

# ACBO - 2009 SPRING CONFERENCE

## TRANS and Beyond: Cash Flow

Overview of Facilities Cash Flow Options and  
Operating Cash Flow Options



RBC Capital Markets®

# General Obligation Bonds

## Section 1



RBC Capital Markets®

# General Obligation Bonds (Scenario 1 Summary)

- Includes Projected Assessed Valuation Assumptions for 2008-09

## XYZ Community College District General Obligation Bonds Election in 2006

Bond Issuance Schedule and Projected Tax Rate Analysis  
\$240.00 million authorization issued over 4 years.

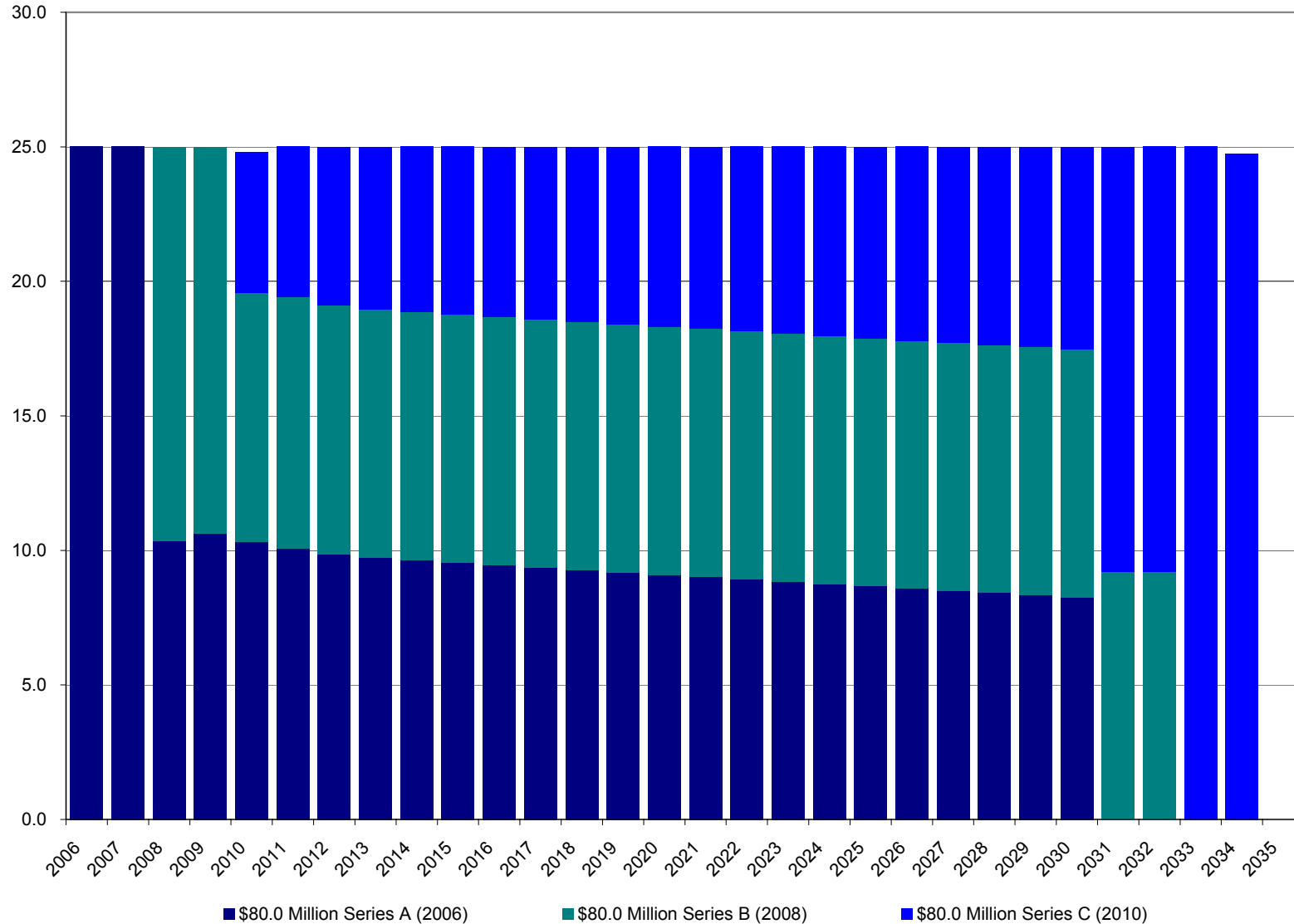
<u>Tax Rate Per \$100,000 A.V.</u>		<u>Series</u>	<u>Dated</u>	<u>Amount</u>
2009-10	\$24.79	A	08/01/06	\$80,000,000
Maximum	\$25.00	B	08/01/08	80,000,000
Average	\$24.98	C	08/01/10	80,000,000
			Total Authorization	<b>\$240,000,000</b>

