DURHAM

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CITY OF MEDICINE

CITY OF DURHAM | NORTH CAROLINA

Date: **March 20, 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 a Bond Resolution for the issuance of Refunding Limited Obligation Bonds, Series 2012A and Series 2012B**

Executive Summary

Based on favorable interest rates, the City is in a position to advance refund certain maturities of two series of Certificates of Participation (COPs) and realize positive economic savings. The Finance Department is currently pursuing refunding such portions of the City's outstanding COPs Series 2003 and Series 2005 (the "Refunded Bonds") in the amount of $14,075,000.00, which represents all of the callable maturities from both series. Based on market rates as of March 20, 2012, the refunding will generate approximately $627,000.00 in net present value savings (NPV) or 4.50% 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.

Recommendation

The Finance Department recommends that the City Council:

1. Adopt the Resolution of the City Council of the City of Durham, North Carolina, approving an amendment to the Installment Purchase Contract with the New Durham Corporation and Related Matters; and,
2. 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.

Background

On August 27, 2003, the City issued Certificates of Participation, Series 2003 in the amount of $14,000,000.00 to acquire, construct and equip a portion of a 1311 space parking facility located near American Tobacco (the North Garage). As of March 1, 2012, the outstanding par amount of 2003 COPs is $8,505,000.00. The COPs were sold with a call date of June 1, 2013 and any COPs maturing after that date may be refinanced. The COPs have a par amount of $7,085,000.00 which mature following the call date and may be refinanced for savings.

On May 12, 2005, the City issued Certificates of Participation, Series 2005B in the amount of $34,485,000.00 to fund multiple projects including but not limited to renovating City Hall, the Police Laboratory, Police Headquarters, acquiring fleet vehicles, acquiring and equipping Fire Station #8 and Fire Station #16 and to refinance bonds issued in 1995. As of March 1, 2012, the outstanding par amount of 2005 COPs is $18,260,000.00. The COPs were sold with a call date of June 1, 2015 and any COPs maturing after that date may be refinanced. The COPs have a par amount of $7,965,000.00 which mature following the call date and may be refinanced for savings.

The City intends to refinance all of the callable COPs from both series provided that they are economically viable. Depending on interest rates at the time of sale, the City may refinance less than all of the callable COPs outlined above.

The City's current debt management policy (FP707.01) requires NPV savings of 5.0% of the refunded bonds but allows for refundings below this threshold to be evaluated on a case-by-case basis. The Government Finance Officers Association (GFOA) has a "Recommended Practice" related to advance refundings. It practice suggests a minimum refunding threshold between 3.0% and 5.0% of the refunded bonds. The City's threshold is at the high end of the suggested range. As previously outlined, current savings levels are slightly below the City's target but well within the range recommended by the GFOA.

Due to the significant volatility seen in the municipal bond market over the past several years, the City wants to be positioned to take advantage of historically low rates even though the savings levels are currently below our target. The City will not execute the transaction if savings levels remain significantly below the target established in the current debt management policy.

Issues and Analysis

Given the low level of interest rates, the City has the potential to realize annual debt service savings by refunding previously issued bonds. Following thorough evaluation of market conditions, interest rates, and other financing related expenses, the Finance Department has determined that a private placement of this financing will provide the City the best overall financing results. The Finance Department issued a Request For Proposals (RFP) in March 2012 to multiple banking institutions and, pending City Council approval of the resolution, will select the bidder with the most favorable terms for the City.

Private placement installment financings are typically marketed directly to an investor. In contrast, public sales – such as the 2010 Limited Obligations Bonds – require the hiring of an underwriter who negotiates the sale of the debt to a number of investors. Given the simplicity of a private placement, it can be undertaken without the use of credit rating agencies, an underwriter, and other market professionals such as underwriters counsel. For financings of this size and structure, it provides an excellent alternative to traditional bond sales. This transaction will be similar to the financing the City completed in 2011 for the acquisition of fleet vehicles.

<u>Timing of Bond Sale</u>

The City received bids from banking institutions on March 30, 2012, anticipates receiving approval from the LGC on May 1, 2012 and plans to close the transaction on or around May 15, 2012.

Other Items

The Finance Department has filed an application with the LGC to sell the bonds through private placement, and has retained Parker, Poe, Adams & Bernstein L.L.P. as Bond Counsel. The City's Financial Advisor, Stephens, Inc has also been retained for the transaction. Deutsche Bank will continue to act as the Trustee for the COPs and LOBs and the City will retain another banking institution to manage the investment of escrow securities.

Alternatives

The City could choose not to refinance the 2003 and 2005 COPs and there would be no savings realized.

Financial Impact

Refinancing the bonds would result in decreased future debt service payments. An estimate of the savings is below.

Estimated Savings on the Refunded Bonds

Fiscal Year	Existing Debt Service	Projected New Debt Service	Savings	PV Savings
2013	$ 400,720	$ 336,009	$ 64,711	$ 64,634
2014	801,440	744,015	57,425	55,619
2015	1,511,440	1,456,563	54,878	51,541
2016	1,466,000	1,406,088	59,913	54,566
2017	2,120,560	2,061,198	59,363	52,427
2018	2,045,370	1,982,505	62,865	53,838
2019	1,963,180	1,904,673	58,508	48,588
2020	1,880,990	1,822,700	58,290	46,941
2021	1,803,800	1,746,725	57,075	44,571
2022	1,716,610	1,656,610	60,000	45,435
2023	1,634,740	1,572,825	61,915	45,465
2024	1,554,620	1,495,233	59,388	42,288
2025	769,500	753,638	15,863	10,953
2026	724,500	708,975	15,525	10,395
Total:	$ 20,393,470	$ 19,647,754	$ 745,716	$ 627,261

SDBE Summary

There are no SDBE issues with regard to this item.

Attachments

Approving Resolution (6 pages)
Second Contract Amendment (11 pages)
Escrow Deposit Agreement (16 pages)