



Request for City Council Committee Action From the Finance Department

Date: October 13, 2009
To: Ways and Means/Budget Committee
Referral to: None

Subject: 2009 Current Refunding Savings

Recommendation

Receive and file report on 2009 current refunding savings.

Previous Directives

Request for refunding – 4-20-09 W&M action
Request for refunding – 8-10-09 W&M action

Prepared or Submitted by Michael Abeln, Director, Capital & Debt Mgmt, 673-3496

Approved by: Patrick Born, City Finance Officer _____

Steven Bosacker, City Coordinator _____

Presenters in Committee: Michael Abeln, Director, Capital & Debt Mgmt, 673-3496

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
- Other financial impact (Explain): Interest savings achieved on outstanding bonds
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (use any categories that apply)

Not applicable

Background/Supporting Information

The emerging recession experienced during 2008 and into early 2009 severely impacted available credit for private businesses, corporations and individuals. During this timeframe and continuing yet today, investors have been actively searching for safer places to invest their money, such as high quality (triple AAA) rated municipal bonds like those offered by the City of Minneapolis. The extremely low interest rates available on bank savings vehicles such as CD's and other federal government securities plus the tax exemption available on municipal bonds has resulted in investors willing to accept extremely low yields on municipal bonds.

During 2009, the City completed several current refunding transactions to take advantage of this situation to reduce future interest payments on outstanding bonds. Below are the results of the May 2009 and September 2009 refunding transactions.

May 21, 2009:

The City issued \$85,370,000 of General Obligation Various Purpose Bonds, Series 2009. This sale included new money bonds of \$42,295,000 for various capital projects and current refunding bonds of \$43,075,000 for two current refunding transactions. The bonds had maturities ranging from 2009 to 2025 and had interest coupons of 2% to 4%. The City received a bond premium of over \$5 million on this transaction which means the stated coupon rates were significantly higher than the actual market rates. With the bond premium factored in, the true interest cost (TIC) for this entire sale was 2.995% which is very low considering that almost a third of these bonds had maturities in excess of ten years.

The current refunding bonds in the May sale included:

\$19,200,000 for the Hawthorne Transportation Center. The refunding bonds had maturities from 2010 to 2024 and interest rates from 3% to 4% versus maturities from 2014 to 2026 and interest rates from 4.55% - 4.75%. As a result of shortening the average life of the bonds and the lower interest rates, the City was able to reduce debt service costs by \$2,312,343 or 9.86% on a net present value basis.

\$23,875,000 for various Storm Sewer, Parking and Water bonds. The refunding bonds had maturities from 2009 to 2025 and interest rates from 2% to 4% versus maturities from 2009 to 2017 and interest rates from 4.25% to 5.00%. The Storm Sewer portion of the sale was \$6,910,000 and the City realized a net present value debt service savings of \$1,305,424 or 16.04%. The Parking portion of the sale was \$4,350,000 and the City realized a net present value debt service savings of \$361,186 or 7.72%. The Water portion of the sale was \$12,615,000 and the City realized a net present value debt service loss of (\$91,676.15) or (.65%). The water bonds incurred a small net loss because the refunding bonds had longer maturities structured to facilitate future issuance of subsidized financing related to the State Public Facilities Authority program.

September 23, 2009:

The City issued \$16,800,000 of General Obligation Various Purpose Refunding Bonds, Series 2009A related to BIS technology projects. The refunding bonds had maturities from 2010 to 2012 and an interest rate of 3% versus the same maturities at 4.75%. The City received a net bond premium of \$749,379 on this transaction which means the stated coupon rates were significantly higher than the actual market rates. With the net premium factored in, the TIC for this sale was .908% and resulted in a net present value debt service savings of \$1,244,309 or 6.88%.

The City issued \$5,400,000 of General Obligation Tax Increment Refunding Bonds (Milwaukee Depot), Series 2009A. The refunding bonds had maturities from 2010 to 2028 and interest rates from 2.00% to 3.50% versus the same maturities at 7.00% to 7.35%. Part of the difference in rates is due to the original bonds being taxable versus the refunding bonds being issued as tax exempt. Since the City was not benefitting from certain guaranteed assessed value and parking profit sharing arrangements, these provisions were formally removed thereby allowing the refunding bonds to be issued as tax exempt tax increment bonds. The City received a net bond premium of \$40,065 on this transaction which means the stated coupon rates were slightly higher than the actual market rates. With the net premium factored in, the TIC for this sale was 3.119% and resulted in a net present value debt service savings of \$1,738,483 or 18.71%.

The City issued \$13,675,000 of General Obligation Tax Increment Refunding Bonds (900 Nicollet Mall), Series 2009B. These bonds are related to the Target Store Parking Ramp at 900 Nicollet Mall. The refunding bonds had maturities from 2010 to 2026 and interest rates from 2.00% to 3.25% versus similar maturities at 5.00%. The City received a net bond premium of \$194,664 on this transaction which means the stated coupon rates were moderately higher than the actual market rates. With the net premium factored in, the TIC for this sale was 2.765% and resulted in a net present value debt service savings of \$1,316,600 or 8.70%.