CITY COUNCIL WORK SESSIONS AGENDA

Refinancing and Long-Range Financial Planning
Virtual
COUNCIL MEETINGS WILL BE ONLINE
Due to the COVID-19 precautions, the Council Meetings will be held online and is planned to be cablecast on Verizon 21, Comcast 71 and 996 and streamed to www.greenbeltmd.gov/municipaltv.
Resident participation:
Join By Phone: (301) 715-8592
Webinar ID: 816 0407 6124
Password: 566624
In advance, the hearing impaired is advised to use MD RELAY at 711 to submit your questions/comments or contact the City Clerk at (301) 474-8000 or email banderson@greenbeltmd.gov.
Monday, June 15, 2020
8:00 PM

Work Session Packet

Refinancing and Long-Range Financial Planning
Suggested Action:
Agenda

- Introductions
- Council Discussion
- Questions and Answers
- Other Items

City of Greenbelt Maryland - Refinancing Options for Refunding Opportun .pdf

Agenda Item No:

City Council Work Sessions Agenda Item Report

Meeting Date: June 15, 2020
Submitted by: David Moran
Submitting Department: Finance
Item Type: Work Session Item
Agenda Section: Work Session Packet

Subject:
Refinancing and Long-Range Financial Planning

Suggested Action:
Agenda

- Introductions
- Council Discussion
- Questions and Answers
- Other Items

Attachments:
City of Greenbelt Maryland - Refinancing Options for Refunding Opportun .pdf

Davenport & Company

City of Greenbelt, Maryland

Overview of Financing Options for Refunding Opportunities

June 2020

Overview

- At the request of the City of Greenbelt ("City") staff, Davenport & Company LLC ("Davenport"), in our capacity as municipal advisor to the City, has prepared this summary of financing options related to the potential refunding of the City's outstanding Series 2011 (Tax-Exempt) and 2013 (Taxable) Bonds.
  - The purpose of refunding the Series 2011 and 2013 Bonds would be to take advantage of lower interest rates currently available in the market resulting in debt service savings for the City.
  - The debt service savings realized from these refundings would provide the City with additional financial flexibility that would be important particularly in light of potential budgetary pressures resulting from the COVID-19 pandemic.
- The remainder of this presentation summarizes the City's financing options, examines various pertinent considerations, and outlines a plan for moving forward.

Refunding Candidates

- A refunding is a refinancing of outstanding debt at lower rate of interest.
  - Analogous to refinancing your home mortgage.
  - Refunding savings can be realized as either level or upfront savings (see Slide 3), depending upon the City's budgetary needs.

- Interest rates for tax-exempt and taxable borrowings are hovering near historically low levels, presenting a favorable environment to refund existing debt.
  - It is impossible to predict how long rates will remain this favorable.

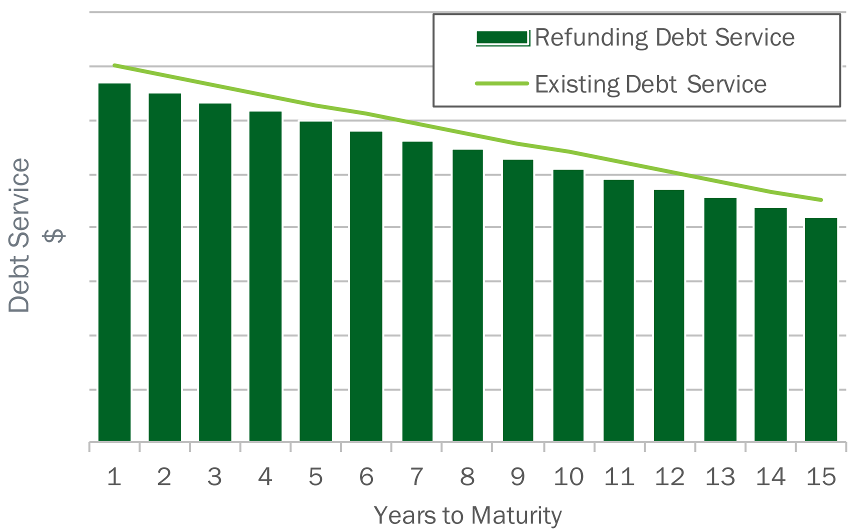
- Below is a summary of the Series 2011 and 2013 bonds that are currently outstanding and have been identified as refunding candidates for the City.

