Rating Service downgraded Ambac from AAA to AA in January and, as a result, the interest on Series G and Series H has been higher than the interest rate on the Series J COPs, which are not Ambac insured. In June, Standard and Poor's and Moody's also downgraded Ambac from AAA to AA, increasing the interest rate even higher.

Until the June downgrades, the interest rates the District had been paying on the Series G and Series H COPs were still attractive and less than what the alternatives would cost. However, the June downgrades have pushed the interest rate much higher than reasonable, and the high rates have persisted.

Late in September, the interest rate for the Series J COPs also jumped up to 8%. They have since backed down to under 4%.

The continued high rates on the Series G and Series H, and the potential for future increases on the Series J prompted a review of options available to the District regarding these long term obligations. Options included refinancing to a fixed rate obligation and paying-off all or a portion of the COPs with funds on hand.

The information above was also presented in the Multiyear Recovery Plan prepared in May 2008. However, recent developments in the bond markets have changed the analysis and recommendations.

### **Discussion:**

While interest rates on the COPs were low, the District was able to earn more from investing the State Loan funds and other capital funds on hand than it had to pay in interest on the COPs. Now that interest rates have gone up, it is worth reconsidering whether paying off the COPs with funds on hand, thereby eliminating the interest payments, is a better option.

Based on review of various options and analysis of future savings, staff recommends the following:

- a. Series J is currently being paid from the General Purpose fund. Using interest earned in Fund 17 (Emergency Loan Fund), the entire amount outstanding, \$1,335,000, can be paid off. **This will save the General Fund interest costs of \$60,000 to \$130,000 a year over the next two years. This savings in future interest costs is greater than the interest that could have been earned if the funds had remained in Fund 17.**

- b. Series G & H (excluding Chabot obligation) is currently being paid from the Capital Facilities Fund (Fund 25). Using funds currently available in Fund 25, plus a loan from Fund 17 the District portion of Series G (\$1,130,000) and all of Series H (\$6,810,000) can be paid off. The total to be paid off is \$7,940,000. There is currently \$4,500,000 available in Fund 25. The additional \$3,440,000 can be borrowed from the Emergency Loan Fund, Fund 17, and repaid over the next two years. Fund 25 will repay \$1,220,000 in 2009-10 and \$1,220,000 in 2010-11. **This will save Fund 25 interest costs of \$300,000 to \$700,000 (depending on interest rate assumptions) a year over the next two years.**
- c. The remaining portion of Series G, the Chabot portion, can be refinanced as a fixed rate obligation. Chabot will continue to reimburse the District for payments on the new obligation. The District's financial advisor is seeking lease providers to identify the lowest interest rates possible. The actual refinancing will require separate Board approval at a future Board meeting.

**Fiscal Impact:**

The fiscal impact is a net savings to the District over the next several years. Because the interest rate costs are now greater than the interest that could have been earned, the net difference is positive for the District. The variable nature of the interest rates on the COPs makes an exact savings impossible; however current market conditions have interest rates on the Series G and Series H at 9%, while the interest rate on Series J is 3.60%. The Emergency Loan Fund is earning interest at 2.75% and decreasing based on the current Fed interest rate reductions. Thus more is being paid in interest on the COPS than is being earned on the Loan. Although it is not known how long these market conditions will persist, it is prudent to pay off the COPs at this time.

**Recommendation:**

Adoption by the State Administrator of Resolution No. 0809-0063 authorizing the repayment in full of certain outstanding lease obligations (Certificates of Participation or "COPs") directly payable by the District, and to refinance the portion of outstanding COPs that are related to the loan to Chabot Observatory and Science Center as specified in said resolution.

**ATTACHMENT**

COP Repayment Analysis

**Legislative File**  
File ID No. 08-2472  
Introduction Date: 10/29/08  
Enactment No.: \_\_\_\_\_  
Enactment Date: \_\_\_\_\_  
By: \_\_\_\_\_

**RESOLUTION  
OF THE  
GOVERNING BOARD<sup>1</sup>  
OF THE  
OAKLAND UNIFIED SCHOOL DISTRICT  
No. 0809-0063**

**REPAYMENT IN FULL OF CERTIFICATES OF PARTICIPATION DIRECTLY PAYABLE BY  
DISTRICT AND TO REFINANCE OUTSTANDING COPs RELATED TO LOAN TO CHABOT  
OBSERVATORY AND SCIENCE CENTER**

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**WHEREAS** long term lease obligations, also called Certificates of Participation (COPs), are used by school districts to finance capital projects that cannot be financed through the general obligation bond program.

