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Twin Rivers Unified School District

Certificates of Participation
Recovery Plan

August 3, 2010

Background

- George K. Baum and Stone & Youngberg prepared a COP recovery plan.
 - Contemplates remarketing the outstanding 2003 and 2007 COPs.
 - Uses the existing documents
 - Converts from daily variable rate to extended fixed rate
 - Enables the District to retain bond insurance and accumulated revenue in the Interest Payment Fund.



Extended Rate Mode Benefits

- Extended fixed rate < long-term fixed rate
 - The District has been paying low short-term variable interest rates.
 - This option is currently not available
 - Extended rate mode provides a relatively low rate for 3-5 years.
 - Allows time to develop a long-term plan to address the repayment of the COPs.
 - In the short-term, the extended rate mode best fits current circumstances.



Prior Board Action

- The Board took action to move forward with conversion to extended rate mode.
- Staff has been working with the County Office of Education (COE) to gain support for the conversion and an overall plan.
 - Working on a review of the District's options
 - Will include short and long term recommendations



Schedule for Conversion

- *August 3 – Review long term recovery plan options with Board*
- August 9 – Begin pre-marketing efforts to obtain cost effective interest rate
- Week of August 16 – Determine new interest rate and length of extended term
- September 1 – Convert to extended rate



Comments on Short-Term Plan

- With current economic situation and limited school district revenue, this is a reasonable solution.
 - Not the time for the District to incur additional expenses
 - Uncertainty of State budget and possibility of additional cuts to education



Modification to Short Term Plan

- After implementing the short-term plan, the District could convert or restructure the outstanding 2003 COP into a fixed rate.
 - Without penalty
 - In addition to Adult Ed funds, redevelopment pass-through funds can be considered as the repayment source
- Based on current rates, annual payments would start at approximately \$350,000/year.



Long Term Implications

- When the debt was originally issued there was no intention of the District making a direct payment on outstanding principal.
 - Unfortunately, this is no longer realistic.
- The current remarketing plan delays the direct impact on repayment for 3 years.
 - Then, the District will need to take some type of action to address COP repayment.



Planning for an Unknown Future

- The economy and District's situation in 3 years are unknown.
- When the Interest Payment Fund is exhausted, payments will need to be made by the District.
 - The payment amount will be based on interest rates at that time.
- Even though the future is uncertain, there needs to be a plan in place with viable options.
 - Some of the options may take time to implement.



Options for the Future

- 1) Pass a new General Obligation Bond (GO Bond) Measure
 - Rescind the existing authorization and use new bond proceeds to retire COPs.
 - Would have a new tax rate limitation enabling bonds to be issued earlier than under the current bond authorization.
 - May be difficult to obtain voter approval without adding new projects.



Options for the Future (Cont'd)

- 2) Restructure the COPs with a fixed rate to match the District's ongoing revenue.
 - Goal would be to minimize the annual General Fund impact.
 - Could result in a more expensive debt structure, due to deferral of principal, to provide manageable payment levels.
 - The Interest Payment Fund can be used to retire a portion of outstanding principal.



Options for the Future (Cont'd)

- 3) Maintain the existing COP repayment structure, but convert to one of the 3 available interest rate structures, depending on the interest environment.
- The Interest Payment Fund can be used until it is exhausted to make payments.
 - High annual payments may have significant effect on other District programs.



Evaluating Revenue Sources Available for Future Debt Repayment

- Developer fees should be committed first.
 - If debt service is \$7 million/year, it would take approx. 1,180 new units each year.
 - In the current market, it's unreasonable to expect that many units, but there will likely be some development.



If Developer Fees Do Not Materialize . . .

- After applying developer fees, the District may need to commit to set aside any increase in funding of the General Fund.
 - If COLA was >0 , the District could use a portion toward COP repayment.



Board Comments and Direction

- Ensure Board understanding of the implications of the current COP recovery plan.
- Provide direction on whether to convert the 2003 COPs to a fixed interest rate.
- Commit to how the long-term debt repayment will be handled.
 - If the District is not going to consider a new GO Bond, direction regarding revenue set-asides should be addressed.



Questions?

