Peralta Community College District

Presentation to the Board of Trustees
Other Post Employee Benefit (OPEB) Workshop
February 15, 2011

KNN public finance
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A Division of Zions First National Bank

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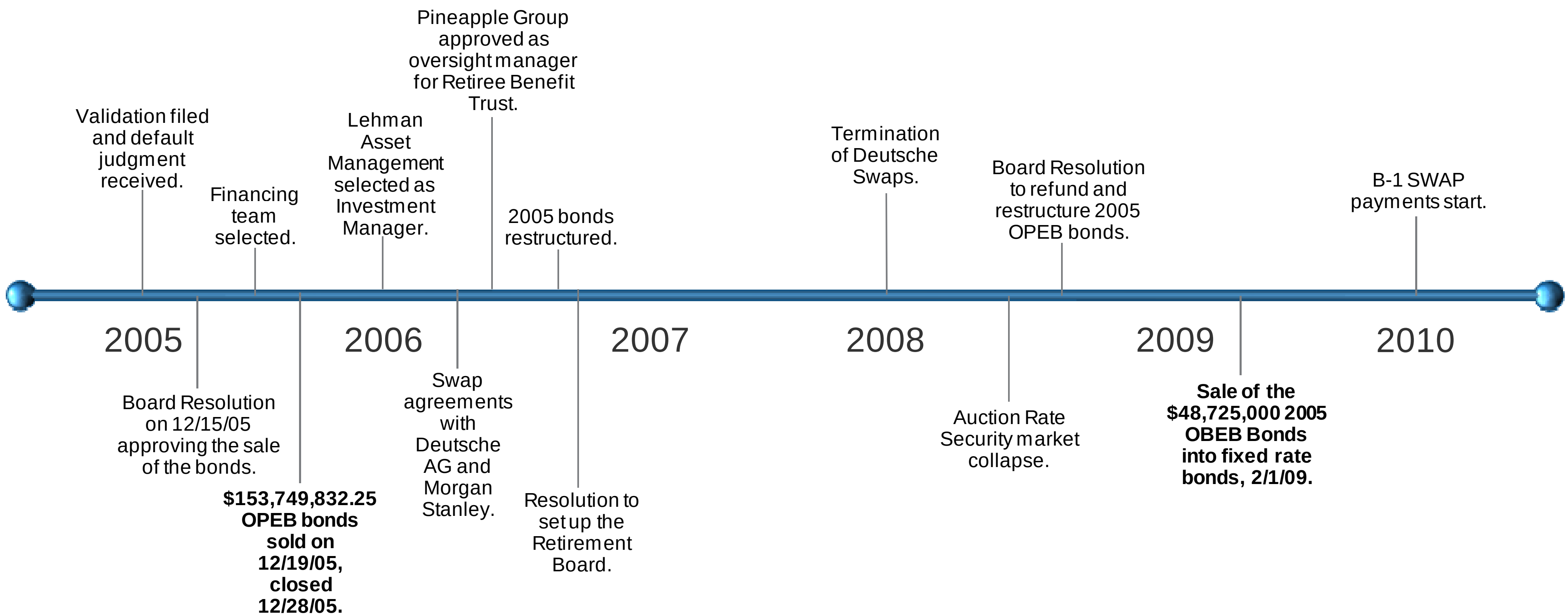
ASA, EA, MAAA

Objectives for the Workshop

- Provide an overview of the District's OPEB bond financings and related financial transactions.
- Identify where the OPEB program is now and why.
- Outline major financing challenges facing the District relating to the OPEB financings.
- Provide options and recommendation for the Board of Trustees to consider.

Abbreviated Timeline



Initial 2005 Financing

RATINGS
Standard and Poor's: FGIC Insured AAA
Underlying A+

$153,749,832.25
Peralta Community College District
Alameda County, California
Taxable 2005 Limited Obligation
OPEB (Other Post-Employment Benefit) Bonds

2005 Series A 2005
(Standard Bonds)

Series B-1 through B-6
(Convertible Auction Rate Bonds) (CARS)

FGIC

Lehman Brothers **Grigsby & Associates, Inc.**

Dated: December 19, 2005

Purpose and Structure of the Financing

- The original Series 2005 Bonds were taxable bonds issued to fund a trust from which the District would pay for health care benefits for certain retired employees of the District.
  - OPEB bond funded the unfunded accrued actuarial liability (UAAL) of approximately $133,821,000.*
  - $20,015,000 million traditional current interest bonds with a final maturity of 2010.
  - $133,734,832.25 million were issued as zero coupon bonds that convert to variable rate bonds at different times in the future, called convertible auction rate securities (CARS).
  - At conversion, if there is no market , the auction rate default rate is 17%.
  - Full year of debt service payments set-aside by May of each year.
  - Consultants: Dale Scott, Pineapple Group, Jones Hall, Deutsche Bank.

*Bartel Associates Report 2005.

Definitions

Current Interest Bonds

- Pays interest at stated coupon.
- Semi – annual payments.
- Sold at par, premium or discount.
- Yield determined by price and coupon.
- Callable and non callable.

Capital Appreciation Bonds

- "Zero" or deferred interest.
- Interest accretes to maturity or to conversion date.
- Sold at a deep discount.
- Yield determined by price.
- Higher yields in recent years.
- Non callable.

Auction Rate Securities

- Variable rate securities with long maturity and periodic interest rate resets.
- Used with insurance to avoid expensive liquidity facility (LOC/SPA).
- Investor looks to secondary market for liquidity.
- No optional put and no liquidity facility.
- Interest rate reset through Dutch auction process.
- Market collapsed 2008 as banks did not support securities.

