

PRELIMINARY OFFICIAL STATEMENT DATED MAY 4, 2012

NEW ISSUE—Book-Entry Only

This Official Statement has been prepared by the Local Government Commission of North Carolina and the Town of Chapel Hill, North Carolina to provide information in connection with the sale and issuance of the Bonds described herein. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement. The Town has deemed the Preliminary Official Statement "final" for purposes of S.E.C. Rule 15c2-12 except for information which may be omitted pursuant to Rule 15c2-12.

\$6,640,000*

**Town of Chapel Hill, North Carolina
General Obligation Bonds**

*consisting of
\$4,940,000* General Obligation Refunding Bonds, Series 2012
and
\$1,700,000* General Obligation Public Improvement Bonds, Series 2012*

Dated: Date of Delivery

Due: As shown on inside cover page

Tax Status

In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Bonds is not includable in gross income for federal income tax purposes, and is exempt from current State of North Carolina income taxes. See "TAX TREATMENT" herein for additional information regarding tax consequences arising from ownership or receipt of interest on the Bonds, including information regarding the application of federal alternative minimum tax provisions to the Bonds and certain other federal, State and local tax consequences.

Redemption

The Bonds are subject to optional redemption at the times and price set forth herein.

Security

The Bonds constitute general obligations of the Town, secured by a pledge of the faith and credit and taxing power of the Town.

Interest Payment Dates

April 1 and October 1, commencing October 1, 2012

Denominations

\$5,000 or any integral multiple thereof

Expected Closing/Settlement

Refunding Bonds: June 5, 2012
Public Improvement Bonds: July 3, 2012

Bond Counsel

Sanford Holshouser LLP

Financial Advisor

Davenport & Company LLC

Sale Date

May 15, 2012

Sale of Bonds

Pursuant to sealed bids in accordance with the respective Notices of Sale

The date of this Official Statement is May __, 2012

*Preliminary; subject to change.

MATURITY SCHEDULES

\$4,940,000* General Obligation Refunding Bonds, Series 2012

Due April 1 of the Year Indicated

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Inter-est Rate</u>	<u>Price or Yield¹</u>	<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield¹</u>
2013	\$130,000			2020	\$500,000		
2014	425,000			2021	315,000		
2015	650,000			2022	210,000		
2016	540,000			2023	205,000		
2017	530,000			2024	200,000		
2018	525,000			2025	195,000		
2019	515,000						

\$1,700,000* General Obligation Public Improvement Bonds, Series 2012

Due April 1 of the Year Indicated

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Inter-est Rate</u>	<u>Price or Yield¹</u>	<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield¹</u>
2013	\$85,000			2023	\$85,000		
2014	85,000			2024	85,000		
2015	85,000			2025	85,000		
2016	85,000			2026	85,000		
2017	85,000			2027	85,000		
2018	85,000			2028	85,000		
2019	85,000			2020	85,000		
2020	85,000			2030	85,000		
2021	85,000			2031	85,000		
2022	85,000			2032	85,000		

*Preliminary; subject to change.

¹Information obtained from underwriters of the Bonds.

TOWN OF CHAPEL HILL, NORTH CAROLINA



Mark Kleinschmidt..... Mayor

TOWN COUNCIL

Donna Bell	Matt Czajkowski
Laurin Easthom	Lee Storrow
Ed Harrison	Gene Pease
Penny Rich	James L. Ward



TOWN STAFF

Roger L. Stancil Town Manager
Florentine A. Miller Deputy Town Manager
Kenneth C. Pennoyer Director of Business Management
Ralph D. Karpinos Town Attorney



FINANCIAL ADVISOR

Davenport & Company LLC
Raleigh, North Carolina



BOND COUNSEL

Sanford Holshouser LLP
Carrboro, North Carolina

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State of North Carolina

Department of State Treasurer

JANET COWELL
TREASURER

*State and Local Government Finance Division
and the Local Government Commission*

T. VANCE HOLLOMAN
DEPUTY TREASURER

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is intended to furnish information in connection with the public invitation for bids for the purchase of \$6,640,000* General Obligation Bonds (the "Bonds"), of the Town of Chapel Hill, North Carolina (the "Town"), consisting of \$4,940,000* General Obligation Refunding Bonds, Series 2012 (the "Refunding Bonds") and \$1,700,000* General Obligation Public Improvement Bonds, Series 2012 (the "Public Improvement Bonds").

The information furnished herein includes a brief description of the Town and its economic conditions, government, debt management, tax structure, financial operations, budget, pension plans and litigation. The Town has assisted the Local Government Commission of North Carolina (the "Commission") in gathering and assembling the information contained herein.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any date subsequent to the date herein. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

This Official Statement is deemed to be a final official statement with respect to the Bonds within the meaning of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), except, when it is in preliminary form, for the omission of certain pricing and other information to be made available by the successful bidder or bidders for the Bonds to the Commission. In accordance with the requirements of the Rule, the Town has undertaken certain continuing disclosure obligations. See the caption "Continuing Disclosure" herein.

THE LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA

The Commission, a division of the Department of State Treasurer, State of North Carolina (the "State"), is a State agency that supervises the issuance of the bonded indebtedness of all units of local government and assists these units in the area of fiscal management. Appendix A to this Official Statement contains additional information concerning the Commission and its functions.

*Preliminary, subject to change as provided in the Notice of Sale.

THE BONDS

Description

The Bonds will be dated as of their date of delivery and will bear interest from their date at the interest rates set forth on the inside front cover page. Interest on the Bonds will be payable semiannually on each April 1 and October 1, commencing October 1, 2012. The Bonds will mature on the dates set forth on the inside cover page of this Official Statement.

The Bonds will be issuable as fully registered bonds in a book-entry system under which The Depository Trust Company (“DTC”), New York, New York, will act as securities depository nominee for the Bonds. Purchases and transfers of the Bonds may be made only in authorized denominations of \$5,000 and in accordance with the practices and procedures of DTC. See Appendix E hereto for a description of DTC and its book-entry system.

Redemption Provisions

The Bonds maturing on or prior to April 1, 2022, will not be subject to redemption prior to maturity. The Bonds maturing on April 1, 2023 and thereafter will be subject to redemption, at the option of the Town, from any moneys that may be made available for such purpose, either in whole or in part on any date not earlier than April 1, 2022, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

If less than all of the Bonds of any one maturity are called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot in such manner as the Town may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof and that, in selecting Bonds for redemption, each Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by \$5,000. So long as a book-entry system with DTC is used for determining beneficial ownership of Bonds, if less than all of the Bonds within a maturity are to be redeemed, DTC and its participants shall determine by lot which of the Bonds within such maturity are to be redeemed. If less than all of the Bonds stated to mature on different dates shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be called in such manner as the Town may determine.

