

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 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 like 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.

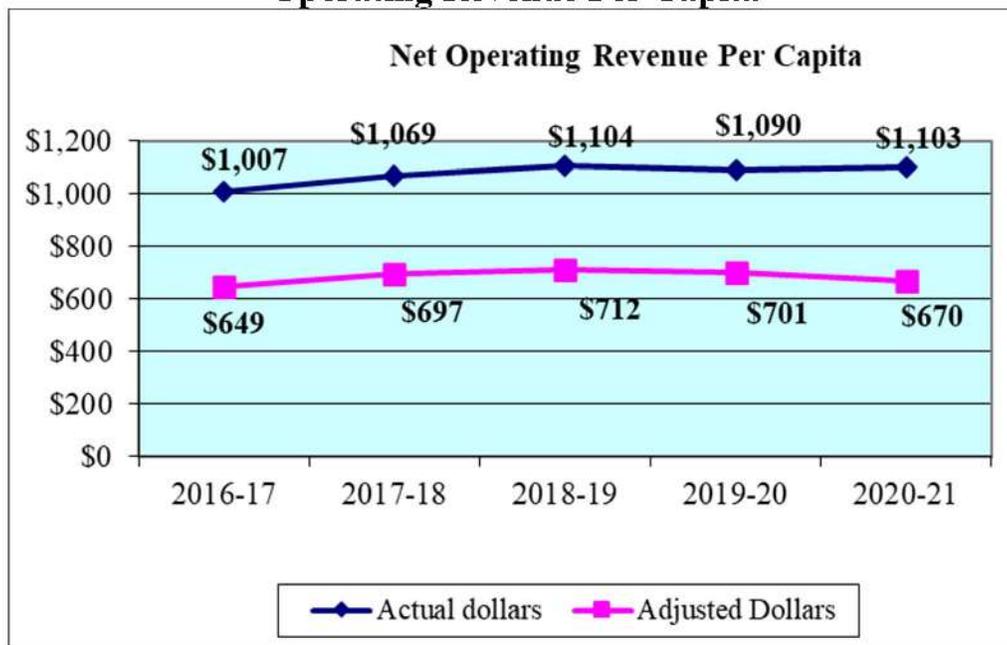
Included with every indicator is a description of the indicator, a table and graphical representation of the trend over the fiscal years for which we have audited budget reports, and an explanation of the implications of that trend for the government and residents of the Town. All the financial figures 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 Funds). 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	2016-17	2017-18	2018-19	2019-20	2020-21
Net Operating Revenue (adjusted)	\$13,541,892	\$14,704,481	\$15,092,938	\$14,922,348	\$14,266,468
Population	20,867	21,099	21,200	21,295	21,295
Net Operating Revenue Per Capita (adjusted)	\$649	\$697	\$712	\$701	\$670

Warning Trend: Operating revenues per capita trending less than Expenses per capita (constant dollars).

Formula: Operating Revenues per Capita (adjusted dollars)/Population

Description

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

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

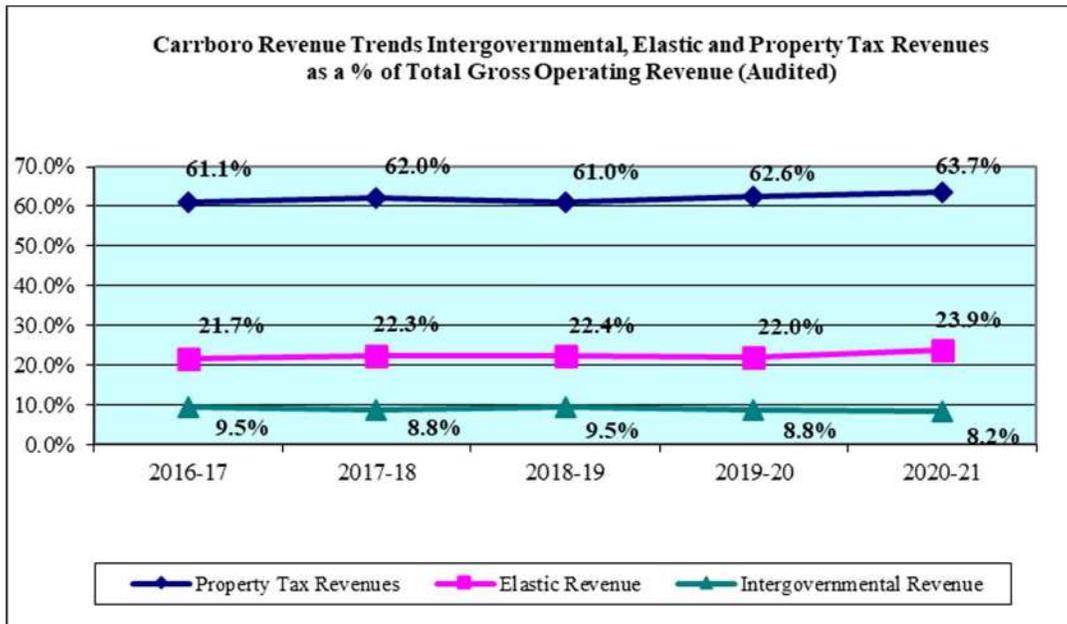
Discussion

In real terms (adjusted for inflation), revenues per capita in Carrboro have remained constant since FY2017. In actual dollars collected (adjusted for inflation), revenue increased by 4.7% percent. Local option sales tax and other taxes and licenses have increased in the past 5 years. The following chart shows distinct revenue trends as reflected in the Town's audit reports.

Revenue Source	2021 Revenue Adjusted for Inflation	2017 Revenue Adjusted for Inflation	% Change in Revenue Since 2017	2021 per capita	2017 per capita	% Change Since 2017 (per capita)
Ad valorem taxes	\$ 8,168,583.92	\$ 7,586,127.37	7.7%	\$ 384	\$ 364	5.5%
Local option sales taxes	\$ 3,320,115.38	\$ 2,801,090.63	18.5%	\$ 156	\$ 134	16.4%
Other taxes and licenses	\$ 993,998.06	\$ 1,032,052.34	-3.7%	\$ 47	\$ 49	-4.1%
Intergovernmental revenues	\$ 931,284.31	\$ 1,060,790.25	-12.2%	\$ 44	\$ 51	-13.7%
Permits and fees	\$ 668,324.02	\$ 758,895.19	-11.9%	\$ 31	\$ 36	-13.9%
Sales and services	\$ 53,501.34	\$ 182,370.12	-70.7%	\$ 3	\$ 9	-66.7%
Investment earnings	\$ 1,163.47	\$ 37,678.87	-96.9%	\$ -	\$ 2	-100.0%
Other	\$ 129,497.21	\$ 82,887.07	56.2%	\$ 36	\$ 24	47.0%
Total revenues by source	\$14,266,467.69	\$13,541,891.84	5.4%	\$ 701	\$ 669	4.7%

Having a significant impact on the revenue stream is the property tax and sales taxes revenue per capita, representing 80% of the total revenue per capita in 2021. 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. Sales and Services revenues had the most significant decrease.

Major Revenue Sources



Revenues	2016-17	2017-18	2018-19	2019-20	2020-21
Property Tax	\$13,143,645	\$14,276,093	\$14,587,583	\$14,831,028	\$15,247,066
Elastic Revenue	\$4,654,349	\$5,127,457	\$5,362,465	\$5,200,981	\$5,732,912
Intergovernmental Revenue	\$2,042,392	\$2,030,130	\$2,266,614	\$2,088,216	\$1,974,448
Total Revenue	\$19,840,386	\$21,433,680	\$22,216,662	\$22,120,225	\$22,954,426

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.

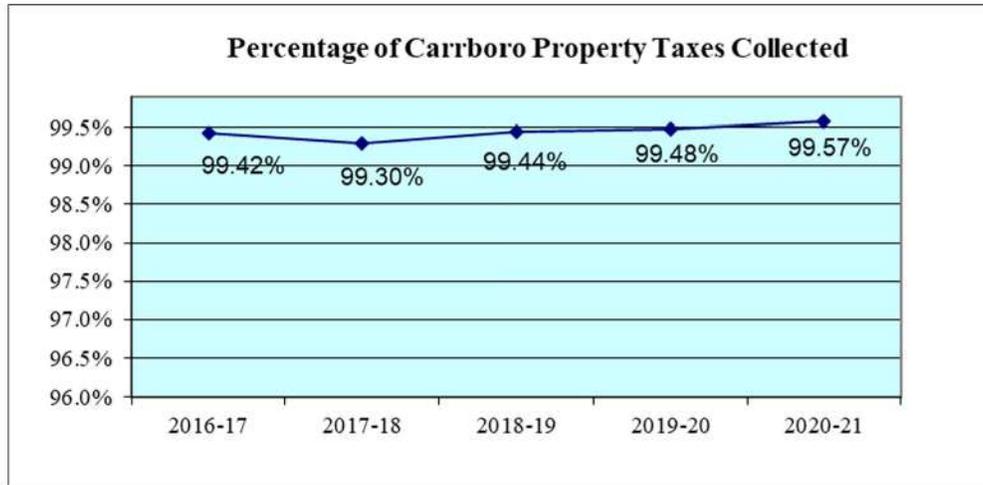
Discussion

As a percentage of total gross operating revenue, all revenues have remained stable. Property tax increased by 1.1%, elastic revenues increased by 2.9%, and intergovernmental revenues decreased by 0.6%.

