



Electric and Communications Enterprise Series 2019A and 2019B Revenue Bonds

December 18, 2018 Item No. 7.2.

Alan Krcmarik, Executive Fiscal Advisor



*Electric and Communications Enterprise
Series 2019A and 2019B Revenue Bonds*

Outline

1. Two Ordinances required – Enterprise Board & Council
2. Many factors support the proposed broadband system project
3. Uses of the Bond Proceeds
4. Structure of the Bond transaction
5. Trends in Municipal Bond Rates
6. Rate comparison since April until now
7. Summary of parameters in the Bond Ordinance

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Issuing Enterprise Revenue Bonds

First: Bond Ordinance by the Board of the Enterprise on First Reading

Second: If the Board of the Enterprise adopts the Bond Ordinance, the Council will do an Ordinance to authorize and accept the terms of the Bond Ordinance on First Reading

If these are approved,
Second Reading will be on January 15, 2019.
Pricing and sale of the bonds in late February or early March.

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Municipal electric utility – Water & Power

Platte River Power Authority fiber network

Voter approval of the restoration of the City authority to provide communications services

Consulting support about how to provide such services, including sophisticated take-rate surveys

Legal counsel and municipal finance advisor support on how to structure a bond issue to finance the new services

Guidance and policy advice from the Loveland Communication Advisory Board

This Ordinance – the bond issue – is the focus at this meeting of the Electric and Communications Enterprise Board and corresponding action to follow by the City

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Planned uses of the bond issue:

Project Fund	\$80,245,000
Risk Mitigation Reserve	4,000,000
Capitalized Interest	11,885,000
Costs of Issuance	<u>870,000</u>
Total	<u>\$97,000,000</u>

Note: With changes in interest rates, the numbers above are subject to change.

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Bond Structure – based on most recent discussions

From Year 1 Issue date – March 2020
to Year 3 March 2021 – March 2022

Capitalized Interest

Taxable Bonds Term

From Year 4 April 2022 – March 2023
to Year 15 April 2033 – March 2034

Broadband revenue &
Reserve Fund if necessary

Tax-Exempt Bonds Term

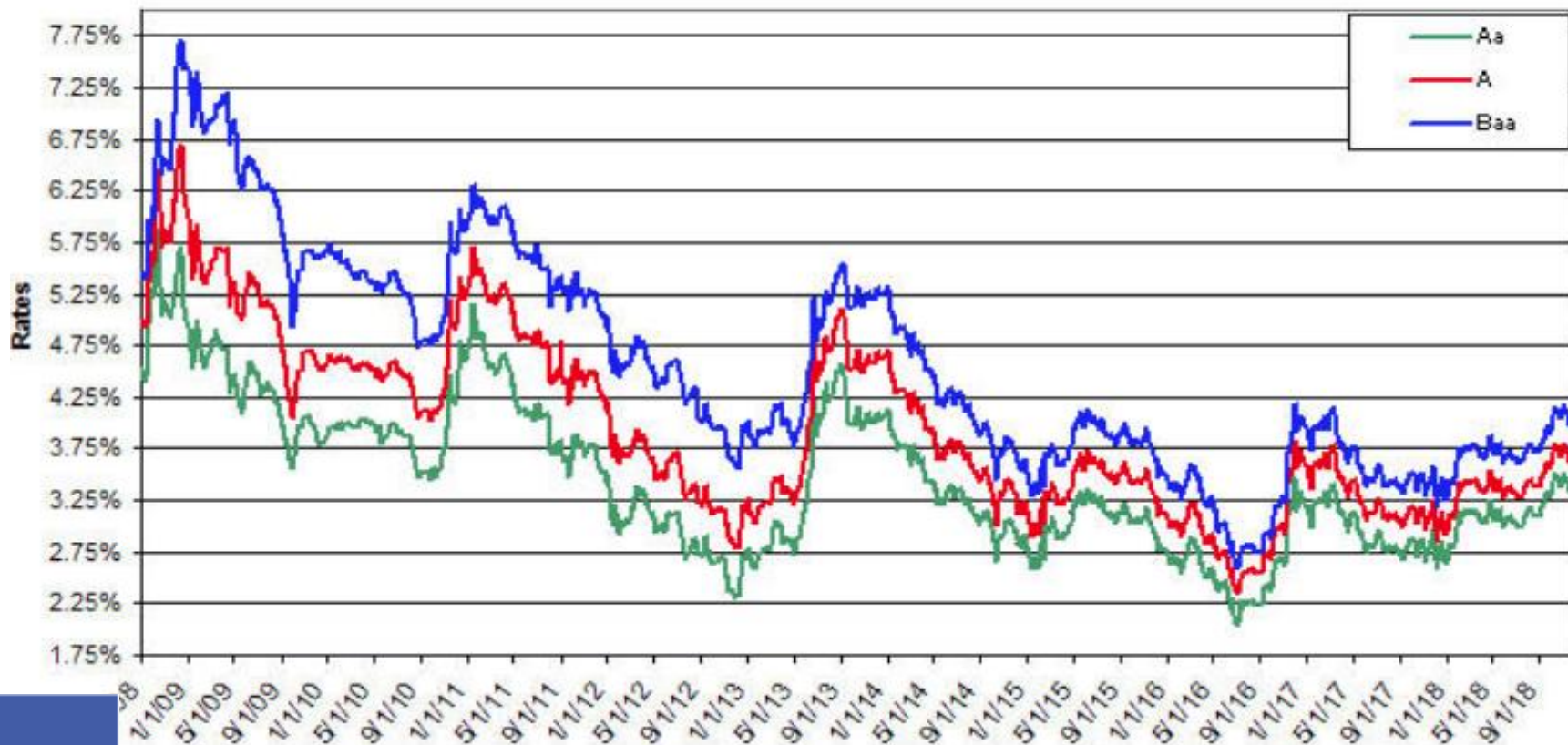
From Year 16 April 2034 – March 2035
to Year 30 April 2048 – March 2049

