



Town of Blowing Rock

1036 Main Street ★ Post Office Box 47 ★ Blowing Rock, North Carolina 28605

May 12, 2015

To the Honorable Mayor and Town Council of the Town of Blowing Rock:

Submitted herein, in accordance with the Local Government Budget and Fiscal Control Act, is the Recommended Budget for fiscal year 2015-2016 for the Town of Blowing Rock. This budget is balanced and identifies the Town's fiscal priorities for the coming fiscal year. The budget is a plan that presents financial information summarized by major category of expense for each departmental budget and, outlines the operations of the Town of Blowing Rock government and its component operating and capital programs.

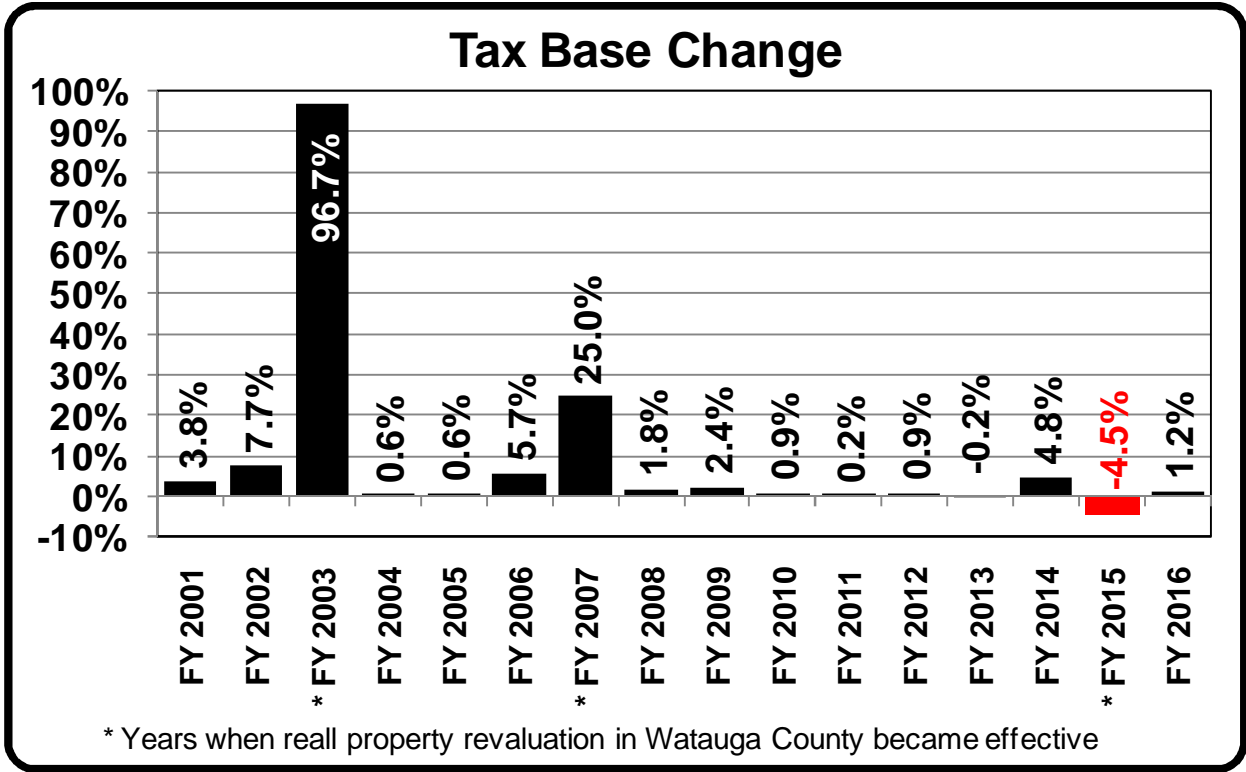
The Town of Blowing Rock is centrally located in the high country and is known as the "Crown of the Blue Ridge". The Town prides itself in excellent customer service, providing a quality environment for all of its citizens and visitors alike. The Recommended Budget seeks to bolster the Town's outstanding reputation through investment in infrastructure and staff. The Town Council and Staff have worked together over the years to provide transparent, pertinent information regarding the Town's policies, laid out through the budget document. This Recommended Budget identifies a variety of topics that have impacted the development of the budget and capital plan including an implementation plan for the General Obligation Bond Referenda approved by Blowing Rock voters in the fall of 2014. During the coming years, we will be faced with critical decisions regarding levels of investment in both our capital infrastructure and our human resources. We must be thoughtful and strategic in our approach to ensure we maintain our strong financial position while addressing our aging infrastructure and being able to attract and retain excellent employees who are responsible for delivering our vital services each and every day.

The Fiscal Year 2015-2016 Recommended Budget totals \$13.6 million for all Town operations, capital improvements, and debt service requirements. This is an increase of \$4.2 million compared to last year's adopted budget of \$9.4 million. The Recommended Budget reflects a tax rate of 34 cents (an increase of 3 cents or 9.7% above the adopted rate of 31.0 cents for FY 2015), proposes changes to water and sewer fees, with an increase of \$2 per month in both water and sewer base fees, and a 25 cents increase in the per thousand gallon rate for all gallons consumed greater than 5,000 per billing period (an increase of 5%). The budget also eliminates business license fees businesses based in Blowing Rock previously had to pay, making our fee schedule consistent with the change in the North Carolina State Law effective July 1, 2015.

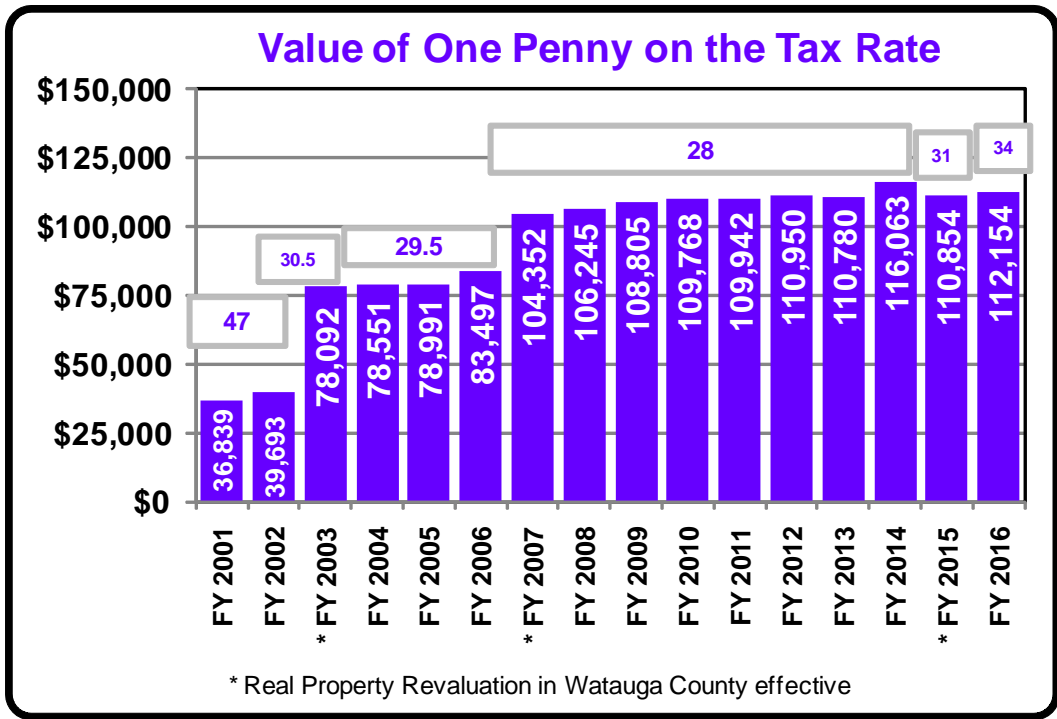
MAJOR ISSUES IMPACTING BUDGET DEVELOPMENT

