## **Fannin Co Public Facility Corporation**



(Lease Revenue)

**Fannin County** 

# **Texas Municipal Reports**

Last Revised: 3/21/2017

**TMR # 6526** 

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### FINANCIAL STATEMENT

FINANCIAL STATEMENT (As of September 30, 2016)

Special Obligation Debt

Senior Lien \$30,955,000

Special Fund Balances

\$2,766,732 Reserve

PAYMENT RECORD: Fannin Co. Public Facility Corporation has never defaulted.

MATERIAL INFORMATION:

RATING DOWNGRADE (As of September 30, 2016) S&P Global Ratings lowered its long-term rating on the Corporation's revenue debt outstanding to BB from BBB. The outlook is negative. According to S&P, on August 18, 2016, the Department of Justice (DOJ) released a memo directing the Federal Bureau of Prisons (BOP) to "reduce and ultimately end the use of privately operated prisons" and soon there after the Department of Homeland Security directed a subcommittee to review the current policy and practices concerning the use of private detention centers and evaluate whether the practice of contracting with private operators should be eliminated. S&P believes that the change in policy at the DOJ for its BOP facilities heighten the risk that the United States Marshals Service could follow a similar path.

MATERIAL EVENT NOTICE (As of August 13, 2014) In order to settle a dispute concerning the tax-exempt status regarding the Project Revenue Bonds Series 2008, the Corporation entered into a closing agreement with the Internal Revenue Service (IRS) to resolve this matter. As stated in the agreement, the Corporation agreed to electronically submit payment in the amount of \$1,752,447 to the IRS and concurrently issue taxable refunding bonds for delivery on August 13, 2014 to defease all outstanding Series 2008 bonds as of August 13, 2014 and to redeem the bonds on August 14, 2014.

MATERIAL EVENT NOTICE (As of November 22, 2013) On December 15, 2011, the Corporation received notice, by letter dated December 12, 2011, from the Internal Revenue Service (IRS) that the IRS would be conducting an examination of the Series 2008 Project Revenue Bonds (Obligations). The Notice stated that the IRS has no reason to believe that the Obligations fail to comply with applicable federal tax requirements. To date, that County and the Corporation have fully complied with the requests of the IRS made in the Notice.

The County and the Corporation's original Bond Counsel had significant conversations and negotiations with the IRS concerning the Obligations and the Project since early 2012. On November 7, 2013, the original Bond Counsel withdrew its representation of the County and the Corporation.

The County and the Corporation retained Norton Rose Fulbright as Bond Counsel on October 14, 2013 and this law form has had continuing conversations with the IRS and believe that a Closing Agreement has been substantially finalized on or about November 13, 2013. However, senior officials of the IRS significantly increased the settlement amount for the Closing Agreement causing these settlement negotiations to stall.

The Corporation solicited and received consent form approximately 80% of the registered owners of the Obligations to amend the Indenture to permit a par call and mandatory tender of the Obligations on and after January 1, 2014. Since the Corporation and the IRS have not yet concluded a Closing Agreement, the Corporation will be unable to timely effectuate the January 1, 2014 call of the Obligations; however, the Corporation anticipates the issuance of taxable refunding bonds to effectuate the par call of the Obligations on or before July

The Corporation continues to negotiate with the IRS concerning the Project and the Obligations and are anticipating finalizing a Closing Agreement pursuant to which they will make a payment to the IRS and issue taxable refunding bonds to redeem all of the Obligations.

### **DETAILS OF OUTSTANDING DEBT**

#### Details of Senior Lien Debt (Outstanding 9/30/2016)

#### Sr Lien Rev Ref Bds Taxable Ser 2014 (Detention Fac Proj)

Lien: Senior

Tax Treatment: Taxable Original Issue Amount \$31,390,000.00 Dated Date: 08/01/2014 Sale Date: 07/21/2014 Delivery Date: 08/13/2014 Sale Type: Negotiated Record Date: MSRB Rond Form: BF Denomination \$5,000

Interest pays Semi-Annually: 10/01, 04/01

04/01/2015 1st Coupon Date:

Paying Agent: US Bank N.A., Dallas, TX Bond Counsel: Fulbright & Jaworski LLP Lead Manager: Aegis Capital Corporation

Co-Manager: Municipal Capital Markets Group, Inc. Underwriter's Counsel: McCall Parkhurst & Horton L.L.P.

Use of Proceeds: Refunding.

