

Board Office Use: Legislative File Info.	
File ID Number	09-2091
Introduction Date	06-18-09
Enactment Number	
Enactment Date	



every student. every classroom. every day.

Memo

To Board of Education
Vincent Matthews, State Administrator

From Roberta Mayor, Interim Superintendent
Vernon Hal, Chief Financial Officer

Board Meeting Date June 24, 2009

Subject Sale of General Obligation Bonds - Facilities Renovation and Construction

Action Requested: Approval by the State Administrator of Resolution No. 0809-0234 prescribing the terms of sale of bonds of Oakland Unified School District, requesting the Board of Supervisors of the County of Alameda to issue and sell not to exceed \$185,000,000 of said bonds by a negotiated sale pursuant to one or more bond purchase contracts, approving the forms of and authorizing the execution and delivery of one or more paying agent agreements, bond purchase contracts, and authorizing the execution of necessary documents and certificates relating to said bonds.

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, leaving \$305 million in authorization yet to be issued. 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.

The next issuance of Measure B bonds is scheduled for this summer.

Discussion: The presentation attached to this Memo provides an overview of the bond issuance process, the Board's responsibilities in that process, and the current challenges and opportunities the District must address.

Fiscal Impact: Bonds will be issued to 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 will be incorporated into the over-all cost of the bonds, and paid directly by the bond purchaser.

Recommendation: Approval by the State Administrator Resolution No. 0809-0234 prescribing the terms of sale of bonds of Oakland Unified School District, requesting the Board of Supervisors of the County of Alameda to issue and sell not to exceed \$185,000,000 of said bonds by a negotiated sale pursuant to one or more bond purchase contracts, approving the forms of and authorizing the execution and delivery of one or more paying agent agreements, bond purchase contracts,

and authorizing the execution of necessary documents and certificates relating to said bonds.

Attachments:

- Presentation: Status Report and Overview of the Bond Issuance Process.
- Resolution No. 0809-0234



Oakland Unified School District

Status Report and Overview of G.O. Bond Issuance Process

June 18, 2009



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 Bonds

- General Obligation Bonds are approved by voters and repaid by taxpayers.
- District still has \$305 million of bonds authorized but not yet issued.
- Based on cash needs of District's capital program, \$185 million will be issued by August.

Name	Dated Date	MEASURE C Original Par	MEASURE A Original Par	MEASURE B Original Par	Total Principal Outstanding	Interest Rate	Final Maturity	Comments
Series A	5/23/1995	\$ 12,200,000			\$ -		8/1/2019	REFUNDED
Series A	5/23/1995	18,315,640			-		8/1/2019	REFUNDED
Series B	7/30/1997	9,999,977			-	5.18%	8/1/2022	REFUNDED
Series C	5/20/1998	27,045,000			-	5.08%	8/1/2019	REFUNDED
Series C	5/20/1998	8,916,738			-	5.34%	8/1/2012	REFUNDED
Series D	5/20/1998	5,999,277			-	5.40%	8/1/2022	REFUNDED
Series E	5/1/1999	10,000,000			-	5.09%	8/1/2023	REFUNDED
Series F	4/1/2000	75,000,000			2,715,000	5.85%	8/1/2024	PARTIALLY REFUNDED
Series 2001	6/1/2001	38,215,107			-	5.10%	8/1/2025	} Issued as one series; REFUNDED
Series 2001	6/1/2001		61,999,893		-	5.10%	8/1/2025	
Series 2002	8/1/2002		100,000,000		95,680,000	4.92%	8/1/2026	
Series 2005	8/31/2005		141,000,000		138,790,000	4.38%	8/1/2030	
Series 2006	11/28/2006			130,000,000	117,825,000	4.45%	8/1/2031	
<i>Series 2009</i>	<i>8/1/2009</i>			185,000,000		5.90%	8/1/2034	Estimate
<i>Series 2011</i>	<i>8/1/2011</i>			120,000,000		5.50%	8/1/2036	Estimate
<i>Issued</i>		<u>\$ 205,691,738</u>	<u>\$ 302,999,893</u>	<u>\$ 130,000,000</u>				
<i>To be Issued</i>				<u>\$ 305,000,000</u>				
2007 Refunding	8/1/2007				<u>196,415,000</u>	4.48%	8/1/2025	
TOTAL OUTSTANDING					<u>\$ 551,425,000</u>			

