

## DEBT SERVICE

As of October 1, 2010, the City of Benbrook has debt issues outstanding for a total Debt Service Fund debt balance of \$10,307,369. These issues include \$10,175,000 in general obligation and refunding bonds and \$132,369 in long term notes payable to the Corps of Engineers. The original amount of debt issued was \$24,123,945; \$13,816,576 has been retired in prior years.

The City of Benbrook maintains its bond rating by Standard and Poors and by Moody's Investor Services. Standard and Poor's has assigned a rating of A+ for Benbrook's bond issues in 2008. Moody's Investor Service upgraded the City's bond rating to Aa3 based on the City's outstanding general obligation debt. The rating upgrade was based on the City's moderate tax base growth, consistently well-managed financial operations, and low level of aggressively retired debt. Moody's stated that Benbrook's conservative budgeting practices and tight expenditure controls continue to produce well-managed financial operations with satisfactory reserve levels.

The City's Operating Fund's 2010-11 projected ending balance of \$8,783,495 is 57.83 percent of budgeted expenditures; this level of reserves provides for a more than satisfactory financial cushion. This level is in keeping with City management's goal of maintaining a minimum of three months of operating expenditures in reserve. General operations are primarily funded from property, franchise, and sales taxes, all of which have increased favorably in recent years. Annual debt service expenditures claim only 6.81 percent of expenditures in 2010-11 this relatively low percentage reflects the City's above average bond payout schedule. The City's debt position is characterized by modest debt levels and an above-average rate of bond payout.

The City's last bond election was held in February 2004, for the City to obtain voter approval on the sale of bonds to finance capital improvement projects. The issuance of \$2,800,000 in street improvement bonds and the issuance of \$3,215,000 in park improvement bonds were not approved by Benbrook's voters. Voters did approve the issuance of \$3,700,000 in bonds for drainage projects and \$281,250 to acquire a site for building a fire sub station in the Whitestone area of Benbrook. Bonds were sold in May 2004 in the amount of \$3,700,000 for drainage projects; the first interest payment was in September 2005. Bids for the acquisition of land for the fire sub station came in at \$110,000 - much lower than anticipated; the City Council approved purchasing the property with General Fund reserves in 2003-04.

In the summer of 2005, the City Council approved the issuance of \$2,500,000 in certificates of obligation to finance TIF (Tax Increment Financing) projects. The TIF is required to reimburse the City of Benbrook for these debt obligations as soon as sufficient revenue is generated from property tax revenues within this special district of Benbrook. TIF projects include: the Interstate 20 Ramp Relocation project that was completed in the summer of 2006, the Walnut Creek Sewer Line, and the Town Crossing Project. Effective in the 2008-09 Budget, these

certificates of obligation were financed through the TIF Fund; the Debt Service Fund no longer provides financing for these certificates.

The City's bond counsel advised the City to re-finance existing debt (general obligation bonds) in order to reduce future interest payments. The re-financing of this existing debt was also approved by Council in 2004-05. No additional debt is scheduled for issuance in 2010-11.

In September 2007, the Council authorized the sale of \$1,035,000 in certificates of obligation for the Plantation Creek Drainage project. Payments for principal and interest were due in 2008. Funding for these certificates of obligation is through the newly-established Stormwater Utility fees. These debt service expenses are not supported by current property tax revenue and are not reflected in the Operating Funds as an expense.

Under current Texas statutes, the City has no legal limit on bonded debt. State statutes do, however, limit the total amount of ad valorem taxes the City can impose. This limit is \$2.50 per \$100 of assessed valuation. The City's current total tax rate of \$0.6575 (for both the General Fund and the Debt Service Fund) and the tax rate for retirement of debt service of \$0.020536 are considerably below this limit.

Debt Service expenses in 2010-11 total \$1,033,849. Included in this total is \$595,000 for general obligation bond principal retirements, \$3,880 for long-term note requirements, \$421,569 for general obligation bond interest expenses, \$8,300 for long-term note interest expenses, and \$5,100 for agent fees.

After the 2010-11 Budget was adopted, the City's Finance Director advised the City Council to request the Corps of Engineers to allow the City to retire the long-term notes. The Corps of Engineers agreed to this proposal; the City paid the outstanding principal and related interest in one lump-sum. However, since this transaction was finalized after the 2010-11 Budget was adopted, the 2010-11 debt service expenditures are not adjusted.