Government
Financial
Strategies

MEMORANDUM

To: Bruce Colby

From: Lori Raineri

Date: May 1, 2020

Re: Sale of Measure K (Election of 2000) 2020 General Obligation Refunding Bonds

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Bruce, congratulations on the sale of Measure K 2020 Refunding general obligation bonds to refinance the outstanding 2010 and 2011 Refunding Bonds on Tuesday, April 28! As you know, our goal with refinancing the Measure K bonds was to reduce taxes. Despite recent market volatility, the bond sale results exceeded expectations. This memorandum provides a brief summary of the sale. Please feel free to share this memorandum.

Executive Summary

• Refinancing **saved the District's taxpayers approximately $636,000**, or $608,000 in terms of present value; this constitutes a 6.9% savings relative to the amount of bonds refinanced.

• Total Measure K debt service is $42.63 million, which is **$9.18 million less than the pre-election projection**. This $9.18 million in reduced debt service is a direct savings to the District's taxpayers. Originally projected debt service was $51.81 million which has been reduced as a result of this refinancing, prior refinancings, and original bond sales.

• Measure K tax levies are currently projected to average approximately $11.55 per $100,000 of assessed value over the remaining life of Measure K; this is 57% less than the $26.56 pre-election projection for the same period.

• The District sold $8,135,000 of Measure K general obligation refunding bonds on April 28, 2020 to refinance $8,835,000 in outstanding Measure K bonds ($3,895,000 of 2010 Refunding Bonds and $4,940,000 of 2011 Refunding Bonds), and benefitted from the economy of scale from combining both prior issues into one refinancing, in terms of reduced costs of issuance. There were additional costs of issuance savings by selling the Measure K refinancing bonds in conjunction with the second series of Measure M bonds sold on the same day.

• The bonds were sold competitively, and the District received five bids, with J.P. Morgan submitting the winning bid as measured by a true interest cost ("TIC") of 1.280%[1].

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[1] The true interest cost takes into account the interest rates and the purchase price for the bonds. Subsequent to the bidding, the debt service was restructured in accord with the offering terms, changing the TIC to 1.282%

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Bond Sale Process

The bonds were sold utilizing a competitive bid process. Prior to the sale, the preliminary official statement (the prospectus for the bonds) was made available to dozens of underwriters throughout the United States. The information provided to potential bidders included the Standard & Poor's rating of "AA- (negative outlook)" for the bonds and Moody's rating of "A1," which is one notch lower than Standard & Poor's, and that the bonds were pre-qualified for insurance that bidders could purchase. Insurance was made available from Assured Guaranty Municipal and Build America Mutual, the only two bond insurers with a credit rating higher than the District's. Both insurers carry a "AA" rating, one notch above the District's "AA-" rating from S&P and two notches above the "A1" rating from Moody's.

On the day of sale, bids were submitted by posting on a website called Parity. The wide-reaching marketing of the District's bonds and competitive process used to identify the winning underwriters were designed with the goal of maximizing competition to strive for the lowest interest cost.

Sale Results

On Tuesday, Davis Joint Unified School District was the only California issuer listed in The Bond Buyer's calendar of competitive offerings, following a period in which we saw a benchmark interest rate, the Bond Buyer 20-Bond Index, rise to 2.84% on April 2 and rest at 2.36% on April 23, the most immediate date preceding the District's sale day.[2]

As shown in the following summary of bids table, the District received five bids. J.P. Morgan submitted the lowest, and thus winning, bid with a TIC of 1.280%. The difference between the first place and second place (Morgan Stanley) bids amounts to approximately $114,000 in present value savings, while the difference between the first place and last place (Wells Fargo) bids amounts to $207,000.

