



# **DEBT RESTRUCTURING RECOMMENDATION FOR FALL 2019**

City of Franklin, Tennessee  
Board of Mayor & Aldermen  
Work Session  
September 10, 2019

# AGENDA

- Overview & Refinancing Recommendation for
  - \$20,000,000 Series 2007 Public Building Authority Bonds
  - \$15,725,000 Series 2010 Taxable Recovery Bonds
- Financing Schedule

# OVERVIEW OF 2007 SERIES 101-A-1 ISSUED BY PUBLIC BUILDING AUTHORITY

Original Issue Date	January 25, 2007
Debt Outstanding	\$20,000,000
Principal Payment Dates	Annually from 2025 - 2037
Loan Holder	PNC Bank
Interest Rate	Estimated future annual rate as of 6/1/2019: 4.17%
Loan Mandatory Tender Date with PNC Bank (refinance)	December 11, 2019
Interest Rate Swap	Expires 2037 with FMS Wertmanagement , German government owned successor to original counterparty Depfa Bank

# 2007 PBA BONDS REFINANCING CONSIDERATIONS

- Involves terminating swap and refinancing bonds as traditional fixed rate debt under the “City of Franklin” name
- Eliminate risks associated with the swap and LIBOR based variable rate debt
- Restructure principal payment schedule to begin principal payment sooner than originally scheduled
- PBA will no longer serve as an active conduit issuer for the City’s general obligation credit

# SUMMARY OF REFINANCING RECOMMENDATION FOR 2007 PBA BONDS

	<b>Description: Terminate Swap, Refinance as Fixed Rate and Restructure Principal</b>
Est. Interest Rate of Tax Exempt Refunding Bonds as of August 2019	1.90% (Net Interest Cost)
Fair Market Value of Swap Termination	(\$5,763,390) as of August 2019
First Principal Payment Date	6/1/2022 (earlier than 2025 original first principal date)
Final Principal Payment Date	6/1/2032 (earlier than 2037 original final principal date)
Cash Contribution towards Swap Termination	Appropriate \$2.5 million FY 2020 from General Fund fund balance
Future considerations	1) Eliminates exposure to 12/31/2021 LIBOR sunset & future plans of swap counterparty 2) Reallocate property tax revenue beginning FY 2022 to amortize principal earlier & faster

# OVERVIEW OF SERIES 2010 RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS (“RZEDBS”)

Original Issue Date	July 7, 2010
Debt Outstanding	\$15,725,000
Principal Payment Dates	Annually from 2024 - 2030
Description	Federally Taxable with Subsidy
Interest Rate	Fixed Rate with Average Coupon of 5.13% (2.95% net of subsidy)
Call Date	March 1, 2020
Refunding Options	May be advance refunded from taxable to tax exempt bonds

# SERIES 2010 RECOVERY BOND REFINANCING CONSIDERATIONS

- Involves advance refunding the Series 2010 Bonds into traditional fixed rate tax exempt debt
- Eliminate risk associated with future federal appropriation of the interest subsidy for taxable bonds issued during the ARRA (Recovery Act) period of 2009-2010. Ex. Sequestration reduced the subsidy by 5.9%
- City may restructure principal payment schedule
- Opportunity to lock-in lower fixed tax exempt rates in current low interest rate bond market

# REFINANCING RECOMMENDATION FOR 2010 RECOVERY BONDS

	<b>Description: Refinance Subsidized Taxable Bonds as Fixed Rate Tax Exempt Bonds</b>
Est. Interest Rate as of August 2019	1.50% (Net Interest Cost)
First Principal Payment Date	3/1/2022 (earlier than 2024 original first principal date)
Final Principal Payment Date	3/1/2030
Future Considerations	1) Eliminates risk of future federal government subsidies 2) Allows for earlier payment of principal in 2022 & 2023



# STAFF RECOMMENDATION

- Refinance and restructure principal payments for the 2007 PBA Bonds and the 2010 Recovery Bonds under the City of Franklin General Obligation credit, which in the current bond market has estimated debt service savings of \$2.6 million.
- Terminate the interest rate swap associated with the 2007 PBA Bonds. Appropriate \$2.5 million in FY 2020 to reduce the amount to be financed.
- Reallocate property tax dollars of approx. \$1 million to debt service repayment beginning in FY 2022.
- Shorten the final maturity of the original 2007 PBA Bonds from 2037 to 2032. Maintain final amortization of 2030 for original 2010 Recovery Bonds.
- Begin paying principal earlier for both issues in 2022.

# SCHEDULE

- September 2019
  - Receive approval from Comptroller's Office of the Plan of Refunding
  - 9/12/2019 Budget & Finance consideration of 1<sup>st</sup> Quarter FY 2020 Budget Amendment to partially fund swap termination with \$2.5 million from fund balance
  - 9/24/2019 BOMA consideration of Bond Resolution to refinance the 2007 and 2010 Bonds and Terminate 2007 Swap
- October 2019
  - Prepare offering documents and request bond ratings
  - Meeting of the PBA to approve swap termination and refinancing
- November 2019
  - Adoption of 1<sup>st</sup> Quarter FY 2020 Budget Amendment
  - Competitive pricing of Series 2019 GO Refunding Bonds to establish fixed interest rates
  - Closing at end of November