



## Legislation Text

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### **CITY COUNCIL AGENDA ITEM**

#### **ACTION REQUESTED:**

Pass the ordinance authorizing the issuance of General Obligation (GO) Bonds for an amount not to exceed \$7,500,000

**DEPARTMENT:** Finance Department

**SUBMITTED BY:** Rachel Mayer, Finance Director

#### **BOARD/COMMISSION REVIEW:**

Prior to the City Council's approval of the Water 2.0 project, the Financial Advisory Board (FAB) discussed project financing. FAB recommended debt issuance given the long service life of the assets and the low interest rate environment.

#### **BACKGROUND:**

In 2019, the City Council directed staff to issue a request for proposals for the implementation of an automated metering infrastructure (AMI) system in the Water Utility. This project, known as the Water 2.0 project, sought to convert the City's approximately 43,500 water meters into a wireless meter reading system. The project included the installation of AMI hardware, including meter interface units and data collection units, integration with the City's existing Meter Data Management System (MDMS), and associated software integration for a complete automated utility metering system across both utilities. The project supports improved service levels, increased accuracy and efficiency of data collection, improved sustainability, and improved experience with future utility billing technology.

On September 1, 2020, the City Council awarded a contract to Core & Main/Sensus for the installation of automated water meter infrastructure in the amount of \$7,155,860, as well as a contract with Harris Computer Systems in the amount of \$247,580 for MDMS integration. Based on the project cost, the estimated 20-year life of the assets, and the availability of low interest rates, staff proposed that the project be funded through bond issuance, a recommendation supported by the FAB.

The 2022 budget reflected the issuance of \$7 million in general obligation (GO) bonds to reimburse the project costs.

#### **DISCUSSION:**

Since 2017, the City has issued bonds based on 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 better manage cash flow and reduce the amount of additional 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 19, 2021, the City Council adopted this resolution (Attachment 1), making any capital expenditure included in the resolution eligible for reimbursement over the following 18 months. The 2021 reimbursement resolution included unfunded water and wastewater infrastructure projects totaling \$14.5 million.

In the third quarter of 2021, staff evaluated capital project spending and available funding sources and determined that the Water 2.0 project remained the only 2021 capital project that necessitated a bond issuance. Working with the City's bond advisor, staff determined that early 2022 represented the optimal timing for this issuance.

Staff identified approximately \$6.9 million in spending on this project in 2021 and anticipates remaining project costs to be paid in early 2022. The City proposes to issue Series 2022A GO Bonds with the proceeds of this sale reimbursing the Water Utilities Fund for costs incurred on the Water 2.0 project.

Staff is seeking a not-to-exceed value of \$7.5 million for this bond issuance at a projected rate of 2.25%. The differential between the \$7.5 million not-to-exceed value and the projected \$7.1 million in project expenses 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 City Council with a final report on the bonds sold after the sale is completed.

As part of the bond issuance process, City representatives recently participated in bond rating meetings with Moody's and Standard & Poor's. While neither agency has issued an official rating opinion yet, 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 2020.

#### **FISCAL IMPACT:**

All costs associated with this bond issuance are included in the issuance itself. The Series 2022A GO bonds will have their first payment due in 2022 and their projected final payment will occur in 2041. The issuance would result in an average annual debt service payment of \$447,000 under a level debt service scenario; however, staff has recommended an accelerated debt service schedule that would pay down the principle faster in the first three years, resulting in average annual debt service of \$397,000 in years four through 20. This results in an estimated \$200,000 savings in interest over the life of the bonds and accommodates future borrowing capacity for the Water Utility.

The new bonds 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 10 years. Interest is payable semi-annually on June 1 and December 1 and principal is due annually on December 1. All debt service will be funded through Water Utility revenue in alignment with the Utility's rate structure established by the 2021 rate study. The debt service will be fully abated from the property tax levy annually.

