



DEBT
WORK SESSION
APRIL 3, 2018



DEBT OVERVIEW

DEBT OVERVIEW | TERMS

- City issues debt to finance large, long term items
 - Infrastructure
 - Streets
 - Utility infrastructure
 - Parks and trails
 - Buildings
 - Large equipment
- Most commonly backed by property taxes or a specific revenue type



- Types of Debt
 - **General Obligation Bond (GO)**-Backed by the full faith and credit of the City. Must be approved by voters through an election
 - **Certificates of Obligation (CO)**-Backed by the full faith and credit of the City. Requires approval by City Council
 - **Revenue Bonds**-Backed by a specific type of revenue



DEBT OVERVIEW | TERMS

- CO's are defined as tax supported debt
 - The bonds are backed by a pledge of property taxes
 - When CO's are issued for Enterprise fund projects, revenue from these funds is used to pay the debt service, not property taxes
 - Utility rates are set to pay the debt service for the CO bonds issued for the enterprise fund projects
- When we refer to outstanding debt, we are referring to the outstanding principal balance of the debt





CURRENT DEBT

CURRENT DEBT

CURRENT DEBT

Of the \$304.7M in outstanding City debt, \$228M or 75%, uses funding sources other than property tax to pay the annual debt service.

Debt supported by property taxes totals \$76.7M.



CURRENT DEBT

CURRENT
GENERAL FUND
DEBT

| Outstanding Debt | Purpose of Debt | Debt Service Source |
|------------------|---------------------------------|---|
| \$5.8M | Hotel Conference Center Project | Rent payments from JQ Hammons |
| \$8.5M | Hotel Conference Center Project | 2% Venue tax and 100% HOT collections from Embassy Suites |
| \$28.9M | Wonder World Extension | TxDot |
| \$76.7M | General Fund CO bonds | City of San Marcos tax payers |

\$119.9M

Total debt serviced by the
General Fund Debt Service Fund



CURRENT DEBT | OVERALL DEBT

Chart published by Community Impact November 14, 2017

A side-by-side comparison of San Marcos' 2015 and 2016 debt

San Marcos Debt 2015 | San Marcos Debt 2016

| | | | |
|-------------------------------|----------------------|-------------------------------|----------------------|
| 2015 Population | 58,892 | 2016 Population | 61,980 |
| Population % Change 2005-2014 | 48.4% | Population % Change 2007-2016 | 16.9% |
| Tax-Supported Debt | \$232,240,000 | Tax-Supported Debt | \$351,197,318 |
| Revenue-Supported Debt | \$38,110,000 | Revenue-Supported Debt | \$37,831,732 |
| Lease-Purchase Obligations | \$0 | Lease-Purchase Obligations | \$0 |
| 2015 Total Debt | \$270,350,000 | 2016 Total Debt | \$389,029,050 |
| Debt Per Capita 2015 | \$3,943 | Debt Per Capita 2016 | \$5,666 |

Total outstanding **principal** of tax-backed debt.

Total outstanding **principal and interest** of tax-backed debt.



Source: Texas Bond Review Board

CURRENT DEBT

GENERAL FUND
DEBT

State law and the City's financial policy sets limits for the total outstanding General Fund debt principal. The principal balance cannot exceed the following percentages of the current year's taxable assessed value.

- State Limit-Total outstanding debt principal cannot exceed an amount equal to 10% of assessed value
- City Financial Policy-Total outstanding debt principal cannot exceed an amount equal to 5% of assessed value
- Current FY18 outstanding principal balance-Equal to 1.7% of assessed value
 - \$4.6 billion assessed valuation
 - \$76.7 million in outstanding general fund debt



CURRENT DEBT

PEER CITY
COMPARISON

| | Total Assessed Value (billions) | Total GF Tax Supported Debt (millions) | Total Debt (millions) | GF Debt % of Total Assessed Value | Debt Portion of Tax Rate (cents) |
|-------------------|---------------------------------|--|-----------------------|-----------------------------------|----------------------------------|
| Seguin | \$1.9 | \$84.9 | \$126.2 | 4.5% | 25.3 |
| San Marcos | 4.6 | 76.7 | 304.7 | 1.7% | *25.4 |
| New Braunfels | 6.5 | 154.3 | 154.3 | 2.4% | 20.0 |
| Georgetown | 7.3 | 132.6 | 283.4 | 1.8% | 22.7 |
| Cedar Park | 7.9 | 183.6 | 230.5 | 2.3% | 22.4 |
| Waco | 8.7 | 105.6 | 395.9 | 1.2% | 11.6 |
| College Station | 8.9 | 169.6 | 308.6 | 1.9% | 22.0 |
| Denton | 10.3 | 167.4 | 977.7 | 1.6% | 20.8 |
| Round Rock | 12.5 | 206.7 | 374.4 | 1.7% | 14.2 |



