

DEBT SERVICE

PURPOSE

The Debt Service cost center accounts for expenditures used for the payment of principal and interest associated with the Town’s general obligation bonds and other financings.

BACKGROUND

In North Carolina, the Local Government Commission in the State Treasurer’s Office oversees local government bonded debt and assists local governments 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 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 asset. As of June 30, 2015, the Town had approximately \$15.5 million in long term debt. Approximately \$7.2 million or 46% of this debt is for infrastructure development and/or to acquire major equipment and vehicles, land and buildings.

	Long Term Debt 6/30/2014	Long Term Debt 6/30/2015
General Obligation debt	\$4,350,000	\$4,100,000
Premium on bond	\$85,162	\$80,296
Installment purchases - improvements & equipment	\$3,127,109	\$3,148,164
Compensated absences	\$557,456	\$617,651
Other Post-employment benefits	\$6,218,861	\$7,278,554
Net pension obligation	\$348,032	\$349,530
Total	\$14,686,620	\$15,574,195

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. 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.

In January 2013 the Town issued \$4.6 million of general obligation bonds for construction of sidewalks and greenways. These general obligation bonds were authorized by the voters in November 2003. The Town began construction of projects in FY 2005-06 by issuing a series of bond anticipation notes

requiring only interest payments until the issuance of the general obligation bonds in January 2013. General obligation bonds are collateralized by the full faith, credit, and taxing power of the Town and generally allow for longer loan terms than other types of financing (up to 20 years) and require a lower interest rate than other types of financing.

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

CURRENT AND FUTURE DEBT

The Town does not anticipate acquiring any additional major debt in the next three to five years, except for installment financing for vehicles and equipment.

CHANGES IN BUDGET FROM PRIOR YEAR ADOPTED BUDGET

Debt Service costs decreased due to retiring some of the debt.

Project	Issue \$	Principal	Interest	Total
SIDEWALKS & GREENSWAYS GO BONDS	\$ 4,600,000	\$ 250,000	\$ 90,000	\$ 340,000
TOTAL GENERAL OBLIGATION BONDS		\$ 250,000	\$ 90,000	\$ 340,000
FIRE SUBSTATION	\$ 3,250,000	\$ 216,667	\$ 46,297	\$ 262,964
TOTAL LONG-TERM INSTALLMENT DEBT		\$ 216,667	\$ 46,297	\$ 262,964

EQUIPMENT/VEHICLES		\$ 595,961	\$ 21,768	\$ 617,729
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Actual FY 2015-16 and prior Vehicle/Equipment plus 2016-17 principal payment only.

BUDGET SUMMARY

	<u>2014-15 ACTUAL</u>	<u>2015-16 ADOPTED BUDGET</u>	<u>2016-17 ADOPTED BUDGET</u>	<u>PCT CHANGE</u>
OPERATING	1,148,954	1,169,760	1,220,693	4.4%
TOTAL	\$1,148,954	\$1,169,760	\$1,220,693	4.4%

FY 2016-17 PURCHASES TO BE FUNDED WITH INSTALLMENT DEBT:

Department	Vehicle	Cost
Police	Patrol Vehicle Replacements -6 @ \$47,916	\$ 287,496
Public Works	Ford Ranger Pick Up	\$ 27,770
Public Works	Backhoe	\$ 96,040
	TOTAL	\$ 411,306