

DEBT MANAGEMENT

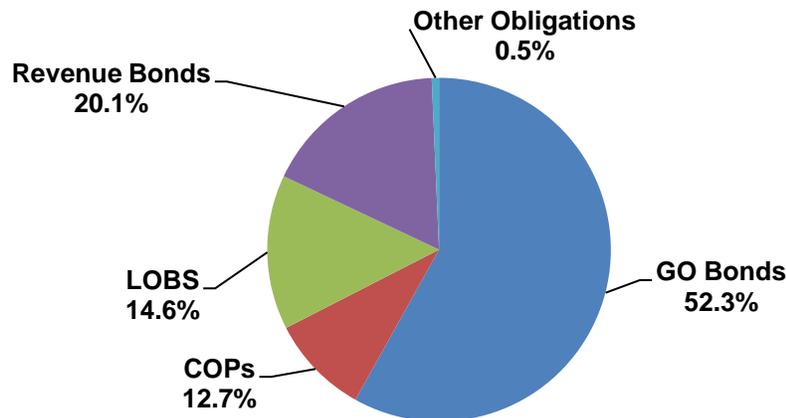
The City manages its long term financing needs through periodic issuance of General Obligation Bonds. Debt service expenditures include principal and interest payments on the City's outstanding bonded debt. These payments are budgeted in the funds that incur the debt: for example, water and sewer debt service is paid from the Water and Sewer Fund. In addition to General Obligation bonds, the City issues revenue bonds and enters into installment sales/lease obligations as allowed under state statutes.

Ratings: Bond ratings are measures of the City's credit worthiness. The rating agencies analyze the City's economic condition, debt management, administrative leadership, and fiscal planning and management to determine the quality of the City's credit. The City has a "triple A" rating from all three rating agencies (Standard and Poor's, Fitch Ratings Ltd. and Moody's Investor Service). This represents the highest possible rating for municipal debt, indicating that the City has outstanding credit worthiness. The City's high bond ratings have allowed it to broaden the market for its bonds and to lower the interest costs for borrowing.

Summary of Outstanding Debt Issues

	Fiscal Year 2013-14 Obligations			Future Obligations		
	Principal	Interest	Total	Principal	Interest	Total
General Obligation Bonds	\$22,650,000	\$10,193,899	\$32,843,899	\$220,445,000	\$64,191,016	\$284,636,016
Installment Sales	3,365,000	1,951,636	5,316,636	32,745,000	20,393,903	53,138,903
Revenue Bonds	4,220,000	3,494,013	7,714,013	68,200,000	44,895,438	113,095,438
Limited Obligation Bonds	5,930,000	2,315,048	8,245,048	55,115,000	15,130,341	70,245,341
Other Obligations	4,025,006	235,362	4,620,368	12,816,738	319,995	13,136,733
Total Debt Service:	\$40,190,006	\$18,189,958	\$58,739,964	\$389,321,738	\$144,930,693	\$534,252,431

**Outstanding Debt by Type of Issue
FY2013-14**



Legal Debt Limit:

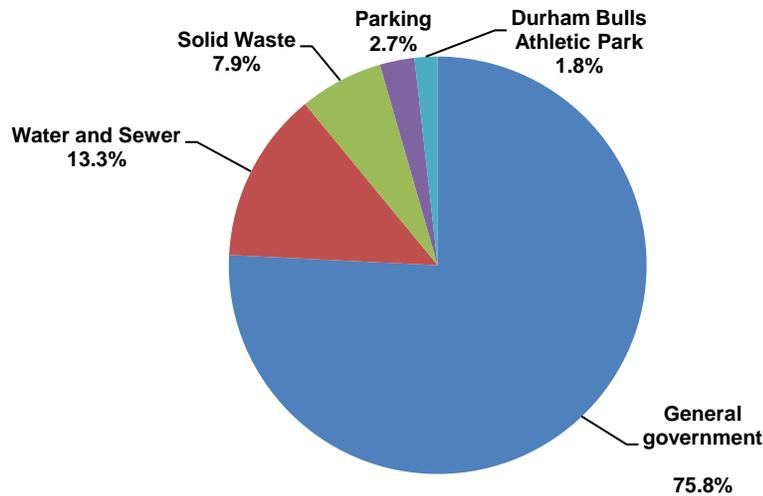
The City is subject to the Local Government Bond Act. The Act limits the net bonded debt that the City may have outstanding to eight percent of the appraised value of property subject to taxation. As of February 1st, 2013 the statutory limit for bonded debt for the City was 1,882,988,980 providing a debt margin of approximately 1,555,668,490.

