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2017 Tax Cuts & Jobs Act Summary & Other 2017 Legislation Impacting Facilities Financing for California K-12 School Districts

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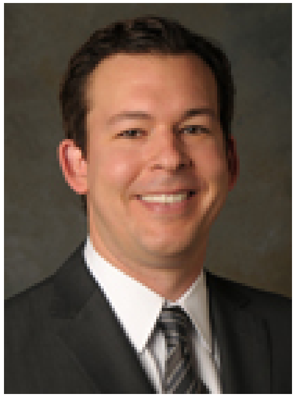
Introduction to Presenters



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2017 Tax Cuts and Jobs Act Bill Summary and other 2017 California Legislation

Tax Reform's Potential Impact on Municipal Market

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- **Both House and Senate passed different versions of the bill in early December, budget conferences made revisions in mid-December, and President Trump signed on December 22, 2017. These changes take effect January 1, 2018:**

Provision	Description	Impact on Municipal Issuers and Market
Individual Income Tax Rates	Lowers tax rate in seven income brackets to 10-37%	May reduce attractiveness of tax-exempt bonds
Reduction of Property Taxes & State and Local Tax Deduction (SALT)	$10,000 cap for combination of property, income and sales tax deductions	May induce investors to seek more tax-exempt bonds
Corporate Tax Rate	Reduces to 21%	May lower attractiveness of tax-exempt bonds for corporations and insurance companies
Tax Credit Bonds	Eliminates ability to issue QZABs, CREBs, QSCBs, BABs, and other tax credit bonds	No changes to subsidized payments for bonds issued before December 31, 2017; may reduce incentive to fund energy efficiency and other projects
Advance Refundings	Eliminates tax-exempt advance refundings	Limits issuers to current refundings; may reducefeasibility of refundings and encourage use of forward delivery or other structuring options
Fiscal Impact	Estimated to generate $1.5 trillion deficit over the next decade	Deficit of more than $150 billion in any year may trigger additional sequestration of federal subsidies for BABs, CREBs and similar tax credit bonds; may increase Treasury borrowing needs which may increase bond interest rates

Tax Reform's Potential Impact on Municipal Market

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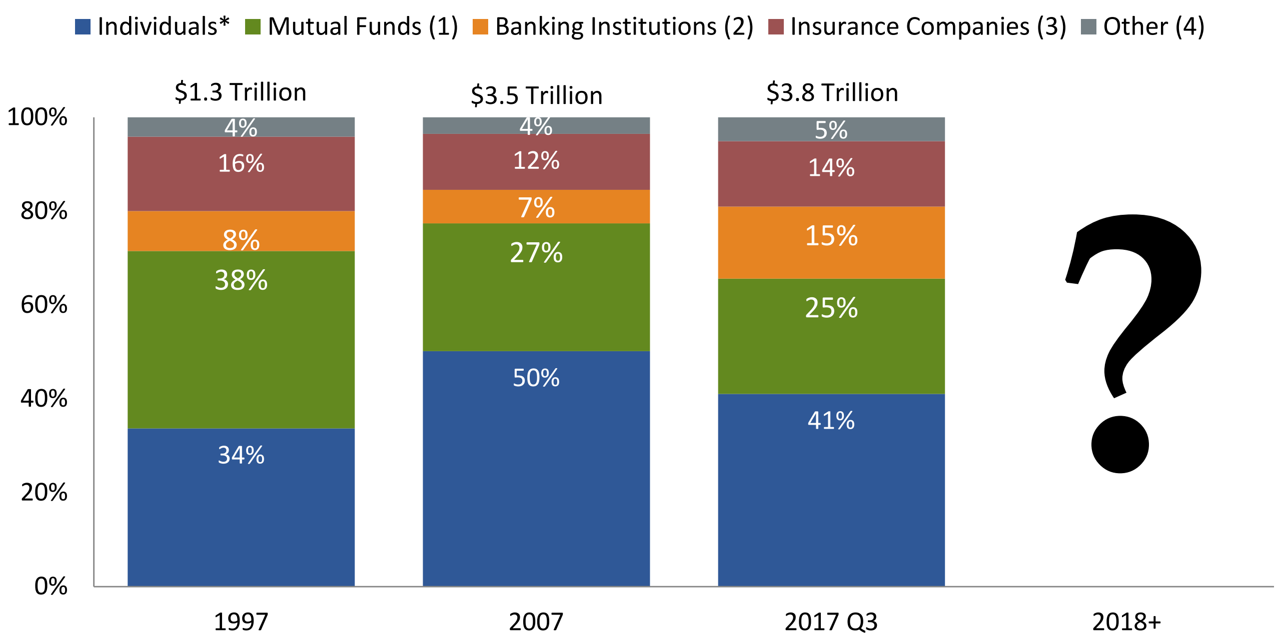
- **2018 bond issuance volume is expected to be 20% - 25% lower in the aftermath of significant Q4 2017 issuance coupled with elimination of advance refundings and tax credit bonds**
- **The bill does not cap or repeal municipal bond exemption, remaining one of the few tax-advantaged vehicles available for taxpayers**
- **The reduction of corporate tax rate to 21% will likely reduce the appetite of bank portfolios and insurance companies for tax-exempt municipals**

