Piedmont Unified School District Bond Program Update

July 1, 2009

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Outline

- Timeline for Bond Issuance Process
- Bond Finance Team
- Structure and Timing
- Legal Documentation
- Disclosure Documentation
- Rating Review
- Sale Process
- Market Conditions

Bond Issuance Process

	What	Who	When
▪	Structure, Sizing, Timing and Selecting Financing Team	District Staff, Financial Advisor	June -July 2009
▪	Authorizing Resolutions	Prepared By Bond Counsel Approved by Board	July & August 2009
▪	Disclosure Documents	Prepared by Disclosure Counsel & District Staff Approved by Board	July & August 2009
▪	Rating Review	KNN, District Staff	July 2009
▪	Investor Outreach	Underwriters, District Staff	August 2009
▪	Bond Sale	Underwriters, District, KNN, Bond Counsel	Early September 2009
▪	Bond Closing – District receives bond proceeds	County, District, Bond Counsel, KNN, Underwriters	Mid September 2009

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

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

- Underwriter
- Investors

Issuer

Financial Advisor

Bond Counsel

Underwriter/
Investment Bank

Investors

Structure and Timing

- Bond issuance starts with the District's need for capital
- Statutory debt capacity constraint
- Tax rate limitations
- Tax collection timing constraints
- Structuring tools available to District

District Need for Bond Funds

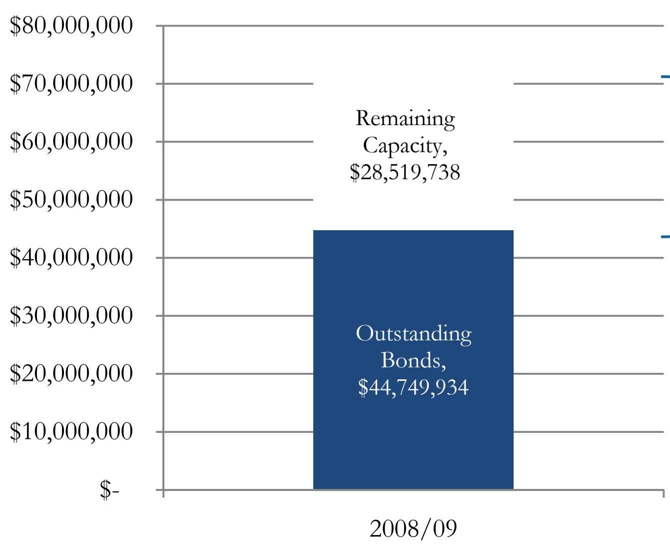
- Without State funds, District will need $33.6 million of G.O. Bonds to complete "Immediate" projects.
- With State funds, District will need $24.3 million.

	Havens Elementary	Ellen Driscoll	Piedmont High	Wildwood Elementary	Beach Elementary	Piedmont Middle Sch	Maintenance Building	District	Total
Project Costs	25,500,000	2,900,000	9,800,000	722,206	1,029,266	2,396,075	2,000,000	4,297,166	48,644,713
Expenditures To Date	(2,634,462)	(314,806)	(1,760,146)	(215,909)	(163,109)	(15,112)	(407,933)	(2,494,637)	(8,006,114)
Net Bond Funds Needed	$ 22,865,538	$ 2,585,194	$ 8,039,854	$ 506,297	$ 866,157	$ 2,380,963	$ 1,592,067	$ 1,802,529	$ 40,638,599

Project Needs:	$ 40,638,599
Funds on Hand:	(6,993,820)
Net Needs:	33,644,779
Potential State Aid:	(9,300,000)
Minimum Net Need:	$ 24,344,779

Debt Capacity – Current Status

- Ed Code 15270. "... any unified school district may issue bonds pursuant to this article that, in aggregation with [all other bonds outstanding], may not exceed 2.5 percent of the taxable property of the district …"
- Only important at the time of issue; only involves outstanding principal.
- For FY 2008-09, total debt capacity is $73.3 million.
- As of January 1, 2009, the District has $44.7 million outstanding
  - $29.9 M Prior; $14.8 M Seismic Bonds
- **Available capacity is $28.5 million.**



