



Legislation Details (With Text)

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Title: Pass an ordinance authorizing the issuance of General Obligation Bonds for an amount not to exceed \$40,500,000 and amending the 2020 Budget (Item 1 of 2)

Sponsors:

Indexes:

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Attachments: 1. Naperville 2020 - Authorizing Ordinance

| Date | Ver. | Action By | Action | Result |
|-----------|------|--------------|--------|--------|
| 10/6/2020 | 1 | City Council | passed | Pass |

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Pass an ordinance authorizing the issuance of General Obligation Bonds for an amount not to exceed \$40,500,000 and amending the 2020 Budget (Item 1 of 2)

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The other item on the City Council agenda related to this item is:

- 20-1132

The original proposal for the 2020-2024 Capital Improvement Program (CIP) had a total of \$35.32 million in projects without dedicated funding sources. Through program review and project coordination efforts, staff reduced the recommended capital program by \$10.17 million. Staff's recommendation to the City Council included \$25.15 million of projects without dedicated funding sources at a series of workshops. Over the course of the workshops, City Council made several modifications to the capital program that reduced it by an incremental \$0.56 million. Additionally, the City Council authorized the usage of \$8.4 million in Home Rule Sales Tax to fund capital expenditures. At the December 3, 2019 City Council meeting, the 2020 Budget was approved with \$13.50 million in projected borrowing for capital expenditures.

At its May 5, 2020 meeting, in response to COVID-19, the City Council passed Ordinance 20-045 which reduced the 2020 Budget by \$24.97 million via the deferral of several capital projects. \$4.70

million of the \$24.97 million was related to projects without a dedicated funding source. Furthermore, \$491,000 was related to projects funded via the Home Rule Sales Tax.

In 2017, staff modified the borrowing methodology to issue debt in the third quarter of each year. This change allowed staff to analyze capital project spending and make any adjustments to the required borrowing amounts. This practice also allows staff to better manage cash flow and reduce the amount of additional interest costs incurred.

To use this methodology, the City was required to pass an Official Intent for Reimbursement Resolution regarding the capital projects. This allowed all projects approved through the 2020 budget to be included in any future bond sale. The resolution did not provide the authorization to borrow, but rather only reserved the ability to fund current projects with a future bond sale. On January 21, 2020, the City Council adopted this resolution.

DISCUSSION:

As part of the 2020-2024 CIP, the City Council conceptually approved borrowing \$13.50 million to fund capital projects that had no dedicated funding source. As it became clear that the COVID-19 pandemic would impact the City’s finances in 2020, staff considered additional borrowing. Through discussions with the City Council and the Financial Advisory Board, it was established that the City needed to maintain financial flexibility, including taking advantage of historically low interest rates and borrowing at higher levels when appropriate. Staff identified \$16.0 million in capital project spending eligible for borrowing in 2020. The City proposes to issue Series 2020 GO Bonds of which the proceeds of this sale will fund a portion of current capital projects including the following:

| Project List | Cost Estimates |
|---|---------------------|
| Traffic Improvement Programs | \$5,525,000 |
| Equipment Replacement | \$5,042,000 |
| E-Government Initiatives | \$2,630,000 |
| Building Maintenance & Upgrade Projects | \$1,770,000 |
| Stormwater Management Programs | \$795,000 |
| Traffic Control & Street Lighting | \$238,000 |
| TOTAL NEW PROJECTS | \$16,000,000 |

Additionally, three prior bond issuances are eligible for refunding by the end of 2020. Those bonds, identified as Series 2010A, Series 2010B, and Series 2011, have a combined principal balance of \$23.70 million at interest rates ranging from 3.50% to 5.20%. Once debt becomes callable, the debt can be refunded, and new money borrowed at lower interest rates to reduce the debt service over the remaining life of the bonds. An analysis conducted by the City’s bond advisor, Speer Financial, reveals that the refunding of these three bonds will yield approximately \$2.50 million in debt service savings through 2029. The refunding bonds will have a positive impact on debt service in the Debt Service Fund, Electric Fund, and Water Fund.

Staff is seeking a not to exceed value of \$40.50 million in general obligation bond issuances for new projects and refunding at a projected rate of 2.00%. The differential between the \$40.50 million not to exceed value and the projected \$39.70 million of identified projects and refunding principal is to provide the City protection against market and sale conditions, as well as to accommodate for the costs of issuance of the bonds. The City will only sell bonds necessary to cover actual and projected

capital project expenditures incurred in 2020, in addition to the refunding amounts. Staff will provide the City Council a final report on the general obligation bonds sold, projected debt service, and the impact on the City's debt reduction goal.

The 2020 issuance for GO bonds will have a first payment in 2021 and a projected final payment will occur in 2040. The issuance will result in an average annual debt service payment of \$3.47 million through 2029, which is the remaining life of the refunding series, and \$976,000 for the remaining years. The new bonds will follow the City's existing bond repayment schedule of 20% of principal and interest (P&I) in the first five years and 50% of P&I in the first ten years. Interest is payable semi-annually on June 1 and December 1 and principal is due annually on December 1.

The attached ordinance authorizes a delegated sale of general obligation bonds.

Budget Amendment

The City, under the authority granted by the Illinois Municipal Code, adopts an Annual Budget which identifies the specific fund from which each anticipated expenditure shall be made. To accommodate the expenditure of 2020 GO Bond proceeds, the City must amend the Bond Fund, increasing that budget by \$7,010,920. This budget amendment will not increase the total amount of the 2020 Budget as the increase in the Bond Fund will be offset by a corresponding decrease in the Capital Projects Fund.

Additionally, the City included a \$375,000 Parking Lot Rehabilitation project in the 2020 Budget that was to be paid from 2020 bond proceeds. That project came in under budget and the Library has decided to fund the project from the Library Capital Reserve Fund. This requires the Library Capital Reserve Fund be increased by \$300,000. Again, this amendment does not increase the overall 2020 Budget as the expense is simply being reallocated to a different fund.

FISCAL IMPACT:

All costs associated with the 2020 bond issuance are included in the issuance and there is no direct impact on the 2020 Budget. The Series 2020 bond issuance will result in an average annual debt service payment of \$3.47 million through 2029 and \$976,000 through 2040. Any savings realized from the bond refunding will be reflected in future budget years.

The impact of the budget amendment is detailed below.

| Fund Name | 2020 Budget | Proposed | 2020 Amended Budget |
|-----------------------|----------------------|-----------------|----------------------------|
| Bond Fund | \$ 8,889,080 | \$ 7,110,920 | \$ 15,900,000 |
| Capital Projects Fund | \$ 12,297,956 | \$ (7,410,920) | \$ 4,987,036 |
| Library Capital Fund | \$ 250,000 | \$ 300,000 | \$ 550,000 |
| Total | \$ 21,437,036 | \$ 0 | \$ 21,437,036 |