



## **COBURG CITY COUNCIL ISSUE ITEM**

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**TOPIC: Ordinance A-251, An Ordinance Authorizing the City of Coburg to Refinance Outstanding Loans, Providing for Related Matters, and Declaring an Emergency.**

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**Meeting Date: October 13, 2020**  
**Staff Contact: Tim Gaines, Finance Director**  
**Contact: 541-682-7870, tim.gaines@ci.coburg.or.us**

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### **SUGGESTED COUNCIL ACTION**

**Authorize Ordinance A-251, to Refinance Outstanding Loans, Providing for Related Matters, and Declaring an Emergency.**

"I move that the Council adopt Ordinance A-251, An Ordinance Authorizing the City of Coburg to Refinance Outstanding Loans, Providing for Related Matters, and Declaring an Emergency.

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### **COUNCIL GOALS**

**Improve Financial Position**

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### **BACKGROUND**

The City currently has eight long term loans. There are two loans for the Water Fund, five loans for the Sewer Fund and a loan for the purchase of our current City Hall. The City has maintained a relationship with Matt Donahue from D.A. Davidson over the last few years and was contacted by Matt D about looking at the possibility of refinancing these loans to take advantage of the low interest rates in the current market. Staff has been working with Matt to provide some different options should we decide to go forward with refinancing.

In addition, the City reached out to our current funders and a similar funder in an informal RFP to ask for what they could offer the City in a refinance.

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## **OPTIONS**

### **DEQ Option**

The DEQ only has the option to refinance the three Sewer loans only and no other loans. The interest rate offered is 1.40% with a 0.50% Loan Fee. If we were to do this option, it would a savings of approximately \$933,000.

### **Summit Bank Option**

Summit Bank has the ability to refinance City Hall only. They gave us three options that all had a floor rate of 3.63%. This is the highest rate of any of the quotes and it has a maximum length of fifteen years.

### **Institutional Bond Network Option**

Institutional Bond Network does not get involved in underwriting, only post issuance investing of proceeds and cannot help us with any of our loans.

### **D.A Davidson Option**

**Scenario A:** We would refinance all current long-term debt with a bond sale through D.A. Davidson. If the City receives a rating of AA- from S & P Global, the savings to the City would be approximately \$1.73 million. If the City receives a rating of A+ from S & P Global, the savings to the City would be approximately \$1.23 million.

**Scenario B:** We would refinance the three current sewer loans with DEQ. We would refinance the remainder of all long-term debt through a bond sale with D.A. Davidson. If the City receives a rating of A+ from S & P Global, the savings to the City would be reduced to approximately \$950,000. However, when combined with the saving from the DEQ, the City would have an overall savings of \$1.88 million. The City does not have an estimate for this scenario if we were to receive a rating from S & P Global of AA- at this point in time.

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## **ANALYSIS**

In scenarios A, the City would realize a savings of \$1.88 million. If we consider doing this, we would not have a savings on the City Hall loan. The City Hall loan would actually have a negative effect on the overall computation. However, we would have savings on all the other long-term loans. In this scenario, we would be gaining a very favorable term and interest rate for the City Hall loan. The City also eliminates a balloon payment of \$480,812.

In scenario B the City would have an overall savings of \$1.88 million.

## **FULL FAITH AND CREDIT**

Refinancing all loans through a bond will require that that the City finance with Full Faith and Credit. This means that the City pledges all assets of the City as collateral for the loans.

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## **FINANCE/AUDIT COMMITTEE RECOMMENDATIONS**

The City had a Finance/Audit Committee meeting on September 15, 2020. After discussion of the different scenarios, both staff and the committee recommend Scenario A, refinancing all current long-term loans with a Full Faith and Credit bond. This will relieve some of the financial burden from the Water and Sewer funds. It also locks the City into a very low interest rate for the City Hall loan, and the City avoids a balloon payment of over \$480,812 in February of 2024. Due to legal recommendation that the City consider getting informal bids for other options, we went out to our existing loan holders as well as the Institutional Bond Network. The Finance/Audit Committee did not have the option to view the DEQ offer. The Summit Bank offer is not an acceptable offer and the Institutional Bond Network did not present the City with options.

