Overview of Financing Tools for Community Colleges

Presentation to the ACBO Institute II
June 23, 2022
Morgan Stanley K-14 Financing Team

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Services Offered to Community College Districts

**Municipal Securities Division**
- Underwriting and distribution of municipal debt including:
  - General Obligation Bonds
  - Lease Revenue Bonds and Certificates of Participation
  - Tax Revenue Anticipation Notes
  - Housing-related Debt
- Quantitative analysis, structuring recommendations, and long-term financial modeling
- Credit analysis, rating agency strategy and research
- Secondary market support for retail and institutional accounts
- Ongoing coverage meetings and market/financing updates
- Capital markets and lending solutions

**Public/Private Partnership Support**
- #1 Infrastructure Investment Banking franchise with ability to manage:
  - Project finance and P3 transactions
  - Private activity bonds
  - Private placements
- Experience with projects in the Higher Education / Infrastructure sectors including student and workforce housing

**Investment Management**
- Active managers of capital helping issuer clients to outperform the market
- Capabilities across the asset class spectrum with ability to help clients meet their financial goals with a broad range of investment strategies and outcome-oriented solutions
- Services include:
  - Basic banking
  - Money markets and custom cash management
  - Traditional Fixed Income and Equity portfolio management
  - Alternative investments
  - Positive social and environmental impact investments
  - Pension and defined contribution services & consulting
Morgan Stanley Is a Leader in the California CCD Market

• Morgan Stanley maintains a competitive presence across the country, especially in the California CCD market

• Morgan Stanley’s leadership in all segments of the market provides valuable pricing information and reach to all types of investors

1. Leading underwriter in the primary market
   - #1 ranked underwriter of California CCDGO bonds in the short and long term

2. Leading market maker in the secondary market
   - $19.1 billion of trades and a 18.7% market share since 2016

<table>
<thead>
<tr>
<th>California CCD League Table</th>
<th>2014 to Present</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rank</strong></td>
<td><strong>Firm</strong></td>
<td><strong>Par (in $MM)</strong></td>
</tr>
<tr>
<td>1</td>
<td>Morgan Stanley</td>
<td>9,078.2</td>
</tr>
<tr>
<td>2</td>
<td>Piper Sandler &amp; Co</td>
<td>7,287.1</td>
</tr>
<tr>
<td>3</td>
<td>RBC Capital Markets</td>
<td>6,428.4</td>
</tr>
<tr>
<td>4</td>
<td>Citi</td>
<td>1,327.8</td>
</tr>
<tr>
<td>5</td>
<td>Ramirez &amp; Co Inc</td>
<td>1,121.7</td>
</tr>
<tr>
<td>6</td>
<td>BofA Securities Inc</td>
<td>896.9</td>
</tr>
<tr>
<td>7</td>
<td>Stifel Nicolaus &amp; Co Inc</td>
<td>743.4</td>
</tr>
<tr>
<td>8</td>
<td>J P Morgan Securities LLC</td>
<td>452.5</td>
</tr>
<tr>
<td>9</td>
<td>Goldman Sachs &amp; Co LLC</td>
<td>312.4</td>
</tr>
<tr>
<td>10</td>
<td>UBS Financial Services Inc</td>
<td>143.8</td>
</tr>
<tr>
<td><strong>Top 10 Total</strong></td>
<td><strong>$27,792.2</strong></td>
<td><strong>98.3%</strong></td>
</tr>
<tr>
<td><strong>Industry Total</strong></td>
<td><strong>$28,290.0</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Morgan Stanley’s Secondary Market Trading of California CCD Bonds

