

# FINANCIAL TRENDS

## PAST, PRESENT AND FUTURE

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The Town monitors its financial condition in various ways, from forecasting future revenue and expenditure trends to aggregating financial information into ratios that provide meaningful data about the Town's fiscal health. The Town is considered to be on solid economic footing. The Town currently holds a credit rating of AAA with Standard and Poor's and Moody's Aa1. These are considered very favorable ratings, particularly for municipalities similar to Carrboro.

The Town's financial condition through the last audited year is evaluated using methodology recommended by the International City/County Management Association (ICMA). This analysis, formally known as FTMS (Financial Trends Monitoring System), offers governments a systematic way to monitor changes and to anticipate future problems.

The town also projects future financial activity based on the most current budget. In forecasting the future, the five-year plan is designed to show the tax rate impact of Town services over the long-term if growth continues at the current rates assumed in the model. The five-year plan provides information about underlying trends in the Town's fiscal position and budgetary trends monitoring key revenue and expenditures, debt and debt ratios, and the impact of capital investments and improvements on the Town's budget. It is used as a tool for reflecting trends rather than actual revenues, expenditures, and tax rates.

### Historical Financial Trends

Incorporated in the FTMS analysis are indicators used by credit rating firms that analyze major components of governmental operations (revenue, expenditures, operating position, and debt) to quantify changes or trends in financial condition. Minimum standards are not declared for most indicators. Instead, potential "warning trends" are identified and suggestions for analysis are offered. In a few cases, however, relevant credit industry benchmarks are noted by the FTMS. These benchmarks are identified for each indicator, where relevant, within the report. When analyzing financial conditions, we are attempting to:

- ☆ Maintain existing service levels,
- ☆ Withstand local and regional economic disruption,
- ☆ Meet demands of natural growth, decline, and change,
- ☆ Maintain facilities to protect investment and keep in usable condition,
- ☆ Meet future obligations (debt, leases, etc.), and
- ☆ Take advantage of cost-effective opportunities that may arise.

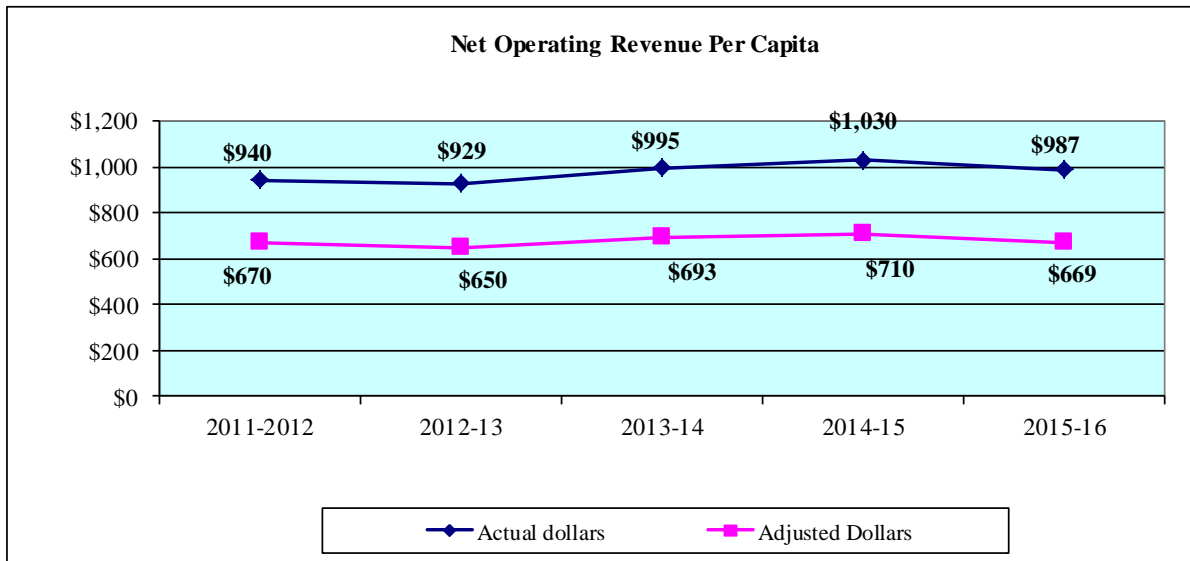
Included with every indicator is a description of the indicator, a table and graphical representation of the trend over the fiscal years for which we have audited budget reports, and an explanation of the implications of that trend for the government and residents of the Town. All the financial figures in the report are taken from the approved annual Town audit reports and other official Town records.

Several indicators used throughout the report present dollar figures that have been adjusted for inflation using the Consumer Price Index (CPI) provided by the Bureau of Labor Statistics. By illustrating figures in constant dollars the effects of inflation are removed. The analyses illustrate historical trends for the General Fund and Special Revenue Funds (Grant Funds and Revolving Loan Fund). All per capita figures were calculated using population figures used by the North Carolina Department of Revenue to distribute sales tax revenue. They, in turn, rely on Census and state demographics information.

**Revenue Indicators**

Revenues can be analyzed to determine the local government’s capacity to provide services. Important issues to consider in revenue analysis are growth, flexibility, elasticity, dependability, diversity, and administration. Under ideal situations revenues grow at a rate equal to or greater than the combined effects of inflation and expenditures. Revenues should be sufficiently flexible to allow adjustments to changing conditions.

**Operating Revenue Per Capita**



Year	2011-12	2012-13	2013-14	2014-15	2015-16
Net Operating Revenue (adjusted)	\$13,328,336	\$13,277,760	\$14,203,573	\$14,439,376	\$14,048,440
Population	19,905	20,433	20,510	20,337	20,984
Net Operating Revenue Per Capita (adjusted)	\$670	\$650	\$693	\$710	\$669

**Warning Trend:** Decreasing operating revenues per capita (constant dollars).

**Formula:** Operating Revenues per Capita (adjusted dollars)/Population

**Description**

Examining per capita revenues shows changes in revenues relative to changes in population size. As population increases, it might be expected that revenues and the need for services would

increase proportionally, and therefore the level of per capita revenues would remain at least constant in real terms. If per capita revenues are decreasing, the government may be unable to maintain existing service levels unless it finds new revenue sources or ways to provide existing services more efficiently. The reasoning in both cases assumes that the cost of services is directly related to population size.

Operating revenues, as defined in this chart, are that portion of gross revenues collected by the Town that is available for general municipal operations. Thus, revenues legally restricted to capital improvements or other special purposes are excluded. The only legally restricted revenue deducted to calculate operating revenue is Powell Bill revenue that is used for street resurfacing.

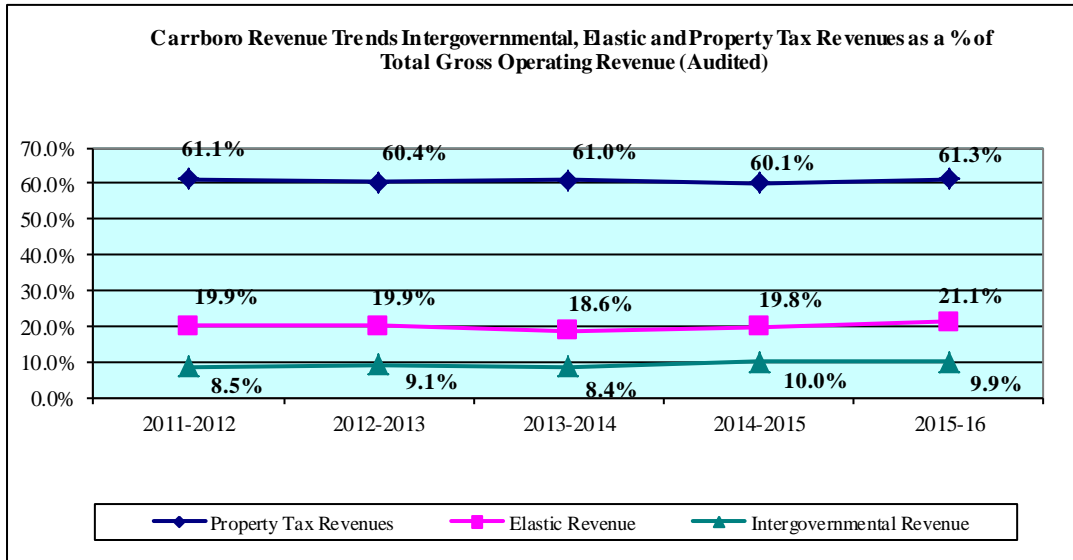
**Discussion**

In real terms (adjusted for inflation), revenues per capita in Carrboro have remained constant since FY2012. In actual dollars collected (adjusted for inflation), revenue increased by 5.4% percent. Local option sales tax, other taxes and licenses, and intergovernmental revenues, have increased in the past 5 years. The following chart shows distinct revenue trends as reflected in the Town’s audit reports.

Revenue Source	2016 Revenue Adjusted for Inflation	2012 Revenue Adjusted for Inflation	% Change in Revenue Since 2012	2016 per capita	2012 per capita	% Change Since 2012 (per capita)
Ad valorem taxes	\$ 8,025,942.06	\$ 8,338,997.93	-3.8%	\$ 382	\$ 419	-8.7%
Local option sales taxes	\$ 2,785,319.90	\$ 2,356,000.28	18.2%	\$ 133	\$ 118	12.1%
Other taxes and licenses	\$ 937,033.04	\$ 320,225.06	192.6%	\$ 45	\$ 16	177.6%
Intergovernmental revenues	\$ 1,091,780.31	\$ 972,165.09	12.3%	\$ 52	\$ 49	6.5%
Permits and fees	\$ 861,786.42	\$ 931,945.02	-7.5%	\$ 41	\$ 47	-12.3%
Sales and services	\$ 178,739.40	\$ 185,332.24	-3.6%	\$ 9	\$ 9	-8.5%
Investment earnings	\$ 19,551.53	\$ 34,078.77	-42.6%	\$ 1	\$ 2	-45.6%
Other	\$ 148,287.54	\$ 189,591.91	-21.8%	\$ 7	\$ 10	-25.8%
<b>Total revenues by source</b>	<b>\$14,048,440.19</b>	<b>\$13,328,336.30</b>	<b>5.4%</b>	<b>\$ 669</b>	<b>\$ 670</b>	<b>0.0%</b>

Having a significant impact on the revenue stream is the property tax and sales taxes revenue per capita, representing 77% of the total revenue per capita in 2016. The significant impact of property taxes as a source of revenue is largely a reflection of the state restrictions on the ability of local government to use other types of revenues to support community needs. Investment earnings had the most significant decrease due to the current economic conditions.

