

September 24, 2020

Portola Valley School District

Bond Program Update

Keygent LLC

999 N. Pacific Coast Hwy., Ste. 570

El Segundo, CA 90245

(310) 322-4222



Bond Program Considerations

General obligation bond programs are generally structured based on:

- ◆ **Funding needs**

- District projects
 - Scope
 - Cost
 - Timing

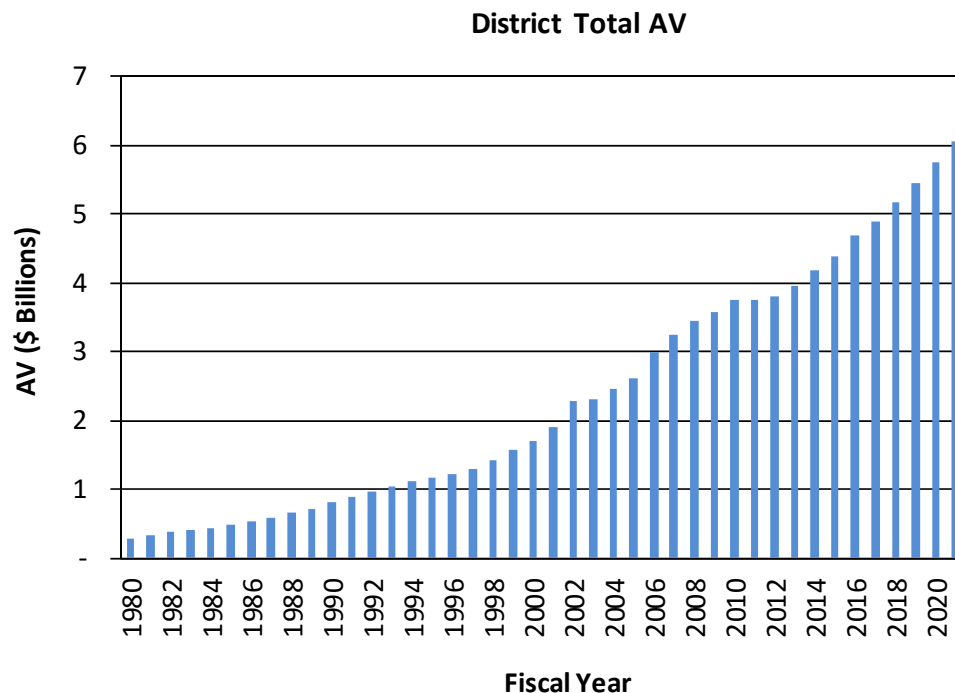
- ◆ **Financing constraints**

- District assessed value (“AV”)
- Interest rates
- Tax rates
- Legal parameters
 - State law
 - Federal law

District AV History

The District experienced 5.32% AV growth in 2020-21

FY	Total AV ⁽¹⁾	Annual % Change	FY	Total AV ⁽¹⁾	Annual % Change
1980	\$ 283,871,612		2001	\$ 1,902,289,126	11.66 %
1981	328,577,104	15.75 %	2002	2,269,379,277	19.30
1982	381,636,822	16.15	2003	2,299,100,682	1.31
1983	417,421,810	9.38	2004	2,447,972,072	6.48
1984	445,883,110	6.82	2005	2,611,654,275	6.69
1985	480,048,596	7.66	2006	3,000,733,435	14.90
1986	539,134,084	12.31	2007	3,233,867,219	7.77
1987	597,302,755	10.79	2008	3,433,222,522	6.16
1988	660,864,017	10.64	2009	3,563,387,880	3.79
1989	713,325,578	7.94	2010	3,738,648,491	4.92
1990	806,943,065	13.12	2011	3,750,499,501	0.32
1991	896,461,918	11.09	2012	3,791,754,054	1.10
1992	966,216,782	7.78	2013	3,963,264,410	4.52
1993	1,042,318,209	7.88	2014	4,176,510,892	5.38
1994	1,112,049,225	6.69	2015	4,393,030,584	5.18
1995	1,157,460,825	4.08	2016	4,683,187,829	6.60
1996	1,216,768,921	5.12	2017	4,893,664,498	4.49
1997	1,307,595,076	7.46	2018	5,171,072,056	5.67
1998	1,414,081,862	8.14	2019	5,448,495,550	5.36
1999	1,561,006,098	10.39	2020	5,757,919,981	5.68
2000	1,703,646,452	9.14	2021	6,064,374,225	5.32



