A City of Southlake Project Briefing

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Managing Southlake's Debt

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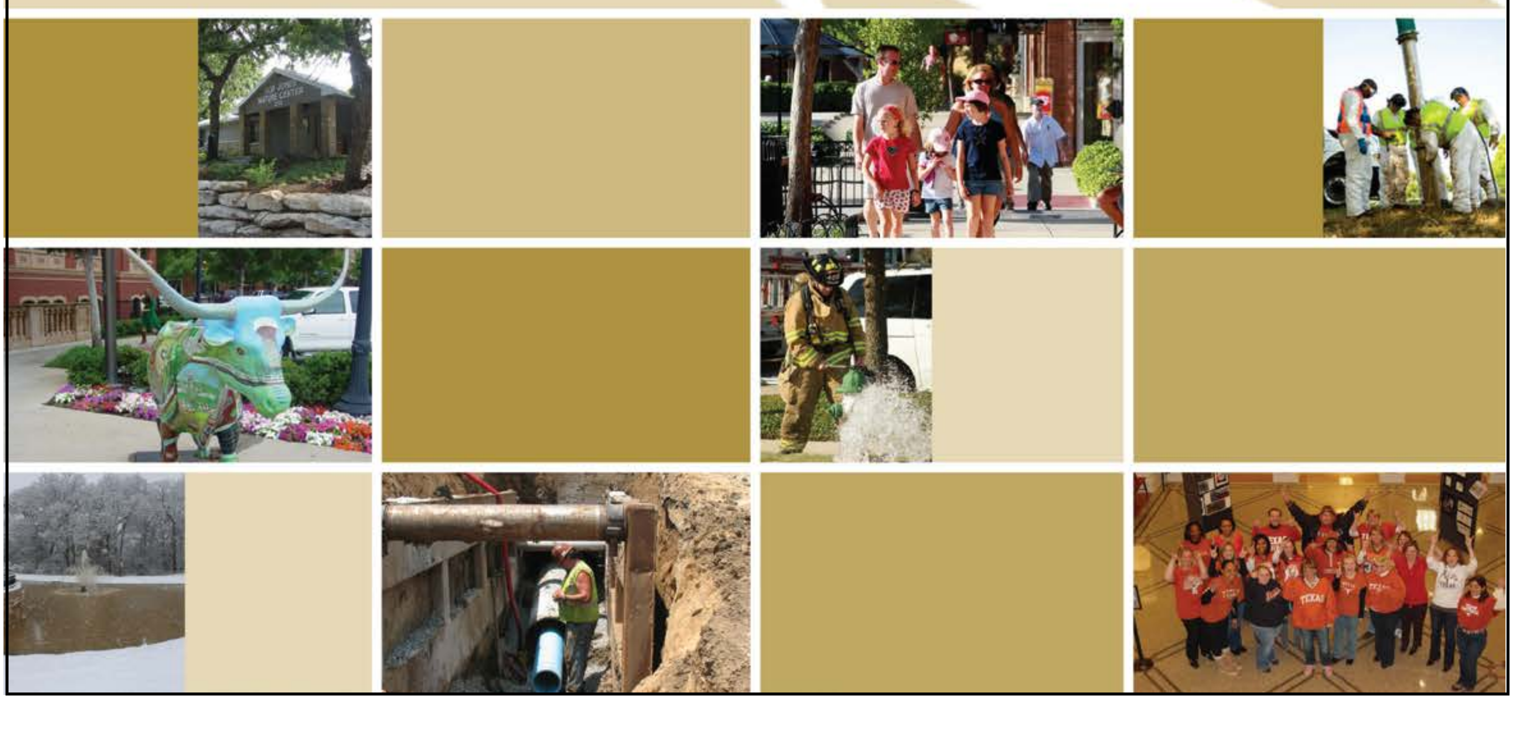
Updated: April 25, 2018



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Project Briefing Purpose

The purpose of this project briefing is to describe the City of Southlake's management of debt as a method of funding important projects, while balancing the use of bonds against strong financial management.

