

# ***PLEASE NOTE SPECIAL MEETING DATE & TIME***

## **CHEHALIS CITY COUNCIL AGENDA**

CITY HALL

350 N MARKET BOULEVARD, CHEHALIS, WA 98532

Anthony E. Ketchum Sr., District 3

Mayor

Terry F. Harris, District 1  
Daryl J. Lund, District 2  
Dr. Isaac S. Pope, District 4

Dennis Dawes, Position at Large, Mayor Pro Tem  
Chad E. Taylor, Position at Large  
Bob Spahr, Position at Large

**Monday, July 18, 2011**

**5:30 p.m.**

### **WORK SESSION**

1. Discussion on Issuance of Debt. (City Manager, Finance Manager)

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**NEXT REGULAR CITY COUNCIL MEETING WILL BE ON MONDAY, JULY 25, 2011**

**CITY OF CHEHALIS  
AGENDA REPORT**

**TO:** The Honorable Mayor and City Council

**FROM:** Merlin G. MacReynold, City Manager  
Eva Lindgren, Finance Manager

**DATE:** July 14, 2011

**SUBJECT:** Debt Issuance to Reimburse the Water and Wastewater Funds

**ISSUE**

In October 2008, the City Council approved an inter-fund loan of \$1.45 million from the Water and Wastewater Funds to the General Fund. In accordance with previous discussions with the City Council, the administration has taken steps to research the financial options available to the city to reimburse the Water and Wastewater for the \$1.13 million currently owed by October of this year.

**DISCUSSION**

**Background:**

In 2008, the City had the rare opportunity to accept the donation of a new library. However, in order to accept this gift, the pre-existing City Hall and library structure had to be demolished to make way for the larger new library. Consequently, a New City Hall was needed. A building was purchased from Lewis County in August of 2005 using a short-term bank loan. Extensive remodeling and the repayment of the short-term loan severely impacted General Fund reserves.

In October of 2008, the City Council approved an inter-fund loan from the Water and Wastewater Funds for a total of \$1.45 million, with the understanding that long-term debt would be issued to reimburse the two utility funds. A portion of this loan has been paid off with proceeds from the sale of real property. Currently, \$1.13 million is owed to the two utilities.

Time is of the essence. In accordance with State requirements, the inter-fund loans must be paid back within three years. The three year anniversary will occur this October. Moreover, interest rates are currently at historic lows, but these are expected to increase within the next year.

**Issues Under Consideration:**

There are many factors which must be taken into consideration when contemplating the issuance of debt:

- The length of the loan (loan maturity)
- Taxable vs. non-taxable debt
- Fixed rate vs. variable rate debt
- Funding options: bond issue; bank loan; or private placement
- The debt type: general obligation; revenue debt; or LID debt
- Debt issuance costs financed or paid out-of-pocket

If the city is to issue bonds, then prior to doing so, the City will need to be rated by a bond rating agency. The City is not guaranteed an adequate rating, but indications are that we may qualify for an "A," "A+," or "A-" rating. The GFOA recommends bond issuances for governments receiving a bond rating of "A" or higher. The lower the rating, the higher the interest rate attached to a debt issuance.

The administration's focus has been on keeping the total cost of an option low and keeping interest rates fixed in order to limit sharply increasing interest payments once rates increase. Scott Bauer and Hugh Spitzer will discuss the various options and provide recommendations based upon the City's unique fact set.

If the City Council directs the administration to pursue a bond issuance, an underwriter will need to be selected. The financial advisor would be instrumental in selecting a qualified underwriter.

**Presenters:**

Scott Bauer of A. Dashen and Associates (financial advisor) and Hugh Spitzer of Foster Pepper PLLC (bond counsel) will be attending the work session to present information on the debt issuance process as well as the various debt issuance options available to the City. Both Alan Dashen and Hugh Spitzer are highly recommended, and have in the past provided valuable feedback on debt questions from the city. In fact, it was Mr. Spitzer's firm which provided the City with the appropriate language for its reimbursement resolution for the library landscaping project *pro bono*.

A financial advisor has specialized knowledge in debt issuances and has a fiduciary responsibility to protect the interests of its clients issuing debt. Usually, for even the simplest debt issuances, it is recommended by the Government Finance Officers Association (GFOA) that a Financial Advisor is brought on board to ensure that the best terms possible are secured by the issuing entity. Financial Advisors often provide assistance in the selection of underwriters and bond counsel. Below is A. Dashen and Associates' own description of the services they provide.

A. Dashen & Associates was formed in 1996 to provide financial advisory services to public entities throughout the Northwest. As independent financial advisors, we are not affiliated with an underwriting firm. This enables us to provide clients unbiased advice which is not influenced by other business factors. We have a clear fiduciary responsibility to provide advice which is in the best interest of our clients. We have no conflicts of interest in recommending the method of sale or in recommending one or more firms to serve as an underwriter or underwriting syndicate member for a negotiated sale. As an independent financial advisor, we will work with the City to determine the process that will best meet your needs, and assist you in appropriately utilizing the services of underwriters. Our independence allows us to serve your interests.

