

# 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 A+ with Standard and Poor's and a grade of 83 with the North Carolina Municipal Council. 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.

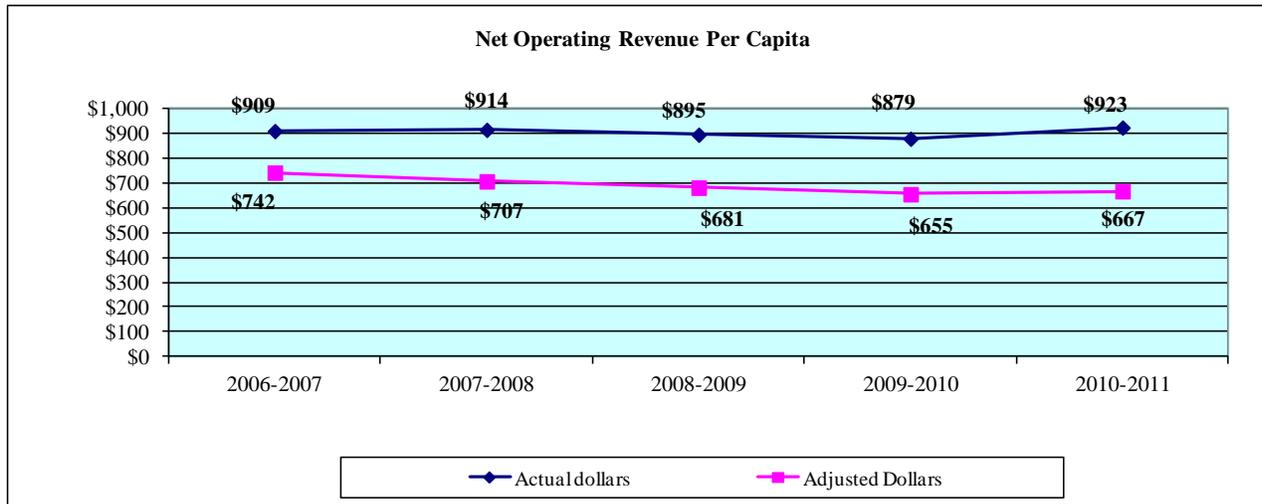
Included with every indicator is a description of the indicator, a table and graphical representation of the trend over the fiscal years for which we have audited budget reports, and an explanation of the implications of that trend for the government and residents of the Town. All the financial figures 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 (Capital Reserve 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	2006-07	2007-08	2008-09	2009-10	2010-11
Net Operating Revenue (adjusted)	\$13,672,741	\$13,154,204	\$13,270,130	\$13,027,292	\$13,062,944
Population	18,423	18,611	19,479	19,891	19,582

**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.

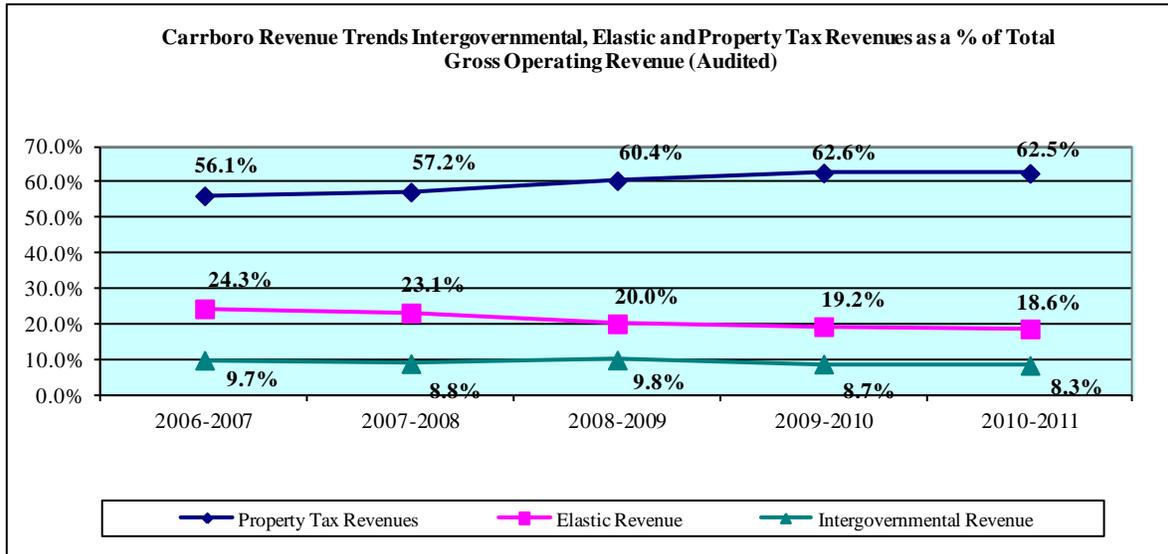
**Discussion**

In real terms (adjusted for inflation), revenues per capita in Carrboro have experienced a 10.1 percent decrease in the past 5 fiscal years. In actual dollars collected (adjusted for inflation), the decrease is 4.5 percent. Ad valorem tax revenues and other revenues are the only revenue sources that have increased in the past 5 years. The following chart shows distinct revenue trends as reflected in the Town’s audit reports.

Revenue Source	2011 Revenue Adjusted for Inflation	2007 Revenue Adjusted for Inflation	% Change Since 2007	2011 per capita	2007 per capita	% Change Since 2007 (per capita)
Ad valorem taxes	\$ 8,225,271	\$ 7,894,263	4.2%	\$ 420	\$ 429	-2.0%
Local option sales taxes	\$ 2,249,047	\$ 2,737,015	-17.8%	\$ 115	\$ 149	-22.7%
Other taxes and licenses	\$ 316,571	\$ 342,826	-7.7%	\$ 16	\$ 19	-13.1%
Intergovernmental revenues	\$ 918,878	\$ 977,463	-6.0%	\$ 47	\$ 53	-11.6%
Permits and fees	\$ 787,475	\$ 926,527	-15.0%	\$ 40	\$ 50	-20.0%
Sales and services	\$ 184,161	\$ 225,740	-18.4%	\$ 9	\$ 12	-23.2%
Investment earnings	\$ 45,393	\$ 398,264	-88.6%	\$ 2	\$ 22	-89.3%
Other	\$ 336,148	\$ 170,641	97.0%	\$ 17	\$ 9	85.3%
<b>Total revenues by source</b>	<b>\$ 13,062,944</b>	<b>\$ 13,672,741</b>	<b>-4.5%</b>	<b>\$ 667</b>	<b>\$ 742</b>	<b>-10.1%</b>

Having a significant impact on the revenue stream is the property tax and sales taxes revenue per capita, representing 80% of the total revenue per capita in 2011. 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. Sales tax per capita, as well as other taxes and licenses, intergovernmental revenues, permits and fees, investment earnings, and sales and services and have decreased due to the current economic conditions.

## Major Revenue Sources



% of Total Gross Operating Revenues	2006-07	2007-08	2008-09	2009-10	2010-11
Property Tax	56.10%	57.20%	60.4%	62.60%	62.5%
Elastic Revenue	24.30%	23.10%	20.0%	19.20%	18.6%
Intergovernmental Revenue	9.70%	8.80%	9.8%	8.70%	8.3%
<b>% of Total Revenue Reflected:</b>	<b>90.10%</b>	<b>89.10%</b>	<b>90.20%</b>	<b>90.50%</b>	<b>89.40%</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.

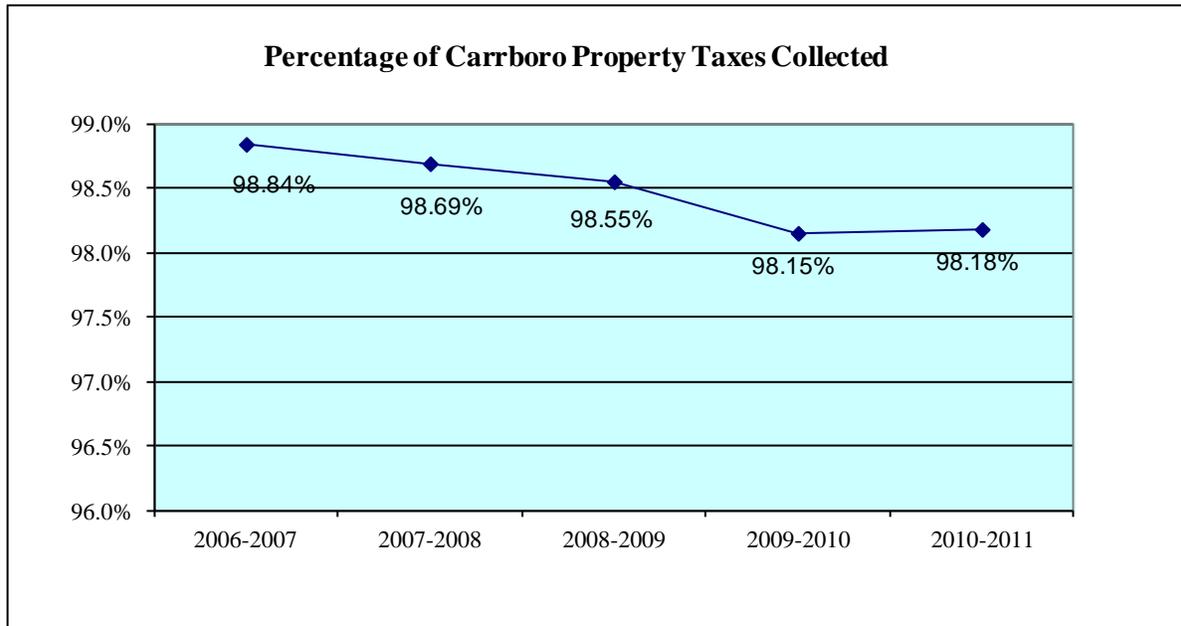
### Discussion

Overall revenues have decreased 1.1% from FY 09-10. The major decrease is in permitting activity (building, electrical, development review, etc) due to little or no growth.

