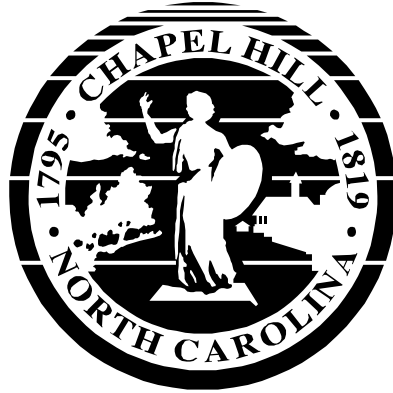


BOND REFERENDUM



Town of Chapel Hill
North Carolina

November 4, 2003

Bond Referendum for:

- **Sidewalks and Streets**
- **Parks and Recreational Facilities**
- **Library Facilities**
- **Open Space and Areas**
- **Public Buildings**

**The Chapel Hill Town Council authorized distribution
of the following information.**

- Mayor Kevin Foy**
- Mayor Pro Tem Pat Evans**
- Flicka Bateman**
- Ed Harrison**
- Mark Kleinschmidt**
- Bill Strom**
- Dorothy Verkerk**
- Jim Ward**
- Edith M. Wiggins**

**INFORMATION ABOUT THE BOND REFERENDUM
SCHEDULED FOR NOVEMBER 4, 2003**

The issuance of general obligation bonds is one means for a municipality to borrow money to finance long-lived capital projects. General obligation bonds require a pledge of the full faith and credit of the issuing government, and issuance requires a vote of the people.

A bond referendum involves a decision by the voters on whether to authorize the sale of bonds and the potential levy of a tax to repay the bonds. General obligation bonds normally have a 20-year term. The authorization to issue them is valid for 7 years, with the possibility of an extension up to 10 years.

On September 8, the Chapel Hill Town Council voted to call a bond referendum on November 4, 2003 for the voters to consider authorizing five separate bond issues for the following purposes and in the following amounts:

| | |
|-------------------------------------|-------------------------|
| • Sidewalks and Streets | \$ 5.60 million |
| • Parks and Recreational Facilities | 5.00 million |
| • Library Facilities | 16.26 million |
| • Open Space and Areas | 2.00 million |
| • Public Buildings | 0.50 million |
| Total | \$ 29.36 million |

Authorization of a bond issue by the voters does not require that any or all of the authorized bonds be issued. After a successful referendum, the Town Council must decide whether to issue some, none or all of the bonds authorized. The Council also decides on the schedule of issuance. Factors such as overall service needs and priorities, the financial status of the Town, the local and broader economy and the bond market may all play a part in the Council's decisions.

PROPOSED BOND PROJECTS AND BOND QUESTIONS

The actual language on the ballots, as reproduced below, is general in nature. Therefore, proceeds from the bond issues may be used for a fairly wide range of projects. The Town Council has stated its intent to use the proceeds for more closely defined projects, and we describe those below. However, North Carolina law does not allow the present Council to bind a future Council, so it would be possible for a future governing body to finance different projects with these bond proceeds, as long as the projects meet the wording of the ballot.

SIDEWALKS AND STREET BONDS (\$5,600,000)

The Town Council has stated its intent to use the proceeds of the Sidewalks and Street Bonds in the following manner:

- Construction of sidewalks in accord with the Town’s Sidewalk Master Plan (about \$2,600,000).
- Upgrades in pedestrian amenities at intersections, including pedestrian crossing signals, signal system timing improvements, improved markings and signage (about \$350,000).
- Neighborhood, pedestrian and bicycle safety improvements including traffic calming measures, such as speed humps, signing, roundabouts; crosswalk lighting system, changing signal lenses and pedestrian and bicycle signage improvements (about \$650,000).
- Downtown Streetscape improvements to continue gradual implementation of the Town’s Downtown Streetscape Master Plan (about \$2,000,000).

The bond question proposed for voters on the November ballot for the Sidewalks and Street bonds will be as follows:

SHALL the order authorizing \$5,600,000 of bonds secured by a pledge of the faith and credit of the Town of Chapel Hill to pay capital costs to acquire, construct, improve, reconstruct, provide and replace certain sidewalks and streets, including, without limitation, curbs and gutters, bridges, viaducts, overpasses, underpasses, culverts, drains, traffic controls, signals and markers, lighting, grade crossings and related facilities, including the acquisition of machinery and equipment required therefore and the acquisition of necessary land or rights in land, and a tax to be levied for the payment thereof, be approved?