## Major Revenue Sources



Revenues	2011-12	2012-13	2013-14	2014-15	2015-16
Property Tax	\$ 11,708,787	\$ 11,754,299	\$ 12,741,993	\$12,887,757	\$12,989,241
Elastic Revenue	\$ 3,820,856	\$ 3,870,059	\$ 3,894,719	\$4,251,370	\$4,467,684
Intergovernmental Revenue	\$ 1,631,211	\$ 1,779,137	\$ 1,757,458	\$2,148,129	\$2,103,432
<b>Total Revenue</b>	<b>\$ 17,160,854</b>	<b>\$ 17,403,495</b>	<b>\$ 18,394,170</b>	<b>\$19,287,256</b>	<b>\$19,560,357</b>

### Description

This graph reflects the Town’s revenue base composition by property tax, elastic (economically responsive) revenue, and intergovernmental revenue. An increasing reliance on federal and state revenues may signal a warning trend. A balance between property tax and more elastic revenue sources such as sales tax is desirable and considered healthy.

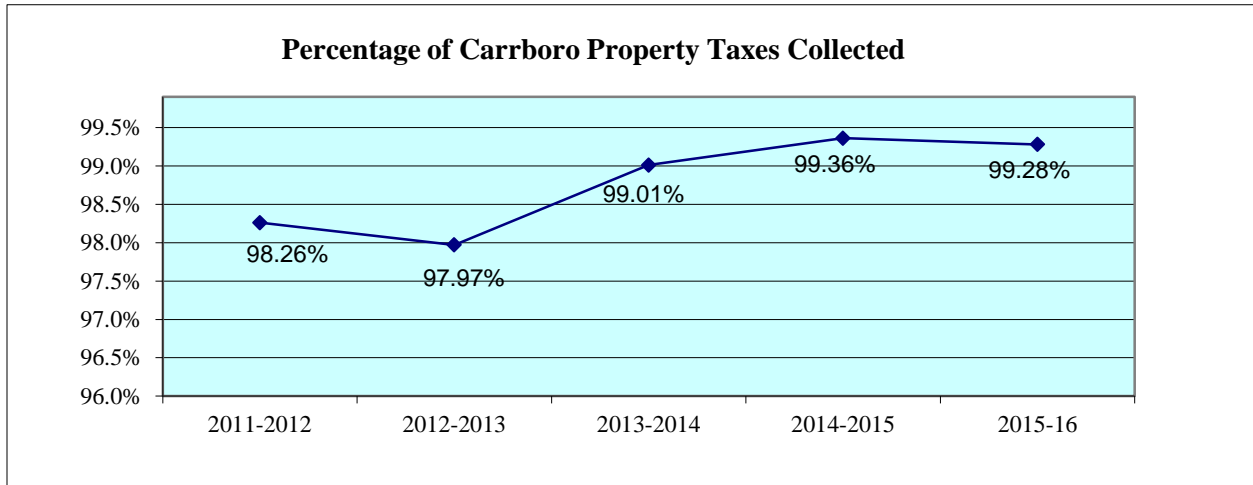
### Discussion

As a percentage of total gross operating revenue, all revenues have remained fairly stable. Property tax increased by 1.2% and elastic revenues increased by 1.3%. Intergovernmental revenues decreased slightly by .1%.

Intergovernmental revenue, as a share of the revenue stream in FY15-16 decreased from FY14-15 mainly due to the decrease in the telecommunications sales tax. Other decreases in funding were the beer and wine tax and salary reimbursement for the Transit Planner.

Elastic revenue had an increase in sales tax, development review and interest earnings. The greatest decrease was in building, electrical and plumbing permits.

## Property Tax Collection Rate



**Warning Trend:** Decreasing amount of collected property taxes as a percentage of net property tax levy.

**Formula:** Collected property taxes/Net property tax levy

### Description

If the percentage of property tax collected decreases over time, it may indicate overall decline in the local government’s economic health. Additionally, as uncollected property taxes rise, liquidity is decreased, and there is less cash on hand to pay bills or to invest. Credit-rating firms assume that a local government normally will be unable to collect from 2 to 3 percent of its property taxes within the year that taxes are due. If uncollected property taxes rise to more than 5 to 8 percent, rating firms consider this a negative factor because it signals potential instability in the property tax base. An increase in the rate of delinquency for two consecutive years is also considered a negative factor.

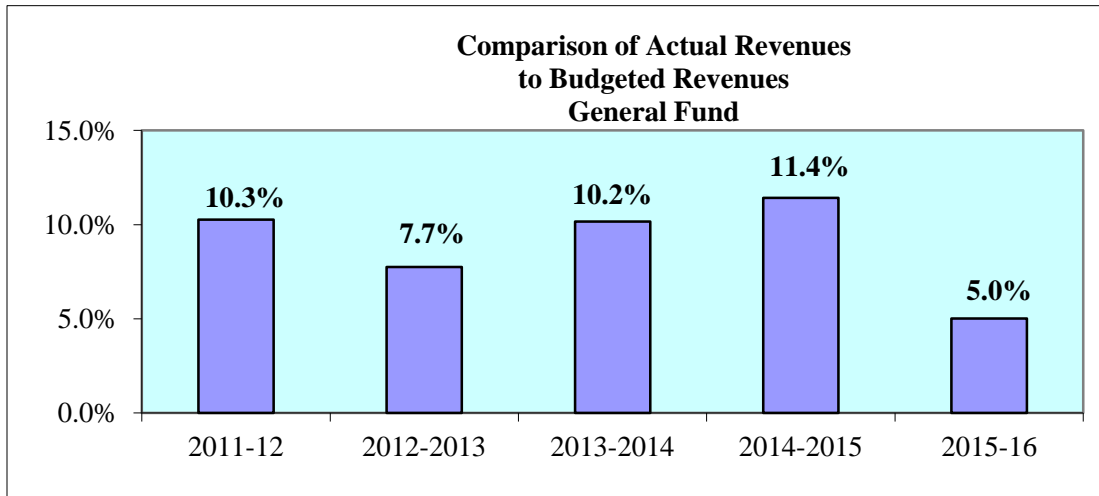
### Discussion

The graph above shows that Orange County, which provides continuous assessment services, annual tax collections, and in-house revaluations every four years to both Carrboro and Chapel Hill, has a positive collection rate for the Town’s property tax base. Collections decreased slightly to 99.28% in FY2015-16.

### Tax Collection Rates in Carrboro and Neighboring Cities

	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Carrboro</b>	98.26%	97.97%	99.01%	99.36%	99.28%
<b>Chapel Hill</b>	99.21%	99.24%	99.36%	99.59%	99.62%
<b>City of Durham</b>	98.75%	98.83%	99.00%	99.57%	99.69%
<b>Hillsborough</b>	99.00%	97.61%	98.00%	98.11%	98.72%

## Comparison of Actual Revenues to Budgeted Revenues



	2011-12	2012-13	2013-14	2014-15	2015-16
Budgeted Operating Revenue	\$17,391,017	\$18,055,160	\$18,970,318	\$19,236,874	\$20,189,109
Actual Operating Revenue	\$19,176,013	\$19,453,224	\$20,898,471	\$21,432,760	\$21,200,253
Revenue Variance	\$1,784,996	\$1,398,064	\$1,928,153	\$2,195,886	\$1,011,144
Revenue Variance as % of Budgeted Operating Revenues	10.3%	7.7%	10.2%	11.4%	5.0%

**Warning Trend:** Increase in revenue shortfalls or surpluses as a percentage of budgeted revenues.

**Formula:** Revenue Variance/Budgeted Operating Revenues

### **Description**

This indicator examines the differences between revenue estimates and revenues actually received during the fiscal year. Major discrepancies that continue year after year can indicate a declining economy, inefficient collection procedures, changes in the law, or inaccurate estimating techniques. One of the criteria reviewed by Standard and Poor's for the quality of financial management in a local government is financial results compared against original expectations. Variances between budget and actual results are indicative of management's financial planning capabilities over time. The Town aims to have variances exceeding budgeted estimates no larger than 3-5 percent and seeks to avoid shortfalls to maintain the Town's fiscal health as surplus is one critical component of maintaining or improving fund balance levels.

### **Discussion**

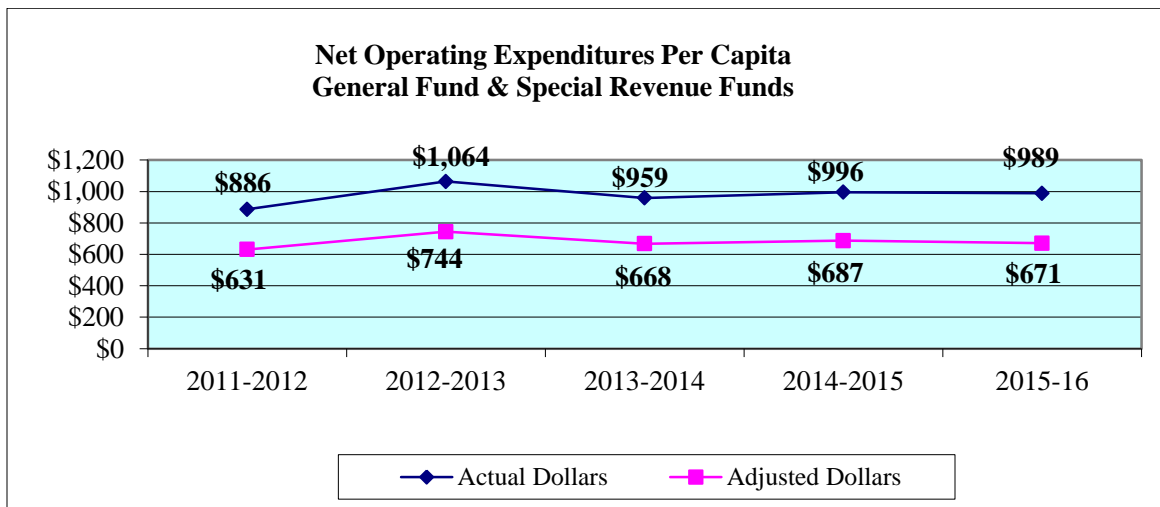
The variances in the graph indicate the Town's conservative approach to estimating revenues. In FY11-12 the major increases in actual revenue include property taxes (\$322,544), permits and fees (\$218,443), and sales tax (\$194,704). In FY 12-13, the main increases were with property taxes (\$215,662), sales tax (\$140,433), and permits and fees (\$201,779). In FY13-14, the main increases were with local option sales taxes (\$241,307), other taxes and licenses (\$780,830) and restricted intergovernmental revenues (\$134, 509). Fiscal year 14-15 had increases in local option sales taxes (\$525,663), other taxes and licenses (\$829,973) and restricted

intergovernmental revenues (\$581,077). Major increases in FY 15-16 include unrestricted intergovernmental revenues (\$576,627), other taxes and licenses (\$501,715) and local option sales taxes (\$279,597).

