



Mt. Diablo Unified School District

New Money Funding Workshop
Measure C

April 2, 2012

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Walnut Creek, CA 94596

Isom Advisors A Division of
URBAN FUTURES | Incorporated



Why Are We Here Tonight?

Accessing more proceeds to take advantage of today's climate

Mt. Diablo Unified School District

- Community members voiced a desire for the School Board to consider issuing additional bonds. Reasons cited were:
 - Historically low interest rate environment
 - Low construction costs
 - Having projects completed sooner for the benefit of students
 - Desire to avoid expensive Capital Appreciation Bonds and save on total repayment costs

Measure C Background

Several options have been used to improve local schools

Mt. Diablo Unified School District

- ▶ Voters approved in June 2010 \$348 million in G.O. bond authorization; an estimated \$227 million in authorization remains
- ▶ District saved taxpayers over \$30 million in interest costs due to the use of federal subsidies for the 2010 Series B Bonds and 2011 Series C Bonds

Election of 2010, Measure C

| | |
|--------------------------------|----------------------|
| Total Authorization Amount | \$348,000,000 |
| Bonds Issued | |
| Series 2010A | \$50,456,475 |
| Series 2010B | \$59,540,000 |
| Series 2011C | \$3,865,000 |
| Series 2011D | <u>\$7,133,582</u> |
| | <u>\$120,995,057</u> |
| Remaining Authorization Amount | \$227,004,943 |

Additional Projects

How would additional proceeds be spent?

Mt. Diablo Unified School District

- Acceleration of the mechanical (HVAC) program, compressing the last three years into two; in so doing, the entire district would have air conditioning by the fall of 2014 instead of 2015
- Acceleration of the technology enhancements at all school sites
- Modernization projects at schools throughout the District
- Acceleration of the construction of the middle school science buildings or the replacement of portable buildings with new permanent 'smart' buildings
- Additional priority projects to be determined on a site-by-site basis

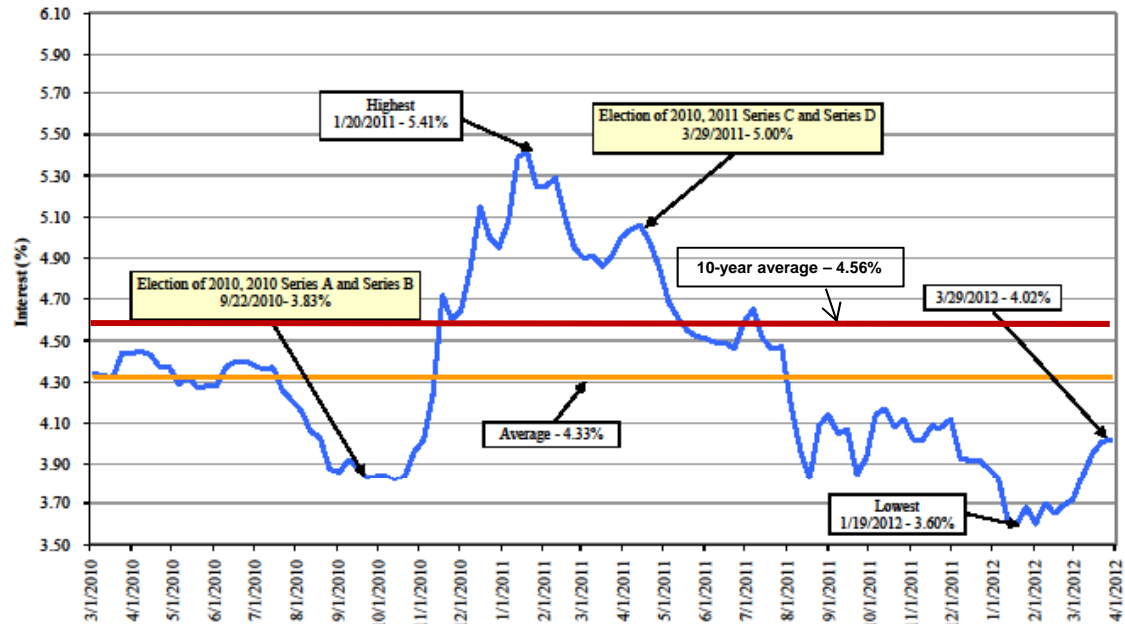
Historical Interest Rates

Interest rates have declined since March 2010

Mt. Diablo Unified School District

- Rates have declined largely due to a lack of supply in the municipal marketplace as well as economic uncertainty in Europe and in the U.S. as investors are looking for safe places to invest their money

