Jacksonville CUSD 117

Financing Discussion

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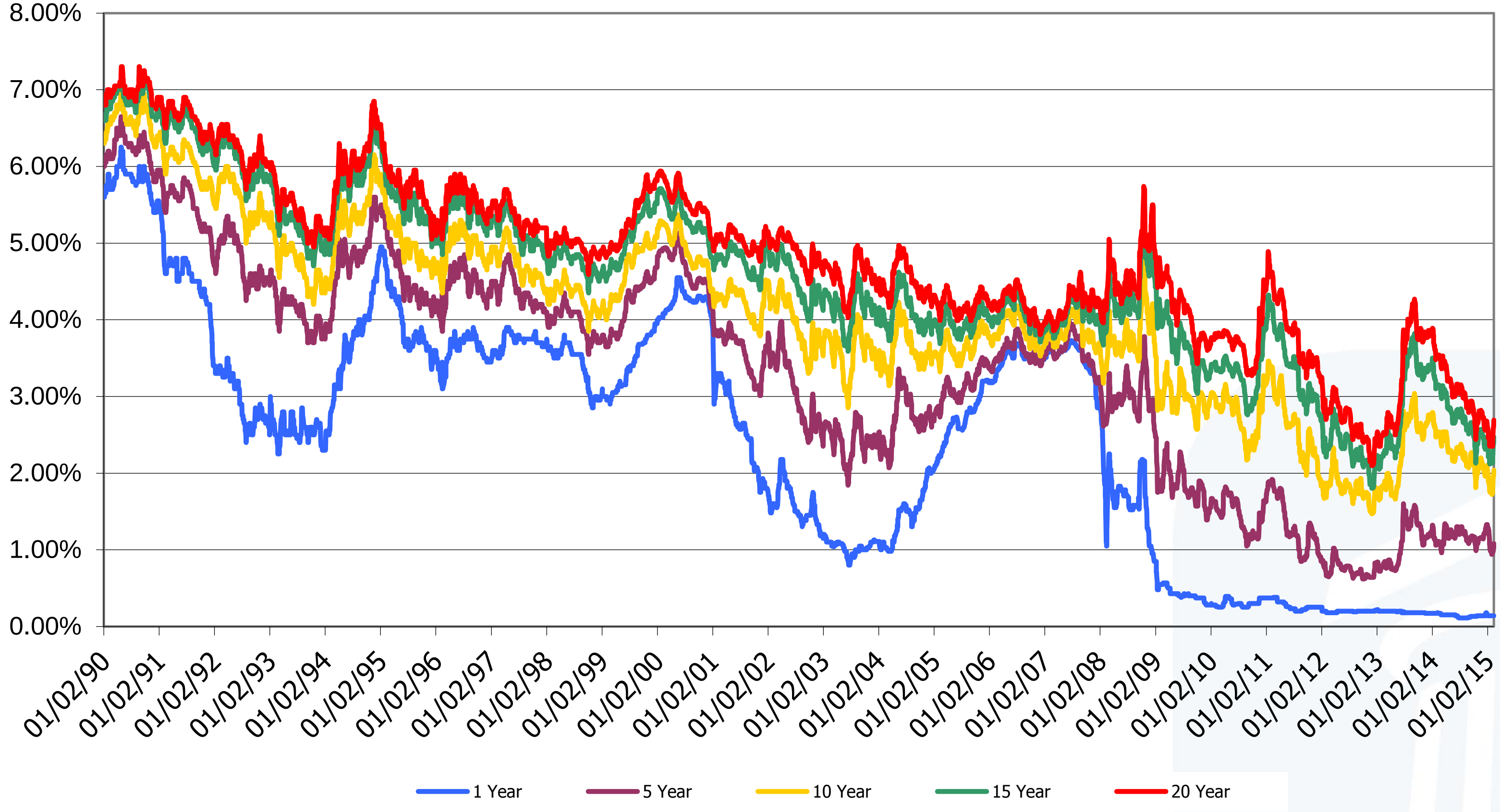
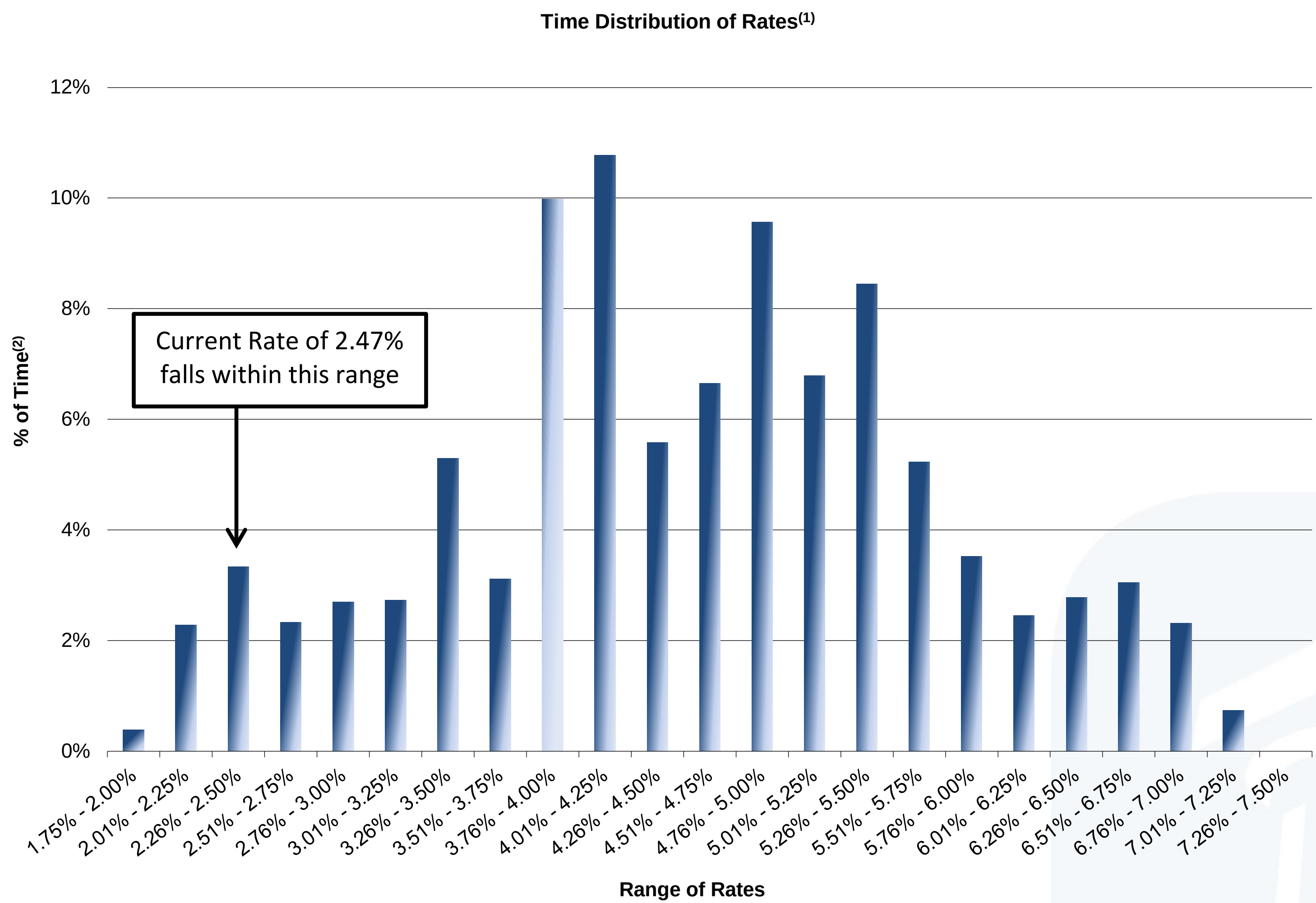
Financing Considerations

- Interest Rate Market/Risk
- Bank Qualified Benefit
- Construction Draw Schedule

HISTORICAL INTEREST RATE COMPARISON
MMD "AAA" Bond Index - Day to Day Comparison



Municipal Market Data as of February 11, 2015.

