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Lockport Made Interest-Saving Deal on Deficit Financing.

LOCKPORT - The city borrowed more than \$4.2 million on Dec. 30 to pay off accumulated deficits, but it will have to pay interest on only \$3.9 million of the borrowing, Mayor Anne E. McCaffrey said Friday.

The deal involved the payment of a \$103,000 premium by Oppenheimer & Co., the underwriter of the city's bond issue, which boosted interest paid to investors while giving the city a bit of a break in interest costs for the 10-year borrowing.

The state Comptroller's Office, which recommended the borrowing in the first place, is allowing Lockport to make an interest-only payment on the bonds in October of this year. That figure will be \$156,156, City Treasurer Michael E. White said.

However, in the ensuing nine years, the city will have to pay back principal as well as interest, White said. That will mean an annual expense of more than \$550,000 a year that can't be avoided unless the city finds some way to pay off the debt early.

"It's an obligation we're going to have to pay," McCaffrey said.

White said the 10-year total interest cost on the bond issue will be \$1,207,406. The total repayment of principal plus interest over the coming decade will be \$5,152,406.

A state law allowing Lockport to borrow its way out of the red authorized bonding of as much as \$5.35 million, but auditing by the state and the Bonadio Group, an Amherst accounting firm hired by the city, showed the city didn't need that much.

"The actual deficit confirmed by the state Comptroller's Office was \$4,216,771," McCaffrey said. But interest is due only on \$3,945,000 of the borrowing, she said.

The city's costs of issuing the bonds were tied into the premium paid by Oppenheimer, which specializes in high-risk municipal bonds. White said investors who subsequently buy the bonds from Oppenheimer are buying a "coupon rate" of 5 percent, but because of the premium upfront, the investors will pocket 2.5 percent to 3.7 percent, depending on which year their bonds mature.

After this year's interest-only payment, the city will owe \$552,250 in 2016, including \$197,250 in interest.

The remaining years' debt service costs are \$554,500 in 2017; \$555,750 in 2018; \$556,000 in 2019; \$555,250 in 2020; \$553,500 in 2021; \$555,750 in 2022; \$556,750 in 2023, and \$556,500 in 2024.

McCaffrey said it hasn't been determined yet how the repayment costs will be distributed among the city's budgetary funds. The cost in the general fund would affect property taxes, while allocations to the water, sewer and refuse funds would affect user fees in those areas.

White said the amount of interest in those payments falls steadily, while the amount of principal

repaid increases through the 10 years.

In October, the city borrowed \$4.57 million on a 90-day note to get through the rest of last year, and that money, plus 3.375 percent interest, was to be repaid this month from the cash proceeds of the Dec. 30 bond issue.

By Thomas Prohaska | News Niagara Reporter | @ThomasProhaska |

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