

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 6, 2006

NEW ISSUE—Book-Entry Only

This Official Statement has been prepared by the Local Government Commission of North Carolina and the Town of Chapel Hill, North Carolina to provide information in connection with the sale and issuance of the Bonds described herein. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement. The Town has deemed the Preliminary Official Statement "final" for purposes of S.E.C. Rule 15c2-12 except for information which may be omitted pursuant to Rule 15c2-12.

\$4,950,000

**Town of Chapel Hill, North Carolina
General Obligation Public Improvement Bonds, Series 2006**

Dated: November 1, 2006

Due: As shown on inside cover page

Tax Exemption

In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Bonds is not includable in gross income for federal income tax purposes and is exempt from existing State of North Carolina income taxation. See "Tax Treatment" herein for additional information regarding tax consequences arising from ownership or receipt of interest on the Bonds, including information regarding the application of federal alternative minimum tax provisions to the Bonds and certain other federal, State and local tax consequences. The Town has designated the Bonds qualified tax-exempt obligations.

Redemption

The Bonds are subject to optional redemption at the times and prices as set forth herein.

Security

The Bonds constitute general obligations of the Town, secured by a pledge of the faith and credit and taxing power of the Town.

Interest Payment Dates

May 1 and November 1, commencing May 1, 2007.

Denominations

\$5,000 or any integral multiple thereof.

Expected Closing/Settlement

November 7, 2006

Bond Counsel

Sanford Holshouser LLP

Sale Date

October 17, 2006

Sale of Bonds

Pursuant to sealed bids in accordance with the Notice of Sale.

The date of this Official Statement is October __, 2006

MATURITY SCHEDULE

\$4,950,000 Public Improvement Bonds, Series 2006

Due May 1 of the Year Indicated

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield¹</u>	<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield¹</u>
2008	\$			2018	\$		
2009				2019			
2010				2020			
2011				2021			
2012				2022			
2013				2023			
2014				2024			
2015				2025			
2016				2026			
2017				2027			

(Plus accrued interest from November 1, 2006)

¹Information obtained from underwriters of the Bonds.

TOWN OF CHAPEL HILL, NORTH CAROLINA



Kevin C. Foy..... Mayor

TOWN COUNCIL

Laurin Easthom	Mark Kleinschmidt
Sally Greene	William B. Strom
Ed Harrison	Bill Thorpe
Cam Hill	James L. Ward



TOWN STAFF

Roger L. Stancil Town Manager
Florentine A. Miller Deputy Town Manager
Bruce A. Heflin Assistant Town Manager
Kay Johnson..... Director of Finance
Ralph D. Karpinos Town Attorney



BOND COUNSEL

Sanford Holshouser LLP
Raleigh, North Carolina

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State of North Carolina

Department of State Treasurer

RICHARD H. MOORE
TREASURER

*State and Local Government Finance Division
and the Local Government Commission*

T. VANCE HOLLOMAN
DEPUTY TREASURER

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is intended to furnish information in connection with the public invitation for bids for the purchase of \$4,950,000 General Obligation Public Improvement Bonds, Series 2006 (the "Bonds"), of the Town of Chapel Hill, North Carolina (the "Town").

The information furnished herein includes a brief description of the Town and its economic conditions, government, debt management, tax structure, financial operations, budget, pension plans and litigation. The Town has assisted the Local Government Commission in gathering and assembling the information contained herein.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any date subsequent to the date herein. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

This Official Statement is deemed to be a final official statement with respect to the Bonds within the meaning of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), except, when it is in preliminary form, for the omission of certain pricing and other information to be made available by the successful bidder or bidders for the Bonds to the Commission. In accordance with the requirements of the Rule, the Town will undertake prior to the sale of the Bonds in a resolution to be passed by the Board of Commissioners for the Town to certain continuing disclosure obligations. See the caption "Continuing Disclosure" herein.

THE LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA

The Local Government Commission of North Carolina (the "Commission"), a division of the Department of State Treasurer, State of North Carolina (the "State"), is a State agency that supervises the issuance of the bonded indebtedness of all units of local government and assists these units in the area of fiscal management. Appendix A to this Official Statement contains additional information concerning the Commission and its functions.

THE BONDS

Description

The Bonds will be dated as of November 1, 2006 and will bear interest from their date at the interest rates set forth on the inside front cover page. Interest on the Bonds will be payable semian-

nually on each May 1 and November 1, commencing May 1, 2007. The Bonds will mature, subject to the redemption provisions set forth below, on the dates set forth on the inside cover page of this Official Statement.

The Bonds will be issuable as fully registered bonds in a book-entry system under which The Depository Trust Company ("DTC"), New York, New York, will act as securities depository nominee for the Bonds. Purchases and transfers of the Bonds may be made only in authorized denominations of \$5,000 and in accordance with the practices and procedures of DTC. See Appendix E hereto for a description of DTC and its book-entry system.

Redemption Provisions

The Bonds maturing prior to May 1, 2017 will not be subject to redemption prior to maturity. The Bonds maturing on May 1, 2017 and thereafter will be redeemable, at the option of the Town, from any moneys that may be made available for such purpose, either in whole or in part on any date not earlier than May 1, 2016, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus interest accrued to the date fixed for redemption.

If less than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot in such manner as the Town in its discretion may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or any integral multiple thereof and that, in selecting Bonds for redemption, each Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such bond by \$5,000 and, further, that so long as a book-entry system with DTC is used for determining beneficial ownership of bonds, if less than all of the Bonds within a maturity are to be redeemed, DTC shall determine by lot the amount of interest of each Direct Participant (as defined in Appendix F hereto) in the Bonds to be redeemed. If less than all of the Bonds then subject to redemption shall be called for redemption, the particular maturities and amounts of the Bonds or portions of Bonds to be redeemed shall be determined by the Town in its discretion.

Notice of redemption shall be given by certified or registered mail to Cede & Co., DTC's nominee, as the registered owner of the Bonds. Such notice shall be mailed not more than 60 days nor less than the 30 days prior to the date fixed for redemption. The Town will not be responsible for mailing notices of redemption to anyone other than Cede & Co.

On the date fixed for redemption, notice having been given as hereinabove provided, the Bonds or portions thereof called for redemption shall be due and payable at the redemption price provided therefor, plus accrued interest to such date. If moneys sufficient to pay the redemption price of the Bonds or portions thereof to be redeemed plus accrued interest thereon to the date fixed for redemption have been deposited by the Town to be held in trust for the registered owners of the Bonds or portions thereof to be redeemed, interest on the Bonds or portions thereof called for redemption shall cease to accrue. If a portion of a Bond shall have been selected for redemption, a new Bond or Bonds of the same maturity, of any authorized denomination or denominations and bearing interest at the same rate for the unredeemed portion of the principal amount of such Bonds.

