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 AA+ with Standard and Poor's and Moody's Aa2. 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:

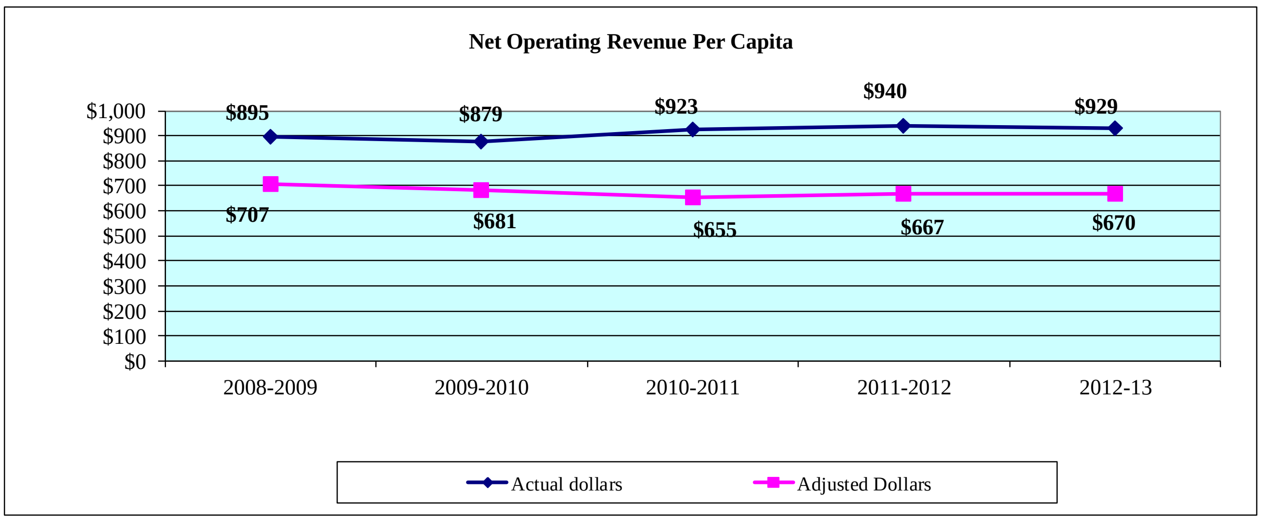
- ☆ Maintain existing service levels,
- ☆ Withstand local and regional economic disruption,
- ☆ Meet demands of natural growth, decline, and change,
- ☆ Maintain facilities to protect investment and keep in usable condition,
- ☆ Meet future obligations (debt, leases, etc.), and
- ☆ Take advantage of 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	2008-09	2009-10	2010-11	2011-12	2012-13
Net Operating Revenue (adjusted)	$13,270,130	$13,027,292	$13,062,944	$13,328,336	$13,277,760
Population	19,479	19,891	19,582	19,905	20,433
Net Operating Revenue Per Capita (adjusted)	$681	$655	$667	$670	$650

<u>Warning Trend:</u> Decreasing operating revenues per capita (constant dollars).
<u>Formula:</u> 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.

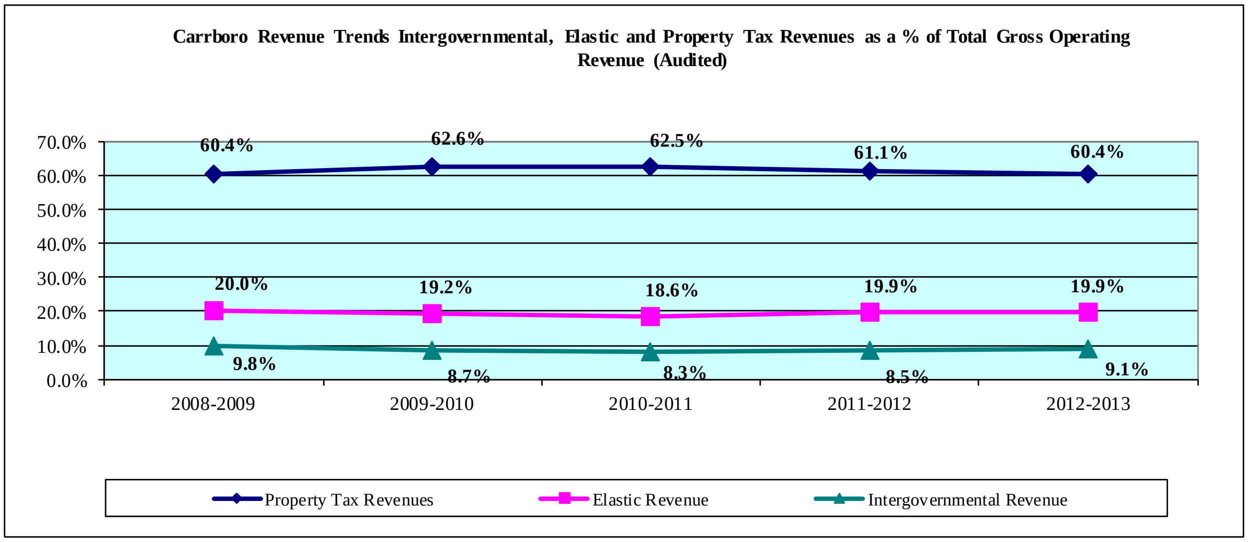
Discussion

In real terms (adjusted for inflation), revenues per capita in Carrboro have experienced a 4.6 percent decrease in the past 5 fiscal years. In actual dollars collected (adjusted for inflation), revenue increased by .1 percent. Local option sales tax, intergovernmental revenues, and permits and fees are the 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	2013 Revenue Adjusted for Inflation	2009 Revenue Adjusted for Inflation	% Change in Rvenue Since 2009	2013 per capita	2009 per capita	% Change Since 2009 (per capita)
Ad valorem taxes	$ 8,224,966	$ 8,241,933	-0.2%	$ 403	$ 423	-4.9%
Local option sales taxes	$ 2,398,487	$ 2,389,276	0.4%	$ 117	$ 123	-4.3%
Other taxes and licenses	$ 322,618	$ 326,395	-1.2%	$ 16	$ 17	-5.8%
Intergovernmental revenues	$ 1,157,289	$ 1,021,499	13.3%	$ 57	$ 52	8.0%
Permits and fees	$ 878,826	$ 808,671	8.7%	$ 43	$ 42	3.6%
Sales and services	$ 182,893	$ 198,606	-7.9%	$ 9	$ 10	-12.2%
Investment earnings	$ 18,161	$ 145,185	-87.5%	$ 1	$ 7	-88.1%
Other	$ 94,520	$ 138,565	-31.8%	$ 5	$ 7	-35.0%
Total revenues by source	$ 13,277,760	$ 13,270,130	0.1%	$ 650	$ 681	-4.6%

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 2013. 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. All revenues except intergovernmental revenue and permits and fees have decreased due to the current economic conditions.

Major Revenue Sources



Revenues	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Property Tax	$10,041,553	$ 10,824,131	$ 11,213,669	$11,578,630	$ 11,708,787	$ 11,754,299
Elastic Revenue	$ 4,055,341	$ 3,589,969	$ 3,446,206	$ 3,445,133	$ 3,820,856	$ 3,870,059
Intergovernmental Revenue	$ 1,542,745	$ 1,758,203	$ 1,554,121	$ 1,537,295	$ 1,631,211	$ 1,779,137
Total Revenue	**$ 15,639,639**	**$ 16,172,303**	**$ 16,213,996**	**$ 16,561,058**	**$ 17,160,854**	**$ 17,403,495**

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.

