First Tryon Advisors

SIMPLIFYING PUBLIC FINANCE

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Elizabeth City, North Carolina

Discussion Materials

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Overview

- Each time the City considers issuing debt, it must evaluate the available and appropriate structures for any financing.

- The City's bond counsel, financial advisor and/or the Local Government Commission are all resources to identify and evaluate the appropriate structure for a financing.

- The financing structure is highly dependent on the type of project being financed:
  - What is allowed under state statutes?
  - Can a lien / security interest be placed on the project?
  - What financial resources are available to repay debt?

- There are several different types of financing structures available to issuers in the State, including the following most commonly used structures each of which is summarized on the following slides:
  - General Obligation Bonds
  - Limited Obligation Bonds / Installment Financings
  - Revenue Bonds
  - Special Obligation Bonds

- These financing structures can be issued in one of several markets:
  - Public market
  - Bank market
  - State (DEQ) / Federal (USDA) lenders

Available Financing Structures in North Carolina
General Obligation Bonds

- General Obligation Bonds ("GO Bonds") are backed by a pledge of the unit's full faith, credit and taxing power (i.e., the City's current and future ability to levy ad valorem taxes).
- GO Bonds are viewed by investors as the safest, most secure credit and therefore typically get the lowest interest rate.
- While GO Bonds are secured by the City's taxing power, the City may use any other legally available funds to repay the debt instead of using / raising property taxes.
- GO Bonds require voter approval with the exception of 2/3 Bonds.
  - 2/3 Bonds allow the City to issue GO Bonds without voter approval in an amount up to 2/3 of the amount of GO Bonds that the City paid off in the prior fiscal year.
- The Local Government Commission ("LGC") generally requires that GO Bonds be amortized on a level principal basis and repaid over a period of up to 20-year period.
  - Some exceptions can be granted if the primary repayment source is an enterprise system revenue.
- The City's total GO debt outstanding may not exceed 8% of the City's assessed value.

General Obligation Bonds
Authorization
Local Government Bond Act (Article 4 of Chapter 159 of N.C.G.S.)
Voter Approval Required (except for 2/3s Bonds)
Security
Full faith, credit and taxing power
No property lien
Typical Projects
Parks & Recreation, streets, sidewalks, greenways, community college, schools, courthouses
Characteristics
Typically strongest credit
Lowest interest rates
Typically subject to voter approval via a referendum
Amortization - Up to 20 years (per LGC guidelines)
D/S Structure - Level principal (per LGC guidelines)

Available Financing Structures in North Carolina
Limited Obligation Bonds / Installment Financings

- Limited Obligation Bonds ("LOBs") or Installment Financings are secured by a lien on the asset(s) being financed and debt service is subject to annual appropriation by the City Council from any legally available revenues.
  - No specific revenues (i.e. property tax revenues, water and sewer revenues, etc.) are pledged.
- The lien on the asset being financing is either in the form of a Deed of Trust for real estate assets or a UCC filing for equipment / vehicles and if the City does not make its debt service payment, the lender can foreclose / take possession of the asset.
  - Given the requirement of a lien, the projects being financed are often "bricks and mortar" or tangible assets (as opposed to streets, sidewalks, greenways, etc.).
- Given the appropriation backed structure, LOBs / Installment Financings are viewed as less secure than GO Bonds and therefore carry a higher interest rate (approximately 0.25%).
- The LGC generally requires that LOBs / installment financings be amortized on a level principal basis and repaid over a maximum of a 20-year period.
  - Some exceptions can be granted if the primary repayment source is an enterprise system revenue.
- LOBs / Installment Financings do not require voter approval.

