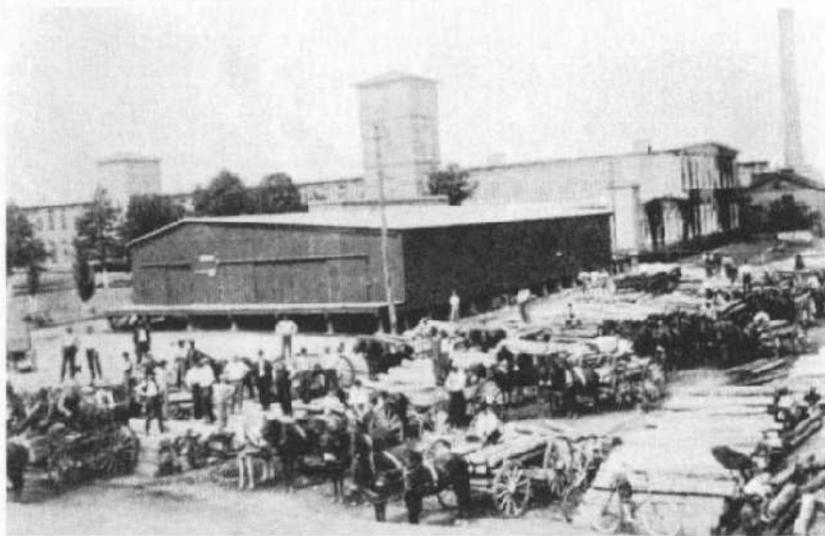


ABOUT THE TOWN OF CARRBORO

Carrboro's roots began in 1882 when a branch of the North Carolina Railroad extended south to the edge of Chapel Hill, and the first local textile mill opened nearby. Informally known as West End and Lloydville, in 1911, the community incorporated as a town named Venable, for chemistry professor and University of North Carolina president Francis Preston Venable.



Circa 1920 view of the cross tie market on East Main Street, in front of Durham Hosiery Mill No. 4. The frame cotton warehouse and the upper stories of the brick towers have been removed, and the east end of the mill has been extended with a brick addition. From copy in North Carolina Collection, UNC Library, Chapel Hill.

Two years later, the state legislature renamed the town

Carrboro at the request of Julian S. Carr, a post-Civil War business leader. He was also an active and influential participant in Jim Crow era efforts to create a system of racial segregation. Although the town continues to bear his name, the values and actions of Carr do not represent Carrboro today.

In the 1970s, a group of Carrboro residents joined together to change the town's power structure and advocate for a community that fully included all residents. Thanks to their commitment, today Carrboro honors its working-class roots while reaching toward the goals of social equity, environmental harmony, and fiscal responsibility. For the first fifty years after its incorporation, Carrboro remained a small mill town with a slow, steady pace of growth. In 1960, approximately 2,000 people lived in the town. In the late 1960s, the town's population began to increase stemming from the growth occurring at UNC-Chapel Hill and growth in the Research Triangle Park. Enrollment at the University has increased 5.1%, from 30,092 in 2020 to 31,641 in 2021.

The Town of Carrboro is a small local government entity overseen by a Mayor and six Council Members, and professionally managed by a Town Manager under the Council-Manager form of government. The Town is located within Orange County in the north central portion of North Carolina. The area's topography is characterized by rolling hills. The Town is situated next to the Town of Chapel Hill home to the University of North Carolina and is near the Research Triangle Park.



The American Community Survey (ACS) provides detailed information on population, housing occupancy and ownership, educational attainment, employment, and travel. The ACS, a method of continuously collecting data on these characteristics by sampling three million households each year, has been underway since 2005. Aggregated estimates for the period 2016 to 2020 for smaller communities, including Carrboro, are used in this section. More frequent data collection is considered a viable method of providing more up-to-date information about the US population, particularly at the local community level.

POPULATION

Carrboro’s population in 2020 was 21,295. Since the last census in 2010, the population has grown by 1,713, or 8.7%. These residents constitute approximately 14.3 percent of the Orange County population of 148,696.

ETHNIC COMPOSITION

The chart below shows the changes in Carrboro’s ethnic composition since the 2010 Census.

Race and Ethnicity, 1990 to Present					
Sources: U.S. Census Bureau (decennial censuses)					
Year	Asian	Black	Hispanic *	White	All Other
2010	1592	1933	2706	12794	557
2020	1891	2142	2723	13238	1301
Year	% Asian	% Black	% Hispanic	White	% Other
2010	8%	10%	14%	65%	3%
2020	9%	10%	13%	62%	6%

* Any Race

AGE COMPOSITION

The age group of ages 18-64 accounts for 63.9% of the Town’s population, which is the only age group above the national average for Carrboro.

<u>Age Group</u>	<u>Carrboro Population</u>	<u>% of Town</u>	<u>USA %</u>
Under 5 years	809	3.8%	6.0%
Under 18 years	4,408	20.7%	22.3%
Age 18-64	13,608	63.9%	55.2%
Age 65 and over	2,470	11.6%	16.5%

