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A Hilltop Holdings Company.

Contacts

Jason Simmons
Senior Managing Director
8055 E Tufts Avenue, Suite 500
Denver, Colorado 80237
(303) 771-0217
jason.simmons@hilltopsecurities.com

Mattie Prodanovic
Senior Vice President
8055 E Tufts Avenue, Suite 500
Denver, Colorado 80237
(303) 248-2518
mattie.prodanovic@hilltopsecurities.com

April 12, 2022

2022 General Obligation Refunding Bonds

Douglas County School District No. RE-1

2022 Refunding Bonds

Refunding Basics

- Municipal bonds are typically sold with a ten-year call option. This allows issuers to refund the bonds for interest rate savings at the call date.

- There are two primary types of refundings available to issuers which impact the tax status of the refunding bonds.
  - Current Refunding: A current refunding is one that is closed within 90 days of the call date. These bonds can be executed as tax-exempt.
  - Advance Refunding: An advance refunding is one that is closed prior to 90 days of the call date.
    - Prior to 2017, issuers could execute one advance refunding per original bond issue on a tax-exempt basis.
    - After tax reform was passed in 2017, it eliminated the ability for issuers to execute *any* advance refundings on a tax-exempt basis. All advance refundings must now be executed as taxable bonds.

- Many issuers have continued to advance refund bonds on a taxable basis while others have utilized other options to be able to advance refund bonds prior to the call date while maintaining the tax-exempt status. The time to the call date factors into the available options.

District Refunding Opportunities

- The District has one series of bonds that is currently callable and two series of bonds that are callable in December 2022.
  - The Series 2010 Bonds are currently callable as of December 15, 2021.
  - The Series 2012 and 2013 Bonds have a call date of December 15, 2022.
    - These bonds can be currently refunded any time after September 15, 2022.

- District staff and Hilltop have continually evaluated these refunding opportunities over the last two years.

- After continuing to analyze the refunding opportunity as well as the District's assessed value growth and bond redemption fund balance, Hilltop recommended the District pay off or defease the remaining 2010 Bonds rather than include them in a refunding since they are currently callable.

- Early in 2022, the District's finance team began evaluating a forward delivery for the refunding of the 2012 and 2013 Bonds versus waiting to execute a current refunding.
  - The forward delivery would allow the District to lock in interest rates in a rising interest rate environment.

Forward Refunding

- During a normal bond issuance, bonds are priced between one and four weeks prior to closing.

- In a forward delivery, the bonds are priced well in advance of the anticipated closing date. As an example, the bonds may be priced anywhere from two to twelve months prior to closing.
  - This is particularly attractive for the execution of current refundings in a rising interest rate environment.
  - Issuers can price refunding bonds prior to the 90-day window for a current refunding but close within the allowable window, which allows the bonds to be tax-exempt.

- Since the bonds are priced in advance of when a typical pricing would occur, issuers pay a higher interest rate for a forward refunding.
  - The forward premium is added to the interest rate and is reflective of the time from when the bonds are priced and when they will close.
  - This premium is currently estimated to be approximately 7 basis points (.07%) per month.

- Prior to execution of the forward refunding, the issuer's Municipal Advisor will complete an analysis to compare the forward premium, current market tone, and District savings goals.

Next Steps and Timing

- The District's finance team began working on this transaction early in 2022 with the intent of presenting an authorizing resolution to the Board at the April 26th meeting.
  - The timeline for the transaction is structured so that we are prepared to execute a forward delivery if it is in the best interest of the District or wait until August to price the bonds as a current refunding.