Intergovernmental revenue, as a share of the revenue stream in FY10-11 decreased slightly from FY09-10. The largest sources of grant funding on an annual basis include Powell Bill for street resurfacing and the utility franchise and the telecommunications sales tax, all of which have remained relatively stable over time.

The chart also shows that property tax revenue has remained constant in meeting community needs despite economic strains.

## 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

Every year, some residents are unable to pay property taxes. 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.

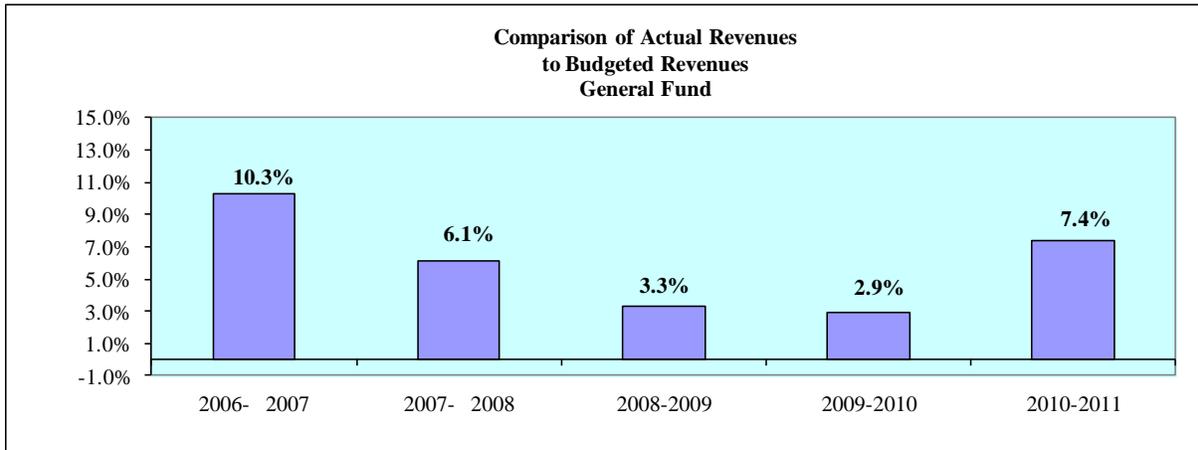
### Discussion

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, shows a positive collection rate for the Town’s property tax base; that is generally above 98 percent which is within the ranges acceptable to credit-rating firms.

### **Tax Collection Rates in Carrboro and Neighboring Cities**

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Carrboro</b>	98.84%	98.69%	98.55%	98.15%	98.18%
<b>Chapel Hill</b>	99.48%	99.44%	99.43%	99.20%	99.10%
<b>City of Durham</b>	98.60%	98.70%	98.19%	96.90%	98.70%
<b>Hillsborough</b>	98.47%	94.89%	98.50%	98.80%	97.16%

## Comparison of Actual Revenues to Budgeted Revenues



	2006-07	2007-08	2008-09	2009-10	2010-11
Budgeted Operating Revenue	\$15,631,027	\$16,540,942	\$17,351,816	\$17,411,883	\$17,253,999
Actual Operating Revenue	\$17,235,388	\$17,556,752	\$17,921,040	\$17,917,191	\$18,533,066
Revenue Variance	\$1,604,361	\$1,015,810	\$569,224	\$505,308	\$1,279,067

**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.

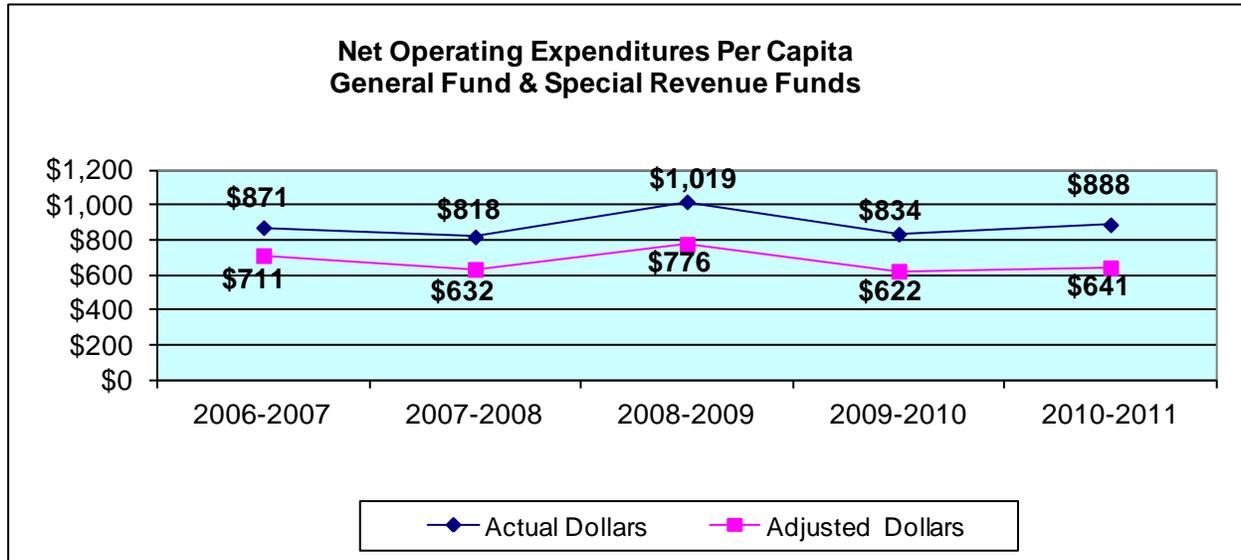
### **Discussion**

The variances in the graph indicate the Town’s conservative approach to estimating revenues. FY06-07 variance jumped largely to a surprisingly strong showing across all categories of revenue. The decrease in revenues in FY 07-08 is mainly due to fewer grants and licenses. In FY 08-09, only three categories showed an increase from FY07-08. Those categories were: property tax revenue (\$782,578), other taxes and licenses (\$73,359), and grants and other revenues (\$339,264). The small variance in FY08-09 and FY09-10 is due to the slow economic growth. The main increases in FY10-11 were with intergovernmental funds (\$160,115), investment earnings and other revenues (\$357,839).

## 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.

### Expenditures per Capita



	2006-2007	2007-2008	2008-2009	2009-2010	2010-11
Net Operating Expenditures (Adjusted dollars)	\$13,098,397	\$11,771,356	\$15,111,872	\$12,364,201	\$12,555,031
Population	18,423	18,611	19,479	19,891	19,582

**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.

#### *Expenditures per Capita in Carrboro*

Net operating expenditures, adjusted for inflation, show a decrease in expenditures made by the Town since FY06-07, from \$13,098,397 to \$12,555,031 in FY10-11. When adjusted for the combined impact of inflation and population, per capita spending decreased from \$711 in FY06-07 to \$641 in FY 10-11.

Over the past five years, expenditures per capita have fluctuated, with FY2008-09 showing the biggest jump in per capita expenditures. The following highlights variations in fiscal years presented in the graph:

**FY 2006-07** - Per capita expenditures increased significantly primarily due to the increased capital investments including construction of the Roberson Bike Path and purchase of the records management software for the Police Department; and costs incurred for the new fire station.

