Council Member Brown:

Please provide the resulting estimated Rollingwood tax rate and the associated % increase to the current Rollingwood tax rate assuming bond issues in the amounts of $5M, $8M, $10M, and $12M, for the term of years that US Cap Advisors would recommend for the bonds, and with the debt service restructure that US Cap Advisors would recommend. And if there are any other variables needed, I am happy to trust their judgment on it. If they could also address timing of and interest rates on the sale/issuance in the current market, that would also be great.

See tax rate analysis to be provided.

See attached page 1 of the Tax Rate Notice, and chart at the bottom that I have marked up. Please ask US Capital Advisors if they could add three columns to this chart, to show for each debt issue: remaining balance, term (meaning when principal will be extinguished using existing payment/interest schedule) and the current interest rate.

See attached Current Year DS Spreadsheet.

Council Member Robinson:

What is our current credit rating?

Standard & Poor's Rating Services: 'AA' with a stable outlook (see attached report)

Would we be issuing General Obligation bonds? Since the water projects are tied to the RW's water utility service, would you advise using Revenue Bond instead? Why or Why not?

The decision of which debt instrument to issue is a decision for Council. Revenue Bonds could be issued to fund the utility system improvements, however Revenue Bonds are more expensive to issue as compared to tax-backed debt. Revenue Bonds typically have a lower bond rating (likely would be around A+ for Rollingwood) as compared to tax-backed debt and, therefore, would likely receive higher interest rates. Furthermore there are often bond covenants that would make these less efficient than tax-backed debt (e.g. reserve fund requirement, rate covenant, additional bonds test). However there are issuers who make the decision to fund all utility improvements through a revenue bond issuance.

Would we be issuing term bonds with sinking fund payments?

We would offer the bonds for sale as serial maturities; however it is possible that an investor who offers to purchase the City's bonds would designate some maturities as term bonds for pricing purposes. Regardless, any term bonds would still be paid by the City as though they were serial bonds (i.e. the City would make semi-annual interest and annual principal payments).

What would be the target coupon rate for these bonds?

Depending on the final term of the bonds, we conservatively estimate an average interest rate in the range of 4.0-4.5%. However, investors would be invited to bid their own coupon and yield structure for pricing purposes.

Would interest payments be due annually, semi-annually?

Interest payments would be due on a semi-annual basis, 2/1 and 8/1 of every year, and principal would be due on an annual basis on 8/1 of every year. This is in keeping with the payment schedule on the City's outstanding debt.

Please describe how the pricing these bonds would work? Would we be selling at par value?
In the current market we expect that the bonds would be sold at a net premium to the City.
Would these bonds be callable?
In the current market, a 9-year call feature is common and we would specify a 9-year call unless otherwise instructed by the City. It is possible to request a shorter call feature for the City's bonds, but that could have an adverse impact on the City's borrowing rate. The City should weigh the flexibility of a shorter call feature against having a higher borrowing rate.
I'm assuming we considering uninsured bonds? Can you talk to the difference between insured and uninsured bonds? And is there anything here we should consider?
We expect that these bonds would be purchased by an investor without insurance. Bond insurance is considered a credit enhancement, and it is the investor's decision whether or not to purchase insurance on some or all maturities. The two major bond insurance providers currently maintain a rating through S&P of AA, which is equivalent to the City's bond rating. Therefore we do not expect that bond insurance would be of interest to any investor.
Can you show us what the current yield curve looks like?
Attached yield curve estimated as of 8-3-22
What term length do you recommend we should we be considering for these bonds? 15 year, 20 year, longer?
I am reticent to recommend a term for the City's bond issuance since this depends on many factors outside of our scope of expertise. The term should be appropriate to the useful life of the improvements and should result in debt service affordable to the City. For example, a new city hall might reasonably be expected to last for at least 30 years, and so a 20-30 year financing term might be appropriate. Furthermore if the City's engineers expect waterlines to last at least 30 years, then that also might be a reasonable financing term. However if drainage improvements are expected to only last 20 years before maintenance is required, a shorter term might be more prudent. It is possible to structure the bond issuance so that the portion of debt attributable to shorter-lived assets is paid off more rapidly than the portion of debt attributable to longer-lived assets.
I'm assuming these would be fixed-rate bonds, correct?
Once sold, the annual debt service payments would be fixed and would not be variable.
Can you provide charts (or table) showing what our debt service would look like over time if we issue either 5.3 million or 17 million in new bonds?
See tax rate analysis to be provided.
Can you talk to the amortization schedule for these bonds? Are there alternative schedules we could/should consider? We have some bonds coming due in the next year or two. If we wanted to keep our debt service relatively flat, how could be do that?
It is possible to some extent to defer some principal payments toward the back end to "shape around" existing debt service to minimize the impact on the tax rate. However, my understanding is that the City must retire every year a minimum of 2% of the total principal amount of the issuance. The City's existing debt payment drops off by about $310,000 from 2027-2028, so it could be possible to use this drop off to manage the tax rate, depending on the final borrowing amount. Of course, deferring principal does increase the overall interest paid over the life of the debt.

A common amortization structure is level debt service in which the annual payments are all relatively equal. Another structure is level principal (or declining) in which the same amount of principal is retired every year which results in lower annual payments every year since the principal is more aggressively retired. The upfront payments would be larger as compared to level debt service, but it results in lower interest charges and a declining I&S tax rate (unless additional debt is issued).

Can you calculate what the average homeowner will pay annually to support servicing this new debt in both cases above?

See tax rate analysis to be provided.

What would the I&S rate and Total Tax Rate need to be to support this new debt? What is the percentage increase for current tax rates?

See tax rate analysis to be provided.

Can you provide us with some analysis of our current debt ratios and how these would be impacted by this additional debt? Specifically, I'm interested in these ratios:

1) debt ratio, 2) debt per capita ratio, 3) collection ratio, and 4) coverage ratio.

See attached. Note that coverage ratio typically applies when cities issue Revenue Bonds, and this is a measure of, for example, the utility system's net revenues as a ratio of the annual debt service. I expect that Rollingwood levies taxes to collect revenues to just cover its annual tax-backed debt service by a factor of 1.0 with perhaps some additional "cushion".

How do these ratios compare to other municipalities? Are we better, worse, same?

See attached list of S&P AA rated cities in Texas with outstanding debt, debt per capita, and debt per assessed valuation. While Rollingwood does rank in the top with respect to debt per capita, it falls in the middle of the pack in terms of debt per AV. Also refer to the most recent rating report from S&P, page 5, section discussing 'Weak debt and contingent liability profile'. While this is the City's weakest point from a credit perspective, it is also one of the credit factors that carries the least weight in determining the City's bond rating. Most important in the credit analysis is the economy and the City's management practices and procedures. The City can mitigate, to some extent, its debt profile by paying debt for utility improvements with utility revenues. It is a bit of a double-edged sword since Rollingwood is land-locked with limited potential for population growth, but it still has infrastructure needs, and rating agencies like to see issuers who take proactive steps to address capital projects.