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: July 31, 2020

Re: Finance Department Updates

City Debt
At the risk of belaboring an issue, the following breakdown of short and long-term debt of local municipalities is provided to ensure that Council is 100% comfortable in its decision on August 11 regarding Ordinances 2020-65 and 2020-66. (All figures are taken from the 12/31 Statement of Net Position in the 2019 CAFR's, with Independence's figures being "draft" at this point).

	Independence	Brecksville	Middleburg Hts.	Strongsville
Notes Payable	$17,489,675	$2,827,720	$ 0	$ 0
Long-Term Liabilities				
Due Within 1 Year	1,283,990	1,775,312	2,359,823	13,555,954
Due in More than 1 Year	14,561,421	22,960,705	8,293,856	40,753,398

It is clear that the City Of Independence has a significantly higher percentage of its total debt in short-term instruments (Notes) than some nearby, peer communities.

Corporate America is not always right. No company is, no governmental entity is, and no person is. But Corporate America is under tremendous pressure to deliver maximum profitability, and they can only achieve this by making more correct decisions than incorrect ones.

Following are some quotes, headlines and other writings on this subject, all of which describe how Corporate America has been locking in low long-term interest rates:

"A USA Today analysis of the S & P's 500 index found that…the tech industry had taken on $451.4 billion in long-term debt, an increase of 42% over the previous year.

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"Why Borrowers Should Lock In Long-Term Financing (GlobeSt.com)"

"While we are still in one the lowest interest-rate environments in history, ***borrowers should secure long term financing.*** *While the market has grown accustomed to low interest rates, they are no guarantee, and* ***some capital market experts are advising their clients to lock in long-term, low-interest financing."***

"We are arguably in the lowest interest rate environment in history," David Sonnenblick, a principal at Sonnernblick-Eichner Co., tells GlobeSt.com. ***"Borrowers want to take advantage of this opportunity as opposed to taking the risk of a rise of interest rates and having to refinance their assets in a higher interest rate environment."***

While Sonnenblick and Eichner are advising clients to lock in financing now, they don't necessarily think interest rates will increase in the future. "Our clients rely on us to track the indicators that lead to interest rate movement, but ***it is very difficult to time the market****," says Sonnenblick.*

*"****No one has a crystal ball as to where interest rates may go from here****, but it would be difficult to imagine that they can go much lower. How long they remain at these levels is hard to say.* ***Locking in a rate today is a great opportunity to take advantage of this extremely and historic low interest rate environment. Why wait for a further interest rate reduction that may never occur?"***

From an October 4, 2019 article:

In early September (2019), Apple, Deere and Disney took advantage of the drop in rates to ***issue 30-year debt with a sub-3% interest rate.***

Microsoft

"As of June 30, 2019, we had ***no commercial paper [short-term debt] issued or outstanding."***

"As of June 30, 2019, the total carrying value and estimated fair value of our long-term debt, including the current portion, were $72.2 billion and $78.9 billion, respectively."

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Companies ditch commercial paper [Short-term debt] to ***lock in longer-term debt***
(Coca-Cola, PepsiCo and Pfizer among groups ***reducing reliance on short-term funding***)
May 24, 2020

"Commercial paper [short-term debt] *has lost its fizz.* ***Dozens of blue-chip companies****, including Coca-Cola and PepsiCo, which have long relied on the market to raise cash,* ***are paying off tens of billions of borrowing in favor of new longer-term facilities.***

Along with the two beverage giants, pharmaceutical group Pfizer, theme park operator Walt Disney and cigarette maker Philip Morris International ***have issued longer-term debt to pay off commercial paper (CP) borrowing*** **[short-term debt].**

Disney, which raised $11 billion through bond markets in May and had $8.5 billion of Commercial Paper outstanding in late March, said it had judged it ***"appropriate to term out some debt given the attractive level of rates and the uncertainty that remains in the financial markets given Covid-19."***

The sharp drop in US Treasury yields has also encouraged companies to shift from CP, which has maturities of up to 270 days, to longer-term debt. Meghan Graper, head of US investment-grade syndicate at Barclays, noted that several companies that have refinanced CP ***have secured record-low costs of borrowing in the bond market.***

From "The Benefits of Long-Term vs. Short-Term Financing"

*"****Limits Company's Exposure to Interest Rate Risk*** *–* ***Long-term, fixed-rate financing minimizes the refinancing risk that comes with shorter-term debt maturities****, due to its fixed interest rate, thus decreasing a company's interest rate and balance sheet risk."*

All that being said, Ordinance 2020-65 (allowing for the issuance of one-year notes) is also still on the August Legislative Agenda just in case the long-term debt market gets upended when the City has to issue new debt securities this fall.

This two-pronged approach gives the City options and the maximum flexibility to make the best decision at that time based on municipal debt market conditions existing this fall. If current conditions remain stable and prevail on into the fall, it would be anticipated that the City will lock in these historic and attractive low, long-term interest rates.