Source: census.gov/quickfacts

HOUSING

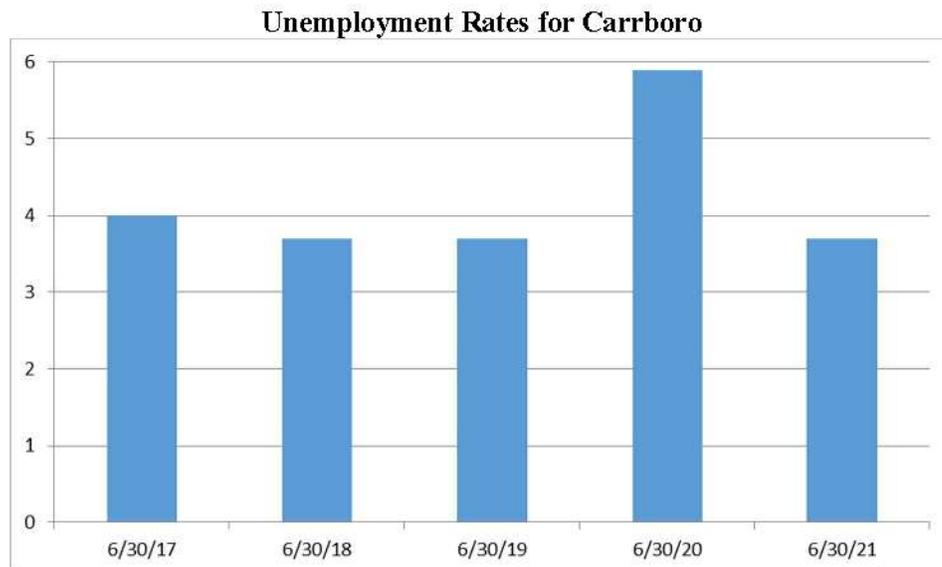
Carrboro continues to be mostly a community consisting of rental units as 57.4 percent of the housing stock is renter occupied with a median gross rent of \$1,152 per month. Owner-occupied housing is at 42.6 percent and the median value of an owner-occupied housing unit in Carrboro in 2020 was \$386,900, which is a 25.8 percent increase from \$307,600 in 2010.

INCOME

The 2020 median household income is \$67,469. Per capita income for 2020 was \$39,464 while 14.1% of the population were below the poverty level of income.

EMPLOYMENT

Employment levels in Carrboro reflect a slight decrease in the unemployment rate from 5.9% in June 2020 to 3.7% in June 2021, which is well below the state unemployment rate of 4.9% during that same time.



Source: homefacts.com

Key Intergovernmental Relationships

The Town of Carrboro has many relationships with surrounding communities, State, and regional organizations that affect the services provided to the community. A summary of these relationships follows:

State of North Carolina

- Established the Town by granting a municipal charter
- Grants and imposes powers to the Town
- Constructs and maintains a road network within the Town limits
- Considered the conduit for transportation improvement funds used to maintain roads
- Collects and distributes certain revenues to the Town (sales taxes, beer, and wine taxes, etc.)

Triangle J Council of Governments (TJCOG)

- Provides planning and other services to towns that are members of this voluntary organization that represents a region of municipal and county governments, including Carrboro
- Includes one delegate and one alternate to its board of delegates

City of Durham

- Provides staff for the Durham/Chapel Hill/Carrboro Metropolitan Planning Organization (Transportation Advisory Committee)

Chatham County

- Meets with town staff via Orange-Chatham Work Group on occasion to review development issues. Development at the border affects each community.

University of North Carolina

- Has mutual aid agreement for police services and emergencies
- Involves town in planning for Carolina North
- Allows use of easement for Libba Cotten bikeway

Orange Water and Sewer Authority

- Provides a mutual aid agreement for emergency response
- Extends water and sewer services in Carrboro zoning jurisdiction in accordance with policies of the Town Council
- Maintains fire hydrants used by the Carrboro Fire Department

Orange County

- Provides mutual aid agreement for police services
- Provides recycling services to Carrboro
- Participates in Joint Planning Agreement
- Plans jointly with Town for use of Housing and Urban Development Funds (HUD) and receives local contribution from Town toward affordable housing initiatives

- Has community, elected council members, and other Carrboro residents serve on numerous boards, commissions, and work groups including: Solid Waste Advisory Board, Orange County Economic Development Commission, JOCCA, EMS Council, Intergovernmental Parks Work Group, and the Orange County Housing and Land Trust
- Operates 911 emergency communications system; dispatches fire and police service units
- Provides jail services for Carrboro
- Provides tax assessing and collection services for Carrboro
- Provides grants to Carrboro for recreation
- Enforces soil erosion control ordinance in the Town
- Program cooperative recreational and educational ventures with Orange County

Town of Chapel Hill

- Provides fixed-route, E-Z rider and Shared Ride transit services via an interlocal agreement with Town of Carrboro and the University of North Carolina
- Has a mutual aid agreement with Carrboro for fire protection
- Provides use of Chapel Hill's fire training facilities
- Provides regular staff communications regarding services and policies
- Share resources with Chapel Hill - special events staffing
- Program cooperative recreational and educational ventures with Chapel Hill

Town of Hillsborough

- Provides mutual aid agreement for fire and police protection

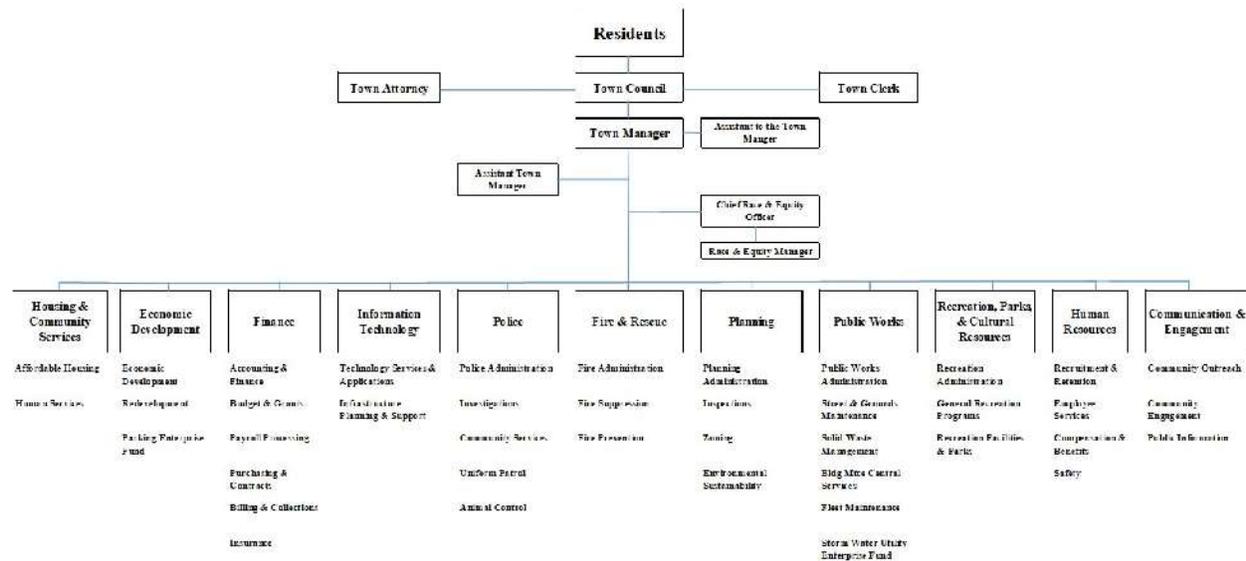
Chapel Hill-Carrboro School System

- Engages in joint use agreements for use of some recreation facilities
- Has used town services to provide school resource officers in the past