Authorization and Purpose

The Bonds are being issued pursuant to the provisions of The Local Government Bond Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina, orders duly adopted by the Town Council of the Town, and a resolution duly passed by said Town Council for the purpose of financing street and sidewalk improvements, parks and recreational facilities, libraries and open space in the Town.

Security

The Bonds are general obligations of the Town. The Town is authorized by law to levy on all the real property and tangible personal property taxable by the Town such ad valorem taxes as may be necessary to pay the Bonds and the interest thereon without limitation as to rate or amount.

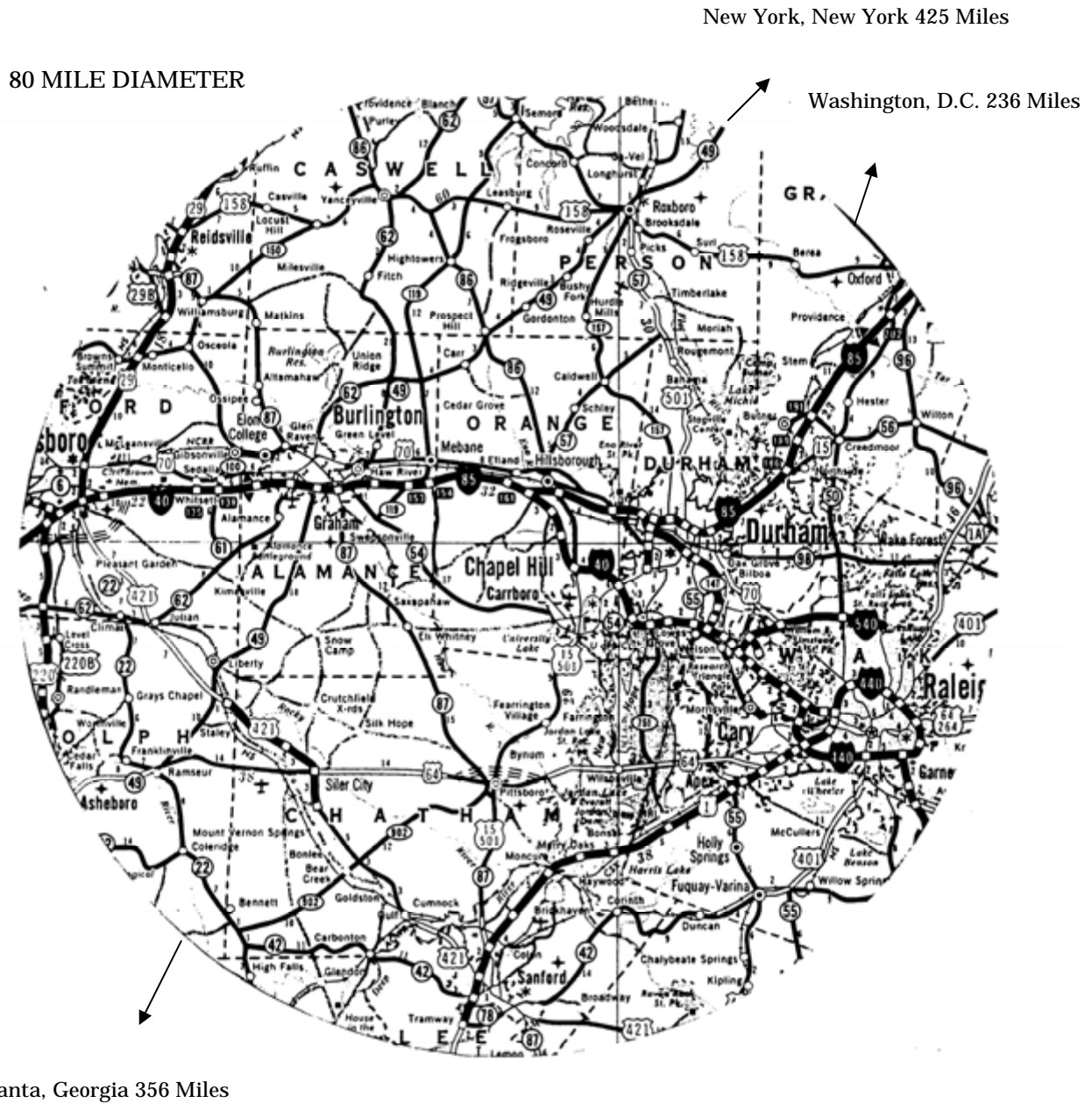
THE TOWN

General Description

Approximately 92.8 percent of the Town is located in Orange County and the remaining 7.2 percent is located in Durham County. The Town, incorporated in 1819, is in the north central portion of the State on the piedmont plateau. The Town is located southwest of the City of Durham and approximately 25 miles northwest of the City of Raleigh. The Town is the home of the University of North Carolina at Chapel Hill.

As of June 2004, the Town covers an area of 21.3 square miles. The Town is empowered by statute to extend its corporate limits by annexation.

The Town conducts an ongoing planning and programming process through which it implements orderly expansion and management of the growth and development of the community. At present, the Town exercises zoning and building controls over a 27.5 square mile area that includes the corporate limits and a 6.2 square mile planning jurisdiction.



The Town is authorized by statute to levy ad valorem taxes on the assessed value of real property within its corporate limits. Taxation for operating purposes may not exceed \$1.50 per \$100 assessed valuation unless the voters approve a higher rate except for the following applicable purposes; debt service, deficits, and joint undertakings with any other town, city or political subdivision in providing any of the above functions, services or activities, for which unlimited taxes may be levied.

The growth of the Town has been directly related to the expansion of the University of North Carolina at Chapel Hill (the "University"). Enrollment at the University has risen from 8,791 in 1960 to 27,276 in 2005. It is anticipated that expansion will continue to occur in University-related health facilities such as the University of North Carolina Hospitals. Due to space constraints on its existing campus, the University is planning a new living and learning community in Chapel Hill, called Carolina North. Carolina North will occupy over 900 acres of land now used by Horace Williams Airport and will combine a world-class research park with academic buildings, residential areas, businesses, green space, and public schools.

