

ABOUT THE TOWN OF CARRBORO...

The Town of Carrboro is a small local government entity overseen by a Mayor and Board of Aldermen and professionally managed by a Town Manager. The Town is a growing community located within Orange County in the north central portion of North Carolina. The area's topography is characterized by rolling hills. The Town, which was incorporated in 1911, has a population of 19,479 and is situated next to Chapel Hill, the University of North Carolina and is near the Research Triangle Park.

The growth of the Town is directly related to the expansion of the University of North Carolina at Chapel Hill and growth in the Research Triangle Park. Enrollment at the University has risen from 8,791 in 1960 to 28,916 in 2009. It is anticipated that the expansion will continue to occur in University-related health facilities such as the University of North Carolina Hospitals.

DEMOGRAPHICS

The 2000 Census revealed interesting demographic trends occurring in the community that promise to affect the services provided by the Town in the near future.

POPULATION

The 2000 population of Carrboro was 16,782. This is a 45 percent increase from 1990, the highest percentage increase in Orange County. Carrboro added over 5,200 people to its population between 1990 and 2000. About 62 percent of the people that were added to Orange County in the 1990s were added in either Carrboro or Chapel Hill. Since 2000, though, the population has increased by only 1,641 people. The following paragraphs highlight important demographic changes that have taken place over the past decade.

ETHNIC COMPOSITION

Carrboro has the highest Hispanic/Latino population in Orange County with 2,062. This is a 936 percent increase from 1990 when the Hispanic/Latino population was listed at a count of 199. This group now accounts for 12.3 percent of the population. Specifically, those with a Mexican origin have increased from 64 in

1990 to 1,530 in 2000. This represents a 2,291 percent increase. This sub-group now accounts for 9.1 percent of the population in Carrboro.

Race	%
White	72.7%
Black	13.5%
Asian	5.2%
Other	8.6%

Note regarding the chart: The reason the Hispanic/Latino population cannot be shown in this chart is because of the way the census defines Hispanic origin. A person can be of any race and be of Hispanic/Latino origin. If one's origin is either Mexican-American, Chicano, Mexican, Mexicano, Puerto Rican, Cuban, or Central or South American then one is considered of Hispanic/Latino origin.

AGE COMPOSITION

The combined age groups of the years 20 to 54 make up more than 69 percent of Carrboro's total population. The percent changes from 1990 highlights some changes worthy of notice. The age group of 20 to 24 has decreased 5 percent since 1990, an indication of a decline of the proportion of undergraduate students living in Carrboro. The population increased in the rest of the age groups between 25 to 54 since 1990. This points to the growing trend of Carrboro's population as a community of graduate students, young professionals, married couples and families. The school age population (age 5 to 19) has increased from 1,281 in 1990 to 2,653 in 2000. This is a 107 percent increase. This raises obvious concerns about school overcrowding and the need to build more schools and hire more teachers. Along with this increase in children, married couple families with children under 18 increased by 91 percent. About 25 percent of the households in Carrboro are now "family" households, defined as having individuals under the age of 18. All of this points to the fact that Carrboro has become a place where families

desire to live. The biggest increase took place in the age groups of 45 to 54 and those over the age of 85. The largest age group in

Carrboro is the 25 to 34 age group. They account for about 25 percent of the population.

Age	Number	% of Population	% Change from 1990
Under 5 Years	905	5.4	63%
5 to 9 Years	934	5.6	97%
10 to 14 Years	844	5.0	122%
15 to 19 Years	875	5.2	104%
20 to 24 Years	3,221	19.2	-5%
25 to 34 Years	4,177	24.9	23%
35 to 44 Years	2,587	15.4	73%
45 to 54 Years	1,722	10.3	173%
55-59 Years	367	2.2	117%
60 to 64 Years	292	1.7	23%
65 to 74 Years	402	2.4	26%
75 to 84 Years	315	1.9	110%
85 Years and Over	141	0.8	513%

Source: U.S. Census Bureau

HOUSING

Carrboro continues to be mostly a community consisting of rental units as 68 percent of the housing stock is renter occupied. However, in the last ten years, owner occupied housing has increased at a rate three times faster than that of rental housing. Rental housing increased 22 percent in the 1990s while owner occupied housing jumped 74 percent. In 1990, owner occupied housing accounted for 22.4 percent of the housing stock and in 2000 it accounted for 32 percent. In 1980, owner occupied housing only comprised 21.2 percent of the housing stock. Carrboro continues to have the highest population density in the state. Density increased from 2,584 persons/square mile in 1990 to 3,753 persons/square mile in 2000.

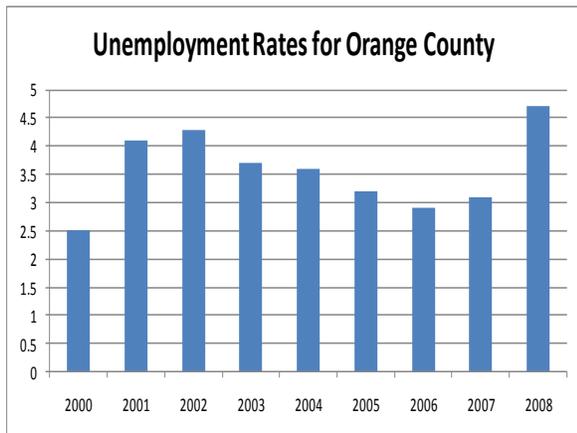
The median cost of an owner-occupied housing unit in Carrboro in 2000 was \$143,242. This is up from \$93,008 in 1990, a 54 percent increase (Source: AnySite Technologies, LLC, 2000).

INCOME

The 2000 per capita income for Carrboro is \$22,303 and the median household income is \$35,273. This is much lower than the median household income level of the Raleigh-Durham metro area which is around \$66,000. The household income levels of Carrboro break roughly into equal thirds. Thirty percent of the households earn less than \$20,000 a year. Thirty five percent of the households make between \$20,000 and \$50,000 a year, while 35 percent of households make more than \$50,000 a year.