Tax-Exempt Interest Rate Trends
Bond Buyer 20-Bond General Obligation Index¹
 Weekly Period from March 4, 2010 to March 29, 2012



1. General obligation bonds maturing in 20 years are used in compiling this index. The 20-bond index has an average rating equivalent to Aa2 from Moody's and AA from Standard Poor.

Source: Bloomberg

The Benefit of Lower Interest Rates

Issuing bonds in a lower interest rate environment

Mt. Diablo Unified School District

- Taking advantage of lower interest rates can lower the cost of borrowing and reduce taxpayer expense
- Issuing \$150 million with today's low interest rates provide a taxpayer savings of nearly \$20 million when compared to issuing with higher interest rates

| Current Interest Rates vs. March 2010 Interest Rates | | |
|--|------------------------|------------------------|
| Interest Rates as of | April 2012 | March 2010 |
| Bond Structure | Current Interest Bonds | Current Interest Bonds |
| Principal Amount | \$150,000,000 | \$150,000,000 |
| Financing Term | 25 years | 25 years |
| True Interest Cost | 4.32% | 4.86% |
| Total Interest | \$126,093,456 | \$144,835,256 |
| Total Debt Service | \$276,093,456 | \$294,835,256 |
| Debt Service Profile | Escalating | Escalating |

Source: Stone and Youngberg, LLC

Capital Appreciation Bonds

Savings of Current Interest vs Capital Appreciation Bonds

Mt. Diablo Unified School District

- Selling current interest bonds instead of capital appreciation bonds will save District property owners in interest costs and overall lower taxes
- The difference in interest rate savings between \$150 million of current interest bonds vs \$150 million of capital appreciation bonds is nearly \$800 million

| Current Interest Bonds vs. Capital Appreciation Bonds | | |
|---|------------------------|----------------------------|
| Bond Structure | Current Interest Bonds | Capital Appreciation Bonds |
| Principal Amount | \$150,000,000 | \$149,998,402 |
| Financing Term | 25 years | 40 years |
| True Interest Cost | 4.32% | 6.47% |
| Total Interest | \$126,093,456 | \$912,734,407 |
| Total Debt Service | \$276,093,456 | \$1,062,730,000 |
| Debt Service Profile | Escalating | Escalating |

