

Aiken City Council MinutesWORK SESSION

June 8, 2020

Present: Mayor Osbon, Councilmembers Brohl, Diggs, Girardeau, Gregory, Price and Woltz.

Others Present: Stuart Bedenbaugh, Gary Smith, Kim Abney, Sara Ridout, Charles Barranco, Gary Meadows, Angela Hales, Kym Wheat, Ryan Bland, Mike Przybylowicz, Lex Kirkland, Tim O'Briant, Jessica Campbell, and Shiann Sivell of the Aiken Standard.

The work session was held in the Council Chambers at 214 Park Avenue SW; however, the number of citizens that could attend at one time was limited to 22 persons because of the COVID-19 virus and social distancing. City staff was in another room in the building.

CALL TO ORDER

Mayor Osbon called the work session of June 8, 2020, to order at 5:44 P.M. He said it was good to see everyone in person as meetings had been being held remotely by Zoom because of the COVID-19 virus pandemic. Mayor Osbon stated the item regarding recycling had been removed from the agenda and would be on the June 22 agenda. He said the item to discuss is the refinancing of the Public Safety Building Revenue Bond.

PRESENTATIONRefinance Public Safety Building Revenue Bond

Mr. Bedenbaugh stated the city executed an agreement in November, 2018, for Revenue Bonds to pay for the new Public Safety Building on Beaufort Street. We received an interest rate of 3.75% roughly with a 20-year term. Since interest rates have dropped since November, 2018, staff felt that Council may want to consider refinancing the bonds, keeping the same term. We are approximately two years into the 20-year term. We would continue the term and potentially get a lower interest rate and save money. He pointed out that we have David Cheatwood, our Financial Advisor from First Tryon, and Bond Attorney, Gary Pope, on the line to join us electronically to discuss the possibility of refinancing the bonds.

Mr. David Cheatwood, of First Tryon Advisors, stated he wanted to talk to Council about a potential refinancing opportunity for the city. Mr. Cheatwood reviewed a Summary of Outstanding Debt as of June 30, 2020, for the City of Aiken. He said the slide shows a snapshot of where the city is from the debt perspective. He pointed out that bonds were issued for a Series 2018 Installment Purchase Revenue Bond to fund the purchase of the new public safety facility on Beaufort Street. The interest rate is roughly 3.8% on that bond now, which was issued in 2018. He pointed out the slide also shows the other revenue bonds that the city has outstanding for water and sewer and stormwater.

Mr. Cheatwood stated the 2018 IPRB was closed in November, 2018, and the city purchased the Public Safety facility shortly thereafter. He pointed out that the financing was bid out, with the option selected for a loan from BB&T, now Truist. The interest rate from their bid was 3.74% which would be held steady through December 1, 2033. For the first 15 years of the 20-year financing, the interest rate would be 3.74%. They had an interest rate reset provision for the last five years and the loan could be reset on the 15 year date up to a maximum of 4%. When we look at the current rate, we have to make an assumption on what the reset would be. He said in looking at the reset, we are looking at 3.75% to 3.80% range for the current interest rate on the bonds. He said that was a very good proposal at the time; it was a good market rate, and the best rate that the city got. However, since November, 2018, interest rates have gone down. They went down most of 2019 for a variety of reasons. 2019 was a very good year in terms of lower interest rates. That continued in the start of 2020. In March when the coronavirus crises began we saw interest rates really fluctuate and bounce around. Once they settled down, they

have mostly gone lower. The Fed's action has driven interest rates lower. Tax exempt rates have fallen with that, so we are in an interest environment now where the City could potentially refund the 2018 bonds despite the fact that only about 18 months have passed and potentially get some good savings.

On the next slide, Mr. Cheatwood, pointed out an estimate of the debt savings that the City could realize. He said he was using an estimated interest rate on what the City could get on a new financing year. He pointed out that the City is still 18 years from final maturity so the lenders that will lend on a fixed rate basis for 18 years is small. He said he had got some rate indications from those different banks. He noted that between now and when bank bids could be received in a few weeks and we can proceed along this course, the market will continue to fluctuate. He pointed out that in terms of where an estimate is today, if the City were to refinance those bonds, the City would realize in Net PV Savings of approximately \$658,723. Converting that into a percentage of the refunded par amount, you would save approximately 7.73% in terms of the savings divided by the refunded par amount of \$8.5 million. From a cash flow standpoint, which is probably the most helpful for the City to think about, you would see around \$44,000 to \$45,000 per year in terms of debt service savings.