Notes:

	<u>Growth</u>	<u>Assessed Value</u>	
2004-05	10.00%	25,158,530,593	Actual
2005-06	12.00%	28,177,554,264	Actual
2006-07	10.00%	30,995,309,690	Actual
2007-08	8.50%	33,629,911,014	Actual
2008-09	7.50%	36,152,154,340	Estimated
2009-10	6.50%	38,502,044,372	Estimated
2010-11	6.00%	40,812,167,035	Estimated
2011-12	5.50%	43,056,836,222	Estimated
2012-13	5.00%	45,209,678,033	Estimated
2013-14	4.50%	47,244,113,544	Estimated
Thereafter	4.00%		Estimated

# General Obligation Bonds (Scenario 1 Chart)

XYZ Community College District  
 \$240 Million in Election 2006  
 Tax Rate per \$100,000 of AV



# General Obligation Bonds (Scenario 2 Summary)

- Includes Significantly Lower Actual Assessed Valuation for 2008-09

## XYZ Community College District General Obligation Bonds Election in 2006

Bond Issuance Schedule and Projected Tax Rate Analysis  
\$240.00 million authorization issued over 4 years.

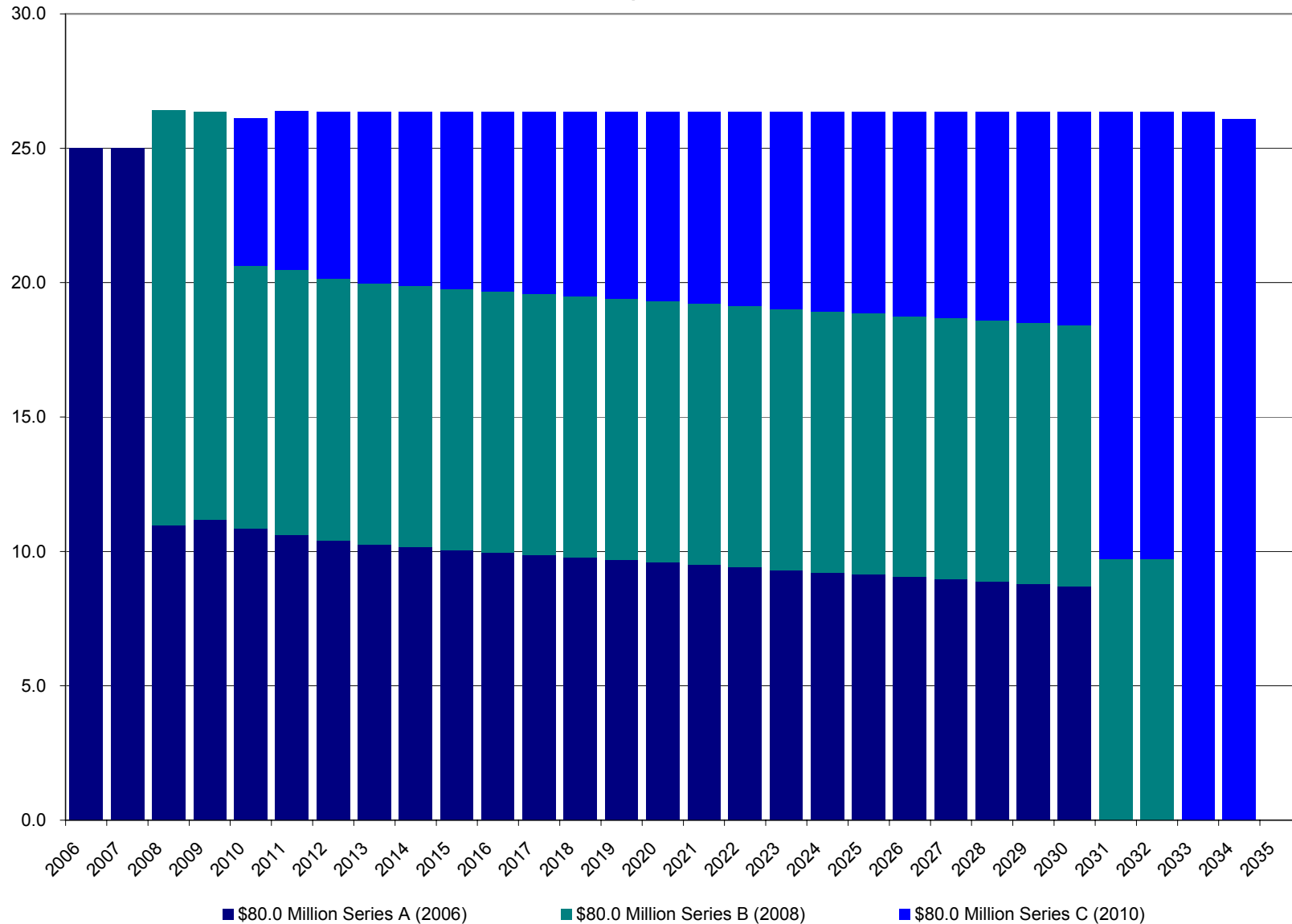
<u>Tax Rate Per \$100,000 A.V.</u>		<u>Series</u>	<u>Dated</u>	<u>Amount</u>
2009-10	\$26.12	A	08/01/06	\$80,000,000
Maximum	\$26.40	B	08/01/08	80,000,000
Average	\$26.24	C	08/01/10	<u>80,000,000</u>
			Total Authorization	<b>\$240,000,000</b>