EMPLOYMENT

Current employment levels in Carrboro were strong as indicated by the 2000 Census unemployment rate of 3.6 percent. That was better than the national unemployment rate of 4 percent but higher than the Raleigh-Durham rate of 1.8 percent. The unemployment rate for Orange County has fluctuated since 2000 and due to the current national economic condition has climbed to 6.2% as of December 2009.

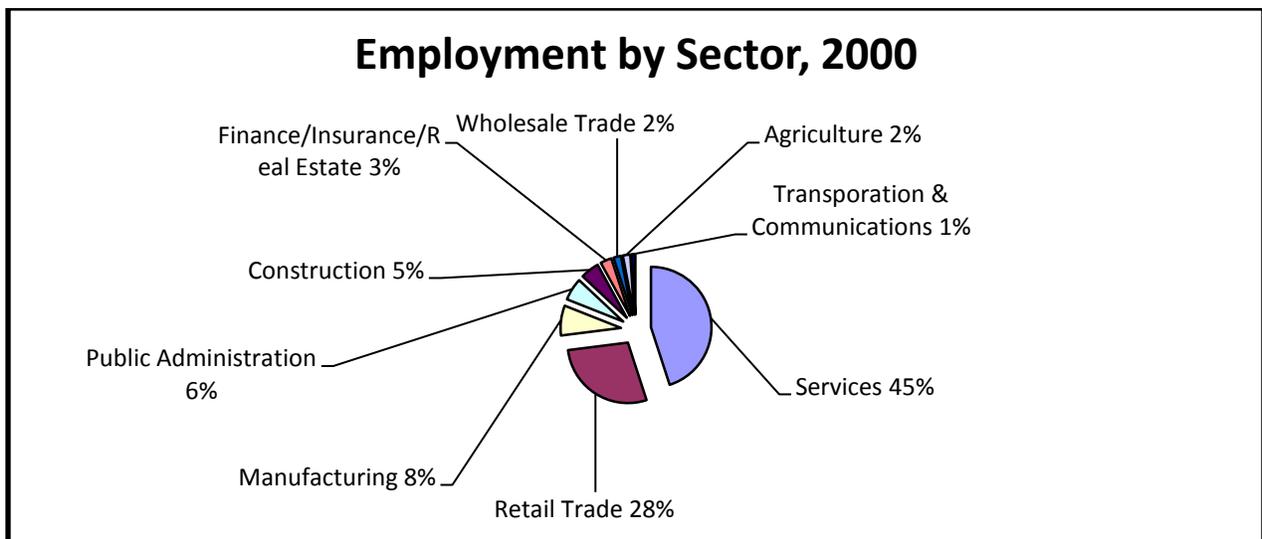


The overwhelming majority of employment in Carrboro is concentrated in two sectors, services and retail. These two sectors provide 73 percent of the employment in Carrboro.

Some of the biggest employers in Carrboro are the school system, businesses that provide services to other businesses, management services, grocery stores, and restaurants.

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

Employer	# of Employees
University of North Carolina at Chapel Hill	11,000
UNC Hospitals	6,956
Blue Cross/Blue Shield of NC	1,612
Chapel Hill-Carrboro City Schools	1,573
Orange County Schools	1,031
Orange County Government	963
Town of Chapel Hill	678
A Southern Season	501
General Electric Corp	501



Source: Orange County Economic Development Commission

Key Intergovernmental Relationships

The Town of Carrboro has many relationships with surrounding communities and with other State and regional organizations that affect the services provided to the community. A summary of these relationships follows:

State of North Carolina

- Established the Town by granting a municipal charter
- Grants and imposes powers to the Town
- Constructs and maintains a road network within the Town limits
- Is the conduit for transportation improvement funds used to maintain roads
- Collects and distributes certain taxes to the Town (sales taxes, beer and wine taxes, etc.)

Triangle J Council of Governments (TJCOG)

- Provides planning and other services to towns that are members of this voluntary organization that represents a region of municipal and county governments, including Carrboro
- Includes one delegate and one alternate to its board of delegates

City of Durham

- Provides staff for the Durham/Chapel Hill/Carrboro Metropolitan Planning Organization (Transportation Advisory Committee)

Chatham County

- Meets with town staff via Orange-Chatham Work Group on occasion to review development issues. Parks Work Group, and the Orange County Housing and Land Trust

Development at the border affects each community.

University of North Carolina

- Has mutual aid agreement for police services and emergencies
- Involves town in planning for Carolina North
- Allows use of easement for Libba Cotten bikeway

Orange Water and Sewer Authority

- Provides a mutual aid agreement for emergency response
- Extends water and sewer services in Carrboro zoning jurisdiction in accordance with policies of the Board
- Maintains fire hydrants used by the Carrboro Fire Department

Orange County

- Provides mutual aid agreement for police services
- Provides landfill and recycling services to Carrboro
- Appoints two members to OWASA board of directors
- Participates in Joint Planning Agreement
- Plans jointly with Town for use of Housing and Urban Development Funds (HUD) and receives local contribution from Town toward affordable housing initiatives
- Has community, elected board members, and other Carrboro residents serve on numerous boards, commissions, and work groups including: Solid Waste Advisory Board, Orange County Economic Development Commission, JOCCA, EMS Council, Intergovernmental

- Assists with funding of joint capital projects including recent purchase of Adams Tract for open space preservation
- Operates 911 emergency communications system; dispatches fire and police service units
- Provides jail services for Carrboro
- Provides tax assessing and collection services for Carrboro
- Provides grants to Carrboro for recreation
- Enforces soil and erosion control ordinance in the Town
- Program cooperative recreational and educational ventures with Orange County

