



OFFICE OF THE CLERK/TREASURER

City of Burlington

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TO: Mayor Miro Weinberger, Board of Finance, and City Council

FROM: Rich Goodwin, Assistant Chief Administrative Officer - Finance

DATE: November 22, 2013

RE: Wastewater Refinance

In the late 1980's the Wastewater Division completed work for the abatement of combined sewer overflows, and upgraded the City's North, East, and Main wastewater treatment facilities. The financing included two loans the first balloon payment was paid in December 2010, and the second balloon payment of \$14,570,520 is due January 1, 2014. This large balloon payment prompted us to seek to refinance.

On August 9, 2013, Bob Rusten and Rich Goodwin met with Beth Pierce, State Treasurer, to discuss the option of refinancing the Wastewater Bond due on January 1, 2014. Beth Pierce is one of the Board of Directors with the Vermont Municipal Bond Bank. The Bond Bank has a mandate to provide municipalities with access to capital markets at the lowest possible cost.

To be eligible to participate, each applicant must obtain local bond counsel opinion and financial audit. In addition, the City had to demonstrate that our Enterprise Funds are segregated, that we have a good strong financial plan, that our liquidity has improved, and that we have reduced our reliance on short-term debt.

After this meeting, we received feedback that they would grant us the opportunity to submit an application.

Collectively, Laurie Adams and I worked to prepare the application. I want to thank Laurie for her hard work, and tremendous efforts to help pull this financing deal together. Her knowledge and expertise of the original finance deal, insight, and knowledge of the Wastewater operation was invaluable.

Our application demonstrated a solid profit and loss statement, the ability to fund reserves, and cash flows adequate to meet the debt coverage ratios required from the Vermont Municipal Bond Bank.

Why did we finance through the Bond Bank?

- Lower interest rates: The Bond Bank's experience, credit rating and recognition in the capital market result in the best rates.
- Cost of Issuance: the Bond bank includes the cost of issuance in its bonds.
- Credit enhancement & security: the Bond Bank is currently rated AA+ by S&P and Aa2 by Moody's.
- The City of Burlington's current credit rating assigned by Moody's is a Baa3, with an outlook negative.
- The credit rating spread between the VMB and the City of Burlington is a minimum of 200 basis points, or 2% over the life of the loan.

The interest rate on this loan is estimated to be 4.2%. A competitive bid on the market that would likely result in an interest rate of 6.2% or greater. This refinance will conservatively save \$4.5 million in interest expenditures over the life of the loan.

We received approval for the loan from the Vermont Municipal Bank. On November 20, 2013, the Board of Public Works Commissioners of the City of Burlington authorized the issuance of revenue refunding bonds in a principal amount not to exceed \$15,500,000. The Board deemed the issuance of revenue bonds to be in the

public interest. We will seek approval from Board of Finance and City Council prior to the issuance of these bonds in January.