



Meeting Date: May 20, 2020
Staff Contact: Stan Allred, Chief Financial Officer

TITLE: R-20-9 – Confirming Approval of the Issuance of Albuquerque Bernalillo County Water Utility Authority (“Water Authority”) Senior Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2020A in one Series in the Principal Amount not to exceed \$55,000,000 (the Bonds”); and Ratifying Action Previously Taken in Connection Therewith

ACTION: Recommend Approval

SUMMARY:

This legislation is the Confirming Resolution for the proposed Senior Lien Joint Water Refunding Revenue Bonds, Series 2020A. It was prepared by the Modrall Law Firm as Bond Counsel for this transaction. This resolution establishes certain bond final pricing details; provides for the payment of the cost of issuing the bonds; approves disclosure and other documents relating to the bonds; and ratifies previous action taken in connection with the sale of the bonds.

Pending approval of Ordinance O-20-2, this Resolution authorizes the Water Authority to issue refunding bonds for the purpose of advance refunding the Series 2011 and 2013 Bonds for interest rate savings. Based upon current market conditions the total present values savings is estimated to be at 5.62% or \$2.7 million. The refunding will not extend the final maturity of the bonds being refunded. This Confirming Resolution approves the terms, sale price, interest rates, redemption features and other matters with respect to the Bonds.

FISCAL IMPACT:

Based upon current market conditions refunding the Water Authority’s Series 2011 and 2013 Bonds will general approximately **\$2.7 million or 5.62% on a present value basis or approximately \$180,000 in annual interest savings. If the Authority cannot achieve at least 3% savings at a minimum the Refunding Bonds will not be issued. The refunding does not extend the final maturity of the debt being refunded. Gross Revenues, all income and revenues directly or indirectly derived by the Water Authority from the operation and use of the System less operation and maintenance expenses, are pledged as security for these bonds, similar to the Water Authority’s prior debt issuances.**

COMMENTS:

This confirming resolution is required for any bond issuance under the approved Bond Ordinance and requires Water Authority Board approval.

Current Senior Lien Bond ratings are as follows: AAA Standard and Poor's, Aa2 Moody's. Fitch has an AA rating on outstanding bond prior to 2016. For the refunding the Authority anticipates requesting a rating from S&P only.

