



Town of Blowing Rock

Adopted Budget

Fiscal Year 2020-21

TO: Honorable Mayor Charlie Sellers
Mayor Pro-tem Sue Sweeting
Commissioner Albert Yount
Commissioner Doug Matheson
Commissioner Virginia Powell
Commissioner David Harwood

FROM: Shane Fox, Town Manager
Nicole Norman, Finance Officer

CC: Departments

DATE: May 30, 2020

Submitted herein, is the Adopted Budget for Fiscal Year 2020-2021 (FY 2020-21) for the Town of Blowing Rock. This Adopted Budget is balanced and meets the Town's fiscal priorities for FY 2020-21 as possible with uncertain revenues anticipated due to the COVID-19 pandemic we are currently experiencing. Prior to adoption, it is the Governing Body's charge to deliberate if the Proposed Budget achieves a financial mission to positively advance the Town of Blowing Rock forward in FY 2020-21.

The budget is the single most important document presented to the Mayor and Town Council. Generally described, a budget document outlines policy direction and serves as an understanding of the Town's fiscal year operating, capital programs and debt servicing obligations. It reflects the Town's commitment to either maintain and/or improve the quality of provided service activities while keeping the impact of taxes and fees to citizens at a justifiable level.

Therefore, in accordance with the North Carolina Local Budget and Fiscal Control Act, the Town of Blowing Rock's Adopted Budget for the fiscal year beginning July 1, 2020 is presented herewith. On this day that the budget is submitted to the Governing Body, a copy of same will be filed in the office of the clerk where it shall remain for public inspection. North Carolina General Statutes (GS 150-13(a)) direct that the Budget Ordinance and Tax Rate adoption take place by July 1, 2020.

A public hearing will take place at 6:00 pm, June 9, 2020 via a virtual meeting utilizing Cisco Webex due to COVID-19 related social distancing. Thereby providing the Governing Body an opportunity to receive citizen input. North Carolina General Statute 159-12 requires this date be published and said hearing held before the Commissioners adopt a Budget Ordinance. In addition, North Carolina General Statute 159-16 directs that if the budget ordinance is not adopted by July 1st, the governing body must adopt "interim appropriations for the purpose of paying salaries, debt service payments and the usual ordinary expenses" of the unit until the ordinance is adopted.

The FY 2020-21 Adopted Budget totals \$10,856,163 million for all Town operations, capital improvements and debt service requirements. This is a decrease of \$56,412 compared to last year's adopted budget of \$10,912,575 million which represents a 0.52% decrease. The decrease is mainly due to projected revenue shortfalls/decreases associated with the economic impacts of the COVID-19 pandemic which are beginning to develop and are expected to continue on into the FY

2020-21 budget year. The budget's operation portion stayed steady with an approximate less than 1% decrease from \$10,578,632, in FY 2019-20 to \$10,560,150 Adopted in FY 2020-21. A more detailed listing of all Adopted operation cost may be referenced towards the end of this budget message under the **EXPENDITURE BY CATERGORY** section. Highlighting some selected new budget expenditure categories which contribute to the Adopted operation increase are:

- Re-occurring Operation.... *continued School Resource Officer funding*
- Onetime Operation...none
- Debt Servicing...phase III borrowing from 2019-2020.
- Capital...1 replacement vehicle for Police and dispatch equipment.
- Capital Improvements.....playground replacement, road repairs (non-resurfacing), culvert replacements, ditch line repairs, sidewalk repairs, hydrant/valve repairs, water/sewer line repairs.

To fund FY budget operating expenditures and account for general fund operational cost increases associated with (i.e. fuel, insurance, electrical, etc.), the Adopted Budget reflects a \$180K fund balance allocation and NO proposed tax rate increase due to the economic impact to the community of the COVID-19 pandemic. Future tax rate increase is anticipated to service issue III G.O. Bond debt service.

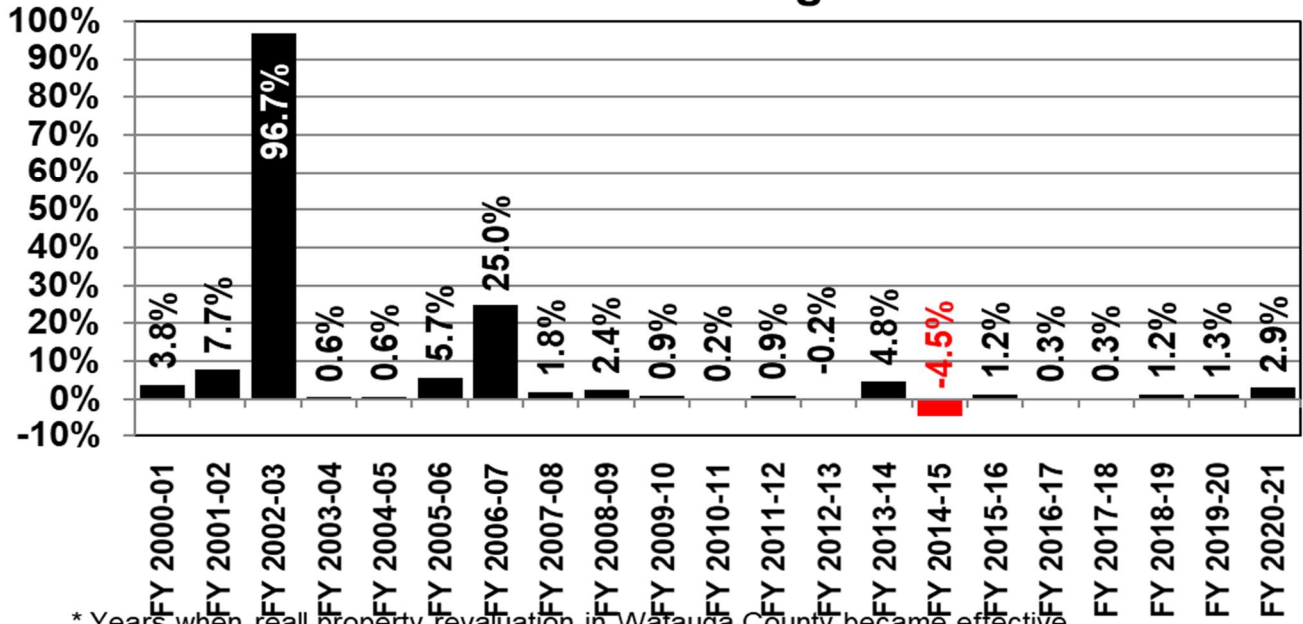
Referencing the Water and Wastewater Fund, the budget proposes NO increase at this time in the water and sewer rate schedule, it is planned to revisit the rate structure mid-year and possibly implement rate increases at that time. Following the April 2019 NC Rural Water Association water and sewer energy savings assessment study, when it becomes necessary to change out pumps/motors, the Town shall consider acquiring the type of energy efficient pumps/motors listed in the assessment.

BUDGET IMPACTING ISSUES

Tax Base Growth Minimal

The FY 2020-21 ad valorem tax base is projected to grow as some projects are underway and others are being planned. Current total value assessment increased by about \$33.616 million over the assessed value for FY 2019-20 of \$1.157 billion, increasing to approximately \$1.191 billion dollars. Historically, the Town of Blowing Rock experienced average annual growth rate in its tax base of 0.79% since FY 2007-08 property revaluation. However, a most recent tax FY 2014-15 revaluation resulted in a 4.5% decrease in the overall tax base. Illustrated by the below graph includes information regarding the Town of Blowing Rock's tax base percentage change over a time period. Large changes occurred in property revaluation years during times of robust economies in which property values were increasing comparatively rapidly, especially as seen in FY 2002-03.

