

**MEASURE E BOND
CITIZENS' OVERSIGHT COMMITTEE**

MINUTES

LONG BEACH COMMUNITY COLLEGE DISTRICT
4901 E. CARSON STREET
LONG BEACH, CA 90808

Approved

**LIBERAL ARTS CAMPUS
BUILDING I**

Minutes of the April 7, 2003 Meeting

Welcome and Introductions (William Marmion)

The meeting was called to order at 7:10 P.M. Dr. William Marmion welcomed the committee members.

Approval of January 6, 2003 Minutes (William Marmion)

Mr. Squires indicated that about half of the committee members forwarded comments on the minutes to him. Corrections were made as requested. It was moved (J.C. Squires) and seconded (Gary Westling) to approve the minutes of the January 6, 2003 meeting as distributed. Motion carried unanimously.

The agenda was reordered to hear the Underwriter's Presentation by Mr. Rod Carter, the Districts underwriter/financial advisor from RBC Dain Rausher before Old Business.

OLD BUSINESS

Mr. Marmion introduced and welcomed Lori Sanchez who will be taking the minutes at future meetings.

Approval of Amended Bylaws (William Marmion)

The Bylaws have been amended to add the board position of Secretary. It was moved (Gary Cooper) and seconded (Gary Westling) to approve the Bylaws as amended. Motion carried unanimously.

Bond Process Update (Eloy Oakley)

Mr. Oakley, Dr. Kehoe, Mr. Uranga, Board President, and Dr. Clark, Trustee Member attended the presentation to Standard & Poors and Moody Investor Service. Mr. Oakley commended the two trustees for their excellent representation for the District. They brought with them a history of Long Beach and explained the Districts many ties to the City through the trustees, and the foundation. They spoke very highly of the Citizen's Oversight Committee and described the role of this committee and the varied talents the members bring to the committee as well as the committee's involvement in the community. The District had previously, through an RFP (Request for Proposal) process, chosen a pool of architects. We are now drawing from that pool for the first time, to help develop the first new construction project planned.

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The District has continued to work on the development of the implementation plan. To know how much of the bonds to issue the District needed to know how many projects to do in the first three years. One of the IRS restrictions on bonds is that we must have them spent down by the end of the three years. Work has continued through many of the District committees to develop some target projects for the first three years. At the April 22 meeting of the Board of Trustees, the general plan for these proposed construction projects will be presented for the first time to the Trustees. The District's bond implementation planner, Roberta Jorgensen is continuing to develop the long-range implementation plan. Mr. Oakley stated that there will be a presentation scheduled for the next meeting that would offer the committee detail of what we hope to see for the District. He commented that some of the committee members were able to attend one or both of the campus tours and hoped that the tours were helpful in providing the members an understanding of some of the challenges and opportunities the District has on both campuses.

Dr. Marmion invited the members to attend the April 22 meeting of the Board of Trustees that will be held in Building I at 5:00 p.m. Dr. Marmion will be reporting on the Citizen's Oversight Committee to the Board of Trustees. Also at that meeting, the implementation plan will be presented to the Board. He also extended thanks to all the staff responsible for setting up the campus tours. He found them very instructive and was able to see parts of the colleges that he wouldn't normally see. From that experience, came different questions about the sequence of events and what information would be coming through the Citizen's Oversight Committee and what authority the committee would have. It was felt that it would be helpful to have Mr. Oakley clarify the role for of this committee.

Roll of the Committee (Eloy Oakley)

Proposition 39 outlines the requirements to establish an oversight committee to insure that the taxpayers were represented on the committee to ensure and to understand how the accounting for the bond proceeds were being spent and to ensure that they were being spent in accordance to the language on the ballot measure. Proposition 39 also requires a performance audit. Only one district has done a performance audit so the audit community is unclear as to what the legislature has in mind. The consensus is that a third-party auditor who has experienced other large construction can look at our practices and judge against other best practices and determine if we are going about our business in a prudent manner. The auditor will probably review our bid process to see that we are not excluding anyone, not paying too much, are scheduling and budgeting appropriately, and staying close to our projections and the committee will receive the report. The oversight committee is to see that expenditures are in accordance with what was in the bond language.

