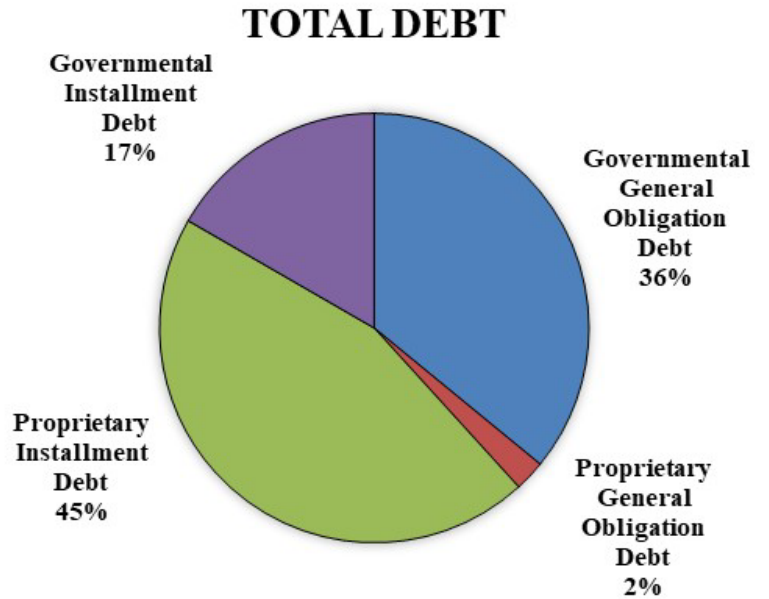


## ***DEBT SERVICE FUND***

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The Debt Service Fund accounts for the principal and interest payments for the Town's general obligation bonds and limited obligation bonds issued for projects such as the construction of the Town Operations Center and the 140 West Downtown Initiative.



# DEBT & BOND RATINGS

## Outstanding Debt

As of June 30, 2022, the Town had about \$104 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 August 2021, the Town issued \$58.2 million in Limited Obligation Bonds (LOBS) as follows: \$39.4 million for the East Rosemary Parking Deck, an 1,100-space deck, \$6.5 million for Phase II of the Ephesus Fordham public improvements, \$1.5 million for the refunding of the 2015 installment purchase agreement, and \$10.8 million for the refunding of the 2012 LOBS.

In May 2021, the Town issued \$3.205 million of G.O. two-thirds bonds for parks and recreation, public safety, and streets and sidewalks projects.

In May 2021, the Town also issued \$4.755 million of G.O. Bonds for affordable housing projects including 2200 Homestead Road, Weavers Grove Development, and the Johnson Street Apartments.

In November 2019, the Town sold \$9.505 million of G.O. refunding bonds to pay off the remaining 2010 Build America Bonds that were issued for the library expansion. The refunding bonds sold at a very competitive interest rate of 1.42% resulting in net present value savings of \$784,954.

In April 2018, the Town closed on \$12.5 million of G.O. bonds. The G.O. Bonds were issued for the following uses: Stormwater \$2,700,000, Parks & Recreation \$4,300,000, and Streets & Sidewalks \$5,500,000

In February 2017, the Town closed on \$1.46 million of Two-thirds Public Safety bonds 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, 2022
<b>Governmental Debt</b>		
General obligation debt	\$	33,422,000
Limited Obligation Bonds		10,694,000
Installment debt		4,819,000
Separation allowance		7,312,000
Compensated absences		<u>2,979,000</u>
<b>Total</b>	<b>\$</b>	<b><u>59,226,000</u></b>
<b>Proprietary Fund Debt</b>		
Enterprise Funds		
General obligation debt	\$	2,160,000
Limited Obligation Bonds		38,531,000
Installment debt		3,383,000
Compensated absences		<u>786,000</u>
<b>Total</b>	<b>\$</b>	<b><u>44,860,000</u></b>

## ***DEBT & BOND RATINGS***

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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 and 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%.

In February 2013, the Town sold \$3.05 million of 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.

