

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
FINANCE OVERSIGHT COMMITTEE**

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
** BOARD ROOM **
6265 N. LA CAÑADA DRIVE
TUCSON, AZ 85704**

SEPTEMBER 9, 2020

MINUTES

Committee Members Present: Scott Schladweiler, Chair
Lee Jacobs, Vice Chair
Scott Bugental, Member
John Krempen, Member
Lee Mayes, Member
Robert Shonka, Member
Kip Volpe, Member
Monica Wnuk, Member

District Staff: Joseph Olsen, General Manager
Sheila Bowen, District Engineer / Deputy General Manager
Diane Bracken, Chief Financial Officer
Steve Shepard, Utility Superintendent
Theo Fedele, Clerk of the Board

Note: Members of the Committee and District Staff Participated Electronically.

Regular Session

I. Call to Order and Roll Call

Mr. Schladweiler called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:00 p.m. Mr. Bugental, Mr. Jacobs, Mr. Krempen, Mr. Mayes, Mr. Schladweiler, Mr. Shonka, Mr. Volpe and Ms. Wnuk were present.

II. Call to the Public

There were no comments by the public.

III. Discussion on Refunding Two Outstanding Debt Obligations, Reducing Both the Term and Principal, during a Favorable Bond Market to Capture Lower Yields

Ms. Bracken discussed the potential of refunding two outstanding debt obligations. The 2009A Water Infrastructure Finance Authority (WIFA) bonds are a refinancing of the 2005 bonds with an interest rate of 2.877%. These bonds became callable on February 15, 2020, which was ten years from the date of the final bond draw. The 2013 Subordinate obligations are a private placement with Western Alliance Bank of Arizona that were taken out in January 2013, at an interest rate of 2.65%. This was a refinancing of the 2002 Subordinate Bonds and the proceeds from this refunding were used to provide an immediate cash flow to the District by restructuring the debt service requirements and deferring all principal payments for seven years. Fortunately, this loan agreement includes a clause that allows for payment of all outstanding principal in full plus any interest due at the time of payment.

If the FOC and the Board agree to move forward with this bond refunding option, the District would have \$16.3 million of outstanding principal including the principal from this refunding. When Ms. Bracken and Mr. Olsen started working at the District 6½ years ago, there was \$57.2 million of outstanding principal debt. With early payments, bond defeasance, and now this refunding option, the District will have eliminated \$40.8 million of principal debt in 6½ years and avoided paying \$1.44 million of interest payments.

Mr. Olsen stated that the desired action is for the FOC to recommend the Board authorize the refunding of the bonds, which also includes repealing and replacing the resolution from 1999 to eliminate the debt service reserve fund as well as remove restrictions from the repair and replace fund. In standard municipal entities and water districts, the Chief Financial Officer (CFO) would simply follow the existing repayment terms on debt as opposed to seeking financially efficient options. Ms. Bracken has exceeded her CFO role and her efforts have saved District ratepayers substantial financial resources.

Mr. Mayes asked if there was a potential risk involved. Ms. Bracken stated if the bond market was to spike the rates could be different than anticipated. The District will undergo a credit rating review that is more in-depth than the annual review completed a few months ago. The District is currently at a Aa3 rating right now. Everything is based on the Aa3 rating so the only possible risk is the bond market.

Mr. Shonka asked if these numbers would change if we move up to Aa2. Ms. Bracken stated that the Aa2 could result in a lower rate. Currently, water utilities are favored by the bond market based on the security of utilities during these economic times.

Mr. Schladweiler asked the schedule moving forward including locking in rates. Ms. Bracken stated that if the Committee were to recommend Board approval, the item will be presented to the Board at its meeting on Monday. If the Board approves and everything falls into place, rates would be locked in on September 28, 2020 and close out the sale of the bonds on October 8, 2020.

Ms. Wnuk asked if there are any other types of reserves in the budget to cover any shortage of revenue. Ms. Bracken stated that the debt management reserve management policy requires 25% of the total operating costs set aside as liquid cash. Right now, there is \$5 million set aside invested in CDs that will not be touched except an emergency. Also, 1/12 of the principal and interest is set aside every month. This is considered restricted funds since the funds are put into Arizona State treasurer account for debt service

Mr. Shonka moved to recommend the Board of Directors authorize the refunding of the 2009A Bond and 2013 Subordinate Bond with no additional funding requested. Mr. Jacobs seconded the motion. Motion passed by a roll call vote of 8-0.

VII. Clerk of the Board Updates; Future Meetings

The next Finance Oversight Committee meeting is scheduled for the fall.

VIII. Call to the Public

There were no comments from the public.

IX. Adjournment

The meeting adjourned at 4:42 p.m.

Scott Schladweiler, Chair
Finance Oversight Committee