Los Altos School District

Presentation to Board of Trustees

December 10, 2018

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2014 Measure N

- District voters approved 2014 Measure N by a vote of 57.4% in favor.

"To accommodate growing student enrollment and avoid public elementary and junior high school overcrowding by expanding and upgrading schools, preserving quality small neighborhood schools, upgrading classrooms and labs to keep them safe, clean and in good repair, updating learning technology, maximizing energy efficiency and acquiring, constructing or equipping classrooms, facilities and sites, shall the Los Altos School District issue $150 million in bonds at legal rates, with independent citizens' oversight, annual audits and no money for administrators' salaries?"

Establishing Priorities

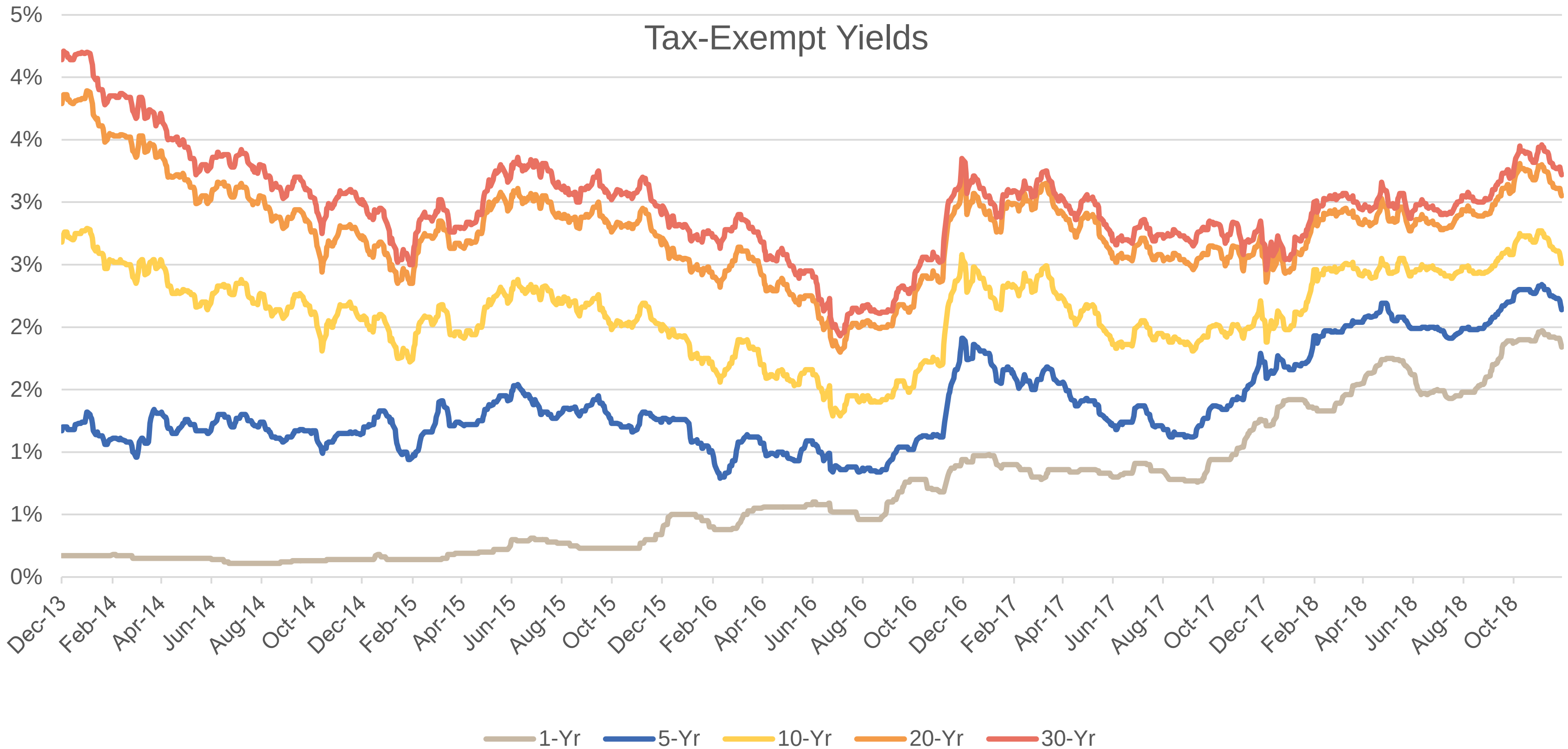
- In the spring of 2015, the Governing Board made a decision to prioritize the identification and acquisition of a tenth school site and to delay additional projects.
  - Identification and acquisition of the tenth school site was a clear priority.
  - At that point in time, it was not clear what the potential solution might look like, how much it might cost, or how long the process might take.
  - For those reasons (and others), the District opted against issuing long-term general obligation bonds in an amount certain for land acquisition and instead arranged for a line of credit type financing with Wells Fargo Bank.
  - The line of credit provided that Wells Fargo would purchase bond anticipation notes from the District in an amount up to $50 million and at rates determined by established formula.
  - The process of identifying an appropriate site has been difficult and time consuming.