Outstanding General Obligation Debt

General Obligations

General Government	\$184,228,333
Water & Sewer	32,238,964
Solid Waste	15,783,752
Parking	6,522,695
Durham Bulls Athletic Park	4,321,256
Total	\$243,095,000

**Outstanding General Obligation Debt
FY 2013-14**

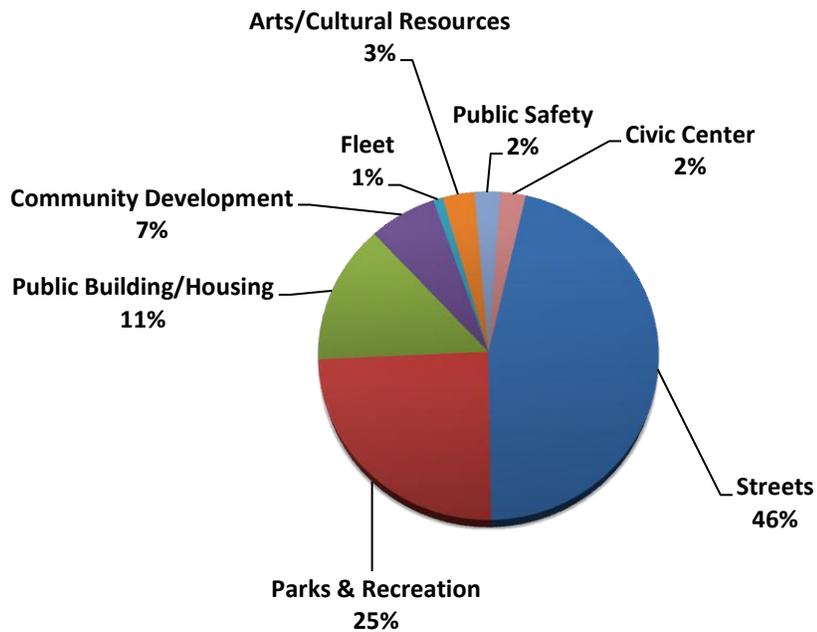


Outstanding General Government General Obligation Debt

General Government

Arts/Cultural Resources	\$5,643,716
Public Building /Housing	25,208,546
Community Development	12,046,561
Parks and Recreation	44,810,847
Fleet	1,710,429
Public Safety	4,566,535
Civic Center	4,494,874
Streets	84,370,888
Public Improvements	1,289,455
Technology	86,482
Total	\$184,228,333

Outstanding General Government G.O. Debt FY 2013-14



Outstanding General Government General Obligation Debt

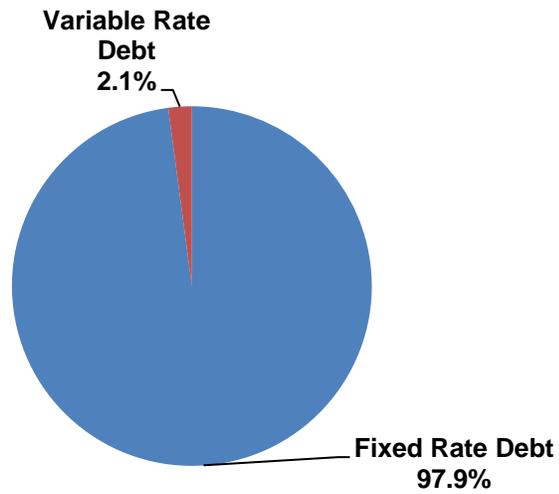
The City currently has no Authorized and unissued Debt

Outstanding Debt

Outstanding Debt

Fixed Rate Debt	\$420,496,744
<u>Variable Rate Debt</u>	<u>\$9,015,000</u>
Total	\$429,511,744

