



# Peralta Community College District

Presentation to the Board of Trustees  
Other Post Employee Benefit (OPEB)

March 29, 2011



1333 Broadway, Suite 1000, Oakland, CA 94612  
phone 510-839-8200 fax 510-208-8282

A Division of Zions First National Bank

# Introductions

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- Mr. Ron Gerhard, Vice Chancellor for Finance and Administration
- Mr. Mike Lenahan, Advisor
- Ms. Joanna Bowes and Mr. David Leifer, KNN Public Finance, Financial Advisor
- Mr. John Bartel, Bartel Associates, LLC, Actuarial Firm
- Mr. Doug Pryor, Bartel Associates, LLC, Actuarial Firm

# Objectives

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- Provide current recommendations and long term solutions for the District's Other Post Employment Benefit Financing Program.
- Clarify which actions need to be taken immediately and which can or should wait until future dates.

# Definitions

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## Fixed Rate Securities

- Fixed interest rate and maturity.
- Short or long term maturities.
- Semi- annual interest payments.
- Callable and non-callable.

## Current Interest Bonds

Peralta Community College District 6.42%  
11/1/2015

- Pays interest at stated coupon.
- Semi – annual payments.
- Sold at par, premium or discount.

## Capital Appreciation Bonds

Peralta Community College District 0.0% 8/5/2020

- “Zero” or deferred interest.
- Interest accretes to maturity or to conversion date.
- Sold at a deep discount, less than \$1000 per bond.

# Definitions

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## **Variable Rate Demand Bonds**

- Long-term taxable or tax-exempt with floating rate.
- Option to tender at par on 7 days notice or less.
- Flexible, liquid, competitive short term interest rates.
- Require liquidity support and frequently insurance or full letter of credit.

## **Auction Rate Securities**

- Variable rate securities.
- Sold through Dutch auction process.
- Interest rates reset every 7 to 28 days.
- Market collapsed 2008 as banks did not support securities.