Expenditure of Proceeds

- From an expenditure of proceeds standpoint, the decision in retrospect was prudent.
  - Federal tax law requires that issuers of tax-exempt bonds “reasonably expect” to expend at least 85% of proceeds within three years of the borrowing date.
  - The District would have reached the three-year anniversary of a 2015 issuance having spent less than $10 million in bond proceeds.
  - The sale of bonds in summer 2015 would have created significant obligation for taxpayers beginning in tax year 2015-16.
  - The unnecessary issuance of bonds might have complicated an already challenging situation.

Interest Rates

- Despite recent increases in short-term rates, long-term interest rates have remained relatively low.



Terms of Sale

- It is our understanding that a purchase agreement is taking shape around the following components.
  - A gross purchase price due at close.
  - The purchase of a portion of the site by the City of Mountain View to develop as a city park.
  - Letters of intent from developers to buy transferrable development rights over time.
  - The District expects to receive ongoing commercial revenues as existing leases expire.
  - The District expects to receive a one-time contribution from the City of Mountain View under joint use agreements.
  - The net purchase price to the District (and, presumably, the value to the District of the purchased property) will be substantially less than the gross purchase price.

Key Considerations

- In developing a financing plan to fund the purchase, there are key elements requiring careful consideration.
  - Financing must deliver funds to meet the sizing and timing needs of the purchase agreement.
  - Issue size, structure, and tax rate impact must meet applicable limitations of the 2014 Measure N bond program based on:
    - District and measure specific limitation (appropriate projects, authorization amount, debt policy limits, tax rate targets); and
    - State law specific limitations (bonding capacity, maximum maturity, proposition 39 tax rate limitations).
  - Proposed use must comply with federal tax law for tax-exempt issuance or bonds must be issued on a taxable basis.

Federal Tax Issues

- Federal tax law is designed to ensure that the proceeds of tax-exempt financings are used for public benefit projects and that public agencies don't take unfair advantage of their tax-exempt status.
  - In order to qualify for tax-exempt financing the District must expend proceeds on good public benefit projects and must (at time of issuance) "reasonably expect" to spend 85% of such proceeds within three years of the borrowing date.
  - Because the District expects that part of the purchase price will go toward the acquisition of transferable development rights that will be sold to identified developers for their private benefit, the portion of the financing funding that use will need to be issued on a taxable basis.
  - To put it simply, the transferrable development rights component of the purchase agreement (which has many clear advantages) necessitates that the proposed financing plan include a taxable component (which is unusual for California school bond financings).

Financing Plan

- The proposed financing plan includes two component pieces.

Component	Purpose	Source of Repayment	Authorization
Taxable Bond Anticipation Notes.	Provide advance on the component of the purchase price expected to be funded by transferrable development rights.	Receipts of transferrable development rights; future issuance of long-term general obligation bonds.	Resolution will authorize the sale of bond anticipation notes in an amount not to exceed $80 million.

Component	Purpose	Source of Repayment	Authorization
Tax-Exempt Bonds.	Provide additional funds required to complete land purchase; repay existing bond anticipation notes; provide additional funding for other projects to be completed in the next three years.	Future property tax receipts.	Resolution will authorize the sale of long-term general obligation bonds in an amount not to exceed $70 million.

Negotiated Sale

- We are proposing that the bonds be sold by negotiated sale.
  - Bonds issued in the public markets may be sold by competitive or negotiated sale.
  - Negotiated sales are often used when bond issues might benefit from more robust coordination with potential investors.
  - Last week, the District received proposals from eight underwriting firms that are active in school finance in California and nationally.
  - The financing team is currently reviewing the proposals.

Note Take-Out

- The proposed financing plan is designed to take into account as much as possible the challenges having to do with the future note take-out.
  - The District may or may not receive revenues from the sale of the transferable development rights at the times or in the amounts that are currently projected.
  - The financing plan is designed to accommodate the uncertainty in the timing of such receipts but is also conscious of the additional interest costs associated with a longer maturity.
  - Both a slowdown in the market for residential development and a dramatic increase in interest rates are external factors that create risk for District taxpayers, the District, and the District's bond program.
  - By retaining sufficient bond authorization to repay the notes in full at maturity, the District will mitigate any general fund exposure or risk of default.

Financing Process

- The financing process will be similar to bond issues that we've worked on in the past.

  - **Authorizing documents.** Separate resolutions authorizing the bond anticipation notes and the long-term general obligation bonds will be presented to the Board for approval on Monday, December 17th. The County Board of Supervisors will take action in early January.
  - **Disclosure documents.** A combined disclosure document will be presented to the Board for approval as to form on Monday, December 17th, and will be posted as early as Wednesday, January 9th.
  - **Rating strategy and implementation.** Under the proposed schedule, the District will meet with both Moody's and Standard & Poor's at the District Office on Thursday, December 13th, and ratings will be released on the week of Monday, Wednesday, December 19th.