Demographic Characteristics

The United States Department of Commerce, Bureau of the Census, has recorded the population of the Town to be as follows:

<u>1980</u>	<u>1990</u>	<u>2000</u>
32,421	38,872	46,019

The population of the Town as estimated by the North Carolina Office of State Budget and Management is as follows:

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
48,902	50,540	51,485	51,519

Per capita income data for Orange County and the State are presented in the following table:

<u>Year</u>	<u>County¹</u>	<u>State</u>
2000	\$30,912	\$27,068
2001	32,360	27,493
2002	33,119	27,510
2003	33,287	27,859
2004	35,191	29,322

¹Separate data for the Town are not available.

Source: United States Department of Commerce, Bureau of Economic Analysis.

Commerce and Institutional Profile

The Town is characterized by a high degree of institutional and service-oriented activity. The University of North Carolina at Chapel Hill and the University of North Carolina Hospitals and their associated service, teaching and research programs have a national reputation for excellence in educational and medical fields. The Town is also the place of residence for many technical, professional and executive personnel who work in the Research Triangle Park and the neighboring communities of Durham and Raleigh.

The Research Triangle refers to an area located between three communities: the Town, the City of Durham and the City of Raleigh. Universities located in these communities include the University of North Carolina at Chapel Hill, Duke University in Durham, and North Carolina State University in Raleigh. The proximity of these universities makes the Triangle area suited to many types of academic research and industrial activities.

The Research Triangle Park, organized in 1959 (the "Park"), is situated in the center of the triangle formed by the communities of Raleigh, Durham and Chapel Hill. The Park encompasses over 7,000 acres of land set aside for research and research-oriented manufacturing. Since its founding, the Park and its surrounding areas have developed steadily. Presently located within the Park boundaries are approximately 119 research and development related organizations, employing over 39,000 people and having an annual payroll over \$2.7 billion.

The Town adopted a new Land Use Management Ordinance in January 2003, which revised development regulations. The Town experienced a drop-off in major development applications while the new regulations were being formulated and immediately after their adoption. Typically, there is about a one-year lag between the Town's receipt of development applications and building permit issuance. The Town is experiencing resurgence in commercial development as anticipated after the revision of the land use development regulations. Residential development has slowed as the major Meadowmont development is winding down. Building permits issued for commercial and residential construction in the Town are summarized below for the five years ended December 31 and the six month period ended June 30, 2006:

<u>Calendar Year</u>	<u>COMMERCIAL</u>		<u>RESIDENTIAL</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
2001	102	\$28,149,291	824	\$112,275,482
2002	165	48,793,555	842	118,239,572
2003	123	36,402,000	865	116,538,000
2004	63	19,772,752	782	106,792,932
2005	87	55,603,032	599	74,727,811
2006(6 mos.)	41	20,543,052	309	35,043,747

Source: Inspections Department of the Town.

The following table lists by corporate name, product or service and approximate number of employees the major businesses and institutional establishments in the Chapel Hill area:

<u>Company or Institution</u>	<u>Service or Product</u>	<u>Approximate Number of Employees</u>
*Duke University and Medical Center	Education, Research, Medical Care	27,453
University of North Carolina at Chapel Hill	Education Research	10,707
*IBM	Data Communications Equipment	10,800
University of North Carolina Hospitals	Medical Care, Research, Manufacturing/Distribution	5,827
*Glaxo-Smithkline	Pharmaceutical Products	5,000
*Nortel Network	Development/Marketing Digital Switching Equipment	2,800
*SAS Institute	Software Company	4,183
Blue Cross-Blue Shield of N.C.	Health Insurance	3,875
*Progress Energy	Electric Utility	3,430
*Cisco Systems	Networking for the Internet	3,400
*Verizon Communications	Telecommunications	2,800
Chapel Hill-Carrboro Schools	Education	1,700
Orange County Board of Education	Education	1,200

*Located outside the Town's corporate limits in Durham or Research Triangle Park.

Source: Orange County Economic Development Commission, July 2006 and Research Triangle Park Foundation.

Total retail sales in the Town for the five fiscal years ended June 30, 2001 through 2005 are shown in the following table:

<u>Fiscal Year Ended June 30</u>	<u>Total Retail Sales</u>	<u>Increase (Decrease) Over Previous Year</u>
2001	\$771,069,112	12.4%
2002	782,472,839	1.5
2003	852,732,295	9.0
2004	931,556,802	9.2
2005	900,447,955	(3.3)

Source: North Carolina Department of Revenue, Sales and Use Tax Division.

The data for fiscal years ended June 30, 2001 through 2005 in the chart above sets forth **gross** retail sales. Beginning July 1, 2005, the North Carolina Department of Revenue began to compile information only for **taxable** retail sales in compliance with the Streamlined Sales Tax Agreement. In North Carolina, certain sales (for example, qualifying food items) are not subject to sales tax. For the fiscal year ended June 30, 2006, taxable retail sales for the Town were \$568,278,367. There is no comparable data for taxable retail sales available for previous fiscal years.

Employment

The North Carolina Employment Security Commission has estimated the percentage of unemployment in the County to be as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
January	4.6%	4.2%	3.9%	3.2%	July	4.7%	4.1%	4.4%	3.8%
February	4.3	3.9	4.0	3.6	August	4.4	3.9	4.1	
March	4.2	3.9	3.6	3.1	September	4.0	3.0	3.3	
April	4.3	3.8	3.7	2.8	October	4.0	3.4	3.4	
May	4.3	4.1	3.8	3.2	November	4.2	3.9	3.7	
June	5.0	4.5	4.4	3.6	December	3.8	3.6	3.3	

Government and Major Services

GOVERNMENT STRUCTURE

The Town has a Council-Manager form of government. The Town Council is comprised of a Mayor and an eight-member Council. All Council Members serve four-year terms. The Mayor and four Council Members are elected every two years. All elections are on a non-partisan basis. The Council appoints the Town Manager and Town Attorney. The Mayor presides over the Council meetings and has full voting privileges. The Town Manager is the chief administrative officer of the Town. Town departments are responsible to the Town Manager for the provision of public services.

EDUCATION

Public education is provided in the Town primarily by the Chapel Hill - Carrboro City School System which serves southeastern Orange County and, to a minor extent, by the Durham County School System for a small portion of the Town located in Durham County. The Chapel Hill-Carrboro City School System is governed by a Board consisting of seven members elected to four-year staggered terms. The Town has no financial responsibility for the schools. Revenue is derived from the Federal, State and County governments for school operations and capital facilities.

