Agenda
City Council Workshop Meeting
Tuesday, May 26, 2015
City Hall Council Chamber | 505 Swift Boulevard

City Council Workshop - 6:00 p.m.

Agenda Items:

1. Pavement Management Funding Strategy (60 minutes)
   - Jeff Peters, Transportation and Development Manager

2. Columbia Point Golf Course Operations and Budget (45 minutes)
   - Joe Schiessl, Parks and Public Facilities Director

3. Electric Utility Bonds Update (20 minutes)
   - Bob Hammond, Energy Services Director

Adjournment

Richland City Hall is ADA accessible with special parking and access available at the entrance facing George Washington Way. Requests for sign interpreters, audio equipment, and/or other special services must be received 48 hours prior to the City Council Workshop by calling the City Clerk's Office at 942-7388.

COUNCIL WORKSHOP COVERSHEET

Council Date: 05/26/2015 Department: Public Works

Key Element: Key 1 - Financial Stability & Operational Effectiveness
Key 2 - Infrastructure & Facilities

Subject:
Pavement Management Funding Strategy (60 minutes)

Summary:
The purpose of this workshop discussion is to: 1) provide Council with a state-of-the-streets report; and 2) obtain Council input on a target maintenance standard for the City's pavement.

The City currently repairs and maintains approximately 255 centerline miles, or 580 lane miles of roadway valued at over $220 million. The City recently completed its second condition survey for the street network which indicated an overall Pavement Condition Index rating of 79. The Pavement Condition Index (PCI) is a measurement of pavement condition that ranges from 0 to 100, with 100 being a newly constructed or overlaid street while a failed street requiring complete reconstruction would have a PCI under 25.

A network PCI rating of 83 is considered optimal as it would enable us to maintain the entire network into the future at the least cost. The Public Works Department is presently using a pavement management database that assists staff in applying an array of pavement maintenance techniques to the City's streets, based on current street condition and available budget. Staff is using the software to estimate maintenance programs over a ten-year horizon so that a consistent investment can be identified and the impacts of a program can be observed over a significant time.

The database analysis indicates that the City's recent financial commitment to pavement maintenance will result in declining pavement condition over time, regardless of maintenance techniques applied. Several approaches are available to establish a target program for long-term pavement management.

Staff will provide additional detailed information from its analysis and will discuss the implications of the various approaches for street condition for Council's consideration.

The intended outcome of this workshop is to provide staff with a selected maintenance standard that will be used by the Council Capital Subcommittee to develop a funding strategy for Council's future consideration.

Attachments:

COUNCIL WORKSHOP COVERSHEET

Council Date: 05/26/2015

Department: Parks & Public Facilities

Key Element: Key 6 - Community Amenities

Subject:

Columbia Point Golf Course Operations and Budget (45 minutes)

Summary:

The Columbia Point Golf Course, clubhouse, maintenance facility and golf equipment is owned by the City and operated under contract by CourseCo (expiring Dec 2015). CourseCo operates 21 public and five private courses in four western states including Sun Willows in Pasco, Columbia Park Golf Links in Kennewick, Columbia Point in Richland and the Palouse Ridge Golf Club in Pullman. Based in Petaluma, California CourseCo was founded in 1989, manages over 1,000 employees and $60 Million in gross revenue.

CourseCo will present a summary of golf operations at Columbia Point and make comparison against local and national trends. Staff will provide a history of the Course including budgetary performance and overall economic impact. The workshop is an opportunity to meet the operator of a significant Richland asset, assess it's relative performance and discuss ideas for improvement.

Attachments:

COUNCIL WORKSHOP COVERSHEET

Council Date: 05/26/2015 Department: Energy Services

Key Element: Key 1 - Financial Stability & Operational Effectiveness

Subject:

Electric Utility Bonds Update (20 minutes)

Summary:

Energy Services Department (RES) and Finance Division staff, with assistance from Public Financial Management, Inc. (PFM), acting as the City's financial advisor, are pursuing electric utility bonding to cover certain capital project expenditures from 2015 through 2017. PFM Director Susan Musselman presented the general background and proposed approach to the City's Utility Advisory Committee (UAC) at its meeting on May 12, 2015. Attached is the power point used by Ms. Musselman to facilitate discussion with the UAC.

At workshop, RES Director Hammond will introduce the general scope, structure, and schedule for the proposed bonding efforts with City Council, seeking initial thoughts and questions from Council members.

