

# ABOUT THE TOWN OF CARRBORO

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The Town of Carrboro is a small local government entity overseen by a Mayor and Board of Aldermen and professionally managed by a Town Manager. The Town is a growing community located within Orange County in the north central portion of North Carolina. The area's topography is characterized by rolling hills. The Town, which was incorporated in 1911, has a population of 19,905 and is situated next to Chapel Hill, the University of North Carolina and is near the Research Triangle Park.

The growth of the Town is directly related to the expansion of the University of North Carolina at Chapel Hill and growth in the Research Triangle Park. Enrollment at the University has risen from 29,137 in 2011 to 29,279 in 2012.

## DEMOGRAPHICS

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 2007 to 2011 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

The Carrboro added 323 people in 2012, which is approximately a 1.6 percent increase from 2011. These residents constitute 14.4 percent of the Orange County population.

## ETHNIC COMPOSITION

The chart below shows the changes in ethnic composition since 2010. The groups that have seen the most change is the Other population (decreased 41.6%) and the American Indian and Alaska Native population which saw a decrease of 55.5%.

<b>Ethnic Composition of Carrboro</b>			
<b>Race</b>	<b>2010</b>	<b>2012</b>	<b>Percent Change</b>
Other (two or more races)	1,518	887	-41.6%
Asian	1,225	1,690	38.0%
American Indian and Alaska Native	189	84	-55.6%
Black or African American	1,949	2,203	13.0%
White	10,217	11,852	16.0%
Hispanic or Latino	2,485	3,189	28.3%

## AGE COMPOSITION

The combined age groups of the years 20 to 54 continue to make up more than 63 percent of Carrboro's total population. The age group of 20 to 24 decreased 23 percent, an indication of a decline of the proportion of undergraduate students living in Carrboro. The school age population (age 10 to 19) decreased 48%. The biggest increases took place in the age groups of 55 to 59 and 85 and over. The largest age group in Carrboro continues to be the 25 to 34 age group, at 24 percent of the population.

Age	Number	% of Population	% Change
Under 5 Years	1,491	7.7	20%
5 to 9 Years	1,265	6.5	34%
10 to 14 Years	1,011	5.2	-17%
15 to 19 Years	761	3.9	-31%
20 to 24 Years	2,233	11.5	-23%
25 to 34 Years	4,642	24.0	36%
35 to 44 Years	2,782	14.4	8%
45 to 54 Years	2,633	13.6	10%
55-59 Years	1,295	6.7	55%
60 to 64 Years	444	2.3	22%
65 to 74 Years	264	1.4	-13%
75 to 84 Years	370	1.9	-19%
85 Years and Over	176	0.9	41%
Source: U. S. Census Bureau 2007-2011 American Community Survey			

## HOUSING

Carrboro continues to be mostly a community consisting of rental units as 64 percent of the housing stock is renter occupied. Owner occupied housing is 36 percent of occupied housing units. The total housing stock of 9,418 housing units had a vacancy rate of 5.7 percent. Of the total housing units, 42 percent was in single-unit structures, 56 percent was in multi-unit structures, and 2 percent was mobile homes. Eleven percent of the housing units were built since 2000.

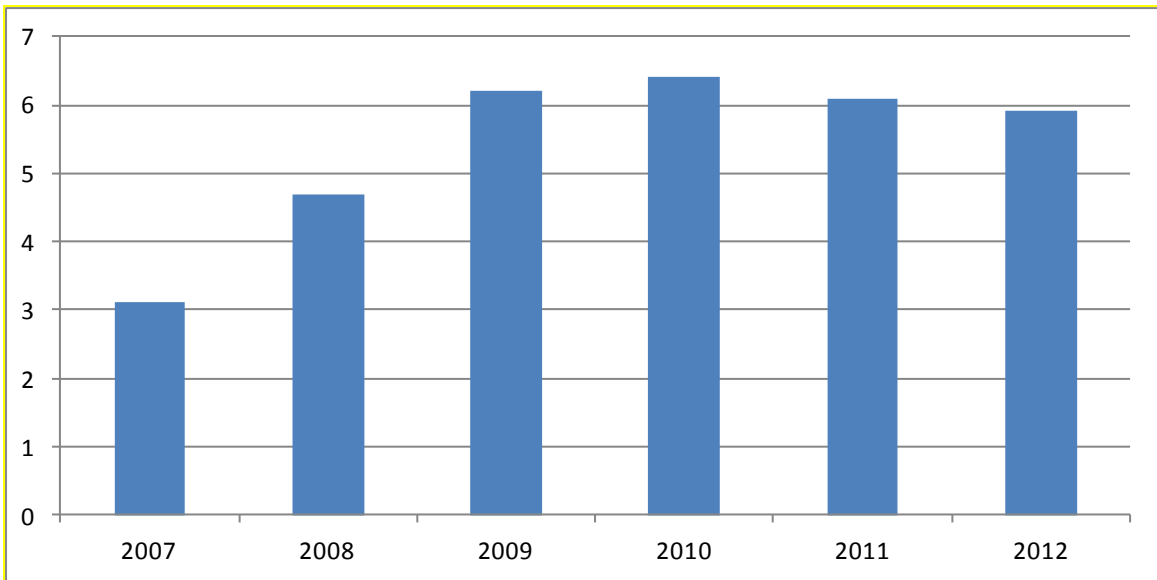
The median value of a housing unit in Carrboro in 2007-2011 was \$345,700. This is up from \$307,600 in 2010, a 12 percent increase.

