

Resolution No.: 18-1221
Introduced: September 11, 2018
Adopted: September 18, 2018

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

Lead Sponsor: County Council

SUBJECT: Approval of a Certain Debt Refunding Plan of the Washington Suburban Sanitary Commission for the Issuance of Refunding Bonds

Background

1. The purpose of this resolution is to approve the Debt Refunding Plan of the Washington Suburban Sanitary Commission (the "Commission") for the refunding of certain bonds of the Washington Suburban Sanitary District, as set forth therein. This refunding will be accomplished through the issuance, at one time or from time to time, of General Construction Refunding Bonds, Water Supply Refunding Bonds and Sewage Disposal Refunding Bonds of the Washington Suburban Sanitary District (collectively, the "Refunding Bonds"), as market conditions may permit.
2. Issuance of the Refunding Bonds will permit the refunding of some or all of the bonds of the Washington Suburban Sanitary District set forth on pages 2 through 5 of the Refunding Plan (such bonds are referred to collectively herein as the "Refunded Bonds").
3. Under the provision of the Public Utilities Article of the Annotated Code of Maryland and particularly, Section 22-114 thereof, the Commission is authorized to issue the Refunding Bonds to refund the Refunded Bonds to effect savings in debt service costs, directly or through any debt restructuring and only upon a finding by the Commission that such refunding will result in total savings in debt service costs.
4. Section 22-114 of the Public Utilities Article of the Annotated Code of Maryland provides for the Commission to prepare its plan respecting the issuance of the Refunding Bonds. The Commission has delivered to the County Executive and the County Council of Montgomery County said plan (the "Refunding Plan") entitled:

WASHINGTON SUBURBAN SANITARY COMMISSION
DEBT REFUNDING PLAN
dated July 6, 2018.

5. Section 22-114 of the Public Utilities Article of the Annotated Code of Maryland provides that the sale of the Refunding Bonds as authorized thereunder shall not be made unless the Refunding Plan is approved by the County Executives and the County Councils of Prince George's County and Montgomery County. However, if during the period of 30 days from the date of delivery of the Refunding Plan any County Executive or County Council shall have failed to approve or disapprove the Refunding Plan, such failure shall be deemed an approval of the Refunding Plan by such County Executive or County Council.
6. The Debt Refunding Plan has been based upon certain market analysis performed by the Commission's financial advisor, Wye River, Incorporated, which has determined the refunding and advance refunding opportunities.
7. Delivery of the Refunding Plan to the County Councils and County Executives of the two Counties, respectively, has been approved by the Commission. Subject to the approval of the Refunding Plan as required under Section 22-114 of the Annotated Code of Maryland, the Commission proposes issuing the Refunding Bonds of Washington Suburban Sanitary District in the amount necessary to effectuate the Refunding Plan. The Refunding Plan may be revised if and to the extent that any facts assumed should subsequently change.
8. The County Executive of Montgomery County has reviewed the Refunding Plan and has signed and submitted to the County Council his statement of approval of the Refunding Plan.

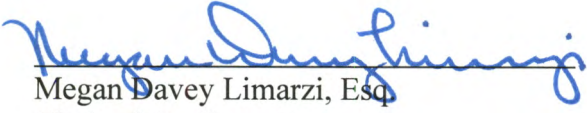
Action

The County Council approves the following action:

1. The Refunding Plan is approved, recognizing that the Refunding Plan is based upon certain assumptions made by the Commission's Financial Advisor, Wye River, Incorporated. To the extent the facts assumed should change, revisions in the Debt Refunding Plan may be necessary and no further approval shall be required so long as the requirement of total savings in debt service costs as set forth in Section 22-114 of the Public Utilities Article of the Annotated Code of Maryland is met.
2. The Refunding Plan will be placed on file with the Clerk of the Council, and the Clerk must deliver to the Treasurer of the Commission certified copies of this Resolution and of the excerpts from the minutes of the meeting of the County Council evidencing the adoption of this Resolution.
3. The provisions of this Resolution are severable and if any paragraph, provision, sentence, clause, section or part hereof is held illegal, invalid, unconstitutional or inapplicable to any person or circumstance by a court of competent jurisdiction, such illegality, invalidity, unconstitutionality, or inapplicability shall not affect or impair any of the remaining paragraphs, provisions, sentences, clauses, section, or parts of this Resolution. It is hereby declared to be the legislative intent that this Resolution would have been adopted if such

illegal, invalid, unconstitutional, or inapplicable provision, paragraph, sentence, clause, section or part had not been included herein.

This is a correct copy of the Council action.

A handwritten signature in blue ink, appearing to read "Megan Davey Limarzi", is written over a horizontal line.

