

# 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, 2009, the Town had approximately \$7.8 million dollars in general debt as shown in the chart:

Of the \$7.8 million, \$4.3 million is for installment financing that is typically used by the Town to purchase major equipment and vehicles and to 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

	<b>Long Term Debt 6/30/2008</b>	<b>Long Term Debt 6/30/2009</b>
General Obligation debt	\$127,964	26,107
Bond Anticipation Note	\$2,590,000	\$2,590,000
Installment purchases - improvements & equipment	\$5,380,571	\$4,380,835
Compensated absences	\$532,229	\$575,056
Net pension obligation	\$274,832	\$293,117
<b>Total</b>	<b>\$8,905,596</b>	<b>\$7,865,115</b>

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 has seven years to issue general obligation debt once it is approved by the tax payers. 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 shows a lower debt obligation than in previous years due to expiration of some old general obligation bond and lease-purchase commitments. The long-term debt obligation anticipated over a ten-year period is listed below (includes debt obligations noted in the June 30, 2009 audit, adds the authorized but unissued debt approved for sidewalks and greenways in November 2003, and anticipates funding the vehicle and

equipment needs over a five-year period as planned in the recommended budget).

Outstanding debt increases for the years 2009 through 2012. This is due to the fact that the Town plans to issue bond anticipation notes (BANs) for sidewalks and greenways through June 2011 and then issue the entire \$4,600,000 in year ending June 30, 2012. 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). The minimum amount of anticipated debt service repayments and impact on debt ratios and levels are projected in the Five-Year Plan (p 180).

June 30, Year Ending	Existing Long Term Installment and General Obligation Debt & 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	\$8,105,184	\$2,127,358	\$4,600,000	\$14,832,542
2011	\$8,896,700	\$1,394,655	\$4,600,000	\$14,891,355
2012	\$9,099,103	\$865,220	\$0	\$9,964,323
2013	\$8,349,545	\$501,250	\$0	\$8,850,795
2014	\$7,591,918	\$118,670	\$0	\$7,710,588
2015	\$6,825,914	\$0	\$0	\$6,825,914
2016	\$6,076,132	\$0	\$0	\$6,076,132
2017	\$5,318,326	\$0	\$0	\$5,318,326
2018	\$4,708,334	\$0	\$0	\$4,708,334

**SUMMARY**

<b>DEBT SERVICE - DEPARTMENTAL TOTAL</b>					
	<b>2007-08 ACTUAL</b>	<b>2008-09 ACTUAL</b>	<b>2009-10 ADOPTED BUDGET</b>	<b>2010-11 ADOPTED BUDGET</b>	<b>% CHANGE 2010/11 FROM 2009/10</b>
<b>SUMMARY</b>					
PERSONNEL	0	0	0	0	0%
OPERATIONS	1,360,896	1,427,902	1,621,062	1,548,915	-4%
CAPITAL OUTLAY	0	0	0	0	0%
<b>TOTAL</b>	<b>1,360,896</b>	<b>1,427,902</b>	<b>1,621,062</b>	<b>1,548,915</b>	<b>-4%</b>

**CHANGES IN BUDGET FROM PRIOR YEAR ADOPTED BUDGET**

Debt Service costs are decreasing in the upcoming year for several reasons. The Town experienced lower interest costs for the bond anticipation note issued in the current year due to lower interest rates and as a result of project spending being lower than anticipated (\$99,832). In addition, previous vehicle lease purchase payments

and other long-term debt have expired or is reduced (\$115,129). The recommended budget also provides for the first full year of debt service payment on the fire substation (\$142,814 increase) and \$10,000 for contracted services. Debt service obligations in summary format follow:

*Debt service obligations in summary format*

Project	Issue \$	Principal	Interest	Total
Sidewalks & Greenways – Bond Anticipation Note	\$2,590,000	\$0	\$22,573	\$22,573
<b>Total General Obligation Bonds</b>		<b>\$0</b>	<b>\$22,573</b>	<b>\$22,573</b>

Project	Issue \$	Principal	Interest	Total
Century Center (Issued 1997); 3.75% interest; due until 2018	\$3,080,000	\$176,045	\$53,834	\$229,879
Land - Martin Luther King, Jr. Park (Issued 2000; refinanced 2003); 3.99% interest, due until 2015	\$ 274,000	\$ 20,452	\$ 4,221	\$24,673
Land – Public Works Facility (Issued 2002); 3.96% interest; due until 2018	\$ 767,000	\$ 51,133	\$14,880	\$ 66,013
Adams Tract (Issued 2005); 4.10% interest; due until 2020	\$ 600,000	\$ 40,000	\$16,400	\$ 56,400
Fire Substation	\$3,250,000	\$216,667	\$125,661	\$342,328
<b>Total Long-term Installment Debt</b>		<b>\$504,297</b>	<b>\$214,996</b>	<b>\$719,293</b>

*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.*

FY10-11 and prior Vehicle/Equipment	\$732,704	\$64,345	\$797,049
<b>Equipment &amp; Vehicles</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>

***FY10-11 PURCHASES TO BE FUNDED WITH INSTALLMENT DEBT:***

<b>Department</b>	<b>Vehicle</b>	<b>Cost</b>	<b>Debt Svc</b>
Public Works	Administration - Mid size Hybrid SUV - Replace vehicle #001	\$ 33,500	\$ 7,536
Public Works	Streets - utility truck - Replace vehicle #042	\$ 44,000	\$ 9,898
Public Works	Streets - pickup - Replace vehicle #043	\$ 22,000	\$ 4,949
Public Works	Solid Waste - boom truck - Replace vehicle #57	\$ 154,000	\$ 34,643
Police	Patrol Vehicle-Replace vehicle #199	\$ 32,000	\$ 7,199
Public Works	L&G - Full Size Truck - Replace #003	\$ 25,000	\$ 5,624
Police	Investigations vehicle #198	\$ 26,000	\$ 5,849
Police	Community Services-Replace vehicle #200	\$ 32,000	\$ 7,199
Police	Community Services-Replace vehicle #201	\$ 32,000	\$ 7,199
Fire	Fire Suppression 4x4 Brush-Truck Replace-#985	\$ 160,000	\$ 35,993
	<b>TOTAL</b>	<b>\$ 560,500</b>	<b>\$ 126,087</b>