**Expenditure Indicators**

Expenditures are a rough measure of a local government’s service output. Generally, the more a government spends in constant dollars (adjusted for inflation), the more services it is providing. This formula does not take into account how effective the services are or how efficiently they are delivered.

**Net Operating Expenditures per Capita**



	2011-2012	2012-2013	2013-2014	2014-2015	2015-16
<b>Net Operating Expenditures (Adjusted)</b>	\$12,567,744	\$15,208,859	\$13,694,031	\$13,968,450	\$14,074,303
<b>Population</b>	19,905	20,433	20,510	20,337	20,984

**Warning Trend:** Increasing net operating expenditures per capita (constant dollars).

**Formula:** Net Operating Expenditures/Population

**Description**

Changes in per capita expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures can indicate the provision of new services, rising costs of providing services (or supporting the personnel who provide them), or changes in accounting practices (see next section). If expenditures are greater than can be accounted for by inflation or the addition of new services, it may indicate declining productivity – that is, the government is spending more real dollars to support the same level of services.

**Discussion**

Net operating expenditures, adjusted for inflation, show an increase in expenditures made by the Town since FY11-12, from \$12,567,744 to \$14,074,303 in FY15-16. When adjusted for the combined impact of inflation and population, per capita spending increased from \$631 in FY11-12 to \$671 in FY 15-16.

Over the past five years, expenditures per capita have fluctuated. The following highlights variations in fiscal years presented in the graph:

**FY 2011-12** - Per capita expenditures decreased \$10 from the previous year.

**FY 2012-13** – Per capita expenditures increased \$113 due mainly to the transfer of funds to the Capital Projects Fund.

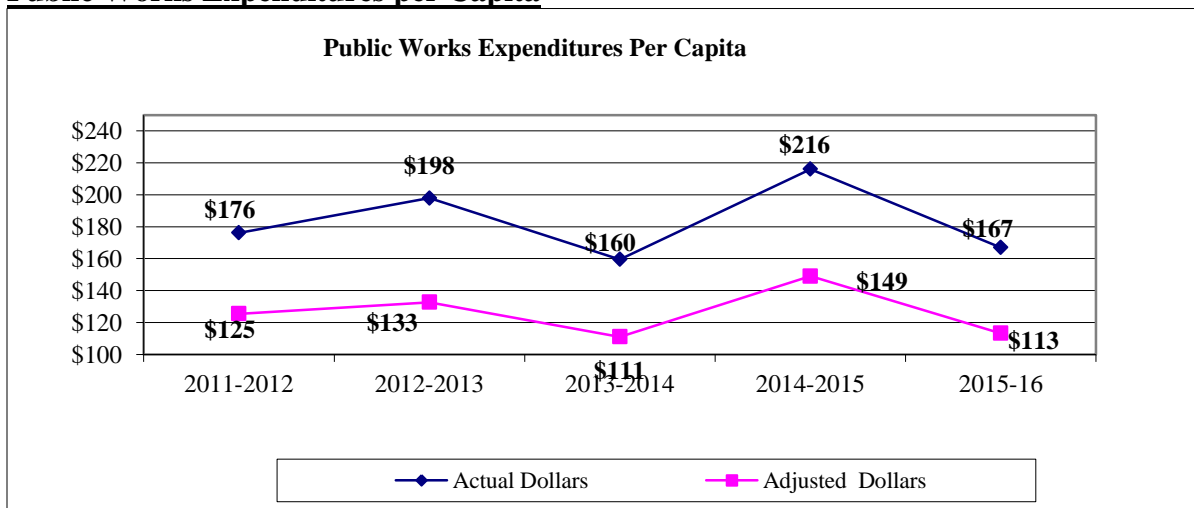
**FY 2013-14** – Per capita expenditures decreased \$76 due to reduction in capital expenditures.

**FY 2014-15** – Per capita expenditures changed slightly (\$19) from the previous year.

**FY 2015-16** – Per capita expenditures decreased \$16 from the previous year due to reduction in Public Works expenditures.

Changes in net operating per capita expenditures can be explained by highlighting events that have contributed to changes in expenditure levels. The following section looks at the various components of expenditures and service levels.

**Public Works Expenditures per Capita**

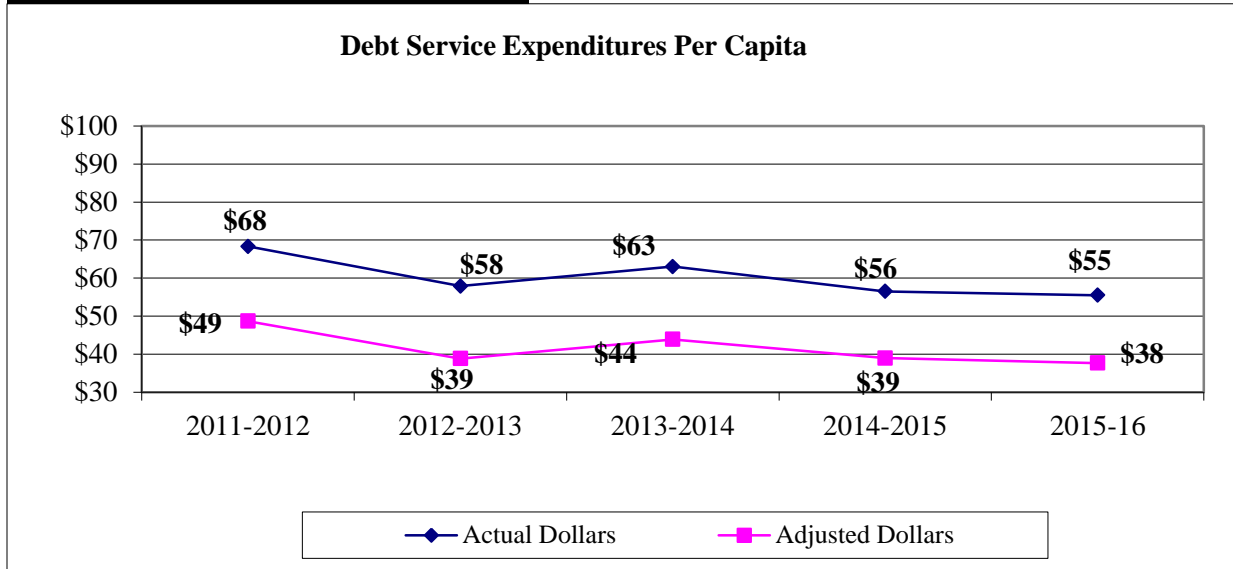


In inflation-adjusted dollars, Carrboro’s per capita expenditures on public works have varied. The variability of public works spending is related to ongoing capital and maintenance needs including street maintenance, storm water system repairs, and responding to major natural disasters. The increase in FY 12-13 is due to the purchase of replacement refuse vehicles and street resurfacing costs. The decrease in FY 13-14 is due to the one-time cost of equipment and



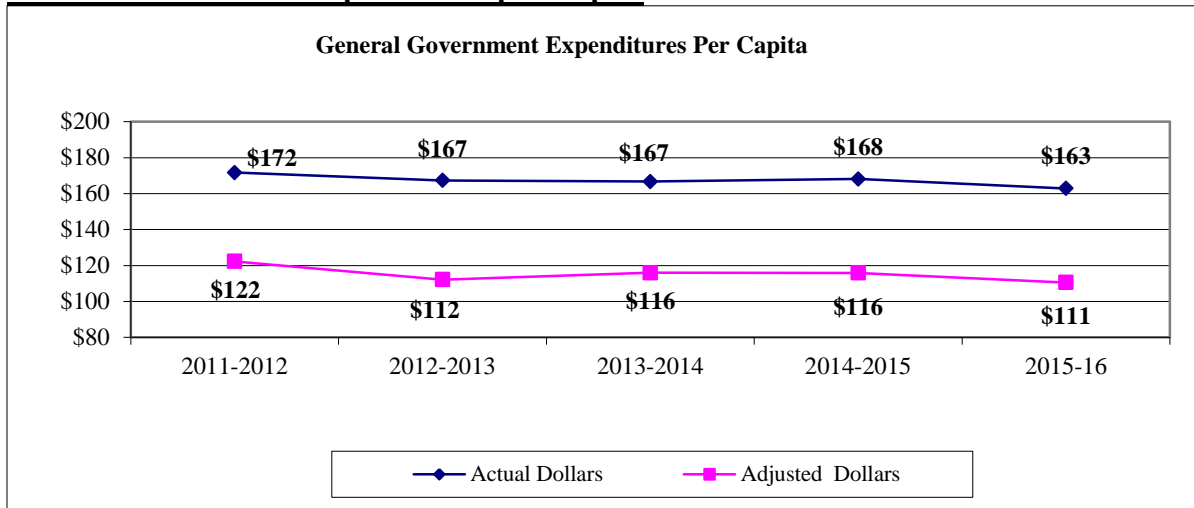
street resurfacing costs from the previous year. The increase in FY 14-15 is due to the purchase of new Town signs, contract services for the mulch pile relocation and the purchase of an automated leaf truck. The decrease in FY 15-16 is due to the one-time cost of equipment and contract services from the previous year and personnel changes.

**Debt Service Expenditures Per Capita**



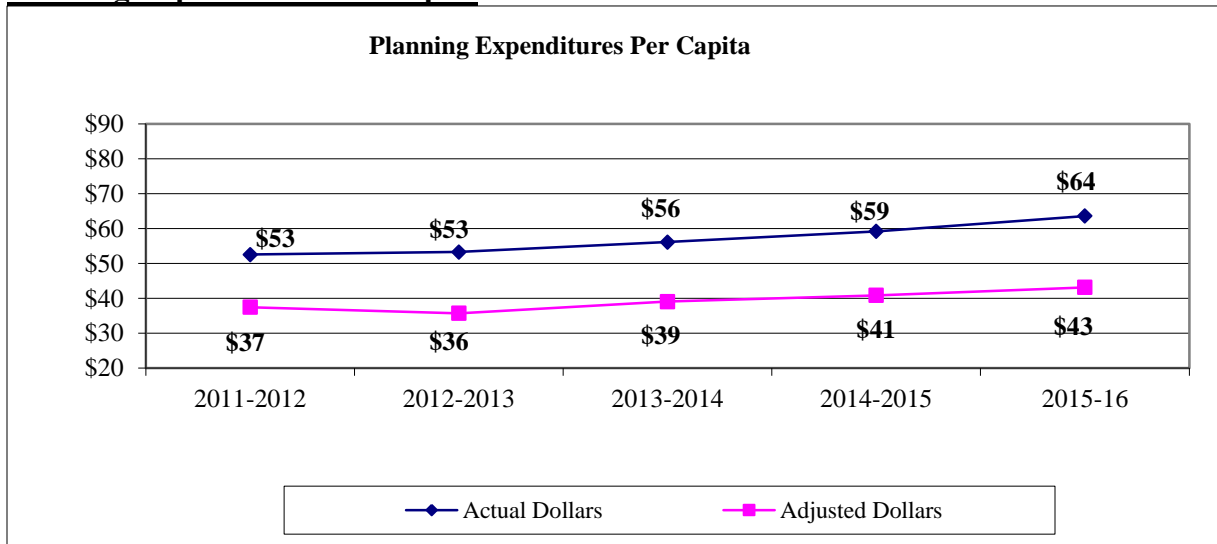
Debt costs include debt paid on general obligation bonds, installment financing for property and town infrastructure as well as equipment and vehicles. The Town has been able to take advantage of retiring debt and low interest rates to borrow for major infrastructure needs and maintain debt service at a relatively constant level. In FY12-13, per capita costs decreased with the payoff of several loans. FY13-14 per capita costs increased with the financing of the sidewalk bonds and increase in equipment and vehicle financing. The decrease in costs for FY 14-15 is due to a decrease in equipment and vehicle financing. There was very little change in per capita costs in FY 2015-16.

