Jefferson School District
GO Bond Program
& Refunding Brief

December 2021

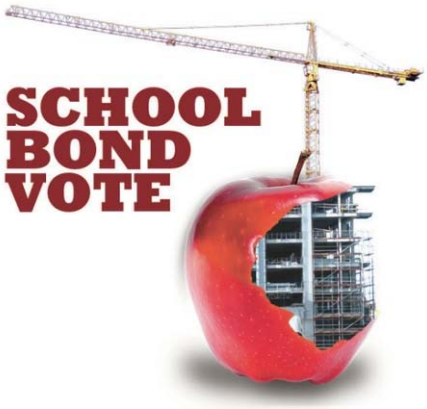
EASTSHORE CONSULTING

FINANCIAL ADVISORY & FACILITIES PLANNING •FISCAL CONSULTING •ELECTION STRATEGIES & PUBLIC RELATIONS

General Obligation Bond Overview

General Obligation Bonds

- Municipal entities such as school districts typically utilize General Obligation (GO) bonds to fund a portion of their long-term capital facility needs
- GO Bonds:
  - Voter authorized long-term municipal securities with repayment terms up to 40 years
  - Repaid from local property taxes and backed by the unlimited, full-faith and credit pledge of a district's tax base
  - Provide strong security to investors, typically with tax-exempt benefits, resulting in lower borrowing costs (and interest rates) compared to other financing alternatives



Type of GO Bond Elections

- School bond measures may be conducted under ***Prop. 46*** or ***Prop. 39***
- Each election type carries certain tax rate, funding, and accountability requirements
- Voter authorization for GO Bonds does not expire until the full amount has been issued

	Proposition 46	Proposition 39
Required voter approval for passage	• 66.7% yes	• 55% yes
Tax Rate Limit	• No tax rate limit	• Elementary SD: $30/$100K of assessed value
Use of Proceeds	• Capital projects, construction, modernization	• Construction, modernization, technology, furnishings/equipment
Accountability Measures	• None	• Annual audit and report, citizens bond oversight committee
Election Filing Requirements	• Bond resolution, ballot language with maximum bond amount, estimate of tax rates	• Board resolution, ballot language with maximum bond amount, estimate of tax rates, project list
Election Dates	• Most Tuesdays	• Coincide with regularly scheduled election, generally in even years

** Partial list of provisions and requirements.*

Measure “J” GO Bonds

JEFFERSON SCHOOL DISTRICT
OUTSTANDING GENERAL OBLIGATION BOND SUMMARY

Election of 2010 - Measure "J"

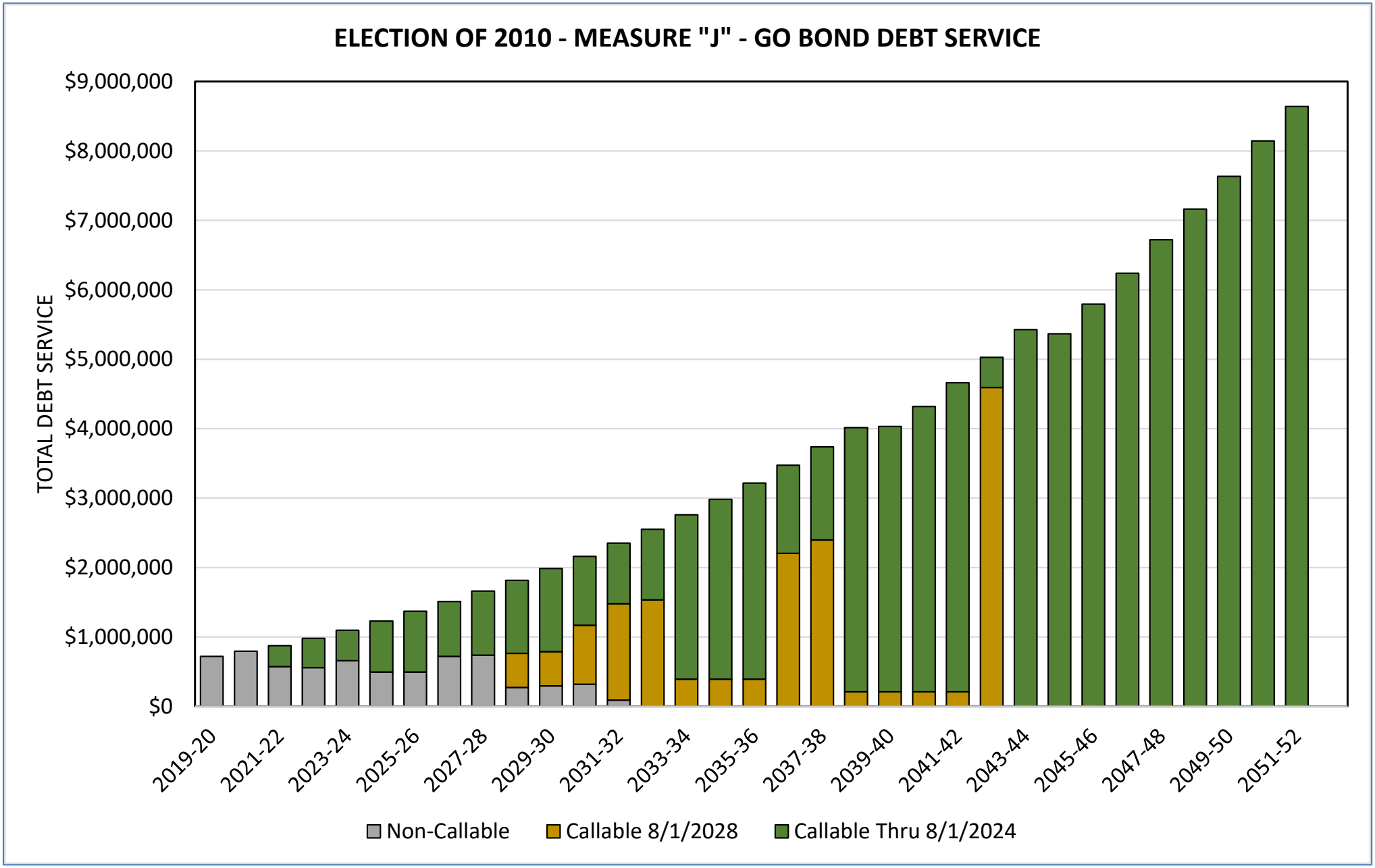
Series	Tax-Status	Dated Date	Original Issue Amount	Outstanding Principal	Redemption Date	Redeemable Amount
Series A	Tax Exempt	5/11/2011	$ 6,397,194	$ 5,897,194	8/1/2021	$ 5,585,000
2013 Series B	Tax Exempt	6/6/2013	22,999,470	22,009,470	8/1/2023 8/1/2028	21,299,470
2014 Series C	Tax Exempt	9/25/2014	3,814,069	3,563,677	8/1/2024	3,496,048
Total Election of 2010			**$ 33,210,732**	**$ 31,470,340**		**$ 30,380,518**

