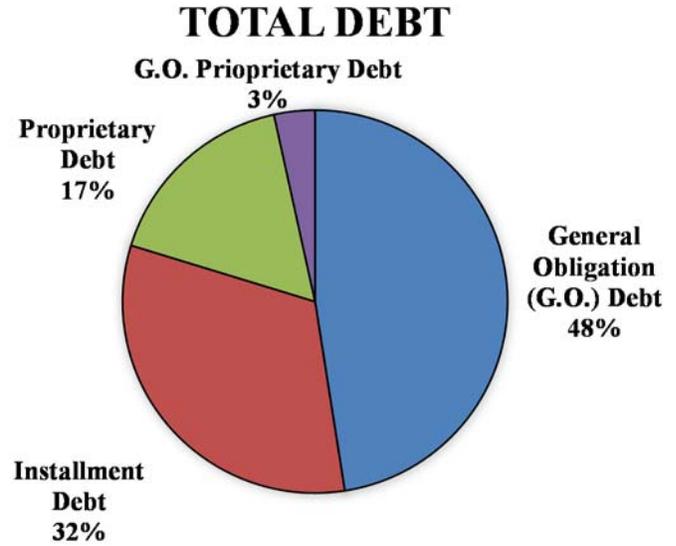


DEBT SERVICE FUND

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, 2019, the Town had about \$75 million in debt outstanding. As shown in the following table, this consists of General Obligation (G.O.) debt and installment financings as well as employee related obligations such as separation allowance and compensated absences.

In April 2018, the Town closed on \$12.5 million of General Obligation (G.O.) bonds. The G.O. Bonds were issued for the following uses:

- Stormwater Improvements
\$2,700,000
- Parks & Recreation
\$4,300,000
- Streets & Sidewalks
\$5,500,000

In February 2017, the Town closed on \$1.46 million of Two-thirds Public Safety bond and \$9,000,000 of 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.

Long-Term Debt June 30, 2019	
Governmental Debt	
General obligation debt	\$ 35,528,000
Limited Obligation Bonds	7,880,000
Installment debt	8,468,000
Separation allowance	5,042,000
Compensated absences	<u>2,688,000</u>
Total	\$ <u>59,606,000</u>
Proprietary Fund Debt	
Enterprise Funds	
General obligation debt	\$ 2,565,000
Limited Obligation Bonds	6,355,000
Installment debt	5,251,000
Compensated absences	644,000
Internal Service Funds	
Motor vehicle equipment	<u>327,000</u>
Total	\$ <u>15,142,000</u>

Also in February 2017, the Town closed on an installment financing for the purchase of 14 transit buses. The buses were financed for a 10-year term at an interest rate of 2.09%. The Chapel Hill Transit funding partners, Carrboro, UNC and Chapel Hill, are sharing the cost of repaying the debt.

In March 2016, the Town completed a combined installment financing for streets and buildings for \$7,984,000. 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 funds were used for public facility and public safety projects. The installment financing had a 15-year term with a net interest cost of 2.24%.

DEBT & BOND RATINGS

In February 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 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 being funded by the Parking Fund budget and the savings from the refunding are being split between the Parking Fund and the Debt Management Fund.

