

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

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Ratings: Moody's:  
S&P:  
(See "Ratings" herein)

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 24, 2004 **ATTACHMENT 1**

**NEW ISSUE—Book-Entry Only**

*This Official Statement has been prepared by the Local Government Commission of North Carolina and the Town of Chapel Hill, North Carolina to provide information in connection with the sale and issuance of the Bonds described herein. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement. The Town has deemed the Preliminary Official Statement "final" for purposes of S.E.C. Rule 15c2-12 except for information which may be omitted pursuant to Rule 15c2-12.*

**\$4,000,000**

**Town of Chapel Hill, North Carolina**

**General Obligation Public Improvement Bonds, Series 2004**

**Dated: October 1, 2004**

**Due: As shown on inside cover page**

*Tax Exemption*

In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Bonds is not includable in gross income for federal income tax purposes and is exempt from all income taxes of the State of North Carolina. See Tax Exemption herein for additional information regarding tax consequences arising from ownership or receipt of interest on the Bonds, including information regarding the application of federal alternative minimum tax provisions to the Bonds and certain other federal, State and local tax consequences.

*Redemption*

The Bonds are subject to optional redemption at the times and prices as set forth herein.

*Security*

The Bonds constitute general obligations of the Town, secured by a pledge of the faith and credit and taxing power of the Town.

*Interest Payment Dates*

April 1 and October 1, commencing April 1, 2005.

*Denominations*

\$5,000 or any integral multiple thereof.

*Expected Closing/Settlement*

October 26, 2004

*Bond Counsel*

Sanford Holshouser LLP

*Sale Date*

October 5, 2004

*Sale of Bonds*

Pursuant to sealed bids in accordance with the Notice of Sale.

***The date of this Official Statement is October \_\_, 2004***

## MATURITY SCHEDULES

### \$4,000,000 Public Improvement Bonds, Series 2004B

#### Due April 1 of the Year Indicated

<u>Year of</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u> <sup>1</sup>	<u>Year of</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u> <sup>1</sup>
2006	\$200,000			2016	\$200,000		
	0			2017	200,000		
2007	200,000			2018	200,000		
2008	200,000			2019	200,000		
2009	200,000			2020	200,000		
2010	200,000			2021	200,000		
2011	200,000			2022	200,000		
2012	200,000			2023	200,000		
2013	200,000			2024	200,000		
2014	200,000			2025	200,000		
2015	200,000						

(Plus accrued interest from October 1, 2004)

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<sup>1</sup>Information obtained from underwriters of the Bonds.

TOWN OF CHAPEL HILL, NORTH CAROLINA



Kevin C. Foy..... Mayor

TOWN COUNCIL

Sally Greene	William B. Strom
Ed Harrison	Dorothy Verkerk
Cam Hill	James L. Ward
Mark Kleinschmidt	Edith Wiggins



TOWN STAFF

W. Calvin Horton..... Town Manager

Florentine A. Miller..... Deputy Town Manager

Bruce A. Heflin ..... Assistant Town Manager

Kay Johnson..... Director of Finance

Ralph D. Karpinos ..... Town Attorney



BOND COUNSEL

Sanford Holshouser LLP  
Raleigh, North Carolina



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# State of North Carolina

## Department of State Treasurer

RICHARD H. MOORE  
TREASURER

*State and Local Government Finance Division  
and the Local Government Commission*

JANICE T. BURKE  
DEPUTY TREASURER

### INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is intended to furnish information in connection with the public invitation for bids for the purchase of \$4,000,000 General Obligation Public Improvement Bonds, Series 2004 (the "Bonds"), of the Town of Chapel Hill, North Carolina (the "Town").

The information furnished herein includes a brief description of the Town and its economic conditions, government, debt management, tax structure, financial operations, budget, pension plans and litigation. The Town has assisted the Local Government Commission in gathering and assembling the information contained herein.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any date subsequent to the date thereof. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

### THE LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA

The Local Government Commission of North Carolina (the "Commission"), a division of the Department of State Treasurer, State of North Carolina (the "State"), is a State agency that supervises the issuance of the bonded indebtedness of all units of local government and assists these units in the area of fiscal management. Appendix A to this Official Statement contains additional information concerning the Commission and its functions.

### THE BONDS

#### Description

The Bonds will be dated as of October 1, 2004 and will bear interest from their date at the interest rates set forth on the inside front cover page. Interest on the Bonds will be payable semiannually on each April 1 and October 1, commencing April 1, 2005. The Bonds will mature, subject to the redemption provisions set forth below, on the dates set forth on the inside cover page of this Official Statement.

The Bonds will be issuable as fully registered bonds in a book-entry system under which The Depository Trust Company ("DTC") will act as securities depository nominee for the Bonds. Purchases and transfers of the Bonds may be made only in authorized denominations of \$5,000 and in accordance with the practices and procedures of DTC. See Appendix E hereto for a description of DTC and its book-entry system.

**Redemption Provisions**

The Bonds maturing prior to April 1, 2015 will not be subject to redemption prior to maturity. The Bonds maturing on April 1, 2015 and thereafter will be redeemable, at the option of the Town, from any moneys that may be made available for such purpose, either in whole or in part on any date not earlier than April 1, 2014, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus interest accrued to the date fixed for redemption.

If less than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot in such manner as the Town in its discretion may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or any integral multiple thereof and that, in selecting Bonds for redemption, each Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such bond by \$5,000 and, further, that so long as a book-entry system with DTC is used for determining beneficial ownership of bonds, if less than all of the Bonds within a maturity are to be redeemed, DTC shall determine by lot the amount of interest of each Direct Participant in the Bonds to be redeemed. If less than all of the Bonds then subject to redemption shall be called for redemption, the particular maturities and amounts of the Bonds or portions of Bonds to be redeemed shall be determined by the Town in its discretion.

Notice of redemption shall be given by certified or registered mail to Cede & Co., DTC's nominee, as the registered owner of the Bonds. Such notice shall be mailed not more than 60 days nor less than the 30 days prior to the date fixed for redemption. The Town will not be responsible for mailing notices of redemption to anyone other than Cede & Co.

On the date fixed for redemption, notice having been given as hereinabove provided, the Bonds or portions thereof called for redemption shall be due and payable at the redemption price provided therefor, plus accrued interest to such date. If moneys sufficient to pay the redemption price of the Bonds or portions thereof to be redeemed plus accrued interest thereon to the date fixed for redemption have been deposited by the Town to be held in trust for the registered owners of the Bonds or portions thereof to be redeemed, interest on the Bonds or portions thereof called for redemption shall cease to accrue. If a portion of a Bond shall have been selected for redemption, a new Bond or Bonds of the same maturity, of any authorized denomination or denominations and bearing interest at the same rate for the unredeemed portion of the principal amount of such Bonds.

**Authorization and Purpose**

The Bonds are being issued pursuant to the provisions of The Local Government Bond Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina, orders duly adopted by the Town Council of the Town, and a resolution duly passed by said Town Council for the purpose of financing street and sidewalk improvements, parks and recreational facilities, libraries, public buildings and open space in the Town.

**Security**

The Bonds are general obligations of the Town. The Town is authorized by law to levy on all the real property and tangible personal property taxable by the Town such ad valorem taxes as may be necessary to pay the Bonds and the interest thereon without limitation as to rate or amount.

