Government Financial Strategies

MEMORANDUM

To: Bruce Colby

From: Lori Raineri LR

Date: May 1, 2020

Re: Sale of Series 2020, Election of 2018 (Measure M) General Obligation Bonds

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Bruce, congratulations on the sale of the second and final series of Measure M general obligation bonds on Tuesday, April 28! As you know, the District's approach was designed to achieve the lowest cost borrowing available given the District's parameters, maximize proceeds, and keep tax levies below $60 per $100,000 of assessed value. Despite market volatility, the District's results exceeded expectations. This memorandum provides a brief summary of the sale. Please feel free to share this memorandum.

Executive Summary

• We project **approximately $100.4 million in project funds**.

• In total, **Measure M generated $3.4 million more than originally planned** - $150.6 million for projects instead of the $147.2 million originally projected.

• Measure M net **debt service is $79.0 million less than originally planned** - $238.9 million, as opposed to $317.9 million originally projected.

• Measure M **tax levies are projected to average 20% less than originally planned** – we now project an average levy of $48.00 (pre-election was $59.98).

• Measure M **taxation will last 1 year less than originally planned** – 29 years, rather than 30.

• On April 28, 2020 the District sold $100.6 million of Measure M general obligation bonds, completing the authorization.

• The bonds were sold in conjunction with, but separate from, the 2020 Refunding, Measure K bonds, in order to maximize underwriter participation and reduce issuance costs through economies of scale.

• The bonds were sold competitively; the District received five bids, with Citigroup submitting the winning bid as measured by a true interest cost ("TIC") of 2.868%[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 2.863%

1228 N Street
Suite 13
Sacramento, CA
95814
916.444.5100
gfsi.com

• Due to lower than anticipated interest rates and greater than assumed assessed value, we were able to complete the Measure M authorization in two series rather than three, reducing overall costs of issuance, and issue the second series one year earlier than originally planned, making funds available earlier for projects.

• The improvement in the bond sale results over the original plan strengthens the foundation for the Measure M facilities program's success.

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. Citigroup submitted the lowest, and thus winning, bid with a TIC of 2.868%. The difference between the first place and second place (Bank of America) bids amounts to approximately $900,000 in present value savings, while the difference between the first place and last place (Morgan Stanley) bids amounts to $5.6 million. It is interesting to note that Citigroup submitted the third-place bid on the District's Refunding Bonds earlier in the day.

[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	**Citigroup Global Markets Inc.**	**2.867875%**	**n/a**
2	Bank of America Merrill Lynch	2.940465%	$904,542
3	Mesirow Financial, Inc.	3.023076%	$1,959,482
4	Wells Fargo Bank, National Association	3.303769%	$5,390,665
5	Morgan Stanley & Co, LLC	3.309325%	$5,623,409

* Note: subsequent to the bidding, the winning bid was restructured, changing the TIC to 2.863211%.

Also of note is 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 for all underwriters, only the winning bidder opted for insurance from Build America Mutual which was more expensive than Assured Guaranty Municipal, which all other bidders selected. Additionally, there was a large variance in bids which demonstrates 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.

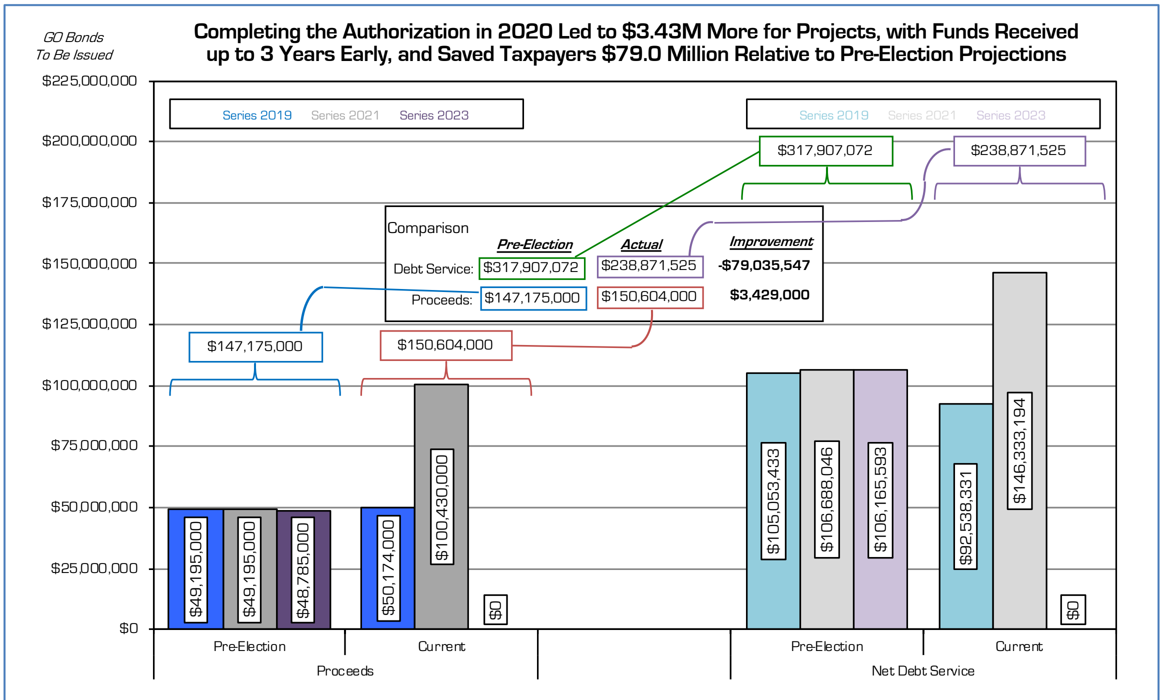
Sale Ramifications

Originally, we had planned to issue $50.3 million in 2021 with the remaining $50.3 million issued in 2023. Due to lower than anticipated interest rates and higher than anticipated assessed value, we were able to restructure the Measure M issuance schedule and sell the remaining authorization in a single series in 2020.

