



General Obligation Bond Capacity Analysis

*City Council Work Session
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Financial Services Department

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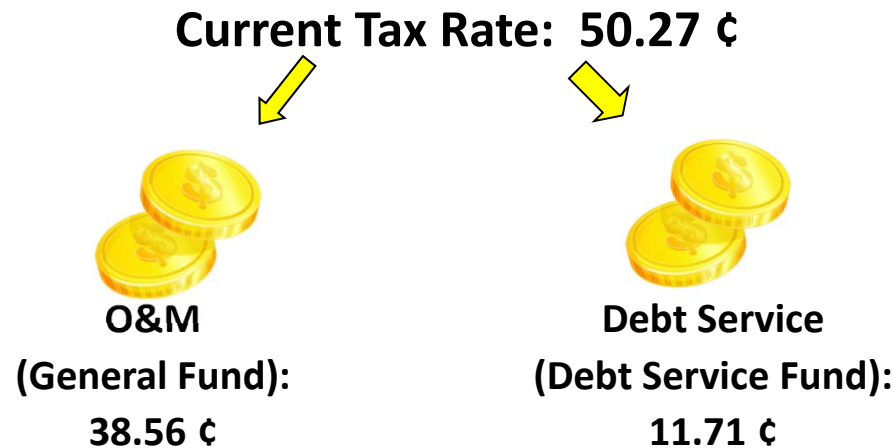
Briefing Agenda

- Why perform Bond Capacity Analysis?
- Rating Agency Criteria and Metrics
- Financial Policies – Debt and Bond Elections
- Debt Capacity – Current and Scenarios
- Summary



Property Tax Rate

- Property Tax Rate has 2 components



- Debt service tax rate set each year at level necessary to fund principal and interest payments on debt that has been issued and pledged with property tax
- FY15 Forecast tax rate of 49.57¢ per \$100 of assessed valuation
 - 38.06 ¢ for operations and 11.51¢ for debt service



General Obligation (G.O.) Debt

- Public Improvement Bonds, Certificate of Obligation, and Contractual Obligations
 - \$1.0 billion in outstanding G.O. debt currently
 - Issued once per year in August prior to setting the tax rate
 - Revenue pledge – backed by property (ad valorem) and “full faith and credit” of the City

Types of G.O. Debt	Purpose	Voter Approval	Term
Public Improvement Bonds (PIBs)	Capital improvement projects and capital assets	Yes	20 Years
Certificates of Obligation (COs)	Real property: land, buildings, right of way, construction of a public work	Not initially. Requires an election if a petition is signed by 5% of qualified voters.	10-20 Years
Contractual Obligations (KOs)	Personal property: equipment, machinery, vehicles, information technology	No	5-10 Years



Bond Capacity Analysis

Why perform bond capacity analysis?

- Key element of long-term financial planning
- Promotes understanding of City's existing debt burden
- Facilitates informed decisions about issuance of additional long-term debt
- How future debt issuance will impact City's financial condition
- Opportunity to review financial policies on debt
- Allows for more effective capital project prioritization during capital planning



Factors to consider

- Rating agency criteria, City's financial condition, financial policies, current and future infrastructure needs, and community values
- Debt Service Requirements
 - Existing debt service requirements
 - Expected future debt issuances
 - Impact on tax rate
 - Debt service as % of General Government expenditures
- Measure debt burden on community
 - Debt to Total Assessed Valuation
 - Debt per capita
 - Impact on tax rate

Rating Agency Criteria

Tax-supported debt



Rating Criteria	Moody's Investors Service	Standard and Poor's (S&P)	Fitch Ratings
Institutional Framework	n/a	10%	n/a
Economy/Tax Base	30%	30%	Rated
Management	20%	20%	Rated
Finance or Financial Measures	30%	30% (10% each - Liquidity, Budgetary Performance, Budgetary Flexibility)	Rated
Debt & Contingent Liabilities	20%	10%	Rated
City's Current Rating	Aaa	AAA	AAA

- Debt – one key factor used by rating agencies in assessing City's overall financial strength
- Austin has maintained these highest ratings since April 30, 2010



Debt Criteria – Rating Metrics

Moody's Investor Service	Standard and Poor's	Fitch Ratings
n/a	n/a	Debt per capita less than \$2K
Debt to Total Assessed Value less than 0.75% (Aaa) or between 0.75% and 1.75% (Aa)	Debt to Total Assessed Value less than 3%	Debt to Total Assessed Value less than 2%
n/a	Net Debt as % of Total Governmental Funds Expenditures (General Fund and Debt Service Fund) less than 8%	Debt service burden less than 6% of requirements (General and Debt Service Funds)
Debt service burden as % of operating revenue (General and Debt Service Funds) at less than 33% (Aaa) or between 33% and 67% (Aa)	Net Debt as % of Total Governmental Funds Revenue (General Fund and Debt Service Fund) less than 30%	n/a
n/a	Amortize more than 65% within 10 years	Amortize more than 65% within 10 years
n/a	n/a	Less than 15% Variable rate
n/a	n/a	Modest and future capital needs, with comprehensive long-term capital planning and CIP updated regularly

