2017 Association of Chief Business Officials (ACBO) Spring Conference

It Takes More than an Uber to say Bye to CABs

May 23, 2017

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Section I

Introductions

Lisa Howell

Lisa Howell has over 35 years' experience in education finance and has served as College of the Desert's Vice President of Administrative Services since 2013. After graduating from Arizona State University, Lisa moved to southern California and began her career in education finance with Brea-Olinda Unified.

Her career path was swift and she accepted her first management position at the age of 28. She has had the honor of working for a number of California school districts including Brea-Olinda Unified, Orange Unified, Laguna Beach Unified, Irvine Unified and Palm Springs Unified before joining the team at College of the Desert as the Vice President of Administrative Services.

Lisa's experience with public facility financing began in the 1980's and includes both Community Facilities Districts and General Obligation Bond financings. She has successfully negotiated over $2 billion in facility mitigation and bond authorization over her career, including the most recent voter-approved Measure CC with a passage rate of 73%, a $577.8 million General Obligation Bond for College of the Desert.

Lisa continues to stay active in the educational community and is a member of ACBO, CASBO and serves on numerous committees at both the state and local level.

Adam Bauer

Adam Bauer is President and Chief Executive Officer of Fieldman, Rolapp & Associates ("FRA"). He joined the firm in September 2004 and is the head of the firm's K-14 practice. Mr. Bauer has been involved with a variety of public agencies throughout the State of California assisting them with their debt transactions and policy development. Mr. Bauer has developed capital facilities funding plans that incorporate General Obligation Bonds, Lease Financings, Special Tax Bonds and State funding.

Mr. Bauer is an active participant in organizations associated within his field. He has been a speaker for USC Rossier School of Education and frequent speaker and writer on issues related to school districts for the California Debt Investment Advisory Committee ("CDIAC"). Mr. Bauer is the former Co-Chair of the Finance Strand of the Planning Committee for the California's Coalition for Adequate School Housing (CASH), is a member of the California School Board Association (CSBA), the Association of California School Administrators (ACSA), the California Association of School Business Officials (CASBO) and the Committee on Assessments Special Taxes and other Financing Facilities (CASTOFF). Mr. Bauer also has been asked to speak about K-14 finance at the California Association of Latino Superintendents and Administrators ("CALSA"). Mr. Bauer received his Bachelor of Science in Business Administration with a concentration in Finance from San Francisco State University.

Fieldman, Rolapp and Associates is a California-based financial advisory firm that provides financial advisory services to school districts, community colleges, and other public agencies and non-profit organizations. FRA is one of the oldest financial advisory firms in California being in existence for 50 years since 1966.

Donald Field

Mr. Field is a partner in Orrick's Public Finance Group and the leader of Orrick's School and Community College Finance/General Obligation Bonds Practice Group. Mr. Field has extensive experience as bond counsel, disclosure counsel and underwriter's counsel in the financing techniques used by school and community college districts, cities, counties and special districts in California. His practice focuses on local governmental infrastructure financing, including general obligation bond financing, municipal lease financing and land-secured financing, as well as tax and revenue anticipation note (TRAN), pension obligation and other post-employment benefit (OPEB) obligation financings. Mr. Field is the principal author and editor of the third edition of *The XYZs of California School District Debt Financing*, published by Orrick in 2005, and was named as one of the Top 25 Municipal Lawyers of 2011 in California by the Los Angeles and San Francisco *Daily Journal*.

Orrick, Herrington & Sutcliffe LLP has maintained a substantial practice in the area of public finance for over a century. It has been the premier bond counsel firm in California throughout that period, and has been ranked first in the country for most of the last two decades in total volume of financings for which it served as bond counsel. Orrick's public finance attorneys are located in Los Angeles, Irvine, San Francisco, Sacramento, New York, Seattle, Portland, Houston and Washington, D.C. From these offices, Orrick serves as bond counsel for issuers in more than 40 states, several territories and other countries. The firm's website is **www.orrick.com.**

Frank Vega

Frank Vega is a Managing Director at RBC Capital Markets and serves as group head for the firm's California K-14 Education Group. Born and raised in Los Angeles, Frank has spent his entire public finance career working exclusively with California schools and colleges. Since joining RBC Capital Markets, Frank has helped lead and senior manage more than 100 transactions for California school and community college districts. Frank specializes in structuring General Obligation (G.O.) Bonds, Certificates of Participation and Tax and Revenue Anticipation Notes. Recent examples of Frank's California community college and lead manager experience in 2017 include: $125 million Desert CCD G.O. Refunding Bonds (Crossover Refunding), $122 million Glendale CCD G.O. Bonds, Series A (Measure GC), and $150 million Antelope Valley CCD G.O. Bonds, Series A and Series A-1 (Measure AV).