In answer to some of the members' questions regarding the planning aspect, Mr. Oakley explained that the planning, timing, and coordination of construction projects is the role of the Board of Trustees. The Board chooses what projects to undertake after review of proposals submitted by staff. Mr. Oakley emphasized that the administration values the members' input and welcomes their comments and ideas.

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Mr. Squires asked who would be hiring the outside auditor. He felt that if the Board hires the auditor, there would be a question of independence. Mr. Oakley proposed that a sub committee of perhaps two individuals be formed to seek out RFPs and to chose the auditor and present the successful firm to the Committee. Mr. Perea asked what other Oversight Committees have done regarding this issue. Mr. Oakley stated that only one District has reached this point. The Los Angeles District has hired an auditor but has not conducted the audit as yet. Allyson Gibson from Bovis, works at LACC and stated that she believed they attempted a performance audit but were not successful. Mr. Perea stated that though he understands the need for an independent auditor, he does not view that as a responsibility of this body. Since the Board of Trustees will be hiring the auditor, Mr. Squires expressed concern that the auditor would not be truly independent. Ms. Lofland explained that the auditor would be paid by the Board of Trustees. Dr. Marmion concurred that the committee has no budget for hiring. The committee will have the first look at the audits. Mr. Squires stated that he felt that whoever is hired should have a clear understanding that they would report directly to the highest level, the Board of Trustees.

Mr. Oakley reminded them that he is interested in the outcome of the audit as well. The audit will be performed on the contractors and firms that he hires. It is in his interest to know what is going on with the contracts and would want a fair and accurate of the contractors performance. Mr. Oakley had made the recommendation of the Oversight Committee's involvement in the selection of the auditor to the Dr. Kehoe and she supported the recommendation. The audit is performed after the first year.

Mr. Squires asked that Mr. Oakley supply copies of the Education Code sections that deal with Proposition 39 that specifically address the role of the committee. Mr. Oakley will see that they are sent out to the members as soon as possible.

NEW BUSINESS

Underwriter Presentation (Eloy Oakley)

Eloy Oakley introduced Mr. Rod Carter, Managing Director with RBC Dain Rauscher. Mr. Carter serves the District as financial advisor for the bond, not only in the preparation for the election but working with the District to develop a strategy for the issuance of the bonds and also in establishing a timeline. Mr. Carter distributed information (attached) to the committee and explained that there are two types of bonds that public agencies can issue; one is a taxable bond (interest received is considered income and is taxed at your tax rate) and one is a tax-exempt bond (interest received is exempt from both state and federal taxes). Tax-exempt bonds have a lower interest rate than taxable bonds but have many more limitations. There are two types of tax-exempt bonds; one where the general fund is used to pay it off, or General Obligation Bonds that are paid with property taxes. General Obligation Bonds have the lowest interest rate, the lowest cost of issuance, and are considered the most "senior" form because they are paid back with property taxes. Mr. Carter described some of the items that influence the tax rate such as: projections of future growth in assessed values, interest rates, the timing of issuance for each bond series, the structure of each bond series, and the tax reserves and delinquencies.

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A team including two members of the Board of Trustees, Mr. Eloy Oakley, and Dr. Jan Kehoe, made a presentation to Moodys Investor Service and Standard and Poors to obtain a rating. To rate the bonds they required information on four areas that they concentrated on: 1) finances – to assess financial flexibility (i.e. being able to mitigate the impact of the budget cuts coming from Sacramento), 2) the economics of the area – the size, diversity, and wealth levels of the area, 3) the levels of public dept – how much public debt of the citizens responsible for, 4) management-policies of management, relationship with bargaining units, etc. These areas are analyzed and compared with other districts of our size around the whole country. The District just recently obtained a rating. Mr. Carter stated that it is a very good rating of Aa3 from Moodys Investor Service, and AA- from Standard and Poors.