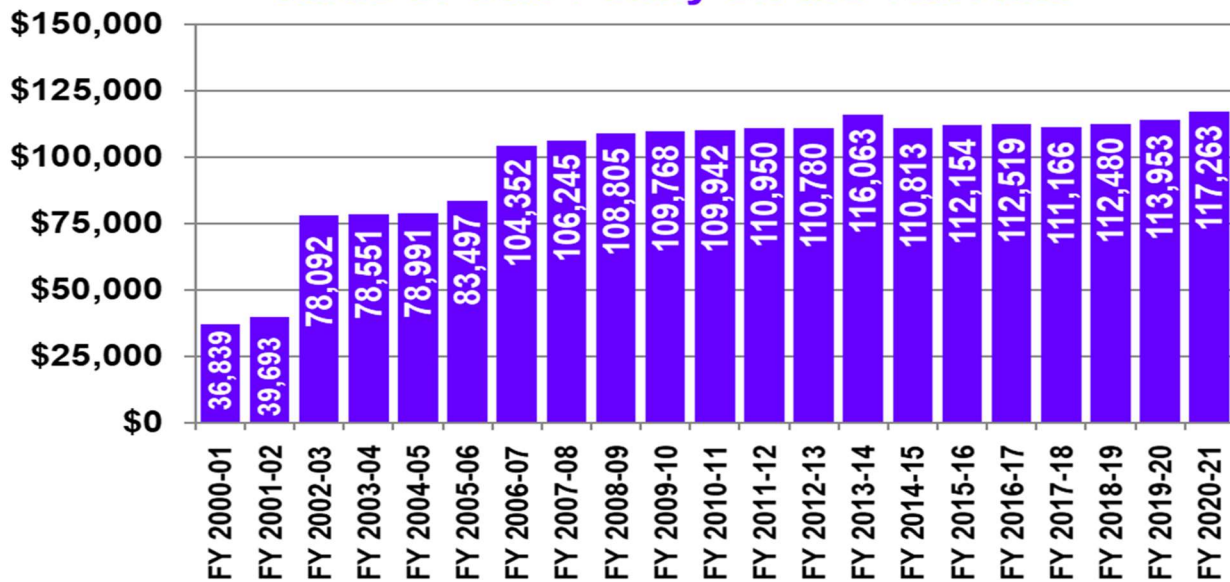
Tax Base Change



* Years when real property revaluation in Watauga County became effective

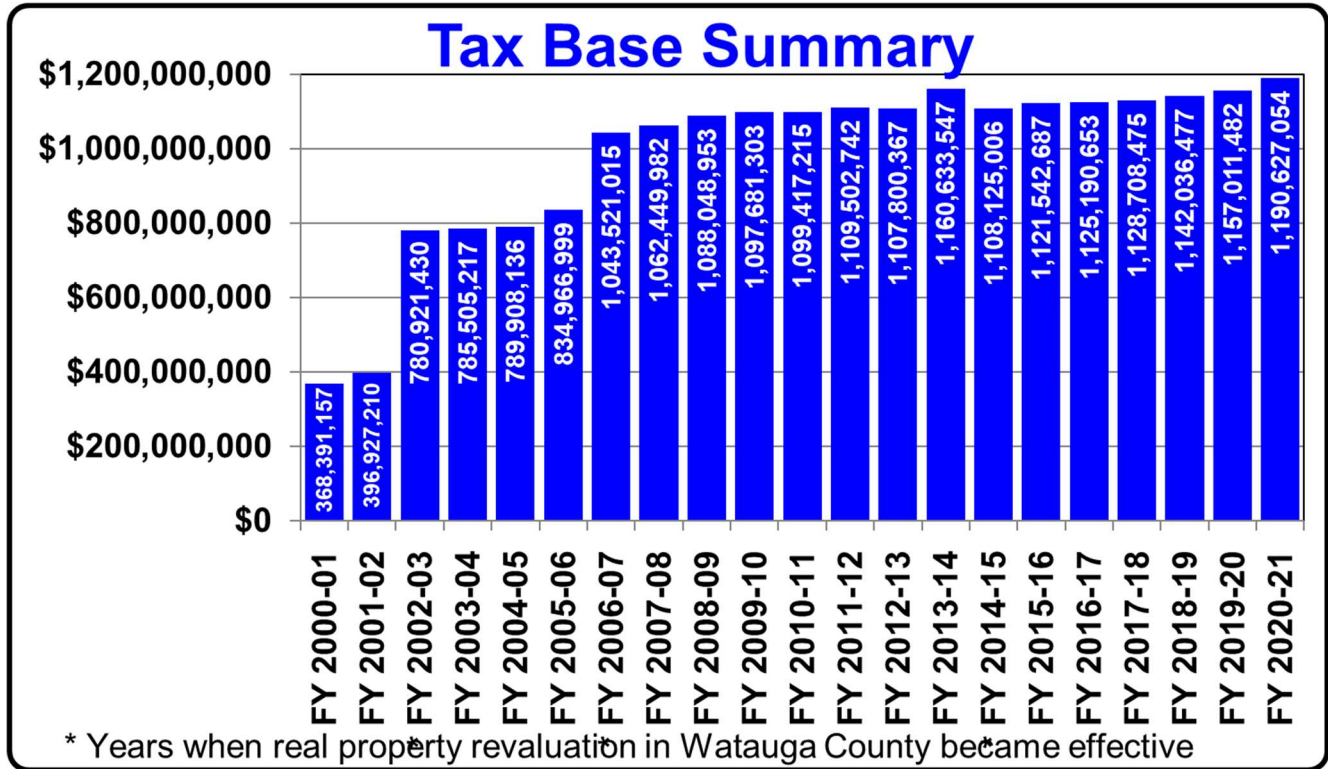
The Adopted FY 2020-21 tax rate is \$0.39 per \$100 of taxable property, is expected to generate an estimated tax levy of \$4,573,263. Thereby one cent on the tax rate equates to \$50 in annual taxes for a home valued at \$500,000. For the Town of Blowing Rock, one cent on the tax rate in FY 2020-21 is expected to generate \$117,263 after being adjusted for the anticipated collection rates of 98.0% for vehicles and 98.5% for real property. The collection rate projection on vehicles is much better than in the past due to the tag and tax together program implemented by the State. A following graph reflects the value of tax generated by one penny on the tax rate over time (FY 2000-01 to FY 2020-21) for the entire Town of Blowing Rock.

Value of One Penny on the Tax Rate



* Real Property Revaluation in Watauga County effective

The total tax base for the Town of Blowing Rock for FY 2020-21 is estimated to total \$1.191 billion. Approximately \$101.73 million, or 8.5%, of the Town’s tax base is in Caldwell County. Reference the graphs below for a tax value summary and the resulting percentage change for the Town of Blowing Rock over time.



Sales Tax

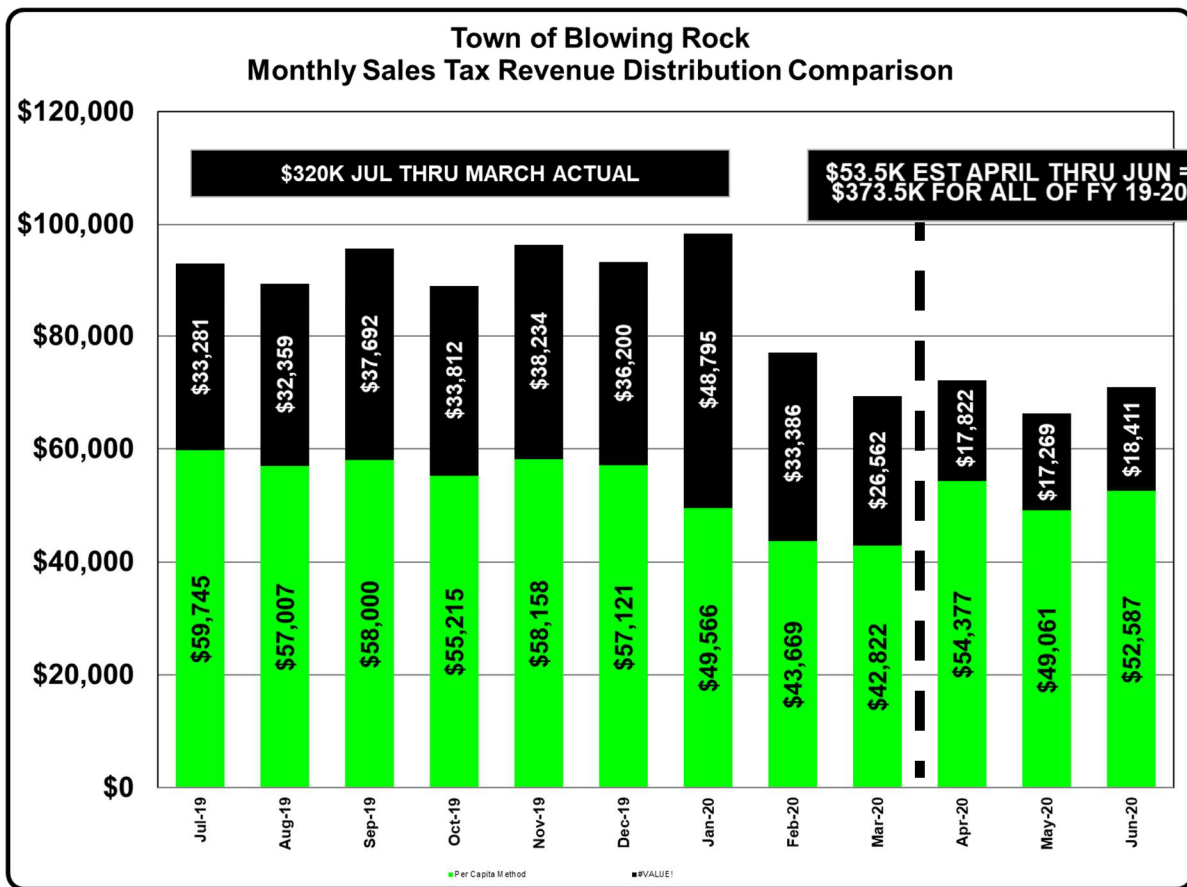
Projected sales tax revenues totaling \$1.287 million in FY 20-21 and is anticipated to make up 15% of all Town general fund revenues, although the effective percentage is only 8.1% after returning a portion to Watauga County. The Local Option Sales Taxes consists of a one-cent sales tax and two one-half cent sales taxes. In Caldwell and Watauga Counties, sales are subject to a 4.75% State and 2.00% Local rate of tax for a combined rate of 6.75%.

The State of North Carolina collects the local sales taxes and distributes them to the county governments. Sales tax revenues are distributed by one of two methods, of which “both” are at the discretion of counties and not municipalities. These methods are on a proportional population (often referred to as “per capita”) basis to municipalities or based on proportional local government ad valorem levies. Historically, Watauga and Caldwell counties have both used the proportional per capita basis.

The Watauga County Board of Commissioners historically governed for the last seven years, impacting revenue distribution in FY 2013-4 through FY 2019-20 and now in FY 2020-21, by way of making the sales tax distribution method basis, ad valorem. Prior to FY 2013-14, the distribution method was the per capita method, after being changed from ad valorem to per capita in 1987. With the distribution method changed to ad valorem in FY 2013-14, an agreement between the County and some towns was reached and continues to be the agreed upon method of distribution. It required the Towns of Blowing Rock, Seven Devils, and Beech Mountain to appropriate moneys to Watauga County equal to 60% of the higher revenues received compared to the former per capita method during the first four years of the change. Beginning with FY 2017-18, Watauga County has asked for a larger share of the increase to hold them harmless. The same three municipalities have agreed to return 70% of the increase over the per capita method to Watauga County.