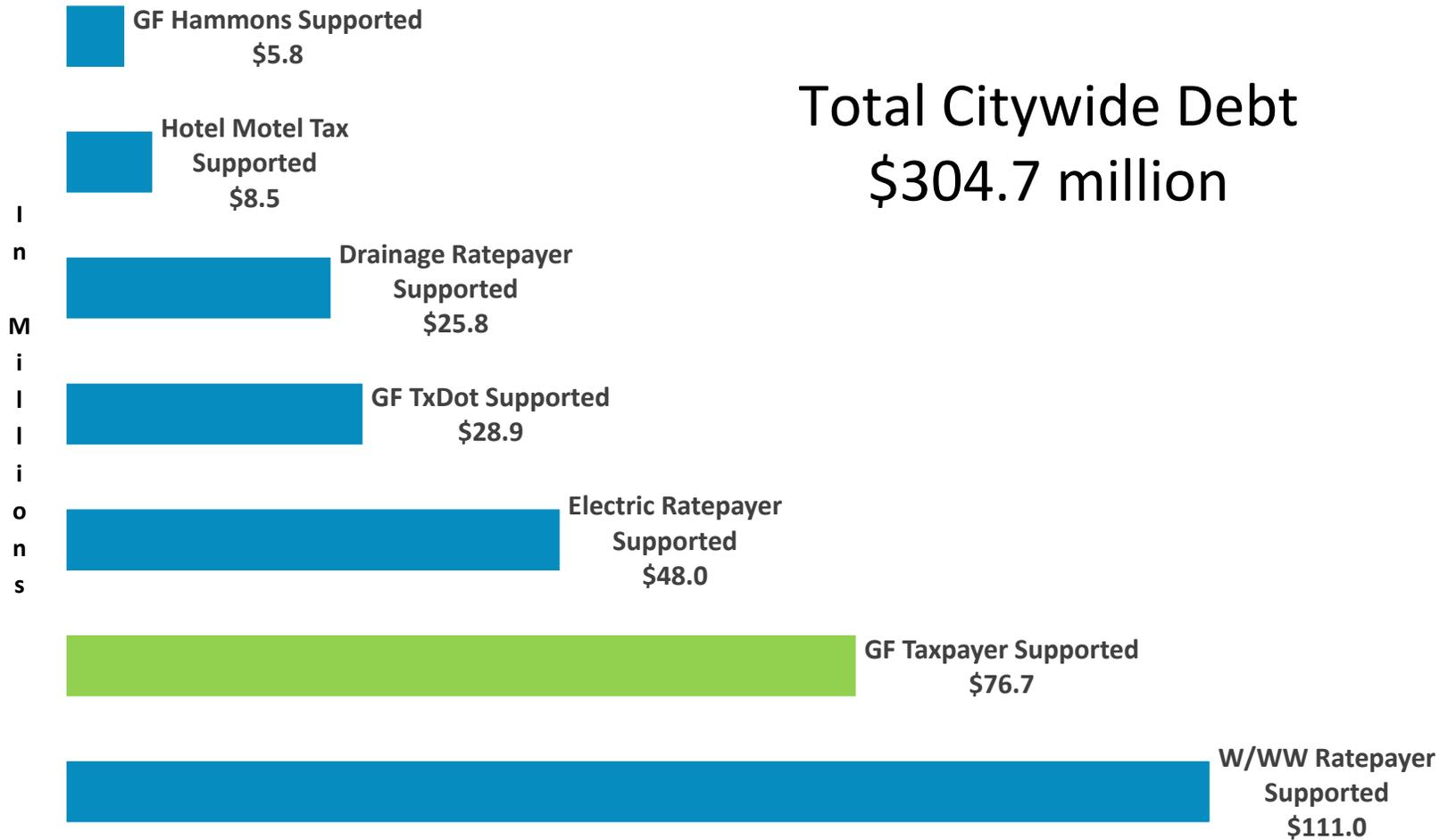
Rapidly growing city's tend to carry more debt than mature city's due to infrastructure needed to support the growth.

*This includes approximately 4.6 cents that is to be used to pay for the voter approved bond's that have not been issued to date. The tax rate needed to service the existing debt is 20.8 cents.

