

Bond Advisory Committee Meeting

Wednesday, May 3, 2017

Meeting # 1

Hunters Creek Elementary School

Attendees Dr. Scott Muri, Dr. Jennifer Blaine, Karen Wilson, Linda Buchman, Christopher Juntti, Travis Stanford, Steve Brunsman, David Bender, Rey Paz, Ken English, Mel Butler and Justin Goodman with AECOM, Jennifer Henrikson with Stantec, Terrell Palmer with First Southwest and Bond Advisory Committee Members (please see attached list)

Welcome Dr. Muri welcomed the group and thanked everyone for their participation. He introduced Pam Goodson, Vice President, Board of Trustees, David Slattery, Bond Advisory Committee Co-Chair and Lewis Gissel, Bond Advisory Committee Co-Chair.

Committee members were presented with an overview of the committee member make-up, noting it was a diverse group to include parents, students, community members, certified staff, principals and assistant principals, central administration and two Board of Trustee members. The scope, charge, responsibilities and timeline of the Bond Advisory Committee was also presented, with work beginning in May of 2017 for a recommended bond package to be presented to the Board of Trustees no later than June 30, 2017.

BAC Engagement - Tabletop Exercise

Committee members participated in a table activity and responded to the questions listed below:

- What are you most excited about being on the Bond Advisory Committee?
- What would you like to know more about in regards to the Bond Advisory Committee or District Facilities?

Responses were shared with the group. (Please see attached list of responses.)

Overview of Initiatives/Scope To-Date

Jennifer Henrikson with Stantec Architecture presented an overview of the following district wide initiatives:

- Design & Construction Standards – in final form; guidelines to follow when replacing or renovating a district facility
- Educational Specifications – in final draft form; guidelines to follow as to how a facility (elementary school, middle school and/or high school) should be arranged to meet the district’s educational plan
- Ten Year Demographic Study – Demographic study completed in the Fall of 2016 outlining the economic trends, housing market and enrollment projects for the next ten years
- Capacity Assessment and Study – In the process of completion. Through the use of raw data, floor plans and campus schedules provided by the district, provides a planning tool to show how the campus is being used today.

Facility Conditions Assessment

Ken English, with AECOM, presented an overview of the main components: Facility Condition Assessment, Educational Suitability, Child Nutrition Services and Technology Cabling. He also reviewed what has occurred to date in the long range facility planning process such as ranking the four facility condition assessment categories, engaging in collaborative exercises to define what would be “critical”, “moderate” and “non-critical” as well as prioritizing the elements within the building envelope and the mechanical, electrical and plumbing categories.

The Long Range Facility Plan – Level 1 Cost Summary was also introduced identifying the total cost of the deficiencies and needs of the District noting that these deficiencies were determined as compared to the District’s standards.

Bond Planning and Bond Capacity

David Slattery, Bond Advisory Committee Co-Chair reviewed the overall process as well as shared his experiences in the previous bond program.

He shared with committee members to stay attentive to all of the information being given and that there will be a lot data to review and the importance of understanding the needs and the costs associated with the data. He also stated that in the previous bond advisory committee meetings, the group did not start out with all of the answers to the determination of a bond amount. The group worked to form a

consensus and agree on one plan to present to the Board of Trustees. He also encouraged committee members to ask questions for greater understanding and if additional information is needed, review the BAC Drop Box or send an email.

Karen Wilson, the Associate Superintendent for Finance, presented the following information to the committee:

- How school districts are funded?
- How projects are funded?
- How bond proceeds can be spent?
- The District's current debt picture
- And, the District's capacity to sell bonds.

Terrell Palmer with First Southwest presented the tax rate of Spring Branch ISD dating back to 2012 as well as to how it compares to other neighboring school districts. He displayed a historical graph noting that the interest rates of the past 20 years, noting that in 2007, the interest was in the mid 5% range and now it is currently at 3.82%, which is a good time to issue bonds. He shared various scenarios of possible future bond capacity amounts and how it would affect the tax rates. Please see the attached additional questions and answers at the end of the meeting minutes.

District Scope/Needs

Dr. Blaine shared a list of other District needs to be considered when formulating a plan. These include District-wide technology infrastructure needs, currently under development; needs and costs associated with band instruments, as well as district bus needs to include replacement buses and cost associated with buses with and without seatbelts.

BAC Homework

In closing, David Slattery and Lewis Gissel, committee co-chairs asked the group to check and confirm their access to the BAC Drop Box and informed the members that there will be a Help Session provided on May Monday, May 15th at the Technology Training Center to review and learn more about the Long Range Facility Plan. The members were also reminded to email them if there were any questions or additional information needed.

Dr. Muri thanked the members for their time and participation in this process and noted that it was teacher appreciation week asked all of the teachers in the room to stand and be recognized for all of their hard work not just during this week but all year.

Next meeting scheduled for Wednesday, May 10th at the Schaper Leadership Center at 955 Campbell Road. This will be a conjunction with the final Long Range Facility Planning Committee meeting.