GOVERNMENTAL STRUCTURE

The Town of Carrboro has a council/manager form of municipal government. Under the council/manager form of government, the Town Council performs the legislative functions of the town: establishing laws and policies. The Town Council is an elected body by the residents of Carrboro which consists of a mayor and six council members. The mayor and the council members are elected by the voters of the entire town. The mayor is elected to serve a term of two years and the council members are elected to serve staggered terms of four years. The mayor acts as the official head of town government and presides at council meetings. The mayor is a voting member of the council. He or she also appoints council members to advisory boards and committees.

The Town Council also appoints a Town Manager who carries out the laws and policies enacted by the council. The Town Manager is responsible for managing the town's employees, finances, and resources. The Town has 175 permanent, full-time, and part-time, employees with 11 departments reporting to the Town Manager (see chart below). The Town Council also appoints a Town Clerk to maintain official town records; and an attorney, who represents the town administration and Town Council in all legal matters.



Local governments in North Carolina exist to provide a wide range of basic services on which we all depend, including police and fire protection; public works (garbage collection, street resurfacing, fleet maintenance, landscaping and building and grounds); planning; inspections and zoning; economic and community development; and parks and recreation programming. The major services provided by the Town include all the services above but exclude water and sewer services and tax collections. Certain large costs assumed by the Town reflect key services that are contracted with other governmental jurisdictions such as transit services, recycling, and landfill fees. The town also has administrative support units (human resources, technology, finance, budget, purchasing, town clerk, communications etc.) that provide both direct services as well as indirect support services.

The General Fund is the primary operating budget for the Town. The Town has a Special Revenue Fund and Capital Projects Fund. These are multi-year funds and dedicated to specific programs/activities/projects. The Town's Stormwater Utility Enterprise Fund includes an operating and capital budget for stormwater related revenues and expenditures. The Parking Enterprise Fund includes operating expenses related to parking facilities.

The budget for the Town is largely supported by property and local sales taxes. The Town, facing growth in the Northern Transition Area, envisions the potential increase in the town's population to 24,000. The Town, in an effort to reduce the tax burden on residential property owners, is exploring ways to increase its commercial tax base as a percentage of its tax base.

TOWN COUNCIL PRIORITIES

The Town Council has not undertaken a formal strategic planning process. However, the Town Council has adopted and annually reviews strategic priorities for the Town with the ultimate goal of creating and maintaining Carrboro as a sustainable community that is a highly desirable place to live.

The current Town Council priorities (in bold) and departmental goals and work plans (in italics) are listed below:

A. Diversify revenue stream to maintain ethnic and economic diversity

1. *Maximize use and revenue at recreation facilities. (Recreation & Parks)*
2. *Diversify and expand the commercial the tax base, to create more high paying jobs in town, and to promote the town's image as a place for businesses. (Economic and Community Development)*
3. *Create public/private partnerships for various special programs to maximize revenue and the marketing potential of the programming while minimizing program costs. (Recreation & Parks)*
4. *Offer diversified programs reflective of resident needs and promotes sensitivity to cultural diversity. (Recreation & Parks)*

B. Protect historic neighborhoods and maintain Carrboro's unique identity

1. *Evaluate and schedule completion of Comprehensive LUO review/update and evaluate need for strategic or comprehensive planning/update. (Planning)*

C. Improve walkability and public transportation

1. *Improve Quality of public transportation service. (Transportation)*
2. *Improve level of public transportation service. (Transportation)*
3. *Work with Chapel Hill Transit to manage current level of public transportation service more effectively in Carrboro, to extend service into areas of Carrboro not served by fixed-route service, and evaluate the shared-ride service in Carrboro (number of participants). (Transportation)*
4. *Improve access to public transportation. (Transportation)*

D. Encourage development that is compact, dense, and appeals to diverse lifestyles and incomes

1. *Increase the number of affordable energy efficient housing units in the Town. (Economic and Community Development)*

E. Enhance and sustain quality of life/place issues for everyone

1. *Reduce the number of known drug houses and street-level drug sales locations. (Police)*
2. *Maintain index crime clearance rates at or above the national average for comparable towns. (Police)*
3. *Ensure the safety of all employees and residents on town property. (Police)*
4. *Provide fire suppression, light duty rescue, and emergency medical technician services on a 24-hour basis covering the Town of Carrboro and the South Orange Fire District. (Fire-Rescue)*
5. *Provide fire education for schools, day care centers, and special interest groups. (Fire-Rescue)*
6. *Achieve a well-balanced public infrastructure. (Planning)*
7. *Help residents develop a human environment that promotes trust, mutual respect, acceptance, happiness, and well-being. (Planning)*
8. *Develop innovative approaches to support the community, particularly with regard to housing, transportation, energy production and consumption, and ecological restoration and protection. (Planning)*
9. *Provide timely, cost-effective maintenance of public streets, bike paths, storm drainage system and right-of-way. (Public Works)*
10. *Provide cost effective, reliable solid waste collection and disposal. (Public Works)*
11. *Provide park facility and ball field maintenance. (Public Works)*
12. *Provide classes, workshops, trips, camps, and other general recreational activities to meet the varied leisure interests and needs of the community. (Recreation & Parks)*
13. *Operates 10 parks and 1 indoor community facility. (Recreation & Parks)*

Budgeting in Carrboro has become a year-round event. After adoption of the operating budget in June, work on the CIP begins in October. Much of the work presented in the annual operating budget draws from the CIP, reports and assessments, community needs identified by residents, advisory boards, staff, and the Town Council.

