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FINANCE & RECORDS

MEMO

To: Gregg Mandsager, City Administrator
From: Nancy A. Lueck, Finance Director
Date: December 11, 2012
Re: Refunding of June 1, 2006 General Obligation Bond Issue

Introduction and Background:

Public Financial Management, Inc. (PFM), the City's financial consultant, has analyzed and proposed a refunding of the final three years of the City's June 1, 2006 general obligation bond issue. These bonds have interest rates of 3.90%, 3.95%, and 4.0%, for the bonds maturing June 1 of 2014, 2015, and 2016, respectively. These bonds are callable effective June 1, 2013.

Recommendation:

With the significant decrease in interest rates in recent years, PFM has estimated that the bonds issued to refund the original debt can be issued with interest rates ranging from .50% to .73% for the three years of the new issue. After taking into consideration the costs of issuance of the refunding bonds it is projected that the City will realize an interest savings estimated at \$50,920 over the three years after taking into consideration the refunding bond issuance costs. Since the 2006 bond issue funded landfill property acquisition costs, this savings will be approximately \$10,700 in the Landfill fund and \$40,200 in the Debt Service fund which is funded from the debt service property tax levy.

The refunding bonds are in the total amount of \$1,115,000 with \$370,000 due June 1, 2014, \$370,000 due June 1, 2015, and \$375,000 due June 1, 2016. In discussing the refunding opportunity with Jenny Blankenship of PFM, in order to potentially save on issuance costs, it was decided that the three local banks would be contacted to see if they would be interested in bidding on these bonds. All three banks indicated that they were interested. The estimated cost of issuance in using the local banks instead of publicly bidding these bonds is \$15,500 instead of the originally estimated \$19,500.

The City Council will need to take a number of actions in the upcoming months related to refunding the final three years of the 2006 bond issue. The schedule is as follows:

December 13, 2012	Discuss with City Council
January 3, 2013	Set public hearing
January 17, 2013	Hold public hearing and review Terms of Offering
February 7, 2013	Receive bids on the refunding bonds and award bid
February 21, 2013	Approve final documents on the new issue

Summary:

With the interest from the local banks in the refunding bonds, the overall savings in refunding the final years of the 2006 issue is expected to be \$50,920 after taking into account bond issuance costs. This transaction will assist the City in maintaining the same debt service tax levy rate for the 2013/2014 budget and will also assist in the reduction in the deficit in the Landfill fund.

Please include this as a discussion item on the December 13, 2012 In Depth agenda. If you have any questions, please contact me.