2005 Bond Structure

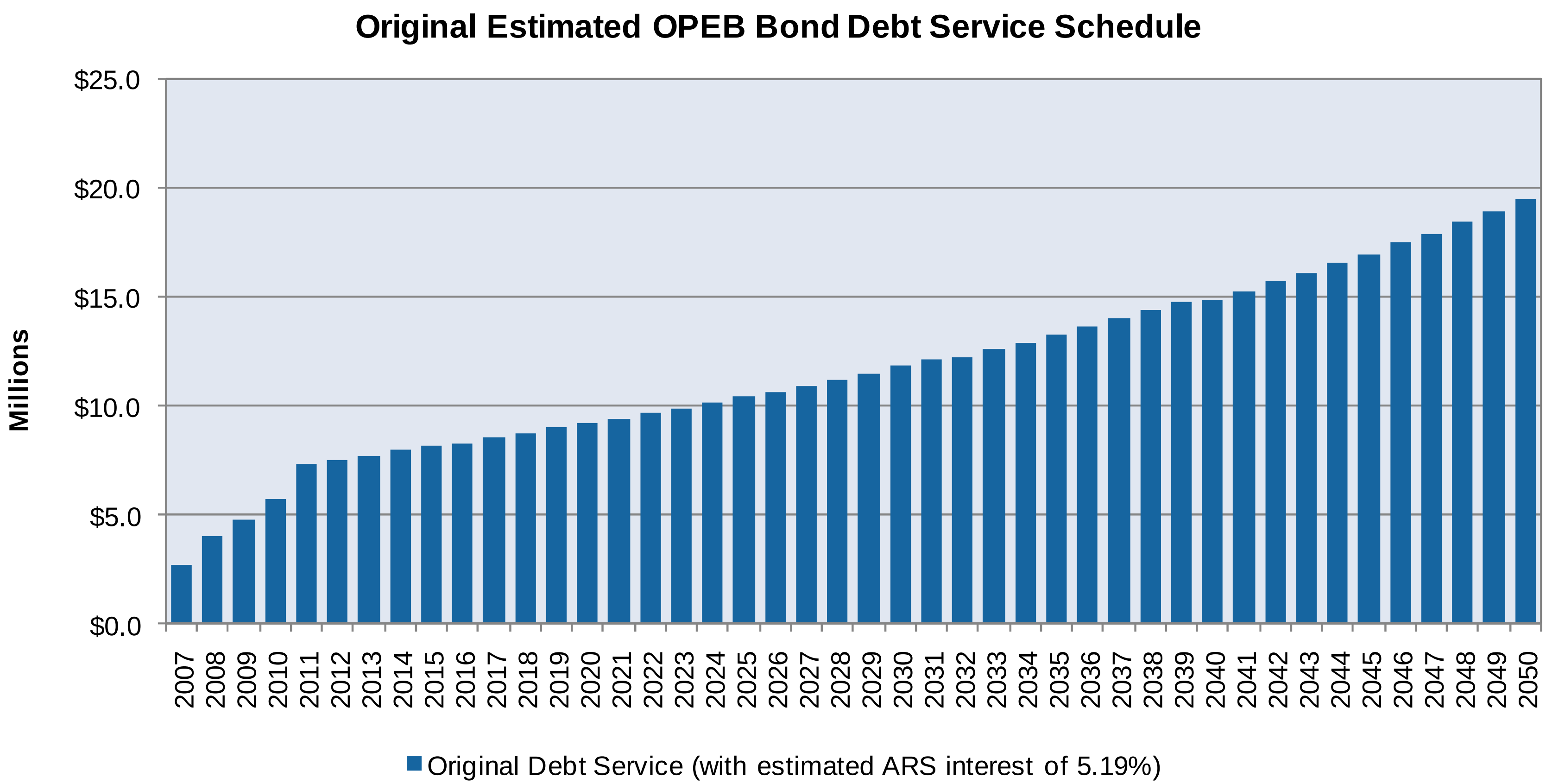
Current Interest Bonds
$20,015,000.00 2005 Series A Bonds
(Standard Bonds)

Maturity (August 1)	Principal Amount	Interest Rate	Price
2006	$1,725,000.00	4.71%	100%
2007	3,180,000.00	4.82	100
2008	4,110,000.00	4.87	100
2009	5,340,000.00	4.91	100
2010	5,660,000.00	4.94	100

Zero Coupon Bonds
Convert to Variable Rate, Non-callable Until Accretion Date
$133,734,832.25 (Convertible Auction Rate Securities) (CARS)
Price: 100%

Series	Maturity Date	Initial Principal Amount	Accreted Value @ Full Value	Initial Interest Rate	Full Accretion Date/Initial Auction Date (August 5)
2005 B-1	2015	$27,090,742.00	$33,950,000.00	4.964%	2010
2005 B-2	2020	23,633,292.50	38,450,000.00	5.133	2015
2005 B-3	2025	19,866,112.75	43,175,000.00	5.387	2020
2005 B-4	2031	20,025,603.00	57,525,000.00	5.456	2025
2005 B-5	2039	21,514,328.50	86,650,000.00	5.516	2031
2005 B-6	2049	21,604,753.50	134,475,000.00	5.516	2039

Original 2005 OPEB Bond Structure



Restructuring in 2006

Supplement to Official Statement
Dated as of October 25, 2006
Relating to
$153,749,832.25
PERALTA COMMUNITY COLLEGE DISTRICT
Taxable 2005 Limited Obligation OPEB
(Other Post-Employment Benefit) Bonds

Maturity (August 1)	Initial Principal Amount	Accreted Principal	Interest Rate
2049	$8,800,000	$10,688,044	6.25%

2006 Restructuring

- In October 2006, the District purchased from investors the 2006, 2007, and 2008 maturities and restructured $8.8 million as convertible capital appreciation bond due in 2049. The 2009 and 2010 maturities were left unchanged.

Original Structure

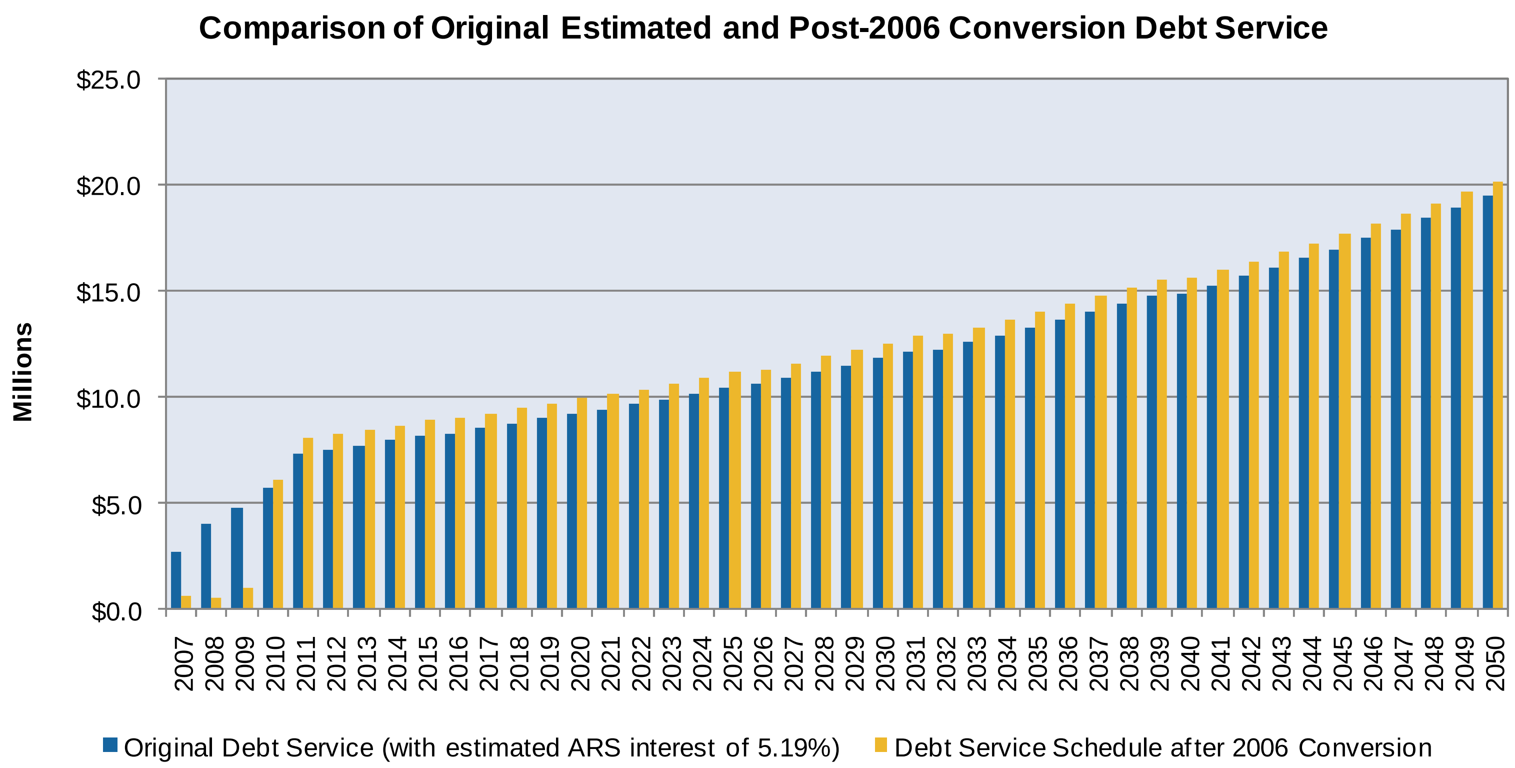
Maturity (August 1)	Principal Amount	Interest Rate	Price
2006	**$1,725,000**	**4.71%**	**100%**
2007	**$3,180,000**	**4.82**	**100**
2008	**$4,110,000**	**4.87**	**100**
2009	$5,340,000	4.91	100
2010	$5,660,000	4.94	100

