November 18, 2015

TO: Board of Trustees

FROM: Antwan Wilson, Superintendent
Vernon Hall, Senior Business Officer
Ruth Alahydoian, Chief Financial Officer

RE: Summary of Sale of General Obligation Bonds in August 2015

The following memo and attached presentation provide a summary of the Oakland Unified School District's August 2015 general obligation bond transaction. We provided highlights of the sale in August. This memo provides additional details and provides information that was not available at that time.

Quick Highlights:

- The District was able to sell $180 million of Measure J at an all-in True Interest Cost (TIC) of **4.23%** and $168.7M refunding bonds at an all-in TIC of **3.32%.** The combined rate is **3.84%,** which is less than the rate the District is paying on bonds issued in 2009, with a bond rating, and in 2012 and 2013, without a bond rating.

- The refunding (refinancing) of Measure A bonds issued in 2002 and 2005, the District reduced the tax bill for taxpayers by **$26 million** over the remaining life of those bonds.

- By not having a bond rating, it's estimated that District taxpayers will pay **.28% more** in interest rates for the Measure J bonds, or **$10.4 million** more in interest over the life of the bonds. For the refunding bonds, the difference is **.17%,** or **$3.6 million**. (The $26 million in savings noted above is net of this additional cost.) That said, the District achieved considerably lower rates than other non-rated bonds by providing bond investors access to key District officials to answer questions and provide confidence in the District's financial recovery.

Overview of the Process

Board Authorization and Offering Document: On June 24, 2015, the Board authorized the issuance of up to $180 million of Measure J bonds for current capital projects and up to $195 million of "refunding" general obligation bonds to refinance bonds issued in 2002 and 2005 under Measure A. An offering document (the Official Statement) was prepared and published on July 27, 2015. The bonds were publically offered for sale on August 5, 2015. The bonds were offered non-rated, because the District does not have a current audit.

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Bond Insurance: At the time of the sale, the District was able to purchase bond insurance from an insurer with a "Aa/AA" rating. For those bond maturities where the cost of the insurance would be offset by the lower interest cost for insured bonds, insurance was purchased and those bond maturities were sold at a lower interest rate. Certain maturities in the refunding bonds met this threshold and were insured.

Pre-Sale Marketing: The District sold the bonds through an underwriter - Oakland-based Siebert, Brandford, Shank & Co., LLC, who served as Senior Manager, assisted by Piper Jaffrey & Co. as co-manager. Prior to the sale, key District officials met or talked with over 30 bond investor organizations, answering questions and building confidence in the District's leadership and financial recovery.

Bond Orders: Orders to purchase bonds were placed by 57 investors, of which 41 were new to OUSD. In 2013, 27 investors placed orders, and in 2012, only 12 investors were interested. Total orders placed were for $2 billion; bonds for sale were $348.7 million, resulting in an oversubscription by almost 6 times.

Final Pricing: Given the high demand, the underwriter was able to reduce the interest rates on the bonds, resulting in lower overall costs to taxpayers who will repay the bonds. At the end of the order period, the underwriter made a final proposal to the District to purchase and sell the bonds based on the orders. With this award in place, the bonds were sold and the transaction closed on August 21, 2015.

<u>Analysis of Final Pricing</u>

Pricing: Leading up to the sale, the underwriters provided estimates that priced the OUSD bonds up to 1.30% over a comparable rated bond. By the final pricing, with orders far exceeding bonds for sale, the rate was reduced to approximately .30% higher than a rated bond. This translates to a true interest cost (TIC) of 4.23% for the Measure J bonds, and an even lower TIC of 3.32% for the refunding bonds. The overall TIC for both transactions together is 3.84%.

Cost of No Rating: The District's bonds have been non-rated since 2011 due to the lack of current audit reports; bond markets demand a premium on bonds that are not rated due to liquidity and credit concerns. The District's financial advisor, KNN Public Finance, has estimated the cost of not having a rating by using the pricing of a recent large rated school district bond transaction and applying those rates to the District's Measure J Bonds and the refunding bonds. The net difference in rates for the Measure J bonds is .28%, or $10.4 million. The net difference in rates for the refunding bonds is .17%, or $3.6 million. The table below walks through the difference in TIC and the resulting difference in interest costs.

