

Morgan Stanley



Overview of Financing Tools for Community Colleges

Presentation to the ACBO Institute II

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Services Offered to Community College Districts

Municipal Securities Division

- Underwriting and distribution of municipal debt including:
 - General Obligation Bonds
 - Lease Revenue Bonds and Certificates of Participation
 - Tax Revenue Anticipation Notes
 - Housing-related Debt
- Quantitative analysis, structuring recommendations, and long-term financial modeling
- Credit analysis, rating agency strategy and research
- Secondary market support for retail and institutional accounts
- Ongoing coverage meetings and market/financing updates
- Capital markets and lending solutions

Public/Private Partnership Support

- #1 Infrastructure Investment Banking franchise with ability to manage:
 - Project finance and P3 transactions
 - Private activity bonds
 - Private placements
- Experience with projects in the Higher Education / Infrastructure sectors including student and workforce housing

Investment Management

- Active managers of capital helping issuer clients to outperform the market
- Capabilities across the asset class spectrum with ability to help clients meet their financial goals with a broad range of investment strategies and outcome-oriented solutions
- Services include:
 - Basic banking
 - Money markets and custom cash management
 - Traditional Fixed Income and Equity portfolio management
 - Alternative investments
 - Positive social and environmental impact investments
 - Pension and defined contribution services & consulting

Morgan Stanley Is a Leader in the California CCD Market

- Morgan Stanley maintains a competitive presence across the country, especially in the California CCD market
 - Morgan Stanley's leadership in all segments of the market provides valuable pricing information and reach to all types of investors
- Leading underwriter in the primary market**
 - #1 ranked underwriter of California CCDGO bonds in the short and long term
 - Leading market maker in the secondary market**
 - \$19.1 billion of trades and a 18.7% market share since 2016

California CCD League Table

2014 to Present

Rank	Firm	Par (\$MM)	Market Share
1	Morgan Stanley	\$9,078.2	32.1%
2	Piper Sandler & Co	7,287.1	25.8%
3	RBC Capital Markets	6,428.4	22.7%
4	Citi	1,327.8	4.7%
5	Ramirez & Co Inc	1,121.7	4.0%
6	BofA Securities Inc	896.9	3.2%
7	Stifel Nicolaus & Co Inc	743.4	2.6%
8	J P Morgan Securities LLC	452.5	1.6%
9	Goldman Sachs & Co LLC	312.4	1.1%
10	UBS Financial Services Inc	143.8	0.5%
Top 10 Total		\$27,792.2	98.3%
Industry Total		\$28,290.0	100.0%

California CCD League Table

2021

Rank	Firm	Par (\$MM)	Market Share
1	Morgan Stanley	\$1,706.9	34.3%
2	Piper Sandler & Co	1,597.6	32.1%
3	RBC Capital Markets	1,345.2	27.1%
4	Stifel Nicolaus & Co Inc	167.6	3.4%
5	UBS Financial Services Inc	143.8	3.0%
6	Robert W Baird & Co Inc	9.5	0.2%
7	-	-	-
8	-	-	-
9	-	-	-
10	-	-	-
Top 10 Total		\$4,973.6	100.0%
Industry Total		\$4,973.6	100.0%

Morgan Stanley's Secondary Market Trading of California CCD Bonds

2016-2021

	Retail		Institutional		Total		Market Share
	Trades	Par (\$MM)	Trades	Par (\$MM)	Trades	Par (\$MM)	
2016	5,371	\$573.5	2,734	\$2,961.8	8,105	3,535.3	18.6%
2017	4,201	354.1	3,472	2,260.8	7,673	2,614.9	18.2%
2018	3,555	352.2	4,268	2,898.4	7,823	3,250.5	23.0%
2019	2,647	270.4	4,558	3,186.2	7,205	3,456.6	21.3%
2020	1,941	201.2	5,338	2,735.0	7,279	2,936.2	14.6%
2021	1,932	162.4	6,142	3,136.5	8,074	3,298.9	18.0%
Total	19,647	\$1,913.8	26,512	\$17,178.7	46,159	\$19,092.5	18.7%

