



OREM CITY, UTAH

CITY COUNCIL PRESENTATION UTILITY SYSTEM REVENUE BONDS UPDATE

JANUARY 12, 2021



BOND ISSUANCE SUMMARY

UPDATE OF UTILITY RATES IS PROGRESSING

- ☞ Planning to present for review on January 26th
- ☞ Bi-weekly meetings ongoing with City staff/administration and utility professionals
- ☞ Continues to appear that meaningful reduction in rates is achievable for both water and sewer rates
 - Bonding for long life capital improvements rather than pay-as-you-go aids with this plan
- ☞ Continue to focus on maintenance of:
 - Revenue sufficiency under varying usage demands
 - Reasonable cash balances
 - Good debt service coverage
 - Working toward best credit rating and lowest interest rates

PROJECTS SUMMARY

- ☞ Water (\$33.4M) – Tank, piping, lines, well replacement, water reuse
- ☞ Water Reclamation (\$17.2M) – H2s rehab, frequent maintenance elimination, struvite control, etc.
- ☞ Storm Drain (\$2M) – Reduction from last presentation. Additional projects will need to be funded in the future when costs and timing to construct are more certain

OTHER CONSIDERATIONS

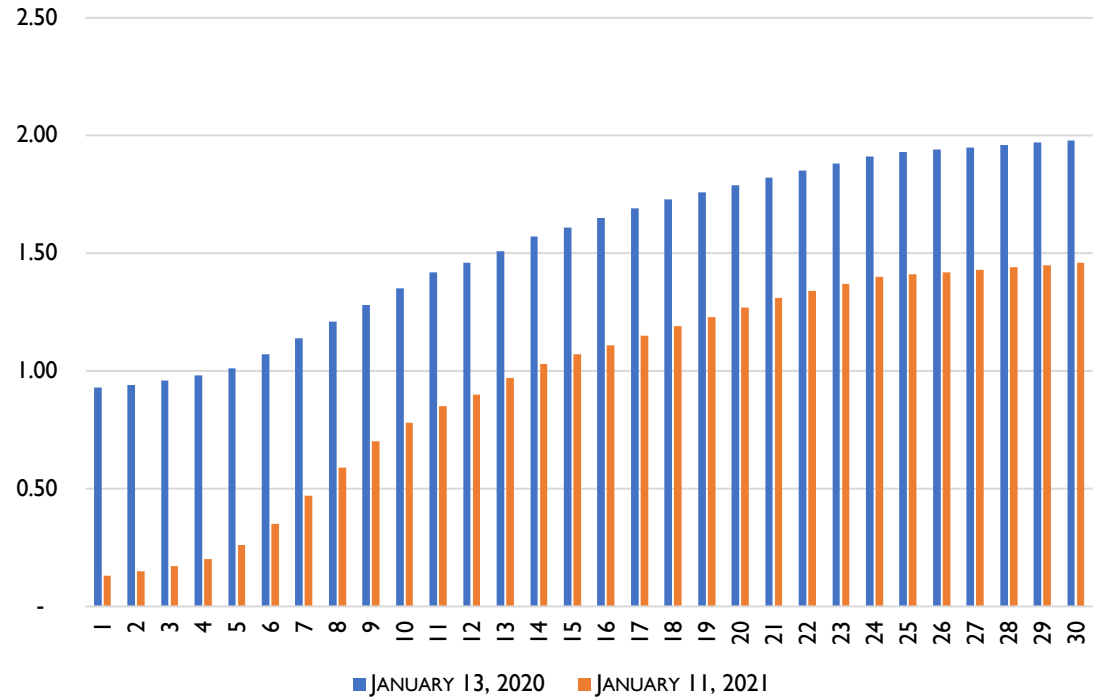
- ☞ The City will utilize approximately \$17.3M of cash balance in from the water and sewer utility funds (combined) to reduce bond size.
- ☞ Remaining fund balances are sufficient to meet the days cash on hand necessary to garner great ratings
- ☞ Interest rates – It is beneficial to consider long-term debt as interest rates are well below anticipated construction inflation
- ☞ Updated comparison of bonding vs. pay-as-you-go shows savings over the 25-year life to be in the range of ~\$16.5M to ~\$45M depending on construction cost inflation (assuming between 2.5% and 3.5%)

INTEREST RATE CONSIDERATIONS

- ☐ Notwithstanding that the 10-Year Treasury rose above 1%¹ (the highest since last March) interest rates are still very low and well below construction inflation
- ☐ If in the market today with Orem’s Utility Revenue bond the True Interest Cost (TIC) would be in the range of 2.35% to 2.40% for the 25-year bond issuance

