

Capistrano Unified School District



Financing Plans and Opportunities for the Community Facilities Districts



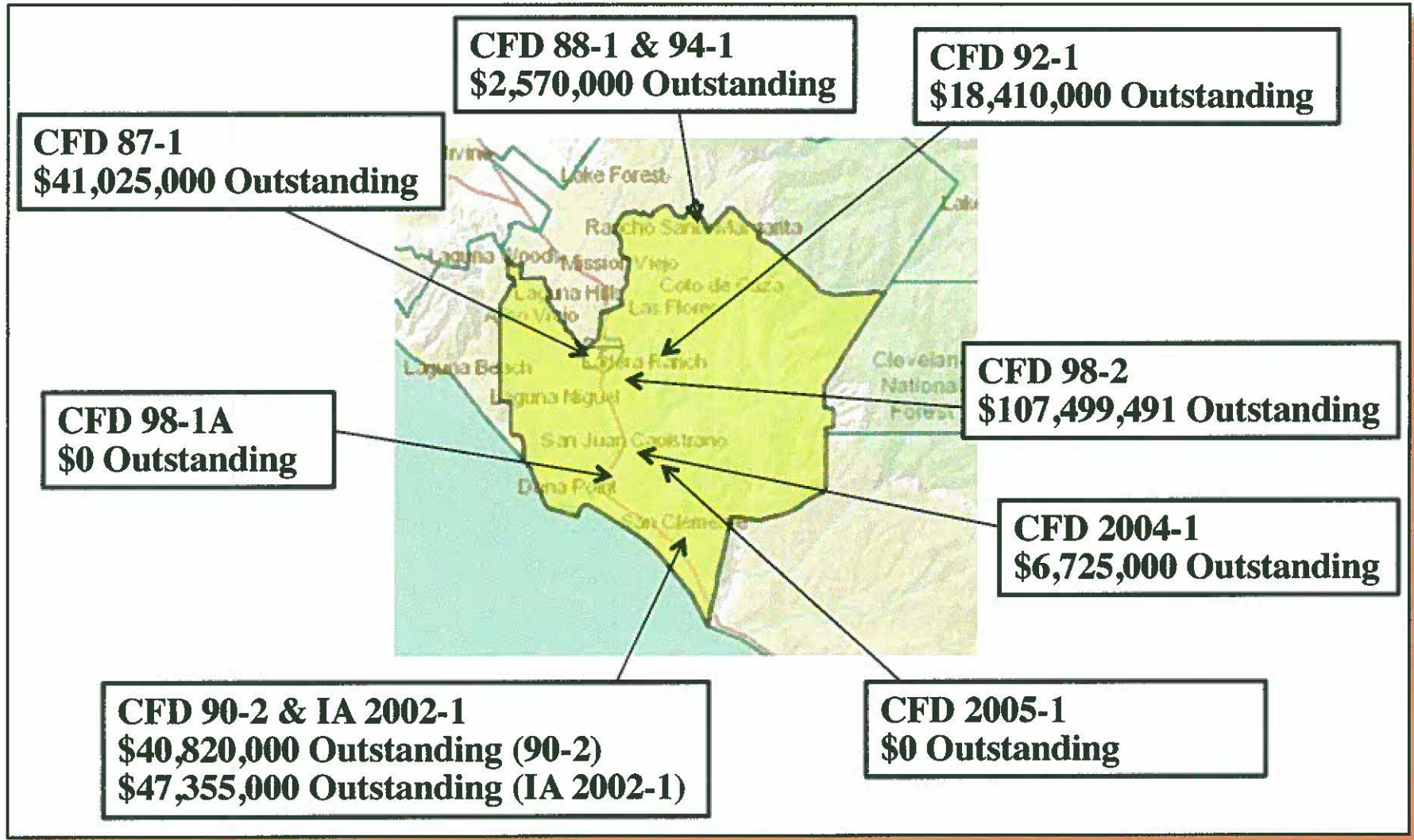
Presented by Lori Raineri
May 22, 2013

Tonight's Agenda