LOBs/Installment Financings (160A-20)
Authorization
Local Government Bond Act (Article 3 of Chapter 160 of N.C.G.S)
Security
Subject to annual appropriation
Lien on financed property
Typical Projects
Schools, jails, courthouses/gov't buildings, convention center, stadiums, parking decks
Characteristics
Usually rated one or two notches off GO credit depending on essentiality of financed asset
Higher interest rates than G.O.
No voter referendum required
Amortization - Up to 20 years (per LGC guidelines)
D/S Structure - Level principal (per LGC guidelines)

Available Financing Structures in North Carolina
Revenue Bonds

- Revenue Bonds are secured by a pledge of the net revenues (gross revenues less operating and maintenance expenses ("O&M")) of an enterprise system (i.e. water and sewer system, electric system, stormwater system, airport system, etc.).
  - The pledge can be of a single enterprise system or a combination of multiple enterprise systems.
- Revenues of the enterprise system flow into a designated fund and are used in a specific order as outlined in the governing bond documents.
- The governing bond documents contain certain covenants that are designed to protect investors while also providing operational flexibility to the City.
  - Rate covenant (rates must be set at a level that generates enough revenues to pay O&M and debt service plus a cushion).
  - Additional bonds test (prior to issuing additional debt, existing or projected revenues must be shown to be sufficient to cover O&M plus existing debt plus new debt by a certain level).
- The LGC generally allows Revenue Bonds be amortized on a level debt service basis and repaid over a period of up to 30 years.
- Revenue Bonds do not require voter approval.

Revenue Bonds
Authorization
Local Government Revenue Bond Act (Article 5 of Chapter 159 of N.C.G.S.)
Security
Revenues of the enterprise/utility system (after payment of O&M)
No property lien
Rate covenant / additional bonds test
Typical Projects
Improvements/expansions to water, sewer, electric, natural gas, stormwater systems; airport improvements
Characteristics
Standalone credit (not tied directly to an issuer's GO rating)
Higher interest rates than GO but lower than 160A-20
No voter referendum required
Amortization - Up to 30 years (per LGC guidelines)
D/S Structure - Level d/s (per LGC guidelines)

Available Financing Structures in North Carolina
Special Obligation Bonds

- Special Obligation Bonds are secured by a pledge of a source (or sources) of revenue not directly imposed by the entity.
  - An additional property lien may be included to strengthen the creditworthiness of the issuance.
- Pledged revenues flow into a designated fund and are used in a specific order as outlined in the governing bond documents.
- Depending on the project(s) financed, the entity may be required to set up a Municipal Improvement District, the boundaries of which would encompass the area in which the project(s) are located.
- The governing bond documents (General Indenture and Series Indenture) are designed to protect investors.
  - Special Obligation Bonds are often subject to an additional bonds test (prior to issuing additional debt, existing or projected revenues must be shown to be sufficient to cover existing debt plus new debt by a certain level).
- Depending on the project(s) being financed, the LGC may allow Special Obligation Bonds to be amortized on a level debt service basis and repaid over a period of up to 20-25 years.
- Special Obligation Bonds do not require voter approval.

Special Obligation Bonds
Authorization
Local Government Bond Act (Artilce 7A of Chapter 159-146 of N.C.G.S.)
May require setting up a Municipal Improvement District (Chapter 160A-536 of N.C.G.S.)
Security
Any available source or sources of revenue other than taxes imposed by the local government.
Optional property lien
Potential for additional bonds test / revenue covenant
Typical Projects
Solid waste, beach renourishment, downtown redevelopment (streets / sidewalks)
Characteristics
Standalone credit (not tied directly to an issuer's GO rating)
Higher interest rates than GO or Revenue Bond
No voter referendum required
Amortization - Up to 20-25 years
D/S Structure - Level d/s (per LGC guidelines)

Marketplaces to Issue Debt

- The City has two primary marketplaces to issue bonds – public market and bank placement.
  - Bonds sold in the public market are sold to a variety of different investors (mutual funds, insurance companies, individuals) and require the preparation of an offering / disclosure document and obtaining credit ratings.
  - Bonds sold via a direct placement are sold directly to a single bank / lender and do not require an offering / disclosure document or credit ratings.
- In addition, the City can look to state (i.e. State Revolving Fund loans) or federal (i.e. USDA) sources if the entity and project meet their requirements.
- The appropriate marketplace for a financing depends on several factors including size, security, credit quality, desired term, interest rate and market conditions.