The Town of Blowing Rock expects to see an increase in the amount they have received over the past four years due to higher sales tax collection even after agreeing to send back a larger portion, and considerably more than they received over the per capita distribution method. Per this budget message writing, the Town anticipates receiving approximately \$252,765 in FY 2020-21 over the per capita method. With the ad valorem distribution method, still in place for FY 2020-21, the Town expects to receive approximately \$556,108 more in FY 2020-21 than was received in FY 2011-12.

Illustrated in the following graph, is a summary of sales tax revenue receipts received to date and a projection of the monthly revenues that will complete FY 2019-20. Similar projections have been built into the FY 2020-21 budget forecasts estimating a decline in sales tax revenues due to restrictions in place during the COVID-19 pandemic equal to 30% compared to actual FY 2018-19 collections. This decline rate is projected within the range suggested by the North Carolina League of Municipalities. These sources forecasted sale tax decline rates approximately 20-50%. It should be noted that Incremental sales tax revenues were not incorporated into "ongoing operating cost commitments" in FY 2019-20 and prior years, earmarking the funds for one-time operating expenses and capital projects only. However, this year due to the COVID-19 pandemic and its economic impacts, those funds have been allocated to operations.



Protecting & Enhancing the Community’s Infrastructure – Bond Referendum Implementation

A pressing expenditure for the Town of Blowing Rock, in the coming years relates to the development of a Capital Improvements Plan (CIP). The Town’s engineering firm, McGill Associates, assisted the Town Staff in the development of a ten-year Capital Improvements Plan (CIP) during FY 2013-14. The CIP identified a variety of improvements throughout the Town including public facilities, parks and recreation, roads, sidewalks, roadside ditches, and water and sewer lines and plants. It is Adopted that on an annual basis, that the Town should reassess its Capital Improvement Plan (CIP) and incorporate necessary revisions for future budget planning. Conducting a complete water and wastewater utility asset management inventory program could be helpful when developing realistic Capital Improvement Plans.

It is understood that the FY 2013-14 McGill Associates developed CIP improvement activities were bundled into a General Obligation Bond Referendum that was, on November 4, 2014, presented to Blowing Rock voters for consideration. The following is a summary of the separate bond referenda categories and totals (\$13 million) approved by Blowing Rock voters on November 4, 2014.

Town of Blowing Rock General Obligation Bond Referendum Voting Result Summary Voting Day November 4, 2014

Bond Amount	Bond Type	% Yes	Blowing Rock		Watauga		Caldwell	
			Yes	No	Yes	No	Yes	No
9,000,000	Transportation	73.82%	502	178	473	172	29	6
1,000,000	Parks	72.69%	495	186	470	177	25	9
2,000,000	Water	79.62%	539	138	510	132	29	6
1,000,000	Sewer	81.36%	550	126	521	121	29	5
13,000,000	Totals	76.86%	2,086	628	1,974	602	112	26

During the fiscal year 2015-16 budget development cycle, the Town Council approved the general approach of executing the bond projects in three major phases as summarized in the following table:

**Town of Blowing Rock
General Obligation Bond Execution Plan
Presented As Part of the Fiscal Year 2016 Budget Process**

		Initial Authority Valid for 7 Years							Extension for 3 Years Possible				
Row	Description	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
1	Council Action	Needs Identified	Voters Approved \$13M	Appropriate For 1st Set of Projects		Appropriate For 2nd Set of Projects		Appropriate for 3rd Set of Projects					
2	General Capital (Transportation and Parks) \$10M Total			Borrow \$3.5M		Borrow \$2.75M		Borrow 3.75M					
3	General Fund												
4	Annual Tax Increase			2	2	2	1	2	1				
5	Cumulative Tax Increase			2	4	6	7	9	10	10	10	10	10
6	Annual Debt Service			171,069	351,866	476,694	609,957	777,597	954,143	927,893	901,643	876,403	849,143
7	Utility Capital (Water and Sewer) \$3M Total			Borrow \$1.13M		Borrow \$914K		Borrow \$950K					
8	Utility Fund												
9	Annual % Increase			5.0%	5.7%	4.6%	4.6%	4.8%	4.8%				
10	Cumulative % Increase			5.0%	10.7%	15.3%	19.8%	24.6%	29.3%	29.3%	29.3%	29.3%	29.3%
11	Annual Debt Service			57,335	117,930	179,883	245,928	263,725	282,276	274,401	266,526	258,944	250,776

U:\Scott\Manager\Bond Referendum 2014\LGC App\Blowing Rock Capital Plans from McGill.xlsx\Borrowing and Tax Plan

Per this plan, the first set of capital project appropriations were approved with the adoption of the FY 2015-16 budget and the tax rate was increased two cents to pay for the anticipated debt service increases expected beginning in FY 2015-16. As the borrowing process began, it became clear that due to the extent of the North Carolina Local Government Commission approval and bond rating processes involved, there was no strategic advantage to borrow funds in late FY 2015-16 and begin debt service payments in FY 2015-16, since most project construction could not begin until the spring of 2016. Subsequently, the borrowing process was geared to take place in March of 2016. Thereby, allowing the funds to be received without having to make the first debt service payment until FY 2016-17. Funds raised by the incremental two cents on the tax rate to pay the debt service were used in part to cover bond issuance costs. Both the FY 2016-17 and FY 2018-19 adopted budgets included an additional one cent associated with the bond and the FY 2019-20 budget included an additional one and a half cents, again associated with the bond.

The anticipated tax increases shown in the table above were calculated assuming an interest rate of 5%. During the borrowing process, the Town of Blowing Rock general obligation bonds were rated by Standard and Poor's as AA+. As relayed by the past Town of Blowing Rock budget office during such past time, the rationale for this very positive rating per Standard & Poor's follows:

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Blowing Rock, N.C.'s series 2016 general obligation (G.O.) bonds and maintained that rating for the series 2020 G.O. bonds as well. The outlook is stable. The long-term rating reflects Blowing Rock's unlimited G.O. pledge to levy on all taxable property ad valorem taxes as may be necessary to pay principal and interest on the bonds without limitation as to rate or amount. The series 2016 bonds are part of four separate GO bond referendums approved by voters in November 2014 totaling \$13 million. Issuance of bonds is planned to take place in three separate bond issuances spread out over six years, starting with this \$4.635 million issuance. Projects financed by the referendums include various construction and renovation projects for streets and sidewalks, parks and recreation, water projects, and sewer projects.

The long-term rating on the town reflects our opinion of the following:

- *Strong economy, with projected per capita effective buying income (EBI) at 112% of the national level and market value per capita of \$902,094;*
- *Adequate management, with "standard" financial policies and practices under our financial management assessment (FMA) methodology;*
- *Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;*
- *Very strong budgetary flexibility, with an available fund balance in fiscal 2015 at 40% of operating expenditures;*
- *Very strong liquidity, with total government available cash at 69.9% of total governmental fund expenditures and 6.2x governmental debt service, as well as access to external liquidity we consider strong;*
- *Adequate debt and contingent liability position, with debt service carrying charges at 11.3% of expenditures and net direct debt at 136.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and*
- *Very strong institutional framework score.*

Due in part to the very positive bond rating of AA+ and favorable interest rate environment, the Town's bonds sold with an interest rate of 2% instead of the cautiously predicted rate of 5%. This lowered the interest rate component of the payment required in the general fund by about \$100K and the utility fund by about \$31K. Thereby over the twenty-year repayment term of these bonds, the lower interest rate will save approximately \$1M in the general fund for transportation and park projects and another \$336K in the utility fund for water and sewer projects.

With the lower interest rate of 2% obtained in Phase I, there was a slight increase proposed to build reserve for debt service increases associated with the second bond issuance and debt service in FY 2017-18. This was to make an incremental increase, rather than a larger increase the next fiscal year. Phase II also received a lower than anticipated interest rate of 2.936%, allowing for only \$.01 tax rate increase to fund the added debt. Borrowing was allocated to capital project categories as follows:

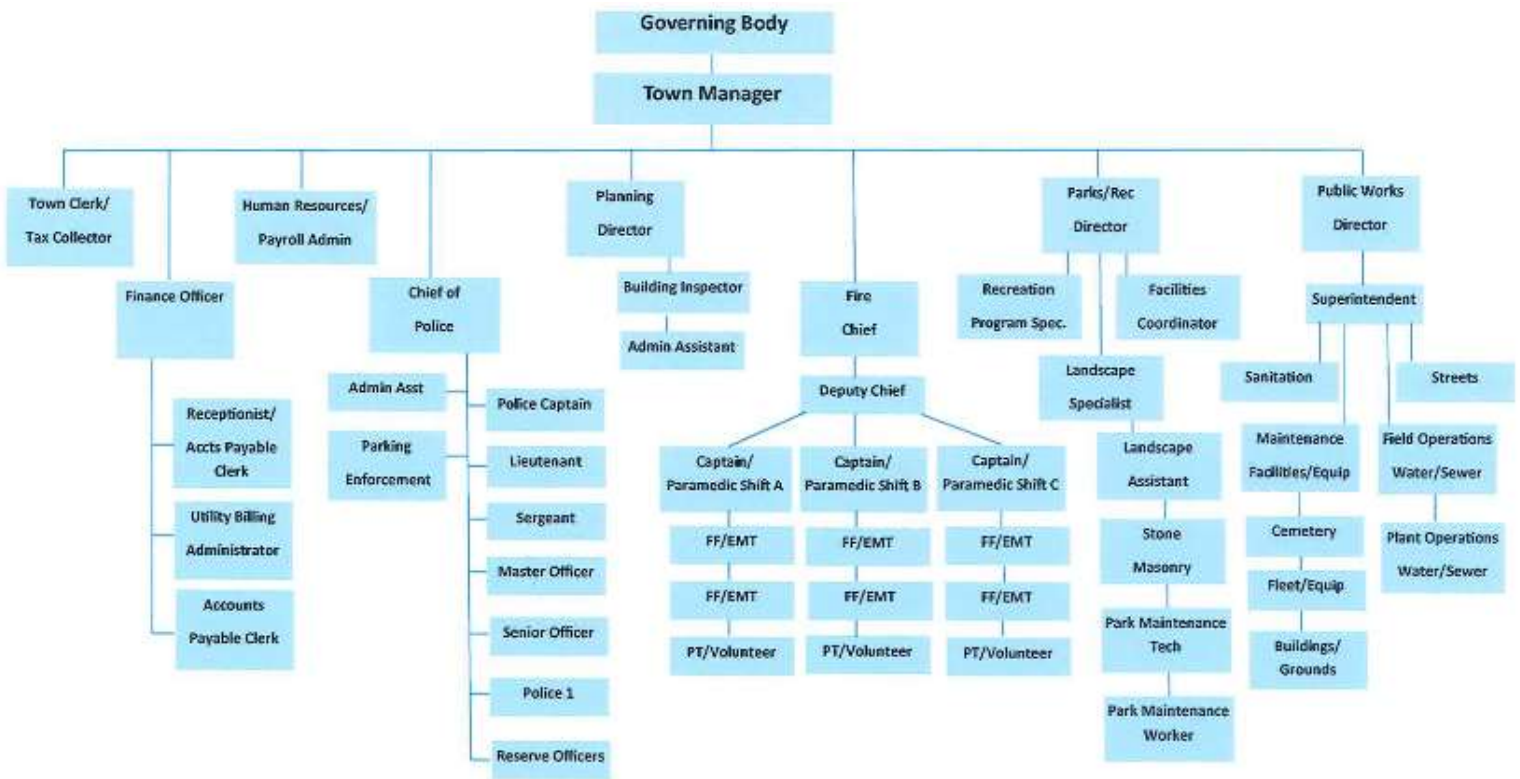
PHASE II Bond Allocations

- Transportation – \$1.628 million
- Parks and Recreation – \$0.129 million
- Water – \$0.543 million
- Sewer – \$0.00 million

The level of investment and pace at which Council decides to pursue the remaining two phases of improvements are important decisions that will be made during this and future budget cycles as funding situations and alternatives are discussed.

Organization

A contributing factor to the Town’s organization’s financial picture relates to its organizational structure and personnel cost supporting such organization. There needs to be balance on the Town’s ability to retain and recruit quality employees in comparison to being competitive with the surrounding labor market. It is understood that the last time the Town fully assessed its organization, conducted and implemented a related a “Classification and Pay Study” was in 2014, which is approximately five (5) years ago. As of last fiscal year, the Town’s overall organizational structure can be referenced as follows:



Presently, the Town funds 67 full time and 28 part-time/seasonal employees. Also, in the coming months the Town will be responsible for the HWY 321 corridor landscaping and grass maintenance which could justify either additional personnel or contracted servicing.

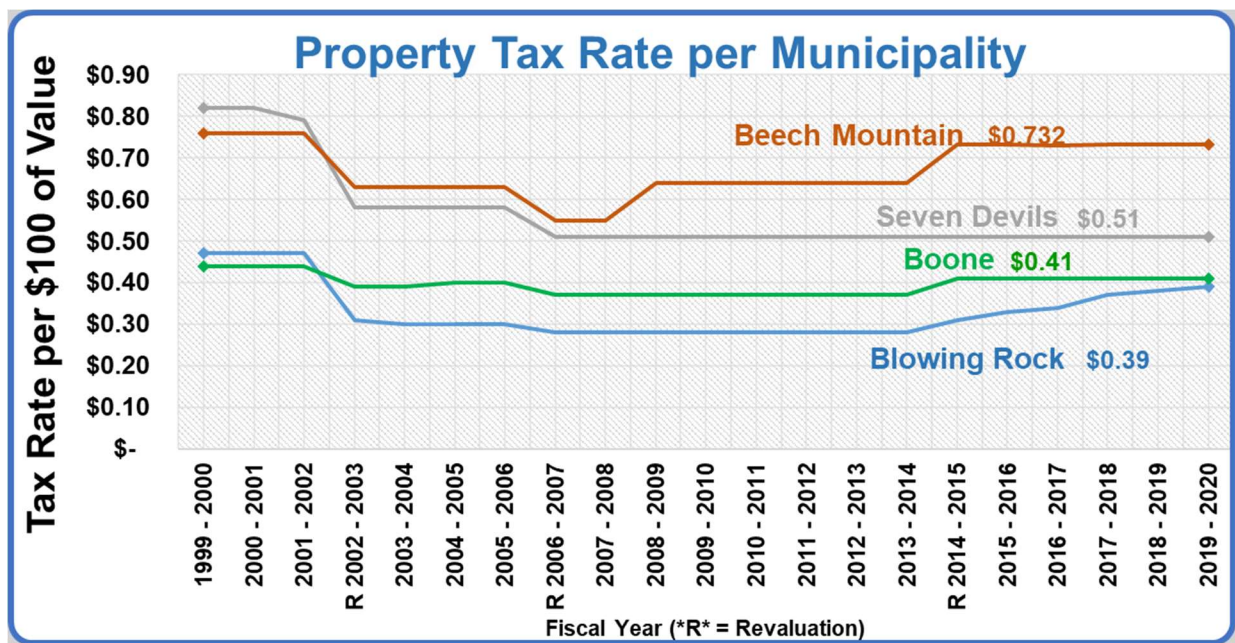
Debt Service

Bringing on debt to fund assets is a financial option to better match the utility of costly items with the period that the Town pays for them. We will be monitoring the interest rate environment and the impacts we may see due to the economic impacts of COVID-19. Bringing on additional debt service is an option to afford assets that are simply too large to fund with cash. One of the major elements included in last five fiscal years Adopted Budget was to continue moving forward with the November 2014 voter approved general obligation bond referendum. The first issue took place in February 2016, the second issuance occurred in May 2018, and a third issuance occurred in December 2019. A fourth and final issuance is projected to take place during the 2021-2022 year. Annual Capital equipment replacements and needs are planned to be funded through debt service as well.

Tax Rate Comparisons

When addressing the cost of living, it is beneficial to understand how we compare with other area municipalities. Watauga County has four municipalities: Blowing Rock, Boone, Beech Mountain, and Seven Devils, along with a variety of taxing jurisdictions including fire districts and municipal service districts. Blowing Rock and Boone both have fire districts taxed at \$0.05 and \$0.06 per \$100 valuation respectively. In addition to the fire district the Town of Boone has a municipal service district with a tax rate of \$0.21 per \$100 valuation. The following graph on page 10 depicts the property tax rate per \$100 of taxable value in each respective jurisdiction. This comparison does not include the Town of Boone’s Municipal Service District.

The Town of Blowing Rock has the lowest property tax rate of the four municipalities in Watauga County. In addition to the municipalities in the County, Watauga County has a tax rate of \$0.403 per \$100 valuation. The taxable property in Blowing Rock has seen an average growth of 0.79% since FY 2007-08. This low level of growth does not provide very much additional tax base upon which to leverage our existing revenue mechanisms so that we can continue providing service levels expected by our community.



Challenges to Revenue Options

North Carolina General Statute Chapter 159, Article 3, requires all local governments to operate under a balanced budget ordinance adopted and administered in accordance with the Local Government Budget and Fiscal Control Act. The Adopted budget is considered balanced when the estimated revenue plus the appropriated fund balance equals the amount of appropriations. This budget reflects increases in government expenditures in various forms, described in the “Expenditure and Municipal Comparison” section. Along with the property tax, the Town of Blowing Rock receives revenues from state shared and state collected taxes including things such as sales tax, Powell Bill funds, utilities, franchise tax, and beer and wine tax.

Vehicle Tax Authority Expanded

One area in which the North Carolina General Assembly did provide an additional revenue option recently was for vehicle license fees. As part of its budget passed in 2015, all cities and towns could charge a \$30 municipal vehicle tax beginning July 1, 2016. The change meant that all municipalities were treated the same regarding the vehicle tax that they can charge. Current law allows cities and towns to charge a \$5 tax, while almost all cities that operate transit systems can charge an additional \$5. Local legislation passed over the years had allowed several other municipalities to charge vehicle taxes of up to \$30, but the additional authority was not applied uniformly. The budget provision (Sec. 29.27 A, pages 365-66) requires that amounts charged above the two uniform \$5 taxes already imposed by cities go toward city street maintenance and construction. The Town Council of Blowing Rock researched this option in prior years and discussed the option for prior Adopted budgets, but declined to implement said option. This Adopted budget does not include this revenue source.

