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Debt 101 and Capacity Analysis

Town of Addison, Texas

_____, 2017

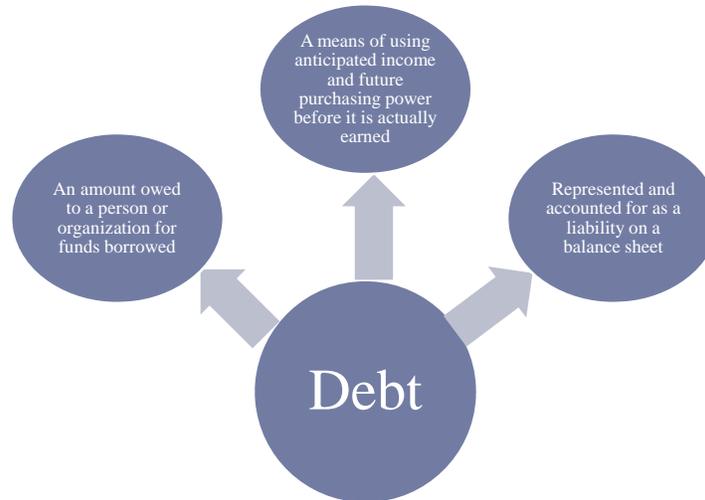
Topics of Discussion



- Debt 101 and Overview
- Bond Ratings
- Existing Debt and Capacity Analysis
- Process for Issuing Debt
- Next Steps

TOWN OF ADDISON, TEXAS

What is Debt?

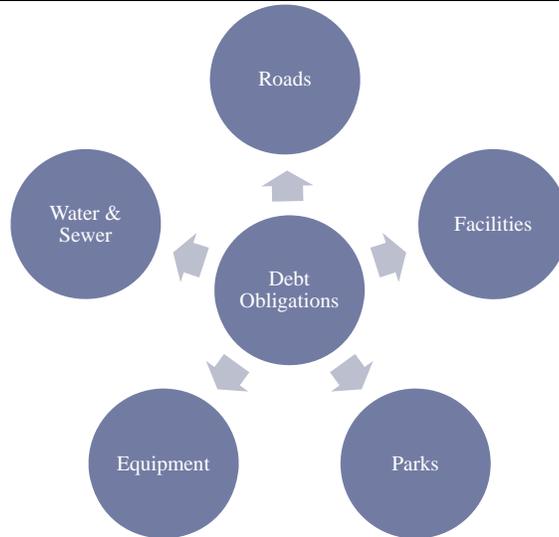


Bonds are the most common type of municipal **debt**.

Why Municipalities Use Debt?

- To finance projects, capital assets, or make improvements to existing assets over their useful lives with a variety of repayment options
- So future beneficiaries pay their “fair share” for public improvements/service - debt is repaid overtime by citizens who are using the debt-financed asset
- To finance larger projects on a more timely basis as compared to ‘pay as you go’ funding
- To help minimize the impact on property tax and/or user rates as compared to ‘pay as you go’ funding
- To take advantage of tax-exempt, low-cost, long-term financing

