

DEBT MANAGEMENT PROGRAM

OUTSTANDING DEBT

As of June 30, 2009, the City of Salisbury will have \$92,457,751 in outstanding debt for all funds. The type of debt with the breakdown between funds is shown below:

General Fund:	
General obligation bonds	\$ 1,475,000
Certificates of Participation	2,305,000
Capital leases	<u>5,120,627</u>
	<u>\$ 8,900,627</u>
General Fund Capital Replacement Fund	
Capital leases	<u>\$ 337,212</u>
Water and Sewer Fund:	
General obligation bonds	\$ 7,480,000
Revenue bonds	30,826,601
Capital leases	2,007,263
State Clean Water Revolving Loans	<u>8,890,048</u>
	<u>\$ 49,203,912</u>
Fiber Optic Network Fund	
Certificates of Participation	<u>\$ 33,560,000</u>
HUD Fund	
Section 108 Loan	<u>\$ 436,000</u>
Total	<u>\$ 92,437,751</u>

General Fund

The City has lease agreements to finance the acquisition of various equipment. These agreements qualified as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, were recorded at the present value of the future minimum lease payments as of the date of their inception. These lease agreements are outlined as follows:

Lease for capital building improvements from BB&T, dated December 29, 1999, payable in twenty semi-annual installments of \$63,331.96 at an effective annual interest rate of 4.73%.

Lease for capital improvements of facilities from Bank of America, dated December 22, 2000, payable in thirty semi-annual installments varying from \$59,875 on June 22, 2001 to \$34,223 on December 22, 2015 at an effective interest rate of 5.25%.

Lease for 800-trunking system upgrade from Wachovia Bank of North Carolina, dated April 12, 2004, payable in eighteen semi-annual installments consisting of \$110,583 principal plus interest at an effective interest rate of 2.93%.

Lease for purchase of 911 equipment from BB&T dated February 3, 2005, payable in fifty-nine monthly installments of \$3,524.25 at an effective annual interest rate of 3.45%.

Lease for construction and renovation of Police Department facilities and City Office Building facilities from Bank of America, dated May 2, 2006, payable in thirty semi-annual installments consisting of \$118,856 principal plus interest at an effective interest rate of 3.83%.

Installment purchase contract from First Bank for the financing of real estate, dated June 30, 2008 in the amount of \$906,934, payable in fifty-nine monthly payments of \$6,397 and one final payment of all remaining principal plus accrued interest, which is due in July 2013 at an annual interest rate of 3.25%.

The construction and improvements to facilities funded by these leases are complete. All improvements are recorded at their construction cost upon completion. The property, funded by First Bank, has been recorded at its present value. The purchase of equipment funded by BB&T and Wachovia is complete and recorded at its purchase price.

In December 1997, the City issued \$3,000,000 general obligation bonds for parks and recreational improvements. These bonds were issued at an average rate of 4.79%, maturing serially to 2017.

In December 2008, the City issued \$2,305,000 Series 2008 certificates of participation for facility improvements. This issue was part of a larger issue that totaled \$35,865,000 in Series 2008 certificates of participation. The \$2,305,000 was issued at an average coupon rate of 4.36%, maturing serially to 2019.

Future maturities and interest on General Fund long-term debt are:

Year Ending June 30,	General Obligation Bonds		Capital Leases		Certificates of Participation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 200,000	\$ 70,950	\$ 660,835	\$ 182,933	\$ 235,000	\$ 94,463	\$1,095,835	\$ 348,345
2011	200,000	61,350	576,218	160,415	230,000	86,825	1,006,218	308,590
2012	200,000	51,750	577,847	139,692	230,000	78,775	1,007,847	270,217
2013	200,000	42,150	579,663	118,554	230,000	70,725	1,009,663	231,429
2014	200,000	32,550	962,078	78,546	230,000	61,525	1,392,078	172,621
2015	200,000	22,950	304,379	65,893	230,000	51,750	734,379	140,593
2016	200,000	13,350	271,045	53,240	230,000	42,550	701,045	109,140
2017	75,000	3,750	237,712	43,246	230,000	32,775	542,712	79,771
2018	-	-	237,712	34,141	230,000	22,425	467,712	56,566
2019	-	-	237,712	25,037	230,000	11,500	467,712	36,537
2020	-	-	237,712	15,933	-	-	237,712	15,933
2021	-	-	237,712	6,828	-	-	237,712	6,828
Totals	\$1,475,000	\$ 298,800	\$5,120,627	\$ 924,457	\$2,305,000	\$ 553,313	\$8,900,627	\$1,776,570

General Fund Capital Reserve Fund

The City has a lease agreement to finance the acquisition a fire truck. This agreement qualifies as capital lease for accounting purposes (titles transfer at the end of the lease terms) and, therefore, was recorded at the present value of the future minimum lease payments as of the date of its inception. This lease agreement is outlined as follows:

Installment purchase contract from RBC Centura dated January 2, 2007 in the amount of \$674,425, payable in eight semi-annual installments consisting of \$84,303 principal plus interest at 3.57%.

