

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 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, 2012, the Town had approximately \$12.6 million dollars in general debt as shown in the chart:

	Long Term Debt 6/30/2011	Long Term Debt 6/30/2012
General Obligation debt	\$ -	\$ -
Bond Anticipation Note	\$ 2,590,000	\$ 2,590,000
Installment purchases - improvements & equipment	\$ 6,319,304	\$ 5,405,219
Compensated absences	\$ 593,906	\$ 519,865
Other Post-employment benefits	\$ 2,473,455	\$ 3,701,243
Net pension obligation	\$ 359,549	\$ 372,766
Total	\$ 12,336,214	\$ 12,589,093

Approximately \$5.4 million or 43% of this debt is for installment financing 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.

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 term 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

Below is a list of the current installment and general obligation bond debt for improvements and equipment at June 30, 2012 with the addition of the general obligation bonds.

Description	Balance at 6/30/2012	Balance at 6/30/2013 Estimated
Public Works Land	\$ 281,240	\$ -
Century Center	\$ 1,026,492	\$ -
MLK/Hillsborough Rd. Park	\$ 58,156	\$ -
Adams Tract	\$ 280,000	\$ -
Fire Sub-Station	\$ 2,708,333	\$ 2,491,666
Vehicle & Equipment (BB&T 7yr 2008)	\$ 278,776	\$ 143,570
Vehicle & Equipment (SunTrust-FY2010)	\$ 249,272	\$ 125,741
Vehicle & Equipment (SunTrust-FY2011)	\$ 285,794	\$ 191,995
Vehicle & Equipment (BB&T 5yr 2012)	\$ 237,156	\$ 179,280
TOTAL INSTALLMENT FINANCING	\$ 5,405,219	\$ 3,132,252
Bond Anticipation Note	\$ 2,590,000	\$ -
GO Sidewalk & Greenways Bond Series 2013	\$ -	\$ 4,600,000
TOTAL INSTALLMENT & GO DEBT	\$ 7,995,219	\$ 7,732,252

Since June 2012, the Town has retired some higher interest rate debt prior to scheduled maturity. The following debt has been paid off: Public Works Land, Century Center, MLK/Hillsborough Rd. Park, and Adams Tract. This has resulted in a reduction in outstanding principal balance and the associated annual debt service of \$373,271. The overall net reduction in debt service for FY 2013-14 is \$77,538.

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

BUDGET SUMMARY
DEBT SERVICE - DEPARTMENTAL TOTAL

2011-12 ACTUAL	2012-13 ADOPTED BUDGET	2013-14 ADOPTED BUDGET	% CHANGE CHANGE 0
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SUMMARY

PERSONNEL	-	-	-	0%
OPERATIONS	1,360,087	1,430,681	1,353,143	-5%
CAPITAL OUTLAY	-	-	-	0%
TOTAL	1,360,087	1,430,681	1,353,143	-5%

CHANGES IN BUDGET FROM PRIOR YEAR ADOPTED BUDGET

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

Project	Issue \$	Principal	Interest	Total
SIDEWALKS & GREENSWAYS GO BONDS	\$ 4,600,000	\$ 250,000	\$ 109,667	\$ 359,667
TOTAL GENERAL OBLIGATION BONDS		\$ 250,000	\$ 109,667	\$ 359,667
CENTURY CTR	\$ 3,080,000	\$ -	\$ -	\$ -
MARTIN LUTHER KING PARK LAND	\$ 274,000	\$ -	\$ -	\$ -
PUBLIC WORKS LAND	\$ 767,000	\$ -	\$ -	\$ -
ADAMS TRACT	\$ 600,000	\$ -	\$ -	\$ -
FIRE SUBSTATION	\$ 3,250,000	\$ 216,667	\$ 99,206	\$ 315,873
TOTAL LONG-TERM INSTALLMENT DEBT		\$ 216,667	\$ 99,206	\$ 315,873

FY 2011-12 and prior Vehicle/Equipment

EQUIPMENT/VEHICLES		\$ 650,476	\$ 27,127	\$ 677,603
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FY 2013-14 PURCHASES TO BE FUNDED WITH INSTALLMENT DEBT:

Department	Vehicle	Cost	Debt Service
Police	Patrol - 6 Replacement Vehicles @ \$38,896 each	\$ 233,376	\$ 13,996
Public Works	Solid Waste - Fully Automated Autocar Expert 2000 - Replace #54	\$ 268,800	\$ 16,121
Public Works	Solid Waste - Front Loader - New Addition	\$ 243,000	\$ 14,574
	TOTAL	\$ 745,176	\$ 44,691