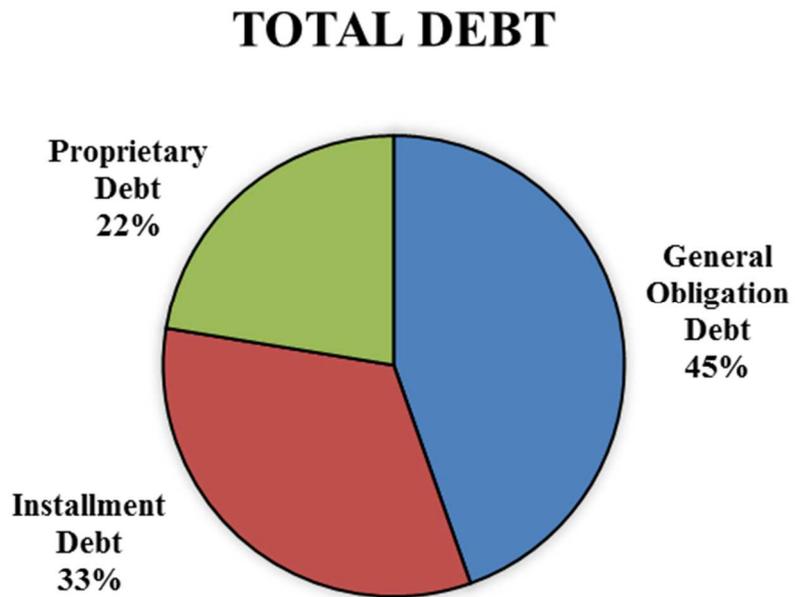


## ***DEBT SERVICE FUND***

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The Debt Service Fund accounts for the principal and interest payments for the Town's general obligation bonds and limited obligation bonds 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, 2017 the Town had about \$71 million in debt outstanding. In February of 2017 the Town closed on \$1.46 million of Two-thirds Public Safety bonds and \$9,000,000 of General Obligation (G.O.) bonds. The two-thirds bonds were used to purchase fire apparatus. The G.O. bonds funded trails and greenways, parks and recreation facility improvements and street and sidewalk projects. The G.O. bonds were the first issuance from the successful 2015 Bond Referendum.

Also in February of 2017 the Town closed on an installment financing for the purchase of 14 transit buses. The buses were financed for a ten year term at an interest rate of 2.09%. The Chapel Hill Transit funding partners, Carrboro, UNC and Chapel Hill, will share the cost of repaying the debt.

In March of 2016 Town completed a combined installment financing for streets and buildings for \$7,984,000 that was completed in March 2016. The financing had a 15 year term with a net interest cost of 2.32%.

In June 2015 the Town entered into a 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% resulting 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.

Long-Term Debt June 30, 2017	
<b>Governmental Debt</b>	
General obligation debt	\$ 31,741,000
Limited Obligation Bonds	10,525,000
Installment debt	9,828,000
Separation allowance	415,000
Compensated absences	<u>2,691,000</u>
<b>Total</b>	<b><u>\$ 55,200,000</u></b>
<b>Proprietary Fund Debt</b>	
Enterprise Funds	
Limited Obligation Bonds	\$ 7,520,000
Installment debt	6,408,000
Compensated absences	636,000
Internal Service Funds	
Motor vehicle equipment	<u>1,408,000</u>
<b>Total</b>	<b><u>\$ 15,972,000</u></b>