- In 2008, the City evaluated the benefits of issuing Certificates of Obligation (CO's) instead of Revenue Bonds to fund capital improvement projects for the Enterprise funds
 - CO bonds could be issued at a lower interest rate versus Revenue Bonds due to the stronger credit rating of the General Fund
 - CO bond covenants do not require the Enterprise funds to maintain the 1.2 times coverage, which lessened rate pressures



CURRENT DEBT | TOTAL DEBT



CURRENT DEBT

HISTORICAL GENERAL FUND DEBT BALANCES

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Outstanding Debt | 78.0M | 81.8M | 76.5M | 71.8M | 70.4M | 71.4M | 71.1M | 75.0M | 76.1M |
| Debt Service | 8.3M | 8.8M | 8.0M | 7.9M | 7.9M | 8.9M | 8.8M | 9.1M | 9.1M |
| Debt Issued | 8.6M | None | None | 3.5M | 5.9M | 5.7M | 9.8M | 7.2M | *14.7M |

*Estimated CO debt



CURRENT DEBT

OTHER
OBLIGATIONS

- **Fleet Leases**

- Began leasing general fund light fleet vehicles in 2016
- Rolled program out to all funds in 2017
- Vehicles replaced on a 5 year cycle with equity created at lease end credited against next lease term

- **Equipment financing**

- Taken advantage of low financing costs and financed larger pieces of equipment instead of issuing longer term bonds
- Current outstanding balances through 2024

- General Fund \$1.4M
- Drainage \$376K
- Water/Wastewater \$242K



CURRENT DEBT

INITIATIVES TO
MINIMIZE DEBT

- Moved CIP/Engineering Department from debt funded to General Fund operations
- Increased operating budget for street overlay and maintenance from \$400K to \$1.6M
- Added sidewalk maintenance and improvements to General Fund operations
- Created a budget for routine maintenance and equipment replacement
 - Parks, Facilities, IT, Fire, and Police
- Began annual sweep of Enterprise fund balance in excess of financial goal to Cash fund CIP projects





