<u>TOWNSHIP OF LOWER MERION</u>
Finance Committee
<u>Issue Briefing</u>

Topic: 2019 Bond Issuance

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Date: March 1, 2019

I. Action To Be Considered By The Board:

Adoption of a resolution authorizing the Township to engage its financial advisor and bond counsel to pursue current refunding opportunities that achieve debt service savings in tandem with the issuance of new debt to support the Capital Improvement Plan.

II. Why This Issue Requires Board Consideration:

The Board of Commissioners must approve the resolution in order for Township staff and the professional advisors to be authorized to proceed with the bond transaction.

III. Current Policy Or Practice (If Applicable):

Township staff have been working with Dan Kozloff, Township Financial Advisor (Public Financial Management, Inc. ("PFM")) and George Magnatta and Silvia Shin, Township Bond Counsel (Saul Ewing Arnstein & Lehr (Saul Ewing)) to discuss opportunities to refund outstanding Township debt and generate debt service savings. The Series A&B of 2014 Bonds are currently callable and have been preliminarily evaluated by PFM and Saul Ewing to determine tax status (ability to refund), potential savings and bank qualified status. The Township's stated metric to assess a bond refunding is that the Net Present Value (NPV) savings (net of all issuance costs) should be at least 3% of the total refunded par amount. Preliminary analysis (subject to market changes) shows a NPV of approximately 3.8% and overall debt service savings of nearly $335,000.

The Township currently has $2.8 million remaining to fund Capital Improvement Program (CIP) expenditures (including funds transferred from the General and Sewer Funds last year). These funds are currently projected to be depleted during the third quarter of 2019. Therefore, if the Township is going to proceed with a refunding bond issue in the near future, it makes financial sense to pair the refunding with a new money issue to fund the Township's anticipated needs for the CIP in 2019 and potentially into 2020. Based on current cash flow projections, $9-$10 million in new money would be sufficient for the remainder of 2019 and likely provide funding into 2020 given that capital project spending is frequently elongated with delayed starts and expenditures. The Adopted 2019 Budget does not include any additional transfers from the General Fund or Sewer Fund to support the Capital Projects Fund.

The Township has historically sold many of its bonds as Bank Qualified (BQ) bonds. The Internal Revenue Service code provides for special tax treatment that allows a bank to deduct 80% of the carrying cost of tax-exempt bonds issued by qualified small issuers (issuers that issue $10 million or less of bonds in any given calendar year. As a result, the BQ bonds are attractive to banks, which provides a greater demand and typically lower overall borrowing costs to the issuer (such as the

Township) as compared to non-BQ bonds. Based on the current market, PFM estimates that non BQ bonds are pricing approximately 5 to 10 basis points (0.05% - 0.10%) higher than BQ bonds (dependent on market conditions and overall levels of interest rates). In the past the demand for BQ bonds was higher as was the spread between BQ and non-BQ bonds; however, recent tax reform legislation has lessened the demand for BQ bonds.

The Township and its professional advisors have developed a draft financing schedule for the bond sale and have analyzed the potential paths for the refunding to discern the most financial advantageous approach. Due to the nature of the refunding and tax implications, the refunding and new money issuance must be done separately to achieve BQ status. Therefore, the Township is planning to issue Series A Refunding Bonds on May 8th and will issue Series B New Money Bonds on June 5th. The Township and its professional advisors recommend that the Township borrow up to $10.0 million to fund the 2019 CIP and up to $10.0 million to refund outstanding debt.

IV. Other Relevant Background Information:

PFM has proposed a fee of $25,000 for the new money bond issue and a fee of $25,000 for the refunding bond issue plus expense reimbursements at a maximum of $500 per bond issuance. In addition, the refunding may require the procurement of an escrow and related securities. Saul Ewing has proposed a fee of $14,780 for the new money bond issue and a fee of $16,860 for the refunding bond issue plus expense reimbursements at a maximum of $1,200 per bond issuance.

All fee proposals are consistent with the contract renewals recently approved by the Board of Commissioners in December.

V. Impact On Township Finances:

Current analysis shows refunding opportunities in excess of the Township's 3% NPV goal as outlined in the Township's Debt Management Policy. While the split issuance will incur additional administrative and issuance costs, the BQ interest rates should equate to less overall future debt service costs.

VI. Staff Recommendation:

Staff recommends the resolution be approved at the March 20, 2019, Board of Commissioners meeting to authorize the Township's staff, Financial Advisor and Bond Counsel to proceed with the necessary actions for the refunding and new money bond issuance.