## General Government Expenditures per Capita



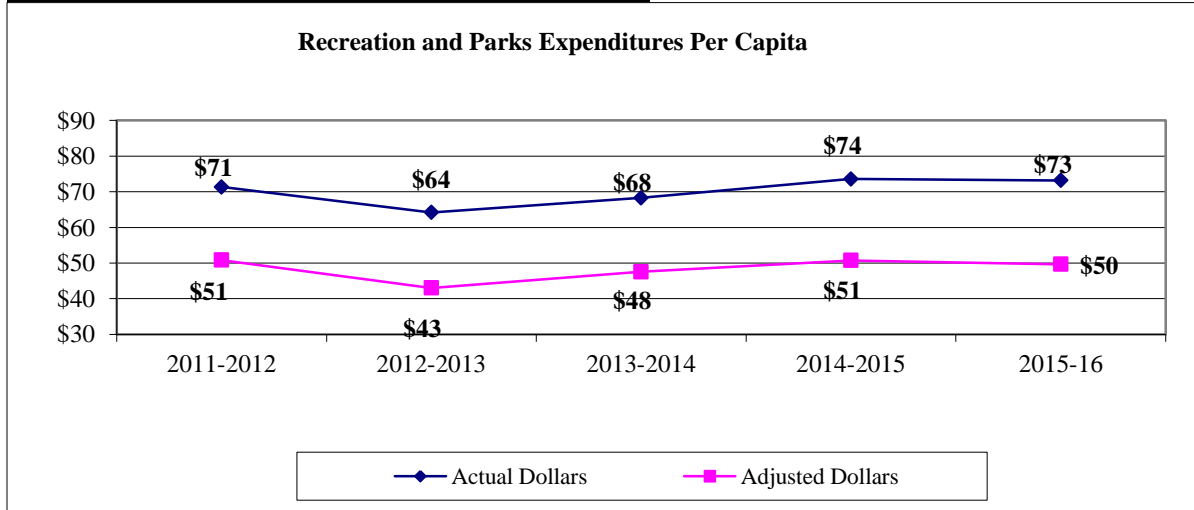
The Town continues to maintain regular replacement of technology infrastructure, support wireless technology, implement mobile laptop technology in police cars, and more recently, dashboard cameras for the Police Department. Per capita costs decreased in FY 12-13 with a decrease in property and liability insurance costs and personnel changes. FY 13-14 and FY 14-15 per capita costs have remained stable. The decrease in FY 15-16 is due to a decrease in property and liability insurance costs and personnel changes.

## Planning Expenditures Per Capita



Per capita costs in FY 12-13 have remained constant. FY 13-14 and FY 14-15 per capita costs increased due to an increase in engineering services. The increase in per capita costs in FY 2015-16 is due to the addition of a part-time GIS technician.

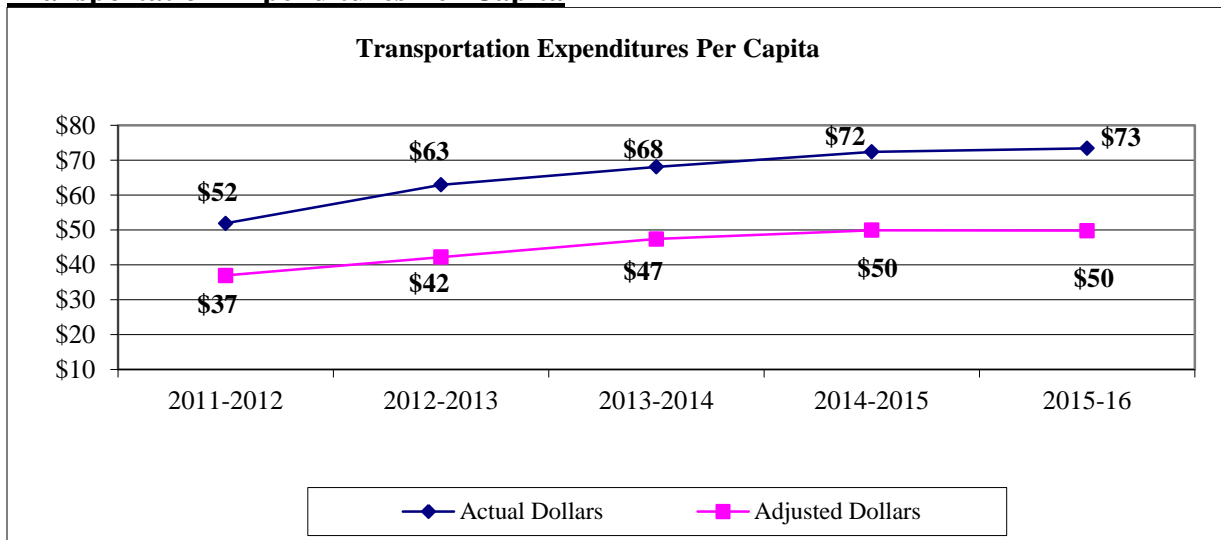
## Recreation and Parks Expenditures per Capita



Per capita expenditures adjusted for inflation, have fluctuated over the past 5 years due to the completion of several capital projects and addition of special programs and events.

In FY 12-13 per capita expenditures decreased due to capital expenditures the previous year. FY 13-14 per capita expenditures increased with additions of special programs and events. The increase in per capita expenditures in FY 14-15 included the resurfacing of the tennis court and basketball court at Anderson Park and the basketball court renovation and expansion at Baldwin Park. FY 2015-16 per capita costs remained fairly constant.

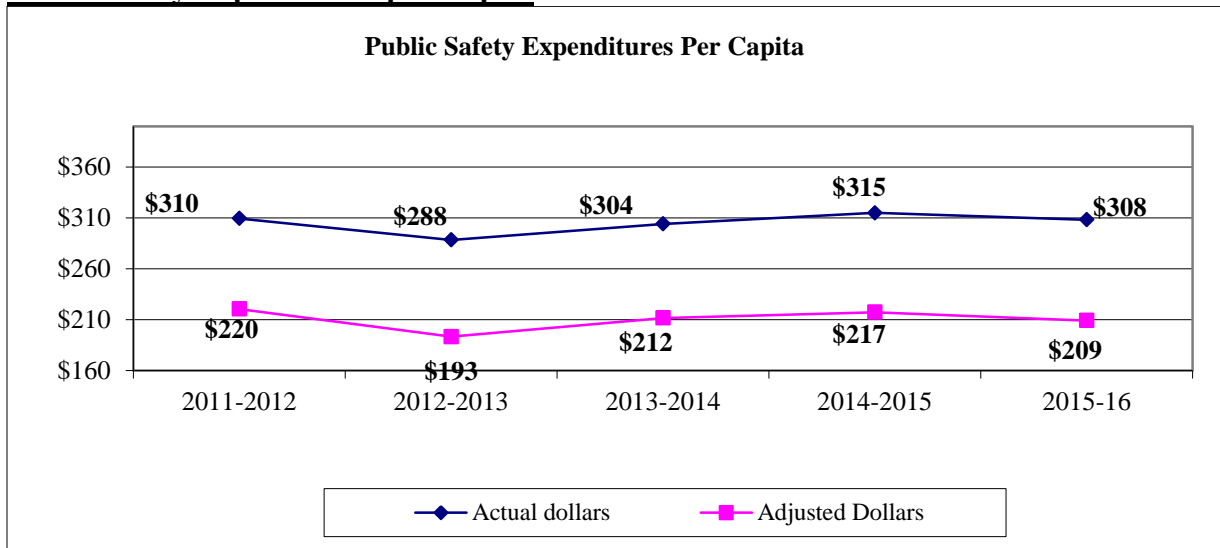
## Transportation Expenditures Per Capita



The Town and UNC-Chapel Hill are partners in the transit system administered by the Town of Chapel Hill. Carrboro's contribution into this partnership, adjusted for inflation has continues to increase from FY 2011-12. The transit contract increased in FY12-13 and FY 13-14, due to increased fuel and other ongoing operational costs. The contract increased in FY 14-15 due to

