



## **ALEDO ISD BOARD MEETING TEMPLATE**

**MEETING DATE:** December 17, 2012

**AGENDA ITEM:** Consider Adoption of an Order Authorizing the Issuance of Unlimited Tax Taxable Refunding Bonds, Series 2013B, Establishing Sale Parameters, Authorizing the Execution of a Bond Purchase Contract and an Escrow Agreement, Approving an Official Statement, and Enacting Other Provisions Relating to the Subject

**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 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, the preliminary financing plan to achieve these savings, and the recommended parameters under which this refunding program may be completed.
- As discussed with the Board of Trustees during the November 12<sup>th</sup> board meeting, although the recommended parameters for this refinancing are different, the method is identical to that used in the District's last refinancing bond sale completed in May 2012.
- Mr. Bill Gumbert, BOSC, Inc., is available to discuss the financing plan with you.

### **FISCAL NOTE:**

Potential savings are identified in the following Refunding Summary Letter.

### **ADMINISTRATIVE RECOMMENDATION:**

The Administration recommends the adoption of an Order Authorizing the Issuance of Unlimited Tax Taxable Refunding Bonds, Series 2013B, Establishing Sale Parameters, Authorizing the Execution of a Bond Purchase Contract and an Escrow Agreement, Approving an Official Statement, and Enacting Other Provisions Relating to the Subject as presented.



**William J. Gumbert**  
Managing Director  
Phone: (214) 576-0880  
Facsimile: (214) 576-0890  
[wgumbert@boscinc.com](mailto:wgumbert@boscinc.com)

December 12, 2012

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

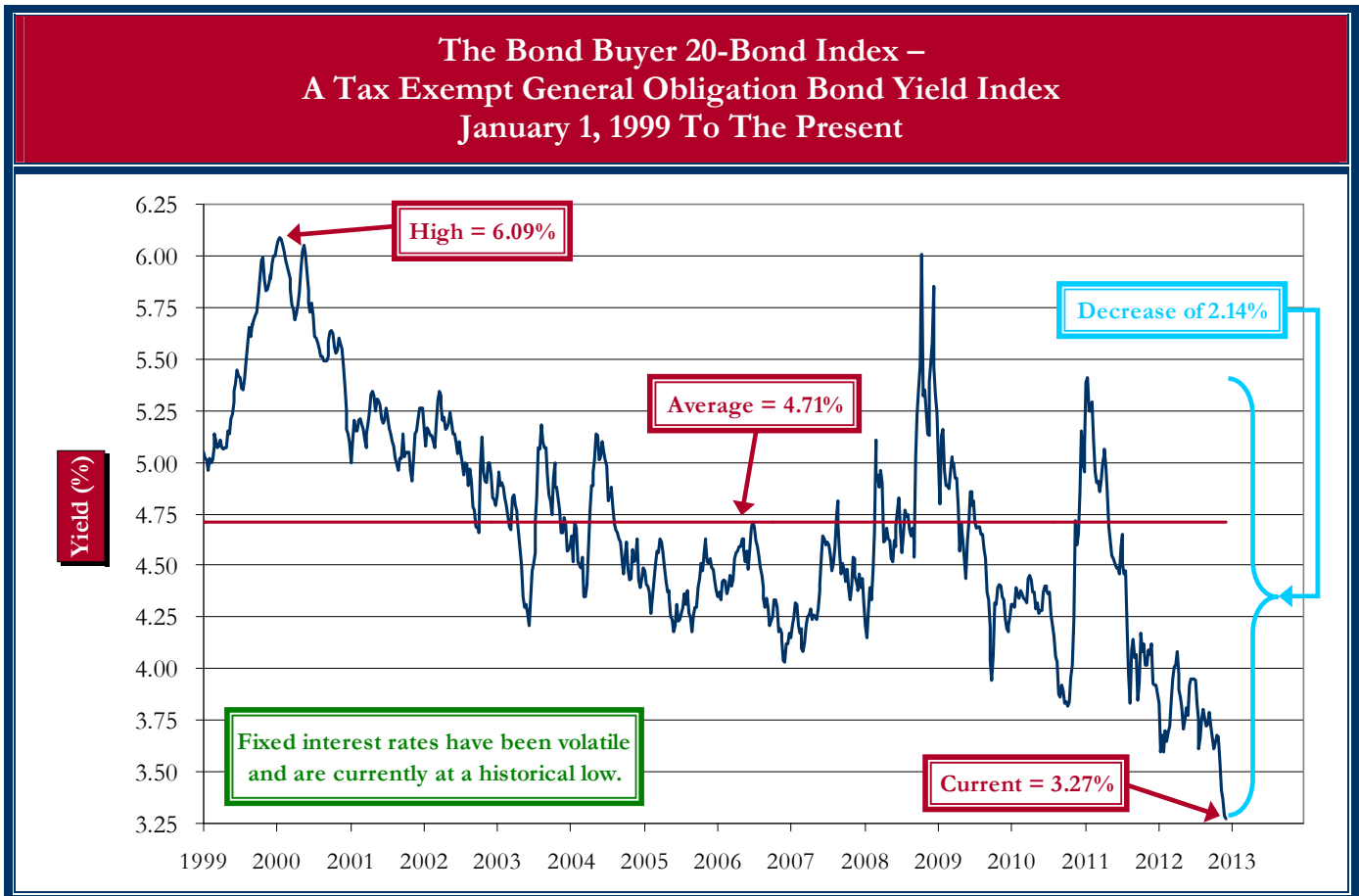
**Re: Aledo Independent School District – Refunding Summary**