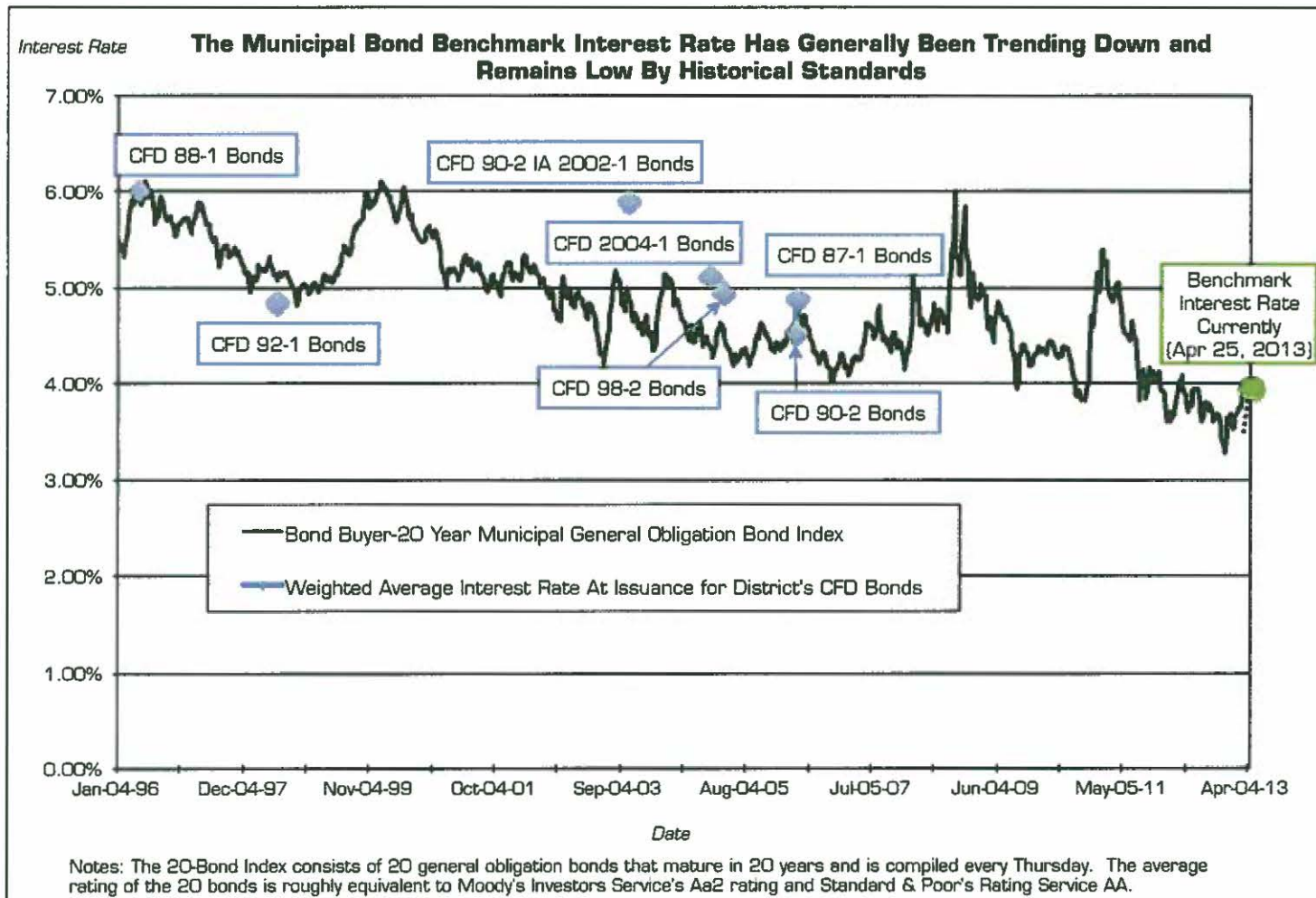
- **Overview of Community Facilities District Bonds**
- **Potential Refinancing Opportunities**
- **New Bond Issuance for CFD 2005-1 Whispering Hills**
- **Next Steps**



