



Minutes - Final

Budget and Finance Committee

Monday, February 25, 2019

6:00 PM

Council Chambers

Roll Call: Chairperson Guridy, Hendricks, Mota

**Pension Bond Refunding
Monthly Finances**

Mr. Brent Hartzell stated that this is a refunding of the 2004 Pension Obligation Bonds. He reminded Council in September when the perimeter Resolutions were brought to approve up to four bond issuance. We were going to do the issuance if it was fiscally the best interest of the city. At the time in September, we had an anticipation to save \$1 million in debt service payments immediately. The interest rate environment made it not cost effective. We are ready to go ahead with a savings of close to \$800,000. The savings we will immediately plow in the Solid Waste Loan. We would make the payment on-time. It is important to have the discussion with you.

Mr. Tom Beckett, NW Financial said nice to see you again and Happy New Year. It is two months late. We had anticipated refunding the 2004 Bonds in September. The interest rate went away from us and it doesn't make sense to refund something that doesn't save you enough money. We opted to pull that out of the 2018 financing. Markets have rallied this year. We can save about \$800,000 of present value savings if we issued it today. The Perimeter Resolution gives you entree to the markets on an expedited basis. He went over a quick summary on the 2004 Bond. They mature in 2034. He stated 6.6 percent of the outstanding 2004. They will schedule the cash flow savings in fiscal 2019 which frees up \$800,000 in your budget for other purposes. The sources and uses in financing is \$12.5 million in principal and accrued interest to the date of the redemption. He talked about the outstanding principal amortization and interest rates on the 2004 bonds. He went over the projected rates for the debt service on the 2004 bonds. Projected schedule for the new financing. The interest rates are ranging from 3.1 and 4.31 percent based on markets of now. The debt service from 2020 to 2024. It is almost identical and loaded on the refunding savings to 2019. He asked if there were any questions on the financial analysis.

Mr. Julio Guridy stated you have \$12,175,000, but then on Page 4 - \$12,685,000, and at the end of the year it is an extra \$500,000.

Mr. Tom Beckett stated that if you look at Page 4 it will show you how you get \$12.1 and \$12.6 million. You will pay approximately \$350,000 on interest accrued on the old bonds. You have to pay the interest until you redeem it and \$200,000 of financing costs, the underwriting discount and insurance. They have to run a detailed analysis when they price the bonds to justify that particular line item.

Mr. Julio Guridy asked about the total cost to do the financing.

Mr. Tom Beckett stated that it is statistically summarizing the issue. It shows you a different measurement. The most important one is the true interest costs. The all in cost money is 4.30 percent based on today's market. The financing cost adds .15 percent to your cost of money. The issue doesn't extend out more than 10 years. That's the average. The total debt service is \$17.4 million of debt service.

Mr. Brent Hartzell stated as opposed to \$18.2 million that we are currently looking at.

Mr. Tom Beckett stated that he wants to see how sensitive to changes of interest rates your savings are.

Mr. Julio Guridy stated that the idea is to put it on the market as soon as possible.

Mr. Tom Beckett stated absolutely. We have a schedule and will be talking to the Rating Agencies this week. We will be printing an offering document. The only changes were happy ones related to litigation. We will be in the market the week after and then close the beginning of April or end of March.

Mr. Brent Hartzell stated that the savings that we are expecting from the financing we will make the commitment to make the on-time third of the seven payments to the Solid Waste Fund.

Mr. Julio Guridy asked about the total amount for the Solid Waste.

Mr. Brent Hartzell stated \$643,000 and there are four more years of that.

Mr. Julio Guridy asked if there were any questions from the dais.

Mr. Courtney Robinson stated that they answered his question on the payment of the Solid Waste Loan. He stated that he is happy that Mr. Hartzell brought it to Council to try to get back on the payment schedule. He

asked if the Solicitor's office can look at the payment schedule since the city was taking one year off. He asked what they need to do to reinstate the payment schedule.