Sources: Thompson Reuters eMaxx Database; Morgan Stanley

Agenda

Section 1: Basics of Municipal Securities

Section 2: General Obligation Bond Elections

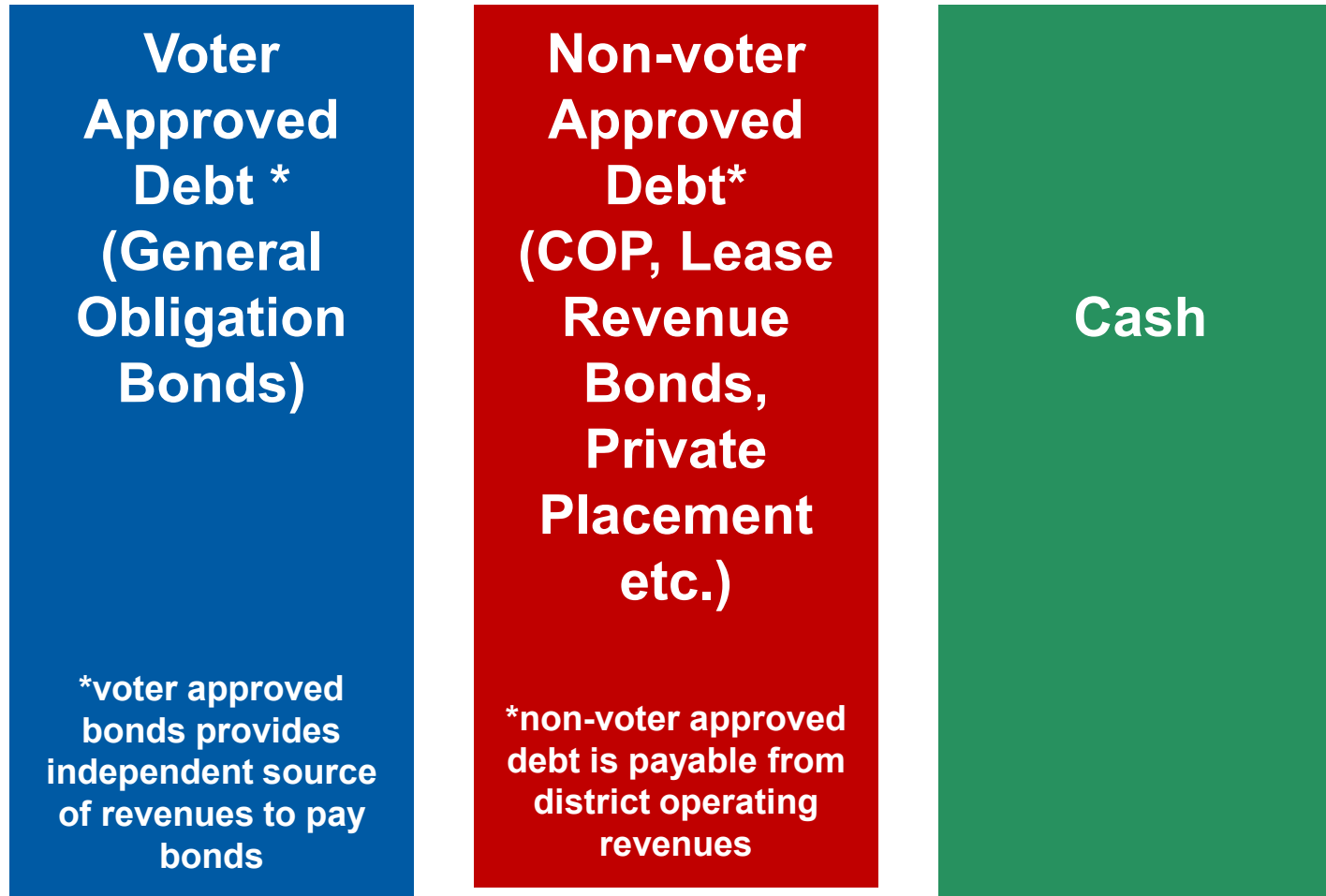
Section 3: Financing Process

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SECTION 1

Basics of Municipal Securities

Ways Community Colleges Can Fund Facility Needs?



What Are Bonds?

- Unlike a stock unit, a bond is not ownership in a business, a piece of property or anything else (with the exception of convertible bonds in the corporate bond market)
- Bondholders serve a similar lending function as banks; the difference is that the investor or bondholder is the direct lender to the borrower rather than an indirect lender through a bank intermediary
- A bond represents a formal contract between the borrower (bond issuer) and lender (bond investor) based upon the terms and conditions of a loan between the parties
 - In return for lending money to the issuer, the investor in a bond will receive a fixed schedule of payments over time from the issuer
 - These payments will include the return of the original amount borrowed/lent, as well as additional amounts representing interest to compensate the investor
- Key elements of all bonds include:
 - Amount of the loan—known as the “par amount”, “principal amount”, or “face amount”
 - Term of the loan: the date on which the amount borrowed is scheduled to be repaid—known as the “maturity date”
 - The “Coupon” or “Rate” represents the nominal amount of interest, specified as a percentage, paid to the investor periodically and is typically fixed over the life of the bond
 - The “Yield” represents the market discount rate used to value the fixed stream of future cash flows to determine the value of the bond at any given time
- The price of a bond is equal to the present value of the scheduled payments of principal and interest (i.e. coupon payments), using the yield as the PV rate to determine the discounted value
- There is an inverse relationship between the price and yield of a bond
 - If the same stream of cash flows is present valued at a higher rate (e.g. 5%) versus a lower rate (e.g. 4%), the present value/price will be lower using the higher discount rate

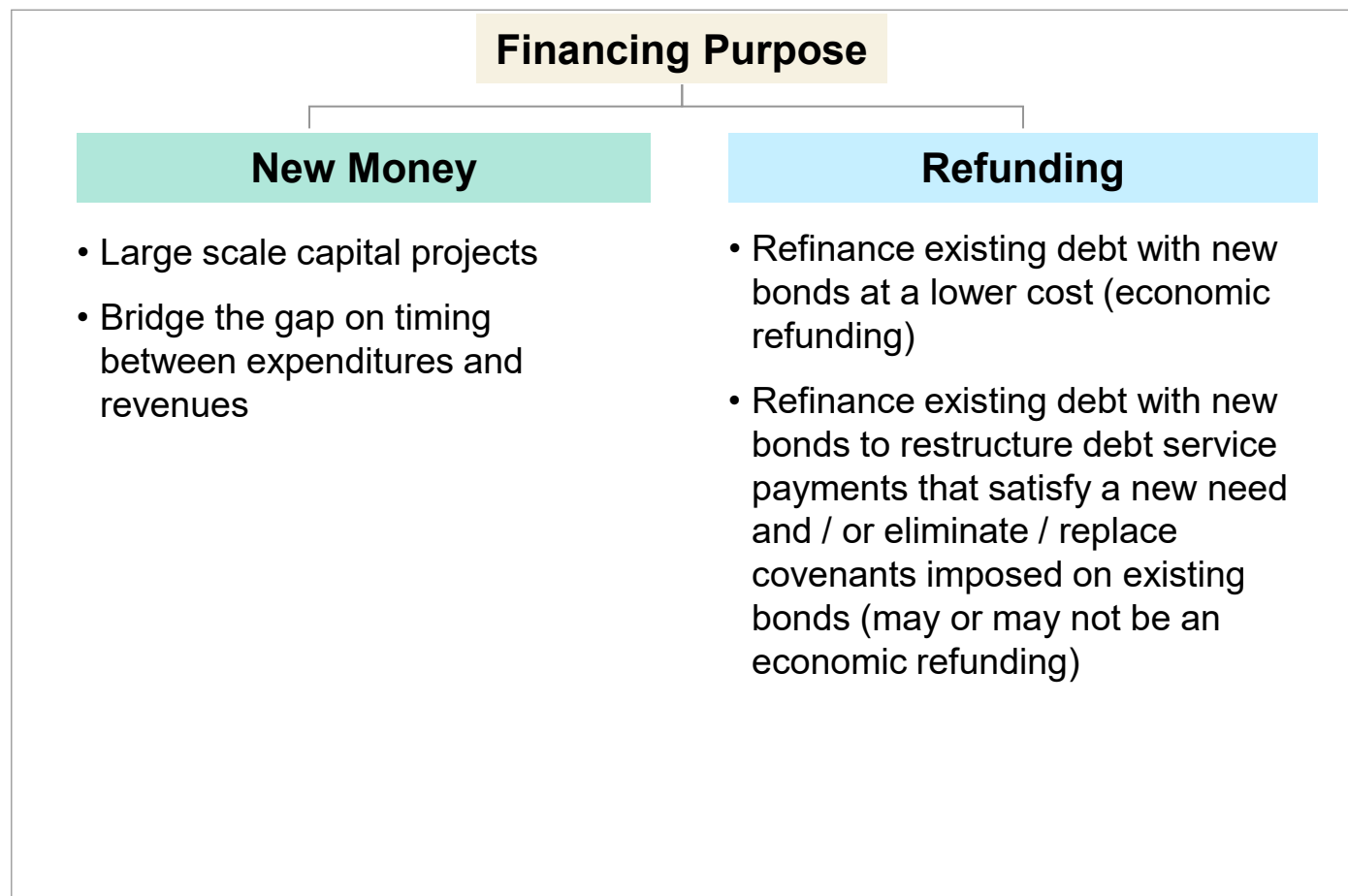
How Do Municipal Bonds Differ From Other Bonds?