Debt is used to provide for the acquisition and construction of major capital facilities and infrastructure, such as buildings, roads, and water and sewer lines. For projects to qualify for debt issuance they must be a substantial cost to the City and will remain an asset that exceeds the life of the debt incurred to finance it.

The City has a five year funding plan for the purchase, construction, or replacement of physical assets of the City known as the Capital Improvement Program, or CIP. This plan identifies the needed projects, prioritizes them by importance, and identifies the funding source. Ultimately, the CIP aligns available resources to projects, and is approved by the City Council for financing and implementation. The CIP is the basis for the decision to issue bonds and incurring debt.

The City utilizes debt to maintain intergenerational equity and fund large capital projects. Incurring debt allows the city to extend the payment period of major projects like the Marq. This attains intergenerational equity by limiting the overuse of the practice of front-loading the cost onto current taxpayers and paying one-hundred percent cash for assets that have a long-period of life. Additionally, the use of debt allows the City to fund large projects, such as street pavement, that might be unattainable with only current tax revenue funding.

The power to borrow money and incur debt is granted through the City Charter, Chapter IX, Section C. Debt Service Funds are established to service interest and principal payments on short and long term debt incurred by the City. The Schedule is the equivalent to a repayment plan for this debt. The City will issue debt in the form of general obligation bonds, certificates of obligation, combination tax and revenue certificates of obligation, and tax notes.

Financial stewardship is one of the four major components of Southlake's strategic model. Careful consideration of the use of debt is central to the City's overall approach to financial management.

Types of Debt

General Obligation (GO) bonds are secured by the full-faith-and-credit and taxing power of the City and typically benefit the community as a whole. GO bonds are paid for by property taxes or other tax sources. They are considered the most flexible of all capital funding sources as they can be used for the design or construction of any capital project.

These bonds are pledged unconditionally to pay the interest and principal balance of the debt. Due to the nature of GO bonds, they may only be increased if authorized by a ballot election. To minimize the need for property tax increases, the City makes every effort to coordinate new bond issues with the retirement of previous bonds.

Certificates of Obligation (CO) bonds are similar to GO bonds, as they are backed by the full-faith-and-credit of the City and are paid for by property taxes or other revenue sources. The major difference is Certificates require no voter approval. This type of debt is utilized to pay for basic level services in the City, such as buildings, roads, and sidewalks.

A recent project funded through Certificate of Obligation bonds is the North White Chapel Boulevard improvement project, which will eventually widen the pavement into a four-lane, divided highway with a median, helping alleviate traffic congestion.

Combination Tax and Revenue Certificates of Obligation are issued for both governmental and business functions. Revenue bonds depend on user charges and other project-related income in addition to taxes to cover their costs.

Revenue bonds are sold for projects that produce revenues, such as those for the water and sewer system. These Certificates are payable from the net revenues of the water and sewer system via utility payments and through the general debt service tax.

One major project in Southlake that was funded through revenue bonds is the Caylor Ground Storage Tank facility, which included the installation of a 48-inch water supply line (Picture 1). The completion of this project has enabled the city to increase its water supply capacity to 36 million gallons per day, meeting a key project goal identified in the Southlake 2030 Water Master Plan.

Picture 1: Caylor Ground Storage Tank Facility Construction

Tax Notes are generally used to cover temporary cash shortfalls that occur when there is a mismatch between cash inflow and disbursement. These temporary notes are issued with a life of less than one year and are often repaid from revenues received in the current year. The City of Southlake does not use tax notes.

Self-Supported Vs. Property Tax-Supported Debt

There are two major distinctions between the types of debt for cities: whether the debt is self-supporting or tax-supported. Self-supporting debt payments are made from special revenues, such as voter-approved sales tax levies, and comprise about two-thirds of City debt (Figure 1).

Alternatively, tax-supported debt is sustained through a percentage of the property tax levied annually. This type of debt is primarily used for construction of local roads and sidewalks, and constitutes approximately one-third of the City's total outstanding debt.

