TO: T.C. Broadnax, City Manager
FROM: Andy Cherullo, Finance Director
COPY: City Council and City Clerk
SUBJECT: Ordinance for the issuance of two series of Sewer Revenue Refunding Bonds, Series 2016A and Series 2016B
DATE: March 23, 2016

SUMMARY:

This Ordinance (the "Ordinance") provides for the issuance of the City of Tacoma (the "City") Sewer Refunding Bonds, Series 2016A and Series 2016B (collectively, the "Bonds") in an aggregate principal amount not to exceed $55 million. Proceeds of the Bonds will be used to refund and defease a portion of the City's outstanding Sewer Revenue and Refunding Bonds, Series 2006A (the "2006A Bonds") and all of the TES Properties' outstanding Lease Revenue Bonds, Series 2009, which financed the Center for Urban Waters facility (the "TES Bonds"), and to pay costs of issuing the Bonds. The Ordinance provides the form and terms of the Bonds; outlines parameters related to the price, term and interest rates offered on the Bonds; and delegates the approval of final terms of the Bonds to the Finance Director and the Treasurer.

STRATEGIC POLICY PRIORITY:

- Strengthen and maintain a strong fiscal management position.

BACKGROUND:

The 2006A Bonds:

The 2006A Bonds were issued to finance part of the costs of the utility's capital improvement program, primarily its Central Treatment Plant, to refund a portion of the utility's Sewer Revenue Bonds, Series 2001A, and to provide for the costs of issuance of the transactions. The 2006 Bonds are structured such that the City has the option to redeem outstanding bonds, in whole or in part, prior to their stated maturities, on or after December 1, 2016. The bonds are secured by a pledge of the revenue of the sewer utility, less the costs of operations and maintenance of the system.

The TES Lease:

The TES Bonds are lease revenue bonds which were issued on behalf of the City, adhering to requirements outlined in the U.S. Treasury's Revenue Procedures. These types of financings are generally referred to as "63-20" financings as they are issued pursuant to Revenue Ruling 63-20 of the U.S. Treasury (which has since been supplemented by Revenue Procedure 82-26).

Simply stated, a 63-20 financing is utilized to transfer the financing, development and (perhaps) operation of a facility to a private development team managed by a non-profit organization. This structure may benefit public issuers by providing an expedited development schedule and/or reducing price uncertainty, among other things. The financing is repaid through lease payments made by the occupants of the facility and title is transferred to the issuer when the bonds are repaid. As currently structured, the City pays monthly rent in an amount sufficient to pay debt service on the TES Bonds. Lease payments run through 2026 at which times all TES Bonds will be repaid and the title to the facility will be transferred to the City. While the TES lease payments are legally assigned to the City's sewer utility, they are treated by the City as a shared obligation, with payments being assigned 15.5% to solid waste, 40.4% to the City's wastewater system and 44.1% to the surface water utility. The University of Washington Tacoma and Puget Sound Partnership will remain lessors of the facility and their lease payments will provide revenues which will be applied toward debt service on the building.

The TES Bonds were issued in 2009 and are callable anytime on or after June 1, 2019. Upon closing of the refinancing, proceeds will be placed in escrow until the call date, at which time all outstanding TES Bonds will be repaid. The new (refunding) bonds will not be repaid through lease payments, but rather they will be secured by a pledge of the revenue of the sewer utility, less the costs of operations and maintenance of the system. Additionally, title will revert to the City upon closing of the transaction.

By refunding the 2006A Bonds and refunding the TES Bonds with sewer revenue refunding bonds, the City may take advantage of lower interest rates, capturing significant debt service savings.

It is currently anticipated that the Bonds will be sold to investors on May 4th with closing anticipated on June 15th for the 2016A bonds and on approximately September 6th for the 2016B Bonds.

ISSUES:

Security/Pledge of Revenues: The Bonds will be secured by a pledge of the revenue of the sewer utility, less funds required for operations and maintenance of the system

Delegation: The authorizing Ordinance will delegate authority to the Finance Director and the City Treasurer to select the purchaser of the Bonds, to select the 2006A Bonds to be refunded (the Ordinance provides for all of the TES Bonds to be refunded) and to approve the interest rates, maturity dates, redemption terms and principal maturities for each series of Bonds within parameters defined in the ordinance.

ALTERNATIVES:

1. The City could approve the Ordinance authorizing the issuance of the Bonds.
2. The City could choose not to issue the Bonds. This is not the recommended alternative as this option would not result in debt service savings and could negatively impact rate payers.

FISCAL IMPACT:

The refunding of the 2006A Bonds and the TES Bonds will reduce interest expense for the City's sewer utility. As of March 22, 2016, net present value savings related to the refunding of the 2006A Bonds were estimated to be approximately $1.18 million or 9.13% of refunded bonds. The net present value savings related to the refunding of the TES Bonds were estimated to be approximately $4.27 million or 12.71% of refunded bonds. The refunding candidates include $12.935 million in outstanding 2006A Bonds and all of the outstanding TES Bonds. **The actual savings amounts are dependent upon a number of factors including investor demand for the Bonds and market interest rates on the date of sale (anticipated to be on May 4th).**

RECOMMENDATION:

It is recommended that Council approve the Ordinance authorizing the issuance of the City's Sewer Refunding Bonds, Series 2016A and Series 2016B in order that the utility may capture significant debt service savings.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: Anticipated debt service savings of approximately $164,484.30 on refunded bonds in 2016.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED: N/A

RECOMMENDATION:

Staff recommends that the Council approve the ordinance for the issuance of the Refunding Bonds.