



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Carlson, Barofsky, McRae, Schlossberg and Brown
FROM: Deborah Hart, Chief Financial Officer; TiaMarie Harwood, Financial Services Manager; Rob Freytag, General Accounting & Treasury Supervisor
DATE: March 1, 2023
SUBJECT: Water Utility Bond Financing
OBJECTIVE: Approval of Resolution No. 2306

Issue

Capital projects for the Water Utility require significant cash outlay over a short period of time and debt financing is used to fill the money gap and maintain overall financial stability and health. Both EWEB Board and City Council authorization are required to issue bonds.

Background

Prudent financial practice dictates the use of debt financing only in those cases where public policy, ratepayer equity, and economic efficiency favor the use of debt over current financing. EWEB's approach to financing capital assets uses a combination of current rate revenue, capital improvement reserves, contributions in aid of construction, system development charges, and debt financing.

Capital projects are classified as Type 1, Type 2, or Type 3. Each year, an amount is budgeted from rate revenues to provide ongoing funding for a base level of capital additions and replacements. The base level amount is determined through an evaluation of the age and condition of basic capital infrastructure of the Water Utility taking into consideration capital reserve levels. This amount represents what is needed annually to maintain the desired level of service reliability on a long-term basis. These are considered Type 1 capital projects; projects that are ongoing capital infrastructure replacements. Type 2 capital projects are large rebuilding or expansion projects in excess of \$1 million that occur periodically and may be funded with rates or bonds. Type 3 capital projects are major strategic projects and are funded with bonds and/or reserves.

In EWEB's case, debt is considered an appropriate funding option for Type 2 and Type 3 capital projects. Debt service payments shall not exceed the useful life of the asset and should be structured to mirror the stream of benefits from the facility or project being funded.

Long-term debt financing will be considered for those major system improvements that meet two general criteria:

- The asset has a relatively long useful economic life (at least 10 years);
- The asset is a significant item included within the capital budget portion of the water plan.

Discussion

The last Water Utility bonds were issued in 2020. That issuance contributed \$20 million toward capital investments, and proceeds were exhausted last year. The most recent financial planning indicates sizing for this issuance at \$43 million, with another \$77 million issuance planned in 2026.

Over the next three years, the Water capital plan contains \$55 million of bond eligible projects:

- ~\$36 million in Type 2 projects specific to supporting and strengthening the transmission and reservoir systems
- ~\$19 million in Type 3 projects for the design and initial construction of the Willamette River Water Treatment Plant

Additional funding to support capital projects is to come from rates and reserves.

US Treasury securities serve as the benchmark for bond markets. While interest rates have been rising recently, treasury rates are still on the lower end of the historical trend. Recent discussions with EWEB's financial advisor and underwriter indicate upward pressure on interest rates is projected to remain at least through the first half of 2023. Discussions also indicate market liquidity, the number of investors actively trading in the market, is projected to peak in the summer months. Strong market liquidity can benefit the pricing of EWEB's bonds and result in a lower total interest rate for the issuance. Scheduling the pricing in June could optimize EWEB's offering, and the Board's approval in March will help facilitate that timing.

Issuing bonds is a multi-step process with several approvals from the Board. If the first is approved at the March meeting, the subsequent approvals would be brought back in April and May under the current issuance schedule.

As an administrative unit of the City of Eugene, EWEB issues debt under the umbrella of the City, and City Council authorization is required. The requested resolution is to seek authorization from the Eugene City Council.

Recommendation / Requested Board Action

Management recommends approval of Resolution No. 2306 requesting the City Council authorize the issuance and sale of Water Utility Bonds for new construction.

Attachment 1 – Resolution No. 2306

**RESOLUTION NO. 2306
MARCH 2023**

A RESOLUTION REQUESTING THE CITY OF EUGENE TO AUTHORIZE THE ISSUANCE AND SALE OF WATER UTILITY SYSTEM REVENUE BONDS IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$43,000,000 FOR THE PURPOSE OF FINANCING IMPROVEMENTS TO THE WATER UTILITY SYSTEM AND PROVIDING FOR RELATED MATTERS

WHEREAS, Oregon Revised Statutes (“ORS”) Section 287A.150 (the “Act”), authorizes the City of Eugene (the “City”) to issue revenue bonds payable from identified revenues of the City, and the City, acting by and through the Eugene Water & Electric Board (“EWEB”), owns and operates a water utility system (the “Water Utility System”) and related facilities and systems;

WHEREAS, on September 2, 1997, EWEB adopted a resolution authorizing and providing for the issuance, from time to time, of City of Eugene, Oregon Water Utility System Revenue Bonds to be equally and ratably secured by the pledge of revenues, funds and accounts thereunder, which was amended by Resolution No. 1614 (as amended and supplemented, the “Bond Resolution”);

WHEREAS, the Bond Resolution provides in part that the principal of, premium, if any, and interest on the bonds issued thereunder shall not be payable from any funds of the City nor constitute a general obligation of the City or create a charge upon the tax revenues or any other property or revenues of the City;

