

### Tax Reform's Potential Impact on Municipal Bonds

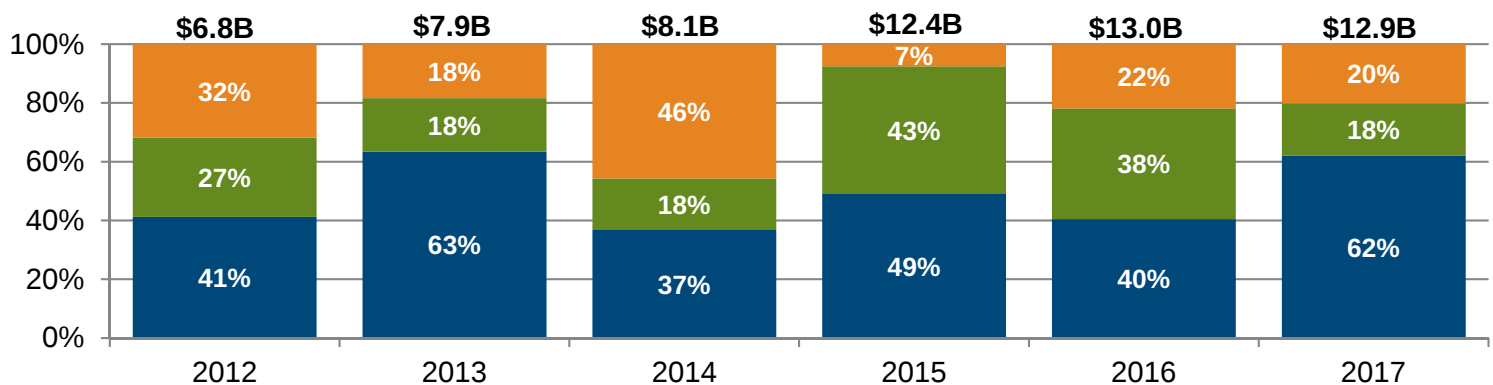
The tax reform bill, effective January 1<sup>st</sup>, 2018, will impact California school bonds as summarized below:

Provision	Description	Impact on Municipal Issuers and Market
<b>Individual Income Tax Rates</b>	Modifies seven brackets (10% - 37%)	May reduce attractiveness of tax-exempt bonds
<b>State and Local Tax Deduction (SALT)</b>	\$10,000 cap for combination of state property tax, income and sales tax deduction	May induce investors to seek more tax-exempt bonds in high-tax states
<b>Corporate Tax Rate</b>	Reduces to 21%	May lower attractiveness of tax-exempt bonds for corporations and insurance companies
<b>Tax Credit Bonds</b>	Eliminates ability to issue QZABs, CREBs, QSCBs, BABs, and other tax credit bonds	No changes to subsidy payments for bonds issued before December 31, 2017; may reduce incentive to fund energy efficiency projects
<b>Advance Refundings</b>	Eliminates tax-exempt advance refundings	Limits issuers to current refundings; may reduce feasibility of refundings and encourage use of taxable bonds or forward delivery structures
<b>Fiscal Impact</b>	Estimated to generate \$1.5 trillion deficit over the next decade	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

### Impact on K-12 School Bond Issuances

- Tax credit bonds such as Qualified Zone Academy Bonds ("QZABs") and Clean and Renewable Energy Bonds ("CREBs") provide a low or zero interest rate financings for qualified projects
  - Since 2008, California K-12 school districts have issued 144 tax credit bonds totaling nearly \$6 billion
- Elimination of advance refundings will reduce opportunities for lowering debt service and tax rates on outstanding bonds which create tax rate capacity for existing and new bond authorizations
- Advance refundings represented a large portion of the total amount of bonds issued by California K-12 school districts in 2015 and 2016, as shown below

Share of California K-12 Bond Issues by Type



Source: Thomson Reuters.

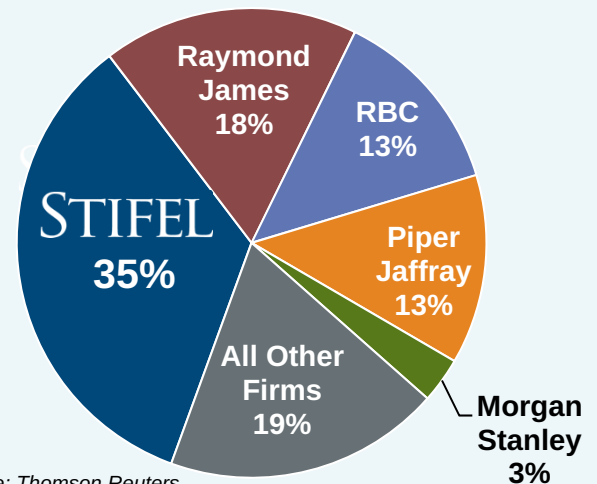
■ New Money   ■ Advance Refundings   ■ Current Refundings

# STIFEL

## Leading California K-12 Underwriter

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## 2017 California K-12 Underwriting Rankings Market Share by Number of Negotiated Financings



Source: Thomson Reuters.

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