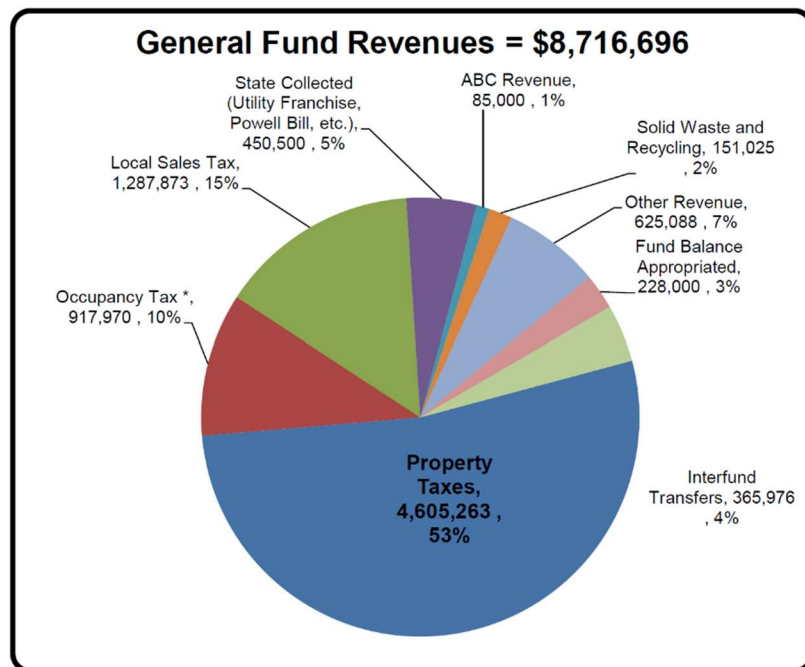
FUNDS OF THE BUDGET

General Fund

A local government's General Fund is where revenues and expenses are collected for all governmental services that do not generate sufficient revenue to support their activities (i.e. Police, Fire, Recreation, Public Works, Administration, Planning/Inspections, etc.). The Town of Blowing Rock's General Fund is balanced and recommends the property tax rate to remain at 39.0 cents per \$100 of property valuation. This rate is projected to provide approximately \$4.605 million in real and personal property tax revenues based on a real and personal property collection rate of 98.5% and a vehicle property tax collection rate of 98.00%.

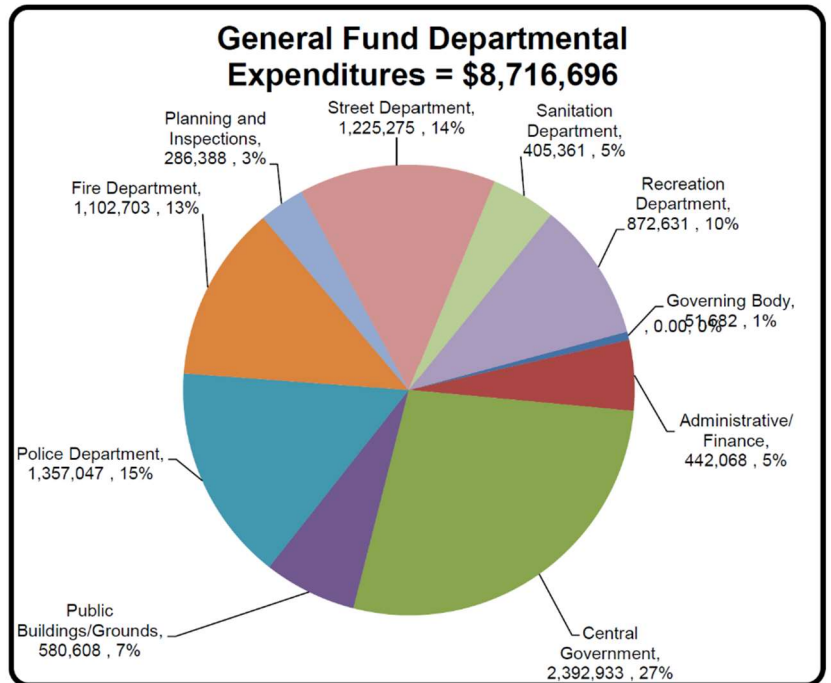
The graph below distinguishes the percent each source of revenue is expected to contribute to the general fund:

The Town's tax base is split between two counties – Watauga and Caldwell. Watauga County represents approximately 91.5% of the total property tax base. Caldwell County accounts for the remaining 8.5%. The Town's property tax base is estimated to be approximately 85% residential and 15% commercial.



The side graph depicts the adopted spending breakdown by department for FY 2020-21:

The FY 2020-21 Adopted Budget for the General Fund revenues total \$8,716,696. This year, due to the COVID-19 pandemic, the Adopted budget anticipates declines in revenue sources of Sales Tax (30% decrease), Occupancy Tax (40% decrease) and Parks & Recreation program revenues (averages approximately 50% due to cancelled programs). Property tax revenues are expected to remain steady and grow by approximately 2.9% due to new constructions added to the Town’s tax base.



BRAAC Fund

The Blowing Rock Appearance Advisory Commission Fund contains activities to initiate, promote and assist in the implementation of general community beautification in the Town. The Commission also coordinates the Spring and Fall Planting Days and is the chief sponsor of the annual Town Clean-up Day. This group also assists in the Town’s efforts and evaluation of a gateway project which has been under consideration during the past few years. The FY 2020-21 Adopted Budget for the BRAAC Fund totals \$37,120. Via donations/contributions, this fund is self-supporting with all revenues being allocated towards the Commission objectives as set forth in the Town Code. Donations that support the BRAAC Fund include general donations, hanging basket donations and cemetery donations.

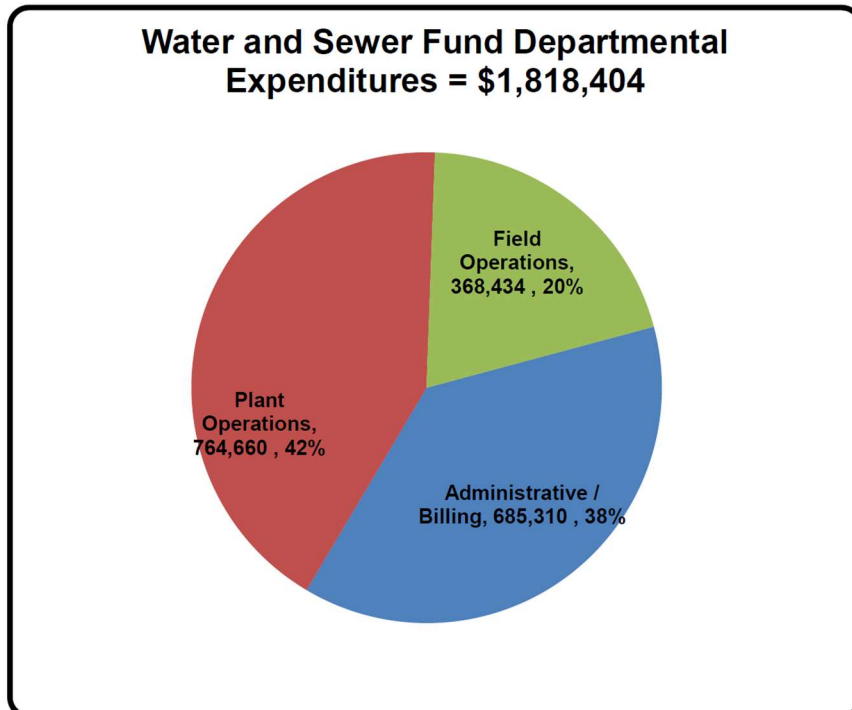
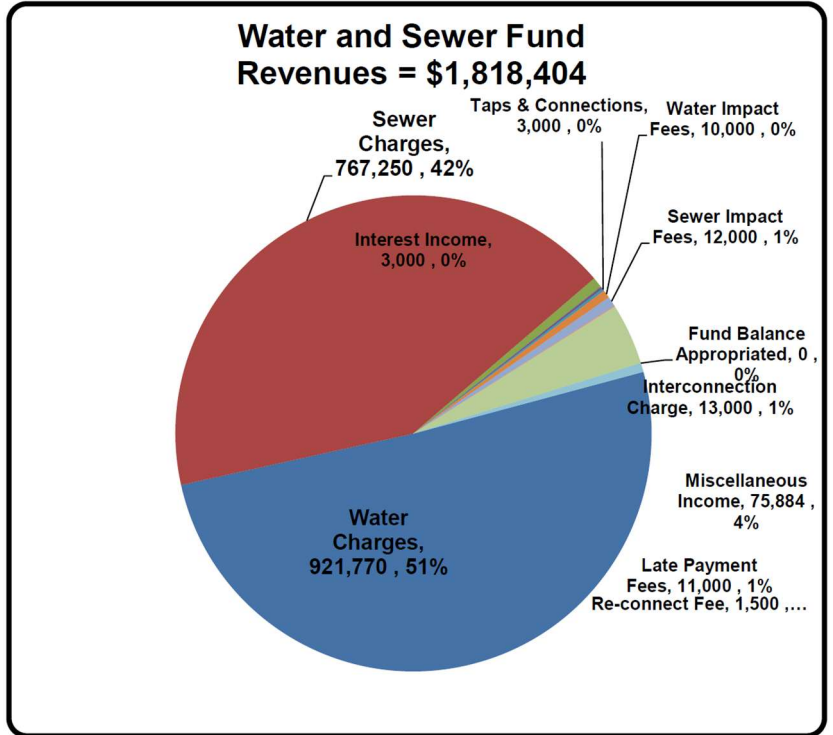
Most BRAAC Fund expenditures are appropriated to “Flowers/Landscaping” efforts totaling about half of their adopted budget. This year’s adopted budget is lightly higher than the FY 2019-20 budget, due largely to the allocation of fund balance towards Town Center Landscaping and Beautification previously contributed to by the Tourism Development Authority (TDA) The Adopted Budget also includes the annual contract that BRAAC initially funded in FY 2015-16 to maintain the Town assumed Legacy Garden responsibility. This is the Garden area that borders Main Street’s east side just south of the downtown area. During the spring of 2016, the Town received approval from all the property owners through this area that they were willing to provide a maintenance easement to the Town for said purpose.

Water and Sewer Fund

The Water and Sewer Fund contains all water production, water distribution, wastewater collection and wastewater treatment activities of the Town. Water and sewer revenues come from rates and fees and is considered to be a self-supporting (“enterprise”) fund for the Town of Blowing Rock. The FY 2020-21 Adopted Budget includes no rate adjustment in recognition of the economic impacts of the COVID-19 pandemic on our community. It is anticipated however, that the Town revisit utility fees for adjustment at some point during the fiscal year to help offset increasing operating and capital costs.

