

EAST BETHEL CITY COUNCIL SPECIAL MEETING

June 24, 2013

The East Bethel City Council met on June 24, 2013 at 6:30 PM for a special meeting at City Hall.

MEMBERS PRESENT: Bob DeRoche Ron Koller Heidi Moegerle
 Tom Ronning

MEMBERS EXCUSED: Richard Lawrence

ALSO PRESENT: Jack Davis, City Administrator

Call to Order **The June 24, 2013 City Council special meeting was called to order by Acting Mayor Moegerle at 6:30 PM.**

Adopt Agenda **Moegerle made a motion to adopt the June 24, 2013 City Council special meeting agenda. Koller seconded; all in favor, motion carries.**

G.O.
Refinancing
Bond
Parameter
Resolution

Davis explained that the East Bethel City Council rejected the bids for the 2010 A & B G.O. Bond Refinancing at the June 19, 2013 City Council Meeting. The bids were rejected due to a negative savings that would be produced as a result of approval of the sale to the low bidder for the refinancing issuance.

Todd Hagen with Ehlers spoke to the Council and recommended meeting with the low bidder, Mesirow Financial, to determine if a better rate could be negotiated. If this is the preference of Council and if a change in rates can be achieved, a Bonding Parameters Resolution would need to be approved to expedite the process of locking in a pre-approved rate/savings. As seen from the time sensitive nature of bond rates over the last five weeks, the immediate authorization of a negotiated rate is essential to secure the ability to guarantee the agreement.

The Bond Parameter resolution would provide this flexibility. The resolution would authorize the Mayor and the City Administrator to approve the sale of bonds and to execute a bond purchase agreement for the sale in an aggregate principal amount of (to be determined by City Council) and provided the true interest cost does not exceed (to be determined by City Council), provide the savings produced in the years 2014 through 2018 averages a rate (to be determined by City Council) and the overall savings exceeds a rate (to be determined City Council).

Upon approval of the sale of bonds by the Mayor and the City Administrator, the City Council would take action at its next regularly scheduled meeting to adopt the necessary approving resolutions as prepared by the City's Bond Counsel. Should the bond purchasing agreement fail to be executed, the Bond Parameter Resolution would expire on a date (to be determined by City Council).

The enactment of this resolution would be based on City Council's pre-approval of the parameters of an acceptable savings proposal and allow the agreement to be implemented in the time frame necessary to lock in the rates necessary to achieve the terms defined by City Council. Stacie Kvilvang, Ehlers and Associates is here from Ehlers to present scenarios and options of the term of the bond parameter resolution and an update on the potential for negotiating a reduction in the bid rates and other options in terms of refinancing either the A or B bonds.

Kvilvang, "As you have heard, the market isn't any better this week, than it was last week. So, obviously, we did have you reject all the bids, and your options to move forward are we can look to negotiate with the lowest responsible bidder we had at the time, with some new parameters that will work for you as a Council. You don't necessarily have to make your decision tonight. It

is not easy, not black and white moving forward.”

“There are a couple options before you to look at. There was the 2010A and 2010B Bonds. One was a Recovery Zone Bond and one was a Build America Bond. The Build America bonds have a bigger interest reduction payment of 45% and the Recovery Zone Bonds have a reduction payment of 35%. Most of your savings would come from the larger interest rebate that was out there. One of the options we can look at is to split those out and just look at doing the Build America Bonds which would then be considered bank qualified. It would be about \$6,000,000 that you would be looking at reissuing for those. The Recovery Zones are about \$11,000,000 bonds. When we combined them, we were at about an \$18,000,000 bond. When we combined them it was really kind of a non-issue, we would go to the market and see good rates, until the market kind of fell apart. So now we are looking at options to try and meet your goals that you have. Your options that you have are you could just sit there and leave the Recovery Zone Bonds, and not move forward and do anything and leave them as is.”

