



# 2020 Bond Program

October 15, 2020

Ryan Wimmer, Treasurer

# Bond Funding - Capital Improvement Program

- Capital projects approved in budget through annual capital improvement program (CIP) update
- Funding source for most CIP projects is bond financing



# City of Mesa Bond Program

City financing team:

- Internal Staff
- Financial Advisor (Hilltop Securities: Larry Given, Janelle Gold)
- Bond Counsel (Sherman Howard, LLC: Zach Sakas)

Annually, City financing team:

- evaluates need to issue (sell) bonds
- **issues bonds** to finance budgeted capital projects
- looks for savings opportunities to **refund (refinance) existing bonds** at lower interest rate over same timeframe
- uses available cash to **defease existing debt** (pay off early)
- retires, or pays off, bonds that mature (come due)

# Municipal Bonds

Bond – financial instrument representing loan made by investor to borrower

- Most common method for cities to finance infrastructure
- Infrastructure paid for while in use (intergenerational equity)

How bonds work

1. City borrows money by selling bonds to investors
2. Bond proceeds used to construct City infrastructure
3. City pays bond principal and interest to investors



# Debt Service

Principal and interest payments on bonds

- City pays debt service for life of bonds (20-25 years)
- Structure of new debt service coordinated with existing debt service to maintain stable payments from year to year
- City's financial forecast includes debt service for both existing and anticipated future debt issuances

# 2020 Issuance Delay

- City typically issues each year in Spring
- 2020 issuances initially planned for Apr/May
- Pandemic in Feb/Mar resulted in unfavorable market conditions
- 2020 issuances deferred to current timeframe (Nov/Dec)
- 2021 issuances still planned for Apr/May 2021



# 2020 General Obligation Bond Project Examples



Fire Station 221- Eastmark  
Library Improvements  
Mesa Drive Street Improvements  
North Center Street Athletic Fields  
Northeast Public Safety Facility





# 2020 General Obligation Bond Sale

**Planned Issuance: \$22,075,000**

Purpose	Authorization Year	Available Authorization	Proposed Sale Series 2020	Remaining Authorization
Streets	2013	\$ 20,265,000	<b>\$ 10,035,000</b>	\$ 10,230,000
Library	2018	\$ 19,700,000	<b>\$ 1,005,000</b>	\$ 18,695,000
Parks and Culture	2018	\$ 83,240,000	<b>\$ 3,010,000</b>	\$ 80,230,000
Public Safety	2018	\$ 74,955,000	<b>\$ 8,025,000</b>	\$ 66,930,000
<i>Total</i>		\$ 198,160,000	<b>\$ 22,075,000</b>	\$ 176,085,000



# General Obligation (GO) Bonds

- Secured by full faith and credit of City (property tax)
- Paid for primarily from secondary property tax revenue
- Projects submitted to voters most recently in 2018

## Issuance Process:

1. City negotiates with underwriter (bank) to purchase entire bond offering
2. Underwriter sells City bonds to investors



# 2020 Utility Systems Revenue Bond Project Examples



Electric Substation Improvements  
Gas System Infrastructure Replacements  
Greenfield Water Reclamation Plant Expansion  
Water System Main Rehabilitation/Replacement



# 2020 Utility Systems Revenue Bond Sale

**Planned Issuance: \$70,065,000**

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

# Utility Systems Revenue Bonds

- To finance utility systems infrastructure
- Secured by utility systems revenue
- Paid for primarily from utility systems revenue
- Projects submitted to voters most recently in 2014

