

Town of Concord
Finance Department
Memorandum

TO: Christopher Whelan, Town Manager
FROM: Anthony T. Logalbo, Finance Director
SUBJ: Bond Sale Results
DATE: June 5, 2014

Bids were accepted Tuesday, June 3rd at 11 A.M. for a \$7,985,000 bond issuance of the Town of Concord with serial maturities from one to thirteen years. The delivery date will be June 12, 2014 and principal payments will be payable yearly from June 1, 2015 through June 1, 2027. Interest is payable semiannually on June 1 and December 1.

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

Fidelity Capital Markets @ 1.756690% TIC (true interest cost)

Fidelity Capital Markets is paying the Town a premium of \$666,393.80 in addition to the face amount of the bonds. Gross interest cost for the life of the bonds, \$1,488,085, is thus reduced to a net interest cost of \$821,691, which equals the TIC of 1.75669%. While this is a higher interest rate than the bonds issued the past two years, those issues were of shorter duration. The present issue is similar to the May 2011 bond issue which was sold at a TIC of 2.3%. Interest rates continue to be at historic lows, and the rate for this bond issue is the lowest ever received for a Concord bond offering with an average life of 5 years or greater.

The bond premium is also the highest ever received. The premium will be applied first to issuance costs. The net premium (which will be about \$600,000) will be credited as current revenue to the General Fund (approx. \$340,000) and the Light Fund (approx. \$260,000).

Market access:

The number of bidders (7) was a normal result for Concord. The rate offered by the low bidder is appropriate to current market conditions given our credit rating and the short 5.6-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 \$70,000 (an amount deemed sufficient to cover expected issuance costs).

Fidelity has set 5% coupon rates for the first two years of the issuance and 4% coupons for the 2019 through 2022 maturities. This is very unusual pricing and means that purchasers of the bonds will pay the underwriter a steep premium (paying up to 15% more than the face value of the bonds for certain maturities. Concord bonds have not borne a 5% coupon since the 2007 issue. This pricing scale is likely a response to the unusually low interest rate environment and the increasing risk of future interest rate rises. By reselling Concord bonds at a steep premium and it is nice that buyers are willing to do so), the buyer gets some protection against future capital gains taxation, as capital gain are measured against the face value of the bond, not its purchase price.

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 4% for the period 19-22 are higher than the town's long-term fiscal planning allowance for debt service, but the net dollar impact will be small and readily managed. And we immediately receive more – in this instance, considerably more - than the face value of the bonds we are issuing, a current revenue item of about \$340,000 for the General Fund not anticipated in FY14 budget estimates.

Bid range and history

The range of the seven bids received for this offering was up to 1.955207%. The cover bid (the next highest to the winning bid) was a very close 1.789889% (a net interest cost difference of just \$11,000 over the 13-year life of the bond issue). For reference purposes, the current sale and recent previous sales results are reported below:

<u>Sale Date</u>	<u>Amount</u>	<u>Average term</u>	<u>Max term</u>	<u>TIC</u>	<u># of bids</u>	<u>Award</u>
June 3, 2014	\$ 7,985,000	5.561 yrs	13 yrs	1.7567%	7	Fidelity Capital Markets
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

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

- **Library Equipment** \$ 15,000
Pursuant to Article 34 of the 2011 Annual Town Meeting
- **School Building Renovations** \$ 675,000
Pursuant to Article 8 of the 2012 Annual Town Meeting
- **Road Improvement Program** \$ 900,000
Pursuant to Article 45 of the 2013 Annual Town Meeting
- **Police/Fire Radio System** \$ 450,000
Pursuant to Article 49 of the 2013 Annual Town Meeting
- **Town House Exterior Renovations** \$ 625,000
Pursuant to Article 55 of the 2013 Annual Town Meeting
- **Land Acquisition – McGrath Farm** \$ 500,000
Pursuant to Article 52 of the 2013 Annual Town Meeting
- **School Building Renovations** \$ 795,000
Pursuant to Article 8 of the 2013 Annual Town Meeting
- **Recreation Improvements – 51 Laws Brook Road** \$ 25,000
Pursuant to Article 50 of the 2013 Special Town Meeting

B. Debt service supported from enterprise fund revenues

- **Light Plant Expansion (CMLP)** \$3,900,000
Pursuant to Article 28 of the 2012 Annual Town Meeting
- **Telecommunication services (CMLP)** \$ 100,000

Pursuant to Article 48 of the 2013 Annual Town Meeting

General Information

Bond documents are scheduled to be submitted to the Board of Selectmen for approval and signing on Monday, June 9, 2014.

Moody's Investors Service reaffirmed Concord's Aaa credit rating prior to the bond sale.

Cc: Patricia Robertson, Deputy Treasurer-Collector
Mary Barrett, Acting Town Accountant

Attachments:

Bid Results – record of seven bids
Fidelity Capital markets – Coupon rates
Yield Curve, date prior to sale date
Debt Service schedule
Pricing Summary
Moody's Investors Service rating report dated May 28, 2014