

Management's Discussion and Analysis

As management of the Town of Carrboro, we offer readers of the Town of Carrboro's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in the Management Discussion and Analysis section in conjunction with the additional information that we have furnished in the Town's financial statements which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$31,039,430 (net position).
- The total net position of the Town increased by \$937,662 from the amount previously reported at June 30, 2020.
- At June 30, 2021, the Town's governmental funds had combined ending fund balances of \$19,702,642, an increase of 3.0% or \$573,299 in comparison with the prior year. Approximately 56.8% or \$11,181,810 of this total amount is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the year unassigned fund balance for the General Fund was \$11,595,919 or 53.5% of total General Fund expenditures of \$21,673,887.
- Long-term debt obligations for the Town increased by 29.1% or \$7,574,232 from \$26,027,909 at June 30, 2020 to \$33,602,141 at June 30, 2021. This is primarily due to direct borrowing installment purchases and an increase in the OPEB liability.
- The Town of Carrboro maintained its AAA bond rating with Standard and Poor's; and Aa1 by Moody's.

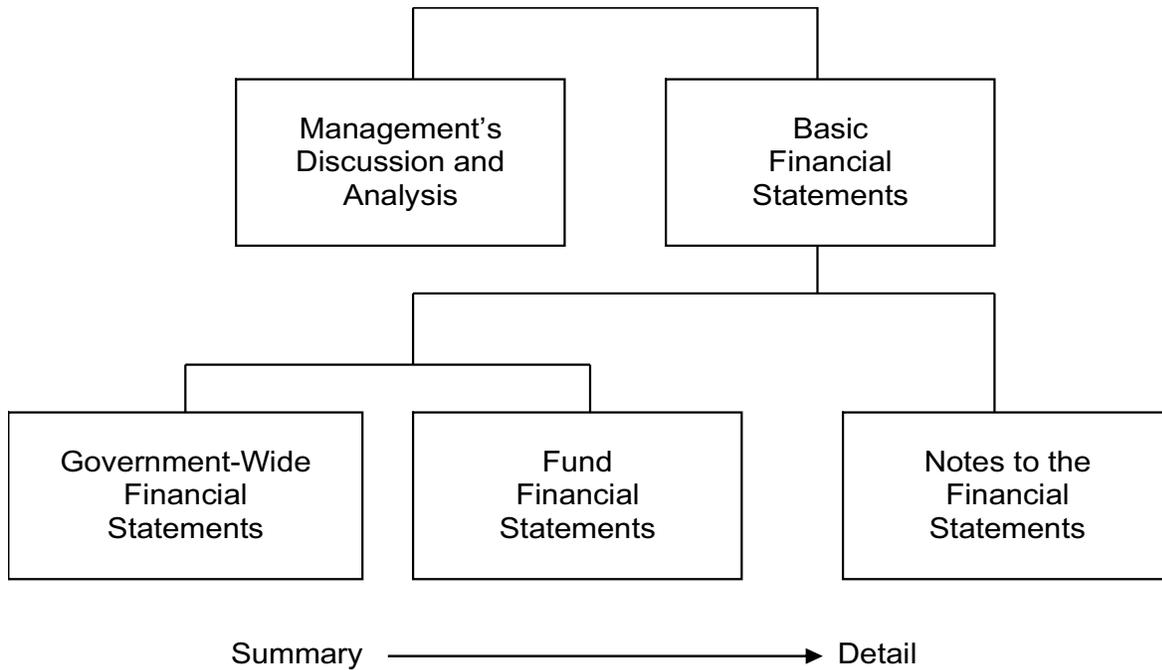
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Carrboro's basic financial statements. The Town's basic financial statements consist of three components (see Figure 1):

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town, including a statistical section.

Required Components of Annual Financial Report
Figure 1



Basic financial statements

The first two statements in the basic financial statements are the **Government-Wide Financial Statements**. Exhibit 1 presents the Statement of Net Position and Exhibit 2 presents the Statement of Activities. They provide information about the Town's current financial position.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government at a more detailed level than the government-wide statements. There are three parts to the Fund Financial Statements: (1) the governmental funds statements; (2) the proprietary fund statements; and (3) the budgetary comparison statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide financial statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to financial statements of a private-sector business. The statement of net position presents information on all of the Town's assets, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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The two government-wide statements report the Town's net position and how they have changed. Net position reported on the *statement of net position* is the difference between the Town's total assets and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition. The *statement of activities* presents information showing how the Town's net position has changed during the fiscal year.

