



# DENTON

## INDEPENDENT SCHOOL DISTRICT

### **Preliminary Financing Plan:**

- **Remarketing of Series 2012-A Variable Rate Bonds**
- **Sale of Remaining Bonds – 2007 And 2008 Bond Programs**

**Tuesday, June 23, 2015**



## Discussion/Action Topics – Debt Management

- ❑ **Reset the interest rate and interest rate period for the Denton Independent School District's (the "District") existing \$40,000,000 Variable Rate Unlimited Tax School Building Bonds, Series 2012-A.**
  - Shorter-term interest rates remain favorable, and as such, we recommend establishing a 3-year interest rate term from August 1, 2015 – July 31, 2018.
  - Estimated interest rate is 1.57%, which will lock-in an additional \$2.05 million of interest cost savings over next 3-years in comparison to a fixed rate alternative.
- ❑ **Issuance of up to \$187,745,000 of authorized bonds from 2007 and 2013 Bond Programs for capital projects to meet the needs of District's growing student population.**
  - Due to proposed increase of the residential homestead exemption from \$15,000 to \$25,000 – Selling bonds prior to September 1, 2015 will qualify the District's remaining bonds to potentially be "held harmless" – Which equates to \$8.6 million of potential "hold harmless" funds for the \$187,745,000 remaining bond authorization.
  - The Federal Reserve has not changed the Federal Funds rate since December 2008 – It has remained between 0.00% - 0.25%. Current economic reports support potential rate hikes to begin in the later part of year 2015 and continue through year 2017.



## Discussion/Action Topics – Debt Management (Continued)

- At this time, fixed interest rates remain historically favorable, providing the District with the opportunity to “lock-in” the interest rate on its remaining authorized bonds and eliminate future interest rate risk on such bonds.
- Based upon the \$82.9 million of savings generated from the Debt Management Strategies deployed by the District over the least 10-years, current market rates of interest and the growth of the District’s tax base, the District has ample bond capacity to sell its remaining authorized bonds at this time.



## Recent Savings from District's Debt Management Practices

- ❑ Over the last 10-years, the District has implemented the following debt management strategies to reduce the cost of voter approved bonds. **In total, the District's strategies have directly reduced the cost of taxpayers by more than \$82.9 million.**

- **Bond Refundings:** The District has implemented 8 refunding programs to lower the interest rate on its existing bonds, generating more than \$60.3 million of savings for taxpayers – \$43.1 million of savings has occurred in the last 3-years.

### Summary of District's Savings From Refunding Programs

Issue	Series Refunded	Principal Amount Refunded	Total Savings
Unlimited Tax Refunding Bonds, Series 2005-C	1998, 1999 & 2001	\$ 50,855,000	\$ 3,251,044
Unlimited Tax Refunding Bonds, Series 2006	2002	48,329,192	12,125,000
Unlimited Tax Refunding Bonds, Series 2011	1998, 1999, 2001 & 2004	24,940,000	1,838,589
Unlimited Tax Refunding Bonds, Series 2012-B	2002, 2004 & 2005-C	64,614,784	13,196,404
Unlimited Tax Refunding Bonds, Taxable Series 2012-C	2004 & 2005-C	25,030,000	2,551,494
Unlimited Tax Refunding Bonds, Series 2012-D	2004	40,155,000	8,937,721
Unlimited Tax Refunding Bonds, Series 2014-C	2006-A	15,010,000	1,252,934
Unlimited Tax Refunding Bonds, Series 2015	2007 & 2008	125,110,000	17,203,964
Totals	---	\$ 394,043,976	\$ 60,357,150



## Recent Savings from District's Debt Management Practices (Continued)

- **Synthetic Debt Structures:** The District has implemented two “synthetic debt structures” (i.e. Series 2005-A and 2006-B Bonds) to potentially reduce the District's interest cost – To date, these structures have reduced the District's interest cost by more than \$7.0 million.
- **Variable Rate Debt:** The District's prudent and strategic use of variable rate bonds has produced approximately \$15.6 million of savings by lowering its borrowing cost in comparison to the sale of fixed rate bonds, as summarized below.

