



The PFM Group

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March 21, 2016

Memorandum

To: Mitsi Corcoran, Chief Financial Officer
From: Jay Glover, Managing Director – Public Financial Management
Re: Certificates of Participation, Series 2009 and 2010B – Refunding Opportunity

As financial advisor to the School District of Sarasota County, Florida (the “District”), Public Financial Management (PFM) continually monitors the District’s outstanding debt portfolio for refunding opportunities that could lower the District’s overall debt service payments. We have reviewed the District’s outstanding Certificates of Participation, Series 2009 (the “2009 Certificates”) and Certificates of Participation, Series 2010B (the “2010B Certificates”) and determined that current market conditions would allow the District to refund these certificates for debt service savings. The callable portion of the 2009 Certificates are outstanding in the principal amount of \$31,235,000 and have an initial call date of July 1, 2019. The callable portion of the 2010B Certificates are outstanding in the principal amount of \$28,460,000 and have an initial call date of July 1, 2020.

PFM provided the District a summary of two options that could be pursued in order to take advantage of this opportunity (refer to attached memo dated February 17, 2016). It was determined that the District would pursue Option 2, which was to complete the refunding of the 2009 Certificates and 2010B Certificates via the issuance of a direct placement bank loan. At the direction of the District, PFM prepared a request for direct bank loan proposals (RFP) to identify the financial institution that could provide the District with Refunding Certificate of Participation, Series 2016 (the “2016 Certificates”) to refund the 2009 Certificates and 2010B Certificates. The RFP was distributed to a large list of local, regional and national financial institutions. The District received 6 proposals which are summarized in Exhibit A.

Based on PFM’s review and discussions with District staff and Bond Counsel, it was determined that JP Morgan provided the best combination of interest rate and terms for the District. At the time the proposal was submitted, JP Morgan offered an indicative fixed interest rate to maturity of 1.75%, which would be locked after a rate lock agreement is executed. The JP Morgan proposal includes a provision that would allow the lender to increase the interest rate following closing if the maximum corporate tax rate decreases. However, this provision can be eliminated for an additional 10 basis points added to the proposed interest rate. In order to ensure a fixed interest rate through the final maturity of the 2016 Certificates, PFM recommends adding the 10 basis points to eliminate this provision. This would increase the indicative interest rate to 1.85%. If the District approves moving forward with JP Morgan, we estimated the District could achieve approximately \$3.5 million of net present value debt service savings or 5.98% of the refunded certificates par amount based on the



indicative interest rate. Given this substantial amount of projected savings, PFM is recommending that JP Morgan be selected as the loan provider for the 2016 Certificates. This recommendation will be brought to the School Board for consideration at the April 5th meeting. If the School Board accepts this recommendation, a rate lock agreement will be executed to hold the fixed interest rate through closing. It should be noted that if the District executes a rate lock agreement and elects not to close the 2016 Certificates, JP Morgan could assess the District a breakage penalty. The final step to complete the transaction would be to bring the Certificate Resolution for consideration by the School Board and Leasing Corporation at the April 19th meeting. If you have any questions please feel free to contact me at 407-406-5760 or gloverj@pfm.com.

School District of Sarasota County -- Certificates of Participation, Series 2016
RFP Summary