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## **S & P GLOBAL RATINGS**

The City is undergoing a S & P Global rating based upon historic, financial current and future projections. This rating affects the savings to the City for any bond market transaction. For example, if the City receives an A+ Rating then the best option is to refinance the DEQ loans with DEQ and refinance all other long-term loans with the bond market through D.A. Davidson. If the City receives an AA- Rating, then the best option would most likely be to refinance all current long-term loans with the bond market through D.A. Davidson.

## **RECOMMENDATION AND ALTERNATIVES**

- Council has the option to choose which scenario they would like to go with and to adopt Ordinance A-251.
- Council may decide to empower staff to move forward with the scenario that realizes the greatest savings to the City based upon the S & P Global rating. This can also be accomplished by adopting the ordinance.
- To not adopt the ordinance and all long-term debt will remain as is.

Staff recommends that the council consider empowering the staff to move forward with the scenario that provides the greatest savings to the City.

## **BUDGET / FINANCIAL IMPACT**

The budget impact of refinancing the City loans will be a long-term savings of up to approximately \$1.88 million depending on which scenario is chosen.

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## **PUBLIC NOTICE/INVOLVEMENT**

N/A

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## **NEXT STEPS**

- Review and approval of preliminary official statement (disclosure document for investors).
- Complete credit rating application (hour long conference call included).

- Sale of pricing of obligations, approval of interest rates and terms.
  - Pre-closing (execution and signature of closing documents).
  - Closing - confirmation of fund delivery and release of the obligations.
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## **ATTACHMENTS**

A. Ordinance A-251

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### **REVIEWED THROUGH:**

Anne Heath, City Administrator

Sammy Egbert, City Recorder

## **ORDINANCE A-251**

### **AN ORDINANCE AUTHORIZING THE CITY OF COBURG TO REFINANCE OUTSTANDING LOANS, PROVIDING FOR RELATED MATTERS, AND DECLARING AN EMERGENCY**

**WHEREAS**, the City is authorized by Oregon Revised Statutes Section 271.390 to enter into financing agreements to finance or refinance real or personal property which the City Council determines is needed, and to authorize obligations evidencing the right to receive the payments due from the City under those financing agreements; and

**WHEREAS**, the estimated weighted average life of a financing agreement shall not exceed the estimated dollar weighted average life of the real or personal property to be financed or refinanced by such financing agreement; and

**WHEREAS**, the City is also authorized by ORS 287A.360 to 287A.380 to refund outstanding borrowings; and

**WHEREAS**, the City has a number of loans outstanding (the "Outstanding Loans"), including:

Clean Water State Revolving Fund Loan Agreement No. R. 23041 that financed wastewater system improvements,

Clean Water State Revolving Fund Loan Agreement No. R. 23042 that financed wastewater system improvements,

Clean Water State Revolving Fund Loan Agreement No. R. 23044 that financed wastewater system improvements,

Infrastructure Finance Authority Loan B01003 that financed water system improvements,

Infrastructure Finance Authority Loan G01001 that financed water system improvements,

Summit Bank Loan No 607600 that financed the purchase of property,

USDA Wastewater Revenue Bond No. 1 that financed wastewater system improvements,  
and

USDA Wastewater Revenue Bond No. 2 that financed wastewater system improvements.

**WHEREAS**, under current market conditions refunding all or a portion of the Outstanding Loans may produce debt service savings.

**THE CITY OF COBURG ORDAINS AS FOLLOWS:**

**1. FINANCING AUTHORIZED.**

The City Council hereby authorizes the issuance of full faith and credit financing agreements to refund all or any portion of the Outstanding Loans. The financing agreements authorized by this Section shall be executed and sold pursuant to ORS 271.390, ORS 287A.360 through 287A.380 and the other relevant provisions of ORS Chapter 287A and as provided in this resolution. The financing agreements may be issued in an amount sufficient to prepay the portions of the Outstanding Loans that are being refinanced and to pay estimated costs related to the refunding and the financing agreements.

**SECTION 2. DETERMINATION OF NEED.**

The City Council hereby determines that the projects being refinanced were needed at the time they were financed and that they remain needed.

