

#46
3/10/2005



City of Austin Potential Bond Election Financial Capacity

Financial and Administrative Services

March 10, 2005

Outline



- Overview of debt
- History of City's bond elections
- Bond ratings
 - Process and analysis
 - Results – Austin's ratings, how we compare
- Bonding Capacity

Overview



- Can the proposed expenditure be financed with debt (is it a capital asset)?
- If yes, factors in deciding type of debt to issue: type of asset funding, source of repayment
- City's financial policy –
“The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed...”

Overview

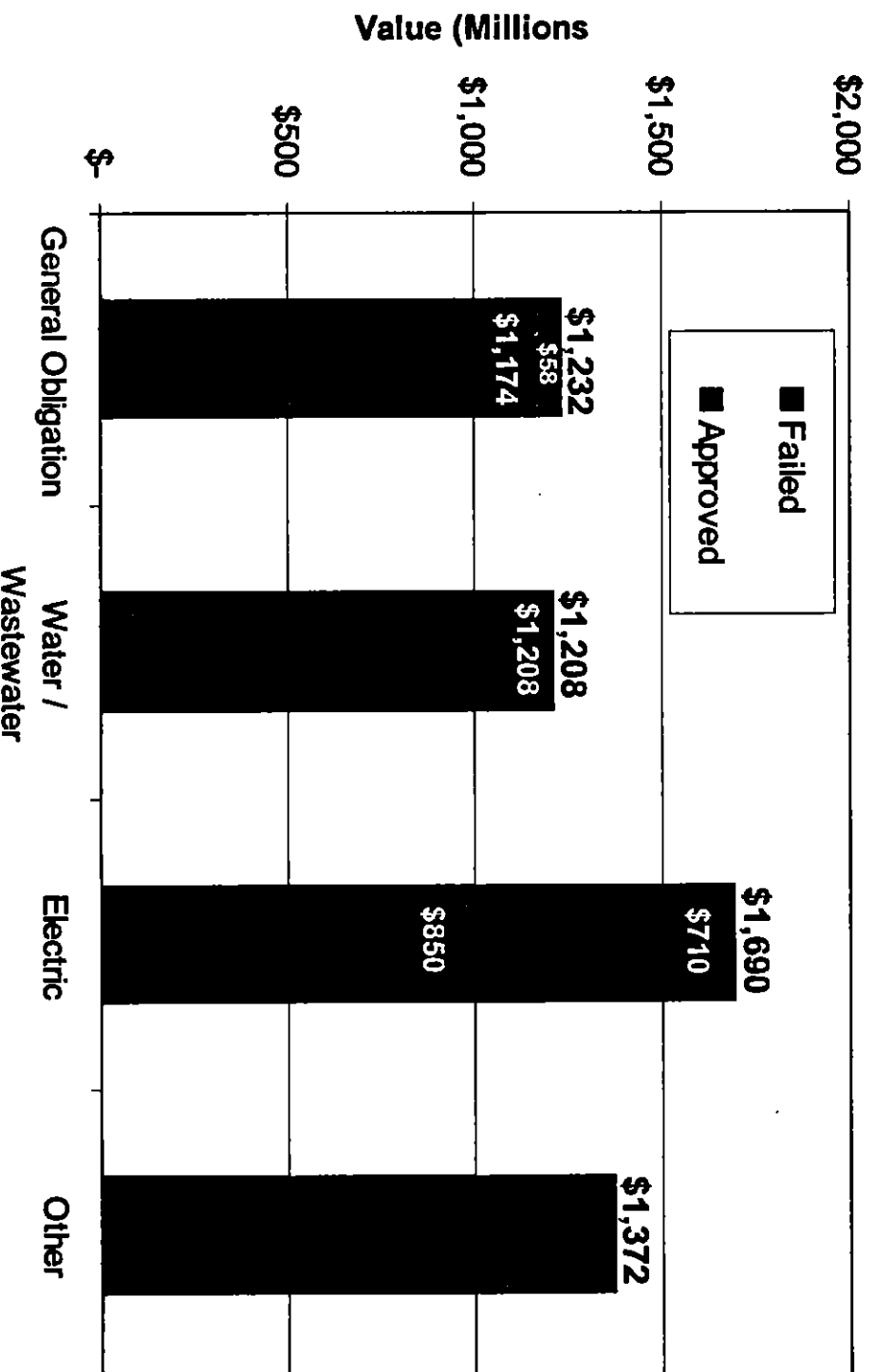


- General obligation – backed by “full faith and credit” of the City’s capacity to tax
 - Public Improvement bonds
 - Certificates of obligation (COs)
 - Contractual obligation (KOs)
- Revenue bonds – backed by a pledged revenue stream with no recourse to tax revenue



