

Jason Hughes

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Date: August 11, 2021

To: Lewisville City Council

Cc: Donna Barron; David Erb

Subject: Bond Election Assumptions

Following is a discussion on the general structure and underlying assumptions tied to the City of Lewisville's proposed bond election for \$95 million. City Staff typically review the capital improvement program (CIP) and associated planned bond issuances at least twice per year. Included in that review are discussions of how much debt will be issued and when, the current as well as projected tax values and maintenance of the current I&S tax rate, which is 12.232 cents. This review covers a minimum time period of 10 years.

In addition to the City's current authorized but unissued bond authority of \$29,742,000 from the November 2015 bond election, the following planned and potential bond issuances are considered:

- Refunding of contract revenue debt associated with Castle Hills Districts #1-B, #1-C, #1-D, #1-E, and #1-F (debt associated with Districts #1-G and #1-H are accounted for in the TIRZ), anticipated to occur in November 2021
- Debt associated with a potential \$100 million bond election assumed to be held in calendar year 2023
- Planned certificates of obligation issuances, if any
- Future refundings are NOT taken into account

Lewisville typically repays its general obligation debt over a 16-year period, which is very rapid as compared to other Texas cities. In certain cases, the City sells debt with a 20-year final maturity. The current CIP assumes a mixture of debt issued with 16-year and 20-year maturities, structured to maintain the current I&S tax rate and provide future debt capacity.

Another key component of the CIP are the interest rate assumptions. Long-term interest rates are near historic lows. As an example, currently a 20-year financing for a City general obligation bond would

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result in a true interest cost, or average rate, of 2.00%. To be conservative, future bond issuances are assumed at interest rates ranging from 3.00% (assumed 2022 issuance) to 5.00% (for issuances in 10+ years).

In summary, the CIP represents a conservative projection of potential future debt service taking into account currently contemplated CIP needs as well as the planned refunding of the Castle Hills debt. Based on the underlying assumptions, the City can issue all of the referenced debt and maintain the current I&S tax rate of 12.232 cents. I would be happy to answer any questions or provide further detail as the Council would like.

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