



Town of Blowing Rock

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

May 10, 2016

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 2016-2017 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.

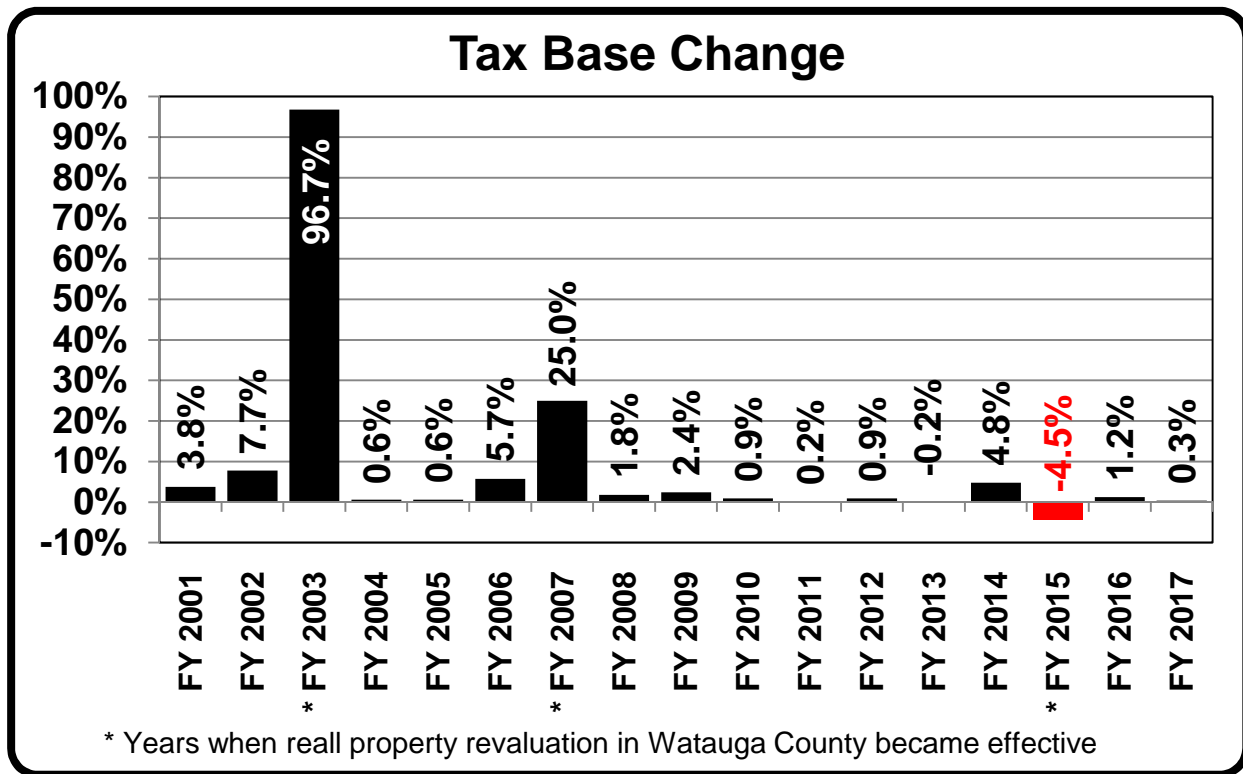
The Town of Blowing Rock is centrally located in the high country and is known as the "Crown of the Blue Ridge". The Town prides itself in excellent customer service, providing a quality environment for all of its citizens and visitors alike. The Recommended Budget seeks to bolster the Town's outstanding 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 2016-2017 Recommended Budget totals \$9.26 million for all Town operations, capital improvements, and debt service requirements. This is a decrease of \$4.24 million compared to last year's adopted budget of \$13.50 million. The Recommended Budget reflects a tax rate of 34.0 cents (an increase of 1.0 cent or 3% above the adopted rate of 33.0 cents for FY 2016), 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 tax and utility rate increases are necessary to help pay for the first issuance of the voter approved 2014 general obligation bond debt for capital projects as well as increased staffing support for administering the bond projects and grants, landscaping growth including taking over responsibility for 321 maintenance, as well as part-time funding to help ensure our Fire Department is able to respond to the growing number of calls for service. The recommended budget also includes a new vehicle license fee of \$10.00 per vehicle per year consistent with G.S 20-97 Section 29.27A (a), § 20-97. This fee is being instituted for the first time, in part, to help make up for the General Assembly's elimination of the municipal privilege license tax. The vehicle license fee, at a rate of \$10.00 per vehicle is anticipated to generate \$15,890 in annual revenue. At its peak in FY 2012, the privilege license fee generated \$21,817 in revenue.

