



REQUEST FOR COUNCIL ACTION

Title: Refinancing of existing City Debt for Wastewater and Water Treatment Systems

Preferred Agenda: November 10, 2020

Submitted By: Brandon Neish, Finance Director

Reviewed By: Ray Towry, City Manager

Type of Action: Resolution X Motion ___ Roll Call ___ Other ___

Relevant Code/Policy: Local Contract Review Board Rules of Procedure

Towards Council Goal: Goal 1.2(c): Increase community awareness of infrastructure needs and appropriate planning documents
Goal 2.5: Continue to implement strong financial “best” practices

Attachments: Municipal Bonds: Understanding Credit Risk (U.S. Securities & Exchange Commission)
Debt 101: Issuing Bonds and Your Continuing Obligations (Government Finance Officers Association)
Resolution No. 29 for 2020

Purpose of this RCA:

To review Resolution No. 29 for 2020, authorizing the Finance Director to refinance existing City debt.

Background/Context:

The City has \$15.6 million in existing debt related to the wastewater collections and water treatment systems. There are five loans that the City pays annually which were obtained with total payments of approximately \$1.4 million. The proposal included allows the City to refinance \$6.5 million in debt to obtain a lower interest rate, saving the City an estimated \$1.5 million over the life of the loans. The additional loans (\$9.1 million) are currently financed with interest rates at or below current interest rates and does not make sense to refinance at this time.

Three loans exist through the State’s Clean Water State Revolving Fund which were leveraged by the City to complete work on the sewer collection system. The work completed reduced the City’s inflow and infiltration (I&I) into the wastewater treatment plant and allows for better flow through City sewer pipes. As the City’s infrastructure ages, the collection pipes crack and allow for groundwater to slip into the pipes. Per Oregon Department of Environmental Quality (DEQ) estimates, this can add 7-9 million gallons of sewer flow per day to the Wastewater Treatment Plant which was not designed to handle this volume. Among other issues with the treatment plant necessitating the City’s need to rehabilitate and expand the plant, the I&I work was done to reduce the risk of overflow events at City manholes and other locations within the sewer

system. In total, the City incurred \$14.8 million in loans to complete this work which has been hailed at a state and national level. For the purposes of this refinancing, the City would be looking for \$4.1 million in loans on a remaining balance of \$7.1 million. The remainder has a zero percent interest rate and would not be refinanced under this proposal.

Two loans exist from the Oregon Economic & Community Development Department (now Business Oregon) which the City took on to pay for the construction of the current Water Treatment facility completed in 2009. The City borrowed \$10.7 million for the construction of the plant and currently owes \$7.5 million with a payoff scheduled for fiscal year 2035. The original loan for the treatment plant was issued at a repayment rate of 1% while a secondary loan (amendment) was obtained due to cost overruns. That loan had a varying rate of 2-4%. This is the component which the City would be refinancing to reduce the rate. The refinancing of \$2.4 million would be added to the \$4.1 million in sewer refinancing.

Fund	Debt Name	Existing Interest Rate	Remaining Interest Cost	New Interest Rate	Revised Interest Cost	Interest Savings
Water	G04003	2-4%	\$ 832,416	~1.7%	\$343,682	(\$488,734)
Wastewater	R89750	3.14%	\$ 109,436	~1.7%	\$63,868	(\$ 45,568)
Wastewater	R89751	2.90%	\$ 476,583	~1.7%	\$299,004	(\$177,579)
Totals			\$1,418,435		\$706,554	(\$711,881)

The City has been working with D.A. Davidson Companies, an investment and financial planning firm on the details of a possible refinancing of City debt. The current recommendation from D.A. Davidson is to issue full-faith and credit bonds, which obligates the City to repay a debt through any means and resources available. These bonds, at the time of review, would carry a repayment rate near 1.7% for all three loans being reinanced and would save an estimated \$700k over the remaining life of the loans (sewer in 2025 and 2031 and water in 2034). The other option for this type of transaction is to issue a revenue bond. A revenue bond attaches the loans to the revenue generated through user fees. In the event the user fees cease due to an unanticipated event, the City would be absolved of the responsibilities of the loans. While there is an obvious benefit to this, the rates for such a loan are generally higher than a full-faith and credit bond for which all City resources are fair game for the repayment. Additional information regarding municipal bonds and information on issuing debt has been attached for Council’s review to facilitate the discussion on this matter.

The Challenge/Problem:

What is the best approach for municipal debt financing that ensures the “most good, for the most people, for the longest period of time?”

Stakeholders:

- Sweet Home Citizens & Businesses – Through water and sewer utility fees, citizens and businesses are paying for the infrastructure that exists to deliver water to their homes/businesses and carry wastewater away. These stakeholders have a major stake in debt financing as this directly impacts the rates, they pay for the services they receive. A reduction in loan rates could provide much needed relief to utility rates.
- Sweet Home City Council – The City Council is charged with making decisions that do the most good, for the most people, for the longest period of time. This decision has lasting impacts on utility fees and long-term implications water and wastewater systems in the City. Additionally, reducing debt payments will benefit the City as additional debt will be necessary to complete the rehabilitation and expansion of the existing Wastewater Treatment Plant.

- Sweet Home staff – It is the responsibility of staff to ensure that residents and businesses are receiving the best services at the optimum price. Lowering annual debt service payments has a direct effect on staff's abilities to deliver services at a maximum benefit for consumers while focusing on the future.

Issues and Financial Impacts:

Refinancing the existing loans provides a direct benefit to the City's overall budget for the water and wastewater operations budgets and extends the viability for those funds for future system needs or rate buy-downs for customers. Alternatively, there are costs associated with refinancing existing debt, including staff time for annual reports and the issuance of bonds. Over the life of the loans we could save the ratepayers \$700k.

Elements of a Stable Solution:

A decision on next steps regarding existing debt is important as the City reaches a critical junction regarding utility fees long-term.

Options:

1. Do Nothing – The existing debt incurred by the City for projects would remain on the City's books. No changes in payments would occur at this time.
2. Move to approve Resolution No. 29 for 2020 – Approving the resolution directs staff to negotiate a solution for existing debt which would maximize value for the City and its utility customers. The existing loans would be paid off and refinanced at a lower interest rate under a full-faith and credit bond at or near an interest rate of 1.7%. The City's existing loan for the Water Treatment Plant is a full-faith and credit loan.
3. Direct staff to review the options and costs associated with a revenue bond – Also available as part of this review is the option to engage in the sale of a revenue bond to refinance existing debt. A revenue bond would use the monthly utility revenues generated from user fees as the backing for the bond and often require specific debt reserves to be maintained. The current sewer loans through DEQ are secured by net revenues of the wastewater system.
4. Direct staff to review alternative options for existing debt – The City Council could direct staff to review alternative proposals including, but not limited to, paying off existing debt with available reserves, private financing proposals and refinancing through Oregon state agencies.

Recommendation:

Staff recommends option 2, move to approve Resolution No. 29 for 2020. This option saves the City significant resources over time with a direct benefit to consumers and staff. Additional conversations and decisions by the Council would be required to determine appropriate next steps.