



STAFF REPORT

DATE: June 23, 2020
TO: Kent Cagle, City Manager
FROM: Jonathan Locke, Executive Director of Finance
SUBJECT: Fire Vehicle and Equipment Tax Note

BACKGROUND AND FINDINGS:

This ordinance is for the issuance of a limited tax note to purchase fire replacement vehicles and associated equipment. The Fire Department has 15 large vehicles and 8 of these vehicles are past their scheduled replacement date. The tax note will purchase 5 of the 8 vehicles that are behind schedule.

The 5 vehicles to be replaced and associated *replacement costs are:

Year	Vehicle Description	New Vehicle Cost	Quantity	Total Cost
2004	Aerial ladder truck	\$1,565,131	1	\$1,565,131
1996	Pumper (Engine) truck	\$806,715	3	\$2,420,145
2008	Rescue truck	\$939,967	1	\$939,967
BuyBoard Fee				\$1,500
Multi-unit Discount				(\$70,000)
Total Cost				\$4,856,743

*The 5 new vehicles will come fully equipped with necessary tools and equipment.

The Texas Government Code, Chapter 1431, and the City's Financial Governance Policy authorize the issuance of tax notes. An important note is that the financial policy limiting debt issuances until the debt portion of the tax rate reaches 25% applies when the amount of a new debt issuance exceeds the amount of debt being retired during the year. During Fiscal Year 2020, the City will retire \$9,030,000 of debt and the estimated amount of the tax note is \$4,915,000, inclusive of issuance costs.

The tax note will be repaid over a seven-year term with an estimated annual debt service payment of \$750,000. The fund balance in the Debt Service Fund is currently \$4,086,755 and must be used towards the retirement of debt. The tax note will be repaid with the accumulated fund balance in the Debt Service Fund. Fund balance accrues when more revenue is received than budgeted and/or when expenditures are less than budget.

The City's Financial Advisor, Dan Wegmiller of Specialized Public Finance, Inc., prepared and distributed a Term Sheet describing the amount and use of the funds to banks. Banks will submit

bids for the tax note to an independent Placement Agent, FHN Financial on June 23, 2020. The results of the bid will be provided to City Council at the regularly scheduled Council meeting that day.

THE ALTERNATIVES CONSIDERED:

There are two alternatives to consider:

- 1) Do not issue the limited tax note and find another funding source to replace the Fire Department vehicles; and
- 2) Issue the limited tax note that provides funding for the Fire Department vehicles.

Which alternative is recommended? Why?

Alternative 2 is recommended. There are no other viable funding sources for the vehicles, which are already past their recommended replacement schedule. The annual debt service for the tax note will be repaid by the accumulated fund balance of the Debt Service Fund.

CONFORMITY TO CITY POLICY:

Texas Government Code, Chapter 1431 - authorizes the issuance of tax notes.

City Charter, Article VI and Article VII, Section 80 - authorizes the issuance of tax notes.

Financial Governance Policy, XIV. Debt (B-D) - authorizes the issuance of tax notes.

FINANCIAL IMPACT:

What is the amount of the expenditure in the current fiscal year? For future years?

The total estimated cost inclusive of issuance costs is \$4,915,000. The annual debt service payments including interest are estimated to be:

- FY 2021 - \$751,119
- FY 2022 - \$753,450
- FY 2023 - \$754,800
- FY 2024 - \$755,850
- FY 2025 - \$751,650
- FY 2026 - \$752,200
- FY 2027 - \$752,450

Is this a one-time or recurring expenditure?

The debt service payments are recurring from FY 2021 through FY 2027.

Is this expenditure budgeted?

A budget amendment will be required if approved by City Council.

If not, where will the money come from?

A budget amendment will recognize the revenue from the issuance of the limited tax note. The proceeds from the limited tax note will be used to purchase five vehicles and associated equipment for the Fire Department.

Is there a sufficient amount in the budgeted line-item for this expenditure?

A budget amendment will be required if approved by City Council.

RECOMMENDATION:

City Council approve the ordinance authorizing the issuance of Limited Tax Note, Series 2020.

DEPARTMENTAL CLEARANCES:

Finance
Fire
Legal

ATTACHED SUPPORTING DOCUMENTS:

Ordinance
Term Sheet
Proposal