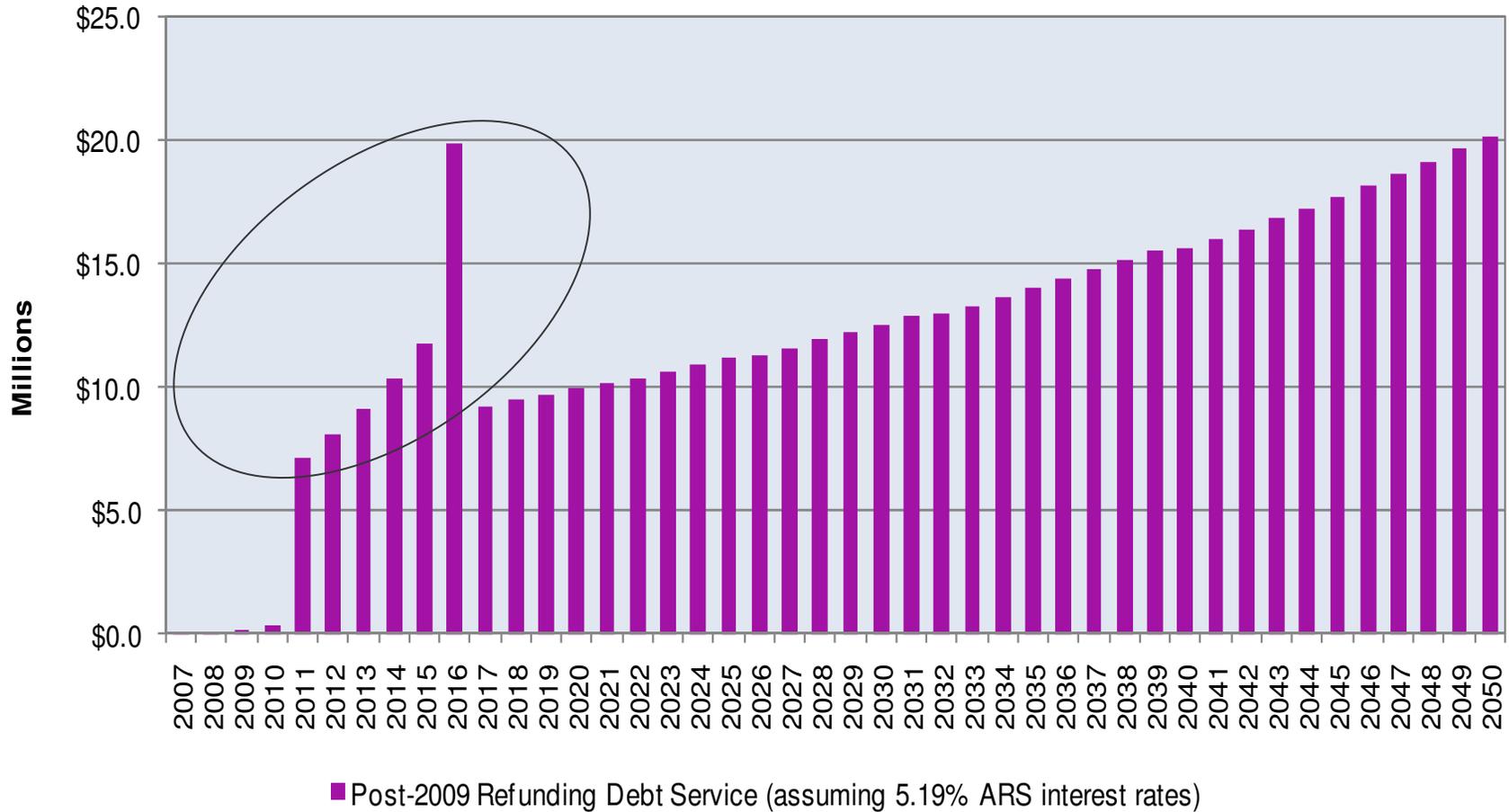
# OPEB Financing Review

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- Issuance: \$153,749,832 Peralta Community College District taxable OPEB bonds in 2005.
- Structure: Complex mix of fixed rate bonds and variable rate bonds, zero coupon bonds and interest rate swaps.
- Proceeds: Funded \$150,000,000 in revocable trust.
- Restructurings: 2006 and 2009 increasing debt service to later years.
- Challenge: Principal payment of \$20 million in 2015.

# Current OPEB Bond Structure

**Post-2009 Refunding Estimated Debt Service**



# Four Primary Issues

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- I. Escalating debt service through 2015.
  - 2014 & 2015 debt service totals \$30.5 million.
- II. Swaps.
  - Paying on B-1 swap; no match to variable rate debt.
  - B-2 thru B-6 forward starting swaps every five years.
- III. Future tranches of variable rate securities.
  - 2016, 2021, 2026, 2032, 2040 tranches convert to auction rate.
- IV. Long –term management for OPEB.
  - On-going oversight for debt service management.

# Action

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- Immediate.
  - Restructure outstanding debt service 2011-2015 to provide general fund flexibility for the next 20 years.
  - Plan for termination of all six interest rate swaps.
  - Establish retirement board and investment policy.
- Later.
  - Restructure bonds which convert in 2016, 2021, 2026, 2032, 2040.