Notes:

	<u>Growth</u>	<u>Assessed Value</u>	
2004-05	10.00%	25,158,530,593	Actual
2005-06	12.00%	28,177,554,264	Actual
2006-07	10.00%	30,995,309,690	Actual
2007-08	8.50%	33,629,911,014	Actual
2008-09	2.00%	34,302,509,234	Actual
2009-10	6.50%	36,532,172,335	Estimated
2010-11	6.00%	38,724,102,675	Estimated
2011-12	5.50%	40,853,928,322	Estimated
2012-13	5.00%	42,896,624,738	Estimated
2013-14	4.50%	44,826,972,851	Estimated
Thereafter	4.00%		Estimated

# General Obligation Bonds (Scenario 2 Chart)

XYZ Community College District  
 \$240 Million in Election 2006  
 Tax Rate per \$100,000 of AV



# Build America Bonds

## Section 2



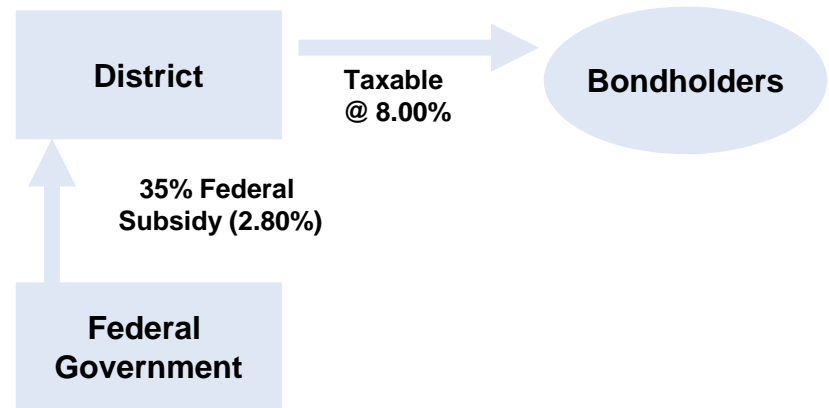
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# Build America Bonds (“BABs”)

## Direct Payment Option

- Taxable income to investors
- Tax-Exempt Purposes
- New Capital Expenditures Only
- Reserve Fund
- 2% limit on Cost of Issuance
- Bonds must be par or de-minimus premiums

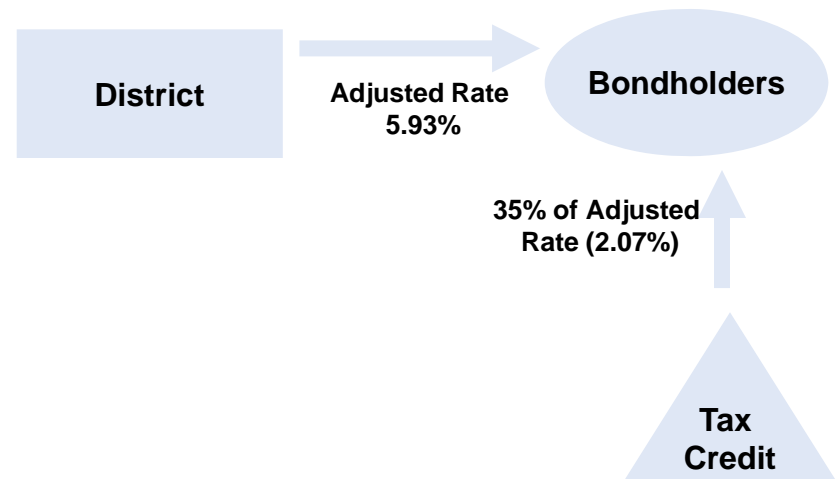
Direct Payment Option	
Tax Rate	8.00%
Federal Subsidy	(2.80%)
<b>Effective Cost of Funds</b>	<b>5.20%</b>



