



LONG-RANGE PLANNING COMMITTEE

2018-2019

JANUARY 24, 2019



CFISD

TAX RATE IMPACT



What Are We Discussing Tonight?

- What are Bonds?
- Bond Proceeds – Capital Projects Fund & Allowable Uses
- Debt Service Fund & Payment of Debt
- Review the 2014 Bond Program
- Basics of the Bond Sale Process/Cast of Characters
- I&S Tax Rate Assumptions
- Current Debt Service Requirements
- Summary of the Current Scope of the Bond Program
- I&S Tax Rate Impact – Various Bond Program Scenarios

What Are Bonds?

- Way To Finance Capital Needs Over Time**
- Bond Election Is Asking Permission To:**
 - ✓ **Build & renovate schools & other facilities**
 - ✓ **Make long-term asset purchases**
 - ✓ **Incur long-term debt**
 - ✓ **Levy a tax**

Bond Proceeds

Capital Projects Fund

Use of Proceeds

✓ Costs related to construction, renovation

- Architect fees
- Environmental studies
- Equipment, FFE for new facilities

✓ Purchase of long-term assets

- Land
- Technology
- School buses
- Roofs
- HVAC equipment

Debt Service

Debt Service Fund

Payment of Debt

- ✓ Principal and Interest

Tax Revenue

- ✓ Appraised property values - HCAD
- ✓ I&S Tax rate – CFISD Board of Trustees

Use of Tax Revenue For Debt Service

- ✓ Restricted to only principal and interest payments

Bond Status - May 2014

2004, 2007 & 2014 Elections

Bond Election	Unissued	Total
2004	\$35,840,500	
2007	\$211,190,000	
2014	\$1,209,280,000	\$1,456,310,500

Current Bond Status

2004 Election - \$713,200,000

Bond Sale	Date	Unissued
		\$713,200,000
\$50,359,500	May 2005	662,840,500
200,000,000	March 2006	462,840,500
250,000,000	June 2007	212,840,500
52,000,000	August 2008	160,840,500
125,000,000	August 2009	35,840,500
<u>35,840,500</u>	November 2014	\$0
\$713,200,000		

Current Bond Status

2007 Election - \$807,000,000

Bond Sale	Date	Unissued
		\$807,000,000
\$430,810,000	Pre-2014 (4)	376,190,000
165,000,000	January 2014	211,190,000
121,160,000	November 2014	90,030,000
72,000,000	November 2015	18,030,000
<u>18,030,000</u>	November 2016	\$0
\$807,000,000		

Current Bond Status

2014 Election - \$1,209,280,000

Bond Sale	Date	Unissued
		\$1,209,280,000
\$172,999,500	November 2014	1,036,280,500
238,000,000	November 2015	798,280,500
251,970,000	November 2016	546,310,500
187,500,000	November 2017	358,810,500
<u>200,000,000</u>	November 2018	158,810,500
\$1,050,469,500		