Dear Earl:

For your review, this letter summarizes the savings potentially available to Aledo Independent School District (the “District”) by refunding certain outstanding bonds at a lower interest rate and the preliminary financing plan/timetable to realize such savings for the District and its taxpayers.

**Recent Decline in Interest Rates**

As shown in the graph below, municipal interest rates have declined by approximately 2.14% since January 2011 and 0.40% since the November 6, 2012 election.



## Refunding Program

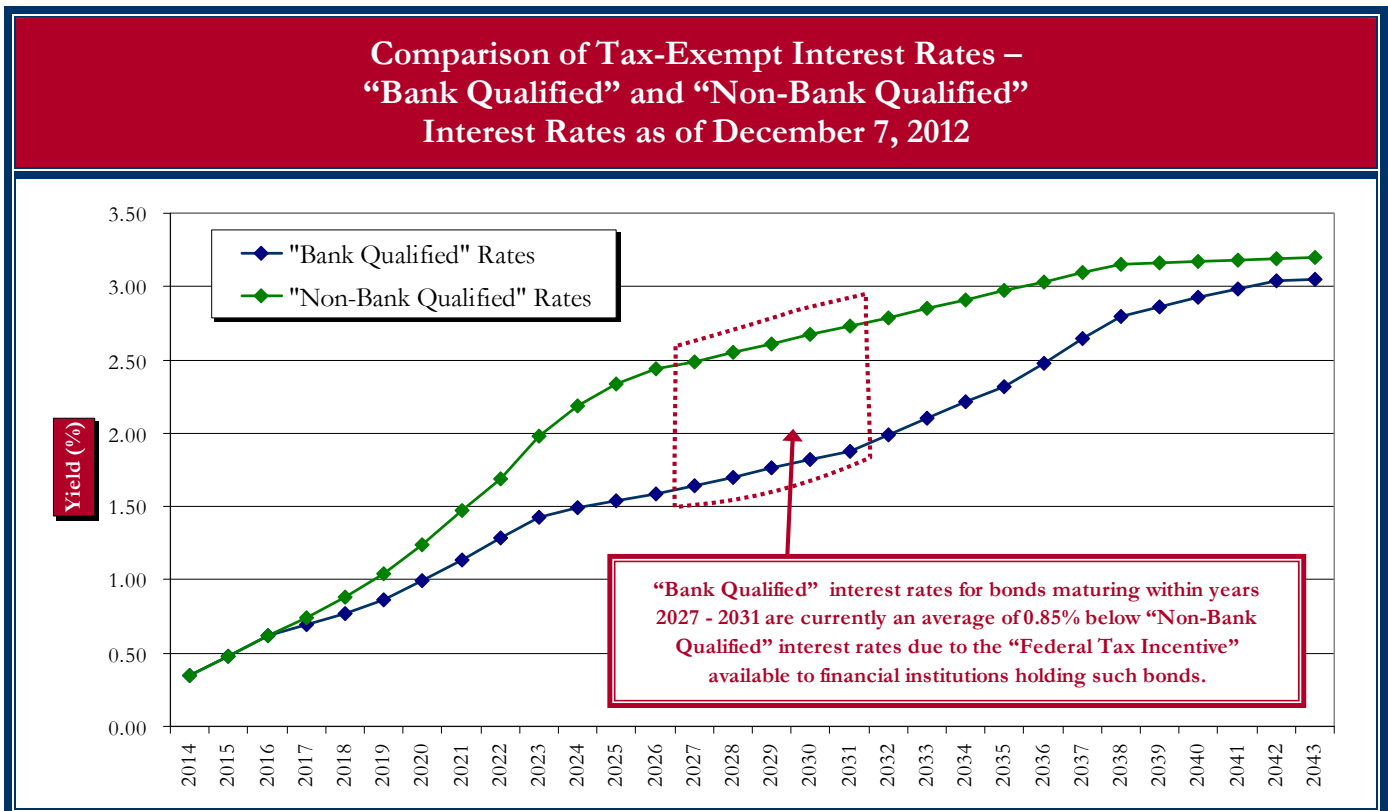
The refunding program is comprised of 2 components:

**“Bank Qualified – Tax-Exempt” Refunding:** As completed in year 2012, the District refunds certain of its outstanding bonds on a so-called “Bank Qualified” basis. Pursuant to Federal Tax law, if the District commits to issue less than \$10 million of bonds during calendar year 2013, it can once again designate its bonds as “Bank Qualified.” The benefit of a “Bank Qualified” structure is the interest rates are lower due to the “Federal Tax Incentive” available to financial institutions holding such bonds (see “Use of “Bank Qualified” Financing Structure – Providing Lower Interest Rate” below).

**“Taxable” Refunding:** Pursuant to Federal Tax Law, a portion of the District’s outstanding bonds may not be “advance refunded” with “tax-exempt” bonds (the District previously utilized its one refunding opportunity for such bonds). However, the District may complete a refunding with “taxable” bonds at this time and lock-in the available savings (see “Comparison of Taxable and Tax-Exempt Interest Rates” herein).

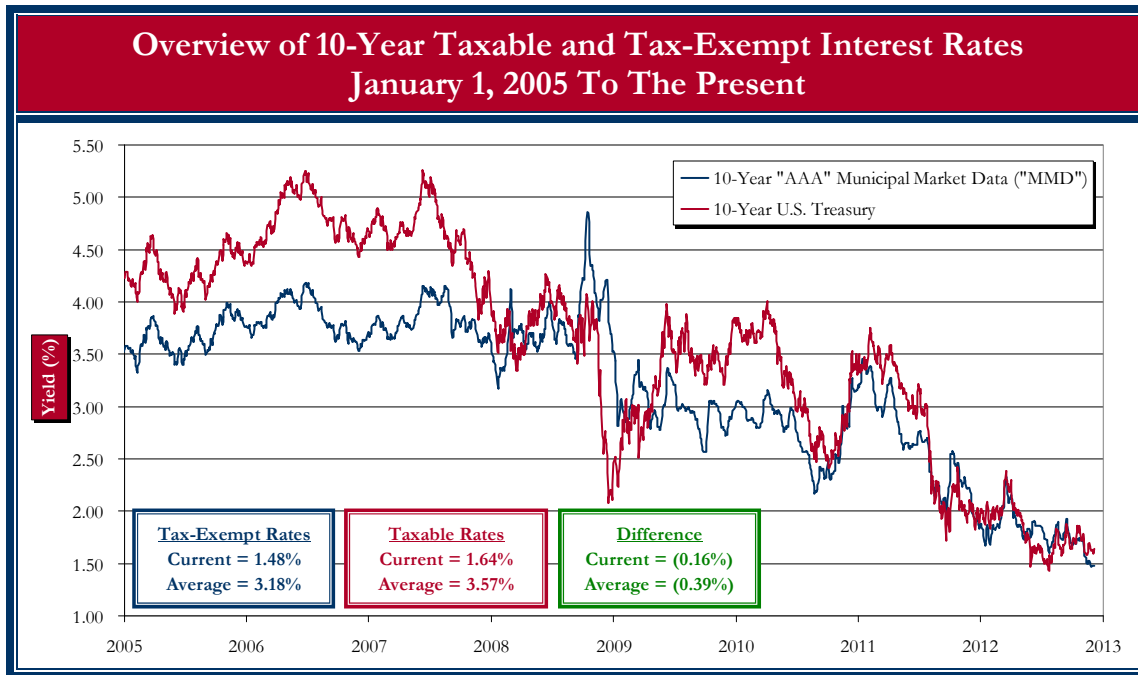
## Use of “Bank Qualified” Financing Structure – Providing Lower Interest Rate