Intergovernmental revenue, as a share of the revenue stream in FY20-21 decreased from FY19-20 mainly due to decreases in the state tax and grants.

Elastic revenue had an increase in sales tax, but a decrease in interest earnings, while overall permit categories remained steady.

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.

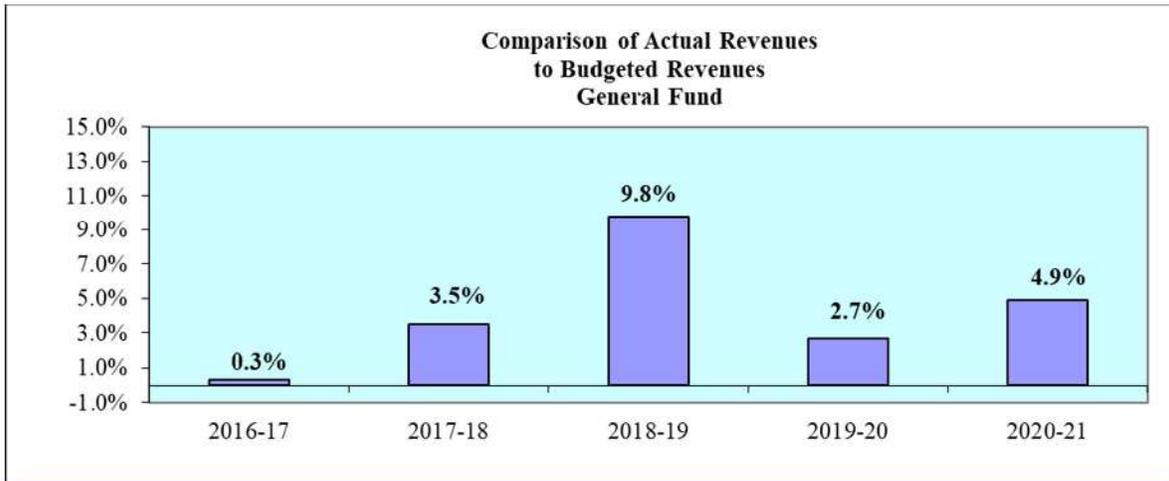
Discussion

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 increased slightly to 99.57% in FY2020-21.

Tax Collection Rates in Carrboro and Neighboring Cities

	2016-17	2017-18	2018-19	2019-20	2020-21
Carrboro	99.42%	99.30%	99.44%	99.48%	99.57%
Chapel Hill	99.60%	99.66%	99.51%	99.58%	99.63%
Durham	99.80%	99.84%	99.67%	99.28%	99.46%
Hillsborough	99.18%	99.13%	99.24%	99.18%	99.18%

Comparison of Actual Revenues to Budgeted Revenues



	2016-17	2017-18	2018-19	2019-20	2020-21
Budgeted Operating Revenue	\$21,430,027	\$22,271,483	\$21,774,331	\$23,076,255	\$22,823,532
Actual Operating Revenue	\$21,495,739	\$23,040,640	\$23,899,184	\$23,692,807	\$23,950,581
Revenue Variance	\$65,712	\$769,157	\$2,124,853	\$616,552	\$1,127,049
Revenue Budgeted Operating Revenues	0.3%	3.5%	9.8%	2.7%	4.9%

Warning Trend: Increase in revenue shortfalls or surpluses as a percentage of budgeted revenues.

Formula: Revenue Variance/Budgeted Operating Revenues

Description

This indicator examines the differences between revenue estimates and revenues actually received during the fiscal year. Major discrepancies that continue year after year can indicate a declining economy, inefficient collection procedures; changes in the law, or inaccurate estimating techniques. One of the criteria reviewed by Standard and Poor's for the quality of financial management in a local government is financial results compared against original expectations. Variances between budget and actual results are indicative of management's financial planning capabilities over time. The Town aims to have variances exceeding budgeted estimates no larger than 3-5 percent and seeks to avoid shortfalls to maintain the Town's fiscal health as surplus is one critical component of maintaining or improving fund balance levels.

Discussion

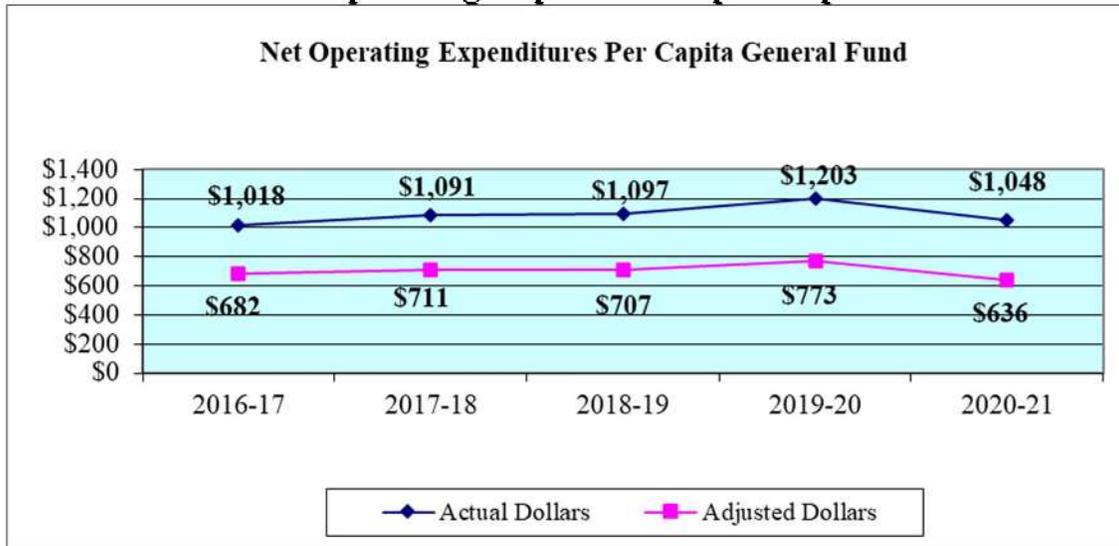
The variances in the graph indicate the Town's conservative approach to estimating revenues. In FY 16-17, main increases included unrestricted intergovernmental revenues (\$36,535), sales tax (\$240,329), and other taxes and licenses (\$220,033). In FY 17-18, the main increases were property taxes (\$192,304), sales tax (\$539,434), unrestricted intergovernmental revenues (\$186,557), permits and fees (\$197,457), and investment earnings (\$108,401). In FY 18-19, the main increases were property taxes (\$1,167,866), sales tax (\$404,700), and investment earnings (\$151,037). In FY 19-20, the main increases were property taxes (\$296,803), sales tax (\$123,229), and other revenues

(\$210,652). In FY 20-21, the main increases were property taxes (\$176,854), sales tax (\$695,247), and other taxes and licenses (\$101,049).

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 consider how effective the services are or how efficiently they are delivered.

Net Operating Expenditures per Capita



	2016-17	2017-18	2018-19	2019-20	2020-21
Net Operating Expenditures (Adjusted)	\$14,221,815	\$15,010,066	\$14,985,882	\$16,460,119	\$13,547,509
Population	20,867	21,099	21,200	21,295	21,295

Warning Trend: Increasing net operating expenditures per capita (constant dollars).

Formula: Net Operating Expenditures/Population

Description

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

Discussion

Net operating expenditures, adjusted for inflation, show a decrease in expenditures made by the Town since FY16-17, from \$14,221,815 to \$13,547,509 in FY20-21. When adjusted for the combined impact of inflation and population, per capita spending decreased from \$682 in FY16-17 to \$636 in FY 20-21, or 6.7%.

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

FY 2016-17 - Per capita expenditures increased \$11 from the previous year due to change in population.

FY 2017-18 - Per capita expenditures increased \$29 from the previous year primarily due to transfers to the capital fund for capital projects.

