



Capital Investment Strategy: Day 2

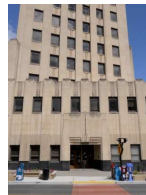
City of Tacoma | Finance Department

City Council Study Session
July 23, 2019



STUDY SESSION WORK PLAN

- Tour Debrief
- Municipal Finance Overview
- Current Policies and Regulatory Environment
- Level of Service Case Studies



AGENDA: DAY 2



- Asset Management Refresh
- Municipal Finance
 - Why Issue Bonds?
 - Types of Municipal Bonds
 - Tacoma's Debt Capacity
 - Credit Ratings
 - Issuance Process



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BEST PRACTICES



- Continual Assessment
 - Periodic reporting on condition of assets
 - Keep managers informed of potential problems
- Life Cycle Replacement
 - Maintain database of expected life of asset
 - Ensure proper inspection schedule
- Level of Service
 - Does asset meet current needs and level of service standards
- Prioritization
 - Monitor short and long range goals and needs
 - Allocate funding

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Considerations in the Issuance of Municipal Bonds

Teresa Sedmak



AGENDA



- Why Issue Bonds?
- Types of Municipal Bonds
- Tacoma's Debt Capacity
- Credit Ratings
- Issuance Process

WHAT IS A MUNICIPAL BOND?



- A municipal bond is a debt security (loan) issued by a state, city, municipality, county or other public entity to finance its capital expenditures, including the construction and/or acquisition of public assets.
- Municipal bonds are generally exempt from federal taxes and most state and local taxes, making them especially attractive to those in high income tax brackets.

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WHY ISSUE BONDS?



- Public Purpose/Infrastructure Need
- Allows for Repayment Over Time
- Match Repayment Term to Useful Life of Asset
- Generational Equity
- Reduce Cost/Inflation Risk
- Reduce Interest Rate Risk

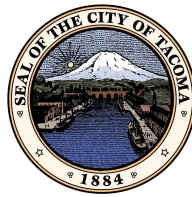
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TYPES OF MUNICIPAL BONDS



- General Obligation Bonds
 - Backed by full faith and credit of the City
 - Unlimited-Tax General Obligation (UTGO) – Vote required
 - Limited-Tax General Obligation (LTGO) – No vote required
- Revenue Bonds
 - Backed by project or industry-specific revenues
- Special Assessment Obligations
 - Debt used to finance a defined project
 - Special assessment repays debt
- Lease Purchase Financings
- Government Loan Programs
- Private Placements/Bank Loans

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Tacoma's Debt/Bonding Capacity



TACOMA'S BONDING CAPACITY



- **State Constitution Limits:**
 - General Purpose Indebtedness
 - Limited to 1.5% of Total Taxable Property Value
 - Can increase to 2.5% of Total Taxable Property Value with a 3/5 Favorable Vote of the People
- **Tacoma Financial Policies:**
 - Require maintenance of cash reserves (currently 10% of non-voted debt capacity) to:
 - Address unanticipated declines in revenue
 - Fund large and unexpected one-time expenditures
 - Maintain favorable credit ratings

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TACOMA'S BONDING CAPACITY (CONT.) (AS OF 12/31/2018)



Tacoma Total Taxable Property Value: \$26,551,124,530

Non-Voted General Purpose Indebtedness Limit

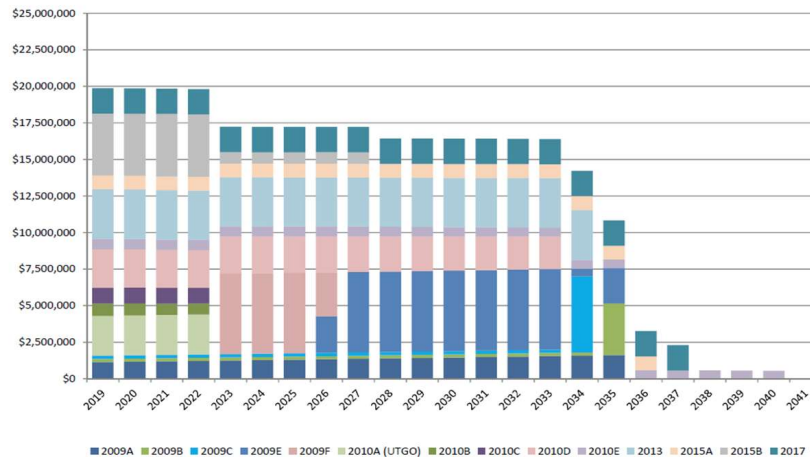
(1.5% of Total Taxable Property Value)	398,266,868
Tacoma Non-Voted Debt	<u>(222,662,655)</u>
Remaining Legally Available Non-Voted Capacity	175,604,213
Less Required Reserve (10% of Non-Voted Capacity)	<u>(39,826,687)</u>
Available Capacity – (net of Reserves)	135,777,526