<table>
<thead>
<tr>
<th>Year</th>
<th>Trades</th>
<th>Par ($MM)</th>
<th>Trades</th>
<th>Par ($MM)</th>
<th>Trades</th>
<th>Par ($MM)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>5,371</td>
<td>573.5</td>
<td>2,734</td>
<td>2,981.8</td>
<td>8,105</td>
<td>3,535.3</td>
<td>18.6%</td>
</tr>
<tr>
<td>2017</td>
<td>4,201</td>
<td>354.1</td>
<td>3,472</td>
<td>2,260.8</td>
<td>7,673</td>
<td>2,614.9</td>
<td>18.2%</td>
</tr>
<tr>
<td>2018</td>
<td>3,555</td>
<td>352.2</td>
<td>4,268</td>
<td>2,898.4</td>
<td>7,823</td>
<td>3,250.5</td>
<td>23.0%</td>
</tr>
<tr>
<td>2019</td>
<td>2,647</td>
<td>270.4</td>
<td>4,558</td>
<td>3,186.2</td>
<td>7,205</td>
<td>3,456.6</td>
<td>21.3%</td>
</tr>
<tr>
<td>2020</td>
<td>1,941</td>
<td>201.2</td>
<td>5,338</td>
<td>2,735.0</td>
<td>7,279</td>
<td>2,936.2</td>
<td>14.6%</td>
</tr>
<tr>
<td>2021</td>
<td>1,932</td>
<td>162.4</td>
<td>6,142</td>
<td>3,136.5</td>
<td>8,074</td>
<td>3,298.9</td>
<td>18.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19,647</strong></td>
<td><strong>$1,913.8</strong></td>
<td><strong>26,512</strong></td>
<td><strong>$17,178.7</strong></td>
<td><strong>46,159</strong></td>
<td><strong>$19,092.5</strong></td>
<td><strong>18.7%</strong></td>
</tr>
</tbody>
</table>

Sources: Thompson Reuters eMaxx Database; Morgan Stanley
Agenda

Section 1: Basics of Municipal Securities
Section 2: General Obligation Bond Elections
Section 3: Financing Process
Basics of Municipal Securities
Ways Community Colleges Can Fund Facility Needs?

Voter Approved Debt * (General Obligation Bonds)

Non-voter Approved Debt* (COP, Lease Revenue Bonds, Private Placement etc.)

Cash

* voter approved bonds provides independent source of revenues to pay bonds

* non-voter approved debt is payable from district operating revenues
What Are Bonds?

• Unlike a stock unit, a bond is not ownership in a business, a piece of property or anything else (with the exception of convertible bonds in the corporate bond market)
• Bondholders serve a similar lending function as banks; the difference is that the investor or bondholder is the direct lender to the borrower rather than an indirect lender through a bank intermediary

• A bond represents a formal contract between the borrower (bond issuer) and lender (bond investor) based upon the terms and conditions of a loan between the parties
  – In return for lending money to the issuer, the investor in a bond will receive a fixed schedule of payments over time from the issuer
  – These payments will include the return of the original amount borrowed/lent, as well as additional amounts representing interest to compensate the investor

• Key elements of all bonds include:
  – Amount of the loan—known as the “par amount”, “principal amount”, or “face amount”
  – Term of the loan: the date on which the amount borrowed is scheduled to be repaid—know as the “maturity date”
  – The “Coupon” or “Rate” represents the nominal amount of interest, specified as a percentage, paid to the investor periodically and is typically fixed over the life of the bond
  – The “Yield” represents the market discount rate used to value the fixed stream of future cash flows to determine the value of the bond at any given time

• The price of a bond is equal to the present value of the scheduled payments of principal and interest (i.e. coupon payments), using the yield as the PV rate to determine the discounted value

• There is an inverse relationship between the price and yield of a bond
  – If the same stream of cash flows is present valued at a higher rate (e.g. 5%) versus a lower rate (e.g. 4%), the present value/price will be lower using the higher discount rate
How Do Municipal Bonds Differ From Other Bonds?

- Municipal Bonds enjoy a special tax-exempt status when issued for certain public purposes by entities such as:
  - States
  - Counties
  - Cities
  - Public Utilities
  - Transportation Authorities
  - School Districts
  - Colleges and Universities
  - Non-profit Healthcare
  - Housing Authorities

- The interest income that investors receive on their municipal bond investment is exempt from federal taxation and often from state and local taxes, with exceptions:
  - As a result, investors are willing to accept a lower interest rate than they would if their income was taxable.
  - For example, an investor in the 35% tax bracket is theoretically indifferent to a tax-exempt coupon equal to 65% of a taxable coupon (all else equal).
  - This results in a "subsidized loan" to the issuer; the federal (and state/local, if applicable) government agrees to forego money in tax revenues, and the issuer enjoys a lower interest rate on its debt.

- The types of projects which may be financed and how bond proceeds are spent are subject to very specific tax law constraints:
  - In general, only capital projects can be financed through tax-exempt debt.
  - Only under certain circumstances can working capital be funded in this manner.
What Are Bond Proceeds Used For?

