CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

2018 BOND BUYER PRE-CONFERENCE OCTOBER 1, 2018 JW MARRIOTT – LA LIVE LOS ANGELES, CA

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

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



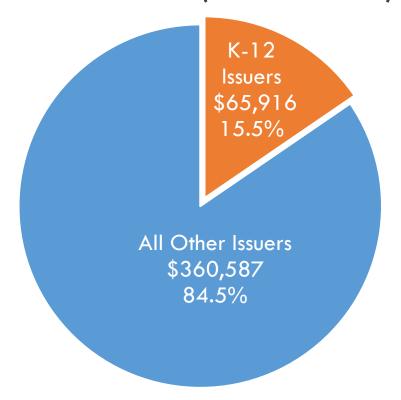
Alvaro Meza
Assistant Superintendent of Business
Services and Chief Business Official
Gilroy Unified School District



Scott Price
Chief Financial Officer
Los Angeles Unified School District

School Issuance by the Numbers

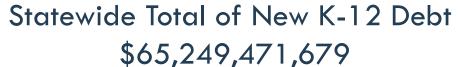
Comparison of K-12 Issuers to All Other Issuers 2012-2017 (\$ in Millions)

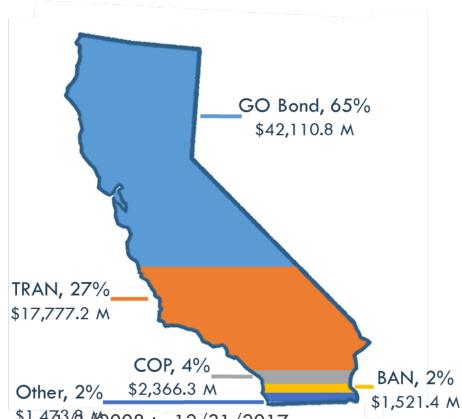


Total Issuance: \$426.5 Billion

Source: CDIAC Database 4/27/18

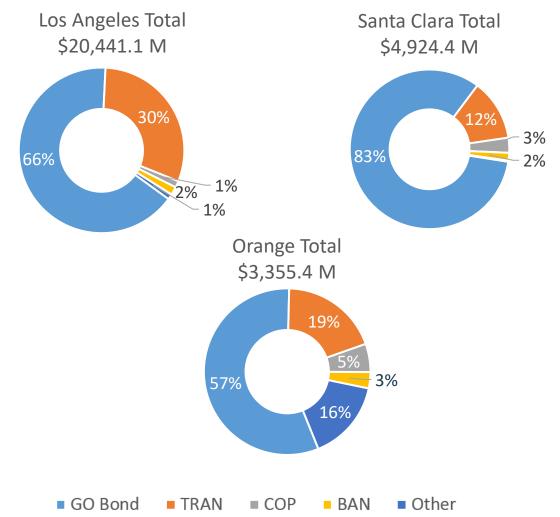
K-12 Debt Issued By Debt Type





Date Range $\frac{473}{9}$ $\frac{42008}{2008}$ to $\frac{12}{31}$

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 XIIIA, 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.

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

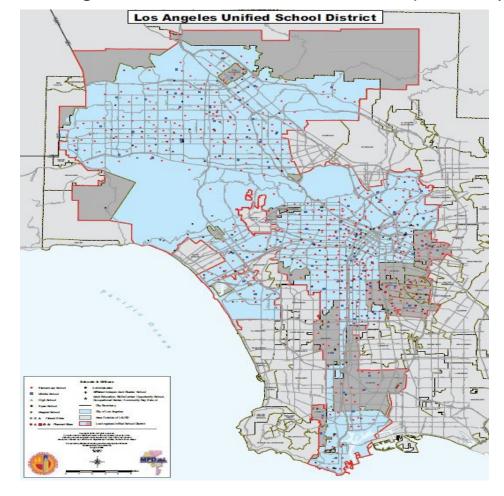
613,274 K-12 students in Los Angeles County in FY 17/18

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.



