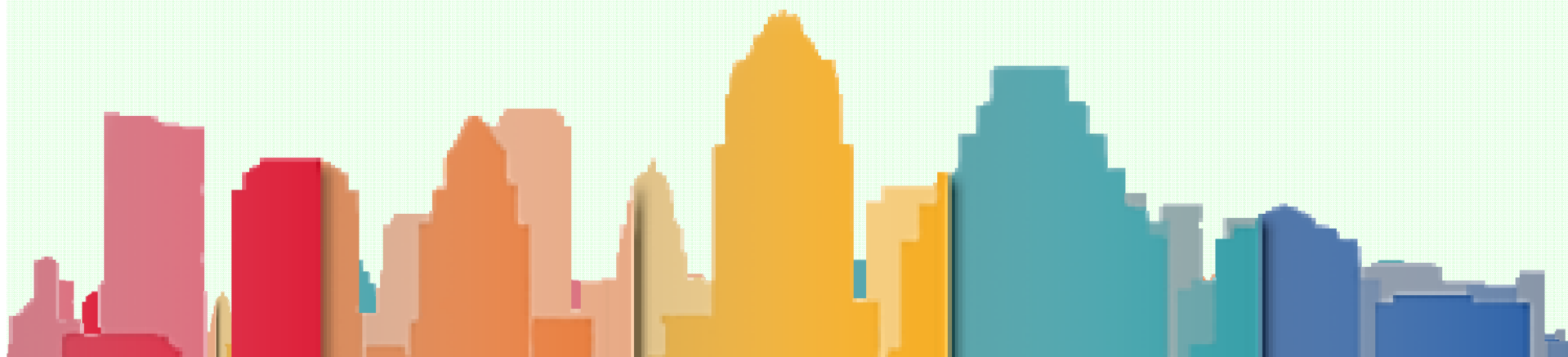


# Debt and the City of Austin

Carla Steffen, Bond Program Coordinator





# AGENDA

## Looking Ahead

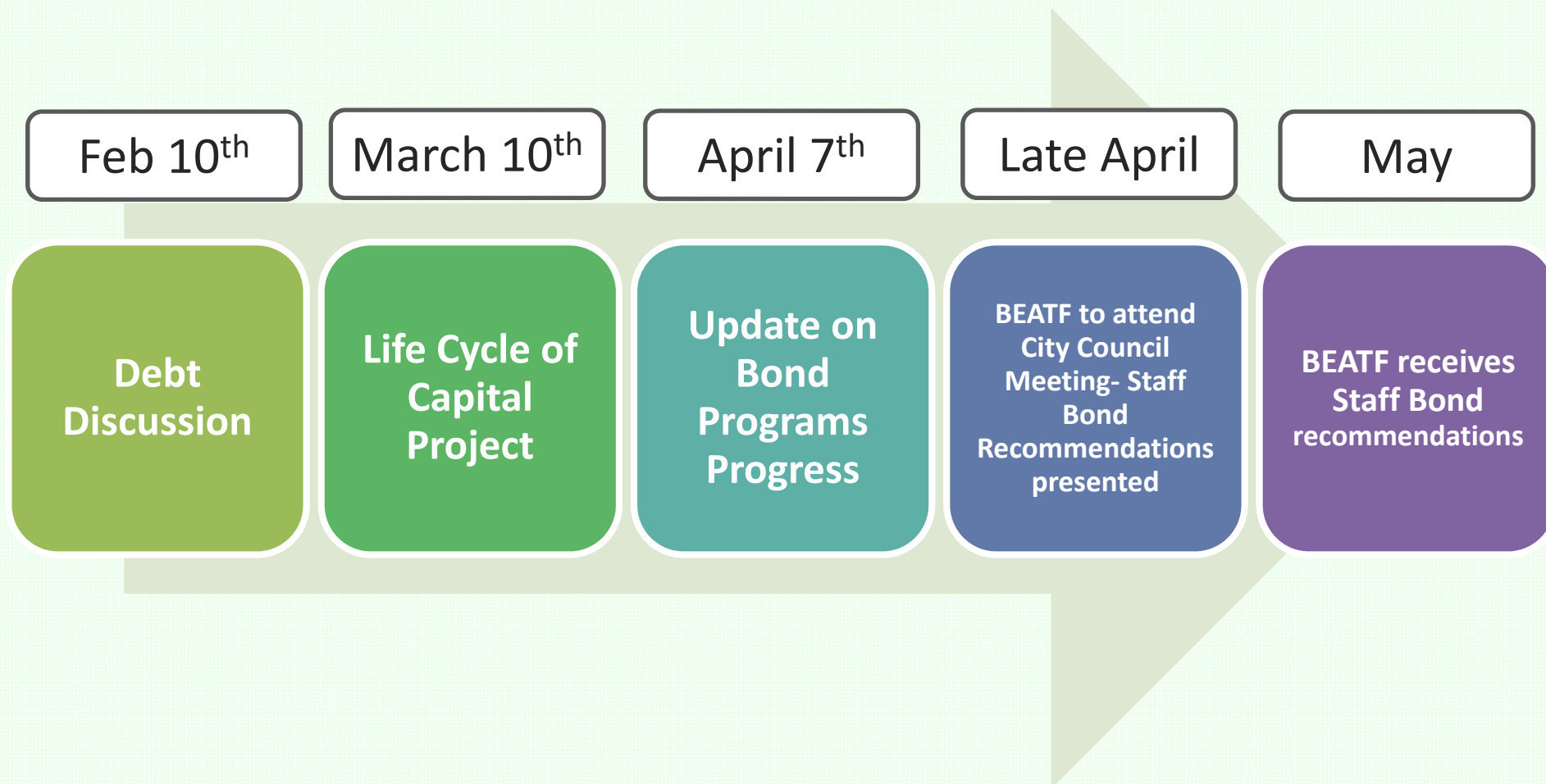
## Debt Discussion

- Funding Sources- Capital Projects
- Analyzing Bond Capacity
- Selling Debt

## Resources



# Looking Ahead

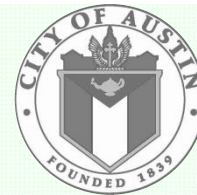




# Funding Sources - Capital Projects







# CIP Funding Sources

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Cash

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Grants

---

Debt

| Types of Debt                    | Purpose  | Voter Approval | Term          |
|----------------------------------|--|----------------|---------------|
| Public Improvement Bonds (PIBs)  | Capital assets                                 | Yes            | 20 Years      |
| Certificates of Obligation (COs) | Real property; off-cycle capital needs         | No             | 10 – 20 Years |
| Contractual Obligation (KOs)     | Equipment                                      | No             | 5 – 10 Years  |
| Commercial Paper (CP)*           | Capital assets                                 | No             | 270 Days      |
| Revenue Bonds*                   | System improvements; Refund CP to longer terms | No             | 20 – 30 Years |

\* CP Utilized by AE and AW; Revenue Bonds utilized by AE, AW, Aviation, and Convention Center





# General Obligation (G.O.) Debt

- Public Improvement Bonds, Certificates of Obligation, and Contractual Obligations
  - \$1.5 billion in outstanding G.O. debt currently
    - \$1.2 billion is repaid by property tax revenue (“tax-supported”)
  - Issued once per year in August prior to setting the tax rate
  - Revenue pledge – backed by property tax (ad valorem) and “full faith and credit” of the City

| Types of G.O. Debt                | Purpose  | Voter Approval   | Term (Years) |
|-----------------------------------|--|--|--------------|
| Public Improvement Bonds (PIBs)   | Capital Improvement Projects and Capital Assets        | Yes  | 20 Years     |
| Certificates of Obligations (COs) | Real Property, Capital Assets; Off-cycle capital needs | No; requires election if petition signed by 5% of qualified voters | 20 Years     |
| Contractual Obligations (KOs)     | Personal Property (Equipment, Vehicles, Technology)    | No   | 5 – 10 Years |



