

MINUTES OF THE CITIZENS' BOND OVERSIGHT COMMITTEE MEETING

April 17, 2014

Norco College, Network Operations Center

Members Present

Nicolas Ferguson, Chair

Rikki Hix, Vice Chair

Morrie Barembaum

Susan Cash

James Cuevas

Robert Frost

Jeff Kraus

Staff Present

Aaron Brown, Vice Chancellor Business & Financial Services, RCCD

Chris Carlson, Chief of Staff and Facilities Development, RCCD

Bart Doering, Facilities Development Director, RCCD

Beth Gomez, Vice President of Business Services, Norco College

Jim Parsons, Associate Vice Chancellor Strategic Communications & Relations, RCCD

Guests

Ivory Li, Piper Jaffray

Chet Wang, Keygent

Sandy Ferguson, Public

CALL TO ORDER: 4:00 pm

APPROVAL OF MINUTES

- Minutes from January 16, 2014 – M/Cash; S/Barembaum (5 ayes, 1 abstention)

MEASURE C PROJECT UPDATE

Ms. Carlson highlighted projects that were in DSA and reported that the Education and Comprehensive Facilities Master Plan was slated to go before the Board of Trustees at the June 2014 or August 2014 Board of Trustees meeting. She stated that there were no changes to the District's CIP.

At Norco College, groundwater monitoring via the wells and environmental compliance continues, and the multi-media arts building project is the next major planned construction under the College's 5-year CIP.

At Riverside City College, the DSA back check is being done related to the planned Student Services and Administration Building project, the Lovekin Tennis Courts project is completed, and in downtown Riverside, a groundbreaking occurred for the two remaining projects comprising the Centennial Plaza—the Coil School for the Arts and the RCC Culinary Arts Academy/District Offices building and multi-level parking structure. Ms. Carlson reported that bids for Phase 1 work were awarded, and that Phase 2 bids would go out on April 25.

District-wide projects progress included the approved ADA plan being implemented, and utility upgrades, which included a major component 12KV cutover done the week of April 14.

Ms. Carlson discussed the change orders report that was distributed to Committee members, highlighting change orders that had occurred since the January 2014 CBOC meeting. These included orders for: Cutter Pool, ADA project, and MVC Student Academic Services building (FF&E).

Question from Member Cuevas: Change order percentages are huge in some cases, e.g., tile; shouldn't they have known before going in that tile would not match? **Answer:** Those were problematic cases, but we have taken steps to change some of our processes so that we do not run into the same "emergency" situations.

Question from Member Cuevas: It appeared that some of the punch list items resulted from damage caused by the trades—what about credits? **Answer:** RCCD secured some credits for that very reason; some, however, RCCD could not identify the specific trade or cause.

Question from Member Cash: Is there ever an alternate instead of replacement—for instance, by design change? **Answer:** The problem is that when RCCD became aware of the situation, the District had to react and replace immediately. It needed to keep the projects moving to avoid other potentially larger costs.

Question from Member Cuevas: When you come into conditions when you want to do exploratory findings, I'm assuming you do investigatory investigations? **Answer:** Yes, but the state doesn't fund anything up front. For example, at the Center for Social Justice downtown, we did a lot of explorative things up front; biggest changes in our approach is to now do more of that activity up front, using our own money if necessary vs. trying to get state money after the effect.

Member Hix stated that she was glad that the ADA work was happening because it has taken a while for the first phase. From a student perspective, she was happy that things are moving on to the next phase. Ms. Carlson commented that so far only Phase 1 of the ADA plan has been funded.

NORCO COLLEGE UPDATE

Ms. Gomez presented a PowerPoint showing secondary effects projects, including Humanities, Science & Technology buildings, the Art Gallery, the College Resource Center, and the College Police building upgrades. She also talked about other buildings and purposes: the Library, the Student Services building, the Center for Student Success, and the Network Operations Center.

Ms. Gomez also went through a brief presentation of Norco's Facilities Master Plan with the Committee; several projects depend on a future statewide education bond. She talked about proposed new buildings, renovations, repurposing buildings, and new parking. An example is the repurposing of the Early Childhood Center into a STEM Center (Science, Technology, Engineering and Math), which was a grant-funded project.

Question from Member Cuevas: Since JFK High School is part of the overall Norco College campus, why are there two different property lines? **Answer:** The property lines are just a way to delineate the sites on the map. The entire 141 acres at Norco College become RCCD property when the 30-year lease with the U.S. government runs out on June 1, 2015.

