

Refunding Debt



Board Meeting – January 22, 2013

Brevard County School Board

Refunding Opportunities

January 22, 2013



RBC Capital Markets®

Topics of Discussion

- A. Refunding Opportunities
- B. Refunding Transactions
- C. Market Conditions and Outlook
- D. Summary & Recommendation

Refunding Opportunities

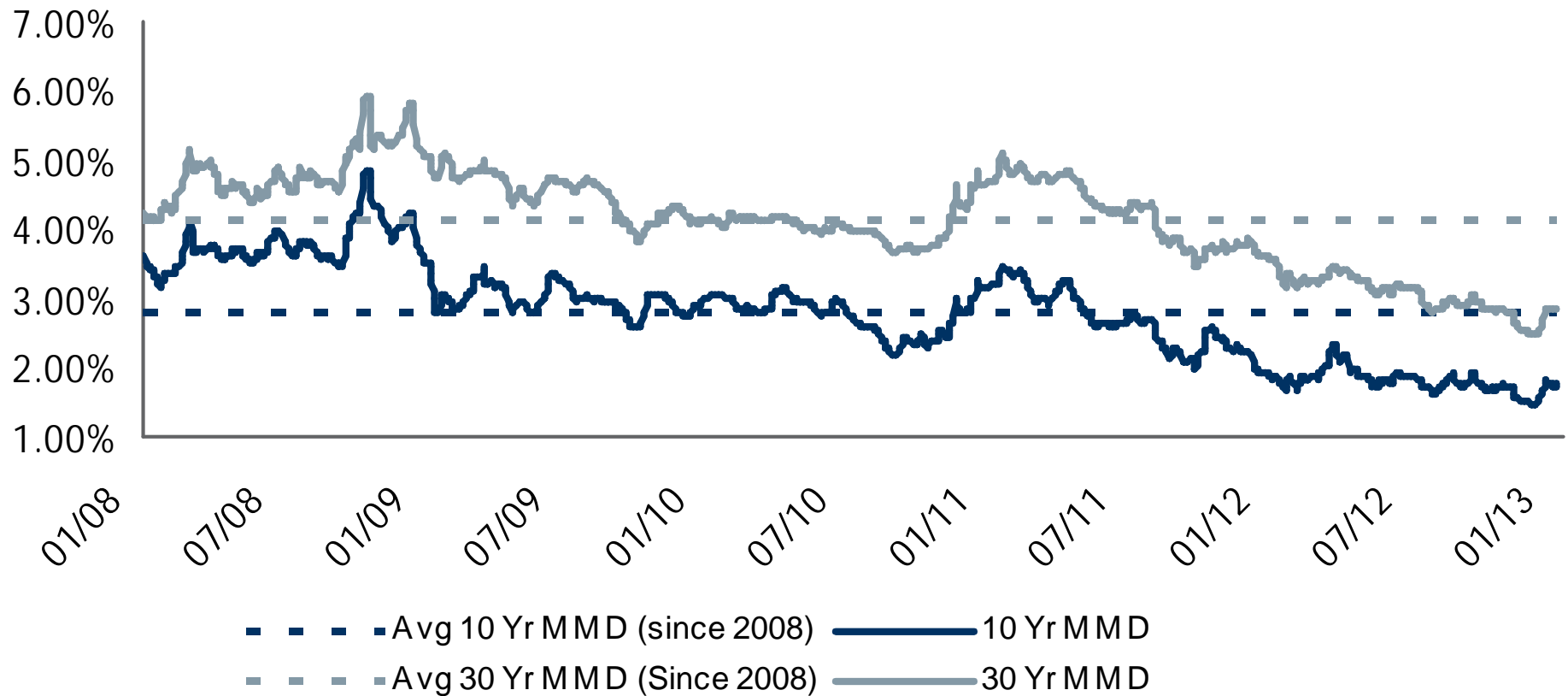
BREVARD COUNTY SCHOOL BOARD
 Summary of Types of Debt Outstanding
 As of January 22, 2013

Type of Debt	Amount Outstanding	Mode
Certificates of Participation		
Series 2002	5,110,000	Fixed
Series 2004A	43,330,000	Fixed
Series 2004B	65,690,000	Fixed
Series 2004-QZAB	4,408,000	Fixed
Series 2006A	119,225,000	Fixed
Series 2007A	37,585,000	Fixed
Series 2007B	71,350,000	Fixed
Series 2007C	109,440,000	Fixed
Series 2008A	56,000,000	Fixed
Total Outstanding Debt	\$512,138,000	

Total Variable Rate	\$0
Total Variable Rate as a % of Total Debt	0%

5-Year History of Long-Term Interest Rates

Municipal Market Data Since 2008



Market Conditions Over the Last 9-12 Months

- Historical low yields were established for tax-exempt bonds, first in March, then in July, and again in November
- Investors were buying municipal bonds (flight to quality). Bond Funds experienced positive inflows through most of the year
- Total volume for 2012 stands at \$373B, almost a 30% increase from 2011 total of \$288B
- Professional Retail Buyers (SMA's) appeared to shift asset allocation mix, increasing percentages into the municipal asset class, and as such, became a significant influence in the move towards historically low tax-exempt rates established in 2012
- Post election November rally of 30-35bps was sparked by the expectation that any "Fiscal Cliff" resolution would result in higher individual tax rates