	Bank of America	Capital One	JP Morgan Chase	Raymond James (Option 2 Only)
Proposal Requirements				
Contact Information	Holly Kuhlman Senior Vice President 9128 Strada Place, Suite 10110 Naples, Florida 34103 Office: 239-598-8805 holly.kuhlman@baml.com	Jaci Bretz Vice President Office: 631-457-9582 Cell: 631-457-9582 jaci.bretz@capitalone.com	John McAuley Senior Commercial Banker 100 North Tampa Street, Floor 33 Tampa, Florida 33602 Office: 813-483-8253 Cell: 203-788-6500 john.t.mcauley@jpmorgan.com	Cord D. King Tax-Exempt Lending Manager 710 Carillon Parkway St. Petersburg, Florida 33716 Office: 727-567-2055 cord.king@raymondjames.com
Final Maturity	Option 1: 7/1/2025 Option 2: 7/1/2024	Option 1: 7/1/2025 Option 2: 7/1/2024	Option 1: 7/1/2025 Option 2: 7/1/2024	7/1/2024
Tax Exempt Fixed Interest Rate	Option 1: Indicative: 1.95% Option 2: Indicative: 1.91%	Option 1: 2.69% Option 2: 2.62%	Option 1a: Indicative: 1.75% Option 1b: Indicative: 1.80% Option 2a: Indicative: 1.71% Option 2b: Indicative: 1.75%	Option 2: 2.24%
Calculation	Option 1: 78 month interest rate swap (3 month LIBOR as floating rate) + 36 bps Option 2: 73 month interest rate swap (3 month LIBOR as floating rate) + 36 bps	N/A	Not Provided	N/A
Rate Locked to Closing, or Date to be set	Rate set 2 days prior to closing or rate lock agreement. Calculation valid assuming closing on or before May 15, 2016	Rates locked until closing (April 29, 2016)	Rates indicative as of 3/16/2016 and change daily until a rate lock letter agreement is executed	Rate locked until closing (April 29, 2016)
Prepayment Penalty	Prepayment penalty of: Difference between a) sum of interest payments that would have accrued + 25 bps and b) the sum of interest payments that would have accrued at reinvestment rate	Option 1: At par after 7/1/2021 Option 2: At par after 7/1/2020	Option 1a: Make whole provision Option 1b: Callable on 7/1/2021 at par Option 2a: Make whole provision Option 2b: Callable on 7/1/2021 at par	Not prepayable without consent of the Lender
Legal/Other Fees	\$25,000	None	\$7,500	Commitment Fee: 0.25% of par Counsel: \$15,000
Other Conditions	(i) Provide audited financial statements within 270 days after the close of fiscal year (ii) Term sheet will expire in 15 days (iii) Subject to final credit approval (iv) Prepayments require a three business day notice (v) Default rate will be applicable rate plus 6%. The Bank may impose a late fee of 4% of the amount of the late payment. (vi) Default rate applies to payments received after 15 days (vii) Bank may impose a late fee of 4% to late payments (viii) Increased rate for determination of taxability (ix) Bank will require downgrade below BBB- to be event of default	(i) Must close by April 29, 2016 (ii) Provide financial statements within 270 days of the end of the fiscal year (iii) Term sheet will expire if not accepted by March 23, 2016 (iv) Term sheet subject to final credit approval (v) Provide legal counsel opinion	(i) Base rate set as the higher of (a) Bank's Prime Rate and (b) 2.5% plus the one month Adjusted LIBOR rate (ii) Default Rate set at Base Rate + 4.00% (iii) Clawback provision (iv) Provide receipt of CAFR within 210 days of the fiscal year end and additional information as reasonably requested by the bank (v) Tax Gross-up in the event of taxability as a result of violations of the tax covenants (vi) Change in corporate tax rate calculated as bond interest rate multiplied by (1 - Corporate Tax Rate) / (1 - Rate at issuance). Can eliminate provision for an additional 10 bps.	(i) Lender only proposing for "Amortization Option 2" in the RFP (ii) Provide audited financial statements within 240 days of FY end (iii) Default Rate: greater of (a) Prime Rate + 3.0%, (b) Fed Funds Rate + 5.0%, or (c) 7.0% (iv) Gross-up in the event of taxability as a result of actions or inactions of the District to 3.65%

School District of Sarasota County -- Certificates of Participation, Series 2016
RFP Summary

Proposal Requirements		Regions (Option 2 only)	SunTrust (Option 2 only)
Contact Information		Michael T. Glover Jr Senior Vice President 100 North Tampa Street, Suite 3100 Tampa, Florida 33602 Office: 813-226-1289 Cell: 813-373-9406 mike.glover@regions.com	Joshua A. McCoy Regional Officer 1777 Main Street, 6th Floor Sarasota, Florida 34236 Office: 941-951-3005 Cell: 941-961-3583 joshua.a.mccoy@suntrust.com
	Final Maturity	7/1/2024	7/1/2024
	Tax Exempt Fixed Interest Rate	Indicative: 2.15%	Indicative: 2.17%
	Calculation	65.01% of 10 year swap rate + 101 bps	Not Provided
	Rate Locked to Closing, or Date to be set	Rate indicative as of 3/16/2016 and change daily until receipt of a signed formal commitment by the Borrower	Rate held for 30 days Can be held for 45 days for an additional 4 bps
	Prepayment Penalty	Prepayable at par after 3 years	Make whole provision
	Legal/Other Fees	\$6,000	\$15,000
	Other Conditions	(i) Lender only proposing for "Amortization Option 2" in the RFP (ii) Default rate set to stated rate plus 3% (iii) Lender may assign, transfer, or convey loan (iv) Increased rate for determination of taxability (v) Must submit documents, agreements, and opinions at closing (vi) Provide audited financial statements with 195 days of end of FY and budget within 60 days of adoption. (vii) Lender willing to discuss terms through April 20, 2016	(i) Lender only proposing for "Amortization Option 2" in the RFP (ii) Provide audited financial statements within 270 days of FY end, annual budget within 30 days of adoption, and any additional information requested (iii) Default remedy of acceleration or default rate of Prime + 6%, to lesser of 18% or maximum allowed rate (iv) Lender may transfer and assign loan (v) Increased rate for change in maximum corporate tax rate (vi) Provide Legal Counsel Opinion

