



# West Contra Costa USD

## Refunding & Restructuring Policy 7214.3

October 2016



# I. Refunding Policy Overview

# Refunding & Restructuring Policy- B.P. 7214.3

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Adopted on April 24, 2013

## Purpose of Refunding & Restructuring Policy:

Identify policy objectives relating to refunding transactions

Improve the quality of the decision making processes

Provide a basis for the determination of when it is advantageous for the District to issue refunding bonds

## Refunding Objectives:



## B.P. 7214.3 (continued)

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Policy Guidelines include:

Current refundings should achieve present value savings of at least 4%;  
Advance refunding should achieve present value savings of at least 4% with negative arbitrage not to exceed present value savings.

Refundings should achieve \$1 million of present value savings and a minimum of \$100,000 annual savings;

The term of the debt should not be extended;

Refundings should be structured to achieve a minimum of 6.3% (ul)-3.1% ( ) in savings on debt service (0.7% (e)06(%) ).]





# Introduction to Refunding Bonds (continued)

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## *Crossover Refunding*

Refunding escrow pays the debt service on the refunding bonds until the redemption date of the prior bonds (“crossover date”), plus funds redemption of the prior bonds.

Until the crossover date, the issuer continues to pay the debt service on the prior bonds, and after pays debt service on the refunding bonds.

Principal amortization of the refunding bonds typically begins after the crossover date.

Crossover refunding will generate more savings than a conventional advance refunding when the first optional call date of the prior bonds is multiple years in the future, but does not provide debt service savings prior to the crossover date.







## II. Refunding Candidates

# Candidate Selection Criteria

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In an environment of minimal earnings available for refunding escrows, issues with a first optional call date more than two to three years away are unlikely to be strong refunding candidate unless the differential between old rates and new rates are quite high.



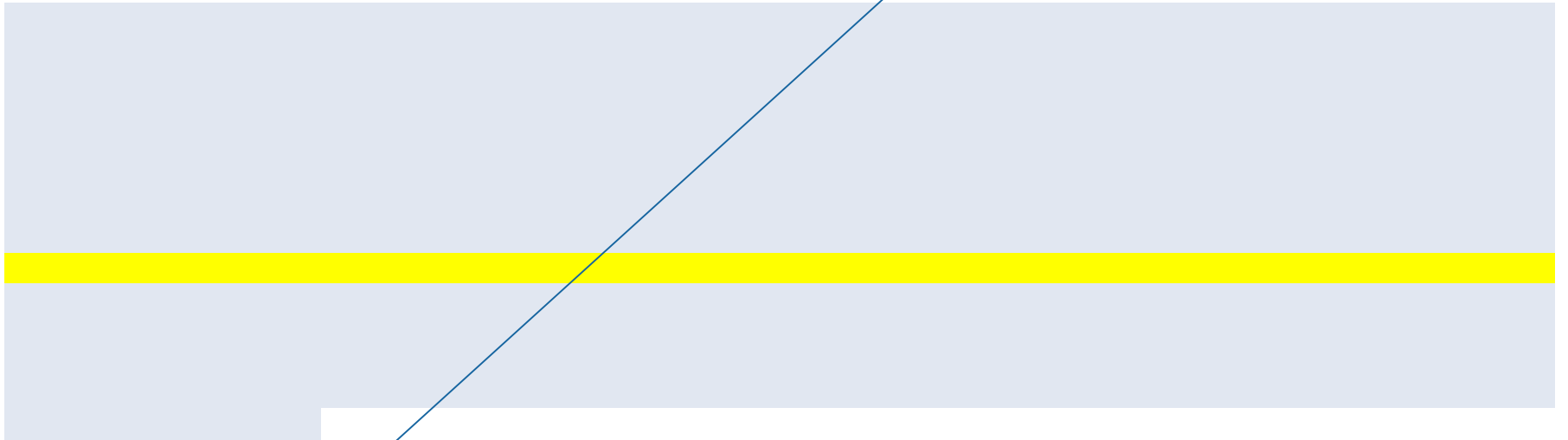
# 1998 Measure E- \$ 40,000,000

Issue	Issue Date	Par Value	Interest Rate (True Interest Cost)	First Interest Payment	First Principal Payment	Final Maturity	Status	First Optional Call
Election of 1998, Series A	8/18/1998	\$10,000,000	5.03%	2/1/1999	8/1/1999	8/1/2023	Refunded	
Election of 1998, Series B	2/9/1999	\$10,000,000	4.98%	2/1/2000	8/1/2000	8/1/2023	Refunded	
Election of 1998, Series C	2/7/2000	\$10,000,000	5.67%	2/1/2001	8/1/2002	8/1/2024	Refunded	
Election of 1998, Series D	8/9/2000	\$10,000,000	5.33%	2/1/2001	8/1/2002	8/1/2025	Refunded	
2001 Ref Bonds, Series A	11/6/2001	\$28,610,000	5.35%	2/1/2002	2/1/2002	8/1/2025	Outstanding	Non-callable
2001 Ref Bonds, Series B	11/6/2001	<u>\$10,255,000</u>	5.73%	2/1/2002	2/1/2002	8/1/2024	Outstanding	Non-callable
<b>Total</b>		\$78,865,000						
Less Refunding Bonds		<u>(\$38,865,000)</u>						
<b>Issued From Authorization</b>		<b><u>\$40,000,000</u></b>						



