

DEBT SERVICE REQUIREMENTS FISCAL YEAR 2003

BACKGROUND

In North Carolina, an agency known as the Local Government Commission in the State Treasurer's Office oversees local government bonded debt and assists municipalities and counties in all areas of fiscal management. This agency conducts all bond sales, and ensures that local units have sufficient fiscal capacity to repay debt. The Town is subject to the Local Government Bond Act of North Carolina, which limits the amount of net bonded debt the Town may have outstanding to 8% of the appraised value of property subject to taxation.

The Town has five outstanding series of general obligation bonds, excluding refunding bonds. Principal and interest payments on general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. They bear interest, payable semi-annually, at rates varying from 4.1 to 5.25 percent. Principal and interest requirements are provided by appropriation in the year in which they are due. The Town's general obligation bonds have been rated triple-A by Moody's, Standard and Poors, and Fitch. These excellent bond ratings positively affect the Town's interest costs through lower interest rates.

The Town has three general obligation refunding bond issues outstanding. Refunding bonds are issued to retire bonds that are already outstanding in order to achieve economic savings through lower interest rates. The refunding bonds bear interest, payable semi-annually, at rates varying from 4.0 to 6.5 percent. Principal and interest requirements are provided by appropriation in the year in which they are due and are collateralized by the full faith, credit, and taxing power of the Town.

The Town issued its first revenue bonds in November 2001, with interest rates of 3.25 to 5.0 percent. These revenue bonds are long-term debt instruments that will be repaid from the receipts of the utility system. Revenue bonds require a trust agreement between the Town and a trustee for the benefit of the bondholders. In this trust agreement, the Town made certain covenants, or promises, regarding the setting of rates and the operation of the utility system. The bonds were rated Aa2 by Moody's, AA by S&P, and AAA by Fitch.

The Town has three outstanding installment purchase agreements with interest rates ranging from 4.04 to 4.83 percent. The debt service on these obligations is paid from the general revenues of the Town, and are collateralized by the property that is financed.

HISTORICAL OVERVIEW

- 1986 A bond referendum of \$27,000,000 was placed on the November 4, 1986 ballot. This referendum consisted of an additional \$5,000,000 for construction of a water treatment plant, \$5,000,000 for street construction and improvements, and \$17,000,000 for construction of a wastewater treatment plant. Cary residents approved these three issues.
- 1987 A total of \$20,500,000 in general obligation bonds was sold in July 1987. This sale included a portion of the 1986 authority and \$10,000,000 in previously authorized but unissued water bonds for the treatment plant.
- 1988 The Town sold an additional \$2,000,000 in authorized street improvement bonds and \$5,000,000 in authorized sewer bonds in August 1988. The bonds related to both of these sales have been either fully paid by the Town or refunded and subsequently called as of March 31, 1998.
- 1989 A refunding transaction occurred in November 1989, whereby several issues were refunded in order to save the Town approximately \$800,000.
- 1991 A bond sale was held in September 1991, at which time the remaining 1986 authority of \$1,000,000 in street bonds and \$8,500,000 in water bonds were sold. This offering completed the sale of all authorized general obligation bonds to date.
- 1992 The Town refunded \$20,125,000 in water, sewer, and street bonds in December 1992, at interest rates ranging from 5.5 to 5.6 percent. The original bonds issued in FY 1987 and FY 1988 were refunded to provide the Town approximately \$726,000 in present value savings.

HISTORICAL OVERVIEW (Continued)

