

July 23, 2018 | GKB Quarterly Debt & Market Update El Paso County, Texas











Outstanding Bonds	Purpose	Dated Date	Original Par	Outstanding Par	Coupon Range	Final Maturity	Call Date
General Obligation Bonds							
Certificates of Obligation, Series 2001	Public Works	11/01/2001	\$34,465,000	\$8,880,000	5.000% - 5.125%	02/15/2022	Non-Callable
General Obligation Refunding Bonds, Series 2011	Refunding	12/15/2011	11,315,000	475,000	2.125% - 5.250%	02/15/2022	Non-Callable
Certificates of Obligation, Series 2012	Public Improvements	07/01/2012	98,955,000	9,845,000	3.000% - 5.000%	02/15/2032	2/15/2021
General Obligation Refunding Bonds, Series 2015	Refunding	02/01/2015	15,230,000	15,230,000	5.000%	02/15/2026	02/15/2025 @ Par
General Obligation Refunding Bonds, Taxable Series 2015A	Refunding	06/01/2015	8,695,000	7,625,000	1.269% - 3.671%	02/15/2026	02/15/2025 @ Par
General Obligation Refunding Bonds, Series 2016A	Refunding	03/01/2016	48,805,000	40,730,000	1.125% - 5.000%	02/15/2032	02/15/2026 @ Par
General Obligation Refunding Bonds, Taxable Series 2016B	Refunding	03/01/2016	40,735,000	33,830,000	0.950% - 3.666%	02/15/2032	Make Whole Call
Certificates of Obligation, Taxable Series 2016C	Public Improvements	07/01/2016	2,700,000	1,390,000	2.950%	09/15/2022	09/15/2019 @ Par
Certificates of Obligation, Series 2016D	Public Improvements	07/01/2016	3,500,000	3,500,000	3.280%	09/15/2032	09/15/2024 @ Par
General Obligation Refunding Bonds, Series 2017	Refunding	11/15/2017	50,255,000	49,395,000	5.000%	02/15/2032	08/15/2027 @ Par
State Infrastructure Bank Loan Series 2017	Road Improvements	10/23/2017	4,920,000	4,920,000	1.850%	08/15/2032	Non-Callable
Certificate of Obligation, Taxable Series 2017	Public Improvements	04/10/2018	1,334,000	1,334,000	2.750%	02/15/2057	Anytime @ Par
TOTAL			\$320,909,000	\$177,154,000			



Fiscal Year Ended	Principal Payoff
2018	\$542,598
2019	12,337,918
2020	12,869,337
2021	13,424,856
2022	13,766,478
2023	10,357,203
2024	11,259,034
2025	11,744,974
2026	12,242,023
2027	11,554,184
2028	12,025,458
2029	12,577,849
2030	13,215,359
2031	13,766,988
2032	14,469,741
2033	29,000
2034	30,000
2035-2057	941,000
Total	\$177,154,000



Current Debt

General Obligation Interest & Sinking Fund Map



*Taxable Series 2017 Final Maturity is 2/15/2057.