- Municipal Bonds enjoy a special tax-exempt status when issued for certain public purposes by entities such as:
 - States
 - Counties
 - Cities
 - Public Utilities
 - Transportation Authorities
 - School Districts
 - Colleges and Universities
 - Non-profit Healthcare
 - Housing Authorities
- The interest income that investors receive on their municipal bond investment is exempt from federal taxation and often from state and local taxes, with exceptions
 - As a result, investors are willing to accept a lower interest rate than they would if their income was taxable
 - For example, an investor in the 35% tax bracket is theoretically indifferent to a tax-exempt coupon equal to 65% of a taxable coupon (all else equal)
 - This results in a "subsidized loan" to the issuer; the federal (and state/local, if applicable) government agrees to forego money in tax revenues, and the issuer enjoys a lower interest rate on its debt
- The types of projects which may be financed and how bond proceeds are spent are subject to very specific tax law constraints
 - In general, only capital projects can be financed through tax-exempt debt
 - Only under certain circumstances can working capital be funded in this manner

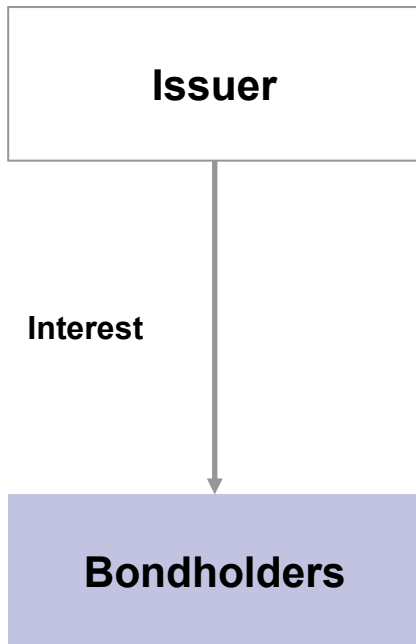
What Are Bond Proceeds Used For?

- Bond Proceeds are used for new money and/or refunding purposes

Use of Bond Proceeds



What Types of Debt are Typically Issued?



Fixed vs. Variable Rate Debt

	Pros	Cons
Fixed Rate Bonds	<ul style="list-style-type: none"> • Future credit and rate risk shifted to investors • Most common form of tax-exempt debt • Budget certainty • Ability to enter into interest rate swaps to gain some benefits of variable rate exposure without some of the risks associated with natural variable rate debt 	<ul style="list-style-type: none"> • Historically higher cost than variable rate bonds • Potentially expensive to restructure • Typically not callable for 10 years • Little flexibility for borrower once the bonds are issued
Variable Rate Bonds -Variable Rate Demand Bonds -Floating Rate Notes -Put Bonds -SIFMA Index Bonds -Commercial Paper	<ul style="list-style-type: none"> • Typically callable on any interest payment date at par • Historically lower rates than fixed rate debt • More efficient use of the yield curve – no premium built in for tax risk • Ability to enter into floating-to-fixed rate swap to manage variable rate exposure and take advantage of market conditions • Natural hedge results from short-term investments/operating cash 	<ul style="list-style-type: none"> • Risks related to credit enhancers/liquidity providers • Interest rate risk • Remarketing / liquidity risk • Element of budget uncertainty resulting from potential rate volatility

Security For The Bonds: General Obligation Bonds

- General Obligation (G.O.): security is the general creditworthiness and the taxing power of the state or local government issuing the bonds. State governments rely mostly on income taxes and sales taxes, while local governments typically rely upon property taxes. G.O. Bonds that are backed by the “Full Faith and Credit” of the issuer have the taxing power of the issuer behind them, i.e. the issuer has pledged to raise taxes if needed to pay debt service (however, this does not guarantee that payment will always be made)

Advantages of Issuing General Obligation Bonds

- Lowest cost
- General fund revenues are not tapped
- No debt service reserve requirement
- Can fund large amount of capital plan

Disadvantage of Issuing General Obligation Bonds

- Must be voter approved
 - Use of proceeds
 - Capital plan subject to external factors (AV, Tax Rate)
-

Security For The Bonds: COPs/Lease Revenue Bonds

- A lease financing is a mechanism whereby a school district leases property and, in consideration of the use of the property, makes lease payments during the term of the lease
- Lease financings enables CCDs to finance capital assets over multi-year period

Advantages of Lease Based COP/Lease Revenue Bonds

- No voter approval
- Flexible
- Quick timeline

Disadvantage of Lease Based COP/Lease Revenue Bonds

- General fund obligation
 - Abatement risk
 - Pledge asset
 - Debt service reserve fund
 - Typically, more expensive than GO Bonds
-

