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City of Sachse

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Overview of Municipal Bonds

Issuance of Debt

Issuance of Bonds for Capital Projects

- Finance projects over their useful lives with a variety of repayment options
- Can finance larger projects on a more timely basis
- Helps minimize impact on property tax and/or user rates
- Future beneficiaries pay their “fair share” for public improvements/services
- Tax-exempt feature provides low cost, long-term financing
- Allows a city access to another revenue stream, the Interest & Sinking Fund tax rate
 - Outside of rollback

Alternatives to Issuing Debt

- Use cash reserves – can have credit implications, cash flow concerns
- Defer purchases/improvements – may deter growth, may cost issuer more in long run in the form of lost assessed valuation or economic development
- Pay-as-you-go
 - Budget for excess revenues over time to use for capital projects/improvements
 - May be difficult for large projects due to inability to have funds on hand to enter into construction project
 - Does not allow you to leverage cash flow
 - Puts majority of cost on current user, not future user
 - City may consider a reimbursement resolution; allows for City to reimburse cash spent on project through the issuance of debt

Issuance of Bonds – When, What For and How Much

- When?
 - Typically when funds are needed
 - Not uncommon to issue earlier if interest rates warrant

- What For?
 - For a municipality, typically for public purposes
 - Useful life of greater than 1 year

- How Much?
 - Cost of the project(s)
 - Legal constraint
 - Voter constraint

- Debt component is only one factor of the rating process

Considerations When Issuing Debt

- **Debt Structure and Timing**
 - Planning for the future
 - Does the term match the asset life?
 - Deferral of principal
 - Call feature
 - Ability to achieve the lowest true interest cost while maintaining future flexibility

- **Credit Ratings**

- **Disclosure**
 - Timing
 - Materiality
 - Consistency and accuracy

Types of Bonds

General Obligation Bonds “GOs”

- Requires bond election for authorization
- Issued for any public purpose
 - Real Property
 - Personal Property
 - Legal Judgment
 - Land Acquisition
- Legal limit of 40 years; however, City typically finances debt over 25 years or less
- Secured in Texas by issuer’s ad valorem taxing power
 - Viewed as City’s most secure obligation
 - Home Rule City - up to \$2.50 tax (\$1.50 I&S) as determined by City Charter
- Attracts lowest interest rate
- I&S tax rate to pay back debt service is not subject to rollback

Certificates of Obligation “COs”

- Requires no voter authorization
 - A petition signed by 5% of the registered voters can force an election
- Notice of Intent to Issue is required
 - Includes 1) general list of projects, 2) not-to-exceed par amount and 3) Council meeting date of sale
 - Published in the local paper on the same day of two consecutive weeks
 - First publication must be at least 45 days prior to sale date
- When secured by an ad valorem tax and a revenue pledge, they can be issued for the same lawful purposes as GOs
- Sell at interest rates similar to GO bonds
- I&S tax rate to pay debt service is not subject to rollback

Tax Notes

- Require authorization by ordinance and have a maximum maturity of seven years

- Secured by the following sources:
 - Pledge of anticipated ad valorem taxes or revenues
 - Proceeds from bonds previously authorized but not yet issued
 - Current revenue sources

- Issued to finance the following:
 - May be used for any public purpose, just like GO bonds
 - Pay contractual obligations incurred for professional services
 - Fund cash flow short fall (must be repaid following year)

- Sell at interest rates similar to GOs

- I&S tax rate to pay debt service is not subject to rollback

Summary of Debt Options

	General Obligation Bonds	Certificates of Obligation	Tax Notes
Public Approval	Bond Election; Council Approval of Sale	Council Approval of Notice of Intent; Council Approval of Sale	Council Approval of Sale
Security/Pledge	Taxes Only	Taxes and Revenues	Taxes and/or Revenues
Other Considerations	If the Election fails, how does the City Address Needs?	Subject to Petition by 5% of Registered Voters	Maximum Maturity of 7 Years
Ratings	Highest Rated Credit for a City Based on Ad Valorem Tax Pledge		

