Long-Term Debt Planning

June 18, 2019

City of Aurora

Overview

- Debt Types & Uses
- Fixed Debt Projections
- Fixed Debt Strategy

Debt Types

- **General Obligation Bonds**
  - Tax exempt for public purposes
  - Taxable for private / development purposes
- **Revenue Bonds**
  - Water / enterprise funded bonds
  - TIF bonds
- **Agency Loans**
  - IL EPA loans for water / sewer
- **Private Activity / Industrial Revenue Bonds**
  - Pass through funding – no direct liability for City
  - Allocation provided by the State of Illinois – approx. $100 per / capita
- **Lines of Credit**

General Obligation Bonds

- **Tax exempt**
  - Low interest rate because interest not subject to federal tax
  - Must be for public purpose – roads, facilities, etc.
- **Usually 20 years in length with 10 year call**
  - Level debt service
  - inflationary growth
- **Length is not tied to asset being financed**
- **Requires ordinance with county for payment through property taxes unless abated**

General Obligation Bonds

- **Taxable**
  - Still low interest rate due to same credit rating
  - Used for joint ventures where part of project is private
- **Usually 20 years in length with 10 year call**
  - Level debt service
  - inflationary growth
- **Length is not tied to asset being financed**
- **Requires ordinance with county for payment through property taxes unless abated**

Revenue Bonds

- **Water / Utility Bonds**
  - Tax exempt if for public utility / right-of-way
  - Utility is rated separate from City's G.O. rating

- **Tax increment Finance Bonds**
  - Tax exempt if for public purpose – streetscape, public infrastructure
  - Only property within TIF supports debt
    - Limited City liability
    - Lower rating if rated at all

Private Activity Industrial Revenue Bonds

- **City has approximately $20 million in IRB Authority each year**
- **Interest rate / risk market providing very low demand for IRB usage presently**
- **Liability for the City when issuing IRB debt?**
  - No direct liability (to repay the bonds in the event of borrower default)
  - Indirect liability (to City bond rating if default(s) occur)

Lines of Credit

- **Have been used by the City in the past for major projects**
- **Proposed usage for coming years focused on economic development projects**
  - Terminal Building
  - 80 South River Street
  - Keystone Building
  - Bilter Road
- **Copley Hospital Renovation**


CHRISTIAN SCIENCE READING ROOM

Current Status of City Debt Total

- **Largest Component of City Debt is Police/Firefighter Pension unfunded liability:**
  - Police Pension 52.7% funded, $201.6 million unfunded liability*
  - Firefighters Pension 52.4%, $158.7 million unfunded liability*
  - Unfunded Liability increased by $33 million from 2017 to 2018.
- **City Retiree Health Insurance Trust**
  - Trust is 18.6% Funded
  - Unfunded liability of $ $177.8 million**
  - Not state or federally mandated
  - Continue to reduce benefits through lower benefit accrual and plan design reductions
  - City changes to Retiree Health Care have reduced this debt in half over the last two years from $357.0 million to $177.8 million**
- **Fixed/Capital Debt**
  - General Obligation Debt – $131.6 million***
    - 56% scheduled to be paid from Property taxes
    - Does not include any additional abatements done each year.
  - Revenue Bonds/Water - $37 million

***Source – 12/31/18 Actuarial Study **Source – 12/31/18 OPEB Study ***Source – 12/31/18 DRAFT CAFR**

Debt Trend Since 2009

- **Low Interest rate markets since 2009 have:**
  - Stabilized or helped City fixed debt decrease over the past decade
  - Caused City pension debt to increase because of the negative impact to investment earnings
- **The Great Recession and the tight lending market thereof caused credit ratings agencies to be more diligent in the analysis of municipal debt.**
- **This caused ratings to decrease overall but interest rates remained very low, so the impact to Cities was negligible when rated above an A rating, which Aurora has been.**
- **The Great recession caused municipal borrowing to increase due to the continued need for infrastructure maintenance even with stagnate revenues to fund such projects.**

Debt Projections & Strategy

- **DID YOU KNOW?**
  - The City of Aurora has $ 1.24 billion in Assets.
  - The City of Aurora has $ 1.11 billion in Liabilities.
  - Liabilities are composed of $950 million in long term debt from bonds, short term payables, pensions and retiree health care.
  - Long term Gen Obligation Bonds are $136 million as of 12/31/18.
  - The City has a total assessed value of $ 3.5 billion as of 12/31/17
  - The City assessed value is projected to be at $4.0 billion by 12/31/19
  - The City of Aurora Balances its operating budget every year.

