**Cecilia A. Massetti, Ed.D.**
*Superintendent of Schools*

8.8

**BOARD OF EDUCATION ACTION ITEM**

**July 10, 2018**

**Topic:**
Financing Facilities Projects

**Background**:
The Board is receiving an information presentation from the County Superintendent of School's financial advisor, Government Financial Strategies, discussing a financing for 1) the construction of a Career and Technical Education Facility, 2) the relocation and acquisition of portable classrooms for Early Childhood Education, and 3) the refinancing of the 2014 Lease-Purchase. The presentation includes the competitive RFP process for selecting a lender, the good faith estimates of the financing costs, and the financing documents for the Board's consideration of approval.

**Financial Impact**:
Included in Board information presentation.

**Resource:**
Steve Carney
Chief
Business and Administrative Services Officer

**Recommendation:**
Adoption of the Resolution approving the Form and authorizing the execution of certain lease financing documents in connection with the construction of the Career and Technical Education Facility, the acquisition and relocation of portable classrooms for Early Childhood Education use, and the refinancing of the 2014 lease-purchase agreement entered into to finance the acquisition of the building used for the Madera County Superintendent of Schools Early Childhood Education Center and authoring and directing certain actions with respect thereto

**Madera County Board of Education**
**Resolution Approving the Form and Authorizing the Execution of Certain Lease Financing Documents in Connection with the Construction of the Career and Technical Education Facility, the Acquisition and Relocation of Portable Classrooms for Early Childhood Education Use, and the Refinancing of the 2014 Lease-Purchase Agreement Entered into to Finance the Acquisition of the Building Used for the Madera Early Childhood Education Center and Authorizing and Directing Certain Actions with Respect Thereto**
**Resolution # 2**

RESOLVED, by the Madera County Board of Education (the "Board"), as follows:

WHEREAS, the Madera County Superintendent of Schools (the "Superintendent"), working with the Municipal Asset Finance Corp. (the "Corporation"), has previously entered into a lease agreement to finance the acquisition of a facility, previously leased, for operation of the Madera Early Childhood Education Center (the "2014 Lease Agreement");

WHEREAS, the unpaid principal component of the 2014 Lease Agreement is $832,052.14 and the current prepayment price of the 2014 Lease Agreement on October 24, 2018, is $873,621.08 (including the payment and prepayment premium due on that date);

WHEREAS, the Superintendent has determined at this time, due to prevailing interest rates and for achieving overall economic efficiency in connection with the 2018 Lease financing, to refinance the 2014 Lease Agreement;

WHEREAS, the Superintendent has also determined at this time, due to prevailing interest rates in the municipal bond market and for other reasons, to finance a portion of the costs of construction of the Career and Technical Education Facility, and the acquisition and relocation of portable classrooms for Early Childhood Education use (collectively, the "2018 Project");

WHEREAS, it is in the public interest and for the public benefit that the Superintendent authorizes and directs execution of the Lease Agreement (hereinafter defined) and certain other financing documents in connection therewith; and

WHEREAS, the documents below specified have been filed with the Board and the members of the Board, with the aid of its staff, has reviewed said documents;

NOW, THEREFORE, it is hereby DECLARED and ORDERED, as follows:

Section 1. The Board hereby approves the refinancing of the 2014 Lease Financing and to finance the 2018 Project.

Section 2. The below-enumerated documents, in the forms on file with the Clerk of the Board, be and are hereby approved, and the President of the Board, the Superintendent or the Chief Business & Administrative Services Officer, or any designee thereof, (each, a "Designated Officer"), are hereby authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such officials, the execution thereof to be conclusive evidence of such approval, and the Superintendent Clerk is hereby authorized and directed to attest to such official's signature:

(a) a letter agreement for purchase and rate lock, by and between Pacific Western Bank (the "Assignee"), and the Superintendent, whereby the Assignee agrees to acquire certain rights of the Corporation, including but not limited to the Lease Payments (hereinafter defined) to be made by the Superintendent under the Lease Agreement and the rights of the Corporation under the Site and Facility Lease (hereinafter defined);

