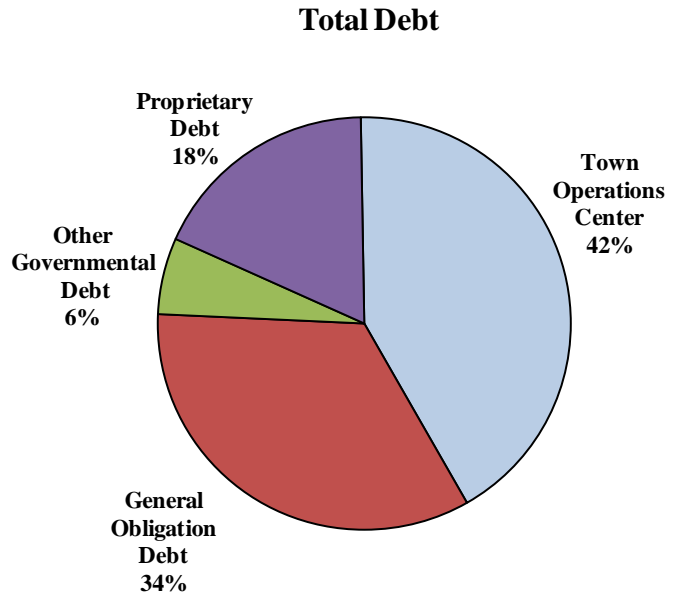


DEBT SERVICE FUND

The Debt Service Fund accounts for the principal and interest payments for the Town's general obligation bonds and certificates of participation issued for construction of the Town Operations Center.



DEBT & BOND RATINGS

As of June 30, 2010 the Town will have about \$51 million in debt outstanding. On June 30, 2005, the Town borrowed \$26 million in certificates of participation for the Town Operations Center project, which represents the largest portion of debt with a balance of \$20,405,000 at June 30, 2010. The next largest portion of debt, \$15.3 million, is in general obligation bonds. The Town has an additional \$4.9 million in 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, land and reserves for compensated absences, that is, the amount that the Town owes for future payments for employee vacation.

		Projected Long-Term Debt June 30, 2010
Governmental Debt		
General obligation debt	\$	15,285,000
Certificates of Participation		20,405,000
Installment debt		2,830,000
Separation allowance (est.)		280,611
Compensated absences (est.)		<u>2,171,600</u>
Total	\$	<u>40,972,211</u>
Proprietary Fund Debt		
Enterprise Funds		
Certificates of Participation	\$	4,895,000
Compensated absences (est.)		671,141
Internal Service Funds		
Motor vehicle equipment		<u>4,673,865</u>
Total	\$	<u>10,240,006</u>

Current Debt Obligations

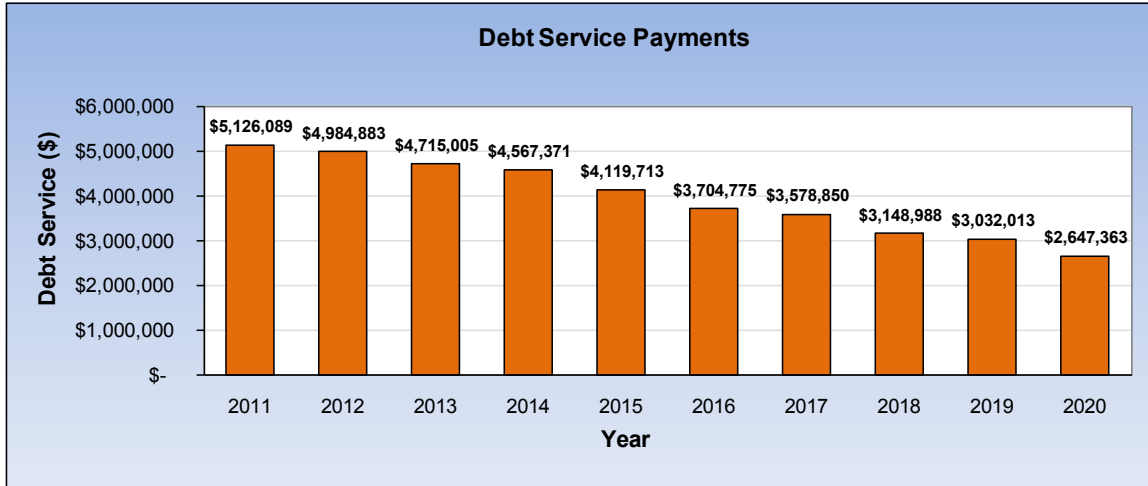
The Town's debt repayment schedule had been steady for a number of years, but beginning in 2005-06, additional new debt service costs of about \$2.5 million annually became necessary for the construction of a new Public Works facility. The Town received federal and State grant commitments sufficient to cover the cost of the Transit facility, and borrowed \$26 million in certificates of participation for construction of the Public Works facility.

In fall of 2006, the Town also issued \$4,950,000 of the \$29,360,000 in General Obligation bonds authorized in November 2003.

In December of 2009, the Town issued \$4,490,000 of general obligation bonds to refund bonds issued in 1998 and 2000. The sale resulted in a savings of \$487,393 in interest costs spread over the remaining 10 year life of the bonds.

