CITY OF WILKES-BARRE

PENNSYLVANIA

CITY COUNCIL AGENDA

CITY COUNCIL

SPECIAL SESSION

FEBRUARY 2, 2017

6:00 P.M.

PLEDGE OF ALLEGIANCE

ROLL CALL

DISCUSSION - Reviewing a presentation of alternative funding of nonelectoral debt by the issuance of General Bonds and/or Notes.

ADJOURNMENT

CITY COUNCIL

FEBRUARY 2, 2017

The City Council of the City of Wilkes-Barre met in Special Session on February 2, 2017 at 6:00 p.m., in City Council Chambers, City Hall, Wilkes-Barre, Pennsylvania for the sole purpose of reviewing a presentation of alternative funding of nonelectoral debt by the issuance of General Bonds and/or Notes.

The meeting was organized with Chairperson Beth Gilbert in the Chair.

The Pledge of Allegiance to the Flag was given.

Roll Call:

Barrett	- present
Belusko	- present
Merritt	- present
Brooks, Vice Chairperson	- excused
Gilbert, Chairperson	- present

Also present:

Tony George, Mayor
Darren Snyder, Controller
Ted Wampole, Administrator
Nicole Ference, Human Resources Director
Butch Frati, Director of Operations
Tim Henry, Deputy Administrator/City Attorney
Brett Kittrick, Finance Director
Cathy Payne, Assistant City Clerk
Jim Ryan, City Clerk
Lisa Sanfilippo, Administrative Assistant
Joyce Zaykowski, Capital Project Program Manager

City Attorney Tim Henry read the following statement:

City Council has scheduled this special meeting for the sole purpose of reviewing a presentation by Public Financial Management related to restructuring city debt and funding the Solomon Creek Wall project.

Members of the public will be allowed to address Council once the presentation is completed and Council has asked any questions they may have.

Potential speakers must limit their comments to the subject matter of the meeting and no other matters. The public is also reminded that the following rules of Council remain in full force and effect:

Speakers shall limit their address to five minutes.

All remarks shall be addressed to Council as a body and not individual members.

No person, other then members of Council and the person having the floor shall be permitted to enter the discussion without permission from the Council Chair.

Any person making slanderous or impertinent remarks or who becomes rowdy while addressing Council may be barred from further audience before the Council.

<u>Scott Shearer, PFM, appeared before Council to present Council with alternate funding of nonelectoral debt by the issuance of General Bonds and/or Notes.</u>

Mr. Shearer provided Council with a handout and gave a brief overview. He said option one is to do no restructuring, just borrow new money. Options 2, 3 and 4 are do the new money for the Solomon Creek Project and level out the annual debt service throughout the term. Option 5 is a two step plan. It could actually get to be more steps. The two step plan would be a two year restructuring (or scoop) now along with the new money and then with the expectations that a more permanent solution would need to be analyzed in about eighteen months to two years. Option 5A is assuming that when we hit step two the interest rates are the same as they are right now. Option 5B is assuming that in two years from now when step two is contemplated that the interest rates are about a full percent higher. He said plan 5 can be completed in whole series of one or two year scoops. It is not what PFM recommends because there is substantial fixed cost associated with doing it every few years. At the end of the day the principal outstanding after the two step restructuring would be about 77 million.

Mr. Shearer continued going through the different scenarios in the handout.

Mr. Shearer explained that the restructuring component of option two is about 36 million. The total interest expense related to borrowing that amount is approximately 33 million and the present value cost to do the restructuring is a little under 5 million.

Mr. Shearer mentioned that the main purpose of this transaction is not for present value savings. It is not a transaction where you are going from a higher rate to a lower rate to achieve economic savings. It is a transaction done for cash flow relief; to make your debt service payments more affordable.

Mr. Shearer said that in option three the new part would be about 25 million of what we are refunding. The interest rate is 19.3 million. The present value cost of stretching out that debt and changing interest rates is about 3.5 million dollars. This restructuring starts us closer to 6 million dollars and then we add on the new money and the new running rate is about 6.2/6.3 million. The present value cost of this option is less than before, but you are not realizing as much cash flow relief.

Mr. Shearer explained option 4. In this option, the new principal amount is a little under 13 million. The total interest expense is about 8.3 million and the present value cost of the restructuring is 1.7 million. The annual debt service running rate is about 6.7 million and then we layer on the new money and it gets us to 7 million dollars of annual debt service. It is less of a present value cost, but it is not nearly the same amount of annual cash flow every week as you get from the prior two options.

