

Mayor and Council Communication

DATE: 03/19/20

M&C FILE NUMBER: M&C 20-0186

LOG NAME: 13PARTIAL CASH DEFEASANCE: CO2010, GO2012, WSS2010C

SUBJECT

Adopt Resolution Authorizing Partial Cash Defeasance of Ad Valorem Tax Supported Obligations and Water and Sewer System Revenue Bonds; and Adopt Appropriation Ordinances (ALL COUNCIL DISTRICTS)

RECOMMENDATION:

It is recommended that the City Council:

1. Adopt the attached resolution authorizing partial cash defeasances, including principal, accrued interest, and transaction costs, of (i) City of Fort Worth, Texas General Purpose Refunding and Improvement Bonds, Series 2012; (ii) City of Fort Worth, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010; and (iii) City of Fort Worth, Texas Water and Sewer System Revenue Bonds, Series 2010C.
2. Adopt the attached supplemental appropriation ordinance increasing appropriations in the General Debt Service Fund in the amount of \$15,779,353.00 from available fund balance, with such amount subject to reduction to conform to final figures at the time of defeasance, for use, together with \$6,184,032.00 of previously appropriated current-year revenue budgeted for debt service, for partial defeasance of Series 2012 GO bonds;
3. Adopt the attached supplemental appropriation ordinance increasing appropriations in the Culture and Tourism Debt Service Fund in the amount of \$6,356,423.00, from available fund balance, with such amount subject to reduction to conform to final figures at the time of defeasance, for partial defeasance of Series 2010 COs; and
4. Adopt the attached supplemental appropriation ordinance increasing appropriations in the Water and Sewer Priority Lien Debt Service Fund in the amount of \$11,854,518.00, from available fund balance, with such amount subject to reduction to conform to final figures at the time of defeasance, for partial defeasance of Series 2010C Water and Sewer revenue bonds.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to take actions associated with partial cash defeasance of three different series of outstanding debt obligations - (i) City of Fort Worth, Texas General Purpose Refunding and Improvement Bonds, Series 2012; (ii) City of Fort Worth, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010; and (iii) City of Fort Worth, Texas Water and Sewer System Revenue Bonds, Series 2010C. Payment of the costs for each defeasance will primarily come from available fund balance in the appropriate debt service fund.

Each year, the Financial Management Services Department, in conjunction with the City's financial advisors, HilltopSecurities and Estrada Hinojosa & Company, evaluates the City's financial position and its debt portfolio to identify opportunities to refund (refinance) and/or defease outstanding debt obligations to achieve net savings and/or free up capacity for future debt-funded projects. This strategy supports the City's initiative of being good stewards of the public's money.

The attached resolution authorizes the recommended partial cash defeasances further described below:

City of Fort Worth, Texas, General Purpose Refunding and Improvement Bonds ("GOs"), Series 2012

These bonds were issued for an initial principal amount of \$135,485,000.00, for the purpose of constructing permanent street and storm sewer improvements. This debt is callable on or after March 1, 2022. The cash defeasance would be for all or a portion of the principal amount of \$20,350,000.00, which represents \$3,315,000.00 in principal of the GOs maturing March 1, 2028, all remaining maturities beginning March 1, 2029, plus accrued interest and transaction costs. Due to current market volatility, the attached resolution allows the City Manager to determine what portion of the bonds to defease.

At least thirty days' notice of the redemption must be given. Therefore, staff anticipated redeeming the debt between thirty and forty days after the date City Council acts on this M&C. At that time, the City can repay a significant amount of the remaining outstanding principal in the amount of \$20,350,000.00 plus accrued interest in the estimated amount of \$1,864,600.00 and transaction costs estimated in the amount of \$15,500.00 and achieve savings by avoiding future principal and interest payments.

In recent years, non-restricted interest revenue has been directed toward the General Debt Service Fund to help build a balance to take advantage of these types of savings opportunities. As a result of those efforts and sustained improved economic conditions within the General Debt Service Fund, more than \$15 million in fund balance is available for use toward defeasing callable debt. In addition, the current year's adopted debt-tax rate and debt-service budget were structured to provide some funds for this type of callable-debt repayment.

