AGENDA STATEMENT

City of Bellaire

MEETING: City Council - Nov 02 2020
PREPARED BY: Todd Gross
DEPARTMENT: City Manager's Office

ITEM TITLE:

Discussion and possible action regarding the development of a Debt Reduction Plan - Requested by Brant Gary, Interim City Manager.

RECOMMENDATION:

Brant Gary, Interim City Manager, requests feedback and direction in the development of a Debt Reduction Plan.

BACKGROUND/SUMMARY:

It has been requested by Council Member Wesely that the development of a Debt Reduction Plan for the City should be a priority. This item is being prepared to provide Council with information and provide an opportunity to formally provide direction to City Staff if there is a desire to pursue this effort.

PREVIOUS COUNCIL ACTION:

N/A

FISCAL IMPACT:

N/A

CITY ATTORNEY REVIEW:

☐ **Yes** ☑ **No**

Debt Reduction Plan

PRESENTED BY: TERRENCE BEAMAN – CHIEF FINANCIAL OFFICER

BRANT GARY – INTERIM CITY MANAGER

Introduction

What is being discussed?

1. Council Member Wesely requested consideration of a Debt Reduction Plan
2. City staff is requesting formal direction on this potential project/policy decision
3. Feedback is being sought for policy direction concerning potential goals and strategies to be used if Council desires to move forward
4. Adoption of a Debt Reduction Plan could influence a variety of future policy/operational decisions
    a. FY 2022 budget
    b. 5-year CIP
    c. Future tax rates
    d. City service levels

Introduction

Why Cities Issue Debt for Capital Projects

Borrowing allows infrastructure costs to be shared with future beneficiaries

Borrowing allows the delivery of infrastructure to be accelerated

Borrowing can prevent large year-to-year fluctuations in tax rates

Borrowing can result in savings on infrastructure costs

Important Considerations

Overall costs can be higher due to interest costs (when interest costs exceed inflation)

Future revenues are dedicated to debt payment – not available for other uses

Possible Goals of a Debt Reduction Plan

What does Council want to accomplish?

1. Target debt per capita
2. Target debt as a percentage of assessed values
3. Target overall debt/debt service dollar amount
4. Target debt service expenditures as a percentage of General Fund expenditures
5. Target debt service tax rate as a percentage of M&O tax rate
6. Maximum debt tax rate
7. Influence planning
8. Other specific goal(s)

Possible Debt Reduction Strategies

What strategies would Council consider using to achieve the goals of a plan?

1. Limit/Do not issue new debt (existing debt will amortize)
    a. Existing authority
    b. Future bond elections/project funding
2. Explore refinancing opportunities of existing debt
3. Sale or lease of city-owned assets with proceeds used to repay debt
4. Reduce annual debt service tax rate using other resources to pay debt obligations

