

**To the Mayor and Members of the City Council****June 7, 2016**

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**SUBJECT: FINAL RESULTS OF 2016 BOND ISSUES AND REFUNDINGS**

This informal report is intended to provide the Mayor and City Council with a summary of the results from our 2016 bond sales, which were completed on Wednesday, May 25, 2016. The sales details of the General Obligation bonds and the revenue bonds of the Water and Sewer System and of the Stormwater (Drainage Utility) system are presented below.

**Background**

At a Pre-Council briefing on April 5<sup>th</sup>, staff presented the proposed 2016 debt financings, including new money issues and refundings. All of the City's proposed issuances this year included refunding existing debt to take advantage of current market conditions to produce savings. The issuance of new debt to generate funds for improvement occurred in alignment with our existing capital improvement plans for the 2014 Bond Program and the Water and Sewer System.

On May 17th, the Mayor and Council approved three bond ordinances authorizing the sale of General Purpose Refunding and Improvement Bonds, Series 2016; Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2016; and Drainage Utility System Revenue Refunding bonds, Series 2016. All three ordinances included parameters which required specific savings to be realized in order for the sales of refunding debt to be consummated.

The City offered the debt utilizing a competitive sale process with the assistance of our co-financial advisors, FirstSouthwest, a Division of Hilltop Securities Inc. and Estrada Hinojosa & Co. Results of the bond pricings are highlighted on the following pages.

**Overview of Pricing Comparables**

The City's General Purpose issue (AA+/Aa2/AA+) priced better than our Drainage (AA+/AA+) and Water and Sewer System (AA+/Aa1/AA) issues. In addition, the City's General Purpose issue with an average life of 9.210 years and a True Interest Cost (TIC) of 2.38% and the Drainage issue with an average life of 9.955 years and a TIC of 2.48% priced better than a recent City of Denton certificate of obligation deal that was rated AA+/AA+ with an average life of 14.823 years and a TIC of 2.99%. The City's General Purpose issue also priced very similarly to a recent City of Denton General Obligation issue that was rated AA+/AA+ with an average life of 9.479 years and a TIC of 2.34%. Both the City's General Obligation and Drainage deals also priced very close to an Alamo Community College District deal rated AAA/Aaa with an average life of 9.887 years and a TIC of 2.82%.

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**General Obligation Debt**

These bonds were sold for the following purposes:

- 1.) To fund voter authorized projects from the 2014 Bond Program;
- 2.) To refinance the City’s existing Parking obligations for debt service savings; and
- 3.) To refinance portions of the City’s existing tax supported bonds for debt service savings.

Bids were received from seven firms. The chart below depicts the firm and the associated true interest cost:

<u>Firm</u>	<u>TIC</u>
Morgan Stanley & Co, LLC	2.3802%
Citigroup Global Markets Inc.	2.4205%
Bank of America Merrill Lynch	2.4229%
J.P. Morgan Securities LLC	2.4469%
Wells Fargo Bank, National Association	2.4629%
RBC Capital Markets	2.4895%
Goldman, Sachs & Co.	2.5177%

**Morgan Stanley & Co, LLC was the winning bid.**

A summary of the final results compared to the original estimates is provided below:

<b>Summary of Financing Results</b>	<b>April 5th Work Session</b>	<b>Final Results</b>	<b>Parameters</b>
Total Issue Size	\$165,200,000	\$164,945,000	Not to Exceed \$200,000,000
Voted Amount	\$103,000,000	\$103,000,000	Not to Exceed \$110,000,000
Refunding Amount	\$62,200,000	\$61,945,000	
True Interest Cost	2.79%	2.38%	
Total Debt Service Savings	\$14,869,498	\$17,473,231	
Net Present Value (PV) Savings	\$9,634,575	\$13,102,091	

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PV Savings as % of Refunded Principal	11.94%	16.24%	At least 3.50%
PV Savings for GO Debt	\$3,324,982	\$4,828,005	
PV Savings for Parking Debt	\$6,309,593	\$8,274,086	

**Water & Sewer System Debt**

The purposes of these bonds are:

1. To fund System Improvements; and
2. To refinance a portion of the System’s outstanding debt for debt service savings.

Bids were received from nine firms. The chart below depicts the firm and the associated true interest cost:

<u>Firm</u>	<u>TIC</u>
Wells Fargo Bank, National Association	2.8144%
Citigroup Global Markets Inc.	2.8374%
Bank of America Merrill Lynch	2.8565%
Morgan Stanley & Co, LLC	2.8734%
RBC Capital Markets	2.8752%
J.P. Morgan Securities LLC	2.8982%
Hutchinson, Shockey, Erley & Co.	2.9142%
Robert W. Baird & Co., Inc.	2.9216%
Goldman, Sachs & Co.	2.9789%

**Wells Fargo Bank, National Association was the winning bid.**

A summary of the final results compared to the original estimates is provided below:

<b>Summary of Financing Results</b>	<b>April 5th Work Session</b>	<b>Final Results</b>	<b>Parameters</b>
Total Issue Size	\$77,050,000	\$75,890,000	Not to Exceed \$90,000,000
New Money	\$50,000,000	\$50,000,000	Not to Exceed \$50,000,000
True Interest Cost	3.25%	2.81%	

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Total Debt Service Savings	\$1,466,835	\$1,982,807	
Net Present Value (PV) Savings	\$1,232,782	\$1,823,612	
PV Savings as % of Refunded Principal	3.59%	5.31%	More Than 3.00%

**Drainage System (Stormwater) Debt**

The City sold a total of \$17,505,000 to refinance portions of the System’s outstanding debt for debt service savings.

Bids were received from eight firms. The chart below depicts the firm and the associated true interest cost:

<u>Firms</u>	<u>TIC</u>
Frost Bank	2.4828%
Hutchinson, Shockey, Erley & Co.	2.4954%
J.P. Morgan Securities LLC	2.5345%
Citigroup Global Markets Inc.	2.5523%
Robert W. Baird & Co., Inc.	2.5526%
RBC Capital Markets	2.5652%
Wells Fargo Bank, National Association	2.6756%
Goldman, Sachs & Co.	2.7181%

**Frost Bank was the winning bid.**

A summary of the final results compared to the original estimates is provided below:

<b>Summary of Financing Results</b>	<b>April 5th Work Session</b>	<b>Final Results</b>	<b>Parameters</b>
Total Issue Size	\$16,615,000	\$17,505,000	Not to Exceed \$19,610,000
True Interest Cost	2.86%	2.48%	
Total Debt Service Savings	\$3,478,255	\$4,178,825	

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Net Present Value (PV) Savings	\$2,709,618	\$3,355,880	
PV Savings as % of Refunded Principal	14.65%	18.14%	No less than 3.50%

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517.

**David Cooke**  
**City Manager**