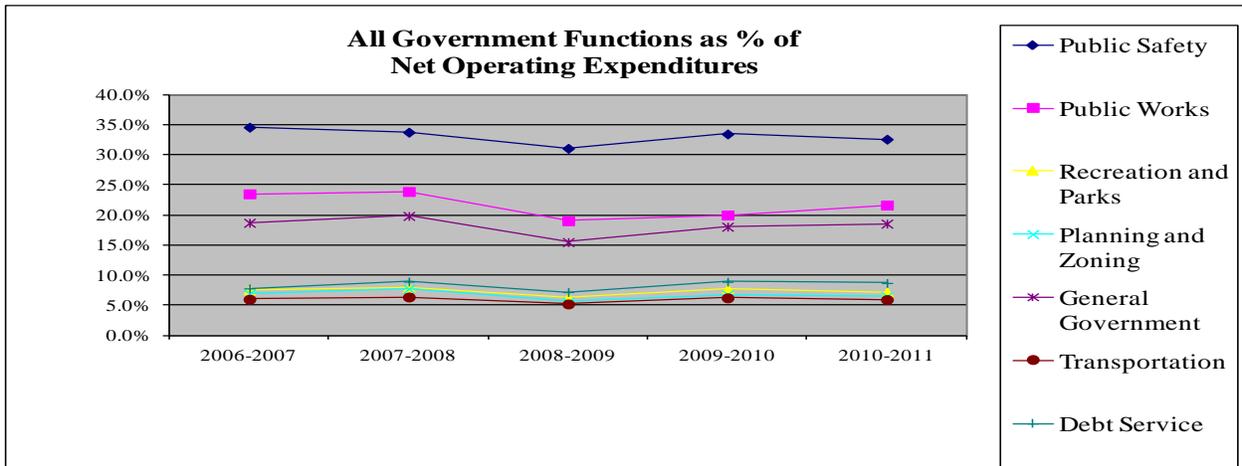
**FY 2007-08** - Per capita expenditures dropped due to several capital improvement projects that had been budgeted but were not completed until FY 08-09, including street resurfacing, northern area sewer outfall, etc.

**FY 2008-09** – Per capita expenditures increased with an increase in the Town’s share of public transportation and the purchase of a ladder truck for the Fire Department plus an increase in loans to local businesses through the Revolving Loan Fund.

**FY 2009-10** – Per capita expenditures decreased due to a reduction in capital expenditures and a decrease in debt service costs.

**FY 2010-11** – Per capita expenditures changed slightly (\$19) from the previous year.

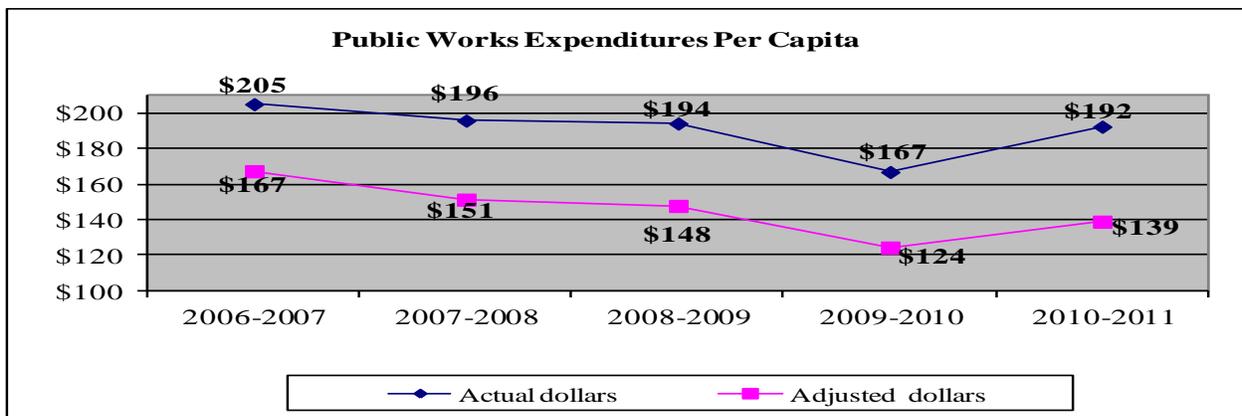
Changes in net operating per capita expenditures can be explained by highlighting events that have contributed to changes in expenditure levels. The following section looks at the various components of expenditures and service levels.



The chart above represents the allocation of funding for the various services provided by the Town. Approximately 54 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 support services (finance, technology, personnel, town manager), and Board functions (town clerk, board, and nonprofit and advisory board budgets), represents approximately 18 percent of total spending. The remainder of programs (debt service, transportation, planning and recreation programs) combined represent approximately 28 percent of the net operating expenses.

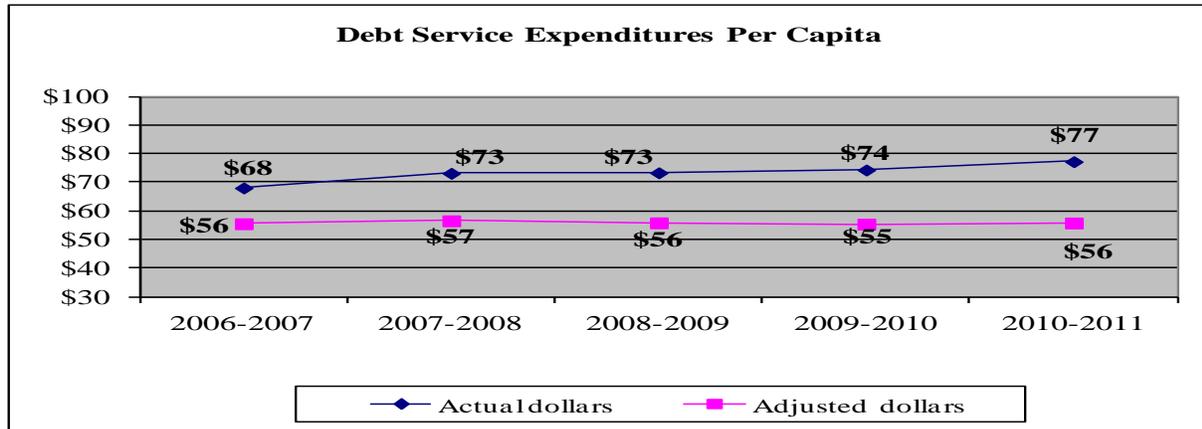
**Public Works Expenditures per Capita**



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, addressing storm water system repairs, and responding to major natural disasters. The decrease in FY07-08 is primarily due to the decrease in capital outlay expenditures. Even though expenditures increased in FY08-09, per capita costs decreased with a greater increase in population. Expenses in FY09-10 decreased substantially based on fewer

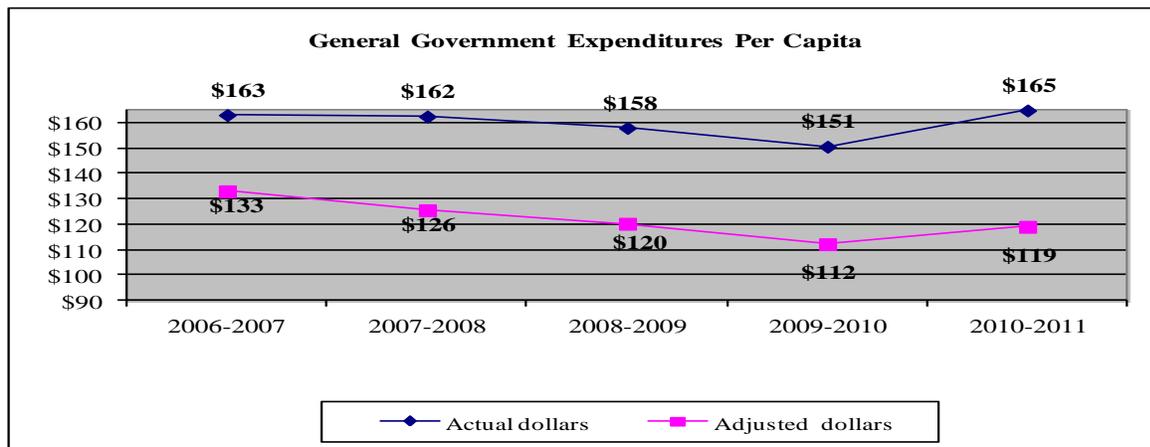
vehicle purchases and street resurfacing costs from the prior year. The increase in FY 10-11 is mainly due to street resurfacing costs.

**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. Debt service expenditures increase in FY07-08 with the financing of larger equipment such as the Solid Waste rear loader and for the aerial truck for the Fire Department. Costs for FY08-09 remained level because there was no financing for equipment or vehicles, interest rates were low on sidewalk BANS and the maturity of long-term debt. The slight increase in costs in FY09-10 is due to financing for the new fire station for part of the year. FY10-11 costs increased with the purchase of equipment and vehicles and financing a full year of the new fire station.

