

CDIAC

**CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION**

2018 BOND BUYER PRE-CONFERENCE

OCTOBER 1, 2018

JW MARRIOTT – LA LIVE

LOS ANGELES, CA

Bond Buyer Pre-Conference: October 1, 2018

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**SESSION 1:
WHY AREN'T ALL CALIFORNIA K-12 SCHOOL
GENERAL OBLIGATION BONDS RATED AAA?**

Bond Buyer Pre-Conference: October 1, 2018

Introductions



Moderator: Megan Reilly
Chief Business Officer
Santa Clara County Office of
Education



Dr. Candi Clark
Chief Financial Officer
Los Angeles County Office of
Education



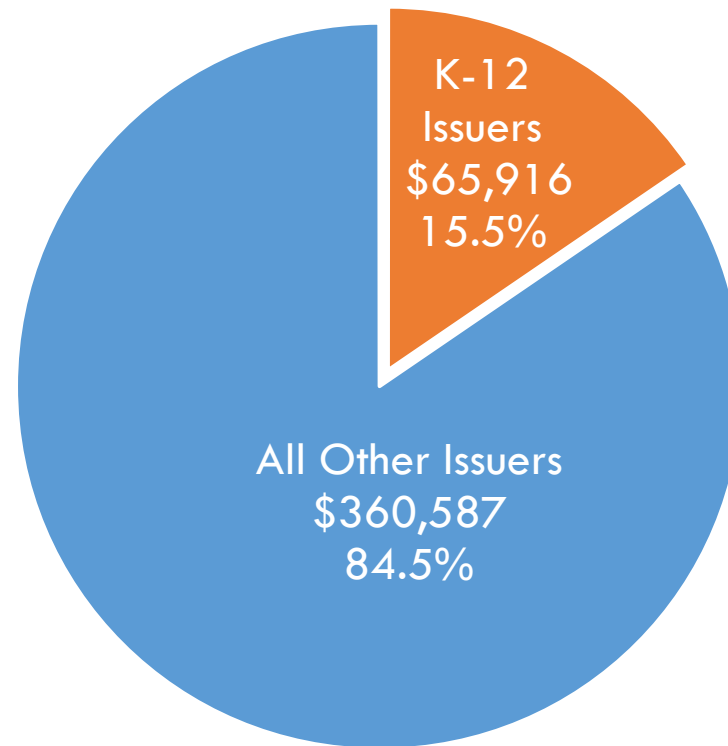
Alvaro Meza
Assistant Superintendent of Business
Services and Chief Business Official
Gilroy Unified School District



Scott Price
Chief Financial Officer
Los Angeles Unified School District

School Issuance by the Numbers

Comparison of K-12 Issuers to All Other Issuers
2012-2017 (\$ in Millions)



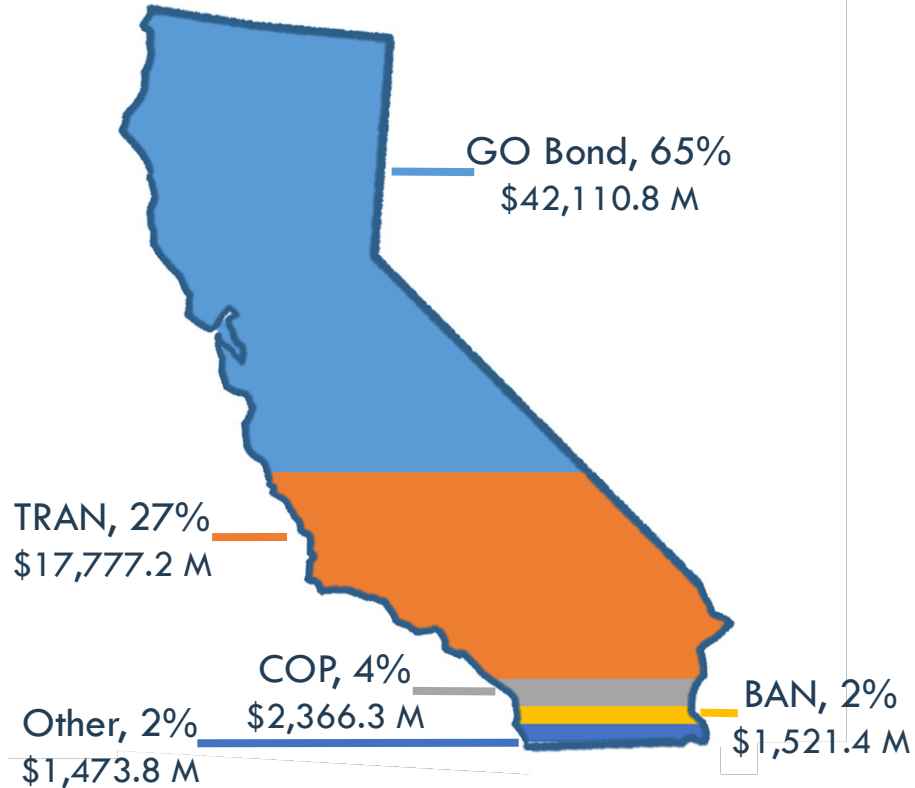
Total Issuance: \$426.5 Billion

Source: CDIAC Database 4/27/18

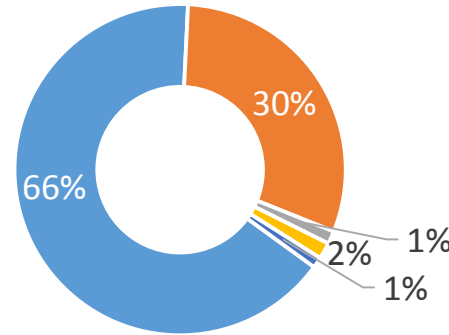
K-12 Debt Issued By Debt Type

Statewide Total of New K-12 Debt

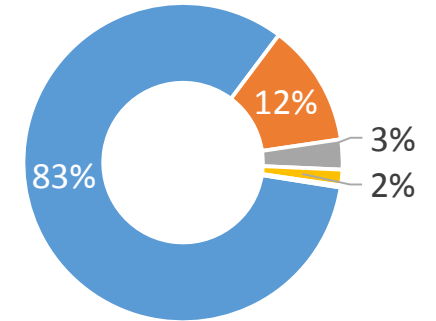
\$65,249,471,679



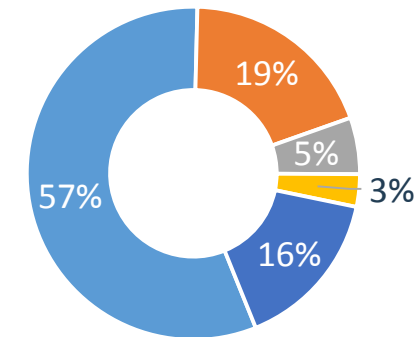
Los Angeles Total
\$20,441.1 M



Santa Clara Total
\$4,924.4 M



Orange Total
\$3,355.4 M



■ GO Bond ■ TRAN ■ COP ■ BAN ■ Other

Date Range: 1/1/2008 to 12/31/2017

Source: CDIAC Database 7/13/2018

GUSD At a Glance

Gilroy Unified School District (GUSD)



11,000 TK-12th grade students in Santa Clara County

About 1,075 full-time employees across 16 schools

\$125 million annual operating budget

2017-18 total assessed value \$10 Billion

GUSD Bond Overview

Voters authorized \$389 million for GUSD Capital Facilities Program in three elections since 2002

Tax Base Profile

- ▣ Low concentration amongst top 20 secured taxpayers
- ▣ Taxpayer diversity including retail, commercial, food processing, residential, industrial, and agricultural
- ▣ Growing community due to relocation of Silicon Valley residents

Bond Issuance Team

- ▣ Experienced team with solid financials
 - ▣ Double-digit reserves, multiple management policies on debt and reserves, and stable to increasing debt
- ▣ Moderately structured bond sale

CA Constitution Article XIII A, Section 1

Limits Ad Valorem (AV) property taxes to 1%, unless voters approve additional tax to establish debt for a specific purpose.

Propositions 46 and 39

Outline how voters can approve new General Obligation (GO) debt for K-14 schools.

California Education Code §15250

County has authority to collect unlimited special taxes to pay for voter approved GO debt on behalf of district.

California Education Code §15251

GO debt is payable from special AV property taxes, not the District's General Fund.

AB 1200

Requires twice annual school self-certification of ability to meet financial obligations for 2 years.

+

Rules to limit new debt for schools with qualified or negative self-certification.

+

Established State oversight of schools.

=

Reduced bankruptcy risk for California schools.

Overview of LAUSD

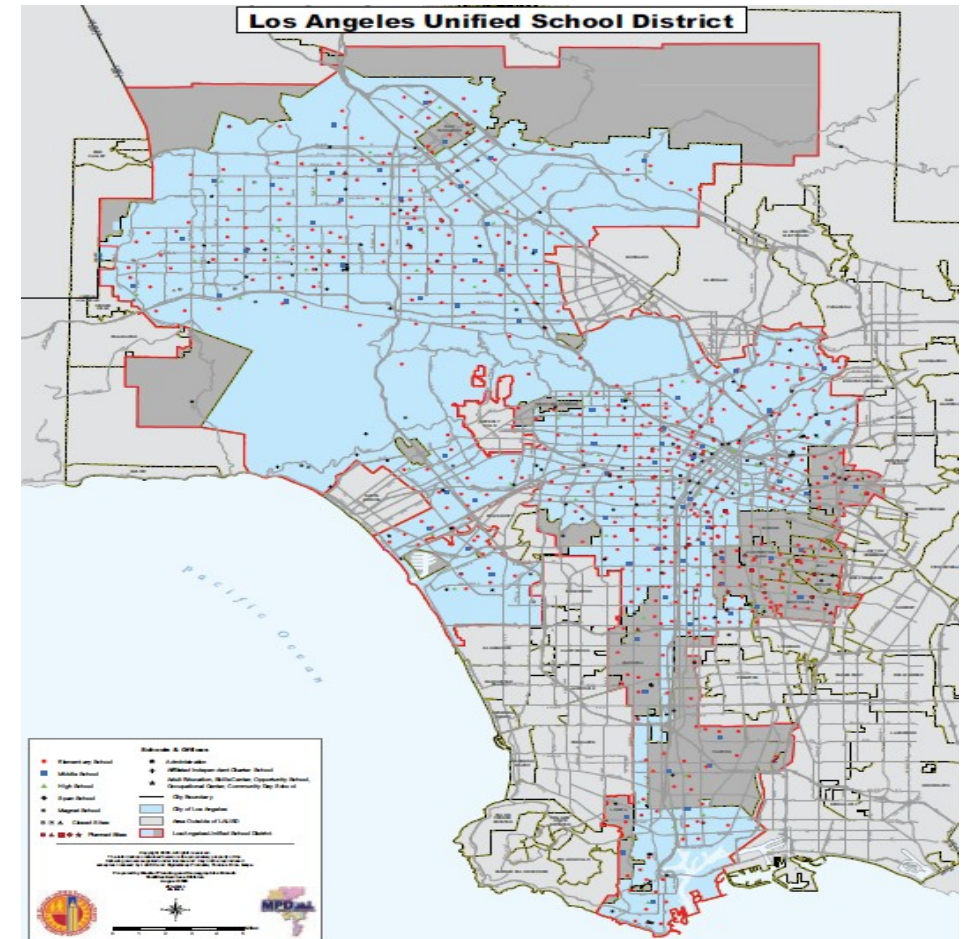
613,274 K-12 students in Los Angeles County in
FY 17/18

1,306 school and education centers located
within 710 square miles

Governed by 7-member Board of Education

\$10.6 Billion GO Bonds outstanding as of
6/30/18

Los Angeles Unified School District (LAUSD)



LAUSD Voter-Approved Capital Programs

- One of the largest in the country
- Since 1997, voters approved \$20.605 billion in five elections
- Funds led to completion of about 600 construction projects, including 131 new K-12 schools
- All districts now on traditional single-track calendar
- Current focus is to modernize and repair existing schools



Maywood Academy High School

SB 222 (2015)

GO bonds secured by a statutory lien on the ad valorem taxes collected to pay principal and interest on GO bonds.

