

Portland, Oregon
FINANCIAL IMPACT and PUBLIC INVOLVEMENT STATEMENT
For Council Action Items

(Deliver original to Financial Planning Division. Retain copy.)

1. Name of Initiator Jonas Biery <i>JB</i>		2. Telephone No. X 3-4222	3. Bureau/Office/Dept. OMF/Financial Services
4a. To be filed (date): February 21, 2013	4b. Calendar (Check One) Regular <input checked="" type="checkbox"/> Consent <input type="checkbox"/> 4/5ths <input type="checkbox"/>		5. Date Submitted to Commissioner's office and FPD Budget Analyst: February 21, 2013
6a. Financial Impact Section: <input checked="" type="checkbox"/> Financial impact section completed		6b. Public Involvement Section: <input checked="" type="checkbox"/> Public involvement section completed	

1) Legislation Title:

Authorize water revenue bonds to refund outstanding bonds and finance water system capital improvements (Ordinance)

2) Purpose of the Proposed Legislation:

The Ordinance authorizes the issuance of second lien water system revenue bonds (the "Bonds") in a principal amount that is sufficient to provide net proceeds of up to \$161.5 million to finance additions and improvements to the water system (the "Capital Improvements") to be undertaken over approximately eighteen months, plus additional amounts that are reasonably required to finance related costs, including the costs of funding debt service reserves for the Bonds. The Capital Improvements to be financed with the Bonds include additions and improvements that facilitate supply, treatment, transmission, storage, pumping, distribution, regulatory compliance, customer service and support.

Additionally, the Ordinance authorizes the City to issue Bonds to refund any or all maturities of the outstanding Water System Revenue Bonds, 2004 Series A and 2004 Series B (the "2004 Bonds"), and the Second Lien Water System Revenue Bonds, 2006 Series A (the "2006 Series A Bonds"). The purpose of refunding the 2004 Bonds is to achieve debt service savings. The 2006 Bonds will be refunded to favorably restructure outstanding debt. The 2006 Series A Bonds currently are the only outstanding issue of second lien water system revenue bonds. Refunding these bonds will eliminate any obligations issued under the existing master second lien bond declaration and will allow the City to revise its master second lien bond declaration to provide greater flexibility and to achieve cost savings in financing water system capital projects.

To that end, the Ordinance authorizes a new master second lien bond declaration (the "Master Declaration") in substantially the form of the Master Second Lien Water System Revenue Bond Declaration found in Exhibit A to the Ordinance. The Master Declaration provides the terms under which the Bonds and all future issues of second lien water system revenue bonds will be sold.

3) Which area(s) of the city are affected by this Council item? (Check all that apply—areas are based on formal neighborhood coalition boundaries)?

- | | | | |
|---|------------------------------------|------------------------------------|--------------------------------|
| <input type="checkbox"/> City-wide/Regional | <input type="checkbox"/> Northeast | <input type="checkbox"/> Northwest | <input type="checkbox"/> North |
| <input type="checkbox"/> Central Northeast | <input type="checkbox"/> Southeast | <input type="checkbox"/> Southwest | <input type="checkbox"/> East |
| <input type="checkbox"/> Central City | | | |
| <input checked="" type="checkbox"/> Internal City Government Services | | | |

FINANCIAL IMPACT

4) Revenue: Will this legislation generate or reduce current or future revenue coming to the City? If so, by how much? If so, please identify the source.

The Water Bureau will recognize up to approximately \$175 million of Bond proceeds. This amount excludes the portion of the Bonds applied to the refunding escrows, in accordance with local budget law.

5) Expense: What are the costs to the City related to this legislation? What is the source of funding for the expense? (Please include costs in the current fiscal year as well as costs in future years. If the action is related to a grant or contract please include the local contribution or match required. If there is a project estimate, please identify the *level of confidence*.)

While the repayment structure will not be finalized until closer to the sale date of the Bonds, it is estimated that annual debt service on the portion of the Bonds for Capital Improvements will be approximately \$10.5 million based on current market conditions. The reduction in annual debt service as a result of the lower debt service reserve requirement is estimated at approximately \$200,000 per year. The Water Bureau has included the impact of the new debt service in its current financial plan.

A current refunding of the 2014 and 2015 maturities of the 2004 Series A Bonds produces total net present value savings of approximately \$455,000 based on today's interest rates. A current refunding of the 2015 through 2023 maturities of the 2004 Series B Bonds produces total net present value savings of approximately \$5 million. The City's policy target for current refundings is net present value savings of at least \$100,000.