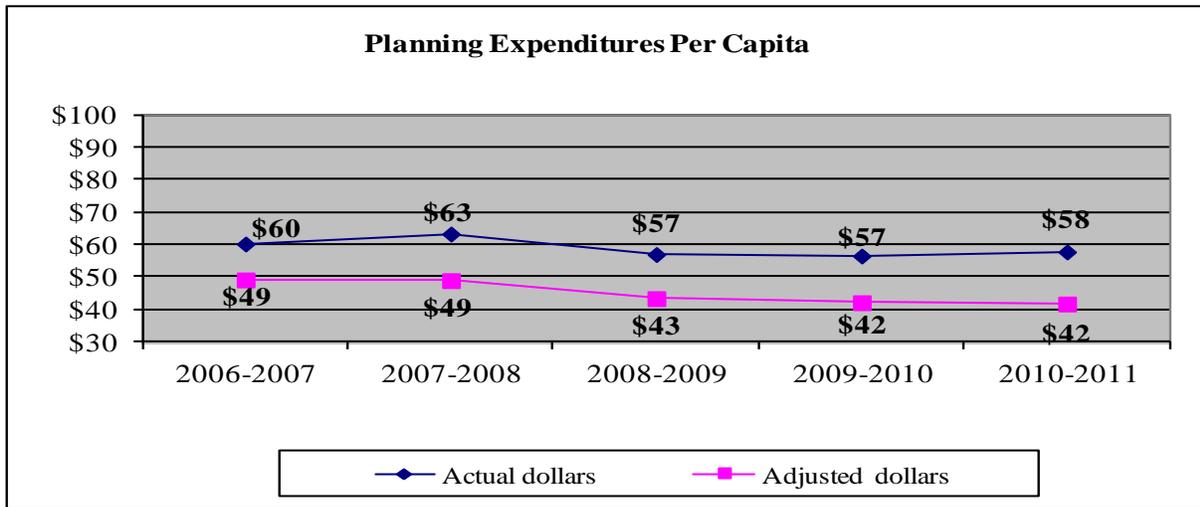
**General Government Expenditures per Capita**



Adjusted for inflation, general government expenditures per capita have decreased about 10 percent for the five year period. The Town continues to maintain regular replacement of

technology infrastructure, support wireless technology, implement mobile laptop technology in police cars, and more recently, purchased an automated record management system for the Police Department. In FY07-08, the Town added an online system for recreation registration and a cost accounting system for the Public Works Department. Per capita costs decreased in FY08-09 due to a dramatic increase in population. FY09-10 costs decreased in organizational development and contract services in the HR Department and the IT Department replaced fewer servers and computers. Per capita costs for FY 10-11 included increases for professional service fees for the Town Attorney, the Human Services Grant Program, contract services for property tax collections and banking services and various IT services for the new fire station.

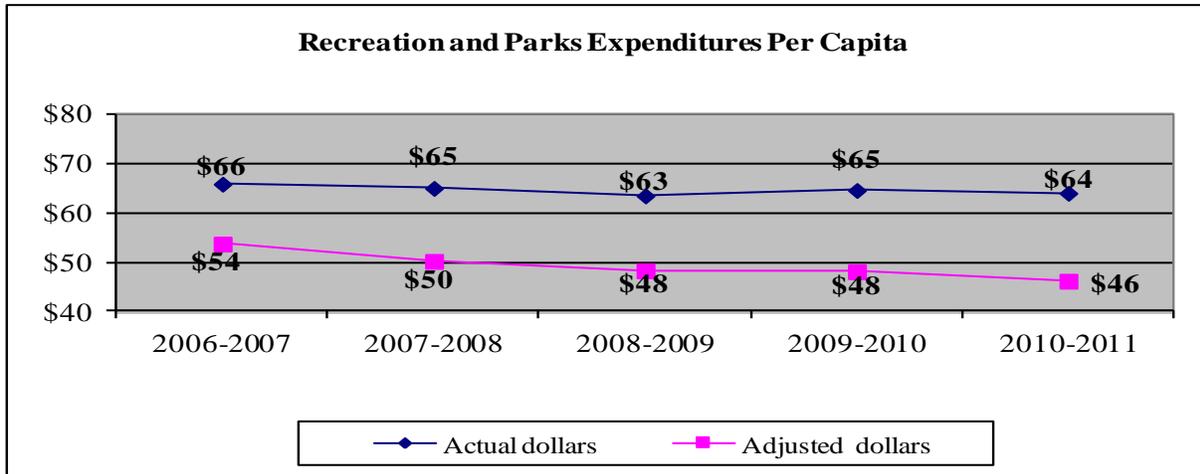
**Planning Expenditures Per Capita**



The slight variations in the Planning Department highlight two key dynamics that affect the departmental budget: permitting activity and personnel turnover. Expenses for 07-08 increased slightly with the filling of the Transportation and Environmental Planner positions. Contracted services and engineering costs decreased in FY08-09 due to the slow economy. Costs remained stable in FY09-10 and FY 10-11.

**Recreation and Parks Expenditures per Capita**

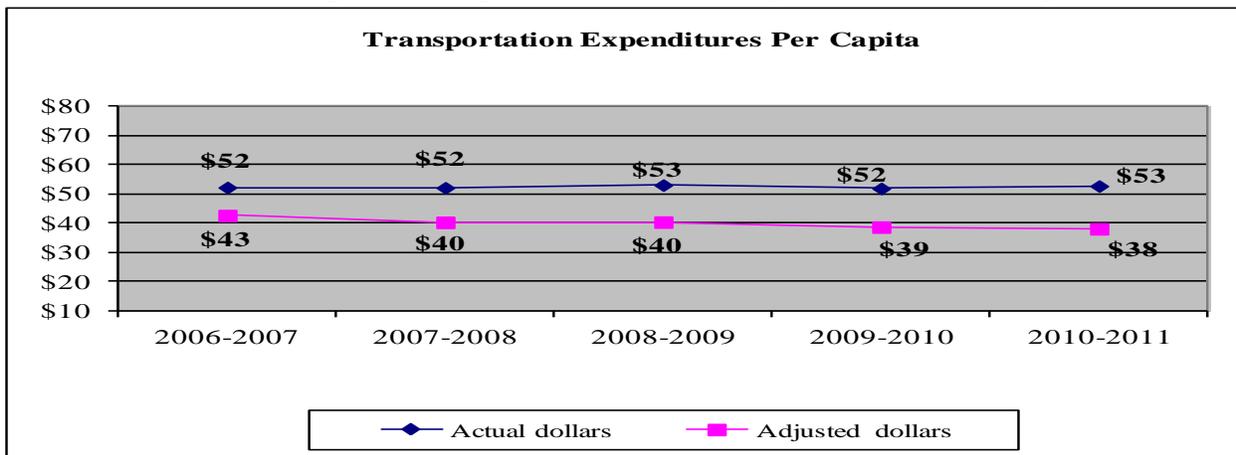
Per capita expenditures in the Recreation and Parks department, adjusted for inflation, have continued to decrease over the past 5 years due several capital projects put on hold (Wilson Park playground equipment replacement, dog park fence renovation, Anderson Park field #4 renovation, and Anderson multi-use field renovation). The delay in construction of the Wilson



Park Bathroom resulted in the decrease in adjusted dollars for FY07-08. Even though expenditures increased in FY08-09, per capita costs decreased with a greater increase in population. Per capita costs remained stable in FY09-10 and decreased slightly in FY10-11.

### Transportation Expenditures Per Capita

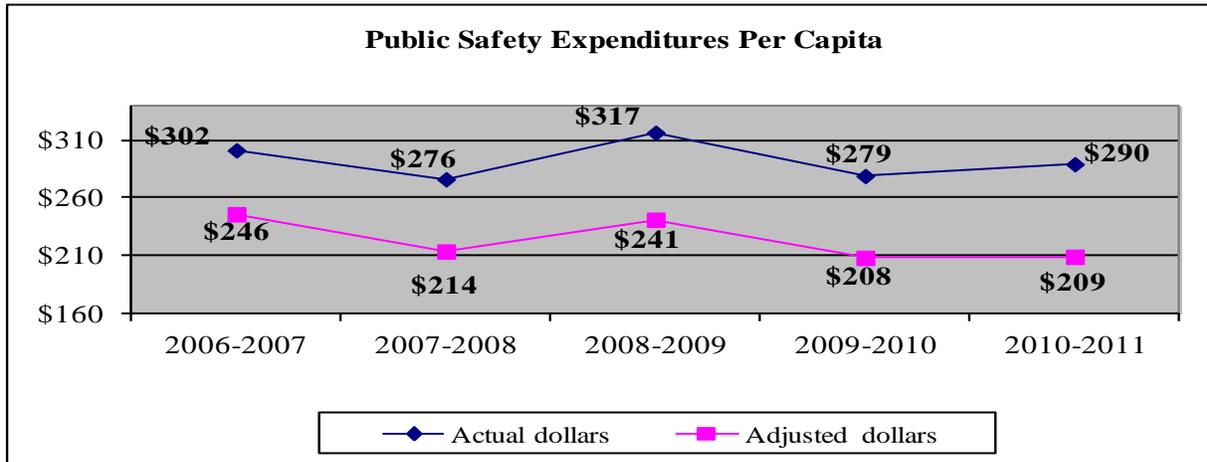
The Town and UNC-Chapel Hill are partners in the transit system administered by the Town of



Chapel Hill. Carrboro's contribution into this partnership, adjusted for inflation has remained fairly stable since 2006-2007. The transit contract remained unchanged in FY10-11, in spite of increased fuel costs and other ongoing operational costs. This is primarily due to increased state and federal pass-through funds that supported the transit operations and thus mitigated the local match required. 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.