Lien still attached if school files for Chapter 9

Bondholders treated as secured creditors for property taxes, but statutory lien rights subject to automatic stay

Special Revenues

If *ad valorem* tax revenues that fund the GO bonds are “special revenues” under Chapter 9, then such revenues collected after the date of the bankruptcy filing would remain subject to the lien of the Resolution and the application of such revenues would not be subject to the automatic stay.

While there is no binding judicial precedent, GO Bond *ad valorem* tax revenues appear to fit the definition of “special revenues”.

Lockbox

Tax revenues are held by the County Treasurer in the District's interest and a Sinking Fund is established for the payment of GO bonds of the District.



Use of Sinking Fund ensures funds aren't comingled with county money



County cannot borrow from the District's bond accounts



With legal protections and statutory authorities protecting CA K-12 GO school bonds, why are school bonds issued for anything less than AAA?

CA GO school bonds receive unlimited tax support, and all schools have the same reporting requirements.

Why is a school's operating budget or where a school is located considered when rating a bond?



Authorized But Unissued CA K-14 GO Bonds

Data reported to CDAIC as of 1/22/2018, figures from CDIAC Publication:

K-14 Voter Approve General Obligation Bonds, Authorized But Unissued, 2018 Update

1,040

Approved
Elections

\$133,805,000,000

Voter Approved GO
Authority

\$80,315,000,000

GO Authority Issued

\$53,489,000,000

GO Authority
Unissued



Gilroy USD: Christopher High School



*Gilroy USD: Gilroy High School Math
Building*

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GO Authority
Unissued



LAUSD: Maywood Center for Enriched Studies (MaCES)



LAUSD: Dr. Sammy Lee Medical and Health Science Magnet

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**SESSION 2:
K-12 SCHOOL DEBT FINANCE FROM THE
COUNTY OFFICIAL'S PERSPECTIVE**

Bond Buyer Pre-Conference: October 1, 2018

Introductions



Introductions: Joseph Kelly
Treasurer-Tax Collector
County of Los Angeles



Moderator: Keith Knox
Chief Deputy Treasurer-Tax Collector
County of Los Angeles



Antoinette Chandler
Assistant Treasurer-Tax Collector
County of Los Angeles



Keith Crafton
Director Business Advisory Services
Los Angeles County Office of Education



Shari Freidenrich
Treasurer-Tax Collector
County of Orange

School District General Obligation (GO) Bond Issuance Process

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graph TD; A["School District General Obligation (GO) Bond Issuance Process"] --> B["AB 1200"]; A --> C["School District Role During Issuance"];
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AB 1200

**School District
Role During
Issuance**

**Los Angeles County Office of
Education's Role and Oversight of a
District's GO Issuance Process**

The County Treasurer-Tax Collector's Role in the GO Bond Issuance Process



**Working With
the Financing
Team**



**Structuring,
Pricing, and
Issuance on
Behalf of
Districts**



**County
Issuance On
Behalf of
Districts**

Investment Management of Bond Proceeds and the County Investment Pool



School District Use of External Money Managers



Cash Flow Analysis of Bond Proceeds



Developing an Investment Strategy

**Compliance
with SB
1029**



**Debt Policy
Certification
Requirement**



**Annual
Reporting**

**The Role of
the County as
the Paying
Agent**



**In-House
Versus
Outsourced**

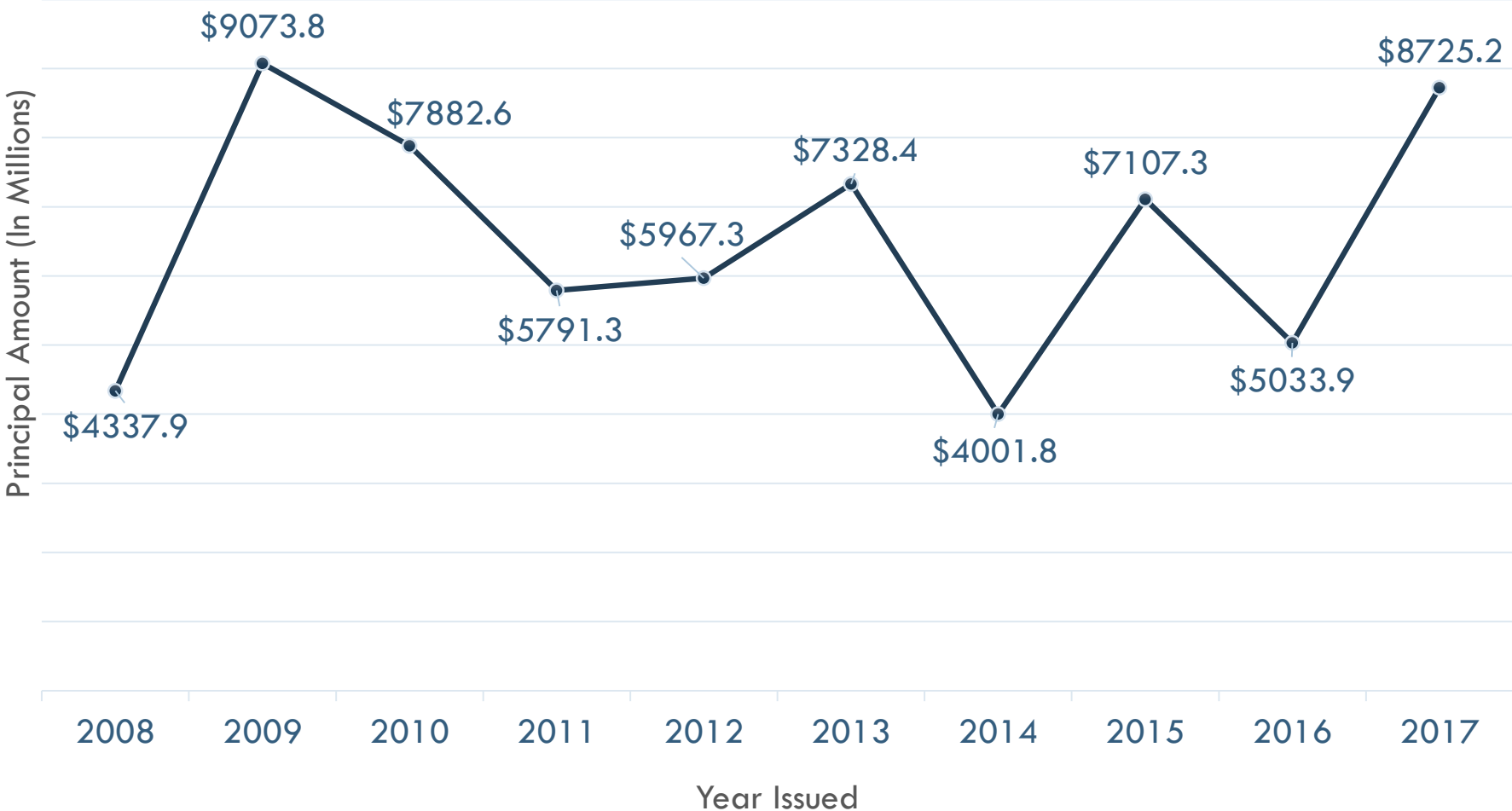


**Escheatment
of Uncashed
Checks**

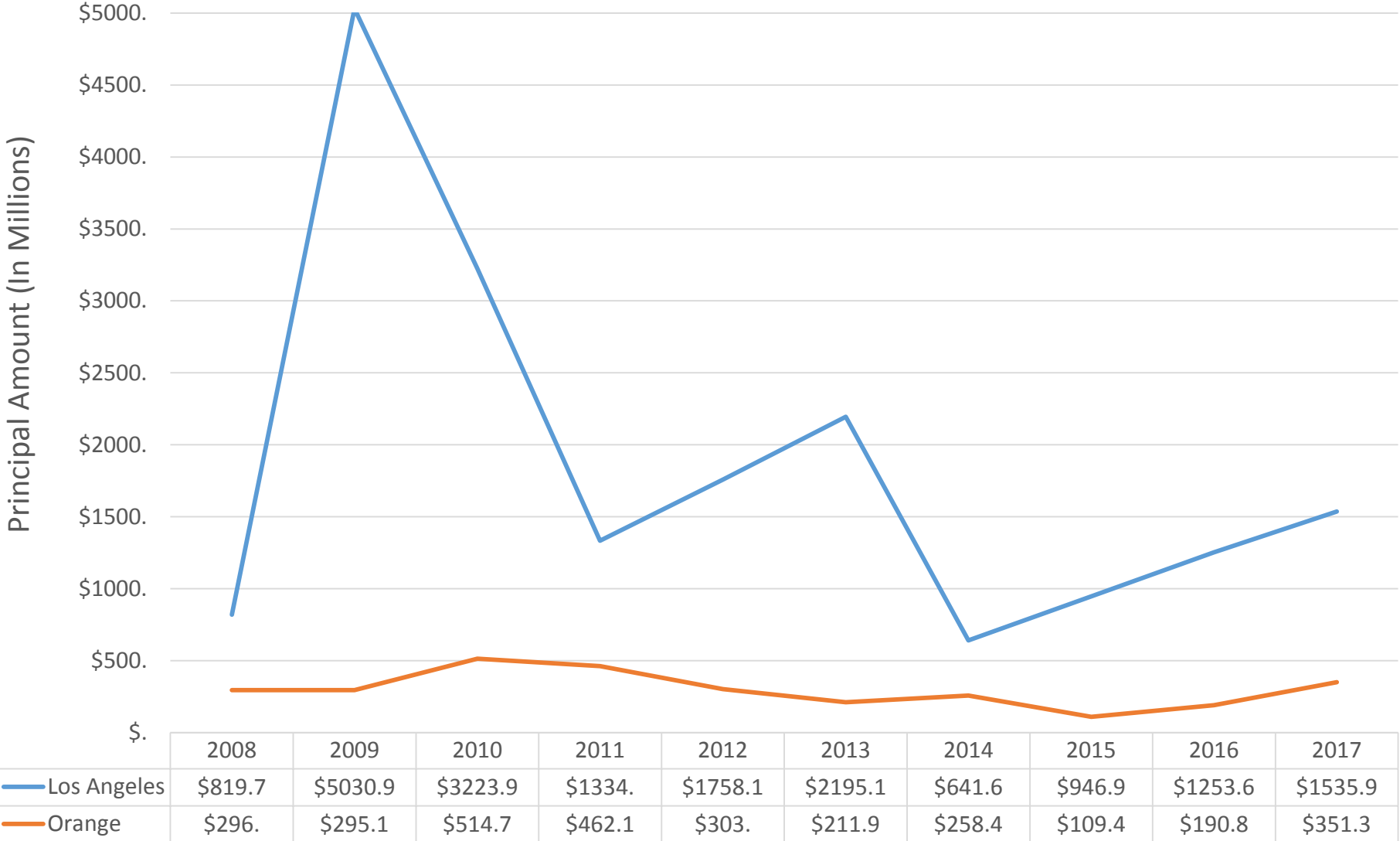
Data Information

- Graphs include data on new money issuance for K-12 education purposes
 - ▣ Graphs indicate if data is statewide or for specific counties featured in this panel (LA, Santa Clara, and Orange)
- Date Range: January 1, 2008 - December 31, 2017
- Unless otherwise noted, data as of July 13, 2018
- Source: CDIAC Databases

