

City of Shoreline

Utility Revenue Bonds, Series 2015

City Council Presentation



July 27, 2015

Agenda

- Background
- Consultants Introduction & Review of Ordinance
 - Bond Counsel: Hugh Spitzer, Foster Pepper, PLLC
 - Financial Advisor: Fred Eoff, Director, Public Financial Management, Inc.
- Questions, Next Steps

Background

- Council Authorized the use of debt to fund SWM improvements in the 2015-2020 Stormwater Utility (SWM) CIP
- The City will be soliciting lender proposals for issuance of utility revenue bonds to fund planned improvements to the utility
- Staff recommends that Council consider the ordinance delegating authority to issue bonds for adoption on August 17

Introduction

- The 2015 Utility Revenue Bonds are being issued to fund the following improvements:
 - Stormwater pipe and culvert repair
 - NE 25th flood reduction project
 - Hidden Lake Dam removal
 - Infrastructure improvements
 - Surface water planning and other capital projects described in the CIP
- Preliminary Competitive Process
 - Circulation of lender RFQ: TBD (based on Market/Need)
 - Lender RFQ responses due: 2 weeks after RFQ Release
 - Proposal review and selection: 1 day
 - Bond Closing: 2 weeks after
 - Report back to Council: 1-2 weeks following closing (City Managers Report)



Proposed Bond Ordinance

- Establishes terms and conditions for the proposed Series 2015 Bonds
- Authorizes sale of the Series 2015 Bonds
- Appoints a Designated Representative
 - Authority to approve the final sale of bonds
 - Approval authority is subject to parameters contained in the Ordinance
 - City Manager to be the Designated Representative
- “Delegation Methodology” has become the norm
 - Provides the ability to more quickly designate the successful proposer
 - Avoids the necessity to schedule special Council meetings to ratify lender choice
 - Avoids potential higher rates due to protracted award process
 - Council maintains ultimate control with approval of issue parameters

Issue Parameters

- Council maintains ultimate control with approval of issue parameters
- Not to exceed \$2,000,000 plus fees and closing costs
- Interest rate:
 - One of more rates authorized
 - No rate may exceed 5.00%
 - Overall true interest cost may not exceed 5.00%

Issue Parameters

- Final bond maturity not to exceed December 1, 2030
- Optional Redemption
 - Optional redemption by the City prior to final maturity is permitted
 - Redemption provisions to be specified in lender final bond purchase contract
- Purchase Price
 - May not be less than 98% or more than 120% of the stated principal amount

Summary of Bondholder Security Provisions

Pledge of Net Revenues

- The 2015 Bonds are secured by a pledge of Net Revenue (and ULID Assessments, if any)
- Net Revenue is defined as Gross Revenue less Operations and Maintenance Costs
- Pledge of Net Revenue constitutes a charge on the Net Revenue superior to any other pledges and charges
 - No additional bonds can be issued with a charge senior to the pledge of Net Revenue

Summary of Bondholder Security Provisions

Rate Covenant

- The City impose and collect rates and charges so that Net Revenue will be at least equal to 125% of debt service in each fiscal year (“Coverage Requirement”)

Additional Bonds Test

- Net Revenue equal to at least 1.25x maximum annual debt service for all Outstanding and proposed future Parity Bonds

Summary of Bondholder Security Provisions

Debt Service Reserve Account

To be maintained at the lesser of the following for all Parity Bonds

- 100% of Maximum Annual Debt Service
- 125% of Average Annual Debt Service
- 10% of the original proceeds of the Parity Bonds secured by the Reserve

Bond Provisions/Covenants

- Section 6
 - Establishes a system of registration and Redemption provisions
- Section 7
 - Establishes bond form and authentication procedures
- Section 8
 - Establishes provisions for payment
- Section 9
 - Establishes process and procedures for optional and mandatory bond redemption
- Section 10
 - Establishes City responsibilities in the event of non-payment
- Section 11
 - Provides for refunding and/or defeasance of the Bonds

Bond Provisions/Covenants (cont'd)

- Section 12
 - Establishes a system of registration and Redemption provisions
- Section 13
 - Establishes deposit and investment of bond proceeds
- Section 14
 - Establishes Utility Flow of Funds priority
- Section 15
 - Additional bondholder protective covenants
- Section 16
 - Authorized establishment of a Rate Stabilization Account
- Section 17
 - Provides for establishment of separate systems

Bond Provisions/Covenants (cont'd)