Overview of District's CFD Financings



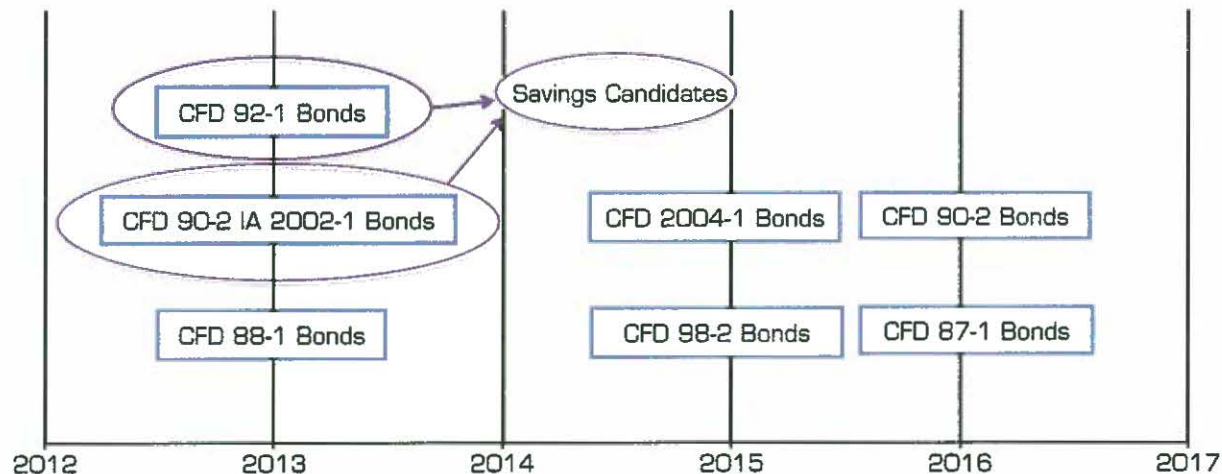
Interest Rates Near Historic Lows



Need to Consider More Than Interest Rates

- **Municipal bonds are typically sold with a “call date”:** bonds maturing before the call date cannot be repaid early.
 - **Funds invested in escrow account until call date.**
 - » **Earn less than 1% on invested funds.**
 - » **Pay more than 4% interest on debt.**
- } **“Negative Arbitrage”**

Three CFD Financings are Callable This Year: CFDs 88-1, 90-2 IA 2002-1, and 92-1



Notes: all call dates are in September except for CFD 87-1 which is March. All bonds have 0% call premium on the call dates. CFD 88-1 bonds not feasible for refinancing at this time on a standalone basis due to small size of bonds: \$2.6 million callable compared to \$46.7 million callable for CFD 90-2 IA 2002-1 and \$17.1 million for CFD 92-1. However, if economies of scale or decrease in interest rates produce savings, these bonds may be included for refinancing.

Refinancing Candidates

Community Facilities District 88-1														
Series	Bond Structure	New Money Issuance	Refunding Issuance											
1989	CIBs	\$12,500,000	\$0											
1996	CIBs	\$678,513	\$12,076,487											
		<u>\$13,178,513</u>	<u>\$12,076,487</u>											

Community Facilities District 90-2 (Improvement Area No. 2002-1)														
Series	Bond Structure	New Money Issuance	Refunding Issuance											
2003	CIBs	\$43,605,000	\$0											
	CIBs Esc	\$6,070,000	\$0											
		<u>\$49,675,000</u>	<u>\$0</u>											