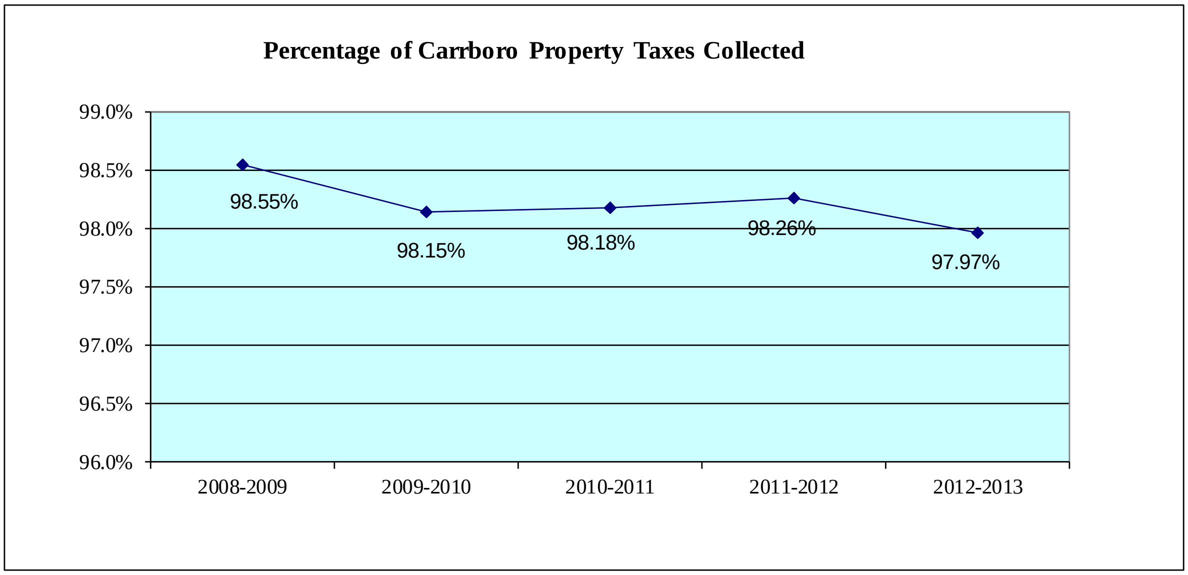
Discussion

As a percentage of total gross operating revenue, all revenues have remained fairly stable. Property tax revenue has decreased .7%, elastic revenues have stayed constant and intergovernmental revenues have increased .6%.

Intergovernmental revenue, as a share of the revenue stream in FY12-13 increased slightly from FY11-12. 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. New grant revenue was received for a fire sprinkler system and energy efficiency improvements for Town businesses and residents.

Elastic revenue had an increase in sales tax and building permit revenues but a decrease in electrical, mechanical and plumbing permits.

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.

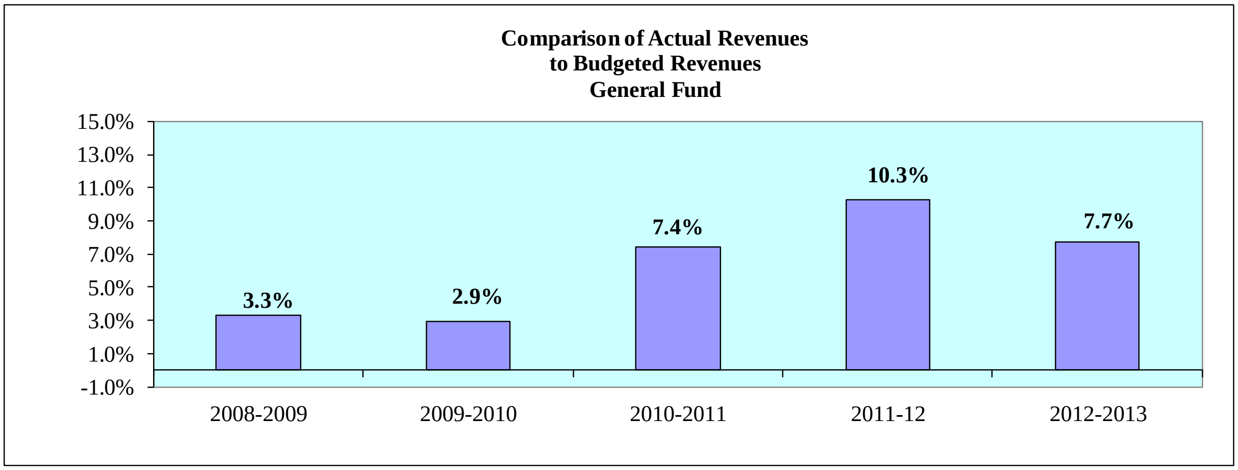
<u>Discussion</u>

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 , shows a positive collection rate for the Town's property tax base. Collections are generally above 98 percent but declined in FY 2012-13.

Tax Collection Rates in Carrboro and Neighboring Cities

	2008-09	2009-10	2010-11	2011-12	2012-13
Carrboro	98.55%	98.15%	98.18%	98.26%	97.97%
Chapel Hill	99.43%	99.20%	99.10%	99.21%	99.24%
City of Durham	98.19%	96.90%	98.70%	98.75%	98.83%
Hillsborough	98.50%	98.80%	97.16%	99.00%	97.61%

Comparison of Actual Revenues to Budgeted Revenues



	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Budgeted Operating Revenue	$16,540,942	$17,351,816	$17,411,883	$17,253,999	$17,391,017	$18,055,160
Actual Operating Revenue	$17,556,752	$17,921,040	$17,917,191	$18,533,066	$19,176,013	$19,453,224
Revenue Variance	$1,015,810	$569,224	$505,308	$1,279,067	$1,784,996	$1,398,064
Revenue Variance as % of Budgeted Operating Revenues	6.1%	3.3%	2.9%	7.4%	10.3%	7.7%

Warning Trend: **Increase in revenue shortfalls or surpluses as a percentage of budgeted revenues.**
Formula: **Revenue Variance/Budgeted Operating Revenues**

Description

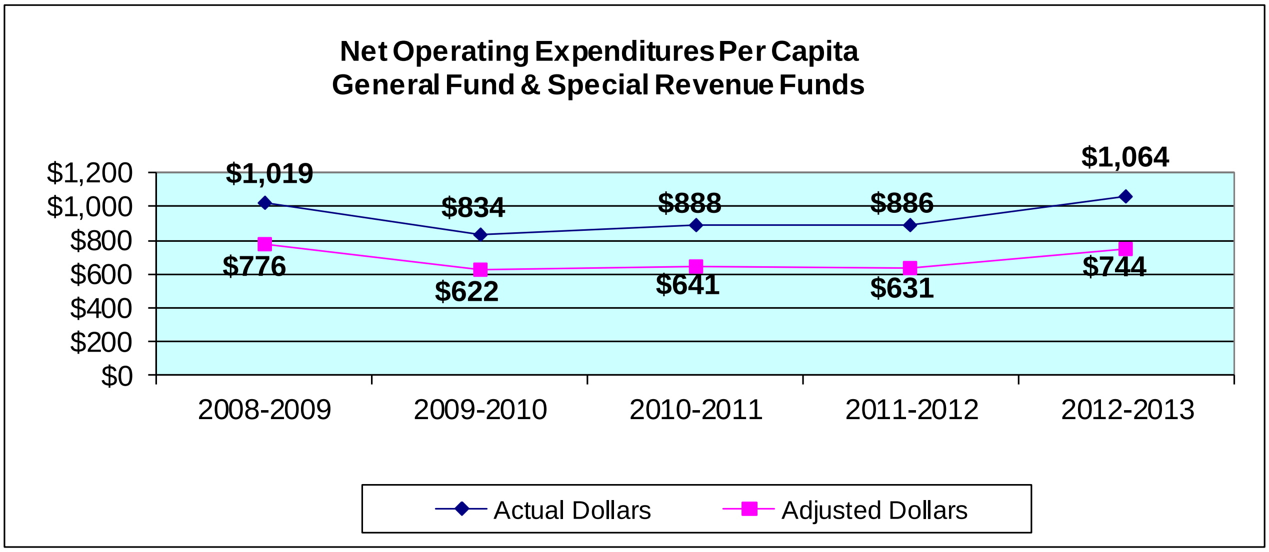
This indicator examines the differences between revenue estimates and revenues actually received during the fiscal year. Major discrepancies that continue year after year can indicate a declining economy, inefficient collection procedures, changes in the law, or inaccurate estimating techniques. One 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. 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). In FY11-12 the major increases in actual revenue include property taxes ($322,544), permits and fees ($218,443), and sales tax ($194,704). In FY 12-13, the main increases were with property taxes ($215,662), sales tax ($140,433), and permits and fees ($201,779).

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



	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Net Operating Expenditures (Adjusted)	$15,115,324	$12,364,201	$12,557,753	$12,567,744	$15,208,859
Population	19,479	19,891	19,582	19,905	20,433

Warning Trend: **Increasing net operating expenditures per capita (constant dollars).**
Formula: **Net Operating Expenditures/Population**

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

Discussion
Net operating expenditures, adjusted for inflation, show an increase in expenditures made by the Town since FY08-09, from $15,115,324 to $15,208,859 in FY12-13. When adjusted for the combined impact of inflation and population, per capita spending decreased from $776 in FY08-09 to $744 in FY 12-13.

