



Date: March 6, 2012

To: Thomas J. Bonfield, City Manager
Through: Wanda S. Page, Deputy City Manager
From: David Boyd, Finance Director
Chad Cowan, Treasury Manager
Subject: Adopt Findings Resolution, Introduce Bond Orders and Set a Public Hearing for Two Thirds Bond Issuance

Executive Summary

The Finance Department is proposing the issuance of General Obligation Bonds in an amount not to exceed of \$77,270,000.00 to fund new projects and refinance existing debt. The issuance amount is broken down into four categories including the remaining \$28,425,000.00 General Obligation (GO) Bonds from the 2005 referendum, \$20,000,000.00 GO Bonds from the 2010 referendum, \$14,000,000.00 to refinance a portion of the City outstanding debt and \$14,845,000.00 of GO Two Thirds Bonds. Actual sizing of the Bond Sale will be determined closer to pricing based on the current schedule of expected project expenditures and interest rates at the time of sale. All the bonds will be sold on June 19, 2012 by the NC State Treasurer's Office, Local Government Commission, through a competitive sale.

The Resolutions recommended for adoption on April 2, 2012 are required by North Carolina law and do not allow the City to sell bonds without further action of the City Council including the adoption of the bond orders and a bond resolution following the public hearing currently anticipated to occur on April 16, 2012.

Recommendation

The Finance Department recommends that the City Council:

1. To adopt a Resolution of the City Council of the City of Durham, North Carolina Making Certain Statements of Fact Concerning Proposed Bond Issue;
2. To introduce the Three Bond Orders associated with the Issuance of the Two Thirds Bonds, Series 2012; and
3. To adopt a Resolution of the City of Durham, North Carolina Calling a Public Hearing on Bond Orders, Directing Publication of Notice of Said Public Hearing and Filing of a Debt Statement for April 16, 2012.

Background

The Finance Department is proposing the issuance of an amount not to exceed \$28,425,000.00 General Obligation (GO) Bonds from the 2005 referendum, amount not to exceed \$20,000,000.00 GO Bonds from the 2010 referendum, an amount not to exceed

\$14,000,000.00 to refinance a portion of the City outstanding debt issued in 2005 and authority to issue an amount not to exceed \$14,845,000.00 of GO Two Thirds Bonds.

During November 2005, voters approved a \$110 million GO Bond Referendum package for various capital project categories. To date, \$81,575,000.00 of these bonds have been issued. The authorized and unissued bonds must be issued prior to November 2012. This planned sale will exhaust the remaining authority on the 2005 bonds. The 2012 GO Bond issue will be for reimbursement of previously incurred capital expenditures, for future bond eligible expenditures and to pay costs of issuance related to the sale of the bonds. The expenditures incurred and anticipated under the 2005 referendum are in the following categories:

Purposes	Amount
Cultural Facilities	\$1,279,482.63
Neighborhood Improvements	1,260,000.00
Parks & Recreation	14,483,928.12
Streets and Sidewalks	3,820,133.20
Water and Sewer	7,580,000.00
Total	\$28,423,543.95

During November 2010, voters approved a \$20 million GO Bond Referendum package for street improvements. To date, none of the 2010 bonds have been issued and the City intends to issue the entire authorization in 2012. The bonds will be issued to reimburse the City for previously incurred capital expenditures, to pay for bond eligible expenditures planned within the next 12 months and to pay costs of issuance related to the sale of the bonds.

