City of Trinity

Debt Management Policy

Adopted on June 9, 2025

TRINITY

NORTH CAROLINA

Table of Contents

Purpose

The purpose of the Debt Management Policy is to establish clear thresholds and guidelines to ensure that the City of Trinity utilizes debt in a prudent and responsible manner. This policy is designed to strengthen the City's decision-making process regarding the issuance and management of debt obligations. When used effectively, debt is a valuable tool that enables the City to invest in critical infrastructure and support the long-term growth and prosperity of the community. This capacity, comes with the responsibility to manage debt judiciously and transparently.

Appropriate Use of Debt for Capital Asset Procurement

Debt is one financing option the City of Trinity may consider for the acquisition of capital assets. While not always the preferred method, certain conditions may make debt a more advantageous and fiscally responsible choice. These conditions include:

- Favorable Interest Rates: When interest rates are low, the overall cost of borrowing is reduced, making debt a more cost-effective option.
- Soft Construction Market: In periods of reduced construction costs, the City can capitalize on favorable pricing to build more or higher-quality assets for the same investment.
- Long-Term Asset Life: For assets with a long useful life, it is equitable for future residents—who will also benefit from the asset—to contribute to its cost through shared debt service over time.
- Affordability Based on Financial Forecasts: Debt must remain within the City's long-term financial capacity. Careful forecasting ensures that debt obligations are sustainable and do not overburden future budgets.

Through strategic use of debt under these conditions, the City of Trinity can enhance its infrastructure investment while maintaining fiscal responsibility.

When Debt Should Not Be Issued

While debt can be a valuable financing tool under the right circumstances, there are situations where its use is not appropriate. The City of Trinity recognizes the importance of evaluating the suitability of debt financing and avoiding it under the following conditions:

- Funding Ongoing Public Services: Debt should not be used to finance routine operational expenses or ongoing public services. These services provide immediate benefits to current residents, while debt repayment would unfairly burden future taxpayers.

- Mismatch Between Debt Term and Asset Life: Debt should not be issued when the repayment period exceeds the useful life of the asset it funds. In such cases, future taxpayers may be required to pay for assets that no longer provide value.

- High Cost of Issuance: Issuing debt involves administrative costs, legal fees, and other expenses. When these costs are disproportionately high, particularly for smaller capital projects, the benefits of borrowing may not justify the expense.

By adhering to these principles, the City of Trinity ensures responsible debt management and protects the long-term financial health of the City.

Allowable Debt Instruments

The City of Trinity is authorized to utilize specific debt instruments as outlined in the North Carolina General Statutes. These instruments provide various financing mechanisms to support capital projects while ensuring compliance with state law. The allowable debt instruments include:

- General Obligation (G.O.) Bonds – Backed by the full faith and credit of the City, G.O. Bonds represent a pledge to levy Ad Valorem (property) taxes in whatever amount is necessary to meet debt service obligations. *Authority: NCGS 160A-209 and NCGS 153A-149*
- Revenue Bonds – These bonds are repaid using revenues generated by the project or asset being financed. A portion of these revenues is pledged to satisfy the debt service. *Authority: NCGS 159-94*
- Project Development Financings – This financing mechanism relies on the projected increase in property tax revenues resulting from a development project. These incremental revenues are pledged to repay the associated debt. *Authority: NCGS 159-103*
- Installment Financing – In this structure, the City borrows funds from a financial institution to acquire an asset and uses the asset itself as collateral for the loan. *Authority: NCGS 160A-20*

Each of these instruments must be evaluated for appropriateness based on the nature of the project, cost, repayment terms, and impact on the City's financial position.

General Debt Limitations

To ensure long-term financial sustainability and maintain the City's ability to provide essential services, the City of Trinity establishes limits on the amount of debt it considers affordable. The City shall utilize the following measures to evaluate debt capacity:

- Annual Debt Service as a Percentage of Fund Expenditures – This metric assesses the portion of the City's annual budget allocated to debt repayment. A higher percentage indicates that a greater share of financial resources is being directed toward debt service, which may limit the City's ability to fund core services and operations. To maintain fiscal balance, the City of Trinity shall allocate no more than 26% of its annual budget to debt service obligations.