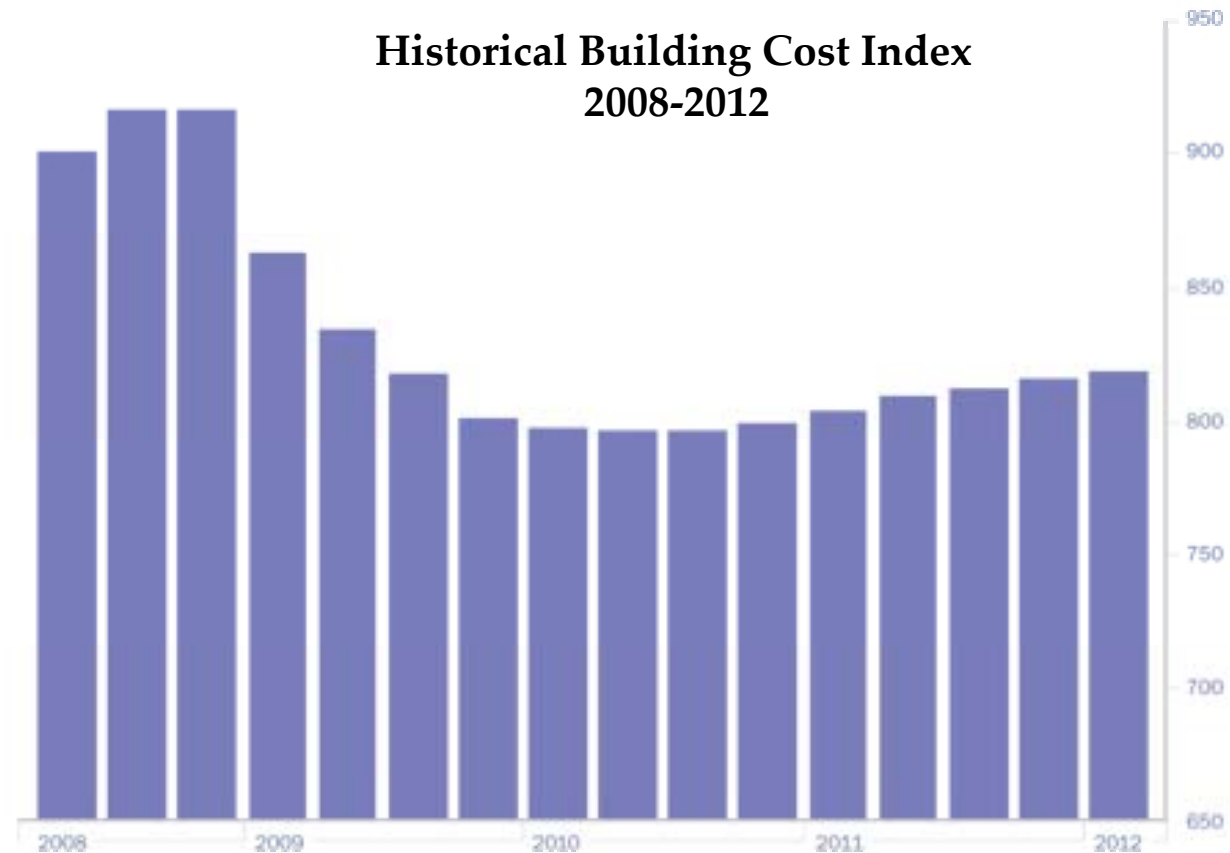
Source: Stone and Youngberg, LLC

The Benefit of Low Construction Costs

Issuing bonds in a low construction cost environment

Mt. Diablo Unified School District

- Construction costs have been flat to slightly increasing since end of 2010
- First Quarter 2012 has seen a mild rise in construction costs; a 0.37% increase from the Fourth Quarter 2011 and 1.86% increase from the First Quarter 2011.
- A 10% increase in costs would eliminate \$15 million in projects on a \$150 million bond issue



Source: Turner Building Cost Index 2008-2012

Why Issue Now?

Low interest rates, low construction costs

Mt. Diablo Unified School District

“Interest rates are at a record low and contractors are desperate for work. This is when public agencies should be investing in capital projects. It makes enormous economic sense.”

Professor Mitchell Moss, Director of the Rudin Center for Transportation Policy and Management at NYU’s Wagner Graduate School of Public Service

Source: The Bond Buyer – Tuesday, September 27, 2011

Legal Issues

Tax rate caps and expenditure rules

Mt. Diablo Unified School District

- Tax Rate Limit – District has the legal authority to increase tax rates up to \$60.00 per \$100,000 of assessed value for Measure C 2010
- 3 year rule – District has a reasonable expectation of spending 85% of the proceeds of the bonds in 3 years

Issuance Options

Constraints of tax rates, term, project need, and types of bonds

Mt. Diablo Unified School District

| | Option 1 | | Option 2 | Option 3 |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2012 | 2015 | 2012 | 2012 |
| Issue Date | | | | |
| Bond Structure | CIBs only | CIBs and CABs | CIBs and CABs | CIBs only |
| Initial Principal Amount | \$150,000,000 | \$77,000,000 | \$227,004,835 | \$227,000,000 |
| CIBs Principal Amount | \$150,000,000 | \$62,000,000 | \$182,495,000 | |
| CABs Principal Amount | | \$15,000,000 | \$44,509,835 | |
| Financing Term | 25 years | 21 years | 30 years | 25 years |
| Total Interest | \$104,000,000 | \$113,000,000 | \$376,788,155 | \$190,829,504 |
| Total Debt Service | \$254,000,000 | \$190,000,000 | \$603,792,990 | \$417,829,504 |
| Aggregate 2002 & 2010 Tax Rate per \$100K AV | \$89.00 | \$89.00 | \$89.53 | \$110.29 |
| Debt Service Profile | Escalating | Escalating | Escalating | Escalating |

