

AGENDA ITEM SUMMARY

FORT COLLINS CITY COUNCIL

ITEM NUMBER: 12

DATE: October 7, 2008

STAFF: Chuck Seest
Terri Bryant

SUBJECT

First Reading of Ordinance No. 117, 2008, Appropriating Proceeds from the Issuance of City of Fort Collins, Colorado, Water Utility Enterprise, Water Revenue Refunding Bonds, Series 2008, in the Maximum Aggregate Principal Amount of \$19,000,000.

RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

FINANCIAL IMPACT

The Ordinance would appropriate in the Water Utility Fund proceeds from bonds proposed to be issued in Ordinance No. 006, of the Board of the Water Utility Enterprise, for the purpose of refunding, paying and discharging all of the Enterprise's outstanding Revenue Refunding Bonds and Improvement Bonds, Series 1998. The bonds being refunded have interest rates of 4.25% to 4.75%; the new bonds would result in an average interest rate of approximately 3.50%. Overall, the transaction is estimated to yield cashflow savings of \$1.2 million and net present value savings of \$1 million.

EXECUTIVE SUMMARY

After the regular Council meeting tonight, the Board of the Water Utility Enterprise will consider an ordinance which authorizes the issuance of City of Fort Collins Colorado, Water Utility Enterprise, Water Revenue Refunding Bonds, Series 2008, in the Maximum Aggregate Principal Amount of \$19,000,000. The Bonds will be issued to refund, pay and discharge all of the outstanding Water Revenue Refunding Bonds and Improvement Bonds, Series 1998.

The City will be paying off higher cost bonds with new bonds that will have lower interest rates. The passage of Amendment 1 (the TABOR Amendment) by the Colorado voters in 1992, required the City to form enterprises in order for its utilities to be able to issue municipal bonds without an election. Since that time, all utility bonds have been issued by the appropriate utility enterprise. However, the City Charter grants only the Council the power to appropriate the funds. Therefore, this action by the Council is necessary in order to appropriate the bond proceeds for the Water Utility. Authorizing the issuance of the bonds and appropriating the proceeds are both necessary to complete the bond transaction. The final rates will be determined by selling the bonds at a competitive sale later this year.

ATTACHMENTS

1. Council Finance Committee minutes - September 15, 2008.
2. Excerpt from the Water Board Minutes - September 25, 2008.



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**Council Finance Committee
 Minutes
 09/15/08
 10:30 a.m - 12:00 p.m.**

Council Attendees: Mayor Doug Hutchinson, Councilmember Ben Manvel, Councilmember Kelly Ohlson

City Staff Attendees: Darin Atteberry, Kraig Ecton, Mike Freeman, Chuck Seest, Heather Shepherd, John Voss

Others: Ann Hutchinson from the Chamber of Commerce; Julia Stone from Bondi & Co., LLC

Approval of the Minutes from the August 30th meeting.
 Minutes were approved.



Briefing on Refunding of water bonds

Chuck gave an update to the Committee regarding the 1998 Water Bonds that are now approaching their 10 year call date and are eligible for refunding. According to James Capital, the City's financial advisor, the refunding of the \$18.6 million of bonds would result in net savings of approximately \$1.0-\$1.2 million for the water utility based on market conditions as of September 10th.

The Committee agreed that an ordinance approving the refunding transaction should be presented at the regular City Council Meeting on October 7, 2008.

Discussion of Tax Increment Methodologies.

Ben summarized the process to validate his understanding of the tax increment methods for the DDA and URA. Chuck reviewed flow charts illustrating the overall process of the Tax Assessor for valuing all parcels in the County and the process for the Allocation of a portion of that value to Tax Increment Funding Entities.

Delivery of CAFR and Audit Report to Governance from BONDI

Julia Stone, partner from Bondi and Co., LLC, stated that Bondi's opinion for the City's financial statements was 'unqualified' which is the best an organization can receive. Additionally, there were no findings related to the City's expenditure of Federal dollars. The auditors didn't post any audit adjustments to the financial statements this year.

**WATER BOARD MINUTES (Excerpt of Draft/Unapproved Minutes)
September 25, 2008**

2009 Budget Agenda Item

Presenter: Terri Bryant, Utilities Finance and Budget Manager

Recommendation for Motion:

Vice Chairperson Gina Janett moves to approve the wastewater reimbursement resolution for Mulberry Reclamation Facility improvement bonds. Board Member Phil Phelan seconded the motion.

Discussion on the Motion:

Board member comments:

- It makes sense to order equipment (identified as needed for the project) before actually needed due to costs of materials and equipment on the increase. This is an opportunity save a significant amount of money.
- Money is currently being spent from reserves. This would allow Utilities to go through debt service to obtain funds and reimburse the reserves.
- Some Board members would like to see more emphasis on debt reduction and questions 10 percent of our budget being spent on debt service.
- There appears to be millions of dollars in reserves for the water fund. Why is that not the case for the wastewater and stormwater funds?

Staff response: A good share of the water budget reserve is "cash in lieu of." A special fund paid by Development in anticipation of building a reservoir (referring to Halligan Reservoir.) Staff also did a much better job of projections on the water side.