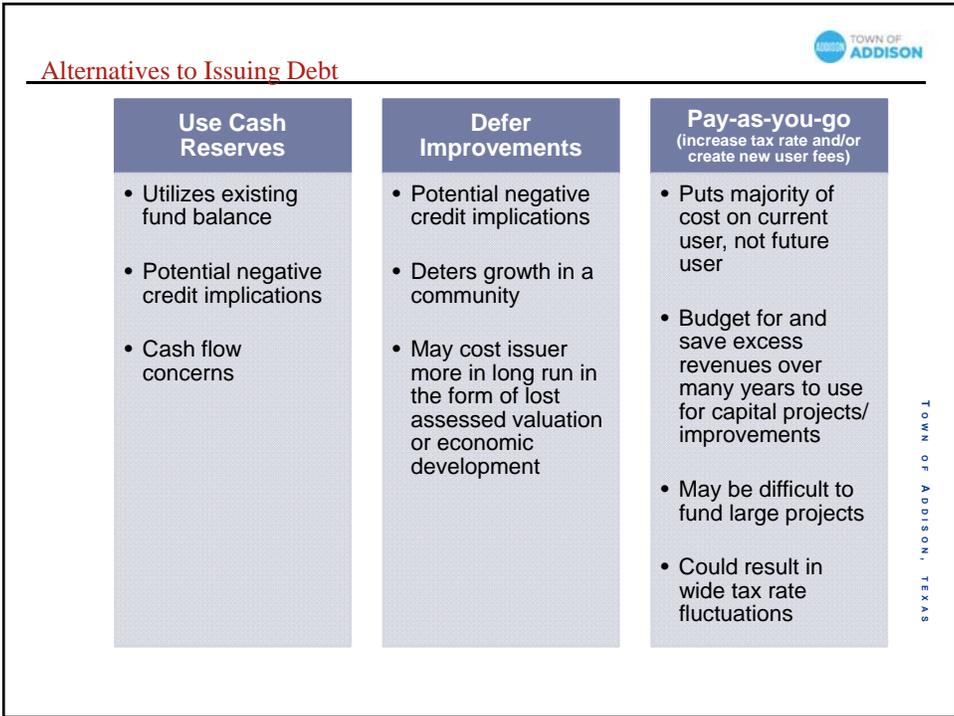
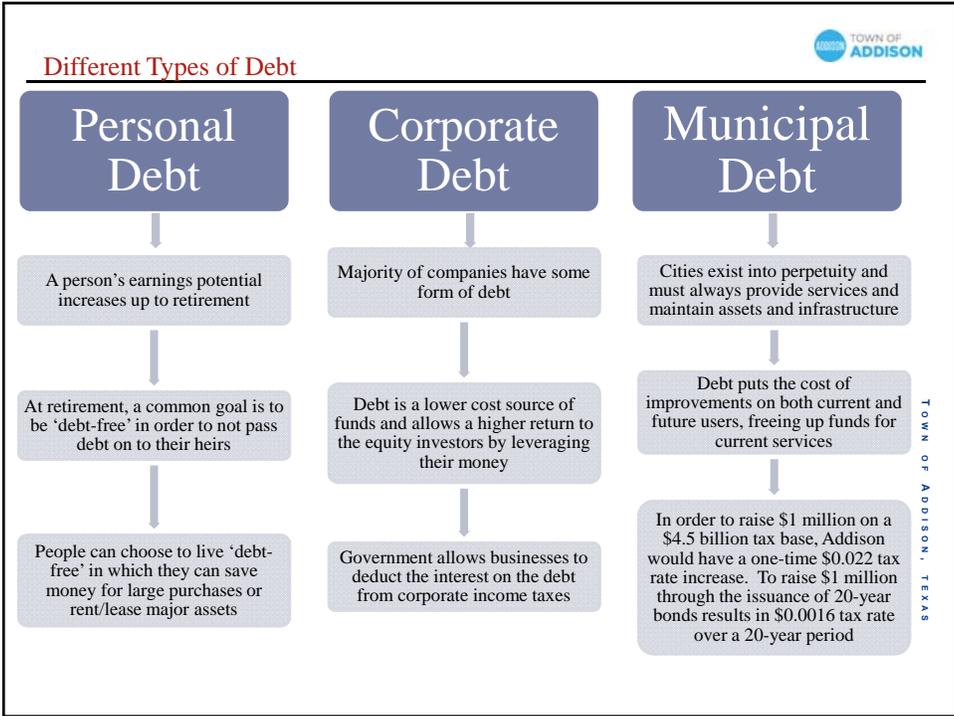
What Does Debt Fund?



*Addison issues debt to fund infrastructure improvements.

Operating Expenses are NOT Funded by Debt?

- Addison does not use debt to finance its operating expenses
- The Town's Charter and State law requires the Town to maintain a balanced budget
- Addison does NOT operate at a deficit like the Federal Government



What are Bond Ratings?