Outstanding Fixed and Variable Rate Debt FY2013-14



Annual Principal and Interest Requirements FY 2013-14

<u>Issue</u>	<u>Debt Purpose</u>	<u>Principal</u>	<u>Interest</u>	<u>Future Principal Obligations</u>
DURHAM-1993-C	Variable Public Improvement Bonds	\$415,000	\$21,580	\$0
DURHAM-1994-B	Variable W&S Revenue Bonds	\$1,100,000	\$183,000	\$2,500,000
DURHAM-1994-C	State Loan / Sewer Revolving	\$750,000	\$27,750	\$0
DURHAM-2000-C	Variable Housing Bonds	\$1,000,000	\$375,000	\$4,000,000
DURHAM-2001-B	State Loan / Clean Water Revolving	135,000.00	34,870.50	1,080,000.00
DURHAM-2003-D	Refunding Series 2003 - 1995 Bonds	\$2,100,000	\$105,000	\$0
DURHAM-2004-A	G.O. Refunding Bonds	\$1,135,000	\$41,144	\$0
DURHAM-2004-B	2/3 Bonds	\$500,000	\$20,625	\$0
DURHAM-2005-A	COP Series 2005	\$2,570,000	\$259,100	\$3,560,000
DURHAM-2005-AA	GO Series 2005A	\$500,000	\$38,750	\$500,000
DURHAM-2005-BB	GO Series 2005B (Taxable)	550,000	83,125	1,200,000
DURHAM-2005-C	GO Refunding (96, 97, 00A partial)	\$3,095,000	\$458,800	\$6,720,000
DURHAM-2005-CC	GO Series 2005C	\$550,000	\$44,000	\$550,000
DURHAM-2005-D	Revenue Bonds 2005 (Ref)	\$1,020,000	\$792,113	\$14,385,000
DURHAM-2006-A	2006B GOs	\$500,000	\$574,825	\$13,490,000
DURHAM-2006-C	2006A GOs (Taxable Housing)	\$475,000	\$89,968	\$1,460,000
DURHAM-2007-A	Refund (98 99 00B 02 04)	\$1,920,000	\$1,662,669	\$31,480,000
DURHAM-2007-CPA	Durham Performing Arts Center	\$795,000	\$1,692,536	\$29,185,000
DURHAM-2008-A	23 G.O. Bonds	\$375,000	\$446,438	\$10,475,000
DURHAM-2008-B	05 & 07 authority (\$8 million Streets)	\$1,425,000	\$1,664,050	\$39,445,000
DURHAM-2009-A	REFUNDING 98, 99, 00B, 02, 04	\$2,665,000	\$417,950	\$9,010,000
DURHAM-2010 GO	GO Series 2010 A&B	\$2,195,000	\$1,582,871	\$37,240,000
DURHAM-2010 LOBS	LOBS Series 2010 A&B	\$4,970,000	\$1,882,784	\$40,750,000
DURHAM-2011-R	Revenue Bond Series 2011	\$2,100,000	\$2,518,900	\$51,315,000
LEASE-2011-A	Private Placement	\$3,140,006	\$172,741	\$11,736,738
DURHAM-2012-A	LOBS Series 2012A	\$835,000	\$241,963	\$6,610,000
DURHAM-2012-B	LOBS Series 2012B	\$125,000	\$190,302	\$7,755,000
GO-2012	GO Bonds Series 2012 ABCD	\$3,250,000	\$2,567,106	\$64,875,000
	Total	\$40,190,006	\$18,189,958	\$389,321,738



Policy Subject

Debt Policy

Revision 1

Effective Date

09-17-2012

Policy Number

FP 707

Department

FINANCE

To City Employees

X 

Thomas J. Bonfield, City Manager

I. Purpose

To provide guidance for the issuance of City debt and the maintenance of the City's ability to incur debt and other long-term obligations at favorable interest rates for capital improvements, facilities, and equipment beneficial to the City and necessary for essential services. The City of Durham issues and manages debt in accordance with the Local Government Bond Act, North Carolina General Statutes (N.C.G.S.) Chapter 159 Article 4 which prescribes a uniform system of limitations upon and procedures for the exercise by all units of local government in North Carolina of the power to borrow money secured by a pledge of the taxing power; and the limitations on local debt as noted in N.C.G.S. 159-55. Other applicable provisions to certain debt and debt refunding actions are contained within N.C.G.S. Chapter 159, Local Government Finance. Long term planning to meet the current and future capital needs of Durham require a sound debt position and guidelines that protect the credit quality of the City.

II. Policy

It is the policy of the City of Durham to establish the scope and purpose for the issuance of debt instruments consistent with the limitations of the North Carolina Local Government Bond Act. This policy specifies Uses of Debt Financings, Responsibility, Service Providers and Oversight, Refundings, Arbitrage Compliance, Credit Ratings, Reporting and Disclosure, Capital Acquisition,

Interest Rate Exchange Agreements, and any Exceptions to the Policy.

III. Definition

Advance Refunding - A refunding in which the refunding bonds are issued more than 90 days prior to (in advance of) the date upon which the refunded bonds will be repaid. Typically, the proceeds of the refunding bonds are placed in escrow and invested in obligations of the federal government. Payments received on the investments held in escrow are then applied to make payments on the refunded bonds as they become due (including by redemption).