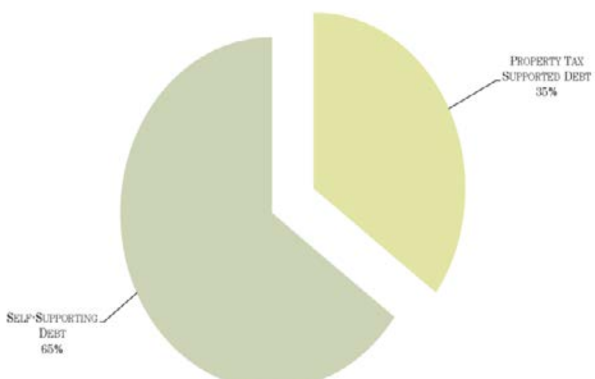


Figure 1: Percentage of Self-Supporting and Property Tax Debt (FY2017)

Self-Supporting Debt

The distinction between self-supporting and tax-supported debt is important because self-supporting debt has specific revenue streams earmarked for certain bond repayment. Revenue bonds are the main type of self-supporting debt.

A revenue bond will secure a limited pledge of revenue sources to the repayment of the bond. This ensures that the bond is repaid through charges resulting from the use of the service, meaning those who consume the benefit of the service are the ones to pay for it. For example, water utilities in Southlake are paid based on use, and not through a flat fee. The revenue made from utility charges is then partially used to support the debt incurred to provide that water. Taxpayers not using the service are not required to help pay off the debt, resulting in a more equitable payment system.

The City currently has voter-authorized sales tax levies for the upkeep and construction of the parks system, community enhancement, and public safety buildings. The City receives $0.02 of sales tax for every dollar spent within the City limits. One of these pennies goes to the General Fund and is used for general city operations. The other penny is split between the Crime Control and Prevention District (CCPD), the Southlake Parks Development Corporation (SPDC), and the Community Enhancement and

Development Corporation (CEDC) (Figure 2).

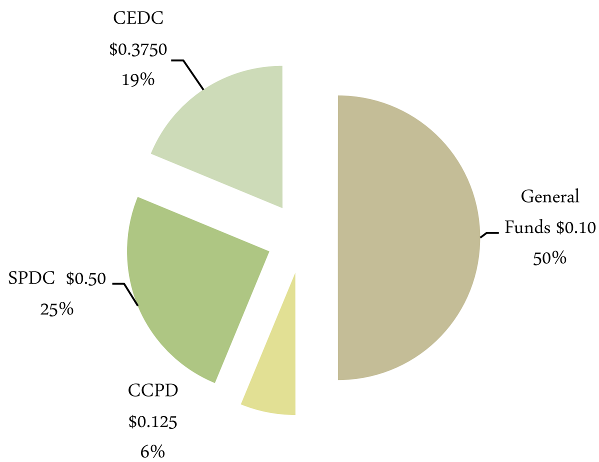


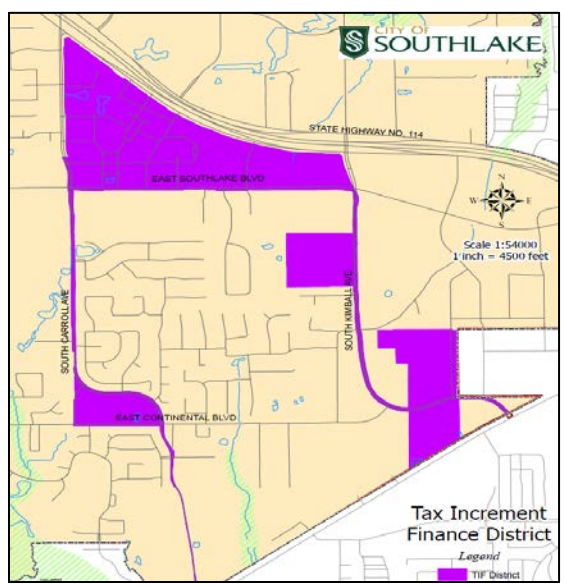
Figure 2: $0.02 Sales Tax Uses (FY 2017)

The CCPD levies a one-eighth cent sales tax that has funded the construction of facilities for the Department of Public Safety (DPS) such as DPS North Training Facility and DPS Headquarters. The SPDC is a half-cent sales tax for the park system and has funded capital projects such as the improvements made to Bicentennial Park. The construction of community development and enhancements like the Marq are funded through the CEDC's three-eighths cent sales tax.

