

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, 2021, the Town had approximately \$33.3 million in long-term debt. Of this total, 16.0% represented general obligation debt and installment purchases for improvements and equipment. The other 84.0% of long-term debt is related to other post-employment benefits and the two pension plans (LGERS and LEO).

	Long Term Debt 6/30/2020	Long Term Debt 6/30/2021
General Obligation debt	\$2,850,000	\$2,600,000
Premium on bond	\$55,964	\$51,097
Installment purchases - improvements	\$975,000	\$758,333
Installment purchases - equipment	\$170,976	\$1,921,252
Compensated absences	\$826,999	\$867,973
Other Post-employment benefits	\$16,065,479	\$20,745,094
Net pension liability (LGERS)	\$3,375,107	\$4,314,590
Total pension liability (LEO)	\$1,498,927	\$2,057,740
Total	\$25,818,452	\$33,316,079

The N.C. 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.

In May 2022, the Town finalized installment financing of \$12,650,000 for the Town's share of the \$41.2M 203 Project which includes a facility to house the Orange County Southern Branch Library and Town administrative offices with the potential for also accommodating other compatible uses.

CURRENT AND FUTURE DEBT

Project	Issue \$	Principal	Interest	Total
SIDEWALKS & GREENSWAYS GO BONDS	\$4,600,000	\$250,000	\$57,500	\$307,500
TOTAL GENERAL OBLIGATION BONDS		\$250,000	\$57,500	\$307,500
FIRE SUBSTATION	\$3,250,000	\$216,667	\$12,627	\$229,294
203 PROJECT	\$12,650,000	\$0	\$286,716	\$286,716
TOTAL LONG-TERM INSTALLMENT DEBT		\$216,667	\$299,343	\$516,010

EQUIPMENT/VEHICLES *		\$499,922	\$44,785	\$544,707
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** Includes estimated payments for new installment financing to be issued in FY 2022.*

The Town is planning to finance the FY23 vehicles and equipment purchases, shown below, with installment financing.

VEHICLES AND EQUIPMENT TO BE PURCHASED IN FY 2022-23:

Department	Vehicles/Equipment	Cost Estimate
Fire	Ford Hybrid PIU	58,000
Public Works	Isuzu ODB Leaf Truck	195,000
Public Works	Ford F-250	45,000
Rec and Park	Ford F-150 Hybrid	38,000
Rec and Park	Ford Maverick	32,000
	Total	\$ 368,000

BUDGET SUMMARY - DEBT SERVICE

	2020-21	2021-22	2022-23	
	Actual	Adopted	Adopted	Pct Change
		Budget	Budget	
Operating	683,748	876,790	1,368,217	56.0%
TOTAL	\$ 683,748	\$ 876,790	\$ 1,368,217	56.0%

CHANGES IN BUDGET FROM PRIOR YEAR ADOPTED BUDGET:

Principal and interest payments will increase in FY23 due to the FY22 vehicle financing and the new debt related to the 203 Project.

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