Amended Structure

Maturity (August 1)	Initial Principal Amount	Accreted Principal	Interest Rate
2049	**$8,800,000**	**$10,688,044**	**6.25%**

2006 Tender and Restructuring

- The restructuring allowed the District to lower its debt service obligations in the initial years in exchange for higher future debt service payments. 7



Refunding in 2009

Rating: Moody's : A1
Standard and Poor's A+

$48,715,000
Peralta Community College District
2009 Taxable OPEB
(Other Post – Employment Benefit)
Refunding Bonds

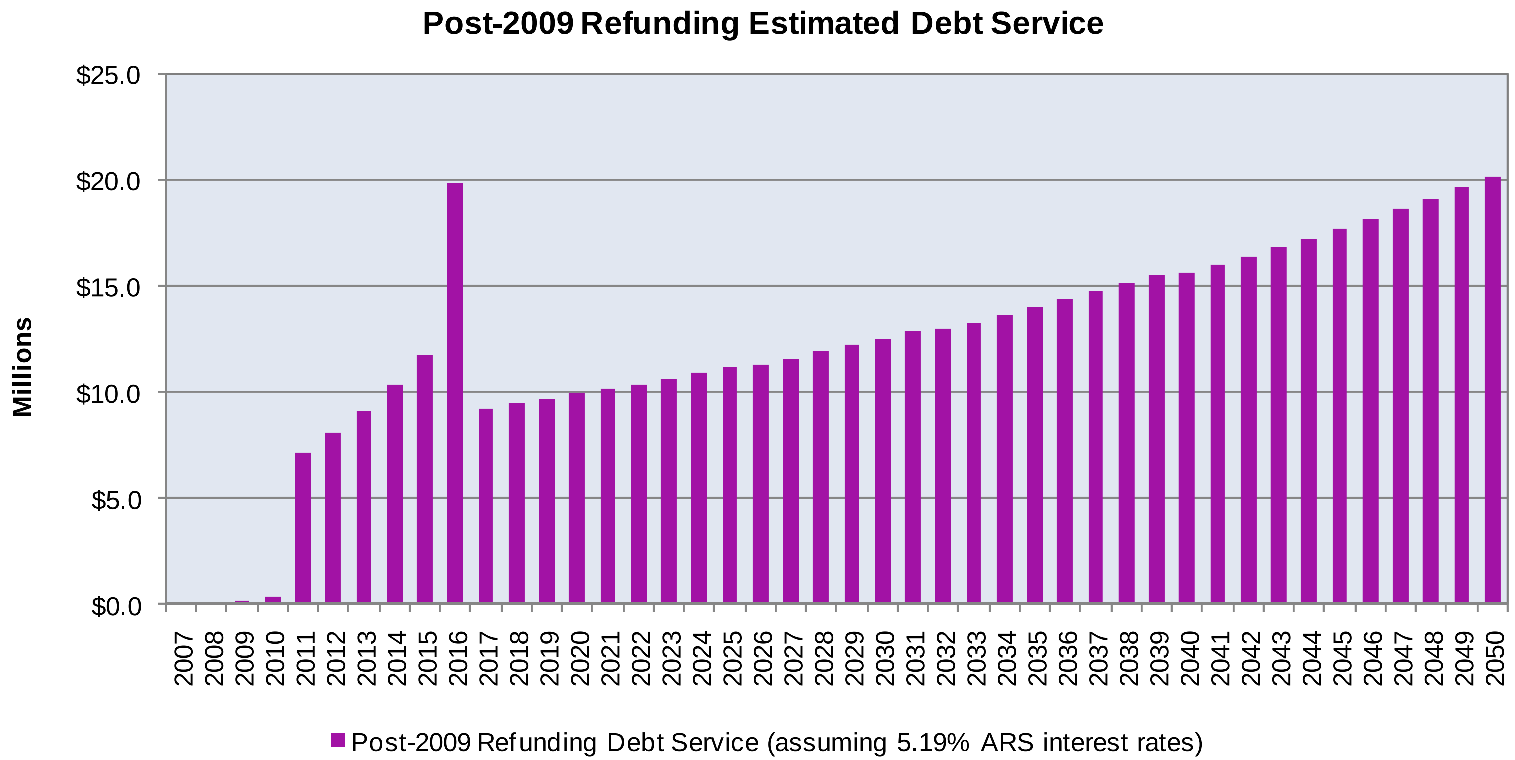
Dated: February 5, 2009

2009 Restructuring

- In February 2009, the District refunded the 2005 current interest bonds maturing in 2009 and 2010 of the original “Standard Bonds” and the first tranche (B-1) of the variable rate bonds which were still accreting.
  - Reduced debt service in 2009 and 2010 by reducing principal in those years and pushing it to years 2011 to 2015.
  - District purchased the 2005 B-1 bonds from investors and converted them to fixed rate bonds maturing 2010 to 2015.
  - Eliminated auction rate security risk associated with 2005 B-1 CARS scheduled to convert in August 2010.
  - No termination of the associated B-1 swap, creating an orphaned swap.
  - No insurance ; funded a debt service reserve fund of 10%.
  - Consultants: Stone & Youngberg, Dale Scott, Pineapple Group, Jones Hall, Deutsche Bank.