Election of 2010 - Measure "J"

Series	Original Issue Amount	Repayment Requirements	Repayment Ratio
Series A	$ 6,397,194	$ 15,173,516	2.37 to 1
2013 Series B	22,999,470	100,875,314	4.39 to 1
2014 Series C	3,814,069	8,486,520	2.23 to 1
Total Election of 2010	**$ 33,210,732**	**$124,535,350**	3.75 to 1

Measure “J” Background

- In November of 2010, more than 67% of Jefferson School District voters approved Measure “J”, authorizing a total of $35.4 million in bonds to fund a variety of facilities improvements
- The District has issued $33.2 million of the Measure “J” GO Bonds through three discrete series issued in 2011, 2013 and 2014
- It appears that tax rate limitations may have precluded the issuance of approximately $2.2 million of remaining authorized bonds
- Currently, the District has the option to refinance $30.38 million of outstanding Measure “J” GO Bonds
- “Series A”, the initial series of Measure “J” GO Bonds, became redeemable on August 1, 2021, and can be refunded on a “current basis” at anytime
- A portion of the second series of Measure “J” GO Bonds are redeemable on August 1, 2023, with the balance comprised of convertible capital appreciation bonds (CABs) not redeemable until 2028
- The third series of Measure “J” GO Bonds allows for redemption on August 1, 2024
- This presentation is an overview of refunding options, how it may benefit the District and local taxpayers, and future facilities financing options



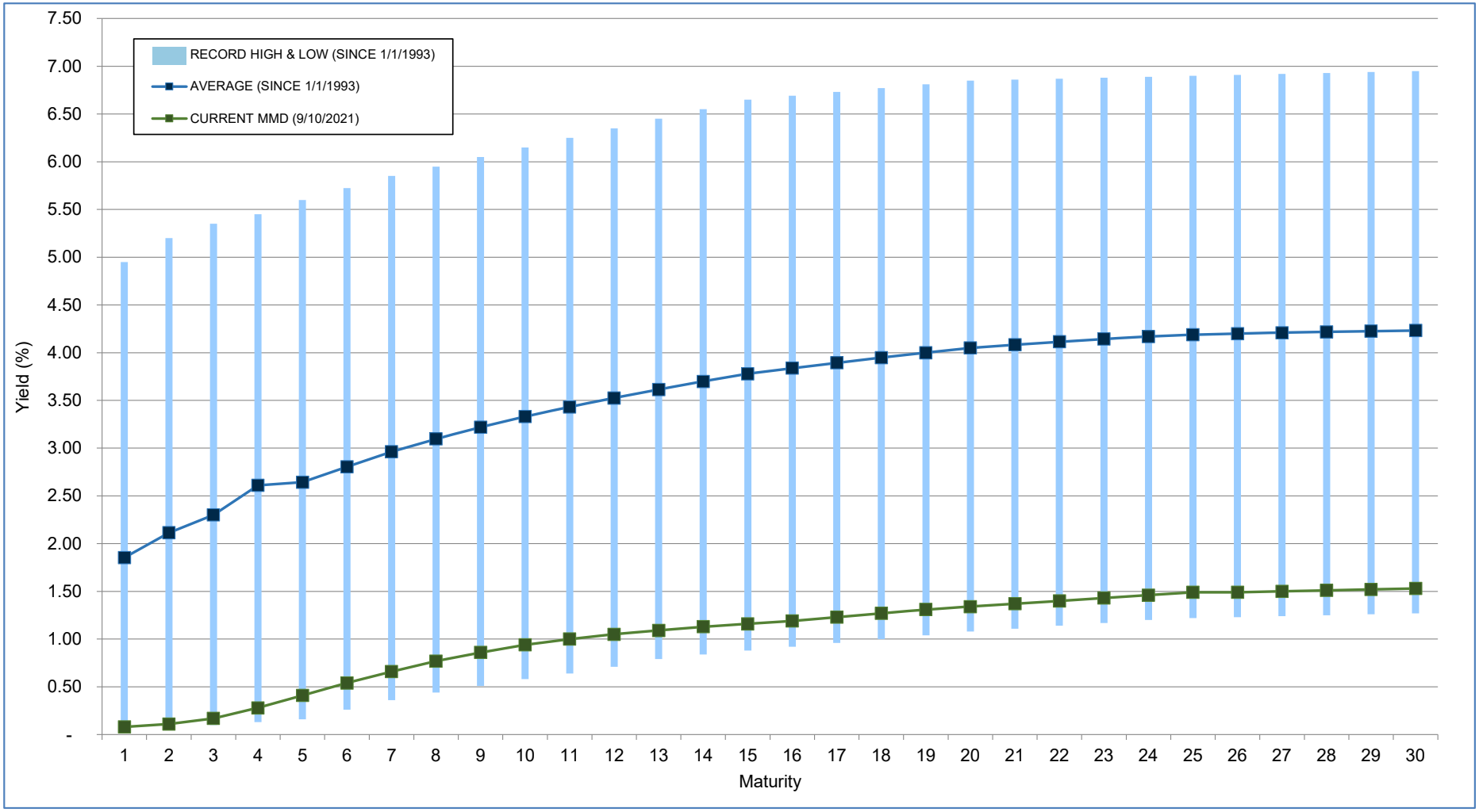
*The areas in green reflect repayment requirements that are redeemable through August 1, 2024, and are financially viable for restructuring to generate taxpayer savings.

