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.

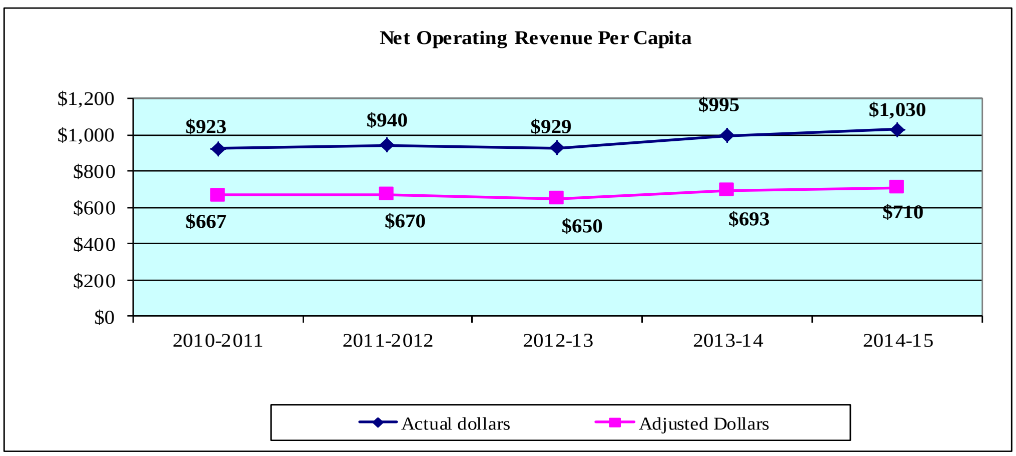
Included with every indicator is a description of the indicator, a table and graphical representation of the trend over the fiscal years for which we have audited budget reports, and an explanation of the implications of that trend for the government and residents of the Town. All the financial figures 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	2010-11	2011-12	2012-13	2013-14	2014-15
Net Operating Revenue (adjusted)	$13,062,944	$13,328,336	$13,277,760	$14,203,573	$14,439,376
Population	19,582	19,905	20,433	20,510	20,337
Net Operating Revenue Per Capita (adjusted)	$667	$670	$650	$693	$710

Warning Trend: Decreasing operating revenues per capita (constant dollars).
Formula: Operating Revenues per Capita (adjusted dollars)/Population

Description

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

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

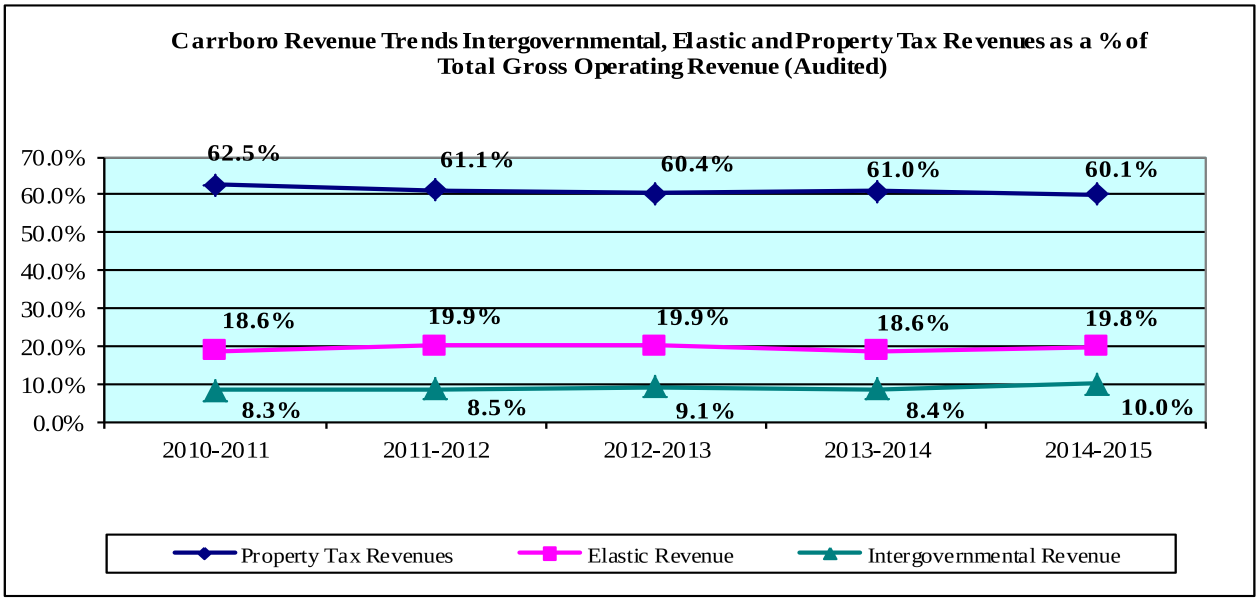
Discussion

In real terms (adjusted for inflation), revenues per capita in Carrboro have experienced a 3.2 percent increase in the past 5 fiscal years. In actual dollars collected (adjusted for inflation), revenue increased by 10.5 percent. Local option sales tax, other taxes and licenses, intergovernmental revenues, permits and fees, and sales and services have increased in the past 5 years. The following chart shows distinct revenue trends as reflected in the Town's audit reports.

Revenue Source	2015 Revenue Adjusted for Inflation	2011 Revenue Adjusted for Inflation	% Change in Revenue Since 2011	2015 per capita	2011 per capita	% Change Since 2011 (per capita)
Ad valorem taxes	$8,117,918.07	$ 8,225,271.26	-1.3%	$ 399	$ 420	-5.0%
Local option sales taxes	$2,687,538.79	$ 2,249,047.17	19.5%	$ 132	$ 115	15.1%
Other taxes and licenses	$ 955,971.31	$ 316,570.83	202.0%	$ 47	$ 16	190.8%
Intergovernmental revenues	$1,335,762.36	$ 918,878.13	45.4%	$ 66	$ 47	40.0%
Permits and fees	$ 869,497.97	$ 787,474.54	10.4%	$ 43	$ 40	6.3%
Sales and services	$ 189,193.85	$ 184,160.95	2.7%	$ 9	$ 9	-1.1%
Investment earnings	$ 7,225.02	$ 45,393.34	-84.1%	$ 0	$ 2	-84.7%
Other	$ 276,268.53	$ 336,147.51	-17.8%	$ 14	$ 17	-20.9%
Total revenues by source	$14,439,375.91	$13,062,943.73	10.5%	$ 710	$ 667	6.4%

Having a significant impact on the revenue stream is the property tax and sales taxes revenue per capita, representing 75% of the total revenue per capita in 2015. The significant impact of property taxes as a source of revenue is largely a reflection of the state restrictions on the ability of local government to use other types of revenues to support community needs. Investment earnings had the most significant decrease due to the current economic conditions.

Major Revenue Sources



Revenues	2010-11	2011-12	2012-13	2013-14	2014-15
Property Tax	$ 11,578,630	$ 11,708,787	$ 11,754,299	$12,741,993	$12,887,757
Elastic Revenue	$ 3,445,133	$ 3,820,856	$ 3,870,059	$3,894,719	$4,251,370
Intergovernmental Revenue	$ 1,537,295	$ 1,631,211	$ 1,779,137	$1,757,458	$2,148,129
Total Revenue	**$ 16,561,058**	**$ 17,160,854**	**$ 17,403,495**	**$18,394,170**	**$19,287,256**

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.