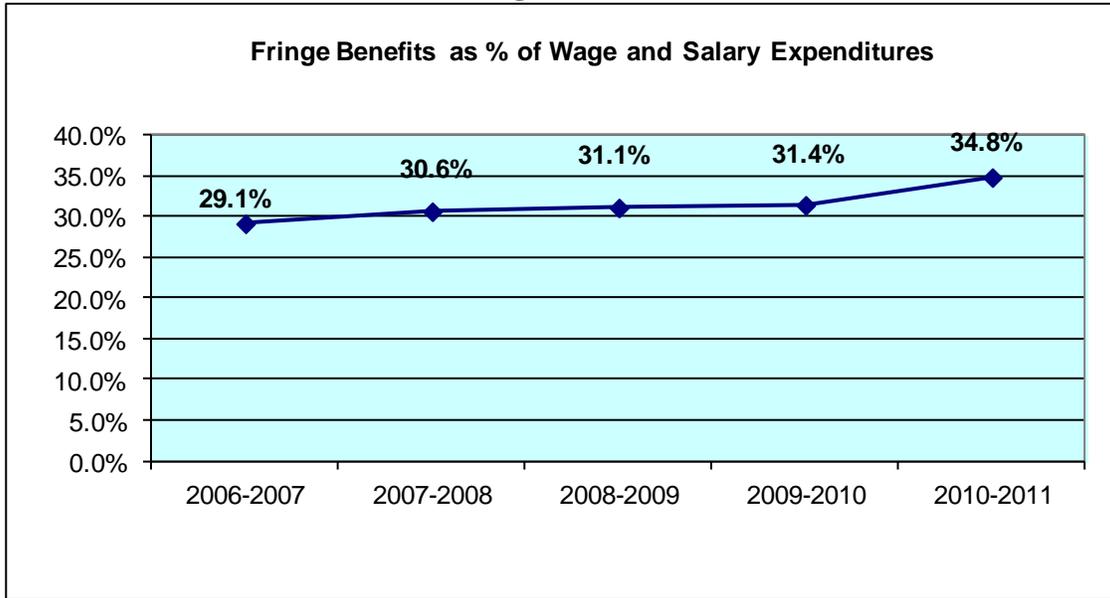
### **Public Safety Expenditures per Capita**

Public safety expenditures per capita, adjusted for inflation experienced a decrease of \$12 per capita total or a decrease of 4 percent in the past five years. Over time, adding the firefighters has moved the department forward to meeting the intent of the recommended standards for the necessary number of personnel to combat single-family, full alarm dwelling fires. FY 06-07 per capita costs included staffing for the new northern area fire substation and the purchase of a fire truck. The decrease in expenditures in FY 07-08 is due to the one time capital outlay cost for the



fire truck in FY 06-07. FY08-09 costs increased with the purchase of a ladder truck for the Fire Department. Per capita costs decreased in FY09-10 primarily due to the one time capital outlay cost for the ladder truck in the previous year. Per capita costs increased slightly in FY10-11 due to vehicle repair and fuel costs, and changes in population.

## Fringe Benefits



	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
<b>Expenditures for fringe benefits</b>	\$1,939,339	\$2,200,596	\$2,320,487	\$2,373,906	\$2,662,896
<b>Salaries/Wages (FT,PT,OT, Temp)</b>	\$6,660,107	\$7,191,755	\$7,471,114	\$7,563,563	\$7,655,092

**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 (including benefits)

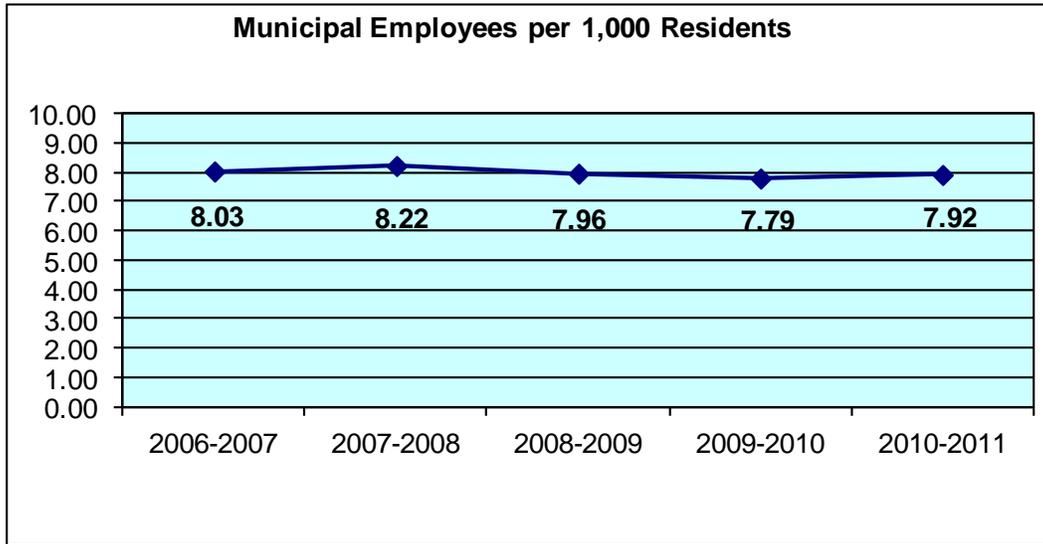
### Description

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 continued to rise since FY06-07. The increase in fringe benefits over the entire period of time is largely due to double-digit increases in the cost of 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 and an increase in retiring police officers who are eligible for a separation allowance benefit. The Town, through its broker continues to monitor and negotiate for good benefit rates. Costs have increased steadily since FY06-07 due to increases in insurance premiums, additional positions in departments, and an increase in the Town's contribution to the State Retirement Fund.

## Municipal Employees per 1,000 Residents



	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Population	18,423	18,611	19,479	19,891	19,582
Number of municipal employees approved	148	153	155	155	155

**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 increase in positions in FY07-08 (one police officer and four firefighters) has largely been for the public safety function to meet OSHA ground fire operations requirements and to manage the increased calls for service due to increased population. In FY 2008-09 two police officer positions were approved – one in Community Services and one in Criminal Investigations. Due to the current economic conditions no positions have been added, therefore decreasing the number of employees per 1,000 residents based on an increase in population.

## Work Force Totals Permanent Full-time Equivalent

FY	Mayor & Board	Manager	Economic Development	Clerk	Management Services	Human Resource	Police	Fire	Planning	Public Works	Recreation & Parks	TOTAL
2006-07	0	2	1	1	8	2	41	33	14	36	10	148
2007-08	0	2	1	1	8	2	42	36	14	36	11	153
2008-09	0	2	1	1	8	2	44	36	14	36	11	155
2009-10	0	2	1	1	8	2	44	36	14	36	11	155
2010-11	0	4	1	1	6	2	44	36	14	36	11	155
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

Note: All positions are budgeted within the General Fund

### Description of Position Changes

**FY06-07** - Increase of 5 firefighters (3 effective in April 2007) and 1 Engineering Technician in Public Works (effective October 2006).

**FY07-08** – Increase one Police Officer I, four firefighters (3 beginning May 2008), one recreation supervisor (from part-time), and eliminate safety officer position in Fire Department.

**FY08-09** – Add one Police Officer I in Community Services and one Police Officer II in Criminal Investigations, (effective January 2009).

**FY09-10** – No position changes.

**FY 2011-12** – IT division has been reorganized to report to the Town Manager instead of Management Services.

**FY11-12** – No position changes. 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. Reporting of FTEs instead of positions.