By adhering to this limitation, the City ensures that debt remains a manageable part of its financial strategy and that sufficient resources are preserved for ongoing public services and future needs.

Local Government Commission (LGC) Guidelines on Debt Issuance

Established in 1931, the Local Government Commission (LGC) is a nine-member body that provides oversight and assistance to local governments and public authorities throughout North Carolina. The LGC plays a critical role in maintaining the fiscal integrity of local entities by monitoring their financial health and approving most forms of debt issuance. In many cases, the LGC also facilitates the sale of these debt instruments.

The LGC's responsibilities extend beyond the approval of traditional debt issuances. The Commission is required to review and approve various other types of financial agreements and contracts involving capital assets.

The following is a summary of eight categories of transactions that may require LGC approval:

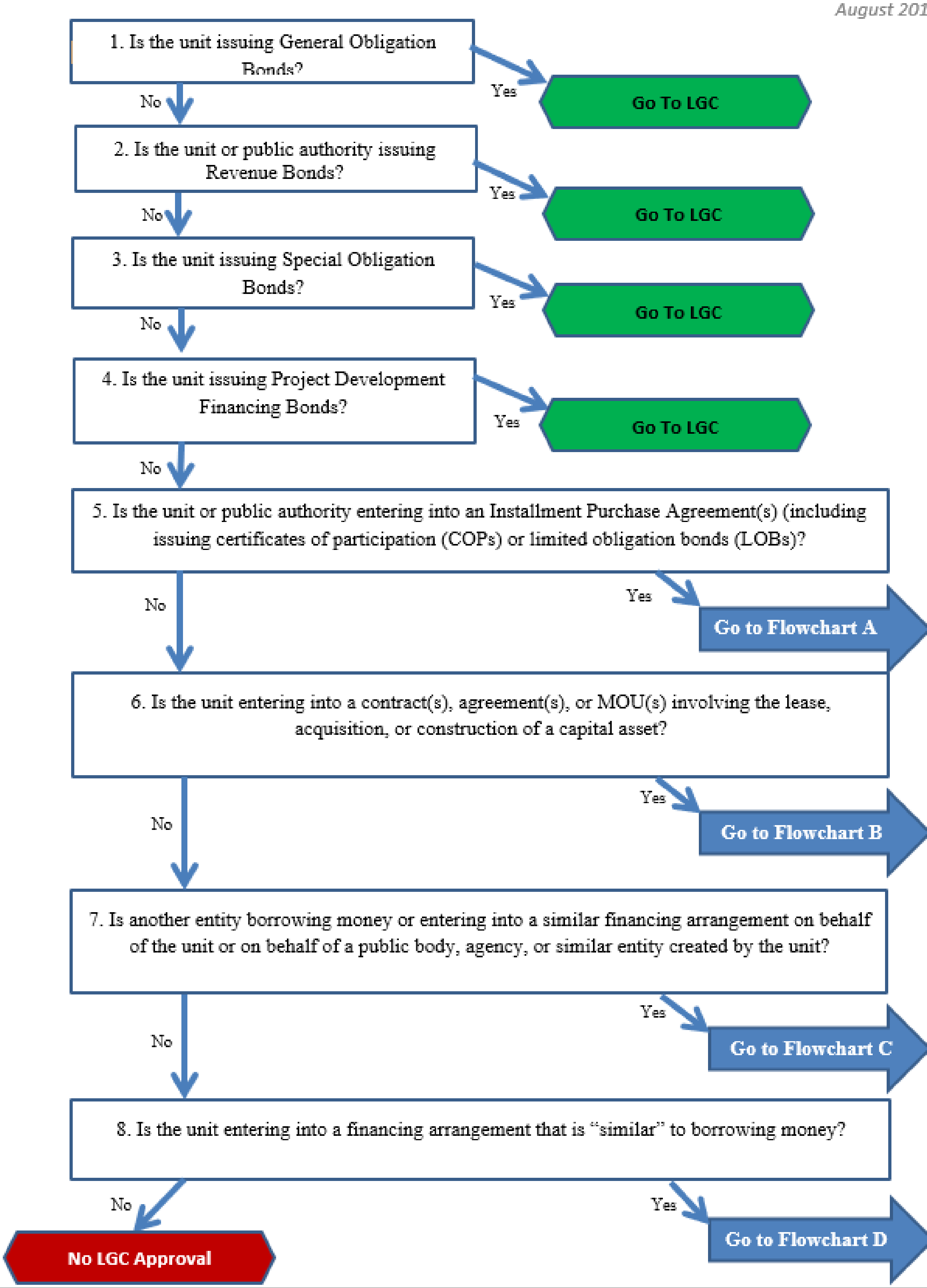
1. General Obligation Bonds
2. Revenue Bonds
3. Installment Financings (e.g., Certificates of Participation and Limited Obligation Bonds)
4. Project Development Financings
5. Leases Involving Capital Assets
6. Certain Public-Private Partnership Agreements (P3s)

