



# 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: October 23, 2020

Re: Finance Department Updates

### Bond Sale

The city successfully sold \$15.25 million of 15-year bonds yesterday. Four firms submitted bids, and bonds are awarded to the bidder with the lowest True Interest Cost (TIC). The four firms and the TIC's submitted were:

UBS Financial Services, Inc.	1.595720%
Fifth Third Securities, Inc.	1.620094%
Robert W. Baird & Co., Inc.	1.721151%
Huntington Securities, Inc.	1.745759%

**Therefore, UBS was awarded the City's \$15.25 million, 15-year bond issue at a TIC of 1.596%.** After underwriting fees are factored in, UBS's All-In TIC was 1.69%. By comparison, the one-year notes (BANS) that were issued by the City last November (2019) had an All-In TIC of 1.56%.

The 15 different tranches of the bonds (a fixed amount of bond principal is paid off each year – the tranche) yielded the following interest rates:

<u>Bonds Due</u>	<u>Interest Rate</u>
2021	0.27%
2022	0.28%
2023	0.29%
2024	0.32%
2025	0.41%
2026	0.56%
2027	0.72%
2028	0.92%
2029	1.17%
2030	1.32%
2031	1.61%
2032	1.74%



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<u>Bonds Due</u>	<u>Interest Rate</u>
2033	1.87%
2034	1.91%
2035	1.96%

The following is “a little bit in the weeds” on the subject of bonds, but is offered to explain a few more details on this topic and help to introduce the concept of “Bond Premium.”

Bidders for bonds submit Coupon Rates for the bonds, and all four bidders yesterday submitted Coupon Rates of 5.0% for at least the first seven years of the 15-year bond issue. Apparently this high Coupon Rate helps them re-market the bonds easier.

But also notice that a Coupon Rate of 5.0% is much, much higher than current tax-free municipal bond rates. That helps introduce the term **Bond Premium**, which is defined as “The excess price paid for a bond over and above its Face Value.”

So because all four bidders on the City’s bonds wanted to market those bonds with a Coupon Rate of 5.0% during the first seven years of the bond issue when the current tax-free municipal bond rates for terms under eight years are all under 1.0%, those four bidders were willing to pay a Bond Premium to the City. This means that for every \$1,000 worth of bonds the City desired to sell, the bidders were willing to give the City more than \$1,000.

The end-result of yesterday’s sale is that UBS’ low True Interest Cost (TIC) bid of 1.596% included them paying the City a total of \$16,976,066.35 for the \$15,250,000 of bonds the City sold yesterday. The difference between the Total paid of \$16,976,066.35 and the \$15,250,000 Face Value of the bonds equals \$1,726,066.35 of **Bond Premium**.

By law, that \$1.7 million of Bond Premium has to be booked into one of the City’s Bond Retirement/Debt Service funds. Another way to look at is that the first year of Principal and Interest on yesterday’s bond issue totals just over \$1.4 million. The \$1.7 million of Bond Premium the City will receive at closing more than covers the entire first year of Principal and Interest payments on yesterday’s bond sale.

In conclusion, nobody knows exactly what interest rates are going to do over the next 15 years. But locking in the City’s interest rate risk at a TIC of 1.596% for 15 years will help a lot of people sleep well at night for some time to come. And as Jim Vogel, an interest-rate strategist at FHN Financial was quoted as saying this week in the *Wall Street Journal*, “*It feels like 30% of the market is convinced that we’re going to have higher interest rates after the election.*”

The City did real well yesterday – thank you to all who helped out, participated in the discussions and ultimately supported the administration and the Finance Team this past year!