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City Council Report

Date: February 22, 2016

To: City Council

Through: Christopher J. Brady, City Manager

From: Mike Kennington, Chief Financial Officer

Subject: Series 2016 Utility Systems Revenue Refunding Bonds
Series 2016A General Obligation Tax-Exempt Refunding Bonds
Series 2016B General Obligation Taxable Refunding Bonds
Defeasance and Redemption of Series 2006 Utility Systems Revenue Bonds

Strategic Initiatives financial stability, economic development

Purpose and Recommendation

The City has an opportunity, due to municipal bond market conditions, to issue tax exempt Series 2016 Utility Systems Revenue and Series 2016A General Obligation (G.O) Refunding bonds for potential savings from the existing debt service schedules.

The City also has an opportunity to issue the 2016B G.O. Refunding Bonds. The taxable issuance may potentially result in the significant restructuring of the existing debt service schedules.

The City also has a chance to reduce its financial liability by using its restricted utility impact fees to redeem a portion of the Series 2006 Utility Systems Revenue Bonds.

If the Council approves the tax exempt and taxable issuance, the attached resolutions will order the sale of:

Tax Exempt Issuances:
G.O. Refunding Bonds, not to exceed $21,000,000
Utility Systems Revenue Refunding Bonds, not to exceed $140,000,000

Taxable Issuances:
G.O. Refunding Bonds, not to exceed $24,000,000

If the Council approves the defeasance, the attached resolutions will order the redemption of:

Series 2006 Utility Revenue Bonds, not to exceed $9,500,000

Background

Tax Exempt Issuances:

The G.O. Refunding Bonds issuance proceeds will be used to redeem all or a portion of previously issued bonds, listed as follows:

G.O. Bonds, Series 2006
G.O. Bonds, Series 2007

The Utility Systems Revenue Refunding Bonds issuance proceeds will be used to redeem all or a portion of previously issued bonds, listed as follows:

Utility Systems Revenue Bonds, Series 2003
Utility Systems Revenue Bonds, Series 2004
Utility Systems Revenue Bonds, Series 2005
Utility Systems Revenue Bonds, Series 2006
Utility Systems Revenue Bonds, Series 2007
Utility Systems Revenue Bonds, Series 2008

Taxable Issuances:

The Taxable G.O. Refunding Bonds issuance proceeds will be used to redeem all or a portion of previously issued bonds, listed as follows:

G.O. Refunding Bonds, Series 2004

Defeasance:

The proceeds from the collection of utility system impact fee will be used to redeem all or a portion of previously issued bonds, listed as follows:

Utility Systems Revenue Bonds, Series 2006

Discussion and Fiscal Impact

Tax Exempt Issuances:

The municipal bond market will continued to be monitored to ensure all refunding issuance will result in present value debt service savings of at least 3% of the principal amount of the bonds being refunded.

Each of the tax exempt refunding issuances do not extend the scheduled completion of the existing debt service payments. As of January 6, 2016 estimates, each of the recommended tax exempt issuances would have resulted in the following savings:

	General Obligation Tax Exempt Refunding Bonds	Utility Systems Revenue Refunding Bonds
Estimated Net Present Value Savings	$1,652,774	$3,594,547
Estimated Net Present Value Savings Percentage	8.07%	3.88%

Taxable Issuance:

The issuance of G.O. tax exempt refundable bonds in 2004 created a spike in debt service in fiscal year 2017/2018 of over $20M. In order to mitigate the volatility in the debt service payments, the City has the opportunity to restructure this debt service out over 13 years. However, since tax exempt debt is only allowed to be refunded once (as this was in 2004), we have to issue taxable refundable bonds in order to carry out the restructuring.

The current difference in market interest rates between the City's existing debt and taxable issuance have narrowed. This allows for the consideration of the issuance of taxable bonds.

Taxable proceeds would be used to refund the tax exempt 2004 issuances. Based on January 8, 2016 estimates, the potential cost for the restructuring would be $1.35M.

Defeasance:

As a response to Senate Bill 1525, the City, in 2013, decided to collect impact fees and use the revenue to pay existing debt on development-fee eligible projects until the debt is extinguished. As the amount of utility system related impact fee revenue collected in recent years has exceeded the amount of impact fee eligible debt due, a balance of impact fee revenue is now available to pay down impact fee eligible debt due in a future year. The City has the opportunity to reduce its debt outstanding and redeem approximately $9.2M of utility system revenue bonds. As of our latest estimate on January 11, 2016, the defeasance will result in an estimated $1M of savings.