The following table shows the number of schools by level and average daily membership in the Chapel Hill-Carrboro City School System for the five-year period beginning with the 1999-00 school year:

<u>School Year</u>	<u>Elementary Grades K-5</u>		<u>Intermediate Grades 6-8</u>		<u>Secondary Grades 9-12</u>	
	<u>No.</u>	<u>ADM*</u>	<u>No.</u>	<u>ADM*</u>	<u>No.</u>	<u>ADM*</u>
2001-02	8	4,484	4	2,550	2	2,959
2002-03	8	4,548	4	2,611	2	3,158
2003-04	9	4,631	4	2,620	2	3,379
2004-05	9	4,718	4	2,569	2	3,387
2005-06	9	4,909	4	2,556	2	3,472

*Average Daily Membership (determined by actual records at the schools) is computed by the North Carolina Department of Public Education on a uniform basis for all public school units in the State. The average daily membership computations are used as a basis for teacher allotments and for distribution of local funds if there is more than one school unit within a County.

Source: Superintendent's Office.

Note: Excludes hospital school enrollment.

TRANSPORTATION

Major expansion, maintenance and betterment of primary and secondary highways in the Federal and State highway systems within the Town limits are chiefly the State's responsibility although the Town does participate on a limited basis in expansion projects. The Town also is responsible for a portion of the acquisition of rights-of-way for such expansion or betterment, related sidewalk improvements and street lighting. On June 30, 2006, approximately 53 miles of Town streets were on the State highway and street system.

Major expansion, maintenance and betterment of the local street system are the sole responsibility of the Town. Major expansions and betterments are financed with long-term bonds and current revenues. As of June 30, 2006, the Town maintained approximately 163 linear miles of streets.

The Town is served by U. S. Highway 15-501, which connects the Town with the City of Durham, and by Interstate 40 which connects the Town with the Research Triangle Park and the Raleigh-Durham International Airport. The triangle area is served by Interstate 85 extending northeast from Durham and west through Greensboro to Charlotte and Atlanta.

The Town operates a bus system that provides public transportation services to the Town and adjacent areas, including services to the Town of Carrboro and the University of North Carolina at Chapel Hill on a contractual basis. Effective January 1, 2002, the Town instituted the State's first fare free transportation system for passengers on all regular routes and services. Bus routes and stops are located so that 90% of all households are within one quarter mile of a bus stop. Two park-ride lots are established on the western perimeter of the Town to facilitate transportation in and out of the University and downtown area, and the Town completed construction of additional park-ride lots on the northern and southern perimeters in 1995. The system operates 70 buses during weekday peak periods, and shared-ride, demand responsive programs to provide evening services.

During the 2005-2006 fiscal year, the bus system carried over 5.8 million passengers and had the highest per capita ridership in the State. The bus system is financed primarily with a special ad valorem tax levy, Federal and State operating and capital assistance, and contractual contributions from the Town of Carrboro and the University. The Town receives Federal operating assistance from the Federal Transit Administration and State operating assistance which combined equals about 33% of eligible operating costs for the system. In 2003-04 the Town received a one-time supplement which raised the covered amount to about 32% of eligible costs.

The Raleigh-Durham International Airport (RDU) is a major regional airport served by fourteen major airlines and ten commuter airlines. Nearly 9,300,000 people boarded and deplaned aircraft in 2005 at this airport.

PUBLIC SERVICE ENTERPRISES

Water and Sewer Services — Water and sewer services are provided by the Orange Water and Sewer Authority. The Authority was created in 1975 by the Board of Commissioners of Orange County and the governing bodies of the towns of Chapel Hill and Carrboro for the purpose of acquiring, consolidating, improving and operating the existing water and sewer systems in the southern portion of the County. Prior to the formation of the Authority, water service was provided by the University of North Carolina at Chapel Hill and sewer service was provided by the towns in conjunction with the University. (See Notes to Financial Statements for further information regarding Orange Water and Sewer Authority.)

The Orange Water and Sewer Authority ("OWASA") commenced utilities operations in February, 1977. The Town conveyed its sewer utility facilities to the Authority. Under the terms of the transfer, the Authority provides and maintains sewage collection and treatment facilities under applicable laws and regulations.

OWASA has adequate water supplies to meet current demand from its three present reservoirs. To address long-term water storage needs, OWASA in the 1980s received an allocation from the State of North Carolina for a portion of future water supply from a regional lake. In 2001, OWASA and a private company received approval for expansion of a stone quarry that will become a water supply reservoir by the year 2030.

Improvements to increase the filtration capacity of the Orange Water and Sewer Authority's water treatment plant from 15 million gallons per day (MGD) to 20 MGD were completed in 2003. While peak-day demands have not exceeded present capacity, the trend of rising peak demand in recent years necessitated the expansion. Design work is complete and construction has begun on the Mason Farm Water transmission lines with Jones Ferry Road expansion to 14.5 MGD. In addition, design work is beginning for additional improvements to reduce certain hydraulic bottlenecks at the wastewater treatment plant capacity. The capacity of both treatment plants is, therefore, adequate to meet current needs, and additional system improvements including future plant expansions are planned through OWASA's 15-year capital program.

Parking Facilities — The Town owns and operates several off-street parking lots in the central business district including a parking facility with 315 spaces which was completed in 1993. The parking facilities operations are accounted for in separate enterprise funds and are self-supporting.

Sanitary Landfill — Operational responsibility for the Orange Regional Landfill, formerly administered and operated by the Town, was transferred to Orange County in April, 2000. The landfill is expected to be usable through the year 2007.

Debt Information

LEGAL DEBT LIMIT

In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, allowing for the issuance of all presently authorized bonds, including those being offered by this Official Statement, the Town has the statutory capacity to incur additional net general obligation debt in the approximate amount of \$392,895,000. For a summary of certain constitutional, statutory and administrative provisions governing or relating to the incurrence of debt by units of local government of the State, see Appendix B.

OUTSTANDING GENERAL OBLIGATION DEBT

General Obligation Bonds	Principal Outstanding as of			
	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
Street	\$ 3,870,108 ¹	\$ 3,554,822	\$ 4,738,487 ¹	\$ 4,295,489
Parks and Recreational Facilities	8,224,717 ¹	7,539,362	7,151,967 ¹	6,280,013
Other	<u>7,975,175 ¹</u>	<u>7,305,815</u>	<u>8,834,546 ¹</u>	<u>7,969,499</u>
Total Debt Outstanding	<u>\$20,070,000</u>	<u>\$18,400,000</u>	<u>\$20,725,000</u>	<u>\$18,545,000</u>

¹Bonds Issued:

2002-03 \$4,250,000 Public Improvement Bonds, Series 2003, 10.54 years average maturity, 3.6595% net interest cost.