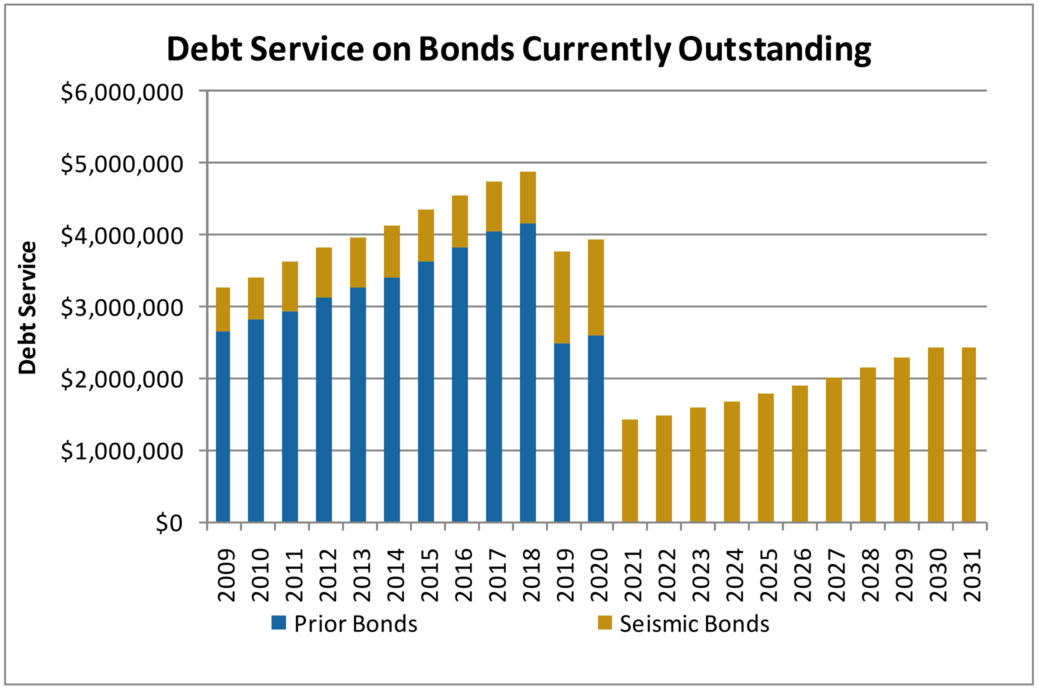
Fiscal Year	Assessed Value	Debt Capacity 2.50%	Outstanding Bonds	Remaining Capacity
2006/07	2,593,513,145	64,837,829	47,194,934	17,642,894
2007/08	2,779,118,963	69,477,974	46,064,934	23,413,040
2008/09	**2,930,786,907**	**73,269,673**	**44,749,934**	**28,519,738**

Tax Rate Limitations

- **Prop 39/Legal limit**: Maximum tax rate for Measure E is $60 per $100,000 AV.
  - The bonds may only be issued if the tax rate will not exceed $60 per year per $100,000 of taxable property, when A.V. is projected by the District to increase "in accordance with Article XIIIA of the California Constitution".
- **Campaign commitment** was that new bonds would only add $20 to existing tax rate.
- 2008-09 Tax Rate: $**107.30** per $100,000 AV
- Require projections into the future – future AV growth and interest rates at the time bonds are sold.

Tax Rate and Debt Service

- Currently, a tax of $107.30 per $100,000 supports $3.2 million of total annual debt service.
- Chart below shows debt service if no more bonds are issued –increases by 4% annually.
- Tax rate will stay the same as long as tax base grows at same rate as debt service.



Bond Structuring Tools

- **Capital Appreciation Bonds (CABs)** can be utilized, to keep payments low in near term, delay interest payment to long term.
  - In last year's market, interest rates on CABs were .50% higher than current interest bonds.
  - In today's market, interest rates on CABs are 1.30% higher than currents.

- **Bond Anticipation Notes (BANs)** can be issued for a term of up to five years, to be replaced with long-term permanent bonds.
  - Not counted against bonding capacity.
  - Interest is at shorter term, lower rates.
  - Will require another bond issue in future (involves risks & costs).