Arbitrage - With respect to the issuance of municipal securities, arbitrage refers to the difference between the interest paid on bonds that are subject to the Code and the interest earned by investing the proceeds of the bonds in higher-yielding securities. Federal income tax laws generally restrict the ability to earn arbitrage in connection with bonds that are issued subject to the Code. The payment represents the amount, if any, of arbitrage earnings on bond proceeds and certain other related funds, except for earnings that are not required to be rebated under limited exemptions provided under the Internal Revenue Code. An issuer generally is required to calculate, once every five years during the life of its bonds, whether or not an arbitrage rebate payment must be made.

Bond Counsel - The attorney or firm of attorneys that gives the legal opinion delivered with the bonds confirming that the bonds are valid and binding obligations of the issuer and whether interest on the bonds is exempt from federal and state income taxes.

Bonds - A debt obligation, or a written promise to pay back an amount (face value of the bond), plus interest, by way of periodic payments within a specified period of time.

Bond Rating - An evaluation of the credit risk associated with a particular bond issue by internationally recognized independent rating agencies (Fitch, Moody's or Standard & Poor's). The City of Durham general obligation bond ratings are currently Aaa/Aaa/AAA ratings, respectively.

Capital Projects - Generally, major City projects with a cost of at least \$100,000. Capital projects can include the cost of land acquisition, construction, renovation and/or the acquisition of major equipment.

Certificates of Participation (COPs)/Limited Obligation Bonds (LOBs) - Alternative financing method requiring no voter approval. The City may issue COPs and LOBs for buildings or equipment using the building or equipment to secure the financing. COPs/LOBs should only be used when the property being financed has sufficient value to secure the debt and will survive the term of the financing. Issuance of COPs/LOBs will be made in accordance with the provisions of N.C.G.S. 159-153 and with the approval of the Local Government Commission.

Competitive Sale - The sale of bonds to the bidder presenting the best sealed bid at the time and

place specified in a published notice of sale. See also Negotiated Sale.

Credit Enhancement - Credit enhancement encompasses a variety of provisions that may be used to reduce the credit risk of an obligation. Credit enhancements are often incorporated into debt instruments. Techniques of credit enhancement include: Collateralization where one or more parties may agree to post collateral and collateral levels may be fixed or vary over time; third party loan guarantees; letters of credit issued by a financial institution; bond insurance where an insurance policy may provide for compensation in the event that a party defaults and surety bonds where a surety (third party) ensures that the principal party (the City) obligations to the obligee (bond holders) will be performed.

Current Refunding - A refunding in which refunding bonds are issued not more than 90 days before the date upon which the refunded bonds will be paid. Generally, the proceeds of the refunding bonds are applied immediately to pay the refunded bonds. Thereafter, the revenues originally pledged to the payment of the refunded bonds are pledged to the payment of the refunding bonds.

Debt Coverage Ratio - A bond covenant or obligation, the ratio is a stipulated formula measurement of the amount of net revenues available from specified revenues to cover required annual debt service payments. The ratio amount and formula for calculation are included in the bond document.

Debt or Bond Covenant - Legal obligations contained in a bond issue document such as a covenant for a specified debt service coverage ratio.

Debt Restructuring - The City is authorized to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management.

Debt Service - The periodic repayment to creditors/holders of debt principal and interest on debt obligations.

Defeasance - To set aside sufficient money to retire outstanding debt. A full defeasance results in release from covenants and contractual obligations contained in the bond documents.

Derivative or Swap Advisor - A specialized firm hired by the City to provide a review and analysis of derivative or swap alternatives and can assist in the procurement of the swap, including conducting a competitive bid. The advisor provides ongoing monitoring of swap market conditions, advice about rates and structure, and participates in reviewing the closing documentation.

Enterprise Fund - A separate fund used to account for operations in which the cost of providing services is recovered primarily through user charges or fees.

Escrow Agent - With respect to an advance refunding, the commercial bank or trust company retained to hold the investments purchased with the proceeds of the refunding and, customarily, to use the amounts received as payments on such investments to pay debt service on the refunded

bonds.

Financing Team - The group of professional services firms needed use to complete a financing. Primarily, this group will include bond counsel, a financial advisor and an underwriter but other firms may also be included on the financing team.

Financial Advisor - A professional consultant retained (customarily by the issuer) to advise and assist the issuer in formulating and/or executing a debt financing plan to accomplish the public purposes chosen by the issuer.

Finance Officer - The City officer performing the duties of finance officer of a unit of local government pursuant to N.C.G.S. 159 24 of the Local Government Budget and Fiscal Control Act. The City of Durham's Finance Officer is the Director of Finance.

Fixed Rate Security - A debt obligation which is sold with a set interest rate when issued and that does not vary during the term of the obligation.

