



State Auditor

**Dave Boliek**

## RAPID RESPONSE SPECIAL REPORT

North Carolina

Office of the State Auditor

Rapid Response Division

**1-800-730-TIPS**

October 30, 2026

# Town of Chapel Hill 2018 Affordable Housing Bond

## WHY WE CONDUCTED THIS REPORT

In November 2018, Town of Chapel Hill (the Town) voters approved a \$10 million General Obligation Affordable Housing Bond to support the development of affordable housing through new construction and rehabilitation of existing units.<sup>1</sup> Given the significant public investment, eight funded projects, and multi-year implementation period, OSA initiated this review to assess the Town's stewardship of the bond proceeds, including how the funds were allocated and used, and to determine the status of the funded projects.

## OBJECTIVES

To determine whether the Town:

- Properly allocated the affordable housing bond proceeds,
- Used the proceeds for the purpose authorized by voters,
- Made progress towards completing the affordable housing projects and units funded by the bond, and
- Complied with applicable federal arbitrage requirements.

## WHAT WE FOUND

- The Town issued the voter-authorized \$10 million affordable housing bond in two series, in May 2021 and March 2023, and received approximately \$10.4 million in net proceeds.<sup>2</sup> Of this amount, approximately \$10.2 million was allocated to eight affordable housing projects.
- Through the eight projects, the Town planned to provide 343 affordable housing units. As of June 2026, 124 units had been completed and, of those, 98 units were occupied.
- In addition to the affordable housing bond, the Town maintained other funding sources, collectively referred to as the Affordable Housing Funding Program (AHFP).
- The Town did not timely address federal arbitrage requirements associated with the bonds, resulting in rebate liabilities of \$389,292.84.

<sup>1</sup> Chapel Hill Affordable Housing, [Council Approves Moving Forward with \\$10 Million Affordable Housing Bond — Chapel Hill Affordable Housing](#); North Carolina State Board of Elections, *Composite Statewide Abstract Report*, p. 133, [Chapel Hill Affordable Housing Bonds voting results](#).

<sup>2</sup> Net proceeds of approximately \$10.4 million consisted of \$10 million in principal amount plus \$541,576 in bond premiums less \$166,353 in bond issuance costs.

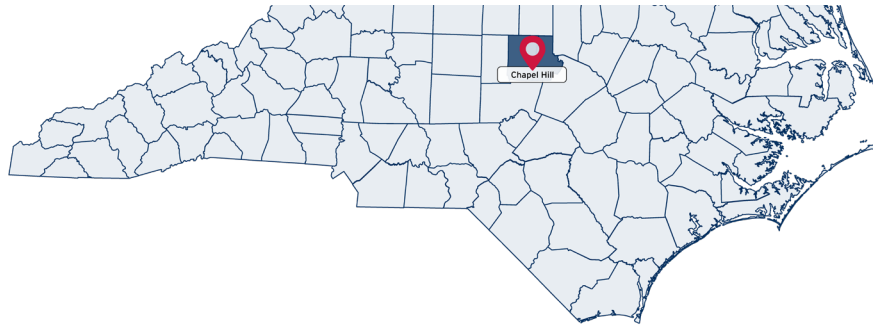
## BACKGROUND

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The Town is located primarily in Orange County, North Carolina, with a small portion extending into Durham County. Accordingly, the Town is part of the Durham-Chapel Hill housing market area.

As of July 1, 2025, the U.S. Census Bureau estimated the Town's population at 63,565 residents.<sup>3</sup> According to 2020–2024 Census estimates, the Town had 21,189 households; an average household size of 2.38 persons; and an owner-occupied housing rate of 47.4%.<sup>4</sup>

Although the Town's median household income of \$85,989 was relatively high compared to the state as a whole, housing costs were also significant.<sup>5</sup> Census estimates reported a median owner-occupied housing value of \$613,700; median monthly owner costs of \$2,912 for homes with a mortgage; and a median gross rent of \$1,613.<sup>6</sup>



*OSA-created graphic showing the location of Chapel Hill, North Carolina.*

On November 6, 2018, the Town's voters authorized the Town to issue up to \$10 million in General Obligation Affordable Housing Bonds for affordable housing purposes, including new construction, acquisition, and rehabilitation.<sup>7</sup>

The Town issued the bonds in two installments. The first issuance occurred in May 2021, when the Town issued \$4,755,000 in general obligation bonds for affordable housing projects. The second issuance occurred in March 2023, when the Town issued the remaining \$5,245,000 in affordable housing bonds. Table 1 summarizes the amounts issued, premiums, issuance costs, and net proceeds for each bond series.

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<sup>3</sup> [U.S. Census Bureau. QuickFacts: Chapel Hill Town, North Carolina.](#)

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.; North Carolina's median household income was \$72,388 during the same period.

<sup>6</sup> Ibid.

<sup>7</sup> North Carolina State Board of Elections, *Composite Statewide Abstract Report*, p. 133, [Chapel Hill Affordable Housing Bonds voting results](#); [Chapel Hill Voters Approve Affordable Housing Bond](#), Nov. 8, 2018.

**Table 1: Summary of 2021B and 2023B General Obligation Affordable Housing Bonds**

| Series       | Par (Face) (\$)      | Premium <sup>b</sup> (\$) | Issuance Costs (\$) | Net Proceeds (\$)    |
|--------------|----------------------|---------------------------|---------------------|----------------------|
| 2021B        | 4,755,000.00         | 458,965.73                | (90,562.25)         | 5,123,403.48         |
| 2023B        | 5,245,000.00         | 82,610.14                 | (75,790.94)         | 5,251,819.20         |
| <b>Total</b> | <b>10,000,000.00</b> | <b>541,575.87</b>         | <b>(166,353.19)</b> | <b>10,375,222.68</b> |

<sup>a</sup> Par (Face) amount represents the principal amount of the bonds.

<sup>b</sup> A bond premium represents proceeds above the bond's par amount.

Bond issuance amounts, premiums, and issuance costs were provided by the Town. OSA calculated net proceeds as the par amount plus bond premium less issuance costs.

## ALLOCATION OF BOND PROCEEDS

The Town allocated the 2018 Affordable Housing Bond proceeds through multiple rounds of funding. During each funding round, the Town accepted applications from outside parties “for the creation and preservation of affordable housing in Chapel Hill.”<sup>8</sup> The Town’s Housing and Community Development Department evaluated applications using a structured scoring process.<sup>9</sup> Funding recommendations were reviewed by the Housing Advisory Board and approved by the Town Council.<sup>10</sup> Projects that did not proceed could receive funding during future rounds.<sup>11</sup> Table 2 summarizes the scoring criteria and the maximum points used to evaluate applications.

**Table 2: Application Scoring Criteria and Maximum Points**

| Criteria                 | Maximum Points |
|--------------------------|----------------|
| Income Target            | 30             |
| Financing and Leverage   | 55             |
| Feasibility              | 25             |
| Applicant Experience     | 20             |
| Design                   | 30             |
| Project Impact           | 45             |
| Social and Racial Equity | 25             |
| Bonus Points             | 20             |
| <b>Total</b>             | <b>250</b>     |

The evaluation criteria and corresponding maximum point values used to score affordable housing funding applications were developed and provided to OSA by the Town.

Through this scoring process, the Town allocated approximately \$10.2 million in bond proceeds to

<sup>8</sup> Town of Chapel Hill. (2020, March 19). Town accepting applications: \$1.75 million available to create affordable housing opportunities. Chapel Hill Affordable Housing, [Town Accepting Applications: \\$1.75 million Available to Create Affordable Housing Opportunities — Chapel Hill Affordable Housing](#).

