



Charlotte City Council
Budget and Effectiveness Committee
Meeting Summary
September 17, 2019

COMMITTEE AGENDA TOPICS

Municipal Service District Policy Research: Property Owner Engagement
Financing and Market Condition Update

COMMITTEE INFORMATION

Committee Members Present: Greg Phipps (Chair), Ed Driggs (Vice Chair), Dimple Ajmera,
Tariq Bokhari, LaWana Mayfield

Staff Resources: Sabrina Joy-Hogg, City Manager's Office

Meeting Duration: 12:00 p.m. – 1:30 p.m.

ATTACHMENTS

1. Agenda
2. Municipal Service District Policy Research: Property Owner Engagement Presentation
3. Financing and Market Condition Update Presentation

DISCUSSION HIGHLIGHTS

Municipal Service District Policy Engagement: Property Owner Engagement

Budget Director, Phil Reiger, lead committee members in a continued discussion about the Municipal Service District (MSD) topic referred to the committee which considers options for policy guidance that ensures property owner engagement regarding future requests of City Council to increase MSD property taxes. Reiger provided a summary of the policy elements, timeline for tax rate requests, and Council's feedback that was integrated into the policy language.

Committee members engaged in discussions about the existing process for requests and benefits of establishing references to weigh requests. It was determined to maintain flexibility in the policy and require an annual financial report in the written report when requesting a rate increase.

Motion and Vote:

Vice Chair Driggs motioned to recommend the MSD policy to full Council. The motion was seconded by Chairman Phipps. The decision was unanimous.

Financing and Market Condition Update

Chief Financial Officer, Kelly Flannery, reviewed the debt management process, outstanding debt and market conditions. Flannery outlined that types of debt and appropriate uses as fix rate long term debt, variable rate long term debt, and short-term debt. The city's current long-term debt portfolio is approximately \$4.4 billion and 3.9 percent is fixed rate debt. Flannery continued the presentation with discussions of debt management process being derivative products, lease financing, and direct borrowing. The purpose of financing was defined as new money financing and refunding bonds.

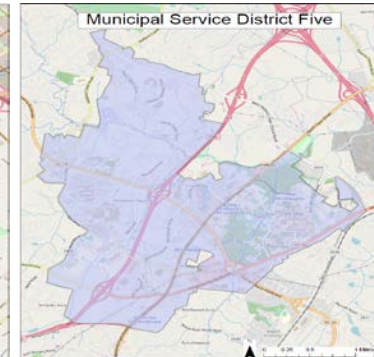
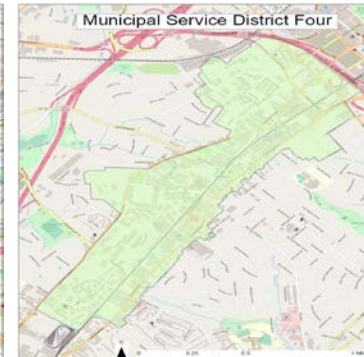
Flannery reviewed interest rate trends and noted that over the last ten years, the 30-year Municipal Market data has been higher than current levels at 99.92 percent of the time. The discussion continued with an economic forecast. There was a 1.8 percent U.S. real gross domestic product growth in 2020 and the odds of a U.S. recession is at 30 percent. Flannery overviewed the current federal funds rates was lowered to 2.25 percent on July 31 and the current risk factors of a financial crisis. The presentation was concluded with discussion on the FY 2019 bond issuance and ratings across all credits.



Municipal Service District Policy Review

Budget and Effectiveness Committee
September 17, 2019

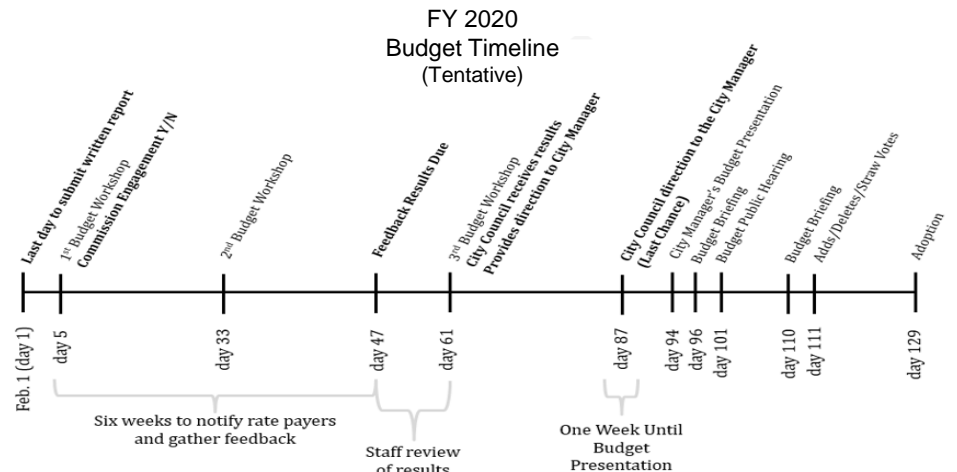
- Municipal Service District Policy Development
- Committee Consideration
- Next Steps