Measure "J" Overview

- As is common for General Obligation bond programs in areas with rapid new housing development, Measure "J" bonds were issued using a "back-loaded" structure with higher repayment requirements in later years
- Existing debt service, or repayment requirements, grows by an average of 8% annually through maturity in 2052
- While back-loaded bond structures allow for more project funding at an earlier date, such structures also increase the cost of borrowing
- The $33.2 million of Measure "J" GO Bonds issued to date required $124.5 million in total repayments, a "repayment ratio" of 3.75 to 1
- Refinancing GO Bonds allows for a reduction in repayment requirements by taking advantage of the reduced term of bonds as time passes, similar to refinancing a 30-year home mortgage with a 15-year mortgage
- Additional refinancing savings can be achieved by retiring CABs, which compound interest through maturity to avoid near-term tax rate impacts
- $23.6 million of the issued Measure "J" GO Bonds consist of CABs which, if allowed to remain outstanding to maturity, will cost $97.3 million to repay
- Fortunately, Measure "J" CABs *can* be refinanced to significantly reduce the overall repayment requirements and lower required tax rates

Refunding GO Bonds

TAX-EXEMPT INTEREST RATES
HISTORICAL SUMMARY

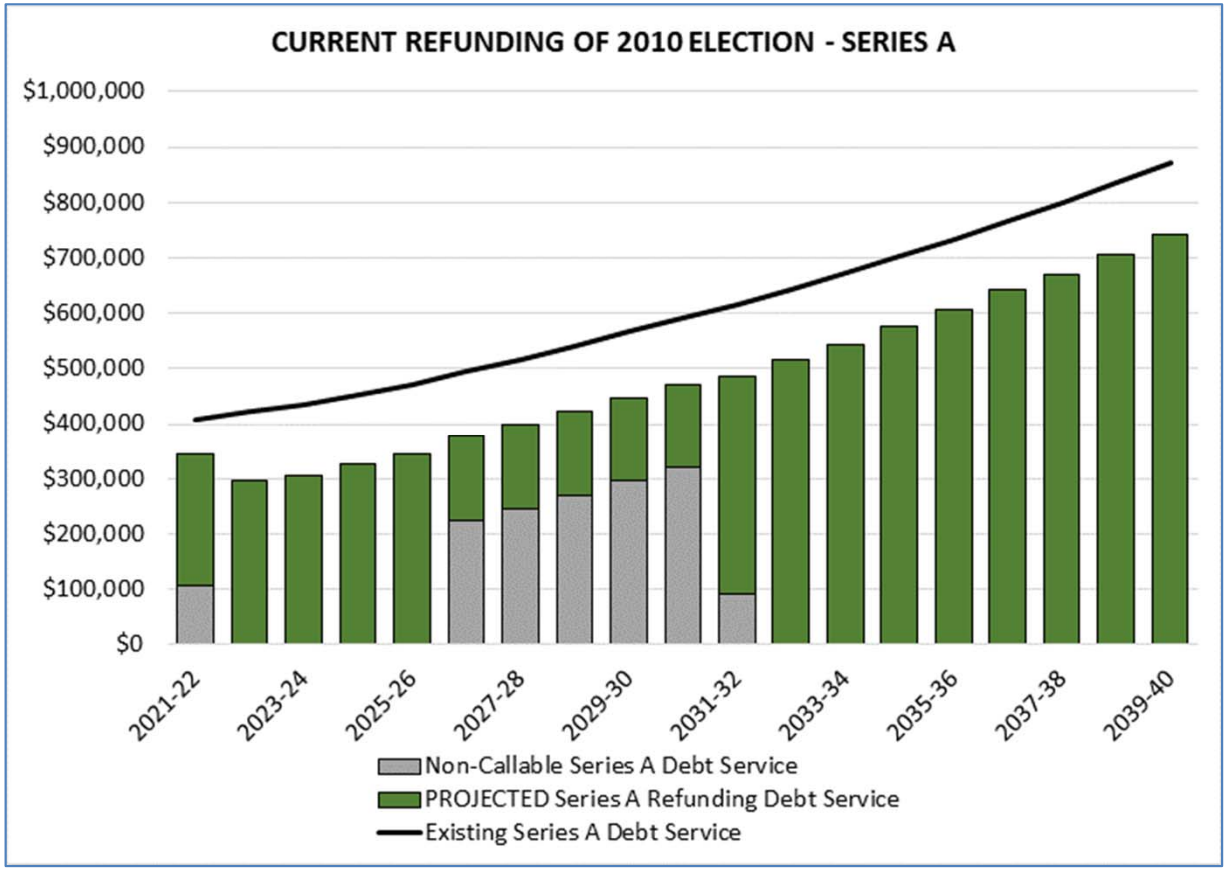


Bond Refunding & Market Dynamics

- Traditionally, public entities issue “tax-exempt” bonds to facilitate public infrastructure projects, such as school improvements
- The ability to utilize tax-exempt bonds, which typically carry lower interest rates than “taxable” bonds, is granted by the Federal government to encourage public projects