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

FY 2008-09 – Per capita expenditures included 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.

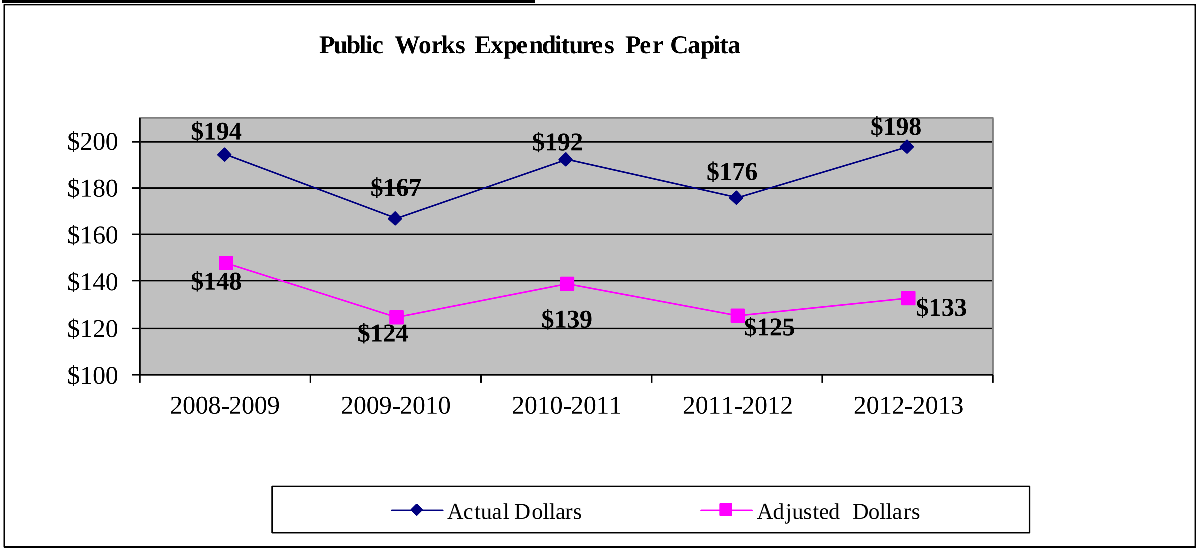
FY 2010-11 – Per capita expenditures changed slightly ($19) from the previous year.

FY 2011-12 - Per capita expenditures changed slightly ($2) from the previous year.

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

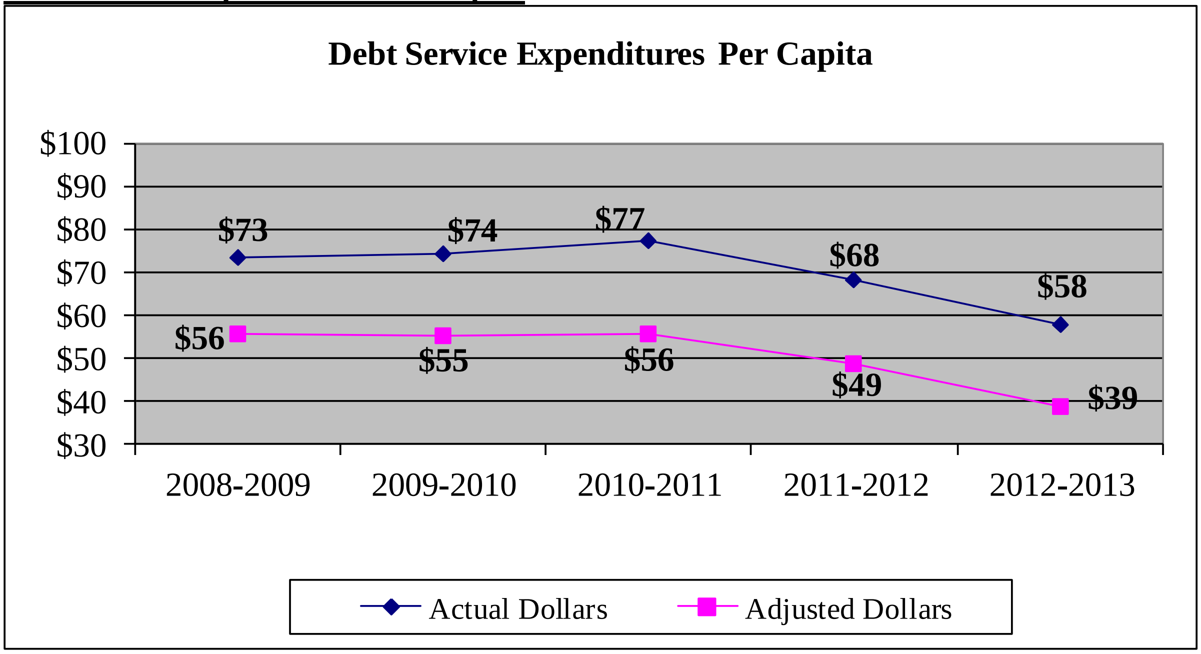
Changes in net operating per capita expenditures can be explained by highlighting events that have contributed to changes in expenditure levels. The following section looks at the various components of expenditures and service levels.

Public Works Expenditures per Capita



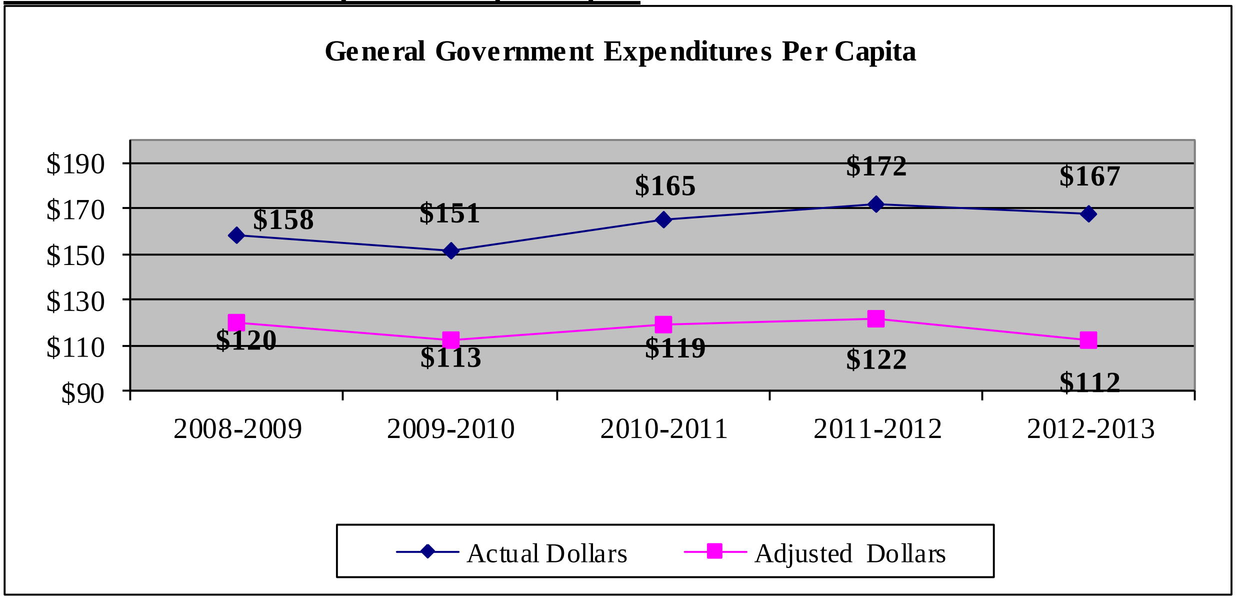
In inflation-adjusted dollars, Carrboro's per capita expenditures on public works have varied. The variability of public works spending is related to ongoing capital and maintenance needs including street maintenance, storm water system repairs, and responding to major natural disasters. Expenses in 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. The decrease in FY 11-12 is due to the street resurfacing costs from the previous year. The increase in FY 12-13 is due to the purchase of replacement refuse vehicles.

