



## **ALEDO ISD BOARD MEETING TEMPLATE**

**MEETING DATE:** November 18, 2013

**AGENDA ITEM:** Potential Refinancing of Series 2005-A Bonds

**PRESENTER:** Earl Husfeld

**ALIGNS TO BOARD GOAL(S):** Financial/Facilities – The District shall exhibit excellence in financial and facility planning, management, and stewardship.

### **BACKGROUND INFORMATION:**

- Periodically Aledo ISD staff and the District's financial advisory firm, BOSC, Inc., review the District's financial and debt position to ensure the District is taking advantage of current market conditions.
- Based upon these current market conditions, the District is able to realize a financial savings by "refinancing" a portion of our outstanding Series 2005-A bonds at a lower interest rate.

### **ADMINISTRATIVE CONSIDERATIONS:**

- The following Refunding Summary letter prepared by BOSC, Inc., provides explanation and insight into the savings available to the District and the preliminary financing plan to achieve these savings.
- Assuming the Board of Trustees is interested in proceeding with this refinancing opportunity, the Board of Trustees will be asked to approve a "Parameters Bond Order" to ensure the most advantageous timing of the refinancing.
- If approved by the Board of Trustees, the Parameters Bond Order would delegate the ability to approve the issuance of the refinancing bonds to the District's Superintendent and/or Chief Financial Officer if certain parameters are met as specified in the Parameters Bond Order.
- Although the recommended parameters for this refinancing may be different, this method is identical to that used in the District's last refinancing bond sale completed in April 2013.
- Potential refinancing structures/scenarios will continue to be analyzed and final recommendations will be provided to you at the December board meeting.

### **FISCAL NOTE:**

Potential savings are identified in the following Refunding Summary Letter.

### **ADMINISTRATIVE RECOMMENDATION:**

None – Informational Report



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November 5, 2013

Mr. Earl Husfeld  
 Chief Financial Officer  
 Aledo Independent School District  
 1008 Bailey Ranch Road  
 Aledo, Texas 76008

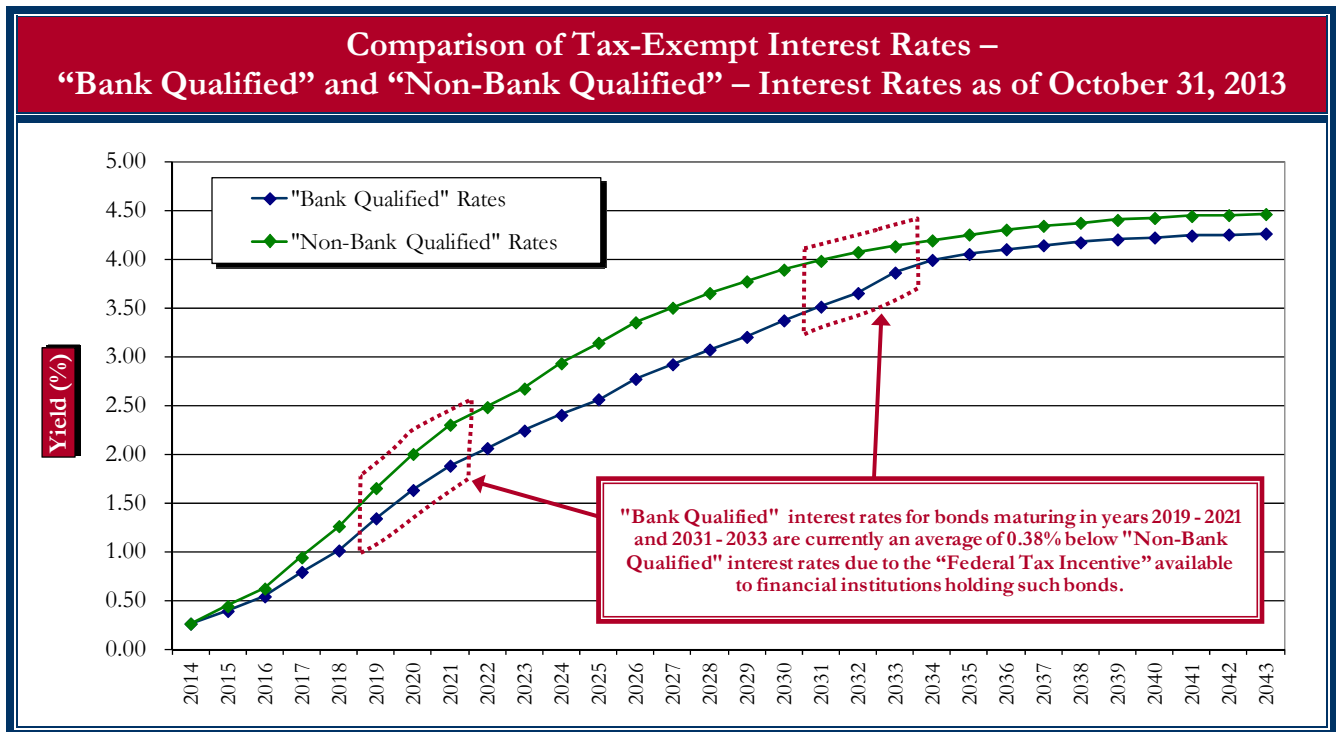
**Re: Aledo Independent School District – Refunding Summary**

