



City Council Report

Date: October 19, 2020
To: City Council
Through: Chris Brady, City Manager
Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Ryan Wimmer, Treasurer
Subject: Series 2020 Utility Systems Revenue Bond Sale

Purpose and Recommendation

The purpose of this item is for the Mesa City Council to order the sale of utility systems revenue bonds in an amount sufficient to finance planned capital projects. It is recommended that the City Council order the sale of not-to-exceed \$85,275,000 of utility systems revenue bonds through a negotiated process.

Background

In Citywide elections, Mesa residents have authorized the City to utilize bonds to finance capital projects. The City plans to use the proceeds from the sales of Series 2020 bonds to pay for the purchase, design, and/or construction of capital projects during calendar year 2020, 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 2020 sale represent portions of bond authorizations approved by the City electorate in a bond election held in 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 2020 bond sale, and the authorized issuance amounts remaining after the proposed Series 2020 sale.

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

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2020	Remaining Authorization
Electric	2014	\$ 17,280,000	\$ 13,190,000	\$ 4,090,000
Natural Gas	2014	\$ 49,735,000	\$ 16,485,000	\$ 33,250,000
Wastewater	2014	\$ 80,562,788	\$ 36,265,000	\$ 44,297,788
Water	2014	\$ 53,150,402	\$ 4,125,000	\$ 49,025,402
<i>Total</i>		\$ 200,728,190	\$ 70,065,000	\$ 130,663,190

Attachment A – Authorization Designation by Purpose and Election provides a summary of the proposed Series 2020 bond issuance amounts by purpose and authorization year.

Attachment B – Remaining Bond Authorization Summary by Election provides remaining bond authorization amounts (after the proposed Series 2020 bond issuance) by purpose and year of voter authorization.

Discussion

Projects

Attachment C – Series 2020 Utility Systems Revenue Bond Sale Project List is a listing of projects that are planned to be funded with the proceeds of the Series 2020 bond issue. The amount included in the sale is anticipated to be sufficient to fund anticipated project spending through December 31, 2020.

Financing Timeframe

The City typically 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.

The 2020 bond issuances were delayed from the usual Spring timeframe due to unfavorable market conditions related to the global coronavirus pandemic. It is anticipated that bonds will again be issued in the Spring of 2021.

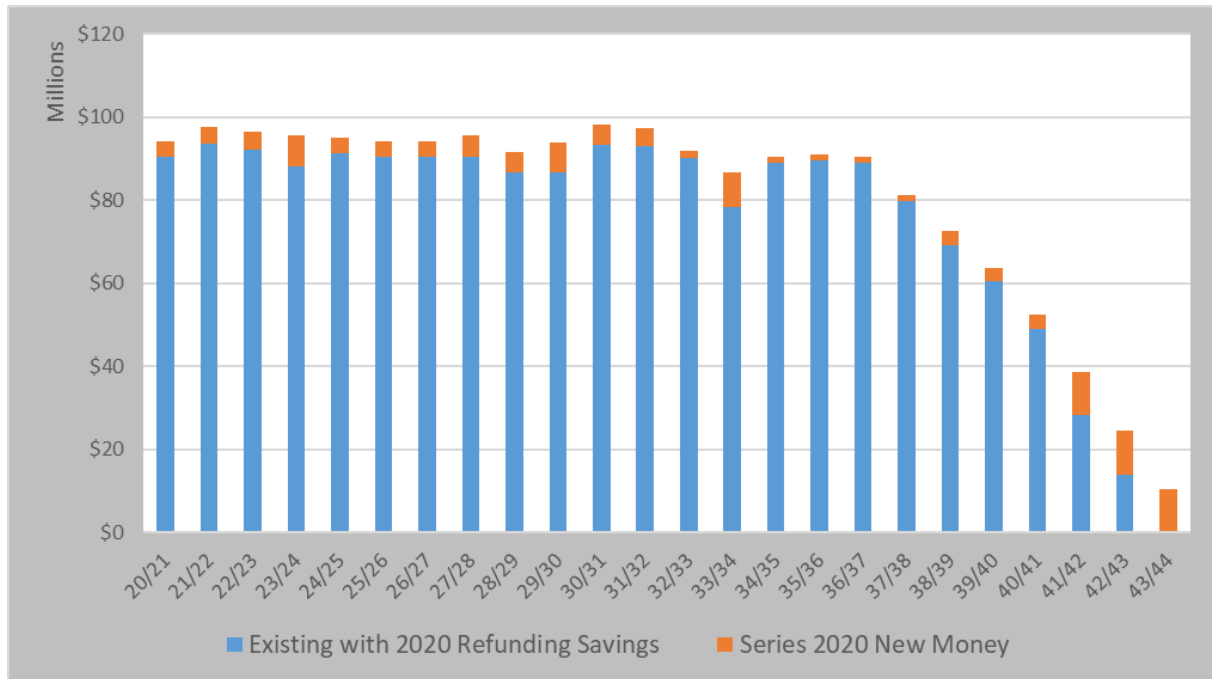
The City is scheduled to price the bonds sometime during November 10-19, 2020 and close on the bonds (receive the proceeds) December 10, 2020.

Structure

Existing utility systems revenue bond debt combined with the proposed Series 2020 issuance is shown in Chart 1 below.

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

Chart 1: Utility Systems Debt by Fiscal Year – Existing & Series 2020



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 still in the planning stage or utilize reserves to pay for a portion of projects already in progress. These alternatives are not recommended as they would reduce City reserves or prevent completion of capital projects that are in various stages of planning and construction.

Fiscal Impact

Debt service from the Series 2020 Utility Systems Revenue Bonds issue is included in the City's Enterprise Fund expenditure forecast. It is paid for primarily by revenue collected through utility 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 Finance Department, Office of Management and Budget, City Attorney's Office, City Manager's Office, Engineering Department, and City utility departments that manage capital projects coordinated regarding the projects on which the bonds are planned to be spent.