Notice of redemption shall be given to DTC or its nominee, as the registered owner of the Bonds, not more than 60 nor less than 30 days prior to the date fixed for redemption in such manner as required by DTC. The Town will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee for so long as DTC or its nominee is the sole registered owner of the Bonds.

On the date fixed for redemption, notice having been given as hereinabove described, the Bonds or portions thereof called for redemption shall be due and payable at the redemption price provided therefor, plus accrued interest to such date. If moneys sufficient to pay the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption have been deposited by the Town to be held in trust for the registered owners of the Bonds or portions thereof to be redeemed, interest on the Bonds or portions thereof called for redemption shall cease to accrue. In addition, if a portion of a Bond has been selected for redemption, the registered owner of such Bond shall receive a new Bond or Bonds of the same maturity, an any authorized denomination or denominations, and bearing interest at the same rate for the unredeemed portion of the principal amount of such Bond.

Any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the Bond Registrar on or prior to the redemption date of moneys sufficient to pay the principal of and interest on the Bonds to be redeemed, and that if such moneys are not so received, such notice shall be of no force or effect and such Bond shall not be required to be redeemed. In the event

that such notice contains such a condition and moneys sufficient to pay the redemption price and interest on such Bonds are not received by the Bond Registrar on or prior to the redemption date, the redemption shall not be made and the Bond Registrar shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Authorization and Purpose

The Refunding Bonds are being issued pursuant to the provisions of The Local Government Bond Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina a bond order duly adopted by the Town Council on and a resolution passed by said Board prior to the sale of the Refunding Bonds for the purpose of providing funds for the refunding of the Bonds to be Refunded as described under "THE REFUNDING PLAN" herein.

The Public Improvement Bonds are being issued pursuant to bond orders duly adopted by the Town Council on May 14, 2012, and a resolution also adopted by the Town Council on May 14, 2012. The Public Improvement Bonds are being issued for the purpose of providing funds to pay the cost of improvement to streets bridges parks and recreation facilities

Security

The Bonds are general obligations of the Town. The Town is authorized by law to levy on all the real property and tangible personal property taxable by the Town such ad valorem taxes as may be necessary to pay the Bonds and the interest thereon without limitation as to rate or amount.

THE REFUNDING PLAN

The Refunding Bonds are being issued for the purpose of providing funds, together with other available funds, for refunding all or a portion of the following outstanding bonds of the Town (the "Bonds to be Refunded") and paying related expenses:

\$300,000 Parks and Recreational Facilities Bonds, Series 1996, stated to mature on April 1, 2013 to 2015, inclusive.

\$2,225,000 General Obligation Public Improvement Bonds, Series 2003, stated to mature on April 1, 2014 to 2021, inclusive.

\$2,200,000 General Obligation Public Improvement Bonds, Series 2004, stated to mature on April 1, 2015 to 2025, inclusive.

The proceeds to be received from the sale of the Bonds will be held in trust by _____, _____, North Carolina, as escrow agent, pursuant to an escrow deposit agreement between such escrow agent and the Town, and will be applied in such amounts so that sufficient moneys will be available to pay, on July 5, 2012, April 1, 2013 and April 1, 2014, respectively, the redemption price of and interest on the Bonds to be Refunded.

THE TOWN

General Description

The Town, incorporated in 1819, is in the north central portion of the State on the piedmont plateau. The Town is located southwest of the City of Durham and approximately 25 miles northwest of the City of Raleigh. The Town is the home of the University of North Carolina at Chapel Hill. Approximately 92.8 percent of the Town by area is located in Orange County and the remaining 7.2 percent is located in Durham County.

The Town covers an area of 21.3 square miles. The Town is empowered by statute to extend its corporate limits by annexation.

The Town conducts an ongoing planning and programming process through which it implements orderly expansion and management of the growth and development of the community. At present, the Town exercises zoning and building controls over a 27.6 square mile area that includes the corporate limits and a 6.32 square mile planning jurisdiction.



The growth of the Town has been directly related to the expansion of the University of North Carolina at Chapel Hill (the “University”). Enrollment at the University has risen from 8,791 in 1960 to 29,137 in 2011. It is anticipated that expansion will continue to occur in University-related health facilities such as the University of North Carolina Hospitals. Due to space constraints on its existing campus, the University is planning a new living and learning community in Chapel Hill, called Carolina North. Carolina North will occupy nearly 300 acres of land now used by Horace Williams Airport and will combine a world-class research park with academic buildings, residential areas, businesses, green space, and public schools. After engaging in extensive, long-range planning with the University, including a financial impact analysis, the Town Council approved a development agreement with the University on June 22, 2009 that includes the new campus to be built in phases over the next 50 years.

Demographic Characteristics

The United States Department of Commerce, Bureau of the Census, has recorded the population of the Town to be as follows:

<u>1990</u>	<u>2000</u>	<u>2010</u>
38,872	46,019	57,233

Per capita income data for Orange County and the State are presented in the following table:

<u>Year</u>	<u>County¹</u>	<u>State</u>
2006	\$41,881	\$33,373
2007	45,383	34,761
2008	47,847	35,741
2009	45,505	34,147
2010	46,713	35,007

¹Separate data for the Town are not available.

Source: United States Department of Commerce, Bureau of Economic Analysis. Most recent available data.

Commerce and Institutional Profile

The Town is characterized by a high degree of institutional and service-oriented activity. The University of North Carolina at Chapel Hill and the University of North Carolina Hospitals and their associated service, teaching and research programs have a national reputation for excellence in educational and medical fields. The Town is also the place of residence for many technical, professional and executive personnel who work in the Research Triangle Park and the neighboring communities of Durham and Raleigh.

The Triangle refers to an area located between three communities: the Town, the City of Durham and the City of Raleigh. Universities located in these communities include the University of North Carolina at Chapel Hill, Duke University in Durham, and North Carolina State University in Raleigh. The proximity of these universities makes the Triangle area suited to many types of academic research and industrial activities.

The Research Triangle Park, organized in 1959, is situated in the center of the triangle formed by the communities of Raleigh, Durham and Chapel Hill. The Park encompasses over 7,000 acres of land set aside for research and research-oriented manufacturing. Since its founding, the Park and

its surrounding areas have developed steadily. Presently located within the Park boundaries are approximately 170 research and development related organizations, employing over 38,000 people.

