Draft 1 - Palo Verde College Debt Mitigation Plan (See Appendices)

The College has made, and continues to make, a conscientious effort in identifying and planning for payment of its liabilities and future obligation. Staff in the Fiscal Services Office has scrutinized current obligations for three purposes: 1) Financial planning to pre-determine anticipated costs or savings based on current obligations; 2) Ensuring the accuracy of invoices compared to services received; 3) Providing quote opportunities for all major contracts and services to ensure cost effectiveness and efficiencies. These efforts have proved effective in reducing the annual costs of operational contracts and services, and have set in motion a process whereby all invoices and purchase requests are scrutinized for accuracy and cost efficiency.

TWO MAJOR AREAS OF LONG-TERM DEBT:

1) SERP Payments (Early Retirement Incentive): Approximately $766,366 is budgeted annually to cover the costs associated with the early retirement plans and these obligations end in spring, 2016.

2) COP Payments: The more costly long-term debt is associated with the COP payments. The annual COP payment is approximately $2,350,000 (varies slightly each year based on interest adjustments). The table below outlines the current COP debt.

July 2008	$31,995,000 District issued COPs to refinance original $18.6 million of the COPs
January 1, 2037	Final payoff date for a total of $60,449,063 paid over 25 years
Annual Cost	Average annual debt service: $2,318,000/year
Current Interest Rates	4.00% - 5.5% $28,454,063 in total interest

The institution has the funds for the COP payments identified and protected through 2028 as shown on the following page. The COP payment from 2012 through 2015 is made from the $855,000 budgeted from the General Fund plus $1,495,000 from the LAIF/Capital Fund account.

Although this is not the plan, from 2016 through 2028, if the COPs are not restructured, purchased, or refinanced, the College will continue to budget $766,366 (from what were the SERP dollars) and $855,000 for a total of $1,621,366. These funds will be added to $740,900 from the LAIF/Capital Fund to make the annual payment. The table below serves as the *base* debt obligation for planning purposes and demonstrates the College's recognition that it clearly understands how long its current LAIF/Capital funds will last to address the debt. The table lists the year-by-year COP debt and where the funds are currently budgeted to cover the debt.

PVC LONG-TERM COP DEBT OBLIGATIONS & CURRENT FUNDING PLAN

YEAR	COP PAYMENT	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
2012	$1,664,350	0	$855,000	$14,490,726
2013	$2,354,350	$1,499,350	$855,000	$12,991,276
2014	$2,351,750	$1,497,750	$855,000	$11,493,526
2015	$2,353,150	$1,498,150	$855,000	$9,995,376

2016	$2,355,900	$740,900	$760,000 + $855,000	$9,254,476
2017	$2,349,278	$734,278	$760,000 + $855,000	$8,520,198
2018	$2,349,278	$734,278	$760,000 + $855,000	$7,785,920
2019	$2,349,277	$734,277	$760,000 + $855,000	$7,051,643
2020	$2,349,277	$734,277	$760,000 + $855,000	$6,317,366
2021	$2,349,278	$734,278	$760,000 + $855,000	$5,583,088
2022	$2,354,050	$739,050	$760,000 + $855,000	$4.844,038
2023	$2,354,050	$739,050	$760,000 + $855,000	$4,104,988
2024	$2,354,050	$739,050	$760,000 + $855,000	$3,362,938
2025	$2,354,050	$739,050	$760,000 + $855,000	$2,623,888
2026	$2,354,050	$739,050	$760,000 + $855,000	$1,884,838
2027	$2,350,465	$735,465	$760,000 + $855,000	$1,149,373
2028	$2,350,465	$735,465	$760,000 + $855,000	$413,908
2029	$2,350,465	$735,465	$760,000 + $855,000	($321,557)
2030	$2,350,465	$735,465	$760,000 + $855,000	($735,465)
2031	$2,350,465	$735,465	$760,000 + $855,000	($735,465)
2032	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2033	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2034	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2035	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2036	$2,349,590	$734,590	$760,000 + $855,000	($734,590)
2037	$2,352,650	$737,650	$760,000 + $855,000	($737,650)
	$60,449,063			

As reported in the April 2012 Special Report to the Commission, the College has no issues in making its short and long-term debt obligations through 2028, however, a conscientious plan for addressing the debt that goes beyond 2028 is being developed with multiple options being considered.