# 2000 Measure M- \$150,000,000

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# 2002 Measure D- \$300,000,000

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# 2005 Measure J- \$400,000,000

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Issue	Issue Date	Par Value	Interest Rate (True Interest Cost)	First Interest Payment	First Principal Payment	Final Maturity	Status	First Optional Call
Election of 2005, Series A	5/17/2006	\$70,000,000	4.76%	2/1/2007	8/1/2007	8/1/2035		



# 2010 Measure D- \$380,000,000

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Issue	Issue Date	Par Value	Interest Rate (True Interest Cost)	First Interest Payment	First Principal Payment	Final Maturity	Status	First Optional Call
Election of 2010, Series A Election of 2010, Series A-	11/22/2011	\$79,000,000	4.95%	2/1/2012	8/1/2012	8/1/2041	Outstanding	8/1/2021 at par



# 2012 Measure E

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# III. Refunding Analysis

# Refunding of 2005 Measure J Series C-2 Build America Bonds for Debt Service Savings

	Prior Debt Service	Federal BAB Subsidy	Net Prior Debt Service	Refunding Debt Service	Crossover Escrow Receipts	Net Refunding Debt Service	Actual Savings/(Loss)	PV Savings at 2.933% (a)
6/30/2018	\$4,468,995.00	(\$1,457,786.16)	\$3,011,208.84	\$1,540,275.00	(\$1,540,275.00)			
6/30/2019	4,468,995.00	(1,457,786.16)	3,011,208.84	1,680,300.00	(1,680,300.00)			
6/30/2020	4,468,995.00	(1,457,786.16)	3,011,208.84	1,680,300.00	(840,150.00)	\$840,150.00	\$665,454.42	\$611,266.83
6/30/2021	4,468,995.00	(1,457,786.16)	3,011,208.84	1,990,575.00		1,990,575.00	1,020,633.84	915,202.21
6/30/2022	4,468,995.00	(1,457,786.16)	3,011,208.84	1,986,050.00		1,986,050.00	1,025,158.84	892,852.70
6/30/2023	4,468,995.00	(1,457,786.16)	3,011,208.84	1,986,300.00		1,986,300.00	1,024,908.84	866,952.15
6/30/2024	4,468,995.00	(1,457,786.16)	3,011,208.84	1,986,250.00		1,986,250.00	1,024,958.84	842,049.92
6/30/2025	4,468,995.00	(1,457,786.16)	3,011,208.84	1,985,900.00		1,985,900.00	1,025,308.84	818,102.97
6/30/2026	4,468,995.00	(1,457,786.16)	3,011,208.84	1,990,175.00		1,990,175.00	1,021,033.84	791,214.79
6/30/2027	4,468,995.00	(1,457,786.16)	3,011,208.84	1,989,075.00		1,989,075.00	1,022,133.84	769,280.37
6/30/2028	4,468,995.00	(1,457,786.16)	3,011,208.84	1,987,675.00		1,987,675.00	1,023,533.84	748,173.16
6/30/2029	4,468,995.00	(1,457,786.16)	3,011,208.84	1,985,975.00		1,985,975.00	1,025,233.84	727,857.45
6/30/2030	4,468,995.00	(1,457,786.16)	3,011,208.84	1,988,900.00		1,988,900.00	1,022,308.84	704,867.70
6/30/2031	4,468,995.00	(1,457,786.16)	3,011,208.84	1,986,450.00		1,986,450.00	1,024,758.84	686,233.17
6/30/2032	4,468,995.00	(1,457,786.16)	3,011,208.84	1,988,625.00		1,988,625.00	1,022,583.84	665,046.17
6/30/2033	4,468,995.00	(1,457,786.16)	3,011,208.84	1,990,350.00		1,990,350.00	1,020,858.84	644,795.22
6/30/2034	24,484,925.00	(1,169,402.53)	23,315,522.47	22,001,900.00		22,001,900.00	1,313,622.47	810,340.84
6/30/2035	33,275,427.50	(440,509.45)	32,834,918.05	30,795,100.00		30,795,100.00	2,039,818.05	1,228,345.30
	<b><u>\$129,264,272.50</u></b>	<b><u>(\$24,934,490.54)</u></b>	<b><u>\$104,329,781.96</u></b>	<b><u>\$83,540,175.00</u></b>				

First callable on 8/1/2019 @ Par.

