

**To** Amy Oland  
**From** Davenport Public Finance  
**Date** January 23, 2019  
**Subject** Town Council Questions Regarding Davenport's Town Council Retreat Presentation

In response to the questions that were asked by Council Member Nancy Oates, we offer the following explanations / perspective.

1. Please explain the following acronyms: LGC, POS, NOS, BABs Subsidy, LOBs, IFC and IPC.
  - a. **LGC – Local Government Commission.** A department of the State Treasurer's Office that oversees all fiscal management and debt management activities of local governments in North Carolina.
  - b. **POS – Preliminary Official Statement.** A document developed by a bond issuer (the Town) that is used to market bond issuances to potential investors.
  - c. **NOS – Notice of Sale.** A document developed by a bond issuer (the Town) in a competitive offering of bonds. The document details the bond sale process and bidding guidelines.
  - d. **BABs Subsidy – Build America Bonds Federal Subsidy.** A revenue that flows from the IRS to a bond issuer (the Town) related to the reimbursement of certain interest expenses associated with certain bond programs authorized under the American Recovery and Reinvestment Act (ARRA). The Town's Series 2010B General Obligation Bonds were issued as Build America Bonds and are funded in part by a BABs Subsidy as described above.
  - e. **LOBs, IFC, and IPC – Limited Obligation Bonds, Installment Financing Contract, Installment Purchase Contract.** Debt issuance vehicles that are authorized under State Statute § 160A-20 that are secured / collateralized by a security interest in one or more assets that are purchased and/or improved by the funds from the financing. These debt instruments do not constitute a general obligation pledge of the bond issuer's (the Town's) taxing authority, but rather debt service payments on these obligations are subject to annual appropriation by Town Council.

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2. What would be the practical consequences of a lowered credit rating?
  - a. The practical consequences of a lowered credit rating on the Town's bonds depends upon the magnitude of the rating reduction. For example, a bond rating reduction from Aaa/AAA to Aa1/AA+ could have a nominal impact on the Town's borrowing rates (i.e. 5 - 10 basis points or 0.05% - 0.10%)
  - b. For perspective, the chart below illustrates the impact of a 5 or 10 basis point increase in the Town's borrowing rate on a hypothetical \$10 million borrowing amortized over 20-years with a level principal structure (typical North Carolina tax-backed debt amortization).

Year	\$10 Million Borrowing - 4.00%			\$10 Million Borrowing - 4.05%			\$10 Million Borrowing - 4.10%		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
<b>Total</b>	<b>\$ 10,000,000</b>	<b>\$ 4,200,000</b>	<b>\$ 14,200,000</b>	<b>\$ 10,000,000</b>	<b>\$ 4,252,500</b>	<b>\$ 14,252,500</b>	<b>\$ 10,000,000</b>	<b>\$ 4,305,000</b>	<b>\$ 14,305,000</b>
1	500,000	400,000	900,000	500,000	405,000	905,000	500,000	410,000	910,000
2	500,000	380,000	880,000	500,000	384,750	884,750	500,000	389,500	889,500
3	500,000	360,000	860,000	500,000	364,500	864,500	500,000	369,000	869,000
4	500,000	340,000	840,000	500,000	344,250	844,250	500,000	348,500	848,500
5	500,000	320,000	820,000	500,000	324,000	824,000	500,000	328,000	828,000
6	500,000	300,000	800,000	500,000	303,750	803,750	500,000	307,500	807,500
7	500,000	280,000	780,000	500,000	283,500	783,500	500,000	287,000	787,000
8	500,000	260,000	760,000	500,000	263,250	763,250	500,000	266,500	766,500
9	500,000	240,000	740,000	500,000	243,000	743,000	500,000	246,000	746,000
10	500,000	220,000	720,000	500,000	222,750	722,750	500,000	225,500	725,500
11	500,000	200,000	700,000	500,000	202,500	702,500	500,000	205,000	705,000
12	500,000	180,000	680,000	500,000	182,250	682,250	500,000	184,500	684,500
13	500,000	160,000	660,000	500,000	162,000	662,000	500,000	164,000	664,000
14	500,000	140,000	640,000	500,000	141,750	641,750	500,000	143,500	643,500
15	500,000	120,000	620,000	500,000	121,500	621,500	500,000	123,000	623,000
16	500,000	100,000	600,000	500,000	101,250	601,250	500,000	102,500	602,500
17	500,000	80,000	580,000	500,000	81,000	581,000	500,000	82,000	582,000
18	500,000	60,000	560,000	500,000	60,750	560,750	500,000	61,500	561,500
19	500,000	40,000	540,000	500,000	40,500	540,500	500,000	41,000	541,000
20	500,000	20,000	520,000	500,000	20,250	520,250	500,000	20,500	520,500
<b>Debt Service Difference vs. 4.00% Interest Rate</b>					<b>\$ 52,500</b>			<b>\$ 105,000</b>	

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