

MEMORANDUM

DATE: August 31, 2021
TO: Ted Corrigan, CEO and General Manager
FROM: Amy Kahler, Chief Financial Officer
SUBJECT: 2012 Water Revenue Bonds

Background

In August, the Finance & Audit Committee and staff discussed that refunding the 2012B bonds when they become callable on December 1st of this year would result in savings to our customers of approximately \$330k due to lower interest rates. At their August 24th board meeting, the Board initiated the process of refunding by setting the date for a public hearing as of the September 28th board meeting. Setting the date for and holding the public hearing does not mandate that the refunding be completed on December 1, 2021, but it does preserve the option.

Update – Refunding vs. Redemption

DMWW has heard informally from West Des Moines Water Works, City of Ankeny, and City of Bondurant that they wish to pay off their portion of the 2012B bonds in full on December 1st. Urbandale Water Utility (UWU) staff has indicated they are leaning towards paying off the bonds in full, and redemption will be presented for discussion and decision at their Board meeting on September 14th. Assuming UWU wishes to proceed with redemption, staff will recommend that DMWW also pay off the portion for which DMWW is responsible, which would result in a cash payment of approximately \$2.6 million, net of the amount released from the debt service reserve fund. Redeeming the bonds on December 1, 2021 would provide total interest savings across participants of approximately \$876k, and \$293k of that savings would be specific to DMWW’s portion.

Our bond counsel, Eric Bohlert, Ahlers & Cooney and financial advisor, Maggie Burger, Speer Financial, have both advised it is prudent to proceed with the September 28th Public Hearing to refund the 2012B bonds, because although the participating entities have *informally* stated their wish to pay off their portions in full, they have not passed formal resolutions to this effect. As stated above, proceeding with the Public Hearing to refund does not mandate that the refunding occur but continues to preserve the option for a December 1st refunding, and gives the participants time to formalize their request to redeem in full.

If redemption is pursued, participants will be asked to pass resolutions in September or early October, and the DMWW Board would consider a resolution for redemption at the October 26th Board meeting. This timing meets the 30-day requirement for communicating to the bondholders our intent to pay off the bonds prior to the December 1, 2021 redemption date.

2012A Bonds

DMWW also has a Series 2012A bond issuance outstanding, with a remaining balance of \$600,000 assigned entirely to DMWW (i.e., no participation by wholesale or Total Service customers). These bonds were issued at a lower interest rate of 2%, mature December 1, 2023, and are also callable on December 1, 2021. In initial refunding analyses, Speer did not recommend refunding the 2012A bonds because the costs of refinancing this issuance would outweigh the interest savings. However, as full redemption is being strongly considered for the 2012B bonds, staff recommends that DMWW redeem the 2012A series as well. The net amount of cash necessary to pay off the 2012A bonds on December 1 would be \$139,500 (\$600,000 principal less \$460,500 debt service reserve fund released). While the interest savings of \$14,250 is not significant, neither is the redemption amount and redeeming the 2012A Series bonds would allow the production assets to be transferred to a potential regional entity as early as 2023 (after DMWW's SRF loan is paid off in December 2022).

If redemption of the 2012A bonds is pursued, the same process as outlined above for the 2012B bonds would be followed, with the DMWW Board considering and passing a resolution for redemption at the October 26th Board meeting, thereby meeting notification requirements to the bondholders.

Next Steps

The following summarizes next steps related to bond discussions:

- Proceed with the Public Hearing to refund the 2012B bonds as of the September 28, 2021 board meeting in order to preserve this option.
- Follow up with Urbandale Water Utility to understand their decision on whether they wish to redeem their portion of the 2012B bonds (all other participants have already stated they do wish to redeem).
- If redemption is pursued:
 - Staff will collect formal resolutions from participants committing to redemption.
 - Pass a resolution(s) to redeem both 2012A and 2012B bonds at the October 26th Board meeting.
 - DMWW will notify bondholders at least 30 days prior to the December 1 redemption date as required.
 - Participants to the 2012B bonds would remit their respective pay-off amounts in cash to DMWW by November 19th
 - DMWW would pay off Series 2012A and 2012B bonds on December 1, 2021.