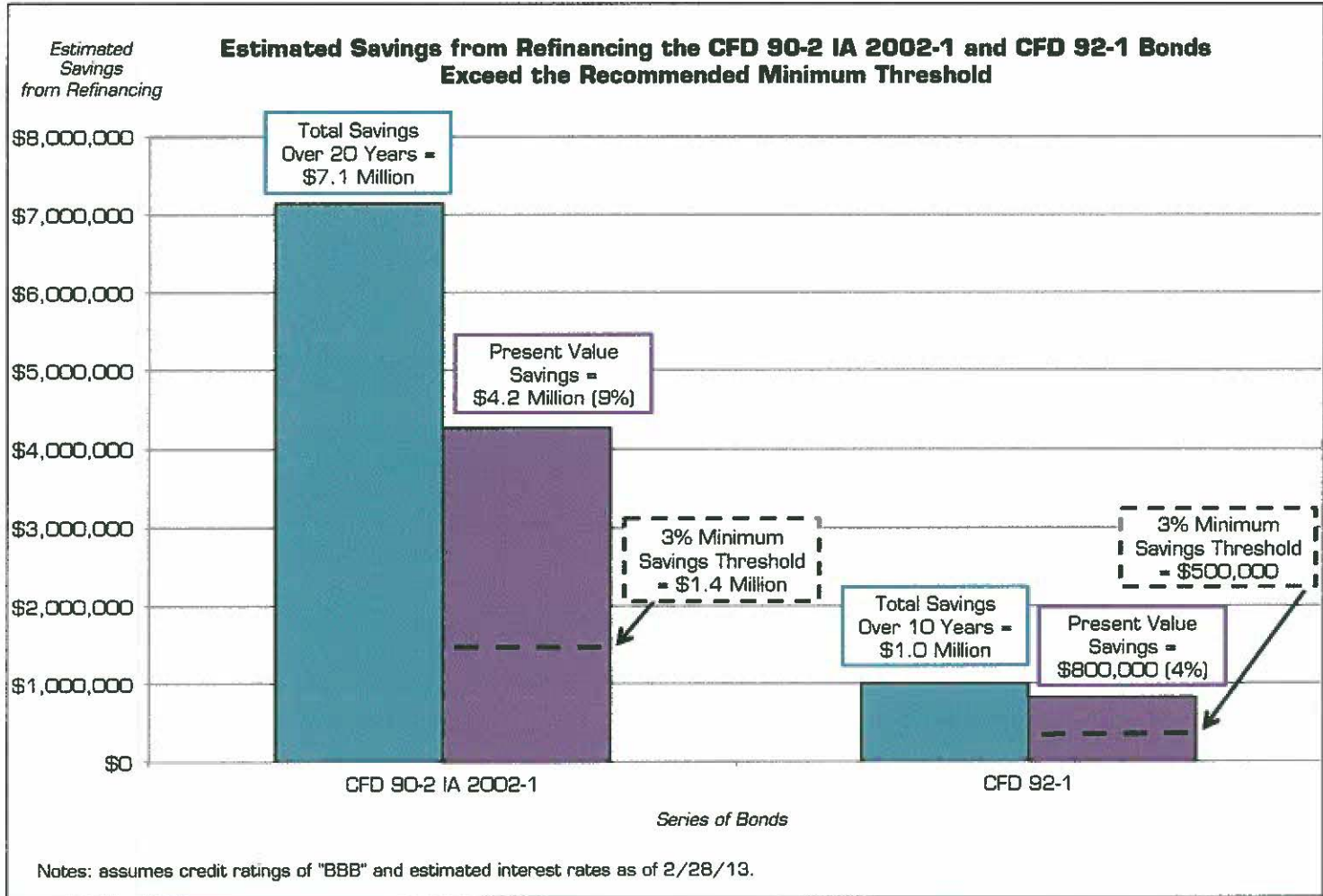
Community Facilities District 92-1 (Las Flores)														
Series	Bond Structure	New Money Issuance	Refunding Issuance											
1993	CIBs	\$8,515,000	\$0											
1997	CIBs	\$12,500,000	\$0											
1998	CIBs	\$8,747,089	\$22,612,911											
		<u>\$29,762,089</u>	<u>\$22,612,911</u>											



Establishment of Minimum Savings

- Since interest rates could increase or the reception to the CFD credit could be lower than expected, we recommend a minimum present value savings threshold to complete the refinancing.
- Industry standard is a *minimum* present value savings threshold of 3% of the principal amount refinanced:
 - If the savings threshold cannot be achieved, the refinancing will be placed on hold.
- Almost all of the estimated costs of issuance would only be paid if and when the refinancing is completed.

