FINANCIAL TRENDS
PAST, PRESENT AND FUTURE

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:

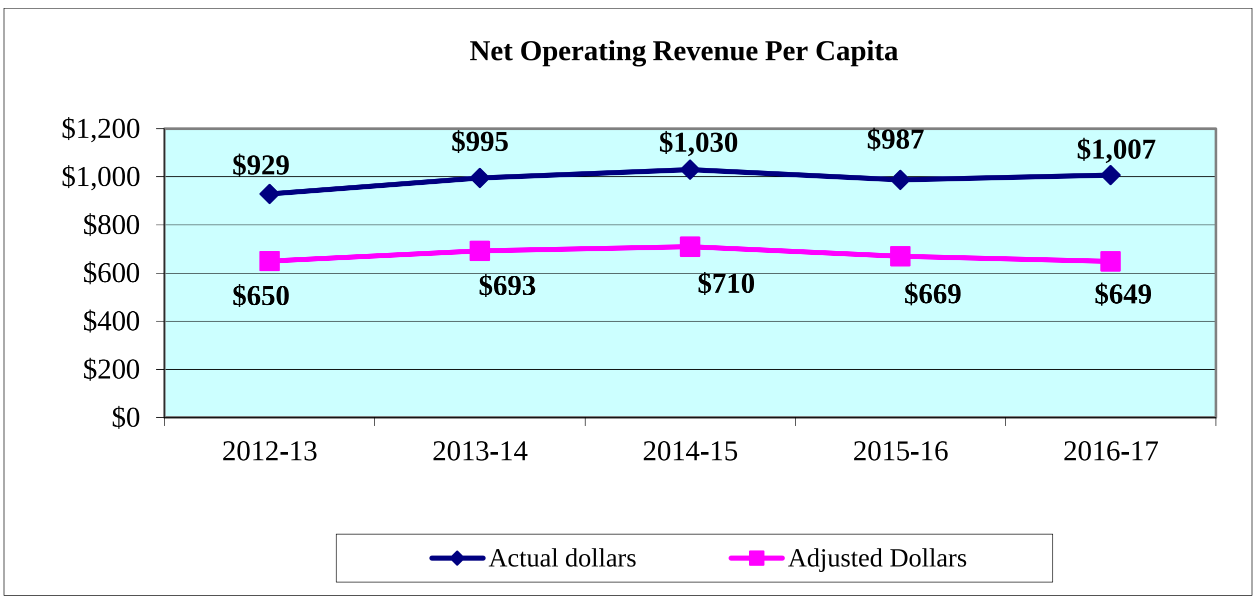
- ☆ Maintain existing service levels,
- ☆ Withstand local and regional economic disruption,
- ☆ Meet demands of natural growth, decline, and change,
- ☆ Maintain facilities to protect investment and keep in usable condition,
- ☆ Meet future obligations (debt, leases, etc.), and
- ☆ Take advantage of 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	2012-13	2013-14	2014-15	2015-16	2016-17
Net Operating Revenue (adjusted)	$13,277,760	$14,203,573	$14,439,376	$14,048,440	$13,541,892
Population	20,433	20,510	20,337	20,984	20,867
Net Operating Revenue Per Capita (adjusted)	$650	$693	$710	$669	$649

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.

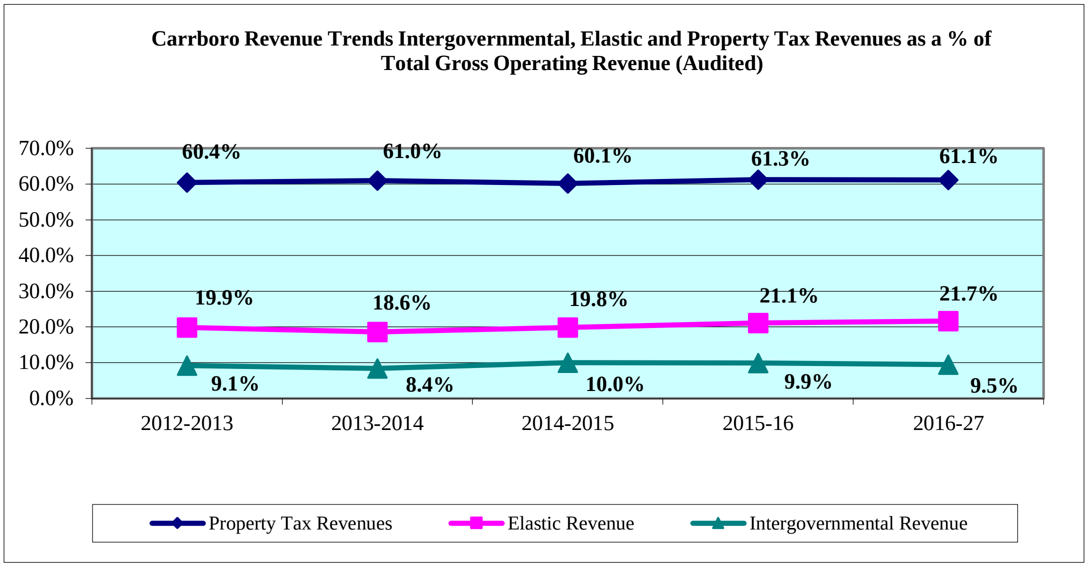
Discussion

In real terms (adjusted for inflation), revenues per capita in Carrboro have remained constant since FY2013. In actual dollars collected (adjusted for inflation), revenue increased by 2.0% percent. Local option sales tax, other taxes and licenses, and investment earnings have increased in the past 5 years. The following chart shows distinct revenue trends as reflected in the Town's audit reports.

Revenue Source	2017 Revenue Adjusted for Inflation	2013 Revenue Adjusted for Inflation	% Change in Revenue Since 2013	2017 per capita	2013 per capita	% Change Since 2013 (per capita)
Ad valorem taxes	$ 7,586,127.37	$ 8,224,966.06	-7.8%	$ 364	$ 402	-9.6%
Local option sales taxes	$ 2,801,090.63	$ 2,398,487.16	16.8%	$ 134	$ 117	14.4%
Other taxes and licenses	$ 1,032,052.34	$ 322,618.43	219.9%	$ 49	$ 16	213.4%
Intergovernmental revenues	$ 1,060,790.25	$ 1,157,288.50	-8.3%	$ 51	$ 57	-10.2%
Permits and fees	$ 758,895.19	$ 878,825.83	-13.6%	$ 36	$ 43	-15.4%
Sales and services	$ 182,370.12	$ 182,893.43	-0.3%	$ 9	$ 9	-2.3%
Investment earnings	$ 37,678.87	$ 18,161.08	107.5%	$ 2	$ 1	103.3%
Other	$ 82,887.07	$ 94,519.63	-12.3%	$ 4	$ 5	-14.1%
Total revenues by source	$ 13,541,891.84	$ 13,277,760.13	2.0%	$ 649	$ 650	-0.1%

Having a significant impact on the revenue stream is the property tax and sales taxes revenue per capita, representing 56% of the total revenue per capita in 2017. 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. Permits and had the most significant decrease due to the slow housing market.

Major Revenue Sources



Revenues	2012-13	2013-14	2014-15	2015-16	2016-17
Property Tax	$ 11,754,299	$ 12,741,993	$ 12,887,757	$12,989,241	$13,143,645
Elastic Revenue	$ 3,870,059	$ 3,894,719	$ 4,251,370	$4,467,684	$4,654,349
Intergovernmental Revenue	$ 1,779,137	$ 1,757,458	$ 2,148,129	$2,103,432	$2,042,392
Total Revenue	**$ 17,403,495**	**$ 18,394,170**	**$ 19,287,256**	**$19,560,357**	**$19,840,386**

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.

