

Debt Service Summary

2011-12

The cost of acquisition for large capital items and the construction of infrastructure sometimes exceed the amount of funding available from operating revenues and resources. When this occurs, the City may use long-term debt obligations, typically bonds and certificates of obligation. These issues require greater legal formality than bank loans and some may also require voter approval.

Outstanding Debt

The City of Andrews currently has no debt outstanding.

Anticipated Debt

In May, 2011, voters approved the adoption of a $\frac{1}{4}$ of 1% sales and use tax within the City of Andrews for the benefit of a corporation to be established by the City in accordance with the provisions of Chapter 505, Texas Local Government Code, as amended, to pay the costs of constructing, improving, maintaining and operating a relief highway route around and outside the boundaries of the City to promote new or expanded business development, including related drainage, striping, signalization and site improvements, and including the payment of principal of, interest on and other costs relating to any bonds, notes or other obligations issued by said corporation to support the relief highway project.

The 2011-12 Budget includes the issuance of 20-year *Certificates of Obligation* in the amount of \$6.485 million to finance the construction of a relief highway project with principal and interest payments being paid from funds made available from the aforementioned $\frac{1}{4}$ of 1% sales and use tax. The certificates of obligation will be secured by a pledge of ad valorem taxes and a limited pledge of revenues from the utility funds to satisfy the required revenue pledge for delivery of cash.

Debt Management Policy

The following are the City of Andrews' policies related to debt and debt management as reviewed and approved by the Andrews City Council. The City of Andrews does not currently have a formal debt management policy apart from the policies listed below. The policies are reviewed periodically and amended as needed.

- When applicable, the City shall review its outstanding debt annually for the purpose of determining if the financial marketplace will afford the City the opportunity to refund and issue and lessen its debt service costs. In order to consider the possible refunding of an issue, a Present Value savings of three percent over the life of the respective issue, at a minimum, must be attained.
- Whenever possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds, so those benefitting from the improvements will bear all or part of the cost of the project financed. Optional redemption features will be considered for all bond issues depending upon market conditions and/or the needs of the City. Complex derivative-based strategies such as swaps are not authorized. The City will annually review all debt issues for arbitrage rebate filing and compliance requirements.
- The City will maintain good communications with bond rating agencies regarding its financial condition. The City will allow a policy of full disclosure on every financial report and borrowing prospectus. The City will strive to limit general obligation annual debt service requirements to 20% of general governmental expenditures. Debt issues, supported by enterprise funds or utility revenues shall maintain debt coverage at a minimum of 1.25 times. Debt limits may be exceeded if a new or additional revenue source is utilized (e.g. sales and use tax).

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- Long-term debt shall not be used for operating purposes. The life of bonds shall not exceed the useful life of the projects.
- The City will strive to maintain the highest bond rating possible. The City's goal is an "AA" for General Obligation debt and a rating of "A1" for any future enterprise fund debt.
- The City Charter of the City of Andrews, Texas, provides that the total debt of the City shall not exceed that provided by state law. Under the provision of State law (Article XI, Section 5, of the State of Texas Constitution), the maximum tax rate is limited to \$2.50 per \$100 assessed valuation.

Debt Limit Calculations

Total General Governmental Expenditures	\$5,659,657 ✓	
City of Andrews limit for debt service requirements	x 20%	
General Obligation Debt Service Limit		\$1,131,931
 2011-12 Budget - General Obligation Debt Service		 \$ 456,217
 Constitutional Ad Valorem Tax Limitation		 \$2.500/\$100
City of Andrews Ad Valorem Tax Rate		\$0.189/\$100
2011-12 Budget Debt Service included in property tax rate		\$0.000/\$100

20 Year Repayment Structure Certificates of Obligation, Series 2011

Fiscal Year	Principal	Interest Rate	Interest	Total
2012 *	\$ 240,000	1.40%	\$ 216,217	\$ 456,217
2013	240,000	1.65%	256,100	496,100
2014	245,000	2.00%	252,140	497,140
2015	250,000	2.40%	247,240	497,240
2016	255,000	2.60%	241,240	496,240
2017	265,000	2.90%	234,610	499,610
2018	270,000	3.25%	226,925	496,925
2019	280,000	3.50%	218,150	498,150
2020	290,000	3.80%	208,350	498,350
2021	300,000	4.00%	197,330	497,330
2022	310,000	4.20%	185,330	495,330
2023	325,000	4.35%	172,310	497,310
2024	340,000	4.50%	158,173	498,173
2025	355,000	4.65%	142,873	497,873
2026	370,000	4.75%	126,365	496,365
2027	390,000	4.85%	108,790	498,790
2028	405,000	4.95%	89,875	494,875
2029	430,000	5.05%	69,828	499,828
2030	450,000	5.15%	48,113	498,113
2031	475,000	5.25%	24,938	499,938
	\$ 6,485,000		\$ 3,424,894	\$ 9,909,894

*collections during FY2012 only 10 months

GENERAL DEBT SERVICE FUND

08-539

PURPOSE STATEMENT:

The General Debt Service Fund is a governmental fund used to account for the accumulation of resources for, and the payment of, general long-term principal and interest (restricted to debt service only).

	ACTUAL 2008-09	ACTUAL 2009-10	BUDGET 2010-11	BUDGET 2011-12
PERSONNEL BY JOB TITLE	-	-	-	-
	-	-	-	-

Explanation of staffing level changes:

STATEMENT OF ACTIVITIES

REVENUES	\$ -	\$ -	\$ -	\$ 456,217 ✓
EXPENDITURES	-	-	-	456,217 ✓
EXCESS (DEFICIENCY)	\$ -	\$ -	\$ -	\$ -

OTHER FINANCING SOURCES

2633. From Reliever Route Construction Fund	\$ -	\$ -	\$ -	\$ 456,217
Total Revenues	\$ -	\$ -	\$ -	\$ 456,217

EXPENDITURES BY CLASSIFICATION

Personal Services	\$ -	\$ -	\$ -	\$ -
Operational Expense	-	-	-	456,217
Total Departmental Expense	\$ -	\$ -	\$ -	\$ 456,217

OPERATIONAL EXPENSE

8330. Debt Service - Principal	\$ -	\$ -	\$ -	\$ 240,000
8331. Debt Service - Interest	-	-	-	216,217
TOTAL OPERATIONAL EXPENSE	\$ -	\$ -	\$ -	\$ 456,217