

*Lower Rio Grande Valley Water Quality  
Management and Planning Conference*

*April 10, 2014*



**FINANCING  
DRAINAGE  
PROJECTS**

Presented by:

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# Topics covered by the presentation

- Types of financing mechanisms available to Cities and districts
- Describe how a city issues bonds
- Identify the finance team that the City works with the issue the bonds
- Describe special programs and processes available to Cities to sell bonds for such projects.

# Types of Bond Financing

- General Obligation Bonds (Election)
- Certificates of Obligation (COs)
- Tax Notes (7 years maturity length)
- Other vehicles available to districts and EDCs.



# Types of Pledges

- Ad Valorem (Property Tax)
- Certain Utility Revenues
- Storm Water Fees
- Sales Tax (4A/4B)



# General Obligation

- Cities
  - Authorized pursuant to Chapter 1331, Texas Government Code (payable from ad valorem taxes)
- Special Districts, i.e. Water Control and Improvement Districts
  - Authorized pursuant to Chapters 49 and 51, Texas Water Code (payable from ad valorem taxes in the amount it considers expedient)

# Certificates of Obligation

- Cities and Counties Only
  - Authorized pursuant to Subchapter C of Chapter 271, Texas Local Government Code (Certificate of Obligation Act of 1971)
  - Require no voter authorization; but if a petition protesting the issuance of the certificates is received, the issuer may not authorize the issuance of the certificates unless the issuance is approved at an election ordered, held, and conducted in the manner provided for bond elections



# Certificates of Obligation Continued

- A Notice of Intention to issue certificates of obligation is required to be published
- An issuer may authorize certificates to pay contractual obligations to be incurred
- When secured solely by ad valorem taxes, certificates can only be issued for limited purposes
- When secured by a combination of ad valorem taxes and a limited revenue pledge, certificates can be issued for any lawful purpose

# Tax Notes

- Counties, cities and certain flood control districts
- Authorized to be issued pursuant to Chapter 1431, Texas Government Code



# Tax Notes

- May issue notes for:
  - a contractual obligation incurred or to be incurred
  - operating or current expenses; or
  - the issuer's cumulative cash flow deficit



# Tax Notes

- Secured by the following sources:
  - pledge of anticipated al valorem taxes and/or revenues,
  - proceeds of bonds to be issued by the issuer;
  - current revenue sources;
- Term - maximum maturity of 7 years

# Revenue

- Authorized to be issued pursuant to the statute governing the operating system (i.e. airport, water, sewer, etc.)
- Require no voter authorization since they are not backed by the full faith and credit of the issuer
- Issued for revenue producing systems/projects, i.e. water system, sewer system, sanitation, airport, toll bridge, sales tax

# Revenue

- Payable solely from the revenues of a specific enterprise fund or a revenue producing project
- Require revenues to be budgeted to cover both debt service on the bonds and a reserve fund accumulation by a coverage margin (i.e. 1.25 times)

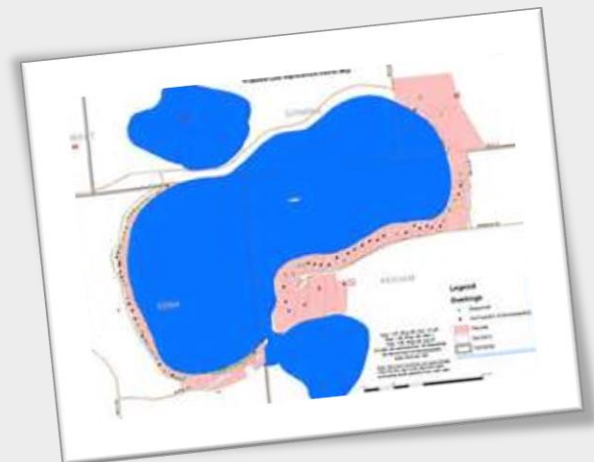
# Economic Development Corporations

- Civil Statutes, Internal Revenue Code
  - must obtain a portion of the private activity bond allocation