2004-05 \$4,000,000 Public Improvement Bonds, Series 2004, 11 years average maturity, 4.0092% net interest cost.

GENERAL OBLIGATION DEBT RATIOS

<u>At July 1</u>	<u>Total GO Debt</u>	<u>Assessed Valuation</u>	<u>Total GO Debt to Assessed Valuation</u>	<u>Population¹</u>	<u>Total GO Debt Per Capita</u>
2002	\$17,380,000	\$4,167,181,402	.42%	50,540	\$343.89
2003	20,070,000	4,305,436,972	.47	51,485	389.82
2004	18,400,000	4,458,136,168	.41	51,519	357.15
2005	20,725,000	5,299,402,374 ²	.39	51,519 ³	402.28
2006	18,545,000	5,460,000,000 ²	.34	51,519 ³	359.96

After the Bonds
now offered are
issued

\$23,495,000	\$5,460,000,000 ²	.43%	51,519 ³	\$456.05
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¹Estimates of North Carolina Office of State Budget and Management.

²Estimate.

³For purposes of this schedule, the 2004 population is being used.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS AND MATURITY SCHEDULE

<u>Fiscal Year</u>	<u>Existing Debt</u>		<u>Bonds Now Offered</u>
	<u>Principal</u>	<u>Principal & Interest</u>	
2006-07	\$ 1,865,000	\$ 2,660,757.50	\$
2007-08	1,865,000	2,584,262.50	
2008-09	1,850,000	2,494,750.00	
2009-10	1,840,000	2,407,700.00	
2010-11	1,300,000	1,789,850.00	
2011-12	1,300,000	1,732,950.00	
2012-13	1,300,000	1,675,900.00	
2013-14	1,300,000	1,618,225.00	
2014-15	1,100,000	1,360,550.00	
2015-16	800,000	1,011,025.00	
2016-17	800,000	975,875.00	
2017-18	800,000	940,725.00	
2018-19	800,000	904,900.00	
2019-20	500,000	568,700.00	
2020-21	325,000	373,450.00	
2021-22	200,000	235,050.00	
2022-23	200,000	226,550.00	
2023-24	200,000	217,800.00	
2024-25	200,000	209,000.00	
	<u>\$ 18,545,000</u>	<u>\$ 23,988,020.00</u>	<u>\$4,950,000</u>

GENERAL OBLIGATION BONDS AUTHORIZED AND UNISSUED

<u>Purpose</u>	<u>Date Approved</u>	<u>Bonds Authorized and Unissued</u>	<u>Bonds Now Offered</u>	<u>Balance</u>
Library	11/04/2003	\$ 15,760,000	\$	\$
Sidewalk/Street	11/04/2003	4,100,000		
Parks & Recreation	11/04/2003	4,700,000		
Open Space	11/04/2003	800,000		
		<u>\$ 25,360,000</u>	<u>\$ 4,950,000</u>	<u>\$ 20,410,000</u>

GENERAL OBLIGATION DEBT INFORMATION FOR OVERLAPPING UNIT AS OF JUNE 30, 2006

<u>Unit</u>	<u>2005 Population¹</u>	<u>Assessed Valuation</u>	<u>Tax Rate Per \$100²</u>	<u>Debt Authorized and Unissued</u>		<u>Total GO Debt</u>		<u>Total GO Debt Per Capita</u>
				<u>Utility</u>	<u>Other</u>	<u>Utility</u>	<u>Other</u>	
Orange County	121,991	\$11,972,000,000	\$.843	\$ —	\$ 6,900,000	\$ —	\$148,175,000	\$1,214.64

¹Estimate of North Carolina Office of State Budget and Management.

²The County also levies a \$.200 school district tax for Chapel Hill-Carrboro City School System.

Note: The above table excludes Durham County information.

OTHER LONG-TERM COMMITMENTS

The Town refinanced \$6,690,000 in Parking Facilities Refunding Certificates of Participation (“Parking COPS”) in September 2003. The Parking COPS are not general obligations of the Town, but payments are subject to annual appropriations. Maturities of the Parking COPS are as follows:

COPS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 245,000	\$ 217,005	\$ 462,005
2008	250,000	207,848	457,848
2009	265,000	198,505	463,505
Thereafter	<u>5,165,000</u>	<u>1,551,637</u>	<u>6,716,637</u>
	<u>\$5,925,000</u>	<u>\$2,174,995</u>	<u>\$ 8,099,995</u>

The Town has other installment debt as described below:

Installment Debt

<u>Fiscal Year Periods</u>	<u>Capital Improvements Fund</u>		<u>Internal Service Funds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007-2011	\$1,125,000	\$192,865	\$4,507,571	\$476,438	\$4,984,009
2012-2016	435,000	20,446	572,763	25,298	598,061

DEBT OUTLOOK

In 2003, the Town of Chapel Hill voters approved a referendum to issue \$29.36 million in General Obligation bonds for various public improvement projects. The Town Council has adopted a plan for issuing these bonds in four phases over a six-year period, with the second phase \$4.95 million now offered. The last two phases are currently planned as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2008-09	\$11,455,000
2009-10	<u>8,955,000</u>
Total	\$20,410,000

The Town issued Certificates of Participation for a new Town Operations Center in June 2005. The Town’s Public Works and Transportation Department facilities have been located on property leased from the University of North Carolina in Chapel Hill. The lease-term ends in December of 2005, at which time the Town plans to have relocated these facilities. The Town is negotiating for a possible development on the Town’s parking lot 5 at the corner of Franklin Street and Church Street.

The Town has arranged for an actuarial study to calculate the liability related to post-employment health benefits offered by the Town. The Town anticipates receiving the study in late fall of 2005. We will evaluate the results of the study to determine an appropriate plan for addressing the liability.

Tax Information

GENERAL INFORMATION

	Fiscal Year Ended June 30			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006¹</u>
Assessed Valuation:				
Assessment Ratio ¹	100%	100%	100%	100%
Real Property	\$3,688,289,625	\$3,791,942,402	\$3,918,233,860	\$4,747,893,905
Personal Property	415,023,471	455,906,761	482,128,300	498,524,879
Public Service Companies ²	<u>63,868,306</u>	<u>57,587,809</u>	<u>57,774,008</u>	<u>60,840,533</u>
Total Assessed Valuation	\$4,167,181,402	\$4,305,436,972	\$4,458,136,168	\$5,299,402,374
Rate per \$100 ³	.553	.553	.575	.522
Levy	\$ 23,002,000	\$ 23,809,000	\$ 25,634,000	\$ 27,663,000

*Unaudited.