POLICY HIGHLIGHTS

- Reviewed the legal framework and origins of Charlotte’s MSDs
- Conducted peer city comparisons to evaluate national trends
- Collaborated with Charlotte Center City Partners and University City Partners to develop policy framework
- Drafted a policy that describes a formal engagement process when increases in Municipal Service District (MSD) property taxes are requested of City Council

- Committee Review Period



MSD Tax Rate Request Requirements:

1. Tax increases requested by written report and include:
 - Map of district
 - Statement of need and requested property tax rate
 - Description of existing and proposed services
 - Plan for providing new services
 - Report will be available in Office of the Clerk and presented to Council or City Manager
2. Council considers request and provide City Manager direction to seek feedback from MSD tax payers

Property Owner Engagement Process:

3. Engagement process completed in six weeks
 - Requester shall provide written notice to district property owners/tenants

Examples of Engagement:

- Postcards
 - Email
 - Surveys
 - Focus groups
4. Results compiled by City and shared with Council prior to Managers Recommended Budget
 5. City Council evaluates results and provides direction to City Manager to include in budget
 6. Final opportunity for feedback at Budget Public Hearing

NEXT STEPS

1. Committee to consider vote
2. Committee update to City Council at October 7 Strategy Session

FINANCING AND MARKET CONDITION UPDATE

BUDGET AND EFFECTIVENESS COMMITTEE
SEPTEMBER 17, 2019

OVERVIEW

- Debt Management Process
 - Appropriate Use of Types of Debt
 - Purpose of Financing
- Outstanding Debt
- Market Condition
- Calendar

DEBT MANAGEMENT PROCESS – APPROPRIATE USE OF TYPES OF DEBT

Fixed-Rate Long-Term Debt

- Fixed-rate long-term debt may be used to finance essential capital facilities and projects where it is appropriate to spread the cost over future years

Variable Rate Long-Term Debt

- Determine the appropriate amount of variable rate bond exposure based on the unique financial strengths of each bond type
- Try to match short-term assets (e.g., short-term investments and/or reserve funds) and liabilities in determining the level of variable rate exposure

Short-Term Debt

- Capital equipment purchases and to satisfy cash flow needs on a limited basis
- May be issued as either fixed or variable
- May include Bond Anticipation Notes (BANs), Commercial Paper (CP) and/or notes

DEBT MANAGEMENT PROCESS – APPROPRIATE USE OF TYPES OF DEBT

Derivative Products

- Swaps, swaptions or the sale of call options are used to realize lower all-in costs on a new debt issuance
- Demonstrated that the product will provide a hedge that reduces the risk of fluctuations in expense or revenue, or where it will reduce the total financing cost

Lease Financing

- Used when it is economically beneficial
- The useful life of the capital equipment, terms and conditions of the lease and direct impact on debt capacity and budget flexibility are evaluated prior to implementation

Direct Borrowing

- Used when it is economically beneficial
- Transaction will create tangible benefits including interest costs savings

DEBT MANAGEMENT PROCESS – PURPOSE OF FINANCING

- New Money Financing

- The city may use long-term bonds to provide financing for new money needs
- The city may use BANs, CP and/or notes to provide interim and short-term new money funding
 - ▶ These programs will be retired over time upon receipt of bond proceeds or budget appropriation