Debt Trend Since 2009

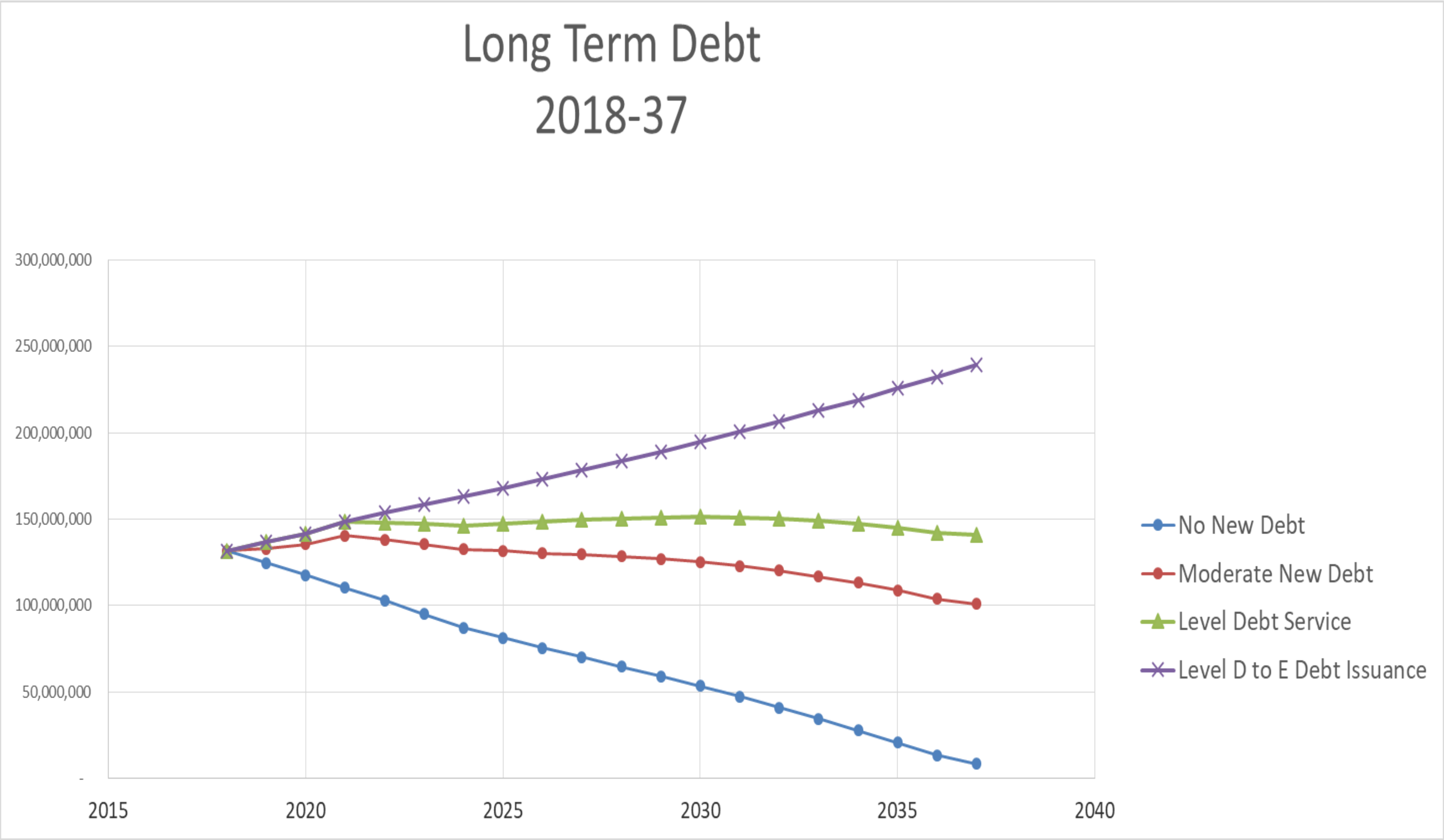
CITY OF AURORA, ILLINOIS

RATIOS OF OUTSTANDING DEBT BY TYPE
(In Thousands of Dollars)
As of 12/31/17
Last Ten Fiscal Years

	Governmental Activities					Business-Type Activities					
Fiscal Year Ended	**General Obligation Bonds**	**Tax Increment Bonds/Notes**	**Installment Contracts/ Debt Certificates**	**Notes Payable**	**Illinois EPA Loans**	**Revenue Bonds**	**Illinois EPA Loans**		**Total Primary Government**	**Percentage of Personal Income***	**Per Capita***
2008	167,920	21,135	9,485	5,825	1,906	36,400	7,708		250,379	6.79%	1.47
2009	178,420	23,110	8,405	6,290	1,775	35,630	8,251		261,881	5.72%	1.32
2010	168,815	20,715	7,640	10,598	1,640	34,825	10,681		254,914	4.36%	1.29
2011	156,905	18,960	6,800	8,140	1,502	33,995	9,932		236,234	4.04%	1.19
2012	148,914	17,190	2,720	6,018	1,360	32,770	9,245		218,217	3.73%	1.10
2013	136,417	14,585	4,835	1,356	1,215	31,747	8,545	#	198,700	3.40%	1.00
2014	127,495	13,695	3,805	-	1,066	30,652	7,829		184,542	3.56%	0.93
2015	118,800	12,835	2,795	-	913	29,973	7,097		172,413	3.28%	0.87
2016	112,051	11,915	1,725	-	3,184	28,657	6,347		163,879	3.06%	0.82
2017	121,549	10,920	4,185		7,067	27,305	5,585		176,611	3.25%	0.88