1 PASSED AND ADOPTED THIS 20TH DAY OF MAY, 2020. BY A VOTE OF
2 _____ FOR AND _____ AGAINST.

3 Yes:

4 No:

5 _____
6 Klarissa J. Peña, Chair

7 ATTEST:

8

9 _____

10 **Mark Sanchez, Secretary**

Albuquerque Bernalillo County Water Utility Authority

Proposed Refunding Overview

5/20/2020

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Market Overview

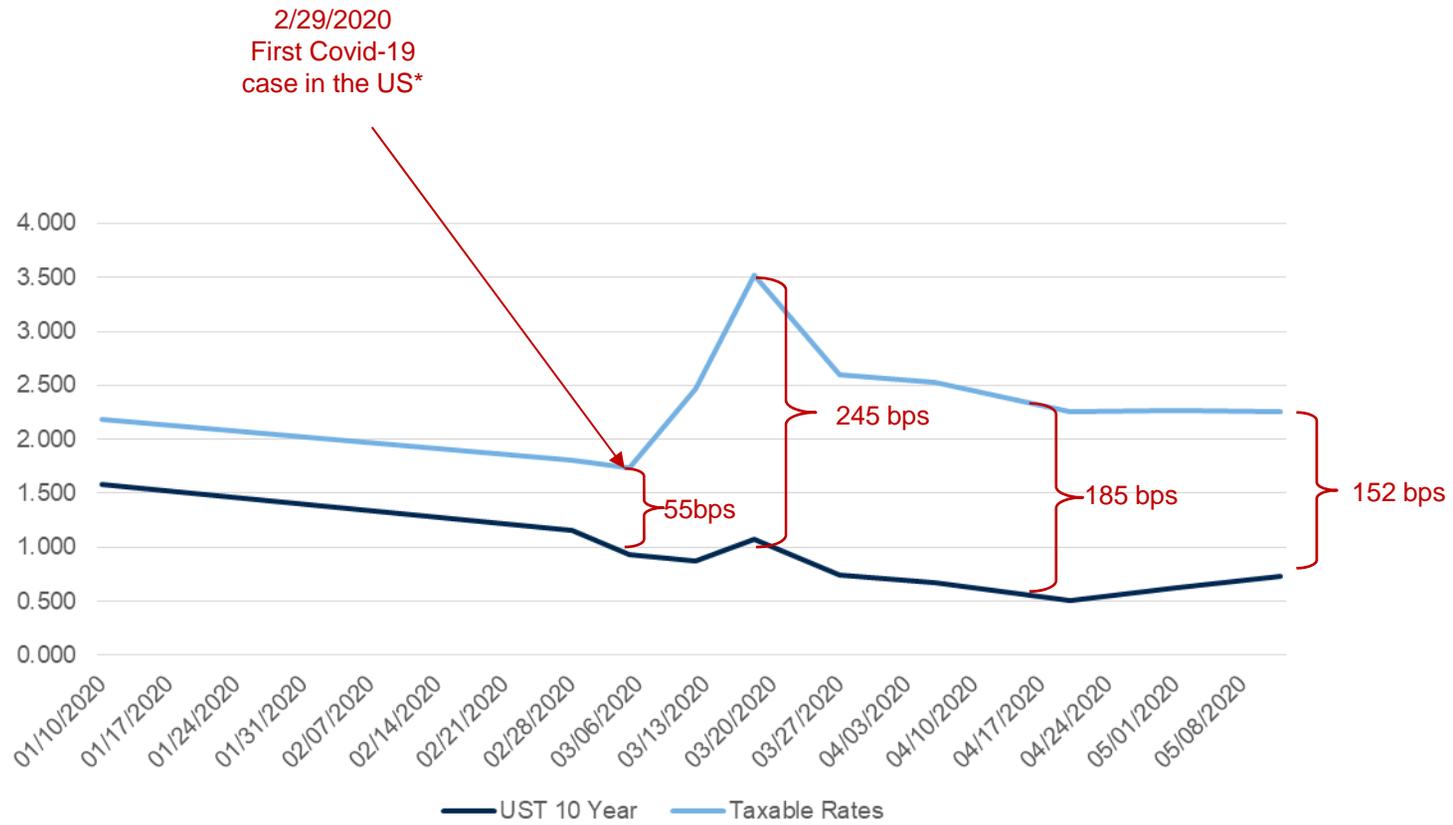
- In 2017, the Tax Cut in Jobs Act eliminated advanced refunding with tax exempt debt. However, it does allow for taxable advance refundings.
- Both the tax exempt and taxable rates saw historical declines due to the worldwide economic impact that Covid-19 had on world economies up until the first week of March.
- As Covid-19 began to impact state and local governments, the municipal market experienced unprecedented volatility leading to a decoupling of taxable and tax-exempt municipal rates to U.S Treasuries. Interest rate fluctuations were on a magnitude of 50 bps or more in a single day. Market volatility remains extremely high and is expected to continue.
- The federal government responded to the Covid-19 Pandemic through a sweeping stimulus bill of approximately \$2 trillion. Part of that stimulus package provided the federal reserve to purchase municipal bonds in the primary and secondary markets to provide for a functioning and liquid market.
- Even with the fluctuation in rates, taxable municipal rates are at or below where tax-exempt municipal rates were a year ago.
- These low rates allows the Authority to advance refund outstanding bonds with taxable debt and still achieve present value savings.
- The chart on the following page details advanced refunding opportunities for some of the authorities outstanding debt.

Proposed Taxable Refunding Overview

	2011 NMFA Loan	Series 2013A	Total
Par Amount Callable	\$ 19,755,000.00	\$ 23,450,000.00	\$ 43,205,000.00
Average Rate of Callable Bonds	4.56%	5.00%	4.24%
Call Date	06/01/2021	07/01/2023	
PV Savings (\$)	\$ 1,568,657.70	\$ 1,134,577.46	\$ 2,703,235.16
PV Savings (%)	7.55%	4.16%	5.62%
TIC	2.17%	2.31%	2.26%
Avg. Annual Savings	\$ 114,983.35	\$ 66,497.90	\$ 181,481.26

Current Taxable Market Rates + 45bps. Numbers are preliminary and are subject to change

10 Year Spread Pre and Post Covid-19



Time Schedule

April 22, 2020	First reading of Bond Ordinance and Confirming Resolution
May 20, 2020	Second and final reading of Bond Ordinance and Confirming Resolution
June 3, 2020	Post Preliminary Official Statement
June 10, 2020	Bond Pricing (subject to market conditions at time of pricing)
June 17, 2020	Sale Results reported to Authority Board
June 30, 2020	Bond Closing

Weekly Municipal Market Update



Capital
Markets

Key Areas of Market Focus Going Forward

\$2T Stimulus Package Signed into Law (CARES Act/COVID Phase III Bill)

- 1** *1) \$504B loans and assistance for companies and municipalities (\$50B Treasury Secretary and \$454B Fed market action) and 2) \$1.5T aid (\$150B municipalities, \$350B small businesses, \$130B health care systems, \$31B education, \$25B transit, \$10B airports, and direct payments to lower-income earners and middle class)*