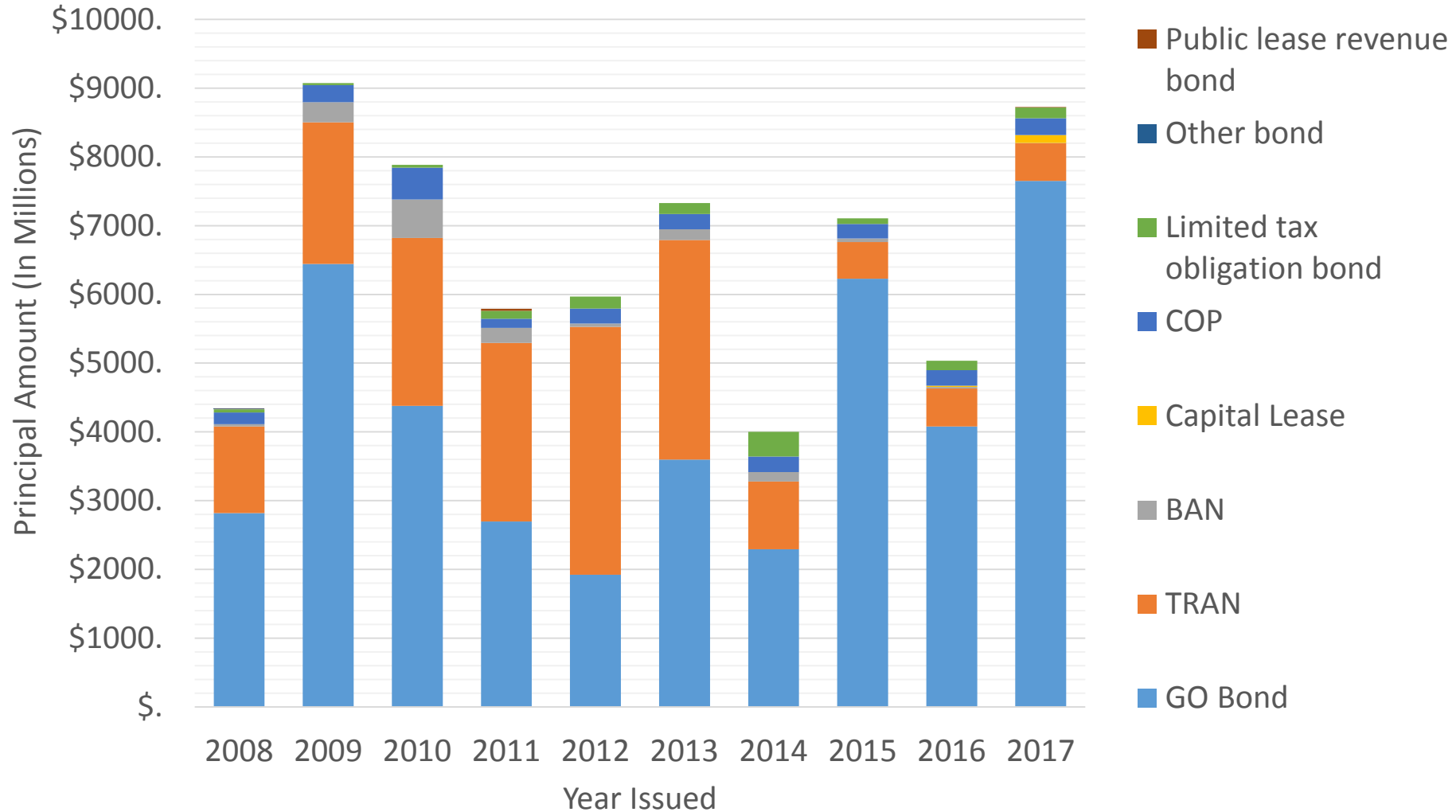
Statewide K-12 Debt By Volume



County K-12 Debt By Volume

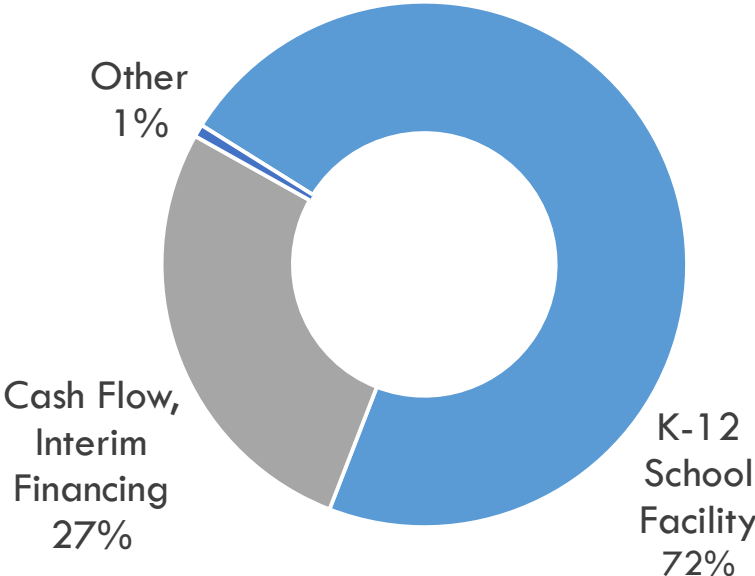


Statewide K-12 Debt By Year

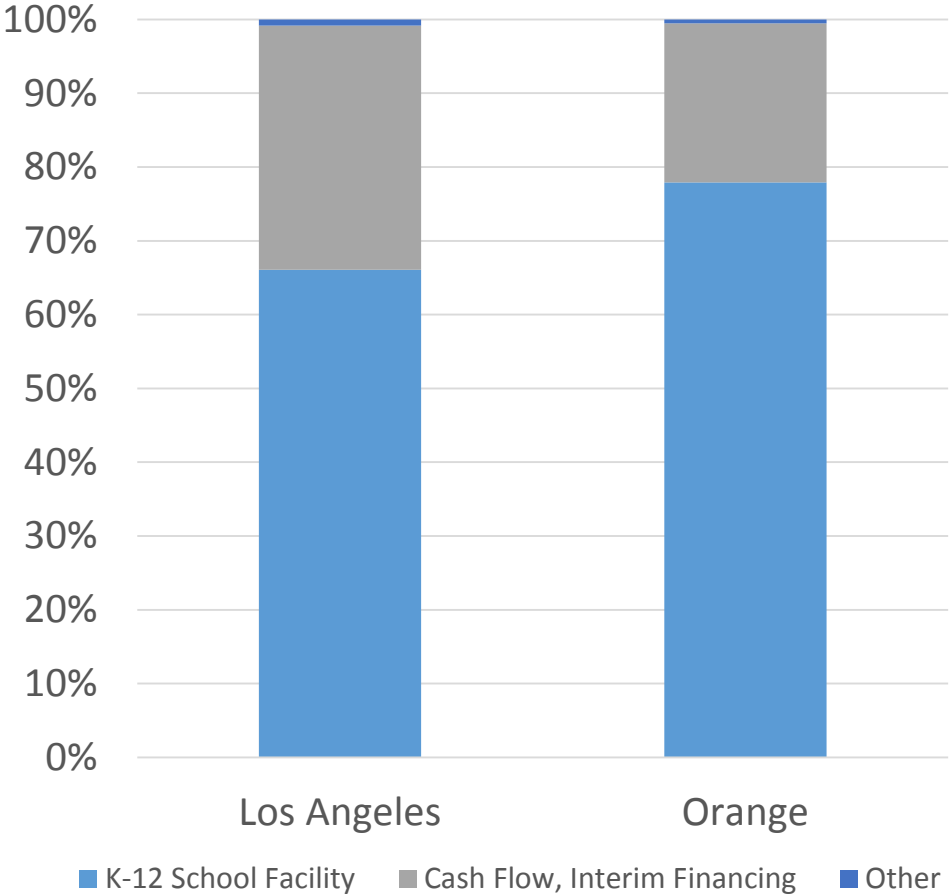


K-12 Debt By Purpose

Statewide

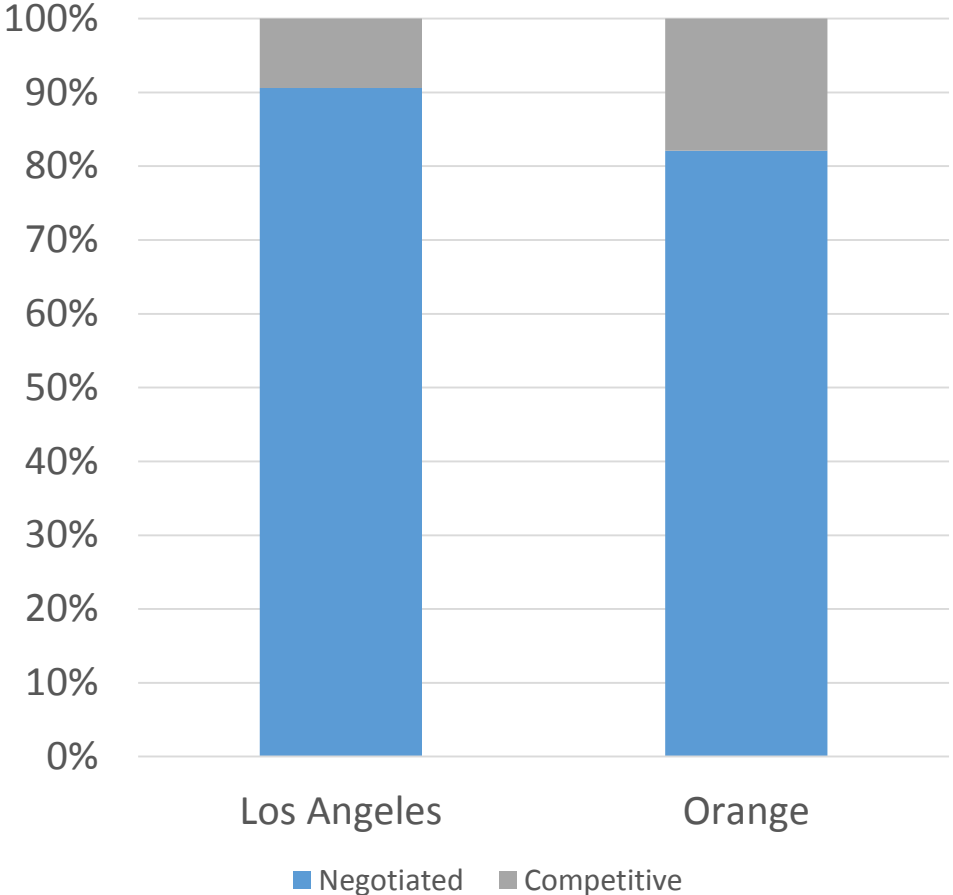


County Specific

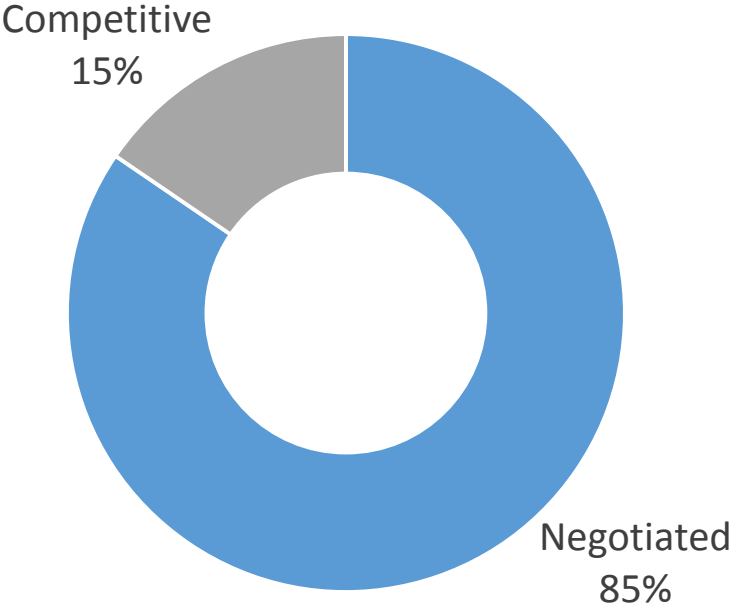


K-12 Debt By Sale Type

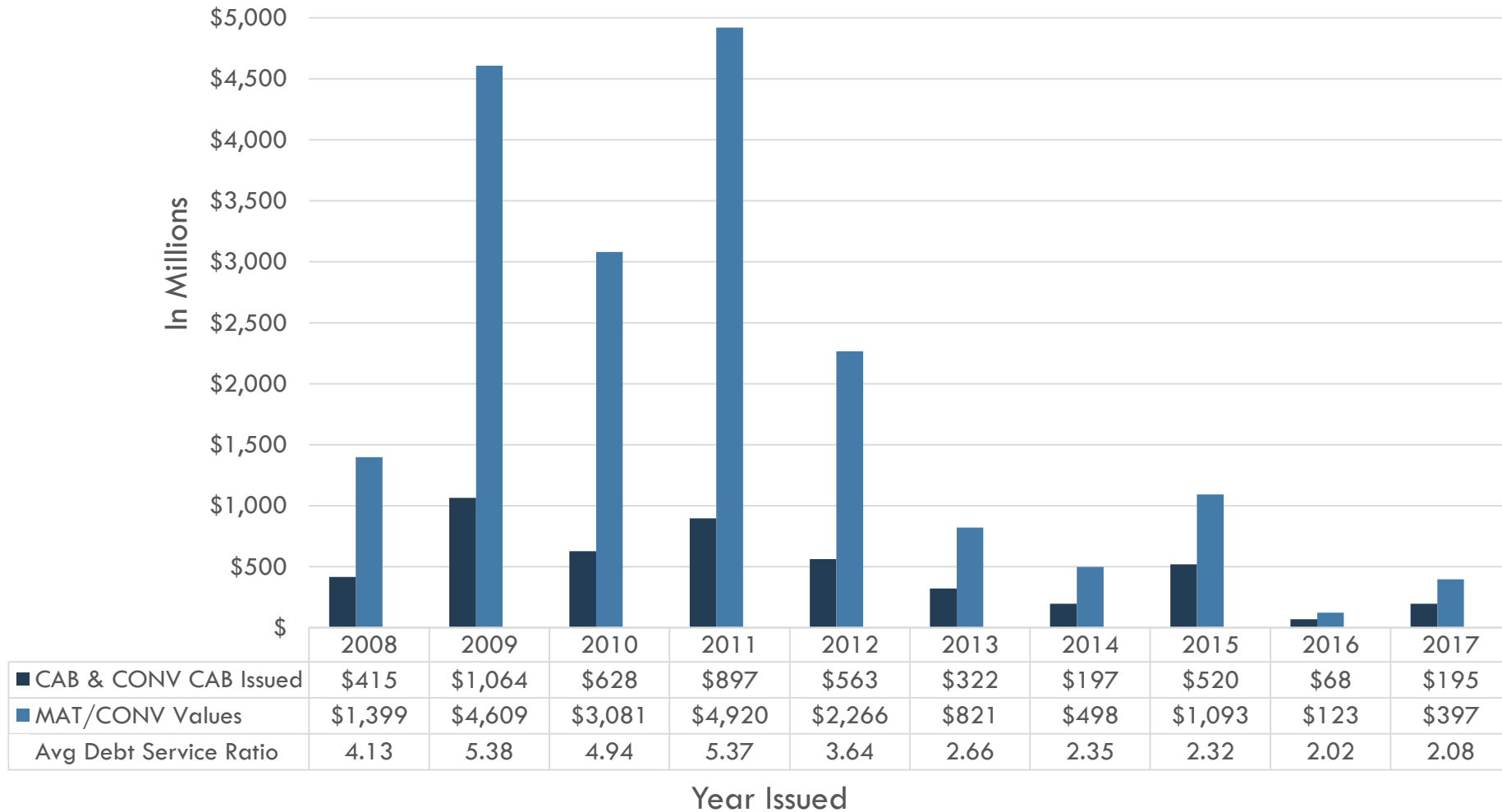
County Specific



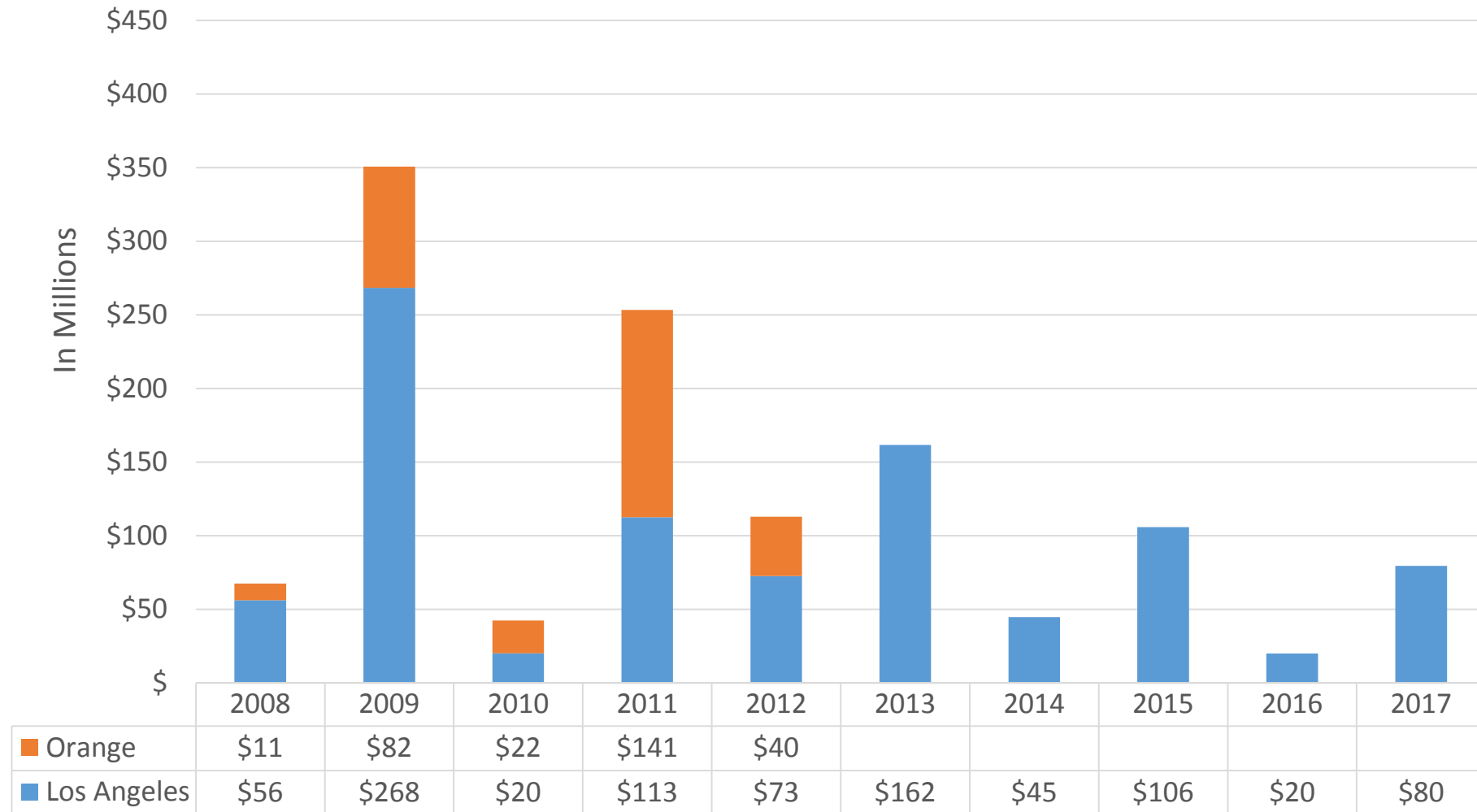
Statewide



Statewide K-12 CABs and CONV CABs



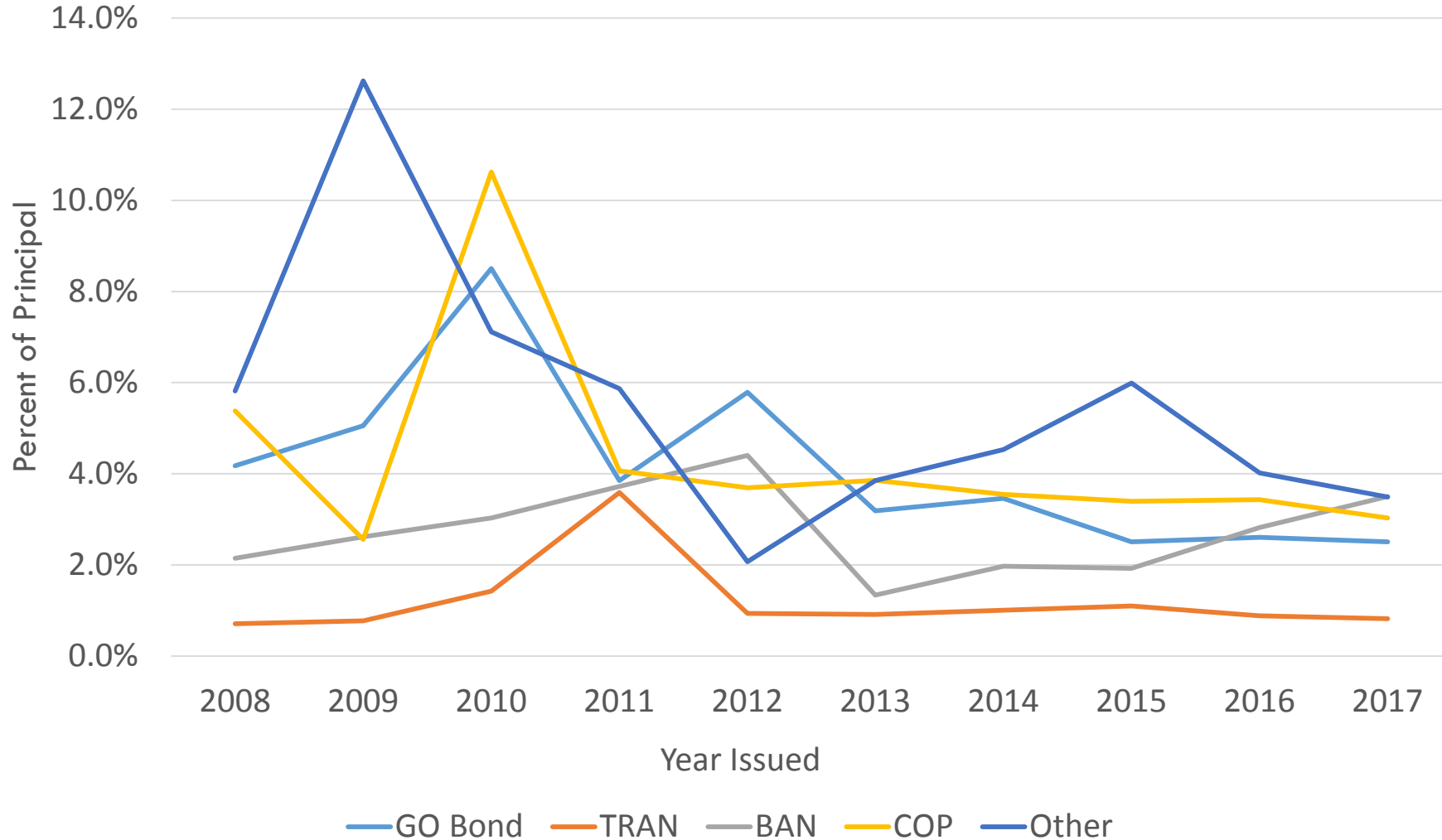
County K-12 CABs and CONV CABs



Data as of July 20, 2018

Los Angeles Orange

Statewide Average Cost Of Issuance For K-12 Debt

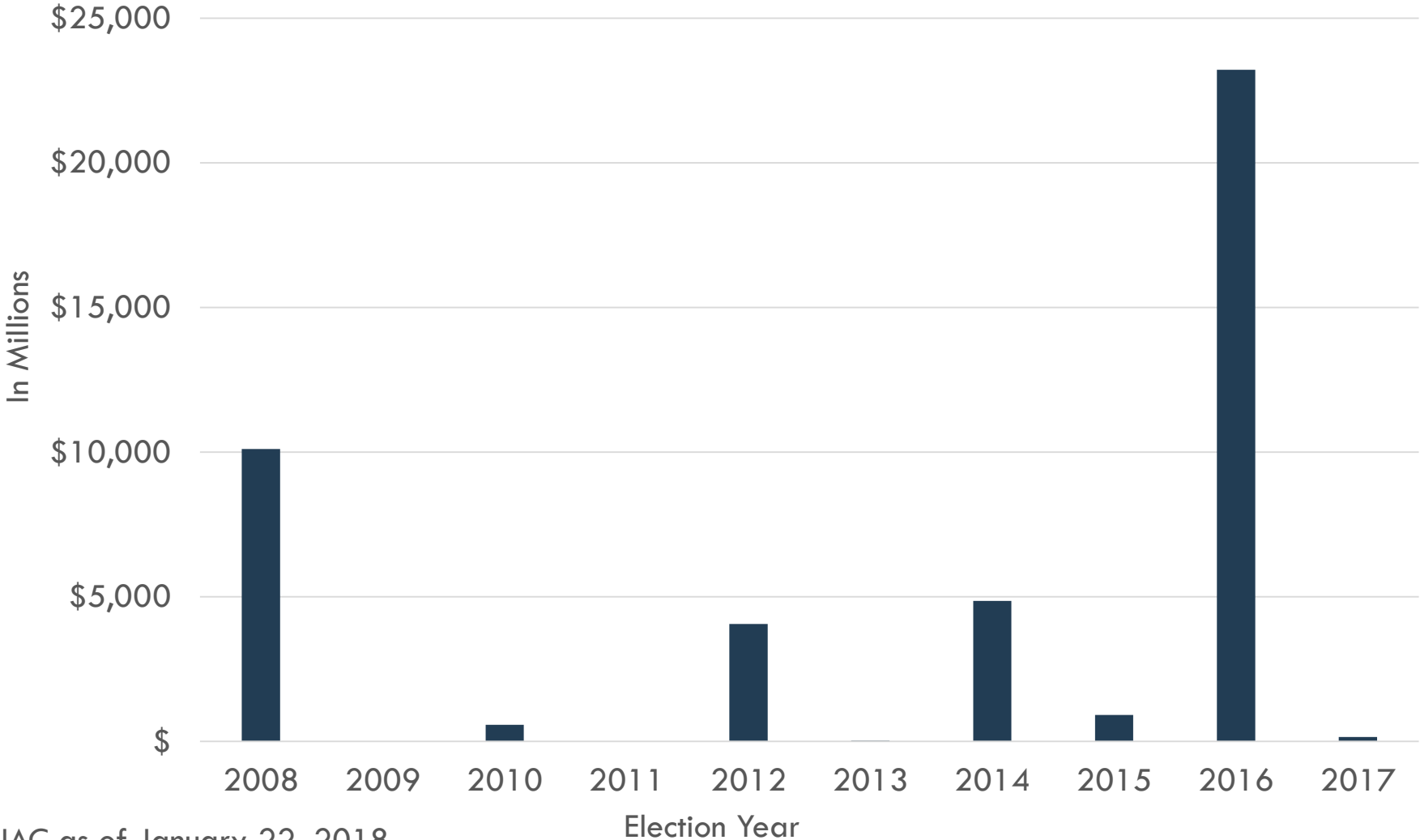


Average Premium By Year For K-12 Debt

	Statewide	Los Angeles	Orange
2008	3%	3%	3%
2009	3%	3%	4%
2010	3%	3%	4%
2011	2%	4%	9%
2012	2%	2%	1%
2013	2%	2%	4%
2014	2%	3%	2%
2015	4%	4%	3%
2016	4%	5%	3%
2017	5%	4%	4%
Average	3%	3%	4%

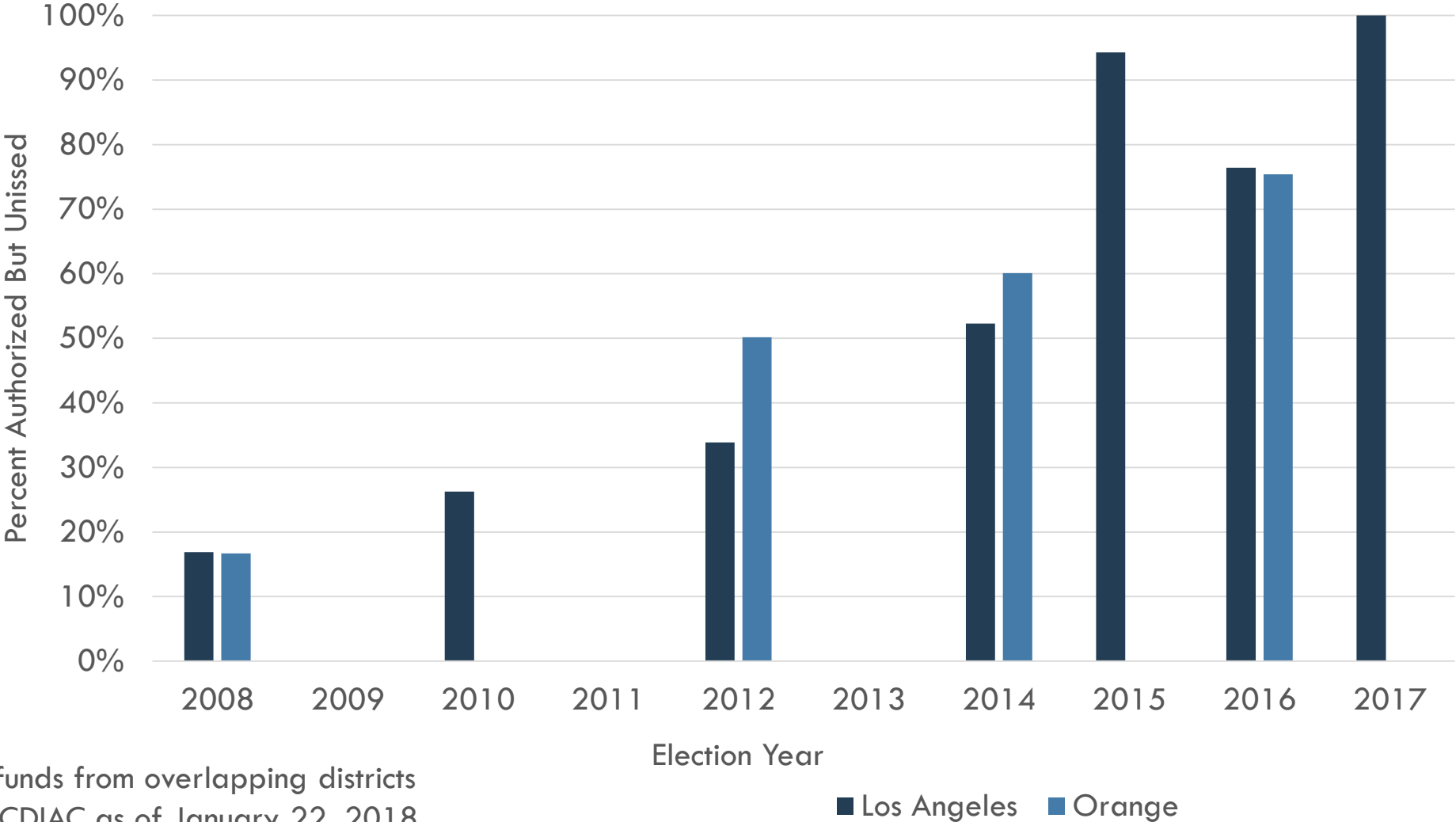
In terms of principal amount issued.

Statewide Authorized But Unissued K-12 Debt



