



community investment bonds

Frequently Asked Questions

How much will the Town borrow in bonds?

If citizens vote in favor of the four bond questions on the November 4th ballot, the Town will have the authority to borrow up to \$13 million in general obligation (GO) bonds over seven years, with the possibility of an extension from the NC Local Government Commission for another three years. Each year the Town Council will determine how much of the bond authority to use depending on the availability of other revenue sources including possible grant funding and other general fund revenues.

Why general obligation (GO) bonds?

GO bonds are the least costly financing option available to the Town for these projects. Given the Town's strong credit rating (most recently Aa3 by Moody's Investors Service in 2010) and financial management, Blowing Rock can borrow money at low interest rates and issuance costs, thus saving Blowing Rock taxpayers thousands of dollars over the repayment period. The Town will have seven (can be extended to ten) years to issue the bonds and twenty years to pay back the bonds after the funds are borrowed.

What is the value of one penny on the tax rate?

One penny on the tax rate is worth about \$100,000 in revenue annually.

What is the amount for each bond referendum question?

Transportation Bond = \$9,000,000

Parks & Recreation Bond = \$1,000,000

Water Bond = \$2,000,000

Sewer Bond = \$1,000,000

Total = \$13,000,000

What is the tax implication for each referendum question if all bonds are issued?

Transportation = 9 cents; 4.1% per year increase over 7 years above today's 31 cents rate (2.9% over 10 years)

Parks = 1 cent; 0.5% per year increase over 7 years above today's 31 cents rate (0.3% over 10 years)

Water and sewer bonds, as part of the utility system, would be paid back with water and sewer system revenues. The rate increases for each referendum question if all the water and sewer bonds are issued are estimated as follows:

Water = 20% total impact on the total bill; 2.9% per year spread over 7 years (2.0% over 10 years)

Sewer = 10% total impact on the total bill; 1.4% per year spread over 7 years (1.0% over 10 years)

How will the Town pay back the bonds?

The total of all four referendum questions is \$13 million. If approved, the \$9M for streets and \$1M for parks would be repaid through general fund revenue sources which would likely be supplemented by raising property taxes. The rate at which projects are selected by Council and the growth of the Town's other revenue sources each budget year will determine the tax and utility increases that would be necessary to repay the funds borrowed. If all four referenda are approved by voters and all debt is utilized over the next ten years, the property tax rate could increase as much as an average of 3% each year for a total of 10 cents and water and sewer rates could increase an average of 3% each year for ten years. The language on the November 4 ballot references additional taxes, even for the water and sewer bonds. The nature of general obligation bonds is to pledge that authority if necessary, however sound financial practice supported by bond rating agencies is to have water and sewer debt paid back by the system customers through water and sewer rates.

What are the property tax and water and sewer rate implications of these bonds?

\$50 per year on average for a home valued at \$500,000. Assuming that voters approve the bond questions (Streets and Parks), the average increase per year would be about \$50 or 3.2% if spread evenly over the anticipated 10 year bond authority period (or 4.6% per year if spread over 7 years). If all the debt is issued, the total increase at the end of the tenth year would be \$500 for the same home valued at \$500,000. This equates to basically \$100 for each \$100,000 of property tax value.

Personal property, including vehicles, are also impacted by the tax increases. Using a personal property vehicle tax bill of \$25,000, the annual increase for each 1 cent increase on the tax rate would be \$2.50 per year.

Assuming that voters approve the bond questions (Water and Sewer) to be repaid with utility rates, for a customer using 5,000 gallon or less bimonthly, the impact following the full \$3M of borrowing by the end of the 7 year period, would be \$23 annually. This would be a total increase of 30% which would average out to 4.3% if spread over 7 years, or 3% if spread over 10 years.

When will the tax increases and utility rate increases for these projects go into effect?

Increases will be timed to coincide with when the funds are borrowed to pay for projects. Not all projects will be started in the first year. Exactly which projects move forward will be determined during each annual budget cycle as approved by the Town Council. Ideally, the increases will be spread out over the 7 or 10 year period, likely into three separate equal phases. If all bonds are approved on November 4, 2014, the first increases would not be applied any earlier than fiscal year 2015-2016 for which tax bills would be due in January of calendar year 2016.

Is the payment plan structured like a home mortgage payment: same payment amount for the life of the debt?

No. The annual debt payment for the bonds decreases over time.

So, will my tax rate go down as the debt payment goes down after all the funds are borrowed?