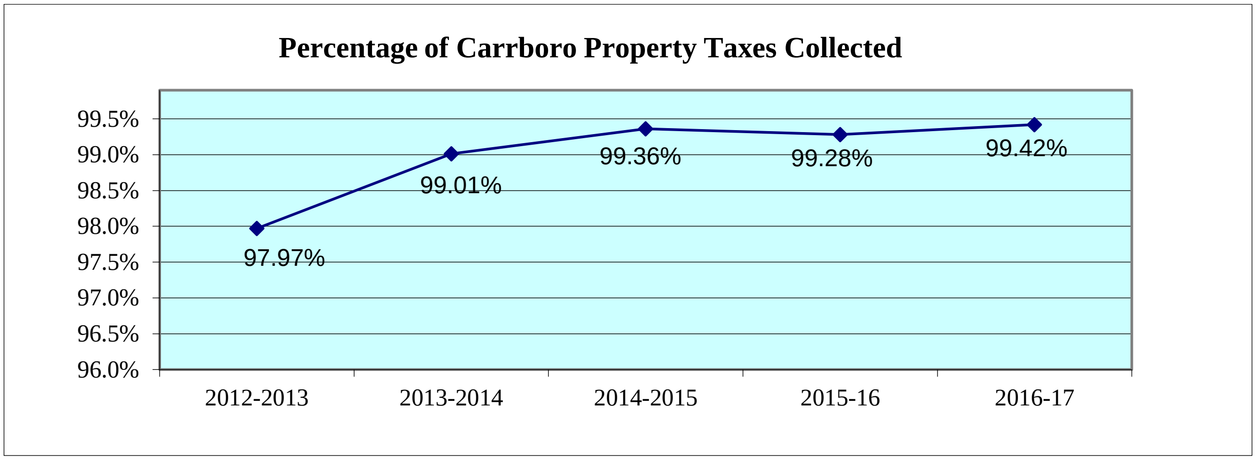
Discussion

As a percentage of total gross operating revenue, all revenues have remained fairly stable. Property tax decreased by .2%, elastic revenues increased by .6%, and intergovernmental revenues decreased slightly by .4%.

Intergovernmental revenue, as a share of the revenue stream in FY16-17 decreased from FY15-16 mainly due to decreases in the telecommunications sales tax and Powell Bill funding.

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

Property Tax Collection Rate



<u>Warning Trend:</u> Decreasing amount of collected property taxes as a percentage of net property tax levy.
<u>Formula:</u> Collected property taxes/Net property tax levy

<u>Description</u>

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.

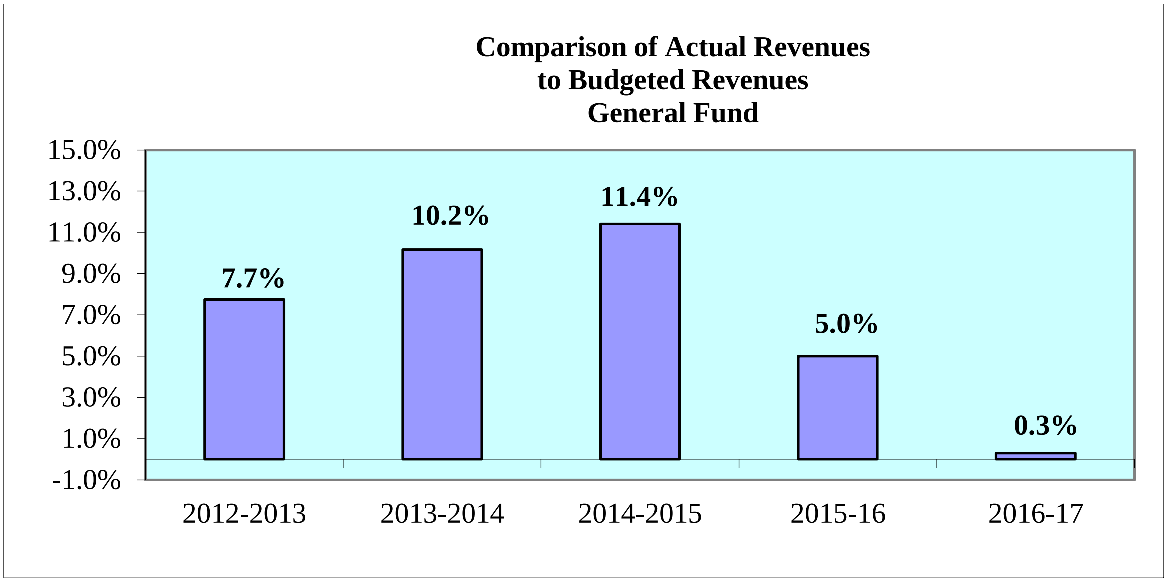
<u>Discussion</u>

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 increased slightly to 99.42% in FY2016-17.

Tax Collection Rates in Carrboro and Neighboring Cities

	2012-13	2013-14	2014-15	2015-16	2016-17
Carrboro	97.97%	99.01%	99.36%	99.28%	99.42%
Chapel Hill	99.24%	99.36%	99.59%	99.62%	99.60%
City of Durham	98.83%	99.00%	99.57%	99.69%	99.80%
Hillsborough	97.61%	98.00%	98.11%	98.72%	99.18%

Comparison of Actual Revenues to Budgeted Revenues



	2012-13	2013-14	2014-15	2015-16	2016-17
Budgeted Operating Revenue	$18,055,160	$18,970,318	$19,236,874	$20,189,109	$21,430,027
Actual Operating Revenue	$19,453,224	$20,898,471	$21,432,760	$21,200,253	$21,495,739
Revenue Variance	$1,398,064	$1,928,153	$2,195,886	$1,011,144	$65,712
Revenue Variance as % of Budgeted Operating Revenues	7.7%	10.2%	11.4%	5.0%	0.3%

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.

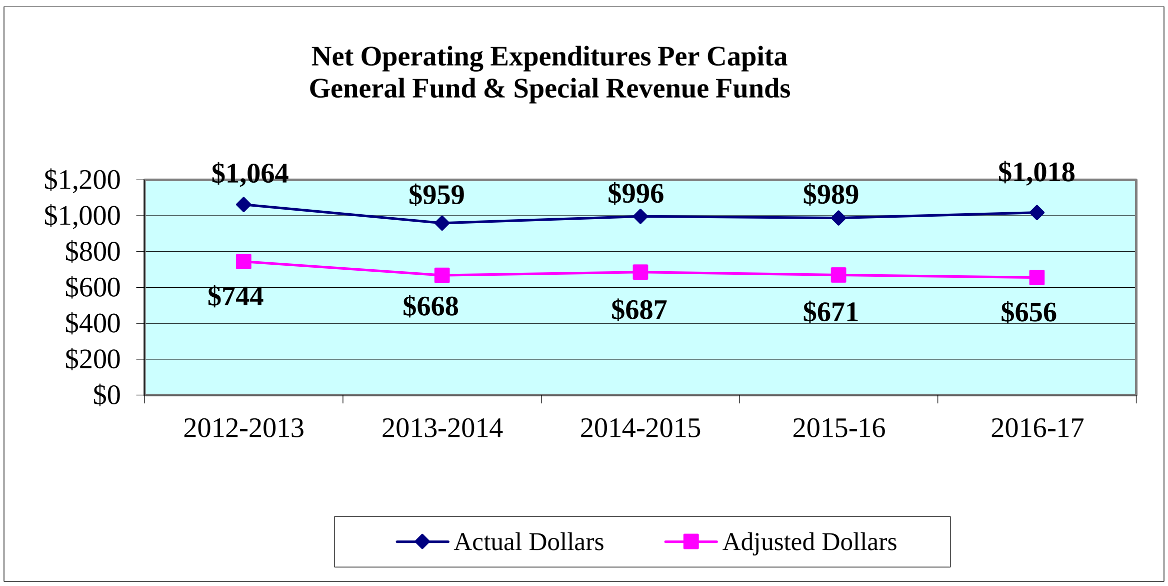
Discussion

The variances in the graph indicate the Town's conservative approach to estimating revenues. In 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). In FY 16-17, the main increases were property taxes ($154,404), sales tax ($240,329), and other taxes and licenses ($220,033).

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



	2012-13	2013-14	2014-15	2015-16	2016-17
Net Operating Expenditures (Adjusted)	$15,208,859	$13,694,031	$13,968,450	$14,074,303	$13,692,874
Population	20,433	20,510	20,337	20,984	20,867

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 a decrease in expenditures made by the Town since FY12-13, from $15,208,859 to $13,692,874 in FY16-17. When adjusted for the combined impact of inflation and population, per capita spending decreased from $744 in FY12-13 to $656 in FY 16-17.

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

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.