The next step is to decide whether to take municipal insurance once the District goes to price or lock in the interest rate of the bonds. The District bonds will be sold in a series with the current series being \$40M. Each time the District draws from the authorization to issue another series of bonds, the District will follow the same process as it did for this one. Committee members were given a calendar of for the sale of the bonds and the Interested Parties list. The District is scheduled to set the interest rates and offer the bonds for sale during the week of April 28, 2003. On May 15, they will close the transaction and wire funds to the County for the District's benefit. It is estimated that further series of bonds may be issued in roughly five series issued. Mr. Carter stated that there is the restriction that, at the time of issuance, the District cannot exceed \$25 per \$100,000 of assessed valuation. He explained that "assessed valuation" is the value of all taxable property in the District.

Bond Implementation Planning Update (Dennis Martinez)

Mr. Martinez likened the planning process to painting a house. The actual painting doesn't take long; it's the prep work that takes the greatest effort and longest time. The Bovis team is soliciting CEQA (California Environmental Quality Act) proposals. CEQA regulations cover many quality of life issues that arise with any kind of construction such as noise, traffic, historic buildings/landmarks, archeological findings, etc. RFP's were sent to 20 companies and they have received about 50% of them back indicating their intent to submit proposals.

He explained that a compilation of soft costs, i.e. all non-construction related costs, are currently being compiled for the life of the bond program, including, but not limited to: geotechnical, architectural design, structural analysis, aerial survey, topographic survey, program management fees, traffic engineering, bond implementation, moving contractor costs, labor compliance costs, and outside legal counsel costs. Mr. Oakley added that the Labor Compliance Plan is in place to ensure contractors are being paid fair wage.

Project scheduling has its own challenges. Many things need to be taken in to consideration including academic scheduling, traffic patterns, athletic events, facilities usage contracts, etc. One of the first buildings will be a new building that will provide space for "swing" space to accommodate people/classrooms during remodeling of their areas. In addition to project scheduling, the master schedule will highlight various sources of funding that includes Measure E funds, State Prop. 1A funds, deferred maintenance funds, State Prop. 47 funds, etc.

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Mr. Martinez stated that it is important that we finish the projects sooner rather than later. Assuming a 4% rate of inflation over a 15-year bond issue period (5 bond issues – 3 years apart over 15 years) there would be about \$32M dollars lost in buying power. It is hoped that all projects can be completed within 8 or 9 years in order to maximize our buying power. Dr. Marmion expressed the importance of communication and rumor control. Communication is paramount although, until the Board of Trustees sees and approves the plans, there is nothing solid to share. The Viking has been providing information as it becomes available. It is important to remember that we have been in the development stages of the plan and very little is solid. After the Board meeting, there will be a Bond Forum held to provide information on the first three years.

Mr. Oakley introduced Allyson Gipson, Bovis Lend Lease, who addressed questions regarding the invoice review processes that will be used to assure accurate accounting. Ms. Gipson described the processes followed to ensure accuracy and conformance with standards in the industry. She explained that invoices come from several different sources such as consultants, architects, engineers, vendors, and contractors. Bovis works to ensure that work is done correctly, that goods invoiced match the purchase orders, that contracts detail basic services, reimbursable and additional services. Consultant invoices are accompanied by conditional releases, timesheets, and a narrative for all work completed. Ms. Gipson shared samples of “Master Budgeting” that Bovis creates. Mr. Squires asked for examples of other fund sources. Other sources would be bond funds, grant funds, and state funding. Eloy stated that all items that Bovis purchases, i.e. computers, copiers, relocatable buildings, become the property of the District when they leave.