Mr. Shearer said in option 5A the total restructuring is approximately 3.9 million. The total interest expense is about 3 million and the present value cost of this restructuring is about $400,000. We then add on the Solomon Creek Wall borrowing for step one and we get relief in 2017 and 2018, but in 2019 it is back up to 8 million dollars. That is why we would have to do another step after that. If the rates go up or the credit rating of the city changes then it would be option 5B. The two step plan with the smaller restructuring now and the new money, you then wait until 2019 and do the larger restructuring it comes back down to a level similar to option 2 of about 5.7 million dollars. The present value cost of the restructuring in this scenario is about 7.4 million versus the 4.9 million of option 2.

Mr. Barrett asked how much the Solomon Creek Wall will cost.

Mr. Wampole responded that the last cost has it at about 4.6 million for construction costs, then factor in the engineering cost and it should be at about 5 / 5.5 million.

Mr. Barrett asked if that is a safe number.

Mr. Zaykowski said there is a percentage buffer.

Mr. Shearer said that they took the hard cost of the 4.6 million and added on additional contingency and other soft costs, so there is a pretty comfortable buffer. These are just estimates and we won't know for sure until the city goes out and bids.

Mr. Wampole said the number we have now is different from last week, so that's why the reconstruction was about a million dollars below what we were looking at.

Dave Payne, PNC, appeared before Council relative to the restructuring of the debt.

Mr. Payne said when the underwriter goes to actually price the bonds on a specific day, the city can actually move the final number around that you're going to borrow up to a day or two before that pricing.

Mr. Payne informed Council that the Senate Finance Committee has been looking at, for the last two years, the Local Government Unit Debt Act. He said they have done iteration after iteration of refining it. One of the things that they have been discussing is to limit or take away the ability to do scoop refinancing (that one or two year option). So there is a possibility that you won't be able to do a scoop refinancing in two or three years, if they change the legislation. Also, if the city was to consider option one, which is to do a short term fix now, and hope that you have the option to do scoop refinancing in two or four years, the city may have to grandfather in its intent by doing the parameters Resolution and outlining your plans for two, three or four years, because if you do that you want to cement in your intentions now before they potentially change the law in the legislature.

Mr. Belusko asked if it is a law that you can't do more than a one or two year scoop.

Mr. Shearer responded that it is the law and that is the legislation risk because that opportunity may go away.

Ms. Gilbert asked the Administration if the city keeps pushing the sale of property, we have a potential to bring in a few million dollars to the general fund, can that money be allocated to Solomon's Creek project.

Mr. Wampole said there is no guarantee that property will sell, and Solomon's Creek project is an emergency situation.

Ms. Zaykowski informed Council that the city can't sign the contract for the Solomon's Creek project unless there is money in the bank.

Mr. Shearer said that they are hoping to have a five year call feature or somewhere around there, so if additional money comes in there could be a policy set aside that the money would go directly to a fund in escrow to pay for a portion of the Solomon Wall project.

Ms. Gilbert asked if it is possible to complete certain portions of the Solomon Creek Wall one section at a time rather than doing it all at once.

Mr. Frati replied that in this particular situation, the two areas that we've targeted are in desperate need of replacement. The reason that we selected the one side, it is not just because the breach in the wall, there are breaches in other sections of the Solomon Creek Wall. That particular area holds back a sanitary line, a storm line, water line, gas line and Verizon underground utility fiber optic cables. So it is in desperate need of repair. When we do this it is only a small section of this project.

Ms. Gilbert asked if there are any other funds in the budget that can be allocated towards Solomon's Creek repairs.

Mayor George said there is no money anywhere; he is hoping to make the budget by the end of the year.

Ms. Gilbert asked the Mayor what services he is going to implement this year that could possibly be cut to pay for Solomon's Creek.

Mayor George said the only thing that could be eliminated would be picking up garbage and recyclables or police or fire services.

The Chairperson asked if there was anyone wishing to address Council.

Bob Kadluboski, Wilkes-Barre, PA appeared before Council relative to the debt restructuring.

Mr. Snyder asked about interest rate swaps.

Mr. Shearer said that he does not recommend interest rate swaps for the city. There are certain times and places for interest rate swaps, but it does not fit the debt portfolio given the credit structure and everything else of the city.

Mr. Snyder asked if there were any other financial options other than refinancing one bond or the four bonds.

Mr. Shearer said they are looking for budget sustainability, so as far as that goes we want to take interest rate swaps off the table. As far as how to achieve that cash flow relief, just tackling the debt initiative, it is either a bond issue or a note issue. A bond issue is going to get you the best interest rate fixed for the life of the term and that's what we are looking for.

Mr. Snyder asked if his firm has any recommendations on where the city could cut expenses.

Mr. Shearer replied that PFM will come in and will have an early intervention plan report. They will show what the baseline projections look like and then they will look at various revenue initiatives and various expenditure reductions that could occur.

There being no further business to discuss the meeting adjourned at 7:18 p.m.

Beth Gilbert, Chairperson

ATTEST:

Jim Ryan, City Clerk