• Bond Proceeds are used for new money and/or refunding purposes

Use of Bond Proceeds

Financing Purpose

New Money
• Large scale capital projects
• Bridge the gap on timing between expenditures and revenues

Refunding
• Refinance existing debt with new bonds at a lower cost (economic refunding)
• Refinance existing debt with new bonds to restructure debt service payments that satisfy a new need and / or eliminate / replace covenants imposed on existing bonds (may or may not be an economic refunding)
# What Types of Debt are Typically Issued?

## Issuer

- **Fixed Rate Bonds**
  - Future credit and rate risk shifted to investors
  - Most common form of tax-exempt debt
  - Budget certainty
  - Ability to enter into interest rate swaps to gain some benefits of variable rate exposure without some of the risks associated with natural variable rate debt
  - Historically higher cost than variable rate bonds
  - Potentially expensive to restructure
  - Typically not callable for 10 years
  - Little flexibility for borrower once the bonds are issued

- **Variable Rate Bonds**
  - Typically callable on any interest payment date at par
  - Historically lower rates than fixed rate debt
  - More efficient use of the yield curve – no premium built in for tax risk
  - Ability to enter into floating-to-fixed rate swap to manage variable rate exposure and take advantage of market conditions
  - Natural hedge results from short-term investments/operating cash
  - Risks related to credit enhancers/liquidity providers
  - Interest rate risk
  - Remarketing / liquidity risk
  - Element of budget uncertainty resulting from potential rate volatility

## Bondholders

## Fixed vs. Variable Rate Debt

<table>
<thead>
<tr>
<th></th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| **Fixed Rate Bonds** | • Future credit and rate risk shifted to investors  
• Most common form of tax-exempt debt  
• Budget certainty  
• Ability to enter into interest rate swaps to gain some benefits of variable rate exposure without some of the risks associated with natural variable rate debt | • Historically higher cost than variable rate bonds  
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• Typically not callable for 10 years  
• Little flexibility for borrower once the bonds are issued |
| **Variable Rate Bonds** | • Typically callable on any interest payment date at par  
• Historically lower rates than fixed rate debt  
• More efficient use of the yield curve – no premium built in for tax risk  
• Ability to enter into floating-to-fixed rate swap to manage variable rate exposure and take advantage of market conditions  
• Natural hedge results from short-term investments/operating cash | • Risks related to credit enhancers/liquidity providers  
• Interest rate risk  
• Remarketing / liquidity risk  
• Element of budget uncertainty resulting from potential rate volatility |
Security For The Bonds: General Obligation Bonds

- General Obligation (G.O.): security is the general creditworthiness and the taxing power of the state or local government issuing the bonds. State governments rely mostly on income taxes and sales taxes, while local governments typically rely upon property taxes. G.O. Bonds that are backed by the “Full Faith and Credit” of the issuer have the taxing power of the issuer behind them, i.e. the issuer has pledged to raise taxes if needed to pay debt service (however, this does not guarantee that payment will always be made)

<table>
<thead>
<tr>
<th>Advantages of Issuing General Obligation Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lowest cost</td>
</tr>
<tr>
<td>• General fund revenues are not tapped</td>
</tr>
<tr>
<td>• No debt service reserve requirement</td>
</tr>
<tr>
<td>• Can fund large amount of capital plan</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disadvantage of Issuing General Obligation Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Must be voter approved</td>
</tr>
<tr>
<td>• Use of proceeds</td>
</tr>
<tr>
<td>• Capital plan subject to external factors (AV, Tax Rate)</td>
</tr>
</tbody>
</table>
Security For The Bonds: COPs/Lease Revenue Bonds

- A lease financing is a mechanism whereby a school district leases property and, in consideration of the use of the property, makes lease payments during the term of the lease
- Lease financings enables CCDs to finance capital assets over multi-year period

Advantages of Lease Based COP/Lease Revenue Bonds

- No voter approval
- Flexible
- Quick timeline

Disadvantage of Lease Based COP/Lease Revenue Bonds

- General fund obligation
- Abatement risk
- Pledge asset
- Debt service reserve fund
- Typically, more expensive than GO Bonds
Security For The Bonds: Tax and Revenue Anticipation Note (TRAN)

• A TRAN is a short-term debt instrument used to finance cash flow deficits in anticipation of receiving taxes and other revenues

<table>
<thead>
<tr>
<th>Advantages of TRANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No voter approval</td>
</tr>
<tr>
<td>• Short-term</td>
</tr>
<tr>
<td>• Quick timeline</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disadvantage of TRANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Must be repaid no later than 15 months after their date of issuance</td>
</tr>
<tr>
<td>• Size of borrowing is restricted</td>
</tr>
<tr>
<td>• Only revenues received or attributable to the fiscal year in which the TRANs are issued may be pledged for repayment</td>
</tr>
<tr>
<td>• New issuance cost for each TRAN</td>
</tr>
</tbody>
</table>
Who Buys Municipal Bonds?

