



Frank Phillips College

Revenue Bond Financing Considerations

PFM Financial Advisors LLC

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Overview of key steps to get to a bond financing (5-6 months)

- Work with Architects to design building specs and finalize project costs
- Engage Financial Advisor and Bond Counsel
- Evaluate Frank Phillips College's capital needs, projected funding cashflows and financial feasibility
- Develop a pro forma financial model and financing timeline
- Develop formal debt policy
- Determine bond security type (revenue bond, GO, PFC)
- Work with College and bond counsel to draft bond indenture and key legal provisions (pledged revenue, reserve requirements, ABT, flow of funds)
- Draft bond offering documents (Preliminary Official Statement, private placement term sheet)
- Engage with rating agencies and bond insurers to get feedback on indenture provisions, credit and insurance pricing
- Concurrently distribute initial plan of finance to banks to gauge economics of a private placement
- Determine method of sale (negotiated, competitive, or private placement)
- Obtain final credit ratings and insurance bids
- Post offering documents
- Bond sale
- Closing approximately 3-4 weeks after bond sale





Key Decision Point – Type of Bonds

Bond Type	Revenue Bond	General Obligation Bond	PFC Debt
Security	Tuition & Fee Revenues (Operating Funds)	Dedicated Ad Valorem Taxes	Lease Revenue Payments (Operating Funds) and mortgage on the asset
Voter Approval Required	No	Yes	No
Financing Cost	Highest	Lowest	Middle
Credit Rating	Based on financials, liquidity, debt service coverage, leverage, and legal structure	Based on financials, liquidity, leverage and economy/tax base diversification	Based on GO bond rating (typically one-notch off) as well as legal structure of PFC
Reserve Fund	Yes	No	No
Additional Debt Limitations	Yes – governed by Bond Indenture and “Additional Bonds Test”	Yes – limited to voter-approved amounts	Yes – governed by operating budget and PFC capacity
Debt Service Coverage Requirement	Yes – typically 2.0x by pledged revenue and positive net income on GAAP basis	No – taxes levied at sum-sufficient level each year for debt service	No – College lease payments made on sum-sufficient basis
Benefits	Quickest path to financing, can finance projects outside of taxing base	Lowest cost, debt service repaid from dedicated I&S tax rate (not operating budget)	No voter approval required, can finance projects outside of taxing base
Considerations	Operating budget expense, highest overall financing costs when considering Reserve Fund and credit, limitations on additional debt based on financial performance and bond indenture	Slowest path to financing, political risk with voter approval requirement	Operating budget expense, higher financing costs than GO bond, highest degree of legal and political complexity



Type of Bond – Key Takeaways

- ◆ A **revenue bond** secured by tuition and fee revenue offers the **quickest path to a bond financing** but may have the **highest potential overall financing costs**.
 - Revenue bond debt service will compete with operating budget priorities.
 - Additional debt issuance limited to ability to pass additional bonds test in the bond indenture.
- ◆ A **general obligation bond** will typically have the **lowest overall financing costs** but is a **slower, and potentially politically challenging path to a financing**, since it requires voter approval at a May or November election – earliest possible election date would be November 2021.
 - Repaid from a dedicated ad valorem tax so debt service not an operating budget item
 - Additional debt issuance limited to amount approved by voters.
- ◆ A **public facilities corporation lease revenue bond** will have **lower financing costs than a revenue bond** but is the **most complex from a legal and political perspective** requiring the creation of a public facilities corporation
 - PFC debt service will compete with operating budget priorities.
 - Additional debt issuance limited by ability of operating budget to afford lease payments.
 - Assets financed by the bonds secure bonds via deed of trust.



