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# SALT LAKE CITY COUNCIL STAFF REPORT

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**DATE:** September 14, 2010

**SUBJECT:** **Resolution: \$12 million Water & Sewer Revenue Bonds, Series 2010 Sewer Line Improvements**

**STAFF REPORT BY:** Lehua Weaver

**CC:** David Everitt, Jeff Niermeyer, Tom Ward, Jim Lewis, Rusty Vetter, Dan Mulé

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Since the Council's August 10<sup>th</sup> briefing about the issuance of bonds, some changes have occurred. The Administration still proposes issuing bonds for the Orange Street Sewer line project, however rather than issuing Build America Bonds, the Administration has an opportunity to issue privately held bonds for a better interest rate and lower issuance costs.

The Administration will "lock-in" the rate the morning of the hearing so that the resolution adopted by the Council is complete. The Administration also proposes issuing the full \$12 million in bonds, the not-to-exceed par amount reflected in the Parameters Resolution, rather than an amount closer to the estimated Orange Street sewer line budget of \$10 million.

The Council's motion on August 10<sup>th</sup> authorized the Administration to move ahead with the details of issuing the bonds, including final proposed amount, confirming the interest rate, and other terms. The Administration will be present at the September 14 hearing to provide finalized details (such as confirming the final interest rate locked-in on the morning of September 14), and answer questions from the Council.

According to the updated transmittal (attached), issuing the full amount of \$12 million in bonds and the different interest rate, the estimated annual debt payment on the bonds would be \$755,000. At the time of the briefing, assuming the lower bond issuance and higher interest rate, the estimated payment was \$740,000.

**Options:** If the Council does not support issuing the full \$12 million in bonds, that change should be incorporated into the motion.

## MOTIONS

### Item C-1 – Public Hearing

*"{I move that the Council}* Close the public hearing and refer to Item D-1 for action on the proposed resolution.

### Item D-1 – Action Item

*"{I move that the Council}* Adopt and approve the resolution authorizing the issuance and confirming the sale of \$12,000,000 aggregate principal amount of Water and Sewer Revenue Bonds, Series 2010 of the City; authorizing the execution and delivery of certain documents relating to such bonds; and providing for related matters.

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*Information provided previously for the August 10 briefing and action:*

As discussed during the annual budget, the Department of Public Utilities plans to bond for up to \$12 million for utility improvements. The primary project is the Orange Street Sewer Main rehabilitation.

On August 10, the Council will receive a briefing and consider adopting the parameters resolution establishing the details of the bond sale. This resolution adoption also sets the date of September 14, 2010 for a hearing prior to finalizing approval for the bond issuance.

## **MOTION**

In addition to the briefing, the Council will also take action on the parameters resolution and setting a date for a September 14 Public Hearing. Bond Counsel has provided the following motion language:

*"{I move that the Council} Adopt a resolution that authorizes the issuance and sale of up to \$12,000,000 aggregate principal amount of the City's water and sewer revenue bonds to finance all or a portion of certain improvement, facilities and property that will be part of the City's water, sewer and stormwater system; provides for a public hearing on September 14, 2010 and provides for related matters.*

## **KEY ELEMENTS**

- Project Information:
  - The primary project funded by the bond will be the rehabilitation of the 48-inch Orange Street Sewer Main from Orange Street (1700 West) and North Temple to the pre-treatment pump station across Rose Park Golf Course past 1700 North Redwood Road.
    - Estimated budget: \$10 million
    - The project will be "trenchless," using a 'cured-in-place' pipe liner. This is a new method of rehabilitating the sewer main, and significantly reduces the amount of construction along the line.
    - This project is a priority because of the condition of the sewer main – evidenced by two emergency repairs in the past year, and a comprehensive study as part of the recent sewer master plan.
  - The bond language is broad enough that if the Orange Street project is less than the amount budgeted, the funding could be used toward other utility projects.
  
- Bonding Information:
  - The Administration plans to issue "Build America Bonds" for this project. The Council may recall that during an April discussion about Public Safety Building bonds, the Administration introduced information about "Build America Bonds."
  - The bonds are taxable and the rate is comparatively higher, but the issuer (the City) receives an interest rebate from this program. (Please see the attached April memo from Chapman & Cutler providing details of the Build America Bonds.)
  - The bonds cover eligible capital costs, including design and engineering.

