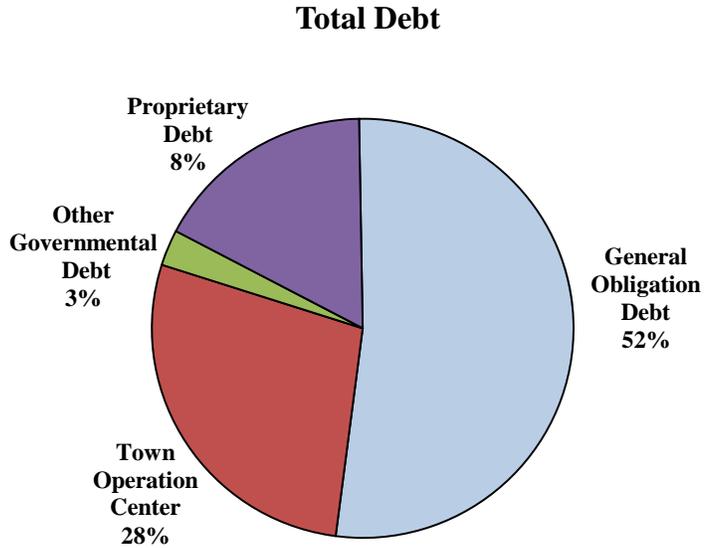


DEBT SERVICE FUND

The Debt Service Fund accounts for the principal and interest payments for the Town's general obligation bonds and certificates of participation issued for construction of the Town Operations Center and the 140 West Downtown Initiative.



DEBT & BOND RATINGS

As of June 30, 2012 the Town will have about \$63 million in debt outstanding. On May 15, 2012 the Town sold \$1.7 million of two-thirds general obligation (GO) bonds and \$4.94 million in GO refunding bonds. The bonds were sold at very competitive rates due to the Town's triple A rating. The rate for the refunding bonds that closed in FY12, was 2.26%, generating \$432,217 in net present value savings. The rate for the two-thirds bonds, which will close in FY13, was 1.42%. The debt service for the two-thirds bonds and the savings from the refunding are reflected in the Debt Management Fund's budget.

On June 14, 2012 the Town sold \$6.9 million of Limited Obligation Bonds (LOBs) to finance the Town's portion of the 140 West parking garage, other parking improvements and improvements to the Town's Operation Center. The transaction included refunding of approximately \$24 million of existing installment financings, including the Town Operations Center debt. The LOBs were sold at very competitive rates, 3.22% for the "new money" Parking bonds and 2.28% for the refunding bonds. The refunding portion of the transaction resulted in a net present value savings of \$746,580 over the remaining life of the bonds. The debt service costs for 140 West will be funded by the Parking Fund budget and the savings from the refunding will be split between the Parking Fund and the Debt Management Fund.

		Projected Long-Term Debt June 30, 2012
Governmental Debt		
General obligation debt	\$	31,445,000
COPS/Limited Obligation Bonds		17,680,000
Installment debt		1,768,000
Separation allowance (est.)		269,438
Compensated absences (est.)		<u>2,310,915</u>
Total	\$	<u>53,473,353</u>
Proprietary Fund Debt		
Enterprise Funds		
COPS/Limited Obligation Bonds	\$	4,320,000
Compensated absences (est.)		637,503
Internal Service Funds		
Motor vehicle equipment		<u>4,440,441</u>
Total	\$	<u>9,397,944</u>

On October 12, 2010, the Town issued \$20.41 million in general obligation bonds for the Library Expansion Project, Streets and Sidewalks, and Parks and Recreation facilities. About half of the bonds were issued as taxable Build America Bonds that will receive a 35% interest rebate from the Federal Government. The balance of the general obligation bonds were issued as conventional tax-exempt bonds. The next largest portion of debt, \$17.7 million, was issued in 2005 to finance the construction of the Town Operations Center project. The Town has an additional \$4.3 million in debt that was used to finance the parking deck and other off-street parking facilities. This debt is paid entirely from parking fee revenue.

