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News Release

Commission prepares final steps for refinancing SCKMC bonds

Public Building Commission will meet June 25 to issue bonds, save millions

ARKANSAS CITY, Kan. (June 20, 2019) — The Arkansas City Public Building Commission and City Commission of Arkansas City will meet Tuesday night to complete a major bond refinancing process.

The anticipated issuance of Refunding Revenue Bonds, Series 2019, could save Arkansas City taxpayers more than \$11 million over the original bond issuance to construct the Arkansas City hospital.

"I'm absolutely stunned at these numbers. The work staff put in, the work (our financial advisors) did — it's just phenomenal. And more than I think we could have ever hoped for, sitting (where we were) a year ago, trying to figure out what are we going to do," said Commissioner Canyon Gingher.

"It's just mind-blowing to be able to (save this much money). A year ago, we sat there and said, 'Trust us — give us the sales tax. This is an idea — we're going to make this work.' And you guys all got together, wrapped it up and put a bow on it. This is nine months' worth of work."

"The whole process was not done right to begin with (in 2009)," said Mayor Jay Warren. "We had to go through our process to get to where we needed to be."

"To be able to tell citizens that the interest that we have to pay is going to drop so substantially..." Gingher said. "They're not going to believe it," Warren replied. "I feel like we took a train that was derailed and put it back on the track," said Vice Mayor Karen Welch.

The Public Building Commission (PBC), which is composed of the five city commissioners and four other members of the public, is the entity that issued the debt service for South Central Kansas Medical Center's (SCKMC) new facility, which opened in March 2011 in Patterson Park Subdivision.

The PBC will meet at 5:30 p.m. Tuesday in the commission room at City Hall to complete the process by issuing the Series 2019 bonds, authorizing supplemental leases and approving a trust indenture. Afterward, it will adjourn into a City Commission meeting to approve a resolution of ratification.

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The bonds, which will be issued and offered for sale Tuesday through the PBC's purchasing agent, Piper Jaffray & Co., are expected to be at interest rates varying between 3 and 5 percent, with an anticipated net interest cost of 3.17 percent. This is a dramatic improvement over the Series 2009 Refunding Bonds used to construct SCKMC, which varied between 4- and 7-percent interest rates, with an average interest rate of 6.75 percent on the remaining bonds.

The original \$23.205 million in hospital financing was secured by an unconditional lease payment from the City, supported by its issuance of Series 2009 bonds. Although SCKMC currently is responsible for making annual bond payments, with the aid of the one-cent Health Care Sales Tax, the new Series 2019 bonds will be obligations of the City and PBC under a new lease agreement regarding the hospital.

The new lease arrangement will allow SCKMC to become more financially solvent in the long term by removing the debt burden from the medical center. Now, the City will utilize the proceeds from the 1-percent Health Care Sales Tax to make the debt payments. The Series 2019 bonds are special, limited obligations of the PBC, which will be payable from a trust estate. All committed revenues will be deposited with a third-party trustee. Excess revenues over the debt service payments will remain in the third-party trust account, separated from City funds, to aid in the early payoff of the bond debt.

Although the Series 2019 bonds are set to reach maturity in 2044, the Piper Jaffray proposal includes an option that allows any bonds maturing in 2035 or later to be callable as early as Sept. 1, 2024. This is expected to save potentially as much as \$11.3 million over the existing bonds. Even if the bonds are not repaid until they reach maturity, the cash savings to Arkansas City taxpayers still will be more than \$7.385 million over the original Series 2009 bonds.

The City Commission had originally estimated the potential savings at \$8 million during a series of public forums to promote passage of the Health Care Sales Tax in the summer of 2018.

The original bonds were scheduled to be paid off in 2038. The Series 2019 bonds will mature in 2044, but City officials anticipate paying them off significantly sooner, possibly as soon as 2032.

Once the Series 2019 refunding bonds are paid off in full, the Health Care Sales Tax could then be repealed by a future City Commission. This also was the intent of the current commission, as expressed in Resolution 2018-06-3185, which was approved June 19, 2018.

S&P: City's financial position 'strong'

City officials were notified May 15 by S&P Global Ratings that the PBC's Refunding Revenue Bonds, Series 2019, estimated at \$19 million, will be assigned a bond rating of "A," with a stable outlook.

This new A-stable rating for the refinancing of the original revenue bonds is essentially four steps better than when the original bonds were issued in 2009, when they were rated Baa3 by Moody's Investor Service. More recently, Moody's had rated those original bonds as B2, with a negative outlook — meaning A-stable would be a comparative improvement of nine steps for the 2019 bond refinancing.

The upgrade to "A" reflects citizens' approval in 2018 of the 1-percent Health Care Sales Tax to cover South Central Kansas Medical Center's debt service payments.

"Many factors went into receiving this rating," said City Manager Nick Hernandez, "from passage of the new sales tax, with no sunset, to the significant financial turnaround of SCKMC by its CEO and staff."

"We are greatly indebted and appreciate the local voters who approved the one-cent sales tax last year," said SCKMC Chief Executive Officer Jeff Bowman.

"It's really a great example of local citizens believing in something and being willing to shoulder the cost," Bowman said. "Clearly, it helps the hospital and it helps the community retain its own local medical center. Beyond that, if things proceed as expected, it will save us all millions of dollars in the long run."

Of the 2018 Health Care Sales Tax revenues, 95 percent is pledged directly toward the bond payments, supplemented by additional City appropriations.

About the Public Building Commission

Composed of the five city commissioners and four other citizens, the Arkansas City Public Building Commission was created for the purpose of financing and constructing public buildings and facilities.

In 2009, based on overwhelming support from the citizens in a 2008 election question, the PBC issued \$23.205 million in revenue bonds, at a maximum interest rate of 7 percent, to construct South Central Kansas Medical Center's new 49-bed facility in Patterson Park Subdivision.

About \$19.7 million in outstanding debt remains to be paid off. The City will use excess bond reserve and accumulated sales tax funds to reduce the size of the refinancing bond issue to \$19,035,000.

The elected members of the Public Building Commission are Mayor Jay Warren, Vice Mayor Karen Welch, Commissioner Kanyon Gingham, Commissioner Dan Jurkovich and Commissioner Duane Oestmann. Appointed members are David Billings, Angela Bruce, Mike Munson and Charles Tweedy.

The commission generally meets at 5 p.m. on the third Tuesday of each September, and at other times as needed. Its special meeting June 25 is expected to be its final meeting in 2019, however.

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