FINANCIAL TRENDS
PAST, PRESENT AND FUTURE

The Town monitors its financial condition in various ways, from forecasting future revenue and expenditure trends to aggregating financial information into ratios that provide meaningful data about the Town's fiscal health. The Town is considered to be on solid economic footing. The Town currently holds a credit rating of A+ with Standard and Poor's and a grade of 83 with the North Carolina Municipal Council. These are considered very favorable ratings, particularly for municipalities similar to Carrboro.

The Town's financial condition through the last audited year is evaluated using methodology recommended by the International City/County Management Association (ICMA). This analysis, formally known as FTMS (Financial Trends Monitoring System), offers governments a systematic way to monitor changes and to anticipate future problems.

The town also projects future financial activity based on the most current budget. In forecasting the future, the five-year plan is designed to show the tax rate impact of town services over the long-term if growth continues at the current rates assumed in the model. The five-year plan provides information about underlying trends in the Town's fiscal position and budgetary trends monitoring key revenue and expenditures, debt and debt ratios, and the impact of capital investments and improvements on the Town's budget. It is best 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 authors. These benchmarks are identified for each indicator, where relevant, within the report. When analyzing financial conditions, we are attempting to:

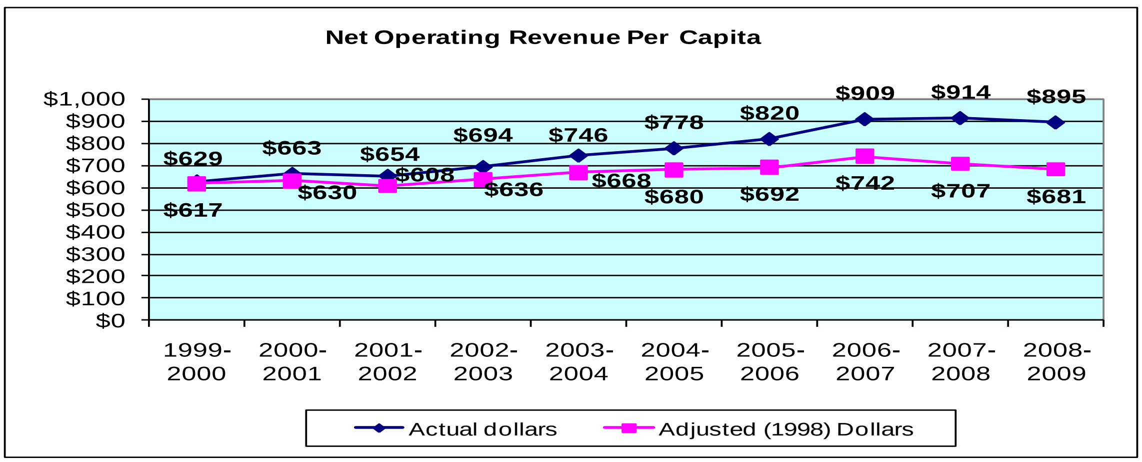
- ✰ Maintain existing service levels,
- ✰ Withstand local and regional economic disruption,
- ✰ Meet demands of natural growth, decline, and change,
- ✰ Maintain facilities to protect investment and keep in usable condition,
- ✰ Meet future obligations (debt, leases, etc), and
- ✰ Take advantage of cost-effective 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 of Carrboro. 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. All dollar amounts are adjusted back to the base year 1999. 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 (Capital Reserve Funds, Grant Funds and Revolving Loan Fund). All per capita figures were calculated using population figures used by the North Carolina Department of Revenue to distribute sales tax revenue. They, in turn, rely on Census and state demographics information.

Revenue Indicators
Revenues can be analyzed to determine the local government's capacity to provide services. Important issues to consider in revenue analysis are growth, flexibility, elasticity, dependability, diversity, and administration. Under ideal situations revenues grow at a rate equal to or greater than the combined effects of inflation and expenditures. Revenues should be sufficiently flexible to allow adjustments to changing conditions.

Operating Revenue Per Capita



Year	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Net Operating Revenue (1998 dollars)	$9,580,623	$10,090,509	$10,307,191	$10,970,843	$11,664,263	$11,993,594	$12,213,171	$13,672,741	$13,154,204	$13,270,130
Population	15,520	16,012	16,958	17,240	17,460	17,585	17,648	18,423	18,611	19,479
Net Operating Revenue Per Capita (1998 dollars)	$617	$630	$608	$636	$668	$680	$692	$742	$707	$681

Warning Trend: **Decreasing operating revenues per capita (constant dollars).**
Formula: **Operating Revenues per Capita (1998 dollars)/Population**

Description
Examining per capita revenues shows changes in revenues relative to changes in population size. As population increases, it might be expected that revenues and the need for services would

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

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

Discussion

In real terms (adjusted for inflation), revenues per capita in Carrboro have experienced a 14.5 percent increase in the past ten fiscal years. In actual dollars collected (adjusted for inflation), the increase is 47.4 percent. Investment earnings revenues are the only revenue source that has decreased in the past 10 years. The following chart shows distinct revenue trends as reflected in the Town's audit reports.

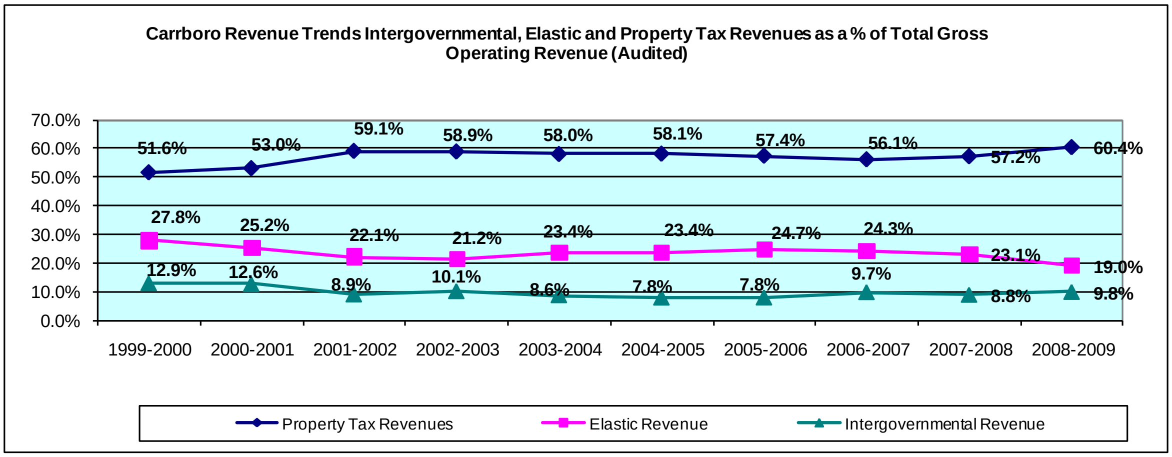
Revenue Source	2009 Revenue Adjusted for Inflation	1999 Revenue Adjusted for Inflation	% Change Since 1999	2009 per capita	1999 per capita	% Change Since 1999 (per capita)
Ad valorem taxes	$ 8,241,933	$ 4,818,643	71.0%	$ 423	$ 318	33.1%
Local option sales taxes	$ 2,389,276	$ 1,900,287	25.7%	$ 123	$ 126	-2.7%
Other taxes and licenses	$ 326,395	$ 278,939	17.0%	$ 17	$ 18	-6.9%
Intergovernmental revenues	$ 1,021,499	$ 799,600	27.8%	$ 52	$ 53	-1.1%
Permits and fees	$ 808,671	$ 791,466	2.2%	$ 42	$ 52	-20.2%
Sales and services	$ 198,606	$ 108,100	83.7%	$ 10	$ 7	45.7%
Investment earnings	$ 145,185	$ 174,295	-16.7%	$ 7	$ 12	-37.9%
Other	$ 138,565	$ 130,322	6.3%	$ 7	$ 9	-21.0%
Total	$ 13,270,130	$ 9,001,652	47.4%	$ 681	$ 595	14.5%

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 2009. 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 tax per capita has begun to decrease due to the current economic conditions.

Other taxes and licenses, permits and fees, investment earnings and intergovernmental revenues have also decreased due to slower economic growth and receipt of fewer grants.

The increase in sales and services revenue reflects the earnings of the Recreation Department and suggests the positive impact of the Town's Century Center as a community center with its variety of programs and activities throughout the year.

Major Revenue Sources



% of Total Gross Operating Revenues	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Property Tax	51.6%	53.00%	59.10%	58.90%	58.00%	58.10%	57.40%	56.10%	**57.20%**	**60.4%**
Elastic Revenue	27.8%	25.20%	22.10%	21.20%	23.40%	23.40%	24.70%	24.30%	**23.10%**	**19.0%**
Intergovernmental Revenue	12.9%	12.60%	8.90%	10.10%	8.60%	7.80%	7.80%	9.70%	**8.80%**	**9.8%**
% of Total Revenue Reflected:	**92.30%**	**90.80%**	**90.10%**	**90.20%**	**90.00%**	**89.30%**	**89.90%**	**90.10%**	**89.10%**	**89.20%**

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

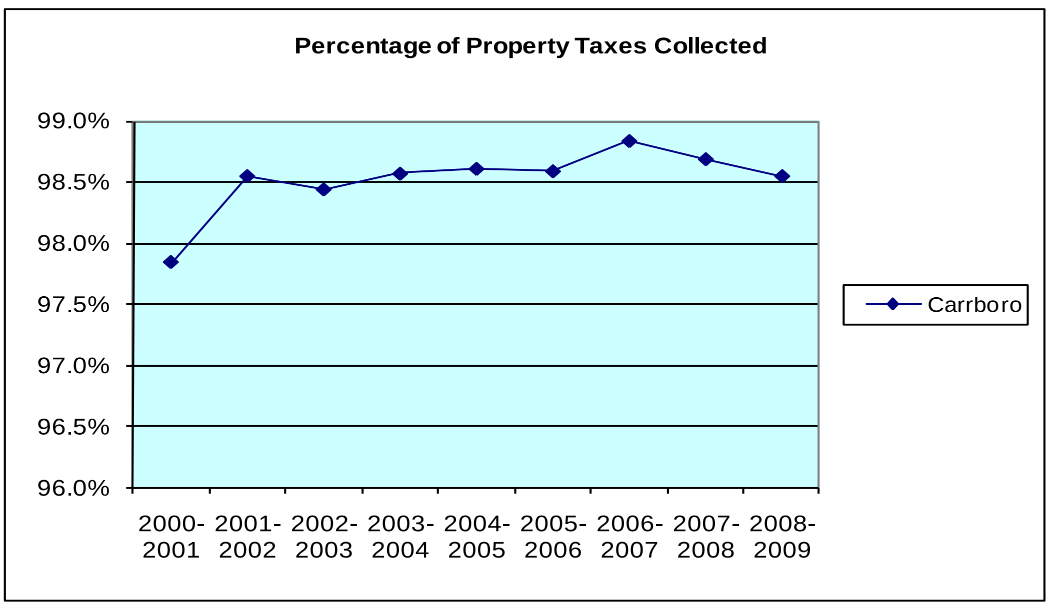
Elastic revenues (sales, permitting revenue, interest earnings, intangibles tax reimbursement [ended in 2002-03]), while decreasing as a percentage of the revenue stream since FY99-00, have actually increased by $757,101 since FY99-00 largely due to the increase in sales taxes. The repeal of the intangibles tax reimbursement diminishes the growth seen in sales tax. Permitting activity (building, electrical, development review, etc) for the year ended June 30, 2009 has decreased since FY99-00 (unadjusted for inflation) due to little or no growth. FY10-11 permitting activity is expected to remain flat.