- However, under current Federal requirements, refunding of prior debt can only be conducted with tax-exempt bonds if the redemption will occur within 90 days of issuance – commonly referred to as a “current” refunding
- If the issuance of refunding bonds occurs more than 90 days prior to the redemption date, use of tax-exempt bonds is precluded and taxable bonds must be utilized to conduct an “advance” refunding
- Prior to 2018, public entities *were* allowed one tax-exempt refunding of previously issued bonds on an advance basis; however, this ability was removed by tax reform legislation in late 2017
- Currently, interest rate markets are experiencing a unique situation where investor demand is so high for bonds that absolute rates are near record lows and the difference (or “spread”) between taxable and tax-exempt interest rates is much smaller than normal
- This unique market dynamic presents an opportunity to use taxable bonds for advanced refunding of prior debt to generate savings comparable to a current refunding under more normal market conditions

Refunding of Series A GO Bonds

- With redemption now allowable within 90 days, the 2010 Election, Series A GO Bonds can be refunded on a current basis utilizing tax-exempt refunding bonds
- Under current market conditions, refinancing Series A is projected to reduce repayments by over $2 million in total, reducing tax requirements through 2040



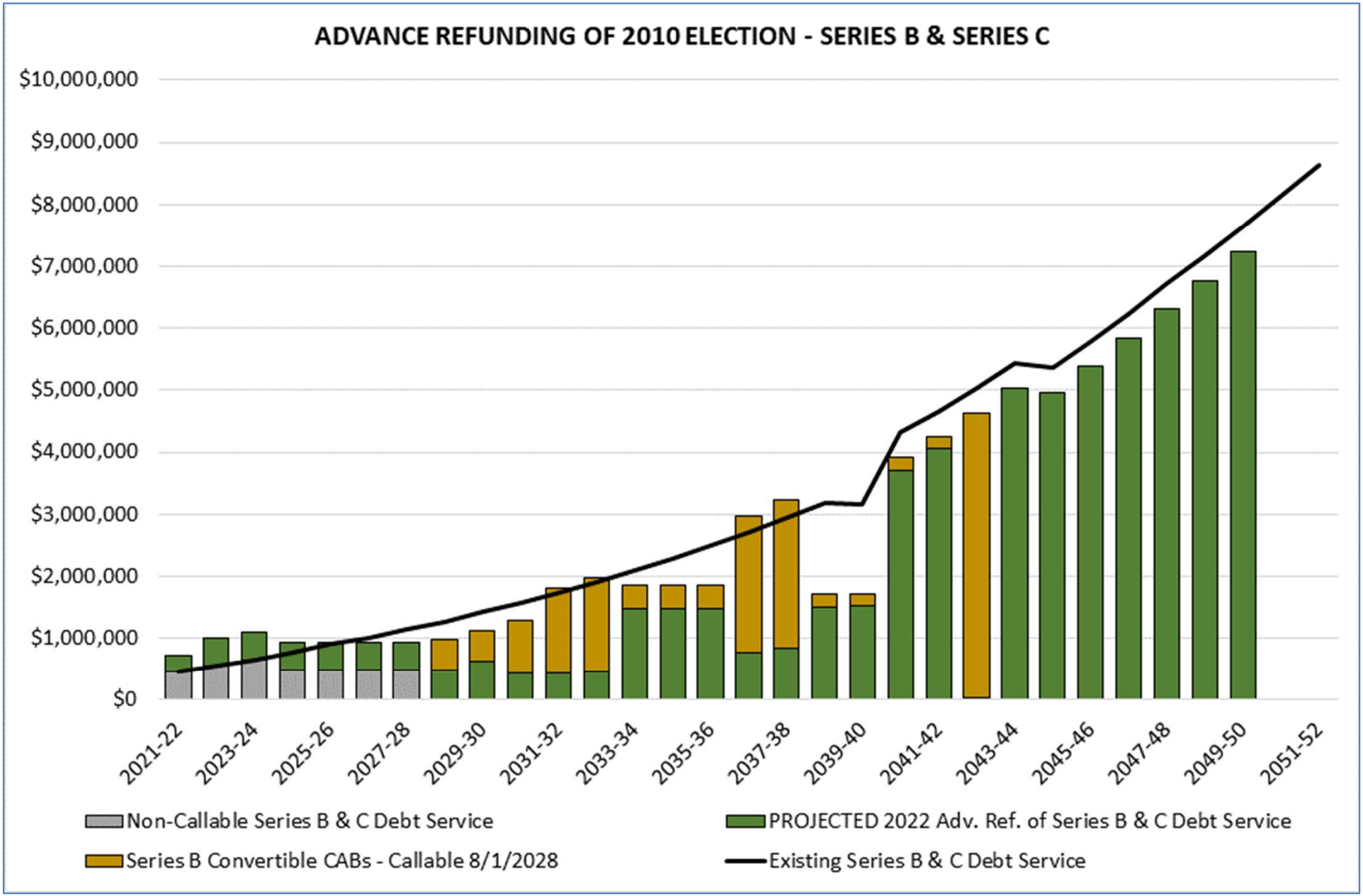
- Assuming modest tax base growth, the average homeowner is projected to realize savings of $235 with an average annual tax rate reduction of $2.46 through 2040