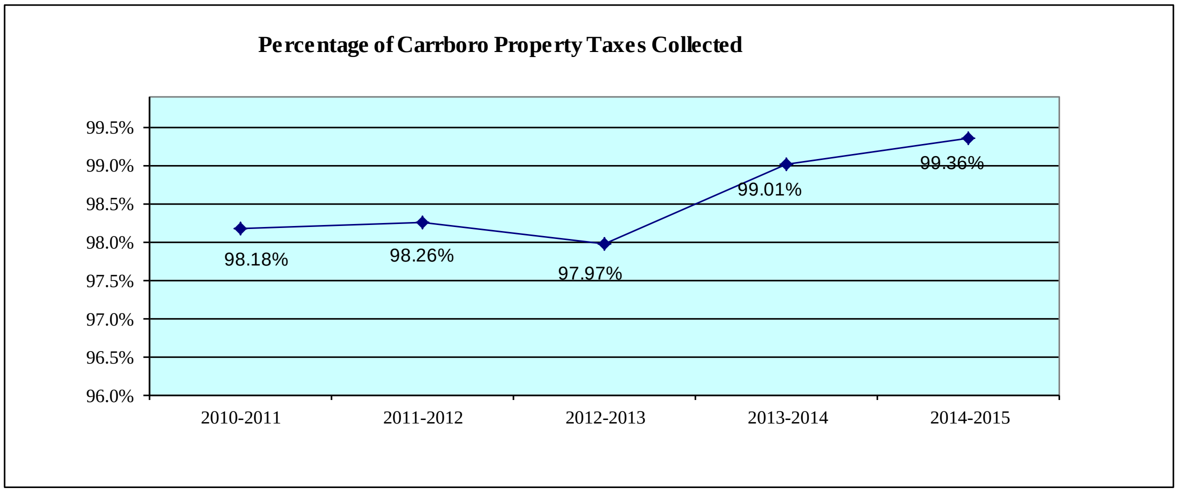
Discussion

As a percentage of total gross operating revenue, all revenues have remained fairly stable. While property tax revenue decreased slightly by .9%, elastic revenues increased 1.2% and intergovernmental revenues increased 1 .6%.

Intergovernmental revenue, as a share of the revenue stream in FY14-15 increased from FY13-14 mainly due to the increase in the utility franchise and the telecommunications sales tax. Other sources of grant funding that increased include the Powell Bill for street resurfacing and salary reimbursement for the Transit Planner.

Elastic revenue had an increase in sales tax; electrical, mechanical and plumbing permits; and engineering fee revenues. The greatest decrease was in building permits and development review fees.

Property Tax Collection Rate



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

Description

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

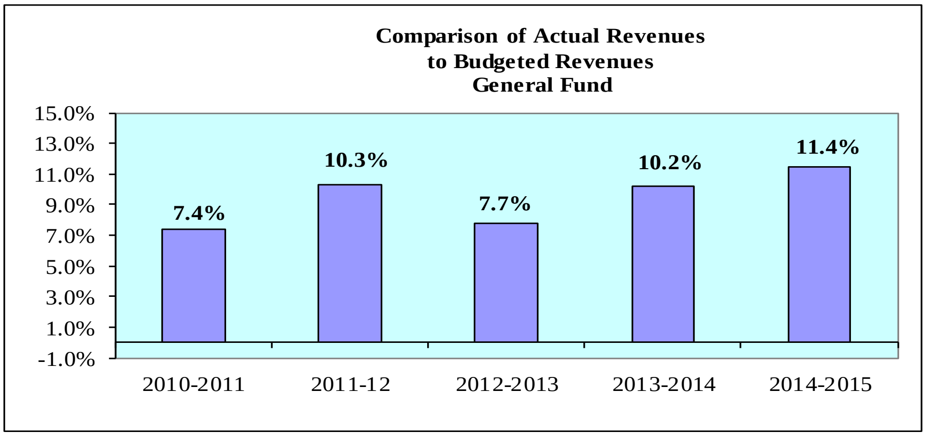
Discussion

The graph above shows that Orange County, which provides continuous assessment services, annual tax collections, and in-house revaluations every four years to both Carrboro and Chapel Hill, has a positive collection rate for the Town's property tax base. Collections rose to 99.36% in FY2014-15.

Tax Collection Rates in Carrboro and Neighboring Cities

	2010-11	2011-12	2012-13	2013-14	2014-15
Carrboro	98.18%	98.26%	97.97%	99.01%	99.36%
Chapel Hill	99.10%	99.21%	99.24%	99.36%	99.59%
City of Durham	98.70%	98.75%	98.83%	99.00%	99.57%
Hillsborough	97.16%	99.00%	97.61%	98.00%	98.11%

Comparison of Actual Revenues to Budgeted Revenues



	2010-11	2011-12	2012-13	2013-14	2014-15
Budgeted Operating Revenue	$17,253,999	$17,391,017	$18,055,160	$18,970,318	$19,236,874
Actual Operating Revenue	$18,533,066	$19,176,013	$19,453,224	$20,898,471	$21,432,760
Revenue Variance	$1,279,067	$1,784,996	$1,398,064	$1,928,153	$2,195,886
Revenue Variance as % of Budgeted Operating Revenues	7.4%	10.3%	7.7%	10.2%	11.4%

__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

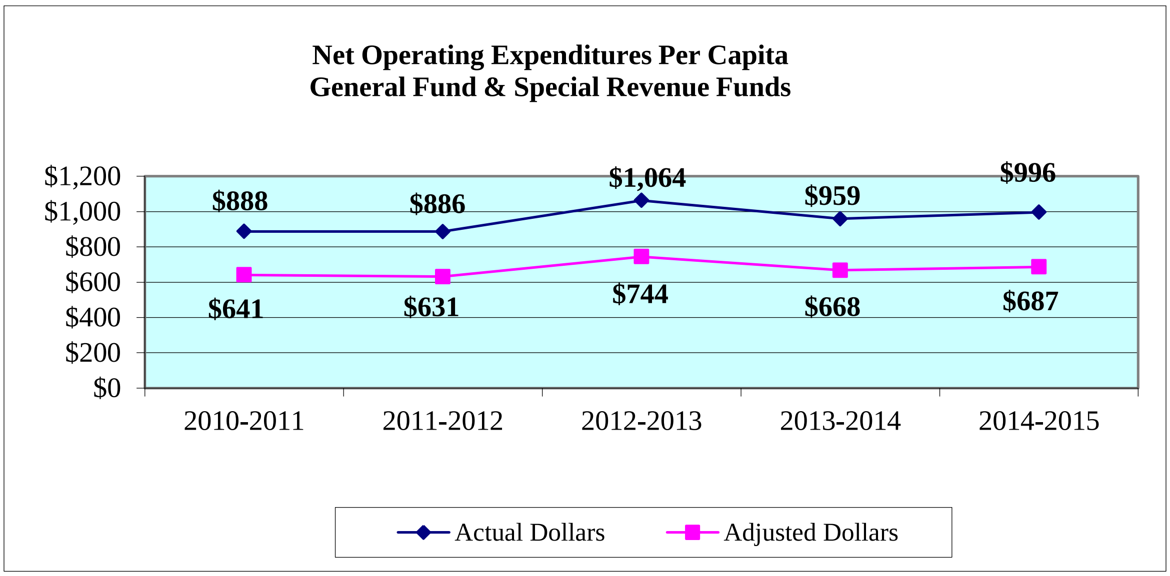
The variances in the graph indicate the Town's conservative approach to estimating revenues. The main increases in FY10-11 were with intergovernmental funds ($160,115), investment earnings and other revenues ($357,839). In FY11-12 the major increases in actual revenue include property taxes ($322,544), 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). 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).

