

CITY OF LOVINGTON
COMMISSION STAFF SUMMARY FORM

MEETING DATE: July 20, 2015



TYPE: RESOLUTION ORDINANCE PROCLAMATION INFORMATION OTHER ACTION

SUBJECT: HHGRT Bond Financing Option
DEPARTMENT: Executive
SUBMITTED BY: James R. Williams, City Manager
DATE SUBMITTED: July 16, 2015

STAFF SUMMARY:

Staff are requesting City Commission approval of the HHGRT Bond Financing option presented.

The City Financial Advisors are recommending the direct purchase of said bonds be awarded to Lea County State Bank as it appears to be the most advantageous and beneficial to the City of Lovington.

FISCAL IMPACT:

REVIEWED BY: _____
(Finance Director)

Increase in available capital funding in the amount of \$3,300,000 for projects identified in the Infrastructure Capital Improvement Fund.

Debt service to the City of Lovington will be increased by a total of \$4,073,467.

ATTACHMENTS:

2015 Bond Executive Summary

RECOMMENDATION:

Motion to award direct purchase of the 2015 HHGRT Bond Series to Lea County State Bank.

Department Head

James R. Williams

City Manager



City of Lovington Executive Summary

2015 HHGRT Revenue Bonds Financing Options

OVERVIEW

As specified in the Fiduciary Engagement Agreement between the City of Lovington and George K. Baum & Company, several options have been explored as to the plan of finance for the 2015 Hold Harmless Gross Receipts Tax (HHGRT) Revenue Bonds. Two viable options include the sale of the HHGRT Bonds in the public market or a direct sale to a financial institution. Ultimately, the debt incurred by the City will be serviced by the revenues generated by the 3/8 of 1 percent Hold Harmless Gross Receipts Tax that went into effect January 1, 2015.

In the event the City will present a public offering of the HHGRT bonds, the City is required to obtain an investment grade rating. A rating expresses the opinion about the ability and willingness of an issuer, such as the City, to meet its financial obligations. City staff provided a bond rating presentation to Standards & Poor and are pleased to report that the City of Lovington received a confidential rating of “A”. The definition of an “A” rating, per S&P, is that the issuer has a strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. Table A is a summary of the opinions reflected by S&P’s ratings. The term “confidential rating” merely indicates that the rating is not published and is only released to the rated entity.

Table A

 Investment Grade	'AAA'	Extremely strong capacity to meet financial commitments. Highest rating
	'AA'	Very strong capacity to meet financial commitments
	'A'	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
	'BBB'	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
	'BBB-'	<i>Considered lowest investment grade by market participants</i>
Speculative Grade 	'BB+'	<i>Considered highest speculative grade by market participants</i>
	'BB'	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
	'B'	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
	'CCC'	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
	'CC'	Currently highly vulnerable
	'C'	A bankruptcy petition has been filed or similar action taken, but payments of financial commitments are continued
	'D'	Payment default on financial commitments
Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.		

George K. Baum also released a request for proposals in which offers were solicited for the direct purchase of HHGRT Bonds for the City of Lovington. Five financial institutions provided responses to the released RFP. These responses were based upon the familiarity with the City of Lovington's financial and operational status.

SPREAD SHEET DEFINITIONS

Loan Amount: Total amount of loan which includes fund available for City projects, origination fees, and debt service requirements

Project Fund Amount: Total amount of funding available to the City for projects identified in the Infrastructure Capital Improvement Project list.

Total Debt Service: Sum of principal payments plus interest

Total Interest Cost: Cost of all ancillary fees and costs.

Prepayment Option: Earliest time in which the outstanding balance of the bond may be paid in full.

Required Debt Service Reserve Fund: A fund in which funds placed to be applied to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. In the event that a minimum amount of the balance of the debt service fund is not specified, a three prong test may be required.