Town of Chapel Hill

- Provides fixed-route, E-Z rider and Shared Ride transit services via an interlocal agreement with Town of Carrboro and the University of North Carolina
- Appoints two members to the Orange County Solid Waste Advisory Board, two members to the Orange Water and Sewer Authority (OWASA) board of directors.
- Has a mutual aid agreement for fire protection
- Provides use of Chapel Hill's fire training facilities
- Provides regular staff communications regarding services and policies
- Share resources with Chapel Hill, i.e., protective gear and hose tester in the Fire Department; special events staffing
- Program cooperative recreational and educational ventures with Chapel Hill

Town of Hillsborough

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

Chapel Hill-Carrboro School System

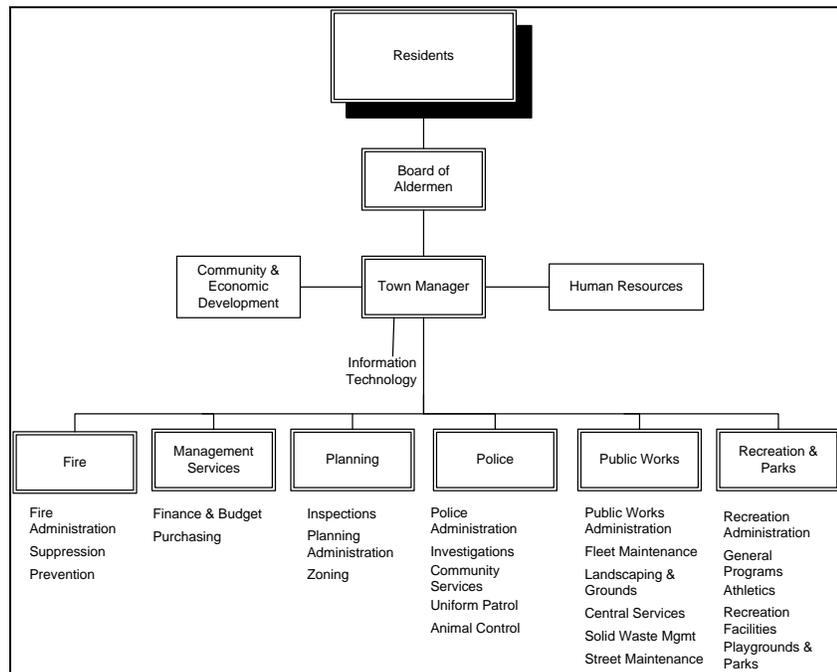
- Engages in joint use agreements for use of some recreation facilities
- Uses town services to provide school resource officer

GOVERNMENTAL STRUCTURE

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

The Board also appoints a manager who carries out the laws and policies enacted by the board. The Town Manager is responsible for managing the town's employees, finances, and resources. The Town has 153 full-time employees with 8 departments reporting to the Town Manager (see chart below). The Board of Aldermen also appoints a Town Clerk to maintain important town records, and an attorney, who represents the town administration and board in all legal matters.

Local governments in North Carolina exist to provide a wide range of basic services on which we all depend: police and fire protection; public works (garbage collection, street resurfacing, fleet maintenance, landscaping and building and grounds); planning; inspections and zoning; economic and community development; and parks and recreation programming. The major services provided by the Town include all of the services above but exclude water and sewer services and tax collections.



Certain large costs assumed by the Town reflect key services that are contracted with other governmental jurisdictions such as transit services, recycling, and landfill fees. The town also has administrative support units (personnel, technology, finance, budget, purchasing, town clerk, etc) that provide both direct services as well as indirect support services.

The General Fund is the primary operating budget for the Town. The town has several other smaller funds primarily for capital reserves or for capital projects.

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

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

BOARD PRIORITIES

The Board of Aldermen spends considerable time annually reviewing and defining strategic priorities for the Town with the ultimate goal of creating and maintaining Carrboro as a sustainable community that is a highly desirable place to live. The Board’s decisions ultimately affect the resource allocations for Town services approved by the Board the annual budget ordinance allocating expenditures and revenues for July 1 through June 30 of each year.

Budgeting in Carrboro has become a year-round event. Kicking off with the capital improvements program in August to a final adopted budget the following June involves staff, community, and board interaction. Much of the work presented annual operating budget draws from the CIP and reports and assessments of community needs identified by residents, advisory boards, staff, and the Board.

Budget Calendar

August 20	Distribute CIP Manual to Departments
September 17	Departments submit CIP Document to Management Svcs
November 3	Final Draft of Recommended CIP due to Town Clerk
November 10	Present CIP to Board
January 4	Management Services distributes budget manual
February 1	Board Retreat
February 15	Departmental budgets, work plans, and performance measures due
February 23	Board holds public hearing to receive community input on the 2009-10 budget
March 1-9	Town Manager meets with department heads to review budget requests
March 15-26	Final review of budget requests by Town Manager
May 11	Town Manager submits budget to Board First budget work session
May 25	Board holds public hearing on recommended budget
June 1	Second budget work session (if needed) & Board directs Town Manager to prepare final budget
June 15	Board adopts final budget

Beginning in December, departmental budgets are prepared and justified using two components - a continuation budget and a proposed change or expansion budget. In recognition that some costs incurred by the Town reflect increases beyond normal inflation, the continuation budget, includes those costs, as well as expenditures where the Town or Board has made a legal or budgetary commitment. The inclusion of these costs in the continuation budget will allow the Town to maintain the same high levels of service provided in the current year with similar operating funds. These costs include projects and infrastructure expenditures reflected in the annual Capital Improvements Plan which includes street resurfacing costs, vehicles, equipment, various specific capital projects and debt service payments for capital commitments. Other ongoing annual costs in the continuation budget includes performance pay for employees, and dependent and retiree health insurance, and numerous operating costs needed to provide daily services.

All other requests are defined as “proposed changes” and are budgeted in a separate column and are categorized in a manner such that the Board and residents can understand the various dynamics involved in making funding decisions. Dynamics include improved service levels, and capital outlay – recurring capital outlay that does not meet the capital thresholds for consideration in the CIP. Justifications for proposed changes are based on the Board’s adopted goals as well as individual departmental goals and objectives.