PFM Refunding Overview Memo
Dated February 17, 2016



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February 17, 2016

Memorandum

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From: Jay Glover, Public Financial Management
Re: Certificates of Participation, Series 2009 and 2010B – Refunding Opportunity

As financial advisor to the School District of Sarasota County, Florida (the “District”), Public Financial Management (“PFM”) continually monitors the District’s outstanding debt portfolio for refunding opportunities that could lower the District’s overall debt service payments. We have reviewed the District’s outstanding Certificates of Participation, Series 2009 and Series 2010B (the “2009 Certificates” and “2010B Certificates” respectively) and determined that current market conditions would allow the District to refund these certificates for debt service savings.

The callable portion of the 2009 Certificates are outstanding in the principal amount of \$31,235,000 and have an initial call date of July 1, 2019 and a current interest rates ranging from 5.00% to 5.50%. The callable portion of the 2010B Certificates are outstanding in the principal amount of \$28,460,000 and have an initial call date of July 1, 2020 and a current interest rates ranging from 3.50% to 5.00%. In order to determine the most cost effective approach to undertaking the refunding of the 2009 Certificates and 2010B Certificates, PFM analyzed a publically offered bond transaction as well as direct placement bank loan.

Option 1:

The District could complete the refunding via the issuance of a publically offered bond transaction. This type of financing would require significant staff time and effort to prepare an official statement to provide to potential investors as well as procure credit ratings, thus delaying the District’s ability to lock in the current favorable market conditions. Based on current market conditions, we are projecting:

- \$3.7 million of gross debt service savings, which equates to \$3.36 million of net present value debt service savings or 5.62% of the refunded bonds par amount

Option 2:

The District could complete the refunding via the issuance of a direct placement bank loan. One major advantage of the direct placement bank loan financing is that it can be implemented in an expedited manner. In addition, the estimated costs of issuance would be substantially less for a direct bank loan (\$175,000 which is factored into the savings figures referenced below). Under this



option, PFM would work with District staff to undertake a request for proposals to procure the financial institution that was willing to provide the District the most attractive terms. Based on current market conditions, we are projecting:

- \$3.7 million of gross debt service savings, which equates to \$3.44 MM of net present value debt service savings or 5.76% of the refunded bonds par amount.

Other Considerations:

As discussed previously, the 2009 Certificates and 2010B Certificates have respective call dates of July 1, 2019 and July 1, 2020. As a result, upon closing of the refundings an escrow will be established that will be used to pay off the certificates on their respective call dates. Given the term of the escrows as well as the low level of investment rates, there will be significant negative arbitrage in the escrow. Assuming interest rates remain constant, the negative arbitrage will decrease as we approach the initial call dates and result in higher net present value debt service savings. However, this would be mitigated if interest rates increase over the same time period. Therefore, we recommend the District begin implementing the steps as outlined in the below recommendation to put itself into a position to lock in favorable rates at the most opportune time.

Recommendation:

Given the current market rates, timing considerations, and comparable savings, PFM recommends the District move forward with Option 2. Should the District desire to proceed, your financing team will immediately begin to prepare and distribute a request for proposals to procure a financial institution with the goal of seeking final approval of a Resolution from the School Board at a subsequent meeting that would allow the District to refund all or a portion of the 2009 Certificates and 2010B Certificates. Such Resolution would require that the District achieve net present value debt service savings of at least 5.00% of the refunded par amount before moving forward. The financing team would be made up of District Staff, Bond Counsel (Nabors Giblin Nickerson) and Financial Advisor (PFM).

If you have any questions please feel free to contact me at 407-406-5760 or gloverj@pfm.com.