LRB – FISCAL REVIEW SECTION ANALYSIS

NOVEMBER 19, 2003 AGENDA **ITEM 11, FILE 031039**

FINANCE & PERSONNEL COMMITTEE **JAMES CARROLL**

File #031039 is a resolution approving the terms and authorizing the entering into a Forward Purchase agreement for the providing of investments for the Debt Service Reserve Accounts of the City's Sewerage System Revenue Bonds.

Background

1. The 2000 Budget transferred the funding for the Relief and Relay sewer capital program from the City's Capital Improvement Budget to the Sewer Maintenance Fund. The transfer shifted the payment of the debt service for the Relief and Relay sewer capital program from the tax levy to revenue generated by the Sewer Maintenance Fee.
2. Since the transfer of Relief and Relay sewer capital program to Sewer Maintenance Fund the City issues revenue bonds to finance the program.
3. The issuance of revenue bonds requires the City to establish a debt service reserve account to assure bondholders that the debt service will be paid.
4. The City has issued its 2001 and 2003 Sewerage System Revenue Bonds with Debt Service Reserve Accounts of $2,343,384, and $2,524,600 respectively.
5. The accounts are current invested in overnight deposits earning approximately 1.00%.

Discussion

1. Resolution authorizes entering into a Forward Purchase Agreement relating to the Debt Service Reserve Accounts of the City's Sewerage System Revenue Bonds. The agreement will provide U.S. Treasury and Agency investments that earn the maximum interest that the City is permitted by the Tax Code to keep.
2. Under the federal tax code pertaining to tax-exempt debt, any earnings above the bond yields of 4.5087%, and 3.7504% on the 2001 and 2003 Debt Service Reserve Accounts, respectively must be rebated to the Federal Government.

Fiscal Impact

1. The Public Debt Commission's staff estimates that the Sewerage System Revenue Bonds Debt Service Reserve Accounts will earn approximately 4%

interest under the Forward Purchase Agreement, rather than the 1% the accounts are currently earning.

2. Assuming a return of 4%, the debt service reserve accounts will earn approximately $139,000 (after subtracting $5,000 in debt issuance costs) more than is currently being earned.

Cc:	Marianne Walsh Mike Daun Joe Czarnezki W. Martin Morics Richard Li John Ledvina	Prepared by: Jim Carroll, X8679 LRB Fiscal Review November 17, 2003