

ORDINANCE NO.

FILE OF CITY COUNCIL

BILL NO. 59 – 2018

Introduced by the Administration

SEPTEMBER 5, 2018

AN ORDINANCE

Amending the Administrative Code, Article 130.28, Financial Procedures, Stabilization Fund, by deleting section nine (9) requiring the loan which created the Stabilization Fund be paid off prior to the expiration of the fixed interest rate of the loan or within ten (10) years, whichever occurs sooner.

BE IT ORDAINED BY THE COUNCIL OF THE CITY OF ALLENTOWN:

SECTION ONE: That City Council authorizes the deletion of section nine (9) as shown below:

130. 28 STABILIZATION FUND

1. The Administration shall consolidate \$4.8 million as reserves into one fund entitled, the Stabilization Fund,
from the proceeds of the bank note authorized by Ordinance No. 14422;
2. The Stabilization Fund shall only be comprised of unreserved, undesignated reserves;
3. All transfers from the Stabilization Fund shall be upon approval of City Council, however this will not preclude the use of the funds for cash flow purposes by other City Funds during a given budget year, provided documented revenue receivables for the borrowing Fund exceed budgeted expenditures and the monies transferred, and all such borrowed monies are returned to the Stabilization Fund before the close of the applicable budget year. Transfers for cash flow purposes shall be allowed provided that they do not go beyond a fiscal year. Council shall be notified that this has occurred within seven (7) days of the "borrowing."
(14493 §1 6/10/07)
4. The annual budget documents submitted by the Mayor shall disclose the beginning and ending balance of the
Stabilization Fund for the fiscal year;
5. In addition to adopting the budget and setting the rate of taxation for the fiscal year, City Council's ordinance to
adopt a budget shall state the beginning and ending balance of the Stabilization Fund for the fiscal year;

6. Once established, the historical data of the Stabilization Fund shall be included as an appendix in all future budgets submitted by the Mayor;

7. The Mayor shall distribute copies of this ordinance to the proper officers and other personnel of the City of Allentown whose action is required to achieve the purpose of this ordinance;

8. As a part of any resolution seeking the authority of City Council to sell City owned real property, the Mayor shall include a proposed Fund distribution of monies to be received from such sale, and at least ten (10%) percent shall be committed toward repayment of this loan beginning in 2008. (14434 §1 11/7/06;14493 §1 6/10/07)

~~9. The debt incurred to create the Stabilization Fund shall be paid off prior to the expiration of the fixed interest rate of the loan or within ten (10) years, whichever occurs sooner. (14434 §1 11/7/06)~~

SECTION TWO: That this Ordinance will take effect ten (10) days after final passage.

SECTION THREE: That all Ordinances inconsistent with the above provisions are repealed to the extent of their inconsistency.

- **What Department or bureau is Bill originating from? Where did the initiative for the bill originate?**

Finance Department

- **Summary and Facts of the Bill**

This Bill revises Article 130.28 - Stabilization Fund - by deleting item number nine requiring the loan used to create the Stabilization Fund be paid off prior to the expiration of the fixed interest rate of the loan or within ten years, whichever occurs sooner.

- **Purpose – Please include the following in your explanation:**
 - **What does the Bill do – what are the specific goals/tasks the bill seek to accomplish**
 - **What are the Benefits of doing this/Down-side of doing this**
 - **How does this Bill related to the City’s Vision/Mission/Priorities**

The loan which created the Stabilization Fund was established in 2006. While the authorizing ordinance for the loan intended a full repayment of loan proceeds within ten years, the original loan documents specified a repayment term ending in 2031 and provided no legal authority to make prepayments. The loan had a fixed interest rate of more than 5 percent through 2016 and reverted to variable rates thereafter; while the variable rate could go as high as 9.4 percent, the recent low-interest environment has effectively kept that rate below 3 percent. Variable rates are now rising under the current economic environment.

Wells Fargo, the loan holder, met with City staff in 2018 to renegotiate the terms of the loan and to waive all prepayment penalties. However, the loan principal exceeds \$7 million and an immediate repayment thereof is not feasible given the City's current cash reserves. As part of the connected refunding bond proposal, the loan will be refinanced at a fixed rate of less than 4.5 percent with the same 2031 full repayment date. This plan minimizes interest rate risk and solidifies predictable debt service costs. Accordingly, the provision of the original ordinance mandating repayment of the loan by 2016 must be repealed to enable this financing to take place.

- **Financial Impact – Please include the following in your explanation:**
 - **Cost (Initial and ongoing)**
 - **Benefits (initial and ongoing)**

There is no direct financial impact as a result of this Bill. Fiscal impact will occur from the accompanying refunding bond package.

- **Funding Sources – Please include the following in your explanation:**
 - **If transferring funds, please make sure bill gives specific accounts; if appropriating funds from a grant list the agency awarding the grant.**

N/A

- **Priority status/Deadlines, if any**

This Bill updates our Administrative Code.

- **Why should Council unanimously support this bill?**

Approval of this Bill will bring Section 130.28 of the Administrative Code into compliance with the proposed bond refunding package.