



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

Bond Disclosures and SEC Enforcement  
December 12, 2017



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division



STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

---

**1) Dora D. Fazzini – Director**  
NC Capital Facility Finance Agency  
North Carolina Department of State Treasurer

**2) Amy K. Johnson (Co-Disclosure Counsel)**  
Partner - Moore & Van Allen PLLC

**3) William H. McBride (Co-Disclosure Counsel)**  
Partner - Hunton & Williams, LLP

**4) C. Lewis Andrews – Senior Financial Analyst**  
North Carolina Department of State Treasurer

# SEC ENFORCEMENT

## THE RULE

- Issuers may not make a misstatement of material fact nor make a statement that is misleading due to the omission of a material fact.

- Any statement “in connection with the purchase or sale of securities” even if not intended for investors, can be problematic (e.g., websites, press releases, speeches).
- The SEC does not have to show monetary losses.

**SIGNIFICANT  
SEC DEVELOPMENTS  
FOR MUNICIPAL  
ISSUERS**

- In 2010 the SEC established Office of Municipal Securities.
- In 2013 alone, the SEC charges more municipal issuers than it had in the previous 10 years combined.

## Who?

- State of New Jersey (2010)
- State of Illinois (2013)
- State of Kansas (2014)

## PENSION LIABILITIES

- The offering documents failed to disclose that the state's pension system was significantly underfunded, and the unfunded pension liability created a repayment risk for investors.



In 2010 ...  
it got personal.

## SAN DIEGO, CALIFORNIA

- The SEC imposed civil penalties against municipal officials for the first time in 2010.
- The SEC alleged that the officials knew the city had been intentionally under-funding its pension obligations so that it could increase pension benefits but defer the costs.

## How bad was it?

- The SEC alleged that the officials knew the city's unfunded liability to its pension plan was projected to dramatically increase, growing from \$284 million at the beginning of fiscal year 2002 to an estimated \$2 billion by 2009, and that the city's liability for retiree health care was estimated to be an additional \$1.1 billion.

## The Penalties

- City Manager (\$25,000)
- City Auditor and Comptroller (\$25,000)
- Deputy City Manager for Finance (\$25,000)
- Treasurer (\$5,000)



The lesson?  
You can't be a rubber stamp.

## HARVEY, ILLINOIS

- The SEC alleged that the city illegally diverted at least \$1.7 million from past bonds whose proceeds had been earmarked for hotel development to use for operations.
- Comptroller had received large fees.



Harvey Regional Conference Center

## RAMAPO, NEW YORK

- In April 2016, the SEC brought fraud charges against officials from the town of Ramapo, New York, for allegedly hiding the town's severe financial strain from investors.
- The SEC alleged that the officials knowingly changed numbers to depict a positive balance between \$1.4 million and \$4.2 million during a six-year period when the town had actually accrued balance deficits of minus \$249,000 to minus \$13.9 million.



## How?

- Inflated the general fund balance by using phony receivables, omitting unpaid liabilities and improperly recording transfers from other funds.
- In 2010, for example, the town included a false \$3.6 million receivable.



Too far?

*"We're going to have to all be magicians to get to some of those numbers."*



### Westlands Water District (California)

After reclassifying funds from reserve accounts and recording it as additional revenue, the General Manager called it a "little Enron accounting" to the Board of Directors.

## MIAMI, FLORIDA

On Sept. 14, 2016, the SEC conducted its first federal jury trial against a municipality, the city of Miami, and its former budget director.

## MISLEADING CAFRS

- In 2007 and 2008 CAFRs Miami shuffled as much as \$37.5 million from the Capital Projects Fund to the General Fund to mask losses in the city's General Fund.
- Miami did not disclose to bondholders that the transferred funds included legally restricted dollars which, under city code, could not be commingled with any other funds or revenues of the city. Miami also failed to disclose that the transferred funds were allocated to specific capital projects that still needed those funds as of the end of the fiscal year, or in some instances already had spent that.



The SEC Ask?

**\$450,000**

## PRIMARY TAKEAWAYS

- Accurate financial disclosure is a fundamental obligation.
- Omissions matter.
- Report irregularities up the chain.