# Analyzing Bond Capacity

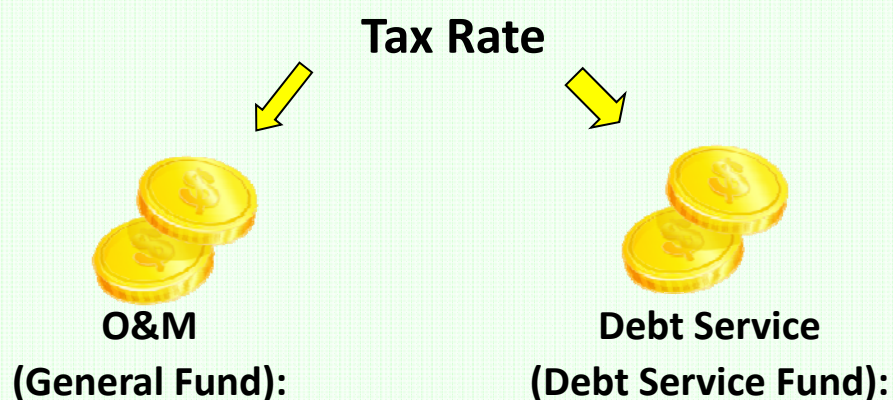






# Property Tax Rate

Property Tax Rate has 2 components:



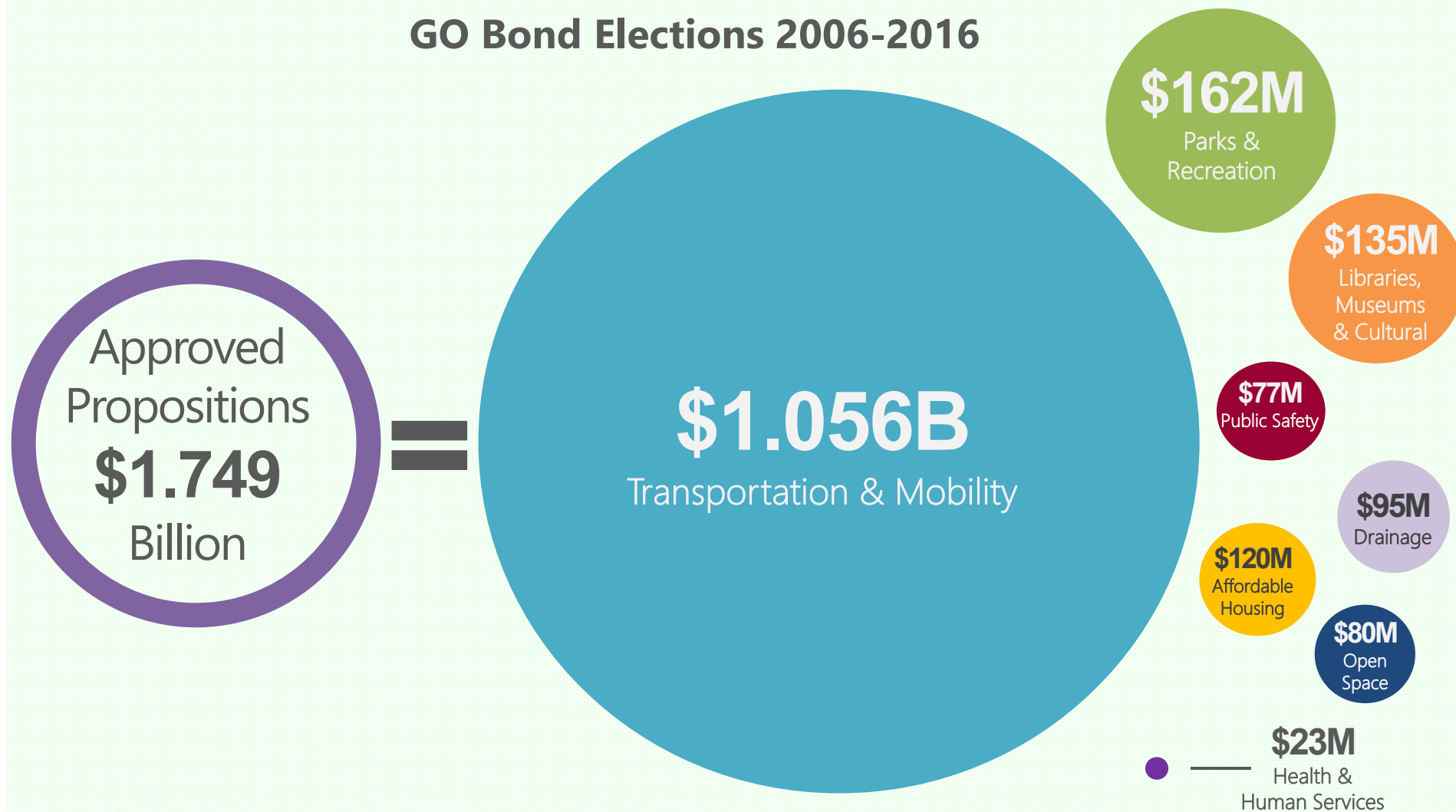
Debt service tax rate set each year at level necessary to fund principal and interest payments on debt that has been issued and pledged with property tax