Dear Mr. Husfeld:

For your review, this letter summarizes the savings potentially available to Aledo Independent School District (the “District”) by completing a “Bank Qualified Refunding” of its outstanding Unlimited Tax School Building Bonds, Series 2005-A (the “Series 2005-A Bonds”) at a lower interest rate and the preliminary financing plan/timetable to realize such savings for the District and its taxpayers. Please note, this refunding opportunity is only available if the District does not anticipate the issuance of any other “tax-exempt” bonds during calendar year 2014.

**Use of “Bank Qualified” Financing Structure – Providing Lower Interest Rate**

Pursuant to Federal Tax law, should the District commit to issue less than \$10.0 million of tax-exempt debt obligations during calendar year 2014, it may designate its refunding bonds as “Bank Qualified.” The benefit of a “Bank Qualified” structure is the interest rates are approximately 0.38% lower due to the “Federal Tax Incentive” available to financial institutions holding such bonds (see “Comparison of Tax-Exempt Interest Rates” graph below). To maximize the District’s savings, the refunding program is to be implemented on a “Bank Qualified” basis.



### Financing Structure

The financing structure for the refunding program is identical to the prior bond refundings the District has completed to reduce the interest cost on its outstanding bonds. As summarized below, the refunding programs have generated \$7,785,984 of savings for District taxpayers.

<b>Summary of Interest Cost Savings Achieved By The District – Since Year 2006</b>			
<b>Issue</b>	<b>Series Refunded</b>	<b>Principal Amount Refunded</b>	<b>Total Savings</b>
Unlimited Tax Refunding Bonds, Series 2006	1998	\$ 23,035,000	\$ 1,172,515
Unlimited Tax Refunding Bonds, Series 2007	1998	7,520,000	988,788
Unlimited Tax Refunding Bonds, Series 2012	2001 & 2005-A	8,519,919	1,075,426
Unlimited Tax Refunding Bonds, Series 2013-A	2005-A	8,985,000	2,344,653
Unlimited Tax Refunding Bonds, Taxable Series 2013-B	2005-A & 2006	17,010,000	2,204,602
<b>Totals</b>	<b>---</b>	<b>\$ 65,069,919</b>	<b>\$ 7,785,984</b>

### Savings Available

Based upon current market conditions, the table below summarizes the savings potentially available to the District. Please note, the savings are net of all costs associated with the Refunding Program.

<b>Summary of Savings Available</b>	
<b>Description</b>	<b>Summary of Results</b>
<b>Principal Amount of the Series 2005-A Bonds to be Refunded</b>	<b>\$ 9,145,000</b>
<b>Interest Rate on the Series 2005-A Bonds to be Refunded</b>	<b>5.10%</b>
<b>Interest Rate on the Refunding Bonds</b>	<b>3.51%</b>
<b>Escrow Yield</b>	<b>0.10%</b>
<b>Total Debt Service Savings</b>	<b>\$ 1,329,544</b>
<b>Average Annual Savings (Years 2014/15 – 2032/33)(19-Years)</b>	<b>69,976</b>
<b>Present Value Debt Service Savings</b>	<b>991,227</b>
<b>Present Value Savings as a Percentage of the Principal Amount of the Series 2005-A Bonds to be Refunded</b>	<b>10.84%</b>
<b>Opportunity Cost of Advance Refunding (i.e. “Negative Arbitrage”)</b>	<b>\$ 291,022</b>

### Opportunity Cost of Advance Refunding – “Negative Arbitrage”

Since investment rates on United States Treasury obligations are near historical lows, a refunding currently generates less in investment income than is permitted under Federal Tax Law to repay the Series 2005-A Bonds to be refunded until their redemption date of February 15, 2015 (i.e. “Negative Arbitrage”). Please note, the “Negative Arbitrage” does not change the savings currently available as summarized within the aforementioned table as “Negative Arbitrage” is not an “actual” cost – it is solely an opportunity cost.

### Summary of District's Bond Payments

As shown below, the Refunding Program may be structured to provide savings over the same repayment period of the District's existing bonds to be refunded at a lower interest rate.