Bond Sales

2004, 2007 & 2014 Elections

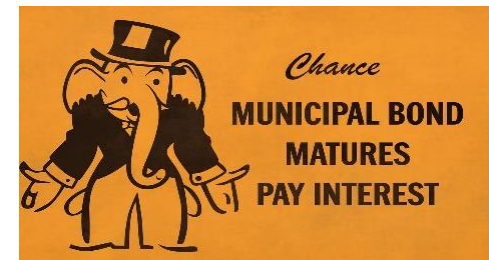
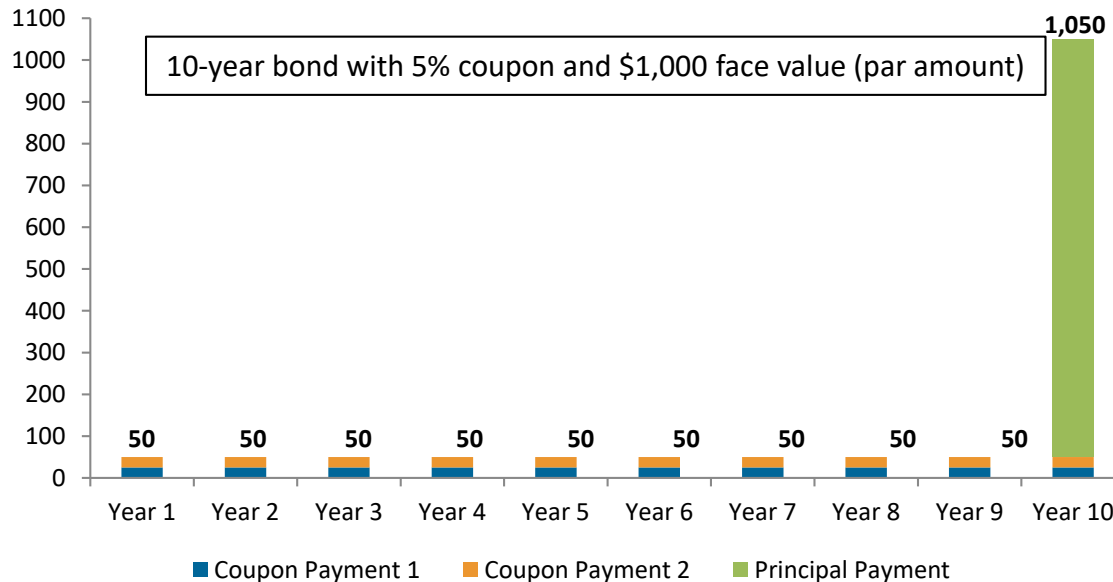
Bond Elect.	2014	2015	2016	2017	2018	Total
2004	\$35,840,000					\$35,840,000
2007	121,160,000	\$72,000,000	\$18,030,000			211,190,000
2014	172,999,500	238,000,000	251,970,000	\$187,500,000	\$200,000,000	1,050,469,500
Total	\$330,000,000	\$310,000,000	\$270,000,000	\$187,500,000	\$200,000,000	\$1,297,500,000
All-In True Interest Cost	3.69% Fixed Rate	\$160,000,000 3.27% Fixed Rate \$150,000,000 2.64% Var. Rate	3.05% Fixed Rate	2.54% Var. Rate	3.76% Fixed Rate	

Projected v. Actual I&S Tax Rate 2014 Election

Year	Projected I&S Tax Rate	Actual I&S Tax Rate
2013-2014	\$0.4100	\$0.4100
2014-2015	\$0.4100	\$0.4000
2015-2016	\$0.4175	\$0.4000
2016-2017	\$0.4375	\$0.4000
2017-2018	\$0.4550	\$0.4000
2018-2019	\$0.4550	\$0.4000
2019-2020	\$0.4539	

WHAT IS A MUNICIPAL BOND?

- A municipal bond is a debt security issued by a public entity to finance (new money) or refinance (refunding) capital expenditures
- A municipal bond is a legal promise to pay a series of cash flows
 - Cash flows are made up of recurring “coupon” payments and a one-time “principal” payment
- Coupon payments compensate the investor for lending money to the bond issuer and are generally paid biannually on specified dates 6 months apart (Ex. February 15 and August 15)
- Principal payment returns the initial amount invested back to the investor on the bond’s maturity date
- For a bond with a 10-year maturity and 5% coupon, \$25 coupon payments are paid to the bondholder twice a year (\$50/year) from Year 1 through Year 10 and the \$1,000 principal payment is repaid by the issuer on the bond’s maturity date in Year 10, as shown in the graph below



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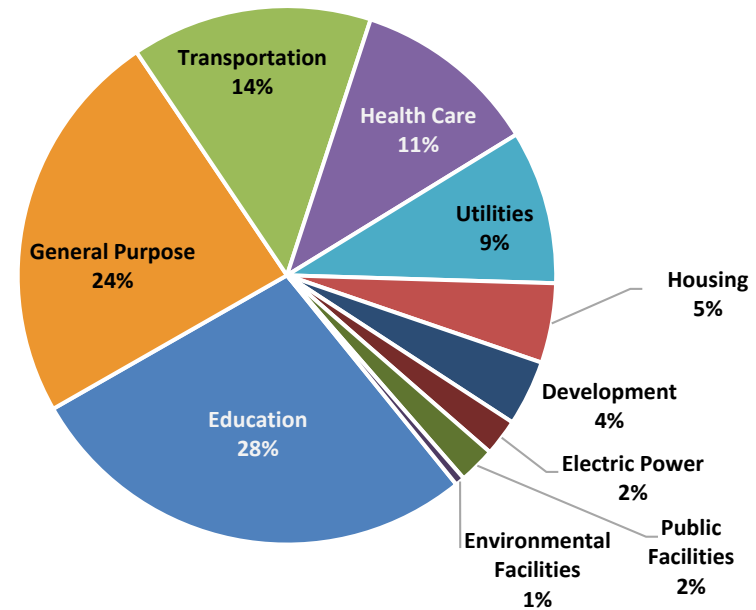


