

**MEETING DATE/TYPE: VOTING MEETING 10-8-19**

**DEPARTMENT: Finance**

**AGENDA ITEM:** Adoption of Ordinance No. 2019-1690 Approving the Sale and Execution and Delivery of a Pledge Revenue Refunding Obligation, Series 2019, and Declaring an Emergency.

**Approved By:** Michael Lamar, City Manager

### **Item Summary**

This Ordinance approves the issuance of a pledged revenue refunding obligation, series 2019, for the refunding of Municipal Property Corporation (MPC) Bonds 2010 and 2011. The Ordinance delegates the authority to the Budget and Finance Director to determine certain matters and terms with respect to the debt issue. Timing matters with debt issuances. This Ordinance includes the emergency clause, which is customary for debt issues, to allow the transaction to be completed immediately.

### **Background**

The bonds that are being proposed to be refunded are MPC 2010 (current outstanding balance \$10,920,000) and MPC 2011 (current outstanding balance \$5,805,670), which were used for road construction projects.

The MPC 2010 was issued under the Build America Bond program, which provided for the issuance of taxable debt by governments with an interest subsidy from the Federal Government to offset the additional cost. The Federal Budget Control Act of 2011 requires across-the-board sequestration reduction when the Federal Government cannot balance the budget. The reduction to the subsidy that the City receives from the Federal Government has been reduced a total of \$124,114 since Fiscal Year 2013 when they started. The average coupon of the bond is 6.02%, with the full subsidy the equivalent rate is 3.91%, and with reduced sequestration subsidy the rate is 4.04%. The original final maturity of the bond is 7/1/2030 and it is callable starting 7/1/2020.

The MPC 2011 is a standard tax exempt municipal bond held by BBVA with an interest rate of 4.18%. The original final maturity of the bond is 7/1/2031 and it is callable starting 7/1/2021.

Interest rates are currently very low with the ten year municipal bond rate estimated at

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1.8%. We have been able to negotiate with BBVA, the holder of the MPC 2011 bond, to refund this bond early, prior to the 7/1/2021, if the new 2019 refunding issue for both bonds is placed with BBVA. BBVA has estimated a rate of 2.4%, tied to the LIBOR 7 year rate, for the ten year refunding bond. This refunding will save the Streets fund an estimated \$1,373,489 (\$1,065,342 net present value) over the life of the bonds, which is a 6.871% net present value savings as a percentage. The final rate of the new debt will be locked in the future.

In addition to enabling the City to take advantage of the current rate environment, issuing the refunding bond as a private placement with BBVA will save an estimated \$130,000 or 45% of the issuance cost over a public offering. If only the MPC 2010, which is currently eligible for refunding, was refunded through a public offering the savings to the Streets fund would be an estimated \$1,062,042 (\$986,171 net present value) over the life of the bond. Any saving from the refunding of the MPC 2011 bond would be dependent on the market rates in 2021 when it is first eligible to be refunded.

Since September 27, 1972, the City has been issuing pledged revenue bonds through the Municipal Property Corporation (MPC). Over the last few years, activity in the bond markets have shown that the use of a MPC is no longer necessary. This refunding bond would be issued as a direct obligation of the City and not the MPC. The intent would be to phase out the MPC. This direction was reviewed by the MPC Board at their October 3, 2019, meeting and they agree with the direction. After refunding of these two MPC bonds, there would only be one bond remaining. The remaining bond is the MPC 2014, which was used to refund the purchase bond for the Big Chino Water Ranch land. The MPC 2014 has an original maturity of 7/1/2034 with an optional redemption starting 7/1/2024.

### **Financial Impact**

Estimated savings to the Streets fund is \$1,373,489 with a net present value estimated at \$1,065,342 over the life of the bond. This is an estimated 6.871% net present value savings as a percentage.

### **Attachments**

1. Ordinance 2019-1690
2. Other Bond Documents

ADOPT ORDINANCE NO. 2019-1690 OF THE MAYOR AND COUNCIL OF CITY OF PRESCOTT, YAVAPAI COUNTY, ARIZONA, APPROVING THE FORM AND AUTHORIZING THE EXECUTION AND DELIVERY BY THE CITY OF A FIRST PURCHASE AGREEMENT, A FIRST TRUST AGREEMENT, AN ESCROW TRUST AGREEMENT AND OTHER NECESSARY AGREEMENTS, INSTRUMENTS AND DOCUMENTS; APPROVING THE EXECUTION AND DELIVERY BY CITY OF PRESCOTT MUNICIPAL PROPERTY CORPORATION OF A SECOND AMENDMENT TO THIRD SUPPLEMENT TO TRUST INDENTURE; APPROVING THE SALE AND EXECUTION AND DELIVERY OF PLEDGED REVENUE REFUNDING OBLIGATIONS, SERIES 2019, EVIDENCING ALL THE INTERESTS OF THE OWNER THEREOF IN THE PURCHASE AGREEMENT; ADOPTING POST-ISSUANCE TAX COMPLIANCE PROCEDURES IN CONNECTION WITH ISSUANCE OF OBLIGATIONS OF THE CITY; DELEGATING AUTHORITY TO THE BUDGET AND FINANCE DIRECTOR OF THE CITY TO DETERMINE CERTAIN MATTERS AND TERMS WITH RESPECT TO THE FOREGOING; AUTHORIZING THE TAKING OF ALL OTHER ACTIONS NECESSARY TO THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS ORDINANCE AND DECLARING AN EMERGENCY.