7. State Revolving Fund Loans and Other Federally-Backed Financing
8. Special Obligation Bonds or Other Debt Instruments Requiring Security Beyond Normal Revenues

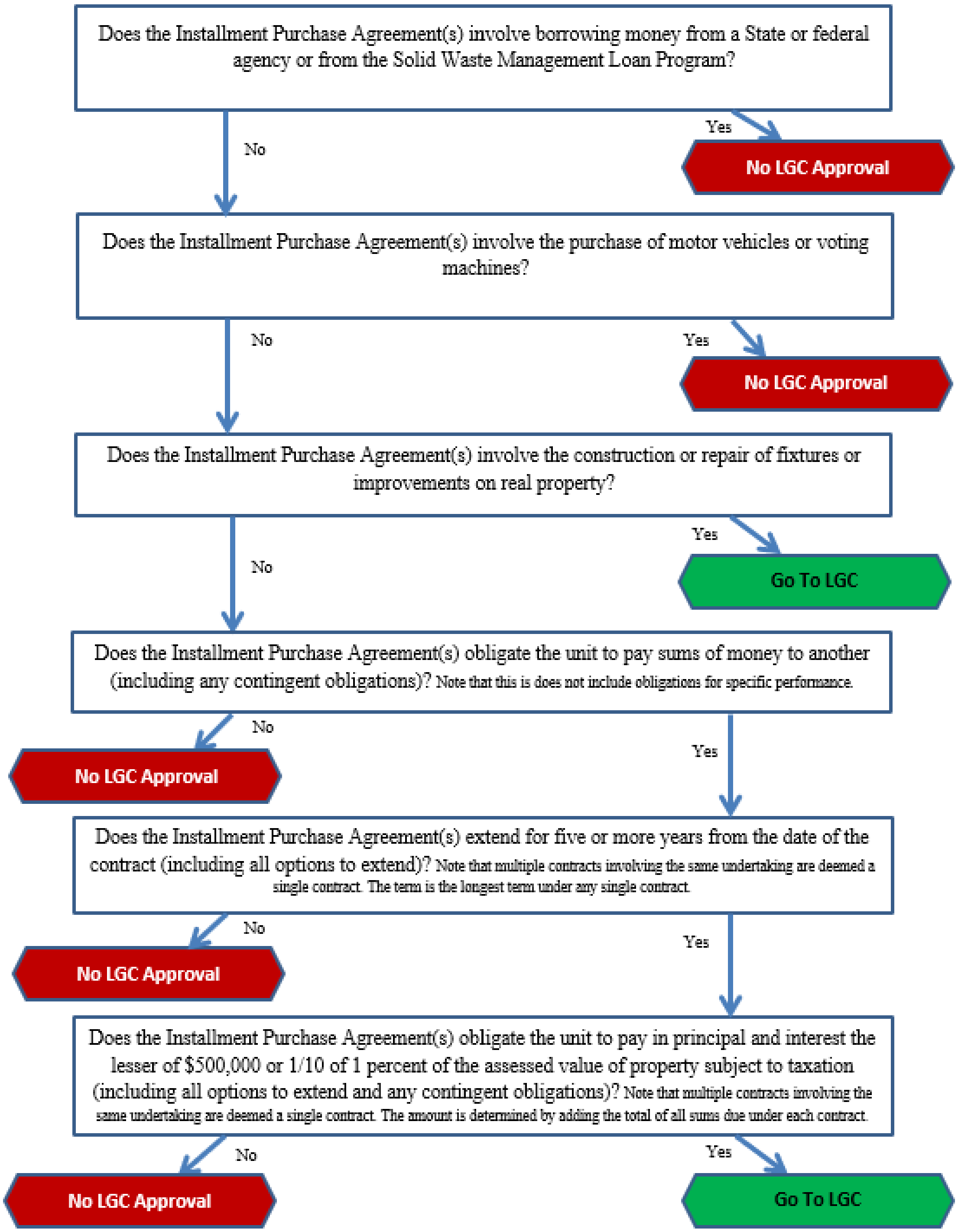
Each of these transactions are subject to review under the LGC's statutory authority to ensure that local governments engage in fiscally responsible practices and do not take on unsustainable financial obligations.