The government-wide statements contain a category called governmental activities that include most of the Town's basic services such as public safety, public works, parks and recreation, and general government. Property taxes as well as state-collected local revenues including sales tax, electric franchise and state telecommunications monies, finance most of these activities.

The government-wide statements are divided into three categories: (1) governmental activities; (2) business-type activities; and (3) component units. The governmental activities include most of the Town's basic services such as public safety, fire, street maintenance, solid waste collection, planning, public spaces, parks, cemetery and general administration. The business-type activities are those that the Town charges customers for certain services such as stormwater services. This includes stormwater services offered by the Town. The final category is the Town's component unit, Carrboro Tourism Development Authority. Although legally separate from the Town, the Town Council exercises control over this entity through appointment of the Chair and members of the Authority.

The government-wide financial statements are on pages 17 through 19 of this report.

Fund financial statements

The fund financial statements (see Figure 1) provide a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements are focused on a detailed, short-term view that helps the reader determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town adopts an annual budget for its General Fund, as required by the North Carolina General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. Exhibit 5 shows four columns: (1) the original budget as adopted by the Council; (2) the final budget as amended by the Council; (3) the actual resources, charges to appropriations, and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges.

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Proprietary funds – As of July 1, 2018, the Town implemented a user fee schedule for stormwater operations and program expenses. Recognizing that the current user fee may not be sufficient to address the numerous stormwater capital improvements and repairs, the Town has developed a ten-year financing plan and model.

In 2021, the Town Council authorized the creation of a Parking Enterprise Fund to account for parking expenses. The Parking Enterprise Fund is currently funded by General Fund revenues to support free parking throughout the Town, until such time the Town implements a fee structure for parking facilities.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 31 through 61 of this report.

Supplementary information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found beginning on page 63 of this report.

Government-wide financial analysis

**Town of Carrboro's Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 22,453,465	\$ 21,885,073	\$ 1,243,419	\$ 799,564	\$ 23,696,884	\$ 22,684,637
Capital assets, net	<u>41,107,251</u>	<u>38,530,705</u>	<u>611,550</u>	<u>349,932</u>	<u>41,718,801</u>	<u>38,880,637</u>
Total assets	<u>63,560,716</u>	<u>60,415,778</u>	<u>1,854,969</u>	<u>1,149,496</u>	<u>65,415,685</u>	<u>61,565,274</u>
Deferred outflows of resources	<u>6,970,328</u>	<u>2,677,479</u>	<u>75,485</u>	<u>25,333</u>	<u>7,045,813</u>	<u>2,702,812</u>
Total assets and deferred outflows of resources	<u>70,531,044</u>	<u>63,093,257</u>	<u>1,930,454</u>	<u>1,174,829</u>	<u>72,461,498</u>	<u>64,268,086</u>
Long-term liabilities outstanding	33,316,079	25,818,452	286,062	209,457	33,602,141	26,027,909
Other liabilities	<u>2,717,482</u>	<u>1,946,695</u>	<u>23,173</u>	<u>19,045</u>	<u>2,740,655</u>	<u>1,965,740</u>
Total liabilities	<u>36,033,561</u>	<u>27,765,147</u>	<u>309,235</u>	<u>228,502</u>	<u>36,342,796</u>	<u>27,993,649</u>
Deferred inflows of resources	<u>5,029,920</u>	<u>6,112,942</u>	<u>49,352</u>	<u>59,727</u>	<u>5,079,272</u>	<u>6,172,669</u>
Net position:						
Net investment in capital assets	36,062,824	34,478,765	611,550	349,932	36,674,374	34,828,697
Restricted	3,312,120	3,349,924	-	-	3,312,120	3,349,924
Unrestricted	<u>(9,907,381)</u>	<u>(8,613,521)</u>	<u>960,317</u>	<u>536,668</u>	<u>(8,947,064)</u>	<u>(8,076,853)</u>
Total net position, ending	<u>\$ 29,467,563</u>	<u>\$ 29,215,168</u>	<u>\$ 1,571,867</u>	<u>\$ 886,600</u>	<u>\$ 31,039,430</u>	<u>\$ 30,101,768</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and the deferred outflows of resources of the Town exceeded liabilities and deferred inflows of resources by \$31,039,430 as of June 30, 2021. The majority of net position (118.1%) reflects the Town's investment in capital assets (e.g., land, buildings, machinery, equipment, etc.); less any related debt still outstanding that was issued to

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acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion (10.7% or \$3,312,120) of the Town's net position represent resources that are subject to external restrictions on how they may be used. The remaining balance of (\$8,947,064) (-28.8%) is unrestricted.