Security For The Bonds: Tax and Revenue Anticipation Note (TRAN)

- A TRAN is a short-term debt instrument used to finance cash flow deficits in anticipation of receiving taxes and other revenues

Advantages of TRANS

- No voter approval
- Short-term
- Quick timeline

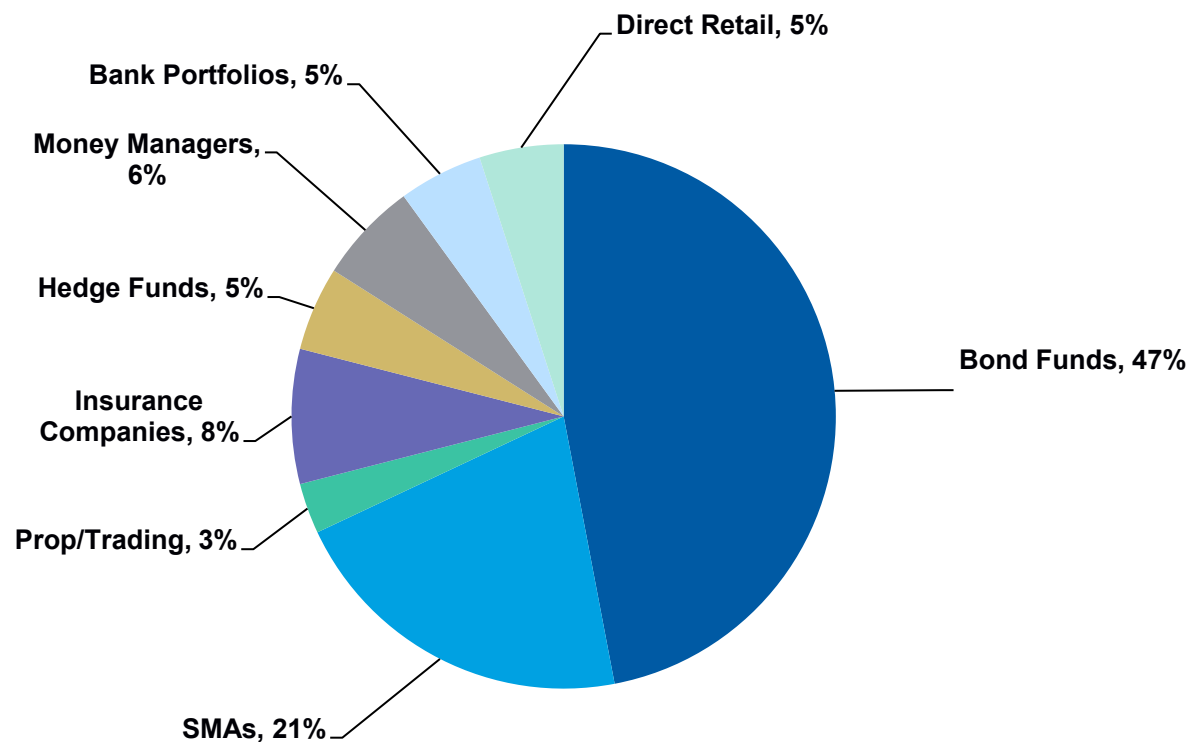
Disadvantage of TRANS

- Must be repaid no later than 15 months after their date of issuance
- Size of borrowing is restricted
- Only revenues received or attributable to the fiscal year in which the TRANS are issued may be pledged for repayment
- New issuance cost for each TRAN

Who Buys Municipal Bonds?

- There are two major classes of bond buyers:
 - **Retail**, i.e. individuals/ households/ “Mom & Pop” or professional retail (i.e. investment advisors)
 - **Institutional**
 - Bond funds
 - Investment advisors
 - Commercial banks
 - Bank trust departments
 - Insurance companies
 - Hedge funds

Current Tax-Exempt Distribution



SECTION 2

General Obligation Bond Election

Historical General Obligation Bonds Elections

- General Obligation bond measures are the most utilized method of funding capital plans for K-14 issuers
- Since 2001, 1,377 elections have been approved

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT
VOTER APPROVED GO AUTHORITY VS. ISSUANCE PER ELECTION YEAR
(REPORTED TO CDIA AS OF 01/31/2021)

ELECTION YEAR ^(a)	NUMBER OF APPROVED ELECTIONS	VOTER APPROVED G.O. AUTHORITY (MILLIONS)	G.O. AUTHORITY ISSUED (MILLIONS)	UNISSUED G.O. AUTHORITY ^(b) (MILLIONS)	% UNISSUED
2001 ¹	50	\$4,413	\$4,387	\$26	0.6%
2002	151	15,567	15,480	87	0.6
2003	11	1,553	1,538	15	1.0
2004	112	11,561	11,361	200	1.7
2005	35	6,294	6,029	264	4.2
2006	83	10,301	9,179	1,122	10.9
2007	11	1,253	573	681	54.3
2008	142	28,001	19,091	8,910	31.8
2009	2	69	69	0	0.0
2010	62	5,015	4,656	359	7.2
2011	7	961	961	0	0.0
2012	116	15,287	12,528	2,758	18.0
2013	8	330	327	3	0.8
2014	127	12,598	9,794	2,804	22.3
2015	9	1,143	797	346	30.3
2016	219	29,641	16,065	13,576	45.8
2017	2	155	60	95	61.3
2018	128	17,865	6,499	11,367	63.6
2019	-	0	0	0	-
2020	82	18,750	1,090	17,660	94.2
TOTAL	1,377	\$180,776	\$120,502	\$60,273	33.3%

(a) Calendar year: even years include both Primary and General election results; odd years include locally held elections during the year.

(b) Amounts may not add due to rounding.