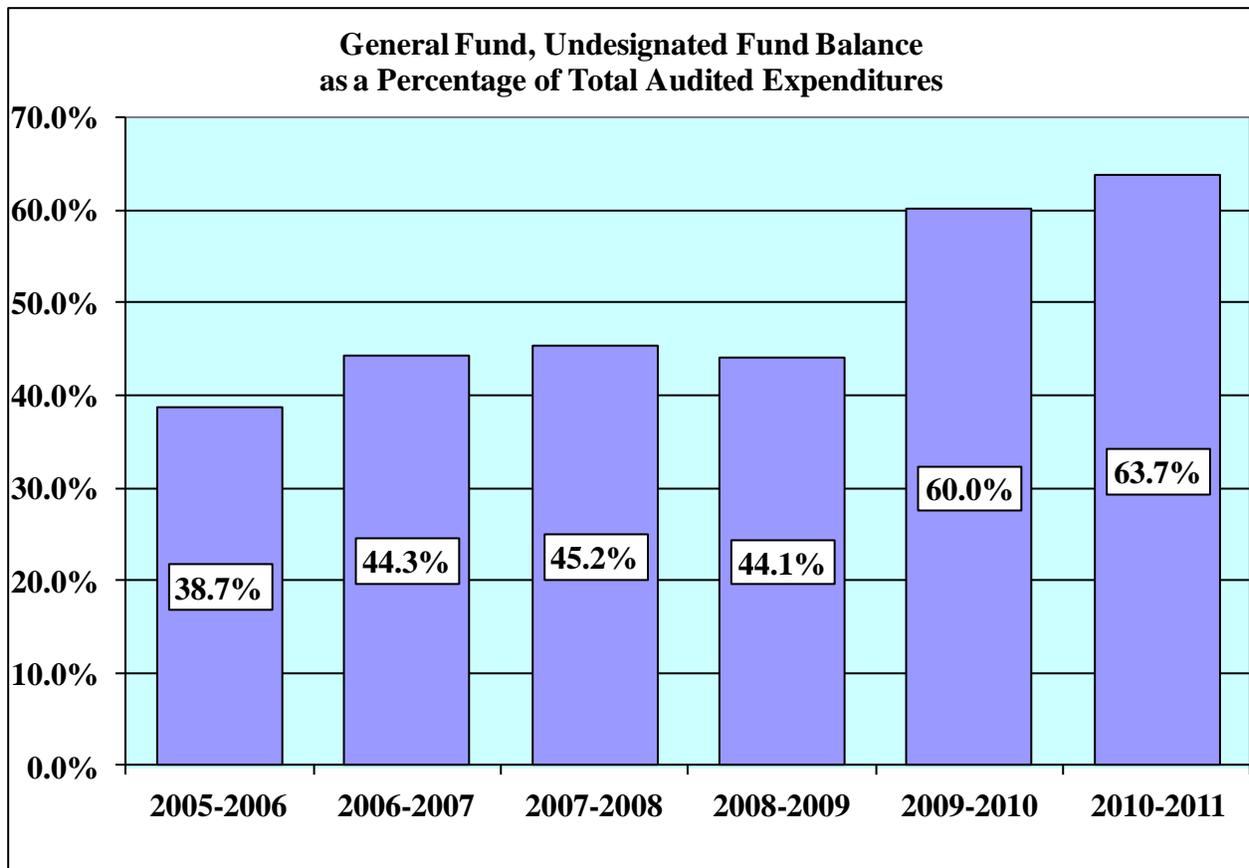
## **Operating Position Indicators**

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 Local Government Commission's (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, 2011), unreserved fund balance that includes designated and undesignated reserves is at 64.68% in Carrboro. This ratio is higher than the 49.73% average 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. The Town's debt structure primarily consists of installment financings and some bonded debt to support its capital improvements. 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 Local Government Commission and by 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. Debt is an obligation resulting from the borrowing of money.

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 ,2011</b>	
Total assessed valuation at June 30, 2011	\$1,939,126,061
Debt limit – eight percent (8%) of assessed value	\$ 155,130,085
Amount of debt applicable to debt limit	
General Obligation bonds	\$ 0
Legal Debt Margin	\$ 155,130,085

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. Based on the most recent year end of June 30, 2011, the Town's outstanding debt that applied to this limit is 1% as evidenced in the table. The legal margin or the maximum amount of outstanding debt allowable by law, based on the June 30, 2011 audited valuation is \$155,130,085.

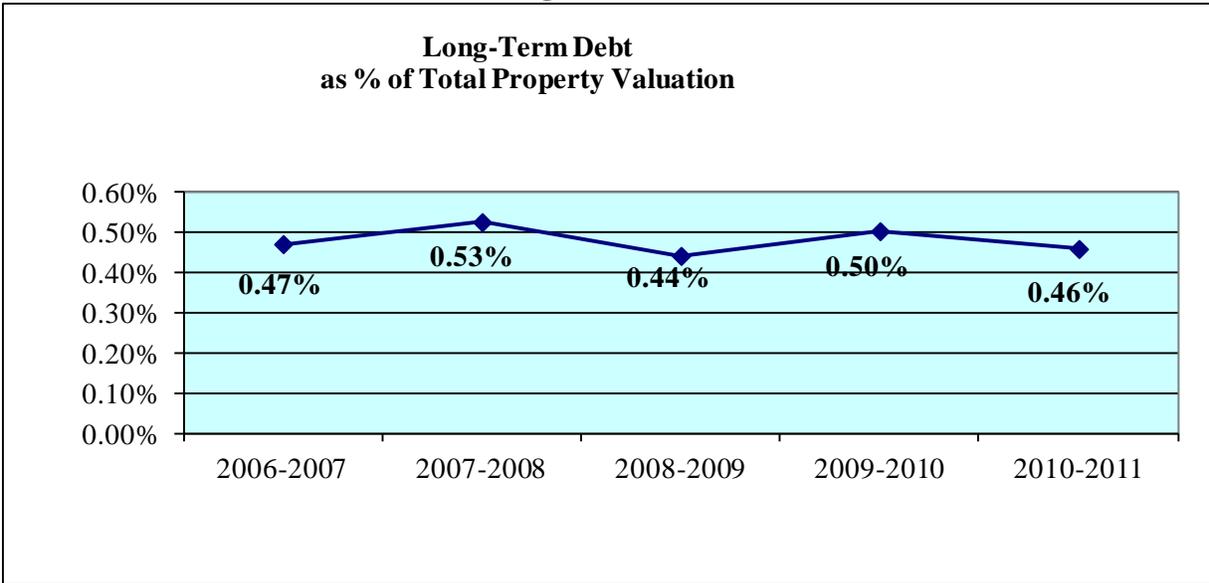
Debt service, annual interest and principal payments, can be a major part of a government's fixed costs, and its increase may indicate excessive debt and fiscal strain; credit firms consider debt exceeding 20% of operating revenues as a potential problem. Ten percent is considered acceptable (footnote1). 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 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 8.6% of the total audited expenditures for the year ending June 30, 2011. The Five-Year Plan shows the percentage of debt service expenditures peaking at 10.2% in FY13-14 but leveling off at 9.6% in FY 2015-16. This spike in FY 2013-14 is due to the anticipated issuance of \$4.6 million general obligation bonds for sidewalks and greenway authorized by the bond referendum passed by the citizens in November 2003.

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

## Long-Term Debt



	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
<b>Long-Term Debt</b>	\$7,530,559	\$8,098,535	\$6,996,943	\$6,996,943	\$9,650,641
<b>Property Valuation</b>	\$1,596,838,299	\$1,538,585,984	\$1,581,966,677	\$1,581,966,677	\$1,915,872,793

**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.

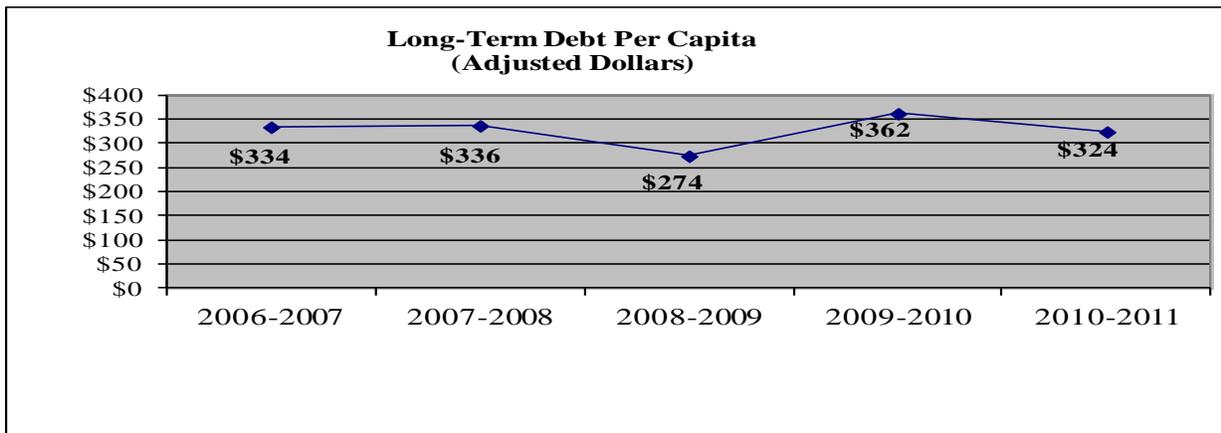
### Discussion

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 FY10-11 was .282 percent; a high level is considered 1.531 percent. The debt-to-assessed

valuation ratio for Carrboro in the last audited year was .46 percent, which is higher than the average valuation for jurisdictions of similar size but well below the high valuation. The Local Government Commission (LGC) includes authorized but unissued debt in its debt ratio formula. For Carrboro, the LGC included the \$4.6 million dollar bond referendum for sidewalks and greenways that has not yet been issued. 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 our debt ratios in the presented graphs are slightly different.