Issuance	Amount Outstanding	Current Interest Rate	Maturities to be Refunded	Call Provision
Series 2011 Bonds (Tax-Exempt)	$1,771,996	2.93%	8/1/2020-8/1/2026	Anytime
Series 2013 Bonds (Taxable)	$2,282,641	5.30%	7/12/2020 – 12/12/2033	Anytime

Realizing Refunding Savings

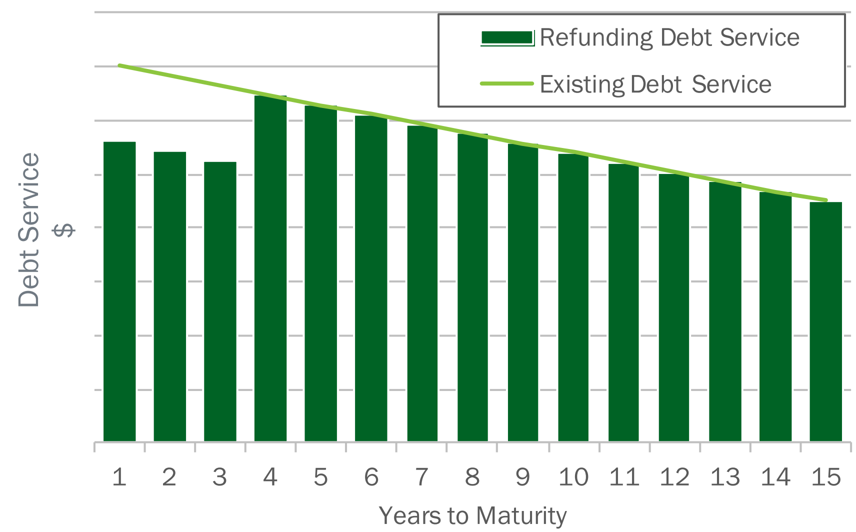
Level Savings

- Annual debt service is reduced by an equal amount in each year remaining until final maturity



Upfront Savings

- Savings realized in earliest year(s) with debt service in remaining years unchanged



Financing Option #1 – General Obligation Bond Public Sale

- The City has the ability to issue General Obligation Refunding Bonds in a public sale without going to referendum.
  - Public sale would allow the City to lock in a fixed interest rate for the life of the bonds.

