



City of Broken Arrow

Request for Action

File #: 19-1230, Version: 1

**Broken Arrow City Council
Meeting of: 10/01/2019**

Title:

Consideration, discussion, and possible approval and authorization to execute Resolution No. 1271, a Resolution providing for the issuance of General Obligation Refunding Bonds in a principal amount not to exceed Ten Million One Hundred Thousand dollars (\$10,100,000) by the City of Broken Arrow, Oklahoma, for the purpose of refunding a portion of the city's outstanding general obligation bonded indebtedness; Establishing a not to exceed true interest costs and maturity dates; Prescribing form of refunding bonds and providing for registration thereof; Providing a levy of an annual tax for payment of principal and interest on said refunding bonds; Waiving competitive bidding and designating an underwriter for the bonds and authorizing execution of a bond purchase contracts, escrow fund agreements, continuing disclosure agreements and paying agent/registrar agreements; Ratifying and confirming a legal services agreements and a financial services agreement with respect to the issuance of the bonds; approving an Official Statement and providing other details of the issue

Background:

The City has three General Obligation Bonds outstanding (General Obligation Bonds, Series 2009C; General Obligation Bonds, Series 2009D and the General Obligation Bonds, Series 2010B) that are now subject to optional redemption or will be subject to redemption within the next year which provides the City an opportunity to refinance or refund the bonds to reduce future interest costs. These three issues are good candidates for a refunding in which the City would issue new General Obligation Refunding Bonds and pay off the 2009C, 2009D and the 2010B bonds, resulting in a reduction in the ad valorem taxes necessary to repay the bonds. Low interest rates available in today's bond market make the refunding an economical transaction, providing significant benefits to the City and its taxpayers. The three issues are as follows:

- A. General Obligation Bonds, Series 2009C
 - a. Date of Bonds: December 1, 2009
 - b. Original Amount: \$3,225,000
 - c. Principal Outstanding (as of 12/1/2019): \$1,155,000
 - d. **Optional Bond Call Date: December 1, 2019**
 - e. Final Maturity Date: December 1, 2024

- B. General Obligation Bonds, Series 2009D
 - a. Date of Bonds: December 1, 2009
 - b. Original Amount: \$6,400,000

- c. Principal Outstanding (as of 12/1/2019): \$2,305,000
- d. **Optional Bond Call Date: December 1, 2019**
- e. Final Maturity Date: December 1, 2024

*Remaining Average Interest Rate of Series 2009C and Series 2009D Bonds: **3.643%***

- C. General Obligation Bonds, Series 2010B
 - a. Date of Bonds: August 1, 2010
 - b. Original Amount: \$10,575,000
 - c. Principal Outstanding (as of 12/1/2019): \$6,135,000
 - d. **Optional Bond Call Date: August 1, 2020**
 - e. *Remaining Average Interest Rate: **3.755%***
 - f. Final Maturity Date: August 1, 2030

Refunding Analysis

The aggregate principal amount outstanding as of December 1, 2019 of both the 2009C and 2009D issues is \$3,460,000. The City would issue approximately \$3,465,000 in new general obligation bonds (General Obligation Refunding Bonds, Series 2019B) along with generating approximately \$70,704 in original issue premium based on current market pricing to cover the additional funds required for payoff and to pay any costs associated with the new issue. The principal amount of the refunding issue could increase or decrease slightly based on market conditions on the bond pricing date. The term of the 2019B GO Refunding Bonds would be structured to not extend the term of any of the issues to be refinanced. Based on current interest rates, we estimate the true interest cost on the new bonds would be around 1.45% with a final maturity of December 1, 2024. The estimated Debt Service Payment reduction is projected at \$179,450 with a net present value ("NPV") savings calculated at approximately \$171,737 (after taking into consideration any costs of issuance), representing 4.96% of the refunded bonds, well within the 3% to 5% industry standard for an economical refunding transaction.