However, since we had not originally planned on a 2020 issuance, nearly all the allowable taxation in 2020-21 was already designated to pay debt service on the Series 2019 bonds. In such an event, we can designate proceeds to pay debt service, or we can generate a premium to be set-aside for debt service. In order to keep tax levies below $60 and to maximize proceeds we needed to generate premium. Not knowing the coupon rates the winning underwriter would submit, we needed to initially structure the bonds in a manner that gave us enough flexibility to achieve our goals. As submitted, the winning bid would have produced tax levies over $60 and did not maximize proceeds. We were able to work with the underwriter to restructure in an intricate way to fulfill both objectives.

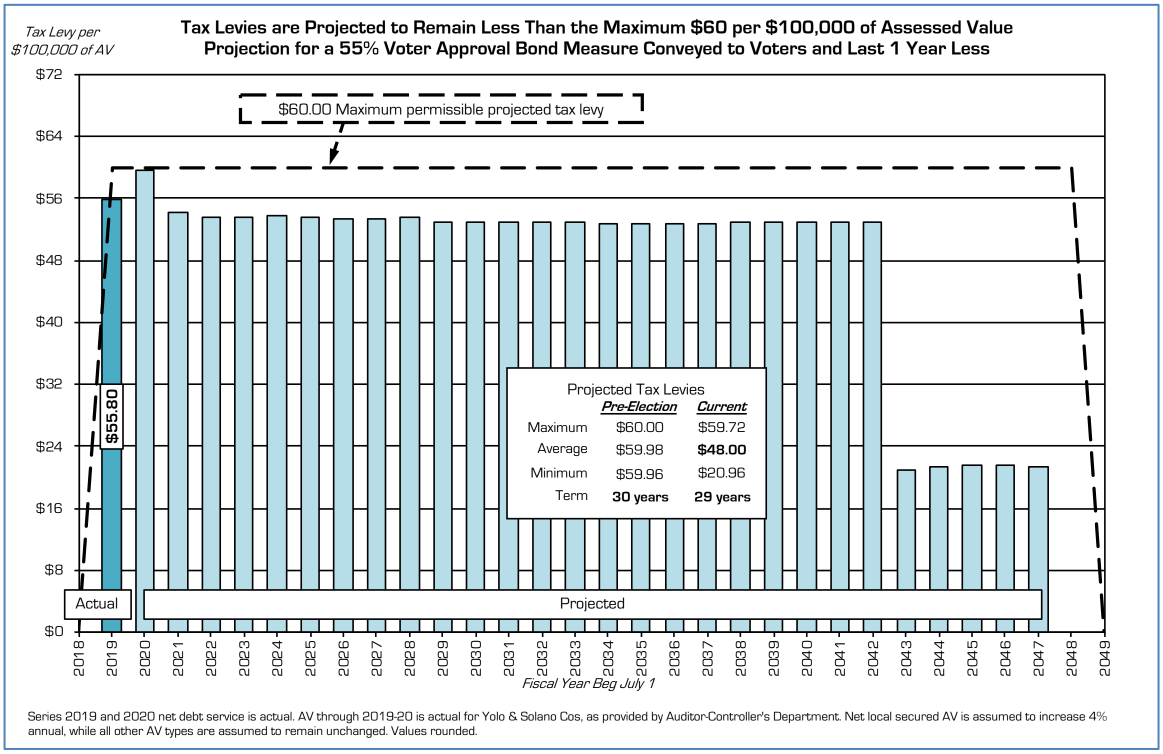
As a result of the sale, we anticipate approximately $100.4 million to be deposited into the District's project fund. This is $3.7 million more than the $96.7 million estimate conveyed to the Board on April 16. Overall, Measure M generated approximately $150.6 million, which is **$3.43 million more** than the pre-election projection.

Furthermore, Measure M net debt service is $238.9 million, **$79 million less**, or approximately 25%, less than the $317.9 million pre-election projection. Actual proceeds and debt service compared to pre-election estimates are shown in the chart, below.



Series 2019 & 2020 net debt service is actual. Debt service reflects application $7,707,888 deposited to Interest & Sinking Fund. Values rounded.

When the District's voters approved Measure M, an average tax levy of $59.98 for 30 years was projected. After much better than anticipated sale results in 2019 and 2020, we now project tax levies to average $48.00, or roughly 20% less and lasting only 29 years. The following chart shows current projections compared to pre-election projections.



Needless to say, the District has reason to be pleased with results of this sale as well as the totality of Measure M. The District will receive in excess of $3 million more for projects than anticipated, while saving taxpayers $79 million as compared to the original budget. These results strengthen the overall Measure M funding program.

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

LR:MET