Financing Process (continued)

- The financing process will be similar to bond issues that we've worked on in the past.
  - **Bond sale and establishment of interest rates.** Under the proposed schedule, interest rates for both transactions will be established on Thursday, January 17th. Informal negotiations will begin on Friday, January 4th.
  - **Closing documentation.** Assuming pricing on Thursday, January 17th, the District and other parties will execute closing documents late in the week of Monday, January 21st. In many cases, the financing team will conduct a document signing session to facilitate understanding of representations and of commitments with regard to ongoing responsibilities.
  - **Ongoing responsibilities.** Ongoing responsibilities for this financing include obligations under State law, securities law, and federal tax law.

Authorizing Resolutions

- Next Monday, December 17th, the Governing Board will be asked to consider two separate authorizing resolutions (one for each financing component). Each authorizing resolution will accomplish five basic objectives.
  - Authorize the sale of securities (whether long-term general obligation bonds or bond anticipation notes) subject to certain conditions (including not to exceed amounts and interest rates).
  - Establish the broad parameters governing their sale and structure (including that the securities will be sold by negotiated sale).
  - Make certain disclosures required under State law (including expected interest rates and costs).
  - Approve certain documents as to form (including a combined preliminary official statement and separate bond purchase agreement for each financing).
  - Acknowledge certain ongoing commitments of the District with regard to the issuance of the securities (including obligations under state law, securities law, and federal tax law).

Rating Process

- Under the current schedule, rating meetings will be held on Thursday, December 13th and ratings released during the week of Monday, December 17th.
  - The District is currently rated “Aaa” by Moody’s and “AA+” by Standard & Poor’s.
  - Such ratings reflect the strength of the local economy, the high resident wealth levels, and the District’s ability to access revenues outside of the State’s basic funding structure as a community funded school district and through parcel tax revenues and contributions from the foundation.
  - We have proposed that the District meet directly with representatives of both Moody’s and Standard & Poor’s at the District Office.
  - Relative to other school districts in its rating category (both in California and nationally), the District’s reserve levels are below average.

Proposed Schedule

- The proposed schedule is summarized below.

Date	Activity
Tuesday, December 04	Receive responses to underwriter RFP.
Friday, December 07	Potential underwriter interviews. Select underwriter.
Monday, December 10	Present financing plan to Board.
Tuesday, December 11	Conference call to review rating presentation.
Thursday, December 13	Rating meetings with Moody’s and Standard & Poor’s.
Friday, December 14	Distribute authorizing resolution and disclosure documents for 12/17 Board meeting.
Monday, December 17	Board approves form of preliminary official statement.
Monday, December 17	Board approves financing documents.
Tuesday, December 18	Due diligence call regarding preliminary official statement.
Wednesday, December 19	Receive rating from Moody’s and Standard & Poor’s and comment on ratings reports.
Friday, January 04	Post preliminary official statement.
Friday, January 04	Conference call to discuss and update financing schedule.
Friday, January 04	Initial pricing call.
Tuesday, January 15	Sale date.
Tuesday, January 22	Post final official statement.
Tuesday, January 29	Closing date under current schedule.
Tuesday, February 05	Meet to discuss post-compliance obligations.

SB 450 Requirements

- SB 450 requires that certain information regarding future costs be disclosed to the public prior to the issuance of bonds.

Item	Good Faith Estimate - BAN	Good Faith Estimate - GO Bond
Proceeds Received by the District	NTE $80.0 million	NTE $70.0 million
Repayment Amount	$86.0 million (assumes $80 million principal plus $6 million of interest over 2.5 years).	$129.0 million (assumes $70 million of principal plus $59 million of interest over 30 year term).
True Interest Cost Percentage	3.0%	4.5%
Underwriter Fee	$2.50/bond	$4.50/bond

Costs of Issuance

- Itemized costs of issuance are shown in the table below.

Los Altos School District

2019 Election of 2014, Series A GO Bonds

2019 Bond Anticipation Notes
Costs Related to Bond and BAN Issuance

Role	Consultant	GO Bonds Fees	BANS Fees
Financial Advisor	PFM FinancialAdvisors LLC	$60,000	$30,000
Financial Advisor Reimbursables	PFM FinancialAdvisors LLC	$2,000	$2,000
Bond Counsel	Dannis Woliver Kelly	$65,000	$35,000
Disclosure Counsel	Dannis Woliver Kelly	$30,000	$20,000
Disclosure Counsel Reimburseables	Dannis Woliver Kelly	$2,000	$2,000
Rating Agency	Moody's Investor Service	$39,000	$9,500
Rating Agency	S&P	$45,000	$9,500
Paying Agent	U.S. Bank Global Corporate Trust Services	$2,500	$2,500
Municipal Data	California Municipal Statistics	$700	$700
Printing	Alphagraphics	$750	$750
Contingency	To Be Returned if Unused	$15,000	$15,000
Total		$261,950	$126,950