The Town adopted a new Land Use Management Ordinance in January 2003, which revised development regulations. The Town experienced a drop-off in major development applications while the new regulations were being formulated and immediately after their adoption. Typically, there is about a one-year lag between the Town's receipt of development applications and building permit issuance. For fiscal year 2011 the number of commercial and residential building permits increased from the prior year, however the total value of permits decreased for both. This is due to the impact of the economy on development, with a higher concentration of smaller commercial projects and more home renovations and additions. Building permits issued for commercial and residential construction in the Town are summarized below for the past five fiscal years:

Fiscal Year Ended June 30	COMMERCIAL		RESIDENTIAL	
	Number	Value	Number	Value
2007	108	\$ 30,211,808	488	\$44,178,782
2008	137	125,800,479	566	65,942,770
2009	112	38,173,897	496	54,395,935
2010	183	26,363,230	609	39,572,237
2011				

Source: Inspections Department of the Town.

The following table lists by corporate name, product or service and approximate number of employees the major businesses and institutional establishments in the Chapel Hill area:

<u>Company or Institution¹</u>	<u>Service or Product</u>	<u>Approximate Number of Employees</u>
*Duke University and Medical Center	Education, Research, Medical Care	33,705
University of North Carolina at Chapel Hill	Education Research	11,909
*IBM	Data Communications Equipment	10,000
University of North Carolina Hospitals	Medical Care, Research, Manufacturing/Distribution	7,971
*SAS Institute	Software Company	4,920
*Glaxo-Smithkline	Pharmaceutical Products	4,500
Blue Cross-Blue Shield of N.C.	Health Insurance	4,000
*Research Triangle Institute	Contractual Research	2,200
Chapel Hill-Carrboro Schools	Education	2,000
*Cree, Inc.	LED Lighting Equipment	2,000

*Located outside the Town's corporate limits in Durham, Cary or Research Triangle Park.

¹Most recent available data from 2010-2011.

Source: Company releases, Chapel Hill-Carrboro Chamber of Commerce, Greater Durham Chamber of Commerce, Research Triangle Regional Partnership.

Total taxable sales in the County for the fiscal years ended June 30, 2008 through 2011 are shown in the following table:

<u>Fiscal Year Ended June 30</u>	<u>Total Taxable Sales</u>	<u>Increase (Decrease) Over Previous Year</u>
2008	\$ 971,591,672	- %
2009	926,654,246	(4.63)
2010	987,769,036	6.60
2011	1,017,355,198	3.00

Source: North Carolina Department of Revenue, Sales and Use Tax Division. Most recent available data. Data for years prior to 2008 were not compiled in a comparable manner.

Employment

The North Carolina Employment Security Commission has estimated the percentage of unemployment in the Town to be as follows:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2009</u>	<u>2010</u>	<u>2011</u>
January	4.4%	5.4%	5.5%	5.1%	July	6.3%	6.2%	6.7%
February	5.3	5.2	5.3	5.1	August	6.0	5.9	6.8
March	4.6	5.1	5.2	N/A	September	5.7	5.0	6.2
April	4.8	5.1	5.0	N/A	October	5.5	4.7	5.6
May	5.5	5.3	5.5		November	5.7	4.8	5.2
June	6.2	6.1	6.9		December	5.6	5.0	5.2

Note: Separate Town data not available.

Government and Major Services

GOVERNMENT STRUCTURE

The Town has a Council-Manager form of government. The Town Council is comprised of a Mayor and an eight-member Council. All Council Members serve four-year terms. The Mayor and four Council Members are elected every two years. All elections are on a non-partisan basis. The Council appoints the Town Manager and Town Attorney. The Mayor presides over the Council meetings and has full voting privileges. The Town Manager is the chief administrative officer of the Town. Town departments are responsible to the Town Manager for the provision of public services.

EDUCATION

Public education is provided in the Town primarily by the Chapel Hill - Carrboro City School System which serves southeastern Orange County and, to a minor extent, by the Durham County School System for the small portion of the Town located in Durham County. The Chapel Hill-Carrboro City School System is governed by a Board consisting of seven members elected to four-year staggered terms. The Town has no financial responsibility for the schools. Revenue is derived from the Federal, State and County governments for school operations and capital facilities.

The table below shows the number of schools by level and average daily membership in the Chapel Hill-Carrboro City School System for the four year period beginning with the 2008-09 school year.

<u>School Year</u>	<u>Elementary Grades K-5</u>		<u>Intermediate Grades 6-8</u>		<u>Secondary Grades 9-12</u>	
	<u>No.</u>	<u>ADM*</u>	<u>No.</u>	<u>ADM*</u>	<u>No.</u>	<u>ADM*</u>
2008-09	10	5,268	4	2,688	3	3,674
2009-10	10	5,224	4	2,702	3	3,659
2010-11	10	5,288	4	2,712	3	3,675
2011-12	10	5,475	4	2,741	3	3,706

*Average Daily Membership (determined by actual records at the schools) is computed by the North Carolina Department of Public Education on a uniform basis for all public school units in the State. The average daily membership computations are used as a basis for teacher allotments and for distribution of local funds if there is more than one school unit within a County.

Source: Chapel Hill/Carrboro City Schools, Communication Department.

Note: Excludes hospital school enrollment.

TRANSPORTATION

Major expansion, maintenance and betterment of primary and secondary highways in the Federal and State highway systems within the Town limits are chiefly the State's responsibility, although the Town does participate on a limited basis in expansion projects. The Town also is responsible for a portion of the acquisition of rights-of-way for such expansion or betterment, related sidewalk improvements and street lighting. On June 30, 2011, approximately 61 miles of Town streets were on the State highway system.

Major expansion, maintenance and betterment of the local street system are the sole responsibility of the Town. Major expansions and betterments are financed with long-term bonds and current revenues. As of June 30, 2011, the Town maintained approximately 165 linear miles of streets.

The Town is served by U. S. Highway 15-501, which connects the Town with the City of Durham, and by Interstate 40 which connects the Town with the Research Triangle Park and the Raleigh-Durham International Airport. The triangle area is served by Interstate 85 extending northeast from Durham and west through Greensboro to Charlotte and Atlanta.

The Town operates a bus system that provides public transportation services to the Town and adjacent areas, including services to the Town of Carrboro and the University of North Carolina at Chapel Hill on a contractual basis. Effective January 1, 2002, the Town instituted the State's first fare free transportation system for passengers on all regular routes and services. Bus routes and stops are located so that 90% of all households are within one quarter mile of a bus stop. Two park-ride lots are established on the western perimeter of the Town to facilitate transportation in and out of the University and downtown area, and the Town completed construction of additional park-ride lots on the northern and southern perimeters in 1995. The system operates 98 buses during weekday peak periods, and shared-ride, demand responsive programs to provide evening services.

During the 2010-11 fiscal year, the bus system carried over 7.0 million passengers and had the highest per capita ridership in the State. The bus system is financed primarily with a special ad valorem tax levy, Federal and State operating and capital assistance, and contractual contributions

from the Town of Carrboro and the University. The Town receives Federal operating assistance from the Federal Transit Administration and State operating assistance which combined equals about 30% of eligible operating costs for the system.