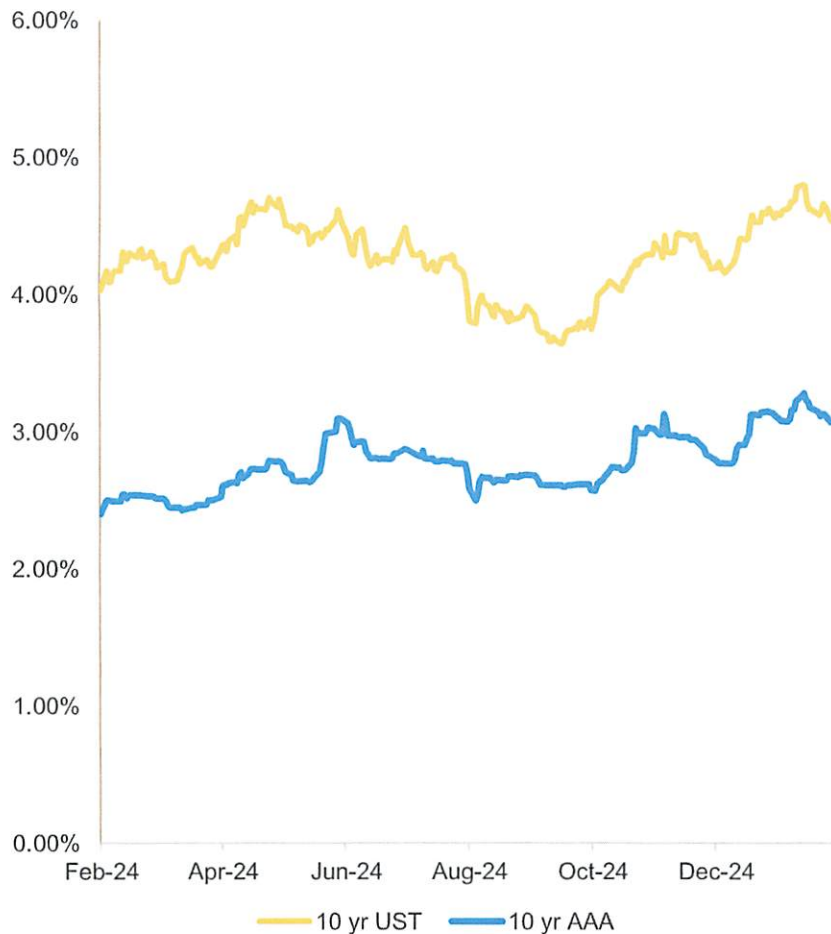
Key characteristics for a revenue bond

- **Security** – Pledge of tuition revenues (not to exceed 25%) and certain fees. PFM will work with the College to define pledged revenues.
- **Bond Indenture** – Legal document governing the legal structure of the bonds and outlining key covenants and the rights of bondholders. Includes provisions for debt service coverage, issuance of additional bonds, reserve requirements, flow of funds. PFM will work closely with the College and bond counsel to form a bond indenture that maximizes the College's flexibility while being marketable to investors.
- **Debt Service Coverage** – will want to provide at least 2.0x debt service coverage based on pledged revenues and more importantly, will need to demonstrate net income after debt service payments (without considering one-time or non-recurring gifts or restricted funds)
- **Additional Bonds** – Indenture will include a requirement that the College prove sufficient debt service coverage (typically at least 1.25 or 1.50x) in order to issue additional debt
- **Debt Service Reserve Fund** – Dedicated, restricted reserve account funded in amount equal to the lesser of (1) 125% of average annual debt service, (2) 100% of maximum annual debt service, or (3) 10% of principal issued. In lieu of a cash-funded DSRF (most costly), PFM will gauge ability to satisfy reserve requirement with a surety policy and/or a 'springing' reserve requirement funded if coverage falls below a certain threshold