July 20, 2017

NEW ISSUE—BOOK-ENTRY ONLY

Ratings: Moody's: Aa1  
S&P: AA+  
Fitch: AA+  
(See "RATINGS" herein)

*This Official Statement has been prepared by the State of North Carolina (the "State") to provide information on the State of North Carolina Limited Obligation Refunding Bonds, Series 2017B (the "Series 2017B Bonds"). Selected information is presented on this cover page for the convenience of the user. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**\$618,415,000**

**STATE OF NORTH CAROLINA  
LIMITED OBLIGATION REFUNDING BONDS,  
SERIES 2017B**

**Dated: Date of Delivery**  
**Nature of the State's Payment**  
**Obligation:**

**Due: May 1, as shown on the inside cover**

The payment of amounts by the State with respect to the Series 2017B Bonds shall be limited to funds appropriated for that purpose by the North Carolina General Assembly in its discretion. The obligation to make payments with respect to the Series 2017B Bonds is not a general obligation of the State, and the taxing power of the State is not pledged directly or indirectly to secure any monies due to the owners of the Series 2017B Bonds.

**Tax Treatment:**

In the opinion of Bond Counsel, which is based on existing law and assumes continuing compliance by the State with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2017B Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation and will not be a specific preference item for purposes of computing alternative minimum tax imposed by the Code on corporations and other taxpayers, including individuals; however, such interest will be includable in the adjusted current earnings of corporations for purposes of computing alternative minimum tax imposed by the Code on corporations. In the opinion of Bond Counsel, interest on the Series 2017B Bonds will be exempt from all State of North Carolina income taxes. See "TAX TREATMENT" herein.

**Optional Redemption:**  
**Interest Payment Dates:**  
**Denominations:**  
**Sale Date:**  
**Expected Delivery Date:**  
**Trustee:**  
**Bond Counsel:**  
**Financial Advisor:**

Certain Series 2017B Bonds are subject to optional redemption prior to maturity as described herein.  
May 1 and November 1 of each year, commencing November 1, 2017  
\$5,000 or integral multiples thereof  
July 20, 2017  
August 3, 2017  
U.S. Bank National Association  
Womble Carlyle Sandridge & Rice, LLP, Raleigh, North Carolina  
Hilltop Securities Inc.

The date of this Official Statement is July 20, 2012

**APPENDIX A — TABLE OF CONTENTS**

STATE OF NORTH CAROLINA

- Economic Characteristics
- State Government Organization and Major Responsibilities
- Education
  - Public School System
  - Community College System
  - University of North Carolina System
- Health and Human Services
- Department of Public Safety

REVENUE STRUCTURE

- General Fund
  - Tax Revenue
  - Non-Tax Revenue
- Highway Fund and Highway Trust Fund

**APPENDIX A — TABLE OF CONTENTS (cont)**

STATE GOVERNMENT EXPENDITURES

REQUIREMENTS FOR BALANCED BUDGET

- Constitutional Provision
- State Budget Act

BUDGETS

- State Budget
  - 2016-17 General Fund Budget
  - Comments on 2016-17 Budget — Second Year of the 2015-17
- Biennium Budget
  - Reserves
  - Proposed 2017-19 Biennium Budget
  - Highway Fund and Highway Trust Fund
  - Prior Years (2014-15 Actual), (2015-16 Actual) and (2016-17 Authorized)

