General Governmental Debt - Certificate of Obligation Bond (CO) and General Obligation Bond (GO) - Paid with Property Taxes

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014		FY 2015	
1 Total Outstanding Debt (9/30):	$ 95,125,000	$ 91,850,000	$ 97,875,000	$ 97,810,000	$ 102,850,000	(a)	$ 103,385,000	
2 TxDOT Pass-Through:	$ -	$ -	$ (9,740,000)	$ (9,740,000)	$ (9,740,000)	(a)	$ (9,365,000)	
3 Net Outstanding Debt paid/w Debt Tax Rate:	$ 95,125,000	$ 91,850,000	$ 88,135,000	$ 88,070,000	$ 93,110,000		$ 94,020,000	
4 Average Debt Maturity:	21 years	20 years	20 years	20 years	20 years	(b)	20 years	
• Amount of Debt Principal Paid by FY 2014 ($):	$ 19,440,000	$ 16,120,000	$ 12,405,000	$ 8,810,000	$ 5,035,000		$ -	
• Amount of Debt Principal Paid by FY 2019 ($):	$ 46,375,000	$ 43,010,000	$ 39,295,000	$ 36,575,000	$ 34,855,000		$ 31,045,000	
• Amount of Debt Principal Paid by FY 2024 ($):	$ 76,775,000	$ 73,500,000	$ 69,785,000	$ 67,920,000	$ 68,075,000	(b)	$ 65,585,000	
• Percent of Debt Principal Paid by FY 2014 (%):	20%	18%	14%	10%	5%		0%	
• Percent of Debt Principal Paid by FY 2019 (%):	49%	47%	45%	42%	37%		33%	
• Percent of Debt Principal Paid by FY 2024 (%):	81%	80%	79%	77%	73%	(b)	70%	
5 Total Tax Rate:	$ 0.6450	$ 0.6500	$ 0.6450	$ 0.6056	$ 0.5996	(c)	$ 0.5840	
• Debt Tax Rate:	$ 0.2541	$ 0.2554	$ 0.2554	$ 0.2506	$ 0.2506	(d)	$ 0.2506	
• Maintenance & Operating Tax Rate	$ 0.3909	$ 0.3946	$ 0.3896	$ 0.3550	$ 0.3490	(d)	$ 0.3334	
6 Net Taxable Appraised Values (NTAV):	$ 3,136,216,999	$ 3,127,366,042	$ 3,208,342,376	$ 3,433,311,549	$ 3,736,222,546	(e)	$ 3,979,855,103	
7 NTAV Percent Increase/(Decrease):	3.5%	-0.3%	2.6%	7.0%	8.8%		6.5%	
8 Net Debt to NTAV Ratio:	3.0%	2.9%	2.7%	2.6%	2.5%	(f)	2.4%	
9 Population - per U.S. Census Bureau:	62,652	63,126	64,511	65,098	66,501	Est.	67,904	Est.
10 Debt per Capita w/o TxDOT:	$ 1,518	$ 1,455	$ 1,366	$ 1,353	$ 1,400	(g)	$ 1,385	
11 Total Ad Valorem Tax Revenue Budget:	$ 19,827,642	$ 20,062,917	$ 20,424,879	$ 20,529,185	$ 22,120,257		$ 22,954,189	
12 Debt Ad Valorem Tax Revenue Budget:	$ 6,956,689	$ 7,079,789	$ 7,247,342	$ 7,644,626	$ 8,295,680		$ 8,834,087	
13 Debt Tax Revenue to Total Tax Revenue Ratio:	35%	35%	35%	37%	38%	(h)	38%	

City of Victoria General Governmental Debt level is very manageable - Why? Because of the following reasons:

(a) Total FY 2014 debt outstanding is $102.85 million; however, TxDOT Pass-Through Bonds are subtracted because they are not paid with the a local debt tax rate. TxDOT Pass-Through Bonds will be paid with TxDOT Reimbursement Proceeds; and, TxDOT Pass-Through Bonds will become callable in FY 2015 and are expected to be paid-off within 10-12 years, instead of a 20 years maturity. Total debt to be paid with local debt tax rate is $93.110 million, as of October 1, 2014.