- There are two major classes of bond buyers:
  - **Retail**, i.e. individuals/households/“Mom & Pop” or professional retail (i.e. investment advisors)
  - **Institutional**
    - Bond funds
    - Investment advisors
    - Commercial banks
    - Bank trust departments
    - Insurance companies
    - Hedge funds

### Current Tax-Exempt Distribution

- **Bond Funds**, 47%
- **SMAs**, 21%
- **Prop/Trading**, 3%
- **Insurance Companies**, 8%
- **Hedge Funds**, 5%
- **Money Managers**, 6%
- **Bank Portfolios**, 5%
- **Direct Retail**, 5%
General Obligation Bond Election
Historical General Obligation Bonds Elections

- General Obligation bond measures are the most utilized method of funding capital plans for K-14 issuers.
- Since 2001, 1,377 elections have been approved.

<table>
<thead>
<tr>
<th>ELECTION YEAR</th>
<th>NUMBER OF APPROVED ELECTIONS</th>
<th>VOTER APPROVED G.O. AUTHORITY (MILLIONS)</th>
<th>G.O. AUTHORITY ISSUED (MILLIONS)</th>
<th>UNISSUED G.O. AUTHORITY (MILLIONS)</th>
<th>% UNISSUED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001*</td>
<td>52</td>
<td>$4,413</td>
<td>$2,387</td>
<td>$25</td>
<td>0.6%</td>
</tr>
<tr>
<td>2002</td>
<td>151</td>
<td>15,567</td>
<td>15,480</td>
<td>87</td>
<td>0.6%</td>
</tr>
<tr>
<td>2003</td>
<td>11</td>
<td>1,353</td>
<td>1,336</td>
<td>15</td>
<td>1.0%</td>
</tr>
<tr>
<td>2004</td>
<td>112</td>
<td>11,581</td>
<td>11,381</td>
<td>200</td>
<td>1.7%</td>
</tr>
<tr>
<td>2005</td>
<td>35</td>
<td>5,294</td>
<td>5,029</td>
<td>264</td>
<td>4.2%</td>
</tr>
<tr>
<td>2006</td>
<td>93</td>
<td>10,301</td>
<td>9,179</td>
<td>1,122</td>
<td>10.9%</td>
</tr>
<tr>
<td>2007</td>
<td>11</td>
<td>1,253</td>
<td>573</td>
<td>681</td>
<td>54.3%</td>
</tr>
<tr>
<td>2008</td>
<td>142</td>
<td>28,001</td>
<td>19,091</td>
<td>8,910</td>
<td>31.8%</td>
</tr>
<tr>
<td>2009</td>
<td>2</td>
<td>69</td>
<td>69</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>2010</td>
<td>62</td>
<td>5,015</td>
<td>4,656</td>
<td>359</td>
<td>7.2%</td>
</tr>
<tr>
<td>2011</td>
<td>7</td>
<td>981</td>
<td>981</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>2012</td>
<td>116</td>
<td>15,187</td>
<td>12,528</td>
<td>2,759</td>
<td>18.0%</td>
</tr>
<tr>
<td>2013</td>
<td>9</td>
<td>330</td>
<td>327</td>
<td>3</td>
<td>0.8%</td>
</tr>
<tr>
<td>2014</td>
<td>127</td>
<td>12,599</td>
<td>9,794</td>
<td>2,804</td>
<td>22.3%</td>
</tr>
<tr>
<td>2015</td>
<td>9</td>
<td>1,143</td>
<td>787</td>
<td>345</td>
<td>30.3%</td>
</tr>
<tr>
<td>2016</td>
<td>219</td>
<td>29,841</td>
<td>16,085</td>
<td>13,575</td>
<td>45.8%</td>
</tr>
<tr>
<td>2017</td>
<td>2</td>
<td>155</td>
<td>60</td>
<td>95</td>
<td>61.3%</td>
</tr>
<tr>
<td>2018</td>
<td>123</td>
<td>17,865</td>
<td>6,499</td>
<td>11,367</td>
<td>63.6%</td>
</tr>
<tr>
<td>2019</td>
<td>-</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>2020</td>
<td>92</td>
<td>18,750</td>
<td>1,090</td>
<td>17,660</td>
<td>94.2%</td>
</tr>
</tbody>
</table>