Tax Base Growth Minimal

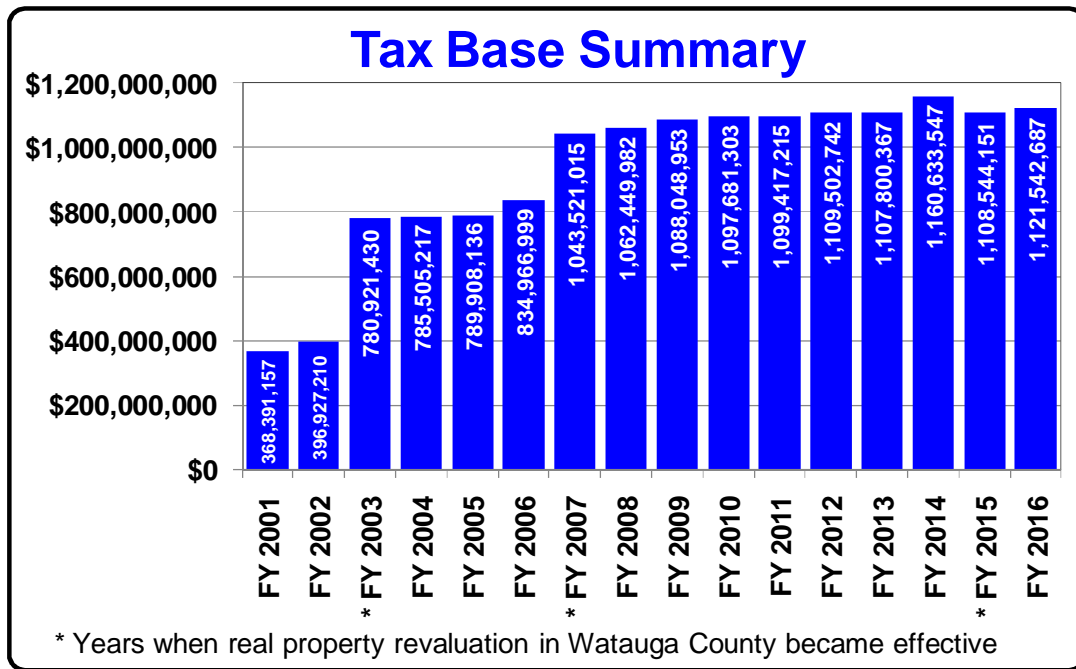
The fiscal year 2016 ad valorem tax base is projected to grow only 1.2%, or about \$13 million. The Town of Blowing Rock has seen an average annual growth rate of 1.10% since the last property revaluation that took effect in FY 2007. The graph below includes information regarding the Town of Blowing Rock's tax base percentage change overtime. The 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 2003.



The recommended FY 2016 tax rate is \$0.34 per \$100 of taxable property, which is expected to generate an estimated tax levy of \$3,770,331. 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 as a whole, one penny on the tax rate, in FY 2016, is expected to generate approximately \$120,000. Reference the graph below for information regarding the value of one penny on the tax rate over time for the entire Town of Blowing Rock:



The Town of Blowing Rock's total tax base for FY 2016 is estimated to total \$1.12 billion. Approximately \$95.5 million, or 8.5%, of the Town's tax base is located 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.

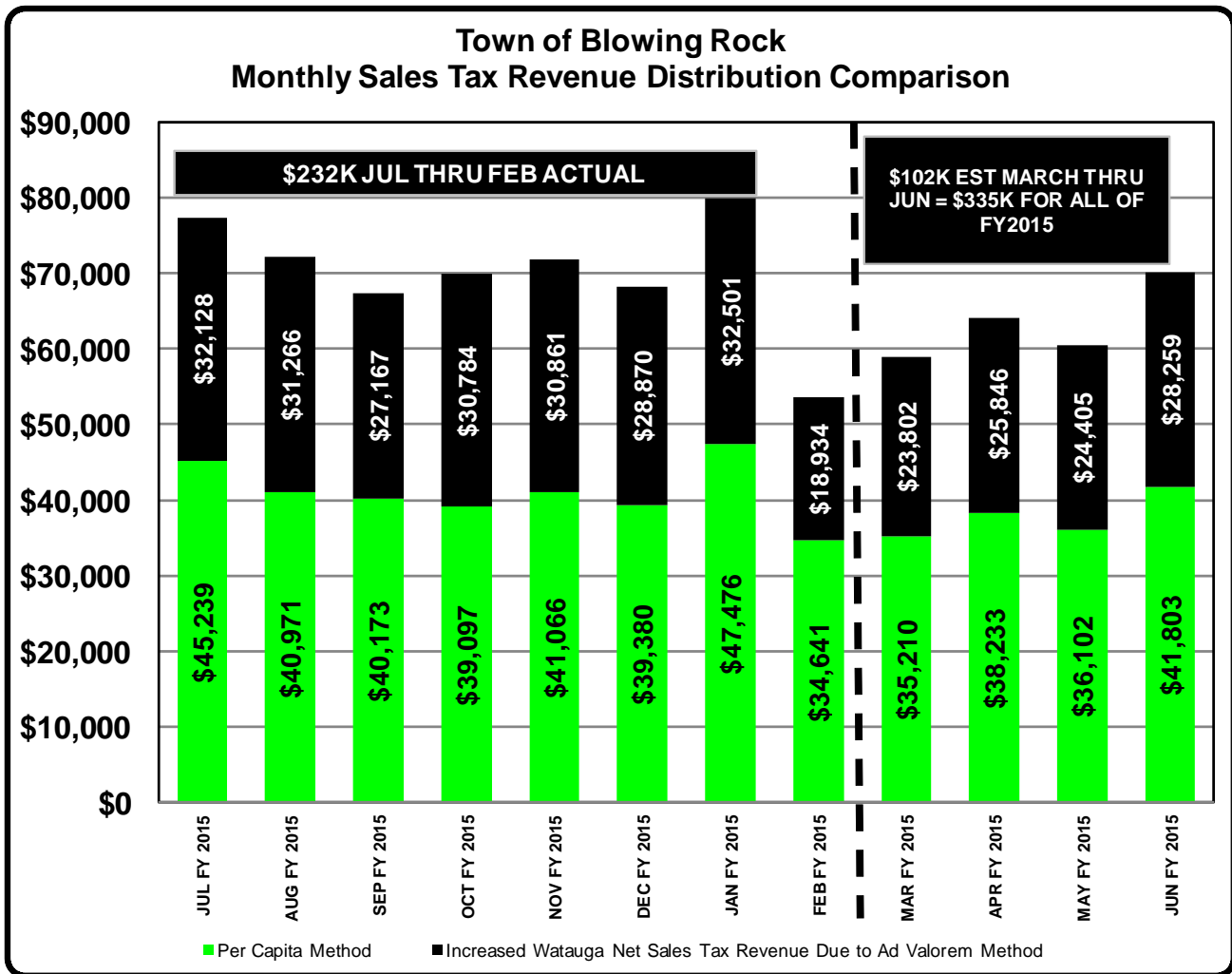


Sales Tax

Projected sales tax revenues totaling \$1.35 million in FY 2016 make up 20% of all general fund revenues. 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 local units of government. Sales tax revenues are distributed, at the discretion of counties, 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.