Departmental budgets are prepared and justified using two components - a continuation budget with proposed change and/or expansion budget. In recognition that some costs incurred by the Town reflect increases beyond normal inflation, the continuation budget includes those costs, as well as expenditures where the Town or Council has made a legal or budgetary commitment. The inclusion of these costs in the continuation budget will allow the Town to maintain the same high levels of service provided in the current year with similar operating funds. These costs include projects and infrastructure expenditures reflected in the annual Capital Improvements Plan which includes street resurfacing costs, vehicles, equipment, various specific capital projects and debt service payments for capital commitments. Other ongoing annual costs in the continuation budget includes any pay adjustments for employees, and dependent and retiree health insurance, and numerous operating costs needed to provide daily services.

All other requests are categorized in a manner such that the Town Council and residents can understand the various dynamics involved in making funding decisions. Dynamics include improved service levels, and capital outlay recurring capital outlay that does not meet the capital thresholds for consideration in the CIP. Justifications for proposed changes are based on the Town Council’s adopted goals as well as individual departmental goals and objectives.

Budget Development Calendar

<i>Operating Budget Development Schedule FY 2022-23</i>	
TASK	Target Date
FY 2021-22 Mid-Year Budget Status Report to Town Manager	January 18, 2022
Publish Notice of Community Input on Upcoming Budget, FY 2022-23	January 23, 2022
Council Receives Community Input on FY 2022-23 Budget	February 1, 2022
FY 2022-23 Budget Instructions Distribution	February 4, 2022
Budget Requests from Departments	March 1, 2022
Finance Compiles Preliminary Budget Based on Department Requests	March 11, 2022
Manager Meets with Department Heads on Requested Budget	March 21-29, 2022
Finance Compiles Manager's Recommended Budget Draft	March 29, 2022
Manager Reviews Draft Recommended Budget and Makes Revisions	March 30, 2022
Manager Finalizes Presentation for the Town Council	March 31, 2022
Manager Meets One-On-One with Council Members	April 4 - 8, 2022
Public Notice of Required Public Hearing	May 24, 2022
Manager Submits FY 2022-23 Recommended Budget to Council	May 24, 2022
Public Hearing on Recommended Budget	June 7, 2022
Town Council Adopts FY 2022-23 Budget	June 21, 2022

FINANCIAL POLICIES

Among the responsibilities of municipalities to its residents are the care of public funds and the wise and prudent management of municipal finances while providing service delivery to the public and the maintenance of public facilities. These financial management policies adopted by the Town Council are designed to ensure the fiscal stability of the Town and guide the development and administration of the annual operating and capital budgets.

The Town's financial policies address revenues, cash management, expenditures, debt and risk management, capital needs and budgeting and management. The specific policy objectives are to:

1. Protect the policy-making ability of the Town Council by ensuring that important policy decisions are not controlled by financial problems or emergencies.
2. Assist Town management by providing accurate and timely information on financial conditions.
3. Provide sound principles to guide the important decisions of the Town Council and of management which have significant fiscal impact.
4. Provide essential public facilities and prevent deterioration of the Town's public facilities and its capital plant.
5. Set forth-operational principles that minimize the cost of government and financial risk, to the extent consistent with services desired by the public.
6. Enhance the policy-making ability of the Town Council by providing accurate information on program costs.
7. Employ revenue policies that prevent undue or unbalanced reliance on certain revenues, which distribute the costs of municipal services fairly, and which provide adequate funds to operate desired programs.
8. Ensure the legal use of all Town funds through a system of financial security and internal controls.

Town staff shall develop and maintain methods of forecasting future revenues and expenditures. These methods shall project the Town's future revenues and expenditures through a variety of methods including but not limited to forecasts of the economy and future development of the Town. Town staff will estimate General Fund revenues using an objective and analytical process, as well as documenting and maintaining specific assumptions. In instances where there is uncertainty as to assumptions, conservative revenue projections shall be provided.

REVENUE POLICIES

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.

The Town uses the following policies to govern its operations and methods regarding revenues that are used for operations.

Sources of revenue

The Town will strive to maintain a diversified and stable revenue system to shelter the government from short-run fluctuations in any single revenue source and ensure its ability to provide for ongoing service. A balance will be sought in the revenue structure between the proportions of elastic and inelastic revenues. New sources of revenue will be sought to achieve the desirable balance.

Restricted revenue shall only be used for the purpose intended and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated as such.

Intergovernmental assistance may be in the form of restricted or unrestricted revenue. Unrestricted intergovernmental revenues generally support operational expenses; and restricted intergovernmental revenues are used for the designated purpose, activity and/or service.

Fees and cost recovery

User fees and miscellaneous fees charged to residents are reviewed annually. Town departments that generate a user fee revenue regularly monitor their fees by comparing them to other local area jurisdictions. Fees are adjusted when appropriate to reflect increased costs and market rates.

The Recreation, Parks, and Cultural Resources Department establishes recreation fees based on numerous factors, depending upon the program or services offered. Services offered may be available at no cost (a town-sponsored event), partially subsidized based on financial need, or may be based on 80%-100% direct cost recovery. Fees for nonresident users of recreation programs shall be established after the Town Council approves the upcoming fiscal year budget. The fee shall be established by dividing the annual appropriation for the Recreation, Parks, and Cultural Resources Department by the number of town residents. This will provide for a per capita cost for recreation services.

Grants and federal funds

The Town shall aggressively pursue all grant opportunities; however, before accepting grants, the Town will consider the current and future implications of both accepting and rejecting the monies, including:

- a. Amount of matching funds required.
- b. Any in-kind services that are to be provided.
- c. Impact on operating expenses; and
- d. Length of grant and whether the Town is obliged to continue the services after the grant ends.

Payment-in-Lieu financing

Payment-in-lieu revenue represents payments from developers or property owners for the purpose of providing open space areas or recreational facilities that serves or benefits residents of the development generating the funds. The Town's ordinance allows developers of certain types of projects to either provide open space and recreational facilities according to standards set forth in the ordinance or pay a fee in accordance with the Town-established fee schedule.