Phase 3.5 Stimulus Package

- 2** *Congress passed their fourth COVID-19 related aid package, with President Trump signing the \$484 billion bill on April 24. The majority of the funding will replenish the Small Business Administration's Paycheck Protection Program, which provides for forgivable loans to small businesses that maintain their employee base*

Potential Phase 4 Stimulus Package

- 3** *Next round of stimulus (Phase 4) will likely deal with the economic impact of the coronavirus. Items under consideration include: (1) Reinstatement Tax-exempt advance refundings, (2) Expansion of Private Activity Bonds (PABs), (3) creation of a BABs-like federal direct pay bond program, among others. Expect late May/June timetable.*

Municipal Liquidity Facility – Pricing Guidance

- 4** *The Fed's \$500bn program to allow State and local governments to borrow up to 20% of FY17 revs from the Fed. Program targeting Counties with populations over 500k and Cities greater than 250k; maturities to 36 months and fixed interest rates based on the overnight index swap ("OIS") rate plus and applicable credit spread.*

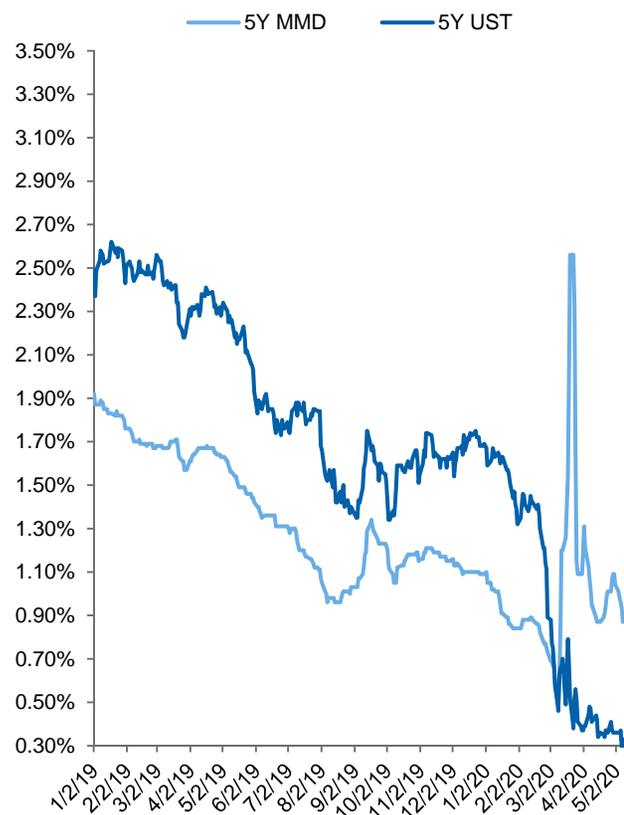
Road to Recovery

- 5** *Moderna and Pfizer continue to make progress with COVID-19 vaccines, increasing the likelihood that a vaccine can be available for widespread use by early 2021. 3.2 million U.S. employees have filed for unemployment over the past week, bringing the total number of newly unemployed individuals to 33.5 million since March 15.*