Responses to Questions listed below:

What are you most excited about being on the Bond Advisory Committee?

- Being a part of a diverse group of people for a common goal
- Chance to be a part in improving our community and schools
- Expressing ideas and concerns
- See the Big Picture
- How the bond plan translates from LRFPC
- Seeing the next step in this process (from people on the Long Range Facilities Committee)
- Want to see how the process comes together
- Being involved and going through the process
- Learning about the process and “next steps”
- The opportunity to make lasting change for generations to come
- Potential impact (legacy)
- How TEA works with the District
- Our influence on the significant investment
- How it effects our own families
- Being able to plan for grandchildren (future)
- Having a voice and continuing the positive legacy
- The potential of what we can do
- Knowing needs at other campuses
- Give back
- Priorities and technology changes
- More exposure to community
- Future planning/virtual learning
- Bond origination process
- Moving forward with needed facilities’ improvements
- Building new buildings/upgrading facilities
- Hear firsthand what SBISD is doing and why
- Creating learning spaces for the future
- Long term impact on the community
- Making a difference in the community
- Impacting the growth of the arts
- Answers to questions as to who can get a new facility
- Understand and assist in the bond process
- Previous bond has so much success – vested interest for community and students
- Being part of a group that acts to make SBISD improve
- Passion for SBISD

- Make sure we are good caretakers of our facilities
- See what we will be able to do to improve our facilities
- Given the success of the previous bond election, we're eager to see the great work that can come from this
- The opportunity to provide children spaces that enhance and complement the educational environment
- Learn about the new leadership
- Excited for the future of SBISD students

What would you like to know more about in regards to the Bond Advisory Committee or District Facilities?

- The specifics of the charge we will have
- What are our needs/deficiencies?
- How much will this cost?
- Priority schools? What are the priorities?
- What is our projected growth?
- Capacity utilization
- How facility design impacts personalized learning?
- How do we effectively filter the large volume of information into an appropriate recommendation?
- What's the big picture?
- Conditions at existing facilities and how we prioritize needs
- Prioritization of capital spending
- Effect on taxpayers
- Hilltop Securities as advisor and underwriter
- Learning from prior bond fund
- Understand the success of 2007 Bond to replicate success
- The 2007 Bond process (financials – debt)
- More about the demographics report presented to the LRFPC
- Carry the work forward from the long term facilities committee
- How do we make those hard choices?
- What is our debt capacity?
- How does bond funding work? All money up front?
- How much money can we raise for a bond without raising taxes?
- How we put it altogether?
- How is it communicated to the community?
- Pick and choose
- How are decisions made to allocated monies?
- How will we compress the work we're doing which involves impactful decisions in only 7 weeks?

Questions and Answers
Responses from Terrell Palmer

- 1) On page 31 of the presentation the maximum M&O tax rate for SBISD is said to be \$1.09/\$100. However in the definition in the first bullet, the Maximum M&O tax rate is defined as the lesser of (A) \$2.00, and (B) \$0.17 plus (\$1.575 x the state compression rate of 66.67%). When I take 1.575×0.666 , I get \$1.05. When I add \$1.05 and \$0.17 I get \$1.22. This seems to be the calculation for the highest rate allowed by the district, as opposed to \$1.09, which is quoted as the highest allowed without an additional election. Can you help me reconcile this?

The District can increase its M&O by an additional \$.13/100 but only after a successful Tax Rollback Election, which the District has no plans to call. Just to clarify, \$1.09 is the highest M&O tax rate that is currently allowed, \$1.22 would be the highest if an election was successful.

- 2) The I&S rate is \$0.3045 (before potential homestead exemption effect). Is it mandated that this tax revenue be used ONLY for debt service? Yes If debt service only represents a portion of the \$0.3045, can the district use the remaining portion of that tax revenue to support operations with no risk of recapture?

n/a

- 3) What are SBISD bonds rated (i.e. what is SBISD issuer rating)?

The Bonds are rated "Aaa" by Moody's and "AAA" by S&P by virtue of the Permanent School Fund guarantee of the state of Texas (let me know if you need more info on this). The District's own ratings are very high at "Aa1" and "AA" by those rating agencies.

- 4) How many tranches in the current bond portfolio?

The District has 13 "series" of bonds outstanding.

- 5) Where are the current bonds trading? Effective Yield to Worst?

I don't have any trading data, but Texas school district bonds rated "Aaa"/"AAA" with the PSF guarantee trade in a very tight range and most are held in "hold to maturity" accounts.

6) I'm unfamiliar with municipal bonds and much more familiar with corporate bonds (generally HY but also some IG). I've got a couple questions about muni bonds in general and SBISD bonds specifically.

a. Are there call provisions/make wholes on existing bonds? What is typical for munis?

10-year par call is typical, no make whole provision.

b. Is amortization required by some sort of school legislation or is it solely the choice of the district?

A little of both. The District is requirement to demonstrate that it can pay the bonds from a \$.50/100 tax rate, therefore balloon payments don't work. State law requires a 40 year maximum term. Federal law requires an average life match.

