

South Portland City Council
Position Paper of the Finance Director

Subject:

Resolve #2-17/18 - Resolution pursuant to Section 612 of the City Charter Determining Details of Issue of General Obligation Refunding Bonds to be issued to refund all or portions of the City's \$6,503,000 2010 General Obligation Bonds, dated February 1, 2010 and the City's \$30,000,000 2012 General Obligation Bonds, dated May 30, 2012

Position:

The City's Bond Financial Advisor, Joseph Cuetara, recently presented an analysis to me that showed changes in recent market conditions which have a strong potential to produce long-term savings on future debt payments. The City has two bond issues that are good candidates to be refunded at this time:

- 1) 2010 General Obligation bonds "2010 Issue" issued in February of 2010 for renovations to the Middle Schools and High School, approved by the voters by referendum held on June 9, 2009
- 2) 2012 General Obligation bonds "2012 Issue" issued in May of 2012 for the Renovation and Addition for the High School, approved by the voters by referendum held on November 2, 2010.

The City's bond counsel, Ronald Epstein, has drafted the proposed resolve to authorize the Finance Director to proceed with an advance refunding for these issues. The resolve provides authority to the Finance Director to look at the various maturities and determine which maturities might produce a present value savings. Only those maturities that make economic sense would ultimately be advance refunded. Base on a scenario of current interest rates run in June, the model anticipates that a refunding of \$11,300,000 would produce a present value (PV) savings of about \$600,000. Remember the savings are estimates based on a point in time and rates may change resulting in a change of savings. Market conditions (interest rates) change daily and pricing for the issue will hopefully be set sometime in late August or early September. At that time, the various maturities will be analyzed to determine which make sense to refund for each of the issues. If rates change significantly and savings are not presently viable the refunding would be put on hold and could be reevaluated at a later time.

The City has done advance refunding in the past with the most recent being in November 2011. For reference, an advance refunding is when an issuer (the City of South Portland) does a new bond issue in advance of the call date on the old bonds. The proceeds from the sale of the refunding bonds are used to purchase taxable government securities, which are

deposited in an escrow account. The escrow account is structured so that the principal and interest earned on the securities are sufficient to pay all principal, interest and call premiums on the old outstanding bonds through the call date. The old outstanding debt is considered defeased.

Also important to note, in proceeding under an advance refunding, the issue is recommended to be conducted as a negotiated bond sale. The City Charter presently allows for a negotiated sale with approval by a super majority vote of the Council. The more traditional competitive sale would be the other option; however, the complexity of the financing makes this a less desirable option. The City's Financial Advisor, Bond Counsel, and I all recommend a negotiated sale.

Requested Action:

Council passage of Resolve #2-17/18



Finance Director

City of South Portland, Maine
General Obligation Refunding Bonds, Series 2017
As of June 7, 2017

	Refunding of Series 2010	Refunding of Series 2012	Aggregate Refunding
Par Amount	\$ 2,215,000	\$ 8,830,000	\$ 11,045,000
Arb Yield	1.76%	1.76%	1.76%
Escrow Yield	1.30%	1.68%	1.64%
Negative Arbitrage	23,309	38,207	61,516
Call Date (Refunded Bonds)	11/1/2019	7/15/2022	
WAM Refunding Bonds	7.26	8.36	8.15
WAM Refunded Bonds	7.65	8.36	8.21
Refunded Bonds	2,300,000	9,000,000	11,300,000
PV Savings	186,688	420,372	607,060
PV Savings %	8.12%	4.67%	5.37%
Refunding Efficiency	88.90%	91.67%	90.80%
PV Savings (Market + 25 bps)	\$ 144,039	\$ 234,607	\$ 378,646
PV Savings % (Market + 25 bps)	6.26%	2.61%	3.35%
PV Savings (Market - 25 bps)	\$ 230,364	\$ 548,020	\$ 778,383
PV Savings % (Market - 25 bps)	10.02%	6.09%	6.89%
Cashflow Savings	\$ 221,274	\$ 463,661	\$ 684,934
FY 2018	4,580	37,798	42,378
2019	11,413	33,675	45,088
2020	11,413	33,675	45,088
2021	21,263	33,675	54,938
2022	20,963	33,675	54,638
2023	19,513	33,675	53,188
2024	16,913	40,950	57,863
2025	20,313	42,725	63,038
2026	18,906	41,113	60,019
2027	17,500	44,200	61,700
2028	16,900	42,600	59,500
2029	21,200	45,900	67,100
2030	20,400	-	20,400