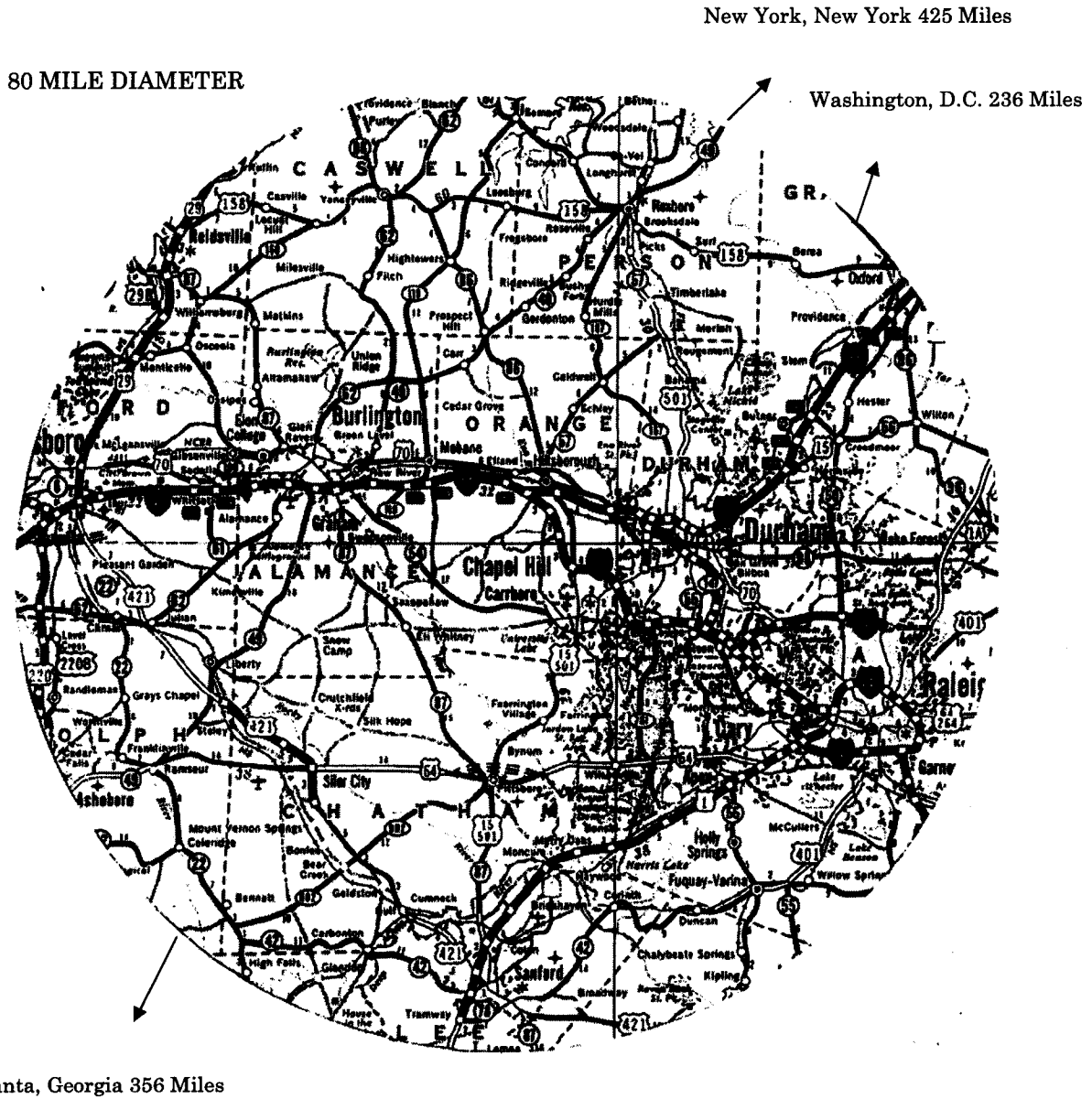
(14)  
THE TOWN

**General Description**

Approximately 92.8 percent of the Town is located in Orange County and the remaining 7.2 percent is located in Durham County. The Town, incorporated in 1819, is in the north central portion of the State on the piedmont plateau. The Town is located southwest of the City of Durham and approximately 25 miles northwest of the City of Raleigh. The Town is the home of the University of North Carolina at Chapel Hill.

As of June 2004, the Town covers an area of 21.1 square miles. The Town is empowered by statute to extend its corporate limits by annexation.

The Town conducts an ongoing planning and programming process through which it implements orderly expansion and management of the growth and development of the community. At present, the Town exercises zoning and building controls over a 24.5 square mile area that includes the corporate limits and a 6.4 square mile planning jurisdiction.



The Town is authorized by statute to levy ad valorem taxes on the assessed value of real property within its corporate limits. Taxation for operating purposes may not exceed \$1.50 per \$100 assessed valuation unless the voters approve a higher rate except for the following applicable purposes; debt service, deficits, and joint undertakings with any other town, city or political subdivision in providing any of the above functions, services or activities, for which unlimited taxes may be levied.

The growth of the Town has been directly related to the expansion of the University of North Carolina at Chapel Hill (the "University"). Enrollment at the University has risen from 8,791 in 1960 to 26,359 in 2004. It is anticipated that expansion will continue to occur in University-related health facilities such as the University of North Carolina Hospitals.

**Demographic Characteristics**

The United States Department of Commerce, Bureau of the Census, has recorded the population of the Town to be as follows:

<u>1980</u>	<u>1990</u>	<u>2000</u>
32,421	38,872	46,019

The population of the Town as estimated by the North Carolina Office of State Budget and Management is as follows:

<u>2001</u>	<u>2002</u>
48,902	50,540

Per capita income data for Orange County and the State are presented in the following table:

<u>Year</u>	<u>County<sup>1</sup></u>	<u>State</u>
1998	\$27,590	\$24,743
1999	28,471	25,560
2000	30,885	27,071
2001	32,302	27,501
2002	33,375	27,785

<sup>1</sup>Separate data for the Town are not available.

Source: United States Department of Commerce, Bureau of Economic Analysis.

**Commerce and Institutional Profile**

The Town is characterized by a high degree of institutional and service-oriented activity. The University of North Carolina at Chapel Hill and the University of North Carolina Hospitals and their associated service, teaching and research programs have a national reputation for excellence in educational and medical fields. The Town is also the place of residence for many technical, professional and executive personnel who work in the Research Triangle Park and the neighboring communities of Durham and Raleigh.

The Research Triangle refers to an area located between three communities: the Town, the City of Durham and the City of Raleigh. Universities located in these communities include the University of North Carolina at Chapel Hill, Duke University in Durham, and North Carolina State University in Raleigh. The proximity of these universities makes the Triangle area suited to many types of academic research and industrial activities.



(K)

The Research Triangle Park, organized in 1959 (the "Park"), is situated in the center of the triangle formed by the communities of Raleigh, Durham and Chapel Hill. The Park encompasses over 7,000 acres of land set aside for research and research-oriented manufacturing. Since its founding, the Park and its surrounding areas have developed steadily. Presently located within the Park boundaries are approximately 100 research and development related organizations, employing over 44,000 people and having an annual payroll over \$2.7 billion.

The Town adopted a new Land Use Management Ordinance in January 2003, which revised development regulations. The Town experienced a drop-off in major development applications while the new regulations were being formulated and immediately after their adoption. Typically, there is about a one-year lag between the Town's receipt of development applications and building permit issuance. Building permits issued for commercial and residential construction in the Town are summarized below for the five years ended December 31 and the six month period ended June 30, 2004:

<u>Calendar Year</u>	<u>COMMERCIAL</u>		<u>RESIDENTIAL</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
1999	124	\$29,002,078	792	\$ 99,489,719
2000	110	57,620,693	726	89,529,205
2001	102	28,149,291	824	112,275,482
2002	165	48,793,555	842	118,239,572
2003	123	36,402,000	865	116,538,000
2004(6 mos.)	65	4,987,397	403	43,615,554

Source: Inspections Department of the Town.

The following table lists by corporate name, product or service and approximate number of employees the major businesses and institutional establishments in the Chapel Hill area:

<u>Company or Institution</u>	<u>Service or Product</u>	<u>Approximate Number of Employees</u>
*Duke University and Medical Center	Education, Research, Medical Care	17,420
University of North Carolina at Chapel Hill	Education Research	15,600
*IBM	Data Communications Equipment	14,000
University of North Carolina Hospitals	Medical Care, Research, Manufacturing/Distribution	6,820
*Glaxo-Smithkline	Pharmaceutical Products	5,000
*Nortel Network	Development/Marketing Digital Switching Equipment	4,000
*SAS Institute	Software Company	4,840
Blue Cross-Blue Shield of N.C.	Health Insurance	3,875
*Progress Energy	Electric Utility	3,430
*Cisco Systems	Networking for the Internet	2,800
*Verizon Communications	Telecommunications	2,800
Chapel Hill-Carrboro Schools	Education	2,620
Orange County Board of Education	Education	1,250

\*Located outside the Town's corporate limits in Durham or Research Triangle Park.

Source: Orange County Economic Development Commission, July 2004 and Research Triangle Park Foundation.

Total retail sales for the Town for the past five fiscal years and the nine-month period ended March 31, 2004 are shown in the following table:

<u>Year Ended or Ending June 30</u>	<u>Total Retail Sales</u>	<u>Increase Over Previous Year</u>
1999	\$672,295,707	10.4%
2000	686,129,821	2.1
2001	771,069,112	12.4
2002	782,472,839	1.5
2003	852,732,295	9.0
2004	670,002,931 <sup>1</sup>	—

<sup>1</sup>As of March 31, 2004 (most recent available data).