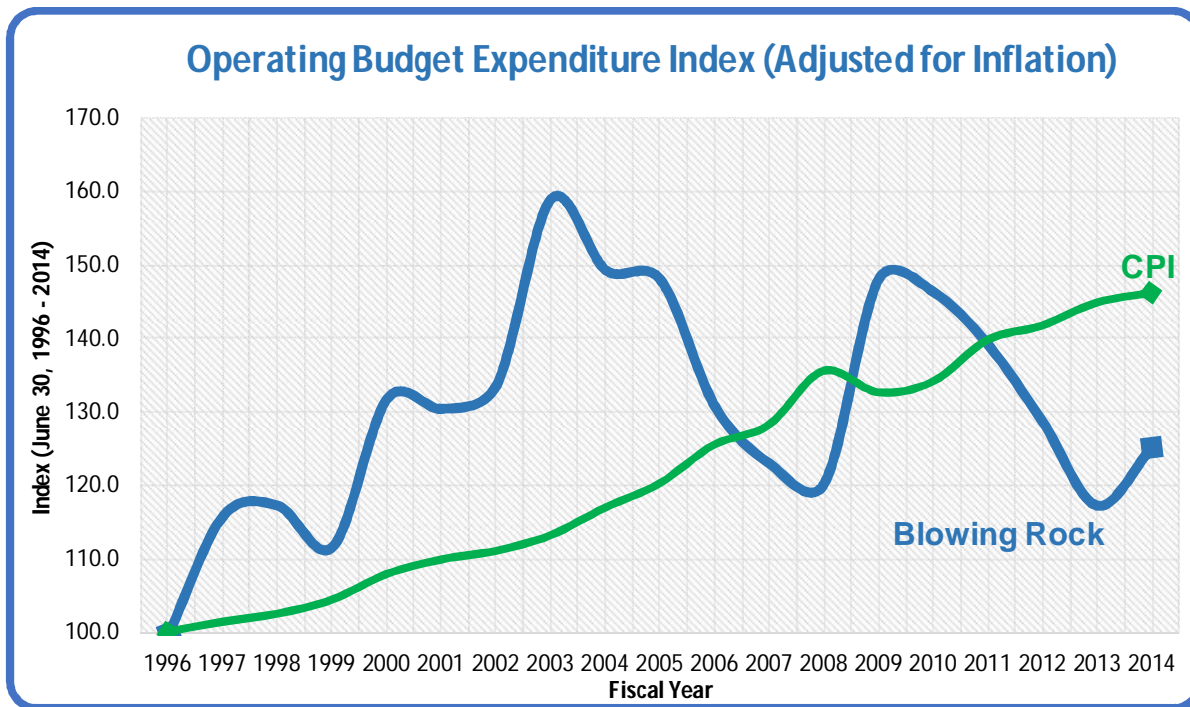
The Watauga County Board of Commissioners has ruled for the last three years, impacting revenue distribution in FY 2014, 2015, and 2016, to make the sales tax distribution method ad valorem. Prior to FY 2014, the distribution method had been set at the per capita method since 1987. With the adoption of the distribution method changing to ad valorem, a hybrid solution has been agreed to requiring 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. The Town of Blowing Rock expects to see an increase in net sales tax revenue, after paying Watauga County, of approximately \$334,000 in FY 2015. With the ad valorem method in place again for FY 2016, the Town expects to receive approximately \$345,000 more in FY 2016. Shown below in the graph is a summary of sales tax revenue receipts received to date and a projection of the monthly revenues that will complete FY 2015. Similar projections have been built into the FY 2016 budget forecasts estimating a growth rate in revenues of 3% as suggested by fiscal analysts in the Office of State Budget and Management and with the North Carolina League of Municipalities. These incremental sales tax revenues have not been incorporated into ongoing operating cost commitments thus far in FY 2015, and a similar approach has been taken in budget development for FY 2016, earmarking the funds for one-time operating expenses and capital projects only.



Expenditures and Municipal Comparisons

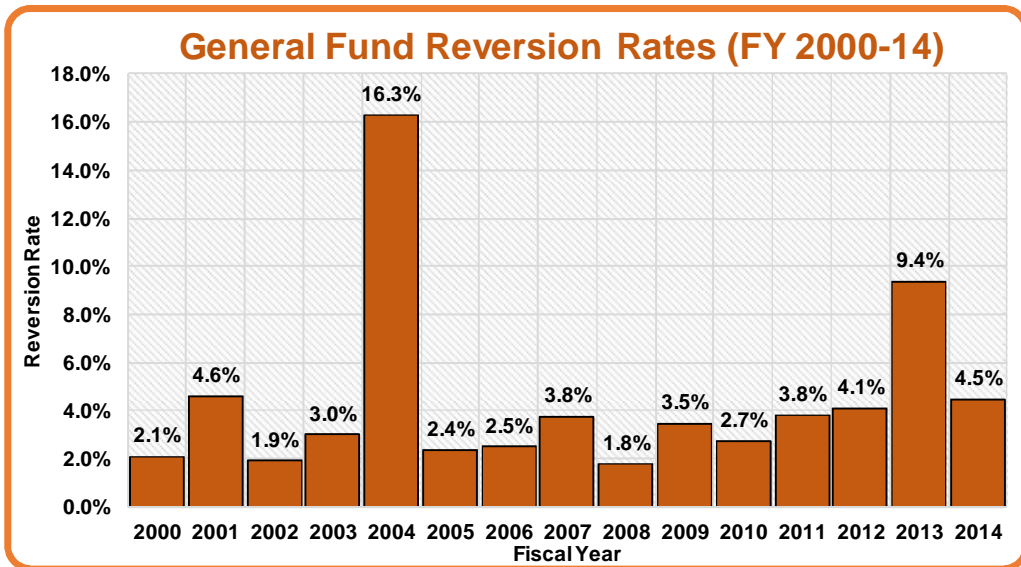
The Town of Blowing Rock engages in the appropriation of public monies. These appropriations are commonly referred to as expenditures. Expenditures are expected of local governments and provide an avenue for bolstering Town infrastructure, safety, and overall quality of life for its citizens and visitors alike. From FY 2000 to FY 2014 the Town of Blowing Rock has seen an increase in total expenditures by approximately 69%. During this period of time, there was variability in the level of general fund and water/sewer fund actual expenditures. It is important that we understand the effective buying power of our expenditures over time relative to inflation by comparing our expenditure rates to the Consumer Price Index.

The Consumer Price Index (CPI) provides a summary of the effect of inflation on the market over time. By using this data the Town is able to track its expenditures according to market inflation. The result is the real level of buying power and expenditures appropriated by the Town. Using 1996 as a starting point and comparing the Town's level of total expenditures from then through 2014, we have actually not kept up with the rate of inflation. This means that the actual buying power of the level of our expenditures has not kept up with inflation over the years. In FY 2014 the Town's effective rate of expenditures was only 52% of what it was in FY 1997. In essence, adjusting for inflation, the actual recorded expenditures of \$6,555,230 only equates to \$3,219,929 of real buying power. The following graph represents the Town's effective operating budget expenditures compared to CPI or inflation since 1996:

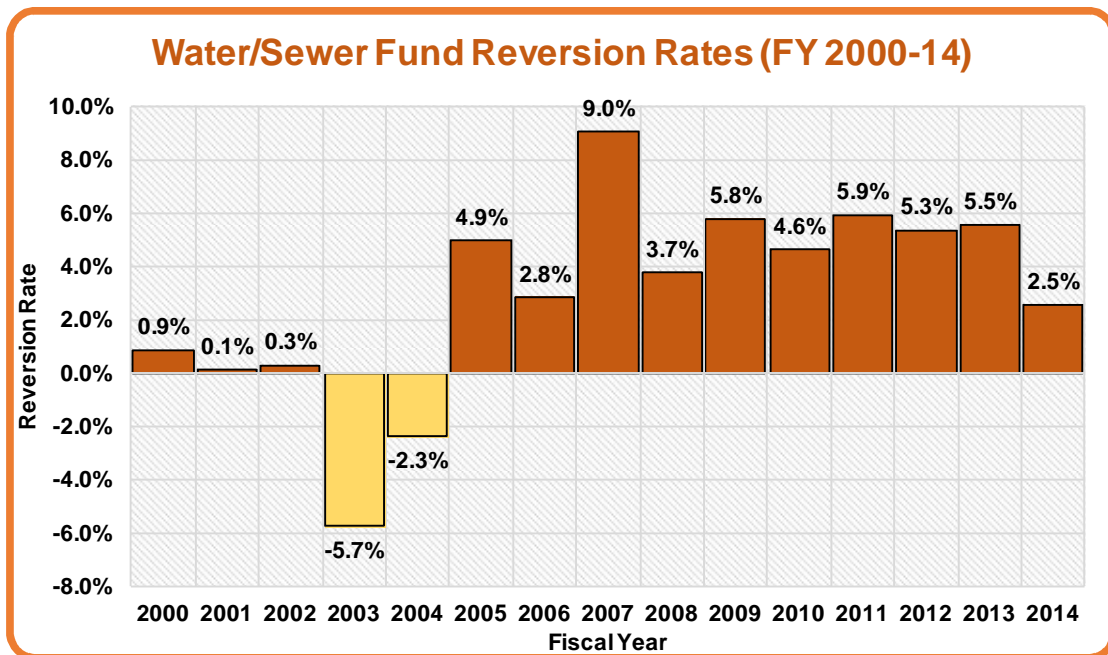


Reversion Rates

We can further understand our expenditures by discovering what percent of our funds are being reverted back to fund balance. A reversion rate is the difference between expenditures budgeted and actual expenditures appropriated. It is beneficial when a certain percentage of funds are contributed to fund balance each year in that it can help bolster the Town's savings available for future opportunities or unexpected needs. The Local Government Commission recommends that governments maintain a fund balance of at least 8%, which is enough to cover about one month of operating expenses. Our goal is to maintain an unreserved balance of 50% in the general fund, equating to 6 months worth of expenditures and debt service. In order to do so, the Town monitors continuously the actual and anticipated levels of general fund balance. The level of fund balance as confirmed in the audit through the end of fiscal year 2014 was 50% of total general fund expenditures for the year. With some level of unspent funds remaining at the end of each fiscal year, the level of fund balance can be increased which helps provide cash reserves for emergencies and one-time opportunities. The FY 2015 adopted budget and the FY 2016 recommended budget do not include any appropriations from fund balance, so unspent funds remaining at the end of each fiscal year will be contributed to fund balance. The following graph depicts the rate of general funds reverted to the fund balance for FY 2000-14:



The Town of Blowing Rock's reversion rates for the general fund have been fairly consistent over time. The relatively low levels, averaging 4.4%, is a reasonable level indicating that the majority of budgeted funds are being spent each year, and there is not an effort to spend every last dollar each year for fear of not having it available to spend the following year. The following graph depicts the reversion rates for the water/sewer fund for FY 2000-FY2014:



The water/sewer fund has seen more sporadic reversion rates. Fiscal years 2003 and 2004 saw negative reversion rates. This means that the fund exceeded its budgetary authority and had to leverage fund balance. The average reversion rate for FY 2000-14 is 2.9%.

