City Council Report

Date: October 19, 2020

To: City Council

Through: Chris Brady, City Manager
Michael Kennington, Deputy City Manager/Chief Financial Officer

From: Ryan Wimmer, Treasurer

Subject: General Obligation Bond Refunding – Series 2020

Purpose

The purpose of the proposed general obligation bond refunding is to allow the City to take advantage of favorable interest rates in the municipal bond market to refund (refinance) existing bonds over the same timeframe at a lower interest cost.

Council approval of the refunding action would authorize the sale of the following bond issuance:

- Series 2020 General Obligation Refunding Bonds
  Principal: $31.0 million (not-to-exceed)

The proceeds from the sale of the refunding bonds would be used to redeem all of the following previously issued bonds:

- Series 2010 General Obligation Bonds (Build America Bonds)
  Principal: $29.75 million

Background

The bonds being refunded were issued in 2010 with a typical 10-year early redemption option in 2020. The bonds were issued during the Great Recession, when the federal government was offering local governments an interest subsidy on taxable bond issuances (called Build America Bonds, or BABs) as part of the American Reinvestment and Recovery Act (ARRA) stimulus funding. The City normally issues tax-exempt debt because interest costs are typically less than with taxable debt.

The 2010 bonds were issued as taxable BABs because the higher interest cost combined with the partial interest reimbursement from the federal government was less expensive for the City than the interest cost of tax-exempt debt. Subsequently, during federal sequestration budget reductions in 2013, the interest reimbursement percentage to the City was partially reduced and remains so today.

By refunding the bonds, the City would lose the federal interest subsidy on the bonds. However, the interest savings from refunding the bonds would be greater than the interest subsidy that would be lost. The Series 2020 General Obligation Bonds would replace the 2010 BABs and would be tax-exempt.

Discussion

The refunding savings would accrue to the general obligation debt service fund, which is used to account for the general obligation debt. The savings would result in a lower debt service payment going forward. The lower debt service payment would result in a lower secondary property tax levy the next time that the levy is adjusted.

Fiscal Impact

The municipal bond market will continue to be monitored to ensure that the refunding bonds would have a present value savings exceeding 3% of the debt service amount of the bonds being refunded, as required by the City's financial policies.

Preliminary savings estimates from the recommended refunding transaction are as follows:

Estimated Savings $ (nominal)	Estimated Savings $ (present value)	Estimated Savings % (present value)
$5.3 million	$5.0 million	17%

Alternatives

The City could not proceed with the proposed refunding and continue to pay higher than market interest rates on the outstanding bond debt. The City could consider refunding the bonds at any time in the future.