Changing Landscape of Municipal Bond Investors

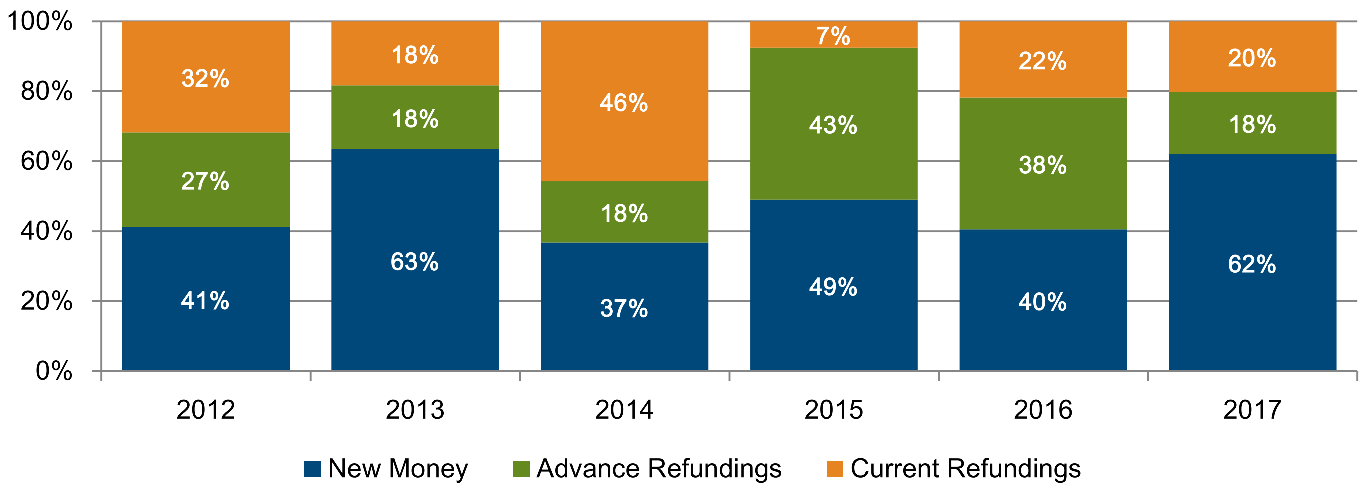


Source: SIFMA and the Federal Reserve System
(1) Includes mutual funds, money market funds, closed-end funds and exchange traded funds.
(2) Includes U.S. chartered depository institutions, foreign banking offices in the U.S., banks in U.S. affiliated areas, credit unions, and broker dealers.
(3) Includes property-casualty and life insurance companies.
(4) Includes nonfinancial corporate business, nonfinancial non-corporate business, state and local governments and retirement funds, government-sponsored enterprises and foreign holders.
* Household holdings is revised up by about $840 billion, on average, from 2004 forward.