Bond counsel is a critical member of the debt issuance team. According to the GFOA, "bond counsel renders an opinion on the validity of the bond offering, the security for the offering, and whether and to what extent interest on the bonds is exempt from income and other taxation. The opinion of bond counsel provides assurance both to issuers and to investors who purchase the bonds that all legal and tax requirements relevant to the matters covered by the opinion are met. An issuer should assure itself that its bond counsel has the necessary expertise to provide an opinion that can be relied on and will be able to assist the issuer in completing the transaction in a timely manner." Below is a description of Hugh Spitzer's background and areas of expertise:

Hugh Spitzer is a public finance lawyer at Foster Pepper PLLC who has served as bond counsel on most types of public financings, including general obligation bonds, revenue bonds, and local improvement district financings. He also regularly assists local governments in developing interlocal agreements for joint projects, and represents municipal entities in negotiations with private sector service providers and developers. Hugh teaches local government law and constitutional law at the U.W. Law School, and has published widely on public finance, taxation, public contracting and related topics. He received his B.A. from Yale University in 1970, his J.D. from the

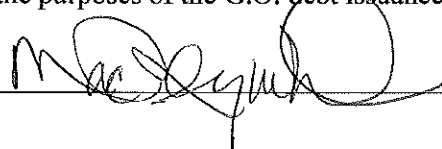
University of California Law School at Berkeley in 1982.

**RECOMMENDATION/COUNCIL ACTION DESIRED**

The Administration requests direction from the council as to which debt issuance options should be pursued and requests that the Council provide the City Manager with the authority to retain the services of A. Dashen and Associates and Foster Pepper PLLC for the purposes of the G.O. debt issuance of approximately \$1.2 million. In the event that an underwriter is required for the debt issuance, the Administration will approach the council for the authority to retain the services of an underwriter.

**SUGGESTED MOTION**

I move that the following debt issuance options be pursued: \_\_\_\_\_ and that the City Manager be authorized to retain the services of A. Dashen and Associates and Foster Pepper PLLC for the purposes of the G.O. debt issuance of approximately \$1.2 million.

Reviewed  \_\_\_\_\_ City Manager

**City of Chehalis, Washington**

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**Funding Options for Interfund Loan**

Scott Bauer

July 18, 2011

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**A. DASHEN & ASSOCIATES**

## Financing Overview

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- Several sources for reimbursing the Water and Wastewater Fund have been looked at
- Funding sources include:
  - Bond issue
  - Bank loan
  - Private placement

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## Financing Overview (cont.)

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- Issuing tax-exempt Limited Tax General Obligation Bonds through one of the options above are considered further in this presentation
  - 2011 AV is \$632,359,410 which provides a maximum of \$9.49 million in LTGO debt capacity
  - Remaining capacity is \$7.89 million after subtracting existing general obligations and adding available assets

## Funding Sources Summary

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- Bond Issue
  - Bonds would be issued through a public offering via an underwriting firm
  - Bonds are typically sold to multiple investors
  - Bonds generally have higher costs of issuance, but lower interest rates
  - The bond issuing process usually takes about 6 to 8 weeks and requires the preparation of an official statement and obtaining a credit rating
  - Bonds could be issued for nearly any term: 15 or 20 years would not be an issue



## Funding Sources Summary

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- Bank Loan
  - Bank loans work well for interim, variable rate financing (tied to Prime or LIBOR)
  - Most banks will not lend for longer than 15 years
  - Most banks will not lend at a fixed rate for 15 years
  - Typically lower costs of issuance than a bond issue

## Funding Sources Summary

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- Private Placement
  - Loan is placed with interested investor or investors
  - May offer a fixed rate for 15 years
  - Typically lower costs of issuance than a bond issue
- *We contacted several banks to obtain indicative rates for each option*

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## Funding Sources Results

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- Bond Issue
  - 15 Year interest rates average 3.45%
    - average annual debt service of \$103,205
    - Total Debt Service = \$1,565,291
  - 20 Year interest rates average 4.02%
    - average annual debt service of \$88,250
    - Total Debt Service = \$1,779,475
  - Costs of issuance are estimated at \$39,200
  - With costs of issuance included, interest rate is 3.91% (15 year) and 4.39% (20 year)

## Funding Sources Results

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- Bank Loan
  - One bank would provide a loan for 15 years, with adjustment in rates every 5 years
  - Years 1-5, interest rates are fixed at an estimated 3.50% to 3.60%
  - Years 6-10, interest rates increase to a fixed 4.75% to 4.80%
  - Years 11-15, interest rates are tied to a spread off of an index
  - Costs of issuance are estimated at \$16,400

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## Funding Sources Results

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- Private Placement
  - One bank would provide a loan for 15 years
  - The interest rate would be fixed for the term at 4.95%
  - Costs of issuance are estimated at \$16,400

## Recommendations

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- Recommendations
  - Pursue a bond issue
    - Even with higher costs of issuance, a bond issue appears to provide the lowest cost of financing. However, revisit the other options since markets and interest rates change.
  - Issue tax-exempt Limited Tax General Obligation Bonds for approximately \$1.2 million and a 15 year term
  - Complete sale by October

