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Refinancing loan to reduce costs by $140,000; Build America bonds tapped for $2 million issue

Financial forces and a little fortunate timing came together last week to save the Village of Saukville approximately $140,000 on a pair of general obligation bonds.

The Village Board unanimously approved a $1.8 million refinancing of old debt dating to 2002 and $2 million in new borrowing, to be used for road improvements and fire department equipment.

Although prevailing interest rates are starting to rebound after lingering at record low levels for months, the village drew favorable rates from a strong field of bidders, according to Michael Harrigan, senior financial analyst with Ehlers.

A simple matter of moving the bidding date to Wednesday to accommodate last week's spring election provided an unexpected benefit for the village.

The refinancing drew bids from six banks in three states. The contract was awarded to Bankers' Bank of Madison.

The average interest charge on the winning nine-year note was 2.54%. Interest rates on the competing bids ranged as high as 3.3%.

Although the refinancing was expected to save the village more than $100,000, the financial advisers calculated that the actual savings will be more than $138,000 because of the positive bidding environment.

Six more bidders made offers on the $2 million note, with the low average rate of 3.53% submitted by an investment group headed by Robert W. Baird of Milwaukee.

The interest range was much tighter for the new borrowing, with a high charge of 3.65% submitted by Marshall & Ilsley Bank.

Typically, Harrigan said, there are three or four bidders for municipal bond sales.

"In both cases, there were a lot of bids and very aggressive ones. I believe that reflects a classic case of supply and demand," he said.

“For future clients, I think I will suggest they consider holding bond sales on Wednesdays. Most municipalities hold their meetings on Mondays or Tuesdays, so there is a lot of competition for bond sales held on those days.

“With your sale on Wednesday, there was strong interest because you were essentially the only one selling, which worked to your favor.”

The village also chose to sell its new bonds through the Build America program.

Bonds through the program are taxable, which means the village has to pay a higher interest rate to attract bidders, but it will receive a 35% rebate of interest charges from the federal government as an economic stimulus.

“We have run the numbers for several of our municipal clients, and in every case the Build American bonds resulted in a net savings for the municipality,” Harrigan said.

The village also learned that it retained its advantageous A2 rating with Moody’s Investor Service, also contributing to the favorable bond sale.

Village officials were concerned that the pending debt linked to the Highway 33 reconstruction might hurt their credit rating since their borrowing capacity will be stretched to the state-recommended limits.

“Despite the recent declines in reserves, we expect the village’s sound financial position to continue given currently healthy general fund reserve levels for the village’s moderate budget size,” said the Moody’s summary report.

“Moody’s did not see the Highway 33 expense as having a huge negative affect on the village’s financial stability,” Harrigan said.

The village’s practice of keeping between 16% and 25% of its general fund budget in reserves carried a lot of weight with the rating agency, he said.

With the two new bond sales, the village’s total debt will be $14.9 million.

Under a preliminary borrowing schedule, the village’s capital financing plan was estimated to increase the village tax rate for debt service by more than $2.70 per $1,000 of assessed valuation from 2013 to 2015. Under the actual bids, the tax rate for debt will reach $2.70 only in 2013.