- Parameters for rating metrics to achieve the highest ratings
- Measure appropriate level of debt for a highly rated issuer



City of Austin Financial Policies

Debt

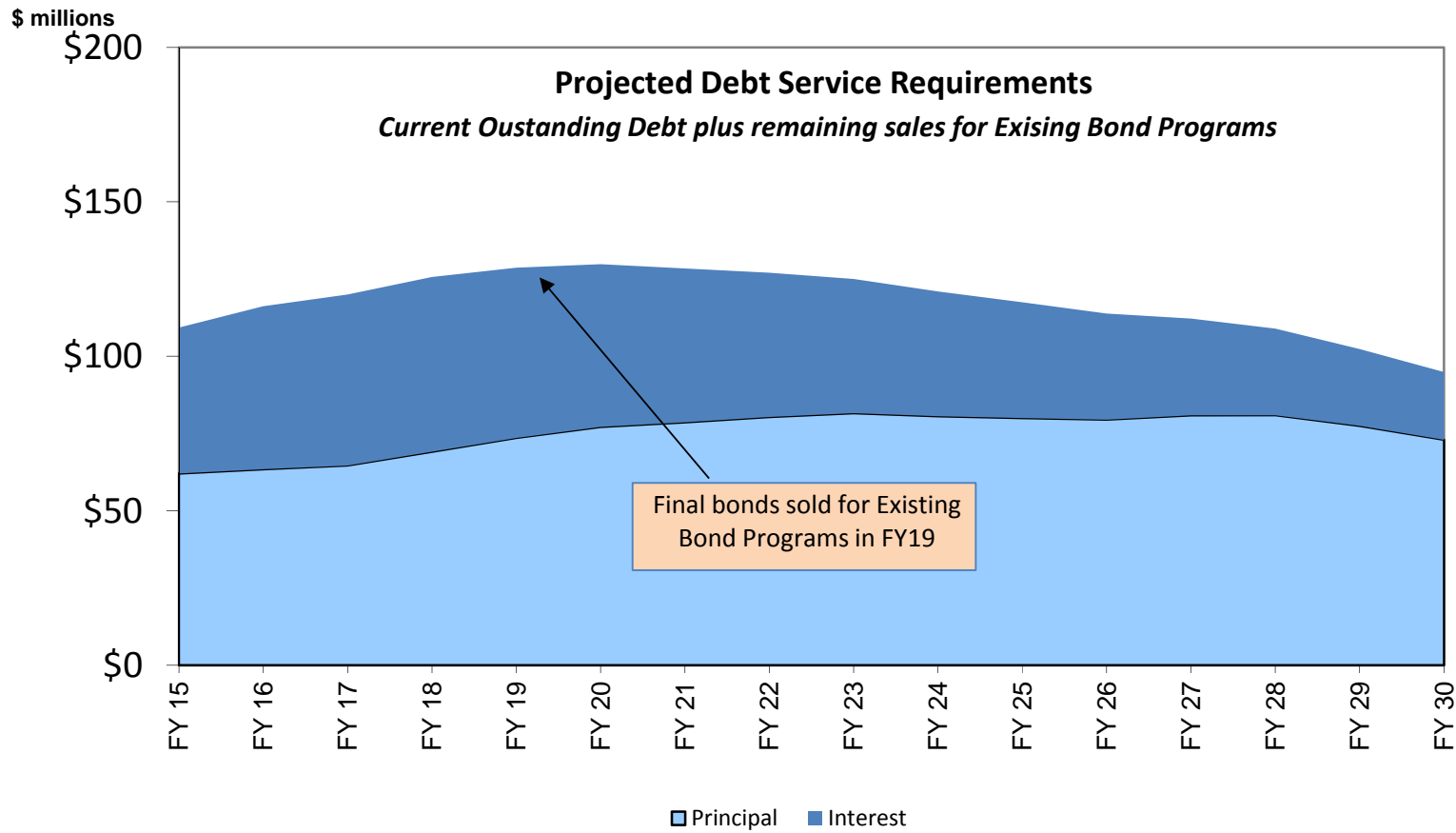
- Ratio of net debt to total assessed valuation of 2.0% or less
- Ratio of debt service to total expenditures (operating and debt service combined) shall not exceed 20%

