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SPECIAL MEETING OF THE BOARD OF FINANCE THURSDAY, APRIL 18, 2013

MINUTES

PRESENT: Mayor Weinberger; City Council President Shannon; Councilors Decelles, Knodell and Bushor

ALSO PRESENT: Interim CAO Sisson; Thomas Melloni, Burak, Anderson, Melloni

1. Agenda

On a motion by City Council President Shannon and Councilor Bushor the agenda was adopted unanimously as presented.

2. Public Forum

No one came forward to speak.

3. Authorization of Pricing of Fiscal Stability Bonds – C/T

Mayor Weinberger stated they are pleased with the results of the last few days. The interest rate environment has remained strong. Investors continue to see the strengths of Burlington despite the issues they have faced.

Interim CAO Sisson stated the markets have been stable. He spoke with the investment person from Penn Mutual. He was familiar with Burlington and this played to their advantage. They discussed the issues and he committed. They had to make some adjustments throughout the negotiations. They had to change to a make-whole call instead of a ten-year call which saves 12.5 basis points. The bonds are serial bonds and will mature at different times throughout the term. Giving up the ten-year call to obtain that investor was in the best interests of the City. They now have a make-whole call which means there would be a penalty if they were to pay those bonds off early. Penn Mutual was not going to invest if it were a ten-year call.

Councilor Bushor stated sometimes they have chosen to refinance and in doing so they pay off one debt. She inquired what the penalty would be if they did that. Interim CAO Sisson stated they would pay the present value of the interest beyond the date of the call. He does not think they would be here tonight if they had not made that concession.

Councilor Decelles inquired if they were to refinance, would they have to pay an additional \$4.5 million. Interim CAO Sisson stated if they had a ten-year call, they would have paid off \$5.250 million. There are three serial bonds with amounts due each year. The nearer term bonds have a lower coupon rate and the longer term bonds have a higher coupon rate. The ten-year call would have been first exercisable in 2023 at which point there will only be \$3.750 million outstanding. That amount evolved and was necessary to obtain the anchor investor. Penn Mutual only owns the 2023 and 2028 bonds.

Councilor Knodell inquired what the purpose of the vote will be. Interim CAO Sisson stated they will be approving the terms of the deal and the sale. Thomas Melloni, Burak, Anderson, and Melloni, stated that the City Council approved issuance of the bonds subject to voter and Board of Finance approval. Interim CAO Sisson stated they typically do not have the pricing until just before the sale. Councilor Knodell inquired if they have already committed to this sale. Mr. Melloni stated the commitment is that they are sold but until it is approved by Board of Finance it is not effective. Interim CAO Sisson stated he has not signed the Bond Purchase Agreement because he needs Board of Finance approval first. Councilor Knodell stated the rate seems good. She would have liked to discuss the total amount, as they authorized up to \$9 million. They have a line of credit from Key Bank with an interest rate of appx. 2.5%. She inquired if they feel they really need the full \$9 million. It is their responsibility to look after the interest costs that they are asking the taxpayers for. Interim CAO Sisson stated the big issue Moody's has pointed to is their liquidity. Mayor Weinberger stated they have one shot to do this without incurring additional costs. The City is trying to get away from short-term borrowing as much as possible. The nature of the bond market makes it difficult to go back and forth. They are doing this at a time with historically low interest rates and while they are in a position to do this. In the event they got additional money, there are other debts that they could pay off.

Councilor Bushor stated that she understands that they chose to go to the market for the full amount. Her understanding is that they will pay 3.5% interest for the first five years, 3.62% and then 5.2%. The last five years have the highest interest. She inquired if it would have been okay to say that they have the authority to borrow \$9 million but only borrow \$5.2 million at a better rate, then go back to the market later for the remaining amount. Mayor Weinberger stated they are trying to get themselves out of the debt that is causing them to use short-term borrowings. They need to move further out of this liquidity situation and borrowing and paying off the \$9 million will increase unassigned fund balance over the repayment period. It is common practice to pay a higher rate for the longer term borrowings because there is more risk. They sized the bond at the smallest amount they could to address the problem. Interim CAO Sisson stated it is more cost efficient to proceed in this way.