Prior to joining RBC Capital Markets, Frank served as a legislative aide and committee consultant in the California State Legislature, and as Executive Director of the California Educational Facilities Authority under State Treasurer Phil Angelides.

Frank received a Bachelor of Arts degree in Political Science from the University of California, Davis, and a Masters in Business Administration from the University of Southern California. Frank is a proud product of the California Community College system, having attended Glendale Community College.

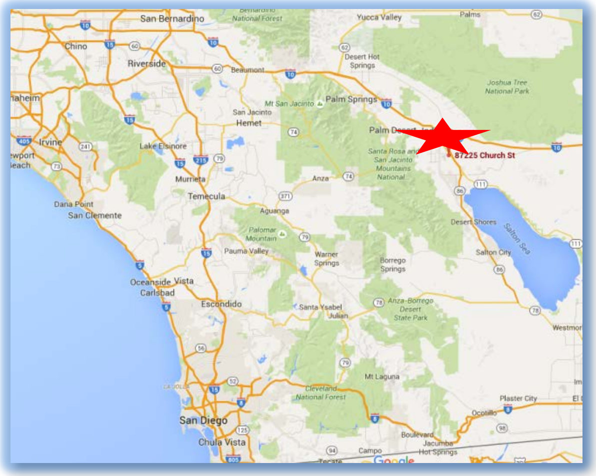
Frank currently holds FINRA Series 7, 53 and 63 securities licenses.