Data reported to CDIAC as of January 22, 2018

County Authorized But Unissued K-12 Debt



Data may include funds from overlapping districts
Data reported to CDIAC as of January 22, 2018

CDIAC Pre-Conference

San Francisco's Strategies to Collaboratively Address Ever-Changing Market Dynamics

October 1, 2018





City and County of San Francisco

Urban environments face shared challenges:

- Climate Change
- Cybersecurity
- Evolving Transportation
- Affordable Housing



City and County of San Francisco

The Controller's Office of Public Finance

Mission:

- Provide and manage low-cost debt financing for large-scale, long-term capital projects and improvements that produce social and economic benefit to the City while balancing market and credit risk with appropriate benefits, mitigations, and controls





City and County of San Francisco

The Controller's Office of Public Finance

Objectives:

- Maintain cost-effective access to capital markets
- Maintain moderate debt levels
- Meet capital investment demands
- Achieve the highest practical credit rating
- Ensure compliance with applicable local, state, and federal law
- Ensure full and timely payment of debt



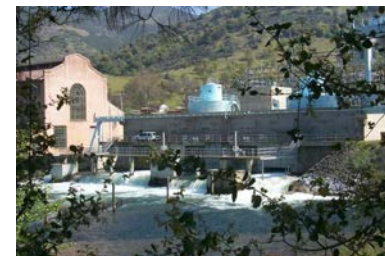
What are Green Bonds?

- Green Bonds are like conventional bonds in how they are sold and repaid
- Proceeds earmarked for climate change mitigation or adaptation projects
- \$165B issued in 2017, North America accounting for about 20% of total (UN climate goal is \$1T by 2020)
- US tax-exempt muni green bond market <10%
- Bonds may be self-certified or certified under CBI or the Green Bonds Principles
- **Opportunity to align the financing of green infrastructure projects with dedicated green investors**

SFPUC: Three Utilities & Credits Over \$1.4B Green Bonds Issued

Water Enterprise provides drinking water to nearly 2.7 million people in SF Bay Area

- \$765M Green Bonds Issued (CBI Certified)



Wastewater Enterprise operates City's stormwater and sewage collection and treatment system

- \$648M Green Bonds Issued (CBI Certified)



Power Enterprise operates three hydroelectric generation facilities for municipal purposes

- \$32M Green Bonds Issued (Self Certified)



Why Issue Green Bonds?

