



TOWN OF BLOWING ROCK

1036 Main Street • Post Office Box 47 • Blowing Rock, NC 28605

May 13, 2014

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 annual budget for fiscal year 2014-2015 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 Watauga County property revaluation, deflated expenditures, and infrastructure improvements. During the coming years, we will be faced with critical decisions regarding levels of investment in both our human resources and capital infrastructure. 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 2014-2015 Recommended Budget totals \$9.4 million for all Town operations, capital improvements, and debt service requirements. This is an increase of \$3.1 million compared to last year's adopted budget of \$6.3 million. The Recommended Budget reflects a tax rate of 30.5 cents (an increase of 1.8 cents or 6.3% above the revenue neutral rate of 28.7 cents), 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. The budget also recommends changing the structure of the business license fee to make all of them the same at \$100 per year. Also included are recommendations to eliminate the non-benefited water and sewer base fee of \$37 per month and a reduction in the interconnection fee from \$1 per month to 50 cents.

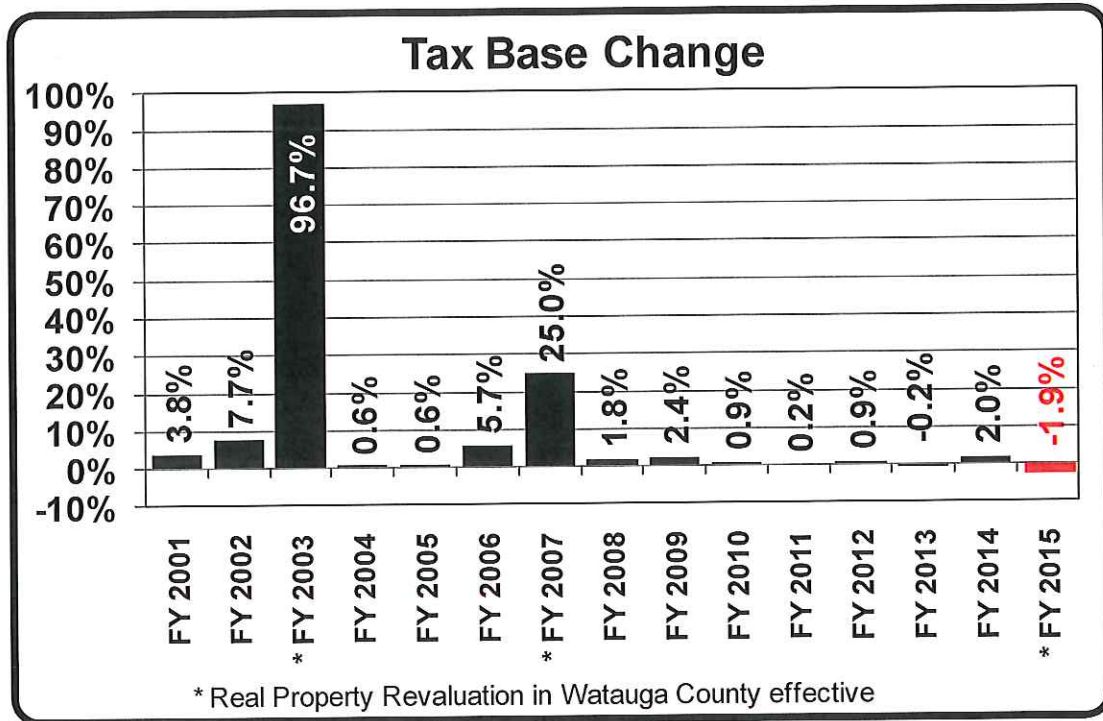
MAJOR ISSUES IMPACTING BUDGET DEVELOPMENT

Tax Base and the Revaluation Process

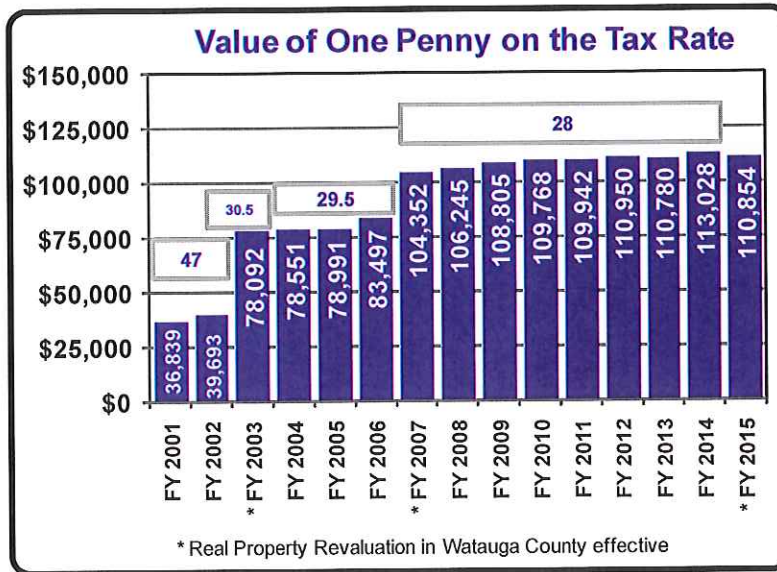
The fiscal year 2015 ad valorem tax base is being impacted by the real property revaluation that occurred in Watauga County, effective January 1st, 2014. The goal of the revaluation process is to adjust the tax value for all land and buildings to the approximate market value of each property. This process is administered and managed by Watauga County. The Town of Blowing Rock plays no role in determining the value of land or buildings during this exercise. The previous revaluation occurred in 2006 affecting fiscal year 2007. The result was a decrease in the Town's property tax rate from 29.5 cents per \$100 of property value to 28 cents. The property tax rate has remained at 28 cents for the past eight fiscal years. All real property in North Carolina must be reassessed at least every eight years according to state law. Tax base amounts for real property typically increase substantially as a result of revaluation, but it does not mean necessarily that the revenue requirements for a jurisdiction increase proportionally. In the interest of standardizing the approach and communication process regarding the adopted tax rates in the fiscal year following a revaluation, the North Carolina General Assembly passed general statute 159-11 section "e" in 2003. This statute regards a revenue neutral tax rate calculation methodology, which reads as follows:

“In each year in which a general reappraisal of real property has been conducted, the budget officer shall include in the budget, for comparison purposes, a statement of the revenue-neutral property tax rate for the budget. The revenue-neutral property tax rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. To calculate the revenue-neutral tax rate, the budget officer shall first determine a rate that would produce revenues equal to those produced for the current fiscal year and then increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal. This growth factor represents the expected percentage increase in the value of the tax base due to improvements during the next fiscal year. The budget officer shall further adjust the rate to account for any annexation, deannexation, merger, or similar event. (1927, c. 146, s. 6; 1955, cc. 698, 724; 1969, c. 976, s. 1; 1971, c. 780, s. 1; 1975, c. 514, s. 4; 1979, c. 402, s. 2; 2003-264, s. 1.)”

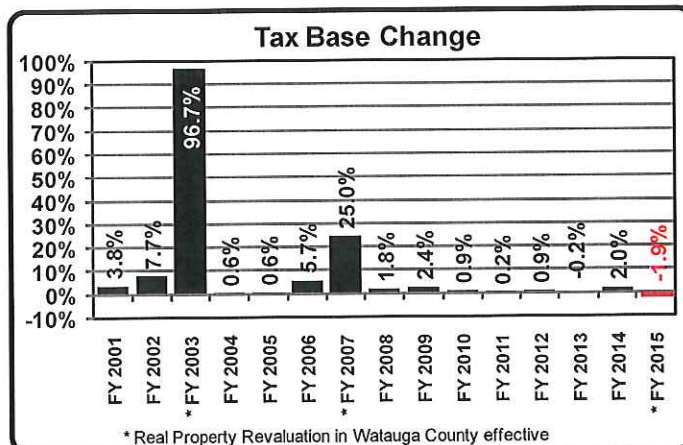
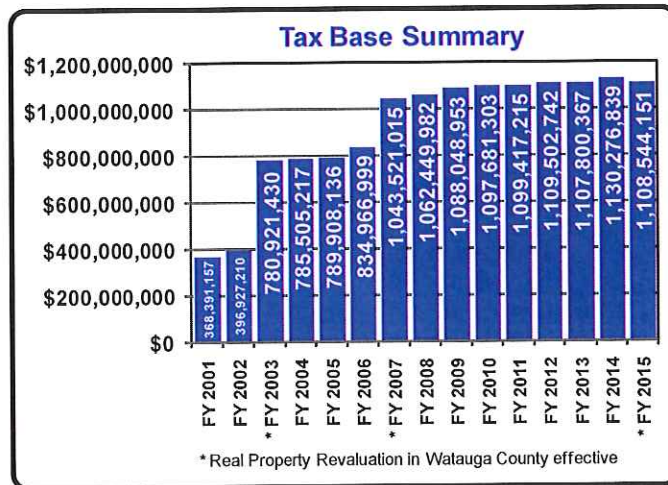
According to this law all public authorities must publish a revenue-neutral tax rate in the budget immediately following the completion of the general appraisal of real property. This revenue neutral rate provides citizens with transparency and comparative information. In order to adjust the reappraisal of real property for new construction and growth, the state statute utilizes an average of previous year’s growth rates as a proxy. The Town of Blowing Rock has seen an average annual growth rate of 1.10% since the last property revaluation that took effect in FY2007. 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 FY2003.