Bond Structuring Tools - Refunding

- **2001 Refunding Bonds** can be refinanced, capturing savings and allowing restructuring and flexibility with new bond structure.
  - Based on current rates, could get up over $70,000 a year in Debt Service savings.

Year Ending	Prior Bonds Debt Service	Refunding Bonds Debt Service	Savings	PV of Savings
8/1/2010	$ 1,453,739	$ 1,384,075	$ 69,664	$ 69,664
8/1/2011	1,531,389	1,458,425	72,964	72,964
8/1/2012	1,643,864	1,564,775	79,089	79,089
8/1/2013	1,713,864	1,631,625	82,239	82,239
8/1/2014	1,818,739	1,728,825	89,914	89,914
8/1/2015	1,914,336	1,821,875	92,461	92,461
8/1/2016	2,030,949	1,929,825	101,124	101,124
8/1/2017	2,148,536	2,044,900	103,636	103,636
8/1/2018	2,595,656	2,471,425	124,231	124,231
	$ 16,851,071	$ 16,035,750	$ 815,321	$ 815,321

Bond Structuring Tools – ARRA Bonds

- Federal Stimulus package (“ARRA”) created new bond types to expand potential investor base for municipal bonds:
  - **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.
    - Authorization must be granted by State – window opens July 15.

Structure based on “Option 1” from March

- Issue $19 Million in August 2009
  - Repayment may extend 35 years to 2044
  - Overall interest cost is 5% - 7%
  - Only borrow what is needed now
- Issue up to $9 Million in Spring 2010
  - May use CABs or BANs, depending on market conditions and AV growth estimates at that time.
  - Repayment may extend to 2046

Fiscal Year	Debt Service/ AV Growth	Tax Rate Impact Seismic Bonds	Combined Tax Rate
2009-10	4%	$31.15	$119.84
2010-11	2%	30.66	119.85
2011-12	3%	26.98	119.93
2012-13	4%	25.78	119.96
2013-14	5%	25.11	119.84
2014-15 and after	5%	$29 to max of $60	$120 - $60.00

Structure and Timing – Bottom Line

- Legal documents will include flexibility to use all options.

- Market conditions, availability and interest rates will be evaluated to determine the optimal combination of CABs, BANs, BABs, QSCBs, and regular tax-exempt bonds for the District.

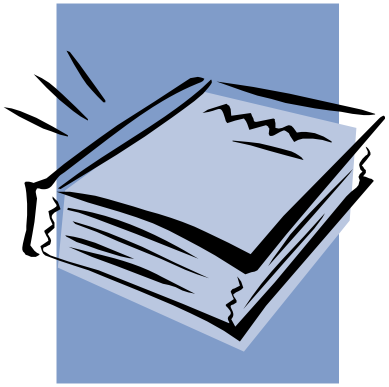
- Optimization objective is threefold:
  - Total bond proceeds of $19 million, preserving option to issue more in the Spring.
  - Keep overall interest costs as low as possible.
  - Keep tax rate associated with Seismic Bonds as close to $20 as possible.

Legal Documentation

- Select bond counsel
  - William Kadi, Esq., of Jones Hall, A Professional Law Corporation
- Prepare resolution(s) for Board approval
  - July 8 –Board Resolution authorizing:
    - Intent to issue bonds, direction to staff to begin process.
    - Request to County to set tax levy for 2009-10.
  - August – full resolution with details of bond transaction. Resolution will :
    - Set general terms and conditions of bonds, bond repayment and District obligations.
    - Set parameters of sale, including reasons for choosing a negotiated or competitvie sale, and underwriting firm(s) if negotiated.
    - Give authority to district officials to sign various documents.
    - Provide estimate of costs of issuance
    - Direct County to deposit funds in District's Building Fund and invest those funds.
    - Authorize a Preliminary Official Statement.

Disclosure Document

- Preparation of Preliminary Official Statement:
  - As official disclosure document of District, must be complete, accurate and not misleading.
  - Board will review and approve draft; Superintendent will sign the document.
  - Recommend that POS and OS be prepared by bond counsel (Jones Hall).