- Refunding Bonds

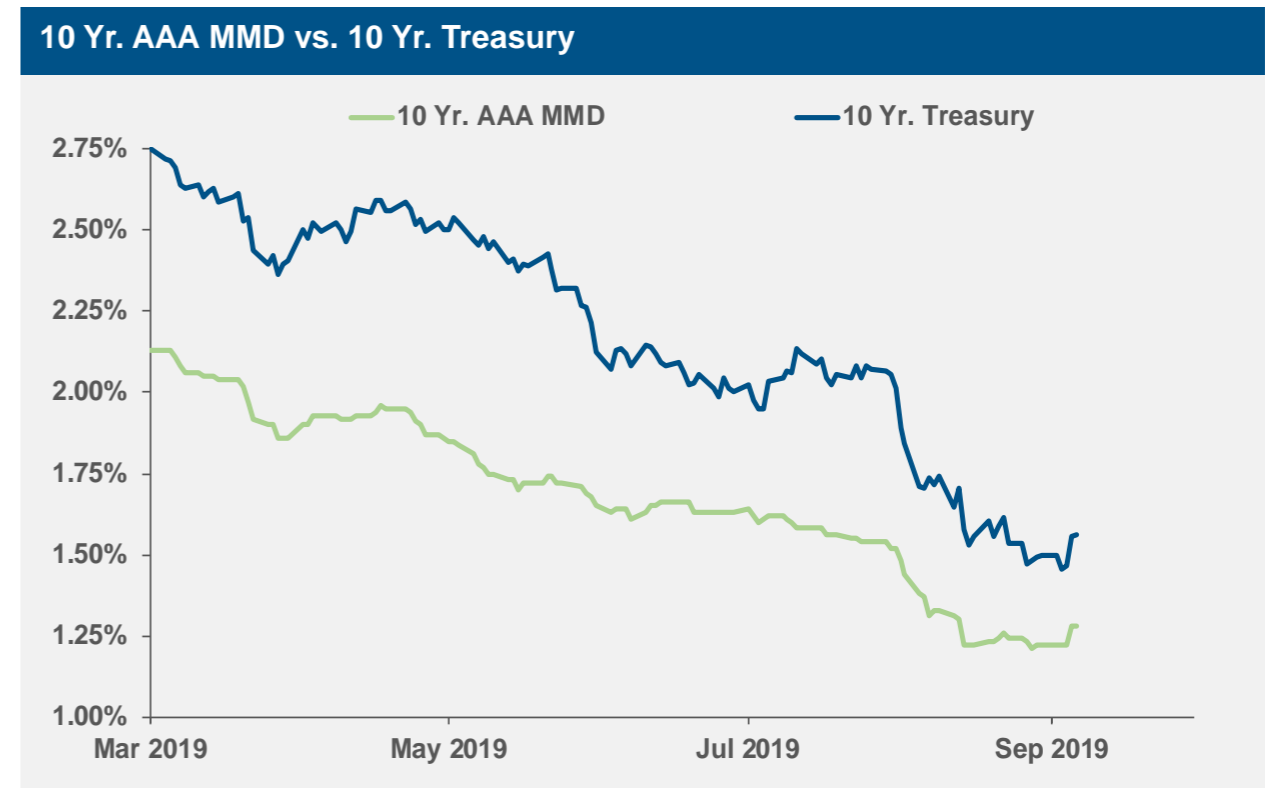
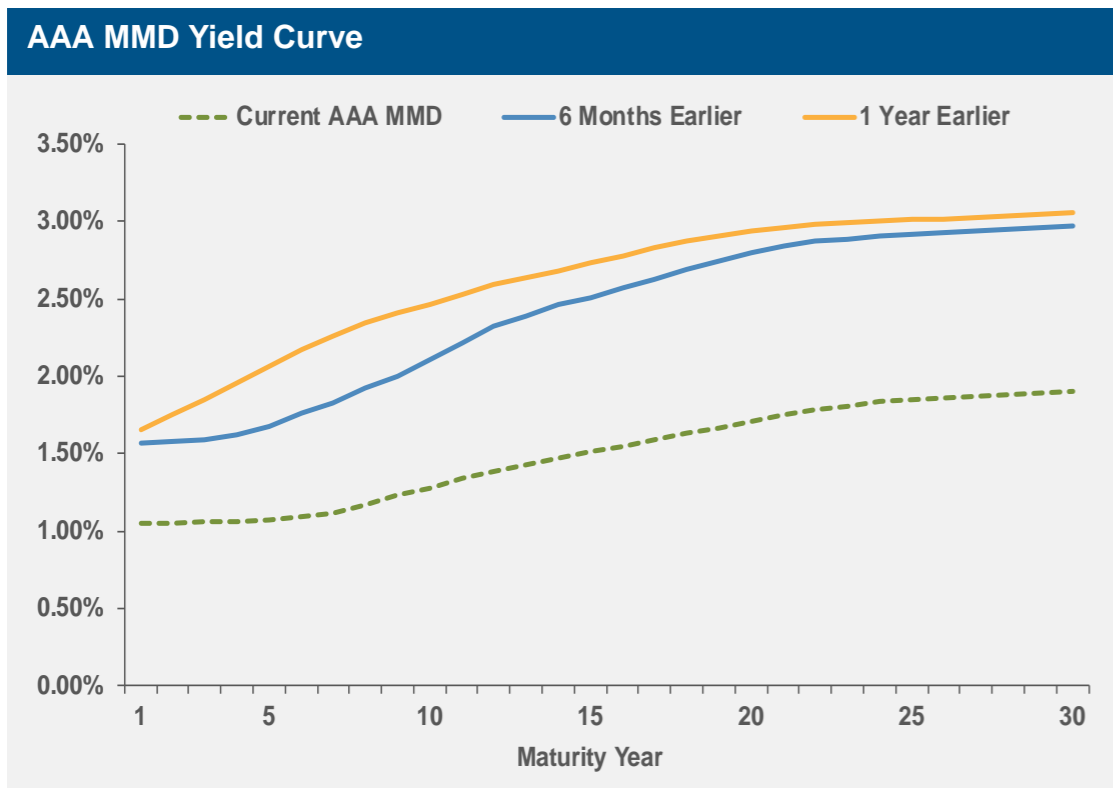
- The city regularly evaluates bond refinancing opportunities as a means of providing interest cost savings
 - ▶ A present value analysis is prepared that identifies the economic effects of any refunding
 - ▶ Target minimum present value savings on refunding candidates of at least three percent of the refunded debt
 - ▶ Evaluate the level of negative arbitrage