As demonstrated in the graph below, “Bank Qualified” interest rates remain historically attractive – Being an average of 0.85% lower than “Non-Bank Qualified” interest rates for bonds maturing in years 2027 – 2031, which is the repayment period of the District’s bonds to be refunded with “Bank Qualified, Tax-Exempt” bonds.

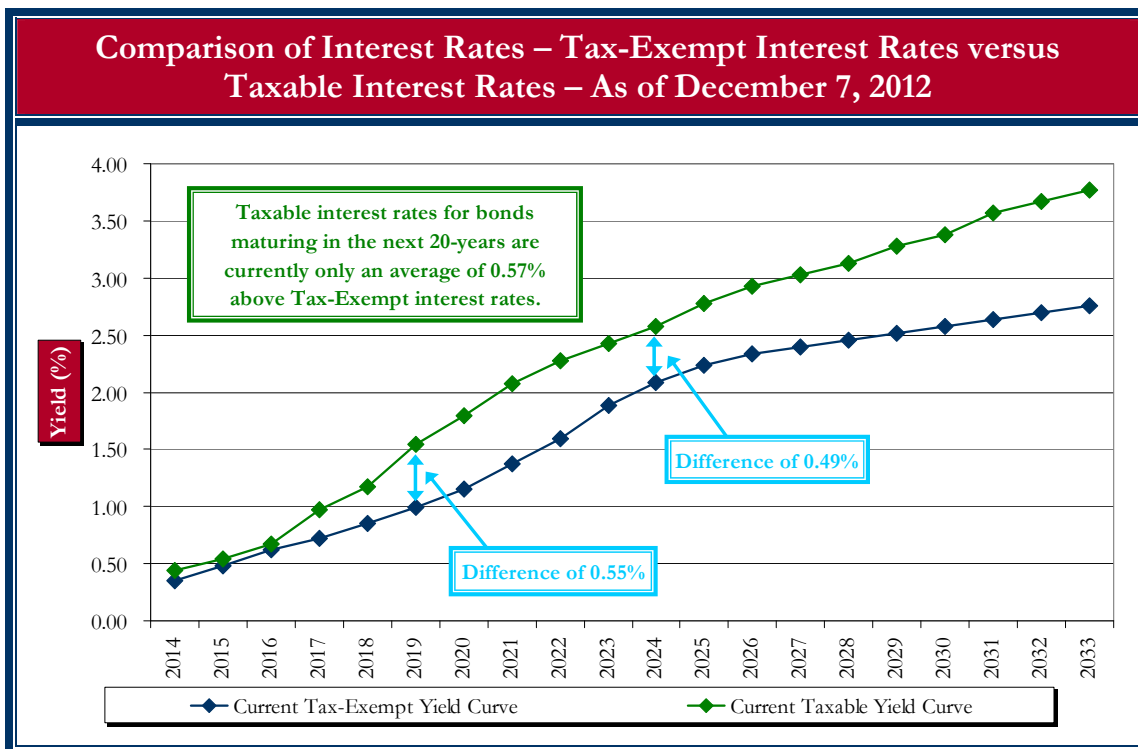


### Comparison of Taxable and Tax-Exempt Interest Rates

As shown below, tax-exempt and taxable interest rates have been closely correlated over the last 5-years.