- Broadens investor base for SFPUC and other SF debt issuing departments
- Potential pricing advantage from tax-exempt green bonds
- Aligns with San Francisco climate leadership
 - SF has reduced greenhouse gas emissions by 30% from 1990 levels during 20% population increase
 - SF Mayor recently committed to four key policy goals:
 - **Zero Waste:** Reduce waste by 15% and landfill disposal by 50% by 2030 (on top of current 97% green waste diversion)
 - **Decarbonizing Buildings:** Net-zero buildings by 2050
 - **100% Renewable Energy:** All renewables by 2030
 - **Green Bonds:** City signed Green Bond Pledge to finance all eligible projects with green bonds

Joint Benefits

- Amplify benefits of capital project delivery by splitting project costs according to benefits received
- Hypothetical example: redesign underutilized urban space to incorporate:
 - Flood benefits – public utility, ie SFPUC
 - Improved transit/pedestrian connection – transit agency
 - Housing – Housing Authority, private or nonprofit developers
 - Parks – parks department, local nonprofits

Cybersecurity

- Cybersecurity becoming threshold credit issue for rating agencies and investors
- SFPUC relies on large, complex technology environment to operate its three utility systems
- Constant and growing cybersecurity threats, including hacking, viruses, and malware, can disrupt SFPUC's essential service utility operations - other SF departments face similar threats
- In 2016, SF adopted a city-wide Security Policy to maintain and secure critical infrastructure and data systems; City Chief Information Security Officer also appointed for all 54 City departments

Cybersecurity

- SFPUC abides by City's Security Policy
 - Also maintains its own information security programs specific to the Water, Wastewater and Power Systems
- Recent best practice is to include disclosure in bond official statements describing both SFPUC and city-wide cybersecurity measures and practices
- Coordinated legal disclosure and messaging by SFPUC and other city departments provides best comfort to bond market regarding city-wide cybersecurity concerns