For the City of Trinity and other local governments, adherence to LGC guidelines is a critical step in the planning and execution of debt-financed capital projects.

Flow Charts for LGC Approval

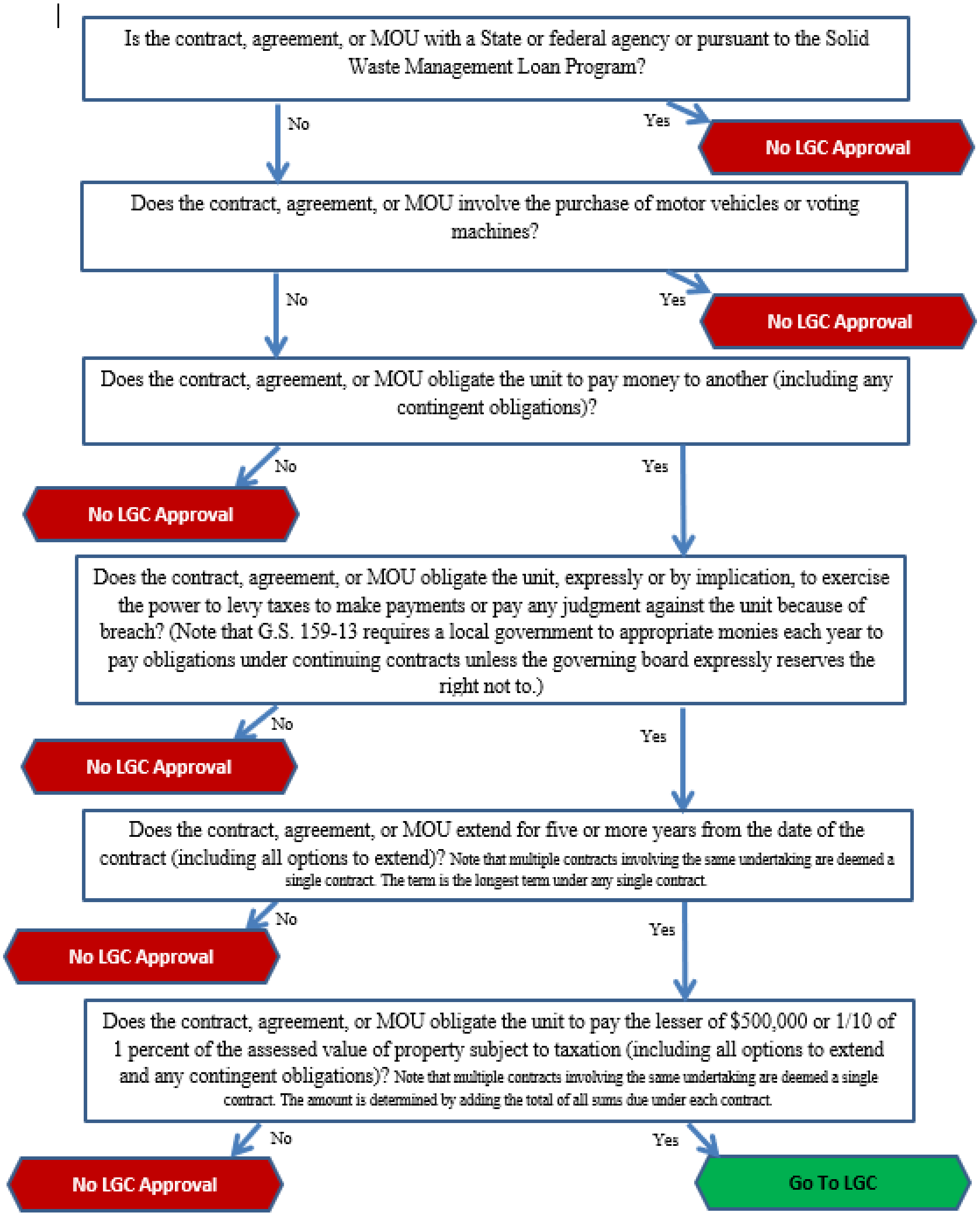

1. Is the unit issuing General Obligation Bonds?
Yes
Go To LGC
No
2. Is the unit or public authority issuing Revenue Bonds?
Yes
Go To LGC
No
3. Is the unit issuing Special Obligation Bonds?
Yes
Go To LGC
No
4. Is the unit issuing Project Development Financing Bonds?
Yes
Go To LGC
No
5. Is the unit or public authority entering into an Installment Purchase Agreement(s) (including issuing certificates of participation (COPs) or limited obligation bonds (LOBs)?
Yes
Go to Flowchart A
No
6. Is the unit entering into a contract(s), agreement(s), or MOU(s) involving the lease, acquisition, or construction of a capital asset?
Yes
Go to Flowchart B
No
7. Is another entity borrowing money or entering into a similar financing arrangement on behalf of the unit or on behalf of a public body, agency, or similar entity created by the unit?
Yes
Go to Flowchart C
No
8. Is the unit entering into a financing arrangement that is “similar” to borrowing money?
Yes
Go to Flowchart D
No
No LGC Approval

Flowchart A


Does the Installment Purchase Agreement(s) involve borrowing money from a State or federal agency or from the Solid Waste Management Loan Program?
No
Yes
No LGC Approval
Does the Installment Purchase Agreement(s) involve the purchase of motor vehicles or voting machines?
No
Yes
No LGC Approval
Does the Installment Purchase Agreement(s) involve the construction or repair of fixtures or improvements on real property?
No
Yes
Go To LGC
Does the Installment Purchase Agreement(s) obligate the unit to pay sums of money to another (including any contingent obligations)? Note that this is does not include obligations for specific performance.
No
No LGC Approval
Yes
Does the Installment Purchase Agreement(s) extend for five or more years from the date of the contract (including all options to extend)? Note that multiple contracts involving the same undertaking are deemed a single contract. The term is the longest term under any single contract.
No
No LGC Approval
Yes
Does the Installment Purchase Agreement(s) obligate the unit to pay in principal and interest the lesser of $500,000 or 1/10 of 1 percent of the assessed value of property subject to taxation (including all options to extend and any contingent obligations)? Note that multiple contracts involving the same undertaking are deemed a single contract. The amount is determined by adding the total of all sums due under each contract.
No
No LGC Approval
Yes
Go To LGC