1

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

County cannot borrow from the District's bond accounts



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

\$80,315,000,000GO Authority Issued

\$53,489,000,000 GO Authority Unissued







Gilroy USD: Gilroy High School Math Building

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

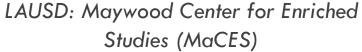
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LAUSD: Dr. Sammy Lee Medical and Health Science Magnet

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

Introductions



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



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



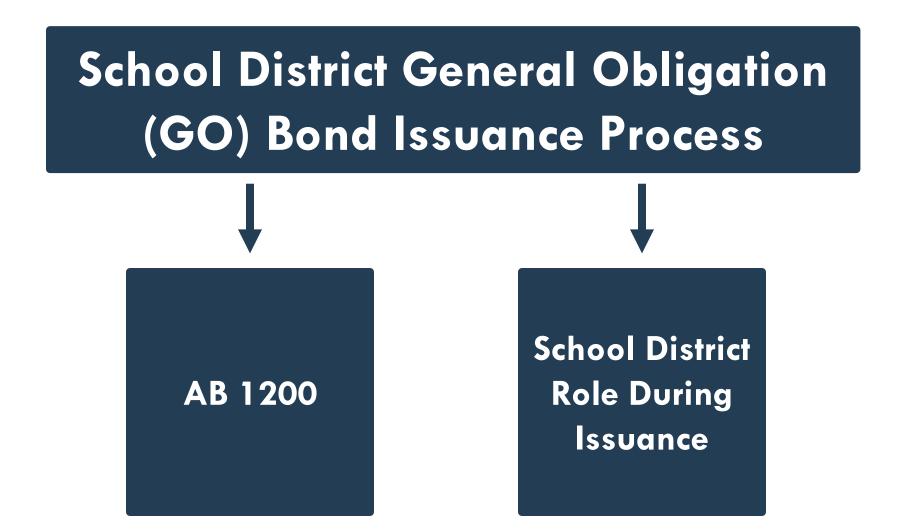
Antoinette Chandler
Assistant Treasurer-Tax Collector
County of Los Angeles



Keith CraftonDirector Business Advisory Services
Los Angeles County Office of Education



Shari Freidenrich Treasurer-Tax Collector County of Orange



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



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Working With the Financing
Team