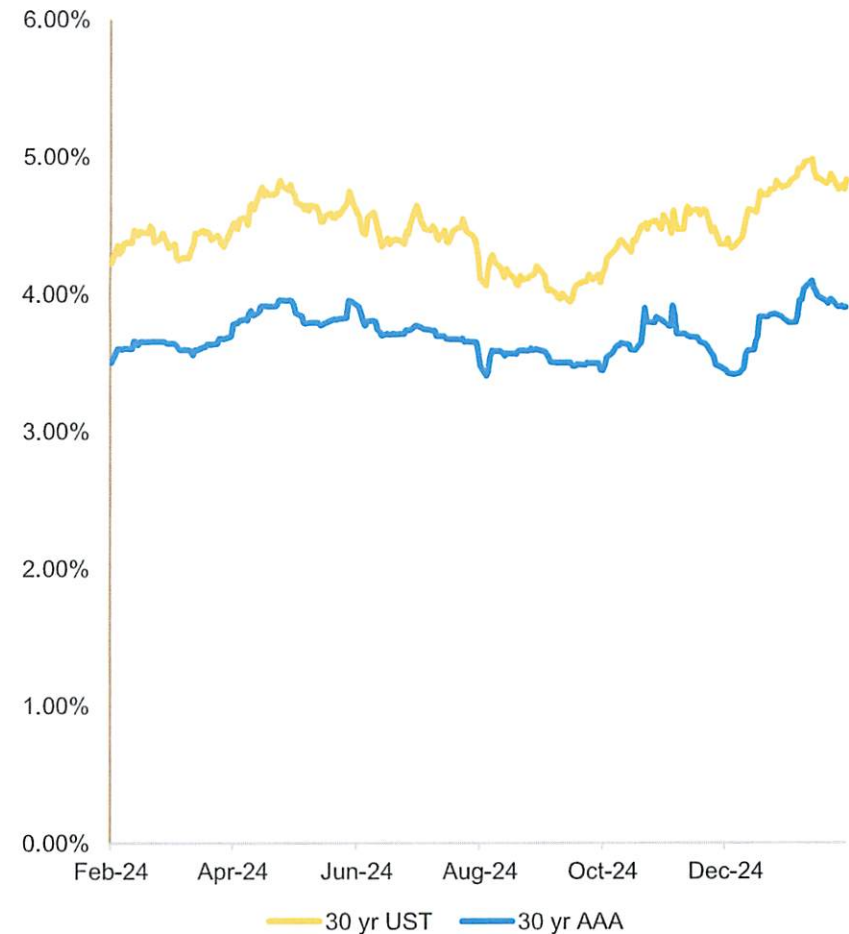


Treasury & Municipal Rate Movements

AAA Municipal and U.S. Treasury Yields
(10 year Spot)



AAA Municipal and U.S. Treasury Yields
(30 year Spot)





Historical view on interest rates since 2000

Historical Tax-Exempt Interest Rates - 2000 to Present
Bond Buyer - 20 GO Bond Index



Source: *The Bond Buyer*. The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. As of 1/31/2025.



Illustrative financing results for different bond repayment periods

Bond Statistics	10-Year	20-Year	25-Year	30-Year
Project Fund Deposit (\$000s)	\$14,000	\$14,000	\$14,000	\$14,000
Debt Service Reserve Fund (\$000s)	Yes	Yes	Yes	Yes
Total Principal Borrowed (\$000s)	\$16,240	\$15,405	\$15,265	\$15,185
Delivery Date	October 1, 2025	October 1, 2025	October 1, 2025	October 1, 2025
Final Maturity	2036	2046	2051	2056
Assumed Interest Rate	4.09%	4.45%	4.57%	4.75%
Max Annual Payment (\$000s)	\$2,004	\$1,176	\$1,035	\$957
Total Principal & Interest (\$000s)	\$20,372	\$23,816	\$26,196	\$29,012
Transaction Type	Bank Placement or Capital Markets	Capital Markets	Capital Markets	Capital Markets



Top Bondholders – Texas Community College Districts

- Below is a list of the top bondholders of Texas community college debt
- In a negotiated bond sale, PFM will work closely with the senior underwriter to ensure that the College's bonds are structured and marketed to a broad investor base
- Top bondholder analysis will be used to determine which investors should be targeted for participation in the College's bond sale