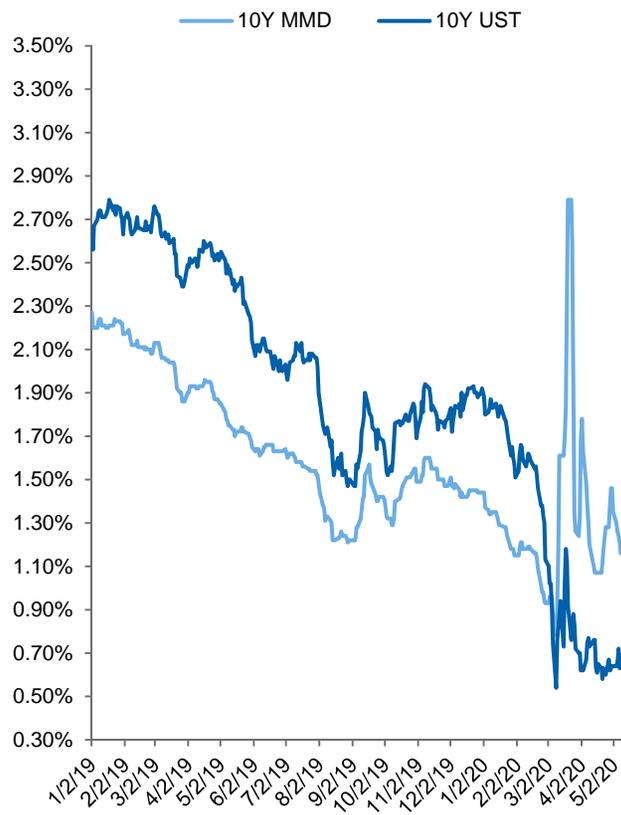
Interest Rate Movements

Relative Performance of Municipal Yields Versus Treasuries

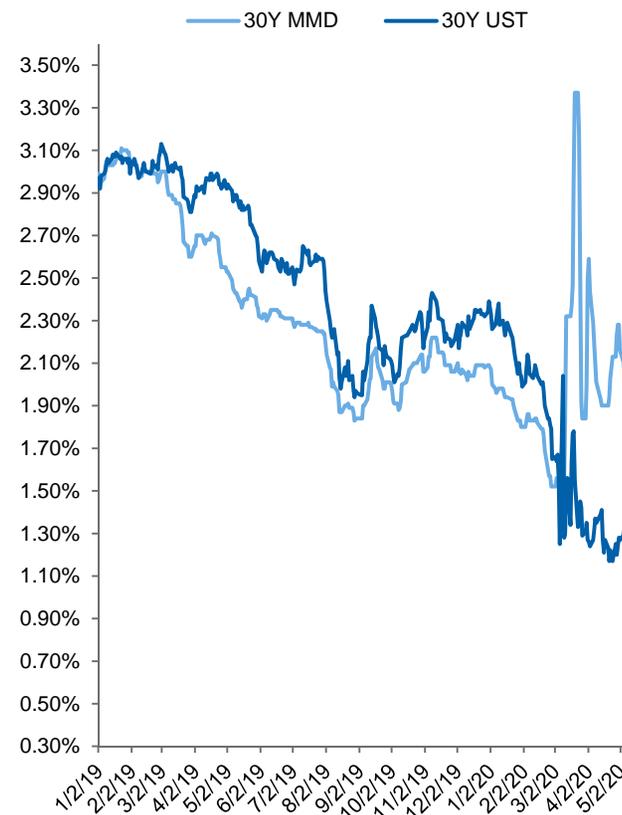
5 Year MMD⁽¹⁾ and 5 Year UST



10 Year MMD and 10 Year UST



30 Year MMD and 30 Year UST



Change in MMD

	01/02/2019	05/08/2020	Δ (bps)
3yr MMD	1.790	0.670	-112
5yr MMD	1.920	0.870	-105
7yr MMD	2.040	0.980	-106
10yr MMD	2.270	1.160	-111
30yr MMD	2.990	1.970	-102

Change in Treasuries

	01/02/2019	05/08/2020	Δ (bps)
3yr UST	2.470	0.210	-226
5yr UST	2.490	0.330	-216
7yr UST	2.560	0.530	-203
10yr UST	2.660	0.690	-197
30yr UST	2.970	1.390	-158

Change in MMD/UST Ratio

	01/02/2019	05/08/2020	Δ (%)
3yr Ratio	72%	319%	247%
5yr Ratio	77%	264%	187%
7yr Ratio	80%	185%	105%
10yr Ratio	85%	168%	83%
30yr Ratio	101%	142%	41%

(1) MMD stands for Municipal Market Data; which is the daily index off of which all municipal bonds are priced.

Source: Thomson Reuters

Current Municipal Market Conditions: “AAA” MMD

After closing at 2.16% the previous week, the 30-year “AAA” MMD decreased 19 bps from May 1 – May 8 closing at the current rate of 1.97%

“AAA” MMD January 1, 2009 to Present



Shift in “AAA” MMD Since May 2019



January 1, 2009 to Present

	10 Year	20 Year	30 Year
Maximum	3.53%	4.89%	5.08%
Minimum	0.78%	1.19%	1.38%
Current	1.16%	1.76%	1.97%

Shift in 30-year “AAA” MMD

2013	2014	2015	2016	2017	2018	2019
1.33%	-1.34%	-0.01%	0.27%	-0.51%	0.47%	-0.93%

May 1, 2019 to Present

	10 Year	20 Year	30 Year
Maximum	2.79%	3.18%	3.37%
Minimum	0.78%	1.19%	1.38%
Average	1.44%	1.91%	2.10%

Source: TM3, Thomson Reuters
10, 20, and 30 year “AAA” MMD shown to represent different average lives of municipal transactions
Rates as of May 8, 2020

Disclaimer

Sources include: https://www.rbccm.com/assets/rbccm/docs/uploads/2017/RBCCM_Muni_Markets_Weekly_Newsletter.pdf, <http://www.rbc.com/economics/>, RBC Capital Markets.

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