HilltopSecurities
Investment Banking Solutions

KENNEDALE ISD
Committed to Excellence







Bond Information & Discussion

January 17, 2022

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What is a Bond?

- A school bond is similar to a home mortgage. It is a contract to repay borrowed money over time with typically a fixed, tax-exempt interest rate.
- Bonds are approved/authorized by voters and later sold by a school district to investors via bond underwriting firms to raise funds to pay for the costs of construction, additions, renovations and/or equipment.
- Bond authorizations can be sold in one bond issuance or multiple issuances over several years.

Bond Authorization: Amount of bonds approved by voters that a district is authorized to issue/sell; interest does not accrue on bond authorization

Bond Issuance or Bond Sale: Amount of bonds from the authorization that a district issues/sells; interest rate is set and interest starts to accrue on bonds that are issued/sold

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How are the Bonds Repaid?

A school district has two components to its total tax rate:

1. Maintenance and Operations ("M&O") tax rate – note that approximately 80%-85% of ISD M&O budgets are for personnel expenditures

2. Interest and Sinking Fund ("I&S") tax rate

   - The district levies an annual I&S tax rate against the taxable property in the district to make their bond payments.
   - **The Interest and Sinking Fund ("I&S") tax rate can only be levied for repayment of voted bonds.**
   - The State Attorney General will not approve a bond issue that is projected to result in an I&S tax rate above $0.50 in any year that the bonds are outstanding using the current tax base at the time of bond issuance ("AG Fifty Cent Test").

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What is the Term/Payback Period of a Bond?

typically 25-35 years

(maximum legal term is 40 years)

Short life projects like technology and/or transportation are paid off within 3-10 years even if included in a longer term bond issue.

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What Will the Interest Rate Be?

- The interest rate will not be finalized until bonds are issued/sold.
- School districts are able to borrow money at lower, tax exempt interest rates
- Texas school district bond issues are also eligible to receive the State Permanent School Fund Guarantee ("PSF"). This guarantee allows for the bonds to receive the highest credit rating of 'AAA'.
- Kennedale ISD's strong stand-alone/underlying **Standard & Poor's ("AA-") rating**, along with the potential to receive the PSF Guarantee, means that **Kennedale ISD bonds will receive at or near the lowest available interest rates** at the time of issuance.

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What is Bond Capacity?

- Bond capacity is the projected maximum amount of bonds that a district can issue/sell for each issuance at a specified I&S tax rate using:
  - tax base
  - interest rate
  - term
  - issuance timing assumptions/projections

- Bond capacity is also impacted by the makeup of the projects being included in the bond package.
  - Having more short-life projects included in a bond package (technology and transportation) will reduce a district's overall bond capacity because the bonds associated with those projects must be amortized (paid off) within the useful life of that project.

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Tax Base

- Tax base assumptions have to be made when issuing tax supported bonds that have a term from 2 to 40 years.
- When tax base goes down, same tax rate from prior year produces fewer dollars; tax base goes up, same tax rate produces more dollars
- Goal is to produce tax base assumptions that are slightly conservatively in the early years and more conservative in the later years

NOTE: Increases in KISD's tax base **DOES HELP** the I&S budget, but they **DO NOT HELP** KISD's M&O budget.

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Interest Rates

- Interest rates are not finalized for the first bond issuance until the day the bond issue is sold. The earliest date would be about 2+ months after a successful election. Interest rates on subsequent issuances from the bond authorization are set when those bonds are sold.

- While interest rates have risen some recently, they are still at historically low levels when compared to rates over the last 40 years.

- We always use interest rate assumptions that are higher than current interest rates to try to give some cushion in the event that interest rates rise from the time the bond election is called to the time the bonds are issued.