### Review of the District's Existing Variable Rate Put Bonds

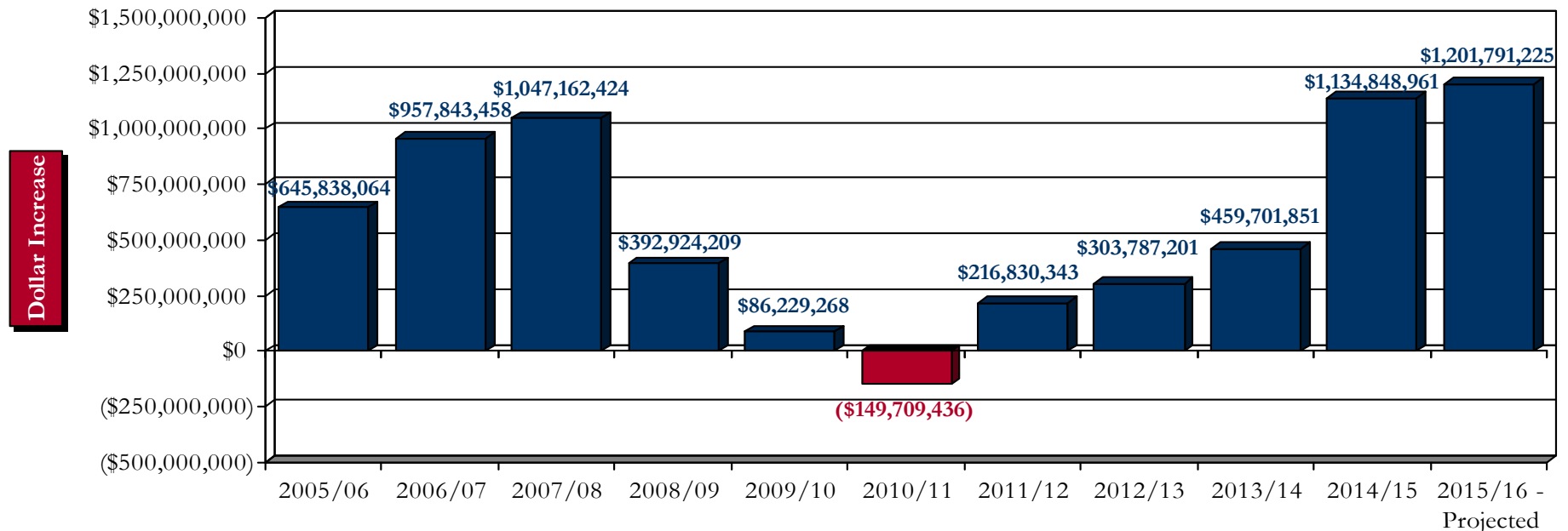
Issue Description	Par Amount Outstanding	Interest Rate Term	Expiration Date of Rate Period	Stated Maturities	Current Interest Rate	Estimated Fixed Rate Alternative	Estimated Savings – Initial Period
Variable Rate Unlimited Tax School Building Bonds, Series 2012-A	\$40,000,000	3-Years	07/31/2015	2034 – 2042	1.10%	4.32%	\$ 3,299,687
Variable Rate Unlimited Tax School Building Bonds, Series 2013	39,815,000	3-Years	07/31/2016	2034 – 2043	1.15%	4.83%	3,427,223
Variable Rate Unlimited Tax School Building Bonds, Series 2014-B	69,075,000	5-Years	07/31/2019	2038 – 2044	1.59%	4.23%	8,905,558
Totals	\$148,890,000	--	--	--	--	---	\$ 15,632,468



