



# City Council Report

**Date:** April 16, 2018  
**To:** City Council  
**Through:** Michael Kennington, Chief Financial Officer  
Candace Cannistraro, Budget Director  
**From:** Ryan Wimmer, Deputy Budget Director  
**Subject:** Series 2018 Utility Systems Revenue Bond Sale

## Purpose and Recommendation

The purpose of this item is for the Mesa City Council to order the sale of voter-authorized bonds in an amount sufficient to finance planned capital projects. It is recommended that the City Council order the sale of not to exceed \$124,875,000 of utility systems revenue bonds through a negotiated process. The City is scheduled to price the bonds on or around May 15, 2018.

## Background

In Citywide elections, Mesa residents have authorized the City to utilize bonds to finance capital projects. The City typically issues new bonds once each year to fund projected bond spending on projects. The City plans to use the proceeds from the sales of Series 2018 bonds to pay for the purchase, design, and/or construction of part or all of certain capital projects during calendar year 2018, although some of the bond proceeds may be spent sooner or later (depending on the timing of project spending).

The utility revenue bonds in the Series 2018 sale represent portions of bond authorizations approved by the City electorate in bond elections held in 1994, 2010, and 2014.

The proposed bond issue meets the City's revenue bond coverage requirements and other bond parity tests.

Table 1 below shows the City's currently-used utility systems revenue bond authorization by purpose, the proposed amounts for the Series 2018 bond sale, and the authorized issuance amounts remaining after the proposed Series 2018 sale.

**Table 1: Utility Systems Revenue Bonds – Authorization in Current Use**

Purpose	Authorization Year(s)	Available Authorization	Proposed Sale Series 2018	Remaining Authorization
Electric	2014	\$ 24,190,000	\$ 3,010,000	\$ 21,180,000
Natural Gas	2010, 2014	\$ 60,975,000	\$ 5,015,000	\$ 55,960,000
Solid Waste	1994	\$ 3,570,000	\$ 1,505,000	\$ 2,065,000
Wastewater	2014	\$ 162,262,788	\$ 30,090,000	\$ 132,172,788
Water	2014	\$ 156,620,402	\$ 85,255,000	\$ 71,365,402
<b>Utility Bond Total</b>		<b>\$ 407,618,190</b>	<b>\$ 124,875,000</b>	<b>\$ 282,743,190</b>

A full list of the City's remaining bond authorization (both currently-used authorization and remaining authorization from prior years) can be found in Attachment C - Remaining Bond Authorization by Election Year.

## Discussion

Attachment A – 2018 Utility Systems Revenue Bond Sale Project List is a listing of projects that are planned to be funded with the proceeds of the Series 2018 bond issue. The amount included in the sale is anticipated to be sufficient to fund anticipated project spending through December 31, 2018.

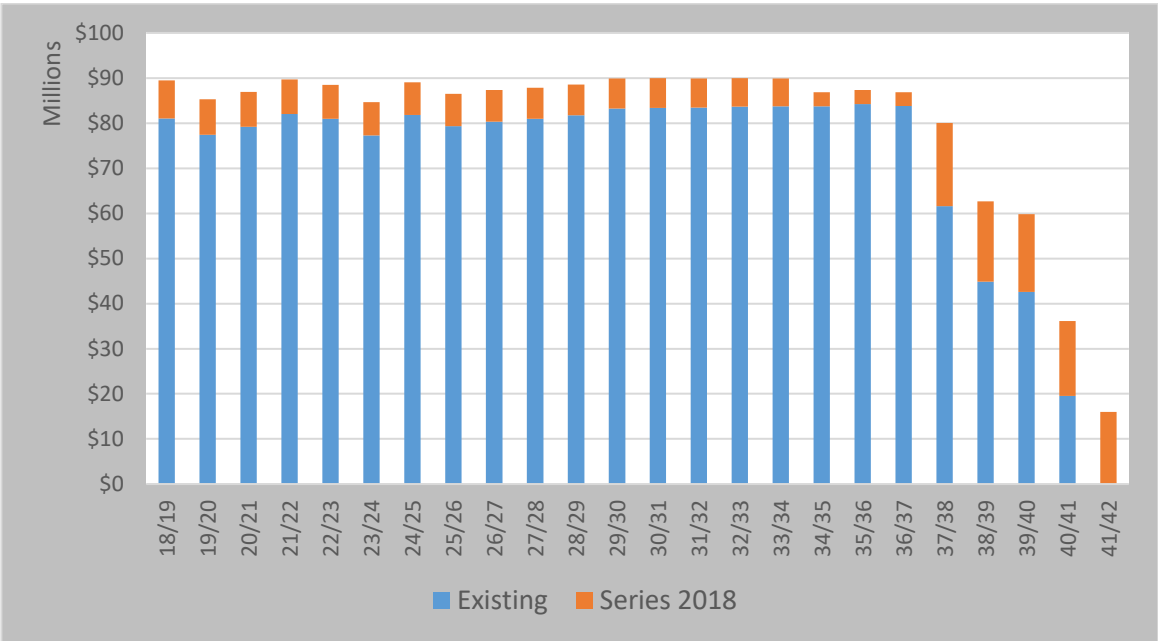
The City issues voter-authorized utility revenue bonds annually in amounts sufficient to fund project spending in the calendar year of the issuance. Since bond proceeds are typically received in May or June, new proceeds are intended to reimburse the City's project spending up to that point in the calendar year (IRS rules<sup>1</sup> allow for use of bond proceeds to reimburse project spending for at least 18 months after the spending occurs) and to fund project spending through the remainder of the calendar year. This approach minimizes interest cost while maintaining flexibility in the timing of future bond issues.