Assumes a 3/1/17 bond closing.

Strongest refunding candidate.

Refunding with tax-exempt bonds ends federal BAB subsidy (not a loss overall due to high interest rate savings).

Crossover refunding (debt 157.5 To (1,021,488 (\$24), 4537 (9000) 717 (1210) 714 (245) 34 (911) 31 (838) 50 (96) 4 (306) 20 (918) 70 (455) 97 (224)



# Refunding of 2009 Refunding Bonds (2005 Measure J)

First callable on 8/1/2019 @ Par.

Assumes a 3/1/2017 bond closing.

Only the portion of the 2009 Refunding Bonds allocated to refunding the Election of 2000 Series A and B Bonds may be advance refunded.

Too small to meet District policy as a stand-alone refunding, but a benefit to annual debt service savings if combined with another refunding issuance.

Year Ending,	Prior Debt Service	Refunding Debt Service	Crossover Escrow Receipts	Net Refunding Debt Service	Actual Savings/(Loss)	PV Savings at 2.47% (a)
6/30/2018	\$15,102,639.23	\$258,637.50	(\$258,637.50)			
6/30/2019	3,763,963.70	282,150.00	(282,150.00)			
6/30/2020	4,633,579.70	282,150.00	(141,075.00)	\$141,075.00	\$85,087.50	\$79,203.12
6/30/2021	1,020,362.50	942,100.00		942,100.00	78,262.50	71,026.80
6/30/2022	1,015,275.00	936,775.00		936,775.00	78,500.00	69,547.19
6/30/2023	1,013,087.50	935,925.00		935,925.00	77,162.50	66,725.64
6/30/2024	1,008,993.75	934,475.00		934,475.00	74,518.75	62,891.34
6/30/2025	998,050.00	922,575.00		922,575.00	75,475.00	62,211.57
6/30/2026	1,013,237.50	935,000.00		935,000.00	78,237.50	63,021.00
6/30/2027	1,009,518.75	931,600.00		931,600.00	77,918.75	61,315.70
6/30/2028	1,008,831.25	932,525.00		932,525.00	76,306.25	58,660.82
6/30/2029	1,010,912.50	932,700.00		932,700.00	78,212.50	58,764.18
6/30/2030	1,005,762.50	932,125.00		932,125.00	73,637.50	54,056.97
6/30/2031	1,007,668.75	930,800.00		930,800.00	76,868.75	55,171.01
6/30/2032	1,006,337.50	928,725.00		928,725.00	77,612.50	54,461.91
	<u>\$35,618,220.12</u>	<u>\$12,018,262.50</u>	<u>(\$681,862.50)</u>	<u>\$11,336,400.00</u>	<u>\$1,007,800.00</u>	<u>\$817,057.24</u>
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# Refunding of 2010 Series A Bonds

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First callable on 8/1/2021 @ Par.

Assumes a 3/1/2017 bond  
closing.



# Refunding Summary & Breakeven Assessment

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## *Advance Refunding at Current Market Rates in 2017*

Based on current rates, an advance refunding of both the Election of 2005, Series C-2 (BABs) and 2009 Refunding Bonds generate sufficient savings pursuant to the Board Refunding & Restructuring Policy 7214.3.

A refunding of both the Election of 2005, Series C-2 (BABs) in combination with a portion of the Election of 2005 Series C-1 (CABs)



# Secured Tax Rate Estimates for 2005 Measure J (Through 2029/30)

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**Actual Tax Rates Through 2016/17; Rates in Italics Are Estimated**  
**(Dollars of Tax Per \$100,000 of Secured Assessed Value)**  
**Rates Based On Assumed Annual Assessed Value Growth of 4.00%**

	<b>No Refunding</b>		



# Recommendations

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District would need to decide on its refunding purpose: achieve annual debt service savings, leveling out overall debt service or managing tax rate commitments to voters.

Consider refunding the Election of 2005 Series C-2 Bonds (Build America Bonds) since it meets the policy goals:

Analysis shows present value savings over 20% if structured for maximum savings.

Analysis shows present value savings over \$12,700,000 and over \$1,000,000 annually if structured for savings.

The term of the debt does not extend beyond 8/1/2034 final maturity of prior bonds.

To maximize savings, would be a crossover refunding; crossover/first optional call date is 8/1/2019.

At interest rate shifts of 30 basis points or higher, the refunding savings is greater now than in 2019. This breakeven is so close that if refunding for maximum savings is the choice, we believe refunding in early 2017 rather than waiting until 2019 is warranted to avoid interest rate risk.





