City of Independence, Ohio
"THE HEART OF CUYAHOGA COUNTY"
6800 BRECKSVILLE ROAD INDEPENDENCE, OHIO 44131
(216) 524-4131

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: January 22, 2021

Re: Finance Department Updates

Long-Term Debt – City of Independence

The City successfully converted just over $15 million in short-term debt (one-year bonds) to long-term debt (15 year bonds) in 2020. The overriding reason this was done was to lock in the historically low tax-free municipal borrowing interest rates that occurred in 2020.

In addition to some other long-term debt, the City also has $3.7 in long-term debt that under the existing re-payment schedule, is scheduled to be completely paid off with the December, 2028 principal payment. Between $465,000 and $555,000 in principal is scheduled to be paid off each year, with current Coupon Interest Rates ranging between 3.00% and 4.00%.

No immediate decision has to be made on this issue at this point in time. But it is called to your attention because the city does have some options here since the remaining $3.7 million in outstanding bonds in this offering will be Callable starting in December.

This means that up until December of 2021, the City had to keep paying on these bonds as the original schedule dictated. But once a Call Date is reached, bonds can be paid off, refinanced, etc., if then existing market conditions would result in a favorable outcome.

The options the City has later this year include:

- Do nothing, and continue to pay the currently scheduled annual principal and interest (Between 3.0% and 4.0%) until December of 2028 (Not the optimum decision)
- Refund (Refinance in layperson's terms) the bonds over a similar term, where the newly issued bonds (at currently lower rates) would also mature in December, 2028
    - This option would not lower the annual principal payments so much as it would lower the annual interest payments/expense
- Refund the bonds over a shorter term, say three-to-five years

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  - This option would increase the annual principal payments since the $3.7 million in principal would be paid off before 2028, but current lower interest rates could also be achieved as in the previous option
- Use cash-on-hand to pay off more than the scheduled annual principal payments, resulting in the bonds being paid off prior to December, 2028
  - This option is similar to a property owner making extra principal payments to pay off a mortgage faster than scheduled
- Use cash-on-hand in December, 2021 to completely pay off all of the $3.7 million in Outstanding Principal
  - This option would completely extinguish this outstanding long-term debt without having to incur any refunding (refinancing) costs

Since this $3.7 million of long-term debt is a much smaller principal amount than the $15,250,000 that was bonded out in 2020, one option discussed preliminarily with the City's Financial Adviser is a Negotiated Sale with a specific lender vs. the Competitive Sale process that the City utilized in 2020 – If the City doesn't exercise the last two options noted above.

Although the Competitive Sale process yielded good results for the City in 2020, the risk with that method of sale is that an Issuer is locked in to having to accept the best bid submitted that day of the Competitive Sale. If all of the bids received are not to the Issuer's liking (with low enough interest rates), the Issuer is still stuck having to accept the best of those undesirable options.

With a Negotiated Sale, an Issuer, (In this case, the City of Independence) can present what it wants to do to any number of lenders, receive initial quotes (interest rates) back, and then further negotiate with any or all of the respondents if it so chooses. If a desired/goal interest rate is not being offered by any of the lenders approached, the City would then be under no obligation to proceed with the refunding.

A final advantage to a Negotiated Sale is that it negates the need for an Offering Statement to be completed, a bond rating to be obtained, etc. Therefore, the cost of such a sale/offering would be significantly less than the cost of utilizing the Competitive Sale process.

In summary, this is nothing that has to be decided on right now. Please read the above again, digest it, let's perhaps place this topic as an Agenda Item at a late-winter/early-spring Finance Committee meeting, and we can go from there. It is an important decision to make this year, but the $3.7 million in outstanding Principal should not require the number of meetings that were needed in 2020 for the $15.25 million bond offering. The earliest the City can affect a refunding if that's what's decided on, is early September. So there is plenty of time to discuss it, watch the tax-free municipal debt market and the economy the next few months and make a good decision by mid-summer.