Debt Service Expenditures Per Capita



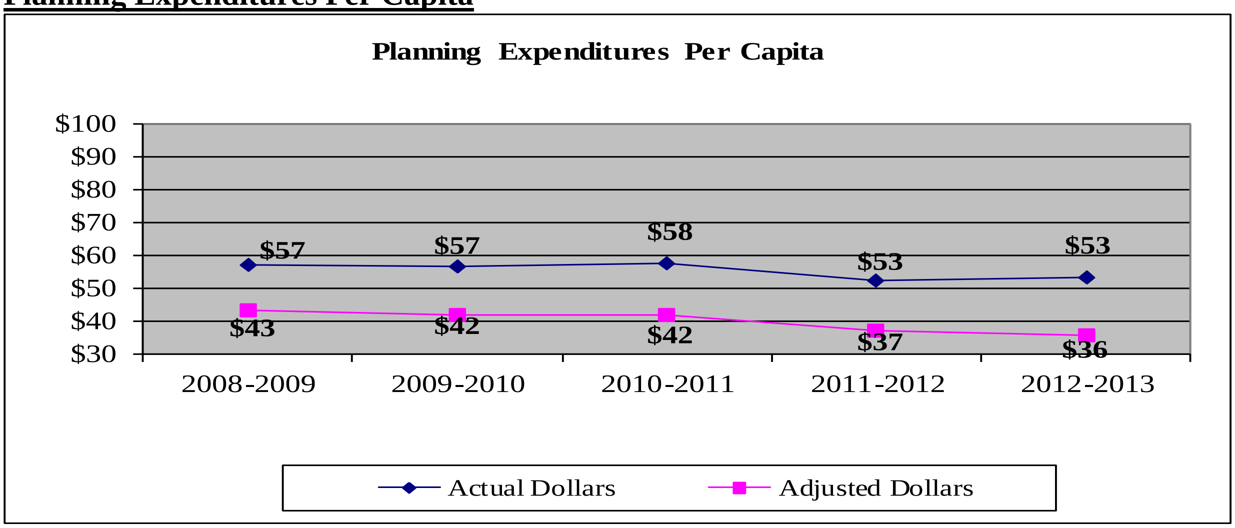
Debt costs include debt paid on general obligation bonds, installment financing for property and town infrastructure as well as equipment and vehicles. The Town has been able to take advantage of retiring debt and low interest rates to borrow for major infrastructure needs and maintain debt service at a relatively constant level. 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. The decrease in costs for FY11-12 is due to a reduction in vehicle and equipment financing. In FY12-13, per capita costs decreased with the payoff of several loans.

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, purchased an automated record management system for the Police Department. 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. FY 11-12 per capita increased slightly due to property and liability insurance costs and various contract services. Per capita costs decreased in FY 12-13 with a decrease in property and liability insurance costs and personnel changes.

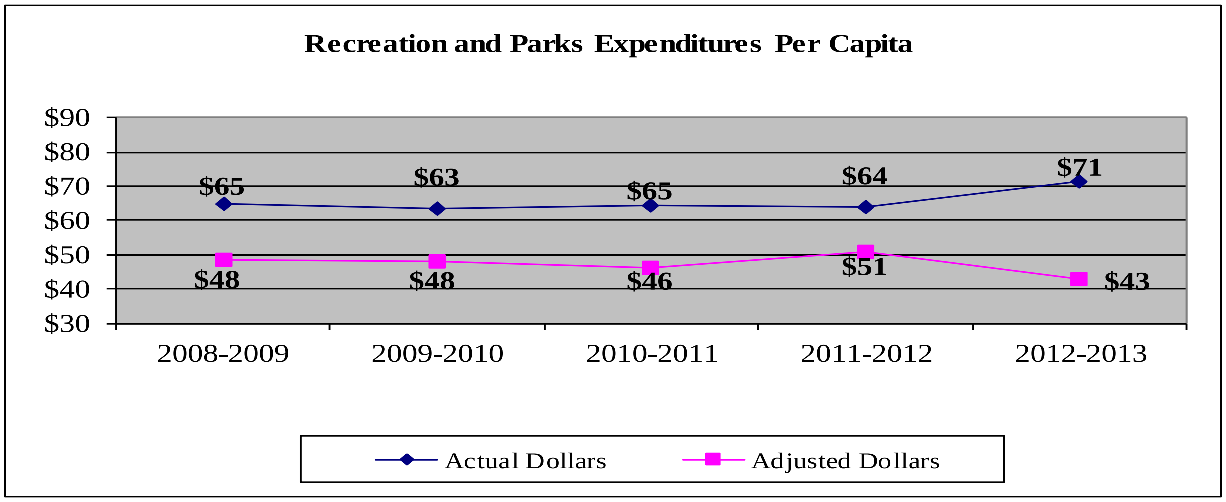
Planning Expenditures Per Capita



Costs remained stable in FY09-10 and FY 10-11. Expenses in FY11-12 decreased due to personnel retirement. Per capita costs in FY 12-13 have remained constant.

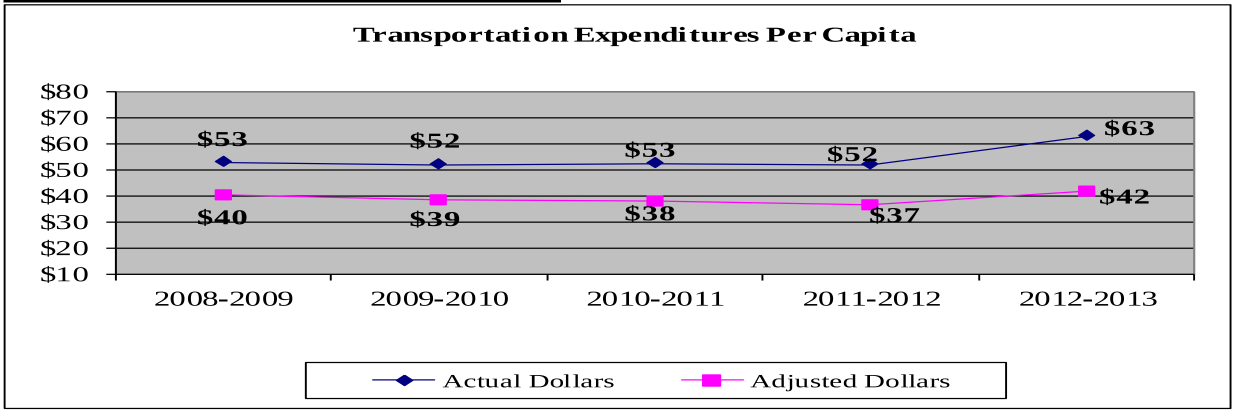
<u>Recreation and Parks Expenditures per Capita</u>

Per capita expenditures in the Recreation and Parks department, adjusted for inflation, have fluctuated over the past 5 years due several capital projects put on hold (Wilson Park playground equipment replacement, Anderson Park field #4 renovation, and Anderson multi-use field renovation).



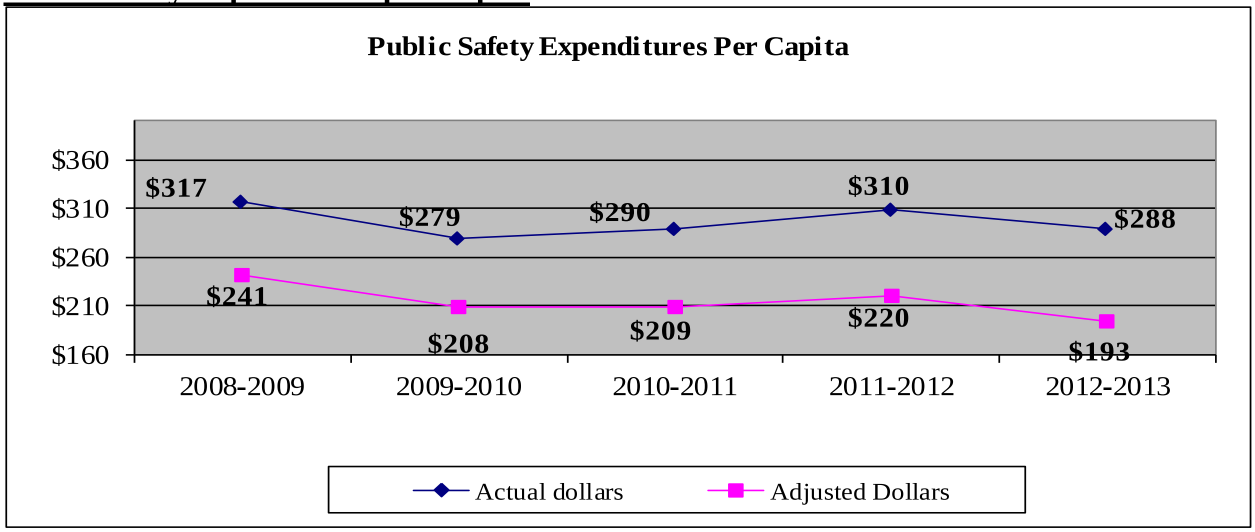
Per capita costs remained stable in FY09-10 and decreased slightly in FY10-11. Expenditures per capita increased in FY11-12 with the construction of the Wilson Park Restroom. In FY 12-13 per capita expenditures increased due to capital improvements to the Century Center.