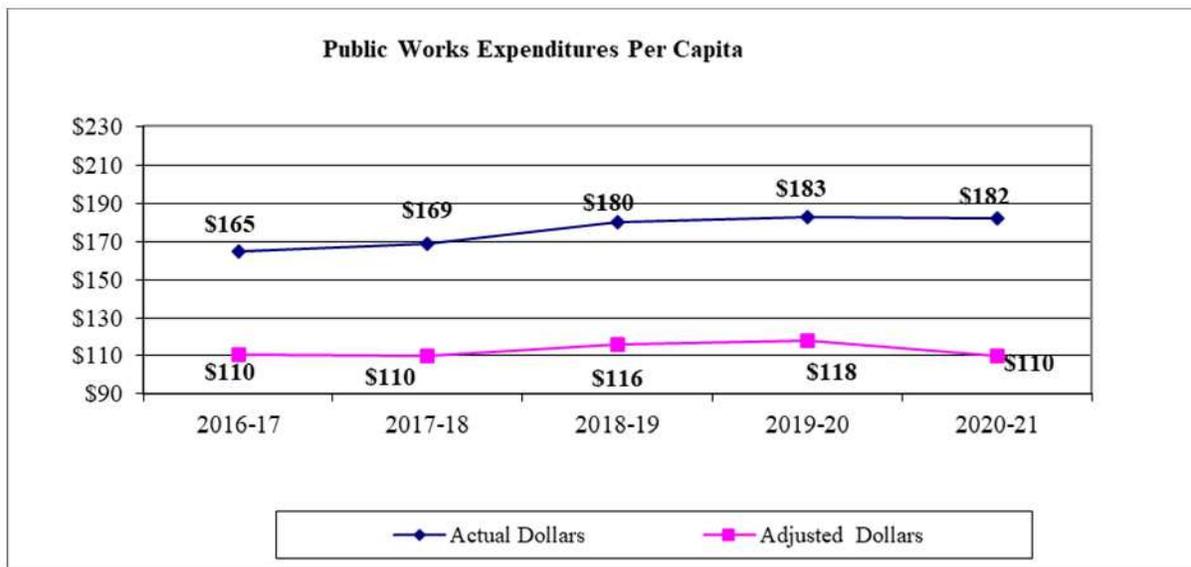
FY 2018-19 - Per capita expenditures decreased \$4 from the previous year primarily due to a reduction of transfers to the capital fund for capital projects, and decreases in capital outlay.

FY 2019-20 - Per capita expenditures increased \$66 from the previous year primarily due to a \$1.8M increase in transfers to the capital fund for capital projects, and expenditures related to the corona pandemic that started in March 2020.

FY 2020-21 - Per capita expenditures decreased \$137 due to effects of the corona pandemic and economic factors that resulted in higher than usual inflation.

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.

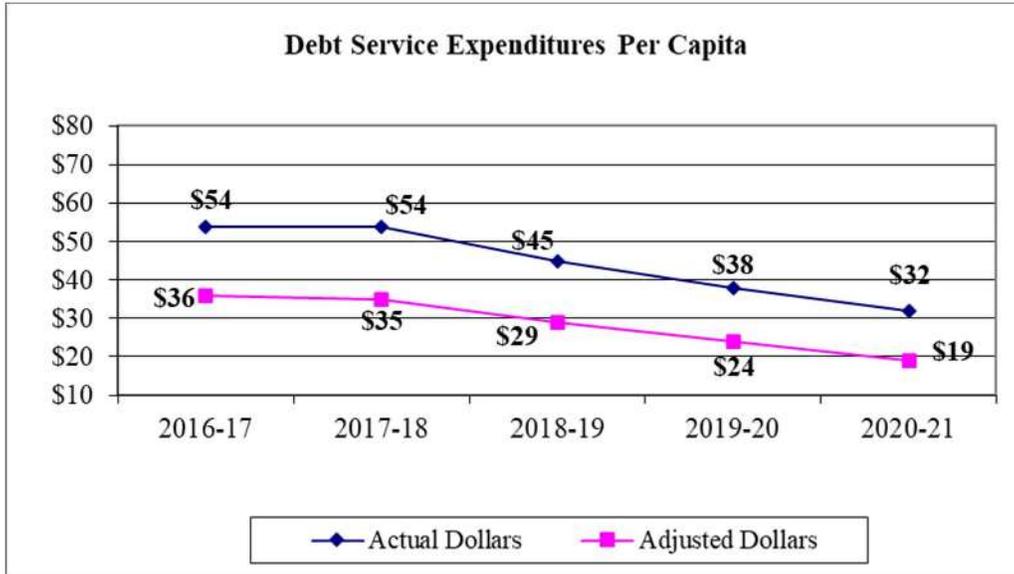
Public Works Expenditures per Capita



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, stormwater system repairs, and responding to major natural disasters. The decrease in FY 16-17 is due to vacant personnel positions. The uptick in FY 17-18 is due to an

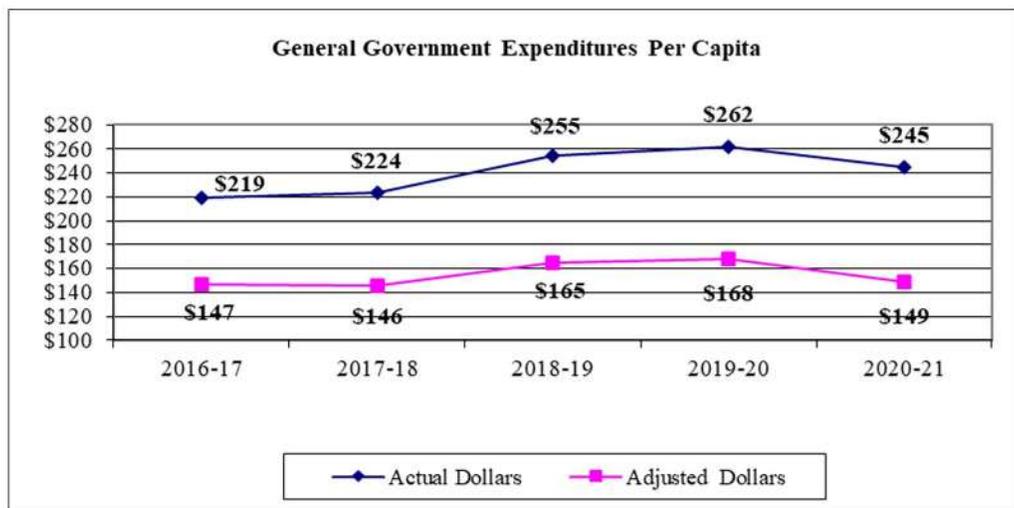
increase in street resurfacing costs, while the increase in FY 18-19 and FY 19-20 was related to personnel costs. The decrease in FY 20-21 was due to lower personnel costs and vacant positions.

Debt Service Expenditures Per Capita



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

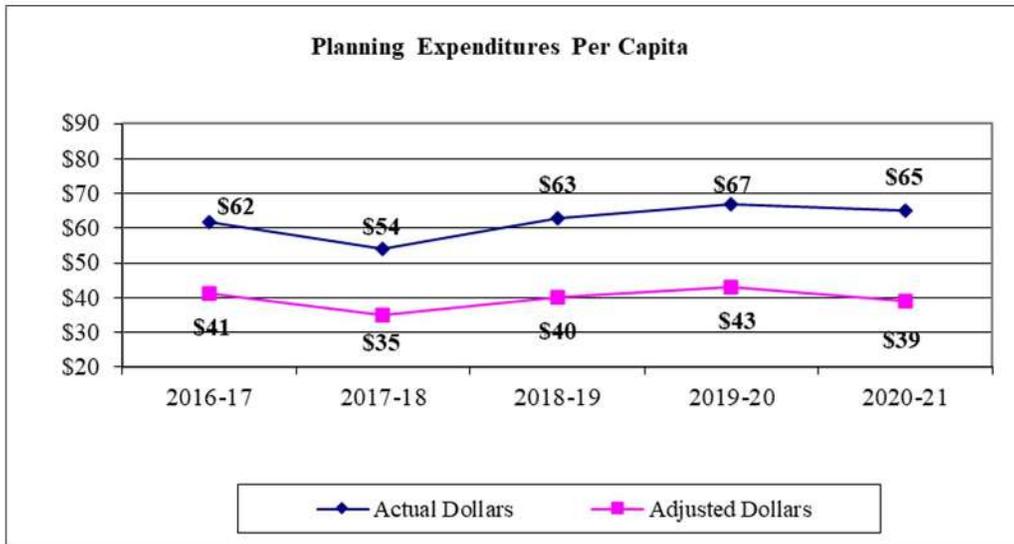
General Government Expenditures per Capita



The Town continues to maintain regular replacement of technology infrastructure, support wireless technology, and implement mobile laptop technology in police cars. In FY 17-18, the combination Town of Carrboro, NC 167 Adopted Annual Budget Fiscal Year 2023

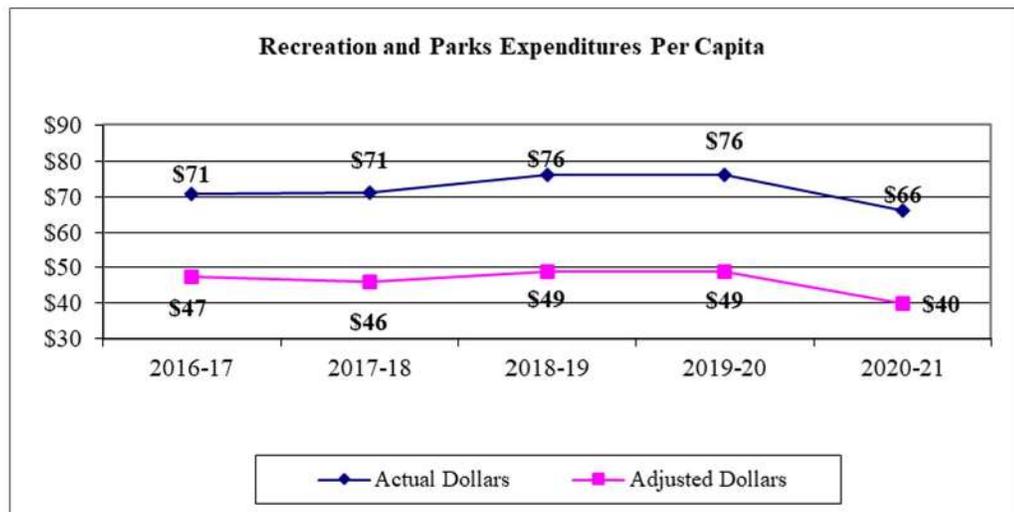
of an increase in population and a larger deflator rate caused a slight decrease in the per capita amount for adjusted dollars. The increase in FY 18-19 was primarily due to increased staffing and personnel costs. The increase in FY 19-20 was related to additional IT equipment and personnel costs. The decrease in FY 20-21 was related to zero salary adjustments and higher than usual inflation rate.

