VILLAGE OF KEY BISCAYNE

Office of the Village Manager

MEMORANDUM

DATE: March 8th, 2011

TO: Honorable Mayor and Members of the Village Council

FROM: Genaro "Chip" Iglesias, Village Manager

RE: Restructuring Stormwater Utility Revenue Bonds, Series 1999

RECOMMENDATION

It is recommended that the Council consider refinancing and restructuring the Stormwater Utility Revenue Bonds, Series 1999 to provide debt relief for the Stormwater Enterprise Fund and alleviate the cash flow shortages and the recommended annual stormwater rate adjustments.

BACKGROUND

In January of 1999 the Village Council authorized the issuance of the Stormwater Utility Revenue Bonds, Series 1999 in the aggregate principal amount of $7,200,000 to provide funds for the ultimate purpose of expanding and improving the Stormwater Utility System within the Village. The Stormwater Utility Revenue Bonds, Series 1999 was structured with yearly escalating debt service for 20 years at an interest rate of 4.13% per annum. Over the past two years this debt along with unchanged stormwater utility rates has created budget constraints on the Stormwater Utility Enterprise Fund.

After reviewing various financing alternatives, Estrada Hinojosa made a presentation at the December 7, 2010 meeting and recommended that the Village refinance the Series 1999 Stormwater Utility Revenue Bonds, with a 20 year Private Placement Bank Qualified Loan. This would spread the debt burden more evenly on the residents benefiting from the system and allow debt relief to the Stormwater Utility Enterprise Fund. At that same meeting Burton & Associates presented a preliminary Stormwater Rate Study for the Village that determined that various rate increases would be required over the next few years to cover the cash flow constraints. The Council requested that we evaluate extending the refinancing period from 20 years to 30 years, and the effects these would have on the recommended annual stormwater rate adjustments.

We updated the estimated debt service schedules for the refinancing of the Series 1999 Bond issue with a 20 year final maturity and developed an estimated schedule of annual

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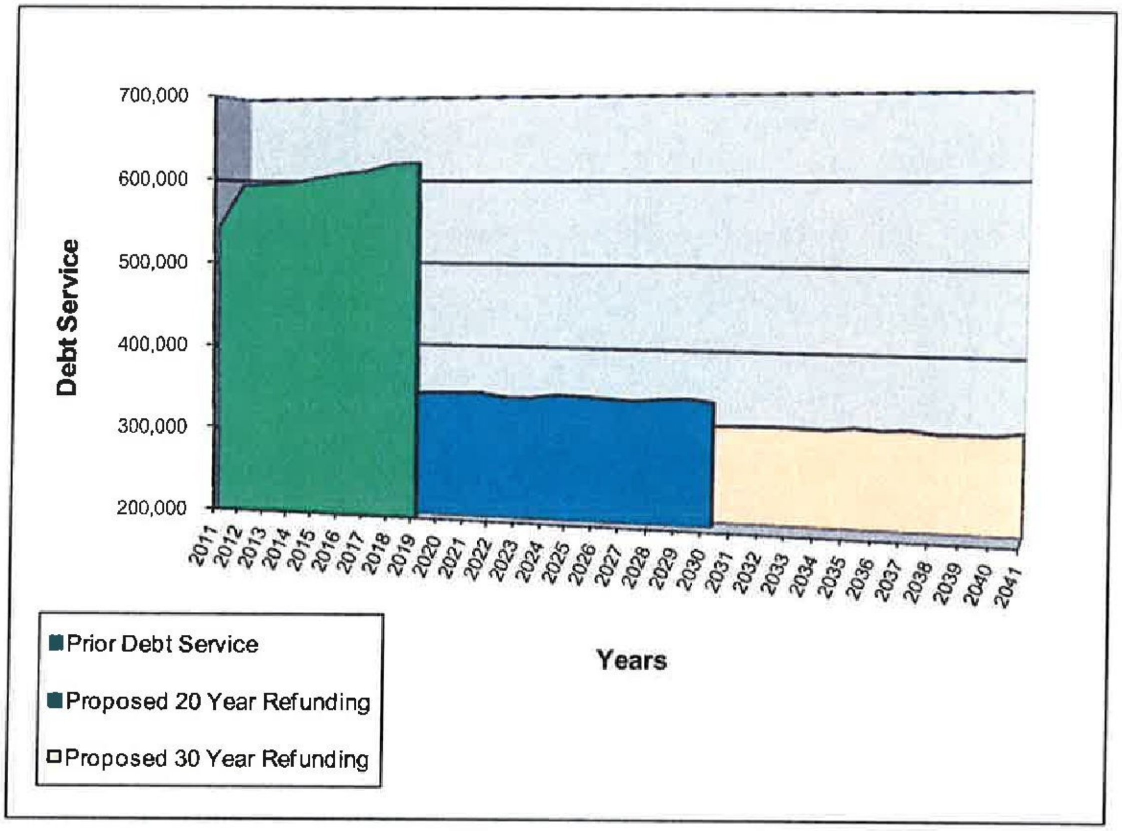
debt service for the refinancing with a final maturity in 30 years. These debt service schedules were included in the Stormwater Rate Model prepared by Burton and Associates.

Attached please find a table that summarizes the differences between the Series 1999 Stormwater Utility Bonds and the two refinancing alternatives for 20 and 30 year final maturities. As is illustrated in the attached table, the costs of issuing a 30 year financing are higher for three reasons: 1) selling the bonds in the open market requires more legal work and credit preparation for the benefit of the bond buyers, 2) the further you go out on the yield curve the higher the interest rates, and 3) the longer the debt the longer you pay interest. The benefits, however, are that: 1) if you issued 30 year debt you would initially raise rates by $2.63 in FY11 (from $7.50 to $10.13 for a Single-Family per month) and not have any further increases thru FY 20, 2) the rates stabilize at $10.13 vs. a steady increase, and 3) ultimately the rate in FY 20 will be at $10.13 which is lower than it would be with a 20 year financing. If you issue a 20 year financing, there is less debt service but more cash flow constraints in the Utility Enterprise Fund, and rates would have to increase by 35% in FY 11 and by 1% every year thru FY 20. Also, the rates will be higher every year due to the steady increases thru FY 20 at $11.07 than would be with the 30 year financing at $10.13 in FY20. The total debt increase for the 20 year financing would be $1,380,055.74 and for the 30 year, $4,197,343.66. The maximum annual debt service would be reduced by $271,948.50 on the 20 year refunding and $301,888.50 for the 30 year refunding.

A couple of issues also need to be taken into account: 1) Under the 20 year financing scenario the Village would have to commit to raise rates by 1% every year and it may be difficult to live up to that promise due to necessary yearly Council approval, and 2) Private Placements usually carry an interest rate premium or penalty to prepay the debt, where the 30 year open market securities assume a 10 year par call (i.e., you can pay the debt off with no penalty after year 10). In summary, this is a policy decision on how to manage the Stormwater Utility Fund budget and cash flow constraints, more debt service or higher rates.

Village of Key Biscayne Stormwater Utility Refunding Bonds, Series 1999



		Current	Proposed 20 Year Refunding	Proposed 30 Year Refunding
Quantitative Analysis	Par Amount	$ 4,450,000.00	$ 4,530,000.00	$ 4,580,000.00
	Interest Rate	4.13%	4.25%	5.47%
	Closing Expenses		78,488.44	129,141.79
	Avg Debt Service	598,063.95	345,325.85	313,239.86
	Max Annual Avg Debt Service	619,573.50	347,625.00	317,685.00
	Total Net Debt Service	5,382,575.51	6,762,631.25	9,579,919.17