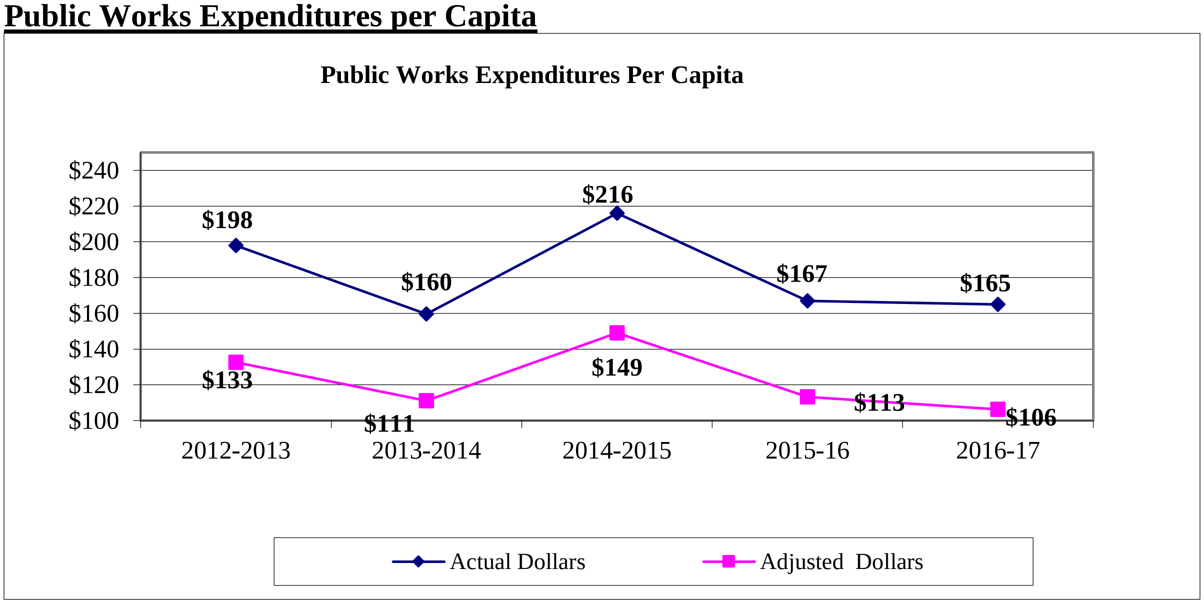
FY 2014-15 – Per capita expenditures changed slightly ($19) from the previous year.

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

FY 2016-17 - Per capita expenditures decreased $15 from the previous year due to change in population.

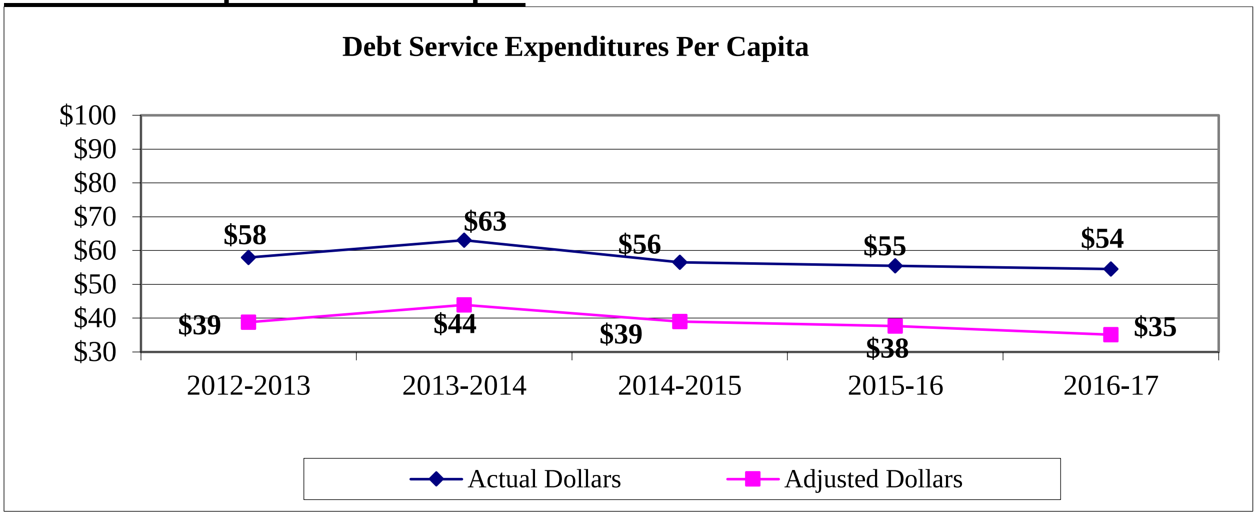
Changes in net operating per capita expenditures can be explained by highlighting events that have contributed to changes in expenditure levels. The following section looks at the various components of expenditures and service levels.

<u>Public Works Expenditures per Capita</u>



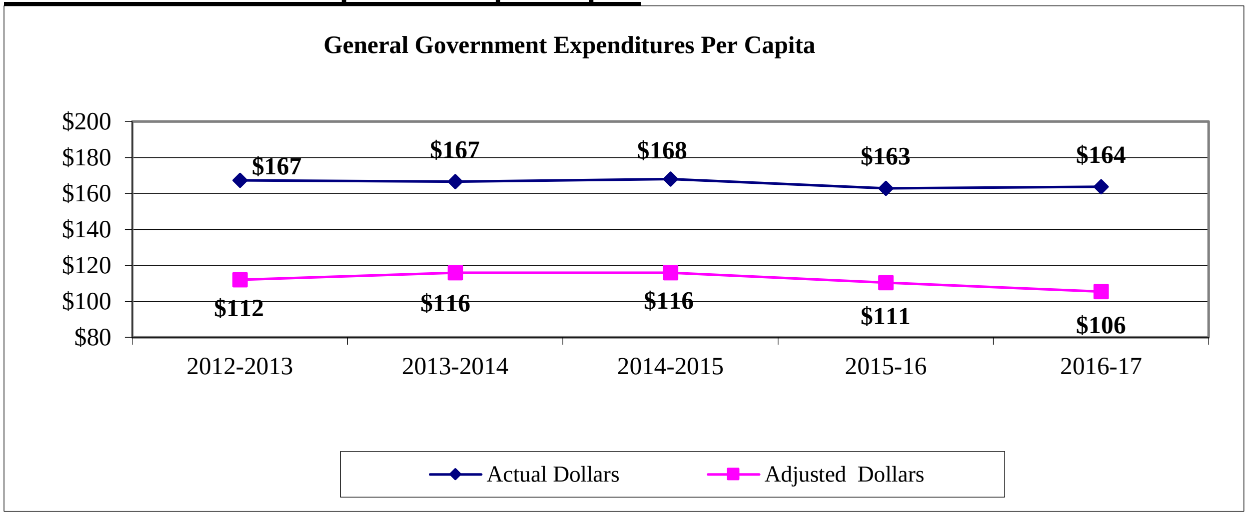
In inflation-adjusted dollars, Carrboro's per capita expenditures on public works have varied. The variability of public works spending is related to ongoing capital and maintenance needs including street maintenance, storm water system repairs, and responding to major natural disasters. The decrease 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. The decrease in FY 16-17 is due to vacant personnel positions.