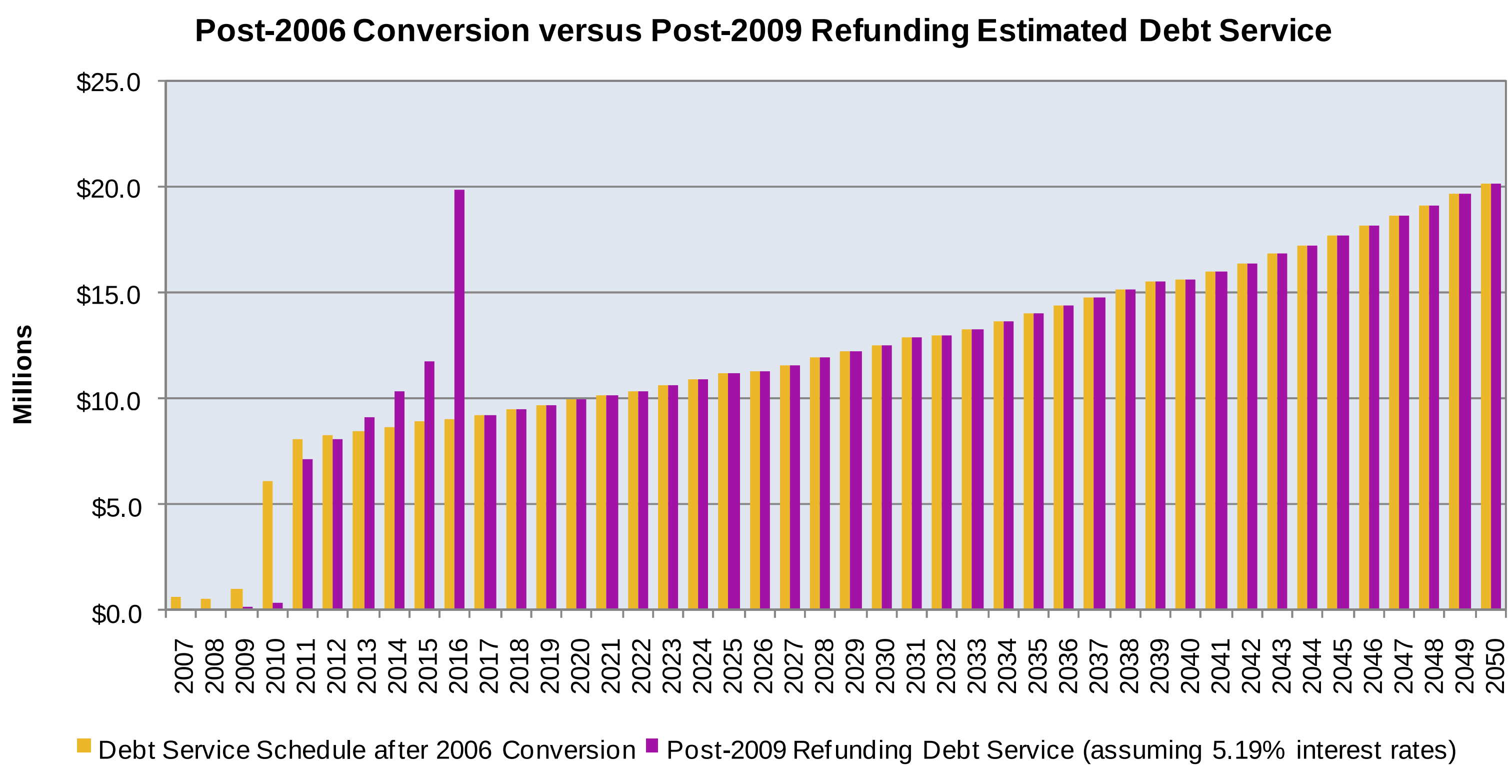
Final OPEB Bond Structure

- After two restructurings, the OPEB debt service structure allowed the District to make effectively no debt service payments in the initial years in exchange for higher debt service payments in later years.



2009 Refunding Bonds

- The 2009 fixed rate refunding concentrated debt service in 2015 as illustrated by the pink bar versus the yellow.



Swaps

Swaps with Deutsche Bank

- In November 2006, the District entered into a series of deferred payment constant maturity swaps with Deutsche Bank.
  - Swaps were structured so that District paid a short-term rate (one-month LIBOR) and received a long-term rate (10-year swap rate).
  - The notional amount of the swaps was $248 million.
  - The District received an upfront payment of $2 million.
  - Swaps were terminated in 2008 and the District received a termination payments of $1.2 million.
  - Consultants: Stone & Youngberg, Dale Scott, Pineapple Group, Jones Hall, Deutsche Bank.

Swaps with Morgan Stanley

- In November 2006, the District entered into six forward starting interest rate swaps.
  - The purpose of the swaps was to create a synthetic fixed rate security mitigating variable interest rate risk on the variable rate bonds - CARS.
  - Swaps were structured so that the District pays a fixed rate to Morgan Stanley and receives from Morgan Stanley one-month LIBOR.
  - Was intended to roughly approximate what the District would pay bondholders on its variable rate bonds.

Series	Amortizing National ($MM)	Effective Date	Maturity	Fixed Rate (Act/360)
B-1	$33.950	8/5/2010	8/5/2015	4.90%
B-2	38.450	8/5/2015	8/5/2020	5.16%
B-3	43.175	8/5/2020	8/5/2025	5.28%
B-4	57.525	8/5/2025	8/5/2031	5.21%
B-5	86.650	8/5/2031	8/5/2039	5.06%
B-6	134.475	8/5/2039	8/5/2049	4.94%
	$394.225			

Retiree Health Benefit Trust

Retiree Health Benefit Trust

- In 2006, revocable retirement trust was created to hold the bond funds.
  - Funds remaining after final maturity of the bonds can be returned to the general fund.
  - Trust is pledged to the bondholders but benefit payments are made from annual appropriations by District.
  - Trust is designated to reimburse District general fund for payments or the trust can make payment of principal and interest on bonds.
  - Asset allocation to meet long-term cash flow requirements.
  - Assumed 6% annual rate of return with anticipated 2050 positive ending balance.
- In 2006, District selected Lehman Brothers Asset Management as investment manager.
  - Asset allocation comparable to CalPERS and the Alameda County Employees Retirement Association.
  - Commencing 2006 The Pineapple Group served as account manager with oversight of the Trust.
  - Lehman collapse September 2008 and Neuberger Berman became investment management firm.

Financing Program Challenges

Five Primary Issues

I. Escalating debt service from November 2011 through November 2015.

- The restructurings have accelerated and concentrated debt service payments starting in November 2011.
- 2015 total debt service is $19.9 million versus the original $8.8 million.

II. Orphan Swap – the B-1 Swap.

- The 2009 refunding did not terminate the B-1 swap; District is currently making fixed rate swap payments to Morgan Stanley in addition to annual fixed rate debt service to bond holders.

III. Convertible Auction Rate Securities and swaps.

- Every five years, accreting bonds convert to variable rate (auction rate) securities and forward starting swaps go into effect.
- Auction rate securities are not a viable variable rate security in the current market; if the future tranches convert into auction rate the interest rate will likely be the maximum of 17%.

IV. Long-term management for OPEB.

- This is a very complicated structure and requires on-going oversight to insure that the debt service payments and structural problems are mitigated with a plan of finance.

