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Dr. Ray Braswell Superintendent of Schools Denton Independent School District 1307 North Locust Denton, Texas 76201	Dr. Jaime Wilson Deputy Superintendent Denton Independent School District 1307 North Locust Denton, Texas 76201	Ms. Debbie Monschke Executive Director of Administrative Services Denton Independent School District 1307 North Locust Denton, Texas 76201

Re: Variable Rate Unlimited Tax School Building Bonds, Series 2006-B – Replacement of Existing Standby Bond Purchase Agreement Provider

Dear Dr. Braswell, Dr. Wilson and Ms. Monschke:

Introduction

As anticipated, Bank of America, N.A., the Standby Bond Purchase Agreement Provider for Denton Independent School District's (the "District") Variable Rate Unlimited Tax School Building Bonds, Series 2006-B (the "Bonds"), has elected to terminate the existing Standby Bond Purchase Agreement associated with the District's Bonds, effective July 27, 2012. This memorandum summarizes our recommendation for the appointment of a new Standby Bond Purchase Agreement ("SBPA") Provider and the required actions related thereto.

Historical Savings from Variable Rate Unlimited Tax School Building Bonds, Series 2006-B

In order to lower its overall borrowing cost, the District issued its $30,000,000 Variable Rate Unlimited Tax School Building Bonds, Series 2006-B and simultaneously entered into a swap agreement to "synthetically" fix the interest rate on the Bonds. **Based upon the financing structure utilized, the District has reduced the cost of taxpayers by more than $2.8 million.**

Role of the Standby Bond Purchase Agreement Provider

Pursuant to the structure of traditional variable rate financings, at the time a new interest rate is set and at certain other times, the owners of the Bonds may elect to "tender" their bonds for sale to new investors and "demand" repayment at such time. When a bond is "tendered" for sale, the Standby Bond Purchase Agreement Provider is responsible for purchasing the Bonds from the existing owners in the event they cannot immediately be resold to another investor. As such, the SBPA Provider provides "liquidity" to current bondholders by ensuring a bondholder will receive timely repayment of the Bonds at the time it is "tendered."

Pursuant to the original financing documents, rating agency requirements and to ensure the Bonds remain "marketable" to investors, the District is required to maintain a Standby Bond Purchase Agreement Provider for the Bonds. Given Bank of America, N.A. has elected to terminate its position as the current SBPA Provider for the Bonds, the District must take the necessary steps to appoint a new SBPA Provider by July 27, 2012.

Recommendation

At this time, BOSC, Inc. believes it is prudent for the District to maintain the Bonds in a variable rate mode. However, with the ongoing financial crisis, global credit crunch and the proposed new banking regulations (i.e. Basel III, etc.), Bank of America's decision to "opt out" of the existing SBPA was not a surprise. In an effort to obtain a new SBPA Provider, we requested "bids" from certain qualified SBPA Providers, including Bank of Toyko-Mitsubishi UFJ, BBVA, JPMorgan Chase Bank, Royal Bank of Canada, Sumitomo Mitsui Banking Corporation and Wells Fargo Bank. As summarized within the table below, the lowest cost was proposed by Wells Fargo Bank at 0.40%/year and the agreement would be for a 2 ½ year period.

Summary of Proposals Received		
Prospective SBPA Provider	**Proposed Fee**	**Expiration Date of Agreement**
Wells Fargo Bank	**0.400%**	**December 31, 2014**
Sumitomo Mitsui Banking Corporation	0.440%	August 1, 2015
JPMorgan Chase Bank	0.525%	December 31, 2014

The District is currently paying 0.25%/year to Bank of America, N.A. Based upon the lowest quote received, the cost differential associated with a new SBPA Provider is $47,700/year. It is important to note, given the capital constraints of financial institutions and the costs associated with the proposed new banking regulations, we believe the 0.40% fee is representative of the current market for Standby Bond Purchase Agreements.

Given the historical benefits provided by the District's financing structure, we recommend the District approve an "Order Authorizing the Execution and Delivery of a Substitute Standby Bond Purchase Agreement" and delegate the authority to the District's Administration to approve the final terms and conditions, upon consultation with BOSC, Inc. and McCall, Parkhurst & Horton L.L.P., the District's bond counsel. It is currently anticipated the SBPA will be finalized by the end of July 2012.

Closing

We hope this information is helpful as you manage the District's current and future financial position. Should any questions arise or additional information is needed, please do not hesitate to contact us. Hope all is well and we look forward to visiting with you soon.

Sincerely,

William J. Gumbert
Managing Director