<u>Transportation Expenditures Per Capita</u>



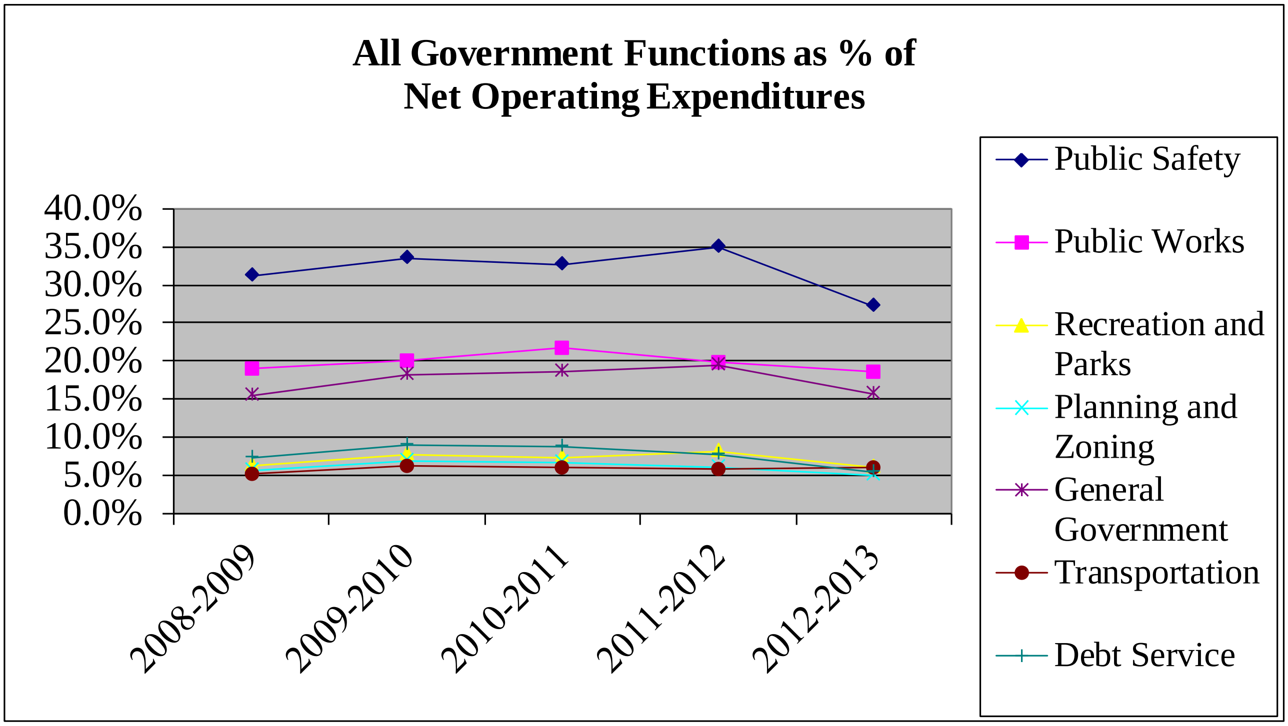
The Town and UNC-Chapel Hill are partners in the transit system administered by the Town of Chapel Hill. Carrboro's contribution into this partnership, adjusted for inflation has remained fairly stable since 2006-2007. The transit contract increased in FY12-13, due to increased fuel and other ongoing 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 $48 per capita total or a decrease of 20 percent in the past five years. 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 FY10-11due to vehicle repair and fuel costs, and changes in population. FY 11-12 increased costs were for vehicle replacement, fuel and uniforms. FY 12-13 costs decreased due to deleting the Animal Control position and contracting with Orange County Animal Services.

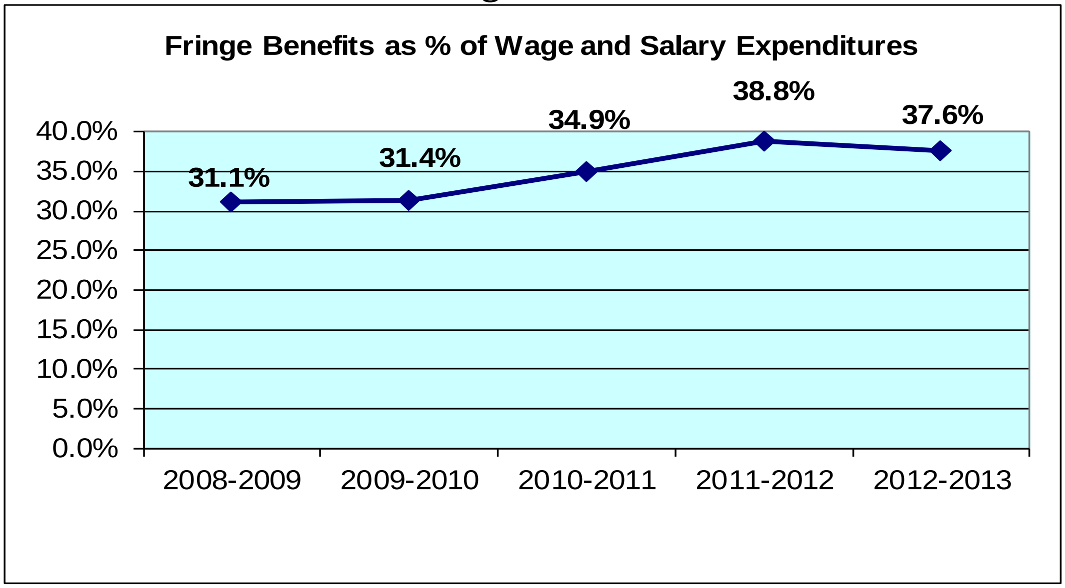
Net Operating Expenditures by Function



The chart above represents the allocation of funding for the various services provided by the Town. Approximately 46 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 16 percent of total spending. The remainder of the programs (debt service, transportation, planning and recreation programs) combined represent approximately 22 percent of the net operating expenses.

Fringe Benefits



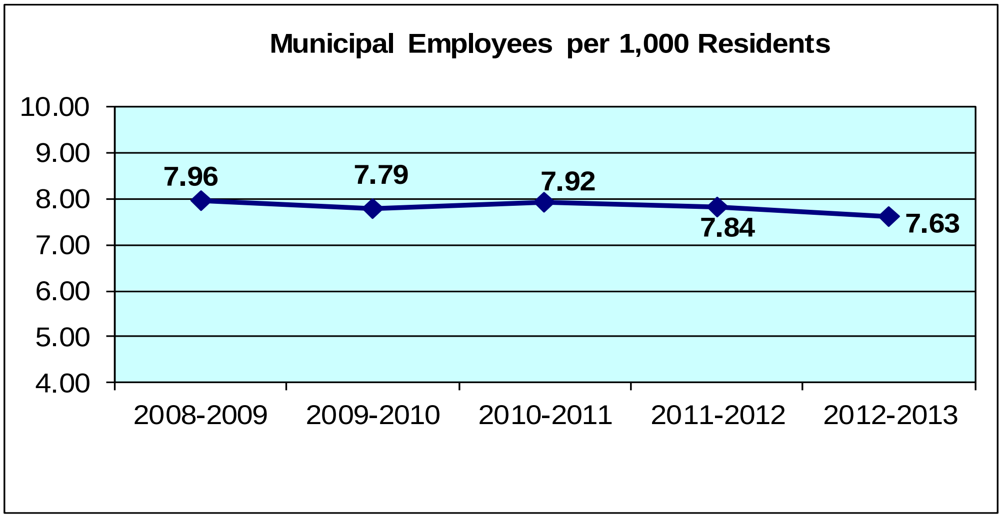
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Expenditures for fringe benefits	$2,320,487	$2,373,906	$2,662,896	$2,876,753	$2,818,270
Salaries/Wages (FT,PT,OT, Temp)	$7,471,114	$7,563,563	$7,655,183	$7,418,189	$7,486,057

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

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

Discussion
Fringe benefits, as a percentage of the overall wages and salaries paid in Carrboro, have continued to rise since FY08-09. 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, 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



	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Population	19,479	19,891	19,582	19,905	20,433
Number of municipal employees approved	155	155	155	156	156

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. In FY 2008-09 two police officer positions were approved – one in Community Services and one in Criminal Investigations. A Systems Administrator position was added in Information Technology in FY11-12. The change in FY12-13 is based on the increase in population.