Attachments:

1. PowerPoint Presentation



City of Richland, Washington
Utility Advisory Committee

May 12, 2015

Presented by:
Susan Musselman, Director
Public Financial Management, Inc.
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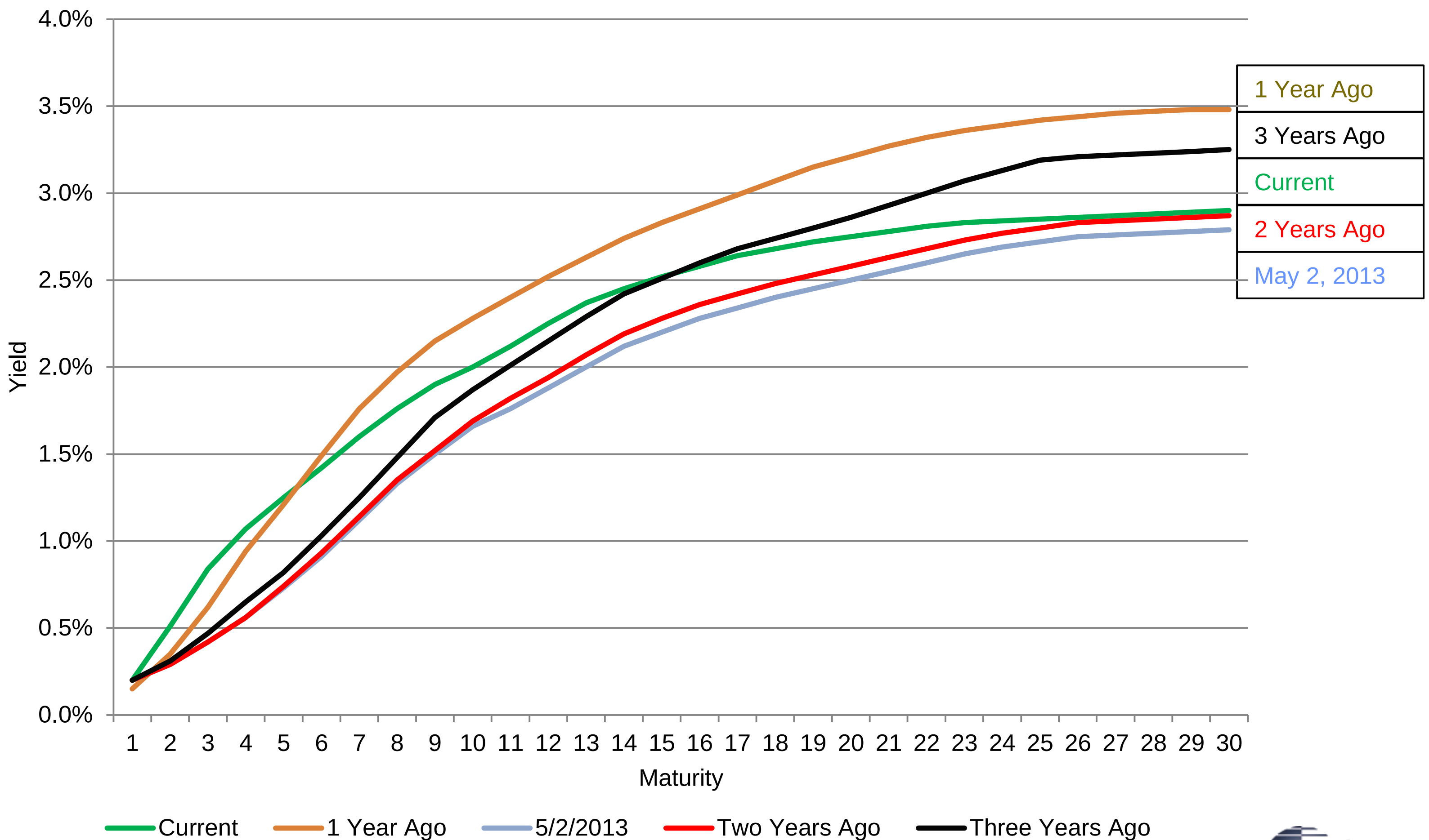
Overview of Topics

1) Market Update
2) Outstanding Electric System Debt
3) 2015 Electric System Revenue Bonds
4) Credit Considerations
5) Bond Sale Process & Next Steps