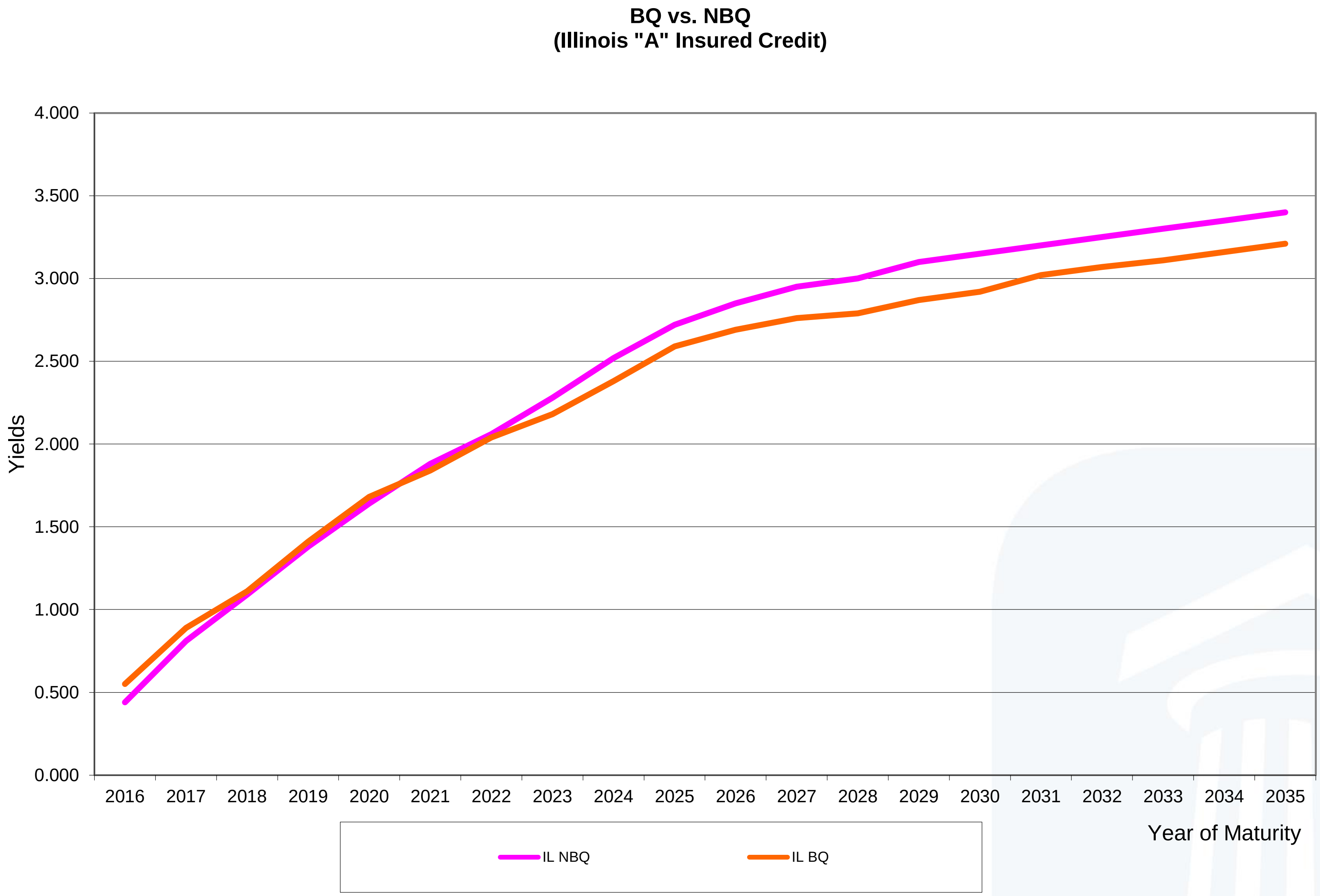


[1]Current Rate is the MMD 15-year rate as of 02/12/15.
[2]Data encompasses MMD 15-year rates between 01/02/90 and 02/12/15. Past performance does not guarantee future results.
Source: The Municipal Market Data "MMD" is a AAA municipal bond market index produced by TM3.

- Bonds are designated as Bank Qualified ("BQ") if the District does not expect to issue more than $10 million of tax-exempt securities in a single *calendar* year

- Allows a financial institution to deduct 80% of its interest expense allocable to the purchase of tax-exempt securities, essentially providing banks a double tax benefit

- Typically banks will buy the bonds at lower interest rates (currently estimated between 0.20% and 0.40%)



Based upon recent market activity as of February 2, 2015.

- The District's tax-exempt bond proceeds are subject to IRS rules

- For a tax-exempt financing, the District must have a reasonable expectation to spend proceeds within three years

- Based on the recently successful County School Facility Sales Tax, the estimated sales tax receipts to the District in the first year will be $2.2 million

- An independent consultant will need to prepare a feasibility study for the projected sales tax revenue

- With an annual sales tax growth rate of 1%, the estimated bond proceeds are as follows:

<u>All Bonds issued in 2015 (Non BQ)</u>

– 20-year maturity: $24.4 million
  - All-In True Interest Cost of 4.16%
  - Every 10 basis point increase lowers proceeds by $240,000

– 25-year maturity: $27.9 million
  - All-In True Interest Cost of 4.43%
  - Every 10 basis point increase lowers proceeds by $350,000