PUBLIC USE OF DEBT

- Cities – libraries, parks, roads, water and sewer plants, solid waste
- Counties – many of the same as cities plus courthouses and jails
- States – highways, colleges, economic development, parks and wildlife
- Not for Profit – hospitals, nursing homes, affordable housing developments
- Education – schools (new construction and renovations), sporting venues

Dollar Amount Issued in 2017 (\$ mil)	
Education	\$ 120,317.1
General Purpose	\$ 103,951.1
Transportation	\$ 63,135.0
Health Care	\$ 48,890.8
Utilities	\$ 40,286.4
Housing	\$ 20,883.6
Development	\$ 17,199.1
Electric Power	\$ 9,637.7
Public Facilities	\$ 9,568.2
Environmental Facilities	\$ 2,476.4
Total (\$ mil)	\$ 436,345.4

Dollar Amount Issued in 2017

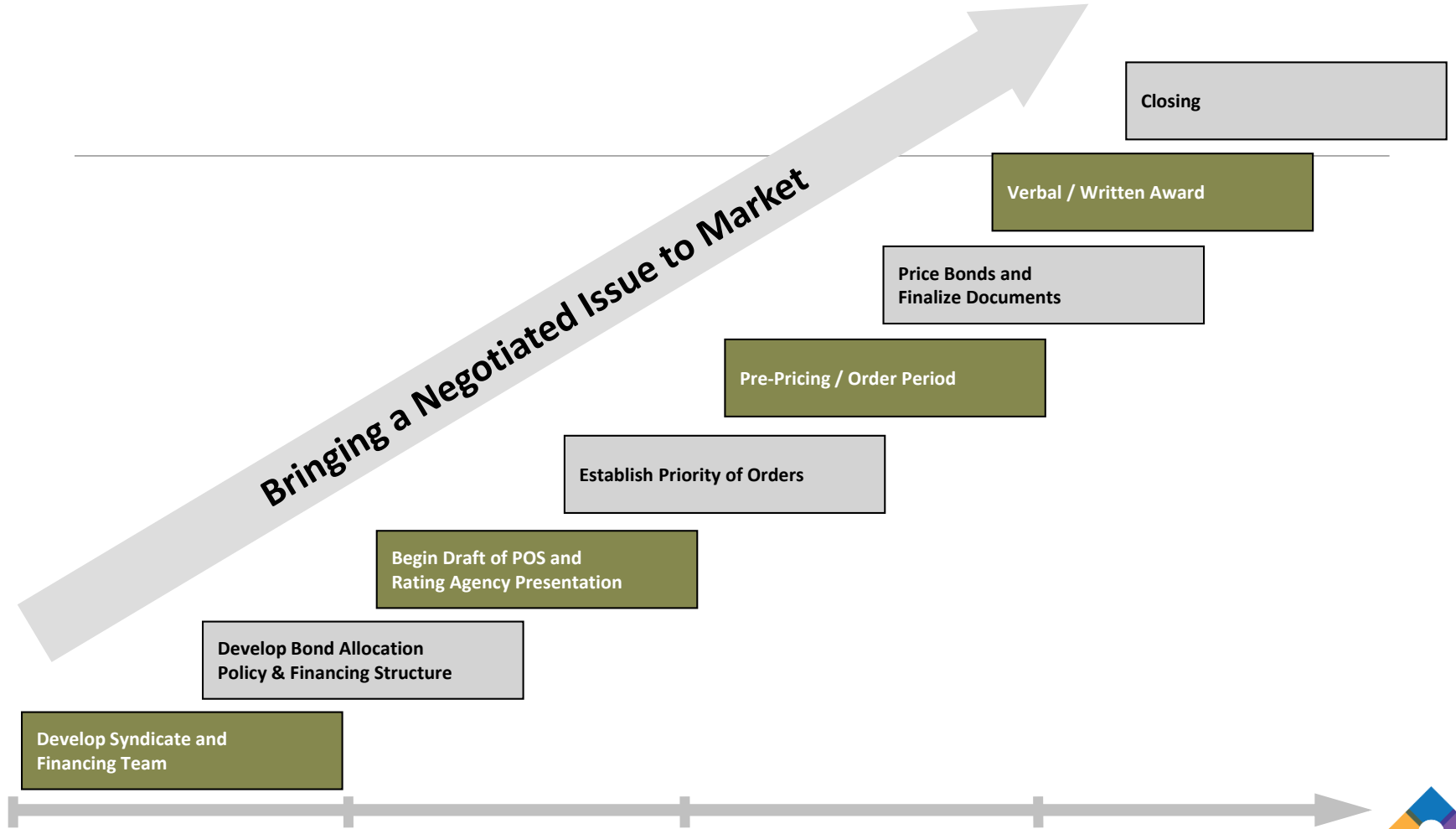


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STEPS IN THE BOND SALE PROCESS

- After deciding to issue debt, the process of structuring, marketing, & selling municipal bonds begins