General Purpose Indebtedness Limit (requires 3/5 of the people) (includes non-voted)

(2.5% of Total Taxable Property Value)	\$663,778,113
Tacoma Non-Voted Debt	<u>(222,662,655)</u>
Remaining Legally Available Voted Capacity	441,115,458
Tacoma Voted Debt (net of assets available)	<u>(8,569,060)</u>
Remaining Debt Capacity	432,546,398
Less Required Reserve (10% of Non-Voted Capacity)	<u>(39,826,687)</u>
Total Available Capacity	392,719,711

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CITY OF TACOMA DEBT PROFILE (GO and LTGO)



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SAMPLE DEBT SERVICE SCHEDULE

Term		20	
Interest Rate		3.00%	
Project Fund		\$88,500,000	
DSRF	10%	\$10,000,000	
COI	1.50%	\$1,500,000	
Total Principal		\$100,000,000	
Year	Principal	Interest	Total
2020	\$3,721,570.76	\$3,000,000.00	\$6,721,570.76
2021	\$3,833,217.88	\$2,888,352.88	\$6,721,570.76
2022	\$3,948,214.42	\$2,773,356.34	\$6,721,570.76
2023	\$4,066,660.85	\$2,654,909.91	\$6,721,570.76
2024	\$4,188,660.68	\$2,532,910.08	\$6,721,570.76
2025	\$4,314,320.50	\$2,407,250.26	\$6,721,570.76
2026	\$4,443,750.11	\$2,277,820.65	\$6,721,570.76
2027	\$4,577,062.62	\$2,144,508.14	\$6,721,570.76
2028	\$4,714,374.49	\$2,007,196.27	\$6,721,570.76
2029	\$4,855,805.73	\$1,865,765.03	\$6,721,570.76
2030	\$5,001,479.90	\$1,720,090.86	\$6,721,570.76
2031	\$5,151,524.30	\$1,570,046.46	\$6,721,570.76
2032	\$5,306,070.03	\$1,415,500.73	\$6,721,570.76
2033	\$5,465,252.13	\$1,256,318.63	\$6,721,570.76
2034	\$5,629,209.69	\$1,092,361.07	\$6,721,570.76
2035	\$5,798,085.98	\$923,484.78	\$6,721,570.76
2036	\$5,972,028.56	\$749,542.20	\$6,721,570.76
2037	\$6,151,189.42	\$570,381.34	\$6,721,570.76
2038	\$6,335,725.10	\$385,845.66	\$6,721,570.76
2039	\$6,525,796.85	\$195,773.91	\$6,721,570.76
Totals	\$100,000,000.00	\$34,431,415.19	\$134,431,415.19

Revenue Options to support the debt payments:

- a) existing revenues or spending cuts
- b) new Voter-Approved revenues (including property tax levies – 60% Vote)

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DEBT SERVICE – FUNDING OPTIONS



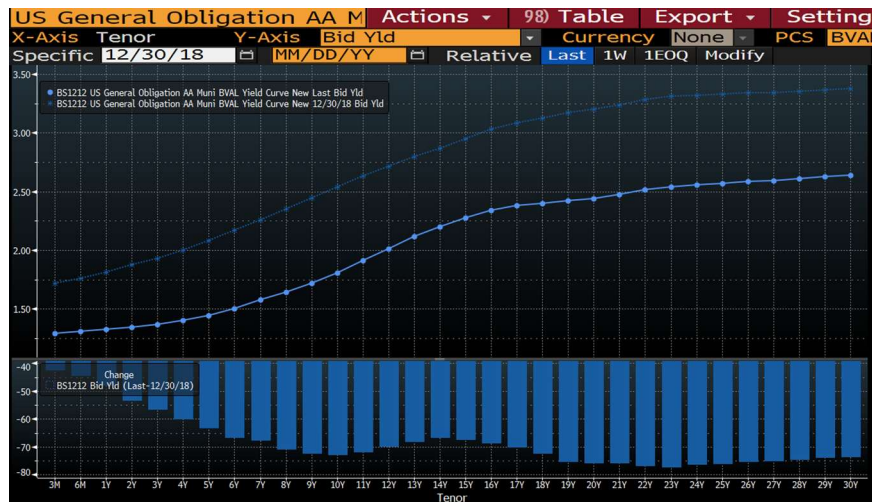
\$7 Million Annual Debt Service Payments