Broadband revenue &
Reserve Fund if necessary

The terms of the bonds are the maximums and the financing team will shorten the schedules as the interest rates are determined. If the target participation rate is reached in the third year and maintained in all subsequent, staff would anticipate the payback schedule would finish in 2042.

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MUNICIPAL MARKET DATA INDEX 20th YEAR MATURITY BY RATING GRADE



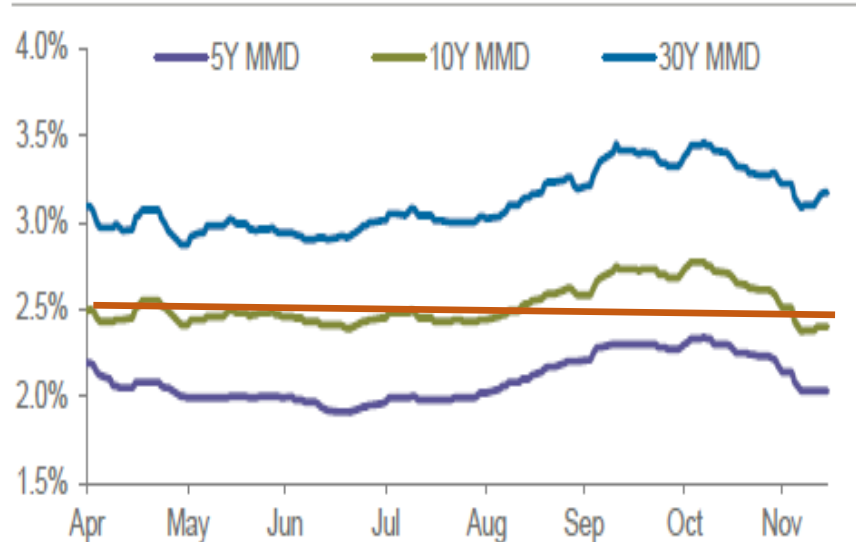
Slide added 12/17

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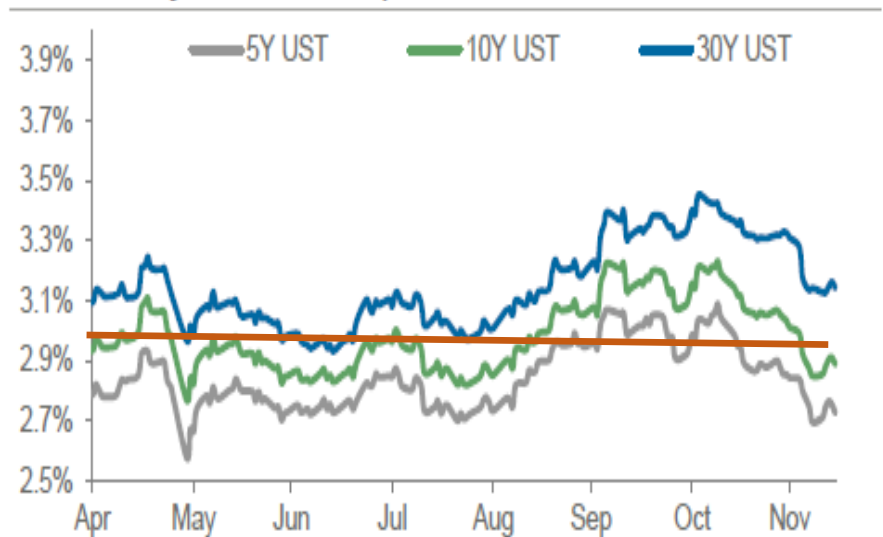
Tax exempt bonds will price above the MMD Scale (35 to 40 basis points)