Interest Rate Environment

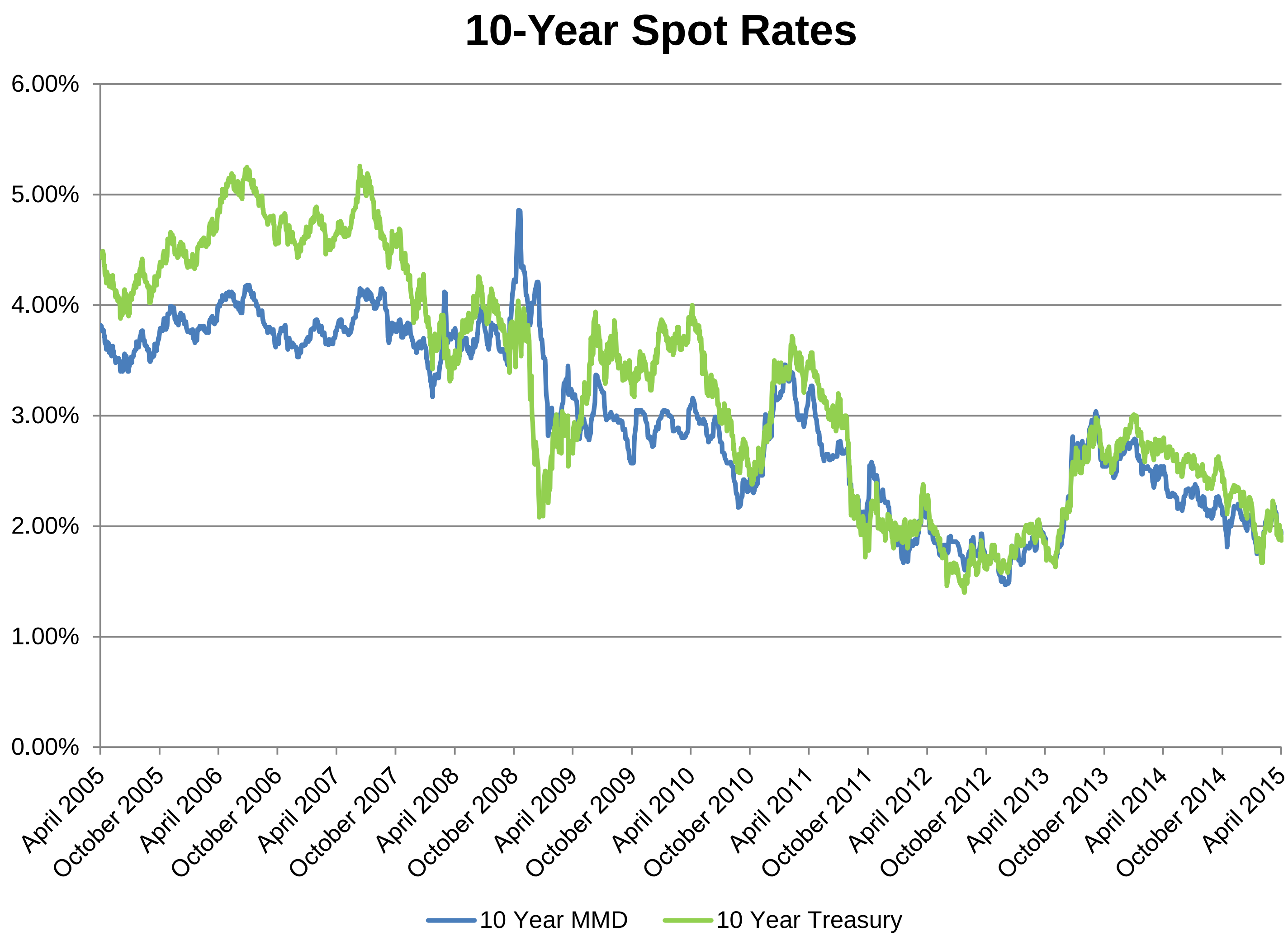
The chart below shows the MMD "AAA" General Obligation Index (the industry standard tax-exempt index) at various points over the last three years.

Interest rates have risen slightly since the City's last Electric System bond sale (May 2, 2013), but still remain favorable in a historical context.