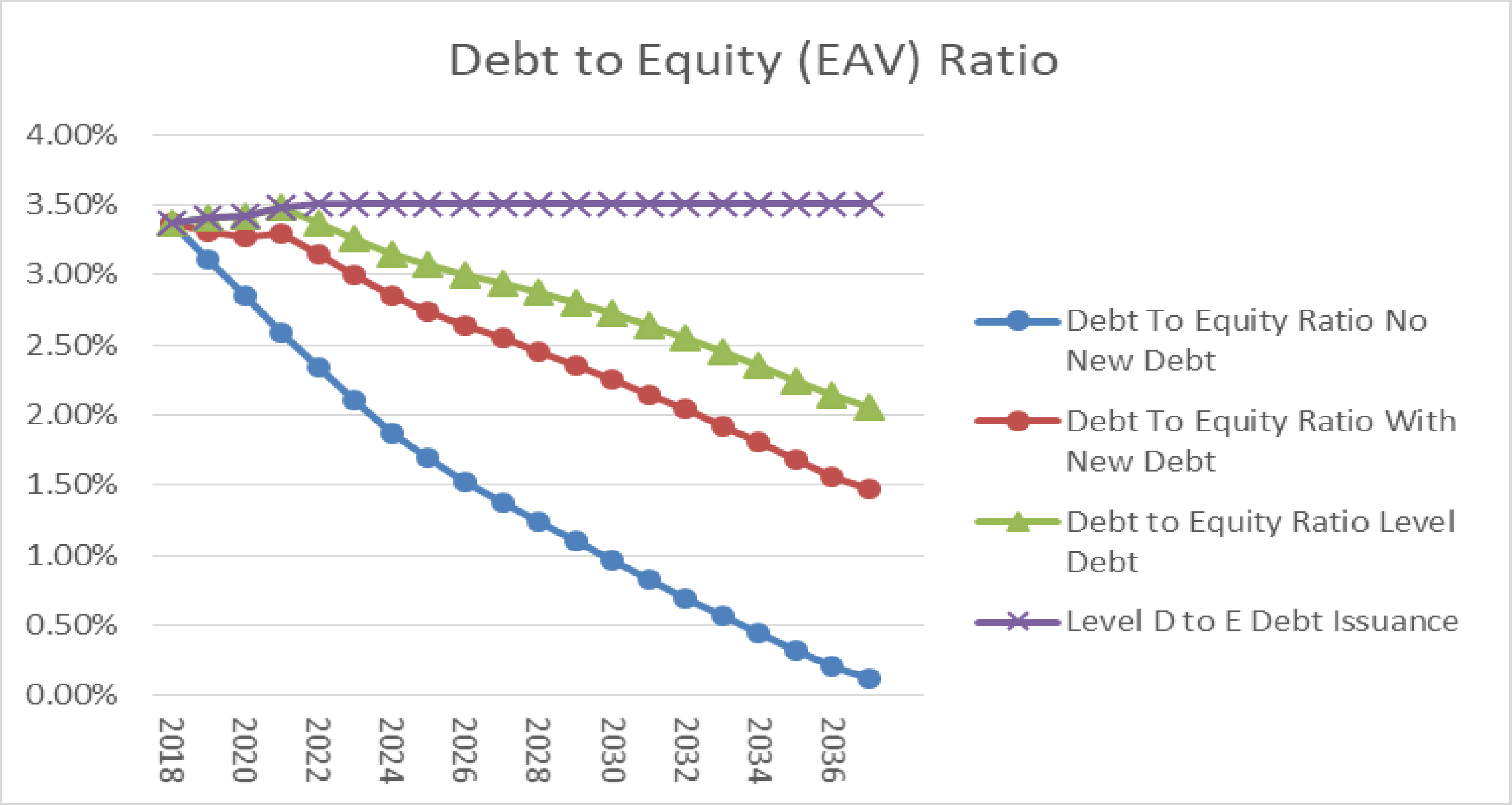
Sample Debt Projection - G.O. / Revenue

- **No New Debt Not Probable**
- **Moderate New Debt includes PW Facility then $6.5 million adjusted for inflation for next 20 years**
- **Level Debt includes new PW Facility then $8.5 million per year adjusted for Inflation**
- **Level Debt to Equity Debt issuance would mean that the debt burden as a % of the total assessed value was level**