Structuring, Pricing, and Issuance on Behalf of Districts

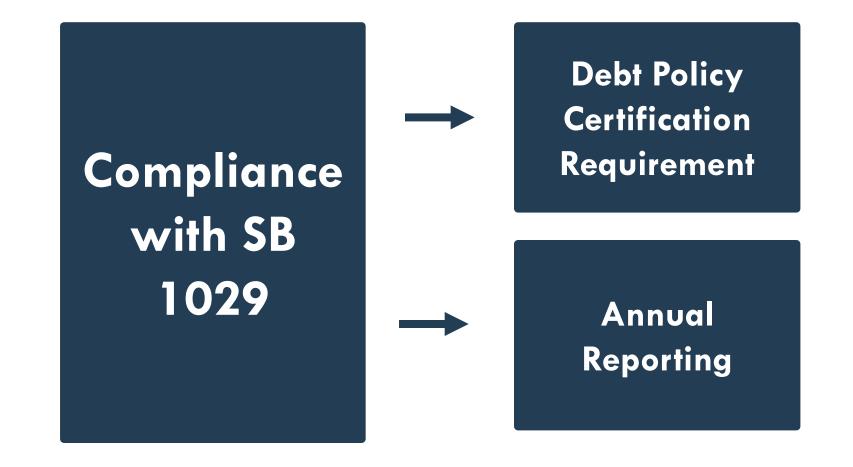
County
Issuance On
Behalf of
Districts

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



The Role of the County as the Paying Agent

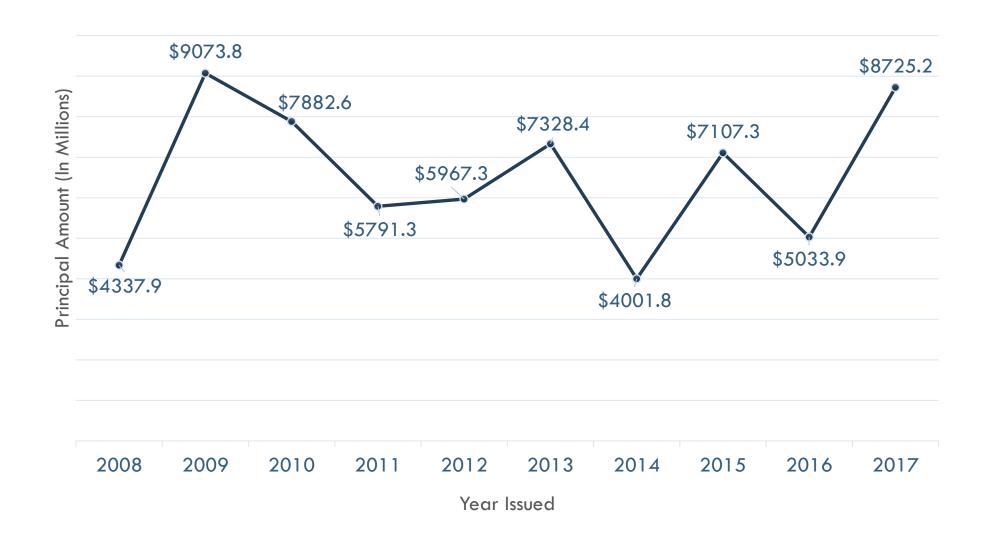
In-House
Versus
Outsourced

Escheatment of Uncashed Checks

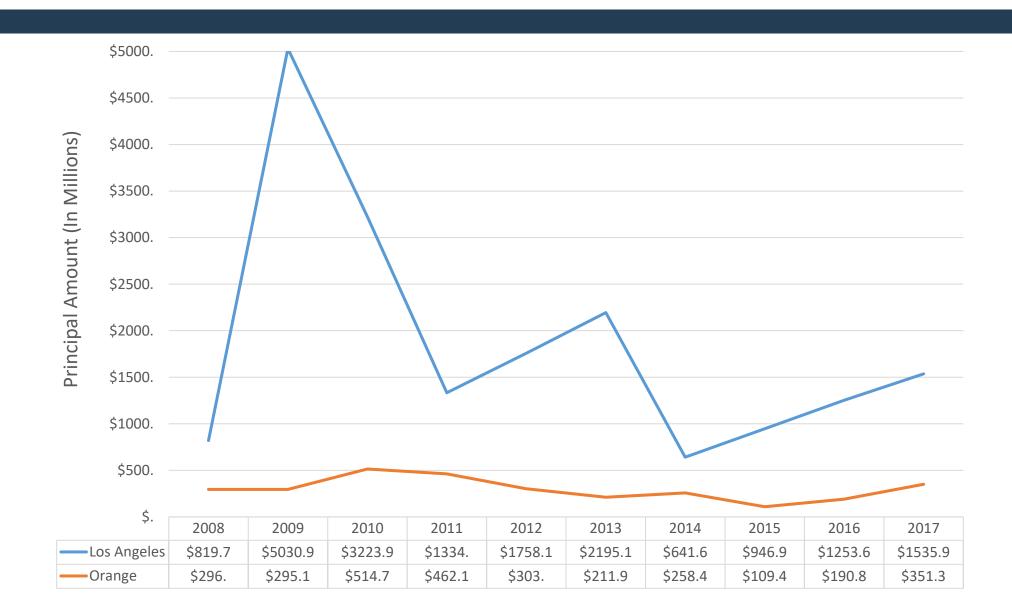
Data Information

- 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

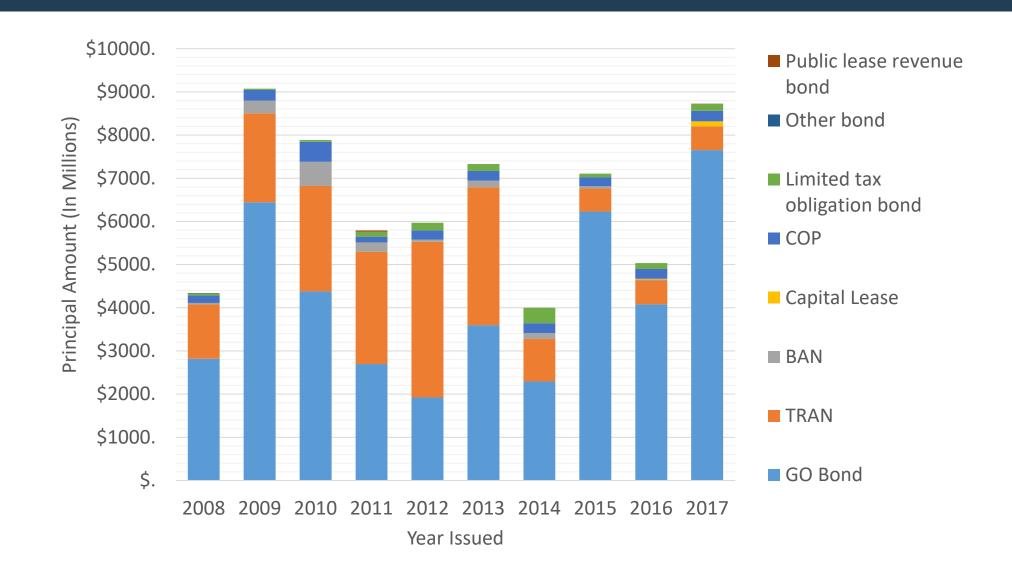


County K-12 Debt By Volume



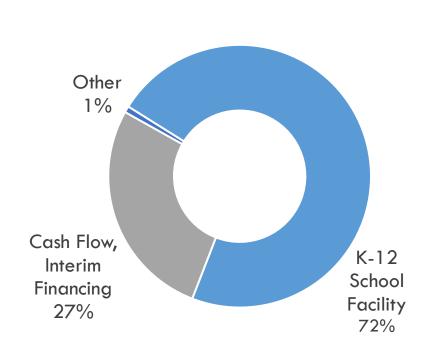
CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Statewide K-12 Debt By Year