WHEREAS, it is in the best interest of the City, acting by and through EWEB, to provide funds for the purpose of financing certain capital improvements described in the Water Capital Improvement Plan (collectively, the “Project”), funding necessary reserves and paying the costs of issuance of the bonds;

WHEREAS, EWEB finds it in the best interest of the City to request that the City Council adopt a resolution to authorize and set the terms for the issuance and sale of not to exceed \$43,000,000 in aggregate principal amount of Water Utility System Revenue Bonds (the “Bonds”);

WHEREAS, the Bonds will not be general obligations of the City, nor a charge upon its tax revenues, but will be payable solely from revenues of the Water Utility System which EWEB pledges to the payment of such Bonds pursuant to the Act and the resolution to be adopted by EWEB pursuant to such resolution of the City Council;

WHEREAS, EWEB shall cause to be prepared a plan showing that EWEB’s estimated Water Utility System revenues are sufficient to pay the estimated debt service on the Bonds authorized by resolution of the City Council;

WHEREAS, the City and EWEB anticipate incurring expenditures (“Expenditures”) to finance the costs of the projects and improvements described above and wish to declare their official intent to reimburse themselves for the Expenditures made therefor from the proceeds of the Bonds. To the extent that the expenditures and the use of proceeds of the Bonds may qualify under federal tax law and regulations, the City, including EWEB, intends for the interest on such bonds to be excludable from gross income for federal income tax purposes under §103 of the Internal Revenue Code of 1986, as amended (the “Code”);

WHEREAS, EWEB finds that it is in the public interest of the City to request that the City

Council adopt a resolution to authorize the publication of the Notice of Revenue Bond Authorization relating to the Bonds, such notice being in substantially the form attached to this Resolution as Exhibit "A" (the "Notice"). The Notice shall specify the last date on which petitions may be submitted, and the City, acting by and through EWEB, shall cause the Notice to be published in *The Register-Guard*, Eugene, Oregon, a newspaper of general circulation within the boundaries of the City, in the same manner as are other public notices of the City;

NOW THEREFORE, BE IT RESOLVED BY THE EUGENE WATER & ELECTRIC BOARD OF THE CITY OF EUGENE, OREGON, as follows:

Section 1. Request for Authorization of Bonds and Publication of Notice; Purpose of Issue.

Based on the above findings, EWEB hereby requests the City Council to authorize EWEB, on behalf of the City, to issue and sell the Bonds designated as the "City of Eugene, Oregon Water Utility System Revenue Bonds," in one or more series, in the aggregate principal amount of not to exceed \$43,000,000, for the purpose of financing the costs of the design, construction, installation, acquisition and equipping of the Project, and funding any required reserves and costs of issuance, and to publish the Notice as aforesaid. If petitions for an election, containing the valid signatures of not less than 5% of the City's qualified electors, are received within the time indicated in the Notice, the question of issuing the Bonds shall be placed on the ballot at the next legally available election date. If such petitions are received no Bonds may be sold until the question of whether to issue the Bonds is approved by a majority of electors living within the boundaries of the City who vote on that question. Any such petitions will be subject to the Act and §§2.970-2.989 of The Eugene Code, 1971. Capitalized terms used but not defined herein shall have the meaning assigned in the Bond Resolution.

Section 2. Delegation of Authority for Terms of Bonds; Provisions for Issuance.

Pursuant to the Act, EWEB hereby designates that its Treasurer or Assistant Treasurer may determine, with respect to the Bonds, the form of bond and series designation, the manner of disbursement of proceeds of the Bonds, the maturity dates, principal amounts, redemption provisions, interest rates or the method for determining a variable or adjustable interest rate, denominations, form and authorized signatory and other terms and conditions of the Bonds because the same cannot be determined by EWEB at this time. Prior to the issuance of any Bonds, EWEB shall: (i) prepare a plan showing that the estimated Water Utility System revenues are sufficient to pay the estimated debt service on the Bonds; (ii) adopt a bond resolution and provide a copy of such resolution to the City; and (iii) provide to the City a resolution determining that any and all acts, conditions and things required to exist, to happen and to be performed precedent to and in the issuance of the Bonds, exist, have happened and have been performed in due time, form and manner as required by the Constitution and statutes of the State of Oregon, the Charter of the City of Eugene and this Resolution. Without the prior approval of the City Council and EWEB, the Bonds shall (i) mature not later than 30 years from the date of issuance thereof; (ii) be sold through public competitive sale and awarded to the bidder offering the most favorable terms to EWEB, on behalf of the City, or sold pursuant to negotiation at par or with a net original issue discount or premium that does not exceed 20% of the aggregate principal amount thereof; (iii) have an effective interest rate of not to exceed 6.0% per annum; and (iv) not exceed \$43,000,000 in aggregate principal amount.

Section 3. Declaring Intent to Reimburse.

EWEB reasonably anticipates that the City and EWEB may incur preliminary, cost of issuance and other project expenditures that qualify as "Original Expenditures" under Treasury Regulation §1.150-2 prior to the date of issuance of the Bonds, and hereby declares its official intent to reimburse itself or EWEB with proceeds of the sale of the Bonds to be issued in an amount not to exceed \$43,000,000 in aggregate principal amount.