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Measure J Bonds 2015 Series A Bonds (to 2040)	Actual Numbers (Non-rated)	100% Insured and Rated Scenario	Difference ("Premium")
Par Amount (and Building Fund deposit)	$173,500,000	$173,500,000	-
True Interest Cost (TIC)	4.22%	3.94%	.28%
Total Net Debt Service	$300,407,398	$290,001,204	$10,406,194
2015 GO Refunding Bonds (to 2030)	**Actual Numbers (75% Insured and Rated)**	**100% Insured and Rated Scenario**	**Difference ("Premium")**
Par Amount	$168,705,000	$166,375,000	$2,275,000
TIC	3.19%	3.02%	.17%
Total Net Debt Service	$239,335,056	$235,690,065	$3,644,991

Costs Associated with the Issuance

Section 15146(c) of the Education Code requires that after a bond sale and closing, actual cost information be provided to the governing Board and to the public. Costs of issuance for the Bonds were paid from funds set-aside by the underwriter in a special costs of issuance account held by U.S. Bank N.A

TOTAL PAR AMOUNT: Service	Provider	$348,705,000 Total Cost	$180,000,000 Measure J Series 2015 A&B	$168,705,000 2015 GO Refunding
Underwriters Compensation	Siebert Brandford Shank & Piper Jaffray	**$2,543,040**	**$1,399,682**	**$1,143,359**
Other Costs of Issuance:				
Bond/Disclosure Counsel (Fee & Expenses)	Orrick Herrington & Sutcliffe	**$182,500**	$94,206	$88,294
Financial Advisor Fee (Fee & Expenses)	KNN Public Finance	**$165,000**	$85,172	$79,828
Paying Agent	U.S. Bank National Association	**$3,170**	$1,585	$1,585
Escrow Agent	U.S. Bank National Association	**$500**	-	$500
Verification Agent	Causey Demgen & Moore	**$2,000**	-	$2,000
Electronic Distribution & Printing (POS/OS)	AVIA Communications	**$1,190**	$614	$576
Rating	Standard & Poor's	**$60,000**	-	$60,000
Rating	Moody's	**$60,000**	-	$60,000
District Costs	Oakland USD	**$50,000**	$25,810	$24,190
Contingency	Excess to go to Building Fund/DSF	**$18,876**	$7,299	$11,578
Total Other Costs of Issuance		**$543,236**	**$214,686**	**$328,551**
Total Costs of Issuance		**$3,086,277**	**$1,614,367**	**$1,471,909**
Total Costs of Issuance as a % of Par		**0.89%**	**0.90%**	**0.87%**

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Savings Resulting from the Refunding.

As in the refinancing of a home mortgage, general obligation bonds can also be refinanced when interest rates are lower than they were at time of the original issuance. Even with no rating, the District was able to refinance bonds issued in 2002 and 2005, reducing the on-going costs for taxpayers by over 10% on those bonds. The savings is calculated by comparing the prior annual repayment schedule to the new repayment schedule (see the table below). Over the remaining 15 year life of the bonds, taxpayers will save **$26 million**. This is net of the cost of the higher rate for no rating and net of all costs of issuance. The present value is also calculated, as the savings will be over several years. The repayment was not extended.

Period Ending	Prior Debt Service	Refunding Debt Service	Savings	Present Value Savings to 8/20/2015
2016	$17,059,663	$14,960,056	$2,099,606	$2,046,765
2017	17,375,363	15,686,750	1,688,613	1,585,898
2018	17,719,138	16,021,750	1,697,388	1,540,135
2019	18,085,688	16,356,000	1,729,688	1,516,580
2020	18,624,075	16,842,750	1,781,325	1,509,197
2021	18,993,463	17,147,500	1,845,963	1,511,194
2022	19,393,838	17,507,000	1,886,838	1,492,180
2023	20,491,688	18,501,500	1,990,188	1,520,311
2024	21,342,688	19,267,000	2,075,688	1,531,638
2025	24,090,000	21,756,000	2,334,000	1,663,443
2026	32,431,000	29,288,750	3,142,250	2,163,059
2027	9,885,000	8,925,000	960,000	638,592
2028	9,883,000	8,943,500	939,500	603,721
2029	9,968,750	9,022,750	946,000	587,464
2030	10,058,125	9,108,750	949,375	569,752
Total	**$265,401,475**	**$239,335,056**	**$26,066,419**	**$20,479,929**

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