Intergovernmental revenue, as a share of the revenue stream increased 1% from FY07-08, primarily due to the receipt of a SAFER grant for the hiring of three new firefighters, a couple of grants from the NC Justice Department and NCDENR. The largest sources of grant funding on an annual basis include Powell Bill for street resurfacing and the utility franchise and the telecommunications sales tax, all of which have remained relatively stable over time. The drop in FY01-02 represents the state-collected local revenues withheld by the State of North Carolina to address its budget crisis. In FY02-03, the N.C. Legislature's implemented a new half-cent sales tax to replace unrestricted intergovernmental revenues received by the Town (inventories tax reimbursement, food stamp tax reimbursement, intangibles tax reimbursement, and homestead reimbursement, representing approximately $250,000). Another observation regarding intergovernmental revenue is that the grants received by the Police Department have dwindled over the past few years. Currently, the Town does not have an active COPs (Community-Oriented Policing) grant. However, the Police Department has applied for a COPs grant in the current year. COPs grants, are one-time, three-year grants that were instrumental in enabling Carrboro to add and fully fund the goal of having school resource officers in Carrboro. Other smaller grants (Crime Commission and the Local Law Enforcement Block Grants) as sources of funding have been dwindling over time due to competition and less funding overall. In the upcoming year, intergovernmental revenue will increase due to reclassification of cable franchise fees from fees/other taxes to state-collected revenue.

Another dynamic in this revenue stream that is not predictable is the revenue received for natural disaster aid. FEMA (Federal Emergency Management Act) grants that are received as reimbursement for costs incurred with natural disasters. The Town did receive FEMA funds in FY02-03. Intergovernmental revenues have remained stable continued Powell Bill funds, the telecommunications tax, and other small miscellaneous ongoing grants.

The chart also shows that property tax revenue is important in meeting community needs despite economic strains. In FY2008-09, even in difficult economic times, the property tax as a percentage of the revenue stream peaked at 60.4 percent.

Property Tax Collection Rate



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

Description

Every year, some residents are unable to pay property taxes. 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.

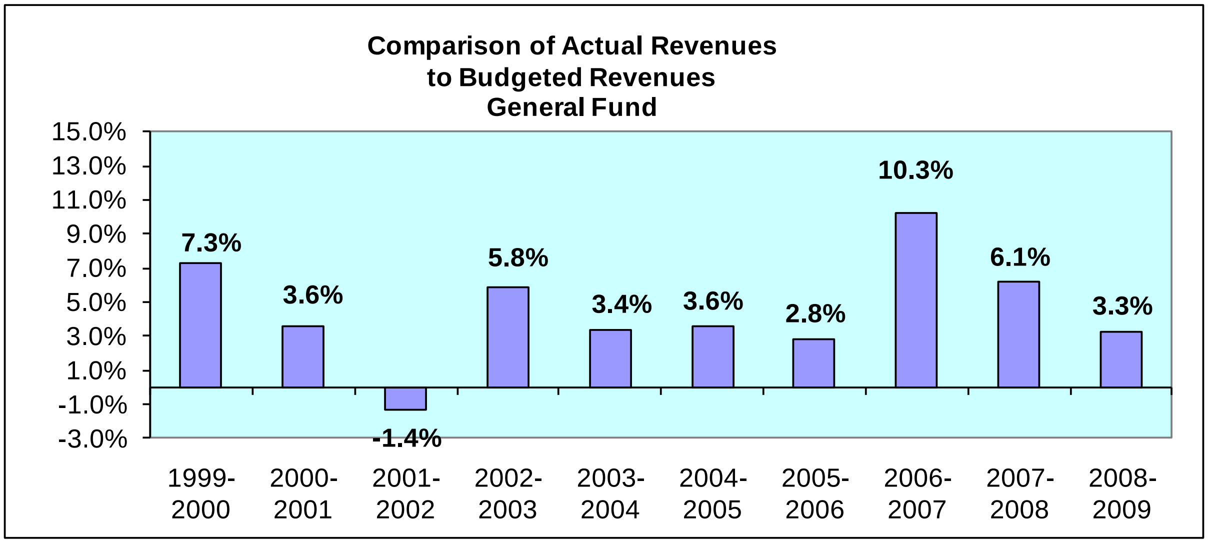
Discussion

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 , shows a positive collection rate for the Town's property tax base; that is generally above 98 percent which is within the ranges acceptable to credit-rating firms. The slight dip in FY2000-2001 (still within acceptable range) is the result of a decline in real property tax collections that coincided with impending economic stress in 2001 and 2002. Collections for FY10-11 are expected to remain stable given that Orange County has remained economically stable in spite of the economy.

Tax Collection Rates in Carrboro and Neighboring Cities

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Carrboro	98.25%	97.84%	98.55%	98.44%	98.57%	98.61%	98.59%	98.84%	98.69%	98.55%
Chapel Hill	99.13%	99.00%	99.30%	99.31%	99.43%	99.45%	99.49%	99.48%	99.44%	99.43%
City of Durham	95.26%	96.17%	96.59%	97.37%	97.84%	97.84%	98.36%	98.60%	100%	98.19%
Hillsborough	96.67%	96.90%	97.87%	97.65%	97.65%	98.23%	98.23%	98.47%	94.89%	98.5%
Roxboro	92.32%	94.63%	96.25%	96.17%	96.66%	96.39%	95.52%	97.31%	97.63%	97.05%

Comparison of Actual Revenues to Budgeted Revenues



	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Budgeted Operating Revenue	$9,507,659	$10,699,798	$11,735,655	$11,742,866	$13,004,301	$13,673,653	$14,533,843	$15,631,027	$16,540,942	$17,351,816
Actual Operating Revenue	$10,201,691	$11,079,661	$11,577,023	$12,426,868	$13,441,792	$14,161,999	$14,945,970	$17,235,388	$17,556,752	$17,921,040
Revenue Variance	$694,032	$379,863	($158,632)	$684,002	$437,491	$488,346	$412,127	$1,604,361	$1,015,810	$569,224
Revenue Variance as % of Budgeted Operating Revenues	7.3%	3.6%	-1.4%	5.8%	3.4%	3.6%	2.8%	10.3%	6.1%	3.3%

Warning Trend: Increase in revenue shortfalls or surpluses as a percentage of budgeted revenues.
Formula: Revenue Variance/Budgeted Operating Revenues

Description

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

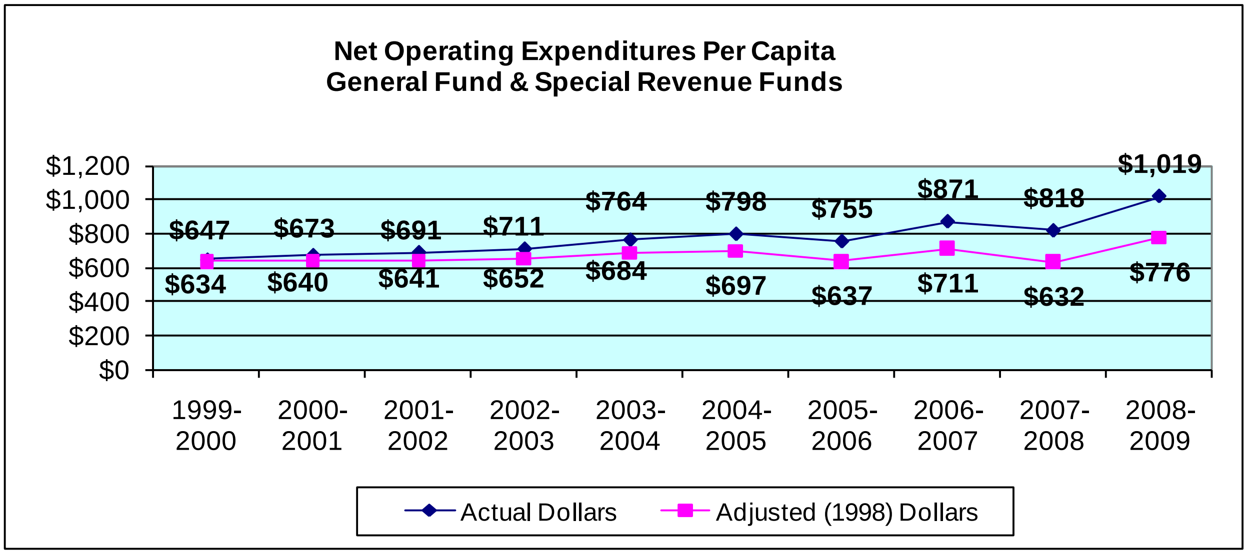
Discussion

The variances in the graph indicate the Town's conservative approach to estimating revenues. The primary reason for the shortfall in FY01-02 is that the State of North Carolina withheld state-collected local revenues including the inventories tax reimbursement, utilities franchise and state telecommunications taxes, and intangible taxes, creating a revenue shortfall of approximately $426,000. The Board and town staff worked diligently to reduce expenditures, and defer major capital outlay to preserve fund balance. This effort was fruitful in that the Town maintained undesignated fund balance at 25.6 percent, despite the shortfall in revenue. In FY05-06, the primary contributing reason for the slight decrease in revenue variance is due to the narrow margin between the property tax levy estimate and what was received. It is more difficult to estimate property tax levy in a year where properties are being revalued countywide. FY06-07 variance jumped largely to a surprisingly strong showing across all categories of revenue. In FY 08-09, only three categories showed an increase from FY07-08. Those categories were: property tax revenue ($782,578), other taxes and licenses ($73,359), and grants and other revenues ($339,264).

Expenditure Indicators

Expenditures are a rough measure of a local government's service output. Generally, the more a government spends in constant dollars (adjusted for inflation), the more services it is providing. This formula does not take into account how effective the services are or how efficiently they are delivered.

Expenditures per Capita



	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Net Operating Expenditures (1998 dollars)	$9,845,082	$10,246,230	$10,874,451	$11,242,265	$11,946,170	$12,298,023	$13,329,892	$13,098,397	$11,771,356	$15,111,872
Population	15,520	16,012	16,958	17,240	17,460	17,585	17,648	18,423	18,611	19,479
Net Operating Expenditures Per Capita (1998 dollars)	$634	$640	$641	$652	$684	$697	$637	$711	$632	$776

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.

Expenditures per Capita in Carrboro

Net operating expenditures, adjusted for inflation, show an increase in expenditures made by the Town since 1999-2000, from $9,845,082 to $15,111,872 in FY08-09, an increase of 53 percent. When adjusted for the combined impact of inflation and population, per capita spending increased from $634 in FY99-00 to $776 in FY 08-09, an increase of 22 percent.

Over the past ten years, expenditures per capita have risen incrementally, with FY2008-09 showing the biggest jump in per capita expenditures. In 1999-2000, the Board approved several notable initiatives: implementing the Integrated Pest Management program to limit the use of conventional pesticides used by the Town; setting aside reserves to provide for mapping services to identify storm water systems and their components as mandated by the federal government; establishing an enabling technology environment and core network infrastructure in addition to funding a network administration position; funding three firefighters to meet OSHA mandates for fire ground operations; and creation of a groundskeeper position to maintain mowing as needed on Highway 54, playing fields, and for special events. The following highlights variations in fiscal years presented in the graph:

FY2001-02 - Local governments and the state government were facing difficult economic straits. The State chose to freeze a number of state-collected local revenues beginning in February, catapulting the Town into a mid-year freeze on spending to preserve fund balance. Thus, expenditures were held to a level that mirrored spending in the previous year.

FY2002-03 - At the time the budget was adopted, the Town was faced with uncertainty around the state's plans to freeze state-collected local revenues. With exception of the Board commitment to market adjustments for Public Works employees, neither market adjustments nor merit increases were budgeted, due to the budget crisis. In addition, the Town deferred capital and equipment replacement needs normally funded with lease financing. Later in that fiscal year, upon return of unexpected receipts from the State, the Board of Aldermen restored funding to pay for market adjustments for Town employees and restored $50,000 for the street resurfacing program.