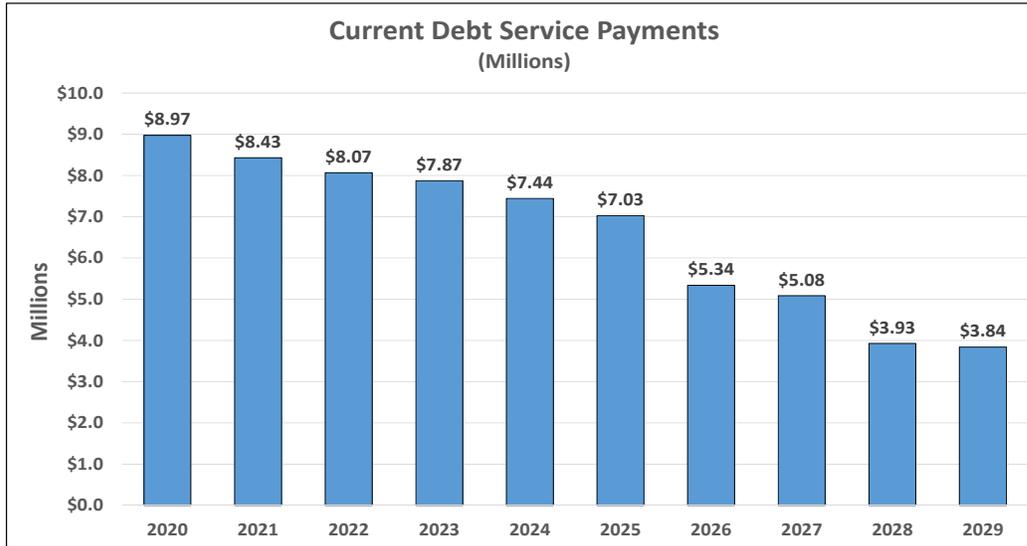
In May 2012, the Town sold \$1.7 million of two-thirds G.O. bonds and \$4.94 million in G.O. refunding bonds. The refunding bonds closed in FY12 with a rate of 2.26%, generating \$432,217 in net present value savings. The two-thirds bonds closed in FY13, with a rate of 1.42%.

In October 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 enterprise revenue.

DEBT & BOND RATINGS

Current Debt Obligations

The Town has a rapid pay-down of existing debt with 84% of existing debt scheduled to be retired within 10 years. The Town’s long-term debt payments for existing G.O. bonds and installment finance debt, for all funds, are shown below for the next ten years:



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

Future Additional Debt

In November 2018, the Town held a general obligation bond referendum. There was one bond order that appeared on the ballot and it was approved by the voters. The amount of the authority approved by the voters, the amounts issued through June 30, 2019, and the balance of the authority remaining is shown in the following table.

BOND ORDER	AUTHORITY	ISSUED	BALANCE
Affordable Housing	\$ 10,000,000	\$ 0	\$ 10,000,000
Total	\$ 10,000,000	\$ 0	\$ 10,000,000

In November 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 amount of authority approved by the voters, by bond order, the amounts issued through June 30, 2019, and the balance of authority remaining are shown in the following table.

BOND ORDER	AUTHORITY	ISSUED	BALANCE
Streets & Sidewalks	\$ 16,200,000	\$ 8,500,000	\$ 7,700,000
Trails & Greenways	5,000,000	5,000,000	0
Recreation Facilities	8,000,000	5,300,000	2,700,000
Solid Waste Facility	5,200,000	0	5,200,000
Stormwater Improvements	5,900,000	2,700,000	3,200,000
Total	\$ 40,300,000	\$ 21,500,000	\$ 18,800,000

DEBT & BOND RATINGS

The projects planned for each of the bond orders were identified through the Town’s capital planning process, which includes consideration of multiple master plans, special studies and public facility assessments. Through this process a number of large-scale projects were identified 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, including remediation costs at the current Police Headquarters site, will be about \$34 million, depending on the final design of the project. It is expected that the project will be financed sometime in late 2020.
- The Town is planning to add additional parking capacity in Downtown by adding an additional level of parking to the Wallace Parking Garage. Preliminary cost estimates are \$2.4 million.
- 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 of the borrowing will be reduced by the NCDOT reimbursement of \$1.6 million that the Town received for the construction cost of Ephesus Fordham Phase I. Net of the reimbursement, the expected borrowing will be about \$2.6 million.

TOWN OF CHAPEL HILL, NORTH CAROLINA	
COMPUTATION OF LEGAL DEBT MARGIN	
June 30, 2019	
Total assessed valuation at June 30, 2019	\$ <u>8,226,000,000</u>
Debt limit - 8% of total assessed value	\$ <u>658,080,000</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>38,093,000</u>
Legal debt margin	\$ <u><u>619,987,000</u></u>

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.

