Today’s Webinar

- Facilities Projects - Budget Update
- 2017 Tax Cuts & Jobs Act Summary
- Implementing Legislation Impacting Facilities Financing for California Community Colleges
- Q & A
Presenters
Introduction to Presenters

David G. Casnocha, Esq.
Stradling Yocca Carlson & Rauth
Managing Shareholder

Robert Barna
Stifel, Nicolaus & Company, Incorporated
Managing Director

John R. Baracy
Stifel, Nicolaus & Company, Incorporated
Managing Director
Facilities Projects
Honoring the Will of Voters

Fund Capital Outlay Projects

• In 2016, California voters approved a facilities bond providing a $2 billion infrastructure investment in California’s community colleges.

• For the 2018-19 budget, the Governor proposed funding for only five of 14 capital outlay projects.

• Our community colleges have $29.9 billion in unmet facility needs identified in the current Capital Outlay Plan.
Projects Left Out of the Budget

1. Los Rios, Natomas Education Center Phase 2 and 3
2. Mt. San Jacinto, Menifee Valley Center Math and Science Building
3. Cabrillo College, Modernization of Buildings 500, 600, 1600
4. Imperial Valley College, Academic Buildings Modernization
5. College of San Mateo, Building 9 Library Modernization
6. Skyline College, Workforce and Economic Development Prosperity Center
7. College of the Sequoias, Basic Skills Center
8. Monterey Peninsula, Fort Ord Center Ft Ord Public Safety Center
9. Woodland College Performing Arts Facility

Total $8,365 $137,850
Waiting to approve worthy projects will increase the costs of these projects.

Approving the nine unfunded projects would only add about $7.4 million in annual interest costs over the next 30 years.

Funding all 14 projects is only 20% of the total bond authority granted by Prop 51.
2017 Tax Cuts and Jobs Act Bill Summary and other 2017 California Legislation (AB 195)
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:

<table>
<thead>
<tr>
<th>Provision</th>
<th>Description</th>
<th>Impact on Municipal Issuers and Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax Rates</td>
<td>Modifies seven brackets (10% - 37%)</td>
<td>May reduce attractiveness of tax-exempt bonds</td>
</tr>
<tr>
<td>State and Local Tax Deduction (SALT)</td>
<td>$10,000 cap for combination of state property tax, income and sales tax deduction</td>
<td>May induce investors in high-tax states to seek more tax-exempt bonds</td>
</tr>
<tr>
<td>Corporate Tax Rate</td>
<td>Reduce to 21%</td>
<td>May lower attractiveness of tax-exempt bonds for corporations and insurance companies</td>
</tr>
<tr>
<td>Tax Credit Bonds</td>
<td>Eliminates ability to issue QZABs, CREBs, QSCBs, BABs, and other tax credit bonds</td>
<td>No changes to subsidy payments for bonds issued before December 31, 2017; may reduce incentive to fund energy efficiency projects</td>
</tr>
<tr>
<td>Advance Refundings</td>
<td>Eliminates tax-exempt advance refundings</td>
<td>Limits issuers to current refundings; may reduce feasibility of refundings and encourage use of taxable bonds or forward delivery structures</td>
</tr>
<tr>
<td>Fiscal Impact</td>
<td>Estimated to generate $1.5 trillion deficit over the next decade</td>
<td>Deficit of more than $150 billion in any year may trigger additional sequestration of Federal Subsidies for BABs and similar products; may increase Treasury borrowing needs which may increase bond interest rates</td>
</tr>
</tbody>
</table>
Tax Reform’s Potential Impact on Municipal Market

- 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 property/casualty 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 CCDs

- 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 CCDs’ ability to pass local bond measures.