Refunding of Series A GO Bonds	
Refunded Principal	$ 5,585,000
Refunding Principal	$ 5,175,000
Refunding Bond TIC	2.36%
Repayment Ratio	1.45 to 1
Gross Savings	$ 2,319,043
NPV Savings %	32.76%

Refunding of Series B & C GO Bonds

- Under current market conditions, the advance refunding of portions of Series B and C GO Bonds can reduce repayment requirements by over $20 million, saving taxpayers a similar amount in total
- Given low current interest rates, it appears to make economic sense to refinance portions of the Series B and Series C GO Bonds redeemable on August 1, 2023, and August 1, 2024, respectively
- Refinancing of Series B and Series C would be conducted on an advance basis utilizing taxable current interest and capital appreciation bonds
- With tax base growth due to new development, the refunding of Series B and Series C can utilize a higher percentage of lower cost current interest bonds
- Projected tax base growth appears sufficient to reduce the overall repayment term for existing GO Bonds by a few years, further enhancing savings by using shorter duration refunding bonds which carry lower interest rates
- While the District could wait to refinance Series B and Series C on their respective redemption dates, our analysis indicates that a modest increase in interest rates of less than 1.0% would result in savings no better than currently available
- Portions of the Series B and Series C GO Bonds not refinanced now will likely make economic sense to refund in the future to further enhance and smooth-out taxpayer savings

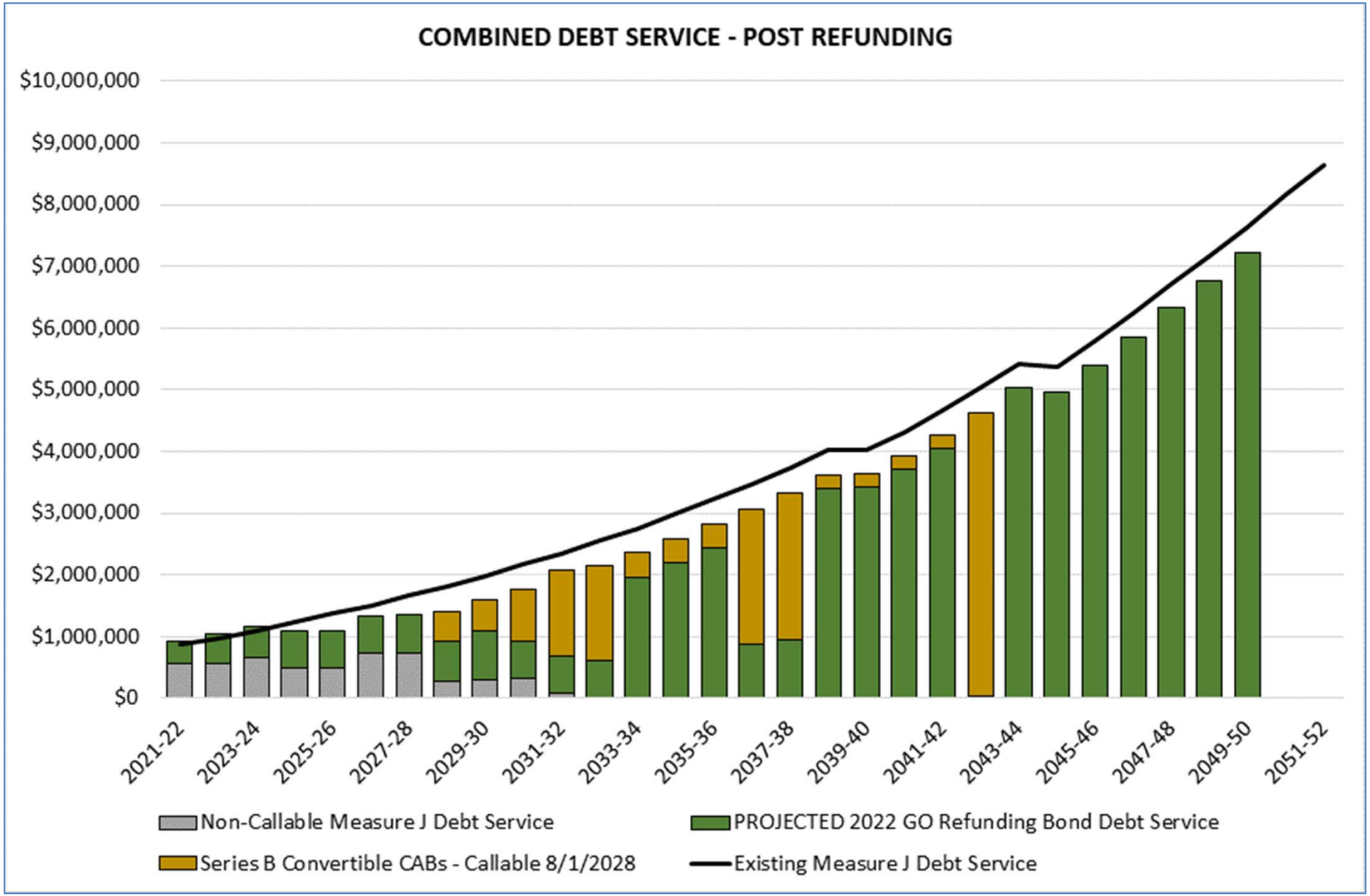
PROJECTED Measure "J" REFINANCING RESULTS