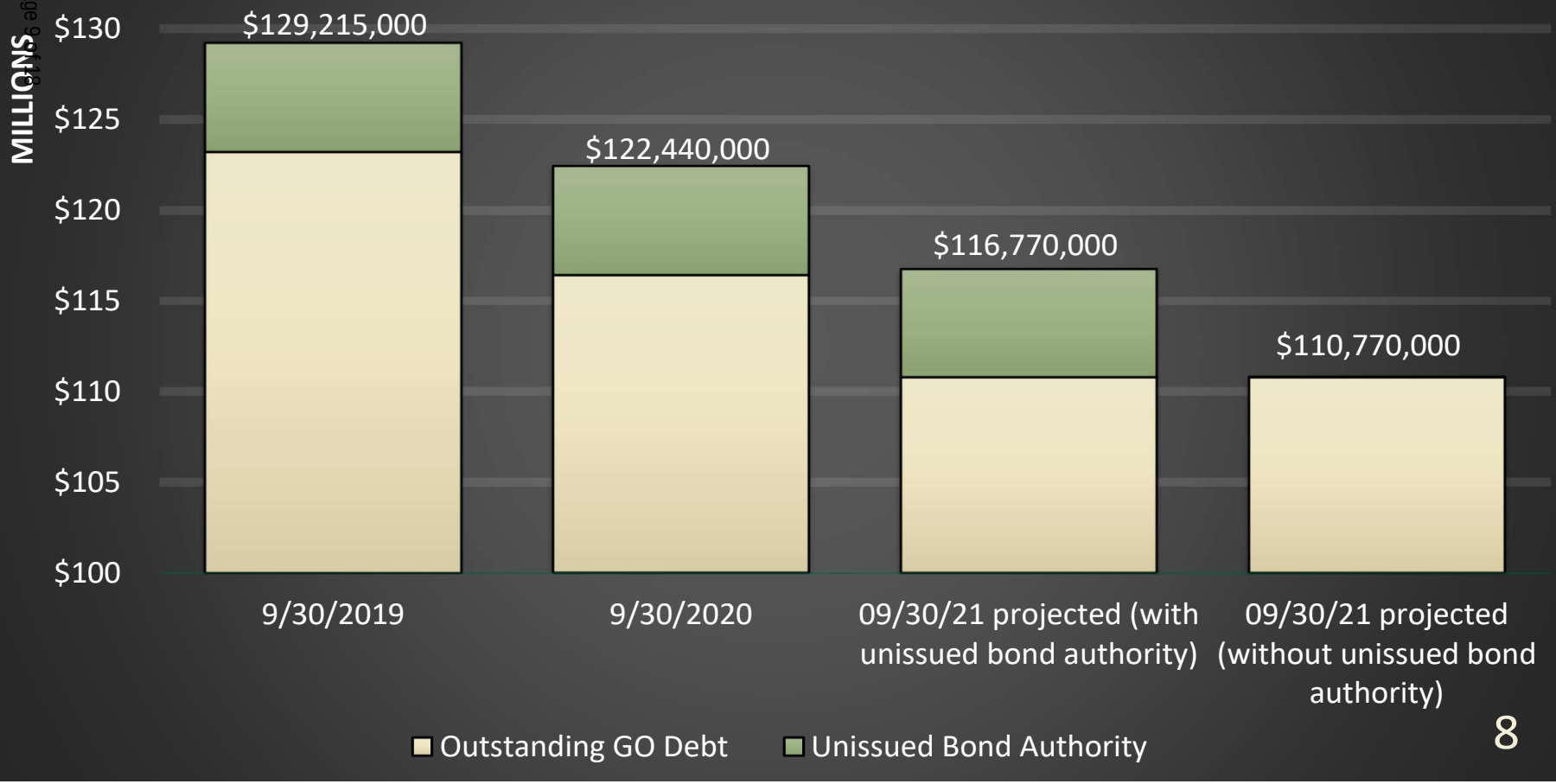
Possible Debt Reduction Strategies (continued)

5. Explore use of METRO funds to repay debt/fund future projects for streets & drainage
6. Dedicate some or all of resulting fee increases or cost savings adopted as a result of the Fee Study findings
7. Use end of year excess General Fund and Enterprise Fund balances to pay down debt
    a. Expenditure savings
    b. One-time revenues