## Issuance Process:

1. City negotiates with underwriter (bank) to purchase entire bond offering
2. Underwriter sells City bonds to investors



# Bond Program Savings

City Finance team manages debt

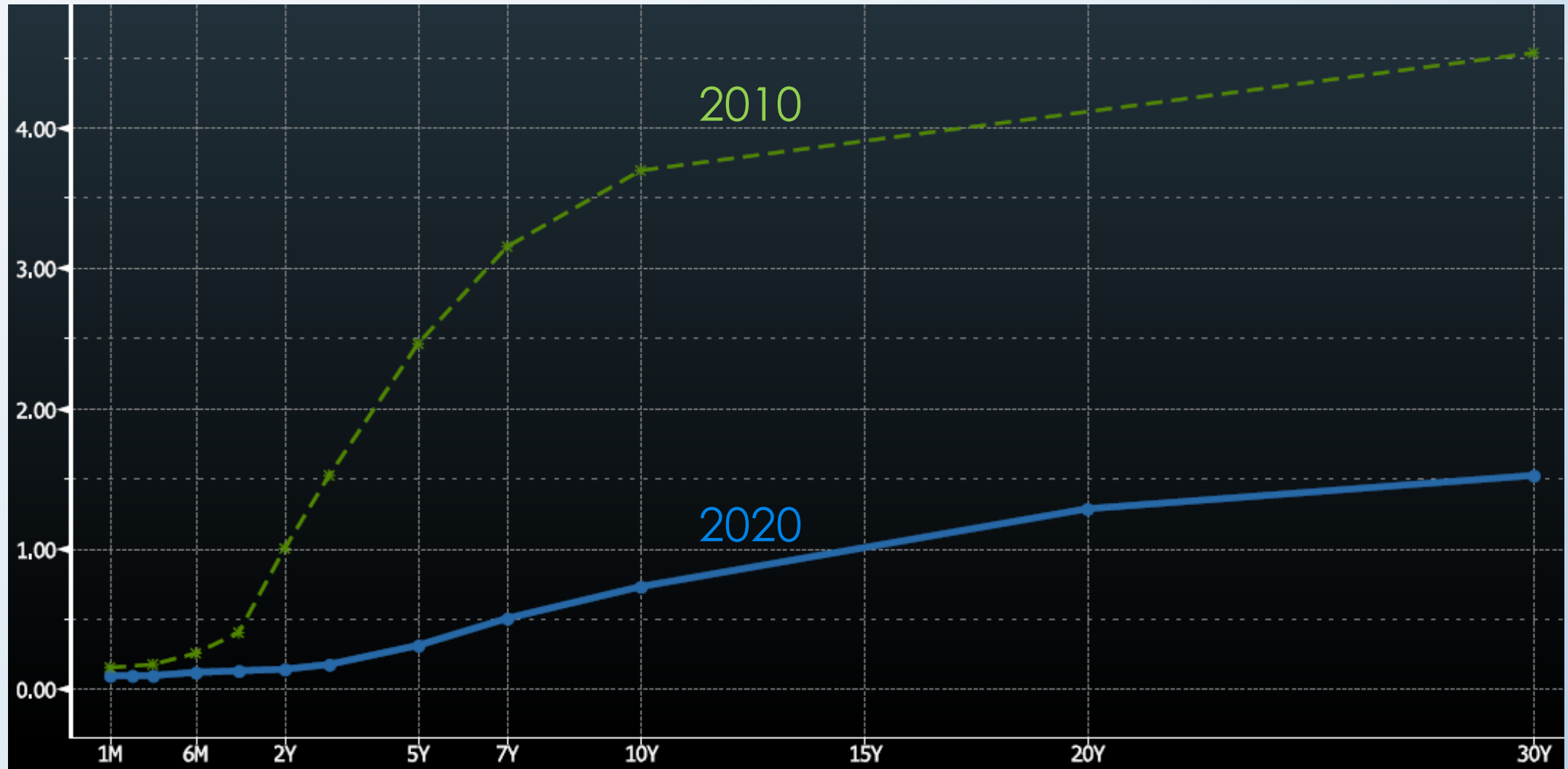
- identify opportunities to reduce financing costs
- maximize financing opportunities

Financing cost savings = more funding available for projects

Annually, City finance team:

- looks for savings opportunities to **refund (refinance) existing bonds** at lower interest rate over same timeframe
- uses available cash to **defease existing debt** (pay off early)

# Interest Rates: U.S. Treasuries 2010 vs 2020





# 2020 Bond Program Savings

## General Obligation Bonds

### Refunding

Estimated\* Interest Savings: **\$5 million** (present value)

## Utility Systems Revenue Bonds

Defeasance (*impact fee cash used to pay \$15M principal early - completed July*)

Actual Interest Savings: **\$2 million** (present value)

### Refunding

Estimated\* Interest Savings: **\$10 million** (present value)

**TOTAL ESTIMATED\* INTEREST SAVINGS: \$5M + \$2M + \$10M = \$17M** (present value)

\*Conservative estimate based on current interest rates. Actual savings will be based on market conditions when priced.