YES

NO

PARKS AND RECREATIONAL FACILITIES BONDS (\$5,000,000)

The Town Council has stated its intent to use the proceeds of the Parks and Recreational Facilities Bonds for funding the construction of Greenway projects in accord with the Town’s adopted Greenways Master Plan. The specific segments of greenways would be determined later.

The bond question proposed for voters on the November referendum ballot for the Greenways projects will be as follows:

SHALL the order authorizing \$5,000,000 of bonds secured by a pledge of the faith and credit of the Town of Chapel Hill to pay capital costs of providing additional parks and recreation facilities, including, without limitation, the acquisition, construction and installation of real estate improvements and equipment required therefore and the acquisition of necessary land or rights in land, and a tax to be levied for the payment thereof, be approved?

YES

NO

LIBRARY FACILITIES BONDS (\$16,260,000)

The Town Council has stated its intent to use the proceeds of the Library Facilities Bonds for expansion of the Town’s current 27,300 square foot Library in accord with recommendations of the Library Master Plan prepared using national standards, and adopted by the Town Council on April 14, 2003. The Master Plan recommends a potential expansion of the Library up to 75,000 square feet to accommodate the community’s needs projected for 25 years. The Master Plan envisions expansion of services to the public, including more internet access stations; more space for seating patrons and for storing books, compact discs and other media and more public meeting space.

The bond question for voters on the November referendum ballot for the Library projects will be as follows:

SHALL the order authorizing \$16,260,000 of bonds secured by a pledge of the faith and credit of the Town of Chapel Hill to pay capital costs of providing additional library facilities, including, without limitation, the acquisition, construction, equipping and installation of real estate improvements and machinery and equipment required therefor and the acquisition of necessary land or rights in land, and a tax to be levied for the payment thereof, be approved?

YES

NO

OPEN SPACE AND AREAS BONDS (\$2,000,000)

The Town Council has stated its intent to continue the purchase of land for open space in accord with the Town’s Comprehensive Plan at locations to be determined.

The bond question for voters on the November ballot for Open Space and Areas will be as follows:

SHALL the order authorizing \$2,000,000 of bonds secured by a pledge of the faith and credit of the Town of Chapel Hill to pay capital costs of the acquisition of land or rights in land for the preservation of open spaces and areas, and a tax to be levied for the payment thereof, be approved?

YES

NO

PUBLIC BUILDINGS BONDS (\$500,000)

The Town Council has stated its intent to acquire, install and construct energy improvements to Town buildings that would result in energy savings and cost savings. Any savings could potentially be used to fund additional energy-saving projects.

The bond question proposed for voters on the November ballot for energy improvements will be as follows:

SHALL the order authorizing \$500,000 of bonds secured by a pledge of the faith and credit of the Town of Chapel Hill to pay capital costs to acquire, construct, equip and install energy efficient facilities in certain existing public buildings, including, without limitation, the acquisition of lighting, heating, ventilating, air conditioning and related fixtures, machinery and equipment required therefor and the acquisition of necessary land or rights in land, and a tax to be levied for the payment thereof, be approved?

YES

NO

**POTENTIAL EFFECT OF SELLING BONDS ON THE TOWN'S
PROPERTY TAX RATE**

In a bond referendum, the question before the voters is whether the Town should be authorized to sell general obligation bonds for a class of capital projects. A "general obligation" bond is one which pledges the Town's full faith and credit including the potential levy of taxes to ensure payment of the debt and interest costs.

If some or all of the bond issues are approved by the voters in the November referendum, the Town Council could decide to issue none, all or any portion of the bonds over a seven year period. Unlike mortgage debt, general obligation bonds are structured so that principal is paid off steadily, causing the debt payments to decrease regularly from the first payment to the last. Therefore, the schedule of issuance makes a difference in the total debt service payments in any given year. If all are sold at once, the peak debt service is maximized. If they are issued in several sales over a period of time, the amount of debt service in any one year can be reduced.

The cost of debt service could be accommodated by a decrease in other Town expenditures or increases in the tax rate or in other revenues, or any combination of these options. Below we provide information on the cost of the debt in terms of the tax rate. We emphasize that the projections are based on assumptions regarding several major variables: future growth of the tax base, interest rate at which the bonds are actually sold, the schedule of sales and the amount actually sold.

Table 1 shows Town staff estimates of the tax rate equivalents of the estimated annual debt service cost of issuing various amounts of bonds. The table shows estimated debt service payments in the first year for specified principal amounts assuming an interest rate of 5% and a normal general obligation bond maturity of 20 years. (Debt service payments would decline each year thereafter by 5% of the amount of principal retired each year of the 20-year maturity.)