Refunding Notes: This bond refunded maturities from the following issues:

Proj Rev Bds Ser 2008

Refunded Amount Mat Date Coupon Price Sched Call 6,670,000.00 01/01/2022 7.625 Par 08/14/2014 21,935,000.00 01/01/2033 8.000 Par 08/14/2014

Orig Reoffering Maturity Amount Coupon Price/Yield 10/01/2016 710,000.00 3.9500% 3.850% 740,000.00 10/01/2017 4.6000% 4.500% 10/01/2018 775,000.00 4.9500% 4.800% 10/01/2019 815,000.00 5.2000% 5.050% 10/01/2020 855,000.00 5.5000% 100 00% 10/01/2021 900,000.00 5.6500% 100.00% 6.0000% 10/01/2022 955,000.00 100.00% 10/01/2023 1,010,000.00 6.2000% 100 00% 10/01/2024 1,075,000.00 6.3500% 100.00% 6.9000% 10/01/2029T 6,550,000.00 7 200% 10/01/2032T 5,125,000.00 7.0000% 7.350% 10/01/2036T 11.445.000.00 7.1000% 7.450%

-----\$30,955,000.00

Call Option: Bonds maturing on 10/01/2020 to 10/01/2024 and term bonds maturing on 10/01/2029 and 10/01/2032 and 10/01/2036 callable in whole or in part on any date beginning 10/01/2019 as follows:

Redemption Period Redemption (Both Dates Inclusive) Price 10/01/2019 - 09/30/2020 102.00 10/01/2020 - 09/30/2021 101.00 10/01/2021 - 10/01/2036 100.00

Bonds are also subject to Extraordinary Optional redemption as specified in the authorizing resolution.

Term Call: Term bonds maturing on 10/01/2029:

Mandatory Redemption Date Principal Amount 10/01/2025 \$1,140,000 10/01/2026 \$1,220,000 10/01/2027 \$1,305,000 \$1,395,000 10/01/2028 10/01/2029 \$1,490,000

Term bonds maturing on 10/01/2032:

Mandatory Redemption Date Principal Amount 10/01/2030 \$1,595,000 10/01/2031 \$1,705,000

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10/01/2032 \$1.825.000

Term bonds maturing on 10/01/2036:

Mandatory Redemption Date	Principal Amount
10/01/2033	\$1,950,000
10/01/2034	\$2,090,000
10/01/2035	\$2,240,000
10/01/2036	\$5,165,000

Put Option: If the Indenture is supplemented, the Bonds shall be subject to mandatory tender in whole but not in part on the date such supplemental indenture shall take effect as described in the authorizing resolution.

### Grand Total ========> \$30,955,000.00

#### **Bond Debt Service**

Period End	ing Principal	Interest	Debt Service
09/30/17 09/30/18 09/30/19 09/30/20 09/30/21 09/30/22 09/30/23 09/30/24 09/30/25 09/30/26 09/30/27 09/30/28 09/30/29 09/30/30 09/30/31 09/30/33 09/30/33 09/30/33	710,000.00 740,000.00 775,000.00 815,000.00 855,000.00 900,000.00 955,000.00 1,075,000.00 1,220,000.00 1,305,000.00 1,395,000.00 1,490,000.00 1,595,000.00 1,705,000.00 1,705,000.00 1,950,000.00 1,950,000.00	2,038,157.50 2,007,115.00 1,970,913,75 1,930,542.50 1,885,840.00 1,836,902.50 1,782,827.50 1,722,867.50 1,657,426.25 1,583,965.00 1,502,545.00 1,415,432.50 1,322,282.50 1,222,750.00 1,115,520.00 1,000,020.00 876,470.00 743,370.00 599,950.00	2,748,157.50 2,747,115.00 2,745,913.75 2,745,542.50 2,740,840.00 2,736,902.50 2,737,827.50 2,732,867.50 2,732,426.25 2,723,965.00 2,722,545.00 2,722,545.00 2,712,750.00 2,712,750.00 2,710,520.00 2,701,470.00 2,693,370.00 2,689,950.00
09/30/36 09/30/37	2,240,000.00 5,165,000.00	446,235.00 183,357.50	2,686,235.00 5,348,357.50
	30,955,000.00	28,844,490.00	59,799,490.00

COMPUTED ON BASIS OF MANDATORY REDEMPTION

#### Debt Amortization Rates

Jebi Allioi lizalioi	i Nates	
		of Principal
Period Ending	Principal	Retired
09/30/2017 09/30/2018 09/30/2019 09/30/2020 09/30/2021 09/30/2022 09/30/2023	710,000.00 740,000.00 775,000.00 815,000.00 900,000.00 955,000.00	02.29% 04.68% 07.19% 09.82% 12.58% 15.49% 18.58%
09/30/2024 09/30/2025 09/30/2026 09/30/2027 09/30/2028 09/30/2029 09/30/2030 09/30/2031 09/30/2032 09/30/2033 09/30/2034	1,010,000.00 1,075,000.00 1,140,000.00 1,220,000.00 1,305,000.00 1,395,000.00 1,490,000.00 1,595,000.00 1,705,000.00 1,825,000.00 1,950,000.00	21.84% 25.31% 28.99% 32.93% 37.15% 41.66% 46.47% 51.62% 57.13% 63.03% 69.33%