Source: Original CDIA analysis, last updated February 2021

Historical CCD General Obligation Bonds Elections

Since 2016

- Since 2016, twenty nine community college bond elections have passed for a total of \$16.6 billion
- The average new bond election size has been \$521 million
- The success rate has been 73%

District	Amount	District	Amount
2020		2016	
Cabrillo CCD	\$274,100,000	Antelope Valley CCD	\$350,000,000
Citrus CCD	\$298,000,000	Butte-Glenn CCD	\$190,000,000
Foothill-DeAnza CCD	\$898,000,000	Cabrillo CCD	\$310,000,000
Los Rios CCD	\$650,000,000	Chabot-Los Positas CCD	\$950,000,000
Merced CCD	\$247,000,000	Desert CCD	\$577,860,000
Monterey Peninsula CCD	\$230,000,000	Glendale CCD	\$325,000,000
Rancho Santiago CCD	\$496,000,000	Grossmont-Cuyamaca CCD	\$348,000,000
Riverside CCD	\$715,000,000	Hartnell CCD	\$167,000,000
San Francisco CCD	\$845,000,000	Kern CCD	\$502,821,000
San Jose-Evergreen CCD	\$858,000,000	Long Beach CCD	\$850,000,000
Yuba CCD	\$228,400,000	Los Angeles CCD	\$3,300,000,000
2018		Marin CCD	\$265,000,000
Allan Hancock CCD	\$75,000,000	Miracosta CCD	\$455,000,000
Chaffey CCD	\$700,000,000	San Jose-Evergreen CCD	\$748,000,000
Gavilan CCD	\$248,000,000	Santa Clarita CCD	\$230,000,000
Mt. San Antonio CCD	\$750,000,000	Santa Monica CCD	\$345,000,000
Peralta CCD	\$800,000,000	Shasta-Tehama-Trinity CCD	\$139,000,000
San Bernardino CCD	\$470,000,000	Southwestern CCD	\$400,000,000
Sierra CCD	\$350,000,000	State Center CCD	\$485,000,000
West Kern CCD	\$50,000,000	Yuba CCD*	\$33,565,000
West-Valley Mission CCD	\$698,000,000		

*Reissuance of \$190MM prior election

Red font denotes failed election

Source: Ballotpedia

Specific Requirement for Community College District GO Bonds

- A General Obligation bond is a constitutionally authorized voter approved debt payable solely from ad valorem property taxes in amounts subject to the Education Code constraints on borrowing
 - Pre-1978 – Bond Authority
 - 1978 to 1986 – Prop. 13 (No Bonds)
 - 1986 to 2013 – Prop. 46
 - 2000 to present – Prop. 39 and Prop. 46

Proposition 39

- Proposition 39 passed in 2000
- Proposition 39 amends article XVIII A of the California Constitution to allow for the levy of ad valorem taxes on real property in excess of the one percent (1%) limit to pay debt service on bonds issued for construction, repair, furnishing and equipping of school facilities, and not for teacher or administrators salaries and other operating expenses
- Lowered voter threshold to 55% and mandated additional requirements
- At least two-thirds (2/3) of Board must approve Resolution ordering the Election
- A detailed Project List will need to be included in the ballot measure
- Accounting & Spending Requirements – Annual Financial and Performance Audits
- Citizens' Oversight Committee – 7 members (local business person, senior, taxpayer organization, currently enrolled student, member of college support group, such as a foundation, and two representatives of the public)

Additional Requirements

- Legal bonding capacity set at 2.5% of Assessed Value
- Statutory limit of \$25 per \$100,000 of assessed value per election for Community College Districts

Example: Timeline for a June or November Election

Action	June Election	November Election
Inform community of need	November et seq.	February
Conduct voter poll	December Prior Year	March
Finalize project list/ ballot question/ bond plans	February	July
Adopt/Deliver to ROV Resolution Ordering Election*	Early March	Early August
Deliver Tax Rate Statement to ROV**	Early March	Early August
Transition into advocacy phase	Early March	Early August
File ballot arguments with ROV	March	August
Fund Raising/Campaign	On-going	On-going

*88 DAYS PRIOR TO ELECTION DATE. SOME COUNTIES HAVE LONGER DEADLINE, CONSULT YOUR LOCAL REGISTRAR OF VOTERS

** DEADLINE VARIES COUNTY TO COUNTY, CHECK WITH LOCAL REGISTRAR OF VOTERS

Sample 75-Word Ballot Question

Foothill-DeAnza CCD March 2020 Election Ballot Language

To upgrade facilities preparing students/veterans for university transfer/careers like healthcare, nursing, technology, engineering/sciences; upgrade/repair aging classrooms, labs for science, technology, engineering/math-related fields of instruction; acquire, construct, repair facilities, equipment/sites; shall Foothill-De Anza Community College District's measure authorizing \$898,000,000 in bonds at legal rates, levying 1.6 cents/\$100 assessed valuation [\$16/\$100,000 assessed valuation] (\$48,000,000 annually) while bonds are outstanding [until approximately 205_] with audits/no money for administrators' salaries, be adopted?

Tax Rate & Bond Election Sizing Criteria

District Assessed Valuation and Growth Rate

- The size of the District's tax base determines the size and amount of the bond program
- Future growth rate projections is a major component in a District's bond program
- Variances between projected and actual assessed value results may negatively impact the District's plan of finance

Timing of Bond Sales

- Timing of projects and estimated proceeds required
 - Maximizing near-term financings may limit future bond structuring flexibility

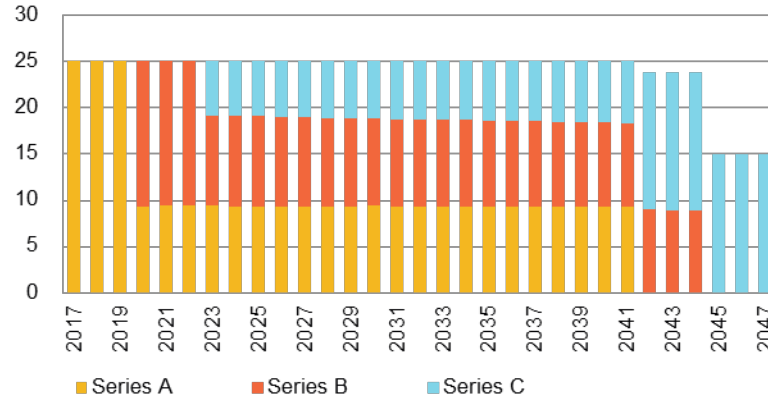
Cost of Funding

- Current interest rate environment is historically favorable
 - Issuing more bonds today at lower rates may reduce the District's aggregate borrowing cost
- Length of final maturity

