

MINUTES OF
CITY COUNCIL WORKSHOP HELD
MARCH 28, 2022

The City Council of Olmos Park, Texas held a special meeting on March 28, 2022 commencing at 6:00 p.m. in the Council Chambers at City Hall. Mayor Ronald Hornberger presided and Council members present were Juliana Dusek, Erin Harrison, Kenyon McDonald, Sharon Plant and Deanna Rickabaugh. Staff present was City Manager, Celia DeLeon; and City Secretary, Kyndra Munoz. Also present was Financial Advisor, Christopher Allison; City Engineer, David Givler; and Bond Counsel, Adam Harden, Arnold Cantu and Martina Hinojosa.

Mayor Hornberger called the meeting to order at 6:09 p.m. and determined a quorum was present.

Discussion and possible action regarding financing or bond issuance options for costs of potential storm sewer, sanitary sewer, and street projects.

Mayor Hornberger stated the Council will have questions for Mr. Givler regarding the order of procedure to work on the sewer and streets taking care of what is most prudent first. For Mr. Allison, the issues are what is the best option of financing to obtaining to try and accomplish these projects. Given the fact we have just finished paying about \$450,000 a year of the last open debt item, how much debt will such payment now carry under the variety of debt recommendations.

David Givler stated at the last meeting we talked specifically about sewer costs and the cost to repair the entire sewer system in the range of about \$7.3 to \$9.3 million. One of the things I explained is that did not include street repairs. Coming out of that meeting, I realized you need some more information on how all of these things fit together. I have looked at a couple of things for you. One is we have 190 sewer repairs identified and 45 of these are in the streets. The rest of them are in the easements behind houses and means 76% of the problems are in easements in hard to access locations. Only 24% of the problems are in the streets. If you start adding in the additional repairs for restoring the streets, what is that going to cost? I have included a spreadsheet with 3 different scenarios. Scenario 1 is just the sewer repairs by themselves and gives you a temporary patch on the surface of the street. Scenario 2 is what it would take to put in asphalt patches on top of the fill and only adds about \$4,000 to \$5,000. Scenario 3 is mill and overlay for ½ a block every time you have a repair so people aren't seeing a patch and this adds \$1.6 - \$2.2 million. There was a concern of what the streets were going to look like after the repairs and these are some of the additional planning tools to look at.

Councilwoman Plant asked have you identified what streets we will have to mill and overlay? For example, Mandalay was just done a couple of years ago and if we have 3 repairs that need to be done we will want to mill and overlay. Let's say we have another street with only 1 repair and will have the patch over it for a while until we can mill and overlay. It is a small cut in the street, I don't see the need to repair the whole street.

David Givler stated this is very doable because there are so few repairs that are in the streets.

Councilwoman Rickabaugh stated this pricing is for the whole complete project. There were critical items identified that fell in range of \$600,000 - \$700,000 and we need to figure out funding for these items. Also, are we at a place where we should be considering something more?

Mayor Hornberger stated the simultaneous question is what's absolutely necessary on the sewers and does it make sense to borrow this money? If it does not, how much more than that would be reasonable for this Council to consider? We could use the excess money and let Mr. Givler decide

the next priority items to complete. In the meantime, we will continue with our usual, ordinary pattern of street repairs and possibly even sewer repairs.

Councilwoman Plant stated let's start off with completing everything on David's list which totals a little under \$12 million. Can you go over a certificate of obligation for this? Can we use the street budgets money and use this towards the payment of the debt?

