



TO: Mayor and City Council
FROM: Jackie Flowers, Director of Utilities
COPY: Elizabeth Pauli, City Manager and Doris Sorum, City Clerk
SUBJECT: 2020 Water System Subordinate Revenue Refunding Bond, Bank Loan Ordinance – April 21, 2020
DATE: March 27, 2020

SUMMARY:

Tacoma Water requests approval for the Water System Subordinate Revenue Refunding Bond, Series 2020 Direct Purchase Option with Key Government Finance, Inc. in an amount not to exceed \$18.4 million in order to refund the outstanding 2010 Series A Water System Revenue Refunding Bonds.

STRATEGIC POLICY PRIORITY:

Significant cash flow and net present value saving will be achieved by this refunding.

- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.

BACKGROUND:

The 2010 Series A Water System Revenue Refunding Bonds mature on December 1, 2023 and interest rates have dropped significantly since they were issued in 2010. We have negotiated an extraordinarily low interest rate of 1.4% for the remaining term and have this rate locked until May 21, 2020. This refunding provides \$1,089,085 net present value savings for Tacoma Water ratepayers between 2020 and 2023. Percentage savings is 6.12% of refunded par, well above the City’s recommended minimum of 5% for refunding bond transactions.

ISSUE:

With assistance from Tacoma’s Finance and Legal Departments, our municipal advisory firm, Montague DeRose and Associates, and bond counsel, Pacifica Law Group, we have prepared a bond ordinance for the Public Utility Board and City Council action (current request) that would authorize Tacoma Water to execute a direct sale with Key Government Finance, Inc.

Parameters for this refunding are clearly defined in the bond ordinance and this is a time-sensitive offer that expires at the end of the negotiated rate lock.

ALTERNATIVES:

There is no recommended alternative. A “do nothing” or “delay” alternative would result in lost savings of approximately \$1.1 million between 2020 and 2023.

RECOMMENDATION:

Due to the significant ratepayer savings that will be achieved by this bank loan refunding, it is recommended that the Public Utility Board and the City Council take the necessary approving actions. The recommended effective date is May 10, 2020 in order to close the transaction before the rate lock ends.



FISCAL IMPACT:

Refunding the 2010 Series A Water System Revenue Refunding Bonds will save Tacoma Water ratepayers nearly \$1.1 million over the four years remaining on the life of the bonds.

EXPENDITURES: N/A

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

* General Fund: Include Department

REVENUES: N/A

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

POTENTIAL POSITION IMPACT: N/A

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
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: Approximately \$168,000 reduction in debt service expense in 2020.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No