



# City Council Report

**Date:** April 19, 2021  
**To:** City Council  
**Through:** Chris Brady, City Manager  
Michael Kennington, Deputy City Manager/Chief Financial Officer  
**From:** Ryan Wimmer, Treasurer  
**Subject:** Sale of 2021 Utility Systems Revenue Bonds and Obligations

## Purpose and Recommendation

The purpose of this item is for the City Council to order the sale of utility systems revenue bonds and obligations in amounts sufficient to finance utility systems capital projects. It is recommended that the City Council order the negotiated sales of the following two new issuances:

- Utility Systems Revenue Bonds, Series 2021 (the "Series 2021 Bonds")  
Not-to-exceed \$43,235,000
- Utility Systems Revenue Obligations, Series 2021 (the "Series 2021 Obligations")  
Not-to-exceed \$16,765,000

## Background

The City operates and maintains water, wastewater, natural gas, and electric utility systems, in addition to solid waste collection and disposal services. The City typically issues utility debt annually to finance the construction and maintenance of utility systems infrastructure. Financing long-term utility infrastructure allows the City to meet its capital needs. It also allows for customers who benefit from the infrastructure to pay for it as it is being used.

The proposed bonds and obligations meet the City's revenue coverage requirements and other parity tests.

## Bonds

In Citywide elections, Mesa residents have authorized the City to utilize utility systems revenue bonds to finance utility systems capital projects. The Series 2021 Bonds represent portions of bonds authorized by the City electorate in a 2014 election.

Table 1 below shows those City utility systems revenue bond authorizations that are currently in use (some Solid Waste bond authorization remains but is not being utilized). The table includes the purpose and amounts of the proposed Series 2021

Bonds as well as the authorized amounts that would remain after the sale.

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

| Purpose      | Authorization Year | Available Authorization | Proposed Sale Series 2021 | Remaining Authorization |
|--------------|--------------------|-------------------------|---------------------------|-------------------------|
| Electric     | 2014               | \$ 3,935,000            | \$ 3,935,000              | \$ 0                    |
| Natural Gas  | 2014               | \$ 33,045,000           | \$ 3,195,000              | \$ 29,850,000           |
| Wastewater   | 2014               | \$ 43,697,788           | \$ 13,680,000             | \$ 30,017,788           |
| Water        | 2014               | \$ 48,980,402           | \$ 14,460,000             | \$ 34,520,402           |
| <i>Total</i> |                    | \$ 129,658,190          | \$ 35,270,000             | \$ 94,388,190           |

Attachment A – Remaining Bond Authorization Summary by Election provides estimated remaining bond authorization amounts (after the proposed Series 2021 Bonds issuance) by purpose and year of voter authorization.

### ***Obligations***

#### ***Bond Program Limitations***

The City's most recent utility systems revenue bond election in 2014 authorized \$580 million of bond spending. To help explain the purpose of the 2014 bond election, the City published an information package before the election with lists of projects that were planned at that time. Since the successful election, project plans have been continually reprioritized to meet the City's constantly evolving capital needs and opportunities.

This regular reprioritization of projects creates several challenges. Because of other needs that have become more urgent, some projects in the 2014 bond election list can no longer be completed (which may cause some dissatisfaction from affected stakeholders). Additionally, the bond authorizations are typically fully allocated to existing projects, leaving little capacity to respond to new needs or opportunities as they arise (e.g., downtown Mesa revitalization, growth in southeast Mesa, and a water re-use pipeline to the Gila River Indian Community).

The fact that the different utility systems use available authorization at different rates is another challenge with the bond program. For example, the Series 2021 Bonds would exhaust the 2014 election's Electric bond authorization while the other three utility systems would still have significant capacity remaining. Furthermore, because the construction of utility and streets projects are coordinated to minimize cost and improve efficiency, a lack of available bond authorization in one area can restrict the other.

Regardless of the status of the bond program, the City's utilities need to be maintained and expanded to meet infrastructure needs.

## *Review of Other Cities*

In preparation for the 2021 utility bond issuance, City staff reviewed the various options available to finance utility systems as well as the recent utility financing methods utilized by other large cities in Arizona.

Table 2 below shows recent utility financing methods utilized by select Arizona cities.

