

Legislation Text

File #: 19-0254, **Version:** 1

Summary

To: Town Commission

From: JP Murphy, Town Manager; Stefan Massol, Finance Director

Date: 9/17/2019

Subject:

Discussion and Evaluation of BB&T Revenue Bond Refinance

Summary:

Staff will present updated information relevant to a refinancing decision for the Town's Revenue Bond with BB&T.

Previous Commission Action: Town Commission previously determined that the Town should explore a refinance with the assistance of a financial advisor. Staff subsequently re-engaged Jay Glover with PFM to serve as the Financial Advisor on this re-issuance. Brian Fender with Gray-Robinson will again serve as bond council, given his familiarity with both issues.

Background/Problem Discussion: A recent and significant reduction in interest rates has resulted in increased demand for municipal debt. In response to this market condition, staff is recommending that the Town pursue a refinance of its current revenue bond through BB&T. At the close of FY 2018-19 there will be a remaining principal balance of \$7,705,000 eligible for prepayment. The current interest rate is 3.61%, and prepayment would be subject to a 1% penalty of outstanding balance (\$77,050). It is estimated that the current market interest rate would be somewhere between 2.5% and 3%, resulting in interest savings to the town ranging from \$700,000 to \$1,400,000. This assumption is based on scenarios of 20 years at borrowing of \$12,000,000 when compared to the current rate of 3.61%.

BB&T has submitted an offer for refunding, as well as a new money loan which combined would total the \$12,000,000 of borrowing requested by the town. The interest rate they are offering is 2.46%. This rate is lower than the estimates provided by the Town's financial advisor. This loan would only be for a 15-year term. Also, BB&T has waived the pre-payment penalty for the original issuance and provided more favorable options for prepayment on the new issue. The prepayment options would be either non-callable for the first five years, with no prepayment penalty for the remainder, or a 1% prepayment penalty for the first seven years then no penalty thereafter.

The Town has the option to either accept BB&T's offer or to pursue a Request for Proposals from all banking institutions. Attached are copies of the offers submitted by BB&T.

Financial Implications: BB&T is offering an interest rate of 2.46% over a 15-year term. Interest cost over the term would be \$2,451,000, which is a savings of \$1,145,000 from the same loan at our current interest rate. Average annual payments for debt service would be \$909,000 annually, which is approximately \$200,000 more than our current annual debt service payment on the \$10,000,000 bond.

Recommendation: That the Town accept/deny BB&T's offer for a 15-year term at 2.46%

Proposed Motion: I move that the Town accept/deny BB&T's offer for a 15-year term at 2.46%.