Financial Advisor, Christopher Allison stated you are not able to use the street money for a bond issue because it is not a part of you I&S tax. You could adopt a budget next year that has a lower M&O and have a higher I&S tax rate to achieve that or you can pay cash out of your M&O for that. The annual budgeted money must be used towards the project and the debt service money has to be from the I&S. The project you are listing here that would quantify as long-life assets that will repair the sewer is probably the most important information to know. The rates are not where they were and it is not free money anymore, but I still believe a 15- or 20-year certificate of obligation is the best option. There is a 15- or 20- year bond issue in which you have a general obligation that you take to the voters in November or a certificate of obligation where you publish a notice, publish notice again a week later, then 30 days after the first notice you can adopt an ordinance to issue a bond. If you do a CO, I would recommend having an open house to explain the costs and project to the residents. I would recommend the CO route because for a GO you are stuck with an election in November and this is a long time to wait; with a CO you have the flexibility to move forward at any time.

Councilwoman Harrison stated if we chose to do a 15- or 20- year bond, we still only have 2 years once we receive the money to use the money.

Christopher Allison stated it is 3 years and as Adam will tell you, as long as you are moving forward with the project to spend the money.

Adam Harden stated you can have unspent proceeds and there are 2 different layers of analysis. One is have you spent up to 85%, otherwise the IRS views it as you are trying to lock in favorable interest rates. The other thing is arbitrage restrictions and they don't want you to issue at a lower rate and earn investment proceeds too much money. You have the option to say upfront with an engineer's certificate that you expect this may take up to 5 years because of supply chain constraints and the scope of the project to get that extra time. You can explain to the IRS things happened in the interim and you reasonably expected when we issued the bonds to spend it all over 3 years.

Councilwoman Harrison stated we need to document throughout the process if there are delays or supply chain issues.

Mayor Hornberger stated my reading from the original materials shows the project that will take roughly \$9 to \$11 ½ million and will not be completed in 3 years.

David Givler stated I provided some time tables for the project which is a pretty extensive project. You can do this all at once and hire multiple contractors but then you wouldn't be able to drive anywhere in the City.

Christopher Allison stated I have provided 4 simplistic scenarios to get to a number that the City is comfortable with. First is a 7-year \$1 million tax note and your run being 2 cents for this \$1 million. In 2021, the tax value for the City of Olmos Park was \$718 million and 31% of that was over 65 frozen. I have a growth schedule tax value ruling of 3% annually. I would look at either the 15-year bond issue or the 20-year bond issue. Looking at the 20-year bond issue, at year one

it is at 9/10 of 1% of tax impact going down to 5/10 of 1% in the final year. You could easily structure a deal for \$10 million at about 7 cents where you have increasing debt service but it would keep that tax rate level. On the last bonds, it was 4 ½ cents on the final year of debt service and if you wanted to keep this same amount, you would issue a \$5 million bond issue in which you would have 4 ½ the first year and drop lower every year. Once you start going above this, it places the rest of the burden on the 69%.

Mayor Hornberger asked the 31% under the tax freeze, is this the number of tax payers or the amount?

Christopher Allison stated it is the total valuation and I believe the amount is \$221 million.

Councilwoman Rickabaugh asked the schedule provided is based on a \$1 million bond issue?

Christopher Allison stated correct. I think this is the easiest way to think about it instead of running a bunch numbers for different bond issues. For the 20-year bond issue on a \$1 million, the first year is almost at 1 cent and at \$10 million, it would be 9 cents.

Councilwoman Plant would we be okay issuing a \$12 million bond issue for the projects needed?

Christopher Allison stated you would have a tax increase, but it would not be substantial.

Councilwoman Dusek asked would it be a waste of time to do a bond issue for \$3 million? We have a list of big projects that will be tearing up streets and yards. If we tackle a big project then do a mill and overlay on the streets to get a glimpse of what this project will look like; then we go back to get a big chunk, would this make sense financially? There have been a lot of scenarios and I get worried issuing a \$10 million bond, then start working in people's back yards and it ends up being a mess.

Mayor Hornberger asked keeping our existing payment structure of \$450,000 a year, how much does this buy us with a tax note of 7 years?

Christopher Allison stated it will buy you \$2.5 million.