# DEBT & BOND RATINGS

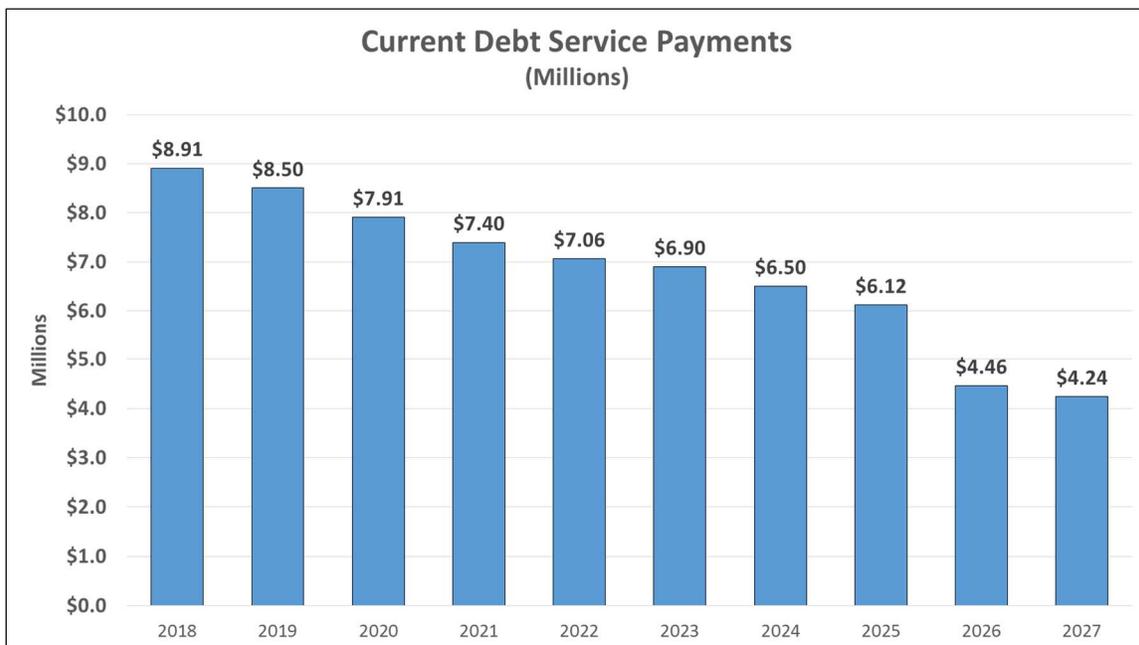
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On May 15, 2012 the Town sold \$1.7 million of two-thirds G.O. bonds and \$4.94 million in G.O. refunding bonds. The rate for the refunding bonds that closed in FY12 was 2.26%, generating \$432,217 in net present value savings. The rate for the two-thirds 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 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 77% 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:



*(Includes vehicle financings that are not paid from the debt Fund)*

# ***DEBT & BOND RATINGS***

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## **Future Additional Debt**

In November of 2015 the Town held a general obligation bond referendum. All five of the bond orders that appeared on the ballot were approved by the voters. The five bond orders the amount of authority approved by the voters, the amounts issues in February of 2017 and the balance of authority remaining are shown in the following table.

<b>BOND ORDER</b>	<b>AUTHORITY</b>	<b>ISSUED</b>	<b>BALANCE</b>
Streets & Sidewalks	\$ 16,200,000	\$ 3,000,000	\$ 13,200,000
Trails & Greenways	5,000,000	5,000,000	0
Recreation Facilities	8,000,000	1,000,000	7,000,000
Solid Waste Facility	5,200,000	0	5,200,000
Stormwater Improvements	5,900,000	0	5,900,000
<b>Total</b>	<b>\$ 40,300,000</b>	<b>\$ 9,000,000</b>	<b>\$ 31,300,000</b>

The projects planned for each of the bond orders were identified through 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.

In addition to the referendum the Town is also planning to finance the following projects using installment debt. Depending on the timing of these projects, they may be combined into a single financing to reduce the cost of issuance.

- 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 about \$25 million, depending on the final scope and location of the project. It is expected that the project will be financed sometime after FY18.
- The Town is planning to add additional parking capacity in Downtown by adding an additional level of parking to the Wallace Parking Garage. Preliminary estimates of the cost are in the \$2.4 million range.
- Phase II of the Ephesus Fordham public improvements is currently in the planning stages. The estimated cost of the project is about \$4.2 million. The amount that needs to be borrowed for this phase may be reduced by about \$2 million if the Town receives reimbursement for the construction cost of Ephesus Fordham Phase I from NCDOT prior to the need to issue debt for Phase II. Repayment of the Ephesus Fordham debt will be made from the incremental increase in tax receipts in the Ephesus Fordham district.