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

Another 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 consulting firm McGill Associates assisted the Town Staff in the development of a ten year Capital Improvements Plan (CIP) during FY 2014. 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. These improvements require a significant level of investment over time. The following is a summary of the CIP escalated cost summary:

- Public Facilities – \$2.2 million
- Parks and Recreation – \$0.5 million
- Roads and Sidewalks – \$8.7 million
- Water – \$15.1 million
- Sewer – \$6.7 million

The total cost estimate provided by the CIP was approximately \$33.2 million. The level of investment and pace at which we decide to pursue these improvements are important decisions that will be made during this and future budget cycles as funding situations and alternatives are discussed. The subsequent General Obligation Bond Referendum that was put before Blowing Rock voters on November 4, 2014 was a direct result of this comprehensive infrastructure needs evaluation. The pace at which the Town Council decides to move forward with this newly approved debt authority to begin investing in the community infrastructure is a key element of the FY 2016 Recommended Budget and will likely consume the majority of our budget development discussions. The bond referendum and a potential implementation plan is being put forth in this budget and it is discussed later in this budget message.

Classification and Pay Study

Another contributing factor to our organization's financial picture relates to the extent we are able to continue implementing the recommendations received from the Town commissioned Classification and Pay Study. This study helped us document and bring current all of our position descriptions and position responsibilities. From that information, the consultants were able to examine the labor market to assess how our starting salary level for each position measures up. It is important that our pay and benefit packages be competitive so that we can attract and retain high quality employees who can share the dedication to service we currently have.

The study determined that on average our starting salary levels were approximately 17% behind the level of the labor market. The pace at which we are able to continue closing this gap will have a direct impact on our current labor force as well as those we must attract to fill vacancies in the future. Our human resources are the most important asset we have, and we must work hard to find a way to begin shrinking the market gap that currently exists. Last year we began a systematic approach to trying to close this gap in four years. There are a multitude of options and approaches about how we approach this issue, and I am looking forward to discussing how we can continue to make progress in this area in the FY 2016 budget and beyond.

Debt Service

Bringing on debt to fund assets has always been a great way to better match the utility of costly items with the time period that we pay for them. Interest rates, while forecasted to rise, are still at historically low levels. Bringing on additional debt service is a great way to afford assets that are simply too large to fund with cash. One of the major elements included in the FY 2016 Recommended Budget is a plan to move forward with the general obligation bond referendum approved by Blowing Rock voters in November of 2014. In addition, we are bringing on debt service to replace the Town's Public Works Shop. This project is estimated to cost \$1.7 million and will increase our debt service in the FY 2016 general fund budget by about \$120,000 and about \$40,000 in the utility fund. The debt service costs of this facility are being split between the general fund (75%) and the utility fund (25%) since the facility supports both general Town operations and the utility system respectively. This is an extremely important project that will make a huge difference in the efficiency and effectiveness of our daily public works and utilities operations. One of the key aspects of this project is additional paved area and covered storage for our equipment to help protect it from the harsh elements we experience.

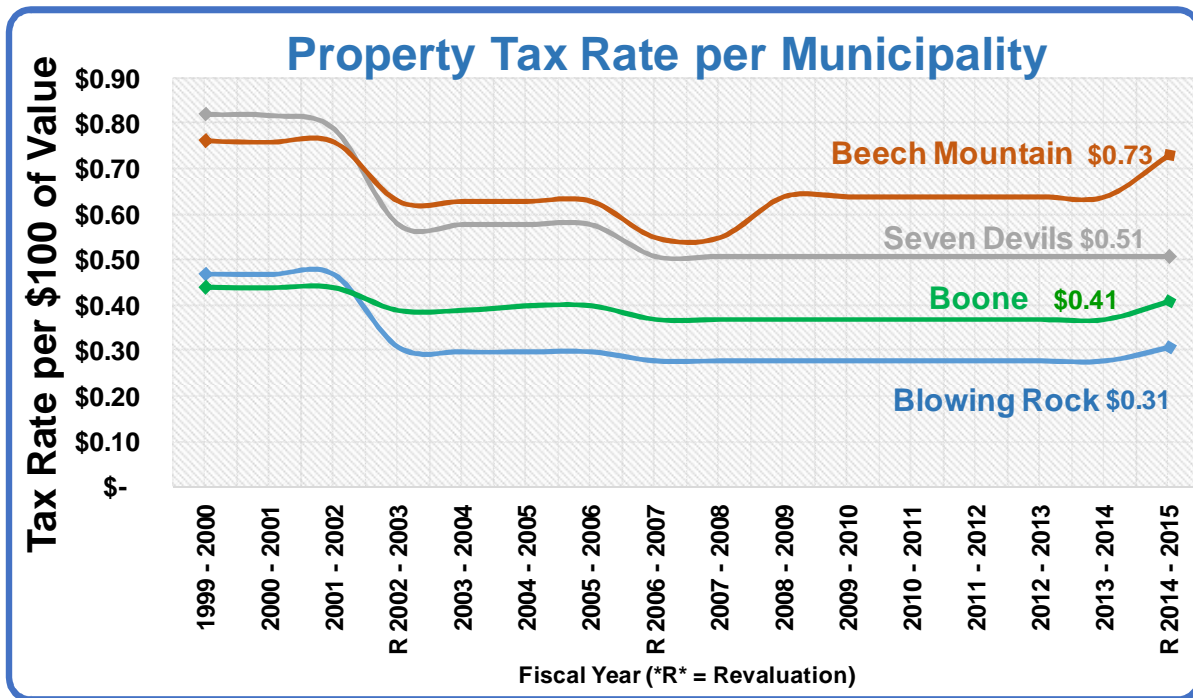
Shown below are both a picture of the current facility as well as a rendering of the new facility which began construction on May 4, 2015.



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 per \$100 valuation. 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 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 following graph details the property tax rates for all municipalities in Watauga County since FY 2000. An "R" denotes a property revaluation year:



The Town of Blowing Rock has a lower property tax rate than the other municipalities in Watauga County. In addition to the municipalities in the County, Watauga County has a tax rate of \$0.31 per \$100 valuation. The taxable property in Blowing Rock has seen an average growth of 0.8% since FY 2008. 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.

Losing 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 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.

Business Licenses

Prior to the upcoming fiscal year which begins July 1, 2015, one avenue of raising revenues to support operations was to adjust the level of Business License Fees. This tax was authorized as a revenue source under which the Town collected Privilege License Taxes, in the form of fees, from a variety of businesses ranging from \$2.50 to \$100 per fee. In 2014, the North Carolina General Assembly restricted the authority associated with this revenue source by limiting it to only those businesses with a physical location in Blowing Rock rather than for all businesses providing services in Blowing Rock. At that time, the NC General Assembly also determined that the authority would completely be eliminated beginning July 1, 2015. This revenue source for the Town of Blowing Rock typically averaged about \$16,000 per year and peaked at nearly \$22,000 in FY 2012. Now that this revenue source is no longer available beginning in FY 2016, the Town must find alternative revenue options to produce the equivalent amount of revenue or reduce service levels by an equal amount.