**WHEREAS** the Oakland Unified School District (the “District”) has issued COPs to pay for various capital projects, including certain energy saving modernization projects prior to the approval of general obligation bond measures, portable classrooms to accommodate class size reduction, and most recently the purchase and installation of computer information systems.

**WHEREAS** the District’s COPs have a variable interest rate that is determined each week, depending on market conditions and demand.

**WHEREAS** historically, variable rate obligations have allowed the District to pay short term interest rates on long term debt. The average has been approximately 3% over the life of the COPs.

**WHEREAS** beginning in June, the interest rates on Series G and Series H COPs have risen rapidly and is now approximately 10%. This increase is directly related to the downgraded credit rating of the bond insurer Ambac, which insures the District’s Series G and Series H COPs.

**WHEREAS** in late September 2008, the interest rate for the Series J COPs rose to 8%. Currently, the rate is under 4%.

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<sup>1</sup> Governing Board means the Superintendent of Public Instruction or his designee, the State Administrator, pursuant to Senate Bill 39.

**WHEREAS** when interest rates on the COPs were low, the District was able to earn more from investing the State Loan funds and other capital funds on hand than it had to pay in interest on the COPs. Now that interest rates have increased, the District must consider paying off the COPs with funds on hand, thereby eliminating the interest payments on COPS.

**WHEREAS** the continued high rates on the Series G and Series H COPs, and the potential for future increases on the Series J COPs prompted a review of options available to the District regarding these long term obligations.

**WHEREAS** Series J is currently being paid from the General Purpose Fund. Using interest earned in Fund 17 (Emergency Loan Fund), the entire amount outstanding (\$1,335,000) can be paid off. This will save the General Fund interest costs of \$60,000 to \$130,000 a year over the next two years. Savings in future interest costs will be greater than the interest that could have been earned if the funds had remained in Fund 17.

**WHEREAS** Series G & H COPs (excluding Chabot obligation) is currently being paid from the Fund 25 (Capital Facilities Fund). Using the \$4,500,000 currently available in Fund 25, plus a loan of \$3,444,000 from Fund 17, the District portion of Series G (\$1,130,000) and all of Series H (\$6,810,000) can be paid off. The total to be paid off is \$7,940,000. The \$3,440,000 to be borrowed from Fund 17 can be repaid over the next two years. Fund 25 will repay \$1,220,000 in 2009-10 and \$1,220,000 in 2010-11. This will save Fund 25 interest costs of \$300,000 to \$700,000 (depending on interest rate assumptions) a year over the next two years.

**WHEREAS** the remaining portion of Series G (\$ 8,110,000), the Chabot portion, can be refinanced as a fixed rate obligation.

**NOW, THEREFORE, BE IT RESOLVED** that the Board authorizes the repayment in full of Series G, H & J COPs outstanding lease obligations (Certificates of Participation or "COPs") directly payable by the District, and refinancing that portion of outstanding COPs that are related to the loan to Chabot Observatory and Science Center.

I hereby certify that the foregoing is a full, true, and correct copy of a Resolution passed at a Regular Meeting of the Governing Board of the Oakland Unified School District held October 29, 2008.

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Vincent Matthews  
State Administrator  
Oakland Unified School District

ATTEST: \_\_\_\_\_  
Edgar Rakestraw, Jr.  
Secretary, Governing Board  
Oakland Unified School District



# Oakland Unified School District

COP Repayment Analysis  
October 6, 2008



1333 Broadway, Suite 1000, Oakland, CA 94612  
phone 510-839-8200 fax 510-208-8282  
A Division of Zions First National Bank

# Oakland USD Outstanding COPs (Leases)

- Schools Districts can only enter into long term DEBT if voter approved.
- However, districts can enter into long term LEASES. Certificates of Participation, or “COPs” are based on lease agreements.
- COPs are repaid by the District (Capital Facilities and General Fund).
- Variable rate COPs have been lowest interest rate option for many years.