The principal amount outstanding as of December 1, 2019 of the 2010B issue is \$6,135,000. The City would issue approximately \$6,350,000 in new general obligation bonds (General Obligation Refunding Bonds, Taxable Series 2019C) along with generating approximately \$52,111 in original issue premium based on current market pricing to cover the additional funds required for payoff and to pay any costs associated with the new issue. The principal amount of the refunding issue could increase or decrease slightly based on market conditions on the bond pricing date. Because the early redemption date (August 1, 2020) for the 2010B Bonds is beyond 90 days from the anticipated closing date of the proposed refunding bonds, the 2019C Bonds cannot be issued as tax exempt bonds. The term of the 2019C GO Refunding Bonds would be structured to not extend

the term of any of the issues to be refinanced. Based on current interest rates, we estimate the true interest cost on the new bonds would be around 2.31% (taxable interest rate) with a final maturity of August 1, 2030. The estimated Debt Service Payment reduction is projected at \$350,880 with a net present value ("NPV") savings calculated at approximately \$307,377 (after taking into consideration any costs of issuance), representing 5.01% of the refunded bonds.

Issuance Process

State Statutes provide a road map for issuing GO Refunding Bonds which includes several key steps. GO Refunding Bonds do not require an election and can be issued by the City Council without voter approval. A public hearing is required with a 10-day notice published in the paper to provide the public an opportunity to hear details of the transaction and ask questions. These bonds also may be sold through a negotiated sale rather than a competitive sale process required by traditional GO Bonds. This acknowledges the need to get the bonds to market to capture interest rates. The determination of underwriter should be accomplished by staff by September 14, 2019 in order to meet refunding timeline. The bonds have to be authorized by the City Council and then awarded to the underwriter. Another important feature of the GO Refunding Bonds is that even though the Oklahoma Attorney General must approve them, there is no 30-day contestability period before closing the issue. The Bonds will be rated by Moody's and will most likely carry the City's current bond rating of Aa3.

Benefits of the Refunding

Outside of interest savings, an additional benefit of the refunding and restructuring existing debt payments is the ability to minimize any tax impacts from any GO Bond Issue(s) to be sold in the future. If the refunding is carried out, the principal amount of bonds that could be issued later could be increased without increasing tax impact on property owners due to the reduction in mill levy (estimated annual average at approximately .07 mills over the next 4 levy years and approximately .03 mills thereafter until the last levy for the 2019C is complete). For example, with a .07 mill levy average annual reduction, the City could increase its next GO Bond issue size by approximately \$750,000 assuming a 20-year bond term. Therefore, the aggregate present value savings of approximately \$450,000 could translate into approximately \$750,000 in additional bond buying power.

Estimated General Schedule

September 17, 2019 - Deadline for City Staff decision on selection of underwriter for proposed General Obligation Refunding Bonds, Series 2019B and 2019C

September 19, 2019 - Publication of Notice of Hearing - GO Bond Refunding

October 1, 2019 at 4:30 p.m. (Prior to Council Meeting) - Required Public Hearing at City Hall (2019B and 2019C Refunding Bonds)

October 1, 2019 - Presentation to the City Council regarding refunding of existing GO Bonds (2009C, 2009D and 2010B Series) with Resolution to be considered authorizing the issuance of the refunding bonds and designating underwriter for the proposed issue. The Resolution establishes parameters for the issuance of the bonds which would be sold and marketed by the underwriter on November 5, 2019.

October 8, 2019 - Submit GO Bond Rating Request Package to Moody's (2019B and 2019C Bonds)

October 30, 2019 - Rating Provided by Moody's (2019B and 2019C Bonds)

November 5, 2019 - Selected underwriting firm prices\sales refunding bond issue

November 12, 2019 - Submit Transcript to Attorney General

December 17, 2019 - Close the 2019B and 2019C Refunding Bonds

Cost: \$100,000 anticipated closing cost

Funding Source: Proceeds of the Sale

Requested By: Cynthia S. Arnold, Finance Director

Approved By: City Manager's Office

Attachments: Resolution 1271. Kiser Law Firm agreement and Municipal Finance Service agreement

Recommendation:

Approve Resolution No. 1271 and authorize its execution