BOS Meeting June 7, 2018

Late Material for item 11.b

Questions submitted by Supervisor Bonkowski, answers provided by John Peterson – Carson City's Financial Advisor

Question:

Would the new bonds issuance be eligible for SRF so we can take advantage of a lower interest rate?

Answer:

For the financing of the east/west line project, we believe it would be eligible for SRF, but SRF financing doesn't allow us flexibility in the repayment structure and would likely result in greater debt service in the early years than what we have assumed by financing without SRF. Too high of payment in the early years is not palatable to the water fund as we need to stay on the current maintenance projects. SRF is a tradeoff (it is in the long-run a lower cost borrowing), but doesn't fit the best interest of the fund currently.

Question:

Should there be a concern about the timing of issuing the refunded bonds prior to even starting the process of issuing the new bonds? The refunded bonds will be conditioned on using the savings for a new water project, but we will not even know at the time of issuance if we can issue the balance of the bonds needed to build the project, what the potential interest rates might be, if Debt Management will recommend approval, etc. Is this overly risky the way it is scheduled between the two bond issuances so could we move up the schedule for the new bond issuance so we have a better comfort level on those before we sell the refunding bonds?

Answer:

The schedules are so different because the bonding for the new $7 million requires a 90-day waiting period before bonds can be issued. This 90-day requirement does not apply to the refunding, nor is the DMC required to approve the refunding bond before it may be issued to the SRF. In order to be the most efficient, we have proposed to execute the refinancing immediately in order to minimize interest rate risk and simultaneously begin the process for issuing the $7 million bond. The second bond, however, is much later.

SRF is aware that the $7 million in bonds for the new project will not be issued until 2019, and they are comfortable with proceeding with the refunding loan this summer. We currently anticipate the adoption of the refunding bond ordinance (SRF refunding loan) will occur at the July 19 meeting of the

Supervisors. At that same meeting, our first step for the $7 million bond will be considered by the Supervisors (DMC Notice Resolution – a resolution asking the DMC to consider the City's bonding request). If, at that meeting, the refunding ordinance passed, but the resolution for the $7 million did not, I would strongly recommend to staff that we postpone finalizing the refunding bond terms with the SRF until the concerns of the Supervisors on the $7 million bond were addressed.

We expect the DMC will consider the resolution approving the issuance of the $7 million in bonds at its meeting on August 14. In my opinion, it would be **extraordinary** for the DMC to not approve the bond request from the City. (1) The proposed bonds will not take the City above its 15% debt limit in the Charter. (2) The revenues generated by the water system and pledged to bonds provide for greater than sum-sufficient coverage of the debt service. (3) No ad-valorem tax is expected and no effects to other overlapping agencies (CCSD for example) should occur. (4) The City (the Board of Supervisors) has the power to revise the rates and charges of the water system in order to provide sufficient debt service coverage for the existing and proposed bonds. These are the standards we have measured against in prior DMC meetings for all Carson City water revenue secured GO bonds. The DMC meeting also occurs prior to the anticipated closing of the refunding bond. If the DMC were to not approve, we have the ability to stop the refunding at that point. Again, this seems highly unlikely.

It is correct that we cannot predict the interest rate on the new bonds (or the refunding yet) at this time. However, we have been conservative in our estimates for the interest rate in our presentation materials to the UFOC and the Supervisors thus far. We will continue to use those estimates with the DMC unless market conditions render them too optimistic. The interest rate estimate on the $7 million bond in the presentation for Thursday is approximately 0.50% higher than current market conditions.

The City has strong credit ratings and I therefore do not anticipate there will be difficulty securing financing in early 2019. If a significant market disruption were to occur (war, global financial calamity, etc.), we will coordinate with SRF to let them know of the circumstances and our plans to fulfill the commitment to spend savings from the refunding bond on water quality improvements within the City. The $7 million bond is our recommendation for fulfilling the requirements to spend the savings. It is not, however, the only option.

We will research the City's ability to issue bonds sooner than 2019 for the $7 million. However, my expectation is that there is no way to fully synchronize the two component transactions unless the refunding bond is postponed (by a minimum of at least 2-3 months). Postponement would create risk that increasing interest rates erode the savings from refunding.