<u>BQ issue in 2015 and Non BQ issue in 2016</u>

– 20-year maturity: $25.1 million
  - All-In True Interest Cost of 3.99%

– 25-year maturity: $28.8 million
  - All-In True Interest Cost of 4.28%

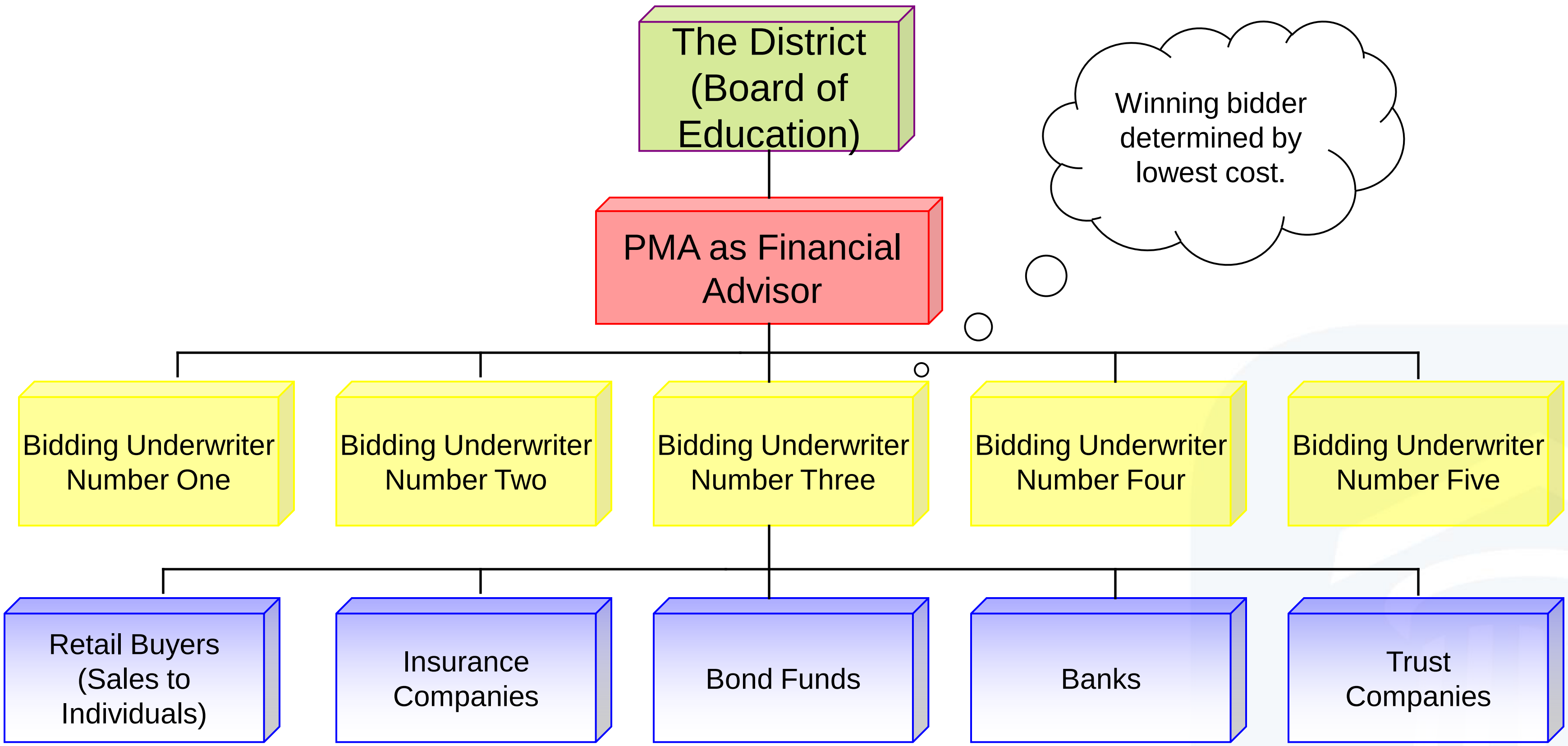
*Based on market conditions as of February 12, 2015

- If rates go up by 40 basis points (0.40%) between June 2015 and January 2016, the District's total borrowing cost will be less with a Non BQ sale of all of the bonds in 2015