Sample Debt Projection - Debt to EAV

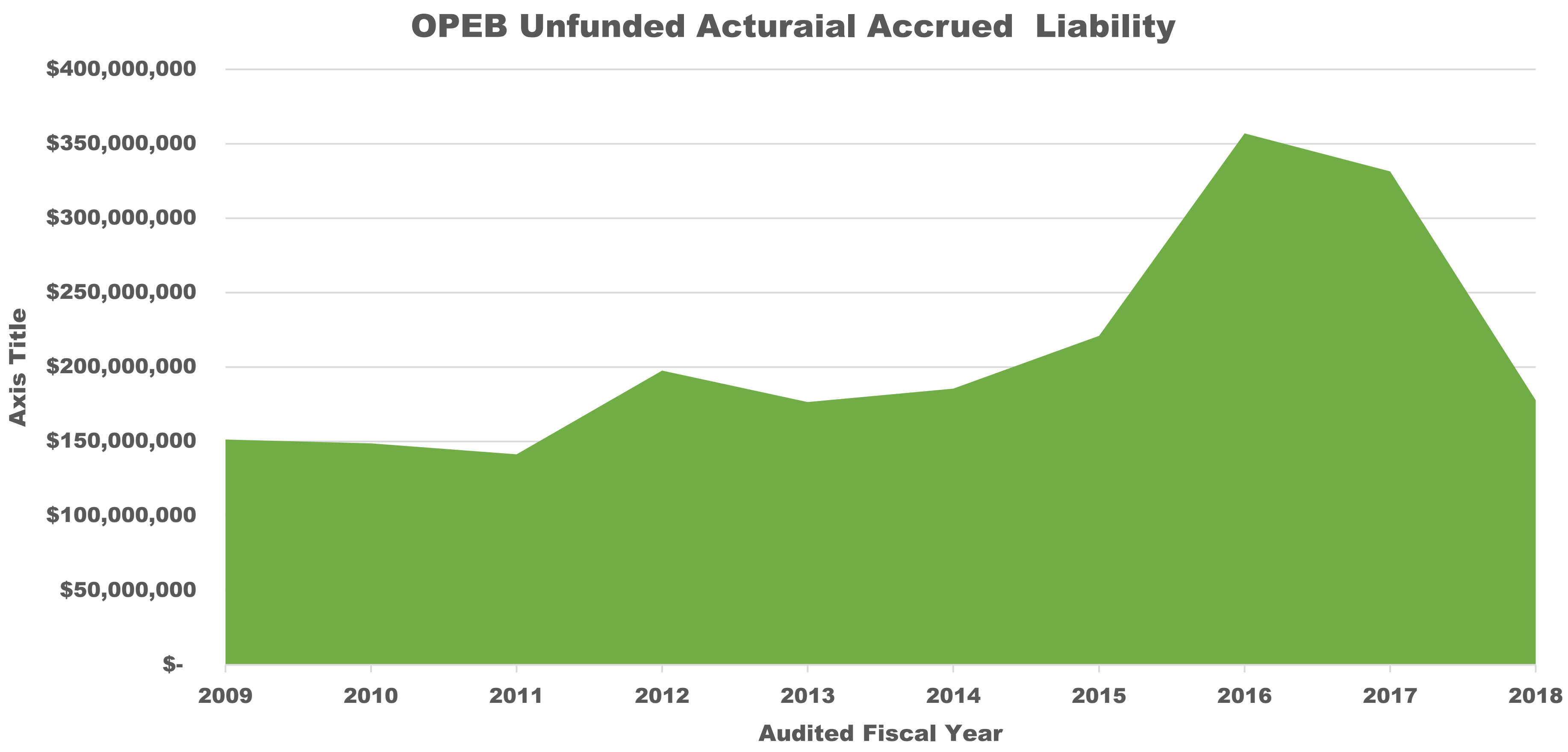
- **No New Debt Not Probable**
- **Moderate New Debt reduces debt to equity from 3.4% to 1.5%**
- **Level Debt reduces debt to equity from 3.4% to 2.1%**
- **Level Debt to Equity Debt issuance keeps Debt to equity the same**