# ***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.

<b>TOWN OF CHAPEL HILL, NORTH CAROLINA</b>	
<b>COMPUTATION OF LEGAL DEBT MARGIN</b>	
<b>June 30, 2017</b>	
Total assessed valuation at June 30, 2017	\$ <u>7,521,947,941</u>
Debt limit - 8% of total assessed value	\$ <u>601,755,835</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>31,741,000</u>
Legal debt margin	\$ <u>570,014,835</u>

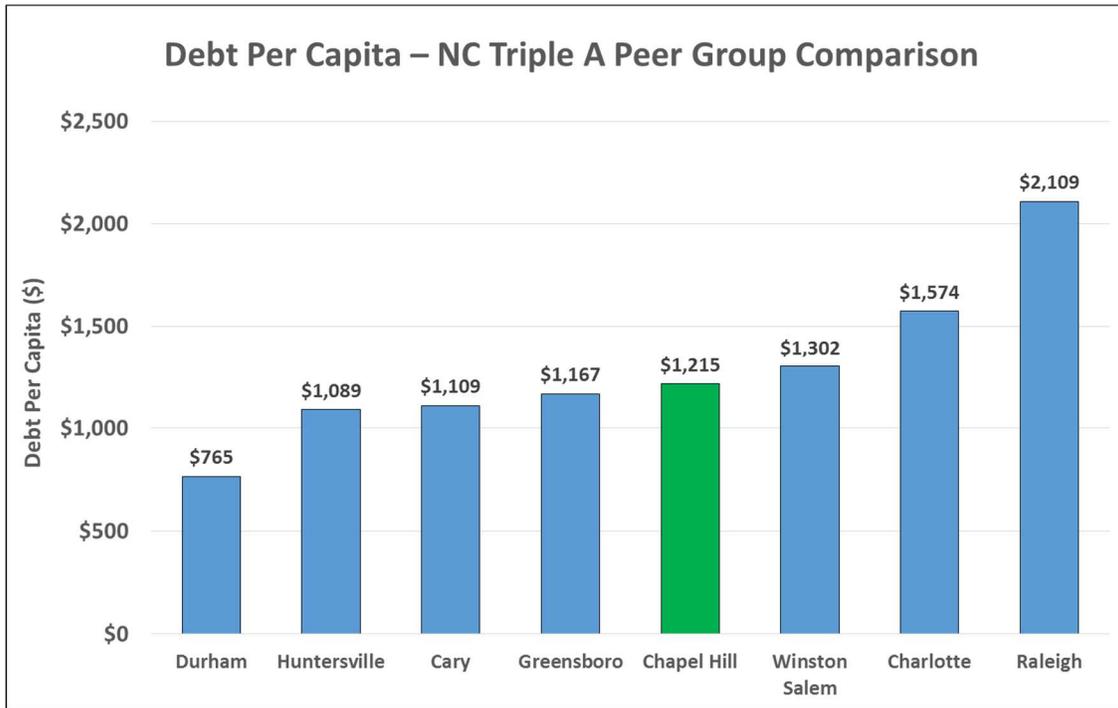
As of June 30, 2017 the Town has \$31,741,000 in outstanding G.O. Bonds that apply to this limit. The total is less than 1% of the Town's June 30, 2017 tax base (\$7.52 billion).