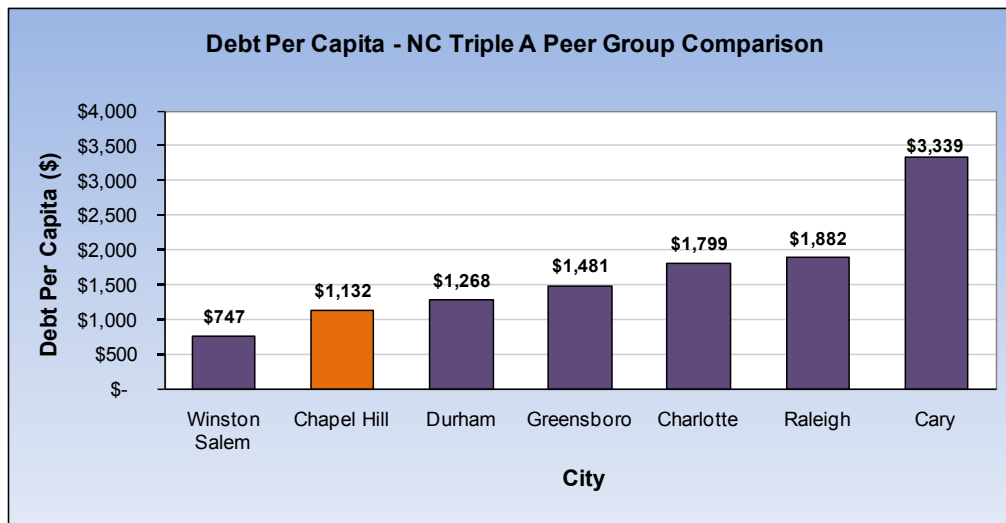
DEBT & BOND RATINGS

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



Future Additional Debt

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 Town Library in the amount of \$16,260,000, and to finance various other capital improvement 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 totaling \$29,360,000, of which \$20,410,000 remains outstanding.



(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 6/30/2009, Department of State Treasurer, Division of State and Local Government Finance.)

DEBT & BOND RATINGS

The balance of the authorized unissued general obligation debt is planned for issuance in the fall of 2010 contingent on favorable economic conditions. The Town also anticipates the sale of up to \$7,245,000 in debt to cover the cost of underground parking for the Downtown Initiative in 2011-12.

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

TOWN OF CHAPEL HILL, NORTH CAROLINA	
COMPUTATION OF LEGAL DEBT MARGIN	
June 30, 2010	
Total assessed valuation at June 30, 2010	\$ <u>7,110,000,000</u>
Debt limit - 8% of total assessed value	\$ <u>568,800,000</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>15,325,000</u>
Legal debt margin	\$ <u>553,475,000</u>

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.

The Town's projected outstanding debt that applies to this limit at June 30, 2010 will total \$15,325,000 in outstanding general obligation bonds. The total is less than 1% of the Town's June 30, 2009 tax base (\$6.96 billion). If we were to include the remaining \$20,410,000 of the \$29,360,000 bond referendum which was passed in November 2003, it would bring the legal debt margin to \$533,065,000 which is still well within the normal range for governmental entities.

The Town's annual general obligation and certificate of participation debt service cost for 2010-11 is estimated to be about \$5.1 million, or about 9.7% of the General Fund original budget. A general guideline by bond rating agencies is that 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 12% of budget for several years after the issuance of the \$20.41 million remaining authorized general obligation bonds. We

DEBT & BOND RATINGS

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	
2000	46,019	\$ 2,944,165,957	\$ 20,225,000	0.69	\$	439
2001	48,902	3,039,516,608	18,705,000	0.62		382
2002	50,454	4,021,127,152	17,380,000	0.43		344
2003	51,005	4,167,181,402	20,070,000	0.48		393
2004	51,485	4,305,436,972	18,400,000	0.43		357
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	52,397	5,472,958,888	46,130,000	0.84		880
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

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

Moody's	AAA
Standard & Poor's	AAA

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 December 2009, 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.

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 certificates of participation issued for construction of the Town Operations Center. 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. We expect revenues in excess of expenditures of about \$628,000 and \$1,422,911 in 2009-10 and 2010-11 respectively, shown below as a "reserve for debt" to present a balanced budget. The projected reserves are the result of delaying debt that had been planned for the fall of 2008 in light of the ongoing recession. These reserved funds will be available for appropriation by the Council for future debt.

EXPENDITURES

	2008-09 Actual	2009-10 Original Budget	2009-10 Revised Budget	2009-10 Estimated	2010-11 Adopted Budget	% Change from 2009-10
Principal Payments	\$ 4,000,000	\$ 3,990,000	\$ 8,480,000	\$ 8,480,000	\$ 3,485,000	-12.7%
Interest Expense	1,969,584	1,895,000	1,895,000	1,895,000	1,641,089	-13.4%
Issuance Expense	-	-	64,700	-	-	
Reserve for debt	395,648	558,000	558,000	628,000	1,422,911	155.0%
Total	\$ 6,365,232	\$ 6,443,000	\$ 10,997,700	\$ 11,003,000	\$ 6,549,000	1.6%

REVENUES

	2008-09 Actual	2009-10 Original Budget	2009-10 Revised Budget	2009-10 Estimated	2010-11 Adopted Budget	% Change from 2009-10
Property Taxes	\$ 6,353,984	\$ 6,440,000	\$ 6,440,000	\$ 6,510,000	\$ 6,546,000	1.6%
Bond Refunding Proceeds	-	-	4,490,000	4,490,000	-	N/A
Interest Income	11,248	3,000	67,700	3,000	3,000	0.0%
Total	\$ 6,365,232	\$ 6,443,000	\$ 10,997,700	\$ 11,003,000	\$ 6,549,000	1.6%