Tax Reform's Potential Impact on CA K-12 School Districts

- **The limitation to $10,000 of the State and Local Government Tax Deduction and/or property tax deduction cap and the mortgage interest deduction cap ($750,000 max mortgage) could put negative pressure on California local taxpayers and impact school districts' ability to pass local bond measures and parcel taxes**
- **The elimination of the tax credit bond programs increase the cost of borrowing for California school district facilities (QZABs and CREBs have been a tool for solar & energy efficiency projects in recent years)**
- **The elimination of tax exempt advance refundings reduces the ability to restructure or refinance for savings on securities previously issued**
  - — May create new call provision structure for selling new bond issues (i.e. going from 10 year call provisions to shorter call protection, 7, or 5 years)

Share of California K-12 Bond Issues by Type



Source: Thomson Reuters.

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Assembly Bill 1194 (Dababneh)

- **Tax Rate Statements must now include:**
  - The best estimate of the average annual tax rate that would be required to be levied to fund the bond issue over the entire duration of the bond debt service
  - **The final fiscal year in which the tax is anticipated to be collected**
  - The best estimate of the highest tax rate that would be required to be levied to fund the bond issue, and an estimate of the year in which that rate will apply
  - The best estimate of the total debt service, including the principal and interest, that would be required to be repaid if all the bonds are issued and sold

Assembly Bill 195 (Obernolte)

- **75-Word Ballot Statement :**
  - Must include the amount of money to be raised annually and the rate and duration of the tax to be levied for the bonds
  - Must be a true and impartial synopsis of the purpose of the proposed measure
  - Must be in language that is neither argumentative nor likely to create prejudice for or against the measure

Unintended Consequences of AB 195

- **Potentially creates a security/credit and source of repayment issue for CA K-14 GO Bonds?**
  - Limited tax bonds?
  - Maximum tax rates?
  - Limitation on debt service?
  - Voter confusion?
  - Emergency legislation to correct various unintended consequences?
- **Requirement will eat into ballot statement by 20-24 words of the 75 words available**

Sample Ballot Statements
"To ________________________, shall ________ School District issue $________ in bonds, at legal interest rates, with ***estimated*** repayment amounts of $________ to $________ raised annually ***for so long as bonds are outstanding***, ***projected*** tax rates of __ to __ cents per $100 of assessed valuation, annual audits and citizens' oversight?"
"To ________________________, shall ________ School District issue $________ in bonds, at legal interest rates, with ***estimated*** repayment amounts averaging $________ raised annually for ***approximately*** __ years, ***projected*** tax rate of __ cents per $100 of assessed valuation, annual audits and citizens' oversight?"

Senate Bill 450 (Hertzberg)

- **Prior to authorization of the issuance of bonds with a term greater than 13 months the governing body of a public body shall obtain and disclose all of the following information in a meeting open to the public:**
  - The true interest cost of the bonds
  - The finance charges of the bonds (essentially costs of issuance)
  - The amount of proceeds received by the issuer less finance charges, reserves and capitalized interest
  - The total payment amount of the bonds (debt service + finance charges not paid with proceeds of the bonds), calculated to the final maturity date
- **Good faith estimates can be provided by the underwriter, financial adviser or private lender**
- **Can be provided as part of staff report or as an appendix to the issuance resolution**

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Senate Bill 1029 (Hertzberg)

