

APPENDIX K

Finance

**DRIPPING SPRINGS INDEPENDENT SCHOOL DISTRICT
SECONDARY SCHOOLS STUDY GROUP
WORKING GROUPS REPORT: FINANCE**

Projected New Debt Capacity Summary

Assumed Taxable Assessed Value Growth:

**8.5% for 2007 and 2008
8.0% for 2009 and 2010
2.5% thereafter**

Assumed Bonds are issued over 25 years as follows:

Series 2007	Series 2008	Series 2009	Series 2010	Total
\$ 48,220,000	\$ 10,020,000	\$ 9,995,000	\$ 10,625,000	\$ 78,860,000
7/15 6.00%	7/15 6.00%	7/15 6.15%	7/15 6.25%	

November 9, 2005

Re: Debt Capacity Considerations for Dripping Springs ISD

When attempting to determine the District' s debt capacity for new bond issues, there are several factors that impact total capacity:

- i.) current taxable assessed valuation (TAV) and projected future growth in TAV and collection percentage;
- ii.) the structure of outstanding debt (i.e., are the payments level or is there a balloon year, etc.); and,
- iii.) the structure of the proposed, new bond issues – specifically the interest rate on the District' s new bonds and the term (i.e., length) of those bonds.

TAV impacts capacity because the total TAV in the District determines the tax levy needed to repay the District' s debt. When TAV is higher, a lower Interest and Sinking Fund (I&S) tax rate will be needed to repay the same amount of debt. Likewise, when the District collects a higher percentage of property taxes than is currently being collected, a lower I&S tax rate will be required to repay the same amount of debt.

When forecasting new debt issues, the State Attorney General requires that a District not levy an I&S tax rate higher than 50 cents. The calculation for this so-called “ 50 Cent Test” is to add the new, proposed bond issue onto the existing debt to come up with a total debt figure. Then, the Attorney General will look at the highest year of debt service and, using the current year' s TAV, determine if the current TAV is sufficient to pay the maximum annual debt service with an I&S tax rate of 50 cents or less. The Attorney General will not allow the District to project TAV growth, therefore the District cannot issue debt (even if it has been authorized through a bond election) until it can pass the 50 cent test in all years of the combined new and existing debt structure of the District.

According to analysis performed by First Southwest, the District' s additional debt capacity is estimated as follows based on the assumptions used: \$48.22 million in 2007, assuming TAV were at \$1.572 billion. The following year, if the TAV grew by 8.50%, then the District could issue an additional \$10.02 million. In 2009, with an estimated TAV of \$1.843 billion, DSISD could issue another \$9.995 million. Then, if TAV grew at 8% in 2010 to \$1.99 billion, the District could issue the final \$10.625 million piece. The District could not issue all of the debt at once nor should it award in contracts on projected future value. The multi-phase process forces DSISD to grow into additional debt capacity annually.

The new debt issues were structured with a 25 year maturity, and with an interest rate of 6-6.25%. If the TAV in 2007 & 2009 is higher than projected, then the debt capacity would be somewhat larger. Likewise, if TAV were lower, then capacity would be lower. Similarly, if the interest rate on the new bond issues was higher/lower than 6-6.25%, then debt capacity would be less/greater.

There may also be an opportunity in the future to restructure some of the District' s existing debt issues, thereby lowering existing debt service to create some additional capacity on the new bond issues. However, there are issues to address with restructuring such as cost of the transaction and additional interest costs when existing debt is extended into future years.

And finally, although this analysis has only addressed the District' s I&S tax rate, it should be noted that additional debt issues will finance facilities that may create greater maintenance and operations expenses for the M&O tax rate. Now that the District is already levying its maximum allowed \$1.50 M&O tax rate, consideration should also be given to the impact of new debt on the M&O tax rate.