Mr. Brent Hartzell stated that is a different Ordinance dealing with the repayment schedule.

Mr. Julio Guridy asked if there were any questions from the public.

Mr. Lou Hershman asked if it is a nontaxable bond and what is the interest rate. He asked if it is based on par or discounted bonds. He asked if any of the bonds would be discounted. We always had Bond Counsel from Allentown or Lehigh Valley. He talked about Paying Agents. The banks were sitting on that money.

Mr. Tom Beckett stated that the interest rates on nontaxable bonds of the same maturity is in the three percent range. Because they are pension obligation bonds, we cannot use tax exempt financing. We have to use taxable financing. These are all par bonds. He stated that he doesn't think they are looking at doing discount bonds. That could change.

Mr. Lou Hershman asked if they looked at any law firms, advisers, and underwriters from the City of Allentown or the Lehigh Valley.

Mr. Julio Guridy stated that is a good observation and Council can take into an account. Mr. Beckett is here and we hired him.

Mr. Brent Hartzell stated that he talked to Mr. Quinn from Stifel. Their office is in Easton and Center Valley. We will have local presence. He stated that they are always looking at things to draw on local talents. Our overall consideration is to get the lowest costs. We do aim to bring a local commitment.

Mr. Julio Guridy stated that the previous one was from Bethlehem.

Mr. Jeff Glazier stated King Spry . The state passed a law that said if you worked for the NIZ you can't work for the city. King Spry continued to do work for the NIZ. They are not eligible.

Mr. Julio Guridy agrees with Mr. Hershman that we should always try to find local talent to deal with us.

Mr. Brent Hartzell stated that he is not sure what the issue is.

Mr. Lou Hershman stated that the Philadelphia Bank got involved and there

were millions and millions of dollars available. We are going to have a tax increase next year.

Mr. Julio Guridy stated that is a different issue.

Mr. Glenn Hunsicker stated that he is looking at the 2017 CAFR Report. The 2004 was a \$12.6 million balance outstanding last year. In 2007, it was \$28 million balance. Is there a reason why we didn't attack that one.

Mr. Brent Hartzell stated the 2007 has the rather inflated repayment schedule.

Mr. Tom Beckett stated that unfortunately the 2007 bonds were issued as zero coupon bonds. Those types of bonds are non-callable. You are taking advantage on lower rate to reduce debt services.

Mr. Julio Guridy stated that it is going to get paid anyway. We just going to pay more. We save more money if we do it now.

Mr. Glenn Hunsicker asked what will be the next one you will attack.

Mr. Tom Beckett stated that we look at them when a couple things happen. When rates move or a call date is approaching and a new project. He stated that Mr. Hunsicker is absolutely right. There are not a lot of opportunities down the road.

Mr. Glenn Keller, 2726 Fernor Street, asked about the interest rates on the payments on the 2004 Series. The Coupon that is due on October 1, 2024 has an interest rate of 5.31 percent. The CAFR's reported interest rates for 2004 as various and has an interest rate of 5.25 percent maximum and 5.1 percent maximum rate. The 2016 and 2017 CAFRs interest rate reported on Page 77 and 78 interest rates respectively were supposed to be 4.870 and 5.250 percent.

Mr. Tom Beckett stated that it is 5.31 percent. There is one bond maturing in 2024 that \$650,000 at 5.31 percent.

[15-2800](#)

Monthly Finances and Capital Report

Attachments: [December 2018 MO RPT - Version 2](#)

[JAN 2019 MO RPT](#)

[QTR CAPITAL REPORT - 4Q18](#)

Mr. Julio Guridy stated that he knows the city is getting it at 2.4 percent revenue source better than before.

Mr. Brent Hartzell stated that the December 2nd Report Page 2 and 3, on page 2 for 2018 total General Fund Revenues at \$108.7 million. Total cash expended in the General Fund 2018 at \$106.4 million. It rounds off to \$2.4 million excess revenue over expenditures and we added it to the reserves to improve our overall financial position. There are many people in the city that deserves credit. It is a team effort.