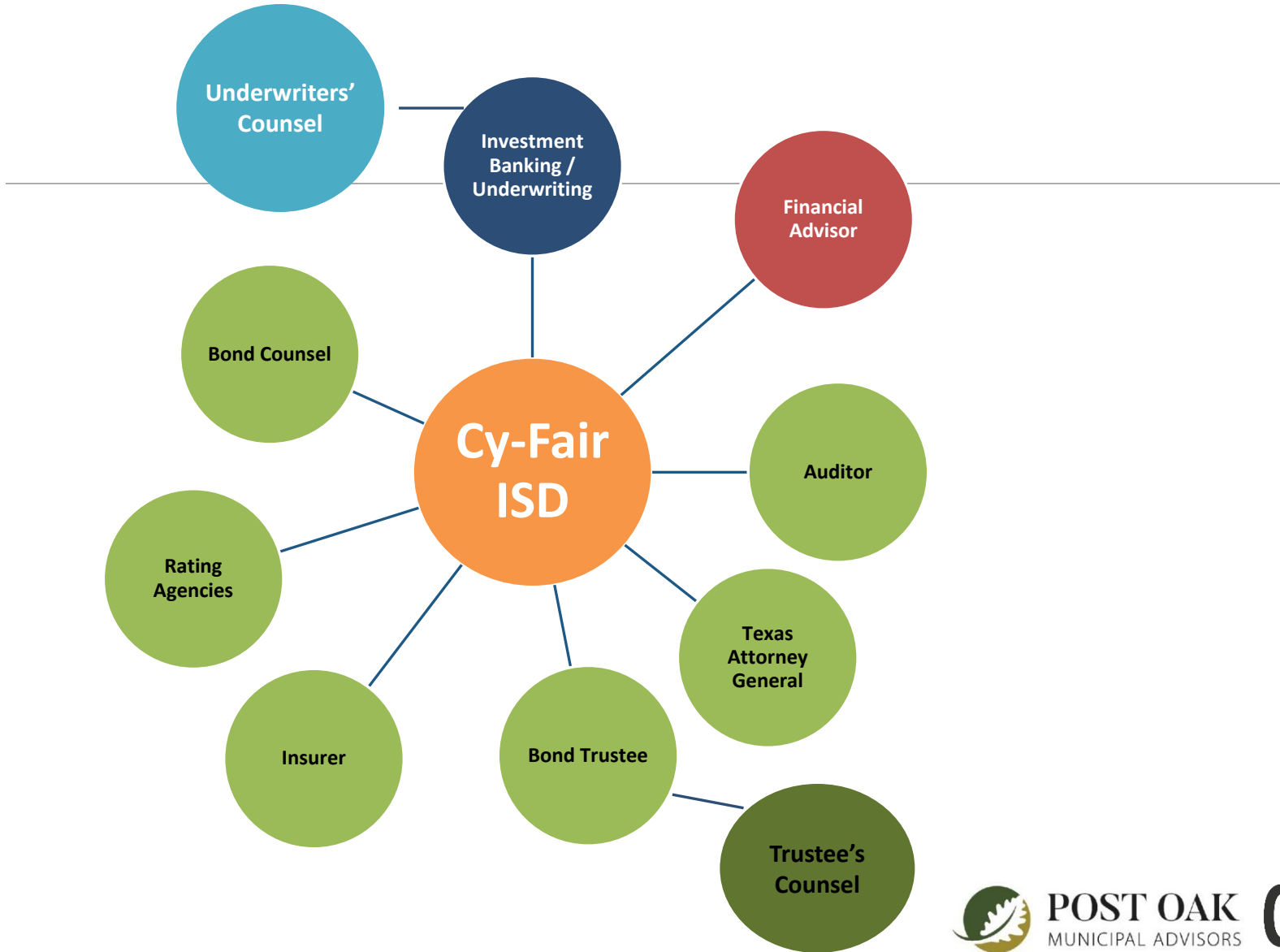
Bringing a Transaction to Market



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WHO ARE THE PARTICIPANTS IN A FINANCING?



FINANCIAL ADVISOR

- A consultant who advises the Issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms, and bond ratings.

ROLE	RESPONSIBILITY
<ul style="list-style-type: none"> ▪ Acts on behalf of Issuer in financing process; role complements Investment Banker ▪ Review and analyze proposed bond structure, terms, proposed spread and interest rates ▪ Provide historical knowledge of transactions 	<ul style="list-style-type: none"> ▪ Protect Issuer from financial risk ▪ Formulate debt financing plan ▪ Evaluate financing structure and credit quality ▪ Assist Issuer in identifying financial opportunities

EXAMPLES		
		
		

BOND COUNSEL

- An attorney or law firm retained by the Issuer to give a legal opinion that the Issuer is authorized to issue the proposed municipal securities and, the Issuer has met all legal requirements necessary for issuance and the tax-exempt nature of the issue.
- Typically, bond counsel may prepare, or review and advise the Issuer regarding bond documents.

ROLE

- Renders opinion concerning the validity of the bond issue with respect to statutory authority, constitutionality, procedural conformity and, if tax-exempt, exemption of interest from Federal income taxes.
- Work with the Issuer and the financing team on behalf of bondholders.

RESPONSIBILITY

- Prepare legal documents
- Represent Issuer in negotiations with credit enhancers, underwriters and derivative providers
- Assist Issuer in preparation of Official Statement