Developers are also able to make payment-in-lieu of providing affordable housing under the applicable provisions of the Land Use Ordinance. These payment-in-lieu revenues are deposited into the Affordable Housing Fund.

Operating transfers

To the maximum extent feasible and appropriate, General Fund transfers to other funds shall be defined as payments intended for the support of specific programs or services. Amounts transferred but not needed to support such specific program or service expenses shall revert to the General Fund.

OPERATING BUDGET POLICIES

The Town uses the following policies to govern its operations and methods regarding operating budget expenditures.

Fund Balance

To maintain the Town's credit rating, meet seasonal cash flow shortfalls, economic downturns or a local disaster, the Town shall maintain and present fund balance for the general fund in accordance with the requirements of GASB. The Town will maintain an unassigned fund balance in the general fund at a level ranging from 22.5% to 35.0% of the General Fund budget. Unassigned fund balance will generally not be used for operating expenses.

Fund balance shall be confirmed at the end of each fiscal year by the annual independent audit and if the:

- 1) Unassigned fund balance falls below 20.0%, the Town Manager shall develop and implement a plan to rebuild the balance to 22.5% within one year; or
- 2) Unassigned fund balance exceeds 35.0%; the Town Manager may set aside an amount in assigned fund balance for transfer to the capital projects fund for future projects, unless the Town Manager determines it necessary to maintain fund balance at the current level due to existence of other fiscal, economic and/or operating conditions.

The Town Council shall take formal action to commit the use of fund balance for projects or purposes in any current year or future year's budget.

Absence a commitment of fund balance by the Town Council, the Town Manager has the authority to express intended uses of unrestricted or unassigned fund balance that will result in assigned funds for specific purpose.

Where an expenditure is incurred for which restricted and unrestricted fund balance is available, the restricted fund balance, to the extent feasible, should be used first.

When expenditures are incurred for which, there is unrestricted fund balance available, funds should be spent in the following order: committed, assigned and unassigned.

- a. Committed fund balances are amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

- b. Assigned fund balances are amounts intended to be used by the government for specific purposes and so expressed by the governing body or by an official or body to which the governing body delegates the authority.
- c. Unassigned fund balance is the residual classification of the general fund that includes all amounts not contained in other fund balance classifications. Unassigned amounts are technically available for any purpose.

Budget Process and Procedures

The North Carolina Local Government Budget and Fiscal Control Act requires that the Town Manager submit a recommended budget and budget message to the Mayor and Council Members no later than June 1st, that the Town Council hold a public hearing on the budget, and that the Town Council adopt an annual budget or interim budget each year by July 1st. The budget must be balanced which is defined by the Fiscal Control Act as “the sum of estimated net revenues and appropriated fund balance in each fund shall be equal to appropriations in that fund”.

State laws also determine the types of services and regulatory authority, which the Town can provide as well as the revenue sources available to the Town. For example, the Town is authorized to provide police and fire protection, refuse collection, and street maintenance services, but is not authorized by the State to levy income taxes or to raise the local sales tax which is capped at the existing two and one-half (2.5) percent. In North Carolina, county governments are responsible for public health, education, and social services. County and state government decisions govern funding for the Chapel Hill-Carrboro School System.

While the budget process seeks to develop an annual financial plan for the Town, the budget is also a strategic plan whereby departmental goals and objectives are aligned with the Town Council’s strategic priorities, goals, and commitments.

The budget is prepared by the Town Manager for a one-year fiscal cycle beginning July 1 and ending June 30 of the following year and must be adopted by the Town Council prior to the beginning of each fiscal year.

The recommended budget, as presented by the Town Manager, shall reflect the continuation of current service levels wherever appropriate and/or shall include an explanation of any decreases and increases. Any reprogramming or budget shifts from the previous budget shall be clearly identified in the budget document. The recommended budget shall be a balanced budget; recommended allocations shall not exceed projected revenues.

Public input and review of the recommended budget is encouraged. In addition to the one required statutory public hearing, the Town Council generally holds a public hearing at the beginning of the budget development process to get input from the residents. The entire budget document shall be available in the Town Clerk’s Office and on the Town’s website for review.

General Fund Budgeting

The basic format of the budget shall identify functional programs within organizational structures defined primarily by department. Programs are defined as specific services provided to the public by a specific department. All assumptions, transfers, and other relevant budget data shall be clearly stated. The Town will avoid budgetary procedures that balance current expenditures at the expense

of meeting future years' expenses, such as postponing expenditures, accruing future years' revenues, or rolling over short-term debt.

Requests for human services and nonprofit funding shall coincide with the budget process. The Town shall set aside funds for external organizational or program services through the grant application process. The amount recommended for funding shall increase each year based on the consumer price index (CPI) over the previous twelve months, or any amount determined by the Town Council. If the CPI remains flat or decreases, nonprofit funding shall remain unaffected. Requests from external organizations are reviewed by the Town's Human Services Commission which in turn submits a funding recommendation to the Town Council.

Transfers between funds may be authorized only by the Town Council. All other transfers may be approved by the Town Manager.

In instances where specific activities or purchases are authorized by the Town Council in a certain fiscal year and remain incomplete, these funds may be carried forward into the next fiscal year to support such activities or purchases at Town Council's discretion.

Budgetary and accounting procedures will conform to Generally Accepted Accounting Principles (GAAP) for governmental agencies. Where possible, the budget and subsequent status reports will integrate performance measurement and productivity indicators.

Special Fund Budgeting

The term "Special Funds" shall be used to identify all funds other than the General Fund or Capital Project Fund, inclusive of the following fund types: Grants Administration Fund, American Rescue Plan Act Fund, Affordable Housing Fund, Powell Bill Funds, Emergency and Revolving Loan Funds, and Energy Efficiency Revolving Loan Fund. Special Funds shall be created when legally required, requested by the Town Council, or to facilitate internal accounting and financial reporting procedures.

The annual budget for each Special Fund shall be prepared in conjunction with the General Fund budget and shall be submitted to the Town Council for adoption prior to the beginning of the fiscal year. Special Funds budgetary and accounting procedures will conform to GAAP.