Impact of Assessed Valuation Change

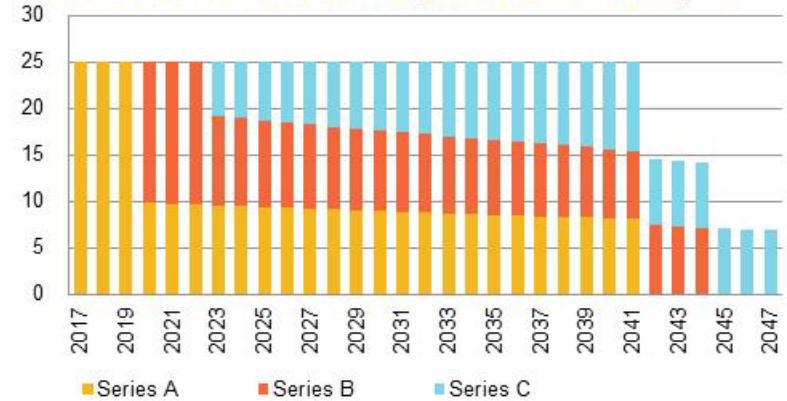
- Both Scenario 1 and Scenario 2 are based on a District with a \$40 billion Assessed Valuation (AV)
- Both Scenario 1 and Scenario 2 assume issuing three current interest bond issuances set three years apart with a final maturity out 25 years
- Scenario 1 assumes an average AV growth rate of 3%
- Scenario 2 assumes an average AV growth rate of 4%
- By increasing AV growth rate by 1%, the District is able to **generate \$23 million more for their bond program**

Scenario 1: 3% AV Growth Hypothetical Bond Program



Series	Amount
A	\$112,000,000
B	110,000,000
C	100,000,000
Total	\$322,000,000

Scenario 2: 4% AV Growth Hypothetical Bond Program



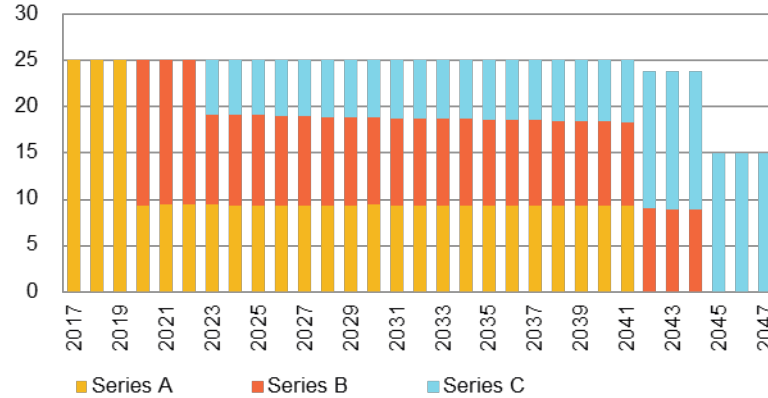
Series	Amount
A	\$120,000,000
B	115,000,000
C	110,000,000
Total	\$345,000,000

Note: Hypothetical bond analysis assuming estimated current market rates, similar credit rating, geographic location, and market sector

Impact of Timing of Issuance

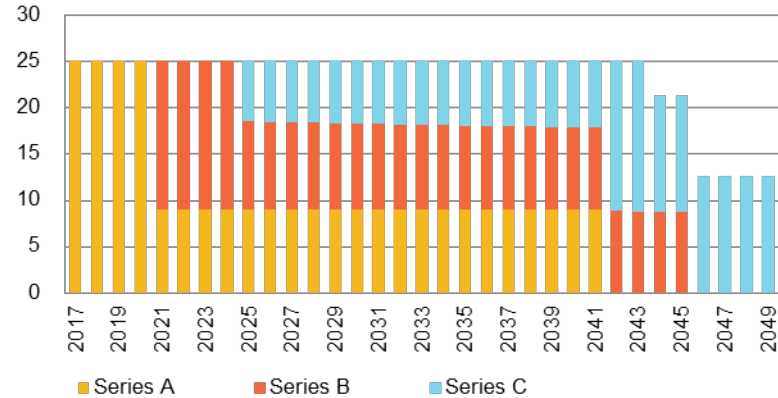
- Using the same assumptions as Scenario 1
- Scenario 3 assumes issuing three series of bonds set four years apart
- By increasing the time between series by one year, the District is able to generate **\$22 million more** for their bond program

Scenario 1: 3% AV Growth Hypothetical Bond Program



<u>Series</u>	<u>Amount</u>
A	\$112,000,000
B	110,000,000
C	100,000,000
Total	\$322,000,000

Scenario 3: Four Years Apart



<u>Series</u>	<u>Amount</u>
A	\$115,000,000
B	115,000,000
C	114,000,000
Total	\$344,000,000

Note: Hypothetical bond analysis assuming estimated current market rates, similar credit rating, geographic location, and market sector

Tax Rate Options

Stand-alone Election

- Each election's tax rate limit is independent of outstanding authorization
- Provides flexibility and generally lower cost
- Constituents see an increase to their current tax as the new election is layered on
- Most common form of Bond measure