Councilwoman Plant stated this is not my favorite discussion but it is something that needs to be done. We have 3 more years of unexpected events and we have had a situation in a relatively short period of time where free money is now costing 3%. Every year we have a major issue where we are spending between \$150,000 - \$200,000. My thinking is we get this done and then we won't have to talk about sewers for a while.

Councilwoman Dusek stated there was a lot of concern about spending the money over a certain amount of time. This is the first time we are doing a major project with the sewers and streets at once.

Christopher Allison stated the IRS is focused on municipalities not borrowing money to earn a rate in excess of that. The reason I am more focused on it is, I don't want you borrowing \$10 million and 3 years down the line you have only spent \$3 million. If David feels like \$6 million can be spent in an expeditious manner and produce what you are looking for, then that is where we go. Then I can structure the bonds with extra principal up front so we can be prepared for another issue in a couple of years.

Councilwoman Rickabaugh stated I agree with Councilwoman Dusek. I don't feel we need to go out and do the whole thing. You are right in that we don't know what will happen in 3 years but that is a time frame that we can look at. We know right now we have these 8 projects to do, then after that we can tackle the next 10 to 12.

Councilwoman Plant stated I do not believe spending the money for a multi-million-dollar project in 3 years is reasonable.

Councilwoman Harrison stated one of things we were looking at when we started this project was if bundling these projects together would allow us to get a better rate and more bang for our buck but I am not seeing any kind of bulk discount in these prices. We have so many options on the table, how do you simplify this down and come up with a number?

Mayor Hornberger stated blending these comments together: length of the bond or note and length of getting the most done with the biggest bang for our buck. How do we fit the total price with paying off the bond or tax note by the time the project is complete? How much can we borrow for how long and how fast can David spend it?

Christopher Allison stated from my perspective on the financing side, it is borrowing enough on a 20-year bond issue and keeping the tax rate at least where we were last year with I&S which was 4 ½ cents. For a 20-year bond issue, if rates do drop, you have the option to refinance in the future.

Mayor Hornberger asked what is the principal for this?

Christopher Allison stated \$6 to \$7 million not assuming 3% growth.

Mayor Hornberger asked how far down the list in term of percentage of whole projects can we get with \$6 million?

David Givler stated we would get about 60% of the way through.

Mayor Hornberger stated that would leave us with the least pressing matters.

David Givler stated that is correct.

Councilwoman Rickabaugh stated we are still budgeting the \$250,000 that can still be used to charge at the project.

Councilwoman Plant stated our major problems are being solved, so we might not need to touch this money for a while. We can keep this in the account and by the time David is through with the other projects we might be able to pay cash for what is needed.

Christopher Allison stated the City has a lot of flexibility and is in great financial shape; the only issue is you have old infrastructure that needs to be addressed.

Mayor Hornberger asked if something horrible happens and we have to go out to the marketplace for another \$10 million bond, this will raise taxes but is doable?

Christopher Allison stated it would still keep you below almost every other City in Bexar County with the tax rate.

Councilwoman Plant stated by big fear is never knowing when Council will change hands and knowing our Community has changed so much, I would like to have these projects going.

Councilwoman Rickabaugh asked if we didn't issue anything this year, will the people who are currently frozen go down also?

Christopher Allison stated you are frozen at a dollar amount for taxes. If their tax goes down next year, they can go back up to that frozen dollar amount.

Councilwoman Rickabaugh stated it seems to me we have an opportunity to do something good for the City. We need to figure out how to stretch it and how much to borrow; not just for the sake of borrowing but for something we can all feel good about paying for.

Councilwoman Plant asked how long will the process take including the public notice?

Christopher Allison stated with a bond issue, we can be closed within 60 days from when Council makes a decision.

Councilwoman Plant stated David can begin with the highest priority items using the \$6 million then after that move on to the second phase.

Councilwoman Dusek stated because we have scoped the sewer system, you have a pretty good understanding of what would be mill and overlay versus a patch.

David Givler stated we scoped the entire system except for 1,000 feet. Only 24% of the repairs are going to be in the streets and will be a small part of the deal.