(a) Calendar year; even years include both Primary and General election results; odd years include locally held elections during the year.
(b) Amounts may not add due to rounding.
Source: Original CDIAC analysis, last updated February 2021
Historical CCD General Obligation Bonds Elections

Since 2016

- Since 2016, twenty nine community college bond elections have passed for a total of $16.6 billion
- The average new bond election size has been $521 million
- The success rate has been 73%

### 2020

<table>
<thead>
<tr>
<th>District</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabrillo CCD</td>
<td>$274,100,000</td>
</tr>
<tr>
<td>Citrus CCD</td>
<td>$298,000,000</td>
</tr>
<tr>
<td>Foothill-DeAnza CCD</td>
<td>$898,000,000</td>
</tr>
<tr>
<td>Los Rios CCD</td>
<td>$650,000,000</td>
</tr>
<tr>
<td>Merced CCD</td>
<td>$247,000,000</td>
</tr>
<tr>
<td>Monterey Peninsula CCD</td>
<td>$230,000,000</td>
</tr>
<tr>
<td>Rancho Santiago CCD</td>
<td>$496,000,000</td>
</tr>
<tr>
<td>Riverside CCD</td>
<td>$715,000,000</td>
</tr>
<tr>
<td>San Francisco CCD</td>
<td>$845,000,000</td>
</tr>
<tr>
<td>San Jose-Evergreen CCD</td>
<td>$858,000,000</td>
</tr>
<tr>
<td>Yuba CCD</td>
<td>$228,400,000</td>
</tr>
</tbody>
</table>

### 2018

<table>
<thead>
<tr>
<th>District</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allan Hancock CCD</td>
<td>$75,000,000</td>
</tr>
<tr>
<td>Chaffey CCD</td>
<td>$700,000,000</td>
</tr>
<tr>
<td>Gavilan CCD</td>
<td>$248,000,000</td>
</tr>
<tr>
<td>Mt. San Antonio CCD</td>
<td>$750,000,000</td>
</tr>
<tr>
<td>Peralta CCD</td>
<td>$800,000,000</td>
</tr>
<tr>
<td>San Bernardino CCD</td>
<td>$470,000,000</td>
</tr>
<tr>
<td>Sierra CCD</td>
<td>$350,000,000</td>
</tr>
<tr>
<td>West Kern CCD</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>West-Valley Mission CCD</td>
<td>$698,000,000</td>
</tr>
</tbody>
</table>

### 2016

<table>
<thead>
<tr>
<th>District</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antelope Valley CCD</td>
<td>$350,000,000</td>
</tr>
<tr>
<td>Butte-Glenn CCD</td>
<td>$190,000,000</td>
</tr>
<tr>
<td>Cabrillo CCD</td>
<td>$310,000,000</td>
</tr>
<tr>
<td>Chabot-Los Positas CCD</td>
<td>$950,000,000</td>
</tr>
<tr>
<td>Desert CCD</td>
<td>$577,860,000</td>
</tr>
<tr>
<td>Glendale CCD</td>
<td>$325,000,000</td>
</tr>
<tr>
<td>Grossmont-Cuyamaca CCD</td>
<td>$348,000,000</td>
</tr>
<tr>
<td>Hartnell CCD</td>
<td>$167,000,000</td>
</tr>
<tr>
<td>Kern CCD</td>
<td>$502,821,000</td>
</tr>
<tr>
<td>Long Beach CCD</td>
<td>$850,000,000</td>
</tr>
<tr>
<td>Los Angeles CCD</td>
<td>$3,300,000,000</td>
</tr>
<tr>
<td>Marin CCD</td>
<td>$265,000,000</td>
</tr>
<tr>
<td>Miracosta CCD</td>
<td>$455,000,000</td>
</tr>
<tr>
<td>San Jose-Evergreen CCD</td>
<td>$748,000,000</td>
</tr>
<tr>
<td>Santa Clarita CCD</td>
<td>$230,000,000</td>
</tr>
<tr>
<td>Santa Monica CCD</td>
<td>$345,000,000</td>
</tr>
<tr>
<td>Shasta-Tehama-Trinity CCD</td>
<td>$139,000,000</td>
</tr>
<tr>
<td>Southwestern CCD</td>
<td>$400,000,000</td>
</tr>
<tr>
<td>State Center CCD</td>
<td>$485,000,000</td>
</tr>
<tr>
<td>Yuba CCD*</td>
<td>$33,565,000</td>
</tr>
</tbody>
</table>