Source: North Carolina Department of Revenue, Sales and Use Tax Division.

The North Carolina Employment Security Commission has estimated the percentage of unemployment in the County to be as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
January	1.2%	1.6%	2.7%	3.4%	2.9%	July	1.5%	2.0%	3.4%	3.2%	2.7%
February	1.4	1.7	2.7	3.3	2.9	August	1.3	2.0	3.4	3.2	N/A
March	1.4	1.9	2.7	3.1	2.5	September	1.3	2.0	2.9	3.0	N/A
April	1.0	1.6	2.6	2.9	2.4	October	1.4	2.3	2.9	3.0	
May	1.2	1.7	2.9	3.2	2.8	November	1.4	2.5	2.9	3.0	
June	1.5	2.1	3.3	3.5	3.0	December	1.2	2.4	2.8	2.7	

### Government and Major Services

#### GOVERNMENT STRUCTURE

The Town has a Council-Manager form of government. The Town Council is comprised of a Mayor and an eight-member Council. All Council Members serve four-year terms. The Mayor and four Council Members are elected every two years. All elections are on a non-partisan basis. The Council appoints the Town Manager and Town Attorney. The Mayor presides over the Council meetings and has full voting privileges. The Town Manager is the chief administrative officer of the Town. Town departments are responsible to the Town Manager for the provision of public services.

#### EDUCATION

Public education is provided in the Town primarily by the Chapel Hill - Carrboro City School System which serves southeastern Orange County and, to a minor extent, by the Durham County School System for a small portion of the Town located in Durham County. The Chapel Hill-Carrboro City School System is governed by a Board consisting of seven members elected to four-year staggered terms. The Town has no financial responsibility for the schools. Revenue is derived from the Federal, State and County governments for school operations and capital facilities.

The following table shows the number of schools by level and average daily membership in the Chapel Hill-Carrboro City School System for the five-year period beginning with the 1999-00 school year:

School Year	Elementary Grades K-5		Intermediate Grades 6-8		Secondary Grades 9-12	
	No.	ADM*	No.	ADM*	No.	ADM*
1999-00	8	4,117	3	2,144	2	2,624
2000-01	8	4,413	3	2,312	2	2,837
2001-02	8	4,484	4	2,550	2	2,959
2002-03	8	4,548	4	2,611	2	3,158
2003-04	9	4,631	4	2,620	2	3,379

\*Average Daily Membership (determined by actual records at the schools) is computed by the North Carolina Department of Public Education on a uniform basis for all public school units in the State. The average daily membership computations are used as a basis for teacher allotments and for distribution of local funds if there is more than one school unit within a County.

Source: Superintendent's Office.

Note: Excludes hospital school enrollment.

TRANSPORTATION

Major expansion, maintenance and betterment of primary and secondary highways in the Federal and State highway systems within the Town limits are chiefly the State's responsibility although the Town does participate on a limited basis in expansion projects. The Town also is responsible for a portion of the acquisition of rights-of-way for such expansion or betterment, related sidewalk improvements and street lighting. On June 30, 2004, approximately 53 miles of Town streets were on the State highway and street system.

Major expansion, maintenance and betterment of the local street system are the sole responsibility of the Town. Major expansions and betterments are financed with long-term bonds and current revenues. As of June 30, 2004, the Town maintained approximately 159 linear miles of streets.

The Town is served by U. S. Highway 15-501, which connects the Town with the City of Durham, and by Interstate 40 which connects the Town with the Research Triangle Park and the Raleigh-Durham International Airport. The triangle area is served by Interstate 85 extending northeast from Durham and west through Greensboro to Charlotte and Atlanta.

The Town is also served with scheduled intercity passenger bus service by Carolina Trailways.

The Town operates a bus system that provides public transportation services to the Town and adjacent areas, including services to the Town of Carrboro and the University of North Carolina at Chapel Hill on a contractual basis. Effective January 1, 2002, the Town instituted the State's first fare free transportation system for passengers on all regular routes and services. Bus routes and stops are located so that 90% of all households are within one quarter mile of a bus stop. Two park-ride lots are established on the western perimeter of the Town to facilitate transportation in and out of the University and downtown area, and the Town completed construction of additional park-ride lots on the northern and southern perimeters in 1995. The system operates 50 buses during weekday peak periods, and shared-ride, demand responsive programs to provide evening services.

During the 2003-2004 fiscal year, the bus system carried over 5 million passengers and had the highest per capita ridership in the State. The bus system is financed primarily with a special ad

valorem tax levy, Federal and State operating and capital assistance, and contractual contributions from the Town of Carrboro and the University. The Town receives Federal operating assistance from the Federal Transit Administration and State operating assistance which combined equals about 23% of eligible operating costs for the system. In 2003-04 the Town received a one-time supplement which raised the covered amount to about 32% of eligible costs.

The Raleigh-Durham International Airport (RDU) is a major regional airport served by fourteen major airlines and ten commuter airlines. Nearly 7,900,000 people boarded and deplaned aircraft in 2003 at this airport.

PUBLIC SERVICE ENTERPRISES

*Water and Sewer Services* — Water and sewer services are provided by the Orange Water and Sewer Authority. The Authority was created in 1975 by the Board of Commissioners of Orange County and the governing bodies of the towns of Chapel Hill and Carrboro for the purpose of acquiring, consolidating, improving and operating the existing water and sewer systems in the southern portion of the County. Prior to the formation of the Authority, water service was provided by the University of North Carolina at Chapel Hill and sewer service was provided by the towns in conjunction with the University. (See Notes to Financial Statements for further information regarding Orange Water and Sewer Authority.)

The Orange Water and Sewer Authority (“OWASA”) commenced utilities operations in February, 1977. The Town conveyed its sewer utility facilities to the Authority. Under the terms of the transfer, the Authority provides and maintains sewage collection and treatment facilities under applicable laws and regulations.

OWASA has adequate water supplies to meet current demand from its three present reservoirs. To address long-term water storage needs, OWASA in the 1980s received an allocation from the State of North Carolina for a portion of future water supply from a regional lake. In 2001, OWASA and a private company received approval for expansion of a stone quarry that will become a water supply reservoir by the year 2030.

Improvements to increase the filtration capacity of the Orange Water and Sewer Authority’s water treatment plant from 15 million gallons per day (MGD) to 20 MGD were completed in 2003. While peak-day demands have not exceeded present capacity, the trend of rising peak demand in recent years necessitated the expansion. Design work is complete and construction has begun on the Mason Farm Water transmission lines with Jones Ferry Road expansion to 14.5 MGD. In addition, design work is beginning for additional improvements to reduce certain hydraulic bottlenecks at the wastewater treatment plant capacity. The capacity of both treatment plants is, therefore, adequate to meet current needs, and additional system improvements including future plant expansions are planned through OWASA’s 15-year capital program.

*Parking Facilities* — The Town owns and operates several off-street parking lots in the central business district including a parking facility with 315 spaces which was completed in 1993. The parking facilities operations are accounted for in separate enterprise funds and are self-supporting.

*Sanitary Landfill* — Operational responsibility for the Orange Regional Landfill, formerly administered and operated by the Town, was transferred to Orange County in April, 2000. The landfill is expected to be usable through the year 2007.

**Debt Information**

**LEGAL DEBT LIMIT**

In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, allowing for the issuance of all presently authorized bonds, including those being offered by this Official Statement, the Town has the statutory capacity to incur additional net debt in the approximate amount of \$296,000,000. For a summary of certain constitutional, statutory and administrative provisions governing or relating to the incurrence of debt by units of local government of the State, see Appendix B.

**OUTSTANDING GENERAL OBLIGATION DEBT**

<b>General Obligation Bonds</b>	<b>Principal Outstanding as of</b>			
	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>
Public Improvement Bonds	\$12,300,000	\$12,715,000	\$15,760,000 <sup>1</sup>	\$14,420,000
Refunding Bonds	5,005,000	3,365,000 <sup>1</sup>	3,110,000	2,880,000
Parks and Recreational Facilities Bonds	<u>1,400,000</u>	<u>1,300,000</u>	<u>1,200,000</u>	<u>1,100,000</u>
<b>Total Debt Outstanding</b>	<b><u>\$18,705,000</u></b>	<b><u>\$17,380,000</u></b>	<b><u>\$20,070,000</u></b>	<b><u>\$18,400,000</u></b>

<sup>1</sup>Bonds Issued:

- 2001-02 \$3,365,000 Refunding Bonds, 5.29 years average maturity, 3.7541% true interest cost.
- 2002-03 \$4,250,000 Public Improvement Bonds, 10.54 years average maturity, 3.6595% net interest cost.

