



Legislation Details (With Text)

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Title: Pass the ordinance authorizing the issuance of General Obligation (GO) Bonds for an amount not to exceed \$25,000,000

Sponsors:

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Attachments: 1. Naperville Series 2024 - Authorizing Ordinance v3 Final, 2. Naperville Series 2024 - Escrow Deposit Agreement

Date	Ver.	Action By	Action	Result
4/2/2024	1	City Council	passed	Pass

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Pass the ordinance authorizing the issuance of General Obligation (GO) Bonds for an amount not to exceed \$25,000,000

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

The Financial Advisory Board (FAB) reviews debt issuance plans as part of the annual budget process. The proposed bond issuance was discussed at the January 29, 2024, board meeting. FAB is supportive of using bonds as a strategic financing mechanism for capital improvement projects.

BACKGROUND:

In December 2022, the City Council approved the 2023 Annual Budget and Capital Improvement Program (CIP). The 2023 CIP included \$34,460,000 in capital projects without an identifiable funding source. By adopting the budget, the City Council tentatively authorized staff to pursue issuing bonds for the payment of all unfunded capital projects, with the City Council having final approval on any bond sale.

Since 2018, the City has issued bonds using a project reimbursement methodology. This allows staff to analyze capital project spending and make any adjustments to the required borrowing amounts. This practice also allows staff to manage cash flow better and reduce the amount of interest costs incurred.

To use this methodology, the City is required to pass an Official Intent for Reimbursement Resolution regarding capital projects. This allows projects approved through the annual budget to be included in

any future bond sale. The resolution itself does not provide the authorization to borrow, it only reserves the ability to fund current projects with a future bond sale.

On January 17, 2023, the City Council adopted Resolution 23-001, making any capital expenditure included in the resolution eligible for reimbursement over the following 18 months.

Staff has analyzed capital project spending and is ready to proceed with a bond issuance for the reimbursement of 2023 capital projects. Staff also worked with our bond advisor, Speer Financial, to evaluate any outstanding bonds that are eligible for refinancing. One bond series, Series 2013 GO bonds, is eligible for refunding at a potential cost savings.

DISCUSSION:

In January 2024, staff analyzed capital project spending for 2023 and determined that it is necessary and appropriate to borrow for the reimbursement of water and wastewater infrastructure projects. The 2023 reimbursement resolution included unfunded water and wastewater infrastructure projects totaling \$20.0 million.

Due to unforeseen project delays, no borrowing is needed for non-utility capital projects.

New Issuance - Series 2024

The City proposes to issue Series 2024 GO Bonds with the proceeds of this sale reimbursing the Water Capital Fund for costs incurred on capital projects in 2023. Those capital projects included:

- Springbrook UV disinfection system construction
- 11th Avenue water main replacement
- Porter and Main water main replacement
- Sanitary sewer rehabilitation and lining
- Water meter additions and replacements
- Water and wastewater pump station improvements

The total project expenses reimbursed from the Series 2024 bonds will be \$20.0 million. The bonds will finance the cost of those projects over 20 years, with the life expectancy of the assets created or improved being greater than or equal to the life of the bonds.

Series 2013 Refunding

The Series 2013 bonds were issued for general government capital improvements with the annual principal and interest paid from the Debt Service Fund. The remaining principal as of January 1, 2024, is \$2.42 million payable through 2031. The bonds are callable as of December 1, 2023, which provides the City the opportunity to refinance the bonds at a lower interest rate.

The City's Debt Management Policy allows for the bonds to be called if the net present value (NPV) savings is 2% or more. Based on current interest rate estimates, the NPV savings may be less than 2%; however, Speer recommends including the Series 2013 refunding in the Series 2024 authorizing ordinance as the final interest rate will be determined through a competitive bond sale that may produce the required NPV savings. At 2%, the City would save approximately \$50,000 in interest costs through 2031.

Summary

Staff is seeking a not-to-exceed value of \$25 million for this bond issuance at a projected true interest

cost (TIC) of 3.85%.

The differential between the \$25.0 million not-to-exceed value and the projected \$22.8 million in 2023 project expenses and 2013 refunding 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 in the amount necessary to cover actual and projected project expenditures incurred during the eligible reimbursement period, plus issuance costs. Staff will provide the City Council with a final report on the bonds sold after the sale is completed.

As part of the bond issuance process, City representatives are scheduled to participate in credit rating calls with Moody's and Standard & Poor's the week of April 8. Both agencies will issue an official rating opinion before the bond sale. Staff is confident that the City will maintain its AAA bond rating with both agencies given the City's financial position has improved since the last rating in 2022.

A competitive bond sale is tentatively scheduled for the week of May 6.

FISCAL IMPACT:

The new money portion of the Series 2024 bonds will have their first payment due in December 2024 and the final payment will occur in 2044. The bonds follow the City's required repayment schedule of 20% of principal and interest (P&I) in the first five years and 50% of P&I in the first 10 years. Interest is payable semi-annually on June 1 and December 1, and principal is due annually on December 1. The average annual debt service payment will be \$1.47 million. All debt service will be funded through Water Utilities revenue. The debt service will be fully abated from the property tax levy annually.

The portion of the Series 2024 bonds attributable to the Series 2013 refunding will maintain the same debt schedule and be retired in 2031 with an average annual debt service payment of \$345,000 payable from property taxes.

All costs associated with this bond issuance are included in the issuance itself.