HISTORIC
FRANKLIN
TENNESSEE

MEMORANDUM

July 9, 2012

TO: Board of Mayor and Aldermen

FROM: Eric S. Stuckey, City Administrator
Russ Truell, Assistant City Administrator/CFO

SUBJECT: Consideration of Direct Loan or Competitive Sale for Bond Refunding

Purpose
The purpose of this agenda item is to consider authorizing the Mayor and City Administrator to enter a loan agreement with SunTrust Bank to accomplish refunding of $22.5 million in variable rate bonds.

Background
The City of Franklin entered a bond arrangement with the Tennessee Municipal Bond Fund in 2009 for $25 million in variable rate bonds. Public Financial Management (PFM), our financial advisor, and the City staff have proposed a measured refunding plan of these variable rate bonds. This was addressed in previous Budget and Finance Committee meetings. Even though variable rates are currently very low, the cost of administration of these products is rising and the universe of traditional buyers is shrinking.

At staff request, PFM has solicited proposals from several banks to determine what rates are available on a direct loan basis. Direct loans require far less issuance expense than selling in the competitive market. Historically, competitive sales have produced lower overall interest costs; however, because of the unusual state of the financial markets, banks have been extremely aggressive in pricing direct loans and/or bond purchases. The aggressive pricing has made a viable process of dealing directly with banks.

SunTrust Bank appears to have submitted the best proposal for refunding on a direct basis. We still have the option of going to a competitive sale in the market, but the 15-year, AAA interest rates are currently higher than the direct loan proposals. The drawback to the direct loan process is that the "new money" proposed in the budget and approved by the Board in Resolution 2012-31 would have to be deferred and processed separately from the refunding. That would mean taking some risk of interest rates moving higher; it would also allow the opportunity to size the new money issue according to actual bids on Hillsboro road, which are expected in late 2012.

Financial Impact
Impact to General Fund is included in the proposed budget.

Options
Options include: 1) Authorize the Mayor and City Administrator to execute a loan agreement documents with SunTrust Bank, subject to approval by Bond Counsel and the City Attorney; 2) Direct the City to pursue direct sale; or 3) Continue with the existing variable debt structure.

Recommendation
Staff is looking for guidance on how to proceed.

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MEMORANDUM

May 15, 2012

TO: Board of Mayor and Aldermen

FROM: City Administrator Eric S. Stuckey
Assistant City Administrator Russ Truell

SUBJECT: Bond Issue Actions On Upcoming Agendas

On the upcoming agendas for Finance Committee and for the Board of Mayor and Aldermen (BOMA), there are two resolutions and an action item regarding bond issues. Since these subjects overlap in some ways, they can often be confusing. I thought that I would outline the rationale for each item.

Reimbursement Resolution

A reimbursement resolution is required by the Internal Revenue Service if we choose to use tax exempt borrowings to pay for project costs incurred prior to issuing bonds. For example, we previously passed a reimbursement resolution for the purchase of the Public Works Facility at 124 Lumber Drive. That allowed us to bundle the purchase price of the site with any improvement costs that we might incur before selling and closing on the bond issue.

Having approved the CIP projects and the funding plan, we now have additional projects that need to be covered by a reimbursement resolution. Our bond counsel, Bass, Berry & Sims, has prepared a resolution to cover the projects that are on the CIP project list. BOMA approved last week several professional service agreements to begin work on those projects. In order to include those costs in a bond issue, adoption of the reimbursement resolution is required.

Refunding Resolution

Interest rates have been exceedingly low since 2008 and indications from the Federal Reserve are that low rates will continue for some time. However, when rates begin to return to a more normal level, there is concern about how quickly they will rise and how high they will go.

Two years ago, we initiated a plan of refunding the City's outstanding variable rate debt to decrease our exposure to future rate increases. By replacing existing debt with fixed-rate issues, we incur additional interest costs in the short run but gain the certainty of low fixed rates over the long haul.

We began the process in 2010 by refunding variable rate bonds first issued in 2007. Last year, we refunded almost $20 million in water/sewer loans from the Municipal Bond Fund. The next logical step would be to refund a $25 million issue that was issued during the 2008/2009 financial crisis.

Our financial advisor, Public Financial Management, has reviewed this concept and agrees that we should pursue the refunding. The original plan was to go to market in the September/October time frame. However, given the extremely low long-term rates that currently exist, it may be wise to accelerate our plans and move forward immediately with the refunding.

The Comptroller's rules for refunding are a little different than the rules for issuing "new money" borrowings. Before the Board can adopt a resolution, a plan of refunding must be submitted to the State Office of Local Finance for acknowledgment and approval. Upon receipt of the State review letter, the Board has up to 120 days to adopt the resolution and execute the refunding.

Because of the above requirements, staff is requesting that the Board allow PFM to prepare a refunding plan to be submitted to the State.

Initial Bond Resolution

The third item is an Initial Bond Resolution. Having adopted the CIP projects and funding plan, we will need to decide when to issue debt for the projects. Some of the projects, including the Public Works Facility, Century Court/Beasley Drive, Carlisle Signalization and McEwen Connector, are scheduled to be completed within 24 months. Because we are preparing a $20+ million refunding, certain costs of issuance (financial advisor, bond counsel, underwriters, printing, etc.) can be reduced if we combine the new money requirements with the refunding. Because of the current low interest rates and because of the potential spreading of issuance costs over a larger issue, there is a strong argument for moving ahead with the borrowing for those projects.

The first step required to issue new money borrowing is to pass an Initial Resolution. The Initial Resolution is non-binding, in that a second resolution with detailed information about the borrowing is required to actually sell bonds. The Initial Resolution is required in order to 1) declare the intent of the Board to borrow money for the projects described in the resolution and 2) be published in the newspaper and allow the public twenty days for protesting the issuance of bonds.

In order to start the process, staff recommends adoption of the Initial Resolution at the BOMA meeting of May 22. PFM and Bond Counsel recommend an amount not to exceed $10.6 million be set as the upper limit; $10.1 would be the amount required for the projects. The somewhat higher amount is included to allow the City to react to market conditions at the time of sale, where the total of bonds may be higher (or lower) to account for premiums or discounts that maximize the City's sale price (and thus reduce the interest cost.)

The Reimbursement Resolution is on the Budget & Finance committee agenda for May 17 and the BOMA meeting of May 22. The other items are on BOMA work session.

Name of Proposer	Maturity	Amortization	Rate	Costs of Issuance	Call Feature/Prepayment	Notes
SunTrust	10 12 15	10 12 15	1.86% 2.00% 2.18%	$ 5,000	Callable at par beginning 8/15/20	
JP Morgan	10* 12 15	17 12 15	2.20% 2.05% 2.23%	$ 20,000		Change in the Corporate Tax Rate language
PNC	10* 10	17 10	1.91% 1.74%	$ 2,500		
Wells	Proposed to Senior Manage a negotiated bond sale.					
TMBF	10 12 15	10 12 15	2.41% 2.57% 2.71%	$ 22,500	101.25% through the half term of issue and then 100% thereafter	

*10 year maturity dates that assume a refinancing at maturity. Also called a hard put feature.