El Paso County, Texas - Historical Assessed Valuation & Property Tax Rates

FY Ended	Assessed Valuation	Assessed Valuation % Change	M&O Rate	I&S Rate	Total Tax Rate	I&S % of Total Tax Rate	Debt as % of AV
2003	\$19,344,634,133		\$0.3319	\$0.0789	\$0.4108	19.2%	46.75%
2004	21,099,400,019	9.1%	0.3565	0.0758	0.4323	17.5%	40.56%
2005	22,559,256,914	6.9%	0.3641	0.0682	0.4323	15.8%	36.49%
2006	25,945,023,032	15.0%	0.3322	0.0592	0.3914	15.1%	38.64%
2007	34,151,151,521	31.6%	0.3122	0.0480	0.3602	13.3%	37.00%
2008	34,549,813,062	1.2%	0.3028	0.0396	0.3424	11.6%	33.78%
2009	33,575,989,678	-2.8%	0.3026	0.0357	0.3383	10.6%	31.19%
2010	33,852,452,331	0.8%	0.3264	0.0370	0.3634	10.2%	28.02%
2011	35,100,838,032	3.7%	0.3293	0.0319	0.3612	8.8%	24.45%
2012	36,418,883,297	3.8%	0.3573	0.0516	0.4089	12.6%	30.86%
2013	37,001,773,022	1.6%	0.3790	0.0541	0.4331	12.5%	28.84%
2014	37,373,955,004	1.0%	0.3979	0.0548	0.4527	12.1%	26.74%
2015	38,444,437,634	2.9%	0.4018	0.0509	0.4527	11.2%	24.84%
2016	39,353,972,908	2.4%	0.4015	0.0512	0.4527	11.3%	24.98%
2017	40,302,034,102	2.4%	0.4047	0.0480	0.4527	10.6%	23.42%







) Market Update

Notable General Market Headlines, Q2 2018

Q2 2018 Macroeconomic Headlines



Source: Wall Street Journal

Source: Bloomberg

- Stock markets continue to rise on bullish economic sentiment. While the continued flattening of the yield curve presents challenges to the notion that the economy is continuing to expand, other indicators point to continued economic strength moving forward.
- The Fed continues to tighten monetary supply, and has changed its posture to open the door for more rate hikes than previously anticipated.



Notable General Market Headlines, Q1 2018

Q1 2018 Equity Market Headlines



Volatility Index (VIX) 1 year chart



Market Update

- In spite of the growing trade tensions between the US and China sparked by the imposition of tariffs between the countries, market volatility has trended downwards over the past quarter with spikes evident around notable earnings announcements.
- The Leading Economic Indicators Index continues to point to a strong and growing economy for the foreseeable future.

Source: Bloomberg Terminal.

Leading Economic Indicators Index (LEI)



State of Texas Market Updates

Sales Tax Increases

- Sales tax collections have surged upwards in the past year, with collections in the past quarter setting new records. The State collected approximately \$2.8 billion more revenue than forecasted.
- With the Supreme Court decision in South Dakota v. Wayfair, Inc. handing down the ability of States to compel previously exempt online retailers to pay taxes, the Comptroller's office projects a moderate increase in statewide sales tax revenue.

Growth in Bonded Debt of Texas Issuers

In spite of the strong trend upwards in sales taxes, the State still faces a backlog in the growth rate of property valuations. As the State's population and business base continues to growth, the growth in valuation continues to lag causing upward pressure on the percentage of bonded debt to valuation.

Continued Impact of Tax Bill

While the total impact of the Tax Cuts and Jobs Act of 2017 continues to be measured, the municipal market has experienced a smaller decrease in volume then previously expected. Initial projections proposed that the muni market would drop off between 30-40% of volume and current year to date estimates only project a 15-20% decline.



Market Update







MUNICIPAL BOND MARKET

- With the 4th of July holiday falling in the middle of the week, the municipal market priced just \$81.5 million in new issue transactions.
- After 8-straight weeks of cash inflows, municipal bond funds posted a net outflow totaling \$189 million, according to Lipper FMI.
- The current 30-day visible supply remains low at just \$8.5 billion according to Bloomberg, while the amount of debt maturing totals \$25.6 billion, creating a netnegative supply of \$17.1 billion.

GENERAL MARKET

- US/China trade policies continue to spark concerns in the market. Both countries imposed \$34 billion in tariffs for goods and services on Friday. The EU has warned that if the US imposes tariffs on imported automobiles they will counter with tariffs on \$300 billion of US goods.
- Economic reports were mostly stronger than expected, boosting equities Friday.
 - ISM Manufacturing index was 60.2 for June versus 58.5 expected
 - Factory orders were estimated to be flat, but grew 0.4%
 - Durable goods orders declined 0.4%, slightly less than expected
 - ADP private payrolls report grew 177k, lower than the 190k estimated.
 - June's Non-farm payroll report exceeded expectations with 213k jobs added versus 195k. The unemployment rate did increase slightly to 4.0% from 3.8%.

