



City of Broken Arrow

Request for Action

File #: 19-359, Version: 1

**Broken Arrow Economic Development Authority
Meeting of: 03/19/2019**

Title:

Consideration, discussion and possible approval of Resolution No. 1198, a Resolution of the Broken Arrow Economic Development Authority (the “authority”) authorizing the issuance of its tax increment revenue note, taxable series 2019 (the “note”) in the aggregate principal amount of \$7,565,000; waiving competitive bidding and authorizing the note to be sold on a negotiated basis; approving and authorizing execution of a security agreement by and between the City and the Authority pertaining to a pledge of certain sales tax increment revenue and ad valorem tax increment revenue; approving and authorizing execution of a general bond indenture and a series 2019 supplemental note indenture (collectively, the “indenture”) authorizing the issuance and securing the payment of the note; providing that the organizational document creating the authority is subject to the provisions of the indenture; approving and authorizing the transfer of funds; authorizing and directing the execution of the note and other documents relating to the transaction; and containing other provisions relating thereto

Background:

The Broken Arrow Economic Development Authority issued a note (the “2010 Note”) with Bank of Oklahoma in 2010 to finance the Flight Safety project and to provide funding for downtown redevelopment. The original amount of the loan was \$9,715,000 with principal and interest payments every April 1st and October 1st until the final maturity of October 1, 2030. The current principal balance on the 2010 Note is \$7,515,000. The 2010 Note can be paid off by the Authority at any time with no penalty or premium.

The interest rate on the 2010 Note is variable (6-month LIBOR plus 2.0%) and adjusts every six months. When the 2010 Note was issued the interest rate was initially set at 2.45%. Currently the 2010 Note interest rate is 4.87% due to the rise in short term interest rates since 2010.

The security for the 2010 Note is a year-to-year pledge of 0.125% City sales tax and a Debt Service Reserve Fund of \$750,000 (current balance in the Debt Service Reserve Fund has risen to approximately \$770,000 due to interest earnings).

Assuming the interest rate remains at its current level of 4.87%, remaining annual principal and interest on the loan will be in the range of \$835,000 to \$840,000 until final maturity of October 1, 2030.

The City’s Financial Advisor, Municipal Finance Services, Inc., has been exploring the possibility of refinancing the 2010 Note to achieve all or some of the following goals:

- Change from a variable interest rate to a fixed interest rate to maturity.
- Lower the interest rate.
- Shorten the term by approximately 3 years while increasing debt service to a little under \$1,000,000 annually to accelerate final payoff. For reference, FY 2018 TIF Revenues were \$1,352,068, providing a significant cushion over required debt service.
- Secure the note with TIF revenues (ad valorem and sales tax) rather than sales tax.
- Reduce the size of the debt service reserve fund from \$770,000 to \$500,000.
- Reduce total debt service.

The Financial Advisor has been in negotiation with the existing note holder and another large national bank about the possibility of issuing a 2019 Tax Increment Revenue Note in the approximate amount of \$7,565,000 to refinance the 2010 Note. On March 19th the Financial Advisor will present options for consideration by BAEDA and the City based on the negotiations with the two banks. BAEDA will be presented with financing options arising from these negotiations and consider a resolution awarding the 2019 Tax Increment Revenue Note. If BAEDA and the City approve, closing is tentatively scheduled for March 29, 2019.

Cost: \$7,565,000 plus closing costs

Funding Source: Proceeds from the new TIF loan

Requested By: Cynthia S. Arnold, Finance Director

Approved By: Michael L. Spurgeon, City Manager

Attachments: Resolution 1198 authorizing the refinancing of the 2010 Note

Recommendation:
Approve Resolution 1198 and authorize its execution.