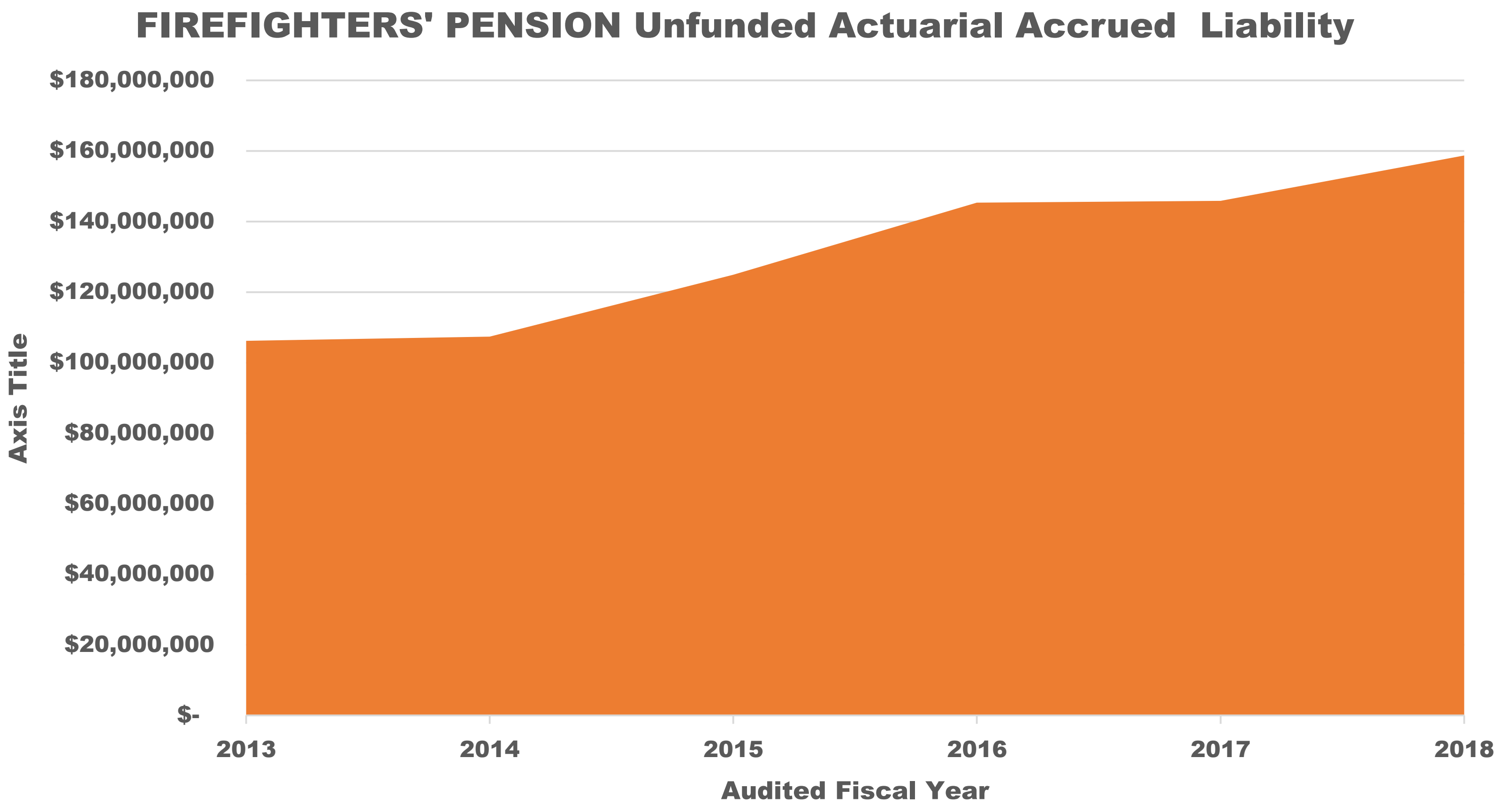
Paying for Debt

- **General Obligation Bonds require a tax levy be pledged through an ordinance filed with the Counties**
- **General Obligation Debt Service is paid through the use of this levy OR through the use of Alternative Revenues:**
  - Water Fees
  - TIF Revenues (Property taxes from within the district)
  - Real Estate Transfer Tax
  - SHAPE Funds
  - Gaming Tax
- **The 2018 Abatement amount for G.O. Bonds was $6.1 million out of a total of $10.1 million in debt service costs, meaning the tax levy was $4.0 million**
- **This abatement process is critical for future debt issuance to retain low interest rates and also low tax levies for our debt.**

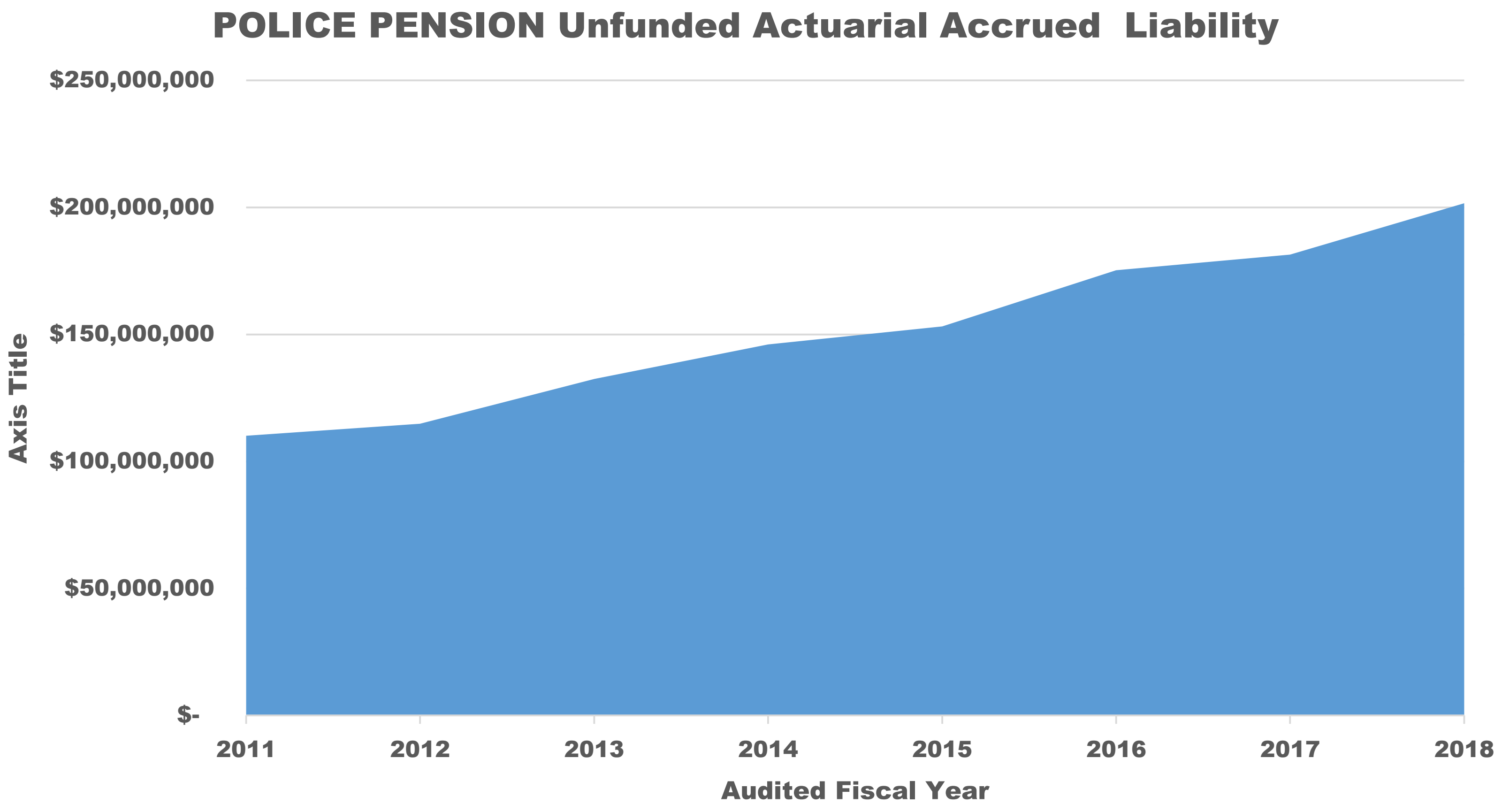
Other Post Employment Benefits (OPEB) Retiree Health Insurance