Capital Fund Budgeting

A local government may in its discretion, authorize and budget for a capital or grant project, either in its annual budget ordinance or in a project ordinance. At any time during the year, a capital project or grant project ordinance may be established. A project ordinance is for the life of the project and must be adopted by the governing board prior to commencement of the project.

A project ordinance must be balanced with the revenues estimated to be available for the project equal to appropriations for the project. A project ordinance shall clearly identify the project and authorize its undertaking, identify the revenues that will finance the project, and make the appropriations necessary to complete the project. An amendment is required when the budget established for the project is not sufficient to complete the project in its entirety. A project ordinance amending the project budget will require approval by the Town Council.

Major capital decisions tend to have a fiscal and operational impact more extensive than that

required of annual operating and maintenance decisions and require different planning and budgetary methods. For projects that cost over \$100,000 and will require more than one year to accomplish, departments should use a project ordinance rather than the General Fund operating budget.

Transfers

Line-item adjustments within one project will be allowed via an internal budget adjustment request form if the scope of the project is substantially the same and total funding for the project will not increase because of the transfer.

Transfer requests are prepared and signed by the department head of the requesting department and submitted to Finance for review. When transfers occur, the project manager or department head will state that the project scope can still be achieved without increasing the total funding of the project. Finance will ensure that sufficient funds are available in the authorized budget and the transfer does not increase the total appropriation for the project. All transfer requests are approved by the Finance Director and Town Manager.

A transfer of funds between projects within the same fund is only allowed with formal council approval. This process ensures transparency and keeps the Town Council up to date regarding budget changes in capital projects.

Maintenance of Capital Assets

Provisions will be made for adequate maintenance of the capital plant and equipment and for their orderly rehabilitation and replacement, within available revenue and budgetary limits. The General Fund budget should provide sufficient funds for the regular repair and maintenance of all Town capital assets.

The budget shall incorporate and recognize the importance and necessity of maintaining and updating the installed technological infrastructure. End-user workstations are to be replaced on a five-year cycle, servers to be replaced on a four-year cycle and other network infrastructure and business applications to be replaced as dictated by financial, technical, and business criteria defined in the Technology Plan.

As with technology, town vehicles are also replaced on a predetermined schedule. Through a planned approach the Town looks to minimize fleet capital cost and operational cost. Age and usage criteria provide general guidance for replacement and there can be other circumstances that factor in the decision to replace a vehicle or piece of equipment either sooner or later than the recommended guidelines. These factors may include high maintenance cost, excessive down time, standardization of fleet, or change of operation. All vehicles and capital equipment that exceeds \$30,000 per item shall be considered for installment financing.

CAPITAL IMPROVEMENT PROJECT POLICIES

The Town uses the following policies to govern its capital improvement program that address specific community needs.

Capital Improvement Plan

The Town Manager shall develop and maintain a projection of capital improvement projects (Capital Improvement Plan) for the next five years based on the previous capital improvement plans, community needs assessments, and projects approved by the Town Council. The Capital Improvement Plan (CIP) should be tied to projected revenue and expenditure constraints. Future planning should consider periods of revenue surplus and shortfall and adjust future programs accordingly. The CIP includes long-term maintenance and other operational requirements for proposed projects that meet the following criteria: 1) requested item is equipment costing more than \$30,000, or is a vehicle, or 2) requested project is multi-year in nature and exceeds \$100,000 over the life of the project. The CIP also includes information technology projects with costs equal to or greater than \$50,000. Each fiscal year, the Town Manager updates the CIP to include current information for review by the Town Council. Provisions are made for adequate maintenance of capital infrastructure and equipment and for their orderly replacement within available revenue and budgetary limits. Items are appropriated into the annual operating budget, or by project ordinance, by the Town Council.

The CIP budget process shall include a financial analysis and narrative of the impact of the CIP on the Town's financial condition, including but not limited to, debt levels and operating budget. The Town shall actively pursue outside funding sources for all projects for the CIP funding. The Town's capital program will recognize the borrowing limitation and debt tolerance of the Town.

Capital Improvement Financing

Within the limitation of existing law, various funding sources may be utilized for capital improvements. Capital projects shall not be dictated by the nature of funding available except to the extent that the projects meet an initial test of being required to achieve Town goals or to the extent that projects must be placed in priority dictated by the nature of the funds available.

Unspent capital project funds shall revert to the original source of funding, or undesignated capital reserves within the Capital Reserve Fund for future capital funding. In no case shall projects incur a funding deficit without the express approval of the Town Council.

DEBT MANAGEMENT POLICY

POLICY STATEMENTS

Debt policies are written guidelines and restrictions affecting the amount, issuance, process, and type of debt issued by a governmental entity. The important functions of a debt policy are to:

- Provide guidance on the types and levels of the Town's outstanding debt obligations so as not to exceed acceptable levels of indebtedness and risk. Debt policies also serve as a framework within which the Town can evaluate each potential debt issuance.
- Direct staff on objectives to be achieved, both before bonds are sold and for the ongoing management of the debt program.

- Facilitate the debt issuance process by making important decisions ahead of time.
- Assist the Town in the management of its financial affairs, ensuring that the Town maintains a sound debt position and that its credit quality is protected.
- Allow for an appropriate balance between the established debt parameters and providing flexibility to respond to unforeseen circumstances and new opportunities; and
- Serve as a means of stimulating an open debate about the government's outstanding obligations and lead to an informed decision by elected officials.

Purpose and Type of Debt

Purpose:

Debt is only to be incurred for financing capital assets that, because of their long-term nature or because of budgetary constraints, cannot be acquired from current or budgeted resources. Debt is not to be used for operational needs or normal recurring maintenance. Ideally, the Town will strive to restrict debt issuance to capital needs identified and formalized in a capital improvement program (CIP).

Types of Debt:

The types of debt instruments can include general obligation bonds, bond anticipation notes, revenue bonds, lease-installment financings, certificates of participation, special obligation bonds, or any other financing instrument allowed under North Carolina statutes. The Town will strive to use the least costly and most appropriate form of financing for its project needs.

All debt issued, including short-term installment purchase financing that the Town incurs for recurring equipment, will be repaid within a period not to exceed the expected useful life of the improvements, equipment, or vehicles financed by the debt.