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# Debt Restructuring

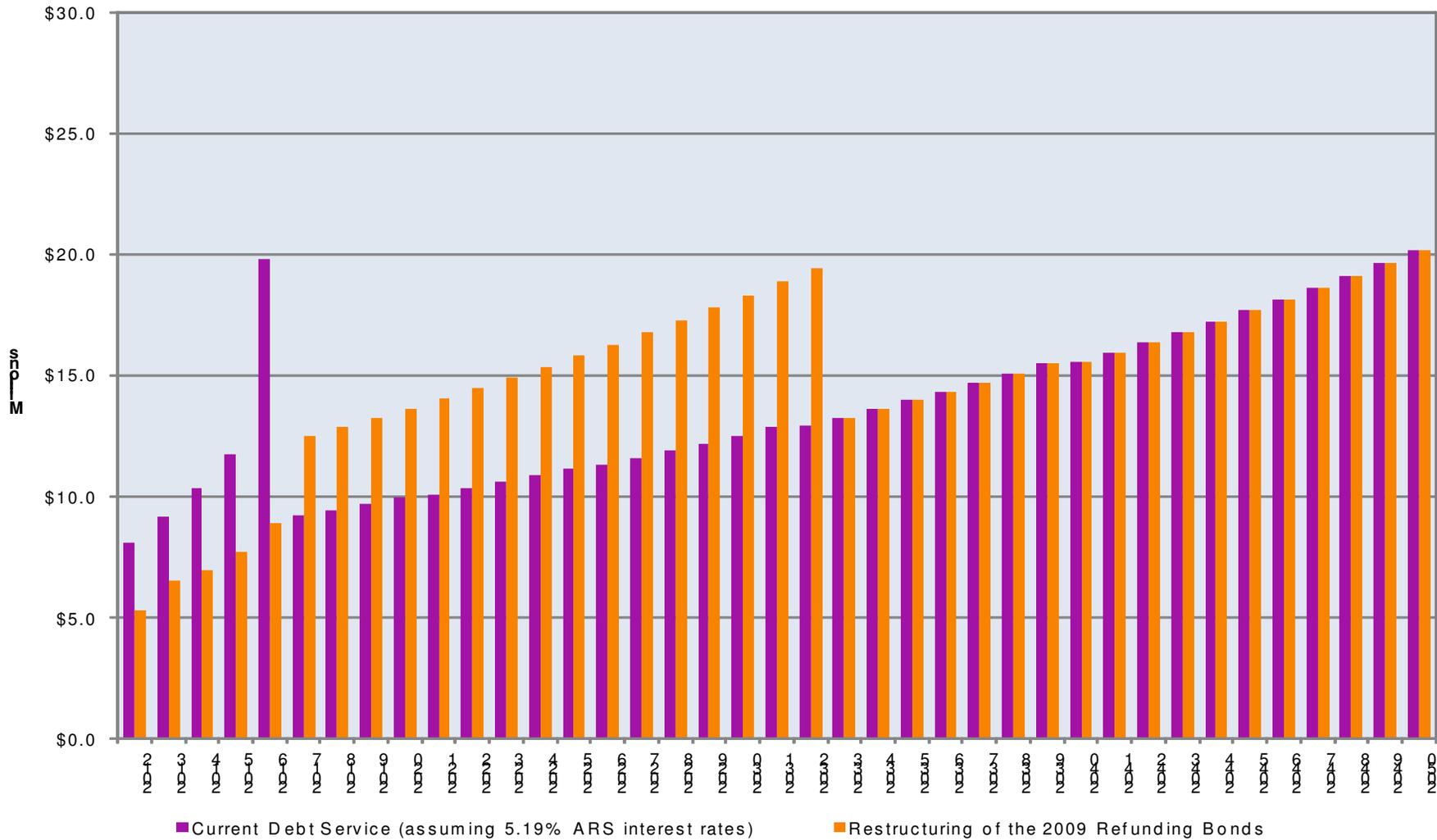


# Restructure Debt Service

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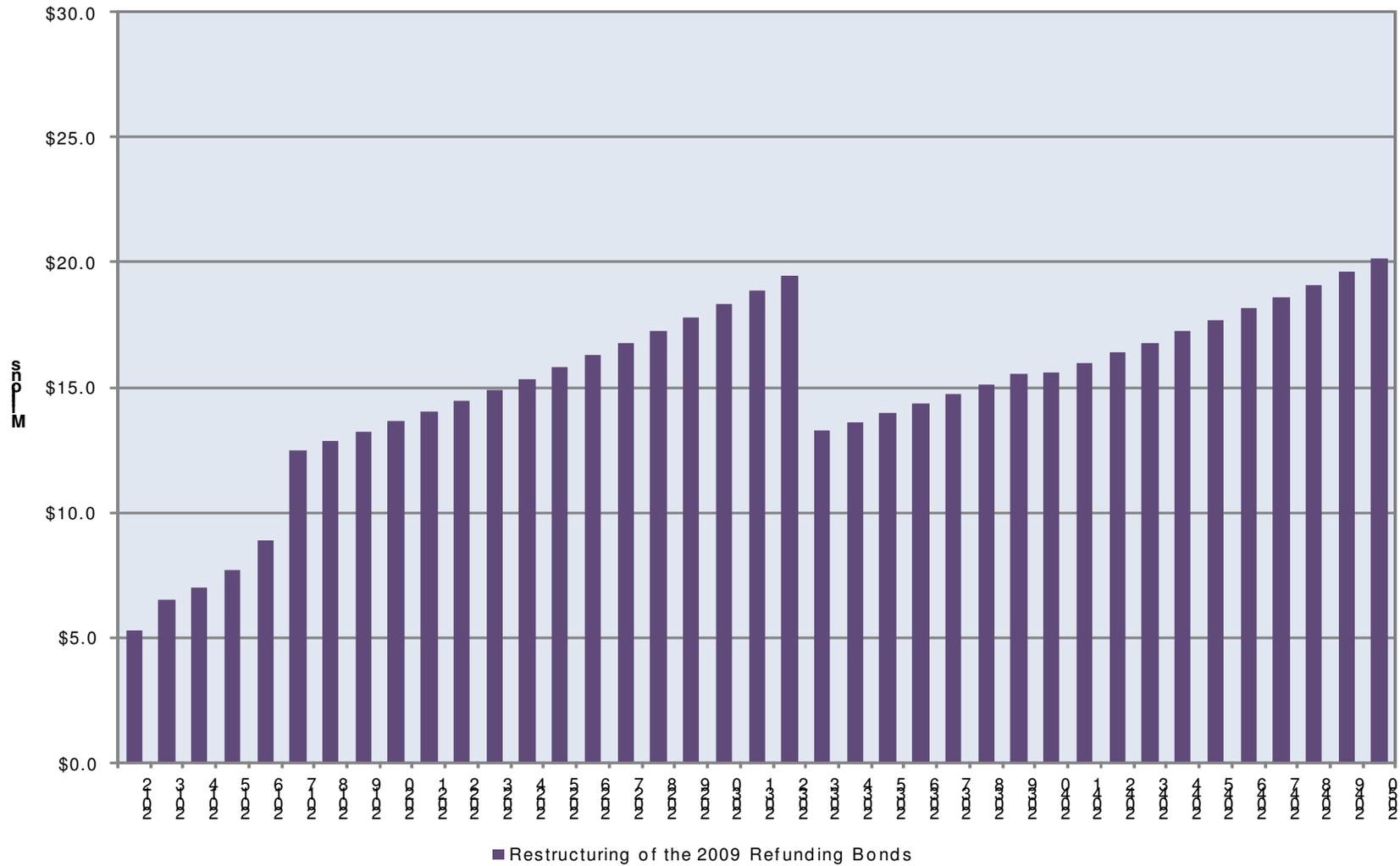
- Restructure the fixed rate bonds to create budget relief through 2015.
  - Smooth the debt service currently due 2011 through 2015.
  - Minimal debt service reduction in 2011-2014 to continue to pay off debt.
  - Extend debt service through 2031 or 2041.