- Draft and prepare continuing disclosure agreement (Rule 15c2-12) and closing documents

EXAMPLES

HUNTON
ANDREWS KURTH



BRACEWELL

ABHR
ALLEN BOONE HUMPHRIES ROBINSON LLP

haynesboone



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INSURER/GUARANTOR

- An entity such as an insurance company, financial services company, bank or governmental agency that issues bond insurance policies to guarantee the payment of principal and interest
- In the past, the presence of an insurer often allows the issue to receive higher ratings.
- Since the credit crisis of 2008, the importance and role of insurers has changed drastically.

ROLE

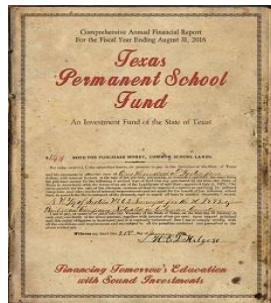
Provide credit enhancement in the form of:

- Municipal Bond Insurance
- Surety Policy
- Letter of Credit

RESPONSIBILITY

- Strengthen the credit of the lower rated entity
- Lower potential cost of borrowing
- Guarantee payment to bondholders

EXAMPLES




RATING AGENCIES


- National organizations that provide ratings on debt of public and private organizations.
 - Moody's
 - S&P
 - Fitch
 - Kroll (Newer)
- Primary analysis concerns the borrower's ability to repay funds it borrows.

ROLE	RESPONSIBILITY
<ul style="list-style-type: none"> ▪ Provide opinions to the investing public on the creditworthiness of varying Issuers ▪ Maintains a watch on an Issuer's ongoing credit 	<ul style="list-style-type: none"> ▪ Assess the Issuer's ability and willingness to make full and timely payments of bond principal and interest over the life of the bonds ▪ Review Issuers' financial and operating information ▪ Keep the public informed with updates on Issuer's credit status