PROPERTY AND POPULATION STATISTICS

**APPENDIX A — TABLE OF CONTENTS (cont)**

NORTH CAROLINA EMPLOYMENT INFORMATION

Major Employers

STATE INDEBTEDNESS

General Obligation Indebtedness

General Obligation Indebtedness Outstanding

General Obligation Bonds Authorized and Unissued

Special Indebtedness

Outstanding Special Indebtedness Subject to Annual Appropriation

Special Indebtedness Authorized and Unissued at June 1, 2017

Annual Debt Service Requirements for General Obligation Bonds and

Special Indebtedness

Comparison Statistics

Related Matters

Legal Debt Limit

Moral Obligation Bonds

Refunding Bonds

Revenue Bonds

Guaranteed State Energy Contracts

No Swap Agreements

North Carolina Turnpike Authority

Capital Financing Outlook

**APPENDIX A — TABLE OF CONTENTS (cont)**

REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE

AUTHORITIES AND INSTITUTIONS AT JUNE 30, 2016

RETIREMENT AND PENSION PLANS

General

Defined Benefit Plans

Other Plans

Funding Progress

Financial Reporting under New GASB Statements

Contributions

OTHER POST-EMPLOYMENT BENEFITS

Retiree Health Benefit

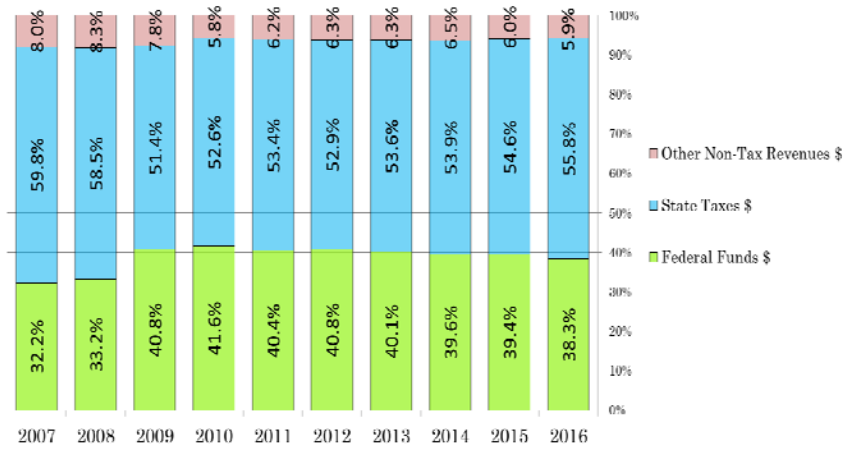
Disability Income Plan of North Carolina

New GASB Statements

LITIGATION

SEAL OF THE STATE OF NORTH CAROLINA

Major Components of State General Fund Revenues/Receipts



## State Tax Payments into General Fund (\$ millions)

Fiscal year	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Taxes:										
Individual Income Tax	11,980.8	11,288.6	10,576.6	11,111.5	10,457.2	10,018.0	9,343.3	8,658.6	10,672.4	10,737.5
Sales and Use Tax	7,177.8	6,858.5	5,838.0	5,554.1	5,516.3	6,133.9	5,871.2	4,872.3	5,125.7	5,079.0
Corporate Income Tax	1,118.0	1,271.0	1,331.9	1,224.7	1,194.9	1,139.6	1,245.5	941.5	1,265.6	1,357.5
Franchise Tax	525.0	552.2	890.7	857.9	797.6	793.1	905.0	797.1	739.9	669.2
Insurance Tax	503.4	529.9	476.4	521.5	463.6	486.0	495.1	483.8	492.7	475.6
Beverage Tax	380.0	360.1	343.0	330.7	322.2	311.8	295.3	263.6	257.4	245.4
Tobacco Products Tax	287.0	277.8	277.7	283.6	293.3	290.8	278.3	242.1	249.7	241.7
Other Taxes	181.9	180.8	246.7	268.3	210.7	190.5	241.0	267.4	344.1	342.5
Total	22,153.9	21,318.9	19,981.0	20,152.3	19,255.8	19,363.7	18,674.7	16,526.4	19,147.5	19,148.4

Source: Drawn from NC CAFR for fiscal year 2016, Schedule of Revenues by Source — General Fund, Table 5, in Statistical Section of CAFR.

## State Indebtedness 10-Year Payout Ratio

Fiscal Year End June 30	10-Year Payout Ratio
2012	65.5%
2013	67.0%
2014	71.0%
2015	65.0%
2016	67.2%

Source: Debt Affordability Studies (2013-2017) of North Carolina Debt Affordability Advisory Committee.

## Per Capita General Fund Supported State Indebtedness

As of June 30	Population	Outstanding General Obligation Debt and Special Indebtedness Subject to Annual Appropriation	Per Capita	Percentage of Per Capita Income
2012	9,762,639	\$6,854,400,000	\$702.11	1.82%
2013	9,860,149	6,522,735,000	661.52	1.75
2014	9,953,687	5,990,925,000	601.88	1.54
2015	10,054,722	5,718,515,000	568.74	1.40
2016	10,146,243	5,160,555,000	508.62	1.21

Source: North Carolina Department of State Treasurer.



