



Oakland Unified School District

Bond Issuance – Board Resolutions

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A Division of Zions First National Bank

For your consideration...

1. Measure B Bond Issue – Challenges and Options
2. Resolutions for your consideration
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Measure B Bond Issue – Challenges and Options



Remaining Measure B Authorization

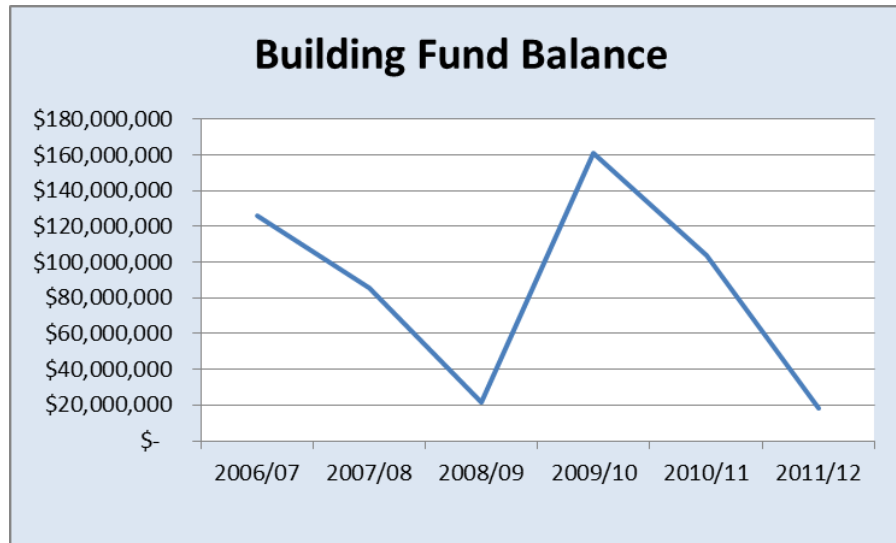
- Voters approved Measure B, authorizing \$435 million in general obligation bonds in June 2006.
- \$120 million remains to be issued from Measure B Authorization.

Series	Date Issued	Amount	TIC*
Series 2006	11/28/2006	\$130,000,000	4.45%
Series 2009	8/1/2009	<u>\$185,000,000</u>	5.76%
		\$315,000,000	5.22%
Series 2012	2/15/2012	<u>\$120,000,000</u>	?
TOTAL MEASURE B:		\$435,000,000	

* TIC is Total Interest Cost, and represents the overall cost of the financing.

Need to Issue Final \$120 Million

- The District's Facilities Program spends about \$50 million a year on Board-approved projects that are part of the Facilities Master Plan.
- Current projections have all bond funds issued so far (\$315 million) spent by May 2012.



Types of Bonds that Can be Issued

- **Qualified School Construction Bonds (QSCBs)**– taxable (not tax-exempt bonds) with federal subsidy paid to district to cover most of interest, reducing repayment costs.
- **Capital Appreciation Bonds (CABs)** – higher interest cost, but keep debt service (and taxes) lower while tax base grows and older bonds are paid off.
- **Long dated** - Repayment extended up to 40 years. District has issued 25 year bonds in the past.

Challenges to Issuing \$120 Million – Lack of Audit

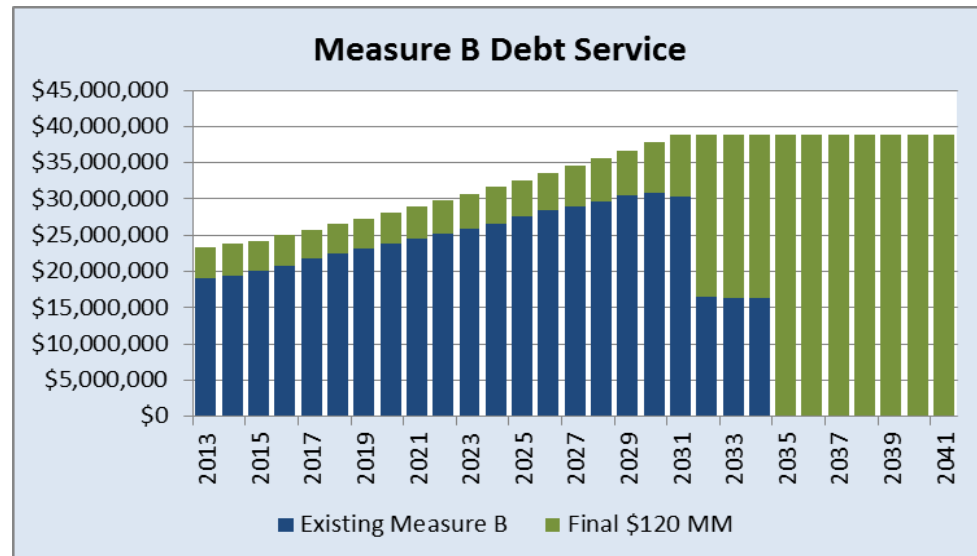
- No current audit reports and low (or no) bond ratings are creating a challenge.
 - Even though bonds are repaid by taxpayers, not the District, bond investors care about the District’s financial health.
 - Not knowing whether the next audit will have material findings or not.
 - The more risk, the higher the interest rates.