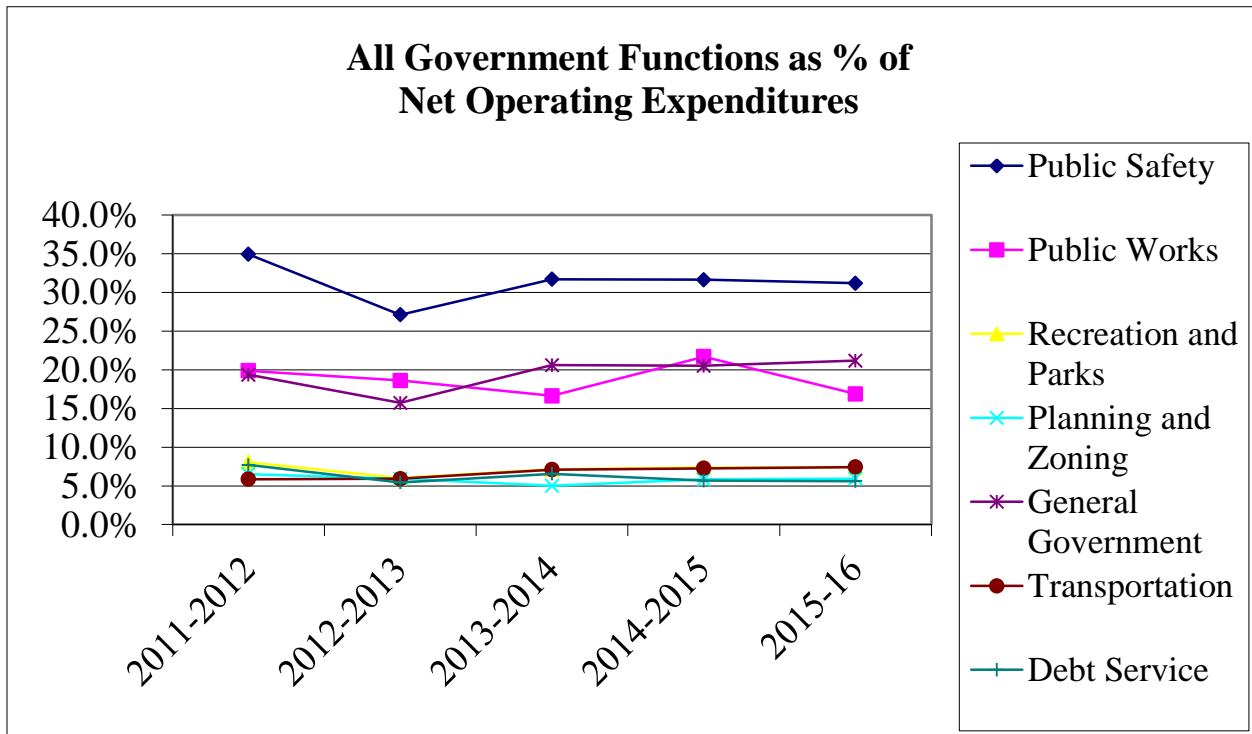
the necessity for bus replacements. Costs for FY 2015-16 have remained constant. These increases are primarily due to decreased state and federal pass-through funds that supported the transit, which affected the local match. With a grant and local funds, Shared Ride Feeder services were enabled in areas of Carrboro that do not have regular bus service. Trips are provided between designated bus stops in the “feeder” zones and the nearest bus routes or to another “feeder” service. This service extends largely to the northern areas of town.

**Public Safety Expenditures per Capita**



FY 12-13 per capita costs decreased due to deleting the Animal Control position and contracting with Orange County Animal Services. FY 13-14 costs increased with the upgrade of radios. The increase in per capita expenditures in FY 14-15 included the purchase of defibrillators for Century Center and Town Hall and increased cost for replacement vehicles. The decrease in FY 2015-16 is due to a decrease in fuel, uniform and training costs.

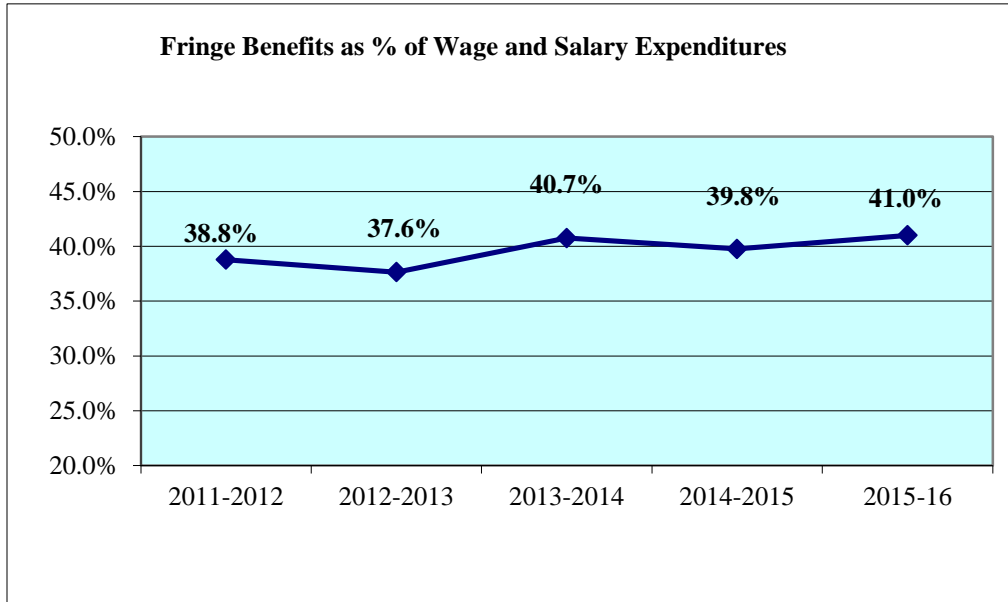
## Net Operating Expenditures by Function



The chart above represents the allocation of funding for the various services provided by the Town. Approximately 49 percent of the Town’s spending is dedicated to public safety (fire protection and law enforcement services) and public works (street and sidewalk maintenance; solid waste collections; building, grounds, and parks maintenance; and fleet maintenance).

General government, which largely represents Board functions (Town Clerk, Mayor and Board of Aldermen, nonprofit and advisory boards) and support services (finance, technology, human services, Town Manager), represents approximately 23 percent of total spending. The remainder of the programs (debt service, transportation, planning and recreation programs) combined represent approximately 28 percent of the net operating expenses.

## Fringe Benefits



	2011-2012	2012-13	2013-2014	2014-2015	2015-16
<b>Expenditures for fringe benefits</b>	\$2,876,753	\$2,818,270	\$3,201,670	\$3,215,876	\$3,307,824
<b>Salaries/Wages (FT,PT,OT, Temp)</b>	\$7,418,189	\$7,486,057	\$7,858,124	\$8,088,265	\$8,068,980
<b>Fringe benefits as % of overall wage and salary expenditures</b>	38.8%	37.6%	40.7%	39.8%	41.0%

**Warning Trend:** Unexplained, uncontrolled, or unanticipated increases in fringe benefit costs may signal a warning trend to credit rating industries.

**Formula:** Expenditures for Fringe Benefits/Salaries & Wages

### Description

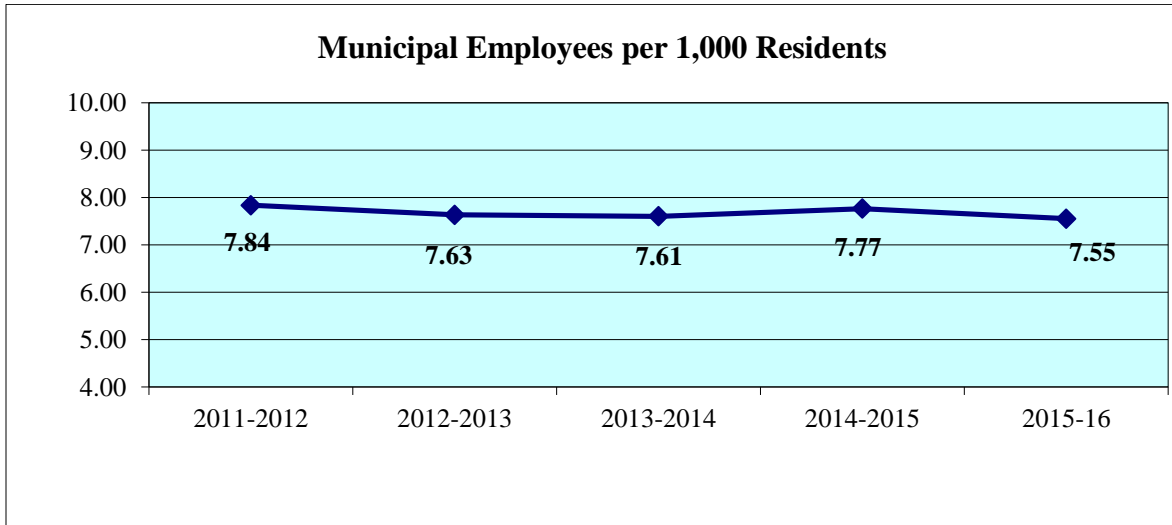
Fringe benefits represent the costs, in addition to salaries and wages, incurred by a jurisdiction to support the personnel it employs. The calculation in this indicator includes FICA payments, health insurance payments, retiree insurance payments, separation allowance payments for retired police officers, retirement payments, and supplemental retirement insurance payments. FICA, retirement, and supplemental retirement benefits are fixed as a certain percentage of salaries and will rise accordingly. Vacation pay and sick leave programs are not considered fringe benefits since both are usually paid out of regular salary expense line items.

### Discussion

Fringe benefits, as a percentage of the overall wages and salaries paid in Carrboro, have risen from FY11-12 to FY 15-16. The increase in fringe benefits is largely due to double-digit increases in health insurance costs for employees and retirees. Other factors include an increase in the number of retirees benefiting from the Town’s insurance coverage subsidy therefore increasing retiree insurance costs, an increase in retiring police officers who are eligible for a

separation allowance benefit, additional positions in departments, and an increase in the Town's contribution to the State Retirement Fund.

### Municipal Employees per 1,000 Residents



	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
<b>Population</b>	19,905	20,433	20,510	20,337	20,984
<b>Number of municipal employees approved</b>	156	156	156	158	158.5

**Warning Trend:** Increasing number of full-time municipal employees per (1,000) capita.

**Formula:** Number of Municipal Employees (approved)/Population/1000

#### Description

Because personnel costs are a major portion of a local government's operating budget, plotting changes in the number of employees per capita (or per thousand residents) is a good way to measure changes in expenditures. An increase in employees per capita might indicate that expenditures are rising faster than revenues that the government is becoming more labor intensive, or that personnel productivity is declining.

#### Discussion

The number of municipal employees per capita has remained relatively stable over the past five years. The changes in FY12-13 and FY 13-14 are based on changes in population. The changes in FY 14-15 and FY 15-16 are based on the combination of population and personnel changes.

## Work Force Totals Permanent Full-time Equivalent

FY	Mayor & Board	Manager	Economic Development	Clerk	Management Services	Information Technology	Human Resource	Police	Fire	Planning	Public Works	Recreation & Parks	TOTAL
2011-12	.5	4	1.5	1	6.5		2	44	36.5	14	36	12.5	158.5
2012-13	.5	5	1.5	1	6.5		2	42	36.5	14	34	12.5	155.5
2013-14	0	5	1.5	1.5	6.5		2	41.5	36.5	14	35	12.5	156
2014-15	0	3	1.5	1.5	6.5	3	2	42	37	14	35	12.5	158
2015-16	0	3	1.5	1.5	7	3	2	42	37	13.5	35	13	158.5
2016-17	0	3	1.5	1.5	6	3	3	42	37	13.5	36	13	159.5
2017-18	0	3	1.5	1.5	6	3	3	42	37	14.5	36	13	160.5

Note: All positions are budgeted within the General Fund

### Description of Position Changes

**FY 11-12** – IT division has been reorganized to report to the Town Manager instead of Management Services. Reporting changed to FTE instead of positions.

**FY 12-13** – Eliminate 4 frozen positions – Maintenance/Construction Worker, Groundskeeper, Police Officer I in Community Services, Police Officer I in Criminal Investigations. Add an Information Technology Support II position and unfreeze Planning/Zoning Specialist position.