Planning Expenditures Per Capita



The FY 2016-17 decrease is due to a decrease in engineering services. The FY 2017-18 decrease is the result of vacant positions and a decrease in engineering and contractual services. The increases in FY 18-19 and FY 19-20 are primarily due to personnel costs. The decrease in FY 20-21 was related to zero salary adjustments and higher than usual inflation rate.

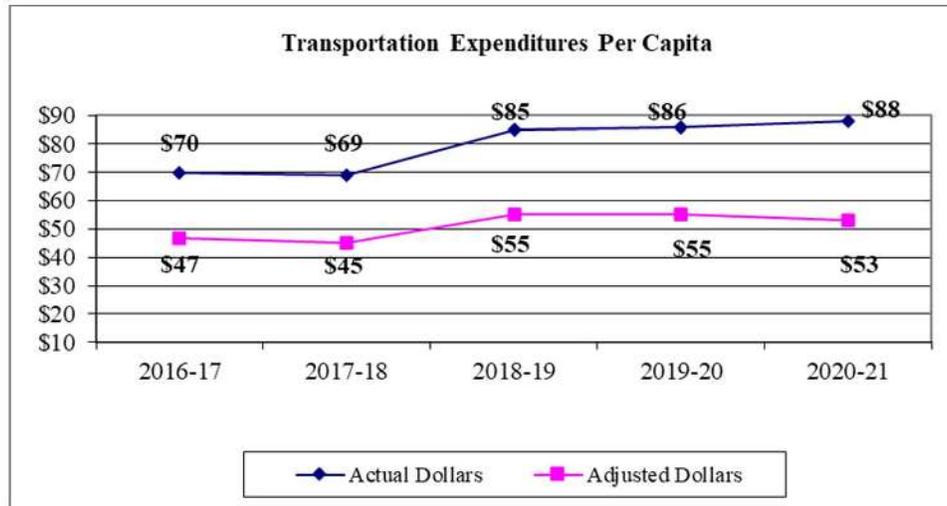
Recreation and Parks Expenditures per Capita



Per capita expenditures adjusted for inflation, have fluctuated over the past 5 years due to the completion of several capital projects and addition of special programs and events.

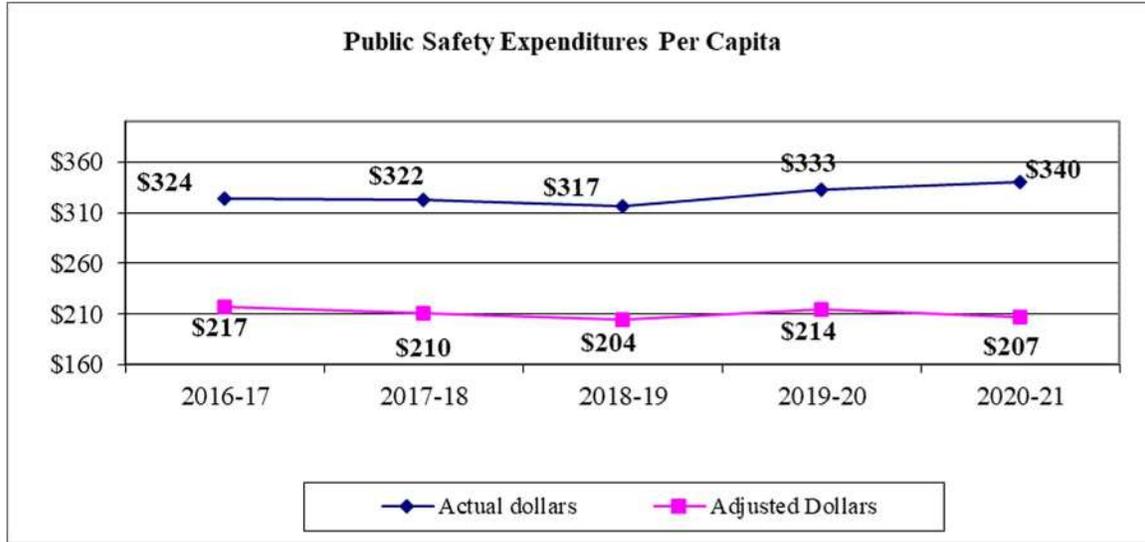
FY 2016-17 per capita decrease is due to the completion of Anderson Park projects. FY 2017-18 remained constant. The increases in FY 2018-19 and FY 2019-20 are primarily due to personnel costs. The decrease in FY 20-21 was related to zero salary adjustments, less programs offered due to the pandemic, and higher than usual inflation rate.

Transportation Expenditures Per Capita



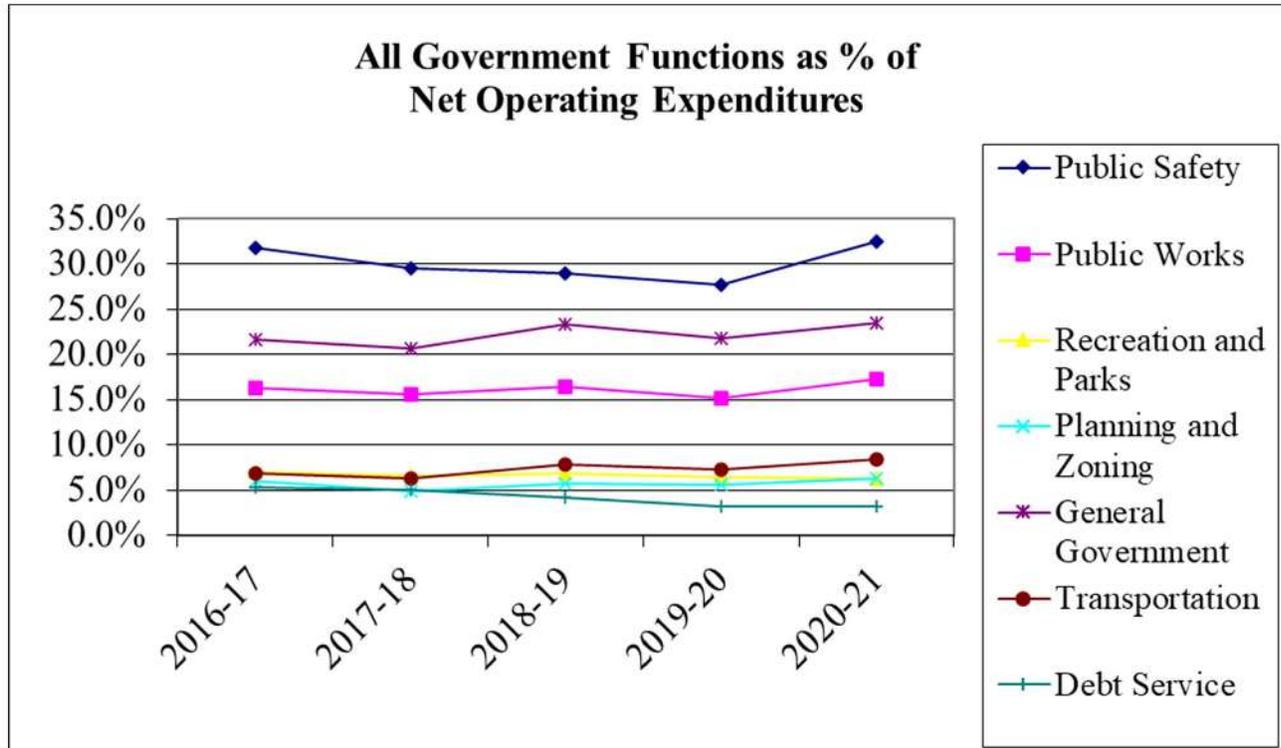
The Town and UNC-Chapel Hill are partners in the transit system administered by the Town of Chapel Hill. The decrease in per capita costs in FY 2016-17 is due to revised calculation of the bus replacements. FY 2017-18 remained at previous year levels because a new contract had not yet been negotiated until FY19, which explains that year’s increase. The increases are primarily due to decreased state and federal pass-through funds that supported the transit, which affected the local match. With a grant and local funds, Shared Ride Feeder services were enabled in areas of Carrboro that do not have regular bus service. Trips are provided between designated bus stops in the “feeder” zones and the nearest bus routes or to another “feeder” service. This service extends largely to the northern areas of town. The increase in FY 2019-20 was the result of a slight increase in the new contract. The decrease in FY 2020-21 was due to a higher than usual inflation rate.