# BOND HISTORY

GO Bond Elections 2006-2016





# Bond Capacity Analysis

*Why perform  
bond capacity  
analysis?*

- Key element of long-term financial planning
- Promotes understanding of City's existing debt burden
- Facilitates informed decisions about issuance of additional long-term debt
- How future debt issuance will impact City's financial condition
- Opportunity to review financial policies on debt
- Allows for more effective capital project prioritization during capital planning






# Factors to Consider

- Rating agency criteria, City's financial condition, financial policies, current and future infrastructure needs, and community values
- **Debt Service Requirements**
  - Existing debt service requirements
  - Expected future debt issuances
  - Impact on tax rate
  - Debt service as % of General Government expenditures
- **Measure debt burden on community**
  - Debt to Total Assessed Valuation
  - Debt per capita
  - Impact on tax rate
  - Impact on tax bill

# Rating Agencies: *Credit Rating Scale*



| INTEREST RATE   | CREDIT RATINGS       |                              |                                |                                |
|---|----------------------|------------------------------|--------------------------------|--------------------------------|
|   |                      | MOODY'S<br>INVESTORS SERVICE | STANDARD<br>& POOR'S           | Fitch Ratings                  |
| Lowest<br><br>Highest | Investment Grade     | Strongest                    | Aaa<br>Aa<br>A<br>Baa          | AAA<br>AA<br>A<br>BBB          |
|   | Non-Investment Grade | Weakest                      | Ba<br>B<br>Caa<br>Ca<br>C<br>C | BB<br>B<br>CCC<br>CC<br>C<br>D |



# Rating Agencies: *Criteria*



## Tax Supported Debt

| Rating Criteria                  | Moody's<br>Investors Service | Standard and Poor's<br>(S&P)  | Fitch Ratings |
|----------------------------------|------------------------------|---|---------------|
| Institutional Framework          | n/a                          | 10%   | n/a           |
| Economy/Tax Base                 | 30%                          | 30%   | Rated         |
| Management                       | 20%                          | 20%   | Rated         |
| Finance or Financial<br>Measures | 30%                          | 30%<br>(10% each- Liquidity, Budgetary<br>Performance, Budgetary Flexibility) | Rated         |
| Debt & Contingent<br>Liabilities | 20%                          | 10%   | Rated         |
| <b>City's Current Rating</b>     | <b>Aaa</b>                   | <b>AAA</b>  | <b>AAA</b>    |

- Debt – one key factor used by rating agencies in assessing City's overall financial strength
- Austin has maintained these highest ratings since April 30, 2010



# City's Credit Rating

Highest rating of "AAA" on City's General Obligation Bonds since 2010

## MANAGEMENT AND GOVERNANCE

Texas cities have an institutional framework score of "Aa" or strong. Cities rely on moderately stable property taxes (30% - 40%) as well as economically sensitive sales taxes (25% -35%) for their operating revenues, however cities maintain ample flexibility under the state mandated cap to raise property taxes. Expenditures are largely predictable and cities do have great flexibility in reducing expenditures given no union presence.

The City of Austin, is a political subdivision located in Travis, Williamson and Hays Counties, operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1953, as amended. The City operates under the Council/Manager form of government where the mayor (elected at-large) and ten councilmembers (elected from ten single member districts) are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.