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Term

- Shorter term results in lower interest rate but higher annual payments; therefore higher tax rate impact
- Longer term results in higher interest rate but lower annual payments; therefore lower tax rate impact
- Bond issuances will not have a term that exceeds the useful life of the project(s)

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Issuance Size & Timing

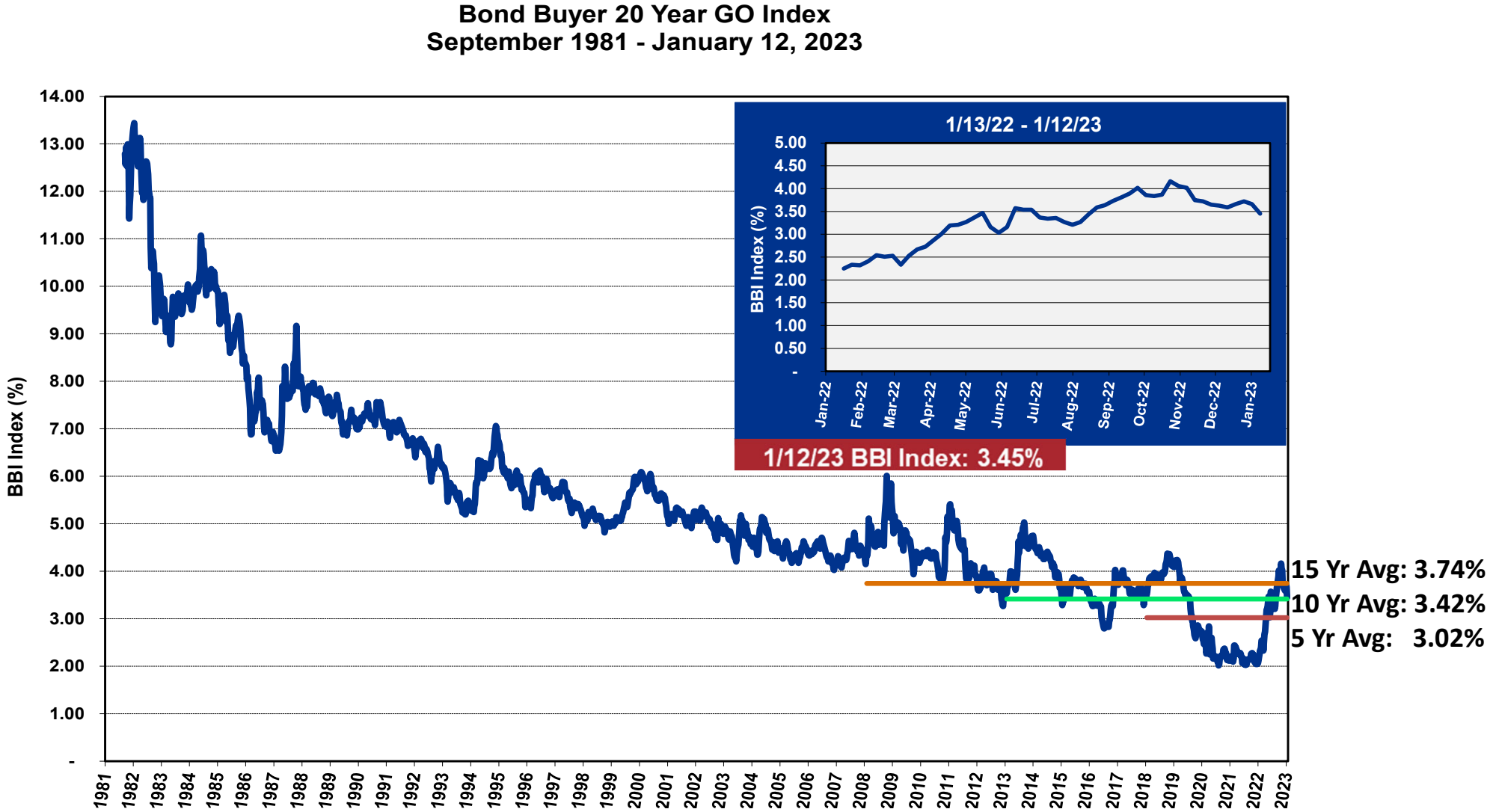
- Issuing a voter-approved bond in lesser amounts and/or over a longer period of time can reduce the impact on a district's I&S budget.

- If tax base growth is greater than projected and/or interest rates are lower than projected, districts might consider issuing more of their voter-approved bonds earlier than originally projected, which might mean the full bond authorization is ultimately issued all at one time or over a shorter period of time.

- If tax base growth is slower than projected and/or interest rates are higher than projected, districts might have to consider issuing their authorization slower and/or in lesser amounts than originally projected.