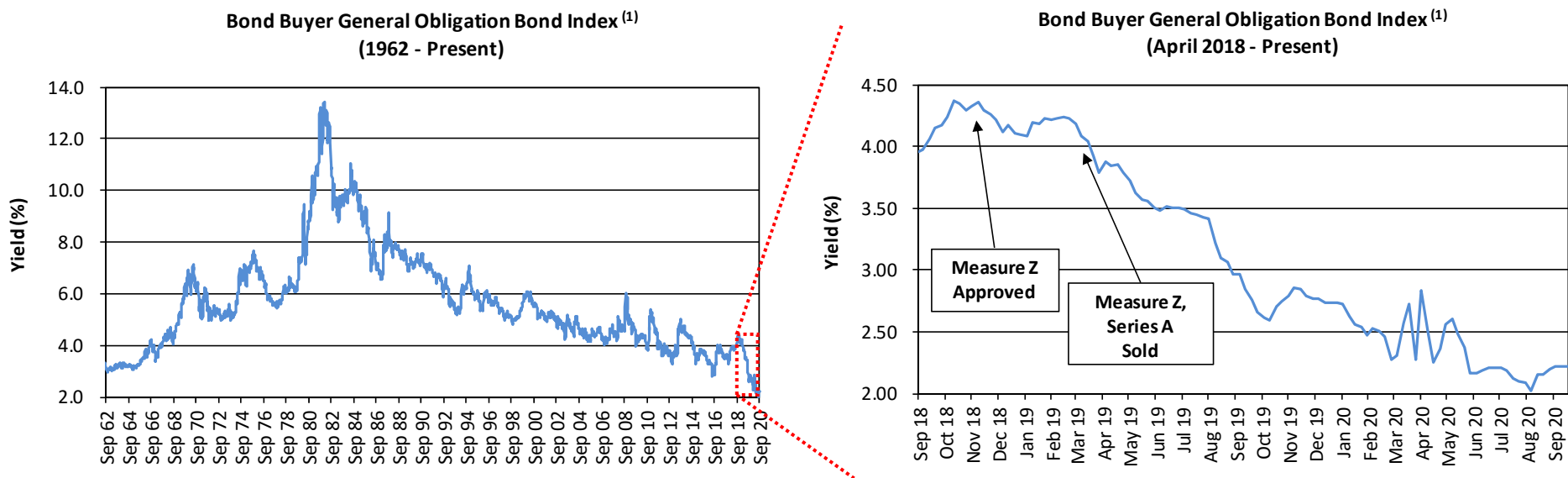
Growth Statistics			
Annualized Growth Rates:		Lowest Rolling Averages:	
1-year:	5.32 %	3-year:	1.96 %
5-year:	5.30	5-year:	2.91
10-year:	4.92	10-year:	4.18
20-year:	5.97	20-year:	5.97
30-year:	6.58	30-year:	6.58
40-year:	7.56	40-year:	7.56

(1) Source: California Municipal Statistics, Inc. and San Mateo County.

Historical Municipal Bond Interest Rates

Municipal bond interest rates are near historic lows and have trended downward since Fall 2018 due to:

- ◆ Health concerns over COVID-19
- ◆ Slowdown in European economies
- ◆ Trade developments with China
- ◆ Geopolitical uncertainties surrounding Iran, Brexit, Hong Kong & U.S. elections
- ◆ Central bank rate cuts/stimulus measures



(1) Index reflects average yield to maturity of 20 general obligation bonds with 20-year maturities rated 'Aa2' by Moody's Investors Service and 'AA' by Standard and Poor's. Source: The Bond Buyer & Bloomberg.