Public Safety Expenditures per Capita



The FY 2016-17 per capita costs increased due to personnel costs. FY 2017-18 figures decreased primarily due to an increase in population. FY 2018-19 decreased because of less capital outlay and unfilled staffing positions. The FY 2019-20 increase was related to personnel costs. The decrease in FY 20-21 was related to zero salary adjustments and higher than usual inflation rate.

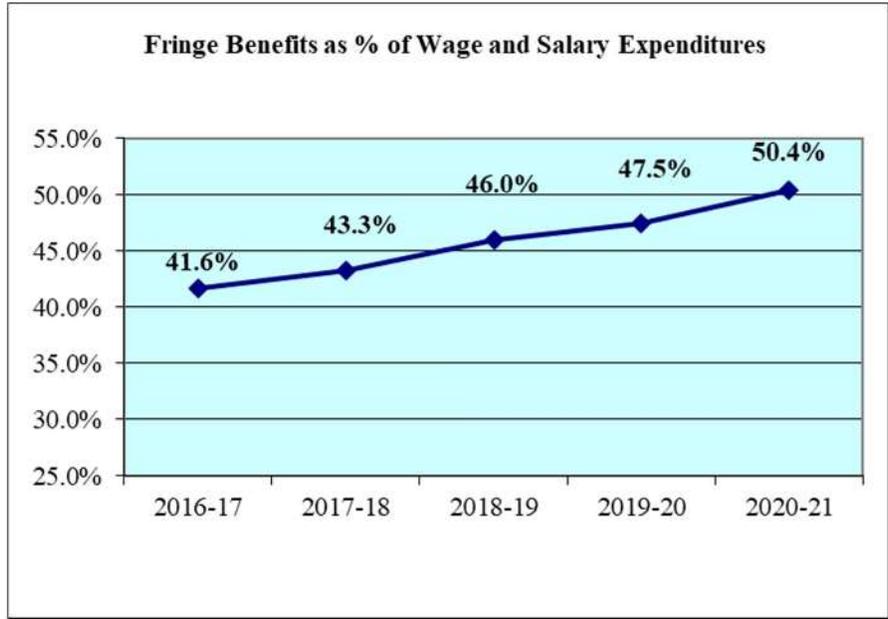
Net Operating Expenditures by Function



The chart above represents the allocation of funding for the various services provided by the Town. Approximately 32 percent of the Town’s spending is dedicated to public safety (fire protection and law enforcement services) and 17 percent is related to public works (street and sidewalk maintenance; solid waste collections; building, grounds, and parks maintenance; and fleet maintenance).

General government, which largely represents council functions (Town Clerk, Mayor and Town Council, nonprofit and advisory boards) and support services (Finance, Technology, Human Resources, and Town Manager), represents approximately 23 percent of total spending. The remainder of the programs (debt service, transportation, planning, recreation programs, and operating transfers) combined represent approximately 28 percent of the net operating expenses.

Fringe Benefits



	2016-17	2017-18	2018-19	2019-20	2020-21
Expenditures for fringe benefits	\$3,379,677	\$3,550,472	\$4,013,773	\$4,443,664	\$4,713,705
Salaries/Wages (FT,PT,OT, Temp)	\$8,115,182	\$8,205,705	\$8,734,764	\$9,363,106	\$9,352,069
Fringe benefits as % of overall wage and salary expenditures	41.6%	43.3%	46.0%	47.5%	50.4%

Warning Trend: Unexplained, uncontrolled, or unanticipated increases in fringe benefit costs may signal a warning trend to credit rating industries.

Formula: Expenditures for Fringe Benefits/Salaries & Wages

Description

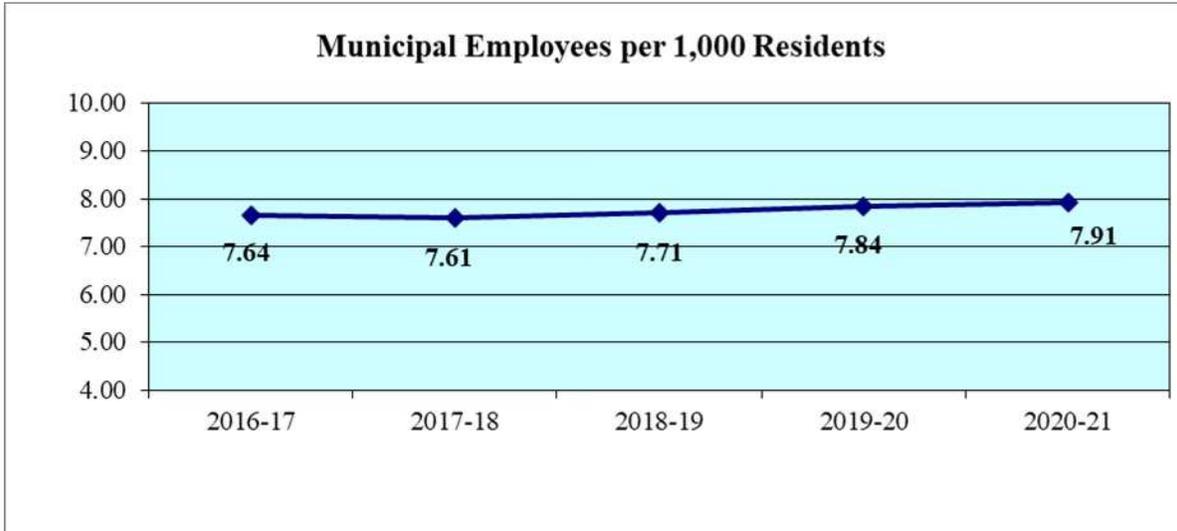
Fringe benefits represent the costs, in addition to salaries and wages, incurred by a jurisdiction to support the personnel it employs. The calculation in this indicator includes FICA payments, health insurance payments, retiree insurance payments, separation allowance payments for retired police officers,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

Discussion

Fringe benefits, as a percentage of the overall wages and salaries paid in Carrboro, have risen from FY16-17 to FY 20-21. The increase in fringe benefits is largely due to double-digit percent increases in health insurance costs for employees and retirees. Other factors include an increase in the number of retirees benefiting from the Town’s insurance coverage subsidy, therefore increasing retiree insurance costs; an increase in retiring police officers who are eligible for a separation

allowance benefit; additional positions in departments, and an increase in the Town’s contribution to the State Retirement Fund.

Municipal Employees per 1,000 Residents



	2016-17	2017-18	2018-19	2019-20	2020-21
Population	20,867	21,099	21,200	21,295	21,295
Number of municipal employees approved	159.5	160.5	163.5	167	168.5

Warning Trend: Increasing number of full-time municipal employees per (1,000) capita.

Formula: Number of Municipal Employees (approved)/Population/1000

Description

Because personnel costs are a major portion of a local government's operating budget, plotting changes in the number of employees per capita (or per thousand residents) is a good way to measure changes in expenditures. An increase in employees per capita might indicate that expenditures are rising faster than revenues that the government is becoming more labor intensive, or that personnel productivity is declining.

Discussion

The number of municipal employees per capita has remained relatively stable over the past five years. The changes in FY 16-17 through FY 20-21 are based on the combination of population and personnel changes.

Work Force Totals - Permanent Full-time Equivalent

Department	FY	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Mayor & Council											
Town Manager		5.0	3.0	3.0	3.0	3.0	4.0	4.0	2.0	1.0	5.0
Economic Development		1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.0	1.0	1.0
Climate Action									1.0	2.0	2.0
Communications										1.5	2.0
Housing & Community Svcs									2.5	3.0	3.0
Town Clerk		1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Finance		6.5	6.5	7.0	6.0	6.0	8.0	8.0	8.0	7.0	7.0
Human Resources		2.0	2.0	2.0	3.0	3.0	2.0	2.0	2.0	3.0	3.0
Information Technology			3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0
Police		41.5	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0
Fire		36.5	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0
Planning		14.0	14.0	13.5	13.5	14.5	14.5	15.5	14.5	14.5	14.5
Public Works		35.0	35.0	35.0	36.0	35.0	35.0	37.0	37.0	35.0	35.0
Recreation, Parks, & Culture		12.5	12.5	13.0	13.0	13.0	13.0	13.5	13.5	13.5	13.5
General Fund Totals		156.0	158.0	158.5	159.5	159.5	161.5	165.0	165.0	166.0	170.5
Stormwater Enterprise						1.0	2.0	2.0	3.5	3.5	3.5
Grand Totals		156.0	158.0	158.5	159.5	160.5	163.5	167.0	168.5	169.5	174.0

Description of Position Changes

FY 12-13 Eliminate 4 frozen positions Maintenance/Construction Worker, Groundskeeper, Police Officer I in Community Services, Police Officer I in Criminal Investigations. Add an Information Technology Support II position and unfreeze Planning/Zoning Specialist position.

