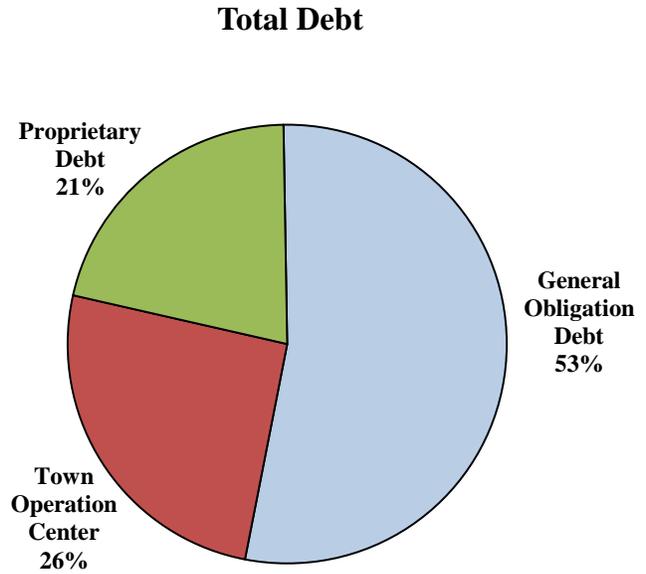


DEBT SERVICE FUND

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



DEBT & BOND RATINGS

As of June 30, 2014 the Town will have about \$60 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.

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. FY15 expenses include additional installment debt for vehicles in the amount of \$872,000. No additional bonded debt was added in FY14. The long term debt also includes installment financing for equipment, land and reserves for compensated

Long-Term Debt June 30, 2014	
Governmental Debt	
General obligation debt	\$ 28,141,000
Limited Obligation Bonds	15,400,000
Separation allowance	241,947
Compensated absences	<u>2,433,419</u>
Total	\$ <u>46,216,366</u>
Proprietary Fund Debt	
Enterprise Funds	
Limited Obligation Bonds	\$ 9,065,000
Compensated absences	641,415
Internal Service Funds	
Motor vehicle equipment	<u>3,890,776</u>
Total	\$ <u>13,597,191</u>

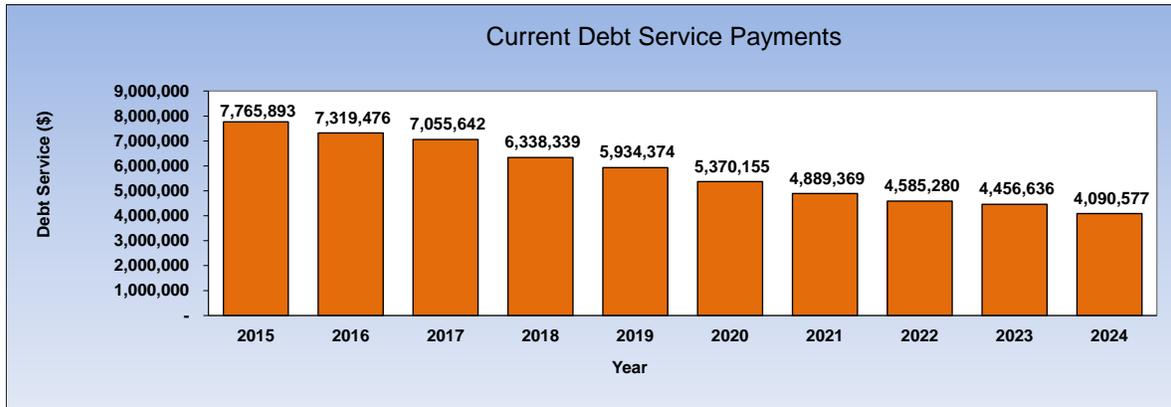
DEBT & BOND RATINGS

absences, that is, the amount that the Town owes for future payments for employee vacation.

Current Debt Obligations

In FY08 and FY09 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.