Debt Limits and Affordability

Debt policies should define limits or acceptable ranges for each type of debt. Limits are set for legal, financial, and policy reasons. State law dictates legal limits. Financial limits may be established to achieve a desired credit rating or to exist within budgetary or other resource constraints. Debt limits alone will not result in desired ratings, but limits on debt levels can have a material impact if the local government demonstrates adherence to the policy over time. Policy limits can include the purposes for which debt may be used, the types of debt that may be issued, and minimum credit ratings.

The Town will use an objective, analytical approach to determine the amount of debt to be considered for authorization and issuance.

Several standards or guidelines are available for establishing limits:

Outstanding Debt as a Percentage of Assessed Valuation

This ratio measures debt levels against assessed valuation and assumes that property taxes are the primary source of debt repayment.

Statutorily, the Town is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the Town may have outstanding to 8% of the appraised value of property subject to taxation. However, this is not considered a realistic ratio as other ratios that measure ability to pay (described below) would exceed the Town's desired debt levels.

The Town will also strive to avoid maintaining a "high" debt burden as measured by the Local Government Commission. This analysis is updated annually by the LGC.

Debt per Capita

This ratio reflects the philosophy that all taxes, and therefore the total principal on outstanding debt, are paid by the residents (as measured by population count). This ratio is widely used by analysts as a measure of an issuer's ability to repay debt.

The Town will also strive to avoid maintaining a "high" debt burden as measured by the Local Government Commission. This analysis is updated annually by the LGC.

Debt Service as a Percentage of Operating Expenditures

The ratio that measures the percentage of debt service to the general fund expenditures reflects the Town's budgetary flexibility to change spending and respond to economic downturns. Annual debt service payments (like a house payment) can be a major fixed part of a government's fixed costs and its increase may indicate excessive debt and fiscal strain.

The North Carolina Local Government Commission (LGC) advises that local governments should have a reasonable debt burden. A heavy debt burden may be evidenced by a ratio of General Fund Debt Service to General Fund Expenditures exceeding 15%, or Debt per Capita or Debt to Appraised Property Value exceeding that of similar units. Credit rating agencies, on the other hand, consider debt exceeding 20% of operating budget to be excessive. Ten percent is considered acceptable. The Town will maintain this ratio at or below 12%, considering this to be a moderate level of debt.

Use of Debt Ratios

This measure of debt service expenditures as a percentage of operating expenditures will be the primary ratio used to relay the impact of debt to the Town Council, both in terms of tax rate and ability to pay debt within budgetary constraints. No project will be included in the CIP that increases the debt ratio above 12%. Any project that is considered outside of the Capital Improvement Plan shall be revisited in context of the plan to monitor the project's impact on the Town's debt ratios. Projects shall be considered for recommendation if the debt service expenditures as a percentage of operating expenditures remain at or below the 12% debt ratio.

The aforementioned measures, while defined with targets in mind, shall also be judged against the necessity of and benefits derived from the proposed acquisitions. The Town will continue to update its debt affordability analyses annually along with a review of peer groups to continue to analyze and control its debt effectively.

By establishing comparative debt ratios and targets over a period of time, the Town is demonstrating that there is an analytical and informed process for monitoring and making

decisions about the Town's debt burden and maintaining the Town's fiscal position on behalf of the community.

Bond Ratings

The Town's current bond ratings are: Standard and Poor's AAA; and Moody's Aa1. The Town will maintain continuing disclosure and good communications with bond rating agencies and financial institutions on the Town's financial condition and operations.

Debt Issuance and Structure

The Town will strive to issue general obligation bonds no more frequently than once in any fiscal year. The scheduling of bond sales and installment purchase decisions and the amount will be determined each year by the Town Council. These decisions will be based upon the identified cash flow requirements for each project financed, market conditions, and other relevant factors.

The Town Council may fund upfront project costs and reimburse these costs when bonds are sold. In these situations, the Town Council will adopt reimbursement resolutions prior to the expenditure of project funds.

For most debt issues, the actual structure and sale is conducted in conjunction with the Local Government Commission (LGC), a division of the Office of State Treasurer. The LGC functions as the financial advisor to local governments when issuing debt. Structuring must take into consideration current conditions and practices in the municipal finance market.

The Town will seek level or declining debt repayment schedules on long-term bonded debt, as encouraged by the LGC. Debt requiring balloon principal payments reserved at the end of the issue term will be avoided. General obligation bonds will be generally competitively bid with no more than a 20-year life.

For short-term installment financings on capital items and equipment, the Town will rely on a competitive bidding process and the debt term will not exceed the useful life of the asset.

Capital Planning and Debt Determination

The Town will adopt a five-year, capital improvements plan (CIP) annually. Debt financing and the associated policies will be considered in conjunction with the CIP with approval of funding and projects by the Town Council.

Any capital item that has not been included in the CIP, but because of its critical or emergency need where timing was not anticipated in the CIP or budgetary process or is mandated immediately by either State or Federal requirements, will be considered for approval for debt financing.

BUDGETARY ACCOUNTING AND REPORTING

Budget Adoption

The Town operates under an annual budget ordinance in accordance with the Local Government Budget and Fiscal Control Act (North Carolina General Statutes Section 159). These statutes require that the Town Council adopt a balanced budget in which estimated revenues and appropriated fund balances equal expenditures. The Town Manager must submit a balanced budget proposal to the Town Council by June 1 of each year, and the Town Council must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain community comments of the proposed budget before the Town Council adopts the budget. By state law, the fiscal year begins on July 1 and ends on June 30.

An annual budget is adopted for the General Fund, Storm Water Operations Fund, and Parking Operations Fund. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the remaining Special Revenue Funds, Capital Projects Fund, and the Storm Water Capital Projects Fund.

Basis of Accounting and Budgeting

The budget is adopted using the modified accrual method of accounting. Under this basis, revenues are recognized in the period received and accrued if considered to be both measurable and available to pay current liabilities. The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Those revenues susceptible to accrual include: investments, sales tax, and grants-in-aids earned. Expenditures are recognized when a liability is incurred. On a budgetary basis, revenues are recorded by source of revenue (property tax, intergovernmental, taxes and licenses, etc.) and expenditures are recorded by department, function, or project. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the fund level for multi-year funds.