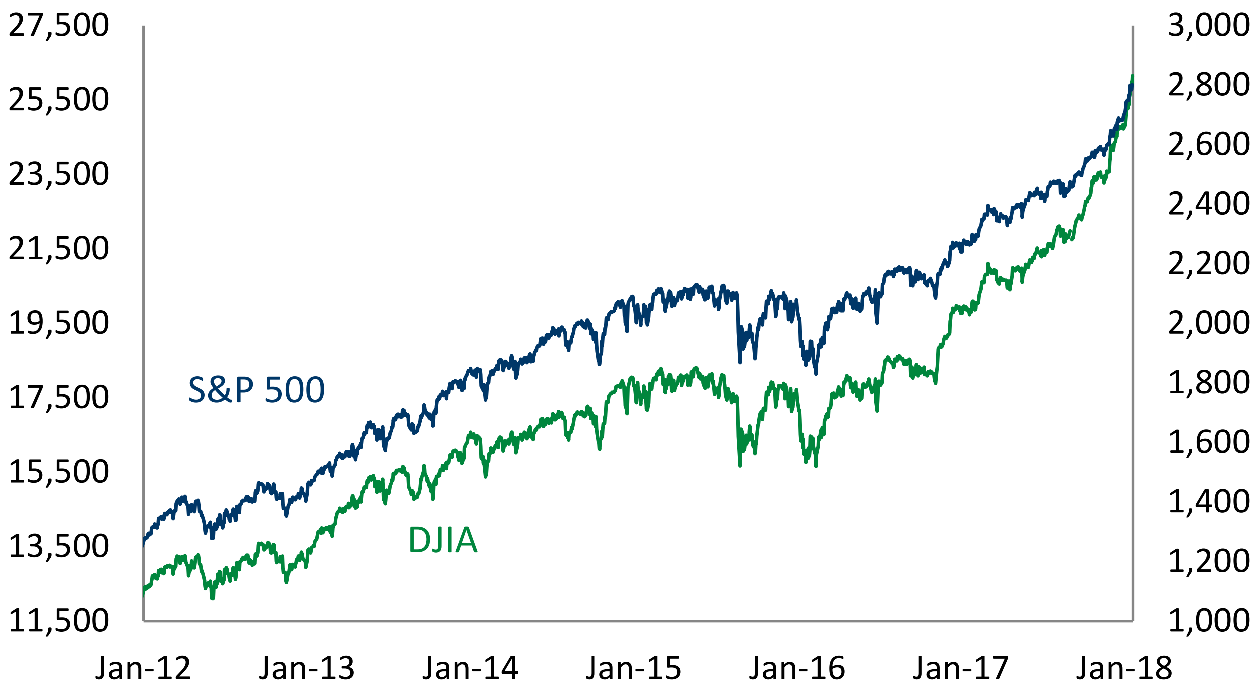
- **Establishes local debt policies and reporting requirements for California local government agencies**
- **Effective for all debt sold on or after January 21, 2017**
- **A report must be provided no later than 30 days prior to issuance to California Debt and Investment Advisory Commission (CDIAC) that the issuer has adopted a debt policy and that the bond issue complies with those debt policies**
- **Local debt policies should include the following**
  - The purposes for which debt proceeds may be used
  - The types of debt that may be used
  - The relationship of the debt to, and integration with, the issuer's capital improvement program or budget
  - Policy goals related to the issuer's planning goals and objectives
  - The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use
- **Annual report submitted to CDIAC no longer than 7 months after fiscal year reporting period is over (July 1-June 30)**
  - First reports due this year in January

Financial Markets Overview

Financial Markets Overview

- **Strong equity markets through Q4 2017**
  - Dow, S&P 500 and NASDAQ have consistently hit new records

Equity Market Performance



Source: US Treasury Department, Bloomberg, Thomson Reuters. As of 1/25/18

Financial Markets Overview

- **Federal Reserve expected to continue "gradual" pace of rate increases with economic recovery**
  - Federal Funds Rate has been raised four times since December 2016
    - Most recently from 1.25% to 1.50% at December 13, 2017 meeting
  - FOMC will implement its plan to unwind the Fed's balance sheet
  - Probability of a rate hike in January is 0% but has spiked up to 71% for the March meeting
    - Economic data such as Q3 GDP growth estimate of 3.2% supporting arguments for further rate hikes