DEBT & BOND RATINGS

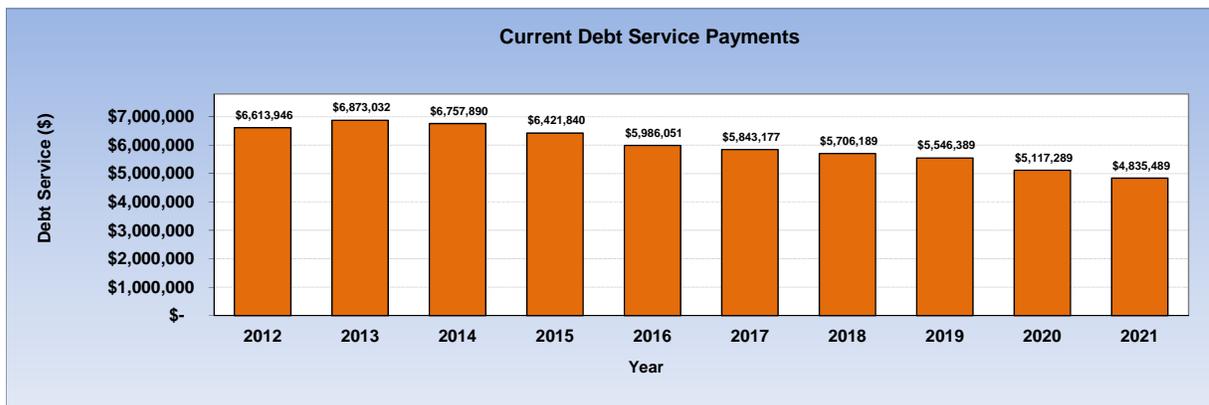
FY13 expenses include the issuance of \$1.7 million in Two-Thirds bonds and refunding of \$4.94 million in GO bonds in June 2012, along with issuance of \$6.9 million in Limited Obligation Bonds (LOBs) for the 140 West downtown project issued in July 2012. The long term debt also includes installment financing for equipment, land and reserves for compensated absences, that is, the amount that the Town owes for future payments for employee vacation.

Current Debt Obligations

The Town delayed the issuance of the remaining authorized 2003 General Obligation bonds in order to build additional capacity in the Debt Management Fund. By delaying the issuance the Town was also able to take advantage of the Build America Bond program under the Federal Stimulus Act. The 2010 General Obligation bonds were issued with a level principal structure and the annual debt service is about \$1.6 million in FY2011-12, declining each year to \$1.06 million in FY2030-31.

In December of 2009, the Town issued \$4,490,000 of general obligation bonds to refund bonds issued in 1998 and 2000. The sale resulted in a savings of \$487,393 in interest costs spread over the remaining 10 year life of the bonds.

