



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

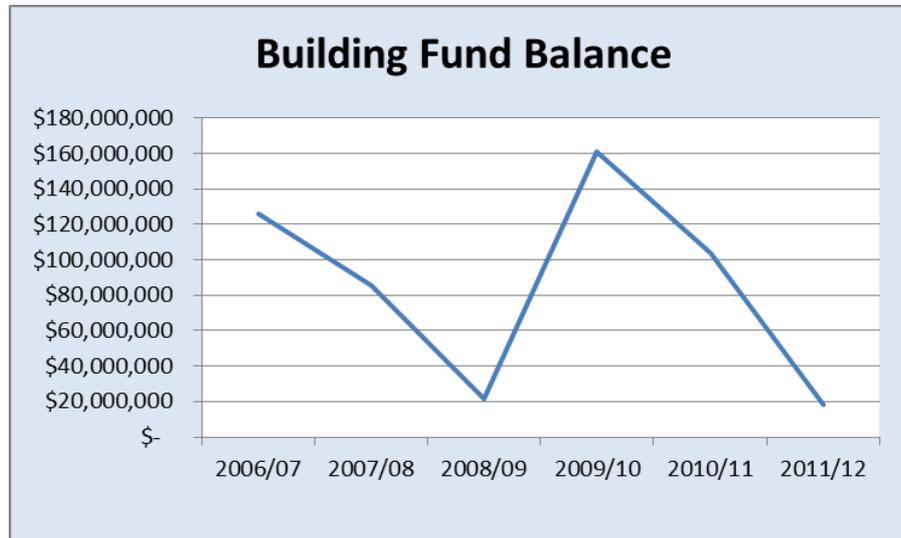
- Voters approved Measure B, authorizing \$435 million in general obligation bonds in June 2006.
- \$120 million remains to be issued from Measure B Authorization.

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

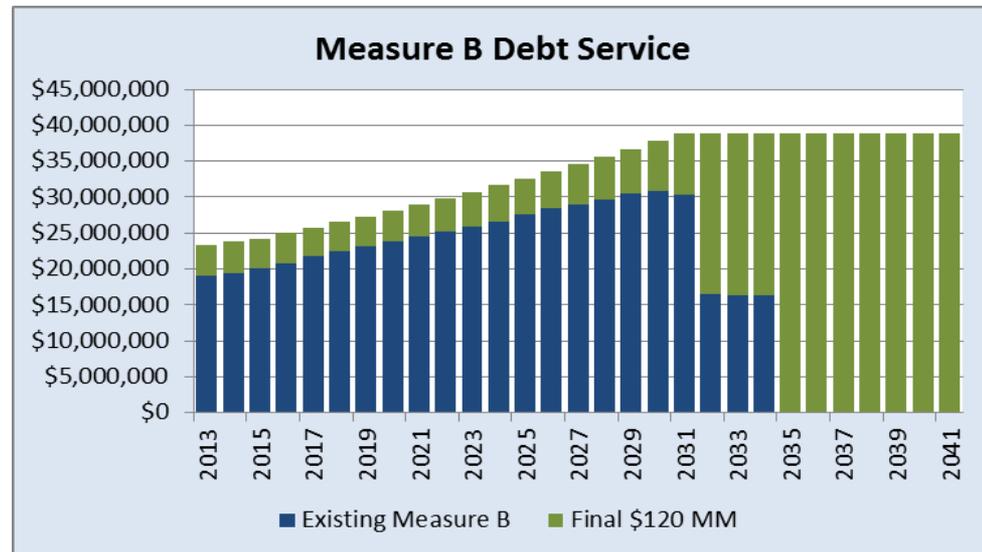
- No current audit reports and low (or no) bond ratings are creating a challenge.
 - Even though bonds are repaid by taxpayers, not the District, bond investors care about the District’s financial health.
 - Not knowing whether the next audit will have material findings or not.
 - The more risk, the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

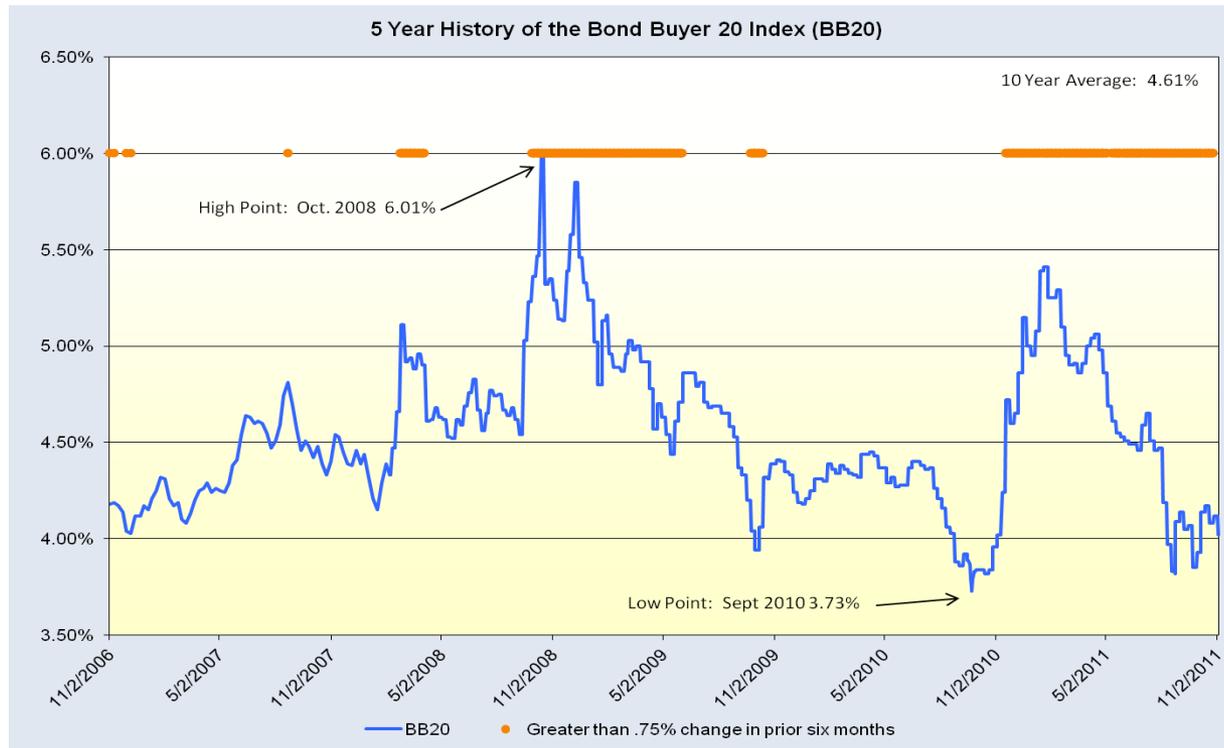
- Issue all \$120 million in bonds now.
- Issue some of \$120 million now, some later – minimizing higher interest costs due to rating and audit issues.

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.