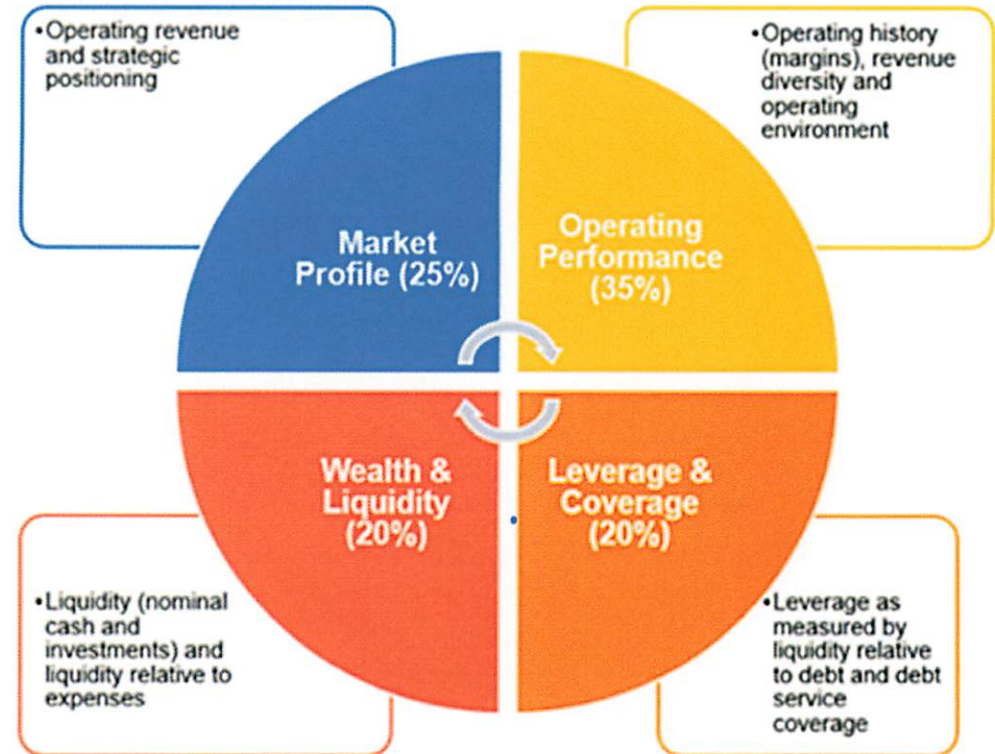
Texas Community College District Top 20 Bondholders							
Rank	Managing Firm Name	Total Held	%	Rank	Managing Firm Name	Total Held	%
1	VANGUARD GROUP	\$ 162,894,999	15.23%	11	BESSEMER GROUP INCORPORATED	\$ 19,495,000	1.82%
2	STATE FARM MUTUAL AUTO INSURANCE	\$ 110,615,841	10.35%	12	KENTUCKY FARM BUREAU GROUP	\$ 17,455,000	1.63%
3	NORTHERN TRUST CORPORATION	\$ 91,389,174	8.55%	13	BANK OF NEW YORK MELLON CORP/THE	\$ 17,180,000	1.61%
4	TRAVELERS COMPANIES INC	\$ 83,825,000	7.84%	14	T ROWE PRICE GROUP INC	\$ 17,100,000	1.60%
5	CAPITAL GROUP COMPANIES INC	\$ 75,948,341	7.10%	15	JPMORGAN CHASE & CO	\$ 16,934,286	1.58%
6	STATE STREET CORP	\$ 31,817,223	2.98%	16	FMR LLC	\$ 15,480,000	1.45%
7	BLACKROCK	\$ 30,805,049	2.88%	17	CBRE GROUP INC	\$ 14,815,000	1.39%
8	TIAA-CREF	\$ 27,690,556	2.59%	18	BERKSHIRE HATHAWAY INC	\$ 12,766,528	1.19%
9	PRUDENTIAL FINANCIAL INC	\$ 25,079,723	2.35%	19	LOEWS CORPORATION	\$ 11,540,000	1.08%
10	GOLDMAN SACHS GROUP INC	\$ 23,337,619	2.18%	20	CREDIT AGRICOLE GROUPE	\$ 10,000,000	0.94%
			Top 10 % Held 62.04%				Top 20 % Held 76.33%



Credit Overview

- PFM is knowledgeable on the factors impacting credits across the municipal sector, and in particular Texas community colleges.
- Based on our review of peer data and the rating agency criteria, we think Frank Phillips College may be rated in the A category given its budget size and prior financial results
- As Moody's and S&P have both shifted to a more quantitative ratings approach, PFM has built ratings calculators that allow clients to perform scenario analyses on potential future credit ratings (see a representative graphic for the College in later sections of this presentation)
- PFM will work with Frank Phillips College to prepare several different options to help identify the type of credit and credit modifiers to be used for the College's CIP:
 - Lien type/level
 - Reserves (M&O, debt service reserve, contingency, etc.)
 - Repayment period (including capitalized interest, etc.)
 - Debt service coverage thresholds
 - Credit enhancements, if necessary
- With respect to establishing bond ratings or seeking bond insurance, PFM works in cooperation with its clients to develop a credit strategy, and will play a central role in implementing the strategy