The FY 2020-21 Adopted Budget for the Water and Sewer Fund totals \$1,818,404. This is a decrease of \$167,101 decrease from the FY 2019-20 Adopted Budget of \$1,985,505. The decrease is due largely to decreases in capital expenditures and reserve contributions.

Graphs to the right and below outline the Revenue and Expenditures for the Water and Sewer Funds:



SOURCES OF REVENUE

Ad Valorem Tax (Property Tax)

Both real property and personal property are subject to taxation in North Carolina. Real property includes land, buildings, and permanent fixtures, as well as rights and privileges pertaining to land, such as mineral or forestry rights. Personal property includes all other property, tangible or intangible, that is not permanently attached to land. Article V of the North Carolina Constitution establishes that property taxation may be levied to be used “for public purposes only.” A public benefit that is merely incidental to a principal benefit for a private party does not constitute a public purpose, under the Constitution’s definition.

Two characteristics of the property tax distinguish it from other forms of taxation and underlie the methods of determining tax liability and enforcing collection. The first characteristic is that the property tax is levied on property itself, not the owner. The second, is that the tax is measured by the value of the property as a marketable item, not by the owner’s ability to pay. Thus, it is often called an “ad valorem” tax, from the Latin phrase meaning “according to value.” In North Carolina, property tax rates are customarily expressed in dollars per \$100 of valuation. The maximum property tax rate allowed in North Carolina is \$1.50 per \$100 of valuation. In Blowing Rock, the adopted FY 2019-20 property tax rate was \$0.39 per \$100 of valuation. On a \$500,000 home, the total annual Town of Blowing Rock property taxes due would be \$1,950. The FY 2020-21 Adopted tax rate remains at \$0.39.

The FY 2020-21 Adopted Budget includes no increase to the tax rate of \$0.39 per \$100 of valuation. Total Ad Valorem tax revenues (including current and prior years, motor vehicles, and penalties/ interest) are projected to be \$4.605 million in FY 2020-21 after adjusting for a 98% collection rate on personal property and 98.5% collection rate on real property. In North Carolina, the property tax is the only significant source of revenue that the State allows local governments to control.

Sales and Services

The Town has several services that it “sells” to the public. These services are covered in the Town’s Fee Schedule. There are no services, except water and sewer, solely supported by “Sales and Service” revenue. All others are augmented by property tax revenue, to some degree, to meet service demands. For example, only a portion of the Parks & Recreation Department budget is supported by revenue generated from registration, entry or rental fees. Property tax revenue and other General Fund revenue support a portion of the Parks & Recreation Department’s budget. Some services which produce “Sales and Service” revenue include:

- Commercial Solid Waste/Commercial and Residential Recycling Fees (*no separate fee for weekly residential solid waste collection*)
- Parks and Recreation Department Fees (Pool, Day Camp, Program Registration Fees, Facility Rental Fees, etc.)
- Cemetery Fees
- Zoning/Building Inspection Fees
- Water/Sewer Charges

A detailed list of all fees/charges can be found in the *Schedule of Fees/Charges* section of the budget document.

State-Collected Local Taxes

State-Collected Local Taxes are distributed by the State to the Town based on the actual receipts from the providers of these services and commodities within the Town limits. These revenue sources are expected to total \$451K in FY 2020-21 with the continued ad valorem distribution methodology in place. These are strictly General Fund revenues.

State taxes that are shared with cities are the beer and wine taxes, electric franchise taxes, telecommunications taxes, video services taxes, satellite services taxes, the piped natural gas tax, motor fuel taxes, and, as of January 1st, 2008 a portion of a 911 charge on voice communication services. Since FY 2018-19, there are six statewide revenues received by the Town whose estimates depend on economic forces: Utility Franchise Tax, Telecommunications Sales Tax, Beer and Wine Tax, Solid Waste Disposal, Powell Bill, and Video Programming Tax (formerly Cablevision TV Franchise Tax).

The projections for the telecommunications sales tax, beer and wine taxes, and the solid waste disposal tax anticipate flat or slightly declining growth over the prior year largely due to the numerous changes in the revenue formulas in recent years and the sensitivity to which these revenues respond to weather and market forces.

Each town's utility franchise tax is based on actual receipts from electric service only within the municipal boundaries. The distribution method for the electricity sales tax, along with that of the sales tax on piped natural gas, changed in FY 2014-15 because of the tax reform legislation passed during the General Assembly session. The general sales tax rate is now applied to the sales of electricity, and 44 percent of the proceeds from the sales tax will be returned to cities and towns. It is important to note that if total tax collections next year (and any year in the future) exceed the total necessary to provide every municipality the same amount that they received in quarterly distributions for FY 2013-14, that revenue was distributed statewide on an ad valorem basis. Then in FY 2015-16, the Town of Blowing Rock experienced strong growth in this revenue source and accordingly, revenues from this source were \$366,165, or about 61.2% higher than the level budgeted in FY 2015-16. These revenues are highly sensitive to the weather. Mild winters, cool summers, and any significant rate increases, or decreases can cause these receipts to change.

Annual statewide growth in telecommunications revenues is expected to continue its decline which is mainly attributable to loss of landline purchases, as more customers transition to using cell phones only. The budget proposes this revenue to drop approximately \$5,500 to \$26,000.

Beer and Wine taxes are distributed statewide based on local government population. Due to a change in the North Carolina Department of Revenue collection method in FY 2012-13, beer and wine sale revenues decreased. It is important to note these projections are based on population, highlighting the importance of considering growth and annexation in any forecasts. Due to our relatively flat population growth, the budget reflects the expectation that this revenue will remain flat at about \$5K.

In 2007, Video Programming revenue replaced the local Cable Franchise Fee revenue. The NCLM expects Video Programming revenue to remain flat or decrease slightly.

Sales Taxes

Effective July 1, 2013, (FY 2013-14) Watauga County changed the distribution method of sales tax revenues from per capita to ad valorem. As part of this change, the Town of Blowing Rock agreed to transfer 60% of the revenue increase over what would have been received under the per capita method back to Watauga County. Due to continued ad valorem distribution, in all previous years since the allocation method has been based on the ad valorem method, the Town of Blowing Rock has budgeted the additional revenue towards one-time expenses. In FY 2020-21 however, due to the sudden economic impacts of the COVID-19 pandemic, these additional revenues have been used to fund operating expenditures. FY 2019-20 brought a change to the formula and Blowing Rock began to be required to return 70%. It is uncertain how long this method will remain or how long the County will require the 70% transfer of revenues. The FY 2020-21 Adopted budget anticipates an additional \$252,765 in net revenue to the Town over and above the typical per capita distribution amount.

This year, due to the COVID-19 pandemic, offsetting the additional revenues received due to the change in distribution method, the NCLM is projecting a 20-50% decrease in local sales taxes state-wide for FY 2020-21. The Town of Blowing Rock's Adopted Budget anticipates a 30% decrease in this revenue from FY 2018-19 actual collections. It should be noted that this year, more than ever before due to the pace of the pandemic's situation evolution and the nature of this revenue source being collected two months in arrears, this revenue source's trajectory is not yet known. As the year progresses, more will be known and possible adjustments may be necessary. Sales tax revenues under the per capita approach are budgeted for FY 2020-21 at \$445k, and this year, the additional \$253K has been allocated to operating costs to make up

for anticipated normal year revenue loss in the FY 2020-21 Adopted Budget. The table below summarizes the differential net sales tax revenue received the last two years and the anticipated amounts for FY 2019-20 and FY 2020-21.

Fiscal Year	Per Capita Revenue	Due to Watauga Ad Valorem Method	Total
FY 16-17	551,658	434,438	986,096
FY 17-18	567,273	349,140	916,413
FY 18-19	609,859	386,038	995,897
FY 19-20 Estimated	637,328	373,823	1,011,151
FY 20-21 Budget	445,323	252,765	698,088
Five Years Totals	2,811,441	1,796,203	4,607,644

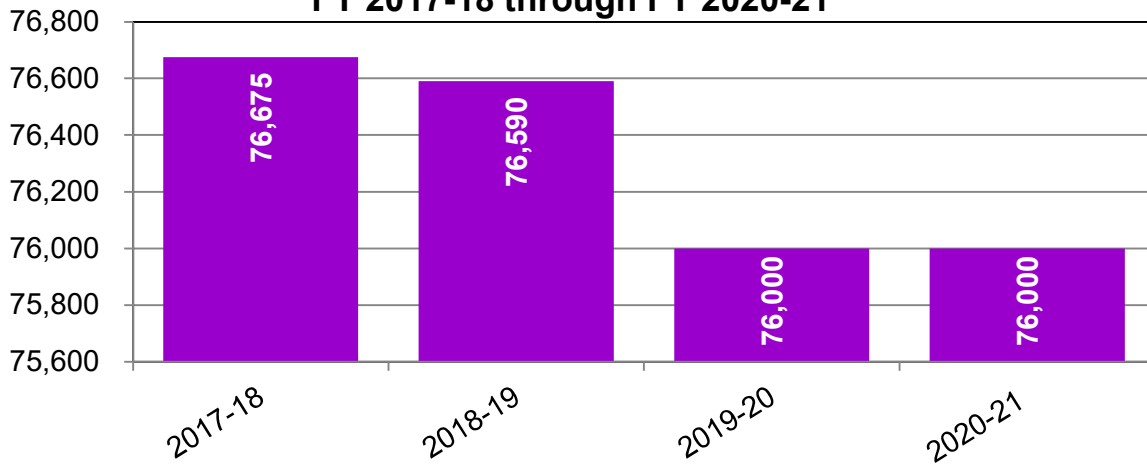
Hotel/Motel Occupancy Tax

The Town of Blowing Rock, via the Blowing Rock Tourism Development Authority, levies a hotel/motel occupancy tax on the gross receipts from the rental of transient accommodations in the Town of Blowing Rock. These taxes are collected locally with a current tax rate of 6.0%. The TDA Budget proposes \$307,805 in funding for the Town and infrastructure related allocations in FY 2020-21 to use in support of the various tourism-related operations of the Town. This revenue source is projected to decrease by an estimated 40% due to stay at home orders associated with the Governors Orders in response to the COVID-19 pandemic. This revenue source, like sales tax will continue to be monitored throughout the year and any proceeds over and above these budget expectations can be recognized and appropriated during the fiscal year or in the subsequent year.

