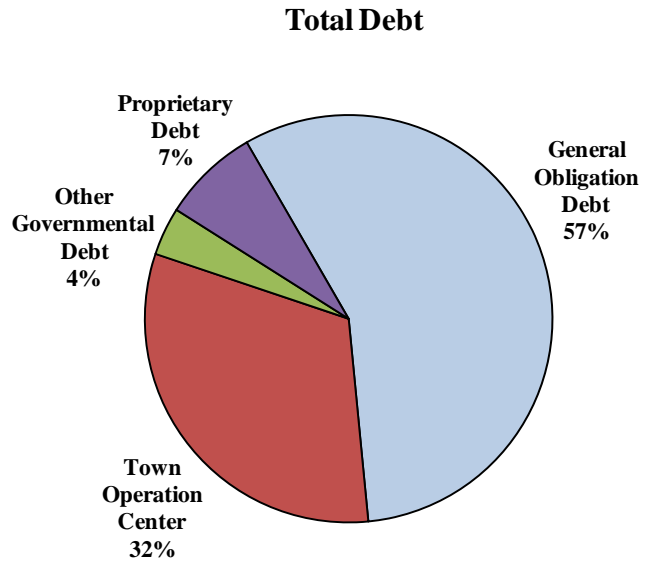


DEBT SERVICE FUND

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



DEBT & BOND RATINGS

As of June 30, 2011 the Town will have about \$68 million in debt outstanding. On October 12, 2010, the Town issued \$20.41 million in general obligation bonds for the Library Expansion Project, Streets and Sidewalks, and Parks and Recreation facilities. About half of the bonds were issued as taxable Build America Bonds that will receive a 35% interest rebate from the Federal Government. The balance of the general obligation bonds were issued as conventional tax-exempt bonds. The next largest portion of debt, \$19.0 million, are certificates of participation issued in 2005 to finance the construction of the Town Operations Center project. The Town has an additional \$4.6 million in certificates of participation which were used to finance the parking deck and other off-street parking facilities. This debt is paid entirely from parking fee revenue. The long term debt also includes installment financing for equipment, land and reserves for compensated absences, that is, the amount that the Town owes for future payments for employee vacation.

		Projected Long-Term Debt June 30, 2011
Governmental Debt		
General obligation debt	\$	34,110,000
Certificates of Participation		19,040,000
Installment debt		2,295,000
Separation allowance (est.)		254,773
Compensated absences (est.)		<u>2,242,755</u>
Total	\$	<u>57,942,528</u>
Proprietary Fund Debt		
Enterprise Funds		
Certificates of Participation	\$	4,615,000
Compensated absences (est.)		660,797
Internal Service Funds		
Motor vehicle equipment		<u>5,157,515</u>
Total	\$	<u>10,433,312</u>

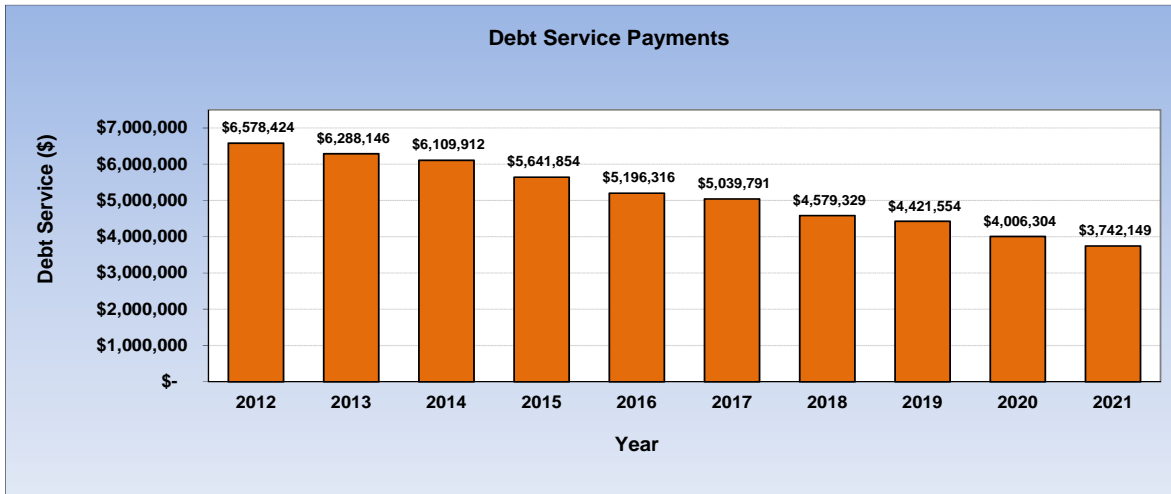
Current Debt Obligations

The Town delayed the issuance of the remaining authorized 2003 General Obligation bonds in order to build additional capacity in the Debt Management Fund. By delaying the issuance the Town was also able to take advantage of the Build America Bond program under the Federal Stimulus Act. The 2010 General Obligation bonds were issued with a level principal structure and the annual debt service is about \$1.6 million in FY2011-12, declining each year to \$1.06 million in FY2030-31.