The Raleigh-Durham International Airport (RDU) is a major regional airport serviced by ten major airlines and sixteen commuter airlines. Nearly 9.2 million people boarded or deplaned aircraft at this airport in 2011.

PUBLIC SERVICE ENTERPRISES

Water and Sewer Services — Water and sewer services are provided by the Orange Water and Sewer Authority. The Authority was created in 1975 by the Board of Commissioners of Orange County and the governing bodies of the towns of Chapel Hill and Carrboro for the purpose of acquiring, consolidating, improving and operating the existing water and sewer systems in the southern portion of the County. Prior to the formation of the Authority, water service was provided by the University of North Carolina at Chapel Hill and sewer service was provided by the towns in conjunction with the University. (See Notes to Financial Statements for further information regarding Orange Water and Sewer Authority.)

OWASA has adequate water supplies to meet current demand from its three present reservoirs. To address long-term water storage needs, OWASA in the 1980s received an allocation from the State of North Carolina for a portion of future water supply from a regional lake. In 2001, OWASA and a private company received approval for expansion of a stone quarry that will become a water supply reservoir by the year 2030.

Improvements to increase the filtration capacity of the OWASA's water treatment plant from 15 million gallons per day (MGD) to 20 MGD were completed in 2003. While peak-day demands have not exceeded present capacity, the trend of rising peak demand necessitated the expansion. Construction has been completed on the Mason Farm Water transmission lines with Jones Ferry Road expansion to 20 MGD. In 2009, the University and OWASA completed initial construction and testing of a new reclaimed water system that is used by the University for cooling towers at chiller plants. The new reclaimed water system is expected to eventually serve 15% of system needs, deferring the need for expansion of water supply and treatment capacity. The capacity of both treatment plants is, therefore, adequate to meet current needs, and additional system improvements including future plant expansions are planned through OWASA's 15-year capital program.

Parking Facilities — The Town owns and operates several off-street parking lots in the central business district including a parking facility with 309 spaces which was completed in 1993. The parking facilities operations are accounted for in separate enterprise funds and are self-supporting.

Sanitary Landfill — The County is responsible for administering and operating the Orange Regional Landfill, which also serves the Town and its residents. In 2010, the landfill achieved a waste reduction rate of 56%, a measure of both recycling efforts and resource conservation through means such as composting, reducing junk mail or taking reusable shopping bags to the store. The County has announced the closing of the Orange Regional Landfill effective June of 2013. The Town is planning other options for future solid waste disposal, particularly partnering with Durham County in use of its transfer station.

Debt Information

LEGAL DEBT LIMIT

In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, allowing for the issuance of all presently authorized bonds, including those being offered by this Official Statement, the Town has the statutory capacity to incur additional net general obligation debt in the approximate amount of \$_____. For a summary of certain constitutional, statutory and administrative provisions governing or relating to the incurrence of debt by units of local government of the State, see Appendix B.

OUTSTANDING GENERAL OBLIGATION DEBT

General Obligation Bonds	Principal Outstanding as of			
	June 30, 2009	June 30, 2010	June 30, 2011	March 31, 2012
Street	\$ 4,221,505	\$ 3,525,000	\$ 4,404,000 ¹	\$ 4,404,000 ²
Parks and Recreational Facilities	4,892,215	2,540,397	5,184,089 ¹	5,184,089 ²
Refunding	—	4,460,000 ¹	3,725,000	3,000,000
Other	<u>8,301,280</u>	<u>4,759,603</u>	<u>20,796,911</u> ¹	<u>20,796,911</u>
Total Debt Outstanding	<u>\$17,415,000</u>	<u>\$15,285,000</u>	<u>\$34,110,000</u>	<u>\$33,385,000</u>

¹Bonds Issued:

2009-10 \$4,490,000 General Obligation Refunding Bonds, Series 2009, 4.17 years average maturity, 1.7356% true interest cost.

2010-11 \$8,160,000 General Obligation Public Improvement Bonds, Series 2010A, 10.97 years average maturity, 3.8043% true interest cost.

\$12,250,000 Taxable General Obligation Public Improvement Bonds, Series 2010B, 10.97 years average maturity, 2.6247% true interest cost.

²A portion of these bonds will be refunded with the proceeds of the Refunding Bonds now being offered. See “The Refunding Plan” herein.

GENERAL OBLIGATION DEBT RATIOS

<u>At July 1</u>	<u>Total GO Debt</u>	<u>Assessed Valuation</u>	<u>Total GO Debt to Assessed Valuation</u>	<u>Population¹</u>	<u>Total GO Debt Per Capita</u>
2007	\$21,630,000	\$5,659,756,385	.38%	53,416	\$404.93
2008	19,520,000	5,825,629,754	.34	54,904	355.53
2009	17,415,000	7,047,493,142	.25	55,616	313.13
2010	15,285,000	7,145,727,028	.21	57,233 ²	267.07
2011	34,110,000	7,257,544,110 ²	.47	57,233 ²	595.98
<hr/>					
After the Bonds now offered are issued	\$33,480,000 ^{4,5}	\$7,257,544,110	.46%	57,233 ³	\$584.10
<hr/>					

¹Estimates of North Carolina Office of State Budget and Management.

²United States Department of Commerce, Bureau of the Census.

³For purposes of this schedule, the 2010 population is being used.

⁴Does not include the Bonds to be Refunded as described under “The Refunding Plan” herein.

⁵The principal amount of the Bonds now being offered is subject to change as described in the Notice of Sale.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS AND MATURITY SCHEDULE

<u>Fiscal Year</u>	<u>Existing Debt¹</u>		<u>Bonds Now Offered²</u>
	<u>Principal</u>	<u>Principal & Interest</u>	
2011-12	\$ 2,595,000	\$ 3,862,347.50	\$
2012-13	2,575,000	3,774,547.50	215,000
2013-14	2,560,000	3,674,672.50	510,000
2014-15	2,345,000	3,385,447.50	735,000
2015-16	2,060,000	3,020,035.00	625,000
2016-17	2,055,000	2,945,760.00	615,000
2017-18	2,050,000	2,871,435.00	610,000
2018-19	2,045,000	2,785,060.00	600,000
2019-20	1,770,000	2,441,210.00	585,000
2020-21	1,595,000	2,200,260.00	400,000
2021-22	1,470,000	2,013,870.00	295,000
2022-23	1,470,000	1,955,277.50	290,000
2023-24	1,470,000	1,895,352.50	285,000
2024-25	1,470,000	1,833,977.50	280,000
2025-26	1,270,000	1,571,637.50	85,000
2026-27	1,220,000	1,467,152.50	85,000
2027-28	1,020,000	1,213,772.50	85,000
2028-29	1,020,000	1,166,852.50	85,000
2029-30	1,025,000	1,123,912.50	85,000
2030-31	1,025,000	1,075,225.00	85,000
2031-32			85,000
	<u>\$ 34,110,000</u>	<u>\$ 46,277,805.00</u>	<u>\$ 6,640,000</u>

¹Includes Bonds to be Refunded.