Bond Ratings

Assesses the ability and willingness of debt issuers to make full and timely payments expressed as a grade

The *higher* the bond rating, the *lower* the interest rate

Allows investment community to easily compare the soundness/competence of an investment. Good ratings mean well run cities.

TOWN OF ADDISON, TEXAS

Bond Ratings – Credit Criteria



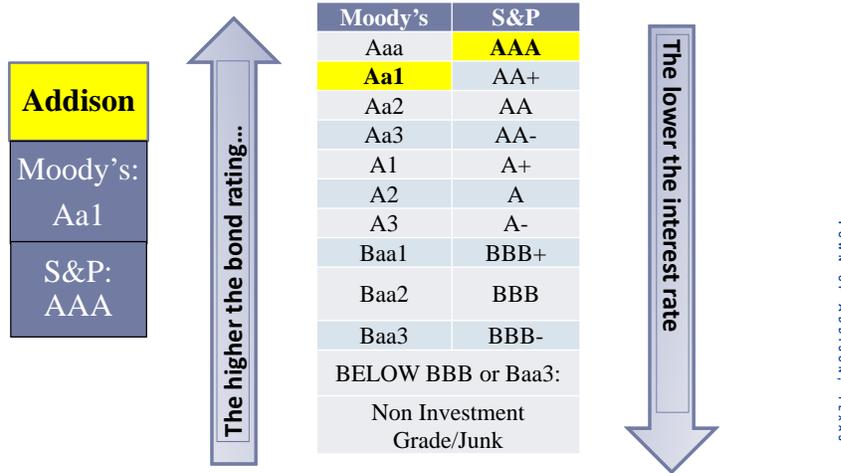
Credit ratings are based on a variety of factors:

- Revenue source and legal agreements pledged to the bonds
- Diversification and stability of the Town's tax/revenue base
- Ongoing capital needs
- Audited Financial Reports, fund balances and historical trends
- Managerial and Financial policies/procedures

TOWN OF ADDISON, TEXAS

Bond Ratings

- Bond ratings and interest rates have an inverse correlation, which means that the *higher* the issuer's bond rating, the *lower* the interest rates that the issuer is able to obtain on their borrowings and vice versa. **The Town is rated "Aa1" by Moody's and "AAA" by S&P.**



Tax Rate Components

- Addison's Fiscal Year (FY) 2018 total tax rate is \$0.55 per \$100 of Taxable Assessed Valuation ("TAV").
- Municipal Tax Rates are divided into two components:
 - Interest and Sinking (I&S) which can only be used to pay the Town's annual bonded debt payments - **\$0.153042**
 - Maintenance and Operations* (M&O) which is used for operating expenses of the Town - **\$0.396958**

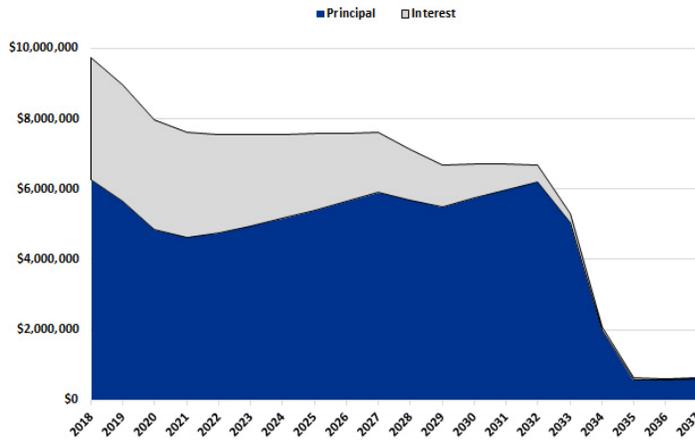
*Funds Public Safety, Parks, Streets, Municipal Court, etc.

