

# BONDS 101: THE FINANCIAL IMPACT

May 20, 2014

# THE PROCESS

- ⦿ Bond Election is called by the Board of Trustees
- ⦿ Bonds are authorized by the voters
- ⦿ Bonds are sold
  - Sale is approved by the Attorney General of Texas, and shortly thereafter, cash is received (takes approximately 60 days)
- ⦿ Funds are deposited in a construction fund labeled specifically for the transaction(s)
- ⦿ Appropriate budgets are established
- ⦿ Projects are delivered per pre-defined schedule

# BOND SALES - THE BASICS

- Bonds are a loan from bondholders, and are:
  - Tax-Exempt or Taxable Municipal Bonds
  - Used to pay for:
    - Construction and renovation of facilities
    - Purchase of land, buses, and equipment (including technology)
  - Sold in increments to pay for the projects currently needed
    - Authorized vs. Outstanding
  - Rated for credit worthiness
    - Moody's, Standard & Poor's, etc.
    - District's underlying rating is very important and can determine the interest rate(s) required by buyers
      - Impacts the District's cost of funds and the interest of the bond market
    - Permanent School Fund Guarantee upgrades the bonds to AAA, providing lower interest rates

## BOND SALES - THE BASICS (CONT'D)

- ⦿ Bonds may be sold using different methods:
  - Competitive sales - short period of time/specific day
  - Negotiated sales - a team of firms work independently to negotiate with various parties for the lowest rates
- ⦿ Bonds continue to be traded on the secondary market
- ⦿ Bond maturities vary based on the method used and conditions of the sale
  - Term may not exceed 40 years, but should match the useful life of the projects financed
- ⦿ Covenants and legal representations are made in the bond purchase agreements and various other documents

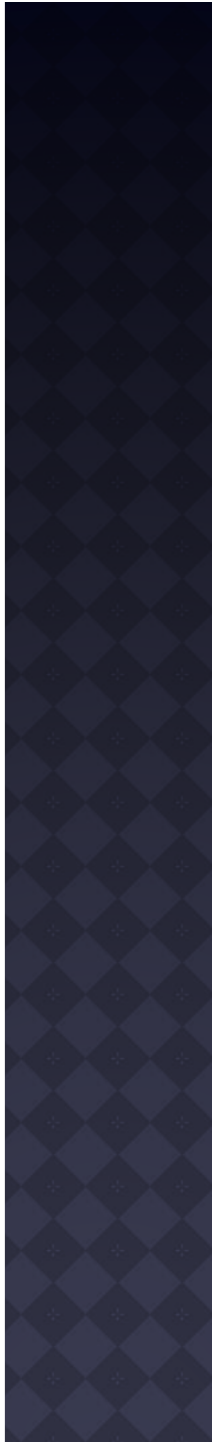
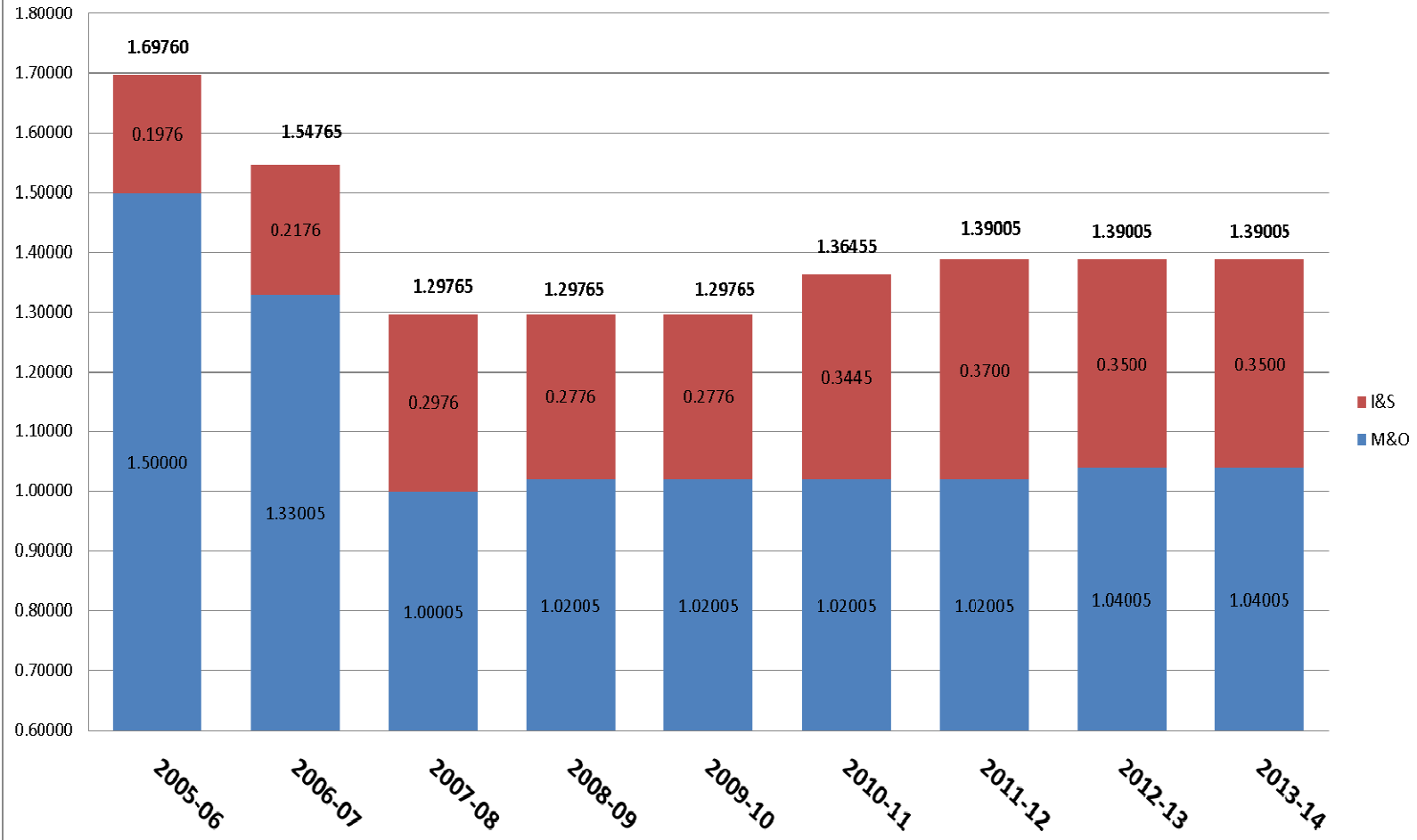
# BOND SALES - THE BASICS (CONT'D)