MAJOR ISSUES IMPACTING BUDGET DEVELOPMENT

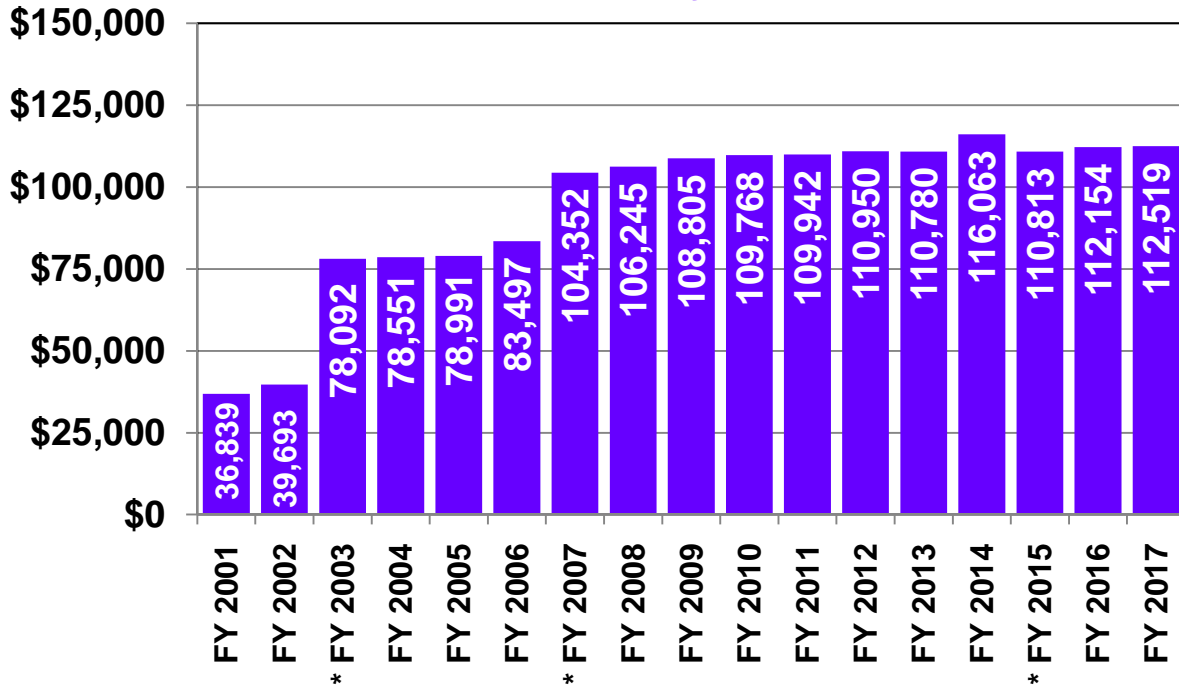
Tax Base Growth Minimal

The fiscal year 2017 ad valorem tax base is projected to grow only 0.30%, or about \$3.65 million over the adopted fiscal year 2016 levels. The Town of Blowing Rock has seen an average annual growth rate in its tax base of 0.78% since the property revaluation that took effect in FY 2007. The most recent tax revaluation in FY 2015 resulted in a 4.5% decrease in the overall tax base. 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 2017 tax rate is \$0.33 per \$100 of taxable property, which is expected to generate an estimated tax levy of \$3,825,648. 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 2017, is expected to generate \$111,162 after being adjusted for the anticipated collection rates of 96% for vehicles and 98.84% for real property. The graph below reflects the value of tax generated by one penny on the tax rate over time for the entire Town of Blowing Rock.

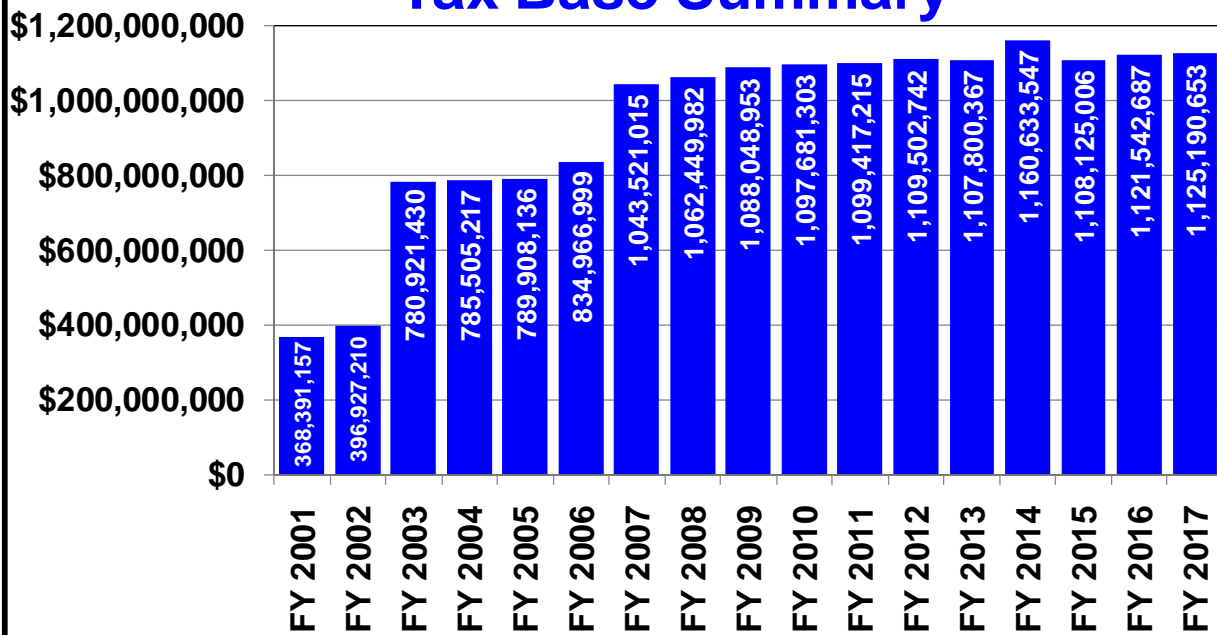
Value of One Penny on the Tax Rate



* Real Property Revaluation in Watauga County effective

The Town of Blowing Rock's total tax base for FY 2017 is estimated to total \$1.12 billion. Approximately \$96.07 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.