Estimated Savings

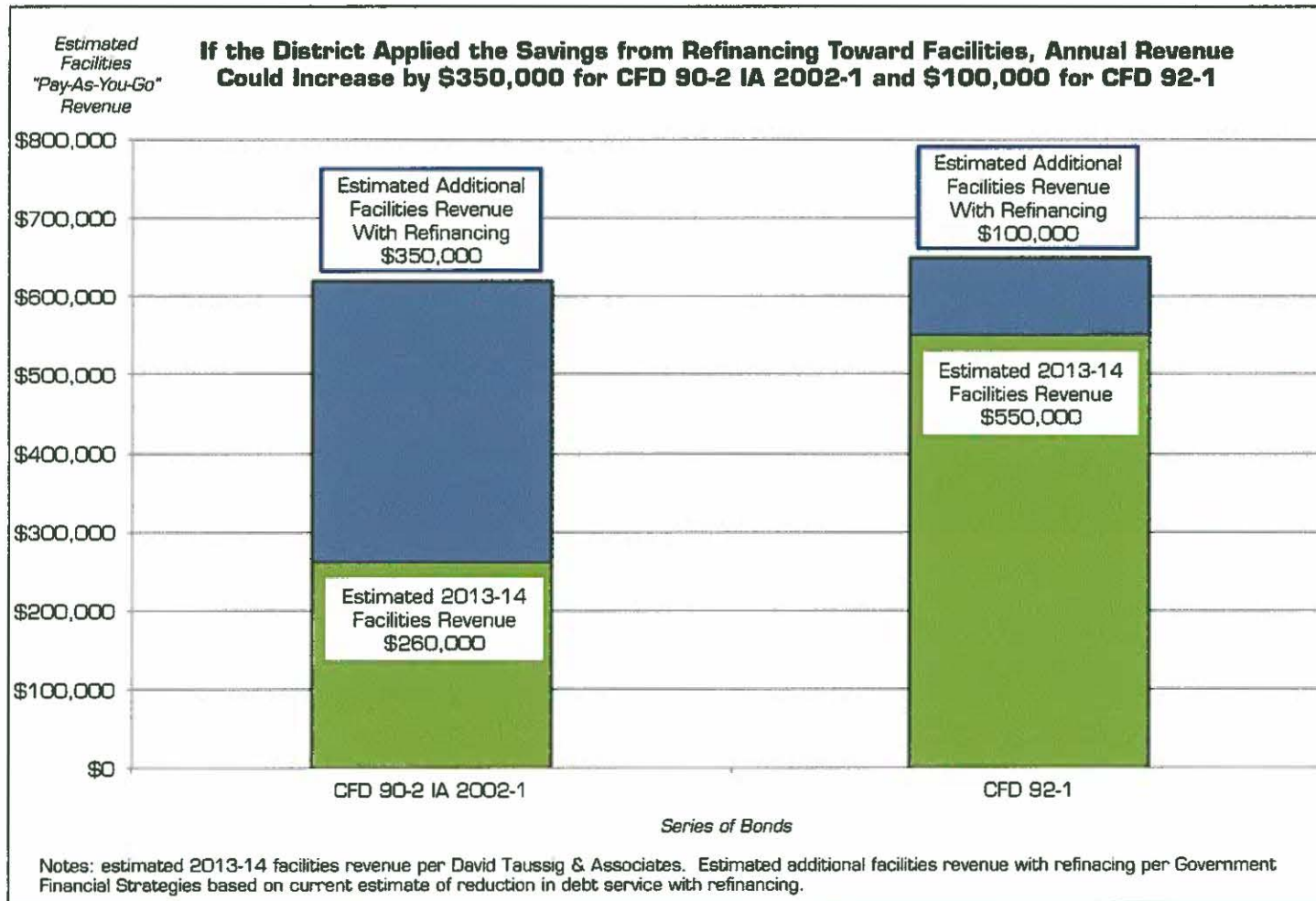


Options for How to Use Savings

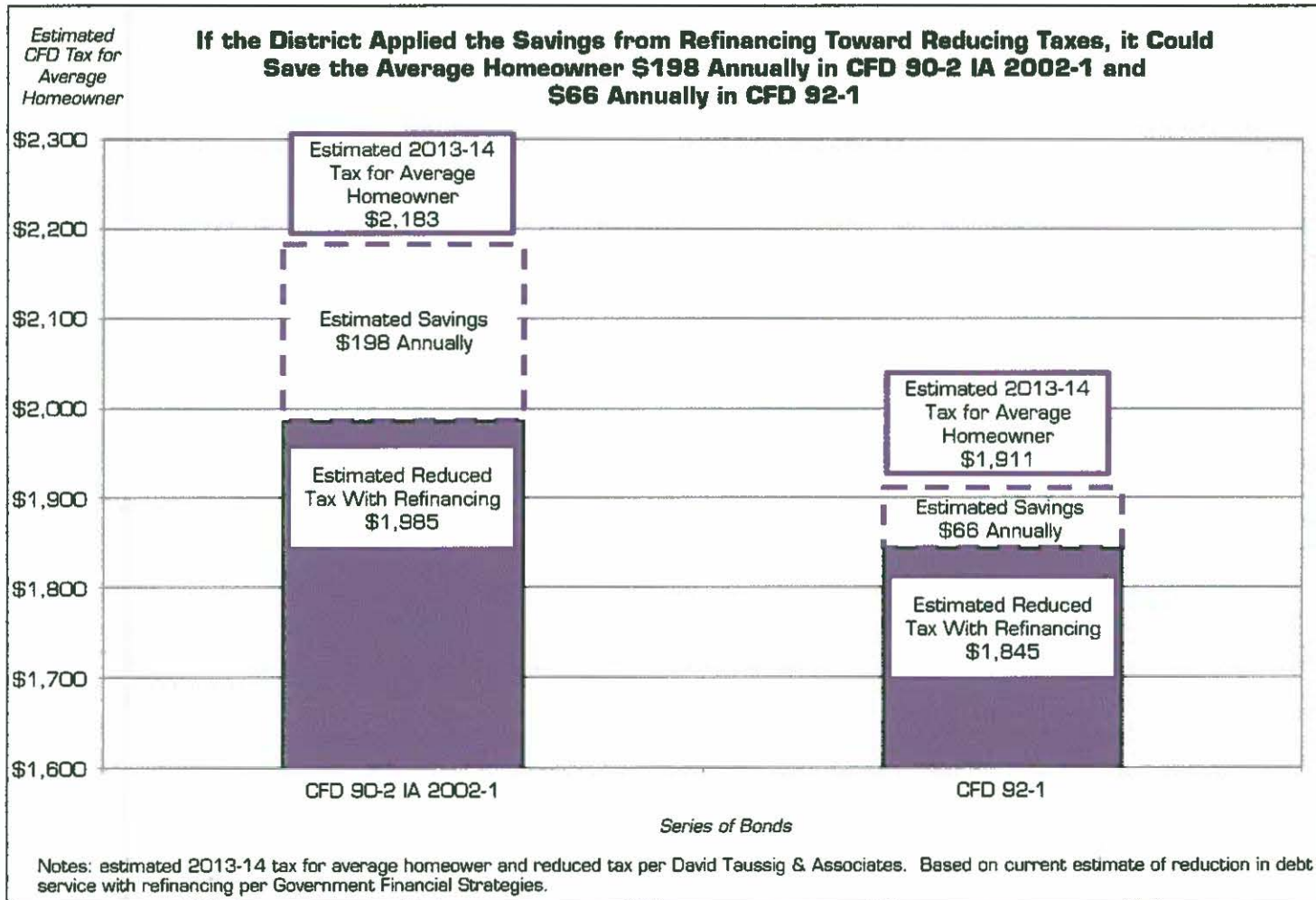
- **Option 1: savings goes toward District’s facilities “pay-as-you-go” revenue.**
- **Option 2: savings goes toward CFD taxpayers in the form of reduced tax levies.**
- **Option 3: some combination of the above.**