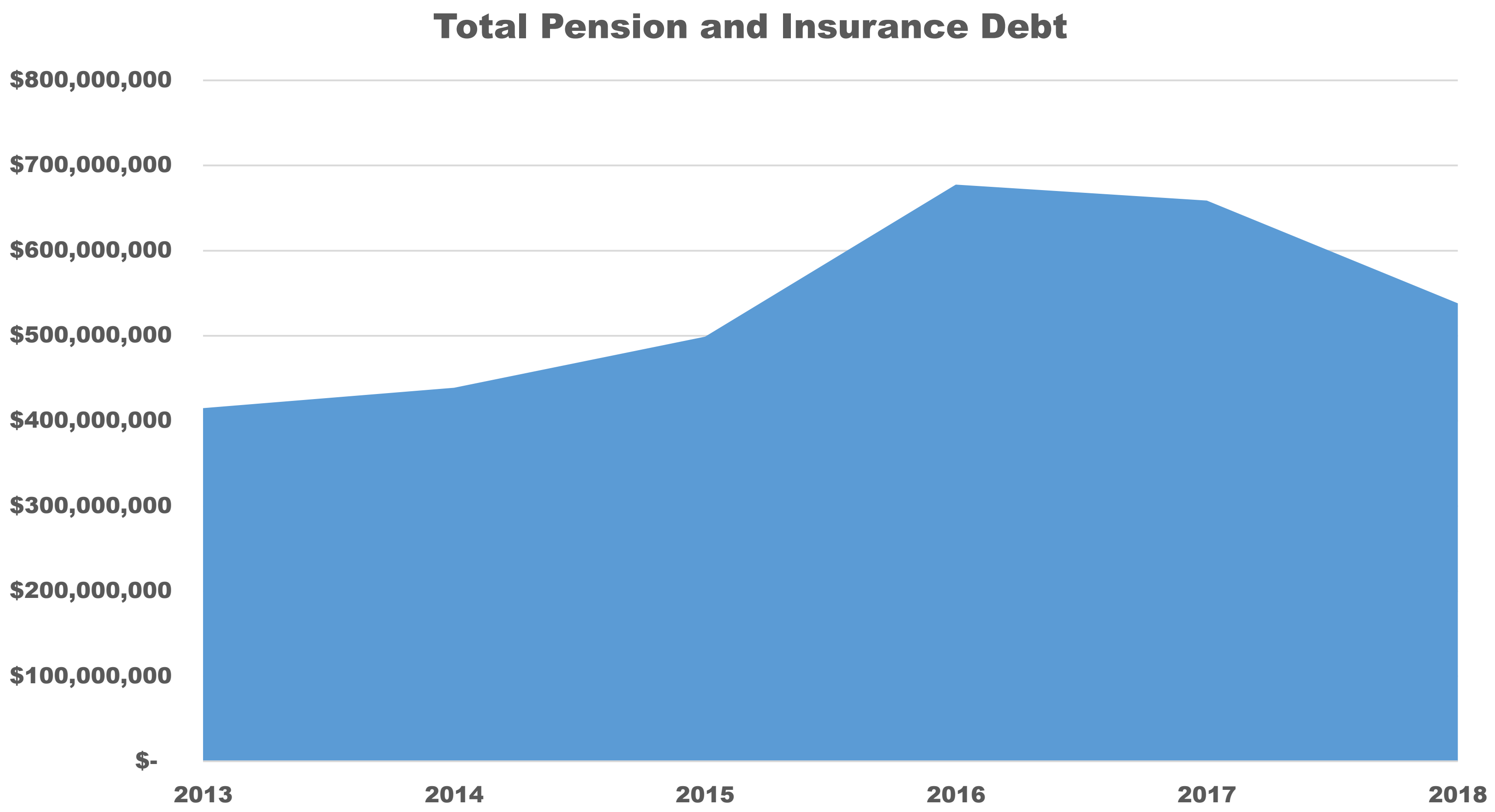
Firefighters Pension Fund Debt



Police Pension Fund Debt



Total Pension & Insurance Debt (unfunded)



Debt Projections & Strategy

- **Managing Insurance Debt**
  - Reduce Future Access to Retire Health Insurance
  - Reduce Level of Benefit of Retiree Health Insurance
  - Goal to fund Explicit Liability not total Liability
- **Managing Pension Debt**
  - Impact of Tier II on IMRF, Police, and Fire will help stabilize debt growth
    - Tier II Police and Fire cannot retire until age 55
    - Tier II IMRF cannot retire until age 67
  - Lobby for status quo for benefit levels
    - Consider support of optional benefit levels to include defined contribution or
    - Required defined contribution after a certain hire date.
  - Fund Police and Fire pensions above state minimum to improve funding level and possibly bond rating.