Refunding Plan of Finance

- By combining the refinancing of Measure “J” GO Bonds callable through August 1, 2024, total savings can be enhanced to total in excess of $25 million
- Combining the refunding of all economically viable prior series of GO Bonds allows for:
  - Better management of savings across series to produce a more level lowering of repayment requirements
  - Reduction of issuance-related costs
  - Reduced impacts on staff workloads
- The average homeowner is projected to save a total in excess of $1,600, with typical tax rates reduced by an average of $5 per $100,000 of taxable value per year through 2050 and elimination of repayment requirements in 2051 and 2052
- The only constraints on achieving even higher savings levels are considerations of maintaining the voter-estimated tax rate of $23.03 per $100,000 of assessed property value AND repayment requirements for Series B GO Bonds (which are not redeemable until 2028)
- Review of projected new development may allow for further optimization of the proposed 2022 GO Refunding Bonds to allow for more rapid repayment and additional savings to taxpayers

PROJECTED MESASURE J REFNANCING RESULTS

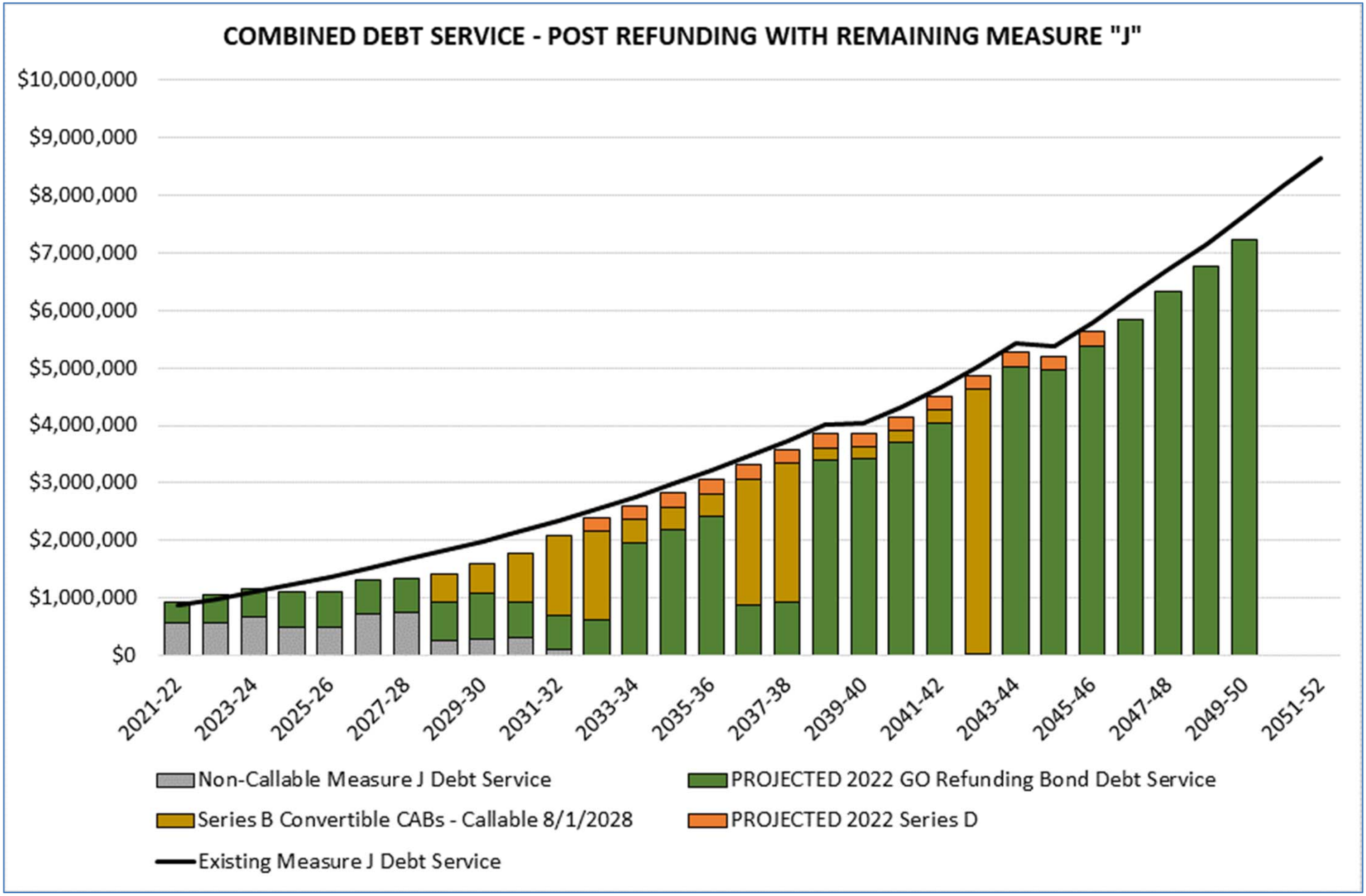


Remaining Measure “J” Bonds

Measure "J" Remaining Balance

- The District still has $2.1 million in authorized but unissued GO Bonds under Measure "J" which can provide additional funding for voter-approved projects
- Proceeds of the remaining Measure "J" GO Bonds can meet anticipated routine restricted maintenance set-aside requirements, freeing up resources for other operational needs or capital projects
- With the projected additional tax capacity created by refinancing prior bonds, saving taxpayers over $25 million, the District can efficiently access the remaining Measure "J" balance with repayments totaling an estimated $3.36 million
- Depending on projected tax base growth, it might be viable to access the remaining balance using a combination of current interest and capital appreciation bonds
- Eastshore recommends seeking to access the balance of Measure "J" in combination with the refinancing of prior GO Bonds using tax-exempt CABs
- Under current market conditions, utilizing CABs to access remaining Measure "J" authorization can be done with a repayment ration of less than 1.85 to 1 – a lower ratio than all prior GO Bond issuances of the District
- Utilizing CABs will also minimize near-term tax rate impacts as additional development occurs, spreading repayment over a larger base – but will require meeting certain AB 182 requirements