## Percentage of Annual General Obligation and Special Indebtedness Debt Service to General Expenditures

Fiscal Year Ended June 30	Debt Service (Principal and Interest)	Total Governmental Expenditures	Percentage
2012	\$867,809,000	\$41,849,159,000	2.07%
2013	909,164,000	42,389,158,000	2.14
2014	885,660,000	41,729,774,000	2.12
2015	869,301,000	42,992,112,000	2.02
2016	882,529,000	43,495,798,000	2.03

Source: Comprehensive Annual Financial Report, N.C. Office of the State Controller.

### SEC Requirements for Continuing Disclosure

#### Annually by End of January

- Audited financial statements of the State for the prior fiscal year, and
- Particular financial and statistical data relating to the credit behind the bond issue.

For general obligation bonds –

- Revenue Structure (tax rates only);
- Budgets – General Fund, Highway Fund and Highway Trust Fund; and
- State Indebtedness

For revenue bonds – specific history of relevant revenues received.

## Event Disclosure –

not in excess of ten days following its occurrence, notice of any of the following events with respect to the bonds:

- Certain specified events with respect to the bonds (will be known to DST); and
- Material change in any security for the bonds or serious event affecting State financial status.



State and Local Government Finance Division

STATE TREASURER JOHN L. HOLWELL, CPA  
*John L. Holwell, CPA*

## The Bond Official Statement

- The Official Statement is the primary offering document used by the underwriters to sell the bonds to potential investors.
- Recent State of NC General Obligation Official Statements have 5 sections.

## The Official Statement - Continued

1. Front Section of the OS – discloses the authorization, purpose, security of the bonds, continuing disclosure obligations, legal and tax treatment, ratings, underwriting etc.
2. Appendix A – Collection of financial and statistical information about the unit of government issuing the bonds.

## Appendix A Information Contributors

At least 12 State Agencies along with the UNC and Community College Systems.

- Department of Commerce
- Department of Public Instruction
- Department of Health & Human Services
- Department of Public Safety
- Department of Revenue
- Department of Transportation
- Department of Agriculture
- Office of State Budget and Management
- Department of Justice
- Department of State Treasurer
- Office of State Controller
- NC Education Lottery
- Community College System
- University of North Carolina System



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division

STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

## The Official Statement - Continued

- 3) Appendix B - Audited Financial Statements from the most recent fiscal year end.
  - a) add new additional Subsequent Events Note (note 24)
  - b) this new additional Subsequent Events Note requires a new auditor's opinion
  - c) new auditor's opinion goes in the front of Appendix B.



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division

STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

## The Official Statement - Continued

- 4) Appendix C – Bond Counsel's Opinion Letter
- 5) Appendix D – Book Entry Only System (Beneficial Ownership)
  - Discusses how bonds are processed through a central securities depository.
  - Investors no longer hold the physical bonds.

# Electronic Municipal Market Access (EMMA)

EMMA  
Electronic Municipal Market Access  
A service of the MSRB

ADVANCED SEARCH | BROWSE ISSUERS | TOOLS AND RESOURCES | MARKET ACTIVITY | EMMA HELP

Find an Issuer  
Find any municipal securities issuer by state. Click on a state in the interactive map to browse a searchable list of cities, counties and other issuing authorities and access information about their municipal securities.

MSRB

<https://emma.msrb.org/>

# Electronic Municipal Market Access (EMMA)

ADVANCED SEARCH | BROWSE ISSUERS | TOOLS AND RESOURCES | MARKET ACTIVITY | EMMA HELP

Home > Issuers By State > North Carolina

**North Carolina**  
Browse the list of municipal securities issuers below.

Consolidated Issuer Information  
These pages provide a consolidated view of the information available on EMMA for each issuer. By default, this consolidation has been performed using certain third-party information that excludes matured securities and may contain errors or omissions. Issuers can customize their "homepages" to confirm the consolidation of their securities information and provide contact information to investors. Customized homepages are labeled and listed first to assist users in identifying the pages confirmed by the issuer. Homepages, including those that have been customized, may not reflect all outstanding securities for an issuer. To learn about additional methods for finding information, read about EMMA's search features. Read instructions for issuers on how to customize an EMMA issuer homepage. Please contact us for assistance customizing a homepage or to report any errors or omissions.