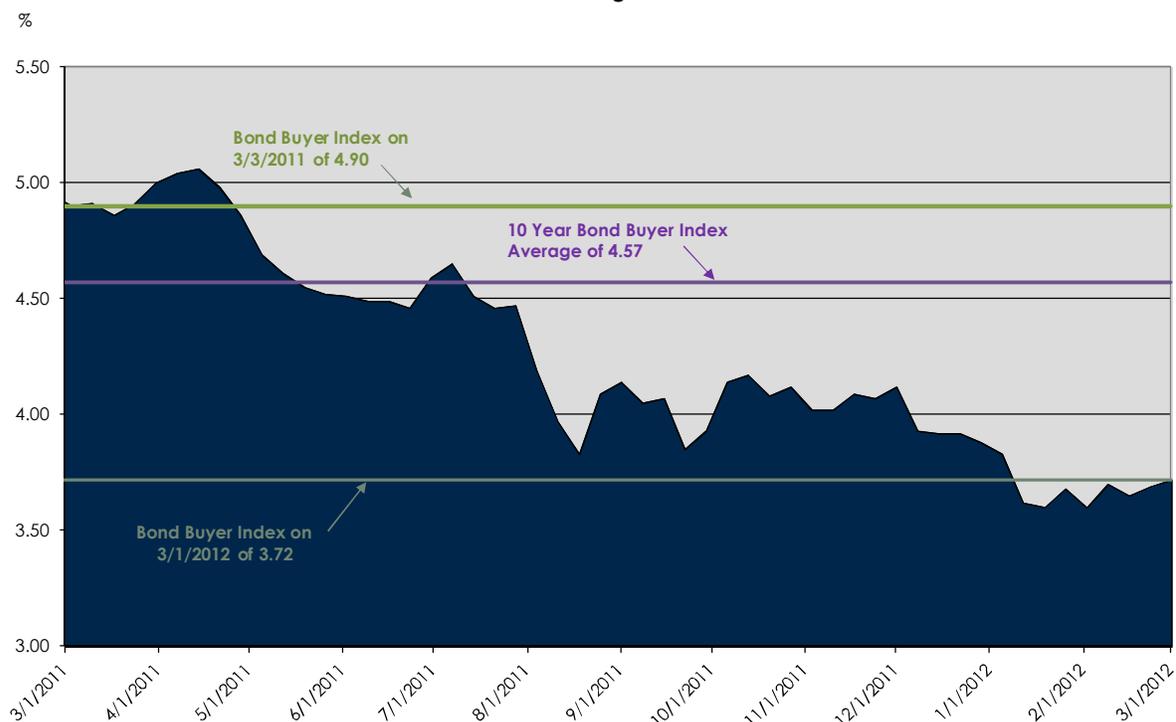
Issues and Analysis

The City voters have authorized the issuance of over \$48,000,000.00 of GO Bonds which have yet to be issued. In addition to these projects a number of projects have been approved or will be approved in the annual CIP process (currently in progress) and to address current fleet acquisition needs. Due to the timing of these financing needs and, in the larger context of the current interest rate environment, staff will be recommending the issuance of approximately \$58,370,000.00 of tax-exempt new money bonds, \$5,000,000.00 of taxable new money bonds and issuance of up to \$14,000,000.00 of refunding bonds. The taxable bonds will be sold to conform with the federal tax code pertaining to private use of projects being financed by the bonds.

The combined financing will provide the lowest cost of borrowing for the City's capital financing needs and will reduce transaction costs by combining three separate issues into one sale.

Current Interest Rates Over the past year, interest rates in the municipal bond market (and the broader bond market) have dropped to historically low levels. The following chart tracks the Bond Buyer Index (which estimates the approximate rates in the municipal market) over the past year.

Bond Buyer Index (BBI)
March 2011 through March 2012



As is clearly illustrated, the current rate of 3.72% is well below the 10-year average rate of 4.57% and over 1.00% below the rate one year ago.

Timing Considerations

Under the Local Government Bond Act, the “Two Thirds rule” authorizes local governments, under certain circumstances, to issue general obligation in an amount equal to two thirds of the amount by which the outstanding indebtedness of the City was reduced in the preceding year. In FY 2012, the City will reduce its General Obligation indebtedness by \$22,270,000.00 which provides the City approximately \$14,845,000.00 of Two Thirds bond capacity.

The City has pinpointed \$9,500,000.00 of anticipated projects in its annual CIP process that will require financing to complete. Additionally, the City annually finances a portion of its fleet acquisition plan. Staff intends to include the fiscal year 2013 Fleet Financing of approximately \$3,000,000.00 as a portion of the Two Thirds bonds. The fleet portion of the bonds will be structure to mature within five years to match the useful life of the projects financed. The additional \$2,345,000.00 of Two Thirds capacity will be used to pay costs of issuance for the bonds and accommodate the potential addition of projects to the CIP. If no changes occur to the CIP or fleet financing plans, Finance staff anticipates the issuance of less than \$13,000,000.00 of Two Thirds bonds.

Refinancing

In addition to the new money projects previously outlined, the City is in a position to refund certain maturities of two series of general obligation bonds and realize positive economic savings. The Finance Department is currently pursuing refunding callable portions of the City’s outstanding General Obligation Series 2005A and 2005C (the “Refunded Bonds”) in

the amount of approximately \$12,450,000.00, which represents all of the bonds maturing after the call date of the bonds. Based on current market rates, the refunding will generate approximately \$622,000.00 in net present value savings (NPV) or 5.00% of the Refunded Bonds. The City will continue to refine the refunding structure (i.e., identifying the best refunding candidates) up to the time of pricing.