Tax Base Summary



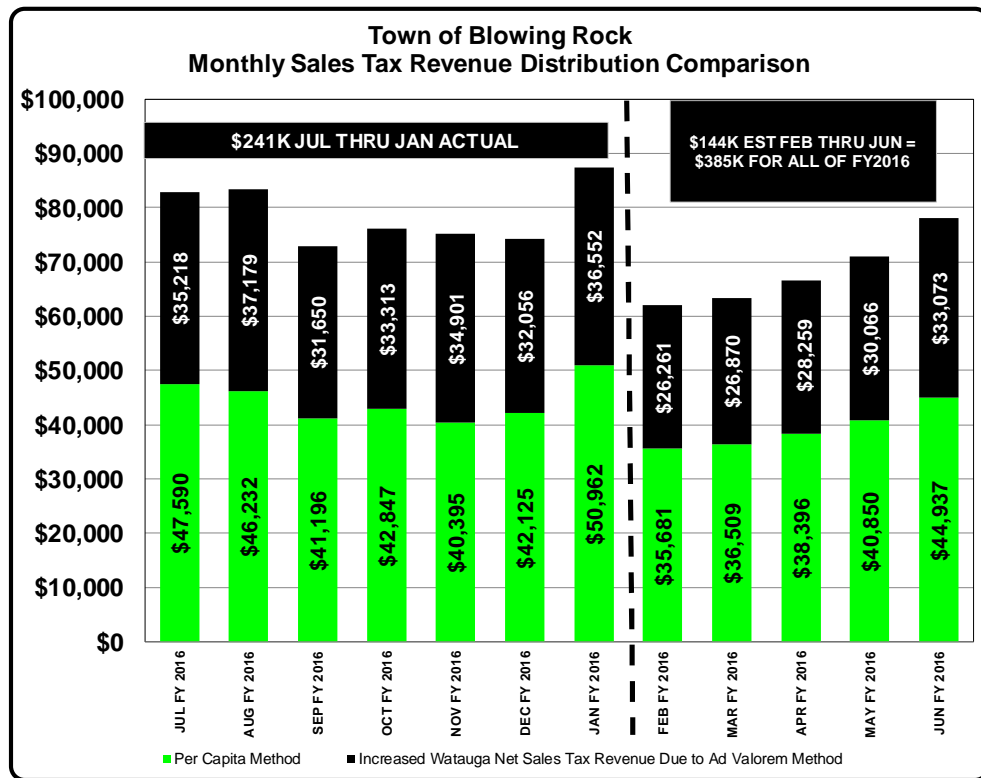
* Years when real property revaluation in Watauga County became effective

Sales Tax

Projected sales tax revenues totaling \$1.52 million in FY 2017 make up 21% 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 four years, impacting revenue distribution in FY 2014, 2015, 2016 and 2017, 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 \$385,398 in FY 2016. With the ad valorem method in place again for FY 2017, the Town expects to receive approximately \$396,960 more in FY 2017. 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 2016. Similar projections have been built into the FY 2017 budget forecasts estimating a growth rate in revenues of 3%. This growth rate is slightly lower than 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 2016, and a similar approach has been taken in budget development for FY 2017, earmarking the funds for one-time operating expenses and capital projects only.