Powell Bill

The use of these funds is restricted to maintaining, repairing, constructing, reconstructing or widening any public street or thoroughfare within the Town limits that is not State-maintained. Bridges, drainage, curb and gutter, sidewalks and other necessary appurtenances are also approved uses of these funds. Determination of the amount of the allocation comes from a formula containing a municipality’s local street miles and population. To receive funds, each municipality must file an annual certified map and an annual expenditure report. The method in which Powell Bill funds are distributed among eligible municipalities has not changed. Of the total annual distribution, 75 percent is allocated among eligible cities based on their population. The projected per capita allocation for the FY 2020 -21 Powell Bill distribution is \$19.74 per person. The remaining 25 percent of the Powell Bill distribution is allocated based on the number of city-maintained street system miles in each municipality. The projected value of the mileage-based allocation for the FY 2020-21 Powell Bill distribution is \$1,613 per street mile. The Powell Bill distribution is anticipated to remain relatively consistent with FY 2020-21 actual revenues of approximately \$76K. In the FY 2015-16 budget and forward, these funds were utilized for repair and maintenance costs associated with Town owned streets rather than directly for contracted paving as in past years. With the newly approved general obligation bond funding available for paving, these Powell Bill funds can be better leveraged to pay for operating costs. Following a thorough review of qualifying street expenditures made thus far in FY 2019-20, staff is confident there will be enough similar qualifying expenditures for FY 2020-21.

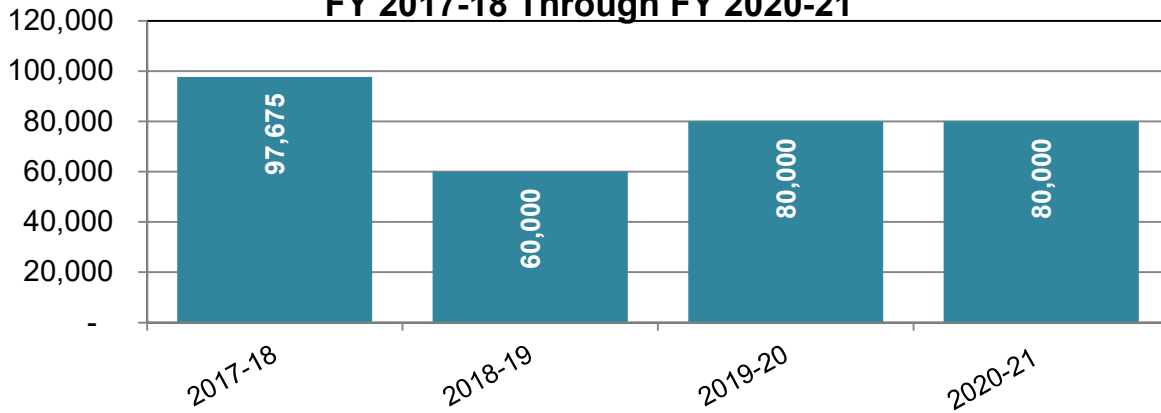
Powell Bill Revenue Including FY 2017-18 through FY 2020-21



ABC Revenue

These proceeds are from the local ABC Board generated by the sale of alcoholic beverages in Blowing Rock. ABC revenue levels have rebounded slightly in recent years. The ABC Board's budget planning for FY 2020-21 reflects an annual funding amount for distribution to the Town of \$80K. Historical gross revenues for the ABC Store operation in Blowing Rock are shown in the graph below for reference.

ABC Store Contributions Including FY 2017-18 Through FY 2020-21



Other & Donations

Other miscellaneous revenue includes: interest income, donations, book sales, park lease, town property rental income, sale of fixed assets, snow removal reimbursement, etc. Budgeted interest income has been budgeted at a conservative rate.

EXPENDITURES BY FUNCTION

General Government (Governing Body, Administration/Finance, & Central Government)

This function accounts for \$2,886,683 or 34% of the total General Fund budget.

Major initiatives, capital projects, improvements, and programs in these areas include:

- Transfer to Capital Projects including \$150,000 of TDA revenue to support the Town's Playground Renovation Project
- Insurance Premiums - General Liability & Workers Compensation
- Payment to Watauga County of 70% of the Ad Valorem vs. Per Capita sales tax proceeds
- Technology Infrastructure support including continued public Wi-Fi and other IT support
- Continued Community Library Support - \$2,000

General Government (Public Buildings & Grounds)

This function accounts for \$580,608 or 7% of the total General Fund budget. Major initiatives, capital projects, improvements, and programs in these areas include:

- Various Facility Improvements
- Continued funding for Tree Planting Program for public areas as needed
- Continued funding for Holiday Decorations
- Continued funding of debt service:
 - Emergency Services Building
 - BRAHM Parking Facility (via TDA)
 - 75% of the Public Works Building Renovation Project

Public Safety (Police & Fire)

This function accounts for \$2,459,750 million or 29% of the total General Fund budget. Major initiatives, capital projects, improvements, and programs in these areas include:

- Continued Funding to provide a School Resource Officer at Blowing Rock School
- Continued funding of costs associated with consolidated dispatch- With Boone in FY 2020-21- Contract (\$65,000), Capital Equipment (\$33,000) and personnel costs (approx. \$40,000 increase)
- Replacement funding for one Police Vehicle
- Maintained funding for Part-time Parking Enforcement
- Two dual-band radios and replacement body/vehicle cameras.
- Continued DARE program Support
- Continued Crimestoppers Support
- Landscape Maintenance for Town owned Fire Station #1 located on Valley Boulevard.

Transportation (Public Works – Streets)

This function accounts for \$1,225,275 or 14.1% of the total General Fund budget. Major initiatives, capital projects, improvements, and programs in these areas include:

- Equipment and tools necessary for the Fleet Mechanic
- Continued funding for contracted Right of Way Clearing
- Continued funding for Master Signage Plan as needed
- Additional funding for street lighting on the US321 Bypass. The Blue Ridge Electric Membership Cooperative Board approved the rates for LED lighting at their Board meeting on April 28, 2016.
- Includes funding in the following areas, with plans for funds remaining at the end of the year to be transferred to reserves in the Capital Projects fund:
 - Road Repairs- Structural \$15K
 - Culvert Replacements \$12.5K
 - Ditch line Repairs \$7.5K
 - Fire Hydrant/Valve Maint. \$7.5K
 - Existing Sidewalks Repairs \$10K

Environmental Protection (Public Works – Sanitation/Recycling)

This function accounts for \$405,361 or 4.7% of the total General Fund budget. Major initiatives, capital projects, improvements, and programs in these areas include:

- Continued Residential Curbside Recycling Program (contracted bi-weekly pick-up).
- Continued funding for commercial and residential solid waste collection (weekly pick-up)

Planning and Inspections

This function accounts for \$286,388 or 3.3% of the total General Fund budget. Major initiatives, capital projects, improvements, and programs in these areas include:

- Continued funding for implementation of the Town Comprehensive Plan Update approved in 2014
- Continued funding of the Signage study and resulting Ordinance
- Continued funding of the permit application, review, approval, and inspection processes

Culture and Recreation (Parks/Recreation & Landscape)

This function accounts for \$872,631 or 10.0% of the total General Fund budget. Major initiatives, capital projects, improvements, and programs in these areas include:

- Continued funding for Part-time Staff for Memorial Park Attendants
- Continued funding for Landscaping/Beautification (partially via BRAAC in FY 20-21)
- The Town will be responsible for maintaining the landscaping along the Valley Boulevard project beginning July 2021. No additional budgeted items are included for the 2020-2021 budget year. It is anticipated that some costs in capital (mowers) and additional personnel will be needed towards the end of the 2020-2021 budget year. Those items will be discussed with Council and a funding source will be determined at that time.

Environmental Protection – Water/Sewer Fund

This function accounts for \$1,818,404 or 100% of the Water/Sewer Fund. Major initiatives, capital projects, improvements, and programs in these areas include:

- Funding debt service for Water/Sewer Capital Improvement Plan Projects (Water Plant, Wastewater Plant and Blowing Rock/Boone Water Interconnection, 25% of the Public Works Facility Renovation Project, and debt service for water and sewer general obligation projects)
- Funding for the Field Operations staff that maintains the water and sewer collection system
- Funding for the Utility Plant staff members and operation of the water and sewer plants
- Funding for repairs at the Wastewater Treatment Plant and Water Plant

Culture and Recreation – BRAAC Fund

This function accounts for \$37,120 or 100% of the Blowing Rock Appearance Advisory Commission Fund. Major initiatives, capital projects, improvements, and programs in these areas include:

- Funding to support Landscaping/Beautification of public property
- Downtown Hanging Baskets/Planters
- Town Clean-up Day and Planting Day (Spring and Fall)
- FY 2020-21 Contribution towards Town Center Landscape/Beautification

EXPENDITURES BY CATEGORY

Expenditure levels have increased in recent years to invest in our people that provide great customer service every day as well as some of our capital infrastructure that has needed attention. Debt service has increased to help pay for new Public capital activities and continue funding phases of the 2014 voter approved General Obligation bond referendum.

