Background

At an election in March 2002, District voters authorized the Mt. Diablo Unified School District to issue $250.0 million in general obligation bonds. The District issued its first series of bonds (the Series 2002 Bonds) in June 2002 in the amount of $69.4 million. The Series 2002 Bonds were subsequently refinanced in 2011 to save local taxpayers an estimated $4.7 million in reduced interest costs. The remaining amount of bonds from the 2002 authorization was sold in two series, with the Series 2004 Bonds sold in July 2004 for $121.0 million and Series 2006 Bonds sold in June 2006 for $59.6 million. Neither of these bonds has been refinanced. Together, the Series 2004 Bonds and the Series 2006 Bonds represent an outstanding principal amount of approximately $157.0 million, with interest rates ranging from 4.125% to 5.625%.

Refunding Opportunity

Financial market factors are favorable for a refinancing of all or a portion of the District's Series 2004 Bonds. Interest rates for municipal bonds are very low as a consequence of foreign credit concerns, worldwide political turbulence, a sluggish national economy, strong demand for safe and secure investments such as municipal bonds, and a limited supply of similar highly-rated municipal bonds. The interest rate yield on the 10-year U.S. Treasury bond in recent days was at a 60-year low:

> *"The lack of issuance draws a curious juxtaposition for issuers, **as borrowing costs have never been so low for new debt. Ever.** Benchmark yields fell to all-time or multi-decade lows in indexes maintained by Municipal Market Data, Municipal Market Advisors, and the Bond Buyer."*
> **The Bond Buyer, September 1, 2011 edition**

Although interest rates for municipal bonds are very low now, financial markets can change in an unpredictable manner, sometimes fluctuating quickly and dramatically as evidenced by the steep decline in interest rates over the last three months. We recommend that the District consider proceeding now on a refinancing of the Series 2004 Bonds in order to capture the benefits from the low current interest rates. A refinancing of the Series 2004 Bonds could be accomplished in about 30-45 days, representing the time required for the District's finance team to prepare the necessary legal documents, seek consent from the Board of Education to proceed with the sale of the bonds given certain parameters, sell bonds to investors, lower borrowing costs, and achieve taxpayer savings.

The earliest redemption date for the Series 2004 Bonds is July 1, 2013. If the Series 2004 Bonds were refinanced today, the proceeds of the bonds would be deposited into an escrow fund that would be used to pay interest and principal coming due on the bonds until July 1, 2013. Then, on July 1, 2013, the escrow fund would be used to pay in-full the remaining principal amount of the Series 2004 Bonds. The two-year escrow period and the low investment yields currently available for escrowed funds contribute to the refinancing being less efficient than if the escrow period were shorter. The refunding bonds could be more efficient if the redemption date of the Series 2004 Bonds were closer to the date of the sale of the refunding bonds, potentially increasing the savings achieved by the refinancing. However, waiting until the summer of 2013 to refinance the Series 2004 Bonds introduces the risk that bond market conditions in two years could be worse than today, perhaps offsetting the benefit of the shorter escrow period.

The fundamental question addressed by Isom Advisors' presentation will be "Should the District take the known benefit of a refunding conducted now or wait two years with the hope that interest rates will be sufficiently low in 2013 to produce greater savings?" This question requires a careful consideration of the impact of timing on the outcome of the refunding and the uncertainties of future financial market conditions.

If approved by the Board of Education, a resolution would authorize the District to proceed with the refunding of all or a portion of the outstanding Series 2004 Bonds. In addition, the resolution would authorize the preparation of legal documents (e.g., the Preliminary Official Statement, Bond Purchase Contract and Escrow Agreement) needed to accomplish the refinancing of the Series 2004 Bonds assuming the desired savings levels for taxpayers can be achieved.

Fiscal Impact

The approval of the resolution does not obligate the District to refund all or any of the Series 2004 Bonds. Completion of the refunding will be dependent upon favorable market conditions at the time of the sale and achieving sufficient debt service savings. Certain financial and legal professionals will be involved in the sale of the refunding bonds. All fees and expenses incurred by these professionals will be paid from the proceeds of the refunding bonds. The payment of these fees and expenses will be contingent upon the successful closing of the refunding transaction.

There will be no direct fiscal impact to the District. The savings generated by the refunding will be realized by taxpayers within the District through lower property taxes.