

ITEM # 8
DATE: 10-27-15

COUNCIL ACTION FORM

SUBJECT: SETTING DATE OF PUBLIC HEARING AND FEDERAL REIMBURSEMENT REGULATION RESOLUTION FOR ISSUANCE OF ELECTRIC REVENUE BONDS SERIES 2015B IN AN AMOUNT NOT TO EXCEED \$10,360,000

BACKGROUND:

The FY 2015/16 budget includes electric revenue bonds in the amount of \$18,875,000 to fund the Unit 7 and 8 Fuel Conversion (\$15,000,000) and Cooling Tower Repair (\$3,875,000) projects. **Due to better than expected bid results for these projects, we are recommending that the bond issuance amount be reduced to \$10,360,000.** A public hearing and reimbursement resolution are required to proceed with the revenue bond sale.

Internal Revenue regulations place restrictions on the use of non-taxable bond proceeds including the timing of spending. Limited spending is allowed to be reimbursed from bond proceeds for certain preliminary work related to planning capital projects. In the case of the electric revenue bond projects, the City plans to begin project work prior to the bond issuance and to reimburse the expenses from the bond proceeds. Delaying the bond issuance until bids were received has allowed the significant reduction in the bond issuance amount. Passing the reimbursement resolution will allow for the project to move forward promptly with the use of revenue bond funds. The City Council may pass a reimbursement resolution not more than 60 days after beginning project construction work. Bonds must be issued not later than 18 months after the date of first expenditures.

To complete the bond sale, the following actions will be required by City Council:

- November 10, 2015 Meeting – Hold the public hearing on the bond sale and approve the Preliminary Official Statement (offering statement) and electronic bidding for the sale.
- December 8, 2015 Meeting – Accept bids received, award bonds, and authorize issuance.

City staff has been working on preparations for the bond sale for some time and will be conducting a credit rating call with Moody's Investor Services and all other activities related to preparation for the bid, acceptance, and closing of the bonds.

REVENUE BOND BACKGROUND AND IMPACT ON RATES:

Though the City routinely issues general obligation bonds, no revenue bonds have been sold since an electric revenue bond refunding issue in 2002. The Electric Utility has no bonds outstanding and has been funding both operations and capital improvements with pay-as-you-go financing. **The electric revenue bonds will be secured with revenue from the Electric Utility. The City will make no pledge of other revenues, and because of this we expect the credit rating to be of investment grade but lower than our excellent general obligation bond rating, which includes a pledge of the City's taxing authority for repayment.**

The issuance of revenue bonds will require certain ongoing commitments in the form of protective covenants for the holders of the bonds. These will include an obligation to raise rates as required to pay bonds and maintain adequate debt service coverage, maintain a reserve fund, and maintain “parity” for repayment of any future bonds issued. The Electric utility currently has more than adequate rate revenue and fund balances to meet all the protective covenants and we expect to continue to meet the covenants without the need for significant rate increases.

When revenue bonds are issued, utilities are often required to immediately implement a series of rate increases to fund both the repayment of bonds and commitments made in the bond covenants. This will not be the case for the proposed electric revenue bond issue. Since we have included the bond issue as part of our planning for several years, a series of rate increases will not be required. Our projections last year were for rate increases of around 4% in FY 2017/18 and FY 2019/20 to fund operations, the capital improvement plan, and debt service. **With the lower bond issue amount, we are now anticipating only one rate increase of around 4% in FY 2018/19. Keep in mind that with the conversion to natural gas, customers will likely incur increases in their electric bills due to higher fuel costs included in the energy cost adjustment.**

ALTERNATIVES:

1. The City Council can adopt a reimbursement resolution providing official notice of intent to reimburse prior expenditures for the Electric Generation Unit 7 and 8 and Cooling Tower Repair projects from the proceeds of an upcoming revenue bond issue and set November 10, 2015 as the date of public hearing for the sale of Electric Revenue Bonds Series 2015B in an amount not to exceed \$10,360,000.
2. The Council can reject the reimbursement resolution. However, if this option is pursued, expenditures on the Electric Generation Unit 7 and 8 and Cooling Tower Repair projects will be limited to certain preliminary work and may delay completion of the projects and conversion from coal to natural gas as the fuel source for electric generation.

MANAGER’S RECOMMENDED ACTION:

Adoption of a reimbursement resolution and setting November 10, 2015, as the date of public hearing for the sale of electric revenue bonds will assure that City staff can proceed as quickly as possible with the Electric Generation Unit 7 and 8 and Cooling Tower Repair projects to accomplish the Council-adopted plan to convert fuel source for base load electric power generation from coal to natural gas.

Therefore, it is the recommendation of the City Manager that the City Council approve Alternative No. 1, thereby adopting a reimbursement resolution providing official notice of intent to reimburse prior expenditures for the Electric Generation Unit 7 and 8 and Cooling Tower Repair projects from the proceeds of an upcoming bond issue and setting November 10, 2015 as the date of public hearing for the sale of Electric Revenue Bonds Series 2015B in an amount not to exceed \$10,360,000.