“Second option is you could look to negotiate with the underwriter that had the lowest bid to see if we can get some parameters that work for you. And if we do that, some parameters that would be helpful to know from you would be where you are with your temperament for these bonds. Now the initial bonds we had set up was obviously to have pretty significant savings the first five years. So, that would give you some time for development to begin and some users to come on the systems and more rates and revenue coming in to help support this. The second thought is I would assume you would like to see some savings over the term of the bonds. That can still be achieved with getting some significant savings in the first five years, but, you may have to pay additional in the last 20 years. We are kind of looking for what your threshold is for that. And, I will just assume that at the end of the day, we do want to see a positive savings.”

“It is hard to walk you through. I don’t know what significant savings means to you. Is that the first five years and then if we had to see somewhat of a loss in the last part. What is your threshold?” Moegerle, “I have a question. If we negotiated with the lowest bidder would we not have three days to post a special meeting on that? Or is this going to happen so quickly that there wouldn’t be time for a meeting?” Kvilvang, “Essentially what they want to know because the market may move quickly. So, they want to be able to move on it and who knows what will happen on day two and day three.”

DeRoche asked the City Administrator, “Isn’t that what the point of this meeting was? To set this up so we could set the parameters and you and the Mayor could move on it, and wouldn’t have to come back here?” Davis, “That is correct. And because of the volatility of the bond market now. Assuming the parameters could be met and assuming we can define what is acceptable, we can react on those immediately. I think looking at this, sometimes even a three day wait is tantamount to losing or gaining a large amount of money.” Moegerle, “What happens if tomorrow this all falls in place and the Mayor is on vacation?” Kvilvang, “You could have a committee that is made up of ‘up to so many people.’ So, it could be the Acting Mayor, the Mayor, and City Administrator. Or, if there is another specific Council Member you want to appoint that is fine.”

Ronning, “In terms of the volatility of the market, could you describe what happened today?” Kvilvang, “What we saw is rates depleted even more. But it is the quirky things of even the market last week when you had the sale. We saw some other issues that were smaller and shorter term that came in better than anticipated. So, again, it is just where investors are and what they are thinking they want to do with their long term investments. When the Feds say they are not going to be buying bonds, which cause people to react. In talking to our analysts today, their hopes are that after the holidays, things will start to settle down a little and we will be able to get a little better understanding.”

Ronning, “In terms of like a Dow, where you have a range, what happened in that regard? Is

there a range?" Kvilvang, "I haven't looked specifically at the Dow and that market. But, again, those rates have just been creeping up more and more over the last couple weeks." Some odd ones have come in at good rates and traded at a good return." Ronning, "Your experiences are different on the differences regarding the amount the bond is. Does that change the points?" Kvilvang, "Probably what affects it a little more is term. People might be more willing to invest in a shorter term."

Moegerle, "When they compare East Bethel's we can expect it to be US + something correct? And that is what we are discussing at this point, correct?" Kvilvang, "Correct." DeRoche, "According to information we had last Wednesday our rating is good for 60 days?" Kvilvang, "We confirmed it would be good for 90 days. So it is good until the middle of September."

Davis, "With our current situation, with our bond payments and our bond issuance, my question to Council is 'what are we looking for as far as savings the first four or five years? Is there a figure less than \$300,000 (which was the former savings amount the first couple of years), that you would entertain considering in your range as a parameter that could be set?'" Ronning, "If this was a law thing they would object, because you are asking a person to answer a question that they have no background to answer. For myself, it is a blank picture and then to say 'What part of the picture do you like?' Is anyone else in that position? That is like saying 'how much are you willing to pay for this car? We aren't going to show you the sticker.'"

Moegerle, "Last year our financial advisor wanted us to refinance the 2005 Public Safety Bonds. And the cost was going to be \$53,400 and so we were going to save \$131,400. So, for every dollar spent we saved \$2.50. So, I guess my thought is 'How much of a savings do we want for each dollar we spend?' Is that a valid way of looking at it?" Kvilvang, "That is a difficult way of looking at it. I get it. You are operating in a vacuum not knowing where the market is. Then again, part of tonight is to have the discussion and if it difficult to make a decision, maybe another option is we wait until after the holiday and come back and see where rates are so we can firm things up and give you some better numbers. Again, coming in with some parameters that you want to have some savings, the first five years and if you could have no negative impact that would be even greater. It is hard to quantify, because I have to go back and say you want to have \$200,000 and it make not even be achievable."