Source: Stone & Youngberg, LLC and Isom Advisors

- Option 1 – sell \$150 million in 2012 at tax rate of \$89 per \$100K of assessed value (“a.v.”), and \$75 million in 2015 for a combined debt service of \$444 million
- Option 2 – sell all remaining bond proceeds with some CABs for a combined debt service of \$603 million
- Option 3 – sell all remaining bond proceeds at tax rate of \$110.29 per \$100K of a.v. for a combined debt service of \$417 million

Contra Costa County School District Taxes

How does Mt. Diablo USD compare to other districts

Mt. Diablo Unified School District

- Elementary and High School Districts generally have G.O. bond tax rate caps of \$30.00 per election
- Unified School Districts generally have G.O. bond tax rate caps of \$60.00 per election

| District Name | Tax Rate per \$100K of a.v. | Parcel Tax | CFD Tax Rate |
|----------------------------|-----------------------------|------------|--------------------------------|
| Acalanes HSD | \$ 33.30 | \$ 301.00 | |
| Lafayette ESD | 27.90 | 313.00 | |
| Moraga ESD | 31.20 | 325.00 | |
| Orinda ESD | 27.40 | 124.00 | |
| Walnut Creek ESD | 24.00 | 82.00 | |
| Liberty HSD | 38.60 | | |
| Brentwood ESD | 68.80 | | |
| Byron ESD | 34.50 | | |
| Oakley ESD | 76.70 | | |
| Antioch USD ⁽¹⁾ | 41.70 | | \$0.61/sq. foot ⁽²⁾ |
| John Swett USD | 41.80 | | |
| Livermore USD | 62.70 | 138.00 | |
| Martinez USD | 60.80 | 50.00 | |
| Mt Diablo USD | 61.20 | | \$67.00/parcel |
| Pittsburg USD | 144.30 | 65.00 | |
| San Ramon USD | 66.40 | 144.00 | |
| West Contra USD | \$ 232.20 | | \$0.072/sq. ft. ⁽³⁾ |

⁽¹⁾ On June 2012 ballot
⁽²⁾ equals \$180 on a 2,500 sq. foot home
⁽³⁾ equals \$1,525 on a 2,500 sq. foot home

Source: Ed-Data

Pros and Cons of Increasing the Tax Rate

Why should the district consider issuing today?

Mt. Diablo Unified School District

PROS

- Very low interest rate environment
- Low construction cost environment
- Minimize/eliminate use of CABs
- Educational benefits of improved facilities today
- Economic impact locally with more local jobs and revenues to local businesses

CONS

- Increasing tax rate
- Exceeding tax rate estimate to voters

Action Next Steps

Choices of the District

Mt. Diablo Unified School District

- Do nothing
 - Wait for assessed value growth and issue bonds and build projects at a later date
- Maintain the tax rate
 - Issue higher interest rate bonds and build projects today
- Increase the tax rate
 - Issue lower interest cost bonds and build projects today

Timeline – 2012 Bond Issuance

Next Steps

Mt. Diablo Unified School District

| Task | Responsible Party | Date |
|--|----------------------------|---------------|
| Meeting to discuss new money bonds issuance | District/Financial Advisor | April 2, 2012 |
| Board of Trustees approves resolution and supporting legal documents for Election 2010, Series 2012 GO Bonds | District | April 23 |
| Receive ratings from rating agency | Finance Team | April 30 |
| Post Preliminary Official Statement | District/ Finance Team | May 4 |
| Price Series GO New Money Bonds | District/ Finance Team | May 10 |
| Closing of GO New Money Bonds | District/ Finance Team | May 24 |
| Board Meeting to Discuss Bond Sale Results | District/ Finance Team | June |