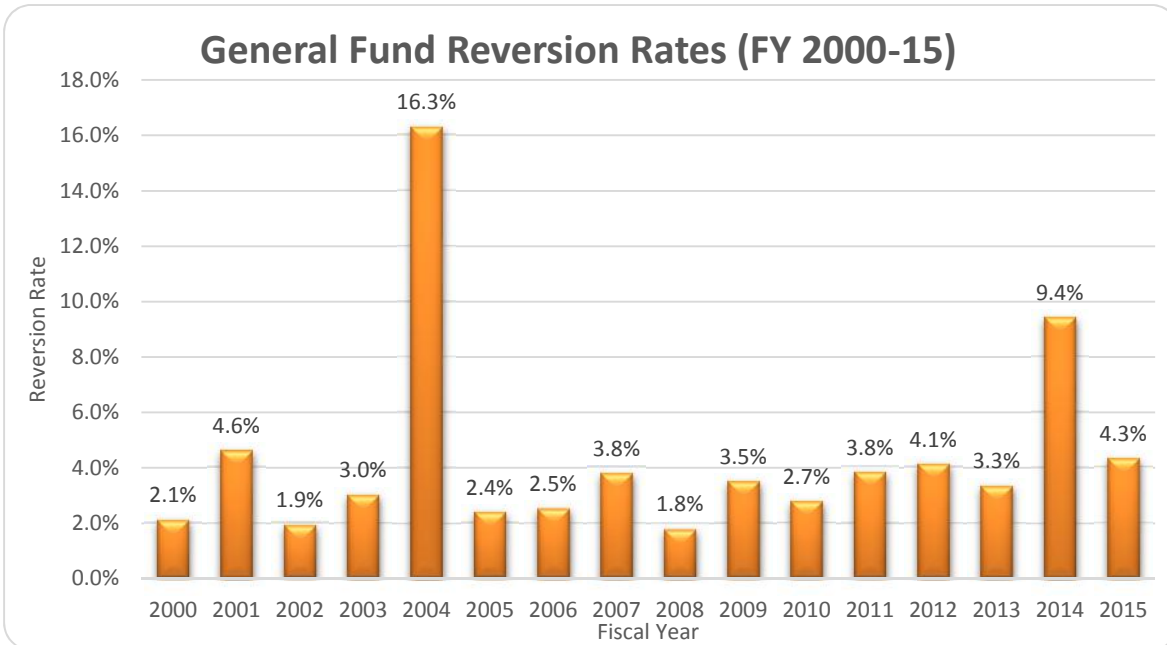


Budgeted Expenditures and Municipal Comparisons

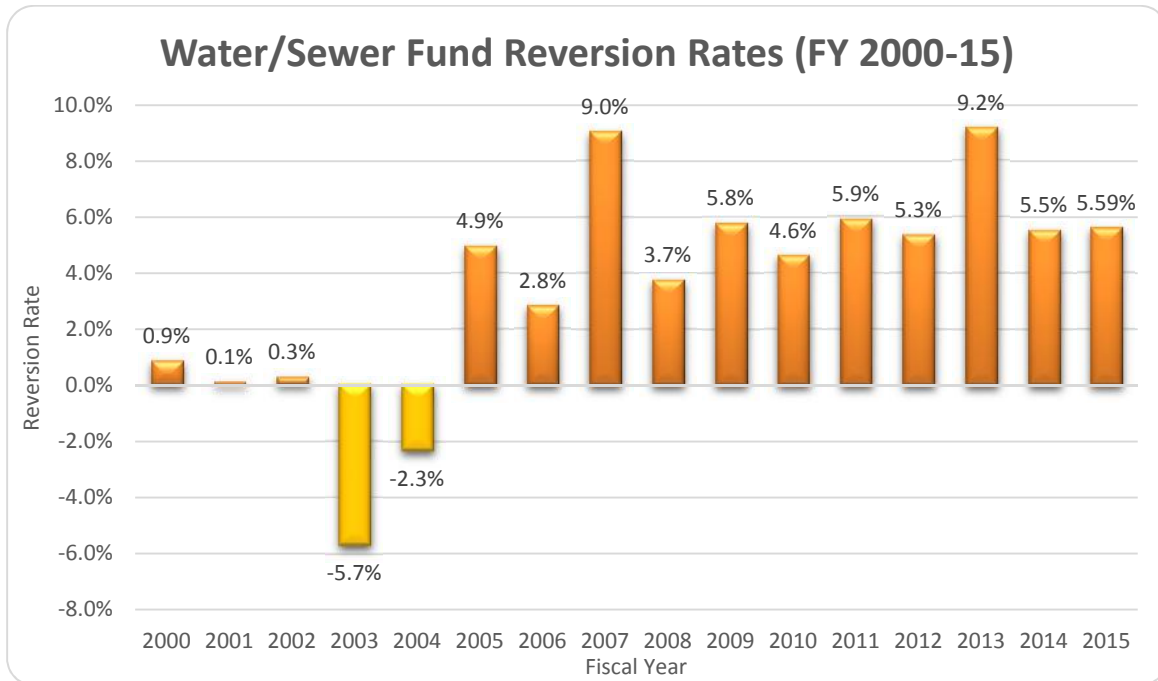
Reversion Rates

When building a budget, it is important to understand that our budget is our limit. By state statute, we cannot exceed the budgetary authority approved by the Town Council. For this reason, we must manage the funds we have appropriately to ensure we do not exceed the budget that has been allocated. In concert with that approach, we must also ensure that we do not excessively burden citizens and rate payers by generating significantly more revenue through taxes and fees than we spend each year. To help review these data elements over time, we can examine our budget utilization by analyzing what percent of our budgeted funds are being reverted back to fund balance, which means they were not spent during the fiscal year. 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 of operating 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 undesignated fund balance as confirmed in the audit through the end of fiscal year 2015 was 39.7% of total general fund expenditures for the year.

The level dropped below 50% due to the accounting reclassification of loan proceeds at the end of Fiscal Year 2015. Upon receipt of loan proceeds due, and the transfer of funds to the Capital Projects fund, unassigned fund balance will reach 51% in Fiscal year 2016. 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 2016 adopted budget and the FY 2017 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 2000-15:



The Town of Blowing Rock's reversion rates for the general fund have been fairly consistent over time. The relatively low levels, averaging 4.45%, 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-FY2015:



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 2000-15 is 2.76%.

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 engineering 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 were bundled into a General Obligation Bond Referendum that was presented to Blowing Rock voters for their consideration on November 4, 2014. The following is a summary of the bond referendum categories and totals approved by Blowing Rock voters on November 4, 2014.

-) Transportation – \$9 million
-) Parks and Recreation – \$1 million
-) Water – \$2 million
-) Sewer – \$1 million

The voters approved each of the four separate bond referenda as follows:

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

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

During the fiscal year 2016 budget development cycle, the Town Council approved the general approach of executing the bond projects in three major phases as summarized in the following table:

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

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

UNScotManager\Bond Referendum 2014\LOG App\Blowing Rock Capital Plans from McCall.docx\Borrowing and Tax Plan

According to this plan, the first set of capital project appropriations were approved with the adoption of the FY 2016 budget and the tax rate was increased two cents to pay for the anticipated debt service increases expected beginning in FY 2016. As the borrowing process began, it became clear that due to the extent of the North Carolina Local Government Commission approval and bond rating processes involved, there was no strategic advantage to actually borrow funds in late 2015 and to have a debt service payment in FY 2016 since construction on the majority of the projects could not begin until the spring of 2016. Subsequently, the borrowing process was geared to take place in March of 2016, allowing the funds to be received without having to make the first debt service payment until FY 2017. The funds raised by the incremental two cents on the tax rate to pay the debt service were used in part to cover bond issuance costs. The remaining funds will either be utilized to pay down the debt service or will be added to bond qualifying capital project allocations.