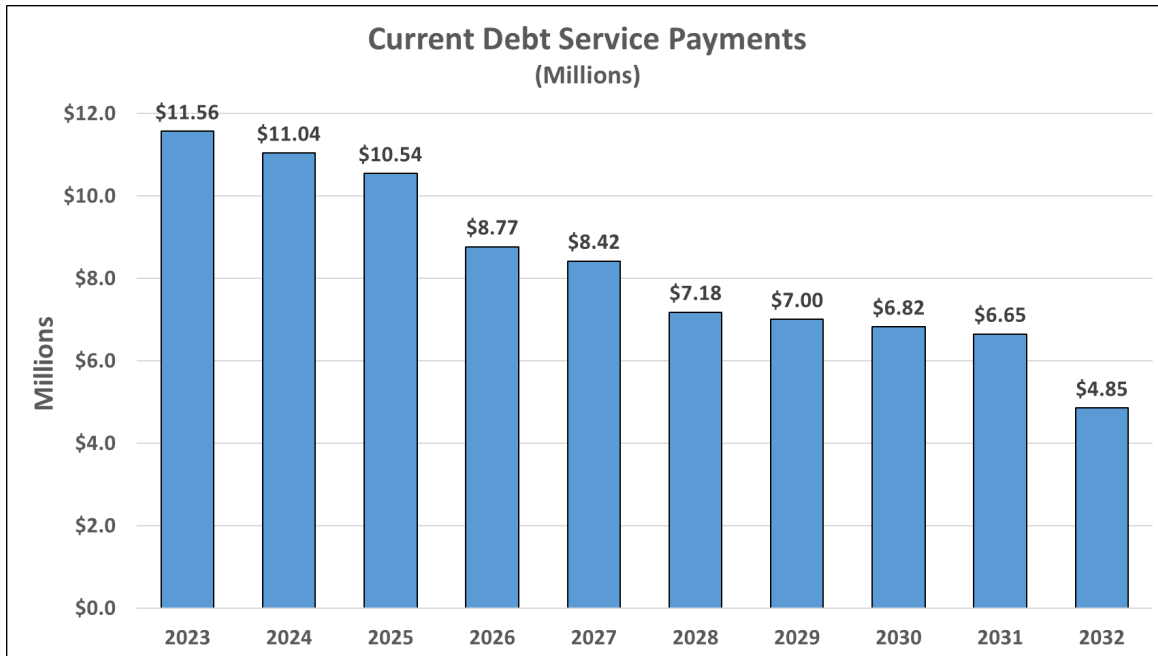
In June 2012, the Town sold \$6.9 million of Limited Obligation Bonds (LOBs) to finance the Town's portion of the 140 West parking garage, other parking improvements and improvements to the Town's Operation Center. The transaction included refunding of approximately \$24 million of existing installment 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%.

### **Current Debt Obligations**

The Town has a rapid pay-down of existing debt typically in the 70% - 80% of existing debt scheduled to be retired within 10 years. With the issuance of the 2021 Limited Obligation Bonds, the 10-year payout is currently 65.4%. 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:

# DEBT & BOND RATINGS



*(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, 2022, and the balance of the authority remaining is shown in the following table.

BOND ORDER	AUTHORITY	ISSUED	BALANCE
Affordable Housing	\$ 10,000,000	\$ 4,755,000	\$ 5,245,000
<b>Total</b>	<b>\$ 10,000,000</b>	<b>\$ 4,755,000</b>	<b>\$ 5,245,000</b>

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, 2022, 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
<b>Total</b>	<b>\$ 40,300,000</b>	<b>\$ 21,500,000</b>	<b>\$ 18,800,000</b>

# ***DEBT & BOND RATINGS***

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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 several affordable housing projects including: Jay Street, a three-story apartment building, the redevelopment of Trinity Court, a public housing community, and partnerships with local non-profits for affordable housing opportunities for a total of about \$5 million. It is expected that these projects will be financed in winter 2023.
- The Town is currently in the planning process for several Streets & Sidewalks projects including: Fordham Sidepath, Estes Drive (Carrboro to MLK), Bolinwood Drive bridge replacement, street resurfacing projects, streetscapes, North Street/MLK Intersection improvements, 100 & 600 block sidewalks on West Franklin Street, Ephesus Church Road sidewalk, Seawell School Road sidewalk and Homestead Road sidewalk for a total of about \$7.7 million. It is expected that these projects will be financed in winter 2023.
- 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 2024.

## **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, 2022, the Town had \$35,582,000 in outstanding G.O. Bonds that apply to this limit. The total is less than 1% of the Town’s June 30, 2022 tax base (\$9.450 billion).