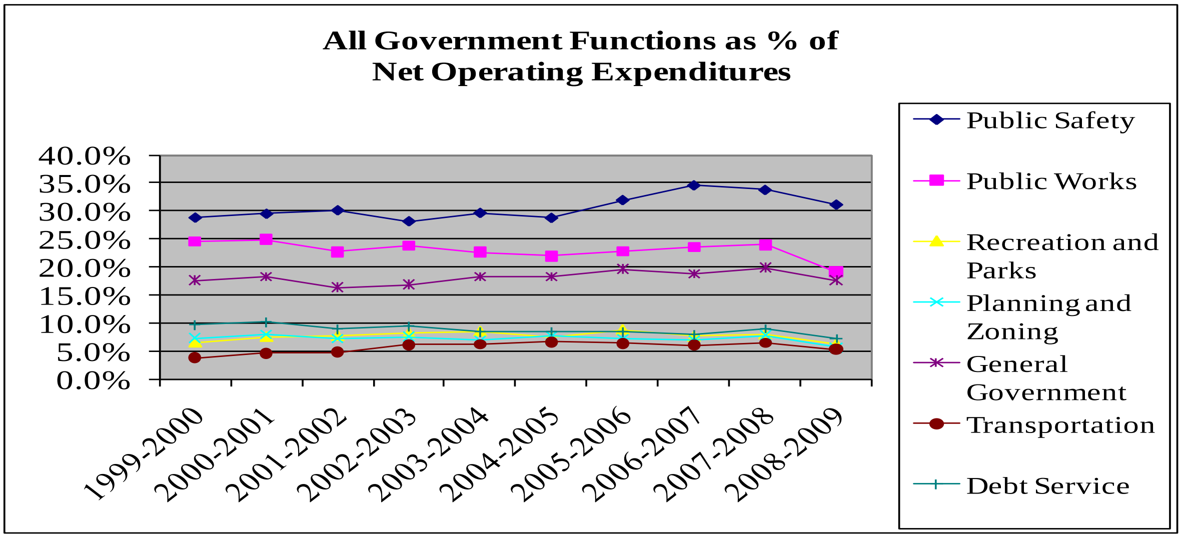
FY2004-05 - The Town implemented the pay-for-performance appraisal system to reduce turnover, improve market competitiveness, and meet aggressive Board work plans. Expansion items include the investment in technology infrastructure such as the wireless technology to promote economic development, the placement of mobile laptops in police cars, and also increased support for transit services.

FY2005-06 - The per capita expenditures dropped. Carrboro maintained its tax rate at the same level and leveraged organizational spending to save or avoid future costs. Moving to a new phone contract, the Town saved phone costs; identified new fees, reorganized departmental activities to save on staffing costs, and transferred the cost of providing school resource officers to the Chapel Hill Carrboro School System. Actual savings in the budget approximated $66,000. Cost avoidance measures saved another $69,500, that if alternatives were not considered, the adopted budget would have been higher by that amount. In addition, the Town budget provided funds to prepare for serving the northern area of town that was to be annexed in January 2006. The drop in per capita shows the effort made by the Town to monitor its spending and services, given the population grew by a small amount – 63 people. This population count does not include the annexed area, which increased the Town's population by an estimated 775 people.

FY 2006-07 - Per capita expenditures increased significantly primarily due to the increased capital investments including construction of the Roberson Bike Path and purchase of the records management software for the Police Department; and costs incurred for the new fire station.

FY 2007-08 - Per capita expenditures dropped due to several capital improvement projects that had been budgeted but were not completed until FY 08-09, including street resurfacing, northern area sewer outfall, etc.
FY 2008-09 – Per capita expenditures increased with an increase in the Town's share of public transportation and the purchase of a ladder truck for the Fire Department plus an increase in loans to local businesses through the Revolving Loan Fund.

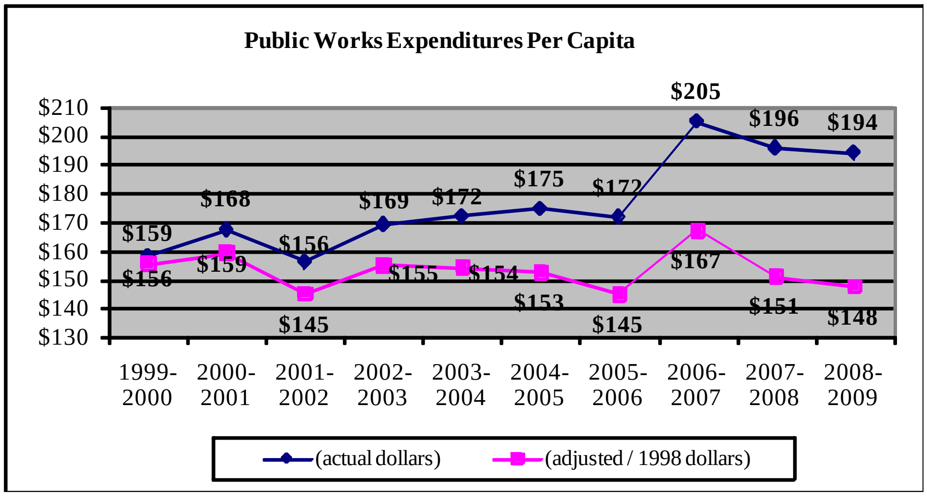
Decreases in net operating per capita expenditures can be explained by highlighting events that have contributed to changes in expenditure levels. The following section spends considerable time looking at the various components of expenditures and service levels.



The chart above represents the allocation of funding for the various services provided by the Town. Approximately 64 percent of the Town's spending is dedicated to public safety (fire protection and law enforcement services) and public works (street and sidewalk maintenance; solid waste collections; building, grounds, and parks maintenance; and fleet maintenance). General government, which largely represents support services (finance, technology, personnel, town manager), and Board functions (town clerk, board, and nonprofit and advisory board budgets), represents approximately 15 percent of total spending. The remainder of programs (debt service, transportation, planning and recreation programs) combined represent approximately 21 percent of the net operating expenses.

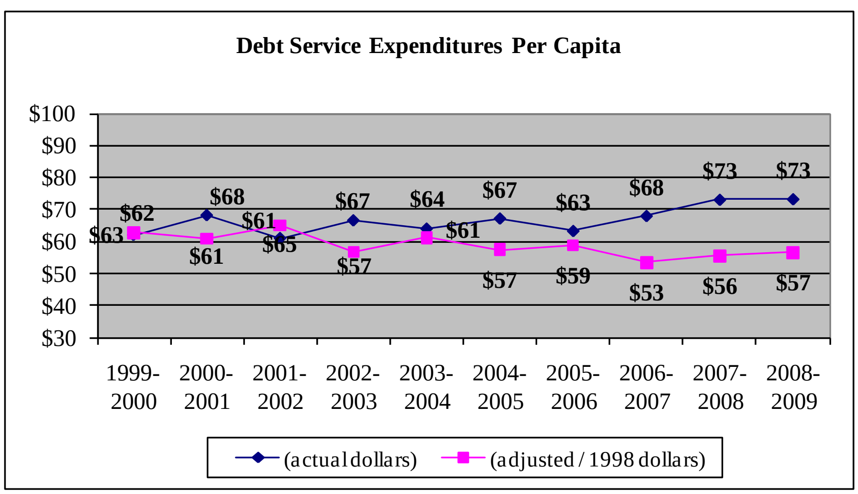
Public Works Expenditures per Capita

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, addressing storm water system repairs, and responding to major natural disasters (Jan 2000 & Dec 2002 ice storms). FY99-00 expenditures reflect a new groundskeeper position and the implementation of the Integrated Pest Management program to use least toxic materials in landscaping and grounds maintenance. In FY01-02, actual expenditures declined due to one-time non-recurring truck purchases made for the solid waste division in the prior year. The increase in FY02-03 reflects market adjustment salary increases in response to the 2001 salary study for public work employees to maintain market competitiveness; furnishings needed for the Century Center (drapes, acoustics system, etc) and expenditures associated with the December 2002 ice storm. The dip in FY05-06 is partially the result of an accounting change whereby lease payments on financed vehicles and equipment were reclassified to the debt service function to be consistent with the annual audit, reducing the actual costs by $136,000. In addition, reorganization within the department moved a vacant position from Solid Waste to Streets to prepare for servicing the northern area of town upon annexation. The department continues to take advantage of truck technology in garbage collections, improving the cost effectiveness of services provided. Street resurfacing, which is done biennially, was performed in FY04-05, thus also contributing to the dip in FY05-06 per capita figures. The significant increase in FY06-07 is attributable to the hiring of an Engineering Technician, purchase of a solid waste vehicle, and engineering and construction costs for Roberson Bike Path. The decrease in FY07-08 is primarily due to the decrease in capital outlay expenditures. Even though expenditures increased in FY08-09, per capita costs decreased with a greater increase in population.



Debt Service Expenditures Per Capita

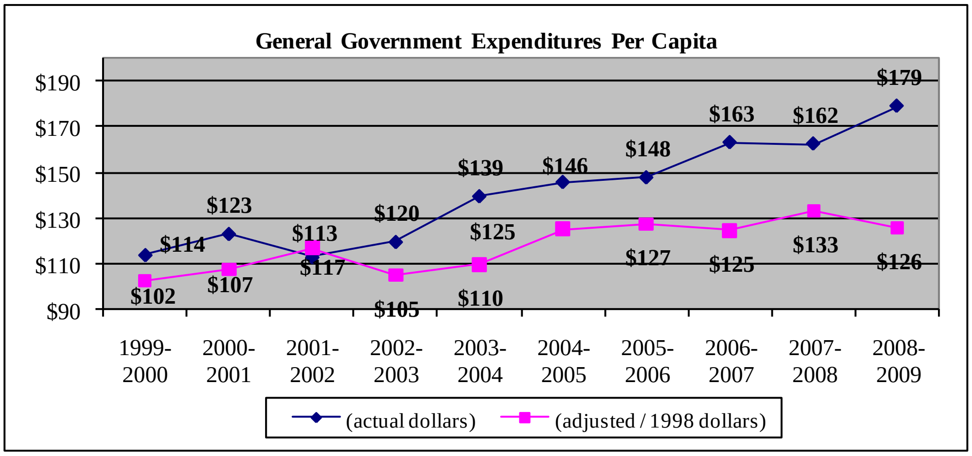
Debt costs include debt paid on general obligation bonds, installment financing for property and town infrastructure as well as equipment and vehicles. The Town has been able to take advantage of retiring debt and low interest rates to borrow for major infrastructure needs and maintain debt service at a relatively constant level. In FY00-01, the Town made significant capital investments, purchasing land for the future Martin Luther King, Jr. Park; furnishings for the newly renovated Century Center; and major technology infrastructure (fiber optic outlay and phone system). In FY01-02, the Town experienced a fiscal downturn with the state freezing local revenues, forcing the Town to postpone lease payments for items purchased in FY01-02 until the following year. In FY02-03,



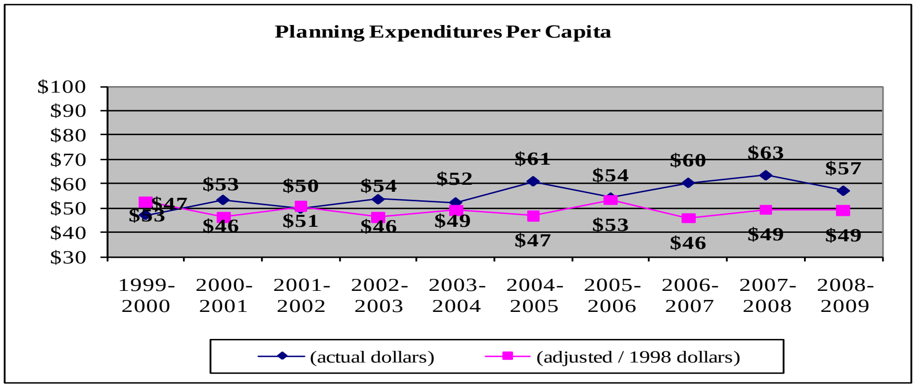
the Town also continued its initiatives cited in the capital improvements plan to purchase land for the future public works facility and a parking lot in the downtown area (Rosemary and Sunset Streets). In FY03-04, a significant amount of lease-purchase debt was retired. The slight increase in debt service in FY04-05 reflects a small increase in lease-purchase debt for vehicles and equipment. Debt costs dropped slightly as lease-purchase debt expired and the Town extended loan periods from three to five years to more closely reflect the life of the vehicles and equipment financed. In FY06-07, the increase in debt service is due to the bond funded sidewalk construction program and financing of vehicles and equipment. Debt service expenditures continue to increase in FY07-08 with the financing of larger equipment such as the Solid Waste rear loader and for the aerial truck for the Fire Department. Costs for FY08-09 remained level because there was no financing for equipment or vehicles, interest rates were low on sidewalk BANS and the maturity of long-term debt.

