



## Legislation Text

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### Agenda Information Sheet

**DEPARTMENT:** Finance

**ACM:** Bryan Langley

**Date:** August 2, 2016

#### **SUBJECT**

Consider adoption of an ordinance considering all matters incident and related to the issuance, sale and delivery of up to \$46,000,000 in principal amount of "City of Denton General Obligation Refunding Bonds, Series 2016" (including up to \$15,700,000 for Electric Fund activities, up to \$27,900,000 for Water Fund Activities, and up to \$2,400,000 for Wastewater Fund activities); authorizing the issuance of the Bonds; delegating the authority to certain City officials to execute certain documents relating to the sale of the Bonds; approving and authorizing instruments and procedures relating to said Bonds; and enacting other provisions relating to the subject. Audit/Finance Committee recommends approval (2-0).

#### **BACKGROUND**

As a result of the current historically low interest rate environment, staff is proposing the refunding of \$46,140,000 and the payoff of \$6,990,000 in outstanding Utility System Revenue Bonds (\$53.13 million in total) in August 2016. These outstanding bonds are broken down as follows by utility: \$18.855 million for Electric, \$31.42 million for Water, and \$2.855 million for Wastewater. While the City anticipates net savings of approximately \$5.2 million as a result of the refunding, the other benefit of this plan is that approximately \$17.8 million in bond covenant obligated cash will become available to the utilities. Currently, the City is required by its revenue bond covenants to maintain four separate funds: Utility Interest & Sinking Fund, Utility Bond Reserve Fund, Utility Extension & Improvement Fund, and Utility Emergency Fund. The cash balances maintained in each fund are dictated by the revenue bond covenants as a type of guarantee to revenue bond holders while these bonds are outstanding. Since staff's proposal is to refund and payoff all outstanding revenue bonds, then the City is no longer obligated to keep these cash balances and can return them to each utility based on how the balances were contributed. The City anticipates that the Electric Fund will receive approximately \$5.9 million, the Water Fund will receive approximately \$7.5 million and the Wastewater Fund will receive approximately \$4.4 million.

The refunding portion of this proposal is comprised of the City's Utility System Revenue Refunding Bonds, Series 2007 and Utility System Revenue Bonds, Series 2007 and 2008. The aggregate principal amount of these bonds is \$46,140,000 and the City currently pays an interest rate of 4.35% on the bonds. By refunding these bonds, staff expects to lower the interest rate paid to approximately 2.08%. This lower rate would result in debt service payments being reduced by approximately \$5.2 million over the life of the debt or approximately \$370,000 annually (see Exhibit 1). The refunding will not extend the original maturity anticipated when the bonds are issued.

The payoff portion of this proposal is comprised of the City's Utility System Revenue Refunding Bonds, Series 2007 and Utility System Revenue Bonds, Series 2006, 2007 and 2008. The following is a breakdown of the principal amount by series along with the current maturity dates:

<u>Issue</u>	<u>Principal</u>	<u>Maturity</u>
Series 2006, Utility System Revenue Bonds	\$ 415,000	12/1/17
Series 2007, Utility System Revenue Refunding Bonds	\$2,865,000	12/1/17
Series 2007, Utility System Revenue Bonds	\$1,605,000	12/1/18
Series 2008, Utility System Revenue Bonds	<u>\$2,105,000</u>	12/1/19
<b>Total</b>	<b>\$6,990,000</b>	

Since bond market conditions can change rapidly, staff is recommending that the City Council approve a parameters bond sale on August 2, 2016. By doing so, the City will be authorized to execute the issuance at any time before November 2, 2016, if market conditions are favorable, provided that the maturity of the bonds does not exceed 2030 and the interest rate does not exceed 3.00%. Once the bond sale has been completed, staff will notify the City Council of the final bond issuance terms.

### **RECOMMENDATION**

Staff recommends adoption of the ordinance.

### **PRIOR ACTION/REVIEW (Council, Boards, Commissions)**

On July 18, 2016, the Audit/Finance Committee unanimously recommended approval to forward the upcoming bond issuance to the City Council for consideration.

### **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. Preliminary GO Refunding Analysis
2. Draft Preliminary Official Statement
3. Ordinance

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