

Mayor and Council Communication

DATE: 06/10/25

M&C FILE NUMBER: M&C 25-0553

LOG NAME: 20SW DEBT SERVICE PAYMENT ADJ AND COI

SUBJECT

(ALL) Adopt Appropriation Ordinances to Increase Funding for Various Stormwater Programmable Capital Projects by Utilizing Surplus Interest Proceeds in the Debt Service Fund to Pay Current Year Debt Service, Reallocating an Operating Transfer to Capital Instead of Debt Service, and Reallocating Funds from a Cost of Issuance Project to a Programmable Capital Project, Authorize All Associated Transfers, and Amend the Fiscal Year 2025 Adopted Budget and the Fiscal Years 2025-2029 Capital Improvement Program

RECOMMENDATION:

It is recommended that the City Council take the following actions to increase appropriated funding for Stormwater capital projects:

1. Adopt the attached ordinance reallocating estimated receipts and appropriations in the Stormwater Utility Fund, by decreasing Transfer to Stormwater Debt Service Fund by \$7,030,581.17, and increasing Transfer to Stormwater Capital Projects Fund by the same amount, for the purpose of funding stormwater capital projects as needed;
 2. Adopt the attached ordinance making the following adjustments in the Stormwater Debt Service Fund: decreasing Transfer from Stormwater Utility by \$7,030,581.17, decreasing contribution to net position by \$159,442.00, and increasing use of net position by \$6,871,139.17, from a surplus attributable to prior year interest earnings;
 3. Adopt the attached ordinance increasing estimated receipts and appropriations in the Stormwater Capital Projects Fund in the cumulative amount of \$7,030,581.17, transferred from the Stormwater Utility Fund, for the purpose of funding certain identified programmable projects (City Project Nos. P00136, P00114, P00120);
 4. Adopt the attached ordinance adjusting estimated receipts and appropriations in the Drainage Revenue Bonds Series 2023 Fund by decreasing the Cost of Issuance project (City Project No. 101004) by \$3,014,493.78 and increasing the Total Channel Restoration Bond Programmable project (City Project No. P00136) by the same amount; and
 5. Amend the Fiscal Year 2025 Adopted Budget and the Fiscal Years 2025-2029 Capital Improvement Program.
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DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to take actions to make more resources available for stormwater capital projects. That is accomplished by recognizing surplus funds from interest earnings in the Stormwater Debt Service Fund to pay current-year debt service, reallocating a planned transfer for debt service to capital instead, and reallocating proceeds within the Drainage Rev Bonds Series 2023 Fund from a Cost of Issuance project to a programmable projects.

The City's Stormwater Fund generates interest income by prudently investing idle cash from operations, "pay as you go" capital funds, and bond funds in strict compliance with federal and state laws and regulations, as well as City policy. The recent practice has been to allocate interest income from Stormwater enterprise activities to the City's Stormwater Debt Service Fund to offset interest cost associated with outstanding debt issuances and to accumulate cash which can be used to pay off debt prior to maturity to achieve debt service savings. The City has benefited tremendously from the current elevated interest rate environment, resulting in better-than-expected interest earnings due to a dramatic increase in the Federal Funds rate from a range of 0.01% to 0.25% to over 5% in the current year.

As a result, City staff has identified approximately \$7,030,581.17 of excess funds above the minimum reserve requirement in the City's Stormwater Debt Service Fund. Staff recommends for City Council to declare this surplus of interest income receipts in the Stormwater Utility Fund for use in paying debt service obligations. Using the interest proceeds in this way will allow repurposing a planned transfer from the Stormwater Utility Fund to go to the Stormwater Capital Projects Fund instead to fund various Programmable Projects. The funding will be used to advance hazardous road overtopping mitigation projects, storm drain rehab projects, and channel restoration improvements.

Staff routinely monitor collection of investment income from utility operations to identify any surplus that can be used for other lawful purposes. Given the variable nature of investment income, any surplus may fund one-time initiatives, capital projects, or accumulate cash, which can be used to pay off debt prior to maturity to achieve debt service savings.

When the Drainage Revenue Bonds, Series 2023 were issued, on the day of pricing, interest rates were lower than the City's initial estimates. This allowed the bond sale to generate more bond proceeds without increasing the annual debt service requirements. Additional proceeds of \$3,014,493.78 were ultimately recorded to the Cost of Issuance project within the Drainage Rev Bonds Series 2023 Fund, with the intent to reallocate the funding to specific stormwater projects at a later date. This M&C will move these proceeds to the Total Channel Restoration Programmable project.

Funding for this project was not included in the Fiscal Years 2025-2029 Capital Improvement Program due to funding availability. The action in the M&C will amend the Fiscal Years 2025-2029 Capital Improvement Program as approved in connection with Ordinance 27107-09-2024.

Funding is budgeted in the Stormwater Debt Service Fund for the Transportation & Public Works Department within the Stormwater Capital Projects and Drainage Rev Bonds Series 2023 Funds for the purpose of funding various Stormwater Programmable Projects.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that funds are currently available in the Stormwater Debt Service Fund and Drainage Rev Bonds Series 2023 Fund and upon approval of the above recommendations and adoption of the attached appropriation ordinances, funds will be available in the Stormwater Capital Projects and Drainage Rev Bonds Series 2023 Funds for the Total Channel Restoration Bond, Stormdrain Pipe Rehab and SW Hazardous Rd Overtopping programmable projects. Prior to an expenditure being incurred, the Transportation & Public Works Department has the responsibility of verifying the availability of funds.

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