



Staff Report

File #: 17-253

Version: 1

Date: 5/22/2017

Item #: 7.1c.

TO: Mayor and City Council

THROUGH: Steve Powers, City Manager

FROM: Kacey Duncan, Deputy City Manager

SUBJECT:

Refunding Full Faith and Credit Bonds.

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

ISSUE:

Shall the City Council conduct first reading of ordinance bill no. 14-17 authorizing the City Manager, or the City Manager's designee, to negotiate the financial terms to issue approximately \$67 million in bonds to refinance City of Salem full faith and credit obligations for the Utility Fund and cover costs related to the debt issuance?

RECOMMENDATION:

Conduct first reading of ordinance bill no. 14-17 authorizing the City Manager, or the City Manager's designee, to negotiate the financial terms to issue approximately \$67 million in bonds to refinance City of Salem full faith and credit obligations for the Utility Fund and cover costs related to the debt issuance.

SUMMARY AND BACKGROUND:

The City's financial policies allow a refunding (refinancing) of debt when fiscally prudent and legally allowable. City Council is being asked to approve the refunding of bonds to refinance the City of Salem full faith and credit obligations and replace the bonds with revenue bonds backed by the Utility Fund. Savings from this refunding are estimated at approximately \$7.8 million.

First and second reading of the ordinance is recommended for the May 22, 2017 meeting. Having the first and second reading on May 22 will allow the City to refund the debt during a time of favorable interest rates and before competing governmental debt issuances later this summer. If approved on May 22, the City will bid the debt in late June after a required 30-day remonstrance period.

Council Rule 20(g) allows for an ordinance to be considered at one meeting upon suspension of council rules, and **unanimous vote for passage by all members of council present.** The staff report for second reading includes the required motion to suspend council rules.

In 2009, the City Council approved a \$100 million full faith and credit debt issuance to fund needed improvements for the Utility Fund. The original debt was issued during the recession. Current economic conditions provide an opportunity to achieve more favorable interest rates on borrowed funds. The Utility Fund's financial condition provides an opportunity to use revenue bonds without the full faith and credit of the City.

FACTS AND FINDINGS:

The City actively manages its debt portfolio based on Council Policy C-2. The City's Utility is currently paying debt service on two outstanding loans. The refunding of the 2009 full faith and credit issuance was discussed with the Water/Wastewater Task Force this past summer, and with City Council as part of the utility rate proposal in October 2016.

The Finance Division is recommending the refinancing to reduce the original payoff term by two years through lower interest rates and modified debt service schedule and to remove the City's full faith and credit obligation.

The refunding will exceed the 3% savings requirement set by state law, with savings estimated at 11.92% (Attachment 1). Issuing the refunded debt as revenue bonds maintains an adequate coverage ratio from utility revenues, eliminating the need for the full faith and credit of the General Fund.

A benefit of the full faith and credit pledge is that the City is exempt from meeting the debt service reserve and other requirements of revenue bonds. In 2009, the debt service reserve would have required substantial rate increases. Staff and the City's financial advisors have analyzed the Utility Fund's rate revenues and future projections and recommend that pledging the City's full faith and credit to the Utility fund is no longer in the City's best interest. The Utility Fund has sufficient reserves to meet a revenue bond's requirements.

David Lacy
Financial Operations Manager

Attachments:

1. Debt Service Schedule and Anticipated Savings
2. Ordinance Bill No. 14-17 Bond Refunding