# Estimated Timeline for 2020 Bond Transactions

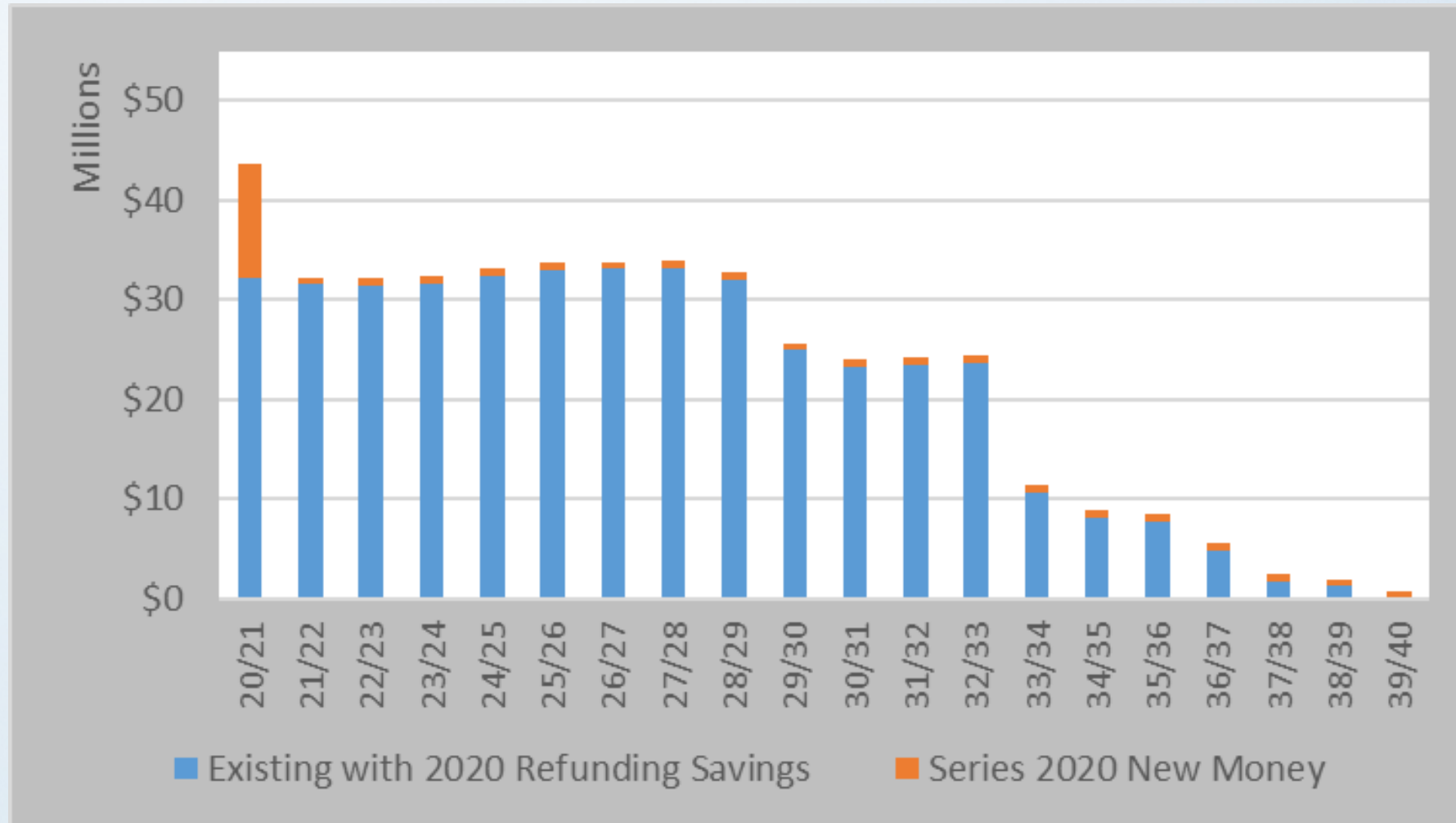
(may be adjusted due to market conditions)

Oct 19	Council considers authorization of: <ul style="list-style-type: none"><li>- General obligation bond issuance</li><li>- General obligation bond refunding</li><li>- Utility revenue bond issuance</li><li>- Utility revenue bond refunding</li></ul>
Nov 10-19	Issuances are priced
Dec 10	All issuances close and proceeds are received



