City of Austin
Bond Election
Debt Management Criteria

Financial and Administrative Services

February 16, 2006

Bond Election Policy

- City financial policy -

  "The 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 6 year period."

  "An estimated 2 years of authorized unissued bonds shall remain before an election will be held."

Bond Ratings

- Rating Agency Factors

Economy	□ Demographics: age, education, employment and income levels
Debt burden	□ Direct debt to assessed value (AV) □ Indirect (overlapping) debt to AV □ Debt per capita □ Debt service as a percent of total expenditures
Debt retirement	□ Percent of principal paid off in five-ten years
Management	□ Depth of managerial experience □ Past performance against original plans □ Financial policies

Austin's Current Ratings

- Economy
  - "The rating affirmation and change in outlook reflect the City's favorable economic trends following the prior period of high-tech softness; prudent financial management practices and ongoing improvement in financial reserves; and a manageable debt position despite significant capital needs."
    (Moody's, August 2005)
  - "The AA+ rating reflects the City of Austin's historically vibrant and diverse area economy, its favorable financial profile, and the ongoing recovery from the recent recession."
    (Fitch , August 2005)
  - "The rating reflects the city's strong and diverse economic base, anchored by state government and higher education" and a "significant high-tech manufacturing industry and expanding service sector."
    (Standard and Poor's, August 2005)

Austin's Current Ratings

- Debt burden
  - City's financial policy – direct debt less than 2% of AV
    - Direct debt to assessed value is 1.65%
    - Overlapping debt to assessed value is 3.51%
    - Debt per capita is $1,185
  - "Overall debt levels are moderate and have decreased over the past five years to $2,333 per capita and 3.1% of market value." (Standard and Poor's, August 2005)
  - "Austin's debt profile is moderate, with direct and overall debt at 1.5% and 3. 2% of fiscal 2006 total assessed value. Overall debt per capita is moderately high, reflecting primarily debt issued by local counties and school districts."

    (Fitch, August 2005)

Austin's Current Ratings

- Debt retirement
  - Principal amortization of 50% in 10 years is average (Moody's guideline) for 20-year debt.
  - City of Austin
    - approximately one-third of principal paid off in first 5 years
    - *approximately two-thirds of principal paid off in first 10 years*
  - "Although the City has an aggressive capital plan, with principal retired at a brisk 67% in ten years and as the tax base experiences moderate growth, Moody's believes additional debt can be layered in without significant upward pressure on the debt position."
    (Moody's, August 2005)
  - "Debt amortization is above average, with 35.4% of all principal retiring in five years and 66.6% retiring in 10 years."
    (Fitch, August 2005)
  - "Debt amortization is fairly rapid with 67% of principal being retired over 10 years." (Standard & Poor's, August 2005)

Austin's Current Ratings

- Debt to operations
  - City's financial policy – ratio of debt service to total expenditures not to exceed 20%
  - "Debt service requirements as a percent of overall expenditures are moderate at 16.6% consistent with the debt service/expenditure ratios reported in recent years." (Moody's, January 2005)

Austin's Current Ratings

- Management
  - "Moody's has revised the City's outlook to positive from stable, reflecting an ongoing trend of economic recovery and favorable financial management that preserved the general fund reserve through a period of economic softness." (Moody's, August 2005)
  - "The rating reflects the city's strong financial management and position despite recent budget shortfalls in sales tax revenues." (Standard & Poor's, August 2005)
  - "Strengths – sound financial condition and conservative fiscal policies and management practices." (Fitch, August 2005)