FY2018 Tax Rate



■ I&S Tax Rate
■ M&O Tax Rate

Existing Debt Overview

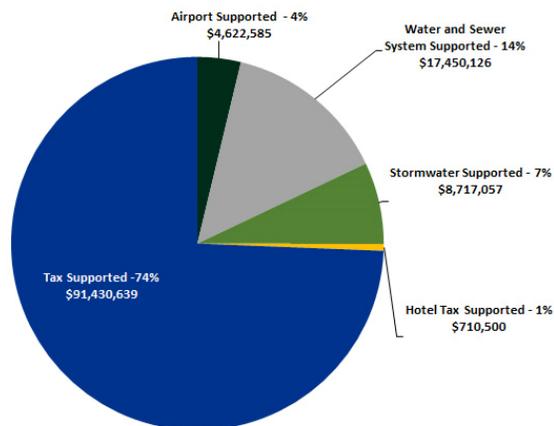


- As of September 30, 2017, the Town had \$91,100,000 of principal and \$31,830,906 of associated interest due from 2018-2037 for a total outstanding debt of \$122,930,906
- Includes debt that is repaid by taxes, water/sewer revenue, hotel occupancy tax, airport, and stormwater revenues

TOWN OF ADDISON, TEXAS

Existing Debt Overview

Total* Outstanding Principal and Interest Payments by Repayment Source As of 9/30/17



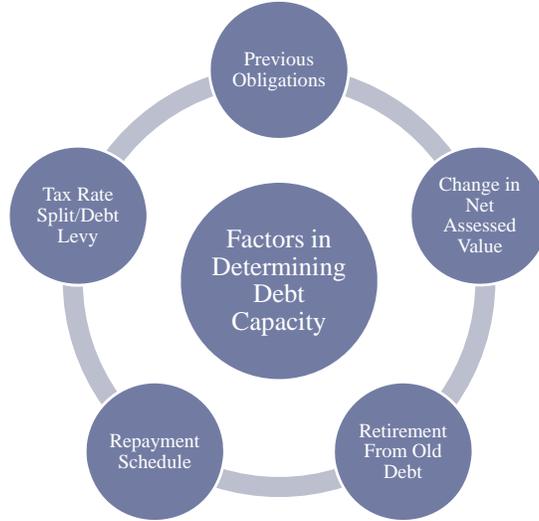
Approximately 26% of the Town's existing debt is paid by revenues other than property taxes.

*Total includes \$91,100,000 of principal plus \$31,830,906 of associated interest due from 2018-2037 for a total outstanding debt of \$122,930,906.

TOWN OF ADDISON, TEXAS

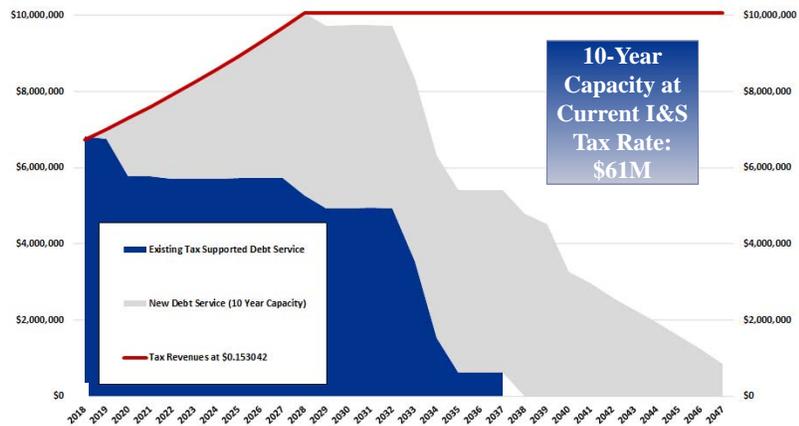
Debt Capacity

Debt capacity is the Town's ability to borrow funds under existing conditions.