Fund Type	Fund Category	Basis of Accounting	Budgetary Accounting
General Fund Group	Governmental	Modified Accrual	Modified Accrual
Special Revenue	Governmental	Modified Accrual	Modified Accrual
Capital Projects	Governmental	Modified Accrual	Modified Accrual
Enterprise	Proprietary	Modified Accrual	Modified Accrual

Within the budget ordinance, the general fund is further divided into functions, which represent the level of authorization, by the governing board. Revenue functions include Ad Valorem (Property Taxes), Local Sales Taxes, Other Taxes/Licenses, Restricted and Unrestricted Intergovernmental Revenues, Permit and Fees, Sales and Services, Investment Earnings, Other Revenues, Other Financing Sources, and Fund Balance Appropriated. Expenditures are budgeted by function which may be delineated by departments and include the following: a) General Government which includes Mayor and Town Council, Advisory Boards, Town Manager, Economic Development, Communication & Engagement, Housing and Community Services, Town Clerk, Finance, Human Resources, Information Technology, and Non-departmental; b) Public Safety which includes Police and Fire; c) Planning; d) Transportation; e) Public Works; f) Parks, Recreation, and Cultural Resources; and g) Debt Service. Enterprise Funds include Parking and Stormwater.

The Town Council may authorize and budget for capital projects and multi-year special revenue funds in its annual budget ordinance. The project ordinance authorizes all appropriations necessary for the completion of projects.

Amending the Budget

The Town Council must approve all transfers between funds and amendments to capital project ordinances.

The Town Manager can make budget transfers within the General Fund without further action by the Town Council. In addition, all operating funds encumbered or designated within fund balance for expenditure carryover to the following year, as confirmed in the annual June 30 audit, shall be re-appropriated to the next fiscal year without further action by the Town Council. All other types of amendments within the General Fund, or other funds, must be approved by the Town Council.

Capital project ordinances are approved at the project level. The Town Manager may approve line-item transfers within a project if the project can still be achieved without increasing the total funding of the project. An amendment is required when the budget established for the project is not sufficient to complete the project in its entirety.

Line-Item Transfers

While budgets are approved at the functional level within the budget ordinance, line-item budgets are controlled at three broad levels (categories) within a departmental cost center: personnel, operating, and capital outlay. Departments are only required to do a budget transfer form if there is a need to transfer funds between the broad categories of expenditures. The Finance Officer can process the transfers within a department at the request of the department head.

Purchase Orders

Purchase orders must be issued for purchases exceeding \$1,000 with exception of purchases specifically exempted by the Town's purchasing policy. Purchase requisitions under \$1,000 do not require approval by the Purchasing Officer.

Capital Outlay

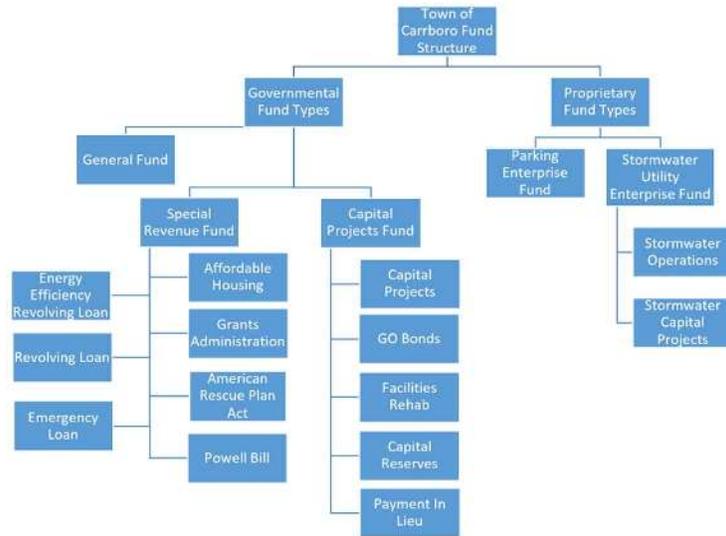
All capital items (items exceeding \$5,000 and having a useful life of more than one year) must be approved in accordance with the adopted budget. With GASB 34, the definition of capital outlay was refined to include infrastructure inventory including roads, bridges, and sidewalks, amongst other assets). Thresholds exist for buildings (\$20,000 minimum) and for infrastructure inventory (\$100,000 minimum). The annual budget document outlines those capital outlay items approved for purchase. Any changes must be approved through the transfer process outlined above.

Position Control

The annual pay plan adopted by the Town Council in conjunction with the budget lists authorized permanent positions.

FINANCIAL FUND STRUCTURE

The accounts of the Town are organized based on funds or account groups with each fund constituting a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts reflecting its assets, liabilities, fund balance, revenues, and expenditures. Town resources are allocated to and accounted for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The multiple Town funds are classified as either General Governmental Funds or Proprietary Funds and are grouped into four generic fund categories as described below.



Governmental Funds

General Fund – The General Fund is the primary operating fund of the Town, which accounts for normal recurring town functions such as public works, planning, public safety, recreation, debt service, and administration. All authorized positions are funded entirely within the General Fund. Activities within the general fund are funded by revenue sources such as property tax, sales tax, and user fees.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. Funds include the Revolving Loan Fund, Emergency Loan Fund, Energy Efficiency Revolving Loan Fund, Affordable Housing Fund, Powell Bill Fund, American Rescue Plan Act Fund, and the Grant Administration Fund.

Capital Projects Funds – The Capital Projects Fund is used to account for financial resources dedicated to the acquisition or construction of capital facilities and equipment. Included in the Capital Projects Fund: Capital Projects Fund, Bond Fund, Facilities Rehab, Capital Reserve Fund, and Payment-in-Lieu Fund.

Proprietary Funds

Enterprise Funds – The Enterprise Fund is used to account for revenues, expenditures and capital assets related to stormwater and parking activities and functions within the Town.

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