A final major recommendation addresses the Town of Blowing Rock's property tax rate. A municipality may levy property taxes at a rate not to exceed \$1.50 for each \$100 of appraised value. The Recommended Budget

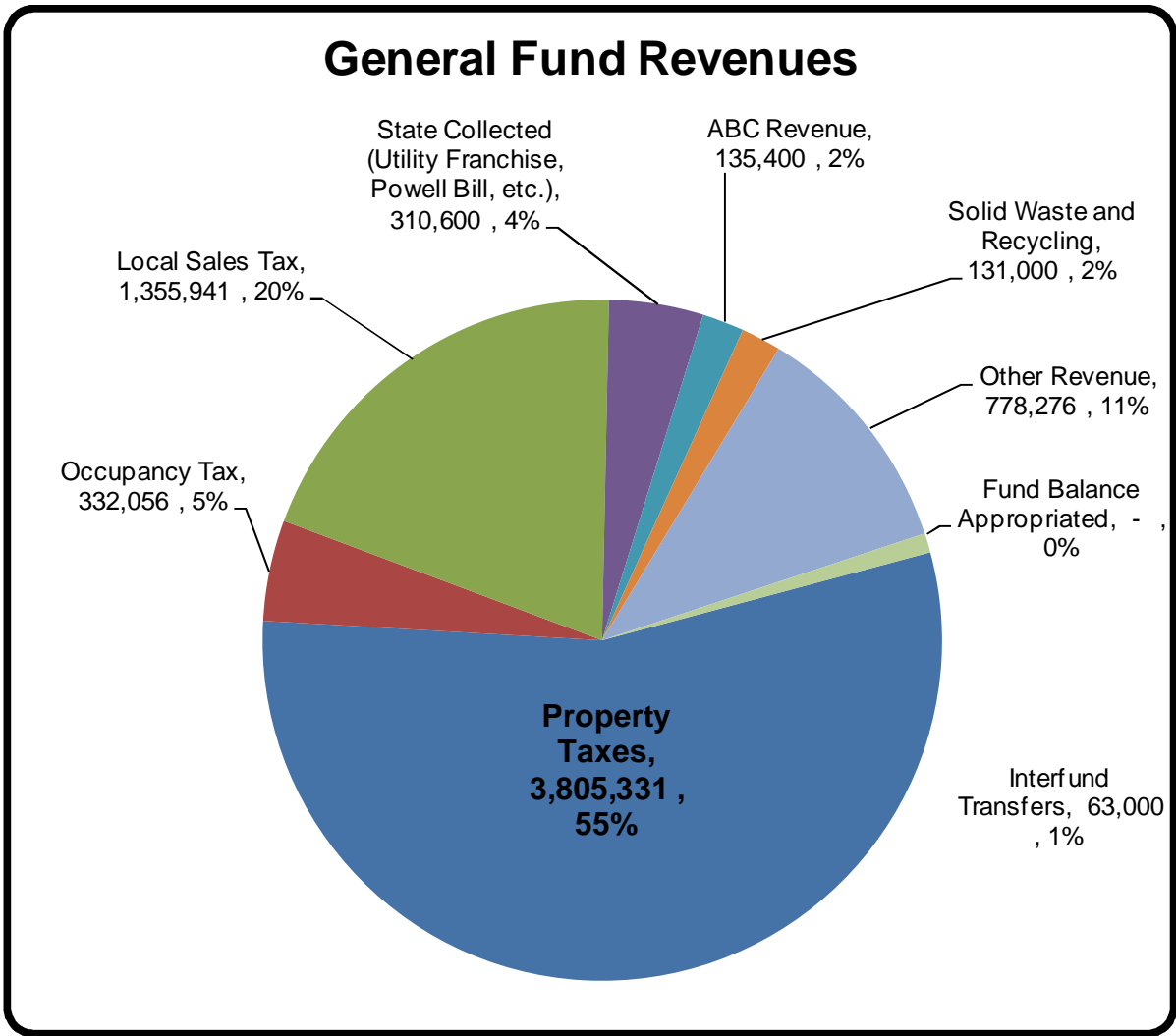
includes a property tax rate of 34.0 cents per \$100 of property valuation. Each penny increase on the property tax rate produces approximately \$110K. At this level, property tax revenue is expected to generate a total of \$3.8 million or 55% of total general fund revenues.

FUNDS OF THE BUDGET

General Fund

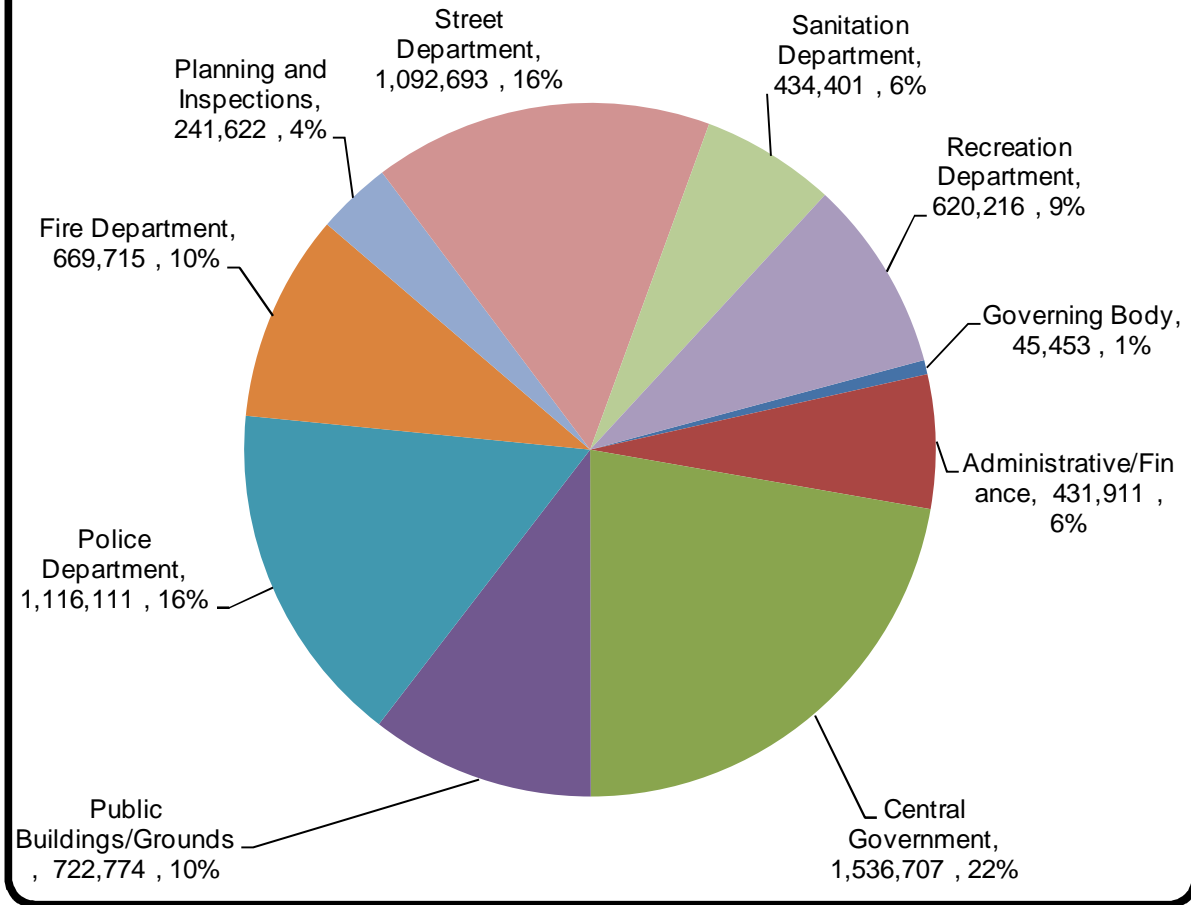
The General Fund is where revenues and expenses are gathered for all governmental services that do not generate sufficient revenue to support their activities (Police, Fire, Recreation, Public Works, Administration, Planning/Inspections, etc.). The General Fund is balanced and recommends adjusting the property tax rate to 34.0 cents per \$100 of property valuation. This rate will provide approximately \$3.8 million in real and personal property tax revenues based on a real and personal property collection rate of 98.92% and a vehicle property tax collection rate of 96.06%. The following graph distinguishes the percent each source of revenue contributes to the general fund:

General Fund Revenues



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 following graph depicts the spending breakdown by department for FY 2016:

General Fund Departmental Expenditures



The FY 2016 Recommended Budget for the General Fund revenues totals \$6,911,604, which is \$743,266 more than the FY 2015 Adopted Budget. The primary area of increase is in property tax revenue increases as a result of the recommendation to increase the tax rate by three cents per \$100 of taxable value. In addition, sales tax revenues have been growing steadily. Budgeted revenues are expected to increase 3% over the current year estimates, but because last year's adopted budget had anticipated less growth in sales tax revenues, the anticipated increase over the budget in this area from last year is \$176,000, or about 15%.