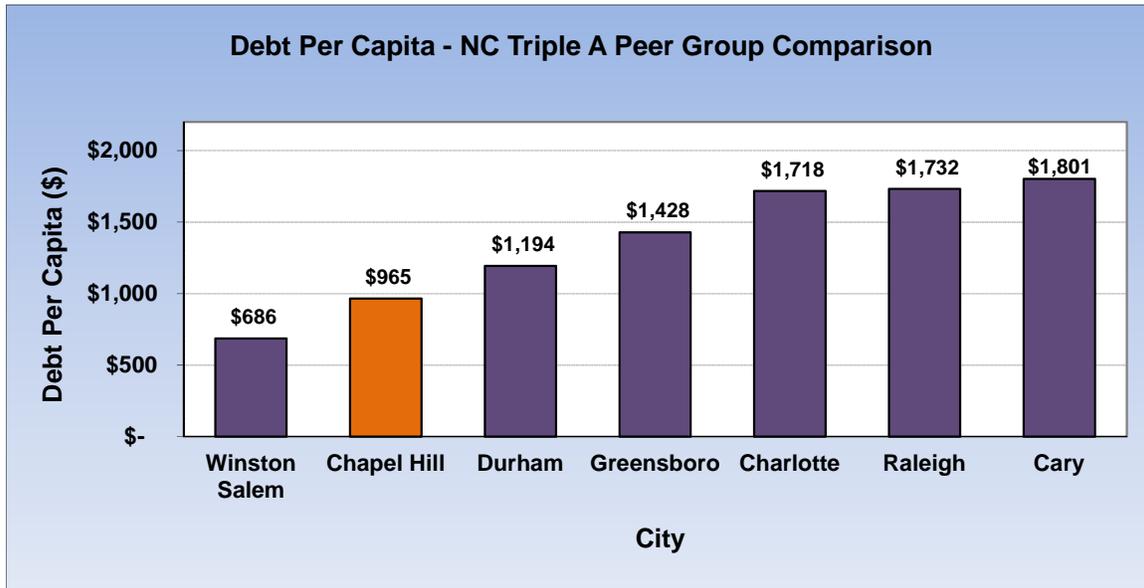
The Town's long-term debt payments for existing general obligation bonds and certificates of participation are shown below for the next ten years:



Future Additional Debt

Town Council placed a bond referendum before the citizens of Chapel Hill in November of 2003. The October 2010 General Obligation debt issuance represented the balance of that authority. In order to issue additional General Obligation Bonds the Town would need to receive approval from voters through the public referendum process. The next bond referendum will probably take place after FY2016-17 as the Debt Management Fund builds capacity for new debt service.

DEBT & BOND RATINGS



(Ratios of total outstanding G.O.B. debt, authorized & unissued G.O.B. debt, and IP debt, excluding enterprise, for N.C. populations greater than 50,000. Source: Analysis of Debt of N.C. Municipalities 6/30/2011, Department of State Treasurer, Division of State and Local Government Finance.)

Debt Limits

By State law, local governments may issue debt totaling 8% of the total assessed value of its property tax base. The 8% limit applies to general obligation bonds and certificates of participation. The Town is allowed seven years to issue general obligation debt once it is approved by the taxpayers, which allows the Town to phase in debt as it is

TOWN OF CHAPEL HILL, NORTH CAROLINA	
COMPUTATION OF LEGAL DEBT MARGIN	
June 30, 2012	
Total assessed valuation at June 30, 2012	\$ <u>7,240,147,503</u>
Debt limit - 8% of total assessed value	\$ <u>579,211,800</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>31,445,000</u>
Legal debt margin	\$ <u>547,766,800</u>

needed and as older debt drops off the repayment schedule. An additional three years extension of the authority to issue general obligation debt is available with approval of the Local Government Commission. Outstanding debt in most governmental units falls well below the 8% of the total assessed value limit, and typically ranges from about 1% to 4% for most governments, depending on the utility enterprises operated by the unit.

The Town's projected outstanding debt that applies to this limit at June 30, 2012 will total \$31,445,000 in outstanding general obligation bonds. The total is less than 1% of the Town's June 30, 2012 tax base (\$7.24 billion).

DEBT & BOND RATINGS

The Town's annual general obligation and certificate of participation debt service cost for 2012-13 is estimated to be about \$6.87 million, or about 13.7% of the General Fund original budget. A general guideline by bond rating agencies is that annual debt service is considered to be low to moderate if it is less than 10% of its annual General Fund budget. We are aware that we have exceeded our own debt guidelines in recent years by increasing debt service to over 10% of the estimated budget. Our projections show that we will have debt service levels between 10% and 13% of budget for several years. We will continue to monitor this indicator because it is one of numerous factors used to determine the Town's credit rating.