<sup>9</sup> Information provided by the Town of Chapel Hill.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

eight affordable housing projects. Together with approximately \$6.6 million in AHFP funding, the Town committed a total of \$16.8 million to these projects. Collectively, the projects were planned to provide 343 affordable housing units, including 303 new units and 40 preserved units.

Table 3 summarizes the allocation of bond proceeds among the eight affordable housing projects, along with related AHFP funding, total Town funding, and total project funding.

**Table 3: Summary of Eight Projects Funded by the 2018 Affordable Housing Bond**

| Project           | Rubric Score | Units <sup>a</sup> | AMI <sup>b</sup> | Bond Funding (\$) | AHFP Funding (\$) | Total Town Funding (\$) | Total Funding (\$) * |
|-------------------|--------------|--------------------|------------------|-------------------|-------------------|-------------------------|----------------------|
| Perry Place       | 164          | 24                 | 0-60%            | 246,995           | 744,799           | 991,794                 | 11,082,320           |
| Cedar Hills       | 174          | 6                  | 0-60%            | 25,000            | 85,000            | 110,000                 | 1,208,350            |
| PEACH Apartments  | 174          | 10                 | 0-30%            | 200,000           | 1,101,000         | 1,301,000               | 3,781,257            |
| Trinity Court     | 196          | 54                 | 0-80%            | 474,796           | 2,200,895         | 2,675,691               | 18,912,515           |
| Weavers Grove     | 185          | 102                | 0-80%            | 1,555,692         | 1,925,000         | 3,480,692               | 38,058,132           |
| Homestead Gardens | 179          | 87                 | 0-115%           | 6,328,839         | 473,395           | 6,802,234               | 42,775,730           |
| Carver Street     | 165          | 12                 | 0-80%            | 375,000           | -                 | 375,000                 | 4,251,252            |
| Longleaf Trace    | 180          | 48                 | 0-60%            | 950,000           | 60,000            | 1,010,000               | 15,837,386           |
| <b>Total</b>      | <b>N/A</b>   | <b>343</b>         | <b>N/A</b>       | <b>10,156,322</b> | <b>6,590,089</b>  | <b>16,746,411</b>       | <b>135,906,942</b>   |

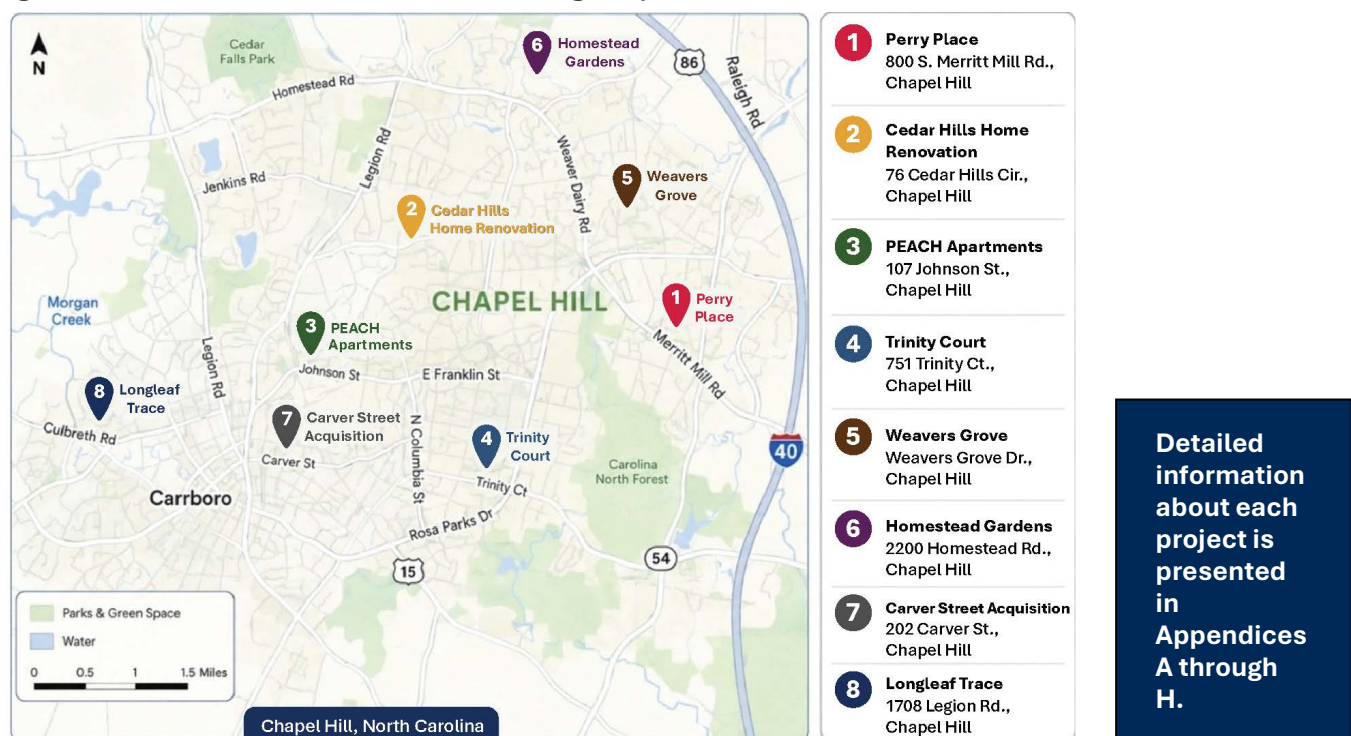
<sup>a</sup> Trinity Court is a redevelopment project. All other projects are new construction projects.

<sup>b</sup> Area Median Income (AMI) is the median household income for a specific geographic region. It is calculated every year by the U.S. Department of Housing and Urban Development (HUD) and is used to determine eligibility for affordable housing programs. See [For Partners and Developers — Chapel Hill Affordable Housing](#).

The information used to create Table 3 was obtained from [Affordable Housing Funding | Chapel Hill, NC](#) and [Town of Chapel Hill Bond-Funded Affordable Housing Projects](#). Because the projects are multi-year developments, project characteristics, funding amounts, and unit counts may be revised over time. OSA used the most recent information available and confirmed the data with the Town on July 24, 2026.

\* Includes Other Non-Town Funding Sources.

**Figure 1: Locations of Affordable Housing Projects**



Map developed by OSA using project address information obtained from [Town of Chapel Hill Bond-Funded Affordable Housing Projects](#).

## PROJECT STATUS

As of June 2026, the Town had completed 124 units, 98 of which were occupied.<sup>12</sup> An additional 38 units were under construction, while the remaining projects were in various stages of planning and development. For completed projects, the Town reviewed supporting documentation to verify that residents occupying the affordable housing units met applicable AMI requirements.

As of June 30, 2026, the Town had disbursed approximately \$3.64 million in Affordable Housing Bond proceeds for these projects.

Table 4 summarizes each project's status, planned and completed units, occupancy, construction activity, and bond funding.

<sup>12</sup> Information regarding unit completion and occupancy was provided by the Town on June 12, 2026, and confirmed by the Town on July 24, 2026. On September 25, 2026, the Town stated that some completed rental units were still in the lease-up process.