Bond Elections

- Timing of general obligation bond elections shall be determined by inventory of current authorized unissued bonds remaining to be sold
 - Estimated two years of authorized unissued bonds shall remain before an election will be held
- Total dollar amount of bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal six year period



Current Debt Structure



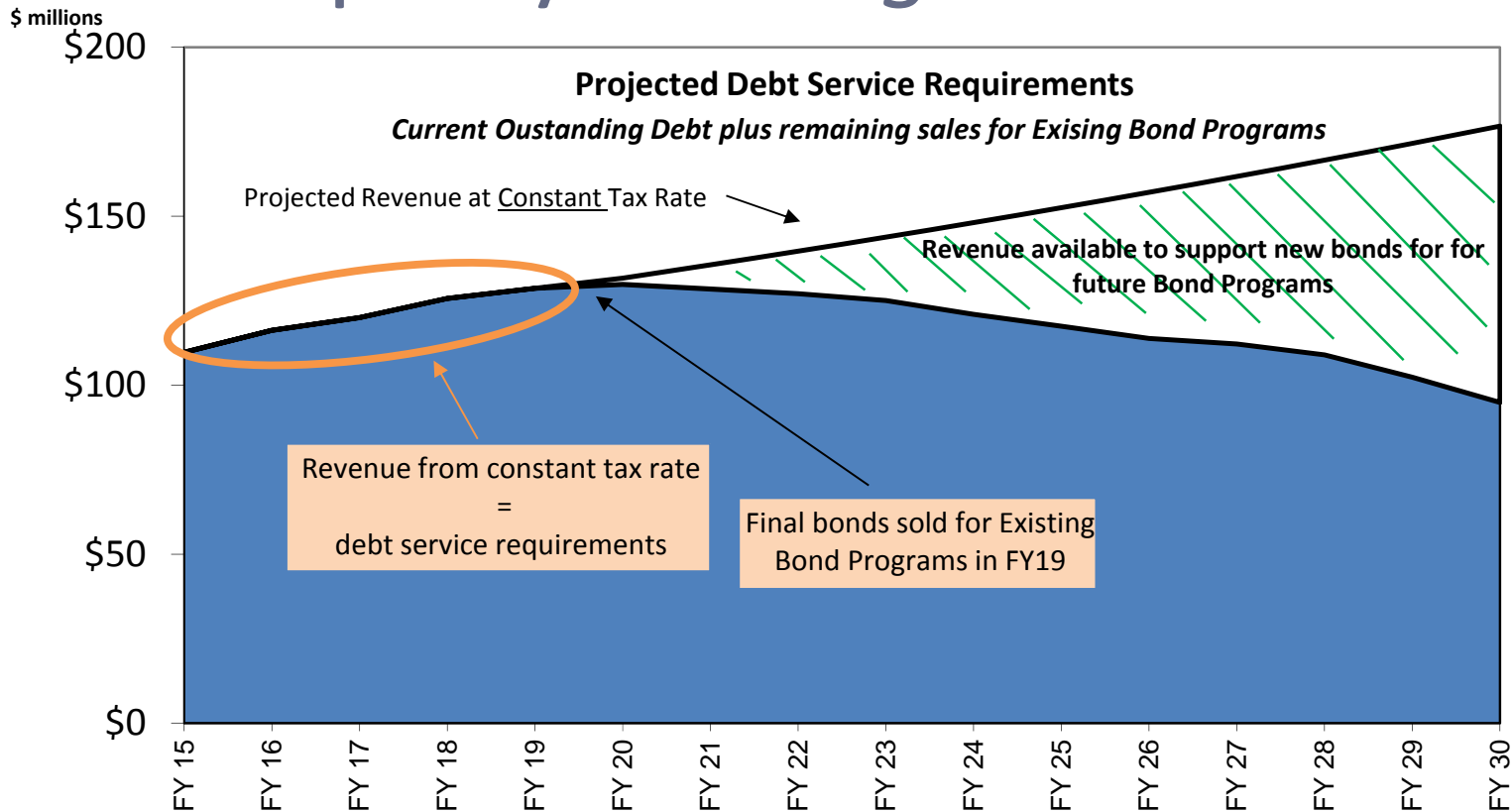
- \$425 million in bonds still to be sold for 4 active bond programs ('06,'10,'12,'13)
- Current annual debt service is \$103 million, peaks at \$130 million in FY20