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<sup>1</sup> [Code of Federal Regulations 26-1.150.2](#)

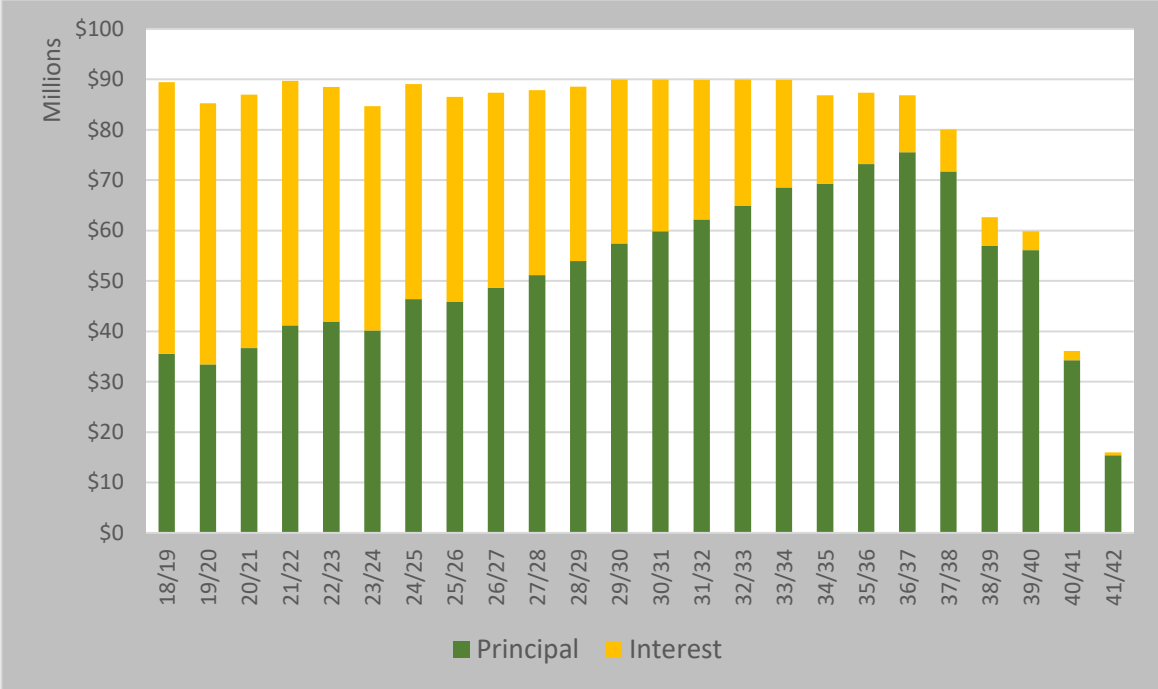
Existing utility systems revenue bond debt combined with the proposed Series 2018 issuance is shown in Chart 1 below. Existing debt is net of a planned 2018 defeasance of \$15.2 million of utility systems revenue bond principal.

**Chart 1: Utility Systems Debt by Fiscal Year – Existing & Series 2018**



Total utility systems revenue bond principal and interest payments, including the proposed 2018 defeasance and new issuance, are shown in Chart 2 below.

**Chart 2: Utility Systems Debt by Fiscal Year – Principal and Interest**



## **Alternatives**

The Council may choose not to proceed with the sale of the proposed bond issue at this time. The City could cancel new bond-funded projects that are still in the planning stage and/or utilize available reserves to pay for a portion of the contracts on projects that are already in progress. These alternatives are not recommended as they would quickly exhaust City reserves and prevent completion of capital projects that are in various stages of planning and construction.

## **Fiscal Impact**

Attachment B – Estimated Utility Systems Debt Service shows estimated debt service for the proposed Series 2018 bond issue and the impact on total debt service amounts. Debt service for the new issuance is structured such that, when combined with the City's current outstanding debt, a stable overall debt structure is achieved.

Attachment C – Remaining Bond Authorization by Election Year provides remaining bond authorization amounts (prior to the Series 2018 bond issuance) by purpose and year of voter authorization.

Attachment D – Series 2018 Issuances – Authorization by Election Year provides a summary of Series 2018 bond issuance amounts by purpose and authorization year.

Debt service from the Series 2018 utility systems revenue bond issue is included in the City's expenditure forecast. It is paid for by revenue collected through usage rates charged by the individual utilities.

## **Coordination**

The Office of Management and Budget, the City Manager's Office, the Engineering Department, and other City departments that manage capital projects coordinated regarding the amount of the proposed bond sale and the projects on which the bonds are planned to be spent.