The Town's total unrestricted governmental net position was influenced by increased property tax revenues, increased local option sales tax revenues, and stability of other tax and unrestricted intergovernmental revenues.

**Town of Carrboro's Changes in Net Position
Figure 3**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,406,530	\$ 1,637,616	\$ 1,013,598	\$ 812,545	\$ 2,420,128	\$ 2,450,161
Operating grants and contributions	1,273,741	1,159,067	-	-	1,273,741	1,159,067
Capital grants and contributions	432,923	698,031	-	-	432,923	698,031
General revenues:						
Property taxes	13,654,117	13,480,652	-	-	13,654,117	13,480,652
Local option sales taxes	5,467,567	4,772,318	-	-	5,467,567	4,772,318
Other taxes	1,636,916	1,535,867	-	-	1,636,916	1,535,867
Grants and contributions not restricted	1,381,436	1,408,981	104,820	-	1,486,256	1,408,981
Other	449,538	279,600	132	4,259	449,670	283,859
Total revenues	<u>25,702,768</u>	<u>24,972,132</u>	<u>1,118,550</u>	<u>816,804</u>	<u>26,821,318</u>	<u>25,788,936</u>
Expenses:						
General government	5,270,260	5,288,695	-	-	5,270,260	5,288,695
Public safety	8,522,469	8,283,668	-	-	8,522,469	8,283,668
Planning	1,540,407	1,520,044	-	-	1,540,407	1,520,044
Transportation	1,872,343	1,835,146	-	-	1,872,343	1,835,146
Public works	5,085,068	5,298,021	-	-	5,085,068	5,298,021
Parks and recreation	1,858,667	1,943,269	-	-	1,858,667	1,943,269
Economic and physical development	1,079,915	727,748	-	-	1,079,915	727,748
Interest on long-term debt	99,469	98,950	-	-	99,469	98,950
Parking	-	-	86,321	-	86,321	-
Stormwater	-	-	468,737	444,871	468,737	444,871
Total expenses	<u>25,328,598</u>	<u>24,995,541</u>	<u>555,058</u>	<u>444,871</u>	<u>25,883,656</u>	<u>25,440,412</u>
Increase (decrease) in net position before transfers	<u>374,170</u>	<u>(23,409)</u>	<u>563,492</u>	<u>371,933</u>	<u>937,662</u>	<u>348,524</u>
Transfers	<u>(121,775)</u>	<u>-</u>	<u>121,775</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>252,395</u>	<u>(23,409)</u>	<u>685,267</u>	<u>371,933</u>	<u>937,662</u>	<u>348,524</u>
Net position, beginning, as previously reported	<u>29,215,168</u>	<u>30,156,661</u>	<u>886,600</u>	<u>514,667</u>	<u>30,101,768</u>	<u>30,671,328</u>
Prior period adjustment	<u>-</u>	<u>(918,084)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(918,084)</u>
Net position, beginning, as restated	<u>29,215,168</u>	<u>29,238,577</u>	<u>886,600</u>	<u>514,667</u>	<u>31,101,768</u>	<u>29,753,244</u>
Net position, ending	<u>\$ 29,467,563</u>	<u>\$ 29,215,168</u>	<u>\$ 1,571,867</u>	<u>\$ 886,600</u>	<u>\$ 31,039,430</u>	<u>\$ 30,101,768</u>

Governmental activities. Governmental activities increased the Town's net position by \$252,395. Key elements of this change are as follows:

- Ad valorem property tax revenues increased by \$180,087 or 1.3% from \$13.5 million in 2020 to \$13.7 million in 2021. This increase is related to an increase in assessed properties within the Town.
- Local option sales tax revenues increased by \$695,249 or 14.6% above the prior year. This increase is the result of residents utilizing internet sales to undertake a variety of home improvement projects during the COVID-19 pandemic and the government mandated restrictions put in place to try to slow the spread of this disease.
- Other tax revenues, primarily from motor vehicle license taxes, remained stable at \$1.6 million.
- Unrestricted intergovernmental revenues remained stable at \$1.5 million.
- Revenues from fees and permits remained stable at \$1.2 million.
- Capital grants and contributions decreased from \$698,031 in 2020 to \$432,923 in 2021, due primarily from a decrease in federal funding for transportation-related capital projects. As a general rule, capital grants and contributions vary from year to year depending upon the completion and commencement of various capital projects.
- Expenses for total governmental activities increased from \$24,995,541 in 2020 to \$25,328,598 in 2021.
- Expense for interest on long-term debt increased slightly from \$98,950 in 2020 to \$99,469 in 2021. The Town has not issued any major debt since the 2013 general obligation bonds for construction of sidewalks and greenways, but did undertake lease purchases borrowing of \$1.8M for vehicles and equipment in 2021.

