

APPENDIX

CIP Impact on Town's Overall Financial Condition And Operating Budget

The CIP planning process includes an analysis of the impact on the town's overall financial condition. This financial analysis evaluates the impact of the CIP on the Town's debt burden, debt service and annual operating costs. These are the major debt ratios monitored by the Local Government Commission and credit rating industries in assessing the fiscal health of the Town. Currently, the Town 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 for municipalities similar to the Town of Carrboro.

The debt analyses is based on the proposed spending and borrowing of \$36.7 million to fund CIP projects over a six-year period. Where applicable, projects and purchases including vehicles and equipment are based upon a six percent inflation factor. Lease purchase financing for vehicles and equipment assumes a five – seven year term while lease purchase financing for all other projects assumes a 15-year term. Projects financed with General Obligation Bond debt assumes a 20-year term. For all debt scenarios, we estimate a five and three-quarters percent interest rate in FY2010-11 and increase the rate a one-half percentage point every year through FY2015-16 with a final interest rate of 8.75 percent. Also, the amounts needed to finance capital projects with cash (i.e., capital reserves or general fund contribution) are also considered.

Debt Service Ratios

Debt load is a large expenditure that credit rating industries monitor. Debt is an obligation resulting from the borrowing of money. The Town's debt structure primarily consists of installment financing and GO bond debt for capital improvements and equipment or vehicle replacements.

Credit rating firms analyze a government's ability to afford debt in numerous ways. Under favorable circumstances, 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.

Numerous indicators are used to evaluate ability to repay as well as the government's capacity to incur debt. One measure of a debt capacity is expressed in terms of assessed or market valuation, and the other is on a per capita basis.

The Town compares these two debt ratios to its peer town group (i.e., population of 10,000 to 24,999) as identified by the Local Government Commission (LGC) as a reference point to assess debt burden and ability to pay. The LGC calculates the debt-to-assessed valuation ratio for each jurisdiction and determines the overall debt-to-assessed valuation ratio as being low, average, or high. The Town strives to avoid the "high" debt burden. Beginning on page 3.3 is a spreadsheet that shows the impact of financings proposed in the CIP.

For municipalities comparable to Carrboro the average debt-to-assessed valuation ratio in FY2008-09 was .385 percent with a high level being 1.414 percent. Carrboro's ratio for this same period was .451% and is projected to peak in FY 12-13 to .700%. Because the Town has very little bonded debt, having used pri-

marily installment debt financing, the debt-to-assessed valuation ratio is considered to fall within the norm. Overall the Town's debt is well below the legal limit (NC General Statutes GS 159-55) that limits net debt to eight percent (8 %) or less of a local government's total property valuation. For Carrboro that legal margin, based on the June 30, 2010 audited valuation, is \$153,531,227.

The per capita ratio measures debt burden and is generally useful for communities that do not rely heavily on property taxes and cannot easily compute a substitute revenue base for comparison. For FY 2008-09 the Town's per capita debt was \$367 compared to an average of \$413 for peer group and a high of \$1,193. While the estimated per capita debt for FY 10-11 is estimated to be \$629, this is expected to be lowered to \$589 in FY 12-13 when debt is estimated to peak at \$2.6 million.

Debt service can be a major part of a government's fixed costs, and its increase may indicate excessive debt and fiscal strain. Thus, credit firms consider debt exceeding 20 percent of operating revenues as a potential problem while 10 percent is considered acceptable. The Town's goal is to keep total debt service at or below 12%, considering this to be a moderate level of debt. The Town's debt service as a percentage of the total operating budget is projected to reach 11.24 percent in FY12-13 yet stays within fiscal policy limits.

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.

Carrboro's CIP meets all objectives of the LGC as well as its own fiscal policy. The debt service to total budget ratio, while

increasing at times, does not come close to the 15% threshold considered by the LGC to be a "high" debt burden. The more significant impact of the CIP is the potential property tax burden that may occur over the next six years should the town pursue all of the projects in the CIP.

As with most financing decision, there are challenges and choices the town must make in carrying out its CIP over the coming years. Given a tax base consisting of residential properties and limited or no commercial base, the ability to sustain a large capital improvements program becomes even more challenging.

