



Memorandum

Memorandum No: 24-120

Date: June 4, 2024

To: Honorable Mayor and City Council

From: Ryan Henderson, City Manager 

Re: Combination Tax and Revenue Certificates of Obligation, Series 2024

At the June 11, 2024 City Council meeting, our financial advisors, Hilltop Securities, will present a Plan of Finance for the issuance of approximately \$25,000,000 Combination Tax and Revenue Certificates of Obligation.

Anna continues to see our needs for City facilities expand as we continue to grow. One means of financing large capital projects is through the use of municipal debt. Bonds are the most common type of municipal debt. In the City of Anna, debt is used to fund roads, facilities, parks, equipment and water and sewer infrastructure.

Municipalities use debt to:

- Ensuring future beneficiaries pay their “fair share” for public improvements and services; debt is repaid over time by neighbors who are using the debt-financed asset.
- Financing larger projects on a more timely basis as compared to pay-as-you-go funding.
- Helping minimize the impact on property tax and/or user rates as compared to pay-as-you-go funding.
- Taking advantage of tax-exempt, low-cost, long-term financing.

The City of Anna does not use debt to finance its operating expenses. The City’s charter and state law requires the City to maintain a balanced budget. Anna does NOT operate at a deficit like the federal government. Additionally, all debt obligations must be approved by the City Council and the Texas Attorney General.

Texas state law generally requires local governments to seek voters’ approval before issuing debt that will be repaid from tax revenues. One common form of borrowing, however, represents an exception to this rule: certificates of obligation (COs). COs provide local governments with important flexibility when they need to finance projects quickly. COs can be particularly attractive when a local government wishes to, for example, take quick advantage of lower interest rates, purchase a newly available property, or maintain a level property tax rate. CO bonds afford local officials flexibility in responding to critical and

emerging public needs, allowing them to act without having to wait for or pay for an election. As Anna continues to grow rapidly, this flexibility will help to build expanded facilities and acquire critical public safety equipment.

	General Obligation Bonds	Certificates of Obligation
Public Approval / Notice Requirements	Bond election	Notice of Intent to Issue published in local paper
Security / Pledge	Taxes only	Taxes and/or revenues
Other Considerations	Long timeline to issue	Subject to petition by 5% of registered voters

Municipal tax rates are divided into two components:

- Interest and Sinking (I&S) which can only be used to pay the City’s annual bonded debt payments.
- Maintenance and Operations (M&O) which is used for the operating expenses of the City.

Each year the Collin Central Appraisal District determines the market value of all taxable property in Collin County, Texas. Based on the current year’s values, each taxing unit must decide how much property tax revenue is necessary to fund its budget and what tax rate produces that amount. It must also determine the tax rate it needs to pay its long-term debt. As the appraised value grows, the tax rate required to pay the City’s annual bonded debt payments decreases. Because of Anna’s rapid appraised value growth, each year the City has additional debt capacity to meet the City’s needs while maintaining a level tax rate.

The issuance of these Combination Tax and Revenue Certificates of Obligation will fund the following projects:

- \$1,500,000 for fire apparatus.
- \$10,000,000 for land for a future police station and/or administrative office building.
- \$12,000,000 for a wastewater interceptor line to the new Hurricane Creek Wastewater Treatment Plant.

The action required at the June 11 City Council meeting will be to direct staff and our financial advisors to implement the Plan of Finance and approve a resolution authorizing publication of a Notice of Intent to issue Certificates of Obligation.

- c: Terri Doby, Budget Manager
 Taylor Lough, Assistant City Manager
 Greg Peters, Assistant City Manager
 Management Team