**FitchRatings**

**Public Finance**

## Credit Profile

### Rating History — LTBs

| Rating | Action   | Outlook/<br>Watch | Date    |
|--------|----------|-------------------|---------|
| AAA    | Affirmed | Stable            | 8/21/15 |
| AAA    | Affirmed | Stable            | 8/18/14 |
| AAA    | Affirmed | Stable            | 8/20/13 |
| AAA    | Affirmed | Stable            | 8/16/12 |
| AAA    | Affirmed | Stable            | 8/17/11 |
| AAA    | Revised  | Stable            | 4/30/10 |

## Economy Continues to Outperform

Austin continues to be one of the top performing U.S. metro-area economies. The city is the state capital and 'AAA' by Fitch). higher education

**MOODY'S**  
INVESTORS SERVICE

**New Issue: Moody's assigns Aaa to the City of Austin's, TX, Various GOLT Debt Issues totaling \$317.25M; Outlook is stable**

## Austin, Texas

### Limited Tax Bonds New Issue Report

## Ratings

### New Issues

|  |     |
|--|-----|
| Public Improvement and Refunding Bonds, Series 2015                      | AAA |
| Public Improvement Bonds, Taxable Series 2015                            | AAA |
| Certificates of Obligation, Series 2015                                  | AAA |
| Public Property Finance Contractual Obligations, Series 2015             | AAA |
| <b>Outstanding Debt</b>  |     |
| Limited Tax Bonds  | AAA |
| Mueller Local Government Corporation Contract Revenue Bonds, Series 2015 | AA+ |