Source: US Treasury Department, Bloomberg, Thomson Reuters. As of 1/25/18

Financial Markets Overview

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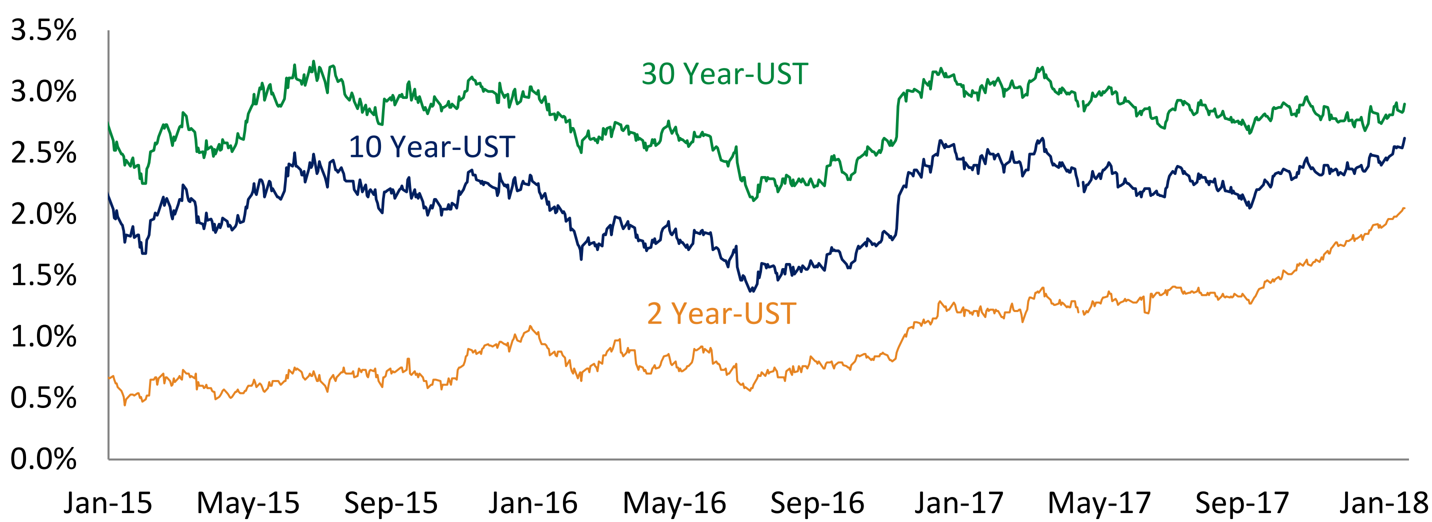
- **Volatile fixed income markets in 2017**
  - Sharp rise in rates following Trump election victory
  - Downward drift through first 10 months with geopolitical tensions and federal policy setbacks, and disappointing inflation data
  - Since September 2017 10-year Treasury yields were as low as 2.07% on 9/5/17, but have risen to 2.65% on 1/24/18