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



	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Net Operating Expenditures (Adjusted)	$12,557,753	$12,567,744	$15,208,859	$13,694,031	$13,968,450
Population	19,582	19,905	20,433	20,510	20,337

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 FY10-11, from $12,557,753 to $13,968,450 in FY14-15. When adjusted for the combined impact of inflation and population, per capita spending increased from $641 in FY10-11 to $687 in FY 14-15.

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

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

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

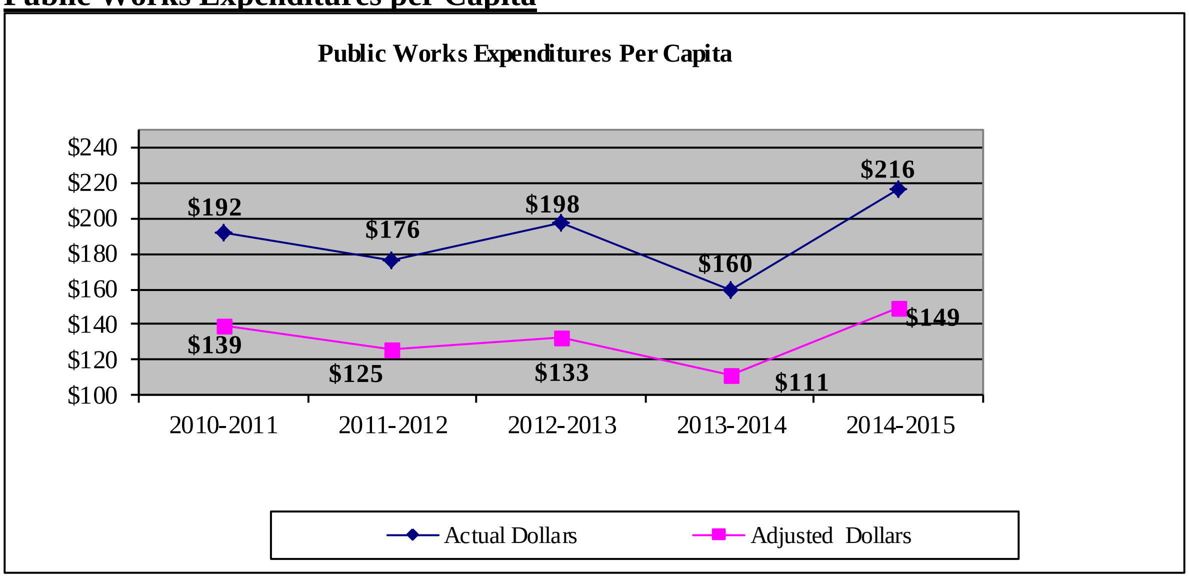
FY 2012-13 – Per capita expenditures increased $113 due mainly to the transfer of funds to the Capital Projects Fund.

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

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

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

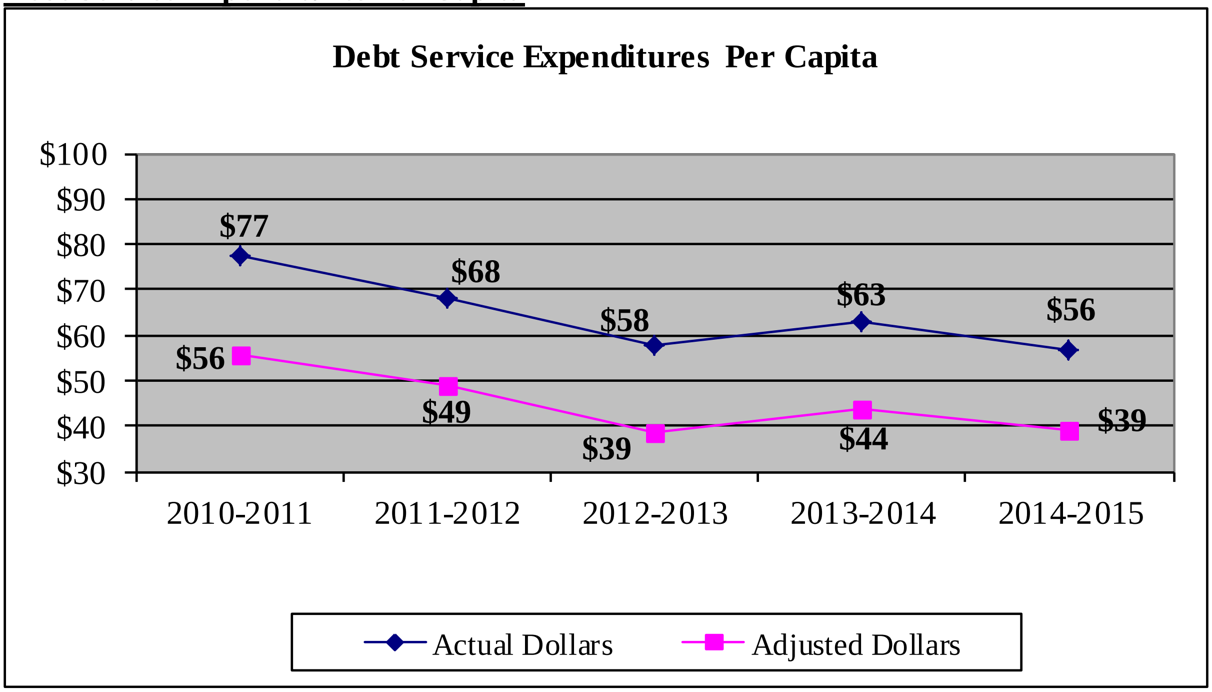
Public Works Expenditures per Capita



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

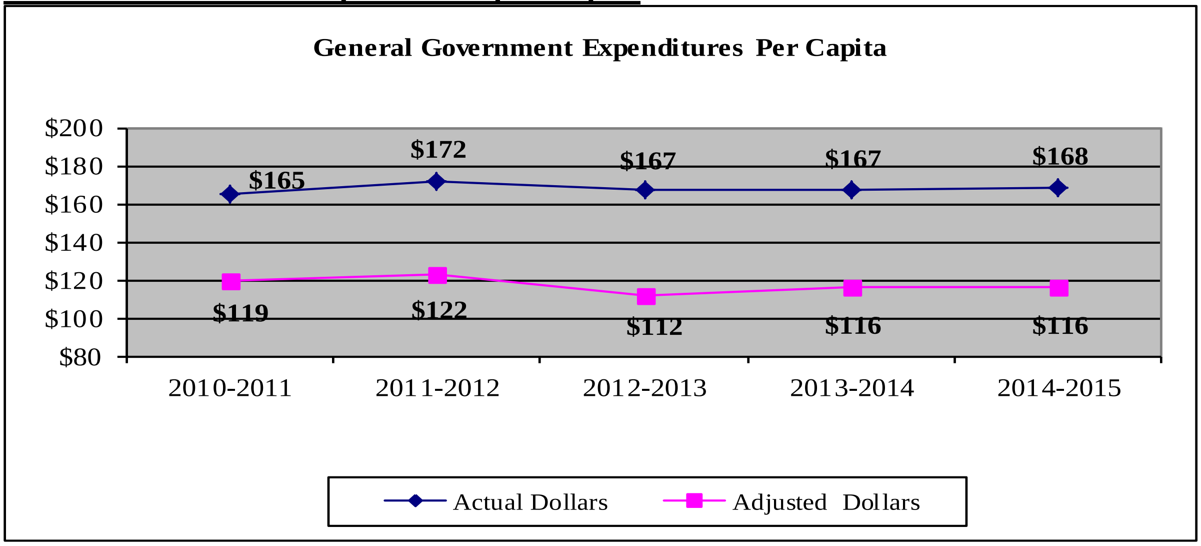
The increase in FY 12-13 is due to the purchase of replacement refuse vehicles and street resurfacing costs. The decrease in FY 13-14 is due to the one-time cost of equipment and street resurfacing costs from the previous year. The increase in FY 14-15 is due to the purchase of new Town signs, contract services for the mulch pile relocation and the purchase of an automated leaf truck.