General Government Expenditures per Capita

Adjusted for inflation, general government expenditures per capita have increased about 23.4 percent for the ten year period. The Town began investing significantly in technology beginning in FY99-00, hiring a fulltime network administrator to implement and automate town operations. Beginning in FY00-01, the Town purchased a new automated phone system, financial system, and implemented a network infrastructure to connect three town facilities via fiber optic outlay. In FY03-04, the Town added another IT position to support desktop and end-user support needs and began to automate and upgrade various departmental applications including GIS, downtown wireless access, fleet maintenance and recreation registration programs. The increase in FY02-03 is due to a budgetary decision to centralize all technology purchases in the IT budget to gain standardization and cost efficiencies in technology purchases. Other initiatives have also accounted for the overall increases in the general government category including support for Assistant to the Mayor (FY99-00); downtown visioning study and introduction of employee tuition assistance program (FY00-01); and camera services for Board meetings (FY01-02). Since FY04-05, the Town has continued to maintain regular replacement of technology infrastructure, support for wireless technology, implemented mobile laptop technology in police cars, and more recently, purchased an automated record management system for the Police Department. In FY07-08, the Town added an online system for recreation registration and a cost accounting system for the Public Works Department. Per capita costs increased in FY08-09 due to an increase in loans to local businesses through the Revolving Loan Fund.

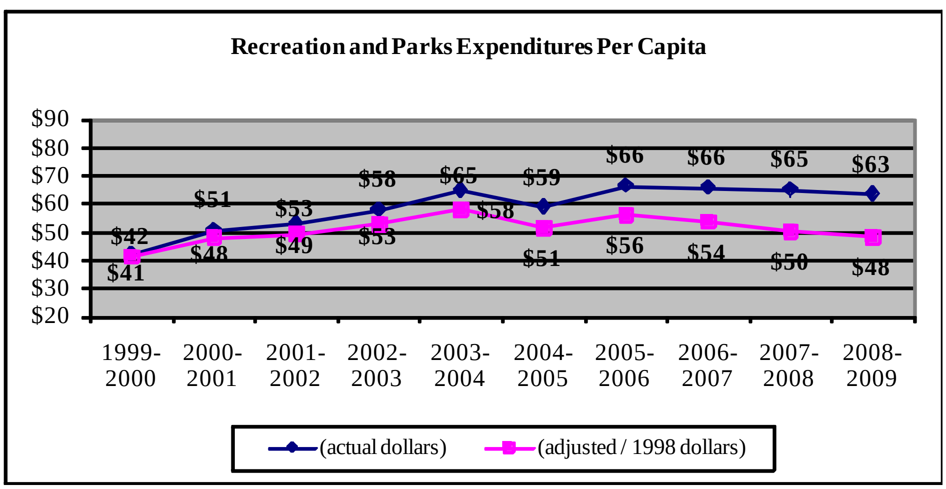


Planning Expenditures Per Capita



Adjusted for inflation, planning expenditures on a per capita basis have been fairly stable the past ten years. The slight variations in the Planning Department highlight two key dynamics that affect the departmental budget: permitting activity and personnel turnover. The decreases in FY99-00 and FY03-04 are due to turnover of planning and zoning staff (Environmental Planner and Zoning Specialists). The decrease in FY01-02 is due to lower permitting activity that resulted in a significant decrease in engineering costs. Engineering costs also declined again in FY02-03. The increase in FY00-01 is due to the creation of an Environmental Planner position and filling of positions vacant in the prior year. The increase in FY02-03 is due to salary adjustments recommended in the pay study performed in 2001. In FY04-05, the Board funded a transit contract to explore transportation circulation options through the downtown area. In addition, salary costs increased over the previous year due to less staff turnover. FY05-06 continues to show a slightly declining per capita spending trend in Planning. The trend follows the pattern seen in previous years - staffing vacancies in the planning and zoning divisions and even lower engineering costs associated with development. FY06-07 is marked by vacancies in planning positions (transportation and environmental planners, which are now currently filled). However, land use applications have been in process that will result in construction activity and improvements in the downtown and northern areas of town. Expenses for 07-08 increased slightly with the filling of the Transportation and Environmental Planner positions. Contracted services and engineering costs deceased in FY08-09.

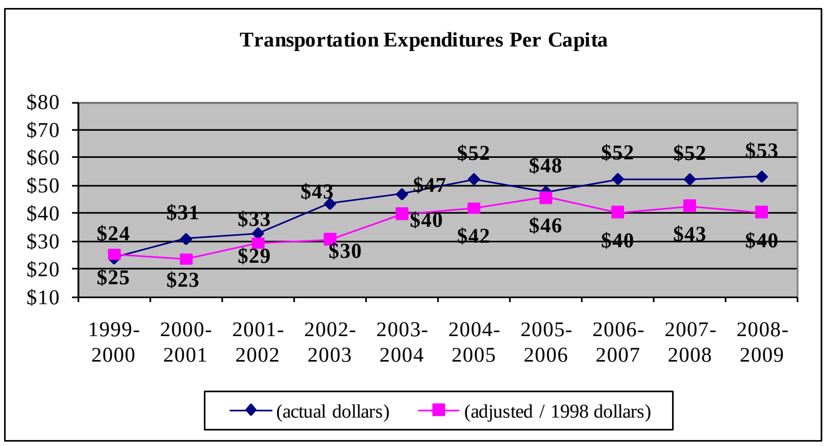
Recreation and Parks Expenditures per Capita



Per capita expenditures in the Recreation and Parks department, adjusted for inflation, increased 16 percent in the past ten years. The increase is due to the addition of new programs and services, replacement of aging park infrastructure, and the addition of a new facility, the Century Center, in the downtown area that offers numerous meeting rooms and facility services. Recreation programs that have been added include: teen camp, movies on Town Commons (FY98-99); midget football team (FY99-00); Century Center facility services (FY00-01); concert series at both the Century Center and Town Commons, and Music Festival (FY03-04). Beginning in FY02-03, the Town began an aggressive capital program to replace aging park infrastructure, purchasing playground equipment for Anderson and Wilson Parks, and in FY03-04, replacing the ball field lights and tennis court fencing in Anderson Park, and tennis court lights in Wilson Park. The increase in FY01-02 reflects the annualized operating costs incurred from bringing the Century Center online in March 2001. In FY04-05, the department experienced turnover and also reorganized reflecting a $30,000 decrease in overall salary. Decreased capital spending also contributed to overall lower spending ($96,000). In FY05-06, the department replaced a vehicle and continued with park improvements such as playgrounds, returning to levels experienced in FY03-04. Since FY05-06, the department has continued improvements to the park infrastructure through FY07-08. The delay in construction of the Wilson Park Bathroom resulted in the decrease in adjusted dollars for FY07-08. Even though expenditures increased in FY08-09, per capita costs decreased with a greater increase in population.

<u>Transportation Expenditures Per Capita</u>

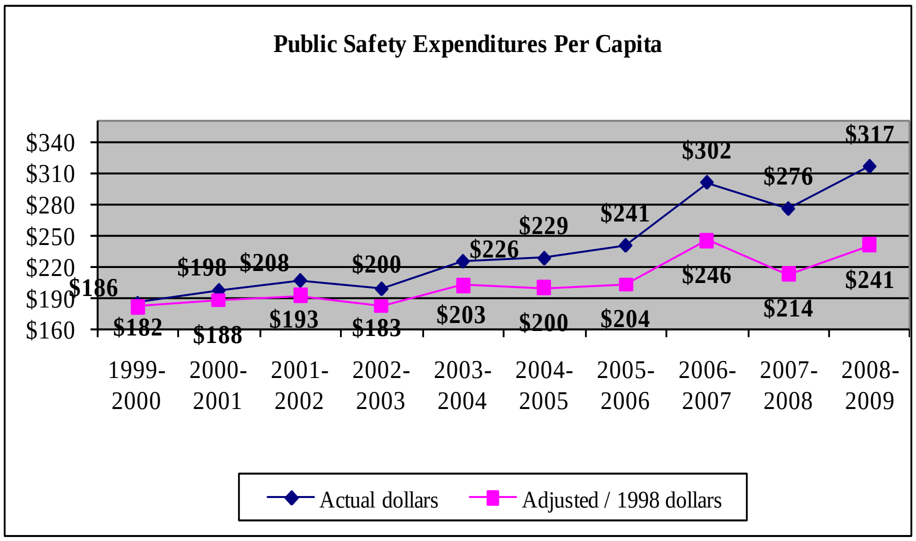
The Town and UNC-Chapel Hill are partners in the transit system administered by the Town of Chapel Hill. Carrboro's contribution into this partnership, adjusted for inflation has increased 60 percent since 1999-2000. In FY00-01, transit expenditures increased due to several factors. The Town's per capita share (based on ridership use) increased from 13 percent to 15.66 percent. Overtime costs, market adjustment and personnel reclassification costs stemming from a shortage of transit personnel along with rising fuel costs also contributed to cost increases in FY00-01. In FY01-02, the Board approved upgrading the F route to improve transit access within the Town and participating in fare-free transit services beginning in January 2002. The increase in FY02-03 represents the annualized and successful impact of the fare-free transit program. FY03-04 expenses afforded the addition of the Jones Ferry Park and Ride lot;



health insurance increases and pay adjustments for transit employees; reserves needed for replacing the transit facility in 2006; increased vehicle replacement costs; additional positions for the fleet maintenance division, holiday route services; and an additional route to Chapel Hill High School. The Town funded the increase in the local share of the transit contract for pay adjustments for a full-time EZ Rider driver and a part-time reservationist in FY04-05. The transit contract remained unchanged in FY05-06, in spite of increased fuel costs and other ongoing operational costs. This is primarily due to increased state and federal pass-through funds that supported the transit operations and thus mitigated the local match required. 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 transit budget has remained stable due to continued federal and state grant funding.

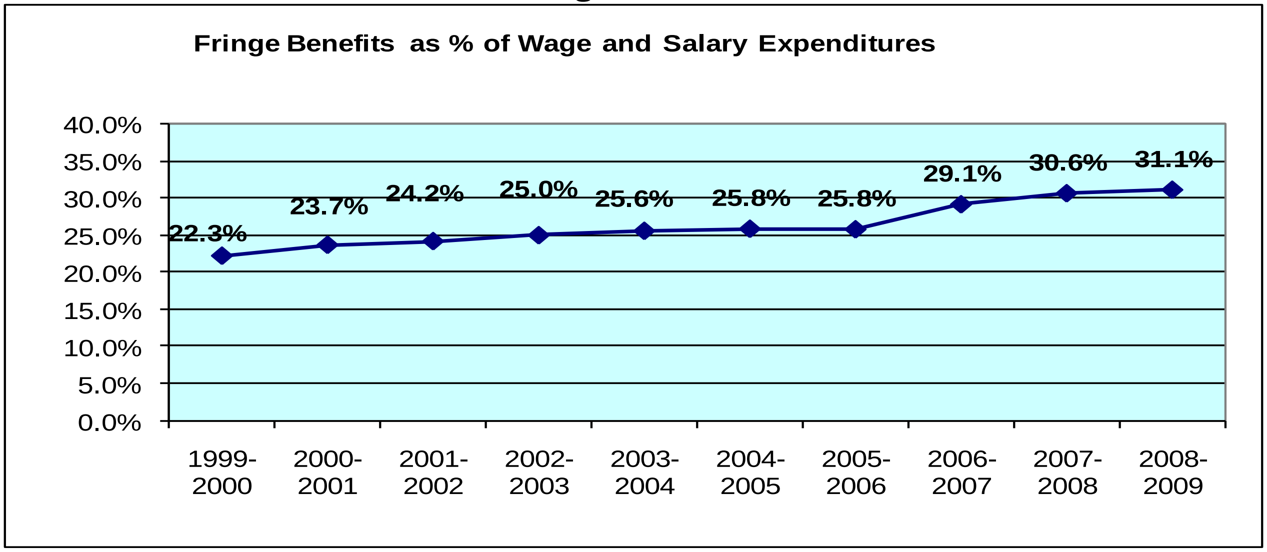
Public Safety Expenditures per Capita

Public safety expenditures per capita experienced an increase of $59 per capita total or an increase of 32 percent (adjusted for inflation) in the past ten years. In all, 12 fire fighters, 1 safety officer, and 6 law enforcement personnel (1 School Resource Officer, 1 Investigator, 3 patrol officers, and 1 community policing officer) have been added since 1998. Several positions were added in FY03-04 (3 firefighters and 3 police officers). The firefighters were funded to address OSHA and national standards in providing fire suppression services. Over time, adding the firefighters has moved the department forward to meeting the intent of the recommended standards for the necessary number of personnel to combat single-family, full alarm dwelling fires. Six fire fighters have been added in anticipation of the opening of the new fire substation in the northern area. The police personnel have been added primarily due to increases in the population, calls for services, and heavy caseloads in the Investigations division. In addition, maintaining competitive salaries has been a challenge in the public safety arena over the past several years, requiring special pay adjustments for police and fire personnel in FY2001-02 to compete with external market forces and to avoid high turnover rates experienced in FY1999-00 and 2000-01.



