

City of Sacramento

Legislation Text

File #: 2019-00279, **Version:** 1

Title:

Authorize the Issuance and Sale of City of Sacramento Wastewater Revenue Bonds, Series 2019

File ID: 2019-00279

Location: Citywide

Recommendation:

1) Adopt a Resolution authorizing a) the issuance of City of Sacramento Wastewater Revenue Bonds, Series 2019 to finance the acquisition, construction, and installation of certain wastewater-related capital-improvement projects, with the aggregate principal amount not to exceed \$35 million; and b) the execution and delivery on the City's behalf of an Official Statement, a Second Supplemental Indenture, a Bond Purchase Agreement, a Continuing Disclosure Certificate, an Agreement for Bond-Counsel Services, and related financing documents; and 2) adopt a Resolution establishing revenue and expenditure budgets in the Wastewater Revenue Bond, Series 2019 Fund for the value of the net bond proceeds.

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Presenter: Nii Laryea, Debt Analyst, (916) 808-5517, Office of the City Treasurer.

Attachments:

- 1-Description/Analysis
- 2-Resolution Authorizing the Issuance of Bonds
- 3-Resolution Approving the Revenue and Expenditure Budgets
- 4-Preliminary Official Statement
- 5-Second Supplemental Indenture
- 6-Bond Purchase Agreement
- 7-Continuing Disclosure Certificate
- 8-Agreement for Bond-Counsel Services

Description/Analysis

Issue Detail: On March 29, 2016, the City Council approved wastewater-rate adjustments for FY2016/17 through FY2019/20. The approved 9% increase in wastewater rates each year through FY2019/20 will provide the revenue needed to complete critical replacement and improvement projects to keep the City's wastewater system safe, reliable, and financially stable.

The City intends to implement significant improvements over the next 30 years to its combined-sewer-system (the "CSS"), most of which will benefit the wastewater system. Those improvements will also provide for continuing compliance by the wastewater system with regulatory requirements. Over the next five years, the focus of the wastewater system capital-improvement program (the "Project") will be on rehabilitating or replacing aging infrastructure- primarily pipes and sump stations-and on complying with regulatory mandates.

The cost of the Project through FY2022/23 is estimated to be \$59 million. A portion of the cost will be funded with the City of Sacramento Wastewater Revenue Bonds, Series 2019 (the "Series 2019 Bonds") and the remainder of the Project will be funded by current revenues of the wastewater system and from other revenue sources.

The Project currently contemplated to be financed from the Series 2019 Bonds is the CSS rehabilitation, which consists of the following:

- Electrical rehabilitation of wastewater sumps and motor-control center at the combined-wastewater-treatment plant.
- Complete reconstruction of wastewater sumps.
- Sixteen pipe-rehabilitation projects replacing aging infrastructure in the CSS.
- Pipe rehabilitation and construction projects replacing aging infrastructure in the separated system.
- Continuation of the CSS improvements with construction of large-diameter pipelines for improved conveyance, in-line storage, and an underground temporary-storage structure.

In August 2018, the City Treasurer's Office (the "CTO"), working collaboratively with other City departments (Utilities, City Attorney's Office, and Finance) and external members of the financing team-the underwriter, Siebert Cisneros Shank & Co. (the "Underwriter"); the law firm acting as bond counsel, Orrick, Herrington & Sutcliffe LLP; the law firm acting as disclosure counsel, Stradling Yocca Carlson Rauth, PC-began working toward the goal of issuing the Series 2019 Bonds to finance the portion of the Project that is expected to be awarded in April 2019. The portion of the Project to be financed with the Series 2019 Bonds will not exceed \$35 million.

Policy Considerations: The Series 2019 Bonds will (a) be secured by a pledge of the wastewater-system revenues, (b) require the City to comply with specified debt-service-coverage requirements, and (c) be on a parity basis with existing wastewater-related debt.

Economic Impacts: Not applicable.

Environmental Considerations: None.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Approval for the issuance of the Series 2019 Bonds to finance a portion of the Project is necessary to achieve the City's objectives of (1) rehabilitating or reconstructing wastewater sumps and a motor-control center; (2) replacing aging pipe infrastructure; and (3) adding a regional storage facility.

Financial Considerations: The Utilities Department has identified the funding need for the Project through FY2022/23 to be \$59 million, of which \$32 million will be funded from proceeds of the Series 2019 Bonds:

CIP Number	Project Description	Expenditure Budget
X14010000	CSS Capital	\$9,669,686
X14160500	Separated Pipe Rehabilitation and Replacement Program	\$6,750,000
X14170100	CSS Rehabilitation and Replacement Program	\$4,500,000
X14002300	Pocket AD 2 Sewer Improvement	\$3,534,444
Z14170100	Utility Billing Replacement	\$2,592,000
X14130900	Wastewater Sump Rehabilitation and Replacement Program	\$2,317,822
X14120300	Sewer Repair Program	\$1,000,000
X14131500	Facility Electrical Rehabilitation Program	\$750,000
X14000500	CIP Base Contingency - Wastewater	\$500,000
X14130400	Wastewater Flow Meter Program	\$242,318
X14131300	Pioneer River Intake Rehabilitation	\$143,730
\$32,000,000		

The estimated debt service on the Series 2019 Bonds will be approximately \$2.2 million each year from FY2019/20 through FY2039/40.

The CTO worked with the Underwriter to run numerous debt-modeling scenarios designed to meet the constraints of the Wastewater Fund cash flow while providing sufficient bond proceeds to finance the capital-improvement projects described above. Below are some of the assumptions the CTO took into consideration:

- 20-year maturity
- Fixed-rate interest
- High investment-grade credit ratings (consistent with the Wastewater Revenue Bonds, Series 2013 credit ratings)
- Level annual debt service (roughly equal payments each year)

Based on the February 21, 2019 overall interest rate of 3.21%, which includes a buffer to account for interest-rate sensitivity, \$32 million in bond proceeds will require total debt service of \$44.5 million to be paid through FY2039/40. The cost of issuance for the Series 2019 Bonds is estimated to be \$440,000. This information was obtained as a good-faith estimate from the Underwriter in accordance with California Government Code section 5852.1.

After issuing the Series 2019 Bonds, the City will be required to comply with the following debt-service-coverage requirements: for any fiscal year, the net revenues from the wastewater system must be equal or exceed (a) 120% of debt service on all outstanding parity obligations, i.e., obligations equally secured by the revenues; (b) 110% of debt service on all outstanding parity obligations and all outstanding subordinate obligations secured by the revenues; and (c) 100% of debt service on all obligations paid from the net revenues from the wastewater system.

Additionally, the City will maintain a rate-stabilization fund (consisting of wastewater-system revenues) in an amount equal to 25% of total maximum annual debt service, i.e., debt service on the Series 2019 Bonds, other parity obligations, subordinate obligations, and unsecured obligations. On the date of issuance of the Series 2019 Bonds, anticipated to be in April 2019, approximately \$2.5 million will be on deposit in the rate-stabilization fund. The rate-stabilization fund will help the City comply with the debt-service-coverage requirements during the cycles of reduced rate revenues; it will also help lessen the immediate effect of rate adjustments.

The debt-service payments for the Series 2019 Bonds will be the exclusive responsibility of the City's Wastewater Fund. The City's General Fund will have no obligation for the debt-service payments and will not be pledged as security for the bonds.

Local Business Enterprise (LBE): Not applicable.