(b) As of October 1, 2014, the average bond debt maturity is 20 years; however, approximately 73 percent or $68.075 million of the outstanding bonds will be paid off within 10 years, i.e. FY 2024, leaving a debt balance of $23.035 million.

(c) The total tax rate has been reduced by 4.54 cents over the past five fiscal years. Over the past ten fiscal years, the total tax rate has been reduced by 10.6 cents; over the past eleven fiscal years, the total tax rate has been reduced by 11.6 cents.

(d) The debt tax rate has been reduced by 0.35 cents over the past five fiscal years. Over the past ten fiscal years, the debt tax rate increased by 1.48 cents, mainly due to bonds issued for the John Stockbauer CIP Project (these bonds were outside the City's debt capacity level - the amount of debt a governmental entity can repay in a timely manner without affecting its debt tax rate). The maintenance & operating tax rate has been reduced by 4.19 cents over the past five fiscal years.

(e) The Net Taxable Appraised Value (NTAV) has increased by 19 percent or $600 million over the past five fiscal years. Over the past ten fiscal years, the NTAV increased by 65 percent or $1.47 billion.

(f) The outstanding debt has decreased by $2.015 million over the past fiscal years while the outstanding debt to NTAV ratio has decreased by 0.5 percent.

(g) The debt per capital has decreased by $118 over the past five fiscal years. Per the City's Development Services Department projected population growth, the debt per capital amount is expected to continue to decrease over the next fiscal years. Note: over the past ten fiscal years, the debt per capital has increased by $604.

(h) As of October 1, 2014, the FY 2014 the estimated total debt tax revenue to total tax revenue ratio is 38 percent, which is "high" but manageable since the City will be be paying off 73 percent or $68.075 million of its debt and is expecting its NTAV and population to grow over the next fiscal years. Other than the John Stockbauer debt issue, which required a debt tax increase, the City has an unwritten policy of not exceeding its debt capacity limits. In other words, the City would only issue new debt when the debt service schedule is dropping (outstanding debt is being paid off or due to refunding old bonds) and the City's NTAV is growing. As a result of this policy, the City is able to (1) maintain a stable debt tax rate, (2) provide funding for its aggressive Capital Improvement Program, and (3) maintain a manageable debt service schedule. Lastly, over last fiscal years, the City was able to reduced its interest debt payment by approximately $7 million, as a result of refunding/refinancing old old debt at a lower interest rate without changing the bond maturity date. This has allowed the City to maintain a manageable debt service schedule.

<u>Other General Comments Associated to City Debt:</u>

1. Due to the demand of improving existing infrastructure and economic growth, the City has completed many projects through its Capital Improvement Program.
2. From 2009 to date, the City has funded approximately $181.8 million of long-term capital improvements:
   - Approximately $104.6 million or 57.5% was funded with debt; and,
   - Approximately $77.2 million or 42.5% was funded with other sources.
3. City of Victoria only issue bonds for the purpose of completing long-term capital improvements.
4. City does not use debt to fund City's day-to-day operations.
5. City' debt is similar to the debt that a homeowner incurs to purchase a home. Very few people have the capacity to pay 100% cash for a home. The City faces the same constraints.
6. Each year the City visits with the municipal bond rating agencies at least one time:
   - City is rated based on its finances, debt outstanding, general local economic conditions, and management;
   - City's credit worthiness is compared to other similar Texas municipalities and municipalities across the country;
   - City's long-term bond rating are very high (AA category); if our debt was too high, the City would not have been rated a AA rating.
7. The City has maintained our current rating; and, in some cases received rating upgrades, in prior years.
8. The municipal bond rating agencies evaluate the General Governmental Bonds (CO/GO) and Utility Revenue Bonds separately - the Bonds are not combined:
   - The Bond structures are difference - ordinance and legal requirements.
   - The funding sources are different:
     - √ CO/GO = debt tax rate & appraised values; vs.
     - √ Utility usage fees and customer base
   - Enterprise Funds are run as a business.
   - Governmental Funds are not run as an Enterprise Fund - tax base/appraised values.
9. Outstanding debt balance consists of total outstanding principal balance. The rating agencies and auditors have the same view.
10. Historical Inflation Adjusted Median Household Income for Victoria, Texas - per US Census Bureau:

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014 Est.
Victoria Median Household Income:	$48,934	$46,394	$50,850	$52,111	$53,143
Dollar Change:	-$2,964	-$2,540	$4,456	$1,261	$1,032
Percent Change:	-5.7%	-5.2%	9.6%	2.5%	2.0%

Utility Revenue Bond - Paid with Water and Sewer Utility Rates

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
1	**Total Outstanding Utility Revenue Bonds:**	$ 70,130,000	$ 73,040,000	$ 69,125,000	$ 73,950,000	$ 69,035,000	$ 83,290,000	(a)
2	**Average Debt Maturity:**	19 Years	21 Years	20 Years	20 Years	19 Years	21 Years	
	• Amount of Debt Principal Paid by FY 2014 ($):	$ 20,590,000	$ 17,460,000	$ 13,545,000	$ 10,085,000	$ 5,170,000	$ -	
	• Amount of Debt Principal Paid by FY 2019 ($):	$ 46,350,000	$ 44,430,000	$ 40,515,000	$ 39,505,000	$ 34,590,000	$ 32,690,000	
	• Amount of Debt Principal Paid by FY 2024 ($):	$ 65,485,000	$ 65,090,000	$ 61,175,000	$ 62,970,000	$ 58,055,000	$ 59,930,000	(a)
	• Percent of Debt Principal Paid by FY 2014 (%):	29%	24%	20%	14%	7%	0%	
	• Percent of Debt Principal Paid by FY 2019 (%):	66%	61%	59%	53%	50%	39%	
	• Percent of Debt Principal Paid by FY 2024 (%):	93%	89%	88%	85%	84%	72%	(a)
3	**Estimated Average Residential Utility Payment :**	$ 64.28	$ 64.28	$ 65.33	$ 65.33	$ 65.33	$ 68.76	(b)
	• Utility Base Rates Increase due to Debt:	$ -	$ -	$ 1.05	$ -	$ -	$ 0.50	
	• Utility Variable Rates Increase due to Debt:	$ -	$ -	$ -	$ -	$ -	$ 0.50	
4	**Total Reoccurring Operating Budget:**	$ 15,875,526	$ 14,554,623	$ 14,830,605	$ 15,217,342	$ 15,280,360	$ 15,769,529	
5	**Total Reoccurring Debt Service Budget:**	$ 6,945,281	$ 6,955,418	$ 7,275,075	$ 7,978,510	$ 7,995,770	$ 9,476,912	
	• Total Reoccurring Debt Service Budget by Percent:	30%	32%	33%	34%	34%	38%	(c)
6	**Annual Debt Coverage Ratio**	1.57	1.65	1.71	1.67	1.60	1.47	(d)
7	**Average Annual Debt Coverage Ratio**	2.13	2.45	2.72	2.77	2.75	2.63	(d)
8	**Maximum Annual Debt Coverage Ratio**	1.56	1.57	1.70	1.66	1.59	1.47	(d)
9	**Number of Utility - Water Customers:**	22,071	22,312	22,456	22,660	22,887	23,001	est.
10	**Number of Utility - Wastewater Customers:**	20,587	20,720	20,845	21,068	21,279	21,385	est.
11	**Average Number of Utility Customers:**	21,329	21,516	21,651	21,864	22,083	22,193	est.
12	**Percent Increase in Average Number of Utility Customers:**	0.20%	0.88%	0.63%	0.99%	1.00%	0.50%	(e)
13	**Total Reoccurring Operating Revenue:**	$ 22,906,158	$ 22,695,000	$ 23,537,500	$ 24,501,000	$ 24,732,000	$ 25,795,000	
14	**Total Reoccurring Debt Service Budget:**	$ 6,945,281	$ 6,955,418	$ 7,275,075	$ 7,978,510	$ 7,995,770	$ 9,476,912	
15	**Annual Debt Service to Total Revenue Ratio:**	30%	31%	31%	33%	32%	37%	(f)

