






Washington Suburban Sanitary Commission

Interoffice Memorandum

TO: THE COMMISSION

THRU: JERRY N. JOHNSON
GENERAL MANAGER/CEO 

THRU: CHRISTOPHER CULLINAN
ACTING CHIEF FINANCIAL OFFICER 

FROM: J.D. NOELL
DISBURSEMENTS GROUP LEADER 

DATE: JANUARY 6, 2014

SUBJECT: BOND REFUNDING PLAN

Every year our financial advisor, Public Advisory Consultants, reviews WSSC's debt portfolio to identify potential refunding opportunities. Based on their analysis, utilizing current market conditions, they prepared a Refunding Plan and Analysis (the Plan) which is attached. The Plan identifies three bond issues (Issues 1-3 on the chart) that would result in debt service savings of approximately \$3.8 million or a net present value percent savings of 6.9%. The Plan identifies eight additional outstanding bond issues which currently exhibit negative savings. However, if economic conditions continue to 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

WASHINGTON SUBURBAN SANITARY COMMISSION

REFUNDING PLAN & ANALYSIS

SUBMITTED BY

PUBLIC ADVISORY CONSULTANTS, INC.

December 10, 2013

Washington Suburban Sanitary Commission

Tax-Exempt Bond Refunding Plan

Executive Summary

Public Advisory Consultants, Inc., as financial advisor to the Washington Suburban Sanitary Commission (WSSC, or the Commission) has conducted a review of outstanding tax-exempt indebtedness (including Build America Bonds) of the Commission for refinancing suitability. Based on current market conditions, there are no bond issues that can be refunded for savings immediately. Beginning March 1, 2014, three bond issues can be refunded for savings. All numbers are based on current market conditions and subject to change.

We have also reviewed the outstanding Water Supply Bonds of 2007, Sewage Disposal Bonds of 2007, Consolidated Public Improvement Bonds of 2009, Build America Bonds, Series 2009B, Build America Bonds, Series 2010B, Consolidated Public Improvement Bonds of 2011, Consolidated Public Improvement Bonds of 2012 and Consolidated Public Improvement Bonds of 2013 for refinancing suitability. All series exhibit negative savings at this time.

We will continue to monitor the market for refunding opportunities. If rates were to rise, some of these refunding bond opportunities may go away.

March 2014 Refunding

The General Construction Refunding Bonds of 2004 exhibit net present value percent savings of greater than 7%. Additionally, the Water Supply Refunding Bonds of 2004 and the Sewage Disposal Bonds of 2004 display positive savings and have few maturities remaining. By refunding these three bond issues, approximately \$3.8 million in NPV savings and \$4.1 million in gross savings can be realized through the issuance of \$48.5 million in tax-exempt refunding bonds to refinance \$52.8 million, the callable components of \$67.2 million in outstanding debt.

Negative arbitrage, the difference between the allowable investment rate on the escrow and the actual interest rate received, has been a problem for some time and can reduce substantially the savings for a refunding. Because the refunding proposed here is a current refunding with a small escrow period, negative arbitrage is not an important factor.

The chart below summarizes the savings at current rates and shows what would happen to the savings if rates were to rise 25 or 50 basis points.

	<u>NPV Savings</u>	<u>% NPV Savings</u>	<u>Gross Savings</u>	<u>Average Annual Savings</u>
Current Interest Rates				
Water Supply Refunding Bonds of 2004	\$ 222,710	3.59%	\$ 225,638	\$ 75,213
Sewage Disposal Refunding Bonds of 2004	158,073	4.23%	157,738	52,579
General Construction Ref Bonds of 2004	3,261,999	7.61%	3,541,459	393,495
Current Interest Rates + 25 BPs				
Water Supply Refunding Bonds of 2004	198,049	3.19%	198,763	66,254
Sewage Disposal Refunding Bonds of 2004	141,257	3.78%	141,675	47,225
General Construction Ref Bonds of 2004	2,794,313	6.52%	3,066,559	340,729
Current Interest Rates + 50 BPs				
Water Supply Refunding Bonds of 2004	173,517	2.80%	171,575	57,192
Sewage Disposal Refunding Bonds of 2004	124,546	3.33%	125,300	41,767
General Construction Ref Bonds of 2004	2,332,751	5.44%	2,584,059	287,118

Build America Bond Refunding

WSSC has two Build America Bond issues outstanding, the Build America Bonds, Series 2009B and the Build America Bonds, Series 2010B. We have evaluated the refunding opportunities for these bonds at the 35% subsidy level and without the subsidy.

Unlike with the current refunding above, these bonds would have long escrow periods, and the negative arbitrage is significant. For the 2009B Bonds, the negative arbitrage costs approximately \$7.6 million and for the 2010B Bonds, the negative arbitrage costs approximately \$9.1 million. These numbers are based on an estimated SLSG portfolio. The SLGS window is currently closed and the escrow would need to be invested in open market treasuries at this time. It is likely that the open market securities would have a somewhat higher yield, but negative arbitrage is likely to remain significant.