## Rating Outlook

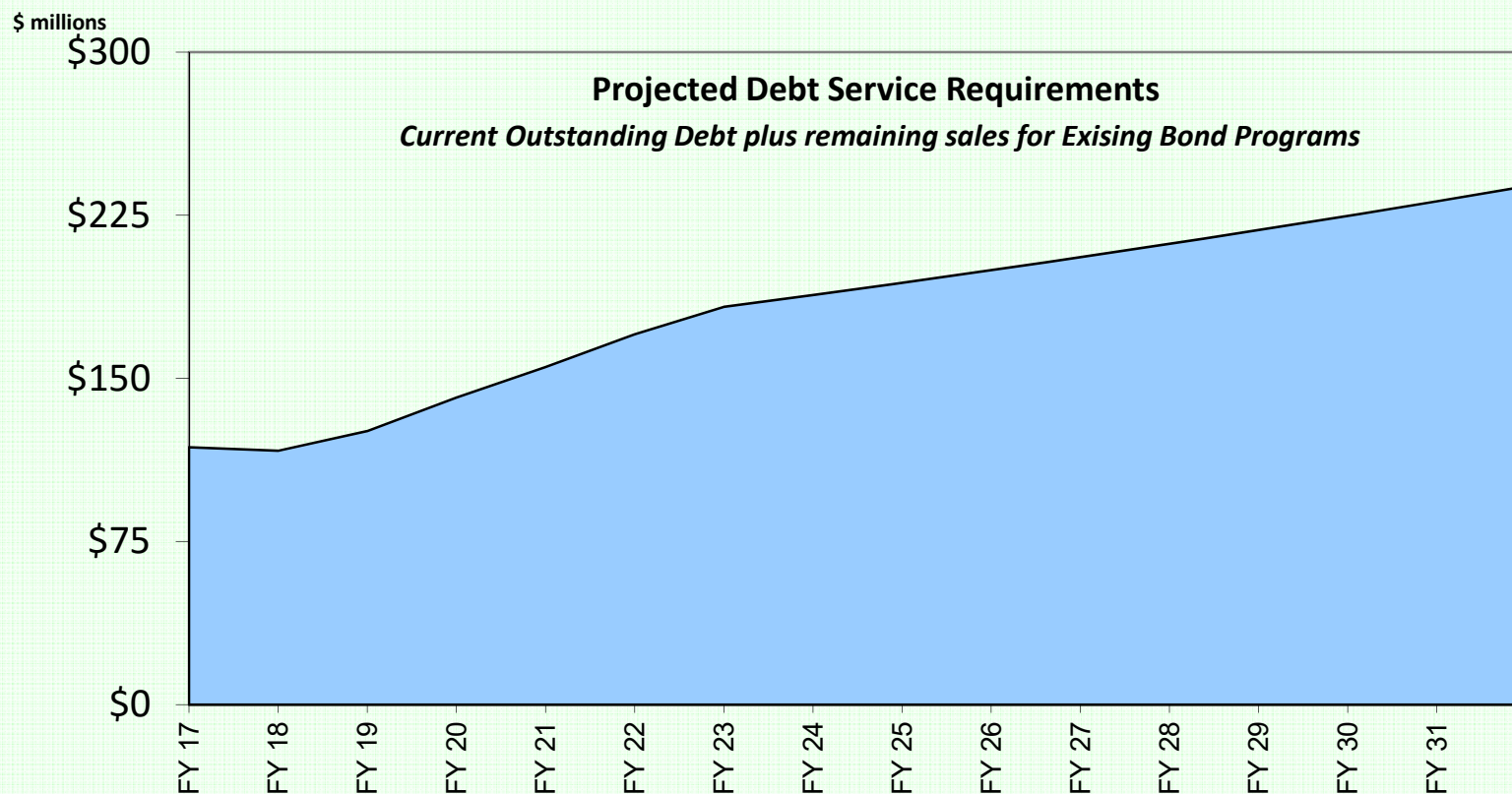
Stable





# Current Debt Structure

- \$866 million in bonds still to be sold for active bond programs





# Debt Capacity: *Assumptions*



Projected FY18 debt service tax rate is starting point for analysis – i.e., “constant” debt rate

Remaining bond sales of \$866 million for existing bond programs

Repay more than 50% of outstanding principal in 10 years

Assessed valuation growth consistent with forecast

Borrowing rates consistent with projected rate environment

Tax rate increase scenarios

- Tax rates increases are spread out over several years

Bonds are sold each year over the course of the 8 years

- City would continue to use Reimbursement Resolutions to fund projects, i.e. appropriate funds in one year, sell bonds in subsequent year

8 Year look at capacity

- Mobility-specific election November 2016
- A comprehensive bond program election in 2017 or 2018





# Debt Capacity: Ex. Scenario Exercise

- Preserved ~\$250 million for a 2018 bond election at the constant debt-service tax rate
  - Additional tax rate increases would be needed for a 2018 bond election larger than \$250 million
- Debt sold over 8 years
- Tax rate increases spread out multiple years beginning in FY18

## 2016 Election

- 1- cent fully implemented by FY19
- 2- cents fully implemented by FY21

| Tax Rate Impact | 2016 Election:<br>New Capacity |
|-----------------|--------------------------------|
| Constant        | \$300 million                  |
| 1-cent          | \$500 million                  |
| 2-cents         | \$720 million                  |



# Debt Capacity: Ex. Tax Bill Impact

Debt service portion of current FY 16 property tax bill for a \$250,000 home is \$265

- If a 1-cent increase all occurred in current year for a \$250,000 house, current year impact is \$25/yr or \$2.08 / month
- Actual tax rate increases would occur over multiple years, as value of that \$250,000 increases:

| <b>Tax Rate Scenario</b> | <b>FY21 Tax Bill vs Current Tax Bill Annual Increase</b> | <b>FY21 Tax Bill vs Current Tax Bill Monthly Increase</b> |
|--------------------------|--|---|
| Constant                 | \$40   | \$3.35  |
| 1-cent                   | \$70   | \$5.88  |
| 2-cents                  | \$100  | \$8.42  |