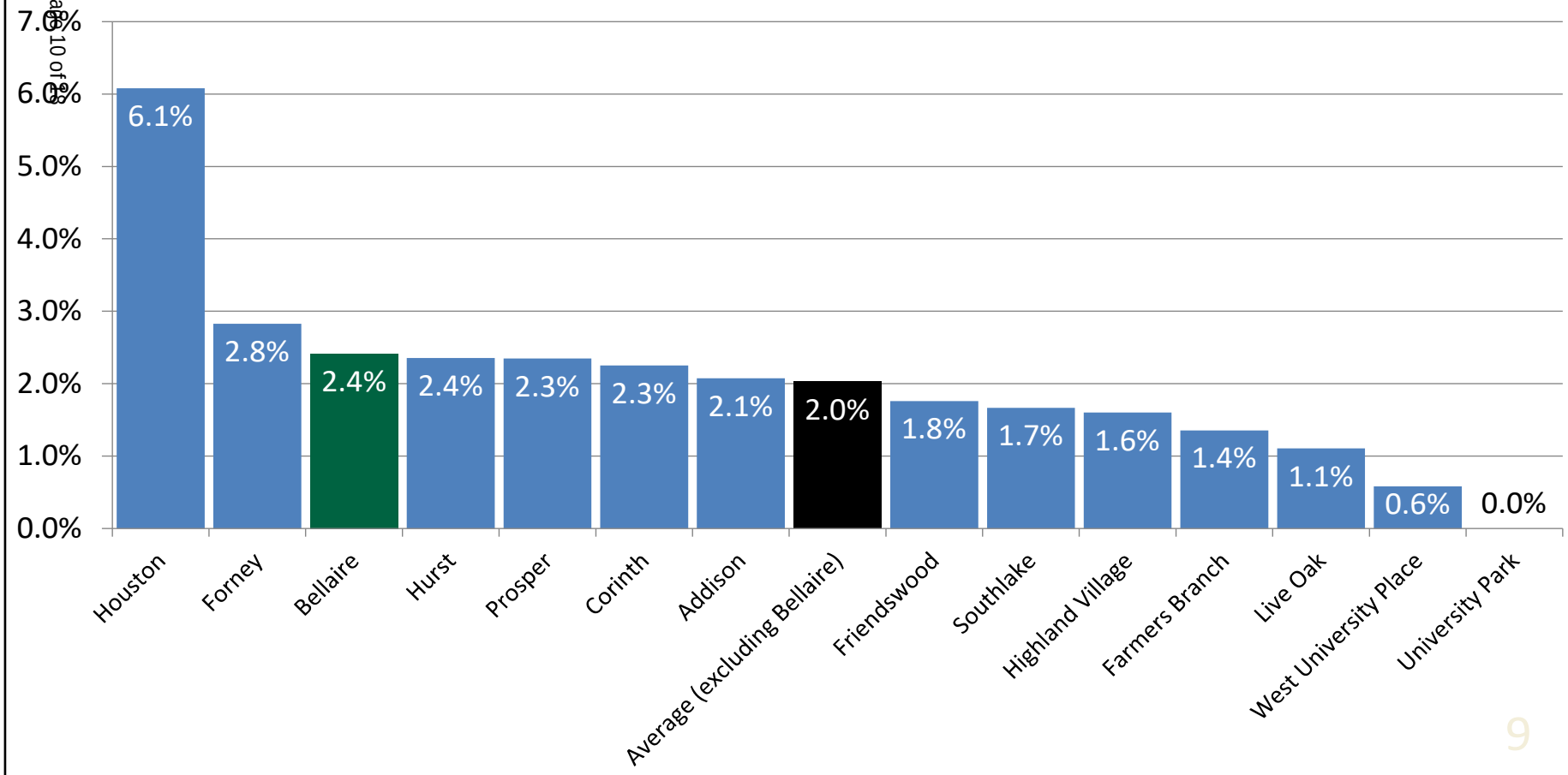
Overview of Existing Debt Obligations

1. Current Debt and Unissued Bond Authority is Voter Approved
2. Credit Ratings From Independent Rating Agencies
    a. The City enjoys a AAA rating on all existing bonded debt.
    b. This is the highest credit rating and reflects the City's strong ability to repay its debt.
3. General Obligation Bond Debt is Already Decreasing
    a. G.O. bond debt, including unissued bond authority, is projected to decrease from $129,215,000 at Sept. 30, 2019 to $116,770,000 as of Sept. 30, 2021, or by 9.6%.
    b. If the remaining unissued bond authority of $6,000,000 were to be eliminated, then the G.O. bond debt would decrease to $110,770,000 as of Sept. 30, 2021, which represents an additional 4.6% reduction for a total reduction of 14.3% since Sept. 30, 2019.

