HIGHLIGHTS
Business Services Department

August 12, 2016

Response to Question
The following questions were asked by a Board member regarding Certificates of Participation (COP) and the following are the responses from the financial advisor, Mark Epstein, California Financial Services (CFS), and bond underwriter Erica Gonzalez, Stifel Nicolaus & Company (SNC).

1. What are the advantages and disadvantage of borrowing money from COP *(CFS)?*
CFD Bonds are secured by the revenues of the CFD. Borrowing additional new money bonds does not impact the School District's operating finances because the Community Facility District generates its own revenue through special taxes to pay its debt service. Borrowing new money bonds generates funds for school projects that might otherwise need to be paid from developer fees, RDA funds or the general fund. Additionally, not building projects can impact the general fund by increasing the cost of transportation or by adding operating costs for implementing multi-track year round education on one or more campuses. Not issuing CFD bonds can place pressure on revenues controlled by the District as part of its operating budget when capital projects are needed. The resolution tonight and the required second action item in September-October does not include new money bonds.

   CFD refinancing bonds are also secured by the revenues of each CFD. When refinancing, annual debt service and total debt service is reduced. The principal amount of bonds rises to cover issuance costs and escrow inefficiency but interest payments fall to an even greater degree -- producing lower overall payments. Escrow inefficiency is caused by federal tax laws and market conditions. The IRS restricts the District's ability to invest funds at the newer low borrowing rate even though the escrow funds continue to pay for bonds at the old, higher rate until the bonds can be redeemed. Additionally, market conditions (such as those that exist today) may prevent the District from investing even at the new lower rate. All of these transaction costs are included in calculating savings. Savings can be used to borrow additional funds for necessary remaining CFD projects or applied to reducing taxes once the CFD projects are declared complete. CFD refunding bonds have no greater impact on District finances than new money bonds. The resolution tonight and the required second action item in September-October does include refunding bonds.

2. What is owed on Mello-Roos (CFD-1) without COP, *$30 million* (SNC)?
The remaining amount of principal outstanding as of this date is $7,185,146.85. The remaining amount of interest is $16,580,071.90. The total remaining amount is $23,765,218.75.

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3. <u>Do we pay COP on other Mello-Roos? (CFS)</u>
No. CFDs completed after CFD 1989-1 had larger bond authorizations so that sufficient funds could be generated for the project list items required to house students from their developments through the sale of bonds.

4. <u>Have COP been used on other CFDs? (CFS)</u>
COPs have been issued by other school districts and cities as part of their CFD-related debt programs. The District has not needed or used COPs for its other CFD areas.