

CITY OF BOULDER
WATER RESOURCES ADVISORY BOARD
AGENDA ITEM

MEETING DATE: February 22, 2016

AGENDA TITLE: Information Item – Utility Financing

PRESENTERS:

Jeff Arthur, Director of Public Works for Utilities Bob Eichen, Chief Financial Officer Ken Baird, Utilities Financial Manager
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EXECUTIVE SUMMARY:

This memo serves as a brief introduction to the presentation at the February 22, 2016 meeting which will give an overview of financing of the Water, Wastewater, and Stormwater/Flood Management Utilities. This presentation is being provided as context as WRAB prepares to make recommendations on items such as the annual Capital Improvement Program (CIP) and the upcoming rate study. The following areas will be discussed:

Enterprise Funds: Each of the three utilities operates as a separate enterprise, which was defined in the Colorado constitution through the Taxpayer’s Bill of Rights (TABOR) passed by Colorado voters in 1992. TABOR defines an enterprise as “a government-owned business authorized to issue its own revenue bonds and receiving under 10% of annual revenue in grants from all Colorado state and local governments combined.” In any given fiscal year, no more than 10% of revenues can come from state and local grants, which includes utility funding provided by the state or a district - such as the Urban Drainage Flood Control District. This also includes any City of Boulder tax revenues, and currently the enterprises receive no subsidy from other City funds. It is also important to note that Federal grants do not count towards the 10% rule. For more details about TABOR, see **Attachment A** which is an excerpt from the most recent utility bond issue.

Bonding: Each utility has current and future anticipated debt to finance large capital projects. **Attachment B** is a list of current outstanding debt in each utility. The February WRAB presentation will include discussion on the process for issuing debt and considerations when deciding to bond. An important part of the process is getting the debt issue rated, and the City does this through Standard & Poor’s and Moody’s, which rated the most recent utility bonds as AAA and Aa1, respectively. The most recent rating from Standard and Poor’s is included in **Attachment C**.

Grants and Other Funding Options: Because of more attention on funding for flood projects following the Sept. 2013 flood event, there has been interest in other ways to fund these improvements, including grants or special districts. The presentation will include information about grant funding, and funding for utilities through other methods.

Current Utilities Financial Picture: A general overview will be provided of the current state of the three utilities, with information on future anticipated bonds and rate increases.

Attachments:

A: Excerpt from Water and Sewer Bonds Series 2015 Official Statement related to TABOR

B: Utilities debt outstanding

C: Standard & Poor's Boulder, CO Water/Sewer Bond Rating 2015.

Attachment A

Excerpt from Water and Sewer Bonds Series 2015 Official Statement related to TABOR:

Certain Constitutional Limitations

General. At the general election on November 3, 1992, the voters of Colorado approved Article X, Section 20 of the Colorado Constitution (“TABOR”). In general, TABOR restricts the ability of the State and local governments to increase revenues and spending, to impose taxes, and to issue debt and certain other types of obligations without voter approval. TABOR generally applies to the State and all local governments, including the City (“local governments”), but does not apply to “enterprises,” defined as government-owned businesses authorized to issue revenue bonds and receiving under 10% of annual revenue in grants from all state and local governments combined.

Some provisions of TABOR are unclear and will require further judicial interpretation. No representation can be made as to the overall impact of TABOR on the future activities of the City, including its ability to generate sufficient revenues for its general operations, to undertake additional programs or to engage in any subsequent financing activities.

Voter Approval Requirements and Limitations on Taxes, Spending, Revenues, and Borrowing. TABOR requires voter approval in advance for: (a) any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase, extension of an expiring tax, or a tax policy change causing a net tax revenue gain; (b) any increase in a local government’s spending from one year to the next in excess of the limitations described below; (c) any increase in the real property tax revenues of a local government from one year to the next in excess of the limitations described below; or (d) creation of any multiple-fiscal year direct or indirect debt or other financial obligation whatsoever, subject to certain exceptions such as the refinancing of obligations at a lower interest rate. The City’s Water Utility and Wastewater Utility are considered “enterprises” under TABOR, and therefore the 2015 Bonds may be issued without an election.

TABOR limits increases in government spending and property tax revenues to, generally, the rate of inflation and a local growth factor which is based upon, for school districts, the percentage change in enrollment from year to year, and for non-school districts, the actual value of new construction in the local government. Unless voter approval is received as described above, revenues collected in excess of these permitted spending limitations must be rebated. Debt service, however, including the debt service on the 2015 Bonds, can be paid without regard to any spending limits, assuming revenues are available to do so.