V. Actuarial liability, retiree trust and investment policy.

Financing Options

Option One

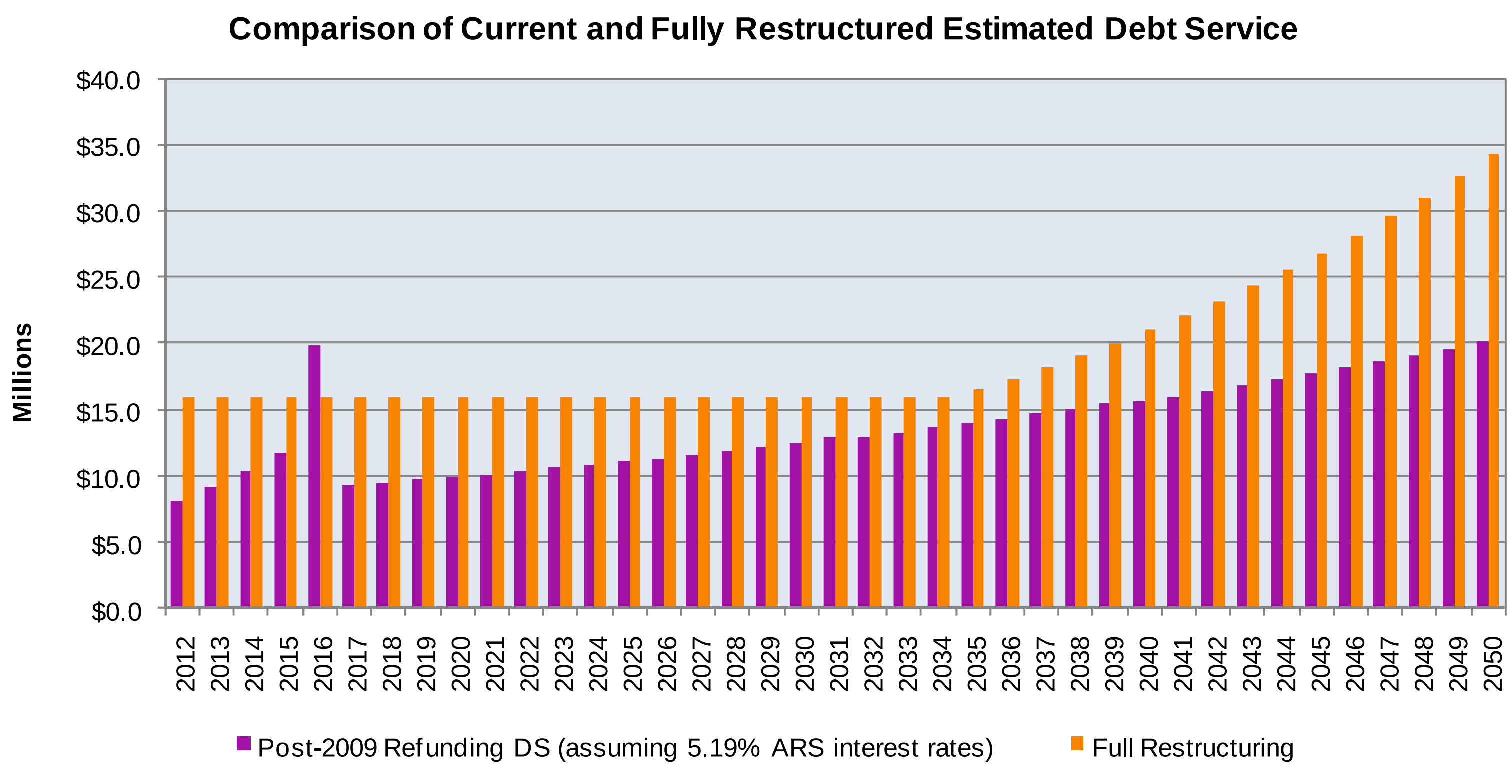
- Restructure all the outstanding bonds into fixed rate.
  - Redeem all the bonds outstanding and terminate all the swaps out of proceeds of a large fixed-rate refunding bond issuance.
  - Potential to put the entire program behind you but it is the most expense alternative in today's market.

Option Two: Multiple Financing Decisions and Actions

- Refinance the 2009 fixed rate bonds
  - Eliminate or smooth debt spike in 2015.
  - Structure bonds to create additional budget relief through 2015.
  - Alternative restructuring combinations.
- Determine strategy for B-1 orphan swap.
  - Continue to make scheduled swap payments to Morgan Stanley.
  - Make $3 million termination payment funded with cash and bonds or restructured swap.
- Determine strategy for remaining swaps.
  - Leave in place until they come into the money and can be terminated at no cost.
  - Restructure at a higher rate to finance B-1 swap termination.
  - Leave swaps in place until corresponding bonds are converted.
- Develop a plan of finance to restructure CARS every 5 years.
  - Decision for fixed or variable rate made at time of conversion.
  - If swaps left outstanding, plan to monitor them.

Option One: Full Restructuring

- A full restructuring of the existing bonds would require a tender or defeasance of the outstanding bonds. Assuming that bondholders would be willing to tender bonds at the accreted value, the chart below illustrates an anticipated debt service for a full restructuring.

