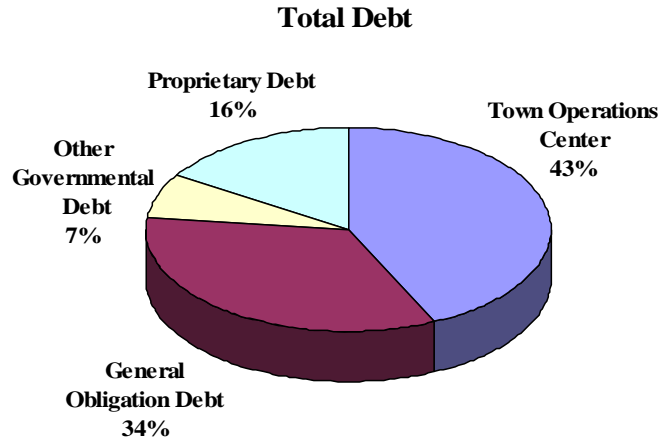


DEBT SERVICE FUND

The Debt Service Fund accounts for the principal and interest payments for the Town's general obligation bonds.



DEBT & BOND RATINGS

As of June 30, 2005 the Town had approximately \$60.4 million in general debt. On June 30th the Town borrowed \$26 million in certificates of participation for the Town Operations Center project. The next largest type of debt of \$20.725 million is in general obligation bonds. The Town has an additional \$6.16 million in certificates of participation which were used to finance the parking deck and other off-street parking facilities. This debt is paid entirely from parking fee revenue. The long term debt also includes installment financing for equipment and land, and reserves for compensated absences, that is, the amount that the Town owes for future payments for employee vacation.

Long-Term Debt June 30, 2005	
Governmental Debt	
General obligation debt	\$ 20,725,000
Certificates of Participation	26,000,000
Installment debt	1,785,000
Separation allowance	405,290
Compensated absences	<u>1,701,891</u>
Total	\$ <u>50,617,181</u>
Proprietary Fund Debt	
Enterprise Funds	
Certificates of Participation	\$ 6,160,000
Compensated Absences	380,735
Internal Service Funds	
Motor vehicle equipment	2,916,584
Computer equipment	<u>368,252</u>
Total	\$ <u>9,825,571</u>

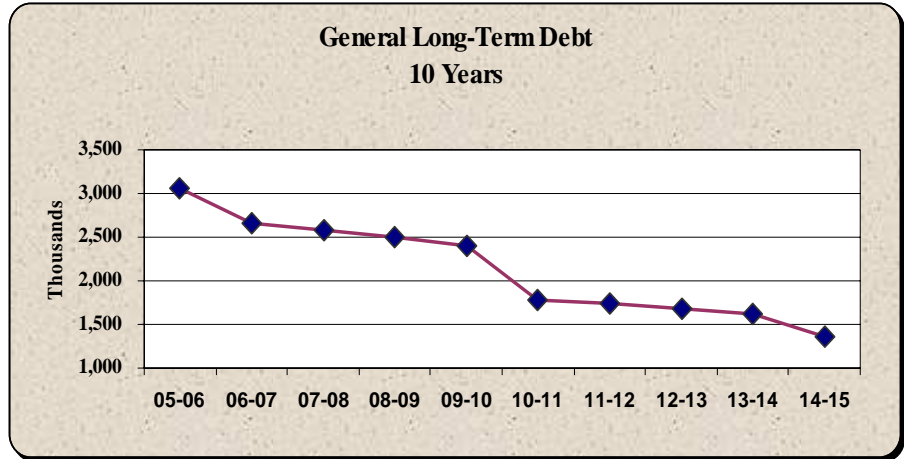
Current Debt Obligations

The Town of Chapel Hill has low debt obligations in comparison with similar sized municipalities. The debt repayment schedule for current general obligation debt remains fairly steady for the next few years. Town operations are not adversely affected by the current debt repayments. The Town does anticipate a major increase in debt repayment for the Town Operations Center and for potential bond issuances as described under Future Additional Debt below.

DEBT & BOND RATINGS

Current Town general obligation debt for the next 10 years is shown below:

General Obligation Debt for the next ten years	
05-06	3,067,200
06-07	2,660,758
07-08	2,584,263
08-09	2,494,750
09-10	2,407,700
10-11	1,789,850
11-12	1,732,950
12-13	1,675,900
13-14	1,618,225
14-15	1,360,550



Future Additional Debt

Beginning in 2005-06, additional new debt service costs of approximately \$2.5 million annually over the next several years will be necessary for a new Public Works facility. The University of North Carolina does not plan to renew the lease that the Town holds for the current site of the Public Works and Transportation facilities. The Town will be building a new site for the Transportation facility at the same time as the Public Works facility. The Town has received federal and State grant commitments sufficient to cover the cost of the Transportation facility.