Spending, as shown in the FY02-03 audit report, decreased by approximately $80,000. The lower spending reflects a decrease in actual salary costs in the patrol division of the police department, presumably due to high turnover. In addition, the fire department had completed renovations on the fire department that had been funded in the previous year ($33,000 decrease). The jump in per capita spending in FY05-06 provided for policing services to the annexed area; increase in the number of police vehicles outfitted with mobile data terminals; and contractual fire services with the New Hope Fire District to provide service coverage in the transition area. FY 06-07 per capita costs increased based on staffing for the new northern area fire substation and will continue to rise with the upcoming opening of the northern area fire substation. The decrease in expenditures in FY 07-08 is due to the one time capital outlay cost for the fire truck in FY 06-07. FY08-09 costs increased with the purchase of a ladder truck for the Fire Department.

Fringe Benefits



	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Expenditures for fringe benefits	$865,000	$974,473	$1,148,495	$1,292,969	$1,359,093	$1,543,963	$1,610,894	$1,626,443	$1,939,339	$2,200,596	$2,320,487
Salaries/Wages (FT,PT,OT, Temp)	$4,056,448	$4,379,422	$4,844,854	$5,342,799	$5,439,196	$6,038,242	$6,231,917	$6,309,042	$6,660,107	$7,191,755	$7,471,114
Fringe benefits as % of overall wage and salary expenditures	21.3%	22.3%	23.7%	24.2%	25.0%	25.6%	25.8%	25.8%	29.1%	30.6%	31.1%

<u>Warning Trend:</u> Unexplained, uncontrolled, or unanticipated increases in fringe benefit costs may signal a warning trend to credit rating industries.
<u>Formula:</u> Expenditures for Fringe Benefits/Salaries &Wages (including benefits)

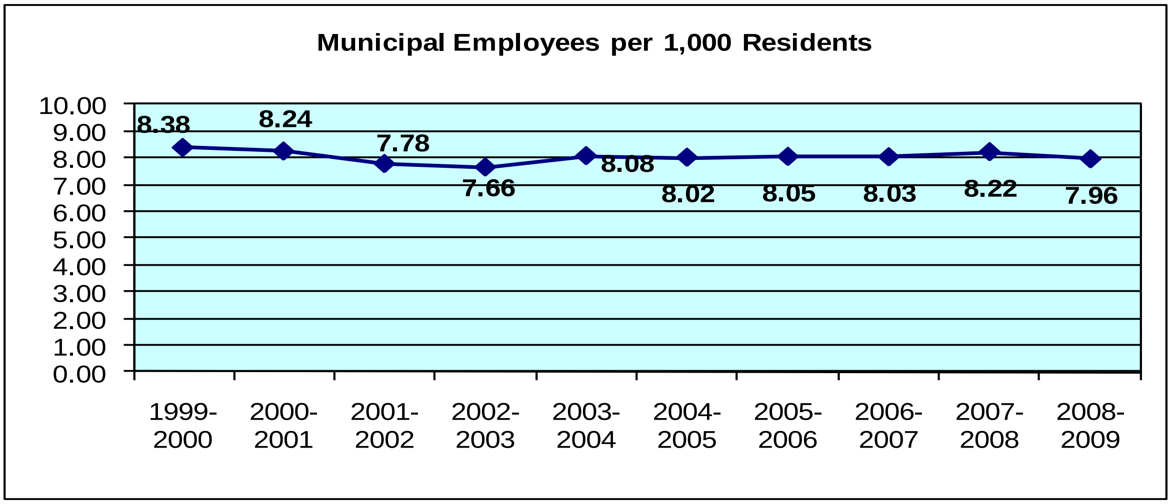
Description

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, rose steadily from FY99-00 through FY02-03 and increased slightly through FY05-06. The increase in fringe benefits over the entire period of time is largely due to double-digit increases in the cost of health insurance costs for employees and retirees. Some of the increase includes the decision by the Board to increase the Town's subsidy for dependent health insurance from 30 percent in FY98-99 up to 50 percent in FY99-00. In addition, the number of retirees benefiting from the Town's insurance coverage subsidy has increased retiree insurance costs over the past few years. Police officers who retire and are eligible for a separation allowance benefit are also part of increasing fringe costs. To stem double digit increases, the Town renegotiated health benefits with a new provider three years ago. The Town, through its broker continues to monitor and negotiate for good benefit rates. Costs have increased monumentally since FY05-06 due to increases in insurance premiums and additional positions for departments.

Municipal Employees per 1,000 Residents



	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Population	15,133	15,520	16,012	16,958	17,240	17,460	17,585	17,648	18,423	18,611	19,479
Number of municipal employees approved	124	130	132	132	132	141	141	142	148	153	155
Municipal Employees per 1,000 reside	8.19	8.38	8.24	7.78	7.66	8.08	8.02	8.05	8.03	8.22	7.96

<u>Warning Trend:</u> Increasing number of full-time municipal employees per (1,000) capita.
<u>Formula:</u> Number of Municipal Employees (approved)/Population/1000

<u>Description</u>

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.

<u>Discussion</u>

The number of municipal employees per capita has remained relatively stable over the past six years. The budgetary history shows sporadic jumps in the number of positions approved by fiscal year, with significant increases in positions approved in FY 00-01, FY 03-04 and FY 06-07. The increase in positions has largely been for the public safety function to meet OSHA ground fire operations requirements and to manage the increased calls for service due to increased population. In the past ten years, twenty five new positions have been approved. Of those, 12 are firefighters (includes 9 hired for the eventual opening of the second fire station in the northern transition area in FY 09-10) and 7 are police officers (2 Investigator and 5 Police Officers). Other positions include 2 technology positions to support the technology needs within the organization, 1 environmental planner, 1 engineering technician for the public works department, and 2 recreation and parks positions that changed from part-time to full-time. In FY 2008-09 two police officer positions were approved – one in Community Services and one in Criminal Investigations. Even with these 2 approved positions, the number of employees per 1,000 residents decreased due to an increase in population.

Work Force Totals
Permanent Full-time
Twenty-Year History

FY	Attrny	Mayor & Board	Mngr	Econ Dev.	Clerk	Mgmt Svcs	Personnel	Police	Fire	Planning	Public Works	Parks & Rec	TOTAL
1990-91	0	0	2	0	1	5	0	26	10	13	31	5	**93**
1991-92	0	0	2	0	1	6	0	26	12	13	31	5	**96**
1992-93	0	0	2	0	1	6	0	29	12	13	31	5	**99**
1993-94	0	0	2	0	1	7	0	29	13	13	32	6	**103**
1994-95	0	0	3	0	1	7	0	31	15	12	33	6	**108**
1995-96	0	0	3	0	1	7	0	34	19	12	32.5	6.5	**115**
1996-97	0	0	3	0	1	7	0	35	19	12	32.5	6.5	**116**
1997-98	0	0	3	0	1	7	0	36	21	13	33	8	**122**
1998-99	0	0	2	1	1	5	2	36	21	13	34	9	**124**
1999-00	0	0	2	1	1	6	2	37	24	13	35	9	**130**
2000-01	0	0	2	1	1	6	2	38	24	14	35	9	**132**
2001-02	0	0	2	1	1	7	2	37	24	14	35	9	**132**
2002-03	0	0	2	1	1	7	2	37	24	14	35	9	**132**
2003-04	0	0	2	1	1	8	2	40	28	14	35	10	**141**
2004-05	0	0	2	1	1	8	2	40	28	14	35	10	**141**
2005-06	0	0	2	1	1	8	2	41	28	14	35	10	**142**
2006-07	0	0	2	1	1	8	2	41	33	14	36	10	**148**
2007-08	0	0	2	1	1	8	2	42	36	14	36	11	**153**
2008-09	0	0	2	1	1	8	2	44	36	14	36	11	**155**
2009-10	0	0	2	1	1	8	2	44	36	14	36	11	**155**
2010-11	0	0	4	1	1	6	2	44	36	14	36	11	**155**

Note: All positions are budgeted within the General Fund

<u>Description of Position Changes</u>

FY90-91 - Zoning Development Coordinator added.
FY91-92 - Program Support Assistant added to Management Services, 2 Fire Drivers/Operators added
FY92-93 - 2 Police Officers, 1 DARE Officer added.
FY93-94- Personnel Technician added in Management Services, Fire Fighter, Recreation Specialist, and Sanitation Equipment Operator added.

FY94-95 - 2 Police Officers and 2 Firefighters added, Community and Economic Development Officer transferred from Planning to Manager's Office, Sanitation Equipment Operator added to Public Works Department.

FY95-96 - 1 Police Call-taker and 1 Police Investigator added, 3 Firefighters added, 1 Program Support Assistant shared by the Recreation and Public Works Department. During the 1995-96 year, one Groundskeeper/First Responder position was reassigned to the Fire Department.

FY96-97 – added one Investigator position (Police Officer II) mid-year

FY97-98 – 1 Police Officer I, 2 Firefighters, 1 Planning and Zoning Development Specialist, 1 Recreation Supervisor from half-time Youth Coordinator, 1 Program Support Assistant II from Program Support Assistant I and Program Support Assistant

FY98-99 – Added one street construction worker; reclassified an Asst. to the Manager position to Economic and Community Development Director; reclassified Personnel function to a department level and moved two positions out of Management Services; added 2 part-time (20 hr.) positions – Facility Specialist and Program Support Assistant for upcoming opening of Century Center.

FY99-00 – Add 1 Network Administrator position in Management Services; 1 grant-funded School Resource Officer position in Police Department; 3 Firefighter positions; and 1 groundskeeper position for Landscaping Division in Public Works.

FY00-01 – Adds Investigator position to Police Department (grant-funded);
Added Environmental Planner position to Planning Department

FY01-02 – Staff Accountant position added to Management Services; Eliminates grant-funded Investigator position due to loss of funding but restores position by reclassifying a Community Police Officer position to Investigations.

FY02-03 – No position changes

FY03-04 – Added 3 Police Officer Is, 3 Firefighters, 1 Safety Officer, 1 Information Technology Support Engineer, and increase in hours of Recreation Specialist in Athletics division to full-time.

FY04-05– No position changes

FY05-06 – Net increase of 1 Police Officer I. (net increase; 2 Police Officers are approved for annexation coverage; 1 Police Officer I position eliminated to acknowledge discontinuation of School Resource Officer at Carrboro Elementary School).

FY06-07 - Increase of 5 firefighters (3 effective in April 2007) and 1 Engineering Technician in Public Works (effective October 2006)

FY07-08 – Increase one Police Officer I, four firefighters (3 beginning May 2008), one recreation supervisor (from part-time), and eliminate safety officer position in Fire Department.