## **Debt Benchmarks**

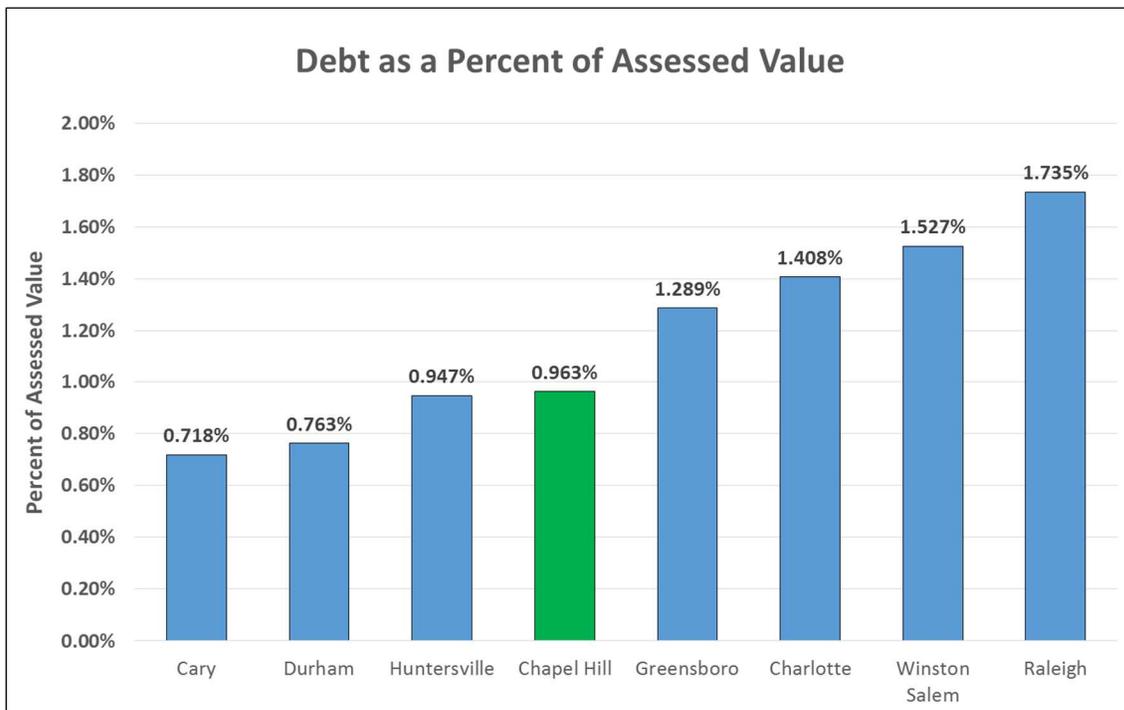
The Town's annual General Fund G.O. and installment financing debt service cost for FY18 is estimated to be about \$7.54 million, or about 11.87% of the General Fund adopted budget. As a percentage of adopted governmental budgets (Debt Management Fund and General Fund), debt service costs are about 10.61%. 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.

Two commonly used debt burden measures are debt per capita and debt as a percentage of assessed value. The Towns values for these two benchmarks compared to other triple A rated credits in North Carolina are shown in the following graphs.

# 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 6/30/2016, Department of State Treasurer, Division of State and Local Government Finance.)



# ***DEBT & BOND RATINGS***

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## **Bond Ratings**

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

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

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 affirmed the Town's triple A General Obligation Bond Rating for the February 2017 issuance of referendum and two-thirds bonds. 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 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 revenue neutral tax rate of 8.2 cents is expected to yield \$6.44 million in revenues in 2017-18.*

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### **EXPENDITURES**

	<b>2015-16 Actual</b>	<b>2016-17 Original Budget</b>	<b>2016-17 Revised Budget</b>	<b>2016-17 Estimated</b>	<b>2017-18 Adopted Budget</b>	<b>% Change from 2016-17</b>
Principal Payments	\$ 4,330,000	\$ 5,030,000	\$ 5,030,000	\$ 5,030,000	\$ 5,338,000	6.1%
Interest Expense	2,007,633	2,025,240	2,025,240	2,025,240	2,204,793	8.9%
Service Charges	20	-	-	-	-	N/A
Contribution to Reserve	-	473,542	473,542	423,847	-	-100.0%
<b>Total</b>	<b>\$ 6,337,653</b>	<b>\$ 7,528,782</b>	<b>\$ 7,528,782</b>	<b>\$ 7,479,087</b>	<b>\$ 7,542,793</b>	<b>0.2%</b>

### **REVENUES**

	<b>2015-16 Actual</b>	<b>2016-17 Original Budget</b>	<b>2016-17 Revised Budget</b>	<b>2016-17 Estimated</b>	<b>2017-18 Adopted Budget</b>	<b>% Change from 2015-16</b>
Property Taxes	\$ 6,405,091	\$ 6,443,000	\$ 6,443,000	\$ 6,387,000	\$ 6,443,000	0.0%
Transfer from Off-Street						
Parking	909,581	908,832	908,832	908,832	906,832	-0.2%
BABS Interest Subsidy	169,640	169,200	169,200	170,005	170,000	0.5%
Interest Income	16,441	7,750	7,750	13,250	7,500	-3.2%
Appropriated Fund						
Balance	(1,163,100)	-	-	-	15,461	N/A
<b>Total</b>	<b>\$ 6,337,653</b>	<b>\$ 7,528,782</b>	<b>\$ 7,528,782</b>	<b>\$ 7,479,087</b>	<b>\$ 7,542,793</b>	<b>0.2%</b>