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

The current Board priorities (in bold) and their relationship to departmental goals and work plans (in italics) are listed below:

- ❖ **Diversify revenue stream to maintain ethnic and economic diversity**
 - ◆ *Maximize use and revenue at recreation facilities.(Recreation & Parks)*
 - ◆ *Enhance recreation programming opportunities to better serve diverse populations within the community. (Recreation & Parks)*
 - ◆ *Increase recreation program offerings for underserved citizens.(Recreation & Parks)*
 - ◆ *Work with the Small Business and Technology Development Center to provide business plan and entrepreneurship training to 30 aspiring entrepreneurs. (Economic and Community Development)*
 - ◆ *Increase the number of women and minority-owned businesses. (economic and Community Development)*

- ❖ **Improve walkability and public transportation**
 - ◆ *Improve Quality of public transportation service. (Transportation)*
 - ◆ *Improve level of public transportation service. (Transportation)*
 - ◆ *Work with Chapel Hill Transit to more effectively manage current level of public transportation service in Carrboro, to extend service into areas of Carrboro not served by fixed route service, and evaluate the shared-ride service in Carrboro (number of participants). (Transportation)*
 - ◆ *Assist the Carrboro Greenways Commission implement a system of greenways. (Planning)*

- ❖ **Encourage development that is compact, dense, and appeals to diverse lifestyles and incomes**
 - ◆ *Increase the number of affordable housing units in the Town. (Economic and Community Development)*
 - ◆ *Engage in productive work with the newly created Local Living Economy Task Force. (Economic and Community Development)*

- ❖ **Enhance and sustain quality of life/place issues for everyone**
 - ◆ *Reduce the number of known drug houses and street-level drug sales locations. (Police)*

- ◆ *Maintain index crime clearance rates at or above the national average for comparable towns. (Police)*
- ◆ *Ensure the safety of all employees and citizens on town property. (Police)*
- ◆ *Monitor fire trends and create public education programs to target these issues. (Fire-Rescue)*
- ◆ *Provide fire suppression, light duty rescue, and emergency medical technician services on a 24-hour basis covering the Town of Carrboro and the South Orange Fire District. (Fire-Rescue)*
- ◆ *Provide fire education for schools, day care centers, and special interest groups. (Fire-Rescue)*
- ◆ *Achieve a well-balanced public infrastructure. (Planning)*
- ◆ *Promote a human environment that facilitates a community of trust, mutual respect, and a sense of acceptance, happiness and well being by emphasizing positive relationships. (Planning)*
- ◆ *Develop new and innovative approaches to support human activity within the community, particularly with regard to housing, transportation, energy production and consumption, resource protection and conservation. (Planning)*
- ◆ *Complete the comprehensive review of Carrboro's Land Use Ordinance. (Planning)*
- ◆ *Provide timely, cost-effective maintenance of public streets, bike paths, storm drainage system and right-of-way. (Public Works)*
- ◆ *Provide cost effective, reliable solid waste collection and disposal. (Public Works)*
- ◆ *Provide park facility and ball field maintenance. (Public Works)*
- ◆ *Provide classes, workshops, trips, camps and other general recreational activities to meet the varied leisure interests and needs of the community. (Recreation & Parks)*
- ◆ *Operates 10 parks and 1 indoor community facility. (Recreation & Parks)*

FINANCIAL POLICIES

Among the responsibilities of municipalities to its residents is the care of public funds and the wise and prudent management of municipal finances while providing for the adequate funding of the services desired by the public and the maintenance of public facilities. These financial management policies are designed to ensure the fiscal stability of the Town and to guide the development and administration of the annual operating and capital budgets.

Objectives

The Town's financial objectives address revenues, cash management, expenditures, debt and risk management, capital needs and budgeting and management. The specific objectives are listed below:

- Protect the policy-making ability of the Board of Aldermen by ensuring that important policy decisions are not controlled by financial problems or emergencies.
- Assist Town management by providing accurate and timely information on financial conditions.
- Provide sound principles to guide the important decisions of the Board of Aldermen and of management which have significant fiscal impact.
- Provide essential public facilities and prevent deterioration of the Town's public facilities and its capital plant.
- Set forth-operational principles that minimize the cost of government and financial risk, to the extent consistent with services desired by the public.
- Enhance the policy-making ability of the Board of Aldermen by providing accurate information on program costs.
- Employ revenue policies that prevent undue or unbalanced reliance on certain revenues, which distribute the costs of municipal services fairly, and which provide adequate funds to operate desired programs.
- Ensure the legal use of all Town funds through a good system of financial security and internal controls.

Achieving These Objectives:

Town staff shall develop and maintain methods of forecasting future revenues and expenditures. These methods shall project the Town's future revenues and expenditures through a variety of methods including but not limited to forecasts of the economy and future development of the Town.

Town staff will estimate General Fund revenues using an objective and analytical process, as well as documenting and maintaining specific assumptions. In instances where there is uncertainty as to assumptions, conservative revenue projections shall be provided.

REVENUE POLICIES

Important issues to consider in revenue analysis are growth, flexibility, elasticity, dependability, diversity, and administration. Under ideal situations, revenues grow at a rate equal to or greater than the combined effects of inflation and expenditures. Revenues should be sufficiently flexible to allow adjustments to changing conditions.

The Town uses the following policies to govern its operations and methods regarding revenues that are used for operations.

Sources of revenue

The Town will strive to maintain a diversified and stable revenue system to shelter the government from short-run fluctuations in any single revenue source and ensure its ability to provide for ongoing service.

A balance will be sought in the revenue structure between the proportions of elastic and inelastic revenues. New sources of revenue will be sought to achieve the desirable balance.

Restricted revenue shall only be used for the purpose intended and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated as such.

Intergovernmental assistance shall be used to finance only those capital improvements that are consistent with the capital improvement plan and local government priorities, and whose operation and maintenance costs have been included in operating budget forecasts.