General Obligation Bonds - General Obligation bonds ("G.O.") are secured by a pledge of the full faith and credit of the City to pay the loan through tax revenue or other revenues. General Obligation ("G.O.") bonds are the simplest form of bond security type. The issuance of G.O. Bonds requires an approval of the majority of voters and the approval of the Local Government Commission. The City may sell general obligation bonds (G.O. bonds) to pay for expenses associated with capital projects or any public improvement as described in NC Statute 159-48.

Installment Purchase Contract - An agreement entered into by the City to:

- a. Purchase real and personal property,
- b. Enter into installment purchase contracts to finance the purchase of real and personal property used, or to be used, for public purposes, and
- c. Finance the construction of fixtures or improvements on real property by contracts that create in the fixtures or improvements and in the real property on which such fixtures or improvements are located a security interest to secure repayment of moneys advanced or made available for such construction within the provisions of G.S. 160A-19 or 160A-20.

Lease/Purchase Agreements - An agreement entered into by the City to lease real and personal property from a third party with the option to purchase the property upon expiration of the lease within the provisions of G.S. 160A-19 and with the approval of the Local Government Commission.

Lessor - One who lets property under a lease. The party leasing the property is known as the lessee.

Local Government Commission - The Local Government Commission (LGC) is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment. The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission. A major

function of the Commission is the approval, sale, and delivery of substantially all North Carolina local government bonds and notes. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by the Local Government Budget and Fiscal Control Act.

Negotiated Sale - A method of bond sale in which the terms and price of the bonds are negotiated by the issuer through an exclusive agreement with a previously selected underwriter and/or underwriting syndicate. In addition to negotiating the terms and covenants of the issue, the issuer and the underwriter also negotiate pricing of the issue.

Net Interest Cost (NIC) - Net Interest Cost (NIC) is an average interest cost rate for a bond issue, calculated on the basis of simple interest (not compound interest). The NIC calculation does not take into consideration the time value of money. The winning NIC bid may not provide the lowest effective interest cost in present value terms. Because True Interest Cost IC takes into account the time value of money, it generally more accurately measures the issuer's true cost of borrowing than does the NIC. See also TIC.

Parity Debt - With regard to the City's use of revenue bonds to finance enterprise fund capital acquisition, such as water and sewer capital projects; parity debt is the debt associated with the issue of revenue bonds, which are secured by the charges and fees of the City's enterprise fund, such as the water and sewer utility. Subordinate or other debt may exist (such as general obligation bonds issued specifically for water and sewer capital projects and repaid by charges and fees of the utility) without being specifically secured by current utility charges or fees. Parity debt generally requires a higher debt coverage ratio than all debt (parity debt plus subordinate or other debt) in that it is not secured by the full faith and credit of the City.

Private Placements - The offer and sale of a financing by the City directly to one or more investors, rather than through an underwriter. The terms of the placement are often negotiated directly with the investor or lending institution.

Refunding - An issue of new bonds (the refunding bonds) to pay debt service on a prior issue (the refunded bonds). Generally, the purpose of a refunding is either to reduce the debt service on the financing or to remove or replace a restrictive covenant imposed by the terms of the refunded bonds (for example, an excessive coverage ratio). The proceeds of the refunding bonds are either deposited in escrow to pay the refunded bonds when subsequently due (see Advance Refunding) or applied immediately to the payment of the refunded bonds (see Current Refunding). For accounting purposes, refunded bonds are not considered part of the issuer's outstanding debt because the refunded bonds are to be paid from the proceeds of the refunding bonds and not from the revenues originally pledged. Refunded bonds may continue to hold a lien on the revenues originally pledged, however, unless the indenture or bond resolution provides for defeasance of the refunded bonds prior to maturity or redemption.

Revenue Bonds - Bonds issued by the City which are backed with specified revenue sources from an enterprise fund for which the bonds were issued. The City's enterprise funds include fee for service business activities such as the Water and Sewer Fund and the Storm Water Fund. The City

may borrow money from lenders, pledging the revenues from charges and fees of the enterprise fund activities to repay the debt. Revenue bonds do not require voter approval. Issuance of revenue bonds will be made in accordance with the provisions of G.S 159-5 and with the approval of the Local Government Commission.

Trustee - The firm that the City hires to perform one or more of several administrative duties relating to a bond issue.

True Interest Cost (TIC) - True Interest Cost (TIC) is the internal rate of return that will be paid by the issuer to investors. It is the interest rate that discounts the debt service payable for a bond issue to its present value, or net proceeds. The TIC is one of two primary methods used to select the lowest effective interest cost bid in competitive bid sales. Because TIC takes into account the time value of money, it generally more accurately measures the issuer's true cost of borrowing than does the NIC. See also NIC.