The FY 2016 Recommended Budget for the General Fund expenditures includes similar increases. This difference is attributable to a variety of factors including making progress toward employee salary levels reaching market ranges over a four year span, additional part-time funding in the Fire Department, a new Landscape Assistant staff member, and additional debt service due to infrastructure investments in the Public Works Building (\$120K) and the first phases of bond project implementation (\$171K).

BRAAC Fund

The Blowing Rock Appearance Advisory Commission Fund contains all activities to initiate, promote and assist in the implementation of general community beautification in the Town and its environs. The Commission also coordinates the spring and Fall Planting Days and is the chief sponsor of the annual Town Clean-up Day. This group is also assisting in the Town's efforts and evaluation of a possible gateway project. The FY 2016 Recommended Budget for the BRAAC Fund totals \$33,850. Via donations/contributions, this fund is self-supporting with all revenues being allocated towards the Commission objectives as set forth in the Town Code.

The donations that support the BRAAC Fund include general donations, hanging basket donations, and cemetery donations.

The majority of BRAAC Fund expenditures are appropriated to "Flowers/Landscaping" efforts totaling about 82% of the Recommended Budget. This year's Recommended Budget level is \$12,000 higher than FY2015 which is predominantly being driven by increased flower costs and the new annual contract that BRAAC has taken on to maintain the Legacy Gardens which border the east side of Main Street just south of the downtown area.

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. This fund is self-supporting. The FY 2016 Adopted Budget includes both a water and sewer base rate adjustment of \$2.00 per billing cycle for both the water and sewer base fee and a 25 cents increase in the per thousand gallon fee to help offset declining water use and increasing operating and capital costs. The Water and Sewer Fund has struggled to maintain reliable revenues over the past fifteen years, with much of the variability caused by weather and declining use driven by water conservation measures such as newer low flow toilets.

The FY 2016 Recommended Budget for the Water and Sewer Fund totals \$1,683,024. This is a \$14K or 0.8% decrease from the FY 2015 Adopted Budget of \$1,697,292.

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 2015 property tax rate was \$0.31 per \$100 of valuation. On a \$500,000 home, the total annual Town of Blowing Rock property taxes due would be \$1,550.00.

The FY2016 Recommended Budget includes a tax rate of \$0.34 per \$100 of valuation to help support increasing operating and debt service costs. Total Ad Valorem tax revenues (including current and prior years, motor vehicles, and penalties/ interest) are projected to be \$3.8 million in FY 2016. 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 a number of 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

- Parks and Recreation Department Fees (Pool, Day Camp, Program Registration 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 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. In FY 2016, 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 utility franchise, 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 2015 as a result of the tax reform legislation passed during the last 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 2014, that revenue will be distributed statewide on an ad valorem basis. That being said, the North Carolina League of Municipalities (NCLM) projects a slight increase in statewide electricity franchise revenues. The NCLM also notes that 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. The budget proposes this revenue to decrease slightly compared to FY 2014 actual receipts.

Annual statewide growth in telecommunications revenues is expected to decline by 6.5% over FY 2014 levels. The NCLM expects further declines in coming years, mainly attributable to loss of landline purchases. The budget proposes this revenue to drop 8% from adopted FY 2015 levels.

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 2013, we saw a decrease in beer and wine revenues. The NCLM expects this decrease to level out in the coming years. 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.

In 2007, Video Programming revenue replaced the local cable franchise fee revenue. Due to increased competition between satellite and cable providers, the NCLM expects Video Programming revenue to decrease 1.0% in FY 2015. Due to the seasonal nature of the community, the budget proposes this revenue to drop slightly.

The Solid Waste Disposal Tax is a result of a statewide \$2 per-ton tipping fee that went into effect in 2008. A portion of this tax is remitted to municipalities on a per capita basis to be used for solid waste management programs. Solid Waste tax is expected to increase 5% over FY 2014 levels, projecting another 2% increase in 2015. The budget proposes this revenue to follow historical trends and stay relatively flat compared to actual receipts in FY 2013.

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. This revenue source is expected to total

\$310K in FY 2016 with the continued ad valorem distribution methodology in place. These are strictly General Fund revenues.

Sales Taxes

Effective July 1, 2013, 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, the Town of Blowing Rock is forecasting for the additional revenue in FY 2016. It is uncertain how long this method will remain or how long the County will require the 60% transfer of revenues. We are anticipating an additional \$344,866 in net revenue to the Town in FY 2016 over and above the typical per capita distribution amount.

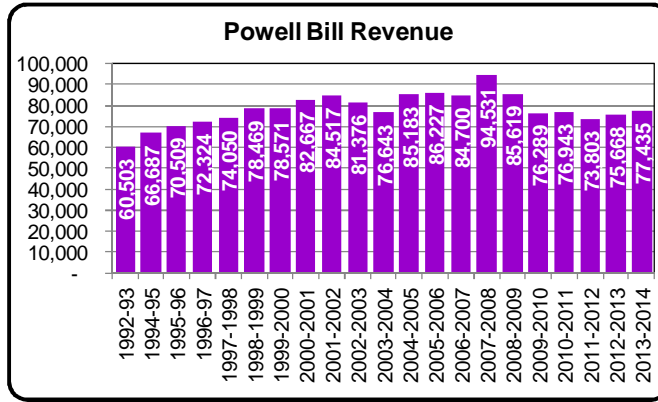
In addition to the change in distribution method, the NCLM is projecting a 4% increase in local sales tax base for FY 2016. They also caution municipalities to consider the impacts of local construction on these revenues. Sales tax revenues under the per capita approach are budgeted for FY 2016 at \$494K, and the additional \$345K has been largely allocated to one-time operating costs and capital projects in the FY 2016 Recommended Budget.

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 \$332,056 in funding for the Town in FY 2016 to use in support of the various tourism-related operations of the Town. This revenue source is projected to increase 3% over estimated levels for FY 2015. Market analysts are hopeful for a higher revenue growth rate than 3% as the receipt levels have grown at a faster pace than that recently, but for budget purposes, the decision has been made to keep the budget growth at 3%. Any proceeds over and above these budget expectations can either be recognized and appropriated during the fiscal year or in the subsequent year.