How Austin Compares to Other Texas Cities

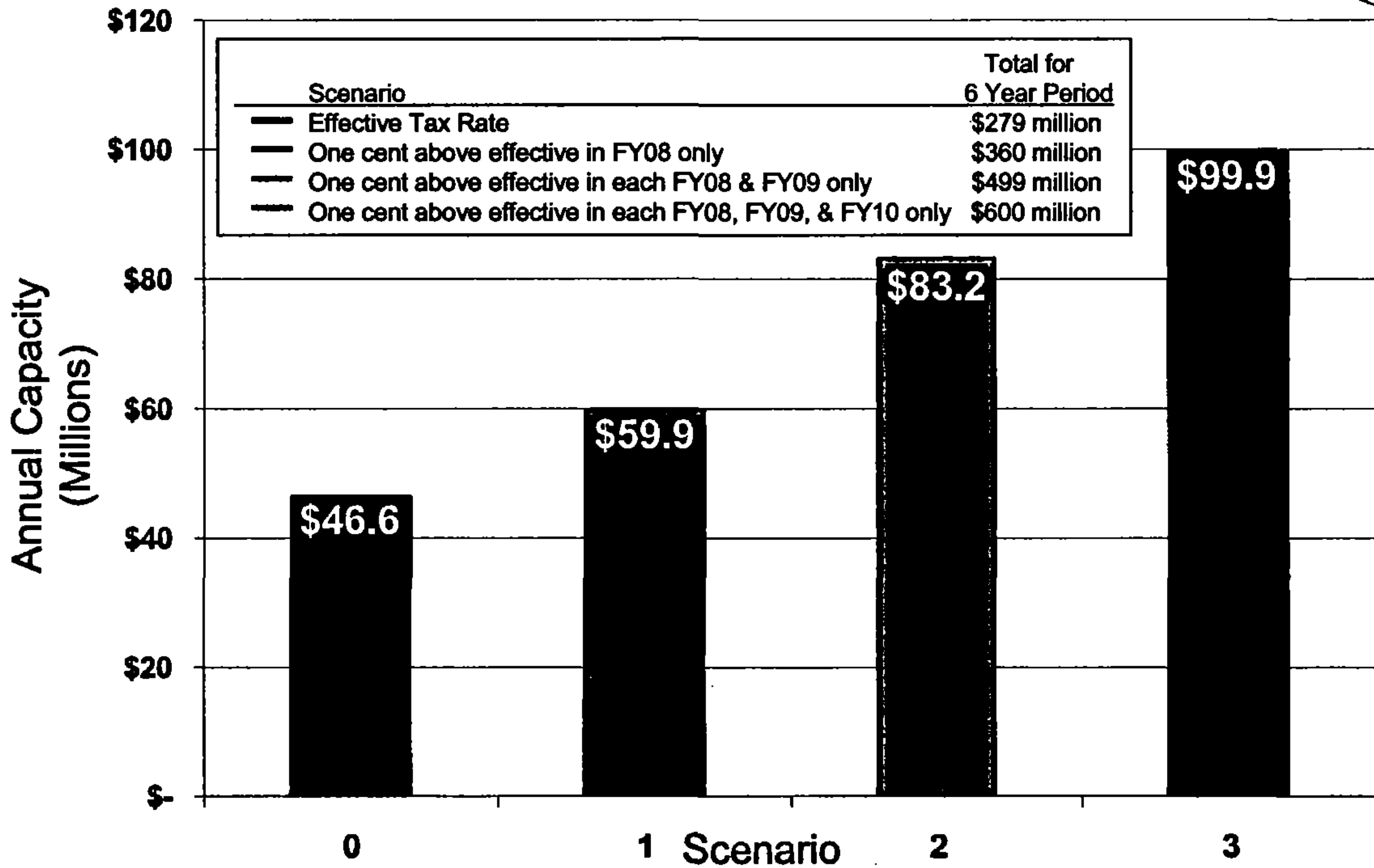
	Debt per Capita	Debt to AV	Average Bond Rating	Overlapping Debt per Capita	Overlapping Debt to AV
Austin	$1,185	1.65%	AA+	$2,514	3.51%
Arlington	$817	1.94%	AA	$2,363	5.60%
Corpus Christi	$321	1.04%	A+	$1,067	3.46%
Dallas	$687	1.23%	AA+	$1,881	3.37%
Fort Worth	$651	1.60%	AA+	$1,833	4.51%
Houston	$954	1.88%	AA	$3,171	6.25%
San Antonio	$634	1.82%	AA+	$2,576	7.39%

* *Source:* Fiscal Year 2004 CAFRs (latest available)