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Historical Tax Exempt Interest Rates – Bond Buyer 20 Yr Index



Bond Buyer 20 Year GO Index is a weekly index estimating the composite yield on 20 general obligation bonds rated "A" or better.

This graph depicts historical interest rates. Future interest rates are dependent upon many factors such as, but not limited to, interest rate trends, tax rates, the supply and demand of short term securities, changes in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of changes in such factors individually or in any combination could materially affect the relationships and effective interest rates. These results should be viewed with these potential changes in mind as well as the understanding that there may be interruptions in the short term market or no market may exist at all.

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Tax Base and Tax Rate History

1	2	3	4	5	6
Fiscal Year	Tax Base	Growth Rate	M&O Tax Rate	I&S Tax Rate	Total Tax Rate
2013	$ 974,035,229		$1.1700	$0.3421	$1.5121
2014	978,382,397	0.45%	$1.1700	$0.3221	$1.4921
2015	1,061,574,142	8.50%	$1.1700	$0.3447	$1.5147
2016*	1,037,415,418	-2.28%	$1.1700	$0.3167	$1.4867
2017	1,161,663,564	11.98%	$1.1700	$0.3167	$1.4867
2018	1,272,267,838	9.52%	$1.1700	$0.3100	$1.4800
2019	1,375,340,194	8.10%	$1.1700	$0.2817	$1.4517
2020	1,580,609,941	14.93%	$1.0683	$0.2817	$1.3500
2021	1,653,910,217	4.64%	$1.0547	$0.2817	$1.3364
2022	1,853,663,797	12.08%	$1.0174	$0.2817	$1.2991
2023**	1,961,480,165	5.82%	$0.9447	$0.2817	$1.2264

NOTE: KISD's current total tax rate is the **lowest** it has been since fiscal year 1993

* - State Mandatory Homestead Exemption increased from $15,000 to $25,000

** - State Mandatory Homestead Exemption increased from $25,000 to $40,000

SOURCE: Municipal Advisory Council of Texas website

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Annual Issuance Capacity Process

1. Bonds authorized by KISD voters by passing May 2023 bond election
2. KISD receives Certified Taxable Valuation from Tarrant County Appraisal District in late-July every year
3. Bond issuance capacity/amount calculated using Certified Taxable Valuation, interest rates and maximum I&S tax rate communicated to KISD voters
4. First bonds issued/sold from KISD 2023 Bond Authorization in early August
5. Repeat steps 2-4 each year until all projects are completed and/or entire bond authorization is issued/sold

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Tax Base Assumptions

Because school districts issue long term bonds to pay for their large capital projects/expenditures, tax base assumptions are used in structuring the issuance of any new bond authorization in order to calculate/project the I&S tax rate going forward.

If the KISD tax base grows at a slower than projected rate, the District will use I&S fund balance, bond refinancings and/or issue the new authorization over a longer period of time to keep the I&S tax rate at the maximum level communicated to KISD Voters.