Megan Davey Limarzi, Esq.
Clerk of the Council



COMMISSIONERS

T. Eloise Foster, Chair
Chris Lawson, Vice Chair
Fausto R. Bayonet
Omar M. Boulware
Howard A. Denis
Thomasina V. Rogers

GENERAL MANAGER
Carla A. Reid

CERTIFICATE OF APPROVAL

I, Isiah Leggett, the duly elected County Executive of Montgomery County, Maryland, do hereby approve the plan for the issuance of Washington Suburban Sanitary District refunding debt entitled "WASHINGTON SUBURBAN SANITARY COMMISSION DEBT REFUNDING PLAN", dated July 6, 2018, and consisting of five (5) pages, in conformity with the provisions of the Public Utilities Article of the Annotated Code of Maryland, as amended.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____, 2018.



Isiah Leggett
County Executive

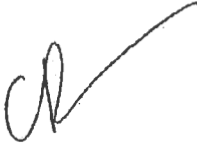
Washington Suburban Sanitary Commission

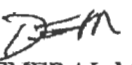


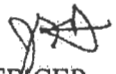
Washington Suburban Sanitary Commission


Interoffice Memorandum

TO: THE COMMISSION

THRU: CARLA A. REID
GENERAL MANAGER/CEO 

THRU: DAVID MALONE 
ACTING DEPUTY GENERAL MANAGER FOR ADMINISTRATION

THRU: JOSEPH F. BEACH 
CHIEF FINANCIAL OFFICER

FROM: J.D. NOELL 
DISBURSEMENTS DIVISION MANAGER

DATE: JULY 18, 2018

SUBJECT: BOND REFUNDING PLAN

Every year our financial advisor, WYE River Capital, Inc., reviews WSSC's debt portfolio to identify potential refunding opportunities. Based on their analysis, utilizing current market conditions, they prepared a Debt Refunding Plan (the Plan) which is attached. As described in the Plan, the primary factors that are impacting the eligibility of issues within our portfolio for refinancing are the upward trending long term rates and the elimination of tax-exempt advance refundings under the recently enacted Tax Cuts and Jobs Act. The Plan identifies two (2) bond issues; the Consolidated Public Improvement Refunding Bonds of 2009 and the Build America Bonds, 2010B that could be candidates for refunding. With market conditions as they are, the projected NPV savings would be at or below our current 3% benchmark. However, if economic conditions improve and interest rates decline, these issues could be considered for refunding.

It is recommended that the Commission approve the Plan and its transmittal to the County Executives and County Councils in accordance with the WSSD Code.

Attachments

Approved 6-0.

A handwritten signature, likely of the Commission member, in dark ink.



Washington Suburban Sanitary Commission

Debt Refunding Plan

July 6, 2018



WYERIVER

INDEPENDENT FINANCIAL ADVISORS

Washington Suburban Sanitary Commission

Debt Refunding Plan

1. Executive Summary

The Washington Suburban Sanitary Commission ("WSSC") has 14 outstanding series of long term fixed rate bonds (not including MWQFA loans). As financial advisor to WSSC, Wye River Group monitors market conditions and WSSC's outstanding debt obligations routinely for opportunities to refinance such debt for interest cost savings.

WSSC's most recent bond sale was on November 29, 2017 for its Consolidated Public Improvement Refunding Bonds of 2017 (Second Series) (2019 Crossover). At that time, the 15 year MMD¹ yield was 2.52%.

Since November 29th, there have been two developments which have marginalized WSSC's near-term prospects for additional refinancing opportunities. The first is the Tax Cuts and Jobs Act enacted in December, 2017 which among other things, eliminated tax-exempt advance refundings, that is, tax-exempt refundings of tax-exempt bonds in advance of their earliest optional redemption date. Second, interest rates on tax-exempt bonds have been trending upwards, but reasonably slowly, since November, 2017. Those two factors notwithstanding, with certain of WSSC's outstanding bond issues approaching their earliest call dates and strong appetite in the municipal market for high quality bonds, it is prudent for WSSC to position itself for any legally permissible refundings of select series of its outstanding bonds should circumstances support meaningful savings opportunities.

The following series of bonds become callable during FYs 2019 and 2020:

- CPI Refunding Bonds of 2009 – earliest optional call of 6/1/2019
- Build America Bonds (BABs) of 2010B – earliest optional call of 6/1/2020

Under current market conditions, a tax-exempt current refunding of the Series 2009 CPI Refunding Bonds would produce approximately 3.3% net present value (NPV) savings. A tax-exempt crossover refunding of the Series 2010B BABs, would produce approximately 2.5% NPV savings.

Based on this analysis, we recommend that WSSC position itself for a refinancing of the Series 2009 Bonds in March, 2019 at which time they would be eligible for a current refunding. If at that time, market conditions are sufficiently favorable, the crossover refunding of the Series 2010B BABs may also prove to be feasible and, if so, could be included in the transaction.