Two-Thirds Bonds - The City is authorized to issue general obligation debt under the 2/3 rule, established by G.S. 159-49(2), wherein the City may issue new G.O. bonds up to 2/3 the value of the general obligation debt retired in the prior fiscal year so long as no other new general obligation debt was issued in the same year.

Underwriter or Underwriting Syndicate - Investment banking entity or groups of such entities that purchase, for resale to the public, bonds or other debt obligations issued by the City and/or the LGC on behalf of the City.

Variable Rate Securities - A debt obligation that does not have a fixed interest rate a closing. The interest rate periodically changes based upon an index or a pricing procedure.

Verification Agent - The company hired by the City to verify that the investment of bond proceeds in a refunding or other defeasance have been invested at a rate that does not exceed the amount permitted under federal arbitrage rules.

IV. Procedure

A. Responsibility

The Finance Officer (Director of Finance) has the primary responsibility for developing, recommending and monitoring debt financing and debt refunding/restructuring strategies and instruments. The selection and sourcing of financial consultants and service providers is also within the scope of duties of the Director of Finance. The Treasury Manager, under the direction of the Director of Finance, is tasked with daily operational debt responsibility.

All debt issued by the City will be issued pursuant to the rules, regulations and procedures of the LGC and the laws of the State of North Carolina.

B. Debt Issuance

Subject to the purposes for bond issue noted in NCGS 159-48, the City issues bond financing for the acquisition of or construction of major capital projects. Other debt financing such as COPs, are also available for use on capital projects as deemed in the best interest of the City. Similarly, revenue bonds may be utilized for enterprise fund debt for major capital projects.

Consistent with the limitations of the Local Government Bond Act the City provides for long-term financing needs through the issuance of multiple types of financings. Debt obligations are approved locally and by the Local government Commission as required by state statute.

Referendums, notices and public hearings, as required by state statutes, are conducted prior to final debt approval and issuance.

C. Debt Limits

The City will use the following limitations as guidance for debt issuance:

1. Debt as a Percentage of Assessed Valuation: The City will not exceed a debt to assessed value ratio of 2.50% for debt paid with property taxes. Debt that is paid from the revenues of one of the City's revenue producing enterprises is excluded from this calculation.
2. General Fund Debt Service Limitation: Property tax revenue in the Debt Service Fund less transfers to enterprise funds to pay debt service should not exceed 15% of total expected non-dedicated property tax collections plus all other General Fund revenues. For purposes of this calculation, revenues do not include any expected debt proceeds, transfers in, or use of fund balance. Debt service that is supported by a dedicated revenue stream or anticipated increase in General Fund revenue (i.e. real or synthetic TIF) or paid from enterprise funds is excluded from this calculation.
3. Ten Year Principal Payout: The City will seek to amortize debt as rapidly as possible given certain budget constraints. The City will maintain a percentage of payout in excess of 60% in 10-years.

D. Principles for Debt Issuance

Throughout the debt issuance process, the City will follow the following general principles for the issuance of debt:

1. The City shall seek to maintain the highest possible bond rating without compromising the policy objectives of City.
2. The City will use long-term debt to for the purposes of constructing or acquiring capital assets or for making major renovations to existing capital projects.
3. Long-term debt will not be used to finance current operations or to capitalize expenses. The City will avoid the use of long-term debt to finance on-going maintenance.

4. All debt will be issued to reflect the useful life of the projects. At no time will the City issue debt with a maturity date beyond the useful life of the projects being financed.
5. The City will ensure that adequate systems of internal controls exist to provide reasonable assurance as to compliance with applicable laws, regulations and covenants.
6. The City shall seek to fund projects on a pay-as-you go basis and to obtain other sources of capital besides debt in order to minimize debt levels. However, the City will also seek to balance the tax-burden on current taxpayers with the applicable useful life of the projects in question.
7. All general fund projects to be financed will have been previously included in the City's Capital Improvements Plan (CIP). Any projects not included in the CIP will require specific approval of the City Council/City Manager prior to inclusion in a financing.

8. The City will monitor its debt portfolio in relation to current market conditions in order to refinance debt where sufficient savings will be realized.

E. Types of Debt

State law allows the City to utilize a wide-variety of tools to finance capital projects.

Throughout the financing process, the City will evaluate these requirements in conjunction with the timing requirements of each project and select the financing vehicle which will offer the best combination of lowest cost of borrowing and meet the other applicable requirements of the financing. The following list outlines only the most common financing vehicles available to the City:

1. General Obligation Bonds
2. 2/3rds Bonds
3. Enterprise Revenue Bonds
4. Certificates of Participation/Limited Obligation Bonds
5. Installment Purchase Contracts

The is list is not an exhaustive list of options available to the City. The City will evaluate other financing options, their legality under state statutes and whether their use would result in improved financing results for the City.