Bond Election History

1982-2000 (13 Elections)



Bond Election History



November 2000 G.O. Bonds

- P1 – Transportation: \$150 million
 - \$90 million for matching grants for major highway projects
 - \$40 million for capacity improvements
 - \$20 million for pedestrian, bikeway and sidewalk projects
- P2 – Open Space: \$13.4 million
 - 2,717 acres acquired

Bond Election History



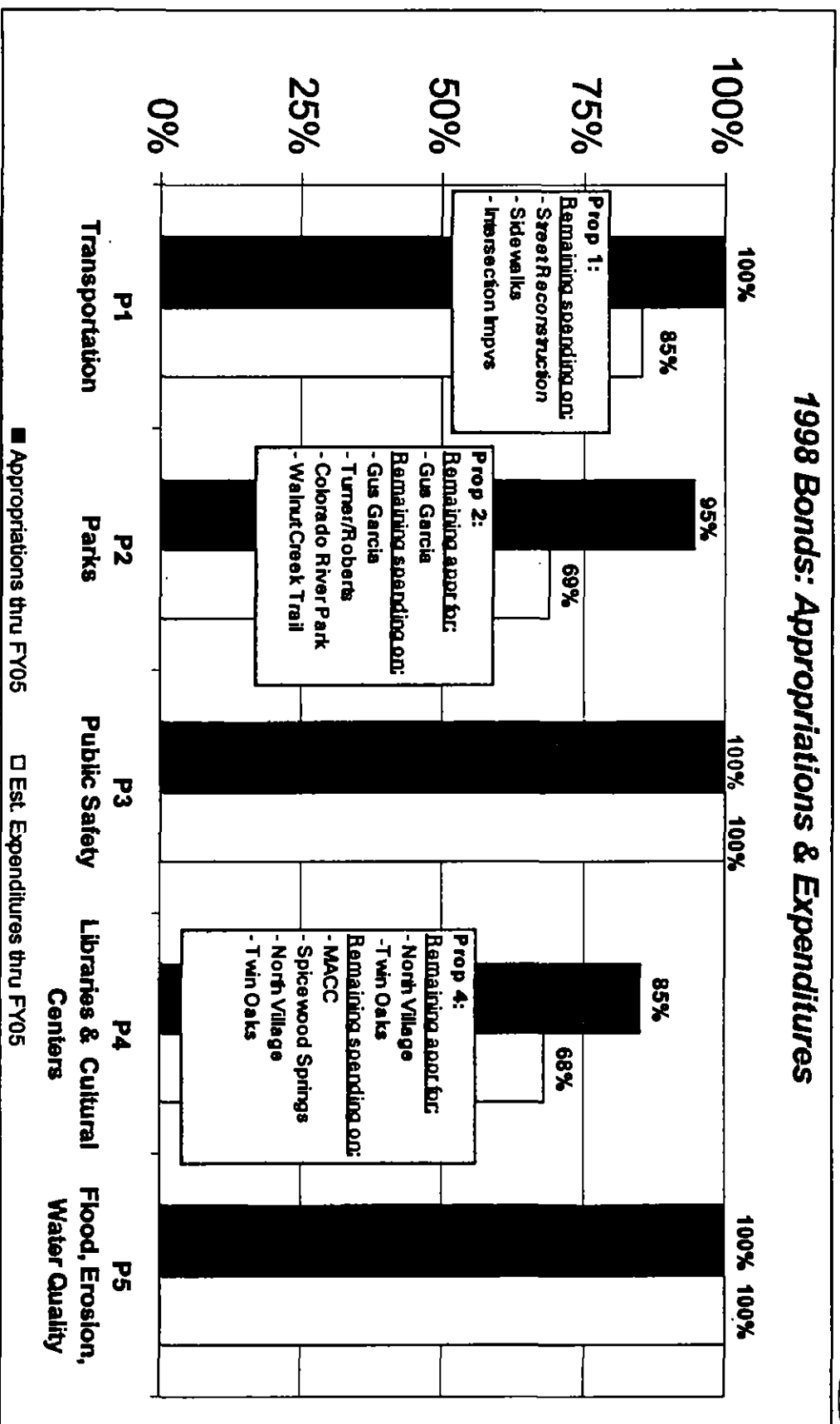
1998 G.O. Bonds

- \$339.7 million in bond authorization
- 5 propositions
 - P1 – Transportation \$152 million
 - P2 – Parks \$75.9 million
 - P3 – Public Safety \$54.6 million
 - P4 – Libraries & Cultural Centers \$46.4 million
 - P5 – Flood, Erosion, Water Quality \$10.7 million

Bond Election History



1998 Bonds: Appropriations & Expenditures



Bond Election History



1998 Council "Cash List" Projects

Amounts in Millions

	Original "Cash List"	Actual "Cash List"
Transportation	\$30.4	\$32.3
Parks	\$10.0	\$5.8
Public Safety	\$9.9	\$6.1
Cultural	\$0.1	\$0.1
Drainage	\$2.0	\$2.5
TOTAL	\$52.4	\$46.8

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 structure

- ☐ Percent of principal paid off in five-ten years

Management

- ☐ Depth of managerial experience
- ☐ Past performance against original plans
- ☐ Financial policies

Bond Ratings



- Rating Process
 - Preparation of preliminary official statement
 - Analysis of debt proposal by rating agency
 - Analysis of “rating agency factors” for this debt issue and potential future issues
 - Discussion with issuer to confirm all of the above
 - Rating issued

Austin's Current Ratings



■ Economy

- "The rating reflects the City's strong and diverse economic base, anchored by state government and higher education...the significant high-tech manufacturing industry, as well as an expanding service sector."
(Standard & Poor's, January 21, 2005)
- "Unemployment continues to trend below state and national levels..." (Moody's, January 20, 2005)