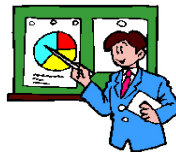
Bond Finance Team

- Financial Advisor serves as an independent consultant to the District on matters such as structure, method of sale, timing, marketing, fairness of pricing, terms and bond ratings.
- Bond Counsel reviews/prepares the legal documents and writes an opinion on the authority to issue bonds, that legal requirements have been met, and the tax-exempt status of interest paid on the bonds.
- Underwriter buys the new issue of bonds from the District and resells the bonds to investors.

- District (Issuer)
- County
- Financial Advisor



Issuer



Financial Advisor

- Bond Counsel
- Paying Agent / Trustee
- Disclosure Counsel
- Rating Agencies



Bond Counsel

- Underwriter
- Investors



Underwriter/
Investment Bank



Investors

Bond Issuance Process

What	Who	When
■ Select Financing Team	District Staff	May 2009
■ Authorizing Resolutions	Prepared By Bond Counsel Approved by Board	June 2009
■ Disclosure Documents	Prepared by Disclosure Counsel & District Staff Approved by Board	June -July2009
■ Rating Review	KNN, District Staff	June-July 2009
■ Investor Outreach	Underwriters, District Staff	July 2009
■ Bond Sale	Underwriters, District, KNN, Bond Counsel	July 2009
■ Bond Closing – District receives bond proceeds	County, District, Bond Counsel, KNN, Underwriters	August 2009

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 has authorization to issue \$26 million in QSCBs.
- All bond options will be evaluated to determine the optimal combination of BABs, QSCBs, and regular tax-exempt bonds for the District.

Current Bond Market Conditions

- Mortgage Crisis created a “Bond Market Crisis”
 - Municipal bond insurers with “AAA” ratings were downgraded.
 - Banks and hedge funds were over-exposed, had to cut off credit.
 - Venerable Wall Street institutions collapsed.

- Market for Stimulus Bond Instruments is Still Developing
 - BABs and QSCB investors still need to be educated, developed.
 - Determining best mix of bonds will require a close read of market conditions.

- Credit concerns have created more scrutiny, higher costs
 - State of California’s problems disadvantage all California issuers.
 - Oakland USD has a poor credit rating.
 - “Oakland” as a name has a mixed reputation.