YEAR	JANUARY 13, 2020	JANUARY 11, 2021	DIFFERENCE (2020 TO 2021)
1	0.93	0.13	(0.80)
2	0.94	0.15	(0.79)
3	0.96	0.17	(0.79)
4	0.98	0.20	(0.78)
5	1.01	0.26	(0.75)
6	1.07	0.35	(0.72)
7	1.14	0.47	(0.67)
8	1.21	0.59	(0.62)
9	1.28	0.70	(0.58)
10	1.35	0.78	(0.57)
11	1.42	0.85	(0.57)
12	1.46	0.90	(0.56)
13	1.51	0.97	(0.54)
14	1.57	1.03	(0.54)
15	1.61	1.07	(0.54)
16	1.65	1.11	(0.54)
17	1.69	1.15	(0.54)
18	1.73	1.19	(0.54)
19	1.76	1.23	(0.53)
20	1.79	1.27	(0.52)
21	1.82	1.31	(0.51)
22	1.85	1.34	(0.51)
23	1.88	1.37	(0.51)
24	1.91	1.40	(0.51)
25	1.93	1.41	(0.52)
26	1.94	1.42	(0.52)
27	1.95	1.43	(0.52)
28	1.96	1.44	(0.52)
29	1.97	1.45	(0.52)
30	1.98	1.46	(0.52)

AAA MMD - OCTOBER TO DECEMBER



¹ A bit of an anomaly today in particular because U.S. stock indexes fell, which typically means that more investors move funds into treasury bonds and drive those yields a little lower.



PARAMETERS RESOLUTION SUMMARY

- ☞ Adoption of the Parameters does not commit the City to issue bonds, but provides the parameters under which the bonds can be issued and is the ‘starting point’ to allow for public notification, required publication and the setting of a public hearing

- ☞ Designated Officers are established in the Super Parameters Resolution. These officers have the authority to approve the final bond issuance as long as it is within the parameters set forth in the Resolution. This provides for marketing flexibility and is beneficial to the bond pricing.
 - Historically the City has utilized the Mayor or Mayor Pro Tem, the City Manager and the Chief Financial Officer. The Resolution can be written to grant approval to a larger or smaller group. In order to provide for speed and flexibility a small group is typically better.

- ☞ Parameters:
 - Max Par – \$45,000,000²
 - Max Term – 30 Years
 - Max Coupon – 5.50%
 - Max Discount – 3.00%

- ☞ At present taking bond premium and other factors into account we anticipate the following:
 - Par Amount – \$29,025,000
 - Final Maturity – 25.5 Years
 - Max Coupon – 4.00%
 - Max Discount – not contemplating bonds will be sold at a discount so only discount will be to pay the underwriter
 - Estimated Annual Debt Service: \$1,861,000

² The sizing may be larger than anticipated in order to account for the possible need to replace the old 0% state loan documents with new 0% state loan documents which technically count as a ‘refunding’ although there is no savings and no cost.



KEY DATES – BOND ISSUANCE CALENDAR OF EVENTS

☰ Provided in the table below are key dates related to the issuance of the bonds as well as the utility studies

DATE/DAY	EVENT	RESPONSIBILITY
January 12	City Council Work Session to discuss bond transaction and related parameters resolution	CC, CO, FA, BC
January 19	Distribution of first draft of Bond Documents	BC
January 21	Review of POS and other Bond Documents	All Hands
January 26	City Council review of Utility Rate Study [in Work Session] City Council considers for adoption the Bond Resolution and authorizes sale of bonds, including delegation of authority, and sets date of February 23, 2021 for Public Hearing	CC, CO, FA, BC
February 8-9	Discussions with Rating Agencies (likely held electronically) with S&P & Fitch	CO, FA
February 22-23	Ratings Received	FA
February 22-23	Last days to make significant modifications to construction fund projects and amounts	CO, FA
February 23	Public Hearing on the Bonds	CC, CO, FA, BC
February 25-26	Distribute Preliminary Official Statements to Potential Investors	FA
March 8-10	Pre-Pricing call at [Time TBD]	CO, FA, UW
March 9-11	Bond Sale and wrap-up call at [Time TBD]	CO, FA, UW
Week of March 22	Documents signed by Mayor and City Recorder	M
March 25	Bond Closing. 9:30 a.m. MDT Offices of Bond Counsel	All Hands
May __	Adoption of utility rates	

☰ Questions?