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May 21, 2019

Dr. Jamie Wilson  
 Superintendent of Schools  
 Denton Independent School District  
 1307 North Locust Street  
 Denton, Texas 76201

Ms. Debbie Monschke  
 Assistant Superintendent of Administrative Services  
 Denton Independent School District  
 1307 North Locust Street  
 Denton, Texas 76201

**Re: Resetting Interest Rate Term – Variable Rate Unlimited Tax School Building Bonds, Series 2014-B**

Dear Dr. Wilson and Ms. Monschke:

**Introduction**

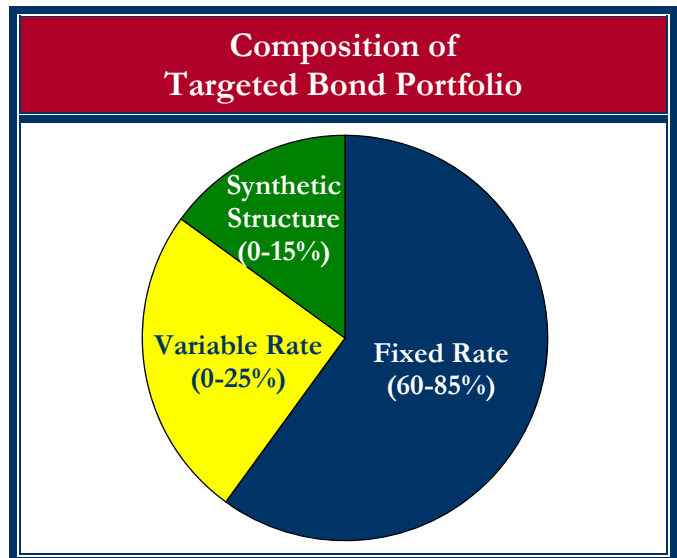
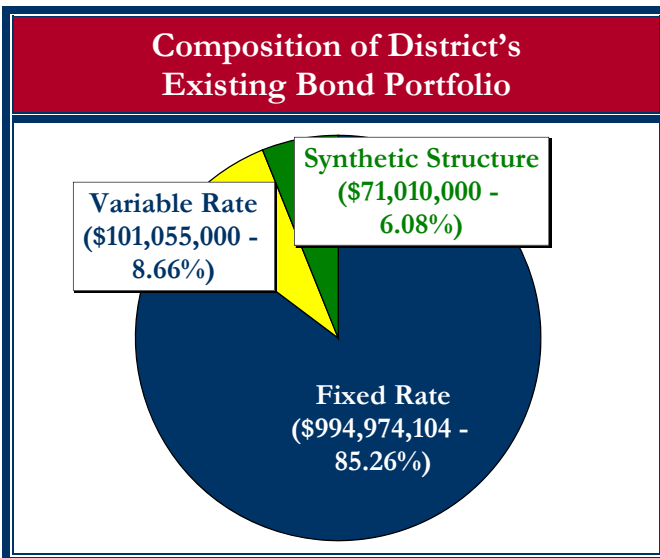
Denton Independent School District (the “District”) successfully issued its Variable Rate Unlimited Tax School Building Bonds, Series 2014-B (the “Series 2014-B Bonds”) on June 19, 2014. Based upon prevailing market conditions at such time, an initial 5-year interest rate term was prudently utilized for the Series 2014-B Bonds and such term expires on August 1, 2019. Pursuant to the financing structure of the Series 2014-B Bonds, the District has the flexibility to select the next interest rate period that is deemed most appropriate. This memorandum summarizes the available interest rate periods and our recommendation, as the District’s financial advisor, for your consideration.

**Review of the District’s Existing Series 2014-B Bonds**

The current interest rate on the Series 2014-B Bonds is 1.59% – Which compares favorably to the District’s fixed rate bond alternative of 4.23% at the time of the original bond sale. Based upon the interest rate differential, the District has directly reduced the interest cost of taxpayers for the Series 2014-B Bonds by \$8,905,558 over the last 5 years.