*Reissuance of $190MM prior election

Red font denotes failed election

Source: Ballotpedia
Specific Requirement for Community College District GO Bonds

- A General Obligation bond is a constitutionally authorized voter approved debt payable solely from ad valorem property taxes in amounts subject to the Education Code constraints on borrowing
  - Pre-1978 – Bond Authority
  - 1978 to 1986 – Prop. 13 (No Bonds)
  - 1986 to 2013 – Prop. 46
  - 2000 to present – Prop. 39 and Prop. 46

**Proposition 39**

- Proposition 39 passed in 2000
- Proposition 39 amends article XVIII A of the California Constitution to allow for the levy of ad valorem taxes on real property in excess of the one percent (1%) limit to pay debt service on bonds issued for construction, repair, furnishing and equipping of school facilities, and not for teacher or administrators salaries and other operating expenses
- Lowered voter threshold to 55% and mandated additional requirements
- At least two-thirds (2/3) of Board must approve Resolution ordering the Election
- A detailed Project List will need to be included in the ballot measure
- Accounting & Spending Requirements – Annual Financial and Performance Audits
- Citizens’ Oversight Committee – 7 members (local business person, senior, taxpayer organization, currently enrolled student, member of college support group, such as a foundation, and two representatives of the public

**Additional Requirements**

- Legal bonding capacity set at 2.5% of Assessed Value
- Statutory limit of $25 per $100,000 of assessed value per election for Community College Districts
## Example: Timeline for a June or November Election

<table>
<thead>
<tr>
<th>Action</th>
<th>June Election</th>
<th>November Election</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inform community of need</td>
<td>November et seq.</td>
<td>February</td>
</tr>
<tr>
<td>Conduct voter poll</td>
<td>December Prior Year</td>
<td>March</td>
</tr>
<tr>
<td>Finalize project list/ ballot question/ bond plans</td>
<td>February</td>
<td>July</td>
</tr>
<tr>
<td>Adopt/Deliver to ROV Resolution Ordering Election*</td>
<td>Early March</td>
<td>Early August</td>
</tr>
<tr>
<td>Deliver Tax Rate Statement to ROV**</td>
<td>Early March</td>
<td>Early August</td>
</tr>
<tr>
<td>Transition into advocacy phase</td>
<td>Early March</td>
<td>Early August</td>
</tr>
<tr>
<td>File ballot arguments with ROV</td>
<td>March</td>
<td>August</td>
</tr>
<tr>
<td>Fund Raising/Campaign</td>
<td>On-going</td>
<td>On-going</td>
</tr>
</tbody>
</table>

---

*88 DAYS PRIOR TO ELECTION DATE. SOME COUNTIES HAVE LONGER DEADLINE. CONSULT YOUR LOCAL REGISTRAR OF VOTERS

** DEADLINE VARIES COUNTY TO COUNTY. CHECK WITH LOCAL REGISTRAR OF VOTERS
Sample 75-Word Ballot Question

Foothill-DeAnza CCD March 2020 Election Ballot Language

To upgrade facilities preparing students/veterans for university transfer/careers like healthcare, nursing, technology, engineering/sciences; upgrade/repair aging classrooms, labs for science, technology, engineering/math-related fields of instruction; acquire, construct, repair facilities, equipment/sites; shall Foothill-De Anza Community College District’s measure authorizing $898,000,000 in bonds at legal rates, levying 1.6 cents/$100 assessed valuation [$16/$100,000 assessed valuation] ($48,000,000 annually) while bonds are outstanding [until approximately 205_], with audits/no money for administrators’ salaries, be adopted?
Tax Rate & Bond Election Sizing Criteria

**District Assessed Valuation and Growth Rate**
- The size of the District’s tax base determines the size and amount of the bond program
- Future growth rate projections is a major component in a District’s bond program
- Variances between projected and actual assessed value results may negatively impact the District’s plan of finance

**Timing of Bond Sales**
- Timing of projects and estimated proceeds required
  - Maximizing near-term financings may limit future bond structuring flexibility

**Cost of Funding**
- Current interest rate environment is historically favorable
  - Issuing more bonds today at lower rates may reduce the District’s aggregate borrowing cost
- Length of final maturity
Impact of Assessed Valuation Change

Both Scenario 1 and Scenario 2 are based on a District with a $40 billion Assessed Valuation (AV).