Business-type activities. Business-type activities increased the Town's net position by \$685,267 due to the collection of user fees for stormwater services in 2021.

Financial Analysis of the Town of Carrboro's Funds

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$11,595,919, an increase of \$1.56 million or 15.6% from \$10,030,700 in 2020. The total general fund balance for 2021 was \$17,818,427, a 12.0% increase from the 2020 amount of \$15,911,609. This increase in fund balance is due primarily to stability of revenue collections and the increase in sales tax revenues. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 53.5% of total General Fund expenditures of \$21,673,887. Total fund balance represents 82.2% of total General Fund expenditures.

The Revolving Loan Fund is used to encourage economic and community development in Carrboro by offering loans to new businesses. The fund balance for this fund decreased by \$58,637, or 20.8%, as a result of a new \$60,000 business loan for a local restaurant.

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The Bond Fund includes sidewalk and greenway construction projects that are funded with 2013 bond proceeds and various state and federal grants. The fund balance for this fund decreased by \$260,754, or 472%. The negative fund balance for this fund reflects a timing issue with the collection of revenues and expenditures where the Town is reimbursed after expenditure by the Town. Many of the projects are being completed and finalized so the fund is slowly drawing to a close and the remaining bond proceeds are expected to be spent in 2022. Additional state and federal grants are pending that will supplement some of the existing projects.

The Capital Projects Fund, which includes construction or acquisition of capital assets, is primarily funded with operating transfers from the General Fund and notes or debt instruments. The fund balance for this fund decreased by \$937,949, or 52.7%. The decrease is a result of an increase in expenditures for projects funded in previous years.

The Grants Administration Fund contains various grant awards made to the Town of Carrboro that are legally restricted to expenditures for specific programs and activities. At the end of fiscal year 2021, this fund increased by \$117,123, primarily because grant funds were received for a hazard mitigation grant project that was primarily expensed in the previous year.

The Nonmajor Funds, which include the Affordable Housing Fund, the Energy Efficiency Revolving Loan Fund, the Small Business and Non-Profit Loan/Grant COVID 19 Emergency Fund, and the Facilities Rehabilitation Fund had a decrease in fund balance of \$193,302, or 14.2%. The majority of the revenues and expenditure are related to the Affordable Housing Fund, which includes ad valorem taxes equal to 1.0 cents of the tax rate, and a \$112,500 transfer from the General Fund. Expenses in the Affordable Housing Fund are related to increasing the stock of affordable, safe and decent housing within the Town and providing housing assistance to the eligible citizens of Carrboro. The Energy Efficiency Revolving Loan was initially funded by a federal grant to provide loans to small businesses for energy improvements. This fund was relatively inactive during 2021.

At June 30, 2021, the governmental funds of the Town of Carrboro reported a combined fund balance of \$19,702,642. The reported combined fund balance of the governmental funds includes a fund balance (deficit) within the Bond Fund of (\$205,503), and within the Facilities Rehabilitation Fund of \$588,027, and a fund balance within the Capital Projects Fund of \$840,624. These fund balances are either restricted or committed for capital project purposes, net of any negative unassigned amounts.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the General Fund budget on several occasions. Generally, these amendments fall into one of three categories: (1) to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) to recognize new funding amounts from external sources, such as federal and state grants; or (3) increase appropriations that become necessary to maintain services. The General Fund budgeted expenditures were increased by \$286,940 (1.2%) from an original appropriation of \$24,157,056 to a final appropriation of \$24,443,996.

The comparison of revenue and expenditure financial activity with budgeted estimates suggests that the Town budgeted adequately for ongoing operations. Total revenue receipts were \$23,950,581, compared to budget of \$22,709,032.

Revenues from taxes (i.e., property, local option sales, and other) represent 85.8% of the total revenues. Property, sales and other tax revenues were above budget projections (\$1,554,760 or 8.2%).

Revenue from permits and fees represent 4.6% of total revenues, and were under budget projections by \$132,333 or 10.7%. Total revenue for permits and fees this year remained stable at \$1.1 million.