Date	Event
April 14	Fiscal Oversight Committee Meeting
April 18	Calls with Rating Agencies
April 26	**Board Meeting to Consider Bond Resolution**
April 29	Ratings Received
If Proceeding with Forward Delivery	
May 17	Price Bonds
May 26	Legal Close
September 20	Settlement and Delivery of Proceeds
December 15	Defeasance of 2012 and 2013 Bonds
If Proceeding with Standard Pricing Process	
August 1	Update Rating Agencies
August 23	Price Bonds
September 20	Closing and Delivery of Proceeds
December 15	Defeasance of 2012 and 2013 Bonds

Authorizing Resolution & Supporting Documents

- In order for the District to be able to issue the 2022 Refunding Bonds the Board of Education will need to pass a parameters resolution.
  - The parameters resolution will be considered for approval on April 26, 2022.
  - The resolution presented to the Board was prepared by the attorneys at Butler Snow and reviewed by all members of the District's finance team.

- This resolution includes:
  - Definitions of key terms;
  - Legal authorization to issue the Bonds;
  - *Not-to-exceed parameters* when issuing the Bonds;
  - Establishment of the tax levy for the Bonds;
  - Approval of substantially final documents; and
  - Additional legal items that are required in order to issue the bonds.

- Submitted along with the resolution are substantially final forms of the Registrar and Paying Agent Agreement, the Escrow Agreement, the Continuing Disclosure Certificate, the Preliminary Official Statement and the Bond Purchase Agreement.
  - In addition to these documents, the District will execute a Sale Certificate on the day of pricing which will include the final terms from the transaction.

Parameters

- The not-to-exceed parameters are in Section 5, Item B of the authorizing resolution.
  - The final pricing of the 2022 Refunding Bonds will not be set until the pricing date. This parameters resolution allows delegated officials of the District to finalize the sale on behalf of the District so long as it meets certain parameters.
    - The delegated officials are the President of the Board of Education, Superintendent, or Chief Financial Officer.

- The parameters in the resolution require that the District's 2022 Refunding Bonds will:
  - Not extend the final maturity of the 2012 and 2013 Bonds;
  - Have a par amount within the amount authorized at the elections approving the original issuances;
  - Not be callable (final maturity 2030);
  - Have a lower net effective interest rate lower than the bonds being refunded; and
  - Not cause the District to exceed its statutory debt limitations.

- Section 23 also identifies the intent for the District to defease and redeem the outstanding 2010 Bonds.

Estimated Savings

- Redemption of 2010 Bonds
  - The exact amount of savings recognized by the District from a prepayment of the 2010 Bonds will be determined when a prepayment date is finalized.
  - Assuming the 2010 Bonds are prepaid on June 15^{th}, the District will save $915,200 in total interest expense over the next four years.

- Refunding of 2012 and 2013 Bonds
  - Interest rates for the refunding bonds will be set at the time of pricing, which will determine the final savings statistics for the refunding.
  - Based on market rates as of April 5, 2022, plus a forward premium of 28 basis points (7 bps per month), the refunding generates $5.74 million of total cash flow savings. This is approximately $720,000 of debt service savings per year.
  - The refunding generates $5 million of net present value savings, or 5.37% of the refunded par amount.
    - The GFOA threshold is 3% NPV savings.

