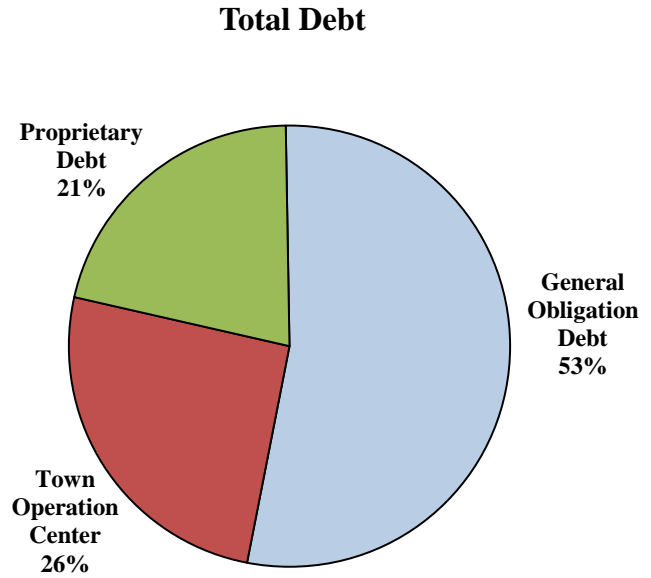


DEBT SERVICE FUND

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, 2013 the Town will have about \$63 million in debt outstanding. The Town's most recent debt issuance was the February 28, 2013 sale of \$3.05 million of General Obligation refunding bonds. The refunding bonds sold at a very competitive interest rate of 2.02% and resulted in net present value savings of \$158,563. In June of 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 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.

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 closed 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.

Projected Long-Term Debt June 30, 2013	
Governmental Debt	
General obligation debt	\$ 30,820,000
Limited Obligation Bonds	15,875,000
Installment debt	228,145
Separation allowance (est.)	239,000
Compensated absences (est.)	<u>2,339,224</u>
Total	\$ <u>49,501,369</u>
Proprietary Fund Debt	
Enterprise Funds	
Limited Obligation Bonds	\$ 9,540,000
Compensated absences (est.)	625,947
Internal Service Funds	
Motor vehicle equipment	<u>3,622,666</u>
Total	\$ <u>13,788,613</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 (BABs) that receive an interest rebate from the Federal Government. At the time the bonds were issued the rebate was 35% however one of the effects of sequestration has been a reduction in the interest reimbursement amount. BABs interest reimbursement payments due in FY14 will be reduced by 7.2% as a result of sequestration. The balance of the general obligation bonds were issued as conventional tax-exempt bonds. The next largest portion of debt, \$15.9 million, was issued in 2005 to finance the construction of the Town Operations Center project. The Town has an additional \$9.5 million in debt that was used to finance the Wallace Parking Deck and other off-street parking facilities. This debt is paid entirely from parking fee revenue.

DEBT & BOND RATINGS

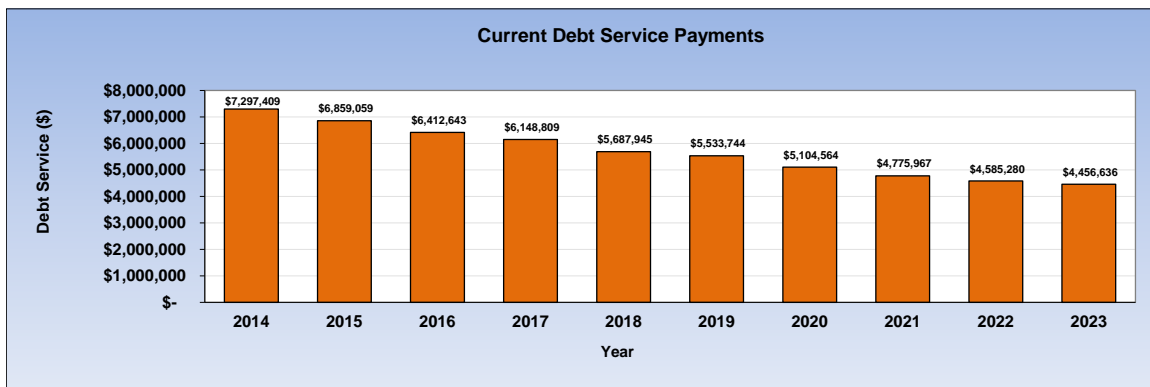
FY14 expenses include the issuance of \$1.7 million in Two-Thirds bonds and refunding of \$4.94 million in GO bonds in June 2012, along with issuance of \$6.9 million in Limited Obligation Bonds (LOBs) for the 140 West downtown project issued in July 2012. The long term debt also includes installment 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 was 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.