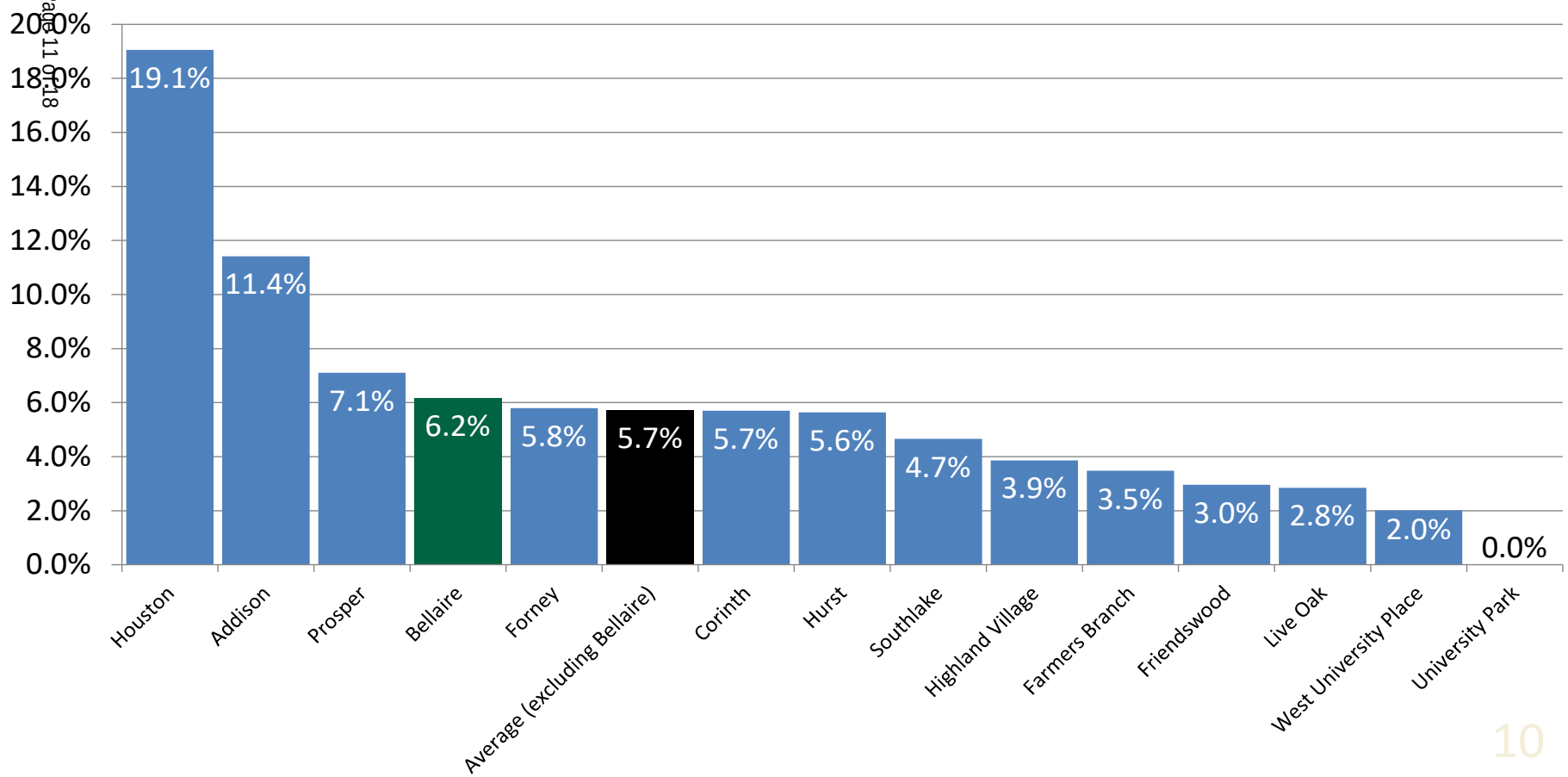
General Obligation Bonds

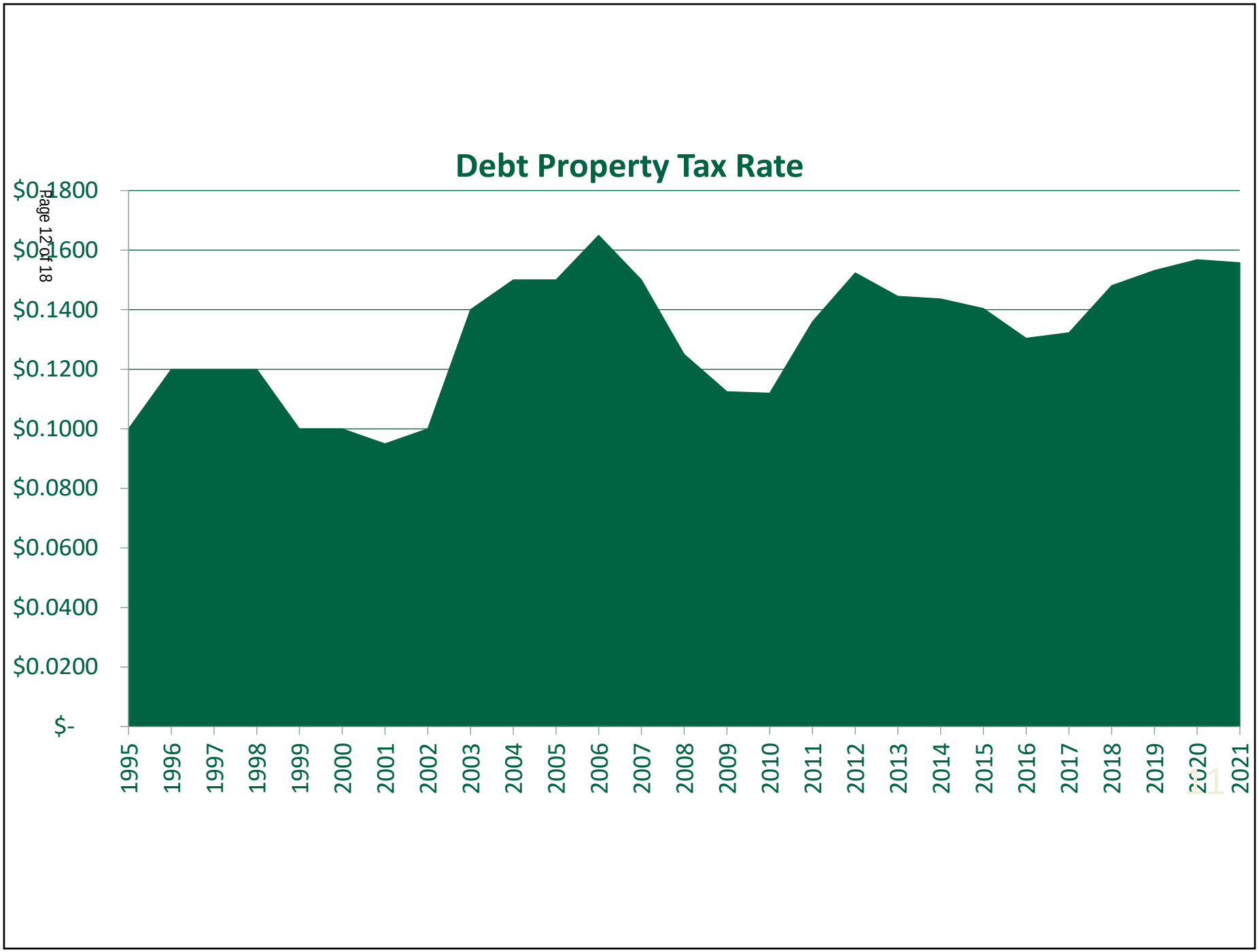


Debt as % of Assessed Values