Specifically, taxable interest rates are currently an average of 0.57% above tax-exempt interest rates and tax-exempt rates remain 1.44% below the average since year 1999.



## Financing Structure

The financing structure to complete the Refunding Program is identical to the District's last refunding bond sale completed in May 2012, which provided a savings of \$1,075,426 to the District and its taxpayers.

- The District sells its refunding bonds at a lower interest rate (the "Refunding Bonds");
- The proceeds of the Refunding Bonds are used to fully repay the District's bonds to be refunded through their respective redemption dates and to pay all the costs associated with the refunding program; and
- Once completed, the District has essentially replaced the existing, higher interest rate bonds with the lower interest rate Refunding Bonds.

## Savings Available

Based upon current market conditions, the table below summarizes the savings potentially available to the District (net of estimated costs). In total, the combined refunding program provides a savings of \$4,227,257 based upon the combined fixed interest rate of 2.51%.

Summary of Savings Available			
Description	"Bank Qualified, Tax-Exempt" Refunding Program	"Taxable" Refunding Program	Total
<b>Principal Amount of Bonds to be Refunded</b>	<b>\$ 8,960,000</b>	<b>\$ 17,010,000</b>	<b>\$ 25,970,000</b>
<b>Interest Rate on the Bonds to be Refunded</b>	5.03%	4.89%	4.96%
<b>True Interest Rate on the Refunding Bonds</b>	2.37%	2.60%	2.51%
<b>Escrow Yield</b>	0.22%	0.22%	0.21%
<b>Total Debt Service Savings</b>	\$ 2,461,431	\$ 1,765,825	\$ 4,227,257
<b>Average Annual Savings</b>	136,746 <sup>(A)</sup>	88,291 <sup>(B)</sup>	211,363 <sup>(B)</sup>
<b>Present Value Debt Service Savings</b>	1,968,730	1,354,474	3,323,204
<b>Present Value Savings as a Percentage of the Principal Amount of the Bonds to be Refunded</b>	21.99%	7.98%	12.80%
<b>Opportunity Cost of Advance Refunding</b>	\$ 393,598	\$ 826,315	\$ 1,219,913
<sup>(A)</sup> Years 2013/14 – 2030/31 (18-Years).			
<sup>(B)</sup> Years 2013/14 – 2032/33 (20-Years).			

## Opportunity Cost of Advance Refunding – "Negative Arbitrage"

Since investment rates on United States Treasury obligations are at historical lows, a refunding currently generates less in investment income than is permitted under Federal Tax Law to repay the District's existing bonds to be refunded until their respective redemption dates (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.