Quarterly Financial Report (Eloy Oakley)

Mr. Oakley explained that the Quarterly Financial Report provides an accounting of expenditures; a snapshot of what has happened to-date. He provided a brief summary of encumbrances and expenditures to-date. The Board set up a \$1M General Obligation Bond fund several months ago for bond expenditures. District has been in the planning stages so there has been very little activity to report. At this point, the only expenditures have been for the election expenses. We have encumbered \$50,000 for the bond planner and we are starting to receive invoices. Once the 3-year plan is approved the committee will be receiving extensive reports of all financial activities.

Construction Wrap-Up Program (Eloy Oakley)

Mr. Oakley discussed the construction wrap-up program SEWUP (Statewide Educational Wrap-Up Program). This JPA (Joint Powers Authority) consists of 100 or more K-12 schools throughout the state and a number of community colleges. This JPA removes the cost of Worker’s Compensation and construction liability insurance from the contractor and self-insures it through the JPA. The JPA’s buying power and extensive experience allows them to obtain the coverage at a very low cost for the entire pool. The project manager will review bids and separate that portion of the bid to identify the savings. In this JPA, if your losses are less than the premium, you would get a portion back in the form of a rebate. This JPA also provides on site

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oversight for safety. The District will pre-qualify bidders to be sure that they have good safety records.

FUTURE AGENDA ITEMS

- ❖ Performance Audit (July)
 - Requirements/format
 - Sub Committee for RFP
- ❖ Proposed 3-Year Construction Plan (July)
- ❖ Communications Plan (Dean Hopkins)
- ❖ Proforma statements and other types of reports showing expense/different variations of contracts - suggested by JC Squires (Dennis Martinez)
- ❖ Labor Compliance Plan
- ❖ Yearly detailed progress report on each project from Project Manager (April 2004)
- ❖ Investment and bond funds received

Dr. Marmion announced that there will be a 75th Anniversary Celebration Dinner on June 27th and he has asked that invitations be extended to members of this committee.

Adjournment

The meeting was adjourned at 9:54 P.M.

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**Introduction to General Obligation Bonds
School & Community College Districts**

**By
Rod Carter, RBC Dain Rauscher**

I. Tax Exemption

There are two basic types of bonds. One is a taxable bond and the other is a tax-exempt bond. The individual or institution that buys a taxable bond must pay taxes on the interest received. In contrast, the interest received by the holder of a tax-exempt bond is not subject to either state or federal income taxes. Only public agency, i.e., cities, counties, school and community college districts are permitted to issue tax-exempt bonds. Historically, the interest rates on tax-exempt bonds are two points lower than taxable bonds. This spread changes from time to time. Current high quality municipal bonds are in the 4.75% range (25-year maturity as of 02/03).

II. School District Finance

A district generally has two types of financing options available to it: 1) a financing backed by the General Fund, e.g., a lease transaction; 2) a financing whose repayment source is some form of property tax.

A. The General Fund of the district is the primary operating fund of the district. The primary source of income for the General Fund is the State. The state funding is a formula determined by the State to equalize funding, on a per-student basis, for each district throughout the State. Some districts are fortunate enough to have enough flexibility in the General Fund to be able to make ongoing debt service payments out of the General Fund. Many districts do not have this luxury.

B. The second primary source of funding for district financing is property taxes. To access this source, a district needs to muster a 2/3 vote from the voters. Although this is a difficult task, more districts will find it necessary if they wish to access State monies for construction or modernization of their sites. Once approved by the voters, the district can then issue general obligation bonds backed by *ad valorem* property taxes.

C. With the passage of Proposition 39, the vote requirement is reduced to 55% with certain restrictions. One of the key restrictions is the limit to the amount of the dollar tax. The amount is limited per election to \$25 per \$100,000 of assessed valuation for community colleges, \$30 per \$100,000 for elementary as well as high school districts and \$60 for a unified school district.

III. Tax Rate & Assessed Values

The tax rate associated with the debt service on the bonds is a function of the assessed valuation of the district and the required debt repayment due in any given year. Each August, the Auditor-controller of the County will review the assessed value of all taxable property in the district vis-à-vis the required debt service payment for the fiscal year, and determine a tax rate. The tax rate

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for each year may vary depending on what happens to the value of all taxable property in the district and the structure of the debt service.