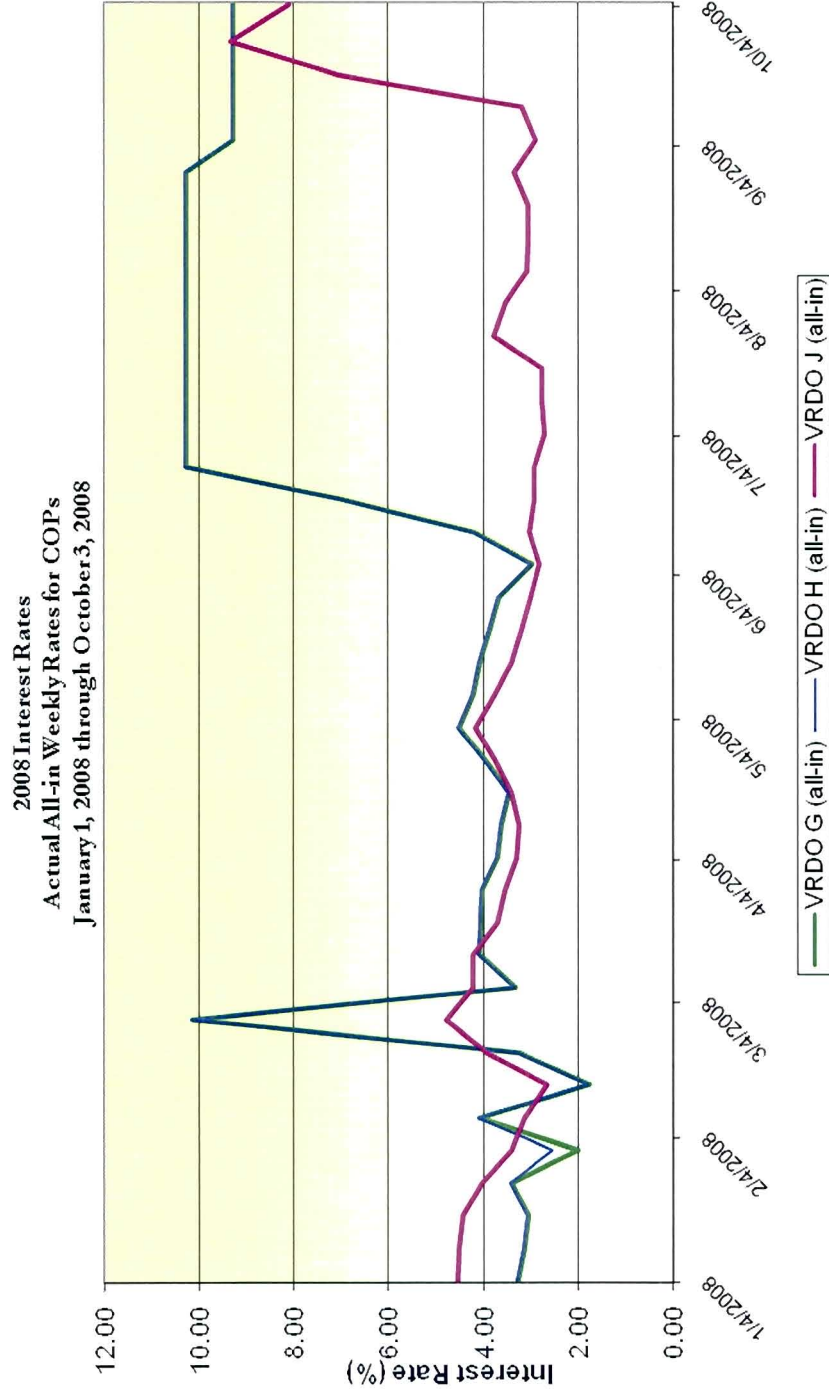
Series	Issue Date	Final Maturity	Original Principal	Principal Outstanding 10/1/2008	Annual Payments	Comments
* Series G - Refund Series A & Series D;HVAC	6/17/1999	8/1/2024	\$ 27,060,000	\$ 1,130,000	Approx. \$970,000 (thru 2010, then \$16,000)	Refinance prior COPS; \$200,000 for HVAC project
* Series G - Chabot Observatory	6/17/1999	8/1/2024	10,265,000	8,110,000	Approx. \$700,000	\$10 million loan to Chabot
** Series H - Refund Honeywell Phase II and Phase III	7/15/1999	11/1/2014	12,565,000	6,810,000	Approx. \$1,100,000	Replaces Capital Leases for Honeywell Phase II and Phase III
* Series J - Bi-Tech System	1/8/2002	8/1/2010	4,690,000	1,335,000	Approx. \$680,000	Purchase & installation of BiTech management information & accounting system.

**TOTAL COPS OUTSTANDING:** \$ 54,580,000 \$ 17,385,000 Approx. \$3,200,000



# Variable Interest Rates

- The “Ambac” bond insurance on the District’s Series G and Series H COPs has resulted in 9-10% rates since June.
- Current market conditions have resulted in 7% rates on the Series J for the past 2-3 weeks.