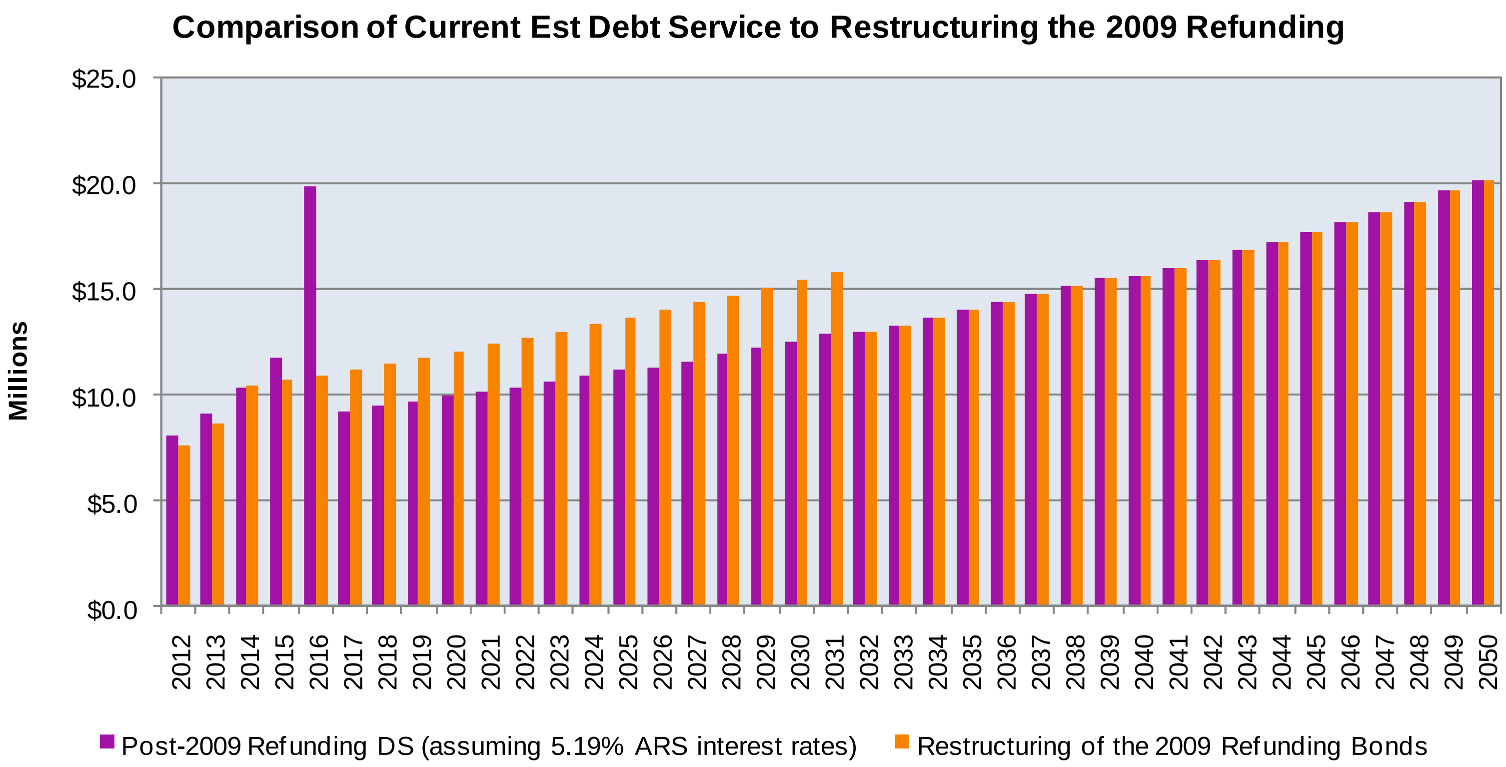


Full Restructuring Considerations

- Advantages
  - Eliminates auction rate security risk.
  - Reduces variable interests rate risk and provides discrete debt service schedule.
  - Terminates all swaps.
  - Conservative and puts the major challenges behind the District.
- Disadvantages
  - Probably most expensive alternative.
  - Tender and escrow process costly.
  - May not be feasible due to limited market appetite for sizeable issuance of taxable bonds.
  - Swap termination payments are costly in current market.
  - Substantial increase to currently projected debt service.
- Risks
  - Credit of refunding bonds.
  - Marketability of refunding bonds.

Option Two: Restructuring of 2009 Bonds

- There are numerous ways to restructure the debt service due in 2011-2015. One example is below. The B-1 swap can be terminated or left outstanding.

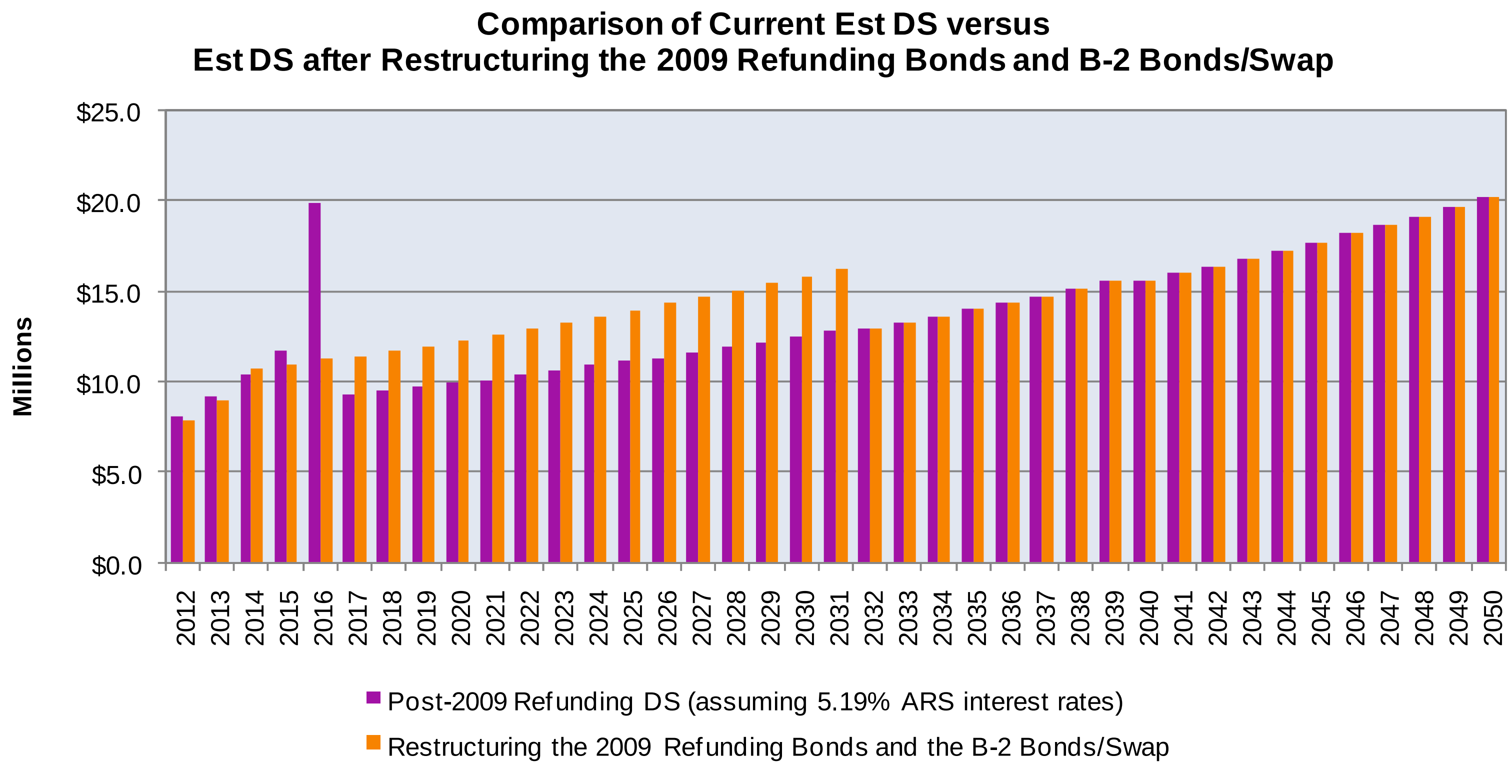


2009 Restructuring Considerations

- Advantages
  - Smoothes out debt service over the next 20 to 30 years.
  - Option to terminate B-1 swap or leave outstanding.
  - Could provide significant general fund relief from 2011-2015 by deferring debt service.
- Disadvantages
  - 2009 refunding bonds are non-callable; therefore bonds must be defeased with an escrow which is expensive.
  - Increase in overall debt service.
  - High termination payment for B-1 swap.
- Risks
  - Credit risk of refunding bonds.
  - Marketability of refunding bonds.

Restructuring of the 2009 Refunding and B-2 Bonds

- Restructuring the B-2 series, the B-2 swap and the 2009 bonds would eliminate the auction rate until 2020.



Partial Restructuring and B-2 Series

- Advantages
  - Done in conjunction with the 2009 smoothing.
  - Preemptive move to address B-2 conversion and swap.
  - Fixed rate bonds with accelerating debt service after 2015.
- Disadvantages
  - Significant increase of debt service to the program.
  - Expense of the tender or defeasance of the B-2 tranche.
  - Termination fee for the B-2 swap.
- Risks
  - Credit of refunding bonds.
  - Marketability of refunding bonds.
  - May be less expensive to restructure B-2 series closer to conversion date.

