Santa Ana Unified School District

State Budget Crisis
"Continues"

Budget Update

January 11, 2011

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Tonight's Goal

1. 2011-12 Governor's Budget Proposal

2. Next Steps

3. Summary of Measure G and Measure C Bond Issuances

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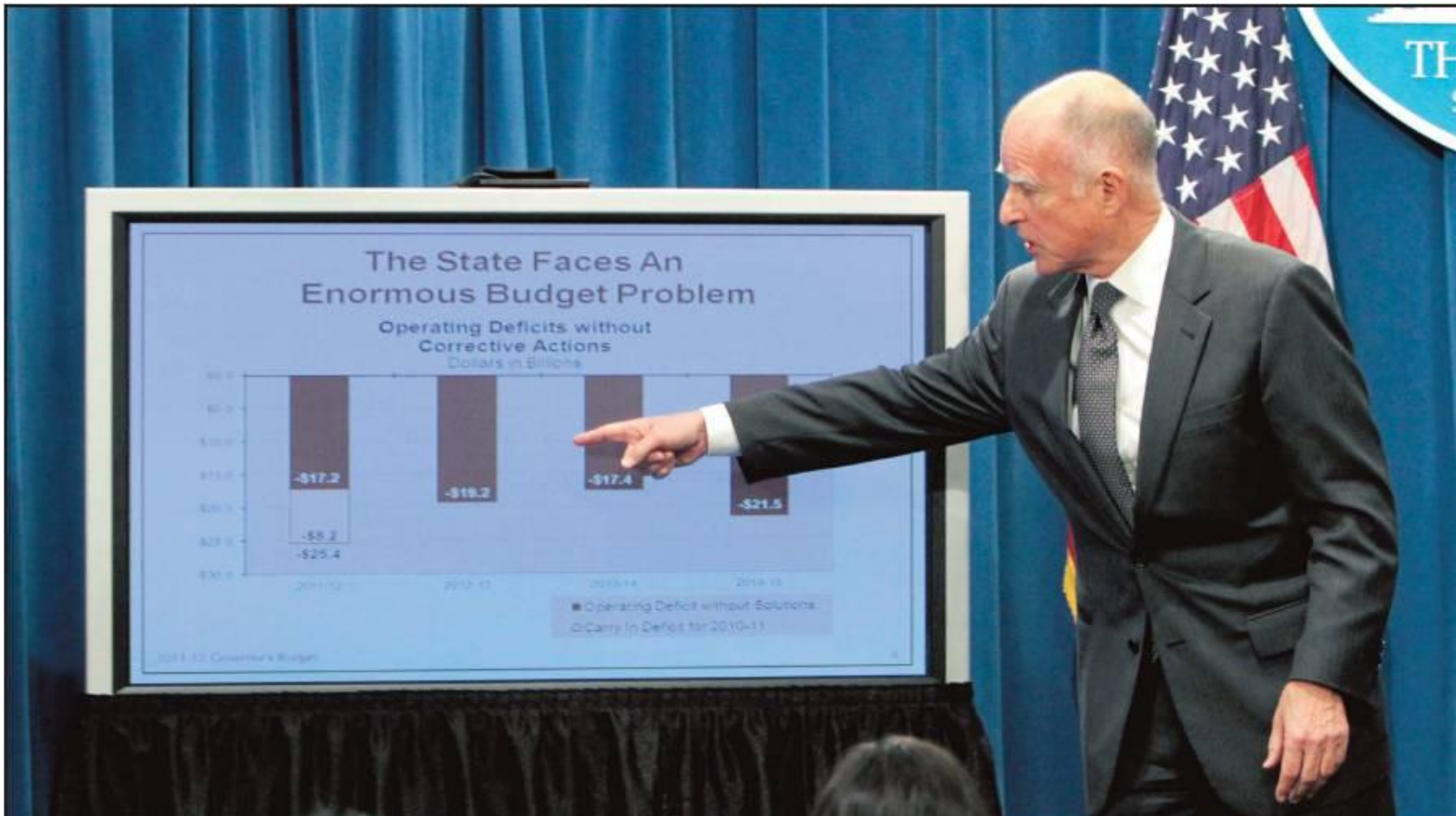
Governor's Budget Proposal



Full budget and press conference available at http://www.gov.ca.gov/

Governor's Budget Proposal cont'd

On Monday, January 10, 2011 Governor Jerry Brown proposed multiple solutions to solve the $25 billion State budget shortfall

- $12 billion in revenue
  - Ballot measure in June to extend temporary taxes
- $12.5 billion in cuts
  - Large cuts to Social Services (Medi-Cal, CalWORKS), Higher Education, Corrections, and phasing out of Redevelopment agencies
- $1.9 billion in "other solutions"
- Proposes realignment of services and tax revenue to Counties
- K-12 funding spared from cuts
  - Proposed extension of CSR and Tier III flexibility for 2 years