²Preliminary; subject to change.

GENERAL OBLIGATION BONDS AUTHORIZED AND UNISSUED

<u>Purpose</u>	<u>Date Approved</u>	<u>Bonds Authorized and Unissued</u>	<u>Bonds Now Offered</u>	<u>Balance</u>
Refunding	04/17/2012	\$ 5,500,000	\$ 4,940,000 ¹	\$560,000
Streets and Bridges	05/14/2012	1,000,000	1,000,000	—
Parks and Recreation	05/14/2012	<u>700,000</u>	<u>700,000</u>	<u>—</u>
		\$ 7,200,000	\$ 6,640,000	\$560,000

¹Preliminary; subject to change. The Town does not expect to issue the remaining authorized and unissued Refunding Bonds.

GENERAL OBLIGATION DEBT INFORMATION FOR OVERLAPPING UNIT AS OF MARCH 31, 2012

<u>Unit</u>	<u>2010 Population¹</u>	<u>Assessed Valuation</u>	<u>Tax Rate Per \$100²</u>	<u>Debt Authorized and Unissued</u>		<u>Total GO Debt²</u>		<u>Total GO Debt Per Capita</u>
				<u>Utility</u>	<u>Other</u>	<u>Utility</u>	<u>Other</u>	
Orange County	134,325	\$15,681,745,127	\$.858	\$ —	\$ —	\$ —	\$ 98,010,000	\$729.65

¹Estimate of North Carolina Office of State Budget and Management.

²Does not include non-general obligation debt.

OTHER LONG-TERM COMMITMENTS

The Town issued \$26,000,000 in Certificates of Participation (“COPS”) in June 2006 to finance a new Town Operations Center, primarily for public works operations, which was largely completed in 2007. The COPS are not general obligations of the Town, but payments are subject to annual appropriations. Maturities of the COPS are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,365,000	\$ 979,713	\$ 2,344,713
2012	1,360,000	928,525	2,288,525
Thereafter	<u>17,680,000</u>	<u>6,020,524</u>	<u>23,700,524</u>
	<u>\$ 20,405,000</u>	<u>\$ 7,928,762</u>	<u>\$ 28,333,762</u>

The Town refinanced \$6,690,000 in Parking Facilities Refunding Certificates of Participation (“Parking COPS”) in September 2003. The Parking COPS are not general obligations of the Town, but payments are subject to annual appropriations. The Town intends to fund the Parking COPS debt service from parking enterprise revenues. Maturities of the Parking COPS are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 280,000	\$ 178,525	\$ 458,525
2012	295,000	168,073	463,073
Thereafter	<u>4,320,000</u>	<u>1,025,639</u>	<u>5,345,639</u>
	<u>\$4,895,000</u>	<u>\$1,372,237</u>	<u>\$6,267,237</u>

DEBT OUTLOOK

The Town is also committed to up to \$7.2 million in future debt for a \$55 million public/private development project to construct a three-section building complex combining condominiums, retail and underground parking. In addition to retail space, the project will include 140 condominiums with 18 affordable housing units which will be placed in a land trust, nearly 30,000 square feet of office/retail space, and 337 parking spaces. The Town will retain ownership of the site with a land lease and will own 161 parking spaces with 169 spaces for condominium owners. Construction of this project began in Spring of 2011 and is scheduled for completion January 2013. The Town is planning to obtain financing for its contribution in the next several months.

The Town reviews its capital needs, and potential funding sources, on an on-going basis. The Town, however, does not anticipate any additional substantial borrowing in the next three fiscal years.

Tax Information

GENERAL INFORMATION

	Fiscal Year Ended/Ending June 30			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012*</u>
Assessed Valuation:				
Assessment Ratio ¹	100%	100%	100%	100%
Real Property	\$5,298,191,253	\$6,518,497,421	\$6,643,373,841	\$6,722,937,883
Personal Property	463,760,343	461,347,945	439,861,938	471,374,214
Public Service Companies ²	<u>63,678,158</u>	<u>67,647,776</u>	<u>62,491,249</u>	<u>63,232,013</u>
Total Assessed Valuation	\$5,825,629,754	\$7,047,493,142	\$7,145,727,028	\$7,257,544,110
Rate per \$100 ³	.581	.494	.581	.494
Levy	\$ 33,809,354	\$ 34,953,187	\$ 35,435,222	\$ 35,852,268

*Unaudited estimates for 2011-12 budget year.

¹Percentage of appraised value has been established by statute.

²Valuation of railroads, telephone companies and other utilities as determined by North Carolina Property Tax Commission.

³Rate includes an amount which goes to the Transit Fund to finance a portion of the operating expense of the Town's bus system, and effective in fiscal year 2009, a portion is dedicated to debt service as follows:

Fiscal Year	General Fund Rate (cents per \$100)	Transit Rate (cents per \$100)	Debt Rate (cents per \$100)	Total Rate (cents per \$100)
2005-06	47.4	4.8	0.0	52.2
2006-07	47.4	4.8	0.0	52.2
2007-08	47.4	4.8	0.0	52.2
2008-09	42.3	4.8	11.0	58.1
2009-10	36.0	4.1	9.3	49.4
2010-11	36.0	4.1	9.3	49.4
2011-12	37.8	4.1	7.5	49.4

Note 1: The Town created a Municipal Service District effective July 1, 1989 which has a current tax rate of \$0.071 for improvements and services in the downtown area.

Note 2: Revaluation of real property was effective with the 2010 tax levy.

The Town is authorized by statute to levy ad valorem taxes on the assessed value of real property within its corporate limits. Taxation for operating purposes may not exceed \$1.50 per \$100 assessed valuation unless the voters approve a higher rate except for the following applicable purposes; debt service, deficits, and joint undertakings with any other town, city or political subdivi-

sion in providing any of the above functions, services or activities, for which unlimited taxes may be levied.