The Fiscal Year 2014 tax rate is \$0.28 per \$100 of taxable property, which is expected to generate an estimated tax levy of \$3,146,742. After the revaluation the Town of Blowing Rock would require a tax rate of \$0.2839 to produce an equivalent tax levy. Furthermore, a revenue-neutral tax rate, adjusting for an average annual growth rate of 1.1% since the last property revaluation in FY2007, **results in the Town having a tax rate of \$0.2870 per \$100 of taxable property to remain revenue neutral following the revaluation process.** This produces a tax levy percent increase equivalent to the growth rate of 1.10% or \$3,181,255. 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 fiscal year 2015, is expected to generate approximately \$110,845. 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 reappraisal of real property produced an estimated tax base of \$1.08 billion for the Town of Blowing Rock. When this amount is combined with anticipated ad valorem values for personal property and vehicles, the Town of Blowing Rock's total tax base for fiscal year 2015 is estimated to total \$1.11 billion. Part of the Town's tax base is located in the jurisdiction of Caldwell County. The last reassessed real property values in Caldwell County became effective in 2013 and only very slightly changed the total tax base for FY2014. Reference the graphs below for a tax value summary and the resulting percentage change for the Town of Blowing Rock over time.

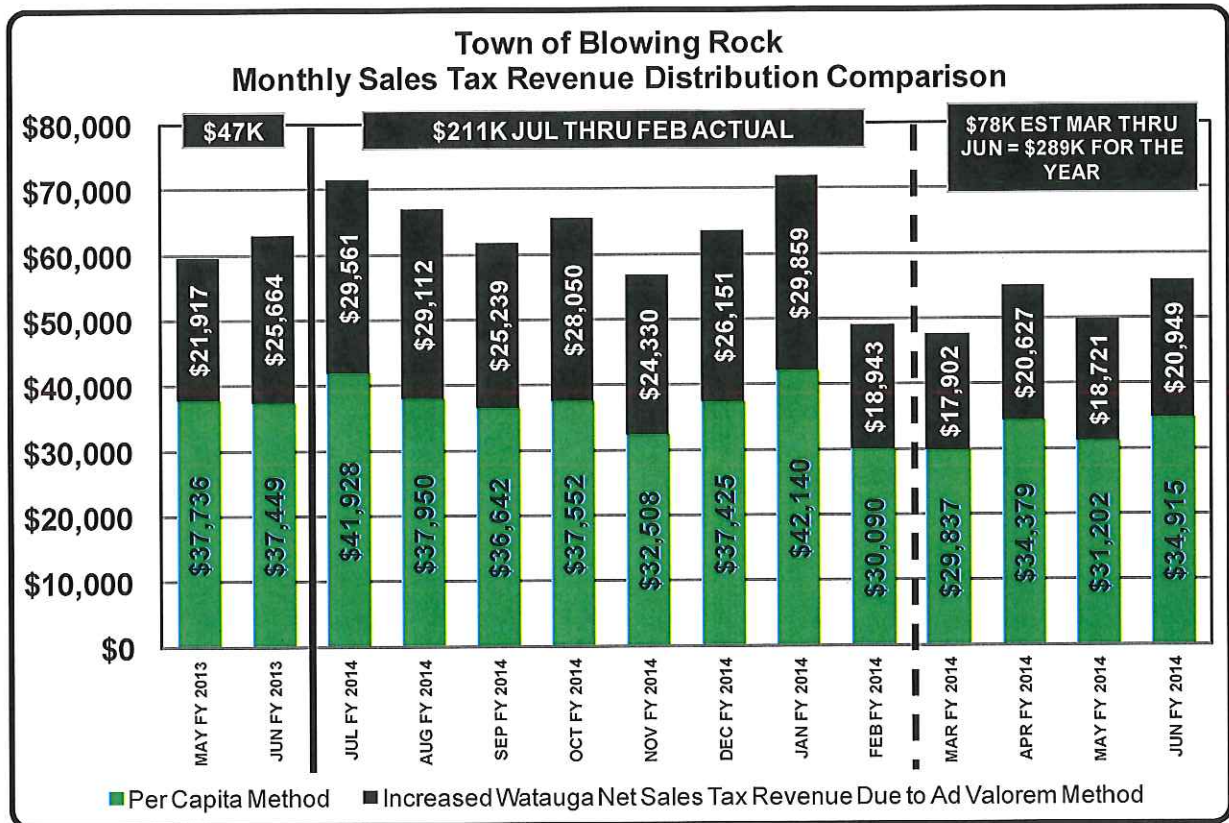


Sales Tax

Projected sales tax revenues totaling \$1.18 million in fiscal year 2015 make up 19% 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.

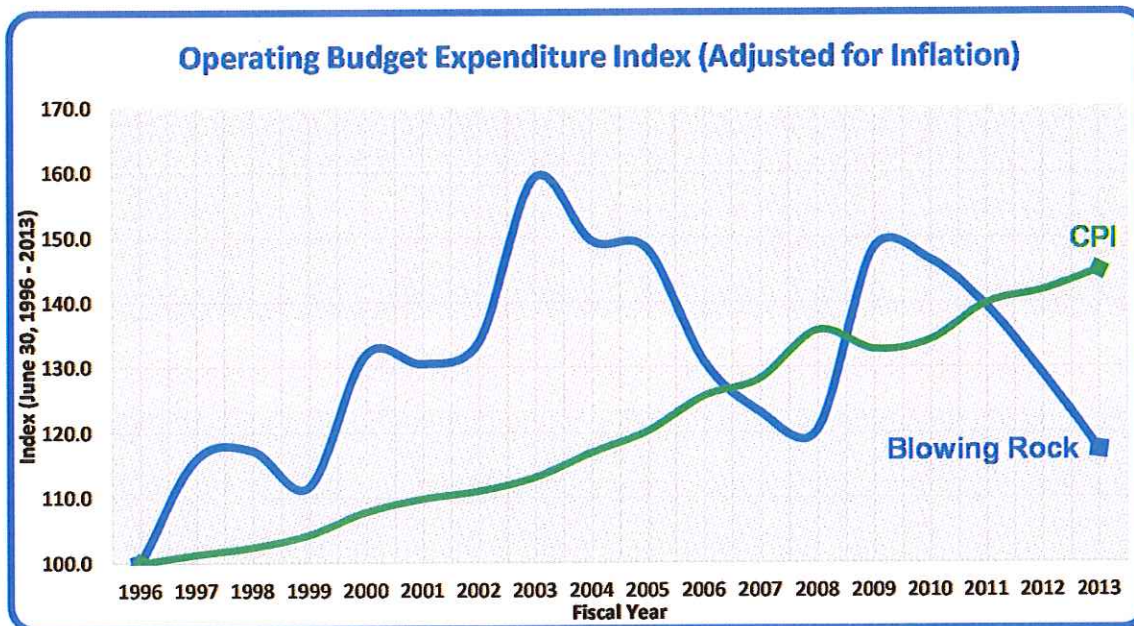
The Watauga County Board of Commissioners ruled, last year, in a 3-2 decision to change the sales tax distribution method from per capita to ad valorem. Prior to fiscal year 2014, the distribution method had been set at the per capita method since 1987. With the adoption of the distribution method changing 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 higher revenue 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 \$289,000 in FY2014. With the ad valorem method in place again for FY2015, the Town expects to receive approximately \$296,000 more in FY 2015. 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 FY2014. Similar projections have been built into the FY2015 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 FY2014, and a similar approach has been taken in budget development for FY2015, earmarking the funds for 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. From FY2000 to FY2013 the Town of Blowing Rock has seen an increase in total expenditures by approximately 48%. 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.

