

Bond Defeasance

Background

In the financial plan for the adopted 2019 sewer rate, the \$144 million Brightwater judgment was going to be spent on capital projects in 2018 through 2020, thereby reducing debt issuance in those years.

Bond Defeasance Option

- Short-term interest rates have increased by almost 1 percent since the start of 2018.
- Because of this increase, it is now more beneficial to use the Brightwater judgment funds to buy U.S. Treasury securities and create an escrow.
- WTD will then issue bonds at a lower rate to pay for the capital projects.
- Because of current low interest, debt service on the new money bonds would be \$21 million less than debt service on the bonds that are being retired through the escrow.
- The resulting debt service savings would place downward pressure on the projected monthly sewer rate between \$0.09 and \$0.23 over what was projected in the financial plan for the 2019 sewer rate without increasing outstanding debt.

Discussion

Before 2018, WTD would have been able to advance refund the bonds that will be retired through the escrow, but the 2017 Tax Act eliminated this practice. The proposed escrow and new money issue give WTD ratepayers savings without the issuance of advance refunding bonds.

Because interest rates are still relatively low and have not increased significantly since the beginning of the year, new money bonds can be issued at much lower rates than the rates on the \$136 million of bonds that will be retired through the escrow. As a result, debt service on the new money bonds, at current interest rates, would be \$21 million less than debt service on the bonds that are being retired through the escrow.

The proposed debt retirement will require a supplemental appropriation for debt service payments in the 2017-2018 biennium of approximately \$140 million. Legislation to do this is under review for transmittal to Council.