Both Scenario 1 and Scenario 2 assume issuing three current interest bond issuances set three years apart with a final maturity out 25 years.

Scenario 1 assumes an average AV growth rate of 3%

Scenario 2 assumes an average AV growth rate of 4%

By increasing AV growth rate by 1%, the District is able to generate $23 million more for their bond program.

**Scenario 1: 3% AV Growth Hypothetical Bond Program**

<table>
<thead>
<tr>
<th>Series</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$112,000,000</td>
</tr>
<tr>
<td>B</td>
<td>110,000,000</td>
</tr>
<tr>
<td>C</td>
<td>100,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>$322,000,000</td>
</tr>
</tbody>
</table>

**Scenario 2: 4% AV Growth Hypothetical Bond Program**

<table>
<thead>
<tr>
<th>Series</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$120,000,000</td>
</tr>
<tr>
<td>B</td>
<td>115,000,000</td>
</tr>
<tr>
<td>C</td>
<td>110,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>$345,000,000</td>
</tr>
</tbody>
</table>

*Note: Hypothetical bond analysis assuming estimated current market rates, similar credit rating, geographic location, and market sector*
Impact of Timing of Issuance

- Using the same assumptions as Scenario 1
- Scenario 3 assumes issuing three series of bonds set four years apart
- By increasing the time between series by one year, the District is able to generate $22 million more for their bond program

**Scenario 1: 3% AV Growth Hypothetical Bond Program**

**Scenario 3: Four Years Apart**

<table>
<thead>
<tr>
<th>Series</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>$112,000,000</td>
</tr>
<tr>
<td>B</td>
<td>110,000,000</td>
</tr>
<tr>
<td>C</td>
<td>100,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$322,000,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Series</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$115,000,000</td>
</tr>
<tr>
<td>B</td>
<td>115,000,000</td>
</tr>
<tr>
<td>C</td>
<td>114,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$344,000,000</strong></td>
</tr>
</tbody>
</table>

*Note: Hypothetical bond analysis assuming estimated current market rates, similar credit rating, geographic location, and market sector*
Tax Rate Options

Stand-alone Election

- Each election’s tax rate limit is independent of outstanding authorization
- Provides flexibility and generally lower cost
- Constituents see an increase to their current tax as the new election is layered on
- Most common form of Bond measure

Tax Rate Extension

- New bond measure is structured to not increase the current tax rate
- “No tax rate increase” campaign message may resonate with voters making for a greater chance of a successful election
- Depending on the outstanding bonds, a tax rate extension structure could be more expensive and provide less flexibility to make changes
- Less frequent than stand-alone elections
Morgan Stanley

SECTION 3

Financing Process
Financing Team Members

Underwriter (Morgan Stanley)
Issuer’s Counsel
Underwriter’s Counsel
Rating Agencies
Bond Counsel
Financial Advisor

Obligor (Borrower)
(Relevant for some transactions)