## Debt Factors – Taxable Assessed Valuation

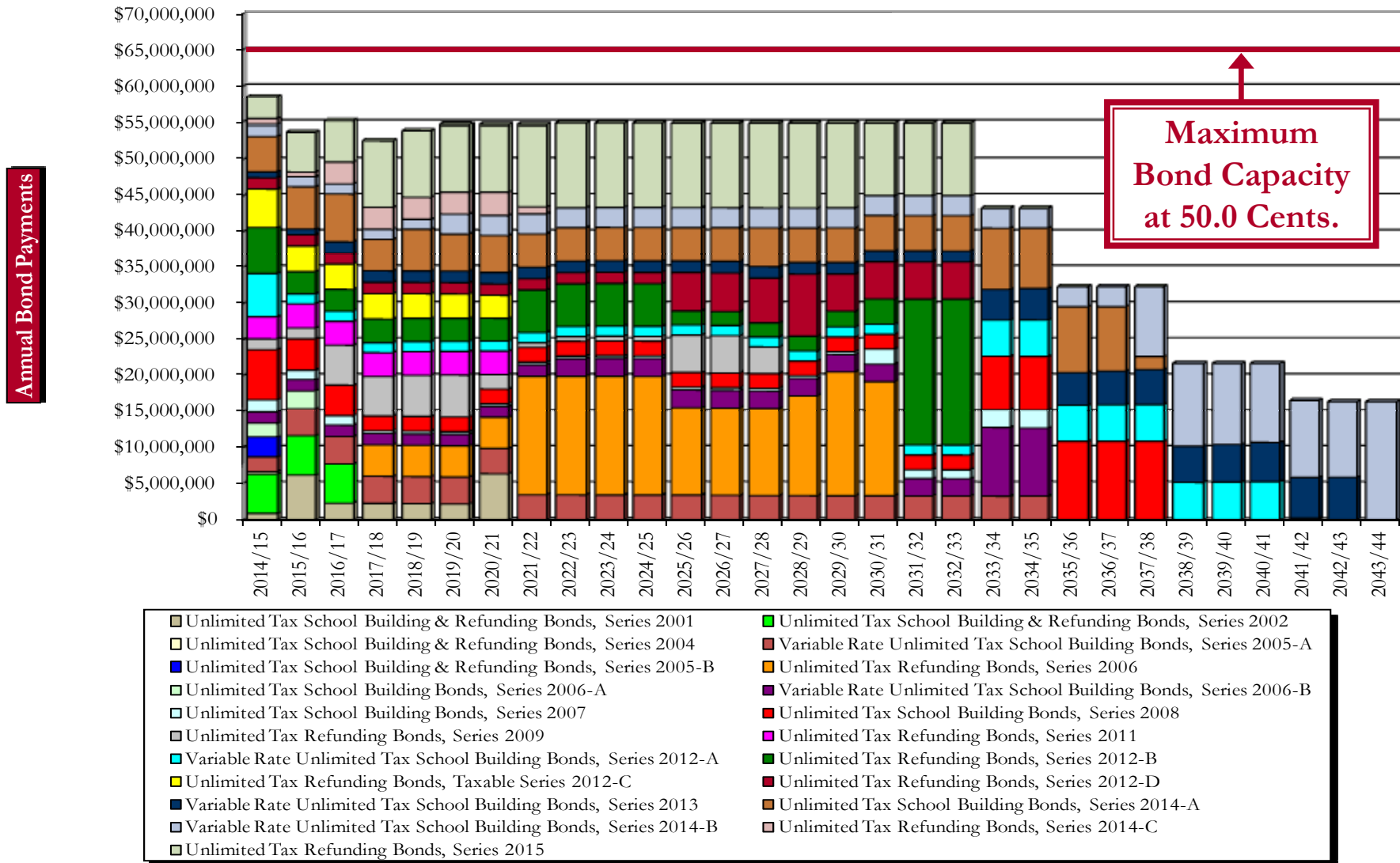
- ❑ The value of the District's tax base is the primary factor impacting the District's bond capacity – As this determines the annual revenues generated from the District's I&S tax rate.
- The District's taxable assessed valuation (net of frozen values) is \$10,726,023,542 for year 2014/15.
- Based upon preliminary information from the Denton Central Appraisal District, the District's taxable value is projected to increase by 13.6% or \$1.46 billion in year 2015/16 (net of the increase in the residential homestead exemption). To be conservative, the Preliminary Financing Plan assumes the District's taxable value will increase by \$1.2 billion in year 2015/16.

**Historical Increases/(Decreases) in Taxable Valuations  
Years 2005/06 – 2014/15**





# Debt Factors – Dollar Amount and Structure of District's Existing Bonds



Note: Debt service payments reflect payments from September 1 through August 31.

**The District has a total principal amount of existing bonds equal to \$744,031,832.**





# Review of District's Existing Series 2012-A Variable Rate Bonds

- ❑ The District successfully issued its \$40,000,000 Variable Rate Unlimited Tax School Building Bonds, Series 2012-A (the “Series 2012-A Bonds”) on February 13, 2012. Based upon prevailing market conditions at such time, an initial 3-year interest rate term was prudently utilized for the Series 2012-A Bonds, which expires on August 1, 2015.
- ❑ **Based upon the District's actual 1.10% interest rate in comparison to the fixed interest rate alternative of 4.32%, the District has directly reduced the interest cost of the Series 2012-A Bonds by more than \$3.275 million (over the last 3-years) for taxpayers!**
- ❑ As the District has successfully used as a “Debt Management Strategy,” a variable rate structure is utilized to:
  - Lower the District's interest cost in comparison to the alternative of a fixed rate bond sale;
  - Maximize the District's bond capacity for future capital improvements; and
  - Provide the District with the flexibility to prepay such bonds as taxable values increase in the future.