Options for Convertible Auction Rate Securities

- Looking forward, all of the remaining tranches must be restructured to remain as variable rate or converted to fixed rate.
- Variable rate bonds have historically had a lower interest rates but require a bank credit and liquidity facility, which are expensive and difficult to obtain in the current market.
- Fixed rate bonds are conservative and predictable but taxable rates are rising.
- Variable rate bonds allow District to leave swaps outstanding, if desired.
- Decisions on variable rate versus fixed rate can be made on market conditions prior to each conversion date.

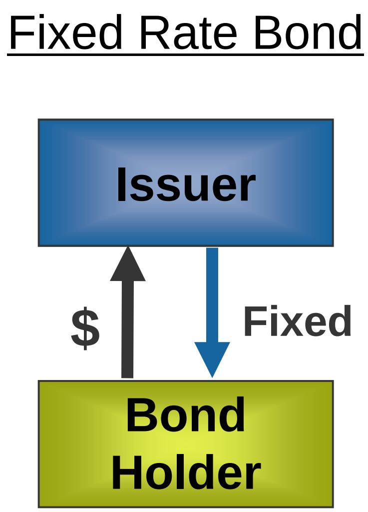
	Variable Rate	Fixed Rate
Interest rate	Historically lower rates	Taxable rates rising
Call	Callable any time	Call flexibility very expensive
Credit/liquidity	LOC or SPA expense Renewal risk	Insurance may be possible
Debt service	Variable	Defined debt service.
Risks	Interest rate risk; bank LOC renewal; basis risk for swap	

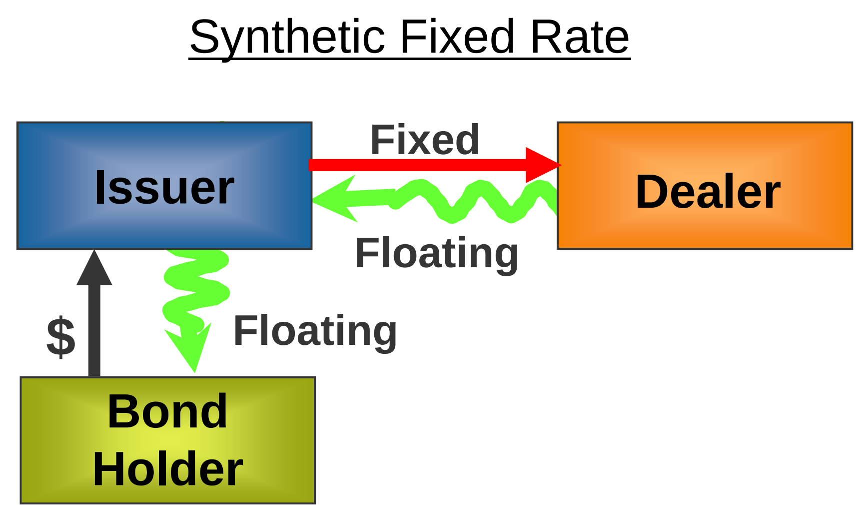
Options for Swap Management

- Terminate the B-1 orphan swap.
  - The B-1 swap termination payment is approximately $3 million in current market. *
  - Pay the bank now or over time to 2015.
- Immediately terminate all the swaps.
  - For B-1 orphan and B-2 to B-6, termination costs estimated at $3.7 million in current market.*
- Terminate swaps when marked-to-market is zero (interest rates rising).
  - B-2 to B-6 termination payments have declined as interest rates have increased since October.
- Terminate all swaps with Morgan Stanley and enter new agreements that blend and extend the swap termination payment into new swap rates.
  - Very expensive and renews swap agreements at higher rates.
- Leave swaps in place until each tranche of CARS is restructured. Decide at the time whether to terminate swaps or leave in place.

*Swap Financial

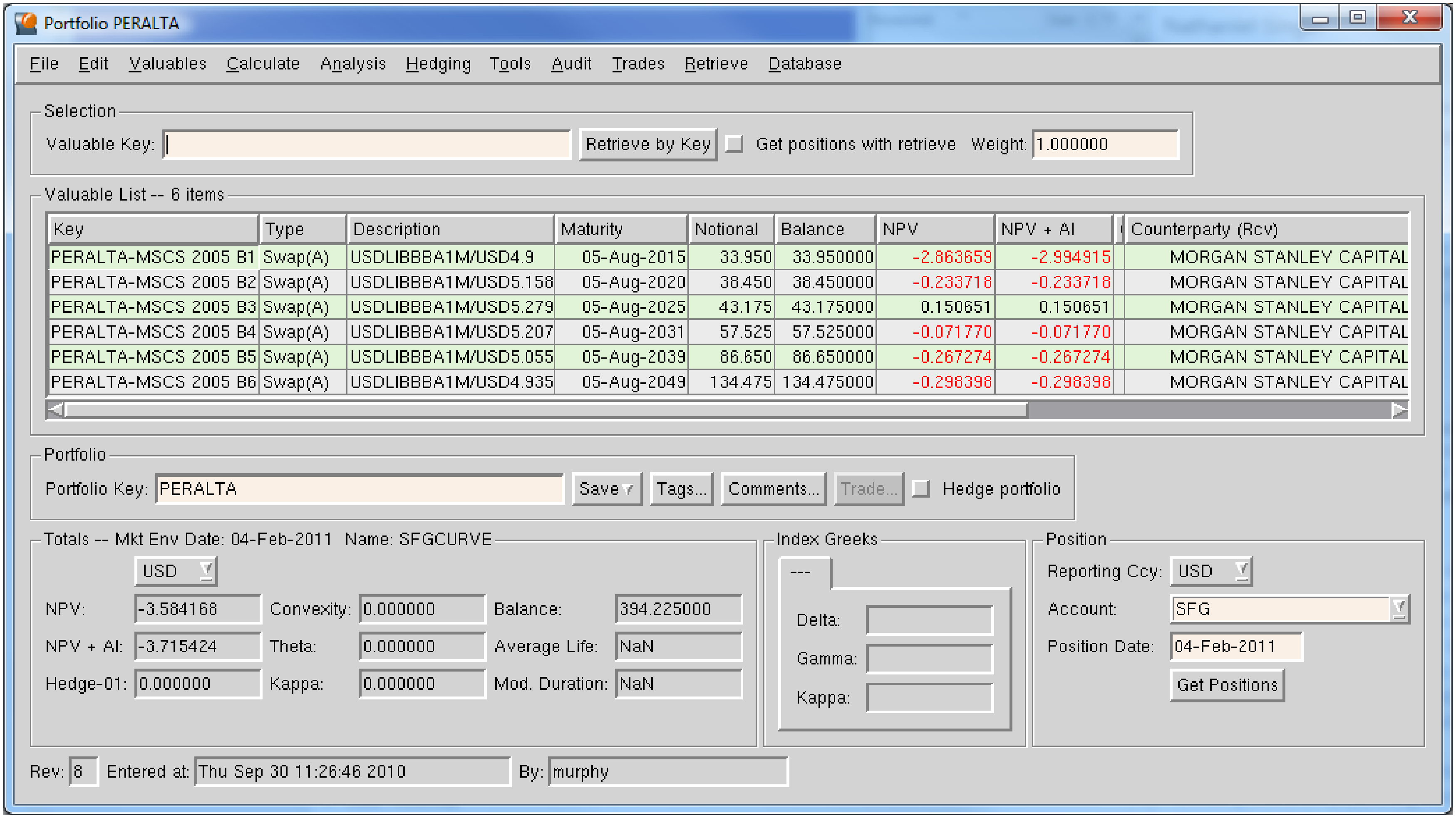
Peralta's Current Structure





Series	Initial Issuance Date	Initial Principal	Accreted Value	Accretion Date/ Initial Variable Date	Maturity Date	Swap Term
B-1	2005	$27,090,742	$33,950,000	2010	2015	2010-2015
B-2	2005	$23,633,292	$38,450,000	2015	2020	2015-2020
B-3	2005	$19,866,112	$43,175,000	2020	2025	2020-2025
B-4	2005	$20,025,603	$57,525,000	2025	2031	2025-2031
B-5	2005	$21,514,328	$86,650,000	2031	2039	2031-2039
B-6	2005	$21,604,753	$134,475,000	2039	2049	2039-2049