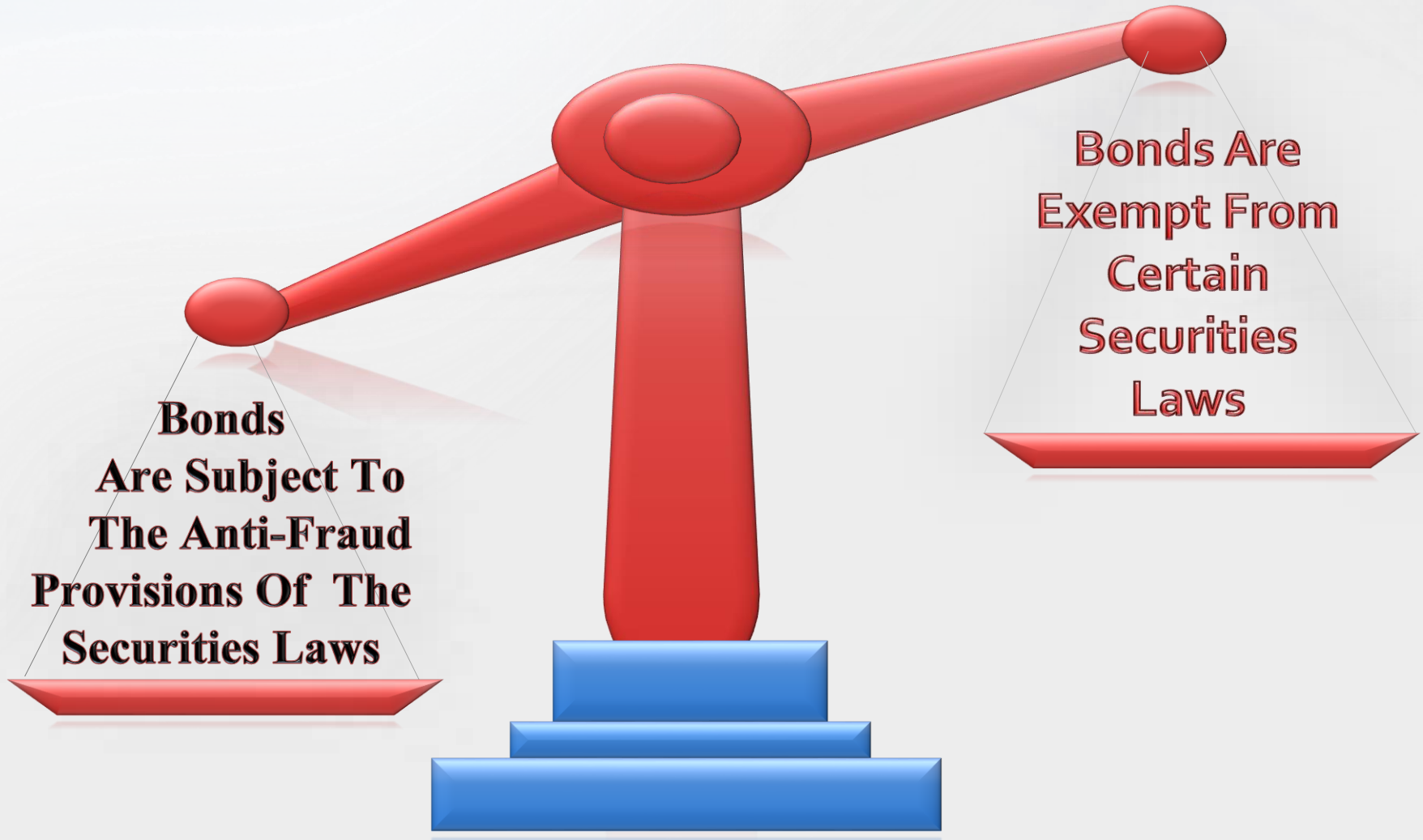


# Public Improvement Districts

- Local Government Code
  - used for infrastructure improvements that will benefit the public, such as streets, water and sewer lines



