



City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: November 18, 2008

SUBJECT: Woodland Finance Authority Water Financing, Private Placement
Option

Report in Brief

In response to fluctuations within financial markets, staff has delayed the issuance of up to \$20 million in water revenue bonds approved by the Woodland City Council and Woodland Finance Authority in September. The fluctuations have caused interest rates and corresponding debt service payments to increase in a manner that would have had an adverse impact on the Water Enterprise Fund. As an alternative to the issuance approved by the Council and Financing Authority in September, staff and the City's financial advisor have identified a private placement option for a smaller amount now followed by additional financing for the balance of the need next year. This change in approach represents the best course of action at this time to secure funding for high priority projects while protecting the City and minimizing financing costs. As private placement represents a change in the financing approach, staff believes the option needs to be reviewed and approved by the City Council acting as the Woodland Finance Authority.

Staff recommends that the Finance Authority approve the private placement option for the financing of a net \$9,000,000 for Water Enterprise projects.

Background

On September 2 and 16, 2008, the City Council/Finance Authority approved resolutions to issue an amount not to exceed \$20,000,000 in water revenue bonds to fund several critical infrastructure improvement projects. The City had not previously issued bonds related to the Water Enterprise fund and this financing vehicle was recommended to provide the cash flow necessary to complete these projects within the prescribed timeframes. Since these resolutions were approved, the economy and financial markets have experienced unprecedented fluctuations, making it difficult to time a sale of bonds in a manner that would provide a favorable or even reasonable interest rate. In light of these unpredictable and unstable market conditions, the financing team is now recommending a private placement option for approximately half of the total amount needed at this time, followed by an additional financing next year in whatever form will provide the City with the lowest rates at that time.

The private placement option is essentially a bank loan secured by the City's excellent credit rating associated with the Water Enterprise Fund. This option is different from the action approved by the City Council/Finance Authority in September in that bonds are not being issued. As a result, there are no underwriting costs and reserve fund requirement. The risk associated with the private placement option is that the interest rate after five years will escalate from 5% to 8% for the remainder of the 25 year term. However, the City/Finance Authority has the ability to refinance this loan after three years or renegotiate a better rate prior to the escalation after year 5.

Discussion

The private placement option that has been identified and is being recommended at this time will net \$9,000,000 with a 25 year amortization period at the 5% interest rate for 5 years. This rate is approximately 100 basis points lower than the most recent comparative bond issuance and similar transactions that have taken place over the last several weeks. Private placement is viewed as a short term strategy that will allow the City/Finance Authority to receive the funds required to implement the identified water infrastructure projects during these challenging times in the financial markets. When the financial markets stabilize, staff and the City's financial advisor will review options for refinancing this loan, including the issuance of bonds as originally proposed. In any case, an appropriate financing alternative will be implemented prior to the escalation of the interest rates to 8% after year 5. The \$9,000,000 will provide the funds for the more time sensitive and critical projects, including the elevated water tank replacement, replacement of two wells, pipeline repairs and Phase I of the water meter installation. The remaining projects will be financed at a later date next year. The second financing approach will be analyzed and decided at the time the funds are needed to provide the City with the lowest rates and most favorable terms.

Fiscal Impact

No rate increase will be necessary to meet the debt service requirements related to this specific financing as the current rate structure is sufficient. Additional financing be required next year to complete the balance of the projects in the original plan, however the current rate structure will be sufficient to support that financing as well based on the project cost estimates provided at this time.

Public Contact

Posting of the Woodland Finance Authority Agenda.

Alternative Courses of Action

1. Approve the private placement option for the issuance of a net \$9,000,000 in water revenue bonds to finance Water Enterprise projects.
2. Direct staff to seek alternative funding sources for the proposed projects.

Recommendation for Action

Staff recommends that the City Council approve Alternative No. 1.

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