**DEBT RATIOS**

<u>At July 1</u>	<u>Total GO Debt</u>	<u>Assessed Valuation</u>	<u>Total GO Debt to Assessed Valuation</u>	<u>Population<sup>1</sup></u>	<u>Total GO Debt Per Capita</u>
2000	\$20,225,000	\$3,039,516,608	.67%	46,019 <sup>2</sup>	\$439.49
2001	18,705,000	4,021,127,152	.47	48,902	382.50
2002	17,380,000	4,159,500,000	.42	50,540	343.89
2003	20,070,000	4,299,301,268	.47	50,540	397.11
2004	18,400,000	4,440,000,000	.41	50,540	364.07
<b>After the Bonds now offered are issued</b>	<b>\$22,400,000</b>	<b>\$4,440,000,000</b>	<b>.50%</b>	<b>50,540</b>	<b>\$443.21</b>

<sup>1</sup>Estimates of North Carolina Office of State Budget and Management.

<sup>2</sup>United States Department of Commerce, Bureau of the Census.

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DEBT SERVICE REQUIREMENTS AND MATURITY SCHEDULE

Fiscal Year	Existing Debt		Bonds Now Offered
	Principal	Principal & Interest	
2004-05	\$ 1,675,000	\$ 2,484,970.00	\$
2005-06	1,980,000	2,719,000.00	200,000
2006-07	1,665,000	2,317,557.50	200,000
2007-08	1,665,000	2,246,062.50	200,000
2008-09	1,650,000	2,161,550.00	200,000
2009-10	1,640,000	2,080,500.00	200,000
2010-11	1,100,000	1,469,150.00	200,000
2011-12	1,100,000	1,419,250.00	200,000
2012-13	1,100,000	1,369,200.00	200,000
2013-14	1,100,000	1,319,025.00	200,000
2014-15	900,000	1,068,850.00	200,000
2015-16	600,000	727,325.00	200,000
2016-17	600,000	700,175.00	200,000
2017-18	600,000	673,025.00	200,000
2018-19	600,000	645,200.00	200,000
2019-20	300,000	317,000.00	200,000
2020-21	125,000	130,000.00	200,000
2021-22			200,000
2022-23			200,000
2023-24			200,000
2024-25			200,000
	<u>\$ 18,400,000</u>	<u>\$ 23,847,840.00</u>	<u>\$4,000,000</u>

BONDS AUTHORIZED AND UNISSUED

Purpose	Date Approved	Bonds Authorized and Unissued	Bonds Now Offered	Balance
Library	11/04/2003	\$ 16,260,000	\$ 500,000	\$ 15,760,000
Sidewalk/Street	11/04/2003	5,600,000	1,500,000	4,100,000
Parks & Recreation	11/04/2003	5,000,000	300,000	4,700,000
Open Space	11/04/2003	2,000,000	1,200,000	800,000
Public Buildings	11/04/2003	<u>500,000</u>	<u>500,000</u>	<u>—</u>
		<u>\$ 29,360,000</u>	<u>\$4,000,000</u>	<u>\$ 25,360,000</u>

DEBT INFORMATION FOR OVERLAPPING UNIT AS OF JUNE 30, 2004

Unit	2002 Population <sup>1</sup>	Assessed Valuation	Tax Rate Per \$100 <sup>2</sup>	Debt Authorized and Unissued		Total GO Debt		Total GO Debt Per Capita
				Utility	Other	Utility	Other	
Orange County	123,162	\$9,828,614,420	\$ .845	\$ —	\$61,225,000 <sup>3</sup>	\$ —	\$107,585,000	\$873.52

<sup>1</sup>Estimate of North Carolina Office of State Budget and Management.

<sup>2</sup>The County also levies a \$.200 school district tax for Chapel Hill-Carrboro City School System.

<sup>3</sup>The County sold \$25,140,000 General Obligation Bonds on July 20, 2004.

Note: The above table excludes Durham County information.

OTHER LONG-TERM COMMITMENTS

The Town refinanced \$6,690,000 in Parking Facilities Refunding Certificates of Participation ("Parking COPS") in September 2003. The Parking COPS are not general obligations of the Town, but payments are subject to annual appropriations. Maturities of the Parking COPS are as follows:

COPS

Fiscal Year	Principal	Interest	Total
2005	\$ 220,000	\$ 234,025	\$ 454,025
2006	235,000	225,793	460,793
2007	245,000	217,005	462,005
Thereafter	<u>5,680,000</u>	<u>1,967,199</u>	<u>7,647,199</u>
	<u>\$6,380,000</u>	<u>\$2,644,022</u>	<u>\$9,024,022</u>

The Town has other installment debt as described below:

Installment Debt

Fiscal Year Periods	General Fund		Internal Service Funds		Total
	Principal	Interest	Principal	Interest	
2005-2009	\$1,793,003	\$417,273	\$3,202,623	\$276,514	\$5,689,413
2010-2014	1,225,162	93,634	305,883	9,802	1,634,481

DEBT OUTLOOK

In 2003, the Town of Chapel Hill voters approved a referendum to issue \$29.36 million in General Obligation bonds for various public improvement projects. The Town Council has adopted a plan for issuing these bonds in four phases over a six-year period, with the first phase \$4 million now offered.

The Town intends to issue Certificates of Participation for a new Town Operations Center in February 2005. The Town's Public Works and Transportation Department facilities have been lo-

cated on property leased from the University of North Carolina in Chapel Hill. The lease-term ends in December of 2005, by which time the Town will need to have relocated these facilities.

Initial projections include borrowing approximately \$25 million for the Town Operations Center. The Transportation portion of the facility is estimated to cost approximately \$19 million. The Town will be receiving federal and State funding which should cover approximately 90% of the cost of the transportation portion of the facility. Because of timing issues related to receipt of the federal funding portion, the Town anticipates the need to borrow a portion of the cost on at least a short-term basis.

**Tax Information**

GENERAL INFORMATION

	Fiscal Year Ended June 30			
	2001	2002	2003	2004*
Assessed Valuation:				
Assessment Ratio <sup>1</sup>	100%	100%	100%	100%
Real Property	\$2,589,768,417	\$3,556,294,528	\$3,701,000,000	\$3,816,491,516
Personal Property	388,087,936	388,087,936	395,000,000	422,603,750
Public Service Companies <sup>2</sup>	<u>61,660,255</u>	<u>60,873,428</u>	<u>63,500,000</u>	<u>60,206,002</u>
Total Assessed Valuation	\$3,039,516,608	\$4,021,127,152	\$4,159,500,000	\$4,299,301,268
Rate per \$100 <sup>3</sup>	.578	.504	.553	.553
Levy	\$ 17,594,559	\$ 20,417,001	\$ 23,004,800	\$ 23,790,088

\*Unaudited.

<sup>1</sup>Percentage of appraised value has been established by statute.

<sup>2</sup>Valuation of railroads, telephone companies and other utilities as determined by North Carolina Property Tax Commission.

<sup>3</sup>Rate includes \$.043 for fiscal years ended June 30, 2001 through June 2003 and \$.051 for the fiscal year ending June 30, 2004 which goes to the Transportation Fund to finance a portion of the operating expense of the Town's bus system.

Note 1: The Town created a Municipal Service District effective July 1, 1989 which has a current tax rate of \$0.062 for improvements and services in the downtown area.

Note 2: Revaluation of real property became effective with the 2001 tax levy. The next revaluation will be 2005.

Note 3: Estimated 2004-05 assessed valuation \$4,440,000,000; tax rate \$.575 per \$100.



TAX COLLECTIONS

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<u>Year Ended June 30</u>	<u>Prior Years' Levies Collected</u>	<u>Current Year's Levy Collected</u>	<u>Percentage of Current Year's Levy Collected</u>
2001	\$132,508	\$17,466,542	99.27%
2002	116,045	20,271,201	99.30
2003	100,589	22,919,205	99.31
2004 <sup>1</sup>	127,726	23,653,530	99.43

<sup>1</sup>Unaudited.