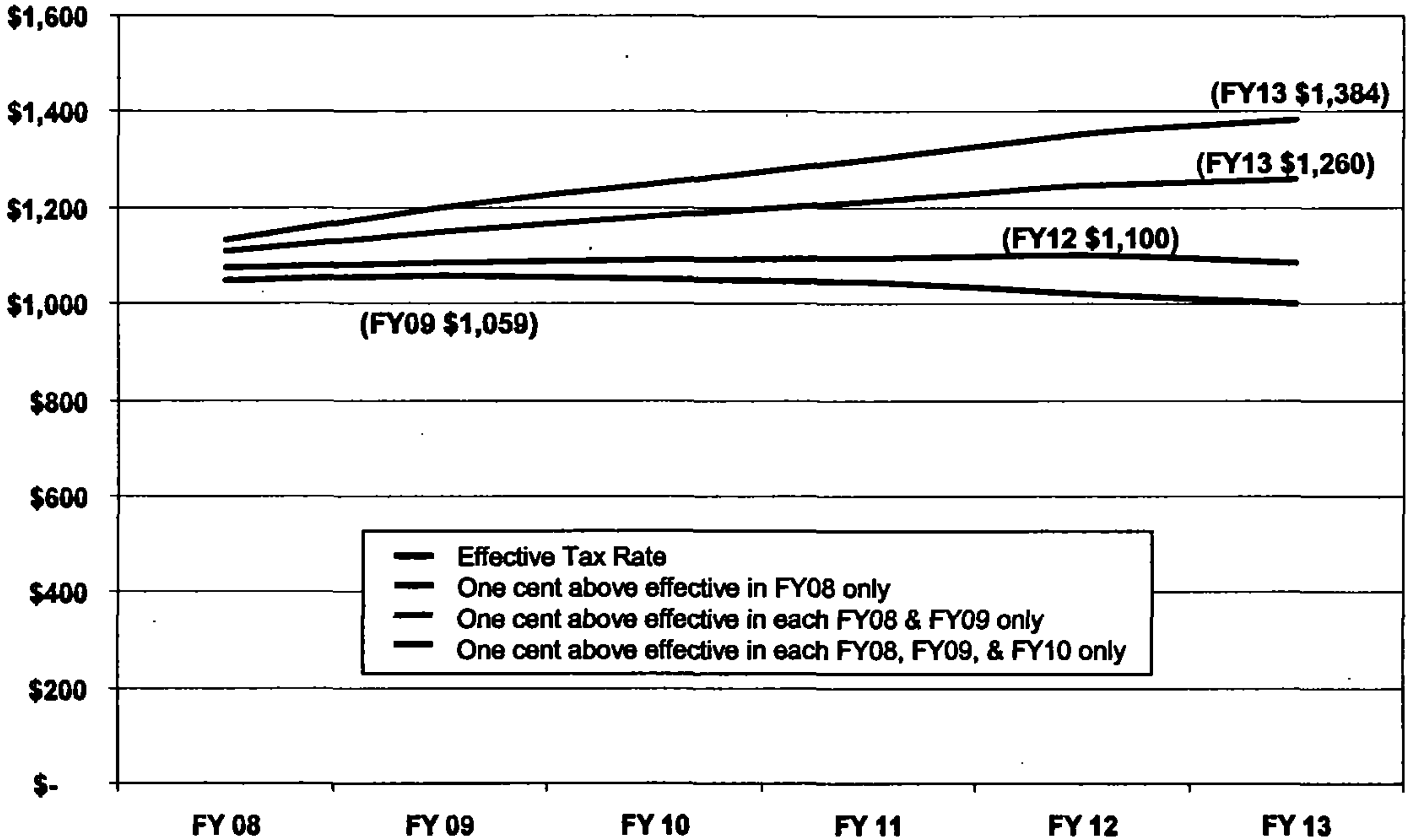
Projection of the City's Bonding Capacity

- The capacity to issue debt is driven by tax rate considerations and effects on rating indicators
- Projections examined four options for the tax rate
  - Effective tax rate
  - One Cent above effective in FY 08 only
  - One Cent above effective in each FY 08 and FY 09 only
  - One Cent above effective in each FY 08, FY 09 and FY 10 only
- Three factors were used to examine each option
  - New bonding capacity
  - Debt per capita
  - Debt to assessed value (AV)