Santa Ana Unified School District

2010-11 MYP (Utilizing October 8, 2010 Enacted State Budget Information)

($s in millions)	2009-10	2010-11	2011-12	2012-13
Beginning Fund Balance	$93.2	$95.3	$70.1	$63.8
Adjustment to Beginning Fund Balance	($11.4)	---	---	---
Revenues	$475.0	$498.2	$451.1	$440.1
Expenditures (including Budget Reductions)	$461.5	$523.4	$457.4	$434.8
Net Increase/(Decrease)	$ 13.5	($25.2)	($ 6.3)	$ 5.3
Proj. Ending Fund Balance	$ 95.3	$70.1	$63.8	$69.1
Less: **Other Designations** (incl. Rev. Cash, etc.)	($3.1)	($3.0)	($3.0)	($3.0)
Unrestricted Reserves: Future State Cuts	---	($13.8)	($13.8)	($13.8)
Others (Instr Mat'l, etc.)	($10.1)	($13.0)	($15.1)	($17.1)
One-time cuts/Budget shifts & TRANs	($32.0)	---	---	---
Restricted Reserves	($15.0)	($3.0)	($2.8)	($1.5)
Desig. for Economic Uncertainties	$35.1	$37.3	$29.1	$33.7
Desig. for Economic Uncertainties %	7.6%	7.1%	6.4%	7.8%
Unspecified Budget Cuts Needed	---	---	($31.5)	($30.5)

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Next Steps - Budget

Date	Event or Activity
On-going until Settled	Negotiations with our certificated & classified associations (SAEA & CSEA respectively)
Jan 25 Feb 8 & 22	Budget Update
Feb 1 & Feb 15	**Special Board Meeting on Proposed Budget Reductions**
Mar 8	Presentation of Second interim Report Approval of 2011-12 Budget Reductions Reach Decision on CSR for 2011-12 & future years

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Summary of the Election of 2008 General Obligation Bonds, Series D, E (BABs) & F (QSCBs) and 2010 General Obligation Refunding Bonds

Santa Ana Unified School District

Orange County

January 11, 2011

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Santa Ana Unified School District

Table of Contents

Background

- Voters approved the Measure G $200 million general obligation bond authorization on June 3, 2008, with an affirmative vote of 68.82% .
  - Original tax rate was estimated at $28.00 per $100,000 of assessed value with a projected assessed valuation growth rate of 4.5%, based on historical growth trends.
  - Entire $200 million authorization was projected to be issued by 2011.
  - Approximately $100 million of Series A general obligation bonds were issued as planned in August 2008.
- Since 2008, the original issuance plan for the Measure G bonds changed due to the economic downturn.
  - Instead of increasing at 4.5% annual rate, over the past two years, assessed valuation decreased 10.4% and with additional declines anticipated, caused actual and projected tax rates to be higher than initially estimated.
  - On a positive note, in response to the economic downturn the federal government created two new types of lower cost financing for government agencies - Qualified School Construction Bonds (QSCBs) and Build America Bonds (BABs).
- In 2009, the District issued approximately $54.1 million of Measure G Series B and Series C general obligation bonds which included $19.24 million of QSCBs, leaving approximately $45.9 million of Measure G bonds unissued.
- At the same time, the District also refinanced $46.22 million of Measure C bonds saving District taxpayers approximately $6.3 million.

Plan for 2010 Measure G Issuance

- The goal of the 2010 Measure G issuance was to issue the entire remaining authorization of approximately $45.9 while minimizing the amount tax rates were above initial estimates.
- By issuing the full $45.9 million, the District would be able to:
  - Take full advantage of the favorable construction bidding climate to maximize Measure G projects.
  - Use the District's low-cost QSCB allocation of $17.539 million to minimize interest costs.
  - Issue low-cost BABs (which were only authorized by the federal government through 12/31/2010, although an extension was anticipated).
  - Keep combined Measure G and Measure C tax rates below the combined maximum tax rate projected at the time of each election.
- In the meantime, the Measure C bonds issued in 2002 were identified as a possible candidate for refunding to general tax savings.
- The focus of the Financing Team was to structure the bond issuance to minimize combined Measure C and Measure G taxes.
  - A combination of BABs, QSCBs and traditional tax-exempt current interest and capital appreciation bonds would be issued.
  - Savings from refunding the Measure C bonds would be used to issue the Measure G bonds more efficiently.