San Francisco
International
Airport

Setting New Records



Total Airport Passengers
in FY 2018

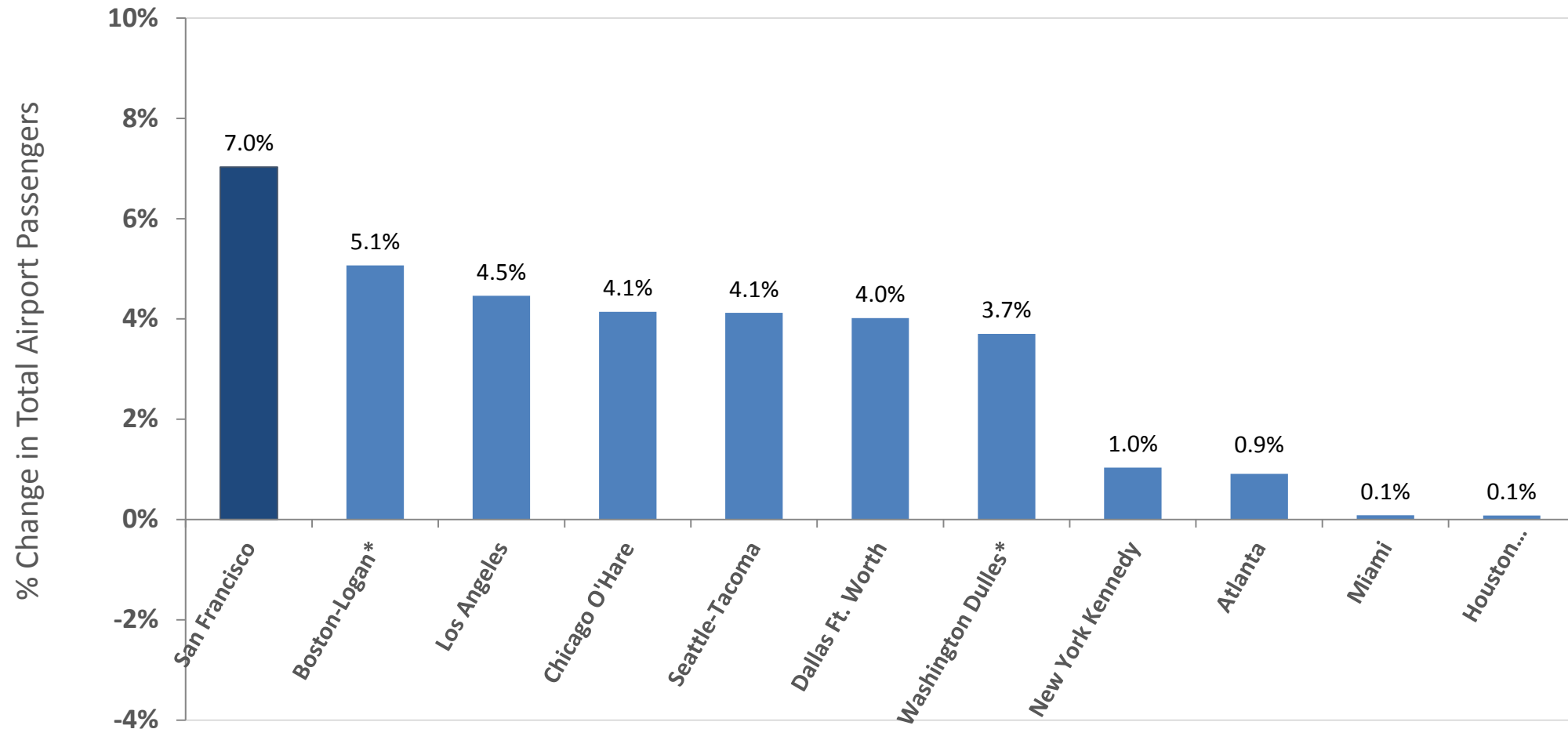
57,780,300

7% increase
from FY 2017



Strong Passenger Demand

Major International Gateways: Year-over-Year Growth

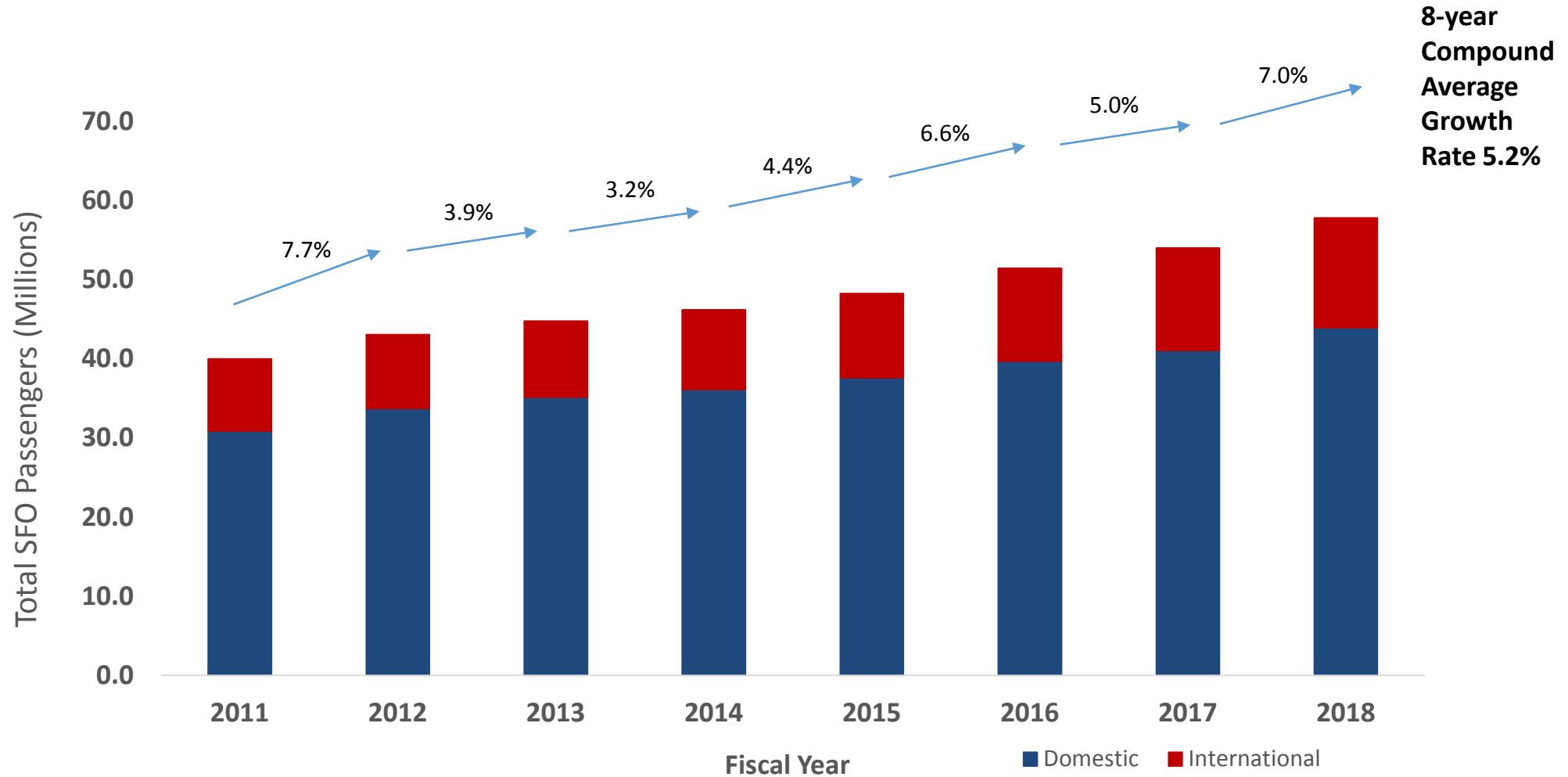


Source: Air Traffic data posted on respective Airports' websites

*Boston-Logan and Washington Dulles data reflects FYTD May 2018



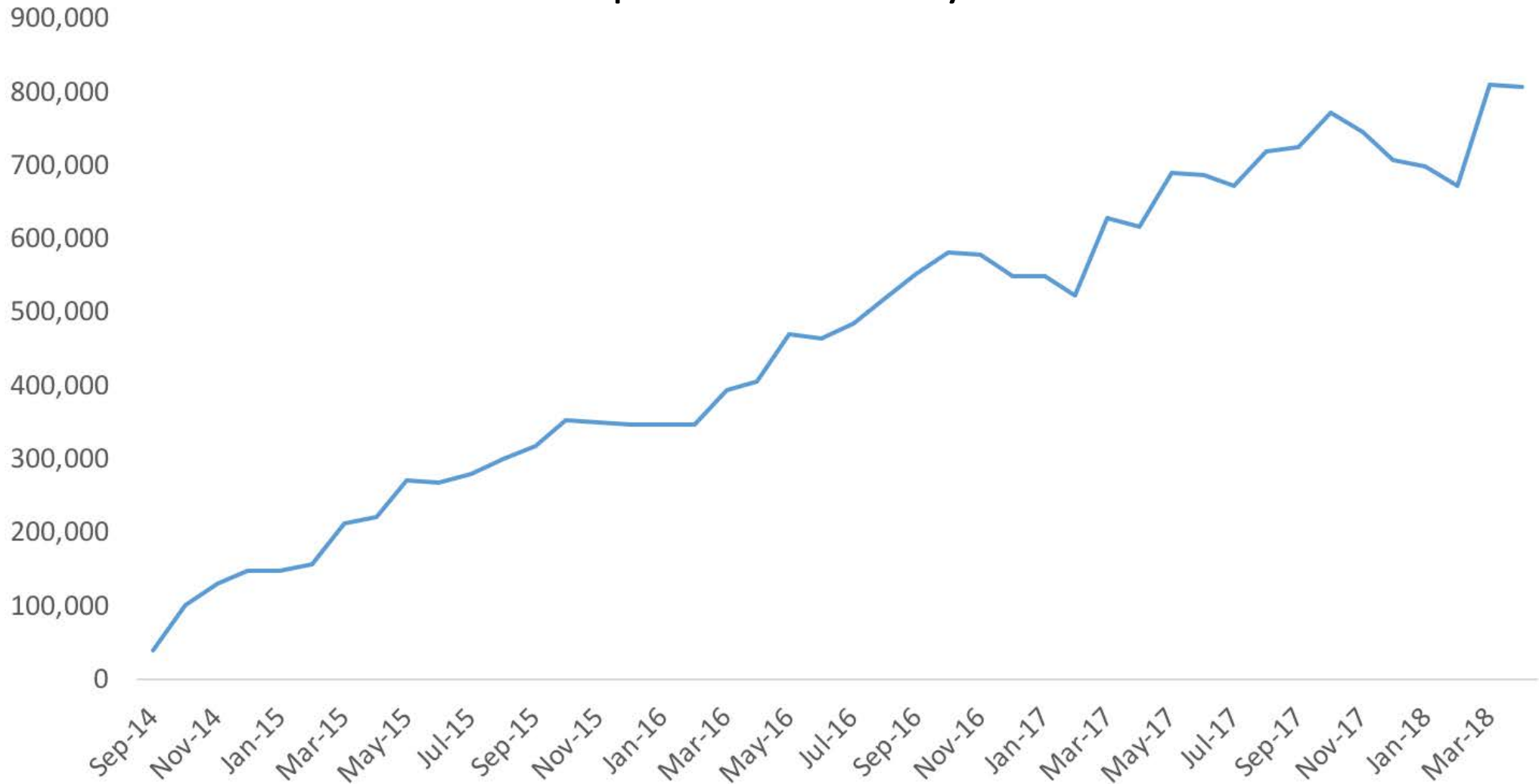
Sustained Passenger Growth





Transportation Network Companies

TNC Trip Volume by Month



Airport Mode Share



	2014	2017
Ride-sharing	4%	24%
Rent a Car	12%	9%
Taxi	11%	4%
Parking	8%	7%
Bay Area Rapid Transit (BART)	10%	7%

Source: SFO Passenger Surveys

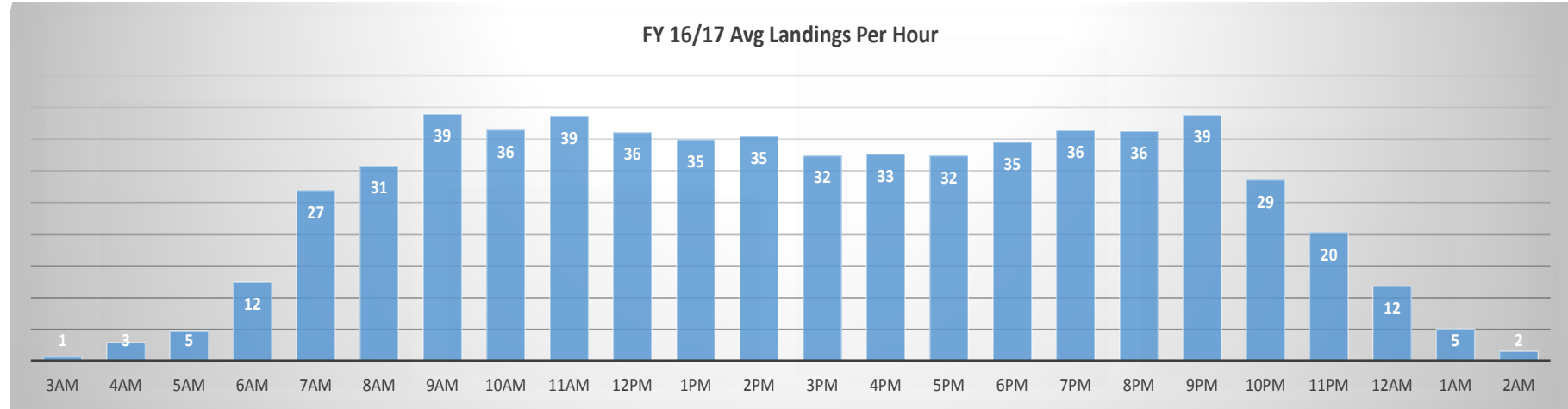
Note: Totals do not add up to 100% due to other modes not shown



San Francisco International Airport

Traffic Pattern

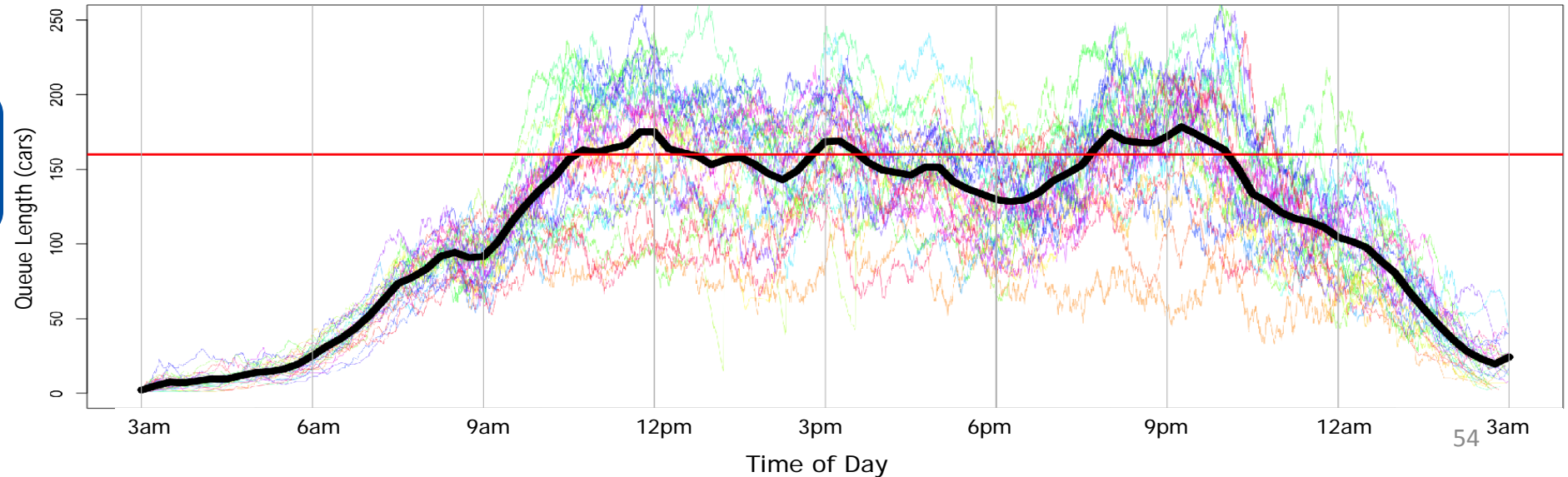
Aircraft Arrivals by Hour



Staging Lot Queue by Hour

Lot Limit = 160 Cars

Combined Queue Length (Cars) for July





San Francisco
International
Airport

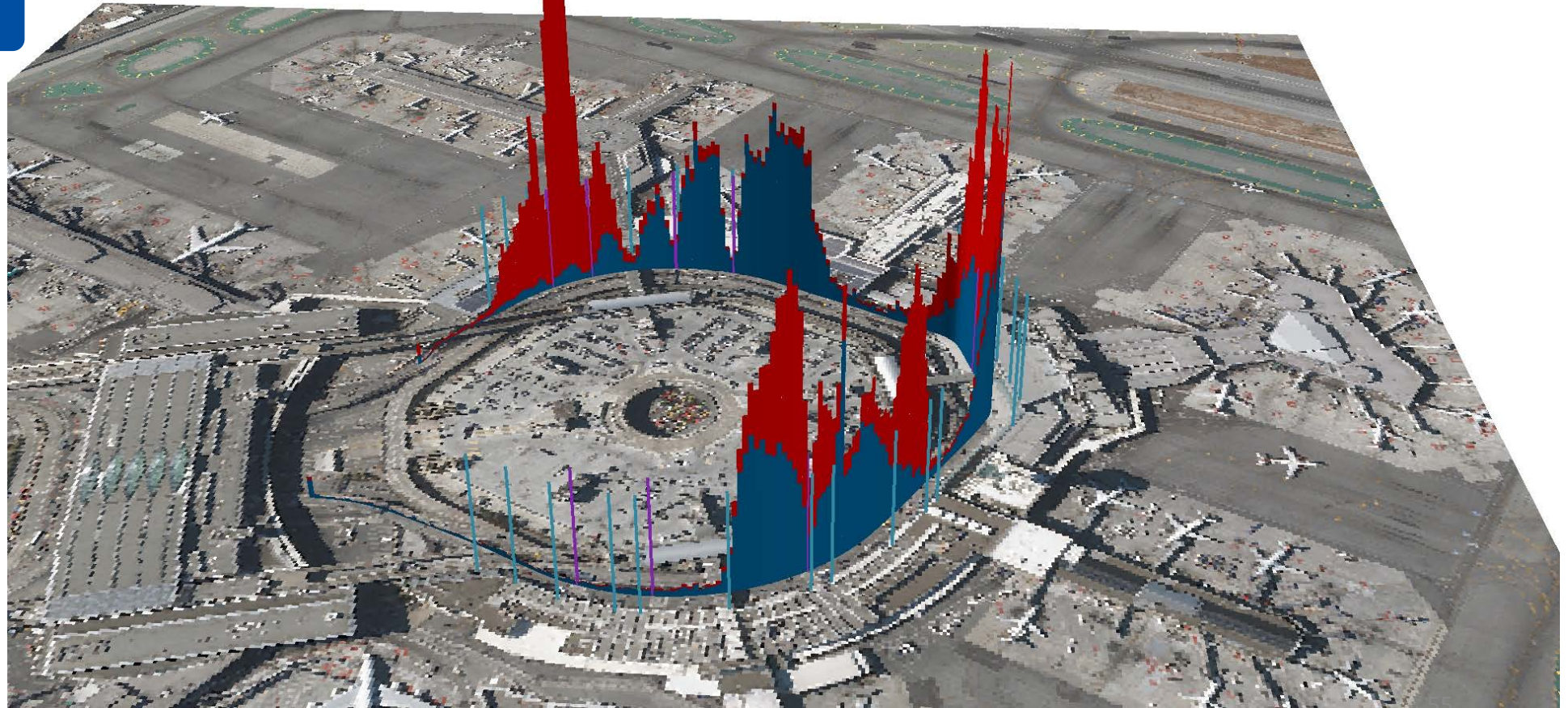
Curbside Management

TNC Activity along domestic terminal roadways
August 20-26, 2017
SFO Bureau of Planning & Environmental Affairs

Red = Pick-ups
Blue = Drop-offs
Columns are stacked.

