



THE CITY OF KEY WEST

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MEMORANDUM

EXECUTIVE SUMMARY

TO: Bogdan Vitas, City Manager
E. David Fernandez, Asst. City Manager

FROM: Jay Gewin, Utilities Manager

DATE: July 23, 2013

SUBJECT: **Approving a Bond Ordinance to Authorize the City of Key West to Issue \$23,500,000 in Sewer System Revenue Bonds to Re-Finance Completed Sewer Projects, Including Paying Costs Relating to Loan Issuance.**

ACTION STATEMENT:

This bond ordinance will allow the City of Key West to authorize \$23.5 million in sewer system revenue bonds to re-finance already-completed sewer projects. This is for a bank loan to replace our existing bond that should result in an annual savings for the City of approximately \$200,000. This ordinance will also allow the City to pay the costs relating to securing the loan agreement.

BACKGROUND:

On September 21, 1999, the City of Key West adopted Resolution No. 99-346 which authorized the issuance of Sewer System Revenue Bonds in an amount not to exceed \$23,000,000 to finance the cost of design, permitting, acquisition, construction, and reconstruction of improvements to the sewer system. The issuance of these bonds was subject to a bond referendum held on November 2, 1999, wherein a majority of Key West voters approved the issuance of said bonds.

Pursuant to the 1999 Referendum, on February 9, 2001, the City entered into a Clean Water State Revolving Fund Construction Loan Agreement with the Florida Department of Environmental Protection for the purpose of constructing certain wastewater treatment plant improvements in an amount equal to \$5,252,639.07, which then left authority under the 1999 Referendum at \$17,747,360.93.

On June 17, 2003, the City enacted Ordinance No. 03-15, and per that *Key to the Caribbean – Average yearly temperature 77° F.*

ordinance on July 23, 2003, the City issued its Sewer System Refunding Revenue Bonds, Series 2003 to refinance prior indebtedness, which did not require any use of authority under the 1999 Referendum since it was a refunding for savings.

Pursuant to the Original Ordinance and the 1999 Referendum, on February 14, 2012, the City issued its Sewer System Revenue Bond, Series 2012 in the aggregate principal amount of \$4,065,000 for the purpose of repaying a grant made by the Florida Department of Emergency Management which had previously paid for sewer system capital improvements, which then left authority under the 1999 Referendum at \$13,682,360.93.

The State Revolving Fund Loan is junior and subordinate in all respects to the 2003 Bonds and the 2012 Bond as to source of security.

PURPOSE & JUSTIFICATION:

Current economic conditions have resulted in interest rates at a lower percentage than what the City is currently paying for our 2003 series Bonds. Therefore City Staff and our financial consultants believe it is in the best interests of the City and its sewer system customers to authorize the issuance of not exceeding \$23,500,000 Sewer System Refunding Revenue Bonds for the purpose of refunding all or a portion of the 2003 Bonds and/or the State Revolving Fund Loan for net present value savings, which will not require any use of authority under the 1999 Referendum since it would be a refunding for savings.

The 2003 Bonds allow for us to now capitalize on these low interest rates to secure a bank loan that will help lower our annual payments by approximately \$200,000. Our financial analysts with PFM believe that a bank loan rather than a bond would offer the City the lower annual payment sum.

The principal of and interest on the 2013 Bonds shall be payable solely from the Net Revenues on parity and equal status with the 2012 Bond. The State Revolving Fund Loan, if not refinanced, would be junior and subordinate in all respects to the 2013 Bonds and the 2012 Bond as to source of security.

Our financial consultants have issued a RFP for the bank loan that is consistent with City purchasing ordinances. A resolution will be forwarded to the City Commission at the August 20th meeting that will select the proposal City Staff and our consultants believe is in the best interest of the City.

OPTIONS:

1. Approve the bond ordinance that will allow the City to enter into a bank loan that would lower the City's annual payments for the 2003 sewer bonds by approximately \$200,000 per year.
2. Do not approve the bond ordinance. This option is not recommended, because it is in the best financial interest of the City's sewer utility to capitalize on the

current low interest rates so that we can achieve over \$200,000 in savings on the annual payments towards our 2003 Bonds.

FINANCIAL IMPACT:

The annual savings in annual payments for the 2003 bonds is expected to exceed \$200,000. This figure was included in the FY 2014 budget that was presented to the City Commission. These annual savings from the bonds is a key reason why City Staff is recommending a 2% rate cut for next fiscal year.

RECOMMENDATION:

Staff recommends option # 1, that the City Commission approves the bond ordinance allowing the City to secure a \$23.5 million bank loan that will lower the current annual payment compared to the existing 2003 bonds.