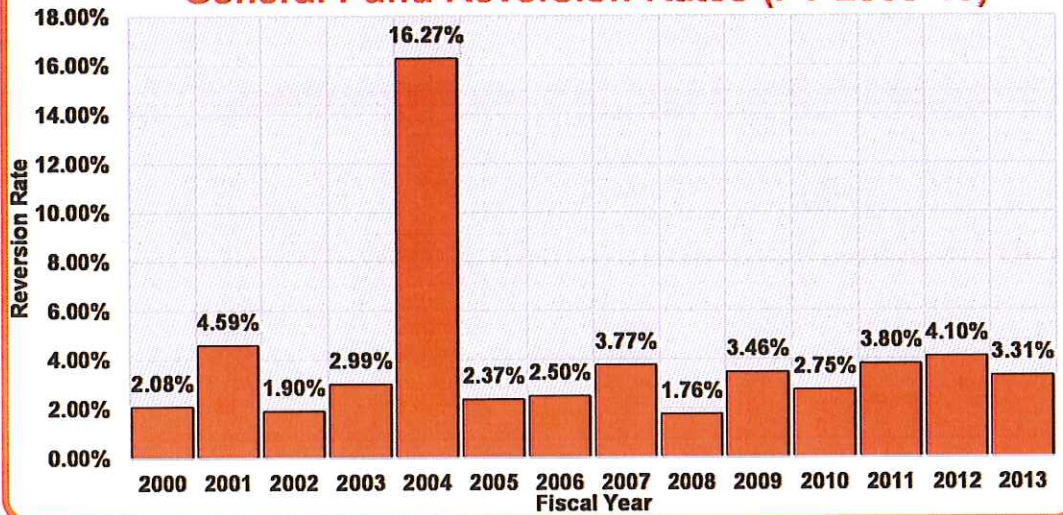
The Consumer Price Index (CPI) provides a summary of the effect of inflation on the market over time. By using this data the Town is able to track its expenditures according to market inflation. The result is the real level of buying power and expenditures appropriated by the Town. Using 1996 as a starting point and comparing the Town's level of total expenditures from then through 2013, 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 FY2013 the Town's effective rate of expenditures was only 55% of what it was in FY1997. In essence, adjusting for inflation, the actual recorded expenditures of \$5,759,188 only equates to \$3,029,333 of real buying power. The following graph represents the Town's effective operating budget expenditures compared to CPI or inflation since 1996:



Reversion Rates

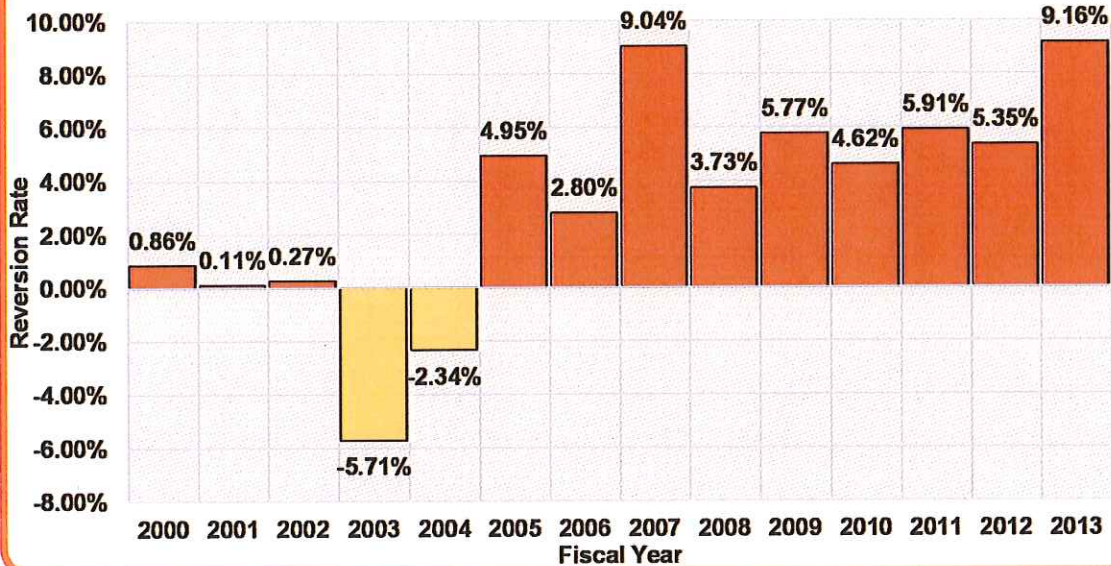
We can further understand our expenditures by discovering what percent of our funds are being reverted back to fund balance. A reversion rate is the difference between expenditures budgeted and actual expenditures appropriated. It is beneficial to revert a certain percentage of funds to fund balance each year. 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. Estimating the level of fund balance through the remainder of FY2014 and through the Recommended Budget figures included herein, the estimated level of fund balance is retained at 50%. With some level of unspent funds remaining at the end of each fiscal year, the level of fund balance will be increased which helps provide cash reserves for emergencies and one-time opportunities. The Town is currently maintaining a fund balance at approximately 52% of total expenditures. The following graph depicts the rate of general funds reverted to the fund balance for FY2000-13:

General Fund Reversion Rates (FY 2000-13)



The Town of Blowing Rock's reversion rates for the general fund have been fairly consistent over time. The relatively low levels, averaging 3.97%, is a reasonable level indicating that the majority of budgeted funds are being spent each year, but not having to manage down to the very last penny. The following graph depicts the reversion rates for the water/sewer fund for FY2000-FY2013:

Water/Sewer Fund Reversion Rates (FY 2000-13)



The water/sewer fund has seen more sporadic reversion rates. Fiscal years 2003-04 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 2000-13 is 3.18%.

Protecting and Enhancing the Community's Infrastructure Investment

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 has assisted the Town Staff in the development of a ten year Capital Improvements Plan (CIP). The CIP identifies 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 is 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.

Classification and Pay Study

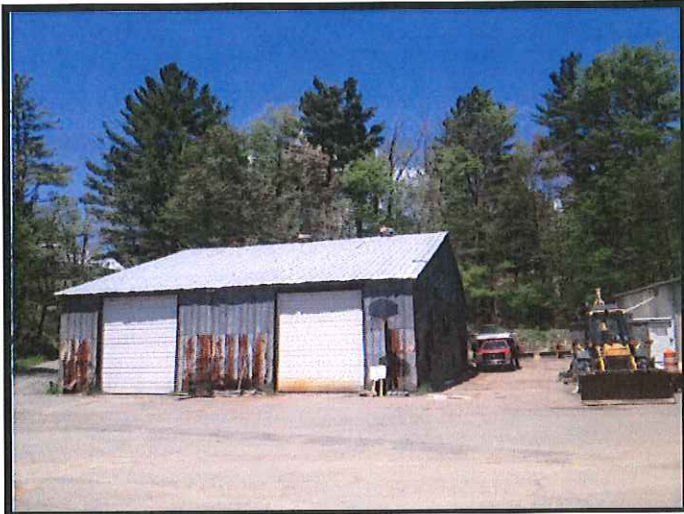
Another contributing factor to our organization's financial picture relates to the extent we are able to begin implementing the recommendations received from the Town commissioned Classification and Pay Study. This study helped us document and bring current all of our position descriptions and position 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 our dedication to service that we currently have.

