

# DEBT SERVICE

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**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, 2011, the Town had approximately \$12.3 million dollars in general debt as shown in the chart:

	<b>Long Term Debt 6/30/2010</b>	<b>Long Term Debt 6/30/2011</b>
General Obligation debt	\$ -	\$ -
Bond Anticipation Note	\$ 2,590,000	\$ 2,590,000
Installment purchases - improvements & equipment	\$ 7,060,641	\$ 6,319,304
Compensated absences	\$ 597,845	\$ 593,906
Other Post-employment benefits	\$ 1,234,293	\$ 2,473,455
Net pension obligation	\$ 322,184	\$ 359,549
<b>Total</b>	<b>\$ 11,804,963</b>	<b>\$ 12,336,214</b>

Approximately \$6.3 million or 51% of this 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 financing. The \$4.6 million bond referendum passed in November 2003 by residents to fund the construction of sidewalks and greenways will shift the balance of the debt financing portfolio to general obligation bonds. The Town, beginning sidewalk construction in FY05-06, has issued bond anticipation notes (BAN) requiring only interest payments until the permanent financing is issued. 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, the LGC has authorized a three year extension of this authority up to a maximum of ten years.

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. Debt obligations for 2011 below are from the June 30, 2011 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.

The Town must issue the \$4,600,000 general obligations bonds for sidewalks and greenways by November 2013. Until then the Town plans to continue issuing bond anticipation notes (BANs). 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).

<b>June 30, Year Ending</b>	<b>Existing Long Term Installment and General Obligations Debt and Notes</b>	<b>Vehicle &amp; Equipment Installment Debt</b>	<b>Authorized and Unissued Debt for Sidewalks and Greenways</b>	<b>Total Long Term Debt</b>
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	\$ 2,145,129	\$ 4,600,000	\$ 11,756,039
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

2009-10 ACTUAL	2010-11 ACTUAL	2011-12 ADOPTED BUDGET	2012-13 ADOPTED BUDGET	% CHANGE 2012-13 FROM 2011-12
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<b>SUMMARY</b>
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PERSONNEL	-	-	-	-	0%
OPERATIONS	1,477,718	1,511,630	1,402,111	1,430,681	2%
CAPITAL OUTLAY	-	-	-	-	0%

<b>TOTAL</b>	<b>1,477,718</b>	<b>1,511,630</b>	<b>1,402,111</b>	<b>1,430,681</b>	<b>2%</b>
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### CHANGES IN BUDGET FROM PRIOR YEAR ADOPTED BUDGET

Debt Service costs increased slightly in FY 2012-13 from the prior year due to the financing cost of the vehicles.

Project	Issue \$	Principal	Interest	Total
SIDEWALKS & GREENSWAYS BAN	\$ 2,590,000	\$ -	\$ 28,738	\$ 28,738
<b>TOTAL GENERAL OBLIGATION BONDS</b>			<b>\$ 28,738</b>	<b>\$ 28,738</b>
CENTURY CTR	\$ 3,080,000	\$ 189,624	\$ 40,255	\$ 229,879
MARTIN LUTHER KING PARK LAND	\$ 274,000	\$ 22,134	\$ 2,539	\$ 24,673
PUBLIC WORKS LAND	\$ 767,000	\$ 51,133	\$ 10,805	\$ 61,938
ADAMS TRACT	\$ 600,000	\$ 40,000	\$ 13,120	\$ 53,120
FIRE SUBSTATION	\$ 3,250,000	\$ 216,667	\$ 108,025	\$ 324,692
<b>TOTAL LONG-TERM INSTALLMENT DEBT</b>		<b>\$ 519,558</b>	<b>\$ 174,744</b>	<b>\$ 694,302</b>

FY 2011-12 and prior Vehicle/Equipment

<b>EQUIPMENT/VEHICLES</b>		<b>\$ 807,641</b>	<b>\$ 42,287</b>	<b>\$ 849,928</b>
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Annual vehicle and equipment debt service costs are comprised of borrowings dating from FY07-08 with annual amortization ranging from five to seven years.

### FY 2012-13 PURCHASES TO BE FUNDED WITH INSTALLMENT DEBT:

Department	Vehicle	Cost	Debt Service
Police	Patrol Vehicles-Replace vehicle #211	\$ 35,280	\$ 9,923
Police	Patrol Vehicles-Replace vehicle #212	\$ 35,280	\$ 9,923
Police	Patrol Vehicles-Replace vehicle #213	\$ 35,280	\$ 9,923
Police	Patrol Vehicles-Replace vehicle #214	\$ 35,280	\$ 9,923
Public Works	Solid Waste - Front Loader - Replace #56	\$ 231,000	\$ 64,973
Fire-Rescue	Sedan - Replace #982/with F-150 4x4 Pick-Up	\$ 25,200	\$ 7,088
	<b>TOTAL</b>	<b>\$ 397,320</b>	<b>\$ 111,754</b>