Public Sale vs. Bank Placement vs. SRF vs. USDA

	Public Sale	Bank Placement	SRF	USDA
Cost of Issuance	High	Medium	Low	Low
Staff Time Commitment	High	Medium	Medium	Medium
Maximum Fixed Term Likely	20-30 Years[1]	15-20 Years[1]	20-30 Years	30-40 Years
Flexibility to Customize Debt Repayment	High	Medium	Low	Low
Covenants	Medium	Medium	Low	Low
Credit Rating / Public Disclosure	High	Low	Low	Low
Rate Lock Lead Time	Long	Medium	Short	Short

[1] Per LGC guidelines (some flexibility)

FY2026 Unfunded Capital Requests

- The following table provides an overview of the City's capital requests that were not funded as a part of the FY2026 budget as well as the recommended financing structure for each.

Priority	Project	Cost	Funding Source	Financing Structure	Market Options
1	New Substation / New Distribution Lines	$11,000,000	Enterprise	Revenue Bond	Public / Bank / USDA?
2	Drill New Wells	$2,250,000	Water & Sewer	Revenue Bond	Public / Bank / USDA?
3	Fire Station III (All Phases)	$10,000,000	General	LOBs / Installment Financing	Public / Bank
4	Waste Plant Switchgear	$125,000	Enterprise	Installment Financing	Bank
5	Terex HR55 Bucket Truck	$300,000	Enterprise	Installment Financing	Bank
6	Track Loader w/ Rotary Cutter	$110,053	Enterprise	Installment Financing	Bank
7	Street Sweeper	$328,459	General	Installment Financing	Bank
8	Leaf Truck	$297,465	Enterprise	Installment Financing	Bank

Financing Process
Key Action Items

- Regardless of the financing structure utilized, the financing process typically takes approximately 3 months and will be driven by the timing of construction bids for the projects to be financed as the LGC requires that an entity applying for approval of a financing have firm cost for a majority of the projects being financed and/or any “anchor” projects.

- Action Items
  - Local Government Commission (approval required except for vehicle financings or equipment repaid in less than 5 years)
    - Pre-application call
    - Application submittal
    - LGC approval (meets first Tuesday of every month)
  - City action
    - Receive construction bids
    - Obtain bids / permits for project(s) being financed
    - Council adopts preliminary resolution
    - Council adopts approving resolution or bond order
  - Determine marketplace to issue bonds (i.e. public market vs. bank market)
    - Public sale action items
      - Prepare offering document
      - Obtain credit ratings
      - Sell bonds
    - Bank placement action items
      - Prepare Request for Proposals
      - Receive bank proposals

Revenue Bond Issuance Process
Life Cycle of a Bond Transaction

- As previously noted, the life cycle of a bond transaction takes approximately 3 months depending on the complexity of the financing and the market in which the debt is issued (public market vs. bank placement).

Public Sale

Date	Task
Week 1	LGC Pre-Application Meeting
Week 2	Assemble Financing Team / Working Group Kick-Off Meeting
Week 3	Distribute 1st Draft of Bond / Underwriting Docs
Week 4	Document Review Call
Week 5	Issuer Approval #1 File LGC Application
Week 6	Distribute 2nd Draft of Bond / Underwriting Docs
Week 7	Rating Agency Meetings / Calls
Week 8	Receive Ratings
Week 9	LGC Approval Issuer Approval #2
Week 10	Finalize Docs / Post POS
Week 11	Price Bonds
Week 14	Closing

Bank Placement

Date	Task
Week 1	LGC Pre-Application Meeting / Working Group Kick-Off Meeting
Week 2	Distribute 1st Draft of Bond Docs
Week 3	Distribute RFP to Banks
Week 4	Issuer Approval
Week 6	Bids due from Banks File LGC Application
Week 7	Documents finalized
Week 8	Issuer Approval #2
Week 9	LGC Approval
Week 10	Closing

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