In addition, the Town Council placed a bond referendum before the citizens of Chapel Hill in November of 2003. The purpose of the referendum was to consider the issuance of General Obligation bonds to finance an expansion of the current Town Library in the amount of \$16,260,000 as recommended by consultants and to finance various other capital improvements projects in the amount of \$13,100,000 as recommended by the Council's Committee on Sustainability, Energy and Environment. The voters approved the bond referendum which totals \$29,360,000. The first sale of \$4,000,000 took place in the fall of 2004.

The town anticipates that additional installment debt financing may also be required to fund increases for estimated capital improvements and capital maintenance needs over the next five years.

<u>APPROVED BOND REFERENDUM</u>	
Library Bonds	\$ 16,260,000
Other Capital Improvements Projects	
Sidewalks	\$ 5,600,000
Parks & Recreation	5,000,000
Open Space	2,000,000
Public Building Bonds	<u>500,000</u> <u>13,100,000</u>
TOTAL	\$ <u>29,360,000</u>

DEBT & BOND RATINGS

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. 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 needed and as older debt drops off the repayment schedule.

TOWN OF CHAPEL HILL, NORTH CAROLINA	
COMPUTATION OF LEGAL DEBT MARGIN	
June 30, 2005	
Total assessed valuation at June 30, 2005	\$ <u>4,458,136,168</u>
Debt limit - 8% of total assessed value	\$ <u>356,650,893</u>
Amount of debt applicable to debt limit:	
General obligation bonds	20,725,000
Certificates of participation	<u>26,000,000</u>
Total debt applicable to debt limit	<u>46,725,000</u>
Legal debt margin	\$ <u>309,925,893</u>

Outstanding debt in most governmental units falls well below the 8% of 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 outstanding debt that applied to this limit at June 30, 2005 was \$20,725,000 in outstanding General Obligation bonds. The total is less than 1% of the Town's tax base at June 30, 2005 (\$4.458 billion). If we were to include the remaining \$25,360,000 of the \$29,360,000 bond referendum which was passed in November 2003 it would bring the legal debt margin to \$310,565,893, which is still well within the normal range for governmental entities. The Town's annual general obligation debt service cost for 2005-06 is estimated to be about \$4.8 million, or about 10.4% of the current General Fund base budget level. A general guideline by bond rating agencies is that annual debt service is considered to be low to moderate if less than 10% of its annual General Fund budget. We are aware that we have exceeded our own debt guidelines by increasing debt service to over 10% of estimated budget. Our projections show that we will continue to have debt between 10% and 12% of budget for the next five years. We will continue to monitor this indicator, since it is one factor of a number of factors used to determine the Town's credit rating.

DEBT & BOND RATINGS

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
1996	44,848	2,189,859,157	15,865,000	0.72	354
1997	43,539	2,295,833,303	14,755,000	0.64	339
1998	43,423	2,768,696,681	18,090,000	0.65	417
1999	43,977	3,039,516,608	16,880,000	0.59	384
2000	46,019	2,944,165,957	20,225,000	0.69	439
2001	48,902	3,039,516,608	18,705,000	0.62	382
2002	50,454	4,021,127,152	17,380,000	0.43	344
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	20,725,000	0.46	402

Note: Net bonded debt includes general obligation bonds only.

Bond Ratings

The Town's bond ratings evidence its financial strength. When the Town issues general obligation bonds or other securities, rating

Moody's	AAA
Standard & Poor's	AA+

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 March 2003, the Town's bond ratings were confirmed at triple A (Aaa) from Moody's Investor Service, the highest rating attainable from Moody's, and double A plus (AA+) from Standard and Poor's, the next to 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. Funding for debt service comes from a transfer from the General Fund to the Debt Service Fund.

EXPENDITURES

	2003-04 Actual	2004-05 Original Budget	2004-05 Revised Budget	2004-05 Estimated	2005-06 Adopted Budget	% Change from 2004-05
Bond Principal Payments	1,670,000	1,850,000	1,850,000	1,675,000	2,680,000	44.9%
Bond Interest Expense	880,610	984,970	984,970	884,070	2,137,200	117.0%
Bond Service Charges	-	2,530	2,530	-	-	-100.0%
Total	2,550,610	2,837,500	2,837,500	2,559,070	4,817,200	69.8%

REVENUES

	2003-04 Actual	2004-05 Original Budget	2004-05 Revised Budget	2004-05 Estimated	2005-06 Adopted Budget	% Change from 2004-05
Transfer from General Fund	2,552,000	2,782,500	2,782,500	2,504,070	4,817,200	73.1%
Transfer from Capital Improvement	-	55,000	55,000	55,000	-	-100.0%
Interest Income	2,889	-	-	411	-	N/A
Total	2,554,889	2,837,500	2,837,500	2,559,481	4,817,200	69.8%