**Table 4: Affordable Housing Project Status and Bond Proceeds Disbursements**

| Project                     | Status of the Project | Ownership Type | Units Planned | Units Completed | Occupied (Sold or Rented) | Under Construction | Score | Date of Award | Date of Certificate of Occupancy                    | Disbursed from AHB Proceeds (\$) | Bond Funding (\$) | AHFP Funding (\$) | Total Town Funding (\$) | Total Funding*     |
|-----------------------------|-----------------------|----------------|---------------|-----------------|---------------------------|--------------------|-------|---------------|-----------------------------------------------------|----------------------------------|-------------------|-------------------|-------------------------|--------------------|
| Perry Place                 | Complete              | Rent           | 24            | 24              | 21                        | N/A                | 164   | 6/17/2020     | 4/26/2023                                           | 246,913                          | 246,995           | 744,799           | 991,794                 | 11,082,320         |
| Cedar Hills Home Renovation | Complete              | Rent           | 6             | 6               | 6                         | N/A                | 174   | 4/24/2024     | 7/1/2025                                            | 25,000                           | 25,000            | 85,000            | 110,000                 | 1,208,350          |
| PEACH Apartments            | Complete              | Rent           | 10            | 10              | 7                         | N/A                | 174   | 11/16/2022    | 6/16/2026                                           | 200,000                          | 200,000           | 1,101,000         | 1,301,000               | 3,781,257          |
| Trinity Court               | Fall, 2026            | Rent           | 54            | 40              | 31                        | 14                 | 196   | 11/16/2022    | TCOs issued on both buildings on 12/31/2025         | 474,796                          | 474,796           | 2,200,895         | 2,675,691               | 18,912,515         |
| Weavers Grove               | 2028                  | Own            | 102           | 44              | 33                        | 24                 | 185   | 11/16/2022    | 38 COs distributed to date, starting in August 2024 | 1,370,692                        | 1,555,692         | 1,925,000         | 3,480,692               | 38,058,132         |
| Homestead Gardens           | 2028                  | Rent & Own     | 87            | -               | -                         | -                  | 179   | 11/16/2022    | None to date                                        | 945,626                          | 6,328,839         | 473,395           | 6,802,234               | 42,775,730         |
| Carver Street Acquisition   | Acquisition Completed | Own            | 12            | -               | -                         | -                  | 165   | 4/24/2024     | None to date                                        | 375,000                          | 375,000           | -                 | 375,000                 | 4,251,252          |
| Longleaf Trace              | Winter, 2028          | Rent           | 48            | -               | -                         | -                  | 180   | 4/24/2024     | None to date                                        | -                                | 950,000           | 60,000            | 1,010,000               | 15,837,386         |
| <b>Total</b>                |                       |                | <b>343</b>    | <b>124</b>      | <b>98</b>                 | <b>38</b>          |       | <b>N/A</b>    | <b>N/A</b>                                          | <b>3,638,027</b>                 | <b>10,156,322</b> | <b>6,590,089</b>  | <b>16,746,411</b>       | <b>135,906,942</b> |

Data compiled from documents provided by the Town and confirmed by Town officials on July 24, 2026. The Town provided information in June 2026 indicating that the PEACH project was expected to be completed in July and confirmed on July 24, 2026 that 10 units had been completed. Due to an oversight, the project status of the PEACH Apartments was not updated at that time. OSA subsequently updated the project status to "Complete." As of the date of the Town's response, Trinity Court was expected to be completed in the fall of 2026. Weavers Grove, Homestead Gardens, and Longleaf Trace were expected to be completed in 2028, while Carver Street remained in the pre-development stage.

\* Includes Other Non-Town Funding Sources.

## BOND CLOSEOUT

Before the 2018 Affordable Housing Bond program can be closed, the Town must complete the funded projects, appropriately expend or otherwise account for remaining bond proceeds, satisfy debt-service obligations, and comply with applicable tax requirements.

The Town expected the 2018 referendum debt to be repaid through its Debt Service Fund.<sup>13</sup>

According to the Town's amortization schedules, both bond series require semiannual interest payments and annual principal payments. Table 5 summarizes the debt service requirements, interest rates, and final maturity dates for each bond series.

**Table 5: Debt Service Requirements by Bond Series**

| Bond Series   | Principal (\$)    | Interest Expense (\$) | Total Payments (\$) | Interest Rate | Estimated Payoff Date |
|---------------|-------------------|-----------------------|---------------------|---------------|-----------------------|
| 2021A & 2021B | 7,960,000         | 1,956,224             | 9,916,224           | 1.00%–4.00%   | 6/30/2041             |
| 2023A & 2023B | 14,925,000        | 6,324,215             | 21,249,215          | 3.00%–5.00%   | 6/30/2043             |
| <b>Total</b>  | <b>22,885,000</b> | <b>8,280,439</b>      | <b>31,165,439</b>   | <b>N/A</b>    | <b>N/A</b>            |

*Information obtained from amortization schedules provided by the Town.*

The Town's amortization schedules provided to OSA during the review each combine two bond issuances and do not present debt service separately by bond purpose.<sup>14</sup> Although the Affordable Housing Bonds represented \$4.755 million of the Town's \$7.960 million in 2021 bond issuances and \$5.245 million of the Town's \$14.925 million 2023 bond issuances, the schedules do not allocate interest among the individual bond purposes.<sup>15</sup> Therefore, Table 5 does not show the exact amount of interest solely attributable to the \$10 million Affordable Housing Bond.

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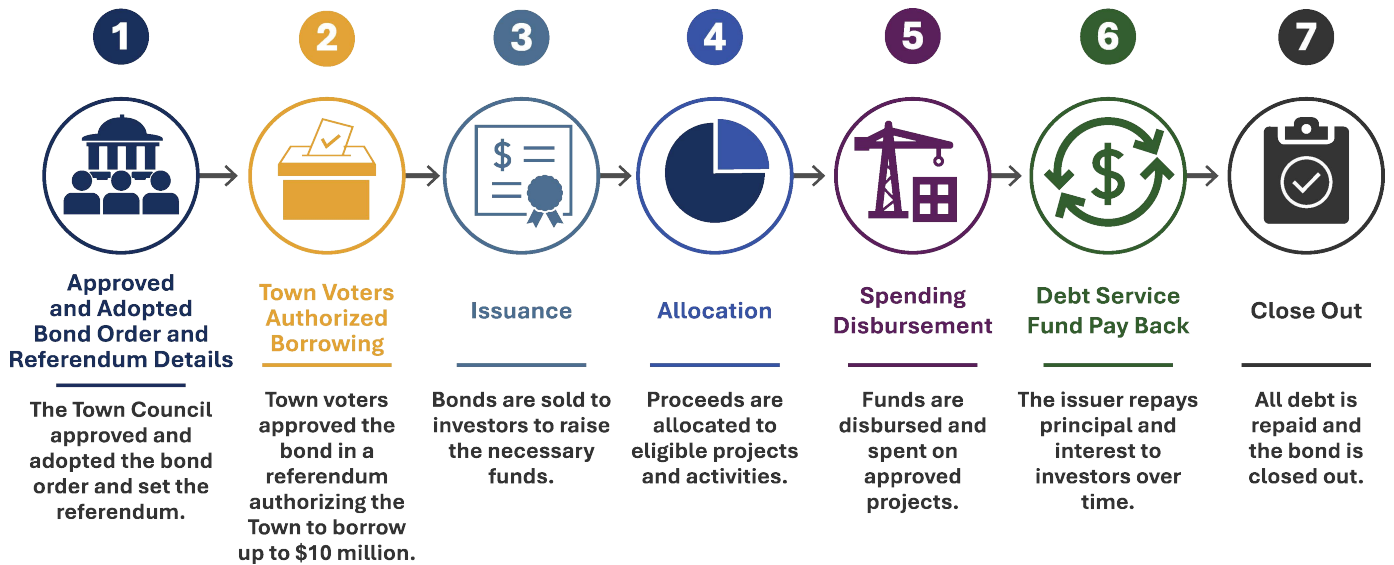
<sup>13</sup> "The Debt Service Fund is used to account for debt payments on the Town's general obligation bonds issued for capital improvement projects." Town of Chapel Hill, *FY 2026-27 Recommended Budget: Debt Fund*, p. 76.

