



North Ogden City

Memorandum

To: Mayor and City Council
From: Bryan Steele, Finance Director *BRS*
Date: January 7, 2014
Subject: Adopting a Parameters Resolution for refinancing of 2004 Sales Tax Revenue Bond

The City has begun the process of refinancing the 2004 Sales Tax Revenue Bond which was originally issued in 2004 for the construction of the Aquatic Center. The bond is not callable for ten years from the issue date of November 1, 2004, but because of the low interest rate environment, the City has decided to pursue an advanced refunding which will lock in the low interest rate. Staff has been meeting with the Financial Advisors to initiate the process for this transaction. The first step the Council must take is to adopt a Parameters Resolution for the refunding bonds. This resolution will set the limits of the principal amount, interest rate and term of the bonds. Because of different possible financing options the parameters are set a little higher than what the final figures may come in at. If the final figures do come in higher than the parameters then we have to start this process all over again.

Information on the current bond

- The bond's remaining principal amount is \$2,675,000
- The interest rate amounts remaining on the bond payments range from 3.75% to 5% with an average coupon rate of 4.718%
- The last payment is scheduled for November 1, 2024

The parameters for the new refunding bond are:

- The parameter for the principal amount is \$2,850,000. The reason it is higher than what the current principal amount is, is because a bank may require a debt reserve amount. This is an amount equal to approximately one year's interest and principal payments that some banks require as a safety net in case the issuer is unable to make payments. The likelihood of banks requiring this is fairly small but it is wise to set the parameter high just in case they do.
- The interest rate parameter is set at 4.75% as some banks may fluctuate the interest rates on the bond. Our financial advisor has stated that he received some quotes from banks showing that they would be willing to give us an interest rate over the life of the refunding bond around 2.68%. The coupon rate over the life of the bond would have to be around that figure for staff to okay the transaction. However, there may be different ways to get to the 2.68% coupon rate. Again, the 4.75% is just a parameter and doesn't mean what will actually happen.
- The parameter of the term of the bond is set at 12 years, again as a just in case scenario. We are looking at 11 years for sure, as most banks round up to the nearest whole year, but it was decided to increase to 12 in case something unexpected happens.

Other information:

- The gross savings we expect from this refunding are around \$225,000 with a net present value savings of approximately \$170,000.
- Even though the bond is backed by Sales Tax Revenues, the City uses funds from the RDA to make payments.
- There are several options for structuring the savings. They include:
 - o Spreading the savings out equally over the term of the bond
 - o Capturing a majority of the savings up front in years 1 & 2 with the rest of the years payments being similar in dollar amount to what is currently being paid.

The reason this option is being considered is because of the detention basin the City is required to construct in conjunction with the new Smith's store. Because the bond payments are made from the RDA fund, the savings would be realized in that fund and those savings could then be used to help pay for the detention basin project since it is located in the RDA. Otherwise the funding for the project would have to come out of General Fund or Storm Water Fund monies.

- We are pursuing the direct placement option for the selling of these bonds. This is where banks, both national and local, will bid on the buying of these bonds. This is possible because of the shorter term and smaller dollar amount of the bond.

The other option was to do a competitive underwriting. While the interest rates on a competitive underwriting probably would have been lower, there were some additional costs that would have been added, (underwriting fees, rating agency fees) which would have negated any savings advantage over the direct placement option. If it was a longer term bond or for a higher principal amount then this option probably would have been pursued.

- There are several draft documents, "Exhibits", included with this Parameters Resolution but they are only drafts and the final documents will be different based on the outcome of the bids which come back. The final documents will be brought to the Council on the February 11th meeting for approval.
- If the Council approves the Parameters Resolution tonight, then a notice will be put in the paper that the City is considering issuing a refunding bond and a 30 day contestability period will begin. The transaction cannot be finalized until the 30 day contestability period is over and the final documents are approved by council.