- "The City's socioeconomic profile is strong. Even with a large college student population, per capita income is 123% of the state and 112% of the nationwide level."
(Moody's, January 20, 2005)

Austin's Current Ratings



- Debt burden
 - City's financial policy – direct debt less than 2%
 - Direct debt to assessed value is 1.53%
 - Overlapping debt to assessed value is 3.32%
 - Debt per capita is \$1,112
 - "Austin's debt levels remain manageable...a healthy debt level, which should facilitate additional borrowing." (Moody's, January 20, 2005)
 - "Overall debt levels are moderate and have decreased over the past five years..." (Standard & Poor's, January 21, 2005)

Austin's Current Ratings



- Debt structure
 - Principal amortization of 50% in 10 years is average (Moody's guideline)
 - City of Austin
 - 33% of principal paid off in first 5 years
 - 63.8% of principal paid off in first 10 years
 - "With 63.8% of principal repaid in ten years, the City should accommodate future issuance easily." (Moody's, January 20, 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 20, 2005)

Austin's Current Ratings



■ Management

- “The ratings reflects the City’s strong financial management and position despite recent budget shortfalls in sales tax revenues.”
(Standard & Poor’s, January 21, 2005)
- “Moody’s believes the City’s success in maintaining financial stability during the recent recession is a credit positive, as management and policymakers were able to control spending without severely affecting municipal services.”
(Moody’s, January 20, 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	\$1,168	1.60%	AA+	\$2,517	3.32%
Arlington	\$841	2.06%	AA	\$2,418	5.92%
Corpus Christi	\$342	1.17%	A	\$800	2.73%
Dallas	\$601	1.09%	AA+	\$1,559	2.84%
Fort Worth	\$651	1.60%	AA+	\$1,833	4.51%
Houston	\$961	1.92%	AA	\$3,014	6.01%
San Antonio	\$636	1.93%	AA+	\$2,316	7.04%