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

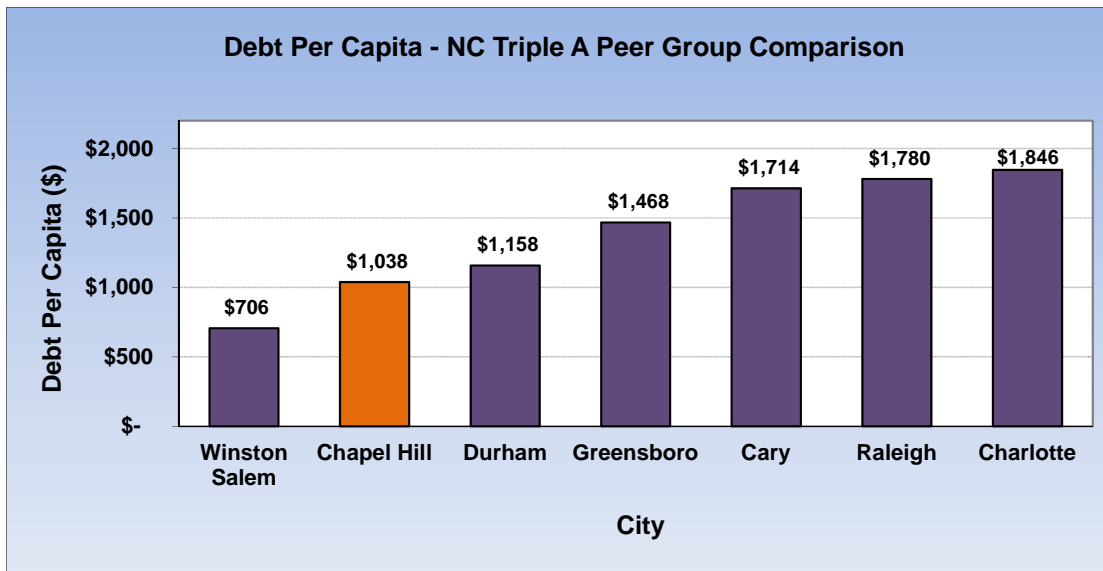
DEBT & BOND RATINGS

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



Future Additional Debt

Town Council placed a bond referendum before the citizens of Chapel Hill in November of 2003. The October 2010 General Obligation debt issuance represented the balance of that authority. In order to issue additional General Obligation Bonds the Town would need to receive approval from voters through the public referendum process. The next bond referendum will probably take place after FY2014-15 as the Debt Management Fund builds capacity for new debt service.



(Ratios of total outstanding G.O.B. debt, authorized & unissued G.O.B. debt, and IP debt, excluding enterprise, for N.C. populations greater than 50,000. Source: Analysis of Debt of N.C. Municipalities 6/30/2009, Department of State Treasurer, Division of State and Local Government Finance.)

DEBT & BOND RATINGS

The Town also anticipates the sale of up to \$7,245,000 in debt to cover the cost of underground parking for the Downtown Initiative in 2012-13. The Parking Fund will pay the debt service on the Downtown Initiative bonds.

Debt Limits

By State law, local governments may issue debt totaling 8% of the total assessed value of its property tax base. The 8% limit applies to general obligation bonds and certificates of participation. The Town is allowed seven years to issue general obligation debt once it is approved by the taxpayers, which allows the Town to phase in debt as it is needed

TOWN OF CHAPEL HILL, NORTH CAROLINA	
COMPUTATION OF LEGAL DEBT MARGIN	
June 30, 2011	
Total assessed valuation at June 30, 2011	\$ <u>7,375,900,000</u>
Debt limit - 8% of total assessed value	\$ <u>590,072,000</u>
Amount of debt applicable to debt limit:	
General obligation bonds	<u>34,110,000</u>
Legal debt margin	\$ <u>555,962,000</u>

and as older debt drops off the repayment schedule. An additional three years extension of the authority to issue general obligation debt is available with approval of the Local Government Commission. Outstanding debt in most governmental units falls well below the 8% of the total assessed value limit, and typically ranges from about 1% to 4% for most governments, depending on the utility enterprises operated by the unit.

The Town's projected outstanding debt that applies to this limit at June 30, 2011 will total \$34,110,000 in outstanding general obligation bonds. The total is less than 1% of the Town's June 30, 2010 tax base (\$7.11 billion).

