

## **MEMORANDUM**

TO: Roger L. Stancil, Town Manager

FROM: Kenneth C. Pennoyer, Director of Business Management

SUBJECT: Adoption of Bond Order for Proposed Refunding of Outstanding General Obligation Bonds

DATE: October 28, 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 amount of bonds that we are recommending for refunding is approximately \$4,900,000. The BMD requests that the Council adopt the Bond Order for the refunding bonds and a resolution providing for the publication of the Bond Order. These actions will allow for the sale of the refunding bonds in December of this year.

### **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. The resolution authorized 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 next step in the refunding process is to adopt an authorizing bond order and for the refunding bonds and to adopt a resolution regarding the publication of the bond order. The bond order authorizes the issuance of a maximum of \$5,750,000 in refunding bonds. This amount is larger than the amount we currently plan on issuing in order to address the potential for declining rates to increase the amount of the refunding.

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 \$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 December of 2009. The 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 BMD has filed an application for approval of the Bonds with the LGC, retained Sanford Holshouser LLP as Bond Counsel and BBT Capital Markets as Financial Advisor, and requested 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 the BMD 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
<b>Total Savings</b>	<b>357,831</b>
<b>NPV @ 2.03%</b>	<b>\$ 332,230</b>

**RECCOMENDATIONS**

That the Council adopt the Bond Order for General Obligation Refunding Bonds and a resolution providing for the publication of the Bond Order, in the forms presented. The Bond Order authorizes the issuance of a maximum of \$5,750,000 to refund public improvement bonds issued in 1998 and 2000. The resolution authorizes and directs the Town Clerk to publish a notice of the Bond Order in a newspaper of general circulation.