Fixed Debt – Measuring "The Burden"

- **Two Major measures of Debt "Burden"**
  - Debt as a % of Equity (Equalized Assessed Value)
    - 2007 G.O. Fixed debt* was 4.9 % of EAV
    - 2017 G.O. Fixed debt* was 3.4% of EAV
- **Debt as a % of Income (average for all residents)**
  - 2008 Fixed debt** was 6.79% of income
  - 2017 Fixed debt** was 3.25% of income
- **The City is managing the total debt burden**

***G.O. Fixed Debt in this case refers to property tax supported debt**

****Fixed Debt in this case adds Water/revenue debt that is paid through the water bill.**

Debt as an Investment

- **The City issues debt to build new or maintain current public and private infrastructure and facilities**
  - Tax exempt debt for public facilities and infrastructure
  - Taxable debt for private facilities – economic development
- **Investment in both areas add to the City's total property value/tax base**

Fixed Debt Projections & Strategy

- To maintain the City, both as a built environment and as a great place to live, both public and private sectors must continue to invest.
- Investments must be sound with proper risk/return.
- Transparency and alignment of long term goals and long term actual plans.

$100 Million for $1 Billion

- **$100 Million in Debt Issuance over the next 5 years**
  - $23 million Public Works Facility
    - Required for adequate services
    - Current facility built for community less than half current population
  - $50 million for Bilter Road
    - Casino move or other development
    - Clear goal of no taxpayer impact
  - Downtown Development
    - 2019 – 4 developments $5.0 million
    - 2020 – Additional Developments $5.0 million
  - Old Copley/Avalon Development
    - $3.0 million Phase 1
    - $12 million Phase 2
- By increasing our Assessed Valuation growth by 1% more than without redevelopment activities (2% compared to 3%) the City increases the tax base by over $1.0 Billion over 20 years

$100 Million for $1 Billion

Year	New Development and 3% EAV growth	2% EAV Growth	Sample Tax Rate (City Rate may vary)	Projected total Taxes Collected all Taxing Bodies - 3%	Projected total Taxes Collected all Taxing Bodies - 2%
2019	$ 4,017,000,000	$ 4,017,000,000			
2020	$ 4,137,510,000	$ 4,097,340,000	11.0%	$ 455,126,100	$ 450,707,400
2021	$ 4,261,635,300	$ 4,179,286,800	11.0%	$ 468,779,883	$ 459,721,548
2022	$ 4,469,484,359	$ 4,262,872,536	11.0%	$ 491,643,279	$ 468,915,979
2023	$ 4,603,568,890	$ 4,348,129,987	11.0%	$ 506,392,578	$ 478,294,299
2024	$ 4,741,675,956	$ 4,435,092,586	11.0%	$ 521,584,355	$ 487,860,185
2025	$ 4,883,926,235	$ 4,523,794,438	11.0%	$ 537,231,886	$ 497,617,388
2026	$ 5,030,444,022	$ 4,614,270,327	11.0%	$ 553,348,842	$ 507,569,736
2027	$ 5,181,357,343	$ 4,706,555,733	11.0%	$ 569,949,308	$ 517,721,131
2028	$ 5,336,798,063	$ 4,800,686,848	11.0%	$ 587,047,787	$ 528,075,553
2029	$ 5,496,902,005	$ 4,896,700,585	11.0%	$ 604,659,221	$ 538,637,064
2030	$ 5,661,809,065	$ 4,994,634,597	11.0%	$ 622,798,997	$ 549,409,806
2031	$ 5,831,663,337	$ 5,094,527,289	11.0%	$ 641,482,967	$ 560,398,002
2032	$ 6,006,613,237	$ 5,196,417,835	11.0%	$ 660,727,456	$ 571,605,962
2033	$ 6,186,811,634	$ 5,300,346,191	11.0%	$ 680,549,280	$ 583,038,081
2034	$ 6,372,415,983	$ 5,406,353,115	11.0%	$ 700,965,758	$ 594,698,843
2035	$ 6,563,588,463	$ 5,514,480,177	11.0%	$ 721,994,731	$ 606,592,820
2036	$ 6,760,496,117	$ 5,624,769,781	11.0%	$ 743,654,573	$ 618,724,676
2037	$ 6,963,311,000	$ 5,737,265,177	11.0%	$ 765,964,210	$ 631,099,169
2038	$ 7,172,210,330	$ 5,852,010,480	11.0%	$ 788,943,136	$ 643,721,153
				$ 11,622,844,348	$ 10,294,408,793
			Additional Tax Revenue at same Tax rate		1,328,435,555