Rating and Insurance Process

- Deputy Superintendent Dr. Cathie Olsky, Assistant Superintendent, Business Services Michael Bishop and Assistant Superintendent, Facilities & Governmental Relations Joe Dixon along with the Finance Team met with analysts from Moody's Investors Service at their offices in San Francisco.
- Analysts were impressed with the District's presentation, noting the District's conservative fiscal practices, maintenance of above-average reserves and large residential tax base. They also recognized the proactive management team and the Board's willingness to make difficult budget decisions to maintain a healthy financial position.
- Moody's Investors Service assigned a rating of "Aa2" to the District's bonds. This was a significant accomplishment, given the rating agencies' concerns about the California state budget and its impact on local school district finances.
- The rating enabled the District to achieve lower interest rates on the bonds by increasing the pool of potential investors interested in purchasing the District's bonds.
- A rating of this quality also enabled the District to sell the bonds without bond insurance, saving bond insurance premium costs of approximately $487,000.

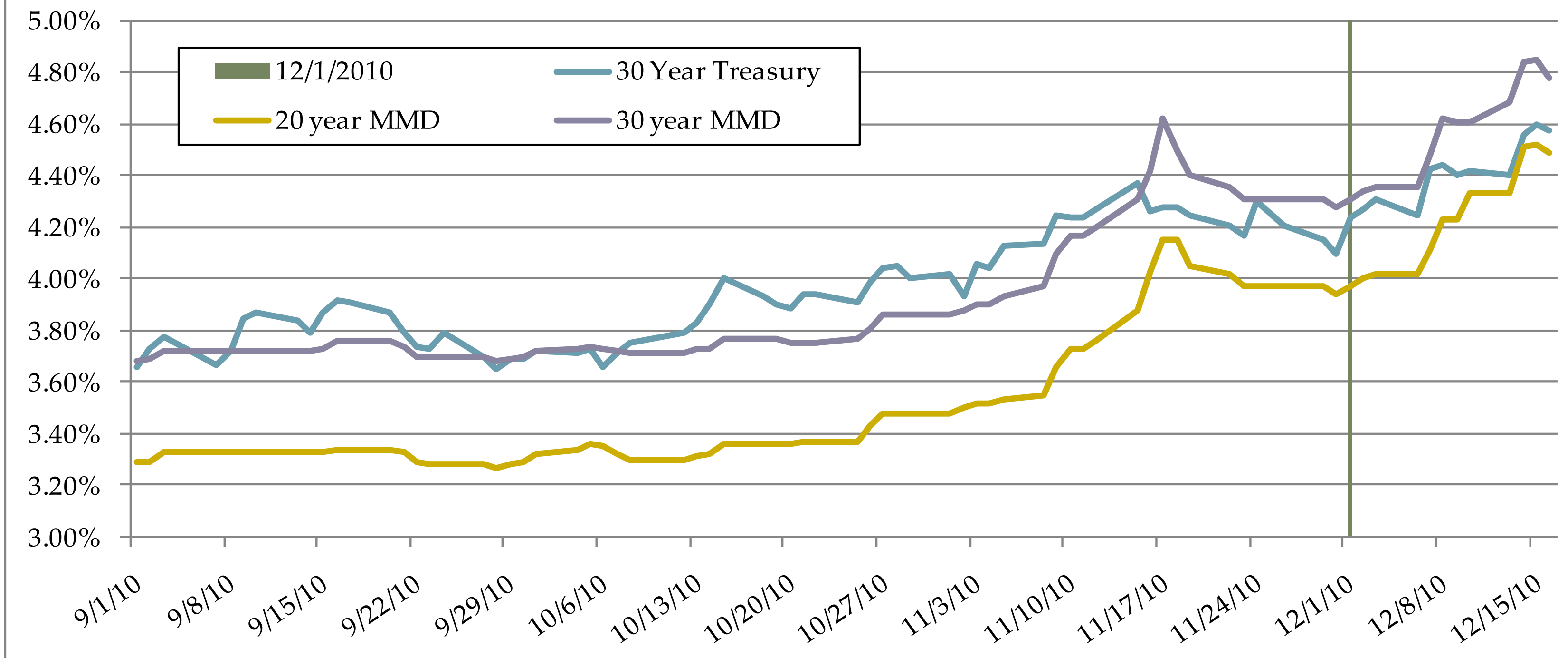
Bond Market Conditions

- In mid-November news regarding the Federal Reserve plans to purchase Treasuries with a focus on shorter maturities, caused concern about inflation and currency devaluation, sparking the onset of volatility within the Treasury market.
- In addition to the large State of California $14 million offerings of Revenue Anticipation Notes, Build America Bonds and tax-exempt bonds, there was increased supply due to the lack of legislation to extend the BAB program beyond its expiration of 12/31/2010.
- According to Lipper FMI, municipal funds lost $3 billion from investor redemptions two weeks prior to the District's bond sale.
    - Municipal bond fund outflows were triggered by the uncertainty of the extension of Bush tax cuts, expectations for mid-year budget gaps for State and Local governments, heavy new issue supply and apprehension of the Federal Reserve's quantitative easing initiative (Treasury purchases).
    - Some funds were forced to sell bonds in order to raise cash, adding to the existing large supply of new issue bonds and pushing up interest rates.
- In the weeks following the District's bond sale, market conditions continued to deteriorate due to the announcement of the Bush tax cut extension and anticipated end to the BAB program on December 31.