## Bondholder Tax Credit Option

- Taxable Income to Bondholders
- Proceeds may be used for:
  - Working Capital
  - Current and Advanced Refundings
- Tax credit can be stripped and sold

Bondholder Tax Credit Option	
Adjusted Rate	5.93%
Tax Credit	(2.07%)
<b>Taxable Investment to Bondholders</b>	<b>8.00%</b>





# Considerations

Structure	<p>Call optionality</p> <ul style="list-style-type: none"><li>✓ Taxable municipal bonds are primarily structured with make-whole calls rather than 10-year calls</li></ul> <p>Bullet/term maturities along the yield typical for taxable bonds</p> <ul style="list-style-type: none"><li>✓ Does not take advantage of entire yield curve</li></ul> <p>Use of extraordinary redemption</p> <p>Ability to incorporate federal subsidy into definition of debt service for rate covenant, additional bonds test and debt service reserve fund</p> <p>Potentially larger debt service reserve fund requirement sized for taxable issue will result in additional negative arbitrage</p>
Programmatic	Reliability and timing of federal subsidy receipts
Marketing	<p>Market access for taxable municipal bonds has also been challenging in the past year</p> <p>Can be an alternative for structures and credits that otherwise would have very limited access in the current tax-exempt market</p>

# Top Holders of Taxable Municipals and Major BABs Purchasers

Top Taxable Municipal Bondholders	
Institutions	Par Held
Allstate Investments	\$4,926,581,000
MetLife	\$2,298,652,000
Teachers Advisors Inc.	\$2,214,468,000
State Farm Insurance	\$1,542,565,000
EquiTrust Investment Management Services	\$1,236,830,000
Midland Advisors Co	\$1,225,589,000
Wellington Management Co LLP	\$1,185,797,000
Pacific Investment Management (PIMCO)	\$1,165,843,000
GE Asset Management Inc	\$1,081,457,000
Hartford Investment Management Co	\$1,042,227,000
Calvert Asset Management Co Inc	\$848,317,000
Oppenheimer Funds Inc	\$589,465,000
White Mountains Advisors LLC	\$536,494,000
40/86 Advisors Inc	\$500,185,000
Opus Investment Management	\$472,563,000
Pacific Life Insurance Co	\$457,605,000
Hillswick Asset Management LLC	\$448,273,000
Fort Washington Investment Advisors Inc	\$442,591,000
Loomis, Sayles & Co LP	\$439,648,000
Vaughan Nelson Investment Management LP	\$435,780,000
<b>TOTAL</b>	<b>\$23,090,930,000</b>

\$6,855,000,000 State of California A2/A/A 2013-2016, 2034 & 2036	
PIMCO	1,195,000,000
BLACKROCK	832,550,000
DODGE & COX	805,000,000
PRINCIPAL GLOBAL INV	250,000,000
FIDELITY MGMT	236,000,000
AIG	195,000,000
STANDISH	190,000,000
MOORE CAP MGT	125,000,000
NEW WORLD INVESTS	100,000,000
WELINGTON MANAGEMENT CO	84,500,000
DELAWARE MGMT	80,000,000
PRUDENTIAL INV MGMT	67,500,000
STW FIXED INCOME MGMT	60,000,000
GUGGENHEIM INVESTMENTS	50,000,000
LEHMAN BROS ASSET MGMT	50,000,000
<b>TOTAL</b>	<b>\$4,320,550,000 (63%)</b>

\$1,375,000,000 New Jersey Turnpike Authority A3/A+/A 2040	
BLACKROCK TERM TRUST	250,000,000
PIMCO	200,000,000
PRINCIPAL CAPITAL MGMT	80,000,000
WELLINGTON MANAGEMENT COMPANY	75,000,000
<b>TOTAL</b>	<b>\$605,000,000 (44%)</b>

\$750,000,000 Metropolitan Transportation Auth (NY) NR/AA/A+ 2039	
BLACKROCK ADC	120,000,000
PIMCO	100,000,000
AIG	50,000,000
<b>TOTAL</b>	<b>\$270,000,000 (36%)</b>

# IRS Issues Notice 2009-26 to Provide Guidance on Build America Bonds

- On April 3, 2009, the IRS issued Notice 2009-26 to provide guidance on the Build America Bond Program. The notice provides guidance on:

- Eligible Types of Projects and Financings:** Projects and financings must meet the definition of “qualified bonds” to receive a refundable credit. Qualified bond is defined as:

- The bond is a BAB that is issued before January 1, 2011
- Cost of issuance is less than 2%
- Used for capital expenditures
- Issuer makes irrevocable election to use BAB program