CITY OF SOUTH PORTLAND

PATRICIA A. SMITH
Mayor

SCOTT T. MORELLI
City Manager

EMILY F. SCULLY
City Clerk

SALLY J. DAGGETT
Jensen Baird Gardner & Henry

**IN CITY COUNCIL
RESOLVE #2-17/18**

District One
CLAUDE V. Z. MORGAN

District Two
PATRICIA A. SMITH

District Three
EBEN C. ROSE

District Four
LINDA C. COHEN

District Five
BRAD FOX

At Large
MAXINE R. BEECHER

At Large
SUSAN J. HENDERSON

Resolution pursuant to Section 612 of the City Charter Determining Details of Issue of General Obligation Refunding Bonds to be issued to refund all or portions of the City's \$6,503,000 2010 General Obligation Bonds, dated February 1, 2010 and the City's \$30,000,000 2012 General Obligation Bonds, dated May 30, 2012

WHEREAS, pursuant to (1) Bond Ordinance No. 3-10/11 adopted by the City Council on September 8, 2010, the results of a municipal referendum election held on November 2, 2010, and City Council Resolve No. 7-11/12 adopted on March 19, 2012, and (2) Bond Ordinance No. 13-08/09 adopted by the City Council on April 6, 2009, the results of a municipal referendum election held on June 9, 2009, and City Council Resolve 8-09/10 adopted December 7, 2009, the City has issued its \$6,503,000 2010 General Obligation Bonds, dated February 1, 2010 and issued on February 11, 2010 (the "2010 Bonds"), and its \$30,000,000 2012 General Obligation Bonds, dated May 30, 2012 and issued on May 30, 2012 (the "2012 Bonds") to finance the projects described in such Ordinances and Resolves; and

WHEREAS, the City Council wishes at this time to authorize the issuance of up to \$25,470,000 of bonds to advance refund or refund all or portions of the 2010 Bonds and all or portions of the 2012 Bonds in order to obtain debt service savings; and

WHEREAS, Section 612 of the City Charter, as amended, provides in substance that all matters in connection with the authorization, sale and issuance of bonds not specifically required to be provided in a Bond Ordinance may be determined or provided by resolutions adopted after final passage of a Bond Ordinance by the affirmative votes of at least a majority of the members of the City Council.

NOW, THEREFORE, IT IS HEREBY RESOLVED:

(1) That, pursuant to Section 612 of the City Charter, as amended, and the aforesaid Bond Ordinances, up to \$25,470,000 aggregate principal amount of bonds of the City (the "Bonds") shall be issued to advance refund or refund the 2010 Bonds and the 2012 Bonds, or such portions of the 2010 Bonds and 2012 Bonds as determined by the Director of Finance as appropriate to be advance refunded. The Director of Financing is hereby authorized to determine the amounts and maturities

of the Bonds and the amounts and maturities of the 2010 Bonds and the 2012 Bonds to be refunded by the Bonds.

(2) That such Bonds shall be dated the date of their delivery and shall mature in such amounts as determined by the Director of Finance in each of the years 2020 through 2032 or such other dates as determined by the Director of Finance.

(3) That all such Bonds shall be fully registered bonds in the denomination of \$5,000 and any multiple thereof, shall bear interest at such rate or rates as may be designated by the purchaser of the Bonds and approved unanimously by the Mayor and Chairman of the City Council, the City Manager and the Director of Finance, payable semi-annually such dates as determined by the Director of Finance, to the registered owner on the record date provided in the Bonds and shall be in such form and contain such terms and provisions not inconsistent with said Bond Ordinances and this Resolution as the Director of Finance may approve, and said Bonds shall be executed in the name and on behalf of the City of South Portland by its Director of Finance, shall bear the corporate seal of the City of South Portland, Maine and the manual or facsimile signature of the Mayor and Chairman of the City Council; and the Director of Finance of the City of South Portland, Maine be and hereby is authorized and empowered to sell up to \$25,470,000 aggregate principal amount of Bonds of the City of South Portland, Maine.

(4) That the Director of Finance be and hereby is authorized to engage Moors & Cabot, Inc. as financial advisor to the City in connection with the issuance and sale of the Bonds.

