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COLLIN COUNTY COMMUNITY COLLEGE

Financing Plan Discussion

November 7, 2017

Outstanding Debt and Authorization

- $600,000,000 Authorized but Unissued

- $14,590,000 Limited Tax Refunding Bonds, Series 2010 outstanding
  - Final maturity 2023, callable beginning August 15, 2020
  - Because the 2010 bonds were a refunding, they cannot be refinanced for savings until the call date

Financing Assumptions

- Maximum tax rate of $0.081222
- Maintain current credit ratings: AAA/Aaa
- Provide flexibility to use surplus funds to prepay debt
  - College staff estimates generating sufficient surplus cash to redeem approximately $75 million in bonds by 2023
- Timing of bond sales
  - Plan is for 3 bond sales for $200 million sold every other year beginning in Spring 2018
  - 2018 Bonds will reimburse approximately $60 million to the Building Fund

Financing Plan Considerations

- **Interest Rate Risk**
  - Long term fixed rates are still at attractive levels. 20 year mortgage style amortization ~ 3.15%. Once fixed rate bonds are sold, the College is locked into the rates until the call date (typically 10 years out). Bonds are callable solely at the College's option.
  - Short term (variable) rates reset weekly or monthly and currently range from 1% - 1.5%, so there's currently not much spread between long term rates and short term rates

- **Prepayment Flexibility**
  - Fixed rate bonds are typically not pre-payable during the first 10 years, but the College can price in a shorter call option on a portion of the bonds.
  - Variable rate bonds give the College the ability to call bonds with short (7- 30 day) notice. This flexibility in matching annual debt service with tax revenues may provide for interest savings when compared to a traditional fixed rate amortization with a 10 year par call.
  - Soft put bonds (discussed on following page) allow for prepayment flexibility tied to the put dates which are typically 1 – 5 years out.

- **Sizing of variable rate program**
  - Per debt policy, limited to 20% of total outstanding plus authorized = $120 million

Soft Put Bonds

- A put bond is a fixed rate bond in which the investor has the right to put the bond back to the borrower on a specified date ("put date").

- In the muni market, put bonds are typically used with a soft put feature which triggers a stepped-up interest rate if the bonds are not tendered by the borrower on the put date. The stepped up rate is intended to be a penalty rate.
  - For example, bonds sold with a 3 year put date at an interest rate of 1.3% that would step up to 7%, if the bonds are not remarketed on the tender date or paid off.

- The soft-put bonds will likely be issued in a term mode, which fixes the interest rate until the put date (typically 1 – 5 years), but introduces interest rate risk for future resets.

- Each reset is considered a new bond issue and will have transaction costs.

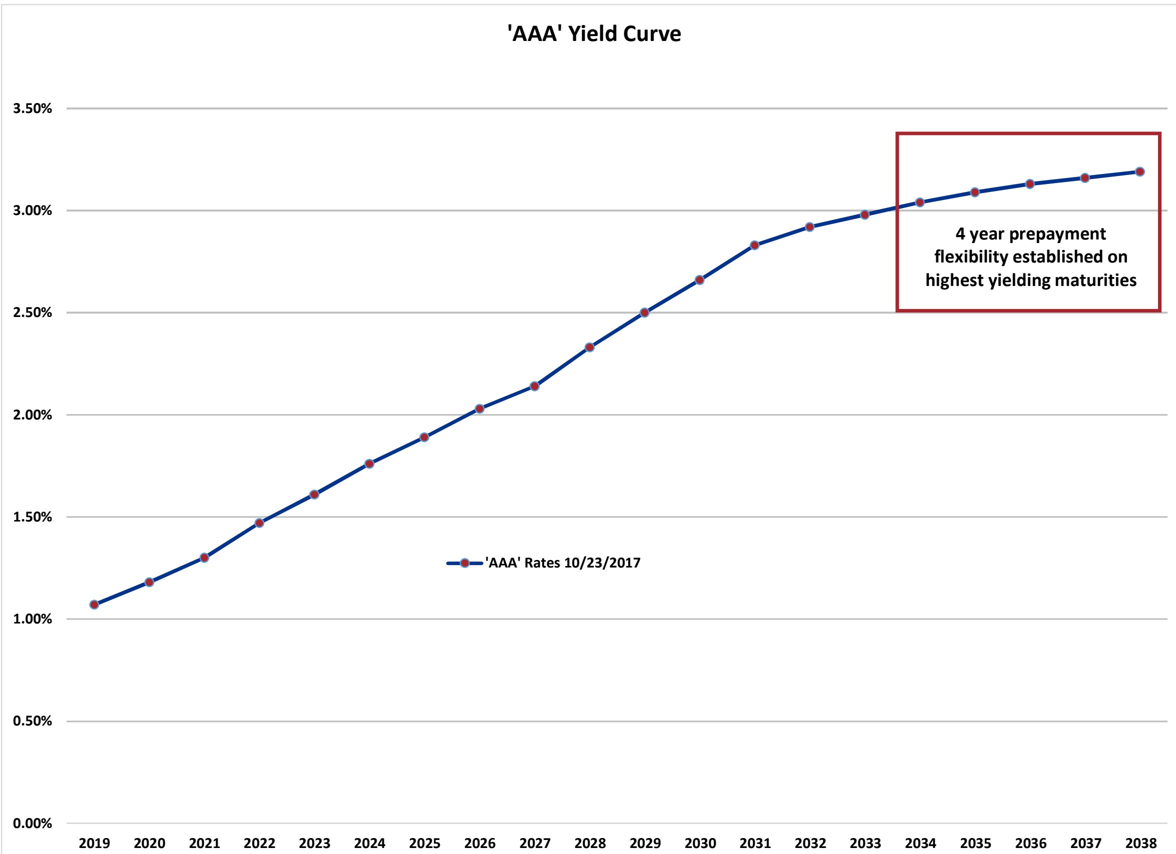
- Soft put bonds provide budget certainty for the debt service expense during the term of the rate period.

