



City Council Report

Date: April 1, 2019
To: City Council
Through: Chris Brady, City Manager
Michael Kennington, Chief Financial Officer
From: Ryan Wimmer, Deputy Director - Office of Management and Budget
Subject: Series 2019 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 \$111,835,000 (not to exceed \$112,000,000) of utility systems revenue bonds through a negotiated process. The City is scheduled to price the bonds on or around April 29, 2019.

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 2019 bonds to pay for the purchase, design, and/or construction of part or all of certain capital projects during calendar year 2019, 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 2019 sale represent portions of bond authorizations approved by the City electorate in bond elections held in 1994 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 authorizations by purpose, the proposed amounts for the Series 2019 bond sale, and the authorized issuance amounts remaining after the proposed Series 2019 sale.

Table 1: Utility Systems Revenue Bonds – Authorizations in Current Use

Purpose	Authorization Year(s)	Available Authorization	Proposed Sale Series 2019	Remaining Authorization
Electric	2014	\$ 21,490,000	\$ 5,015,000	\$ 16,475,000
Natural Gas	2014	\$ 56,470,000	\$ 8,025,000	\$ 48,445,000
Solid Waste	1994	\$ 2,220,000	\$ 1,520,000	\$ 700,000
Wastewater	2014	\$ 135,247,788	\$ 65,185,000	\$ 70,062,788
Water	2014	\$ 80,070,402	\$ 32,090,000	\$ 47,980,402
Utility Bond Total		\$ 295,498,190	\$ 111,835,000	\$ 183,663,190

Attachment B – Series 2019 Issuances – Authorization by Election Year provides a summary of the proposed Series 2019 bond issuance amounts by purpose and authorization year.

Attachment C – Remaining Bond Authorization by Election Year provides remaining bond authorization amounts (after the proposed Series 2019 bond issuance) by purpose and year of voter authorization.

Discussion

Projects

Attachment A – 2019 Utility Systems Revenue Bond Sale Project List is a listing of projects that are planned to be funded with the proceeds of the Series 2019 bond issue. The amount included in the sale is anticipated to be enough to fund anticipated project spending through December 31, 2019.

Financing Timeframe

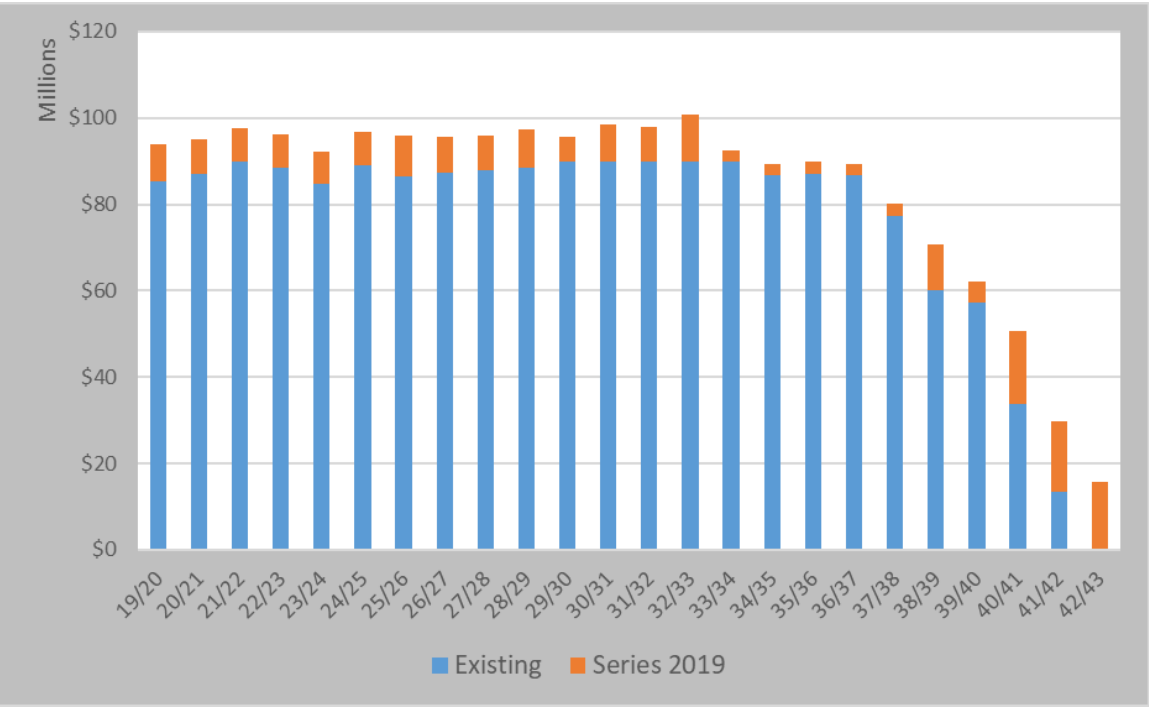
The City issues voter-authorized utility revenue bonds annually in amounts sufficient to fund project spending in the calendar year of the issuance. Since bond proceeds are typically received in May or June, new proceeds are intended to reimburse the City's project spending up to that point in the calendar year (IRS rules¹ 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.