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

FY14-15 Convert one part-time position in Police Department and one part-time position Fire Department to full-time. Add Assistant to Town Manager position. Move Information Technology from a division within the Manager's office to a department.

FY15-16 - Two part-time administrative positions (one in Finance; and one in Recreation and Parks) will be converted to full-time. A full-time position in Planning has been converted to a part-time GIS position.

FY16-17 Program Support Assistant II position transferred from Finance to Human Resources as Human Resources Representative. A Capital Projects Manager position was added to Public Works.

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

FY18-19 Added a Communications Manager to Town Manager; an Accounting Tech/Receptionist and Management Specialist to Finance, and a Stormwater Specialist to the Stormwater Utility Fund. Deleted Human Resources Representative in Human Resources.

FY19-20 Add an Associate Planner in Planning; add a Groundskeeper I and an Engineering Technician in Public Works; and change a permanent part-time Program Support Assistant I to a full-time Program Support Assistant II in Recreation and Parks.

FY20-21 Convert Project Manager position (in Town Manager) to Housing & Community Service (HSC) Director. Move Management Assistant (in Town Manager) and PSA2 (in Econ

Dev) to HSC. Move Environmental Sustainability Coordinator (in Planning) to Town Manager. The Planner position in Planning is not funded for FY21. Add a Stormwater Administrator position and a half time Stormwater GIS Technician position to the Stormwater Utility Fund...listed under Public Works in the chart above.

FY21-22 Changes in personnel include creating a Communication & Engagement Department and promoting the Communications Manager to the Communication & Engagement Director and hiring a half time Communication & Engagement Specialist, adding an Environmental Planner to the Climate Action Division, adding an IT Support Engineer to the IT Department, moving the Safety Officer from the Finance Department to the Human Resources Department, and increasing the half time Program Support Assistant II, in the Housing & Community Services Department, to fulltime. In FY21, the Public Works Department completed a reorganization which combined the Streets Division and the Landscaping Division into one Streets and Grounds Division, which eliminated two unfilled positions.

FY22-23 Changes in personnel include adding four positions to the Town Manager's Department including an Assistant Town Manager, an Assistant to the Town Manager, a Chief Race & Equity Officer, and a Race & Equity Manager. In the Communications and Engagement Department, the current part-time position will be changed to a full-time position.

Operating Position Indicators

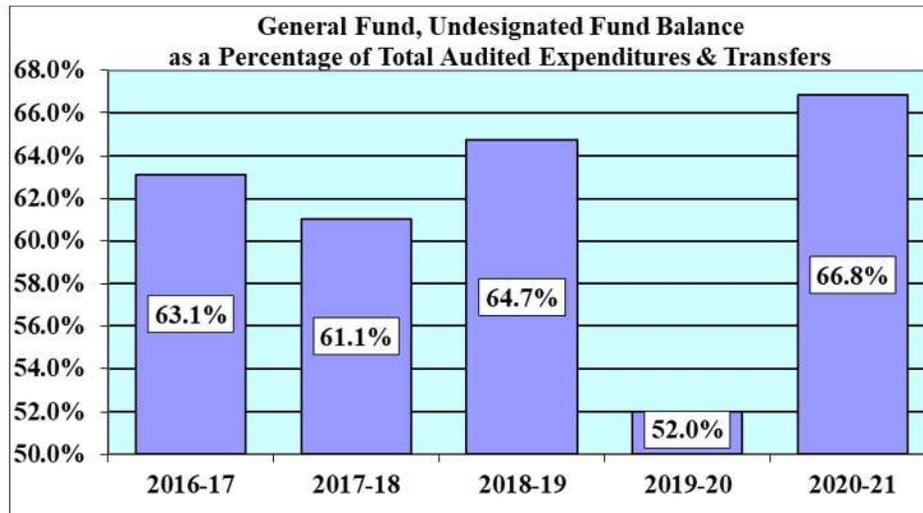
Revenues and Expenditures have a direct impact on a town's operating position. The term "operating position" refers to a local government's ability to: (1) balance its budget on a current basis, (2) maintain reserves for emergencies, and (3) have sufficient liquidity to pay its bills on time. The primary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

Fund Balance

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

The Local Government Commission (LGC) considers the amount of unreserved fund balance to be one of the key indicators of the financial condition of a town. LGC, as part of the process of reviewing audited financial statements each year, calculates the amount of fund balance available for appropriation in the general fund and the amount of reserves in other funds. The LGC has an 8 percent minimum as a guideline for fund balance, but this is not applicable to all governments, especially smaller governments like the Town of Carrboro. The 8 percent ratio is intended to represent 1/12th of a government's operating expenditures. However, 1/12th of a small government's budget is not considered an adequate reserve level due to the sheer small dollar amount that it reflects. The LGC uses, as its guideline for Carrboro, the average unreserved fund balance (commonly referred to as "fund balance available for appropriation (FBAA)" for units with similar populations. If a jurisdiction's unreserved fund balance falls to half of the group average, the LGC will write a letter to alert the Town Council 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, 2020), unreserved fund balance that includes designated and undesignated reserves is at 53.53% in Carrboro.



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 Town Council 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, 2021	
Total assessed valuation at June 30, 2021	\$ 2,474,230,018
Debt limit - eight percent (8%) of assessed value	\$ 197,938,401
Amount of debt applicable to debt limit - Net Bonded Debt	\$ 5,279,585
Legal Debt Margin	\$ 192,658,816

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, 2021, audited valuation is \$192,658,816.

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 (footnote 1). The North Carolina Local Government Commission (LGC) advises that a heavy debt burden may be evidenced by a ratio of General Fund Debt Service to General Fund Expenditures exceeding 15%. The Town will maintain this ratio at or below 12%, considering this to be a moderate level of debt. In the last audited year, the Town shows that debt expenditures are approximately 3.1% of the total expenditures for the year ending June 30, 2021.

Long-Term Debt



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

	2016-17	2017-18	2018-19	2019-20	2020-21
Long-Term Debt	\$6,274,461	\$5,512,730	\$4,688,182	\$3,995,976	\$5,279,585
Property Valuation	\$2,163,259,569	\$2,360,764,978	\$2,389,985,868	\$2,411,084,066	\$2,474,230,018

Warning Trend: Increasing ratio of long-term debt to total property valuation.

Formula: Long-term Debt/Total Property Valuation.

Description

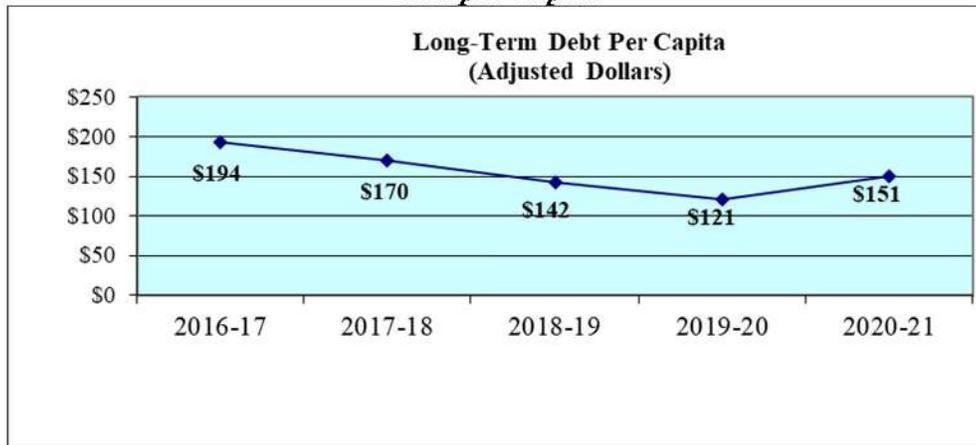
The definition of debt considered by rating agencies is generally limited to bonded debt because this debt is backed by the full faith and credit of the town which is represented by the Town’s property valuation. However, given that all debt by the Town is considered a fixed cost and property taxes are 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