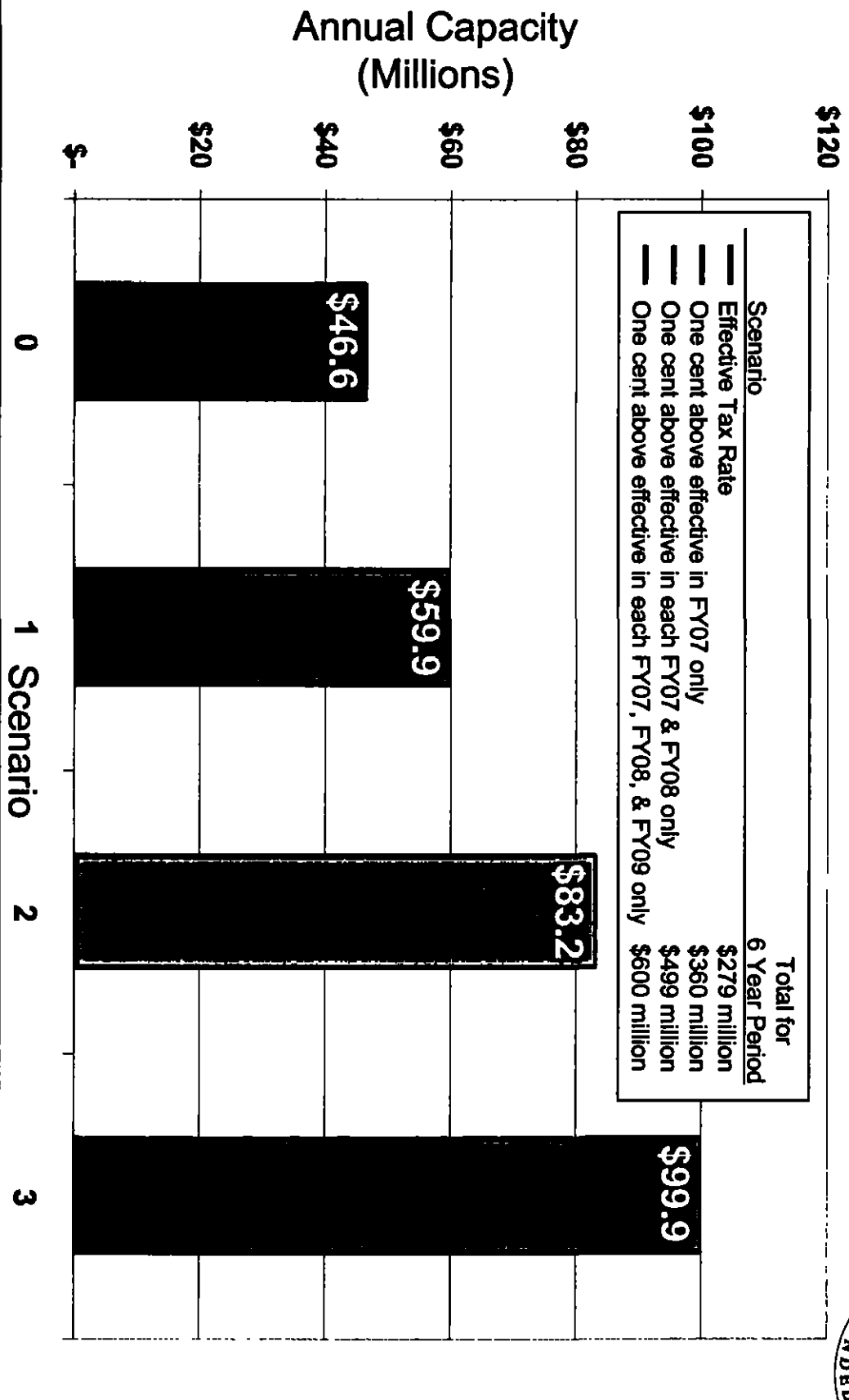
* Source: Fiscal Year 2003 CAFRs (latest available)

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 07 only
 - One Cent above effective in each FY 07 and FY 08 only
 - One Cent above effective in each FY 07, FY 08 and FY 09 only
- Three factors were used to examine each option
 - New bonding capacity
 - Debt per capita
 - Debt to assessed value (AV)

