

Town of Concord
Finance Department
Memorandum

TO: Christopher Whelan, Town Manager
FROM: Anthony T. Logalbo, Finance Director
SUBJ: Bond Sale Results
DATE: May 16, 2013

Bids were accepted Thursday, May 16th at 11 A.M. for a \$3,360,000 bond issuance of the Town of Concord with serial maturities from one to eight years. The delivery date will be June 4, 2013 and principal payments will be payable yearly from June 1, 2014 through June 1, 2021. Interest is payable semiannually on June 1 and December 1.

11 bids were received (record attached). The recommended award is as follows:

Sterne, Agee & Leach, Inc. @ 0.857409% TIC (true interest cost)

Sterne is paying the Town a premium of \$140,907.15 in addition to the face amount of the bonds. Gross interest cost for the life of the bonds, \$252,440, is thus reduced to a net interest cost of \$111,532.85, which equals the TIC of 0.86% (less than 1%). The bond premium will be applied first to issuance costs. The net premium (which will be about \$100,000) will be credited as current revenue to the General Fund (approx. \$88,000) and the Water Fund (approx. \$12,000).

Market access:

The number of bidders (11) was greater than usual. The rate offered by the low bidder is appropriate to current market conditions given our credit rating and the short 3.75-year average life.

Coupon rates:

Subject to limits set by the Town in the Notice of Sale, the bidder sets the bond coupon rates as part of the bid. These are the rates the winning underwriter will offer to the retail market (Concord bonds usually are completely or substantially pre-sold before the bid occurs). The Town's Notice of Sale specified that no coupon rate could exceed any other coupon by more than 3%, and that the minimum premium offered must be \$40,000 (an amount deemed sufficient to cover expected issuance costs).

Sterne has set coupon rates at 2% for all maturities. As these rates are substantially over current market rates, buyers will pay the underwriter a premium in order to purchase a bond. The underwriter's expectation that it can sell the bonds at a premium price is the source of its ability to offer the Town a premium above the face value of the bonds.

Why then would a bond purchaser be willing to pay more than face value? Actually, in the current rate environment, this is rational rather than paradoxical. Most investors recognize that current interest rates are artificially low, driven by Federal Reserve policy at the short end (up to one-year) and various "stimulus" measures at terms beyond one year. When interest rates return to normal (historically, the inflation rate plus a little is a good benchmark for short-term rates as a base), the value of outstanding bonds will fall. Holders who sell before maturity could face a realized capital loss. Thus buying bonds today at a price above par value serves to mitigate the risk of a future capital loss due to a rise in interest rates. The sooner and more dramatically a buyer thinks rates could rise, the more one might be willing to pay now above par value.

How does the coupon rate affect Concord? For budget purposes, we focus on the coupon rate rather than the TIC (True Interest Cost) on which the low bidder is determined and the bond award is based. Coupons of 2% for the period FY14-21 are within (in fact, under) the town's long-term fiscal planning allowance for debt service. And we immediately receive more than the face value of the bonds we are issuing, a current revenue item above the FY13 budget estimate.

Bid range and history

The range of the eleven bids received for this offering was up to to 1.024161%. The cover bid (the next highest to the winning bid) was 0.895598%. For reference purposes, the current sale and recent previous sales results are reported below:

Sale Date	Amount	Average term	Max term	TIC	# of bids	Award
May 16, 2013	\$ 3,360,000	3.765 yrs	8 yrs	0.8574%	11	Sterne, Agee & Leach, Inc
May 16, 2012	\$ 2,785,000	3.312 yrs	7 yrs	0.9416%	3	Janney Montgomery Scott
May 4, 2011	\$ 8,750,000	5.758 yrs	15 yrs	2.3145%	10	Fidelity Capital Markets
Jan. 20, 2010	\$15,100,000	8.892 yrs	19 yrs	3.0929%	6	Fidelity Capital Markets
Mar. 18, 2009	\$14,465,000	8.708 yrs	19 yrs	3.6096%	8	UBS Financial Services
Mar. 20, 2008	\$ 6,301,000	4.845 yrs	10 yrs	3.0162%	7	First Southwest Co.

This bond sale will finance the following projects approved at Annual Town Meetings:

Use of Proceeds

The bonds will finance the following projects pursuant to authorizations approved by the Concord Town Meeting:

A. Debt service to be paid within the property tax levy limit

- **School Building Improvements** \$ 725,000
Pursuant to Article 27 of the 2011 Annual Town Meeting
- **Road engineering and design – Main Street** \$ 50,000
Pursuant to Article 36 of the 2011 Annual Town Meeting
- **Road Improvement Program** \$ 950,000
Pursuant to Article 26 of the 2012 Annual Town Meeting
- **Police/Fire Station Improvements** \$ 700,000
Pursuant to Article 27 of the 2012 Annual Town Meeting
- **Land Acquisition – 51 Laws Brook Road** \$ 535,000
Pursuant to Article 2 of the April 24, 2012 Special Town Meeting

B. Debt service supported from enterprise fund revenues

- **Water System Improvements** \$ 400,000
Pursuant to Article 23 of the 2010 Annual Town Meeting.

General Information

Bond documents are scheduled to be submitted to the Board of Selectmen for approval and signing on May 20, 2013.

Moody's Investors Service reaffirmed Concord's Aaa credit rating prior to the bond sale. A copy of the credit report is attached.

Cc: Patricia Robertson, Deputy Treasurer-Collector
Gail Henry, Town Accountant