Section II

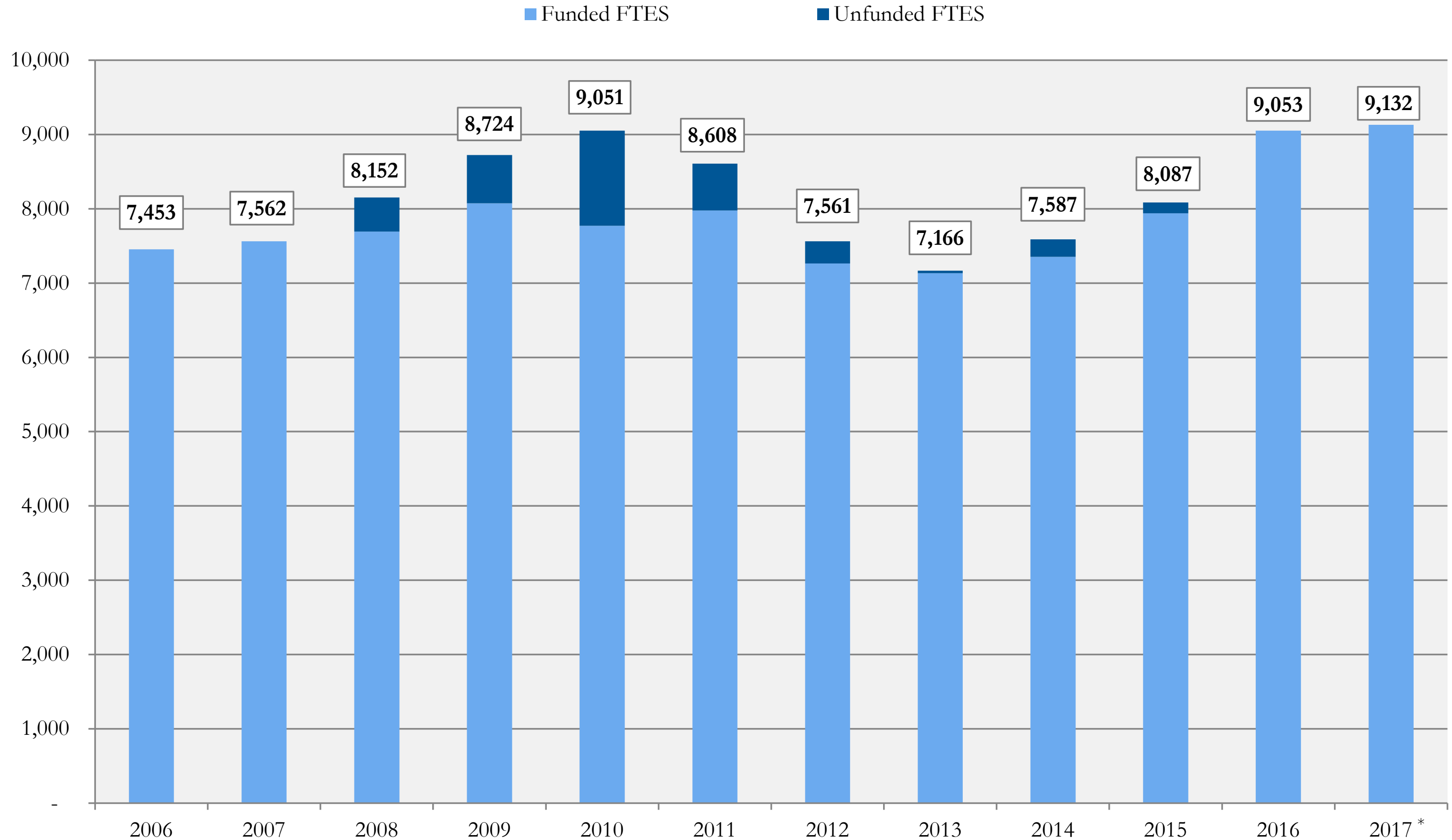
District Overview

Location and Demographics

- College of the Desert is located in the City of Palm Desert in eastern Riverside County; geographic center of Coachella Valley
  - ✓ Several campus locations in the eastern and western Coachella Valley
  - ✓ Serves large portion of Riverside County and small portion of Imperial County
  - ✓ Approximately 120 miles east of the City of Los Angeles
  - ✓ Approximately 120 miles northeast of the City of San Diego
- Operations
  - ✓ Established in 1958
- FY 2016-17 FTES:
  - ✓ 9,132 (estimated)



FTES History and Projection



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Unfunded FTES	-	-	459	651	1,278	631	296	31	234	147	-	-
Funded FTES	7,453	7,562	7,693	8,073	7,773	7,977	7,265	7,135	7,353	7,940	9,053	9,132

*Estimated

Facts at the College in 2013

- The District's voters approved Measure B in a 2004, authorizing the issuance of $346,500,000 in bonds to fund capital facilities projects
  - ✓ First series issued in 2004
  - ✓ Two subsequent series issued in 2007 – no authorization remained for projects
- While the District had issued GO Bonds in 2007, the District was not able to spend all bond funds
- District worked with the County to invest the funds in legally permitted investments and develop a plan to spend down the funds
- A portion of the bonds were issued as Capital Appreciation Bonds ("CABs") with a high repayment ratio of 4.94 to 1
- Despite some positive news in recent years, one credit rating agency was rating the District lower than some districts with similar credit characteristics
- District still had significant long term capital facility needs, most of which could not be addressed from Measure B

CABs – no interest payments made until final maturity date

Guiding Principles

- Take a big picture view of the District's Debt Program
  - ✓ Current Measure
  - ✓ Possible Future Measures
- Ensure that property taxpayers get the most for their money by finding the lowest cost of borrowing without increasing risk
  - ✓ Monitor the market for refinancing (refunding) opportunities
    - Keep costs low
      - ✓ Avoid prepayment premiums when possible
      - ✓ Avoid negative arbitrage
      - ✓ Costs of Issuance
- Engage an independent source with market knowledge (Municipal Advisor) or often times called Financial Advisor
  - ✓ Fiduciary responsibility to District
  - ✓ Never buys the Bonds
  - ✓ Develop the long term plan together (each financing takes into consideration the long term plan)

Negative Arbitrage – bond proceeds invested until used to fund project. Investment rate of return is less than interest rate on bonds.

Prepayment premium– bonds called in advance of call date may incur penalty requiring repayment of more than principal amount of bonds outstanding.

Guiding Principles – cont'd

- ❖ Invest unspent bond proceeds in legally permitted investments and get needed approvals to spend funds as quickly as possible
- ❖ Develop a Credit Rating strategy to lower the cost for property taxpayers
  - ✓ Consistent Message (three conference calls over three years)
  - ✓ Meet or beat numbers detailed to the credit rating agencies
  - ✓ Evaluate options
    - ❖ Senate Bill 222 Consideration
      - ✓ Evaluate Property Tax Base
      - ✓ Evaluate Bond Pricings
      - ✓ Evaluate Legal Costs

SB 222– GO bonds sold by or on behalf of local agencies to be secured by statutory lien on all revenues received pursuant to levy and collection of property tax imposed to service bonds.

