RBC Capital Markets

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Ms. Debbie Monschke
Executive Director of Budget and Finance
Denton Independent School District
1307 N. Locust
Denton, Texas 76201

Re: Standby Bond Purchase Agreements for District's Series 1996B and Series 2000 Bonds

Dear Debbie:

On September 25, 2008, WestLB AG, the Standby Bond Purchase Agreement provider (the "Provider") for Denton Independent School District's (the "District") Variable Rate Unlimited Tax School Building Bonds, Series 1996B (the "Series 1996B Bonds") and Variable Rate Unlimited Tax School Building Bonds, Series 2000 (the "Series 2000 Bonds")(collectively, the "Bonds"), formally terminated the Standby Bond Purchase Agreements for the Series 1996B and Series 2000 Bonds, effective April 1, 2009. This memorandum reviews the need for a new Standby Bond Purchase Agreement provider for the Series 1996B and Series 2000 Bonds and our recommendation of how the District should proceed to ensure its debt portfolio remains unaffected.

Role of the Standby Bond Purchase Agreement Provider

Pursuant to the structure of variable rate financings, at certain times the owners of the Series 1996B and Series 2000 Bonds may elect or be required to "tender" their bonds for sale to new investors. This usually occurs at the time a new interest rate is set, a new interest rate period is established or a new Standby Bond Purchase Agreement provider is appointed for the Bonds.

The Standby Bond Purchase Agreement provider is responsible for purchasing the District's Series 1996B and Series 2000 Bonds from owners that "tender" their bonds in the event such bonds cannot be resold to new investors. By having a Provider, investors are assured that funds will be available to purchase their bonds once they are "tendered," thereby providing liquidity for their investment. Without a Provider, the District would be required to purchase the Series 1996B and Series 2000 Bonds in the event any "tendered" bonds could not be resold to new investors.

Pursuant to the original documents authorizing the issuance of the Series 1996B and Series 2000 Bonds and rating agency requirements, the District is required to maintain a Standby Bond Purchase Agreement provider for the Bonds. Therefore, when the District's Standby Bond Purchase Agreements with WestLB AG expire on April 1, 2009, the District is required to have appointed a new Provider for the Bonds.

Historical Savings from Variable Rate Bonds

In order to lower its overall borrowing cost, the District has incorporated the use of variable rate bonds within its debt portfolio. Since inception, the Series 1996B and Series 2000 Bonds have had an average interest rate of 3.03% and 3.15%, respectively. In comparison, had the Series 1996B and Series 2000 Bonds been sold in a fixed rate mode, the interest rates would have been approximately 5.85% and 5.00%, respectively. Based upon the lower interest rates achieved through the use of variable rate bonds and the prepayment thereof, the District has reduced its interest cost by approximately $25,100,000 by utilizing variable rate bonds within its debt portfolio.

The Series 1996B and Series 2000 Bonds have a principal amount outstanding of $19,400,000 and $13,400,000, respectively. Currently, the Series 1996B Bonds have an interest rate of 2.20%, which is scheduled to be reset on August 1, 2009, and the Series 2000 Bonds have an interest rate of 1.95%, which is scheduled to be reset on February 1, 2009.

Recommendation

Based upon current market conditions, certain economic indicators, historical variable rates of interest and the composition of the District's current debt portfolio, RBC Capital Markets believes it is prudent to maintain the Series 1996B and Series 2000 Bonds in a variable rate mode. However, as the financial markets have changed over the last 8-12 years, the original bond documents that govern the Series 1996B and Series 2000 Bonds do not conform to current market practices and certain rating agency standards. In addition, given the recent financial turmoil and the ongoing global credit crisis, providers of Standby Bond Purchase Agreements have become increasingly scarce as several of the financial institutions that historically provided these services, such as WestLB AG, have exited the market.

Therefore, RBC Capital Markets recommends the District refund its outstanding Series 1996B and Series 2000 Bonds with a new, single series of variable rate bonds (the "Series 2009 Bonds") to allow the District to update its bond documents with provisions that are acceptable in today's marketplace and be able to potentially attract interest from more Providers, resulting in a lower cost to the District. Once completed, the District's Series 1996B and Series 2000 Bonds would essentially become the Series 2009 Bonds, except a new Provider would be in place.

Parameters Bond Order – Approval Process

Pursuant to Chapters 1207 and 1371 of the Texas Government Code, as amended, the District's Board of Trustees may designate the ability to approve the issuance of the Series 2009 Bonds to the District's Administration, so long as certain parameters included within the Bond Order approved by the Board of Trustees are met.

Pursuant to the Bond Order to be considered by the District's Board of Trustees, the following is a representative listing of the parameters for the District's Series 2009 Bonds:

1.) A maximum principal amount of $32,800,000 of Series 2009 Bonds may be issued;

2.) Only the outstanding Series 1996B and Series 2000 Bonds may be refunded;

3.) The initial interest rate on the Series 2009 Bonds may not exceed 5.00%;

4.) The final maturity of the Series 2009 Bonds may not exceed the final maturity of the Series 1996B and Series 2000 Bonds (i.e. August 1, 2028); and

5.) The District must receive the proceeds of the Series 2009 Bonds no later than April 1, 2009.

Unless the parameters detailed above can be achieved, the Series 2009 Bonds would not be issued and additional direction would be received from the Board of Trustees.

Timetable

The preliminary timetable for the sale of the Series 2009 Bonds is summarized within the table below.

Preliminary Timetable – Series 2009 Bonds	
Date	**Action Necessary**
December 9, 2008	Board Meeting – The Board of Trustees adopts a bond order authorizing the issuance of the Series 2009 Bonds pursuant to specified parameters and adopts a resolution to convert the Series 2000 Bonds to a Weekly Interest Rate Mode effective February 1, 2009, the date the interest rate is scheduled to be reset. The Series 2000 Bonds would remain in a Weekly Interest Rate Mode until they are refunded.
January 9, 2009	A qualified financial institution to provide the Standby Bond Purchase Agreement for the Series 2009 Bonds is selected based upon responses received pursuant to a Request for Proposals.
February 13, 2009	All steps necessary to refund the Series 1996B and Series 2000 Bonds are completed. The remaining portion of the timetable will be implemented upon favorable market conditions.
TBD	Negotiated Sale – Pricing of the Series 2009 Bonds within the specified parameters. Initial interest rate on the Series 2009 Bonds is set through August 1, 2010 (18-months).
1 Business Day After Pricing	The District's Administration approves the legal documents associated with the Series 2009 Bonds within the parameters approved by the Board of Trustees.
On or Prior to April 1, 2009	Closing – The District receives the proceeds of the Series 2009 Bonds and the Series 1996B and Series 2000 Bonds are no longer outstanding.

Overview of Current Market Interest Rates

The following table summarizes the current market rates of interest available for variable rate bonds. It is important to emphasize that these interest rates will fluctuate until the interest rates on the District's variable rate bonds are reset.

Current Market Interest Rate Alternatives – As Of December 1, 2008

Interest Rate Period	Current Rate Of Interest
Weekly	1.30%
Six-Months	2.15%
12-Months	2.25%
18-Months	3.25%
36-Months	4.75%

Closing

We hope this information is helpful as you manage the District's financial position. Should any questions arise or additional information is needed, please do not hesitate to call Josh McLaughlin or myself at (214) 989-1661. We look forward to visiting with you soon.

Sincerely,

William J. Gumbert
Managing Director