Debt Service Expenditures Per Capita



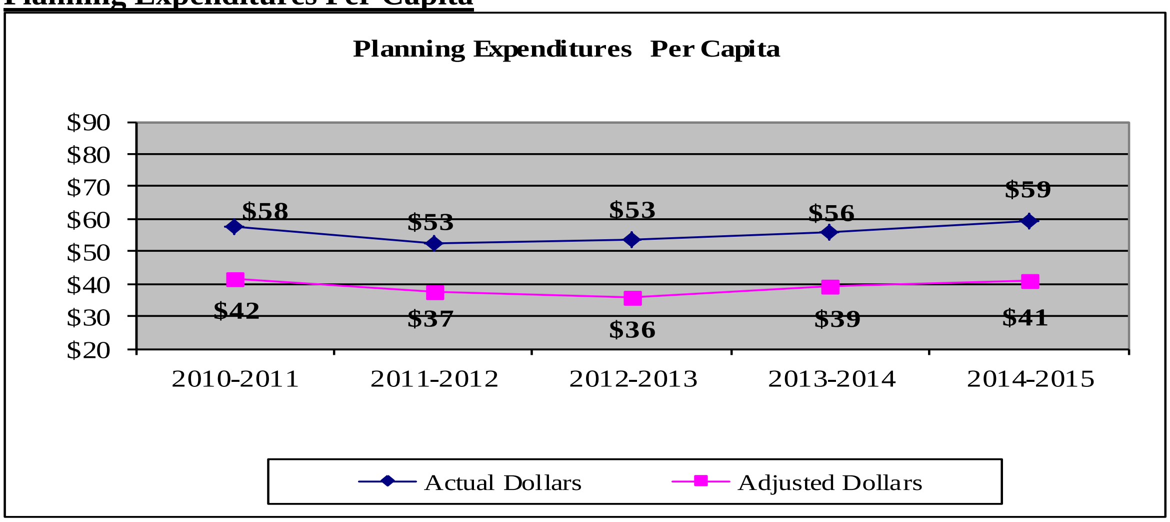
Debt costs include debt paid on general obligation bonds, installment financing for property and town infrastructure as well as equipment and vehicles. The Town has been able to take advantage of retiring debt and low interest rates to borrow for major infrastructure needs and maintain debt service at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

General Government Expenditures per Capita



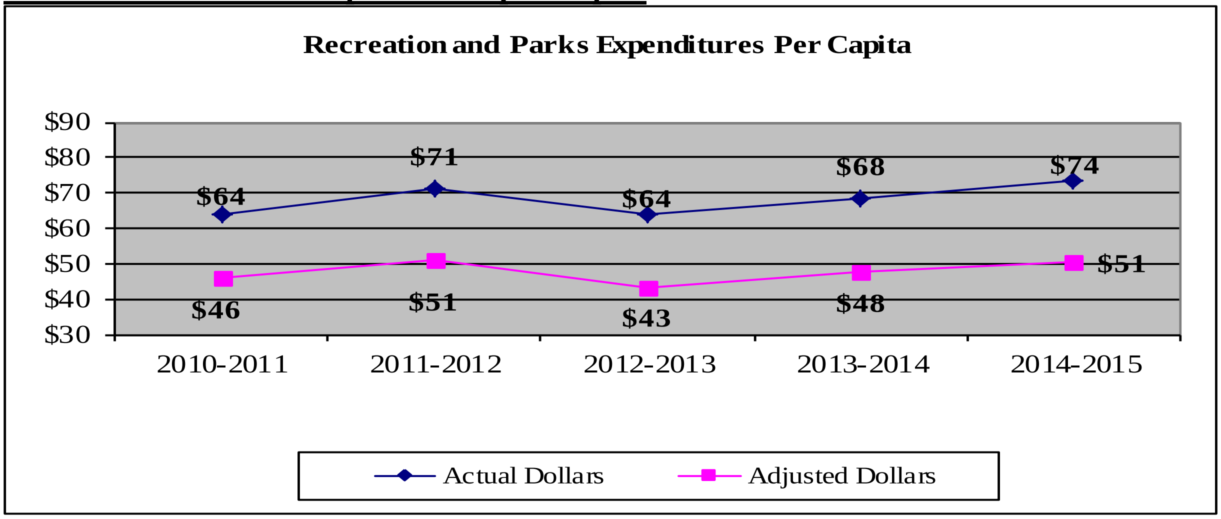
The Town continues to maintain regular replacement of technology infrastructure, support wireless technology, implement mobile laptop technology in police cars, and more recently, purchased an automated record management system for the Police Department. FY 11-12 per capita costs increased slightly due 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. FY 13-14 and FY 14-15 per capita costs have remained stable.

Planning Expenditures Per Capita



Expenses in FY11-12 decreased due to personnel retirement. Per capita costs in FY 12-13 have remained constant. FY 13-14 and FY 14-15 per capita costs increased due to an increase in engineering services.

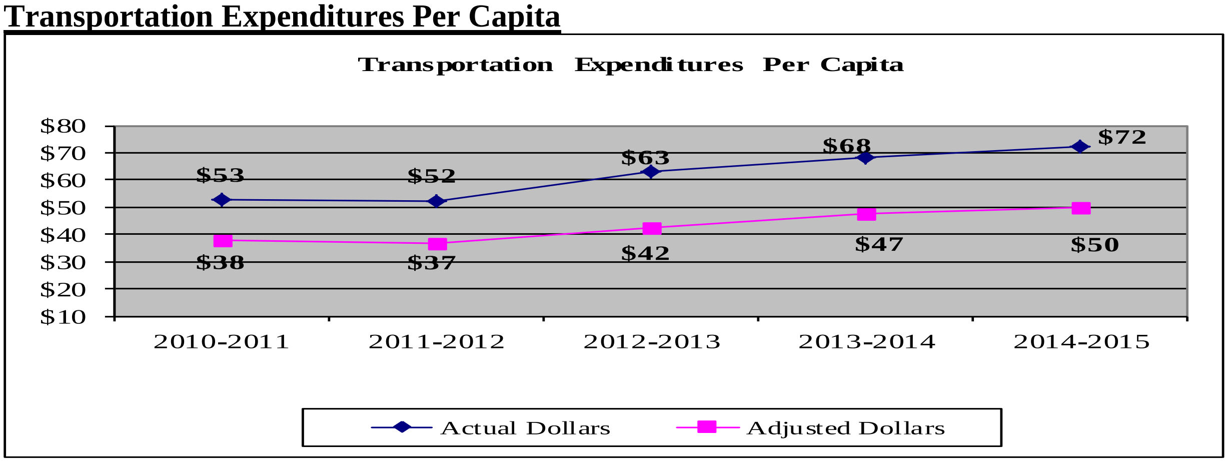
Recreation and Parks Expenditures per Capita



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.