FY 2018 DEBT

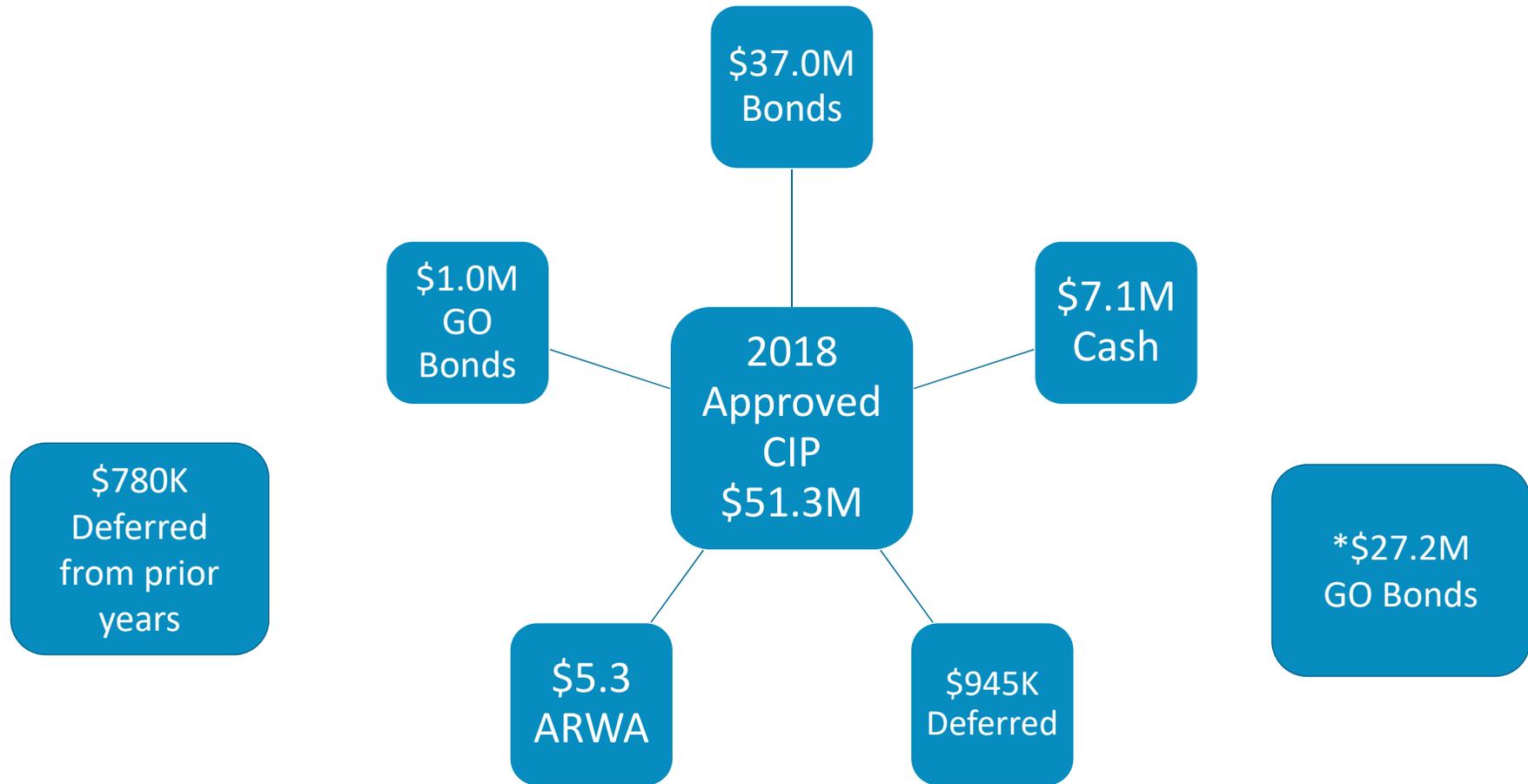
Approved 2018 CIP Projects

| | |
|----------------|----------------|
| • General Fund | \$16.3M |
| • Wastewater | \$ 4.0M |
| • Water | \$10.9M |
| • Stormwater | \$10.6M |
| • Electric | \$10.0M |
| Total | \$51.8M |



FY 2018 DEBT

CIP PROJECTS
FUNDING DETAIL



Total CO debt to be issued by the City for 2018 is approximately \$38M.

*Funding for GO bond projects that are expected to be started in the next three years

FY 2018 DEBT | BOND PROCESS

Timeline of bond issue

- April 3-Notice of Intent to Sell
- April 8/15-Notice of Intent to Sell published
- Week of April 30-Ratings Agency Conference Call
- Week of May 14-Pricing for negotiated sale
- May 15-City Council consider a Delegation Ordinance authorizing CO and GO issuance



FY 2018 DEBT | GO BONDS

- Payments for GO bonds will be structured to have a payment in FY 2018
 - Bond payments are usually structured to begin in the subsequent fiscal year
 - Payment in FY 2018 will use the tax revenue generated by assessing the tax rate to the full rate for the 2018 budget



FY 2018 DEBT

BOND PROCESS

We are confident that Standards and Poors will affirm the City's AA rating, which we have maintained since 2014. This rating is only two levels below the highest rating of AAA.

S & P contributed the following factors to affirming the AA rating last year:

- Strong economy
- Very strong management with strong financial policies and practices
- Strong budgetary performance
- Very strong budgetary flexibility
- Very strong liquidity
- Strong institutional framework





FUTURE DEBT

FUTURE DEBT

PLANNING FOR
FUTURE DEBT

- Prepare the 10 year CIP plan for all funds annually
- First 5 years of 10 year CIP is semi-constrained based on:
 - Debt capacity
 - Update General Fund forecast annually based on current forecasts and trends
 - Water/Wastewater, Electric, and Stormwater Management funds capacity determined through the annual rate modeling
 - Engineering's capacity to manage projects
- First year is adopted by City Council during the budget process



FUTURE DEBT

ANTICIPATED
FUTURE DEBT

General fund debt is anticipated to be constrained at an average of \$10M per year for at least the next five years

- Financial modeling during the bond process included maintaining capacity for the General Fund's portion of future City Hall and Public Services facility improvements/expansion
- Rising construction costs and slowing sales tax growth will affect this capacity so there may have to be further constraints to maintain capacity for facility improvements/expansion



FUTURE DEBT

ANTICIPATED
FUTURE DEBT

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| General Fund | \$16.3 | \$5.9 | \$12.2 | \$9.8 | \$18.4 | \$18.9 | \$15.9 | \$10.8 | \$14.2 | \$17.9 |
| Water | 10.9 | 35.9 | 6.3 | 52.1 | 16.4 | 3.5 | 4.1 | 3.9 | 10.2 | 12.5 |
| Wastewater | 4.1 | 9.5 | 9.6 | 12.5 | 10.9 | 21.7 | 9.8 | 13.1 | 1.2 | 1.7 |
| Stormwater | 9.6 | 11.2 | 19.3 | 14.1 | 12.9 | 3.3 | 6.4 | 2.5 | 6.1 | 2.2 |
| Electric | 10.0 | 7.9 | 5.3 | 1.7 | 4.8 | 3.7 | 3.7 | .1 | .1 | .1 |
| Total | \$50.9 | \$70.4 | \$52.7 | \$90.2 | \$63.4 | \$51.1 | \$39.9 | \$30.4 | \$31.8 | \$34.4 |

Amounts do not include funds for City Hall Complex expansion or General Fund portion of the Public Services/Community Services Complex





CONCLUSION

CONCLUSION

CLOSING
SUMMARY

- General Fund tax supported debt levels are currently less than in 2010
- Implemented sound financial policies and initiatives to limit issuing debt by funding expenses in the operating budget
- Have used conservative budgeting and long term forecasting to ensure the City is fiscally responsible
 - Outstanding General Fund outstanding debt is well below the allowed percentage in the financial policy
 - General Fund debt balance is less than many of our peer cities
- Continue to closely monitor the financial trends and update the forecasted capacity in the General Fund and modify CIP plans as needed
- Continue to explore alternative financing options to minimize outstanding debt





QUESTIONS??