Future maturities and interest on General Fund Capital Replacement Fund long-term debt are:

Year Ending June 30,	Capital Leases	
	Principal	Interest
2010	\$ 168,606	\$ 10,534
2011	168,606	4,514
Totals	\$ 337,212	\$ 15,048

Water and Sewer Fund

Long-term debt of the Water and Sewer Fund includes the following general obligation and revenue bond issues:

	<u>Balance</u> <u>June 30, 2009</u>
Combined Enterprise Revenue Series 1998A, average rate of 4.87%, issued January 1998, maturing serially to 2018	\$ 1,150,000
Combined Enterprise Revenue Series 2002, average rate of 4.84%, issued April 2002, maturing serially to 2022 with terms in 2020 and 2027	17,040,000
Water Bonds Series 1998, average rate of 4.4%, issued June 1998, maturing serially to 2017	1,325,000
Refunding Water and Sewer Series 2003, average rate of 3.44%, issued August 2003, maturing serially to 2019	6,155,000
Revenue Bonds 2006, average rate of 3.44%, issued December 2006, maturing serially to 2027	5,483,563
Revenue Bonds 2007, average rate of 4.06%, issued October 2007, maturing serially to 2028	<u>7,153,038</u>
	<u>\$38,306,601</u>

The general obligation bonds were issued to finance the construction of facilities utilized in the operations of the water and sewer systems and are being retired by the resources of the Water and Sewer Fund. These bonds bear interest, payable semiannually, and are collateralized by the full faith, credit, and taxing power of the City. The combined enterprise revenue bonds were issued to finance the construction of facilities utilized in the operations of the water and sewer systems and are being retired by the resources of the Water and Sewer Fund. These bonds bear interest, payable semiannually, and are collateralized by the receipts of only the Water and Sewer Fund.

The Revenue Bond General Trust Indenture requires that the City must maintain certain debt covenants relating to reporting requirements, annual budgets, and minimum utility funds revenues. Net revenues available for revenue bond debt service cannot be less than one hundred twenty percent (120%) of the long-term debt service requirement for parity indebtedness. The calculations of the City's revenue bond coverage for the last three years are as follows:

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
2006	18,132,373	11,843,353	6,289,020	630,000	980,535	1,610,535	390.49%
2007	19,888,170	12,384,082	7,504,088	749,228	1,079,730	1,828,958	410.29%
2008	20,965,998	13,150,616	7,815,382	879,464	1,253,426	2,132,890	366.42%

(1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.

(2) Total operating expenses exclusive of depreciation.

(3) Parity debt includes revenue bonds and N. C. State Clean Water Bonds in 2005, but only revenue bonds in 2006-2007.

The City has entered into various agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates on these agreements range from 3.385% to 5.6%. The City has recorded water and sewer assets related to these leases at their fair market value of \$7,898,494. The future minimum lease payments at June 30, 2008 total \$2,274,848, including \$485,749 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

In addition to this debt, the City also owes the State of North Carolina for debt issued through its Clean Water Revolving Loan program. Two of these loans were refinanced by the State of North Carolina reducing their average interest rate from 5.03% to 3.43% resulting in total savings over the remaining lives of the loans of \$573,284. Total Clean Water Debt is composed of the following four loans:

	Balance <u>June 30, 2009</u>
Clean Water Loan for Sewer purposes, average rate of 5.03%, issued July 1989, revised May 1, 2003 to 3.43%, maturing serially to 2017	\$ 2,000,000
Clean Water Loan for Water purposes, average rate of 5.03%, issued January 1992, revised May 1, 2003 to 3.43%, maturing serially to 2017	180,048
Clean Water Loan for Sewer purposes, average rate of 2.60%, issued June 1998, maturing serially to 2017	5,060,000
Clean Water Loan for Water purposes, average rate of 2.60%, issued January 1999, maturing serially to 2017	<u>1,650,000</u>
	<u>\$ 8,890,048</u>