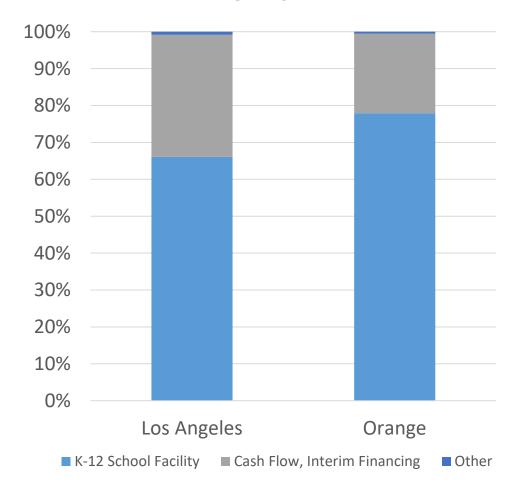


K-12 Debt By Purpose

Statewide

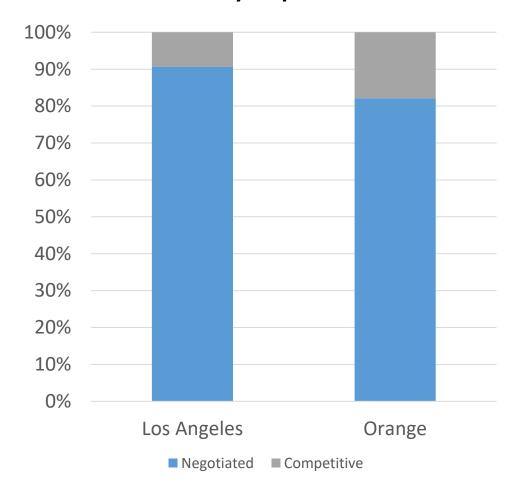


County Specific

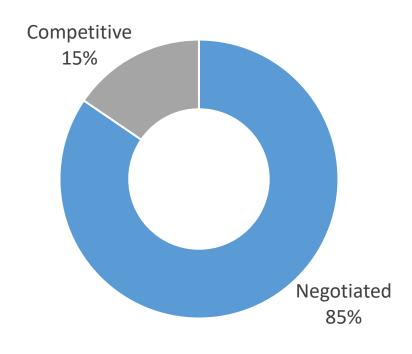


K-12 Debt By Sale Type

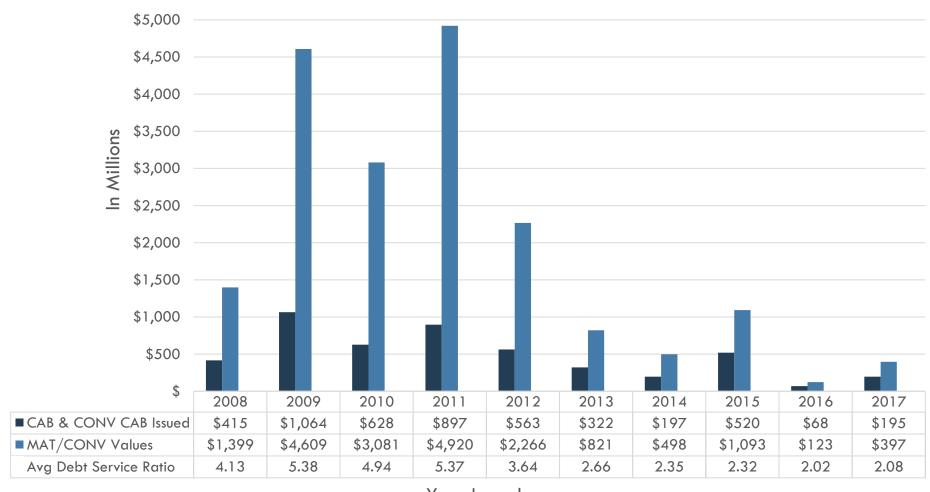
County Specific



Statewide



Statewide K-12 CABs and CONV CABs

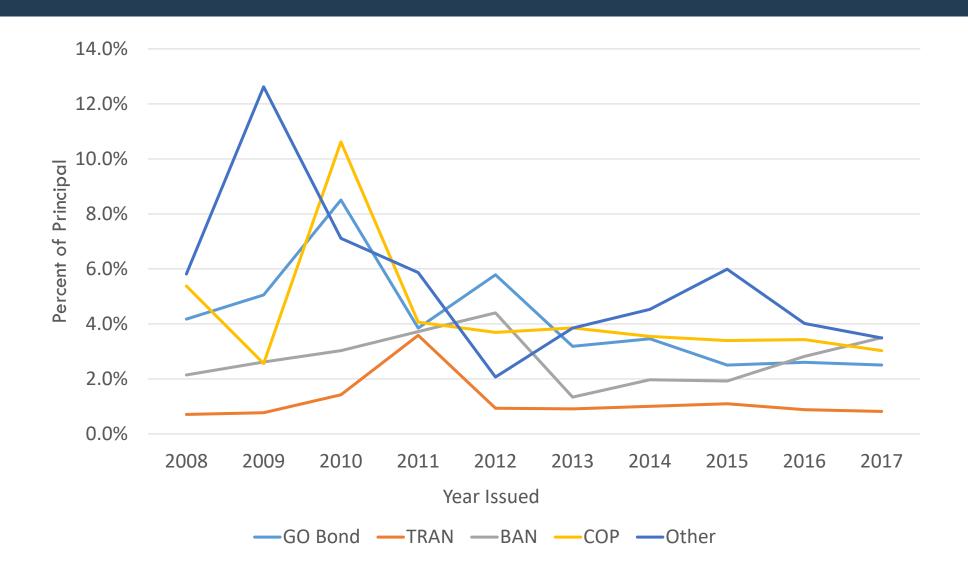


Year Issued