- ❖ Continue to Evaluate and use Finance Team Members
  - ✓ District Staff
  - ✓ Consultants, Underwriter, and Bond Counsel

Section III

Bond Program Overview

2004 Election (Measure B)

- Measure B approved at the 2004 Prop 39 Election and authorized $346.5 million in bonds

- Authorization fully utilized with 3 new money issuances:
  - ✓ Series 2004A – $65,000,000 par amount; repayment ratio of 1.80 to 1
    - ✓ 2005 GO Refunding Bonds – $55,771,886 par amount; repayment ratio of 1.77 to 1
      - ✓ Refunded a portion of the Series 2004A Bonds
  - ✓ Series 2007B – $57,850,000 par amount; repayment ratio of 1.96 to 1
  - ✓ Series 2007C – $223,648,443 par amount; repayment ratio of 3.28 to 1
    - ✓ CAB repayment ratio of 4.94 to 1

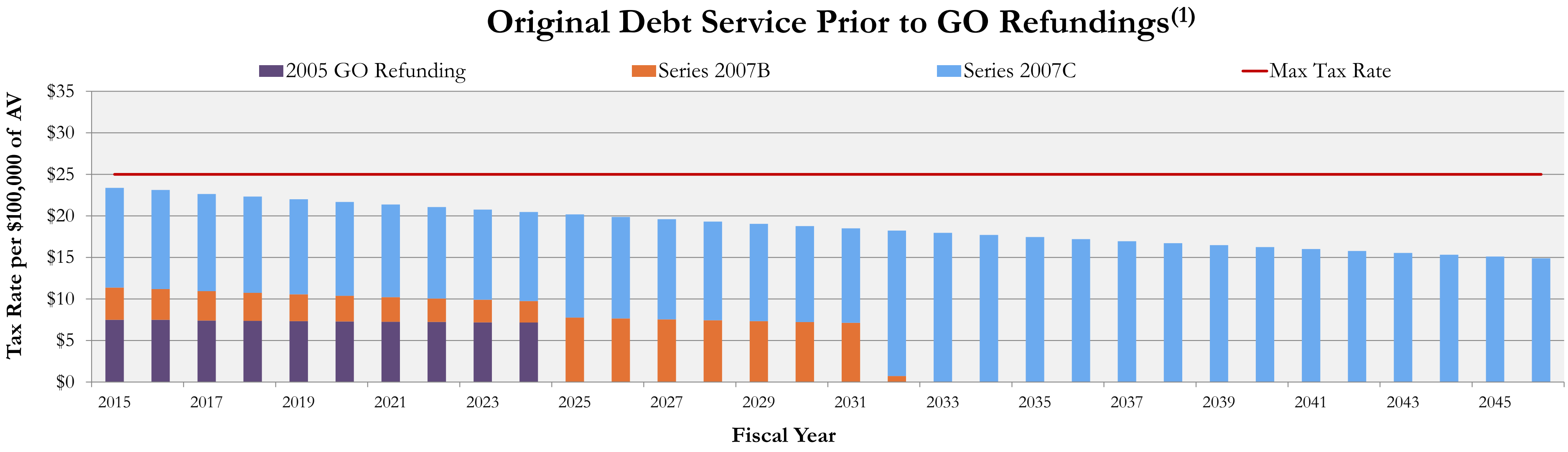
- All issuances have been refunded and aggregate repayment ratio reduced to 1.74 to 1

- Maximum legal tax rate at $25 per $100,000 of assessed value ("AV")

- The District was aggressive with refundings but waited to refund the Series 2007C Capital Appreciation Bonds until after a 2016 GO Bond Election due to placing a GO Bond Measure CC on the ballot

Election of 2004 Debt Service (Pre-Refundings)

- Estimated tax rates under the Election of 2004 prior to the 2015 Refunding and the two subsequent refundings in 2016 and 2017 are shown below
- With refundings, the $25 per $100,000 of Assessed Value is not the legal limit but it did reflect an amount the District wanted to remain below



(1) Assumes actual AV for FY 14-15 through 16-17 and 4.50% annual AV growth for FY 17-18 and every year thereafter.

