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June 15, 2020

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

Dr. Scott Niven  
Chief Financial Officer  
Denton Independent School District  
1307 North Locust Street  
Denton, Texas 76201

**Re: Resetting Interest Rate Term – Variable Rate Unlimited Tax School Building Bonds, Series 2013**

Dear Dr. Wilson and Dr. Niven:

**Introduction**

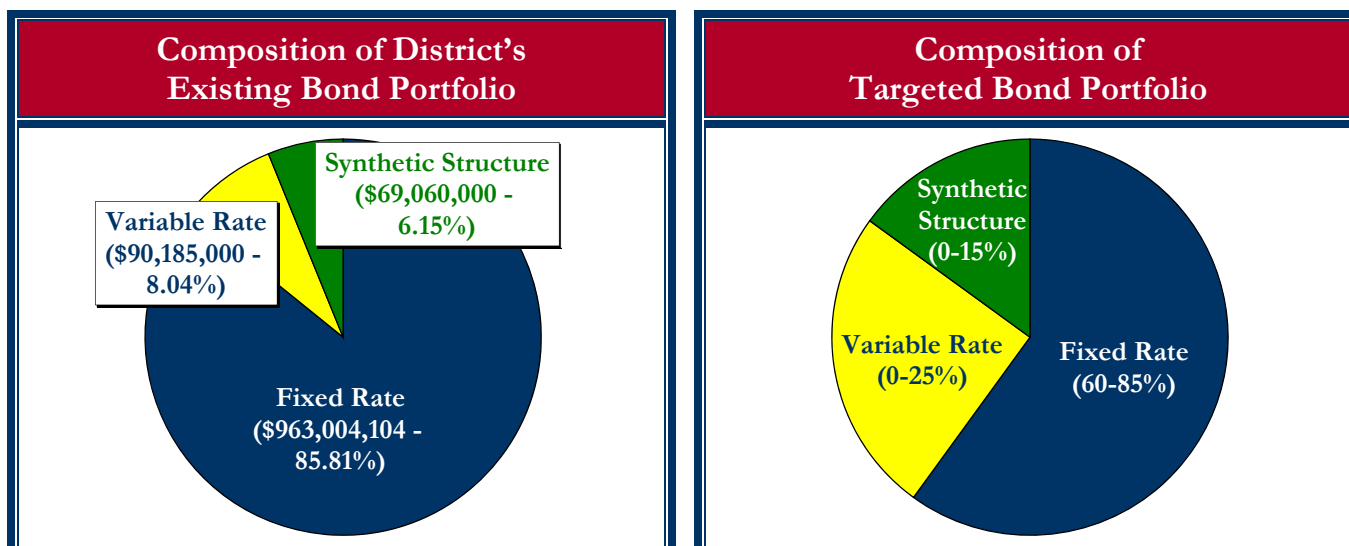
The existing 4-year interest rate term on Denton Independent School District's ("DISD" or the "District") \$22,260,000 Variable Rate Unlimited Tax School Building Bonds, Series 2013 (the "Series 2013 Bonds") expires on August 1, 2020. Pursuant to the financing structure of the Series 2013 Bonds, DISD 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 2013 Bonds**

The current interest rate on the Series 2013 Bonds is 1.14%, which compares favorably to the District's fixed rate bond alternative of 4.86% at the time of the original bond sale in September 2013. To date, DISD has achieved a savings of over \$9.0 million on the Series 2013 Bonds based upon the interest rate differential, as the average interest rate has been 1.14%.

