

The Rumor Mill Vol. 9

April 28, 2022

What is the Rumor Mill?

In an effort to enhance communication between the City of Elgin and our citizens, from time to time, we will update with topics that will hopefully clarify and address some of the more well-known rumors that may be out in our community.



Rumor of the Day: 2021 and 2021A Certificates of Obligation

I've heard a lot about the 2021 Certificates of Obligation and the \$27M the City borrowed last year. What I don't understand is why it was borrowed through 2 different loans, and I've also heard that approach will cost taxpayers more to pay it back.

In early 2021, city staff presented a recommendation to City Council to fund a \$25 million Certificates of Obligation Program to fund a wide range of capital improvements crucial to the development of our growing city. The proposed program included the Wastewater Treatment Plant Expansion, Water Treatment Plant Winterization, County Line Road Phase 1, Veterans' Park-Thomas Park-Memorial Park Improvements, and the new Elgin Police Station, among other projects.

During the review process, a small group of individuals tried to undermine city staff (and subsequently the majority of Council) and to stop the proposed CO program from moving forward. The group went so far as to allege possession of a qualifying petition that could have legally prevented the City from proceeding with the original \$25 million CO Program.

The alleged petition put the City Council in a compromised position whereby it ultimately approved moving forward in June with only a portion of the original CO Program (\$14 million). A petition was never filed nor certified.

The need for the other projects, however, remained unchanged. So, the City was forced into the unusual step of having to complete two separate debt issuances within the same year; and the Council approved a second CO issuance of \$12.5 million in December to fund these much-needed projects.

The combined “All-In” Total Interest Cost (TIC) to finance the initial CO issuance was 2.387% (for the initial \$14 million); while the All-In-TIC of the second issuance was 2.818% (for the \$12.5 million) – an interest rate 43 basis points higher.

As predicted by city staff and financial advisors in May, the higher interest rate will result in a net increase in direct costs to City taxpayers of approximately \$550,000 over the 25-year life of the loan – for which taxpayers will receive nothing in return. The City incurred debt issuance costs of \$420,000 in both June and additional debt issuance costs of \$295,000 in December.

This situation is a matter of mathematics. As with any loan, a higher interest rate means higher payments. Investors in tax-exempt government bonds count on long-term payback of loans, so once payments are scheduled, the debt cannot be paid off without severe penalties. The annual payments are already scheduled - by law - with the binding interest rates as described above. Refinancing this debt may be a possibility sometime in the future, but there are costs to taxpayers associated with that as well.

Have you heard a rumor you would like the city to address? If so, contact City Secretary Jennifer Stubbs at jstubbs@ci.elgin.tx.us.

More information on our website here:

To view the 2021A Certificates of Obligation, go here

<https://www.elgintx.com/1186/2021-Certificates-of-Obligation-and-2021>

<https://www.elgintx.com/1176/2021A-Certificates-of-Obligation>



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