- ◉ Bonds are repaid over a period of time
  - Amortization schedule of principal and interest
- ◉ Interest rates on the bonds can be fixed, variable, convertible, etc.
- ◉ Interest rates vary based on the type of bond and maturity
  - Variable rate bonds have lower rate but higher service fees
    - Lamar CISD has policy to limit the amount of variable rate bonds in our portfolio
  - Fixed rate, tax-exempt bonds are the most common for school districts
- ◉ Bond principal and interest is paid from the District's Debt Service Fund, primarily funded by:
  - Tax collections
  - Interest earnings on bond proceeds
  - Fund balance reserves
    - Debt Service Fund and General Fund
  - Capitalized interest from previous transactions
  - Unused proceeds of prior bond sales
  - State Allotments

## BOND SALES - THE BASICS (CONT'D)

- ⦿ A separate tax rate is established based on the amount of principal and interest due each year
  - If required rate exceeds \$0.50/\$100 valuation, special regulations are imposed
    - "50-cent test" - calculation made for every transaction

### Lamar CISD Tax Rate History



## CURRENT BOND AND TAX RATE STATUS

- All bonds authorized by voters have been issued (sold) as of April 2014
  - Principal outstanding: \$629,325,000
- Current rate: \$0.35/\$100 valuation
- Maximum expected tax rate: \$0.365/\$100 valuation
  - Based on property value growth rate of 6%
    - 2013-14 growth rate was 4.6%
    - 2014-15 growth rate (CAD preliminary estimates) is 8.03%
    - Growth is expected to continue at or above 6% for the near term