Treasury Market Yields



Source: US Treasury Department, Bloomberg, Thomson Reuters. As of 1/25/18

Municipal Market Overview

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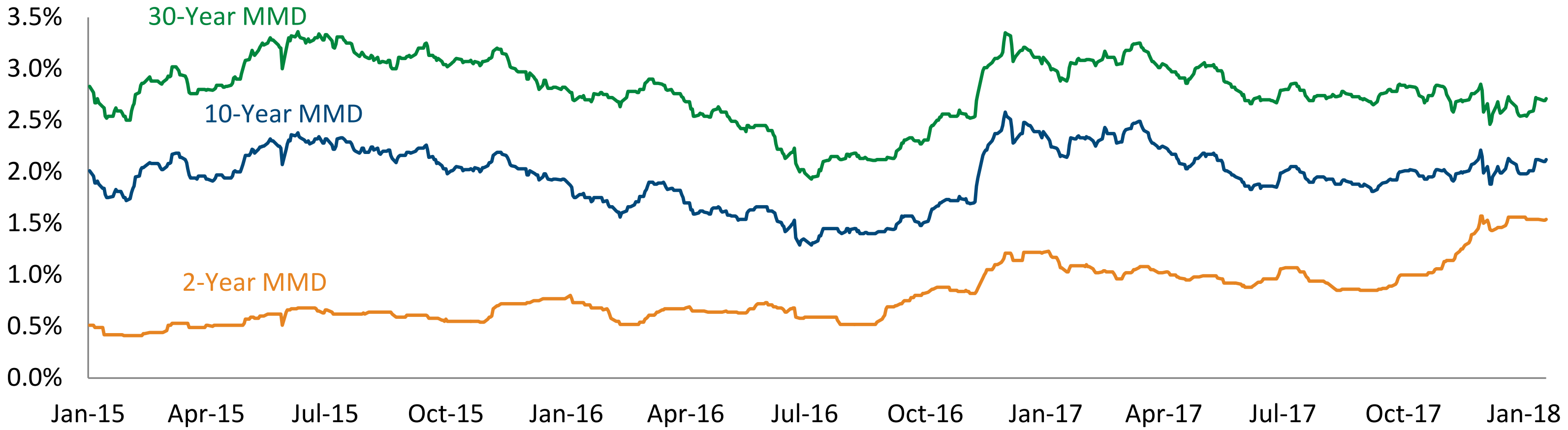
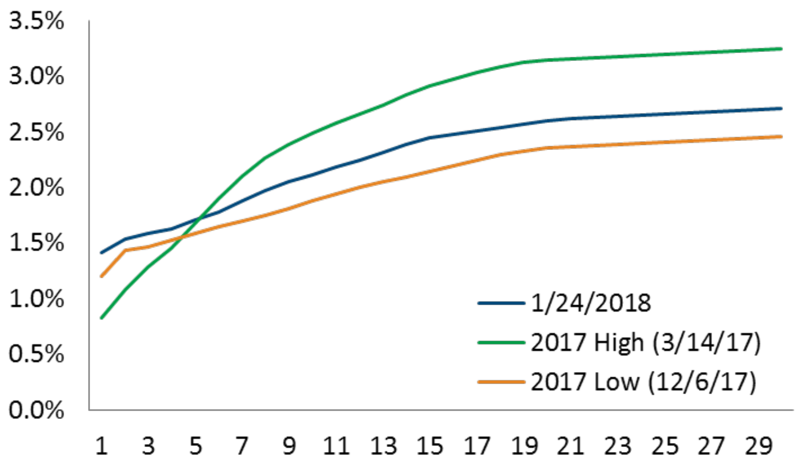
'AAA' Municipal Market Data Yields



MMD Yield Curve



Market Indices Snapshot

	1/24/2018	1/24/2017	Change on Year (bps)	3-Year Average	10-Year Average
US Treasury					
2 Year	2.08%	1.21%	87	0.94%	0.87%
10 Year	2.65%	2.47%	18	2.10%	2.63%
30 Year	2.93%	3.05%	(12)	2.78%	3.50%
AAA MMD					
2 Year	1.52%	1.09%	43	0.81%	0.75%
10 Year	2.20%	2.32%	(12)	1.96%	2.43%
30 Year	2.78%	3.05%	(27)	2.80%	3.60%
SIFMA 7DAY	1.23%	1.23%	0	0.35%	0.53%
MIG 1 - 1YR	1.40%	0.95%	45	0.60%	0.54%

