

# Tamalpais Union High School District

## General Obligation Bond Refinancing Overview

August 27, 2019

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The District has two series of bonds that may be candidates for a refinancing (“Prior Bonds”):

- ◆ 2010 Refunding Bonds
- ◆ 2011 Refunding Bonds

Depending on market conditions, the District may realize savings for its taxpayers by refinancing portions of the Prior Bonds

- ◆ Similar to refinancing a home mortgage, savings would be generated for the District’s taxpayers by replacing the higher interest rate Prior Bonds with lower interest rate refunding bonds (“Refunding Bonds”)
- ◆ Refinancing does NOT extend the original bond term
- ◆ In order to comply with IRS rules, the Refunding Bonds would be sold with potentially two components
  - Taxable advanced refunding
  - Tax-exempt delayed delivery current refunding
- ◆ All financing costs (except for credit ratings) are contingent upon the successful issuance of the Refunding Bonds and are paid only from bond proceeds, not the General Fund

# Interest Rates

Municipal bond interest rates are near historic lows resulting from:

- ◆ Slowdown in European economies
- ◆ Trade war with China
- ◆ Geopolitical tensions with Iran
- ◆ Fed and other central bank rate cuts

**Bond Buyer General Obligation Bond Index <sup>(1)</sup>  
(1965 to Current)**



(1) Index reflects average yield to maturity of 20 general obligation bonds with 20-year maturities rated Aa2 by Moody's Investors Service and AA by Standard and Poor's. Source: The Bond Buyer & Bloomberg.

# Credit Ratings

The two primary rating agencies for California school bonds are Moody's and S&P

- ◆ Following is an overview of the credit rating factors and weighting:
  - Local economy (30%)
  - District finances (30%)
  - District management (20%)
  - District debt/pension (20%)
- ◆ The District currently has an S&P rating only, which was last reviewed at 'AAA' five years ago on October 23, 2014
- ◆ The District will pursue a Moody's rating for the upcoming refinancings

	Moody's	S&P	Rating Description
Investment grade	Aaa	AAA	Prime
	Aa1	AA+	High grade
	Aa2	AA	
	Aa3	AA-	
	A1	A+	Upper medium grade
	A2	A	
	A3	A-	
	Baa1	BBB+	Lower medium grade
	Baa2	BBB	
	Baa3	BBB-	
Non-investment grade	Ba1	BB+	Speculative
	Ba2	BB	
	Ba3	BB-	
	B1	B+	Highly speculative
	B2	B	
	B3	B-	
	Caa1 & below	CCC+ & below	Extremely speculative/Default

# Legal Documentation

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Following is a summary of documents subject to Board approval on September 10<sup>th</sup>

- ◆ Authorizing resolution

- Approves the issuance of Refunding Bonds
- Specifies the terms and parameters of the Refunding Bonds
- Authorizes the District administration to take the necessary steps to issue the Refunding Bonds

- ◆ Approves the form of other legal documents

- Preliminary official statement
  - Offering document circulated to prospective investors describing the District and the Refunding Bonds
- Bond purchase agreement
  - Agreement in which the underwriters agree to purchase the District's Refunding Bonds under certain conditions and parameters
- Continuing disclosure certificate
  - Agreement outlining the District's duties to provide ongoing information to the investing community on its finances, tax base information and listed events
- Escrow agreement
  - Agreement outlining the escrow agent's duties related to monies deposited in the escrow fund and utilized to redeem the Prior Bonds

# Next Steps

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- ◆ August 30, 2019
  - Credit rating meeting with Moody's in San Francisco
- ◆ September 10, 2019
  - Board approval of refinancing documents
- ◆ September 11, 2019
  - Receive credit rating results
  - Circulate preliminary official statement to prospective investors
- ◆ September 18, 2019
  - Sell bonds/lock interest rates
- ◆ October 9, 2019
  - 2019 Refunding Bonds closing
- ◆ May 7, 2020
  - 2020 Refunding Bonds closing

# Taxable vs Tax-Exempt Refinancing Options

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In order to comply with IRS rules, any refinancing completed greater than 90 days from the optional redemption/call date (an advanced refunding) must be done on a taxable basis while refundings completed within 90 days (a current refunding) can be completed on a tax-exempt basis

- ◆ The 2010 Refunding Bonds have a call date of August 1, 2020

- These bonds could be refunded via taxable advanced refunding or tax-exempt delayed delivery current refunding
  - With a delayed delivery, refunding bonds are sold in the current rate environment with the closing delayed with a monthly interest rate penalty
    - This penalty when added to tax-exempt rates currently yields lower interest costs than taxable rates but this relationship is always changing
  - Investors are usually willing to delay delivery for up to ~18 months

- ◆ The 2011 Refunding Bonds have a call date of August 1, 2021

- These bonds could be refunded only via taxable advanced refunding as a delayed delivery exceeds current investor timing tolerances