At the November 2, 1993 election, City voters authorized the City to collect, retain, and expend without regard to the revenue and limitations imposed by TABOR, the full proceeds of the City’s sales and use tax, admission tax, accommodations tax, and non-federal grants. At the November 8, 1994 election, City voters approved an increase in the City’s trash tax and an education excise tax and allowed the City to collect and spend the full proceeds of such taxes and any interest thereon.

Attachment A

At the November 5, 1996 election, City voters authorized the City to remove TABOR restrictions on all revenues (except property tax) and expenditures of the City, and authorized the collect, retention and expenditures of all revenues of the City free from current revenue and expenditure limitations and from any limitations that may be enacted in the future without the amendment of the City's Charter by the electors of the City.

In addition, at the November 4, 2008 election, the City voters authorized the City to remove TABOR restrictions on property tax revenues collected above the limits imposed by TABOR. The election specified that retention above TABOR limits will not rise more than .5 mills annually for tax collection years 2009 and beyond up to the maximum allowable level of property taxes and that any tax monies that are collected above those that the City may retain will be credited to property owners as an offset against the subsequent year's taxes.

Emergency Reserve Funds. TABOR also requires local governments to establish emergency reserve funds. The reserve fund must consist of at least 3% of fiscal year spending. TABOR allows local governments to impose emergency taxes (other than property taxes) if certain conditions are met. Local governments are not allowed to use emergency reserves or taxes to compensate for economic conditions, revenue shortfalls, or local government salary or benefit increases. The City has set aside emergency reserves as required by TABOR.

Other Limitations. TABOR also prohibits new or increased real property transfer tax rates and local government income taxes. TABOR allows local governments to enact exemptions and credits to reduce or end business personal property taxes; provided, however, the local governments' spending is reduced by the amount saved by such action. With the exception of K-12 public education and federal programs, TABOR also allows local governments (subject to certain notice and phase-out requirements) to reduce or end subsidies to any program delegated for administration by the general assembly; provided, however, the local governments' spending is reduced by the amount saved by such action.

City of Boulder, Colorado

Revenue Bonds

Summary of Debt Outstanding for Utility Bonds

	Water Fund	Water Fund	Water Fund	Wastewater Fund	Wastewater Fund	Wastewater Fund	Stormwater Flood Fund	Stormwater Flood Fund	
Fiscal Year Ends Dec. 31	Boulder Reservoir WTP	Silver Lake Pipeline/Betasso WTP	Lakewood Pipeline	WWTP UV, Digester, Headworks	WWTP Ammonia and other upgrades	WWTP Nutrient, WW Collection	Goose Creek/Elmer's Two Mile	Wonderland Creek	Total
2016	861,125	2,524,688	2,071,400	674,938	3,206,150	678,631	381,675	1,589,188	11,987,794
2017	-	2,532,088	2,071,000	672,038	3,185,750	675,731	386,138	1,592,338	11,115,082
2018	-	2,532,831	2,078,000	673,838	3,162,250	677,731	380,175	1,589,588	11,094,413
2019	-	1,379,656	2,087,000	675,188	3,154,750	679,531		1,591,088	9,567,213
2020	-	-	2,087,800	671,088	3,142,250	676,131		1,591,688	8,168,957
2021	-	-	2,095,600	671,688	3,124,750	677,631		1,591,388	8,161,057
2022	-	-	-	671,838	3,127,250	678,931		1,590,188	6,068,207
2023	-	-	-	671,538	3,128,500	680,581		1,588,088	6,068,707
2024	-	-	-	670,788	3,108,250	676,781		1,590,088	6,045,907
2025	-	-	-	674,588	3,092,250	677,681		1,591,038	6,035,557
2026	-	-	-	672,788	-	678,131		1,590,938	2,941,857
2027	-	-	-	670,538	-	678,131		1,589,788	2,938,457
2028	-	-	-	672,248	-	677,681		1,587,588	2,937,517
2029	-	-	-	672,728	-	676,781		1,589,338	2,938,847
2030	-	-	-	671,938	-	675,431		1,589,888	2,937,257
2031	-	-	-	-	-	678,631		1,589,238	2,267,869
2032	-	-	-	-	-	675,506		1,590,644	2,266,150
2033	-	-	-	-	-	676,913		1,588,844	2,265,757
2034	-	-	-	-	-	676,925		1,588,725	2,265,650
2035	-	-	-	-	-	676,288			676,288
Total	861,125	8,969,263	12,490,800	10,087,763	31,432,150	13,549,781	1,147,988	30,209,670	108,748,539

RatingsDirect®

Summary:

Boulder, Colorado; Water/Sewer

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Rationale

Outlook

Related Criteria And Research

Summary:**Boulder, Colorado; Water/Sewer****Credit Profile**

US\$10.21 mil wtr and swr rev bnds ser 2015 due 12/01/2035

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Boulder, Colo.'s series 2015 water and sewer revenue bonds and affirmed its 'AAA' rating on the city's additional parity debt. The outlook is stable.

