

# Refunding Bonds

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- **Definition**
  - The issuance of a new bond for the purpose of retiring an already outstanding bond issue
- **Purpose**
  - To realize savings over the remaining life of the bonds through reduced interest costs

# Refunding Types

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- **Current**
  - Bonds are callable within 90 days of delivery of bonds
- **Advance**
  - Bonds are callable more than 90 days beyond date of delivery
- **Funds must be deposited in an Escrow Account until the Call Date**

## Financial Policy Guidance

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- The City's Municipal Advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding debt
- As a general rule, the net present value (NPV) savings of a particular refunding should exceed 3% of the refunded maturities
- The City will use a negotiated process when the issue contains a refinancing that is dependent on market rates & timing



## Parameter Sale

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- **Council Approves Ordinance Prior to Sale of Bonds**
- **Defines Acceptable Conditions for Refunding Transaction**
  - **Delegates Approval Authority to City Manager**
- **Municipal Advisor Monitors Bond Market**
- **Negotiated Sale, More Flexibility to Adjust Timing for Market Conditions**

# Tax Reform Act

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**As proposed – both versions of the Tax Reform Act**

- **Eliminate the ability to advance refund bonds with tax-exempt debt**
- **Effective for refunding bonds after 2017**
- **What the provision means:**
  - **This issue needs to deliver prior to year end**
  - **Ensures we are able to do this transaction with tax-exempt debt**

## Bonds To Be Refunded

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<b>Issue</b>	<b>2011 Certificates of Obligation</b>
<b>Call Date</b>	<b>Feb 15, 2020</b>
<b>Maturities</b>	<b>2021-2041</b>
<b>Coupon</b>	<b>3.25% to 5.0%</b>
<b>Principal to Refund</b>	<b>\$80,935,000</b>



## Refunding Analysis

Criteria	As of Nov 6, 2017
Net Present Value Savings	\$9,263,974
PV Savings as % of Refunded Bonds	11.4462%
Savings Period	22 years
Average Coupon to be Refunded	4.24%
True Interest Cost	3.22%
Estimated Debt Service Savings	\$13,592,906
Average Annual Debt Service Savings	\$617,859

# Proposed GO Refunding

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- Recommended Parameters in Ordinance 2120
  - NPV Savings >8% of Refunded Principal
  - Maximum Principal Amount: \$80 million
  - Underwriters:
    - Citigroup Global Markets
    - JP Morgan Securities
      - Agreement with Charles Schwab and LPL Financial to offer bonds for retail distribution at original issue prices
  - Delegates Approval Authority to City Manager



# GO Bond Ratings

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Current Ratings	GO /CO Debt
<b>Standard &amp; Poor's</b>	<b>AAA</b>
<b>Fitch Ratings</b>	<b>AAA</b>

**Calls held Nov 20 & 21 with both rating agencies**

## Recommendation & Timeline

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- Reviewed at Nov 13 Finance/Audit Committee meeting
- Approve Ordinance 2120 setting parameters for transaction
- Nov 27- distribute final Preliminary Official Statement
- Dec 1- Ratings released
- Dec 6-13- pricing window for underwriters
- Dec 28- delivery of funds

## Action Recommended

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- **Approval of Ordinance No. 2120 authorizing conditions and granting approval for City of Sugar Land GO Refunding Bonds Series 2017**