



TO: T.C. Broadnax, City Manager
FROM: Andy Cherullo, Finance Director, Finance Department
COPY: City Council and City Clerk
SUBJECT: Ordinance for the Issuance and Refunding of Sewer Bonds
DATE: January 6, 2014

SUMMARY:

This Ordinance provides for the issuance of sewer revenue and refunding bonds (the “Bonds”) in an aggregate principal amount not to exceed \$125,000,000. The Bonds will be used to: (1) finance the acquisition, construction, and installation of additions and improvements to and equipment for the sewer system, (2) refund certain outstanding sewer bonds, (3) fund the debt service reserve fund, and (4) pay costs of issuing the bonds.

STRATEGIC POLICY PRIORITY:

- Strengthen and maintain a strong fiscal management position.
- Foster neighborhood, community, and economic development vitality and sustainability.

Infrastructure replacement of storm and sewer lines are the primary focus of ongoing capital plans to be funded out of bond proceeds based on the asset management program. It is in the best interest of the City and ratepayers for the City to issue bonds and use the proceeds to fund capital improvements to the sewer system.

BACKGROUND:

Staff are working with bond counsel to draft the Official Statement which provides information concerning the City, the Bonds and the City’s sewer utility system, which is comprised of two separate utilities: Wastewater Management and Surface Water Management (together, the “System”). The Bonds are issued on a parity of lien with the following System obligations:

- Sewer Revenue and Refunding Bonds, 2006 (the “2006 Bonds”) currently outstanding in the aggregate principal amount of \$54,950,000, a portion of which may be refunded with proceeds of the Bonds depending on market conditions;
- Sewer Revenue Refunding Bonds, 2011 (the “2011 Bonds”) currently outstanding in the aggregate principal amount of \$34,315,000; and
- The City’s obligation to pay monthly rent under the Project Lease Agreement dated as of February 1, 2009, between TES Properties and the City (the “Project Lease”), delivered in connection with the TES Properties Lease Revenue Bonds, 2009 (the “Lease Obligation”).



ISSUES:

Security: The Bonds are special revenue obligations of the System. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bonds. The Bonds are not obligations of the State or any political subdivision thereof other than the City.

Pledge: The principal of and interest and premium, if any, on the Parity Bonds, including the Bonds, are secured by a pledge of; (1) the proceeds of the sale of Parity Bonds to the extent held in funds established or continued by the Bond Ordinance, (2) Net Revenues and utility local improvement district (“ULID”) Assessments, and (3) the money and assets credited to the Sewer Fund and the Bond Fund and the income therefrom. Note, the City does not currently have any ULIDs outstanding.

Refinancing: Depending on market conditions on the day of pricing, the City will use a portion of the proceeds of the Bonds to advance refund and defease a portion of the callable maturities of the 2006 Bonds (as identified below, the “Refunding Candidates” and as selected on the date of pricing, the “Refunded Bonds”). The City currently expects to refund approximately \$39,395,000 of the 2006 Bonds with proceeds of the Bonds, leaving approximately \$15,170,000 in aggregate principal outstanding of the 2006 Bonds.

Rate Covenant: The City has covenanted in the Bond Ordinance that so long as the Bonds are outstanding it will establish, maintain and collect rates or charges in connection with the ownership and operation of the System that will be fair and nondiscriminatory and adequate to provide Gross Revenues sufficient for: (a) the payment of the principal of and interest on all Parity Bonds (for which payment has not otherwise been provided) and all amounts that the City is obligated to set aside in the Bond Fund, (b) the proper operation and maintenance of the System, and (c) the payment of any and all amounts that the City may now or hereafter become obligated to pay from Gross Revenues.

The City has covenanted that those rates or charges will be sufficient to provide Net Revenues in any calendar year in an amount equal to at least 1.30 times the Adjusted Annual Debt Service. After all of the Outstanding Parity Bonds are fully redeemed, refunded or defeased, this covenant shall require rates and charges to be sufficient to provide Net Revenues in any calendar year in an amount equal to at least 1.25 times the Adjusted Annual Debt Service.

Delegation: As drafted, the City Council will delegate authority to the Finance Director and City Treasurer for a limited time, to select the 2006 Bonds to be refunded, if any, and to approve the interest rates, maturity dates, redemption terms and principal maturities for the Bonds within the parameters set by this ordinance.

ALTERNATIVES:

The City could choose not to issue the Bonds which would impact Environmental Services Department’s capital program. Infrastructure replacement of storm and sewer lines are the primary focus of ongoing capital plans to be funded out of bond proceeds based on the asset management program. The result of not funding capital plans would mean deferring needed infrastructure maintenance to the future while incurring emergency repair and replacement costs.

RECOMMENDATION:

Staff recommends that the Council approve the Ordinance for the issuance of sewer revenue and refunding bonds.



FISCAL IMPACT:

If you are making a commitment on the City’s behalf to receive or expend funds, then the fiscal impact section should be completed. If this does not apply, enter “There is no fiscal impact” and delete everything below this line. If you are unsure, please contact the Budget Office. If the action is to accept a donation, you do not need to complete the fiscal impact section, just note the estimated value of the donation in the background section.

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
4300 Wastewater	Various capital projects	Various cost elements	\$50,000,000
4301 Surface Water	Various capital projects	Various cost elements	\$20,000,000
TOTAL			\$70,000,000

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
4300-2015CONS (Wastewater 2015 Bond Construction Fund)			\$50,000,000
4301-2015CONS (Surface Water 2015 Bond Construction Fund)			\$20,000,000
TOTAL			\$70,000,000

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
N/A			
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: Budgeted for 2015-2016

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes

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