Debt Service Expenditures Per Capita



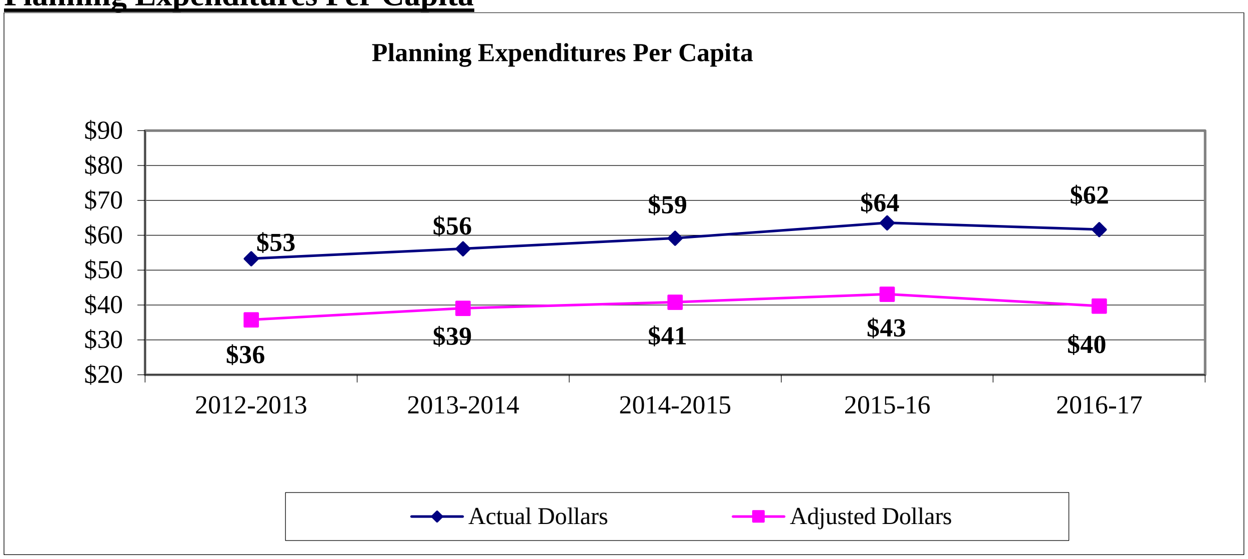
Debt costs include debt paid on general obligation bonds, installment financing for property and town infrastructure as well as equipment and vehicles. The Town has been able to take advantage of retiring debt and low interest rates to borrow for major infrastructure needs and maintain debt service at a relatively constant level. 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 and in FY 2016-17.

General Government Expenditures per Capita



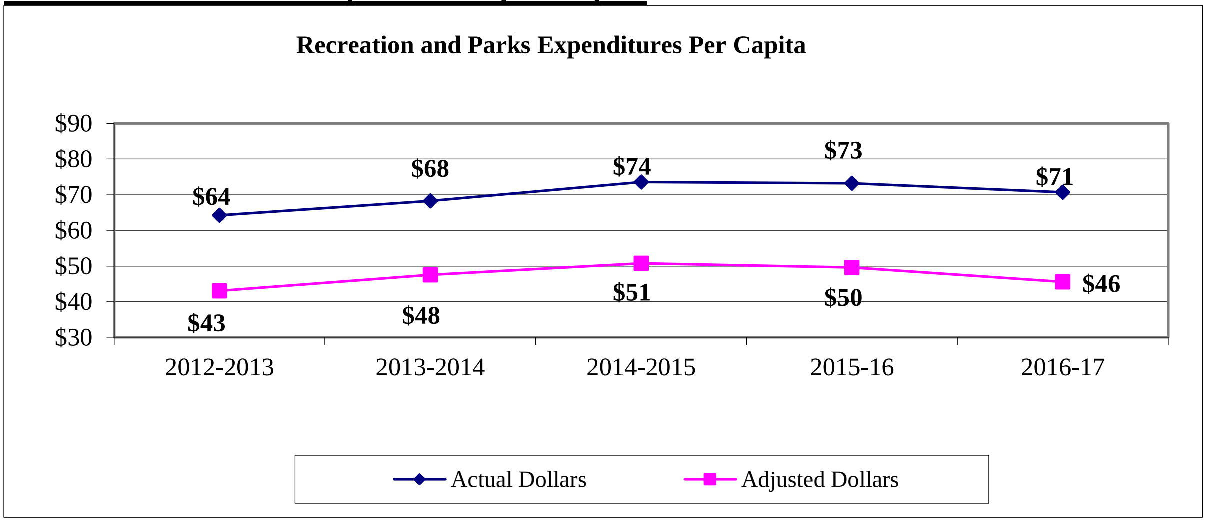
The Town continues to maintain regular replacement of technology infrastructure, support wireless technology, implement mobile laptop technology in police cars, and more recently, dashboard cameras for the Police Department. FY 13-14 and FY 14-15 per capita costs have remained stable. The decrease in FY 15-16 is due to a decrease in property and liability insurance costs and personnel changes. FY 16-17 decrease is due to personnel vacancies.

Planning Expenditures Per Capita



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. The FY 2016-17 decrease is due to a decrease in engineering services.

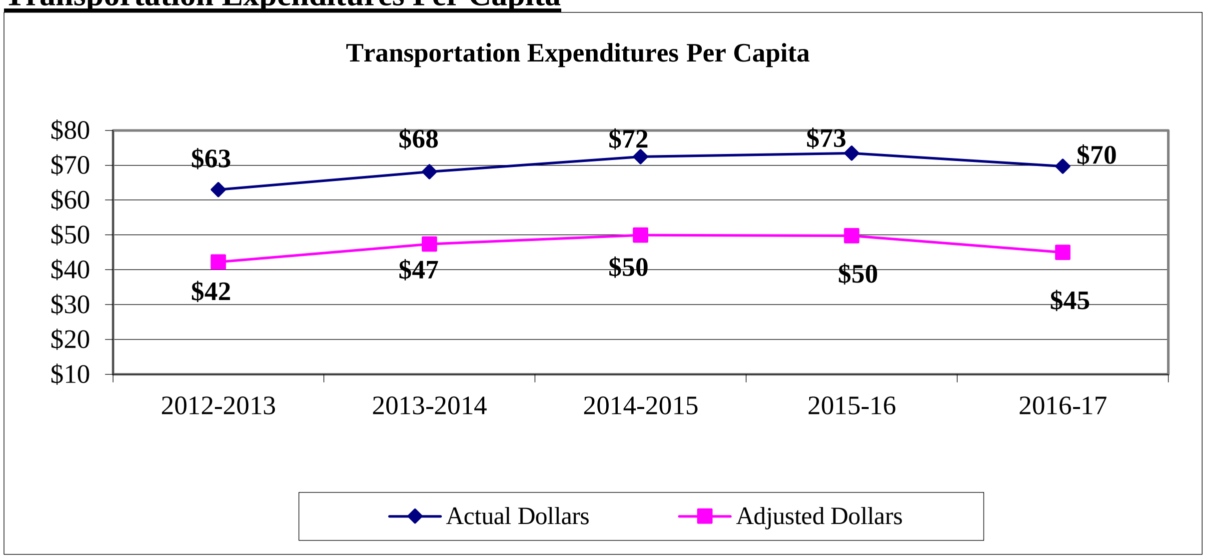
Recreation and Parks Expenditures per Capita



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.

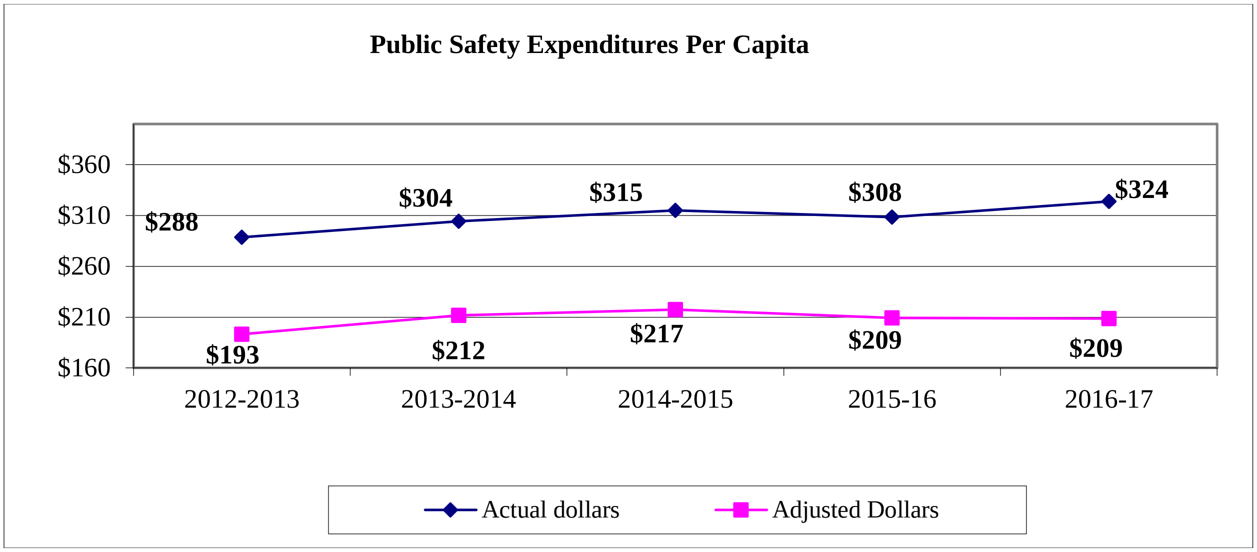
FY 13-14 per capita expenditures increased with additions of special programs and events. The increase in per capita expenditures in FY 14-15 included the resurfacing of the tennis court and basketball court at Anderson Park and the basketball court renovation and expansion at Baldwin Park. FY 2015-16 per capita costs remained fairly constant. FY 2016-17 per capita decrease is due to the completion of Anderson Park projects.

