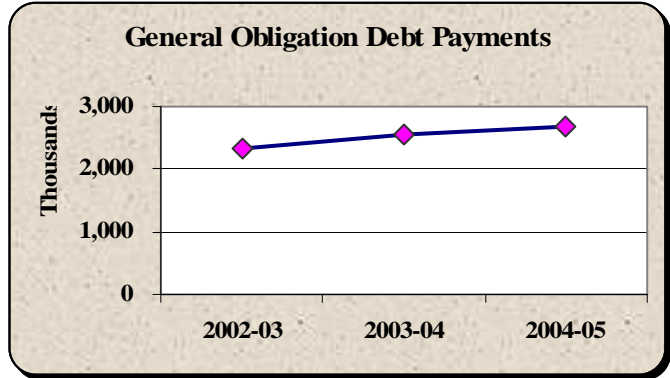


# ***DEBT SERVICE FUND***

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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, 2004 the Town had approximately \$23.4 million in general debt. Of the \$23.4 million, \$18.4 million were general obligation bonds. The next largest type of debt is for 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, 2004
<b>Governmental Debt</b>		
General obligation debt	\$	18,400,000
Installment debt		3,018,267
Separation allowance		419,780
Compensated absences		<u>1,589,135</u>
<b>Total</b>	<b>\$</b>	<b><u>23,427,182</u></b>
<b>Proprietary Fund Debt</b>		
Enterprise Funds		
Certificates of Participation	\$	6,380,000
Compensated Absences		328,181
Internal Service Funds		
Motor vehicle equipment		3,171,367
Computer equipment		<u>337,141</u>
<b>Total</b>	<b>\$</b>	<b><u>10,216,689</u></b>

### Current Debt Obligations

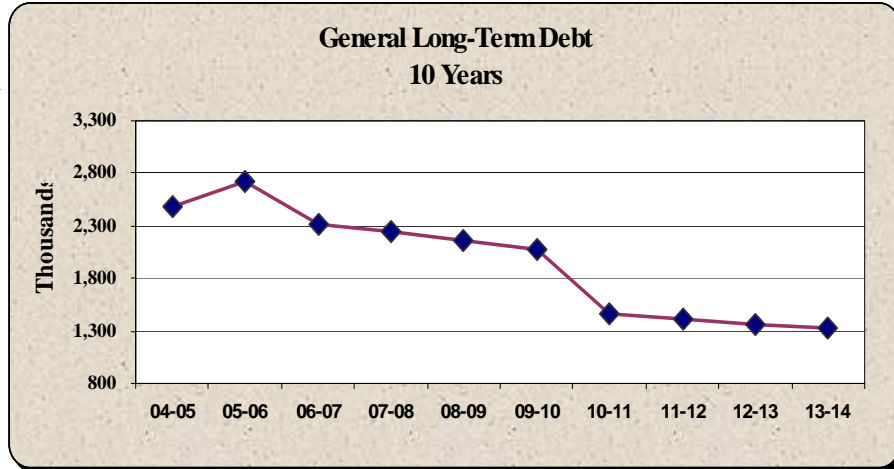
The Town of Chapel Hill has low debt obligations in comparison with similar sized municipalities. The debt repayment schedule for current general obligation debt remains steady for the next few years. Town operations are not adversely affected by the current debt repayments. The Town does anticipate 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**

04-05	2,484,970
05-06	2,719,000
06-07	2,317,558
07-08	2,246,063
08-09	2,161,550
09-10	2,080,500
10-11	1,469,150
11-12	1,419,250
12-13	1,369,200
13-14	1,319,025



Future Additional Debt

Additional new debt service costs estimated to be about \$2.5 million annually would be necessary beginning in 2005-06 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 anticipates that it may be able to obtain federal grants to cover the majority of the cost of the Transportation facility. Any excess cost above the amount covered by grants would be shared by the Town and its two partners, the University of North Carolina at Chapel Hill and the Town of Carrboro.

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 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>
<b>TOTAL</b>	<b>\$ <u>29,360,000</u></b>

# 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.

<b>TOWN OF CHAPEL HILL, NORTH CAROLINA</b>	
<b>COMPUTATION OF LEGAL DEBT MARGIN</b>	
<b>June 30, 2004</b>	
Total assessed valuation at June 30, 2004	\$ <u>4,305,436,990</u>
Debt limit - 8% of total assessed value	\$ <u>344,434,959</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>18,400,000</u>
Legal debt margin	\$ <u>326,034,959</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, 2004 was \$18,400,000 in outstanding General Obligation bonds. The total is less than 1% of the Town's tax base at June 30, 2004 (\$4.305 billion). The bond referendum which was passed in November 2003 for \$29,360,000 would bring the legal debt margin to \$296,674,959, which is still well within the normal range for governmental entities. The Town's annual general obligation debt service cost is about \$2.5 million, or about 6% of the current General Fund 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.

# 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
1995	42,918	2,094,854,927	14,450,000	0.69	336
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	44,015	2,944,165,957	20,225,000	0.69	460
2001	44,429	3,039,516,608	18,705,000	0.62	421
2002	51,598	4,021,127,152	17,380,000	0.43	337
2003	52,440	4,167,181,402	20,070,000	0.48	383
2004	50,540	4,305,436,990	18,400,000	0.43	364

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 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.

<b>Moody's</b>	<b>AAA</b>
<b>Standard &amp; Poor's</b>	<b>AA+</b>

## **DEBT SERVICE FUND**

### **BUDGET SUMMARY**

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*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.*

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#### **EXPENDITURES**

	<b>2002-03 Actual</b>	<b>2003-04 Original Budget</b>	<b>2003-04 Revised Budget</b>	<b>2003-04 Estimated</b>	<b>2004-05 Adopted Budget</b>	<b>% Change from 2003-04</b>
Bond Principal Payments	1,560,000	1,670,000	1,670,000	1,670,000	1,850,000	10.8%
Bond Interest Expense	782,855	881,000	881,000	881,000	984,970	11.8%
Bond Service Charges	-	1,000	1,000	1,000	2,530	153.0%
<b>Total</b>	<b>2,342,855</b>	<b>2,552,000</b>	<b>2,552,000</b>	<b>2,552,000</b>	<b>2,837,500</b>	<b>11.2%</b>

#### **REVENUES**

	<b>2002-03 Actual</b>	<b>2003-04 Original Budget</b>	<b>2003-04 Revised Budget</b>	<b>2003-04 Estimated</b>	<b>2004-05 Adopted Budget</b>	<b>% Change from 2004-05</b>
Transfer from General Fund	2,513,000	2,552,000	2,552,000	2,552,000	2,782,500	9.0%
Transfer from Capital Improvement	-	-	-	-	55,000	N/A
Interest Income	728	-	-	-	-	N/A
<b>Total</b>	<b>2,513,728</b>	<b>2,552,000</b>	<b>2,552,000</b>	<b>2,552,000</b>	<b>2,837,500</b>	<b>11.2%</b>