FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

Audit and Finance Agenda Item

Board Meeting Date: June 2, 2011

Title of Item: Measure C, Issuance C, GO Bond Sale Update

Background and Analysis:

Attached are two memos detailing the successful sale of the Series C 2011 Bonds in the amount of $184,000,000 on Thursday morning, May 19, 2011.

Recommendation: Information Only

Submitted by:	Kevin McElroy
Additional contact names:	
Is backup provided?	yes

Date: May 20, 2011

To: Dr Linda Thor and the Board of Trustees

From: Kevin McElroy

Subject: 2011 Bonds, Series C, 2006 Measure C Authorization

The District successfully priced its Series C 2011 Bonds in the amount of $184,000,000 on Thursday morning, May 19, 2011. District staff and our financial consultant attended the bond sales process at the offices of Morgan Stanley in San Francisco and participated in all communications with Morgan Stanley underwriters in New York through out the sale.

The bonds were structured with two maturities in 2036 and 2040, respectively. The 2036 maturity was priced with a 5% interest rate and sold with an original issue premium at a cost of $102.149 to yield 4.73% to the 2021 call date. The 2040 maturity was also priced with a 5% interest rate and sold with an original issue premium at a cost of $101.746 to yield 4.78% to the 2021 call date. The all-in true interest cost, which condenses the District's interest cost (including issuance costs) to a single interest rate that reflects the time value of money, is 4.93%. Bond yields were based on comparable bond sales in the market, recent secondary market trades, spreads over the Municipal Market Data index (a market basket of Aaa/AAA general obligation bonds, the highest rated bonds available), yields in the US Treasury bond market, and negotiations by Morgan Stanley with major institutional buyers interested in the District's bonds.

The final yield amount is slightly less than the 5% to 5.25% projected in our report to the Board at their last meeting. This translates to a slightly lower interest rate for repayment of the bonds to be paid by property owners in our district.

The District negotiated the sale for all $184 million of its bonds to our underwriter, Morgan Stanley. The Bond Purchase contract has been executed and the final steps for selling the bonds and transferring the proceeds into district accounts at the county will be completed by June 9, 2011.

The District engaged William Euphrat Municipal Finance, Inc. in the capacity of financial advisor to assist in the evaluation and negotiation of interest rates, yields and the underwriting discount. With assistance from the District's financial advisor, the bond underwriting discount was reduced from $5.95/$1,000 to $5.70/$1,000, resulting in a savings to the district of approximately $46,000. The final underwriting discount reflected $5.00/$1,000 for a sales credit, $.50/$1,000 for investment banking management services, and $.20/$1,000 for the underwriter's out-of-pocket and legal expenses.

Our financial advisor, Bill Euphrat, John Sheldon from Morgan Stanley and I will present a final report to the Board on the sale of issuance C bonds at the June 20, 20112 meeting. Please let me know if you have any questions or need additional information before the 6/20/2011 meeting.

Thanks, Kevin

FOOTHILL-DE ANZA
Community College District

To: Dr. Linda Thor and the Board of Trustees

From: Kevin McElroy

Date: May 13, 2011

Subject: Credit Agency Ratings

In preparation for the upcoming Series C bond sale, district staff made financial presentations to the credit rating firms of Moody's Investors Service and Standard and Poor's Ratings Services. As of this week, both agencies have released their results.

We are pleased to report that we have maintained our excellent current credit rating with both agencies. We received an "Aaa" from Moody's Investors Service and an "AA" from Standard and Poor's. These ratings are the highest of any ratings assigned to any community college district in the state. The ratings apply to our current Measure C bonds and to our outstanding general obligation (GO) debt.

Both rating agencies noted the district's large, diverse and strong tax base as a major consideration in the their rationale for the ratings assigned. The district's assessed property values (AV's) are notably large as compared to other community college districts in the state. Because the GO bonds sold by the district are secured by an unlimited property tax pledge, the strong AV is an important component in rating district bond sales.

The ongoing strong economy and relatively low unemployment rate in Santa Clara County provided another positive aspect to the strong financial picture presented to the rating agencies.

The reports also cited the district's maintenance of strong and stable reserves along with sound financial oversight of district operations as more compelling evidence for the favorable ratings assigned to the district. Review of the district's financial statements and documentation conducted by both agencies led them to conclude that they expect our strong financial position to continue. Such conclusions noted in both reports from Moody's and Standard & Poor's can be viewed as a testament to the solid financial policy and oversight provided by the Foothill-De Anza Trustees and district leadership.

These strong credit ratings will help to insure that the district obtains the most favorable interest rates in the upcoming Series C bond sale (scheduled for May 19, 2011) and minimizes property taxes levied on property owners within our district.

The final, published version of both reports is attached for reference. Please let me know if you have any questions or need additional information.