Transportation Expenditures Per Capita



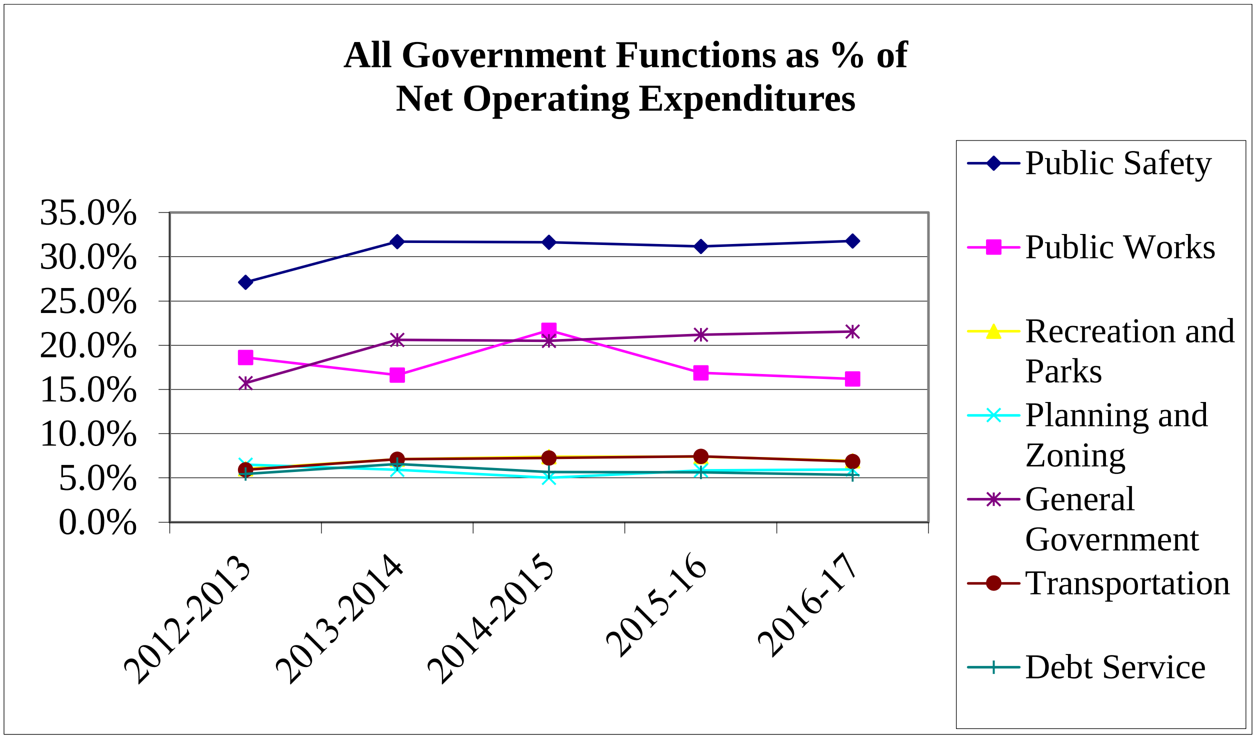
The Town and UNC-Chapel Hill are partners in the transit system administered by the Town of Chapel Hill. Carrboro's contribution into this partnership, adjusted for inflation has continues to increase from FY 2012-13. The transit contract increased in FY 13-14, due to increased fuel and other ongoing operational costs. The contract increased in FY 14-15 due to the necessity for bus replacements. Costs for FY 2015-16 have remained constant. The decrease in per capita costs in FY 2016-17 is due to revised calculation of the bus replacements. The 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 2013-14 costs increased with the upgrade of radios. The increase in per capita expenditures in FY 2014-15 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. FY 2016-17 per capita costs remain constant.

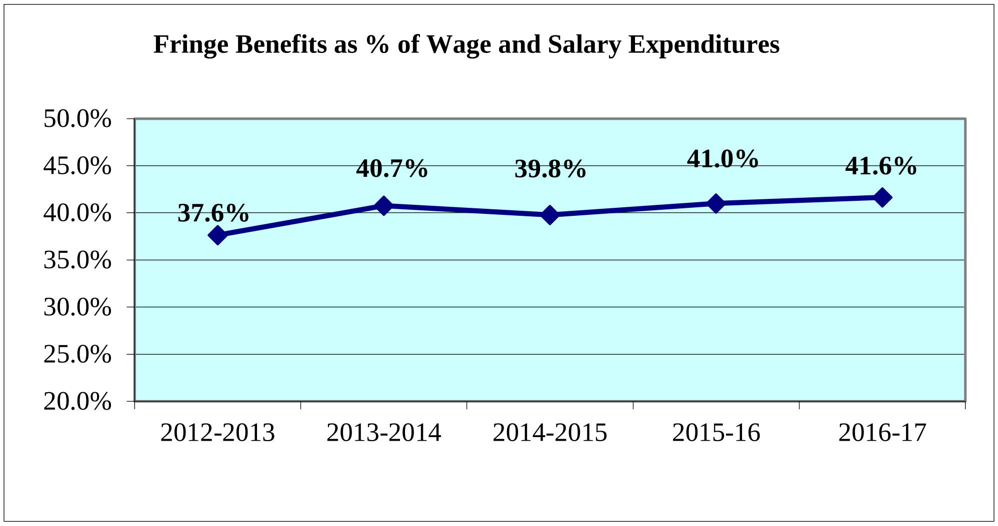
Net Operating Expenditures by Function



The chart above represents the allocation of funding for the various services provided by the Town. Approximately 48 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 22 percent of total spending. The remainder of the programs (debt service, transportation, planning and recreation programs) combined represent approximately 30 percent of the net operating expenses.

Fringe Benefits



	2012-13	2013-14	2014-15	2015-16	2016-17
Expenditures for fringe benefits	$2,818,270	$3,201,670	$3,215,876	$3,307,824	$3,379,677
Salaries/Wages (FT,PT,OT, Temp)	$7,486,057	$7,858,124	$8,088,265	$8,068,980	$8,115,182
Fringe benefits as % of overall wage and salary expenditures	37.6%	40.7%	39.8%	41.0%	41.6%

<u>Warning Trend:</u> Unexplained, uncontrolled, or unanticipated increases in fringe benefit costs may signal a warning trend to credit rating industries.
<u>Formula:</u> Expenditures for Fringe Benefits/Salaries &Wages

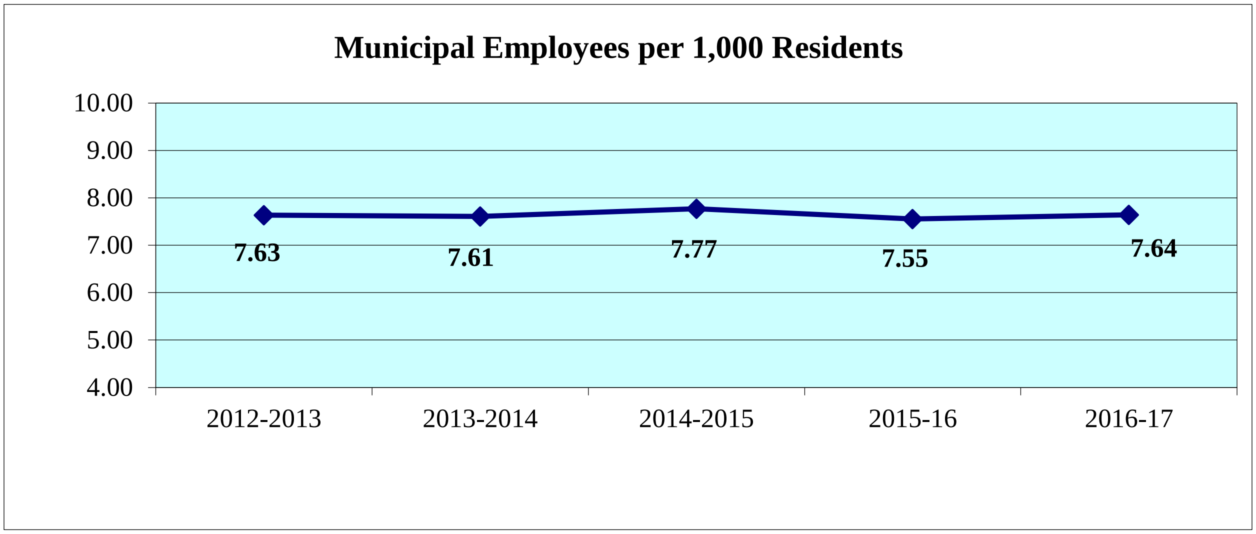
Description

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 FY12-13 to FY 16-17. 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



