



REQUEST FOR BOARD ACTION

ITEM NO. 11.

DATE OF MEETING: August 6, 2012

REQUESTED BY: Michael Mack, Utilities Director/Claiburn B. Watson, Finance Officer

SHORT TITLE: Resolution Authorizing Initial Approval for a Plan to Refinance County Water and Sewer Districts Outstanding Bonds

BACKGROUND: The County Utilities Director, Finance Officer and Bond Counsel have been working at least since the beginning of this year to find a way to refinance some of the County water and sewer districts bonds currently held by USDA. These bonds have interest rates ranging from 4.25% all the way up to 5.75% on the Maple Hill bond. Bond market interest rates have been at very low levels, and so it has seemed clear there are savings to be had from refinancing these bonds. Also, since the existing bonds have very long repayment periods, we have thought there could also be savings available from shortening those repayment periods.

We have looked at a number of possible ways to carry out these refinancings. We have been unable to come up with an effective way for the Districts to refinance their bonds directly, either through a bank-loan refinancing or a public offering. We examined an alternative for a bank-loan refinancing and a public bond offering. The bank-loan alternative currently does not work because the banks seem uncomfortable with the credit profile of the Districts. The County's plan is always for the District's finances to run on a very tight margin – the County only wants the customer charges to be able to cover the applicable debt service and operating expenses. The banks are generally looking for an operation that operates with a higher safety margin, and have been unpersuaded by our arguments that the Districts have the ability to produce higher margins if they need to – for example, by levying property taxes in the District. Similarly, the credit profiles of the Districts make them poor candidates to borrow directly in the public markets, as (on their own) they would be unlikely to obtain the kind of bond rating that would allow for an economical refinancing. Finally, the small remaining amount of Maple Hill bonds (approximately \$230,000) makes it uneconomical to proceed to refinance that bond on its own.

As we continued to explore this issue, we were in contact with a representative of the investment banking firm Robert W. Baird & Co., who suggested an alternative that appears to solve the problem. Under this financing plan, the Districts will issue their refunding bonds to the County. The County will generate funds to buy those bonds by borrowing money itself. The Districts bonds and the County financing will be set up so that the amounts paid on the Districts bonds – which will now take advantage of lower borrowing rates – will be sufficient to pay off the County's financing. Since the County's Board of Commissioners constitutes the governing body of the Districts, the County Board has substantial power to ensure that sufficient amounts are generated within the Districts to pay the Districts bonds and then, in turn, the County financing.

The County's financing will take the form of an installment financing under General Statute 160A-20 that features the use of "limited obligation bonds." The County's repayment obligation will be split into pieces that are sold off to investors. Baird will have the role of working with the County to structure the financing, and then to sell the County bonds to investors. Baird's fee would be payable between the price paid to the County and the price paid by the investors.

The amount of savings provided by this refinancing is subject to market conditions at the time of the bond sale, and in part based on how the County chooses to structure the repayment. We have seen estimates – from more than one analysis – that puts the cumulative savings near or even over \$4.5 million and the present value savings near or even over \$1.5 million.

I would not expect this County borrowing to have any effect on the County's ability to borrow money in the future. Investors and rating agencies generally distinguish between debt serviced by general fund revenues (such as property tax revenues) and debt serviced through enterprise revenues, and this debt will continue to be serviced by the water and sewer system revenues. Also, we do not expect that this financing arrangement would have any adverse effect on the County's ability to obtain USDA financing for possible future projects in the Central Pender and Moore's Creek Districts.

The first step in the financing process would be for the Board to adopt the accompanying resolution. This resolution provides preliminary approval and authorizes staff to proceed, and also makes the "findings of fact" that the Local Government Commission wants to see in support of an application to the Local Government Commission. If the Board provides for preliminary approval to proceed, we will have a public hearing later on the financing plan, and a subsequent resolution from the Commissioners to provide final approval of financing terms and documents. We would expect to have the public hearing in late August, and to close on the refinancing by the end of October.

SPECIFIC ACTION REQUESTED: To consider the preliminary determination to finance up to \$25,000,000 to carry out the refinancing of the Water and Sewer Districts water bonds. Specifically, this resolution provides for the following finding of fact:

1. The proposed project is necessary and appropriate for the County under all the circumstances. The financing arrangements will allow the County to provide debt service savings to the Districts and their customers without additional burden on the County's own finances.
2. The proposed installment financing is preferable to a bond issue for the same purposes. The County has no meaningful ability to issue non-voted general obligation bonds for this project. This project will produce no revenues that could be used to support a self-liquidating financing. The County expects that in the current interest rate environment for municipal securities that there would be no material difference in interest rates between general obligation bonds and installment financings for this project.

In addition, the County will soon issue voter-approved bonds for County water projects, and it is appropriate for the County to balance its capital finance program between voter-approved bonds and installment financing.

3. The estimated sums to fall due under the proposed financing contract are adequate and not excessive for the proposed purpose. The County will closely review proposed

financing rates against market rates with guidance from the LGC. As noted above, the amount financed will be limited to the amount necessary to provide for the refinancing and to pay financing costs.