These three units were voted on by the residents, and separate funds were created to account for the revenues and expenditures of each unit. These funds can be used for operational or capital projects within their specialized function. These funds help with the initial cash payments that jump-start many big projects and help alleviate the debt burden.

Debt paid with sales tax levies has the benefit of exporting part of the burden from Southlake residents, as shoppers may not reside in Southlake themselves. In 2016, approximately 75% of the sales tax collected was from nonresidents. Therefore, Southlake residents benefit in the form of beautiful parks and updated police facilities paid for by visitors, rather than through property taxes.

Finally, Southlake has implemented a Tax Increment Reinvestment Zone (TIRZ) located largely in Town Square, represented in purple in Picture 2. The TIRZ primarily uses commercial property taxes to repay the debt incurred for projects in the TIRZ.



Picture 2: Southlake TIRZ

Self-supporting debt does not fall entirely on property owners as tax-supported debt does, making it the generally preferred type of debt.

These projects help shape the community and advance the master plan for the City.

Property Tax-Supported Debt

A portion of the property tax paid annually is dedicated to debt repayment. In 2017, $0.100 of the total tax rate of $0.462 per $100 valuation is dedicated to debt service. This means that for a home with a taxable value of $500,000, $500 of the annual property tax payment would go towards debt service.

These funds are largely used to pay off debt that has been incurred for city infrastructure such as new roadway construction and expansion. Certificates of Obligation are typically issued for these projects.

General Obligation (GO) and Certificates of Obligation Bonds are primarily used to fund the construction of roads, sidewalks, and other types of public facilities that have no revenue-producing capabilities.

GO debt and sometimes Certificates of Obligation Bonds are voter approved, and are backed by the full-faith-and-credit of the City. These bonds are repaid through any means the City has available, including all sources of revenue and taxing powers. Non self-supporting and partially self-supporting GO bonds contribute to the City's net bonded debt, which is a measure of the debt burden on the property of the City.

Pictured below in Figure 3 is a graphical summarization of debt per capita for the FY 2009-2017.