# Recommendations (continued)

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Consider refunding the Election of 2005 Series C-2 Bonds (Build America Bonds) in combination with Election of 2005 Series C-1 Capital Appreciation Bonds to keep Measure M tax rate stabilized at \$60 per \$100,000 at least through 2018/19.

Analysis shows present value savings of 15% if structured for Measure J \$60 tax management at least through 2018/19.

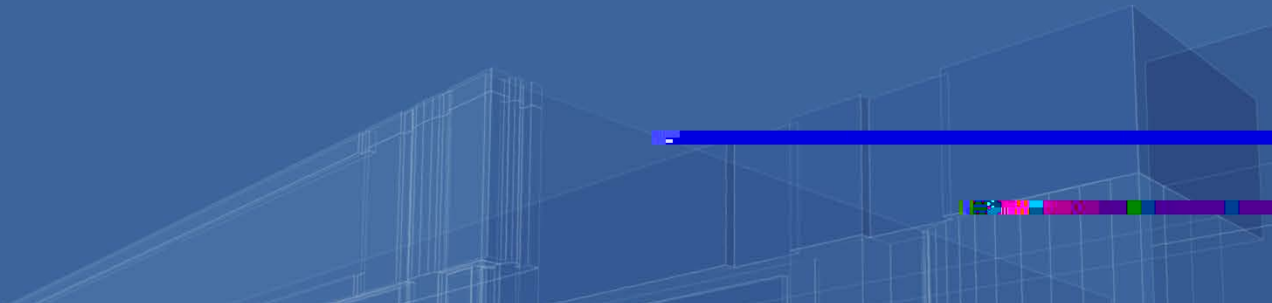
Analysis shows present value savings over \$9,000,000 but only minimal savings annually after 2018/19 if structured for \$60 tax management through 2018/19.

The term of the debt does not extend beyond 8/1/2034 final maturity of prior bonds  
To minimize debt service through 2018/19, would be a conventional advance refunding, not a crossover.

At interest rate shifts of 75 basis points or higher, the refunding savings is g



# Appendix



# Appendix- Terminology

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**Aggregate Present Value Savings:** The present value savings in each year of the refunding transaction added together.

**Net Debt Service Savings Approach** A method to calculate refunding savings that accounts for the difference in interest earnings of the debt service reserve funds of the refunded and refunding bonds.

**Net Present Value Savings:** A method of calculating the aggregate amount of savings on a refunding transaction taking into consideration the time value of money and net of all issuance fees.



# Participants in a Refunding Transaction

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**Board of Education**– set policy, and approves refunding plan and financing documents.

**District Staff** – liaison with financing team, assist with gathering District information and executing the financing.

**Financial Advisor**– develop the plan of finance, manage the financing team, and oversee all aspects of financing, with a focus on protecting District’s interests and achieving lowest borrowing costs.

**Bond Counsel**– prepare legal documents and issue legal and tax opinions.

**Disclosure Counsel**– outline disclosure obligations, prepare preliminary/final official statements and issue disclosure opinion.

**Underwriter(s)** – assist with structuring the financing, investor outreach, and facilitate sale of bonds to investors (negotiated sale).

**Verification Agent** – verify the refunding calculations.



# External Participants

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**Rating Agencies**– evaluate credit quality of issuers and assign ratings which investors use to base investment decisions. Higher ratings typically result in lower interest rates.

**County Assessor**– responsible for determining annual assessed valuation.

**County Auditor-Controller** – responsible for calculating and levying school district taxes for bonds.

**Bond Investors**– includes retail and institutional investors; their buying decisions ultimately dictate the interest rates associated with each bond sale.



# The District's Debt Summary

District voters have approved bonds on 6 occasions since June 1998.  
Measures approved after 2000 used Proposition 39 requirements.

	Yes Vote*	Required Vote	Authorized Amount	Authorization Utilized	Remaining Authorization
<b>1998 Measure E</b>	75.70%	66.60%	\$40,000,000	\$40,000,000	\$0
<b>2000 Measure M</b>	77.50%	66.60%	\$150,000,000	\$150,000,000	\$0
<b>2002 Measure D</b>	71.80%	55.00%	\$300,000,000	\$299,997,483	\$2,517
<b>2005 Measure J</b>	56.90%	55.00%	\$400,000,000	\$322,409,708	\$77,590,292
<b>2010 Measure D</b>	62.60%	55.00%	\$380,000,000	\$250,000,000	\$130,000,000
<b>2012 Measure E</b>	64.40%	55.00%	\$360,000,000	\$235,000,000	\$125,000,000
<b>TOTAL</b>			\$1,630,000,000	\$1,297,407,192	\$332,592,809

\* Data from smartvoter.org