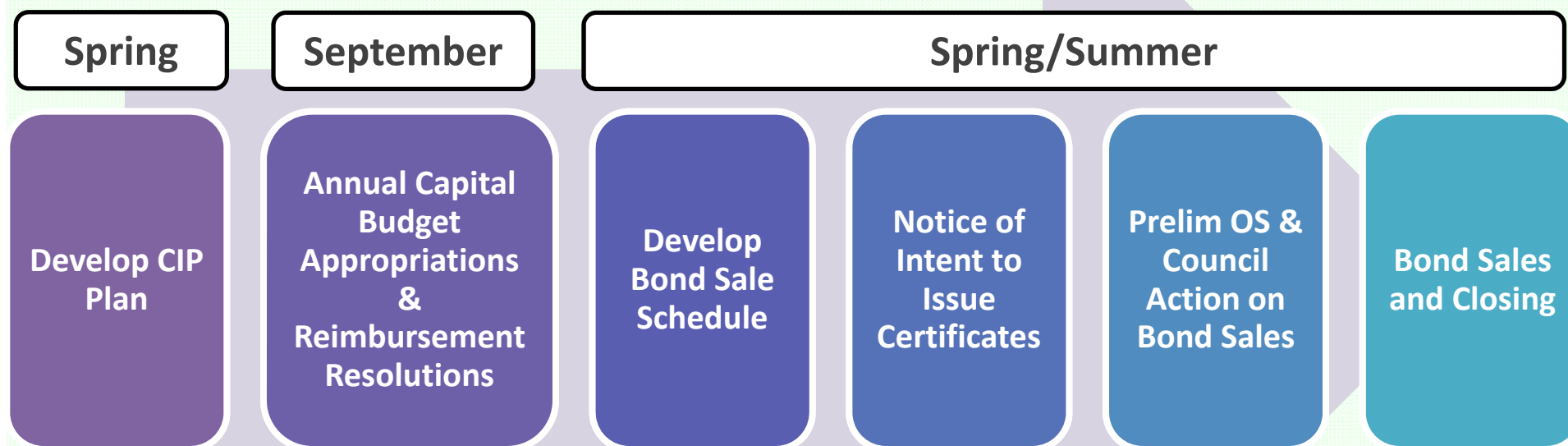




# Selling Debt



# Steps to Sell or Issue Debt





# Selling Debt: An Official Statement



OFFICIAL STATEMENT DATED SEPTEMBER 7, 2016

Ratings: Moody's: "Aaa"  
Standard & Poor's: "AAA"  
Fitch: "AAA"  
(See "OTHER RELEVANT INFORMATION - Ratings")

## NEW ISSUES - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Obligations (defined below) is excludable from gross income for federal income tax purposes under existing law and is not includable in the alternative minimum taxable income of individuals. See "TAX EXEMPTION" in this document for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

**\$98,365,000**  
**CITY OF AUSTIN, TEXAS**  
(Travis, Williamson and Hays Counties)  
Public Improvement and Refunding  
Bonds, Series 2016

**\$44,015,000**  
**CITY OF AUSTIN, TEXAS**  
(Travis, Williamson and Hays Counties)  
Certificates of Obligation, Series 2016

**\$22,555,000**  
**CITY OF AUSTIN, TEXAS**  
(Travis, Williamson and Hays Counties)  
Public Property Finance Contractual Obligations, Series 2016

Dated Date: October 4, 2016

Due: As shown on the inside cover page

Interest on the \$98,365,000 City of Austin, Texas Public Improvement and Refunding Bonds, Series 2016 (the "Bonds"), the \$44,015,000 City of Austin, Texas Certificates of Obligation, Series 2016 (the "Certificates") and the \$22,555,000 City of Austin, Texas Public Property Finance Contractual Obligations, Series 2016 (the "Contractual Obligations") will accrue from the dated date shown above, and in the case of the Bonds and Certificates will be payable March 1, 2017, and each September 1 and March 1 thereafter until maturity or redemption prior to maturity, and in the case of the Contractual Obligations will be payable May 1, 2017, and each November 1 and May 1 thereafter until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds, the Certificates, and the Contractual Obligations are collectively referred to in this document as the "Obligations". The Bonds, the Certificates, and the Contractual Obligations are being offered separately by the City of Austin, Texas (the "City"), and delivery of each issue is not contingent upon the delivery of the other issues. The City intends to utilize the book-entry-only system of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The book-entry-only system will affect the method and timing of payment and the method of transfer of the Obligations. See "OBLIGATION INFORMATION - Book-Entry-Only System" in this document.

The Bonds are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Bonds. The Certificates are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and are additionally payable from and secured by a limited pledge of surplus revenues (not to exceed \$1,000) of the City's solid waste disposal system, as provided in the ordinance authorizing the issuance of the Certificates. The Contractual Obligations are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Contractual Obligations. See "OBLIGATION INFORMATION - Security" in this document.

Proceeds from the sale of the Bonds will be used to refund portions of the City's outstanding general obligation debt shown in APPENDIX D hereto (the "Refunded Obligations") for the purpose of financing various capital improvements (see "DEBT INFORMATION - Anticipated General Obligation Bonds" in this document), and to pay costs of issuing the Bonds and of refunding the Refunded Obligations. Proceeds from the sale of the Certificates will be used to finance various capital improvements and to pay costs of issuing the Certificates. Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment and other personal property for use by various City departments and to pay costs of issuing the Contractual Obligations. See "OBLIGATION INFORMATION - Authority and Purpose for Issuance" in this document.

## MATURITY SCHEDULE

See "MATURITY SCHEDULE" on next page

The Bonds and the Certificates are subject to redemption prior to their stated maturities as described in "OBLIGATION INFORMATION - Optional Redemption of the Bonds and the Certificates" in this document. The Contractual Obligations are not subject to redemption prior to their stated maturity.