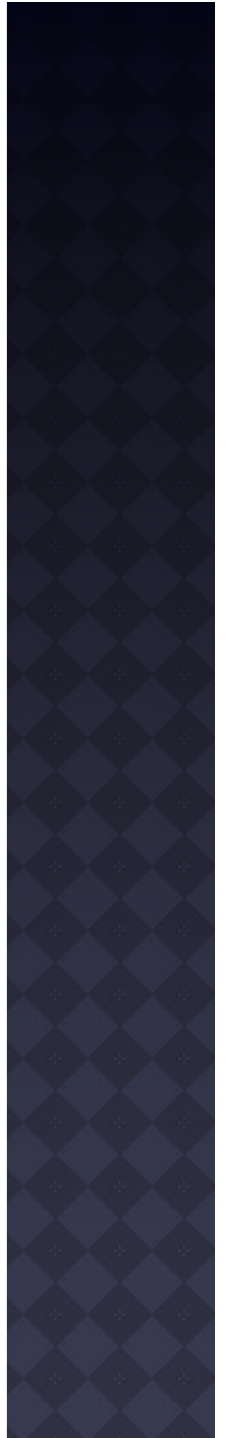


## CONSIDERATIONS WHEN ISSUING BONDS

- ◉ Amount of debt currently outstanding and tax rate limitations
- ◉ Variables over which we have limited control:
  - Tax rate
  - Timing of bond sales
  - Principal amount of bonds sold
  - Bond maturities (term)
  - Variable or fixed rate bonds, other structures available
  - Refunding (refinancing) opportunities and structures
- ◉ Variables over which we have little or no control (all controlled by their respective markets):
  - Interest rates paid
  - Property value increases/declines
  - Interest rates earned on the bond proceeds

# STRATEGIES USED BY LCISD TO MAINTAIN LOW TAX RATE

- ◉ Issuance of bonds only when necessary
  - Lowers principal outstanding
- ◉ Timing of bond sales
  - Market conditions
- ◉ Types of bonds issued
  - Fixed and variable rate combinations
- ◉ Refinancing transactions
  - Never extend principal
  - Innovative structures
- ◉ Use of available resources in addition to property taxes
  - Fund balances - Debt Service and General Funds
  - Capitalized interest
  - Interest earnings on bond proceeds



# RECENT TRANSACTIONS

- ◎ Spring 2014 Sale at attractive rates
  - Fixed and variable rate bonds
    - \$43.865 million in fixed rate bonds, sold at a premium, with true interest cost of 3.52%
    - \$90.0 million in variable rate bonds with an initial rate of 0.61%, which is fixed until 8/15/2016
- ◎ Fall 2013 Refunding transactions for savings of over \$6.0 million expected
  - Average rate of bonds refunded = 5%
  - Traditional refunding will generate \$3.549 million in savings for taxpayers over an eight-year period
    - All-in True Interest Cost (TIC) of 2.43%
  - Convertible Direct Purchase Bonds will generate \$2.549 million in savings over a six-year period
    - All-in True Interest Cost (TIC) of 1.60%

## DEBT RATE - SAVINGS TO TAXPAYERS

	1998 Election	2003 Election	2006 Election	2011 Election	Total Increases
<b>Actual Increase</b>	0.0445	0.0907	0.1148	0.0200	<b>0.2300</b>
<b>Projected Increase Approved by Voters in Referendum</b>	0.1600	0.1640	0.1400	0.0350	<b>0.4990</b>
<b>Savings to Taxpayers of Lamar CISD*</b>	0.1155	0.0733	0.0507	0.0252	<b>0.2690</b>

- ⦿ I/S tax rate in 1998-99 was \$0.12.
- ⦿ Projected increase for 2014-15 is \$0.015 (at a growth rate of 6%), but will be determined by actual property value growth.
- ⦿ Debt service requirements on outstanding bonds increase through 2017-18 to a maximum of \$49.8 million.
- ⦿ Maximum rate expected = \$0.3650.
- ⦿ **Net savings expected = \$0.2540**
  - **What does this mean to the average taxpayer?**
    - ⦿ For a residence valued at \$200,000, the savings would be \$508 per year

# 2014 REFERENDUM ESTIMATES

- ◎ \$200 million referendum
- ◎ Based on 6% growth rate (likely) = \$0.0400 increase/\$100 valuation
  - \$80 annually on \$200,000 home
  - Maximum I&S tax rate: \$0.4050/\$100 valuation
    - Four-cent increase over rate anticipated for currently outstanding bonds
    - Actual results will vary by actual property value growth, financing transactions, and sources of funds
- ◎ Scenario remains below the 50-cent test cap

# IMPACT ON AVERAGE TAXPAYER

- Average home net taxable value of \$200,000
- Projected I&S rate on currently outstanding bonds: \$0.365
  - Produces a tax of \$730
- Projected total debt rate of \$0.4050 (\$0.04 increase) produces a tax of \$810
  - Tax increase of \$80 per year
- Each penny will increase average tax bill by \$20 (\$1.67 per month)

# SUMMARY

- ◉ Demographic report reveals continued growth in Fort Bend County and Lamar CISD
- ◉ Additional residents and rebounding economy establish the need for additional facilities and renovations
- ◉ Property value growth and interest rates presented are conservative and represent a reasonable scenario
- ◉ Even in this scenario, the District can strategically structure the sale of additional bonds and maintain a debt service tax rate below the \$0.50/\$100 valuation cap.
- ◉ Future presentations will include estimated tax rates to support the various bond packages the Citizens' Bond Committee develops.

QUESTIONS?