TOWN OF ADDISON, TEXAS

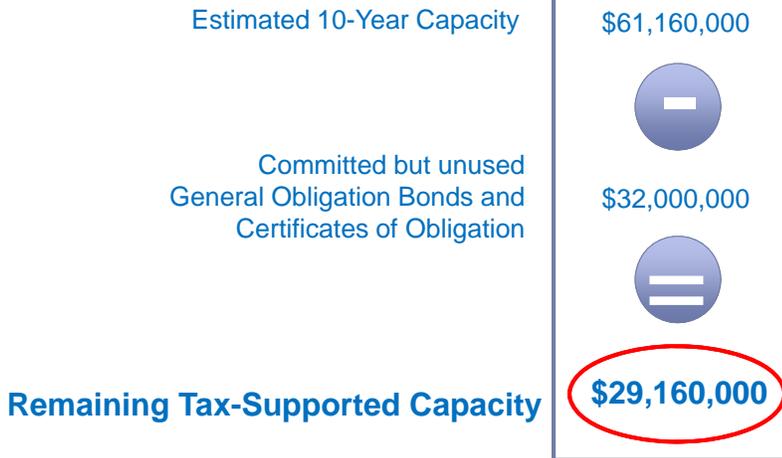
Tax-Supported Debt – 10-Year Capacity at Current I&S Rate



- Total capacity of \$61,016,000 over 10 years based on the existing I&S Tax rate of \$0.153042
- Assumptions: 4.1% annual taxable assessed valuation growth for 10 years with no growth thereafter (as provided by Town officials), 20-year level annual debt service at 4.00% in 2018, 4.50% in 2019 and 5% thereafter, and current debt service tax rate of \$0.153042

TOWN OF ADDISON, TEXAS

Tax-Supported Debt – 10-Year Capacity at Current I&S Rate



TOWN OF ADDISON, TEXAS

Each additional \$0.01 of debt service tax rate equals approximately \$5.7 million of additional capacity.

Legal Requirements of Issuing Debt



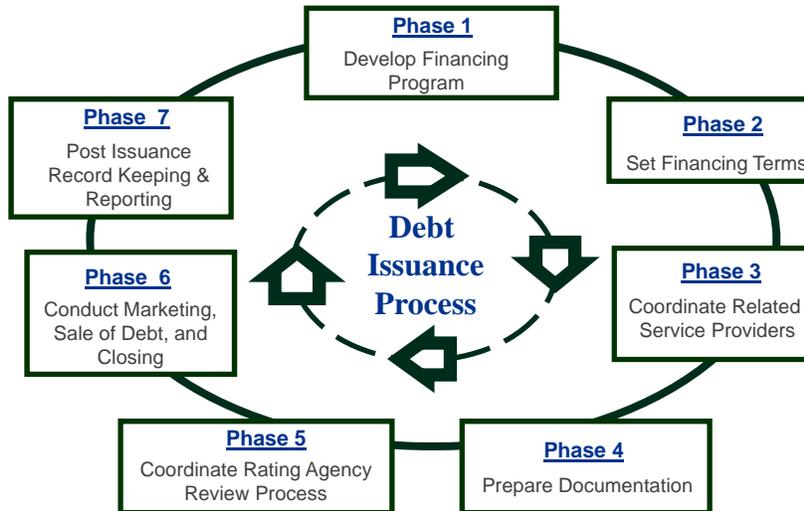
- Texas cities have specific authorization to enter into legal debt obligations as provided in the 1876 State Constitution
- All debt obligations must be approved by the City Council and the Texas Attorney General
- The approval process for the most common debt obligations is as shown below:

	General Obligation Bonds	Certificates of Obligation	Tax Notes	Revenue Bonds
Public Approval/Notice Requirements	Bond Election	Notice of Intent to Issue Published in Local Paper	None Required	None Required
Security/Pledge	Taxes Only	Taxes and/or Revenues	Taxes and/or Revenues	Revenues Only
Other Considerations	If Election fails*, how does Town address needs?	Subject to petition by 5% of Registered Voters	Maximum Maturity of 7 Years	Mandatoy Bond covenants; higher interest rate than tax secured debt

*Note: If bond election fails, Town cannot issue CO's for that same project for 3 years.

TOWN OF ADDISON, TEXAS

Process for Issuing Debt



Debt 201 – Next Steps

- Evaluate Capital Improvement Projects
- Complete ADA Transition Plan
- Complete Asset Management Plan
- ***Evaluate and prioritize needs versus capacity***