TEN LARGEST TAXPAYERS FOR FISCAL YEAR 2003-04

<u>Name</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Percentage of Total Assessed Valuation</u>
Blue Cross and Blue Shield of North Carolina	Health Insurance	\$ 35,430,128	\$ 195,929	0.82%
US GT LLC (University Square)	Shopping Center	35,126,445	194,249	0.82
VAC Limited Partnership	Apartment Rental	32,283,091	178,525	0.75
BellSouth Telephone Company	Public Utility	27,671,141	153,021	0.64
Corium LLC	Health Insurance	25,608,158	141,613	0.60
Europa Center LLC	Office Building	24,273,824	134,234	0.56
Meadowmont JV LLC	Development	23,616,296	130,598	0.55
University Mall Properties	Shopping Center	20,594,783	113,889	0.48
Duke Energy Corporation	Public Utility	20,577,573	113,794	0.48
Estates at Chapel Hill LLC	Development	<u>18,808,243</u>	<u>104,010</u>	<u>0.44</u>
		<u>\$ 263,989,682</u>	<u>\$ 1,459,862</u>	<u>6.14%</u>

**2003-2004 Budget Commentary**

The adopted budget for 2003-04 maintained the Town's prior years' level of services. In addition, it restored the capital improvements program that was severely restricted in the original 2002-03 budget, because of anticipated major reductions in State-shared revenues. While the State ultimately adopted a budget with the revenues restored, the Town Council elected to proceed cautiously on capital spending in 2002-03 in the face of an uncertain economy.

The budget also included the continuation of fare free bus service. In order to support the increased demand for service, the budget for transportation maintenance workers and full time drivers had been increased. The budget provided for a 12% increase in medical insurance rates and 13% increase in workers' compensation insurance rates for all Town employees. In order to keep abreast of market trends, a 3% increase in employee pay was also included, as well as special pay increases for a few positions that were significantly below current market levels.

The adopted budget had an overall property tax rate of 55.3 cents. The rate remained the same as in the 2002-03 budget, consistent with the Council's objective established early in the budget process to have no change in the combined tax rate for 2003-04. The adopted rate included an increase in the Transportation Fund tax rate of .8 cents (from 4.3 cents to 5.1 cents) to continue cur-

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rent Transportation services. This increase was offset by a corresponding .8 cents reduction in the General Fund tax rate (from 51.0 cents to 50.2 cents).

### **2004-2005 Budget Outlook**

The adopted budget for 2004-05 maintains the Town's high level of services as in prior years. The budget includes funds to continue planning for development of two downtown parking lots for possible retail, housing, parking, public transportation transfers and public space. In addition, the budget provides for a contract with a new economic development entity which, together with the community and the University of North Carolina at Chapel Hill, will establish direction for downtown development.

The budget provides for a new Stormwater Management Fund to protect and restore streams, reduce flood damage through capital improvements, safeguard Jordan Lake water quality and educate citizens about water quality, flood damage and stream protection. The new services will be funded through a fee charged on all properties contributing to stormwater runoff.

The Town continues to plan for a 15-year capital improvements program. The current year portion of the program funds park improvements, street improvements, capital repairs to bike paths as well as design work for major renovations to the Town's Community Center.

The budget also includes the continuation of fare free bus service. In order to support the increased demand for service, the budget has been increased for additional EZ Rider and shared-ride services. The budget provides for increases in medical insurance rates and in workers' compensation insurance rates for all Town employees. In order to keep abreast of market trends, a 3.78% increase in employee pay is also included. The budget also includes funds for a web programmer to improve the Town's ability to share information with its citizens and visitors.

The adopted budget has an overall property tax rate of 57.5 cents. The rate includes a 1.4 cent tax rate increase (from 50.2 cents to 51.6 cents) in the General Fund and a .8 cent tax rate increase (from 5.1 cents to 5.9 cents) in the Transportation Fund for a total increase of 2.2 cents.

The budget includes appropriated fund balance of \$1,499,000. The appropriated fund balance includes two parts (1) \$800,000 that the Council budgets annually, which it expects will not be needed because of some combination of expenditures less than budget and revenues greater than budget, and (2) the remaining amount which was received in fiscal year 2002, as State-shared revenues in excess of budget. The Council planned for a portion of the State-shared revenues in excess of the budgeted amount from 2003 to be used in 2003-04 and 2004-05 budgets.

**Pension Plans**

The Town participates in the North Carolina Local Governmental Employees' Retirement System and the Supplemental Retirement Income Plan.

*North Carolina Local Governmental Employees' Retirement System* — The North Carolina Local Governmental Employees' Retirement System is a service agency administered through a board of trustees by the State for public employees of counties, cities, boards, commissions and other similar governmental entities. While the State Treasurer is the custodian of system funds, administrative costs are borne by the participating employer governmental entities. The State makes no contributions to the system.

The system provides, on a uniform system-wide basis, retirement and, at each employer's option, death benefits from contributions made by employers and employees. Employee members contribute six percent of their individual compensation. Each new employer makes a normal contribution plus, where applicable, a contribution to fund any accrued liability over a 24-year period. The normal contribution rate, uniform for all employers, is currently 4.80 percent of eligible payroll for general employees and 5.27 percent of eligible payroll for law enforcement officers. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employees' service rendered prior to the date the employer joins the system.

Members qualify for a vested deferred benefit that is unreduced at age 65, with at least five years of creditable service, or at age 60 with 25 years of credit, at any age with 30 years credit; reduced benefit at age 50 with at least 20 years credit or at age 60 with at least five years of creditable service. Benefit payments are computed by taking an average of the annual compensation for the four consecutive years of membership service yielding the highest average. This average is then adjusted by a percentage formula, by a total years of service factor, and by an age service factor if the individual is not eligible for unreduced benefits.

Contributions to the system are determined on an actuarial basis.

For information concerning the City's participation in the North Carolina Local Governmental Employees' Retirement System and the Supplemental Retirement Income Plan of North Carolina see the Notes to the City's Audited Financial Statements in Appendix D.

Financial statements and required supplementary information for the North Carolina Local Governmental Employees' Retirement System are included in the Comprehensive Annual Financial Report ("CAFR") for the State. Please refer to the State's CAFR for additional information.

**Litigation**

The Town is not a party to any litigation, the outcome of which, in the opinion of the Town Attorney, would materially adversely affect the Town's ability to meet its financial obligations.

**CONTINUING DISCLOSURE**

In a resolution adopted by the Town prior to the sale of the Bonds, the Town will undertake, for the benefit of the beneficial owners of the Bonds, to provide:

- (a) by not later than seven months from the end of each fiscal year of the Town, to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of North Carolina ("SID"), if any, audited financial statements of the Town for such fiscal year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or; if such audited financial statements of the Town are not available by seven months from the end of such fiscal year, unaudited financial statements of the Town

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for such fiscal year to be replaced subsequently by audited financial statements of the Town to be delivered within 15 days after such audited financial statements become available for distribution;

- (b) by not later than seven months from the end of each fiscal year of the Town, to each NRMSIR, and to the SID, if any, (i) the financial and statistical data as of a date not earlier than the end of the preceding fiscal year for the type of information included under heading "The Town - Debt Information and - Tax Information" in this Official Statement relating to the Bonds (excluding any information on overlapping or underlying units) and (ii) the combined budget of the Town for the current fiscal year, to the extent such items are not included in the audited financial statements referred to in (a) above;
- (c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB"), and to the SID, if any, notice of any of the following events with respect to the Bonds, if material:
  - (1) principal and interest payment delinquencies;
  - (2) non-payment related defaults;
  - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (5) substitution of credit or liquidity providers, or their failure to perform;
  - (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
  - (7) modification to rights of the beneficial owners of the Bonds;
  - (8) bond calls;
  - (9) defeasances;
  - (10) release, substitution or sale of any property securing repayment of the Bonds; and
  - (11) rating changes; and
- (d) in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of a failure of the Town to provide required annual financial information described in (a) or (b) above on or before the date specified.

At present, Section 159-34 of the General Statutes of North Carolina requires the Town's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The resolution adopted by the Town will also provide that if the Town fails to comply with the undertaking described above, any beneficial owner of the Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an event of default and shall not result in any acceleration of payment of the Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Bonds.

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Pursuant to such resolution, the Town will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Town, provided that:

- (a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Town;
- (b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12") as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and
- (c) any such modification does not materially impair the interests of the beneficial owners, as determined either by parties unaffiliated with the Town (such as bond counsel), or by the approving vote of the registered owners of a majority in principal amount of the Bonds pursuant to the terms of such resolution, as it may be amended from time to time, at the time of the amendment.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Bonds.

The Town has not failed to provide any information required to be provided by any undertaking previously made by the Town pursuant to the requirements of Rule 15c2-12.