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
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**
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**

Note: All positions are budgeted within the General Fund

<u>Description of Position Changes</u>

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. Began reporting FTEs instead of positions.

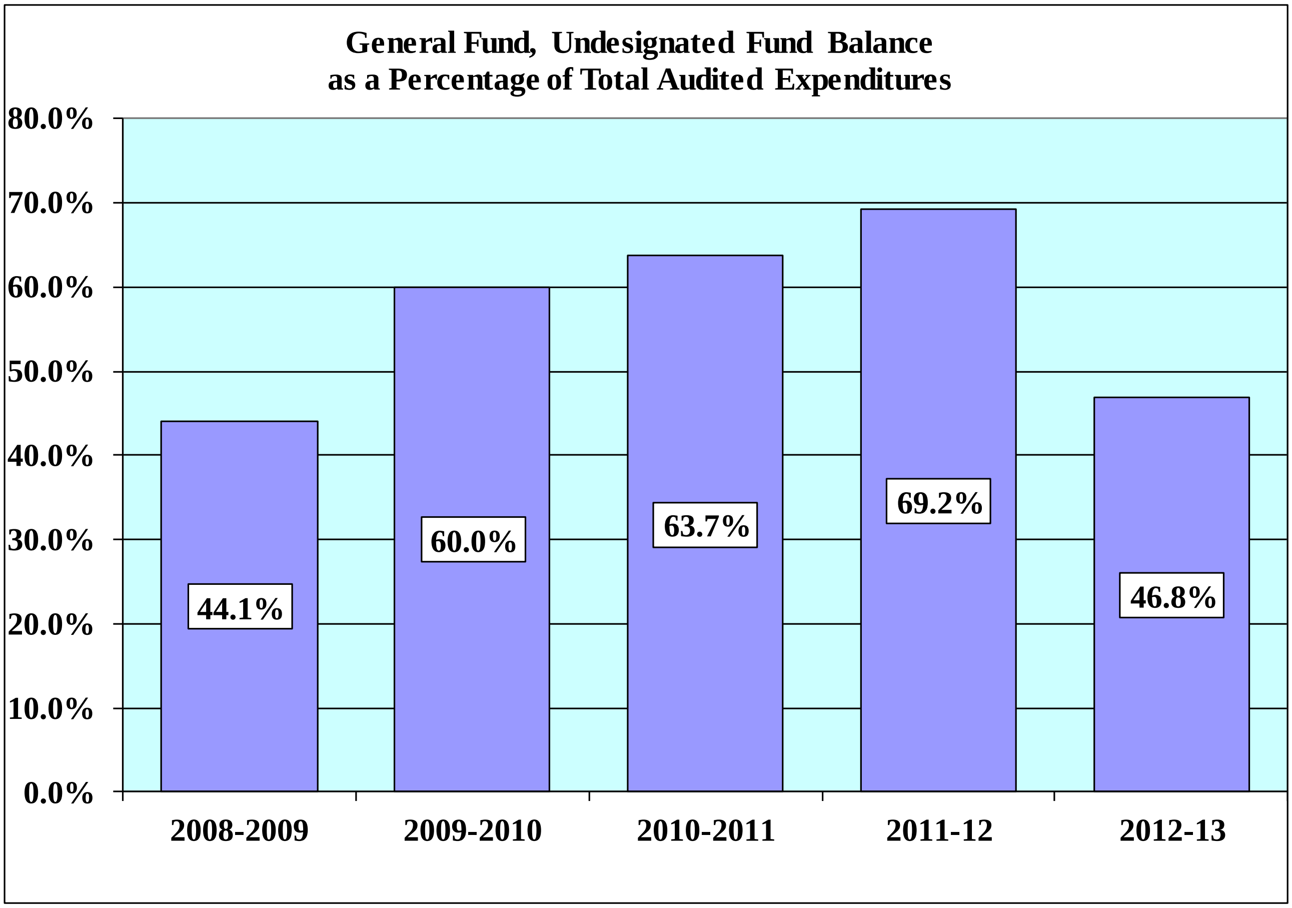
FY13-14 – Part-time position moved from Mayor and Board of Aldermen to Town Clerk, eliminated the Animal Control Officer position and added a Solid Waste Operator in Public Works.

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.

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

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

The Local Government Commission (LGC) considers the amount of unreserved fund balance to be one of the key indicators of the financial condition of a town. LGC, as part of the process of reviewing audited financial statements each year, calculates the amount of fund balance available for appropriation in the general fund and the amount of reserves in other funds. The LGC has an 8 percent minimum as a guideline for fund balance but this is not applicable to all governments, especially smaller governments like the Town of Carrboro. The 8 percent ratio is intended to represent $1/12^{th}$ of a government's operating expenditures. However, $1/12^{th}$ 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, 2013), unreserved fund balance that includes designated and undesignated reserves is at 50.1% in Carrboro. This ratio is slightly higher than the 49.9% 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. 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.

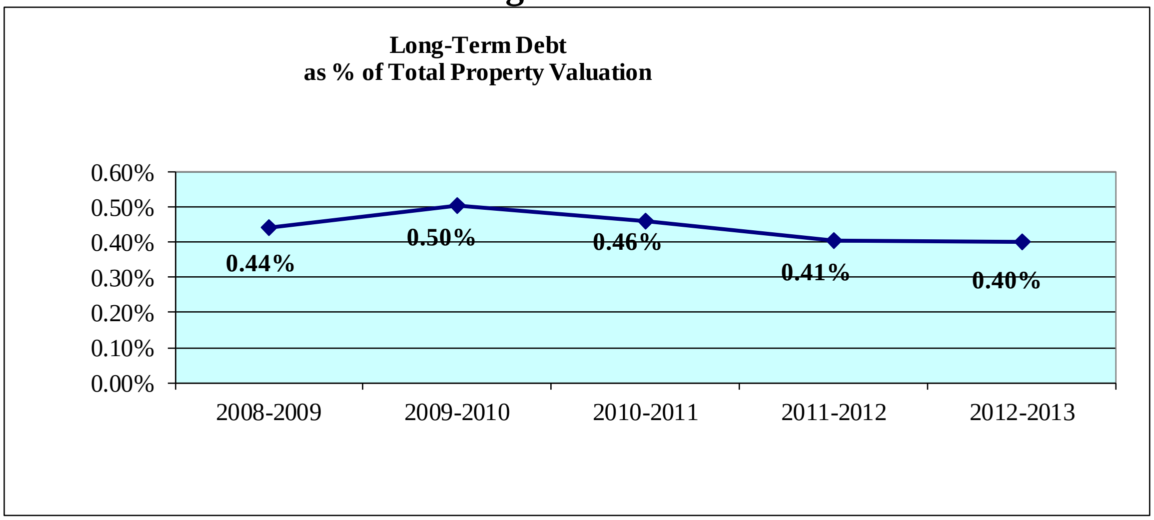
Town of Carrboro, North Carolina Computation of Legal Debt Margin June 30 ,2013	
Total assessed valuation at June 30, 2013	$2,003,172,468
Debt limit – eight percent (8%) of assessed value	$ 160,253,797
Amount of debt applicable to debt limit Net Bonded Debt	$ 8,044,437
Legal Debt Margin	$ 152,209,360

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, 2013 audited valuation is $152,209,360.

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 6.5% of the total expenditures for the year ending June 30, 2013. The Five-Year Plan shows the percentage of debt service expenditures remaining at or below this level.