In addition to the financing options listed above, the City will consider the following factors when financing City projects and evaluating conduit financings:

1. G.O. Bonds: The City will seek voter authorization to issue GO Bonds as directed by the City Council, and in accordance with North Carolina General Statute (NCGS) 159-49. Such authority will be sought only after it is determined that the project costs

are eligible and appropriate for multi-year financing.

2. Enterprise Supported Debt: The City may finance the needs of its revenue producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to the issuance of any revenue-secured debt, the City will develop a financial plan and projection showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers, property owners and other affected parties.

3. Conduit Debt: The City may sponsor conduit financing for activities that have a general public purpose (economic development, affordable housing, etc.) and are consistent with the City's public policy objectives. All conduit financings must insulate the City from any credit risk or exposure. The Conduit borrower will be responsible for complying with all arbitrage rebate requirements or other regulations related to the issuance of the bonds. Prior to closing the bonds, the borrower will enter into a contract for arbitrage rebate service with a firm approved by the Director of Finance or designee.

4. Short-term Debt: As part of the City's capital planning process, the City will actively engage in the analysis of short-term and/or interim financing. The use of these products/services will be used to lower the overall borrowing costs of a project or series of projects and will be evaluated by the Treasury Manager and Director of Finance. They will only be used when they are advantageous to the City. The financing options include Lines/Letters of Credit, Bond Anticipation Notes (BANs), Tax and Revenue Anticipation Notes (TRANs) and Commercial Paper (CP). Other legally available short-term solutions will also be evaluated.

5. Internal Financing: As an additional financing option, the City will evaluate the use of internal sources to finance capital improvement projects or other purchases (in place of third-party financing). The City will evaluate the use of this type of financing when it creates either economic or administrative efficiencies. The loans will be repaid in full and may not be forgiven except with the written authorization of the Director of Finance or City Manager.

6. Interest Rate Exchange Agreements: As an additional financing options, the City will evaluate the use of Interest Rate Exchange agreement that conform to the City's Interest Rate Exchange Agreement Policy, FP 708.

F. Method of Sale

The City will evaluate debt obligations on a case-by-case basis and select a type of offering that will result in the best financing outcome for the City. Generally, the City will seek to issue its debt obligations using a competitive process unless it is determined by the Director of Finance that an alternative sale method will produce better results for the City. When bonds are to be sold at a competitive sale, the City specifies all the terms of the issue other than interest rates and purchase price.

Prior to presenting bids the underwriters evaluate the credit quality of the issue and the municipal market and may form syndicates or selling groups. The bonds are awarded to the underwriters presenting the best bid based on the criteria specified in the notice of sale. When determined to be appropriate by the Director of Finance, the City may elect to sell its

debt obligations through a negotiated sale. During a negotiated sale, the Underwriter is customarily active in all aspects of structuring the negotiated deal. Selection of the underwriter can be based on many different considerations including, but not limited to, expertise with a particular type of issue, market expertise, reputation, guaranties of maintaining a maximum gross spread, as well as prior relationships with the issuer.

Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program in accordance with North Carolina General Statute (NCGS) 159-49as allowed by state law.

Alternatively, the City may elect to sell its debt obligations through a private placement to a specific investor. Such a determination may be made on an issue-by-issue basis, for a series of issues, or for part of or all of a specific financing program. As a practice, the City will solicit investor interest prior to selecting a specific investor.

G. Debt Refunding

The City will evaluate the opportunity to refinance outstanding debt to realize economic savings or to accomplish strategic public policy objectives within the following parameters:

1. Advance refundings of outstanding bonds for economic savings may be undertaken when initial estimates illustrate net present value (NPV) savings of at least five percent (5%) of the refunded debt on a stand-alone basis. Lower savings targets may be acceptable if PV savings are over \$1 million, or if the refunding will be completed in conjunction with a new issue and realize economies of scale due to the combination of multiple issues.
2. Current refundings of outstanding bonds for economic savings may be undertaken when initial estimates illustrate net present value (NPV) savings of at least three percent (3%) of the refunded debt on a stand-alone basis or NPV savings are over \$1 million. The City will evaluate all current refunding opportunities when it is preparing to issue other debt.
3. Savings requirements for current or advance refundings undertaken to restructure debt may be waived by the Director of Finance upon a finding that such a restructuring is in the City's overall best financial interests. A refunding with negative savings will not be considered unless it fulfills a compelling public policy objective.
4. Financial transactions, using Swaps or other derivative products, intended to produce the effect of a synthetic advance refunding, must generate significantly greater savings than the benefit thresholds outlined in this section. Additionally, the City will not move forward with a synthetic refunding unless a traditional transaction would meet the savings targets outlined in this section.
5. Open Market Purchase of City Securities: The City may choose to defease its outstanding indebtedness through purchases of its securities on the open market when market conditions make such an option financially feasible.