Refunding Program – Estimated Savings					
A	B	C	D	E	F
Fiscal Year	Existing Bond Payments	Less: Bond Payments – Series 2005-A Bonds to be Refunded	Plus: Bond Payments – Refunding Bonds	Bond Payments – After Refunding Program	Savings <sup>(A)</sup> (Col. B – E)
2013/14	\$ 10,050,863	\$ 464,538	\$ 464,538	\$ 10,050,863	\$ ---
2014/15	10,060,300	464,538	382,350	9,978,113	82,188
2015/16	10,057,499	464,538	381,350	9,974,312	83,188
2016/17	10,065,374	464,538	385,300	9,986,137	79,238
2017/18	10,054,149	464,538	383,925	9,973,537	80,613
2018/19	10,063,512	1,366,413	1,285,600	9,982,699	80,813
2019/20	10,058,724	1,554,163	1,470,475	9,975,037	83,688
2020/21	10,058,624	1,554,413	1,474,625	9,978,837	79,788
2021/22	10,055,174	298,788	241,400	9,997,787	57,388
2022/23	10,063,712	298,788	241,400	10,006,324	57,388
2023/24	10,060,990	298,788	241,400	10,003,602	57,388
2024/25	10,062,577	298,788	241,400	10,005,190	57,388
2025/26	10,056,806	298,788	241,400	9,999,418	57,388
2026/27	10,054,149	298,788	241,400	9,996,761	57,388
2027/28	10,056,737	298,788	241,400	9,999,349	57,388
2028/29	10,059,758	298,788	241,400	10,002,370	57,388
2029/30	10,060,332	298,788	241,400	10,002,945	57,388
2030/31	10,060,953	703,153	623,113	9,980,912	80,041
2031/32	10,190,388	4,555,025	4,472,600	10,107,963	82,425
2032/33	10,216,266	1,051,266	970,188	10,135,188	81,078
2033/34	10,302,500	---	---	10,302,500	---
2034/35	11,134,750	---	---	11,134,750	---
2035/36	8,388,250	---	---	8,388,250	---
2036/37	8,390,875	---	---	8,390,875	---
2037/38	8,383,625	---	---	8,383,625	---
2038/39	8,390,625	---	---	8,390,625	---
2039/40	8,824,750	---	---	8,824,750	---
2040/41	8,824,750	---	---	8,824,750	---
2041/42	8,825,250	---	---	8,825,250	---
2042/43	8,825,250	---	---	8,825,250	---
<b>Totals</b>	<b>\$291,757,510</b>	<b>\$15,796,206</b>	<b>\$14,466,663</b>	<b>\$290,427,967</b>	<b>\$1,329,544</b>

<sup>(A)</sup> At this time, the District receives approximately \$255,000 for each 1-cent of I&S tax effort.

**Bonds to be Refunded**

The following table provides the District's existing Series 2005-A Bonds that are cost-effective to refund at this time.

<b>Summary of the Series 2005-A Bonds to be Refunded</b>					
<b>Issue Outstanding</b>	<b>Principal Amount To Be Refunded</b>	<b>Maturities To Be Refunded</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
Unlimited Tax School Building Bonds, Series 2005-A	\$ 9,145,000	02/15/2019 – 2021; 2031 – 2033	5.10%	02/15/2015	100.0%

**Use of a "Parameters Bond Order" for Approval of Refunding Bond Sale**

As previously utilized for the sale of the District's Unlimited Tax Refunding Bonds, Series 2013-A and Taxable Series 2013-B, the District's Board of Trustees may adopt a "Parameters Bond Order" to complete the sale of the Refunding Bonds. The following is a representative listing of parameters we recommend the District utilize for its Refunding Program.

- 1.) The District achieves at least \$950,000 of savings;
- 2.) A maximum of \$10,000,000 (principal amount) of Refunding Bonds may be issued;
- 3.) The interest rate (federal arbitrage yield) on the Refunding Bonds may not exceed 3.50%;
- 4.) The final maturity of the Refunding Bonds may not exceed February 15, 2033 – The same final maturity as the existing Series 2005-A Bonds to be refunded; and
- 5.) The Refunding Program is completed prior to June 14, 2014 (i.e. 180 days after the "Parameters Bond Order" is adopted).

Unless each parameter listed above is achieved, the Refunding Bonds would not be issued unless additional direction is received from the District.

**Preliminary Timetable**


The preliminary timetable for the sale of the Refunding Bonds is listed below for your review.

<b>Preliminary Timetable – Refunding Bonds</b>	
<b>Date</b>	<b>Action Necessary</b>
December 16, 2013	Board Meeting – Discuss Refunding Program and Consider "Parameters Bond Order" authorizing issuance of Refunding Bonds.
<b>January 15, 2014</b>	<b>Completion of all actions necessary to complete the Refunding Program.</b>
TBD	Pricing – Negotiated sale of the Refunding Bonds within the specified parameters – Savings locked-in at this time.
1-Business Day After Pricing	The District's Administration approves sale of Refunding Bonds.
On or Prior to June 14, 2014	Closing – The Refunding Program is completed and the District begins paying the lower interest rate on the Refunding Bonds.

**Closing**

We hope this information is helpful as you manage the District's financial and debt position. Should any questions arise, additional material is preferred or we may be of any assistance, please let us know. We look forward to visiting with you soon and hope all is well!

Sincerely,



William J. Gumbert  
Managing Director



Joshua M. McLaughlin  
Investment Banker