Future Events

On April 16, 2012, the Finance Department anticipates recommending that the City Council:

1. Hold a public hearing related to the issuance of the Two Thirds bonds;
2. Adopt a bond order related to refunding the bonds issued in 2005;
3. Adopt bond orders related the issuance of Two Thirds bonds;
4. Adopt the resolution authorizing the issuance of not to exceed \$77,270,000.00 General Obligation Bonds;
5. Authorize the City Manager or his designee to execute other associated legal documents as necessary to complete this transaction, and to make changes to any of the legal documents prior to execution, so long as the changes are consistent with the intent of the agenda item memo and the existing versions of the documents.

Timing of Bond Sale

The sale date for the bond issue is planned for June 19, 2012. The LGC will sell the bonds through competitive sale.

Other Items

The Finance Department has filed an application with the LGC to sell the bonds through competitive sale, and has retained Parker, Poe, Adams & Bernstein L.L.P. and The Banks Law Firm as Co-Bond Counsel. The City's Financial Advisor, Stephens, Inc has also been retained for the transaction.

Copies of the official statement for this issue will be available for review after June 12, 2012 in the City Clerk's Office.

Alternatives

City Council could choose to forego the adoption of the Resolutions and the projects proposed to be financed with Two Thirds bonds would either need to be delayed or financed using an Installment Financing Contract ("IFC"). The Two Thirds bond structure will allow the City to finance the projects using the City's Aaa/AAA/AAA bond rating.

The use of an IFC would increase borrowing costs in terms of both interest expense and costs of issuance. Additionally, the IFC would delay the sale of the bonds and expose the City to the possibility that rates will increase prior to finalizing the sale of the IFC.

Financial Impact

The debt service related to the entire plan of finance will be paid from property tax revenue excluding a portion of the 2005 Bonds that fund Department of Water Management projects. All of the debt service related to this financing has been anticipated in the budget projections currently being discussed by Council.

Estimated Debt Service on the 2005, 2010 and Two Thirds Bonds

Fiscal Year	2005/2010 GO Bonds (Debt Fund)	2005 Bonds (Water and Sewer)	CIP Financing (2/3rds)	Fleet Financing (2/3rds)	Total Financing Cost
2013	\$ 657,549	\$ 122,043	\$ 155,400	\$ 34,500	\$ 969,492
2014	3,144,817	924,958	726,600	638,250	5,434,624
2015	3,128,966	922,798	718,200	626,750	5,396,715
2016	3,104,540	918,265	709,800	615,250	5,347,855
2017	3,063,527	910,653	699,300	600,875	5,274,355
2018	3,008,239	900,391	686,700	583,625	5,178,955
2019	2,948,796	888,576	674,100	-	4,511,472
2020	2,893,635	878,338	661,500	-	4,433,472
2021	2,825,146	864,843	646,800	-	4,336,789
2022	2,751,766	851,224	630,000	-	4,232,989
2023	2,678,385	837,604	613,200	-	4,129,189
2024	2,605,005	823,985	596,400	-	4,025,389
2025	2,531,625	810,365	579,600	-	3,921,589
2026	2,458,244	796,745	562,800	-	3,817,789
2027	2,384,864	783,126	546,000	-	3,713,989
2028	2,311,483	769,506	529,200	-	3,610,189
2029	2,238,103	755,887	512,400	-	3,506,389
2030	2,155,550	740,565	493,500	-	3,389,614
2031	2,063,824	723,540	472,500	-	3,259,864
2032	1,972,099	706,516	451,500	-	3,130,114
2033	1,880,373	689,491	430,500	-	3,000,364
Total:	\$ 52,806,537	\$ 16,619,417	\$ 12,096,000	\$ 3,099,250	\$ 84,621,203

Estimated Savings on the Refunded Bonds

Fiscal Year	Existing Debt Service	Projected New Debt Service	Savings	PV Savings
2013	\$ 505,625	\$ 457,950	\$ 47,675	\$ 47,044
2014	505,625	457,950	47,675	46,346
2015	505,625	457,950	47,675	45,659
2016	1,555,625	1,502,950	52,675	49,699
2017	1,513,625	1,461,600	52,025	48,358
2018	1,471,625	1,420,550	51,075	46,770
2019	1,629,625	1,579,800	49,825	44,949
2020	1,579,625	1,531,200	48,425	43,038
2021	1,529,625	1,482,600	47,025	41,174
2022	1,479,625	1,429,000	50,625	43,668
2023	1,429,625	1,380,600	49,025	41,661
2024	1,378,063	1,327,200	50,863	42,581
2025	1,326,500	1,279,000	47,500	39,176
2026	573,375	520,800	52,575	42,719
Total:	\$ 16,983,813	\$ 16,289,150	\$ 694,663	\$ 622,843

SDBE Summary

There are no SDBE issues with regard to this item.

Attachments

Findings Resolution, Introduction of Bond Orders, Notice of Hearing Resolution (6 pages)