# Comparison of Fixed and Variable Interest Rates

- As shown in the graph below, shorter-term variable rates (red line) remain favorable in comparison to fixed rates of interest. As such, the District remains positioned to further lower its borrowing cost by maintaining a variable rate structure for the Series 2012-A Bonds.

## Review of Fixed And Variable Rates of Interest Bond Buyer 20-Bond Index And SIFMA Municipal Index January 2000 Through The Present

Fixed Rates	Variable Rates	Difference
Current = 3.87%	Current = 0.07%	Current = 3.80%
Average = 4.57%	Average = 1.51%	Average = 3.06%

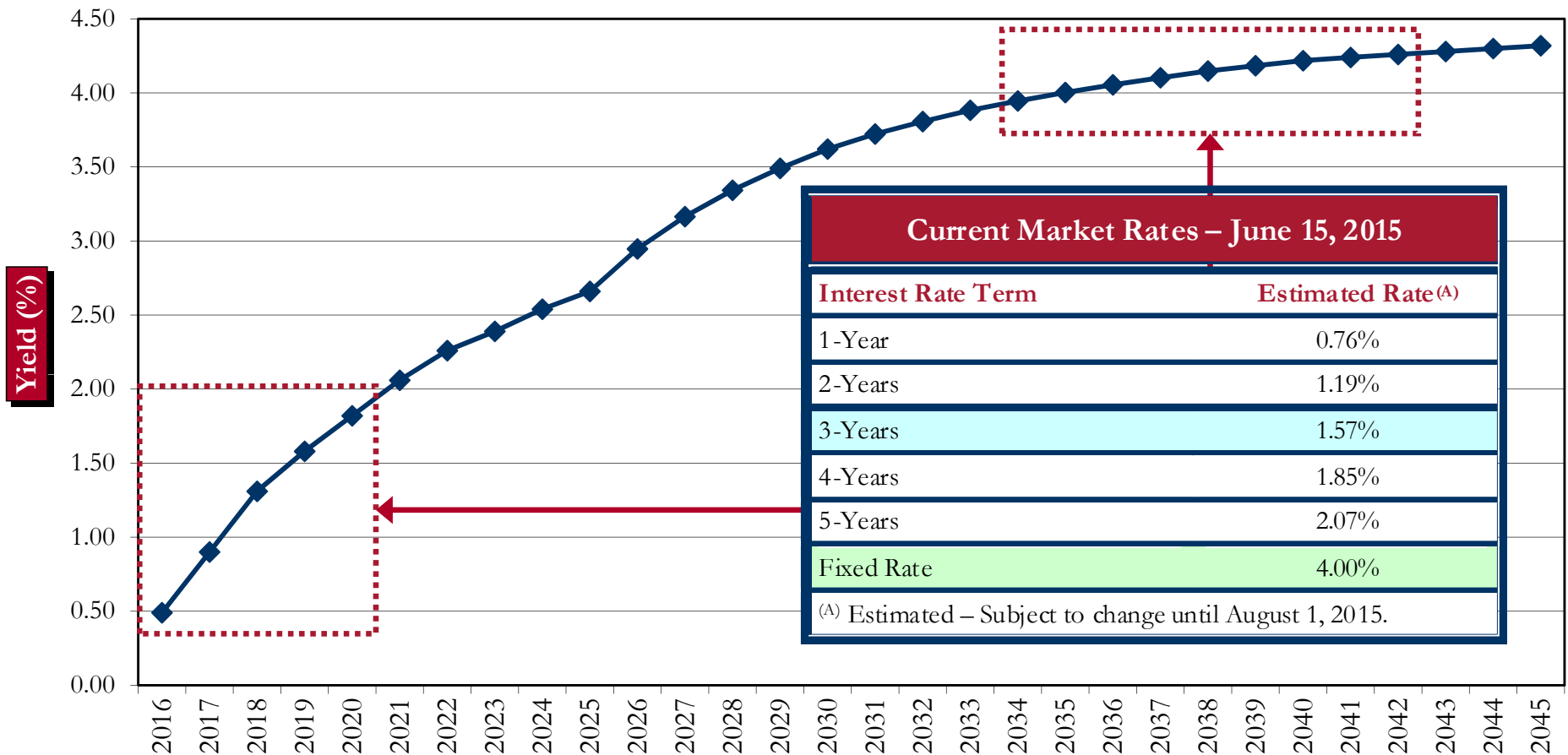




# Overview of Current Municipal Market – Interest Rate Terms and Estimated Interest Rates for Series 2012-A Bonds

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

**Current Interest Rate Curve – As of June 15, 2015**





## Recommendation

- ❑ Based upon current market conditions, certain economic indicators, historical interest rates and the composition of the District's debt portfolio, as the District's financial advisor we recommend the District continue to maintain the Series 2012-A Bonds in a variable rate structure and we recommend the District 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, 2018;
  - Lock-in an attractive interest rate of approximately 1.57%;
  - Reduce the District's interest cost on the Series 2012-A Bonds by an additional \$2.05 million over the next 3-years, which will lock-in a cumulative savings of \$5.35 million on the Series 2012-A Bonds; and
  - Diversify the District's variable rate bond portfolio as the interest rate terms of its existing variable rate bonds will be staggered as follows:

### Summary of District's Variable Rate Bond Portfolio

Variable Rate Issue	Interest Rate Reset Date	Interest Rate Term	Principal Amount Outstanding	Existing/Projected Interest Rate
Series 2013 Bonds	August 1, 2016	3-Years	\$44,300,000	1.15%
Series 2012-A Bonds	August 1, 2018	3-Years	\$40,000,000	1.57%
Series 2014-B Bonds	August 1, 2019	5-Years	\$69,075,000	1.59%



## “Parameters” for Resetting Interest Rate Term – Series 2012-A Bonds

- ☐ The Board of Trustees may adopt a “Parameters Order” to establish a new interest rate term and interest rate for the Series 2012-A Bonds.
- ☐ We recommend the following parameters be used:
  - 1) The new interest rate (i.e. “yield”) may not exceed 2.50%; and
  - 2) The final maturity of the Series 2012-A Bonds may not be extended.
- ☐ Should each parameter be met, the District’s new interest rate term and interest rate will become effective on August 1, 2015.



# Preliminary Financing Plan

The Preliminary Financing Plan is based upon the assumptions summarized herein. To the extent the District's actual results differ from the assumptions herein, the financial impact to the District will correspondingly change.

## ☐ Scenario Presented

- Issue remaining \$187,745,000 of bonds authorized from the 2007 and 2013 Bond Programs to fund capital improvements to meet the needs of the District's growing student population.



## Preliminary Financing Plan (Continued)

### □ Assumptions

- Bonds are sold with a fixed rate of interest that are reflective of current market conditions.
- District's I&S tax rate will remain at 50.0 cents to reduce interest costs and maximize future bond capacity.
- District will NOT receive any "hold harmless" funds due to the increase in the residential homestead exemption for the payment of debt.
- District's taxable value does not increase in year 2016/17 or thereafter – Allowing any future increase of taxable values to be dedicated for future bond programs, as deemed appropriate.
- No Capital Appreciation Bonds are utilized.