Perhaps. It depends on whether or not Councils in the future decide to pursue additional bond referenda. Council sets the tax rate each year as part of the budget process and it can go up, down, or stay the same. This remains true whether or not the bonds are approved.

What happens if the bonds don't pass in November?

If the bond referenda do not pass in November, the projects will likely not move ahead within the next 3-5 years. It will likely take another bond referendum being put before the voters in order to make significant progress on the project list. There are not enough cash resources available currently in order to fund this level of capital program. The projects that are safety necessities will need to be completed using more expensive financing options. Items that are not required for safety would be up to Town Council to determine if and how to proceed with the items should the bond issue fail.

Given the condition of the recovering economy, is now the right time to vote on bonds?

Yes. No one disagrees that the economy is still recovering. However, the state of the economy doesn't change the Town's obligation to continue making steady progress on important quality of life issues for Blowing Rock citizens using the most cost effective options available over the next seven to ten years, which is the anticipated life of the authorization for these bonds. Current interest rates for borrowing are still very low which will save taxpayers thousands of dollars in interest payments.

Why doesn't the Town just use some cash instead of debt to pay for these projects?

The Town of Blowing Rock is in strong financial condition. However, the Town does not have enough cash available to pay for these additional capital projects while still sustaining the high level of service our Citizens expect and maintaining fund balance levels that are required by law and directed by Council. Another consideration for using multi-year financing instead of cash is the equity factor: future citizens of Blowing Rock will assist in paying for the new projects that they will also benefit from.

What is the Town's current debt service?

Our current general fund debt service is approximately \$1.3 million a year.

If these bonds are approved by the voters, how will the additional debt be viewed by bond raters in light of Blowing Rock's existing debt?

We expect that bond raters will view Blowing Rock's debt levels as moderate and manageable given Blowing Rock's continued, proactive attention to planning for and managing growth, capital needs, and the Town's financial position. Blowing Rock's most recent NC Municipal Bond rating held steady at 80 for eleven consecutive years. The Town also maintained a Moody's Investor bond rating of A2 for four consecutive years, having improved from a rating of A3 for seven consecutive years before expiring with final payment of the Sewer Bond debt issued in 2002.

If the bond referendum is approved, how quickly could the projects begin?

Immediately upon Council approval to do so through a specific project appropriation. While the Town of Blowing Rock is in excellent financial health, the Town does not have enough money in its savings account to afford these extra projects. However, the Town does have enough funds to start construction on some of the projects, and will then have the authority through a reimbursement resolution to be reimbursed from the bond proceeds once they are issued. While Council can make an appropriation during any of its meetings, the plan is to review the ten year capital improvement plan during each annual budget cycle to determine which projects are of highest priority each year. If approved by voters, the bond projects would likely be spread out over the next seven to ten years. The tax increases and utility rate increases necessary to pay back the debt would also be spread out over the same time period to coincide with when the debt service payments would become due.

What is the current interest rate for using GO Bonds compared to other types of financing options available for these types of projects?

As of September 2014, the Town anticipates an interest rate of about *3.5% on GO Bonds. The other type of financing that the Town would consider for the projects- Limited Obligation bonds (asset-backed debt), would have a higher interest rate of approximately *3.75%. (*Depending on market condition at the time of sale rates may vary.) To be conservative, all of the tax and utility repayment calculations reflect an interest rate of 5.25%.

What are the property tax rates of other cities and towns in the surrounding area?

For Fiscal Year 2015 (effective July 1, 2014), adopted property tax rates for Blowing Rock and surrounding municipalities are as follows:

Blowing Rock- .310
Boone- .410
Beech Mountain- .732
Seven Devils- .510
Lenoir- .580
Sawmills- .200
Hudson- .500
Granite Falls- .440

If voters do not approve the bonds, does this mean that the Town Council will be prevented from raising property taxes in the future?

No. The bond vote is a vote on whether the Town may specifically use general obligation bond financing; it is not a vote on the property tax rate. The Town Council may raise or lower the property tax rate each year depending on the amount of revenues the Council believes is necessary to meet the operational needs of the local government.

Can we afford these projects?

Yes. Blowing Rock has a reasonable amount of debt at this time, reasonable utility rates and the lowest tax rate in Watauga County and the third lowest rate in Caldwell County. Until this year's increase of 2.3 cents, the Town had not raised its property tax rate since 1999.

If the bonds are approved, what effect will it have on Blowing Rock's debt to expenditure ratio?

