

**WORK SESSION OF THE
BRIGHAM CITY COUNCIL
TO DISCUSS THE OVERALL DEBT STRUCTURE
OF THE CITY AND THE OPTIONS FOR
BOND REFINANCING OR EARLY PAY OFF OF BONDS
OCTOBER 18, 2012, 6:00 PM**

PRESENT:	Dennis Fife Ruth Jensen Brian Rex Tyler Vincent	Mayor Councilmember Councilmember Councilmember
ALSO PRESENT:	Jason Roberts	Finance Director/Deputy City Recorder
EXCUSED:	Mary Kate Christensen Scott Ericson Mark Thompson	City Recorder Councilmember Councilmember

Note: This is a continued discussion from the October 4, 2012 Council meeting.

Mr. Roberts said the question of whether or not to refinance or pay the bond off brings up the issue of what level of cash should the City keep on hand.

Mr. Roberts reviewed the City's outstanding utility bonds (see attached) totaling \$29,693,285.00. The four 2008 bonds are for the Procter & Gamble infrastructure build out. The City pays these bonds, then the County pays the City back. These total a little over \$20M. During the October 4th Council meeting, the Council considered refinancing the 2006A water/sewer/electric bonds. The remaining principal on this bond is \$1,025,000.

The City currently has \$10,105,840 in total cash. However, this is not all available cash. By law, some of this has to be used for bond payments.

Total Cash	\$10,105,840.88
Reserved for P&G construction/debt	-1,033,245.96
Reserved for Debt Service	-466,353.02
Reserved for Projects	-1,413,000
Reserved for Debt Service – Storm Drain	<u>-106,525.94</u>
Available Cash	\$7,086,715.96

Something that affects the cash balance that does not necessarily affect fund balance, is a loan from one fund to another. There are some significant loans from the utility funds to the Northwest EDA. If these loans had not been given to the Northwest EDA, this would be available cash. These loans equal approximately \$2.3M. The utility fund is receiving a 4% return on this money every year.

Mr. Roberts stated that as the Council tries to determine how much cash should be in the utility funds, they should look at total operating expenses or total expenses. There is \$22,277,757 budgeted expenses in the 2012-13 budget. He recommended the Council come up with a reasonable percentage of that number. Another option is to remove capital projects from that number, then determine a percentage. He added that bond rating agencies like to see a year's worth of operating expense in municipalities' cash. He thought this was high. In order to pay approximately \$30,000 in fees, the City would have to issue \$1.5M in bonds to refinance the 2006A bond. Over an 11 year period the City would save an average of \$6,078 per

year. If the bond is paid off the savings would be \$222,582, plus approximately \$135,000 more coming in than what the City is paying out.

Councilmember Jensen asked if the City could pay half of it off. Mr. Roberts replied that the City could do that. He added that if a bond gets down to a certain amount, bonding isn't worth it because the costs remain the same. He would have to do an analysis to see if it would be worth going out for that small of a bond.

Mr. Roberts said there are two risks by using the fund balance to pay off the bond. One is if the City decides to issue another bond in the next few years and the interest rate is higher. The other is if there is a disaster in the community and there is not enough cash to cover operations.

MOTION: Councilmember Rex made a motion to pay off the 2006A Water, Sewer, Electric Bonds for \$1,025,000. The motion was seconded by Councilmember Vincent and unanimously carried.

The meeting adjourned at 6:50.