- New Revenue Options
 - Voter Approved: Property Tax Levy (\$7M is a \$0.27 per \$1,000 AV property tax rate)
 - Voter Approved: Gross Earnings Tax (up to \$3M)
 - City Council Approved: Business and Occupations Tax (up to \$9M)
- Reduce Annual General Fund Expenditures*
 - Size of General Fund Departments:
 - Office of Arts and Cultural Vitality (\$2 million)
 - City Attorney's Office (\$5 million)
 - Municipal Court (\$10 million)
- Additional Opportunity Costs

*Examples are intended to illustrate orders of magnitude and are not recommendations

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CURRENT INTEREST RATES



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CREDIT RATINGS

CREDIT RATINGS



Higher credit ratings translate into lower borrowing costs

➤ Tacoma's G.O. Credit Ratings are:

Moody's: Aa2
Fitch: AA
S&P: AA

Sortable Table Key	Moody's	Fitch	S&P
Highest grade credit	Aaa	AAA	AAA
Very high grade credit	Aa1, Aa2, Aa3	AA+, AA, AA-	AA+, AA, AA-
High grade credit	A1, A2, A3	A+, A, A-	A+, A, A-
Good credit grade	Baa1, Baa2, Baa3, Baa4	BBB+, BBB, BBB-	BBB+, BBB, BBB-
Speculative grade credit	Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-
Very speculative credit	B1, B2, B3	B+, B, B-	B+, B, B-
Substantial risks - In default	Caa1, Caa2, Caa3, Ca	CCC, CC, C, RD, D	CCC+, CCC, CCC-, CC, C, D

IMPACT OF CREDIT RATINGS ON BORROWING COSTS *

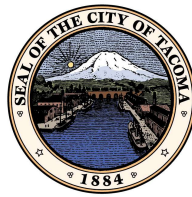
- Assume \$100 million bond issuance
- Assume 20-year term with level debt service

	<u>AA ratings</u>	<u>A ratings</u>
Borrowing rate:	3.00%	3.40%
Total Interest:	\$34.4mm	\$39.4mm

Cost of Credit Spread: \$5 million (\$39.4mm - \$34.4 mm)

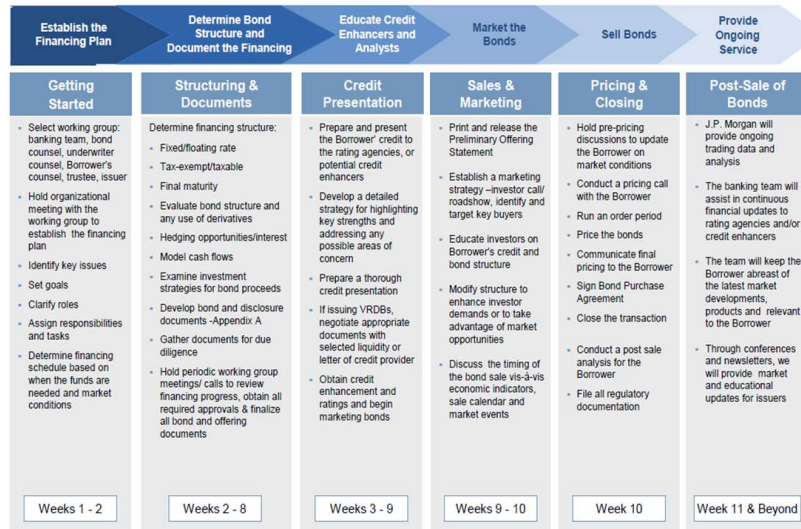
*For illustrative purposes only. Rates and credit spreads change over time.

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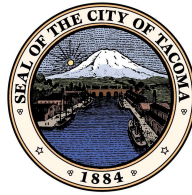


ISSUANCE PROCESS

CRITICAL STEPS IN THE ISSUANCE PROCESS



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QUESTIONS?



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