Flowchart B

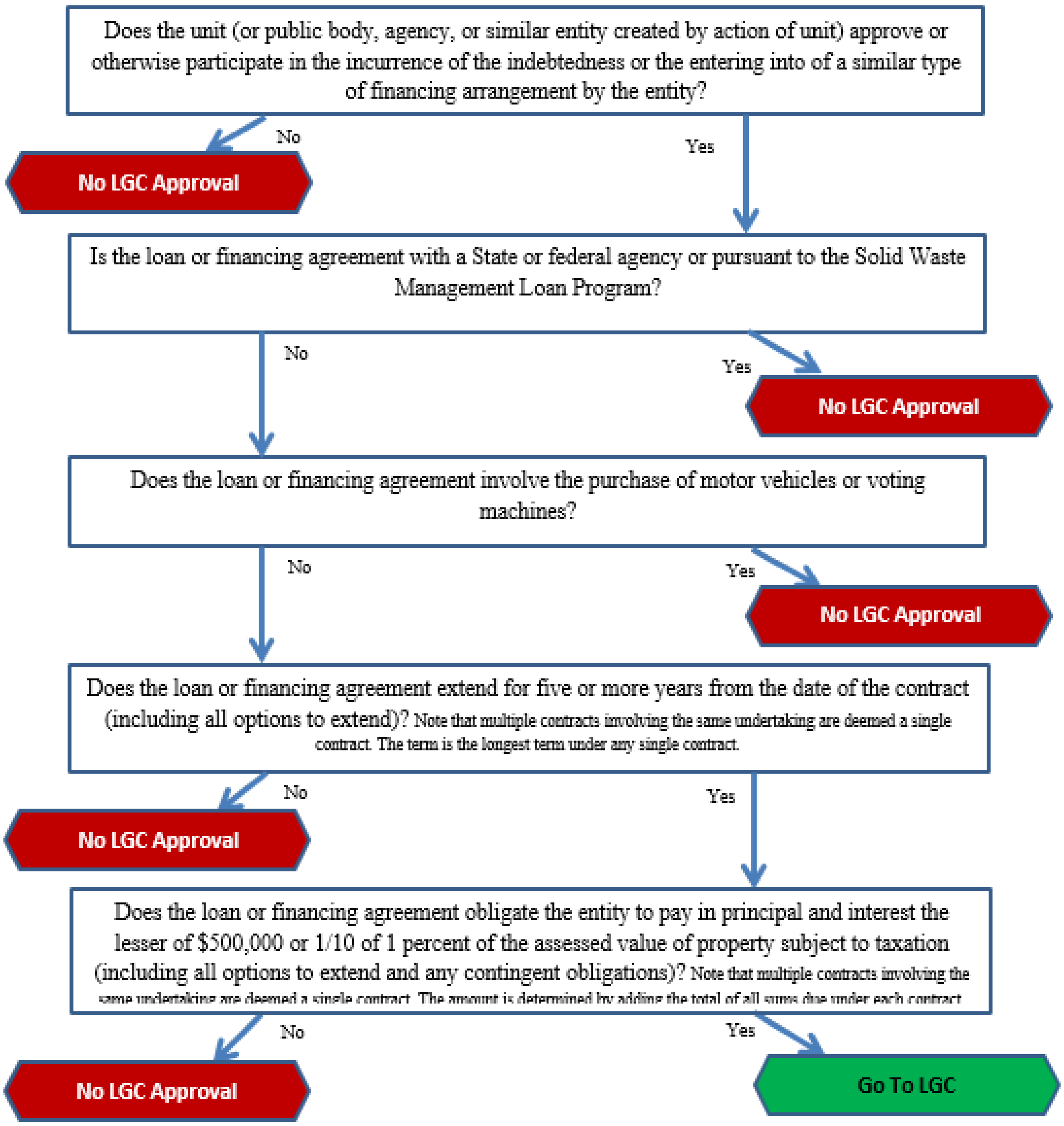
LGC Approval
Contracts Relating to Lease, Acquisition, or Construction of Capital Asset (G.S. 159-48)



Flowchart C

LGC Approval

Borrowings by Other Entity on behalf of Local Government, or on behalf of Public Body, Agency, or Similar Entity Created by Action of Local Government (G.S. 159-153)



Flowchart D

LGC Approval
Local Government,
or Public Body, Agency, or Similar Entity Created
by Action of Local Government Enters into Financing Agreement
Similar to Incurring Indebtedness (G.S. 159-153)