FY08-09 – Add one Police Officer I in Community Services and one Police Officer II in Criminal Investigations, (effective January 2009).

FY09-10 – No position changes.

FY10-11 – IT division has been reorganized to report to the Town Manager instead of Management Services. Several position titles changed based on the Springsted study (Program Support Assistant II to Accounting Technician I in Management Services, add Fire/Rescue Driver in Fire Department, Program Support Assistant II to Permit Technician in Planning, Police Officer II to Police Sergeant and Police Officer I to Police Officer in Police Department, Construction Inspection/Crew Leader to Construction Inspector, Building Maintenance Assistant to Building Maintenance Worker and Maintenance Construction Worker/Sign & Marking Assistant to Maintenance/Construction/Sign & Marking Assistant in Public Works Department.

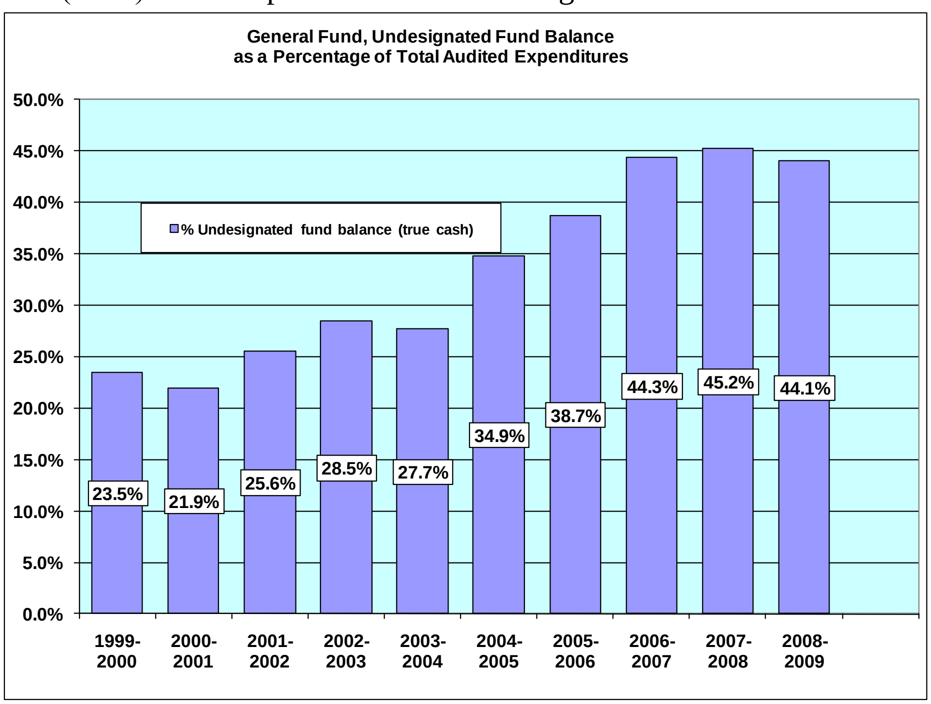
Operating Position Indicators

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 Local Government Commission's (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 Board of Aldermen and town administration and to advise them that the municipality review the current level of fund balance and determine what fund balance level the municipality should have. Using the latest year available from LGC (year



ending June 30, 2009), unreserved fund balance that includes designated and undesignated reserves is at 49.28% in Carrboro. This ratio is higher than the 41.06% average for municipalities with populations of 10,000-49,999.

Carrboro, for its own accounting purposes, however, uses "undesignated fund balance" as a true measure of reserves available for emergency appropriation. This portion of fund balance represents true cash. Fund balance as defined by the Local Government Commission is considered "unreserved" fund balance, or fund balance available for appropriation, a much more liberal definition of fund balance than defined by the current Town policy. The graph above illustrates the ten-year undesignated fund balance trends. The Town budgets this fund balance or "surplus" with the anticipation of maintaining 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. The Town's debt structure primarily consists of installment financings and some bonded debt to support its capital improvements. Under favorable conditions, debt:

- ☆ Is proportionate in size and growth to the government's tax base,
- ☆ Does not extend past the facilities useful life which it finances,
- ☆ Is not used to balance the operating budget,
- ☆ Does not put excessive burdens on operating expenditures, and
- ☆ Is not so high as to jeopardize the credit rating.

The Board has approved a debt policy that addresses guidelines and restrictions affecting the amount, issuance, process, and type of debt issued by a governmental entity. The policy also requires town staff to monitor various debt ratios that are used to evaluate ability to repay as well as the government's capacity to incur debt (see Town's fiscal policies within the Community and Organizational Profile section).

Debt ratios are considered by the Local Government Commission and by 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. Debt is an obligation resulting from the borrowing of money. 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.

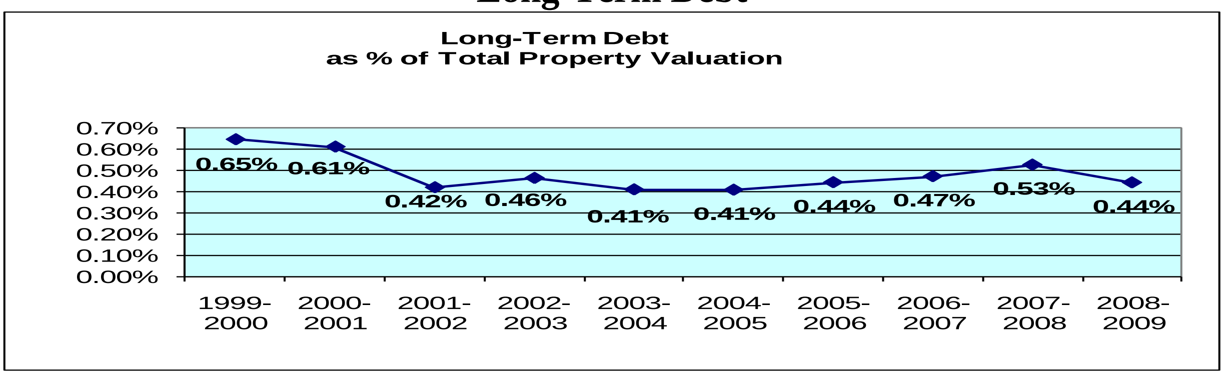
One measure of a unit's debt capacity is debt expressed in terms of assessed or market valuation. It is important to note, however, the Town's debt is far below the

Town of Carrboro, North Carolina Computation of Legal Debt Margin June 30 ,2009	
Total assessed valuation at June 30, 2009	$1,581,966,677
Debt limit – eight percent (8%) of assessed value	$ 126,557,334
Amount of debt applicable to debt limit General Obligation bonds	$ 26,107
Legal Debt Margin	$ 126,531,227

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. Based on the most recent year end of June 30, 2009, the Town’s outstanding debt that applied to this limit is .0002% as evidenced in the table. The legal margin or the maximum amount of outstanding debt allowable by law, based on the June 30, 2009 audited valuation is $126,531,227.

Debt service, annual interest and principal payments, can be a major part of a government’s fixed costs, and its increase may indicate excessive debt and fiscal strain; credit firms consider debt exceeding 20% of operating revenues as a potential problem. Ten percent is considered acceptable (footnote1). The North Carolina Local Government Commission (LGC) advises that a heavy debt burden may be evidenced by a ratio of General Fund Debt Service to General Fund 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 8.0% of the total audited expenditures for the year ending June 30, 2009. The Five-Year Plan shows the percentage of debt service expenditures peaking at 11.3% in FY12-13 almost reaching the 12% debt policy goal.

Long-Term Debt



	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Long-Term Debt	$5,031,628	$5,079,301	$4,347,570	$7,969,030	$4,618,983	$4,699,792	$6,082,837	$7,530,559	$8,098,535	$6,996,943
Property Valuation	$778,730,814	$830,744,735	$1,036,750,609	$1,072,172,066	$1,128,465,441	$1,152,569,042	$1,372,401,330	$1,596,838,299	$1,538,585,984	$1,581,966,677
Long-term Debt as % of Prop. Val.	0.65%	0.61%	0.42%	0.46%	0.41%	0.41%	0.44%	0.47%	0.53%	0.44%

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

<u>Description</u>

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

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

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.

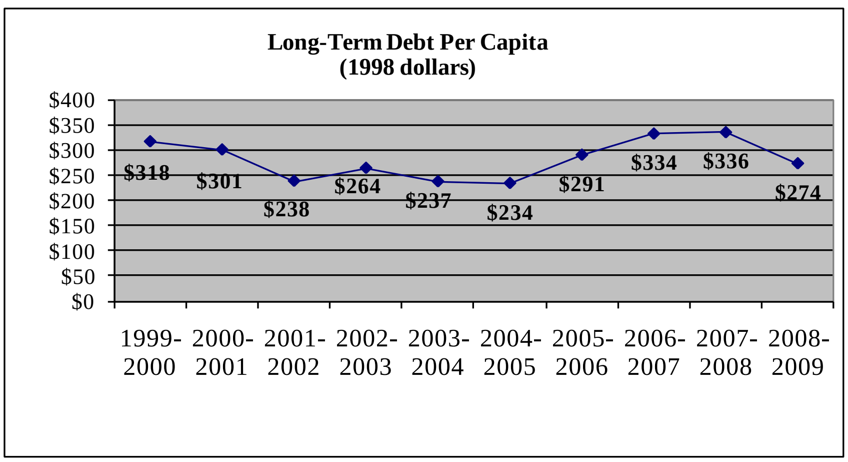
Standard and Poor's (S&P) reviews the level of long-term debt, recognizing that accelerated debt issuance can overburden a municipality. However, S&P also recognizes that a low debt profile may not be a positive credit factor since it may indicate underinvestment in capital facilities. Investment in public infrastructure is believed to enhance the growth prospects of the private sector.

Discussion

The long-term debt load has increased steadily in the last three years. Debt as a percentage of property valuation dipped in FY01-02 due to the growth in the property base and valuation following the four-year revaluation cycle. 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 FY08-09 was .354 percent; a high level is considered 1.87 percent. The debt-to-assessed valuation ratio for Carrboro in the last audited year was .451 percent, which is a little higher than the average valuation for jurisdictions of similar size but well below the high valuation. The Local Government Commission (LGC) includes authorized but unissued debt in its debt ratio formula. For Carrboro, the LGC included the $4.6 million dollar bond referendum for sidewalks and greenways that has not yet been issued. 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 our debt ratios in the presented graphs are slightly different.

Debt per Capita

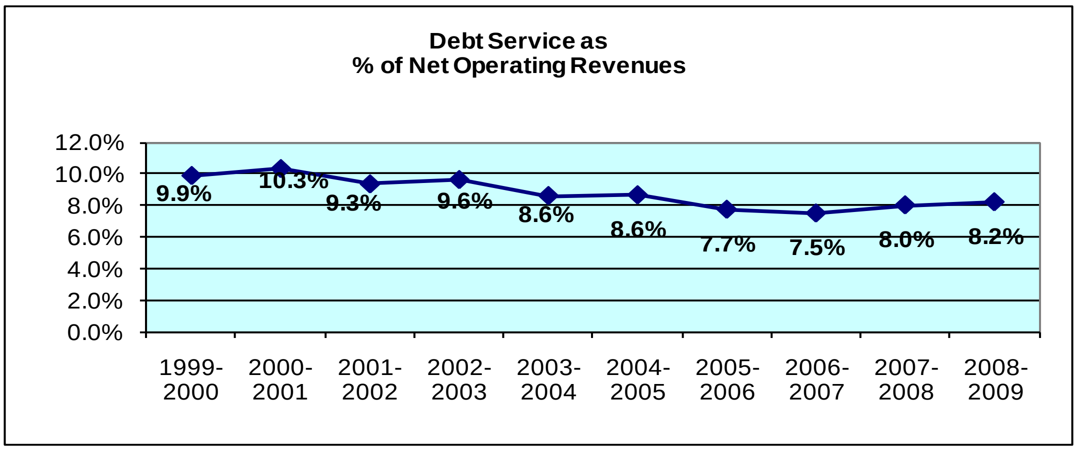
Debt can also be monitored on a per capita basis. It is especially useful for communities that do not rely heavily on property taxes and that cannot easily compute a substitute revenue base for comparison (footnote2). This is an indicator that is monitored by the Local Government Commission, and is useful for comparison with other similar jurisdictions. The average for comparable jurisdictions in FY08-09 was $315 per capita; $1,673 per capita is considered a high ratio. According to the Local Government Commission, the Town's ratio of outstanding general obligation bond debt which includes authorized and unissued general obligation bond debt and installment purchase debt is



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

$367 per capita. The graph above shows a lower per capita figure that is based on different assumptions than LGC. This figure is adjusted for inflation, relies on actual audited valuation, and does not include authorized but unissued debt. However, the message is the same as the LGC; the outstanding debt owed (principal) is increasing. The Town is in the midst of embarking on a capital plan that moves beyond land purchases to construction which requires financing. In FY05-06, the Town witnessed the first full debt service payment on the Adams Tract for recreational use. Since FY05-06, the Town has been implementing the bond funded sidewalk and greenways plan. In FY08-09 debt obligation is lower than in previous years due to the expiration of some old general obligation bond and lease-purchase commitments. In FY09-10, the Town will finance the construction of the northern area fire substation, adding to outstanding debt.