Debt Per Capita as % of Per Capita Personal Income




Debt Property Tax Rate
$0.1800
$0.1600
$0.1400
$0.1200
$0.1000
$0.0800
$0.0600
$0.0400
$0.0200
$-
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
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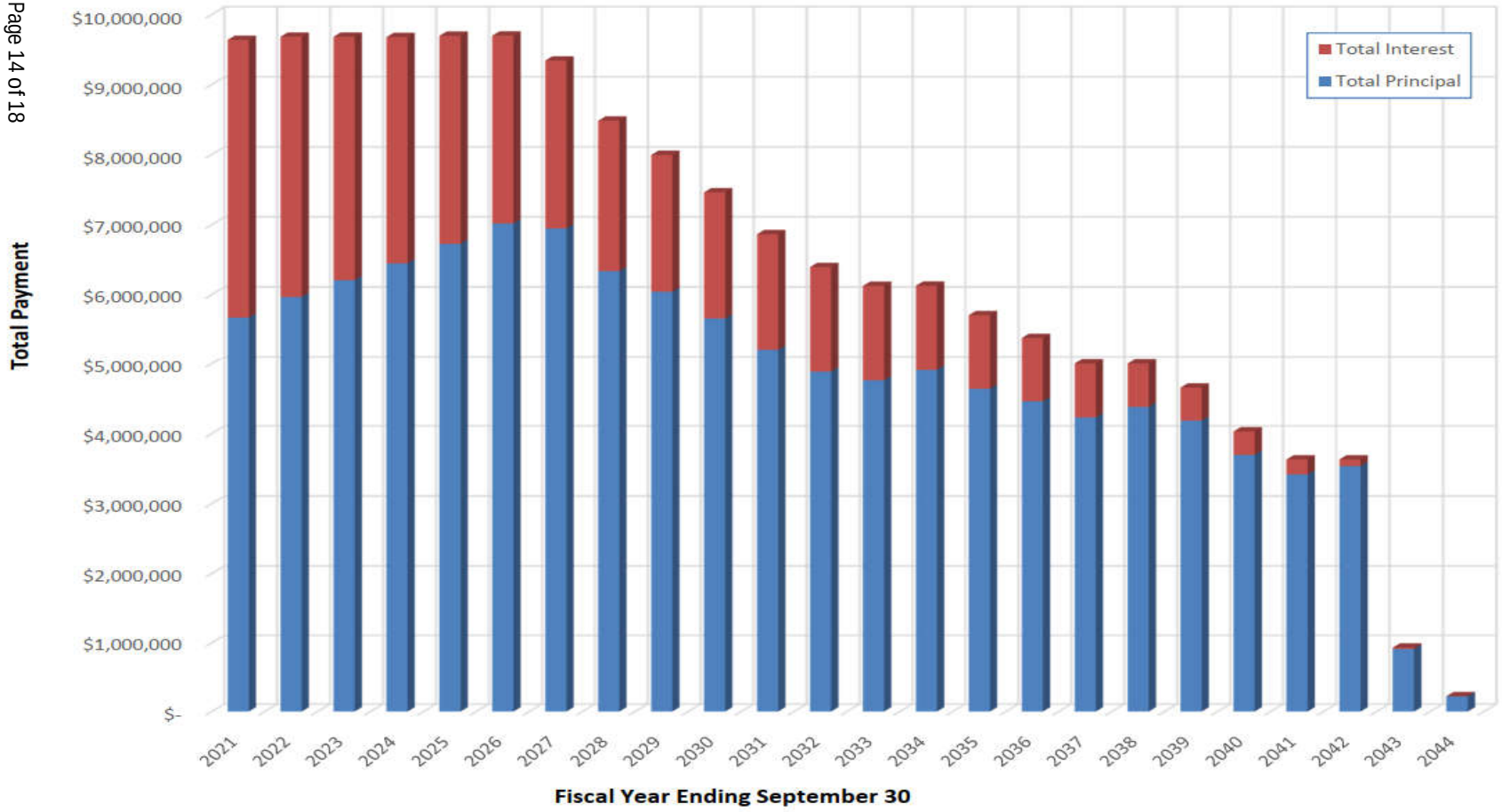
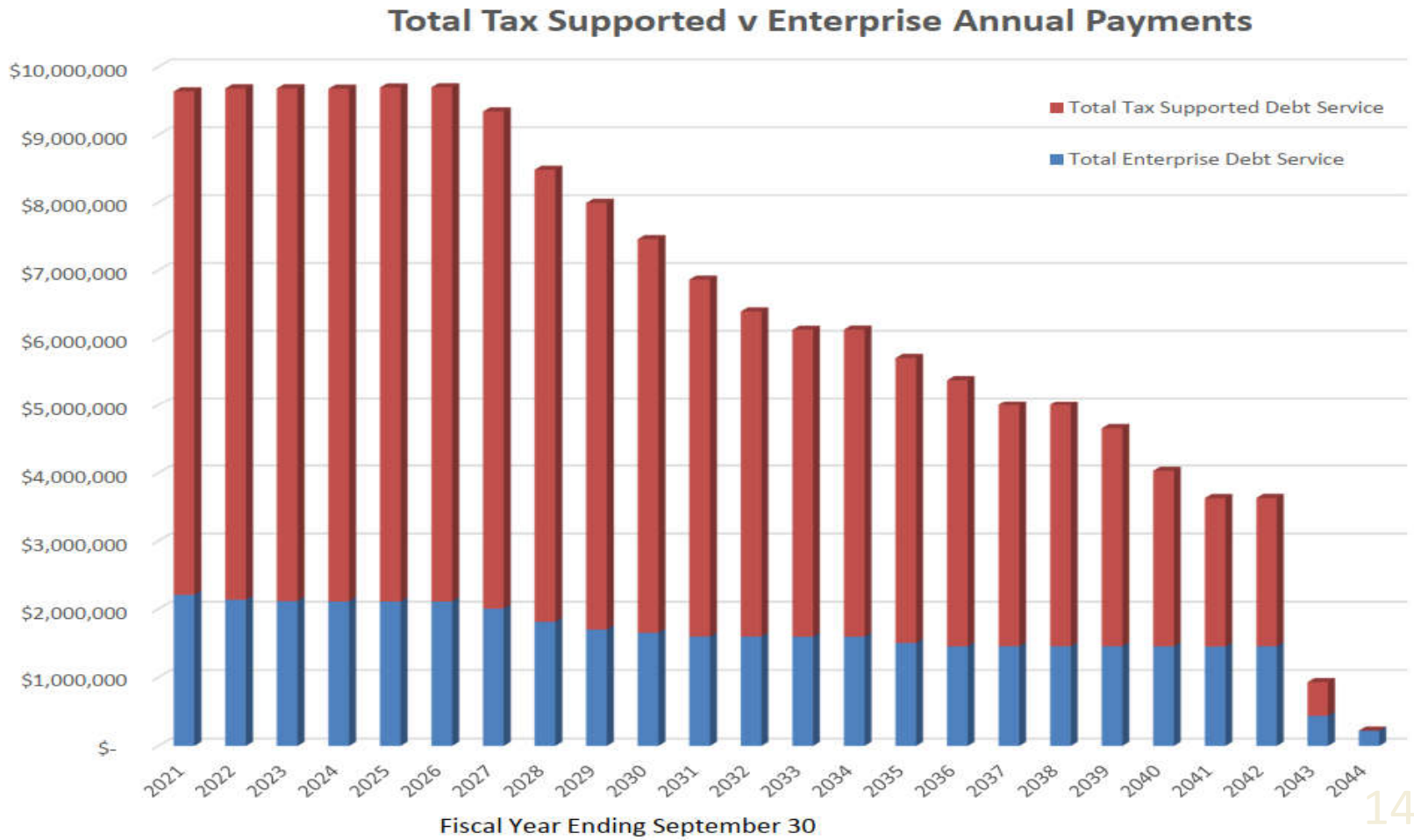
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021

