



**CITY OF DURHAM | NORTH CAROLINA**

**Date: April 4, 2016**

**To: Thomas J. Bonfield, City Manager**  
**Through: Wanda S. Page, Deputy City Manager**  
**From: David Boyd, Finance Director**  
**Keith Herrmann, Deputy Finance Director**  
**Chad Cowan, Treasurer**

**Subject: Resolution approving an Installment Financing Contract and Deed of Trust and authorizing the City Manager to execute associated legal documents**

### **Executive Summary**

Over the past several years, the City's Finance Department in partnership with Budget & Management Services, worked to create additional capital capacity within the City's tax rate constraints. As part of this plan, the Finance Department is proposing the use of an Installment Financing Contract (IFC) - Draw Program. The IFC Draw Program will allow the City to spend funds as needed and reimburse itself from the Contract. This structure allows the City to borrow only when needed and take advantage of low short-term interest rates. Once the City completes the majority of the projects, the City will refinance the draw program into a traditional fixed rate bond transaction. The transaction allows the City to save significant interest costs over the next several years and better time the City's long term financings.

The Finance Department is proposing entering into a privately placed installment financing contract with PNC Bank, National Association ("PNC") for an amount not to exceed \$95,000,000.00. All of the projects have been previously approved through the Capital Improvement Program (CIP) process. The projects include the construction of the new Police Headquarters Facility, refinancing the City's 911 Radio acquisition and a variety of other CIP projects. Additionally, the financing will pay any costs of issuance related to the financing.

On March 21, 2016, the Council adopted a resolution providing for the negotiation of the contract and held a public hearing on March 21, 2016 relative the agreement. This agenda item provides the final authorizations for the execution of the IFC.

### **Recommendation**

The Finance Department recommends that the City Council:

1. Adopt a Resolution approving Installment Financing Contract and Deed of Trust related to the financing of the Police Headquarters Facility, 911 Radio acquisition and other projects and other related matters;
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

Over the past several years, the Finance Department and Budget & Management Services have re-evaluated the long-term capital plan during the annual budget and CIP processes. This analysis was done as a way to better evaluate cost effective financing options and to provide for more flexibility with regard to number and timing of projects. The evaluation has led to a capital plan with an increased amount of capital capacity within a fixed tax rate. The approval of this resolution is the second step in operationalizing this piece of the overall capital financing plan. The final phase of the financing plan will be the refinancing the draw program into a traditional fixed rate transaction in 24-36 months.

## Issues and Analysis

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 January to eight banking institutions and received five proposals with PNC providing the best overall result for the City.

The summary of bids is outlined below:

<u>Bank</u>	<u>Current Rate</u> <sup>1</sup>	<u>Unused Fee:</u>	<u>Fees:</u>
PNC	0.664%	0.08%	\$15,000.00 <sup>2</sup>
BAML	0.681%	0.10%	\$10,000.00 <sup>2</sup>
Wells Fargo	0.801%	0.20%	\$30,000.00 <sup>3</sup>
JP Morgan	0.971%	0.23%	\$35,000.00 <sup>3</sup>
SunTrust	2.610%	N/A	\$10,000.00 <sup>2</sup>

1. All rates are variable rate and are based off of LIBOR. For example, PNC's bid is 68.5% of 1 month LIBOR plus 0.37% which results in the lowest overall cost of funds in all interest rate environments compared to the other bids.
2. City of Durham Bond Counsel will draft all legal documents and be reviewed by the Bank's Counsel.
3. The Bank's Counsel will draft all documents and the City's Bond Counsel will review the legal documents.

The following banks received the RFP but did not respond: Citi, M&F Bank, Regions Bank, First Tennessee Bank.

Pending City Council approval of the resolution, the transaction will close in the middle of April.

This type of financing structure is relatively common among many of the larger governments in North Carolina. Below is a list of some other local governments that have utilized this type of financing to accomplish their capital plans:

- Charlotte
- Greensboro
- Winston-Salem
- Durham County
- Wake County

## Alternatives

City Council could choose to forego this structure and issue fixed rate debt to finance the projects in question; however, fixed rate debt will have a higher initial cost and would result in the need for additional revenue or that the City adjust the timing of some of the City's projects.

**Financial Impact**

The debt service on this financing, as outlined below, will be paid from debt service fund. The costs outlined below were included in the long-term financial plan as discussed during last year's budget process.

The use of this structure will result in payments over the next 36 months, as outlined below. For comparison sake, a fixed rate financing would result in annual debt service of nearly \$7.5 million annually.

<b>Total Draw Program Financing</b>			
<b>Year</b>	<b>Interest</b>	<b>Unused Fee</b>	<b>Total</b>
FY2016	\$7,000.00	\$12,000.00	\$19,000.00
FY2017	103,000.00	55,000.00	158,000.00
FY2018*	442,000.00	--	442,000.00
<b>Total:</b>	<b>\$552,000.00</b>	<b>\$67,000.00</b>	<b>\$619,000.00</b>

\* Draw Program will be transitioned to a traditional fixed rate transaction in FY2018.

**SDBE Summary**

There are no SDBE issues with regard to this item.

**Attachments**

Resolution (5 pages)

Installment Financing Contract (32 pages)

Deed of Trust (21 pages)