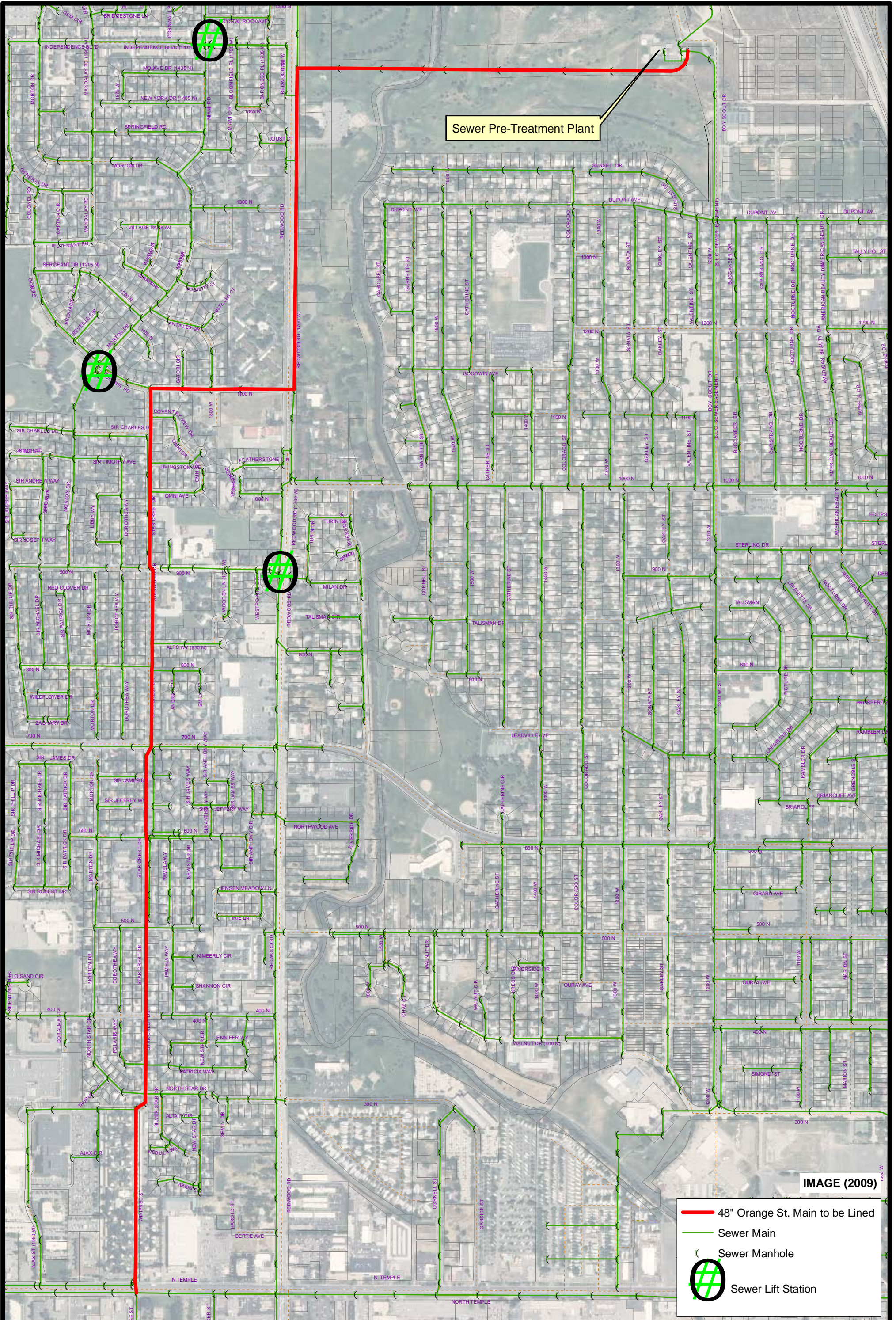
- Public Utilities estimates that the annual repayment amount will be \$740,000 for 20 years. This amount factors in the rebate, and the final effective interest rate will be around 4%.
- The Administration will apply for the rebate annually, following the terms and processes outlined as part of the program.
- The availability of the Build America Bonds, with the current rebate structure, is set to expire on January 1, 2011. If the City sells these bonds prior to that date, the terms are set.
- Council Action Timeline:

August 10	Council Briefing, Adoption of the Parameters Resolution, Setting the Date for the Public Hearing
September 14	Council Public Hearing 30 Days of Comment Period
October (TBD)	Council take action on the Bond Resolution & Purchase Agreement
October (end)	Official Bond Closing (Administration)

## QUESTIONS FOR CONSIDERATION

1. *If the Orange Street main does not use the full \$12 million bond, the Council may wish to ask what other projects are next.*
2. The Build America Bonds have some detailed compliance requirements to qualify for the rebate. If the project is not properly qualified, the City may no longer receive the rebate, but the bonds would continue at the same taxable rate. *The Council may wish to ask for a reminder of what other risks are associated with this bonding option.*





Sewer Pre-Treatment Plant

IMAGE (2009)

- 48" Orange St. Main to be Lined
- Sewer Main
- Sewer Manhole
- Sewer Lift Station



Wednesday, August 04, 2010  
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## Orange Street Sewer Main Rehab