- The elimination of the tax credit bond programs increase the cost of borrowing for California educational 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 CCD Bond Issues by Type

<table>
<thead>
<tr>
<th>Year</th>
<th>New Money</th>
<th>Advanced Refunding</th>
<th>Current Refunding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>41.3%</td>
<td>39.7%</td>
<td>19.0%</td>
</tr>
<tr>
<td>2013</td>
<td>48.6%</td>
<td>32.9%</td>
<td>18.6%</td>
</tr>
<tr>
<td>2014</td>
<td>36.5%</td>
<td>42.9%</td>
<td>20.6%</td>
</tr>
<tr>
<td>2015</td>
<td>25.0%</td>
<td>41.7%</td>
<td>33.3%</td>
</tr>
<tr>
<td>2016</td>
<td>34.8%</td>
<td>34.8%</td>
<td>30.4%</td>
</tr>
<tr>
<td>2017</td>
<td>49.3%</td>
<td>30.4%</td>
<td>20.3%</td>
</tr>
</tbody>
</table>

Source: Thomson Reuters.
New Legislation Impacting New CA CCD Bond Elections

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
New Legislation Impacting New CA CCD Bond Elections

Unintended Consequences of AB 195

- Confusion instead of transparency
- Possible emergency legislation
- Requirement consumes 16 of the 75 available ballot question words

Sample Ballot Statement

“To ______________________, shall this measure of the ______ Community College District issuing $___ in bonds at legal rates be adopted, levy on average 2.5 cents per $100 assessed value, $___ annually for ______ [e.g. job training facilities], while bonds are outstanding, with annual audits, etc.?”
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

- SB 450 determinations will be added to the bond issuance resolution
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

**Source:** US Treasury Department, Bloomberg, Thomson Reuters. As of 3/22/18
Financial Markets Overview

• **Gradual rate increases by FOMC**
  - Fed Funds Target Rate increased 5 times since December 2016, most recently from 1.50% to 1.75% at the March 20, 2018 meeting
  - Expectations for 2 additional rate hikes in 2018
  - Dovish members of the FOMC see headwinds to the economy subsiding

• **Fixed income yields drifting higher**
  - Over 2017, Treasury yields rose 70 bps on the 2 year, 28 bps on the 5 year, less than 3 bps on the 10 year, while the 30 year yield dropped by over 32 bps
  - Long end moving higher to start 2018; 10 year Treasury closed at 2.83% on March 22nd, up 37 basis points from start of 2018

Source: US Treasury Department, Bloomberg, Thomson Reuters. As of 3/22/18
Municipal Market Overview

‘AAA’ Municipal Market Data Yields

MMD Yield Curve

Market Indices Snapshot

<table>
<thead>
<tr>
<th></th>
<th>3/22/2018</th>
<th>3/22/2017</th>
<th>Change on Year (bps)</th>
<th>3-Year Average</th>
<th>10-Year Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasury</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Year</td>
<td>2.28%</td>
<td>1.27%</td>
<td>101</td>
<td>0.94%</td>
<td>0.87%</td>
</tr>
<tr>
<td>10 Year</td>
<td>2.83%</td>
<td>2.40%</td>
<td>43</td>
<td>2.10%</td>
<td>2.63%</td>
</tr>
<tr>
<td>30 Year</td>
<td>3.06%</td>
<td>3.02%</td>
<td>4</td>
<td>2.78%</td>
<td>3.50%</td>
</tr>
<tr>
<td>AAA MMD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Year</td>
<td>1.64%</td>
<td>1.05%</td>
<td>59</td>
<td>0.86%</td>
<td>0.74%</td>
</tr>
<tr>
<td>10 Year</td>
<td>2.47%</td>
<td>2.30%</td>
<td>17</td>
<td>1.98%</td>
<td>2.42%</td>
</tr>
<tr>
<td>30 Year</td>
<td>3.00%</td>
<td>3.10%</td>
<td>(10)</td>
<td>2.81%</td>
<td>3.57%</td>
</tr>
<tr>
<td>SIFMA 7DAY</td>
<td>1.36%</td>
<td>1.23%</td>
<td>13</td>
<td>0.35%</td>
<td>0.53%</td>
</tr>
<tr>
<td>MIG 1 - 1YR</td>
<td>1.52%</td>
<td>0.93%</td>
<td>59</td>
<td>0.63%</td>
<td>0.54%</td>
</tr>
</tbody>
</table>

Sources: Thomson Reuters. As of 3/22/18
• New negotiated calendar is expected to increase
  – $2.6 billion supply estimated for the week of March 19th
Municipal Market Supply and Demand

- Municipal bond funds have reported inflows totaling $339 million the week of March 12th
- Demand for municipal bonds is strong
  - Nearly constant inflows since the beginning of 2017 netting $15.6 billion

