ATTACHMENT A

A RESOLUTION ADOPTING A REVISED DEBT POLICY
Resolution No. 99/2005-06

BE IT RESOLVED BY THE BOARD OF ALDERMEN OF THE TOWN OF CARRBORO:

Section 1. The Board of Aldermen hereby formally adopts the revised debt policy.

Section 2. This resolution shall become effective upon adoption.

Debt Policy

Debt policies are written guidelines and restrictions affecting the amount, issuance, process, and type of debt issued by a governmental entity. The important functions of a debt policy are to:

- Provide guidance on the types and levels of the Town's outstanding debt obligations so as not to exceed acceptable levels of indebtedness and risk. Debt policies also serve as a framework within which the Town can evaluate each potential debt issuance;
- Direct staff on objectives to be achieved, both before bonds are sold and for the ongoing management of the debt program;
- Facilitate the debt issuance process by making important decisions ahead of time;
- Assist the Town in the management of its financial affairs, ensuring that the Town maintains a sound debt position and that its credit quality is protected;
- Allow for an appropriate balance between the established debt parameters and providing flexibility to respond to unforeseen circumstances and new opportunities; and
- Serve as a means of stimulating an open debate about the government's outstanding obligations and lead to an informed decision by elected officials.

POLICY STATEMENTS

Purpose and Type of Debt

Purpose:

Debt is only to be incurred for financing capital assets that, because of their long-term nature or because of budgetary constraints, cannot be acquired from current or budgeted resources. Debt is not to be used for operational needs or normal recurring maintenance. Ideally, the Town will strive to restrict debt issuance to capital needs identified and formalized in a capital improvement program (CIP).

Types of Debt:

A. The types of debt instruments can include general obligation bonds, bond anticipation notes, revenue bonds, lease-installment financings, certificates of participation, special obligation bonds, or any other financing instrument allowed under North Carolina statutes. The Town will strive to use the least costly and most appropriate form of financing for its project needs.

B. All debt issued, including short-term installment purchase financing that the Town incurs for recurring equipment, will be repaid within a period not to exceed the expected useful life of the improvements, equipment, or vehicles financed by the debt.

Debt Limits and Affordability

Debt policies should define limits or acceptable ranges for each type of debt. Limits are set for legal, financial, and policy reasons. State law dictates legal limits. Financial limits may be established to achieve a desired credit rating or to exist within budgetary or other resource constraints. Debt limits alone will not result in desired ratings, but limits on debt levels can have a material impact if the local government demonstrates adherence to the policy over time. Policy limits can include the purposes for which debt may be used, the types of debt that may be issued, and minimum credit ratings.

The Town will use an objective, analytical approach to determine the amount of debt to be considered for authorization and issuance.

Several standards or guidelines are available for establishing limits:

Outstanding Debt as a Percentage of Assessed Valuation
This ratio measures debt levels against assessed valuation and assumes that property taxes are the primary source of debt repayment.

Statutorily, 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. However, this is not considered a realistic ratio as other ratios that measure ability to pay (described below) would exceed the Town's desired debt levels.

The Town will also strive to avoid maintaining a "high" debt burden as measured by the Local Government Commission. This analysis is updated annually by the LGC.

Debt per Capita
This ratio reflects the philosophy that all taxes, and therefore the total principal on outstanding debt, are paid by the residents (as measured by population count). This ratio is widely used by analysts as a measure of an issuers' ability to repay debt.

The Town will also strive to avoid maintaining a "high" debt burden as measured by the Local Government Commission. This analysis is updated annually by the LGC.

Debt Service as a Percentage of Operating Expenditures
The ratio that measures the percentage of debt service to the general fund expenditures reflects the Town's budgetary flexibility to change spending and respond to economic downturns. Annual debt service payments (like a house payment), can be a major fixed part of a government's fixed costs and its increase may indicate excessive debt and fiscal strain.

The North Carolina Local Government Commission (LGC) advises that local governments should have a reasonable debt burden. A heavy debt burden may be evidenced by a ratio of General Fund Debt Service to General Fund Expenditures exceeding 15%, or Debt per Capita or Debt to Appraised Property Value exceeding that of similar units. Credit rating agencies, on the other hand, consider debt exceeding 20% of operating budget to be excessive. Ten percent is considered acceptable.

The Town will maintain this ratio at or below 12%, considering this to be a moderate level of debt.

Use of Debt Ratios

Carrboro, for the fiscal year ending June 30, 2005 shows debt expenditures, including installment financing debt, at 8.61% of the total audited operating expenditures.

This measure will be the primary ratio used to relay the impact of debt to the Board, both in terms of tax rate and ability to pay debt within budgetary constraints. No project will be included in the CIP that increases the debt ratio above 12%. Any project that is considered outside of the Capital Improvement Plan shall be revisited in context of the plan to monitor the project's impact on the Town's debt ratios. Projects shall be considered for recommendation as long as the debt expenditures as a percentage of operating expenditures remain at or below the 12% debt ratio.

The aforementioned measures, while defined with targets in mind, shall also be judged against the necessity of and benefits derived from the proposed acquisitions. The Town will continue to update its debt affordability analyses annually along with a review of peer groups to continue to analyze and control its debt effectively.

By establishing comparative debt ratios and targets over a period of time, the Town is demonstrating that there is an analytical and informed process for monitoring and making decisions about the Town's debt burden and maintaining the Town's fiscal position on behalf of the community.

Bond Ratings

The Town will seek to maintain its current A+ (Standard and Poors) and A1 (Moody's) bond ratings. The Town will maintain good communications with bond rating agencies about its financial condition and operations.

Debt Issuance and Structure

The Town will strive to issue bonds no more frequently than once in any fiscal year. The scheduling of bond sales and installment purchase decisions and the amount of bonds to be sold and installment financing to be sought will be determined each year by the Board of Aldermen. These decisions will be based upon the identified cash flow requirements for each project financed, market conditions, and other relevant factors.

If cash needs for bond projects are insignificant in any given year, the Board may choose not to issue bonds. Instead, the Board may fund upfront project costs and reimburse these costs when bonds are sold. In these situations, the Board will adopt reimbursement resolutions prior to the expenditure of project funds.

For most debt issues, the actual structure and sale is conducted in conjunction with the Local Government Commission (LGC), a division of the Office of State Treasurer. The LGC functions as the financial advisor to local governments when issuing debt. Structuring must take into consideration current conditions and practices in the municipal finance market.

The Town will seek level or declining debt repayment schedules on long-term bonded debt, as encouraged by the Local Government Commission. Debt requiring balloon principal payments reserved at the end of the issue term will be avoided. General obligation bonds will be generally competitively bid with no more than a 20-year life.

For short-term installment financings on capital items and equipment, the Town will rely on a competitive bidding process and the debt term will not exceed the useful life of the asset.

Capital Planning and Debt Determination

The Town will adopt a six-year capital improvements plan (CIP) annually. Debt financing and the associated policies will be considered in conjunction with the CIP with approval of funding and projects by the Board of Aldermen.

Any capital item that has not been included in the CIP or recurring lease-purchase schedule but because of its critical or emergency need where timing was not anticipated in the CIP or budgetary process, or is mandated immediately by either State or Federal requirements, will be considered for approval for debt financing.