PROJECTED MESASURE J —POST REFINANCING WITH NEW MONEY



Issuance Process

Proposed Timeline

Proposed 2022 GO Bonds Timeline	
Date	**Activity**
10/27/2021	Circulate RFP for Underwriting Services
11/3/2021	Due Date for Underwriter RFP response
11/9/2021	Board approval of Underwriter selection
12/14/2021	Present information on GO Refunding and 2010 Election authorization issuance opportunity to Board, and provide AB 182 Disclosures
12/21/2021	Financial Advisor conducts conversations with County agencies to discuss refinancing of GO bonds and issuance of remaining 2010 Election authorization
12/21/2021	Rating Agency Conference Call - Time TBD
1/11/2022	Board approves resolution authorizing GO Refunding Bond issuance and 'as to form' documents
1/11/2022	Board approves resolution authorizing issuance of remaining 2010 Election authorized GO Bonds and 'as to form' documents
1/13/2022	Rating Due from Rating Agencies
1/18/2022	Post Preliminary Office Statement
2/1/2022	Conduct bond pricing - Assuming successful completion, District and Underwriter execute Bond Purchase Agreement, memorializing interest rates and terms of GO Bonds - Time TBD
2/15/2022	Close - Bond proceeds deposited into escrow and project fund

Issuance Process for Any Bonds

- Whatever combination of options the Board decides to proceed with, the issuance process will be similar to any other bond sale
- Eastshore has recommended pursuing a negotiated sale due to the potential complexity of the transaction and smaller maturities in certain years
- Fundamental steps for a bond issuance include:
  - Obtaining legal authorization through Board action
  - Completing the credit review process
  - Preparation of legal documentation
  - Setting of interest rates through negotiations
  - Completion of legal documents, and receipt and transfer of proceeds required to redeem prior bonds
- Should the District opt to access the remaining balance of Measure “J” utilizing CABs, AB 182 will require that the resolution authorizing issuance be approved at a Board Meeting immediately following the Board Meeting at which information on the issuance of CABs is provided

AB 182 Information

- In addition to placing limitation on the allowable uses of CABs by school districts, AB 182 also adds required disclosures to be presented at an informational meeting immediately preceding action on a resolution to authorize issuance of CABs
- Such disclosures apply only to the issuance of bonds for new funding and do not apply to the refinancing of existing bonds, even if such refinancing is conducted utilizing CABs
- To ensure that the Board fully understands the potential impacts of utilizing CABs, AB 182 requires disclosure of:
  - The CABs term (or duration until maturity): **up to 25 years**
  - The CAB repayment ratio: **1.85 to 1 (or less)**
  - Assessed Value growth assumption: **6.4% to 2.5% per year** **(to be revised with new development analysis)**
  - Total projected CABs cost: **$3,360,000** **assuming full $2.19 million issuance**
  - Comparison of the cost of CABs to CIBs: **See following slide**
  - Reason for the use of CABs: **With development occurring in the future, current tax rate capacities are limited and cannot accommodate current interest payments at this time**
  - A copy of the UW G-17 engagement letter: **included in the agenda item supporting documents**

AB 182 —COMPARISON OF COSTS
CURRENT INTEREST BOND TO CAPITAL APPRECIATION BOND

	SAMPLE 10-YEAR CURRENT INTEREST BOND			
August 1,	Principal	Coupon*	Interest	Debt Service
2022	$ 200,000	3.00%	$ 44,671	$ 244,671
2023	165,000	3.00%	77,750	242,750
2024	170,000	4.00%	72,800	242,800
2025	180,000	4.00%	66,000	246,000
2026	185,000	4.00%	58,800	243,800
2027	195,000	4.00%	51,400	246,400
2028	200,000	4.00%	43,600	243,600
2029	210,000	4.00%	35,600	245,600
2030	220,000	4.00%	27,200	247,200
2031	225,000	4.00%	18,400	243,400
2032	235,000	4.00%	9,400	244,400
	$ 2,185,000		**$ 505,621**	**$ 2,690,621**
Total Principal Amount				**$ 2,185,000**
Repayment Ratio				**1.23 to 1**

	PROJECTED CAPITAL APPRECIATION BOND - SERIES D			
August 1,	Principal	Coupon*	Interest	Debt Service
2033	$ 189,130	0.00%	$ 50,870	$ 240,000
2034	183,658	0.00%	56,342	240,000
2035	178,099	0.00%	61,901	240,000
2036	172,469	0.00%	67,531	240,000
2037	166,531	0.00%	73,469	240,000
2038	161,858	0.00%	78,142	240,000
2039	157,224	0.00%	82,776	240,000
2040	152,633	0.00%	87,367	240,000
2041	148,087	0.00%	91,913	240,000
2042	143,592	0.00%	96,408	240,000
2043	139,152	0.00%	100,848	240,000
2044	134,767	0.00%	105,233	240,000
2045	130,445	0.00%	109,555	240,000
2046	126,494	0.00%	113,506	240,000
	$ 2,184,139		**$ 1,175,861**	**$ 3,360,000**
Total Principal Amount				**$ 2,184,139**
Repayment Ratio				**1.54 to 1**

