

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, 2019, the Town had approximately \$29.1 million in long term debt. Of this total, 16% represented general obligation debt and installment purchases for improvements and equipment. The other 84% of long term debt is related to other post-employment benefits and the two pension plans (LGERS and LEO).

	Long Term Debt 6/30/2018	Long Term Debt 6/30/2019
General Obligation debt	\$3,350,000	\$3,100,000
Premium on bond	\$65,698	\$60,831
Installment purchases - improvements & equipment	\$2,162,730	\$1,588,182
Compensated absences	\$737,005	\$805,969
Other Post-employment benefits	\$19,639,836	\$19,474,398
Net pension liability (LGERS)	\$2,013,788	\$2,701,088
Total pension liability (LEO)	\$1,517,471	\$1,428,599
Total	\$29,486,528	\$29,159,067

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

Project	Issue \$	Principal	Interest	Total
SIDEWALKS & GREENSWAYS GO BONDS	\$4,600,000	\$250,000	\$67,500	\$317,500
TOTAL GENERAL OBLIGATION BONDS		\$250,000	\$67,500	\$317,500
FIRE SUBSTATION	\$3,250,000	\$216,667	\$23,850	\$240,517
TOTAL LONG-TERM INSTALLMENT DEBT		\$216,667	\$23,850	\$240,517
EQUIPMENT/VEHICLES *		\$518,637	\$28,579	\$547,216

** Includes estimated payments for new installment financing to be issued in FY 2020 and FY 2021.*

The Town is looking to finance a major building next year. In addition, the Town plans to finance the 2020-21 equipment purchases, shown below, with installment financing.

VEHICLES AND EQUIPMENT TO BE PURCHASED IN FY 2020-21:

Department	Vehicles/Equipment	Cost Estimate
Police	6 Vehicles @ \$56,000	\$ 336,000
Fire	Fire Tanker Truck	350,000
Fire	Ford Explorer Hybrid	49,000
Public Works	Boom Truck	155,000
Public Works	2 Pickup Trucks	64,000
	Total	\$ 954,000

BUDGET SUMMARY - DEBT SERVICE

	2018-19 Actual	2019-20 Adopted Budget	FY 2020-21 Adopted Budget	Pct Change
Operating	951,169	1,245,244	1,105,233	-11.2%
TOTAL	\$951,169	\$1,245,244	\$1,105,233	-11.2%
General Revenues	951,169	1,245,244	1,105,233	-11.2%
Department Revenues	-	-	-	#DIV/0!

CHANGES IN BUDGET FROM PRIOR YEAR ADOPTED BUDGET:

Principal and interest payments will decrease in FY21 primarily due to the absence of installment financing in FY19 for the purchase of Town vehicles.

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