Audit and Finance Agenda Item

Meeting Date: March 1, 2012

Title of Item:
General Obligation Bond Refunding

Background and Analysis:
The District currently has $635.3 million of outstanding General Obligation Bonds ("GO Bonds"), comprised of approximately $221.1 million of GO Bonds outstanding from the District's Measure E Authorization (Election of 1999) and approximately $414.2 million of GO Bonds outstanding from the District's Measure C Authorization (Election of 2005). Of these outstanding GO Bonds, $457.9 million may be paid off ("called" or retired) at 100 cents on the dollar prior to maturity, which allows the District to **refinance** the bonds prior to maturity and reduce debt service costs, similar to a homeowner refinancing a mortgage when rates fall. For the past 6 months, our District staff and our GO Bond consulting team has been monitoring the District's GO Bonds for potential refunding opportunities, particularly related to the Measure E GO Bonds, many of which are approaching the first date when they may legally be refinanced.

In the past several weeks, tax-exempt interest rates have fallen significantly, lowering borrowing rates well below the coupons (interest charged on the original bond issuance) on a number of the District's outstanding GO Bonds originally issued in 2002, 2004 and 2005. Given these current market conditions, the District could refinance approximately $76.4 million in GO Bonds to capture debt service savings that averages nearly $600,000 every year through 2030. This level of debt service savings is equivalent to approximately $0.62 / $100,000 of current assessed value paid by property owners within our district. In total, a refunding of the eligible GO Bonds could achieve debt service savings of approximately $11.4 million for the property taxpayers in our District over the life of the bonds, or approximately $9.15 million on a present value basis. The savings equate to almost 12% of the refunded amount of GO Bonds, which is very attractive relative to the threshold of 4% of refunded GO Bond amount the District has set for past refunding issues.

Given the potential for the District to save our taxpayers a significant amount of money, we have assembled our financing team to begin the refinancing process. The District GO Bond program will not receive any monetary advantage from the refunding, but there is also no direct cost to the District or the GO Bond program for the refunding. If interest rates remain at levels that provide the District the ability to capture significant debt service (and tax rate) savings, we would bring the necessary documents to the Board for its approval in March, with the intent of pricing a refunding issue in March or April to close in early May.

Presentation from Morgan Stanley and Finance Team.

Recommendation: Information

Submitted by:	**Kevin McElroy**
Is backup provided?:	**no**