Summary Table of the Impact of CIP on Debt Ratios

DEBT SERVICE COSTS	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17
Total GO Debt	\$ 22,573	\$ 18,993	\$ -	\$ -	\$ -	\$ -	\$ -
Total Installment Purchase Debt, Long Term	\$ 376,965	\$ 373,272	\$ 369,610	\$ 365,886	\$ 362,193	\$ 333,827	\$ 170,588
Total Installment Purchase Debt, General Fund Veh/Equip	\$ 994,674	\$ 777,251	\$ 612,240	\$ 372,611	\$ 132,631	\$ -	\$ -
CURRENT DEBT SERVICE OBLIGATIONS	\$ 1,394,212	\$ 1,169,516	\$ 981,850	\$ 738,497	\$ 494,824	\$ 333,827	\$ 170,588
DEBT SERVICE COSTS, ADDITIONAL DEBT SERVICE, RECOMMENDED IN CIP							
GO Debt Service Costs	\$ 190,095	\$ 391,414	\$ 555,163	\$ 538,488	\$ 521,813	\$ 505,138	\$ 471,787
Installment Purchase Debt Service Costs, Long Term	\$ 342,328	\$ 333,510	\$ 616,196	\$ 597,601	\$ 579,005	\$ 560,410	\$ 523,219
Installment Purchase Short Term Debt Service Costs, General Fund Veh/Equip	\$ -	\$ 264,664	\$ 492,481	\$ 573,700	\$ 931,712	\$ 1,067,144	\$ 934,600
FUTURE DEBT SERVICE, RECOMMENDED CIP	\$ 532,423	\$ 989,588	\$ 1,663,840	\$ 1,709,788	\$ 2,032,530	\$ 2,132,691	\$ 1,929,605
TOTAL DEBT SERVICE OBLIGATIONS, CURRENT & RECOMMENDED	\$ 1,926,635	\$ 2,159,103	\$ 2,645,690	\$ 2,448,285	\$ 2,527,354	\$ 2,466,518	\$ 2,100,194
TOTAL DEBT (OUTSTANDING PRINCIPAL)							
GO Bond, Long Term Debt (includes authorized but unissued bonds)	\$ 4,600,000	\$ 4,600,000	\$ 4,370,000	\$ 4,140,000	\$ 3,910,000	\$ 3,680,000	\$ 3,220,000
Installment Purchase, Long Term Debt	\$ 5,010,887	\$ 4,499,103	\$ 3,979,545	\$ 3,451,918	\$ 2,915,914	\$ 2,396,132	\$ 1,488,334
Installment Purchase, Short Term General Fund Veh/Equip	\$ 1,727,595	\$ 1,034,564	\$ 474,624	\$ 125,526	\$ 0	\$ -	\$ -
CURRENT OUTSTANDING PRINCIPAL	\$ 11,338,482	\$ 10,133,667	\$ 8,824,170	\$ 7,717,444	\$ 6,825,914	\$ 6,076,132	\$ 4,708,334
ADDITIONAL DEBT (OUTSTANDING PRINCIPAL):							
Installment Purchase, Long Term Debt	\$ -	\$ -	\$ 2,027,861	\$ 1,883,014	\$ 1,738,166	\$ 1,593,319	\$ 1,303,625
Installment Purchase, Short Term General Fund Veh/Equip	\$ 1,212,000	\$ 1,160,336	\$ 1,372,790	\$ 1,198,668	\$ 1,821,529	\$ 1,045,507	\$ 95,620
FUTURE OUTSTANDING PRINCIPAL	\$ 1,212,000	\$ 1,160,336	\$ 3,400,650	\$ 3,081,682	\$ 3,559,696	\$ 2,638,826	\$ 1,399,245
TOTAL OUTSTANDING PRINCIPAL, CURRENT & RECOMMENDED	\$ 12,550,482	\$ 11,294,003	\$ 12,224,820	\$ 10,799,126	\$ 10,385,610	\$ 8,714,958	\$ 6,107,578
Population	19,953	20,352	20,759	21,174	21,598	22,029	22,919
Projected Assessed Valuation	\$ 1,655,892,914	\$ 1,705,569,702	\$ 1,756,736,793	\$ 1,809,438,897	\$ 1,863,722,063	\$ 1,919,633,725	\$ 2,036,539,419
WITHOUT ADDITIONAL DEBT							
Projected Budget - 3% growth w short term debt and w/o additional long-term debt only + CIP PAYG only	\$ 20,031,797	\$ 21,195,694	\$ 21,710,462	\$ 21,695,603	\$ 21,755,624	\$ 21,206,089	\$ 19,924,814
ESTIMATED RATIOS							
% Outstanding Principal to Assessed Valuation	0.68%	0.59%	0.50%	0.43%	0.37%	0.32%	0.23%
% Debt Svc to Total Budget	6.96%	5.52%	4.52%	3.40%	2.27%	1.57%	0.86%
Debt Per Capita	\$ 568	\$ 498	\$ 425	\$ 364	\$ 316	\$ 276	\$ 205
WITH ADDITIONAL DEBT							
Projected Budget + Additional Debt Service + CIP PAYG and Operating Impact Costs	\$ 20,864,325	\$ 23,037,514	\$ 23,608,764	\$ 23,581,882	\$ 23,375,792	\$ 22,271,636	\$ 20,919,820
ESTIMATED RATIOS							
% Outstanding Principal to Assessed Valuation	0.76%	0.66%	0.70%	0.60%	0.56%	0.45%	0.30%
% Debt Svc to Total Budget	9.23%	9.37%	11.21%	10.38%	10.81%	11.07%	10.04%
Debt Per Capita	\$ 629	\$ 555	\$ 589	\$ 510	\$ 481	\$ 396	\$ 266
DEBT RATIOS: PEER POPULATION (10,000-24,999), FY08-09							
	LOW	AVERAGE	HIGH				
Outstanding Principal (Debt) as % of Assessed Valuation	0.620%	0.385%	1.414%				
Outstanding Principal (Debt) Per Capita	\$ 61.00	\$ 413.00	\$ 1,193.00				
CREDIT RATING INDUSTRY STANDARD:							
	BUDGET STRAIN	ACCEPTABLE					
Debt Service as a % of the Operating Budget	20%	10%					

