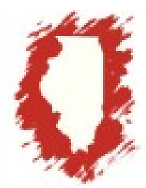
Government Finance Officers Association
of the United States and Canada

GFOA Newsletter

May 14, 2015

Changing Composition of Labor Force Might Have Lowered the Unemployment Rate

Changes in the composition of the labor force may have lowered the natural rate of unemployment – the unemployment rate that would prevail in an economy making full use of its productive resources – to 5% or less, according to a May Chicago Fed Letter. "A lower natural rate may help explain why wage inflation and price inflation remain low despite actual unemployment recently reaching 5.5% – a figure only slightly higher than prominent estimates of the natural rate. Demographic and other changes should continue to lower the natural rate for at least the remainder of the decade."

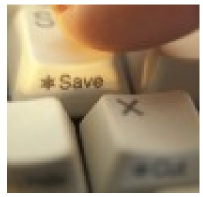


Illinois Pension Reform Law Ruled Unconstitutional; State's Bond Rating Lowered

The Illinois Supreme Court unanimously ruled on Friday that the Illinois pension reform law passed in 2013 is unconstitutional, Pensions & Investments reported. On May 8, the court affirmed that "the pension law — which reduced cost-of-living adjustments, capped pensionable salaries, and raised retirement ages — violates the state's constitutional clause that pension benefits 'shall not be diminished or impaired.'" The law was to go into effect June 1. The state had maintained that pension benefits could be altered in light of Illinois' roughly $100 billion pension funding crisis, but the Supreme Court rejected that argument.

As a result, Moody's Investors Service downgraded the city's debt to junk status, the Chicago Tribune reported. "We believe that the city's options for curbing growth in its own unfunded pension liabilities have narrowed considerably," Moody's report stated.

Learn about public pension reform efforts at the GFOA annual conference session, Successful Pension Reform, on Wednesday, June 3, in Philadelphia.



Best Practice of the Week
Bond Refunding Saves City $6.4 Million

The City of Sarasota, Florida, recently finalized the refunding of its Series 2007 General Obligation Bonds, resulting in a savings of approximately $6.4 million – or nearly $291,000 for every year through fiscal 2037. The city issued Series 2015 General Obligation Refunding Bonds at lower interest rates to retire the outstanding Series 2007 General Obligation Bonds with higher rates – 3.14% versus 4.8%.

In March 2006, Sarasota voters overwhelmingly approved a General Obligation Bond to construct and equip a new Sarasota Police Headquarters. The Series 2007 bonds were originally issued in the amount of $46.3 million. The subsequent Great Recession increased competition with general contractors and as a result, the project cost was significantly less than anticipated and the city retained the excess bond proceeds. Over the years staff has monitored the bond market, looking for opportunities for savings. In 2011, the city purchased and cancelled $2.6 million of the Series 2007 Term Bonds, due in 2032 and 2037. The remaining bond proceeds, along with the reduced interest cost, contributed significantly to the savings.

GFOA best practices recommend that local governments consider refunding outstanding bonds when a government can achieve a savings of at least 3.5%. In this case, present savings for the refunding is 9.29% of refunded par. (See the GFOA best practice, *Analyzing and Issuing Refunding Bonds*.)

The city's strong bond rating was a significant factor in the bond refunding and associated savings. As part of the refunding process, both Moody's and Fitch gave the bonds high ratings – AA+ from Fitch and Aa2 from Moody's. A strong economic recovery, high reserves, low-to-moderate debt burden, and good revenue diversity with a low property tax rate were cited as key reasons for the outstanding ratings.