#### **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters related to the authorization and issuance of the Bonds are subject to the approving legal opinion of Sanford Holshouser LLP, Raleigh, North Carolina, Bond Counsel for the Town ("Bond Counsel"). Bond Counsel's approving legal opinion will be provided at the Town's expense and will be available at the time of the delivery of the Bonds. The proposed form of Bond Counsel's opinion is attached as Appendix D.

Bond Counsel's approving legal opinion expresses Bond Counsel's professional judgment as to the legal issues explicitly addressed in the opinion. By rendering a legal opinion, an opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Additionally, the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction and a bond opinion is not a statement (either expressly or by implication) concerning the marketability, value or likelihood of payment of the Bonds.

Bond Counsel has not been engaged to investigate the Town's operations or condition or the Town's ability to provide for payments on the Bonds. Bond Counsel will express no opinion (1) as to the Town's ability to provide for payments on the Bonds, or (2) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase Bonds, including this Official Statement. In this transaction, Bond Counsel will serve only as bond counsel to the Town, and will not represent any bidder or the purchaser of the Bonds.

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## RATINGS

Moody's Investors Service, Standard & Poor's Ratings Services, and the North Carolina Municipal Council have given the Bonds ratings of \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ respectively. Those ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained only from the respective organization providing such rating. Certain information and materials not included in the Official Statement were furnished to such organizations. There is no assurance that such ratings will remain in effect for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any downward revision or withdrawal of a rating may have an adverse effect on the market prices of the Bonds.

## TAX TREATMENT

**Opinion of Bond Counsel.** In the opinion of Sanford Holshouser LLP, Raleigh, North Carolina, Bond Counsel for the Town ("Bond Counsel"), under existing law, interest on the Bonds (1) will not be included in gross income for federal income tax purposes, (2) will not be a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations, and (3) will be exempt from existing State of North Carolina income taxation. Bond Counsel will express no other opinion regarding the federal or North Carolina tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel will give its opinion in reliance upon certifications by Town representatives and others as to certain facts relevant to the opinion. The Town has covenanted to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), regarding, among other matters, the use, expenditure and investment of the proceeds derived from the sale of the Bonds and the timely payment to the United States of any arbitrage profit with respect to the Bonds. The Town's failure to comply with such covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to date of issuance of the Bonds.

The Bonds will **not** be "qualified tax-exempt obligations" within the meaning of Code Section 265(b)(3).

**Other Tax Consequences.** In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, certain S corporations, certain foreign corporations subject to the branch profits tax, corporations subject to the environmental tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Interest on the Bonds may or may not be subject to state or local taxation in jurisdictions other than North Carolina. Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any such jurisdiction other than North Carolina.

## Discount Bonds and Premium Bonds

\_\_\_\_\_, as lead underwriter, has advised the Local Government Commission of North Carolina that the initial public offering prices of the Bonds maturing on April 1, \_\_\_\_\_ to \_\_\_\_\_ inclusive, (the "Discount Bonds"), are less than the respective amounts

payable at maturity. An amount not less than the difference between the initial public offering prices of the Discount Bonds and the amounts payable at maturity constitutes original issue discount ("OID"). Owners of Discount Bonds should consult their own tax advisors as to the determination for federal tax purposes of the amount of OID properly accruing each year with respect to the Discount Bonds and as to federal tax consequences and the treatment of OID for State of North Carolina and local tax purposes.

\_\_\_\_\_, as lead underwriter, has also advised the Local Government Commission of North Carolina that the initial public offering prices of the Bonds maturing on April 1, \_\_\_\_\_ to \_\_\_\_\_, inclusive, (the "Premium Bonds"), are greater than the amounts payable at maturity. The difference between the amount payable at maturity of the Premium Bonds and the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds Premium Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases the Premium Bonds at the initial offering price is "Bond Premium." Bond Premium is amortized over the term of the Premium Bonds for federal income tax purposes. Owners of the Premium Bonds are required to decrease their adjusted basis in the Premium Bonds by the amount of amortizable Bond Premium attributable to each taxable year the Premium Bonds are held. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of the Premium Bonds and with respect to State of North Carolina and local tax consequences of owning and disposing of the Premium Bonds.

Bond Counsel's opinion will not expressly pass on the status of any amounts as either Original Issue Discount or Bond Premium.

**UNDERWRITING**

The underwriters for the Bonds are \_\_\_\_\_  
\_\_\_\_\_.\*

The underwriters have jointly and severally agreed, subject to certain conditions, to purchase all but not less than all of the Bonds. If all of the Bonds are sold at the public offering yields hereinabove set forth, the underwriters anticipate total selling compensation of \_\_\_\_\_.\* The public offering prices or yields of the Bonds may be changed from time to time by the underwriters.

\_\_\_\_\_  
\*Information provided by underwriters.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact.

References herein to the State Constitution and legislative enactments are only brief outlines of certain provisions thereof and do not purport to summarize or describe all provisions thereof.

The execution of this Official Statement has been duly authorized by the Local Government Commission of North Carolina and the Town Council of the Town.

LOCAL GOVERNMENT COMMISSION  
OF NORTH CAROLINA

By

Janice T. Burke  
*Secretary of the Commission*

TOWN OF CHAPEL HILL, NORTH CAROLINA

By

Kevin C. Foy  
*Mayor*

By

W. Calvin Horton  
*Town Manager*

By

Kay Johnson  
*Director of Finance*



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[Proposed form of Sanford Holshouser's  
opinion on Public Improvement Bonds]

October \_\_\_\_, 2004

Town of Chapel Hill, North Carolina

**\$4,000,000**  
**Town of Chapel Hill, North Carolina**  
**General Obligation**  
**Public Improvement Bonds, Series 2004**

We have acted as bond counsel to the Town of Chapel Hill, North Carolina (the "Town"), in connection with the Town's issuance today of the above-captioned bonds (the "Bonds"). We have examined the applicable law and certified copies of proceedings and documents relating to such issuance.

Without undertaking to verify the same by independent investigation, we have relied on representations and certifications by representatives of the Town, the North Carolina Local Government Commission (the "LGC") and others as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Town has made certain covenants (the "Covenants") in the proceedings and documents providing for the issuance of the Bonds a to comply with provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment of any arbitrage rebate required under the Code.

We have assumed the capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as copies or specimens.

Based on the foregoing, as of today and under existing law, we are of the following opinions:

1. The Bonds have been duly authorized and issued. The Bonds are legal, valid and binding obligations of the Town, enforceable in accordance with their terms. The Town's faith and credit are pledged for the payment of principal of and interest on the Bonds, and the Town is authorized to levy and collect ad valorem taxes, without restriction as to rate or amount, on all locally taxable property to pay the principal of an interest on the Bonds.

2. Our opinion as set forth in paragraph 1 is subject to the effect (a) of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, and (b) of general principles of equity, regardless of whether applied in a proceeding in equity or at law.

3. Interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations. The Town's failure to comply with the Covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Bonds are not "qualified tax-exempt obligations" within the meaning of Code Section 265(b)(3).

4. Interest on the Bonds is exempt from existing State of North Carolina income taxation.

We express no opinion regarding other federal or North Carolina tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Our services as bond counsel have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we have deemed necessary to evaluate the legality, validity and enforceability of the Bonds and to evaluate the status of the interest on the Bonds thereon under the federal and North Carolina tax laws referenced above.

We have not made any investigation concerning the Town's operations or condition. We express no opinion (a) as to the Town's ability to provide for payments on the Bonds, (b) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase Bonds, including the Local Government Commission's Official Statement with respect to the Bonds, or (c) as to any party's compliance with any terms or conditions precedent to any purchase of Bonds.

This opinion is based on constitutional and statutory provisions and judicial decisions existing today. We assume no responsibility to update this opinion or take any other action with regard to changes in facts, circumstances or the applicable law.

Very truly yours,

[To Be Signed, "Sanford Holshouser LLP"]

### DTC's Book-Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate for each maturity of the Bonds will be registered in the name of Cede & Co., as nominee for DTC, each in the aggregate principal amount of such maturity and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OS THE BONDS, AS DTC'S PARTNERSHIP NOMINEE, REFERENCES HEREIN TO THE OWNERS OF REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's direct participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of its Direct Participants and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation, as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AAA by Standard & Poor's Ratings Services ("S&P"). The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of actual purchasers of the Bonds ("Beneficial Owners") is in turn recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults and proposed amendments to the security documents.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Town, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its service as securities depository with respect to the Bonds at any time by giving reasonable notice to the Town. Under such circumstances, or in the event the Town desires to use a similar book-entry system with another securities depository, there may be a successor securities depository (all references to DTC include any such successor). The Town may also decide to discontinue participation in the system of book-entry transfer through DTC (or a successor securities depository) at any time by giving reasonable notice to DTC. If the book-entry system is discontinued and there is no successor securities depository, Bond certificates will be printed and delivered to the Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry has been obtained from DTC, and the Town takes no responsibility for the accuracy thereof.