TAX COLLECTIONS

<u>Year Ended June 30</u>	<u>Prior Years' Levies Collected</u>	<u>Current Year's Levy Collected</u>	<u>Percentage of Current Year's Levy Collected</u>
2008	\$115,691	\$30,240,782	99.82%
2009	127,388	33,779,684	99.43
2010	152,537	34,836,717	99.20
2011	191,998	35,284,111	99.10
At 03/31/2012			

TEN LARGEST TAXPAYERS FOR FISCAL YEAR 2010-11

<u>Name</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Percentage of Total Assessed Valuation</u>
Chapel Hill Foundation (University Square)	Shopping Center	\$ 45,447,501	\$ 224,511	0.63%
East 54 Associates	Development	37,873,736	187,096	0.53
Blue Cross and Blue Shield of North Carolina	Health Insurance	37,283,898	184,182	0.52
VAC Limited Partnership	Apartment Rental	36,934,879	182,458	0.52
Corium LLC	Health Insurance	35,399,117	174,872	0.49
ACC GF III Chapel Ridge /Chapel View	Apartment Rental	35,159,298	173,687	0.49
Madison University Mall Properties	Shopping Center	34,182,311	168,861	0.48
Duke Energy Corporation	Public Utility	30,309,770	149,730	0.42
Europa Center LLC	Office Building	27,814,759	137,405	0.39
Southern Village Apartments	Apartment Rental	<u>25,076,720</u>	<u>123,879</u>	<u>0.35</u>
		\$ 345,481,989	\$ 1,706,681	4.8%

2011-12 Budget Outlook

The adopted budget for 2011-12 maintains services at generally the same level as prior years without an increase in property taxes.

To provide a budget that met Council's objectives of no tax increase while maintaining core services, the following strategies were employed:

- Manage spending during the current year (2010-11) to provide additional fund balance to offset potential revenue shortfalls in next year's (2011-12) budget;
- Concentrate efforts on maintaining core service levels and a compensation plan that retains experienced employees. This included providing a flat rate one-time pay adjustment of \$800 to all employees;
- Use a limited amount of fund balance to balance the FY2011-12 Budget so that we do not fall below the 12% fund balance target established by Council;
- Forego additional OPEB liability funding until the budget has achieved equilibrium;
- Reduce capital expenditures to minimal levels;
- Rebalance the distribution of property taxes to provide additional operating funds;

- Use non-general fund revenue sources to fund operations that traditionally have been funded through the annual operating budget. This includes the use of \$600,000 in bonds funds for street resurfacing that would have normally been paid for through the Public Works operating budget.

The Town's Budget is balanced using these strategies, some of which are short-term solutions that are not sustainable strategies in the long-term.

General Fund Budget Reduction

A concerted effort to reduce spending resulted in a General Fund adopted budget that was more than \$2 million dollars less than the 2010-11 adopted budget. This reduction was achieved by delaying hiring for open positions and reducing discretionary spending, including deferring replacement of equipment. The reduction in budgeted expenditures and the strategies described above allowed the Town to balance the 2011-12 Budget using less about \$1 million in fund balance. This is in contrast to prior years when as much as \$5 million of fund balance was used to balance the adopted General Fund Budget.

Employee Costs

Personnel costs are by far the largest expense in the General Fund Budget, representing almost 70% of total budgeted expenditures. Although salaries have been held at relatively the same level since the economic downturn, employee health insurance has averaged double digit increases annually over the last five years. To address this trend in health care cost, the Town has entered into a partnership with UNC Healthcare to develop and implement a unique and innovative approach to delivering health care to employees that we believe will ultimately improve employee health, make our employees better consumers of health care services and significantly reduce our costs.

The Health Care Initiative provides an on-site clinic that will serve as a first line care provider for non-emergency employee health needs and a wellness/health risk assessment program that will help identify and treat employee health issues before they become debilitating both physically and financially. We have chosen to invest in employee health and safety as a means to controlling healthcare expenditures. Through this effort and other minor changes made to our medical insurance plan the Town has been able to reverse the cost trend and for 2012-2013 the cost is going down by 3%.

Property Tax Rates

Over-all property tax rates are unchanged, however 1.8 cents was shifted from the Debt Fund to the General Fund.

	<u>2010-11</u>	<u>2011-12</u>
General Fund	36.0	37.8 (cents per \$100 of assessed valuation)
Debt Fund	9.3	7.5
Transit	<u>4.1</u>	<u>4.1</u>
Total	49.4	49.4
Downtown		
Special District	7.1	7.1

Pension Plans

The Town participates in the North Carolina Local Governmental Employees' Retirement System and three other pension plans.

North Carolina Local Governmental Employees' Retirement System — The North Carolina Local Governmental Employees' Retirement System (the "System") is a service agency administered through a board of trustees by the State for public employees of counties, cities, boards, commissions and other similar governmental entities. While the State Treasurer is the custodian of System funds, administrative costs are borne by the participating employer governmental entities. The State makes no contributions to the System.

The System provides, on a uniform System-wide basis, retirement and, at each employer's option, death benefits from contributions made by employers and employees. Employee members contribute six percent of their individual compensation. Each new employer makes a normal contribution plus, where applicable, a contribution to fund any accrued liability over a 24-year period. The normal contribution rate, uniform for all employers, is currently 6.35 percent of eligible payroll for general employees and 6.82 percent of eligible payroll for law enforcement officers. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employees' service rendered prior to the date the employer joins the system.

Members qualify for a vested deferred benefit at age 50 with at least 20 years of service or at age 60 after at least five years of creditable service to the unit of local government. Unreduced benefits are available: at age 65, with at least five years of creditable service; at age 60, with at least 25 years of creditable service; or after 30 years of creditable service, regardless of age. Benefit payments are computed by taking an average of the annual compensation for the four consecutive years of membership service yielding the highest average. This average is then adjusted by a percentage formula, by a total years of service factor, and by an age service factor if the individual is not eligible for unreduced benefits.

Contributions to the system are determined on an actuarial basis.

For additional information concerning the Town's participation in the North Carolina Local Governmental Employees' Retirement System see the Notes to the Basic Financial Statements of the Town in Appendix D.

Financial statements and required supplementary information for the North Carolina Local Governmental Employees' Retirement System are included in the Comprehensive Annual Financial Report ("CAFR") for the State. Please refer to the State's CAFR for additional information.

Other Pension Plans — The Town also participates in the (1) Law Enforcement Officers' Special Separation Allowance, (2) Supplemental Retirement Income Plan for Law Enforcement Officers and (3) Supplemental Retirement Income Plan for all Other Employees. For information concerning the Town's participation in such plans see the Notes to the Basic Financial Statements of the Town in Appendix D.

Other Post-Employment Benefits

For employees hired on or before June 30, 2010, the Town contributes to employee health insurance and allows employees to participate in a dental insurance program. Pursuant to a Town resolution, the Town provides postretirement health and dental benefits to retirees and Town Council members of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System and have at least five years of creditable service with the Town. The Town pays the full cost of coverage for employees who retire with 20 years of creditable service; 75% of the

cost of coverage for retirees with 15 years of creditable service; 50% of the cost of coverage for retirees with 10 years of creditable service, and 25% of the cost for retirees with 5 years of creditable service. When they reach the age of 65, Town retirees are eligible for the Medicare supplement reimbursement. The retiree must have been covered under the Town's health plan immediately before reaching age 65.