[1] "Evaluating Financial Condition, A Handbook for Local Government," ICMA, Sanford M. Groves and Maureen Godsey Valente, pp 83

Long-Term Debt



	2008-2009	2009-2010	2010-2011	2011-2012	2011-2012
Long-Term Debt	$6,996,943	$9,650,641	$8,909,304	$7,995,219	$8,044,436
Property Valuation	$1,581,966,677	$1,915,872,793	$1,939,126,061	$1,972,777,796	$2,003,172,468

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

Description

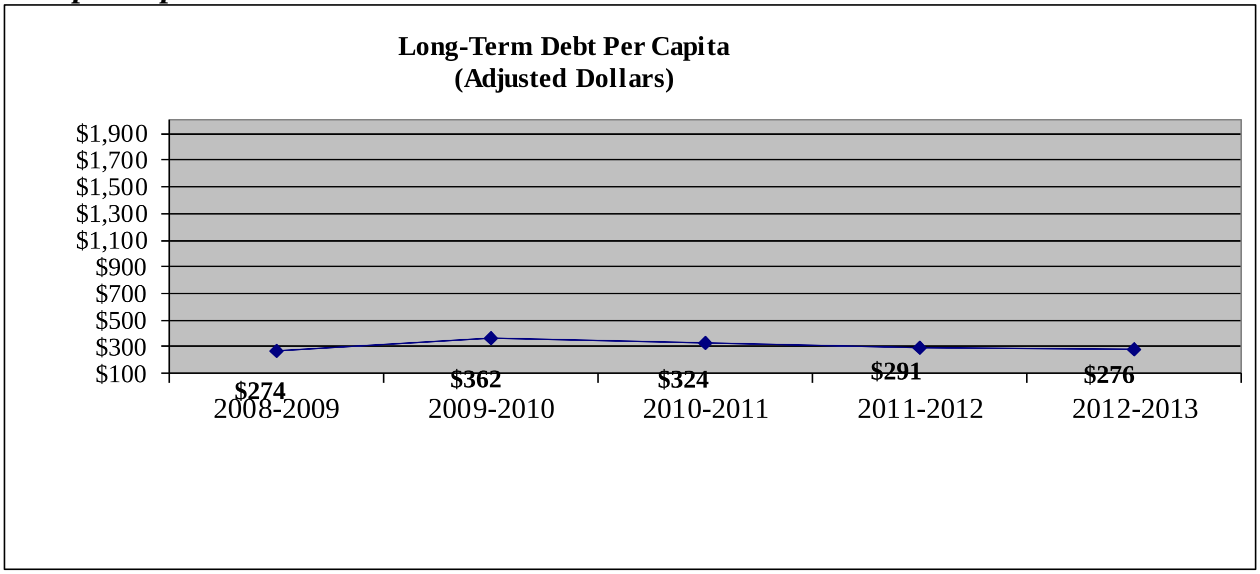
The definition of debt considered by rating agencies is generally limited to bonded debt because of the fact that this debt is backed by the full faith and credit of the town which is represented by the Town's property valuation. However, given that all debt by the Town is considered a fixed cost and 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 FY12-13 was .283 percent; a high level is considered 1.506 percent. The debt-to-assessed valuation ratio for Carrboro in the last audited year was .344 percent, which is higher than the average valuation for jurisdictions of similar size but well below the high valuation. 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.

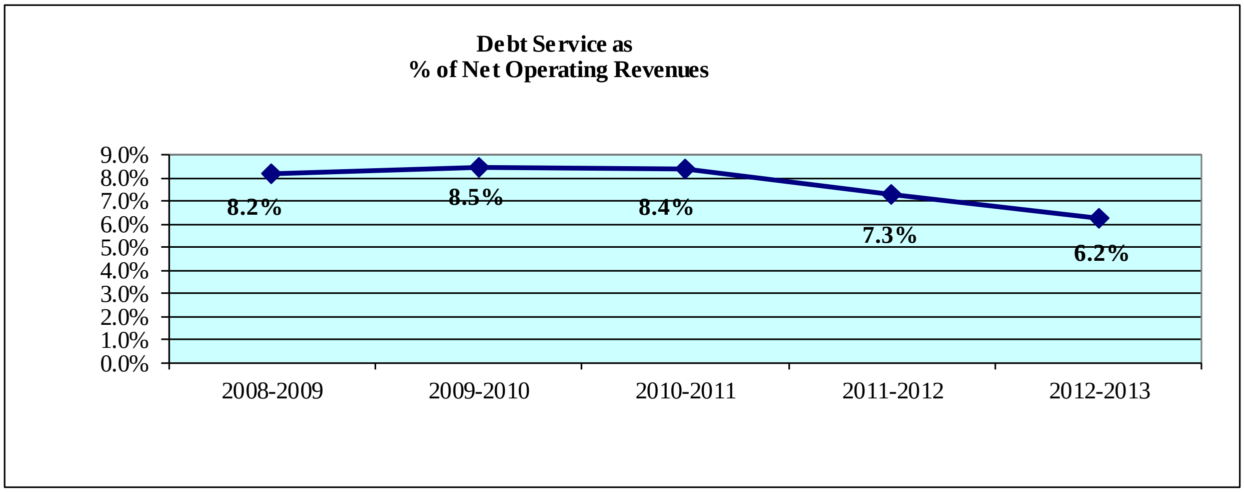
Debt per Capita



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 FY12-13 was $271 per capita; $1,656 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 $352 per capita. The graph above shows a lower per capita figure that is based on different assumptions than LGC. This figure is adjusted for inflation, relies on actual audited valuation, and does not include authorized but unissued debt. However, the message is the same as the LGC; the outstanding debt owed (principal) is increasing. 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. In FY11-12 the decrease is due to the expiration of lease-purchase commitments and debt. The decrease in FY12-13 is due to the payoff of several loans.

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

Debt Service



	2007-08	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Debt Service	$1,360,897	$1,427,902	$1,477,718	$1,511,630	$1,360,087	$1,183,033
Net Operating Revenue	$17,016,278	$17,427,662	$17,476,112	$18,083,033	$18,714,317	$18,975,247

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

Description

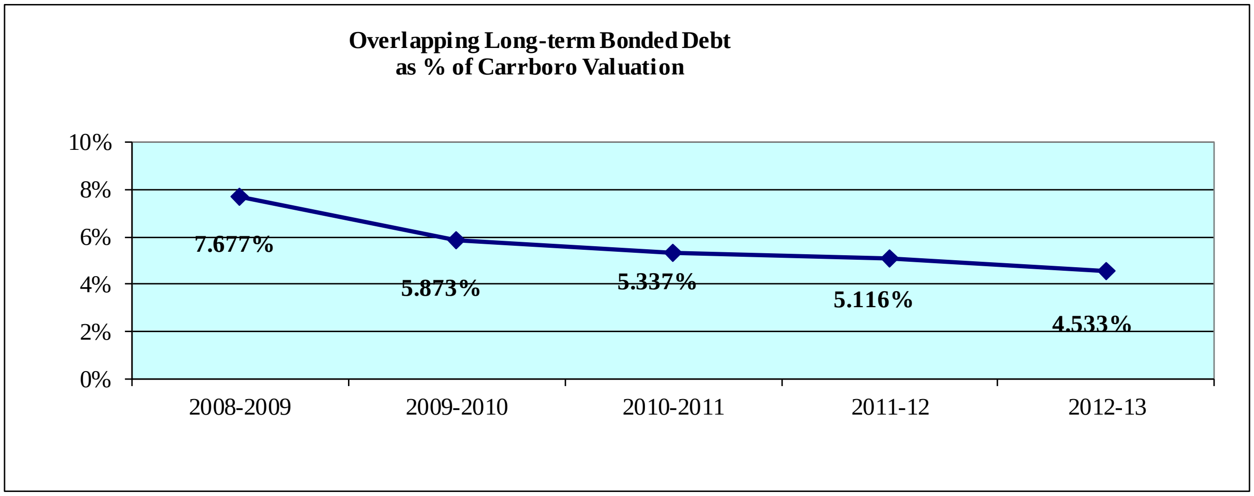
Debt service is defined here as the amount of principal and interest that a local government must pay each year on its long-term debt plus the interest it must pay on short-term debt. Increasing debt service reduces expenditure flexibility by adding to the government's obligations. According to the ICMA, 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 from FY08-09 to FY09-10 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 6.25 percent of net operating revenues in FY12-13. 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. Even with these added expenses, the debt was reduced by the retirement of other loans.

Overlapping Debt



	2008-09	2009-10	2010-11	2011-12	2012-13
Carrboro Debt	$26,107	$0	$0	$5,405,219	$4,600,000
Orange County Debt	$121,415,000	$112,520,000	$103,490,000	$95,520,000	$86,205,000
Total Overlapping Debt	$121,441,107	$112,520,000	$103,490,000	$100,925,219	$90,805,000

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 FY2008-09, the overlapping debt rate for Orange County has decreased.