County K-12 CABs and CONV CABs



Statewide Average Cost Of Issuance For K-12 Debt

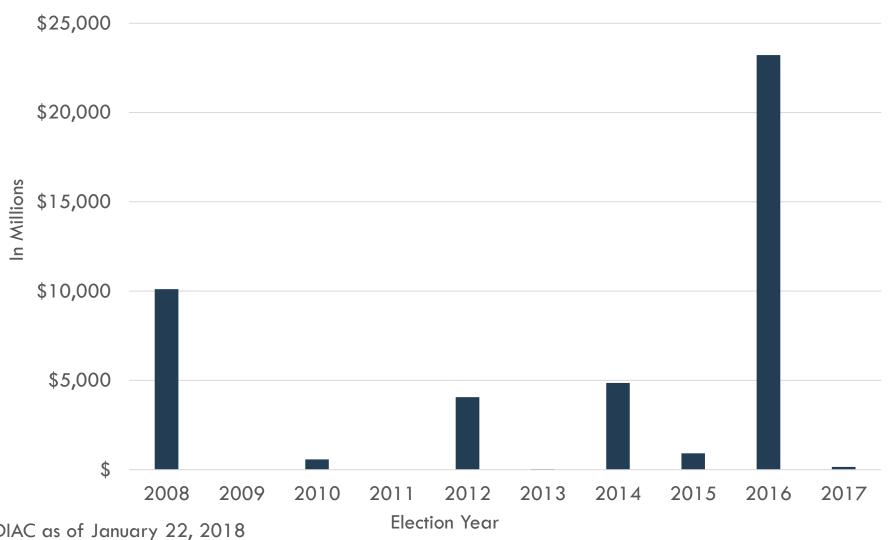


Average Premium By Year For K-12 Debt

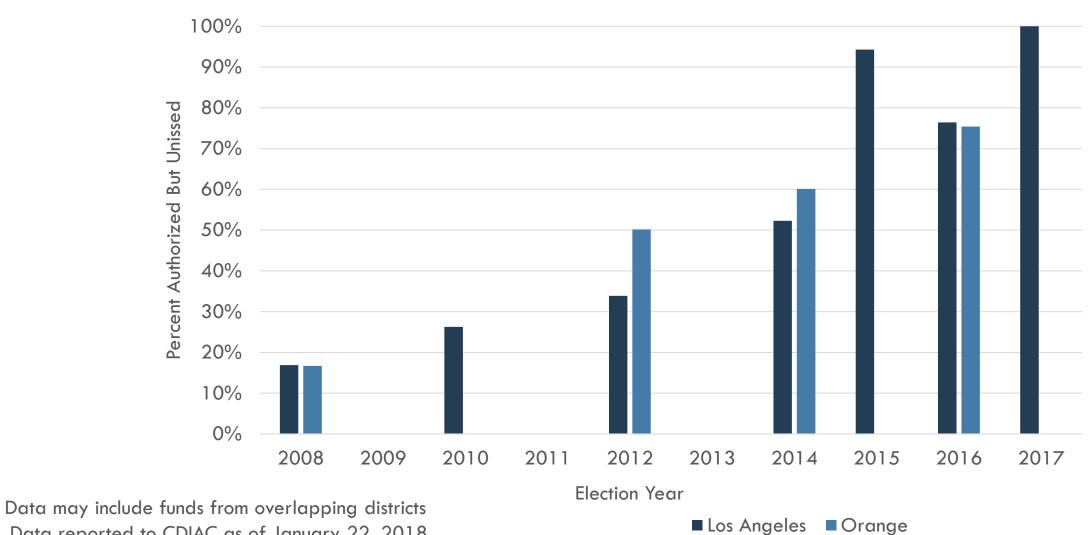
	Statewide	Los Angeles	Orange
2008	3%	3%	3%
2009	3%	3%	4%
2010	3%	3%	4%
2011	2%	4%	9%
2012	2%	2%	1%
2013	2%	2%	4%
2014	2%	3%	2%
2015	4%	4%	3%
2016	4%	5%	3%
2017	5%	4%	4%
Average	3%	3%	4%