  - Increases total debt service depending on number of years of extension.
  
- Fixed rate options.
  - 20 year extension.
  - 30 year extension.
  
- Other Options.

# Scenario: 20 Year Extension\*



\*Based on market rates as of March 2011, assumptions and estimates and are subject to change.

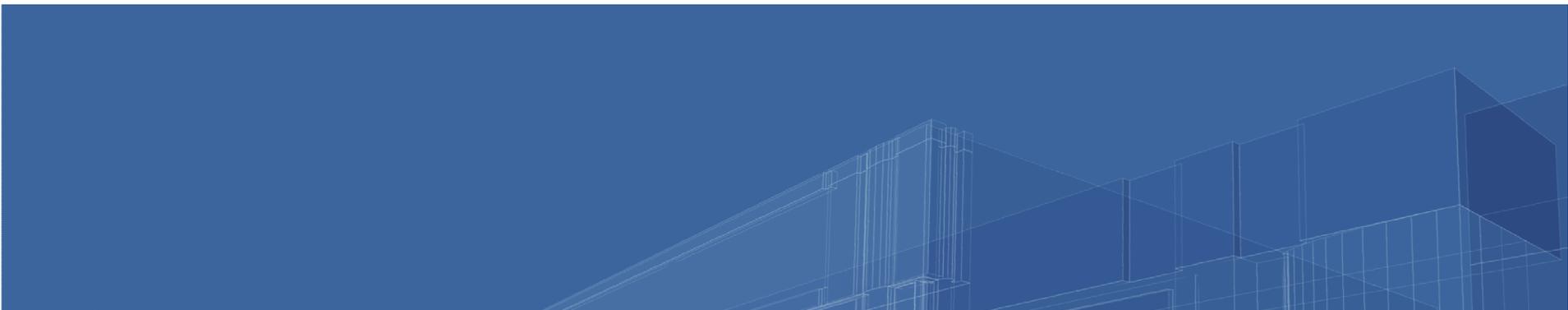
# Proposed Restructured Debt Service\*



\*Based on market rates on March 2, 2011. Assumptions, and estimates are subject to change.

