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Bad economy aids bond refinancing

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The same economic downturn that has created budget headaches for local governments also has provided an opportunity to save money on outstanding debt.

In the last year, both Boone County and the city of Florence have taken advantage of the silver lining in this economic dark cloud to refinance bonds at significantly lower interest rates.

Just as homeowners look to lower mortgages payments in the down economy, municipal governments are exploring ways to get better rates on existing bond debt.

Bonds are debt obligations issued by states, cities, counties and other government entities that are generally used for public projects. The bonds are then sold and if they are later reissued the adjustment in the amount of interest determines the amount of savings realized.

In Florence, a measure approved at the Aug. 31 city council meeting will result in savings of $831,000 on $6.8 million in general obligation public project bonds issued in 2002.

"The timing could not have been any better," Linda Chapman, Florence finance director, said. "This does not extend the amortization schedule."

Simply put, that means it will not take the city any longer to pay off the debt.

Boone County has explored several options in recent months that included bundling bonds and refinancing other debt.

In April, the Boone County Fiscal Court approved a plan that would include the refinancing of two existing bond series and $1 million in new debt for an energy savings program.

One series of bonds was issued in 1998 for a public golf course project and had about $2 million outstanding at the time of refinancing. The other, issued in 1999 for a variety of public improvement projects, had about $200,000 in remaining debt. Both will still be paid off according to the original amortization schedule.

"There was an opportunity to extend the debt service period and lower the annual cost," Boone County Administrator Jeff Earlywine said. "We were very careful and were determined to stick with the existing debt service schedule and continue to retire the debt as laid out."

By bundling the debt, the county was able to ensure a more favorable rate and save about $100,000 on the existing repayments.

Louisville-based Energy Savings Group (ESG) was chosen to implement the energy-saving measures. The company has guaranteed energy savings will at least cover the cost of the bond payments for its project and a third-party entity has agreed to make the county whole if ESG fails to honor that pledge for any reason.

Municipal governments retain financial consultants to review budgets and expenditures. The consultants routinely monitor the financial markets and make recommendations when conditions are favorable to refinance existing debt.

"Three percent is the threshold that we have set to consider refinancing debt," Earlywine said.

Chapman said the City of Florence prefers about 5 percent and the bonds sold on Sept. 7 realized a savings of more than 9.6 percent on the outstanding debt.

The Boone County Fiscal Court is also considering the option to refinance bonds issued in 2002, the proceeds from which were used to finance the Boone County Detention Facility. The amount financed was $20 million and there is $14.7 million remaining on that debt. The county anticipates savings of about $900,000, based on current market rates.

The bonds are not callable until 2012, meaning the county cannot actually reissue bonds until that time. If the measure is approved, the money would be placed in escrow until then.

The county could wait until 2012 to refinance the debt, but the favorable market conditions are linked to the economic downturn and county officials hope for a rebound before then, for obvious reasons.

The county is also considering another bond refinancing for debt used to build the Boone County Justice Center. The $14.8 million for that project was issued on behalf of the State of Kentucky in 2001. The state entered into a lease agreement and the county uses those funds to repay the debt.

The state has initiated a program as an incentive for the counties to seek more favorable rates when this type of agreement is in place. The state will return 25 percent of any savings realized by bond refinancing to the county.

In this case, the county expects to save about $585,000 on the outstanding debt of $10.5 million, which would add about $145,000 to the county's coffers on debt paid by the state.

The fiscal court is expected to consider that measure in October.