The Obligations are offered for delivery when, as and if issued and accepted by the Underwriters, subject to the approving opinions of the Attorney General of the State of Texas and of Andrews Kurth LLP, Austin, Texas, Bond Counsel. See APPENDIX C - "Forms of Bond Counsel's Opinions" in this document. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell LLP, Austin, Texas.

It is expected that the Obligations will be delivered through the facilities of DTC on or about October 4, 2016.

## WELLS FARGO SECURITIES

Raymond James  
BAIRD

HilltopSecurities

Piper Jaffray & Co.  
Estrada Hinajosa

OFFICIAL STATEMENT DATED SEPTEMBER 7, 2016

Ratings: Moody's: "Aaa"  
Standard & Poor's: "AAA"  
Fitch: "AAA"  
(See "OTHER RELEVANT INFORMATION - Ratings")

## NEW ISSUES - Book-Entry-Only

Interest on the Obligations (defined below) is not excludable from gross income for federal income tax purposes under existing law. See "TAX MATTERS FOR THE OBLIGATIONS" in this document.

**\$12,000,000**  
**CITY OF AUSTIN, TEXAS**  
(Travis, Williamson and Hays Counties)  
Public Improvement Bonds, Taxable Series 2016

**\$8,700,000**  
**CITY OF AUSTIN, TEXAS**  
(Travis, Williamson and Hays Counties)  
Certificates of Obligation, Taxable Series 2016

Dated Date: October 4, 2016

Due: As shown on the inside cover page

Interest on the \$12,000,000 City of Austin, Texas Public Improvement Bonds, Taxable Series 2016 (the "Bonds") and the \$8,700,000 City of Austin, Texas Certificates of Obligation, Taxable Series 2016 (the "Certificates") will accrue from the dated date shown above and will be payable March 1, 2017, and each September 1 and March 1 thereafter until maturity or redemption prior to maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds and the Certificates are collectively referred to as the "Obligations". The Bonds and the Certificates are being offered separately by the City of Austin, Texas (the "City"), and delivery of each issue is not contingent upon the delivery of the other issue. The City intends to utilize the book-entry-only system of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. The book-entry-only system will affect the method and timing of payment and the method of transfer of the Obligations. See "OBLIGATION INFORMATION - Book-Entry-Only System" in this document.

The Bonds are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Bonds. The Certificates are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and are additionally payable from and secured by a limited pledge of surplus revenues (not to exceed \$1,000) of the City's solid waste disposal system, as provided in the ordinance authorizing the issuance of the Certificates. See "OBLIGATION INFORMATION - Security" in this document.

Proceeds from the sale of the Bonds will be used to finance various capital improvements (see "DEBT INFORMATION - Authorized General Obligation Bonds" in this document), and to pay costs of issuance of the Bonds. Proceeds from the sale of the Certificates will be used to finance various capital improvements and to pay costs of issuance of the Certificates. See "OBLIGATION INFORMATION - Authority and Purpose for Issuance" in this document.

## MATURITY SCHEDULE

See "MATURITY SCHEDULE" on next page

The Obligations are subject to redemption prior to their stated maturities as described in "OBLIGATION INFORMATION - Optional Redemption of the Obligations" in this document.

The Obligations are offered for delivery when, as and if issued and accepted by the Underwriters, subject to the approving opinions of the Attorney General of the State of Texas and of Andrews Kurth LLP, Austin, Texas, Bond Counsel. See APPENDIX C - "Forms of Bond Counsel's Opinions" in this document. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell LLP, Austin, Texas.

It is expected that the Obligations will be delivered through the facilities of DTC on or about October 4, 2016.

## SIEBERT CISNEROS SHANK & CO., L.L.C.

Piper Jaffray & Co.



# Resources

## AFO – Austin Finance Online

- Proposed and Approved Budgets
- 5-Year CIP Plans
- <https://www.austintexas.gov/financeonline/finance/index.cfm>

## CIVIC – Capital Improvements Visualization & Communication

- <https://austintexas.gov/civic>

## Imagine Austin

- <https://www.austintexas.gov/department/imagine-austin>

## Public Works Project Management

- <https://austintexas.gov/publicworks/capitalimprovement>





*Questions?*