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, 2013 the Town had an unassigned and assigned fund balance of 50.3% of total expenditures. In six of the last eight years through the FY 2014-15 recommended budget, the Town has been able to maintain service levels without a property tax increase.

Future Trends

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

Revenues

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

In addition to property and sales tax revenues, the Town includes projections for certain intergovernmental revenues collected by the state that are distributed to local governments based upon a formula. These intergovernmental revenues include 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 50.3% of total expenditures on June 30, 2013. 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.

Below is a summary projected property tax rates and general fund revenues through FY 2018-19.

	2012-13	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
	Actual	Adopted Budget	Adopted Budget	Projected			
ESTIMATED VALUE PER ONE CENT LEVY	203,589	201,164	201,289	203,241	207,305	211,452	215,681
REQUIRED RATE PER $100 VALUATION	58.94	58.94	58.94	58.94	58.94	58.94	58.94

GENERAL FUND REVENUES

AD VALOREM TAXES	$ 11,754,299	$ 11,979,989	$ 12,166,764	$ 12,531,767	$ 12,907,720	$ 13,294,952	$ 13,693,800
LOCAL SALES TAX	3,427,678	3,325,816	3,371,537	3,472,683	3,576,864	3,684,170	3,794,695
OTHER TAXES/LICENSES	461,014	536,046	519,728	535,320	551,379	567,921	584,958
UNRESTRICTED INTERGOVERNMENTAL	952,396	887,144	900,554	918,565	936,936	955,675	974,789
RESTRICTED INTERGOVERNMENTAL	585,672	604,909	596,959	608,898	621,076	633,498	646,168
FEES AND PERMITS	1,257,954	1,226,295	1,336,731	1,403,568	1,473,746	1,547,433	1,624,805
SALES AND SERVICES	260,901	233,145	233,145	244,802	257,042	269,894	283,389
INTEREST EARNINGS	11,565	7,036	7,036	7,177	7,320	7,467	7,616
OTHER REVENUES	108,206	147,106	175,153	182,159	189,445	197,023	204,904
LEASE PURCHASE PROCEEDS	397,320	745,176	745,176	750,000	750,000	750,000	750,000
OTHER TRANSFERS	176,945	176,945	176,945	376,945	376,945	376,945	376,945
FUND BAL APPROP	0	866,048	1,084,075	1,149,463	1,322,297	1,530,618	1,589,232
GENERAL FUND TOTAL REVENUES	***$ 19,393,951***	***$ 20,735,656***	***$ 21,313,803***	***$ 22,181,347***	***$ 22,970,772***	***$ 23,815,596***	***$ 24,531,301***

Assumptions used in revenue projections are as follows:

Ad Valorem Tax Base	3% per year thereafter
Local Sales Tax	23% per year
Other Taxes and Licenses	3% per year
Unrestricted Intergovernmental	2% per year
Restricted Intergovernmental	2% per year
Fees and Permits	5% per year
Sales and Services	5% per year
Interest Earnings/Other Revenue	2% per year
Lease Purchase Proceeds	Assumes level amount each year
Other Transfers	Fire debt service and storm water management
Fund Bal Appropriated	All other Fund Balance appropriated per financial policy.

General Fund Operating Expenditures

Personnel costs represent over half of the budget, which underscores the nature of government as a service industry and the primary asset is the people who work for it. Consequently, the five-year plan is impacted by assumptions regarding employee salaries and related expenses. For FY 2014-15 the Town has 158 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.

	2012-13	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
GENERAL FUND	**Actual**	**Adopted Budget**	**Adopted Budget**	**Projected**			
SALARY/WAGES	$ 7,558,826	$ 8,185,843	$ 9,298,411	$ 9,484,380	$ 9,674,067	$ 9,867,548	$ 10,064,899
FRINGE BENEFITS	2,691,211	3,023,792	3,193,533	3,512,886	3,864,175	4,250,592	4,675,652
TOTAL PERSONNEL	**$ 10,250,039**	**$ 11,209,635**	**$ 12,491,944**	**$ 12,997,266**	**$ 13,538,242**	**$ 14,118,141**	**$ 14,740,551**
GEN OPERATING COSTS	$ 3,447,498	$ 4,409,607	$ 3,973,936	$ 4,093,154	$ 4,215,949	$ 4,342,427	$ 4,472,700
AFFORDABLE HOUSING	63,524	64,524	35,000	36,050	37,132	38,245	39,393
GOV'NANCE SUPPORT	99,011	204,944	250,867	258,393	266,145	274,129	282,353
LANDFILL FEES	413,783	305,776	299,420	314,391	330,111	346,616	363,947
TRANSPORTATION COSTS	1,286,714	1,396,423	1,472,520	1,546,146	1,623,453	1,704,626	1,789,857
HUMAN SERVICES	150,740	175,000	200,000	210,000	220,500	231,525	243,101
TRANSFERS TO OTHER FUNDS, MISC.	300,700	136,704	136,704	200,000	200,000	200,000	200,000
TOTAL OPERATING COSTS	**$ 5,761,970**	**$ 6,741,328**	**$ 6,368,447**	**$ 6,658,134**	**$ 6,893,289**	**$ 7,137,569**	**$ 7,391,351**

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	3% per year
Governance Support	3% per year plus Greene Tract payment of $29,524
Landfill Fees	5% 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, greenway and park facilities, and storm water management projects

In the adopted CIP for FY 2014-15 through FY 2019-20 the need for capital investment totals $45.8 million:

- FY 2014-15 $5.4 million
- FY 2015-16 $4.0 million
- FY 2016-17 $4.6 million
- FY 2017-18 $3.8 million
- FY 2018-19 $ .9 million
- FY 2019-20 $1.9 million

The Board regularly allocates funding for street resurfacing and other 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.

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

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

Below is a summary of the Town's debt service payments projected through FY 2018-19.

	2012-13	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
LEASE-PURCHASE DEBT SERVICE - EQP/VEHICLES	514,107	677,603	557,836	760,368	760,368	760,368	760,368
DEBT SERVICE	392,849	0	0	0	0	0	0
DEBT SERVICE - FIRE SUBSTATION	324,691	315,873	307,055	315,873	315,873	315,873	315,873
SIDEWALKS & GREENWAYS - GO BONDS	(48,616)	359,667	350,000	359,667	359,667	359,667	359,667
TOTAL DEBT PAYMENTS	**1,183,031**	**1,353,143**	**1,214,891**	**1,435,908**	**1,435,908**	**1,435,908**	**1,435,908**

Current outstanding debt:

OUTSTANDING DEBT	2012-13	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
GO BOND	-	-	-	-	-	-	-
MARTIN LUTHER KING, JR. PARK LAND ($274,000)	$ 90,389	$ -	$ -	$ -	$ -	$ -	$ -
CENTURY CENTER	1,303,131	-	-	-	-	-	-
PUBLIC WORKS LAND	332,367	-	-	-	-	-	-
ADAMS TRACT ($600,000)	360,000	-	-	-	-	-	-
CONSTRUCTION - FIRE SUBSTATION ($3,250,000)	3,141,667	2,491,667	2,058,333	1,841,667	1,625,000	1,408,333	1,191,667
CAPITAL LEASE (PROJECTED)	2,153,357	952,770	2,267,291	2,055,668	1,772,793	1,267,601	609,977
GO SIDEWALKS & GREENWAYS	4,600,000	4,600,000	4,600,000	3,850,000	3,600,000	3,350,000	3,100,000
TOTAL OUTSTANDING DEBT	**$ 11,980,911**	**$ 8,044,437**	**$ 8,925,624**	**$ 7,747,335**	**$ 6,997,793**	**$ 6,025,934**	**$ 4,901,644**

	2012-13	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
% DEBT TO ASSESSED VALUATION	**0.60%**	**0.40%**	**0.44%**	**0.37%**	**0.33%**	**0.28%**	**0.22%**
DEBT PER CAPITA	**$480**	**$362**	**$340**	**$285**	**$256**	**$229**	**$202**
% DEBT SVC TO TOTAL BUDGET	**8.6%**	**6.8%**	**5.9%**	**6.7%**	**6.5%**	**6.2%**	**6.0%**
POPULATION	**19,582**	**19,582**	**19,582**	**19,974**	**20,373**	**20,781**	**21,196**
ASSESSED VALUATION	**$2,003,172,468**	**$2,031,961,150**	**$2,033,220,055**	**$2,073,884,456**	**$2,115,362,145**	**$2,157,669,388**	**$2,200,822,776**