Rating Review

- Current Ratings:
  - Moody's : Aa3
  - Based on affluent tax base, strong support for schools (parcel taxes).
- Recommend adding rating from Standard & Poor's.
- KNN will work with Superintendent to prepare presentation to include:
  - Academic strengths
  - Financial policies and practices
  - Tax base stability and potential for growth

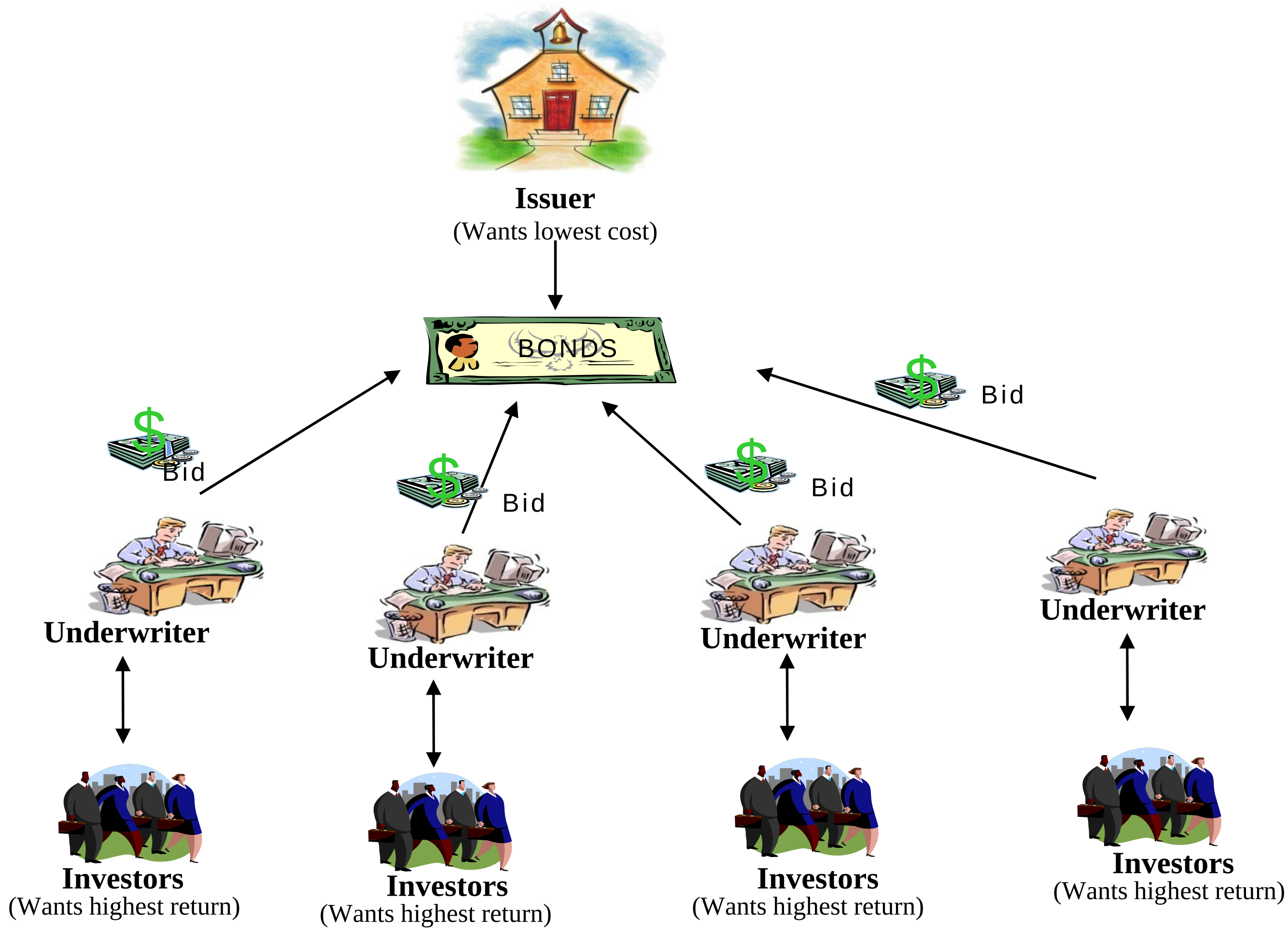
Sale Process

- Must decide whether to sell bonds through a competitive sale or a negotiated sale.
- In the past, the District has successfully used a competitive sale to achieve low interest rates for taxpayers.
- The District does not sell bonds directly to investors – an underwriting firm purchases the bonds, then sells them to investors.
  - Bond sales are strictly regulated under securities laws.
  - Underwriters are regulated and must be licensed to sell bonds.