In terms of principal amount issued.

Statewide Authorized But Unissued K-12 Debt



County Authorized But Unissued K-12 Debt



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



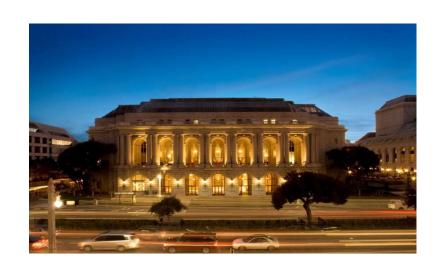


City and County of San Francisco

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)



\$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



Setting New Records



Total Airport Passengers in FY 2018

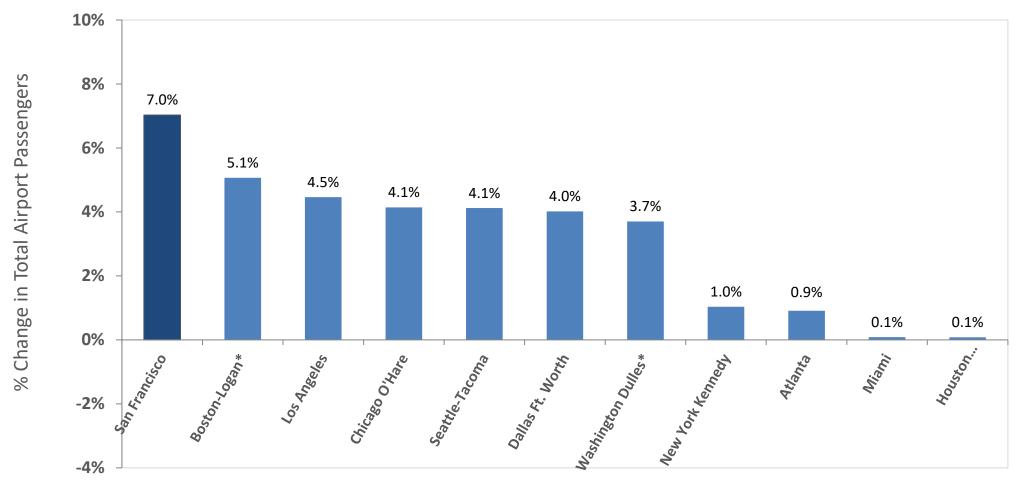
57,780,300

7% increase from FY 2017



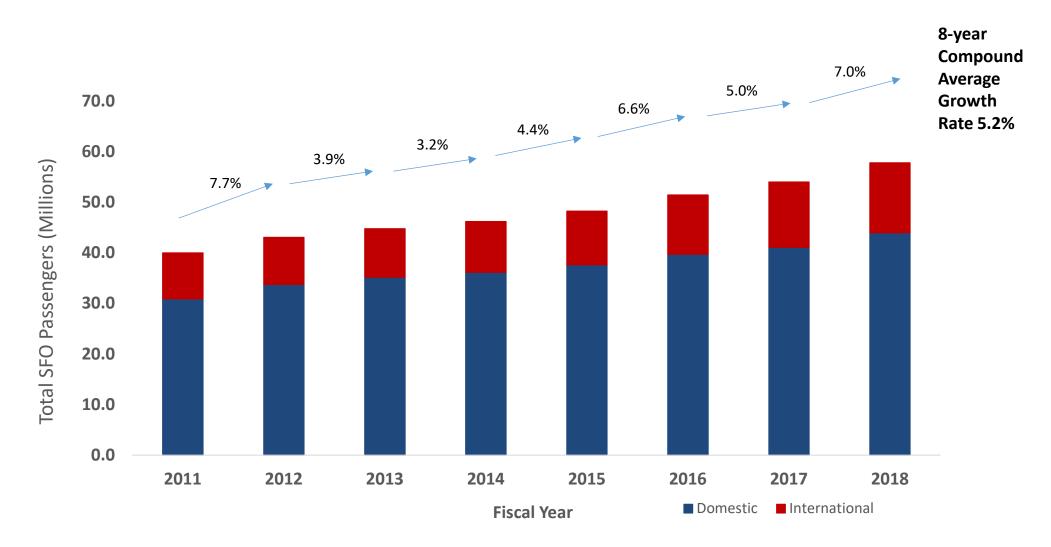
Strong Passenger Demand

Major International Gateways: Year-over-Year Growth





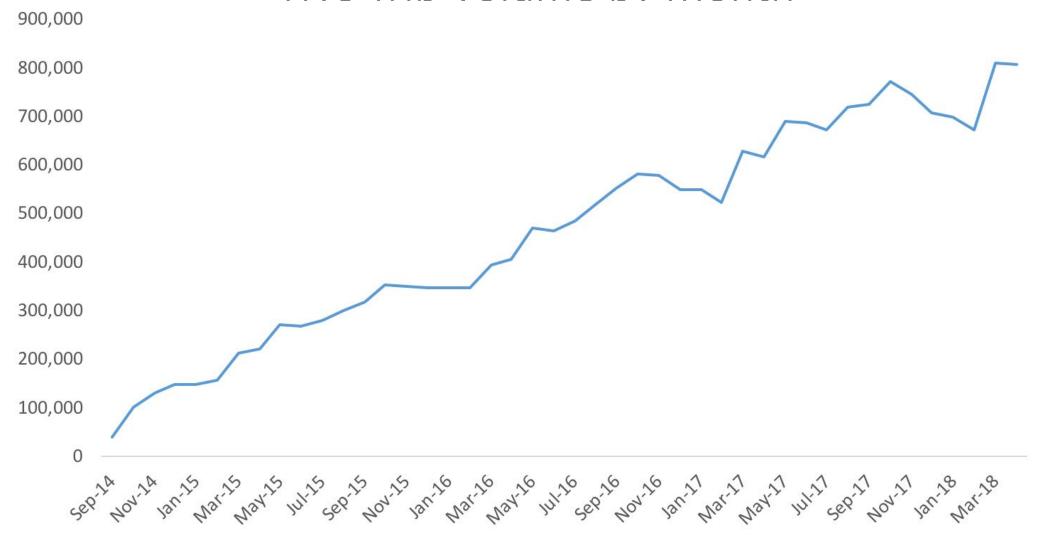
Sustained Passenger Growth





Transportation Network Companies







Airport Mode Share