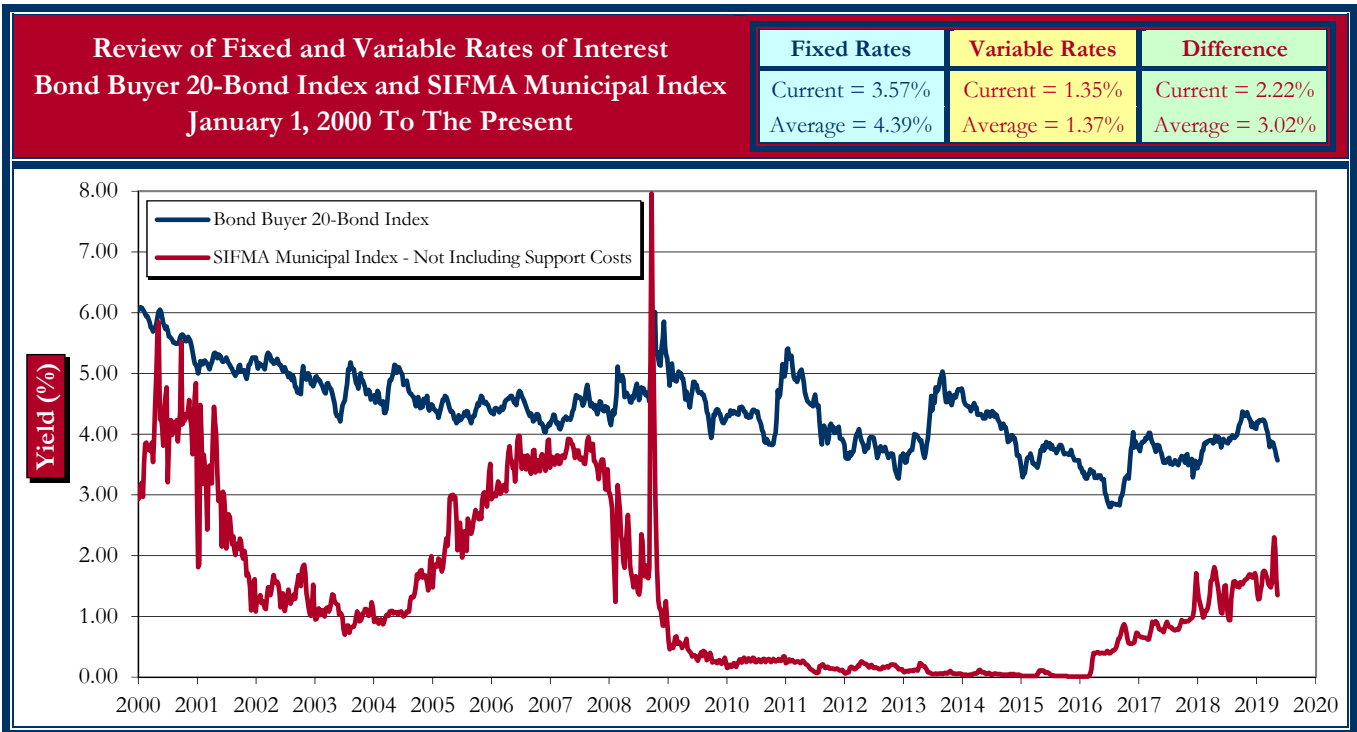
**Composition of District’s Existing and Targeted Debt Portfolio**

Variable rate bonds currently comprise 8.66% of the District’s existing debt portfolio and, pursuant to the District’s Debt Management Policy, the maximum percentage of variable rate debt within the District’s debt portfolio is 25% - 30%.



### Comparison of Fixed and Variable Interest Rates

Although fixed and variable municipal interest rates have trended higher due to various economic factors, shorter-term variable rates (red line) remain favorable in comparison to fixed rates of interest (blue line). As such, the District remains positioned to further lower its borrowing cost by maintaining a variable rate structure for the Series 2014-B Bonds.



### Current Municipal Market – Summary of Certain Interest Rate Periods for the Series 2014-B Bonds

Based upon current market conditions, the following summarizes certain interest rate periods and estimated interest rates available to the District.

Current Market Rates – May 21, 2019	
Interest Rate Term	Estimated Rate <sup>(A)</sup>
1-Year	1.90%
2-Years	1.96%
3-Years	2.02%
4-Years	2.08%
5-Years	2.14%
Fixed Rate	3.80%
<sup>(A)</sup> Estimated – Subject to change until August 1, 2019.	

## Recommendation

Based upon current market conditions, certain economic indicators, historical interest rates and the composition of the District's existing debt portfolio, we recommend the District continue to maintain the Series 2014-B Bonds in a variable rate structure and for the District to once again utilize a 5-year interest rate term for the next interest rate period. This will:

- Provide the District with interest cost certainty for the next 5 years – Through July 31, 2024;
- Lock-in a historically attractive interest rate of approximately 2.14%, which remains significantly lower than the original fixed rate alternative of 4.23%;
- Reduce the District's interest cost on the Series 2014-B Bonds by an additional \$5.5 million over the next 5 years (in comparison to the original fixed rate alternative); and
- Diversify the District's debt portfolio as the interest rate periods of its existing variable rate bonds will be staggered as follows:

Summary of District's Variable Rate Bonds			
Variable Rate Series	Interest Rate Reset Date	Principal Amount Outstanding	Existing/Estimated Interest Rate
Series 2013 Bonds	August 1, 2020	\$31,980,000	1.14%
Series 2014-B Bonds	August 1, 2024	\$69,075,000	2.14%

### “Parameters” for Resetting Interest Rate Term – Series 2014-B Bonds

As previously utilized for prior bond sales, the District's Board of Trustees may adopt a “Parameters Order” to establish a new interest rate period for the Series 2014-B Bonds. We recommend the following parameters be used:

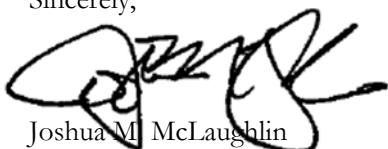
- 1.) The new interest rate (i.e. “yield”) may not exceed 3.00%;
- 2.) The new interest rate period must be at least 1 year (i.e. July 31, 2020) and may not exceed a period of 8 years (i.e. July 31, 2027) – Although a new term rate period of 5 years is currently recommended, a range is provided to allow additional flexibility at the time the new interest rate is set; and
- 3.) The final maturity of the Series 2014-B Bonds may not be extended.

Should each parameter be met, the District's new interest rate period will become effective on August 1, 2019.

### Closing

We hope this information is helpful as you manage the District's debt position. Should any questions arise, additional information is preferred or if we may be of any assistance to support the needs of Denton ISD, please do not hesitate to contact us. Hope all is well and we look forward to visiting with you soon!

Sincerely,



Joshua M. McLaughlin  
Managing Director



Alison M. Long  
Director