Agenda Action Form Overview

Adopt the Bond Resolution, including Appendix A attached thereto, authorizing the issuance of the County's proposed General Obligation Bond, Series 2026C (Draw Program), in an amount not to exceed $185,000,000.

Background/Justification

The Series 2026C Bond is being issued pursuant to three Bond Orders previously adopted by the Board on July 11, 2022 and approved by the voters at a referendum held on November 8, 2022, consisting of: (1) a Bond Order authorizing up to $423,505,000 General Obligation School Bonds; (2) a Bond Order authorizing up to $112,740,000 General Obligation Community College Bonds; and (3) a Bond Order authorizing up to $13,995,000 General Obligation Museum Bonds. The Bond Resolution requests that the Local Government Commission of North Carolina approve the private sale without advertisement of the Series 2026C Bond to PNC Bank, National Association.

Policy Impact

There is no policy impact. The resolution is consistent with past actions. It does not require an exception to Board policy.

Fiscal Impact

For over 20 years, Durham County has used short-term variable rate financing through GO draw programs for a period of time up front, with the issuance of long-term fixed rate debt, GOs, to pay off the short-term variable rate financing. Durham County was, in fact, the first jurisdiction in the state to adopt a financing strategy more commonly associated with the private sector: pairing short-term variable rate financing through a General Obligation (GO) draw program with the subsequent issuance of long-term fixed rate debt.

The mechanics of this approach are straightforward but strategically sound. Rather than issuing large amounts of long-term fixed-rate debt upfront and holding the proceeds in reserve until funds are needed, Durham County draws on a short-term variable-rate program to pay for capital expenditures as they are incurred. This draw period typically lasts between two and three years, depending on the pace at which project funding is spent. Once the short-term financing has been substantially drawn down, the County then issues long-term fixed-rate General Obligation bonds to permanently finance those expenditures, effectively paying off the short-term variable rate obligations and converting them into stable, predictable long-term debt.

One of the most significant advantages of this structure is its treatment of arbitrage risk. Under federal tax law, governments that issue tax-exempt bonds and invest the proceeds can face complex arbitrage restrictions and potential liability if bond proceeds earn returns that exceed the bond's interest rate. Durham County's draw program model eliminates this risk. The long-term fixed rate financing occurs only after the funds have already been put to use, an efficient structure that avoids arbitrage concerns altogether while keeping borrowing costs low and financial management straightforward.

At the end of the draw program, the county will issue long term debt for the capital expense.

Recommendation

The County Manager recommends the Board adopt the Bond Resolution, including Appendix A attached thereto, authorizing the issuance of the Series 2026C Bond and providing for the terms thereof.