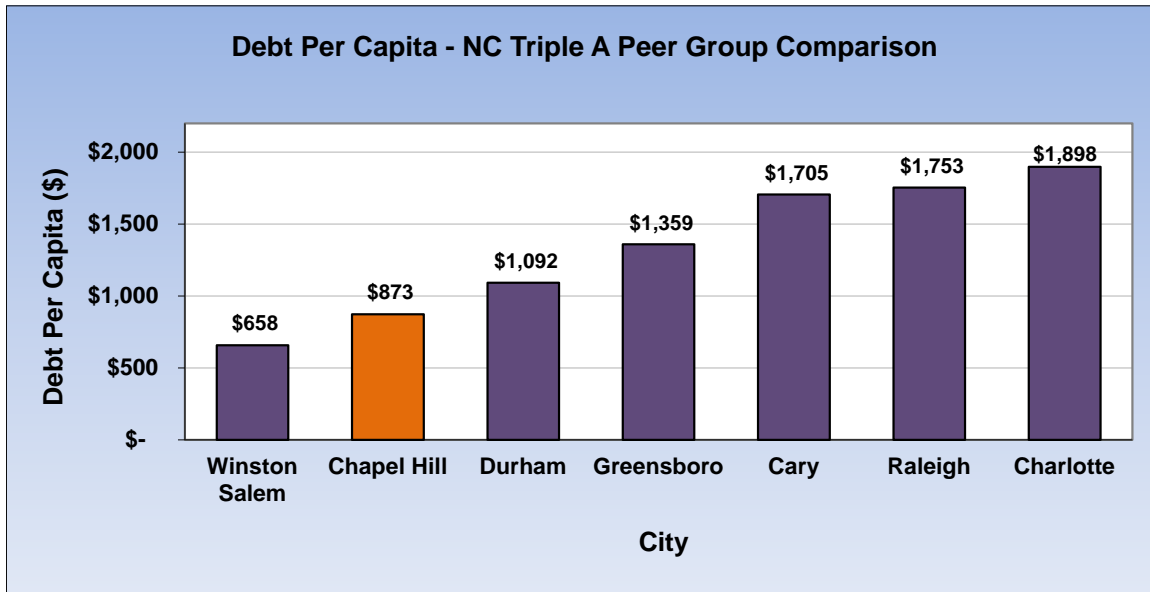
The Town's long-term debt payments for existing general obligation bonds and certificates of participation are shown below for the next ten years:



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 6/30/2012, 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 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.

TOWN OF CHAPEL HILL, NORTH CAROLINA	
COMPUTATION OF LEGAL DEBT MARGIN	
June 30, 2013	
Total assessed valuation at June 30, 2013	\$ <u>7,658,521,555</u>
Debt limit - 8% of total assessed value	\$ <u>612,681,724</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>31,048,145</u>
Legal debt margin	\$ <u>581,633,579</u>

The Town's projected outstanding debt that applies to this limit at June 30, 2013 will total \$31,048,145 in outstanding general obligation bonds. The total is less than 1% of the Town's June 30, 2013 tax base (\$7.66 billion).

DEBT & BOND RATINGS

The Town's annual general obligation and certificate of participation debt service cost for 2013-14 is estimated to be about \$7.30 million, or about 13.4% of the General Fund adopted budget. 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
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	7,593,430,730	53,445,000	0.70	920
2013	59,338	7,658,521,555	56,235,000	0.73	948

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 limited obligation bonds issued to refund the Town Operations Center debt and to pay for the Town's new parking deck at 140 West. 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 \$5.47 million in revenues in FY14.

Expenses for FY14 reflect the issuance of \$3.05 million in refunding GO bonds in February 2013. The adopted budget for FY14 includes appropriation of about \$856,000 of fund balance.

EXPENDITURES

	2011-12 Actual	2012-13 Original Budget	2012-13 Revised Budget	2012-13 Estimated	2013-14 Adopted Budget	% Change from 2012-13
Principal Payments	\$ 4,490,000	\$ 4,676,000	\$ 4,972,798	\$ 4,995,000	\$ 4,904,000	4.9%
Interest Expense	2,271,774	2,272,652	2,294,854	2,294,854	2,500,742	10.0%
Issuance Expense	181,354	75,000	241,117	251,730	-	-100.0%
Advanced Refunding	26,499,557	-	3,044,867	3,044,867	-	N/A
Total	\$ 33,442,685	\$ 7,023,652	\$ 10,553,636	\$ 10,586,451	\$ 7,404,742	5.4%

REVENUES

	2011-12 Actual	2012-13 Original Budget	2012-13 Revised Budget	2012-13 Estimated	2013-14 Adopted Budget	% Change from 2012-13
Property Taxes	\$ 5,427,762	\$ 5,462,000	\$ 5,462,000	\$ 5,447,321	\$ 5,471,000	0.2%
Transfer from Off-Street Parking	-	438,000	875,664	875,664	908,331	107.4%
Premium on Bond Sale	4,683,694	-	-	-	-	N/A
Debt Proceeds	26,417,739	-	3,050,000	3,050,000	-	N/A
BABS Interest Subsidy	182,506	183,000	175,061	182,507	168,360	-8.0%
Interest Income	2,928	-	57,842	2,100	1,000	N/A
Appropriated Fund Balance	(3,271,944)	940,652	933,069	1,028,859	856,051	-9.0%
Total	\$ 33,442,685	\$ 7,023,652	\$ 10,553,636	\$ 10,586,451	\$ 7,404,742	5.4%