

M E M O R A N D U M

To: Town Commission

From: Tom Harmer, Town Manager

Report date: September 23, 2020

Meeting date: October 5, 2020

Subject: Ordinance 2020-11 Establishing a Master Water and Wastewater Bond Ordinance for Future Borrowings and Authorizing the Issuance of \$3,100,000 Wastewater Refunding Revenue Notes to Refinance the State Revolving Fund (SRF) Loan Agreements

Recommended Action

Forward Ordinance 2020-11 to the November 2, 2020 Regular Meeting for second reading, public hearing and adoption.

Background

The Town Charter was amended by referendum on March 20, 2018. At that time, Article 1, Section 5(b) and (c) Power of Municipality was amended to incorporate language to ensure Town Authority and any entity controlled by the Town, to issue general obligation ("G.O.") bonds payable from ad valorem taxes to finance and refinance capital projects, and to provide for the issuance of revenue bonds up to \$5 million without a referendum and for emergency issuance purposes (adjusted annually for changes in the CPI -U.S. City Average All Workers).

In 2009, the Town entered into State Revolving Fund ("SRF") Loan Agreements for the funding of Water and Wastewater System ("WWS") projects including the Mid Key Pump Station and Transmission Main. The SRF loans are secured and payable from net revenues of the WWS and a backup covenant to budget and appropriate legally available non-ad valorem revenues, and the Town began making repayments on approximately \$4.6 million in principal amount of the SRF loans in February 2011. Currently, there is approximately \$2.76 million of principal amount outstanding on the SRF loans with the final payment due in 2031. The SRF loans are payable at an interest rate of 2.82% and can be prepaid currently without penalty. It is estimated that the Town may be able to refinance these existing SRF loans for savings purposes through a bank loan and modernize its bond covenants to provide additional flexibility.

Master Bond Ordinance Overview

As an initial step in preparing for the refinancing of the SRF loans as well as future issuance of debt secured and payable from net revenues of the WWS, Bond counsel has recommended the enactment of a Master Bond Ordinance ("MBO") for the WWS. The MBO will establish a base document containing the authoritative provisions for future bond and note issuances for the WWS, and includes, but is not limited to, the

authority and execution of bonds and notes, the pledge of system net revenues to repay the bonds and notes, the creation of funds and accounts, flow of funds, tax covenants and other covenants to the bond and note holders secured thereby.

Lenders as well as rating agencies, look to the set of debt covenants as a valuable protection of creditors' interests. Rating agencies view management's willingness to incorporate effective covenants in a bond issue as a signal of its commitment to abide by stated financial risk parameters over the long term. Covenants also may obligate the issuer's governing body to assess rates sufficient to generate revenues to cover certain provisions, such as debt service coverage and repair and replacement reserves as defined in the covenants.

We have evaluated the covenants for reasonableness and industry standards. It is also important to note that while the new MBO implements certain covenants and provisions related to future debt issued thereunder, it is expected that the covenants in the MBO will replace previous covenants provided for in the SRF agreements upon refunding and retirement of those obligations, to the Town's advantage.

In addition, the Ordinance also authorizes the issuance not to exceed \$3,100,000 of a Water and Wastewater Refunding Revenue Note for the purpose of refinancing the SRF loans, with further details to be provided in a Supplemental Resolution prior to issuance. Currently, bank loan proposals are being sought for the purpose of refinancing the outstanding SRF loans, which loan would be secured and payable under the MBO. Proposals are due September 30, 2020.

The estimated approximate Net Present Value Savings over the life of the loan at a 1% reduced interest rate is \$94,000. The net present value savings is net of closing costs estimated at \$51,000.

Upon receipt of a favorable bank loan proposal, a Resolution supplementing the Ordinance will be prepared and separately presented to the Commission for approval at its November 2, 2020 Regular Meeting. The Supplemental Resolution will outline specifics of the loan and authorize the award of the Water and Wastewater Refunding Revenue Note to the lender. It is important to note that the ultimate presentment of this Supplemental Resolution to the Commission will be contingent upon receipt of a favorable bank loan proposal to refinance the SRF loans.

As part of our review, the MBO was also compared to the Utility Department's current written financial policies addressing Fund Balance, Debt Service Coverage, Capital Reinvestment and Financial Position, which was adopted through Resolution 2017-08 at the Town Commission May 1, 2017 Regular Meeting. We have concluded that the covenants contained in the MBO are no more stringent than current policy dictates. However, the Town's policy states that if the Reserve Balances at the end of the preceding fiscal year is less than the target, the Town will develop a plan to re-establish the reserves in an amount equal to the target over a period not to exceed three (3) fiscal years.

A summary comparison of our current financial policy to the MBO is shown below:

Item	Current Policy	Master Bond Ordinance	Section Reference
Operating Cash Reserve Target	120 days = Approx. \$2.58 million	N/A	N/A
Capital Reserve Target	Equal to Prior Year Depreciation Expense = \$1.6 million	5% of Gross Revenues received in the Prior Fiscal Year up to a minimum of \$500,000	Section 20 B (5) Disposition of Revenues
Debt Service Coverage (Ratio of Annual Net Revenues divided by Annual All-in Debt Service)	Greater than or equal to 150%	115%	Section 20 E Rate Covenant

This Master Bond Ordinance was developed by the Town's Bond and Disclosure Counsel and reviewed by the Town Manager, Finance Director, Town Attorney, and the Town's Financial Advisor and Utility Rate Consultant for the September 29, 2020 Regular Workshop Meeting. The Town Commission considered the Ordinance and provided staff direction. The Ordinance is placed on the October 5, 2020 Regular Meeting for first reading and public hearing.

Representatives of our Bond and Disclosure Counsel at Bryant Miller Olive, P.A. and our Financial Advisor from Hilltop Securities, Inc., will be present at the October 5, 2020 Regular Meeting to discuss the Ordinance and answer questions you may have.

Staff Recommendation

Forward Ordinance 2020-11 to the November 2, 2020 Regular Meeting for second reading, public hearing and adoption.

Attachments

- A. Ordinance 2020-11 (Available in the Town Clerk's Office)
- B. PowerPoint Presentation (Available in the Town Clerk's Office)

End of Agenda Item