The anticipated tax increases shown in the table above were calculated assuming an interest rate of 5%. During the borrowing process, the Town of Blowing Rock general obligation bonds were rated by Standard and Poor's as AA+. The rationale for this very positive rating per Standard & Poor's is included below along with the rating definition chart.

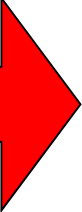
Rationale

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

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

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

Blowing Rock's Bonds were rated AA+



Standard & Poor's Long-Term Issue Credit Ratings <i>(The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.)</i>	
Category	Definition
AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
BB; B; CCC; CC; and C	Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
BB	An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
B	An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.
CCC	An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
CC	An obligation rated 'CC' is currently highly vulnerable to nonpayment. The 'CC' rating is used when a default has not yet occurred, but Standard & Poor's expects default to be a virtual certainty, regardless of the anticipated time to default.
C	An obligation rated 'C' is currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared to obligations that are rated higher.
D	An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.

Due in part to the very positive bond rating of AA+ and the favorable interest rate environment, the Town's bonds sold with an interest rate of 2% instead of the cautiously predicted rate of 5%. This lowered the interest rate component of the payment required in the general fund by about \$100K and the utility fund by about \$31K.

Over the twenty year repayment term of these bonds, the lower interest rate will save approximately \$1M in the general fund for transportation and park projects and another \$336K in the utility fund for water and sewer projects.

With the lower interest rate of 2%, there is not a need to increase the tax rate an additional two cents as part of the FY 2017 budget. The general obligation bond debt service requirement in the general fund is \$250,740. With each penny of the tax rate expected to generate \$111,162, the portion of the tax rate required is 2.26 cents, therefore, a tax increase of 0.26 along with the two cents already in place is expected to be sufficient to fund the debt service associated with the first phase of the bond issuance plan totaling \$4.6 million. The borrowing has been allocated to capital project categories as follows:

-) Transportation – \$3.1 million
-) Parks and Recreation – \$0.4 million
-) Water – \$0.5 million
-) Sewer – \$0.6 million

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

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 completed in 2014. 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. In the FY 2015 and FY 2016 budgets, we began a systematic approach of 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 2017 budget and beyond.