OUTSTANDING DEBT

- The city has \$4.4 billion in outstanding debt
 - \$3.9 billion fixed (89%)
 - \$449 million variable (11%)
- The city has the highest credit ratings available for a local government

As of 8/31/19	Municipal	Convention Center	Tourism	NASCAR	Cultural Arts	Airport	CATS	Storm Water	Water
Ratings (M/S&P/Fitch)	Aaa/AAA/AAA	Aa2/AA+/AA+	Aa1/AA+/AA+	Aa2/AA+/AA+	Aa2/AA+/AA+	Aa3/AA-/AA-GARBs	AA1/AA+/AA+	Aaa/AAA/NR	Aaa/AAA/AAA
Amount Outstanding	\$864.2M	\$192.7M	\$131.6M	\$105.4M	\$96.9M	\$864.2M	\$426.9M	\$200.6M	\$1,441.5M

INTEREST RATES HAVE BEEN TRENDING LOWER



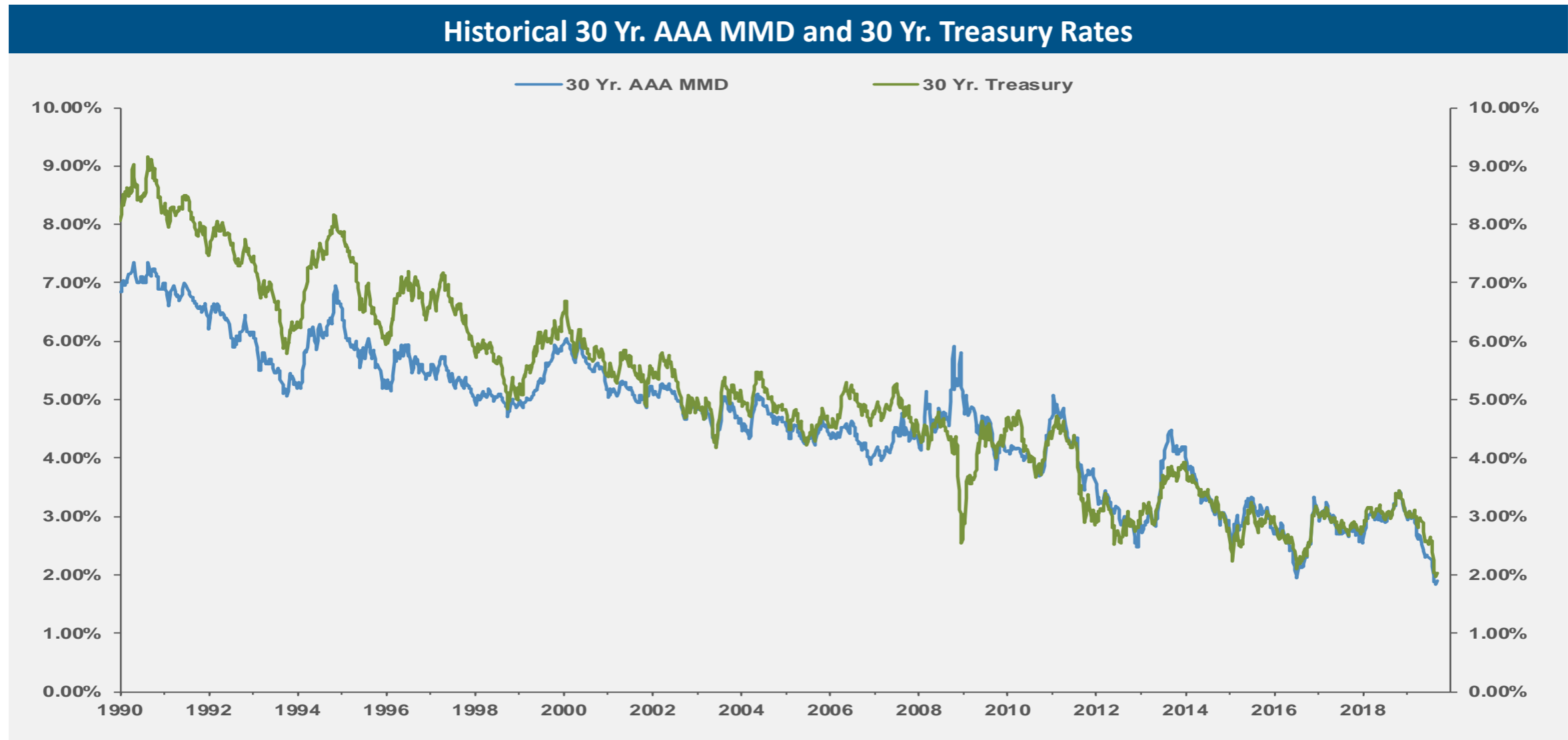
Tax-Exempt

- Since January 1, tax-exempt rates have declined an average of 108 basis points
- July 1 through September 5 tax-exempt rates have declined an average of 43 basis points.

Taxable

- Since January 1, taxable rates have declined an average of 109 basis points
- Since July 1, taxable rates have declined an average of 52 basis points

LONG-TERM TREND OF FALLING INTEREST RATES



Over the last ten years, the 30Y Municipal Market Data (MMD) has been higher than current levels 99.92 percent of the time

Sources: Thomson Reuters Municipal Market Monitor / Bloomberg. Note: Weekly data. AAA MMD assumes an optional 10-year par call.

ECONOMIC FORECAST

- 1.8 percent U.S. real GDP growth in 2020
- Odds of a U.S. recession at 30 percent
 - Factors keeping this percentage from rising include the strength of the U.S. consumer and likely easing by the Federal Reserve
- Current federal funds rate was lowered to 2.25 percent on July 31
 - Anticipated a total of three fed fund cuts (-75 bps) in 2019
 - Very low chance of a 50 basis points cut in September
 - High likelihood of an additional cut in early 2020
 - The 2008 recession caused the Fed to lower the rate to 0.25% and it stayed there until December 2015
- Risk factors going into Fall
 - Brexit deadline October 31
 - Europe near recession
 - U.S. tariffs on E.U. autos?, U.S./China trade war and yuan weakness, Hong Kong protests, Japan/South Korea trade tensions