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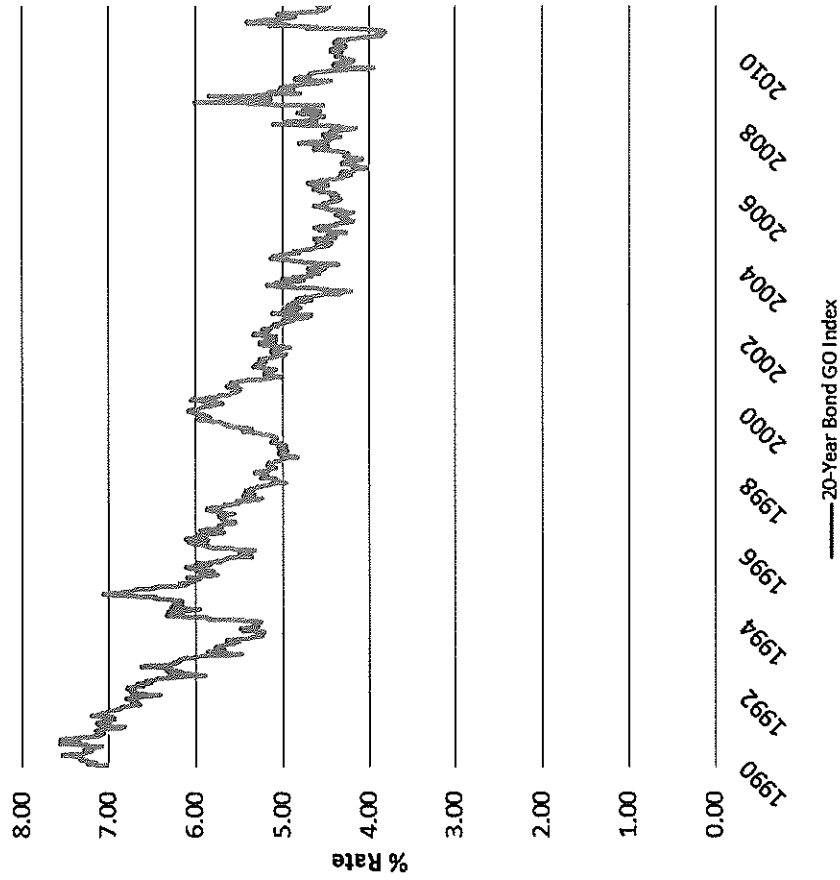
## Next Steps

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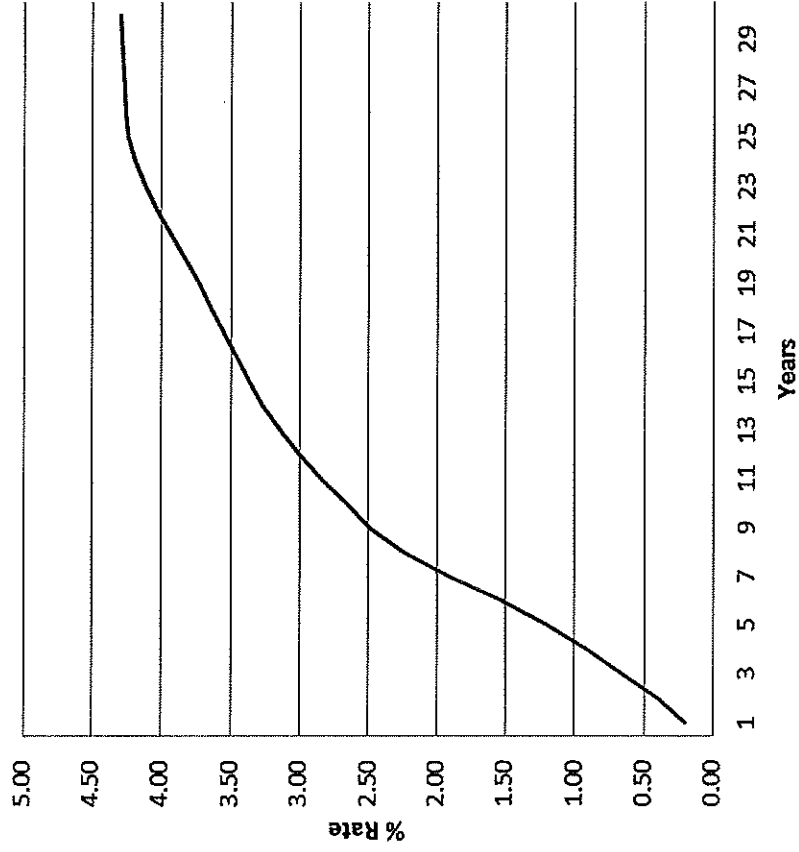
- Next Steps
  - Receive Council direction on funding option
  - If pursuing tax-exempt option, identify eligible Water and Wastewater capital projects
  - Prepare detailed schedule
  - Select a bank
  - Prepare documents
  - Objective is to complete the financing by October

# Bond Market Update

**Bond Buyer 20-Bond GO Index  
1990 to Present**



**Market Yield Curve  
Municipal Market Data Index**



— 7/14/2011