It is interesting to note the difference of opinion about the value of the District's bonds. For example, while insurance was likely appealing because of the "negative outlook" on the credit rating, only one bidder did not incorporate insurance in the bid - J.P. Morgan, the winning bidder. Additionally, while there is a tight grouping of the second and third place bidders, the others were fairly spread out, demonstrating the lack of unanimity in the municipal bond market. All of the bidders are qualified to underwrite bonds, but the criteria most important to the District when selling bonds is pricing; the District's process clearly demonstrates the value of using the best practice of competitive bidding.

Finally, it is noted, that J.P. Morgan did not submit a bid on the District's Measure M bonds, sold 30 minutes later.

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[2] The sales marked the second competitive sale from a California school district and the third competitive sale from any type of issuer in California since March 1, 2020 due to the COVID-19 outbreak.

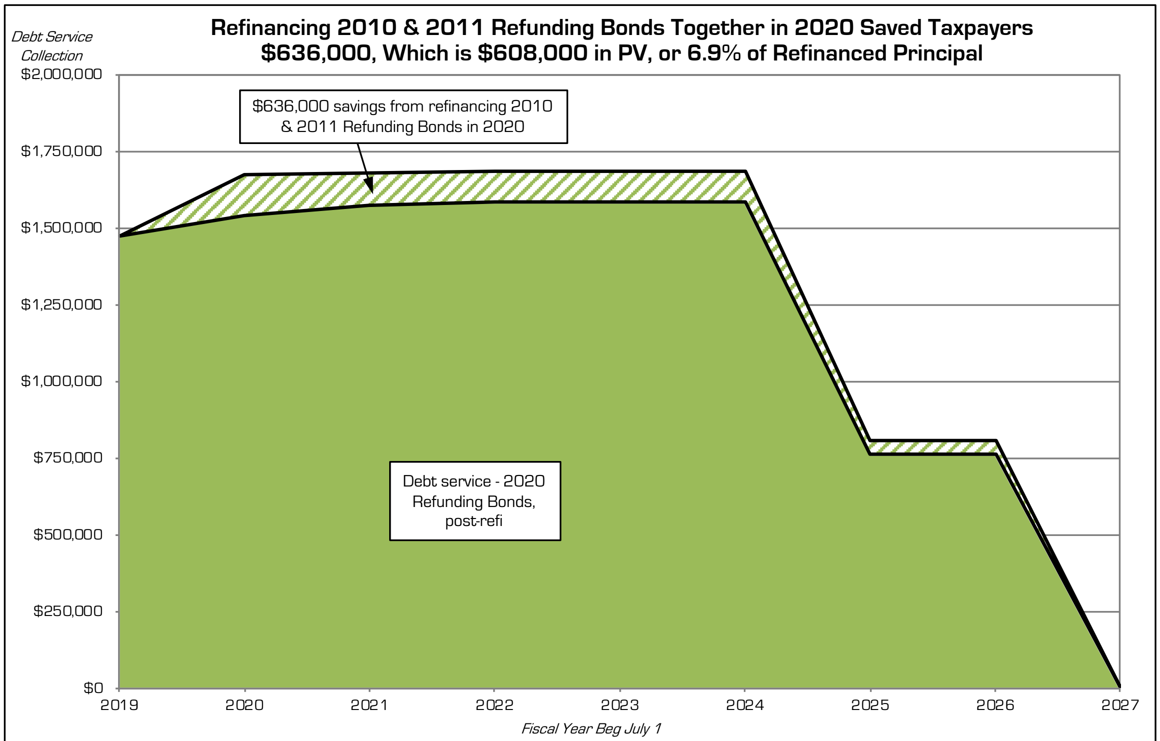
COMPETITIVE BIDDING RESULTS

Bid #	Name of Bidder	True Interest Cost (TIC%)	Approximate Difference in Present Value From Winning Bid
1	**J.P. Morgan Securities LLC**	**1.280082%**	**n/a**
2	Morgan Stanley & Co, LLC	1.619700%	$114,279
3	Citigroup Global Markets Inc.	1.629204%	$119,440
4	HilltopSecurities	1.731274%	$153,901
5	Wells Fargo Bank	1.888892%	$206,933

* Note: subsequent to the bidding, the winning bid was restructured, changing the TIC to 1.282022%.