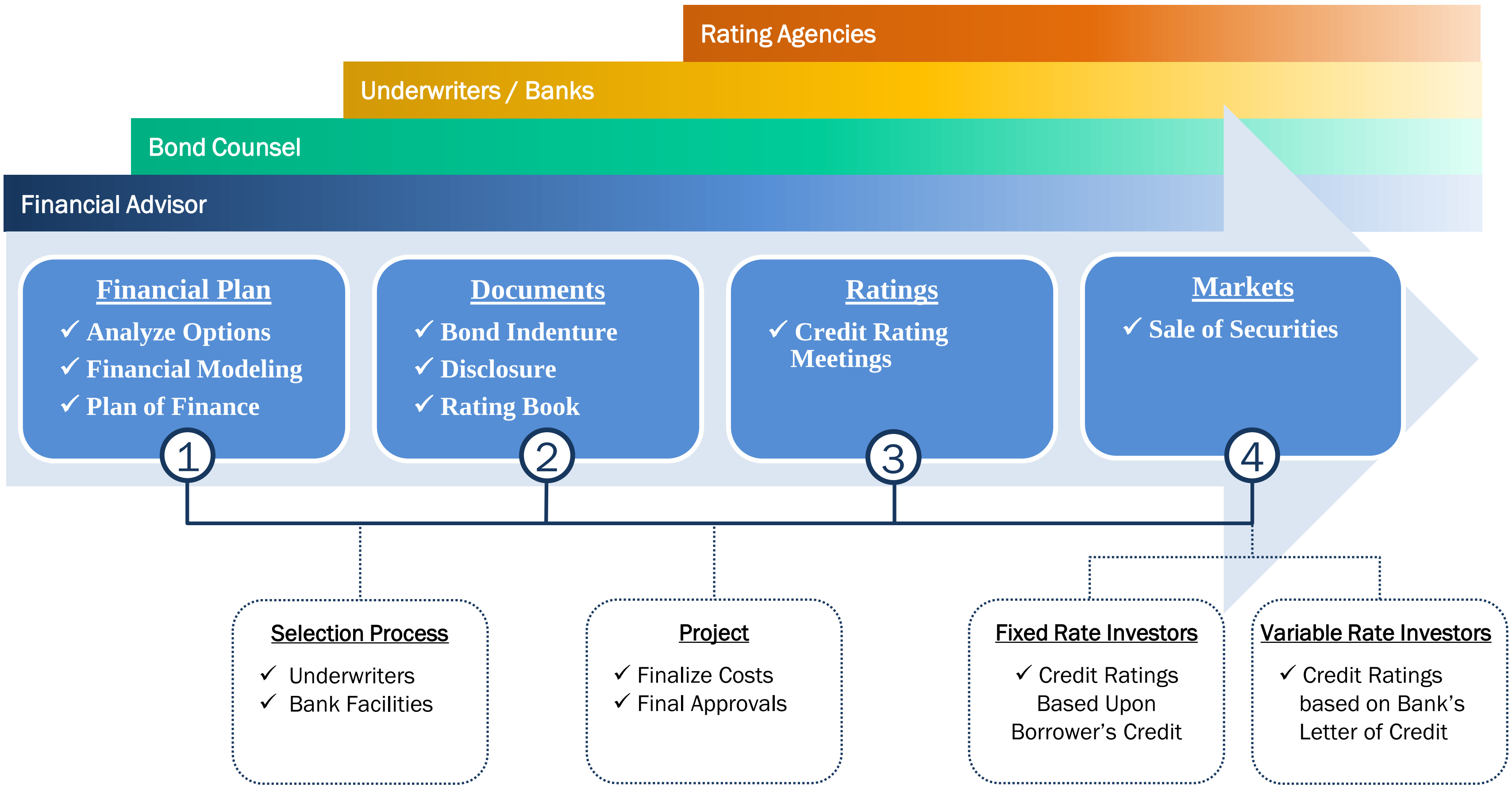
- A public sale would require the City to prepare an Official Statement and obtain a credit rating(s), which are required to market the bonds.
  - Initial rating(s) that reflect the City's credit profile would be pursued and established. We believe the City would be able to obtain a high-grade rating of at least Aa3 (second-highest rating tier), if not higher.
  - City would be able to utilize the rating(s) to help obtain a lower cost of funds on any future debt transactions whether in the public market or through a bank.

- Additional document and rating requirements influence transaction costs and time of City staff needed to successfully execute the public transaction.
  - City staff would also be required to meet continuing disclosure requirements to keep investors informed once debt has been publically issued.

- While the public sale process would take about three months to complete, and requires a slightly higher cost of issuance and staff time, this financing option would still **result in the lowest cost of funds or highest debt service savings for the City.**

Series 2011 and 2013	Option #1 – Public Sale	Option #2 – Direct Bank Loan
Level Savings	$597,946	$396,156
Upfront Savings	$539,977	$340,803

Financing Process Flow Chart



Financing Option #1 – Series 2011 GO Bond Public Sale

Level Savings

- Results in $75,011 of net budgetary savings, or 3.86% NPV savings, which is above the 3% industry benchmark.

Summary of Refunding Results			
Net Budgetary Savings [1]	Present Value Savings [1]	Negative Arbitrage	All-In True Interest Cost
$75,011	$68,368 3.86% of Refunded	$0	1.87%

Debt Service Comparison			
Fiscal Year	Prior Debt Service	Refunding Debt Service	Net Budgetary Savings
2021	$290,631	$282,153	$8,479
2022	317,052	308,625	8,427
2023	317,052	306,125	10,927
2024	317,052	308,000	9,052
2025	317,052	304,250	12,802
2026	317,052	304,875	12,177
2027	64,396	51,250	13,146
Total	**$1,940,289**	**$1,865,278**	**$75,011**

Upfront Savings

- Results in $71,018 of net budgetary savings, including $57,361 in fiscal 2021. NPV savings of 3.86%, which is above the 3% industry benchmark.