- 1993 In December 1993 the Town entered into an installment purchase agreement for \$3,500,000 for financing part of the \$10,500,000 cost of its new public works/utilities operations center. The debt was repaid over a period of four years and was budgeted in the General Fund. The first principal payment was made in FY 1996, and interest payments were made monthly based on a 3.72 percent annual interest rate. This agreement was paid in full in August 1998.
- 1994 In a March 1994 referendum, the Cary voters approved \$9,075,000 in sewer bond authorizations and \$9,425,000 in parks and recreation bond authorizations.
- 1996 A refunding transaction related to the 1991 general obligation issue occurred in April 1996. Interest rates ranged from 4.5 to 4.8 percent, and generated approximately \$105,000 in savings to the Town. In April 1996, a total of \$11,575,000 in general obligation bonds were sold with interest rates ranging from 5.1 to 5.25 percent. This sale included \$9,075,000 of authorized sewer bonds and \$2,500,000 of authorized parks and recreation bonds.
- 1997 In October 1997, the Town entered into an installment purchase agreement for \$700,000 for the financing of two fire trucks. The debt will be repaid over a period of ten years and is budgeted in the General Fund. The first principal and interest payment was made in FY 1998. Principal and interest payments are made semi-annually based on a 4.83 percent annual interest rate. In November 1997, the Town entered into an installment purchase agreement for \$6,920,000 to finance part of the \$19,650,000 cost of the South Cary Water Reclamation Facility (SCWRF) expansion. The debt was to be repaid over a period of fifteen years and was budgeted in the Utility Fund. The first principal and interest payment was made in FY 1998. Principal and interest payments were made semi-annually based on a 4.84 percent annual rate.
- 1998 In December 1998, \$6,925,000 in general obligation bonds were sold with interest rates ranging from 4.0 to 4.2 percent. This sale was for the remaining parks and recreation authorization. In December 1998, the Town also entered into an installment purchase agreement for \$2,200,000 for the financing of a water tank. The debt was to be repaid over a period of fifteen years and was budgeted in the Utility Fund. The first principal and interest payment was made in FY 1999. Principal and interest payments were made semi-annually based on a 3.99 percent annual rate.
- 1999 In a February 2, 1999 referendum, the Cary voters approved \$66,510,000 in water bond authorizations, \$62,635,000 in street and sidewalk bond authorizations, and \$10,000,000 in park and recreational facility bond authorizations. Of the water bond authorization \$9,950,000 is designated for water tanks and \$56,560,000 is designated for the Town's share of the Cary/Apex Water Treatment Plant expansion. In October 1999, the Town entered into an installment purchase agreement for \$1,983,275 to finance the cost of a new fire station on Ten-Ten Road. The debt will be repaid over a period of ten years and is budgeted in General Fund. The first principal and interest payment was made in FY 2000. Principal and interest payments will be made semi-annually based on a 4.73 percent annual rate.
- 2001 In February 2001, \$76,900,000 in general obligation bonds were sold with interest rates ranging from 4.25 to 5.0 percent. This sale included \$59,100,000 of authorized water bonds, \$10,600,000 of authorized street and sidewalk bonds, and \$7,200,000 of authorized park and recreational facility bonds. The Town also refunded \$12,330,000 of the 1992 refunding in February 2001, at rates ranging from 4.0 to 4.2 percent, for approximately \$459,000 in present value savings. In November 2001, the Town issued \$19,135,000 of revenue bonds to finance the reclaimed water system, and to refund the 1997 SCWRF expansion installment purchase agreement and the 1998 water tank installment purchase agreement. The installment purchase agreements were refunded to remove the liens on the utility system. The revenue bonds will be repaid over a period on 25 years, semi-annually, from receipts of the utility system at interest rates ranging from 3.25 to 5.0 percent.
- 2002 In March 2002, the Town entered into an installment purchase agreement for \$375,000 for the financing of a fire pumper. The debt will be repaid over a period of ten years and is budgeted in the General Fund. Principal and interest payments are made semi-annually based on a 4.04 percent annual interest rate with the first payment in FY 2003.

FY 2003 DEBT OUTLOOK

The Town is planning to issue certificates of participation for \$48,000,000 to finance the cost to expand and renovate the main Town Hall campus and to accelerate the state planned widening of NC Highway 55. This will be the first issue of this type of debt for the Town and is expected to occur in the first quarter of the fiscal year. Debt service is expected to begin in FY 2003.

The Town is planning to issue \$52,035,000 in street authorization, \$2,800,000 in park authorization and \$3,400,000 in water authorization related to the February 1999 bond referendum. This will cover construction of numerous streets, parks and water tanks. Debt service on these bonds is expected to begin in FY 2004. After this issue there will be no remaining street or park authorization. The remaining water authorization will be \$4,010,000.

The Town is planning to issue \$30,350,000 in utility revenue backed debt during the fiscal year to cover a portion of certain water reclamation projects. Debt service for this issue is expected to begin in FY2004 and is budgeted in the Utility Fund.

The Town is also planning to enter into installment purchase contracts in amounts of \$2,719,220 to purchase two fire aerial ladder platform trucks and two fire pumpers. Debt service on these contracts is expected to begin in FY 2004.

EFFECTS OF DEBT

The Town's Utility Fund has historically carried the majority of the Town's debt. With the expected issuance of Town Hall and NC Highway 55 certificates of participation, the expected 2003 general obligation bond issuance for streets and parks, and the expected fire installment purchase contracts, the general fund is expected to have \$132,718,816 of debt outstanding at June 30, 2003, slightly more than the utility fund's expected debt balance of \$127,134,887. The General Fund has a debt service obligation as of July 1, 2002 in FY 2003 of \$4,412,729. This includes debt service on streets bonds, parks and recreation bonds, and installment purchase obligations for three fire trucks and a fire station. This amount also includes \$1,200,000 related to the anticipated Town Hall and NC Highway 55 certificates of participation issuance. The Utility Fund has a debt service obligation as of July 1, 2002 in FY 2003 of \$10,177,632. This amount includes debt service on the two water reclamation facilities, the water treatment plant, and three water tanks, and the reclaimed water system.