Bond Type – 20 year maturity	2 Ratings + Audit	1 Rating + Audit	1 Rating No Audit
Current - 2031	5.14%	5.54%	5.89%
CAB - 2031	6.89%	7.29%	7.64%
QSCB – 2030 (max)	1.75%	2.25%	2.75%
TIC	6.15%	6.60%	7.00%

Challenges to Issuing \$120 Million – Tax Limit

- The estimated maximum tax rate (per Proposition 39) from Measure B is \$60 per \$100,000.
 - Current tax rate for Measure B is \$47 per \$100,000.
 - The higher the interest rate, the less principal that can be issued within \$60 repayment rate.
 - The lower the growth in the tax base (property values), the less tax revenue available for bond repayment.

- The graph shows how debt service must be structured around existing Measure B bonds to stay within the tax limit.



Options Under Consideration

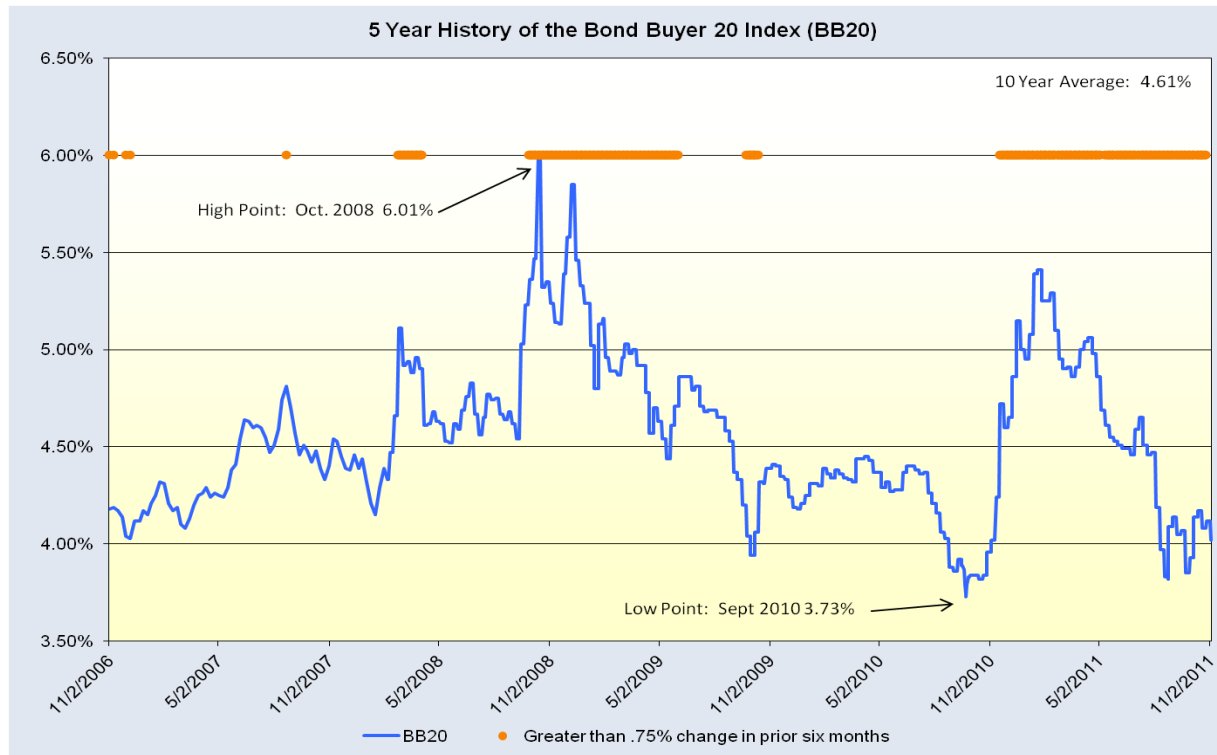
- Issue all \$120 million in bonds now.
- Issue some of \$120 million now, some later – minimizing higher interest costs due to rating and audit issues.

Pros and Cons of Each Option

	All \$120 Million Now	Split it up
Additional Savings (present value)	- (baseline – most costly option)	\$8,286,200
Pros	<ul style="list-style-type: none"> • Overall interest rates are low – market movement could eliminate any credit improvement. • Bird in the hand... 	<ul style="list-style-type: none"> • Only borrow what is needed now, and hope that improved credit story will result in better rates later. • Second series can be coordinated with refunding to save costs.
Cons	<ul style="list-style-type: none"> • Lock in higher interest rates due to credit. 	<ul style="list-style-type: none"> • Two transactions (time, costs). • Market will price based on last deal, so 2nd issue. may not get better rates. • Market may move more than credit improvement.