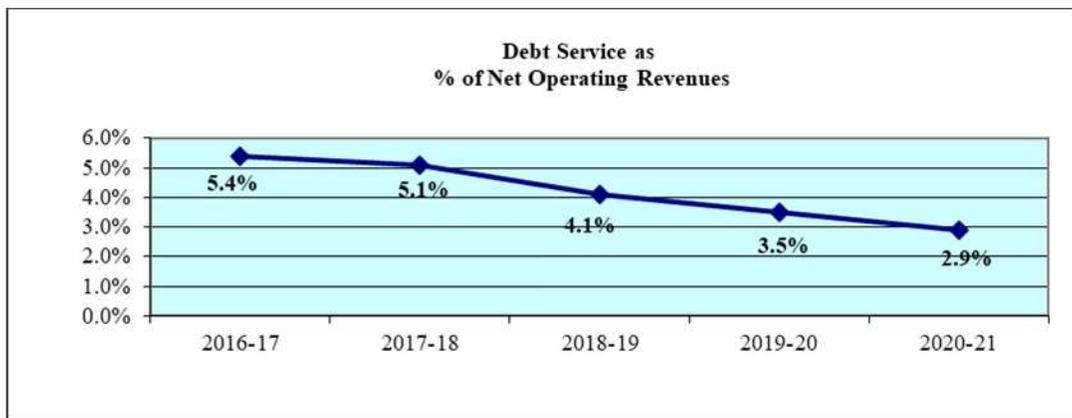
For municipalities comparable to Carrboro (populations ranging from 10,000 to 24,999), the average debt-to-assessed valuation ratio (computed by the Local Government Commission) in FY20-21 was .271 percent; a high level is considered 1.158 percent. The debt-to-assessed valuation ratio for Carrboro in the last audited year was .134 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 FY20-21 was \$297 per capita; \$2,203 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 \$157 per capita. The graph above shows a lower per capita figure that is based on different assumptions than LGC. This figure is adjusted for inflation, relies on actual audited valuation, and does not include authorized but unissued debt. The overall decrease from FY16-17 through FY20-21 is due to lease-purchase of fewer vehicles and equipment and continued principal payments on bonded debt.

Debt Service



	2016-17	2017-18	2018-19	2019-20	2020-21
Debt Service	\$1,136,832	\$1,140,714	\$951,169	\$802,148	\$683,749
Net Operating Revenue	\$21,008,891	\$22,558,145	\$23,415,184	\$23,217,681	\$23,494,020

Warning Trend: Increasing debt service as a percentage of operating revenue.

Formula: Debt Service/Operating Revenue

Description

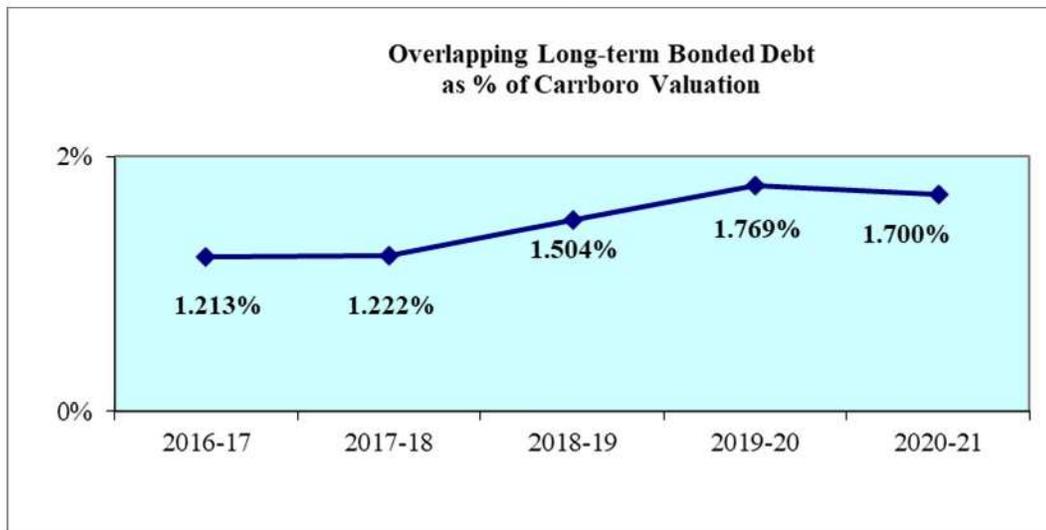
Debt service is defined here as the amount of principal and interest that a local government must pay each year on its long-term debt plus the interest it must pay on short-term debt. Increasing debt service reduces expenditure flexibility by adding to the government's obligations. According to the ICMA, 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.

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

Discussion

The graph shows that debt expenditures are approximately 2.9 percent of net operating revenues in FY20-21. 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



	2016-17	2017-18	2018-19	2019-20	2020-21
Carrboro Debt	\$3,600,000	\$3,350,000	\$3,100,000	\$2,850,000	\$2,600,000
Orange County Debt	\$22,637,920	\$25,505,518	\$32,835,150	\$39,808,275	\$39,466,234
Total Overlapping Debt	\$26,237,920	\$28,855,518	\$35,935,150	\$42,658,275	\$42,066,234

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 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 its governmental and quasi-governmental jurisdictions.

Discussion

The overlapping debt ratio does not present any warning signs. From FY16-17 to FY19-20, the overlapping debt rate for Orange County increased due to an increase in the Orange County total debt. FY20-21 showed a slight decrease as a result of principal payments and less new debt issued.

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. On June 30, 2021, the Town's unassigned fund balance as a percentage of total expenditures and net fund transfers was 52.0%. For the last ten years through FY 2020-21, the Town has been able to maintain service levels without a property tax increase for the General Fund.

Future Trends

The Town makes projections about future costs based on the most recent adopted budget and the Capital Improvements Plan (CIP). This is a tool for reflecting trends rather than actual revenues, expenditures, and tax rates. The five-year plan is designed to show the tax rate impact of town services over the long-term if growth continues at the current rates assumed in the model. The projections contained in the plan are best estimates based upon current information, past trends, and the assumptions outlined within this section.

The model is built with the objective of maintaining undesignated fund balance levels at a minimum of twenty-two and one-half percent (22.5%) of budgeted expenditures. The Town Manager's goal is to keep tax rates at the lowest possible level while continuing to provide a high-quality level of services. The assumptions built into this model are very conservative, projecting slow growth in the revenue base while continuing to fund expenditures at historical levels or higher, creating a budgetary gap that in the model, is filled by anticipated revenue increases.

Revenues

Over the last five years, total revenue has grown by roughly 2% annually. The Town has four sources of recurring revenue: Property Taxes, Local Sales Tax, Other Taxes and Licenses, and Intergovernmental. Property and sales tax revenues are 80% of total revenues. Sales tax revenues in FY20 were down considerably due to the national health emergency and related downturn in the nation's economy, however, the FY21 sales tax revenues were nearly \$700K higher than FY20 as we returned to pre-pandemic sales. We anticipate a 3% growth rate going forward. Fortunately, because of the Town's proximity to Research Triangle Park, UNC-Chapel Hill, and UNC Hospitals, the Town has maintained a steady flow of economic activities.

In addition to property and sales tax revenues, the Town includes projections for certain intergovernmental revenues collected by the state that are distributed to local governments based upon a formula. These intergovernmental revenues include sales tax on electricity, natural piped gas, telecommunications sales tax, and beer and wine sales. The Town occasionally receives grant funding for specific projects or programs.

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. The Town's unassigned fund balance exceeds this range, as noted earlier. This reflects a healthy fund balance level above the established policy that may provide options to offset some of the capital costs in future years.

Below is a summary of projected property tax rates and general fund revenues through fiscal year ending June 30, 2027.

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
General Fund	Adopted Budget	Adopted Budget	Projected			
Property Tax Revenues						
Property Valuation	2,710,159,530	2,717,302,115	2,771,648,157	2,827,081,120	2,883,622,742	2,941,295,197
Tax Collection Rate	96.4%	95.2%	95.2%	95.2%	95.2%	95.2%
Collectible Tax Base	2,612,466,508	2,587,095,676	2,638,609,045	2,691,381,226	2,745,208,850	2,800,113,028
Tax Base per \$100 Levy	26,124,665	25,870,957	26,386,090	26,913,812	27,452,089	28,001,130
Ad Valorem Revenue Est.	15,397,878	15,248,342	15,551,961	15,863,001	16,180,261	16,503,866
Tax Levy per Penny	261,247	258,710	263,861	269,138	274,521	280,011
Tax Rate	0.5894	0.5894	0.5894	0.5894	0.5894	0.5894
Current Levy - Ad Valorem	13,969,675	15,248,000	15,551,961	15,863,001	16,180,261	16,503,866
Prior Year Ad Valorem Tax	65,000	60,000	61,200	62,424	63,672	64,945
Penalty/Interest Revenue	28,500	32,000	32,640	33,293	33,959	34,638
Total Ad Valorem Revenues	14,063,175	15,340,000	15,645,801	15,958,718	16,277,892	16,603,449

Note: The above property tax rate does not include the amount devoted to Affordable Housing Fund...see related chart on the following pages. Property tax valuation assumes growth of 2% per year after FY22, which was a revaluation year for property assessed values.