THE WEEK AHEAD

- New issuance in the municipal market will increase to \$8.1 billion following the holidayshortened week.
- The markets are entering corporate earnings season and investors are expecting strong results despite the potential trade wars.

TREASURY BONDS MARKET DATA RESULTS:

Week Ending	July 6th, 2018	1-Week Change		
10-YR "AAA" BVAL	2.440%	-1.1 BPS		
30-YR "AAA" BVAL	2.918%	-2.0 BPS		
30-YR "BBB" BVAL	4.206%	+11.4 BPS		
30-YR "A1" B.B. Rev.	4.350%	-1.0 BPS		
10-YR Treasury	2.823%	-3.8 BPS		
30-YR Treasury	2.930%	-6.0 8PS		









MUNICIPAL BOND SHORT TERM MARKET

- The SIFMA Index reset at 1.19%, down 32 basis points week over week.
 - July 1 principal and coupon payments helped send assets at tax-exempt money market funds up \$2.53 billion to \$138.27 billion.
 - The SIFMA Index is now **57% of one-month LIBOR.**
- The release of the FOMC minutes did little to change market sentiment on future rate hikes.
 - Fed funds futures continue to marginally favor four total rate hikes in 2018.
- This week's short-term borrowing calendar is led by two State of Colorado TRANs totaling \$910 million.
- The LIBOR swap curve continues to flatten as the difference between the 2-year and 10-year LIBOR swap rate is only 10 basis points.
 - The 2-year LIBOR swap rate was up 1 basis point while the 10-year LIBOR swap rate was down 3 basis points.
- Market participants continue to work through the impending LIBOR replacement scheduled for 2021 while discussions regarding the continuation for certain tenors and currencies of LIBOR to be published after the deadline continue.
- Institutions providing new or replacement letters of credit or liquidity facilities last week included State Street Bank and Trust.
- Legal entity identifier—borrowers with existing interest rate swaps should have obtained a GMEI from gmeiutility.org.
 - Entering into new swaps, terminating or modifying swaps will also require that borrowers and issuers **obtain a GMEI through gmeiutility.org.**
- Clients should expect that, prior to entering into new swaps, terminating or modifying existing swaps, swap dealers will require that they either adhere to ISDA Protocols 1.0 and 2.0 or enter letter agreements that cover the same topics: CFTC Business Conduct Standards, eligible contract participant category, End-user Exception from clearing requirements, and documentation, valuation and reconciliation matters.

TREASURY BONDS MARKET DATA RESULTS:

Week Ending	July 6th, 2018	1-Week Change
SIMFA	1.19%	-32 BPS
1-MTH LIBOR	2.09%	FLAT
3-MTH LIBOR	2.33%	FLAT
SOFR	1.93%	-19 BPS
2-YR LIBOR SWAP	2.80%	+1 BPS
10-YR LIBOR SWAP	2.90%	-3 8PS
30-YR LIBOR SWAP	2.89%	-4 BPS







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The current MMD yield curve continues to remain positively sloped.

Since July 14, 2017, 30 year 'AAA' MMD rates have increased by 11 basis point(s).



Source: George K. Baum & Company



10 Year U.S. Treasuries and 10 Year 'AAA' MMD remain highly correlated at 97%.



20 Year Historical 'AAA' MMD & U.S. Treasury Data (%)

Source: George K. Baum & Company

Market Update

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Municipal Bond Funds decreased by \$628 million from the prior week.



5 Year Historical Municipal Bond Fund Flow Changes

Market Update

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Current Credit Spreads are 20, 49, and 81 basis points for 'AA', 'A', and 'BBB', respectively.



