

DEBT SERVICE

PURPOSE

The Debt Service cost center provides for the retirement of the Town's outstanding indebtedness, accounting for expenditures used for the payment of principal and interest associated with bonds and other financing instruments.

BACKGROUND

In North Carolina, an agency known as the Local Government Commission in the State Treasurer's Office oversees local government bonded debt and assists municipalities and counties in all areas of fiscal management. This agency conducts all bond sales, and ensures that local units have sufficient fiscal capacity to repay debt. The Town is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the Town may have outstanding to 8% of the appraised value of property subject to taxation.

Like most municipalities, the Town of Carrboro uses debt as a means to finance long-term capital projects and it is the Town's policy that the financing period shall not exceed the useful life of the project. As of June 30, 2010, the Town had approximately \$10.5 million dollars in general debt as shown in the chart:

	Long Term Debt 6/30/2009	Long Term Debt 6/30/2010
General Obligation debt	\$ 26,107	\$ -
Bond Anticipation Note	\$ 2,590,000	\$ 2,590,000
Installment purchases - improvements & equipment	\$ 4,380,835	\$ 7,060,641
Compensated absences	\$ 575,056	\$ 597,845
Other Post-employment benefits		\$ 1,234,293
Net pension obligation	\$ 293,117	\$ 322,184
Total	\$ 7,865,115	\$ 11,804,963

Of the \$10.5 million, \$7.0 million is for installment financing used by the Town to purchase major equipment and vehicles, finance land and building purchases. The NC General Statutes 160A-20 allows local governments to enter into installment contracts to finance the purchase of equipment and land, or for construction projects. Under this method of financing, the unit enters into a contract with a financial institution in which the financial institution provides funding for the purchase of equipment, land, or for construction projects. The financial institution maintains a security interest in the equipment or project until the governmental unit repays the loan over a specified loan term. For these contracts, local units pledge to pay the installments from any revenues available, but do not pledge the "full faith and credit" of the unit. Contracts under \$500,000 and less than a five-year maturity do not require approval by the Local Government Commission (LGC). Installment contracts for equipment greater than \$500,000 or maturities over five years require approval by the LGC, except the purchase of vehicles and rolling stock which may be purchased in any amount without LGC approval. Installment contracts involving improvements to land or buildings require approval by the LGC regardless of the dollar amount or maturity involved.

To a lesser extent, the Town uses general obligation debt. The bond referendum whereby residents voted to fund sidewalk construction in November 2003 will shift the balance of the debt financing portfolio to general obligation bonds. The Town, beginning sidewalk construction in FY05-06, issued a portion of this general obligation debt in the form of a note to be

payable in 9 months (Bond Anticipation Note - BAN). General obligation bonds are collateralized by the full faith, credit, and taxing power of the Town and generally allow for longer term loan terms than other types of financing (up to 20 years) and require a lower interest rate than other types of financing. The Town normally has seven years to issue general obligation debt once it is approved by the tax payers; however, this can be extended for three years up to a maximum of ten years if approved by the LGC. This allows the Town to phase in debt as it is needed and as older debt is retired and paid off.

Other long term debt includes reserves for compensated absences which is the amount the Town owes for future payments for employee vacation and net pension obligations represents the annual required contribution for retirement benefit to law enforcement officers.

CURRENT AND FUTURE DEBT

The Town of Carrboro in previous years had lower debt obligation due to expiration of some old general obligation bond and lease-purchase commitments. The long-term debt obligation projected over a ten-year period is listed below. Debt obligations for 2010 are from the June 30, 2010 audit and add the authorized but unissued debt approved for sidewalks and greenways in November 2003. Funding vehicle and equipment needs are expected to be financed over a five-seven year period.

Outstanding debt is expected to peak in 2013 when the Town plans to issue \$4,600,000 general obligations bonds approved by voters in 2003 for sidewalks and greenways. Until then the Town plans to issue bond anticipation notes (BANs) and then issue the entire \$4,600,000 by 2013. Until the bonds are actually issued, the Town’s audited records report both the BANs and the authorized but unissued debt obligations. For policy purposes in tracking outstanding debt per capita in the Town’s fiscal policy, the authorized but unissued and issued debt will be included, but not BANs since that reflects the true total debt the Town to which the Town is committed.

The Town anticipates increases in debt repayment costs in subsequent fiscal years for sidewalk construction and greenway projects (\$4.6 million dollars authorized), and for potential debt issuances in the next five years for the projects envisioned in the Town’s Capital Improvements Program (CIP).