Option 1: Savings Goes to Facilities



Option 2: Savings Goes to Taxpayers



Recommended Method of Sale

- Use a competitive bidding process to determine interest rates.
 - Recommended as a best practice by the Government Finance Officer’s Association and California Debt and Investment Advisory Commission.
 - Academic research supports the value of this approach.
 - The District’s experience supports this approach.

2012 Refunding Certificates of Participation COMPETITIVE BIDDING RESULTS			Approximate Difference in Present Value From Winning Bid
Bid #	Name of Bidder	True Interest Cost (TIC%)	
1	Hutchinson, Shockey, Erley & Co.	2.185096%	
2	Morgan Stanley & Co, LLC	2.561478%	\$474,304
3	E.J. De La Rosa & Co., Inc.	2.634971%	\$556,896
2012 General Obligation Refunding Bonds COMPETITIVE BIDDING RESULTS			Approximate Difference in Present Value From Winning Bid
Bid #	Name of Bidder	True Interest Cost (TIC%)	
1	Citigroup Global Markets Inc.	1.730645%	
2	Morgan Stanley & Co, LLC	2.155885%	\$815,716
3	J.P. Morgan Securities LLC	2.437183%	\$1,455,734
4	Hutchinson, Shockey, Erley & Co.	2.451535%	\$1,388,094

CFD 2005-1 “Whispering Hills”

- **Rancho San Juan Development**
- **272 acres**
- **South of San Juan Hills High**
- **140 SF homes planned**
- **15 custom lots planned**
- **64 permits issued for sales as of 4/2**
- **Plus 4 permits for model homes**
- **20+ homes have closed escrow**
- **\$30 million bonds authorized**
- **No bonds issued to date**