## Potential Impact of Recent Legislation – Increase in Residential Homestead Exemption from \$15,000 to \$25,000

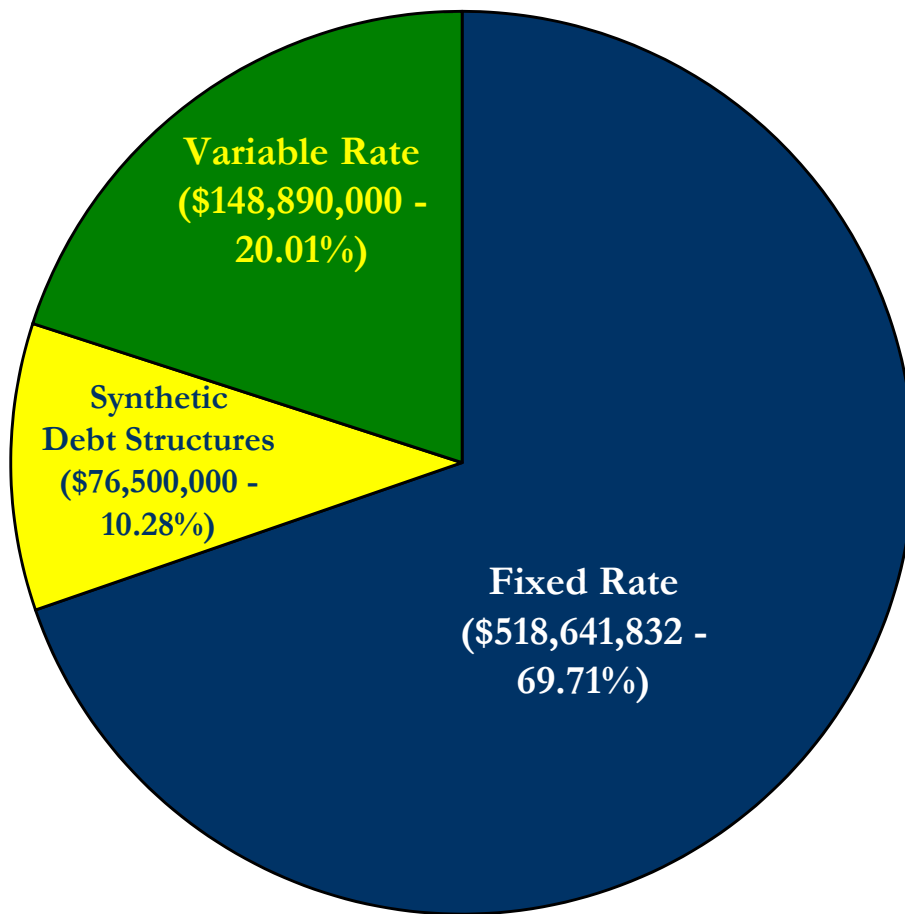
- ❑ During the 84<sup>th</sup> Texas Legislative session, Senate Bill 1 included a proposed increase of the residential homestead exemption from \$15,000 to \$25,000. The increase is subject to approval of a Constitutional Amendment in November 2015 and if approved, the increase becomes effective for year 2015/16.
- ❑ Based upon our current estimates, in total the increase of the residential homestead exemption will reduce the District's taxable assessed valuation for the payment of existing and qualifying debt by approximately \$298,210,000 – which annually generates tax revenues of \$1,491,050 at an I&S tax rate of 50.0 cents.
- ❑ While the State has stated school districts will be “held harmless” from the increase in the residential homestead exemption via an increase in State funding for existing bonds, we do not believe the District should count on such “hold harmless” funds for purposes of its financing plans. For instance, when the residential homestead exemption was increased from \$5,000 to \$15,000 in year 1997, school districts were also supposed to be “held harmless” – that obviously did not happen for the payment of bonds.
- ❑ However, in order for bonds to qualify to be “held harmless”, the bonds must be sold, closed and have a payment prior to September 1, 2015. In this regard, if the remaining bonds from the 2007 and 2013 Bond Programs are approved to be sold, we recommend such bonds be sold prior to September 1, 2015 in order to qualify for the “hold harmless” provisions.
- ❑ If the District is “held harmless”, selling the bonds prior to September 1, 2015 will produce an additional \$8.6 million of State funds for the repayment of such bonds.



