



CITY OF WASHINGTON, ILLINOIS

Finance & Personnel Committee Agenda Communication

Meeting Date: June 20, 2022

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Agenda Item: Stormwater Project Funding

Background: The City had a team of TWM and Fehr Graham perform a Citywide Stormwater Assessment. The assessment identified around 30 projects around the city at a total cost that exceeds \$26 million. The team also assembled an 8-project priority list at an estimated cost of \$7.2 million.

Discussion: There are \$8.2 million in new regional detention basin projects. Staff's recommendation to council is to start upstream with regional basins and then work on the more site-specific projects. These projects may increase the flow of water to the tributary areas, which in turn could increase downstream issues without the upstream detention. There are also two projects to enlarge existing basins in order to detain a 100 year event and reduce outfall flows, for close to \$1 million.

Council approved an increase in sales tax that will raise roughly \$1 million in revenue per year to be allocated to stormwater management. With the tax increase not going into effect until mid-2022, this budget will not have a full \$1 million in revenue in the current fiscal year.

The assessment was scoped to identify projects and estimate a cost to construct. These projects would still need to be fully designed before they could be placed out for bid to be constructed. Final design plans and permitting can cost upwards of 10% of the final construction cost depending on the location, type of improvement, and difficulty of the design.

Recommendation Summary:

Staff would like discussion on bonding for multiple projects versus a pay as you go type approach.

City of Washington

Estimated funding available for capital projects

- The following table shows estimated bond proceeds that could be raised today, under various repayment periods, for a \$1,000,000 annual debt service commitment. The analysis is based on the following assumptions:
 - 1x revenue coverage with full leveraging of the indicated revenue stream.
 - Tax-exempt interest rates as of June 15, 2022, assuming underlying issuer credit rating of “A+” or “AA-” with “AA” rated bond insurance.
 - Available proceeds are net of all issuance costs such as legal counsel, underwriting fees, credit rating costs, etc. We’ve assumed issuance costs at 1.5% of the financing amount (approximates: \$125,000 for 10-year scenario, \$165,000 for 15-year, and \$195,000 for 20-year scenario).
 - Available proceeds are net of the bond insurance policy premium estimated at 0.4% of gross debt service.
- Mesirow will tailor a specific financing solution for Washington based on the city’s specific needs and objectives. Our goal is always to identify and source the lowest-cost capital for our clients within the constraints of their funding requirements.

| | Approximate Annual Debt Service Commitment | | Estimated Interest Rate |
|-------------------------|--|--|-------------------------|
| | \$1,000,000 / Year | | |
| | Approximate Financing Proceeds Net of Issuance Costs | | |
| 10-Year Level Repayment | \$8,200,000 | | 3.35% |
| 15-Year Level Repayment | \$11,000,000 | | 3.80% |
| 20-Year Level Repayment | \$13,000,000 | | 4.15% |

Results are preliminary and subject to change based on market conditions and other factors.

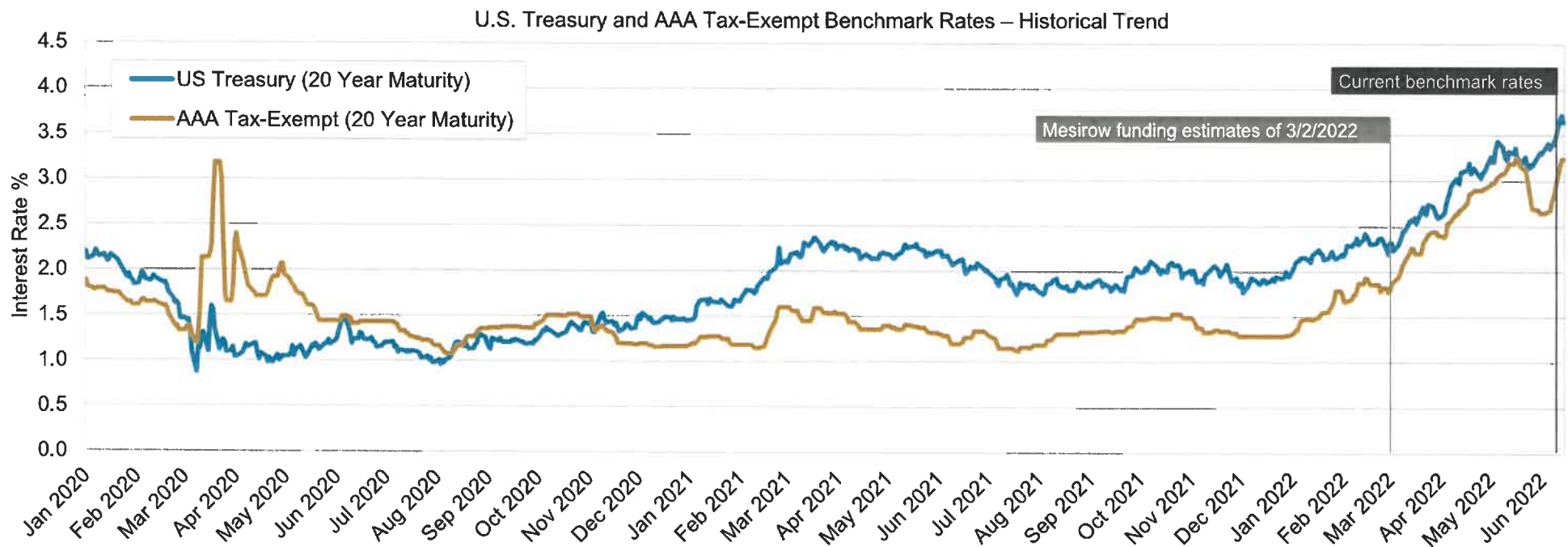
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Interest rates trended upward during the first half of 2022, but there have been recent signs of some stabilization

- US Treasuries serve as the 'AAA' benchmark for taxable interest rates; the MMD Index is the 'AAA' benchmark equivalent for tax-exempt rates. A municipal issuer's bonds trade at a market-determined credit spread above the applicable Treasury or MMD benchmark. **The illustration below shows historical changes in Treasuries/MMD (20-year maturity).**
- March 2020 saw a relative low point as US Treasuries served as a safe-haven investment during COVID-19. At the same time, it was a relative high point for munis as investors sold bonds to increase liquidity. Federal Reserve action, inflation, Russia/Ukraine war, and other supply/demand dynamics have pushed both taxable and tax-exempt yields notably higher in recent months.



Data Sources: The Municipal Market Monitor (TM3) and the U.S. Department of Treasury - Daily Treasury Yield Curve Rates