Taxable bonds will price above the Treasury rates (90 to 100 basis points)

MMD yields since April



U.S Treasury Rates Since April



Source: Thomson Reuters Municipal Market Data, J.P. Morgan; as of 12/14/2018



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Updated 12/17

Tax Exempt Bonds	Apr 30, 2018		Dec 14, 2018	
Maturity	A+ Rating	A Rating	A+ Rating	A Rating
December 2023	2.34%	2.36%	2.23%	2.25%
December 2028	2.77%	2.81%	2.72%	2.76%
December 2038	3.31%	3.36%	3.33%	3.38%
Taxable Bonds				
December 2023	3.59%	3.69%	3.53%	3.63%
December 2028	4.05%	4.15%	3.99%	4.09%

Since the financing process started in the spring, rates rose significantly, but have come back down over the last month by about 30 basis points (0.30%).

Federal Reserve may increase Federal Funds rates tomorrow (12/19) and again in March.

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Update on the use of small denomination bonds



- Identified a “small denomination or “mini” bond firm during the request for proposal (“RFP”) process.
- In response the RFP, JP Morgan identified the same firm to serve the special purpose of the small/mini bonds.
- The City staff and Municipal advisor worked with the mini bond firm as the financing plan for the regular bond issue was being developed.
- Discussions/Negotiations continued until a few weeks ago.
- To wait any longer would delay the regular bond issue.



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Update on the small denomination bonds

- Reviewed the small denomination sale process with the Municipal Advisor and JP Morgan.
- Goal is to have an efficient sale process and attain the lowest possible cost of repayment.
- Conclusion is that this goal is best addressed by *using standard size \$5,000 denomination* bonds for the \$97 million and stay on schedule for sale in late February or early March
- If majority of Council desires a small denomination/mini bond issue to serve people in Loveland or Northern Colorado, staff would undertake that effort after the \$97 million issue is completed.
 - Staff suggests following a model similar to the one Denver used a few years ago and tie interest rates to one or two specific years of the \$97 million issue. Local market, Local bank, longer order period, one-time payment.

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Parameters that are in the Bond Ordinance

- Aggregate Principal amount of the Bonds shall not exceed **\$97 million**
- The Net Effective Interest Rate on the 2019A Tax exempt Bonds **shall not exceed 6%**
- The Net Effective Interest Rate on the 2019B Taxable Bonds **shall not exceed 6%**
- The price for both Series of the Bonds will be sold to the underwriters shall be not less than **98%**
- The amount of Bond proceeds to be deposited in the **Risk Mitigation Rate** Stabilization Fund shall not exceed **\$4 million.**

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Bond Financing Team

Bond Counsel Butler Snow LLP

Sally Tasker
Dee Wisor
Maria Harwood

Municipal Advisor Hilltop Securities

James Manire, Director

Underwriter/Investment Banker J.P. Morgan Public Finance

Antti Suhonen, Executive Director
Pedro Ramos, Vice President

Members of the City staff

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Briana Reed-Harmel, Project Manager
Kim O'Field, Technical Specialist
Coreen Callahan, Business Services Professional
Ryan Greene, Electrical Engineer
Lindsey Johansen, Customer Relations Specialist
Jim Lees, Utility Accounting Manager
John Beckstrom, Utility Financial / Rate Analyst
Travis Johnson, Utility Financial / Accountant

Moses Garcia, City Attorney
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Derek Turner, Assistant City Attorney II
Jamie Baker Roskie, Assistant City Attorney

Steve Adams, City Manager
Patti Garcia, City Clerk

Joyce Robinson, Accounting Manager
Alan Krcmarik, Executive Fiscal Advisor

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Questions????





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- J.P. Morgan offers issuers access to a retail distribution network with over 30,000 representatives nationwide through the following channels:
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 - Private Wealth Management
 - Chase Investment Services
 - Charles Schwab
 - LPL Financial

MMD Scales

MATURITY	"AAA"
1	1.78
5	2.03
10	2.40
15	2.71
30	3.17

...rience, to provide the full resources of a national

	RFP	12/13		Tax Exempt		RFP	12/14	Taxable		
mmd	MMD	MMD	A+	A		TSY	TSY	A+	A	
1	1.81	1.78	10	12	1.90	2.24	2.68	60	70	3.38
5	2.14	2.03	20	22	2.36	2.79	2.73	80	90	3.63
10	2.45	2.40	32	36	2.76	2.95	2.89	110	120	4.09
15	2.77	2.71	35	40	3.11	2.95	2.92	145	155	4.48
30	3.10	3.17	35	40	3.57	3.11	3.14	145	155	4.69

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