

**RESOLUTION NO. 121012-1**

**A RESOLUTION AUTHORIZING THE USE OF UP TO \$800,000 OF CASH RESERVE FROM THE SEWER FUND TO TEMPORARILY FUND CERTAIN WATER SYSTEM IMPROVEMENTS**

**WHEREAS**, the City Commission has determined that it is prudent and necessary to use cash reserve from the Sewer Fund to temporarily fund certain Water System Improvements for the City of Abilene; and

**WHEREAS**, the City Manager has verified that sufficient budget authority and cash balance is available for the proposed appropriation to be made; and

**WHEREAS**, the City plans to issue its General Obligation Bonds and use a portion of the proceeds to repay the Sewer Fund in full

**NOW, THEREFORE BE IT RESOLVED**, by the City Commission of the City of Abilene, as follows:

**SECTION 1. Authorized Use of Cash Balance.** The City Commission hereby authorizes the use of up to \$800,000 of cash reserve from the Sewer Fund to temporarily fund certain Water System Improvements for the City of Abilene.

**SECTION 2. Cash Balance to Repaid.** Any cash balance used by the City Manager, as authorized by this Resolution, shall be repaid to the Sewer Fund in full before the end of the First Quarter of 2013.

**SECTION 3. Effective Date.** That the effects of this Resolution shall be in full force and effect after its adoption by the City Commission.

**PASSED AND ADOPTED** this 10th day of December, 2012

(Seal)

ATTEST:



By: \_\_\_\_\_

*John F. Ray*  
John F. Ray, Vice- Mayor

*Penny L. Soukup, CMC*  
Penny L. Soukup, CMC/City Clerk

**TO:** City Commission  
**FROM:** David Dillner, City Manager  
**SUBJ:** General Obligation Bonds and Public Projects  
**DATE:** December 5, 2012

The City has recently been in negotiations with an area property owner concerning the purchase of a potential new water source. The City has confirmed that the water source has been permitted by the Kansas Department of Agriculture, Division of Water Resources for 103.1 acre-feet of water, and has been able to pump approximately 33.6 million gallons per year. The negotiations have entered a critical stage whereby the City will soon begin testing the well site to determine if it produces sufficient volumes of water to justify purchasing the property.

If the well is determined to produce an amount of water that justifies purchasing the property, City staff proposes a transaction that would allow for the purchase of fifty acres of real property surrounding the well for wellhead protection in addition to the water rights for the well. Staff has confirmed with the Division of Water Resources that all of the water rights are transferable to the City should it be purchased. The City has determined a range for the fair market value for the potential transaction to ensure that any offer is fair and prudent to water utility customers.

**Special Considerations:** The City of Abilene has been pursuing additional water sources since 1996. Thus far, explorations have yet to yield any new sources of water for the public water supply. Since 2004, the City has allocated \$238,012 for water exploration. Additionally, staff estimates the cost of developing the well and connecting it to the public water system around \$168,000, making the total estimated cost of the project about \$968,000. At the customer level, the project's cost equates to \$2.88 per 1,000 gallons compared to the City's base residential water rate of \$3.25 per 1,000 gallons, providing an estimated 13% return on investment for the project over a ten-year period.

**Budgetary Considerations:** The City Manager proposes to temporarily finance the purchase of the water source from cash reserve from the Sewer Fund; the Water Fund would be the most appropriate fund for this consideration, although the fund does not have sufficient resources to meet this short-term need. The Sewer Fund is projected to end the year with a cash balance of \$1,484,462. The City Manager requests the use of up to \$800,000 from the Sewer Fund to temporarily finance the purchase of the water source. Even by using these funds from the Sewer Fund's cash reserve, the Sewer Fund will continue to exceed its target balance of \$600,000.

The City Manager, in consultation with the City's Bond Counsel and Financial Advisor, proposes to reimburse the Sewer Fund using a portion of the proceed from General Obligation Bonds that would be publicly sold early in 2013. The projected interest rate for a ten-year bond for the City is about 1.68%, which is the lowest financing instrument available to the City at this time. Given low interest rates and the short duration that the funds will be borrowed from the Sewer Fund, the City Manager does not propose to reimburse the Sewer Fund with interest.

By financing this project using G.O. Bonds, the City also has the opportunity to refinance some outstanding debt at a net savings to the City. Included in the refinancing portion of the issuance would be the balances of the Series 2005A Bonds (Tower and Park Place Additions), Series 2006 Bonds (Hidden Meadows 5 and Dawson 3 Additions), 1998 KDHE Water Loan (Water Treatment Plant), and the 1998 KDHE Wastewater Loan (UV Disinfection System). The projected savings for the refinancing would be \$53,870, or \$7,700 per year for the next seven years.