	2012-13	2013-14	2014-15	2015-16	2016-17
Population	20,433	20,510	20,337	20,984	20,867
Number of municipal employees approved	156	156	158	158.5	159.5

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 through FY 16-17 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
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**
2018-19	0	4	1.5	1.5	7	3	2	42	37	14.5	36	13	**161.5**

Note: All positions are budgeted within the General Fund

Description of Position Changes

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.

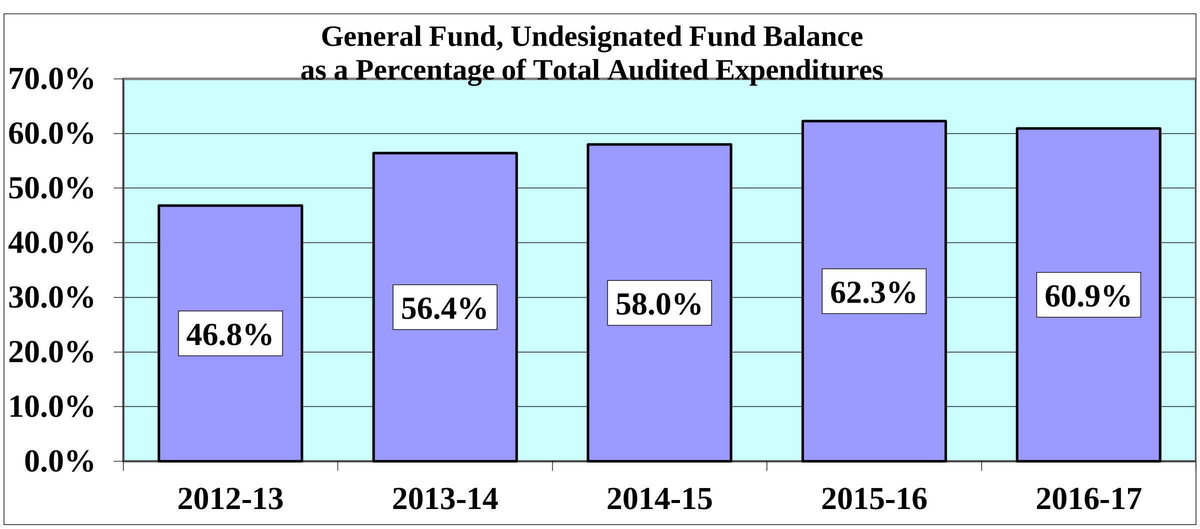
FY17-18 – Capital Projects Manager position added to Public Works in the previous year is being combined with the Engineering Tech position. A new Stormwater Utility Manager position is added to Public Works. Planning Department will add an additional Planner position.

FY18-19 – Added Communications Manager to Town Manager and Accounting Tech/Receptionist to Finance. Deleted Human Resources Representative in Human Resources.

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 1/12th of a government's operating expenditures. However, 1/12th 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.

Town of Carrboro, North Carolina Computation of Legal Debt Margin June 30 ,2017	
Total assessed valuation at June 30, 2016	$2,163,259,569
Debt limit – eight percent (8%) of assessed value	$ 173,060,766
Amount of debt applicable to debt limit Net Bonded Debt	$ 6,274,461
Legal Debt Margin	$ 166,786,305

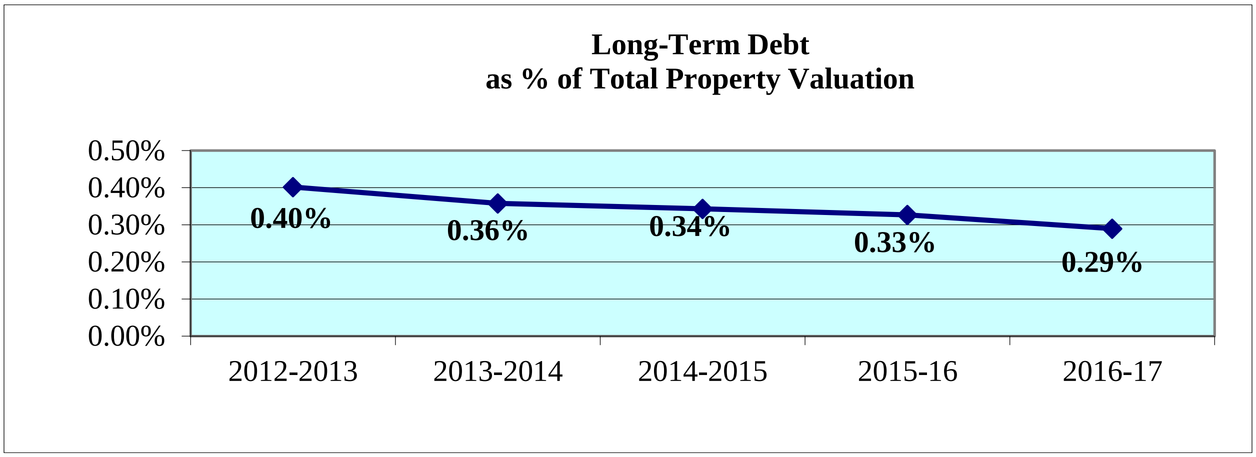
One measure of a unit's debt capacity is debt expressed in terms of assessed or market valuation. It is important to note, however, the Town's debt is far below the legal limit in the NC General Statutes (GS 159-55) that limits net debt to eight percent (8%) or less of a local government's total property 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, 2017 audited valuation is $166,786,305.

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

[1] "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 5.4% of the total expenditures for the year ending June 30, 2017. The Five-Year Plan shows the percentage of debt service expenditures remaining at or below this level.

Long-Term Debt



	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Long-Term Debt	$8,044,436	$7,477,109	$7,248,164	$6,971,705	$6,274,461
Property Valuation	$2,003,172,468	$2,088,514,087	$2,113,902,961	$2,135,604,701	$2,163,259,569

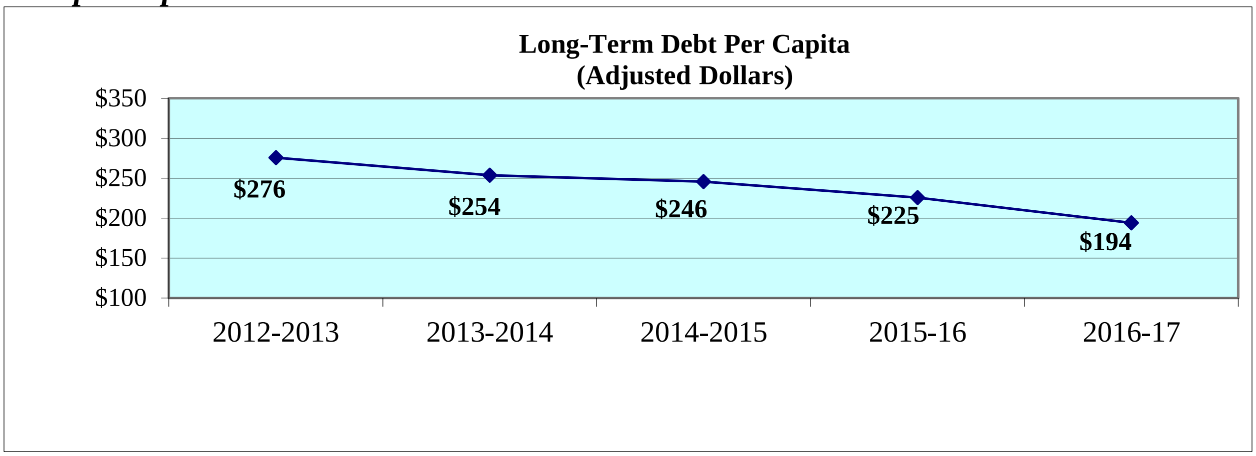
Warning Trend: Increasing ratio of long-term debt to total property valuation.
Formula: Long-term Debt/Total Property Valuation.