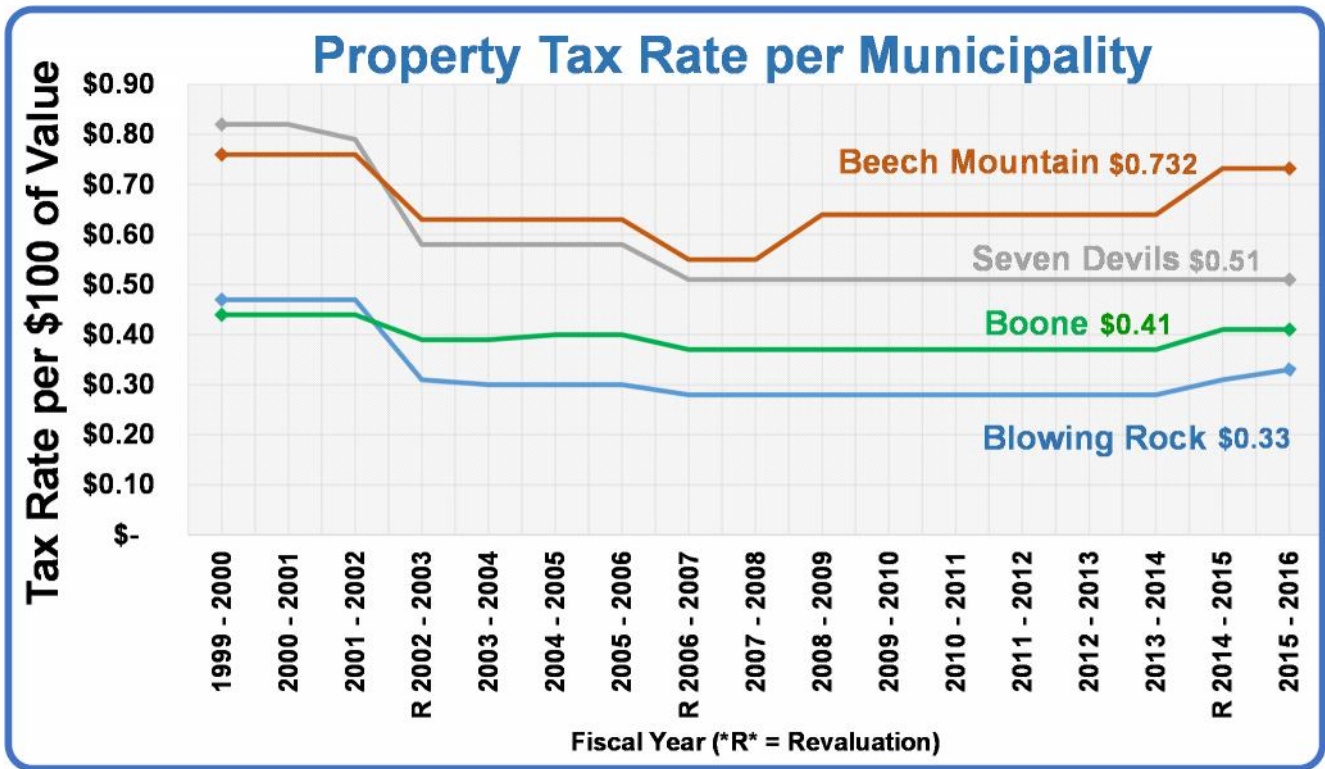
Debt Service

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 Adopted and 2017 Recommended Budget is a plan to continue moving forward with the general obligation bond referendum approved by Blowing Rock voters in November of 2014. With the first issue taking place in February 2016, we continue to work on projects as planned and allocated in the FY 2016 Adopted Capital budget. Annual Capital equipment replacements and needs are planned to be funded through debt service as well. With the next issuance of debt currently planned to fund the 2nd phase of projects, the borrowing would not occur until the spring of 2018 which would impact the Town's FY 2019 budget.

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 \$0.313 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 Discontinued and Vehicle Tax Authority Expanded

Prior to the FY 2016, 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, the Town must find alternative revenue options to produce the equivalent amount of revenue or reduce service levels by an equal amount.

One area in which the North Carolina General Assembly did provide an additional revenue option recently has to do with vehicle license fees. As part of its budget passed in 2015, all cities and towns will be allowed to charge a \$30 municipal vehicle tax beginning July 1, 2016. The change means that all municipalities are treated the same regarding the vehicle tax that they can charge. Current law allows cities and towns to charge a \$5 tax, while almost all cities that operate transit systems can charge an additional \$5. Local legislation passed over the years had allowed a number of other municipalities to charge vehicle taxes of up to \$30, but the additional authority was not applied uniformly. The budget provision (Sec. 29.27 A, pages 365-66) requires that amounts charged above the two uniform \$5 taxes already imposed by cities go toward city street maintenance and construction.

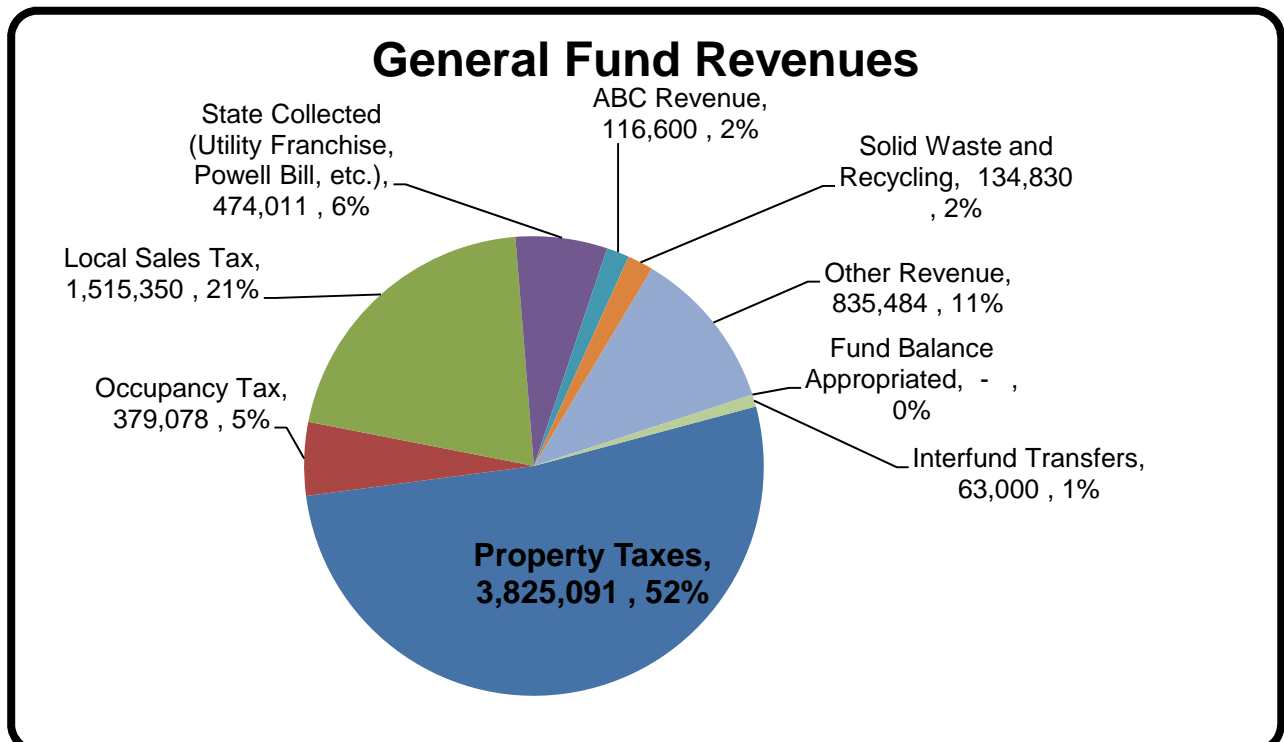
Given that street maintenance activities are one of our key services that the Town provides and that the general revenue source of privilege license fees are no longer available, it is being recommended that a \$10 per vehicle fee be instituted beginning with FY 2017 which begins July 1, 2016. At this level, the fee is expected to generate \$15,890.