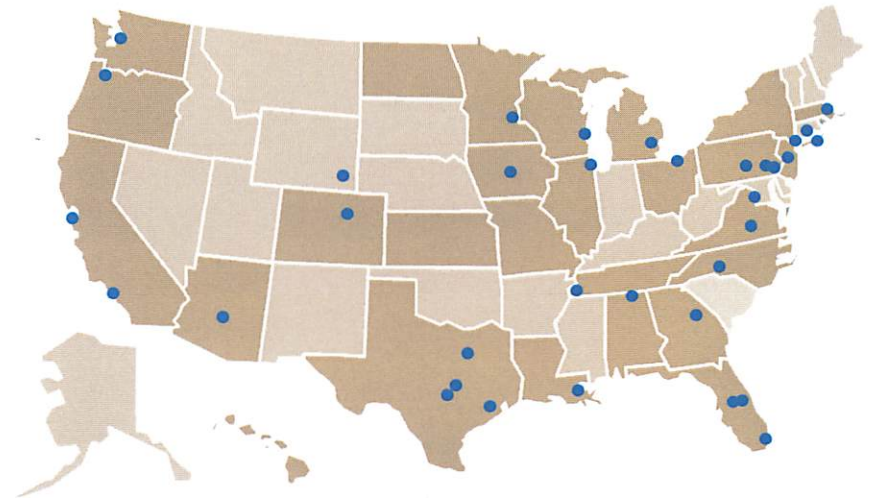
Moody's Community College Revenue Bond Scorecard





PFM is the Nation's Leading Municipal Financial Advisory Firm

- PFM is the largest independent municipal financial advisory firm in the country – we are a national firm with a local focus
- More than 600 professionals in 35 locations throughout the country
- Texas offices in Austin, Houston, Dallas and San Antonio
- Independent advisory firm – do not also engage in bond underwriting. Our financial advisors are always a fiduciary.
- Advisors are deeply familiar with the municipal capital markets and the sector-specific needs of our clients

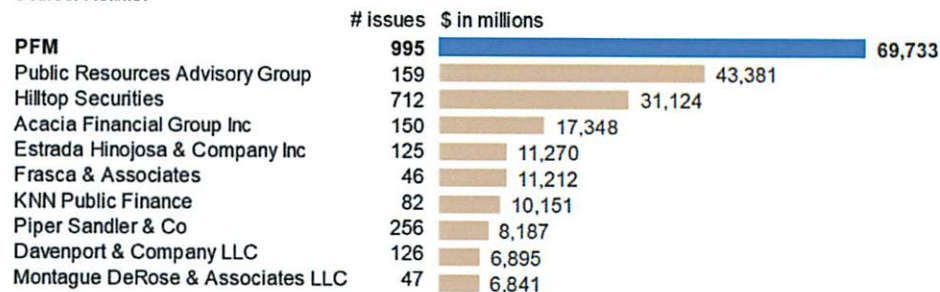


PFM Remains #1 in 2020

2020 Full Year Overall Long Term Municipal New Issues

Municipal Financial Advisory Ranking - Equal to Each Financial Advisor

Source: Refinitiv

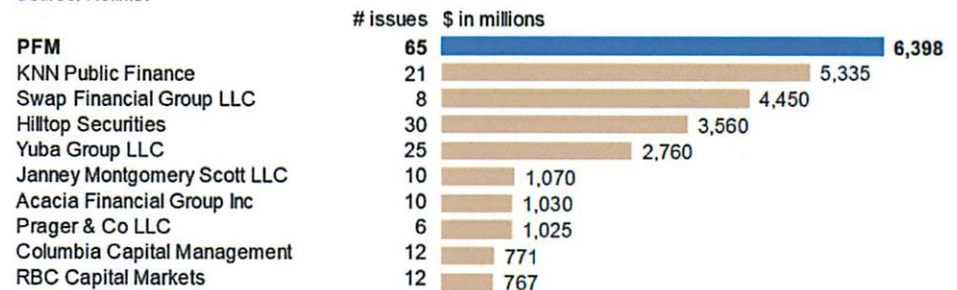


PFM Leads Higher Education

2020 Full Year Higher Education Long Term Municipal New Issues

Municipal Financial Advisory Ranking - Equal to Each Financial Advisor

Source: Refinitiv





PFM Maintains a Significant Financial Advisory Practice in Texas

- PFM was founded in 1975 and has provided financial advisory services in Texas since 1992
- PFM has 4 Texas offices in Austin, Houston, San Antonio, and Dallas; we employ 9 financial advisory and 3 asset management professionals located in Austin, Dallas, Houston and San Antonio, positioning us to serve our clients located across Texas
- PFM's Texas clients include community colleges, K-12 school districts, cities, counties, state agencies and authorities, and special districts.
- We have significant expertise with the municipal debt issuance process for Texas issuers and have expertise in developing complex plans of finance that conform to state law and Texas Attorney General requirements
- PFM has deep experience working with Texas bond counsel firms and negotiating with underwriting firms on behalf of our clients

