City of Dublin

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Memo

To: Members of Dublin City Council

From: Dana McDaniel, City Manager

Date: February 22, 2022

Initiated By: Matthew L. Stiffler, Director of Finance

Re: 2022 Debt Financing Discussion

Background

In March, staff will be bringing forward for Council's consideration a number of ordinances regarding the issuance of debt. This memo will outline some considerations for Council in order to direct staff regarding the number and content of those ordinances.

Refunding 2012 Various Purpose Bonds

A total of $2.63 million in various purpose bonds is callable on June 1, 2022. Staff and the City's Municipal Advisor, BakerTilly, have discussed refunding this debt to reduce future interest related expenditures as per the City's Debt Policy. The estimated savings from a refunding of this debt are between 4.1% if issued as a standalone debt offering and 7.8% if combined with 2022 Capital Improvements Plan (CIP) debt financed projects, representing an estimated savings of $113,991.85 and $199,964.08 in today's dollars as shown in the following tables. These savings exceed the policy guidelines outlined in the City's Debt Policy highlighted below.

Recommendation

Based on the policy guidance provided by the City's Debt Policy and the potential savings for refunding the outstanding bonds, staff recommend proceeding with an ordinance to authorize the refunding of the 2012 various purpose bonds.

§ 35.123 REFUNDING DEBT.

There are two types of refundings, as defined by federal tax laws; a current refunding in which a refunding takes place within 90 days of the optional call date; and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date. Tax-exempt advance refundings were eliminated as part of the 2017 Tax Cut and Jobs Act. Previously, federal regulations permitted issuers to advance refund an issue of bonds only once during the life of the issue. Regulations do not restrict the number of times that debt can be refinanced on a current basis, and the city will consider reducing its minimum savings threshold for current refunding issues. The city will evaluate refunding proposals and financing structures that create savings or other financial benefits on a case by case basis. The city will consider refunding its debt obligations when it can be clearly demonstrated that such refunding will result in present value savings of 3% to 5% of the debt being refinanced. However, in certain circumstances, lower savings thresholds may be justified.

(Ord. 31-16, passed 9-12-16; Am. Ord. 37-19, passed 8-26-19)

Savings for the Refunding as a Stand-Alone Debt Offering

PV Analysis Summary (Gross to Gross)	
Gross PV Debt Service Savings	108,642.11
Contingency or Rounding Amount	5,349.74
Net Present Value Benefit	$113,991.85
Net PV Benefit / $2,805,000 Refunded Principal	4.064%
Net PV Benefit / $2,630,000 Refunding Principal	4.334%
DV01	1,655.60
Refunding Bond Information	
Refunding Dated Date	5/10/2022
Refunding Delivery Date	5/10/2022

Savings for the Refunding in Combination with other Debt Financed Projects included in the 2022-2026 Capital Improvements Program

PV Analysis Summary (Gross to Gross)	
Gross PV Debt Service Savings	195,662.03
Contingency or Rounding Amount	4,302.05
Net Present Value Benefit	$199,964.08
Net PV Benefit / $2,805,000 Refunded Principal	7.129%
Net PV Benefit / $2,555,000 Refunding Principal	7.826%
DV01	1,607.30
Refunding Bond Information	
Refunding Dated Date	5/10/2022
Refunding Delivery Date	5/10/2022

Riverside Crossing Park

As per the prior direction given to staff by City Council on September 14, 2020, the final determination regarding the financing of $5.7 million for the 2021 phase of Riverside Crossing Park has not been determined. Construction in 2021 was funded through an advance from the General Fund.

Reimbursement Period

Staff has been engaged in conversations with the City's Bond Counsel regarding the Internal Revenue Service regulations governing the issuance of non-taxable debt. Based on those conversations, the City's reimbursement period for issuing non-taxable debt related to this project ends on March 1, 2023. In order to meet this timeline, Council will need to make a final determination regarding the financing of this project no later than November 2022.

Defer Final Determination

The benefit of continuing to defer this final determination is that the City may have additional

information related to the impact of remote work on the City's income tax revenues. By gathering additional information and having a better understanding of the full impact of the pandemic and remote work on the City's revenues, the Council will have the most information available to make a determination in the best interest of the City. The potential downside is that inflationary pressure could lead to continued increases in interest rates that further increase interest expenditures over the 20 year debt term as compared to September 2020 when the first financing discussion occurred.

Additionally, while the IRS regulations would allow this decision to be deferred until November, deferring this decision until after the completion of the 2023 – 2027 Capital Improvements Program will require the debt service associated with this project to be considered when drafting that plan. This means that potentially $456,000 annually in income tax backed debt service would be programmed as part of that CIP that may not be needed and would otherwise be available for cash funded capital projects. Staff would recommend that to avoid this issue, Council provide final direction regarding this project's funding no later than July.

Finally, should a determination to debt finance this project occur, it would likely need to be financed through a short term debt issuance and then later combined into a longer issuance. This is worth noting as the City has traditionally not utilized short term financing but would likely need to do so in this case and there is some additional cost related to this additional step.

Proceeding with Debt Financing

Should Council decide to proceed with debt financing at this time, the City would still be able to finance the project at rates that are very attractive by historical standards. Additionally, the Park's location in the Bridget Street District makes the repayment of this debt service an eligible use of tax increment financing (TIF) revenues for the TIF districts located in Bridge Street area. The estimated annual debt service on $5.7 million over a 20 year level term is $456,000. When the debt proceeds are received the General Fund balance would increase by $5.7 million and the City's debt profile would be similarly increased. This debt issuance would be in compliance with the City's General Fund Balance and Debt Policy.

Proceeding with Cash Financing

Should Council decide to proceed with cash financing at this time, the 2021 advances between the Funds would be amended to create a transfer between the General Fund and the Capital Construction Fund. The General Fund would see an increase in revenues and expenditures of $5.7 million in 2022 but no net change in fund balance. The City's debt profile would not be increased. Cash financing would be in compliance with the City's General Fund Balance and Debt Policy.

Recommendation

Staff recommended funding this project with debt in September 2020. Because of the potential ability to utilize future Bridge Street District TIF revenues to repay this debt and interest rates that remain at very low levels by historical standards that remains an attractive option. Based on the City's current Fiscal Health, particularly the current General Fund Balance of 57.3% at the end of 2021, which includes the cash financing (though the prior advance) of this park, finalizing a decision to cash finance the project at this time, or later in 2022, is also a reasonable option available to Council.