



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 6538
September 17, 2024
Consent Agenda**

AGENDA BILL INFORMATION

TITLE:	AB 6538: Bond Ordinance Authorizing the Issuance of One or More Series of Limited Tax General Obligation and Refunding Bonds to Finance and Refinance Projects of the Water Utility (Ord. No. 24-09 Second Reading)	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Adopt Ordinance No. 24-09 authorizing the issuance of one or more series of limited tax general obligation and refunding Bonds to finance and refinance projects of the Water Utility.	

DEPARTMENT:	Finance
STAFF:	Matt Mornick, Finance Director Jason Kintner, Chief of Operations
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Ordinance No. 24-09
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

This agenda bill introduces Ordinance No. 24-09 (Exhibit 1) for second reading and adoption.

- On September 3, staff presented [AB 6528](#) outlining how the City finances the operation and maintenance of the water distribution system, the significant capital needs it requires in the near-term, and the recommendation to finance a portion of these investments with outside funding.
- The ordinance authorizes the issuance of limited tax general obligation (LTGO) and refunding Bonds (the “Bonds”) to finance and refinance capital improvements to the City’s water distribution system.
- The City has outstanding \$655,000 of its Limited Tax General Obligation Bonds, issued in 2011 to finance a portion of a water system improvement project in the First Hill neighborhood. The City may have the opportunity to refund (refinance) these outstanding 2011 Bonds for interest rate savings. Staff will proceed with the refunding if it results in savings to ratepayers.
- The proposed Bonds will be issued in October in the aggregate principal amount not-to-exceed \$29 M, with a final maturity date no later than December 1, 2045. Water utility rate revenues will be used to pay principal and interest on the obligations.

BACKGROUND

On September 3, staff presented [AB 6528](#) outlining how the City finances the operation and maintenance of the water distribution system, the significant capital needs it requires in the near-term, and the recommendation to finance a portion of these investments with limited tax general obligation (LTGO) bonds.

Debt financing spreads costs incurred in a relatively short period over the useful life of the updated infrastructure, avoiding spikes in annual rate adjustments, and creating generational equity, whereby generations of rate payers who benefit from these investments help pay down the associated costs. By issuing LTGO Bonds, the City can take advantage of its LTGO credit rating which results in more competitive borrowing rates and use the water utility system's revenue to repay the debt.

The City has an outstanding debt amount of \$655,000 tied to Limited Tax General Obligation Bonds issued in 2011 to finance improvements to the water distribution system. The City may have the opportunity to refinance these outstanding 2011 Bonds for interest rate savings. Bond refinancing (also known as refunding) is an important debt management tool for state and local government issuers.

The refunding component of the Bond issue is included in Ordinance No. 24-09 (Exhibit 1) to provide the flexibility and the option to refund the outstanding 2011 Bonds if savings can be achieved. If there is no breakeven savings, the refunding component of the Bonds will not be exercised, and the 2011 Bonds will remain outstanding with the debt service payment schedule currently in place.

ISSUE/DISCUSSION

Ordinance No. 24-09 authorizes the issuance of one or more series of limited tax general obligation and refunding Bonds to finance and reimburse the City for costs of projects for the water distribution system; and, depending on market conditions, refund the outstanding 2011 Bonds for debt service savings; and pay costs of issuance for the Bonds.

The proposed ordinance authorizes the general provisions of the Bonds and delegates authority to the City Manager and the Finance Director, each acting individually, as designated representative, to approve the final terms of the Bonds on the day of pricing, so long as the final terms fit within the parameters approved via Ordinance No. 24-09 (Section 10(d)):

- Aggregate principal (face) amount not-to-exceed \$29,000,000.
- The final maturity date of the Bonds is no later than December 1, 2045.
- The true interest cost for the Bonds of a series (in the aggregate) does not exceed 5.00%.

NEXT STEPS

The competitive Bond sale is tentatively scheduled for the week of October 21, 2024. If the competitive sale goes as planned, Bond closing and the delivery of Bond proceeds would tentatively take place November 7, 2024.

RECOMMENDED ACTION

Adopt Ordinance No. 24-09 authorizing the issuance of one or more series of limited tax general obligation and refunding Bonds to finance and refinance projects of the Water Utility.