2016 Election (Measure CC)

- On November 8, 2016, voters of the District approved Measure CC, authorizing the sale of $577,860,000 in general obligation bonds to construct new educational facilities, modernize existing facilities, and repair classrooms
  - ✓ Measure passed with approximately 73% voting in favor

- The District has not issued bonds under Measure CC but has agreed to use a small portion of the tax rate capacity under the Measure to refinance the Series 2007C CABs to current interest bonds ("CIBs")

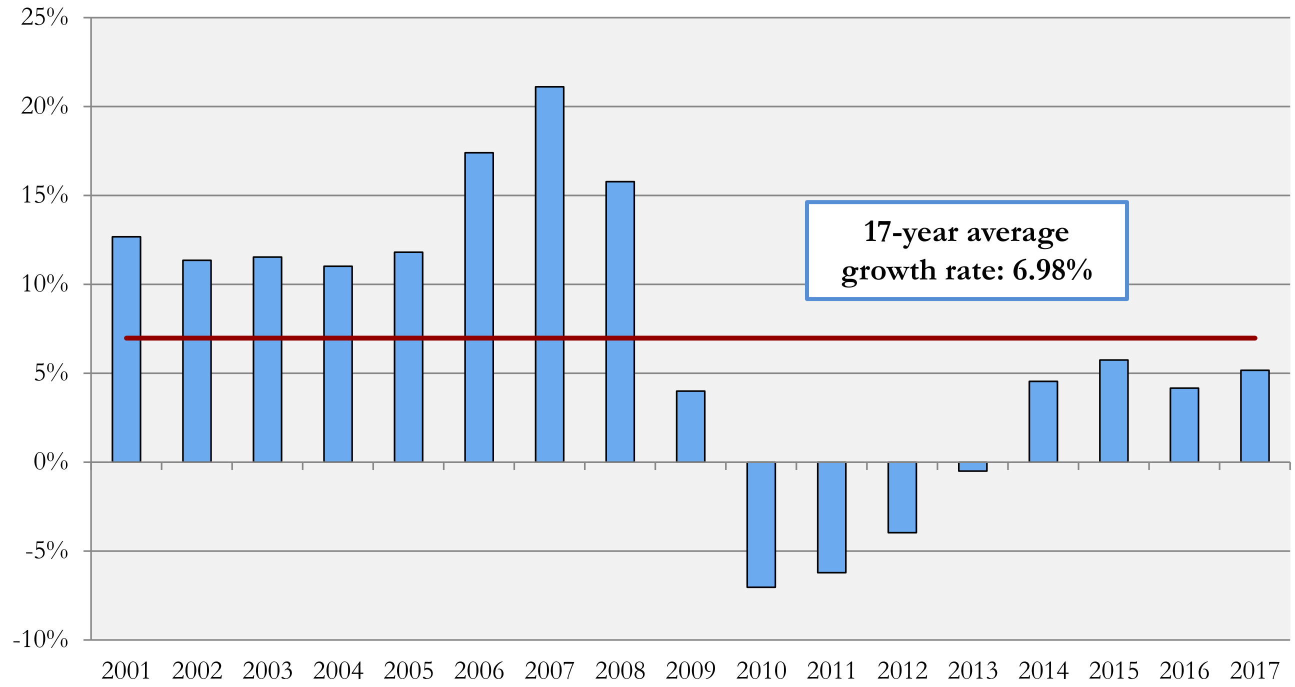
CIBs – bonds that pay interest prior to maturity on a fixed schedule basis

- The District expects to issue the first series under Measure CC for new projects in 2018

Historical Assessed Valuation (Taxable Property)

FY	Assessed Valuation	% Change
2000	$24,840,580,811	-
2001	27,989,518,455	12.68%
2002	31,169,074,090	11.36%
2003	34,765,012,859	11.54%
2004	38,595,698,444	11.02%
2005	43,157,062,010	11.82%
2006	50,667,216,431	17.40%
2007	61,361,769,741	21.11%
2008	71,041,640,910	15.78%
2009	73,881,265,405	4.00%
2010	68,682,302,663	-7.04%
2011	64,416,823,965	-6.21%
2012	61,865,626,797	-3.96%
2013	61,559,586,040	-0.49%
2014	64,362,579,937	4.55%
2015	68,061,503,237	5.75%
2016	70,893,696,958	4.16%
2017	74,563,180,314	5.18%
	10-Year Average:	2.17%
	17-Year Average:	6.98%

Historical % Change in Total Assessed Value



Fiscal Year	Assessed Value	Factor	Bonding Capacity	Outstanding Principal as of 5/23/17	Remaining Capacity
2016-17	$74,563,180,314	2.50%	$1,864,079,508	$317,955,000	$1,546,124,508

2015 Strategy turns into a Plan

- ❖ Refund all Current Interest Bonds to get taxpayer savings without attracting negative attention

- ❖ Schedule consistent calls/meetings with the credit rating agencies to get an upgrade with Standard & Poor's Global Ratings (S&P)

- ❖ Consider CAB with CIBs take out after November 2016 Election
  - ✓ Would substantially reduce property tax burden
  - ✓ In the short term, tax rates would increase to pay the interest on the CIBs

- ❖ As a result of some unspent funds and consistent project lists with the two GO Bond Measures, the District did not need to issue from Measure CC for a few years.

