Tacoma City of Tacoma City Council Action Memorandum

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 Solid Waste 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") Solid Waste 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 Solid Waste Revenue Bonds, Series 2006A and Series 2006B (collectively, the "2006 Bonds") and to pay the 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 2006 Bonds were issued to finance part of the costs of the utility's capital improvement program, to provide a portion of the funds required to refund a portion of the utility's Solid Waste Refunding Bonds, Series 2001, 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 remaining 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 solid waste utility, less amounts required for operations and maintenance of the system.

The 2006A Bonds were issued for a 20 year period, with a final maturity of December 1, 2026. The refunding of these bonds will involve an extension of the repayment period by 10 years such that they will fully mature December 1, 2036 (versus 2026). This extension will serve two purposes. First, it will match the repayment period to the anticipated useful life of the assets which were financed with the proceeds, namely the Landfill Administration and Shop Facility and the Recovery and Transfer Center. Second, by extending the final maturity, it reduces annual debt service costs, which ultimately impact rates borne by ratepayers. It is important to note that the restructuring of the 2006A Bonds produces significant debt service savings, in spite of the lengthened repayment term. The 2006B Bonds have a final maturity of December 1, 2021 and the refunding will not extend the final repayment of those bonds.

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 solid waste 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 2006 Bonds to be refunded and to approve the interest rates, maturity dates, redemption terms and principal maturities for each series of the 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 2006 Bonds will reduce the City's interest expense. As of March 22, 2016, total net PV savings were estimated to be approximately $1.82 million over the term of the Refunding Bonds. The Prior Bonds have an outstanding balance of $48.25 million. **The actual savings amount is dependent upon a number of factors including investor demand for the Refunding Bonds and market interest rates on the date of sale (anticipated to be on May 4th).**

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: Estimated debt service savings on refunded bonds of approximately $154,716.11 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 Bonds.

Preliminary, subject to change