Santa Clarita
Community College District

General Obligation Bonds
Election of 2016 (Measure E), Series 2022

Presentation to Address Additional Inquiries

COLLEGE OF THE CANYONS

October 12, 2022

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COLLEGE OF THE CANYONS

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- Head of Southern California K-14 finance
- 21 years of school bond finance experience
- 200+ completed bond sales

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- Managing Shareholder of San Francisco office
- Former member of the firm’s Board of Directors
- Practiced in public finance for more than 43 years
- Served as bond counsel to >500 K-14 education districts

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Managing Director
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- Head of the California Community College Districts practice
- 20 years of K-14 education finance experience
- 150+ General Obligation Bonds issues completed
- $8+ billion of par amount structured and underwritten

BACKGROUND

- ***When was Measure E passed?***

  Measure E was passed in 2016 and authorized the District to sell $230 million in General Obligation Bonds for District projects

  – Passed with 58.4% "Yes" votes compared to 55% minimum to pass

  – 33,605 residents voted in favor of the bond measure *(Source: Ballotpedia.org)*

- ***When did the Board authorize the District to sell the remaining Measure E Bonds?***

  On August 10th, the board approved a Bond Resolution to issue the final series equal to the balance of Measure E's authorized amount, $95 million

  – This is a publicly approved bond measure governed by laws and regulations, including Prop 39, the SEC and IRS

  – The issuance is compliant with these laws and regulations and is performed in a fiscally responsible manner

BACKGROUND (*cont'd*)

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- ***What is the credit rating process for the Bonds?***

- The rating agencies are provided the issuance documents and the indicative bond structure, along with basic District information including the budget, financial audits, Facilities Master Plan, actuarial study and information about the local economy.
- The rating agencies then provide a list of questions related to the information provided. The administration then provides brief written replies augmented by a verbal discussion with the credit rating analysts.
- The credit rating analysts then make their own investigations and assessments and submit a recommendation to their credit rating committee. The committee then assigns a credit rating to the Bonds.

BACKGROUND (*cont'd*)

- ***What credit rating has the District received for the 2022 Measure E bonds?***

- The credit ratings have been affirmed by S&P at "AA" and by Fitch at "AAA". These ratings are based on the fiscal management of the District and its bond measures, along with the local economics and stability of District leadership.

Fitch affirmed the "AAA" rating based on the following:

- "The District benefits from its access to and participation in the broad Los Angeles economy with local employment and housing markets seeing steady gains over the past several years. Wealth and income levels remain above average within the district."
- "Budgets are conservative and the district maintained solid financial flexibility through the Great Recession and the current recovery."

S&P affirmed the "AA" rating based on the District's:

- **"**Broad and growing property tax base, coupled with strong-to-very strong income indicators and extremely strong wealth levels."
- "Good financial management policies and practices."

BACKGROUND (*cont'd*)

- ***What are the checks and balances for the bond issuance process?***
- The District has followed a similar process for 20 years that includes the following fiscal and legal oversight:
  - The Bond Counsel reviews legal documents and participates in bond ratings and other meetings to ensure compliance with all rules and regulations.
  - The Financial Advisor acts as a fiduciary to develop the financing plan, serve as the continuing disclosure agent and files the Districts budgets and financial audits with the MSRB.
  - The Underwriter undertakes a due diligence review of the same material reviewed by the rating agencies and confirms that the continuing disclosure is up to date.
  - The Los Angeles County Treasurer reviews the financing plan, including the assessed value growth assumptions, and participates in the calls related to the sale of bonds to evaluate the reasonableness of the bond interest rates.

QUESTIONS

Q:* *How is the project list determined for the final issuance of Measure E Bond Funds? Why is a more detailed project list required for the issuance of bonds within a bond measure, e.g. Measure E?

A*:* This is the same process that is used with every bond issuance. The District identifies its facility priorities ready for funding. Bond Counsel evaluates the list to determine if it meets the Prop 39 requirements. When a District plans to sell bonds, Bond Counsel requires additional information regarding projects expected to be funded, including a cash flow schedule. This is a requirement of federal law to evaluate eligibility for tax-exempt financing.

QUESTIONS (*cont'd*)

Q: What is the remaining balance of funds from the first two issuances of Measure E?

A*:* The 2017 issuance of Measure E has been fully expended. The 2019 issuance of Measure E has an approximate balance of $35 million and will be fully expended by April 2023.

Q: What assumptions are included in the pricing of bonds to be issued?

A: The variables include the mix of tax-exempt vs. taxable bonds, the growth in assessed valuation of property in the Santa Clarita Valley and the bond rates associated with each maturity of bonds.

QUESTIONS (*cont'd*)

Q: ***What is the difference between tax exempt and taxable bonds?***

A: **Tax exempt bonds** allow the investor to exclude earnings from their federal taxable income. They also require the District to confirm that 85% of the proceeds will be expended on bond projects within 3 years of issuance

Taxable bonds are not subject to IRS regulations so investors cannot exclude interest income from their tax return. The use of taxable bond funds does not require the District to expend bond funds within any set timeline for bond projects.

The difference in tax treatment creates a lower rate for Tax Exempt bonds.

QUESTIONS (*cont'd*)

Q: What are the assessed value assumptions and projections?

A: The taxable property within the District had a year over year growth rate of 7.6% in 2022, a 30-year average growth rate of 5.8% through 6/30/2023 and a long- term assessed value growth rate projected at 4.0%.

With the high level of construction activity in the Santa Clarita Valley, projections were based on 6.0% through 6/30/2026 and 4.0% thereafter.

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Q: Since the board approved the Bond Resolution on August 10, 2022 to issue $95 million in Measure E bonds, how will higher bond rates impact the average bond rate?