## Additional Cost to District

- If interest rates were to persist at 10%, rather than the historically lower rates, the additional cost to the District (and Chabot) could be more than \$1 million per year.

	Outstanding	2.50%	4.50%	10.00%	Difference
Series G - Chabot	\$8,110,000	\$202,750	\$364,950	\$811,000	\$608,250
Series G - District	1,130,000	28,250	50,850	113,000	84,750
Series H	5,955,000	148,875	267,975	595,500	446,625
Series J	<u>1,335,000</u>	33,375	60,075	133,500	<u>100,125</u>
	16,530,000				1,239,750

# Options

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- Convert variable rates to fixed under existing documents.
  - Doesn't eliminate underlying "Ambac" insurance.
  - Additional costs of approximately \$50,000 can't be incorporated into the financing.
- Completely refinance COPs to another fixed rate lease or COP.
  - District's credit makes it difficult to find lenders at reasonable rates.
- Pay-off a portion with funds on hand; refinance what's left as "bank qualified".
  - Reduces overall debt payments.
  - "Bank Qualified" allows us to approach additional lenders who may have better rates.
- Invest District funds in District COPs
  - Offer to purchase COPs (as an investment) at rate lower than current rates forcing current COP holders to accept lower rate or "put" back investment and allow District to purchase.
  - IRS ruling just made this possible but only through December 31, 2009.
  - District funds would be pulled out of current investment (LAIF) and invested in Series G, H and J COPs. District's interest payments on COPs would flow back to District through interest on investment.
- Option to refinance is preserved for calmer markets and stronger District credit picture.
- State loan funds are not depleted but continue to earn interest that can be applied toward repayment of loan.

“A”

“B”



# Analysis of Options

Capital Facilities Fund							
Options	2008/09	2009/10	2010/11	2011/12	2012/13	5 year Total	
Status Quo Repay Series G & H @ 7%	2,316,543	2,269,532	1,273,294	1,246,584	1,215,798	8,321,752	
Option A Pay-off now, repay State Loan, w/ interest	4,035,000	1,500,000	1,500,000			7,035,000	
	2.50%	<u>75,000</u>	<u>37,500</u>			<u>187,500</u>	
		4,110,000	1,575,000	1,537,500		7,222,500	
Option B Repay Series G & H @ 4.5%	2,123,135	2,121,485	1,154,260	1,151,376	1,145,870	7,696,126	

State Loan Fund/General Fund							
Options	2008/09	2009/10	2010/11	2011/12	2012/13	5 year Total	
Status Quo Repay Series J @ 7%	729,319	709,418	697,086	-	-	2,135,823	
Option A Pay-off Series J now	2,017,978	-	-	-	-	2,017,978	
Help Pay-off of Series G & H	3,000,000	(1,500,000)	(1,500,000)			-	
Lost interest earnings	2.50%	<u>-</u>	<u>-</u>			<u>-</u>	
		5,017,978	(1,500,000)	(1,500,000)		2,017,978	
Option B Invest State Loan in COPs for 1 year	16,530,000	(16,530,000)				-	
Repay Series J @ 4.50%	* 692,062	688,198	692,770			2,073,029	
		17,222,062	(15,841,802)	692,770		2,073,029	

\* Interest can be set to be 1.50% over LAIF, thus ensuring no interest earnings are lost by investing in COPs.



# Variable Rates – Annual Averages

## ALAMEDA CONTRA COSTA SCHOOLS FINANCING AUTHORITY VARIABLE RATE DEMAND CERTIFICATES OF PARTICIPATION

Average Annual Rate History

<i>Credit and Liquidity:</i>	Series G		Series H		Series J	
	Ambac Bond Insurance and Dexia Credit Local	Standby Purchase Agreement All-in Rate	Ambac Bond Insurance and Dexia Credit Local	Standby Purchase Agreement All-in Rate	KBC Bank	Direct Pay Letter of Credit All-in Rate
2001	2.515	2.540	1.573	1.884		
2002	1.548	1.298	1.647	1.590		
2003	1.273	2.829	3.706	1.795		
2004	1.609	3.821	6.247	4.090		
2005	2.804			5.018		
2006	3.677			5.126		
2007	3.790			3.822		
2008 (a)	6.209					
<b>Average:</b>	<b>2.928</b>	<b>2.958</b>	<b>3.332</b>			

(a) To Date