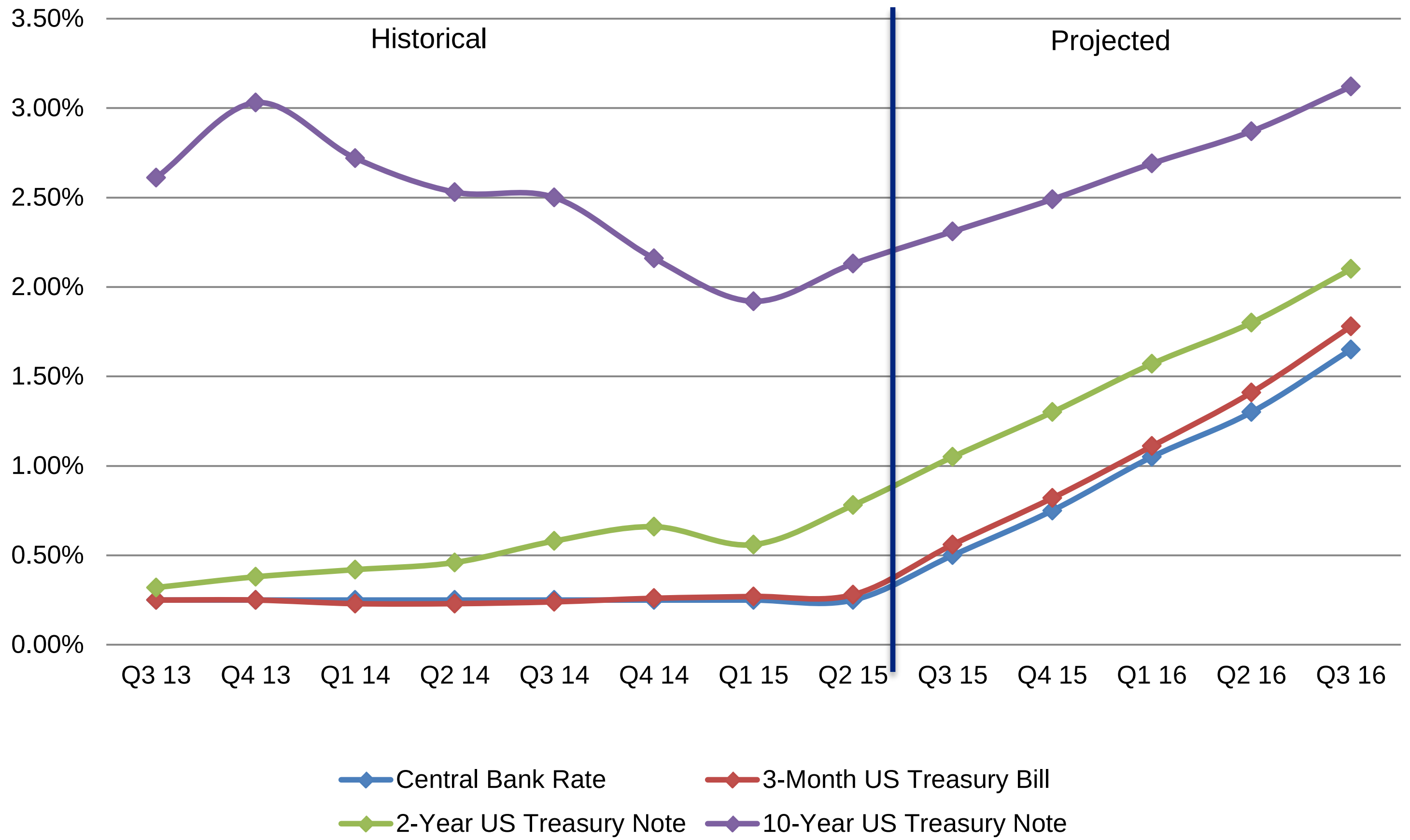
Interest Rate Environment

Both taxable and tax-exempt interest rates remain near historic ten-year lows.



Interest Rate Forecasts

- Most market participants expect interest rates to rise modestly over the next five quarters.
- The chart below shows consensus forecasts from approximately 85 financial institutions.



