



Legislation Details (With Text)

File #: AF17-004 **Version:** 1 **Name:**

Type: Audit/Finance Committee

File created: 2/22/2017 **In control:** Audit/Finance Committee

On agenda: 3/7/2017 **Final action:**

Title: Receive a report, hold a discussion, and give staff direction regarding the upcoming issuance of General Obligation Bonds and Certificates of Obligation.

Sponsors:

Indexes:

Code sections:

Attachments: 1. Exhibit 1 - Municipal Bond Rates, 2. Exhibit 2 - 2014 Bond Issuance Timeline

Date	Ver.	Action By	Action	Result
------	------	-----------	--------	--------

Agenda Information Sheet

DEPARTMENT: Finance

ACM: Bryan Langley

Date: March 7, 2017

SUBJECT

Receive a report, hold a discussion, and give staff direction regarding the upcoming issuance of General Obligation Bonds and Certificates of Obligation.

BACKGROUND

Staff is in the process of establishing the details for this year’s scheduled bond sale. Staff will be proposing to issue General Obligation Bonds (GOs) and Certificates of Obligation (COs). In accordance with our practice, staff will propose the issuance of COs instead of Utility System Revenue Bonds for the City’s Water, Wastewater and Electric utilities. This method of issuing debt for the City’s utility system is expected to yield a 25-30 basis point interest rate savings when compared to the issuance of Utility System Revenue Bonds, and these savings will be transferred from each of the affected Utility Funds to the Street Improvement Fund. Staff has attached a graph (Exhibit 1) reflecting AAA municipal bond yields over the last 20 years as well as a plot of the City’s GO/CO issuances over that period.

The GO amount below represents the funding for the fifth and final year of projects approved by the voters in the 2012 Bond Election:

- 1. Street Reconstructions - \$ 4,000,000
- 2012 Bond Election Total - \$ 4,000,000

The GO amount below represents the funding for the third year of projects approved by the voters in the 2014

Bond Election:

1. Street Reconstructions -	\$ 2,000,000
2. Miscellaneous Traffic Signals -	\$ 500,000
3. Miscellaneous Sidewalks -	\$ 700,000
4. Morse Street Expansion (Loop 288 to Mayhill) -	\$ 1,650,000
5. Miscellaneous Roadways -	<u>\$ 100,000</u>
Subtotal - Street Improvements (Proposition 1)	\$ 4,950,000
6. Fire Station #3 Remodel/Rebuild (Land Acquisition/Design) -	\$ 6,415,000*
7. Communications Center & Criminal Investigations Bureau Relocation -	<u>\$ 1,795,000</u>
Subtotal - Public Safety Facilities (Proposition 2)	\$ 8,210,000
2014 Bond Election Total -	\$13,160,000
Total General Obligation Bonds -	\$17,160,000

*The City has issued \$7,225,000 for Fire Station 3 (\$2,205,000) and 4 (\$5,020,000) and planned to issue the remaining \$6,415,000 for Fire Station 3 in May 2017. However, as a result of higher than anticipation construction costs, staff has re-prioritized bonds in order to complete Fire Station 4 which is the more immediate project. Staff transferred \$1,100,000 from the Fire Station 3 project to the Fire Station 4 project. The budget for the Fire Station 4 project is now \$6,120,000. Additionally, the Fire Department is in the process of constructing a training tower for which additional funding was needed. This project was initially funded with \$2,700,000 in Certificates of Obligation (COs). After consulting with the City’s Bond Counsel regarding the appropriateness of funding the training tower with General Obligation Bonds, staff transferred \$172,000 from the Fire Station 3 project to the training tower project. The budget for the training tower project is now \$2,872,000. As a result of these transfers, the Fire Station 3 project now has a budget of \$7,348,000 although staff estimates the true cost to be approximately \$8,620,000. In conjunction with the FY 2017-18 budget process, staff plans to discuss with the City Council funding options to complete Fire Station 3. This matter was recently discussed with the 2014 Bond Oversight Committee.

The below chart provides a summary of voter approved bonds including amounts previously issued and those being proposed:

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Proposed	Remaining Balance
Streets	11/6/2012	\$20,400,000	\$16,400,000	\$4,000,000	\$ -
Streets	11/4/2014	\$61,710,000	\$ 13,340,000	\$4,950,000	\$43,420,000
Public Safety	11/4/2014	\$16,565,000	\$ 8,355,000	\$8,210,000	\$ -
Drainage	11/4/2014	\$ 8,545,000	\$ 5,255,000	\$ -	\$ 3,290,000
Parks	11/4/2014	\$11,355,000	\$ 4,280,000	\$ -	\$ 7,075,000

Staff anticipates the sale of \$18,830,000 in COs for General Government projects. Below is a listing of recommended CO funded projects for General Government’s FY 2016-17 CIP:

1. Vehicle Replacements/Additions -	\$ 3,955,000
2. Public Safety Radio Upgrades to Digital -	\$ 2,000,000
3. Computer Aided Dispatch (CAD) System Replacement -	\$ 3,000,000
4. Facilities Maintenance Program (HVAC, Roofing & Flooring) -	\$ 1,175,000
5. Bonnie Brae Road Improvement Matching Funds -	\$ 8,500,000
6. Fleet Fuel Truck -	<u>\$ 200,000</u>
Total -	\$18,830,000

Staff anticipates the sale of \$17,450,000 in COs for Solid Waste projects. This amount is a decrease of \$6,130,000 from the planned bond sale of \$23,580,000 included in the FY 2016-17 CIP. Below is a listing of recommended CO funded projects for Solid Waste's revised FY 2016-17 CIP:

1. Roll Off Truck -	\$ 222,600
2. Auto Side Load Truck -	\$ 294,000
3. Auto Side Load Truck -	\$ 294,000
4. Auto Side Load Truck -	\$ 329,000
5. Rear Load Truck -	\$ 264,000
6. Front Load Truck -	\$ 290,000
7. Front Load Truck -	\$ 352,000
8. Front Load Truck -	\$ 290,000
9. Landfill Excavator -	\$ 450,000
10. Electric Forklift -	\$ 30,000
11. TCEQ Permitted Control Systems -	\$ 1,050,000
12. Articulated Dump Truck -	\$ 580,000
13. Track Loader -	\$ 500,000
14. Dump Truck -	\$ 150,000
15. Mobile Light Power Plants -	\$ 30,000
16. Roll Off Containers -	\$ 50,000
17. Mining Material Diversion Equipment -	\$ 2,150,000
18. Building Materials Recovery Material Diversion Equipment -	\$ 300,000
19. Building Materials Recovery Excavator Material Handler -	\$ 550,000
20. Building Materials Recovery Facility Improvements -	\$ 250,000
21. Building Materials Recovery Wheeled Excavator -	\$ 450,000
22. Building Materials Recovery Trommel -	\$ 580,000
23. Municipal Solid Waste Facility Machinery and Equipment -	\$ 150,000
24. Leachate Recirculation Infrastructure Expansion -	\$ 75,000
25. Solidification Equipment -	\$ 290,000
26. 100 Yard Trailers -	\$ 180,000
27. Site Maintenance Improvements -	\$ 325,000
28. TCEQ Authorized Facility Systems Infrastructure -	\$ 525,000
29. TCEQ Ground Water Well and Methane Gas Monitoring System -	\$ 25,000
30. Operations Building Expansion -	\$ 1,200,000
31. Process Upgrades and Technology Improvements -	\$ 400,000
32. Permit Amendment -	\$ 250,000
33. Natural Gas Line Expansion -	\$ 75,000
34. Entrance Upgrade and Road Tie-In -	\$ 1,300,000
35. Materials Processing Building -	\$ 2,700,000
36. Solid Waste Fund Property Acquisition -	<u>\$ 500,000</u>
Total -	\$17,450,000

Staff anticipates the sale of \$71,000,000 in COs for Wastewater and Electric projects. Below is a listing of recommended utility system projects for the FY 2016-17 CIP:

1. Hickory Creek Detention Facility -	\$ 5,300,000
2. West Wet Weather Peak Flow Basin and Pump Station -	\$ 300,000
3. 10" Concrete Pavement (Beneficial Reuse Site) -	\$ 200,000
4. Oversize Lines -	\$ 200,000
Subtotal - Wastewater	\$ 6,000,000
5. Locust Substation -	\$ 3,020,509
6. Denton North Interchange -	\$ 216,635
7. Hickory Substation -	\$ 7,198,466
8. Eagle Substation -	\$ 550,871
9. RD Wells Interchange -	\$ 74,275
10. Mayhill Substation -	\$ 4,970,222
11. Long Road Substation -	\$ 1,145,070
12. Woodrow Substation (Switchgear & Main Control Building) -	\$ 1,411,221
13. North Lakes Substation -	\$ 711,800
14. Underwood Substation -	\$ 303,289
15. North of Loop 288 at TX 428 Substation -	\$ 519,924
16. Brinker Substation -	\$ 7,922,646
17. Denton Energy Center Substation -	\$ 1,716,002
18. TMPA Spencer Interchange -	\$ 1,640,235
19. Various Substation Remote Terminal Unit Installs -	\$ 273,579
20. SCADA Computer Replacement -	\$ 247,583
21. Other Substation Projects -	\$ 306,384
22. Bonnie Brae/North Lakes Transmission Line -	\$ 1,003,252
23. Pockrus/Mayhill Transmission Line -	\$ 1,714,650
24. Spencer Switch/Locust Transmission Line -	\$ 1,106,618
25. Denton North/North Lakes Transmission Line -	\$ 1,903,140
26. Hickory/Locust Transmission Line -	\$ 3,927,886
27. New 138 kV Transmission Line from Woodrow to Brinker -	\$ 370,899
28. New 138 kV Transmission Line to connect Brinker to Spencer -	\$ 565,470
29. New 138 kV Transmission Line to connect Mayhill to Brinker/Spencer -	\$ 188,490
30. New 138 kV Transmission Line to connect Brinker to Loop 288 -	\$ 747,879
31. Arco-Cooper Creek Reconstruction -	\$ 1,355,911
32. Transmission Line Routing Study -	\$ 304,016
Subtotal - Electric Transmission Projects	\$45,416,922
33. Automated Meter Reading -	\$ 1,070,957
34. Building Construction -	\$ 831,533
35. Communications Equipment -	\$ 238,575
36. Office Furniture and Computer Equipment -	\$ 1,939,614
37. Distribution Transformers -	\$10,864,057
38. Feeders and Extensions -	\$ 3,611,129
39. New Residential and Commercial -	\$ 561,715
40. Over/Under Conversions and Power Factor Improvements -	\$ 331,300
41. Street Lighting -	\$ 134,198

