KNN public finance

MEMORANDUM

Date: October 28, 2014

To: Jeanette Gordon
Los Angeles Community College District

From: David Brodsly and Justin Rich
KNN Public Finance

Re: Los Angeles Community College District 2014 Plan of Finance

Attached is a PowerPoint presentation summarizing the recommended plan of finance for the upcoming general obligation bond issues. The current plan is to sell up to $350 million in new money bonds and as many as $1.75 billion in refunding bonds.

The new money bond issue is expected to meet the District's cashflow needs for the next 11 months. We would anticipate another issue next summer, so as to ensure that adequate funding is always available to the capital program. A portion of the new money bonds may be sold at taxable interest rates to fund projects that have "private activity," allowing you to build facilities that can be used in public-private partnerships.

Because interest rates have fallen throughout the year, you have tremendous refunding opportunities. While most of the refundings will be advance refundings, and therefore will fund escrows for future bond calls, the efficiency of the refundings is high. The amount of net savings well exceeds the inefficiency in the escrow from low interest earnings. (This inefficiency, deriving from the difference between the maximum interest rate an escrow can legally earn and the amount it actually earns, is referred to as "negative arbitrage. A common rule of thumb is that net present value savings should be greater than the amount of negative arbitrage). We anticipate that cumulative present value savings will be above 10% of refunded bonds, and that savings will be at least twice the amount of negative arbitrage.

Also attached and following our presentation is the memo that was previously released, which further describes the plan of finance and the underwriting appointments for the first series.

2014 General Obligation Bond Issues
Plan of Finance

Presentation to the Los Angeles Community College District
Board of Trustees Finance and Audit Committee

November 5, 2014

KNN public finance
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A Division of Zions First National Bank

Topics for Discussion

1. New Money Needs
2. Refunding Opportunities
3. Underwriter Recommendations
4. Next Steps

New Money Needs

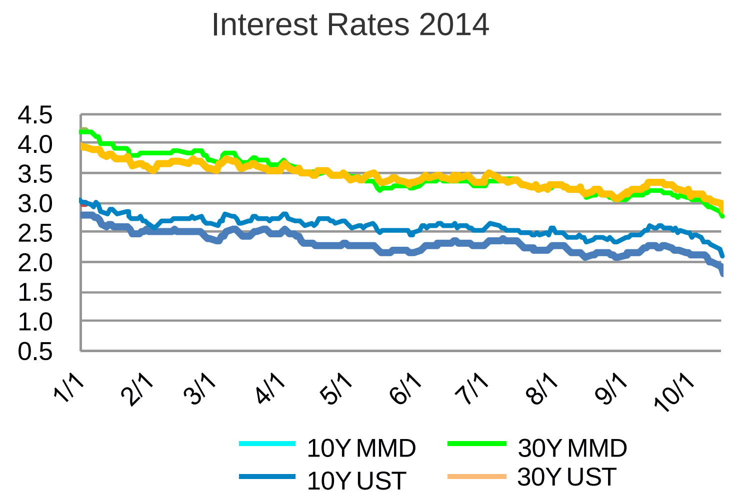
- District anticipates expending approximately $30 million a month on bond-funded projects
- Last new money bond issue ($250 million) was sold in June 2013
  - Existing funds expected to be depleted in January 2015
- To replenish construction fund, $350 million in Measure J bonds recommended
  - Some portion may be issued at taxable interest rates, to provide flexibility to finance public-private partnerships (currently estimated at $25 million)
  - Bond closing scheduled for early January 2015

Refunding Opportunities

- District Debt Policy calls for a minimum of 3% savings (present value of savings as a percent of the par amount of refunded bonds)

- KNN recommends a higher threshold
  - At least 5% PV savings
  - Negative arbitrage less than net PV savings
    - Negative arbitrage represents the additional amount of bonds that must be sold to fund interest on refunded bonds paid out of an advance refunding escrow
    - Present value savings is net of all costs, including negative arbitrage

- If interest rates hold, over $180 million in present value savings may be available



Savings Analysis

- Over $1.5 billion in refunding candidates could produce $180 million in present value savings
  - Would represent 11.6% of refunded par
- Refundings would be divided into three main components
  - Current delivery tax-exempt bonds
  - Current delivery taxable bonds
  - Forward delivery tax-exempt bonds (closing in May, 2015) or deferred until Spring

Indicative Refunding Results
Market Conditions as of 10/23/14

	Tax-Exempt Refunding	Tax-Exempt Refunding	Taxable Refunding	
Series Targeted	All or parts of 2005A, 2006E, 2007A, 2008E, 2008F, 2008A	(forward) All or part of 2005A	2004A, 2004B	Total
Potential Par Refunded	$1,167,000,000	$360,000,000	46,000,000	$1,573,000,000
Delivery Date	1/8/2015	5/1/2015	1/8/2015	
Present Value Savings[1]	$121,180,000	$54,710,000	$6,010,000	$181,900,000
As % of refunded	10.4%	15.2%	13.1%	11.6%
Savings divided by negative arb[2]	2.1	25.2	No negative arb	