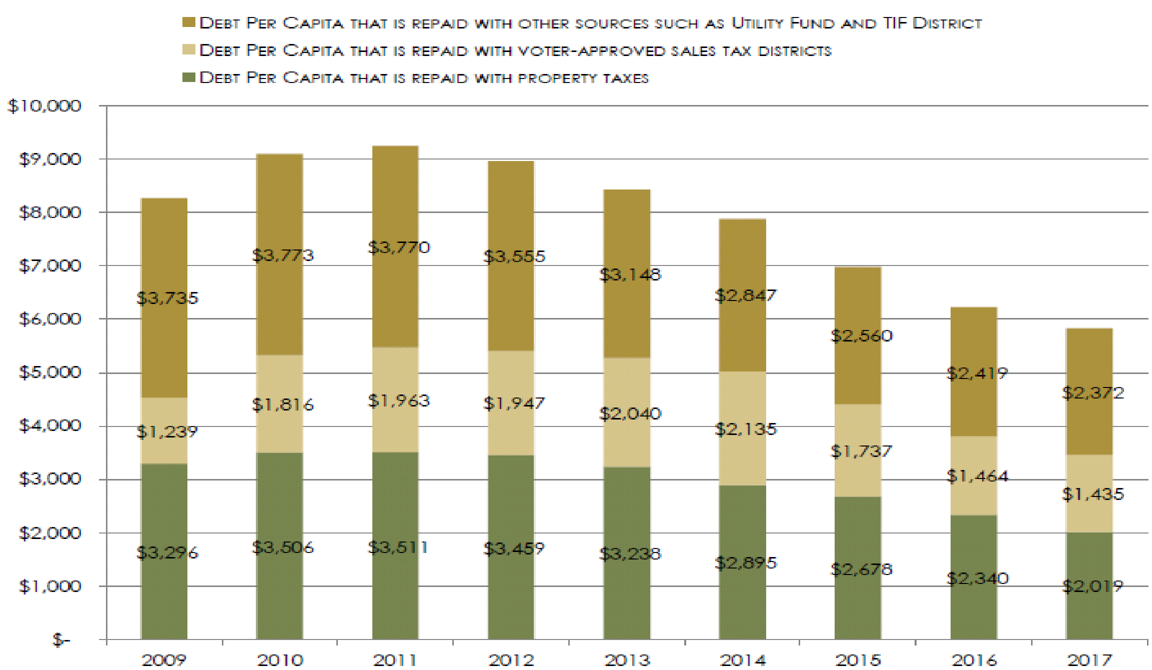


Figure 3: Southlake's Debt Per Capita

Debt Repayment

Southlake has been actively working towards the goal of reducing debt, specifically debt that is backed by property taxes. After setting this goal, the City decreased its total outstanding property tax-supported debt by 36% between the years 2002 and 2017, as seen in Figure 4.

The City has also made it a priority to aggressively amortize debt schedules, meaning a quick repayment plan. For example, with the use of cash funds generated through a sales tax levy, the City was able to repay the entire cost of the DPS North Facility in just four years, with the last payment made in 2017.

By managing amortization in this way, the City pays higher initial debt payments, but reduces borrowing costs overall because interest is paid for a shorter period of time. Ninety-one percent of the total current outstanding property tax-supported debt will be paid off within the next ten years, leaving the City free to pursue other available investments, or implement tax relief measures.