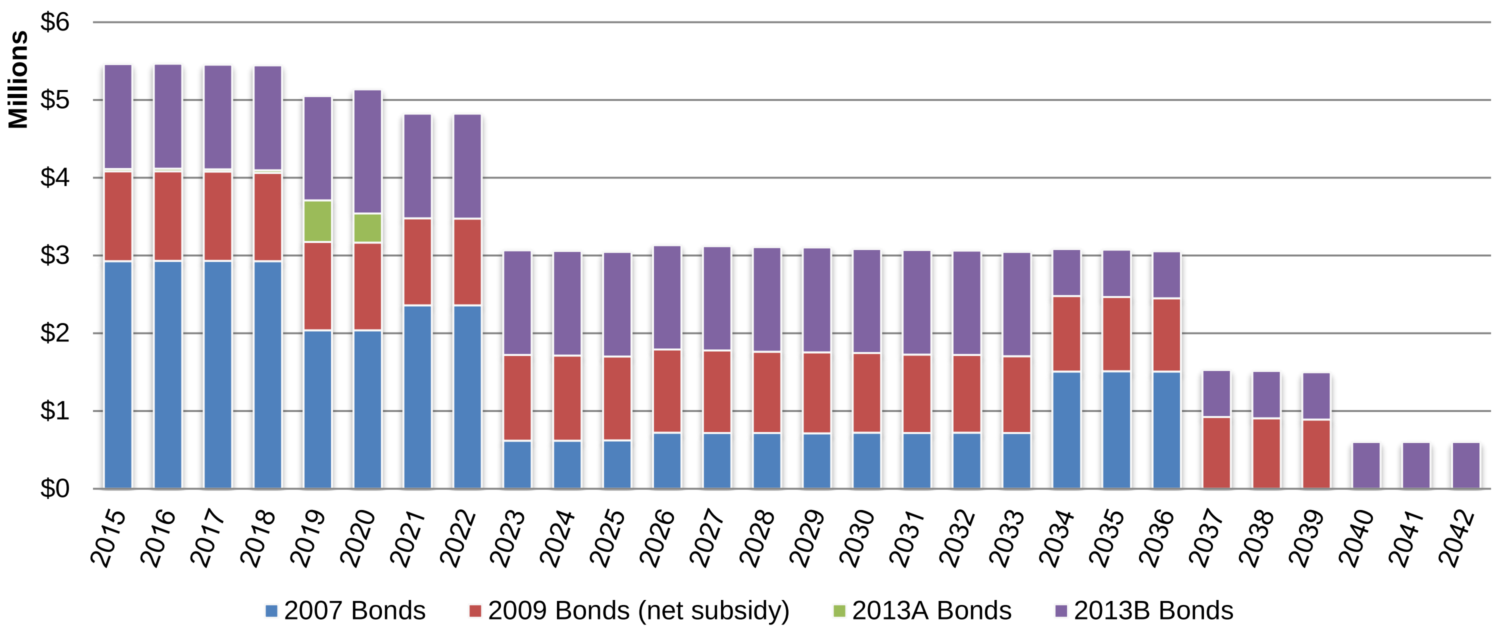
Source: Bloomberg. As of April 28, 2015

Outstanding Electric System Debt

Series	Purpose	Issue Size	Delivery Date	Final Maturity	Call Date	Outstanding Coupons	Outstanding Par	Insurer
2007	Electric Utility improvements and equipment purchase	$25,775,000	1/4/2007	11/1/2036	5/1/2017	4.00%-5.00%	$24,040,000	Ambac
2009 (BABs)	City's Plan of Additions	11,200,000	10/26/2009	11/1/2039	11/1/2019	3.568% - 6.375%	9,995,000	Assured Guaranty
2013A	Refunding 2003 Bonds	925,000	5/16/2013	11/1/2020	5/1/2023	1.25% - 2.50%	915,000	N/A
2013B	City's Plan of Additions and reimburse the Electric Utility	19,455,000	5/16/2013	11/1/2042	5/1/2023	2.00% - 5.00%	18,855,000	N/A
Total							**$55,365,000**	

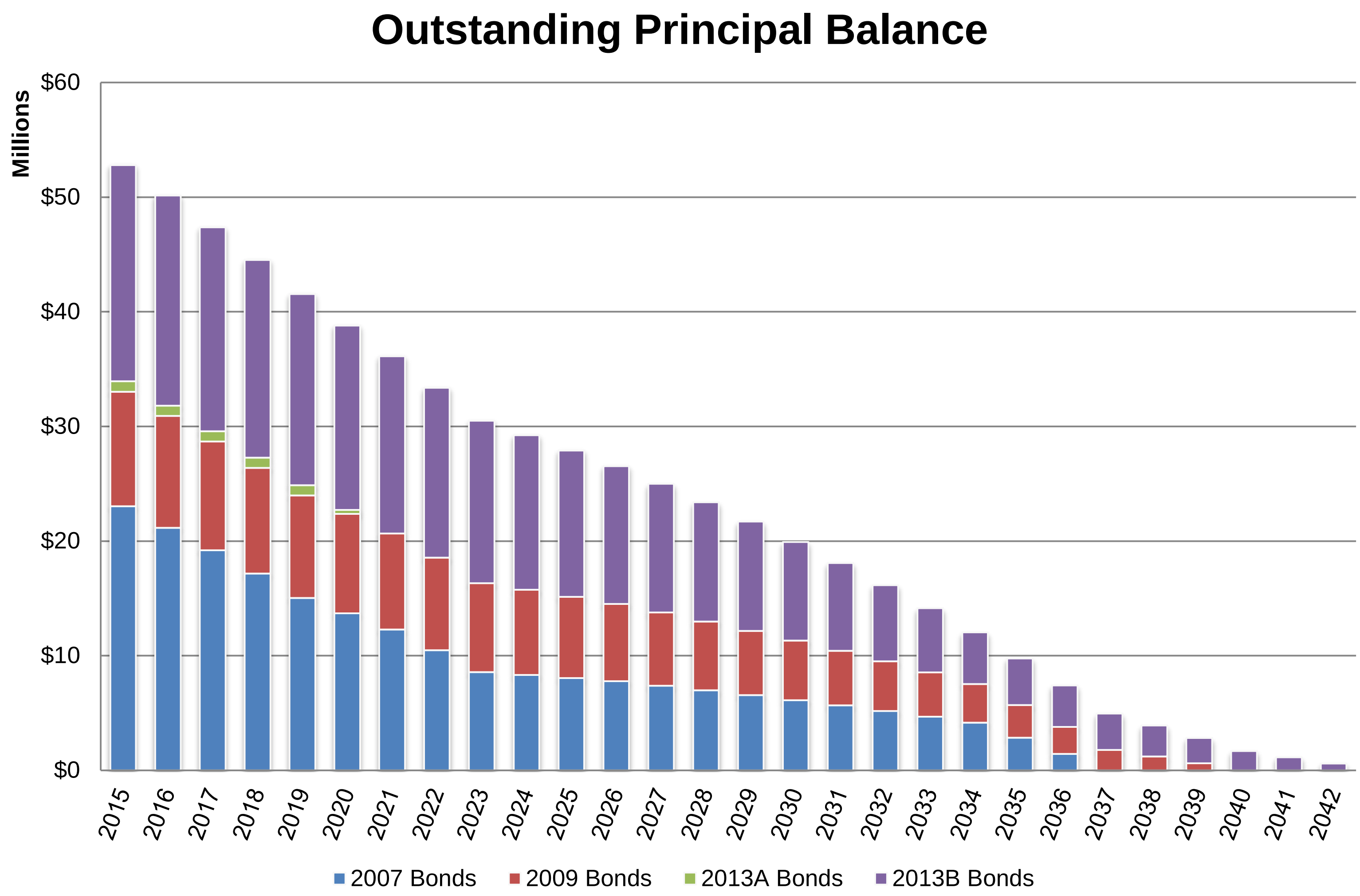
The weighted average coupon of the City's outstanding electric system revenue bonds is approximately **4.30%**.