Summary of Refunding Results			
Net Budgetary Savings [1]	Present Value Savings [1]	Negative Arbitrage	All-In True Interest Cost
$71,018	$68,343 3.86% of Refunded	$0	1.83%

Debt Service Comparison			
Fiscal Year	Prior Debt Service	Refunding Debt Service	Net Budgetary Savings
2021	$290,631	$233,271	$57,361
2022	317,052	315,750	1,302
2023	317,052	313,000	4,052
2024	317,052	314,625	2,427
2025	317,052	315,500	1,552
2026	317,052	315,625	1,427
2027	64,396	61,500	2,896
Total	**$1,940,289**	**$1,869,271**	**$71,018**

Notes:
1. Savings net of estimated cost of issuance of $100,000 combined for both series and $5.00/bond for underwriter's discount.
2. All numbers are preliminary, subject to change. Actual results may vary significantly.

Financing Option #1 – Series 2013 GO Bond Public Sale

Level Savings

- Results in $522,935 of net budgetary savings, or 21.77% NPV savings, which is well-above the 3% industry benchmark.
- .

Summary of Refunding Results			
Net Budgetary Savings [1]	Present Value Savings [1]	Negative Arbitrage	All-In True Interest Cost
$522,935	$496,903 21.77% of Refunded	$0	2.40%

Debt Service Comparison			
Fiscal Year	Prior Debt Service	Refunding Debt Service	Net Budgetary Savings
2021	$218,253	$184,770	$33,483
2022	238,094	198,419	39,675
2023	238,094	200,269	37,825
2024	238,094	202,019	36,075
2025	238,094	198,719	39,375
2026	238,094	200,369	37,725
2027	238,094	201,919	36,175
2028	238,094	198,419	39,675
2029	238,094	199,869	38,225
2030	238,094	201,219	36,875
2031	238,094	202,350	35,744
2032	238,094	203,259	34,835
2033	238,094	198,994	39,100
2034	119,047	80,900	38,147
Total	**$3,194,427**	**$2,671,492**	**$522,935**

Upfront Savings

- Results in $468,869 of net budgetary savings, including $176,817 in fiscal 2021 and $189,975 in fiscal 2022. NPV savings of 20.37%, which is well-above the 3% industry benchmark.

Summary of Refunding Results			
Net Budgetary Savings [1]	Present Value Savings [1]	Negative Arbitrage	All-In True Interest Cost
$468,869	$464,982 20.37% of Refunded	$0	2.37%

Debt Service Comparison			
Fiscal Year	Prior Debt Service	Refunding Debt Service	Net Budgetary Savings
2021	$218,253	$41,436	$176,817
2022	238,094	48,119	189,975
2023	238,094	166,919	71,175
2024	238,094	233,819	4,275
2025	238,094	234,969	3,125
2026	238,094	236,019	2,075
2027	238,094	236,969	1,125
2028	238,094	237,819	275
2029	238,094	233,619	4,475
2030	238,094	234,369	3,725
2031	238,094	234,881	3,213
2032	238,094	235,153	2,941
2033	238,094	235,175	2,919
2034	119,047	116,294	2,753
Total	**$3,194,427**	**$2,725,558**	**$468,869**

Notes:
1. Savings net of estimated cost of issuance of $100,000 combined for both series and $5.00/bond for underwriter's discount.
2. All numbers are preliminary, subject to change. Actual results may vary significantly.

Financing Option #2 – General Obligation Direct Bank Loan

- The City has the ability to issue General Obligation Refunding Bonds through a direct bank loan (“DBL”) without going to referendum.
  - Fixed interest rate through maturity could not be guaranteed particularly on the Series 2013 refunding, which has a 14-year amortization.
  - Prepayment provisions tend to be more flexible than in public sale transactions.