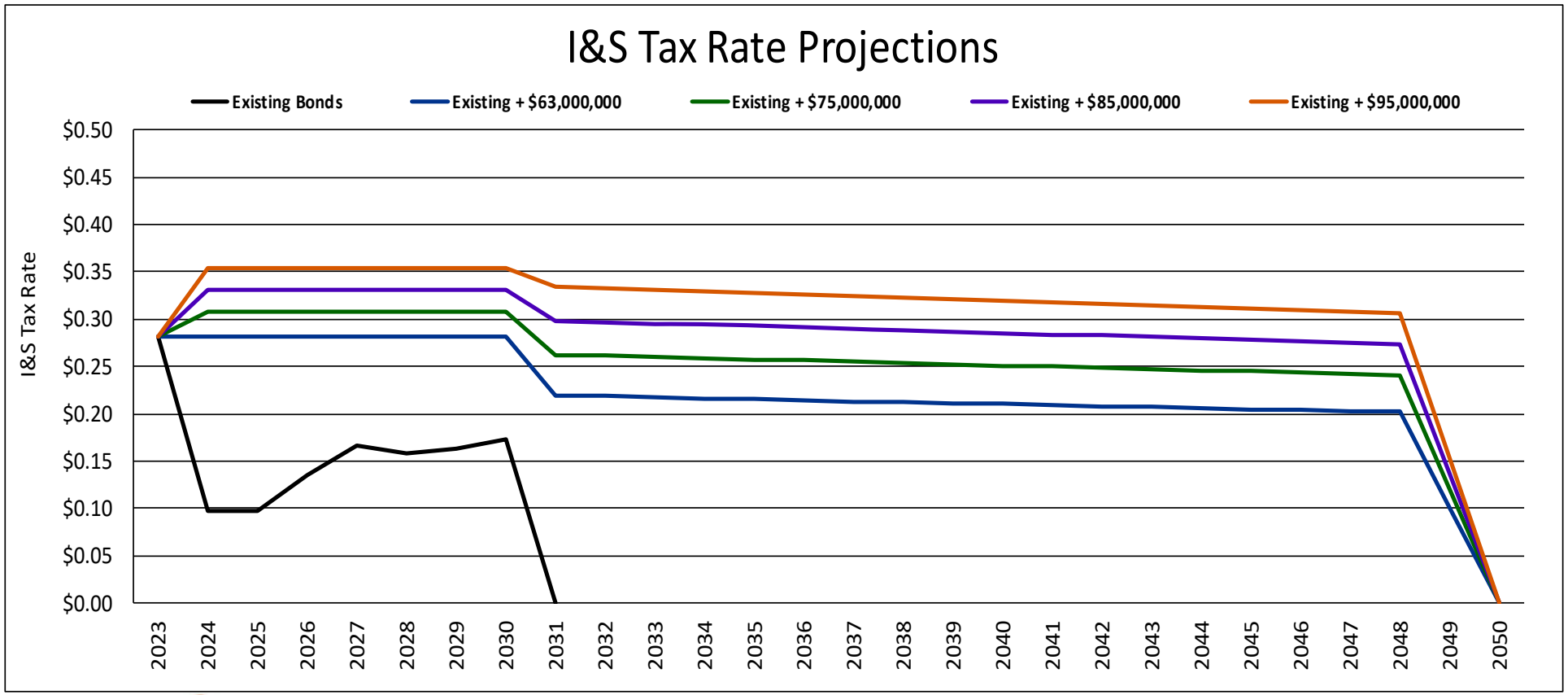
Tax Base Growth Assumptions		
Fiscal Year	**Tax Base**	**Growth Rate**
2024	$ 2,000,709,769	2.00%
2025	2,040,723,964	2.00%
2026	2,101,945,683	3.00%
2027	2,165,004,053	3.00%
2028	2,208,304,135	2.00%
2029	2,252,470,217	2.00%
2030	2,274,994,919	1.00%
2031	2,297,744,869	1.00%
Tax Base Assumed to Grow at 0.50% Thereafter		

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Bond Election Scenarios – Projected I&S Tax Rates

1	2	3	4	5	6	7	8	9

	PROJECTED SERIES 2023 - 8/1/23		*PROJECTED* SERIES 2024 - 8/1/24					
Election Size	Issuance Amount	Term/Rate	Issuance Amount	Term/Rate	TTL I&S Surplus Contribution	Maximum I&S Tax Rate	Current 2022-23 I&S Tax Rate	I&S Tax Rate Increase
$ 63,000,000	$ 31,500,000	25 yr / 5.00%	$ 31,500,000	25 yr / 5.00%	$ 1,925,179	$ 0.2817 -	$ 0.2817 =	$ -
$ 75,000,000	$ 37,500,000	25 yr / 5.00%	$ 37,500,000	25 yr / 5.00%	$ 1,958,657	$ 0.3087 -	$ 0.2817 =	$ 0.0270
$ 85,000,000	$ 42,500,000	25 yr / 5.00%	$ 42,500,000	25 yr / 5.00%	$ 1,930,351	$ 0.3317 -	$ 0.2817 =	$ 0.0500
$ 95,000,000	$ 47,500,000	25 yr / 5.00%	$ 47,500,000	25 yr / 5.00%	$ 1,900,132	$ 0.3547 -	$ 0.2817 =	$ 0.0730



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I&S Tax Impact on Kennedale ISD Homeowners

