Winter 2023 Debt Model Update

PLANNING AND BUDGET OFFICE

PRESENTATION TO BOND ADVISORY COMMITTEE

FEBRUARY 8, 2023

Presentation Outline

- Introduction
- Capital Funding Sources
  - General Fund Capital
  - Certificates of Obligation
  - Voter Approved Bonds
- Capital Planning Efforts
- Debt Model Scenario

Capital Funding Sources

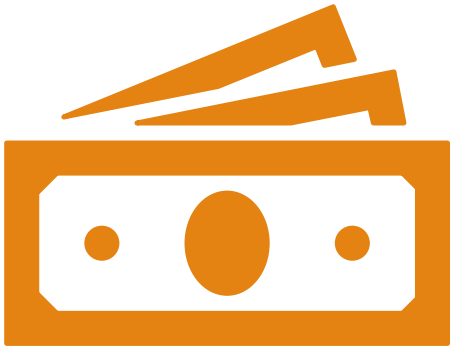
Travis County has an extensive portfolio of capital assets and infrastructure, ranging from vehicles and heavy equipment to park improvements and facilities.

Capital resources to improve infrastructure assets and public facilities are approved annually. Funded using:

- "Pay-as-you-go" cash financing (General Fund CAR account),
- Debt financing
  - Certificates of Obligation
  - Voter Approved Bonds
  - State Highway Bonds (in limited circumstances)

Travis County has been awarded a Triple-A credit rating continuously since 2001.

General Fund Capital



General Fund Capital Acquisition Resources (CAR) account is used to fund capital equipment and facilities with current resources

Fund balance is the primary source of funding for CAR capital and large one-time projects, including those ineligible for CO funding

Limited ongoing funding was built into the CAR budget to allow the County the flexibility to issue less debt by cash funding recurring capital needs

General Fund Capital

CAR account funding level is driven primarily by economic conditions and capital needs

- CAR funding over past 10 years has ranged from $18.1 million in FY 2014 to a high of $146.0 million in FY 2023
- FY 2023 CAR project budget is $77.8 million with a reserve of $68.3 million (Earmarks of $65.8 million)
- Earmark list includes $29.8M for bond project shortfalls or future capital needs

Debt Financing

An important funding method for large capital projects/ equipment

Allows the County to distribute tax burden over the life of the asset

Involves the issuance of Voter Approved Bonds, Certificates of Obligation (COs), and State Highway Bonds (limited circumstances)

Efforts to Reduce Debt Service Requirements

Travis County continuously explores refunding opportunities to minimize debt requirements on County taxpayers

- Much like refinancing a home mortgage, refundings allow Travis County to issue outstanding debt at a lower interest rate

- Since 1992, Travis County has achieved approximately $44 million in gross savings from the use of refunding bonds

- There are currently limited refunding opportunities due to current market rates, but PBO continues to explore transactions that are in the best interest of County taxpayers

Certificates of Obligation (COs)

Routine COs are generally issued as short-term debt (five-year debt maturity)

COs can be used to fund longer term capital projects with Commissioners Court approval and within parameters listed in the debt policy

Per debt policy, maturities cannot exceed 20 years

Effects of New Legislation

HB 1869 from 87th Legislative Session

- "Debt" redefined in the Tax Code
- Changes made to how non-voter approved debt can be funded through the debt service portion of the tax rate
- Categories for what is considered debt excludes key program areas of the County

Legislature is currently in session and may place further restrictions on this funding source

Voter Approved Bonds

Issued as long-term debt (20-year debt maturity)

In November 2017, Voters approved $184,940,000

- Proposition A (Roads): $93,445,000
- Proposition B (Parks): $91,495,000

In addition, $94,955,309 of Critical Safety Projects were prioritized in consultation with the CBAC and issued as COs

The combined November 2017 bond authorization along with Critical Safety Projects totaled $279,895,309

Bond Referendum being contemplated for November 2023

2017 Voter Approved Bonds

Description	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Total Issuance/ Authorization
Cash flow – Prop A Voter Approved Road Bonds	$16,460,000	$14,550,000	$35,435,000	$22,000,000	$5,000,000	**$93,445,000**
Cash flow – Prop B Voter Approved Park Bonds	38,465,000	26,120,000	19,685,000	0	7,225,000	**91,495,000**
Subtotal Voter Approved Bonds	**$54,925,000**	**$40,670,000**	**$55,120,000**	**$22,000,000**	**$12,225,000**	**$184,940,000**
Critical Safety Project COs	13,443,866	41,664,821	10,236,097	27,993,049	0	**$93,337,833**
Total	**$68,368,866**	**$82,334,821**	**$65,356,097**	**$49,993,049**	**$12,225,000**	**$278,277,833**