Financing Plan Options

- **Fixed Rate with Short Call (Option A):**
  - 2018 bond sale as fixed rate bonds
  - Use a short optional call feature for targeted bonds that have the highest cost of funds
  - Given the assumption that long term rates are rising, it would be beneficial to issue variable rate bonds when fixed rates are higher relative to today's market.
  - For future bond issues, evaluate market for soft put bonds and other variable rate bonds, outlining benefits and risks
  - <u>Considerations:</u> Slightly higher cost of funds overall but with rate certainty

- **Combination of Soft Put Bonds and Fixed Rate (Option B):**
  - 2018 bond sale would be a combination of soft put bonds and fixed rate bonds with the soft put bonds targeted on the back end
  - Fixed rate bonds would have a traditional 10 year call option
  - For future bond issues, evaluate market options depending on interest rate environment and risk tolerance
  - <u>Considerations:</u> Slightly lower cost of funds and interest rate savings, but introduces interest rate risk if the soft put bonds are not paid off on the initial put date

Recommended Financing Plan – Early Prepayment Option



Sample Debt Service Analysis

	Principal	Interest	Total
2019	$ 4,295,000	$ 10,291,667	$ 14,586,667
2020	7,245,000	7,338,938	14,583,938
2021	7,520,000	7,067,250	14,587,250
2022	7,800,000	6,785,250	14,585,250
2023	8,095,000	6,492,750	14,587,750
2024	8,395,000	6,189,188	14,584,188
2025	8,710,000	5,874,375	14,584,375
2026	9,040,000	5,547,750	14,587,750
2027	9,375,000	5,208,750	14,583,750
2028	9,730,000	4,857,188	14,587,188
2029	10,095,000	4,492,313	14,587,313
2030	10,470,000	4,113,750	14,583,750
2031	10,865,000	3,721,125	14,586,125
2032	11,275,000	3,313,688	14,588,688
2033	11,695,000	2,890,875	14,585,875
2034	12,135,000	2,452,313	14,587,313
2035	12,590,000	1,997,250	14,587,250
2036	13,060,000	1,525,125	14,585,125
2037	13,550,000	1,035,375	14,585,375
2038	14,060,000	527,250	14,587,250
	$ 200,000,000	$ 91,722,167	$ 291,722,167

Red Box Denotes Debt With Early Prepayment Option

Financing Plan for Series 2018 Bonds

- Utilize Delegation Authority
  - Allowed under Section 1371 Texas Government Code
  - Board establishes and approves parameters under which bonds can be sold ("Parameter Order"):
    - Maximum Interest Rate
    - Maximum Principal Amount
    - Final Maturity Date
  - If <u>all</u> Board established parameters are <u>not</u> met, bonds cannot be issued
  - Allows for flexibility and market timing; bonds can be priced at a time that is advantageous to the College, rather than being locked into the date of a Board meeting

- Competitive Sale (assuming typical market conditions)
  - Bond issue advertised to qualified bidders at a specific date and time. Sale date can be moved with notification to the market.
  - Bonds awarded to underwriter (or syndicate of underwriters) that bids the lowest overall interest rate
  - The College has utilized a competitive sale method for every <u>new money</u> issuance since 2002

Sample Timetable

Proposed Schedule of Events

Jan-18						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

Feb-18						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28			

Mar-18						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Apr-18						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

Complete By	Day	Event
19-Jan-18	Friday	Provide initial draft of Preliminary Official Statement and send to College and Bond Counsel for comments and modifications
23-Jan-18	**Tuesday**	**Board approves Parameters Order**
31-Jan-18	Wednesday	Receive information from College
5-Feb-18	Week of	Credit rating calls/meetings
21-Feb-18	Wednesday	Receive credit ratings
22-Feb-18	Thursday	Final comments due on Preliminary Official Statement
23-Feb-18	Friday	Finalize Preliminary Official Statement Send Official Statement to i-Deal Prospectus for Electronic Distribution
5-Mar-18	**Week of**	**Take Bids and Award of Bonds**
27-Mar-18	Tuesday	Report to Board on final pricing
9-Apr-18	**Week of**	**Bond closing and delivery of funds**

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