Tax Rate Increase	Tax Impact on Kennedale ISD Homeowners* From Tax Year 2022 to Tax Year 2023 — Home Values*							
	$ 100,000	$ 150,000	$ 200,000	$ 250,000	$ 300,000	$ 350,000	$ 400,000	$ 500,000
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 0.0270	$ 16.20	$ 29.70	$ 43.20	$ 56.70	$ 70.20	$ 83.70	$ 97.20	$ 124.20
$ 0.0500	$ 30.00	$ 55.00	$ 80.00	$ 105.00	$ 130.00	$ 155.00	$ 180.00	$ 230.00
$ 0.0730	$ 43.78	$ 80.27	$ 116.75	$ 153.24	$ 189.73	$ 226.21	$ 262.70	$ 335.67

Tax Rate Increase	Tax Impact on Kennedale ISD Homeowners* Divided By 12 Months — Home Values*							
	$ 100,000	$ 150,000	$ 200,000	$ 250,000	$ 300,000	$ 350,000	$ 400,000	$ 500,000
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 0.0270	$ 1.35	$ 2.48	$ 3.60	$ 4.72	$ 5.85	$ 6.97	$ 8.10	$ 10.35
$ 0.0500	$ 2.50	$ 4.58	$ 6.67	$ 8.75	$ 10.83	$ 12.92	$ 15.00	$ 19.17
$ 0.0730	$ 3.65	$ 6.69	$ 9.73	$ 12.77	$ 15.81	$ 18.85	$ 21.89	$ 27.97

* - Tax rate impacts calculated on the home value less $40,000 mandatory state homestead exemption

NOTE: Taxpayers 65 and over with frozen taxes will not see an increase in their tax bill as a result of this bond election

