

Debt

Some projects are too costly to be funded with current year revenues alone. Examples include new street construction, building construction, and water and sewer line replacements, all of which can cost several million dollars a piece. In order to continue to provide routine services such as police and fire, projects like these are funded by selling bonds.

When bonds are sold, the city receives money from the sale which it uses to fund the project. The city must then make regular payments to pay off the principal and interest on the bond. This is similar to getting a mortgage to purchase a home and then making monthly payments to pay off the loan.

Projects are determined several years in advance of when they actually need to be constructed. A group of projects that will need bond funding is typically referred to as a “bond package”.

Some bond packages are so large that a vote is held to determine whether to incur the debt necessary to construct them. Bonds that are voted on are called “General Obligation Bonds”. Other bond packages can be approved by the City Council only. Bonds approved by Council only are called “Certificates of Obligation Bonds” (or “Revenue Bonds” if they are for water and sewer projects).

The City of Lewisville has three major categories of debt: General Fund debt, 4B Sales Tax Fund debt and Utility Fund debt. Debt in the General Fund is currently from General Obligation bonds. Debt in the 4B Fund is currently from Certificates of Obligation bonds and debt in the Utility Fund is currently from Revenue Bonds.

Category	Debt is Paid for By:	Types of Bonds Being Used:	Authorized By:
General Fund	Property Taxes	General Obligation	Voters
Utility Fund	Water / sewer revenues	Revenue bonds	City Council
4B Fund	4B Sales Tax	Certificate of Obligation	City Council
TIF Fund	Property Taxes	Certificate of Obligation	City Council

Municipal Bond Rating

The city’s General Obligation Bonds and Certificates of Obligation carry an AA rating from Fitch and an AA+ rating from Standard and Poor’s, both of which are national rating agencies. The city’s Water and Sewer Revenue Bonds carry an AA+ from Standard and Poor’s and an AA rating from Fitch’s.

Type	Fitch	Standard & Poor’s
General Fund	AA	AA+
Utility Fund	AA	AA+

Future Debt Payments Required

Based on debt sold as of October 1, 2008 and on a General Obligation debt call for February, 2010 authorized by the City Council during the budget process, the city will be required to make annual payments as follows (includes principal and interest):

FY	GO Bonds	CO Bonds	Revenue Bonds	TOTAL DEBT PAYMENTS
2009-2010	8,425,089.34	3,243,881.28	7,498,647.52	19,167,618.14
2010-2011	7,804,040.04	3,264,790.65	6,965,478.77	18,034,309.46
2011-2012	7,602,991.29	3,286,275.02	6,578,823.77	17,468,090.08
2012-2013	7,402,603.79	3,405,625.02	6,186,446.27	16,994,675.08

2013-2014	7,023,833.79	3,438,300.02	5,599,146.27	16,061,280.08
2014-2015	6,674,985.04	3,464,950.02	5,234,970.02	15,374,905.08
2015-2016	6,450,731.29	3,503,175.02	5,002,023.77	14,955,930.08
2016-2017	5,739,895.04	3,522,137.52	4,367,605.02	13,629,637.58
2017-2018	5,018,543.15	3,557,668.77	4,359,298.77	12,935,510.69
2018-2019	4,345,172.51	3,591,056.27	3,600,945.02	11,537,173.80
2019-2020	4,147,440.01	3,631,822.52	2,482,165.02	10,261,427.55
2020-2021	3,534,800.01	3,664,213.77	2,483,425.64	9,682,439.42
2021-2022	3,090,375.01	3,695,296.27	2,132,653.76	8,918,325.04
2022-2023	2,484,253.13	3,729,739.39	1,788,213.13	8,002,205.65
2023-2024	1,263,412.50	3,769,225.01	1,782,923.75	6,815,561.26
2024-2025	413,606.25	2,139,909.38	995,962.50	3,549,478.13
2025-2026		2,186,425.00		2,186,425.00
2026-2027		2,228,800.00		2,228,800.00
2027-2028		1,221,175.00		1,221,175.00
2028-2029		1,220,675.00		1,220,675.00
2029-2030		1,222,550.00		1,222,550.00
2030-2031		1,224,537.50		1,224,537.50
2031-2032		1,221,887.50		1,221,887.50
TOTAL	81,421,772.19	65,434,115.93	67,058,729.00	213,914,617.12

* Note: The debt service budgets in the fund summaries reflect these amounts plus or minus any reserve buildups or draw-downs required as part of efforts to maintain a consistent I&S rate.