Professionals Involved in the Debt Issuance Process

Summary of Professionals

	Financial Advisor	Bond Counsel	Underwriter	Texas Attorney General
Responsibilities	Advises the City on all financial matters related to capital improvement program and bond issuance	Opines on legal matters related to bond issuance	Firm(s) tasked with marketing and selling the City's bonds	Reviews public bond sales in Texas
	Structure overall finance plan to maximize marketability and minimize borrowing cost	Ensure City is in compliance with State law and Federal tax law	May acquire the securities by either competitive or negotiated sale	Review period is approximately 30 days
	Fiduciary responsibility to the City	Drafting of legal documents; shepherd bond transactions through the AG's office	Fiduciary responsibility is to bond investors, not the City	Once AG has approved the issuance, it is incontestable

Credit Rating Agencies

- Primary Rating Criteria for Tax-Backed Bonds
 - General Economy
 - Finances
 - Management
 - Debt and Contingent Liabilities
 - Institutional Framework
- Moody's and Standard & Poor's assign their credit rating via a scorecard approach

	Moody's Investors Service	Standard & Poor's Rating Service
Highest	Aaa	AAA
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
	A1	A+
	A2	A
	A3	A-
	Baa1	BBB+
	Baa2	BBB
Lowest	Baa3	BBB-

Debt Position and Market Environment

Summary of Debt Position

FYE	TOTAL DEBT			TOTAL WATER/SEWER DEBT			I&S-Backed Debt Service
	Principal	Interest	Total	Principal	Interest	Total	Total
2021	\$ 4,020,000	\$ 1,684,030	\$ 5,704,030	\$ 365,000	\$ 405,763	\$ 770,763	\$ 4,933,268
2022	3,210,000	1,617,731	4,827,731	380,000	393,413	773,413	4,054,319
2023	2,880,000	1,536,621	4,416,621	405,000	379,013	784,013	3,632,609
2024	2,785,000	1,446,857	4,231,857	415,000	362,613	777,613	3,454,245
2025	2,870,000	1,356,325	4,226,325	435,000	345,613	780,613	3,445,713
2026	2,805,000	1,263,575	4,068,575	450,000	327,913	777,913	3,290,663
2027	2,910,000	1,158,900	4,068,900	470,000	309,513	779,513	3,289,388
2028	3,035,000	1,040,000	4,075,000	490,000	290,313	780,313	3,294,688
2029	2,725,000	924,800	3,649,800	510,000	270,313	780,313	2,869,488
2030	2,840,000	813,500	3,653,500	535,000	249,413	784,413	2,869,088
2031	2,955,000	700,350	3,655,350	550,000	230,463	780,463	2,874,888
2032	3,340,000	582,325	3,922,325	570,000	213,663	783,663	3,138,663
2033	3,450,000	467,700	3,917,700	585,000	196,338	781,338	3,136,363
2034	3,560,000	361,350	3,921,350	605,000	178,488	783,488	3,137,863
2035	1,115,000	291,225	1,406,225	620,000	160,113	780,113	626,113
2036	1,150,000	257,250	1,407,250	640,000	141,213	781,213	626,038
2037	1,180,000	221,972	1,401,972	655,000	121,788	776,788	625,184
2038	1,225,000	185,228	1,410,228	680,000	101,763	781,763	628,466
2039	1,260,000	146,825	1,406,825	700,000	80,625	780,625	626,200
2040	1,300,000	106,825	1,406,825	720,000	58,438	778,438	628,387
2041	1,340,000	65,203	1,405,203	745,000	35,547	780,547	624,656
2042	1,380,000	21,947	1,401,947	765,000	11,953	776,953	624,994
	<u>\$ 53,335,000</u>	<u>\$ 16,250,540</u>	<u>\$ 69,585,540</u>	<u>\$ 12,290,000</u>	<u>\$ 4,864,263</u>	<u>\$ 17,154,263</u>	<u>\$ 52,431,277</u>

Summary of MMD / Interest Rate Environment