Moegerle, "What does our Financial Department staff think? You are dealing with this day to day for the next week." Pierce, "I totally understand the quandary you are in. If you have some potential savings, whether it is \$200,000 or \$300,000 total, it would be unfortunate to miss that opportunity. That is why the parameters give guidelines of when you can lock in. I would hate to see you miss that opportunity. But, to give you an idea of savings or what you should look at for savings, that is a very difficult question. What the market is going to do? Who knows? I have just as many questions as you do."

Davis, "I would like to introduce Mike Jeziorski. He is our new Fiscal Services Director. He comes to us from Centerville and I told him he would get drilled tonight. Jeziorski, "I have never run into this before. Question I have; 'Is there a cost to this opportunity?' If not, then at that point there isn't anything to lose. It would be nice to have a better idea what the parameters could be."

DeRoche, "I was thinking we were told we have about \$15,000 invested no matter what we do. And looking at the paper we were saving \$382,000 and now it is \$62,000. I don't think that is going to work." Ronning, "Food for thought that would help us, how could we look at the previous savings and an explanation of what the bond market was then and what it is now? And maybe we want to consider a percentage or something along those lines." Moegerle, "If we say 'We want to save \$1.5 million or \$2 million over the life of this loan,' does that put us in a bad bargaining position with whomever because they know our number?" Stacy, "No, I get that. You don't want to give your number. To an extent we can keep it general. We have to know what a

significant savings means to you, but try to keep it vague but somewhat definitive.”

Ronning, “I think they over-reacted and the market almost always rebounds. That is what happens.” Koller, “We don’t have a definitive number on anything, so how can we make a decision when we don’t know what the number is going to be?” Moegerle, “My number is the bare minimum we save over the life of the loan. \$1.5 million.” Kvilvang, “To get this we would have to see a significant decrease in rates. The other thing we might do is play with the call date.” Moegerle, “We have a bond from 2005, can we take advantage of our bond rating and do that one?” Kvilvang, “Unfortunately we cannot do that because when they do the rating, they are rating the bonds, not the City. That one was not being issued, so it was not rated. I know it is hard to discuss this, but maybe we should come back after the holiday and discuss this. Then we can look and say ‘Here is something more of where we think the market is going.’ I am not here to force you into anything.”

DeRoche made a motion to adjourn for two weeks. Moegerle, “Why don’t we put this on the agenda for the July 17 meeting?” Davis, “We have a work meeting for July 10th to do a budget session. We could have a special meeting on that night and discuss this. It should only take 20-30 minutes.” DeRoche, “We need to get the information prior to that. Getting the information the day of the meeting is not enough time to look through things.” Davis asked Kvilvang, “Could we get two examples, one with \$1.5 million savings and one with \$1 million savings to see what the parameters of the bond would be?” Kvilvang, “Absolutely we can provide that. But, it is hard to get numbers folks to project out. We can show what the structure would have to look like to get you there.” DeRoche, “To me a million would not be worth it.” Ronning, “To me if you break even you would even be ahead. The big fish got away. How big the next one will be?” Jeziorski, “Yes, if you are just able to break even and get away from the stipulations of these bonds, I think you would be better off too.” Davis, “What Mike is referring to is the Federal Tax Reduction. At some point they could say they aren’t going to do the tax reduction.” Moegerle, “Did you ever get a reply to your letter to the senators and congressmen?” Davis, “We sent letters to all of our senators and congressmen and no, we did not get a reply.” Ronning, “Experience tells us that they de-fund any number of things on political whims. With that in mind, there is no reason to believe they will fund or fully fund these bonds.” Davis, “We are totally at their mercy.”

Ronning seconded; all in favor, motion carries.

Adjourn

Moegerle made a motion to adjourn at 7:00 PM. Koller seconded; all in favor, motion carries.

Attest:

Wendy Warren
Deputy City Clerk