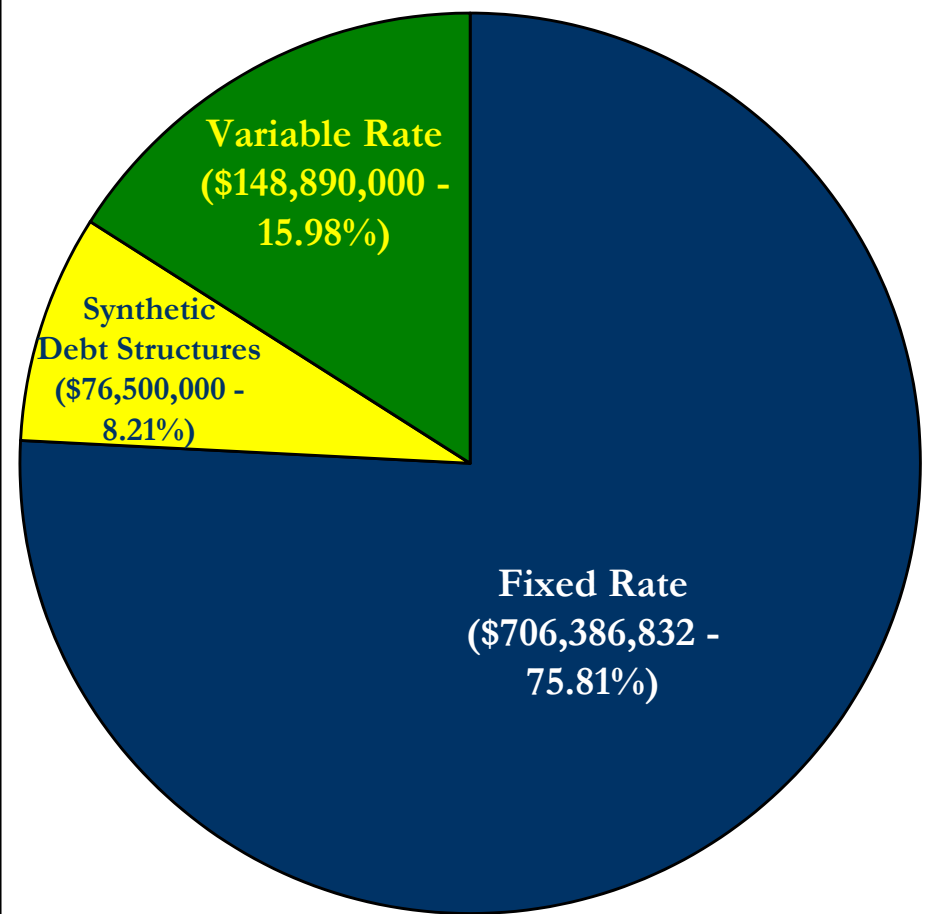


## Composition of Debt Portfolio – Before And After Sale of Series 2015-A Bonds

**Existing Bond Portfolio**



**Projected Bond Portfolio –  
Upon Sale of Remaining Bonds from  
2007 and 2013 Bond Programs**





# Preliminary Financing Plan – Sale of Series 2015-A Bonds

Scenario Presented - \$187.745 Million Bond Sale								
A	B	C	D	E	F	G	H	I
Year	Total Outstanding Bond Payments	Plus: August-15 Fixed Rate Series 2015-A \$187,745,000 @ 4.26%	Total Combined Bond Payments	Less: Projected State Funding Assistance	Less: Frozen Levy, Delinquent Tax Collections, Interest Earnings & Capitalized Interest	Net Combined Bond Payments	Taxable Assessed Valuation (Net of Frozen)	Projected I&S Tax Rate
2014/15	\$58,537,458	\$166,231	\$58,703,689	\$0	\$5,666,231	\$53,037,458	\$10,726,023,542	\$0.5000
2015/16	53,806,816	10,734,033	64,540,850	0	5,500,000	59,040,850	11,927,814,767	0.5000
2016/17	55,197,167	9,345,500	64,542,667	0	5,500,000	59,042,667	11,927,814,767	0.5000
2017/18	52,608,234	11,929,500	64,537,734	0	5,500,000	59,037,734	11,927,814,767	0.5000
2018/19	53,990,328	10,552,000	64,542,328	0	5,500,000	59,042,328	11,927,814,767	0.5000
2019/20	54,705,598	9,834,500	64,540,098	0	5,500,000	59,040,098	11,927,814,767	0.5000
2020/21	54,704,456	9,837,000	64,541,456	0	5,500,000	59,041,456	11,927,814,767	0.5000
2021/22	54,704,525	9,835,000	64,539,525	0	5,500,000	59,039,525	11,927,814,767	0.5000
2022/23	54,895,710	9,643,500	64,539,210	0	5,500,000	59,039,210	11,927,814,767	0.5000
2023/24	54,891,711	9,646,750	64,538,461	0	5,500,000	59,038,461	11,927,814,767	0.5000
2024/25	54,895,740	9,645,250	64,540,990	0	5,500,000	59,040,990	11,927,814,767	0.5000
2025/26	54,860,217	9,679,000	64,539,217	0	5,500,000	59,039,217	11,927,814,767	0.5000