Table 1

**Estimated Debt Service Payments on Proposed 2003 Bonds
and Tax Rate Equivalents of Debt Payments**

| Principal Amount of Bonds Issued | Debt Service Payments (First Year) | Current Tax Rate Equivalent (1 cent = \$426,000) |
|---|---|---|
| 1,000,000 | 100,000 | 0.2 cents |
| 5,000,000 | 500,000 | 1.2 cents |
| 10,000,000 | 1,000,000 | 2.4 cents |
| 15,000,000 | 1,500,000 | 3.5 cents |
| 20,000,000 | 2,000,000 | 4.7 cents |
| 25,000,000 | 2,500,000 | 5.9 cents |
| 29,360,000 | 2,936,000 | 6.9 cents |

With these assumptions, the debt service on each \$1,000,000 of debt issued would be \$100,000 in the first year. With 1 cent of the tax rate now generating about \$426,000 in property taxes, this table shows the tax rate equivalents of estimated debt service payments for various levels of estimated debt service.

Based on these estimates, the cumulative tax rate equivalent of estimated debt service payments if the total amount of proposed bonds were issued would be 6.9 cents if all the bonds were sold at one point in time. It is more likely, however, that the bonds would be issued in different amounts over the seven to ten year period that the bonds would be authorized.

The above view of the tax rate equivalent of debt service payments assumes that the value of 1 cent of the tax rate remains constant over the seven to ten year period of the proposed bonds. In reality, the tax base changes each year, increasing the revenue generated by 1 cent on the tax rate.

Table 2 shows how the tax base and the value of 1 cent of the tax rate have grown over the last ten years.

Table 2
Changes in 1 Cent Tax Rate Equivalent
Over Last Ten Years

| Year | Tax Base (in billions) | 1 Cent Tax Rate Equivalent |
|-------------|-----------------------------------|---------------------------------------|
| 1993-94* | \$ 2.015 | \$ 201,000 |
| 1994-95 | \$ 2.095 | \$ 209,000 |
| 1995-96 | \$ 2.190 | \$ 219,000 |
| 1996-97 | \$ 2.296 | \$ 229,000 |
| 1997-98* | \$ 2.769 | \$ 276,000 |
| 1998-99 | \$ 2.883 | \$ 288,000 |
| 1999-00 | \$ 2.944 | \$ 294,000 |
| 2000-01 | \$ 3.039 | \$ 303,000 |
| 2001-02* | \$ 4.021 | \$ 402,000 |
| 2002-03 | \$ 4.168 | \$ 416,000 |

*revaluation years

Based on information in Table 2 above, the value of 1 cent of the tax rate increased from \$201,000 in 1993-94 to \$416,000 in 2002-03.

Table 3 below illustrates how the tax base and the value of 1 cent might grow over the next seven to ten years.

Table 3

Illustrative Estimates of Potential Changes in Tax Base and Changes in 1 Cent Tax Rate Equivalent Over a 10-Year Period

| Year | Example 1 | | Example 2 | | Example 3 | |
|---------|----------------------------------|----------------------------|----------------------------------|----------------------------|----------------------------------|----------------------------|
| | Estimated Tax Base (in Billions) | 1 Cent Tax Rate Equivalent | Estimated Tax Base (in Billions) | 1 Cent Tax Rate Equivalent | Estimated Tax Base (in Billions) | 1 Cent Tax Rate Equivalent |
| 2003-04 | 4.26 | 426,000 | 4.26 | 426,000 | 4.26 | 426,000 |
| 2004-05 | 4.34 | 434,000 | 4.30 | 430,000 | 4.34 | 434,000 |
| 2005-06 | * 5.21 | 521,000 | 5.17 | 516,000 | 4.78 | 477,000 |
| 2006-07 | 5.29 | 529,000 | 5.21 | 520,000 | 4.82 | 481,000 |
| 2007-08 | 5.37 | 537,000 | 5.25 | 524,000 | 4.90 | 489,000 |
| 2008-09 | 5.45 | 545,000 | 5.29 | 528,000 | 4.98 | 497,000 |
| 2009-10 | * 6.54 | 654,000 | 6.34 | 634,000 | 5.48 | 547,000 |
| 2010-11 | 6.62 | 662,000 | 6.38 | 638,000 | 5.56 | 555,000 |
| 2011-12 | 6.70 | 670,000 | 6.42 | 642,000 | 5.64 | 563,000 |
| 2012-13 | 6.78 | 678,000 | 6.46 | 646,000 | 5.72 | 571,000 |
| 2013-14 | * 8.14 | 813,000 | 7.75 | 774,000 | 6.29 | 628,000 |