Market Conditions Over the Last 9-12 Months

- Mid-December sell-off negated entire November rally and culminated in a fairly significant degree of illiquidity across the municipal market. Investors were uncertain and stopped investing.
- Relevant factors in that selloff were:
 - Investors were uncertain of the market and stopped investing. Buyers in November were selling in December (fiscal cliff issues).
 - Unusually high level of retail selling due to uncertainty surrounding potential increase in Capital Gains Tax.
 - Continued discussions to potentially include municipal interest in the deduction cap.
- While municipal market supply remains low, European fiscal crisis fears and central bank stimulus have caused a rally in both taxable and municipal markets over the past several weeks.
- January 2013 municipal supply remains low and investors have been willing buyers, pushing yields back toward November levels.
- Rates are volatile providing market opportunities for issuers to consider refinancing alternatives.

Why Refund?

Issuers refund bonds generally for the following reasons:

- o To reduce the issuer's interest costs with lower interest rates.
 - o To remove burdensome or restrictive covenants imposed by the terms of the bonds being refinanced.
 - o To restructure the stream of debt service payments to avoid default or an unacceptable tax or rate increase.
- The proceeds of the new bonds are either deposited in escrow to pay the debt service on the outstanding bonds when due (Advanced Refunding) or used to promptly (typically within 90 days) retire the outstanding bonds (Current Refunding).

Refunding Transactions – Common Types of Refunding Bonds

- **Current Refunding**
 - Bonds can only be refunded within 90 days of the 10-year call date.
- **Advanced Refunding**
 - New bonds are purchased and the proceeds are placed in an escrow to pay the debt service for the old bonds when they come due.
- **Forward Refunding**
 - An agreement, usually between an issuer and the underwriter, whereby the issuer agrees to issue bonds on a specified future date and an underwriter agrees to purchase such bonds on such date. The advantage of a forward refunding is that an issuer can take advantage of favorable market conditions and lock in refunding savings before the bonds are eligible to be currently refunded.

Refunding Transactions – Advance Refunding Considerations

- Tax-exempt issues issued after 1985 can only be advance refunded once, but can be currently refunded at any time.
- Is the ability to advance refund the bonds in the future worth more than the ability to realize refunding savings today?
- Does the projected refunding savings meet the District's established targets?
 - o Given that the District can only advance refund the bonds once; there should be a minimum net present value savings of 3% (best practice of Government Finance Officer's Association).

Considerations for Refunding

The following should be addressed when considering refunding:

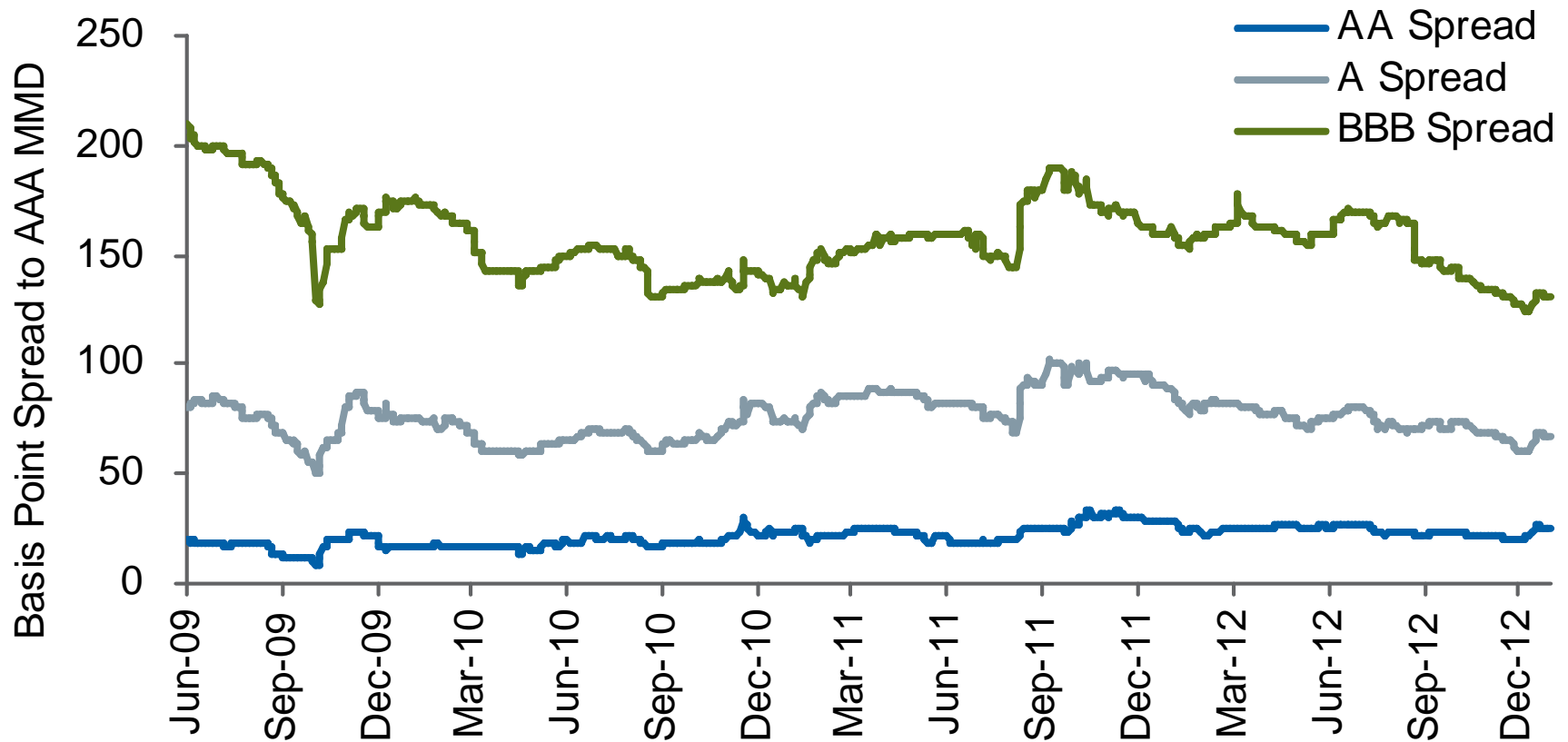
1. Interest Rates
2. District's Credit Rating
3. Call Date of Bonds