<sup>14</sup> The schedules provided to OSA during the review consisted of one-page combined debt-service schedules for the 2021A and 2021B bond issuances and for the 2023A and 2023B bond issuances. Table 5 was prepared using those schedules.

<sup>15</sup> In response to the draft report, the Town provided complete bond documents to OSA on September 28, 2026. These documents contained separate debt-service schedules for the 2021A, 2021B, 2023A, and 2023B bond series. According to the complete documents, the \$4.755 million 2021B Affordable Housing Bonds had total interest of \$1,168,134.79. However, the 2023B issuance includes \$7.7 million for Streets and Sidewalks and \$5.245 million for Affordable Housing. The 2023B debt-service schedule presents debt service for the bond series as a whole and does not separately identify the interest attributable to each bond purpose. Financial reporting standards do not require interest expense to be allocated among individual purposes within a bond issuance.

For the 2018 referendum, the Town stated that if voters approved the bonds, a one-cent property tax increase would be needed to pay the associated debt service; that increase became effective with the fiscal year (FY) 2020 budget.

**Figure 2: Summary of the Bond Life Cycle**



*This infographic was created by OSA for illustrative purposes and summarizes the general stages of the bond funding process.*

## AFFORDABLE HOUSING FUNDING PROGRAM (AHFP)

Bond proceeds represent only one component of the Town’s affordable housing strategy. The Town also supports affordable housing through annual appropriations historically tied to the value of **one cent** on the property tax rate.

*“In preparation for the 2015 referendum[,] the Council increased the portion of the property tax dedicated to debt service by a penny. This increase provided the capacity to pay the additional debt service for the 2015 general obligation bonds.*

***For the 2018 referendum, the Council stated that if the community approved the bonds, a one cent tax increase would be needed to pay the associated debt service. The penny increase was effective with the FY 2020 budget.***

*The Town built enough capacity in the Debt Fund for the 2024 referendum so no tax increase will be needed for these issuances.”*

Source: The Town’s FY 2025 Annual Comprehensive Financial Report, PDF p. 11.

The Town’s “Penny for Housing” initiative began in FY 2015. In FY 2018, the Town established the Affordable Housing Development Reserve Fund (AHDRF) to receive these annual allocations. Beginning in FY 2024, a portion of the Town’s annual housing commitment was used to fund affordable housing staff positions while maintaining the Town’s overall commitment to affordable housing.

Following the FY 2026 property tax revaluation, the value of one cent on the tax rate increased substantially to approximately \$1.321 million.<sup>16</sup> However, citing financial sustainability concerns, the Town discontinued the “penny for” funding approach for several program areas, including affordable housing, climate action, and parks. The Town therefore maintained affordable housing funding at the FY 2025 level of approximately \$976,000 rather than increasing it to match the higher penny value.<sup>17</sup>

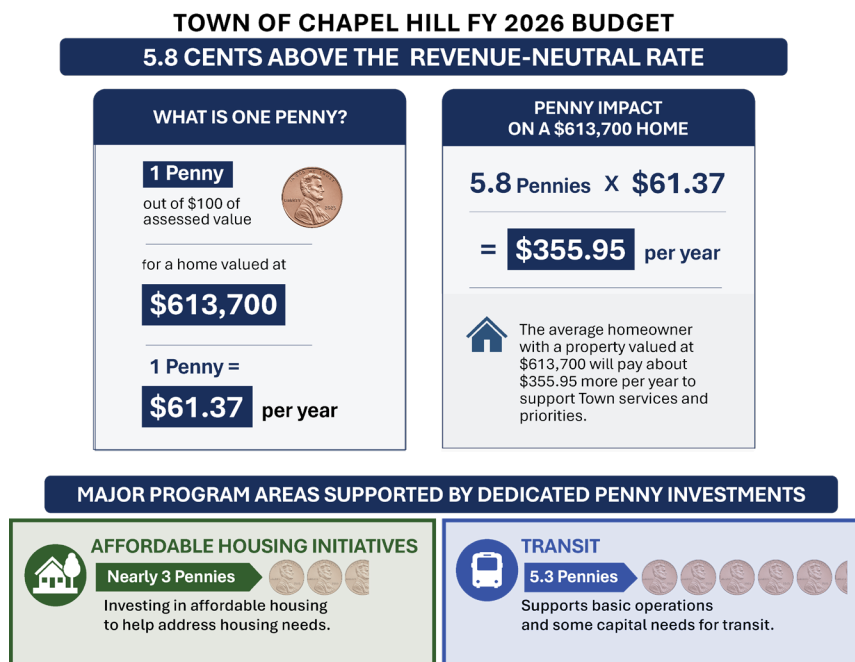
Based on the FY 2026 adopted budget, nearly three pennies of the property tax rate are allocated to affordable housing initiatives.<sup>18</sup> Figure 3 illustrates the impact of a one-penny increase in the property tax on a home with the median assessed value.

<sup>16</sup> Town of Chapel Hill, [FY 2026 Budget Update: Revaluation Data & Budget Scenarios](#), PDF p. 16.

<sup>17</sup> Ibid.

<sup>18</sup> Town of Chapel Hill, [FY 2026 Adopted Budget](#), PDF p. 9.

Figure 3: Town of Chapel Hill FY 2026 Budget Programs Funded by “One Penny.”<sup>19</sup>



*This infographic was created by OSA to illustrate the estimated impact of a one-cent property tax increase on a residential property tax bill. The calculations were based on information presented in the Town’s FY 2026 Adopted Budget and FY 2026 Adopted Budget Presentation.*

In FY 2026, the Town eliminated the AHDRF and transferred housing-related funding to the Affordable Housing Fund, a multi-year fund designed to support long-term affordable housing projects. Together with affordable housing bond proceeds, these resources comprise the Town’s AHFP. The Town also maintains federal resources for current and future affordable housing initiatives. Table 6 summarizes the funding sources and resources available for future affordable housing projects as of June 30, 2026.

Figure 3 explains the Town’s “One Penny” concept by showing that one cent on the property tax rate represents \$0.01 of tax for every \$100 of assessed property value. For a home valued at \$613,700, one penny on the tax rate equals approximately \$61.37 in annual property taxes.

The Town’s [FY 2026 adopted tax rate of 50 cents](#) was 5.8 cents above the revenue-neutral rate of 44.2 cents, which is the rate that would generate the same amount of property tax revenue as the previous year, given the new post-reappraisal tax base. See N.C.G.S. § 159-11(e). During a reappraisal year, any tax rate adopted above the revenue-neutral rate represents a property tax increase relative to the previous year, even if the adopted tax rate is lower than the tax rate in effect before the reappraisal.

For a home valued at \$613,700, the additional 5.8 cents results in approximately \$355.95 in additional annual property taxes. See Figure 3 for an overview of how the Town invests the proceeds generated by “One Penny.”

<sup>19</sup> [FY 2026 Budget Adoption Presentation](#); [FY 2026 Adopted Budget](#).

