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BOARD OF FINANCE
WEDNESDAY, SEPTEMBER 11, 2013

MINUTES

PRESENT: Mayor Weinberger; City Council President Shannon, Councilors Bushor, Knodell, and Aubin; CAO Rusten

ALSO PRESENT: Councilor Paul, ACAO Goodwin, Norm Baldwin, DPW, Thomas Melloni, Burak, Anderson, and Melloni

1. Agenda

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

2. Public Forum

Martha Lang, Ward 1 Resident, spoke about the School Department's proposed real estate transaction.

3. Authorization for Creation of DPW Capital Improvement Program Manager Position – HR

Councilors Bushor and Knodell made a motion to approve the creation of the position.

Mayor Weinberger stated they have a $2 million per year capital budget but they struggle to make those investments. They will dedicate someone to focus on what investments will be made. They have now gone through the process of scoring the position and creating the job description.

Councilor Knodell inquired why the position is classified as limited service. Norm Baldwin, DPW, stated they thought they would see how the position goes for the first fiscal year. Councilor Knodell inquired if it is possible if this will be a longer term job. Mr. Baldwin stated it is very possible.

The motion passed unanimously.

4. Authorization for $7 Million General Obligation Bond – C/T

Mayor Weinberger stated this money is for capital improvements and repairs, the School Department, and the Burlington Electric Department.

Thomas Melloni, Burak, Anderson, and Melloni, stated the City Charter provides authority for City Council to approve annual borrowing for capital improvements and repairs, the School Department, and the Burlington Electric Department. In June, the City Council authorized the Chief Administrative Officer to issue those bonds with approval from the Board of Finance. Since that time they have worked to create an official statement of the City. Piper Jaffrey will be the underwriter. These are serial bonds that will come due in November of 2014, 2015, and 2016. There is a term bond that will come due in 2023 with annual principle payments. The final 20 year bond will come due in 2033 and will also have annual payments. Interest rates are at 4% for the earlier bonds, 6.5% for the 10 year bond, and 6.75% for the 20 year bond. The bonds at the 6.75% interest rate can be redeemed by the City in 2016. The thought process was that the City needed to have a higher interest rate in order to sell these bonds, but this will give the City an opportunity to improve its credit rating and refund the bonds for a possible lower interest rate.

Councilor Knodell inquired which bonds can be redeemed. Mr. Melloni stated the 20 year bonds maturing in 2033. City Council President Shannon inquired if they will have the opportunity to keep the current rate if the market is not favorable in 2016. Mr. Melloni stated they can keep the lower interest rate. They would pay a portion in each year beginning in 2017. If the City's credit rating improves, they will have the opportunity to refinance if they can get a lower interest rate. The City has historically done a bond issuance each year as part of the capital authorization under the Charter.

Councilor Bushor inquired what the rationale is between the 10 and 20 year bonds, as the 10 year bond is half a percent less. Mr. Melloni stated the 2033 bonds can be redeemed after 10 years. ACAO Goodwin stated the packet contains a chart showing the worst case scenario of rates. The interest rate over the life of the loan is 5.5%. City Council President Shannon inquired how that rate was determined. Mr. Melloni stated they could get a lower rate if the City elected to refund the bond in 2016. City Council President Shannon inquired if the worst case scenario would be if they were not able to refund the bond in 2016, their credit rating may not have improved, or interested rates might be up. ACAO Goodwin stated if the City had a AAA rating, they would expect the rate to be about 3%. This deal is structured to give them the opportunity to refinance and lock into a potentially lower rate. They borrow annually and they may have an opportunity to package this with another deal. They budgeted for an interest rate of 5.5%. Mr. Melloni stated interest rates have gone up since the City issued Fiscal Stability Bonds. The City of Detroit's bankruptcy has also had an impact on the market.

Councilor Bushor inquired about the reasoning for the distribution of money in the serial bonds. She inquired why the interest rates are so much lower in the smaller, shorter term bonds. ACAO Goodwin stated the way the deal is structured is not typical of how they have done it in the past. They received no interest in doing the deal at 6.5% for the total amount for the full term. They had to get creative and structure the deal differently. They will have the opportunity to capitalize on refinancing in the early years. This deal is structured through the expertise of their financial advisors. Mayor Weinberger stated rates are higher than they were a few months ago. This is the deal that they had and not many deals came forward. There is no immediate budget impact, and they will be able to plan for the future. A major goal is to improve the City's credit rating.

A member of the audience, Councilor Paul noted how their credit rating is affecting their borrowings. ACAO Goodwin stated they had a small window of time to examine the bids and determine which was structured the best. This is a good deal based on market conditions and the rating of the City. They should move forward with this deal and have a small window of time.

City Council President Shannon and Councilor Knodell made a motion to approve the bonds. The motion passed unanimously.

Without objection, Mayor Weinberger adjourned the Board of Finance meeting at 5:27pm.