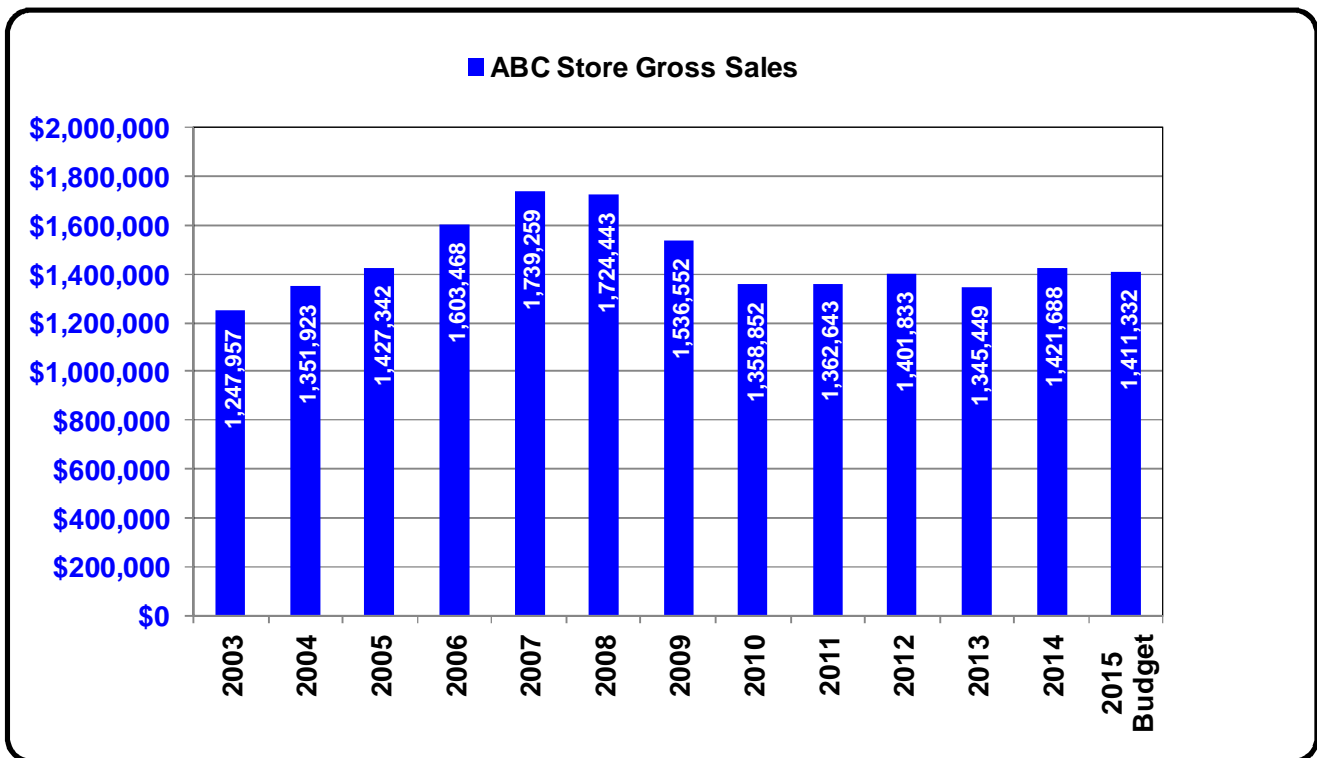
Powell Bill

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. The 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 2016 Powell Bill distribution is \$20.39 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 2016 Powell Bill distribution is \$1,629 per street mile. The Powell Bill distribution is anticipated to decrease slightly to \$70K in FY 2015 compared to the \$77K received in FY 2014. In the FY 2016 budget, it is being recommended that the Town use these funds to pay 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.



ABC Revenue

These proceeds result from a contribution from the local ABC Board from the sale of alcoholic beverages in Blowing Rock. ABC revenue levels have rebounded slightly in recent years, so the ABC Board's budget planning for FY 2016 reflects an increase in the annual funding distributed to the Town from \$60,000 to \$80,400. In addition, the ABC Board voted at its meeting in April, 2015 to also provide an additional one-time distribution of \$50,000 on July 1, 2015. This additional \$50K has been allotted to pay for one-time operating costs in the general fund budget. Historical gross revenues for the ABC Store operation in Blowing Rock are shown in the graph below for reference.



Other & Donations

Other miscellaneous revenue includes: interest income, parking tickets, donations, book sales, park lease, town property rental income, sale of fixed assets, snow removal reimbursement, etc. Budgeted interest income has been once again reduced as a result of market conditions. In addition, FY 2015 was the last year that the NC

General Assembly allowed privilege license revenue to be charged. This revenue source for the Town of Blowing Rock peaked at \$21,817 in FY 2012.

EXPENDITURES BY FUNCTION

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

This function accounts for \$2 million or 29% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Transfer to Capital Projects including \$150K of TDA revenue to support the new Town Gateway development program
- \$136K transfer to Capital Projects of net sales tax revenue proceeds to support a variety of general government capital projects
- \$60K transfer to support the purchase of a valve cutting machine in the water and sewer fund that will greatly reduce our long term costs to repair and isolate water lines under pressure, thus reducing the frequency of large numbers of customers experiencing service interruptions
- Insurance Premiums - General Liability & Workers Compensation
- Payment to Watauga County of 60% of the Ad Valorem vs. Per Capita sales tax proceeds. This amount represents \$517K of the FY 2016 budget
- Technology Infrastructure support including servers, applications, and Wi-Fi
- Community Library Support - \$2,000
- Organization-wide Customer Service Excellence Initiative

General Government (Public Buildings & Grounds)

This function accounts for \$722K or 10.5% of the total General Fund budget.

Major capital projects/improvements/programs are:

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

Public Safety (Police & Fire)

This function accounts for \$1.79 million or 26% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Continued funding of costs associated with consolidated dispatch with Watauga County
- Replacement funding for two Police Vehicles, both of which are Crown Victoria two wheel drive vehicles that are planned to be replaced with four wheel drive Ford Interceptors, similar to those purchased in recent years. These vehicles are much more capable of handling winter conditions.
- Continued funding for Part-time Parking Enforcement
- Body cameras for officers. This purchase of eight will allow all of our officers to have a body camera.
- DARE program Support
- Crimestoppers Support
- Increased funding for Fire Department part-time support. This increased cost is being paid for through a reimbursement provided by the Fire Department outside funding sources (district tax).

Transportation (Public Works – Streets)

This function accounts for \$1.1 million or 16% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Funding to replace a 2002 Kubota Tractor and a 2005 John Deere Excavator
- Replacing a 1997 Chevy 2 ton truck used primarily for leaf and yard waste collection
- Equipment and tools as deemed necessary for the Fleet Mechanic
- Continued funding for contracted Right of Way Clearing, Tree and Leaf Removal, etc.
- Continued funding for Master Signage Plan (via TDA)

Environmental Protection (Public Works – Sanitation/Recycling)

This function accounts for \$434K or 6.3% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Continued Residential Curbside Recycling Program (weekly pick-up)
- Adding one cart lifter attachment to the fleet to allow all three sanitation trucks to be outfitted with a cart lifter.

Planning and Inspections

This function accounts for \$242K or 3.5% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Continued funding for implementation of the Town Comprehensive Plan Update approved in 2014
- Continued Downtown Retail Strategy Implementation
- Continued funding for GIS Project
- Funding to make the Woodlawn Cemetery map available through the website via a contract with the High Country Council of Government. This will allow the public to see a map of which plots are still available for purchase and where in the cemetery they are located.

Culture and Recreation (Parks/Recreation & Landscape)

This function accounts for \$620K or 9% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Continued funding for Part-time Staff for Downtown Litter Pick-up and Memorial Park Attendants
- Continued funding for Landscaping/Beautification (via TDA)
- Replacing the 2000 Light Truck with a new one ton with a dump bed to better facilitate landscaping and maintenance projects being undertaken by staff on a regular basis
- Replacing the 2003 Dingo
- The addition of a Landscape Assistant position to help keep up with the extensive volume of parks and gardens in Blowing Rock. In addition, the Town will be responsible for maintaining the landscaping along the Valley Boulevard project upon completion. The Town will need to get involved in reviewing the NCDOT prepared landscape plans prior to their implementation to help ensure the Town is satisfied with the plan and prepared to take it over when the time comes which may be as soon as spring of 2016.

Environmental Protection – Water/Sewer Fund

This function accounts for \$1.7 million or 100% of the Water/Sewer Fund.

Major capital projects/improvements/programs are:

- 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 to convert the 20 hour per week part-time Utility Billing Administrator to a regular full time position to better meet the needs of our utility system customers. Having the part-time support of this very important system in place in FY 2015 has made an improvement in this area. Increasing this resource to full time will improve our ability to notify customers about possible leaks and to help improve our overall responsiveness to issues and questions that arise.
- Funding to provide one additional Utility Plant Operator position. This position is needed initially to support operations at the Sewer Plant. Over time, this will allow capacity to be developed among the newer staff members for cross training and overall system knowledge attainment along with a much needed reduction of overtime that is currently necessary of existing staff to keep our water and sewer plants running effectively.
- Funding for two replacement vehicles
- Funding to purchase a valve insertion machine that will allow valves to be placed in key areas of the system with the line still under pressure, reducing the frequency of customers having their water service interrupted when system repair and maintenance issues arise.

Culture and Recreation – BRAAC Fund

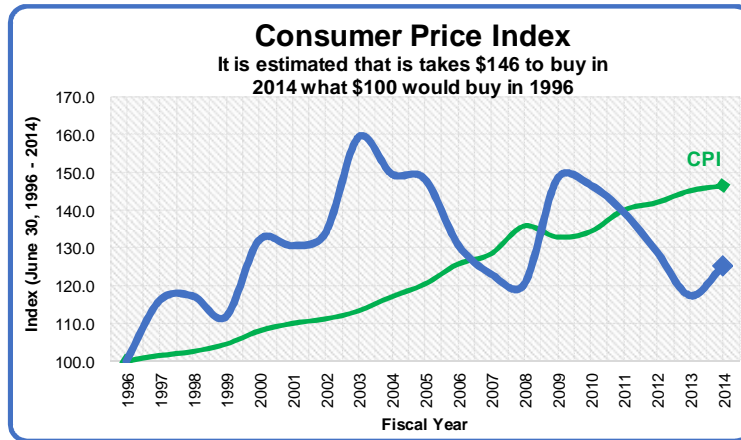
This function accounts for \$33,850 or 100% of the Blowing Rock Appearance Advisory Commission Fund.

