CITY OF MILTON

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Office of the City Finance Director/Treasurer

To:	Mayor Welch, Common Council Members
From:	Dan Nelson, City Finance Director/Treasurer
Date:	July 19, 2016
Subject:	Discussion and Possible Action Regarding a Resolution Authorizing the Issuance and Establishing Parameters for the Sale of Not to Exceed $7,640,000 General Obligation Purpose Bonds, Series 2016B

Background

Staff has the various aspects of the proposed $7.64 million General Obligation Corporate Purpose Bonds described in the following sections of the memo: Refinancing of Existing Debt and Replacement/Refinancing of Future Funds. Charts are also included that identify the City's debt capacity and property tax levy savings for the duration of the obligation. We have indicated the page numbers that are applicable to the Pre-Sale report from Ehlers throughout this memo as a point of reference.

REFINANCING OF EXISTING DEBT

The City of Milton has two debt issuances from 2007 that are eligible for refinancing in early 2017. However, due to the abnormally low interest rate environment that currently exists, staff believes there is economic merit to do an advanced refunding. An advanced refunding places the bond proceeds in an escrow account which is used to pay off the bonds when they are eligible (March and April 2017). This "refinancing" would require a few additional fees (approximately $5,500 in issuance costs), but would allow the City to secure today's lower rates for the remaining debt. **The estimated interest savings over the remaining ten years will save at least $279,000 on the tax levy (pgs. 9 and 11) and $280,000 in TID #6 (pg. 10).**

Bank of Milton and First Community Bank have agreed to allow the City of Milton to refinance the original borrowing that occurred on April 1, 2015 (approximately $1,275,000 outstanding) without any prepayment penalty. The two local institutions, agreed to waive the April 1, 2018 call date (first date the notes could be refinanced). **The estimated interest savings over the remaining nine years will save over $52,000 on the tax levy (pg. 12).**

In addition, there is outstanding water and sewer debt totaling $655,000 ($235,000 in Water and $420,000 in Sewer) on the 2007 bonds. Staff is recommending that rather than refinance the debt, the City should utilize funds on hand and pay off the balances. **The utilities will save $141,800 ($86,800 in sewer and $55,000 in water) in interest over the remaining ten years. Due to the debt being paid off, no issuance costs will be incurred by either utility.**

REPLACEMENT/REFINANCING OF FUTURE FUNDS
In addition to the above refinancing, there is some new money that will be borrowed by the general fund and TID #6 in order to pay off expected expenditures and allow TIF #6 to close at its earliest possible time. Although this is “new” money, it is simply a way to pay down debt in 2018 which will be repaid with cash on hand to ensure TIF #6 is closed as soon as possible. These funds will have a short-term impact on the City’s borrowing capacity, and in fact, will actually accelerate the payment of our long-term debt beginning in 2018. It is a “refinancing/replacement” of future funds, with current dollars.

This will not compromise the City’s goal of taking on new long-term debt, because the new/replacement/refinancing component of this obligation will allow for two 2011 debt issues to be paid off in 2018 as opposed to 2021 and 2023.

General Fund borrowing ($410,000)
Rather than utilize the line of credit ($700,000) that was authorized by the Common Council on March 1, 2016, the library will utilize this new money ($410,000) at a lower fixed interest rate rather than a higher variable interest rate. Based on conversations with Bill Wilson, he believes that the library donations will be able to pay this amount back in 2018 which will be used to pay off the 2011C notes. The library donations will also make the interest payments between now and April 2018 (approximately $7,266). The general property tax levy will make the remaining principal and interest payments for October 2018 – February 2021. This is the same time period as the original 2011C repayment schedule, but a lower rate. If additional funds are needed for cash flow purposes for the library, we would ask the Council authorize an advance/loan from TID #6 (with interest) that would ultimately be repaid with library donations. **This will save the library donation projects approximately $14,000 over 18 months, due to the lower interest rate on the bond as opposed to the line of credit. There is also an estimated $14,000 in savings (after accounting for issuance costs) from 2018 – 2021 by locking in interest rates while they are at a 50 – 60 year low.**