Fees and cost recovery

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

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

The Recreation and Parks Department, establishes recreation fees based on numerous factors, depending upon the program or services offered. Services offered may be available at no cost (a town-sponsored event), partially subsidized based on financial need, or may be based on 80%-100% direct cost recovery. Fees for nonresident users of recreation programs shall be established after the Board of Aldermen approves the upcoming fiscal year budget. The fee shall be established by dividing the annual appropriation for the Recreation and Parks Department by the number of town residents. This will provide for a per capita cost for recreation services. An average of two activities per year in the Athletic Program and three activities per year in the General program area has been determined.

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

Grants and federal funds

The Town shall aggressively pursue all grant opportunities; however, before accepting grants, the Town will consider the current and future implications of both accepting and rejecting the monies, including:

- the amount of matching funds required;
- in-kind services that are to be provided;
- the related operating expenses; and

- length of grant and consequential disposition of service (i.e., is the Town obliged to continue the services after the grant has ended).

Payment-in-Lieu Financing

Payment-in-lieu revenue represents payments from developers or property owners for the purpose of providing open space areas or recreational facilities that serves or benefits the residents of the development generating the funds.

The Town's ordinance allows developers of certain types of projects to either provide open space and recreational facilities according to standards set forth in the ordinance or pay a fee in accordance with the Town-established fee schedule.

Operating Transfers

To the maximum extent feasible and appropriate, General Fund transfers to other funds shall be defined as payments intended for the support of specific programs or services. Amounts not needed to support such specific program or service expenses shall revert back to the General Fund.

OPERATING BUDGET POLICIES

The Town uses the following policies to govern its operations and methods regarding operating budget expenditures.

Fund Balance

The amount of fund balance is considered to be one of the key indicators of the financial condition of a town. To maintain the Town's credit rating and to meet seasonal cash flow shortfalls, economic downturns or a local disaster, the budget shall provide for an anticipated fund balance for the general fund.

Key purposes for maintaining fund balance include:

- ▶ Having a reserve for emergencies as in the case of lawsuits, ice storms, hurricanes and other natural disasters;
- ▶ Providing a sufficient cash flow for the Town given the amount of revenues received on a monthly basis is not consistent and the tax rate cannot be changed during the fiscal year even though cash flow problems may develop;
- ▶ Weathering unforeseen shortfalls in revenues; and,
- ▶ Taking advantage of an unforeseen opportunity when it arises (i.e., purchasing land that comes available)

The Town will maintain an undesignated balance in the general fund at a level ranging from 22.5% to 35% of the General Fund budget. The Town may earmark funds exceeding the 22.5% undesignated fund balance level for capital projects or financing only.

If, at the end of a fiscal year, the undesignated fund balance falls below 20%, the Town will rebuild the balance to 22.5% within one year.

If, on the other hand, at the end of a fiscal year, the undesignated fund balance exceeds 35%, the Town Manager, upon confirming the undesignated fund balance available in the annual audit, may set aside an amount in designated fund balance for transfer to capital reserve fund for future projects, unless there are other conditions that exist which would allow the Town Manager to conclude it necessary to maintain fund balance at the current reserve level. Undesignated fund balance will generally not be used for operating expenses.

Budget Process and Procedures

State Laws

The North Carolina Local Government Budget and Fiscal Control Act requires that the Town Manager submit a recommended budget to the Mayor and Board of Aldermen no later than May 1st, that the Board hold a public hearing on the budget, and that the Board adopt an annual budget or interim budget each year by July 1st. The budget must be balanced. Defined by the Fiscal Control Act, “the sum of estimated net revenues and appropriated fund balance in each fund shall be equal to appropriations in that fund.”

State laws also determine the types of services and regulatory authority, which the Town can provide as well as the revenue sources available to the Town. For example, the Town is authorized to provide police and fire protection, refuse collection, and street maintenance services, but is not authorized by the State to levy income taxes or to raise the local sales tax which is capped at the existing two and one-half (2.5) percent. In North Carolina, county governments are responsible for public health, education, and social services. County and state government decisions govern funding for the Chapel Hill- Carrboro school system.

Local procedures

The budget process follows a familiar process in that the primary mission continues to be the development of an annual financial plan for the Town. However, just as important, the budget is a strategic plan whereby departmental missions and objectives are aligned with the Board goals and commitments made today and the impact of those decisions are projected and planned for into the future.

Public input and review of the recommended budget is encouraged. The entire budget document shall be available at the Town Clerk’s Office and the Town’s website for review. The Board of Aldermen shall hold at least two meetings prior to their adoption of an annual budget.

The fiscal budget is prepared by the Town Manager for a one-year fiscal cycle beginning July 1 and ending June 30 of the following year and must be adopted by the Board of Aldermen prior to the beginning of each fiscal year.

The recommended budget, as presented by the Town Manager, shall reflect the continuation of current service levels wherever appropriate and/or shall include an explanation of any decreases and increases. Any reprogramming or budget shifts from the previous budget shall be clearly identified in the budget document.

The recommended budget, as presented by the Town Manager, shall represent a balanced budget; recommended allocations shall not exceed projected revenues.

General Fund Budgeting

The basic format of the budget shall identify programs within organizational structures defined primarily by department. Programs are defined as specific services provided to the public by a specific department. All assumptions, transfers, and other relevant budget data shall be clearly stated.

The Town will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as postponing expenditures, accruing future years' revenues, or rolling over short-term debt.

Requests for human services and nonprofit funding shall coincide with the budget process. The Town shall set aside funds for external organizational or program services through the grant application process. The amount recommended for funding shall increase each year based on the consumer price index (CPI) over the previous twelve months. If the CPI remains flat or decreases, nonprofit funding shall remain unaffected. The requests are reviewed by the Town's Human Services Commission which in turn submits a funding recommendation to the Board of Aldermen.

Transfers between funds and transfers from the contingency account may be executed only by the Board of Aldermen. The Carrboro Board of Aldermen will appropriate funds from the Contingency Fund exclusively for government operations.

Where possible, the budget and subsequent status reports will integrate performance measurement and productivity indicators.

