



## *Debt Service Overview*

### **Debt Position**

Multiple times during the 2014/15 fiscal year, the Board and administration held public meetings to discuss the direction necessary to accomplish the Board's goals related to debt management (see next page for list of Board goals). The conclusion of this process resulted in two key actions.

The first was a sizeable refunding which reduced LISD's CAB percentage by nearly 10%. This initiative, coupled with a low interest rate environment, resulted in over \$104.4 million in interest savings to the taxpayers.

The second key action was a unanimous vote by the Board to maintain the \$0.47187 debt service tax rate, and apply the excess tax collections (above which is needed to repay the current year debt payment) toward early retirement of debt. This foresight will result in millions of dollars of additional interest being saved on the bonds outstanding, and the enhancement of debt capacity.

Prior to the adoption of the debt service tax rate, the Board asked for multiple scenarios to be modeled with several very conservative data points. Each model demonstrated the strong financial health of LISD's debt service profile, and provides for over \$1 billion in new projects to be incurred, if needed and voter authorized. Moreover, the repayment of such new monies was with current interest bonds (CIBs), and often under a 30-year term.

Based on future tax base, enrollment and interest rate assumptions, the combination of these Board actions will allow LISD to remain under the 50-cent cap [a test used by the Attorney General for school districts requesting to sell voter-authorized bonds], and possibly maintain the \$0.47187 debt service tax rate into the foreseeable future which could entail the need for monies to construct new facilities to accommodate the enrollment growth expected in our destination district.

### **50-Cent Test**

The Texas Education Code Section 45.003(e) specifies that a school district is able to issue unlimited tax bonds, provided that the district demonstrates its projected ability to pay such bonds plus the District's outstanding bonds (excluding bonds authorized by an election held on or before April 1, 1992 and issued before September 1, 1992) at a debt service rate of not more than \$0.50 per \$100 of assessed valuation without the pledging of Tier I funds first.

## **Budget Preparation Process**

The taxable values, tax collection rate, estimated penalties and interest collected, Existing Debt Allotment (EDA) [hold harmless state aid to offset additional homestead exemption], debt repayment schedule, estimated interest earnings, bond fees, and arbitrage fees are the core of the revenues and expenditures that are reviewed annually when determining the proposed tax rate and budget.

Other sources of information for inclusion in the debt service fund budget include the financial advisor, bond counsel, and the board of trustees.

## **General Obligation Bonds**

The primary type of bond debt instrument is the General Obligation Bond. This debt instrument requires voter approval.

The following information depicts bonded debt facts of LISD as of August 31, 2015:

Outstanding Bonded Debt	\$ 1,072,980,342
Underlying Bond Rating	AA- (Stable Outlook) S&P

## **Goals and Objectives**

The following goals and objectives are key components which drive our debt service fund budget:

- Maintain fund reserves of at least 20 percent of the next fiscal year's requirement.
- Achieve a reserve fund of 30 percent of the next fiscal year's requirement.
- Limit the term of the bonds.
- When feasible, retire debt early.
- Limit issuance of CABs.
- Refinance when possible for savings.
- Lower the overall cost of borrowing.
- Term of the bonds should match asset life.

The expenditures included in the budget are needed to subsidize future bond principal and interest payments along with related fees. For budget purposes only, an over-levy has been included as an expenditure.

## **Debt Schedules**

Detailed information is included on the next two pages to depict the current debt service requirements for LISD.