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 FY16-17 was .299 percent; a high level is considered 1.332 percent. The debt-to-assessed valuation ratio for Carrboro in the last audited year was .237 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.

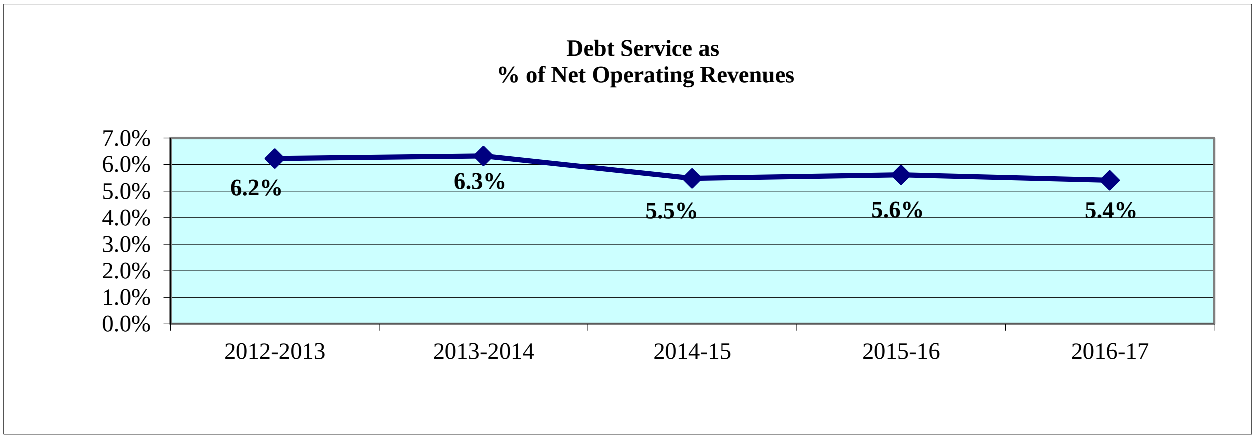
Debt per Capita



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 (footnote2). 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 FY16-17 was $303 per capita; $1,534 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 $254 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. The decreases in FY13-14 through FY16-17 are due to lease-purchase of fewer vehicles and equipment.

[2] Evaluating Financial Condition, A Handbook for Local Government," ICMA, Sanford M. Groves and Maureen Godsey Valente, pp 81

Debt Service



	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Debt Service	$1,183,033	$1,292,484	$1,148,954	$1,164,298	$1,136,832
Net Operating Revenue	$18,975,247	$20,410,534	$20,938,539	$20,705,996	$21,008,891

Warning Trend: **Increasing debt service as a percentage of operating revenue.**
Formula: **Debt Service/Operating Revenue**

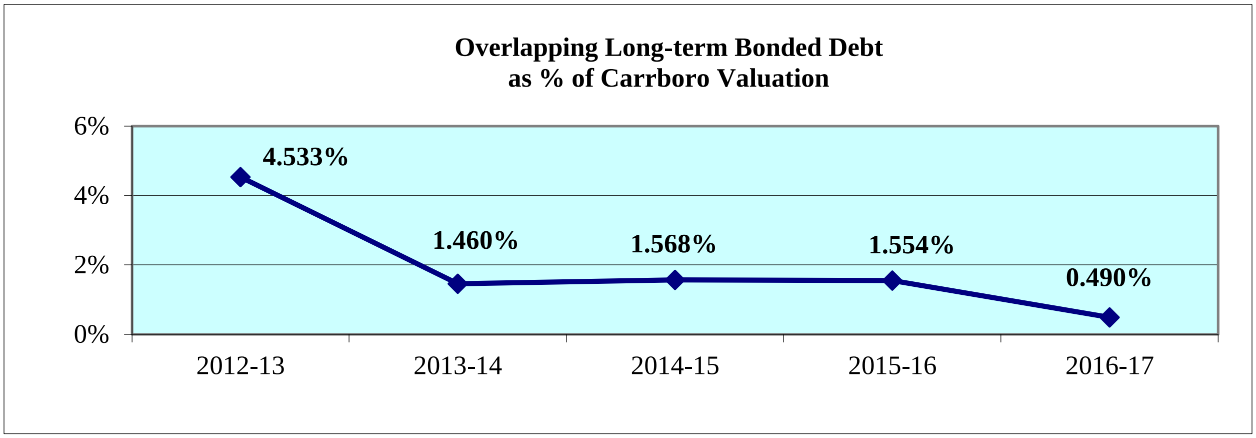
Description

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 5.4 percent of net operating revenues in FY16-17. 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



	2012-13	2013-14	2014-15	2015-16	2016-17
Carrboro Debt	$4,600,000	$4,350,000	$4,100,000	$3,850,000	$3,600,000
Orange County Debt	$86,205,000	$26,132,240	$29,040,646	$29,340,697	$6,994,641

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 FY12-13 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. Orange County overlapping debt rate for FY 2016 decrease dramatically.

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, 2017 the Town's unassigned fund balance as a percentage of total expenditures was 51%. For the last eight years through FY 2017-18, 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, past trends, and the assumptions outlined within this section.

The model is built with the 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

Over the last five years total revenue has grown by roughly 2%. The Town has four sources of recurring revenue: Property Taxes, Local Sales Tax, Other Taxes and Licenses, and Intergovernmental. Property and sales tax revenues are 72% of total revenues. Based on the past five-year trend, we expect property taxes to grow at a modest 2%. On the other hand, sales tax revenues have rebounded over the last five years. Sales tax revenues are expected to increase 5-7% in the coming year. Because of the Town's close proximity to Research Triangle Park, UNC-Chapel Hill, and UNC Hospitals, the Town has maintained a steady flow of economic activities.

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 2015-16 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. The Police Department has also received a grant from the U.S. Department of Justice to outfit all officers with a Body Worn Camera.

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, 2017 was 50% 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 fiscal year ending June 30, 2023.

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
PROPERTY TAX REVENUES	**Adopted Budget**	**Adopted Budget**	**Projected**			
PROPERTY VALUATION	2,260,808,687	2,265,330,304	2,310,636,910	2,356,849,648	2,403,986,641	2,452,066,374
TAX COLLECTION RATE	99.00%	98.00%	98.00%	98.00%	98.00%	98.00%
COLLECTIBLE TAX BASE	2,238,200,600	2,220,023,698	2,264,424,172	2,309,712,655	2,355,906,908	2,403,025,047
TAX BASE PER $100 LEVY	22,382,006	22,200,237	22,644,242	23,097,127	23,559,069	24,030,250
AD VALOREM REVENUE	13,191,954	13,084,820	13,346,516	13,613,446	13,885,715	14,163,430
TAX LEVEY PER PENNY	224,453	222,002	226,442	230,971	235,591	240,303
TAX RATE	0.5894	0.5894	0.5894	0.5894	0.5894	0.5894
CURRENT LEVY - AD VALOREM	12,635,150	13,084,820	13,346,516	13,613,446	13,885,715	14,163,430
PRIOR YEAR	70,252	0	0	0	0	0
PENALTY/INTEREST	24,240	28,086	24,967	25,716	26,488	27,282
TOTAL AD VALOREM REVENUES	12,729,642	13,112,906	13,371,483	13,639,163	13,912,203	14,190,712

Note: The above property tax rate does not include the ½ cents tax rate devoted to Affordable Housing Fund. Property tax valuation assumes growth of 2% per year.