The City also proposed to purchase fire apparatus equipment at a lower cost than would be required with a lease purchase agreement. The City was planning to replace its aerial ladder truck with a refurbished truck in 2013 at a cost of \$421,000. This replacement was budgeted for 2013, but was changed from a new truck to a refurbished truck to save money.

The City obtained bids from vendors for a new aerial ladder truck. The low bid was \$519,264 from Smeal Fire Apparatus and included a trade-in for the City's current aerial ladder truck of \$10,000. The current truck is an open cab design that is not in high demand in the firefighting industry, so there is little chance of improving the sale price by independently selling the truck compared to trading it in. Also of consideration is the fact that the existing truck is over twenty years old adding to the complexity of selling it without refurbishing it.

The City will take advantage of lower interest rates in finance the purchase of the aerial ladder truck. As originally planned, the City was going to lease purchase the truck at a substantially higher rate than what G.O.Bonds could provide (1.6% compared to 4.5%). Staff estimates that by including the aerial ladder truck in the proposed G.O. Bonds, Series 2013, a slight mill levy increase of 0.2 mills will be required for the Fire Apparatus Fund. This increase amounts to about \$10,000 for the fund and could easily be accommodated with an equal reduction from the Capital Improvement Fund. Given the cash balance of this fund, the City Manager recommends reducing the Capital Improvement Fund mill levy to balance out the increase to the Fire Apparatus Fund.

**City Manager Recommendation:** The City Manager recommends authorizing the issuance of G.O. Bonds to finance certain Water System Improvements, the purchase of an aerial ladder truck, and to refinance certain outstanding obligations of the City. Further, the City Manager recommends authorizing the use of up to \$800,000 of cash reserve from the Sewer Fund to temporarily finance certain Water System Improvements with such funds being reimbursed using a portion of the proceeds of G.O. Bonds, Series 2013.

**City Commission Actions:** The City Commission will have five actions to take with respect to the proposal outlined in this memorandum:

1. Approve Resolution No. 121012-1 authorizing the use of up to \$800,000 of Cash Reserve from the Sewer Fund to temporarily fund certain Water System Improvements.
2. Accept the motion to accept a bid of \$519,264 from Smeal Fire Apparatus for a new aerial ladder truck for the Fire Department.
3. Approve Ordinance No. 3222 authorizing the City of Abilene, Kansas to make Water System Improvements and to acquire equipment for a Fire Station; authorizing the City to issue its General Obligation Bonds in the amount necessary to pay costs of such improvements.
4. Approve Resolution No. 121012-2 authorizing Public Sale of the City's General Obligation

Refunding and Improvement Bonds, Series 2013, in an approximate principal amount of \$2,640,000.

5. Approve Ordinance No. 3223 authorizing the City of Abilene, Kansas to make Water System Improvements and Acquire Fire Fighting Equipment; prepay certain outstanding loans and authorizing the City to issue its General Obligation Bonds in the amount necessary to pay costs of such improvements.

**Supporting Documentation:**

- Memorandum from Dustin Avey, Financial Advisor
- Financing of Ladder Truck Memorandum from Eddie Balluch, Finance Director
- 2013 Aerial Ladder Truck Prices from Bob Sims, Fire Chief

To: City Commission

Re: 2013 General Obligation Refunding and Improvement Bonds

I wanted to provide a brief summary of the proposed Series 2013 General Obligation Refunding and Improvement bonds. A portion of the bonds will be used to acquire a water well and related land. In addition, we have evaluated financing options for a fire truck purchase associated with the City's capital plan. As a result of current market interest rates and planned General Obligation Bond financing, we recommend financing the purchase of the fire truck with the Series 2013 bonds as well. Both the fire truck purchase and water well/land acquisition will be financed for a 10 year term.

As evidenced by the attached interest rates chart, interest rates have continued to move lower and in fact, may be at the lowest levels ever. As a result, we have evaluated potential refinancing opportunities for the City. Based on current market rates, the projected savings for refinancing the Series 2005A Bonds, Series 2006 Bonds, 1998 KDHE Water Loan and 1998 KDHE Wastewater Loan is \$53,870.24. This savings is net of all costs and provides approximately \$7,700 of annual savings over the next 7 years. In addition, the present value savings percentage is 5.18%. Industry guidelines suggest considering/reviewing a refinancing when the present value savings percentage exceeds 3%. These refinancings, if completed on their own, would likely be marginal due to related costs, however, when combined with other financings (capital improvements) it becomes more economical as the costs are spread out over a larger bond issue. These issues are certainly interest rate sensitive. We will continue to monitor the market and if interest rates increase to the point where the savings is not sufficient, we will not include them in the Series 2013 bond issue.