HISTORIC
FRANKLIN
TENNESSEE

ITEM #18
WRKS
09/24/13

MEMORANDUM

September 17, 2013

To: Board of Mayor and Aldermen

From: Eric Stuckey, City Administrator Eric
Russell Truell, ACA Finance

Subject:
The purpose of this memorandum is to provide information to the Board of Mayor and Aldermen (BOMA) about issuing $10 million in tax-exempt capital improvement bonds.

Background:
In May of 2012, in conjunction with approval of the FY2013 budget, the Board approved a reimbursement resolution to allow recapture of any expenditures made on capital projects from a future bond issue. The Board also approved an initial resolution stating its intent to issue up to $10.6 million in Capital Improvement bonds. Because of construction schedules and federal rules on the timing of expenditures paid from tax-exempt borrowing, no bonds have been issued.

Municipalities are allowed to issue up to $10 million of bonds in each calendar year with a special "bank-qualified" distinction. This special treatment from the Internal Revenue Service allows banks that purchase these bonds to exclude part of the interest payments from taxation. Because of this treatment, interest rates on "bank-qualified" bonds are typically lower than ordinary tax-exempt bonds. Cities can only issue this type of bond if no other tax-exempt debt has been issued during the year, and in 2013 the City of Franklin has no other plans for tax-exempt borrowing.

Because we have the option of using the "bank-qualified" treatment, and because the current spread between 'bank-qualified' and traditional bonds is unusually high, it would be advantageous for the City to take advantage of this opportunity. Further, this borrowing could be combined with pension obligation bonds, if approved, to spread the cost of issuance (financial advisor, bond counsel, rating agency fees, official statement printing and publication, etc.) over a larger dollar amount, thereby reducing the cost per thousand.

Because of the above interest rate considerations, and because some of the capital projects are well underway, this appears to be an optimum time to schedule the next portion of funding needed for these approved projects.

Financial Impact:
Funds from this issue would be used to reimburse the Capital Projects Fund for acquisition of land and improvements at the new Public Works Facility. The remaining funds would be applied to those road projects already included in the Capital Investment Projects plan. The financial impact of issuing bonds is impossible to determine with precision, but it is anticipated that the lower yield of these bonds would offset the early timing of issuance. The additional principal and interest payments in the debt service fund would be estimated at $700,000 per year, based on a 20 year final maturity and level debt service. This amount is already included as a projection in the debt capacity model prepared by our financial advisor.

Recommendation:
Staff recommends Board approval of the final bond resolution, which would be presented in November.

RESOLUTION NUMBER 2012-031

INITIAL RESOLUTION AUTHORIZING THE CITY OF FRANKLIN, TENNESSEE TO ISSUE ITS GENERAL OBLIGATION BONDS IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED TEN MILLION SIX HUNDRED THOUSAND DOLLARS ($10,600,000)

WHEREAS, the Board of Mayor and Aldermen (the "Board") of the City of Franklin, Tennessee (the "Municipality") desires to authorize not to exceed $10,600,000 to finance the general improvement projects described below.

BE IT RESOLVED by the Board that for the purpose of financing the (i) acquisition of land for and the design, construction and equipping of a public works facility; (ii) design, construction and improvements to, streets and roads and acquisition of rights-of-way in connection therewith; (iii) design, construction and improvements to sidewalks, signalization, and signage; (iv) acquisition of all property real and personal, appurtenant thereto, or connected with any of the foregoing; (v) payment of legal, fiscal, administrative, architectural and engineering costs incident to any of the foregoing (collectively, the "Projects"); (vi) reimbursement to the appropriate fund of the Municipality for prior expenditures for the foregoing costs: and (vii) payment of costs incident to the indebtedness described herein, the Municipality shall borrow money and incur indebtedness through the issuance of general obligation bonds in the aggregate principal amount of not to exceed $10,600,000 which shall bear interest at a rate or rates not to exceed the maximum rate permitted by law and which shall be payable from ad valorem taxes to be levied on all taxable property within the Municipality in an amount sufficient to pay when due the annual amount payable by the Municipality for the bonds as and when it becomes due and payable.

BE IT FURTHER RESOLVED by the Board that the Recorder of the Municipality be, and is, hereby directed and instructed to cause the foregoing initial resolution relative to the issuance of general obligation bonds in the amount not to exceed $10,600,000 to be published in full in a newspaper having a general circulation in the Municipality, for one issue of said paper followed by the statutory notice, to-wit:

NOTICE

The foregoing resolution has been adopted. Unless within twenty (20) days from the date of publication hereof a petition signed by at least ten percent (10%) of the registered voters of the Municipality shall have been filed with the Recorder of the Municipality protesting the issuance of the general obligation bonds, such bonds will be issued as proposed.

Recorder

Adopted and approved this 22nd day of May, 2012.

Mayor

ATTEST:

Recorder

STATE OF TENNESSEE)

COUNTY OF WILLIAMSON)

I, Eric Stuckey, certify that I am the duly qualified and acting Recorder of the City of Franklin, Tennessee, and as such official I further certify that attached hereto is a copy of excerpts from the minutes of a regular meeting of the governing body of the Municipality held on May 22, 2012; that these minutes were promptly and fully recorded and are open to public inspection; that I have compared said copy with the original minute record of said meeting in my official custody; and that said copy is a true, correct and complete transcript from said original minute record insofar as said original record relates to not to exceed $10,600,000 general obligation bonds of said Municipality.

WITNESS my official signature and seal of said Municipality on this the 22 day of May, 2012.

Eric S. Stuckey

Recorder

(SEAL)

10800030.1

The Board of Mayor and Aldermen of the City of Franklin, Tennessee, met in regular session on May 22, 2012, at 7:00 p.m. at the City Hall, Franklin, Tennessee, with the Honorable Ken Moore, Mayor, presiding.

The following Aldermen were present:
Margaret Martin, Michael Skinner, Dana Mclendon, Beverly Burger, Clyde Barnhill, Brandy Blanton, Pearl Bransford, Ann Petersen

The following Aldermen were absent:
None

There were also present Eric Stuckey, City Administrator/Recorder, and Russell Truell, Chief Financial Officer.

After the meeting was duly called to order, the following resolution was introduced by Pearl Bransford, seconded by Margaret Martin and after due deliberation, was adopted by the following vote:

AYE: Margaret Martin, Michael Skinner, Dana Mclendon Beverly Burger, Clyde Barnhill, Brandy Blanton, Pearl Bransford, Ann Petersen

NAY:

HISTORIC
FRANKLIN
TENNESSEE

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.