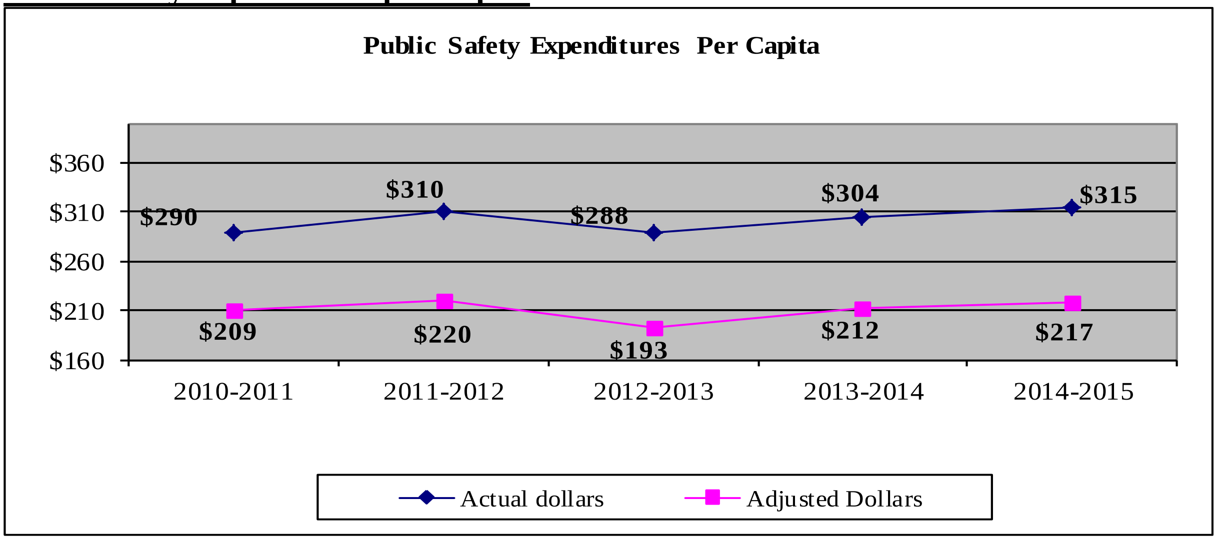
Expenditures per capita increased in FY11-12 with the construction of the Wilson Park Restroom. In FY 12-13 per capita expenditures decreased due to capital expenditures the previous year. FY 13-14 per capita expenditures increased with additions of special programs and events. The increase in per capita expenditures in FY 14-15 included the resurfacing of the tennis court and basketball court at Anderson Park and the basketball court renovation and expansion at Baldwin Park.

Transportation Expenditures Per Capita



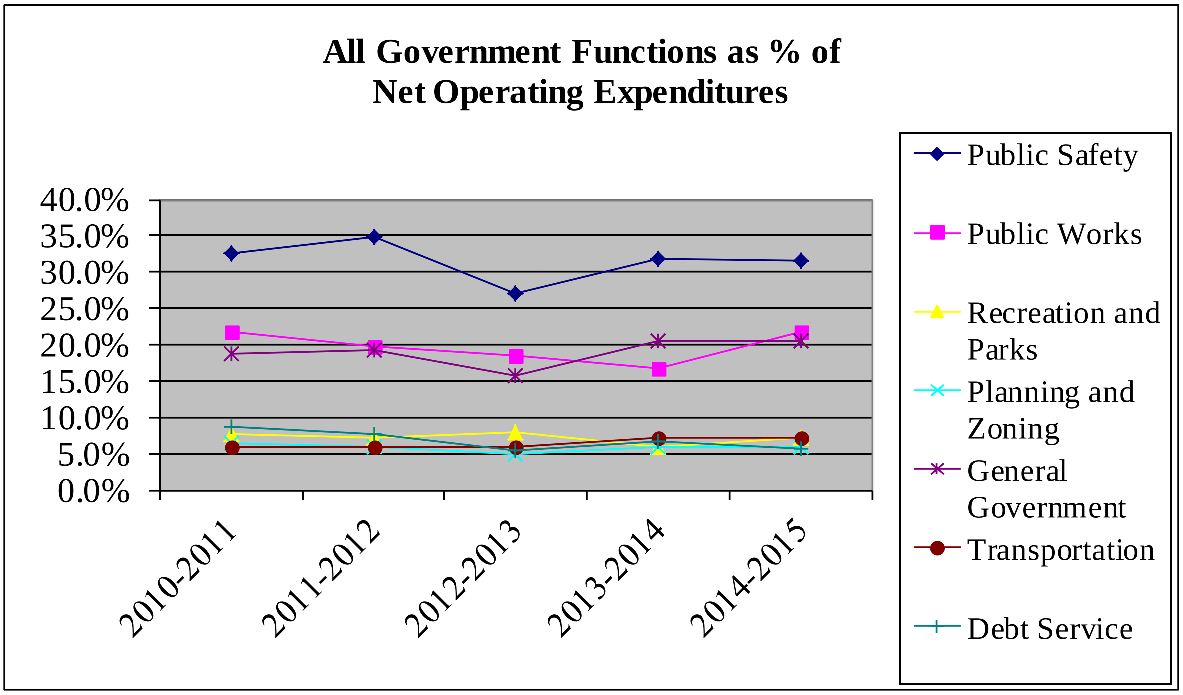
The Town and UNC-Chapel Hill are partners in the transit system administered by the Town of Chapel Hill. Carrboro's contribution into this partnership, adjusted for inflation has remained fairly stable from FY 10-11 to FY 11-12. The transit contract increased in FY12-13 and FY 13-14, due to increased fuel and other ongoing operational costs. The contract increased in FY 14-15 due to the necessity for bus replacements. These increases are primarily due to decreased state and federal pass-through funds that supported the transit, which affected the local match. With a grant and local funds, Shared Ride Feeder services were enabled in areas of Carrboro that do not have regular bus service. Trips are provided between designated bus stops in the "feeder" zones and the nearest bus routes or to another "feeder" service. This service extends largely to the northern areas of town.

Public Safety Expenditures per Capita



Public safety expenditures per capita, adjusted for inflation experienced an increase of $8 per capita total or an increase of about 4 percent in the past five years. 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. FY 13-14 costs increased with the upgrade of radios. The increase in per capita expenditures in FY 14-15 included the purchase of defibrillators for Century Center and Town Hall and increased cost for replacement vehicles.

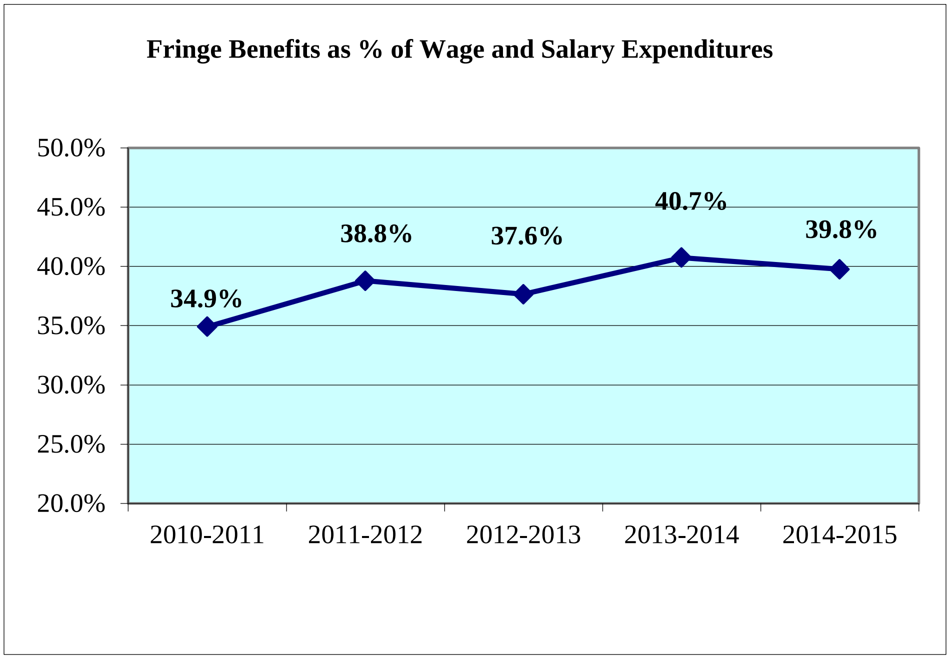
Net Operating Expenditures by Function



The chart above represents the allocation of funding for the various services provided by the Town. Approximately 53 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 21 percent of total spending. The remainder of the programs (debt service, transportation, planning and recreation programs) combined represent approximately 26 percent of the net operating expenses.

