



Memorandum

To: City Council
From: Ben Cowan
Date: 6/18/2015
Re: Refinancing Options for Series 2007 Sales and Use Tax Revenue Bonds

Shortly after I was hired by the City, I approached Troy Bernberg, VP/Public Finance Banker with UMB Bank, to explore the potential for refinancing the sales and use tax revenue bonds that were issued in 2007 for \$8,330,000 to finance the construction of the ice rink and Phase II of the Community Center which included the recreational lap pool and warm water therapy pool. Since rates remain at historical lows and are predicted to rise in the later part of this year, it seems prudent to review options to potentially reduce the debt service costs paid each year by the City.

Troy has assisted us over the last month to review various scenarios for refinancing the bonds including a public offering, bank private placement with forward refunding and a blended approach, along with several variations regarding use of the existing debt service reserve which stands at \$548,431.67. This reserve was required as result of a downgrade of the City's bond insurer's credit rating.

After much consideration, a quick synopsis of the various options is presented below (copies are also attached):

1) Public Offering – Average Annual Cash Savings = \$10,143

This option allows the City to lock the interest rate for the life of the debt but provides limited savings and includes requirements for bond insurance or a debt service reserve.

2) Forward Refunding Private Placement – Average Annual Cash Flow Savings = \$43,119

This option includes an agreement, usually between an issuer and the underwriter, whereby the issuer agrees to issue bonds on a specified future date and an underwriter agrees to purchase such bonds on such date. The proceeds of such bonds, when issued, will be used to refund the issuer's outstanding bonds. This option allows a greater amount of savings but exposes the City to interest rate risk for the last five years. This option does not require bond insurance.

There are blended options that would allow the City to use the bank placement for the short term and bonds for the long term. This would increase the savings from option 1 above and eliminate the interest rate risk in option 2. There would be a great deal more documentation required with this option.

The staff recommendation is to proceed with the full forward refunding "private placement" option and roll the existing debt service reserve of \$548,431.67 into the refinancing package to limit the amount of debt issuance. The estimated average cash flow savings could approach \$56,541, or about \$706,807 over the next fifteen years in today's dollars. Although different economic conditions toward the end of the term dictate interest rates will be different and may be higher than the initial rate, we feel the exposure is acceptable since interest payments at the end of the term are very low and the City's ability to repay at that time should be greater due to revenue growth over the long term.

June 18, 2015

In order to explore the legalities and nuances of moving forward, we are requesting authorization from City Council to engage Kutak Rock LLP. to ascertain the answers to a variety of questions including whether the original ballot question approving the bonds may affect the rate reset feature and whether or not a portion of the existing debt service reserve may be used to fund the upfront costs which include:

Private Placement Fee	\$27,925
Bond Counsel	\$20,000
Bank Counsel	\$5,000
Local Counsel	\$5,000
Trustee Origination	\$2,000
Escrow Verification	<u>\$1,200</u>
Total Estimated Cost of Issuance	\$61,125

Troy will be available to discuss the advantages and disadvantages of each variation and to field questions from Council.

Action Requested: A motion to approve the expenditure of funds not to exceed \$5,000 from General Fund reserves to explore the possibilities of refinancing the remaining principal balance of the Series 2007 Sales and Use Tax Revenue Bonds.

City of Gunnison, Colorado

Sales & Use Tax Revenue Refunding Bonds, Series 2015

Bank Qualified - S&P "A" - Negotiated Underwriting

Debt Service Comparison

Date	Total P+I	Existing D/S	Net New D/S	Old Net D/S	Savings
12/01/2015	114,020.00	276,400.00	390,420.00	401,026.25	10,606.25
12/01/2016	237,025.00	297,400.00	534,425.00	546,652.50	12,227.50
12/01/2017	241,200.00	296,400.00	537,600.00	545,652.50	8,052.50
12/01/2018	535,300.00	-	535,300.00	544,252.50	8,952.50
12/01/2019	533,200.00	-	533,200.00	542,452.50	9,252.50
12/01/2020	536,000.00	-	536,000.00	545,252.50	9,252.50
12/01/2021	533,600.00	-	533,600.00	542,452.50	8,852.50
12/01/2022	535,162.50	-	535,162.50	544,087.50	8,925.00
12/01/2023	536,500.00	-	536,500.00	545,115.00	8,615.00
12/01/2024	536,625.00	-	536,625.00	545,355.00	8,730.00
12/01/2025	534,475.00	-	534,475.00	544,980.00	10,505.00
12/01/2026	532,025.00	-	532,025.00	543,600.00	11,575.00
12/01/2027	529,275.00	-	529,275.00	541,590.00	12,315.00
12/01/2028	531,225.00	-	531,225.00	543,950.00	12,725.00
12/01/2029	532,275.00	-	532,275.00	545,030.00	12,755.00
12/01/2030	532,395.00	-	532,395.00	545,250.00	12,855.00
12/01/2031	536,555.00	-	536,555.00	544,370.00	7,815.00
12/01/2032	534,055.00	-	534,055.00	542,620.00	8,565.00
Total	\$8,600,912.50	\$870,200.00	\$9,471,112.50	\$9,653,688.75	\$182,576.25