Impact of the CIP on the Town's Annual Operating Budget

The chart below shows the potential impact of the CIP on the Town's annual operating budget. This impact is calculated in terms of tax rate equivalent, a formula that takes estimated revenue generated from the Town's assessed property tax base and estimates what it would take in the property tax revenue to fund the increases. This formula does not take into consideration the natural growth or decline in the annual revenue stream from other sources such as sales tax, grant revenues, and local user fees. Nor does this chart address ongoing operational needs cited in the annual operating budget process but unrelated to the CIP. Committing to an aggressive CIP requires significant increases in debt service costs associated with financing large multi-year projects. These costs will be largely funded through property taxes, one of the few significant revenue streams directly under the control of local jurisdictions. Additionally, significant annual cash appropriations may be necessary to pay for smaller capital projects where financing is not an appropriate alternative, as well as to pay for increased operating costs once capital projects are completed.

Based on the projects in the CIP there will be increased costs for funding the priorities— moving forward with plans to build the Martin Luther King, Jr. neighborhood park on Hillsborough Road in FY12-13; and continuing with sidewalk construction with the intention of beginning full debt service payments in FY12-13 on the entire \$4,600,000 approved by voters in November 2003. In addition, the town continues to maintain its current infrastructure, replacing vehicles in a timely manner; maintaining streets and performing storm water repairs; and addressing technology needs. The chart shows periodic increases in operating cost as projects are funded. The potential increases cited by the CIP can be mitigated by obtaining additional revenue sources, expansion of the tax base above what is projected, or by delaying or deleting projects that are not related to public safety.