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

Budgetary and accounting procedures will conform to Generally Accepted Accounting Principles (GAAP) for governmental agencies.

Special Fund Budgeting

The term "Special Funds" shall be used to identify all funds other than the General Fund, inclusive of the following fund types: Capital Reserve Fund, Payment-in-Lieu Capital Reserve Fund, Revolving Loan Fund, and Capital Projects Fund.

Special Funds shall be created when legally required, requested by the Board of Aldermen, or to facilitate internal accounting and financial reporting procedures.

The annual budget for each Special Fund shall be prepared in conjunction with the General Fund budget and shall be submitted to the Board of Aldermen for adoption prior to the beginning of the fiscal year.

Special Funds budgetary and accounting procedures will conform to GAAP.

Capital Fund Budgeting

A local government may in its discretion, authorize and budget for a capital project or grant project, either in its annual budget ordinance or in a project ordinance. At any time during the year, a project ordinance may be established. A local government shall not begin a capital project until it has adopted a balanced project ordinance for the life of the project.

A project ordinance is balanced when revenues estimated to be available for the project equal appropriations for the project. A project ordinance shall clearly identify the project and authorize its undertaking, identify the revenues that will finance the project, and make the appropriations necessary to complete the project.

Major capital decisions tend to have a fiscal and operational impact more extensive than that required of annual operating and maintenance decisions and require different planning and budgetary methods. For projects that cost over \$100,000 and will require more than one year to accomplish, it is recommended that departments use a project ordinance rather than the General Fund operating budget.

An amendment is required when the budget established for the project is not sufficient to complete the project in its entirety. A project ordinance amending the project budget will require approval by the Board of Aldermen.

Transfers

Line-item adjustments within one project will be allowed via an internal “budget adjustment request form”, assuming the project scope is substantially the same and total funding will not increase as a result of the transfer. Transfer requests will be prepared and signed by the department head of the requesting department and submitted to Management Services to be reviewed. When these transfers occur, the project manager will state that the project scope can still be achieved without increasing the total funding of the project. Management Services will ensure that all transfer requests are approved by the Town Manager.

A transfer between projects within the same fund is only allowed with formal board approval. This process ensures transparency and keeps the Board up-to-date regarding budget changes in capital projects.

Maintenance of Capital Assets

Provisions will be made for adequate maintenance of the capital plant and equipment and for their orderly rehabilitation and replacement, within available revenue and budgetary limits. The budget should provide sufficient funds for the regular repair and maintenance of all town capital assets. The budget should not be balanced by deferring these expenditures.

The budget shall incorporate tenets of the technology plan that recognize the importance and necessity of maintaining and updating the installed technological infrastructure. It is strongly suggested that end-user workstations are to be replaced on a four year cycle, servers to be replaced on a three year cycle and other network infrastructure and business applications to be replaced as dictated by financial, technical, and business criteria defined in the Technology Plan. Finally, it is noted that replacement of infrastructure with the latest technology, rather than applying major upgrades to existing infrastructure, is often the most cost effective path.

As with technology, town vehicles are also replaced on a predetermined schedule. Through a planned approach the Town looks to minimize fleet capital cost and operational cost. The Public Works Department utilizes a booklet containing replacement criteria (includes criteria such as age and usage) for recommending replacement. It should be noted that age and usage criteria provide general guidance for replacement and there can be other circumstances that factor in the decision to replace a vehicle or piece of equipment either sooner or later than the recommended guidelines. These factors may include high maintenance cost, excessive down time, resale value, standardization of fleet, or change of operation.

All vehicles and capital equipment that exceed \$25,000 per item shall be considered for town's installment financing schedule identified in the capital improvements plan. All vehicles are funded with installment financing.

CAPITAL IMPROVEMENT PROJECT POLICIES

The Town uses the following policies to govern its capital improvement program that address particular community needs.

Capital improvement program

The Town Manager shall develop and maintain a projection of capital improvement projects (Capital Improvement Program) for the next six years based on the previous capital improvement plans, community needs assessments, and on projects approved by the Board of Aldermen. The Capital Improvement Program (CIP) should be tied to projected revenue and expenditure constraints. Future planning should consider periods of revenue surplus and shortfall and adjust future programs accordingly. The CIP includes long-term maintenance and other operational requirements for proposed projects that meet the following criteria: 1) requested item is equipment costing more than \$25,000, or is a vehicle, and 2) requested project is multi-year in nature and exceeds \$100,000 over the life of the project. The CIP also includes information technology projects with costs equal to or greater than \$15,000. Each fiscal year, the Town Manager will update the CIP to include current information for review by the Board of Aldermen. The CIP plan is incorporated into the annual operating budget request process. Provisions are made for adequate maintenance of capital infrastructure and equipment and for their orderly replacement within available revenue and budgetary limits. Items are appropriated into the budget by the board upon adoption of the budget.

Unexpended project balances shall be carried forward to future fiscal years to complete the intent of the original budget, contingent upon approval by the Board of Aldermen.

The Town's capital program will recognize the borrowing limitation and debt tolerance of the Town.

The CIP budget process shall include a financial analysis and narrative of the impact of the CIP on the Town's financial condition, including but not limited to, debt levels and operating budget.

The Town shall actively pursue outside funding sources for all projects for the CIP funding.

Capital improvement financing

Within the limitation of existing law, various funding sources may be utilized for capital improvements. Capital projects shall not be dictated by the nature of funding available except to

the extent that the projects meet an initial test of being required to achieve Town goals and to the extent that projects must be placed in priority dictated by the nature of the funds available.

Unspent capital project funds shall revert to undesignated capital reserves within the Capital Reserve Fund for future capital funding. In no case shall projects incur a funding deficit without the express approval of the Board of Aldermen.

