



MEMO TO: Members of the City Council

FROM: Mayor John Marchione

DATE: April 16, 2019

SUBJECT: **Adoption of a Resolution Authorizing the City to Reimburse Certain Capital Improvement Expenditures from the Proceeds of the Sale of Bonds**

I. RECOMMENDED ACTION

Adopt the Resolution authorizing the City to reimburse certain capital improvement expenditures from the proceeds of the sale of bonds.

II. DEPARTMENT CONTACTS

Malisa Files, Finance Director	425-556-2166
Kelley Cochran, Deputy Finance Director	425-556-2748
Kelley Wood, Financial Services Manager	425-556-2161

III. DESCRIPTION/BACKGROUND

Consistent with the 2019/2020 budget, capital investment strategy, and utility financial plans staff anticipates the sale of up to \$20,000,000 of bonds to provide resources for the Wastewater Capital Investment Program. The wastewater bond proceeds will be used towards pump station improvements and force main installation projects. The City anticipates expenditures related to the early phases of these projects, including property and/or right-of-way acquisitions and design work, will occur prior to the issuance of the related bonds. Some early expenditures have already begun to be incurred.

When this situation occurs (expenditures are incurred prior to the issuance of related debt) Internal Revenue Service regulations require that the City declares its intent to use bond proceeds to reimburse expenditures incurred prior to the sale of bonds. The proposed Resolution conforms to that requirement however does not commit the City to issue bonds. Further, the resolution does not dictate or influence the amount of bonds that may eventually be sold to provide resources for these projects. The proposed resolution provides for a high estimate the amount of the potential reimbursement to ensure that there is sufficient capacity within the scope of the resolution for a variety of financing scenarios. This approach is the same as the City has used in the 2008 and 2014 bond issuances for the Water and Stormwater utilities respectively.

Once the bonds are issued, the City will be responsible for annual principal and interest payments and must comply with reserve requirements by establishing debt reserves of 120% of the average annual debt service payments. If the Utility operating fund is insufficient to make any debt service payment, amounts shall be withdrawn from the reserves to make up that deficiency. Any deficiency created in the reserves shall then be made up from net revenue as soon as they are available. To support the bond issuance and future principal and interest payments, wastewater utility rates will be gradually increased by an average 1.3% per year over the next six years. Council chose this option to prevent a one-time rate increase from impacting rate payers. The approved wastewater rate increase for the 2019/2020 biennium was 4% each year, of which 1% will go toward future debt payments and the establishment of appropriate debt reserves.

IV. PREVIOUS DISCUSSIONS HELD

Date	Action\Presentation
7/24/2012	Study Session – Revenue and Rate Forecast
5/28/2013	Finance Administration and Communications Committee – Utility Bond Briefing
6/04/2013	Regular Business Meeting – 2013 Reimbursement Resolution Approval
7/29/2014	Study Session – Revenue and Rate Forecast
7/29/2016	Study Session – Revenue and Rate Forecast
5/22/2018	Finance Administration and Communications Committee – Utility Bond Briefing
7/24/2018	Study Session – Revenue and Rate Forecast
3/26/2018	Finance Administration and Communications Committee – Utility Bond Briefing

V. IMPACT

A. Service/Delivery:

The adoption of the Resolution permits the city to comply with IRS regulations but does not obligate the City with regard to the sale or structure of the bonds.

B. Fiscal Note:

1. Capital Improvement Projects authorized in the 2019/2020 budget which may be paid for with debt proceeds:
 - a. Pump Station 2
 - b. Pump Station 3
 - c. Pump Station 5
 - d. Pump Station 6
 - e. Pump Station 8
 - f. Pump Station 11
 - g. Pump Station 12

- h. Pump Station 13
- i. Pump Station 14
- j. Pump Station 15
- k. NE 70th Street Force Main

- 2. The anticipated bond amount of \$20 million or less will go towards funding the projects listed above. Debt service will be secured by utility revenues for the life of the bonds.
- 3. Approved and planned wastewater rate increases for debt purposes:
 - a. 2019 – 1.0%
 - b. 2020 – 1.0%
 - c. 2021 – 1.5%
 - d. 2022 – 1.5%
 - e. 2023 – 1.5%
 - f. 2024 – 1.25%

VI. ALTERNATIVES TO STAFF RECOMMENDATION

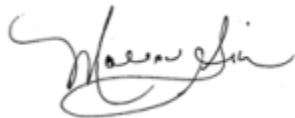
City Council could choose to not approve the resolution and have project expenditures be cash funded. This alternative would delay the project completion for most projects listed above.

VII. TIME CONSTRAINTS

Some project expenditures have already been incurred related to land acquisition. Adoption of this resolution now will ensure that those expenses can be reimbursed from the future bond issuance. A delay in adopting the resolution will mean that the recent expenses will not be able to be reimbursed from the bond issue.

VIII. LIST OF ATTACHMENTS

Attachment A: Reimbursement Resolution



Malisa Files, Finance Director



Approved for Agenda _____
John Marchione, Mayor