Annual Debt Service



Outstanding Electric System Debt

Based on its current debt portfolio, the City will amortize over **47%** of outstanding electric system revenue bonds within the next 10 years.



Upcoming City Electric Bonds

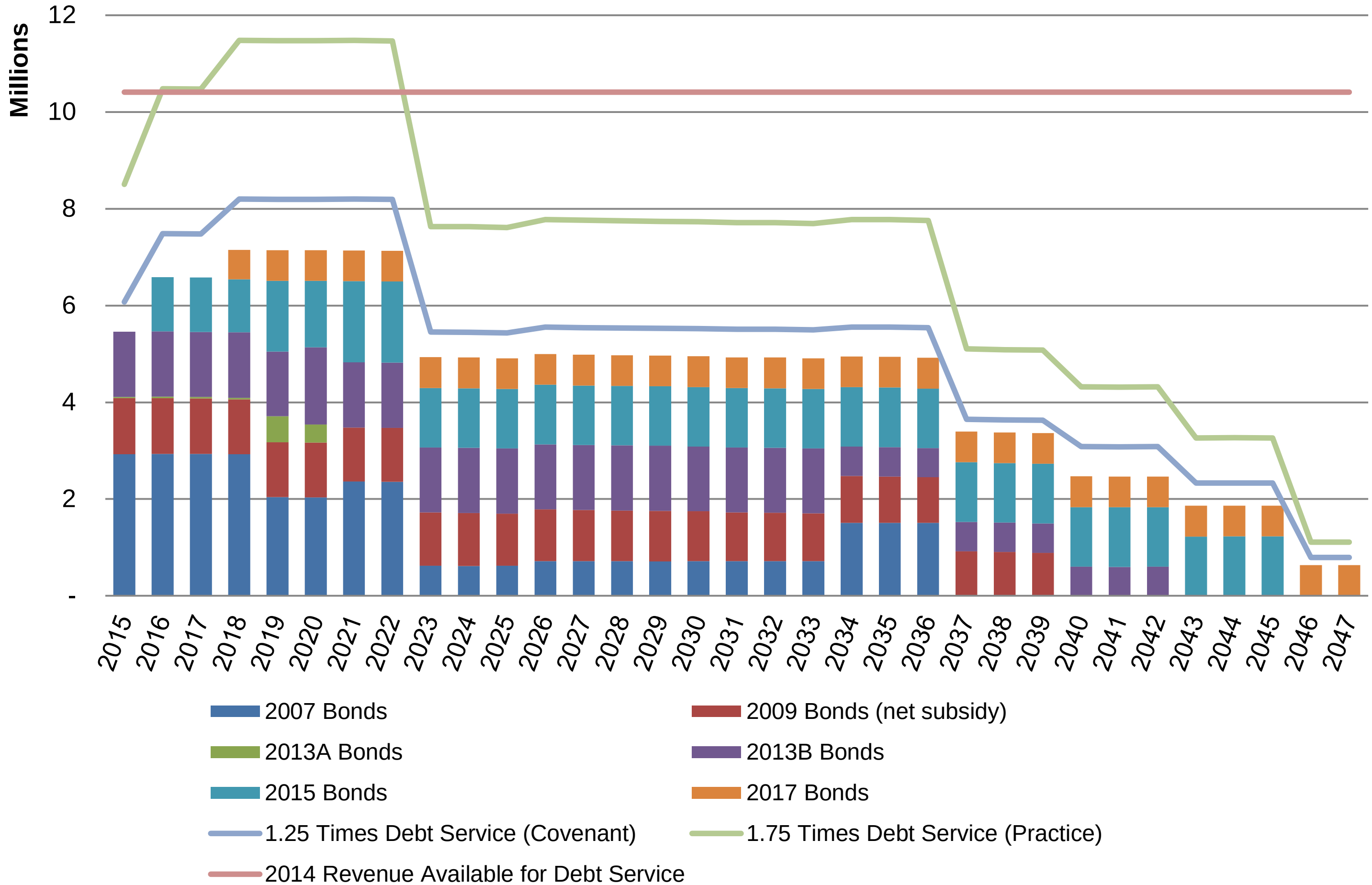
- The City's 2014-2030 Capital Improvement Plan and current Cost of Service Analysis indicate expected issuance of approximately $20 million of bonds in 2015 and $9 million in 2017
- 2015 Bond issue sized in order to meet near-term capital needs (through early 2017)
- PFM recommends that the City position itself to sell bonds in early September 2015
- Estimated characteristics of the 2015 Bonds would be as follows:

2015 Revenue Bonds(1)	
Project Funds	$20,000,000
True Interest Cost	4.17%
Average Annual Debt Service	$1,260,236
Debt Service Reserve Fund Deposit	$1,424,413
Call Date	11/1/2025
Final Maturity	11/1/2045

(1) Analysis assumes market conditions as of 4/27/15, plus .50%

Upcoming City Electric Bonds

- The chart below indicates the potential effects of the 2015 and 2017 bond issues on the City's aggregate annual Electric System debt service requirements



(1) 2014 Revenue Available for Debt Service from City COSA dated January 12, 2015
Analysis assumes market conditions as of 4/27/15, plus 0.50% for 2015 Bonds and 1.50% for 2017 Bonds

Refunding Analysis

- The City's Electric Revenue Capital Improvement and Refunding Bonds, 2007, are eligible for an advance refunding and have a call date of May 1, 2017

Advanced Refunding of Electric Revenue Capital Improvement and Refunding Bonds, 2007(1) (2017 to 2036) Maturities							
Analysis	Maturities Refunded	Par Refunded	Average Annual Savings	TIC	NPV Savings	NPV Savings as % of Par	Negative Arbitrage
Current Market Rates	2017 to 2036	$18,555,000	$42,520	3.10%	$732,874	3.81%	$649,629
+25 Basis Points	2017 to 2036	18,555,000	22,091	3.30%	392,500	2.04%	726,315
-25 Basis Points	2017 to 2036	18,555,000	62,688	2.91%	1,086,352	5.66%	572,304

Advanced Refunding of Electric Revenue capital Improvement and Refunding Bonds, 2007(1) (2017 to 2022) Maturities							
Analysis	Maturities Refunded	Par Refunded	Average Annual Savings	TIC	NPV Savings	NPV Savings as % of Par	Negative Arbitrage
Current Market Rates	2017 to 2022	$10,680,000	$82,687	1.73%	$632,829	5.95%	$202,813
+25 Basis Points	2017 to 2022	10,680,000	63,792	1.98%	507,260	4.77%	245,881
-25 Basis Points	2017 to 2022	10,680,000	100,920	1.48%	760,390	7.15%	159,442

- The City may consider incorporating a full or partial refunding into its upcoming electric system revenue bond issues in order to avoid duplicative costs of issuance and staff time and resources
- PFM will continue to monitor the refunding opportunity and the feasibility of refunding the City's outstanding debt

(1) Analysis assumes market conditions as of 4/27/15

Electric System Bond Covenants

- **Revenue Pledge**
  - The Bonds are secured by Net Revenue of the Electric System (Gross Revenue less Operations & Maintenance Expense)
  - After the issuance of the 2013 Bonds, “Operations and Maintenance Expense” now includes Contract Resource Obligations

- **Rate Covenant and Coverage Requirement**
  - The City has covenanted to maintain annual net revenues of 1.25x or greater of annual debt service. **As a practice, the City has adhered to a minimum 1.75x debt service coverage ratio**
  - In the past five years, the City has maintained debt service coverage between 1.80x and 2.62x
  - The table below shows historical debt service coverage, with and without the inclusion of the 2015 Bonds’ estimated debt service