H. Fixed Rate and Variable-Rate Securities:

The City will issue the majority of its debt at fixed rates. In response to market conditions including an analysis of interest rate risk, the City may choose to issue securities that pay a

rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds. The City will have no more than twenty percent (20%) of its outstanding bonds in variable rate form.

I. Service Providers and Oversight:

The City will evaluate the use of external service providers on a case by case basis. The City will seek to hire firms that are experts in their field of expertise and will aid the City in achieving the lowest cost of funds for a given financing. These firms may include but are not limited to the following categories:

1. Bond Counsel: The City will retain external bond counsel for all debt issues. All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status. The selection criteria for bond counsel will include comprehensive municipal debt experience, experience with complex financings and a high level of expertise with state and federal laws related to the municipal borrowing activities.
2. Financial Advisor: The City will retain an external financial advisor. The utilization of the financial advisor for certain bond sales will be at the discretion of the Department of Finance on a case-by-case basis and pursuant to the financial advisory services contract. The selection criteria for financial advisors will include comprehensive municipal debt experience, experience with diverse financial structuring requirements and pricing of municipal securities.
3. Underwriters: The City shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale. If a negotiated sale is selected, the City will select an underwriter based on results of a competitive process. The City reserves the right to maintain a pool of qualified underwriters and select participants on an issue based on each firm's strengths.
4. Other Services: The Director of Finance shall periodically solicit other service providers (escrow agents, verification agents, trustees, swap advisors, arbitrage compliance consultants, etc.) as needed to facilitate the sale of bonds or the post-sale management of bond issues. The City's financial advisor will, on occasion, facilitate the selection process. The City will seek to fund all bond related costs from bond proceeds at closing.

All bonds issued under the authority of the Local Government Bond Act are approved by the Local Government Commission. Approval of an application as noted in N.C.G.S. 159-51 for a bond issue to the LGC is contingent on criteria established in N.C.G.S. 159-52.

J. Investment of Bond Proceeds and Arbitrage Compliance

Proceeds from the sale of bonds should be invested up to the bond yield on each bond issue when possible. It will be the goal of the City to maximize these earnings while maintaining the appropriate liquidity to ensure availability of funds for the projects. This will include the

evaluation of all legally available investment vehicles. The investment strategy for bond proceeds will be set on a case-by-case basis.

Federal law requires that certain investment earnings in excess of the bond yield (arbitrage earnings) must be paid to the Federal Government under specific circumstances in the form of arbitrage rebate payments. The Department of Finance will invest bond proceeds at the highest yield possible, consistent with the City's investment policy and any restrictions imposed by the governing documents of each series of bonds. The Department of Finance is responsible for monitoring investments and cash flows of the City's bond funds, and contracting for third party arbitrage compliance calculations, if deemed necessary. The Department of Finance will pay arbitrage rebates due from investment earnings on the related bond proceeds pursuant to federal law.

The payment of arbitrage rebate will be viewed positively by the City and it should be the goal of each bond sale to owe arbitrage rebate as it reflects a maximization of investment earnings on a bond issue.

K. Credit Ratings

Rating Agency Relationships: The Director of Finance shall be responsible for maintaining relationships with the rating agencies that assign ratings to the City's various debt obligations. This effort shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

Use of Rating Agencies: The Director of Finance shall be responsible for determining if a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

Credit Enhancement: The City shall seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective. Selection of credit enhancement providers should be conducted using a competitive process when practical.

L. Reporting and Disclosure:

Required annual reporting on debt is contained in the Comprehensive Annual Financial Report (CAFR) as well as the City of Durham, North Carolina Final Budget. Additionally, the City Council holds annual budget and fiscal retreats where the Director of Finance presents details of the City's debt issuance plans. The City's current and future debt positions, debt capacity, and debt planning are outlined and ratios and trends are discussed. The City will provide ongoing disclosure information to established information repositories and remain in compliance with disclosure standards promulgated by state and national regulatory bodies.

M. Policy Exceptions

Any deviation from this policy must be confirmed in advance and in writing by the Finance Officer to the City Manager. The Finance Officer is not authorized to override any policy, procedure or provision that is legally mandated or the result of City Council action.

V. Other

N/A

VI. Attachment

N/A