**FY13-14** – Part-time position moved from Mayor and Board of Aldermen to Town Clerk, eliminated the Animal Control Officer position and added a Solid Waste Operator in Public Works.

**FY14-15** – Convert one part-time position in Police Department and one part-time position Fire Department to full-time. Add Assistant to Town Manager position. Move Information Technology from a division within the Manager’s office to a department.

**FY15-16** - Two part-time administrative positions (one in Finance; and one in Recreation and Parks) will be converted to full-time. A full-time position in Planning has been converted to a part-time GIS position.

**FY16-17** – Program Support Assistant II position transferred from Finance to Human Resources as Human Resources Representative. A Capital Projects Manager position was added to Public Works.

**FY17-18** – Capital Projects Manager position added to Public Works in the previous year is being combined with the Engineering Tech position. A new Stormwater Utility Manager position is added to Public Works. Planning Department will add an additional Planner position.



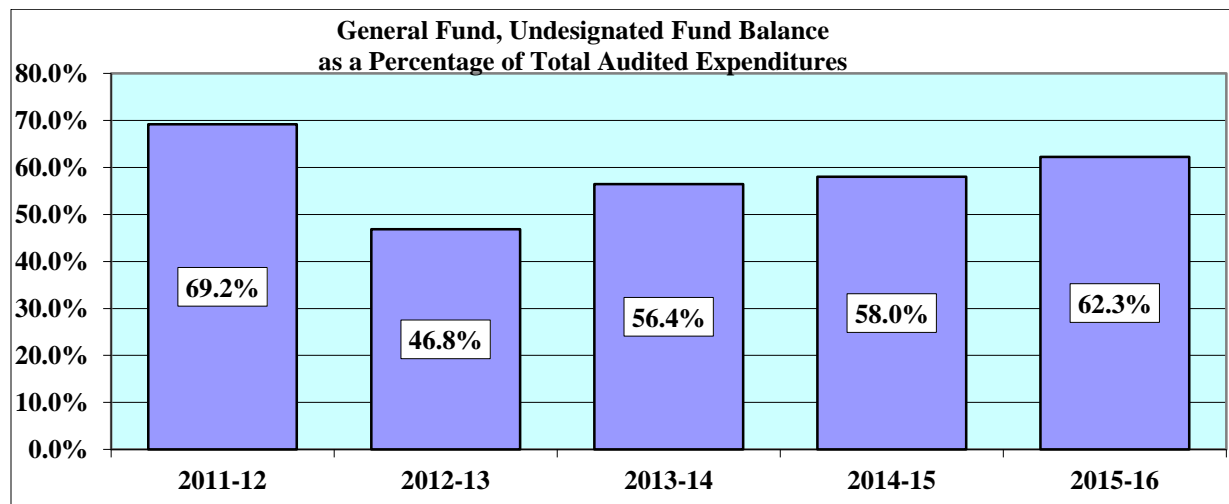
## Operating Position Indicators

Revenues and Expenditures have a direct impact on a town's operating position. The term "operating position" refers to a local government's ability to: (1) balance its budget on a current basis, (2) maintain reserves for emergencies, and (3) have sufficient liquidity to pay its bills on time. The primary indicator that is tracked by the Town is fund balance.

### Fund Balance

As an accounting calculation, fund balance is the difference between current assets and current liabilities. Unreserved fund balance, also called "*fund balance available for appropriation*," is the maximum amount that can be used to finance expenditures in next year's budget. Available fund balance is also considered a non-recurring financial resource that provides a local government with flexibility. Once used, it is difficult to replace. As a result, it should be protected and maintained at a reasonable level to provide for emergencies, unforeseen shortfalls in revenue, or to take advantage of unforeseen opportunities.

The Local Government Commission (LGC) considers the amount of unreserved fund balance to be one of the key indicators of the financial condition of a town. LGC, as part of the process of reviewing audited financial statements each year, calculates the amount of fund balance available for appropriation in the general fund and the amount of reserves in other funds. The LGC has an 8 percent minimum as a guideline for fund balance but this is not applicable to all governments, especially smaller governments like the Town of Carrboro. The 8 percent ratio is intended to represent 1/12<sup>th</sup> of a government's operating expenditures. However, 1/12<sup>th</sup> of a small government's budget is not considered an adequate reserve level due to the sheer small dollar amount that it reflects. The LGC uses, as its guideline for Carrboro, the average unreserved fund balance (commonly referred to as "fund balance available for appropriation (FBAA)" for units with similar populations. If a jurisdiction's unreserved fund balance falls to half of the group average, the LGC will write a letter to alert the Board of Aldermen and Town administration and to advise them that the municipality review the current level of fund balance and determine what fund balance level the municipality should have. Using the latest year available from LGC (year ending June 30, 2016), unreserved fund balance that includes designated and undesignated reserves is at 65.76% in Carrboro. This ratio is higher than the 53.95% average but well below the highest range of 393.52 for municipalities with populations of 10,000-49,999.



The graph above illustrates the five-year undesignated fund balance trends. The Town policy is to maintain undesignated reserves within a range of 22.5% to 35% as in its financial policy on fund balance.

### Debt / Liability Indicators

Another large expenditure that credit rating industries monitor is the debt load. Debt is an obligation resulting from the borrowing of money. Under favorable conditions, debt:

- ☆ Is proportionate in size and growth to the government’s tax base,
- ☆ Does not extend past the facilities useful life which it finances,
- ☆ Is not used to balance the operating budget,
- ☆ Does not put excessive burdens on operating expenditures, and
- ☆ Is not so high as to jeopardize the credit rating.

The Board has approved a debt policy that addresses guidelines and restrictions affecting the amount, issuance, process, and type of debt issued by a governmental entity. The policy also requires Town staff to monitor various debt ratios that are used to evaluate ability to repay as well as the government’s capacity to incur debt (see Town’s fiscal policies within the Community and Organizational Profile section). The Town’s debt structure primarily consists of installment financing and GO bond debt to support its capital improvements and equipment and vehicle replacements. Debt load is a large expenditure that credit rating industries monitor.

Debt ratios are considered by the LGC and credit rating agencies to ascertain the fiscal health of a municipality. High debt ratios may adversely affect the ability of the Town to obtain the lowest possible interest rate when borrowing funds.

One measure of a unit’s debt capacity is debt expressed in terms of assessed or market valuation.

It is important to note, however, the Town’s

<b>Town of Carrboro, North Carolina Computation of Legal Debt Margin June 30 ,2016</b>	
Total assessed valuation at June 30, 2015	\$2,135,604,701
Debt limit – eight percent (8%) of assessed value	\$ 170,848,376
Amount of debt applicable to debt limit	
Net Bonded Debt	\$ 6,896,275
Legal Debt Margin	\$ 163,952,101

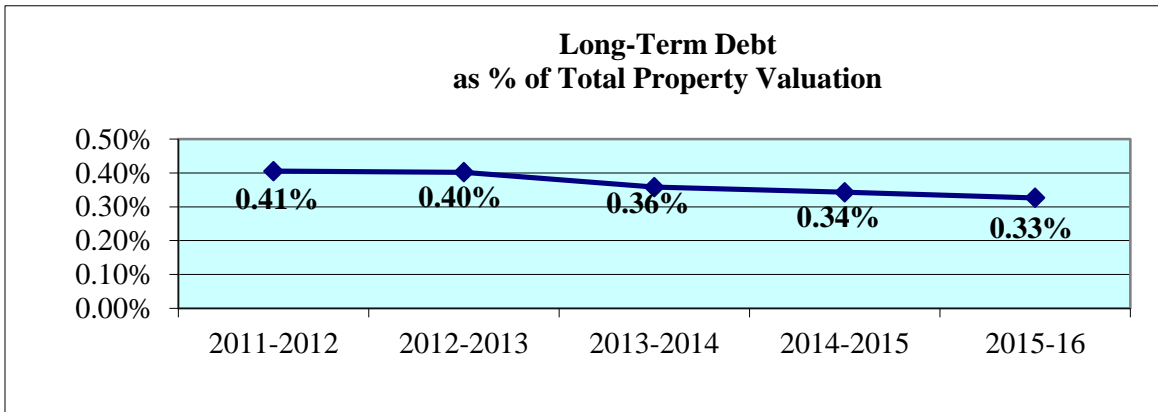
debt is far below the legal limit in the NC General Statutes (GS 159-55) that limits net debt to eight percent (8%) or less of a local government’s total property valuation. Outstanding debt in most governmental units falls well below this limit, and typically ranges from about 1% to 4% for most governments. The legal margin or the maximum amount of outstanding debt allowable by law, based on the June 30, 2016 audited valuation is \$163,952,101.

Debt service, annual interest and principal payments, can be a major part of a government’s fixed costs, and its increase may indicate excessive debt and fiscal strain; credit firms consider debt exceeding 20% of operating revenues as a potential problem. Ten percent is considered acceptable (footnote1). The North Carolina Local Government Commission (LGC) advises that a heavy debt burden may be evidenced by a ratio of General Fund Debt Service to General Fund

<sup>1</sup> “Evaluating Financial Condition, A Handbook for Local Government,” ICMA, Sanford M. Groves and Maureen Godsey Valente, pp 83

Expenditures exceeding 15%. The Town will maintain this ratio at or below 12%, considering this to be a moderate level of debt. In the last audited year, the Town shows that debt expenditures are approximately 5.8% of the total expenditures for the year ending June 30, 2016. The Five-Year Plan shows the percentage of debt service expenditures remaining at or below this level.

