

MEMORANDUM

TO: Roger L. Stancil, Town Manager

FROM: Kenneth C. Pennoyer, Director of Business Management

SUBJECT: Resolution Providing for the Sale of General Obligation Refunding Bonds

DATE: November 23, 2009

PURPOSE

The Business Management Department (BMD) is currently pursuing refunding a portion of the Town's outstanding General Obligation Bonds, Series 1998 and Series 2000. The BMD requests that the Council adopt the resolution providing for the sale of the refunding bonds. This is the final Council action needed to authorize the issuance of the refunding bonds. Adoption of this resolution will allow for the sale of the refunding bonds in December of this year if rates remain favorable.

BACKGROUND AND DISCUSSION

At its September 28, 2009 meeting, the Council adopted a resolution providing preliminary approval for the issuance of General Obligation Refunding Bonds. At its October 28, 2009 meeting the Council adopted the Bond Order for General Obligation Refunding Bonds and a resolution providing for the publication of the Bond Order. The next step in the refunding process is to adopt a resolution for the sale of refunding bonds. This resolution does the following:

1. Formally authorizes the sale of up to \$5,750,000 in refunding bonds;
2. Formally pledges the Town's taxing power to provide for payment on the bonds;
3. Approves the proposed form of the bonds themselves;
4. Approves the form of the draft official statement for use in offering bonds to investors;
5. States the Town's agreement to comply with the relevant provisions of federal tax law;
6. States the Town's agreement to comply with federal rules for continuing disclosure to the securities markets; and
7. Authorizes Town staff to complete the process of issuing the bonds, and approves the steps to that end previously taken.

This refunding opportunity is the result of a recent drop in tax-exempt municipal bond rates at the short end of the yield curve. This allows the Town to save money on its annual debt service by reducing the net interest cost of debt through refunding. Based on the analysis performed by the BBT Capital Markets, there is currently an opportunity to refund a portion of the Town's outstanding General Obligation Bonds that will provide a net present value savings of approximately \$280,000 over the remaining life of the bonds.

Due to volatility in the interest rate markets the projected savings may change prior to execution. If there are extreme changes in interest rates it is possible that a portion of or all of the refunding will not be viable. If this occurs we will execute only that portion of the refunding that produces savings above the 3% savings threshold or we will delay the sale until conditions improve.

The expected sale date for the refunding bond issue will be in mid-December of 2009. The Local Government Commission (LGC) will sell the bonds using a competitive process with all bids being received in the State Treasurer's office. The refunding bonds will be outstanding for various periods and with debt service payments in March and September with the first payment to be made in March of 2010.

Based on current market rates the proposed refunding details are as follows:

• Bonds to be refunded: G.O. Series 1998 & 2000	
• Remaining debt Service on refunded bonds	\$5,974,725
• Debt service on refunding bonds	<u>5,664,344</u>
Saving	\$ 310,381
• Net Present Value Savings	\$ 282,066
• Percent Savings of Refunded Bonds	5.76%

The BMD has filed an application with the LGC and has received approval to issue the bonds. In addition we have retained Sanford Holshouser LLP as Bond Counsel and BBT Capital Markets as Financial Advisor.

Draft copies of the Official Statement are available upon request to the Business Management Department.

FISCAL NOTE

Based on the analysis conducted by the BBT Capital Markets, the Town can save approximately \$282,066 (net present value) over the next 10 years by refunding outstanding General Obligation Bonds, Series 1998 and Series 2000. This expected savings amount has declined in the past month as interest rates have increased slightly, however the refunding is still expected to exceed the 3% minimum savings level. The aggregate principal amount of debt to be issued for the purposes of refunding will not exceed \$5.75 million. The actual amount of debt issued and the actual savings will depend on the interest rates prevailing at the time of sale.

RECOMMENDATIONS

That the Council adopt the resolution for the sale of refunding bonds. This resolution does the following:

1. Formally authorizes the sale of up to \$5,750,000 in refunding bonds;
2. Formally pledges the Town's taxing power to provide for payment on the bonds;
3. Approves the proposed form of the bonds themselves;
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