



**Date:** July 23, 2013

**To:** Thomas J. Bonfield, City Manager  
**Through:** Wanda S. Page, Deputy City Manager  
**From:** David Boyd, Finance Director  
Chad Cowan, Treasury Manager  
**Subject:** Resolution Authorizing the Issuance of Limited Obligation Bonds, Series 2013A and 2013B

### **Executive Summary**

The Finance Department is proposing the issuance of Limited Obligation Bonds in an amount not to exceed \$36,000,000.00 to fund new projects and refinance existing debt. The issuance amount is broken down into Series A (Tax-Exempt) and Series B (Taxable). Series A Bonds will have a value of approximately \$20,000,000.00 and will fund a variety of projects approved via the City's annual CIP, the acquisition of rolling carts for the Department of Solid Waste, improvements along 9<sup>th</sup> Street and the acquisition of fleet vehicles. The Series B Bonds will have a value of approximately \$16,000,000.00 and will fund improvements to the Durham Bulls Athletic Park and will also refund the City's remaining 2000 Taxable Variable Rate Housing 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. The bonds will be sold on September 26, 2013 via negotiated sale.

### **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 providing for the Issuance of \$20,000,000 Limited Obligation Bonds, Series A (Tax-Exempt), \$16,000,000 Limited Obligation Bonds, Series 2012B (Taxable) of the City of Durham, North Carolina;
2. To 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**

The Finance Department is proposing the issuance of an amount not to exceed \$36,000,000.00 Limited Obligation Bonds in two series to fund projects previously approved by Council.

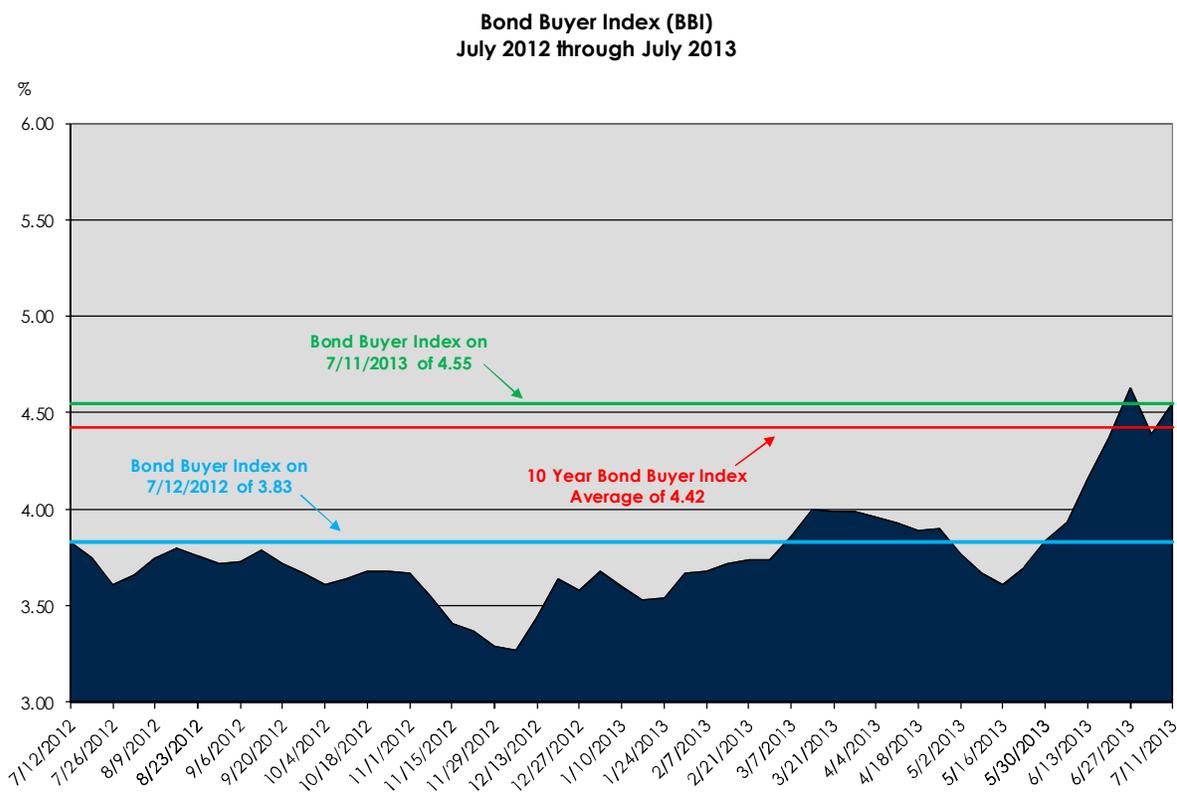
### **Issues and Analysis**

Over the past two years, the City Council has approved a variety of stand-alone projects in addition to the annual CIP including the annual fleet acquisition schedule with the anticipation

of funding the projects with future debt issuance. Due to the timing of these financing needs and, in the larger context of the current increasing interest rate environment, staff will be recommending the issuance of approximately \$20,000,000.00 of tax-exempt new money bonds, and \$16,000,000.00 of taxable new money and 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 and the initial use of the bonds being refinanced.