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I&S / Bond Debt Comparison

1	2	3	4	5	6	7	8	9	10	11	12	13
				DEBT PER TAXABLE VALUE			DEBT PER AVG DAILY ATTENDANCE (ADA)					
District	Principal Outs. 9/1/2022	Interest Outs. as of 9/1/22	2022-23 I&S Tax Rate	2021 Taxable Valuation	Principal per Taxable Value	Total P&I per Taxable Value	2022 Avg. Daily Attendance	Principal per ADA	Total P&I per ADA	2021-2022 Wealth/ADA	Bonds Approved by Voters But Not Yet Issued	Year of Last Bond Election
Kennedale	**$ 19,240,025**	**$ 8,599,600**	**$ 0.2817**	**$ 1,853,663,797**	**1.04%**	**1.50%**	**2,669**	**$ 7,209**	**$ 10,431**	**$ 694,516**		**2004**
Aledo	$ 270,192,278	$ 167,444,105	$ 0.4250	$ 4,760,560,702	5.68%	9.19%	7,016	$ 38,511	$ 62,377	$ 678,529		**2019**
Alvarado	$ 152,516,000	$ 108,682,738	$ 0.5000	$ 1,730,166,185	8.82%	15.10%	3,357	$ 45,432	$ 77,807	$ 515,391	$ 35,000,000	**2022**
Arlington	$ 1,185,949,956	$ 564,820,891	$ 0.3007	$ 34,116,003,960	3.48%	5.13%	50,317	$ 23,570	$ 34,795	$ 678,021	$ 263,538,700	**2019**
Azle	$ 135,695,000	$ 73,362,213	$ 0.2741	$ 3,651,949,539	3.72%	5.72%	6,394	$ 21,222	$ 32,696	$ 571,153		**2021**
Birdville	$ 408,955,000	$ 159,103,800	$ 0.4139	$ 13,083,284,147	3.13%	4.34%	20,789	$ 19,672	$ 27,325	$ 629,337	$ 300,776,090	**2022**
Burleson	$ 295,783,949	$ 145,773,494	$ 0.5000	$ 6,170,976,023	4.79%	7.16%	5,136	$ 57,590	$ 85,973	$ 1,201,514		**2017**
Castleberry	$ 31,785,000	$ 9,999,438	$ 0.5000	$ 1,056,305,440	3.01%	3.96%	3,344	$ 9,505	$ 12,495	$ 315,881		**2010**
Crowley	$ 523,094,868	$ 343,988,568	$ 0.5000	$ 8,723,271,662	6.00%	9.94%	14,653	$ 35,699	$ 59,174	$ 595,323		**2007**
Eagle Mt-Saginaw	$ 188,775,000	$ 74,014,752	$ 0.3200	$ 5,768,240,506	3.27%	4.56%	10,662	$ 17,705	$ 24,647	$ 541,009		**2022**
Everman	$ 110,355,000	$ 51,512,095	$ 0.3751	$ 1,811,960,182	6.09%	8.93%	4,990	$ 22,115	$ 32,438	$ 363,118		**2019**
Fort Worth	$ 1,318,830,000	$ 530,977,691	$ 0.2920	$ 44,845,672,474	2.94%	4.12%	66,814	$ 19,739	$ 27,686	$ 671,202	$ 1,061,000,000	**2021**
Godley	$ 210,310,000	$ 162,533,003	$ 0.5000	$ 1,174,425,416	17.91%	31.75%	2,402	$ 87,556	$ 155,222	$ 488,936	$ 18,500,000	**2021**
Grand Prairie	$ 391,730,000	$ 124,551,456	$ 0.3641	$ 10,435,133,189	3.75%	4.95%	24,798	$ 15,797	$ 20,819	$ 420,805		**2015**
Grapevine-C'ville	$ 311,711,018	$ 143,117,844	$ 0.3217	$ 17,874,514,171	1.74%	2.54%	13,011	$ 23,957	$ 34,957	$ 1,373,800		**2016**
H-E-B	$ 321,965,000	$ 130,927,841	$ 0.2356	$ 17,205,287,717	1.87%	2.63%	21,334	$ 15,092	$ 21,229	$ 806,473		**2018**
Joshua	$ 89,745,000	$ 41,425,058	$ 0.3297	$ 2,107,257,186	4.26%	6.22%	5,510	$ 16,288	$ 23,806	$ 382,442		**2022**
Lake Worth	$ 79,063,283	$ 40,945,376	$ 0.5000	$ 1,216,018,683	6.50%	9.87%	3,203	$ 24,684	$ 37,468	$ 379,650		**2004**
Mansfield	$ 824,064,839	$ 389,170,650	$ 0.3600	$ 17,234,519,495	4.78%	7.04%	33,171	$ 24,843	$ 36,575	$ 519,566		**2017**
Northwest	$ 1,353,929,040	$ 662,117,275	$ 0.4200	$ 25,980,836,220	5.21%	7.76%	26,106	$ 51,863	$ 77,225	$ 995,206	$ 337,500,000	**2021**
Springtown	$ 45,380,000	$ 17,477,038	$ 0.2003	$ 1,875,969,963	2.42%	3.35%	3,642	$ 12,460	$ 17,259	$ 515,093		**2021**
Stephenville	$ 72,000,000	$ 29,919,538	$ 0.2828	$ 2,228,600,865	3.23%	4.57%	3,411	$ 21,108	$ 29,880	$ 653,357		**2022**
White Settlement	$ 250,905,769	$ 290,076,752	$ 0.4800	$ 2,739,071,089	9.16%	19.75%	6,428	$ 39,033	$ 84,160	$ 426,116		**2022**
MEAN	**$ 389,669,818**	**$ 193,724,619**	**$ 0.3816**	**$ 10,263,182,946**	**5.08%**	**8.12%**	**15,295**	**$ 29,247**	**$ 46,182**	**$ 623,724**		
MEDIAN	**$ 260,549,024**	**$ 137,022,843**	**$ 0.3696**	**$ 5,264,400,604**	**4.01%**	**5.97%**	**6,722**	**$ 22,842**	**$ 33,745**	**$ 556,081**		

NOTE: Kennedale ISD figures not included in MEAN & MEDIAN Calculations

SOURCE: Municipal Advisory Council of Texas Website

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Ballot Language

Legislation passed in 2019 REQUIRES the following language to appear on every proposition on the bond ballot:

"THIS IS A PROPERTY TAX INCREASE"

EXPLANATION: Regardless of whether the I&S tax rate goes up, stays the same, or goes down, taxes will have to be levied to repay any new bonds through the end of their term

Bond Propositions

Legislation passed in 2019 REQUIRES separate propositions for certain types of projects: Any work on athletic stadiums with 1,000+ seating, certain types of technology purchases, natatoriums to name a few. KISD's Bond Attorney advises on these requirements.

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