FY 2019 BOND ISSUANCE

	General Obligation Refunding, Series 2018	Certificates of Participation, Series 2018	Certificates of Participation (Convention Facility Projects), Series 2019A	Refunding Certificates of Participation (Cultural Arts Facilities), Series 2019B	Refunding Certificates of Participation (NASCAR), Series 2019C	Airport Revenue Bonds, Series 2019A&B
Purpose	Refinance the GO 2008 Bonds	Spectrum Center, Bojangles/Ovens improvements	- Convention Center renovations - UNCC Hotel & Conference Center - Refinance 2009B COPs	Refinance the 2009E COPs	Refinance the 2009C COPs	- Acquire and construct improvements to CLT - Refinance 2017D Note
Ratings (Moody's/S&P/Fitch)	Aaa/AAA/AAA	Aa1/AA+/NR	Aa2/AA+/AA+	Aa2/AA+/AA+	Aa2/AA+/AA+	Aa3/NR/AA-
Par Amount	\$26,920,000	\$76,455,000	\$120,950,000	\$96,975,000	\$34,935,000	\$178,365,000
Sale Method	Negotiated	Negotiated	Negotiated	Negotiated	Negotiated	Negotiated
Final Maturity	2023	2038	2049	2039	2039	2049
Tax Status	Tax-Exempt	Tax-Exempt	Tax-Exempt	Tax-Exempt	Tax-Exempt	Tax-Exempt/AMT
Closing Date	08/01/18	11/8/18	04/25/19	06/04/19	06/04/2019	06/20/19
TIC	2.04%	3.32%	3.40%	2.85%	3.25%	3.30%
# of Investors	9	13	47	32	28	27
# of New Investors	0	3	11	6	13	16
Subscription	2.25X	1.0X	5.0x	2.7x	4.8x	3.8x

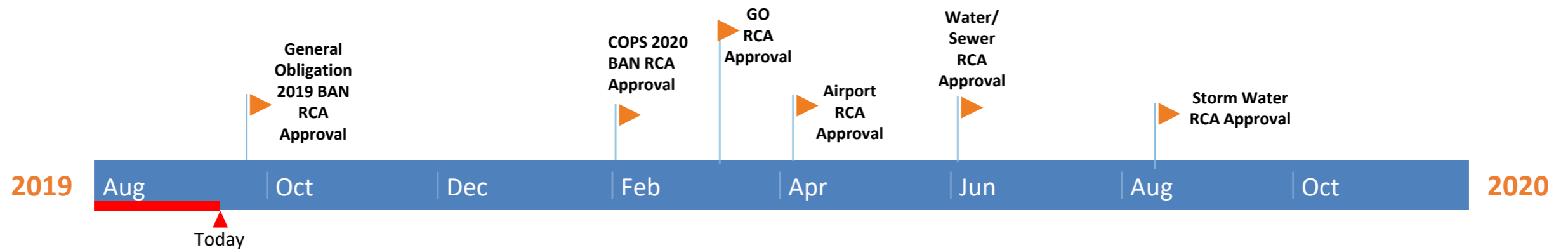
The city issued \$534.6 million in new and refunding bonds across all credits in FY 2019

FY 2020 YEAR-TO-DATE BOND ISSUANCE

	General Obligation Refunding, Series 2019A	General Obligation Housing Series 2019B	Water and Sewer Refunding Revenue, Series 2019
Purpose	Refinance the GO 2009B Bonds	Acquire, construct, develop and equip housing projects	Refinance the Water and Sewer 2009 Bonds
Ratings (Moody's/S&P/Fitch)	Aaa/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA
Par Amount	\$189,920,000	\$55,000,000	\$58,750,000
Sale Method	Negotiated	Competitive	Negotiated
Final Maturity	2039	2039	2035
Tax Status	Tax-Exempt	Taxable	Tax-Exempt
Closing Date	08/15/19	08/28/19	09/10/19
TIC	2.12%	2.30%	2.12%
# of Investors	36	Not Applicable	14
# of New Investors	16	Not Applicable	2
Subscription	3.2x	Not Applicable	1.7x

The city has issued \$303.7 million in new and refunding bonds across all credits YTD FY 2020

TENTATIVE FUTURE BORROWING PLANS



Credit	Purpose	Estimated Par*	RCA Approval*	Closing Date*
Water/Sewer Equipment Note	Equipment acquisition	\$20M	July 24, 2019	October 2019
General Obligation BAN	Streets and neighborhood projects	\$150M	September 23, 2019	October 2019
COPs 2020 BAN	Capital projects	TBD	February 2020	March 2020
General Obligation Refunding Bonds	Refinance for savings	\$34M	March 2020	April 2020
Airport Refunding Bonds and BAN	Refinance and airport capital	TBD	April 2020	May 2020
Water/Sewer Refunding Bonds and BAN	Refinance and water/sewer capital	\$550M	June 2020	July 2020
Storm Water Refunding Bonds and BAN	Refinance and storm water capital	\$145M	August 2020	September 2020

*Preliminary, subject to change

Finance regularly evaluates bond refinancing opportunities as a means of providing interest cost savings

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- ▶ Evaluate the level of negative arbitrage