The study determined that on average our starting salary levels are approximately 17% behind the level of the labor market. The pace at which we are able to begin 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 I believe we must work hard to find a way to begin shrinking the market gap that currently exists. There are a multitude of options and approaches about how to approach this issue, and I am looking forward to discussing how we can begin to make progress in this area in the fiscal year 2015 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 FY2015 Recommended Budget is a project to move forward with the remainder of the site improvements and building replacement at the Town's Public Works Shop. This project is estimated to cost \$1.2 million and if funded, will increase our debt service in the FY2016 budget by about \$120,000. 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 schematic of the new proposed facility.

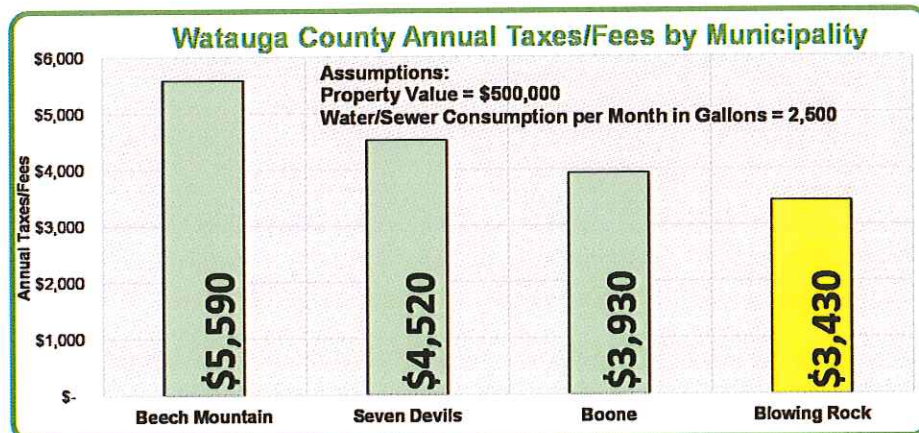


Public Works Facility

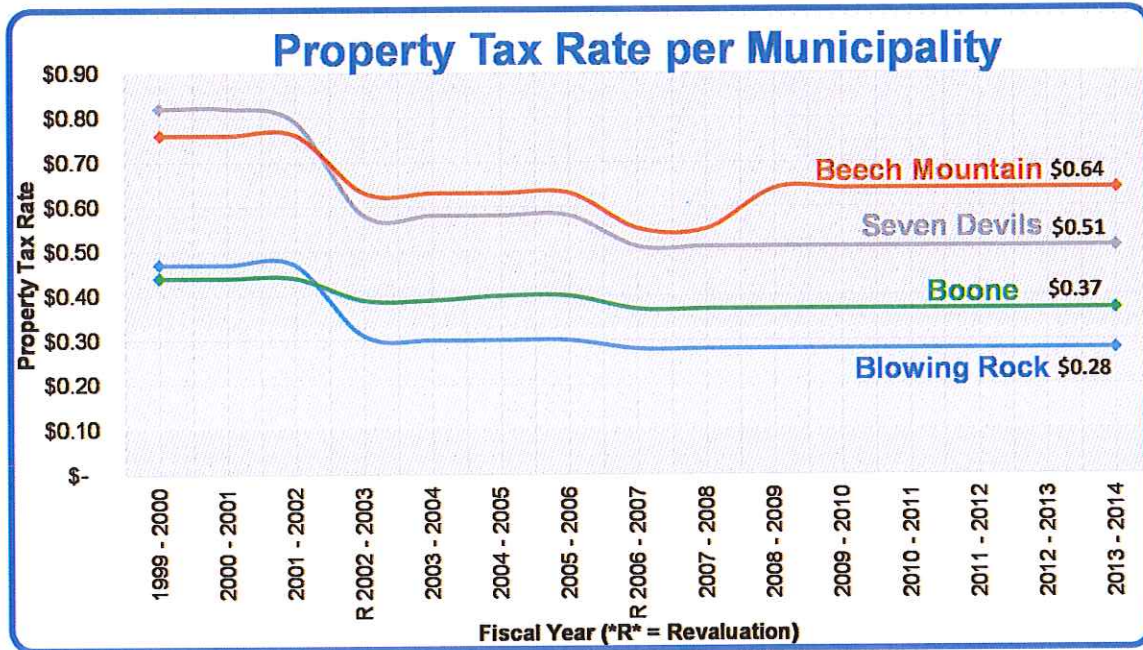
- Property Acquisition - Complete
- Salt Storage – Complete
- Phase 2 – Site Work - \$160,000
- Phase 3 – Demo, Covered Storage, Paving, Detention - \$370,000
- Phase 4 – New Building and Finish Site \$670,000

Current Tax & Fee 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. All municipalities in the County issue a property tax and require fees for water/sewer services. The following graph depicts the comparable annual price an individual pays for property tax and water/sewer fees, in their 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 FY2000. An "R" denotes a property revaluation year:



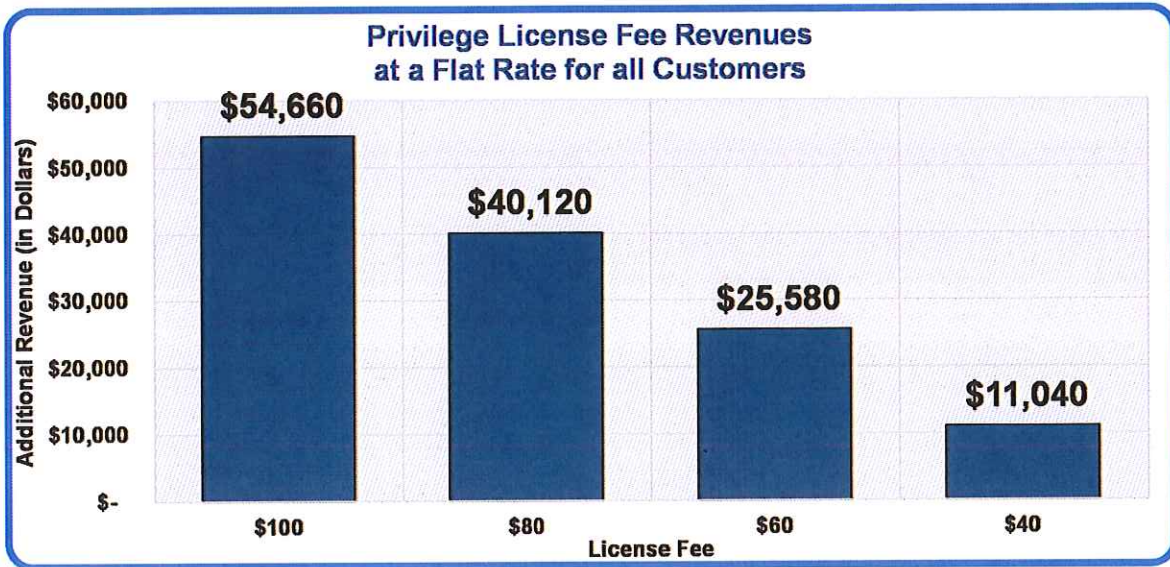
The Town of Blowing Rock has lower property tax and utility fee rates than the other municipalities in Watauga County. In addition to the municipalities in the County, Watauga County has a tax rate of \$0.31 per \$100 valuation. The taxable property in Blowing Rock has seen an average growth of 1.10% since FY 2007. 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.