Three Prong Test: The three prong test will require one of the following be placed in a reserve debt service fund –

- A) 10% of the project fund amount
- B) Maximum amount of annual debt service
- C) 125% of average debt service

Amortization: the length of time that payments on the debt service will be made, which includes principal and interest, in the event any prepayment options are not exercised by the borrower

Term: the total length of time the bond will be in repayment

Origination Fee/UW Discount: one time fees associated with the purchase or offering of bonds and any underwriting fees or discounts

CITY OF LOVINGTON, NEW MEXICO
Series 2015 - Hold Harmless Gross Receipts Tax Revenue Bonds
Summary of Bids Received and Financing Options

BIDS	Loan Amount (up to)	Project Fund Amount	Total Debt Service	True Interest Cost	Prepayment Option	Required Debt Service Reserve Fund	Amortization	Term	Origination Fee/ UW Discount
BBVA Compass Bank	\$3,500,000	\$3,050,000	\$4,257,789	3.170%	10 Year Call	Yes/3 Prong Test	15 Year Amortization	15 Year Term	None
Capital One Public Funding	\$3,400,000	\$3,300,000	\$4,124,815	3.150%	8 Year Call	No	15 Year Amortization	15 Year Term	None
Lea County State Bank	\$3,400,000	\$3,300,000	\$4,073,467	3.000%	2 Year Call ⁽¹⁾	No	15 Year Amortization	15 Year Term	None
Well Fargo Bank ⁽¹⁾	\$3,500,000	\$3,053,928	\$4,112,879	2.580%	Anytime	Yes/3 Prong Test	15 Year Amortization	10 Year Term	None
Bank of Albuquerque Option 1: 7 Year Term	\$3,500,000	\$3,250,000	\$4,030,122	2.290%	Non-Callable	Yes/\$150,000	15 Year Amortization	7 Year Term	None
			\$4,062,637	2.420%	5 year Call				
Bank of Albuquerque Option 2: 10 Year Term	\$3,500,000	\$3,250,000	\$4,085,886	2.520%	Non-Callable	Yes/\$150,000	15 Year Amortization	10 Year Term	None
			\$4,127,735	2.700%	5 Year Call				
			\$4,116,110	2.650%	7 Year Call				
Bank of Albuquerque Option 3: 15 Year Term	\$3,500,000	\$3,250,000	\$4,111,460	2.630%	Non-Callable	Yes/\$150,000	15 Year Amortization	15 Year Term	None
			\$4,170,129	2.870%	5 Year Call				
			\$4,152,384	2.800%	7 Year Call				
			\$4,138,405	2.740%	10 Year Call				
Lawson Financial (Non-Rated)	\$3,385,000	\$3,300,000	\$4,109,777	3.130%	8 Year Call	No	15 Year Amortization	15 Year Term	\$35,746
Public Market Option ("A" Rating) Uninsured	\$3,500,000	\$3,168,686	\$4,412,332	3.168%	9 Year Call	Yes/3 Prong Test	15 Year Amortization	15 Year Term	\$17,500
Public Market Option ("A" Rating) Insured	\$3,270,000	\$3,300,000	\$4,098,396	3.042%	9 Year Call	No/Surety Policy	15 Year Amortization	15 Year Term	\$16,350

⁽¹⁾ Well Fargo rate assumes a 0.25% discount attributed to the City for selecting payments to be auto-debited by the bank.

PUBLIC OFFERING EVALUATION

- Investors become familiar with the City of Lovington
- Higher interest rate
- Future bond issues may be susceptible to market fluctuations which may result in higher interest rates
- Elimination of potential for local contacts and familiarity with the City of Lovington

DIRECT PURCHASE OFFERING EVALUATION

- Banking institutions utilize the deposits of local residents, businesses, and municipal deposits in order to finance the bonds.
- Interest rates for future bond issues may be more predictable
- The partnership with local financial institutions is more beneficial

SUMMARY

George K. Baum & Company recommends that the City of Lovington engage Lea County State Bank for the direct purchase of the 2015 HHGRT Bonds. They are also recommending that the City publish the rating received by Standards & Poor so it may be presented to potential future bond purchasers. The justification for this recommendation is as follows:

1. Ability to meet initial available project funding.
2. Lowest total debt service presented.
3. Option to call bond at two years.
4. No required debt service or reserve fund.
5. 15 year term/amortization offer
6. Local institution.
7. Future bonds may be offered for direct or public purchase based upon the received stable A rating.