Competitive Sale

- Deal is structured by financial advisor
- Request for bids advertised
- Bids accepted at a specific date and time
  - Most commonly via electronic platform
- Bonds sold to bidder with lowest “true interest cost”
- Best when:
  - Market is familiar with issuer
  - Active secondary market, broad investor base
  - Unenhanced credit rating of “A" or above
  - Issue is neither too large nor too small
  - Not complex, easily understood revenue stream

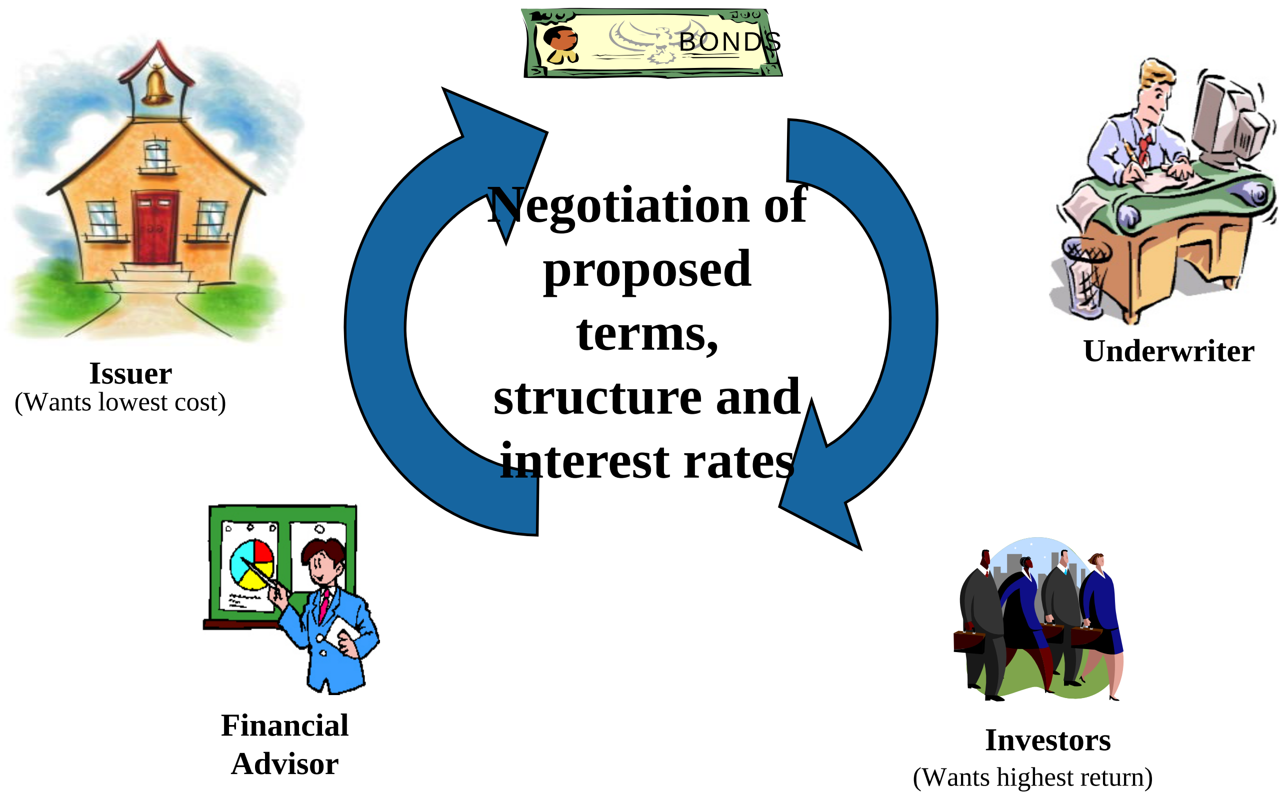
Bond Sale - Competitive



Negotiated Sale

- Underwriter selected up-front
- Underwriter participates in structuring
- Interest rate established through collaboration
- Adjusted based on actual investor interest and orders
  - Individual maturities will be repriced based on order flow
- Best when:
  - Underwriter selection process ensures multiple proposals are considered
  - Knowledgeable employee or outside professional (other than underwriter) assist is structuring, pricing, and monitoring sales activities

