

BOARD OF ALDERMEN

ITEM NO. **B(2)**

AGENDA ITEM ABSTRACT

MEETING DATE: June 3, 2003

TITLE: Resolution for Refunding of General Obligation Bonds Issued by the Town in 1990 and Bonds Previously Refunded in 1989

DEPARTMENT: Management Services	PUBLIC HEARING: YES ___ NO <u>x</u>
ATTACHMENTS: A. Resolution – Sales of GO Refunding Bonds B. Budget Ordinance C. RFP – Bid Results D. Savings – FY03-04	FOR INFORMATION CONTACT: Bing Roenigk, Assistant Town Manager 918-7300

PURPOSE:

The Board is requested to adopt a resolution formally authorizing the refinancing of general obligation bonds as required by the Local Government Commission. Approval of this resolution is the final of several steps taken by the Board in refunding the 1990 bond issue and bonds previously refunded in 1989. In addition the Board is requested to adopt the budget ordinance transferring funds from contingency to pay Bank of America for loan expenses associated with the closing.

INFORMATION

During the past several weeks, the Assistant Town Manager has worked with the Local Government Commission (LGC) and Bond Counsel to pursue bond refundings. In addition, the Board has taken action authorizing the Assistant Town Manager to pursue a refunding of two outstanding bond issues (identified above). The refunding bonds are estimated at an amount not to exceed \$650,000 including issuance costs, and savings are now estimated to be in excess of \$134,000 for the remaining term (up to seven years).

The LGC requires the Town to adopt a resolution formally authorizing the refunding. The resolution accomplishes the following:

- ▶ Formally authorizes sale of the refunding bonds,
- ▶ Asks the NC Local Government Commission to sell the Bonds to Bank of America at a private sale,
- ▶ Authorizes the Assistant Town Manager/Finance Officer, in consultation with the LGC, to set the final payment schedule and complete the bond closing,
- ▶ Formally pledges the Town's taxing power to provide for the payments on the bonds,
- ▶ Requires the Town to comply with statutes regarding Tax-Exempt Bonds,
- ▶ Confirms selection of Robert M. Jessup, Jr. to serve as the Town's bond counsel, and
- ▶ Authorizes Town staff to complete the process of refunding bonds.

Bond Counsel, Bob Jessup, has prepared the resolution in compliance with the requirements of the LGC.

Town staff, as indicated in previous board meetings, prepared request proposals for refunding the GO bonds. The Town is not required by law to request proposals but does so to ensure competitive financing.

Request-for-proposals were sent to 15 banking and financing institutions, 2 responded. Staff requested banks to submit a proposal for each of bond issues because one of the issues is tax-exempt debt and the other is taxable debt. Of primary importance in evaluating the proposals were the proposed financing structures requested by the Town, interest rates offered, total financing cost and the ability of the banking institution to close before the end of June to take advantage of the low interest rate. Bank of America offered the lowest financing cost for the combined refundings (see Attachment C) and can close by the end of June. While this is the most competitive response, it is important to make the Board aware of two conditions on these refundings. First, the interest rate is subject to an increase of 1% if the Town's A+ rating falls to a BBB or below. This is not likely to occur. Another condition is that the Town, should it decide to refund these bonds again, will have to pay a prepayment penalty of up to 3% depending on the year the bonds are refunded (see Attachment C for specific conditions). With interest rates being at historical lows, we believe it is prudent to accept the prepayment penalties. Should interest rates make it suitable to refinance bonds, the prepayment penalties will be taken into account.

Thus, the Town, as indicated in the resolution for the sale of GO Refunding Bonds, will be entering into a contract with Bank of America to refund the general obligation bonds issued by the Town in 1990 and bonds previously refunded in 1989.

FINANCIAL IMPACT: Savings are now estimated to be in excess of \$134,000 for the remaining term (up to seven years). A budget ordinance of \$2,500 is requested to transfer contingency funds to the debt service cost center to pay the financing costs charged by Bank of America to conduct the bond refunding.

ADMINISTRATION'S RECOMMENDATION

The Board is requested to adopt the resolution formally authorizing the 1990 Bonds and the 1989 Previously Refunded Bonds. In addition the Board is requested to adopt the budget ordinance transferring funds from contingency to pay Bank of America for loan expenses associated with the closing.