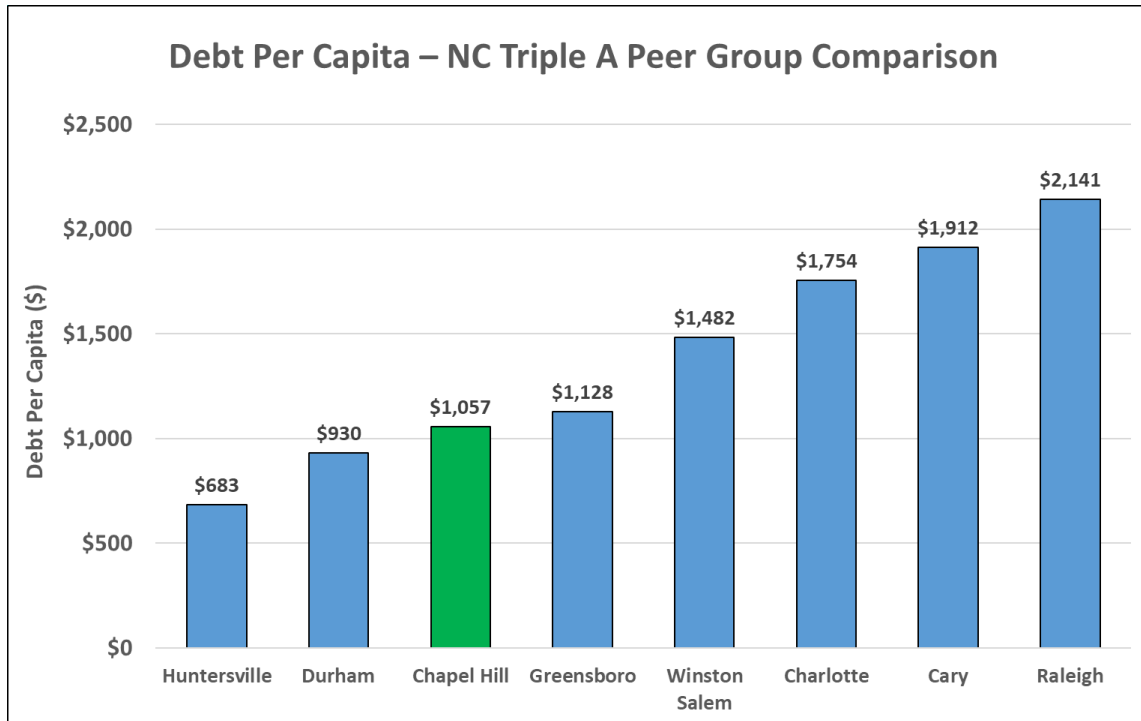
## **Debt Benchmarks**

The Town’s annual General Fund G.O. bond and installment financing debt service cost for FY 23 is about \$6.86 million, or about 8.95% of the adopted General Fund budget. As a percentage of adopted governmental funds budgets (Debt Management Fund and General