- Initial Implementation of the Direct Federal Subsidy Payment Procedures:**

- IRS will accept forms for processing by May 1, 2009
- IRS and Treasury will be prepared to make timely payments with respect to interest payment dates beginning on or after July 1, 2009
- Issuers will be required to submit Form 8038-CP to request federal subsidy payments. Issuers can expect to receive requested payments within 45 days after the IRS receives Form 8038-CP

- Elections to Use This Program:** Issuers should make the elections required by §§ 54AA(d) or (g) to issue the applicable bonds on its books and records on or before the issue date of such bonds

- Information Reporting For This Program:** Issuers must report the issuance of the bonds on IRS Form 8038-G. Form 8038-G must be filed with the IRS at least 30 days before the first Form 8038-CP is filed to request payment, except for bonds issued before July 1, 2009 only, such Form 8038-G may be filed less than 30 days

**Form 8038-CP** (April 2009)  
Department of the Treasury  
Internal Revenue Service

**Return for Credit Payments to Issuers of Qualified Bonds**

OMB No. 1545-2142

**Part I Information on Entity That Is To Receive Payment of Credit** (Check box if Amended Return)

1 Name of entity that is to receive payment of the credit  
2 Employer identification number (EIN)  
3 Number and street or P.O. box no. if mail is not delivered to street address Room/suite  
4 City, town, or post office, state, and ZIP code  
5 Name and title of officer or legal representative whom the IRS may call for more information  
6 Telephone number of officer or legal representative

**Part II Reporting Authority**

7 Issuer's name (if same as line 1, enter "SAME" and skip lines 8, 9, 11, 13, and 16)  
8 EIN  
9 Number and street or P.O. box no. if mail is not delivered to street address Room/suite  
10 Report number (For IRS Use Only)  
11 City, town, or post office, state, and ZIP code  
12 Date of issue  
13 Name of issue  
14 CUSIP number  
15 Name and title of officer or legal representative whom the IRS may call for more information  
16 Telephone number of officer or legal representative  
17a Type of issue  
17b Issue price

**Part III Payment of Credit**

18 Interest payment date to which this payment of credit relates (MMDDYYYY)  
19 Interest payable to bondholders on the interest payment date  
20 Amount of credit payment to be received as of the interest payment date (complete line 20a OR line 20b only):  
a Build America bonds. Multiply line 19 by 35% (0.35)  
b Recovery zone economic development bonds. Multiply line 19 by 45% (0.45)  
21 Adjustment to previous credit payments (complete line 21a OR line 21b only):  
a Net increase to previous payments (attach explanation)  
b Net decrease to previous payments (attach explanation)  
22 Amount of credit payment to be received. Combine line 20a or line 20b with line 21a or line 21b  
23 Is this the final interest payment date? Yes  No   
24 If the entity identified in Part I is not the issuer, check this box to indicate that the entity is authorized to receive payment and related return information on behalf of the issuer

**Sign Here**  
Under penalties of perjury, I declare that I have examined this return, and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.  
Signature of issuer's authorized representative Date Type or print name and title

**Paid Preparer's Use Only**  
Preparer's signature Date Check if self-employed Preparer's SSN or PTIN  
Firm's name (or your, if self-employed), address, and ZIP code EIN  
Phone no.

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 32810E Form 8038-CP (4-2009)

# Tax and Revenue Anticipation Notes

## Section 3



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# What are TRANS?

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Short-Term Borrowings

up to 13 Month Borrowing (12 Month is Standard)

Issue Date

on or after July 1

Maturity Date

within 13 Months (12 Months is standard)

Purpose

- ◆ Even Out Monthly Cashflow of General Fund
- ◆ Cover Temporary Cash Flow Deficits
- ◆ Potential Revenues from Arbitrage

# State and Federal Regulations

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- ✓ California Government Code §53850

- ◆ Limits borrowing amount to 85% Budgeted Revenues
- ◆ Limits term to 15 months Budgeted Revenues

- ✓ Federal Regulations

- ◆ Exempt from Arbitrage Rebate if sized within regulations

# Federal Regulations for Sizing TRANs

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Projected Cash Flow Deficit

Plus (+) Working Capital Reserve

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Equals (=) Maximum TRANs Size

# Beginning Cash Flow Balance Example

Combined Cash (General Fund)  
 Less (-) Restricted Cash  


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 Available Cash

Calculation of General Fund Beginning Cash Balance		
General Fund Cash and Investments (from 6/30/08 audit)		<u>\$7,200,000</u>
Less: Restricted Cash		
Capital Projects (attach a list of Projects)	-	<u>1,450,000</u>
Deposits	-	<u>250,000</u>
Insurance Reserves	-	<u>500,000</u>
Other (specify) _____	-	_____
Other (specify) _____	-	_____
Other (specify) _____	-	_____
Other (specify) _____	-	_____
Other (specify) _____	-	_____
Other (specify) _____	-	_____
Adjusted Available Cash (7/1/08)	=	<span style="border: 1px solid black; padding: 2px;">\$5,000,000</span>