(b) a site and facility lease, by and between the Superintendent, as lessor, and the Corporation, as lessee (the "Site and Facility Lease"), pursuant to which the Superintendent will lease certain existing real property and the improvements thereon (the "Property") to the Corporation;

(c) a lease agreement, by and between the Corporation, as lessor, and the Superintendent, as lessee (the "Lease Agreement"), pursuant to which the Corporation will lease the Property back to the Superintendent and pursuant to which the Superintendent will agree to make semi-annual lease payments (the "Lease Payments"), so long as the principal amount of the Lease Agreement is not greater than $5,100,000, the interest rate payable with respect to the Lease Agreement does not exceed 3.775% and the term of the Lease Agreement does not extend beyond October 1, 2038;

(d) an escrow agreement, by and between the Superintendent and ZB, National Association, DBA Zions Bank, as escrow bank, providing for the prepayment of the 2014 Lease Agreement;

(e) a placement agent agreement, by and between the Superintendent and Brandis Tallman LLC, as placement agent;

(f) a costs of issuance custodian agreement, by and between the Superintendent and ZB, National Association, DBA Zions Bank, as custodian; and

(g) a termination agreement, by and among the Superintendent, the Corporation, Municipal Asset Management, Inc. and Westamerica Bank relating to the termination of recorded documents affecting the Property and certain other property which relate to the 2014 Lease Agreement.

Section 3. Quint & Thimmig LLP, Larkspur, California, is hereby designated as special legal counsel to the Superintendent in connection with the financing. Any Designated Officer is authorized and directed in the name and on behalf of the Superintendent to execute a legal services agreement with such firm, in the form on file with the Clerk of the Board, together with any changes therein or additions thereto deemed advisable by such Designated Officer whose execution thereof shall be conclusive evidence of such approval.

Government Financial Strategies inc., Sacramento, California, is hereby designated as municipal advisor to the Superintendent in connection with the financing. Any Designated Officer is authorized and directed in the name and on behalf of the Superintendent to execute a municipal advisory services agreement with such firm, in the form on file with the Clerk of the Board, together with any changes therein or additions thereto deemed advisable by such Designated Officer whose execution thereof shall be conclusive evidence of such approval.

Brandis Tallman LLC, San Francisco, California, is hereby designated as placement agent to the Superintendent in connection with the financing.

ZB, National Association, DBA Zions Bank, Los Angeles, California, is hereby designated as costs of issuance custodian in connection with the financing.

Section 4. The President of the Board, the Superintendent, the Chief Business & Administrative Services Officer the Clerk of the Board and all other appropriate officials of the Superintendent are hereby authorized and directed to

execute such other agreements, documents and certificates as may be necessary to effect the purposes of this resolution and the financing herein authorized.

Section 5. This Resolution shall take effect upon its adoption by the Board.

I, the undersigned hereby certify that the foregoing Resolution was duly and regularly adopted and passed by the Madera County Board of Education in a regular meeting assembled on the 10th day of July, 2018, by the following vote to wit:

AYES:

NOES:

ABSTAIN:

_____

Sara Wilkins, Board President

Madera County Superintendent of Schools
Financing Facilities Projects
Government Financial Strategies Presented by Keith Weaver July 10, 2018
Madera County Superintendent of Schools
Presentation materials provided for distribution at the meeting. Please see meeting record for verbal commentary and discussion.
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Role of Financial Advisor
Fiduciary duty to the Superintendent of Schools
Provide independent financial analysis and advice
Represent the Superintendent of Schools to the bond market
Activities regulated by the Securities and Exchange
Commission and the Municipal Securities Rulemaking Board
as a result of the Dodd-Frank Act of 2010
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Our History with Madera
We began advising the Superintendent of Schools in 2011
We advised on the financing for the construction of the Instructional Support Center in 2011
We advised on the financing for the purchase of the Madera Early Childhood Education Center in 2014
Going forward, we will be updating the bond market every year on the Superintendent of Schools' financial condition pursuant to disclosure requirements
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Today's Agenda
Financing for:
Construction of a Career and Technical Education Facility
Relocation and acquisition of portable classrooms for Early Childhood Education
Refinancing the prior financing issued in 2014
Competitive RFP Process and Results
Legal Structure and Documents
Next Steps
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Review of Projects to be Financed
Construction of Career and Technical Education Facility
Construction $2,875,900
Soft Costs $318,813
Contingency (15%) $480,287
Subtotal $3,675,000
Portables for Early
Childhood Education
Acquisition $850,000
Moving/Setting $1,000,000
Subtotal $1,850,000
Total Cost $5,525,000
Cash Contribution ($1,525,000)
Funds Needed $4,000,000
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Competitive RFP Process
An RFP was sent to banks/lenders