Debt Capacity: *Assumptions*

- Projected FY15 debt service tax rate of 11.51 cents is starting point for analysis – i.e., “nominal” debt rate
- Remaining bond sales of \$425 million for on-going 2006, 2010 2012 and 2013 bond programs
- Repay more than 50% of outstanding principal in 10 years
- Assessed valuation growth consistent with forecast
- Borrowing rates consistent with projected rate environment
- Tax rate increases occur over 5 year period
- Preserve future year capacity for future bond election program to address core city needs – parks, libraries, facilities, open space, roads, housing, etc.
- New bonds expected be sold over 6 years
 - First bonds for a potential November 2014 bond election would be sold August 2015; impact on FY16 tax rate

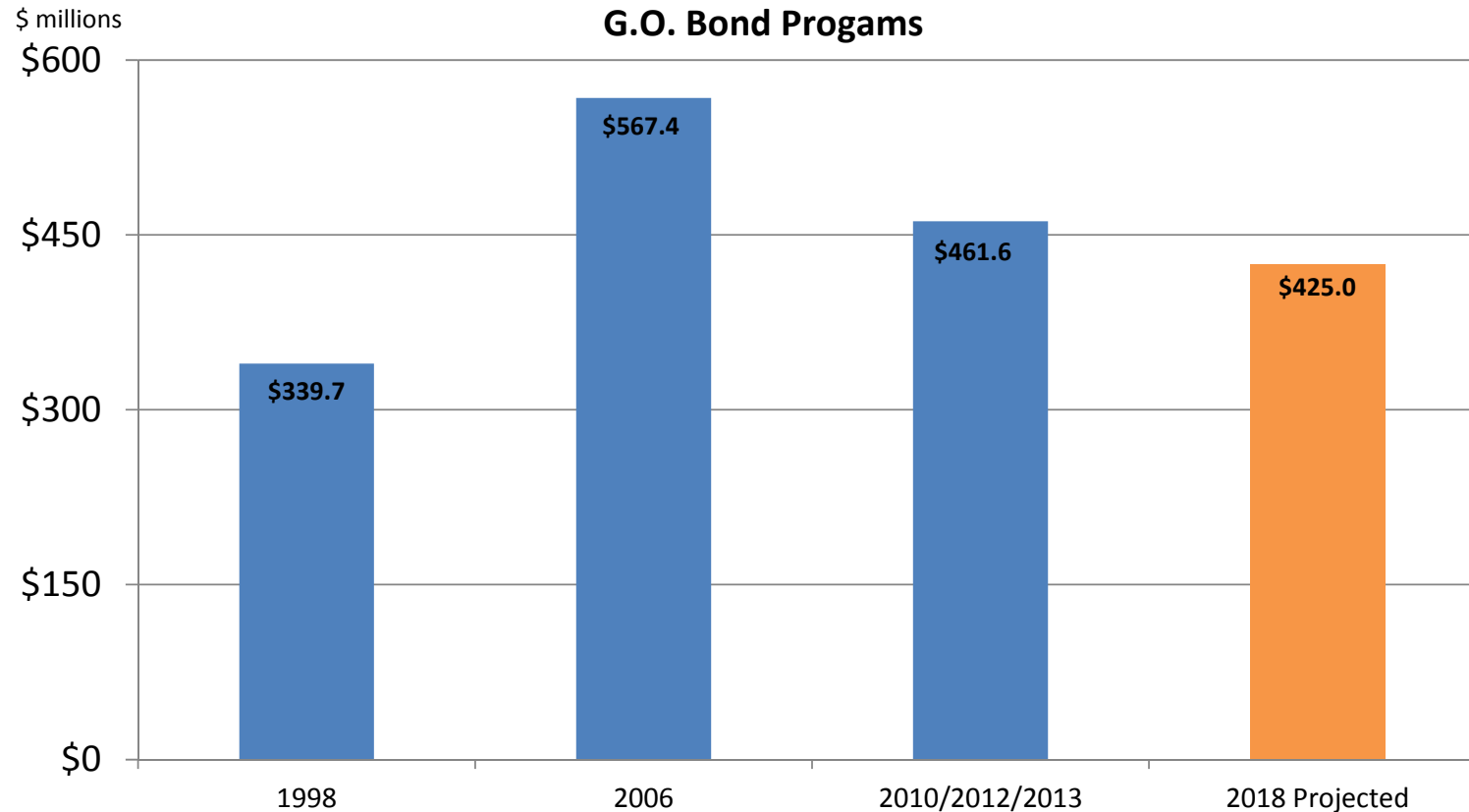
Debt Capacity: *Looking Ahead*



- Even with constant tax rate of 11.51 cents & growing assessed valuation, there is no additional debt capacity until FY20
 - Maintaining constant debt service tax rate to FY20 and beyond, allows other core infrastructure needs to be met