2019 EAV is an estimate based on current EAV and projected growth.

Paying for $100 Million in Debt

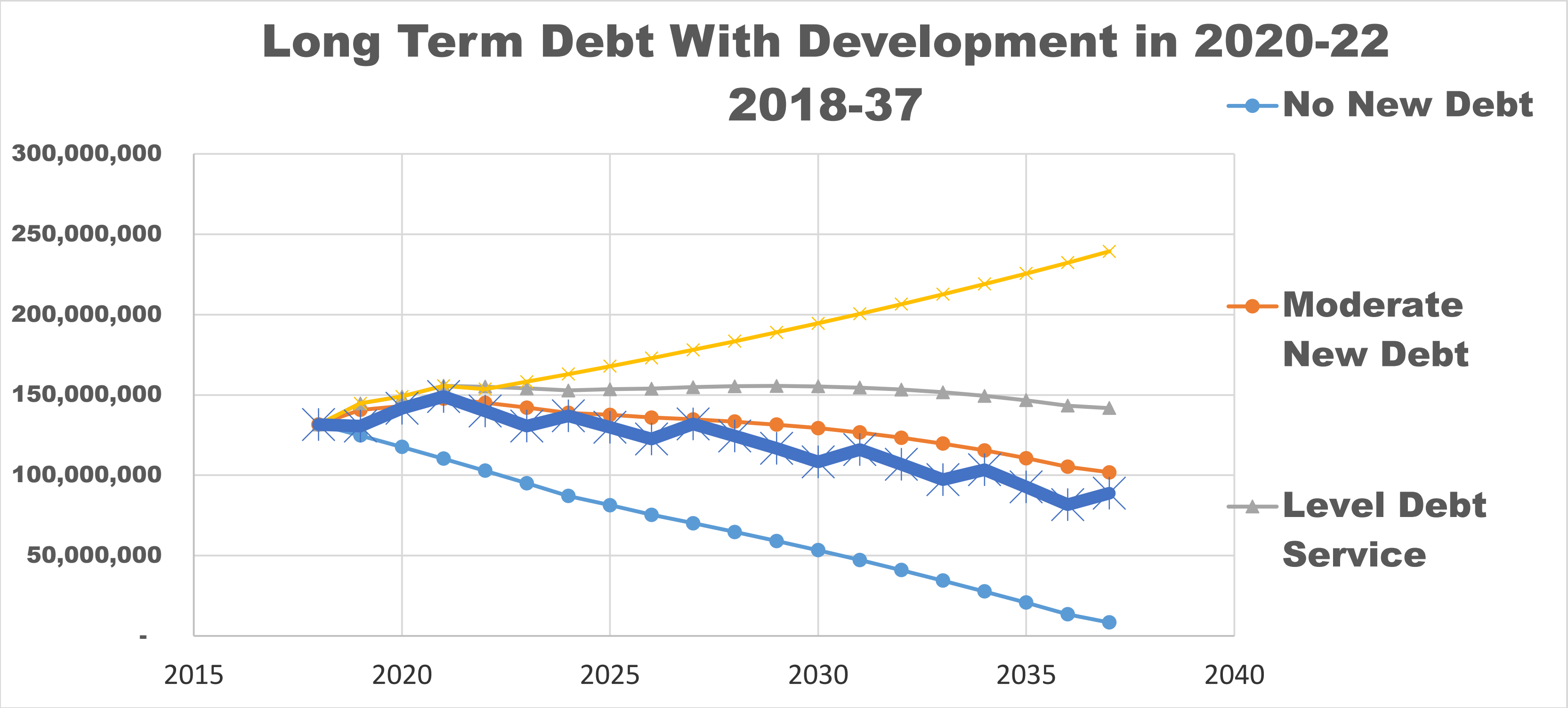
- **$23 million Public Works Facility**
  - General Obligation – tax levy estimated at $1.7 million
  - abatements as possible through budget process
  - $30 - 50 million for Bilter Road
    - TIF created to utilize property taxes of the development to repay debt
    - Projected increase in gaming funds to $15 million (current level is $7.0 million)
    - Clear goal of no taxpayer impact
  - Downtown Development
    - General Obligation - tax levy estimated at $750,000
  - abatements as possible through budget process
  - Old Copley/Avalon Development
    - Debt Service estimated at $1.1 million
      - TIF Revenues estimated at $450,000
      - Tax levy for $650,000

Paying Debt - Cont.

- **Debt Payment Scenario 1: Successful development/relocation of Casino and replacement of hotels on Farnsworth.**
  - G.O. Debt from P.W. Facility, Old Copley/Avalon and Downtown projects total $3.1 million in debt service per year
  - Debt Service for Casino could be $3.75 million to $5 million depending on G.O. or Revenue debt rates.
  - Additional Revenues from Development at Casino/Farnsworth
    - Property taxes -$3.5 -$5.0 million for Casino
    - Casino Gaming Revenue above current level $8.0 million projected
    - Farnsworth Revenue and Debt not included
  - Total Revenue less total debt service
    - $11.0 million conservative revenue estimate
    - $8.5 million conservative debt service estimate
    - Net $2.5 million reserve/coverage
- **Debt Payment Scenario 2: Casino does not move – Other multi-use entertainment/lodging revenue producing development that works with outlet mall environment**
  - Investment will not be $50 million so debt service will also be less
  - Need alternative development to produce 25% more revenue than debt service

Fixed Debt Projections

- **Including the above debt, but excluding the debt paid from other sources (Casino or water system debt) debt remains stable even with An estimated $16 million in debt issued every three years for capital purposes.**



Other Debt Issues & Activities

- **Commons Drive Extension – $8 million in bonds, Planned to be completely paid by TIF on Ogden and 75th**
- **Lead Service Line Mandate – Regardless of total mandate, this debt will impact all Illinois cities and will be funded through the Water Utility along with any state or federal support**
- **Other Route 59 Corridor developments – self supporting debt if issued is still the goal**
- **River Edge Park, Pedestrian Bridge, Wilder Park area development**
- **Downtown development**

QUESTIONS?