# Fundamentals and Examples of Restricted Cash

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- Board Action
- Specific Purpose
- Time Parameters

## Good

- ✓ Capital Projects
- ✓ Encumbrances
- ✓ Substantiated Liability Reserves
- ✓ Debt Service Funds
- ✓ “Other People’s Money”

## Bad

- ✗ Contingency Reserves
- ✗ Emergency Reserves

# Lowest Cash Date

- Monthly Cash Flow
- Split December (or other month) – Find Lowest Cash Point

Month	Beginning Cash Balance	Receipts	Disbursements	Ending Cash Balance
July, 2008	5,000,000	3,500,000	5,000,000	3,500,000
August, 2008	3,500,000	3,500,000	5,000,000	2,000,000
September, 2008	2,000,000	3,500,000	5,000,000	500,000
October, 2008	500,000	3,500,000	5,000,000	(1,000,000)
November, 2008	(1,000,000)	3,500,000	5,000,000	(2,500,000)
December 1-15, 2008	(2,500,000)	3,000,000	4,000,000	(3,500,000)
December 15-31, 2008	(3,500,000)	9,500,000	1,000,000	5,000,000
January, 2009	5,000,000	3,500,000	5,000,000	3,500,000
February, 2009	3,500,000	3,500,000	5,000,000	2,000,000
March, 2009	2,000,000	3,500,000	5,000,000	500,000
April, 2009	500,000	12,500,000	5,000,000	8,000,000
May, 2009	8,000,000	3,500,000	5,000,000	6,500,000
June, 2009	6,500,000	3,500,000	5,000,000	5,000,000
<b>Total</b>		<b>\$60,000,000</b>	<b>\$60,000,000</b>	

# Maximizing TRANs Benefits

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- Low Beginning Cash Balances
- Finding Lowest Cash Balance Date
- Prepayments
  - Retirement
  - Benefits
  - Transfers

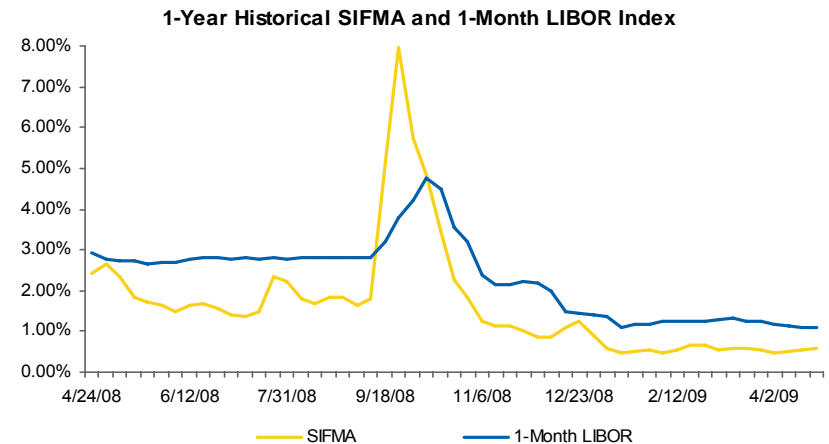
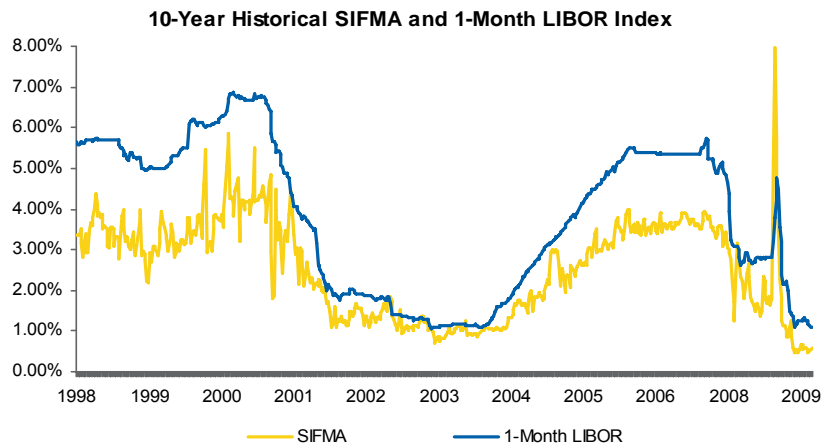
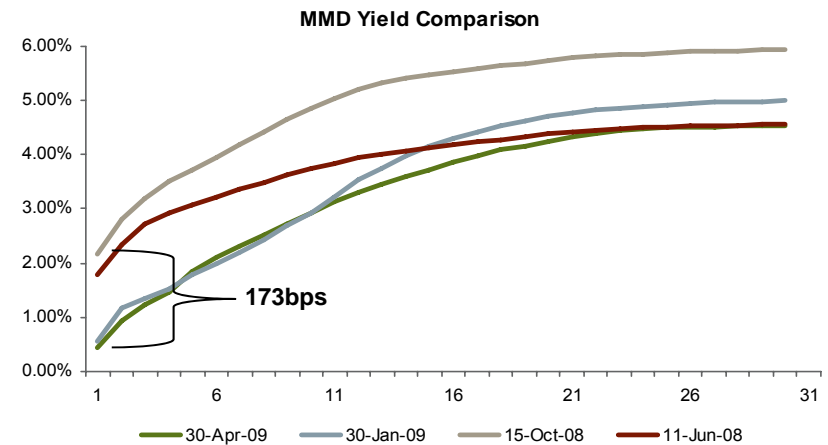
# IRS Notice 2001-49