EXAMPLES




**STANDARD
& POOR'S**



Moody's Investors Service



Fitch Ratings



**Kroll
Bond Ratings™**



MUNICIPAL CREDIT RATINGS

Moody's/S&P/Fitch		Moody's/S&P/Fitch	
Aaa/AAA/AAA	} Highest Quality	Ba1/BB+/BB+	} Less Near Term
Aa1/AA+/AA+		Ba2/BB/BB	
Aa2/AA/AA	} Very Strong Capacity	Ba3/BB-BB-	} Vulnerability to Default
Aa3/AA-/AA-		B1/B+/B+	
A1/A+/A+		B2/B/B	
A2/A/A	} Strong Capacity	B3/B-/B-	} Greater Default
A3/A-/A-		CCC/CCC/CCC	
Baa1/BBB+/BBB+		CC/CC/CC	
Baa2/BBB/BBB	} Adequate	C/C/C	} Vulnerability
Baa3/BBB-/BBB-		D	
			} Certain of Default
			} Default

I&S Tax Rate Assumptions

Property Value Increases

- ✓ 5.0% - 2019-2020
- ✓ 6.0% - 2020-2021
- ✓ 7.0% - 2021-2022
- ✓ 8.0% - 2022-2023
- ✓ 7.0% - 2023-2024
- ✓ 6.0% - thereafter

Tax Collection Rate

- ✓ 98%

Bond Interest Rates

- ✓ 4.50% Fixed

I&S Tax Rate Assumptions

Underlying Bond Ratings

- ✓ Aa1 Moody's Investor Service
- ✓ AA Standard & Poor's Rating Service

Permanent School Fund Enhanced Ratings

- ✓ Aaa Moody's Investor Service
- ✓ AAA Standard & Poor's Rating Service

Bond Maturities

- ✓ Facilities – 25 years
- ✓ Instructional Technology – 5 years
- ✓ Infrastructure Technology – 10 years
- ✓ Buses – 15 years

I&S Tax Rate Assumptions

Bond Structure

- ✓ Remaining 2014 election bonds sold in 2019 or later
- ✓ 2019 election bonds sold evenly over six years
- ✓ New bonds amortized according to estimated useful life of assets
- ✓ New bond payments structured around existing payments
- ✓ Defeasance of some existing bonds
- ✓ Use of capitalized interest

Interest Earnings Rates

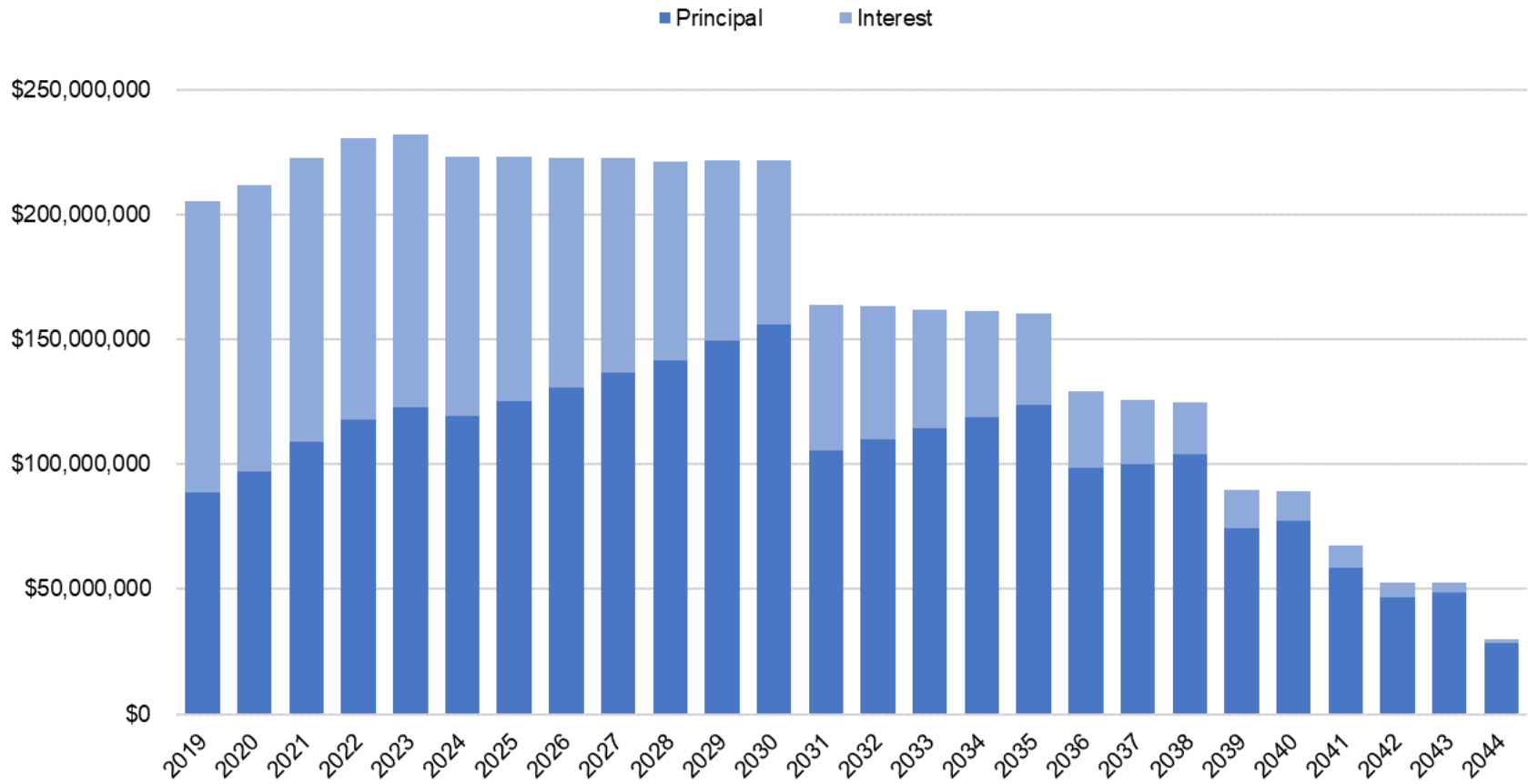
- ✓ Interest on invested debt service fund revenues not considered in I&S tax rate projections

