

James F. Gilley

From: James F. Gilley
Sent: Thursday, February 13, 2020 12:53 PM
To: Amber Lewis; Abel Campos
Cc: Spook Willoughby; David Holland; Julie Petersen
Subject: Tax Rate Analysis - GO Bonds \$10 Million & \$15 Million
Attachments: Presentation - Rollingwood Tax Rate Analysis GO Bond Issuance \$10 & \$15 Million (2-13-20).pdf

Amber and Abel,

Attached as requested is a tax rate analysis on a general obligation bond issuance assuming a successful bond election in November of this year with a bond sale taking place in late summer or early fall of 2021 in time for the City to factor the future debt service into the following year's budget and tax rate. As instructed we have provided two scenarios of a \$10 million issuance and a \$15 million issuance, both at 30 year amortizations. Page 1 shows a summary of the assumptions used, the City's outstanding debt service, and also lists the estimated FY 2022 tax rates (highlighted) to pay the debt service for both scenarios. Pages 2 and 3 detail the debt service and tax rate calculations for Scenarios I and II. Scenario I assumes bank qualified ("BQ") interest rates, and we estimate the proposed debt service would require an I&S tax rate of \$0.0473 in FY 2022 for a total I&S rate (including existing debt service) of \$0.1331. This assumes that all of the City's outstanding debt and proposed debt is to be paid from property taxes.

Scenario II assumes non-BQ rates and we estimate that the proposed debt service would require an I&S tax rate of \$0.0730 in FY 2022 for a total I&S rate of \$0.1588. One factor to consider when planning for such a bond election and capital improvement project is, when possible, to take advantage of lower BQ interest rates as compared to non-BQ. Recall that when the City designates a bond issuance as BQ, it is affirming that it will not issue tax-exempt financings (including leases) in excess of \$10 million in that calendar year. Any investor who purchases BQ debt essentially gets a tax break on the interest income received and therefore is willing to offer lower interest rates than on a non-BQ issuance. Depending on when the City needs funding it may be more economical to split the voted authorization into separate BQ issuances. For example with a \$15 million voted authorization, the City could issue \$7.5 million in one calendar year and \$7.5 million in the next. This may not always be practical depending on the construction schedule, but it is worth considering.

As I mentioned above it appears as though all of the City's outstanding debt is paid from the I&S tax levy. Since the majority of the City's outstanding debt (the Series 2012A and Series 2019, which refunded the Series 2012B) was used to fund the acquisition of the utility system from LCRA, the City might consider using utility system revenues to pay all or a portion of that debt service. Some issuers like Rollingwood adopt the strategy of identifying as 'self-supporting' any debt that is used to fund income producing improvements like a utility system. Since the utility system generates income from water and sewer fees, those fees could be used to pay the debt service on the Series 2012A and 2019. According to our records a portion of the Series 2014 issue was used to fund street and drainage improvements, and since streets and drainage do not produce income (aside from any drainage fees) it is reasonable to pay those bonds out of I&S taxes. If any of the projects under consideration for the proposed November 2020 election include improvements to the utility system, the City might consider using utility system revenues to pay that portion of the debt service. This strategy of reallocating utility revenues to pay a portion of the existing and/or proposed debt service could mitigate a tax rate increase needed to fund the November 2020 election debt. Presumably this would require an increase in utility rates, but the City might consider implementing a utility rate increase schedule now in anticipation of issuing bonds in the next few years. This could also have a positive impact on a bond rating since rating agencies view it as a credit positive when each of the City's funds stand alone. In other words the General Fund should not be subsidizing the Enterprise Funds via interfund transfers, and vice versa

(except for formalized franchise charges, etc.) This may or may not be in keeping with the City's vision, but I would be happy to discuss this further and provide cash flow analyses to demonstrate the effect of such an approach.

Please let me know if you have any questions at all or if you would like to see any additional scenarios.

Thank you,

James Gilley, Jr.
U.S. Capital Advisors LLC
300 W 6th St, Suite 1900
Austin, TX 78701
Direct 512.813.1110
Internal Extension 110
Toll Free 888.635.USCA
Cell 713.516.8804
Fax 512.605.3848
www.uscallc.com