

MEMORANDUM

TO: Roger L. Stancil, Town Manager

FROM: Kenneth C. Pennoyer, Director of Business Management

SUBJECT: Proposed Refunding of Outstanding General Obligation Bonds

DATE: September 28, 2009

PURPOSE

The Business Management Department is currently pursuing refunding a portion of the Town's outstanding General Obligation Bonds, Series 1998 and Series 2000. The amount of bonds that we are recommending for refunding is approximately \$4,900,000. The attached resolution would provide preliminary approval for the issuance of refunding bonds.

BACKGROUND AND DISCUSSION

A recent drop in tax-exempt municipal bond rates at the short end of the yield curve has resulted in opportunities for 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 \$332,230 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 threshold or we will delay the sale until conditions improve.

The expected sale date for the refunding bond issue will be in November or 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 5,616,894
- **Saving** **\$ 357,831**
- Net Present Value Savings \$ 332,230

- Percent Savings of Refunded Bonds 6.78%

The Business Management Department will file an application for approval of the Bonds with the LGC, retain Sanford Holshouser LLP as Bond Council and BBT Capital Markets as Financial Advisor, and request the LGC to approve the financing team.

FISCAL NOTE

Based on the analysis conducted by the BBT Capital Markets, the Town can save approximately \$332,230 (net present value) over the next 10 years by refunding outstanding General Obligation Bonds, Series 1998 and Series 2000. The aggregate principal amount of debt to be issued for the purposes of refunding will not exceed \$4.9 million. The actual amount of debt issued will depend on the interest rates prevailing at the time of sale.

The following table shows the expected savings by fiscal year that would be generated by the proposed refunding. This schedule is based on an estimated true interest cost rate of 2.19% for the refunding bonds. Please note that the actual interest rate will not be known until the sale date of the bonds. At that time we will report back to the Council concerning the actual results of this sale.

Fiscal Year	Savings
2009-10	\$ 11,794
2010-11	46,650
2011-12	44,250
2012-13	41,550
2013-14	49,912
2014-15	47,625
2015-16	29,100
2016-17	29,600
2017-18	29,900
2018-19	27,450
Total Savings	357,831
NPV @ 2.03%	\$ 332,230

RECCOMENDATION

That the Council adopt the Resolution Providing Approval for the Issuance of General Obligation Refunding Bonds. The resolution authorizes the Town Manager, Finance Officer and other Town Officials to take actions necessary to proceed with the refunding of the 1998 and 2000 Bonds. The actual sale of the bonds is subject to further Council approval.