	2014	2017
	4%	24%
Rent Cal W	12%	9%
TAXI	11%	4%
	8%	7%
ba	10%	7%

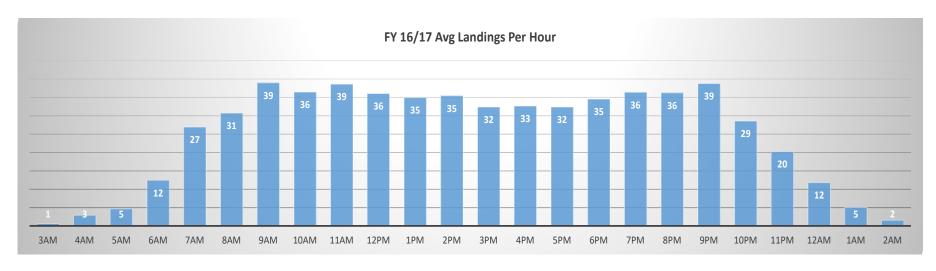
Source: SFO Passenger Surveys

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



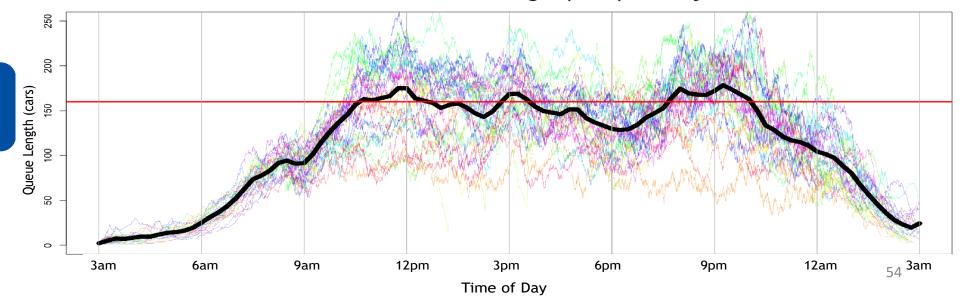
Traffic Pattern

Aircraft Arrivals by Hour



Combined Queue Length (Cars) for July

Staging Lot Queue by Hour





Curbside Management

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

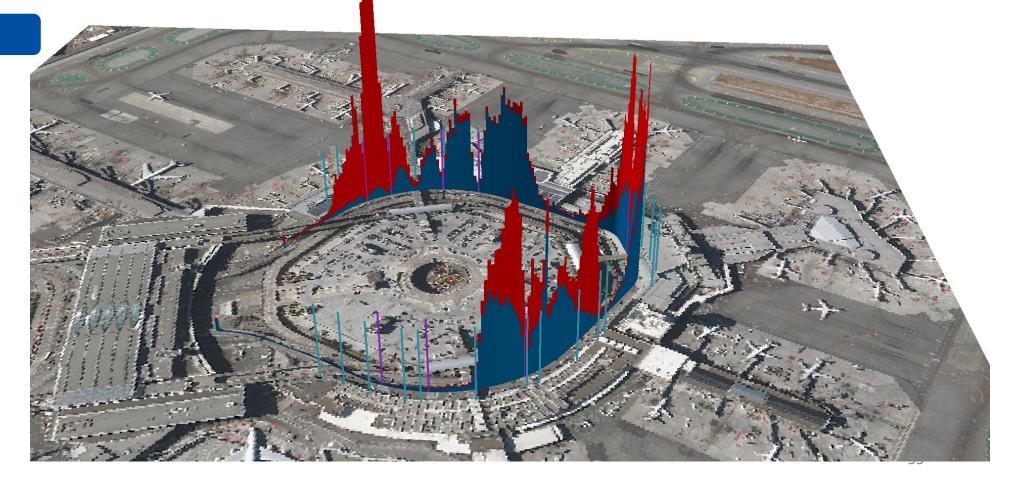
Red = Pick-ups Blue = Drop-offs

Columns are stacked.

Additional pick-up/drop-off location

• Differential fee structure







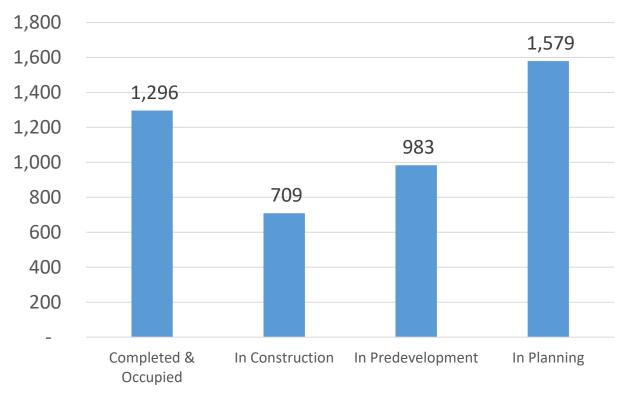
- San Francisco metropolitan area added 373,000 net new jobs in the last five years, but issued permits for only 58,000 units of new housing