Current Economic Climate – Stocks vs Treasuries

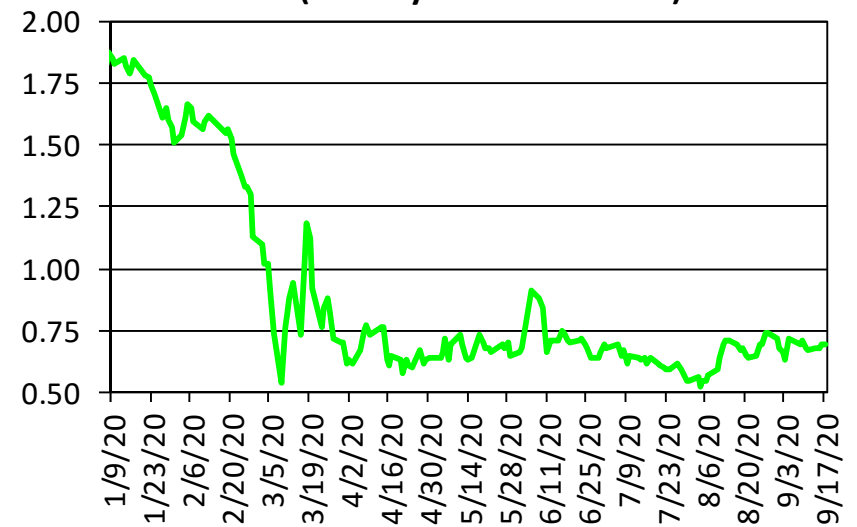
Investor unease has led to significant fluctuations in stock and bond market indices

- ◆ The S&P 500 index declined 34% within 5 weeks of the February 2020 highs
 - Stock prices have since recovered significantly on investor optimism that the worst is behind us as the economy gradually reopens
- ◆ Investors still maintain their “flight to safety/liquidity”
 - U.S. Treasury yields have come down to historic levels as investors seek the safety and liquidity of this “safe haven” asset
 - On September 16, the Federal Reserve discussed their plan to maintain low rates through 2023

S&P 500⁽¹⁾
(January 2020 to Current)



U.S. 10-Year Treasury Yields (%)⁽¹⁾
(January 2020 to Current)



(1) Source: Bloomberg.

Credit Ratings

The 3 major credit rating agencies are:

- ◆ Moody's
- ◆ Standard & Poor's ("S&P")
- ◆ Fitch

The rating criteria is generally:

- ◆ 30% local economy/tax base
- ◆ 30% district finances
- ◆ 20% district debt/pension
- ◆ 20% district management

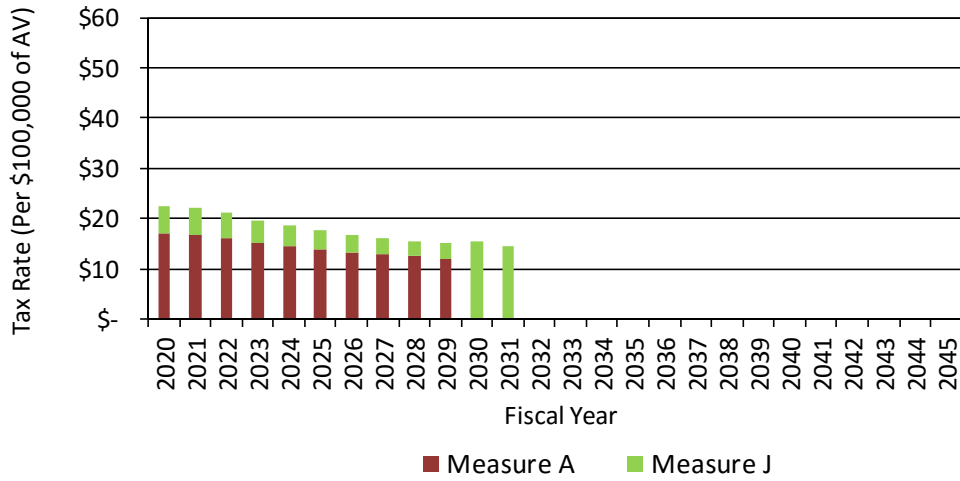
The District only has an S&P rating:

- ◆ Upgraded to 'AA+' with a stable outlook from 'AA-' on March 6, 2019

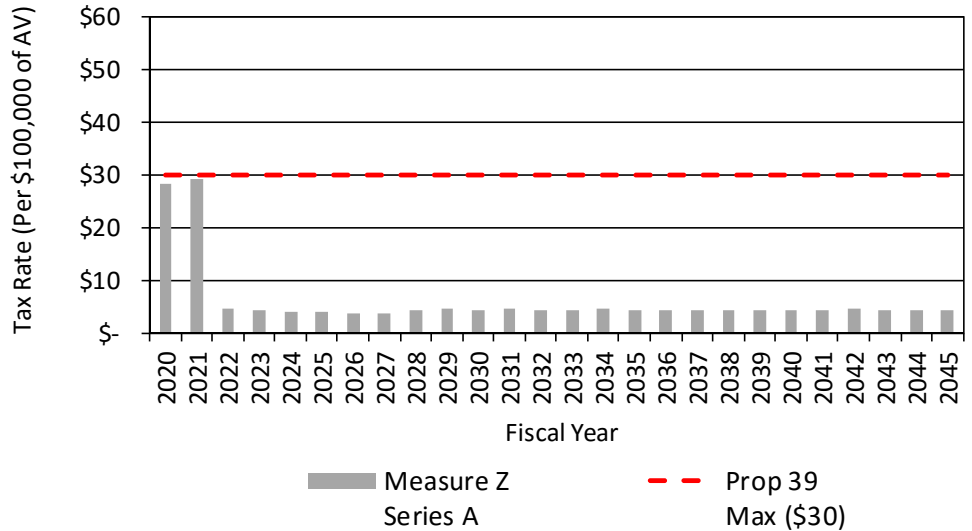
	Moody's	S&P	Fitch	Rating Description
Investment grade	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	High grade
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper medium grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower medium grade
	Baa2	BBB	BBB	
Baa3	BBB-	BBB-		
Non-investment grade	Ba1	BB+	BB+	Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly speculative
	B2	B	B	
	B3	B-	B-	
	Caa1 & below	CCC+ & below	CCC & below	Extremely speculative/ Default

Projected Tax Rates (1)

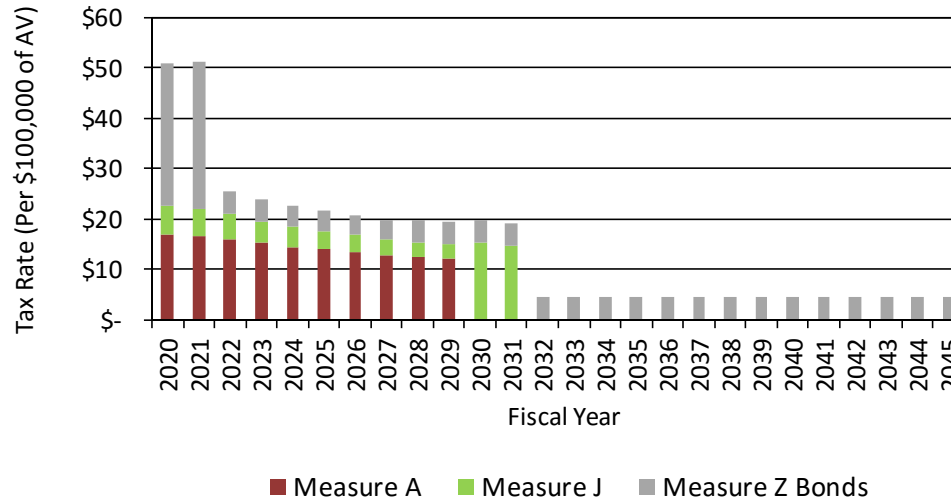
Measure A & Measure J Projected Tax Rates



Measure Z Projected Tax Rates



Aggregate Projected Tax Rates



(1) Assumes 0% AV growth for 2021-22, 1% for 2022-23, 2% for 2023-24, 3% for 2024-25, and 4.75% annually thereafter.

Measure Z Illustrative Series B

The District can issue the remaining \$39.5 million Measure Z bonds in November for capital projects (not operating expenses)

◆ **Assumptions:**

- Annual AV growth rates:
 - 2021-22: 0.00%
 - 2022-23: 1.00%
 - 2023-24: 2.00%
 - 2024-25: 3.00%
 - Thereafter: 4.75%
- Current estimated interest rate: 2.33% ⁽¹⁾
 - Final Series A interest rate: 3.66%
 - If rates were unchanged from Series A, Series B would cost ~\$15.4 million more