### Long-Term Debt



	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
<b>Long-Term Debt</b>	\$7,995,219	\$8,044,436	\$7,477,109	\$7,248,164	\$6,971,705
<b>Property Valuation</b>	\$1,972,777,796	\$2,003,172,468	\$2,088,514,087	\$2,113,902,961	\$2,135,604,701

**Warning Trend:** Increasing ratio of long-term debt to total property valuation.

**Formula:** Long-term Debt/Total Property Valuation.

#### Description

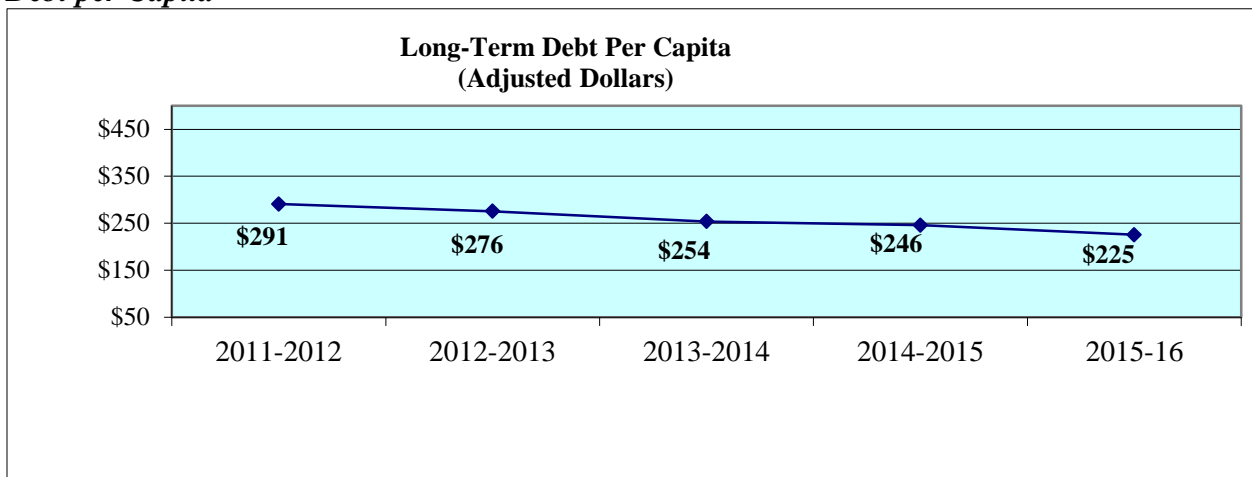
The definition of debt considered by rating agencies is generally limited to bonded debt because of the fact that this debt is backed by the full faith and credit of the town which is represented by the Town's property valuation. However, given that all debt by the Town is considered a fixed cost and property taxes are the primary revenue source for the Town, the analysis of debt above includes long-term installment financing for infrastructure and land as well as equipment and vehicle debt. An increase in total long-term debt as a percentage of taxable assessed valuation can mean that the government's ability to repay debt is diminishing - assuming that the government depends on the property tax to repay its debts.

Standard and Poor's (S&P) reviews the level of long-term debt, recognizing that accelerated debt issuance can overburden a municipality. However, S&P also recognizes that a low debt profile may not be a positive credit factor since it may indicate underinvestment in capital facilities. Investment in public infrastructure is believed to enhance the growth prospects of the private sector.

## **Discussion**

For municipalities comparable to Carrboro (populations ranging from 10,000 to 24,999), the average debt-to-assessed valuation ratio (computed by the Local Government Commission) in FY15-16 was .303 percent; a high level is considered 1.463 percent. The debt-to-assessed valuation ratio for Carrboro in the last audited year was .266 percent, which is below the average valuation for jurisdictions of similar size. The LGC includes authorized but unissued debt in its debt ratio formula. The graph above reflects the historical perspective that credit-rating agencies and audit reports consider; only issued debt is calculated in the debt ratio and thus Town debt ratios in the presented graphs are slightly different.

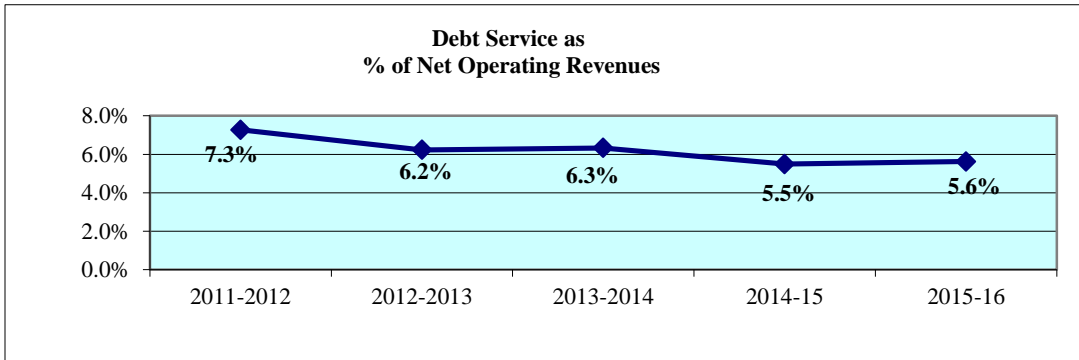
### ***Debt per Capita***



Debt can also be monitored on a per capita basis. It is especially useful for communities that do not rely heavily on property taxes and that cannot easily compute a substitute revenue base for comparison (footnote<sup>2</sup>). This is an indicator that is monitored by the LGC and is useful for comparison with other similar jurisdictions. The average for comparable jurisdictions in FY15-16 was \$300 per capita; \$1,686 per capita is considered a high ratio. According to the LGC, the Town's ratio of outstanding general obligation bond debt which includes authorized and unissued general obligation bond debt and installment purchase debt is \$277 per capita. The graph above shows a lower per capita figure that is based on different assumptions than LGC. This figure is adjusted for inflation, relies on actual audited valuation, and does not include authorized but unissued debt. However, the message is the same as the LGC; the outstanding debt owed (principal) is increasing. The decrease in FY12-13 is due to the payoff of several loans. The decreases in FY13-14 through FY15-16 are due to lease-purchase of fewer vehicles and equipment.

<sup>2</sup> Evaluating Financial Condition, A Handbook for Local Government," ICMA, Sanford M. Groves and Maureen Godsey Valente, pp 81

## Debt Service



	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
<b>Debt Service</b>	\$1,360,087	\$1,183,033	\$1,292,484	\$1,148,954	\$1,164,298
<b>Net Operating Revenue</b>	\$18,714,317	\$18,975,247	\$20,410,534	\$20,801,526	\$20,705,996

**Warning Trend:** Increasing debt service as a percentage of operating revenue.

**Formula:** Debt Service/Operating Revenue

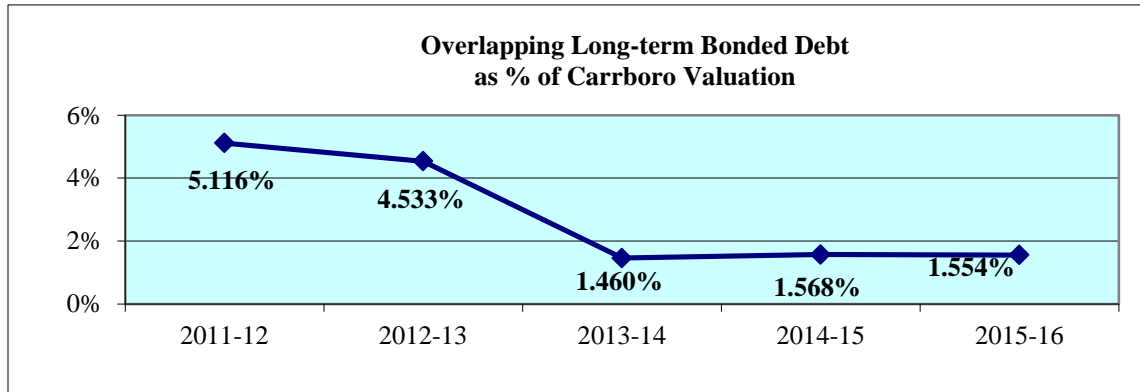
### Description

Debt service is defined here as the amount of principal and interest that a local government must pay each year on its long-term debt plus the interest it must pay on short-term debt. Increasing debt service reduces expenditure flexibility by adding to the government's obligations. According to the ICMA, debt service under 10 percent of net operating revenue is considered acceptable while anything approaching 20 percent is considered excessive. Debt service can be a major part of a government's fixed costs, and increases may indicate excessive debt and fiscal strain.

### Discussion

The graph shows that debt expenditures are approximately 5.6 percent of net operating revenues in FY15-16. This ratio, while different in focus than the Town's debt policy which monitors debt service as a percentage of expenditures, tells a similar story of relatively stable debt service that is below the stated ceiling of 12%. In January 2013 the Town issued \$4.6 million of general obligation bonds which required principal and interest payment beginning in FY 2013-14.

## Overlapping Debt



	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
<b>Carrboro Debt</b>	\$5,405,219	\$4,600,000	\$4,350,000	\$4,100,000	\$3,850,000
<b>Orange County Debt</b>	\$95,520,000	\$86,205,000	\$26,132,240	\$29,040,646	\$29,340,697

**Warning Trend:** Increasing overlapping debt as a percentage of total assessed property valuation.

**Formula:** Carrboro Long-Term Debt Plus Orange County Long-Term Debt/Carrboro Assessed Property Valuation

### **Description**

Overlapping debt is the net direct bonded debt of another jurisdiction that is issued against a tax base within part or all of the boundaries of the community. The level of overlapping debt is only that debt which is applicable to the property shared by the two jurisdictions. The overlapping debt indicator measures the ability of the community’s tax base to repay the debt obligations issued by all of its governmental and quasi-governmental jurisdictions.

### **Discussion**

The overlapping debt ratio does not present any warning signs. From FY11-12 to FY13-14, the overlapping debt rate for Orange County has decreased. Beginning in FY14-15 and continuing through FY15-16, the overlapping debt rate for Orange County has been increasing.

## **Current Town Financial Condition**

The Town's current financial condition is very strong. The Town has consistently maintained a fund balance exceeding 35% of total expenditures. At June 30, 2016 the Town's unassigned fund balance was 55% of total expenditures. For the last eight years including the FY 2017-18 recommended budget, the Town has been able to maintain service levels without a property tax increase.

## **Future Trends**

The Town makes projections about future costs based on the most recent adopted budget and the Capital Improvements Plan (CIP). This is a tool for reflecting trends rather than actual revenues, expenditures, and tax rates. The five-year plan is designed to show the tax rate impact of town services over the long-term if growth continues at the current rates assumed in the model. The projections contained in the plan are best estimates based upon current information and the assumptions outlined within this section. The model is built with a fund balance objective of maintaining undesignated fund balance levels at a minimum of twenty-two and one-half percent (22.5%) of budgeted expenditures. The Town Manager's goal is to keep tax rates at the lowest possible level while continuing to provide a high quality level of services. The assumptions built into this model are very conservative, projecting slow growth in the revenue base while continuing to fund expenditures at historical levels or higher, creating a budgetary gap that in the model, is filled by anticipated revenue increases.

## **Revenues**

The five-year projected tax rates in past years have been significant but have not generally materialized at projected levels. This has been due primarily to lower overall spending, lower debt services costs associated with various capital projects and vehicle financing due to lower interest rates, and changes in timing of capital projects (such as the fire substation, land acquisition, and parking lot purchases). In January 2013, the Town issued \$4.6 million of general obligation bonds for the construction of sidewalks and greenways.

In addition to property and sales tax revenues, the Town includes projections for certain intergovernmental revenues collected by the state that are distributed to local governments based upon a formula. These intergovernmental revenues include sales tax on electricity, natural piped gas, telecommunications sales tax, and beer and wine sales. The Town occasionally receives grant funding for specific projects or programs. In FY 2016-17 the Town received grant awards totaling \$928,096 from FEMA and NC Hazard Mitigation Program to address storm water management and flooding in the Town.

