Palo Verde College
Debt Mitigation Plan
& Road Map

Revised to March 26, 2013

Current Debt Situation

- PVC has outstanding debt (called “COPs”) in the amount of $32 million;
- The COPs require annual payments of $2.35 million, each year, until paid off in 2037;
- The COPs may not be pre-paid until January of 2016; and, if pre-paid at that time, must be pre-paid at 102% of their face value (that is, PVC would have to pay $29.64 million to pre-pay $29.06 million face value of COPs that would be owing on that date).

Other Resources

- PVC has earmarked $855,000 per year from its General Fund to make payments on the COPs, beginning in FY 15-16;
- PVC implemented an early retirement package (called "SERP") for certain of its employees, which has a cost of about $760,000 per year, and which ends in 2016;
  - This ongoing SERP expense could be earmarked to pay COPs, beginning in mid-2016.
- PVC also has funds on deposit with the State Treasurer (LAIF) in the approximate amount of $14.5 million.
  - Of this sum, about $13 million is unexpended proceeds of the COP borrowing and $1.5 million is other capital funds.

Debt Mitigation Options

- PVC wishes to manage its future obligations efficiently, and to reduce its debt whenever feasible and cost-effective
- There are four basic options:
  1. Do nothing at present, use the LAIF funds to "buy down" annual debt service costs;
  2. Refinance the COPs now, invest proceeds until 2016, then redeem the old COPs;
  3. Refinance the COPs in 2016 (when they may be redeemed early) and continue using LAIF funds to "buy down" annual debt service costs; and
  4. Refinance the COPs in 2016, but apply the balance then available in the LAIF account to "buy down" the principal of the COPs. (Note: the LAIF funds used for the buy down do NOT include $350,000 maintained as a capital reserve)

Each option is described in the following pages.

Option 1: Do Nothing, Use LAIF

- In this option, PVC would leave the COPs in place and simply draw down its LAIF funds as needed to augment General Fund support
- The additional SERP costs after Spring 2016 would be earmarked along with the $855,000 of General Fund support to pay the COPs
- That would slow the rate of withdrawals from the LAIF account and those funds would not be exhausted until 2027
- After 2027, PVC would face an annual shortfall in these resources ranging from $647,000 to as much as $739,000 to service the COPs

Option 1: Do Nothing, Use LAIF

Year	Existing COP Payment	Withdraw from LAIF: $13.07 million of unused proceeds of COPs and $1.17 million of unused Capital Funds	Re-directed future SERP Funds (after 2016) used to service COP debt	Ongoing General Fund Contribution to repay COP DEBT	Opening balance in LAIF Account	Surplus (deficit) to be met from other resources
2012	1,664	0	0	0	14,491	
2013	2,354	2,354	0	0	12,991	0
2014	2,352	2,352	0	0	10,637	0
2015	2,353	2,353	0	0	8,285	0
2016	2,356	541	760	1,055	5,932	0
2017	2,354	539	760	1,055	5,391	0
2018	2,349	734	760	855	4,853	0
2019	2,347	732	760	855	4,119	0
2020	2,347	732	760	855	3,387	0
2021	2,350	735	760	855	2,655	0
2022	2,354	739	760	855	1,920	0
2023	2,353	738	760	855	1,181	0
2024	2,355	93	760	855	443	-647
2025	2,354	0	760	855	350	-739
2026	2,354	0	760	855	350	-739
2027	2,351	0	760	855	350	-736
2028	2,349	0	760	855	350	-734
2029	2,354	0	760	855	350	-739
2030	2,349	0	760	855	350	-734
2031	2,350	0	760	855	350	-735
2032	2,351	0	760	855	350	-736
2033	2,352	0	760	855	350	-737
2034	2,348	0	760	855	350	-733
2035	2,349	0	760	855	350	-734
2036	2,349	0	760	855	350	-734
2037	2,353	0	760	855	350	-738
						-8,088

Option 2: Refinance COPs Now

- The COPs could be refinanced now, but since they may not be pre-paid until 2016, the funds borrowed today would have to be invested at interest until then.
- The investment rates available today are less than the interest cost of the COPs
- Therefore, this option results in a shortfall of approximately $704,000 in 2021, then just over $1.02 million per year from 2022 to 2037