Market Forecasts

- Reconfiguration of individual tax rate structure to higher levels as a result of interim Fiscal Cliff fix has established a more positive tone at the very outset of 2013
- Uncertainty surrounding an ultimate Fiscal Cliff resolution may be back-burnered for the very near term
 - It will likely become an issue again with investors towards mid-February if and when debt limit talks force a more in-depth attempt at resolving Fiscal Cliff issues and if those negotiations again include municipal exemption as a targeted item
- Any potential shift in asset allocation mix away from "spread products" (fixed income including municipal, corporates, mortgage securities, etc.) and into equities would be a concern for municipal relative performance over the course of 2013
- 2013 volume forecasts range from \$325B to \$400B
 - Major disparity in forecasts have to do with the expected level of new money issuance, which accounted for only about 40% of total volume in 2012, and potential level for refunding volume after a year that tapped heavily into the pool of advance refunding candidates

Market Conditions

Credit Spreads Remain Tight for Highly Rated Issuers



Estimated Savings

The District could realize significant savings through the refinancing of outstanding 2002 Series and portions of both 2004A and 2004B.

Brevard County School District Series 2013A&B Refunding Certificates of Participation Estimated Savings Market Conditions as of January 15, 2013				
Date	Prior Debt Service	Refunding Debt Service	Gross Savings (Up-Front)	Gross Savings (Level)
7/1/2013	\$1,994,388	\$482,975	\$1,432,937	\$60,378
7/1/2014	6,493,775	4,747,852	1,588,974	364,003
7/1/2015	7,828,575	6,009,352	1,662,274	365,403
7/1/2016	5,117,625	4,960,508	167	365,609
7/1/2017	12,367,625	12,208,560	2,115	363,790
7/1/2018	12,374,125	12,216,164	1,011	363,101
7/1/2019	12,370,075	12,211,307	1,818	363,721
7/1/2020	12,366,825	12,205,459	4,416	365,042
7/1/2021	12,370,075	8,558,250	4,875	365,125
7/1/2022	3,313,875	3,311,250	2,625	366,875
7/1/2023	3,315,125	3,314,750	375	362,875
7/1/2024	3,316,625	3,313,500	3,125	363,375
7/1/2025	3,313,125	3,312,500	625	363,125
7/1/2026	3,314,625	3,311,500	3,125	367,125
7/1/2027	5,502,025	5,500,250	1,775	366,525
7/1/2028	5,501,375	5,499,000	2,375	367,125
7/1/2029	5,501,500	5,501,500	-	364,000
7/1/2030	<u>5,502,000</u>	<u>5,502,000</u>	-	<u>367,500</u>
Totals	\$121,863,363	\$112,166,675	\$4,712,612	\$6,264,696

Present Value Savings		
	Up-Front	Level
PV Savings	\$4,575,039	\$4,933,888
Savings as % of Bonds Refunded	5.59%	6.03%

Recommendation

Considerations for Refunding:

1. Interest Rates
2. District's Credit Rating
3. Call Date of Bonds

Recommendation:

Based on today's current market conditions, the analysis shows that the District can realize approximately \$4.5 – \$4.9 million in present value savings or 5.6% – 6.0% with the majority of the savings to be realized in fiscal years 2013-14 and 2014-15.

Future Recommended Board Action:

- February 6th Information Item.
- February 26th Consent After Information
- Refunding Likely Prior to June 30th

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