General Obligation Debt

The General Fund's debt is managed in a separate fund generally referred to as the "Debt Service Fund". The purpose of the Debt Service Fund is to provide for principal and interest payments for bonds issued for General Fund-related projects. These payments are made with revenue derived from the property tax (see below).

Expenditures vary each year in relation to the timing of issuance and the schedule of repayments.

Debt Service Portion of the Property Tax Rate

The property tax rate is comprised of two components: Operations and Maintenance (O&M) and Interest and Sinking (I&S). The O&M rate is developed to provide the level of funding needed to cover existing and new general fund services approved by the City Council. The I&S rate is developed to cover the interest and principal payments needed to service the City's existing debt. The debt service rate is based upon the amount of outstanding debt.

The City is permitted, by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt.

Operations & Maintenance	\$0.32156
Principal & Interest on Debt	\$0.11865
Total Property Tax Rate	\$0.44021

General Obligation Bond Election

In November of 2003, voters authorized a \$68.725 million General Obligation bond package. The election authorized three propositions:

Street Improvements	\$64,270,000
Jail Facilities	\$ 3,115,000
Public Safety Training Facilities	\$ 1,340,000
	\$68,725,000

Budgeted Debt Service Revenues vs. Actual Debt Service Revenues

Debt Service Fund revenues typically exceed the budgeted amount for three reasons:

1. Collection rate higher than budgeted: The City budgets for property tax to be collected at a rate less than 100%. Historically this amount was 98%, however the collections have actually materialized higher than that in each of the last ten years. This year is no exception as higher collections are anticipated to produce approximately \$285,000 in extra revenue. For FY 2009-10, the collection rate is budgeted at 99%.
2. Properties with Frozen Values not Allowed to be Budgeted: Property values related to the Over 65 and Disabled Tax Freeze are not allowed to be included in the effective tax rate calculation, therefore, could not be budgeted in the Debt Service Fund. However, the city receives tax revenue on that frozen value. This amounts to approximately \$150,000 in excess collections.
3. Bond Funded Projects Come in Under Budget: If funding remains at the end of a bond-funded project (including any interest earned) and there are no other projects specified in the issuance, the only option is to transfer these savings to the Debt Service Fund.
4. Arbitrage and Debt Service Fund Interest: The remaining increase in revenue is due to transfers-in related to arbitrage liability, and interest earnings exceeding budget projections.

The excess tax collections (exclusive of the funds transferred in from other sources) affect next year's effective tax rate calculation and have the effect of lowering the I&S or debt portion of the overall tax rate.

Expenditures

Expenditures include an additional \$375,897 debt service for the 2009 Issuance (street and drainage improvements).

Future General Obligation Bond Payment Requirements

Each year the city makes principal and interest payments on the debt it has issued. This section details the General Obligation bond payments, by fiscal year.

FY	Principal	Interest	Total
2009-2010	5,695,000.00	2,730,089.34	8,425,089.34
2010-2011	5,345,000.00	2,459,040.04	7,804,040.04
2011-2012	5,375,000.00	2,227,991.29	7,602,991.29
2012-2013	5,410,000.00	1,992,603.79	7,402,603.79
2013-2014	5,265,000.00	1,758,833.79	7,023,833.79
2014-2015	5,150,000.00	1,524,985.04	6,674,985.04
2015-2016	5,165,000.00	1,285,731.29	6,450,731.29
2016-2017	4,680,000.00	1,059,895.04	5,739,895.04

2017-2018	4,150,000.00	868,543.15	5,018,543.15
2018-2019	3,640,000.00	705,172.51	4,345,172.51
2019-2020	3,605,000.00	542,440.01	4,147,440.01
2020-2021	3,150,000.00	384,800.01	3,534,800.01
2021-2022	2,845,000.00	245,375.01	3,090,375.01
2022-2023	2,360,000.00	124,253.13	2,484,253.13
2023-2024	1,220,000.00	43,412.50	1,263,412.50
2024-2025	405,000.00	8,606.25	413,606.25
TOTAL	63,460,000.00	17,961,772.19	81,421,772.19

General Obligation Bond Issuances Being Paid For in FY 2009/10

This section shows how much the city will pay in FY 2009/10 for bonds it sold in past years. Bonds are *authorized* in one large amount, but are *sold* in small chunks. Bond sales usually occur each year and each one is referred to as an “issuance”.