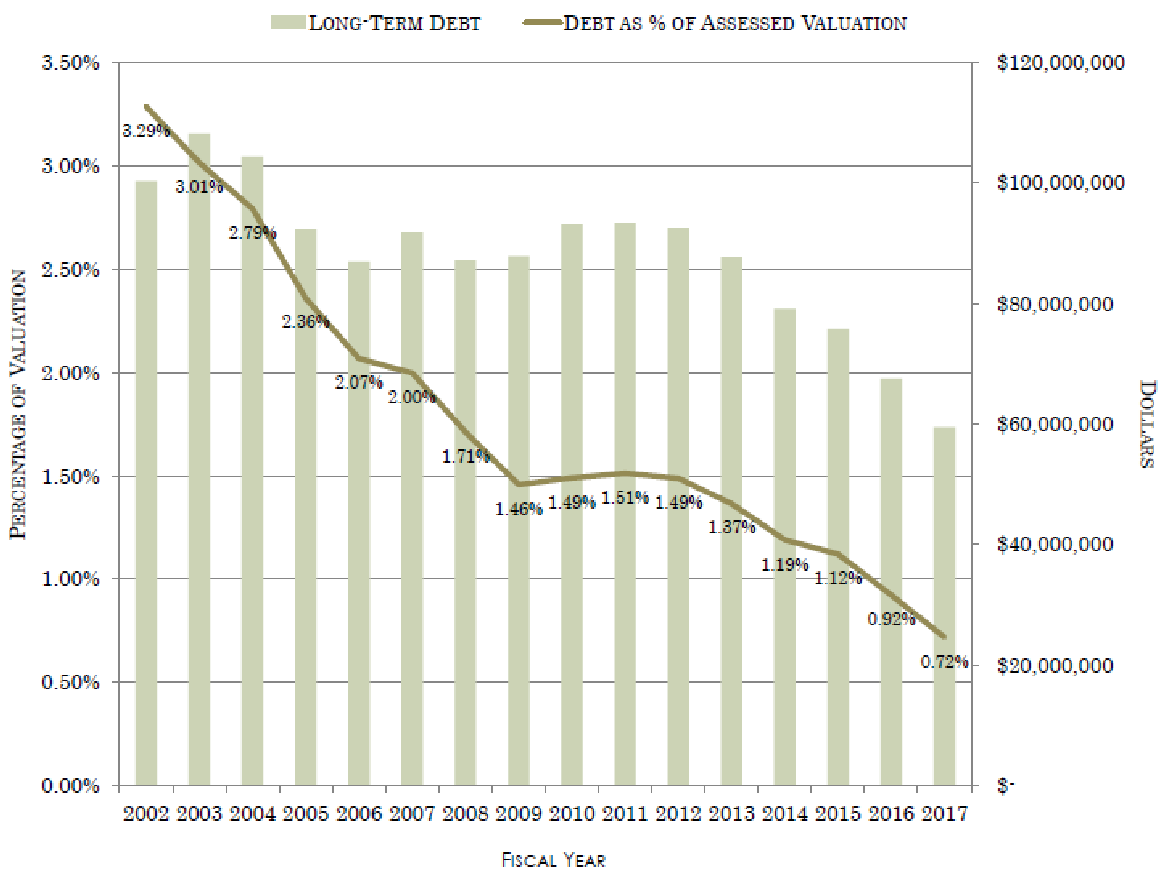


Figure 4: Long-term Debt as a Percentage of Assessed Valuation

Bond Ratings

Annually, Southlake is subject to a rigorous review from third party bond agencies. These reviews serve as indicators to potential borrowers of how credit-worthy the City is. Currently, the City has earned two AAA ratings, the highest awarded. Bond ratings are important to maintain as they aid in determining the interest rates and reserves tied to bonds. Generally, the higher the rating the lower the interest rate. These two exceptional credit ratings are a strong external endorsement of the City's financial management.

Historically, Southlake has focused on maintaining or decreasing debt with aggressive amortization coupled with an increasing shift to self-supporting debt. These practices are in-line with the current debt strategy.

For annual updates and specific data on Southlake's current debt service fund, refer to the Annual Adopted Budget document found on the City of Southlake website. As per City ordinance, this section is updated annually with relevant information.

Strategic initiative Fund

While the focus of this Project Briefing is the City's management of its debt, it is important to note that the City has used cash for certain capital projects. The Strategic Initiative Fund has provided substantial funding for moving forward with the CIP while simultaneously reducing property tax-supported debt.

At the end of each fiscal year, excess revenue and unspent appropriation become part of the City's fund balance, or reserves. When the reserves exceed the level deemed by the City Council, the excess is transferred to the Strategic Initiative Fund (SIF). This provides cash funding for needed projects without requiring the City to borrow money for them.

The Strategic Initiative Fund has provided almost $41 million to the CIP since 2006, funding numerous capital projects that would have otherwise required bond dollars.

Debt Schedules

Appendix A shows debt schedules by funding source, detailing 2017 annual debt requirements, as well as total debt obligations.

Summary

Debt is a tool the City uses to ensure that public infrastructure is built to meet the needs of the community.

Several varieties of debt are used by the City of Southlake to fund major projects, and they can be categorized as self-supported and tax-supported.

The City has focused on reducing tax-supported debt by instead using self-supporting debt to fund voter approved Districts, charged with pursuing community priorities.

Aggressive amortization, responsible borrowing, and the use of the Strategic Initiative Fund (cash) are hallmarks of Southlake's debt management strategy.

For additional resources on sales tax levies, TIRZ, and other City projects, visit the City of Southlake's website.