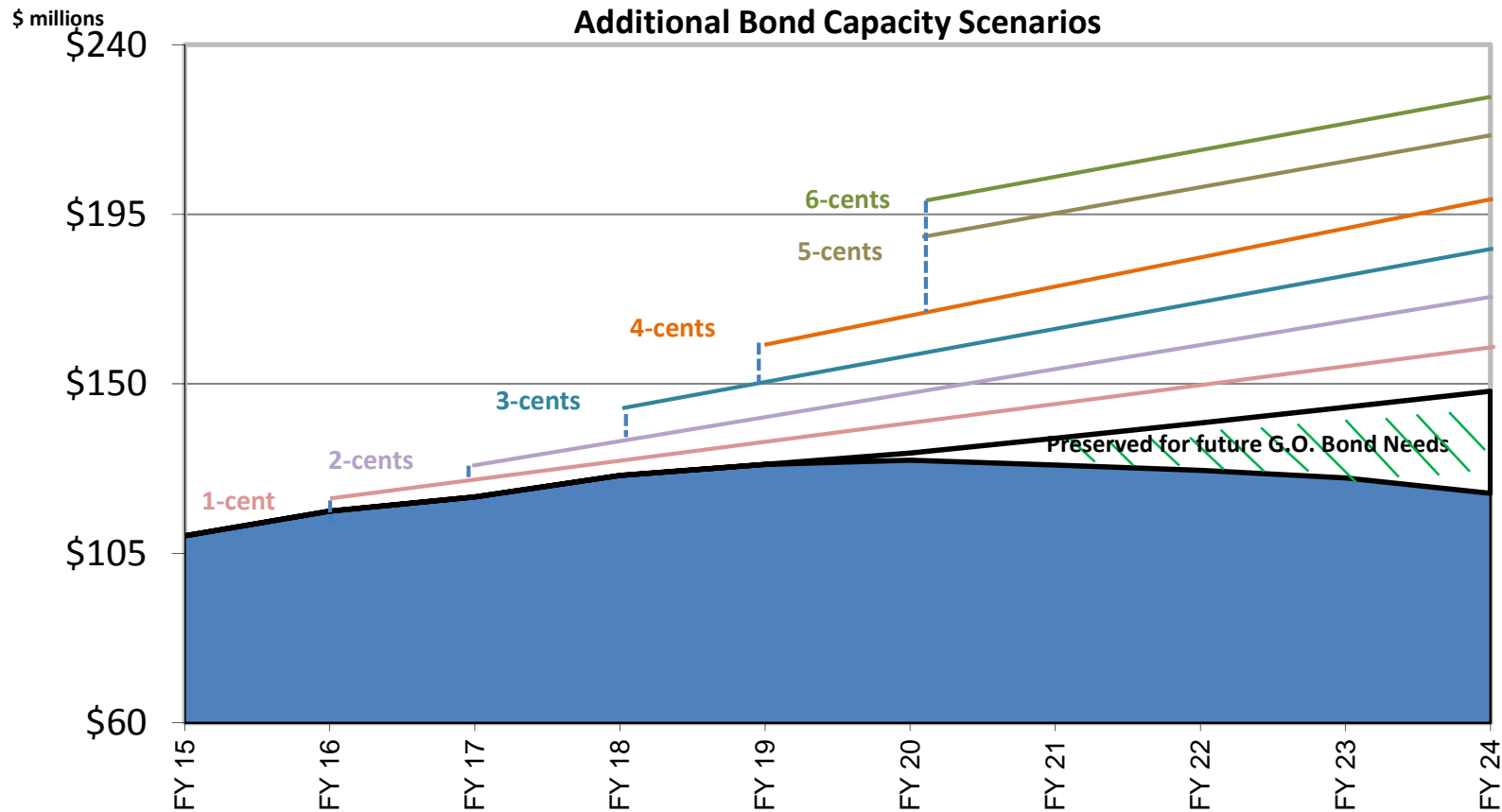
Debt Capacity: *Looking Ahead*



- Maintaining a constant tax rate allows for November 2018 G.O. Bond Election of about \$425 million for core infrastructure needs such as parks, libraries, facilities, open space, roads, housing