CURRENT DEBT SERVICE	\$ ISSUE	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17
BOND REFUND, RECREATION AND FIRE FACILITY	\$ 863,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
STREET AND BIKEWAY, GO BOND	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CENTURY CENTER, IP	\$ 3,080,000	\$ 229,879	\$ 229,879	\$ 229,879	\$ 229,879	\$ 229,879	\$ 229,879	\$ 229,879
MARTIN LUTHER KING, JR PARK, IP	\$ 274,000	\$ 24,673	\$ 24,673	\$ 24,673	\$ 24,673	\$ 24,673	\$ -	\$ -
PUBLIC WORKS LAND, IP	\$ 767,000	\$ 66,013	\$ 63,960	\$ 61,938	\$ 59,854	\$ 57,801	\$ 55,748	\$ 53,704
ADAMS TRACT, IP	\$ 600,000	\$ 56,400	\$ 54,760	\$ 53,120	\$ 51,480	\$ 49,840	\$ 48,200	\$ 46,560
SIDEWALK AND GREENWAYS - BANS	\$ 2,590,000	\$ 22,573	\$ 18,993	\$ -	\$ -	\$ -	\$ -	\$ -
FIRE SUBSTATION	\$ 2,992,703	\$ 342,328	\$ 333,510	\$ 324,691	\$ 315,873	\$ 307,055	\$ 298,236	\$ 289,418
VEHICLE/EQPMT INSTALLMENT DEBT SERVICE, CURRENT(FY09-10 CIP)	N/A	\$ 994,674	\$ 777,251	\$ 612,240	\$ 372,611	\$ 132,631	\$ -	\$ -
TOTAL CURRENT DEBT SERVICE		\$ 1,736,540	\$ 1,503,025	\$ 1,306,541	\$ 1,054,370	\$ 801,879	\$ 632,063	\$ 619,560
CIP PROJECTS RECOMMENDED, NOT YET FUNDED								
DEBT SERVICE COSTS - GENERAL OBLIGATION BONDS								
GO SIDEWALK AND GREENWAY DEBT SERVICE, FUTURE	\$ 4,600,000	\$ 190,095	\$ 391,414	\$ 555,163	\$ 538,488	\$ 521,813	\$ 505,138	\$ 488,463
DEBT SERVICE COSTS - LONG-TERM INSTALLMENT FINANCING								
MARTIN LUTHER KING JR. PARK	\$ 2,172,708	\$ -	\$ -	\$ 261,791	\$ 252,699	\$ 243,607	\$ 243,607	\$ 243,607
INSTALLMENT FINANCING DEBT SERVICE, FUTURE	\$ 2,172,708	\$ -	\$ -	\$ 261,791	\$ 252,699	\$ 243,607	\$ 243,607	\$ 243,607
FUTURE VEHICLE/EQP INSTALLMENT DEBT SERVICE, FY10-11 CIP	\$ 4,930,658	\$ -	\$ 264,664	\$ 492,481	\$ 573,700	\$ 931,712	\$ 1,067,144	\$ 1,160,077
TOTAL DEBT SERVICE, CURRENT AND FUTURE		\$ 1,926,635	\$ 2,159,103	\$ 2,615,976	\$ 2,419,256	\$ 2,499,010	\$ 2,447,951	\$ 2,511,706
CAPITAL RESERVE								
STREET RESURFACING		\$ 100,650	\$ 499,350	\$ 331,700	\$ 331,700	\$ 365,750	\$ 365,750	\$ 411,000
PARK MAINTENANCE FUND		\$ 184,455	\$ 99,907	\$ 89,743	\$ 414,991	\$ 138,600	\$ 100,800	\$ 128,000
WEAVER STREET RECONSTRUCTION		\$ -	\$ 370,117	\$ -	\$ -	\$ -	\$ -	\$ -
SIDEWALKS ROGERS RD AND SMITH LEVEL/CULBRETH ROADS		\$ -	\$ 143,823	\$ 207,000	\$ -	\$ -	\$ -	\$ -
INFORMATION TECHNOLOGY		\$ 15,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CAPITAL RESERVE CASH ALLOCATION FOR FUTURE PROJECTS		\$ 300,105	\$ 1,113,197	\$ 628,443	\$ 746,691	\$ 504,350	\$ 466,550	\$ 539,000
OPERATING IMPACT OF CIP PROJECTS								
INFORMATION TECHNOLOGY		\$ -	\$ 3,700	\$ 1,500	\$ 1,500	\$ 15,000	\$ -	\$ -
MARTIN LUTHER KING, JR. PARK		\$ -	\$ -	\$ 25,000	\$ -	\$ -	\$ -	\$ -
GREENWAYS				\$ 72,000				
PARK MAINTENANCE					\$ 2,000			
PUBLIC WORKS FACILITY								\$ 7,500
TOTAL OPERATING IMPACT OF CIP PROJECTS		\$ -	\$ 3,700	\$ 98,500	\$ 3,500	\$ 15,000	\$ -	\$ 7,500
GRAND TOTAL COSTS FOR CIP IMPLEMENTATION		\$ 2,226,740	\$ 3,276,000	\$ 3,342,919	\$ 3,169,447	\$ 3,018,360	\$ 2,914,501	\$ 3,058,206
LESS FUNDS ALREADY SET ASIDE IN CAPITAL RESERVE/DESIGNATED FUND BALANCE		\$ (199,455)	\$ (513,940)	\$ (207,000)				
DIFFERENCE FROM PRIOR FISCAL YEAR		\$ (714,733)	\$ 734,776	\$ 373,858	\$ 33,528	\$ (151,087)	\$ (103,859)	\$ 143,705
REVENUE PER PENNY OF TAX		\$ 185,277	\$ 191,762	\$ 198,473	\$ 205,420	\$ 212,610	\$ 220,051	\$ 227,753
TAX RATE EQUIVALENT (CENTS) FOR BOTH CIP INFRASTRUCTURE AND OPERATING COSTS		N/A	3.83	1.88	0.16	(0.71)	(0.47)	0.63