Timing Considerations

- Could a movement in market interest rates between January and July eliminate any savings from an improved credit story?
 - Market would have to move 0.75% in six months for the rates to be equivalent.
 - Interest rates often move more than .75% in a six month period.



Resolutions for Board Consideration



Resolutions for Board Consideration

- ❑ The Board is being asked to approve both options, to allow for flexibility.

- ❑ Resolution authorizing issuance of up to \$120 million of Measure B bonds.

- ❑ Resolution authorizing a refinancing (refunding) of prior bonds (issued in 2004).

Resolution Authorizing up to \$120 Million

- District board requests that the Alameda County Board of Supervisors issue bonds up to \$120 Million from Measure B, on behalf of the District.
- Resolution authorizes:
 - Current Interest Bonds
 - Capital Appreciation Bonds
 - QSCBs (Taxable Bonds)
- Specifies certain bond features, including up to 40 year repayment term.
- Designates Superintendent and Deputy Superintendent for Business Services and Operations as Authorized Representatives of the District.

Resolution Authorizing up to \$120 Million, *continued*

- Certain documents are authorized in form (to be completed when bonds are priced):
 - **County Resolution** – the form of the resolution to be approved by the County to officially issue the bonds.
 - **Paying Agent Agreement** – will contain the technical details of how the bonds will be repaid, including payment dates and amounts and redemption features.
 - **Bond Purchase Agreement** – signed on day of pricing with final negotiated terms of the transaction, including interest rates, underwriter compensation, and requirements of the sale.
 - **Continuing Disclosure Certificate** – commits the District to provide certain information to investors on an on-going basis.

Resolution Authorizing up to \$120 Million, *continued*

- Method of sale: competitive or negotiated.
 - To improve market understanding of District's bonds prior to the sale, the \$120 million will be sold through a negotiated sale process. The 2009 deal was also negotiated. District will use the same underwriting team that sold the 2009 series:
 - J.P. Morgan Securities, Inc.
 - Piper Jaffray & Co.
 - Siebert Brandford Shank & Co., Inc.

- An estimate of the Costs of Issuance are provided, including the underwriter's compensation.

Estimate of Costs of Issuance

- Education Code Section 15146** requires an estimate of the costs of issuance be provided to the Board along with the authorizing resolution for new issue general obligation bonds.

Service	Provider	Cost
Underwriter		\$812,500
Bond Insurance		\$0
TOTAL to be paid at closing directly by Underwriter		\$812,500
Financial Advisor - fee + reimbursables	KNN Public Finance	\$105,000
Bond Counsel / Disclosure Counsel	Orrick, Herrington & Sutcliffe LLP	\$80,000
Rating Agency	Moody's	\$60,000
Posting & Printing POS / OS	Imagemaster	\$13,000
Continuing Disclosure	DAC	\$2,500
Arbitrage Calculations	Arbitrage Compliance Specialists	\$5,000
Paying Agent Fees + COI Admin	US Bank	\$7,250
Contingency	Bond Debt Service Fund	\$7,250
TOTAL to be paid at closing from COI account funded by Underwriter		\$280,000
Total Estimated Costs of Issuance		\$1,092,500

Resolution Authorizing Refunding

- Not planning to refund any bonds in the next few months, but this authorization allows the District to move forward with the refunding when conditions are right.
- The Resolution provides for the broad parameters of the bond issue including:
 - Total principal amount will not exceed \$98,000,000.
 - Minimum savings requirement is 3%.
 - Method of sale is negotiated (same underwriting team).
 - Delegation of authority to Superintendent and Deputy Superintendent of Business Services & Operations
- Documents Approved in Form:
 - Paying Agent Agreement
 - Bond Purchase Contract
 - Continuing Disclosure Certificate
 - Escrow Agreement

Next Steps



Bond Issuance Process

Action/ Item	Date / Timeframe
Prepare legal documents for review	Early October
Board Committee Review	November 7,8
Board Action	November 16
County Board Action	December 6
Preliminary Official Statement (POS) – District disclosure document - finalized with data from 1 st Interim	Early December
POS approved by Board	December 14
Meeting with Moody’s Investors Service (rating agency)	Mid December
Post POS for investors & underwriters	Mid January
Sale / Pricing	Early February
Review and sign final documents	Mid February
Close	Late February

Next Steps Regarding Options

- Continue to monitor bond market and interest rate movements.
- Continue to monitor cash needs of Facilities Department
- Continue to monitor State Controller's Office's progress on audit.

- Early January, decide which option to take.