Section 4. Statement on Form of Bond. All Bonds shall include a statement on their face to the effect:

(a) That they do not in any manner constitute a general obligation of EWEB or of the City, or create a charge upon the tax revenues of the City, or upon any other revenues or property of the City, or property of EWEB, but are charges upon and are payable solely from the revenues of the Water Utility System operated by EWEB, or any portion thereof, pledged to the payment thereof; and

(b) That the holders thereof may look for repayment only to the revenues of the Water Utility System which are pledged for the payment thereof, and may not directly or indirectly be paid or compensated through the property of the City, or EWEB, or by or through the taxing power of the City.

Section 5. Bonds Payable Solely from Revenues. The Bonds shall not be general obligations of the City, nor a charge upon its tax revenues, but shall be payable solely from the revenues and funds which EWEB pledges to the payment thereof pursuant to the Act, applicable City Council resolutions and in accordance with this Resolution.

Section 6. Bonds Reporting. EWEB shall submit to the City by May 1 of each year the following annual reports commencing after the first sale of any Bonds or other evidences of indebtedness hereunder and each year thereafter until the Bonds have been paid and retired:

(a) A report on the funds for each series of Bonds describing the funds established, the amounts in each fund, expenditure from each fund, the manner in which the monies in each fund have been invested, the income from such investments and the application of such income; and

(b) A report on Bond payments describing amounts paid and amounts scheduled to be paid and the source of such payments.

If the contents of the reports required by subsections (a) and (b) above are included in the annual audit report of EWEB, then EWEB may comply with this Section 6 by transmitting a copy of its annual audit report to the City.

Section 7. Official Statement; Sale Documents. Subject to the prior approval by the City Council, EWEB hereby designates its Treasurer or Assistant Treasurer to direct the preparation and distribution of one or more preliminary and final official statements or other disclosure document(s) for any of the Bonds or in connection with a preliminary official statement or other disclosure document(s) for any other bonds, as determined to be necessary by EWEB, to obtain bond insurance or other credit enhancement or commitments therefor, if required, to obtain a rating on any or all of the Bonds from Moody's Investors Service, Inc., S&P Global Ratings and/or Fitch Ratings, if required, to issue and publish such notices of sale of the Bonds as may be necessary or required to accomplish the sale of the Bonds in accordance with this Resolution and to select trustees, registrars, paying agents, financial advisor, bond counsel, disclosure counsel, underwriter or placement agent, and any other professional assistance that may be necessary or convenient to accomplish the issuance and sale of any or all of the Bonds; and to determine any other terms, conditions or covenants regarding any or all of the Bonds and the Project, which are necessary or desirable to effect the sale of any or all of the Bonds.

Section 8. Effective Date of Resolution. This Resolution shall become effective immediately upon its adoption.

PASSED AND ADOPTED this 7th day of March, 2023

EUGENE WATER & ELECTRIC BOARD

President

I, Anne Kah, the duly appointed, qualified and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the resolution adopted by EWEB at its March 7, 2023 Board Meeting.

Assistant Secretary

EXHIBIT A

FORM OF NOTICE OF REVENUE BOND AUTHORIZATION

NOTICE IS HEREBY GIVEN that the City Council of the City of Eugene, Oregon (the “City”), acting pursuant to the request of the Eugene Water & Electric Board (“EWEB”), adopted Resolution No. _____ on _____, 2023, authorizing the issuance of the City’s Water Utility System revenue bonds. The revenue bonds will be issued in one or more series to provide funds for the purpose of financing certain capital improvement projects described in the Water Capital Improvement Plan (collectively, the “Project”), funding necessary reserves and paying the costs of issuance of the revenue bonds.

The costs of funding the Project, together with the necessary reserves and costs of issuance of the revenue bonds, are estimated not to exceed the authorized principal amount and premium, if any, of the revenue bonds. In accordance with these estimates, the City expects that the revenue bonds to fund the Project will be issued in an aggregate principal amount not to exceed \$43,000,000.

Subject to certain parameters, EWEB may establish all terms, conditions and covenants regarding the revenue bonds and the revenues which are necessary or desirable to affect the sale of the revenue bonds.

The revenue bonds will not be general obligations of the City, nor a charge upon its tax revenues, but will be payable solely from the revenues of the City’s Water Utility System.

If written petitions, signed by not less than 5.0% of the City’s qualified electors, are filed at the Office of the City Recorder on or before _____, 2023 (the 61st day after the date of publication of this notice), the question of issuing not to exceed \$43,000,000 of water revenue bonds shall be placed on the ballot at the next legally available election date. Any such petition shall be subject to ORS 287A.150 and Sections 2.970-2.989 of the Eugene Code, 1971.

The Office of the City Recorder is located at 101 West 10th Avenue, Suite 203, Eugene, Oregon 97401. Information on procedures for filing petitions may also be obtained at such address or by telephone at (541) 682-5010.

The resolution authorizing the revenue bonds is available for inspection at the Office of the City Recorder.

The revenue bonds will be issued and sold pursuant to ORS 287A.150, and this notice is published pursuant to ORS 287A.150(4).