# Bonds and Other Debt Instruments are Securities





# GENERAL OBLIGATION AND REVENUE



# Purpose

**To issue public security that is  
secured by ad valorem taxes**



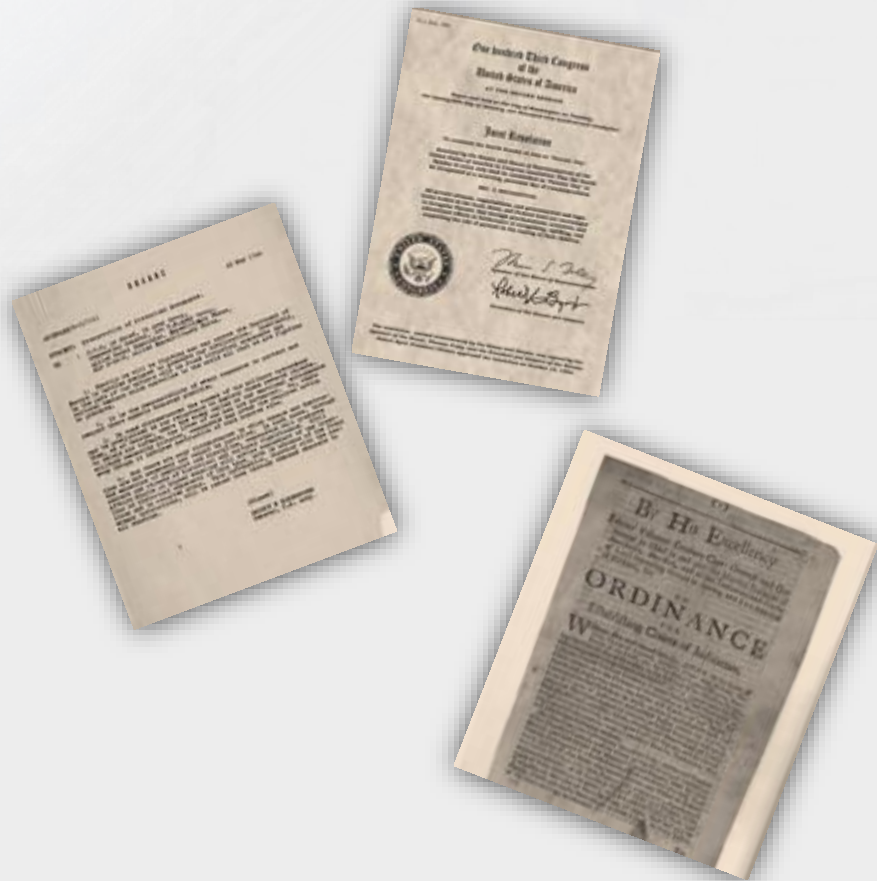
# Why Order

**Election is to obtain citizens  
(voters) approval**



# When and How Ordered

- Ordered by:
  - Ordinance
  - Resolution
  - Order



# Language of Document Ordering an Election

## E.C. 3.009

- 1) the proposition language that will appear on the ballot;
- 2) the purpose for which the debt obligations are to be authorized;
- 3) the principal amount of the debt obligations to be authorized;
- 4) that taxes sufficient to pay the annual principal of and interest on the debt obligations may be imposed;

# Language

- 5) a statement of the estimated tax rate if the debt obligations are authorized or of the maximum interest rate of the debt obligations or any series of the debt obligations, based on the marked conditions at the times of the election order;
- 6) the maximum maturity date of the debt obligations to be authorized or that the debt obligations may be issued to mature over a specified number of years not to exceed 40;
- 7) the aggregate amount of the outstanding principal of the political subdivision's debt obligations as of the beginning of the political subdivision's fiscal year in which the election is ordered;



# Language

- 8) the aggregate amount of the outstanding interest on debt obligations of the political subdivision as of the beginning of the political subdivision's fiscal year in which the election is ordered; and
- 9) the ad valorem debt service tax rate for the political subdivision at the time of the election is ordered, expressed as an amount per \$100 valuation of taxable property.





# CERTIFICATE OF OBLIGATION



# Notice of Public Hearing and Intention to Issue

- Certificate of Obligation Act of 1971, as amended, Local Government Code Section 271.041, et seq.
- Should state date, time, and place of meeting to approve certificate of obligation
- Must state amount of certificate and what projects the money will pay
- Must be published same day for two consequent weeks with first publication at least 30 days before meeting

# Petition

## E.C. 277

- Signed by at least 5% of the registered voters
- Received by Governing Body before meeting to issue
- Verified by City Secretary or Secretary of Governing Body

# Finance Team

## Bond Counsel

Outside attorney who assists with issuance of bonds

## Financial Advisor

Guidance on type of security and structure

## Underwriter

Brokerage  
Bond dealer

## Purchaser

Syndicate to buy bonds



# Finance Team

## Paying Agent

Handles closing  
Registers owners  
Coordinates receipt of  
payment

## Credit Rating Agency

Evaluates financial condition  
Moody's  
Fitch  
S & P  
Duff & Phelps

## Bond Insurers

Companies to  
ensure payment



# State/Federal Approval

## Attorney General of Texas

Review, approve, and register

## Comptroller of Public Accounts

Review, approve, and register

## Internal Revenue Service

Imposes an overlay to maintain tax exempt status



# Others



TWDB

USDA



TxDOT

TCEQ





# Proposition 6

## SWIFT

- Objective – Provide financial assistance
- Support state water plan
- Loans to political subdivisions and WSCs
- Target projects from regional water plans

# Proposition 6

## SWIFT

- Allocations for:
  - New supply development
  - Conservation and reuse
  - Other surface water strategies
- Allocations for rural, agricultural and other
- Prioritization based on types and timing

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