City of Victoria Utility Revenue Bond Debt level is above normal, but manageable. Why?

(a) Total FY 2015 debt outstanding is $83.29 million, as of October 1, 2014. The debt outstanding balance includes the 2014 Utility Revenue Bond issue of $19.425 million for the new wastewater treatment plant. As of October 1, 2014, the average bond debt maturity is 21 years; however, approximately 72 percent or $59.93 million of the outstanding bonds will be paid off within 10 years, i.e. FY 2024, leaving an outstanding debt balance of $23.360 million.

(b) As of October 1, 2014, the estimated average residential utility payment for an average user of a 3/4 meter who consumes/uses approximately 10,000 gallons of water per month and disposes approximately 7,000 gallons of wastewater per month is $68.76 per month, a $4.48 or 6.97 percent increase compared to Fiscal Year 2010. The 6.97 percent increase in the average residential utility bill, from FY 2010 to FY 2014, exceeded the average inflation rate of 2.08 percent by 4.89 percent, for the same time period. Note: the average residential utility payment for FY 2009 was $62.96; and, if average annual inflation rate was applied to the FY 2009 average residential utility payment, from FY 2010 through FY 2014, the result would reflect that the average residential utility payment for FY 2014 would be $4.41 or 6.75 percent lower than the average residential utility payment adjusted for inflation. What does this mean - for the past fiscal years, the Water/Wastewater Fund operating budget was not keeping "up" with the average annual inflation rate. Due to operational needs, the City increased its utility rates in FY 2015.

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Estimated Average Residential Utility Payment :	$62.96	$64.28	$64.28	$65.33	$65.33	$65.33
Estimated Average Residential Utility Payment - adjusted for inflation:		$63.99	$66.01	$67.39	$68.39	$69.74
Difference:		$0.29	-$1.73	-$2.06	-$3.06	-$4.41
Percentage:		0.46%	-2.70%	-3.15%	-4.68%	-6.75%
Average Annual Inflation Rate - per US Dept. of Labor Bureau of Labor Statistic:		1.63%	3.17%	2.08%	1.48%	1.98%

(c) As of October 1, 2014, the average debt to total operating budget ratio is 38 percent, which is "high" but management since the City is not expecting to issue any debt in the next 8 to 10 years; and, by FY 2024 the City would have paid off $59.930 million or 72 percent of its debt, leaving debt balance of $23.360 million.

(d) Debt Coverage Ratio - is the ratio of cash available to services debt.

- Annual Debt Coverage Ratio: Current Debt Service / Available Revenues (after M&O & capital expenses are deducted) = 1.47 - good cash flow (1.47 times our current debt service).
- Average Annual Debt Coverage Ratio: Average Annual Debt Service / Available Revenues (after M&O & capital expenses are deducted) = 2.63 average - good cash flow (2.63 times our average debt service)
- Maximum Annual Debt Coverage Ratio: Maximum Annual Debt Service / Available Revenues (after M&O & capital expenses are deducted = 1.47 average - good cash flow (1.47 times our average debt service)

(e) The City's average customer base has increased by approximately 864 or 4.05 percent, over the past five fiscal years.

(f) The annual debt service to total revenue ratio is 37 percent, for FY 2013 , which is "high" but manageable since the City is not expecting to issue any debt in the next 8 to 10 years; and, by FY 2024 the City would have paid off $59.930 million or 72 percent of its debt, leaving a debt balance of $23.360 million.