**Table 6: The Town's Affordable Housing Funds and Resources Available for Future Projects as of June 30, 2026**

| Fund Type         | Source  | AHFP Y/N | Fund Name                                                                       | Par (\$)   | Annual Contribution (\$) | Unaudited Fund Balance/Net Position as of 6/30/2026 (\$) |
|-------------------|---------|----------|---------------------------------------------------------------------------------|------------|--------------------------|----------------------------------------------------------|
| Governmental Fund | Town    | Yes      | Capital Project Ordinance Fund—Affordable Housing Bond (2018 Referendum)        | 10,000,000 | N/A                      | 6,153,026 <sup>a</sup>                                   |
| Governmental Fund | Town    | Yes      | Capital Project Ordinance Fund—Affordable Housing Bond (2024 Referendum)        | 15,000,000 | N/A                      | 3,500,000                                                |
| Governmental Fund | Town    | Yes      | Affordable Housing Fund                                                         | N/A        | - <sup>b</sup>           | 4,242,446 <sup>c</sup>                                   |
| Governmental Fund | Town    | Yes      | Affordable Housing Development Reserve Fund                                     | N/A        | 722,003 <sup>d</sup>     | - <sup>e</sup>                                           |
| Governmental Fund | Federal | No       | American Rescue Plan Act (ARPA)                                                 | N/A        | - <sup>f</sup>           | -                                                        |
| Governmental Fund | Federal | No       | Community Development Block Grant (CDBG)                                        | N/A        | 415,188 <sup>g</sup>     | 76,785                                                   |
| Governmental Fund | Federal | No       | HOME Investment Partnerships Program                                            | N/A        | -                        | -                                                        |
| Governmental Fund | Town    | No       | Transition Housing Fund                                                         | N/A        | -                        | 264,499                                                  |
| Governmental Fund | Town    | No       | Land Trust Fund                                                                 | N/A        | -                        | 51,355                                                   |
| Governmental Fund | Federal | No       | Public Housing Capital Grants Fund/Public Housing Grant Projects Ordinance Fund | N/A        | 1,085,302 <sup>h</sup>   | 170,819                                                  |
| Enterprise Fund   | Federal | No       | Public Housing Operating Fund/Housing Operating Fund                            | N/A        | 1,295,000 <sup>i</sup>   | 9,385,772                                                |

<sup>a</sup> The Town reported that the \$10 million Affordable Housing Bond was accounted for in the Capital Projects Ordinance Fund. According to the Town's August 15, 2026 email to OSA, the project budget includes a \$2 million allocation from the State of North Carolina's Community Project Funding program that had not been received as of June 30, 2026. Therefore, the fund balance was adjusted from \$8,153,026 to \$6,153,026.

<sup>b</sup> According to the Town, there is no standard contribution amount. Funding is received from various sources, including interest income, developer payments, loan fees, loan payments, and other revenue.

<sup>c</sup> According to the Town's August 15, 2026 email to OSA, the balance of \$5,742,446 was reduced by \$1.5 million to exclude Community Project Funding that had not been received as of June 30, 2026, resulting in an adjusted balance of \$4,242,446.

<sup>d</sup> According to the Town's [FY 2022-2023 Consolidated Annual Performance and Evaluation Report \(CAPER\)](#), since FY 2014-15, the Town Council has annually allocated more than \$688,000 for affordable housing. Beginning with the FY 2024 budget, the Council increased the annual allocation to \$826,850. In March 2015, the Council established the AHDR, which is dedicated exclusively to the development and preservation of affordable housing. According to the Town's [FY 2025 Annual Comprehensive Financial Report](#) (ACFR), the transfer to the AHDR totaled \$722,003 in FY 2025 (PDF p.150). According to the Town's August 15, 2026 email to OSA, the \$104,847 difference between the Council-approved annual allocation (\$826,850) and the FY 2025 transfer to the AHDR Fund (\$722,003) relates to an Affordable Housing Program Coordinator position. The Town indicated that salary expenditures are not recorded in the AHDR Fund; therefore, the transfer to the AHDR Fund was reduced accordingly.

<sup>e</sup> According to the Town, the balance was rolled into the Affordable Housing Fund.

<sup>f</sup> According to the Town, "The ARPA monies were part of the federal government's plan to help local governments post COVID. The Town allocated \$2.5 million towards affordable housing projects. This was one time funding and is not part of the AHFP or the Town's bond funds."

<sup>g</sup> According to the Town, it "receives an annual block grant from HUD for the CDBG program. The amount is typically between \$400K - \$425K."

<sup>h</sup> According to the Town, "The Town receives an annual HUD capital grant for capital maintenance to the Town's nine housing units. The allocation is typically between \$1 million - \$1.2 million." These funds are restricted to the Public Housing Capital Program and are not available for future affordable housing projects.

<sup>i</sup> According to the Town, "The Public Housing Fund receives an annual operating subsidy from HUD that ranges between \$1.2 million - \$1.4 million." These funds are restricted to public housing operations and are not available for future affordable housing projects.

Data compiled from documents provided by the Town and confirmed by Town officials on July 24, 2026.

## ARBITRAGE REBATE LIABILITY COMPLIANCE

As of June 30, 2026, approximately \$6.15 million of the Affordable Housing Bond proceeds remained unspent.<sup>20</sup> The Town's FY 2025 Annual Comprehensive Financial Report also reported \$30.99 million of unspent bond proceeds in the Capital Projects Ordinance Fund.<sup>21</sup>

Because significant bond proceeds remained unspent for extended periods, the Town was subject to federal requirements governing the investment and expenditure of tax-exempt bond proceeds.

## FINDING DETAILS

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### **Arbitrage Rebate Liability for the 2021 Bond Series Was Not Identified or Paid by the Required Due Date.**

Section 148(f) of the Internal Revenue Code generally requires issuers of tax-exempt bonds to pay certain excess investment earnings to the federal government unless a statutory spending exception applies.<sup>22</sup> When a spending exception is not met, arbitrage rebate<sup>23</sup> and any required yield reduction payments must be calculated and remitted by the applicable installment payment date.<sup>24</sup>

On May 12 and 13, 2021, the Town issued approximately \$7.96 million in general obligation bonds, consisting of \$3.205 million in Public Improvement Bonds and \$4.755 million in Affordable Housing Bonds.

Arbitrage rebate liability is calculated from the issuance date for the bond issue as a whole rather than separately by bond purpose. Accordingly, the information provided below combines both bond series. Table 7 summarizes the Town's May 2021 general obligation bond issuance.

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<sup>20</sup> As of June 30, 2026, the Town had received \$584,168.56 in invoices related to eligible project costs; however, the associated funds had not yet been drawn. Accordingly, approximately \$6.74 million remained undisbursed.

<sup>21</sup> Town of Chapel Hill, North Carolina, *Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2025*, Exhibit 13, Governmental Activities, p. 66, available at [2024-2025-annual-comprehensive-financial-report.pdf](#).

<sup>22</sup> See [26 U.S.C. § 148\(f\)](#); see also [26 C.F.R. § 1.148-7](#) (delineating the spending exceptions to the rebate requirement).

<sup>23</sup> An arbitrage rebate is a payment made to the U.S. Treasury when an issuer of tax-exempt bonds earns higher profit by investing unspent bond proceeds in taxable securities than the interest rate they pay on the bonds.

<sup>24</sup> [26 C.F.R. § 1.148-3\(g\)](#) (requiring that each rebate payment be made "no later than 60 days after the computation date to which the payment relates"); [26 C.F.R. § 1.148-5\(c\)](#) (permitting local governments that issue tax-exempt bonds to make yield reduction payments to the federal government).