¹Percentage of appraised value has been established by statute.

²Valuation of railroads, telephone companies and other utilities as determined by North Carolina Property Tax Commission.

³Rate includes an amount which goes to the Transportation Fund to finance a portion of the operating expense of the Town's bus system as follows: 2002-03 - \$.043; 2003-04 - \$.051; 2004-05 - \$.059; and 2005-06 - \$.048.

Note 1: The Town created a Municipal Service District effective July 1, 1989 which has a current tax rate of \$0.09 for improvements and services in the downtown area.

Note 2: Revaluation of real property became effective with the 2005 tax levy. The next revaluation will be 2009.

Note 3: Estimated 2006-07 assessed valuation \$5,460,000,000; tax rate \$.522 per \$100.

TAX COLLECTIONS

<u>Year Ended June 30</u>	<u>Prior Years' Levies Collected</u>	<u>Current Year's Levy Collected</u>	<u>Percentage of Current Year's Levy Collected</u>
2003	\$144,130	\$22,919,205	99.36%
2004	127,726	23,653,530	99.43
2005	106,918	25,480,324	99.45
2006 ¹			99.43

¹Unaudited.

TEN LARGEST TAXPAYERS FOR FISCAL YEAR 2005-06

<u>Name</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Percentage of Total Assessed Valuation</u>
Blue Cross and Blue Shield of North Carolina	Health Insurance	\$ 35,430,128	\$ 195,929	0.82%
US GT LLC (University Square)	Shopping Center	35,126,445	194,249	0.82
VAC Limited Partnership	Apartment Rental	32,283,091	178,525	0.75
BellSouth Telephone Company	Public Utility	27,671,141	153,021	0.64
Corium LLC	Health Insurance	25,608,158	141,613	0.60
Europa Center LLC	Office Building	24,273,824	134,234	0.56
Meadowmont JV LLC	Development	23,616,296	130,598	0.55
University Mall Properties	Shopping Center	20,594,783	113,889	0.48
Duke Energy Corporation	Public Utility	20,577,573	113,794	0.48
Estates at Chapel Hill LLC	Development	<u>18,808,243</u>	<u>104,010</u>	<u>0.44</u>
		<u>\$ 263,989,682</u>	<u>\$ 1,459,862</u>	<u>6.14%</u>

2005-2006 Budget Commentary

The adopted budget for 2005-06 maintained the Town's prior years' level of services and included some new service levels. A major issue in development of the 2005-06 budget was the need for additional funds for debt service. The Town had planned for the construction of a new Town Operations Center for public works and transportation services since learning of the University of North Carolina's intention not to renew the lease on the property where the Town had the public works and transportation facilities. The Town had established reserves and secured State and federal grants for the \$16 million Transit Operations Center, so no additional funds were needed for that facility. However, the Town needed to borrow for construction of the \$26 million public works portion of the project. As a result, the budget required an additional \$1.75 million for debt service payments in 2005-06 for the public works portion of the facility.

In response to the anticipated challenge of funding the budget, the Council hired an outside consultant and convened a citizens' committee to review alternative approaches to increasing taxes and lowering services. In response to recommendations by the consultant and the citizens' committee, a variety of fees were increased to bring rates more in line with the cost of service delivery and the charges for similar services in neighboring communities.

The budget included the continuation of fare free bus service. In order to support the increased demand for service, the budget was increased for a para-transit services supervisor and an additional mechanic and service attendant. In order to keep abreast of market trends, the budget provided for a 3.78% increase in employee pay and increases for medical insurance. In addition, the budget includes funding for a Geographic Information Systems Analyst and a Budget Analyst.

The adopted budget had an overall property tax rate of \$.522 cents. The effective tax rate increase was only \$.029 cents, while the actual tax rate was lower than the prior year's tax rate by \$.053 cents. The adopted rate included a decrease of \$.042 cents in the General Fund from \$.516 cents to \$.474 cents and a decrease of \$.011 cents in the Transportation Fund from \$.059 cents to \$.048 cents.

2006-2007 Budget Outlook

The adopted budget for 2006-07 maintains the Town's high level of services as in prior years. The Council was able to increase several services while maintaining the same tax rate as in 2005-06

for the General Fund (\$.474 cents per \$100 assessed value) and the Transportation Fund (\$.048 cents per \$100 assessed value) with a combined tax rate of \$.052 cents per \$100 assessed value.

The Council adopted a Downtown Service District Tax rate of \$.09 per \$100 assessed value, an increase of \$.037 per \$100 assessed value over the fiscal year 2005-06 tax rate. The increase provides for a dedicated groundskeeper for the District and sets aside a reserve for possible changes to downtown parking regulations. The Council expects to receive recommendations on downtown parking from the Council-appointed Committee in January of 2007. Other service improvements for the District, notably increasing the downtown police patrol, are included as a part of the General Fund budget.

Other key issues that the Council has addressed in the 2006-07 budget include the following:

- Services and Stability. The budget allows the Town to preserve the quality of services that citizens want while maintaining fiscal stability. In addition the Council was able to add five police officers to increase the downtown patrol, a children's and teen librarian to meet the demands for services for the most used public library in North Carolina, and 6 firefighters as part of a three plan to increase the Town's firefighting capabilities. Increased funding from State for fire protection helped make the increased fire protection service possible.
- Fuel Costs. The Town anticipated increased fuel costs over the amounts budgeted for 2005-06 of approximately twenty cents per gallon for all types of vehicle fuel. In addition, the Town included the provision of an additional \$88,000 in the General Fund and \$160,000 in the Transportation Fund in reserves for additional fuel charges, if needed.
- Downtown Development Initiative. The Council has pledged to use \$500,000 from existing funds to support parking for affordable housing in the downtown economic development initiative. The Town anticipates a reduction in parking revenues when building on Lot 5 begins in 2007.
- Cost of operating the new Town Operations Center. There will be a three month transition period during which the Town will need to have both the new and the current sites in use. Other cost increases include higher operating costs for items such as utilities for the larger-sized plant and additional fuel because the new site is farther from the center of Town than the current site.
- Pay Plan. The Council approved a 3% increase for Town employee pay as well as market increases for certain positions that have significantly fallen behind market rates.

Pension Plans

The Town participates in the North Carolina Local Governmental Employees' Retirement System and three other pension plans.

North Carolina Local Governmental Employees' Retirement System — The North Carolina Local Governmental Employees' Retirement System (the "System") is a service agency administered through a board of trustees by the State for public employees of counties, cities, boards, commissions and other similar governmental entities. While the State Treasurer is the custodian of System funds, administrative costs are borne by the participating employer governmental entities. The State makes no contributions to the System.