- A DBL would not require the City to prepare an Official Statement or obtain a credit rating.
  - Davenport would draft a Request for Proposal (“RFP”) that would outline the refunding opportunities and the applicable terms and would distribute that RFP to local, state, and national banks for response.
  - Once RFP responses are received, Davenport would prepare a bid summary and discuss recommendations with the City and Bond Counsel.
  - Since no additional documentation (before and after the transaction) or ratings are required, the demand for city staff time is minimal.

- While the DBL process would take slightly less time to complete (6-8 weeks) and reflects a lower cost of issuance, this financing option actually **results in a higher cost of funds or lower debt service savings for the City**, as public market rates are more competitive.

Series 2011 and 2013	Option #1 – Public Sale	Option #2 – Direct Bank Loan
Level Savings	$597,946	$396,156
Upfront Savings	$539,977	$340,803

Financing Option #2 – Series 2011 GO Direct Bank Loan

Level Savings

- Results in $39,406 of net budgetary savings, or 1.53% NPV savings, which is below the 3% industry benchmark.

Summary of Refunding Results			
Net Budgetary Savings [1]	Present Value Savings [1]	Negative Arbitrage	All-In True Interest Cost
$39,407	$27,120 1.53% of Refunded	$0	2.55%

Debt Service Comparison			
Fiscal Year	Prior Debt Service	Refunding Debt Service	Net Budgetary Savings
2021	$294,958	$283,408	$11,550
2022	317,052	312,950	4,102
2023	317,052	312,200	4,852
2024	317,052	311,350	5,702
2025	317,052	310,400	6,652
2026	317,052	314,300	2,752
2027	64,396	60,600	3,796
Total	$1,944,616	$1,905,208	$39,407

Upfront Savings

- Results in $38,707 of net budgetary savings, including $21,450 in fiscal 2021. NPV savings of 1.53%, which is below the 3% industry benchmark.

Summary of Refunding Results			
Net Budgetary Savings [1]	Present Value Savings [1]	Negative Arbitrage	All-In True Interest Cost
$38,707	$27,120 1.53% of Refunded	$0	2.55%

Debt Service Comparison			
Fiscal Year	Prior Debt Service	Refunding Debt Service	Net Budgetary Savings
2021	$294,958	$273,508	$21,450
2022	317,052	313,150	3,902
2023	317,052	312,400	4,652
2024	317,052	316,500	552
2025	317,052	315,450	1,602
2026	317,052	314,300	2,752
2027	64,396	60,600	3,796
Total	$1,944,616	$1,905,908	$38,707

Notes:
1. Savings net of estimated cost of issuance of $60,000 combined for both series.
2. All numbers are preliminary, subject to change. Actual results may vary significantly.

Financing Option #2 – Series 2013 GO Direct Bank Loan

Level Savings

- Results in $356,749 of net budgetary savings, or 13.66% NPV savings, which is above the 3% industry benchmark.

Summary of Refunding Results			
Net Budgetary Savings [1]	Present Value Savings [1]	Negative Arbitrage	All-In True Interest Cost
$356,749	$313,178 13.66% of Refunded	$0	3.39%

Debt Service Comparison			
Fiscal Year	Prior Debt Service	Refunding Debt Service	Net Budgetary Savings
2021	$238,094	$215,061	$23,033
2022	238,094	211,544	26,550
2023	238,094	211,898	26,196
2024	238,094	212,094	26,000
2025	238,094	212,133	25,962
2026	238,094	212,014	26,080
2027	238,094	211,738	26,357
2028	238,094	211,304	26,790
2029	238,094	210,713	27,381
2030	238,094	214,885	23,209
2031	238,094	213,821	24,273
2032	238,094	212,600	25,494
2033	238,094	211,221	26,873
2034	119,047	96,496	22,551
Total	$3,214,268	$2,857,519	$356,749

Upfront Savings

- Results in $302,096 of net budgetary savings, including $170,671 in fiscal 2021 and $100,565 in fiscal 2022. NPV savings of 12.88%, which is above the 3% industry benchmark.