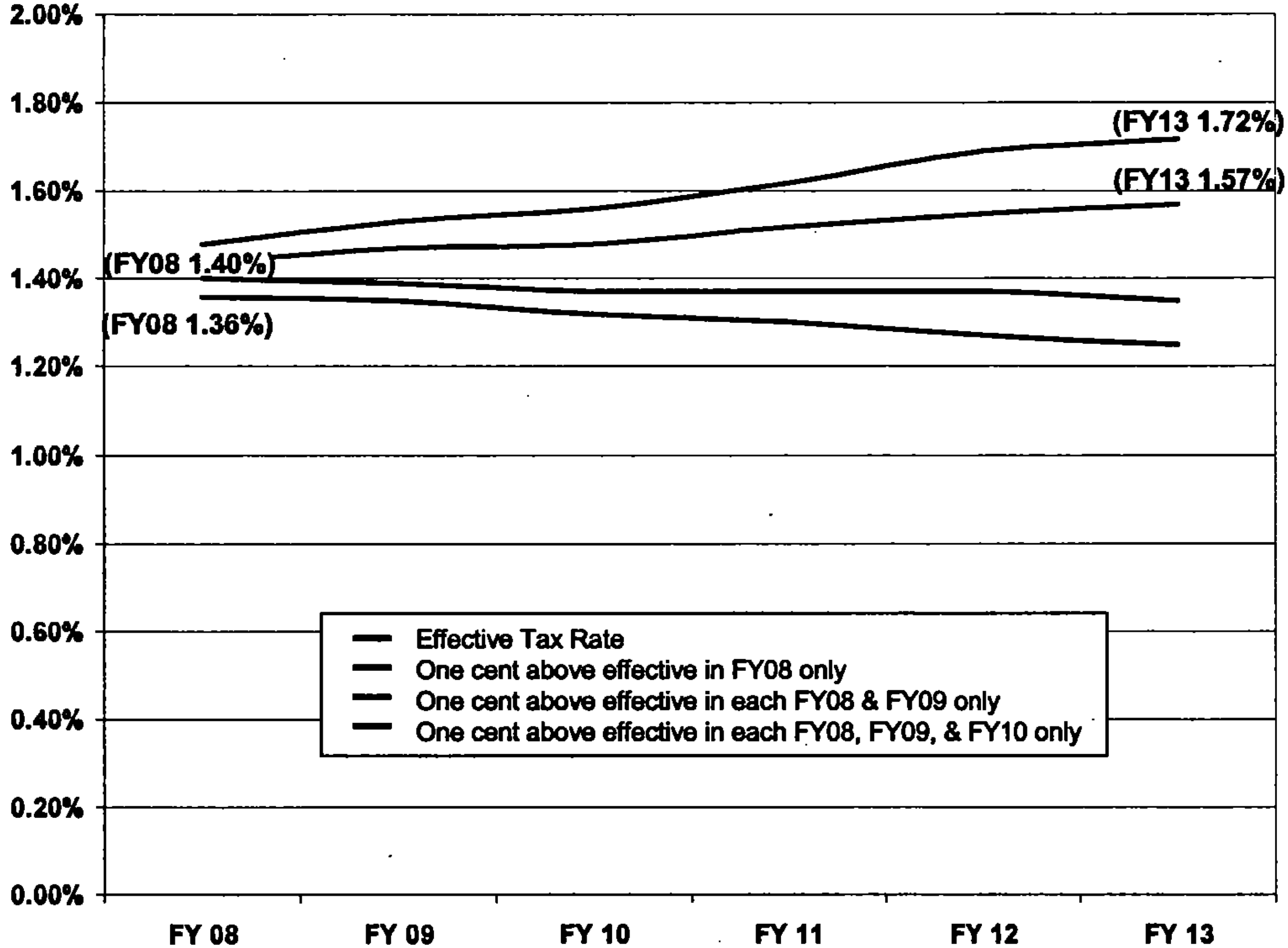
New Bonding Capacity



Debt per Capita



Debt to Assessed Value



Rating Agency Comparison

	Debt per Capita	Debt to AV
Moody's Median of 30 Cities (Population greater than 500,000)	$1,251	1.90%
Austin's highest value from effective tax rate only	$1,059	1.36%
Austin's highest value from one cent above effective tax rate in FY08 only	$1,100	1.40%
Austin's highest value from one cent above effective tax rate in each FY08 & FY09 only	$1,260	1.57%
Austin's highest value from one cent above effective tax rate in each FY08, FY09, & FY10 only	$1,384	1.72%

Operation & Maintenance Costs associated with New Facilities

- 1998 Bond Election Facilities
  - $16.5 million annual operating costs
  - 170.5 FTEs

Next Steps

- Bond Program