Enhancing Revenues

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 and privilege license taxes, 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

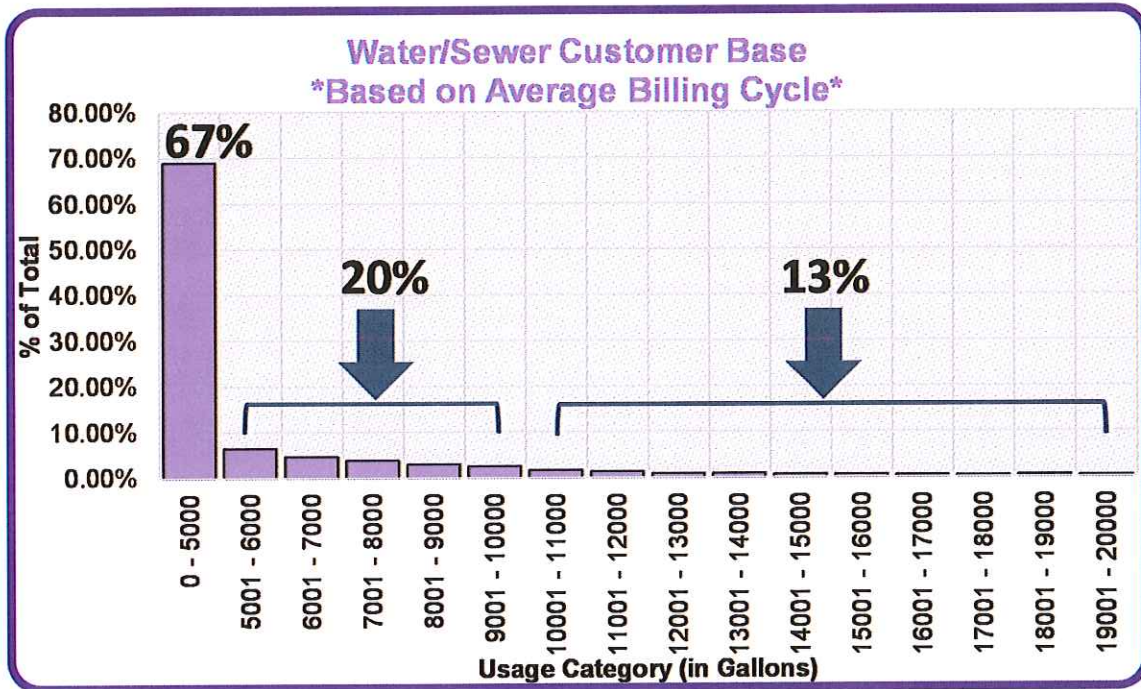
One avenue of raising revenues to support operations is to adjust the level of Business License Fees. This tax is authorized only as a revenue source, and other means should be used to regulate businesses (e.g. zoning, inspections, etc.). The Town currently collects Privilege License Taxes, in the form of fees, from a variety of businesses ranging from \$2.50 to \$100 per fee. This budget includes a recommendation to increase all license fees to a standard rate for all businesses. The current rates produce approximately \$18,000 in revenues. If the Town were to apply a standard rate, then we would recoup revenues depicted in the graph below:



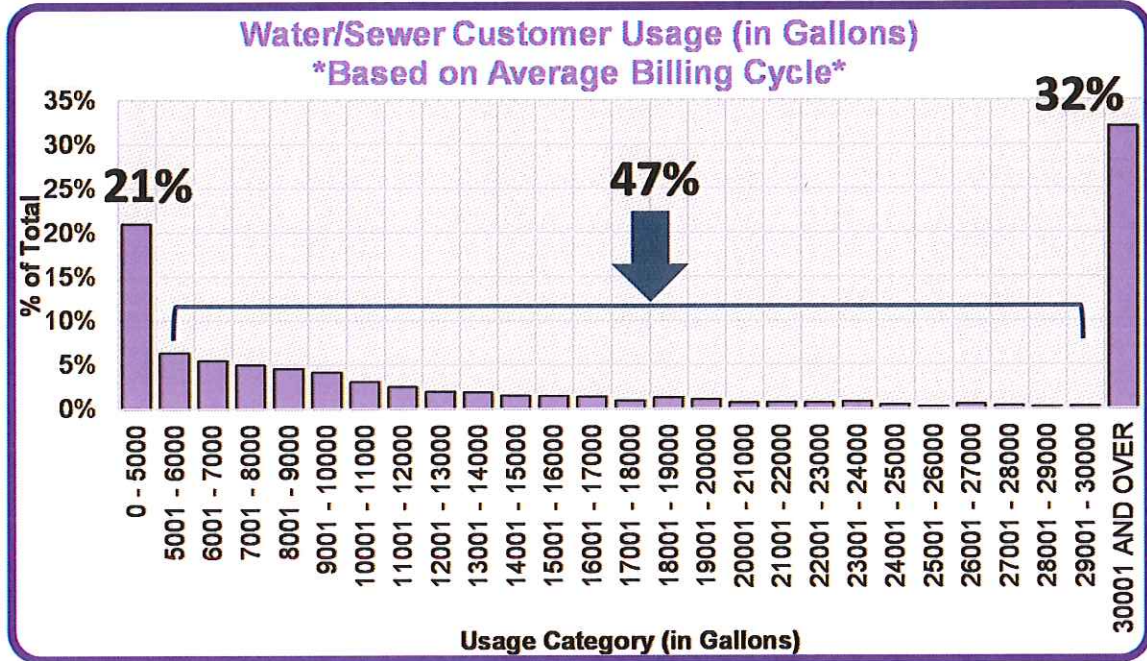
This budget includes the recommendation to increase the Privilege License Fee to \$100 for all business types on the fee schedule currently, increasing the level of anticipated revenues by \$54,660.

Water and Sewer Rates

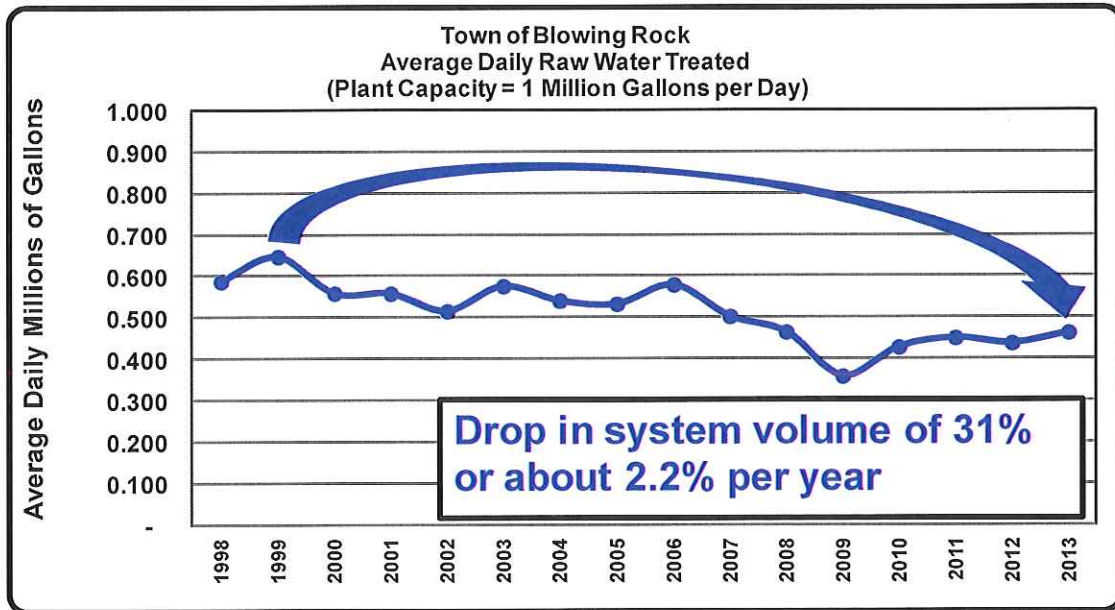
Water and sewer rates are a source of revenue for the Town of Blowing Rock intended to recover the costs of operating the water and sewer systems. The current billing system is set up to bill customers a base fee for water and sewer, and a per gallon rate for any gallons greater than 5,000 in a two month billing period. The base rate, under 5,001 gallons, is \$37.00. The per gallon rate is \$4.75 for every 1,000 gallons over 5,000. These rates apply to water and sewer usage. The majority of the Town's water and sewer customers fall within the base rate threshold of 5,000 gallons as depicted below:



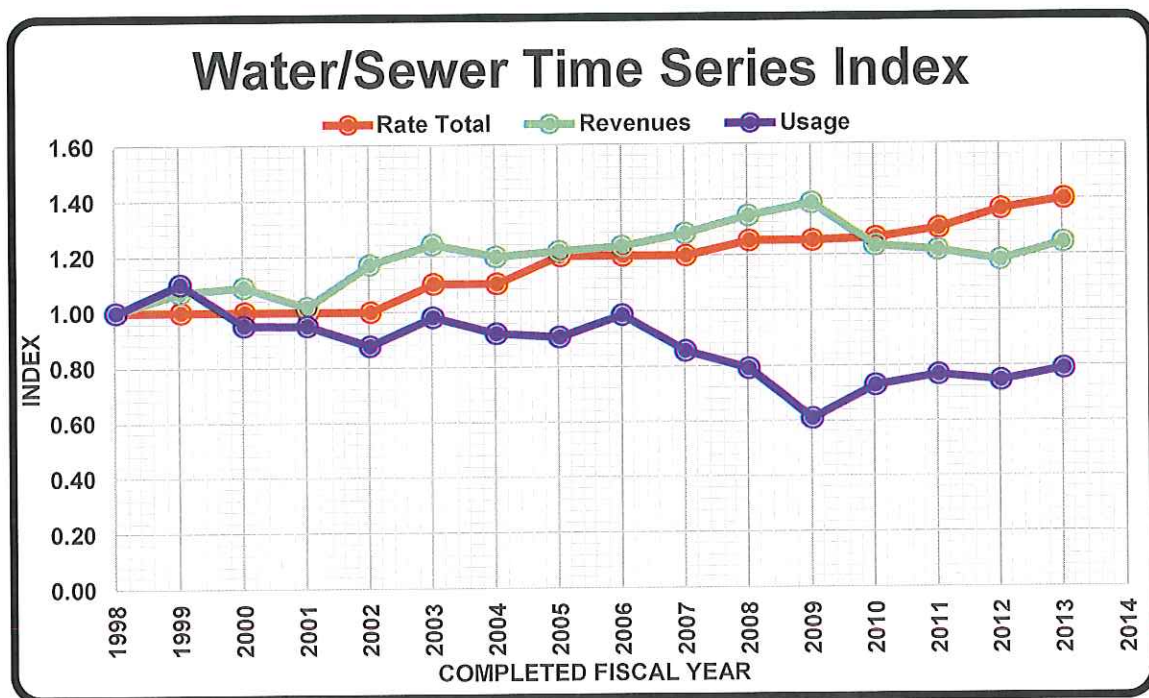
However, the majority of usage is consumed in the higher volume user categories, depicted below:



Over the past decade the Town of Blowing Rock has seen a decrease in water/sewer usage as seen in the graph below.



This has driven the need to increase customer rates in order to produce sufficient revenues to operate the water and sewer systems. Since FY 2001, the base rate has experienced a \$12 increase and the per gallon rate has experienced a \$1.00 increase. Water and sewer revenue continues to be a difficult item to reliably forecast. The graph below depicts an index of water/sewer usage, rates, and revenues showing that as consumption has gone down since 1998, rates have had to rise to recover the largely fixed costs of operating the utility system.



This graph includes total rate data, assuming a 6,000 gallon user. That is, the individual customer in this scenario is charged the base rate plus the thousand gallon rate. The revenue data includes all revenues from the water and sewer funds. This explains why revenues increased in FY 2009 even though there was a decrease in usage. In FY2009 the Town of Blowing Rock introduced an interconnection fee of \$5.00 to help recover the costs of installing the water line connecting our water system to that of Boone. Since FY2009 the monthly fee has dropped from \$5.00 to \$1.00 (FY2009 = \$5.00, FY2010 = \$5.00, FY2011 = \$4.00, FY2012 = \$2.00, FY2013 = \$1.00, and FY2014 = \$1.00). In FY2013 this dollar generated \$25,234 in revenues. The interconnection fee revenues collected since FY2009, in conjunction with a recommendation to lower the interconnection fee to \$0.50 per month, is expected to be sufficient to continue making the debt service payments of \$37,824 per year until the zero interest State Revolving Loan Fund debt is paid off in FY2031.

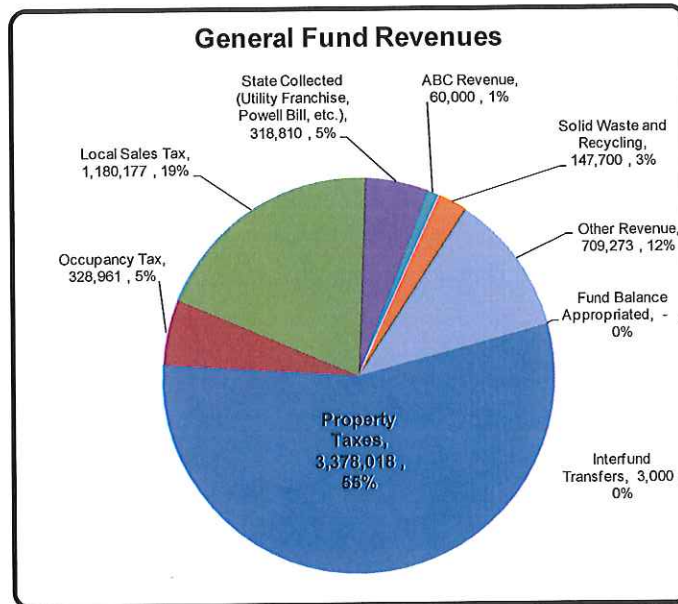
There are a variety of methods to adjust the water and sewer rates to raise the revenues required to fund utility system operations. For each \$1.00 increase to both the water and sewer base rates, currently \$37.00 each, the Town would be expected to generate approximately \$18,166 or 1.9% of water/sewer revenues per year. For each \$1.00 increase to both the water and sewer per gallon rates, currently \$4.75 each per 1,000 gallons over 5,000 gallons, the Town would likely generate approximately \$56,913 or 6% of water/sewer revenues per year. This budget document recommends raising the base fee by \$2.00 for both water and sewer, and increasing the per gallon rate to \$5.00 to produce a combined estimated increase in water and sewer system revenues of \$50K.

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 30.5 cents per \$100 of property valuation. A tax rate of 28.7 cents is considered the revenue neutral rate per state statute as it is required to meet the revenue neutral level. In essence, the tax rate is recommended to increase 1.8 cents above the revenue neutral level, or 6.3%. Each penny increase on the property tax rate produces approximately \$110K, making the increase in anticipated revenue compared to the revenue neutral level of \$198K. At this level, property tax revenue is expected to generate a total of \$3.4 million or 55% of total general fund revenues.

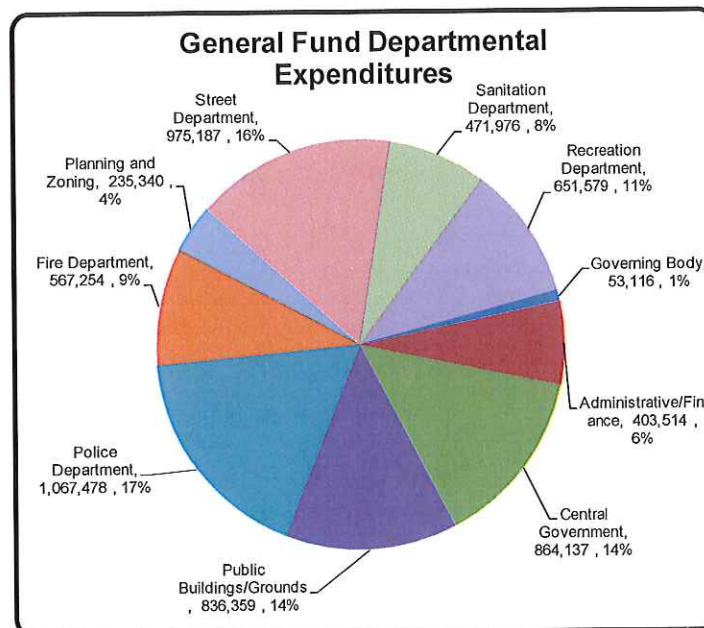
FUNDS OF THE ADOPTED BUDGET

General Fund

The General Fund contains 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 30.5 cents per \$100 of property valuation. This rate will provide approximately \$3.4 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:



The Town's tax base is split between two counties – Watauga and Caldwell. Watauga County represents approximately 91.38% of the total property tax base. Caldwell County accounts for the remaining 8.62%. 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 FY2015:



The FY 2015 Recommended Budget for the General Fund revenues totals \$6,125,939, which is \$1,254,439 more than the FY 2014 Adopted Budget. This difference is mostly attributable to the local sales tax increase from FY2014. After Watauga County changed the sales tax distribution method from per capita to ad valorem, the Town was hesitant to forecast such an increase in revenues for FY2014. However, a years' time has now past and the distribution method has remained in place for FY2015. Since the sales tax distribution method is set at the ad valorem level, the Town of Blowing Rock is budgeting the total revenue level expected of \$1,180,177 in local sales tax revenues. Increases are also seen in the "Other Revenues" line item. This increase is attributable to installment purchase revenues in anticipation of capital project financing.

