

CITY OF CHARLOTTE
DEPARTMENT OF FINANCE & TREASURY
INTEROFFICE MEMORANDUM

TO: MAYOR BURCH, CITY COUNCIL AND MANAGER GUETSCHOW
FROM: CHRISTINE K. MOSSNER, FINANCE DIRECTOR
SUBJECT: 2015 WATER & SEWER BOND REFUNDING RESULTS
DATE: APRIL 10, 2015

As you are aware, the city's 2005 Water & Sewer Revenue Refunding bonds are callable in the near future. This callable feature, gave us the opportunity to take advantage of the low interest rates currently available in the bond market, by refunding the bonds. The process of bond refunding is similar to refinancing your house, whereby the city issues new bonds (new mortgage) equivalent to pay off the old bonds (old mortgage). The goal for both refunding and refinancing is to take advantage of lower interest rates thereby saving money over the remaining life of the bonds (mortgage).

On Tuesday, March 24, the city held a very successful \$4,050,000 bond sale receiving 6 bids, from institutions all across the county. The successful bidder was City Securities Corporation of Indianapolis. The refunding bonds have 2016 through 2024 maturities with a true interest cost of 2.02%. This is a reduction of 2.13% from the 4.15% true interest cost of the refunded 2005 bonds. The bond closing was held Thursday, April 9.

The city's net cumulative savings is projected to be \$431,099, over the life of the refunding bonds, with a net present value(NPV) of \$378,665. The NPV as a % of refunded bonds is 8.87%. These savings are significantly better than the initial projected savings of \$375,000 (\$340,000 present value).

As part of the bond sale, the city went through a bond rating review by Standard & Poor's Rating Services (S&P). Bond ratings are similar to an individual's FICO score, in that they reflect a municipalities credit risk, which impacts the interest rates that can be obtained. In the review, the city maintained its "A+" municipal bond rating. This is a very good bond rating that reflects the city's strong capacity to meet financial commitments.

In its rating summary, S&P recognized Charlotte's stable customer base. Although the customer base is comprised predominantly of residential customers (89.5%), the revenue base is evenly distributed among residential, commercial, and industrial customers. In addition, our top ten utility customers are diverse, accounting for 16.6% of total operating revenue and our debt service coverage has been stable over the past few years at about 2.2x, which they considered a "strong credit characteristic."

I think we can all agree that it is nice to receive positive financial news given the financial challenges we have faced over these past years and the tough budget decisions that have been made.