Option 2: Refinance COPs Now

Year	Existing COP Payment (new payment shown after 2014)	Withdraw from LAIF: $13.07 million of unused proceeds of COPs and $1.17 million of unused Capital Funds	Re-directed future SERP Funds (after 2016) used to service COP debt	Ongoing General Fund Contribution to repay COP DEBT	Opening balance in LAIF Account	Surplus (deficit) to be met from other resources
2012	1,664	0	0	0	14,491	
2013	2,354	2,354	0	0	12,991	0
2014	2,634	2,634	0	0	10,637	0
2015	2,637	2,637	0	0	8,003	0
2016	2,634	819	760	1,055	5,366	0
2017	2,633	818	760	1,055	4,548	0
2018	2,636	1,021	760	855	3,729	0
2019	2,635	1,020	760	855	2,709	0
2020	2,637	1,022	760	855	1,688	0
2021	2,636	316	760	855	666	-704
2022	2,636	0	760	855	350	-1,021
2023	2,634	0	760	855	350	-1,019
2024	2,633	0	760	855	350	-1,018
2025	2,637	0	760	855	350	-1,022
2026	2,638	0	760	855	350	-1,023
2027	2,635	0	760	855	350	-1,020
2028	2,634	0	760	855	350	-1,019
2029	2,638	0	760	855	350	-1,023
2030	2,634	0	760	855	350	-1,019
2031	2,635	0	760	855	350	-1,020
2032	2,638	0	760	855	350	-1,023
2033	2,635	0	760	855	350	-1,020
2034	2,634	0	760	855	350	-1,019
2035	2,637	0	760	855	350	-1,022
2036	2,635	0	760	855	350	-1,020
2037	2,633	0	760	855	350	-1,018
						-17,031

Option 3: Refinance in 2016, Continue Using LAIF to Buy Down Annual Payments

- In this option, PVC would refinance the COPs in early 2016, and continue to use the LAIF funds to “buy down” the annual costs
- This results in a shortfall of $135,000 in 2023, and about $770,000 per year from 2024 through 2037

Option 3: Refinance in 2016, Continue Using LAIF to Buy-Down Annual Payments

Year	Existing COP Payment (new COP payment shown after 2016)	Withdraw from LAIF: $13.07 million of unused proceeds of COPs and $1.17 million of unused Capital Funds	Re-directed future SERP Funds (after 2016) used to service COP debt	Ongoing General Fund Contribution to repay COP DEBT	Opening balance in LAIF Account	Surplus (deficit) to be met from other resources
2012	1,664	0	0	0	14,491	
2013	2,354	2,354	0	0	12,991	0
2014	2,352	2,352	0	0	10,637	0
2015	2,353	2,353	0	0	8,285	0
2016	2,356	541	760	1,055	5,932	0
2017	2,384	569	760	1,055	5,391	0
2018	2,382	767	760	855	4,822	0
2019	2,380	765	760	855	4,055	0
2020	2,381	766	760	855	3,291	0
2021	2,385	770	760	855	2,525	0
2022	2,386	771	760	855	1,755	0
2023	2,384	634	760	855	984	-135
2024	2,390	0	760	855	350	-775
2025	2,388	0	760	855	350	-773
2026	2,388	0	760	855	350	-773
2027	2,385	0	760	855	350	-770
2028	2,383	0	760	855	350	-768
2029	2,384	0	760	855	350	-769
2030	2,381	0	760	855	350	-766
2031	2,380	0	760	855	350	-765
2032	2,384	0	760	855	350	-769
2033	2,385	0	760	855	350	-770
2034	2,381	0	760	855	350	-766
2035	2,383	0	760	855	350	-768
2036	2,381	0	760	855	350	-766
2037	2,383	0	760	855	350	-768
						-10,900