Market Update

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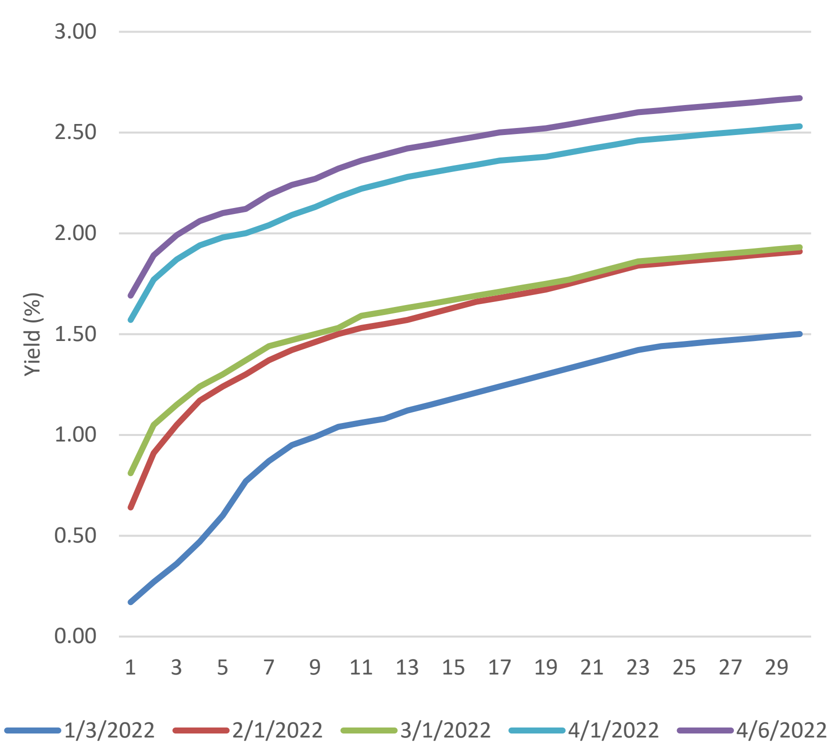
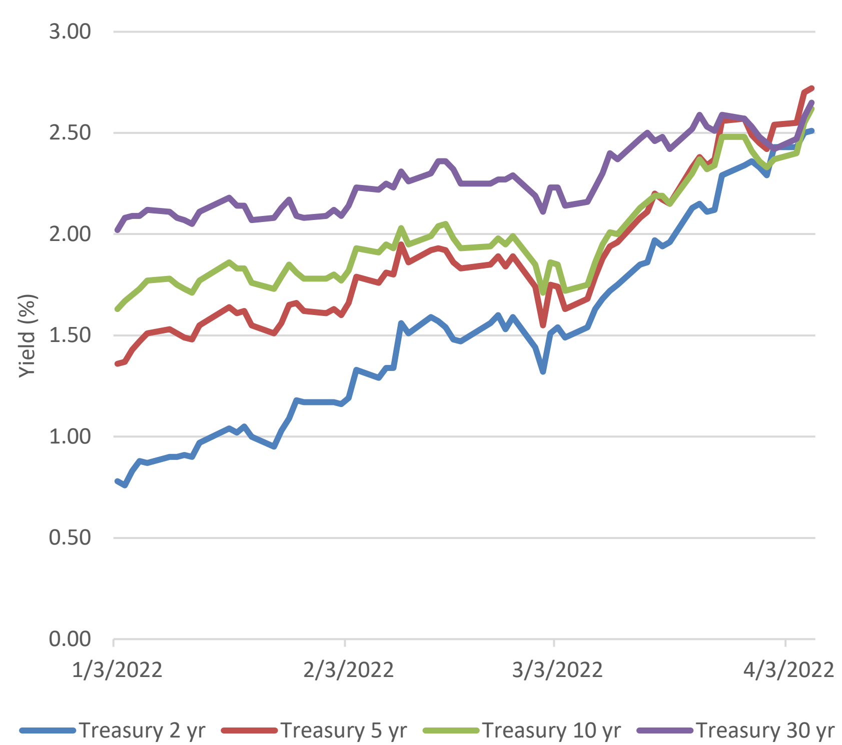
Market Movement in 2022