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- Issued August 20, 2001
- Continuing to Examine the Artificial Restriction of Available Funds for Working Capital Purposes
- Deficit Comparison -Actual to Projected Deficit will be compared
  - Must have a Reasonable Explanation if Projected Deficit is Greater than Previous Year's Actual Deficit

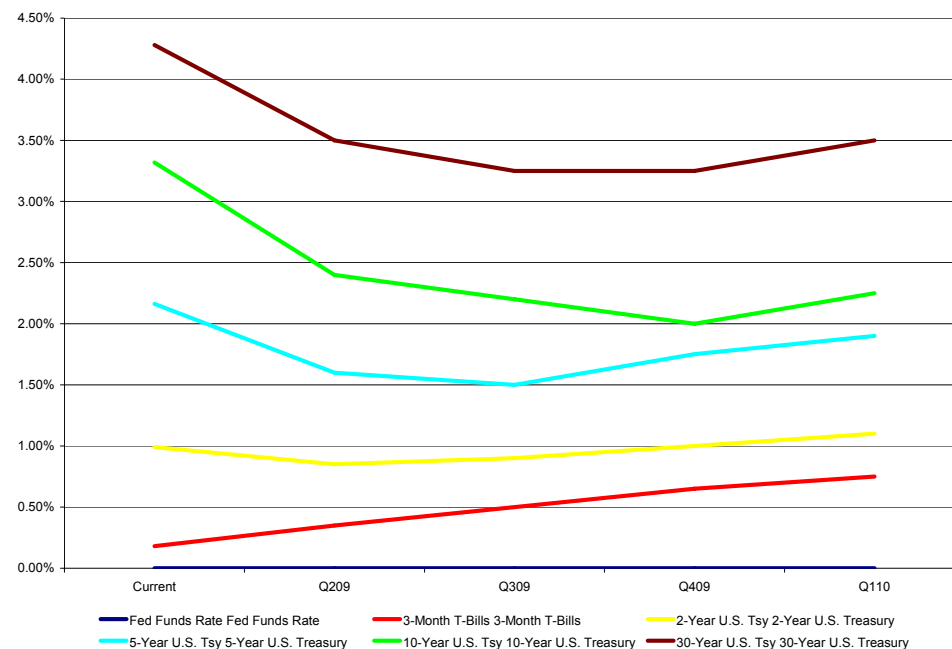
# Short-Term Market

- The short-term market has improved significantly since 2008
- Short-term rates remain at historically low levels



# Interest Rate Forecast

- Current Fed Funds Rate: 0.0% - .25%
- Current 10-Year U.S. Treasury Rate: 3.319%
- The first, or advance, estimate of first-quarter U.S.GDP was weaker than expected, dropping an annualized 6.1%, not much better than the 6.3% drop in the fourth quarter of last year. Going into the report, expectations were centred around a more moderate drop of 4.7%. The unexpected weakness was concentrated in both residential and business investment along with government spending. With respect to the latter component, although the weakness on the state side may continue going forward (because of limits on deficit spending), the federal government is less constrained with earlier-announced fiscal stimulus measures likely to see this weakness reversed in subsequent quarters.
- The unveiling of the Fed's quantitative easing program (i.e., the use of central bank balance sheets to supplement more traditional methods of monetary policy easing, resulted in the biggest one-day rally in U.S. Treasury bonds on record although about one-half of the gain has subsequently been retraced.



