RBC Capital Markets

MEMORANDUM

Date: August 17, 2020

To: Dave Montoya, Brett Parsons

From: Dan O'Connell

Re: Refinancing of Series 2012 and 2015 general obligation bonds

As the district's underwriter RBC has been monitoring a taxable refunding opportunity for the District's Series 2012 general obligation refunding bonds and Series 2015 general obligation bonds. As you may recall, the 2017 tax act eliminated issuers ability to advance refund bonds on a tax-exempt basis. While there has been some discussion at the federal level of reinstating tax-exempt refundings in another tax-bill, there is uncertainty whether or not there will be agreement between the House and Senate on this issue. Given the absolute low yields of taxable yields as well as the inability to advance refund on a tax-exempt basis, many issuers are realizing savings through a taxable advance refunding. In the case of this refunding, a taxable refunding is projected to have a true interest cost of 1.435%, while a tax-exempt refunding would be projected to have a true interest cost of 0.760%. A summary of the proposed refunding is below and a detailed analysis is attached.

- The proposed refunding would advance refund all callable maturities on a taxable basis.
- The 2012 and 2015 bonds are currently outstanding at a tax-exempt interest rate of 4.28%. At current market rates, the average interest rate on a proposed refunding would be approximately 1.38%.
- The lower interest rate generates the estimated savings of approximately $2.185 million in cash flow savings and approximately $2.096 million on a present value basis.
- The savings figure estimated above is after all cost of issuance is taken into account.
- At current rates, the taxable refunding would produce present value savings of or 5.77%. Normally, the Government Finance Officer's Association (GFOA) recommends a present value savings percentage at or above 3% present value savings in order to justify a refunding.
- In the past, the District has identified a savings percentage they feel comfortable with in order to start the refunding process. As long as that savings percentage is maintained, the district would refund the bonds. If rates rise and reduce the savings below a desired level, the District can abandon the process without incurring costs. Given the uncertainty in the market, RBC would recommend this strategy be utilized again.

This memo is to simply provide an overview of the potential refunding. RBC would be happy to discuss further in detail with staff or the board. Please feel free to reach out with questions or comments.

Sincerely,

Dan O'Connell
Managing Director
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