Desert CCD Credit Ratings

General Obligation Debt

- The District currently has underlying ratings of 'Aa2' by Moody's Investors Service and 'AA' by S&P

- The District began a communication strategy in 2015 with the Credit Rating Agencies and was recently able to upgrade its rating from S&P to 'AA' from 'AA-', thereby eliminating the need for bond insurance on its most recent GO Refunding Bonds, Series 2017

Moody's	S&P	Credit Worthiness
Aaa	AAA	An Obligor has EXTREMELY STRONG capacity to meet its financial commitments.
Aa1	AA+	An obligor has VERY STRONG capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.
Aa2	**AA**	
Aa3	AA-	
A1	A+	An obligor has STRONG capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
A2	A	
A3	A-	
Baa1	BBB+	An obligor has ADEQUATE capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to met its financial commitments.
Baa2	BBB	
Baa3	BBB-	

Prior to credit rating upgrade in 2017

Refunding Process

- ❖ Initially the District staff considered refunding the CABs in 2016
  - ✓ GO Bond Measure on the ballot
  - ✓ Negative arbitrage
  - ✓ Close but still working on credit rating upgrade
- ❖ Meeting with Citizen's Oversight Committee
- ❖ Meeting with Board of Trustees

2015 General Obligation Refunding Bonds

- The District issued its 2015 General Obligation Refunding Bonds on May 6, 2015 in the par amount of $38,690,000

- The Bonds were issued to Refund the District's 2005 General Obligation Refunding Bonds
  - ✓ The 2005 GO Refunding Bonds were issued in June 2005 to advance refund the Election of 2004, Series 2004A Bonds maturing on an after August, 1 2015

- Refunding reduced tax rate by approximately $0.94 per $100,000 of AV annually

Key Refunding Results	
Refunding Par Amount	$38,690,000
Refunded Par Amount	$43,835,000
True Interest Cost	1.72%
Average Annual Gross Savings	$787,406
Net PV Savings ($)	$7,242,529
Net PV Savings (%)	16.52%

2016 General Obligation Refunding Bonds

- The District issued its 2016 General Obligation Refunding Bonds on February 10, 2016 in the par amount of $158,130,000
- The Bonds were issued to Refund the outstanding CIBs of the District's General Obligation Bonds, Election of 2004, Series 2007B and the General Obligation Bonds, Election of 2004, Series 2007C
- Refunding reduced tax rate by approximately $1.55 per $100,000 of AV annually

Key Refunding Results	
Refunding Par Amount	$158,130,000
Refunded Par Amount	$180,450,000
True Interest Cost	3.37%
Average Annual Gross Savings	$1,871,901
Net PV Savings ($)	$30,044,574
Net PV Savings (%)	16.65%

General Obligation Refunding Bonds, Series 2017

- The District issued its General Obligation Refunding Bonds, Series 2017 on May 4, 2017 in the par amount of $125,305,000

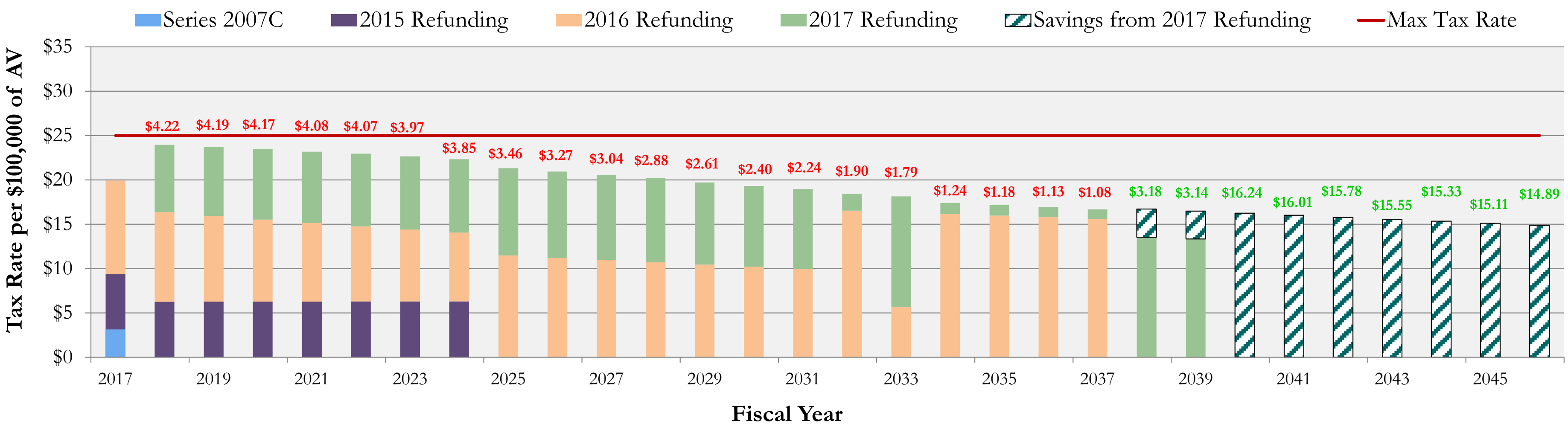
- The Bonds were issued to Refund the outstanding CABs of the District's General Obligation Bonds, Election of 2004, Series 2007C
  - ✓ Repayment ratio of 4.94 to 1 reduced to ratio of 1.69 to 1
  - ✓ Term decreased by 7 years