Debt Service



	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-2009
Debt Service	$963,311	$1,093,658	$1,035,389	$1,149,108	$1,117,976	$1,182,179	$1,116,743	$1,252,941	$1,360,897	$1,427,902
Net Operating Revenue	$9,767,445	$10,617,234	$11,098,783	$11,964,801	$13,017,317	$13,687,737	$14,472,877	$16,753,209	$17,016,278	$17,427,662
Debt Service as % of Net Operating Revenue	9.9%	10.3%	9.3%	9.6%	8.6%	8.6%	7.7%	7.5%	8.0%	8.2%

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

Description

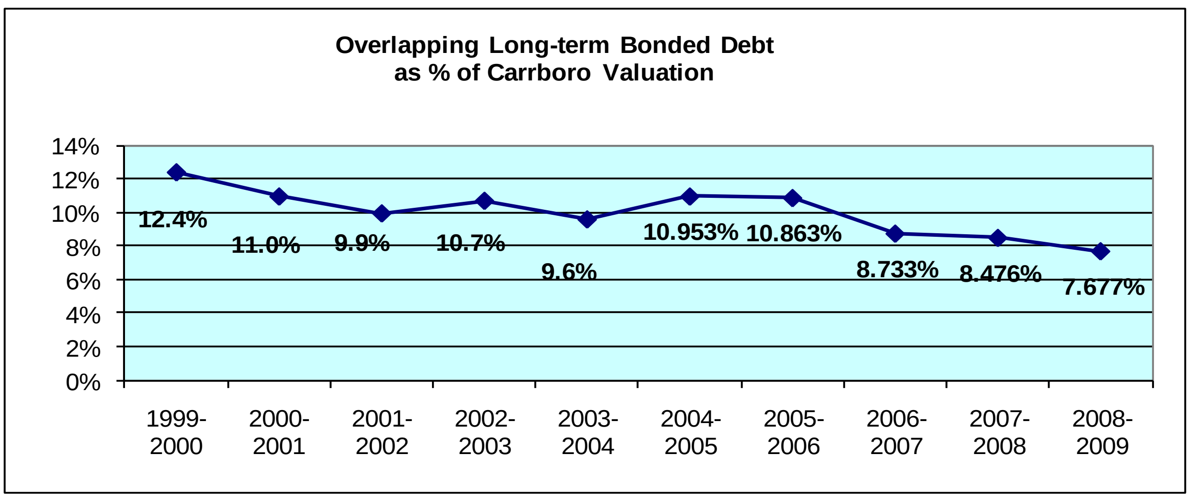
Debt service is defined here as the amount of principal and interest that a local government must pay each year on its long-term debt plus the interest it must pay on short-term debt. Increasing debt service reduces expenditure flexibility by adding to the government's obligations. According to the ICMA, debt service under 10 percent of net operating revenue is considered acceptable while anything approaching 20 percent is considered excessive. Debt service can be a major part of a government's fixed costs, and increases may indicate excessive debt and fiscal strain.

Discussion

Debt service as a percentage of operating revenue has remained relatively stable, declining slightly over the past eight years due to the revenues rising at a faster rate than the debt service,

The graph shows that debt expenditures are approximately 8.2 percent of net operating revenues in FY08-09. 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%. The Town will incur debt service costs for the fire substation beginning in FY09-10, at which time the debt service costs as a percentage of operating revenue will begin to rise. In addition, the Town is underway with its sidewalk and greenways efforts that will use bond funding. The Town plans on issuing BANS until the entire amount of authorized bonds are spent, at which time the Town will issue the bonds requiring full debt service payments that include both principal and interest costs. This level of debt service will likely appear in or after FY11-12. The five-year plan discussed later shows that the Town does not expect to exceed the 12 percent goal.

Overlapping Debt



	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Carrboro Debt	$1,119,000	$991,000	$859,000	$737,250	$575,393	$433,536	$331,679	$229,822	$127,964	$26,107
Orange County Debt	$95,475,000	$90,030,000	$102,255,000	$113,955,000	$107,585,000	$125,810,000	$148,750,000	$139,215,000	$130,290,000	$121,415,000
Total Overlapping Debt	$96,594,000	$91,021,000	$103,114,000	$114,692,250	$108,160,393	$126,243,536	$149,081,679	$139,444,822	$130,417,964	$121,441,107

Warning Trend: **Increasing overlapping debt as a percentage of total assessed property valuation.**
Formula: **Carrboro Long-Term Debt Plus Orange County Long-Term Debt/Carrboro Assessed Property Valuation**

Description

Overlapping debt is the net direct bonded debt of another jurisdiction that is issued against a tax base within part or all of the boundaries of the community. The level of overlapping debt is only that debt which is applicable to the property shared by the two jurisdictions. The overlapping debt indicator measures the ability of the community's tax base to repay the debt obligations issued by all of its governmental and quasi-governmental jurisdictions.

Discussion

The overlapping debt ratio does not present any warning signs. Since FY1999-00, debt has decreased. The changes in the debt ratio are primarily affected by debt incurred by Orange County.

Current Town Financial Condition

Overall, the indicators highlight the growth in the Town's population, the conscious decisions by the Board to add services needed and requested by the community and to maintain a solid financial position even through difficulties experienced over the years. The Executive Summary identifies the specific revenue and expenditure trends affecting the Town board and service delivery choices in the upcoming year. Notably, the Town has been able to maintain tax rates in three of the last five years through FY10-11 recommended budget.

Future Trends

The Town also makes projections about future costs based on the most recent adopted budget. The projections contained in the plan are our best estimates based upon current information and the assumptions outlined within this section. It is best used as a tool for reflecting trends rather than actual revenues, expenditures, and tax rates. This plan is based on the Recommended Budget for 2010-11 and the recently Adopted FY10-11 Capital Improvements Plan (CIP). 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. It is the Town Manager's goal to take action to keep tax rates at the lowest possible level while continuing to provide a high level of services.

> *The five-year plan model 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.*
>
> *Personnel services represent the largest component of the Town's general fund budget. Consequently, the five-year plan is impacted by assumptions regarding employee salaries and related expenses. The only additional positions projected in the model are associated with the opening of the northern fire substation.*

The model is built with two fund balance objectives in mind: (1) maintaining undesignated fund balance levels at a <u>minimum</u> of twenty-two and one-half percent (22.5%) of budgeted expenditures; and (2) appropriating no more than three percent (3%) of budget from General Fund balance.

Undesignated fund balance increased to 47.3% on June 30, 2009, reflecting a healthy fund balance level that may provide some options to offset some committed capital costs in future years.

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 tax rate increases.

The five-year projected tax rates in previous models have been significant but have not generally materialized at projected levels. For example, in the FY05-06 adopted budget document, the five-year plan forecast a tax increase of six cents in FY06-07 that did not materialize. The primary factor in avoiding a tax increase in FY06-07 is attributable to lower overall spending.

The bulk of the savings is where the Town incurred lower debt service costs associated with various capital projects due to lower projected interest rates for vehicle installment debt and changes in timing of capital projects such as the fire substation, and parking lot purchases. In addition, the Town made a decision to issue bond anticipation notes (BANS) which only requires interest costs until all the authorized debt is expended, at which time a bond issue will occur and debt payments will include not only interest, but principal payments as well. A more detailed explanation for other expenditures is explained in the Executive Summary of the budget document.

Nevertheless, the model serves a useful purpose: looking into the future and thinking about ways to mitigate and plan for budgetary gaps while achieving specific initiatives. Opportunities or strategies to improve the Town's expenditure and revenue stream continue to be explored by Town staff.

Assumptions about specific revenue and expenditures in the five- year model are identified on the following pages.

Revenues

The five-year plan, due to added legal protection granted by the General Assembly for state-collected local revenue, budgets for utility franchise, telecommunications sales tax, and natural piped gas taxes. In addition, the Town does receive occasional funding for bikeway or sidewalk improvements. 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.

Expenditures

Salary costs, representing over half of the budget, underscore the nature of government as a service industry; the primary asset of such an industry is the people that work for it. For future years, the assumptions within the plan assume an average 3% increase in salaries. No other new positions are projected. In addition, the plan accounts for annual significant increases in health insurance that have been a trend over time. In all of the fiscal years, it is important to note that salaries, being the largest component of general fund spending, significantly affect the total general fund budget.

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.

The Board adopts a capital improvements plan (CIP) annually. It should be noted that the five-year plan assumptions consider the capital needs identified in the CIP. The Town, due to limited resources, will continue to prioritize capital needs as opportunities and funding arises. The Town is underway with the construction of a new fire station, sidewalk, road and storm water repairs, and will develop greenway and park facilities and pay debt service costs for these various projects. The timelines and associated cost and tax impacts generally reflect numbers last considered in the FY10-11 CIP.

Capital Investments

The Board regularly allocates funding for street resurfacing and other Public Works construction projects. The amount needed to cover street resurfacing costs is anticipated to increase over the next five years. Also important in the Town's capital investment program is the purchase of vehicles and equipment to maintain day-to-day services.

A significant force creating pressure on the tax rate over the next five years is the cost of the construction of sidewalks and greenways and the eventual construction of the Martin Luther King, Jr. Park. In this model, an assumption has been made that the Town will issue the entire $4.6 million dollars approved by the voters for sidewalks and greenways in FY11-12. Meanwhile, the town continues its sidewalk construction program issuing bond anticipation notes that require annual interest payments. In FY11-12, upon issuance of bonds, both interest and principal payments will begin. Debt service expenditures and operating impact of the substation will likely create pressure to increase the tax rate. These efforts, however, are only one of many capital needs faced by the Town as indicated in the chart below.

FISCAL YEAR	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15
CONSTRUCTION - STREET RESUFACING, BIKE PATHS, SIDEWALKS,ETC	957,282	896,689	200,000	300,650	331,700	331,700	365,750
TRANSFER TO CAP RESERVE FUND FOR FUTURE CAPITAL	921,099	12,000	12,000	0	0	0	0
PARK MAINTENANCE AND REPAIR	21,323	52,500	0	85,470	207,350	286,000	129,880
INFO TECHNOLOGY	49,459	49,000	22,750	15,000	15,500	55,000	0
EQUIPMENT & VEHICLES	1,407,392	1,112,802	604,260	1,284,000	746,000	398,000	1,557,000
CAPITAL INVESTMENTS	3,356,555	2,122,991	839,010	1,685,120	1,300,550	1,070,700	2,052,630

LEASE-PURCHASE DEBT SERVICE - EQP/VEHICLES	808,680	881,784	797,049	836,206	824,408	892,924	821,169
DEBT SERVICE	491,287	616,873	386,965	373,271	382,090	390,908	399,726
DEBT SERVICE - FIRE SUBSTATION CONSTRUCTION @$3,250,000	0	199,514	342,328	333,510	324,691	315,873	307,055
SIDEWALKS & GREENWAYS - BAN/BOND ISSUE	127,935	122,405	22,573	362,931	555,163	538,488	521,813
DEBT SERVICE -MARTIN LUTHER KING, JR. PARK	0	0	0	0	253,483	245,982	238,481
DEBT PAYMENTS	1,427,902	1,820,576	1,548,915	1,905,918	2,339,835	2,384,175	2,288,244

In monitoring the Town's operating position via fund balance ratios, it is clear that there are limited resources and that the capital improvement and operating plans must be prioritized to meet the Town's most pressing needs as determined by the Board.