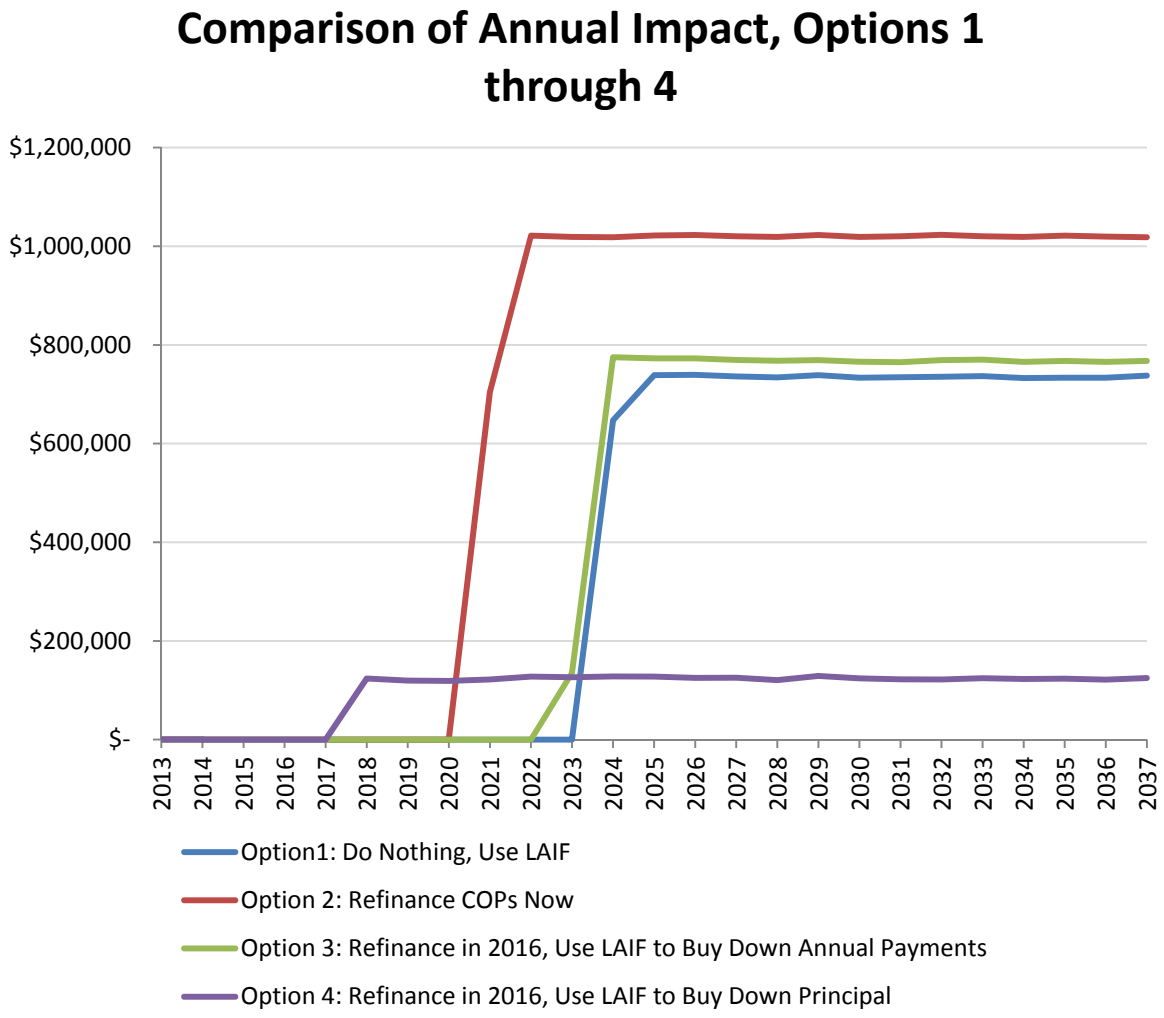
Option 4: Refinance in 2016, Use the LAIF Balance to Buy Down Principal of COPs

- In this option, similar to Option 3, PVC would refinance the COPs in early 2016, but would use the balance of the LAIF funds available to "buy down" the principal of the COPs
- This results in an average shortfall of about $125,000 per year from 2018 through 2037

Option 4: Refinance in 2016, Use the LAIF Balance to Buy Down Principal of COPs

Year	Existing COP Payment (new COP payment shown after 2016)	Withdraw from LAIF: $13.07 million of unused proceeds of COPs and $1.17 million of unused Capital Funds	Re-directed future SERP Funds (after 2016) used to service COP debt	Ongoing General Fund Contribution to repay COP DEBT	Opening balance in LAIF Account	Surplus (deficit) to be met from other resources
2012	1,664	0	0	0	14,491	
2013	2,354	2,354	0	0	12,991	0
2014	2,352	2,352	0	0	10,637	0
2015	2,353	2,353	0	0	8,285	0
2016	2,356	541	760	1,055	5,932	0
2017	1,740	-75	760	1,055	350	0
2018	1,739	0	760	855	350	-124
2019	1,735	0	760	855	350	-120
2020	1,734	0	760	855	350	-119
2021	1,737	0	760	855	350	-122
2022	1,743	0	760	855	350	-128
2023	1,741	0	760	855	350	-126
2024	1,743	0	760	855	350	-128
2025	1,743	0	760	855	350	-128
2026	1,740	0	760	855	350	-125
2027	1,741	0	760	855	350	-126
2028	1,736	0	760	855	350	-121
2029	1,744	0	760	855	350	-129
2030	1,739	0	760	855	350	-124
2031	1,737	0	760	855	350	-122
2032	1,737	0	760	855	350	-122
2033	1,739	0	760	855	350	-124
2034	1,738	0	760	855	350	-123
2035	1,739	0	760	855	350	-124
2036	1,736	0	760	855	350	-121
2037	1,740	0	760	855	350	-125
						-2,481

Side-by-Side Comparison



Major Assumptions Used in the Road Map

1. Interest rates used to estimate borrowing costs as of November 9, 2012, assuming “BBB” rating;
2. Investment earnings on LAIF were ignored;
3. General Fund support of $1,055,000 per year, for two years, beginning in 2016, then declining to $855,000 in 2018 and thereafter;
4. Appropriations based on SERP costs remain constant after SERP costs are fully paid in mid-2016;
5. Minimum capital reserve of $350,000 maintained in LAIF; future earnings and “one-time” revenues may be used to augment this amount;
6. Interest earnings (and cost) assumptions to be revisited at least annually.

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