



City Council Report

Date: April 16, 2018
To: City Council
Through: Christopher J. Brady, City Manager
Mike Kennington, Chief Financial Officer
From: Ryan Wimmer, Deputy Budget Director
Subject: 2018 Defeasance of Utility Systems Revenue Bonds

Description

A defeasance is the process of eliminating debt by setting aside the amount of cash that, along with interest earnings, exactly pays for the debt service due in the future.

Purpose and Recommendation

The City has an opportunity to use restricted utility development impact fee revenue to reduce its financial liability by redeeming (defeasing) a portion of its outstanding utility systems revenue bonds.

The attached resolution would order the redemption of a portion of the following bond issuances in an amount not to exceed \$18,000,000:

Series 2006 Utility Systems Revenue Bonds
Series 2008 Utility Systems Revenue Bonds
Series 2014 Utility Systems Revenue Refunding Bonds

Background

In 2013, in response to State legislative changes to development impact fee requirements, the City elected to use impact fee revenue to pay for existing debt on eligible projects until the debt is extinguished. Development impact fees are assessed on development projects to pay for the cost of the (water and wastewater) infrastructure that was previously constructed in order to allow for development.

As the amount of utility system impact fee revenue collected in recent years has exceeded the amount of impact fee eligible debt due, a balance of impact fee revenue is available to pay down impact fee eligible debt due in future years. The City used available development impact fee revenue to defease utility system bonds in 2016 and 2017.

Discussion

The defeasance of bonds allows the City to remove the debt from the City's financial statements and earn a higher interest rate on savings instruments that have a longer term than those used to invest City funds.

See *Attachment 1: Impact of Proposed 2018 Utility Systems Bond Defeasance* for a schedule of the impact of the proposed 2018 defeasance on utility systems bond debt by fiscal year.

Fiscal Impact

If approved, the City would use approximately \$17.1 million in impact fee revenue to redeem \$15.2 million of utility system revenue bond principal. The defeasance would result in a reduction of \$20.0 million of utility systems debt service (principal and interest).

The 2018 defeasance has an estimated present value of \$30,490, with increased interest earnings more than offsetting the upfront transaction costs.

Alternatives

The City could not move forward with the defeasance. In that case, the City would invest the development impact fee revenue along with other City funds and pay for the eligible debt when the bonds become due or callable.