The following chart summarizes the results of the Build America Bond refunding analysis both assuming the 35% subsidy and assuming the subsidy was to go away.

	<u>NPV Savings</u>	<u>% NPV Savings</u>	<u>Gross Savings</u>	<u>Average Annual Savings</u>
Assuming 35% Subsidy				
Build America Bonds, Series 2009B	(\$16,589,030)	-18.43%	(\$20,124,125)	(\$1,257,758)
Build America Bonds, Series 2010B	(24,909,758)	-20.76%	(30,830,713)	(1,813,571)
Assuming No Subsidy				
Build America Bonds, Series 2009B	(2,828,085)	-3.14%	(3,523,625)	(220,227)
Build America Bonds, Series 2010B	(7,165,371)	-5.97%	(8,824,813)	(519,107)

Major Assumptions and Methodology

- Tax-exempt refunding bond rates as of mid-December 2013.
- All eligible outstanding bonds called on earliest date.
- Escrow investments based on estimated SLGS rates as of December 2013. Please note: the SLGS window is currently closed.
- Issuance Costs estimated at approximately \$150,000.
- Refunding bonds structured to achieve equal annual debt service savings within each year. (We could adjust this to achieve upfront savings on the General Construction Bonds as has been done previously.)
- All net present value savings statistics are net of all transaction costs.

Washington Suburban Sanitary Commission
 Tax-Exempt Bond Refinancing Analysis (Including Tax-Exempt Refunding of Build America Bonds)
 Summary of Debt Service Savings
 Dec-13
 Current Rates

Issue Number	Original Dated Date	Final Maturity Date	Original Bond Size	Purpose	Outstanding Principal	Refinanced Principal	Current Average Interest Rate	Earliest Refinancing Date	Refunding Bonds Issued	Gross Present Value \$ Savings*	Net Present Value \$ Savings †	Net Present Value % Savings ‡
	2/1/2004	6/1/2016	\$41,125,000	Water Supply Refunding Bonds of 2004	\$10,480,000	\$6,205,000	4.00%	3/1/2014	\$6,015,000	\$225,638	\$222,710	3.589%
2	2/1/2004	6/1/2016	\$41,275,000	Sewage Disposal Refunding Bonds of 2004	\$5,640,000	\$3,740,000	4.00%	3/1/2014	\$3,590,000	\$157,738	\$158,073	4.227%
3	2/1/2004	6/1/2022	\$183,995,000	General Construction Refunding Bonds of 2004	\$51,075,000	\$42,885,000	4.00%	3/1/2014	\$38,990,000	\$3,541,459	\$3,261,999	7.606%
4	4/15/2007	6/1/2027	\$50,000,000	Water Supply Bonds of 2007	\$35,000,000	\$35,000,000	4.16%	Immediate	\$24,145,000	(\$391,625)	(\$390,571)	-1.562%
5	4/15/2007	6/1/2027	\$20,000,000	Sewage Disposal Bonds of 2007	\$14,000,000	\$10,000,000	4.16%	Immediate	\$9,660,000	(\$160,725)	(\$156,693)	-1.367%
6	1/15/2009	6/1/2029	\$165,000,000	Consolidated Public Improvement Bonds of 2009	\$124,515,000	\$83,805,000	4.29%	Immediate	\$82,145,000	(\$3,034,541)	(\$2,743,271)	-3.273%
7	10/8/2009	6/1/2029	\$90,000,000	Build America Bonds, Series 2009B	\$90,000,000	\$90,000,000	3.02%	Immediate	\$92,000,000	(\$20,124,125)	(\$16,589,030)	18.432%
8	9/29/2010	6/1/2030	\$120,000,000	Build America Bonds, Series 2010B	\$120,000,000	\$120,000,000	2.75%	Immediate	\$121,015,000	(\$30,830,713)	(\$24,909,758)	-20.758%
9	11/16/2011	6/1/2031	\$300,000,000	Consolidated Public Improvement Bonds of 2011	\$270,000,000	\$150,000,000	3.92%	Immediate	\$146,735,000	(\$16,496,838)	(\$13,398,537)	-8.932%
10	11/15/2012	6/1/2032	\$250,000,000	Consolidated Public Improvement Bonds of 2012	\$237,500,000	\$125,000,000	3.39%	Immediate	\$116,230,000	(\$18,991,250)	(\$15,553,040)	12.442%
11	4/23/2013	6/1/2033	\$150,000,000	Consolidated Public Improvement Bonds of 2013	\$150,000,000	\$67,500,000	4.23%	Immediate	\$67,510,000	(\$8,402,635)	(\$6,550,455)	-9.704%
Total			\$1,411,395,000		\$1,108,210,000	\$724,135,000			\$708,035,000	(\$94,707,607)	(\$76,648,573)	10.585%
Issue 1-3 Only			\$266,395,000		\$67,195,000	\$52,830,000			\$48,595,000	\$3,924,835	\$3,642,782	6.895%

* Subject to change, based on current market conditions

Prepared by: Public Advisory Consultants, Inc.

Date: December 10, 2013