RATIO OF NET BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA LAST TEN FISCAL YEARS					
Fiscal Year Ended June 30	Population Estimate	Taxable Assessed Value	Net Bonded Debt	Ratio of Net Bonded Debt to Taxable Assessed Value	Net Bonded Debt Per Capita
2003	51,005	4,167,181,402	20,070,000	0.48	393
2004	51,485	4,305,436,972	18,400,000	0.43	357
2005	51,519	4,458,136,168	46,725,000	1.05	907
2006	52,397	5,300,417,389	44,045,000	0.83	841
2007	53,416	5,472,958,888	46,130,000	0.84	864
2008	54,904	5,839,993,985	42,650,000	0.73	777
2009	55,616	5,835,597,388	39,185,000	0.67	705
2010	56,778	7,045,574,326	38,520,000	0.55	678
2011	57,233	7,411,059,390	55,445,000	0.75	969
2012	58,076	7,240,147,503	50,893,000	0.70	876

Note: Net bonded debt includes general obligation bonds and certificates of participation.

Bond Ratings

The Town's bond ratings evidence its financial strength. When the

Moody's	AAA
Standard & Poor's	AAA

Town issues general obligation bonds or other securities, rating agencies reevaluate the Town's current and future ability to repay debt. As a part of the evaluations, the agencies examine the Town's management, reserves, current debt obligations, community growth and stability of key revenue sources. Because of a solid employment base in and around the Town of Chapel Hill and the Town's careful management of resources, the Town has maintained especially high bond ratings for a municipality of its size. In June of 2012, the Town's bond ratings were confirmed at triple A from Moody's Investor Service and from Standard and Poor's, the highest rating attainable.

DEBT SERVICE FUND

BUDGET SUMMARY

The Debt Service Fund is used to account for debt payments on the Town's general obligation bonds issued for capital improvement projects and on the certificates of participation issued for construction of the Town Operations Center. Funding for debt service historically came from a transfer from the General Fund to the Debt Service Fund, but beginning in 2008-09, a portion of the property tax rate was allocated to debt service payments. The continuing tax rate of 7.5 cents is expected to yield \$5.4 million in revenues in FY13.

Expenses for FY13 are based on projected issuance of \$1.7 million in Two-Thirds bonds and refunding of \$4.94 million in GO bonds in June 2012, along with issuance of \$6.5 million in COPS for the 140 West downtown initiative in July 2012. The adopted budget for FY13 includes appropriation of about \$941,000 of fund balance, and the remaining reserved funds will be available for appropriation by the Council for future debt.

EXPENDITURES

	2010-11 Actual	2011-12 Original Budget	2011-12 Revised Budget	2011-12 Estimated	2012-13 Adopted Budget	% Change from 2011-12
Principal Payments	\$ 3,485,000	\$ 4,490,000	\$ 4,490,000	\$ 4,490,000	\$ 4,676,000	4.1%
Interest Expense	1,996,990	2,270,930	2,270,930	2,270,930	2,272,652	0.1%
Issuance Expense	49,528	-	-	-	75,000	N/A
Total	\$ 5,531,518	\$ 6,760,930	\$ 6,760,930	\$ 6,760,930	\$ 7,023,652	3.9%

REVENUES

	2010-11 Actual	2011-12 Original Budget	2011-12 Revised Budget	2011-12 Estimated	2012-13 Adopted Budget	% Change from 2011-12
Property Taxes	\$ 6,634,998	\$ 5,380,000	\$ 5,380,000	\$ 5,380,752	\$ 5,462,000	1.5%
Transfer from Off-Street Parking	-	-	-	-	438,000	N/A
Premium on Bond Sale	266,583	-	-	-	-	N/A
BABS Interest Subsidy	85,676	182,506	182,506	182,506	183,000	0.3%
Interest Income	6,728	3,000	3,000	2,000	-	-100.0%
Appropriated Fund Balance	(1,462,467)	1,195,424	1,195,424	1,195,672	940,652	-21.3%
Total	\$ 5,531,518	\$ 6,760,930	\$ 6,760,930	\$ 6,760,930	\$ 7,023,652	3.9%