## INCOME

The 2007-2011 median household income is \$43,276. Thirty-one percent of the households earn less than \$25,000 a year. Twenty- six percent of the households make between \$25,000 and \$50,000 a year, while 43 percent of households make more than \$50,000 a year.

## EMPLOYMENT

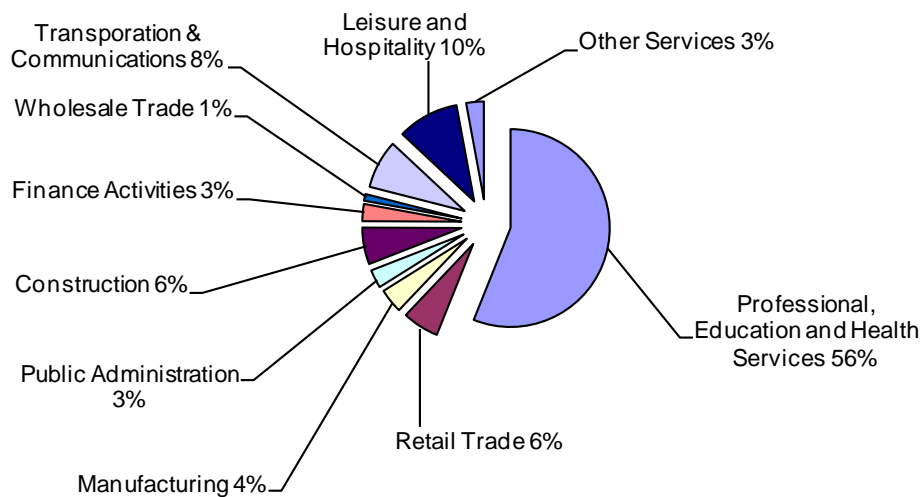
Employment levels in Carrboro reflect national and statewide trends with an increase in the unemployment rate from 6.5% in 2010 to 5.9 % in 2012. The unemployment rate for Orange County was 3.1 % in 2007 and due to the current national economic condition has climbed to 5.9% as of December 2012, which is well below the state unemployment rate of 9.4%.



The major employers within Orange County (those with 450 or more employees) reflect the dominance of the professional services and retail sectors.

Employer	# of Employees
University of North Carolina at Chapel Hill	16,220
UNC Health Care System	7,960
Blue Cross/Blue Shield of NC	1,240
Chapel Hill-Carrboro City Schools	2,140
Orange County Schools	1,160
Orange County Government	850
Town of Chapel Hill	910
Sports Endeavors	680
Harris Teeter	490

### Employment by Sector, 2011



Source: Orange County Economic Development Commission

## **Key Intergovernmental Relationships**

The Town of Carrboro has many relationships with surrounding communities and with other 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
- Is the conduit for transportation improvement funds used to maintain roads
- Collects and distributes certain taxes 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 Board
- Maintains fire hydrants used by the Carrboro Fire Department

### *Orange County*

- Provides mutual aid agreement for police services
- Provides landfill and recycling services to Carrboro
- Appoints two members to OWASA board of directors
- 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 board 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
- Assists with funding of joint capital projects including recent purchase of Adams Tract for open space preservation
- 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 and 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
- Appoints two members to the Orange County Solid Waste Advisory Board, two members to the Orange Water and Sewer Authority (OWASA) board of directors.
- Has a mutual aid agreement 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, i.e., protective gear and hose tester in the Fire Department; special events staffing
- Program cooperative recreational and educational ventures with Chapel Hill