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings	144,046.14
Net PV Cashflow Savings @ 3.107%(AIC)	144,046.14
Contingency or Rounding Amount	4,437.66
Net Present Value Benefit	\$148,483.80
Net PV Benefit / \$5,945,000 Refunded Principal	2.498%
Net PV Benefit / \$6,490,000 Refunding Principal	2.288%
Average Annual Cash Flow Savings	10,143.13

Refunding Bond Information

Refunding Dated Date	7/15/2015
Refunding Delivery Date	7/15/2015

City of Gunnison, Colorado

Sales & Use Tax Revenue Bonds, Series 2014

Forward Refunding

Debt Service Comparison

Date	Total P+I	Existing D/S	Net New D/S	Old Net D/S	Savings
12/01/2017	81,288.75	290,700.00	371,988.75	415,326.25	43,337.50
12/01/2018	502,577.50	-	502,577.50	544,252.50	41,675.00
12/01/2019	498,567.50	-	498,567.50	542,452.50	43,885.00
12/01/2020	504,425.00	-	504,425.00	545,252.50	40,827.50
12/01/2021	499,885.00	-	499,885.00	542,452.50	42,567.50
12/01/2022	500,212.50	-	500,212.50	544,087.50	43,875.00
12/01/2023	500,275.00	-	500,275.00	545,115.00	44,840.00
12/01/2024	505,072.50	-	505,072.50	545,355.00	40,282.50
12/01/2025	504,472.50	-	504,472.50	544,980.00	40,507.50
12/01/2026	498,607.50	-	498,607.50	543,600.00	44,992.50
12/01/2027	497,610.00	-	497,610.00	541,590.00	43,980.00
12/01/2028	501,347.50	-	501,347.50	543,950.00	42,602.50
12/01/2029	499,687.50	-	499,687.50	545,030.00	45,342.50
12/01/2030	502,762.50	-	502,762.50	545,250.00	42,487.50
12/01/2031	500,440.00	-	500,440.00	544,370.00	43,930.00
12/01/2032	497,852.50	-	497,852.50	542,620.00	44,767.50
Total	\$7,595,083.75	\$290,700.00	\$7,885,783.75	\$8,575,683.75	\$689,900.00

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings	531,264.88
Net PV Cashflow Savings @ 2.785%(AIC)	531,264.88
Contingency or Rounding Amount	1,418.09
Net Present Value Benefit	\$532,682.97
Net PV Benefit / \$5,945,000 Refunded Principal	8.960%
Net PV Benefit / \$6,135,000 Refunding Principal	8.683%
Average Annual Cash Flow Savings	43,118.75

Refunding Bond Information

Refunding Dated Date	6/01/2017
Refunding Delivery Date	6/01/2017

City of Gunnison, Colorado

Sales & Use Tax Revenue Bonds, Series 2014

Forward Refunding

Debt Service Comparison

Date	Total P+I	Existing D/S	Net New D/S	Old Net D/S	Savings
12/01/2017	74,001.25	290,700.00	364,701.25	415,326.25	50,625.00
12/01/2018	483,002.50	-	483,002.50	544,252.50	61,250.00
12/01/2019	479,125.00	-	479,125.00	542,452.50	63,327.50
12/01/2020	485,115.00	-	485,115.00	545,252.50	60,137.50
12/01/2021	480,707.50	-	480,707.50	542,452.50	61,745.00
12/01/2022	481,167.50	-	481,167.50	544,087.50	62,920.00
12/01/2023	486,362.50	-	486,362.50	545,115.00	58,752.50
12/01/2024	486,160.00	-	486,160.00	545,355.00	59,195.00
12/01/2025	485,692.50	-	485,692.50	544,980.00	59,287.50
12/01/2026	479,960.00	-	479,960.00	543,600.00	63,640.00
12/01/2027	479,095.00	-	479,095.00	541,590.00	62,495.00
12/01/2028	482,965.00	-	482,965.00	543,950.00	60,985.00
12/01/2029	481,437.50	-	481,437.50	545,030.00	63,592.50
12/01/2030	484,645.00	-	484,645.00	545,250.00	60,605.00
12/01/2031	482,455.00	-	482,455.00	544,370.00	61,915.00
12/01/2032	-	-	-	(5,811.67)	(5,811.67)
Total	\$6,831,891.25	\$290,700.00	\$7,122,591.25	\$8,027,252.08	\$904,660.83

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings	1,045,064.15
Effects of changes in DSR investments	(338,257.08)
Net PV Cashflow Savings @ 2.800%(AIC)	706,807.07
Contingency or Rounding Amount	2,544.04
Net Present Value Benefit	\$709,351.11
Net PV Benefit / \$5,945,000 Refunded Principal	11.932%
Net PV Benefit / \$5,585,000 Refunding Principal	12.701%
Average Annual Cash Flow Savings	56,541.30

Refunding Bond Information

Refunding Dated Date	6/01/2017
Refunding Delivery Date	6/01/2017