

Memo

To: North Canton Director of Finance
From: Chuck Osborne
CC: North Canton City Council
North Canton Administration
Date: 1/24/02
Re: Revenue Bond Requirements for \$6.7 million Improvements to City Water Plant

Dear Julie,

I would like to pose some questions to you regarding the city of North Canton's probable success in qualifying for a revenue bond to finance the needed upgrade to the city's water treatment plant. I would think that the ability to secure a revenue bond for the water treatment plant would, in large part, guide the discussions regarding the city's future water rates.

In last Monday's council meeting, a water production and distribution cost of \$2.41/1000gals was discussed during the meeting. At the conclusion of the meeting, you past out updated water production and distribution cost information that listed today's costs at \$2.69/1000gals. On this same handout, there were additional costs for water expansion, replacement & improvement that added an additional \$0.96/1000gals. This brought the total cost per 1,000 gallons of water to \$3.65/1000gals.

In light of these facts, I would like to ask the following questions:

- ❖ Is it possible to learn in advance what a bond rating agency would require for a base water rate, given our total water costs, to feel comfortable that water revenues would easily cover all bond costs throughout the twenty-year term of the bond?
- ❖ Would the bonding agency expect that there be excess water revenues over and above the bond payments to pay for routine capital expenses over the next twenty-year term of the bond? I would anticipate that there would be additional capital costs to maintain the water treatment plant over a period of twenty-years.
- ❖ Would the bond rating agency want to analyze the city's past water revenues and expenditures in relation to the city's water rates over that same period? I would think any analysis regarding the past would not put the city in a favorable light.
- ❖ Given that the city's water rates have not kept up with the historical inflation rate, would that fact have any effect on the success of obtaining the needed bond rating to secure a revenue bond for the future?
- ❖ Would a bond rating agency require the city to insert an automatic annual cost of living clause in any future water rate structure to qualify for a bond revenue to ensure that there is enough revenue available for both bond repayment and future capital maintenance costs?

Given that today's water production and distribution costs are \$2.69/1000gals and that coupled with an additional \$0.96/1000gals for water expansion, replacement & improvement costs, discussions of increasing the current \$2.00/1000gals rate by only \$0.25-.50 cents per 1000gals are not going to meet with success when repaying a twenty-year bond of any sort.

Sincerely,

Chuck Osborne
Counsel at-Large
City of North Canton