Appendix A

SUMMARY OF GENERAL OBLIGATION BONDS
PRINCIPAL AND INTEREST REQUIREMENTS

		2018 REQUIREMENTS			MATURITY
		PRINCIPAL	INTEREST	TOTAL	DATE
(2)	2007 Series Certificates of Obligation (TIRZ)	730,000	14,600	744,600	**February 2018**
	2009 Series Certificates of Obligation	230,000	139,294	369,294	**February 2029**
(2)	2010 GO Refunding	2,181,624	64,591	2,246,215	**February 2023**
	2010 Series Certificates of Obligation	195,000	122,331	317,331	**February 2030**
	2011-A Series Certificates of Obligation	720,000	18,000	738,000	**February 2018**
	2012 Series Certificates of Obligation	0	0	0	**February 2017**
(2)	2012 GO Refunding	815,000	251,375	1,066,375	**February 2026**
(1)	2013 Series Certificates of Obligation	900,000	22,500	922,500	**February 2018**
(2)	2013 GO Refunding	765,000	710,250	1,475,250	**February 2026**
	2014 Series Certificates of Obligation	910,000	32,250	942,250	**February 2019**
	2014 GO Refunding	1,220,000	69,700	1,289,700	**February 2026**
	2017 GO Refunding	0	92,729	92,729	**February 2028**
	Total	8,666,624	1,444,891	10,204,244	
(1)	*funded through Crime Control Sales Tax Revenues(all/part)*	0	0	0	
(2)	*funded through Tax Increment Reinvestment Zone(all/part)*	(3,010,038)	(248,888)	(3,258,927)	
	Net General Obligation Debt Service Requirements	5,656,585	1,196,003	6,945,317	

		TOTAL REQUIREMENTS			
		PRINCIPAL	INTEREST	TOTAL	
(2)	2007 Series Certificates of Obligation (TIRZ)	730,000	14,600	744,600	**February 2018**
	2009 Series Certificates of Obligation	3,460,000	953,349	4,413,349	**February 2029**
(2)	2010 GO Refunding	2,463,810	91,300	2,555,110	**February 2023**
(1)	2010 Series Certificates of Obligation	3,215,000	918,167	4,133,167	**February 2030**
	2011-A Series Certificates of Obligation	720,000	18,000	738,000	**February 2018**
	2012 Series Certificates of Obligation	0	0	0	**February 2017**
(2)	2012 GO Refunding	6,870,000	1,349,050	8,219,050	**February 2026**
(1)	2013 Series Certificates of Obligation	900,000	22,500	922,500	**February 2018**
(2)	2013 GO Refunding	18,740,000	3,278,275	22,018,275	**February 2026**
	2014 Series Certificates of Obligation	1,840,000	41,550	1,881,550	**February 2019**
	2014 GO Refunding	3,190,000	161,100	3,351,100	**February 2026**
	2017 GO Refunding	3,836,350	923,064	4,759,414	**February 2028**
	Total	45,965,160	7,770,955	53,736,115	
(1)	*funded through Crime Control Sales Tax Revenues(all/part)*	0	0	0	
(2)	*funded through Tax Increment Reinvestment Zone(all/part)*	(3,010,038)	(248,888)	(3,258,927)	
	Net General Obligation Debt Service Requirements	42,955,122	7,522,067	50,477,189	

INTEREST SHOWN IS THE TOTAL OF EACH ANNUAL
REQUIREMENT FOR THE REMAINING LIFE OF THE SERIES

SUMMARY OF REVENUE BONDS
PRINCIPAL AND INTEREST REQUIREMENTS

	2018 REQUIREMENTS			
	PRINCIPAL	INTEREST	TOTAL	MATURITY DATE
2009 Series Certificates of Obligation	295,000	181,025	476,025	February 2029
2010 GO Refunding	758,376	17,010	775,386	February 2023
2010 Series Certificates of Obligation	235,000	148,601	383,601	February 2030
2011-B Series Certificates of Obligation	145,000	94,313	239,313	February 2031
2012 Series Certificates of Obligation	120,000	65,025	185,025	February 2032
2012 GO Refunding	25,000	6,825	31,825	February 2026
2013 Series Certificates of Obligation	105,000	63,632	168,632	February 2033
2013 GO Refunding	125,000	38,450	163,450	February 2024
2014 Series Certificates of Obligation	185,000	112,225	297,225	February 2034
2014 GO Refunding	2,300,000	131,150	2,431,150	February 2026
2015 Series Certificates of Obligation	125,000	97,150	222,150	February 2035
2017 GO Refunding	0	158,131	158,131	February 2028
2017 Series Certificates of Obligation	150,000	223,098	373,098	February 2037
Net Revenue Bond Debt Service Requirements	4,568,376	1,336,635	5,905,010	