**Table 7: Summary of the Town's May 2021 General Obligation Bond Issuance**

| <b>Bond Series</b> | <b>Authority</b>     | <b>Bond Type</b>   | <b>Purpose</b>     | <b>Par Amount (\$)</b> |
|--------------------|----------------------|--------------------|--------------------|------------------------|
| 2021A              | Two-Thirds Bonds     | General Obligation | Public Improvement | 3,205,000 <sup>a</sup> |
| 2021B              | 2018 Bond Referendum | General Obligation | Affordable Housing | 4,755,000              |
|                    |                      |                    | <b>Total</b>       | <b>7,960,000</b>       |

<sup>a</sup> Of the \$3,205,000 Series 2021A Two-Thirds General Obligation Bonds issued for public improvement projects, \$1,155,000 was allocated to Parks and Recreation projects; \$550,000 to Public Safety projects; and \$1,500,000 to Streets and Sidewalks projects. The bonds were issued at a premium of \$306,731.29, which was allocated among the three project categories in proportion to their respective par amounts.

Data compiled from documents provided by the Town.

On July 13, 2026, OSA inquired about whether an arbitrage rebate liability existed after noting that only approximately \$3.2 million of the bond proceeds had been disbursed.<sup>25</sup> Following OSA's inquiry, the Town engaged an arbitrage consultant on July 22, 2026 to review the bonds and determine compliance with federal arbitrage requirements.

On July 28, 2026, the consultant completed the review and prepared Form 8038-T.<sup>26</sup> The consultant determined that the bonds did not qualify for the available spending exceptions and calculated that the Town owed the Internal Revenue Service (IRS) \$389,292.84, consisting of:

- Arbitrage rebate payment: \$184,618.52;
- Yield reduction payment: \$202,070.26; and
- Interest on the late payment: \$2,604.06.

The first arbitrage rebate installment was due within 60 days after May 12, 2026. According to the Town's correspondence with the IRS, the payment deadline was approximately July 11, 2026.

According to the Town, it had not previously accrued an arbitrage rebate liability for prior bond issuances and was not aware that an arbitrage rebate liability might exist for the Series 2021A and 2021B bonds.

However, once the Town became aware that liability might exist, it acted promptly. The Town engaged an arbitrage consultant, expedited the required calculations, prepared the applicable federal form, and remitted the full payment to the IRS on July 31, 2026,<sup>27</sup> approximately three weeks

<sup>25</sup> An Excel file provided to OSA by the Town in January 2026 reported total disbursements of \$3,216,697.28. An updated file provided to OSA on July 24, 2026, which had a June 30, 2026 cutoff date, reported total expenditures of \$4,388,549.26 and total disbursements of \$3,804,380.70. Of the total disbursements, \$166,353.19 was for bond issuance costs and \$3,638,027.51 was disbursed for the eight affordable housing projects.

<sup>26</sup> IRS Form 8038-T is the standard form used to submit arbitrage rebate payments to the U.S. Government.

<sup>27</sup> According to the Town's August 4, 2026 email to OSA, the payment was made from the Town's Debt Service Fund.

after the payment deadline. The Town also submitted a request to the IRS for a waiver of any applicable late-payment penalty.

## **RECOMMENDATIONS**

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1. Before issuing tax-exempt bonds, the Town should evaluate the applicable spending exceptions and consider whether the planned expenditure schedule is sufficient to meet those requirements and avoid or minimize potential arbitrage rebate liabilities.<sup>28</sup>
2. After issuing tax-exempt bonds, the Town should monitor compliance with federal arbitrage requirements, including periodically evaluating actual expenditures against applicable spending requirements, and timely calculating and remitting any required arbitrage rebate or yield reduction payments under Section 148 of the Internal Revenue Code.

## **CLOSING REMARKS**

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The 2018 Affordable Housing Bond provided the Town with \$10 million in voter-authorized financing to support affordable housing development and preservation. The Town allocated the bond proceeds among eight projects consistent with the purposes approved by voters, and completed projects have provided affordable housing units to Chapel Hill residents.

As of June 2026, however, several projects remained under construction or in development and more than half of the bond proceeds remained unspent. Continued monitoring of project completion, remaining bond proceeds, debt service requirements, and federal arbitrage compliance will be important as the Town completes the remaining projects and ultimately closes the 2018 Affordable Housing Bond Program.

OSA sincerely appreciates the Town's assistance and cooperation throughout this review, including its efforts to provide clear and well-organized accounting records and supporting documentation.

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<sup>28</sup> See, e.g., [26 C.F.R. § 1.148-7](#).

## Response from the Town of Chapel Hill



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September 25, 2026

North Carolina Office of the State Auditor  
20601 Mail Service Center  
Raleigh, NC 27699

Dear Charles Dingee:

Thank you for the opportunity to respond to your recommendations and to clarify the Town's current practices and provide details on our ongoing process improvements.

**State Auditor Recommendation #1:** Evaluate Spending Exceptions and Expenditure Schedules Before Issuing Tax-Exempt Bonds

**Town Response #1:** The Town has implemented changes to its bond issuance process to better align with project timelines and federal requirements. Specifically, for affordable housing projects, we now sign funding commitment letters with our project partners, and bonds are not issued until the projects are ready to break ground. This approach minimizes the period during which proceeds remain unspent and helps avoid unnecessary arbitrage liabilities.

Many delays in project execution have been due to external factors beyond the Town's control, such as a global pandemic, market conditions, permitting, and coordination among development partners. Town Management continues to monitor these factors closely and adjust our processes as needed to ensure timely project delivery and compliance with federal and state regulations.

**State Auditor Recommendation #2:** Monitor Compliance with Federal Arbitrage Requirements and Remit Timely Payments

**Town Response #2:** The Town is currently fully compliant with all federal arbitrage requirements for its tax-exempt bond issuances. The Town has made all required rebate and yield reduction payments, including the recent payment identified in the State Auditor's report. Compliance reviews will now be performed annually on all outstanding issues, and we will continue to engage external consultants as needed to ensure the accuracy and timeliness of our arbitrage obligations. The Town maintains rigorous oversight of all bond-related activities, and we are committed to ongoing monitoring and prompt resolution of any compliance matters.

The Town remains dedicated to responsible financial management and the successful completion of all affordable housing projects funded by the 2018 bonds.

A handwritten signature in black ink, reading "Theodore L. Voorhees". The signature is fluid and cursive, with a long horizontal stroke at the end.

Theodore L. Voorhees  
Town Manager  
Town of Chapel Hill

## Appendix A: Perry Place (Completed and Occupied)

Perry Place is a 48-unit affordable rental housing development, with 24 units located in Chapel Hill and 24 units located in Carrboro. The project broke ground in April 2021<sup>29</sup> and opened for lease signings on April 1, 2023.<sup>30</sup>

The affordability restrictions for the project include units restricted to households earning between 30% and 60% of the AMI. For the Chapel Hill units, rents range from \$420 to \$950. As of June 12, 2026, the Town reported that 21 of the 24 Chapel Hill units were occupied. Of the three vacant units, one lease had been signed and one additional lease was expected to be signed by the end of that month.<sup>31</sup>



*Photo provided by the Town on July 29, 2026.*

## Appendix B: Cedar Hills Homes Renovation (Completed and Occupied)

Cedar Hills Home is a six-unit licensed residential facility for low-income individuals with intellectual and developmental disabilities. The project was placed in service on July 1, 2025. According to information provided by the Town on June 12, 2026, all six units were occupied.

The project's affordability restrictions require four units to serve individuals earning at or below 30% of the AMI and two units to serve individuals earning at or below 50% of the AMI for a 99-year affordability period.