2026/27	54,862,042	9,676,000	64,538,042	0	5,500,000	59,038,042	11,927,814,767	0.5000
2027/28	54,853,350	9,687,750	64,541,100	0	5,500,000	59,041,100	11,927,814,767	0.5000
2028/29	54,836,906	9,703,250	64,540,156	0	5,500,000	59,040,156	11,927,814,767	0.5000
2029/30	54,869,191	9,672,000	64,541,191	0	5,500,000	59,041,191	11,927,814,767	0.5000
2030/31	54,870,866	9,671,000	64,541,866	0	5,500,000	59,041,866	11,927,814,767	0.5000
2031/32	54,862,893	9,678,500	64,541,393	0	5,500,000	59,041,393	11,927,814,767	0.5000
2032/33	54,855,933	9,683,750	64,539,683	0	5,500,000	59,039,683	11,927,814,767	0.5000
2033/34	43,312,860	14,681,500	57,994,360	0	5,500,000	52,494,360	11,927,814,767	0.4445
2034/35	43,315,741	14,676,750	57,992,491	0	5,500,000	52,492,491	11,927,814,767	0.4445
2035/36	32,360,900	13,821,750	46,182,650	0	5,500,000	40,682,650	11,927,814,767	0.3445
2036/37	32,360,800	13,823,000	46,183,800	0	5,500,000	40,683,800	11,927,814,767	0.3445
2037/38	32,357,250	13,823,750	46,181,000	0	5,500,000	40,681,000	11,927,814,767	0.3445
2038/39	21,756,800	15,568,000	37,324,800	0	5,500,000	31,824,800	11,927,814,767	0.2695
2039/40	21,753,400	15,572,500	37,325,900	0	5,500,000	31,825,900	11,927,814,767	0.2695
2040/41	21,756,800	15,568,750	37,325,550	0	5,500,000	31,825,550	11,927,814,767	0.2695
2041/42	16,635,600	14,785,750	31,421,350	0	5,500,000	25,921,350	11,927,814,767	0.2195
2042/43	16,483,600	14,941,000	31,424,600	0	5,500,000	25,924,600	11,927,814,767	0.2195
2043/44	16,484,000	14,938,000	31,422,000	0	5,500,000	25,922,000	11,927,814,767	0.2195
2044/45	0	13,707,750	13,707,750	0	5,500,000	8,207,750	11,927,814,767	0.0695
<b>Total</b>	<b>\$1,340,386,891</b>	<b>\$354,529,014</b>	<b>\$1,694,915,905</b>	<b>\$0</b>	<b>\$170,666,231</b>	<b>\$1,524,249,674</b>		