The Town cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the Bonds (a) payments of principal, premium, if any, or interest on the Bonds, (b) confirmations of their ownership interests in the Bonds or (c) prepayment or other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

**THE TOWN WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR PREPAYMENT PRICE OR INTEREST ON THE BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE BOND ORDER AND RESOLUTION; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.**

*Notice of Sale and Bid Form*

**Note: The Bonds will not be designated as qualified tax-exempt obligations within the meaning of Section 265(b)3 of the Code.**

**Town of Chapel Hill,  
North Carolina**

**\$4,000,000**

**General Obligation Public Improvement  
Bonds, Series 2004**

*Sealed and Electronic Bids Will Be Received Until 11 A.M., North Carolina Time,  
October 5, 2004*

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**NOTICE OF SALE**  
**\$4,000,000**  
**TOWN OF CHAPEL HILL, NORTH CAROLINA**  
**GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS, SERIES 2004**

Sealed and electronic bids (as described below) will be received until 11 o'clock A. M., North Carolina Time, October 5, 2004, by the undersigned at its office in the Seaboard Building, 1st Floor, 413 North Salisbury Street, Raleigh, North Carolina, at which time and place such bids will be opened for \$4,000,000 General Obligation Public Improvement Bonds, Series 2004 (the "Bonds") of the Town of Chapel Hill, North Carolina (the "Town"), dated October 1, 2004 and maturing (subject to the right of prior redemption as set forth below) on April 1, in years and amounts as follows: \$200,000 2006 to 2025, inclusive. There will be no auction.

Proposals may be delivered by hand, by mail or electronically. Electronic proposals must be submitted via BiDCOMP/PARITY, but no proposal shall be considered which is not actually received by the State Treasurer at the place and on or prior to the date and time specified above for submission of bids. The State Treasurer shall not be responsible for any failure, misdirection or error in the means of transmission selected by any firm submitting a proposal.

To the extent any instructions or directions set forth in BiDCOMP/PARITY conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about BiDCOMP/PARITY, potential purchasers may contact Dalcomp at (212) 806-8304. Each prospective purchaser is solely responsible for making necessary arrangements to access BiDCOMP/PARITY for purposes of submitting its proposal in a timely manner and in compliance with this Notice of Sale. The terms of this Notice of Sale and the sale of the bonds shall be governed by North Carolina law.

The Commission does not have a registration process for prospective purchasers. Prospective purchasers who intend to submit their proposal by BiDCOMP/PARITY must register and be contracted customers of Thomson Financial Municipals Group's BiDCOMP competitive bidding system before the sale. By submitting a bid for the bonds, the prospective purchaser represents and warrants to the Commission that such proposal is submitted for and on behalf of the prospective purchaser by an officer or agent who is duly authorized to bind the prospective purchaser to a legal, valid and enforceable contract for the purchase of the bonds. **Neither the Commission nor the Town has reviewed or verified the accuracy or completeness of the information contained in BiDCOMP/PARITY or assumes any responsibility for the accuracy or completeness of such information.**

The Bonds will be general obligations of the Town, all the locally taxable property within which will be subject to the levy of an ad valorem tax, without limitation as to rate or amount, to pay the Bonds and the interest thereon.

The Bonds will be issued by means of a book-entry system with no physical distribution of Bond certificates made to the public. One fully-registered bond certificate for each stated maturity of the Bonds registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), will be issued to DTC and immobilized in its custody. The book-entry system will evidence beneficial ownership of the Bonds in the principal amount of \$5,000 or any multiple thereof, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bond certificates with DTC. Interest on the Bonds will be payable on April 1, 2005 and semiannually thereafter on April 1 and October 1, and principal of the Bonds will be payable at maturity to Cede & Co. or any other person appearing as the registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments to beneficial owners of the Bonds by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The Town will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the Town determines not to continue use of the book-entry system of evidence and transfer of ownership of the Bonds through DTC in accordance with DTC's rules the Town will discontinue the book-entry system with DTC. If the Town fails to identify another qualified securities depository to replace DTC, the Town will deliver replacement Bonds in the form of fully-registered certificates.

The Bonds maturing on April 1, 2015 and thereafter will be subject to redemption prior to maturity, at the Town's option, from any moneys that may be made available for such purpose, either in whole or in part on any date not earlier than April 1, 2014 at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus interest accrued to the date fixed for redemption. If less than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot in such manner as the Town may determine, provided that DTC shall determine in accordance

with its own procedures the amount of the interest of each direct participant of DTC in the Bonds to be redeemed so long as a book-entry system with DTC is continued.

Notice of redemption shall be given by certified or registered mail to DTC or its nominee as the registered owner of the Bonds. Such notice shall be mailed not more than 60 nor less than 30 days prior to the date fixed for redemption. The Town will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee.

No bid for less than all of the Bonds offered or for less than the face value of the Bonds and accrued interest will be entertained. Bidders are requested to indicate the interest rate or rates in multiples of 1/8 or 1/20 of 1%, to be applicable to the maturities of the Bonds. All Bonds maturing on the same date must bear interest at the same rate, and the interest rate on any Bond shall be the same throughout its life. Any number of interest rates may be named, provided the difference between the lowest and highest rates named in the bid shall not exceed 2%. The minimum reoffering price of any single maturity shall not be less than 95% of par value of such maturity. All of the Bonds will be awarded to the bidder offering to purchase the Bonds at the lowest interest cost to the Town, such cost to be determined by deducting any premium bid from the aggregate amount of interest upon all of the Bonds from their date until their respective maturities.

Each bid delivered by hand or by mail must be submitted on a form to be furnished with additional information by the undersigned and must be enclosed in a sealed envelope marked "Bid for Bonds (Town of Chapel Hill)." A good faith deposit (the "Deposit") in the amount of \$80,000 will be required for each bid. The Deposit may be submitted in the form of an official bank check, a cashier's check or a certified check upon an incorporated bank or trust company payable unconditionally to the order of the State Treasurer of North Carolina accompanying the bid, on which no interest will be allowed. Alternatively, delivery of the Deposit may be guaranteed by a financial surety bond issued by Financial Security Assurance Inc. ("Sure-Bid") prior to the opening of bids, such surety bond to be in a form approved by the Local Government Commission and submitted to the Secretary of the Local Government Commission prior to the opening of bids. The surety bond must identify each bidder whose Deposit is guaranteed by the surety bond. Award or rejection of bids will be made on the date above stated for receipt of bids, and any checks of unsuccessful bidders will be returned immediately. If the Deposit of the successful bidder is provided by check, the check of the successful bidder will be cashed by the State Treasurer. If the bonds are awarded to a bidder whose Deposit is guaranteed by a surety bond, the successful bidder must submit its deposit to the State Treasurer not later than 2:00 P.M. Raleigh, North Carolina time on the date of the award of the bonds, by wire transfer to the bank account instructed to the successful bidder by the State Treasurer. If the Deposit is not received by that time, the surety bond will be drawn upon by the Secretary of the Local Government Commission to satisfy the Deposit requirement. The Deposit of the successful bidder will be invested solely for the benefit of the Town, and no interest on the Deposit will accrue to the successful bidder. At closing the principal amount of the Deposit will be applied as partial payment for the bonds. In the event that the successful bidder fails to comply with the terms of its bid, the Deposit and any interest earnings will be retained as and for full liquidated damages. If the Town fails to deliver the bonds, then the Deposit and any interest earnings will be remitted to the successful bidder as and for full liquidated damages.

The successful bidder will be required, prior to delivery of the Bonds, to furnish to the Town a certificate substantially in the form attached to this Notice of Sale and Bid Form acceptable to bond counsel as to the "issue price" of the Bonds within the meaning of Section 1273 of the Internal Revenue Code of 1986, as amended.

The Bonds will be delivered on or about October 26, 2004, against payment therefore in FEDERAL RESERVE FUNDS, at DTC.

It is anticipated that CUSIP identification numbers will be noted on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the purchasers thereof to accept delivery of or pay for the Bonds in accordance with the terms of their bids. The Town will pay expenses in relation to the noting of CUSIP numbers on the Bonds and the CUSIP Service Bureau charge for the assignment of numbers.