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

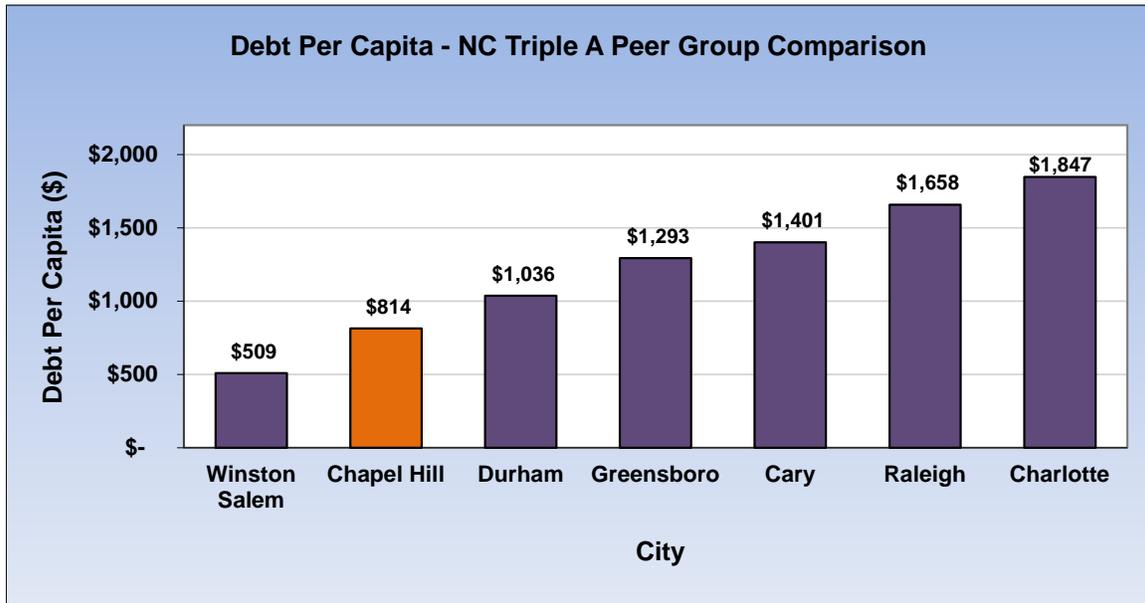


Future Additional Debt

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 during or after FY2015-16 as the Debt Management Fund builds capacity for new debt service.

The Town is planning on issuing two-thirds bonds in the amount of \$1.7 million and LOBs in the amount of about \$10 million for a combined financing of the Town Hall Renovation and Ephesus Fordham Renewal projects. The Town Hall project repairs damage from flooding that occurred in 2013 and renovates interior spaces to improve space utilization, customer service, and work flow. The Ephesus Fordham Renewal project involves roadway and stormwater improvements, that will, along with rezoning, facilitate development in an area of Town that has stagnated. If this debt is issued in FY15, a budget amendment will be adopted to account for any related expenses.

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 6/30/2013, 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, 2014	
Total assessed valuation at June 30, 2014	\$ <u>7,735,106,771</u>
Debt limit - 8% of total assessed value	\$ <u>618,808,542</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>28,141,000</u>
Legal debt margin	\$ <u>590,667,542</u>

The Town's projected outstanding debt that applies to this limit at June 30, 2014 will total \$28,141,000 in outstanding general obligation bonds. The total is less than 1% of the Town's June 30, 2014 tax base (\$7.735 billion).

DEBT & BOND RATINGS

The Town's annual General Fund general obligation and certificate of participation debt service cost for 2014-15 is estimated to be about \$6.86 million, or about 12.0% 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
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
2014	60,250	7,735,106,771	52,606,000	0.68	873

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 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.

Moody's	AAA
Standard & Poor's	AAA

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. For FY15, the tax rate is increased by 1 cent for a total of 8.5 cents and is expected to yield \$6.43 million in revenues.

The Debt Service adopted budget for FY15 is balanced without the use of fund balance.

EXPENDITURES

	2012-13 Actual	2013-14 Original Budget	2013-14 Revised Budget	2013-14 Estimated	2014-15 Adopted Budget	% Change from 2013-14
Principal Payments	\$ 4,995,000	\$ 4,904,000	\$ 4,904,000	\$ 4,904,000	\$ 4,594,000	-6.3%
Interest Expense	2,294,854	2,500,742	2,500,742	2,500,742	2,265,059	-9.4%
Issuance Expense	241,116	-	-	-	-	N/A
Service Charges	-	-	-	1,750	1,750	N/A
Reserve for Debt	-	-	-	-	663,778	N/A
Advanced Refunding	3,044,866	-	-	-	-	N/A
Total	\$ 10,575,836	\$ 7,404,742	\$ 7,404,742	\$ 7,406,492	\$ 7,524,587	1.6%

REVENUES

	2012-13 Actual	2013-14 Original Budget	2013-14 Revised Budget	2013-14 Estimated	2014-15 Adopted Budget	% Change from 2013-14
Property Taxes	\$ 5,468,713	\$ 5,486,000	\$ 5,486,000	\$ 5,606,000	\$ 6,430,000	17.2%
Transfer from Off-Street						
Parking	875,663	908,331	908,331	908,331	909,081	0.1%
Premium on Bond Sale	-	-	-	-	-	N/A
Debt Proceeds	3,050,000	-	-	-	-	N/A
BABS Interest Subsidy	182,506	168,360	168,360	169,366	182,506	8.4%
Interest Income	58,109	1,000	1,000	3,500	3,000	200.0%
Appropriated Fund						
Balance	940,845	841,051	841,051	719,295	-	-100.0%
Total	\$ 10,575,836	\$ 7,404,742	\$ 7,404,742	\$ 7,406,492	\$ 7,524,587	1.6%