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

Current Interest Rates Since May 1, 2013, interest rates in the municipal bond market (and the broader bond market) have increased significantly. The following chart tracks the Bond Buyer Index (which estimates the approximate rates in the municipal market) over the past year. Additionally, the improving economic outlook has many experts predicting continued increases in interest rates. However, due to the conservative financial estimates used during the budget process, the estimated debt service costs for this transaction remain below initial budgetary estimates (as of July 15, 2013).



**Refinancing**

In addition to the new money projects previously outlined, the City is in a position to refund the remaining \$4,000,000.00 of its 2000 Variable Rate Taxable Housing Bonds (maturing from May 2015 through May 2018). The purpose of this refinancing would be to eliminate the City's exposure to increasing interest rates and remove the City's exposure to renewing its current standby bond purchase agreement, which expires in December of 2013. The

decision to refinance this debt is driven primarily by the timing of the 2013B Taxable issue. By refinancing this debt in conjunction with the 2013B issue, the City will eliminate the previously mentioned exposures and also minimize costs of issuance by issuing this taxable debt with the DPAB projects.

#### Timing of Bond Sale

The sale date for the bond issue is planned for September 26, 2013 with closing in the month of October.

#### Other Items

The City's financing is schedule to be approved at the Local Government Commission's September 10, 2013 meeting 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 and Bank of America Merrill Lynch and RW Baird & Co. have been retained to underwrite the transaction.

Copies of the official statement for this issue will be available for review on approximately September 19, 2013 in the City Clerk's Office.

#### **Alternatives**

The City could choose not to issue the Bonds. This alternative is not recommended because the City has either approved the budgets for the projects or entered into agreements to fund projects to be completed by external partners.

Additionally, the combined financing of all of the projects will provide the lowest cost of financing for projects in the current CIP. The City could choose to finance these projects using a different financing structure at increased interest rates and with higher costs of issuance.

#### **Financial Impact**

The debt service related to the entire plan of finance will be paid from property tax revenue. All of the debt service related to this financing has been anticipated in the budget projections previously being discussed by Council. The debt service schedule for the bonds is different from many bond issues the City has sold historically. Traditionally, the City has sold debt with a level principal repayment schedule which results in declining debt service throughout the repayment schedule of the bonds. Due to the differing nature of the projects being financed in this offering, the City is structuring the debt to match the useful life of many projects or to match the financing agreements for projects.

In the case of this financing, the City has structured the maturity schedule to reflect the useful life of the fleet and rolling cart assets (approximately 5 years), the anticipated revenue flow of the Durham Bulls agreement (which requires a level debt service structure), and the original repayment schedule of the refunded bonds (final maturity in 2018) The final piece of the debt (to finance new CIP projects) will be structured with level principal over the life of the financing, which has been the City's historical practice.

This specific structure will result in a debt service schedule which is significantly higher in the first 5 years but then slowly decreases over the life of the financing.

Estimated Debt Service on the 2013A and 2013B Bonds

<b>Fiscal Year</b>	<b>2013A Tax-Exempt Bonds</b>	<b>2013B Taxable Bonds</b>	<b>Total Financing Cost</b>
2014	\$ 399,498	\$ 253,506	\$ 653,004
2015	3,022,825	1,979,058	5,001,883
2016	2,969,800	1,971,852	4,941,652
2017	2,898,250	1,957,971	4,856,221
2018	2,818,875	1,934,808	4,753,683
2019	2,040,625	912,032	2,952,657
2020	867,375	913,927	1,781,302
2021	842,125	913,732	1,755,857
2022	816,875	911,482	1,728,357
2023	786,750	912,261	1,699,011
2024	761,750	911,628	1,673,378
2025	736,750	909,243	1,645,993
2026	711,750	909,649	1,621,399
2027	686,750	912,360	1,599,110
2028	661,750	912,300	1,574,050
2029	636,750	909,828	1,546,578
2030	611,750	909,329	1,521,079
2031	586,750	910,997	1,497,747
2032	556,875	910,593	1,467,468
2033	532,125	912,987	1,445,112
2034	507,375	913,051	1,420,426
<b>Total:</b>	<b>\$ 24,453,373</b>	<b>\$ 22,682,594</b>	<b>\$ 47,135,967</b>

**SDBE Summary**

There are no SDBE issues with regard to this item.

**Attachments**

- Resolution (6 pages)
- Contract Amendment #2 (17 pages)
- Supplemental Indenture #2 (32 pages)
- Form of the Official Statement (59 pages)
- Letter of Representations (7 pages)