Sources: Thomson Reuters. As of 1/25/18

Municipal Market Supply and Demand

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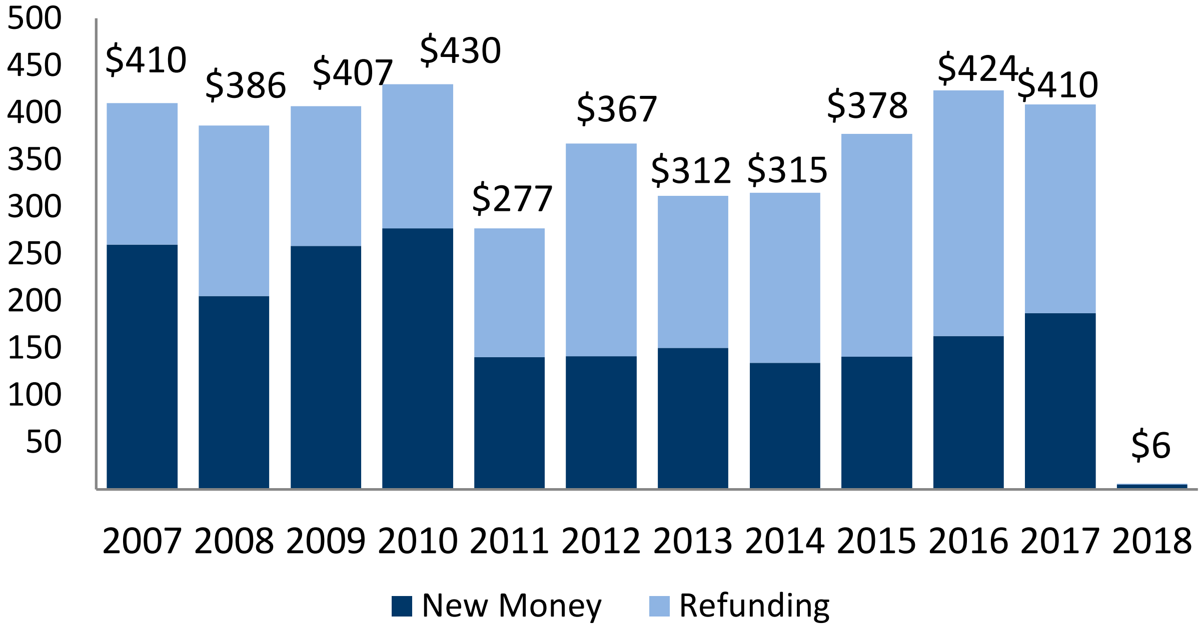
- **New negotiated calendar is expected to increase**
  - $3.4 billion supply estimated for the week of January 15th

Municipal Market Annual Volume

($ in Billions)

