

APPENDIX

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

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.

To understand the impact of the CIP on the Town's overall financial condition (i.e., debt burden and debt service) and annual operating budget, the CIP planning process includes the calculation of debt burden and debt service ratios. These debt ratios are monitored by the Local Government Commission and credit rating industries in assessing the fiscal health of the Town.

The debt analyses is based on the proposed spending and borrowing of \$28.0 million to fund CIP projects over a six-year period. Installment purchase financing for vehicles and equipment assumes a five to seven year term, and installment purchase financing for all other projects assumes a 15-year term. Projects financed with General Obligation Bond debt assumes a 20-year term. For vehicles and equipment debt financing, we estimate a five percent interest rate in FY 2011-12 and increase the rate a one-half percentage point every year through FY 2017-18 with a final interest rate of 7.5 percent. Other long term installment debt financing assumes an interest rate of 7.25 percent. Also, the amounts needed to finance capital projects with cash (i.e., capital reserves or general fund contribution) are considered in evaluation the operating budget impact.

Debt Service Ratios

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

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.

Several financial ratios 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.

Debt To Assessed Valuation

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 FY 2009-10 was .345 percent with a high level being 1.208 percent. Carrboro's ratio for this same period was .522%. With additional debt to fund projects in the CIP, this ratio is projected to be .38% in FY 17-18. The Town's

debt-to-assessed valuation ratio while above the average and less than the high level, is considered to fall within the norm given that the Town has very little bonded debt. The Town has used primarily installment debt financing,

Overall the Town's debt is below the legal limit required by NC General Statutes, GS 159-55 which limits net debt to eight percent (8 %) or less of a local government's total property valuation. For Carrboro the legal debt limit is \$153,531,227 based on the June 30, 2011 audited valuation of \$1,908,388,531.

Debt Per Capita

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 2009-10 the Town's per capita debt was \$503 compared to an average of \$400 for peer group and a high of \$1,086. With the additional debt required in the CIP, the estimated per capita debt for FY 11-12 is estimated to be \$514, which is expected to be lowered to \$397 in FY 17-18 when outstanding principal debt is estimated to be \$8.7 million.

Debt Burden

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% of operating revenues as a potential problem while 10% is considered acceptable debt burden. 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 10.36% percent in FY 16-17 yet stays within Town 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 Gen-

eral 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 decisions, there are challenges and choices the Town must make in carrying out its CIP over the coming years. With a tax base consisting of residential properties and limited or no commercial base, the ability to sustain a large capital improvements program will require a careful balance of debt financing and the use of capital reserve funds.