DEBT MANAGEMENT POLICY

POLICY STATEMENTS

Debt policies are written guidelines and restrictions affecting the amount, issuance, process, and type of debt issued by a governmental entity. The important functions of a debt policy are to:

- Provide guidance on the types and levels of the Town's outstanding debt obligations so as not to exceed acceptable levels of indebtedness and risk. Debt policies also serve as a framework within which the Town can evaluate each potential debt issuance;
- Direct staff on objectives to be achieved, both before bonds are sold and for the ongoing management of the debt program;
- Facilitate the debt issuance process by making important decisions ahead of time;
- Assist the Town in the management of its financial affairs, ensuring that the Town maintains a sound debt position and that its credit quality is protected;
- Allow for an appropriate balance between the established debt parameters and providing flexibility to respond to unforeseen circumstances and new opportunities; and
- Serve as a means of stimulating an open debate about the government's outstanding obligations and lead to an informed decision by elected officials.

Purpose and Type of Debt

Purpose:

Debt is only to be incurred for financing capital assets that, because of their long-term nature or because of budgetary constraints, cannot be acquired from current or budgeted resources. Debt is not to be used for operational needs or normal recurring maintenance. Ideally, the Town will strive to restrict debt issuance to capital needs identified and formalized in a capital improvement program (CIP).

Types of Debt:

A. The types of debt instruments can include general obligation bonds, bond anticipation notes, revenue bonds, lease-installment financings, certificates of participation, special obligation bonds, or any other financing instrument allowed under North Carolina statutes. The Town will strive to use the least costly and most appropriate form of financing for its project needs.

B. All debt issued, including short-term installment purchase financing that the Town incurs for recurring equipment, will be repaid within a period not to exceed the expected useful life of the improvements, equipment, or vehicles financed by the debt.

Debt Limits and Affordability

Debt policies should define limits or acceptable ranges for each type of debt. Limits are set for legal, financial, and policy reasons. State law dictates legal limits. Financial limits may be established to achieve a desired credit rating or to exist within budgetary or other resource constraints. Debt limits alone will not result in desired ratings, but limits on debt levels can have a material impact if the local government demonstrates adherence to the policy over time. Policy limits can include the purposes for which debt may be used, the types of debt that may be issued, and minimum credit ratings.

The Town will use an objective, analytical approach to determine the amount of debt to be considered for authorization and issuance.

Several standards or guidelines are available for establishing limits:

Outstanding Debt as a Percentage of Assessed Valuation

This ratio measures debt levels against assessed valuation and assumes that property taxes are the primary source of debt repayment.

Statutorily, the Town is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the Town may have outstanding to 8% of the appraised value of property subject to taxation. However, this is not considered a realistic ratio as other ratios that measure ability to pay (described below) would exceed the Town's desired debt levels.

The Town will also strive to avoid maintaining a "high" debt burden as measured by the Local Government Commission. This analysis is updated annually by the LGC.

Debt per Capita

This ratio reflects the philosophy that all taxes, and therefore the total principal on outstanding debt, are paid by the residents (as measured by population count). This ratio is widely used by analysts as a measure of an issuer's ability to repay debt.

The Town will also strive to avoid maintaining a "high" debt burden as measured by the Local Government Commission. This analysis is updated annually by the LGC.

Debt Service as a Percentage of Operating Expenditures

The ratio that measures the percentage of debt service to the general fund expenditures reflects the Town's budgetary flexibility to change spending and respond to economic downturns. Annual debt service payments (like a house payment), can be a major fixed part of a government's fixed costs and its increase may indicate excessive debt and fiscal strain.

The North Carolina Local Government Commission (LGC) advises that local governments should have a reasonable debt burden. A heavy debt burden may be evidenced by a ratio of General Fund Debt Service to General Fund Expenditures exceeding 15%, or Debt per Capita or Debt to Appraised Property Value exceeding that of similar units. Credit rating agencies, on the other hand, consider debt exceeding 20% of operating budget to be excessive. Ten percent is considered acceptable.

The Town will maintain this ratio at or below 12%, considering this to be a moderate level of debt.

Use of Debt Ratios

This measure of debt service expenditures as a percentage of operating expenditures will be the primary ratio used to relay the impact of debt to the Board, both in terms of tax rate and ability to pay debt within budgetary constraints. No project will be included in the CIP that increases the debt ratio above 12%. Any project that is considered outside of the Capital Improvement Plan shall be revisited in context of the plan to monitor the project's impact on the Town's debt ratios. Projects shall be considered for recommendation as long as the debt service expenditures as a percentage of operating expenditures remain at or below the 12% debt ratio.

The aforementioned measures, while defined with targets in mind, shall also be judged against the necessity of and benefits derived from the proposed acquisitions. The Town will continue to update its debt affordability analyses annually along with a review of peer groups to continue to analyze and control its debt effectively.

By establishing comparative debt ratios and targets over a period of time, the Town is demonstrating that there is an analytical and informed process for monitoring and making decisions about the Town's debt burden and maintaining the Town's fiscal position on behalf of the community.

Bond Ratings

The Town will seek to maintain its current A+ (Standard and Poors) and A1 (Moody's) bond ratings. The Town will maintain good communications with bond rating agencies about its financial condition and operations.

Debt Issuance and Structure

The Town will strive to issue bonds no more frequently than once in any fiscal year. The scheduling of bond sales and installment purchase decisions and the amount of bonds to be sold and installment financing to be sought will be determined each year by the Board of Aldermen. These decisions will be based upon the identified cash flow requirements for each project financed, market conditions, and other relevant factors.

If cash needs for bond projects are insignificant in any given year, the Board may choose not to issue bonds. Instead, the Board may fund upfront project costs and reimburse these costs when bonds are sold. In these situations, the Board will adopt reimbursement resolutions prior to the expenditure of project funds.

For most debt issues, the actual structure and sale is conducted in conjunction with the Local Government Commission (LGC), a division of the Office of State Treasurer. The LGC functions as the financial advisor to local governments when issuing debt. Structuring must take into consideration current conditions and practices in the municipal finance market.