- S&P Core Logic Case-Shiller National Home Price Index up 164% since 2000
- San Francisco is the most expensive rental market in the United States
 - 1 bedroom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





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





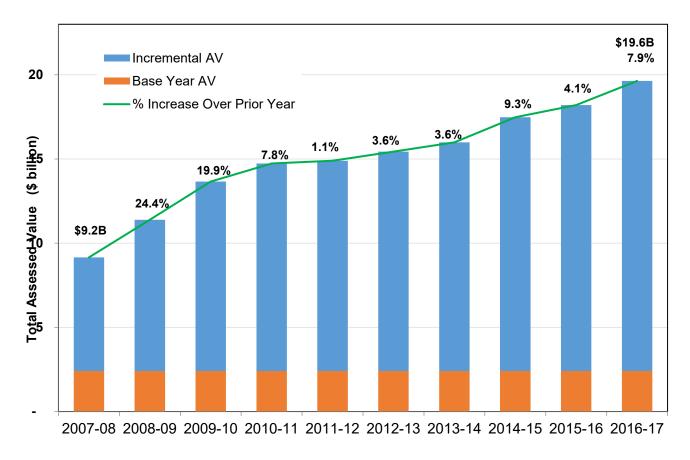


SB107 uniquely permits OCII to issue bonds to finance Affordable Housing Obligations required by the development documents for Mission Bay North & South, Hunters Point Shipyard/Candlestick Point and Transbay

- 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







- 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

Introductions



Moderator: David Brodsly

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