¹ [Code of Federal Regulations 26-1.150.2](#)

Structure

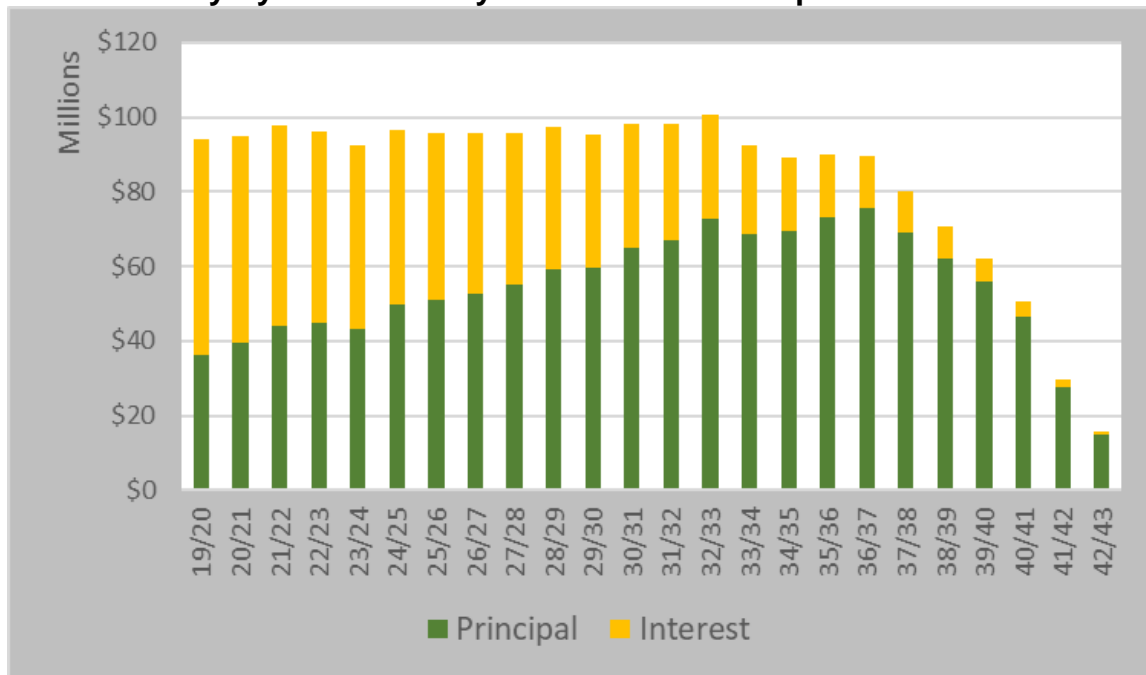
Existing utility systems revenue bond debt combined with the proposed Series 2019 issuance is shown in Chart 1 below.

Chart 1: Utility Systems Debt by Fiscal Year – Existing & Series 2019



Total utility systems revenue bond principal and interest payments, including the proposed 2019 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

Debt service from the Series 2019 utility systems revenue bond issue is included in the City's Enterprise Fund expenditure forecast. It is paid for primarily by revenue collected through usage rates charged by the individual utilities. Water and wastewater development impact fee revenue is also used to fund eligible utility systems revenue bond debt service.

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.

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 projects on which the bonds are planned to be spent.