



City Council Report

Date: June 1, 2020
To: City Council
Through: Chris Brady, City Manager
Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Ryan Wimmer, Treasurer
Subject: 2020 Utility Systems Revenue Bond Defeasance

Purpose

Approval of this utility systems revenue bond defeasance would allow the City to utilize restricted water and wastewater utility development impact fee revenue to reduce its financial liability by defeasing a portion of its outstanding utility revenue bonds.

A portion of the following bond issuances would be defeased:

- Series 2010 Utility Systems Revenue Bonds (Build America Bonds)
 - Series 2014 Utility Systems Revenue Refunding Bonds
- Estimate of Principal Defeased: \$14.9 million

In a defeasance transaction, both the obligation to pay debt service and the exact amount required to make the payments (while earning interest) are transferred to a third-party financial institution.

The transaction is expected to close on July 9, 2020.

Background

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

As water and wastewater impact fee revenue collected in recent years has exceeded impact fee-eligible debt service due, a balance of impact fee revenue is available to defease impact fee-eligible debt. The City similarly used available development impact fee revenue to defease utility system bond principal each year from 2016 to 2019.

Discussion

The defeasance of bonds allows the City to remove debt from the City's financial statements. Furthermore, the defeasance allows the City to achieve savings by calling bonds early to eliminate future interest costs. There is also the potential for the City to earn a slightly higher interest rate on savings instruments that have a longer term than those used to invest City funds, but any benefit would be minimal.

Fiscal Impact

If approved, the City would use \$16.1 million in impact fee revenue to redeem an estimated \$14.9 million of utility system revenue bond principal. The City would realize an anticipated \$6.0 million in interest savings as a result of the bonds being called prior to maturity. The defeasance would result in a reduction of an estimated \$20.9 million of utility systems revenue bond debt service cost, which is net of \$1.6 million in federal Build America Bond interest reimbursements that would no longer be received from the federal government.

The actual financial impact would depend on market conditions at the time the defeasance transaction closes.

Figure 1. 2020 Utility Bond Defeasance: Estimated Financial Impact (\$ millions)

Category	Series	Call Date	Impact Fee Revenue Transfer	Principal Defeased	Net* Interest Savings	Debt Service Reduction
Water	2010	August 8, 2020	\$ 4.5	\$ 4.5	\$2.5	\$ 7.0
Wastewater	2010	August 8, 2020	\$ 1.2	\$ 1.2	\$0.7	\$ 1.9
Wastewater	2014	July 1, 2024	\$10.4	\$ 9.2	\$2.8	\$12.0
Total			\$16.1	\$14.9	\$6.0	\$20.9

*Interest savings on the 2010 bonds is net of a partial interest subsidy from the federal government that would no longer be received.

Alternatives

The City could choose to 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.