***Debt per Capita***

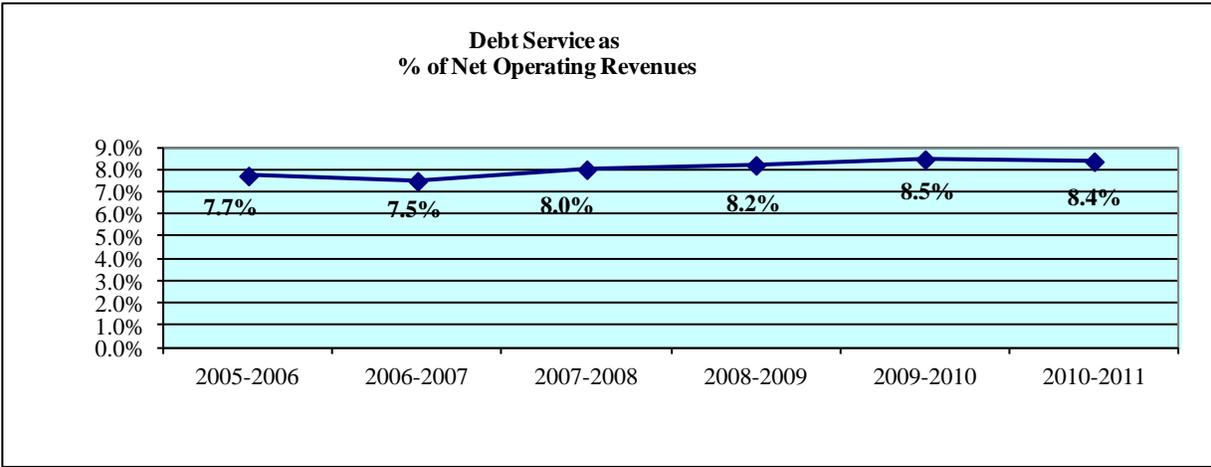
Debt can also be monitored on a per capita basis. It is especially useful for communities that do not rely heavily on property taxes and that cannot easily compute a substitute revenue base for comparison (footnote2). This is an indicator that is monitored by the Local Government Commission, and is useful for comparison with other similar jurisdictions. The average for comparable jurisdictions in FY10-11 was \$274 per capita; \$1,625 per capita is considered a high



ratio. According to the Local Government Commission, the Town’s ratio of outstanding general obligation bond debt which includes authorized and unissued general obligation bond debt and installment purchase debt is \$484 per capita. The graph below 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 Town is in the midst of embarking on a capital plan that moves beyond land purchases to construction which requires financing. Since FY05-06, the Town has been implementing the bond funded sidewalk and greenways plan. In FY08-09 debt obligation is lower than in previous years due to the expiration of some old general obligation bond and lease-purchase commitments. In FY09-10, the Town financed the construction of the northern area fire substation, adding to outstanding debt. The decrease in FY10-11 is due to lease-purchase of fewer vehicles and equipment as well as a decrease in population.

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

## Debt Service



	2006-07	2007-08	2008-2009	2009-2010	2010-2011
<b>Debt Service</b>	\$1,252,941	\$1,360,897	\$1,427,902	\$1,477,718	\$1,511,630
<b>Net Operating Revenue</b>	\$16,753,209	\$17,016,278	\$17,427,662	\$17,476,112	\$18,083,033

**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.

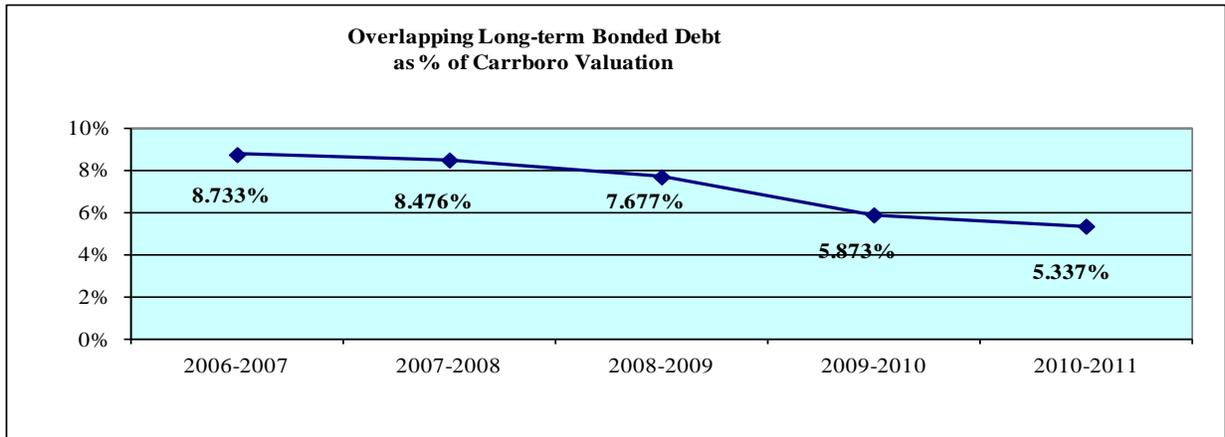
According to the ICMA, debt service under 10 percent of net operating revenue is considered acceptable while anything approaching 20 percent is considered excessive. Debt service can be a major part of a government's fixed costs, and increases may indicate excessive debt and fiscal strain.

### Discussion

Debt service as a percentage of operating revenue has risen over the past four years due to increased financing of vehicles, equipment, the new fire station, and bond funded sidewalk and greenways construction.

The graph shows that debt expenditures are approximately 8.4 percent of net operating revenues in FY10-11. 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%. The Town plans on issuing Bond Anticipation Notes until the Town issues \$4.6 million of general obligation bonds which will require full debt service payments including both principal and interest costs. This debt service will likely appear in or after FY13-14.

## Overlapping Debt



	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Carrboro Debt</b>	\$229,822	\$127,964	\$26,107	\$0	\$0
<b>Orange County Debt</b>	\$139,215,000	\$130,290,000	\$121,415,000	\$112,520,000	\$103,490,000
<b>Total Overlapping Debt</b>	\$139,444,822	\$130,417,964	\$121,441,107	\$112,520,000	\$103,490,000

**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. Since FY2006-07, debt has decreased. The changes in the debt ratio are primarily affected by debt incurred by Orange County.

## **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, 2011 the Town had a fund balance of 57.6% of total expenditures. In five of the last seven years through the FY 2012-13 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 adopted FY 2011-12 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. It is the Town Manager's goal to take action to keep tax rates at the lowest possible level while continuing to provide a high 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 previous years have been significant but have not generally materialized at projected levels. This has been due primarily to lower overall spending, and lower debt services costs associated with debt for various capital projects due to lower interest rates than projected for vehicle installment debt and changes in timing of capital projects (such as the fire substation, and parking lot purchases). In addition, the Town made a decision to issue bond anticipation notes (BANS) which only requires payment of interest costs until the \$4.6 million authorized debt is expended, at which time the Town will issue the bonds requiring principal and interest payments.

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 utility franchise, telecommunications sales tax, and natural piped gas taxes. The Town also receives occasional grant funding for specific projects or programs.

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 was 57.6% of total expenditures on June 30, 2011. This reflects a healthy fund balance level above the established policy that may provide some options to offset some of the committed capital costs in future years.