	TOTAL REQUIREMENTS			
	PRINCIPAL	INTEREST	TOTAL	MATURITY DATE
2009 Series Certificates of Obligation	4,495,000	1,238,290	5,733,290	February 2029
2010 GO Refunding	1,116,189	50,877	1,167,066	February 2023
2010 Series Certificates of Obligation	3,905,000	1,114,345	5,019,345	February 2030
2011-B Series Certificates of Obligation	2,585,000	776,660	3,361,660	February 2031
2012 Series Certificates of Obligation	2,220,000	538,613	2,758,613	February 2032
2012 GO Refunding	200,000	28,650	228,650	February 2026
2013 Series Certificates of Obligation	2,125,000	557,419	2,682,419	February 2033
2013 GO Refunding	995,000	142,775	1,137,775	February 2024
2014 Series Certificates of Obligation	3,900,000	1,136,562	5,036,562	February 2034
2014 GO Refunding	6,005,000	302,925	6,307,925	February 2026
2015 Series Certificates of Obligation	3,075,000	938,675	4,013,675	February 2035
2017 GO Refunding	4,073,650	980,161	5,053,811	February 2028
2017 Series Certificates of Obligation	5,400,000	2,096,636	7,496,636	February 2037
Net Revenue Bond Debt Service Requirements	40,094,839	9,902,588	49,997,427	

SUMMARY OF SOUTHLAKE PARKS AND DEVELOPMENT BONDS
PRINCIPAL AND INTEREST REQUIREMENTS

2018 REQUIREMENTS

	PRINCIPAL	INTEREST	TOTAL	MATURITY DATE
2009 Certificates of Obligation	275,000	166,869	441,869	February 2029
2010 Certificates of Obligation	145,000	91,144	236,144	February 2030
2011 Certificates of Obligation	145,000	92,094	237,094	February 2031
2012 Certificates of Obligation	250,000	137,881	387,881	February 2032
2014 Sales Tax Revenue Refunding Bonds	1,225,000	357,825	1,582,825	February 2027
Net SPDC Debt Service Requirements	2,040,000	845,813	2,885,813	

TOTAL REQUIREMENTS

	PRINCIPAL	INTEREST	TOTAL	MATURITY DATE
2009 Certificates of Obligation	4,145,000	1,141,493	5,286,493	February 2029
2010 Certificates of Obligation	2,395,000	684,297	3,079,297	February 2030
2011 Certificates of Obligation	2,525,000	759,228	3,284,228	February 2031
2012 Certificates of Obligation	4,705,000	1,144,805	5,849,805	February 2032
2014 Sales Tax Revenue Refunding Bonds	12,540,000	1,807,200	14,347,200	February 2027
Net SPDC Debt Service Requirements	26,310,000	5,537,023	31,847,023	

SUMMARY OF SOUTHLAKE COMMUNITY ENHANCEMENT AND DEVELOPMENT CORPORATION
PRINCIPAL AND INTEREST REQUIREMENTS

2018 REQUIREMENTS

	PRINCIPAL	INTEREST	TOTAL	MATURITY DATE
2016 Sales Tax Revenue Bonds	865,000	874,750	1,739,750	February 2036
2017 Sales Tax Revenue Bonds	325,000	377,490	702,490	February 2036
Net CEDC Debt Service Requirements	1,190,000	1,252,240	2,442,240	

TOTAL REQUIREMENTS

	PRINCIPAL	INTEREST	TOTAL	MATURITY DATE
2016 Sales Tax Revenue Bonds	$24,450,000	$8,565,025	$33,015,025	February 2036
2017 Sales Tax Revenue Bonds	9,945,000	3,417,886	13,362,886	February 2036
Net CEDC Debt Service Requirements	34,395,000	11,982,911	46,377,911	