The purpose of refunding the 2006 Series A Bonds is a favorable reorganization of debt as allowed under the Debt Policy. Based on preliminary analysis, advance refunding the 2006 Series A Bonds may result in negative net present value savings of up to approximately \$1.0 million. However, refunding of the 2006 Series A Bonds is required in order to reduce the debt service reserve requirement. The reduced debt service reserve requirement facilitates approximately \$5.5 million in combined net present value savings on the 2004 Series A Bonds and 2004 Series B Bonds, and reduces total debt service on the new money portion of the 2013 Series A Bonds by approximately \$1.8 million. Therefore, any additional cost of refunding the 2006 Series A Bonds is more than offset by overall savings achieved by the reduced debt service reserve requirement.

6) Staffing Requirements:

- **Will any positions be created, eliminated or re-classified in the current year as a result of this legislation?** *(If new positions are created please include whether they will be part-time, full-time, limited term, or permanent positions. If the position is limited term please indicate the end of the term.)*
- No position changes in any years are anticipated.

- Will positions be created or eliminated in *future years* as a result of this legislation?

No position changes in any years are anticipated.

(Complete the following section only if an amendment to the budget is proposed.)

7) Change in Appropriations *(If the accompanying ordinance amends the budget please reflect the dollar amount to be appropriated by this legislation. Include the appropriate cost elements that are to be loaded by accounting. Indicate "new" in Fund Center column if new center needs to be created. Use additional space if needed.)*

Fund	Fund Center	Commitment Item	Functional Area	Funded Program	Grant	Sponsored Program	Amount

PUBLIC INVOLVEMENT

8) Was public involvement included in the development of this Council item (e.g. ordinance, resolution, or report)? Please check the appropriate box below:

- ☐ YES: Please proceed to Question #9.
☒ NO: Please, explain why below; and proceed to Question #10.

This is an administrative action taken to authorize the issuance of Bonds in order to finance Water System Capital Improvements, to achieve debt service savings or a favorable reorganization of debt, and to authorize a new Master Second Lien Water System Revenue Bond Declaration.

9) If "YES," please answer the following questions:

- a) What impacts are anticipated in the community from this proposed Council item?
- b) Which community and business groups, under-represented groups, organizations, external government entities, and other interested parties were involved in this effort, and when and how were they involved?
- c) How did public involvement shape the outcome of this Council item?
- d) Who designed and implemented the public involvement related to this Council item?

e) Primary contact for more information on this public involvement process (name, title, phone, email):

10) Is any future public involvement anticipated or necessary for this Council item? Please describe why or why not.

No. Once approved, the City will execute a new Master Second Lien Water System Revenue Bond Declaration and issue the Bonds as provided by the Ordinance.



Richard F. Goward, Jr.
BUREAU DIRECTOR



CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE
Charlie Hales, Mayor
Jack D. Graham, Chief Administrative Officer

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DATE: February 12, 2013

TO: Mayor Charlie Hales

FROM: Jonas Biery, Debt Manager

RE: Authorize water revenue bonds to refund outstanding bonds and finance water system capital improvements (Ordinance)

FOR MAYOR'S OFFICE USE ONLY

Reviewed by Bureau Liaison _____

1. **INTENDED THURSDAY FILING DATE:** February 21, 2013
2. **REQUESTED COUNCIL AGENDA DATE:** February 27, 2013
3. **CONTACT NAME & NUMBER:** Jonas Biery, Debt Manager – x34222
4. **PLACE ON:** **CONSENT** **REGULAR**
5. **BUDGET IMPACT AND PUBLIC INVOLVEMENT STATEMENT ATTACHED:** **Y** **N**
 N/A
6. (3) **ORIGINAL COPIES OF CONTRACTS APPROVED AS TO FORM BY CITY ATTORNEY**
ATTACHED: **Yes** **No** **N/A**

7. BACKGROUND/ANALYSIS

Introduction and History – Attached is an ordinance for first reading by the City Council on February 27, 2013. The Ordinance authorizes the issuance of second lien water system revenue bonds (the “Bonds”) in a principal amount that is sufficient to provide net proceeds of up to \$161.5 million to finance additions and improvements to the water system (the “Capital Improvements”) to be undertaken over approximately eighteen months, plus additional amounts that are reasonably required to finance related costs, including the costs of funding debt service reserves for the Bonds. The Capital Improvements to be financed with the Bonds include additions and improvements that facilitate supply, treatment, transmission, storage, pumping, distribution, regulatory compliance, customer service and support.