Debt Capacity: *Scenarios*



- Tax rate increases are necessary to add debt capacity for a 2014 bond election



Debt Capacity: *Scenarios*

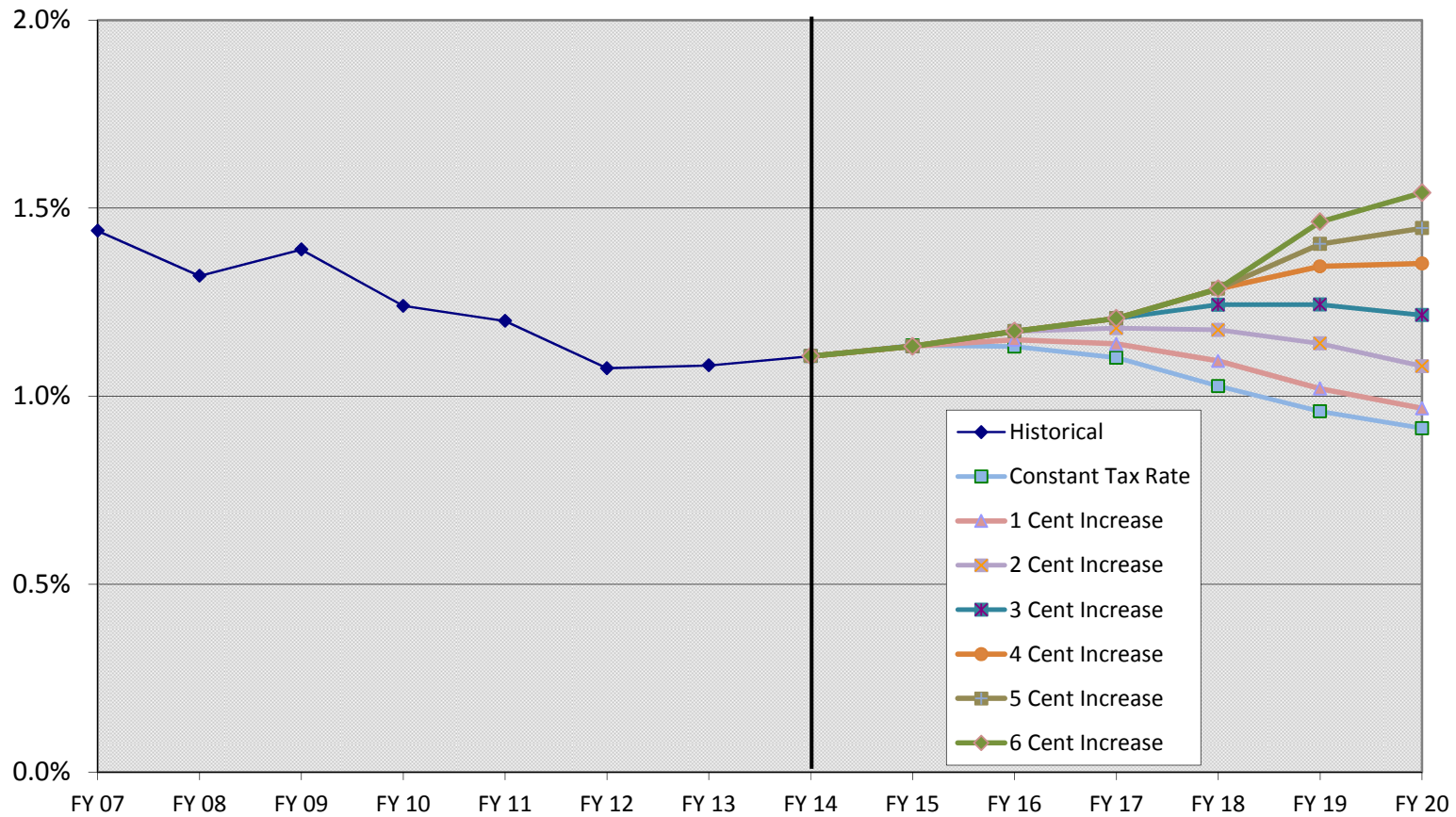
Tax Rate Increase over 5 Years	New Debt Capacity
1-cent	\$115 million
2-cents	\$265 million
3-cents	\$440 million
4-cents	\$615 million
5-cents	\$790 million
6-cents	\$965 million

- Scenarios for a potential November 2014 Bond Election
 - Debt expected to be sold over a 6-year period
 - Tax rate increases expected to be spread out over 5 years