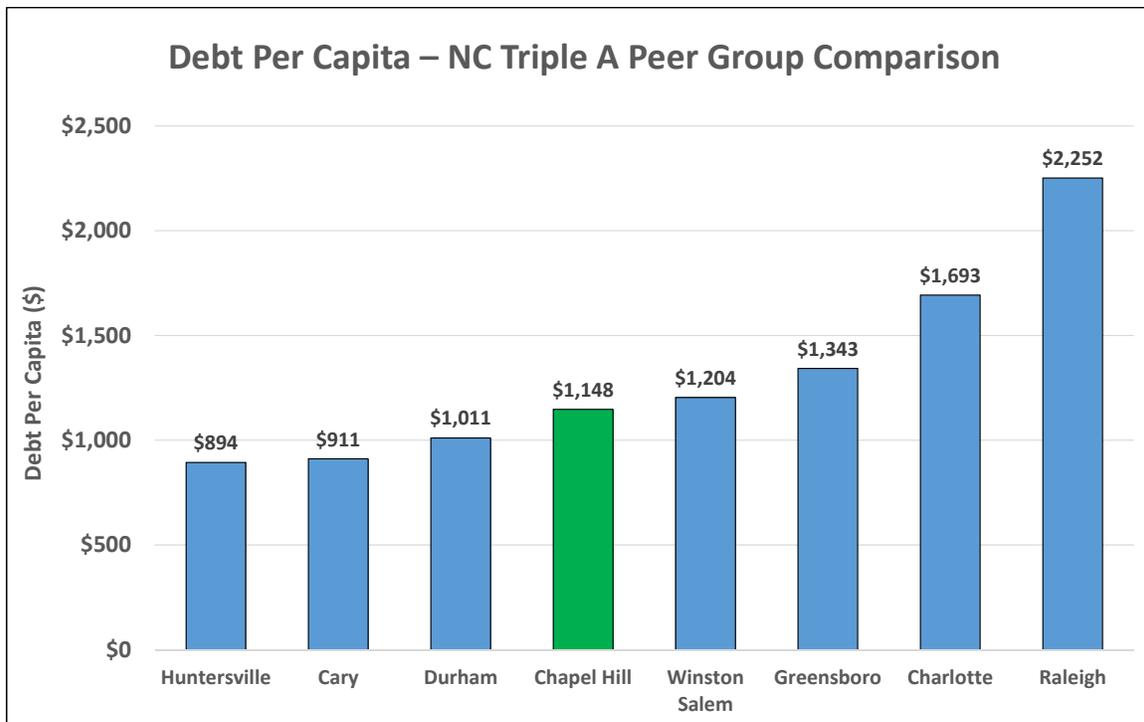
As of June 30, 2019 the Town had \$38,093,000 in outstanding G.O. Bonds that apply to this limit. The total is less than 1% of the Town’s June 30, 2019 tax base (\$8.226 billion).

