



CITY OF DURHAM | NORTH CAROLINA

Date: August 8, 2013

To: Thomas J. Bonfield, City Manager
Through: Wanda Page, Deputy City Manager
From: David Boyd, Finance Director
Subject: Work Session Follow-up to Agenda Item #6

In response to the inquiry from Councilmember Schewel regarding the financial benefit of the City's bond rating compared to lower rated credits, the Finance Department had the investment bankers run an analysis of expected interest rates on the planned Limited Obligation Bond offering. While the bonds the City intends to issue have not yet been rated, we expect to receive ratings slightly below the City's general obligation (GO) rating of AAA. All other things being equal, Limited Obligation Bonds are generally rated two notches below an issuer's GO rating by Moody's and one notch lower by Standard & Poors and Fitch.

Combining the taxable and tax-exempt series of bonds, the bankers' analysis compares the interest rates on the anticipated Aa2/AA+ rating the City expects to three lower ratings. Over the life of the bonds, the analysis shows savings of \$313,977 compared to a rating of Aa3/AA, savings of \$935,950 compared to A1/AA-, and savings of \$1,569,052 compared to A2/A+.

The detailed analysis is attached for your reference.

Attachments
Market Analysis

City of Durham, North Carolina
 Limited Obligation Bonds
 Market as of August 9, 2013

Estimated Cost of Capital by Rating Category
 Analysis Assumes 10-Year Par Call on TE and TX Components

	Anticipated Rating on 2013 LOBS			
Moody's*:	Aa2	Aa3	A1	A2
S&P:	AA+	AA	AA-	A+
Fitch:	AA+	AA	AA-	A+
Par Amount:	\$ 34,310,000	\$ 34,315,000	\$ 34,325,000	\$ 34,335,000
Premium (Discount)	\$ 1,726,006	\$ 1,721,135	\$ 1,711,343	\$ 1,703,069
Total Bond Proceeds	\$ 36,036,006	\$ 36,036,135	\$ 36,036,343	\$ 36,038,069
Project Fund Deposit:	\$ 35,603,000	\$ 35,603,000	\$ 35,603,000	\$ 35,603,000
Aggregate Cost of Issuance:	\$ 433,006	\$ 433,135	\$ 433,343	\$ 435,069
Gross Debt Service:	\$ 47,235,181	\$ 47,549,158	\$ 48,171,132	\$ 48,804,233
Increase in Debt Service**:	n/a	\$ 313,977	\$ 935,950	\$ 1,569,052
All-In TIC:	3.96%	4.06%	4.26%	4.47%

* Moody's notches one to two ratings from the City's GO rating based on essentiality of project/use of proceeds.

In the instance of the Series 2013 LOBs, we estimate that Moody's will rate the Bonds Aa2.

** From base case anticipated ratings.