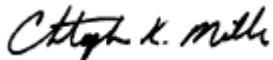


REQUEST FOR COUNCIL ACTION

Date: 08/27/12
Item No.: 12.f

Department Approval



City Manager Approval



Item Description: Establish a Public Hearing to Consider Authorizing the Sale of \$17 Million in Bonds to Finance the Completion of a New Fire Station and Continue Funding for the Park Renewal Program

BACKGROUND

On October 24, 2011, the City Council initiated a multi-phase bonding plan to finance the construction of a new fire station and the Park Renewal Program. At that time, the Council expressed their support for the issuance of \$10 million in late 2011, \$10 million in the spring of 2012, and \$7 million in early 2013 to complete these projects.

The initial phase of this bonding plan was conducted on December 12, 2011 with the sale of \$10 million in bonds. The majority of these monies has, or will soon be, formally committed. Therefore it is appropriate to initiate the second phase of the bonding plan. Back in October, 2011, the City Council committed to providing additional opportunities for public comment on any successive bond issue. The establishment of a public hearing would satisfy that commitment.

Additional background information is presented below as a precursor to the discussion at the hearing.

The tentative bonding schedule noted above carried a number of assumptions that were designed to capitalize on the historically low interest rate market and favorable tax environments. One of the main considerations was a desire to keep all \$27 million of the bonds 'bank qualified'; which allows smaller banks to receive favorable tax treatment and therefore submit lower bids on the bonds. In order to do this, the City has to limit the amount of bonds it sells to no more than \$10 million per year.

Back in December 'bank qualified' bonds were trading at 0.5% - 0.75% lower than non-qualified bonds. The municipal bond market has strengthened quite a bit since then, which has narrowed the interest rate gap considerably. Today, the difference is only about 0.15%. As a result, the 'savings' from issuing \$17 million in bank qualified bonds to complete the financing package, is only about \$125,000.

However, if the City split the \$17 million into two separate bond issues as originally planned, it would incur issuance costs and underwriter fees on each issue. This amounts to approximately \$85,000. Therefore the net savings drops to only \$40,000. When you factor in staffing and other potential extraordinary costs, as well as the risk that interest rates in the municipal bond market could rise in the future, the potential savings is negligible or nonexistent.

As a result, Staff is recommending that the City proceed with a single \$17 million bond issue.

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33 **POLICY OBJECTIVE**

34 The issuance of bonds to finance the completion of a new fire station and continue funding for the Park
35 Renewal Program is consistent with the goals established by Imagine Roseville 2025, and prior Council
36 directives.

37 **FINANCIAL IMPACTS**

38 See attached.

39 **STAFF RECOMMENDATION**

40 Staff recommends the Council set a public hearing to consider the sale of \$17 million in general obligation
41 bonds to finance the completion of a new fire station and to continue funding the Park Renewal Program.

42 **REQUESTED COUNCIL ACTION**

43 Set a public hearing for September 10, 2012 to consider the sale of \$17 million in general obligation bonds
44 to finance the completion of a new fire station and to continue funding the Park Renewal Program.

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Prepared by: Chris Miller, Finance Director
Attachments: A: Not applicable.