A: At the time the board approved the Resolution on August 10, 2022, the estimated bond rate was 4.69% based on a mix of taxable and tax-exempt bonds. Estimates will change based on the prevailing bond rates.

QUESTIONS (*cont'd*)

Q: Will the 2022 Measure E issuance for the last $95 million of the 2016 voter approved $230 million bond exceed the District's promise to the voters that the annual property tax cost for the bonds won't exceed $15/$100,000 of assessed valuation? How will that be managed?

A: Each issuance of Measure E has been structured to keep the <u>average</u> annual cost to property taxpayers at or below $15/$100,000 of assessed valuation over the life of the bonds. The finance team will set the fixed repayment of the Measure E bonds (principal and interest), including the 2022 bonds, so that it is projected that the County will not have to levy a tax rate greater than the $15/$100,000 assessed value tax rate pledge to voters.

QUESTIONS (*cont'd*)

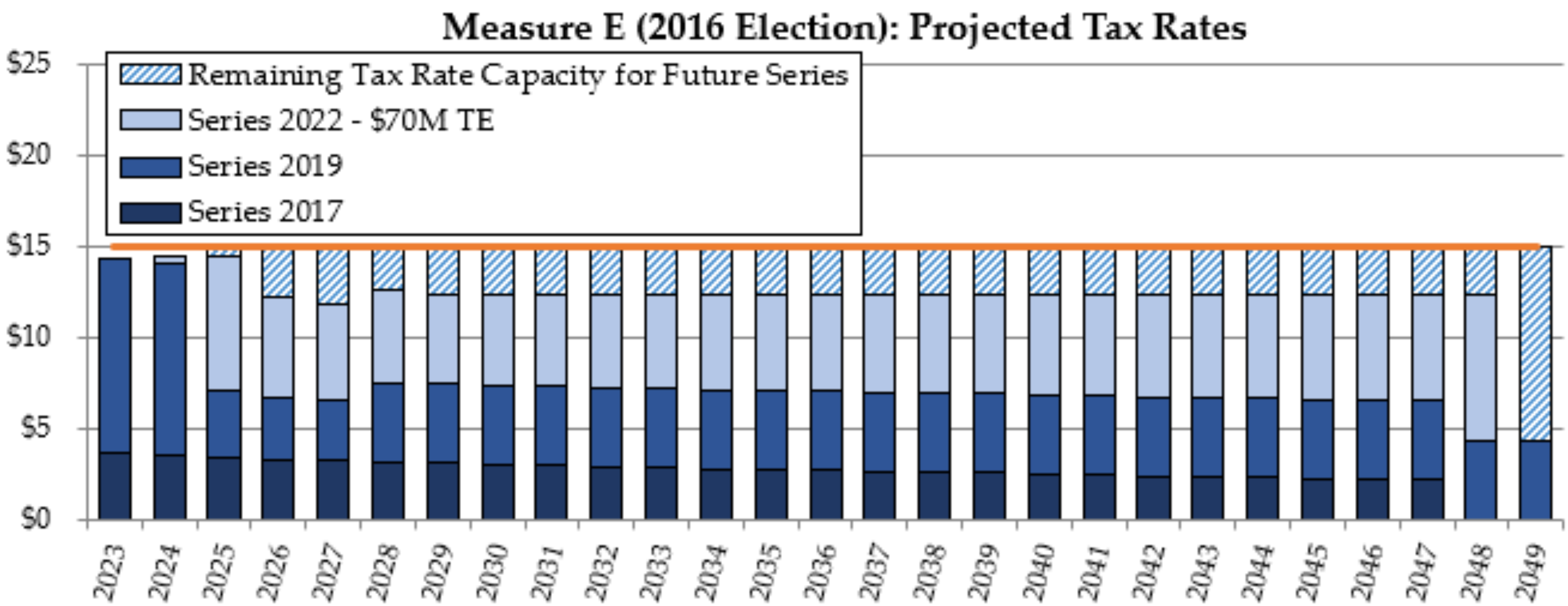
Q: Why does the projected tax rate for Measure E Series 2017 and Series 2019 drop in 2025 and thereafter?

A: In order to stay under the target tax rate of $15/$100,000 of assessed value for Measure E, the bond series are issued individually and "front loaded" with enough principal amortized (repaid) in the early years to stay just under the target tax rate. That way, in future years, the principal drops to a lower level which then drops the tax rate significantly. This allows for future bond issuances, i.e. 2022 Measure E issuance, to be issued and still keep bond rates below $15/$100,000 of assessed value.

QUESTIONS (*cont'd*)

Q: Why does the projected tax rate for Measure E look like with the proposed new issuance?

A: The tax rate with the new issuance will not exceed $14.50/$100,000 AV and the average tax rate is estimated at $12.22/$100,000 AV.



QUESTIONS (*cont'd*)

Q: If bonds are issued in October 2022 and the resolution calls upon the assessor to include an assessment for 2023-2024, how is payment collected for monies due to the investors for FY 2022-2023?

A: The first payments due on February 1, 2023 and then August 1, 2023 are paid from capitalized interest, not a tax assessment in fiscal year 2022-2023. Therefore, the tax assessor is not required to collect property taxes for those payments.

Q: ***What law allows the use of capitalized interest (premium bonds) to be used to pay the debt service for general obligation bonds?***

A: Education Code Section 15146 (g) requires that premium received by the District on sale of bonds must be deposited into a debt service account for the District. Federal income tax law limits the use of this premium to three years of interest on the bonds.

QUESTIONS (*cont'd*)

Q: How is the cost of issuance paid? Is the Validation Period still required?

A: The Attorney General opinion may not be upheld, but keeping with its intent, the District will pay the cost of issuance from the proceeds of the bond which will reduce the $95 M by approximately $350,000. Therefore, the validation period is unnecessary.

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