The FY2015 Recommended Budget for the General Fund expenditures includes similar increases, totaling \$6,125,939. Some major areas that reflect increases are Central Government which includes a budget of \$444K to allow for 60% of the anticipated ad valorem proceed differential to be paid to Watauga County. The FY2014 Adopted Budget provided \$316,670 for this department while the FY2015 Recommended Budget provides \$864,137.

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 FY2015 Recommended Budget for the BRAAC Fund totals \$21,850. 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 fund currently is not applying for any grant funding. The majority of BRAAC Fund expenditures are appropriated to "Flowers/Landscaping", at almost 50% of the Recommended Budget.

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 FY2015 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 operating and capital costs. As detailed in the "Major Issues" section, 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 2015 Recommended Budget for the Water and Sewer Fund totals \$1,704,757. This is a \$265K or 18.5% increase from the FY 2014 Adopted Budget of \$1,439,000. Much of the increase is driven by the need to purchase three vehicles this year and a sewer camera to assist customers more efficiently and effectively with sewer issues.

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 "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 2014 property tax rate was \$0.280 per \$100 of valuation. On a \$500,000 home, the total annual Town of Blowing Rock property taxes due would be \$1,400.00.

The FY2015 Recommended Budget includes a tax rate of \$0.305 per \$100 of valuation. The revenue neutral rate is calculated to be \$0.287 cents, and the additional \$0.018 cents (or 6.3%) is recommended to help support increasing operating costs. Total Ad Valorem tax revenues (including current and prior years, motor vehicles, and penalties/ interest) are projected to be \$3,378,018 in FY2015. 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

These sources of revenue will provide approximately \$329,700 in revenue for next fiscal year to the General Fund. Water and sewer related charges (and interest) are expected to total \$1,704,757 in FY2015.

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 2015, there are five statewide revenues received by the Town whose estimates depend on economic forces: Utility Franchise Tax, Telecommunications Sales Tax, Beer and Wine Tax, Solid Waste Tax 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 only nominal 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, will change in FY2015 as a result of the tax reform legislation passed during the last General Assembly session. The general sales tax rate will now be 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 FY2014, that revenue will be distributed statewide on an ad valorem basis. That being said, the North Carolina League of Municipalities (NCLM) projects a 1.5% 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 increase only slightly compared to FY2013 actual receipts.

Annual statewide growth in telecommunications revenues was expected to decline by 6.5% over FY2014 levels. The NCLM expects further decline of 4% for FY2015. This decrease will continue to be a trend in coming years, mainly attributable to loss of landline purchases. The budget proposes this revenue to drop 6% from adopted FY2014 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 FY2013, we saw a decrease in beer and wine revenues. The NCLM expects this decrease to level out in the coming years, forecasting a 2% increase in FY 2014. Furthermore, the NCLM expects a 1.75% increase in FY2015. 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 FY2015. 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 FY2014 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 FY2013.

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 \$1.18 million in FY2015 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 2015. 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 \$296,000 in net revenue to the town in FY2015 over and above the typical per capita distribution amount.

In addition to the change in distribution method, the NCLM is projecting a 3.75% increase in local sales tax base for the coming FY 2015. 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 FY2015 at \$439,000, and the additional \$296K has been largely allocated to one-time capital projects in the FY2015 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 \$311,055 in funding for the Town in FY2015 to use in support of the various tourism-related operations of the Town. Additionally, the TDA will compensate the Town with \$17,906 for handling the administration and collection of the occupancy tax. This revenue source is projected to increase 3% over estimated levels for FY2014, consistent with month over month growth trends experienced for the last couple of years.

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 FY14-15 Powell Bill distribution is \$20.71. 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 FY14-15 Powell Bill distribution is \$1,640 per street mile. The Powell Bill distribution is anticipated to decrease slightly to \$71K in FY2015 compared to the \$75K received in FY2013.

ABC Revenue

These proceeds result from a contribution from the local ABC Board from the sale of alcoholic beverages in Blowing Rock. The revenue is estimated to maintain its \$60,000 level based on the local ABC Board typically distributing \$5,000 each month.

Other & Donations

Other miscellaneous revenue includes: privilege licenses, 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. The FY2015 Recommended Budget expects changes in certain licenses and fees, forecasting an increase of \$55K due to the recommendation to raise business license fees to \$100. This consistency should make the fee clearer and make it easier to administer

Fund Balance

According to the North Carolina Local Government Commission, it is recommended, at minimum, that a local government retain a level of undesignated fund balance of 8% of the prior year's expenditures. A minimum fund balance level is necessary to enable the unit to meet current obligations, to prevent the unit from experiencing cash flow difficulties, and to aid the unit during emergencies. The adopted Town of Blowing Rock Comprehensive Financial Policy established a goal to achieve an undesignated fund balance in an amount equal to 50% of the Town's General Fund Budget. The current undesignated fund balance projection is that we will achieve a level of 50% at the end of FY2015 should the budget materialize as planned.

As mentioned in the "Major Issues" section, the Town of Blowing Rock will strive to establish reliability in expenditures reverted to the fund balance. The Recommended Budget FY 2015 provides an ending fund balance of \$3.5 million, an estimated increase of \$500K since the end of FY2013.

EXPENDITURES BY FUNCTION

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

This function accounts for \$1,320,767 or 21% of the total General Fund budget. Major capital projects/improvements/programs are:

- 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 \$444K of the FY2015 budget
- Community Library Support - \$2,000
- Organization-wide Customer Service Excellence Initiative

General Government (Public Buildings & Grounds)

This function accounts for \$836,359 or 13.7% 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
 - American Legion Parking Facility (via TDA) – FY2015 is the final year
 - BRAHM Parking Facility

Public Safety (Police & Fire)

This function accounts for \$1,634,732 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 one Police Vehicle
- Funding for a grant match for Mobile Radios
- Continued funding for Part-time Parking Enforcement
- Building Improvements of \$10K for improved evidence handling
- Body cameras for officers
- Antenna upgrade
- DARE program Support
- Crimestoppers Support

Transportation (Public Works – Streets)

This function accounts for \$975,187 or 16% of the total General Fund budget.
Major capital projects/improvements/programs are:

- Initial replacement funding for a Leaf Loader
- Funding for 2 Dump Truck Replacements and 1 Leaf Truck
- Replacing a twenty year old 4 post lift at the shop with a 2 post lift
- Replacing 3 salt spreader motors
- 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 \$471,976 or 7.7% of the total General Fund budget.
Major capital projects/improvements/programs are:

- Continued Residential Curbside Recycling Program (weekly pick-up)
- Initial replacement funding for a Garbage Truck (Frightliner E-Z Pack)

Economic and Community Development (Planning/Zoning)

This function accounts for \$235,340 or 3.8% of the total General Fund budget.
Major capital projects/improvements/programs are:

- Continued funding for the Town Comprehensive Plan Update
- Continued Downtown Retail Strategy Implementation
- Continued funding for GIS Project

Culture and Recreation (Parks/Recreation & Landscape)

This function accounts for \$651,579 or 10.6% 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)
- Replacement of the 1995 GMC BRAAC truck
- Funding of \$133K for capital project improvements to Memorial Park
 - \$5K to repair a drain pipe under walk near Laurel Lane
 - \$56,400 for repairs to the southwest corner of the tennis court and retaining wall
 - \$5K for an additional 8 swings in Memorial Park in existing mulch area
 - \$67K for improvements to the Memorial Park entrance near the gazebo

Environmental Protection – Water/Sewer Fund

This function accounts for \$1,704,757 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)
- Continued funding for US 321 Water/Sewer Betterments
- Funding for a sewer camera
- Funding for two replacement vehicles
- Funding to purchase a rescue truck no longer needed by the Fire Department to be used for repair operations to facilitate more efficient and effective response while aiding safety of the workers and better enable site lighting when needed

Culture and Recreation – BRAAC Fund

This function accounts for \$21,850 or 100% of the BRAAC 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)

EXPENDITURES BY CATEGORY

Personnel Expenditures

Personnel expenditures include salaries, FICA, group insurance, retirement, longevity pay, and other miscellaneous benefits for 54.5 full-time equivalent positions, several part-time positions as well as seasonal workers. The FY2015 Recommended Budget for Personnel Expenditures is \$3,242,678 or 41% of the operating budget. The FY2014 Adopted Budget for Personnel Expenditures was \$2,766,470 or 44% of the total budget. In the FY 2012-2013 Adopted Budget, Personnel Expenditures were \$2,723,120 or 43.11% 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, FY2015 contribution rate remained at 7.07% for this fiscal year.