7) Early in the program, David stated the district originated \$596MM in bonds as part of the 2007 issuance. On page 36 we show the current balance is \$619MM. Was there an earlier small tranche of debt before the 2007 issuance? If not, how did balance climb from \$596MM to \$619MM?

The District already had bonds outstanding before the \$596 million election; the \$619 million is lower than the District's peak outstanding of \$777 million in 2013.

8) On page 38, you provide conservative projections. I have a couple questions about these.

a. The I&S rate is \$0.3045 for the model; however, a portion of this will be subject to the Homestead Exemption; therefore, generating only \$0.2436. Do I understand this correctly?

Yes.

Do we have a feel for the percentage of properties/values benefitting from a Homestead Exemption and therefore will produce lower than expected tax revenue for the district?

Yes, the net after HS is provided to the district and to us by the Appraisal District each year.

- b. We have assumed a tax collection rate of 98.5%. Do we know the historic collections rate?

Yes, we track historical collections rates.

Fiscal Year Ended 6/30	Total Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2013	\$ 1.39450	\$ 1.09000	\$ 0.30450	\$ 257,827,009	99.44%	99.65%
2014	1.39450	1.09000	0.30450	284,779,110	99.04%	99.55%
2015	1.39450	1.09000	0.30450	319,429,815	99.33%	99.57%
2016	1.39450	1.09000	0.30450	364,654,679	98.83%	98.83%
2017	1.39450	1.09000	0.30450	403,730,196	97.83%	97.79%

- c. I didn't follow the "Capital Replacement Program" explanation. Can you please clarify? Will the \$0.02 be collected for ten years from bond origination, or will it run into perpetuity? The proceeds from this particular program will be placed in escrow and used to retire the short-term tranches of debt? I need some help understanding the mechanics.

The policy requires the dedication of \$.02/100 of the I&S Tax Rate for the bonds that financed short lived assets and in theory is perpetual. The \$53,000,000 is the product of this \$.02/100 for the 10 year period 2019-2028. After ten years, the District will have \$.02/100 in capacity to fund (after an election) other short lived assets in the same method and so on. This program helps districts dedicate some portion of the I&S tax levy to pay for short term assets and avoid recapture. The CRP in essence reserves \$.02/100 in the I&S to fund short lived assets at a shorter, more appropriate term and avoids financing the items with M&O dollars that are subject to recapture.

- 9) On page 39 you provide some debt-sizing figures produced using the assumptions from page 38. You are conservatively using a 4.5% average rate, while the average rates provided on page 34 indicate current rates of 3.84% (assuming similar tenor and rating). If SBISD debt is trading at a YTW of 3.84, and we assume a reasonable new issue premium, what would debt sizing look like at 4.00% or 4.125%, assuming no tax increase?

The “debt sizing” would not change because of lower interest rates. Lower rates may provide additional capacity, but I would not expect a decrease in the I&S rate. If we were able to lock in a lower rate on the Bonds as I believe the District would simply amortize more bonds to create additional capacity for future elections.

10) Who are the holders of the existing notes?

I don't have that information specifically for SBISD. I can show you the institutions that hold PSF-backed bonds generally.

Are they generally the same across maturities, or are some investors more interested in short or longer dated paper?

Different buyers for each maturity.

Members in Attendance

Barry Abrams	Patricia Kassir
Diana Alexander	Allison Kay
Victor Alvarez	Gina Keith
Marci Baker	Greg Kieschnick
Melanie Bash	Mary Grace Landrum
Ami Bessette	Sherri Lawson
Carter Breed	Scott LeMaire
Minda Caesar	Kristian Lendermann
Robert Carbajal	Joanne Lim
Gary Card	Fernanda Luna Villanueva
Jack Carlson	Sasha Luther
Laurie Cerda	Susan Matthews
Melissa Cordero	Ted Mohle
Kristina Cupic	Brian Muecke
Shikonya Cureton	John Murphy
Matt Daniel	Kendra O'Keefe
Jarad Davis	Jarrett Price
Frazer Dealy	Michele Rennick
Mano DeAyala	Lindy Robertson
Thomas DeBesse	Shirley Rouse
Teresa Dolan	Chuck Russell
Carin Domann	Wayne Schaper, Jr.
Jen Espey	Wayne Schaper, Sr.
Charles Fenn	Susan Schwartz
Pam Ferworn	Terry Schweitzer
Regina Garceau	James Shaddix
Elida Garcia	Rocio Sidonio
Lewis Gissel	Ray Sinkiewiez
Thurmelliues Glover	David Slattery
Pam Goodson	Robye Snyder
Kathy Goss	Pam Stone
Jay Graham	Jay Sutherland
Devin Hall	Kristi Thibaut
Tammy Hampton	Anne Marie Thomeer
Catheryn Hefner	Ed Valicek
Paige Hershey	Lisa Weir
William Jensen	John Wright
Alan Johnston	