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 \$111K. At this level, property tax revenue is expected to generate a total of \$3.8 million or 55% of total general fund revenues.

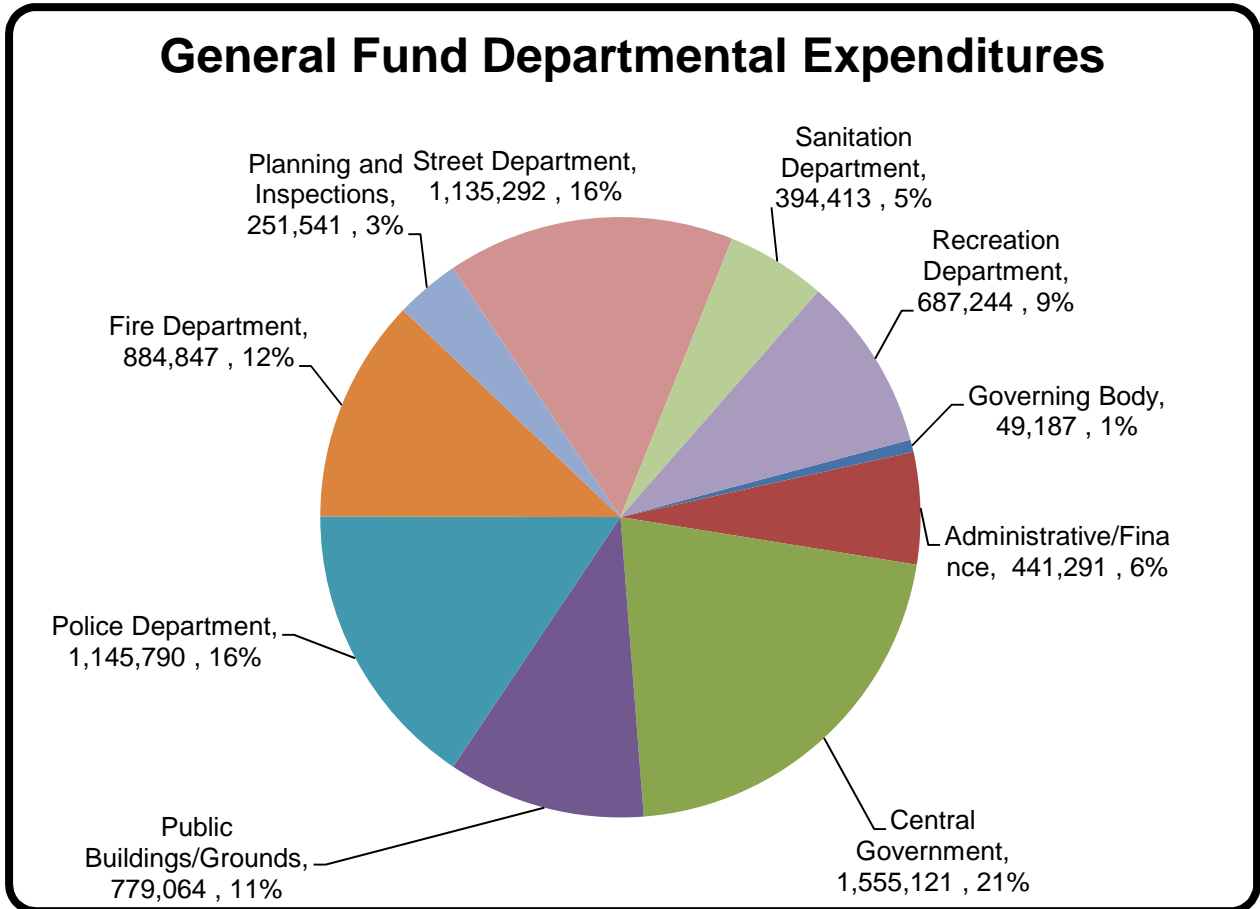
FUNDS OF THE BUDGET

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 98.84% and a vehicle property tax collection rate of 96.00%. The following graph distinguishes the percent each source of revenue is expected to contribute to the general fund:



The Town's tax base is split between two counties – Watauga and Caldwell. Watauga County represents approximately 91.5% of the total property tax base. Caldwell County accounts for the remaining 8.5%. The Town's property tax base is estimated to be approximately 85% residential and 15% commercial. The following graph depicts the recommended spending breakdown by department for FY 2017:



The FY 2017 Recommended Budget for the General Fund revenues total \$7,343,480, which is \$542,768, or 8.0% more than the FY 2016 Adopted Budget. The primary areas of revenue increase are in property tax due to a recommended increase of one cent on the tax rate to 34 cents per \$100 of taxable value along with strong performance in sales tax and State collected local revenues. Budgeted revenues are expected to increase 8% over the adopted FY 2016 levels.

The FY 2017 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 Administrative Assistant to help with project and grant management, and a new Landscape Assistant to help with existing workload and to begin preparing for the additional responsibilities associated with maintaining landscaping along 321.

BRAAC Fund

The Blowing Rock Appearance Advisory Commission Fund contains activities to initiate, promote and assist in the implementation of general community beautification in the Town 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 2017 Recommended Budget for the BRAAC Fund totals \$23,850. 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 half of the Recommended Budget. This year's Recommended Budget level is \$10,000 lower than FY2016 which is predominantly due to the annual contract that BRAAC initially funded in FY 2016 to maintain the Legacy Gardens being assumed by the Town. This is the Garden area that borders the east side of Main Street just south of the downtown area. During the spring of 2016, the Town has received verbal approval from all of the property owners through this area that they are willing to provide a maintenance easement to the Town for this purpose. The Town Attorney is now in the process of creating the necessary easement documentation to officially document these agreements.