- Additional pick-up/drop-off location
- Differential fee structure

Starting July 1, 2018





Affordable Housing

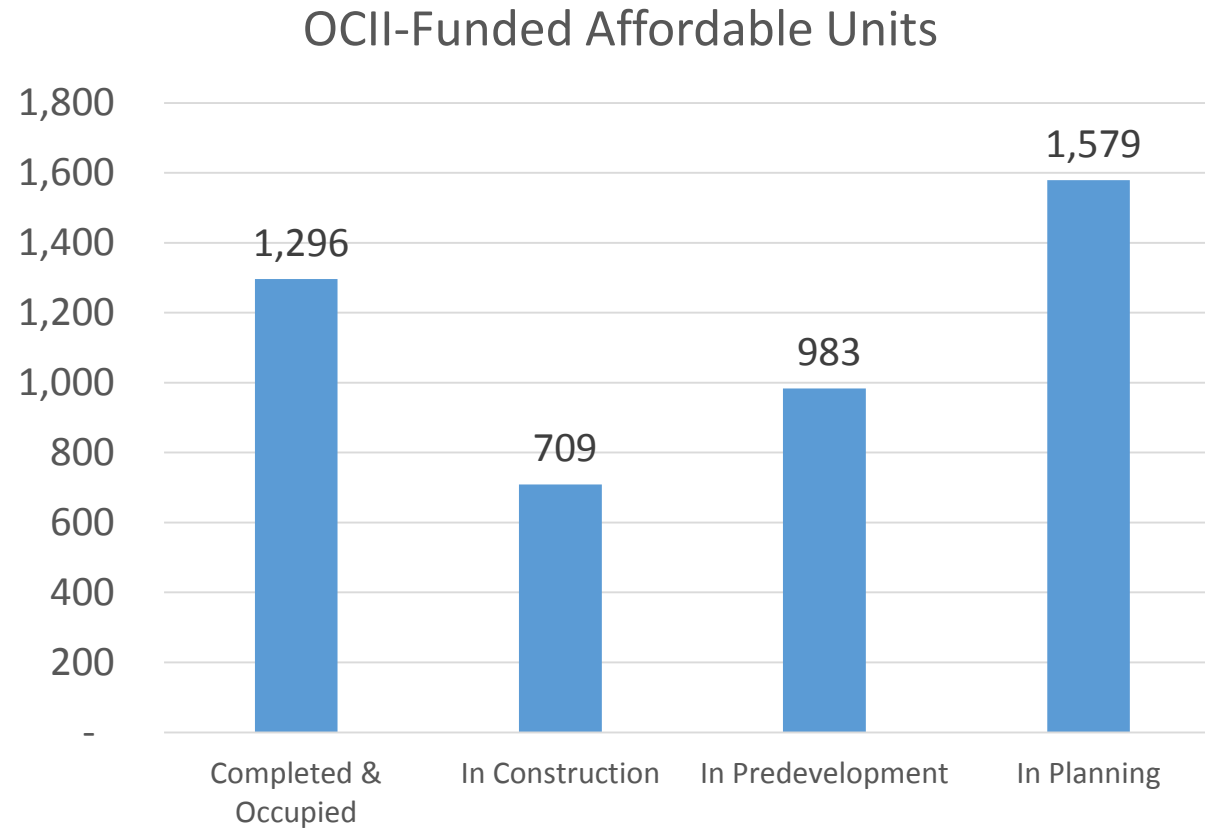
- San Francisco metropolitan area added 373,000 net new jobs in the last five years, but issued permits for only 58,000 units of new housing
- S&P Core Logic Case-Shiller National Home Price Index up 164% since 2000
- San Francisco is the most expensive rental market in the United States
 - 1 bedroom median rent - \$3,500
 - 2 bedroom median rent - \$4,680





Affordable Housing

Late Mayor Lee set the goal of 10,000 Affordable Homes by 2020, 1/3 from OCII

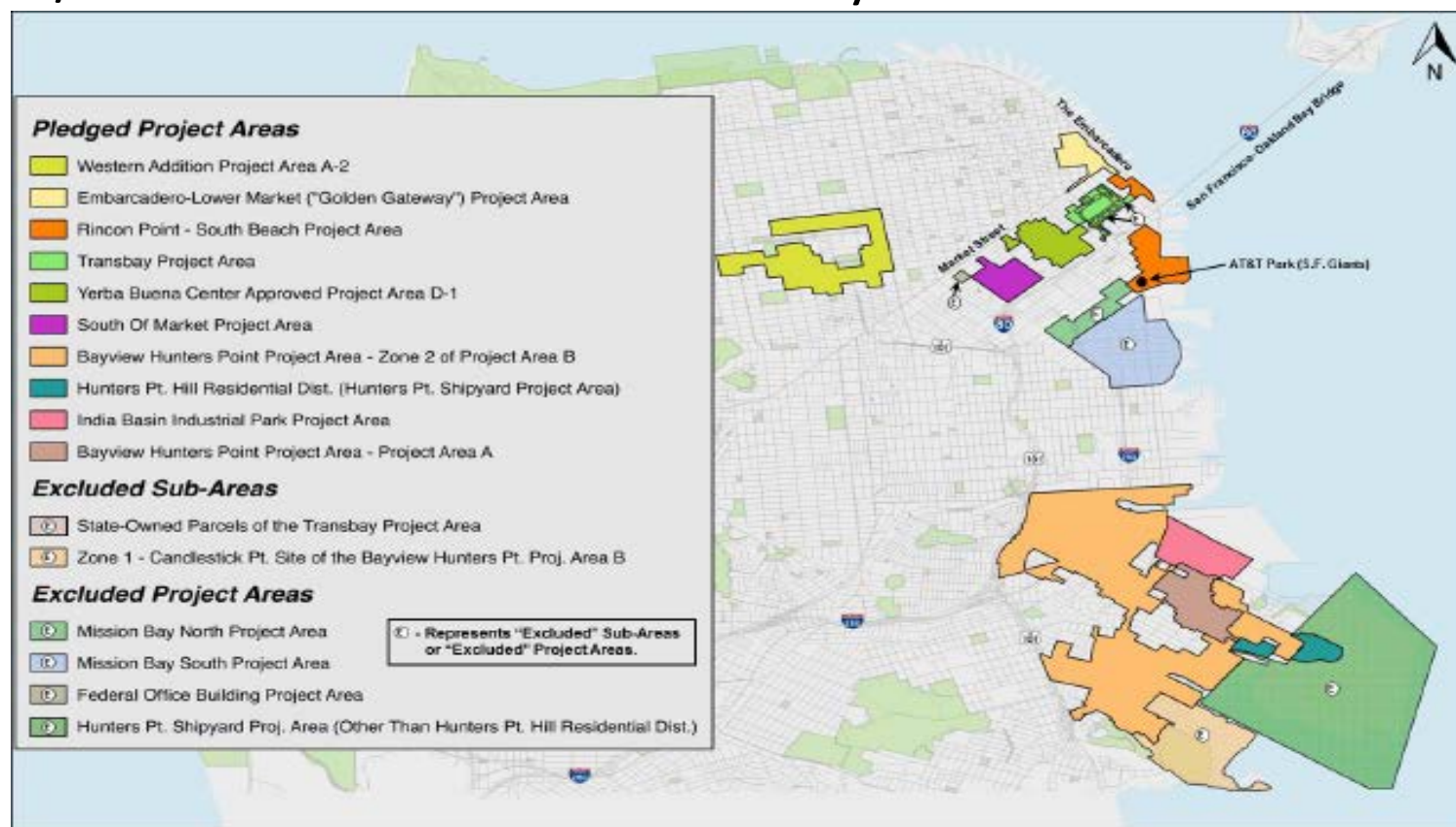




Affordable Housing

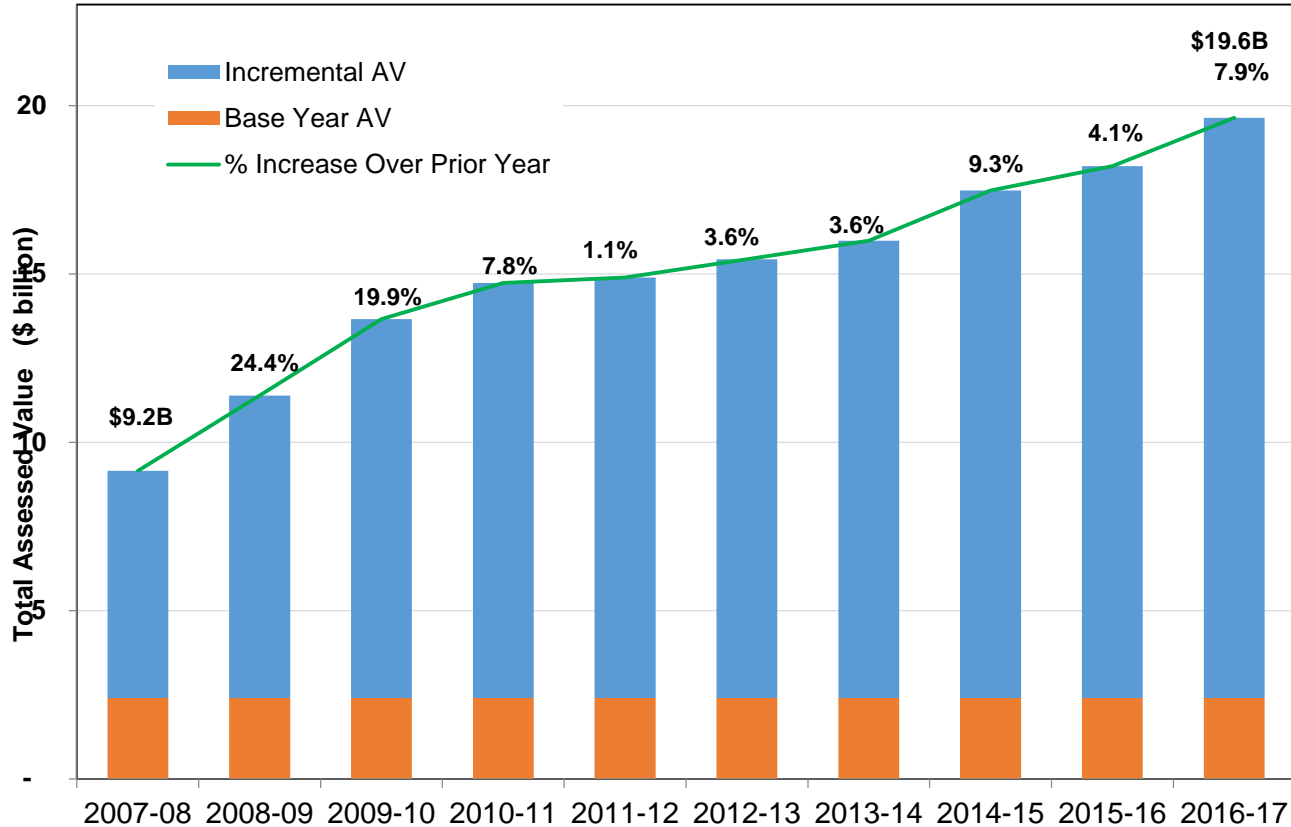
SB107 uniquely permits OCII to issue bonds to finance Affordable Housing Obligations required by the development documents for Mission Bay North & South, Hunters Point Shipyard/Candlestick Point and Transbay

- Confirmed affordable housing production obligations as enforceable obligations
- Awarded the right to use pooled tax increment
- Eliminates limitations that existed under Redevelopment Law
 - Time limits relating to payment of enforceable obligations
 - Number of tax dollars to be collected





Affordable Housing



- Created diverse, stable, and growing funding stream
- Base rates established in the 1960s create significant growth opportunity
- Taxable values have increased 114% since FY07-08
- Estimated to raise \$500M at time of passage

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**SESSION 4:
ISSUES FACING CALIFORNIA CITIES IN THE
MUNICIPAL MARKET**

Bond Buyer Pre-Conference: October 1, 2018

Introductions



Moderator: David Brodsky
Managing Director
KNN Public Finance



Natalie Brill
Chief of Debt Management
City of Los Angeles



Edward Enriquez
Assistant Chief Financial Officer
and Deputy Treasurer
City of Riverside



George Harris II
Deputy City Manager and
City Treasurer
City of Victorville



Jyothi Pantulu
Debt Manager
City of San Diego

Issues Facing California Cities



Upcoming CDIAC Programs

PUBLIC FUNDS INVESTING WORKSHOP: USING MS EXCEL

October 23, 24, 25, 2018 | Aliso Viejo, California

CMTA/CDIAC FUNDAMENTALS OF PUBLIC FUNDS INVESTING

January 23-24, 2019 | Riverside, California

MUNICIPAL DEBT ESSENTIALS

February 12-14, 2019 | Riverside, California