The Town will seek level or declining debt repayment schedules on long-term bonded debt, as encouraged by the Local Government Commission. Debt requiring balloon principal payments

reserved at the end of the issue term will be avoided. General obligation bonds will be generally competitively bid with no more than a 20-year life.

For short-term installment financings on capital items and equipment, the Town will rely on a competitive bidding process and the debt term will not exceed the useful life of the asset.

Capital Planning and Debt Determination

The Town will adopt a six-year capital improvements plan (CIP) annually. Debt financing and the associated policies will be considered in conjunction with the CIP with approval of funding and projects by the Board of Aldermen.

Any capital item that has not been included in the CIP or recurring lease-purchase schedule but because of its critical or emergency need where timing was not anticipated in the CIP or budgetary process, or is mandated immediately by either State or Federal requirements, will be considered for approval for debt financing.

Policy last updated: June 3, 2008

BUDGETARY ACCOUNTING AND REPORTING

Budget Adoption

The Town operates under an annual budget ordinance administered in accordance with the Local Government Budget and Fiscal Control Act (North Carolina General Statutes Section 159). These statutes require that the Board of Aldermen adopt a balanced budget in which estimated revenues and appropriated fund balances equal expenditures. The Town Manager must submit a balanced budget proposal to the Board by June 1 of each year, and the Board must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain community comments of the proposed budget before the Board adopts the budget. By state law, the fiscal year begins on July 1 and ends on June 30.

An annual budget is adopted for the General Fund, and for the Capital Reserve Fund, and the Payment-in-Lieu Fund (Special Revenue Fund types) as needed. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the remaining Special Revenue Funds, and the Capital Projects Fund.

Basis of Accounting and Budgeting

The budget is adopted using the modified accrual method of accounting. Under this basis, revenues are recognized in the period received and accrued if considered to be both measurable and available to pay current liabilities. The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Those revenues susceptible to accrual include: investments, sales tax, and grants-in-aids earned. Expenditures are recognized when a liability is incurred. On a budgetary basis, revenues are recorded by source of revenue (property tax, intergovernmental, taxes and licenses, etc) and expenditures are recorded by department, function or project. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the fund level for multi-year funds.

Fund Type	Fund Category	Basis of Accounting	Budgetary Accounting
General Fund Group	Governmental	Modified Accrual	Modified Accrual
Special Revenue	Governmental	Modified Accrual	Modified Accrual
Capital Projects	Governmental	Modified Accrual	Modified Accrual

Within the budget ordinance, the general fund is further divided into functions, which represent the level of authorization, by the governing board. Revenue functions include Ad Valorem (Property Taxes), Local Sales Taxes, Other Taxes/Licenses, Restricted and Unrestricted Intergovernmental Revenues, Permit and Fees, Sales and Services, Investment Earnings, Other Revenues, Other Financing Sources, and Fund Balance Appropriated.

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

The Board of Aldermen may authorize and budget for capital projects and multi-year special revenue funds in its annual budget ordinance. The project ordinance authorizes all appropriations necessary for the completion of projects.

Amending the Budget

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

Within the annual general fund, the Town Manager can transfer between functions for pay plan adjustments, service level benefits, and health benefits without further action by the Board. In addition, all operating funds encumbered or designated within fund balance for project expenditures as confirmed in the annual year-end audit of the previous year without further action by the Board. All other types of amendments within the General Fund must be approved by the Board (i.e., approving revenues and expenditures associated with a grant, transferring operating funds from one function to another that is not related to pay adjustments).

Capital project ordinances are approved at the project level. The capital fiscal policy, approved by the Board of Aldermen in November 2006, creates flexibility for the Town Manager to approve line item transfers within a project as long as the project can still be achieved without increasing the total funding of the project. An amendment is required when the budget established for the project is not sufficient to complete the project in its entirety.

Line Item Transfers

While budgets are approved at the departmental level within the budget ordinance, line-item budgets are controlled at three broad levels (categories) within a departmental cost center: salaries, operating, and capital outlay. Departments are only required to do a budget transfer form if there is a need to transfer funds between the broad categories of expenditures. The Finance Officer can process the transfers within a department at the request of the department head.

Purchase Orders

Purchase orders must be issued for purchases exceeding \$500 with exception of purchases obtained via procurement card or purchases specifically exempted by the Town's purchasing policy. Purchase requisitions under \$500 do not require approval by the Purchasing Officer.

Capital Outlay

All capital items (items exceeding \$5,000 and having a useful life of more than one year) must be approved in accordance with the adopted budget. With GASB34, the definition of capital outlay was refined to include infrastructure inventory including roads, bridges, and sidewalks, amongst other assets). Thresholds exist for buildings (\$20,000 minimum) and for infrastructure inventory (\$100,000 minimum). The annual budget document outlines those capital outlay items approved for purchase. Any changes must be approved through the transfer process outlined above.

Position Control

The annual pay plan adopted by the Board in conjunction with the budget lists authorized permanent positions. On the following pages are the Town's organizational chart and history of authorized permanent positions.

FINANCIAL FUND STRUCTURE

The accounts of the Town are organized on the basis of funds or account groups with each fund constituting a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts reflecting its assets, liabilities, fund balance, revenues and expenditures. Town resources are allocated to and accounted for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The multiple Town funds are classified as General Governmental Funds and are grouped into three generic fund types as described below.

General Governmental Funds

General Fund – The General Fund is the primary operating fund of the Town, which accounts for normal recurring town activities such as public works, planning, public safety, recreation, debt service, and administration. All authorized positions are funded entirely within the General Fund. Activities within the general fund are funded by revenue sources such as property tax, sales tax, and user fees.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. Funds include the Revolving Loan Fund, Economic Development Initiative Fund, Capital Reserve Funds, Payment-in-Lieu Fund, Affordable Housing Fund and the Grant Fund.

Capital Projects Fund – The Town has two Capital Projects Funds which are used to account for financial resources used for acquisition or construction of major capital facilities and equipment. One Capital Projects Fund tracks projects financed with bond funding and the other fund tracks all other capital projects.