09/30/2035	2,090,000.00	76.08%
09/30/2036	2,240,000.00	83.31%
09/30/2037	5,165,000.00	100.00%

#### PERTINENT PROVISIONS

SECURITY FOR THE BONDS

The Series 2008 Bonds were executed and delivered by the Fannin County Public Facility Corporation pursuant to a Trust Indenture dated as of June 1, 2008, by the Corporation and U.S. Bank National Association (Trustee).

The Series 2014 Bonds were executed and delivered by the Fannin County Public Facility Corporation pursuant to a Trust Indenture dated as of August 1, 2014, by the Corporation and U.S. Bank National Association (Trustee).

The Project is leased to the Corporation by the County pursuant to a Ground Lease, dated as of June 1, 2008, as amended and restated as of August 1, 2014 (the "Lease"). Under the Lease, the Corporation is required to make Lease Payments, which Lease Payments will be sufficient in amount to pay the principal of and interest on the Bonds when due.

The Corporation granted a first mortgage lien on and first deed of trust title to the real property portion of the Project and assigned and pledged the Corporation's interest in the leases, rents, issues, profits, revenues, income, receipts, money, rights, and benefits of and from the Project for the use and benefit of the Trustee on behalf of the owners of the Bonds, pursuant to the Deed of Trust and Assignment of Rents and Leases, dated as of even date herewith (the "Mortgage"), and the Corporation granted to the Trustee a first priority security interest in the machinery, equipment, furnishing, or other property owned by the Corporation at any time installed or located on the Land.

The obligation of the Corporation to make lease payments is a current expense, payable solely from funds annually appropriated by the District for such use from (i) the County's monthly Rental Payment Deposits and semiannual Rental Payments the due or past due, and any amounts necessary to restore the balance in the Reserve Fund to the Reserve Requirement, for deposit to the Rental Account (ii) Operation and Maintenance costs of the Project, including fees and expenses of the Trustee, payments to the County and expenses of the Corporation and the County directly incurred in performing their duties under the Lease and the Indenture, for deposit to the Operating Account (iii) an amount equal to \$15,000 or such lesser amount as is necessary to cause the balance in the Operating Reserve/Repair/Contingency Account to equal \$350,000, for deposit to the Operating Reserve/Repair/Contingency Account (iv) any Operator Fee and (v) to the Surplus Account any remaining Project Revenues.

RATE COVENANT The County covenants in the Lease to operate the Project as a detention facility and to impose and collect reasonable rates, fees and charges for the operation of the Project, including from itself for any use of the Project to house County inmates, calculated to produce Net Revenues in each Fiscal year, beginning with the second full Fiscal Year after completion of the Project, in an amount at least equal to 125% of the amount necessary to pay all Rental Payments and Rental Payment Deposits when due under the Lease and all amendments thereto payable from Project Revenues, and such Project Revenues will be pledged to the payment of Rental Payments and other amounts due under the Lease.

RESERVE FUND The Reserve Fund is established by the Indenture and is required to be funded from the proceeds of the bonds in an amount equal to \$2,766,732.50 representing the Reserve Requirements upon the issuance of the bonds. The Reserve Fund will be fully funded upon the issuance of the Series 2014 bonds.

ADDITIONAL BONDS The County may amended the Sublease to provide for additional Rental Payments for the payment of additional bonds the proceeds of which are used with respect to additional improvements to the Project upon the following conditions: (i) upon such amendment there will be deposited in the Reserve Fund the amount necessary to cause the balance therein to equal to the Reserve Requirement taking into account the additional bonds; and (ii) the proceeds of the additional bonds are used to finance improvements to the Project, additions thereto or the acquisition and installation of equipment therein, (a) the County

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obtains a written report from an independent consultant satisfactory to the Trustee which is qualified to study operations of prison facilities and has a reputation for skill and experience in such work stating that the estimated ratio of net Revenues to the maximum amount of Rental Payments thereafter coming due during the Sublease Term (including the proposed amendment thereto but excluding the last Rental Payment) for each of the three Fiscal Years following the Fiscal Year in which it is estimated the improvements, additions or equipment financed are to be places in service, is expected to be not less than 1.35; or (b) the County obtains a written report of an independent certified public accounting stating ratio of Net Revenues of the Project to the maximum amount of Rental Payments thereafter coming due during the Sublease Term (not including the proposed amendment thereto) was not less than 1.25 for each of the two most recently ended Fiscal Years of the County of, if shorter, for the period since the Project was placed in service, and a written report of an independent consultant satisfactory to the Trustee which is qualified to study operations of prison facilities and has a reputation for skill and experience in such work stating that the estimated ratio of Net Revenues to the maximum amount of Rental Payments thereafter coming due during the Sublease Term (including the proposed amendment thereto, but excluding the last Rental Payment), for each of the three complete Fiscal Years of the County following the Fiscal Year in which it is estimated the improvements, additions or equipment financed are to be placed in service, is expected to be not less than 1.25.

