City of Joplin

City Council Agenda Item

REQUESTED COUNCIL MEETING DATE: JANUARY 17, 2017

ITEM: COUNCIL BILL NO. 2017-502

ORIGINATING DEPARTMENT: FINANCE DEPARTMENT
Attachments: Escrow Trust Agreement; Schedule "A" budget adjustment; Sources and Uses of Funds

Finance Director: Leslie Haase
City Attorney: Peter Edwards
City Manager: Sam Anselm

INTRODUCTION:

This Council Bill authorizes the advance refunding of the Series 2012 Certificates of Participation (COPS) issued for the purpose of financing the costs to acquire, construct, renovate, furnish and equip a new city hall, convert the existing city hall to a public safety and justice center, convert the existing public works building for use by the health department, and demolish an existing health department building for the retention of city records.

DISCUSSION:

During the 2003 fiscal year, the City issued $6,700,000 in COPS for the purposes listed above. At the time, the certificates were set to mature in June of 2023 with interest rates ranging from 3.15% to 4.30%.

In 2012, the City issued $4,400,000 in COPS with interest rates ranging from 2% to 3.125% to refund $4,720,000 of outstanding Series 2003 COPS for the same purposes listed above. The Series 2012 COPS are set to mature in October of 2023. The earliest the COPS can be "called" or prepaid is on October 1, 2019.

The annual debt payment on the Series 2012 COPS ranges from $436,000 in 2017 to $438,300 in 2023. The City currently makes this annual payment by charging ourselves a "rent" payment based on the square footage usage of City Hall. This is an added annual expenditure assessed mainly to the general fund. The financial objective of the City is to have a balanced budget, while maintaining sufficient reserves for emergencies, the replacement of large capital assets and projects, as well as the retirement of debt. In planning for the fiscal year 2018 budget, this agreement authorizes the City to approve an advance refunding of the Series 2012 COPS.

The City will use a portion of unrestricted fund balance of the general fund to reduce the annual expenditures of the general fund by paying the outstanding amount of the debt all at once. The City will use available cash reserves (fund balance) to fund an irrevocable escrow account with the trustee bank for the Series 2012 COPS that will fund the principal and interest requirements

through October 1, 2019, which is the date when the Series 2012 COPS can be prepaid. At this point in time, the trustee will use the escrow account to pay off the remaining principal outstanding in the amount of $1,615,000. The total amount of cash needed to accomplish the "defeasance" of the Series 2012 COPS is approximately $2,838,550. It is anticipated that the closing will be on February 1.

The payment into the escrow account is a one-time payment from fund balance. It is appropriate to use fund balance for one-time expenditures rather than ongoing, recurring costs. The immediate benefit to the City of the advance refunding is freeing up annual budget obligation for debt service of $436,000 for the Series 2012 COPS. Additionally, the city's idle funds or the available cash reserves are invested in low yielding short-term U.S. Government backed obligations, while the interest rates for each maturity date on the Series 2012 COPS increases from 2% in 2017 to 3.125% in 2023. The escrow fund will have the ability to earn a similar yield in U.S. Government obligations as well, so there will be little or no lost investment earnings. There will be interest savings of approximately $152,000 by prepaying the COPS on October 1, 2019, which is calculated in the advance refunding amount.

It is anticipated the cost of the advance refunding or "defeasance" of the Series 2012 COPS will be approximately $7,000 for legal fees, analytical consultation, CPA verification report on the escrow sufficiency and the bank escrow acceptance fee. Since the escrow account is irrevocable, the debt will be removed from the City's financial statements upon closing. From a financial standpoint, the debt has been repaid.

This council bill also amends the budget as shown in Schedule "A" to transfer the cash from fund balance in the general fund to the debt service fund in order to make the one-time payment.

RECOMMENDATION:

City Staff recommends this Council Bill be approved on an emergency basis.