- Section 18
 - Provides the manner of sale and delivery of the Bonds
- Section 13
 - Establishes deposit and investment of bond proceeds
- Section 19
 - Reserves the right to issue additional future bonds on parity with the Series 2015 Bonds
 - Establishes Parity Bond Conditions
 - Permits issuance of subordinate obligations
- Section 20
 - Details requirement to comply with certain federal tax codes and provisions
- Section 21
 - Provides limitations and latitude regarding Ordinance amendment

Plan of Finance



Sources and Uses of Funds*

Sources	
Par	\$2,000,000
Utility Cash Contribution	<u>207,980</u>
Total Sources	\$2,207,980

Uses	
Utility Capital Improvements	\$2,000,000
Debt Service Reserve Account	177,590
Costs of Issuance	<u>30,390</u>
Total Uses	\$2,207,980

- Proceeds of the 2015 Bonds:
 - Stormwater pipe and culvert repair
 - NE 25th flood reduction project
 - Hidden Lake Dam removal
 - Infrastructure improvements
 - Surface water planning and other capital projects described in the CIP



*Preliminary and subject to change.

Overview of 2015 Financing

Series 2015 Terms

- Fixed rate bonds
- Final maturity of December 1, 2030
- Optional redemption on or after December 1, 2025
- Level debt service averaging approximately \$175,740 per year

Estimated Series 2015 Debt Service *

FY	Principal	Interest	Total
2015		\$15,200	\$15,200
2016	\$105,000	72,000	177,000
2017	105,000	68,220	173,220
2018	110,000	64,400	174,400
2019	115,000	60,480	175,480
2020	120,000	56,340	176,340
2021	125,000	52,020	177,020
2022	130,000	47,520	177,520
2023	130,000	42,840	172,840
2024	135,000	38,160	173,160
2025	140,000	33,300	173,300
2026	145,000	28,260	173,260
2027	150,000	23,040	173,040
2028	155,000	17,640	172,640
2029	165,000	12,060	177,060
2030	170,000	6,120	176,120
	\$2,000,000	\$637,640	\$2,637,640



*Preliminary and subject to change.

Utility Operating Summary

	Fiscal Years Ending 12/31			
	2014	2013	2012	2011
Revenues				
Charges for Services	\$3,525,986	\$3,329,556	\$3,211,007	\$3,134,589
Total Operating Revenues	\$3,525,986	\$3,329,556	\$3,211,007	\$3,329,556
Expenses:				
General Operations	2,628,538	1,980,617	2,299,176	1,878,996
Depreciation	430,445	411,138	404,598	371,629
Total Operating Expenses	\$3,058,983	\$2,391,755	\$2,703,774	\$2,250,625
Operating Income	\$467,003	\$937,801	\$507,233	\$1,078,931
Non-Operating Revenue (Expenses):				
Interest Income	2,945	16,678	33,970	18,228
Interest Expense	(11,485)	(13,875)	(15,508)	(17,140)
Miscellaneous	(12,243)			
Intergovernmental	195,500	113,430	114,464	105,605
Total Non-Operating Revenue (Expenses)	\$174,717	\$116,233	\$132,926	\$106,693
Income Before Transfers	\$641,720	\$1,054,034	\$640,159	\$1,185,624
Adjustments:				
Depreciation	430,445	411,138	404,598	371,629
Interest Expense	11,485	13,875	15,508	17,140
Net Income Available to Debt Service:	\$1,083,650	\$1,479,047	\$1,060,265	\$1,574,393
<i>Proposed Series 2015 Debt</i>	<i>\$177,520</i>	<i>\$177,520</i>	<i>\$177,520</i>	<i>\$177,520</i>
Projected Debt Service Coverage	610%	833%	597%	887%
Surplus Available to Subordinate Debt:	\$906,130	\$1,301,527	\$882,745	\$1,396,873
PWTF Loan - 3rd Avenue	118,782	119,353	119,924	120,495
PWTF Loan - Ronald Bog	220,752	221,813	222,875	223,936
Surplus After All Debt	\$566,596	\$960,361	\$539,946	\$1,052,442



Questions?



Next Steps

- Council Direction
 - Staff recommends that Council review the draft delegating Bond Authorization Ordinance and direct staff to return with the ordinance for Council adoption on August 17
- Next Steps
 - Return Ordinance for Council Approval
 - Release RFQ/select buyer based on Market and project schedule
 - Update to Council following Bond Closing