MEASURE C FINANCIAL UPDATE

Mr. Brown introduced Chet Wang (Keygent) and Ivory Li (Piper Jaffray) who discussed the future issuance of Measure C bonds. The report reviewed how Measure C was originally shaped, tax rate, assumptions of annual growth, assessed valuations, etc. Series of issuances were to be spaced over a 14-year period, with one issuance occurring every two or three years. Bond issuances are layered, with staggered starts and payoff dates. Discussed events leading to legislation limiting CABS, AB182. CABS are more expensive to issue than the other CIB bonds. Discussed the regulations of AB182, effective January 1, 2014. In spring 2015, the District may need about \$55M; that would carryout to August 2017, when another \$30M could be issued.

Question from Member Cuevas: Why does the presented chart go to 2043 if the bond is only through 2019? **Answer:** 2019 signifies the issuance date, not the end date.

SECTION I - NEW BOND PROGRAM

Mr. Wang discussed the new bond program, specifically the remaining \$85M. Under current assumptions, RCCD would likely need to issue CABS to maintain the Board's commitment to voters of a tax rate of \$18/\$100,000 AV. If RCCD didn't want to issue any CABS, the tax rate would rise, but still be below the \$25/\$100,000 AV allowed under Prop 39.

Other considerations are delay/eliminate/re-prioritize bond projects, future tax rates, and future potential legislation.

SECTION II - REFINANCING OPPORTUNITIES

Ms. Li discussed replacing higher interest rates on old bonds with current lower interest rates. Looking at 2004, 2005, and 2007 rates across the series of issuances, the average interest rate is about 5%; RCCD could replace with a low 3% rate currently. This is subject to fluctuation.

Refinancing under this scenario at early March interest rates would result in about a \$3M in savings over a 10-year period. Timeline is on schedule for closing on May 29 of refunding bonds.

SECTION III - CREDIT RATING

Discussion about how rating agencies assess risk and rating worthiness of the issuer (District); it is a very involved, intensive process. RCCD is rated double A from Moody and S&P; this places the District in the top 5-10%.

Question from Member Cash: What would be the net effect if one moved into a taxable vs. tax exempt in terms of interest rates? **Answer:** Movement from non-exempt to taxable would result in higher interest rates. Financing becomes more costly. This could either reduce the amount of bonds issued or delay the issuance of bonds. Or you would have to increase the tax rate to offset the interest rate increase.

Member Kraus stated that even a 4-1 repayment ratio wasn't necessarily a good thing. It means you would be getting less for your money than what you have in the past. Response: In layering bonds, it will always be that later issuance is more expensive than the earlier ones.

Member Kraus stated that RCCD should look at projects where the debt repayment cycle far outweighs the project life. These are the types of projects for which RCCD might seek alternative funding sources.

Question from Member Cash: Would it be possible at our next meeting to find out what happened with the refunding? **Answer:** Definitely. District will inform the Committee once the process is completed.

Question from Member Cuevas: Is there a particular timeframe within the year to say go or no-go in refunding? **Answer:** No, it's simply timing the market in terms of interest rates to try and get the most favorable rates.

Question from Member Cash: Are there variables within the purview of the District to change, e.g., stability of management, amount of debt? Does RCCD look at those things in preparing for a pre-bond rating? **Answer:** By practice, procedures and policies, RCCD conducts itself in a financial way that emphasizes verifiable, stable, conservative, and integrity. Member Ferguson commented that it helps that RCCD also has a stable history.

Question from Member Cash: Is one of the factors considered by bond raters the Board's ability to increase a tax rate and voter approval of any increases? **Answer:** Not really. From our standpoint it's an obligation, but it doesn't really factor into the rating agencies, other than to ask what are the underlying assumptions in setting the tax rates. Mr. Brown: We always try to do a conservative AV estimation to make sure the District and taxpayers are protected going forward.

BUSINESS FROM COMMITTEE MEMBERS

- WASC accreditation – Chair Ferguson reported that the chair of the accrediting team that reviewed District operations interviewed him. The team's real interest was whether RCCD honored the concept of the CBOC, that CBOC members are involved, can ask questions, and can ask for any information they require. Chair Ferguson met with the accrediting team chair for about 45 minutes. He asked when the report comes back from the Commission. Answer: RCCD and the colleges should receive letters from the Commission in June 2014.
- Chair Ferguson reported that he represented the CBOC at the recent Centennial Plaza groundbreaking.
- Mr. Parsons discussed the upcoming CBOC Annual Report and asked the members which format they preferred to use this year. Consensus was to keep the current format. Members said the public seems to be very pleased to know that members of the Committee are asking very interesting questions, and that staff members provide accurate information. Mr. Parsons will email CBOC members a copy of last year's report as an example.

PUBLIC COMMENT

Guest Sandy Ferguson said that as a member of the public she was very pleased to know that members of the Committee are asking very interesting questions, and that staff members provide accurate information.

Meeting adjourned: 5:32 p.m.

Next meeting is July 17, 2014 at Riverside City College - 4 p.m.