Bond Issuance	Principal Payment (Feb 15)	Interest Payment (Feb 15)	Interest Payment (Aug, 15)	2010 Total
1999 Improv. & Ref.	205,000.00	25,360.00	20,696.25	251,056.25
2001	515,000.00	52,858.75	38,696.25	606,555.00
2002	465,000.00	60,463.75	49,420.00	574,883.75
2002 Refunding	575,000.00	29,000.00	17,500.00	621,500.00
2003	145,000.00	33,228.13	30,690.63	208,918.76
2004	380,000.00	117,153.13	109,553.13	606,706.26
2005 Ref. & Improv.	1,420,000.00	288,488.75	252,988.75	1,961,477.50
2006	355,000.00	132,343.13	125,243.13	612,586.26
2007 Ref. & Improv.	665,000.00	405,675.00	392,375.00	1,463,050.00
2008	260,000.00	171,578.13	167,028.13	598,606.26
2009	710,000.00	126,911.80	82,837.50	919,749.30
TOTAL	5,695,000.00	1,443,060.57	1,287,028.77	8,425,089.34

Certificate of Obligation Debt

Certificates of obligation have been issued by the City Council for 4B Fund related projects and Old Town TIF Fund related projects.

In 2002, voters approved a ¼ cent sales tax for the development of a parks and library projects fund (authorized under Texas statute Title 83, Chapter 10, Article 5190.6 (Development Corporation Act of 1979), Section 4B). To begin construction of projects immediately (rather than waiting for revenue from the sales tax to accumulate), the City Council authorized a \$21 million Certificate of Obligation bond in 2004. In 2007, another 18.18 million was issued for Railroad Park.

In 2007, Council issued another certificate of obligation bond to fund the construction of an arts activity center in the Old Town Tax increment Finance (TIF) District. This bond was for \$8.04 million.

Future Certificate of Obligation Bond Payment Requirements

Each year the city makes principal and interest payments on the debt it has issued. This section details the Certificate of Obligation bond payments, by fiscal year.

FY	Principal	Interest	Total
2009-2010	1,285,000.00	1,958,881.28	3,243,881.28
2010-2011	1,355,000.00	1,909,790.65	3,264,790.65
2011-2012	1,430,000.00	1,856,275.02	3,286,275.02
2012-2013	1,610,000.00	1,795,625.02	3,405,625.02
2013-2014	1,715,000.00	1,723,300.02	3,438,300.02
2014-2015	1,825,000.00	1,639,950.02	3,464,950.02
2015-2016	1,955,000.00	1,548,175.02	3,503,175.02
2016-2017	2,070,000.00	1,452,137.52	3,522,137.52
2017-2018	2,205,000.00	1,352,668.77	3,557,668.77
2018-2019	2,345,000.00	1,246,056.27	3,591,056.27
2019-2020	2,500,000.00	1,131,822.52	3,631,822.52
2020-2021	2,655,000.00	1,009,213.77	3,664,213.77
2021-2022	2,815,000.00	880,296.27	3,695,296.27
2022-2023	2,985,000.00	744,739.39	3,729,739.39
2023-2024	3,170,000.00	599,225.01	3,769,225.01
2024-2025	1,655,000.00	484,909.38	2,139,909.38
2025-2026	1,785,000.00	401,425.00	2,186,425.00
2026-2027	1,920,000.00	308,800.00	2,228,800.00
2027-2028	985,000.00	236,175.00	1,221,175.00
2028-2029	1,035,000.00	185,675.00	1,220,675.00
2029-2030	1,090,000.00	132,550.00	1,222,550.00
2030-2031	1,145,000.00	79,537.50	1,224,537.50
2031-2032	1,195,000.00	26,887.50	1,221,887.50
TOTAL	42,730,000.00	22,704,115.93	65,434,115.93

Certificate of Obligation Bond Issuances Being Paid For in FY 2009/10

This section shows how much the city will pay in FY 2009/10 for bonds it sold in past years. Bonds are *authorized* in one large amount, but are *sold* in small chunks. Bond sales usually occur each year and each one is referred to as an “issuance”.