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-2013</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
	Actual	Adopted Budget	Adopted Budget	Projected			
ESTIMATED VALUE PER ONE CENT LEVY	196,448	186,590	193,835	197,712	201,666	205,699	209,813
REQUIRED RATE PER \$100 VALUATION	58.94	58.94	58.94	68.25	70.25	78.25	78.25
<b>GENERAL FUND REVENUES</b>							
AD VALOREM TAXES	11,375,360	11,246,033	11,538,637	13,611,246	14,287,977	16,220,541	16,546,197
LOCAL SALES TAX	3,113,356	2,966,053	3,287,245	3,385,862	3,487,438	3,592,061	3,699,823
OTHER TAXES/LICENSES	435,522	406,076	408,490	416,660	424,993	433,493	442,163
UNRESTRICTED INTERGOVERNMENTAL	951,820	849,530	862,737	888,619	915,278	942,736	971,018
RESTRICTED INTERGOVERNMENTAL	585,475	509,765	598,200	610,164	622,367	634,815	647,511
FEES AND PERMITS	1,090,236	1,015,238	1,054,150	1,075,233	1,096,738	1,118,672	1,141,046
SALES AND SERVICES	258,379	229,846	229,846	241,338	253,405	266,075	279,379
INTEREST EARNINGS	37,925	25,000	35,000	35,000	35,000	35,000	35,000
OTHER REVENUES	124,029	54,439	65,605	66,917	68,255	69,621	71,013
LEASE PURCHASE PROCEEDS	476,399	298,850	397,320	1,071,528	1,655,323	904,433	678,586
OTHER TRANSFERS	544,806	176,945	176,945	176,945	176,945	176,945	176,945
FUND BAL APPROP	0	712,163	787,316	1,114,241	1,262,232	1,079,759	1,244,124
<b>GENERAL FUND TOTAL REVENUES</b>	<b>18,993,307</b>	<b>18,489,939</b>	<b>19,441,491</b>	<b>22,693,754</b>	<b>24,285,952</b>	<b>25,474,152</b>	<b>25,932,805</b>

Assumptions used in revenue projections are as follows:

<b>Ad Valorem Tax Base</b>	2% per year thereafter
<b>Local Sales Tax</b>	3 % per year
<b>Other Taxes and Licenses</b>	2% per year
<b>Unrestricted Intergovernmental</b>	3% per year
<b>Restricted Intergovernmental</b>	2% per year
<b>Fees and Permits</b>	2% per year
<b>Sales and Services</b>	5% per year
<b>Interest Earnings/Other Revenue</b>	No change
<b>Lease Purchase Proceeds</b>	Lease-purchase CIP
<b>Other Transfers</b>	No increase from current amount
<b>Fund Bal Appropriated</b>	All other Fund Balance appropriated per financial policy.

**General Fund Operating Expenditures**

Personnel costs, representing over half of the budget, underscore the nature of government as a service industry; the primary asset of such an industry is the people who work for it. Consequently, the five-year plan is impacted by assumptions regarding employee salaries and related expenses. For FY 2012-13 the Town has 155.5 full-time equivalent positions with no additional positions projected in future years. The assumptions within the plan assume an average 3% increase in salaries. In addition, the plan accounts for annual significant increases in health insurance that have been a trend over time.

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.

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
<b>GENERAL FUND</b>	<b>Actual</b>	<b>Adopted Budget</b>	<b>Adopted Budget</b>	<b>Projected</b>			
SALARY/WAGES	7,650,184	7,828,099	7,943,793	8,182,107	8,427,570	8,680,397	8,940,809
FRINGE BENEFITS	2,672,414	2,872,286	3,016,905	3,575,032	4,236,413	5,020,150	5,948,878
<b>TOTAL PERSONAL SVCS</b>	<b>10,322,599</b>	<b>10,700,385</b>	<b>10,960,698</b>	<b>11,757,139</b>	<b>12,663,983</b>	<b>13,700,547</b>	<b>14,889,687</b>
GEN OPERATING COSTS	2,679,492	3,833,899	3,859,885	3,975,681	4,094,952	4,217,800	4,344,334
AFFORDABLE HOUSING	84,369	88,103	226,467	233,261	240,259	247,467	254,891
GOVNANCE SUPPORT	56,678	36,139	88,288	90,937	93,665	96,475	99,369
LANDFILL FEES	364,579	391,830	443,520	487,872	536,659	590,325	649,358
TRANSPORTATION COSTS	1,032,825	1,064,150	1,240,000	1,364,000	1,500,400	1,650,440	1,815,484
HUMAN SERVICES	144,296	145,883	151,718	159,304	167,269	175,633	184,415
TRANSFERS TO OTHER FUNDS, MISC.	206,223	0	450,700	450,700	450,700	450,700	450,700
<b>TOTAL OPERATING COSTS</b>	<b>4,568,462</b>	<b>5,608,354</b>	<b>6,508,927</b>	<b>6,761,755</b>	<b>7,083,904</b>	<b>7,428,840</b>	<b>7,798,550</b>

The expenditure assumptions are:

- Salary and Wages* 3% per year beginning FY12-13; maintain current 155.5 FTEs
- Fringe Benefits* 18.5% increase per year
- General Operating Costs* 3% per year beginning FY 12-13
- Affordable Housing* 3% per year
- Governance Support* 3% per year plus Greene Tract payment of \$29,524
- Landfill Fees* 10% per year
- Transportation Costs* 5% per year following recommended budget
- Human Services* 5% per year
- Transfers To Other Funds* Assume level funding of transfer to Capital Reserve for street re-surfacing

### ***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 Town, due to limited resources, will continue to prioritize capital needs as opportunities and funding arises. The Town is underway with the construction sidewalks, road and storm water repairs, and will develop greenway and park facilities and pay debt service costs for these various projects. The timelines and associated cost and tax impacts generally reflect numbers last considered in the FY 2012-17 CIP.

In the adopted CIP for FY 2012-13 through FY 2017-18 the need for capital investment totals \$13.9 million:

- FY 2012-13 \$4.9 million
- FY 2013-14 \$2.1 million
- FY 2014-15 \$3.0 million
- FY 2015-16 \$2.1 million
- FY 2016-17 \$1.8 million

The Board regularly allocates funding for street resurfacing and other Public Works construction projects. The amount needed to cover street resurfacing costs is anticipated to increase over 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.

A significant force creating pressure on the tax rate over the next five years is the cost of the construction of sidewalks and greenways. In this model, an assumption has been made that the Town will issue the entire \$4.6 million dollars approved by the voters for sidewalks and greenways in FY1-14. Meanwhile, the Town continues to finance its sidewalk construction program issuing bond anticipation notes that only require annual interest payments. In FY13-14, upon issuance of the \$4.6 million bonds, both interest and principal payments will be required.

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 debt service payments projected through FY 2016-17.

<b>FISCAL YEAR</b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>	<b><u>2013-14</u></b>	<b><u>2014-15</u></b>	<b><u>2015-16</u></b>	<b><u>2016-17</u></b>
LEASE- PURCHASE DEBT SERVICE - EQP/VEHICLES	758,673	621,165	692,641	881,231	1,018,679	1,124,790	1,213,725
DEBT SERVICE	730,385	377,617	359,937	390,908	399,726	408,545	417,363
DEBT SERVICE - FIRE SUBSTATION CONSTRUCTION @\$3,250,000	342,328	333,510	324,692	315,873	307,055	298,236	289,418
SIDEWALKS & GREENWAYS - BAN/BOND ISSUE	22,573	45,146	28,738	586,073	546,824	530,150	513,476
DEBT SERVICE - MARTIN LUTHER KING, JR. PARK LAND	24,673	24,673	24,673	24,673	24,673	0	0
<b>TOTAL DEBT PAYMENTS</b>	<b>1,878,631</b>	<b>1,402,111</b>	<b>1,430,681</b>	<b>2,198,758</b>	<b>2,296,957</b>	<b>2,361,721</b>	<b>2,433,982</b>

***Current outstanding debt:***

<b>OUTSTANDING DEBT</b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>	<b><u>2013-14</u></b>	<b><u>2014-15</u></b>	<b><u>2015-16</u></b>	<b><u>2016-17</u></b>
MARTIN LUTHER KING, JR. PARK LAND (\$274,000)	90,389	69,113	46,979	23,954	-	-	-
CENTURY CENTER	1,303,131	930,799	733,998	529,747	317,765	97,760	-
PUBLIC WORKS LAND	332,367	281,233	230,100	178,967	127,834	76,700	25,567
ADAMS TRACT ( \$600,000)	360,000	320,000	280,000	240,000	200,000	160,000	120,000
CONSTRUCTION - FIRE SUBSTATION (\$3,250,000)	3,141,667	2,925,000	2,708,333	2,491,667	2,275,000	2,058,333	1,841,666
CAPITAL LEASE (PROJECTED)	2,153,357	1,394,655	1,051,779	1,626,184	2,446,549	2,364,573	1,970,270
<i>ADDITIONAL/ FUTURE LONG TERM DEBT</i>	<i>4,600,000</i>	<i>4,600,000</i>	<i>4,600,000</i>	<i>4,370,000</i>	<i>4,140,000</i>	<i>3,910,000</i>	<i>3,680,000</i>
<b>TOTAL OUTSTANDING DEBT</b>	<b>11,980,911</b>	<b>10,520,800</b>	<b>9,651,189</b>	<b>9,460,519</b>	<b>9,507,148</b>	<b>8,667,366</b>	<b>7,637,503</b>

Assumptions used in projecting capital investments:

<i>Street Resurfacing &amp; Construction Reserves</i>	Annual Street Resurfacing Allocation based on CIP
<i>Park Maintenance</i>	Based on CIP
<i>Computers &amp; Peripherals</i>	Based on CIP
<i>Equipment</i>	Lease-Purchase CIP+ \$100,000/YR
<b>CIP Projects – Operating Impact:</b>	
<i>IT Technology</i>	Per CIP projections
<b>Debt Payments:</b>	
<i>Lease-Purchase Payments/Debt Svc</i>	Projected per CIP projections