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Board Action Required



No Action Required

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To: Coppell ISD Board of Trustees  
From: Diana Sircar  
Date: July 25, 2024

cc: Brad Hunt

**Re: Defeasance of Debt**

The district anticipates a debt service fund balance of about \$14 million at the end of fiscal year 2023-2024. The debt service fund balance grew by \$2.4 million from FY22 to FY23 and is anticipated to grow again at the end of FY24 by another \$1.5 million. This is a result of two main factors:

- 1) the increase in state 'hold harmless' funding for debt service for districts due to the change in the homestead exemption from \$25,000 to \$40,000 and then the additional increase to \$100,000 occurring in November of 2023 after the budget was adopted; and
- 2) significantly higher interest earnings on tax collections within the fund which are estimated to have contributed \$2.9 million to the fund over the past two years.

Upon discussion with the district's financial advisor, he recommends that the district consider using excess debt service fund balance to defease ("prepay") current debt to accomplish a few goals:

- 1) effectively manage the Interest & Sinking tax rate for future years;
- 2) provide more flexibility to the district to structure future issuance of debt under the 2023 bond program; and
- 3) provide savings in interest payments

The recommendation is that the district utilize \$2m - \$3m in excess fund balance to defease debt focusing on the principal due for fiscal years 2028 and 2027, in that order of priority. Defeasance of this debt will allow the district to reduce any additional increase in the I&S tax rate by at least 1 penny.

Provided under separate cover are the scenarios to defease the 2016B series using approximately \$2 million, \$2.5 million, or \$3 million in fund balance. The 2016B series has been targeted as the bonds are callable sooner than other series.

The Board is presented with a Resolution to declare intent to use lawfully available unencumbered funds to redeem or defease a portion of the outstanding bonds; to authorize the Superintendent or the Chief Financial Officer to select one or more series of outstanding bonds to redeem or defease and to do any and all things necessary to effect the redemption and/or defeasance.

By considering this action now, the district may be able to incorporate the defeasance into the 2024-2025 debt service budget and the calculation of the 2024 I&S tax rate.

**Recommendation:** The Board of Trustees approve the Resolution expressing intent to redeem or defease certain of the Coppell ISD's outstanding obligations.