20 Year Historical 'AAA' MMD Tax-Exempt Credit Spread

Market Update

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Texas Counties Bond Issuances

Period: 4/1/2018 – 6/30/2018

Texas Counties Bond Issuances (4/1/2018 - 6/30/2018)					
County	Issue	Par Amount	Sale Date	Type of Sale	
	Venue Proj Rev & Ref Bds (Combined Venue				
McLennan Co (Venue Tax)	Tax) Ser 2018A	35,510,000.00	6/19/2018	Negotiated	
Fayette Co (General Obligation Debt)	Ltd Tax Notes Ser 2018	500,000.00	6/15/2018	Private Placement	
Anderson Co (General Obligation Debt)	U/L Tax Road Bds Ser 2018	6,635,000.00	5/22/2018	Negotiated	
Bell Co (General Obligation Debt)	Comb Tax & Rev C/O Ser 2018	10,000,000.00	5/21/2018	Private Placement	
Montgomery Co Toll Road Authority (Toll					
Revenue)	Senior Lien Toll Road Rev Bds Ser 2018	87,680,000.00	6/5/2018	Negotiated	
Waller Co (General Obligation Debt)	GO Bds Ser 2018	28,930,000.00	6/6/2018	Competitive	
San Saba Co (General Obligation Debt)	Tax Notes Ser 2018	800,000.00	5/14/2018	Private Placement	
Smith Co (General Obligation Debt)	GO Bds Ser 2018	11,320,000.00	5/14/2018	Competitive	
Comal Co (General Obligation Debt)	Ltd Tax GO Bds Ser 2018	14,940,000.00	5/16/2018	Competitive	
Hays Co Development District # 1 (General					
Obligation Debt)	U/L Tax Road Bds Ser 2018	5,400,000.00	4/12/2018	Competitive	
Montgomery Co (General Obligation Debt)	U/L Tax Road Bds Ser 2018	45,670,000.00	5/1/2018	Negotiated	
Randall Co (General Obligation Debt)	Comb Tax & Ltd Pledge Rev C/O Ser 2018	7,590,000.00	4/17/2018	Competitive	
Travis Co (General Obligation Debt)	C/O Ser 2018 (Ltd Tax)	44,775,000.00	4/17/2018	Competitive	
Travis Co (General Obligation Debt)	Perm Imp Bds Ser 2018 (Ltd Tax)	38,465,000.00	4/17/2018	Competitive	
Travis Co (General Obligation Debt)	U/L Tax Road Bds Ser 2018	16,460,000.00	4/17/2018	Competitive	
Hopkins Co (General Obligation Debt)	GO Ref Bds Ser 2018	2,195,000.00	4/4/2018	Private Placement	
	Venue Proj Rev Bds (Combined Venue Tax)				
McLennan Co (Venue Tax)	Ser 2018	31,500,000.00	4/10/2018	Private Placement	
Tom Green Co (General Obligation Debt)	Comb Tax & Ltd Surplus Rev C/O Ser 2018	7,960,000.00	4/10/2018	Competitive	



Flattening Yield Curve

What does it mean?

- The yield curve continues to flatten as the monetary tightening by the Federal Reserve puts upward pressure on short term rates. Long term rates have remained mostly stable year to date causing the overall shape of the curve to continue to flatten. Year over year, the short end has risen approximately 50 basis points while the long end remains near the same levels from a year ago.
- Spreads between the short end and the long end have continued to compress as the short end has risen without the same movement on longer maturities. The current spread between the yield on the two-year U.S. Treasury yield at 2.60% and the ten-year U.S. Treasury yield at 2.85% is 25 basis points. This is 25 basis points tighter than just four months ago.
- While economists are continuing to monitor the curve, as well as other indicators, for signs of recession, the overall market sentiment continues to be bullish.



