



TO: T.C. Broadnax, City Manager

FROM: *for* William A. Gaines, Director of Utilities/CEO *W. Gaines*

COPY: City Council and City Clerk

SUBJECT: 2015 Water System Revenue Refunding Bond Ordinance – March 24, 2015

DATE: February 27, 2015

SUMMARY:

Tacoma Water requests approval of the sale of the 2015 Water System Revenue Refunding Bonds in an amount not to exceed \$30.6 million in order to refund the 2005 Water System Revenue Refunding Bonds.

STRATEGIC POLICY PRIORITY:

Significant cash flow and net present value savings can be achieved by this refunding.

- Strengthen and maintain a strong fiscal management position.

BACKGROUND:

Interest rates for highly rated (the Water System is rated AA by S&P and Aa2 by Moody’s) revenue bond debt have dropped significantly since 2005, when Tacoma Water issued its 2005 Water System Revenue and Refunding Bonds. It is for this reason that Tacoma Water has identified the 2005 bonds as candidates for refunding.

ISSUE:

With assistance from Tacoma’s Finance Department, our financial advisory firm Montague DeRose and Associates, and bond counsel Orrick, Herrington, and Sutcliff LLP, we have prepared a bond ordinance for Public Utility Board and City Council action (the current request) that would authorize Tacoma Water to execute a sale within a “not to exceed” amount and other constraints. While the current plan is to utilize a negotiated method of sale, this ordinance includes provisions that would enable a switch to a competitive sale as warranted by market forces.

Instead of having to convene a joint session of the City Council and the Public Utility Board on the date of sale, as was done in prior water revenue bond sales, RCW 39.46.040 allows the Public Utility Board and the City Council to designate a staff representative that then has the authority to execute a sale with certain parameters that are identified in the bond ordinance. These parameters include a not to exceed amount of \$30.6 million, and restrictions on the maximum interest cost and repayment term.

ALTERNATIVES:

There is no recommended alternative. A “do nothing” alternative would result in lost savings of approximately \$2.6 million at current market rates.

RECOMMENDATION:

Due to the ratepayer savings that will be achieved by this refunding, it is recommended that the Public Utility Board and the City Council take the necessary approving action.



FISCAL IMPACT:

Refunding the 2005 Water System Revenue Refunding Bonds is estimated to save Tacoma Water ratepayers a total net present value of \$2.6 million over the life of the bonds.

REVENUES: N/A

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

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: approximately \$429,000 reduction in debt service expenses.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No