View:  All Issuers  State Issuers  City Issuers  County Issuers  Other Issuers (Conduits, Localities, etc.)

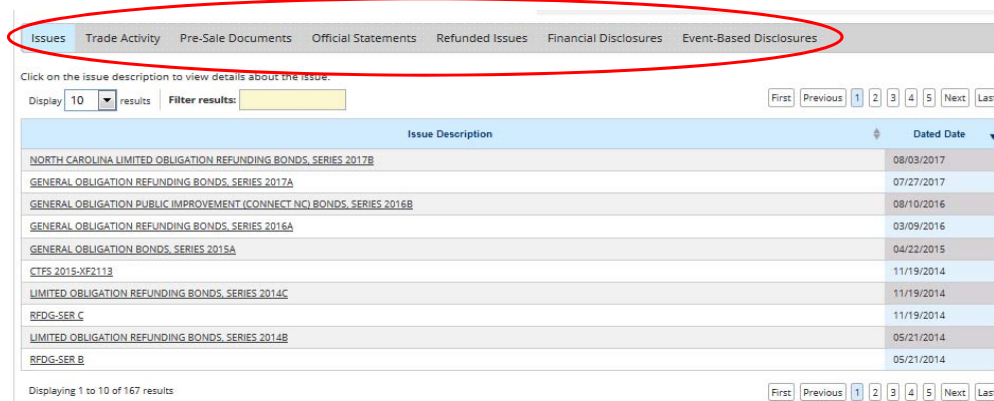
Click on an issuer name to access information about its municipal securities. Issuers that have customized their information are displayed first.

Display 20 results Filter results: [ ]

Displaying 1 to 20 of 44 results.

Issuer Name	Issuer Type
NORTH CAROLINA HOUSING FINANCE AGENCY	State
NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY	State
STATE OF NORTH CAROLINA	State
UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM	State
NORTH CAROLINA AGRIC & TECHNICAL UNIV REVS FORMERLY N C AGRIC & TECHNICAL COLLEGE	State
NORTH CAROLINA CAP FAC'S AGY SOLID WASTE DISP REV	State
NORTH CAROLINA CAP FAC'S FIN AGY CAP FAC'S REV	State

## Electronic Municipal Market Access (EMMA)



Click on the issue description to view details about the issue.

Display 10 results Filter results:

First Previous 1 2 3 4 5 Next Last

Issue Description	Dated Date
NORTH CAROLINA LIMITED OBLIGATION REFUNDING BONDS, SERIES 2017B	08/03/2017
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017A	07/27/2017
GENERAL OBLIGATION PUBLIC IMPROVEMENT (CONNECT NC) BONDS, SERIES 2016B	08/10/2016
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016A	03/09/2016
GENERAL OBLIGATION BONDS, SERIES 2015A	04/22/2015
CTFS 2015-XF2113	11/19/2014
LIMITED OBLIGATION REFUNDING BONDS, SERIES 2014C	11/19/2014
RFDG-SER C	11/19/2014
LIMITED OBLIGATION REFUNDING BONDS, SERIES 2014B	05/21/2014
RFDG-SER B	05/21/2014

Displaying 1 to 10 of 167 results

First Previous 1 2 3 4 5 Next Last

- **Dora D. Fazzini – Director**  
 NC Capital Facility Finance Agency  
 North Carolina Department of State Treasurer  
 dora.fazzini@nctreasurer.com
- **Amy K. Johnson (Co-Disclosure Counsel)**  
 Partner - Moore & Van Allen PLLC  
 amyjohnson@mvalaw.com
- **William H. McBride (Co-Disclosure Counsel)**  
 Partner - Hunton & Williams, LLP  
 wmcbride@hunton.com
- **C. Lewis Andrews – Senior Financial Analyst**  
 NC Department of State Treasurer  
 lewis.Andrews@nctreasurer.com



State and Local Government Finance Division

GOVERNOR OF NORTH CAROLINA  
DALE R. FORWELL, CPA  
*Dale R. Forwell, CPA*

Questions?

Thank You!