[1]Recommendation of 5% or higher
[2]Recommendation of 1 times or higher

Recommended Underwriting Teams

	Tax-Exempt New Money and Current Delivery Refunding	Taxable Refunding and New Money	Tax-Exempt Forward Delivery Refunding
Senior Underwriter (% of liability)	Morgan Stanley (50%)	Ramirez & Co. (100%)	Goldman Sachs (50%)
Co-Senior Underwriter (% of liability)	Siebert Brandford (20%)		Stifel Nicolaus (30%)
Balance of Underwriting Syndicate	Other members of the underwriting pool (1-5%)		RBC and Piper Jaffray (10% each)

- Financial advisor and CFO recommended assignments based on a number of factors:
  - Scoring of proposals by Review Committee
  - Board Debt Policy preference to incorporate small and Los Angeles and California based firms
  - Specific qualifications of the firms as they related to District's current needs
  - Attached memo, reviewed by Review Committee, provides further support for assignments

Next Steps

Date	Task
November 5	Board adopts financing resolution
November 17	Ratings received
November 20	Post preliminary official statement
December 9-10	Bond pricing
January 8	Bond closing

Memorandum

Date: October 24, 2014

To: Ernest Moreno, Chairperson
Budget & Finance Committee
Los Angeles Community College District

From: David Brodsly
KNN Public Finance

Jeanette Gordon
CFO, Los Angeles Community College District

Re: Recommendations for Underwriting Team for First Round of Bond Issuance

On November 5, 2014, the Budget & Finance Committee and the Board of Trustees are expected to consider resolutions to authorize the issuance of general obligation bonds to fund new capital projects and, if market conditions hold, to refund a portion of the District's outstanding debt for savings. This memo outlines our recommendations for underwriting assignments for these transactions.

We recommend dividing the assignments into three groupings. The largest grouping will be for the tax-exempt bonds, which include both new money and refunding components. It is important that all of the tax-exempt bonds be marketed as a single offering in order to ensure an orderly pricing. A second grouping will be for taxable bonds, which will also include refunding and new money components. The third assignment is for a tax-exempt refunding of bonds that cannot be refunded until May, 2015. These bonds will either be sold with a long closing, or the sale will be delayed until May, depending on market conditions.

It is important to note that, while the upcoming issue is potentially large due to the recent rally in the municipal market that lowered bond rates, the District will still have $1.3 billion in unissued authorization. Consistent with your Debt Policy, in recommending senior roles in subsequent bond issues, we anticipate rotating the senior positions.

In accordance with the Debt Policy's "Procedures Applicable to Each Debt Offering," the CFO, in conjunction with the financial advisor, is submitting to the Board our choices for the underwriting syndicates for the upcoming offerings. According to the Policy, this information is to be provided to the Board on an informational basis prior to its considering an action to authorize the debt issue.

In considering the appropriate assignments for these first bond issues, we reviewed the qualifications of the firms in your recently approved underwriting pool, the relative rankings of the review committee in selecting the firms for inclusion in the underwriting pool, and the Debt Policy's encouragement of the use of smaller firms and firms with local and California locations.

Memorandum

We make the following recommendations for the composition of your initial underwriting teams. The percentages in parentheses are the recommended assignments of underwriting liability, which will roughly translate to underwriter compensation.

Tax-exempt new money and refunding bonds (over $1 billion)

Morgan Stanley, senior manager and book runner (50%)
Siebert Brandford, co-senior manager (20%)
The balance of the underwriter pool as co-managers (1% to 5%)

Basis for recommendation: Morgan Stanley was the highest ranked firm based on the initial and final evaluations of the underwriter review panel. They have strong retail and institutional distribution, good experience in community college finance, are extremely well capitalized and presented good ideas in all the key areas requested in the RFP. Siebert Brandford scored highest of all the lesser capitalized firms based on a strong written proposal. The liabilities for the balance of the group will be determined closer to the sale date.

Taxable refunding and new money ($50 to $70 million)

Ramirez & Co., sole manager (100%)

Basis for recommendation: The relatively smaller size of this transaction would accommodate a less capitalized firm serving as sole underwriter. Ramirez was the second-highest ranked firm in this group. In addition, Ramirez has lead nine taxable transactions since 2013, so is experienced in this sector.

Forward refunding or current refunding closing 5/3/15 ($350 million)

Goldman Sachs, senior manager and book runner (50%)
Stifel Nicolaus, co-senior manager (30%)
RBC and Piper Jaffray, co-managers (10% each)

Basis for recommendation: Because of the long closing time for a forward refunding, a well-capitalized firm should serve as the lead firm. Goldman is recommended for this role based on the strength of their proposal, and their prior analytic support of the District including their assistance in formulating the Debt Policy. Stifel is recommended as co-senior manager based on their high rankings by the review committee. RBC and Piper Jaffray provide for additional underwriting support and are both highly experienced in community college finance. If this issue is sold as a forward refunding, an underwriting group of this size is appropriate. The decision to proceed with a forward refunding, and paying the yield premium of a long-closing, will be based on market conditions at the time. If the transaction is delayed to become a current refunding, this team would continue in this role.