

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	October 11, 2010
	Agenda Item No. 39 Roll Call No. <u>10-1681</u> Communication No. <u>10-610</u> Submitted by: Allen McKinley, Finance Director/ Treasurer	

AGENDA HEADING:

Hearing for the sale of General Obligation Refunding Capital Loan Notes not to exceed \$90,000,000.

SYNOPSIS:

To refinance the series 2002E, 2002F, 2003C, 2003D, 2005A, and 2005B bonds requires a public hearing prior to council authorization to direct the sale of the debt.

FISCAL IMPACT:

A net present value savings of at least \$4 million over the life of the bonds (15 year maturity) is anticipated to be realized (5.0% savings). The net present value savings are estimates and include 35 bps of cushion so if interest rates remain as they are the net present value savings will exceed 5%. Approximately 20% of the savings (\$0.8 million) will accrue to tax increment and 80% (\$3.2 million) will accrue to the regular debt service levy. The refinancing of debt will not extend the terms of the existing debt.

ADDITIONAL INFORMATION:

The 2003C, 2003D and 2005A bonds will be called on June 1, 2011. The 2002E and 2002F bonds will be called on June 1, 2012, and the 2005B bonds will be called on June 1, 2013. These dates represent the earliest possible dates calls can be made in accordance with the existing bond covenants of the outstanding debt being refinanced. The anticipated sale date to refinance all of the bonds except the 2005A series is October 27th with the proceeds put into escrow until the call date(s). The notes to refund the 2005A series are scheduled be sold in February/March, 2011. It is anticipated that \$75,515,000 of bonds will be sold on October 27th.

Since we are refunding bonds with call dates occurring 9 to 33 months into the future there is an offsetting carrying cost (negative arbitrage) that is computed into the net savings calculation. The negative arbitrage amounts to \$2.5 million. That is to say if interest rates were to remain at the current historic lows over the next 33 months and the refunding bonds were sold just prior to the call dates, rather than now, the City could experience an additional savings of \$2.5 million. However, if interest rates increase the cost of the new debt will be higher erasing the savings. The decision to refinance now guarantees us savings at nearly twice the industry standard for triggering a refinancing.

PREVIOUS COUNCIL ACTION(S):

Date: September 27, 2010

Roll Call Number: 10-1547

Action: [On](#) proposed authorization of one or more loan agreements and the issuance of not to exceed \$90,000,000 General Obligation Refunding Capital Loan Notes, (10-11-10). ([Council Communication No. 10-591](#)) Moved by Moore to adopt. Motion Carried 6-1.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

October 27, 2010: Sale of notes and special council meeting to award to lowest bidder.

February/March, 2011: Sale of notes and special council meeting to award to lowest bidder.

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