The Town's annual general obligation and certificate of participation debt service cost for 2011-12 is estimated to be about \$6.76 million, or about 13.1% of the General Fund original budget. A general guideline by bond rating agencies is that annual debt service is considered to be low to moderate if it is less than 10% of its annual General Fund budget. We are aware that we have exceeded our own debt guidelines in recent years by increasing debt service to over 10% of the estimated budget. Our projections show that we will have debt service levels between 10% and 13% of budget for several years with the issuance of the \$20.41 million remaining authorized general obligation bonds. We will continue to monitor this indicator because it is one of numerous factors used to determine the Town's credit rating.

DEBT & BOND RATINGS

RATIO OF NET BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA LAST TEN FISCAL YEARS					
Fiscal Year Ended June 30	Population Estimate	Taxable Assessed Value	Net Bonded Debt	Ratio of Net Bonded Debt to Taxable Assessed Value	Net Bonded Debt Per Capita
2001	48,902	3,039,516,608	18,705,000	0.62	382
2002	50,454	4,021,127,152	17,380,000	0.43	344
2003	51,005	4,167,181,402	20,070,000	0.48	393
2004	51,485	4,305,436,972	18,400,000	0.43	357
2005	51,519	4,458,136,168	46,725,000	1.05	907
2006	52,397	5,300,417,389	44,045,000	0.83	841
2007	52,397	5,472,958,888	46,130,000	0.84	880
2008	54,904	5,839,993,985	42,650,000	0.73	777
2009	55,616	5,835,597,388	39,185,000	0.67	705
2010	56,778	7,045,574,326	38,520,000	0.55	678

Note: Net bonded debt includes general obligation bonds and certificates of participation.

Bond Ratings

The Town's bond ratings evidence its financial strength. When the Town issues general obligation bonds or other securities, rating agencies reevaluate the Town's current and future ability to repay debt. As a part of the evaluations, the agencies examine the Town's management, reserves, current debt obligations, community growth and stability of key revenue sources. Because of a solid employment base in and around the Town of Chapel Hill and the Town's careful management of resources, the Town has maintained especially high bond ratings for a municipality of its size. In October 2010, the Town's bond ratings were confirmed at triple A from Moody's Investor Service and from Standard and Poor's, the highest rating attainable.

Moody's	AAA
Standard & Poor's	AAA

DEBT SERVICE FUND

BUDGET SUMMARY

The Debt Service Fund is used to account for debt payments on the Town's general obligation bonds issued for capital improvement projects and on the certificates of participation issued for construction of the Town Operations Center. Funding for debt service historically came from a transfer from the General Fund to the Debt Service Fund, but beginning in 2008-09, a portion of the property tax rate was allocated to debt service payments. We expect revenues in excess of expenditures of about \$1.1 million in 2010-11, shown below as a "reserve for debt" to present a balanced budget. The projected reserves are the result of delaying debt that had been planned for the fall of 2008 in light of the ongoing recession. The adopted budget for FY12 includes appropriation of about \$1.2 million of fund balance, and the remaining reserved funds will be available for appropriation by the Council for future debt.

EXPENDITURES

	2009-10 Actual	2010-11 Original Budget	2010-11 Revised Budget	2010-11 Estimated	2011-12 Adopted Budget	% Change from 2010-11
Principal Payments	\$ 8,520,000	\$ 3,485,000	\$ 3,485,000	\$ 3,485,000	\$ 4,490,000	28.8%
Interest Expense	1,912,679	1,641,089	2,041,089	1,996,011	2,270,930	38.4%
Issuance Expense	78,355	-	50,000	49,528	-	
Reserve for debt	503,435	1,422,911	1,058,587	1,129,378	-	-100.0%
Total	\$ 11,014,469	\$ 6,549,000	\$ 6,634,676	\$ 6,659,917	\$ 6,760,930	3.2%

REVENUES

	2009-10 Actual	2010-11 Original Budget	2010-11 Revised Budget	2010-11 Estimated	2011-12 Adopted Budget	% Change from 2010-11
Property Taxes	\$ 6,518,783	\$ 6,546,000	\$ 6,546,000	\$ 6,570,000	\$ 5,380,000	-17.8%
Bond Proceeds	4,490,000	-	-	-	-	N/A
BABS Interest Subsidy	-	-	85,676	85,677	182,506	N/A
Interest Income	5,686	3,000	3,000	4,240	3,000	0.0%
Appropriated Fund						
Balance	-	-	-	-	1,195,424	N/A
Total	\$ 11,014,469	\$ 6,549,000	\$ 6,634,676	\$ 6,659,917	\$ 6,760,930	3.2%