In an effort to manage the future liability for retiree health benefits, the Council adopted a change to retiree health benefits for employees who are hired after June 30, 2010. Those employees will take part in a defined contribution plan, wherein the town will contribute \$35 per biweekly payroll and the employees will contribute 1% of pre-tax earnings to a retiree health savings plan for the employees. Participation is mandatory and the employee's portion is portable if the employee leaves the Town before retirement. The employer's portion vests according to the following schedule.

25%	After 5 years
50%	After 10 years
75%	After 15 years
100%	After 20 years

It is anticipated that this change will, over time, reduce the Town's OPEB liability as employee turnover increases the proportion of employees in the defined contribution plan.

The Town contracted with an actuarial firm for an actuarial study on the other post-employment benefits (OPEB) through December 31, 2010 and in accordance with ASB 45, the Town's financial statements for FY11 reported the annual required contribution (ARC) to fund the future liability for employee health insurance. The actuarial study determined that the Town's total liability is about \$64.3 million, and its annual required contribution is \$3,156,632. The Town has historically funded health benefits for retirees on a pay as you go basis. For the year ended June 30, 2011, the Town paid \$1,045,669 for retiree health benefits.

Litigation

The Town is not a party to any litigation, the outcome of which, in the opinion of the Town Attorney, would materially adversely affect the Town's ability to meet its financial obligations.

CONTINUING DISCLOSURE

In a resolution adopted by the Town, the Town has undertaken, for the benefit of the beneficial owners of the Bonds, to provide to the Municipal Securities Rulemaking Board ("MSRB"), the following:

- (a) by not later than seven months from the end of each fiscal year of the Town, audited financial statements of the Town for such fiscal year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the Town are not available by seven months from the end of such fiscal year, unaudited financial statements of the Town for such fiscal year to be replaced subsequently by audited financial statements of the Town to be delivered within 15 days after such audited financial statements become available for distribution;
- (b) by not later than seven months from the end of each fiscal year of the Town, (i) the financial and statistical data as of a date not earlier than the end of the preceding fiscal year for the type of information included under heading "The Town - Debt Information and Tax Information" in this Official Statement (excluding any information on overlapping or underlying units) and (ii) the combined budget of the Town for the current fiscal year, to the extent such items are not included in the audited financial statements referred to in (a) above;

- (c) in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:
- (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
 - (7) modification to rights of the beneficial owners of the Bonds; if material;
 - (8) Bond calls other than mandatory sinking fund redemptions, if material, and tender offers;
 - (9) defeasance of any of the Bonds;
 - (10) release, substitution or sale of any property securing repayment of the Bonds;
 - (11) rating changes;
 - (12) bankruptcy, insolvency, receivership or similar proceedings related to the Town or any other person or entity that may at any time become legally obligated to make payments on the Bonds (collectively, the "Obligated Persons");
 - (13) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of an Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; and
- (d) in a timely manner, to the MSRB, notice of a failure of the Town to provide required annual financial information described in (a) or (b) above on or before the date specified.

The Town shall provide the documents referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The Town may discharge its undertaking described above in any manner that the U.S. Securities and Exchange Commission subsequently authorizes in lieu of the manner described above.

At present, Section 159-34 of the General Statutes of North Carolina requires the Town's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The resolution to be adopted by the Town will also provide that if the Town fails to comply with the undertaking described above, any beneficial owner of the Bonds then outstanding may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an event of default and shall not result in any acceleration of payment of the Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Bonds.

Pursuant to such resolution, the Town will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Town, provided that:

- (a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Town;
- (b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12") as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and
- (c) any such modification does not materially impair the interests of the beneficial owners, as determined either by parties unaffiliated with the Town (such as bond counsel), or by the approving vote of the registered owners of a majority in principal amount of the Bonds then outstanding pursuant to the terms of such resolution, as it may be amended from time to time, at the time of the amendment.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Bonds.

The Town has not failed to provide any information required to be provided by any undertaking previously made by the Town pursuant to the requirements of Rule 15c2-12.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters related to the authorization and issuance of the Bonds are subject to the approving legal opinion of Sanford Holshouser LLP, Carrboro, North Carolina, Bond Counsel for the Town ("Bond Counsel"). Bond Counsel's approving legal opinions will be provided at the Town's expense and will be available at the time of the delivery of the Bonds.

The proposed form of Bond Counsel's approving opinion on the Refunding Bonds is attached as Appendix E. The approving opinion on the Public Improvement Bonds will be in substantially the same form.

Bond Counsel's approving legal opinion expresses Bond Counsel's professional judgment as to the legal issues explicitly addressed in the opinion. By rendering a legal opinion, an opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Additionally, the render-

ing of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction and a bond opinion is not a statement (either expressly or by implication) concerning the marketability, value or likelihood of payment of the Bonds.

Bond Counsel has not been engaged to investigate the Town's operations or condition or the Town's ability to provide for payments on the Bonds. Bond Counsel will express no opinion (1) as to the Town's ability to provide for payments on the Bonds, or (2) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase Bonds, including this Official Statement. In this transaction, Bond Counsel will serve only as bond counsel to the Town, and will not represent any bidder or the purchaser of the Bonds.

RATINGS

Moody's Investors Service, Standard & Poor's Ratings Services, and the North Carolina Municipal Council have given the Bonds ratings of _____, _____, and _____ respectively. Those ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained only from the respective organization providing such rating. Certain information and materials not included in the Official Statement were furnished to such organizations. There is no assurance that such ratings will remain in effect for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any downward revision or withdrawal of a rating may have an adverse effect on the market prices of the Bonds.

TAX TREATMENT

Opinion of Bond Counsel. In the opinion of Sanford Holshouser LLP, Carrboro, North Carolina, Bond Counsel for the Town ("Bond Counsel"), under existing law, interest on the Bonds (1) will not be included in gross income for federal income tax purposes, (2) will not be a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations, and (3) will be exempt from existing State of North Carolina income taxation. Bond Counsel will express no other opinion regarding the federal or North Carolina tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel will give its opinion in reliance upon certifications by Town representatives and others as to certain facts relevant to the opinion. The Town has covenanted to comply with the provisions of the Internal Revenue Code of 1986, as amended through the date of delivery of the Bonds (the "Code"), regarding, among other matters, the use, expenditure and investment of the proceeds derived from the sale of the Bonds and the timely payment to the United States of any arbitrage profit with respect to the Bonds. The Town's failure to comply with such covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Discount Bonds and Premium Bonds. _____, as lead underwriter, has advised the Local Government Commission of North Carolina that the initial public offering prices of the Bonds maturing on _____ 1, _____ to _____ inclusive, (the "Discount Bonds"), are less than the respective amounts payable at maturity. An amount not less than the difference between the initial public offering prices of the Discount Bonds and the amounts payable at maturity constitutes original issue discount ("OID"). Owners of Discount Bonds should consult their own tax advisors as to the determination for federal tax purposes of the amount of OID properly accruing each year with respect to the Discount Bonds and as to federal tax consequences and the treatment of OID for State of North Carolina and local tax purposes.