Personnel Expenditures

Personnel expenditures include salaries, FICA, group insurance, retirement, longevity pay, and other miscellaneous benefits for 67 full-time equivalent positions, inclusive of five additional positions added in FY 2017-18 in Fire, several part-time positions including some part-time funding for the Fire Department, and other seasonal workers including summer camp counselors and life guards (summer staff is funded at approximately 80% for FY 2020-21 due to cancelled activities due to COVID-19). The FY 2018-19 Adopted Budget for Personnel Expenditures did include a new recurring cost of a Police Officer position to serve as a School Resource Officer (SRO). At a cost of approximately \$68,465, this Adopted Budget includes continued funding for this position.

The total personnel cost in the Adopted Budget is \$4,952,674 or 46% of the total operating budget. The FY 2019-20 Adopted Budget for Personnel Expenditures was \$4,896,521 or 46% of the total budget.

Highlights include:

- The Adopted Budget includes no cost of living (COLA) adjustment increase in base pay.
- As one of 880 cities, towns, counties and local commissions that participate in the North Carolina Local Government Employees' Retirement System, FY 2020-21 contribution rate increased 0.13% to 10.15% for this fiscal year and continues to be the same this upcoming fiscal year. Health insurance costs are anticipated to increase beginning in January 2021, but the actual rate of increase will not be known until the fall of 2020.

- The Adopted Budget includes funding of the Town 401K supplement at 5.0% of salaries for all personnel to go toward the N.C. 401K Supplemental Retirement System. This level of funding for 401K plans helps to keep the Town competitive with other towns and cities. All sworn law enforcement personnel have received a 5.0% supplement per state statute requirement.
- A detailed list of all FTE (Full-Time Equivalent) positions by department can be found in the *Authorized Position Allocation Summary* section of the budget document.

Operating Expenses

Operating expenditures include all costs other than personnel, capital outlay and debt service. Fluctuations in energy and fuel costs, increased service demands, and state funding requirements directly affect other operational expenditures. The FY 2020-21 Adopted Budget for Operating Expenditures is \$3,460,755 or 32% of the total operating budget.

Highlights include:

Continued funding of costs associated with consolidated dispatch with a change in contract for FY 2020-21 to the Town of Boone from Watauga County. Additionally, operating expenses also includes \$590K for payment to Watauga County for 70% of the anticipated incremental sales tax proceeds associated with the ad valorem distribution methodology vs. the per capita approach.

Operating Capital Outlay

Operating Capital Outlay expenditures are for the purchase of machinery, equipment, and other items that are too permanent to be considered expendable at the time of purchase, have a value greater than \$5,000, and have a life expectancy of at least one year. The FY 2020-21 Adopted Budget for Operating Capital Outlay expenses including transfers, for both the General Fund and Water/Sewer Fund, total \$279,665 or 3% of the total budget. The FY 2019-20 Adopted Operating Budget for Operating Capital Outlay expenses, for the General Fund and Water/Sewer Fund, totaled \$692,185 or 7% of the operating budget.

A detailed list of capital purchases for FY 2020-21 can be found in the *Capital Improvements Plan* section of the budget document and primarily consists of replacement vehicles and major equipment replacements.

Debt Service

Debt service requirements for payment of principal and interest on borrowed funds such as lease-purchase payments are allocated in this category. The FY 2020-21 Adopted Budget for debt service expenses, for both the General Fund and Water/Sewer Fund, total \$1,867,055 or 15% of the total operating budget. The past FY 2019-20 Adopted Budget for debt service expenses, for the General Fund and Water/Sewer Fund, totaled \$1,545,902 or 15% of the total budget.

Comprehensive Plan Initiatives and Long-Term Capital Planning

Town Council continues to have a major focus on overall comprehensive planning and its implementation. The following plans and documents continue to drive much of the work scope and consideration by staff as we conduct our work.

- | | |
|---|--|
| - <i>Town Comprehensive Plan Update</i> | - <i>Town Master Signage Plan - TDA funded</i> |
| - <i>Parks/Recreation & Landscape Master Plan</i> | - <i>Town Pavement Plan</i> |
| - <i>Water & Sewer Capital Improvements Plan</i> | - <i>Town Storm Water Plan</i> |
| - <i>Downtown Streetscape Plan</i> | - <i>Downtown Retail Market Strategy -TDA funded</i> |
| - <i>Downtown Parking Management Study</i> | - <i>Permitted Leaf/Limb Disposal Site</i> |
| - <i>Town Public Facilities Study</i> | |

Other Appropriations Summary

The following are chart summaries of capital planned to be funded via Installment purchase financing:

Installment Purchase Funded- General Fund		
\$	102,665	Total Funding
Uses		
\$	6,000	2 Dual Band Radios
\$	5,000	5 Replacement Body/Vehicle Cameras
\$	58,665	Police replacement of Ford Interceptor, includes dual band radio & Equipment
\$	25,000	Communications Equipment (Aaron to provide detail)
\$	8,000	Dispatch Radio/Phone Recorder
\$	102,665	

The following chart shows revenues and allocations from Occupancy Tax funding from the Blowing Rock Tourism Development Authority:

TDA Funding		
\$	242,615	1/3 rd Infrastructure
\$	44,500	2/3 rd Promotional Funding Contributed to Town Operations
\$	287,115	
\$	20,690	Admin. Fee
\$	307,805	Net Occupancy Tax Collection Projection for Budget
Uses		
\$	150,000	Memorial Park Playground Rehab. Reserve
\$	92,615	BRAHM Debt Svs.
\$	12,000	*Overhead
\$	4,000	*Calendars
\$	20,690	Admin.
\$	28,500	*P&R Special Events
\$	307,805	
		* Town Contributions from 2/3 rd Promotion Funds

FISCAL OUTLOOK

As always, but even more so this fiscal year with all the uncertainty surrounding the full economic impacts of the COVID-19 pandemic, projecting budget revenues is a challenge, because simply stated, they are projections. The future is uncertain at this point, however it will be exceedingly important to keep an eye on revenues as they come to fruition throughout the year. It is important for one to always remember projections are not definite and there is always an element of risk, perhaps more so this year than in any other. We have made every attempt to minimize that risk to the best of our ability by monitoring closely the past and trends for the future. Due to our size and constrained geographic borders, the Town of Blowing Rock will not likely grow its way into significant increased revenues, even if the economy were to come roaring back. It is more apparent that we must continue to make high value choices that focus on our people and on our infrastructure if we are to care for and protect this wonderful community in the way that it has come to expect and deserve.

The General Assembly is continuously examining various changes to statewide laws and local government authority is sometimes impacted. Legislation continues to be debated in each session, and the uncertainty of the outcome sometimes disturbing. Monitoring will be required. This Adopted Budget assumes no change for the upcoming fiscal year, but instead relies on a portion of the revenue stream for one-time operating or capital project funding. We must continue to work with the North Carolina League of Municipalities to help monitor potential threats such as this that might take away Council's ability to ensure the Town of Blowing Rock is cared for properly, given whatever circumstances may be. Additionally, improved collaboration with our sister governments can be helpful.

CLOSING

This Adopted Budget for FY 2020-21 is balanced in accordance with State Statutes and attempts to address obligations, along with goals and priorities that have been established by Town Council. Assisting in the development of the budget were department heads who met in one-on-one settings with the Manager and Finance Officer. Their input provided valuable insight as to financial challenges and opportunities encountered by their department. Further, once the COVID-19 pandemic was upon us, departments were requested to review previously submitted budget requests and submit revised requests including only expenditures that were considered essential for operations in order to make reductions necessary to meet reduced expenditure estimates/expectations. Their revised requests are included in this Adopted budget.

With the submission of the Adopted Budget to Council, it now provides Council an opportunity to review and evaluate programs and services and methods of increasing or reallocating resources. This budget includes several important decisions regarding the Town of Blowing Rock's organizational, fiscal, and infrastructure investments to be assessed this year and in the next several years to come. At the 2020 annual winter retreat Town Council set the following 13 - long term goals and objectives. Due to the ongoing uncertainty with COVID-19 many of these items have been placed on hold. It is imperative to not lose focus on these items as we move into the 2020-2021 year. I would recommend a revisit of the current financial situation at the end of the first quarter 2020-2021 and mid-year 2020-2021. At those times, if the uncertainty has been lifted, projects can be revisited.

- 1 Water PRV's – paused for COVID-19 – Water/Sewer Rate Study in progress
- 2 Playground Replacement – in progress, July 2020 completion date
- 3 Sunset/North South Main – Landscaping – paused for COVID-19 – no work completed to date
- 4 Sidewalks - N. Main/Clark St. – paused for COVID-19 – Phase IV of Bond - 2021
- 5 Code Amendments, etc. – Planning Board
- 6 AMR/AMI Upgrades - paused for COVID-19 – Water/Sewer Rate Study in progress
- 7 Legion Hill Project – Village Foundation in progress – fundraising
- 8 Broyhill Lake Dam – paused for COVID-19
- 9 Crosswalks - Sunset/221/Main – paused for COVID-19
- 10 Parking Management/Paid /Shuttle/Wayfinding – TDA/Chamber partners – paused for COVID-19
- 11 2014 Comprehensive Plan - amend/replace – Planning Board
- 12 Sidewalk to Bass Lake Project – in progress – Fall 2020 completion date
- 13 Street Paving – in progress – late Fall 2020 completion date

Please find extended a sincere appreciation to Council for their patience, understanding, and dedicated work on this important policy document. I wish to recognize and extend thanks to Town staff in all Town departments for their invaluable assistance during the budget process and emphasize my appreciation to the Town staff that helped in preparing this budget, especially our Finance Officer, Nicole Norman.

Respectfully Submitted,

Shane Fox
Town Manager