# Refinancing Summary – Illustration 1 <sup>(1)</sup>

Following are savings figures under an all taxable bond structure

2010 Refunding - Taxable Debt Service Comparison <sup>(1)</sup>				2011 Refunding - Taxable Debt Service Comparison <sup>(1)</sup>				Aggregate Savings
Date	Current Payments <sup>(2)</sup>	Estimated New Payments	Estimated Savings	Current Payments <sup>(2)</sup>	Estimated New Payments	Estimated Savings		
8/1/20	\$ 1,198,750	\$ 1,198,746	\$ 4	\$ 836,250	\$ 834,407	\$ 1,843	\$ 1,847	
8/1/21	4,343,750	3,988,592	355,158	836,250	625,018	211,232	566,390	
8/1/22	4,306,500	3,954,856	351,644	836,250	625,370	210,880	562,523	
8/1/23	4,278,250	3,924,481	353,769	3,296,250	3,085,558	210,692	564,461	
8/1/24	4,298,250	3,942,203	356,047	3,298,250	3,085,484	212,766	568,813	
8/1/25	4,298,750	3,946,273	352,477	3,294,000	3,082,911	211,089	563,567	
8/1/26	4,255,250	3,901,032	354,218	3,293,500	3,082,191	211,309	565,527	
8/1/27	3,034,500	2,681,282	353,218	3,291,250	3,082,302	208,948	562,166	
8/1/28	-	-	-	3,297,000	3,088,536	208,464	208,464	
Total	\$ 30,014,000	\$ 27,537,465	\$ 2,476,535	\$ 22,279,000	\$ 20,591,778	\$ 1,687,222	\$ 4,163,757	
Present Value Savings:			\$ 2,249,763	Present Value Savings %:			9.4%	
Refunding Closing Date:			10/9/19	Refunding Closing Date:			10/9/19	
Call Date:			8/1/20	Call Date:			8/1/21	
Interest Rate of Prior Bonds:			5.00%	Interest Rate of Prior Bonds:			5.00%	
Interest Rate of Refunding Bonds:			2.37%	Interest Rate of Refunding Bonds:			2.44%	
Principal of Refunded Bonds:			\$ 23,975,000	Principal of Refunded Bonds:			\$ 16,725,000	
Principal of Refunding Bonds:			\$ 25,040,000	Principal of Refunding Bonds:			\$ 18,095,000	

(1) Reflects Keygent's opinion of current interest rates based on interest rates for similarly rated California K-14 districts. Includes all estimated costs. Refinancing results are subject to market fluctuations until Refunding Bonds are sold. Escrow portfolio subject to District determination. For illustrative purposes only, assumes usage of State and Local Government Series Securities.

(2) Assumes refinancing of all callable maturities of the 2010 Refunding Bonds and 2023-2028 maturities of the 2011 Refunding Bonds.



# Refinancing Summary – Illustration 2 <sup>(1)</sup>

Following are savings figures under a combined taxable/tax-exempt bond structure

2010 Refunding - Tax-Exempt Debt Service Comparison <sup>(1)</sup>				2011 Refunding - Taxable Debt Service Comparison <sup>(1)</sup>				Aggregate Savings
Date	Current Payments <sup>(2)</sup>	Estimated New Payments	Estimated Savings	Current Payments <sup>(2)</sup>	Estimated New Payments	Estimated Savings		
8/1/20	\$ 599,375	\$ 594,556	\$ 4,819	\$ 836,250	\$ 834,407	\$ 1,843	\$ 6,663	
8/1/21	4,343,750	3,897,600	446,150	836,250	625,018	211,232	657,382	
8/1/22	4,306,500	3,863,650	442,850	836,250	625,370	210,880	653,730	
8/1/23	4,278,250	3,832,850	445,400	3,296,250	3,085,558	210,692	656,092	
8/1/24	4,298,250	3,853,450	444,800	3,298,250	3,085,484	212,766	657,566	
8/1/25	4,298,750	3,853,250	445,500	3,294,000	3,082,911	211,089	656,589	
8/1/26	4,255,250	3,814,000	441,250	3,293,500	3,082,191	211,309	652,559	
8/1/27	3,034,500	2,588,250	446,250	3,291,250	3,082,302	208,948	655,198	
8/1/28	-	-	-	3,297,000	3,088,536	208,464	208,464	
Total	\$ 29,414,625	\$ 26,297,606	\$ 3,117,019	\$ 22,279,000	\$ 20,591,778	\$ 1,687,222	\$ 4,804,241	
Present Value Savings:			\$ 2,881,130	Present Value Savings:			\$ 1,537,894	\$ 4,419,024
Present Value Savings %:			12.0%	Present Value Savings %:			9.2%	10.9%
Refunding Closing Date:			5/5/20	Refunding Closing Date:			10/9/19	
Call Date:			8/1/20	Call Date:			8/1/21	
Interest Rate of Prior Bonds:			5.00%	Interest Rate of Prior Bonds:			5.00%	5.00%
Interest Rate of Refunding Bonds:			1.85%	Interest Rate of Refunding Bonds:			2.44%	2.16%
Principal of Refunded Bonds:			\$ 23,975,000	Principal of Refunded Bonds:			\$ 16,725,000	\$ 40,700,000
Principal of Refunding Bonds:			\$ 22,085,000	Principal of Refunding Bonds:			\$ 18,095,000	\$ 40,180,000

(1) Reflects Keygent's opinion of current interest rates based on interest rates for similarly rated California K-14 districts. Includes all estimated costs. Refinancing results are subject to market fluctuations until Refunding Bonds are sold. Escrow portfolio subject to District determination. For illustrative purposes only, assumes usage of State and Local Government Series Securities.

(2) Assumes refinancing of all callable maturities of the 2010 Refunding Bonds and 2023-2028 maturities of the 2011 Refunding Bonds.

# Pros and Cons of Refinancing Options

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Each of the refinancing options have their advantages and disadvantages

## ♦ Illustration 1: All taxable bond structure

### – Pros

- After the initial closing, no additional staff time required to update offering document
- Underwriter termination events, e.g. rating changes, only apply during the 3-week period between pricing and closing
  - Provides certainty of PR messaging on savings

### – Cons

- Currently lower taxpayer savings

## ♦ Illustration 2: Combined taxable/tax-exempt bond structure

### – Pros

- Currently higher taxpayer savings

### – Cons

- Requires additional staff time at the delayed closing to update offering document for material changes, e.g. District financials, labor relations or other items
- Underwriter termination events would apply during the entire delayed period
  - Provides uncertainty on PR messaging if termination events apply