_____, as lead underwriter, has also advised the Local Government Commission of North Carolina that the initial public offering prices of the Bonds maturing on _____ 1, _____ to _____, inclusive, (the "Premium Bonds"), are greater than the amounts payable at maturity. The difference between the amount payable at maturity of the Premium Bonds and the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds Premium Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases the Premium Bonds at the initial offering price is "Bond Premium." Bond Premium is amortized over the term of the Premium Bonds for federal income tax purposes. Owners of the Premium Bonds are required to decrease their adjusted basis in the Premium Bonds by the amount of amortizable Bond Premium attributable to each taxable year the Premium Bonds are held. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of the Premium Bonds and with respect to State of North Carolina and local tax consequences of owning and disposing of the Premium Bonds.

Bond Counsel's opinion will not specifically address the tax treatment of OID or Bond Premium, or the status of any particular receipt or payment as the receipt or payment of OID or Bond Premium.

Other Tax Consequences. In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, certain S corporations, certain foreign corporations subject to the branch profits tax, corporations subject to the environmental tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Interest on the Bonds may or may not be subject to state or local taxation in jurisdictions other than North Carolina. Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any such jurisdiction other than North Carolina.

FINANCIAL ADVISOR

Davenport & Company LLC has acted as financial advisor to the Town in connection with the issuance of the Bonds and has assisted in structuring the Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

_____, _____, _____, a firm of independent public accountants, will deliver to the Town its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, information and assertions provided by the Town and its representatives. Included in the scope of its examination will be a verification of the accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of, and interest on, the United States Treasury Investments deposited in the escrow fund to pay, when due, called principal of, interest on and related call premium requirements of the Bonds to be Refunded.

UNDERWRITING

The underwriters for the Bonds are _____

_____.*

The underwriters have jointly and severally agreed, subject to certain conditions, to purchase all but not less than all of the Bonds. If all of the Bonds are sold at the public offering yields set forth on the inside cover page of this Official Statement, the underwriters anticipate total selling compensation of _____.* The public offering prices or yields of the Bonds may be changed from time to time by the underwriters.

*Information provided by underwriters.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact.

References herein to the State Constitution and legislative enactments are only brief outlines of certain provisions thereof and do not purport to summarize or describe all provisions thereof.

The execution of this Official Statement has been duly authorized by the Local Government Commission of North Carolina and the Town Council of the Town.

**LOCAL GOVERNMENT COMMISSION
OF NORTH CAROLINA**

By
T. Vance Holloman
Secretary of the Commission

TOWN OF CHAPEL HILL, NORTH CAROLINA

By
Mark Kleinschmidt
Mayor

By
Roger L. Stancil
Town Manager

By
Kenneth C. Pennoyer
Director of Business Management

[Proposed form of bond counsel's opinion on Refunding Bonds]

June ____, 2012

Town of Chapel Hill, North Carolina

\$ _____
Town of Chapel Hill, North Carolina
General Obligation Refunding Bonds, Series 2012

Ladies and Gentlemen:

We have acted as bond counsel to the Town of Chapel Hill, North Carolina (the "Town"), in connection with the Town's issuance today of the above-captioned bonds (the "Bonds"). The Town is and has been our only client in this transaction.

We have examined the applicable law and certified copies of proceedings and documents relating to such issuance. Without undertaking to verify the same by independent investigation, we have relied on (1) computations provided to The Arbitrage Group, Inc., Buhl, Alabama, the mathematical accuracy of which has been verified by them, relating to the yield of investments in an escrow fund established in connection with the issuance of the Bonds, the sufficiency of such investment to pay the Refunded Bonds (as defined below) when due and the yield on the Bonds, and (2) representations and certifications by representatives of the Town, the North Carolina Local Government Commission (the "LGC") and others as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code").

The Bonds are being issued to pay principal, applicable redemption premium and interest on certain outstanding maturities of the Town's General Obligation Bonds, Series 1996, Series 2003 and Series 2004, as more fully described in the proceedings and documents relating to the issuance of the Bonds.

The Town has made certain covenants (the "Covenants") in the proceedings and documents providing for the issuance of the Bonds and the Town's \$_____ Public Improvement Bonds, Series 2012 (the "Two-Thirds Bonds"), which the Town expects to issue on July 3, 2012, to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the Two-Thirds Bonds and the timely payment of any arbitrage rebate required under the Code.

We have assumed the capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as copies or specimens.

Based on the foregoing, as of today and under existing law, we are of the following opinions:

1. The Bonds have been duly authorized and issued. The Bonds are legal, valid and binding obligations of the Town, enforceable in accordance with their terms. The Town's faith and credit are pledged for the payment of principal of and interest on the Bonds, and the Town is authorized to levy and collect ad valorem taxes, without restriction as to rate or amount, on all locally taxable property to pay the principal of and interest on the Bonds.

Our opinion as set forth in paragraph 1 is subject to the effect (a) of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, and (b) of general principles of equity, regardless of whether applied in a proceeding in equity or at law.

2. Interest on the Bonds paid by the Town (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations. The Town's failure to comply with the Covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

3. Interest on the Bonds is exempt from existing State of North Carolina income taxation.

We express no opinion regarding other federal or North Carolina tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Our services as bond counsel have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we have deemed necessary to evaluate the legality, validity and enforceability of the Bonds and to evaluate the status of the interest on the Bonds under the federal and North Carolina tax laws referenced above.

We have not made any investigation concerning the Town's operations or condition. We express no opinion (a) as to the Town's financial condition or its ability to provide for payments on the Bonds, (b) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase Bonds, including the LGD's Official Statement with respect to the Bonds, or (c) as to any party's compliance with any terms or conditions precedent to any purchase of Bonds.

This opinion is based on constitutional and statutory provisions and judicial decisions existing today. We assume no responsibility to update this opinion or take any other action with regard to changes in facts, circumstances or the applicable law.

Very truly yours,

[To Be Signed, "Sanford Holshouser LLP"]

DTC's Book-Entry System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each stated maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmations from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into their transactions. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest and any redemption premium payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or the Bond Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC, the Town or the Bond Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest and any redemption premium to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or the Bond Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Town or the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates will be printed and delivered.

The Town may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from DTC, and neither the Commission nor the Town takes responsibility for the accuracy thereof.