Any of them were allowed to bid
Bidding allowed within flexible parameters
Banks/lenders had approximately 2 weeks to respond and proposals were due Tuesday June 26th
More competition equals better results
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Competitive RFP Results
The Superintendent of Schools recieved bids from 5 banks in response to the RFP for the lease-purchase financing of the facilities projects
BB&T 3.68%
Pacific Western Bank 3.78%
Sterling National Bank 3.96%
Municipal Finance Corporation 4.02%
Capital One Public Funding 4.07%
We have selected Pacific Western Bank at 3.78% interest rate.
Notes: banks could submit multiple bids to vary proposal terms. BB&T is Branch Banking & Trust. BB&T is offering two reset options for facilities project financing portion: (1) 20-year financing with interest rate fixed for first 10 years at 3.55% and then reset, or (2) 20-year financing with interest rate fixed for first 15 years at 3.68% and then reset. For comparison, the 15 year fixed is shown with an assumed 3.68% rate for the full term of financing as that would be our recommendation of the two options.
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Additional Key Terms
BB&T bid 3.68% which would reset at 15 years with a prepayment option of any date 1 % penalty, or not before 2023
Pacific Western Bank bid 3.78 % which is fixed for full 20 years with a prepayment option of any date with no penalty
Sterling National Bank bid 3.96% which interest rate would be reset on July 26th, with a prepayment options of any date with any date 1% penalty within 10 years
Municopal Finance Corporation bid 4.02% for a fixed for full 20 years with a prepayment option of on or after 2025.
Capital One Public Funding bid 4.07% for a fixed for full 20 years with a prepayment option of on or after 2023.
Notes:
Slight differences in COI between each bid.
BB&T is offering two reset options for New Money portion: (1) a 20-year financing with the interest rate fixed for first 10 years at 3.55%, or (2) a 20-year financing with the interest rate fixed for first 15 years at 3.68%.
For comparison analysis, a 3.68% interest rate is assumed for the full term of the financing.
We are recommending the bid by Pacific Western Bank
Fixed interest rate to avoid market risk
Most flexible prepayment option with no penalty
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Dollar Difference in Bids
The Difference Between the First and Second Place Bid was Just Under $60,000, and Between the First and Last Place Bid was Just Over $200,000
Pacific Western Bank $58,010
Sterling National Bank $160,179
Municipal Finance Corporation $191,962
Capital One Public Funding  $206,639
Notes: banks could submit multiple bids to vary proposal terms. BB&T is Branch Banking & Trust. BB&T is offering two reset options for facilities project
financing portion: (1) 20-year financing with interest rate fixed for first 10 years at 3.55% and then reset, or (2) 20-year financing with interest rate fixed
for first 15 years at 3.68% and then reset. For comparison, the 15 year fixed is shown with an assumed 3.68% rate for the full term of financing as that
would be our recommendation of the two options.
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Sites Available to Lease (Collateral)
2014 lease-purchase financing to purchase Early Childhood Education Center facility:
Early Childhood Center facility
The Apollo facility
2016 certificates of participation (COP) refinancing of 2011 COP to construct Instructional Support Center:
Instructional Support Center
Pioneer Technical Center
Gould Education Center
All other sites used by the Superintendent of Schools:
The facility and/or the land is leased and not owned
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Benchmark Interest Rate Lower Today
The Benchmark Municipal Bond Interest Rate Moved Lower Since the Issuance of the 2014 Lease Purchase
Benchmark Interest Rate 2014 Lease-Purchase Financing (Sep. 19, 2014) 4.17%
Benchmark Interest Rate 2018 Lease-Purchase Financing (Jun. 28, 2018) 3.87%
Bond Buier 20-Bond Index
Notes: The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years and is compiled every Thursday. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Rating Service AA.
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Refinancing Analysis
Pacific Western Bank proposed the lowest interest for refinancing the 2014 lease-purchase
3.375% fixed (0.1% lower than current interest rate)
However, 1% prepayment penalty
In total, estimated cost of approx. $14,000
Benefits of refinancing:
Frees up collateral to use toward the facilities financing
Estimated savings of approx. $90,000 - $140,000 on the facilities financing compared to other options
Note: estimated cost and savings are both on a net present value basis (in today’s dollars) based on a discount rate equal to the borrowing rate (true interest cost) on the total financing of 3.73%.
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Total Facilities Financing / Refinancing
Payments for the Facilities Financing Will Be Approx. $297,000 Annually, and for the Refinancing Approx. $87,000 Annually.
Fiscal Year Beginning July 1
Borrowing Amount  Facilities Financing $4,165,783 Refinancing $803,170 Total $4,968,953
General Fund Payment  Facilities Financing $0 Refinancing $70,000  Total $70,000
Escrow Account  Facilities Financing$0 Refinancing ($871,169) Total ($871,169)
Costs of Issuance  Facilities Financing($95,351) Refinancing ($2,001) Total ($97,351)
Capitalized Interest Fund  Facilities Financing($70,433) Refinancing $0 Total ($70,433)
NET FUNDS FOR PROJECTS Facilities Financing $4,000,000 Refinancing $0 Total $4,000,000
Good Faith Estimates Per Government Code 5852.1
Total Financing Amount of $4,968,953
Estimates
True Interest Cost 3.73%
Finance Charge $97,351
Amount of Proceeds $4,871,169
Total Gross Payment Amount $7,014,636
Note: General Fund Payment is upfront payment (which when combined with FY 2018-19 payment, results in level annual payments). Costs of issuance include bond counsel,