## Approval of Parameters Order – Series 2015-A Bond Sale – \$187.745 Million Bond Sale from the 2007 & 2013 Bond Programs

- ❑ The Board of Trustees may adopt a “Parameters Bond Order” to complete the sale of Unlimited Tax School Building Bonds, Series 2015-A (the “Series 2015-A Bonds”).
- ❑ The following is a representative listing of primary parameters we recommend the District utilize for its Series 2015-A Bond sale.
  - 1) Up to \$187,745,000 (principal amount) of bonds may be issued;
  - 2) The interest rate (All-In TIC) on the Series 2015-A Bonds may not exceed 5.00%;
  - 3) The final maturity may not exceed August 15, 2045; and
  - 4) The District must complete the sale on or prior to December 22, 2015 (i.e. six-months after the “Parameters Bond Order” is adopted).
- ❑ Unless each parameter listed above can be achieved, the Series 2015-A Bonds will not be issued unless additional direction is received from the District.



# Preliminary Timetable – Series 2015-A Bond Sale

June 2015						
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				

July 2015						
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	

August 2015						
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					

September 2015						
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			



Board Meeting



Closing – Receipt of Funds

## Preliminary Timetable

Date*	Action
June 23, 2015	Board Meeting – Discuss Preliminary Financing Plan And Consider “Parameters Bond Order” Authorizing Issuance Of \$187.745 Million From The 2007 And 2013 Bond Programs (Series 2015-A Bonds).
June 24, 2015	Begin Bond Sale Process By Drafting Preliminary Official Statement, Obtaining Bond Ratings, Securing PSF Guarantee And Complete Due Diligence Process.
July 22, 2015	Completion Of All Actions Necessary To Sell Series 2015-A Bonds.
To Be Determined	Pricing – Sale Of The Series 2015-A Bonds Within The Specified Parameters – Interest Rates Locked-In At This Time.
August 20, 2015	Closing – Series 2015-A Bonds Are Completed.
August 27, 2015	Interest Payment On Series 2015-A Bonds To Qualify For “Hold Harmless” Funds.

\* Preliminary, subject to change.



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