Summary of CIP Impact on Debt Ratios

DEBTSERVICE COSTS - CURRENT	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
Total GO Debt	\$ 14,515	\$ 22,573	\$ 22,573	\$ -	\$ -	\$ -	\$ -
Total Installment Purchase Debt, Long Term	\$ 706,781	\$ 694,301	\$ 681,759	\$ 669,247	\$ 632,063	\$ 619,560	\$ 451,188
Total Installment Purchase Debt, General Fund Veh/Eqp	\$ 490,563	\$ 331,519	\$ 331,519	\$ 98,243	\$ -	\$ -	\$ -
CURRENT DEBT SERVICE OBLIGATIONS	\$ 1,211,859	\$ 1,048,393	\$ 1,035,851	\$ 767,490	\$ 632,063	\$ 619,560	\$ 451,188
DEBTSERVICE COSTS - ADDITIONAL DEBT							
GO Debt Service Costs	\$ 14,515	\$ 45,146	\$ 586,073	\$ 546,824	\$ 530,150	\$ 513,476	\$ 513,476
Installment Purchase Debt Service Costs, Long Term	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,383	\$ 236,766
Installment Purchase Short Term Debt Service Costs, General Fund Veh/Eqp	\$ 65,740	\$ 311,867	\$ 549,712	\$ 920,436	\$ 1,124,790	\$ 1,213,725	\$ 1,120,578
<i>FUTURE DEBT SERVICE, RECOMMENDED CIP</i>	\$ 80,255	\$ 357,013	\$ 1,135,785	\$ 1,467,260	\$ 1,654,940	\$ 1,845,584	\$ 1,870,820
TOTAL DEBT SERVICE, CURRENT & RECOMMENDED	\$ 1,292,114	\$ 1,405,406	\$ 2,171,635	\$ 2,234,750	\$ 2,287,003	\$ 2,465,144	\$ 2,322,008
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	\$ 3,450,000
Installment Purchase, Long Term Debt	\$ 4,499,103	\$ 3,979,545	\$ 3,451,918	\$ 2,915,914	\$ 2,396,132	\$ 1,868,326	\$ 1,488,334
Installment Purchase, Short Term General Fund Veh/Eqp	\$ 723,682	\$ 415,568	\$ 96,739	\$ 0	\$ -	\$ -	\$ -
CURRENT OUTSTANDING PRINCIPAL	\$ 9,822,785	\$ 8,995,114	\$ 7,918,657	\$ 7,055,914	\$ 6,306,132	\$ 5,548,326	\$ 4,938,334
ADDITIONAL DEBT (OUTSTANDING PRINCIPAL):							
Installment Purchase, Long Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,271,591	\$ 2,169,613
Installment Purchase, Short Term General Fund Veh/Eqp	\$ 233,110	\$ 1,051,779	\$ 1,626,184	\$ 2,446,549	\$ 2,364,573	\$ 1,970,270	\$ 1,640,088
FUTURE OUTSTANDING PRINCIPAL	\$ 233,110	\$ 1,051,779	\$ 1,626,184	\$ 2,446,549	\$ 2,364,573	\$ 4,241,861	\$ 3,809,701
TOTAL OUTSTANDING PRINCIPAL, CURRENT & RECOMMENDED	\$ 10,055,895	\$ 10,046,893	\$ 9,544,841	\$ 9,502,463	\$ 8,670,705	\$ 9,790,187	\$ 8,748,034
Population	19,582	19,974	20,373	20,781	21,196	21,620	22,053
Projected Assessed Valuation	\$ 1,908,388,531	\$ 1,965,640,187	\$ 2,024,609,393	\$ 2,085,347,674	\$ 2,147,908,105	\$ 2,212,345,348	\$ 2,278,715,708
ESTIMATED RATIOS WITHOUT ADDITIONAL DEBT							
Projected Budget - 3% growth w short term debt and w/o additional long-term debt only + CIP PAYG only	\$ 18,489,939	\$ 19,944,846	\$ 21,307,557	\$ 22,485,525	\$ 23,228,122	\$ 23,402,637	\$ 23,137,384
% Outstanding Principal as % to Assessed Valuation	0.51%	0.46%	0.39%	0.34%	0.29%	0.25%	0.22%
% Debt Service to Total Operating Budget	6.55%	5.26%	4.86%	3.41%	2.72%	2.65%	1.95%
Debt Per Capita	\$ 502	\$ 450	\$ 389	\$ 340	\$ 298	\$ 257	\$ 224
ESTIMATED RATIOS WITH ADDITIONAL DEBT							
Projected Budget + Additional Debt Service + CIP PAYG and Operating Impact Costs	\$ 18,489,939	\$ 21,053,823	\$ 22,799,674	\$ 24,320,233	\$ 24,651,912	\$ 24,034,496	\$ 23,887,626
% Outstanding Principal as % to Assessed Valuation	0.53%	0.51%	0.47%	0.46%	0.40%	0.44%	0.38%
% Debt Service to Total Operating Budget	6.99%	6.68%	9.52%	9.19%	9.28%	10.26%	9.72%
Debt Per Capita	\$ 514	\$ 503	\$ 469	\$ 457	\$ 409	\$ 453	\$ 397
LGC DEBT RATIOS: PEER POPULATION (10,000-24,999), FY 2009-10	LOW	AVERAGE	HIGH				
Outstanding Principal (Debt) as % of Assessed Valuation	0.018%	0.345%	1.208%				
Outstanding Principal (Debt) Per Capita	\$ 11.00	\$ 400.00	\$ 1,086.00				
CREDIT RATING INDUSTRY STANDARD:	BUDGET STRAIN	ACCEPTABLE					
Debt Service as a % of the Operating Budget	20%	10%					