Currently, debt service is running approximately 12% and 17% of annual operating expenses in the General Fund and Water/Sewer Fund respectively. If all four bonds are approved, debt service is estimated to then be approximately 18% and 21% of annual operating expense in the General Fund and Water/Sewer Fund respectively (note: as debt is paid down percentage is expected to decrease, estimates are based on maximum issuance levels).

If the bonds are approved and sold, will the interest earned by those that buy them be taxable?

The Town anticipates that it will receive an opinion of bond counsel that, under existing law, interest on the bonds will, as a general rule, will not be included in gross income for federal income tax purposes and be exempt from North Carolina state income tax. Prospective purchasers of the bonds should consult their own tax advisors as to applicability and effect of the tax-favored status of the bonds. These types of governmental purpose municipal bonds typically have a lower interest rate than fully taxable bonds, due to such favorable tax treatment, which is of benefit to the Town and to the taxpayers.

Will the Town be bound to execute only the projects listed within each category? What if a new project comes up in five years that no one is currently aware of or if priorities change?

The specific projects currently listed within each category were identified in the capital improvement planning process earlier this year. Project priorities over the bond authority period and currently unidentified emergencies (e.g. road slope failures) may change the specific projects ultimately selected for execution by Council each budget year. The four bond votes are for each respective category of projects (e.g. transportation), not necessarily for the specific projects listed. The lists have been prepared to document the current set of identified needs, which may or may not change over the next seven to ten years.

What is the exact language that will be on the ballot?

There will be four separate items for voters to decide on. The respective title and wording of each project category as it will appear on the ballot is shown below. The title of each category as discussed in the education material is shown in bold underline (e.g. "**Water Bonds**") and the title of the category that will be on the ballot is shown immediately below that (e.g. "Town of Blowing Rock Water Systems Bonds"). The wording of each item is purposely very broad and expansive in the event currently unidentified priorities arise in the future (reference the answer to the previous question).

Water Bonds

Town of Blowing Rock Water Systems Bonds

Shall the order authorizing up to \$2,000,000 of general obligation bonds, plus interest, of the Town of Blowing Rock, for the purpose of paying capital costs of providing water systems, including without limitation facilities for the supply, storage, treatment and distribution of water and related costs, and providing that additional taxes may be levied in an amount sufficient to pay the principal of and interest on the bonds, as adopted by the Blowing Rock Town Council on July 29, 2014, be approved? Yes No

Sewer Bonds

Town of Blowing Rock Sanitary Sewer Systems Bonds

Shall the order authorizing up to \$1,000,000 of general obligation bonds, plus interest, of the Town of Blowing Rock, for the purpose of paying capital costs of providing sanitary sewer systems, including without limitation community sewerage facilities for the collection, treatment, and disposal of sewage or septic tank systems and other on-site collection and disposal facilities or systems and related costs, and providing that additional taxes may be levied in an amount sufficient to pay the principal of and interest on the bonds, as adopted by the Blowing Rock Town Council on July 29, 2014, be approved? Yes No

Transportation Bonds

Town of Blowing Rock Streets and Sidewalks Bonds

Shall the order authorizing up to \$9,000,000 of general obligation bonds, plus interest, of the Town of Blowing Rock, for the purpose of paying capital costs of providing streets and sidewalks, including without limitation bridges and alleys; paving, grading, resurfacing, and widening streets; sidewalks, curbs and gutters, culverts and drains; traffic controls, signals, and markers; lighting; and grade crossings and the elimination thereof and grade separations , and related costs, and providing that additional taxes may be levied in an amount sufficient to pay the principal of and interest on the bonds, as adopted by the Blowing Rock Town Council on July 29, 2014, be approved? Yes No

Parks & Recreation Bonds

Town of Blowing Rock Parks and Recreation Facilities Bonds

Shall the order authorizing up to \$1,000,000 of general obligation bonds, plus interest, of the Town of Blowing Rock, for the purpose of paying capital costs of providing parks and recreation facilities,

including without limitation land, athletic fields, parks, playgrounds, recreation centers, shelters, permanent and temporary stands, swimming pools, wading pools, and lighting, and related costs, and providing that additional taxes may be levied in an amount sufficient to pay the principal of and interest on the bonds, as adopted by the Blowing Rock Town Council on July 29, 2014, be approved? Yes No

If you have a question not identified on this list, please email it to manager@townofblowingrock.com or call (828) 295-5200.



community
investment **bonds**