PFM's reputation is built upon putting our clients first

Texas Client Base

<i>Austin, City of</i>	<i>Mathis ISD</i>
<i>Bastrop County</i>	<i>Palmview, City of</i>
<i>Brazos County</i>	<i>Poteet ISD</i>
<i>Bridgeport, City of</i>	<i>Rice University</i>
<i>Capital Metro Transportation Authority</i>	<i>San Felipe Del Rio CISD</i>
<i>CPS Energy</i>	<i>San Jacinto Community College</i>
<i>Culberson County Hospital District</i>	<i>Somerset ISD</i>
<i>Dallas, City of</i>	<i>South Plains JCD</i>
<i>Dallas County</i>	<i>Southwest Texas Junior College</i>
<i>Eagle Pass, City of</i>	<i>Tarrant County Community College</i>
<i>Eagle Pass ISD</i>	<i>Texas Public Finance Authority</i>
<i>Fort Bend County</i>	<i>TxDOT</i>
<i>Granger ISD</i>	<i>Texas Southern University</i>
<i>Granger, City of</i>	<i>Texas State Affordable Housing Corp</i>
<i>Galveston College</i>	<i>Travis County</i>
<i>Houston METRO</i>	<i>Travis County Bee Cave Road District</i>
<i>Houston, Port of</i>	<i>Travis County Healthcare District</i>
<i>La Pryor ISD</i>	<i>Trinity University</i>
<i>Leander ISD</i>	<i>Wylie ISD</i>

Note: Representative list of PFM's financial advisory clients and/or management and budget consulting clients.



PFM's Bond Pricing Group

- PFM's Pricing Group is among the most active participants in the municipal capital markets
- PFM prices more municipal bond transactions than any Wall Street firm
- PFM's Pricing and Swap groups serve the same role as comparable investment bank groups
- PFM works solely as a financial advisor and does not underwrite bonds

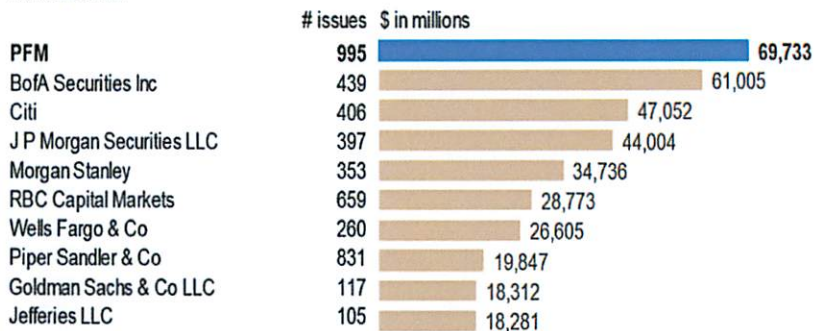
2020 Full Year Overall Long Term Municipal New Issues

PFM vs. Underwriter

Municipal Financial Advisory vs Underwriter Ranking

Equal to Each Financial Advisor; True Economics to Each Bookrunner

Source: Refinitiv





Case Study: South Plains JCD

\$14,315,000 Revenue Financing System Refunding Bonds, Series 2020A

\$10,000,000 Revenue Financing System Improvement Bonds, Series 2020B



- ◆ PFM was hired as financial advisor to South Plains College in 2020
- ◆ The College had approximately \$15 million in capital needs to fund a new campus in downtown Lubbock, a science building on its main campus in Levelland, and an opportunity to refund outstanding above-market variable rate debt for savings
- ◆ One nuance to the financing was the College anticipated the receipt of gifts and pledges from public and private donors that would flow in over the next five years, which would be used to reduce the permanent financing over the near-term
- ◆ PFM worked with the College and Bond Counsel to put together an installment bond structure which accounted for the anticipated gifts and pledges, and was acceptable to the Texas Attorney General
- ◆ We then worked with the College to evaluate options to issue bonds in the municipal capital markets relative to soliciting bids from a variety of local and regional banks interested in providing a direct placement solution to the College
- ◆ Ultimately, PFM advised the College to issue a bank financing RFP and received strong fixed-rate proposals at low rates
- ◆ Concurrently with the new money issuance, PFM assisted the College with achieving a fixed-rate refunding which allowed for the release of existing debt service reserve funds into the refunding, which further increased savings

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