DEBT & BOND RATINGS

Debt Benchmarks

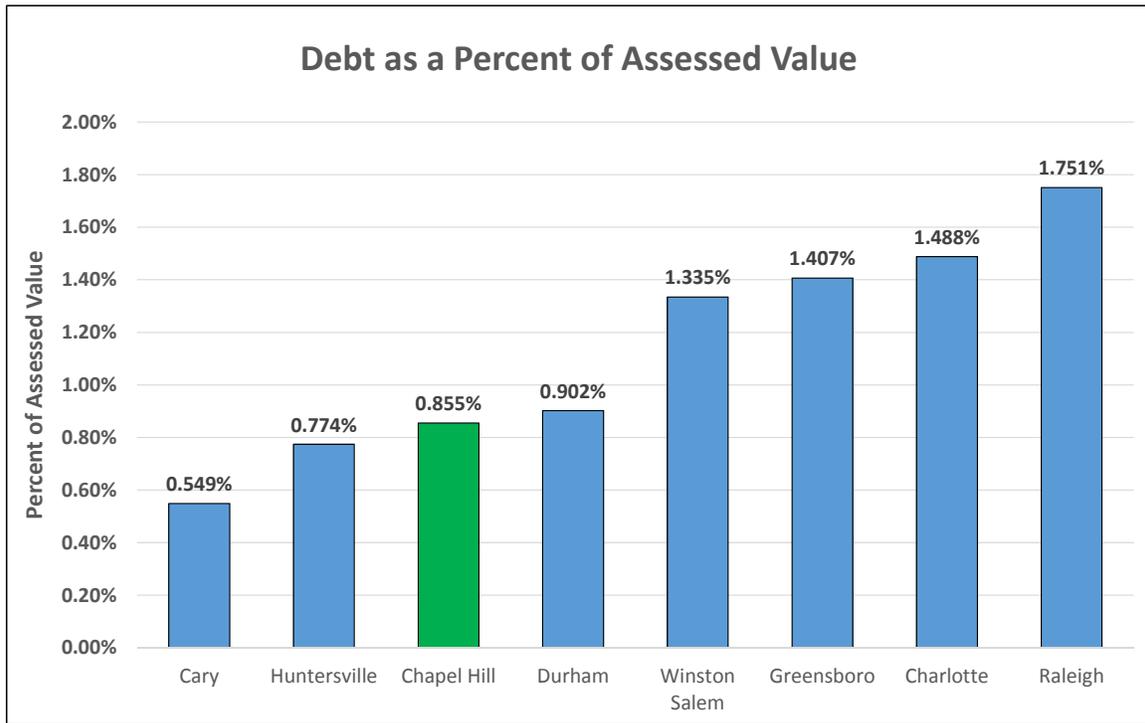
The Town's annual General Fund G.O. bond and installment financing debt service cost for FY20 is about \$7.76 million, or about 11.33% of the adopted General Fund budget. As a percentage of adopted governmental funds budgets (Debt Management Fund and General Fund), debt service costs are about 9.91%. 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 10% and 13% of governmental budgets 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 Town's values for these two benchmarks compared to other triple A rated credits in North Carolina are shown in the following graphs. For both benchmarks, the Town is slightly below the average for the triple A peer group. This suggests that the Town's debt levels are on par with other highly rated jurisdictions.



(Ratios of total outstanding G.O.B. debt, authorized & unissued G.O.B. debt, and IP debt, excluding enterprise, for N.C. populations with a triple A rating. Source: Analysis of Debt of N.C. Municipalities 6/30/2018, Department of State Treasurer, Division of State and Local Government Finance.)

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 with a triple A rating. Source: Analysis of Debt of N.C. Municipalities 6/30/2018, Department of State Treasurer, Division of State and Local Government Finance.)

Bond Ratings

The Town's bond ratings evidence its financial strength. When the Town issues G.O. bonds or other securities, rating agencies reevaluate

Moody's	AAA
Standard & Poor's	AAA

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 April 2018 issuance of G.O. 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. In FY2008-09, a portion of the property tax rate was allocated to debt service payments to pay the Town's debt service. The FY2019-20 adopted tax rate increase of 1.6 cents will bring the dedicated Debt Service Fund tax rate to 9.8 cents, which is expected to generate \$8.15 million in revenues in FY2019-20.

EXPENDITURES

	2017-18 Actual	2018-19 Original Budget	2018-19 Revised Budget	2018-19 Estimated	2019-20 Adopted Budget	% Change from 2018-19
Principal Payments	\$ 5,338,000	\$ 5,845,000	\$ 5,845,000	\$ 5,845,000	\$ 5,572,000	-4.7%
Interest Expense	2,204,661	2,412,312	2,412,312	2,412,312	2,189,064	-9.3%
Contribution to Reserve	141,135	16,919	16,919	281,419	2,084,368	12219.7%
Total	\$ 7,683,796	\$ 8,274,231	\$ 8,274,231	\$ 8,538,731	\$ 9,845,432	19.0%

REVENUES

	2017-18 Actual	2018-19 Original Budget	2018-19 Revised Budget	2018-19 Estimated	2019-20 Adopted Budget	% Change from 2018-19
Property Taxes	\$ 6,581,420	\$ 6,733,000	\$ 6,733,000	\$ 6,734,000	\$ 8,150,000	21.0%
Transfer from Off-Street Parking	906,831	914,631	914,631	914,631	905,332	-1.0%
Transfer from General Fund	-	445,100	445,100	445,100	445,100	0.0%
BABS Interest Subsidy	170,188	170,000	170,000	170,000	170,000	0.0%
Interest Income	25,357	11,500	11,500	275,000	175,000	1421.7%
Total	\$ 7,683,796	\$ 8,274,231	\$ 8,274,231	\$ 8,538,731	\$ 9,845,432	19.0%