

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

AUTHORIZING THE FINANCE AND)	Resolution No. 92-1707
MANAGEMENT INFORMATION)	
DEPARTMENT TO UNDERTAKE AN)	
ESCROW RESTRUCTURING FOR)	Introduced by Rena Cusma,
THE 1992 GENERAL OBLIGATION)	Executive Officer
REFUNDING BONDS)	

WHEREAS, under Resolution No. 92-1592, the Metro Council authorized the advance refunding of the General Obligation Convention Center Bonds, Series 1987 (the Refunded Bonds); and

WHEREAS, Metro issued the General Obligation Refunding Bonds, 1992 Series A (the Refunding Bonds) to refund the Refunding Bonds; and

WHEREAS, Metro achieved a gross savings of approximately \$3.5 million in debt service by issuing the Refunding Bonds; and

WHEREAS, an Escrow Account was established with Metro's Trustee bank as the depository for the proceeds of the Refunding Bonds; and

WHEREAS, the Escrow Account was set up using open-market securities; and

WHEREAS, it is now desirable to restructure the Escrow Account using state and local government securities (SLGS); and

WHEREAS, the restructuring is estimated to produce net proceeds to Metro of approximately \$25,000; and

WHEREAS, the net proceeds from the restructuring transactions are to be deposited to the Convention Center Debt Service Fund to be used to reduce Metro's general obligation bond tax levy; NOW THEREFORE,

BE IT RESOLVED, that

The Council of the Metropolitan Service District authorizes the Finance and Management Information Department to undertake the escrow restructuring and deposit the net proceeds of the transaction to the Convention Center Debt Service Fund.

ADOPTED by the Council of the Metropolitan Service District this 24th day of November, 1992.


Jim Gardner, Presiding Officer

FINANCE COMMITTEE REPORT

RESOLUTION NO. 92-1707 AUTHORIZING THE FINANCE DEPARTMENT TO UNDERTAKE AN ESCROW RESTRUCTURING FOR THE 1992 GENERAL OBLIGATION REFUNDING BONDS

Date: November 23, 1992 **Presented By:** Councilor Van Bergen

COMMITTEE RECOMMENDATION: At it's November 19, 1992 meeting the Committee voted unanimously to recommend Council approval of Resolution No. 92-1707. All Committee members were present and voting.

COMMITTEE DISCUSSION/ISSUES: Chris Scherer, Financial Planning Manager, presented the Staff Report. He indicated that the resolution authorizes staff to restructure the escrow account for the Convention Center Refunding Bonds to purchase state and local government investments (SLGS). It is estimated by the District's financial advisors that such action will provide a net benefit of \$24,000 for the Convention Center Debt Service Fund. Such additional funds would be applied to the debt service requirements in FY 1993-94 and would provide a slight reduction in the property tax levy for that fiscal year.

STAFF REPORT

CONSIDERATION OF RESOLUTION NO. 92-1707 AUTHORIZING THE FINANCE AND MANAGEMENT INFORMATION DEPARTMENT TO UNDERTAKE AN ESCROW RESTRUCTURING FOR THE 1992 GENERAL OBLIGATION REFUNDING BONDS

Date: November 12, 1992

Presented by: Jennifer Sims
Christopher Scherer

Background

On April 1, 1992, Metro issued general obligation bonds totalling \$65,210,000 (the Refunding Bonds) to refund its \$65,000,000 General Obligation Convention Center Bonds (the Refunded Bonds) and take advantage of lower interest rates. This refunding resulting in a gross debt service savings of approximately \$3.5 million. Because many of the Refunded Bonds had not reached maturity and were not callable under the terms of the original resolution authorizing the bonds until December 1, 1997, it was necessary to place the proceeds of the Refunding Bonds in an escrow account. This escrow account pays interest to the holders and the Refunded Bonds and provides for the redemption of these bonds when due and callable. This type of financing is called an Advance Refunding.

Escrow Investments

Escrow investments deemed to be appropriate for this type of transactions by rating agencies and other public finance professionals must be of the highest quality and fully predictable in terms of maturity and pay-out. At the time of this transaction, Metro had to choose between state and local government investments (SLGS) or open-market investments (treasury bonds). Market conditions at the time argued for open-market securities, and accordingly, these were chosen for the escrow account. By its investment choices and negotiations with the underwriter, Metro achieved the highest possible savings at that time.

Maturity Inefficiencies

Issuers have a great deal of discretion in assembling SLGS that exactly match the maturity dates dictated by the refunding. Open-market securities are less flexible in available maturity dates. Because of this, escrow agreements using open-market securities have "inefficiencies" created by investments maturing several days before they are actually required to pay interest or refund bonds. Metro and its consultants analyzed these inefficiencies and determined that the savings achieved by using open-market securities exceeded the dollar value of the inefficiency.

Benefits of Restructuring

Because of the continued lowering of interest rates its is now economically beneficial to restructure the escrow account by trading the open-market securities for SLGS. Through this transaction, a benefit of approximately \$32,000 accrues to Metro. Transaction costs of approximately \$8,000 would be paid from this amount leaving a net benefit of \$24,000. This amount would be paid into the Convention Center Debt Service Fund and reduce the tax levy for FY 1993-94.

Resolution 92-1707 authorizes the Finance and Management Information Department to conduct the escrow restructuring. The restructuring will require a legal opinion (to be attained from Metro's Bond Counsel), an escrow verification to be performed by an accounting firm specializing in such efforts, and an amendment to our Trustee Agreement for the escrow. The transaction was originally proposed by the banking firm of Kidder Peabody which firm would be used by Metro to undertake the sale of existing open-market securities and purchase of SLGS.

Budget Impact

Sufficient appropriation authority exists within the Convention Center Capital Project Fund to pay the professional fees necessary under the transaction. As stated above, the fees will actually be payed from the proceeds of the restructuring so the current balance in the Fund will not be tapped for this transaction.

Recommendation of Executive Officer

The Executive Officer recommends adoption of Resolution No. 92-1707.