The System provides, on a uniform System-wide basis, retirement and, at each employer's option, death benefits from contributions made by employers and employees. Employee members contribute six percent of their individual compensation. Each new employer makes a normal

contribution plus, where applicable, a contribution to fund any accrued liability over a 24-year period. The normal contribution rate, uniform for all employers, is currently 4.80 percent of eligible payroll for general employees and 5.27 percent of eligible payroll for law enforcement officers. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employees' service rendered prior to the date the employer joins the system.

Members qualify for a vested deferred benefit at age 50 with at least 20 years of service or at age 60 after at least five years of creditable service to the unit of local government. Unreduced benefits are available: at age 65, with at least five years of creditable service; at age 60, with at least 25 years of creditable service; or after 30 years of creditable service, regardless of age. Benefit payments are computed by taking an average of the annual compensation for the four consecutive years of membership service yielding the highest average. This average is then adjusted by a percentage formula, by a total years of service factor, and by an age service factor if the individual is not eligible for unreduced benefits.

Contributions to the system are determined on an actuarial basis.

For additional information concerning the Town's participation in the North Carolina Local Governmental Employees' Retirement System see the Notes to the Basic Financial Statements of the Town in Appendix D.

Financial statements and required supplementary information for the North Carolina Local Governmental Employees' Retirement System are included in the Comprehensive Annual Financial Report ("CAFR") for the State. Please refer to the State's CAFR for additional information.

Other Pension Plans — The Town also participates in the (1) Law Enforcement Officers' Special Separation Allowance, (2) Supplemental Retirement Income Plan for Law Enforcement Officers and (3) Supplemental Retirement Income Plan for all Other Employees. For information concerning the Town's participation in such plans see the Notes to the Basic Financial Statements of the Town in Appendix D.

Litigation

The Town is not a party to any litigation, the outcome of which, in the opinion of the Town Attorney, would materially adversely affect the Town's ability to meet its financial obligations.

CONTINUING DISCLOSURE

In a resolution to be adopted by the Town prior to the sale of the Bonds, the Town will undertake, for the benefit of the beneficial owners of the Bonds, to provide:

- (a) by not later than seven months from the end of each fiscal year of the Town, to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of North Carolina ("SID"), if any, audited financial statements of the Town for such fiscal year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or; if such audited financial statements of the Town are not available by seven months from the end of such fiscal year, unaudited financial statements of the Town for such fiscal year to be replaced subsequently by audited financial statements of the Town to be delivered within 15 days after such audited financial statements become available for distribution;

- (b) by not later than seven months from the end of each fiscal year of the Town, to each NRMSIR, and to the SID, if any, (i) the financial and statistical data as of a date not earlier than the end of the preceding fiscal year for the type of information included under heading "The Town - Debt Information and - Tax Information" in this Official Statement relating to the Bonds (excluding any information on overlapping or underlying units) and (ii) the combined budget of the Town for the current fiscal year, to the extent such items are not included in the audited financial statements referred to in (a) above;
- (c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB"), and to the SID, if any, notice of any of the following events with respect to the Bonds, if material:
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
 - (7) modification to rights of the beneficial owners of the Bonds;
 - (8) bond calls;
 - (9) defeasances;
 - (10) release, substitution or sale of any property securing repayment of the Bonds; and
 - (11) rating changes; and
- (d) in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of a failure of the Town to provide required annual financial information described in (a) or (b) above on or before the date specified.

At present, Section 159-34 of the General Statutes of North Carolina requires the Town's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The resolution to be adopted by the Town will also provide that if the Town fails to comply with the undertaking described above, any beneficial owner of the Bonds then outstanding may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an event of default and shall not result in any acceleration of payment of the Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Bonds.

Pursuant to such resolution, the Town will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Town, provided that:

- (a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Town;
- (b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12") as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and
- (c) any such modification does not materially impair the interests of the beneficial owners, as determined either by parties unaffiliated with the Town (such as bond counsel), or by the approving vote of the registered owners of a majority in principal amount of the Bonds pursuant to the terms of such resolution, as it may be amended from time to time, at the time of the amendment.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Bonds.

To the extent permitted by the United States Securities and Exchange Commission, the Town may discharge its undertaking described above by transmitting those documents or notices electronically to www.disclosureusa.org.

The Town has not failed to provide any information required to be provided by any undertaking previously made by the Town pursuant to the requirements of Rule 15c2-12.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters related to the authorization and issuance of the Bonds are subject to the approving legal opinion of Sanford Holshouser LLP, Raleigh, North Carolina, Bond Counsel for the Town ("Bond Counsel"). Bond Counsel's approving legal opinion will be provided at the Town's expense and will be available at the time of the delivery of the Bonds. The proposed form of Bond Counsel's opinion is attached as Appendix E.

Bond Counsel's approving legal opinion expresses Bond Counsel's professional judgment as to the legal issues explicitly addressed in the opinion. By rendering a legal opinion, an opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Additionally, the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction and a bond opinion is not a statement (either expressly or by implication) concerning the marketability, value or likelihood of payment of the Bonds.

Bond Counsel has not been engaged to investigate the Town's operations or condition or the Town's ability to provide for payments on the Bonds. Bond Counsel will express no opinion (1) as to the Town's ability to provide for payments on the Bonds, or (2) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase Bonds, including this Official Statement. In this transaction, Bond Counsel will serve only as bond counsel to the Town, and will not represent any bidder or the purchaser of the Bonds.

RATINGS

Moody's Investors Service, Standard & Poor's Ratings Services, and the North Carolina Municipal Council have given the Bonds ratings of _____, _____, and _____ respectively. Those ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained only from the respective organization providing such rating. Certain information and materials not included in the Official Statement were furnished to such organizations. There is no assurance that such ratings will remain in effect for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any downward revision or withdrawal of a rating may have an adverse effect on the market prices of the Bonds.

TAX TREATMENT

Opinion of Bond Counsel. In the opinion of Sanford Holshouser LLP, Raleigh, North Carolina, Bond Counsel for the Town ("Bond Counsel"), under existing law, interest on the Bonds (1) will not be included in gross income for federal income tax purposes, (2) will not be a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations, and (3) will be exempt from existing State of North Carolina income taxation. Bond Counsel will express no other opinion regarding the federal or North Carolina tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel will give its opinion in reliance upon certifications by Town representatives and others as to certain facts relevant to the opinion. The Town has covenanted to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), regarding, among other matters, the use, expenditure and investment of the proceeds derived from the sale of the Bonds and the timely payment to the United States of any arbitrage profit with respect to the Bonds. The Town's failure to comply with such covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to date of issuance of the Bonds.