Key Refunding Results	
Refunding Par Amount	$125,305,000
Refunded Par Amount	$84,227,273
True Interest Cost	3.37%
Average Annual Gross Savings	$7,070,004
Net PV Savings ($)	$75,842,742
Net PV Savings (%)	54.78%

General Obligation Refunding Bonds, Series 2017

- Debt service from the Series 2017 Refunding Bonds represented by the light green tax rate bars below
  - ✓ Refunding produces moderate negative savings in 2018-2037 due to the implementation of CIBs
  - ✓ Significant savings beginning in 2038
  - ✓ $205 million total savings

Estimated Tax Rates Under the 2004 Election[1]

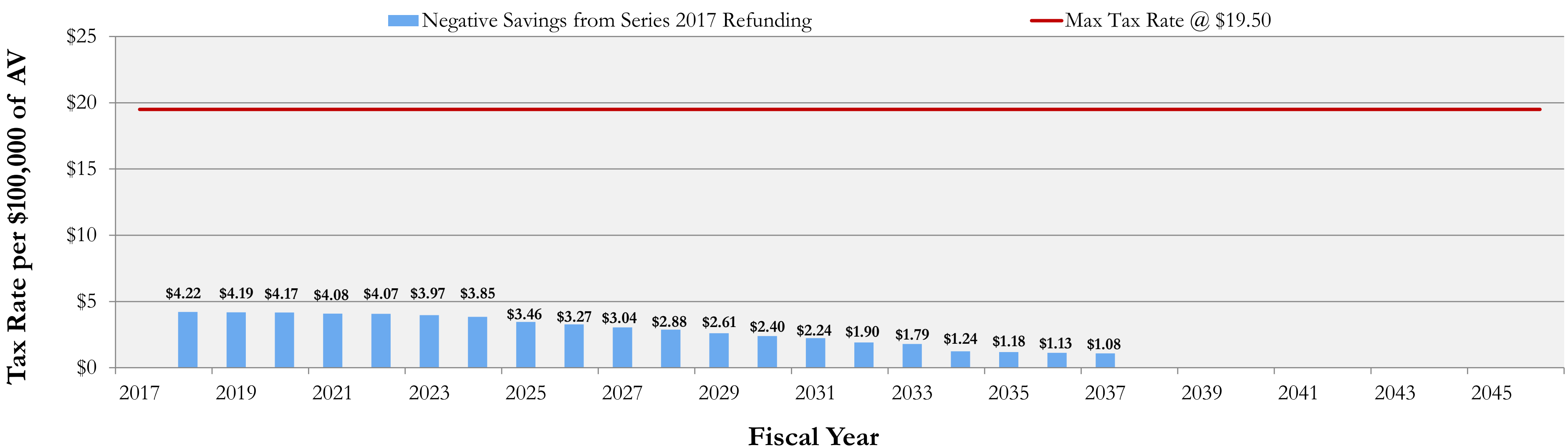


(1) Assumes 4.50% growth for FY 17-18 and every year thereafter.