Major capital projects/improvements/programs are:

- Funding for Landscaping/Beautification of public property
- Downtown Hanging Baskets/Planters
- Town Clean-up Day and Planting Day (Spring and Fall)
- Contracted services to maintain the Legacy Gardens which began in FY 2015 and is being carried forward in FY 2016 with all funds necessary to accomplish this scope being raised by BRAAC through gifts and donations. No tax proceeds are currently used to support the activities sponsored by BRAAC.

EXPENDITURES BY CATEGORY

Expenditure levels have increased in recent years to invest in our people that provide great customers service each and every day as well as some of our capital infrastructure that has been in need of attention. Despite the growth in expenditure levels over the years, the Town's level of investment has not kept pace with inflation. The chart below compares the consumer price index, a measure of inflation, with the Town's expenditure levels that have been adjusted for the impacts of inflation. Following this chart, a general overview of each operating budget expenditure category is covered.



Personnel Expenditures

Personnel expenditures include salaries, FICA, group insurance, retirement, longevity pay, and other miscellaneous benefits for 58 full-time equivalent positions, several part-time positions as well as seasonal workers. The FY 2015 Recommended Budget for Personnel Expenditures includes three new positions: the conversion of a 20 hour per week part-time Utility Billing Administrator to a regular full time position, a Utility Plant Operator, and a Landscape Assistant. The total personnel cost in the Recommended Budget is \$3,612,685 or 42% of the operating budget. The FY 2015 Adopted Budget for Personnel Expenditures was \$3,167,829 or 40% of the total budget.

Highlights include:

The Recommended Budget includes funding to support moving toward the market level for positions as identified in the class and pay study findings presented in April, 2014. The level of funding provided varies according to how far each position is away from the identified level for that position.

As one of 880 cities, towns, counties and local commissions that participate in the North Carolina Local Government Employees' Retirement System, FY 2016 contribution rate remained at 7% for this fiscal year. Health insurance costs are anticipated to increase 5% beginning in January 2016, but the actual rate of increase will not be known until the fall of 2015.

The Recommended Budget recommends increasing the funding of a Town 401/K supplement from 3.0% of salaries for all general personnel to 4.0% to go toward the N.C. 401K Supplemental Retirement System. To help make the Town more competitive, the recommendation has been made to work our way up to 5.0%, similar to many other local government agencies. Sworn law enforcement personnel already receive a 5.0% supplement per state statute requirement. The town-wide extra cost of this extra 1% is estimated to be \$18,117.

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. Increased energy and fuel costs, increased service demands, and state funding requirements directly affect other operational expenditures. The FY 2016 Recommended Budget for Operating Expenditures is \$2,969,551 or 34% of the total operating budget.

Highlights include:

Continued funding of costs associated with consolidated dispatch with Watauga County is funded at \$171K. Operating expenses also includes \$517K for payment to Watauga County for 60% 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 2016 Recommended Budget for Operating Capital Outlay expenses, for both the General Fund and Water/Sewer Fund, total \$899,135 or 10% of the total budget. The FY 2015 Adopted Budget for Operating Capital Outlay expenses, for the General Fund and Water/Sewer Fund, totaled \$1.1 million or 14% of the total budget that year.

A detailed list of capital purchases for FY 2016 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 2016 Recommended Budget for debt service expenses, for both the General Fund and Water/Sewer Fund, total \$1,147,107 or 13% of the total budget. The FY 2014 Adopted Budget for debt service expenses, for the General Fund and Water/Sewer Fund, totaled \$1,044,428 or 13% of the total budget. In the FY 2013 Adopted Budget, debt service expenditures were \$1,076,235 or 17% of the total budget.

Highlights include:

- A detailed Amortization Schedule for FY 2016 can be found in the *Debt Payments* section of the budget document.
- FY 2015 was the final year of debt service associated with the American Legion Parking Deck at \$118,329. This debt service payment was provided for by Occupancy Tax revenues allocated through the TDA. In FY 2016, this amount along with additional available capacity is expected to go toward new Town Gateways. The specifics of what will be built and exactly where they will go will be determined at a later date.
- Due to the level of debt funded projects and vehicles included in the FY 2016 budget, the total debt service obligation of the general fund is expected to rise approximately \$103K in FY 2016 as the first year of debt service on the borrowings come due. As additional borrowings take place, especially related to implementation of the general obligation bond program, debt service related costs are expected to rise to support the investment in Town capital infrastructure.

Comprehensive Plan Initiatives and Long Term Capital Planning

Over the past ten years, Town Council has had 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.

- *Town Comprehensive Plan Update*
- *Parks/Recreation & Landscape Master Plan*
- *Water & Sewer Capital Improvements Plan*
- *Town Master Signage Plan - TDA funded*
- *Town Pavement Plan*
- *Town Storm Water Plan*

- Downtown Streetscape Plan
- Downtown Parking Management Study

- Downtown Retail Market Strategy -TDA funded
- Town Public Facilities Study

With Council's support in FY 2014, the Town commissioned McGill Associates to provide a comprehensive cost estimate of our more immediate capital needs including the water plant, the sewer plant, water lines, sewer lines, storm water inflow and infiltration into the sewer system, storm water ditches, street repaving, and street failure repairs. In addition, we asked that they provide estimates for Town facility capital improvements and repairs including government buildings, sidewalks, greenways and parks. This information was received in the spring of 2014 and it provided the foundation of the general obligation bond referendum questions that were put before Blowing Rock voters on November 4, 2014. The voting results for each question on the referendum are summarized in the table below.

**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

Just how quickly the Town Council decides to begin implementing the bond referendum funded capital infrastructure improvements and which specific projects are key decisions for this upcoming budget year and for each budget cycle over the next 7 to 10 years.

For this reason, I would like to suggest that we spend a significant portion of our upcoming budget work sessions reviewing the recommended general obligation implementation plan in detail. Shown below is one such approach that outlines the fiscal years of Council action, borrowing amounts for the general capital bonds (transportation and parks) and the utility capital bonds (water and sewer).

Town of Blowing Rock
General Obligation Bond Execution Plan
Presented As Part of the Recommended 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
4	Annual Debt Service			171,069	351,866	476,694	609,957	777,597	954,143	927,893	901,643	876,403	849,143
6	Utility Capital (Water and Sewer) \$3M Total			Borrow \$1.13M		Borrow \$914K		Borrow \$950K					
7	Utility Fund												
8	Annual % Increase			5.0%	5.7%	4.6%	4.6%	4.8%	4.8%				
9	Cumulative % Increase			5.0%	10.7%	15.3%	19.8%	24.6%	29.3%	29.3%	29.3%	29.3%	29.3%
4	Annual Debt Service			57,335	117,930	179,883	245,928	263,725	282,276	274,401	266,526	258,944	250,776

FISCAL OUTLOOK

Projecting revenues continues to be a challenge even as the economy appears to show signs of measured recovery. 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. If we had not been fortunate enough to have the Wonderland Trail and Quail Hollow road repairs covered by the Federal Emergency Management Agency (FEMA) during fiscal years 2014 and 2015, our fund balance would have been deeply damaged. During the current NC General Assembly session, there have been a variety of bills introduced that may impact the level of sales tax revenues that Blowing Rock receives in the future. The current Recommended Budget assumes no change for the upcoming fiscal year, but instead relies on a large 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 the circumstances may be.

CLOSING

This Recommended Budget for FY2016 is balanced in accordance with State Statutes and attempts to address the goals and priorities that have been set by the Town Council for the Town's future.

The annual budget process provides Council with an opportunity to review and evaluate programs and services and methods of increasing or reallocating resources. This budget includes a number of 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. Some of the major highlights include:

- Capital Improvements Budget Plan (CIP)
 - Implementation of the voter approved General Obligation Bond Referendum
 - Technology Infrastructure
 - Water/Sewer Line Expansion/Improvements
 - Roads & Sidewalk Repairs/Replacements
- Class and Pay Study Implementation
- Tax Base Growth through development and redevelopment
- Pursuit of grants (e.g. Sidewalk to Bass Lake pending a decision in the fall of 2015)
- Privilege License Revenue elimination and possible future replacement by the NC General Assembly
- Water/Sewer Rate Structure & Changes

The enclosed budget document reflects my recommendations based on studies performed, meetings with staff, and meetings with Council. This budget seeks to establish reliable and effective funding levels in order to meet community service expectations.

I would like to take this opportunity to express my 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,



Scott Fogleman
Town Manager