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: 2020 Utility Systems Revenue Bond Refunding

Purpose

The purpose of the proposed utility bond refunding is to allow the City to take advantage of favorable interest rates in the municipal bond markets to refund (refinance) existing bonds over the same timeframe at a lower interest cost.

Council approval of the refunding item would authorize the sale of the following issuance of bonds:

Series 2020 Utility Systems Revenue Refunding Bonds
Amount: not-to-exceed $47.0 million

The proceeds from the sale of the refunding bonds would be used to redeem the following previously issued bonds:

Series 2010 Utility Systems Revenue Bonds (Build America Bonds)
Amount: $44.7 million

Background

Series 2010 Utility Systems Revenue Bonds (Build America Bonds)

These bonds were issued in 2010 with a typical 10-year early redemption option in 2020. The bonds were issued during the Great Recession, when the federal government was offering local governments an interest subsidy on taxable bond issuances (called Build America Bonds, or BABs) as part of the American Reinvestment and Recovery Act (ARRA) stimulus funding. The City normally issues tax-exempt debt because interest costs are typically less than with taxable debt.

The 2010 bonds were issued as taxable BABs because the higher interest cost combined with the partial interest reimbursement from the federal government was less expensive for the City than the interest cost of tax-exempt debt. Subsequently, during federal sequestration budget reductions in 2013, the interest reimbursement percentage to the City was partially reduced and remains so today.

By refunding the bonds, the City would lose the federal interest subsidy on the bonds. However, the interest savings from the refunding would be greater than the lost interest subsidy. The Series 2020 Utility Systems Revenue Refunding Bonds would replace the 2010 bonds and would be tax-exempt.

Discussion

Refunding the 2010 bonds is similar to utility systems revenue refunding bond transactions the City has completed in previous years and reflects the City's ability to take advantage of lower interest rates to achieve debt service savings for the City.

The refunding savings would accrue to the City's Enterprise Fund, which is used to account for the City's utility systems.

Fiscal Impact

The municipal bond markets will continue to be monitored to ensure that the refunding bonds would have a present value savings exceeding 3% of the debt service amount of the bonds being refunded, net of transaction costs, as required by the City's financial policies.

Preliminary estimates of savings from the proposed refunding transactions are as follows:

	Estimated Savings $ (nominal)	**Estimated Savings $ (present value)**	**Estimated Savings % (present value)**
Series 2010	$11.4 million	$ 9.8 million	22%

Alternatives

The Council could choose not to proceed with the refunding at this time. The City would pay higher than market interest rates on the 2010 bonds. The City could refund the bonds at any time in the future.