New Bonding Capacity

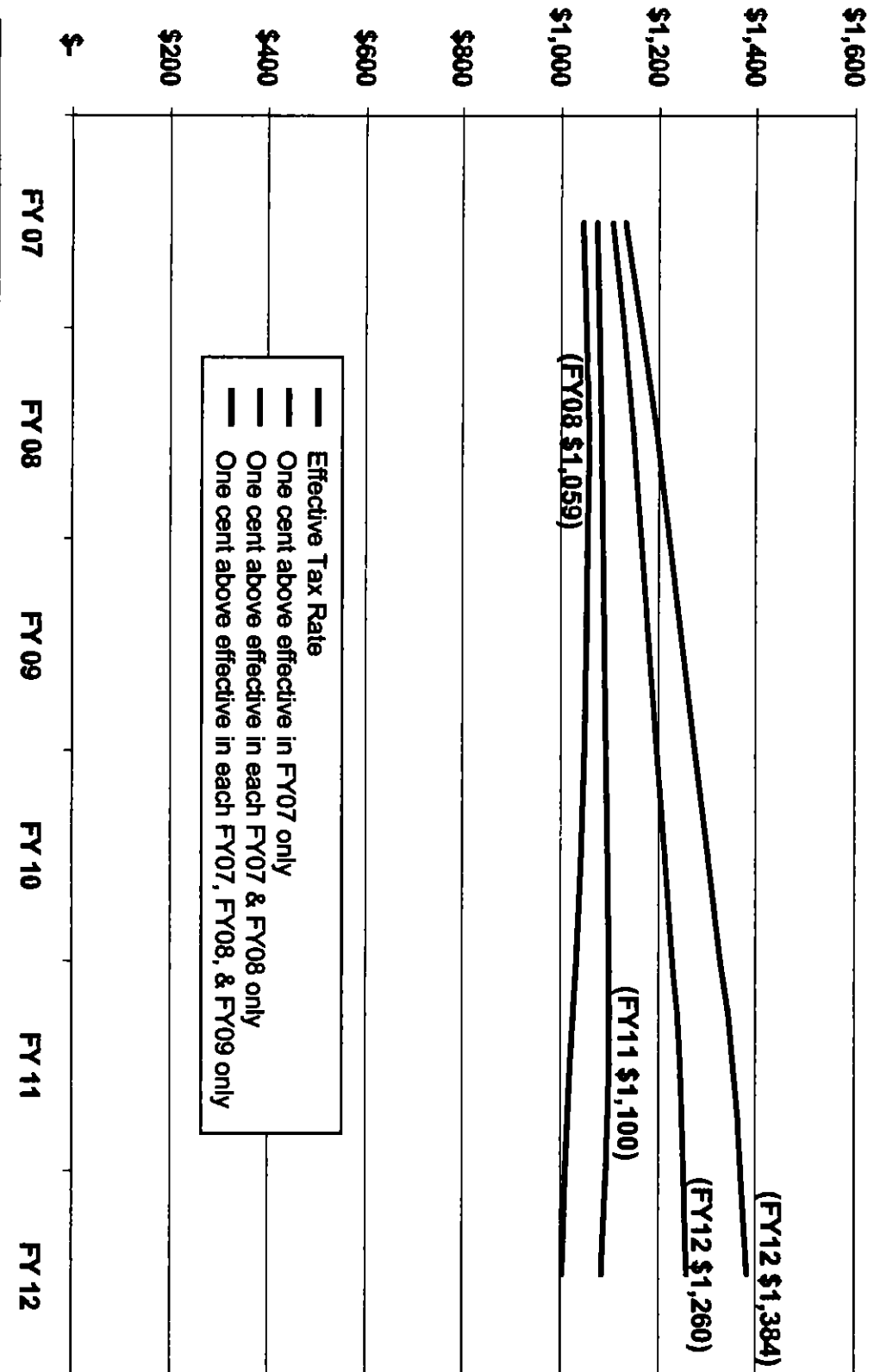


Austin Historical Comparison



	% Increase in Population	% Increase in Assessed Value
Actual 1996-2005	29%	114%
Projected 2007-2016	18%	24%