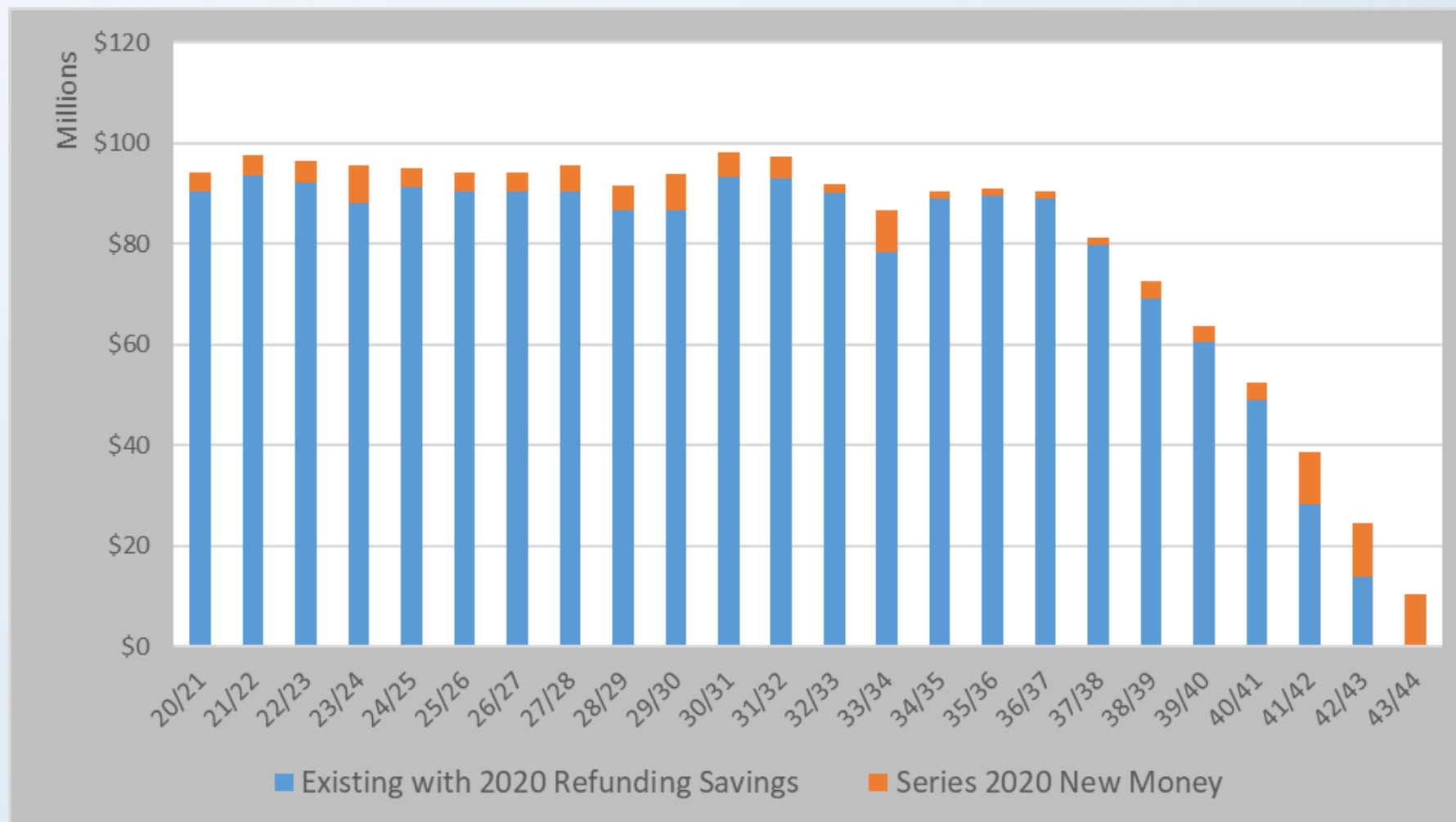


# General Obligation Bond Debt Service





# Utility Systems Revenue Debt Service



# Existing City Debt (as of 8/1/20)

Debt Type	Principal (\$ millions)
Utility Systems Revenue Bonds	\$1,228
General Obligation Bonds	335
HURF (Street & Highway) Bonds	59
State Water Loans	1



## Outstanding Debt Service

As of: August 1, 2020