Fringe Benefits



	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Expenditures for fringe benefits	$2,662,896	$2,876,753	$2,818,270	$3,201,670	$3,215,876
Salaries/Wages (FT,PT,OT, Temp)	$7,655,183	$7,418,189	$7,486,057	$7,858,124	$8,088,265
Fringe benefits as % of overall wage and salary expenditures	34.8%	38.8%	37.6%	40.7%	39.8%

<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

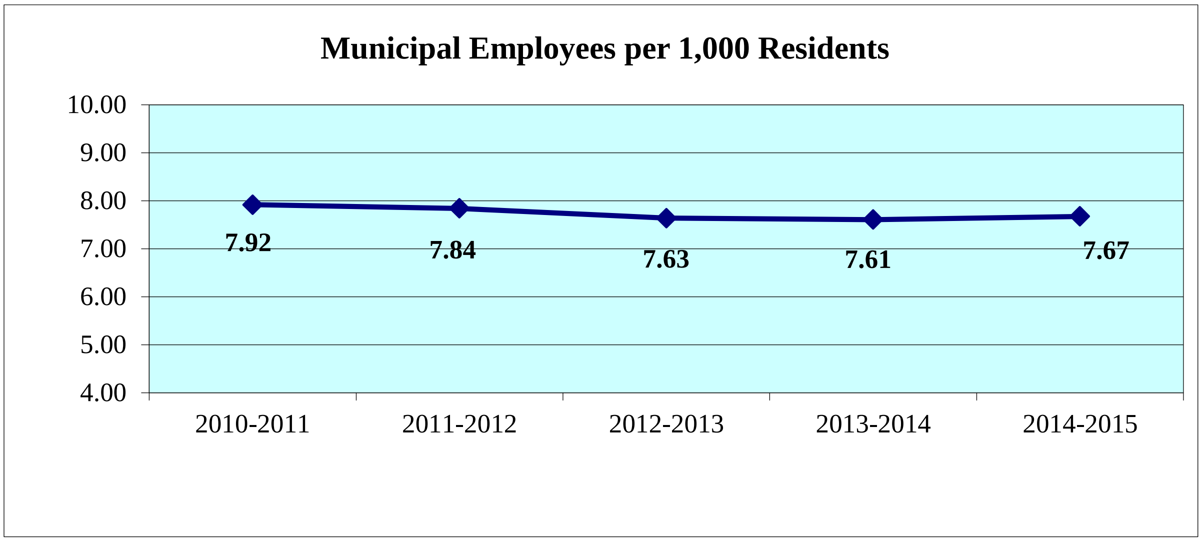
Description

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 FY10-11 to FY 13-14. 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. Even though the expenditures for fringe benefits increased in FY 14-15, fringe benefits, as a percentage of the overall wages and salaries decreased based on an increase in salaries and wages.

Municipal Employees per 1,000 Residents



	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Population	19,582	19,905	20,433	20,510	20,337
Number of municipal employees approved	155	156	156	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. A Systems Administrator position was added in Information Technology in FY11-12. The changes in FY12-13 and FY 14-15 are based on changes 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
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**
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**

Note: All positions are budgeted within the General Fund

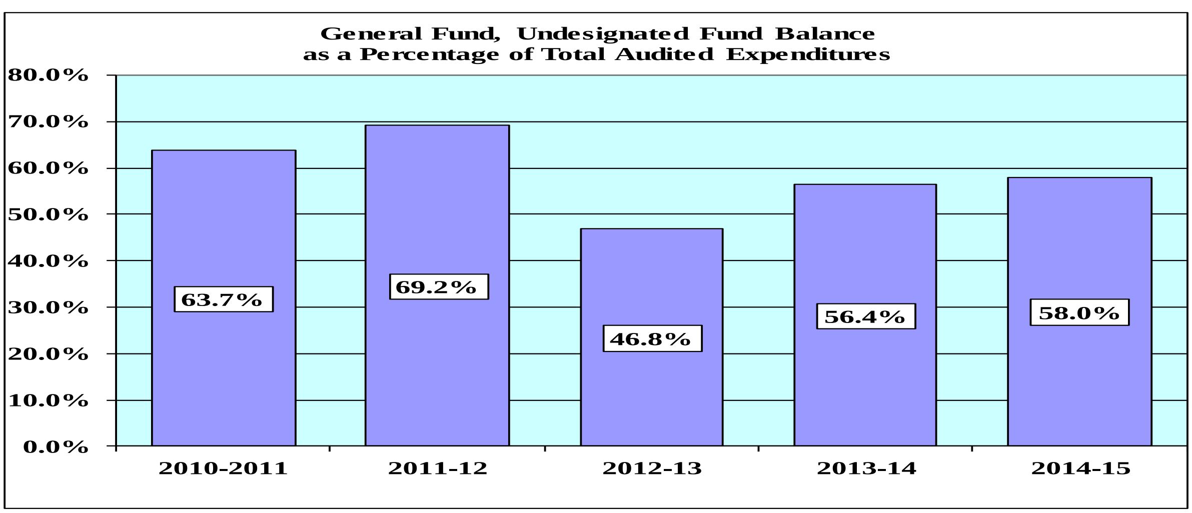
Description of Position Changes

FY10-11 – 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.
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 to Human Resources as Human Resources Representative. A Capital Projects Manager position was added to Public Works.

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.