<b>Refunding Program – Projected Savings</b>					
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
<b>Fiscal Year</b>	<b>Existing Bond Payments<sup>(A)</sup></b>	<b>Less: Bond Payments – Bonds to be Refunded</b>	<b>Plus: Bond Payments – Refunding Bonds</b>	<b>Bond Payments – After Refunding Program</b>	<b>Savings (Col. B-E)</b>
2012/13	\$8,352,526 <sup>(B)</sup>	\$641,259	\$641,259	\$8,352,526	\$ ---
2013/14	9,916,563	1,282,519	1,061,527	9,695,571	220,992
2014/15	9,927,706	1,282,519	1,060,289	9,705,476	222,230
2015/16	9,931,556	2,447,644	2,219,194	9,703,106	228,450
2016/17	9,946,506	2,456,144	2,231,444	9,721,806	224,700
2017/18	9,946,306	2,456,269	2,230,269	9,720,306	226,000
2018/19	9,960,769	2,458,019	2,230,719	9,733,469	227,300
2019/20	9,967,781	2,451,394	2,222,469	9,738,856	228,925
2020/21	9,976,606	2,461,019	2,235,069	9,750,656	225,950
2021/22	9,977,466	2,456,503	2,228,594	9,749,556	227,910
2022/23	9,996,275	2,453,425	2,228,169	9,771,019	225,257
2023/24	10,003,359	838,238	611,665	9,776,787	226,573
2024/25	10,013,909	837,363	610,984	9,787,531	226,379
2025/26	10,022,613	836,238	614,924	9,801,299	221,314
2026/27	10,030,663	3,637,988	3,415,303	9,807,978	222,685
2027/28	10,045,709	4,331,113	4,108,945	9,823,541	222,168
2028/29	10,059,500	2,289,988	2,065,406	9,834,919	224,581
2029/30	10,073,556	2,756,738	2,534,894	9,851,713	221,844
2030/31	10,083,000	2,330,206	2,101,681	9,854,475	228,525
2031/32	10,099,228	368,453	280,156	10,010,931	88,297
2032/33	10,116,319	87,178	---	10,029,141	87,178
2033/34	10,156,625	---	---	10,156,625	---
2034/35	11,060,250	---	---	11,060,250	---
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>\$298,518,167</b>	<b>\$41,160,213</b>	<b>\$36,932,956</b>	<b>\$294,290,910</b>	<b>\$4,227,257</b>
<sup>(A)</sup> Assumes a 2.50% interest rate on the District's Variable Rate Unlimited Tax School Building Bonds, Series 2006-A.					
<sup>(B)</sup> Bond payments were lowered by \$1,032,273 in year 2012/13 due to the savings associated with the District's May 2012 Refunding Program.					

**Bond to be Refunded**

The following tables summarize the District’s outstanding bonds that are currently cost-effective to refund at a lower interest rate.

<b>Summary of Bonds to be Refunded with “Tax-Exempt” Bonds</b>					
Issue Outstanding	Principal Amount To Be Refunded	Maturities To Be Refunded	Interest Rate	Redemption Date	Redemption Price
Unlimited Tax School Building Bonds, Series 2005-A	\$ 8,960,000	02/15/2027 – 2031	5.03%	02/15/2015	100.0%

<b>Summary of Bonds to be Refunded with “Taxable” Bonds</b>					
Issue Outstanding	Principal Amount To Be Refunded	Maturities To Be Refunded	Interest Rate	Redemption Date	Redemption Price
Unlimited Tax School Building Bonds, Series 2005-A	\$ 2,355,000	02/15/2016 – 2033	5.04%	02/15/2015	100.0%
Unlimited Tax Refunding Bonds, Series 2006	14,655,000	02/15/2016 – 2023; 2027 – 2028	4.85%	02/15/2015	100.0%
<b>Totals:</b>	<b>\$ 17,010,000</b>	<b>---</b>	<b>4.89%</b>	<b>---</b>	<b>---</b>

**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 2012, the District’s Board of Trustees may adopt a “Parameters Bond Order” to complete the sale of the Refunding Bonds. A “Parameters Bond Order” allows the Board of Trustees to designate the ability to approve the issuance of the Refunding Bonds to the District’s Superintendent and/or Chief Financial Officer, if the terms of the Refunding Bonds are within the “parameters” approved by the Board of Trustees. The following is a representative listing of parameters we recommend the District utilize for both its “Bank Qualified – Tax-Exempt” and “Taxable” Refunding Program.

<b>Parameters for Refunding Program</b>		
Parameter	“Bank Qualified – Tax-Exempt” Refunding Program	“Taxable” Refunding Program
1.) Minimum Savings Amount (Net of All Costs):	\$1,500,000	\$1,500,000
2.) Maximum Principal Amount:	\$10,000,000	\$24,275,000
3.) True Interest Rate (Federal Arbitrage Yield) – Must Not Exceed:	2.75%	2.75%
4.) Final Maturity – Must Not Exceed:	February 15, 2033	February 15, 2033
5.) Expiration Date of Refunding Program:	June 15, 2013	June 15, 2013

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 17, 2012	Board Meeting – Discuss Refunding Program and Consider “Parameters Bond Orders” authorizing issuance of Refunding Bonds.
<b>January 4, 2013</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 15, 2013	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