



City of Broken Arrow

Request for Action

File #: 20-1288, Version: 1

**Broken Arrow City Council
Meeting of: 10/20/2020**

Title:

Consideration, discussion, and possible approval of Resolution 1348, a Resolution of the City Council of the City of Broken Arrow, Oklahoma (the “City”) providing for the sale and issuance of General Obligation Refunding Bonds in the sum of not to exceed Ten Million Two Hundred Fifty Thousand Dollars (\$10,250,000.00) by the City of Broken Arrow, State of Oklahoma, for the purpose of refunding certain outstanding general obligation bonds including the outstanding portions of the General Obligation Bonds, Series 2011A of the City and the General Obligation Bonds, Series 2011B of the City; waiving competitive bidding for the bonds; prescribing form of bonds; providing for a bond issue designated “General Obligation Refunding Bonds, Taxable Series 2020A”; providing for registration thereof; designating the registrar for the issue; providing levy of an annual tax for payment of principal and interest on the bonds; approving the forms of a Continuing Disclosure Agreement, an Escrow Agreement, and an Official Statement; and fixing other details of the issue

Background:

The City has two General Obligation Bonds outstanding (General Obligation Bonds, Series 2011A and the General Obligation Bonds, Series 2011B) that are subject to optional redemption within the next year which provides the City an opportunity to refinance or refund the bonds to reduce future interest costs. These two issues are good candidates for a refunding in which the City would issue new General Obligation Refunding Bonds and pay off the 2011A and the 2011B 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 two issues are as follows:

A. General Obligation Bonds, Series 2011A

- Date of Bonds: August 1, 2011
- Original Amount: \$5,000,000
- Principal Outstanding (as of 10/1/2020): \$2,930,000
- Optional Bond Call Date: August 1, 2021
- Final Maturity Date: August 1, 2031

B. General Obligation Bonds, Series 2011B

- Date of Bonds: August 1, 2011

- Original Amount: \$11,450,000
- Principal Outstanding (as of 10/1/2020): \$6,650,000
- Optional Bond Call Date: August 1, 2021
- Final Maturity Date: August 1, 2031

Remaining Average Interest Rate of Series 2011A and Series 2011B Bonds: **3.875%**

Refunding Analysis

The aggregate principal amount outstanding as of October 1, 2020 of both the 2011A and 2011B issues is \$9,570,000. The City would issue approximately \$10,060,000 in new general obligation bonds (General Obligation Refunding Bonds, Series 2020A) to cover the funds required for payoff of the 2011A and 2011B Bonds 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 2020A 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 could be around **1.36%** with a final maturity of August 1, 2031. The estimated Debt Service Payment reduction is projected at approximately \$1,053,000 with a net present value ("NPV") savings calculated at approximately \$969,000 (after taking into consideration any costs of issuance), representing 10.13% of the refunded bonds, well above the 3% to 5% industry standard for an economical refunding transaction.

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 was accomplished by staff by October 8, 2020 in order to meet refunding timeline. The bonds must 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 saving, 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 .10 mills over the next 10 levy years. For example, with a .10 mill levy average annual reduction, the City could increase its next GO Bond issue size by approximately \$1,500,000 assuming a 20-year bond term. Therefore, the aggregate present value savings of approximately \$997,000 could translate into approximately \$1,500,000 in additional bond buying power.

Estimated General Schedule

October 8, 2020 - Deadline for City Staff decision on selection of underwriter for proposed General Obligation Refunding Bonds, Series 2020A

October 7, 2020 - Publication of Notice of Hearing - GO Bond Refunding

October 16, 2020 - Submit GO Bond Rating Request Package to Moody's

October 20, 2020 6:30 p.m. (Council Meeting) - Required Public Hearing at City Hall (2020A Refunding Bonds)

October 20, 2020 - Presentation to the City Council regarding refunding of existing GO Bonds (2011A and 2010B Series).

November 12, 2020 - Rating Provided by Moody's (2020A Bonds)

November 17, 2020 - Selected underwriting firm prices/sales refunding bond issue

November 24, 2020 - Submit Transcript to Attorney General

December 15, 2020 - Close the 2020A Refunding Bonds

Cost: \$ 115,000 anticipated costs

Funding Source: Proceeds from the sale of Series 2020A Bond

Requested By: Cynthia S. Arnold, Finance Director

Approved By: City Manager's Office

Attachments: Resolution # 1348 , Notice of Sale, Kutak Rock, LLP contract, list of projects

Recommendation:

Approve Resolution No.1348 and authorize its execution