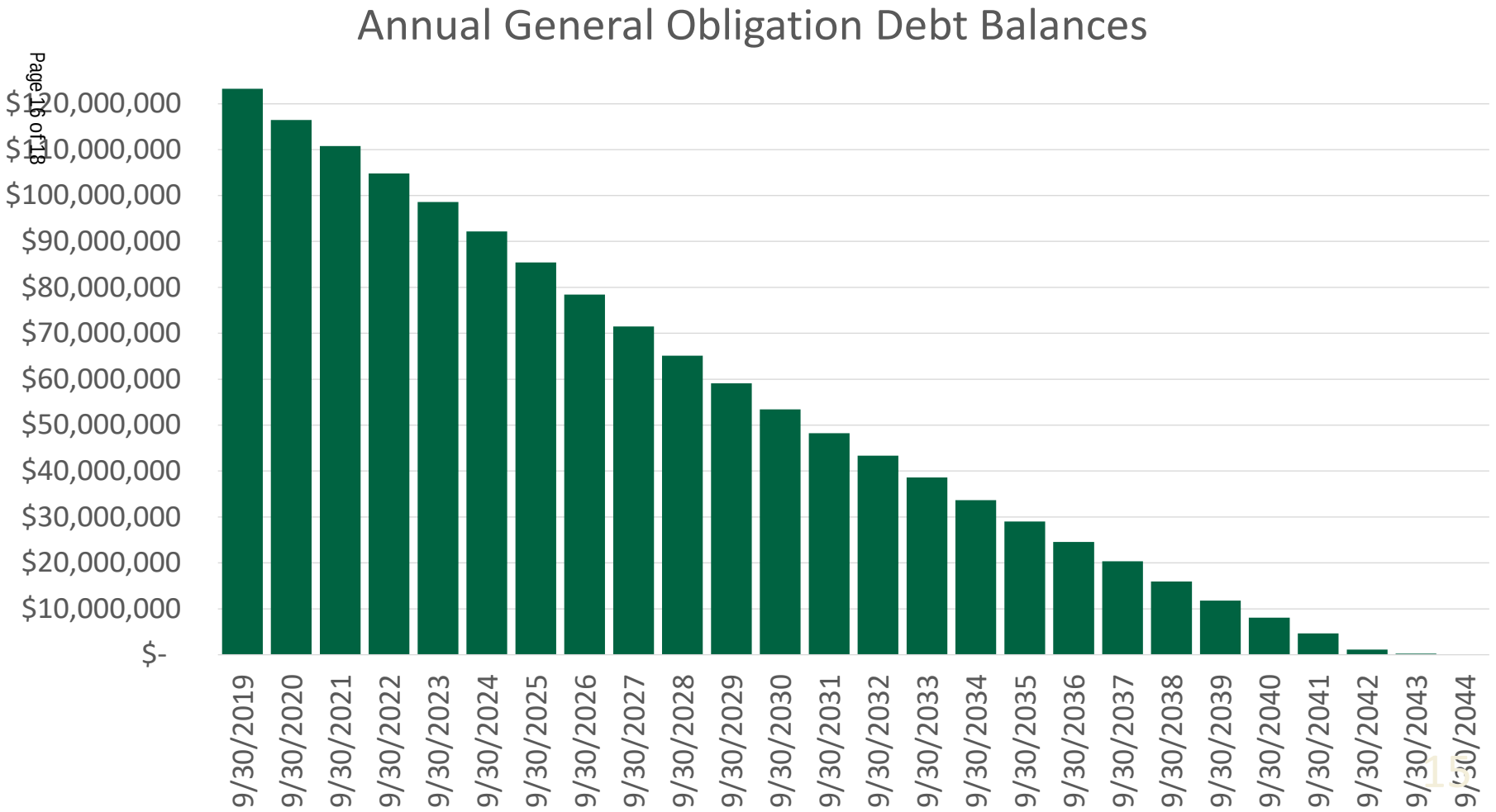
Debt Pre-Payment Limited by Call Dates

Issues Outstanding	Original Principal	Remaining Principal 9/30/2020	Call Date	Final Maturity
GOBS 2012, Refunding	$ 9,325,000	$ 2,760,000	2/15/2020	2/15/2025
GOBS 2013	6,000,000	4,470,000	2/15/2022	2/15/2038
GOBS 2014	10,425,000	8,600,000	2/15/2023	2/15/2039
GOBS 2015	7,710,000	5,805,000	2/15/2024	2/15/2040
GOBS 2016, Refunding	9,690,000	9,225,000	2/15/2026	2/15/2035
GOBS 2017	33,315,000	30,905,000	2/15/2026	2/15/2042
GOBS 2017A	11,505,000	10,895,000	2/15/2026	2/15/2042
GOBS 2018	11,475,000	11,190,000	2/15/2026	2/15/2043
GOBS 2018, Refunding	12,760,000	10,920,000	2/15/2026	2/15/2034
GOBS 2019	3,945,000	3,945,000	2/15/2028	2/15/2044
GOBS 2019A, Refunding	8,950,000	8,915,000	2/15/2028	2/15/2036
GOBS 2019B, Refunding	8,850,000	8,810,000	2/15/2028	2/15/2030
Total Outstanding Debt	$133,950,000	$116,440,000		


Aggregate Principal and Interest Payments By Fiscal Year
Total Payment
$10,000,000
$9,000,000
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
Total Interest
Total Principal
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
2036
2037
2038
2039
2040
2041
2042
2043
2044
Fiscal Year Ending September 30

Tax Supported v Self Supported Annual DS Payments




Annual General Obligation Debt Balances
$120,000,000
$110,000,000
$100,000,000
$90,000,000
$80,000,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$-
9/30/2019
9/30/2020
9/30/2021
9/30/2022
9/30/2023
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9/30/2037
9/30/2038
9/30/2039
9/30/2040
9/30/2041
9/30/2042
9/30/2043
9/30/2044

Next Steps

Council Direction Required

1. Is there direction from Council that a Debt Reduction Plan is desirable?
2. If yes, please send your goals and strategies to the Interim City Manager for compilation and review by staff.
3. After compilation and review, staff will schedule a future agenda item to present findings and finalize the next steps for the preparation and implementation of a Debt Reduction Plan.