



## Memorandum

450 South Orange Avenue  
Suite 460  
Orlando, Florida 32801

407.426.9611 Direct  
407.426.7835 Fax

**Mark P. Galvin**  
Senior Vice President

mark.galvin@firstsw.com

**Date:** November 4, 2015

**To:** Mr. Jonathan C. McKinney, CGFO,  
Finance Director

**Subject:** City of Edgewater, Florida  
Refinancing the Series 2009 and Series 2012 Water and Sewer Revenue Notes and combining the City's Water and Wastewater System with the Stormwater System

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The following is First Southwest Company's LLC ("FirstSouthwest) recommendation regarding the restructuring of the City's outstanding water and wastewater debt and the combining of the water and wastewater system with the stormwater system.

**Financing Objective** – The City's goal is to (i) refinance the Water and Wastewater Revenue Note, Series 2009 (the "Series 2009 Note") Balloon payment prior to October 1, 2016 and (ii) if possible, obtain cash flow relief on the Water and Wastewater System Refunding Revenue Bond, Series 2012 (the "Series 2012 Bond") debt, which would reduce the pressure on the water and wastewater system. An additional benefit would be to combine the Water and Wastewater System with the Stormwater System for future financing flexibility

### **Background**

**Series 2009 Water and Wastewater Revenue Note** - In 2009 the City issued \$7,945,000 Series 2009 Water and Sewer Revenue Notes to current refund the City's 1993 and 1991 bond issues for debt service savings. At that time the City had sought long term financing with the goal of minimizing the annual debt service. Because of the volatile market conditions at the time of financing many banks were unwilling to provide long term financing. In response, the City negotiated with Wells Fargo Bank a 7 year balloon payment of \$4,385,000 due on October 1, 2016. The City has been paying approximately \$820,000 per year in debt service on the loan since 2009.

**Series 2012 Water and Wastewater System Refunding Revenue Bond** - On May 18, 2012 the City issued its \$8,310,000 Water and Wastewater System Refunding Revenue Bond, Series 2012 to refund an existing State of Florida State Revolving Loan (SRF). The SRF loan financed a portion of the construction of the City's wastewater treatment plant. The Series 2012 Bonds are currently outstanding in the aggregate principal amount of \$6,045,000 and mature semi-annually with a final maturity on October 1, 2023. The Series 2012 has an interest rate of 2.18% and can be prepaid on any interest date with a 1% prepayment penalty through 2017. The Series 2012 restructured the SRF debt to provide cash flow relief.

The City's annual debt service on both the Series 2009 and 2012 Bonds is approximately \$1,650,000.

**Proposed Financing Plan** – Under the proposed financing plan the City would current refund both the Series 2009 Note and 2012 Bond and extend the final maturity to 2026. Under this alternative the City’s annual debt service, assuming an interest rate of 3.00%, would be approximately \$1,155,000 approximately \$495,000 lower than the existing debt. The financing would be accomplished by the issuance of a 10 year bank loan.

### **Combining of the Water and Wastewater System with the Stormwater System**

If the City decides to move forward with the proposed financing plan they will also have the opportunity to combine their water and wastewater system with their stormwater system. Many cities have or are considering combining their water and sewer system with their stormwater system because a combined water, wastewater and storm water system will be viewed by the banks and credit markets as a stronger credit with greater debt service coverage. By refunding all debt secured solely by the water and wastewater revenues a new master resolution that pledges the revenues of both system can be made. The new resolution will not only update the financial covenants and terms but provide for future financing flexibilities especially for improvements to the stormwater system. Because stormwater systems traditionally have lower debt service coverage ratios stand alone stormwater projects are more difficult to obtain long term financing. A new combined water, sewer and stormwater system will allow the stormwater utility to leverage off the stronger water and sewer system reducing the pressure for higher stormwater rates.

While the extension of any debt will increase total debt service paid over the life of the issue, the proposed financing will increase the financial strength of the utility while increasing the ability to pay for more projects on a pay as you go basis and provide more financing flexibility for both the water and wastewater system and the stormwater system. FirstSouthwest recommends the City move forward with the propose financing plan. If you have any questions please let me know.



Mark Galvin  
Senior Vice President