Use Of Debt Service Fund Balance

- ✓ \$0.00

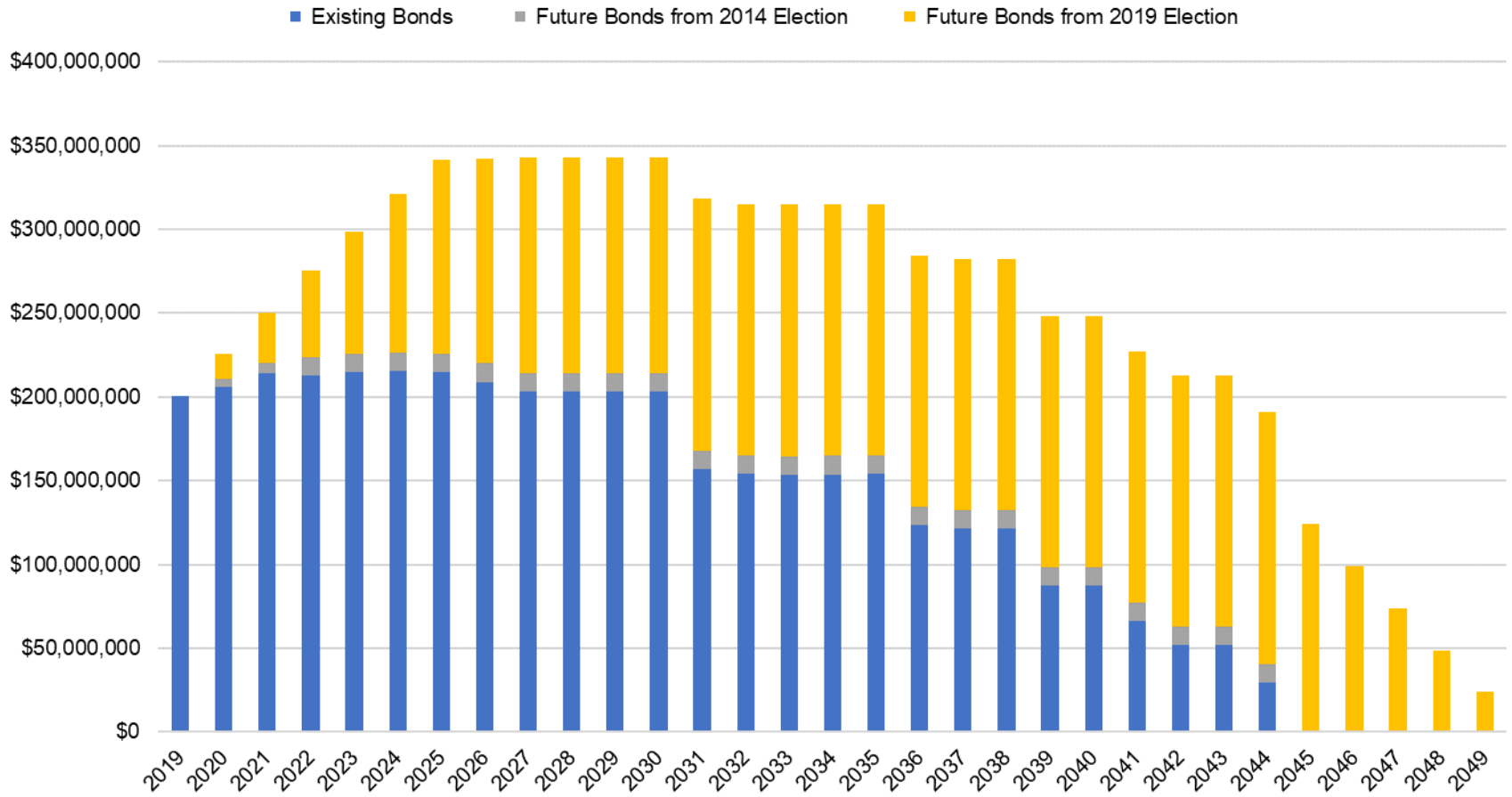
DEBT SERVICE REQUIREMENTS OF EXISTING BONDS