Additionally, the Ordinance authorizes the City to issue Bonds to refund any or all maturities of the outstanding Water System Revenue Bonds, 2004 Series A and 2004 Series B (the “2004 Bonds”), and the Second Lien Water System Revenue Bonds, 2006 Series A (the “2006 Series A Bonds”). The purpose of refunding the 2004 Bonds is to achieve debt service savings. The 2006 Bonds will be refunded to favorably restructure outstanding debt. The 2006 Series A Bonds currently are the only outstanding issue of second lien water system revenue bonds. Refunding these bonds will eliminate any obligations issued under the existing master second lien bond declaration and will allow the City to revise its master second lien bond declaration to provide greater flexibility and to achieve cost savings in financing water system capital projects.

To that end, the Ordinance authorizes a new master second lien bond declaration (the “Master Declaration”) in substantially the form of the Master Second Lien Water System Revenue Bond Declaration found in Exhibit A to the Ordinance. The Master Declaration provides the terms under which the Bonds and all future issues of second lien water system revenue bonds will be sold.

The primary difference between this new Master Declaration and the existing declaration is a revision to the requirements for funding a debt service reserve that are more favorable to the City. Recently, the municipal

bond market has evolved to accommodate a reduced reserve requirement for higher quality utility credits such as the City's water revenue bonds. The revised Master Declaration allows the City to determine an appropriate debt service reserve funding amount for each series of second lien water bonds. While the Master Declaration legally permits the City to issue second lien water revenue bonds with no debt service reserve, it is expected that City will continue to fund a debt service reserve in order to preserve the high ratings on its second lien water system revenue bonds, but at half the amount that would have been legally required under the original declaration.

Two additional key provisions of the Master Declaration are the Rate Covenant and the Additional Bonds Test. With the exception of a few administrative updates, these provisions remain unchanged.

The Rate Covenant (as described in Section 5 of the Master Declaration) provides that rates must be set such that the Net Revenues of the Water System will provide at least 1.00 times coverage of Combined Annual Debt Service on both first and second lien bonds. Additionally, the Rate Covenant requires that Stabilized Net Revenues (adjusted for transfers to and from the Rate Stabilization Account) must provide at least 1.10 times coverage of Combined Annual Debt Service for both first and second lien bonds. This provision defines the legally-required minimum levels of debt service coverage for second lien water bonds. If these coverage levels are not maintained, the City is legally required to take actions as described in the Master Declaration, which may include a legal obligation to increase water rates. In order to maintain the current bond ratings, the Water Bureau intends to adhere to its more conservative planning standard for second lien water bonds, which requires Stabilized Net Revenues to provide 1.75 times coverage of Combined Annual Debt Service.

The Additional Bonds Test (as described in Section 6 of the Master Declaration) requires that at least one of two tests be met before the City can issue additional second lien water bonds. An historical test requires that Net Revenues provide 1.00 times coverage and Stabilized Net Revenues provide 1.10 times coverage of Combined Annual Debt Service as more fully described in the Master Declaration. An alternate test utilizes projected Net Revenues, and requires that Net Revenues provide at least 1.00 times coverage and Stabilized Net Revenues provide at least 1.10 times coverage of Combined Annual Debt Service over a five year period as more fully described in the Master Declaration.

Other covenants related to the second lien water bonds also remain unchanged in the revised Master Declaration, including a covenant to not offer a discount from published rates or to not give away free service (except for fire suppression and emergencies).

Legal Issues – If the Ordinance is approved by the Council after its second reading, a 30-day referral period begins. No Bonds may be sold and no purchase agreement for any Bonds may be executed until the referral period has expired and this Ordinance takes effect. If the Ordinance is referred, the City may not sell the Bonds unless the voters approve this Ordinance.

Link to Current City Policies – Issuance of the debt will be done in conformance with the City's debt policies.

Controversial Issues – None

Citizen Participation – Not Applicable

Other Government Participation – Water Bureau staff have worked with the Office of Management and Finance on this financing.

8. FINANCIAL IMPACT

While the repayment structure will not be finalized until closer to the sale date of the Bonds, it is estimated that annual debt service on the portion of the Bonds for Capital Improvements will be approximately \$10.5

million based on current market conditions. The reduction in annual debt service as a result of the lower debt service reserve requirement is estimated at approximately \$200,000 per year. The Water Bureau has included the impact of the new debt service in its current financial plan.

A current refunding of the 2014 and 2015 maturities of the 2004 Series A Bonds produces total net present value savings of approximately \$455,000 based on today's interest rates. A current refunding of the 2015 through 2023 maturities of the 2004 Series B Bonds produces total net present value savings of approximately \$5 million. The City's policy target for current refundings is net present value savings of at least \$100,000.

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9. RECOMMENDATION/ACTION REQUESTED

It is recommended that the City Council approve this Ordinance in order to achieve debt service savings and to provide the necessary funding to continue the Water Bureau capital improvement program.