Impact of 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 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 cost of funding the priorities in FY 13-14 with the issue of \$4.6 million of GO debt for sidewalk construction approved by voters in November 2003; and the financing to build the Martin Luther King, Jr. park on Hillsborough Road in FY 16-17. 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	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
CENTURY CENTER, IP	\$ 3,080,000	\$ 229,879	\$ 229,879	\$ 229,879	\$ 229,879	\$ 229,879	\$ 229,879	\$ 99,593
MARTIN LUTHER KING, JR PARK, IP	\$ 274,000	\$ 24,673	\$ 24,673	\$ 24,673	\$ 24,673	\$ -	\$ -	\$ -
PUBLIC WORKS LAND, IP	\$ 767,000	\$ 63,960	\$ 61,938	\$ 59,854	\$ 57,801	\$ 55,748	\$ 53,704	\$ 26,076
ADAMS TRACT, IP	\$ 600,000	\$ 54,760	\$ 53,120	\$ 51,480	\$ 49,840	\$ 48,200	\$ 46,560	\$ 44,920
SIDEWALK AND GREENWAYS - BANS	\$ 2,590,000	\$ 14,515	\$ 22,573	\$ 22,573	\$ -	\$ -	\$ -	\$ -
FIRE SUBSTATION	\$ 2,992,703	\$ 333,510	\$ 324,691	\$ 315,873	\$ 307,055	\$ 298,236	\$ 289,418	\$ 280,600
VEHICLE/EQPMIT INSTALLMENT DEBT SERVICE, CURRENT	N/A	\$ 490,563	\$ 331,519	\$ 331,519	\$ 98,243	\$ -	\$ -	\$ -
TOTAL CURRENT DEBT SERVICE		\$ 1,211,859	\$ 1,048,393	\$ 1,035,851	\$ 767,490	\$ 632,063	\$ 619,560	\$ 451,188
CIP PROJECTS RECOMMENDED								
GO SIDEWALK AND GREENWAY DEBT SERVICE, FUTURE	\$ 4,600,000	\$ 14,515	\$ 45,146	\$ 586,073	\$ 546,824	\$ 530,150	\$ 513,476	\$ 513,476
DEBT SERVICE COSTS - LONG-TERM INSTALLMENT FINANCING								
MARTIN LUTHER KING JR. PARK CONSTRUCTION	\$ 2,389,974	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,383	\$ 2,169,613
FUTURE VEHICLE/EQP INSTALLMENT DEBT SERVICE, FY11-12 CIP		\$ 65,740	\$ 311,867	\$ 549,712	\$ 920,436	\$ 1,124,790	\$ 1,213,725	\$ 1,120,578
TOTAL DEBT SERVICE, CURRENT AND FUTURE		\$ 1,292,114	\$ 1,405,406	\$ 2,171,635	\$ 2,234,750	\$ 2,287,003	\$ 2,465,144	\$ 4,254,855
CAPITAL RESERVE								
STREET RESURFACING		\$ 451,490	\$ 300,700	\$ 300,700	\$ 331,750	\$ 331,750	\$ 365,800	\$ 365,800
PARK MAINTENANCE FUND		\$ -	\$ 117,804	\$ 260,173	\$ 195,784	\$ 80,711	\$ 132,000	\$ 247,170
WEAVER STREET RECONSTRUCTION	\$ 600,937	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SIDEWALKS ROGERS RD AND SMITH LEVEL/CULBRETH ROADS	\$ -	\$ -	\$ 350,823	\$ -	\$ -	\$ -	\$ -	\$ -
STORMWATER MANAGEMENT				\$ 27,500	\$ 335,000	\$ 334,400		
JONES CREEK GREENWAY				\$ 22,498	\$ 170,066			
DOWNTOWN MULTI-USE PATH						\$ 32,102	\$ -	
CARRBORO HIGH SCHOOL MULTI-USE PATH						\$ 21,384	\$ 149,555	
INFORMATION TECHNOLOGY	\$ 36,500	\$ 101,500	\$ 15,500	\$ 55,000	\$ -	\$ -	\$ -	\$ -
TOTAL CAPITAL RESERVE CASH FOR FUTURE PROJECTS	\$ 1,088,927	\$ 870,827	\$ 626,371	\$ 1,087,600	\$ 800,347	\$ 647,355	\$ 612,970	\$ 612,970
OPERATING IMPACT OF CIP PROJECTS								
INFORMATION TECHNOLOGY	\$ 3,200	\$ 3,200	\$ 19,500	\$ 1,500	\$ 15,000	\$ -	\$ -	\$ -
MARTIN LUTHER KING, JR. PARK	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,500
GREENWAYS		\$ 72,000						
STORMWATER MANAGEMENT						\$ 1,000	\$ 1,500	\$ 1,000
JONES CREEK GREENWAY				\$ 3,000				
DOWNTOWN MULTI-USE PATH						\$ 2,500	\$ 2,500	
CARRBORO HIGH SCHOOL MULTI-USE PATH						\$ 2,500	\$ 2,500	
PARK MAINTENANCE			\$ 117,804	\$ 260,173	\$ 195,784	\$ 80,711	\$ 132,000	\$ 247,170
PUBLIC WORKS FACILITY						\$ 7,500	\$ -	
TOTAL OPERATING IMPACT OF CIP PROJECTS	\$ 3,200	\$ 193,004	\$ 279,673	\$ 200,284	\$ 96,711	\$ 146,000	\$ 280,670	\$ 280,670
GRAND TOTAL COSTS FOR CIP IMPLEMENTATION	\$ 2,384,241	\$ 2,469,237	\$ 3,077,679	\$ 3,522,634	\$ 3,184,061	\$ 3,258,499	\$ 5,148,495	\$ 5,148,495
LESS FUNDS ALREADY SET ASIDE IN CAPITAL RESERVE/DESIGNATED FUND BALANCE	\$ (600,937)	\$ (350,823)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DIFFERENCE FROM PRIOR FISCAL YEAR	\$ (2,384)	\$ 335,109	\$ 959,266	\$ 444,955	\$ (338,573)	\$ 74,438	\$ 1,889,996	\$ 1,889,996
REVENUE PER PENNY OF TAX (assumes 3.0% increase yearly)	\$ 188,947	\$ 194,615	\$ 200,454	\$ 206,467	\$ 212,662	\$ 219,041	\$ 225,613	\$ 225,613
TAX RATE EQUIVALENT (CENTS) FOR BOTH CIP INFRASTRUCTURE AND OPERATING COSTS		(0.01)	1.72	4.79	2.16	(1.59)	0.34	8.38

Unfunded Projects

Town Hall Renovations

Town Hall, originally constructed in 1922, 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.

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 stormwater swale section. However, no citizen petitions have come forward and the projects currently remain unfunded.

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.