Bond Capacity for Cy-Fair ISD



DEBT SERVICE REQUIREMENTS OF EXISTING + NEW BONDS

Bond Capacity for Cy-Fair ISD



Summary of Bond Proposal

Amount	Area
\$88,162,655	Transportation
145,984,592	New Facilities – Student Growth
194,198,016	Instructional & Support Facilities
303,550,715	Safety & Security
149,704,011	Curriculum Program Technology
89,409,301	Tech. Infrastructure/Cyber Security
<u>1,860,438,736</u>	Asset Protection/Facility Renovations
<u>\$2,831,448,026</u>	Total

Impact On I&S Tax Rate

Bond Election Amount	Maximum I&S Tax Rate	Max. I&S Tax Rate v. Current I&S Tax Rate
\$1.350 Billion	\$0.4000	No Increase
\$1.400 Billion	\$0.4050	\$0.0050
\$1.600 Billion	\$0.4200	\$0.0200
\$1.800 Billion	\$0.4350	\$0.0350
\$2.000 Billion	\$0.4500	\$0.0500

Impact On I&S Tax Rate

I&S Tax Rate Increase	Maximum I&S Tax Rate	Bond Election Amount
No Increase	\$0.4000	\$1.350 Billion
\$0.0100	\$0.4100	\$1.450 Billion
\$0.0200	\$0.4200	\$1.600 Billion
\$0.0300	\$0.4300	\$1.750 Billion
\$0.0400	\$0.4400	\$1.900 Billion
\$0.0500	\$0.4500	\$2.050 Billion
\$0.0600	\$0.4600	\$2.200 Billion

Annual I&S Tax Increase On \$200,000 Home

I&S Tax Rate Increase	Annual I&S Tax Increase
\$0.01	\$13.50
\$0.02	\$27.00
\$0.03	\$40.50
\$0.04	\$54.00
\$0.05	\$67.50
\$0.06	\$81.00
\$0.07	\$94.50
\$0.08	\$108.00

Note: Assumes homestead exemption of 20% plus \$25,000



Committee Preliminary Priority

Category	Amount	Notes
New Schools	\$145,984,592	All included
Transportation	88,162,655	All included
Inst.Support Facilities, P1	31,893,191	All included
Inst. Support Facilities, P2	78,292,471	New ISC, No Performing Arts, No ISC repurpose, No storage
Safety/Security. P1	136,088,750	All included, except metal detectors, bollards
Safety/Security. P2	106,821,442	Ben Bradley reduced scope
Safety/Security. P3	21,786,367	Exterior lighting
Instructional Technology	149,704,012	All included
Infrastructure Technology	89,409,301	All included
Asset Protection, P1	260,704,482	All included
Asset Protection, P2	812,101,399	All included
Program Enhancements	<u>150,540,106</u>	All, except Band towers
Total	<u>\$2,071,488,768</u>	

Tax Increase For Home Owners 65 Years And Older Homestead Exemption

NO TAX INCREASE

Questions

