



# Information Relating to the Issuance of Certificates of Obligation

**February 28, 2017**

*Presented by*  
*Duane L. Westerman*  
*SAMCO Capital Markets, Inc.*



# **Certificates of Obligation**

- **General Information**
  - Certificates of Obligation (CO's) are one of the few methods cities have to issue debt to fund capital improvements
  - CO's are a debt issued by the City and secured by its authority to levy a property tax.
  - This security of the taxing authority makes CO's a popular investment that is regarded, particularly with the City's ratings of Aa2 by Moody's and AA by Fitch, as relatively "safe" and, as such, normally provide for an attractive, low, tax exempt borrowing rate.

## **Certificates of Obligation**

- Time Frame
  - Generally requires at least 60 days from the Notice of Intention to receiving funds
  - 30 day notice period
    - 2 newspaper publications and postings required
  - 30 days between sale of CO's and receiving funds to allow the City to obtain the approval from the Texas Attorney General for the COs



## **Certificates of Obligation**

- **Timing and Process**
  - Requires at least 2 City Council meetings, shorter timeframe than voted bonds
  - No election required, however
  - Does require a Notice of Intention be published once a week for two consecutive weeks
    - Notice period is a minimum of 30 days between the first publication and the sale and authorization of the Certificates, during which
    - Residents could present a valid petition with signatures of 5% of qualified voters of the entire City seeking a referendum election
    - A successful valid petition would require the city to call an election for the issuance of the Certificates



## **Certificates of Obligation**

- **Timing and Process**
  - During the Notice period we will be preparing the offering documents and going through the rating process
  - We would be prepared to sell and issue the Certificates as close to the end of the 30 Notice period as possible

## **Preliminary Timetable**

Tuesday, March 14, 2017	..... <b><u>City Council Meeting</u></b> -Adopt Notice of Intention Resolution and Approve publication of Notice of Intention -Approve a Reimbursement Resolution related to this issuance
Wednesday, March 15, 2017	.....Start preparation of Preliminary Official Statement ("POS").
Sunday, March 19, 2017	.....First publication of the Notice of Intention.
Wednesday, March 22, 2017	.....Distribute first draft of POS. Distribute documentation to rating agencies.
Wednesday, March 29, 2017	.....Comments due on first draft of the POS.
Sunday, March 26, 2017	.....Second publication of the Notice of Intention.
Thursday, March 30, 2017	.....Distribute second draft of POS.
Wednesday, April 05, 2017	.....Receive comments on second draft of POS
Thursday, April 06, 2017	.....Distribute first drafts of CO documents.
Tuesday, April 11, 2017	.....Deliver agenda items and documentation to City for inclusion in Council agenda package Comments due on first drafts of CO documents and Purchase Contract

Wednesday, April 12, 2017	.....Electronic posting of POS.
Tuesday, April 18, 2017	.....Receive ratings
Wednesday, April 19, 2017	.....Distribute second draft of CO documents.
Tuesday, April 25, 2017	..... <b><u>City Council Meeting</u></b> Receive bids for the sale of the COs. Approve CO order.
Wednesday, April 26, 2017	.....Distribute first draft of Final Official Statement ("FOS"). File executed CO documents with Texas Attorney General
Monday, May 01, 2017	.....Comments due on FOS.
Tuesday, May 02, 2017	.....FOS to Printer
Wednesday, May 03, 2017	.....Mail FOS to Purchasers
Thursday, May 18, 2017	.....Receive Texas Attorney General Approval
Thursday, May 25, 2017	.....Closing and delivery of funds to the City



## **Certificates of Obligation**

### **Why Consider Using CO's?**

- A financing tool commonly used by municipalities
- Readily accepted in marketplace and provides attractive tax exempt interest rates
- Relatively efficient process timewise, being able to have funds in hand within 60-80 days
- No expense of conducting election
- Provides notice and opportunity for citizens to comment and petition for an election



## **Comparison of CO's versus Bond Election**

### **Bonds**

- Bond elections must be held on one of the two general election dates in May or November
- Must call the election approximately 70 to 80+ days prior to election date and then have another 60+ days before you can receive funding
- Additional expense of conducting the election

### **Certificates of Obligation**

- CO's provide greater flexibility in timing– can be done at anytime throughout the year
- Entire process takes 60 to 80 days from start to receiving funding
- No election expense
- Citizens still have opportunity to present petition to call for an election on the project
- Both CO's and Bonds are commonly used and readily accepted in the market



# **Certificates of Obligation**

## **Professionals Involved**

- Bond Counsel
- Financial Advisor
- Paying Agent/Registrar
- Rating Agency(ies)
- Underwriter if utilizing a negotiated sale or Purchaser if utilizing a competitive bid sale
- Underwriter's Counsel (if utilizing a negotiated sale)



## **Certificates of Obligation**

- **Legal Authority**
  - Issued pursuant to the Constitution and general laws of the State of Texas pursuant to the Certificate of Obligation Act of 1971, as amended (“CO Act”), Texas Local Government Code Section 271.041 through Section 271.064, Chapter 1502, as amended, Texas Government Code, the City’s Home Rule Charter, and the Ordinance Authorizing the Issuance of the Obligations.
  - Article XI, Section 5 of the Texas Constitution, which is applicable to cities of more than 5,000 population, limits the maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, which adopts this constitutional provision.



## Certificates of Obligation

- **Legal Authority - continued**
  - The Texas Attorney General has adopted an administrative policy that generally prohibits the issuance of debt by a municipality such as the City if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. This administrative policy ensures that Texas home rule municipalities have at least \$1.00 per \$100 of assessed valuation to fund its annual General Fund requirements.

## **Certificates of Obligation**

- **Additional Information**

- Can issue “CO’s” for cash for the purposes set forth in Section 271.056(1) through (4) of the CO Act or if used to
  - Construction of any public work;
  - Purchase of materials, supplies, equipment, machinery, buildings, land, and rights-of-way for authorized needs and purposes; or
  - Payment of contractual obligations for professional services, including services provided by tax appraisers, engineers, architects, attorneys, map makers, auditors, financial advisors, and fiscal agents.
- If need CO proceeds for purpose not otherwise eligible for cash, you may pledge a limited stream of revenue (such as utility system) – then you have combination tax and revenue “CO’s” as permitted by Section 271.052 of the CO Act

**Call us:**

**Duane L. Westerman  
Allen R. Westerman  
Nick L. Westerman  
SAMCO Capital Markets, Inc.**

**1020 NE Loop 410, Ste. 640  
San Antonio, Texas 78209**

**Tollfree 877-340-1371**

**San Antonio 210-832-9760**

**Fax 210-832-9794**

**Email: [dwesterman@samcocapital.com](mailto:dwesterman@samcocapital.com)**