Revenues from sales and services, and investment earnings were lower than budget projections by \$181,228 or 66.8%. This was primarily due to lower than expected interest earnings, and partially due to the loss in Recreation and Park revenues because of cancellation of programs and activities, both factors of the pandemic.

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The unrestricted intergovernmental revenue receipts exceeded budget projections by \$8,252 or 0.6% for electric franchise, piped natural gas, video sales programming, telecommunication, and wine and beer licenses or taxes. These revenues totaled \$1,381,436 compared to \$1,408,981 in 2020.

Expenditures, as required by budget ordinance, should not exceed appropriated levels. Total expenditures were \$21,673,887, which was \$2,770,109 less than the final budget of \$24,443,996. All spending by function was in compliance with budgetary requirements.

All expenditures were less than final budget at June 30, 2021, and were 2.6% less than the prior year. Expenditures for general government were 4.0% lower than the prior year, decreasing from \$5,433,773 in 2020 to \$5,215,913 in 2021. Actual expenditures for public safety increased by 2.3% from \$7,083,070 in 2020 to \$7,243,745 in 2021. Actual expenditures for planning decreased by 3.1% from \$1,423,554 in 2020 to \$1,379,968 in 2021. Transportation expenditures increased 2.0% from \$1,835,146 in 2020 to \$1,872,010 in 2021. Public works expenditures remained mostly unchanged at \$3,865,558 in 2021. Recreation and parks expenditures decreased by 13.2% from \$1,628,112 in 2020 to \$1,412,944 in 2021. Debt service expenditures decreased by 14.8% from the prior year.

Capital asset and debt administration

Capital assets. The Town's investment in capital assets for its governmental-type activities as of June 30, 2021 totaled \$41,107,251 (net of accumulated depreciation) and the Town's investment in capital assets for its business-type activities as of June 30, 2021 totaled \$611,550 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, and vehicles. Major capital asset transactions during the year include the replacement of police vehicles and solid waste equipment, along with the construction of the Martin Luther King, Jr Park, Rogers Road Sidewalk, and the Homestead Road Chapel Hill High School multi-use path.

**Town of Carrboro's Capital Assets (Net of Depreciation)
Figure 4**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Capital assets not being depreciated:						
Land	\$ 14,747,956	\$ 14,747,956	\$ -	\$ -	\$ 14,747,956	\$ 14,747,956
Construction in progress	<u>2,590,647</u>	<u>1,500,566</u>	<u>-</u>	<u>101,521</u>	<u>2,590,647</u>	<u>1,602,087</u>
Total capital assets not being depreciated	<u>17,338,603</u>	<u>16,248,522</u>	<u>-</u>	<u>101,521</u>	<u>17,338,603</u>	<u>16,350,043</u>
Capital assets being depreciated:						
Buildings and systems	7,935,094	7,966,752	107,332	111,165	8,042,426	8,077,917
Improvements other than buildings	681,100	719,182	-	-	681,100	719,182
Infrastructure	11,550,769	10,792,848	403,572	-	11,954,341	10,792,848
Machinery and equipment	1,465,968	1,525,534	100,646	137,246	1,566,614	1,662,780
Vehicles	<u>2,135,717</u>	<u>1,277,867</u>	<u>-</u>	<u>-</u>	<u>2,135,717</u>	<u>1,277,867</u>
Total capital assets being depreciated	<u>23,768,648</u>	<u>22,282,183</u>	<u>611,550</u>	<u>248,411</u>	<u>24,380,198</u>	<u>22,530,594</u>
Total capital assets	<u>\$ 41,107,251</u>	<u>\$ 38,530,705</u>	<u>\$ 611,550</u>	<u>\$ 349,932</u>	<u>\$ 41,718,801</u>	<u>\$ 38,880,637</u>

Additional information on the Town's capital assets can be found on pages 42 and 43 of this report.

