

# Memorandum

**Date:** May 18, 2021

**To:** Mayor and City Council

**Subject:** 2021 Certificates of Obligation Program



In response to a threatened petition that could possibly force a ballot issue, the City Council directed a change in the 2021 Certificates of Obligation Program at its meeting last night, reducing the project list and funding amount to approximately \$14.8M.

While no such petition has been filed nor determined to be legally compliant, state law certainly compromises the City Council's decision-making at it relates to this situation. It is important, however, to document for the record the adverse conditions – and increased costs – that will result from this situation for the City and its taxpayers:

- a) Not funding the proposed parks projects, matching funds for pending major sidewalks projects, a new/renovated Elgin Police Station, the County Line Phase 1 reconstruction project, and the City Hall Annex will clearly have a negative impact on city operations, services, and employee morale.
- b) If more than one issue is sold, cost of issuance is likely to result in \$200-300,000 in additional costs. Such issuance costs include required services such as Bond Counsel, Underwriter's Discount, Ratings, Paying/Escrow Agent, Redemption Fees and Bond Insurance.
- c) Delaying part of the issue will likely result in having to pay a higher interest rate on the bonds. Most economists are predicting higher interest rates in the future due to inflationary pressures currently trending. Even a 1% increase will result in a significant cost increase to taxpayers.
- d) Calculation of the debt portion of the property tax rate must be made on existing debt which will now lower the rate in the FY21-22 Annual Budget. However, at such time as future bonds are issued to fund the General Government projects, the tax rate will have to be increased substantially.
- e) The impact on the bond market's response to multiple bond issues in a short period of time cannot help but be somewhat negative. Bond investors make the best decisions when there are few, if any, distractions related to sizing the issue or concerns about the volatility of the sellers.
- f) Not moving forward with the County Line Rd. Project puts at risk the City's agreement with private developers to pay for major costs of this project. The loss of funding could also eliminate any leverage with TxDOT or Travis County to receive funding support for the next 2 phases of the project.

The staff focus of the 2021 CO Program was to proceed with a pro-active response to capital improvement needs. All of the projects as originally proposed eventually will be done by the City. The proposed plan would have helped to address those needs *before* it became a "crisis management" situation – which will occur if the City waits 2-3 years to start on any of those projects.

In closing, we **unequivocally stand by our original recommendation as proposed for the 2021 Certificates of Obligation Program as the correct path for city operations and finances moving forward at this time**; while at the same time recognizing that Council's decision-making ability has been greatly compromised by state law and the alleged petition.

A stylized signature of Thomas L. Mattis, consisting of a large 'T' and 'M'.

Thomas L. Mattis  
City Manager

A cursive signature of Charles L. Cunningham.

Charles L. Cunningham  
ACM/Chief Financial Officer