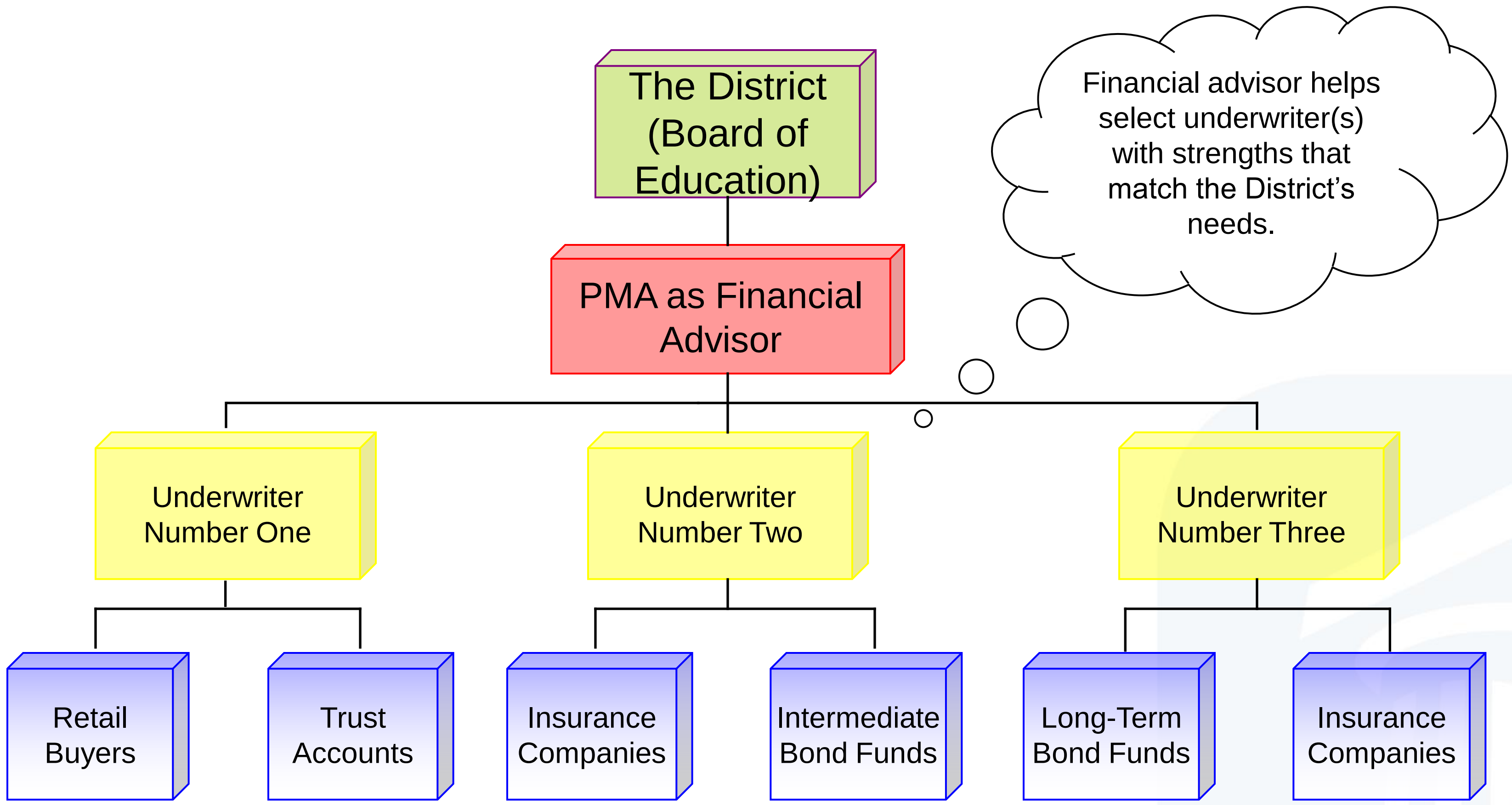
Method of Sale

- Traditionally, the two most common methods of sale are **competitive** and **negotiated**

- In consultation with a financial advisor, the District should determine which method of sale will achieve the lowest cost of borrowing


The District (Board of Education)
Winning bidder determined by lowest cost.
PMA as Financial Advisor
Bidding Underwriter Number One
Bidding Underwriter Number Two
Bidding Underwriter Number Three
Bidding Underwriter Number Four
Bidding Underwriter Number Five
Retail Buyers (Sales to Individuals)
Insurance Companies
Bond Funds
Banks
Trust Companies

- Bids for the bonds are submitted to the issuer at a specific time on a specific date.
- Bonds are awarded to the underwriter who offers the combined lowest interest rate and underwriting fee.
- Eliminates potential concern about the fairness of underwriter selection.
- PMA works with one of the online bidding platforms (eg: *MuniAuction and Parity*)
  - In a closed auction, bidders submit one bid
  - During an open auction process, bidders are notified of the ranking of their bids (i.e. “Leader,” “Cover,” 3rd, etc.) and have the opportunity to change and resubmit bids as many times as they would like during the allotted time period.


