City of Kyle, Texas
Redirect Options for Road Bond Proceeds
As of November 30, 2017

Background Information

The voters in Kyle approved a referendum in 2013 authorizing the issuance of $36,000,000 in General Obligation Bonds for the specific purpose of (1) paying for professional services to plan, design, the acquisition for rights-of-way and the construction and improvement of the following City streets: Bunton Creek Road, North Burleson Street, Goforth Road, Lehman Road, and Marketplace Avenue; (2) refunding a portion of the City's outstanding general obligation debt; and (3) the payment of costs of issuance for the Bonds.

Recent Development & Consideration

The City of Kyle is considering seeking funding from the Capital Area Metropolitan Planning Organization (CAMPO) to fund 80 percent of the estimated cost of the two roadways identified under the road bond program; North Burleson Street and Lehman Road. CAMPO's funding criteria requires 20 percent local funding match.

The call date to submit the City's application to CAMPO for project funding is December 11, 2017. The City anticipates being notified in March 2018 at the earliest by CAMPO of the Board's final decision on project funding.

The City is evaluating the best option for the redirection of bond proceeds originally authorized and earmarked for the North Burleson Street or Lehman Road if the City is successful in securing funding from CAMPO for 80 percent of the estimated cost of constructing either both or one of the roadways.

The City Council will need to take formal action to declare that the originally planned road projects under the bond program have been completed, declare that funding by CAMPO has resulted in "surplus" bond proceeds, and (3) seek authorization by referendum to redirect surplus road bond proceeds.

Limitations & Restrictions on Road Bond Proceeds

Since the road bonds were authorized and issued specifically for constructing the five named roadways in Kyle, the bond proceeds cannot be redirected for any other purpose prior to the completion of the entire scope of work as promised to the voters and only then, with the expressed authorization of the voters under another referendum.

Provided below are three possible options for consideration if both North Burleson Street and Lehman Road are funded or only one of the roads is approved for funding by CAMPO. It is important to note that each one of these options requires review, analysis, and advice of the City's financial advisor and bond counsel on the viability, voter authorization requirements, and legal compliance of each option. Due to time constraints, City staff has not been able to seek the review and advice of the City's financial advisor or bond counsel but plan to do so this week.

<u>Possible Redirect Options</u>
The amount of bond proceeds that may become available for consideration to redirect has not been determined yet due to a number of factors including but not limited to (1) final completion cost of Goforth Road and Bunton Creek Road projects under construction, (2) CAMPO funding decision, (3) final estimated cost for the 20 percent local match requirement for both North Burleson Street and Lehman Road or one of the roads, and (4) bond market conditions at the time of consideration to redirect.

Option 1:
Redirect the “surplus” amount of road bond proceeds to reduce outstanding road bond debt by “calling” eligible bonds on the call date or paying off eligible bonds prior to the final maturity date.

Advantages:
- Interest cost savings, not paid until final maturity date.
- Reduced debt amount on City’s balance sheet.
- Increased availability of new bonding capacity.
- Very close to dollar for dollar debt reduction impact of calling or retiring eligible road bonds.
- Some debt service savings may result to mitigate future property tax rate pressures to the extent bond amounts are “called” prior to maturity dates.

Disadvantages:
- 10-year call wait period, meaning this call feature is not available until 2025.
- Will include accrued interest cost to date of settlement, typically for 45 days.
- Not all “surplus” road bond proceeds could be fully applied to call bonds. An analysis will be required by the City’s financial advisor to determine the par amount of callable bonds.

Option 2:
Redirect the “surplus” amount of road bond proceeds to reduce outstanding road bond debt by “defeasing” a portion of the road bonds to the extent “surplus” road bond proceeds are available and can provide sufficient cash to purchase investment securities to be set aside to service the “defeased” bonds until the call date and or to final maturity.

Advantages:
- No waiting period required as in the case of initiating the call feature of road bonds.
- Reduced debt amount on City’s balance sheet.
- Increased availability of new bonding capacity to the extent road bond amount defeased.
- Some debt service savings may result to mitigate future property tax rate pressures to the extent road bond amount is defeased.

Disadvantages:
- Very involved and costly process.
- Significantly less than dollar-for-dollar debt reduction impact.
- Market conditions will determine the amount of road bonds that can be defeased with the available “surplus” bond proceeds.

- Cost of investments that can be purchased will determine the amount of defeased road bond debt that can be serviced over the life of those bonds.
- Market conditions may require the City to recognize an economic loss from the defeasance transaction on its financial statements in the fiscal year that the road bond debt is defeased.

Option 3:

Redirect the "surplus" amount of road bond proceeds for other lawful City capital improvement project(s) including other roadway oriented projects.

Advantages:

- Another high priority capital improvement project is funded to the extent "surplus" road bonds proceeds are made available.
- No new debt is issued for this project.
- No increase in debt service requirements.
- No additional property tax rate impact.
- No transaction costs involved as is for initiating bond call feature or defeasance options.

Disadvantages:

- No immediate reduction in the amount of outstanding debt.
- No immediate increase in City's bonding capacity.