#### *Town of Hillsborough*

- Provides mutual aid agreement for fire and police protection
- Appoints two members of the Orange County Solid Waste Advisory Board

#### *Chapel Hill-Carrboro School System*

- Engages in joint use agreements for use of some recreation facilities
- Uses town services to provide school resource officer

## GOVERNMENTAL STRUCTURE

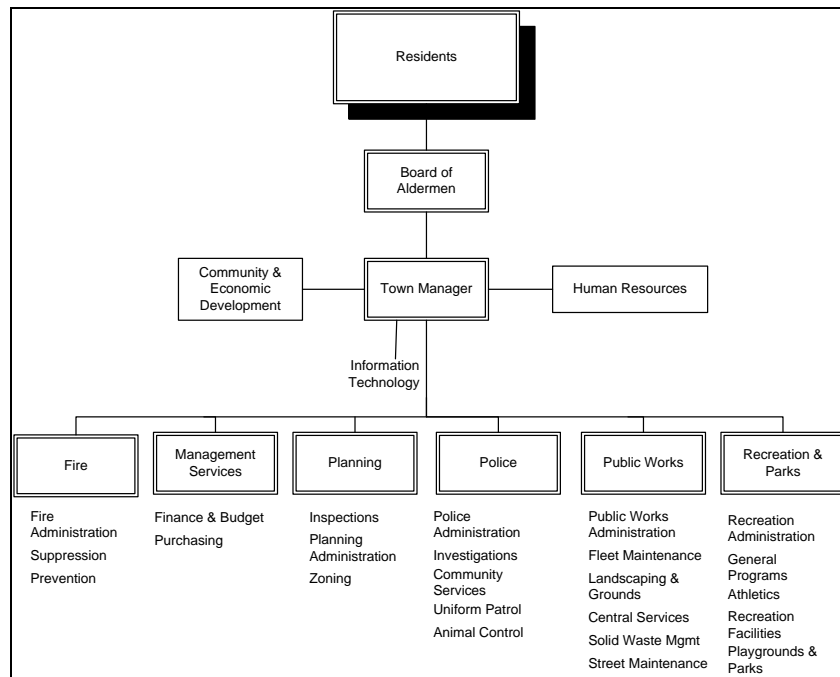
The Town of Carrboro has a council/manager form of municipal government. Under the council/manager form of government, the Board of Aldermen performs the legislative functions of the town: establishing laws and policies. The Board of Aldermen is an elected body representing the residents of Carrboro.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

The Board also appoints a manager who carries out the laws and policies enacted by the board. The Town Manager is responsible for managing the town's employees, finances, and resources. The Town has 162 full-time and part-time employees with 8 departments reporting to the Town Manager (see chart below). The Board of Aldermen also appoints a Town Clerk to maintain important town records, and an attorney, who represents the town administration and board in all legal matters.

Local governments in North Carolina exist to provide a wide range of basic services on which we all depend: 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 of 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 (personnel, technology, finance, budget, purchasing, town clerk, 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 several other smaller funds primarily for capital reserves or for capital projects.

The budget for the town is largely supported by property taxes. The Town, facing growth in the Northern Transition Area, envisions the potential increase in the town's population to 24,000. In



addition, the Town, in an effort to reduce the tax burden on residents, is exploring ways to increase its commercial tax base (~11%) as a percentage of its tax base.

**BOARD PRIORITIES**

The Board of Aldermen annually reviews and defines 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 Board’s decisions ultimately affect the resource allocations for Town services and approved with the annual budget ordinance allocating expenditures and revenues for July 1 through June 30 of each year.

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

**Budget Calendar**

FY 2013-14 Budget Kick-Off and Budget Manual Distribution	Thursday, January 31, 2013
FY 2012-13 Mid-Year Status Report and Board Input for FY 2013-14 Budget	Tuesday, February 12, 2013
Public Hearing to Receive Community Input on FY 2013-14 Budget	Tuesday, February 19, 2013
Requested Budget from Departments Due	Thursday, February 21, 2013
Preliminary Budget Compiled (Management Services)	Week of February 22 - 28, 2013
Manager Meets with Department Heads on Requested Budget	Week of March 4 - 8, 2013
Manager's Recommended Budget Compiled (Management Services)	Week of March 11-15, 2013
Review of Recommended Budget by Manager	Week of March 18-29, 2013
Revisions to Recommended Budget (Management Services)	Week of April 1-5, 2013
Manager Meets One-On-One with Board of Aldermen	Week of April 22-26, 2013
Manager Submits FY2013-14 Recommended Budget to Board	Tuesday, May 07, 2013
First Budget Work Session - Board	Tuesday, May 14, 2013
Public Hearing on Recommended Budget	Tuesday, May 21, 2013
Second Budget Work Session (if needed) - Board	Tuesday, June 04, 2013
Board Adopts FY 2013-14 Budget	Tuesday, June 18, 2013