Future maturities and interest of Water and Sewer Fund for all types of long-term debt are:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Clean Water Bonds		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	1,245,000	277,728	1,208,350	1,385,259	882,506	249,236	274,409	83,860	3,610,265	1,996,082
2011	1,225,000	235,788	1,257,749	1,415,624	882,506	224,029	276,324	72,745	3,641,579	1,948,185
2012	1,210,000	192,388	1,312,935	1,278,810	882,506	198,822	283,334	61,480	3,688,775	1,731,499
2013	1,190,000	148,463	1,373,939	1,219,523	882,506	173,615	240,799	50,370	3,687,244	1,591,970
2014	1,175,000	103,794	1,430,796	1,160,956	882,506	148,408	240,799	40,830	3,729,101	1,453,988
2015	1,160,000	58,419	1,493,538	1,098,357	882,506	123,201	240,799	31,260	3,776,843	1,311,237
2016	175,000	12,375	1,557,203	1,032,346	882,506	97,994	240,799	21,690	2,855,508	1,164,405
2017	100,000	4,500	1,626,828	962,712	882,506	72,787	60,000	12,120	2,669,334	1,052,119
2018	-	-	1,702,451	888,984	610,000	47,580	60,000	8,670	2,372,451	945,234
2019	-	-	1,619,113	815,159	610,000	31,720	50,000	5,220	2,279,113	852,099
2020	-	-	1,691,857	740,666	610,000	15,860	30,000	2,320	2,331,857	758,846
2021	-	-	1,770,726	662,797	-	-	10,000	580	1,780,726	663,377
2022	-	-	1,850,765	581,257	-	-	-	-	1,850,765	581,257
2023	-	-	1,937,023	496,000	-	-	-	-	1,937,023	496,000
2024	-	-	2,029,549	406,724	-	-	-	-	2,029,549	406,724
2025	-	-	2,118,393	313,130	-	-	-	-	2,118,393	313,130
2026	-	-	2,218,610	215,413	-	-	-	-	2,218,610	215,413
2027	-	-	2,100,730	114,107	-	-	-	-	2,100,730	114,107
2028	-	-	526,044	21,357	-	-	-	-	526,044	21,357
2029	-	-	-	-	-	-	-	-	-	-
Totals	<u>\$ 7,480,000</u>	<u>\$ 1,033,453</u>	<u>\$ 30,826,601</u>	<u>\$ 14,809,180</u>	<u>\$ 8,890,048</u>	<u>\$ 1,383,250</u>	<u>\$ 2,007,263</u>	<u>\$ 391,145</u>	<u>\$ 49,203,912</u>	<u>\$ 17,617,028</u>

Fiber Optic Network Fund

Long-term debt of the Water and Sewer Fund includes the following certificate of participation debt issue:

	<u>June 30, 2009</u>
Series 2008 Certificates of Participation, average rate of 5.36%, issued December 2008, maturing serially to 2019	<u>\$ 33,560,000</u>

In December 2008, the City issued \$33,560,000 in Series 2008 certificates of participation. This issue was part of a larger issue that totaled \$35,865,000 in 2008 Series 2008 certificates of participation. The \$33,560,000 was issued at an average coupon rate of 5.36%, maturing serially to 2029.

Future maturities and interest on Fiber Optic Network Fund long-term debt are:

Year Ending June 30,	Certificates of Participation	
	Principal	Interest
2010	-	1,736,594
2011	-	1,736,594
2012	-	1,736,594
2013	1,330,000	1,736,594
2014	1,380,000	1,683,394
2015	1,440,000	1,624,744
2016	1,500,000	1,567,144
2017	1,560,000	1,503,394
2018	1,630,000	1,433,194
2019	1,710,000	1,355,769
2020	1,795,000	1,270,269
2021	1,885,000	1,178,275
2022	1,990,000	1,076,956
2023	2,095,000	969,994
2024	2,210,000	854,769
2025	2,330,000	733,219
2026	2,460,000	602,156
2027	2,600,000	463,781
2028	2,745,000	317,531
2029	2,900,000	163,125
Totals	<u>\$ 33,560,000</u>	<u>\$ 23,744,088</u>

Special Revenue Fund

The City borrowed funds on loan from the U. S. Department of Housing and Urban Development pursuant to Section 108 of Title I of the Community Development Act of 1974. The loan was used to renovate two buildings to form a new community center. The City borrowed a total of \$596,000 under this loan.