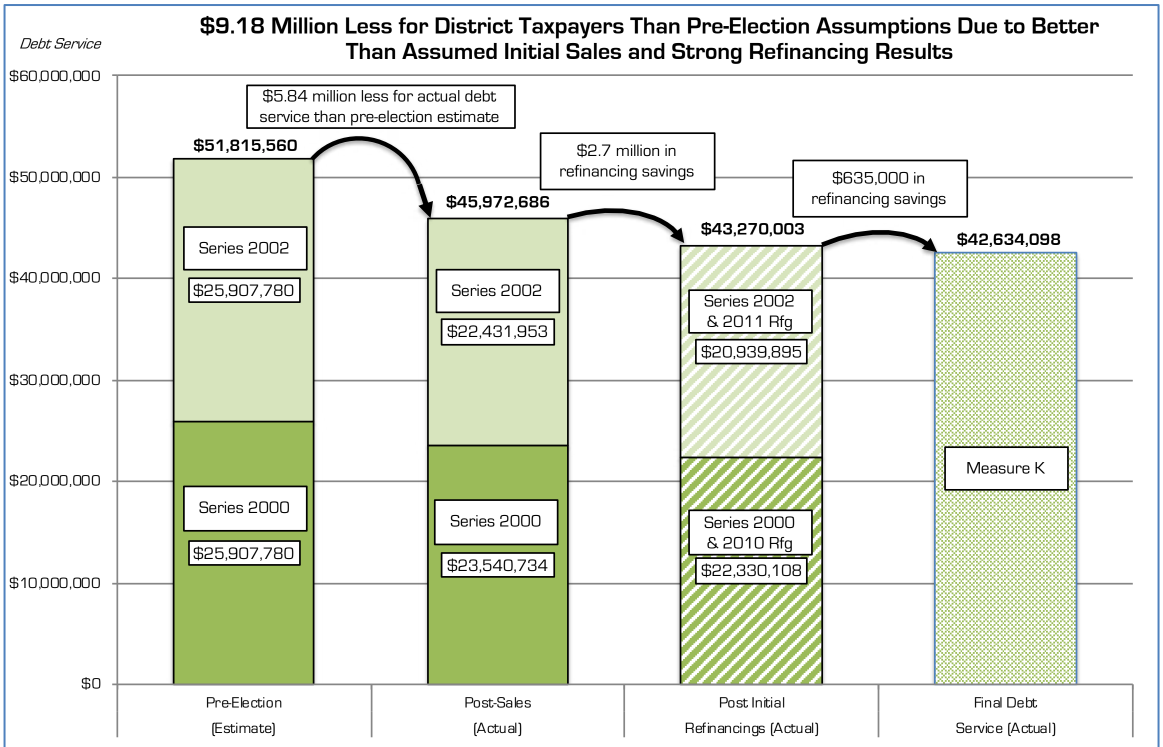
Effect of Winning Bid on Debt Service and Proceeds for Projects

Refinancing reduced debt service by approximately $636,000 ($608,000 in terms of present value); this exceeded the $386,000 estimate provided to the Board on April 16. Debt service and the savings can be seen in the following chart.