The College realizes that although efforts are being made to increase new sources of revenue, actual new income will take time to realize and although valuable to consider and plan for, cannot be the primary source for a Debt Mitigation Plan. The College and Board of Trustees are well aware that implementable plans need to be expedited and finalized to address the debt obligations that exist after 2028, to assure the Commission that the institution is simply not just talking about debt mitigation, but actively doing something about it. Such plans are under review by the Budget Committee and the Board's Finance and Audit Committee with eventual submittal to the Board of Trustees for review and approval by the end of the fall semester.

COP Debt Mitigation

One form of evidence that Palo Verde College is diligently assessing many options is demonstrated through the study that Magis Advisors, Public Financing Advisors, completed for the College in May 2012 (see Appendix) to project the outcome of various COP restructuring options. The table on page 16 outlines the impact on the College's COP debt using the various outlined scenarios.

The options directly related to the COP debt include:

1) **Refinancing**: Column (3) shows the impact of only completing a refinance scenario which results in a COP debt decrease from $58,785M to $38,851M.

2) **Buying-back of COPs** from the investors: When the College does a "call" of the COPs in 2016 (which is the earliest we are permitted to do so) as shown in Column (4), the debt lowers to $37,137M.

3) **Defeasance** (a provision that voids a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt which legally extinguishes the debt): Columns (5) and (6) reflect remaining debt after defeasing $11.3M or $12.7 M respectively to $35,153M or $32, 296M.

Each option alone results in significant COP debt reduction and if combined, results in even greater reductions. Since the College is already budgeting over $1.6M annually, the importance of this study is to demonstrate that there are viable cost-effective options that significantly reduce the COP debt obligation long-term, making it feasible for the College to maintain instructional, student service, and operational integrity, and living within its budget while making payments with funds already available.

By the end of the fall semester, the Board will be presented with a written Debt Mitigation Plan to review and approve. The Board's Finance and Audit Committee will provide a verbal report at their October 23, 2012 Board meeting. At their November 13, 2012 Board meeting, Mr. Tim Schaefer from Magis Financial Advisors, and CM Brahmbhatt (external financial consultant), having reviewed the plan, will make a presentation to the Board, answering questions regarding the plan's viability. At their December 11, 2012 meeting, the Board is to approve the Debt Mitigation Plan.

Related to the COPs, the Debt Mitigation Plan overall includes a "call" of the COPs in 2016 and then refinance, further decreasing the current debt obligation which will give relief to the College's General Fund budget, freeing up dollars for program improvement and other institutional one-time and on-going needs. In addition, the Board is considering other options related to the sale of some of its property which has been discussed in Closed Session, but is not available for public disclosure at this writing.

MAGIS FINANCIAL ADVISORS' COP DEBT REDUCTION SCENARIOS

Palo Verde Community College District
2008 Certificates of Participation
Refinancing/Defeasance Options & Estimated Results
Preliminary Analysis (May 2012)