Fund balance is used to balance the budget and to minimize tax increases. Budgets are balanced with the goal of maintaining the undesignated fund balance within the range of 22.5% to 35% of total expenditures. Undesignated fund balance on June 30, 2016 was 53.4% of total expenditures. This reflects a healthy fund balance level above the established policy that may provide options to offset some of the capital costs in future years.

Below is a summary of projected property tax rates and general fund revenues through current fiscal year ending June 30, 2017.

<b>PROPERTY TAX REVENUES</b>						
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
	<b>Adopted Budget</b>	<b>Adopted Budget</b>	<b>Projected</b>			
PROPERTY VALUATION	2,153,392,411	2,260,808,687	2,306,024,861	2,352,145,358	2,399,188,265	2,447,172,030
TAX COLLECTION RATE	99.00%	99.00%	98.00%	98.00%	98.00%	98.00%
COLLECTIBLE TAX BASE	2,131,858,487	2,238,200,600	2,259,904,364	2,305,102,451	2,351,204,500	2,398,228,590
TAX BASE PER \$100 LEVY	21,318,585	22,382,006	22,599,044	23,051,025	23,512,045	23,982,286
AD VALOREM REVENUE	12,565,174	13,191,954	13,319,876	13,586,274	13,857,999	14,135,159
TAX LEVEY PER PENNY	213,483	224,453	225,990	230,510	235,120	239,823
TAX RATE	0.5894	0.5894	0.5894	0.5894	0.5894	0.5894
CURRENT LEVY - AD VALOREM	12,033,476	12,635,150	13,319,876	13,586,274	13,857,999	14,135,159
PRIOR YEAR	335,647	70,252	72,360	74,530	76,766	79,069
PENALTY/INTEREST	24,240	24,240	24,967	25,716	26,488	27,282
<b>TOTAL AD VALOREM REVENUES</b>	<b>\$12,393,363</b>	<b>\$12,729,642</b>	<b>\$13,417,203</b>	<b>\$13,686,520</b>	<b>\$13,961,253</b>	<b>\$14,241,511</b>

Property tax valuation assumes growth of 2% per year.

<b>GENERAL FUND REVENUES</b>						
AD VALOREM TAXES	12,393,363	12,729,642	12,984,235	13,243,920	13,508,798	13,778,974
LOCAL SALES TAX	3,978,713	4,018,500	4,098,870	4,180,847	4,264,464	4,349,754
OTHER TAXES/LICENSES	1,417,527	1,846,809	1,883,745	1,921,420	1,959,848	1,999,045
UNRESTRICTED INTERGOVERNMENTAL	1,254,520	1,219,773	1,231,971	1,244,290	1,256,733	1,269,301
RESTRICTED INTERGOVERNMENTAL	641,816	634,244	640,586	646,992	653,462	659,997
FEES AND PERMITS	1,245,095	1,178,867	1,202,444	1,226,493	1,251,023	1,276,044
SALES AND SERVICES	259,596	170,870	174,287	177,773	181,329	184,955
INTEREST EARNINGS	1,110	27,089	27,360	27,633	27,910	28,189
OTHER REVENUES	153,752	143,615	146,487	149,417	152,405	155,453
LEASE PURCHASE PROCEEDS	411,306	301,872	750,000	750,000	750,000	750,000
OTHER TRANSFERS	0	0	0	0	0	0
FUND BAL APPROP	275,559	598,404	1,611,347	1,693,024	1,902,081	2,379,111
<b>GENERAL FUND TOTAL REVENUES</b>	<b>\$22,032,357</b>	<b>\$22,869,685</b>	<b>\$24,751,333</b>	<b>\$25,261,811</b>	<b>\$25,908,055</b>	<b>\$26,830,823</b>



Assumptions used in revenue projections are as follows:

Ad Valorem Tax Base	2% per year thereafter
Local Sales Tax	2% per year
Other Taxes and Licenses	2% per year
Unrestricted Intergovernmental	1% per year
Restricted Intergovernmental	1% per year
Fees and Permits	2% per year
Sales and Services	2% per year
Interest Earnings/Other Revenue	1% per year
Lease Purchase Proceeds	Assumes level amount each year
Fund Balance Appropriation	All other Fund Balance appropriated per financial policy.

**General Fund Operating Expenditures**

Personnel costs represent over half of the budget, which underscores the nature of government as a service industry and the primary asset is the people who work for it. Consequently, the five-year plan is impacted by assumptions regarding employee salaries and related expenses. For FY 2017-18 the Town has 160.5 full-time equivalent positions with no additional positions projected in future years. The assumptions within the plan assume an average 2% increase in salaries and a 10% increase in fringe benefits.

The five-year plan generally shows operating expenditures at rates that mirror historical trends and commitments of the Town for specific policy or capital initiatives.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
<b>GENERAL FUND OPERATING</b>	<b>Adopted Budget</b>	<b>Adopted Budget</b>	<b>Projected</b>			
SALARY/WAGES	\$8,462,424	\$8,979,715	\$9,159,309	\$9,342,495	\$9,529,345	\$9,719,932
FRINGE BENEFITS	3,456,483	3,614,555	3,976,011	4,373,612	4,810,973	5,292,070
<b>TOTAL PERSONNEL</b>	<b>\$11,918,907</b>	<b>\$12,594,270</b>	<b>\$13,135,319</b>	<b>\$13,716,107</b>	<b>\$14,340,318</b>	<b>\$15,012,002</b>
<b>OPERATING COSTS</b>						
GEN OPERATING COSTS	\$4,379,389	\$4,305,289	\$4,434,448	\$4,567,481	\$4,704,506	\$4,845,641
AFFORDABLE HOUSING	764,960	585,562	591,418	597,332	603,305	609,338
GOVERNANCE SUPPORT	400,815	442,189	451,033	460,053	469,255	478,640
LANDFILL FEES	310,900	311,000	320,330	329,940	339,838	350,033
TRANSPORTATION COSTS	1,720,288	1,834,856	1,926,599	2,022,929	2,124,075	2,230,279
HUMAN SERVICES	250,000	300,000	315,000	330,750	347,288	364,652
TRANSFERS TO OTHER FUNDS, MISC.	250,000	300,000	300,000	300,000	300,000	300,000
<b>TOTAL OPERATING COSTS</b>	<b>\$8,076,352</b>	<b>\$8,078,896</b>	<b>\$8,338,827</b>	<b>\$8,608,485</b>	<b>\$8,888,266</b>	<b>\$9,178,583</b>

The expenditure assumptions are:

Salary and Wages	<i>2% per year and maintain current 158 FTEs</i>
Fringe Benefits	<i>10% increase per year</i>
General Operating Costs	<i>3% per year beginning FY 12-13</i>
Affordable Housing	<i>3% per year</i>
Governance Support	<i>3% per year plus Greene Tract payment of \$29,524</i>
Landfill Fees	<i>5% per year</i>
Transportation Costs	<i>5% per year following recommended budget</i>
Human Services	<i>5% per year</i>
Transfers To Other Funds	<i>Assume level funding of transfer to Capital Reserve for street re-surfacing</i>

### ***Capital Investments***

The Board adopts a Capital Improvements Plan (CIP) annually and the five-year plan assumptions consider the capital needs identified in the CIP. The proposed CIP for FY 2017-18 included almost \$42.1 million of needed improvements to Town buildings identified in the space and facilities study commissioned by the Town in FY 2016-17. The Town has determined that it can only afford \$10 million for building improvements and the proposed CIP for FY 2017-18 through FY 2021-2022 is being revised for submission to the Board of Aldermen for adoption.

The Board regularly allocates funding for street resurfacing and other construction projects. The amount needed to cover street resurfacing costs is anticipated to increase the next five years. The purchase of vehicles and equipment to maintain day-to-day services is expected to increase due to delayed replacements in prior years.

Past CIPs anticipated increased pressure on the tax rate when the Town issued the \$4.6 million general obligation bonds approved by the voters for construction of sidewalks and greenways. However, after evaluating its debt portfolio the Town elected to pay off some old debt before maturity that had interest rates higher than the current market. This allowed the Town to maintain a level rate of debt service. Other than vehicle and equipment installment financing, the Town does not plan to issue any major debt for the next three to five years.

In monitoring the Town's financial position via fund balance ratios, it is clear that there are limited resources which will require prioritization of capital improvement and operating plans to meet the Town's most pressing needs.

Below is a summary of the Town's current debt service payments and outstanding debt projected through FY 2021-22. To undertake a \$10 million building improvements project would require the Town will need to evaluate financing options.

<b>DEBT PAYMENTS</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
LEASE-PURCHASE DEBT SERVICE - EQP/VEHICLES	617,729	534,658	669,044	645,081	671,067	540,336
INSTALLMENT PURCHASE, LONG TERM DEBT	262,964	257,352	280,600	271,781	262,963	254,145
SIDEWALKS & GREENWAYS - GO BONDS	340,000	332,500	327,500	322,500	317,500	312,500
<b>TOTAL DEBT PAYMENTS</b>	<b>\$1,220,693</b>	<b>\$1,124,510</b>	<b>\$1,277,144</b>	<b>\$1,239,362</b>	<b>\$1,251,530</b>	<b>\$1,106,981</b>

<b>OUTSTANDING DEBT</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
INSTALLMENT PURCHASE, LONG TERM DEBT	1,841,667	1,625,000	1,408,333	1,191,667	975,000	758,333
CAPITAL LEASE (PROJECTED)	2,356,440	2,429,506	2,444,556	2,196,436	768,789	435,706
GO SIDEWALKS & GREENWAYS	3,850,000	3,600,000	3,350,000	3,100,000	2,850,000	2,600,000
<b>TOTAL OUTSTANDING DEBT</b>	<b>8,048,107</b>	<b>7,654,506</b>	<b>7,202,889</b>	<b>6,488,103</b>	<b>4,593,789</b>	<b>3,794,039</b>
% DEBT TO ASSESSED VALUATION	0.37%	0.34%	0.31%	0.28%	0.19%	0.16%
DEBT PER CAPITA	\$280	\$268	\$250	\$223	\$197	\$172
% DEBT SERVICE TO TOTAL BUDGET	5.6%	5.0%	5.3%	5.1%	5.0%	4.2%
POPULATION	20,337	20,337	20,744	21,159	21,582	22,013
<b>ASSESSED VALUATION</b>	<b>\$2,153,392,411</b>	<b>\$2,260,808,687</b>	<b>\$2,306,024,861</b>	<b>\$2,352,145,358</b>	<b>\$2,399,188,265</b>	<b>\$2,447,172,030</b>

The Town historically has not carried a significant amount of debt. The heavier your debt burden means fewer dollars for operating expenses.