Oakland's Credit Challenge

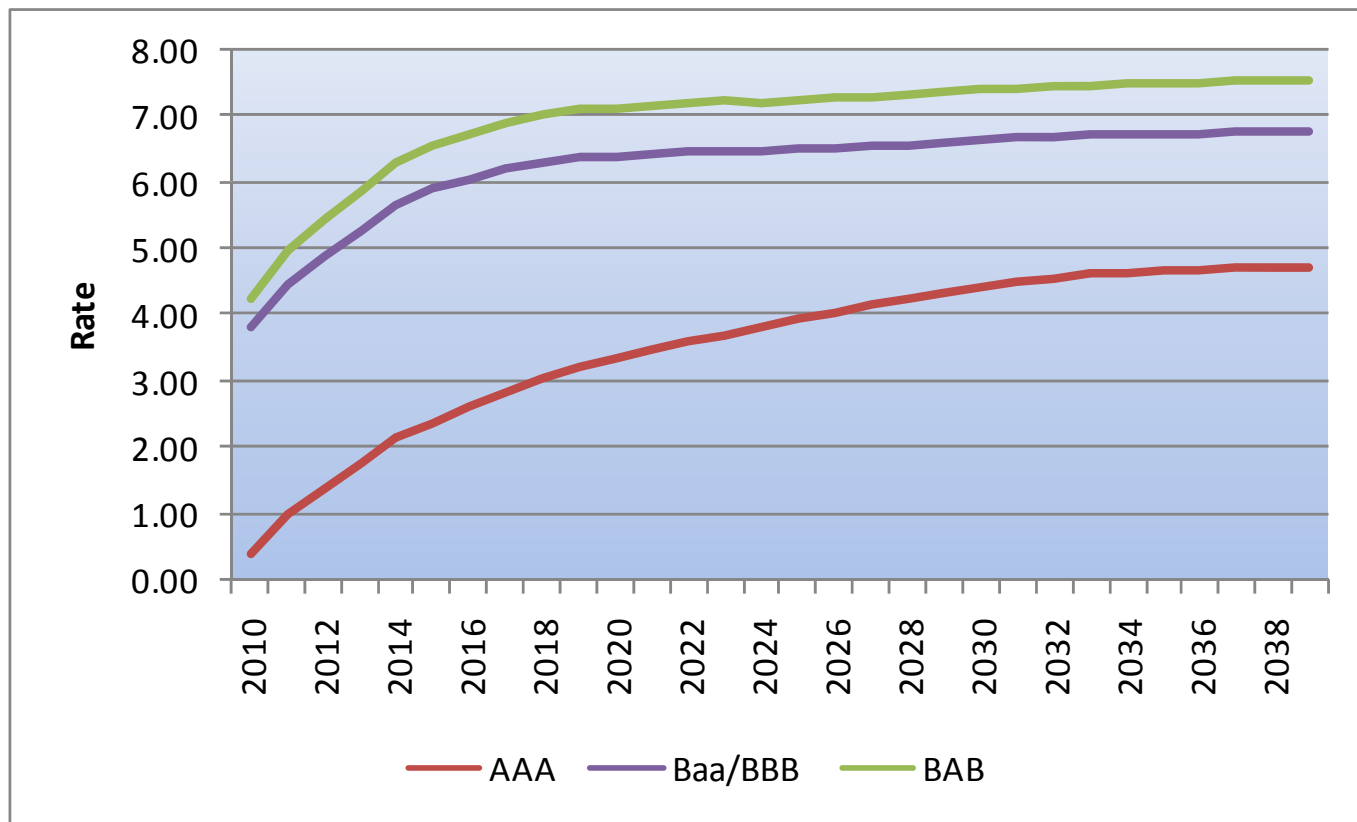
- Current credit ratings:
 - Moody's: Baa2
 - Standard & Poor's: BBB+

- Credit Concerns - District:
 - 2 years behind in Audited Financials (June 30, 2007 and June 30, 2008)
 - State receivership
 - Financials not stellar yet, and pressure from State cuts
 - Declining enrollment; growth in charters.
 - Transition to local control, new Superintendent

- Credit Concerns – Oakland:
 - Large number of foreclosures fuel declining property values.
 - Crime makes national headlines regularly.

Credit Differential

- The difference in interest costs between a “AAA” rated bond and a “BBB” rated bond are substantial.



Next Steps

- **Resolutions:** Bond Counsel has prepared legal documents for review and adoption by District Board and County Board in June.

- **Disclosure:** District staff will work with Disclosure Counsel to finalize Official Statement (disclosure information for potential investors). This will also be in Board materials for approval in June.

- **Underwriter Selection:** District Staff and KNN have interviewed and selected an underwriting team
 - Out of 10 proposals submitted, 5 firms were selected for interviews based on responsiveness of proposals.
 - Three firms have been selected to work as a syndicate to market, sell and purchase the District's bonds:
 - JP Morgan Chase
 - Piper Jaffray
 - Siebert Brandford