Example 1 – Assumes 80 million annual growth and 20% increase in revaluations (based on actual growth and revaluations over the past eight years)

Example 2 – Assumes 40 million annual growth (half the average growth in past years) and 20% increase in revaluations

Example 3 – Assumes 80 million annual growth and 10% increase in revaluations (half the average of revaluations over the last eight years)

*Indicates Revaluation Year

Based on information in Table 3, estimated tax base growth under various scenarios could increase the value of 1 cent of the tax rate over a ten year period, from \$426,000 in 2003-04 to as much as \$813,000 in Example 1, \$774,000 in Example 2 and \$628,000 in Example 3. Consequently, the tax rate equivalent of various levels of debt service payments would be affected by the growth in the tax base.

In addition to the changing value of 1 cent of the tax rate, the estimated debt service payments also decline each year throughout the normal 20-year maturity of the bonds. Therefore, with declining debt service each year and increasing tax rate equivalents each year, the actual tax rate equivalent of the debt service payments would decline over the expected time frame in which the bonds would be issued.

Retirement of Current Bonds

A portion of the Town's existing bonds outstanding will be retired each year over the next ten years. Based on the Town's current debt service schedule, \$15,245,000 of the current bonds outstanding would be retired over the next ten years, thus reducing the total net amount of bonds outstanding and of debt service obligation.

Operating Costs of Proposed Bond Projects

In addition to the debt service cost for issuing new bonds, we believe there will be increases in annual operating costs for some of the proposed projects, primarily for expansion of the Town Library. Our preliminary estimate of the increased operating costs of a larger Library could be about \$350,000 annually (in today's dollars) based on the full expansion recommended in the Library Master Plan. The Council would make final decisions on the size and timing of the proposed expansion, and whether to issue all or a portion of any bonds authorized by the voters.

For the sidewalks, open spaces and energy efficiency projects, we believe future operating costs for most of these projects would be minimal and could be partially offset by funds currently provided annually by the Capital Improvements budget.

SUMMARY OF THE TOWN'S APPLICATION TO THE N. C. LOCAL GOVERNMENT COMMISSION FOR PERMISSION TO SELL GENERAL OBLIGATION BONDS TOTALING UP TO \$29,360,000

In the week of August 26, 2003, the Town of Chapel Hill applied to the N. C. Local Government Commission for permission to sell general obligation bonds subject to approval by the voters.

A copy of the Town's application is available for citizens to review in the Town Clerk's Office and in the Finance Department office in Town Hall, 306 North Columbia Street.

The application includes the following:

The Proposed Purposes and Amounts of Bonds

| | |
|-------------------------------------|-------------------------|
| • Sidewalks and Streets | \$ 5.60 million |
| • Parks and Recreational Facilities | 5.00 million |
| • Library Facilities | 16.26 million |
| • Open Space and Areas | 2.00 million |
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| Total | \$ 29.36 million |

Financial Data

Property tax levies in recent years have ranged from \$17.6 million in 2000-2001 to \$20.4 million in 2002-03.

The value of the property tax base is expected to be about \$4.265 billion for 2003-04.

One cent of the Town's current tax rate of 55.3 cents generates about \$426,000 in property tax revenue.

The Town's current outstanding general obligation bond debt was about \$20,070,000 at June 30, 2003.

The ratio of the Town's current general obligation bond debt to the property tax base of \$4.168 billion at June 30, 2003, was 0.6%.

Including bonds of \$29,360,000 proposed for November 4, 2003, the ratio of debt to the property tax base would be about 1.4%. The maximum ratio of debt to property tax base allowed by N. C. State law is 8%.

FOR MORE INFORMATION

- **Call the Town Manager's Office at 968-2743 or the Town's Finance Department at 968-2712.**
- **Visit the Town Clerk's Office or Finance Department at Town Hall, 306 North Columbia Street, Chapel Hill, N. C. 27516.**
- **Write a letter to the Town Manager's Office at the above address or fax to 969-2063.**

Visit the Town's website at www.townofchapelhill.org for information about the Town's proposed bonds and capital projects.



Town of Chapel Hill
306 N. Columbia Street
Chapel Hill, NC 27516