**SECTION 3. DELEGATION.**

The City Administrator, the Finance Director, or the person designated by the City Administrator to act on behalf of the City under this Ordinance (each of whom is referred to herein as a "City Official") is hereby authorized, on behalf of the City and without further action by the City Council, to:

- a. Negotiate, execute and deliver one or more financing agreements (the "Financing Agreements") to accomplish the financing authorized in Section 1. Subject to the limitations of this Ordinance, the Financing Agreements may be in such form and contain such terms as the City Official may approve.
- b. Negotiate, execute and deliver one or more escrow agreements or similar documents (the "Escrow Agreements") that provide for the issuance of one or more series of "full faith and credit obligations" (the "Obligations") that represent ownership interests in the principal and interest payments due from the City under the Financing Agreements. Subject to the limitations of this Ordinance, the Escrow Agreements and each series of Obligations may be in such form and contain such terms as the City Official may approve.
- c. Deem final and authorize the distribution of a preliminary official statement for each series of Obligations and authorize the preparation and distribution of a final official statement or other disclosure document for each series of Obligations.
- d. Undertake to provide continuing disclosure for each series of Obligations in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.
- e. Apply for ratings for each series of Obligations, determine whether to purchase municipal bond insurance or obtain other forms of credit enhancements for each series of Obligations, enter into agreements with the providers of credit enhancement, and execute and deliver related documents.

- f. Enter into additional covenants for the benefit of the purchasers of the Obligations which the City Official determines are desirable to obtain more favorable terms for the Financing Agreements.
- g. File any required advance refunding plans with the State of Oregon.
- h. Appoint and enter into agreements with service providers whose services are desirable for the financing, including municipal advisors, verification agents and escrow agents to accomplish the refunding.
- i. Determine what portions of the Outstanding Loans to refund; call, prepay, and fund escrow deposit accounts for the Outstanding Loans and take any other action necessary or desirable to accomplish the prepayment of the Outstanding Loans.
- j. Determine the final principal amount of each Financing Agreement, the interest rate or rates which each Financing Agreement shall bear, the City's prepayment rights and other terms of each Financing Agreement and each series of Obligations.
- k. Solicit bids from potential lenders or underwriters, select the lenders or underwriters providing the most favorable terms to the City and enter into agreements with those entities.
- l. Issue any qualifying Financing Agreement as a "tax-exempt bond" bearing interest that is excludable from gross income under the Internal Revenue Code of 1986, as amended, (the "Code") and enter into covenants to maintain the excludability of interest on those Financing Agreements from gross income under the Code.
- m. If federal law changes to allow federal tax credits, federal interest rate subsidies or other federal benefits for any Financing Agreements, issue any qualifying Financing Agreement as a "tax credit bond," "federal subsidy bond" or other obligation that is eligible for federal tax credits, federal interest rate subsidies or other federal benefits, and enter into any covenants and take any actions that are required to qualify for those federal benefits.
- n. Issue any Financing Agreement as a "taxable bond" bearing interest that is includable in gross income under the Code.
- o. Designate any qualifying Financing Agreement as a "qualified tax-exempt obligation" pursuant to Section 265(b)(3) of the Code, if applicable.
- p. Execute and deliver any other certificates or documents and take any other actions which the City Official determines are desirable to carry out this Ordinance.

#### **SECTION 4. SECURITY**

The Financing Agreements may constitute unconditional obligations of the City, which are payable from all legally available funds of the City. The City Official may pledge the City's full

faith and credit and taxing power within the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution pursuant to ORS 287A.315.

**SECTION 5. EMERGENCY DECLARED**

Whereas, it is necessary for the general welfare of the citizens of the City of Coburg that the City refinance its outstanding loans while interest rates are at a historic low level, an emergency is hereby declared to exist, and this Ordinance shall take effect immediately upon its passage by the City

**ADOPTED** by the **City Council** of the **City of Coburg**, this 13th day of October 2020, by a vote of \_\_\_\_ for and \_\_\_\_ against,

**APPROVED** by the **Mayor** of the City of Coburg this 13th day of October 2020.

\_\_\_\_\_  
Ray Smith, Mayor

ATTEST:

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Sammy L. Egbert, City Recorder