(5) That the Director of Finance be and hereby is authorized to prepare, or cause to be prepared, a Preliminary Official Statement and an Official Statement for use in the offering and sale of the Bonds heretofore authorized, such Preliminary Official Statement and Official Statement to be in such form and contain such information as may be approved by the Director of Finance, with the advice of the bond counsel for the City, and that the use and distribution of the Preliminary Official Statement and the Official Statement in the name of and on behalf of the City in connection with offering the Bonds for sale be and hereby is approved.

(6) That the Director of Finance is hereby authorized to select: (a) the registrar, paying agent and transfer agent (the "Transfer Agent") for the Bonds, (b) a verification agent relating to the escrow for an advance refunding of the 2010 Bonds and the 2012 Bonds or the portion thereof to be advance refunded, and (c) an escrow agent for the refunding of the 2010 Bonds and the 2012 Bonds or such portion thereof to be advanced as determined appropriate by the Director of Finance, and to execute and deliver such contracts and agreements as may be necessary or appropriate to secure their services.

(7) That said Bonds of the City of South Portland shall be transferable only on registration books of the City kept by the Transfer Agent, and said Bonds of one maturity may be exchanged for an equal aggregate principal amount of Bonds of the same maturity (but not of other maturities) in the denomination of \$5,000 or any multiple thereof, upon surrender thereof at the principal office of the Transfer Agent, with a written instrument of transfer satisfactory to the Transfer Agent duly executed by the

registered owner or his attorney duly authorized in writing. Upon each exchange or transfer of Bonds, the City of South Portland and the Transfer Agent may make a charge sufficient to cover any tax, fee or any other governmental charge required to be payable with respect to such exchange or transfer, and subsequent to the first exchange or transfer, the cost of which shall be borne by the City, the cost of preparing new bonds upon exchanges or transfers thereof shall be paid by the person requesting the same.

(8) That the Director of Finance, Mayor and Chairman of the City Council from time to time shall execute such Bonds as may be required to provide for exchanges or transfers of bonds as heretofore authorized, all such Bonds to bear the original signature of the Director of Finance, Mayor and Chairman of the City Council, and in case any officer of the City whose signature appears on any bond shall cease to be such officer before the delivery of said bond, such signature shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery thereof.

(9) That the Director of Finance be and hereby is authorized to undertake all acts necessary to provide for the issuance and transfer of such Bonds heretofore authorized in book entry form pursuant to the Depository Trust Company Book-Entry Only System, as an alternative to the provisions of the foregoing paragraph above regarding physical transfer of Bonds, and the Director of Finance be and hereby is authorized and empowered to enter into a Letter of Representation or any other contract, agreement or understanding necessary or, in his opinion, appropriate in order to qualify the Bonds for and participate in the Depository Trust Company Book-Entry Only System.

(10) That the Director of Finance be and hereby is authorized and directed to covenant and certify on behalf of the City that no part of the proceeds of the issue and sale of the Bonds authorized to be issued hereunder shall be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause such Bonds to be "arbitrage bonds" or "private activity bonds" within the meaning of Sections 148 and 141 of the Internal Revenue Code of 1986, as amended.

(11) That if the Bonds or any part of them, are issued on a tax-exempt basis, the officers or officials executing the Bonds be and hereby are individually authorized to covenant and agree, on behalf of the City, for the benefit of the holders of such Bonds, that the City will file any required reports and take any other action that may be necessary to insure that interest on the Bonds will remain exempt from federal income taxation, and that the City will refrain from any action that would cause interest on the Bonds to be subject to federal income taxation.

(12) That the officers executing the Bonds be and hereby are individually authorized to covenant, certify and agree, on behalf of the City, for the benefit of the holders of such Bonds, that the City will file any required reports, make any annual financial or material event disclosure, and take any other action that may be necessary to insure that the disclosure requirements imposed by Rule 15c2-12 of the Securities and Exchange Commission, if applicable, are met.

(13) That any or all of the Bonds issued hereunder may be consolidated with and become a part of any other issue of temporary notes or general obligation bonds authorized

to be issued by any previous or subsequent order of the City Council of the City of South Portland.