Summary of Refunding Results			
Net Budgetary Savings [1]	Present Value Savings [1]	Negative Arbitrage	All-In True Interest Cost
$302,096	$295,273 12.88% of Refunded	$0	3.37%

Debt Service Comparison			
Fiscal Year	Prior Debt Service	Refunding Debt Service	Net Budgetary Savings
2021	$238,094	$67,423	$170,671
2022	238,094	137,529	100,565
2023	238,094	233,906	4,187
2024	238,094	233,630	4,464
2025	238,094	233,196	4,898
2026	238,094	237,526	567
2027	238,094	236,620	1,474
2028	238,094	235,556	2,538
2029	238,094	234,335	3,759
2030	238,094	237,878	217
2031	238,094	236,184	1,910
2032	238,094	234,333	3,761
2033	238,094	237,245	849
2034	119,047	116,811	2,236
Total	$3,214,268	$2,912,172	$302,096

Notes:
1. Savings net of estimated cost of issuance of $60,000 combined for both series.
2. All numbers are preliminary, subject to change. Actual results may vary significantly.

Summary Comparison

		OPTION #1		OPTION #2	
Financing Considerations	**Debt Series**	**G.O. Bond Public Issuance**		**G.O. Direct Bank Loan**	
		Level Savings	**Upfront Savings**	**Level Savings**	**Upfront Savings**
1. Cost/Debt Service Savings					
Cost of Issuance*	Both	$100,000	$100,000	$60,000	$60,000
All-In True Interest Cost	Series 2011	1.87%	1.83%	2.55%	2.55%
	Series 2013	2.40%	2.37%	3.39%	3.37%
Gross Debt Service Savings	Series 2011	$75,011	$71,108	$39,407	$38,707
	Series 2013	$522,935	$468,869	$356,749	$302,096
	TOTAL	**$597,946**	**$539,977**	**$396,156**	**$340,803**
2. Credit Ratings					
Requirement	Both	Yes		No	
Rating Estimate	Both	At Least Aa3		-	
3. Loan Terms	Series 2011 (7-year amortization)	Fixed rate through final maturity; Non-Callable		Fixed rate through final maturity; Non-Callable	
	Series 2013 (14-year amortization)	Fixed rate through final maturity; 8-10 Year Call		All Banks might not offer fixed rate for full term; Flexible Prepayment Options	
4. Complexity	Both	Intermediate		Least	
5. Time to Completion	Both	3 months		6-8 weeks	

* Public Issuance Costs include Underwriter's Discount, Financial Advisor, Bond Counsel, Rating Fees, and printing among others. Bank Loan includes Finanicial Advisor and Bond Counsel.

Recommendation – Dual Track Approach

- Given the considerations outlined in this presentation, Davenport would recommend that the City pursue a **"Dual Track Approach"** for its refunding opportunity.

- Under a Dual Track Approach, the City would simultaneously solicit funding proposals for a direct bank loan while preparing for a potential public sale.

- Davenport, on behalf of the City, would solicit financing proposals from local, regional, and national banks via a competitive Request for Proposals ("RFP") process.
  - This is the same process that Davenport assisted the City with last year in relation to the TIF financing.

- With firm bank bids in hand, the City can determine the most favorable approach for the financing.

- Soliciting proposals would not cost the City anything, nor would it obligate the City in any way to move forward with a direct bank loan.
  - In this way, the City can unbiasedly weigh any proposals received against current market estimates for a public sale.

Next Steps – Tentative Financing Schedule

■ Week of June 22, 2020:	Davenport to draft RFP for City's review.
■ July 1, 2020:	Davenport distributes RFP to local, regional, and national banks.
■ July 14, 2020	Council introduces and adopts ordinance for refunding bonds.
■ July 22, 2020:	RFP responses due from banks.
■ July 23-24, 2020:	Davenport to prepare summary of RFP responses for City.
■ July 27, 2020	Review RFP responses with City and compare results with public bond sale.
■ July 29, 2020 :	City to make decision on whether to pursue bank loan or public bond sale.
■ July 30, 2020:	City to begin to prepare for public bond sale, if desired option.

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