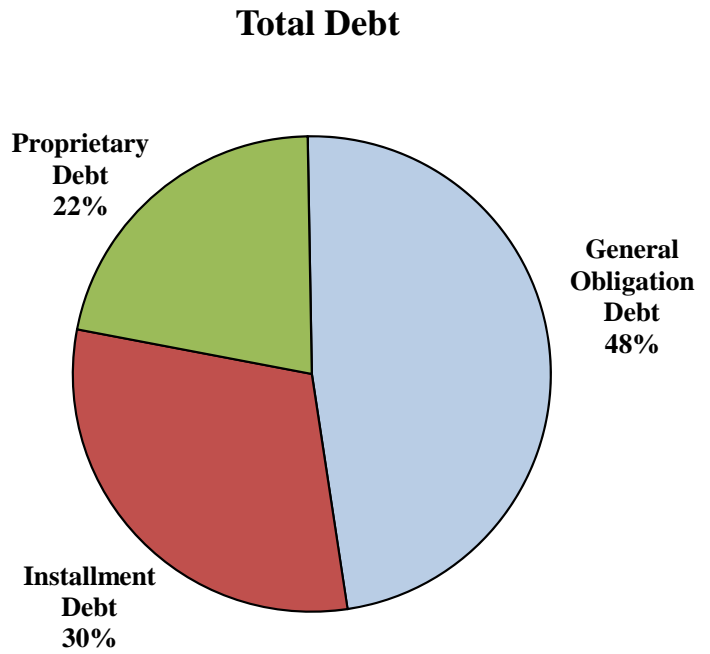


DEBT SERVICE FUND

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

Outstanding Debt

As of June 30, 2015 the Town will have about \$57 million in debt outstanding. The Town's most recent debt issuance was the June 2015 public improvement installment financing in the amount of \$2.44 million. The installment financing had a 15 year term and was completed with a net interest cost of 2.24%.

In February 28, 2013 the Town sold \$3.05 million of General Obligation (G.O.) 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 are 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 G.O. bonds and \$4.94 million in G.O. refunding bonds. 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%.

On October 12, 2010, the Town issued \$20.41 million in G.O. 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. The balance of the G.O. 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 \$8.57 million in debt that was used to finance the

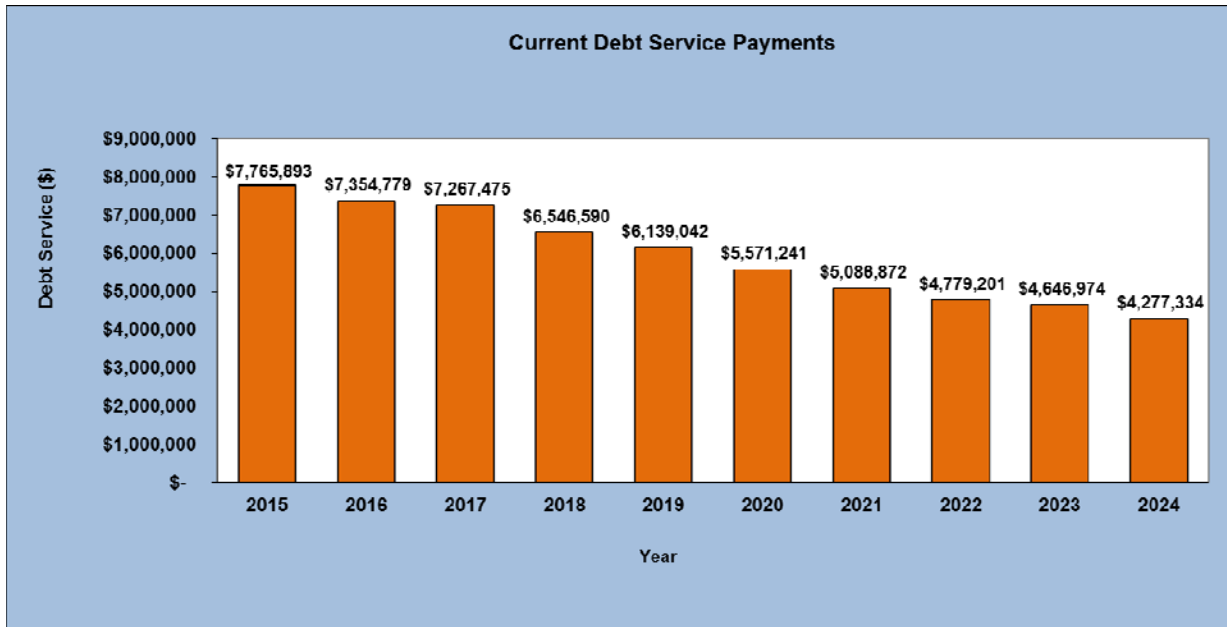
Long-Term Debt June 30, 2015	
Governmental Debt	
General obligation debt	\$ 25,662,000
Limited Obligation Bonds	13,775,000
Installment debt	2,518,145
Separation allowance	308,000
Compensated absences	<u>2,514,000</u>
Total	\$ <u>44,777,145</u>
Proprietary Fund Debt	
Enterprise Funds	
Limited Obligation Bonds	\$ 8,575,000
Compensated absences	641,000
Internal Service Funds	
Motor vehicle equipment	<u>3,061,766</u>
Total	\$ <u>12,277,766</u>