Other Tax Consequences. In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, certain S corporations, certain foreign corporations subject to the branch profits tax, corporations subject to the environmental tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Interest on the Bonds may or may not be subject to state or local taxation in jurisdictions other than North Carolina. Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any such jurisdiction other than North Carolina.

Designation for Purchase by Financial Institutions. The Code generally provides that financial institutions may not deduct any of the interest expense (the "cost of carry") allocable to tax-exempt obligations acquired after August 7, 1986, except that financial institutions may deduct 80% of the cost of carry allocable to "qualified tax-exempt obligations." An obligation's status as a qualified tax-exempt obligation is dependent upon an affirmative act of designation by the obligor and is subject to, among other things, the obligor and its "subordinate entities," within the meaning of Code Section 265(b)(3), complying with limitations on the amount of obligations that may be issued and designated in any one calendar year.

The Town has covenanted to comply with the provisions of Code Section 265(b)(3). In the opinion of Bond Counsel, under existing law, the Bonds will be qualified tax-exempt obligations. Such opinion is given in reliance upon certifications by Town representatives as to certain facts material to such opinion.

Discount Bonds and Premium Bonds

_____, as lead underwriter, has advised the Local Government Commission of North Carolina that the initial public offering prices of the Bonds maturing on May 1, _____ to _____ inclusive, (the "Discount Bonds"), are less than the respective amounts payable at maturity. An amount not less than the difference between the initial public offering prices of the Discount Bonds and the amounts payable at maturity constitutes original issue discount ("OID"). Owners of Discount Bonds should consult their own tax advisors as to the determination for federal tax purposes of the amount of OID properly accruing each year with respect to the Discount Bonds and as to federal tax consequences and the treatment of OID for State of North Carolina and local tax purposes.

_____, as lead underwriter, has also advised the Local Government Commission of North Carolina that the initial public offering prices of the Bonds maturing on May 1, ____ to _____, inclusive, (the "Premium Bonds"), are greater than the amounts payable at maturity. The difference between the amount payable at maturity of the Premium Bonds and the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds Premium Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases the Premium Bonds at the initial offering price is "Bond Premium." Bond Premium is amortized over the term of the Premium Bonds for federal income tax purposes. Owners of the Premium Bonds are required to decrease their adjusted basis in the Premium Bonds by the amount of amortizable Bond Premium attributable to each taxable year the Premium Bonds are held. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of the Premium Bonds and with respect to State of North Carolina and local tax consequences of owning and disposing of the Premium Bonds.

Bond Counsel's opinion will not specifically address the tax treatment of OID or Bond Premium, or the status of any particular receipt or payment such as the receipt or payment of OID or Bond Premium.

UNDERWRITING

The underwriters for the Bonds are _____

_____.*

The underwriters have jointly and severally agreed, subject to certain conditions, to purchase all but not less than all of the Bonds. If all of the Bonds are sold at the public offering yields set forth on the inside cover page of this Official Statement, the underwriters anticipate total selling compensation of _____.* The public offering prices or yields of the Bonds may be changed from time to time by the underwriters.

*Information provided by underwriters.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact.

References herein to the State Constitution and legislative enactments are only brief outlines of certain provisions thereof and do not purport to summarize or describe all provisions thereof.

The execution of this Official Statement has been duly authorized by the Local Government Commission of North Carolina and the Town Council of the Town.

**LOCAL GOVERNMENT COMMISSION
OF NORTH CAROLINA**

By

T. Vance Holloman
Secretary of the Commission

TOWN OF CHAPEL HILL, NORTH CAROLINA

By

Kevin C. Foy
Mayor

By

Roger L. Stancil
Town Manager

By

Kay Johnson
Director of Finance

[Proposed form of Sanford Holshouser's Opinion]
November ____, 2006

Town of Chapel Hill, North Carolina

\$4,950,000
Town of Chapel Hill, North Carolina
General Obligation
Public Improvement Bonds, Series 2006

We have acted as bond counsel to the Town of Chapel Hill, North Carolina (the "Town"), in connection with the Town's issuance today of the above-captioned bonds (the "Bonds"). We have examined the applicable law and certified copies of proceedings and documents relating to such issuance.

Without undertaking to verify the same by independent investigation, we have relied on representations and certifications by representatives of the Town, the North Carolina Local Government Commission (the "LGC") and others as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Town has made certain covenants (the "Covenants") in the proceedings and documents providing for the issuance of the Bonds to comply with provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment of any arbitrage rebate required under the Code.

We have assumed the capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as copies or specimens.

Based on the foregoing, as of today and under existing law, we are of the following opinions:

1. The Bonds have been duly authorized and issued. The Bonds are legal, valid and binding obligations of the Town, enforceable in accordance with their terms. The Town's faith and credit are pledged for the payment of principal of and interest on the Bonds, and the Town is authorized to levy and collect ad valorem taxes, without restriction as to rate or amount, on all locally taxable property to pay the principal of and interest on the Bonds.

2. Our opinion as set forth in paragraph 1 is subject to the effect (a) of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, and (b) of general principles of equity, regardless of whether applied in a proceeding in equity or at law.

3. Interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations. The Town's failure to comply with the Covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

4. Interest on the Bonds is exempt from existing State of North Carolina income taxation.

We express no opinion regarding other federal or North Carolina tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Our services as bond counsel have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we have deemed necessary to evaluate the legality, validity and enforceability of the Bonds and to evaluate the status of the Bonds and the interest thereon under the federal and North Carolina tax laws referenced above.

We have not made any investigation concerning the Town's operations or condition. We express no opinion (a) as to the Town's ability to provide for payments on the Bonds, (b) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase Bonds, including the Local Government Commission's Official Statement with respect to the Bonds, or (c) as to any party's compliance with any terms or conditions precedent to any purchase of Bonds.

This opinion is based on constitutional and statutory provisions and judicial decisions existing today. We assume no responsibility to update this opinion or take any other action with regard to changes in facts, circumstances or the applicable law.

Very truly yours,

[To Be Signed, "Sanford Holshouser LLP"]

DTC's Book-Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each stated maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into their transactions. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest and any redemption premium payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or the Bond Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC, the Town or the Bond Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest and any redemption premium to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or the Bond Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Town or the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates will be printed and delivered.

The Town may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from DTC, and neither the Commission nor the Town takes responsibility for the accuracy thereof.