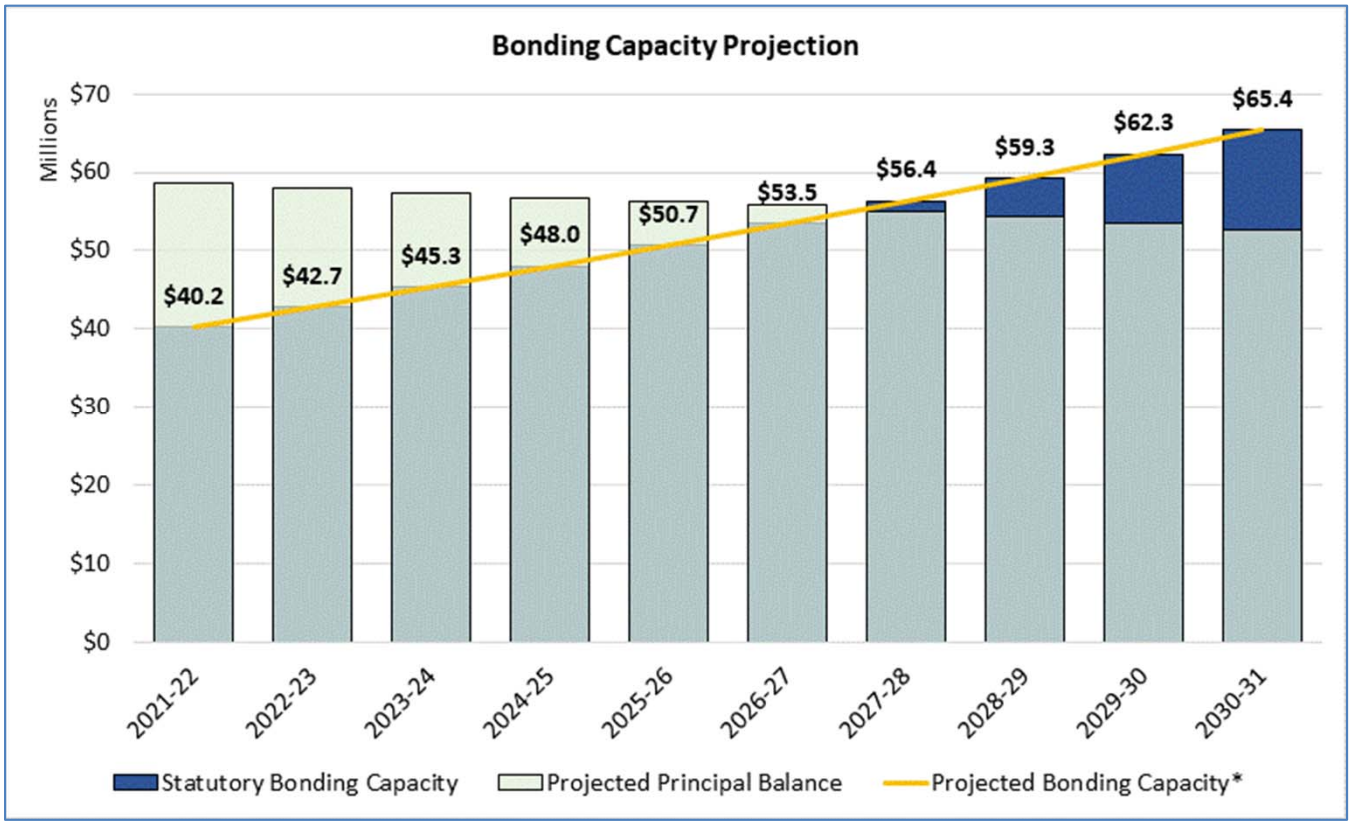
- As compared to a projected 10-Year current interest bond issuance of similar principal amount assuming current market interest rates, the balance of Measure “J” could be accessed at a total cost of $2.69 million if adequate tax rate capacity were available
- Based on projected 2022 Series D capital appreciation bond debt service raising the remaining balance of Measure J, it would cost $3.36 million, approximately $670,000 more than if it were viable to issue current interest bonds

Bonding Capacity

- As a non-unified district, Jefferson is subject to the statutory debt limit of 1.25% of AV for GO Bonds
- As tax base growth occurs and prior bonds are repaid, the bonding capacity of the District will typically grow
- Under the applicable code sections, CABs are accounted for at the issuance par amount, not the maturity value
- However, upon redemption, the payoff amount for CABs includes interest compounded through the redemption date, requiring the principal amount of a CAB refunding to be somewhat larger than the original issue principal amount
- Because bonding capacity limits do not differentiate between originally issued and refunding bonds, the increase in principal resulting from the refinancing of CABs will reduce the net available bonding capacity of the District
- It should be noted that this is a common occurrence and, as such, CDE will generally support SBE approval of waivers of bonding capacity limits
- Such a waiver would not be needed until the next time at which the District might consider the issuance of GO Bonds to raise additional funding

CURRENT AND PROJECTED BONDING CAPACITY

Statutory Bonding Capacity - December 1, 2021		
Total Assessed Value	$	3,214,199,305
Bond Capacity Limit %		1.25%
Gross Bonding Capacity	$	40,177,491
Less: Outstanding Bonds		31,577,745
Available Bond Capacity	$	8,599,746
% of Capacity Limit		0.98%



*Assumes full refunding and issuance of remaining Measure "J" balance with average assessed valuation growth of approx. 5.6% during the period reflected.

Questions?