Planning for Facility Infrastructure

Preserving debt capacity for future needs

- Comprehensive Facility Plan - Some examples of projects that may be discussed in the near term include (in no particular order):
  - Heman Marion Sweatt Courthouse
  - Palm School
  - Community Centers/Precinct Office Buildings
  - Diversion/Justice Related Facilities
  - Juvenile Probation

Planning for Capital Projects

Current planning and assessment efforts ongoing countywide

- Strategic Plan Implementation
- Parks Master Plan Update
- Ongoing Flood Studies
- Facility Condition Assessments
- Land/Water/Transportation Plan
- Bond Advisory Committee

Planning for Capital Projects

- PBO (Budget and EDSI) is working on the Comprehensive Facilities Plan which will identify capital projects for consideration for funding in the longer-term, in coordination with internal and external stakeholders.
- Effects of legislation
- Considerations for 2023 Bond Election
  - Effective cashflow for spending timeliness
  - Pre-engineering for accurate estimates
  - Estimate maintenance and operating associated with voter approved projects

Debt Modeling Assumptions

Routine Short Term Debt Issuance

- **Previous Annual Placeholder Amount = $24.3M**
- **Updated Annual Placeholder Amount = $20.6M**

Long Term Debt Issuance

- **Next slide will show three options ($350M - $450M) for the bond election to not exceed $800 net bonded debt per capita ratio and preserve flexibility for other debt funded projects.**

Debt Options - Capacity

Category	A	B	C
Voter Approved Bond Projects	$350M	$400M	$450M
Future Debt Flexibility	$390M	$340M	$290M
Grand Total	**$740M**	**$740M**	**$740M**

Debt Model Scenario

Based on midrange option, including Reimbursement Resolution.

Actual amounts issued per year will be based on project requirements.

The table below shows required debt service from 2023-2028, in millions of dollars. Debt per capita is in absolute dollars.

	2023	2024	2025	2026	2027	2028
COs for routine needs + approved projects	$58	$21	$21	$21	$21	$21
Voter Approved Bonds	$0	$231	$40	$40	$49	$40
Future Debt Capacity	$0	$54	$65	$70	$67	$84
Total Issued	**$58**	**$306**	**$125**	**$131**	**$137**	**$145**
Debt Service	**$113**	**$123**	**$144**	**$150**	**$158**	**$170**
Debt Ratios						
Net Bonded Debt/Tax Value	0.33%	0.40%	0.39%	0.37%	0.35%	0.33%
Net Bonded Debt/Capita	$667	$800	$800	$800	$800	$800
Debt Service/Expenditures	9.41%	9.69%	10.70%	10.61%	10.60%	10.80%
ST Debt Service/Total DS	14.96%	22.74%	16.12%	15.41%	16.75%	18.19%

Debt Policy – Primary Debt Ratios

Net Bonded Debt as a Ratio of Taxable Value – Measures debt burden on County's tax base

- Current policy goal between 1% and 1.5%

Net Bonded Debt per Capita – Measures average debt burden per County resident

- Current policy goal of $800 or less

Annual Debt Service Payment to Total General Fund and Debt Service Expenditures – Also measures debt burden

- Current policy goal of 20% or less

Debt Policy – Secondary Debt Ratios

Overlapping Debt to Taxable Value – Measures overlapping debt burden on community's property values.

- Current policy goal to keep measure below 5%.
- Current level: As of September 30, 2021, overlapping debt as percentage of net taxable property values = 3.9%.
  - Travis County represented 14.0% of overlapping debt.
  - Area school districts represented 34.5% of overlapping debt.
  - Cities represented 22.2% of overlapping debt.
  - Special Districts, County Line Schools, Community College and Central Health represent remaining 29.3%.

Short-Term Debt Service Ratio – Measures short-term debt relative to total debt service

- Current level: 15%
- Current policy goal of less than 25%

Short-Term Debt Service to General Fund – Measures short-term debt service payments relative to total General Fund expenditures

- Current level: 1.6%
- Current policy goal of less than 5%

Debt Modeling Assumptions

Debt Service Expenditures (Short- and Long-Term Debt Service) – These figures are estimated by the Planning and Budget Office, in consultation with the County's Financial Advisor.

Interest Rates – 2.75% in 2023 for 5-year maturities; 4.00% for 20-year maturities. Subsequent years step up interest rates moderately. Starting in 2027, debt modeling assumes 3.50% for 5-year debt maturities and 5.00% for 20-year maturities.

FY 2023 Estimated Impact of Additional Debt Service on Annual Tax Bill

Annual Debt Service per $1 Million of Additional LT Debt	$73,000
Annual Debt Service per $100 Million of Additional LT Debt	$7,300,000
FY 2023 Average Taxable Homestead Value	$427,920
Approximate Increase in Annual Tax Bill on Average Taxable Homestead per $100 million in New LT Debt Issued	≈ $11
FY 2023 Median Taxable Homestead Value	$341,778
Approximate Increase in Annual Tax Bill on Median Taxable Homestead per $100 million in New LT Debt Issued	≈ $9