**Table 2: Other Cities – Recent Utility Financing Methods**

|             | Utility<br>Revenue<br>Bonds | General<br>Obligation<br>Bonds | Subordinate<br>Utility Revenue<br>Bonds | Utility Revenue<br>Obligations | Excise Tax<br>Obligations |
|-------------|-----------------------------|--------------------------------|-----------------------------------------|--------------------------------|---------------------------|
| <b>Mesa</b> | <b>X</b>                    |                                |                                         |                                |                           |
| Avondale    |                             |                                |                                         | X                              |                           |
| Chandler    |                             |                                |                                         |                                | X                         |
| Gilbert     |                             |                                |                                         | X                              |                           |
| Glendale    |                             |                                |                                         | X                              |                           |
| Goodyear    |                             |                                | X                                       |                                |                           |
| Phoenix     |                             |                                |                                         | X                              |                           |
| Scottsdale  |                             |                                |                                         |                                | X                         |
| Surprise    |                             |                                |                                         | X                              |                           |
| Tempe       |                             | X                              |                                         |                                |                           |
| Tucson      |                             |                                |                                         | X                              |                           |

Of the 10 cities reviewed, it was noted that Mesa was the only City issuing utility systems debt by compiling a large multi-year utility bond package. It was noted that many other cities, including Chandler, Gilbert, Scottsdale, Phoenix, and Tucson, use obligations rather than bonds to issue utility debt.

### *Mesa's Use of Obligations*

The City of Mesa has issued obligations backed by excise (sales) tax several times in recent years to finance Council priorities:

- State Route 51 (2009, 2010, and 2011)
- Spring Training Baseball Stadiums (2013)
- Arizona State University at Mesa City Center (2020)

### *Advantages of Obligations*

Utilizing utility systems revenue obligations to finance utility projects would allow more flexibility to better respond to evolving utility infrastructure needs without displacing other projects. The Council making and communicating project decisions each year would improve transparency with stakeholders. This financing tool would allow for

more accountability as the City would work to complete the projects determined annually through the budget process.

### *Recommendation*

Staff recommends that the City issue a relatively small amount of utility systems revenue obligations to finance utility systems infrastructure in 2021, while also continuing to issue voter-authorized utility systems revenue bonds. The Series 2021 Obligations would finance some of the newer utility projects that were not contemplated in the 2014 utility bond election (see Attachment B – Project List).

Table 3 below shows the proposed purposes for the Series 2021 Obligations.

**Table 3: Proposed 2021 Utility Systems Revenue Obligations**

| <b>Purpose</b> | <b>Proposed Sale<br/>Series 2021</b> |
|----------------|--------------------------------------|
| Electric       | \$ 5,065,000                         |
| Natural Gas    | \$ 880,000                           |
| Wastewater     | \$ 1,760,000                         |
| Water          | \$ 7,015,000                         |
| <b>Total</b>   | <b>\$ 14,720,000</b>                 |

Following the sale, City staff would evaluate the process of issuing utility systems revenue obligations. Assuming a successful process, the City would plan to continue shifting to the utility systems revenue obligation structure with future utility systems financings.

### **Discussion**

#### *Projects*

Attachment B – Project List is a list of projects that are planned to be funded with the proceeds of the Series 2021 Bonds and Series 2021 Obligations.

#### *Financing Timeframe*

The City typically issues utility revenue debt annually in amounts sufficient to fund project spending in the calendar year of the issuance. The City plans to use the proceeds from the Series 2021 Bonds and Series 2021 Obligations to pay for the purchase, design, and/or construction of capital projects during calendar year 2021, although some of the proceeds may be spent sooner or later (depending on the timing of project spending).

Since 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 rules<sup>1</sup> allow for use of 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 financings.

The City is scheduled to price and close on the Series 2021 Bonds and Series 2021 Obligations as follows:

|             | <b><u>Price (sell)</u></b> | <b><u>Close (receive proceeds)</u></b> |
|-------------|----------------------------|----------------------------------------|
| Bonds       | week of May 3              | May 27                                 |
| Obligations | week of May 17             | June 17                                |

### *Structure*

The proposed Series 2021 Bonds and Series 2021 Obligations have final maturities of 24 years. A schedule of existing debt service as well as estimated debt service for the Series 2021 Bonds and the Series 2021 Obligations can be found in the Estimated Debt Service Requirements and Debt Service Coverage tables on page 13 (Bonds) and page 14 (Obligations) of the attached Preliminary Official Statements (POS) for the respective transactions.

### **Alternatives**

The Council may choose not to proceed with the sale of the proposed Series 2021 Bonds and Series 2021 Obligations at this time. The City could:

- cancel new debt-funded projects still in the planning stage,
- utilize reserves to pay for a portion of projects already in progress,
- issue only voter-authorized bonds and reprioritize new and existing projects within remaining authorizations. Some electric utility projects would need to cash-funded or cancelled (since voter authorization is nearly exhausted).

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 on the Series 2021 Bonds and Series 2021 Obligations is included in the City's utility 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 issuances is structured such that, when combined with the

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<sup>1</sup> [Code of Federal Regulations 26-1.150.2](#)

City's current outstanding debt, a stable overall debt structure is achieved.

### **Coordination**

The following City departments and contracted firms coordinated on the proposed Series 2021 Bonds and Series 2021 Obligations:

- City Attorney
- City Manager
- Energy Resources
- Engineering
- Finance
- Management and Budget
- Water Resources
- Hilltop Securities (Financial Advisor)
- Sherman & Howard, LLC (Bond Counsel)