

## Debt Capacity Explained

Village operations are funded through a variety of sources. The Village raises most of its funds through property taxes. The Village also receives a sizeable amount of funds through occupancy taxes which are paid through rentals. Water and wastewater operations are funded through user rates and fees.

When the Village needs to borrow money to expand/replace infrastructure or facilities, it looks at a variety of options, including state and federal grant funds, installment loans, and issuing bonds. Any indebtedness for a reasonable amount must be approved by the NC Local Government Commission (LGC).

A bond is a written promise to repay borrowed money on a defined schedule, usually at a fixed rate of interest, for the life of the bond. The two primary bond options available to the Village are Revenue Bonds and General Obligation (GO) Bonds:

- Revenue Bonds are a promise to repay debt secured by an identified revenue stream (for example, ridership fees). The strength of the revenue stream is the driver of the credit rating.
- GO Bonds are a promise to repay debt secured by the full faith, credit, and taxing power of the entity. The debt can be repaid, however, from other available revenues. GO Bonds are generally considered a more secure form of debt than Revenue Bonds. The strength and makeup of the tax base is the primary driver of the credit rating tied to a GO Bond.

In order to take advantage of GO Bonds, state law dictates a municipality must stay under an upper limit of 8% indebtedness of the total appraised value of property subject to taxation by a local government unit. A bond order cannot be adopted if the net debt of a unit surpasses its respective 8% limit.

The appraised value for all property on Bald Head is currently \$1.162B. Thus the 8% indebtedness cap is \$93M. The Village's current bond indebtedness is \$15.8M or 1.39% of appraised value.

The Village's GO bond proposal to acquire the transportation assets of BHI Limited cannot exceed \$54M. When adding the \$54M to the other existing and anticipated Village debt, the total in 2023 (the year of the greatest indebtedness) is \$68.9M or 5.9%, below the 8% cap established by statute.

To learn more about anticipated projects and indebtedness over time, please click [HERE](#).