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
General Fund	Adopted Budget	Adopted Budget	Projected			
Revenues						
Ad Valorem Tax	14,063,175	15,340,000	15,645,801	15,958,718	16,277,892	16,603,449
Local Sales Tax	4,895,670	5,419,200	5,581,776	5,749,229	5,921,706	6,099,357
Other Taxes/licenses	1,457,589	1,652,822	1,685,878	1,719,596	1,753,988	1,789,068
Unrestricted Intergovernmental	1,413,000	1,351,000	1,364,510	1,378,155	1,391,937	1,405,856
Restricted Intergovernmental	625,398	159,298	160,891	162,500	164,125	165,766
Fees and Permits	1,239,160	1,299,813	1,325,809	1,352,325	1,379,372	1,406,959
Sales and Services	171,819	184,700	188,394	192,162	196,005	199,925
Investment Earnings	40,000	15,000	15,150	15,302	15,455	15,610
Other Revenues	252,270	261,120	263,731	266,368	269,032	271,722
Fund Balance Appropriated	1,189,720	1,984,722	3,619,549	4,336,333	5,100,526	5,989,332
General Fund Total Revenues	25,347,801	27,667,675	29,851,489	31,130,688	32,470,038	33,947,044

Assumptions used in revenue projections are as follows:

Ad Valorem Tax Base	2% per year thereafter
Local Sales Tax	3% per year
Other Taxes and Licenses	2% per year
Unrestricted Intergovernmental	1% per year
Restricted Intergovernmental	1% per year
Fees and Permits	2% per year
Sales and Services	2% per year
Interest Earnings/Other Revenue	1% per year
Fund Balance Appropriation	Per balanced budget 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 FY22 the Town had budgeted 169.5 full-time equivalent positions, and that total will increase to 174.0 for FY23. The assumptions within the plan assume an average 2.5% 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.

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
General Fund	Adopted	Adopted	Projected			
<i>Expenditures</i>	Budget	Budget				
Salary and Wages	10,196,006	12,085,318	12,387,451	12,697,137	13,014,565	13,339,929
Fringe Benefits	4,977,941	4,791,336	5,270,470	5,797,517	6,377,269	7,014,996
Total Personnel Costs	15,173,947	16,876,654	17,657,921	18,494,654	19,391,834	20,354,925
Operating Costs:						
General Operating Costs	5,786,396	6,087,664	6,270,294	6,458,403	6,652,155	6,851,720
Human Services Grant	274,000	274,000	274,000	274,000	274,000	274,000
Carrboro Tourism Dev Authority *	-	155,200	158,304	161,470	164,699	167,993
Landfill Fees	360,000	335,000	345,050	355,402	366,064	377,046
Transportation Costs	2,011,768	2,108,180	2,213,589	2,324,268	2,440,481	2,562,505
Debt Service	876,790	1,368,217	2,089,171	2,219,331	2,337,645	2,515,695
Transfers to Other Funds	290,300	143,160	143,160	143,160	143,160	143,160
Transfers to Capital Funds	385,200	-	500,000	500,000	500,000	500,000
Total Operating Costs	9,984,454	10,471,421	11,993,568	12,436,034	12,878,204	13,392,119
Capital Outlay	189,400	319,600	200,000	200,000	200,000	200,000
Total Expenditures	25,347,801	27,667,675	29,851,489	31,130,688	32,470,038	33,947,044

* Change in accounting procedure in FY22

The expenditure assumptions are:

- Salary and Wages *2.5% per year & increase FTEs to 174.0 in FY23*
- Fringe Benefits *10% increase per year*
- General Operating Costs *3% per year*
- Human Services *0% per year*
- Other Governance Support *2% per year*
- Landfill Fees *3% per year*
- Transportation Costs *5% per year*
- Debt Service *Based on Debt Service projections-see following pages*
- Transfer to Parking Fund *Funding transfer for parking related expenditures*
- Transfers to Other Funds *Funding transfer to Capital Projects Fund for street re-surfacing.*

Affordable Housing Fund

Below is a summary of projected property tax rates, revenue sources and expenditures through fiscal year ending June 30, 2027.

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Affordable Housing Fund	Adopted	Adopted	Projected			
Property Tax Revenues	Budget	Budget				
Property Valuation	2,710,159,530	2,717,302,115	2,771,648,157	2,827,081,120	2,883,622,742	2,941,295,197
Tax Collection Rate	96.4%	95.2%	95.2%	95.2%	95.2%	95.2%
Collectible Tax Base	2,612,466,508	2,587,095,676	2,638,609,045	2,691,381,226	2,745,208,850	2,800,113,028
Tax Base per \$100 Levy	26,124,665	25,870,957	26,386,090	26,913,812	27,452,089	28,001,130
Ad Valorem Revenue Est.	391,870	388,064	395,791	403,707	411,781	420,017
Tax Levy per Penny	261,247	258,710	263,861	269,138	274,521	280,011
Tax Rate	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150
Current Levy - Ad Valorem	338,000	380,000	395,791	403,707	411,781	420,017
Prior Year Ad Valorem Tax	400	180	182	184	186	188
Penalty/Interest Revenue	50	-	-	-	-	-
Investment Earnings	75	50	50	50	50	50
Investment Earnings	-	188,193	-	-	-	-
Total Ad Valorem Revenues	338,525	568,423	396,023	403,941	412,017	420,255
Total Operating Costs	338,525	568,423	396,023	403,941	412,017	420,255

The above chart assumes: Tax Base Growth of 2% per year

Capital Investments

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

Summary of Capital Improvements Plan FY 2022-23 through FY 2026-27

	Previous						FY23-FY27	Project
	Appropriations	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Total	Total
Expenses								
Planning/Design	5,157,546	547,879	930,700	270,000	445,820	82,400	2,276,799	7,434,345
Construction	28,405,921	2,333,800	2,415,141	6,119,300	5,508,010	7,215,200	23,591,451	51,997,372
Land/ROW	726,395	44,809	102,000	56,000	43,000	-	245,809	972,204
Equipment/Furnishings	-	3,303,850	824,000	882,000	2,129,500	753,000	7,892,350	7,892,350
Total Expenditures	\$ 34,289,862	\$ 6,230,338	\$ 4,271,841	\$ 7,327,300	\$ 8,126,330	\$ 8,050,600	\$34,006,409	\$68,296,271
Funding Sources								
Intergovernmental Funds	18,963,424	2,424,398	1,937,311	1,029,000	634,000	2,078,000	8,102,709	27,066,133
General Fund	257,000	2,691,125	660,500	478,300	578,830	349,600	4,758,355	5,015,355
Capital Project Fund	1,990,395	-	-	-	-	-	-	1,990,395
Storm Water Fund	-	40,000	65,000	195,000	250,000	-	550,000	550,000
GO Bonds	326,866	-	-	-	-	-	-	326,866
Installment Financing	12,000,000	815,000	1,324,000	5,482,000	6,654,500	5,453,000	19,728,500	31,728,500
Matching Funds	-	175,815	135,030	134,000	9,000	-	453,845	453,845
Other *	752,177	84,000	150,000	9,000	-	170,000	413,000	1,165,177
Total Funding	\$ 34,289,862	\$ 6,230,338	\$ 4,271,841	\$ 7,327,300	\$ 8,126,330	\$ 8,050,600	\$34,006,409	\$68,296,271
* Includes Orange Cnty Transit Tax of:	752,177	34,000	150,000	9,000		170,000	363,000	1,115,177

The Capital Improvements Plan (CIP) for FY23 through FY27 includes several new projects related to facility improvements and stormwater retrofits. The Town currently has 14 capital projects underway totaling \$34.3 million. The largest project is the 203 S. Greensboro Street project, a joint endeavor between the Town and Orange County, to develop a facility to house the Orange County Southern Branch Library, administrative offices for the Town, and other possible uses. The County’s expected share of the project is approximately 56%, and the Town anticipates debt financing of \$12 million. Over the next five years, the Town will need funds to undertake the following projects.

- Stormwater improvements: \$765 thousand
- Park Improvements: \$872 thousand
- Street Resurfacing: \$2.0 million
- Vehicles and Equipment: \$4.6 million
- Town Facility Improvements: \$16.6 million
- Infrastructure Projects (e.g., sidewalks, bike ways, etc.): \$6.7 million

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

Past CIPs anticipated increased pressure on the tax rate when the Town issued the \$4.6 million general obligation bonds for construction of sidewalks and greenways in 2013. However, after evaluating its debt portfolio, the Town elected to pay off some old debt before maturity that had interest rates higher than the current market. This allowed the Town to maintain a level rate of debt service. The only major debt over the next three to five years is expected to be financing for the 203 S. Greensboro Project and the facility improvement projects.

The Town historically has not carried a significant amount of debt. Below is a summary of the Town’s current and future debt service projected through FY 2026-27.

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
<i>Debt Service</i>	Adopted Budget	Adopted Budget	Projected			
Sidewalk & Greenways GO Bonds	312,500	307,500	302,500	296,875	291,250	285,625
Fire Substation	234,905	229,294	223,682	109,736		
203 Project	-	286,716	954,813	938,488	922,163	905,838
Vehicle and Equipment	329,385	544,707	544,707	544,707	544,707	544,707
Current Debt Service	876,790	1,368,217	2,025,702	1,889,806	1,758,120	1,736,170
Future Vehicle & Equipment Debt			63,469	329,525	579,525	779,525
Total Current & Future Debt	876,790	1,368,217	2,089,171	2,219,331	2,337,645	2,515,695

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