Mayor Hornberger stated Christopher Allison can structure a \$6 million bond issue for 20 years and David Givler can address our most expensive and dangerous problems using the \$6 million in 3 years.

Councilwoman Rickabaugh who buys the bond and is this something we have to bid out?

Adam Harden stated it could be Frost Bank, Broadway Bank or PNC Bank; whoever gives you the best terms and rates. This will have to go out for bids.

Christopher Allison stated you have two options. I can provide Celia bid forms and a list to send the bids out to or you can hire a bidding agent for a fee of about \$2,500 to take on the role.

Mayor Hornberger asked what would you recommend?

Christopher Allison stated I recommend spending the \$2,500 to hire a bidding agent.

Arnold Cantu stated I would like to point out the timing of a certificate of obligation. This is a 2-part process. The first step for a certificate of obligation to issue debt without an election is to prepare a resolution and adopt it that authorizes the City to publish notification in the newspaper twice. There are a few things that need to be in here to include financial disclosures and the purposes set out which can be as general or specific as your engineer and financial advisor would like. The key here is because we are not doing an election, statutes have protection for cities. We have to wait 45 days from publication and in these 45 days, we can't take action. In addition to this, you have to post notice on your website and we will prepare this for you as your bond counsel. This notice has to be on the website for 45 days straight up until the date of sale. If the notice of

intention is done in April, the next meeting to sell and adopt an ordinance issuing the certificates will be at least 46 days from then. There is a referendum option in that if 5% of the qualified votes of the City have any objection they can present a petition. At that point, if you deem the petition is valid, you have the option to call the whole thing off or do a bond election. If you were to reverse the situation and say you would like to put it up to the voters right now and have a bond election; if the bond election fails, you have to wait 3 years before you can issue a certificate of obligation.

Councilwoman Plant stated, as Christopher mentioned, we could have a public meeting with the residents to explain the process.

Councilwoman Harrison stated we can educate and explain the opportunity we have. When we have seen people show up in the masses is when something was trying to pass and they felt they were not adequately notified or we did not take the temperature. I think it will be easy if we know this is the right option for City, drive that conversation to be ahead of it and pull people in to be a part of this. This is something that will affect all of us.

Arnold Cantu stated after the first meeting where you adopt the resolution and publish notice, the 46-day publication time period does not begin until the first day of publication. You are required to publish twice, 7 days apart in your local newspaper.

Councilwoman Rickabaugh asked are there any other financing options that carry the referendum risk you mentioned?

Arnold Cantu stated there are a couple of instruments that are acceptable to the Attorney General who will have to review any debt you issue to the tax payers. The two practical options are the bond election and certificate of obligation. A bond election constitutently requires an election to issue a general obligation bond. A certificate of obligation is permitted by statue to allow a city to fund capital improvements without needing an election, but they build in protections for the taxpayer.

Councilwoman Plant stated this isn't a contentious issue, but are basic city services that have been looked at by our engineer, have to be repaired and there is no other place to get the money.

Councilwoman Rickabaugh stated we are also trying to manage the tax rate to minimize the impact. Are we prohibited from advocating for this?

Arnold Cantu stated I would recommend stating factual data and not advocating for or against.

Councilwoman Harrison stated we can present a fact sheet to show the issues and what we are addressing so residents are aware.

Mayor Hornberger stated we will have an item on the agenda for our April meeting regarding the bond resolution.

Adam Harden stated I would like to update you on our firm. We left Norton Rose Fulbright in 2020 then went to Locke Lord and left at the beginning of this month. We now have our own firm, Cantu Harden.

Celia DeLeon stated we have an agreement with Locke Lord and our City Attorney Richard Lindner is okay with bringing back an agreement to change over to Cantu Harden.

There was no further business and the meeting was adjourned at 7:43 p.m.

Ronald Hornberger
Mayor

ATTEST:

Kyndra Munoz
City Secretary