*Photo provided by the Town on July 29, 2026.*

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<sup>29</sup> Ava Pukatch, "New Affordable Housing Community Named for Local Activist Breaks Ground," Chapelboro.com, April 21, 2021, [New Affordable Housing Community Named for Local Activist Breaks Ground - Chapelboro.com](https://www.chapelboro.com/news/2021/04/21/new-affordable-housing-community-named-for-local-activist-breaks-ground/).

<sup>30</sup> "Perry Place," The Local Reporter, Mar. 29, 2023, [Perry Place - The Local Reporter](https://www.thelocalreporter.com/news/perry-place/).

<sup>31</sup> Information provided in the Town's June 12, 2026 response to OSA.



*Photo provided by the Town on July 29, 2026.*

### **Appendix C: PEACH Apartments (Completed and Occupied)**

PEACH Apartments is a 10-unit affordable rental housing project located at 107 Johnson Street in Chapel Hill and developed by EMPOWERMENT, Inc. The project name stands for Pine Knoll EMPOWERMENT Affordable Community Housing and is located in the Pine Knolls neighborhood. EMPOWERMENT, Inc. describes the project as a 100% affordable multifamily development intended to serve residents earning 30% of the AMI.

Under the agreement between the Town and EMPOWERMENT, all 10 units must be rented to households earning at or below 30% of Orange County AMI for a 99-year affordability period. According to the rental summary, current rents ranged from \$600 to \$900, and seven of the 10 units were occupied as of June 12, 2026.



*Photo provided by the Town on July 29, 2026.*

### **Appendix D: Trinity Court (Construction in Progress)**

Trinity Court is a Community Housing Partners–led affordable multifamily redevelopment in Chapel Hill that will replace the former Trinity Court public housing community with 54 new income-restricted rental apartments. The project expands the original 40 units and will serve households earning between 30% and 80% of the AMI.<sup>32</sup>

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<sup>32</sup> [Trinity Court | Chapel Hill, NC.](#)

According to the Town, rents range from \$768 to \$1,500 per month, depending on the applicable funding program. As of June 1, 2026, 31 units in the completed 40-unit building were occupied and 14 units were still under construction in a second building.



*Photo provided by the Town on July 29, 2026.*

## **Appendix E: Weavers Grove (Construction in Progress)**

Weavers Grove is a mixed-income, owner-occupied residential community in Chapel Hill led by Habitat for Humanity of Orange County. The project is planned to include 238 total dwelling units, including 102 affordable Habitat homes reserved for individuals and families that live or work in Orange County. The remaining 136 are market-rate homes and include a mix of single-family detached homes, attached/duplex homes, condominiums, and townhouses.<sup>33</sup>

The affordable homes are owner-occupied units, not rental units. Habitat homebuyers must meet income and program eligibility requirements, including applicable AMI limits,<sup>34</sup> homeownership requirements, resale restrictions, and other requirements established in the loan agreement between the Town and Habitat for Humanity, Orange County, N.C., INC., and deed restrictions.



*Photo provided by the Town on July 29, 2026.*

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<sup>33</sup> Habitat for Humanity of Orange County, [“Weavers Grove.”](#)

<sup>34</sup> Area median income (AMI) data as published on the Town of Chapel Hill, “Affordable Housing,” webpage, [Affordable Housing | Chapel Hill, NC.](#)



Weavers Grove [250306-WG-Illustrative-Plan-Update-2025-scaled.png \(2560x1829\)](#)

## Appendix F: Homestead Gardens (Construction in Progress)

Homestead Gardens is a Town-initiated, mixed-income affordable housing development planned for 2200 Homestead Road in Chapel Hill, located on Town-owned land. The project will provide approximately 90 rental and homeownership units for households earning between 30% and 115% of the AMI and represents one of the Town's first efforts to develop affordable housing on publicly owned property.<sup>35</sup> Homestead Gardens is being developed in partnership with local nonprofit housing organizations to support a range of housing needs.<sup>36</sup>

According to the Town, the project experienced several years of predevelopment delays because the COVID-19 pandemic disrupted the construction industry and increased construction costs. The development team reduced and redesigned the project to fit available resources, completed additional design and cost-estimating work, obtained approval for a major modification to the prior conditional zoning, conducted value engineering, and completed a new public bidding process. The Town also stated that coordination among four local development partners and the legal structures required for the mixed-income, mixed-housing-type community added complexity. The project

<sup>35</sup> Chapel Hill Affordable Housing, "[Homestead Gardens.](#)"

<sup>36</sup> Town of Chapel Hill Affordable Housing, "Homestead Gardens (2200 Homestead Road)," [Homestead Gardens — Chapel Hill Affordable Housing](#)

broke ground in March 2026. The Town expects bond funding for site work to be spent by spring 2027 and the remaining approximately \$500,000 for vertical construction to be spent within several months thereafter.



*Photo provided by the Town on July 29, 2026.*



*Photo provided by the Town on July 29, 2026.*

### **Appendix G: Carver Street Acquisition (Preconstruction)**

The Carver Street Acquisition project involves property located at 202 and 204 Carver Street. The project is led by Habitat for Humanity of Orange County and is expected to support 12 affordable homeownership units.

Based on records reviewed, the project was in preconstruction as of the review date.



**202 Carver St**

*Photo provided by the Town on July 29, 2026.*



**204 Carver St**

*Photo provided by the Town on July 29, 2026.*



*Photo provided by the Town on July 29, 2026*

## **Appendix H: Longleaf Trace (Preconstruction)**

Longleaf Trace is a planned affordable senior rental housing development located at 1708–1712 Legion Road. The project is being developed by the Taft Mills Group in partnership with Community Home Trust.

The project is expected to provide 48 affordable apartments for seniors earning 60% or less of the AMI, with some units reserved for households at lower income levels.

According to the Town, the project was in the final stages of securing required permits as of June 12, 2026. The Town further stated that construction is expected to begin in Fall 2026, with completion anticipated by Winter 2028.



*Photo provided by the Town on July 29, 2026*



*Photo provided by the Town on July 29, 2026*

## Appendix I: Summary of Federal Arbitrage Rebate Exceptions

The Internal Revenue Code provides several exceptions to the arbitrage rebate requirement. Two of the most commonly used spending-based exceptions are the 18-Month Spending Exception and the 2-Year Construction Spending Exception, which are codified in 26 C.F.R. § 1.148-7. These exceptions generally allow issuers to avoid rebate liability if bond proceeds are spent according to specified expenditure schedules within prescribed timeframes. Tables 8 and 9 summarize the expenditure requirements for these spending exceptions.

**Table 8: 18-Month Spending Exception**

| <b>Time After Issuance</b> | <b>Minimum Cumulative Expenditures</b> |
|----------------------------|----------------------------------------|
| 6 months                   | 15%                                    |
| 12 months                  | 60%                                    |
| 18 months                  | 100%                                   |

**Table 9: 2-Year Construction Spending Exception**

| <b>Time After Issuance</b> | <b>Minimum Cumulative Expenditures</b> |
|----------------------------|----------------------------------------|
| 6 months                   | 10%                                    |
| 12 months                  | 45%                                    |
| 18 months                  | 75%                                    |
| 24 months                  | 100%                                   |

In addition to the spending-based exceptions, the Internal Revenue Code provides a Small Issuer Exception under 26 U.S.C. § 148(f)(4)(D) and 26 C.F.R. § 1.148-8. Unlike the spending exceptions, which focus on the timing of expenditures, the small issuer exception is based primarily on the issuer's taxing authority and annual tax-exempt bond issuance volume. If the applicable requirements are met, the issuer is treated as satisfying the arbitrage rebate requirement without regard to the expenditure schedules described above. Table 10 summarizes the key requirements of the small issuer exception.