Staff comments:


Ms. Bryant noted the advantage to selling debt when conditions are most favorable and maintaining tax exempt status when selling the debt. Utilities Executive Director Brian Janonis added we are in the process of spending money, regardless of this reimbursement clause. For example, demolition is already taking place. This would provide a way to be reimbursed for it. Mr. Janonis stated hiring an asset manager will move us in the right direction and provide the opportunity to project expenses for the next 40-50 years and plan for level rate increases.

Deputy City Attorney Carrie Daggett noted the reason for taking this resolution before Council. Treasury regulations are very strict about proceeds of bonds and what they can be used for. This resolution follows the process set out for this exact type of scenario by the regulations, for example spending money in anticipation of issuing bonds. This resolution will have no effect if the bonds are not issued, but if they are issued, the resolution allows proceeds from the bonds to be used to reimburse these expenses.

Annual rates from wastewater funds are about \$14 million. If we doubled our rates to fund repairs to a broken water treatment plant, it would take approximately 2.5 years, assuming no cost increases, to raise enough cash to fund a wastewater plant.

Vote on the Motion: Following discussion on the motion, a vote was taken, and it passed with one abstention by Board Member Connor (7 for, 1 abstention, 0 against.)

Recommendation for Motion:

 Vice Chairperson Janett moved to approve refunding of all of Water's outstanding revenue refunding bonds and improvement bonds, series 1998 to create cash flow savings estimated at \$1.2 million. Board Member John Bartholow seconded the motion.

Discussion on the Motion:

There was no discussion on the motion.

Vote on the Motion: A vote was taken, and it passed with one abstention by Board Member Connor (7 for, 1 abstention, 0 against.)

Recommendation for Motion:

Board Member David Pillard moved to approve the 2009 Water, Wastewater and Stormwater recommended budgets. Board Member Steve Balderson seconded the motion.

Discussion on the Motion:

Board Member Gary Wockner shared his feedback in a special document sent to members prior to the Board meeting.

Vote on the Motion:

A vote was taken, and it passed (6 for, 2 against.) Dissenting votes were recorded as follows: 1) Board Member Connor would like to see more movement toward a fiscally conservative position of retiring debt over time and addressed in more detail in a budget proposal and 2) Board Member Wockner as stated in his document. The document is attached as part of the record.

Prepared by:

Robin Pierce, Executive Administrative Assistant
Fort Collins Utilities

ORDINANCE NO. 117, 2008
OF THE COUNCIL OF THE CITY OF FORT COLLINS
APPROPRIATING PROCEEDS FROM THE ISSUANCE OF CITY OF FORT COLLINS,
COLORADO, WATER UTILITY ENTERPRISE, WATER REVENUE REFUNDING BONDS,
SERIES 2008, IN THE MAXIMUM AGGREGATE PRINCIPAL AMOUNT OF \$19,000,000

WHEREAS, upon passage on first and second reading of Ordinance No. 006 of the Board of the City of Fort Collins, Colorado, Water Utility Enterprise (the "Bond Ordinance"), the Enterprise intends to issue City of Fort Collins, Colorado, Water Utility Enterprise, Water Revenue Refunding Bonds, Series 2008, in the Maximum Aggregate Principal Amount of \$19,000,000 (the "Bonds"); and

WHEREAS, the issuance of the Bonds and the appropriation of the Bond's proceeds are necessary to complete the refunding of the City's Water Revenue Refunding Bonds, Series 2008; and

WHEREAS, a portion of the Bonds proceeds, in the amount of \$19,000,000, was not included in the 2008 budget, and the appropriation of those proceeds is necessary to authorize the payment to the refunded bond escrow agent and of bond issuance costs; and

WHEREAS, Section 19.3(b) of Article V of the City Charter provides that an enterprise board of the City shall not exercise powers reserved to the Council by the City Charter or otherwise (other than the power to issue revenue bonds and other obligations); and

WHEREAS, Article V, Section 9, of the Charter of the City of Fort Collins permits the City Council to make supplemental appropriations by ordinance at any time during the fiscal year, provided that the total amount of such supplemental appropriations, in conjunction with all previous appropriations for that fiscal year, does not exceed the current estimate of actual and anticipated revenues to be received during the fiscal year; and

WHEREAS, City staff has determined that the appropriation of the previously unappropriated proceeds of the Bonds in the amount of \$19,000,000 will not cause the total amount appropriated in the relevant funds to exceed the current estimate of actual and anticipated revenues to be received during the fiscal year.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS that the previously unappropriated proceeds of the Bonds in the amount of NINETEEN MILLION DOLLARS (\$19,000,000) are hereby appropriated in the Water Fund for payment to the refunded bond escrow agent and bond issuance costs contingent upon the final adoption of the Bond Ordinance and the final sale and issuance of the Bonds by the Enterprise.

Introduced, considered favorably on first reading, and ordered published this 7th day of October, A.D. 2008, and to be presented for final passage on the 21st day of October, A.D. 2008.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 21st day of October, A.D. 2008.

Mayor

ATTEST:

City Clerk