

LRB-FISCAL REVIEW SECTION ANALYSIS

AUGUST 1, 2001 AGENDA

ITEM 20 FILE 001671

FINANCE & PERSONNEL COMMITTEE

JAMES CARROLL

File #001671 is a communication relating to a presentation by Stifel, Nicolaus & Company, Inc. regarding water utility refunding options.

Background

1. On May 2, 2001, Stifel Nicolaus & Company, Inc. (SNC) presented a proposal to the Finance and Personnel Committee. Stiefl, Nicolaus' two-part proposal includes issuing approximately \$47 million of 20-year refunding Water Works Revenue Bonds to pay off existing General Water Debt. An additional \$60 million in revenue bonds, secured by Water Works revenue, would also be issued. The proceeds from the second issue would be transferred to the City to bolster city reserves.
2. The Finance and Personnel Committee requested the City's Financial Advisor, Robert W. Baird & Co., to review SNC's proposal.

Discussion

Robert W. Baird & Co. concluded that:

1. The taxable bond rates, low investment rates and issuance expenses associated with the \$60 million issue combine to eliminate any economic benefit of the proposal.
2. After meeting all operating and capital costs, Baird estimates the Water Works would be required to generate revenue of about \$12 million for debt service for the next 20 years. The Water Works currently needs approximately \$4.5 million for debt service per year.
3. The Baird Analysis estimates that after issuance expenses and the reserve for future debt service coverage, \$54 million of the \$60 million would be available to increase City reserves. The SNC proposal assumes the whole \$60 million would available to enhance reserves.
4. Baird estimates that, if left unused, the City would generate \$2.7 million in interest (at 5%) from the \$54 million.
5. There could be Public Service Commission issues to overcome in order to implement the SNC proposal.
6. The SNC proposal would raise bond rating agency concerns about creating a long-term Water Works liability to potentially fund City general operating expenses.

Alternative

Robert W. Baird suggested the following alternative as more efficient method to leverage water Works revenue:

Refunding of the current Water Work's debt will generate a surplus of approximately \$3.3 million. The surplus could be transferred to the City. In order to satisfy rating bond-rating concerns, Baird suggests the Water Works and the City develop a policy of joint interests before any transfers occur.

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