**Table 10: Small Issuer Exception**

| <b>Requirement/Rule</b>            | <b>Description</b>                                                                                                               | <b>Key Threshold/Condition</b>                                           |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| <b>Purpose of Exception</b>        | Allows certain governmental issuers to satisfy the arbitrage rebate requirement without calculating or paying rebate to the IRS. | 26 U.S.C. § 148(f)(4)(D)                                                 |
| <b>Eligible Issuers</b>            | Must be a governmental unit with general taxing powers.                                                                          | Issuer can levy taxes for general governmental purposes.                 |
| <b>General Taxing Powers</b>       | Tax must be broadly applicable and available for general governmental use.                                                       | Taxing authority cannot depend on approval by another governmental unit. |
| <b>Annual Issuance Limit</b>       | Total tax-exempt governmental bonds issued during the calendar year generally must not exceed the statutory limit.               | \$5 million aggregate annual limit.                                      |
| <b>Reasonable Expectation Test</b> | Qualification may be based on expected issuance at the issue date.                                                               | Issuer reasonably expects annual issuance $\leq$ \$5 million.            |
| <b>Actual Issuance Test</b>        | Qualification may also be based on actual bonds issued during the year.                                                          | Actual annual issuance $\leq$ \$5 million.                               |
| <b>Private Activity Bonds</b>      | Not included when calculating the \$5 million limitation.                                                                        | Excluded from calculation.                                               |
| <b>On-Behalf-Of Issuers</b>        | Bonds issued on behalf of the issuer are aggregated with the issuer's bonds.                                                     | Treated as one issuer.                                                   |

| <b>Requirement/Rule</b>                   | <b>Description</b>                                                                                     | <b>Key Threshold/Condition</b>                     |
|-------------------------------------------|--------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| <b>Subordinate Entities</b>               | Bonds issued by controlled subordinate entities generally count against the parent government's limit. | Aggregated under common control rules.             |
| <b>Allocation to Subordinate Entities</b> | A parent governmental unit may allocate part of its \$5 million limit to a subordinate entity.         | Allocation must be reasonable and irrevocable.     |
| <b>Anti-Abuse Rule</b>                    | Entities cannot be created or used solely to circumvent the \$5 million limitation.                    | IRS may treat multiple entities as one issuer.     |
| <b>Current Refunding Bonds</b>            | Certain current refunding bonds are excluded from the \$5 million calculation.                         | Limited to amount of refunded bonds.               |
| <b>Pooled Financings</b>                  | Individual conduit borrowers in a pooled financing may qualify separately.                             | Must independently meet small issuer requirements. |
| <b>Refunding Issues</b>                   | Special restrictions apply to refunding bonds seeking the exception.                                   | Must comply with 26 U.S.C. § 148(f)(4)(D)(v)–(vi). |

## Appendix J: Glossary of Affordable Housing, Bond Financing, and Arbitrage Compliance Terms

| Term                                                       | Definition                                                                                                                                         |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Affordable Housing Bond</b>                             | The \$10 million general obligation bond approved by Town voters in 2018 to support affordable housing development, acquisition, and preservation. |
| <b>Affordable Housing Development Reserve Fund (AHDRF)</b> | Town fund established to receive annual allocations dedicated to affordable housing development and preservation.                                  |
| <b>Affordable Housing Fund</b>                             | Multi-year Town fund used to support affordable housing projects and initiatives.                                                                  |
| <b>Affordable Housing Funding Program (AHFP)</b>           | The Town's broader affordable housing funding strategy combining bond proceeds and other housing resources.                                        |
| <b>Allocation</b>                                          | Process of assigning bond proceeds or other funding sources to specific projects.                                                                  |
| <b>American Rescue Plan Act (ARPA)</b>                     | Federal funding provided to local governments following the COVID-19 pandemic.                                                                     |
| <b>Amortization Schedule</b>                               | Repayment schedule showing future principal and interest payments for a bond issue.                                                                |
| <b>Arbitrage Rebate</b>                                    | Excess investment earnings that may have to be paid to the federal government.                                                                     |
| <b>Area Median Income (AMI)</b>                            | Median household income for a geographic area used to determine affordable housing eligibility.                                                    |
| <b>Bond Closeout</b>                                       | Final phase of a bond program after projects are completed and requirements are satisfied.                                                         |
| <b>Bond Premium</b>                                        | Amount received above a bond's face value.                                                                                                         |
| <b>Capital Projects Ordinance Fund</b>                     | Governmental fund used to account for bond proceeds and project expenditures.                                                                      |
| <b>Community Development Block Grant (CDBG)</b>            | Annual federal funding supporting community development and housing activities.                                                                    |
| <b>Debt Service</b>                                        | Scheduled payments of principal and interest on bond debt.                                                                                         |

| <b>Term</b>                                 | <b>Definition</b>                                                                                                                                             |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Debt Service Fund</b>                    | Fund used to account for principal and interest payments on bonds.                                                                                            |
| <b>Disbursement</b>                         | Payment of bond proceeds for approved project costs.                                                                                                          |
| <b>External Auditor</b>                     | Independent auditor engaged to perform the Town's annual audit.                                                                                               |
| <b>Fiscal Year (FY)</b>                     | Annual financial reporting period.                                                                                                                            |
| <b>GASB</b>                                 | Governmental Accounting Standards Board.                                                                                                                      |
| <b>General Obligation (GO) Bond</b>         | Bond backed by the issuing government's full faith and credit.                                                                                                |
| <b>Government-Wide Financial Statements</b> | Statements reporting a government's overall financial position and activities.                                                                                |
| <b>HOME Investment Partnerships Program</b> | Federal program providing affordable housing funding.                                                                                                         |
| <b>Housing Advisory Board</b>               | Town board reviewing affordable housing funding recommendations.                                                                                              |
| <b>HUD</b>                                  | U.S. Department of Housing and Urban Development.                                                                                                             |
| <b>IRS Form 8038-T</b>                      | Federal form used to remit arbitrage rebate payments.                                                                                                         |
| <b>Issuance Cost</b>                        | Costs incurred to issue bonds.                                                                                                                                |
| <b>Net Proceeds</b>                         | Bond proceeds after premiums and issuance costs are considered.                                                                                               |
| <b>Par (Face) Amount</b>                    | Principal amount of a bond.                                                                                                                                   |
| <b>Penny for Housing</b>                    | Town practice of dedicating funding equal to roughly one cent on the property tax rate to housing initiatives.                                                |
| <b>Property Tax Revaluation</b>             | Reassessment of property values used to update the tax base.                                                                                                  |
| <b>Revenue-Neutral Tax Rate</b>             | The tax rate calculated under N.C.G.S. § 159-11(e) that would generate approximately the same property tax revenue as the prior year following a reappraisal. |
| <b>Rubric Score</b>                         | Score assigned during the project evaluation process.                                                                                                         |
| <b>Small Issuer Exception</b>               | Federal arbitrage rebate exception available to qualifying issuers.                                                                                           |
| <b>Tax-Exempt Bonds</b>                     | Bonds for which interest is generally exempt from federal income taxation.                                                                                    |

| Term                           | Definition                                                                                 |
|--------------------------------|--------------------------------------------------------------------------------------------|
| <b>Two-Thirds Bonds</b>        | North Carolina bonds that may be issued without voter approval under statutory conditions. |
| <b>Yield Reduction Payment</b> | Federal payment required to reduce investment earnings to allowable levels.                |

# Ordering Information

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Copies of this report may be obtained by contacting:



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