



## **Municipal Bonds FAQ**

### **What are bonds? How long does it take to pay them off?**

Bonds for municipal projects are very similar to a mortgage on a home. To finance construction projects, the city sells bonds to investors who will be paid principal and interest. Payout is limited by law to 40 years.

Ad valorem tax bonds are commonly referred to as general obligation, or G.O. bonds. They are issued pursuant to an ordinance adopted by the city council, typically following approval of the bonds at a referendum election.

### **How do bonds work?**

The sale of bonds begins with an election to authorize a specific amount - the maximum the city is allowed to sell, without another election. The city sells them as municipal bonds when funds are needed for capital projects. The interest rate paid is based on the city's bond rating – the higher the bond rating the lower the interest rate to sell the bonds. Principal and interest on the bonds are pre-paid over an extended period of time, with funds from the debt service tax rate.

### **How can bond money be used?**

Proceeds from a bond issue can be used for major purchases such as the construction and renovation of facilities, the acquisition of land, and the purchase of equipment, vehicles, etc.

### **Why are bonds used to finance non-facility items?**

It is a financial advantage to the city to pay for some capital expenditures such as technology, land and buildings with bond money rather than from the general fund. First the cost of the purchase can be spread over the life of the asset rather than coming from a single year's general fund.

The city sells bonds that mature at different times, so that expenditures for items with a shorter lifespan are paid off before the purchase becomes obsolete.

### **What is a bond election?**

A bond election gives individuals an opportunity to vote on paying for major purchases, with debt. It is a request to give the elected city council the authority to sell bonds when major qualifying expenditures are needed.

## **What is the difference between a bond authorization and bond sales?**

A bond authorization specifies the amount of bonds the city is authorized by the voters to sell. Bond sales may occur over a period of time, with the date and amount of each sale determined by the council on an as needed basis.

## **If the bond election is successful, does the city immediately incur the debt?**

The bonds do not cost the city anything until they are sold. Even though the voters approve the bond issue, there are not costs incurred until the bonds are sold to investors.

## **If the bonds are approved, is the city obligated to spend the money?**

No. Voter approval is an authorization for the city to issue bonds. They will be sold in the future only when funds are needed to make qualifying purchases.

## **Will the city be able to sell bonds at a favorable rate?**

In the past, the city's debt has received high ratings. Whether the market will be favorable for the city's bond issuance depends on both a current bond rating and the current interest rates.

## **Paying for Expenditures**

A tax rate consists of two parts: 1) Maintenance and Operations and 2) Debt Service. Maintenance and operations taxes fund the General Operating Fund, which pays for salaries supplies utilities insurance equipment and the other cost of day-to-day operations.

The debt service tax pays off bonds and other debt, somewhat like paying off the mortgage on a house.

## **What is the difference between the Maintenance & Operations and the Debt Service tax rates?**

M&O tax rates are used for day-to-day operations; to pay for salaries, supplies, utilities, insurance, fuel etc. Revenue from the debt service tax rate can be used only to retire bonds sold for specific qualifying purposes and the cost of issuing bonds.

## **What amount of bond authorization will be on the ballot?**

A total of \$8,000,000 in bond authorization will be on the ballot.

Proposition A -	\$2,500,000
Proposition B -	\$ 500,000
Proposition C -	\$1,000,000
Proposition D -	\$4,000,000

# Ballot Language

## **PROPOSITION A**

THE ISSUANCE OF \$2,500,000.00 TAX BONDS BY THE CITY OF PRAIRIE VIEW, TEXAS FOR IMPROVING, RENOVATING, UPGRADING AND RECONSTRUCTING TRANSPORTATION AND PEDESTRIAN FACILITIES IN THE CITY, INCLUDING IMPROVEMENTS TO EXISTING STREETS AND ROADS IN THE CITY AND OTHER RELATED COSTS, THE INSTALLATION OF SIDEWALKS THROUGHOUT THE CITY AND VARIOUS TRAFFIC ENHANCEMENTS ALONG MAJOR COLLECTOR AND ARTERIAL ROADWAYS IN THE CITY. TAXES SUFFICIENT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WILL BE IMPOSED.

FOR ( ) AGAINST ( )

## **PROPOSITION B**

THE ISSUANCE OF \$500,000 TAX BONDS BY THE CITY OF PRAIRIE VIEW, TEXAS FOR PURCHASING NEW EQUIPMENT, ACQUIRING, CONSTRUCTING, IMPROVING, RENOVATING AND EQUIPPING PUBLIC SAFETY FACILITIES FOR THE POLICE DEPARTMENT. TAXES SUFFICIENT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WILL BE IMPOSED.

FOR ( ) AGAINST ( )

## **PROPOSITION C**

THE ISSUANCE OF \$1,000,000.00 TAX BONDS BY THE CITY OF PRAIRIE VIEW, TEXAS FOR ACQUIRING, DESIGNING, CONSTRUCTING, IMPROVING, AND EXPANDING PARKS, TRAILS, COMMUNITY CENTERS AND RECREATIONAL FACILITIES IN THE CITY, AND THE ACQUISITION OF LAND AND INTERESTS IN LAND FOR SUCH PURPOSES, TAXES SUFFICIENT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WILL BE IMPOSED.

FOR ( ) AGAINST ( )

## **PROPOSITION D**

THE ISSUANCE OF \$4,000,000.00 TAX BONDS BY THE CITY OF PRAIRIE VIEW, TEXAS FOR ACQUIRING, DESIGNING, CONSTRUCTING, IMPROVING, AND INSTALLING WATER AND SEWER TREATMENT IMPROVEMENTS AND THE ACQUISITION OF LAND AND INTERESTS IN LAND NECESSARY FOR SAID IMPROVEMENTS. TAXES SUFFICIENT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WILL BE IMPOSED.

FOR ( ) AGAINST ( )

# Financial Information

Principal of debt obligations to be authorized.	\$ 8,000,000
Estimated interest for the bonds to be authorized assuming an interest rate of 5.00%.	\$4,759,563
Estimated combined principal and interest required to pay on time and in full the bonds to be authorized, issued over a 3-year period and amortized over 30 years.	\$12,759,563
As of the date the election was ordered, principal amount of all outstanding debt obligations.	\$4,230,000
As of the date the election was ordered, the estimated remaining interest on all outstanding debt obligations.	\$2,103,025
As of the date the election was ordered, estimated combined Principal and interest required to pay on time and in full all outstanding debt obligations.	\$6,333,025
<b>Estimated maximum annual increase in the amount of taxes on a residence homestead with an appraised value of \$100,000 to repay the debt obligations to be authorized, if approved.</b>	<b>\$ 0.00*</b>  No increase to the city's interest and sinking fund tax rate is projected in connection with this bond authorization.

For More information Please contact Prairie View City Hall 936-857-3711. Mayor Brian Rowland 936-857-3600 or [Mayorrowland@prairieviewtexas.gov](mailto:Mayorrowland@prairieviewtexas.gov)