TID #6 borrowing ($715,000)
There are several projects that TID #6 will be funding over the next year (Merchant Row, Chicago Street, etc.) that will utilize these funds. The original intent was to use cash on hand. However, as with general fund borrowing of $410,000, there is a refunding opportunity on the 2011A bonds in May 2018. In May 2018, TID #6 will utilize $700,000 in cash on hand to pay off the 2011A bonds. The repayment schedule on the 2016B bonds reflects the same payment schedule as the 2011A bonds. **This will allow TID #6 to fund all the projects without worrying about any short-term cash crunches and locks in interest rates while they are at a 50 – 60 year low. There is also an estimated $52,000 in savings (after accounting for issuance costs) from 2017 – 2023 by locking in interest rates while they are at a 50 – 60 year low.**

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IMPACT ON CITY'S DEBT CAPACITY & LEVY SUPPORTED DEBT

There is a short-term increase in the City's debt capacity until May 2018 (when the 2011A and 2011C bonds are paid off). With this 2016B debt issue, an additional $470,000 in general obligation debt is being added (after accounting for the utility portion that will be paid off). The following table illustrates what the debt capacity is before and after the proposed new debt while assuming **no change** in the overall "TID Out" property value of the City.

	Existing Capacity (pg. 14)		New Capacity (pg. 14)		Tax levy supported debt (pg. 8)			Tax Rate / $1,000 (no chg in values)		
	% Limit	Residual Capacity ($)	% Limit	Residual Capacity ($)	OLD ($)	NEW ($)	SAVINGS ($)	OLD	NEW	SAVINGS
2016	71.32%	5,191,410	75.22%	4,486,410						
2017	65.96%	6,161,410	69.28%	5,561,410	883,537	863,788	19,749	2.69	2.63	0.06
2018	60.46%	7,156,410	57.15%	7,756,410	883,758	854,636	29,122	2.69	2.61	0.08
2019	54.91%	8,161,410	51.68%	8,746,410	866,630	854,092	12,538	2.64	2.60	0.04
2020	49.06%	9,221,410	46.02%	9,771,410	868,198	830,532	37,666	2.65	2.53	0.12
2021	43.04%	10,311,410	40.22%	10,821,410	828,429	795,669	32,760	2.53	2.43	0.10
2022	37.04%	11,396,410	34.44%	11,866,410	790,048	771,369	18,679	2.41	2.35	0.06
2023	30.72%	12,541,410	28.42%	12,956,410	801,315	771,317	29,998	2.44	2.35	0.09
2024	24.28%	13,706,410	22.37%	14,051,410	788,116	756,961	31,155	2.40	2.31	0.09
2025	17.48%	14,936,410	16.27%	15,156,410	777,531	710,298	67,233	2.37	2.17	0.20
2026	11.30%	16,056,410	10.77%	16,151,410	593,123	553,875	39,248	1.81	1.69	0.12
2027	7.98%	16,656,410	7.98%	16,656,410	584,515	556,626	27,889	1.78	1.70	0.08
2028	6.49%	16,926,410	6.49%	16,926,410	325,760	325,760	-	0.99	0.99	-
2029	4.92%	17,211,410	4.92%	17,211,410	329,283	329,283	-	1.00	1.00	-
2030	3.31%	17,501,410	3.31%	17,501,410	322,240	322,240	-	0.98	0.98	-
2031	1.63%	17,806,410	1.63%	17,806,410	322,240	322,240	-	0.98	0.98	-
2032	0.83%	17,951,410	0.83%	17,951,410	324,408	324,408	-	0.99	0.99	-
2033	0.00%	18,101,410	0.00%	18,101,410	154,568	154,568	-	0.47	0.47	-
							$ 346,037			

The City's debt capacity is higher in 2016 and 2017 because of the "replacement money" but drops below 50% in 2020 (assuming no new borrowings). However, the issuance of any new debt after 2020 becomes one of affordability. In short, any new debt issued before or after 2020 is possible, but will need to be weighed heavily against its impact on the tax rate. As stated many times in the past, it will come down to a question of "should we" versus "could we" issue more debt.

IMPACT OF ANY NEW DEBT

The two examples below indicate the annual principal and interest payments on a level funded payment structure (i.e. same payment annually, like a personal mortgage) and no valuation changes to the City's overall TID Out property tax base.

1. Every $1 million borrowed at 4% for **20** years would result in an annual debt service payment of $75,000 (23¢ per $1,000 in property or $23 for every $100,000).

2. Every $1 million borrowed at 3% for **10** years would result in an annual debt service payment of $117,000 (36¢ per $1,000 in property or $36 for every $100,000).