Sample MMD Curves Since January 2022



Treasury Yields Since January 2022

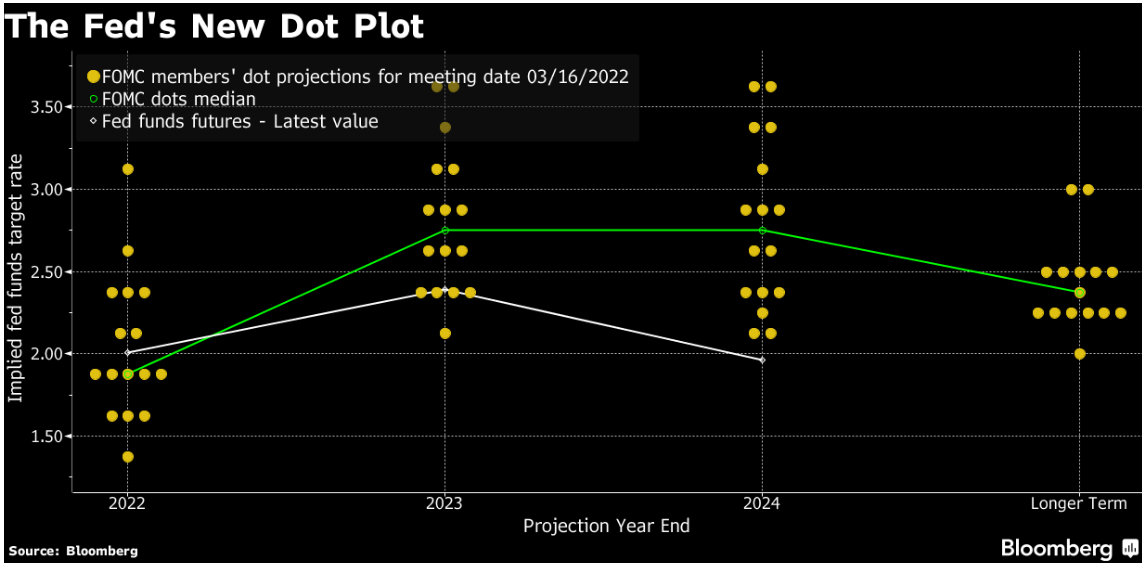


- What does this mean for issuers?
  - Build in flexible parameters or authorizing ordinances or resolutions.
  - Assume increase in rates for future capital programs.
  - Evaluate borrowing needs over next two years and timing of those issuances.

Source: Refinitiv Municipal Market Data

Expectations for 2022

- The dot plot released by the Federal Reserve after the March 2022 meeting indicates that officials expect to raise the fed funds rate six more times this year.
- During a speech made just after the March meeting, Fed Chairman Jay Powell indicated they could raise rates by more than 25 basis points per meeting.
  - Some Fed Presidents are in favor of "front-loading" rate hikes early this year to rein-in inflation and reassess later in the year.
- Supply chain issues caused by the war in Ukraine and COVID-related closures in China are expected to add inflationary pressure.
- The possibility of double-digit inflation in the coming months has become less far-fetched than thought earlier this year.
- These pressures all signal continued volatility in the markets and expectations for rates to continue to rise through this year.