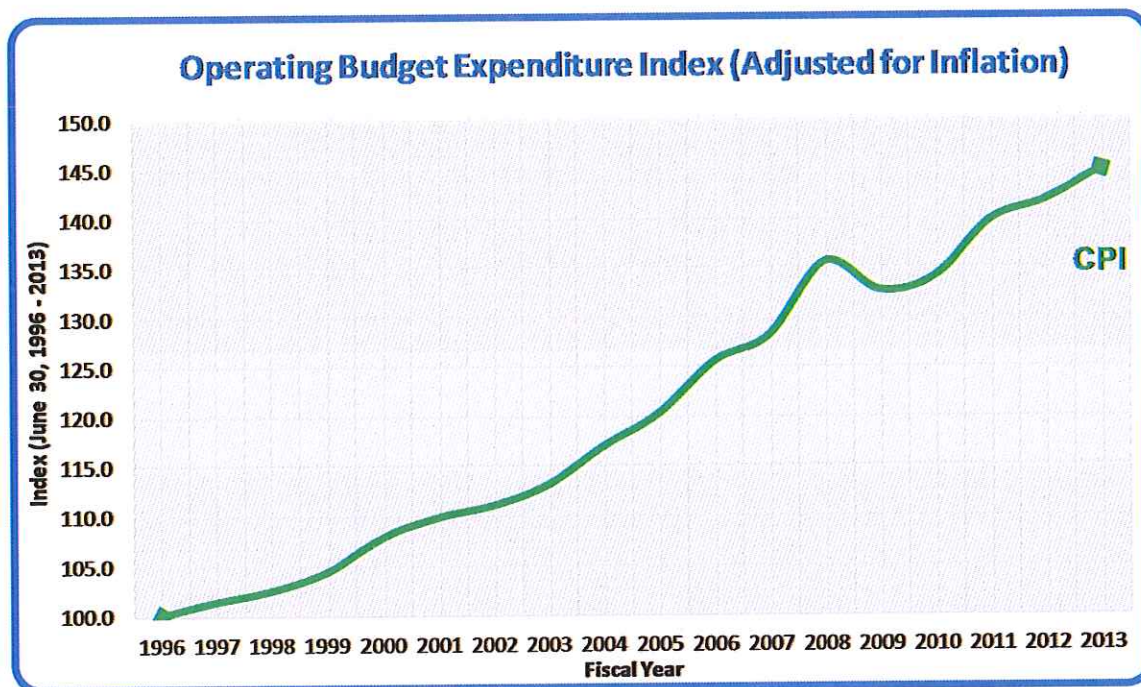
Health insurance costs will be anticipated to increase 5% beginning in January 2015.

The Adopted Budget recommends increasing the funding of a Town 401K supplement from 2.0% of salaries for all general personnel to 3.0% 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 receive a 5.0% supplement per state statute requirement. The town-wide extra cost of this extra 1% is estimated to be \$16,697.

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. Many operational expense increases are linked to inflation, so the Consumer Price Index is used to evaluate proposed increases. Over the last 12 months (April 2013-March 2014), the Consumer Price Index for the Southern Region increased 1%. A historical graph of this index is shown below since 1996, with the dip during and in the couple years following the 2008 recession.



Increased energy and fuel costs, increased service demands, and state funding requirements directly affect other operational expenditures. The FY2015 Recommended Budget for Operating Expenditures is \$2,578,642 or 33% of the total operating budget.

Highlights include:

- Continued funding of costs associated with consolidated dispatch with Watauga County.

- Includes \$444K 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 FY2015 Recommended Budget for Operating Capital Outlay expenses, for both the General Fund and Water/Sewer Fund, total \$986,798 or 12.6% of the total budget. The FY2014 Adopted Budget for Operating Capital Outlay expenses, for both the General Fund and Water/Sewer Fund, totaled \$127,155 or 2% of the total budget. In the FY2013 Adopted Budget, Operating Capital Outlay Expenditures were \$107,100 or 1.7% of the total budget.

Operating Capital Outlay appropriations do not include transfers to Capital Project Funds, which are included in the Operating Expenses Category.

Highlights include:

- A detailed list of capital purchases for FY 2013-2014 can be found in the *Five-Year Capital Improvements Plan* section of the budget document.

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 FY2015 Recommended Budget for Debt Service expenses, for both the General Fund and Water/Sewer Fund, total \$1,044,427 or 13% of the total budget. The FY2014 Adopted Budget for Debt Service expenses, for both the General Fund and Water/Sewer Fund, totaled \$1,047,985 or 16.55% of the total budget. In the FY 2012-2013 Adopted Budget, Debt Service expenditures were \$1,076,235 or 17.04% of the total budget.

Highlights include:

- A detailed Amortization Schedule for FY 2013-2014 can be found in the *Debt Payments* section of the budget document.
- FY2015 is the final year of debt service associated with the American Legion Parking Deck at \$118,329. This debt service payment is provided for by Occupancy Tax revenues allocated through the TDA. In FY2016, this amount will be available for another purpose which will be determined during the FY2016 budget development process.
- Due to the level of debt funded projects and vehicles included in the FY2015 budget, the total debt service obligation of the general fund is expected to rise approximately \$219K in FY2016 as the first year of debt service on the borrowings come due. This will need to be one of the budgetary considerations moving forward that must be considered.

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*
- *Parks/Recreation & Landscape Master Plan*
- *Water & Sewer Capital Improvements Plan*
- *Downtown Streetscape Plan*
- *Downtown Parking Management Study*
- *Town Master Signage Plan - TDA funded*
- *Town Pavement Plan*
- *Town Storm Water Plan*
- *Downtown Retail Market Strategy -TDA funded*
- *Town Public Facilities Study*

With Council's support, 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. We just recently received this information and while the information has been incorporated into the capital improvement plan, the estimates associated with this comprehensive list will take a substantial amount of time to review, understand, and begin to develop implementation options.

For this reason, I would like to suggest that we spend a significant portion of our upcoming budget work sessions reviewing the information in detail so that we can begin to prioritize the various projects and develop a strategic funding approach. As we look at our available options and consider the pace at which we need to move forward with some of the larger projects, we may want to consider a variety of revenue options including the possible development of a general obligation bond package for consideration by the community as soon as this fall. Interest rates are at historically low levels and should we determine that time is of the essence on many of the identified projects, this may be one of the most economical ways for us to begin to make significant progress in these very important areas.

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. The recent mentioned cap on raising ad valorem taxes by no more than 8% per year could become an issue for us in the event of an emergency or catastrophe in the future. 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), our fund balance would have been deeply damaged. We must continue to work with the North Carolina League of Municipalities to help monitor potential threats 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 FY2015 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.

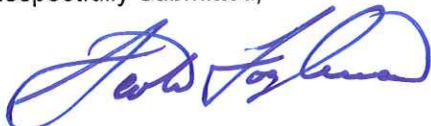
The annual budget process provides Council with an opportunity to review and evaluate programs and services and methods of increasing or reallocating resources. This budget includes a number of important decisions regarding the Town of Blowing Rock's organizational, fiscal, and infrastructure investments to be assessed this year and in the next several years to come. Some of the major highlights include:

- Capital Improvements Budget Plan (CIP)
 - Information Provided by McGill & Associates quantifying capital projects
 - Public Works Shop Improvements
 - Technology Infrastructure
 - Water/Sewer Line Expansion/Improvements
 - Roads & Sidewalk Repairs/Replacements
- Class and Pay Study Implementation
 - Pay for Performance and Supervisory Training
- Tax Base Growth and Revaluation
- Privilege License Structure & Rate Changes
- Water/Sewer Rate Structure & Changes
- Consideration of ways to increase revenues for a significant capital program

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.

Respectfully Submitted,



Scott Fogleman
Town Manager