DEBT & BOND RATINGS

Wallace Parking Deck and other off-street parking facilities. This debt is paid entirely from parking fee revenue.

Current Debt Obligations

The Town has a rapid pay-down of existing debt with 78% of existing debt scheduled to be retired within 10 years. The Town’s long-term debt payments for existing G.O. obligation bonds and certificates of participation, for all funds, are shown below for the next ten years:



Future Additional Debt

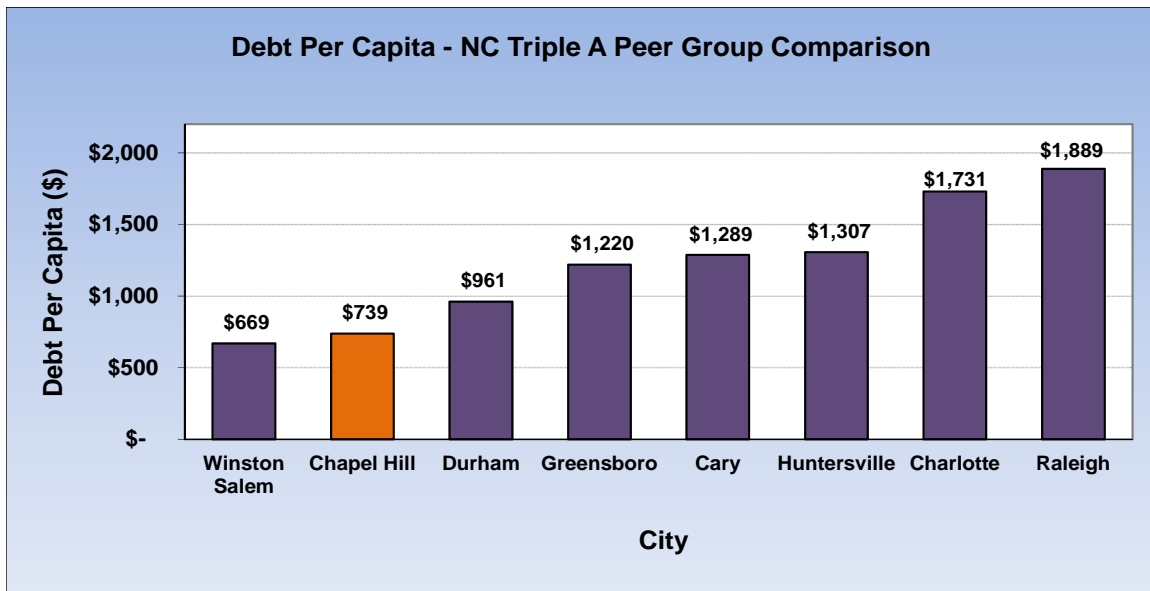
The Town’s capital planning process, which includes the consideration of multiple master plans, special studies and public facility assessments, identified a number of large-scale projects that could be financed through G.O. Bonds. These projects were aggregated by purpose, as shown below, in order to establish bond orders that will appear on a referendum ballot scheduled for November 3, 2015.

Streets & sidewalks	\$16,200,000
Trails and greenways	5,000,000
Recreation facilities	8,000,000
Solid waste facilities	5,200,000
Stormwater improvements	<u>5,900,000</u>
Total	\$40,300,000

In addition to the referendum the Town is also planning to finance the following projects using installment debt.