Scenarios: *Projected Ratios*

Debt / Assessed Valuation
Historical & Projected for Bond Capacity Scenarios

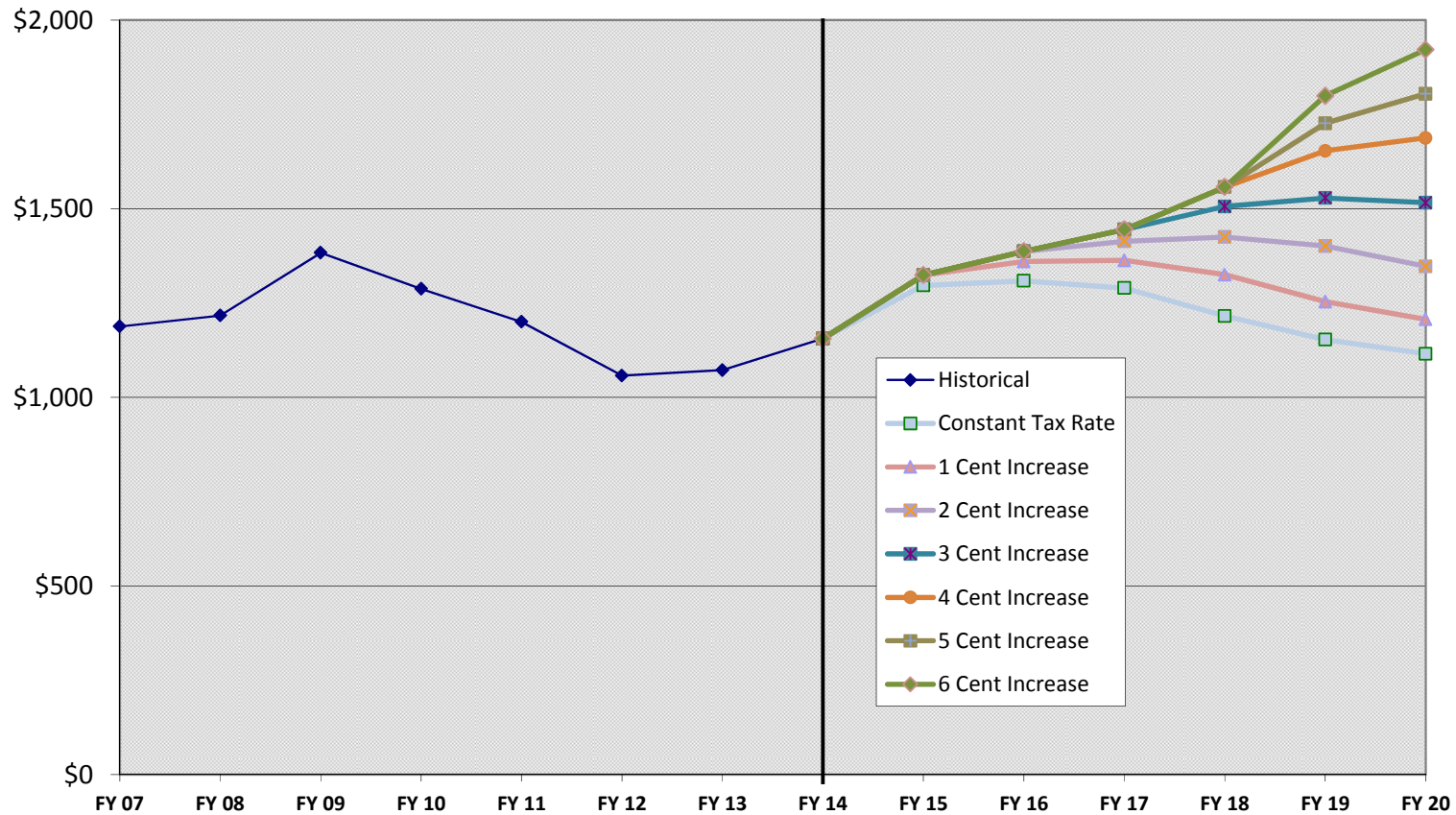


- Current Tax Rate Supported Debt/AV is 1.11%



Scenarios: *Projected Ratios*

Debt / Per Capita
Historical & Projected for Bond Capacity Scenarios



- Current Tax Rate Supported Debt/Per Capita is \$1,156



Scenarios: *Tax Bill Impact*

Tax Rate Increase over 5 Years	Projected FY20 Debt Service Tax Bill	Tax Bill Increase vs <u>Current</u> (FY14) Tax Bill
constant	\$292 / yr	\$58
1-cent	\$318 / yr	\$84
2-cents	\$343 / yr	\$109
3-cents	\$369 / yr	\$135
4-cents	\$394 / yr	\$160
5-cents	\$420 / yr	\$186
6-cents	\$445 / yr	\$211