Bond Sale - Negotiated



Advantages of Each Method of Sale

Negotiated Sale

- Best suited for "story bonds" and very large transactions
- Allows underwriter to pre-market bonds
- Transaction can be re-structured to meet specific investor demand
- More flexibility in timing

Competitive Sale

- Emphasizes "commodity" nature of bonds
- Satisfies public policy preference for competitive procurement
- Sometimes legally required
- Generally the best way to get the lowest interest rate

Negotiated Sale Recommended

- Negotiated sale is recommended for the following reasons:
  - The market for ARRA bonds is still developing – investors need the hand-holding that underwriters provide.
  - Capital Appreciation Bonds (CABs) are not being sold competitively – one attempted competitive sale of CABs last month failed.

- Underwriter Selection Process:
  - RFP is distributed to all interested and qualified underwriting firms.
  - Based on criteria developed by District, three firms are chosen for interviews.
  - One firm is selected to serve as underwriter.

Bond Math

- An underwriting firm will purchase District's bonds to resell to investors.
  - In a competitive sale, lowest bid receives all bonds. Bid represents combination of interest rates and compensation to underwriter.
  - In a negotiated sale, the underwriter is selected prior to the actual sale based on criteria that can include costs. Actual interest rates on bonds are negotiated the day of the sale.

Underwriter's Spread:	
Reoffering Price	10,233,765.40
Less: Par	(10,000,000.00)
Less: Bid Premium	(5,577.80)
Less: COI	(135,000.00)
Less: Insurance	(20,600.00)
Net to Underwriter	72,587.60
Spread per Bond	7.25876

Maturity	Principal	Coupon	Yield	Price	Reoffering Price	Net Production
8/1/2007	$ 45,000	6.50%	3.50%	102.849	$ 46,282	$ 1,282
8/1/2008	70,000	6.50%	3.55%	105.577	73,904	3,904
8/1/2009	135,000	6.50%	3.65%	107.964	145,751	10,751
8/1/2010	150,000	5.00%	3.70%	104.763	157,145	7,145
8/1/2011	150,000	5.00%	3.73%	105.717	158,576	8,576
8/1/2012	150,000	5.00%	3.76%	106.579	159,869	9,868
8/1/2013	150,000	5.00%	3.82%	107.164	160,746	10,746
8/1/2014	150,000	5.00%	3.88%	107.618	161,427	11,427
8/1/2015	165,000	4.50%	3.95%	104.121	171,800	6,800
8/1/2016	325,000	4.50%	4.05%	103.661	336,898	11,898
8/1/2017	320,000	4.00%	4.10%	99.122	317,190	(2,810)
8/1/2018	335,000	4.13%	4.20%	99.298	332,648	(2,352)
8/1/2019	900,000	4.20%	4.30%	99.012	891,108	(8,892)
8/1/2020	1,015,000	5.00%	4.33%	105.379	1,069,597	54,597
8/1/2021	1,140,000	5.00%	4.35%	105.213	1,199,428	59,428
8/1/2022	1,270,000	5.00%	4.37%	105.048	1,334,110	64,110
8/1/2023	1,430,000	4.38%	4.45%	99.111	1,417,287	(12,713)
8/1/2024	1,590,000	4.50%	4.50%	100	1,590,000	-
8/1/2025	510,000	4.50%	4.50%	100	510,000	-
	$ 10,000,000				$ 10,233,765	$ 233,765

Market Conditions

- Overall - improvements in liquidity, stability.
- State of California budget crisis affecting all California issuers.
- Credit ratings really matter.