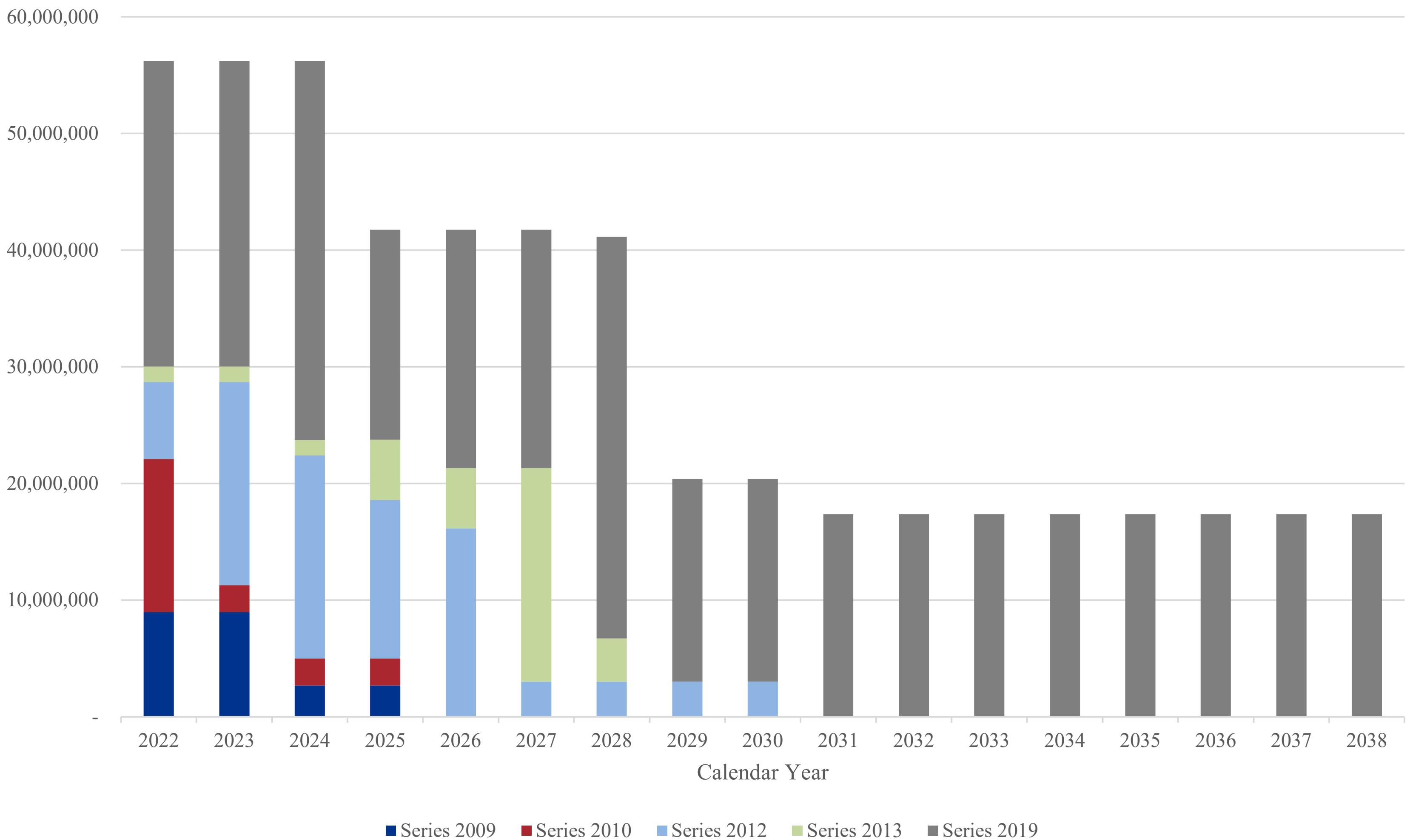
District Debt Overview

General Obligation Debt Outstanding

- The District has five series of general obligation bonds outstanding for a total par amount of approximately $383 million.
- The 2019 Bonds are the only new money obligation outstanding for the District. The issuance of these bonds was authorized at the 2018 election.
- The other four series of bonds outstanding are refunding bonds. These bonds refunded prior obligations from the 1997, 2000, 2003 and 2006 elections.
- The District has general obligation bond ratings of Aa1 from Moody's and AA+ from Fitch.
  - These ratings are one notch below the highest possible ratings (Aaa and AAA).

		Original	Outstanding	Outstanding			Current Underlying Ratings	
Issue	Series	Principal	Principal	Coupon Range	Maturity	Call Date	Moody's	Fitch
General Obligation Bonds	2019	$ 249,975,000	$ 247,160,000	2.000%-5.000%	12/15/2038	12/15/2028	Aa1	AA+
General Obligation Refunding Bonds	2013	31,020,000	29,615,000	3.000%-4.000%	12/15/2028	12/15/2022	Aa1	AA+
General Obligation Refunding Bonds (CIBs)	2012	70,995,000	66,355,000	3.000%-5.000%	12/15/2030	12/15/2022	Aa1	AA+
General Obligation Refunding Bonds (CABs)	2012	100,000	100,000	CAB	12/15/2023	Non-Callable	Aa1	AA+
General Obligation Refunding Bonds	2010	86,405,000	18,725,000	3.500%-5.000%	12/15/2025	12/15/2021	Aa1	AA+
General Obligation Refunding Bonds	2009	87,850,000	21,095,000	5.250%	12/15/2025	Non-Callable	Aa1	AA+
		$ 526,345,000	*$383,050,000*					

Current Debt Service Schedule



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