# DEBT & BOND RATINGS

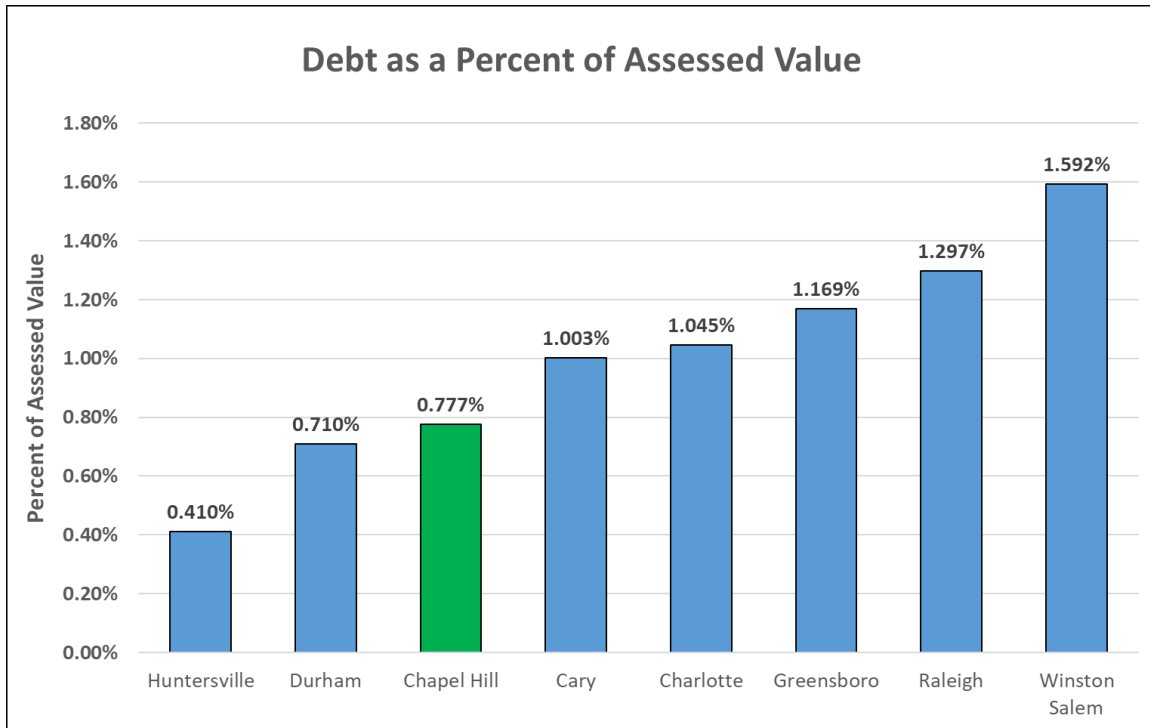
Fund), debt service costs are about 7.95%. Annual debt service is considered to be low to moderate if it is less than 10% of the annual governmental appropriations. Our projections show that we will have debt service levels between 9.3% and 13.2% of governmental budgets for the next several years as 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 6/30/2021, 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 6/30/2020, 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

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

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 May 2021 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. In FY 2008-09, a portion of the property tax rate was allocated to debt service payments to pay the Town's debt service. The FY 2022-23 budget maintains the dedicated Debt Service Fund tax rate at 8.8 cents.*

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### **EXPENDITURES**

	<b>2020-21 Actual</b>	<b>2021-22 Original Budget</b>	<b>2021-22 Revised Budget</b>	<b>2021-22 Estimated</b>	<b>2022-23 Adopted Budget</b>	<b>% Change from 2021-22</b>
Principal Payments	\$ 5,224,000	\$ 5,556,000	\$ 5,556,000	\$ 4,851,000	\$ 5,201,000	-6.4%
Interest Expense	1,965,577	1,954,975	1,954,975	1,724,854	1,659,901	-15.1%
Bond Issuance Costs	-	-	5,209	5,209	-	N/A
Advanced Refunding	-	-	12,241,044	12,241,044	-	N/A
Transfer to LOBS Fund	3,399,950	-	-	-	-	N/A
Transfer to Parking Fund	-	-	-	1,558,976	2,710,026	N/A
Contribution to Reserve	-	2,153,957	6,538,957	5,011,520	-	-100.0%
<b>Total</b>	<b>\$ 10,589,527</b>	<b>\$ 9,664,932</b>	<b>\$ 26,296,185</b>	<b>\$ 25,392,603</b>	<b>\$ 9,570,927</b>	<b>-1.0%</b>

### **REVENUES**

	<b>2020-21 Actual</b>	<b>2021-22 Original Budget</b>	<b>2021-22 Revised Budget</b>	<b>2021-22 Estimated</b>	<b>2022-23 Adopted Budget</b>	<b>% Change from 2021-22</b>
Property Taxes	\$ 8,282,332	\$ 8,293,000	\$ 8,293,000	\$ 8,314,000	\$ 8,443,000	1.8%
Transfer from Off-Street Parking	-	916,832	916,832	-	-	-100.0%
Transfer from General Fund	-	445,100	445,100	445,100	445,100	0.0%
Debt Proceeds	-	-	12,246,253	12,246,253	-	N/A
Transfer from LOBS Fund	-	-	4,385,000	4,385,000	-	N/A
Interest Income	5,681	10,000	10,000	2,250	10,000	0.0%
Appropriated Fund Balance	2,301,514	-	-	-	672,827	N/A
<b>Total</b>	<b>\$ 10,589,527</b>	<b>\$ 9,664,932</b>	<b>\$ 26,296,185</b>	<b>\$ 25,392,603</b>	<b>\$ 9,570,927</b>	<b>-1.0%</b>