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Long-term debt. As of June 30, 2021 and 2020, the Town of Carrboro had the following long-term liabilities:

**Town of Carrboro's Outstanding Debt
Figure 5**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Government obligation bond	\$ 2,600,000	\$ 2,850,000	\$ -	\$ -	\$ 2,600,000	\$ 2,850,000
Premium on bonds	51,097	55,963	-	-	51,097	55,963
Direct borrowing installment purchases	2,679,585	1,145,977	-	-	2,679,585	1,145,977
Compensated absences	867,973	826,999	16,606	11,768	884,579	838,767
OPEB liability	20,745,094	16,065,479	203,383	157,505	20,948,477	16,222,984
LGERS net pension liability	4,314,590	3,375,107	66,073	40,184	4,380,663	3,415,291
Law enforcement officers' total pension liability	2,057,740	1,498,927	-	-	2,057,740	1,498,927
Total	\$ 33,316,079	\$ 25,818,452	\$ 286,062	\$ 209,457	\$ 33,602,141	\$ 26,027,909

Total long-term liabilities for the Town increased by \$7,574,232 (29.1%) during fiscal year 2021 primarily due increases in the pension and OPEB liabilities, and issuance of installment purchase obligations for equipment. The Town had debt retirement for this fiscal year with the principal repayment of \$588,314.

As mentioned in the financial highlights section of this document, the Town currently holds an AAA bond rating from Standard and Poor's and maintains Aa1 bond rating from Moody's Investor Service. These bond ratings are a clear indication of the Town's sound financial condition.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town is \$192,607,719. The Town has no general obligation bonds authorized but unissued at June 30, 2021.

Additional information regarding the Town's long-term debt can be found beginning on page 44 of this report.

Economic factors and next year's budget and rates

The following key economic indicators will impact the Town.

- The COVID-19 world-wide pandemic is showing some signs of remission due to the availability of vaccines. However, it is uncertain as to whether the signs are sustainable given that a large share of the population remains unvaccinated. With inflation on the rise, there is concern that the economic environment may take longer to recover, especially if pandemic cases increase and governments revert back to lock downs.
- The economic and health uncertainties of a resurgent pandemic, and the related unknown economic factors make it difficult to forecast the financial implications for the Town with any certainty. However, the good news is that through the American Rescue Plan Act there is an infusion of financial resources to local governments that will help mitigate the negative side effects of the pandemic.
- Historically, the Town has experienced a low unemployment rate (as reflected in the county-wide Orange County rate) of 2.9%, below the statewide rate of 3.5%. The hope is that this trend will continue when the pandemic and economic downturn subsides.

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Management's Discussion and Analysis**

- Stable property tax base. With the county-wide revaluation of all property, the Town expects that the property tax collection rate will return to a 98 to 99% rate.
- The Town's historical local sales tax growth is expected to continue in the coming fiscal year.
- Additional revenue options for local governments pending in the North Carolina General Assembly are being closely monitored for any potential adverse impact on local governments.

Budget highlights for the fiscal year ending June 30, 2022

Governmental activities. The Town has approved a General Fund budget in the amount of \$25,347,801 for fiscal year 2022, which is a 1.1% increase over the original adopted fiscal year 2021 budget.

The primary focus in preparing the fiscal year 2022 budget was to develop one that:

1. Implemented the Council's strategic priorities;
2. Managed costs during an economic downturn while maintaining adequate services to citizens;
3. Avoided increasing the tax burden for Town residents and local businesses; and
4. Avoiding furloughs or employee layoffs.

The two largest sources of revenues for the Town are property taxes and sales taxes. Property taxes are projected to increase 6.9% due to a revaluation of the tax base; while sales taxes are projected to increase 15.4% due to a stronger than expected revenue stream. The tax rate for real property equals \$60.44 cents per one hundred dollars (0.6044), which is an increase of .0500 from fiscal year 2021. This rate includes 1.5 cents that is dedicated for and is to be used solely for affordable housing.

The Town continues to scrutinize its operating expenses and seek more effective and productive methods for service delivery. While the overall total of operating expenses in 2022 are expected to increase, the Town will continue to implement several initiatives began in previous fiscal years. These include implementation of a parking plan, solid waste study, gold level bicycle designation, and 203 Project Development.

Capital outlays in the General fund will increase slightly from \$118,600 in 2021 to \$189,400 in 2022. These capital outlays will be primarily for vehicles and equipment purchases. The budget for debt service in 2022 is \$876,790 compared to \$1,105,233 in 2021.

Business-type activities. In 2019 the Town established a user fee structure for the storm water utility enterprise fund operations to address regulatory compliance and increased flooding issues in the Town. This user fee rate was increased for fiscal year 2022 to provide more funding for stormwater capital projects and other management program requirements. In 2021, staff developed a 10-year financing plan and model, which provides for rate increases effective July 1, 2022.

Requests for information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, 301 West Main Street, Carrboro North Carolina 27510. Other related financial documents may be reviewed online at the Town's website at: <http://www.townofcarrboro.org>.