Issuer
Overview of the Financing Process

Example of Typical Transaction Timeline
### Legal Documentation

<table>
<thead>
<tr>
<th>Documents</th>
<th>Parties</th>
<th>Purpose</th>
<th>Typical Preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Resolution or Indenture</td>
<td>Issuer</td>
<td>Sets forth security provisions and covenants with which borrower must comply; authorizes general issuance of debt; sets forth parameters under which bonds can be issued, flow of funds, pledge of revenues, types of permitted investments and events of default and remedies</td>
<td>Bond Counsel</td>
</tr>
<tr>
<td></td>
<td>Issuer and Trustee</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series Resolution or Supplemental Indenture</td>
<td>Issuer</td>
<td>Sets forth specific features (amounts, maturities, and redemption features)</td>
<td>Bond Counsel</td>
</tr>
<tr>
<td></td>
<td>Issuer and Trustee</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td>Loan Agreement (if &quot;conduit&quot; issue – proceeds loaned to another entity such as a college/university, hospital, corporation)</td>
<td>Issuer and Borrower</td>
<td>Provides for loan of bond proceeds to borrowing entity; sets forth covenants with which borrower must comply</td>
<td>Bond Counsel</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td>Bond Purchase Agreement</td>
<td>Underwriter and Issuer</td>
<td>Governs purchase of bonds, provisions for underwriter &quot;outs&quot; and stickers and conditions of closing</td>
<td>Underwriter’s Counsel</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>
| Preliminary Official Statement ("POS" or Red Herring) | Issuer                  | Provides information on security, purpose of issue, background on issuer (and borrower); used to market bonds to potential investors; provides means of disclosure  
The draft version of the Official Statement which is mailed by the issuer or underwriters to determination of prices and interest rates. The primary selling and disclosure document, it contains in-depth information concerning the issuer, the proposed financing's terms and structures and other relevant background information. A statement that no offer for or acceptance of bonds can occur on the basis of the POS is made in red on the left of the cover, thus causing it be known as the Red Herring. | Underwriter’s Counsel        |
|                                                |                          |                                                                                                                                                                                                        |                              |
|                                                |                          |                                                                                                                                                                                                        |                              |
| Final Official Statement ("OS")             | Issuer                   | Final Version of POS; includes final rates, maturities, sinking fund payments and redemption provisions                                                                                              | Underwriter’s Counsel        |
|                                                |                          |                                                                                                                                                                                                        |                              |
### Ratings Grid

- On July 13, 2015, Governor Brown signed into law Senate Bill 222 which further secures revenues by attaching statutory liens to all future issuances of GO Bonds, preserving bondholders rights to the tax revenues used to back the bonds in the event of bankruptcy.

### Major Rating Agencies Rating Guide for Long and Short Term Debt

<table>
<thead>
<tr>
<th>Moody’s Long Term</th>
<th>S&amp;P Long Term</th>
<th>Fitch Long Term</th>
<th>Fitch Short Term</th>
<th>Risk Characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>AAA</td>
<td>AAA</td>
<td>A-1+</td>
<td>Prime</td>
</tr>
<tr>
<td>Aa1</td>
<td>AA+</td>
<td>AA+</td>
<td>F-1</td>
<td>High Grade</td>
</tr>
<tr>
<td>Aa2</td>
<td>AA</td>
<td>AA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aa3</td>
<td>AA-</td>
<td>AA-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1</td>
<td>A+</td>
<td>A+</td>
<td></td>
<td>Upper Medium Grade</td>
</tr>
<tr>
<td>A2</td>
<td>A</td>
<td>A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A3</td>
<td>A-</td>
<td>A-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baa1</td>
<td>BBB+</td>
<td>BBB+</td>
<td></td>
<td>Lower Medium Grade</td>
</tr>
<tr>
<td>Baa2</td>
<td>BBB</td>
<td>BBB</td>
<td>F3</td>
<td></td>
</tr>
<tr>
<td>Baa3</td>
<td>BBB-</td>
<td>BBB-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ba1</td>
<td>BB+</td>
<td>BB+</td>
<td></td>
<td>Non-Investment Grade Speculative</td>
</tr>
<tr>
<td>Ba2</td>
<td>BB</td>
<td>BB</td>
<td></td>
<td>Highly Speculative</td>
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<tr>
<td>Ba3</td>
<td>BB-</td>
<td>BB-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1</td>
<td>B+</td>
<td>B+</td>
<td></td>
<td>Substantial Risks</td>
</tr>
<tr>
<td>B2</td>
<td>B</td>
<td>B</td>
<td></td>
<td>Extremely Speculative</td>
</tr>
<tr>
<td>B3</td>
<td>B-</td>
<td>B-</td>
<td></td>
<td>In Default with Little Prospect for Recovery</td>
</tr>
<tr>
<td>Caa1</td>
<td>CCC+</td>
<td>CCC</td>
<td>C</td>
<td>In default</td>
</tr>
<tr>
<td>Caa2</td>
<td>CCC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caa3</td>
<td>CCC-</td>
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<td>Ca</td>
<td>CC</td>
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</tr>
</tbody>
</table>

**Investment Grade (Most Municipal Bonds)**

**High Yield**
Disclaimer