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# Swaps



# Current Swap Portfolio

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Bond Series	2005 B-1	2005 B-2	2005 B-3	2005 B-4	2005 B-5	2005 B-6
Trade Date	11/28/2006	11/28/2006	11/28/2006	11/28/2006	11/28/2006	11/28/2006
Effective Date	8/5/2010	8/5/2015	8/5/2020	8/5/2025	8/5/2031	8/5/2039
Termination Date	8/5/2015	8/5/2020	8/5/2025	8/5/2031	8/5/2039	8/5/2049
Counterparty	MSCS	MSCS	MSCS	MSCS	MSCS	MSCS
Initial Notional	33,950,000	38,450,000	43,175,000	57,525,000	86,650,000	134,475,000
Peralta Pays	4.900%	5.158%	5.279%	5.207%	5.055%	4.935%
Peralta Receives	1mo LIBOR	1mo LIBOR	1mo LIBOR	1mo LIBOR	1mo LIBOR	1mo LIBOR
<b>Mark-to-Market*</b>	<b>(\$2,927,386)</b>	<b>(\$642,606)</b>	<b>(\$143,929)</b>	<b>(\$342,377)</b>	<b>(\$630,781)</b>	<b>(\$778,502)</b>

\* Mid-market values as of March 21, 2011

**Swap Financial Group**



# Swap Solution

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SWAP	Recommendation	Rationale
B-1	Terminate in conjunction with the debt restructuring.	<ol style="list-style-type: none"><li data-bbox="1129 597 1839 683">1. Financing the B-1 cash flows provides the District with near term budget relief</li><li data-bbox="1129 732 1839 902">2. The swap mark-to-market is <u>not sensitive</u> to changes in market interest rates (e.g. the mark-to-market <u>will not decrease significantly if</u> market interest rates increase).</li></ol>

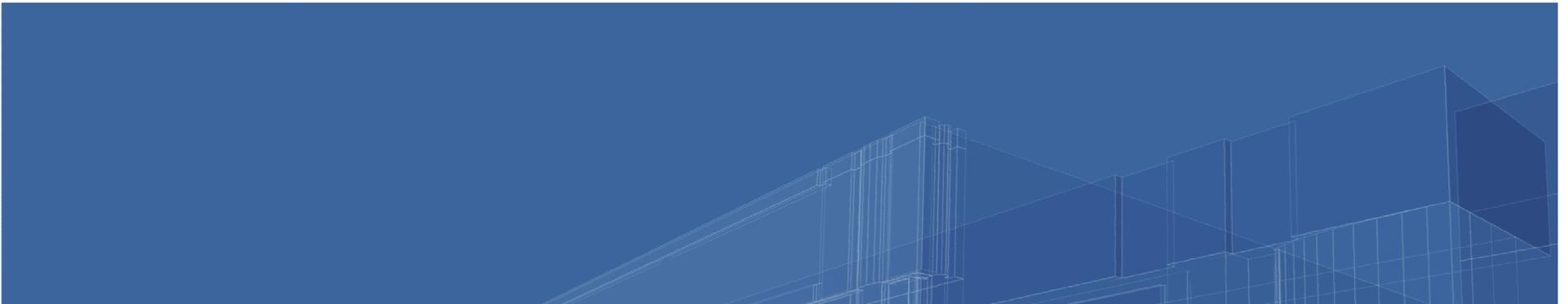
# Swap Solution

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SWAP	Recommendation	Rationale
B-2 thru B-6	<p>Terminate each swap individually when the mark-to-market gets to zero (inclusive of transaction costs) or designated range.</p>	<p>1. The swap mark-to-markets <u>are sensitive</u> to changes in market interest rates (e.g. the mark-to-market <u>will decrease significantly</u> if market interest rates increase).</p> <p>2. Terminating the swaps will eliminate the requirement to issue the associated floating rate debt in the future</p>

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# OPEB Going Forward



# Long Term Program Management

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- For bonds that convert into variable rate, restructuring options will be evaluated 18 to 24 months prior to the conversion.
- Fixed rate and variable rate bonds are options depending on interest rates, cost of credit, the District's credit and strength of the general fund.
- It is the recommendation to terminate the five forward starting swaps and one active swap. This requires constant monitoring to ensure the District terminates at the lowest possible cost.
- The Retirement Board must be activated, an investment policy established and implemented, and oversight of the investment management firm and trust performance initiated.
- A reputable, experienced team will be assembled to advise the District on all matters regarding OPEB including the restructure the bonds and swaps.

# Disclaimer

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