(14) That the Director of Finance, Mayor and Chairman of the City Council, City Manager and Clerk and other proper officials of the City be, and hereby are authorized and empowered in its name and on its behalf to do or cause to be done all such acts and things, not inconsistent herewith, and to execute, deliver, file, approve, and record all such financing documents, contracts, deeds, assignments, certificates, memoranda, abstracts, and other documents as deemed appropriate by the officer executing the same, as may be necessary or desirable in order to effect the issuance, sale and delivery of the Bonds hereinabove authorized.

(15) That the Director of Finance is authorized to negotiate, execute and deliver, in the name of and on behalf of the City, such contracts, agreements, and other documents, including refunding escrow agreements, bond purchase agreements, and other agreements, instruments and certificates as may be necessary or appropriate as determined and approved by the Director of Finance in connection with the issuance of the Bonds and the refunding of the 2010 Bonds and the 2012 Bonds, or the portion thereof to be refunded as determined by the Director of Finance, which documents shall be in such form and contain such terms and conditions, not inconsistent herewith, as may be approved by the Director of Finance, such approval to be conclusively evidenced by his execution thereof. The Director of Finance is authorized to deposit the proceeds of the Bonds pursuant to the escrow deposit agreement, and to call for redemption and refund the 2010 Bonds and the 2012 Bonds, or such portion thereof as determined appropriate by the Director of Finance, which are to be advance refunded by the Bonds.

(16) That if any of the officers or officials of the City who have signed or sealed the Bonds shall cease to be such officers or officials before the Bonds so signed and sealed shall have been actually authenticated or delivered by the City, such Bonds nevertheless may be authenticated, issued, and delivered with the same force and effect as though the person or persons who signed or sealed such Bonds had not ceased to be such officer or official; and also any such bonds or notes may be signed and sealed on behalf of the City by those persons who, at the actual date of the execution of such Bonds, shall be the proper officers and officials of the City, although at the nominal date of such Bonds any such person shall not have been such officer or official.

(17) That if the Director of Finance, Mayor and Chairman of the City Council, City Manager or Clerk are for any reason unavailable to approve and execute the Bonds or any other documents necessary or convenient to the issuance, execution and delivery of the Bonds, the person or persons then acting in any such capacity, whether as an assistant, a deputy, or otherwise, is authorized to act for such official with the same force and effect as if such official had performed such act.

(18) That the investment earnings on the proceeds of the Bonds, if any, and the excess proceeds of the Bonds (including premium), if any, be and hereby are authorized to be used to fund the refunding escrow for the 2010 Bonds and the 2012 Bonds or the portion thereof to be advance refunded, to pay any redemption premium on the 2010 Bonds and the 2012 Bonds to be redeemed, to pay interest on the 2010 Bonds, the 2012 Bonds

or the Bonds and to pay issuance costs for the Bonds, to the extent permitted by the Internal Revenue Code and regulations and rulings thereunder.

(19) That during the term any of the Bonds (or bonds issued to refund such Bonds) are outstanding, the Director of Finance be and hereby is authorized to issue and deliver refunding bonds to refund on either a current or advance refunding basis some or all of the Bonds then outstanding, to the extent allowed by the Internal Revenue Code, and to determine the date, form, interest rate, maturities and all other details of such refunding bonds, including the form and manner of their sale and award. The Director of Finance be and hereby is further authorized to provide that any of such refunding bonds hereinbefore authorized be made callable, with or without premium, prior to their stated date(s) of maturity, and each refunding bond issued hereunder shall be signed by the Director of Finance and by the Mayor and Chairman of the City Council, either or both of whose signatures may be by facsimile to the extent permitted by law, attested to by the City Clerk, under the seal of the City, and shall be in such form and contain such terms and provisions not inconsistent herewith as they may approve, their approval to be conclusively evidenced by their execution thereof.

(20) That the Bonds shall be sold at a public sale pursuant to the provisions of Section 623 of the City Charter, provided, however, that if this Resolve is approved by at least a two-thirds (2/3^{rds}) vote of the City Council, then in lieu of a public sale pursuant to the provisions of Section 623 of the City Charter, the Bonds may be sold either by negotiated sale in such manner as the Director of Finance deems appropriate and in the best interests of the City, or by a public offering with a distribution of a Preliminary Official Statement and notice of sale as the Director of Finance deems appropriate and in the best interests of the City, and the Director of Finance be and hereby is authorized to provide that any of the Bonds herein authorized be made callable, with or without premium, prior to their maturity.

Dated: July 17, 2017