¹ MMD refers to the Thompson Reuters Municipal Market Data AAA Yield Curve, an index of AAA rated tax-exempt general obligation bonds

2. Refunding Feasibility Assessment by Series

Wye River Group has conducted a comprehensive review of all WSSC's outstanding debt for interest cost savings opportunities. No such opportunity exists with the MWQFA loans which already have very favorable interest rates. With respect to its outstanding tax-exempt obligations, WSSC has already refinanced a significant number of series at very favorable levels. At this point, the following factors are impacting the eligibility of outstanding WSSC bonds for savings-based refundings:

- relatively low interest rates on majority of outstanding issues,
- upwardly trending interest rates and
- elimination of tax-exempt advance refundings under the recently enacted Federal tax law (current refundings and cross over refundings are still permissible).

Thus, as a practical matter, the only series of bonds which warrant consideration for a refinancing in FY2019-20 are:

- series with earliest optional redemption dates within the next 24 months, which may become eligible for a current refunding or
- the BABs which may become eligible for either a current refunding at 3/1/2020 or a crossover refunding anytime in the interim.

Based on our analysis, WSSC has only two series of outstanding bonds under current or slightly improved market conditions that are potentially feasible refunding candidates ("Refunding Candidates") over the next 12 to 24 months:

- CPI Refunding Bonds of 2009 – earliest optional call of 6/1/2019
- Build America Bonds (BABs) of 2010B – earliest optional call of 6/1/2020

We analyzed each of those series for refunding feasibility at various interest rate levels. In the summary of the results of our analysis attached as Exhibit A, we present savings levels at current rates and the effects of a 25 basis point improvement or deterioration in interest rates from current market levels.

Under current market conditions, a current refunding of the Series 2009 Bonds would produce a sufficient level of savings to warrant consideration. However, the earliest that a current refunding of that series could be conducted is February of 2019 with a closing within 90 days of that Series' earliest call date in order to comply with "current refunding" legal requirements. Under current market conditions, a tax-exempt crossover refunding of the Series 2010 BABs would not produce sufficient NPV savings; however, a 25 basis point improvement in interest rates would result in savings in excess of the minimum 3% NPV savings benchmark. For this reason, it makes sense to monitor that series for potential refinancing eligibility in the near future. We note that the proposed structure in our analysis for a refinancing of the Build America Bonds more than 90 days before its earliest call date is a "crossover" refunding as distinguished from an advance refunding. An advance refunding of the BABs would be legally permissible; however, it would not produce a sufficient level of savings because (1) immediate defeasance of the BABs would eliminate the Federal subsidy and (2) the cost of defeasing BABs (and their taxable interest cost) to

the earliest call date would be prohibitively expensive. Under a cross-over refunding, the proceeds of the tax-exempt refunding issue would be invested in an escrow containing U.S. Treasury securities until the BABs become callable (in 2020). Until the BABs become callable, the interest income generated by the portfolio would fund the interest cost of the refunding bonds. At the earliest optional call date of BABs, the portfolio is liquidated automatically and the proceeds would be used to repay the BABs. In March, 2020 (within 90 days of the earliest call date of the Series 2010B BABs), the BABs would become eligible for a simpler current refunding.

3. Key Refunding Assumptions

The following are the key assumptions in our refunding analysis of the Refunding Candidates:

- Interest rates and bond market conditions as of July 3, 2018
- All eligible maturities of Refunding Candidates are called on the earliest optional redemption date. (Maturities that are call-protected to maturity are not included in the analysis because they will not produce debt service savings)
- Costs of issuance estimated at the lesser of (A) 2% of the principal amount of the refunding bond issue, and (B) \$300,000 plus \$4.00/bond for underwriter's discount
- The term of the refunding series matches the term of the bonds being refunded and the refunding bond amortization is structured to produce uniform annual savings
- Bond proceeds are invested in short term open market Treasuries at yields based on July 3 market conditions

4. Summary

At current market rate levels, the only outstanding series of WSSC bonds that represents a viable refunding candidate (i.e. over 3% NPV savings) is the CPI Refunding Bonds of 2009. In the event of a modest decline in interest rates from current levels, the refinancing of the Series 2010B BABs may become feasible.

We will continue to monitor the market and other outstanding WSSC bonds for refunding feasibility and apprise WSSC as and when viable financing opportunities arise.

Exhibit A

**Washington Suburban Sanitary Commission
Summary of Refunding Savings Opportunities
05-Jul-18**

Issue Description	Dated Date	First Call Date	Final Maturity	Original Principal Amount	Outstanding Principal Amount	Refunded Principal Amount	Gross Savings	NPV Savings	NPV Savings as % of Refunded Principal	% NPV Savings w/ .25% Decrease in Tax-Exempt Yields	% NPV Savings w/ .25% Increase in Tax-Exempt Yields
CPI Refunding Bonds of 2009	10/8/2009	6/1/2019	6/1/2029	83,965,000	52,695,000	52,695,000	1,965,088	1,733,703	3.30%	4.04%	2.56%
Build America Bonds, Series 2010B	9/29/2010	6/1/2020	6/1/2030	120,000,000	120,000,000	120,000,000	3,684,977	3,043,128	2.54%	3.80%	1.15%