

**ORDER AUTHORIZING THE ISSUANCE OF
DENTON INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2021;
ESTABLISHING PROCEDURES AND DELEGATING AUTHORITY FOR THE SALE AND DELIVERY OF THE BONDS;
LEVYING AN ANNUAL AD VALOREM TAX FOR THE PAYMENT OF SAID BONDS;
AND ENACTING OTHER PROVISIONS RELATING TO THE SUBJECT**

October 26, 2021

SUMMARY:

The purpose of this request is to authorize the Issuance of the Denton Independent School District Unlimited Tax Refunding Bonds, Series 2021. This would be a result of refunding the existing Series 2005-A and 2006-B Bonds and financing of the related swap termination payments, and the refunding of the portions of the Series 2014-A, 2015 and 2015-A Bonds.

BOARD GOAL:

Growth & Management

- Demonstrate effective and efficient management of district resources
- Provide leadership and/or oversight to ensure District meets all fiscal, legal and regulatory requirements

PREVIOUS BOARD ACTION:

The Board is presented with tax savings opportunities as they arise, and as market conditions allow for such transactions.

BACKGROUND INFORMATION:

The District has actively deployed various debt management practices to lower the borrowing costs of taxpayers. Such actions have reduced the cost of voter-approved bonds and provided District taxpayers with more than \$274.8 million of direct savings since year 2005. The District has implemented 10 refunding programs and prepaid \$58.14 million of existing bonds, generating more than \$228.7 million of savings.

The District has also implemented two “synthetic fixed rate debt structures” (i.e. Series 2005-A and 2006-B Bonds) to potentially reduce the District’s interest cost. As of September 30, 2021, these structures have reduced the District’s interest cost by more than \$10.21 million. DISD’s existing Swap Agreements are based upon the 1-month and 10-year London Interbank Offered Rate (“LIBOR”), respectively, which are scheduled to be discontinued on June 30, 2023 (originally scheduled for December 31, 2021). As such, sometime before June 30, 2023, the District will either need to:

- Replace LIBOR with another index; or
- Terminate the existing agreements

SIGNIFICANT ISSUES:

Based upon prevailing market conditions, the termination values of the Swap Agreements are negative, so Denton ISD would be required to pay to terminate such agreements. As of October 15, 2021, the termination values of the existing Swap Agreements are as follows:

- 2005 Swap Agreements: \$6,988,158
- 2006 Swap Agreement: \$8,635,878

Pursuant to State law, DISD may issue refunding bonds to pay for the termination value of the swaps.

Since the 2005-A Swap Agreements were “integrated” under Federal tax law, Denton ISD may fund the cost of the termination payment with tax-exempt bond proceeds. The refunding of the existing Series 2005-A Bonds would not qualify for the Permanent School Fund (PSF) guarantee, as the Series 2005-A Bonds were originally sold without the PSF guarantee.

Since the 2006-B Swap Agreement was not “integrated” under Federal tax law, Denton ISD MAY NOT fund the cost of the termination payment with tax-exempt bond proceeds. In order to implement this alternative, Denton ISD would need to issue 2 series of bonds:

- Fixed rate, PSF guaranteed tax-exempt bonds to refund the existing Series 2006-B Bonds; and
- Fixed rate, non-PSF guaranteed taxable bonds to pay the cost of the termination payment

The District also has an opportunity to complete a “taxable” refunding of a portion of its existing bonds at a lower interest rate.

FISCAL IMPLICATIONS:

Based upon prevailing market conditions, the District may terminate the existing Swap Agreements near breakeven levels from a “budgeted” cash flow perspective.

Issuance of Series 2021-A Bonds:

- Refunds existing Series 2005-A Bonds and terminates the associated 2005 Swap Agreements
- Increases DISD’s future bond payments by \$1,074,340, but the District still achieves a total estimated cash flow savings of \$3,089,568 since the inception of the 2005 Swap Agreements.

Issuance of Series 2021-B Bonds and Taxable Series 2021-C Bonds:

- Refunds existing Series 2006-B Bonds and terminates the 2006 Swap Agreement

- Results in a \$506,665 reduction in the District’s future bond payments, with the District achieving a total estimated cash flow savings of \$6,552,923 since the inception of the 2006 Swap Agreement.

Refunds of the District’s existing Series 2014-A, Series 2015 and Series 2015-A Bonds at a lower interest rate, could produce a savings of \$5,839,643 based upon prevailing market conditions.

BENEFIT OF ACTION:

With the termination of the Swap Agreements, Denton ISD is no longer subject to counterparty risk, termination risk, basis risk, tax event risk, etc. as the District would be left with traditional fixed rate bonds.

PROCEDURAL AND REPORTING IMPLICATIONS:

Designate the authority for the Superintendent and Deputy Superintendent to independently authorize and finalize the terms of the Unlimited Tax Refunding Bonds, Series 2021.

SUPERINTENDENT’S RECOMMENDATION:

Consider and act upon adoption of an order authorizing the issuance of unlimited tax refunding bonds of the Denton Independent School District; establishing procedures and delegating authority for the sale and delivery of the bonds; levying an annual ad valorem tax for the payment of said bonds; and enacting other provisions relating to the subject:

Parameters for Potential Swap Termination and Refunding Programs				
Parameter	Series 2021-A Bonds (2005-A Swap Termination & Refunding Program)	Series 2021-B Bonds (2006-B Refunding Program)	Taxable Series 2021-C Bonds (2006-B Swap Termination Program)	Taxable Series 2021-D Bonds (“Taxable” Refunding Program For Savings)
1.) Minimum Savings Amount (Net of All Costs):	N/A	N/A	N/A	\$ 7,000,000
2.) Maximum Principal Amount:	\$ 35,180,000	\$ 30,000,000	\$ 12,000,000	\$ 89,785,000
3.) True Interest Rate (“All-In” TIC) – Not to Exceed:	2.50%	2.50%	2.50%	2.00%
4.) Final Maturity – Must Not Exceed:	Aug. 15, 2035	Aug. 15, 2035	Aug. 15, 2023	Aug. 15, 2033
5.) Expiration Date (i.e. 1 Year):	Oct. 26, 2022	Oct. 26, 2022	Oct. 26, 2022	Oct. 26, 2022

Unless each parameter listed above can be achieved, the proposed bond sales will not be issued until additional direction is received from the District.

STAFF PERSONS RESPONSIBLE:

Dr. J. Scott Niven, Deputy Superintendent
Jennifer Stewart, Executive Director of Budget

ATTACHMENT:

Order Authorizing the Issuance of Denton Independent School District Unlimited Tax Refunding Bonds, Series 2021; Establishing Procedures and Delegating Authority for the Sale and Delivery of the Bonds; Levying an Annual Ad Valorem Tax for the Payment of Said Bonds; and Enacting Other Provisions Relating to the Subject

BOSC Presentation

APPROVAL:

Signature of Staff Member Proposing Recommendation: _____

Signature of Divisional Assistant Superintendent: _____