Mr. Julio Guridy stated that is good news. He asked about the \$3 million Risk Management Fund. There is enough money there to pay for that.

Mr. Brent Hartzell stated that Page 11 we noticed the expenses were going over. We needed to make those expenses. He wanted to wrap up the entirety of the budget amendment in one swoop when it was ready to go. He stated that the city would have sufficient cash left in Account 081 to be able to cover over that deficit. We are with the appropriation bill considering for final passage we can say completely that we can draw upon the available funds in Risk Management in 2018 to cover that cost.

Mr. Julio Guridy talked about the non-pooled bank account and the Stabilization Fund. We invested some of that about \$3 million. We are doing good and it is a wise thing to do. Some people recommended that in the back. We are earning some money.

Mr. Brent Hartzell stated that after the January Statement it was \$3,021,000 after the end of January. We have been very careful in making sure those two items included with the investment firm that is still in the other existing fund is kept right next to each other. It is not only stable, but growing in size. You can see the comparative sizes of both happening with the stabilization fund and the investments that we made. This is a very clear and sensitive issue. We want to be sure that we are transparent.

Mr. Julio Guridy asked if there were any comments or questions of December 2nd. He asked about the January Report. He asked about the Golf Fund that is lower now. He asked about Trexler Park. The General Fund is a little bit over \$5.7 million. Is that low?

Mr. Brent Hartzell asked Council to compare Page 11 to January from December 2. The portion of money in the General Fund outside the Stabilization Fund was sitting at \$2.2 million in terms of cash. The amount is at \$5.7 million.

Mr. Julio Guridy asked if there were any further comments.

Mr. Courtney Robinson stated that when we look at any pay account, Premium Pay we see it listed at 109 what has been issued in pay checks

or what is going to be budgeted.

Mr. Brent Hartzell stated that is actual cash.

Mr. Lou Hershman stated that Mr. Hartzell stated that everything looked good in Risk Management. He stated that if he looked in the January Report it shows a deficit 963.

Mr. Brent Hartzell stated that was an older copy of it. We took a look again and showing where the Risk Management Fund was and the copy you have showing a positive balance is the correct one.

Mr. Lou Hershman stated that he presented a Petition to City Council based on information that he had in December. Revenues should exceed expenditures by \$2 million. Many senior citizens can not afford this 27 percent tax increase. You could have reduce the tax rate for many senior citizens in Allentown. Maybe Council could consider and discuss with the Mayor to give people credit towards their taxes.

Mr. Julio Guridy stated that Mr. Hershman is preaching to the choir. They thought that they were okay at the end of the year and then had to come up with \$3 million for health benefits.

Mr. Glenn Hunsicker stated that he is trying to track \$3.5 million and then this new one that we are going to sell. Where are we going to put that money in?

Mr. Brent Hartzell stated that he wants to go back to the December 11th Report. Take a look at the revenue line 7110 near the bottom and you can see we draw bond proceeds \$3,541,000. In the subsequent month, we withdraw all, but \$6,000. It was a small commitment that needed to remain in the General Fund. It was shifted under the pooled cash. There was a significant increase in the Equipment Fund from November to December. That is where a large portion of the \$3.5 million and in 001 Capital Fund.

Mr. Glenn Hunsicker asked if they are in a pooled accounts. He stated that he doesn't see it.

Mr. Brent Hartzell stated that it is, but we credit that money specifically for that purpose. He stated that they will clarify it for Mr. Hunsicker.

Mr. Julio Guridy stated to make sure he has the information you need. He stated that he wants to make sure that the city is as transparent as possible.

Mr. Glenn Hunsicker asked Mr. Guridy if he is setting up a committee and when is it going to take place.

Mr. Julio Guridy stated yes. He stated that they don't have a date.

Adjourned: 6:44 PM