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
GENERAL FUND REVENUES	**Adopted Budget**	**Adopted Budget**	**Projected**			
AD VALOREM TAXES	$ 12,729,642	$ 11,945,655	$ 12,184,568	$12,428,259	$ 12,676,824	$ 12,930,361
LOCAL SALES TAX	4,018,500	$ 4,475,980	$ 4,610,260	$ 4,748,568	$ 4,891,025	$ 5,037,755
OTHER TAXES/LICENSES	1,846,809	$ 1,604,757	$ 1,636,852	1,669,589	1,702,981	1,737,040
UNRESTRICTED INTERGOVERNMENTAL	1,219,773	$ 1,422,090	1,436,311	1,450,674	1,465,181	1,479,833
RESTRICTED INTERGOVERNMENTAL	634,244	$ 633,991	640,331	646,734	653,201	659,733
FEES AND PERMITS	1,178,867	$ 1,193,085	1,216,946	1,241,285	1,266,111	1,291,433
SALES AND SERVICES	170,870	$ 285,521	291,231	297,056	302,997	309,057
INTEREST EARNINGS	27,089	$ 51,812	52,330	52,853	53,382	53,916
OTHER REVENUES	143,615	$ 161,441	164,670	167,963	171,323	174,749
LEASE PURCHASE PROCEEDS	301,872	0	500,000	500,000	500,000	500,000
OTHER TRANSFERS	0	0	0	0	0	0
FUND BAL APPROP	598,404	1,088,391	1,611,347	1,693,024	1,902,081	2,379,111
GENERAL FUND TOTAL REVENUES	***$ 22,869,685***	***$ 22,862,722***	***$ 24,344,846***	***$24,896,006***	***$ 25,585,107***	***$ 26,552,989***

Assumptions used in revenue projections are as follows:

Ad Valorem Tax Base	2% per year thereafter
Local Sales Tax	3% 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	Level amount each year
Fund Balance Appropriation	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.

	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
GENERAL FUND OPERATING	**Adopted Budget**	**Adopted Budget**	**Projected**			
SALARY/WAGES	$ 8,979,715	$ 9,729,183	$ 9,923,767	$ 10,122,242	$ 10,324,687	$10,531,181
FRINGE BENEFITS	3,614,555	3,820,098	4,202,108	4,622,319	5,084,550	5,593,005
TOTAL PERSONNEL	**$12,594,270**	**$ 13,549,281**	**$ 14,125,874**	**$ 14,744,561**	**$ 15,409,237**	**$16,124,186**
OPERATING COSTS						
GEN OPERATING COSTS	$ 4,305,289	$ 4,297,789	$ 4,426,723	$ 4,559,524	$ 4,696,310	$ 4,837,199
AFFORDABLE HOUSING	585,562	337,500	340,875	344,284	347,727	351,204
GOV'NANCE SUPPORT	442,189	643,067	655,928	669,047	682,428	696,076
LANDFILL FEES	311,000	311,000	320,330	329,940	339,838	350,033
TRANSPORTATION COSTS	1,834,856	1,811,000	1,901,550	1,996,628	2,096,459	2,201,282
HUMAN SERVICES	300,000	300,000	300,000	300,000	300,000	300,000
TRANSFERS TO OTHER FUNDS, MISC.	300,000	250,000	250,000	250,000	250,000	250,000
TOTAL OPERATING COSTS	**$ 8,078,896**	**$ 7,950,356**	**$ 8,195,406**	**$ 8,449,422**	**$ 8,712,761**	**$ 8,985,795**

The expenditure assumptions are:

Salary and Wages	*2% per year and maintain current 158 FTEs*
Fringe Benefits	*10% increase per year*
General Operating Costs	*3% per year beginning FY 12-13*
Affordable Housing	*1% per year*
Governance Support	*2% per year plus Greene Tract payment of $29,524*
Landfill Fees	*3% per year*
Transportation Costs	*5% per year following recommended budget*
Human Services	*0% per year*
Transfers To Other Funds	*Level funding Capital Reserve for street re-surfacing*

Capital Investments

The Board adopts a 5-year Capital Improvements Plan (CIP) annually. The table below is a summary of capital projects, current and new requests with estimated cash needs per year.

Summary of Capital Improvements Plan
FY 2018-19 through FY 2022-23

	FUNDING	PROJECT REQUESTS					TOTAL	TOTAL
PROJECT COSTS	**TO DATE**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**REQUEST**	**COST**
CURRENT PROJECTS	23,879,782	300,000	300,000	300,000	300,000	300,000	1,500,000	25,379,782
VEHICLES / EQUIPMENT	-	357,014	577,635	363,383	535,077	746,252	2,579,361	2,579,361
TECHNOLOGY PROJECTS	1,461,201	-	-	-	-	-	-	1,461,201
NEW PROJECTS	105,000	218,413	687,651	1,664,844	232,907	-	2,803,815	2,908,815
TOTAL PROJECT COSTS	25,445,983	875,427	1,565,286	2,328,227	1,067,984	1,046,252	6,883,176	32,329,159
PROJECT REVENUES								
Capital Reserves	5,151,921	300,000	410,000	300,000	300,000	300,000	1,610,000	6,761,921
Capital Reserves - Matching Fun	105,000	-	-	-	-	-	-	105,000
General Fund Operating Funds	602,395	110,497	71,347	-	-	-	181,844	784,239
GO Bonds	1,282,635	-	-	-	-	-	-	1,282,635
Installment Financing	9,000,000	357,014	577,635	363,383	535,077	746,252	2,579,361	11,579,361
Intergovernmental	9,228,015	107,916	201,547	1,030,680	174,507	-	1,514,650	10,742,665
Miscellaneous (e.g., PIL)	76,017	-	304,757	634,164	58,400	-	997,321	1,073,338
TOTAL REVENUES	25,445,983	875,427	1,565,286	2,328,227	1,067,984	1,046,252	6,883,176	32,329,159

The Capital Improvements Plan (CIP) for FY 2018-19 through FY 2022-23 concentrates primarily on the completion of current projects rather than the initiation of new projects. The Town has 15 capital projects underway totaling $25.4 million. The largest project is the 203 S. Greensboro Street project at $15.6 million, a joint endeavor between the Town and Orange County, to develop a facility to house the Orange County Southern Branch Library, administrative offices for the Town, and other possible uses. The County is expected to contribute $6.0 million and the Town anticipates debt financing of $9.0 million. Over the next five years, the Town will need funds to undertake the following projects;

Street Re-surfacing: $1.5 million;
Vehicles and Equipment: $2.5 million; and,
Infrastructure Projects (e.g., sidewalks, bike ways, etc.): $2.8 million.

The Facilities Assessment and Space Needs Study in 2016 identified a need to renovate several Town building. However, these projects will required further definition to allow for better evaluation of funding options as well as impact analysis on the General Fund.

Past CIPs anticipated increased pressure on the tax rate when the Town issued the $4.6 million general obligation bonds for construction of sidewalks and greenways in 2016. 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. The only major debt over the next three to five years is expected to be financing for the 203 S. Greensboro Project.

The Town historically has not carried a significant amount of debt. Below is a summary of the Town's current and future debt service projected through FY 2022-23.

CURRENT DEBT SERVICE	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
SIDEWALK AND GREENWAYS GO BONDS	$ 332,500	$ 327,500	$ 322,500	$ 317,500	$ 312,500	$ 307,500
FIRE SUBSTATION	280,600	271,781	262,963	254,145	245,326	236,508
VEHICLE AND EQUIPMENT	452,233	349,947	202,712	74,998	-	-
CURRENT DEBT SERVICE	**$ 1,065,332**	**$ 949,229**	**$ 788,175**	**$ 646,643**	**$ 557,826**	**$ 544,008**
FUTURE LONG-TERM DEBT SERVICE						
203 S GREENSBORO DEVELOPMENT		$ 360,000	$ 709,875	$ 696,375	$ 682,875	$ 669,375
FUTURE LONG-TERM DEBT SERVICE	**$ -**	**$ 360,000**	**$ 709,875**	**$ 696,375**	**$ 682,875**	**$ 669,375**
FUTURE VEHICLE & EQUIPMENT DEBT		**$ 123,135**	**$ 223,690**	**$ 284,767**	**$ 370,348**	**$ 422,360**
TOTAL CURRENT & FUTURE DEBT	**$ 1,065,332**	**$ 1,432,364**	**$ 1,721,740**	**$ 1,627,785**	**$ 1,611,049**	**$ 1,635,743**