



MEMORANDUM

Date: July 26, 2022

To: Water Utility Board

From: Krishna Kumar, General Manager
Kathy Schwenn, Finance Manager

Subject: Refunding of 2012 and 2013 Water Revenue Bonds with General Obligation Bonds

BACKGROUND

Madison Water Utility (Utility) issued two series of Water Revenue Bonds in 2012 and 2013. The current outstanding principal amount of each of these is, respectively, \$12,880,000 and \$16,525,000 for a total of \$29,405,000. The City's Finance Department has identified a potential opportunity to refund these two series of water revenue bonds and issue general obligation bonds in their place.

An initial resolution (attached) for the issuance of bonds has been introduced for action by the Common Council at its August 2nd meeting. This initial resolution is required by state law prior to the issuance of general obligation bonds and it provides electors with 30 days to secure a sufficient number of signatures of eligible electors to call for a referendum on the bond issuance. The city has issued general obligation bonds several times over the past ten years; none of those issuances has resulted in a petition or referendum. The refunding bonds would be issued as part of the city's larger "bricks and mortar" new money general obligation competitive debt sale on September 6, 2022.

The use of general obligation debt to refund Water Utility revenue bonds is a strategy that will provide the city's general fund budget with additional revenue capacity under the state's property tax levy limit law. In addition to the net present value savings described below, this refunding will also improve the coverage ratio (ratio of Water Utility revenues to total revenue bond debt service) by reducing the outstanding revenue bond debt service of the Water Utility. Maintaining an adequate coverage ratio is a requirement of current and any future Water Utility revenue bond issuances.

The potential refunding would result in the Utility accruing the following benefits and savings, (subject to actual true interest cost on date of bond sale):

- The Utility is required to maintain a bond reserve of \$3.7M for the 2012 and 2013 bonds, while the proposed series of general obligation bonds do not require a bond reserve.
- The released reserve amount and additional available cash will be used to repay a portion of the outstanding debt, thereby reducing the principal debt outstanding subject to the refunding by \$4,960,000
- The conversion will also result in a reduced interest rate (**2.889%**), compared to the average coupon on the 2012 bonds (**3.054%**) and the 2013 bonds (**4.016%**).
- This potential refunding transaction results in:
 - A reduction of annual debt service by approximately \$400,000 from 2023 - 2032
 - A net present value saving of \$758,685

Table – 1 below details the specifics of the potential savings from the refunding transaction.

Table – 1	
Description	Amount
Total debt service of old debt	\$ 35,979,375
Total debt service of new debt	28,554,828
Net Future Value of Cash Flow Savings	7,424,547
Net Present Value Cash Flow Savings @2.796% (Bond Yield)	6,530,400
Less: 1) Transfers from Prior Issue Debt Service Fund	(1,872,813)
2) Transfers from Prior Issue Debt Service Reserve Fund	(3,741,946)
Contingency or Rounding Amount	269
Present Value of Savings	915,910
Less: Cost of Issuance	157,225
Net Present Value Benefit	\$ 758,685

ATTACHMENT:

1. Initial Resolution Refunding Water Utility Revenue Bonds #72664