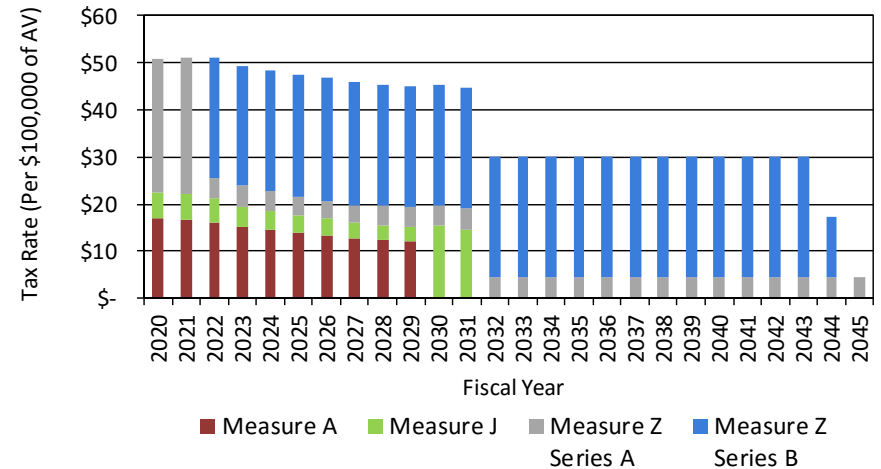
Illustrative Issuance Schedule ⁽²⁾

Issue	Issue Date	Proceeds	Estimated Net Debt Service	Estimated Repayment Ratio
Series A	April 2019	\$ 10,000,000	\$ 15,454,360	1.55 to1
Series B	November 2020	39,500,000	54,472,877	1.38 to1
Total		\$ 49,500,000	\$ 69,927,236	1.41 to1

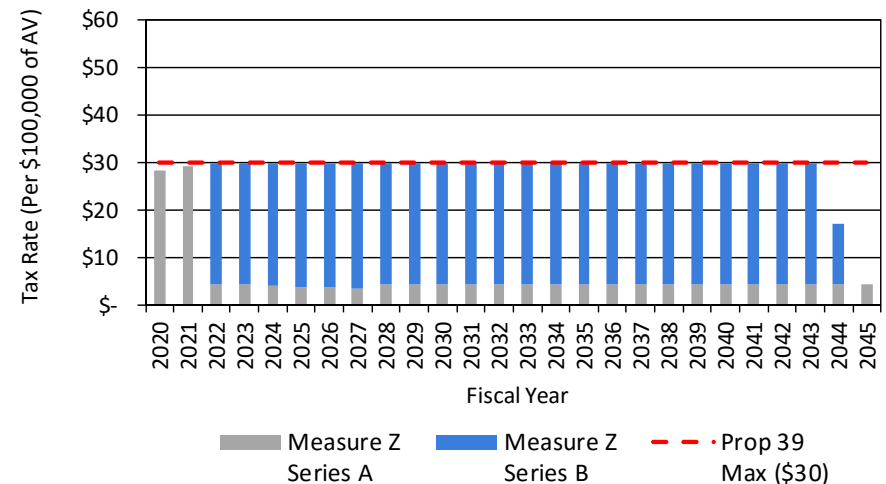
(1) Reflects Keygent’s opinion of current interest rates considering similar financings recently sold by California K-14 districts and the District’s current rating. Results are subject to market fluctuations until financing is sold. Includes all estimated financing costs.

(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District’s project needs.

Aggregate Projected Tax Rates



Measure Z Projected Tax Rates



IRS Spend-Down Requirements

3-year reasonable expectation rule:

- ◆ 5% of bond proceeds and earnings **committed** within 6 months
- ◆ 85% of bond proceeds and earnings **spent** within 3 years

5-year reasonable expectation rule:

- ◆ 10% of bond proceeds and earnings **spent** within 1 year
- ◆ 30% of bond proceeds and earnings **spent** within 2 years
- ◆ 60% of bond proceeds and earnings **spent** within 3 years
- ◆ 85% of bond proceeds and earnings **spent** within 5 years
- ◆ *Note: requires that an architect or engineer show that the actual construction/acquisition of the project takes up to 5 years*
- ◆ Exceptions:
 - If 95% of bond proceeds that do not qualify for the 3 or 5-year rule are invested in non-AMT (alternative minimum tax) tax-exempt securities, then no spend-down requirements apply

Taxable bonds:

- ◆ No spend-down requirements

Potential Next Steps

If the District proceeds with a November issuance, a potential timeline is below

- ◆ September 24: Presentation to the Board
- ◆ Week of October 13: District administration presents updated credit profile to S&P
- ◆ October 15: Board approves authorizing resolution and other legal documents
- ◆ October 22: Offering document circulated to investors
- ◆ October 29: Bonds sold to investors, locking in interest rates
- ◆ November 17: Bond financing closes