Councilor Knodell inquired where they are with pooled cash and the unassigned fund balances. Interim CAO Sisson stated that information is not available at the current time as a result of the New World Conversion. They did provide that information prior to the election, but it was not redistributed. Mayor Weinberger stated they chose \$9 million knowing that they will be increasing the Water and Wastewater rates. They started with \$25 million of unassigned fund balance. They backed away from that number by considering the surpluses they have and projections of getting rid of other debts to reach the \$9 million number. Councilor Knodell inquired if they had flexibility about the term length. Interim CAO Sisson stated that was presented to the voters. Mr. Melloni stated the existing short-term rates are variable and may change based on market conditions. They are also less than one year commitments so the lender may choose whether or not to renew them. These interest rates are locked in for the full 15 years. The short-term borrowing is structured as tax exempt while these are taxable. This allows more flexibility and will be used to establish reserves and allow more liquidity. The City's financial advisors have indicated that institutional investors are more attracted to larger borrowings. Councilor Knodell stated they will not know if this is the right amount until after the fact. Interim CAO Sisson stated they also need to consider the overall liquidity risk. If they could not renew their Tax Anticipation Notes each year, they would have a liquidity crisis. Mayor Weinberger

stated that there are interest costs associated with continued short term borrowings.

City Council President Shannon stated the voters were presented with an amount of up to \$9 million. She inquired if the Council approved the same thing and if they were not able to sell all of the bonds could they do the bonding at all. Interim CAO Sisson stated they would have faced a difficult decision if they were not fully sold by today. City Council President Shannon stated if it were just about interest rates she would think that they could stick to short term borrowing, the purpose of this is to address liquidity issues raised by the Auditors and Moody's and will work towards improving the City's credit rating and stability.

Councilor Bushor and City Council President Shannon made a motion to approve the rates for the sale of the bond.

Councilor Decelles requested clarification about the resolution. Mr. Melloni stated the resolution authorizes \$9 million in principle amount for taxable General Obligation Bonds. There are three bonds. The first is for \$2.750 million at a 3.5% interest and will mature in 2018. The second is for \$2.5 million, has a rate of 4.625% and will mature in 2023. The third is for \$3.75 million, has a 5.25% interest rate, and will mature in 2028. Each has yearly serial payments that will be applied to the principle. These payments are scheduled out to avoid balloon payments. The resolution authorizes the Mayor and CAO to sign all of the necessary documents. Councilor Decelles inquired how much cash the City is actually getting. Mr. Melloni stated the City will receive \$8,927,122.50 because of the underwriter discount and an original issue discount.

Councilor Knodell inquired if they could have used a combination of a smaller issuance with a line of credit to achieve their goal. Councilor Decelles stated he never thought this was the best course of action, but the voters did approve it. Councilor Knodell stated the voters approved up to \$9 million and she wants to ensure they have evaluated alternatives. This is just one course of action that they could pursue. The administration needs to prove that this is the best option. Mayor Weinberger stated that the most acute financial issue the City faces is a lack of cash. They sized the bond as small as they could and went to the voters so as to not overly burden them. The cost is right what they told the voters it would be. They have told the Council that they have been pursuing this, and this is the first time he heard that they would have liked to see something smaller. It was not intended to be a surprise. This is a responsible move and will dramatically improve the City's position. The decision on the size of the bond was made long ago.

City Council President Shannon stated this issue was not raised prior to tonight. When the Council approved this going forward, there was no discussion that it should be for a lesser amount. They used 'up to' \$9 million in case they could not sell bonds in that amount. They then charged the Board of Finance with approving the pricing, not the amount of the bonds. Discussion about borrowing a different amount should have happened at the City Council level, not at the pricing stage. The voters and Council both approved the amount; the Board of Finance's responsibility is to look at pricing.

Councilor Knodell inquired how they know 5% is a good rate. Mr. Melloni stated the City's financial advisor indicated it is a good rate based on the market. Interim CAO Sisson he was pleased that the net interest costs came in around 5%.

Councilor Bushor stated there has been hesitation about whether or not this was the only way to

go. What she is hearing is that people like to explore options and understand the financial impacts to ensure they are getting the best deal. Doing that results in a better process. The administration has the advantage of having looked at the options.

The motion passed by a vote of 4-1 with Councilor Knodell voting against on the grounds that she lacked sufficient information for the need for the full \$9 million.

Without objection, Mayor Weinberger adjourned the Board of Finance meeting at 5:32pm.