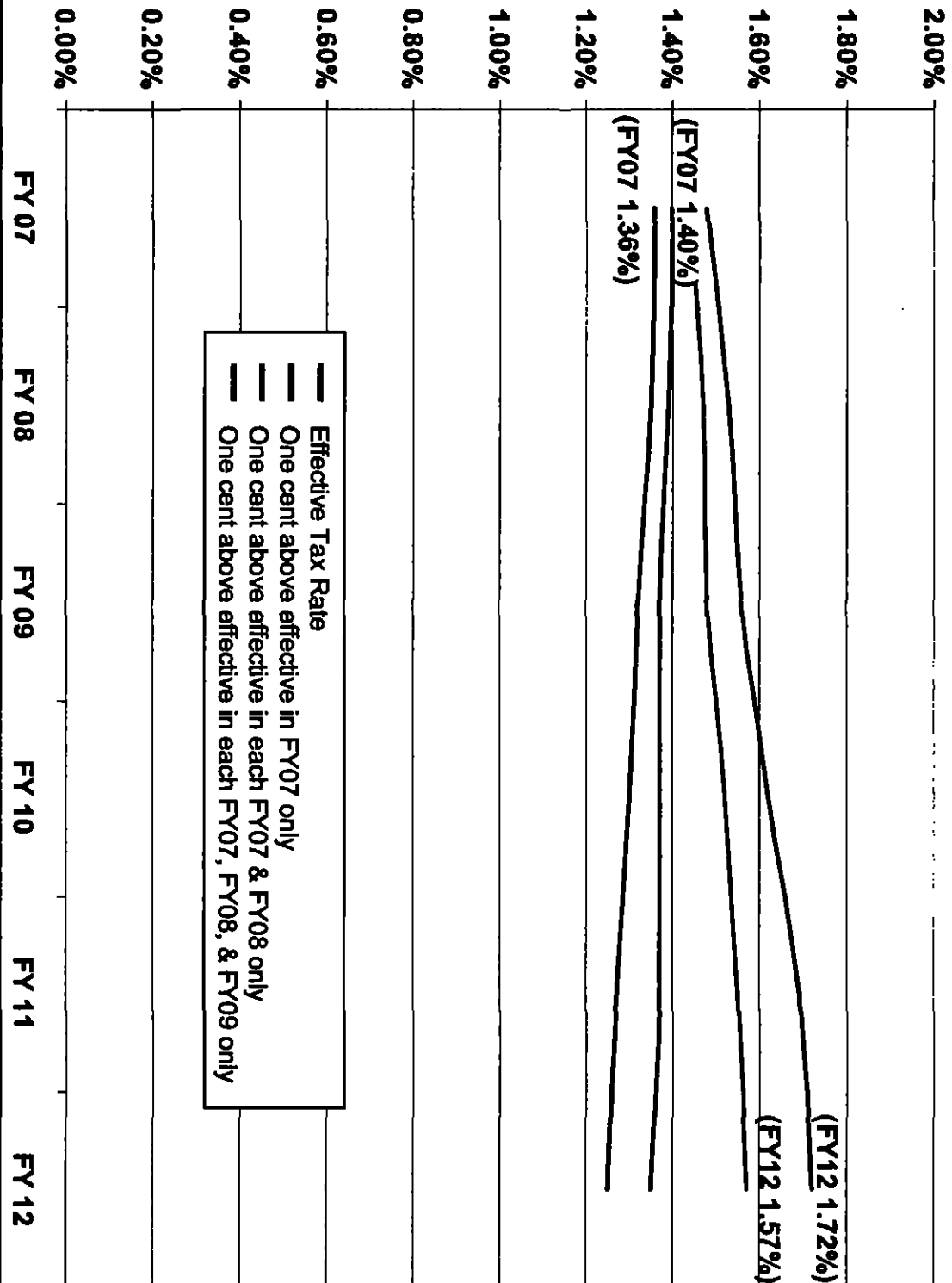
Debt per Capita



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Debt to Assessed Value



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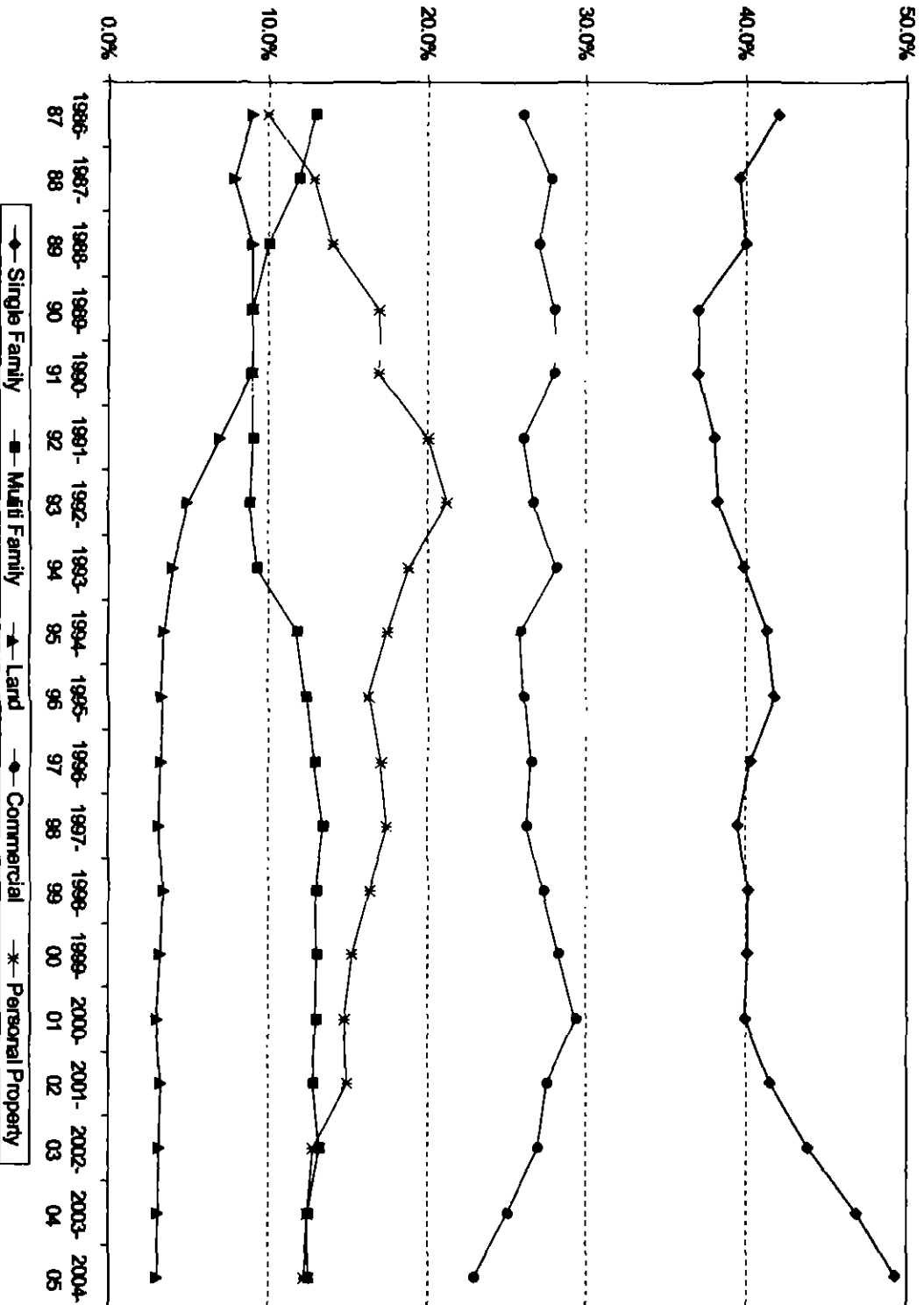
Rating Agency Comparison



	Debt per Capita	Debt to AV
Moody's Median of 32 Cities (Population greater than 500,000)	\$1,194	2.10%
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 FY07 only	\$1,100	1.40%
Austin's highest value from one cent above effective tax rate in each FY07 & FY08 only	\$1,260	1.57%
Austin's highest value from one cent above effective tax rate in each FY07, FY08, & FY09 only	\$1,384	1.72%

Austin Historical Comparison

AUSTIN HISTORIC ASSESSED VALUATION by Type



March 10, 2005

Financial and Administrative Services



Operation & Maintenance Costs associated with New Facilities

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

Next Steps



- March 24th – Preliminary Needs Assessment
- April 14th – Financial Forecast