Bond Issuance	Principal Payment (Feb 15)	Interest Payment (Feb 15)	Interest Payment (Aug, 15)	2010 Total
2004 Tax & Revenue (4B)	835,000.00	425,553.13	410,940.63	1,671,493.76
2007-A Tax & Revenue (4B)	450,000.00	391,004.38	382,004.38	1,223,008.76
2007-B Tax & Revenue (TIF)	0.00	174,689.38	174,689.38	349,378.76
TOTAL	1,285,000.00	991,246.89	967,634.39	3,243,881.28

Utility Fund Debt (Revenue Bonds)

The Utility Fund’s debt is managed in the same fund as the operating expenditures. This is because it is a proprietary fund. The purpose of the Utility Fund debt budget is to provide for principal and interest payments for bonds issued for Utility Fund-related projects. These payments are made with revenue derived from the sale of water and sewer services (and other related revenues).

For the Utility Fund, the City Council authorizes the sale of bonds. These are called “Revenue Bonds” and are similar to Certificates of Obligation bonds.

Expenditures vary each year in relation to the timing of issuance and the schedule of repayments.

Future Revenue Bond Payment Requirements

Each year the city makes principal and interest payments on the debt it has issued. This section details the Revenue Bond payments, by fiscal year.

FY	Principal	Interest	Total
2009-2010	5,360,000.00	2,138,647.52	7,498,647.52
2010-2011	5,040,000.00	1,925,478.77	6,965,478.77
2011-2012	4,855,000.00	1,723,823.77	6,578,823.77
2012-2013	4,665,000.00	1,521,446.27	6,186,446.27
2013-2014	4,270,000.00	1,329,146.27	5,599,146.27
2014-2015	4,085,000.00	1,149,970.02	5,234,970.02
2015-2016	4,025,000.00	977,023.77	5,002,023.77
2016-2017	3,550,000.00	817,605.02	4,367,605.02
2017-2018	3,695,000.00	664,298.77	4,359,298.77
2018-2019	3,080,000.00	520,945.02	3,600,945.02
2019-2020	2,085,000.00	397,165.02	2,482,165.02
2020-2021	2,175,000.00	308,425.64	2,483,425.64
2021-2022	1,910,000.00	222,653.76	2,132,653.76
2022-2023	1,640,000.00	148,213.13	1,788,213.13
2023-2024	1,705,000.00	77,923.75	1,782,923.75
2024-2025	975,000.00	20,962.50	995,962.50
TOTAL	53,115,000.00	13,943,729.00	67,058,729.00

Revenue Bond Issuances Being Paid For in FY 2009/10

This section shows how much the city will pay in FY 2009/10 for bonds it sold in past several years. Bonds are *authorized* in one large amount, but are *sold* in small chunks. Bond sales usually occur each year and each one is referred to as an “issuance”.

Bond Issuance	Principal Payment (Feb 15)	Interest Payment (Feb 15)	Principal Payment (Aug 15)	Interest Payment (Aug 15)	2010 Total
1997 Ref. & Impr.	190,000.00	23,102.50		17,925.00	231,027.50
1998	290,000.00	14,627.50		7,595.00	312,222.50
1999 Improv. & Ref.	470,000.00	28,350.00		17,187.50	515,537.50
1999 Sub. Lien		129,448.75	490,000.00	129,448.75	748,897.50
2002 Refunding	140,000.00	14,337.50		11,362.50	165,700.00
2002-A	510,000.00	136,027.50		123,915.00	769,942.50
2003	260,000.00	64,493.75		58,643.75	383,137.50
2003-A Refunding	715,000.00	36,800.00		22,500.00	774,300.00
2005 Ref. & Impr.	1,055,000.00	217,268.75		190,893.75	1,463,162.50
2006	205,000.00	73,761.25		69,661.25	348,422.50
2008	445,000.00	176,859.38		169,071.88	790,931.26
2009	590,000.00	205,633.13		199,733.13	995,366.26
Total	4,870,000.00	1,120,710.01	490,000.00	1,017,937.51	7,498,647.52