Measure CC

❖ Legally, the negative savings from the 2017 Refunding Bonds only affect tax rates under the Election of 2004, but out of consideration for taxpayers, the negative savings will use some tax rate capacity under Measure CC
  - ✓ Future bonds issued under Measure CC will wrap around additional refunding debt service
  - ✓ No net increase in tax obligation for District taxpayers

Estimated Tax Rates Under the Election of 2016 (Measure CC)[1]

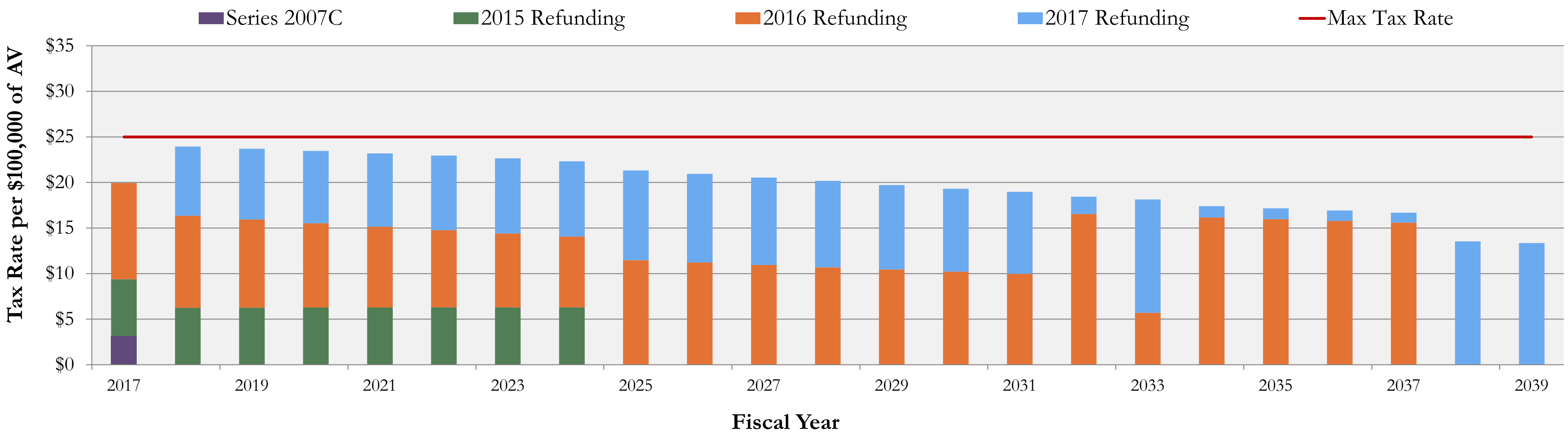


(1) Assumes 4.50% growth for FY 17-18 and every year thereafter.

Election of 2004 Tax Rates (Post-Refundings)

- The estimated tax rates under the Election of 2004 after issuing the refunding bonds in 2015, 2016, and 2017 are shown below
  - ✓ Debt paid off in 2039, seven years earlier than before the refundings

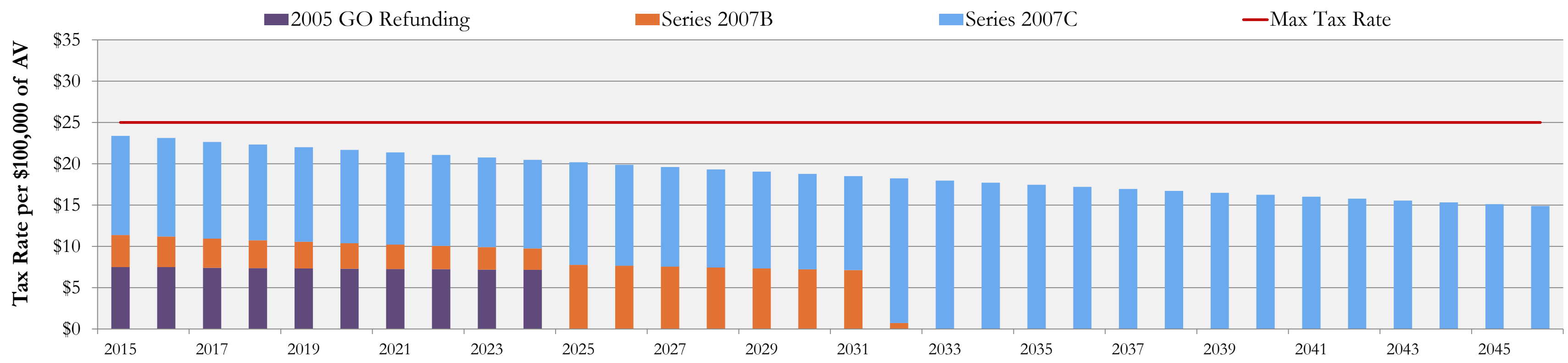
Estimated Tax Rates Under the 2004 Election[1]



[1] Assumes 4.50% growth for FY 17-18 and every year thereafter.

Election of 2004 Estimated Tax Rates: 2015 v. 2017

2015



2017