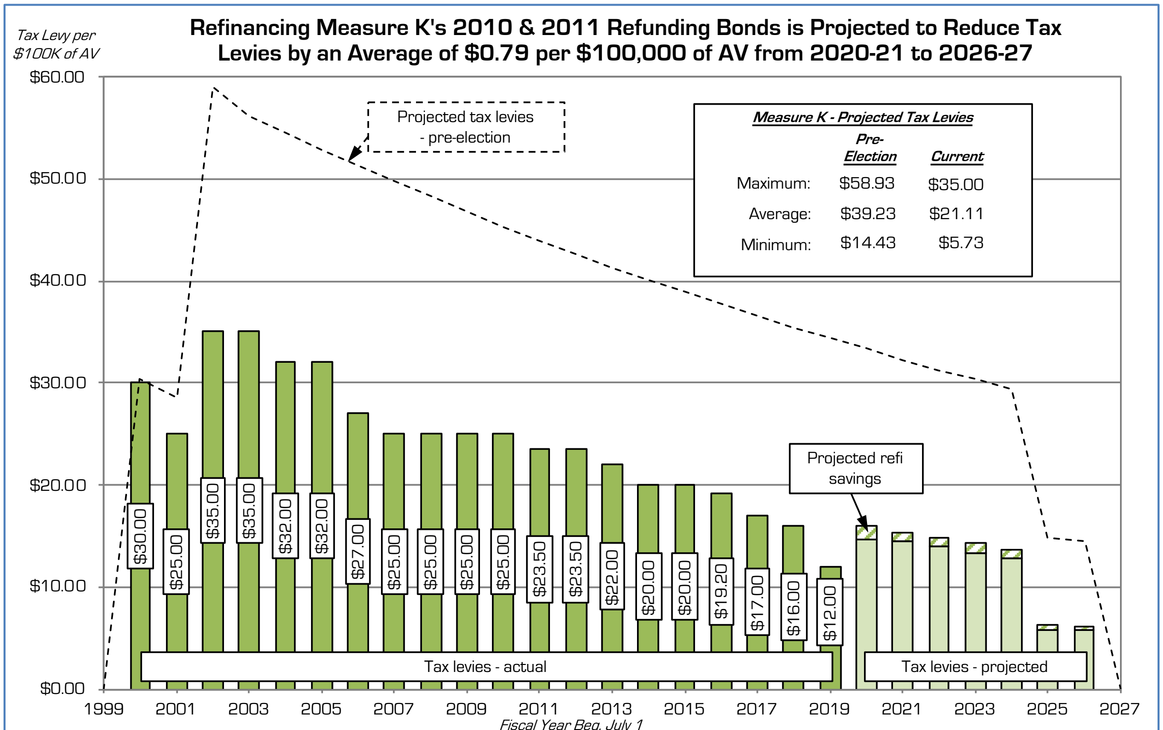
Debt service from District's *Official Statements*. For cash flow purposes, debt service collection is equal to the following calendar year debt service. Refinancing debt service from April 28, 2020 sale.

This refinancing continues the District's success with Measure K. Due to strong initial sale results and refinancings, Measure K debt service is nearly $9.2 million less than pre-election projections, which is a direct savings for taxpayers. Reductions to debt service over time can be seen in the following chart.



Pre-election debt service from bond plan supporting Measure K election; post-sale debt service from *Official Statements*. Post-refinancing debt service from winning underwriter's bids.

General obligation bond debt service is repaid via taxation; reducing debt service reduces tax levies. We project that refinancing the 2010 and 2011 Refunding Bonds will reduce average tax levies by $0.79 per $100,000 of assessed value from 2020-21 to 2026-27. Levies are currently projected to average approximately $11.55 over the remaining life of Measure K; this is 57% less than the $26.56 pre-election projection for the same period. Over the entire life of the Measure K bonds, tax levies are now projected to average $21.11, or 46% less than the $39.23 pre-election projection. The comparison of pre-election, actual, and current conservatively projected tax levies can be seen in the following chart.



Tax levies through 2019-20 are actual; levies provided by Yolo County Auditor-Controller's Department. Future levies based on assumed changes to net local secured AV of 4% annually, while all other AV types are assumed to remain unchanged. Debt service from District's *Official Statements*. To be conservative, no additions to fund balance, such as interest earnings, are assumed.

We are exceptionally pleased with the results and hope you and the District are as well.

Thank you, Bruce. Please let me know if you have questions or would like to discuss further.

LR:MET