<u>Fund Balance</u>
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, 2015), unreserved fund balance that includes designated and undesignated reserves is at 61.66% in Carrboro. This ratio is slightly higher than the 54.43% 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 ,2015	
Total assessed valuation at June 30, 2014	$2,113,902,961
Debt limit – eight percent (8%) of assessed value	$ 169,112,237
Amount of debt applicable to debt limit Net Bonded Debt	$ 7,248,164
Legal Debt Margin	$ 161,864,073

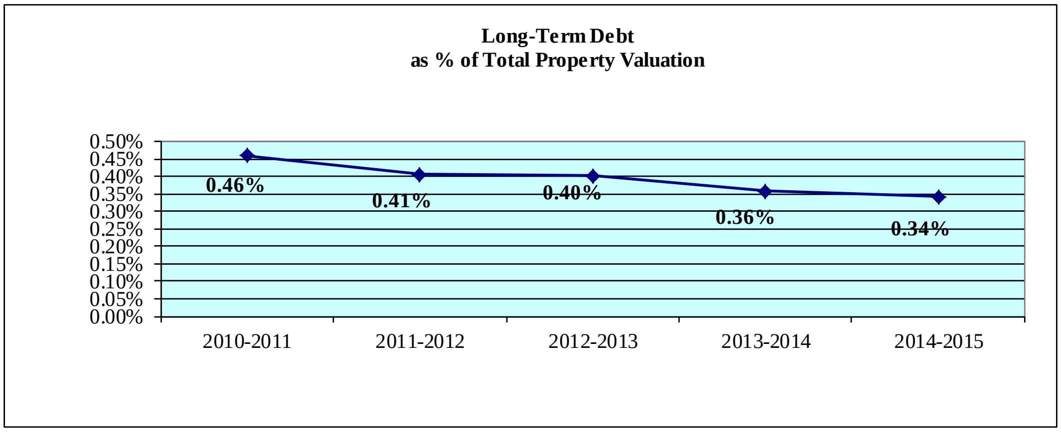
One measure of a unit's debt capacity is debt expressed in terms of assessed or market valuation. It is important to note, however, the Town's debt is far below the legal limit in the NC General Statutes (GS 159-55) that limits net debt to eight percent (8%) or less of a local government's total property 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, 2015 audited valuation is $161,864,073.

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 5.6% of the total expenditures for the year ending June 30, 2015. The Five-Year Plan shows the percentage of debt service expenditures remaining at or below this level.

Long-Term Debt



	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Long-Term Debt	$8,909,304	$7,995,219	$8,044,436	$7,477,109	$7,248,164
Property Valuation	$1,939,126,061	$1,972,777,796	$2,003,172,468	$2,088,514,087	$2,113,902,961

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

Description

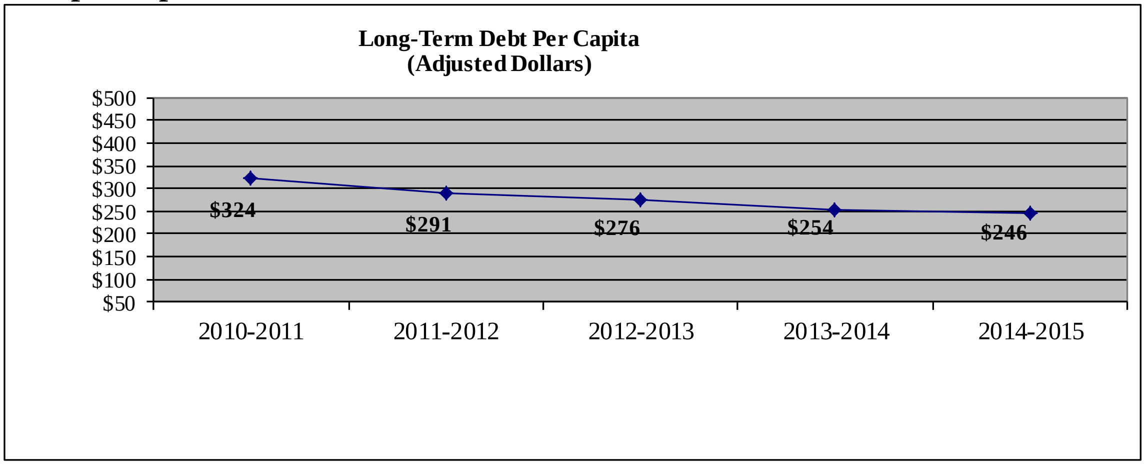
The definition of debt considered by rating agencies is generally limited to bonded debt because of the fact that this debt is backed by the full faith and credit of the town which is represented by the Town's property valuation. However, given that all debt by the Town is considered a fixed cost and 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 FY14-15 was .318 percent; a high level is considered 1.656 percent. The debt-to-assessed valuation ratio for Carrboro in the last audited year was .293 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 FY14-15 was $313 per capita; $2,707 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 $300 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 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. The decreases in FY13-14 and FY14-15 are due to lease-purchase of fewer vehicles and equipment.

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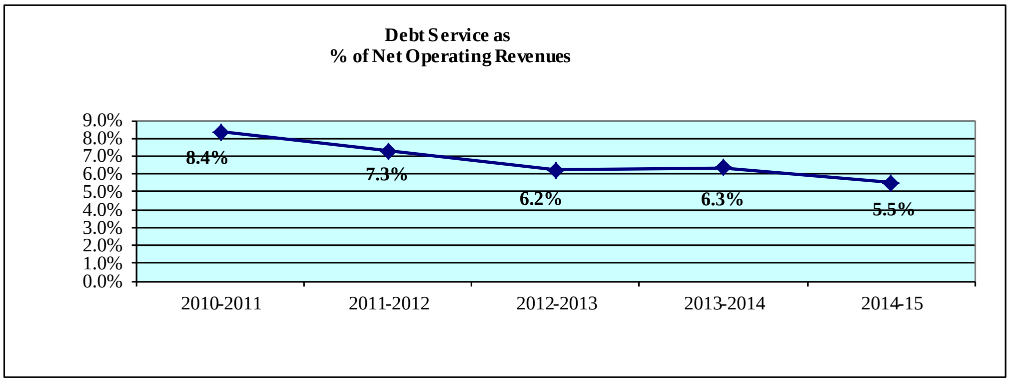
[2] Evaluating Financial Condition, A Handbook for Local Government," ICMA, Sanford M. Groves and Maureen Godsey Valente, pp 81

Debt Service



	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Debt Service	$1,511,630	$1,360,087	$1,183,033	$1,292,484	$1,148,954
Net Operating Revenue	$18,083,033	$18,714,317	$18,975,247	$20,410,534	$20,801,526

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

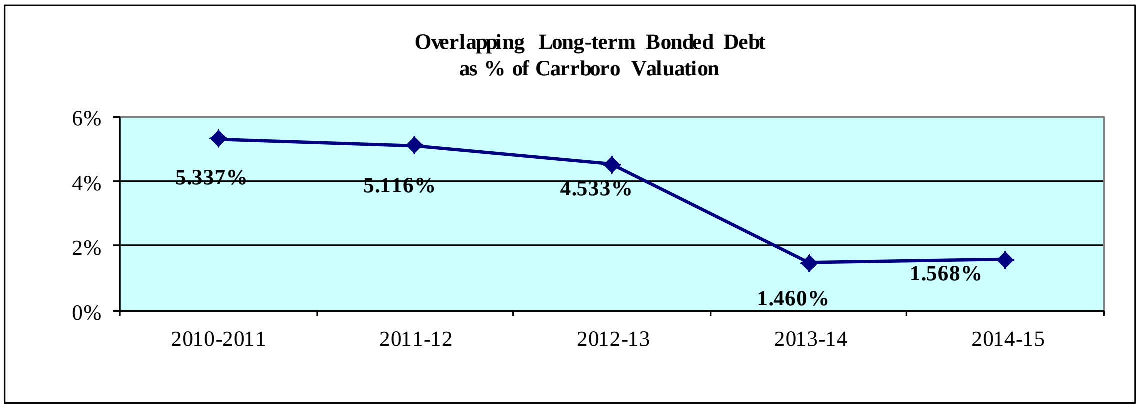
Description

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 5.5 percent of net operating revenues in FY14-15. 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



	2010-11	2011-12	2012-13	2013-14	2014-15
Carrboro Debt	$0	$5,405,219	$4,600,000	$4,350,000	$4,100,000
Orange County Debt	$103,490,000	$95,520,000	$86,205,000	$26,132,240	$29,040,646

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 FY10-11 to FY13-14, the overlapping debt rate for Orange County has decreased. In FY14-15 the overlapping debt rate for Orange County has begun to increase.