- Debt service portion of current FY14 tax bill for a \$200,000 home was \$234



Scenarios: *Tax Bill Impact*

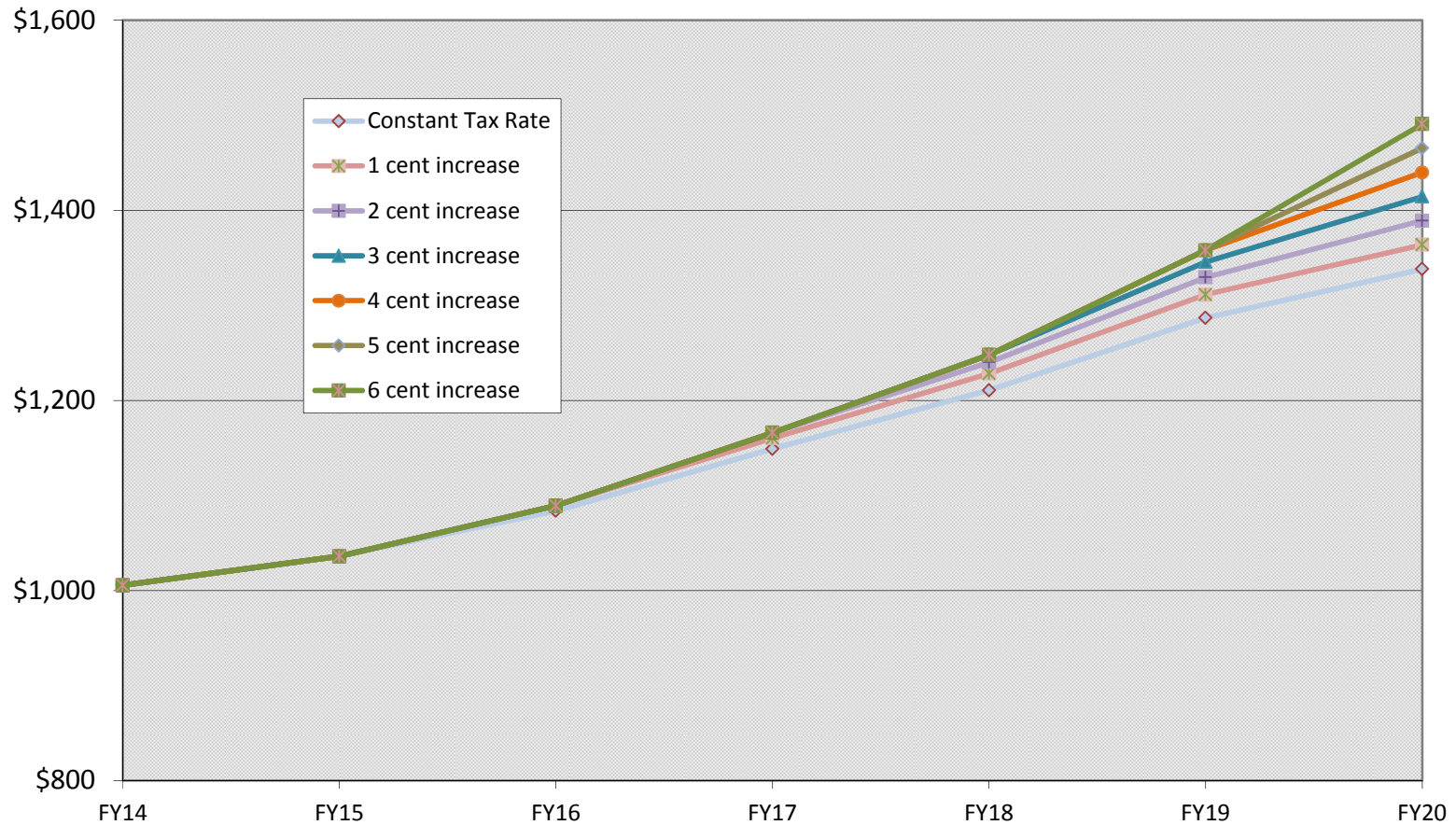
Tax Rate Increase over 5 Years	Projected FY20 Debt Service Tax Bill	Tax Bill Increase: Tax Increase Scenario vs Constant
constant	\$292 / yr	n/a
1-cent	\$318 / yr	\$26
2-cents	\$343 / yr	\$51
3-cents	\$369 / yr	\$77
4-cents	\$394 / yr	\$102
5-cents	\$420 / yr	\$128
6-cents	\$445 / yr	\$153

- Debt service portion of current FY14 tax bill for a \$200,000 home was \$234



Scenarios: *Tax Bill Impact*

Projected Property Tax Bill for Bond Capacity Scenarios



- Total FY14 tax bill for \$200,000 home was \$1,005



Summary

- Currently, no existing debt capacity available – tax rate increase necessary to create additional debt capacity for potential November 2014 Bond Election
- Debt / AV within financial policy and rating agency criteria
- Debt per capita increases do occur for the scenarios above 3-cent increase
- Range of scenarios
 - 1-cent tax increase provides \$115 million new debt capacity
 - 6-cent tax increase provides \$965 million new debt capacity



Questions / Discussion