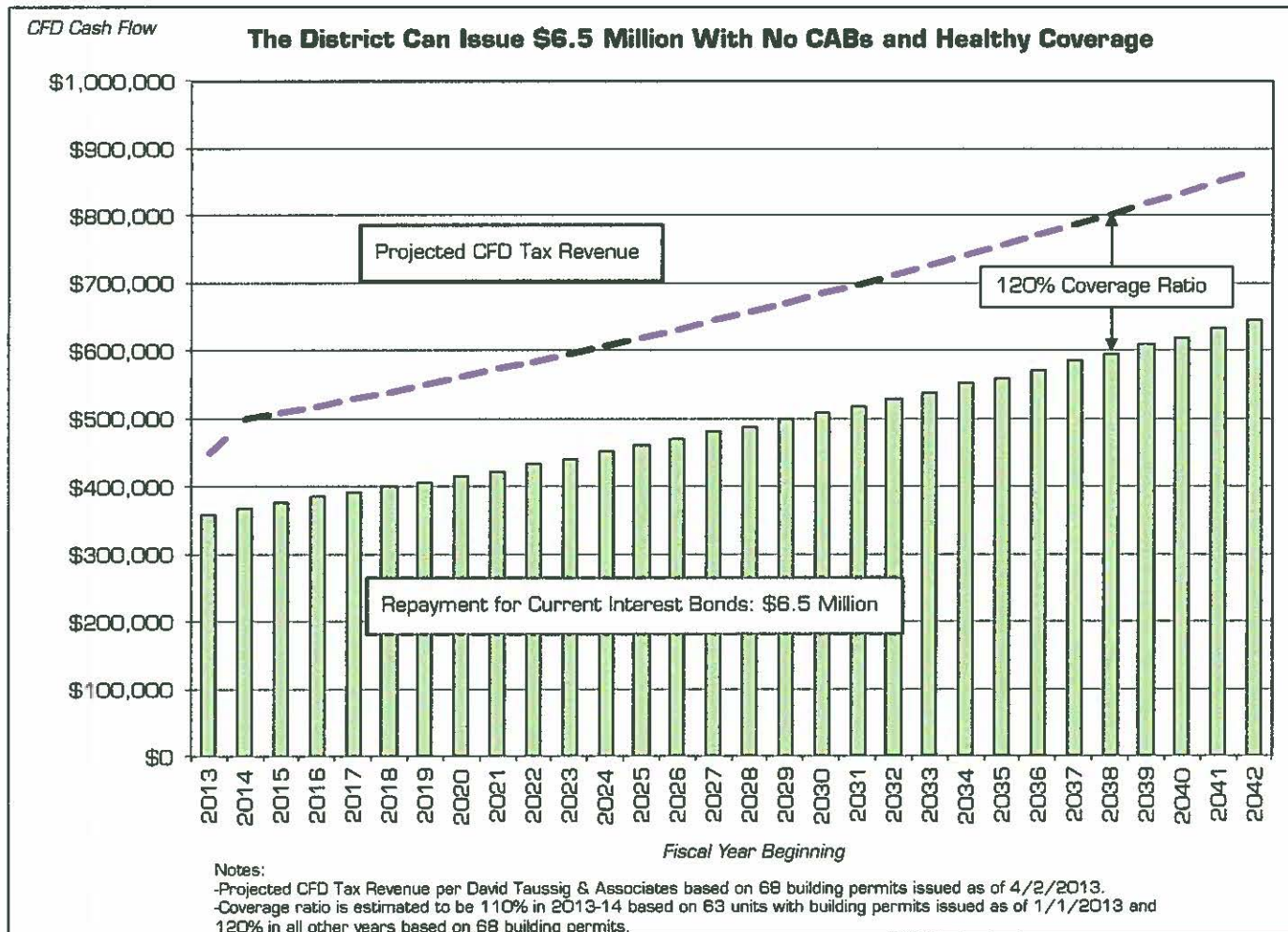
First Issuance of Bonds

- **Rancho San Juan Development has “triggered” the first issuance of bonds, subject to closing escrow on 70 homes.**
 - **First issuance of bonds to occur when developer has expectation that 70 homes will close escrow.**
 - **Developer provided District with Notice.**
 - **Pursuant to First Amended Mitigation Agreement.**

- **District’s deadline to issue bonds: September 4, 2013.**
 - **Target date: end of July to coincide with refinancings.**