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, 2015 the Town had an unassigned and assigned fund balance of 72% of total expenditures. For the last eight years including the FY 2016-17 recommended budget, the Town has been able to maintain service levels without a property tax increase.

Future Trends

The Town makes projections about future costs based on the most recent adopted budget and the Capital Improvements Plan (CIP). This is a tool for reflecting trends rather than actual revenues, expenditures, and tax rates. The five-year plan is designed to show the tax rate impact of town services over the long-term if growth continues at the current rates assumed in the model. The projections contained in the plan are best estimates based upon current information and the assumptions outlined within this section. The model is built with a fund balance objective of maintaining undesignated fund balance levels at a minimum of twenty-two and one-half percent (22.5%) of budgeted expenditures. The Town Manager's goal is to keep tax rates at the lowest possible level while continuing to provide a high 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 45% of total expenditures on June 30, 2015. 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 2020-21.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Adopted Budget	**Adopted Budget**	**Projected**			
ESTIMATED VALUE PER ONE CENT LEVY	208,831	213,186	215,253	219,558	223,949	228,428
REQUIRED RATE PER $100 VALUATION	58.94	58.94	58.94	58.94	58.94	58.94

GENERAL FUND REVENUES

AD VALOREM TAXES	$12,315,470	$12,393,363	$13,007,746	$13,267,901	$13,533,259	$13,803,924
LOCAL SALES TAX	3,825,686	3,978,713	4,424,802	4,513,298	4,603,564	4,695,636
OTHER TAXES/LICENSES	879,378	1,417,527	1,445,878	1,474,795	1,504,291	1,534,377
UNRESTRICTED INTERGOVERNMENTAL	875,593	1,254,520	1,267,065	1,279,736	1,292,533	1,305,459
RESTRICTED INTERGOVERNMENTAL	611,751	641,816	648,234	654,717	661,264	667,876
FEES AND PERMITS	1,233,402	1,245,095	1,269,997	1,295,397	1,321,305	1,347,731
SALES AND SERVICES	263,790	259,596	264,788	270,084	275,485	280,995
INTEREST EARNINGS	1,078	1,110	1,121	1,132	1,144	1,155
OTHER REVENUES	143,458	153,752	158,365	163,115	168,009	173,049
LEASE PURCHASE PROCEEDS	621,180	411,306	750,000	750,000	750,000	750,000
OTHER TRANSFERS	176,945	0	0	0	0	0
FUND BAL APPROP	624,916	275,559	1,149,463	1,237,607	1,453,675	1,938,286
GENERAL FUND TOTAL REVENUES	***$21,572,647***	***$ 22,032,357***	***$24,387,459***	***$24,907,782***	***$25,564,530***	***$26,498,488***

Assumptions used in revenue projections are as follows:

Ad Valorem Tax Base	2% per year thereafter
Local Sales Tax	2% per year
Other Taxes and Licenses	2% per year
Unrestricted Intergovernmental	1% per year
Restricted Intergovernmental	1% per year
Fees and Permits	2% per year
Sales and Services	2% per year
Interest Earnings/Other Revenue	1% per year
Lease Purchase Proceeds	Assumes level amount each year
Fund 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 2016-17 the Town has 159.5 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.

	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
GENERAL FUND	**Adopted Budget**	**Adopted Budget**	**Projected**			
SALARY/WAGES	$8,462,424	$8,979,715	$9,159,309	$9,342,495	$9,529,345	$9,719,932
FRINGE BENEFITS	3,456,483	3,614,555	3,976,011	4,373,612	4,810,973	5,292,070
TOTAL PERSONNEL	**$11,918,907**	**$12,594,270**	**$13,135,319**	**$13,716,107**	**$14,340,318**	**$15,012,002**
GEN OPERATING COSTS	$5,032,289	$4,003,842	$4,123,957	$4,247,676	$4,375,106	$4,506,359
AFFORDABLE HOUSING	34,750	764,960	787,909	811,546	835,892	860,969
GOV'NANCE SUPPORT	334,856	400,815	412,839	425,225	437,981	451,121
LANDFILL FEES	309,867	310,900	326,445	342,767	359,906	377,901
TRANSPORTATION COSTS	1,540,288	1,720,288	1,806,302	1,896,618	1,991,448	2,091,021
HUMAN SERVICES	220,000	250,000	262,500	275,625	289,406	303,877
TRANSFERS TO OTHER FUNDS, MISC.	301,000	250,000	250,000	250,000	250,000	250,000
TOTAL OPERATING COSTS	**$7,773,050**	**$7,700,805**	**$7,969,953**	**$8,249,456**	**$8,539,740**	**$8,841,248**

The expenditure assumptions are:

Salary and Wages	2% per year and maintain current 158.5 FTEs
Fringe Benefits	10% increase per year
General Operating Costs	3% per year
Affordable Housing	3% per year
Governance Support	3% per year
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. In the adopted CIP for FY 2015-16 through FY 2021-22 the need for capital investment totals $49.3 million. Below is the CIP identified capital investments by fiscal year.

- FY 2015-16 $4.0 million
- FY 2016-17 $8.9 million
- FY 2017-18 $5.6 million
- FY 2018-19 $3.7 million
- FY 2019-20 $1.9 million
- FY 2020-21 $2.2 million
- Beyond FY 2021-22 $17.0 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 the next five years. The purchase of vehicles and equipment to maintain day-to-day services is expected to increase due to delayed replacements in prior years.

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

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

Below is a summary of the Town's current debt service payments projected through FY 2020-21. Although the CIP includes proposed debt financing in future years, the Town does not anticipate issuing additional debt at this time.

DEBT PAYMENTS	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
LEASE-PURCHASE DEBT SERVICE - EQP/VEHICLES	533,237	617,729	669,044	645,081	671,067	540,336
INSTALLMENT PURCHASE, LONG TERM DEBT	298,237	262,964	280,600	271,781	262,963	254,145
SIDEWALKS & GREENWAYS - GO BONDS	338,286	340,000	332,500	327,500	322,500	317,500
TOTAL DEBT PAYMENTS	**$1,169,760**	**$1,220,693**	**$1,282,144**	**$1,244,362**	**$1,256,530**	**$1,111,981**

Current outstanding debt:

OUTSTANDING DEBT	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
INSTALLMENT PURCHASE, LONG TERM DEBT	1,841,667	1,625,000	1,408,333	1,191,667	975,000	758,333
CAPITAL LEASE (PROJECTED)	2,356,440	2,429,506	2,444,556	2,196,436	768,789	435,706
GO SIDEWALKS & GREENWAYS	3,850,000	3,600,000	3,350,000	3,100,000	2,850,000	2,600,000
TOTAL OUTSTANDING DEBT	**$8,048,107**	**$7,654,506**	**$7,202,889**	**$6,488,103**	**$4,593,789**	**$3,794,039**

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
% DEBT TO ASSESSED VALUATION	0.38%	0.36%	0.33%	0.29%	0.20%	0.16%
DEBT PER CAPITA	$280	$268	$250	$223	$197	$172
% DEBT SVC TO TOTAL BUDGET	5.6%	5.6%	5.4%	5.2%	5.1%	4.3%
POPULATION	20,337	20,337	20,744	21,159	21,582	22,013
ASSESSED VALUATION	$ 2,109,399,228	$ 2,153,392,411	$ 2,196,460,259	$ 2,240,389,464	$ 2,285,197,254	$ 2,330,901,199