The County may issue bonds for the purpose of financing improvements or additions to the Project or equipment for the Project without satisfying the requirements stated above.

THE PROJECT The project consists of the development, design, construction, and equipping of a 432-bed multi-classification secure detention center on real property in Fannin County, Texas. Approximately 15 acres of the site are contained within a secure perimeter fencing. The Project is designed to meet the requirements of the Texas Commission on Jail Standards and the applicable local, state and national codes.

#### **ECONOMIC BACKGROUND**

FANNIN COUNTY PUBLIC FACILITY CORPORATION (the "Issuer") is a non-profit public corporation and instrumentality of Fannin County formed on behalf of the District pursuant to the Public Facility Corporation Act and an order of the Board of Trustees of the District adopted on December 15, 1997. The Issuer was formed for the purpose of acquiring, constructing, and financing the Project. The Issuer currently has no assets other than its interest in the Project and its rights under the Lease. The Issuer is governed by a seven member Board of Directors, all of whom are members of the District's Board of Trustees.

Community Education Centers, Inc. (the Operator), a private for-profit company, headquartered in New Jersey and formed in Delaware in 1996, provides community-based residential and jail/prison treatment services for local, state and federal corrections systems in the United States. The Operator presently does business in 17 states.

COUNTY CHARACTERISTICS: Fannin County is located in north Texas, borders Oklahoma, and is traversed by U.S. Highways 69 and 82, State Highways 11, 50, 78, and 121, and eighteen farm-to-market roads. The county was the 4th largest producer of soybeans in 2015.

COUNTY SEAT: Bonham

2010 census: 33.915 increasing 8.6~% since 2000 2000 census: 31.242 increasing 26.0~% since 1990

1990 census: 24,804

ECONOMIC BASE Mineral: sand.

Industry: varied manufacturing, tourism, prisons, government, communications and

agriculture.

Agricultural: wheat, pecans, horses, hay, grain sorghum, corn and beef cattle.

OIL PRODUCTION (Texas Railroad Commission	)IL	PRODUCTION	(Texas	Railroad	Commission
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 Year
 Description Volume
 % Change From Previous Year

 2012
 0il
 50 BBL

 2013
 0il
 0 BBL
 -100.00

 2014
 0il
 0 BBL

2014 Oil 0 BBL 2015 Oil 0 BBL

PARKS (Texas Parks & Wildlife) Year Description Volume 2012 Bonham State Park 52,631 Visitors

2013 Bonham State Park 53,871 Visitors 2014 Bonham State Park 55,277 Visitors

RETAIL SALES & EFFECTIVE BUYING INCOME (The Nielsen Company) 2015 2014 Year \$433 7M Retail Sales \$329 7M \$339 1M Effective Buying Income (EBI) \$618.8M \$579.8M \$584.9M County Median Household Income \$40.553 \$39.048 \$38,783 \$50,464 State Median Household Income \$53.037 \$48.646 % of Households with EBI below \$25K 13.0 % 15.1 % 15.8 % % of Households with EBI above \$25K 66.3 % 65.5 % 65.0 %

EMPLOYMENT DATA (Texas Workforce Commission)

2014 2016 2015 Employed Earnings Employed Earnings Employed Earnings 1st Q: 7,256 \$65.0M 6,964 \$62 7M 6,756 2nd Q: 7,247 \$62.6M 6,860 \$59.6M \$66.9M 7.074 3rd Q: N/A N/A 7,150 \$67.3M 6,826 \$63.4M \$71.1M 6.819 \$65.2M 4th Q: N/A N/A 7.187

#### **FINANCE CONNECTED OFFICIALS**

President

Creta L. Carter II 101 E. Sam Rayburn

Suite 101

Bonham, TX 75418 Phone: 903-583-7455 Fax: 903-583-7811 clcarter@fanninco.net

County Auditor Don Grammar

101 East Sam Rayburn Dr.

Ste. 303

Bonham, TX 75418 Phone: 903-583-7451 Fax: 903-640-5806 dgrammar@fanninco.net

### **EGB**

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