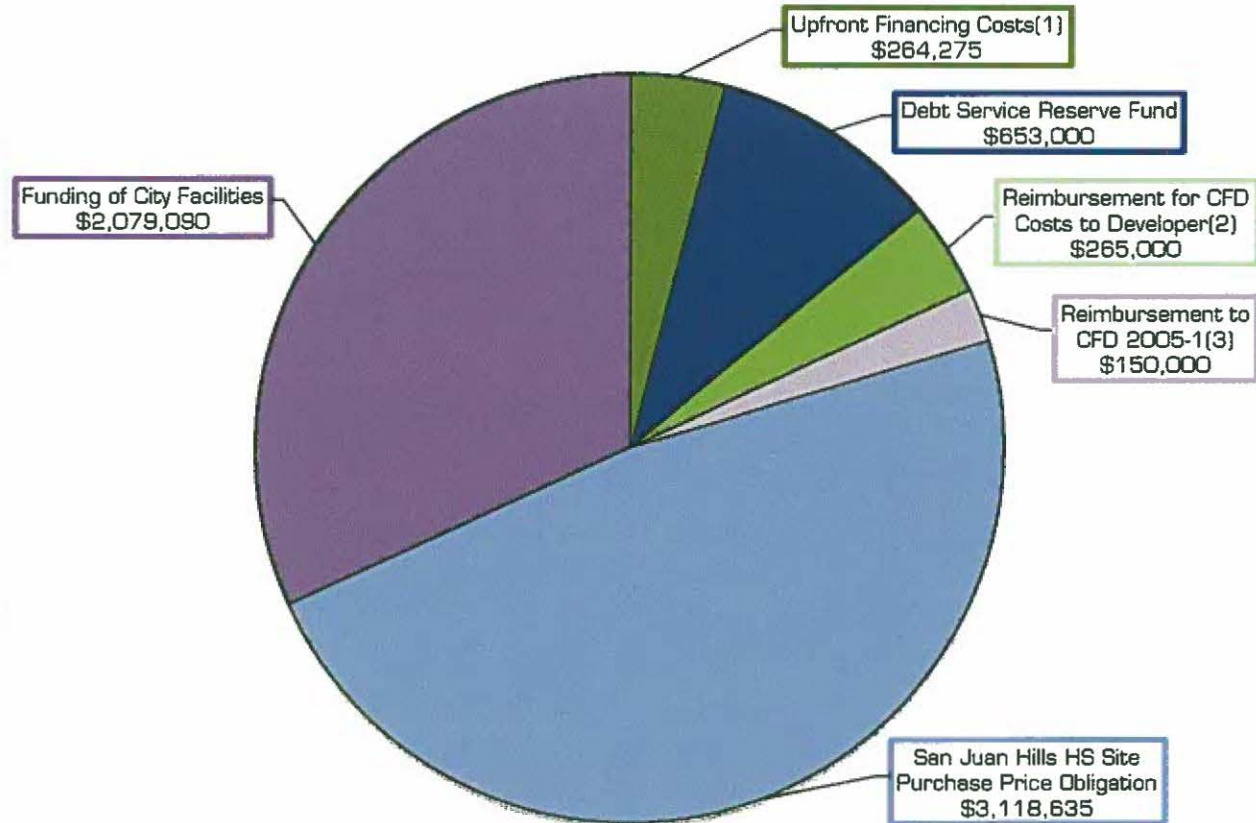
- **Net of all costs, 60% of bond proceeds go to Developer as partial payment for portion of purchase price for San Juan Hills High School site (\$6 million interest-free obligation) and 40% goes to City of San Juan Capistrano for City Facilities.**

\$6.5 Million of Bonds Estimated



Estimated Allocation of Bond Funds

Nearly Half of the Funds from the Bonds will Go Toward the San Juan Hills High School Site Purchase Price Obligation



Notes: (1) Upfront financing costs include conservatively estimated underwriter's discount and costs of issuance. Includes \$75,000 Developer deposit for costs of issuance. (2) Reimbursement for CFD costs to developer includes \$250,000 of not-to-exceed amounts and \$15,000 fixed amount, (3) Reimbursement to CFD 2005-1 is a not-to-exceed amount. Allocations per David Taussig & Associates based on First Amended Mitigation Agreement.

Recommended Method of Sale

- **May use a competitive bidding process, but CFD 2005-1 Bonds may not be well suited for such a process due to:**
 - **Lack of established development: “dirt bonds”**
 - **No history of homeowners and taxation**
 - » **Credit perception is different.**

- **May use a negotiated process to set interest rates.**
 - **If so, will follow recommended best practices by the Government Finance Officer’s Association.**
 - **Inject competition via a proposal process.**

- **After further research and due diligence, we will make a recommendation to District staff.**

Next Steps

- **Over the next few weeks:**
 - Due diligence review, UW selection process, legal documents prepared, and credit rating review.
- **Board Meeting on June 26, 2013**
 - Board considers resolution authorizing sale of bonds and distribution of preliminary official statements.
- **Early – mid July**
 - Sale of bonds and interest rates determined.
- **End of July**
 - All bonds closed and funds disbursed.
- **By August 1**
 - Notice of refinancing sent to bondholders.
- **September 1**
 - Prior bonds are refinanced.