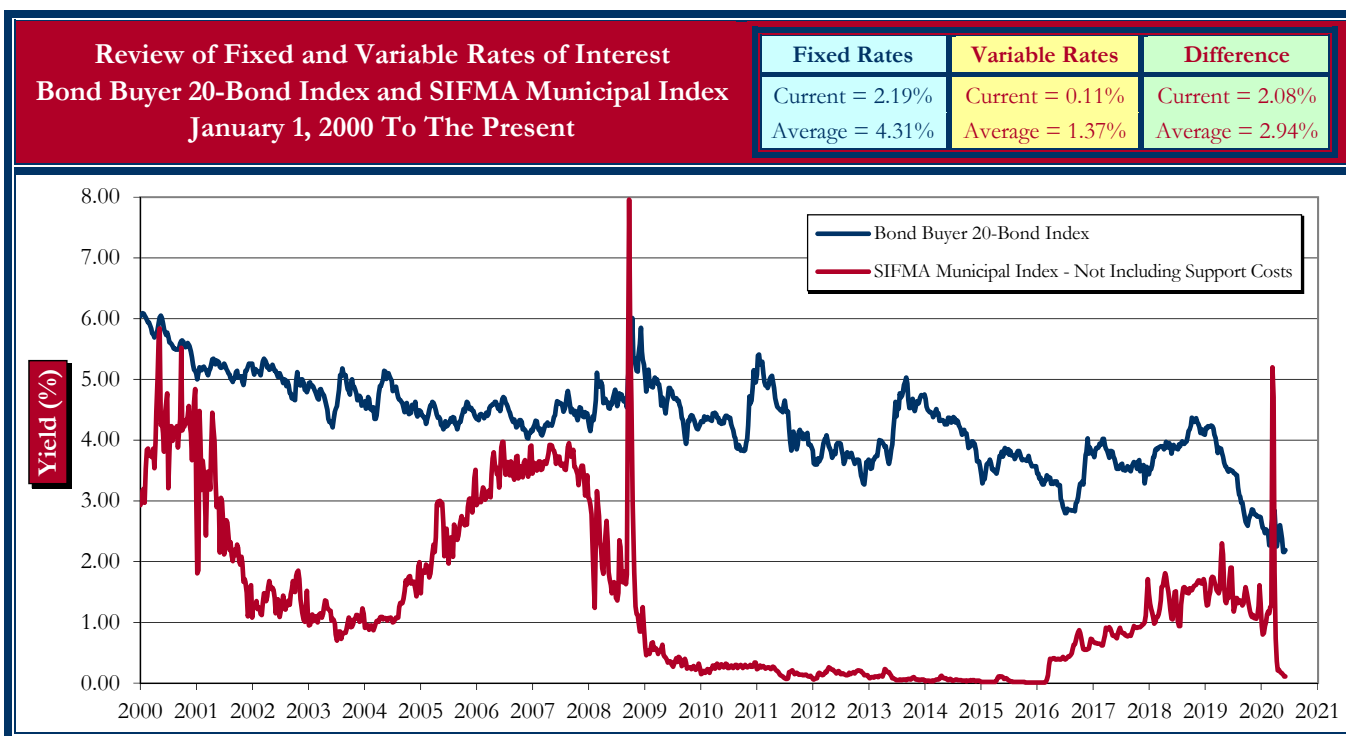
**Composition of District's Existing and Targeted Debt Portfolio**

Variable rate bonds currently comprise 8.04% of Denton ISD's existing debt portfolio, which remains within the expectations of the bond rating agencies and, generally speaking, prudent debt management standards, and also below the 25% - 30% maximum outlined in DISD's Debt Management Policy.



### Comparison of Fixed and Variable Interest Rates

Although fixed and variable municipal interest rates have recently experienced significant volatility due to the economic fallout from the COVID-19 pandemic, shorter-term variable rates (red line) are currently favorable in comparison to fixed rates of interest (blue line). As such, DISD remains positioned to further reduce its borrowing cost by maintaining a variable rate structure for the Series 2013 Bonds.



### Current Municipal Market – Summary of Certain Interest Rate Periods for the Series 2013 Bonds

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

Current Market Rates – Friday, June 12, 2020	
Interest Rate Term	Estimated Rate <sup>(A)</sup>
1-Year	0.70%
2-Years	0.80%
3-Years	0.85%
4-Years	0.95%
5-Years	1.10%
Fixed Rate	2.90%
<sup>(A)</sup> Estimated – Subject to change until August 1, 2020.	

## 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 2013 Bonds in a variable rate structure and for DISD to utilize a 3-year interest rate term for the next interest rate period. This will:

- Provide the District with interest cost certainty for the next 3 years – Through July 31, 2023;
- Lock-in a historically attractive interest rate of approximately 0.85%, which remains substantially below the original fixed rate alternative of 4.86%;
- Reduce DISD's interest cost on the Series 2013 Bonds by an additional \$2.06 million over the next 3 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, 2023	\$22,260,000	0.85%
Series 2014-B Bonds	August 1, 2024	\$67,925,000	1.53%

## "Parameters" for Resetting Interest Rate Term – Series 2013 Bonds

As previously utilized for prior bond sales, Denton ISD's Board of Trustees may adopt a "Parameters Order" to establish a new interest rate period for the Series 2013 Bonds. We recommend the following parameters be used:

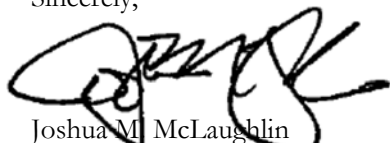
- 1.) The new interest rate (i.e. "yield") may not exceed 2.50%;
- 2.) The new interest rate period must be at least 1 year (i.e. July 31, 2021) and may not exceed a period of 5 years (i.e. July 31, 2025) – Although a new term rate period of 3 years is currently recommended, a range is provided to allow additional flexibility at the time the new interest rate is set; and
- 3.) The final maturity of the Series 2013 Bonds may not be extended.

Should each parameter be met, the District's new interest rate period will become effective on August 1, 2020.

## Closing

We hope this information is helpful as you manage DISD'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. Take care, stay safe and we look forward to visiting with you soon!

Sincerely,



Joshua M. McLaughlin  
Managing Director



Alison M. Long  
Director