Projected Expenditures

GENERAL FUND	2008-2009 *Actual*	2009-2010 *Adopted Budget*	2010-2011 Adopted Budget	2011-2012 Projected	2012-2013 Projected	2013-14 Projected	2014-15 Projected
SALARY/WAGES	7,471,114	7,914,060	7,877,663	8,247,814	8,495,248	8,750,105	9,012,609
FRINGE BENEFITS	2,334,405	2,615,725	2,793,500	3,208,929	3,500,632	3,830,434	4,203,882
TOTAL PERSONAL SVCS	9,805,519	10,529,786	10,671,163	11,456,742	11,995,880	12,580,539	13,216,490
GEN OPERATING COSTS	3,155,015	2,875,496	3,747,457	3,859,881	3,975,677	4,094,947	4,217,796
AFFORDABLE HOUSING	111,524	55,345	86,465	89,059	91,731	94,483	97,317
GOV'NANCE SUPPORT	64,606	86,089	58,183	59,928	61,726	63,578	65,485
LANDFILL FEES	353,152	380,500	366,046	402,651	442,916	487,207	535,928
TRANSPORTATION COSTS	1,033,837	1,064,150	1,064,150	1,117,358	1,173,225	1,231,887	1,293,481
HUMAN SERVICES	130,502	140,502	144,296	151,511	159,086	167,041	175,393
TRANSFERS TO OTHER FUNDS, MISC.	0	0	0	24,000	0	0	0
OPERATING COSTS	4,848,636	4,602,082	5,466,597	5,704,387	5,904,362	6,139,143	6,385,400
CONSTRUCTION - STREET RESUFACING, BIKE PATHS, SIDEWALKS,ETC	957,282	896,689	200,000	300,650	331,700	331,700	365,750
TRANSFER TO CAP RESERVE FUND FOR FUTURE CAPITAL	921,099	12,000	12,000	0	0	0	0
PARK MAINTENANCE AND REPAIR	21,323	52,500	0	85,470	207,350	286,000	129,880
INFO TECHNOLOGY	49,459	49,000	22,750	15,000	15,500	55,000	0
EQUIPMENT & VEHICLES	1,407,392	1,112,802	604,260	1,284,000	746,000	398,000	1,557,000
CAPITAL INVESTMENTS	3,356,555	2,122,991	839,010	1,685,120	1,300,550	1,070,700	2,052,630
LEASE-PURCHASE DEBT SERVICE - EQP/VEHICLES	808,680	881,784	797,049	836,206	824,408	892,924	821,169
DEBT SERVICE	491,287	616,873	386,965	373,271	382,090	390,908	399,726
DEBT SERVICE - FIRE SUBSTATION CONSTRUCTION @$3,250,000	0	199,514	342,328	333,510	324,691	315,873	307,055
SIDEWALKS & GREENWAYS - BAN/BOND ISSUE	127,935	122,405	22,573	362,931	555,163	538,488	521,813
DEBT SERVICE-MARTIN LUTHER KING, JR. PARK	0	0	0	0	253,483	245,982	238,481
DEBT PAYMENTS	1,427,902	1,820,576	1,548,915	1,905,918	2,339,835	2,384,175	2,288,244
GENERAL FUND TOTAL	*19,438,612*	*19,075,435*	*18,525,685*	*20,752,167*	*21,540,626*	*22,174,557*	*23,942,764*
Operational Impact of CIP Projects Included in Operating Budget Above							
N. AREA FIRE STATION	409,822	405,911	246,389	395,128	414,884	435,628	457,410
INFO. TECHNOLOGY	5,000	0	500	0	0	0	0
CIP PROJECTS (OPERATING IMPACT)	414,822	405,911	246,889	395,128	414,884	435,628	457,410

Projected Revenues

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-14	2014-15
	Actual	*Adopted Budget*	Adopted Budget		Projected		
ESTIMATED VALUE PER ONE CENT LEVY	156,251	184,320	185,277	190,857	196,583	202,480	208,554
REQUIRED RATE PER $100 VALUATION	68.63	58.94	58.94	64.75	68.25	70.25	70.25
GENERAL FUND							
AD VALOREM TAXES	10,824,129	10,956,318	11,021,222	12,462,012	13,523,911	14,334,588	14,764,626
LOCAL SALES TAX	3,137,836	3,062,045	3,062,136	3,154,000	3,248,620	3,346,079	3,446,461
OTHER TAXES/LICENSES	428,655	391,743	402,750	410,805	419,021	427,402	435,950
UNRESTRICTED INTERGOVERNMENTAL	947,801	920,868	860,018	885,819	912,393	939,765	967,958
RESTRICTED INTERGOVERNMENTAL	810,401	563,915	553,981	567,831	582,026	596,577	611,491
FEES AND PERMITS	1,062,026	1,020,562	1,022,867	1,043,324	1,064,191	1,085,475	1,107,184
SALES AND SERVICES	260,829	299,300	244,606	256,836	269,678	283,162	297,320
INTEREST EARNINGS	151,318	100,000	50,000	50,000	50,000	50,000	50,000
OTHER REVENUES	142,015	49,075	44,069	44,069	44,069	44,069	44,069
LEASE PURCHASE PROCEEDS	0	620,496	560,500	1,284,000	746,000	398,000	1,557,000
OTHER TRANSFERS	0	544,806	176,945	0	0	0	0
FUND BAL APPROP - CEMETERY FUND			0	0	0	0	0
FUND BAL APPROP	0	546,306	526,591	593,472	680,717	669,441	660,706
GENERAL FUND TOTAL	*17,765,010*	*19,075,435*	*18,525,685*	*20,752,167*	*21,540,626*	*22,174,557*	*23,942,765*
FUND BALANCE APPROP AS A % OF TOTAL REVENUE	*0.00%*	*2.86%*	*2.84%*	*2.86%*	*3.16%*	*3.11%*	*2.98%*
PROJECTED UNDESIGNATED FUND BALANCE 6/30/XX	*6,956,301*	*8,563,125*	*8,369,085*	*8,134,216*	*7,832,050*	*7,559,206*	*7,310,016*
FUND BALANCE AS % PROJECTED EXPENDITURES	*47.3%*	*44.9%*	*45.2%*	*39.2%*	*36.4%*	*35.1%*	*33.0%*

OUTSTANDING DEBT	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-14	2014-15
GO BOND	$ 26,107	$ -	$ -	$ -	$ -	$ -	$ -
MARTIN LUTHER KING, JR. PARK LAND ($274,000)	$ 130,502	$ 110,842	$ 90,389	$ 69,113	$ 46,979	$ 23,954	$ -
CENTURY CENTER & PUBLIC WORKS LAND	$ 2,083,433	$ 1,862,676	$ 1,635,498	$ 1,341,656	$ 1,160,899	$ 912,965	$ 657,581
ADAMS TRACT ($600,000)	$ 440,000	$ 400,000	$ 360,000	$ 320,000	$ 280,000	$ 240,000	$ 200,000
CONSTRUCTION - FIRE SUBSTATION ($3,250,000)	$ -	$ 3,141,667	$ 2,925,000	$ 2,708,333	$ 2,491,667	$ 2,275,000	$ 2,058,333
CAPITAL LEASE (PROJECTED)	$ 1,755,671	$ 2,153,357	$ 1,394,655	$ 1,781,698	$ 1,708,531	$ 1,221,632	$ 1,814,713
GO SIDEWALKS & GREENWAYS	$ 4,600,000	$ 4,600,000	$ 4,600,000	$ 4,600,000	$ 4,370,000	$ 4,140,000	$ 3,910,000
MARTIN LUTHER KING, JR. PARK - CONSTRUCTION ($2,069,246)	$ -	$ -			$ 1,965,784	$ 1,862,322	$ 1,758,860
ADDITIONAL/FUTURE LT DEBT	*$ 4,600,000*	*$ 4,600,000*	*$ 4,600,000*	*$ 4,600,000*	*$ 6,335,784*	*$ 6,002,322*	*$ 5,668,860*
TOTAL OUTSTANDING DEBT	$ 9,035,713	$ 12,268,542	$ 11,005,542	$ 10,820,800	$ 12,023,860	$ 10,675,873	$ 10,399,487

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-14	2014-15
% DEBT TO ASSESSED VALUATION	0.57%	0.65%	0.58%	0.55%	0.60%	0.51%	0.49%
DEBT PER CAPITA	$373	$514	$479	$443	$497	$447	$399
% DEBT SVC TO TOTAL BUDGET	8.04%	9.86%	8.62%	9.79%	11.25%	10.95%	10.22%
POPULATION	19,178	19,479	19,869	20,266	20,671	21,085	21,506
ASSESSED VALUATION	$1,581,966,677	$ 1,890,550,409	$ 1,900,491,499	$1,957,506,244	$2,016,231,431	$ 2,076,718,374	$ 2,139,019,925

Assumptions Used in Five-Year Plan

		FY10-11	FY11-12	FY12-13	FY13-14 & FY14-15
EXPENDITURES					
Salary & Wages:					
Fulltime, Overtime, Part-time, & Temporary Salaries:		3% per year beginning FY11-12; hire 3 firefighters in FY11-12			
Fringe Benefits:					
Fica (7.65%) Retirement (4.78% for police officers; 4.88% for all others), Supplemental Retirement (5% - Police Officers; 3% - all other employees)		19.06 of salaries for LEO; 17% non-LEO			
Health Insurance		15% per year beginning FY11-12			
Dependent Health/Retiree Insurance Subsidies		15% per year beginning FY11-12			
Service Level Benefits		2.5% per year beginning FY11-12			
LEO Early Separation Allowance		5.0% per year beginning FY11-12			
Operating Costs:					
General Operating Costs		3% per year beginning FY10-11			
Computers & Peripherals	PCs – GOAL: 4 yr replacement cycle; servers – 3 yr replacement cycle				
Affordable Housing		3% per year			
Governance Support		3% per year plus Greene Tract payment of $29,524			
Landfill Fees		5% per year			
Transportation Costs		5% per year following recommended budget			
Human Services		5% per year			
Transfers To Other Funds		franchise surcharge $6K in FY08-09; franchise surcharge FY09-10 & FY10-11- $12K; reimburse Revolving Loan Fund for Gen Fund Loans $24K in FY10-11			
Capital Investments:					
Street Resurfacing & Construction Reserves		Annual Street Resurfacing Allocation based on CIP; Weaver St. Reconstruction			
Park Maintenance		Based on CIP			
Computers & Peripherals		Based on CIP			
Equipment		Lease-Purchase CIP+ $100,000/YR			
CIP Projects – Operating Impact:					
N. Area Fire Substation		operations FY10-11; 3 addtl Firefighters (12 total) in FY11-12, 5% thereafter			
IT Technology		Per CIP projections			
Debt Payments:					
Lease-Purchase Payments/Debt Svc		Projected per CIP projections			
REVENUES					
Ad Valorem Tax Base		3% per year thereafter			
Local Sales Tax		3 % per year			
Other Taxes and Licenses		2% per year			
Unrestricted Intergovernmental		3% per year			
Restricted Intergovernmental		2.5% per year			
Fees and Permits		2% per year			
Sales and Services		5% per year			
Interest Earnings/Other Revenue		No change			
Lease Purchase Proceeds		Lease-purchase CIP			
Other Transfers		Funds are transferred from other funds as needed			
Fund Bal Appropriated		All other Fund Balance appropriated per financial policy.			