The rating reflects our view of:

- A strong, diverse local economy with high resident wealth levels;
- Ample water supply for an almost fully developed city;
- Strong financial metrics that we expect will be maintained;
- Competitive customer rates, given wealth levels; and
- A manageably-sized capital improvement program (CIP) funded with a mix of debt and cash.

Net revenues of the city's water and sewer systems secure the bonds. Boulder will issue the series 2015 on parity with the utility's existing combined water and sewer-secured debt. The bonds are protected by a fully funded debt service fund, a 1.25x additional bonds test, and a 1.25x rate covenant of maximum annual debt service (MADS) issued.

Boulder's water and sewer utility has a predominantly locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all of the entity's revenues. This, coupled with operating expense flexibility, limits exposure to federal revenues.

Boulder's (2014 population about 103,000) water and sewer systems serve 28,829 and 27,436 accounts, respectively. Residential customers account for approximately 61% of consumption. The customer base is stable due to the city's built-out status. The largest water customer is the University of Colorado, Boulder, which accounts for about 5% of total revenues. Water supply and treatment resources exceed current and projected potable water demand, and wastewater treatment capacity remains sufficient to meet growth, which is subject to growth controls within Boulder city limits.

Pro forma debt service coverage of annual debt service and fixed charges for future water rights acquisition costs, based on projected fiscal Dec. 31, fiscal year-end 2015 net revenues, is at 2.0x. Our net revenue calculation is based on audited net operating revenues, adding back depreciation, adding in non-operating interest revenues and miscellaneous income, netting any transfers in and out, and adding in cash capital contributions. Historical coverage of debt service and fixed costs has generally remained near or above 1.5x, a level we consider strong.

We also view the combined system's liquidity position to be strong. At the end of fiscal 2014, the system retained nearly \$37 million in unrestricted cash and investments, equivalent to 529 days' operating expenditures, which we

consider very strong. The systems' policy target is 25% of operating reserves beyond funds accumulated for capital use, levels the system has greatly exceeded historically.

Projections indicate that both coverage and liquidity will remain at levels we consider strong, showing about 2x coverage of all annual fixed costs and no less than about 450 days' cash. We believe that the strong financial performance should be sustainable, especially since the projections management provided use a MADS figure instead of annual debt service and include capital expenses in cash flow projections.

Currently, the average in-city residential monthly bill for water and sewer is about \$80 per 8,000 gallons of usage. We calculated this rate assuming that a residential customer has an 8,000-gallon-per-month water budget, which may change depending on the specific type of property and irrigation needs. The nine-member city council approves all rate increases and has a proven history of incremental rate increases for operations with larger increases to support identified capital needs. Historically, there has been an annual rate increase of between 3% and 5% per year. For fiscal 2015, water rates rose by 5% and sewer by 30%.

The focus of Boulder's CIP has been the rehabilitation and replacement of aging portions of the water and sewer system. Capital needs between fiscal years 2015-2019 total \$153 million, with the city expecting to fund them with internal sources and \$72 million of bonds, including the 2015 bonds, to finance the remainder. In the city's financial projections cited above, any annual debt service from these future debt plans payable in future years is included as a fixed cost.

Outlook

The stable outlook reflects Standard & Poor's expectation that Boulder's financial performance will remain at levels we consider strong, as measured with net revenue coverage of all fixed costs and unrestricted liquidity. We also would expect that to achieve this, the city will continue to either raise rates or adjust expenses as needed. The stable outlook further reflects our view of the city's above-average income levels and strong and diverse economy, as well as ample water supply and limited growth pressures. The rating could be pressured downward if the system's financial position were to deteriorate significantly while city officials address the system's capital needs.

Related Criteria And Research

Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of August 12, 2015)

Ratings Detail (As Of August 12, 2015) (cont.)

Boulder wtr & swr <i>Long Term Rating</i>	AAA/Stable	Affirmed
Boulder storm wtr & flood mgt rev bnds <i>Long Term Rating</i>	AAA/Stable	Affirmed

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