---

**Weekly Municipal Mutual Fund Flows**

($ in Billions)

- $339 million in inflows week of March 12th
- $16 billion in outflows (Nov. 2016 - Jan. 2017)

13 weeks of outflows in 2017;

Sources: Thomson Reuters, Investment Company Institute. As of 3/22/18
Conclusion:

Questions
Mr. Casnocha is the managing shareholder of Stradling’s San Francisco office and a former member of the firm’s board of directors. David has practiced in public finance for more than 40 years and serves as bond and disclosure counsel to public agencies and underwriter’s counsel to both national and regional investment banking firms. He also has served as bond counsel to more than 600 school and community college districts in California. He has served in primary and secondary school district financings, general obligation bonds, bond anticipation notes, certificates of participation, lease financings and tax and revenue anticipation notes. In addition, David has represented the California Education Facilities Authority on numerous private university financings and represents a range of nonprofit corporations that incur tax-exempt debt to finance their charitable purposes. As bond counsel to the California League of Community Colleges, he has helped design tax-exempt pool financings for tax and revenue anticipation notes, lease revenue bonds solar energy projects, and student housing. David also served as bond counsel on Other Post-Employment Benefit bond issues. He is experienced in a range of revenue bond financings for water, sewer and a variety of other enterprise systems.
Robert Barna is a Managing Director in the Los Angeles public finance office of Stifel. Mr. Barna began his public finance career in 1993 and has experience in all facets of the municipal finance business. He specializes in the management, structuring and sale of California K-12 Education new money and refunding general obligation bonds, certificates of participation, tax credit bonds, Mello-Roos bonds and tax and revenue anticipation notes. Throughout his career, he has completed more than 200 financings totaling over $15.0 billion.

Mr. Barna graduated with a degree in Economics from University of California, Berkeley and a Masters of Business Administration from Columbia University. Mr. Barna maintains his Series 7, 50, 53 and 63 licenses with FINRA.
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.
Disclosure

Stifel, Nicolaus & Company, Incorporated (“Stifel”) has prepared the attached materials. Such material consists of factual or general information (as defined in the SEC’s Municipal Advisor Rule). Stifel is not hereby providing a municipal entity or obligated person with any advice or making any recommendation as to action concerning the structure, timing or terms of any issuance of municipal securities or municipal financial products. To the extent that Stifel provides any alternatives, options, calculations or examples in the attached information, such information is not intended to express any view that the municipal entity or obligated person could achieve particular results in any municipal securities transaction, and those alternatives, options, calculations or examples do not constitute a recommendation that any municipal issuer or obligated person should effect any municipal securities transaction. Stifel is acting in its own interests, is not acting as your municipal advisor and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934, as amended, to the municipal entity or obligated party with respect to the information and materials contained in this communication.

Stifel is providing information and is declaring to the proposed municipal issuer and any obligated person that it has done so within the regulatory framework of MSRB Rule G-23 as an underwriter (by definition also including the role of placement agent) and not as a financial advisor, as defined therein, with respect to the referenced proposed issuance of municipal securities. The primary role of Stifel, as an underwriter, is to purchase securities for resale to investors in an arm’s-length commercial transaction. Serving in the role of underwriter, Stifel has financial and other interests that differ from those of the issuer. The issuer should consult with its’ own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate.

These materials have been prepared by Stifel for the client or potential client to whom such materials are directly addressed and delivered for discussion purposes only. All terms and conditions are subject to further discussion and negotiation. Stifel does not express any view as to whether financing options presented in these materials are achievable or will be available at the time of any contemplated transaction. These materials do not constitute an offer or solicitation to sell or purchase any securities and are not a commitment by Stifel to provide or arrange any financing for any transaction or to purchase any security in connection therewith and may not relied upon as an indication that such an offer will be provided in the future. Where indicated, this presentation may contain information derived from sources other than Stifel. While we believe such information to be accurate and complete, Stifel does not guarantee the accuracy of this information. This material is based on information currently available to Stifel or its sources and is subject to change without notice. Stifel does not provide accounting, tax or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal or other implications that should be discussed with your advisors and/or counsel as you deem appropriate.
Thank You for Joining!

Slides Available At:
www.ccleague.org/advocacy

Further questions to:
Lizette Navarette, Vice President
lizette@ccleague.org