Market Update





Stormwater Bonds:

- The County has approximately \$4,030,000 available annually for the purpose of flood control projects.
- 2017 Final Assessed Valuation: \$40,302,034,102
- Value of 1 Penny of Tax Revenue: \$4,030,000
- The County could issue Certificates or General Fund Appropriation Bonds
 - Using a General Fund Appropriation structure would likely require a Debt Service Reserve Fund due to annual appropriation risk
- Investors will also likely require a 1.25x Debt Service Coverage Ratio on the bonds
- Stormwater Bonds could be structured in one large issuance or in annual tranches to match timing of capital projects with proceeds and to reduce interest cost.
- The County currently has approximately \$100,000,000 in Stormwater needs.

Transportation Bonds:

- The County also has several Transportation related financing requirements. Transportation bonds could be issued using a similar structure to Stormwater bonds mentioned above.
- GKB will also continue to evaluate TXDOT financing options as compared to traditional C/O and GO issuances to determine the County's lowest cost of capital.

Preliminary Numbers – For Discussion Purpose Only



Stormwater Bonds (One Time Issuance):

One Time Stormwater Bond Issuance					
Assumes Appropriation Bonds					
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Par Amount of Bonds	\$77,655,000				
Premium / OID	4,716,835				
Total Proceeds	\$82,371,835				
Project Fund Deposit	\$76,256,830				
Debt Service Reserve Fund	\$5,451,730				
Total Debt Service	\$119,356,540				
Maximum Annual Debt Service	\$5,498,500				
Average Annual Debt Service	\$4,262,734				
All-In-TIC	2.669%				
Arbitrage Yield	2.601%				
Final Maturity	2/15/2046				
Cost of Issuance (Estimated)	\$275,000				
Underwriter's Discount	\$5.00/\$1,000				
Dated:	October 3, 2018				
Rates and Yields:	July 13, 2018				

\$6,000,000 1.50x \$5,000,000 1.25x **Debt Service Coverage** \$4,000,000 1.00x \$3,000,000 0.75x \$2,000,000 0.50x \$1,000,000 0.25x \$0 0.00x **Fiscal Year**

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Assumptions:

- 2% annual Growth in 1 Penny of Revenue.
- Use of a Debt Service Reserve Fund.

Total Debt Service



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Stormwater / Transportation Bonds (Bond Cycle Program):

Stormwater Bond Cycle Program Assumes Appropriation Bonds						
Par Amount of Bonds	\$12,993,000	\$13,035,000	\$13,125,000	\$13,255,000		
Premium / OID	506,702	491,112	426,906	329,727		
Total Proceeds	\$13,499,702	\$13,526,112	\$13,551,906	\$13,584,727		
Project Fund Deposit	\$12,500,000	\$12,500,000	\$12,500,000	\$12,500,000		
Debt Service Reserve Fund	\$783,622	\$806,479	\$833,394	\$864,225		
Total Debt Service	\$18,409,884	\$19,032,900	\$19,668,100	\$20,395,700		
Maximum Annual Debt Service	\$3,361,360	\$3,065,800	\$2,749,800	\$2,416,200		
Average Annual Debt Service	\$613,663	\$634,430	\$655,603	\$679,857		
All-In-TIC	3.692%	3.735%	3.812%	3.910%		
Arbitrage Yield	3.137%	3.106%	3.085%	3.048%		
Final Maturity	2/15/2048	2/15/2050	2/15/2052	2/15/2054		
Cost of Issuance (Estimated)	\$150,000	\$150,000	\$150,000	\$150,000		
Underwriter's Discount	\$5.00/\$1,000	\$5.00/\$1,000	\$5.00/\$1,000	\$5.00/\$1,000		
Dated:	October 3, 2018	August 15, 2020	August 15, 2022	August 15, 2024		
Rates and Yields:	July 13, 2018	July 13, 2018	July 13, 2018	July 13, 2018		
Rates and Yields:	July 13, 2018	July 13, 2018	July 13, 2018	J		

Assumptions:

- 2% annual Growth in 1 Penny of Revenue.
- Use of a Debt Service Reserve Fund.



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Stormwater / Transportation Bonds (Bond Cycle Program):



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