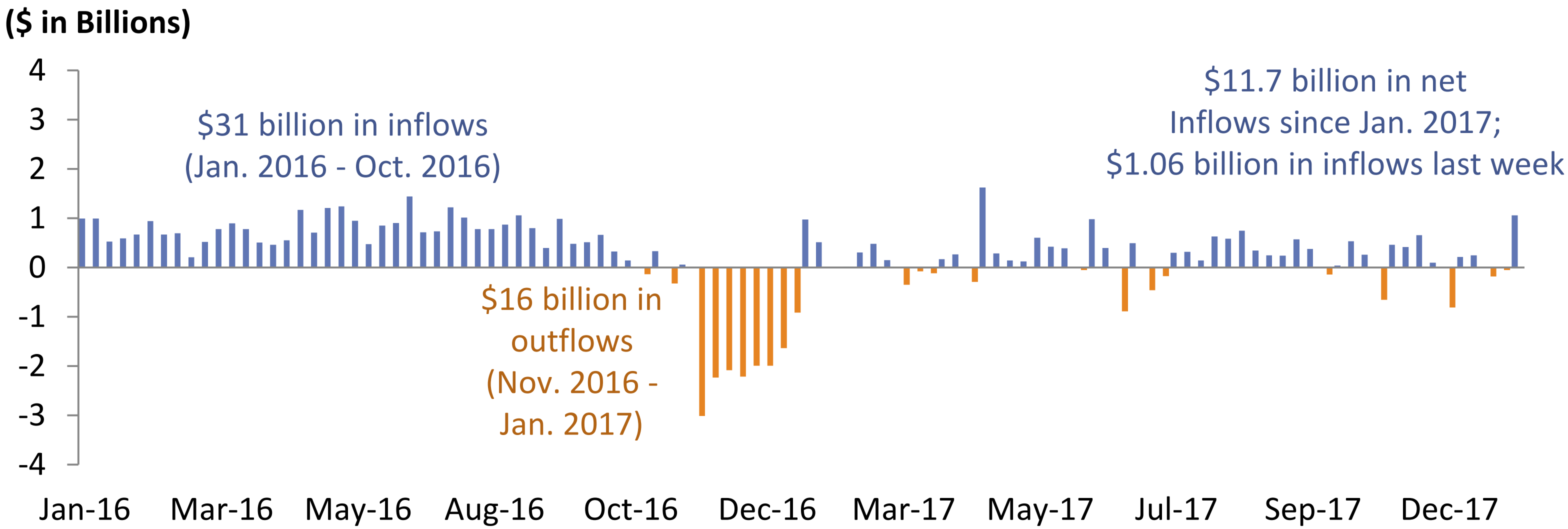


Sources: Thomson Reuters. As of 1/25/18

Municipal Market Supply and Demand

- Municipal bond funds have reported inflows totaling $1.1 billion the week of January 8th
- Demand for municipal bonds is strong
  - Nearly constant inflows since the beginning of 2017 netting $11.7 billion
  - Supply has been manageable, dominated by refundings

Weekly Municipal Mutual Fund Flows



Sources: Thomson Reuters, Investment Company Institute. As of 1/25/18

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Conclusion:
Questions and Discussion

Bio/Contact Information – John R. Baracy

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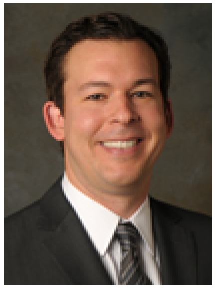

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John R. Baracy is a Managing Director in the Los Angeles public finance office of Stifel. Mr. Baracy began his public finance career in 1994 and has experience in all facets of the municipal finance business. He specializes in the management, structuring and sale of California K-12 Education and Community College District new money and refunding general obligation bonds, certificates of participation, tax credit bonds, Mello-Roos bonds and tax and revenue anticipation notes. In addition to managing the introduction of these financings into the market, Mr. Baracy performs debt capacity, general obligation bond tax rate and credit analyses, charter school finance analyses, California K-12 education finance legislation analyses, and evaluates the investment of bond proceeds. Throughout his career, he has completed more than 500 financings totaling over $9.25 billion.

Mr. Baracy graduated with a Bachelor of Science degree from Arizona State University with an emphasis in Finance. Mr. Baracy maintains his Series 7, 50 and 63 licenses with FINRA and frequently presents for California K-12 school district advocacy groups such as C.A.S.H., CASBO and CSBA. Mr. Baracy is currently on the C.A.S.H. Board of Directors.

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Carlos Villafuerte is a shareholder in Stradling's Public Law and Public Finance practice groups. Mr. Villafuerte's experience includes serving as bond counsel, disclosure counsel, and underwriter's counsel on all types of short and long-term financings for school districts and community college districts, including:

- Tax and revenue anticipation notes
- General obligation bonds
- Refinancings
- Leases and certificates of participation financings
- Revenue bonds
- Other post-employment benefit bonds

Mr. Villafuerte received his J.D. cum laude from Boston University and his Bachelors of Arts degree from University of California, Davis. He is a member of the American Bar Association, Bar Association of San Francisco, and National Association of Bond Lawyers.

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