Future maturities and interest on HUD Section 108 loan are:

Year Ending June 30,	Capital Leases	
	Principal	Interest
2010	\$ 32,000	\$ 21,099
2011	32,000	19,824
2012	32,000	18,449
2013	32,000	16,993
2014	32,000	15,475
2015	32,000	13,913
2016	32,000	12,313
2017	32,000	10,672
2018	32,000	8,995
2019	32,000	7,288
2020	34,000	5,499
2021	34,000	3,630
2022	34,000	1,740
2023	14,000	395
Totals	<u>\$ 436,000</u>	<u>\$ 156,284</u>

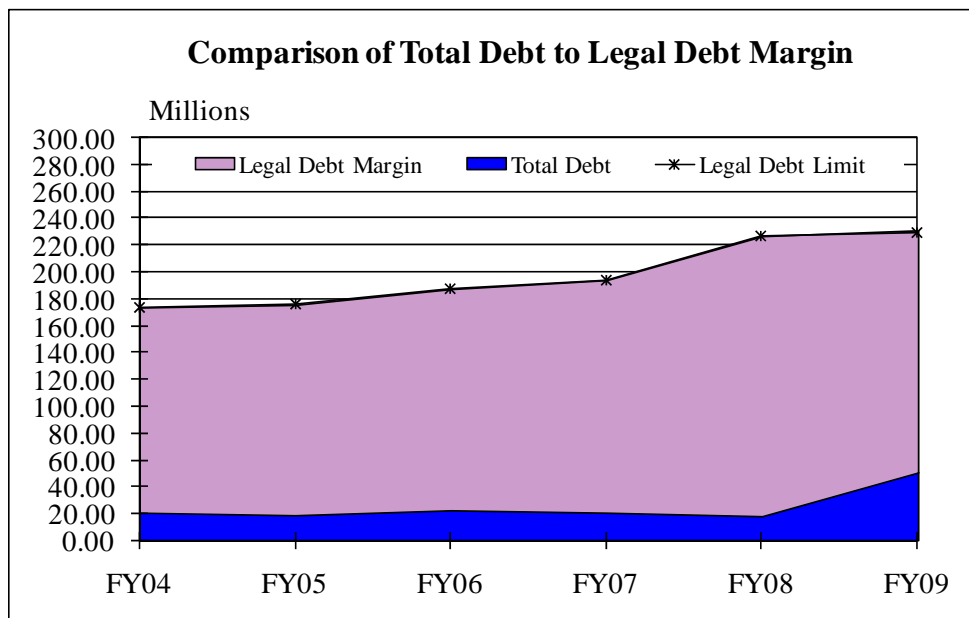
PROPOSED DEBT

The City of Salisbury anticipates issuing Water and Sewer Revenue Bonds in September 2009. The exact amount of this issue is not yet known, but is currently estimated to be \$6,000,000. These bonds will be used to provide funding for the construction of water and sewer lines. Although the exact terms of this debt issue have not been determined, the Water and Sewer Fund has budgeted \$250,000 which can be used towards the debt service of this bond issue for FY2009-10.

There are no other debt issues planned for FY2009-10.

LEGAL DEBT MARGIN

As shown on the graph below, the City has maintained an ample legal debt margin. This margin is based on a debt limit of eight percent of assessed valuation less total debt as required by North Carolina General Statutes. The margin allows for the incurring of proposed debt to finance the needed water and sewer infrastructure projects as outlined in Section 12 - CAPITAL IMPROVEMENT PROGRAM. Furthermore, the City complies with the Debt Management Policy as defined in Section 2.



Computation of Legal Debt Margin at June 30, 2009

Debt limit: Assessed value of \$2,880,118,482 x 8%		\$ 230,409,479
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 8,955,000	
Total certificates of participation	35,865,000	
Total capitalized lease obligation	7,465,102	
Total outstanding debt	52,285,102	
Less: Deductions allowed for water bonds issued	1,325,000	
Total amount of debt applicable to debt limit		50,960,102
LEGAL DEBT MARGIN		\$ 179,449,377

DIRECT AND OVERLAPPING DEBT

The table below shows the computation of direct and overlapping debt from the City and Rowan County. These amounts are as of June 30, 2008.

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes: Rowan County	\$ 84,745,444	24.77%	\$ 20,989,746
City of Salisbury direct debt			<u>8,498,267</u>
Total direct and overlapping debt			<u><u>\$ 29,488,013</u></u>

Sources: Assessed value data used to estimate applicable percentages and outstanding debt data provided by Rowan County Finance Department.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Salisbury. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.