The District (Board of Education)
PMA as Financial Advisor
Financial advisor helps select underwriter(s) with strengths that match the District's needs.
Underwriter Number One
Underwriter Number Two
Underwriter Number Three
Retail Buyers
Trust Accounts
Insurance Companies
Intermediate Bond Funds
Long-Term Bond Funds
Insurance Companies

- The Underwriter is hired prior to the bond sale
- The Underwriter's fee is negotiated between the Issuer, Financial Advisor and the Underwriter
- The Underwriter's sales force know that they will have the bonds for sale
- Rates are negotiated based upon feedback from the underwriter at the time of sale or pricing
  - PMA oversees this process to ensure the District secures the lowest cost of financing possible

- Government Finance Officers Association (GFOA)
  - A voluntary association of public officials in the U.S. and Canada
  - 18 member Executive Board
  - Offices in Chicago and Washington D.C.
  - Several Standing Committees
  - Award for CAFRs and Budgets
  - www.gfoa.org

- GFOA Best Practices and Advisories
  - Contribute to improved government management and aims to promote and facilitate positive change
  - Approved by the GFOA Executive Board after careful development by the standing committees
  - Developed by drawing on the collective wisdom of more than 50 persons with extensive and diverse experience in public finance

- **A competitive sale is appropriate when:**
  - Issuer has a strong underlying credit rating at least in the "A" category
  - General obligation bonds or full faith obligations (e.g. alternate revenue bonds or debt certificates)
  - Structure does not include special features that would require extensive explanation to the market
  - Issue size is conducive to attracting investors

- **A negotiated sale is appropriate when:**
  - Issuer has a credit rating lower than "A"
  - Bond insurance is unavailable
  - Debt structure is complicated
  - Issuer wants input in how bonds are allocated among underwriting firms
  - Issuer wants to target retail investors

Source: Selecting and Managing the Method of Sale of State and Local Government Bonds (1994 and 2007) (DEBT), Government Finance Officers Association (Best Practice). Please see the following link: http://www.gfoa.org/index.php?option=com_content&task=view&id=1582

- PMA recommends that the District utilize a negotiated sale for its upcoming bond issue(s)

- PMA will prepare and distribute a Request For Proposal (RFP) for an underwriter on the District’s behalf

- Upon review of the submitted proposals PMA will recommend an underwriter(s) that will help the District achieve the lowest cost of financing (generate the highest amount of bond proceeds)

- The RFP will also ask about underwriters’ ability to sell bonds to retail (individual) investors

Conduit Issuer

- The District may benefit from the sale of its bonds through a conduit issuer
  - For negotiated sales only
- Either the Illinois Finance Authority (IFA) and the Western Illinois Economic Development Authority (WIEDA) may serve as a conduit issuer for the District
- For bonds issued through the IFA or WIEDA, the interest income earned by investors is exempt from both federal and state income taxes
  - When the District issues bonds on its own, investors enjoy only federal tax exemption
  - Financing through either the IFA or the WIEDA may generate additional bond proceeds
    - Need to determine the cost/benefit of fees paid versus the lower interest rate that may be achieved

- Before bonds may be sold through the IFA or WIEDA, the District must submit an application and receive approval from its Board
- In the RFP for underwriters, PMA will ask for a recommendation regarding the sale of bonds through a conduit issuer
  - Cost/benefit analysis
  - Conduit issuer recommendation

Financing Timetable

Consultant begins Feasibility Study	February 24
Board adopts resolution of intent to issue Alternate Revenue Bonds	March 18
Board President signs Order Calling a Public Hearing	March 18
Distribute RFP for underwriter	March 23
Notices of intent and hearing appear in local newspaper	March 25
Feasibility Study complete	April 1
Underwriter proposals due	April 15
Board holds Public Hearing at regular meeting	April 15

Rehearse credit rating presentation	May 13
Deliver rating presentation/hold due diligence call	May 19
Board Meeting - Board selects underwriter(s) - Board adopts parameters resolution	May 20
Receive credit rating	May 26
Bonds sold; delegates approve results	June 3
Bond issue closes; proceeds wired to the District	June 24

***If the District decides to issue bonds through a conduit issuer, between one and two months must be added to the timetable**

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