4. As confirmed by the County's Finance Officer, (i) the County's debt management procedures and policies are sound and in compliance with law, and (ii) the County is not in default under any of its debt service obligations.
5. The County expects that there will be no increases in taxes necessary to meet debt obligations under the proposed financing arrangements. The financing plan contemplates that debt service will continue to be paid from user charges paid by customers in the Districts.
6. The County Attorney is of the opinion that the proposed project is authorized by law and is a purpose for which public funds of the County may be expended pursuant to the Constitution and laws of North Carolina.

COUNTY MANAGER'S RECOMMENDATION

Respectfully recommend approval.



Initial

RESOLUTION

NOW, THEREFORE BE IT RESOLVED by the Pender County Board of Commissioners that:

the attached Resolution hereby provides for the County's ability to finance up to \$25,000,000 to carry out the refinancing of the Water and Sewer Districts outstanding water bonds.

The Chairman/County Manager is authorized to execute any/all documents necessary to implement this resolution.

MOVED _____ SECONDED _____

APPROVED _____ DENIED _____ UNANIMOUS _____

YEA VOTES: Brown ___ Tate ___ Rivenbark ___ Ward ___ Williams ___

George R. Brown, Chairman 08/06/12
Date

ATTEST 08/06/12
Date

Resolution Providing Initial Approval for a Plan To Refinance County Water District Bonds

WHEREAS --

The County's Maple Hill and Rocky Point-Topsail Water and Sewer Districts have outstanding bonds currently held by the United States – Rural Utilities Service. County staff has determined that refinancing all or a portion of these bonds could provide substantial savings to the County, the Districts and the customers in the Districts.

The refinancing plan calls for the County to purchase refunding bonds from the District, and for the County to generate funds to purchase the bonds through an installment financing as authorized under Section 160A-20 of the North Carolina General Statutes. Payments from the customers in the Districts will continue to be the source of repayment for the financings.

Under the guidelines of the North Carolina Local Government Commission, this Board must make certain findings of fact to support the County's application for the LGC's required approval of the County's proposed financing arrangements.

THEREFORE, BE IT RESOLVED by the Board of Commissioners of Pender County, North Carolina, that the County makes a preliminary determination to finance up to \$25,000,000 to carry out the refinancing of District water bonds.

The Board will determine the final amount to be financed by a later resolution. The final amount financed will probably be somewhat lower than \$25,000,000 – the amount will in any event be limited to the amount necessary to provide for the refinancing and to pay financing costs. The current outstanding principal balance of the District bonds is approximately \$23,400,000.

BE IT FURTHER RESOLVED that the Board of Commissioners makes the following findings of fact:

(a) The proposed project is necessary and appropriate for the County under all the circumstances. The financing arrangements will allow the County to provide debt service savings to the Districts and their customers without additional burden on the County's own finances.

(b) The proposed installment financing is preferable to a bond issue for the same purposes.

The County has no meaningful ability to issue non-voted general obligation bonds for this project. This project will produce no revenues that could be used to support a self-liquidating financing. The County expects that in the current interest rate environment for municipal securities that there would be no material difference in interest rates between general obligation bonds and installment financings for this project.

In addition, the County will soon issue voter-approved bonds for County water projects, and it is appropriate for the County to balance its capital finance program between voter-approved bonds and installment financing.

(c) The estimated sums to fall due under the proposed financing contract are adequate and not excessive for the proposed purpose. The County will closely review proposed financing rates against market rates with guidance from the LGC. As noted above, the amount financed will be limited to the amount necessary to provide for the refinancing and to pay financing costs.

(d) As confirmed by the County's Finance Officer, (i) the County's debt management procedures and policies are sound and in compliance with law, and (ii) the County is not in default under any of its debt service obligations.

(e) The County expects that there will be no increases in taxes necessary to meet debt obligations under the proposed financing arrangements. The financing plan contemplates that debt service will continue to be paid from user charges paid by customers in the Districts.

(f) The County Attorney is of the opinion that the proposed project is authorized by law and is a purpose for which public funds of the County may be expended pursuant to the Constitution and laws of North Carolina.

BE IT FURTHER RESOLVED as follows:

(a) The County intends that the adoption of this resolution will be a declaration of the County's official intent to reimburse project expenditures from financing proceeds. The County intends that funds that have been advanced for project costs, or which may be so advanced, from the County's general fund, or any other County fund, may be reimbursed from the financing proceeds.

(b) The Board will hold a public hearing on this matter. The County Manager is authorized to set the date and time of the hearing, and (as Board Clerk) to provide for notice of the hearing to be published as provided by law.

(c) The Finance Officer is directed to take all appropriate steps toward the completion of the financing, including completing an application to the LGC for its approval of the proposed financing. The Finance Officer is authorized to arrange for Robert W. Baird & Co. to provide investment banking and underwriting services to the County in connection with the financing plan.

(d) All County representatives are authorized to proceed with the refinancing transaction described in this resolution, subject to subsequent final approval by this Board.

(e) All prior actions of County representatives in furtherance of the transactions contemplated by this resolution are ratified.

(f) This resolution takes effect immediately.

I certify as follows: that the foregoing resolution was properly adopted at a meeting of the Board of Commissioners of Pender County, North Carolina; that such meeting was properly called and held on August 6, 2012; that a quorum was present and acting throughout such meeting; and that such resolution has not been modified or amended, and remains in full effect as of today.

Dated this ____ day of August, 2012.

[SEAL]

Michael N. Duvall
Clerk, Board of Commissioners
Pender County, North Carolina