Mr. Cheatwood stated if the City were to proceed down this path, there are a couple of steps involved. City Council would have two readings of an ordinance which Gary Pope would draft. It would reference some supplemental agreements that the City has entered into with Aiken Public Facilities Corporation, the issuer of the bonds in 2018, and would be the issuer of the refunding bonds. The City and the Corporation have entered into various agreements so you would supplement those, but to effect this refunding City Council would have two readings of an ordinance. Mr. Cheatwood noted a proposed schedule for the process. He said if Council has first reading of an ordinance on June 22 to refinance the bonds, there could be second reading of the ordinance on July 13. In order to get the proposals in we would send out a request for proposals to a list of local, regional and national banks to come in on July 13. If second reading of the ordinance is on July 13, he would not be estimating savings but would be able to say what the banks rates were at that time. At second reading the City would know what the rates would be. Then we could potentially close a couple of weeks later.

Mr. Cheatwood stated the savings that are quoted would be net of all fees that would be associated with the refinancing. He pointed out there is \$8,517,000 outstanding. The reason we are able to refinance these bonds for savings is that those bonds are prepayable. You can refinance those at any time. There is no call period. There is a 1% prepayment penalty. That is 1% of the par amount outstanding. The City would pay \$85,000 as a prepayment fee. However, that is phased into the savings. The savings quoted are the net of any fees associated with the refunding process as well as the prepayment fee. The City would still be able to get a good quality savings.

Mr. Cheatwood stated if the market turns and rates start to rise by the time we get the bids back on July 13, and the rates are such that we don't really like the savings and want to wait for better days, there is nothing which says the City has to move forward and accept the proposal and close the refunding bonds. The choice would be at Council's discretion. If Council likes what the savings are, then they could go forward, but if things change Council does not have to move forward with the refinancing.

There was a question as to what the cost would be to do the conversion. Mr. Cheatwood stated there would be a prepayment fee of \$85,000 that would go to the BB&T. Then there would be the cost of issuance which would be legal fees, Gary Pope, and First Tryon fees as FA, bank review of the documents, and potentially the bank would want title insurance. He said he had an estimate of an additional \$85,000 for that fee in addition to the \$85,000 prepayment fee. The total cost of fees would be about \$170,000.

Mr. Cheatwood stated there are several ways to show the savings. What is shown on the presentation is what is called level annual savings. Whatever the total savings are, you take the same amount divided by the remaining term. That is the most traditional way to show the savings. The City still has the overall debt service structure level on these bonds. There is a level payment each year. He also pointed out that the bonds are paid

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from a portion of the franchise fee. That is where the City would see the benefit in terms of savings assuming the City continues to pay the fees. The fees are not pledged. The City has the ability to use other funds to repay the bonds if they want to. At this time use of the franchise fee is the plan to repay the bonds.

There was a question as to whether the estimated savings of \$840,000 took into consideration the \$170,000 cost for prepayment and other legal fees. Mr. Cheatwood stated that takes the fees into account. The legal costs and the prepayment fees are included in the savings.

Mr. Bedenbaugh stated he wanted direction from Council as to whether they felt comfortable with proceeding with requesting bids and holding first reading of an ordinance to refinance the bonds on June 22 with second reading on July 13. There would be no obligation to pass the ordinance on second reading if the interest rates and savings are not what Council wants.

Councilmembers briefly discussed the proposal. It was the general consensus of the Council that the City should move forward with receiving bids for the refinancing of the bonds and that first reading of the ordinance should be held on June 22 and second reading of the ordinance on July 13 if the bids are acceptable.

EXECUTIVE SESSION

Mayor Osbon stated he would like for Council to go into executive session. He said Council needs to go into Executive Session pursuant to Section 30-4-70(a)(2) to discuss negotiations incident to a proposed contractual arrangement and proposed purchase of property and discussion of a person regulated by City Council. Specifically, City Council will discuss a proposed contractual arrangement with the owners of real estate regarding the possible purchase and/or acquisition of land in the City of Aiken and a possible contractual arrangement with the City Manager.

Councilwoman Brohl moved, seconded by Councilwoman Gregory, that Council go into executive session to discuss the matters stated by Mayor Osbon. The motion was unanimously approved. Council went into executive session at 6:02 P.M.

After discussion, Councilwoman Diggs moved, seconded by Councilman Woltz, that Council come out of executive session. The motion was unanimously approved.

Council came out of executive session at 6:55 P.M.


Sara B. Ridout
City Clerk