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 Board 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 defined as “proposed changes” and are budgeted in a separate column and are categorized in a manner such that the Board 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 Board’s adopted goals as well as individual departmental goals and objectives.

Also driving the services and budget process provided by the town are the strategic priorities and financial policies adopted by the Board. These financial policies address revenues, cash management, expenditures, debt and risk management, capital needs, and budgeting and management.

The current Board 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 citizen 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 more effectively manage current level of public transportation service 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 citizens 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 citizens 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)*

#### **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 for the adequate funding of the service delivery to the public and the maintenance of public facilities. These financial management policies adopted by the Board are designed to ensure the fiscal stability of the Town and guide the development and administration of the annual operating and capital budgets. Except for the revision of the fund balance policy on April 5, 2011 to comply with Governmental Accounting Standards Board Statement 54 (GASB 54), *Fund Balance Reporting and Government Fund Type Definitions*, no major changes have been made in the Town's Financial Policies.

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 Board of Aldermen 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 Board of Aldermen 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 Board of Aldermen 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 charges shall be reviewed annually. Town departments that generate a significant amount of user fee revenue regularly monitor their fees by comparing them to other local area jurisdictions. Fees shall be adjusted where appropriate to reflect these increases.

Engineering Fees represent an exception to user fees whereby applicants are responsible for paying 80% of fees assessed by the Town's engineers. The engineers, who perform under a contractual agreement with the Town, bill the Town and the Town, in turn, sends a bill to the applicant for all such fees.

The Recreation and Parks 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 Board of Aldermen approves the upcoming fiscal year budget. The fee shall be established by dividing the annual appropriation for the Recreation and Parks Department by the number of town residents. This will provide for a per capita cost for recreation services. An average of two activities per year in the Athletic Program and three activities per year in the General program area has been determined.

Therefore, the per activity fee shall be established for those persons not residing nor owning property in Orange County by dividing the annual out-of-county fee by two or three in the Athletic and General Program areas, respectively. An exception to this policy will be in those programs where fees are based on recovering 100% of direct costs.

### ***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. Revenue is deposited in 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 not needed to support such specific program or service expenses shall revert back 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 54. The Town will maintain an unassigned fund balance in the general fund at a level ranging from 22.5% to 35% 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%, 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%; 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 Board of Aldermen 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 Board, 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 expenditure is 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 Board of

Aldermen no later than June 1st, that the Board hold a public hearing on the budget, and that the Board 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 Board’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 Board of Aldermen 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 required statutory public hearing, the Board generally holds a public hearing at the beginning of the budget development process to get input from the citizens. The entire budget document shall be available at the Town Clerk’s Office and the Town’s website for review.

### ***General Fund Budgeting***

The basic format of the budget shall identify 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 Board. 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 Board of Aldermen.

Transfers between funds and transfers from the non-fuel contingency account may be authorized only by the Board of Aldermen. Appropriation of non-fuel contingency funds shall be exclusively for government operations. All other transfers may be approved by the Town Manager.

In instances where specific activities or purchases are authorized by the Board of Aldermen in a certain fiscal year and remain incomplete and thus, unexpended, fund balance may be carried forward, at Board of Aldermen's discretion, into the next fiscal year to support such activities or purchases.

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, Affordable Housing Fund, Revolving Loan Fund, and Energy Efficiency Revolving Loan Fund. Special Funds shall be created when legally required, requested by the Board of Aldermen, 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 Board of Aldermen 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 Board of Aldermen.

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, it is recommended that departments 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, as long as the scope of the project is substantially the same and total funding for the project will not increase as a result of the transfer.

Transfer requests are prepared and signed by the department head of the requesting department and submitted to Management Services 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. Management Services 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 board approval. This process ensures transparency and keeps the Board 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 budget should provide sufficient funds for the regular repair and maintenance of all town capital assets. The budget should not be balanced by deferring these expenditures.