Several assumptions are built into the forecast of future tax rates. These factors include: 1) projections of future growth in assessed values; 2) interest rates; 3) the timing of issuance for each bond series; 4) the structure of each bond series; and 5) tax reserves and delinquencies.

The two most important factors are 1) the timing of issuance for each series of bonds and 2) projections of future growth in assessed values. The timing of issuance is important because the bonds do not appear on the tax roll until they are issued. The greater the amount and frequency of the bonds sold, the greater the tax rate. The converse is also true.

The key in projecting future assessed value growth is first analyzing historical growth rates over the last 5, 10, or 20 years. Then, conservative and defensible assumptions for future growth must be established. Foreknowledge of future construction projects in the area, either residential or commercial, can be helpful in this regard.

IV. The Team

The main players in a financing are referred to as the Finance Team. The members of the Finance Team and their respective roles are as follows:

Bond Counsel: Oversees the legal aspect of the transaction. Prepares most legal documents associated with the transaction, including all resolutions. The bond counsel provides a legal opinion that the governing board has taken all actions to legally authorize the transaction and that the transaction is in conformance with the tax code such that the interest received by the investor will be exempt from both federal and state income taxes. The fee for bond counsel services is paid from bond proceeds.

Manager/Underwriter: Oversees the financial aspects of the transaction. Structures the bonds and guides the district through the issuance process including obtaining a credit rating. Manages the timeline and assures that all players are in conformance. The manager/underwriter will also buy the bonds from the district and sell them to investors. It is the role of the manager/underwriter to assure that the district achieves a structure consistent with its goals at a very competitive cost. Manager/Underwriter's fees are paid from bond proceeds.

The County: The Treasurer's office in each county takes a very active role in the issuance of general obligation debt for districts in the county. The County is the legal issuer of the bonds since the district has no ability to levy taxes. The County's primary activities will include passing a resolution authorizing the transaction and being intimately involved in setting the interest rates. This is a benefit to the districts because most counties are very knowledgeable issuers of municipal debt. There are no costs for these services. A district may choose to bypass the County and issue bonds without county involvement. This decision must be made at the onset of the process.

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Paying Agent: This is usually a bank or a trust company that will be available over the life of the financing. The Paying Agent's role is to remind the County that debt service is due, receive the money from the County and pay the investors. A paying agent can also serve as dissemination agent and assist the district with its ongoing disclosure requirements. The initial year's fee for paying agent services comes from bond proceeds. This is the only party with an ongoing annual fee. The ongoing annual fee must be paid by the District General fund.

County Counsel: They will review the legal transaction from the County and the District's point of view. They will also provide certain opinions as to the authority of certain documents. No charge.

V. The Process

The process of issuing a series of bonds usually takes about 60 to 90 days. The steps involved include:

- Formulation of a time schedule and distribution list
- Formulation of primary documents
 - County Resolution
 - District Resolution
 - Preliminary Official Statement
 - Passage of County Resolution
 - Passage of District Resolution
- Completion of the Preliminary Official Statement
- Obtaining a rating
- Qualification of municipal bond insurance
- Selling the bonds (setting the interest rates)
- Completing all relevant documentation
- Closing and delivery of funds

The most important aspect of this process is obtaining the rating. The rating strongly influences the cost of borrowing. The factors that are reviewed in determining the rating:

- A. The finances of the district. The financial flexibility of the district is analyzed.
- B. The economics of the area. Relative levels of wealth as well as the health and diversification of the economy is analyzed.
- C. The levels of public debt are reviewed. The level of debt held by the district are reviewed as well as the debt of the agencies that overlap the district. An attempt is made to ascertain the level of public debt that the residents of the district are responsible for.
- D. Management. The policies and practices of district management, staff, and the governing board, are reviewed.

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Strength in one area can compensate for weakness in another area. It is the role of the manager/underwriter to guide the District through this process, such that the credit strengths of the district are highlighted.