The approving opinion of Sanford Holshouser LLP, Raleigh, North Carolina, Bond Counsel for the Town, the proposed form of which appears in the Official Statement relating to the Bonds, will be furnished without cost to the purchaser. In this transaction Sanford Holshouser LLP will serve only as bond counsel to the Town and will not represent any bidder or the purchaser of the Bonds. There will also be furnished the usual closing papers.

The Bonds will **not** be "qualified tax-exempt obligations" within the meaning of Internal Revenue Code Section 265(b)(3).

Prior to the sale of the Bonds, the Town will adopt a resolution undertaking, for the benefit of the beneficial owners of the Bonds, to provide the information described under the heading "Continuing Disclosure" in the Official Statement relating to the Bonds in the manner provided therein.

The right to reject all bids and to waive minor irregularities or informalities is reserved.

Copies of the Preliminary Official Statement and Notice of Sale and Bid Form relating to the Bonds may be obtained from the Local Government Commission, Seaboard Building, 413 North Salisbury Street, Raleigh, North Carolina 27603-1385 (919-807-2350).

The Preliminary Official Statement is deemed to be a final official statement within the meaning of Rule 15c2-12 of the Securities Exchange Commission, except for the omission of certain pricing and other information allowed to be made available to the successful bidder by the Local Government Commission in a Final Official Statement. By the submission of a bid for the Bonds, the successful bidder contracts for the receipt of up to Three Hundred (300) copies of the Official Statement which will be delivered to the successful bidder by October 14, 2004. In order to complete the Final Official Statement the successful bidder must furnish on behalf of the underwriters of the Bonds the following information to the Local Government Commission by facsimile transmission (919/807-2377) or overnight delivery received by the Local Government Commission within 24 hours after the receipt of bids for the Bonds:

- a. Initial offering prices (expressed as a price, exclusive of accrued interest, or yield per maturity).
- b. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars).
- c. The identities of the underwriters if the successful bidder is a part of a group or syndicate.
- d. Any other material information necessary for the Final Official Statement but not known to the Town or the Local Government Commission (such as the purchase of credit enhancement).

Concurrently with the delivery of the Bonds, the Mayor, the Town Manager and the Director of Finance of the Town will deliver to the purchaser of the Bonds a certificate stating that, to the best of their knowledge, the Preliminary Official Statement did not, as of its date and as of the sale date, and the Final Official Statement does not, as of the date of delivery of the Bonds, contain an untrue statement of a material fact or omit to state a material fact required to be included therein for the purpose for which the Preliminary Official Statement or the Final Official Statement is to be used or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, provided such certificate shall not include consideration of information supplied by, or which should have been supplied by, the successful bidder of the bonds for inclusion in the Final Official Statement.

In addition, concurrently with the delivery of the Bonds, the Secretary of the Commission will deliver to the purchaser of the Bonds a certificate stating that nothing has come to her attention which would lead her to believe that the Preliminary Official Statement, as of its date and as of the date of sale, and the Final Official Statement, as of the date of delivery of the Bonds, contains an untrue statement of a material fact or omits to state a material fact required to be included therein for the purpose for which the Preliminary Official Statement or the Final Official Statement is to be used or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, provided such certificate shall not include consideration of information supplied by or which should have been supplied by, the successful bidder of the Bonds for inclusion in the Final Official Statement.

**LOCAL GOVERNMENT COMMISSION  
Raleigh, North Carolina**

By: Janice T. Burke  
Secretary of the Commission



**ISSUE PRICE CERTIFICATE**

\_\_\_\_\_, as the [underwriter] [book-running manager] of the \$4,000,000 General Obligation Public Improvement Bonds, Series 2004 (the "Bonds"), being issued today by the Town of Chapel Hill, North Carolina, certifies as follows:

1. We have made a bona fide offering of all of the Bonds to the public (excluding bond houses, brokers and similar persons acting in the capacity of underwriters or wholesalers) at prices not in excess of the initial public offering prices (expressed as a percentage of principal amount and exclusive of accrued interest) set forth below:

<u>Maturity (April 1)</u>	<u>Initial Public Offering Price (%)</u>	<u>Maturity (April 1)</u>	<u>Initial Public Offering Price (%)</u>
2006	%	2016	%
2007		2017	
2008		2018	
2009		2019	
2010		2020	
2011		2021	
2012		2022	
2013		2023	
2014		2024	
2015		2025	

2. We have sold at least 10% of the aggregate face amount of each maturity of the Bonds to the public (excluding bond houses, brokers and similar persons acting in the capacity of underwriters or wholesalers) at prices equal to or less than the respective initial public offering prices. At the time we agreed to purchase the Bonds, based upon then prevailing market conditions, we had no reason to believe any of the Bonds would be initially sold to the public (excluding such bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices greater than those set forth above, plus accrued interest.

3. The prices set forth in paragraph 1 do not exceed the fair market value of the Bonds as of the sale date of the Bonds.

In connection with the above certification we have relied on the undertakings and representations of the other underwriters respecting the offering of the Bonds as set forth in our agreement relating to the Bonds. Although certain information furnished in this certificate has been derived from other underwriters, bond houses and brokers and cannot be independently verified by us, we have no reason to believe it to be untrue in any material respect.

We understand that the foregoing information will be relied upon by Sanford Holshouser LLP, Bond Counsel for the Town, in connection with its opinion as to the tax-exempt status of the interest on the Bonds.

Dated: October \_\_\_\_\_, 2004.

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Firm: \_\_\_\_\_



**BID FOR BONDS**

\_\_\_\_\_, 2004

Local Government Commission  
Seaboard Building, 413 North Salisbury Street  
Raleigh, North Carolina 27603-1385

Ladies and Gentlemen:

Subject to the provisions and in accordance with the terms set forth in the Notice of Sale and Bid Form relating to the bonds hereinafter mentioned, which provisions and terms are hereby made a part of this bid, we make the following bid for the bonds of the Town of Chapel Hill, North Carolina, described in said Notice of Sale, this bid being for not less than all of said bonds:

For the \$4,000,000 General Obligation Public Improvement Bonds, Series 2004, maturing and bearing interest as follows:

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2006	\$200,000	_____ %	2016	\$200,000	_____ %
2007	200,000	_____ %	2017	200,000	_____ %
2008	200,000	_____ %	2018	200,000	_____ %
2009	200,000	_____ %	2019	200,000	_____ %
2010	200,000	_____ %	2020	200,000	_____ %
2011	200,000	_____ %	2021	200,000	_____ %
2012	200,000	_____ %	2022	200,000	_____ %
2013	200,000	_____ %	2023	200,000	_____ %
2014	200,000	_____ %	2024	200,000	_____ %
2015	200,000	_____ %	2025	200,000	_____ %

we will pay \$4,000,000 plus a premium of (\$ \_\_\_\_\_) for all of said bonds. We will also pay accrued interest from the date of the bonds to the date of delivery and will accept delivery of the bonds at The Depository Trust Company in accordance with said Notice of Sale.

One of the following two paragraphs must be checked and completed as appropriate:

- ( ) We enclose herewith a check for \$80,000, payable to the State Treasurer of North Carolina, to provide the good faith deposit required by the Notice of Sale. In the event this bid is the successful bid, then said check will be cashed in accordance with the terms of the Notice of Sale. Otherwise, said good faith deposit is to be returned to the undersigned.
- ( ) A good faith deposit is not enclosed, but will be delivered to the State Treasurer of North Carolina by wire transfer by 2:00 p.m. on the date hereof if the undersigned is the successful bidder for the bonds. The delivery of the good faith deposit by the undersigned is guaranteed by the financial surety bond of Financial Security Assurance Inc. (Sure-Bid) delivered to the Secretary of the Local Government Commission of North Carolina prior to the submission of this bid and naming the undersigned as a bidder covered thereby. Said good faith deposit is to be applied in accordance with the terms in the Notice of Sale.

The closing papers referred to in said Notice of Sale are to include a certificate, dated as of the day of the delivery of the Bonds, stating that there is no litigation pending or, to the knowledge of the signer(s) of such certificate, threatened affecting the validity of the Bonds.

\_\_\_\_\_  
(Name of Firm)

\_\_\_\_\_  
(Signature of Authorized Officer)

(No addition or alteration, except as provided above, is to be made to this bid which may be detached from the annexed Notice of Sale. Bidder may for information only enter his calculation of net interest cost to be \_\_\_\_\_%. This information is neither required nor to be construed as a part of the foregoing bid.)