financial advisor, placement agent, and other misc. expenses. Capitalized Interest fund is budgeted to fund payments until April 2019. True interest cost based on winning
bid from Pacific Western Bank. Finance charge is the sum of all charges and fees paid to third-parties for upfront costs. Amount of proceeds received is the bond amount
less the finance charge and any reserves or capitalized interest funded. Total payment amount is total debt service plus any finance charges not paid with proceeds.
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The financing is a “lease to own” type of structure.
The County Supt. of Schools leases sites to the Municipal Asset Finance Corporation in exchange for receiving the $4 million of project funds. The Corporation is a non-profit set up specifically for this purpose under the Education Code, and which the County Supt. of Schools has used previously. The Corporation obtains the funds from Pacific Western Bank.
The Corporation then leases the sites back to the County Supt. of Schools for its use, in exchange for making annual payments. The Corporation assigns it rights to Pacific Western Bank, so as a practical matter, all cash flows directly between the County Supt. of Schools and Pacific Western Bank, with no cash handled by the Corporation. Once the payments are completed over the 20 year term, the County Supt. of Schools will own the sites free and clear.
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Primary Legal Documents
Board Resolution: authorizes completing the financing and signing of the documents in substantially the same form
Site and Facilities Lease: County Supt. of Schools leases the sites to the Finance Corporation in exchange for funds
Lease Agreement: the Finance Corporation leases the sites back to the County Supt. of Schools in exchange for principal and interest payments over 20 years
Assignment Agreement: the Finance Corporation assigns responsibility for the principal and interest payments to Pacific Western Bank
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Sites Subject to Lease
Three sites will be subject to the lease agreement
The new CTE facility to be constructed
The adjacent Apollo facility (28198 Avenue 14)
The Early Childhood Education Center (220 East Almond Ave)
As a practical matter, the bank is counting on the Superintendent of Schools to live up to its obligation in good faith
Additional Safeguard:
State Superintendent of Schools notification and review
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Next Steps
Tonight: for your consideration, approval of Resolution authorizing the financing and legal documents
With Board authorization, we’ll proceed with Pacific Western Bank and finalize all of the legal documents
Wednesday, August 8th: closing and funds available for the facilities projects
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