

CHAMPAIGN COUNTY BOARD  
**COMMITTEE MINUTES**

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**FINANCE COMMITTEE MINUTES**

**Wednesday, February 23, 2005**

**Meeting Rm. 1, Brookens Administrative Center**

**1776 E. Washington St., Urbana**

6:00 p.m.

**MEMBERS PRESENT:** McGinty, Bensyl, Betz, Gross, O'Connor, Tapley, Wysocki

**MEMBERS ABSENT:** Avery, Doenitz

**OTHERS PRESENT:** Deb Busey (County Administrator), Denny Inman (County Administrator), Joel Fletcher (State's Attorney's Office), Michael Frerichs (Auditor), Elizabeth Hennessy

**Call to Order**

Chair McGinty called the meeting to order at 6:05 p.m. The Recording Secretary called the roll. The Chair declared a quorum present and proceeded with the meeting.

**Approval of Agenda/Addendum**

**MOTION** by Betz to approve the agenda for the meeting; seconded by Wysocki. Motion carried.

**Public Participation**

None.

**Other Business**

**Approval of the Ordinance for Exception to the Champaign County Purchasing Policy Ordinance No. 323**

**MOTION** by Tapley to approve the Ordinance for Exception to the Champaign County Purchasing Policy Ordinance No. 323; seconded by Bensyl. Motion carried.

**Approval of the Resolution Authorizing the Issuance of General Obligation Refunding Bonds, Series 2005A, and General Obligation Refunding Bonds (Public Safety Sales Tax Alternate Revenue Source), Series 2005B, of the County of Champaign, Illinois, Providing the Details of such Bonds and for Alternative Revenue Sources and the Levy of Direct Annual Taxes as Applicable, Sufficient to Pay the Principal of and Interest on such Bonds, and Related Matters**

McGinty presented Elizabeth Hennessy from William Blair & Company to impart information on bond refunding for savings to the committee. An information packet was passed out to the committee members to show municipal rate activity in the last year. The big difference between this year and last year is on the short end of the yield curve. Short-term rates have risen over one and a quarter points. This is mostly due to the Federal Reserve raising rates every Fed meeting by a quarter point. While the short-term rates have risen, after year twelve on the yield curve the rates have stayed very low. The yield curve is flattening and this helps the refunding. A flattening yield curve allows the County to invest the refunding bond proceeds in the escrow account to the call date in securities that are higher yielding than they were last year. Hennessy stated the 1999 bonds for the courthouse were not saving money last year because the short-term interest rates were too low. The size of the bond issue had to be larger in order to refund the debt. Therefore, refunding the 1999 bonds would not have produced enough savings to make it worthwhile last year. The negative arbitrage, the difference between yield that could be earned in escrow

versus yield on the bonds, was over \$1 million. This year, however, more can be earned in the escrow and the negative arbitrage is down to \$486,000.

On February 8<sup>th</sup>, Hennessy emailed Busey to notify her of the potential savings on the 1999 issue due to rate changes. They are looking at refunding the callable bonds. The call date on bonds is different than on a home mortgage. A home mortgage can be refunded and reissued anytime. With bonds there is a call date, typically ten years in the future. The call date on the 1999 bonds is January 1, 2009. When these bonds are refunded, the proceeds from the new bond issue go into escrow to earn money until the call date in 2009. The bonds go away on the call date. The critical short-term rate has come up and allows the County to earn more in escrow, yet the long-term rates have stayed low. This combination of events will bring savings of \$1.6 million over the life of the bonds by refunding the \$19 million callable bonds. On February 8<sup>th</sup>, the gross interest savings over the life of the bonds of \$1,612,000 or put in present value terms is \$1,250,079. This number is important in the public finance world because when that number is over 2.5% of the refunded bonds it is an indicator that a refunding is probably worth doing. The ratio of present value savings as a percent of the bonds refunded was 5.8% on February 8<sup>th</sup>. The arbitrage yield is down to 4.21%. The escrow yield is a little lower, but the difference between these numbers is a lot less than what it was last year. The negative arbitrage reflects if there was a higher escrow yield, which is expected as short-term rates go up. These savings are after paying off cost of issuance. The producer price index came out last Friday and indicated that productivity is very elevated. This started the bond market to get worried about inflation. The good news is the CPI, the indicator for inflation, came out today and was not so bad. The bond market has calmed down, but some ground was lost in regard to interest rates between February 8<sup>th</sup> and February 23<sup>rd</sup> because of the inflation fear. The savings possible today are \$1,167,000 over the life of the debt. That is 4.16% in terms of present value.

Hennessy continued her presentation with a look at the 2003 bonds. These bonds were issued in 2003 for the Nursing Home. The call date on these bonds is 2013. The gross savings of \$182,000 on its own and present value savings of \$144,000, or 1.79% present value, as of February 8<sup>th</sup>. There is no negative arbitrage on this issue because the call date is later, allowing us to invest in longer-term government securities. Today the savings are down to \$109,000 over the life of the bond. This is only 1.12% in terms of present value. This issue on its own does not make sense to refund. Hennessy wanted the committee to see this issue on its own.