DEBT & BOND RATINGS

- Town Hall Renovation/Ephesus–Fordham Public Improvements: This combined financing is planned for FY16. The proceeds of the installment financing will be used for renovations to Town Hall (\$0.9 million), other CIP Projects (\$0.8 million) and the Ephesus-Fordham Renewal Project roadway and stormwater improvements (\$10.0 million).
- The Town is also planning on financing the purchase of buses for the Chapel Hill Transit System. There are 12 buses planned for debt financing in FY16 and the total cost is expected to be about \$6 million. With the reduction in federal funding available for bus purchases, the Town and its funding partners (University of North Carolina at Chapel Hill and the Town of Carrboro) are working together to maintain a bus replacement schedule that will support the system’s annual ridership of about 7 million passengers.
- The Town is currently in the planning process for the replacement of public safety facilities, including police headquarters and several fire stations. In addition, the Town is looking to address other space needs by combining public safety with other uses in one “multi-agency” facility. Preliminary estimates suggest that the total cost of a multi-agency facility will be between \$20-30 million, depending on the final scope and location of the project. It is expected that the project will be financed sometime after FY17.



(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 6/30/2014, Department of State Treasurer, Division of State and Local Government Finance.)

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 G.O. bonds and certificates of participation. 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, 2015	
Total assessed valuation at June 30, 2015	\$ <u>7,481,046,641</u>
Debt limit - 8% of total assessed value	\$ <u>598,483,731</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>25,662,000</u>
Legal debt margin	\$ <u>572,821,731</u>

As of June 30, 2015 the Town has \$25,662,000 in outstanding G.O. Bonds that apply to this limit. The total is less than 1% of the Town's June 30, 2014 tax base (\$7.48 billion).

The Town's annual General Fund G.O. and installment financing debt service cost for FY16 is estimated to be about \$6.41 million, or about 10.4% of the General Fund adopted budget. As a percentage of adopted governmental budgets (Debt Management Fund and General Fund), debt service costs are about 9.3%. Annual debt service is considered to be low to moderate if it is less than 10% of the annual governmental appropriations. Our projections show that we will have debt service levels between 9% and 12% of budget for the next several years as borrowing increases to meet capital needs. We will continue to monitor this indicator because it is one of numerous factors used to determine the Town's credit rating.

Bond Ratings

The Town's bond ratings evidence its financial strength. When the Town issues G.O. bonds or other

Moody's	AAA
Standard & Poor's	AAA

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. Both Moody's Investor Services and Standard and Poor's have affirmed the Town's triple A G.O. Bond Rating (Moody's in June of 2012 and Standard & Poor's in August of 2015). Triple A is the highest rating attainable for G.O. Bonds.

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 8.5 cents is expected to yield \$6.52 million in revenues in FY16.

The adopted budget for FY16 includes a contribution to reserve of about \$1,188,000.

EXPENDITURES

	2013-14 Actual	2014-15 Original Budget	2014-15 Revised Budget	2014-15 Estimated	2015-16 Adopted Budget	% Change from 2014-15
Principal Payments	\$ 4,904,000	\$ 4,594,000	\$ 4,594,000	\$ 4,594,000	\$ 4,330,000	-5.7%
Interest Expense	2,298,726	2,265,059	2,265,059	2,265,059	2,082,643	-8.1%
Service Charges	1,750	1,750	1,750	1,750	1,750	0.0%
Contribution to Reserve	-	663,778	663,778	681,956	1,188,389	79.0%
Total	\$ 7,204,476	\$ 7,524,587	\$ 7,524,587	\$ 7,542,765	\$ 7,602,782	1.0%

REVENUES

	2013-14 Actual	2014-15 Original Budget	2014-15 Revised Budget	2014-15 Estimated	2015-16 Adopted Budget	% Change from 2014-15
Property Taxes	\$ 5,586,519	\$ 6,430,000	\$ 6,430,000	\$ 6,460,000	\$ 6,520,000	1.4%
Transfer from Off-Street Parking	908,331	909,081	909,081	909,081	909,582	0.1%
Premium on Bond Sale	-	-	-	-	-	N/A
Debt Proceeds	-	-	-	-	-	N/A
BABS Interest Subsidy	169,366	182,506	182,506	169,184	169,200	-7.3%
Interest Income	4,005	3,000	3,000	4,500	4,000	33.3%
Appropriated Fund Balance	536,255	-	-	-	-	N/A
Total	\$ 7,204,476	\$ 7,524,587	\$ 7,524,587	\$ 7,542,765	\$ 7,602,782	1.0%