Santa Ana Unified School District

Historical Interest Rate Data

Benchmark Interest Rate Comparison



- The 30 year Treasury, 20 year MMD (Municipal Market Data) and 30 year MMD benchmarks saw interest rate increases beginning in November and continued to rise through December.
- The District was fortunate to price on December 1, as rates dropped after Thanksgiving and rates rose again after the sale of the bonds.

Source: Thomson Reuters, www.treasury.gov

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Sale of Bonds

- Beginning in mid-November, GFS and GKB began refining the structure based on turbulent market conditions. Mr. Bishop participated in weekly update calls as well.
- GKB began pre-marketing the District's bonds two weeks prior to the sale date.
- Feedback from investors provided insight into investors' preferences, enabling optimal structuring to achieve favorable interest rates.
- Comparable sale results were compiled by GFS and GKB for the District's benefit beginning the week prior to the bond sale.
- The strong Moody's rating, as well as the District's bond sale history, helped the District to attract investor interest. During the bond sale, GFS and GKB worked to restructure the bonds, based on investor preference.
- At the conclusion of the order period, approximately $765,000 of current interest bonds and $5,875,000 of Capital Appreciation Bonds (future value) were unsold. George K. Baum & Company purchased the $6.64 million of tax-exempt bonds instead of raising the interest rates to attract investors.
- Bond proceeds of approximately $45.9 million were wired to the County Treasurer on December 13, 2010 and are now available for District facilities projects.

Sale Results

- Results of the Bond Sale December 1, 2010:
  - Series D Bonds: $8.591 million; tax exempt
  - Series E Bonds: $19.775 million; direct pay Build America Bonds
  - Series F Bonds: $17.535 million; direct pay Qualified School Construction Bonds
  - All-In Interest Cost of 3.26%
- 2010 Refunding Bonds of $12.290 million were tax exempt
  - All-In Interest Cost of 3.40%
  - Debt service savings of $920,851
  - Refunding bond savings enabled new money debt service to be reduced by six years
- Measure G authorization has been completely issued and no authorization remains.
- Market conditions did not permit the District to complete the entire proposed refunding. The District will have the opportunity to refund the remaining $19.05 million of the Election of 1999, Series 2002 Bonds to achieve additional taxpayer savings when market conditions improve.

Santa Ana Unified School District

Tax Rate Projections

Fiscal Year End June 30	Without 2010 New Money / Refi Combined Tax Levy	With 2010 New Money / Refi Combined Tax Levy	Difference
2011	71.67	71.67	0.00
2012	70.73	79.85	9.12
2013	71.48	79.84	8.36
2014	70.24	79.86	9.62
2015	69.43	79.48	10.05
2016	67.89	77.86	9.97
2017	66.47	76.44	9.97
2018	64.99	75.36	10.37
2019	63.26	74.03	10.77
2020	61.72	72.69	10.97
2021	60.87	70.06	9.19
2022	59.41	68.90	9.49
2023	57.87	67.73	9.86
2024	56.34	66.58	10.24
2025	56.05	65.49	9.44
2026	60.47	64.39	3.92
2027	50.21	63.41	13.20
2028	56.79	62.40	5.61
2029	55.77	61.45	5.68
2030	56.24	61.41	5.17
2031	54.67	57.91	3.24
2032	53.85	57.06	3.21
2033	33.09	36.31	3.22
2034	33.25	36.31	3.06
2035	33.09	36.31	3.22
2036	33.12	36.30	3.18
2037	33.12	36.30	3.18
2038	33.08	36.30	3.22
2039	33.07	36.30	3.23
2040	33.06	36.30	3.24
2041	33.04	36.30	3.26
2042	33.02	33.02	0.00
2043	33.00	33.00	0.00
2044	32.97	32.97	0.00
2045	32.94	32.94	0.00
2046	32.78	32.78	0.00
2047	31.38	31.38	0.00

- At the time of each election, the Election of 1999 and Election of 2008 had projected maximum tax rates of $60.90 and $28.10 per $100,000 of assessed valuation, respectively
- Based on current projections of assessed valuation growth, the combined maximum tax rate for both elections is $79.86 per $100,000 of assessed valuation, below the original projected combined maximum tax rate of $89.00
- The average tax rate increase is $5.58 per $100,000 of assessed valuation

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Projected tax rates are preliminary and subject to change based on actual assessed valuation growth/decline.

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