Current Swap Values (2/4/11)



Portfolio PERALTA

File Edit Valuables Calculate Analysis Hedging Tools Audit Trades Retrieve Database

Selection

Valuable Key: | Retrieve by Key | Get positions with retrieve | Weight: 1.000000

Valuable List -- 6 items

Key	Type	Description	Maturity	Notional	Balance	NPV	NPV + AI	Counterparty (Rcv)
PERALTA-MSCS 2005 B1	Swap(A)	USDLIBBBA1M/USD4.9	05-Aug-2015	33.950	33.950000	-2.863659	-2.994915	MORGAN STANLEY CAPITAL
PERALTA-MSCS 2005 B2	Swap(A)	USDLIBBBA1M/USD5.158	05-Aug-2020	38.450	38.450000	-0.233718	-0.233718	MORGAN STANLEY CAPITAL
PERALTA-MSCS 2005 B3	Swap(A)	USDLIBBBA1M/USD5.279	05-Aug-2025	43.175	43.175000	0.150651	0.150651	MORGAN STANLEY CAPITAL
PERALTA-MSCS 2005 B4	Swap(A)	USDLIBBBA1M/USD5.207	05-Aug-2031	57.525	57.525000	-0.071770	-0.071770	MORGAN STANLEY CAPITAL
PERALTA-MSCS 2005 B5	Swap(A)	USDLIBBBA1M/USD5.055	05-Aug-2039	86.650	86.650000	-0.267274	-0.267274	MORGAN STANLEY CAPITAL
PERALTA-MSCS 2005 B6	Swap(A)	USDLIBBBA1M/USD4.935	05-Aug-2049	134.475	134.475000	-0.298398	-0.298398	MORGAN STANLEY CAPITAL

Portfolio

Portfolio Key: PERALTA | Save | Tags... | Comments... | Trade... | Hedge portfolio

Totals -- Mkt Env Date: 04-Feb-2011 Name: SFGCURVE

USD

NPV:	-3.584168	Convexity:	0.000000	Balance:	394.225000
NPV + AI:	-3.715424	Theta:	0.000000	Average Life:	NaN
Hedge-01:	0.000000	Kappa:	0.000000	Mod. Duration:	NaN

Index Greeks

Delta:

Gamma:

Kappa:

Position

Reporting Ccy: USD

Account: SFG

Position Date: 04-Feb-2011

Get Positions

Rev: 8 Entered at: Thu Sep 30 11:26:46 2010 By: murphy

Long Term Program Management

- The complexity of the OPEB program requires professional oversight on a regular schedule.
- The five remaining tranches will have to be addressed at least 12 months prior to the conversion dates to avoid high interest rates. Restructuring options will need to be evaluated and quantified and presented to staff and the Board.
- The five forward starting swaps and one active swap require constant monitoring to mitigate effects on the general fund.
- The Retirement Board must be activated and an investment policy created and implemented. There need to be regular meetings to oversee the investment management firm and the trust performance.

Actuarial Report Update

Actuarial Obligations and Annual Required Contributions*

	AAL	UAAL	Normal	Pay-Go
2005	103,236,000	103,236,000	3,390,000	4,754,000
2008	124,005,000	124,005,000	4,112,000	6,803,000
2010	216,538,000	216,538,000	4,857,000	12,337,000
2011		225,000,000**		

Participant Statistics

Participant	2005	2008	2010
Active	761	798	781
Retiree	674	636	727

* Bartel Actuarial Report 2005, 2008 and draft 2011.
** Estimated based on preliminary draft information.

OPEB Investments and Expenditures

Investment Period June 30	Dollar Investment	Gain/Loss	Retiree Medical Reimbursement	Market Value June 30
Initial Investment January 2005	$150,000,000			
2005-2006		$474,916		$150,474,916
2006-2007		$30,426,011	($5,892,200)	176,153,680
2007-2008		($9,963,635)	($5,553,368)	160,571,117
2008-2009		($25,857,550)	($5,749,282)	123,982,449
2009-2010		$15,974,763	($5,800,000)*	144,516,601
2010-11			($5,800,000)**	162,288,861***

* Paid in FY 2010-2011 or 2009-2010.
** To be paid in FY 2010-2011.
*** Neuberger Berman report December 30, 2010.

Where Are We Now?

- The District has taken a number of positive steps in regard to the management of the OPEB program.
  - District has implemented in FY 2010 a 12.5% charge to all department to bridge the gap between the longer term AAL and the trust assets.
  - There has been closer oversight of Neuberger Berman with monthly review of investment results and direct conversation with the firm about investment parameters.
  - District has begun evaluation of investment options including consideration of an irrevocable trust.
  - The OPEB bonds rating was confirmed A+ in July 2010 and its general obligation bond rating was confirmed as AA-.
  - District contracted with Swap Financial – Nat Singer – to assess the outstanding swaps, monitor the market and advise the District its options and their costs going forward.
  - District contracted with KNN to analyze the OPEB financing to determine a conservative plan of finance going forward, and to evaluate financing options and costs.

Next Steps

- Direction from the Board of Trustees in regard to the restructuring of the OPEB bonds.
- Direction from the Board of Trustees in regard to the disposition of all six of the OPEB swaps.

Disclaimer

This document is intended to be viewed in conjunction with an oral presentation by representatives of KNN Public Finance, a division of Zions First National Bank; it is therefore incomplete on a stand-alone basis. It is intended for the exclusive benefit and internal use of the Peralta Community College District. KNN is a municipal finance advisory firm; we are not attorneys, accountants, actuaries or investment managers, and therefore have limited our review to our area of professional experience and expertise.

This presentation incorporates a number of assumptions regarding activities that occurred prior to KNN's engagement by the District. It also incorporates a number of assumptions in the analysis, including interest rate assumptions, which are intended to be indicative in nature and all of which are subject to change. Actual results of future transactions could differ materially from results assumed in this analysis. The analysis has not been reviewed by counsel to the District, and there may legal challenges to executing some of the alternatives explore herein. The information and analysis contained in this presentation are taken from, or based upon, information obtained from the District or from publicly available sources, the completeness and accuracy of which has not been independently verified, and cannot be assured by KNN.