June 30, Year Ending	Existing Long Term Installment and General Obligations Debt and Notes	Vehicle & Equipment Installment Debt	Authorized and Unissued Debt for Sidewalks and Greenways	Total Long Term Debt
2009	\$ 5,270,042	\$ 1,755,671	\$ 4,600,000	\$ 11,625,713
2010	\$ 5,515,207	\$ 1,545,434	\$ 4,600,000	\$ 11,660,641
2011	\$ 5,010,910	\$ 1,668,730	\$ 4,600,000	\$ 11,279,640
2012	\$ 4,499,126	\$ 1,857,767	\$ 4,600,000	\$ 10,956,893
2013	\$ 3,979,568	\$ 1,599,030	\$ 4,600,000	\$ 10,178,598
2014	\$ 3,451,941	\$ 1,788,067		\$ 5,240,008
2015	\$ 2,915,937	\$ 1,977,103		\$ 4,893,040
2016	\$ 2,356,155	\$ 2,042,843		\$ 4,398,998
2017	\$ 1,788,349			\$ 1,788,349
2018	\$ 1,408,356			\$ 1,408,356

BUDGET SUMMARY

DEBT SERVICE - DEPARTMENTAL TOTAL

2008-09 ACTUAL	2009-10 ACTUAL	2010-11 ADOPTED BUDGET	2011-12 ADOPTED BUDGET	% CHANGE 2011-12 FROM 2010-11
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SUMMARY

PERSONNEL	-	-	-	-	0%
OPERATIONS	1,427,902	1,477,718	1,548,915	1,402,111	-9%
CAPITAL OUTLAY	-	-	-	-	0%
TOTAL	1,427,902	1,477,718	1,548,915	1,402,111	-9%

CHANGES IN BUDGET FROM PRIOR YEAR ADOPTED BUDGET

Debt Service costs decrease slightly in FY 2011-12 from the prior year most due to the financing of fewer vehicles. The Town also experienced lower interest costs for the bond anticipation note issued in the current year due to lower interest rates.

Below is a summary of debt service obligations for FY 2011-12.

Project	Issue \$	Principal	Interest	Total
SIDEWALKS & GREENSWAYS BAN	\$ 2,590,000	\$ -	\$ 45,146	\$ 45,146
TOTAL GENERAL OBLIGATION BONDS			\$ 45,146	\$ 45,146
CENTURY CTR	\$ 3,080,000	\$ 182,708	\$ 47,171	\$229,879
MARTIN LUTHER KING PARK LAND	\$ 274,000	\$ 21,276	\$ 3,397	\$ 24,673
PUBLIC WORKS LAND	\$ 767,000	\$ 51,133	\$ 12,827	\$ 63,960
ADAMS TRACT	\$ 600,000	\$ 40,000	\$ 14,760	\$ 54,760
FIRE SUBSTATION	\$ 3,250,000	\$ 216,667	\$ 116,843	\$333,510
TOTAL LONG-TERM INSTALLMENT DEBT		\$ 511,784	\$ 194,998	\$706,782

FY 2010-11 and prior Vehicle/Equipment

EQUIPMENT/VEHICLES		\$ 595,275	\$ 25,890	\$621,165
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Annual vehicle and equipment debt service costs are comprised of borrowings dating to FY06-07 with annual amortization periods ranging from five to seven years.

FY 2011-12 PURCHASES TO BE FUNDED WITH INSTALLMENT DEBT:

Department	Vehicle	Cost	Debt Svc
Rec & Parks	Full Size Pick up -Replace #016	\$ 16,000	3,520
Rec & Parks	Small Pick up -Replace #015	\$ 15,800	3,476
Planning	Mid size SUV - Replace #135	\$ 28,000	6,159
Police	Administration-Replace vehicle #190	\$ 28,000	6,159
Police	Patrol Vehicle-Replace vehicle #205	\$ 33,600	7,391
Police	Patrol Vehicle-Replace vehicle #206	\$ 33,600	7,391
Police	Patrol Vehicle-Replace vehicle #207	\$ 33,600	7,391
Police	Patrol Vehicle-Replace vehicle #208	\$ 33,600	7,391
Police	Patrol Vehicle-Replace vehicle #235	\$ 33,600	7,391
Police	Investigations-Replace vehicle #204	\$ 27,300	6,005
Police	Animal Control vehicle - Replace K-9	\$ 15,750	3,465
	TOTAL	\$ 298,850	\$ 65,740