

CITY COUNCIL COMMUNICATION



MEETING DATE: November 30, 2021

ITEM NUMBER: 9.B

SECOND READING:

{{customfields.ResoOrdNumber}}

TYPE OF ITEM: Consent

PRESENTED BY:

Jim Golden, Finance Administration, Jim.Golden@longmontcolorado.gov

SUBJECT/AGENDA TITLE:

An Ordinance Authorizing The Refinancing Of The Lease Purchase Agreement Dated As Of August 1, 2014, And The 2014 Certificates Of Participation

EXECUTIVE SUMMARY:

Current low taxable interest rates scenarios present an opportunity for the City to refinance its 2014 Certificates of Participation (COP) debt issued at higher interest rates. This ordinance will authorize the issuance of the 2022 Taxable Refunding Certificates of Participation. By leveraging the low interest rates currently the City will be able to generate net present value savings currently estimated at 9.5%. The projected average annual savings would be close to \$175,000 ranging from a low of \$121,838 in 2023 to a high of \$235,392 in 2037. The reduction in debt service on the COP's from this refunding will reduce the reliance on the sales and use tax TIF to make the future debt payments on the COP's.

COUNCIL OPTIONS:

1. Approve ordinance on first reading and set for public hearing and 2nd reading
2. Do not approve the ordinance

RECOMMENDED OPTIONS:

Approve ordinance on first reading and set for public hearing and 2nd reading

FISCAL IMPACT & FUND SOURCE FOR RECOMMENDED ACTION:

The COP's will be repaid by the Twin Peaks URA property tax TIF; a 25 mill property tax levy by the Twin Peaks Metro District; and sales tax TIF from the Twin Peaks URA. The current debt service scheduled on the COP's is through 2037 with annual payments ranging from \$2,185,808 in 2023 to \$2,294,927 in 2037. The proposed refunding will result in a more level debt service of about \$2.06 million annually. This would be an annual savings of from \$121k to \$235k compared to the currently scheduled debt service through 2037. The savings should reduce the use of sales tax TIF toward payment of the COP debt service which, in turn, allows that sales tax savings to be used by the General Fund (85%) and the Public Improvement Fund (15%).



BACKGROUND AND ISSUE ANALYSIS:

Series 2022

Taxable Refunding Certificates Of Participation

The 2022 Certificates of Participation will be issued to refinance \$25,120,000 of existing COP debt. The 2022 Certificates will be repaid by Available Redevelopment Revenues including Pledged Twin Peaks URA Property Tax Increment Revenues, Pledged Twin Peaks URA Sales Tax Increment Revenue, and Twin Peaks Metro District Pledged Revenue.

Refunding Analysis of

Series 2014A&B Certificates of Participation

Original Issue: The 2014 COP's were issued to provide funding for public improvements associated with the redevelopment of the former Twin Peaks Mall.

Original Issue Amounts:	\$19,525,000 Series A \$9,950,000 Series B
Original Maturities:	2017 – 2037
Currently Outstanding:	\$16,335,000 Series A* \$8,785,000 Series B*
Eligible for Prepayment:	December 1, 2023 Series A December 1, 2024 Series B
Interest Rates (net):	3.4% to 5.0%

**excludes \$1,010,000 due on 12/1/2021.*

**Series 2014 Prepayment Option;
Estimated Savings**

\$16,335,000 of 2014A COPs and \$8,785,000 of 2014B COPs are scheduled to mature from 2022 through 2037. The 2014A COPs are eligible for prepayment at no penalty beginning on December 1, 2023, and the 2014B COPs are eligible for prepayment at no penalty beginning on December 1, 2024. Proceeds from the 2022 COPs will be used to pay the principal and interest due on the 2014A and 2014B COPs from the time of closing until the respective prepayment dates and to prepay



the principal eligible for prepayment on the prepayment dates. The resulting present value savings, net of financing costs, is currently estimated to be \$2,383,000 (equal to 9.5% of the refunded amount).

Background:

The 2014A COPs were issued as traditional tax-exempt certificates. The 2014B COPs were issued as taxable certificates due to the use of the Twin Peaks Mall by private entities. Municipal entities cannot issue tax-exempt debt to construct facilities that are to be used for private entities.

Throughout 2020 and 2021, taxable interest rates have been at or near record lows which has caused many municipal issuers to consider taxable advance refundings, as the low taxable interest rates still produce meaningful savings. The 2022 COPs will be issued on a fully taxable basis, at an estimated interest rate of 2.25% based on current market rates.

Structural Comments:

The 2014A and 2014B COPs were structured with slightly increasing annual payments to reflect the anticipated revenues for repayment. The 2014A and 2014B COPs were structured to be repaid over 23 years, with a final payment in 2037. The 2022 COPs will maintain the same final maturity in 2037 but annual payments will be structured to be approximately equal every year, rather than increasing.

With this transaction the City will amend the original release schedule for the Leased Property from the 2014A and 2014B COPs. The release schedule will be amended to allow for a quicker release of the Library and Civic Center Complex.

Discussion:

Refunding recommendations vary among market professionals, with some recommending refunding when present value savings are as low as 3.0% of the refunded amount. In the City's adopted Debt Policy, the identified target for refunding savings is 5.0% of the refunded amount. As mentioned above, the projected PV savings of \$2,383,000 for the proposed

refunding is equal to approximately 9.5% of the refunded amount, which exceeds the City's policy target.

The City's financing team is preparing to move forward on a timeline that would bring the Refunding Ordinance to City Council for first and second readings on November 30th and December 14th. City Charter requires that City bonds be sold at public sale. The sale of the Certificates are set for the morning of January 11th. Staff will report the results of the sale to City Council at its January 11th evening meeting. Closing would occur on January 25th.

The City's bond counsel at Butler Snow has prepared the ordinance and thus approved it as to form. Staff has reviewed the ordinance. The ordinance establishes, in Section 3, parameters for the sale of the Certificates and directs the Chief Financial Officer or the City Manager to accept the best bid that is within these parameters. This is in accordance with the Supplemental Public Securities Act, which authorizes this type of delegation.

Besides authorizing the Certificates, the ordinance also authorizes the following documents prepared by bond counsel for sale of the Certificates. These documents are available from the Finance department or the City Clerk's Office:

- Official Statement
- First Amendment to Lease
- First Supplement to Indenture
- Escrow Agreement
- Continuing Disclosure Certificate

If there are questions on this item in advance of the meeting, please contact Jim Golden at 303-651-8629.

ATTACHMENTS:

Ordinance