Staff, therefore, recommends defeasing this debt in order to achieve estimated net present value savings in the estimated amount of \$3,308,617.81 or 16.26% percent. As a result of the partial cash defeasance, the City will still be obligated to pay \$86,371,000.00 in principal and interest through March 1, 2028.

City of Fort Worth, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation ("COs"), Series 2010

These certificates were issued for an initial principal amount of \$34,685,000.00, for the purpose of major improvements related to the Will Rogers Memorial Center. This debt is callable on or after March 1, 2020. The cash defeasance would be for all or a portion of the principal amount of \$6,305,000.00, which represents \$1,490,000.00 in principal of the COs maturing March 1, 2029 and all of the COs maturing through March 1, 2031, plus accrued interest and transaction costs. Due to current market volatility, the attached resolution allows the City Manager to determine what portion of the COs to defease.

Staff anticipated redeeming the debt between thirty and forty days after the date City Council acts on this M&C. At that time, the City can repay a significant amount of the remaining outstanding principal in the amount of \$6,305,000.00 plus accrued interest in the estimated amount of \$39,121.00 and transaction costs estimated in the amount of \$12,000.00 and achieve savings by avoiding future principal and interest payments. As a result of sustained improved economic conditions within the Culture and Tourism Debt Service Fund, fund balance is available to defease callable debt. Staff, therefore, recommends defeasing this debt utilizing cash balances in order to achieve estimated net present value savings in the estimated amount of \$1,249,785.77 or 19.82% percent. As a result of the partial cash defeasance, the City will still be obligated to pay \$19,216,820.00 in principal and interest through March 1, 2029.

The defeasance is being paid wholly out of fund balance/net position available as of the close of FY2019. Adoption of this M&C will not impact the \$275,000-plus contribution to fund balance/net position that was identified in the adopted FY2020 budget in the Culture and Tourism Debt Service Fund.

City of Fort Worth, Texas, Water and Sewer System Revenue Bonds, Series 2010C

These bonds were issued for an initial principal amount of \$45,870,000.00, for the purpose of constructing improvements and extensions to the Water and Sewer System. This debt is callable on or after February 15, 2020. The cash defeasance would be for all or a portion of the principal amount of \$11,750,000.00, which represents \$2,080,000.00 in principal of the bonds maturing February 15, 2027, all remaining maturities beginning February 15, 2028, plus accrued interest and transaction costs. Due to current market volatility, the attached resolution allows the City Manager to determine what portion of the bonds to defease.

Staff anticipated redeeming the debt between thirty and forty days after the date City Council acts on this M&C. At that time, the City can repay a significant amount of the remaining outstanding principal in the amount of \$11,750,000.00 plus accrued interest in the estimated amount of \$90,083.34 and transaction costs estimated in the amount of \$12,000.00 and achieve savings by avoiding future principal and interest payments.

As a result of sustained improved economic conditions within the Water and Sewer Priority Lien Debt Service Fund and extra FY2019 contributions that were made in anticipation of a debt issuance that got pushed later to accommodate scheduling at the state, net position is available to defease callable debt. Staff, therefore, recommends defeasing this debt utilizing cash balances in order to achieve estimated net present value savings in the estimated amount of \$1,810,376.10 or 15.41% percent. As a result of the partial cash defeasance, the City will still be obligated to pay \$18,113,787.50 in principal and interest through February 15, 2027.

The defeasance is being paid wholly out of fund balance/net position available as of the close of FY2019. Adoption of this M&C will not impact the nearly \$5 million contribution to fund balance/net position that was identified in the adopted FY2020 budget for the Water and Sewer Priority Lien Debt Service Fund.

NOTE ON APPROPRIATIONS - The attached appropriation ordinances reflect the maximum appropriation amount for each defeasance. Their structure accommodates variables in costs that are associated with the transaction date being a couple months away. To the extent numbers at the time of defeasance are less than those reflected in the ordinances, the available appropriation amount will be reduced as needed to reflect final figures to ensure appropriations do not exceed actuals.

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that upon adoption of the attached resolution and supplemental appropriation ordinances, funds for principal, accrued interest, and transaction costs will be available in the General Debt Service Fund, the Culture & Tourism Debt Service Fund, and the Water and Sewer Priority Lien Debt Service Fund to legally defease the above referenced obligations.

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