Tax Rate Extension

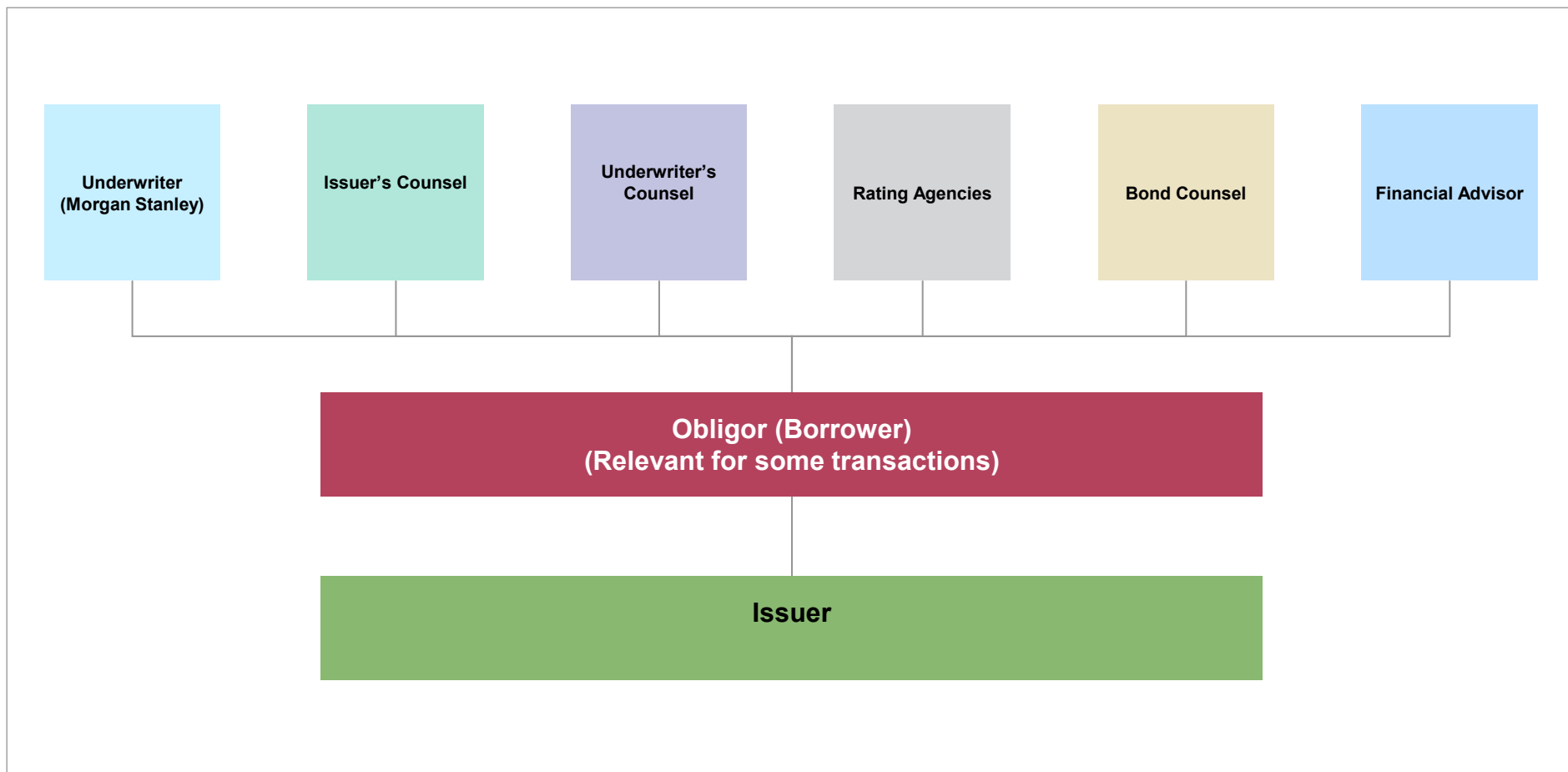
- New bond measure is structured to not increase the current tax rate
- "No tax rate increase" campaign message may resonate with voters making for a greater chance of a successful election
- Depending on the outstanding bonds, a tax rate extension structure could be more expensive and provide less flexibility to make changes
- Less frequent than stand-alone elections