The County has the option to combination these two issues. A benefit occurs when the 1999 and the 2003 bonds are combined. The call date of 2013 on the 2003 bonds means a higher escrow yield and when combined with the 1999 bonds it helps reduce the negative arbitrage on the 1999 bonds even more. The refunding figured on February 8<sup>th</sup> shows \$1.8 million gross savings over the life of the debt, \$1.2 million present value savings, or combined 4.89%. As of today, the savings are \$1.3 million gross savings over the life of the debt, \$886,000 present value savings, or 3.44%. Blending the two refundings helps both issues.

In the blended refunding, the 1999 bonds have a negative arbitrage of \$396,458. The 1999 bonds' negative arbitrage on their own is \$514,066. This is due to the later call date on the 2003 bonds. The present value savings for the 1999 bonds in a blend refunding is 4.20%. Tapley asked if the arbitrage yield is calculated on the whole deal or a security-by-security basis. Hennessy said the yield is calculated on the blended escrow. The savings are higher in the combined scenario than individually.

Hennessy suggested some saving targets when it makes sense to take advantage of these savings. The resolution before the committee authorizes the County to go ahead with the refunding on a combined or one series alone basis that meets certain savings targets. Hennessy wants to set the savings targets in a realistic, but aggressive manner. On a combined basis, Hennessy suggested setting a minimum present value savings target of 4.00% (\$1,028,000). This target cannot be met today, but Hennessy felt with the volatility in the market this target is possible. For individual savings targets, she recommended setting a minimum present value savings target of 4.50% (\$794,700) on the 1999 bonds and a minimum target of 2.50% (\$201,375) on the 2003 bonds. Gross asked why the target is 4.5% for the 1999 bonds and 4.00% on the combined bonds. Hennessy answered the targets reflect the range of what is happening in the current market. There is no way to get near the 4.00% target for the

2003 bonds because they are too new. Betz asked what the costs included. Hennessy stated the total cost, depending on the bond insurance, could be as high as \$300,000 in bond insurance, bond counsel, underwriting fees, rating agencies, non-registered escrow, etc. Bensyl asked how the refunding process would work if the resolution is approved at this meeting. Hennessy said the resolution authorizes the County to go ahead with the refunding without any further Board authorization (once the resolution is approved by the County Board). Prior to selling the bonds, William Blair & Company must obtain approval from a Board delegate and an administrative delegate. These delegates are usually the County Board Chair and the County Administrator. Wysocki questioned how long the deal would be open. Hennessy replied the resolution authorizes the deal for six months and no expenses are incurred unless the deal is completed. Discussion continued on the near future of the bond market.

Tapley asked if the bond insurance premiums are refunded. Hennessy said no. Betz asked if there is a downside to authorizing this, because he can't see one. Busey said that when the targets are reached, Hennessy will contact her for consent. Busey will contact the County Board Chair if this issue will go forward. Tapley agreed that the targets are good and likely to be achievable.

Gross asked how long the County has been using the services of this particular firm and how often other firms are considered. Busey answered that an RFP for underwriting services was issued for the 1999 bonds. William Blair & Company was hired as a result of the RFP. For the Nursing Home 2003 bonds, the County again went through a competitive process and William Blair & Company was again selected. A refunding of the 1995 Jail bonds was done last year and, because of the timing, the County Board elected to use William Blair & Company. William Blair & Company will charge the same fee used for the 2003 bond issue and established by a competitive process. Tapley asked if William Blair & Company is contracted for monitoring services. Busey explained the County has an ongoing relationship with William Blair & Company to monitor the bond issues they have handled for the County. They are paid on an annual basis. Tapley noted, during the previous refunding, he had spoken with an independent bond company to double check the figures and they backed up the figures from William Blair.

**MOTION** by Betz to approve the Resolution Authorizing the Issuance of General Obligation Refunding Bonds, Series 2005A, and General Obligation Refunding Bonds (Public Safety Sales Tax Alternate Revenue Source), Series 2005B, of the County of Champaign, Illinois, Providing the Details of such Bonds and for Alternative Revenue Sources and the Levy of Direct Annual Taxes as Applicable, Sufficient to Pay the Principal of and Interest on such Bonds, and Related Matters; seconded by Tapley. Motion carried.

Approval of the mutually acceptable extension of the current Evercom Contract until April 1, 2005

**MOTION** by Bensyl to approve the mutually acceptable extension of the current Evercom Contract until April 1, 2005; seconded by Gross. Betz requested a roll call vote. Motion carried with one no vote. Bensyl, Gross, McGinty, O'Connor, Tapley, and Wysocki voted yes. Betz voted no.

**Adjournment**

Meeting was adjourned at 6:33 p.m.

Respectfully submitted,

Kat Bork  
Administrative Secretary