Unfunded Projects

Bicycle and Pedestrian Improvements

The 2005 Downtown Circulation Study has identified opportunities to add more off-road connections and upgrade the on-road system of bike paths in Carrboro. The Bel Arbor Multi-Use Path (Phipps and Simpson Street to Bel Arbor Lane), which is part of the Town's 2006 Parks and Recreation Master Plan is included in this study. The S. Greensboro Sidewalk (between Old Pittsboro Rd. and the eastbound ramp from NC 54 Bypass) remains unfunded at this time. The construction of the sidewalk along Estes Drive is a continuing dilemma with the absence of bike lanes, the need to obtain right-of-way along a state –maintained road, high construction costs and a future NCDOT road project along the same corridor. This project is #13 on the regional priority list of the State Transportation Improvement Program. It is prudent to coordinate with NCDOR on a project that would include bike lanes and cost-sharing on sidewalks that would reduce local funding requirements. The Town will continue to evaluate alternatives such as the possible Pleasant Drive-Estes Park connection.

Greenways

The Town's Comprehensive Parks and Recreation Master Plan has adopted a greenways plan as one of its elements. These greenways will provide opportunities to provide a system of trails along major creeks in Carrboro's Planning Area and to coordinate these improvements to link with existing and planned trails in Chapel Hill and Orange County and to link neighborhoods and park facilities. The Board of Aldermen is planning to fund the Morgan

Creek Greenway and a portion of the Bolin Creek Greenway from Estes Drive to Hogan Farm with bond funding approved in the November 2003 referendum. However, several greenway projects remain unfunded at this time, largely due to the anticipated timing of the projects being beyond the six years being reviewed in the CIP. These greenways include: Sunset Creek Branch (Bolin Creek at Horace Williams to Sunset Bolin Creek); Bolin Creek from Hogan Farm to Union Grove Church Road; and Jones Creek (Bolin Creek to Twin Creeks); BPW/Westbrook and Tripp Farm to Seawell School Road.

Gymnasium

The town's Comprehensive Parks and Recreation Master Plan strongly recommends the construction of a gymnasium inclusive of two basketball courts, a meeting room, and office and storage spaces. During the public input process, citizens identified a facility such as this as the top priority for Carrboro as critical to meeting general and athletic programming needs in the community.

Local Road Improvements

It is important for the town's development that streets are kept in good condition. There are other local road improvements that could be conducted such as Rainbow and Dove Streets. These roads need to be widened to include curb and gutter. They also in some cases would need a storm-water swale section. However, no citizen petitions have come forward and the projects currently remain unfunded.

UNFUNDED PROJECTS	
Bicycle/Pedestrian Improvements	
Greenways	
Gymnasium	
Local Road Improvements	
Outdoor Swimming Pool	
Roberson St. Improvements	
Town Hall Renovations	

Outdoor Swimming Pool

The Town's Comprehensive Master Parks and Recreation Plan recommends one public pool for each set of 25,000 people. Carrboro is currently without a swimming facility. Several public input sessions within the community have expressed support for an outdoor pool.

Roberson Street Improvements

The Downtown Carrboro: New Vision report recommends improvements to Roberson Street. These improvements have the potential to enliven the downtown core and will highlight Roberson Street as a priority location for development. The improvements include underground utilities, sidewalk improvements, on-street parking, lighting, and connections throughout the area.

Town Hall Renovations

Town Hall, originally constructed in 1920/21, needs considerable renovations in order to maintain its usefulness. These major renovations, identified in a facilities use study conducted in 1995, would make the building suitable for organizational and community needs. Without these renovations, Town Hall will not be able to accommodate future space needs.