RBC Quarterly Economic Forecast					
	Current	Q209	Q309	Q409	Q110
Fed Funds Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3-Month T-Bills	0.18%	0.35%	0.50%	0.65%	0.75%
2-Year U.S. Tsy	0.99%	0.85%	0.90%	1.00%	1.10%
5-Year U.S. Tsy	2.16%	1.60%	1.50%	1.75%	1.90%
10-Year U.S. Tsy	3.32%	2.40%	2.20%	2.00%	2.25%
30-Year U.S. Tsy	4.28%	3.50%	3.25%	3.25%	3.50%
2yr v. 10yr (bps) <sup>(1)</sup>	233	155	130	100	115
2yr v. 30yr (bps) <sup>(1)</sup>	329	265	235	225	240

Forecast reflects figures at the end of quarter as of April 3, 2009

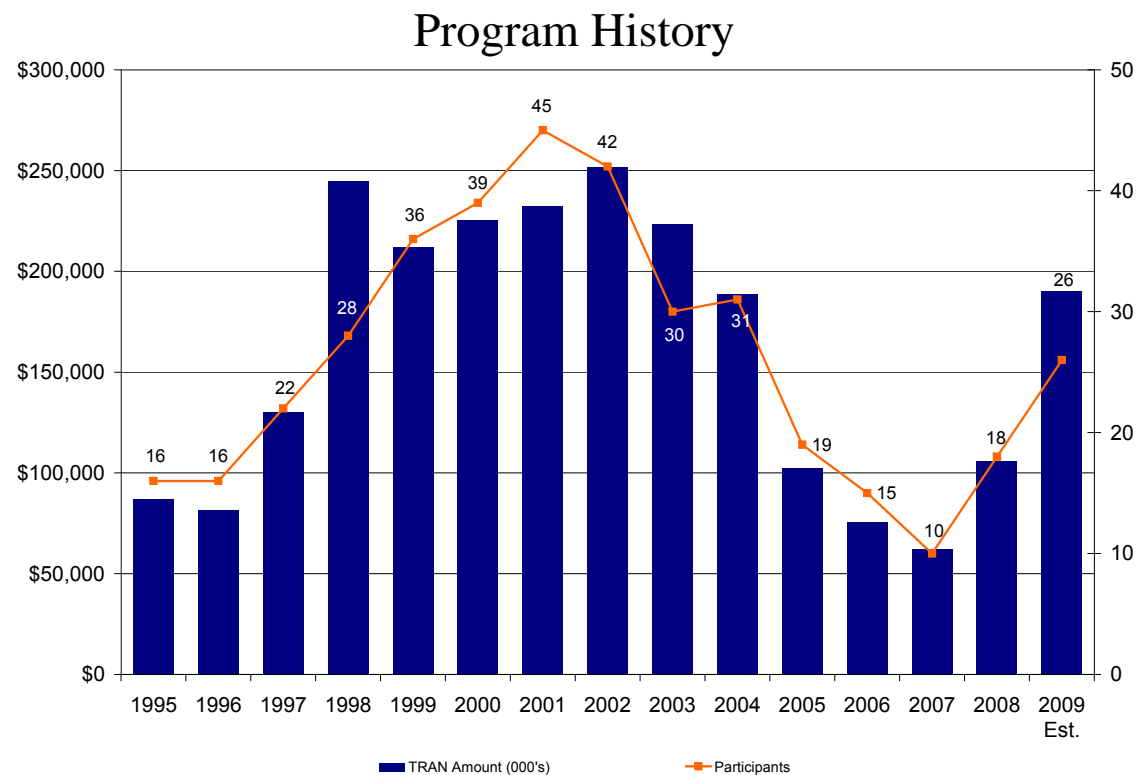
(1) Yield curve slope, difference between 10-yr & 2-yr US Tsy yields and 30-yr & 2-yr US Tsy yields

- The Fed and Treasury Department announced more policies to combat the economic and credit crisis in March. The Fed unexpectedly announced that it was allocating US\$300 billion to directly purchase government securities. It also boosted the amount of other financial assets it intends to buy with an additional funds set aside to purchase agency mortgage-backed securities and a doubling of the amount of agency debt it will purchase. These initiatives will be funded by the expansion of the Fed's balance sheet. Treasury's Geithner also made significant announcements during the month, including the publicprivate investment program and a mile-long list of planned regulatory changes.

\*Economic Forecast as of April 3, 2009 , Current Rates as of May 7, 2009

# CCLC Pooled TRANs Program

- The Community College League of California offers a Pooled TRANs Program
- The Program Benefits consist of the following:
  - The Pool consists only of California Community Colleges
  - The larger size generates more buyer interest
  - Experienced team
  - Shared cost



# Questions on CCLC's TRANs Program

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