SECTION 3

Financing Process

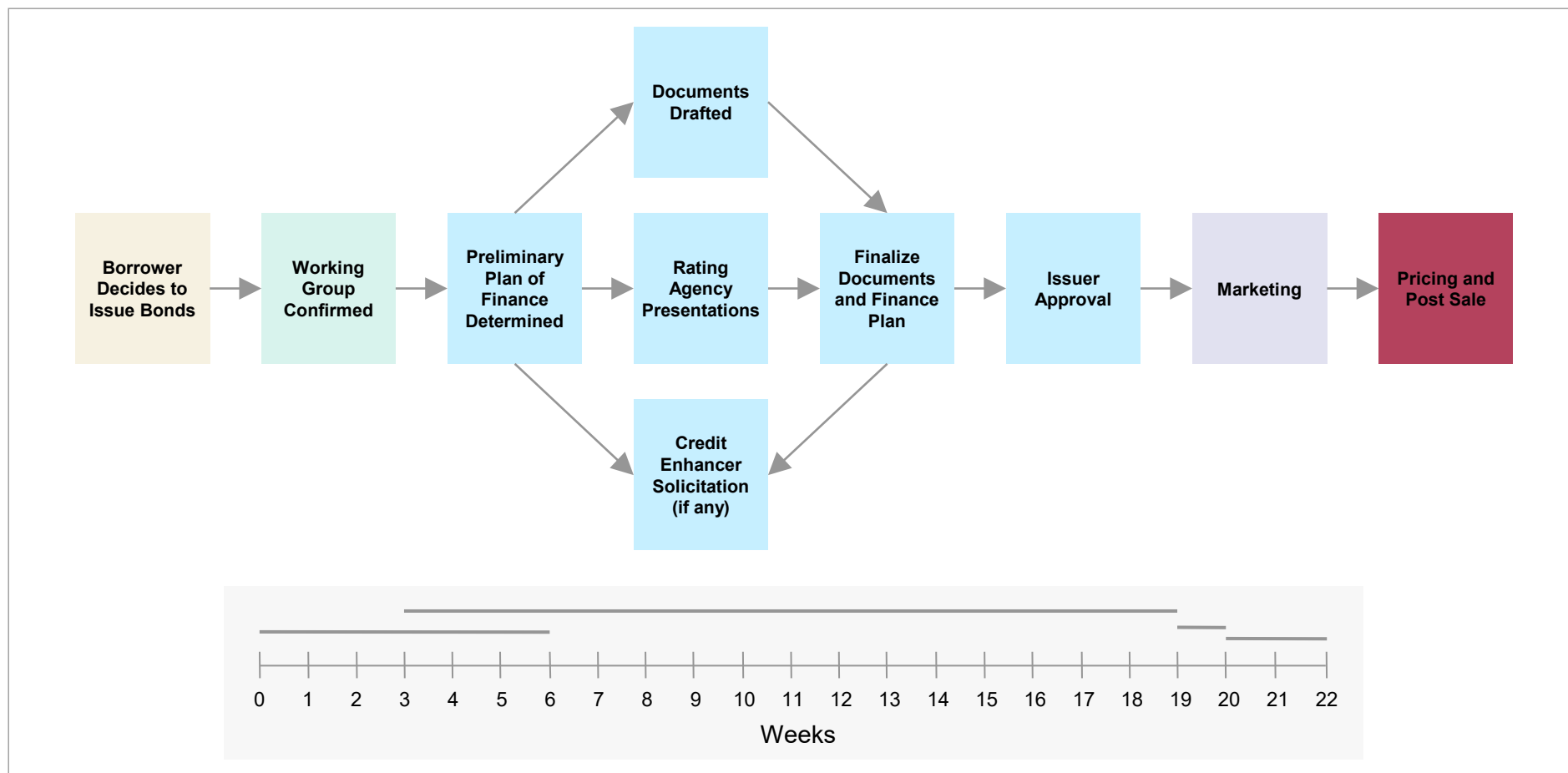
Financing Team Members

Financing Team Members



Overview of the Financing Process

Example of Typical Transaction Timeline



Primary Documents

Summary of Description of Legal Documentation

Legal Documentation

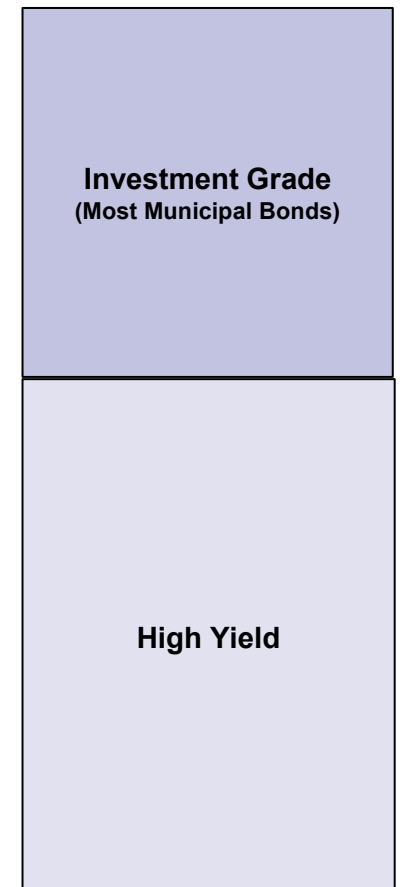
Documents	Parties	Purpose	Typical Preparation
Bond Resolution or Indenture	Issuer Issuer and Trustee	Sets forth security provisions and covenants with which borrower must comply; authorizes general issuance of debt; sets forth parameters under which bonds can be issued, flow of funds, pledge of revenues, types of permitted investments and events of default and remedies	Bond Counsel
Series Resolution or Supplemental Indenture	Issuer Issuer and Trustee	Sets forth specific features (amounts, maturities, and redemption features)	Bond Counsel
Loan Agreement (if "conduit" issue – proceeds loaned to another entity such as a college/university, hospital, corporation)	Issuer and Borrower	Provides for loan of bond proceeds to borrowing entity; sets forth covenants with which borrower must comply	Bond Counsel
Bond Purchase Agreement	Underwriter and Issuer	Governs purchase of bonds, provisions for underwriter "outs" and stickers and conditions of closing	Underwriter's Counsel
Preliminary Official Statement ("POS" or Red Herring)	Issuer	Provides information on security, purpose of issue, background on issuer (and borrower); used to market bonds to potential investors; provides means of disclosure The draft version of the Official Statement which is mailed by the issuer or underwriters to determination of prices and interest rates. The primary selling and disclosure document, it contains in-depth information concerning the issuer, the proposed financing's terms and structures and other relevant background information. A statement that no offer for or acceptance of bonds can occur on the basis of the POS is made in red on the left of the cover, thus causing it be known as the Red Herring.	Underwriter's Counsel
Final Official Statement ("OS")	Issuer	Final Version of POS; includes final rates, maturities, sinking fund payments and redemption provisions	Underwriter's Counsel

Ratings Grid

- On July 13, 2015, Governor Brown signed into law Senate Bill 222 which further secures revenues by attaching statutory liens to all future issuances of GO Bonds, preserving bondholders rights to the tax revenues used to back the bonds in the event of bankruptcy

Major Rating Agencies Rating Guide for Long and Short Term Debt

Moody's		S&P		Fitch		Risk Characteristic
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	
Aaa	P-1	AAA	A-1+	AAA	F-1	Prime
Aa1		AA+		AA+		High Grade
Aa2		AA		AA		Upper Medium Grade
Aa3		AA-	AA-			
A1		A+	A-1	A+	F-1	
A2	A	A-2	A	F2	Lower Medium Grade	
A3	A-		A-			
Baa1	P-2	BBB+	A-3	BBB+	F3	Non-Investment Grade Speculative
Baa2	P-3	BBB		BBB		
Baa3		BBB-		BBB-		
Ba1		BB+	BB+	B		
Ba2		BB	BB			
Ba3		BB-	BB-			
B1	B+	B+				
B2	B	B				
B3	B-	C	B-	C	Highly Speculative	
Caa1	CCC+		C		CCC	Substantial Risks
Caa2	CCC					Extremely Speculative
Caa3	CCC-	/	CCC	C	In Default with Little Prospect for Recovery	
Ca	CC					
C	C					
/	Not Prime	D	/	DDD	/	In default
/						
/				D		



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APPENDIX

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