(1) D/S Date	(2) Existing Debt Service Schedule (000s)	(3) New Debt Service Requirements in Refinancing Scenario (000s)	(4) Remaining DS after defeasing $11.3 million (callable bonds only, '17-37) (000s)	(5) Remaining DS after defeasing $11.3 million (term bonds '37 only) (000s)	(6) Remaining DS after purchasing $12.7 million (term bonds '37 @ 105%) (000s)
1/1/2013	$ 2,354	$ 1,576	$ 1,755	$ 1,731	$ 1,656
1/1/2014	2,352	1,572	1,752	1,729	1,653
1/1/2015	2,353	1,573	1,753	1,730	1,655
1/1/2016	2,356	1,574	1,756	1,733	1,657
1/1/2017	2,354	1,574	1,436	1,730	1,655
1/1/2018	2,349	1,564	1,433	1,726	1,650
1/1/2019	2,347	1,564	1,432	1,724	1,648
1/1/2020	2,347	1,562	1,432	1,724	1,649
1/1/2021	2,350	1,563	1,434	1,727	1,651
1/1/2022	2,354	1,567	1,436	1,731	1,655
1/1/2023	2,353	1,563	1,436	1,730	1,655
1/1/2024	2,355	1,562	1,437	1,732	1,656
1/1/2025	2,354	1,559	1,436	1,110	959
1/1/2026	2,354	1,558	1,436	1,110	959
1/1/2027	2,351	1,550	1,434	1,108	958
1/1/2028	2,349	1,546	1,433	1,108	957
1/1/2029	2,354	1,550	1,436	1,110	959
1/1/2030	2,349	1,541	1,433	1,107	957
1/1/2031	2,350	1,540	1,433	1,108	957
1/1/2032	2,351	1,537	1,434	1,108	958
1/1/2033	2,352	1,537	1,435	1,109	958
1/1/2034	2,348	1,534	1,433	1,107	957
1/1/2035	2,349	1,529	1,433	1,107	957
1/1/2036	2,349	1,525	1,433	1,107	957
1/1/2037	2,353	1,529	1,435	1,109	959
Total P+I	**$ 58,785**	**$ 38,851**	**$ 37,137**	**$ 35,153**	**$ 32,296**
	Gross Savings:	**19,934**	**21,648**	**23,632**	**26,489**
	Present Value:	**12,020**	**12,732**	**13,062**	**14,641**

MAGIS ADVISORS public finance consulting 00117276.XLSX 5/12/2012

INSERT CALCULATIONS FOR 3 OPTIONS AS NOTED ON THE FOLLOWING PAGES

YEAR	COP PAYMENT	COP PAYMENT PROJECTION IF $10M PURCHASED IN 2016	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
2012	$1,664,350		0	$855,000	$14,490,726
2013	$2,354,350		$1,499,350	$855,000	$12,991,276
2014	$2,351,750		$1,497,750	$855,000	$11,493,526
2015	$2,353,150		$1,498,150	$855,000	$9,995,376
2016			$740,900	$760,000 + $855,000	
2017			$734,278	$760,000 + $855,000	
2018			$734,278	$760,000 + $855,000	
2019			$734,277	$760,000 + $855,000	
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2021			$734,278	$760,000 + $855,000	
2022			$739,050	$760,000 + $855,000	
2023			$739,050	$760,000 + $855,000	
2024			$739,050	$760,000 + $855,000	
2025			$739,050	$760,000 + $855,000	
2026			$739,050	$760,000 + $855,000	
2027			$735,465	$760,000 + $855,000	
2028			$735,465	$760,000 + $855,000	
2029			$735,465	$760,000 + $855,000	
2030			$735,465	$760,000 + $855,000	
2031			$735,465	$760,000 + $855,000	
2032			$734,590	$760,000 + $855,000	
2033			$734,590	$760,000 + $855,000	
2034			$734,590	$760,000 + $855,000	
2035			$734,590	$760,000 + $855,000	
2036			$734,590	$760,000 + $855,000	
2037			$737,650	$760,000 + $855,000	
	$60,449,063				

YEAR	COP PAYMENT	COP PAYMENT PROJECTION ONLY REFINANCED CURRENT DEBT IN 2016	$14,490,726 LAIF/ ($13,070,726 Unused COPs and $1,520,000 Unused Capital Funds)	SIMPLIFIED GENERAL FUND SAVINGS TOWARDS FUTURE COP DEBT	SPENDING DOWN LAIF ACCOUNT
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