



City of Harrisonburg, Virginia

Department of Finance

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Larry L. Propst
Director of Finance

To: Kurt D. Hodgen, City Manager

From: Larry L. Propst, Director of Finance *LRP*

Date: March 14, 2016

Subject: Debt Service Options for 2016 General Obligation Bond Issue

With the potential budget implications of bringing new debt service for the upcoming bond issue online in next year's budget, there are two options that we can consider that are at opposite ends of the spectrum with Option 2 taking into account these potential budgetary constraints. Option 1 is using a traditional principal payment schedule that essentially absorbs a full-year of debt service in Fiscal Year 2017 and could be in the area of \$2.6 million annually. Option 2 would phase in debt service in Fiscal Year 2017 with a first year debt service payment of approximately \$1.2 million.

Assumed Project Funding* \$44,100,000
Assumed Issuance Date April 15, 2016

Option 1:		Option 2:	
Fiscal Year 2017 Debt Service	\$2,600,000	Fiscal Year 2017 Debt Service	\$1,200,000
Debt Service Thereafter**	\$2,600,000	Debt Service Thereafter**	\$2,670,000
Total Debt Service	\$61,522,000	Total Debt Service	\$61,656,000
First Principal Payment	October 15, 2016	First Principal Payment	July 15, 2017
Final Maturity Date	October 15, 2040	Final Maturity Date	July 15, 2040
Term of the Bonds	24.5 years	Term of the Bonds	24.25 years

*This should be considered "not-to-exceed" project funding. In all probability, this will be reduced as project funding for the Pre-K facility is firmed up. The debt service estimates would also reduce in a proportionate amount.

**HVAC replacement is being amortized over 15 years. After Year 15, debt service will be \$2,255,000 (Option 1) and \$2,300,000 (Option 2).

In summary, Option 2 increases the overall cost of borrowing by approximately \$134,000 but does provide some budgetary relief in next year's budget. For perspective, this increased cost equates to \$5,300 per year over the 25-year life of the bond issue. As a reminder, the City will also have approximately \$786,000 in debt service "roll off" in Fiscal Year 2018 that can be used to bridge the gap as debt service is fully phased in.

I am attaching to this memo Davenport's detailed debt service analysis of the two options using March 2, 2016 market conditions. Bear in mind that these numbers could change as market conditions change by the time of the actual issuance of the bonds.

cc: Anne C. Lewis, Deputy City Manager

Harrisonburg (City of), VA

Estimated Debt Service

\$44,100,000 of City projects (Schools, HVAC, & Roads/Trails)

	1		2		3
	Scenario #1		Scenario #2		Difference
Borrowing Assumptions					
Dated / Closing	4/15/2016		4/15/2016		n/a
1st Interest Payment	10/15/2016		7/15/2016		n/a
1st Principal Payment	10/15/2016		7/15/2017		n/a
Final Maturity	10/15/2040		7/15/2040		n/a
Total Term	24.50		24.25		0.25
Sources					
Par Amount	\$ 40,930,000	\$	40,965,000	\$	(35,000)
OIP / (OID)	3,730,658		3,695,836		34,823
Total	\$ 44,660,658	\$	44,660,836	\$	(177)
Uses					
Schools Project Fund	\$ 37,600,000	\$	37,600,000	\$	-
HVAC	2,100,000		2,100,000		-
Trails Project Fund	4,400,000		4,400,000		-
Fixed Costs of Issuance ⁽²⁾	250,000		250,000		-
Underwriter's Discount ⁽²⁾	306,975		307,238		(263)
Additional Proceeds	3,683		3,598		85
Total	44,660,658		44,660,836		(177)
Interest Rate Assumptions ⁽¹⁾					
Interest Rate / TIC	2.880%		2.888%		-0.008%
AIC	2.934%		2.941%		-0.007%
Average Coupon	3.601%		3.593%		0.008%
Estimated Annual Debt Service					
Fiscal Year					
2017	\$ 2,600,806	\$	1,197,623	\$	1,403,183
2018	2,599,456		2,675,406		(75,950)
2019	2,600,931		2,675,481		(74,550)
2020	2,599,306		2,672,106		(72,800)
2021	2,604,681		2,670,856		(66,175)
2022	2,597,056		2,666,606		(69,550)
2023	2,601,306		2,669,106		(67,800)
2024	2,592,306		2,672,981		(80,675)
2025	2,599,806		2,668,231		(68,425)
2026	2,603,306		2,669,731		(66,425)
2027	2,597,931		2,667,231		(69,300)
2028	2,597,406		2,669,581		(72,175)
2029	2,602,106		2,672,281		(70,175)
2030	2,594,006		2,667,081		(73,075)
2031	2,598,006		2,668,881		(70,875)
2032	2,255,806		2,304,881		(49,075)
2033	2,251,531		2,309,231		(57,700)
2034	2,253,956		2,305,381		(51,425)
2035	2,249,806		2,309,881		(60,075)
2036	2,254,006		2,311,369		(57,363)
2037	2,255,188		2,304,884		(49,697)
2038	2,253,313		2,306,525		(53,212)
2039	2,253,188		2,309,725		(56,537)
2040	2,254,613		2,304,444		(49,831)
2041	2,252,378		2,306,888		(54,509)
Total	\$ 61,522,203	\$	61,656,396	\$	(134,192)

⁽¹⁾ Current Market Public Sale rates are as of 3/2/2016 are preliminary, subject to change.

⁽²⁾ Estimates are preliminary, subject to change. Total Public Sale fixed costs of issuance are assumed to be \$250,000.