The budget shall incorporate tenets of the Technology Plan that recognize the importance and necessity of maintaining and updating the installed technological infrastructure. It is strongly suggested that end-user workstations are to be replaced on a five year cycle, servers to be replaced on a three 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. It is noted that replacement of infrastructure with the latest technology, rather than applying major upgrades to existing infrastructure, is often the most cost effective path.

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. The Public Works Department utilizes a booklet containing replacement criteria (includes criteria such as age and usage) for recommending replacement. It should be noted that 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, resale value, standardization of fleet, or change of operation.

All vehicles and capital equipment identified in the capital improvements plan that exceeds \$25,000 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 particular community needs.



### ***Capital Improvement Program***

The Town Manager shall develop and maintain a projection of capital improvement projects (Capital Improvement Program) for the next six years based on the previous capital improvement plans, community needs assessments, and projects approved by the Board of Aldermen. The Capital Improvement Program (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 \$25,000, or is a vehicle, and 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 \$15,000. Each fiscal year, the Town Manager will update the CIP to include current information for review by the Board of Aldermen. The CIP plan is incorporated into the annual operating budget request process. 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 budget by the board upon adoption of the budget.

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 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 Board of Aldermen.

## **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 Board, 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 as long as 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 AA+; and, Moody's Aa2. 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 bonds no more frequently than once in any fiscal year. The scheduling of bond sales and installment purchase decisions and the amount of bonds to be sold and installment financing to be sought will be determined each year by the Board of Aldermen. These decisions will be based upon the identified cash flow requirements for each project financed, market conditions, and other relevant factors.

If cash needs for bond projects are insignificant in any given year, the Board may choose not to issue bonds. Instead, the Board may fund upfront project costs and reimburse these costs when bonds are sold. In these situations, the Board 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 Local Government Commission. 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 six-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 Board of Aldermen.

Any capital item that has not been included in the CIP or recurring lease-purchase schedule 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 administered in accordance with the Local Government Budget and Fiscal Control Act (North Carolina General Statutes Section 159). These statutes require that the Board of Aldermen 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 Board by June 1 of each year, and the Board must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain community comments of the proposed budget before the Board 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, and for the Capital Reserve Fund, and the Payment-in-Lieu Fund (Special Revenue Fund types) as needed. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the remaining Special Revenue Funds, and the 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.

<b>Fund Type</b>	<b>Fund Category</b>	<b>Basis of Accounting</b>	<b>Budgetary Accounting</b>
General Fund Group	Governmental	Modified Accrual	Modified Accrual
Special Revenue	Governmental	Modified Accrual	Modified Accrual
Capital Projects	Governmental	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.

Expenditure functions are primarily budgeted at the departmental level and include: Mayor and Board of Aldermen, Advisory Boards, Governance Support, Town Manager, Economic and Community Development, Town Clerk, Management Services, Personnel, Police, Fire, Planning, Transportation, Public Works, Parks and Recreation, Non-departmental, and Debt Service.

The Board of Aldermen 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 Board of Aldermen must approve all transfers between funds, transfers from non-fuel contingency, and amendments to capital project ordinances.

The Town Manager can transfer between departments and functions within the General Fund without further action by the Board. In addition, all operating funds encumbered or designated within fund balance for project expenditures as confirmed in the annual June 30 audit of the previous year shall be re-appropriated to the Fiscal Year 2012-13 without further action by the Board. All other types of amendments within the General Fund must be approved by the Board (i.e., approving revenues and expenditures associated with a grant, transferring operating funds from one function to another that is not related to pay adjustments).

Capital project ordinances are approved at the project level. The Town Manager may approve line item transfers within a project as long as 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: salaries, 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 \$500 with exception of purchases obtained via procurement card or purchases specifically exempted by the Town's purchasing policy. Purchase requisitions under \$500 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 GASB34, 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 Board in conjunction with the budget lists authorized permanent positions.

## **FINANCIAL FUND STRUCTURE**

The accounts of the Town are organized on the basis of 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 General Governmental Funds and are grouped into three generic fund types as described below.

### **General 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, Energy Efficiency Revolving Loan Fund, Affordable Housing Fund and the Grant Administration Fund.

***Capital Projects Fund*** – The Capital Projects Fund is used to account for financial resources dedicated to the acquisition or construction of capital facilities and equipment. Include in the Capital Projects Fund are: Capital Reserve Fund, Capital Projects Fund, Capital Reserve Fund and Payment-in-Lieu Fund.