Historical Debt Service Coverage

	2014(1)	2013(2)	2012(2)	2011(2)	2010(2)
Net Amount Available For Debt Service	$10,407,551	$11,137,596	$7,694,896	$11,213,566	$9,703,563
Total Annual Debt Service	$5,150,658	$4,257,113	$4,264,403	$4,265,357	$4,278,932
Debt Service Coverage	2.02x	2.62x	1.80x	2.62x	2.27x
Total Annual Debt Service with 2015 Bonds(3)	$6,410,894	$5,517,349	$5,524,639	$5,525,593	$5,539,168
Debt Service Coverage with 2015 Bonds	1.62x	2.02x	1.39x	2.02x	1.75x

(1) Source: City COSA Model, dated 1/12/2015
(2) Source: Calculated per the City’s CAFR in each respective year
(3) Analysis assumes market conditions as of 4/27/15, plus 0.50%

Electric System Bond Covenants

- **Additional Bonds Test**
  - The City may issue additional parity Electric System bonds if net revenue from any 12 consecutive months of the previous 24 months is sufficient to generate debt service coverage of 1.25x maximum annual debt service on all outstanding and proposed additional Electric System debt

- **Debt Service Reserve Fund**
  - All Electric System bonds are additionally secured by a debt service reserve fund equal to the lesser of maximum annual aggregate debt service, 125% of average annual aggregate debt service, or 10% of the bonds' original proceeds
  - The requirement is currently based on 125% of average annual debt service
  - At the time the 2013 Bonds were sold, this requirement was $3,892,213, which was funded entirely with cash
  - Additionally, the City holds two surety policies from bond insurers with an aggregate face value of $3,170,446; however, the credit quality of the insurers has declined since 2008

- **Springing Covenants**
  - With its 2009 and 2013 Bonds, the City made certain technical changes to various covenants, including the ability to treat Build America Bonds subsidy payments as debt service offsets, rather than revenues
  - Takes effect after the 2007 Bonds mature or are redeemed

Credit Strengths and Concerns

Strengths:

Stable Financial Margins

Supported by a comprehensive management planning and policy framework

Long-term 17-year load following contract with BPA

Will cover the vast majority of Richland's total near-term resource requirements with low-cost, noncarbon-emitting hydropower

Strong Debt Service Coverage (DSC)

1.5x – 2.2x DSC after general fund transfers in 2012

Policy to maintain DSC of at least 1.75x

Fixed-charge coverage good at 1.2x

Good Liquidity

$4.3 million of 35 days' cash operating expenditures in fiscal 2012, projected by management to grow to $11.8 million or 87 days' cash in fiscal 2013

Competitive Rates

Stable Customer Base with Above Average Incomes

Concerns:

Reliance of BPA for All Power Resources

Although the cost of power is low

Moderately Concentrated Customer Base

Leading 10 customers represent 27% of retail revenues

Somewhat concentrated service area economy centered on the U.S. government's Hanford Nuclear Reservation

Moderate Capital Plan

Totaling $53 million with debt projected to fund about 46% of capital needs over the fiscal 2013-2017 period

Current S&P Rating:

A+
Stable Outlook

Major Areas of S&P Credit Focus

Management

- Planning processes
- Financial and operating policies
- Executive team experience
- Knowledge of customers, competitors and the industry
- Management approach

Operations

- Power and fuel resource mix, capacity, supply and demand
- Operating efficiency and reliability
- Capital needs

Competitive Position

- Rate design and unit rates by customer
- Rate projections
- Regulatory environment in which rates are established
- Flexibility of rate adjustment

Market and Service Area

- Load factors
- Stability and growth of population
- Wealth indicators relative to cost-of-living indices and level of rates.

Regulation

- Impact of federal, state, or local regulators with regard to ratemaking, competition, transmission, and the environment
- Impact on operational and financial factors

Finances

- Key ratios such as debt service coverage, debt to equity, fixed charge coverage and unrestricted cash as a percentage of total expenditures
- Policy and decision-making
- Costs of achieving competitiveness and the impact of competitiveness upon financial integrity and system reliability

Legal Provisions

- Security Pledge
- Rate Covenant
- Flow of funds
- Additional bonds test
- Debt service reserve

Source: Standard & Poor's rating report for the City's Electric System, dated April 26, 2013.

Bond Sale Process - Key Steps

JUNE						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

JULY						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

AUGUST						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

SEPTEMBER						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

Proposed schedule – key steps:

• Finalize funding need and repayment source/schedule	By June 15
• Finalize plan of finance and method of bond sale	By June 15
• Credit rating and disclosure process	June-July
• Utility Advisory Committee meeting	July 14
• City Council – first reading of Bond Ordinance	August 4
• City Council – passage of Bond Ordinance	August 18
• Bond sale (funds available)	September

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