Subtotal - Electric Distribution Projects	\$19,583,078
Total Certificates of Obligation -	\$107,280,000

The following represents the total recommended amount of GOs and COs, including COs for utility system purposes, to be issued in FY 2016-17:

	<u>PROPOSED</u> <u>2016-17 CIP</u>
General Obligation Bonds - General Government	\$17,160,000
Certificates of Obligation - General Government	<u>\$18,830,000</u>
Subtotal - General Government	\$35,990,000
Certificates of Obligation - Solid Waste	\$17,450,000
Certificates of Obligation - Wastewater Fund	\$ 6,000,000
Certificates of Obligation - Electric Fund	<u>\$65,000,000</u>
Subtotal - Utilities	\$71,000,000
Grand Total	\$124,440,000

On October 18, 2016, the City Council adopted a reimbursement ordinance (Ord. 2016-318) authorizing \$2,100,000 in GO funded projects and \$98,815,000 in CO funded projects. Additionally, on December 13, 2016, the City Council adopted a second reimbursement ordinance (Ord. 2016-395) authorizing \$5,415,000 in GO funded projects related to Fire.

The City sells bonds in accordance with the useful life of the asset that is being acquired. For example, vehicles are typically sold with bonds that will be paid within 5 years. For the FY 2016-17 proposed debt issuance: \$18,760,000 will be 5 year debt; \$1,720,000 will be 10 year debt; \$38,960,000 will be 20 year debt; and \$65,000,000 will be 30 year debt. In addition, the 20 and 30 year debt issues will also have a 10 year call option.

Along with the issuance of GOs and COs, staff is also reviewing the possibility of a refunding opportunity consisting of outstanding GO Bonds. The principal amount of these outstanding bonds is \$12,980,000 and the currently projected present value savings is approximately \$600,000. If market conditions remain favorable and the refunding meets the City’s debt policy requirements, staff will include a recommendation for Council’s consideration in conjunction with the Bond Ordinance in April 2017.

On the same date as the meeting of the Audit/Finance Committee, staff plans to present the Notice of Intent ordinances to the City Council, in accordance with state law. To clearly document the purpose of the CO debt that is proposed, a separate Notice of Intent will be prepared for both the General Government and the Utility System debt. Consideration and adoption of the Bond Ordinance will be planned for April 18, 2017. At that time, it is anticipated that staff will request that the City Council authorize a “parameters sale.” Under such an arrangement, staff will be permitted to execute the bond sale within six (6) months of April 18, 2017, provided certain interest rate parameters are met.

RECOMMENDATION

Staff recommends that two (2) separate Notice of Intent ordinances to issue \$36,280,000 in COs for General Government and Solid Waste, and \$71,000,000 in COs for Utility System projects, plus issuance costs and to

allow flexibility in marketing and pricing the bond sale, be forwarded to the City Council for consideration on March 7, 2017. Staff further recommends that a bond ordinance to issue the above mentioned COs along with \$17,160,000 in GOs be forwarded to the City Council for consideration on April 18, 2017. If market conditions remain favorable and the refunding meets the City's debt policy requirements, staff may also include the refunding of outstanding general obligation bonds with a principal amount of \$12,980,000.

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

On February 23, 2017 the 2014 Bond Oversight Committee unanimously approved the GO bond issuance timeline (2014 Bond Election) be forwarded to the City Council for consideration and approval.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: Organizational Excellence
Related Goal: 1.1 Manage financial resources in a responsible manner

EXHIBITS

1. Municipal Bond Rates
2. 2014 GO Bond Issuance Timeline

Respectfully submitted:
Chuck Springer, 349-8260
Director of Finance

Prepared by:
Antonio Puente, Jr.
Assistant Director of Finance