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 2017 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 2017 Recommended Budget for the Water and Sewer Fund totals \$1,570,869. This is a \$112K or 6.7% decrease from the FY 2016 Adopted Budget of \$1,683,024, due predominantly to not having any capital outlay associated with the Field Operations Department this year.

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 2016 property tax rate was \$0.33 per \$100 of valuation. On a \$500,000 home, the total annual Town of Blowing Rock property taxes due would be \$1,650.00.

The FY2017 Recommended Budget includes an increase of one cent for a total 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 2017. 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:

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

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

State-Collected Local Taxes

State-Collected Local Taxes are distributed by the State to the Town based on the actual receipts from the providers of these services and commodities within the Town limits. These revenue sources are expected to total \$472K in FY 2017 with the continued ad valorem distribution methodology in place. These are strictly General Fund revenues.

State taxes that are shared with cities are the beer and wine taxes, electric franchise taxes, telecommunications taxes, video services taxes, satellite services taxes, the piped natural gas tax, motor fuel taxes, and, as of January 1st, 2008 a portion of a 911 charge on voice communication services. In FY 2017, there are six statewide revenues received by the Town whose estimates depend on economic forces: Utility Franchise Tax, Telecommunications Sales Tax, Beer and Wine Tax, Solid Waste Disposal, Powell Bill, and Video Programming Tax (formerly Cablevision TV Franchise Tax).

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

Each town’s utility franchise tax is based on actual receipts from electric service only within the municipal boundaries. The distribution method for the electricity sales tax, along with that of the sales tax on piped natural gas, changed in FY 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. Beginning in FY 2016, the Town of Blowing Rock has experienced strong growth in this revenue source and accordingly, revenues from this source are expected to total \$324K, or about 120% higher than the level budgeted in FY 2016. These revenues are highly sensitive to the weather. Mild winters, cool summers, and any significant rate increases or decreases can cause these receipts to change.

Annual statewide growth in telecommunications revenues is expected to continue its decline which is mainly attributable to loss of landline purchases, as more customers transition to using cell phones only. The budget proposes this revenue to drop to \$23K from the adopted FY 2016 level of \$43K.

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 at about \$6K.

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 2.0% in FY 2017. Due to the seasonal nature of the community, the budget proposes this revenue to drop slightly to \$41K from the adopted FY 2016 level of \$45K.

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 budgeting the additional revenue in FY 2017. 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 \$396,960 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 3.75% increase in local sales taxes state-wide for FY 2017. They caution municipalities to consider the impacts of local construction on these revenues. Sales tax revenues under the per capita approach are budgeted for FY 2017 at \$523K, and the additional \$397K has been largely allocated to one-time operating costs and capital projects in the FY 2017 Recommended Budget. The table below summarizes the differential net sales tax revenue received the last two years and the anticipated amounts for FY 2016 and FY 2017.

Fiscal Year	Per Capita Revenue	Net Increase Due to Watauga Ad Valorem Method	Total
2014 Actual	443,176	309,109	752,284
2015 Actual	484,054	351,789	835,843
2016 Estimate Thru Jan	507,718	385,398	893,116
2017 Budget	522,950	396,960	919,910
Four Year Totals	1,957,898	1,443,255	3,401,153

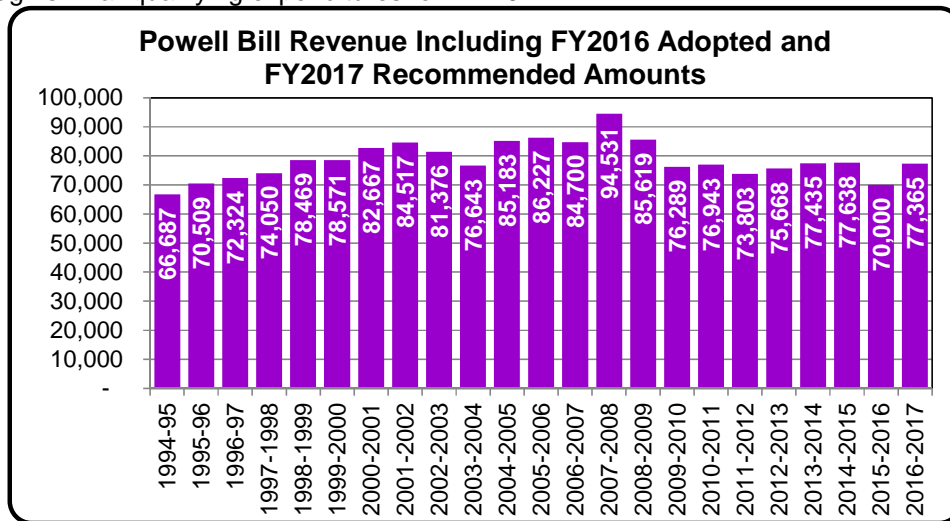
Projected Increase of 73.7 Percent Over Four Years

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 \$380,907 in funding for the Town in FY 2017 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 2016. 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 be recognized and appropriated during the fiscal year or in the subsequent year.

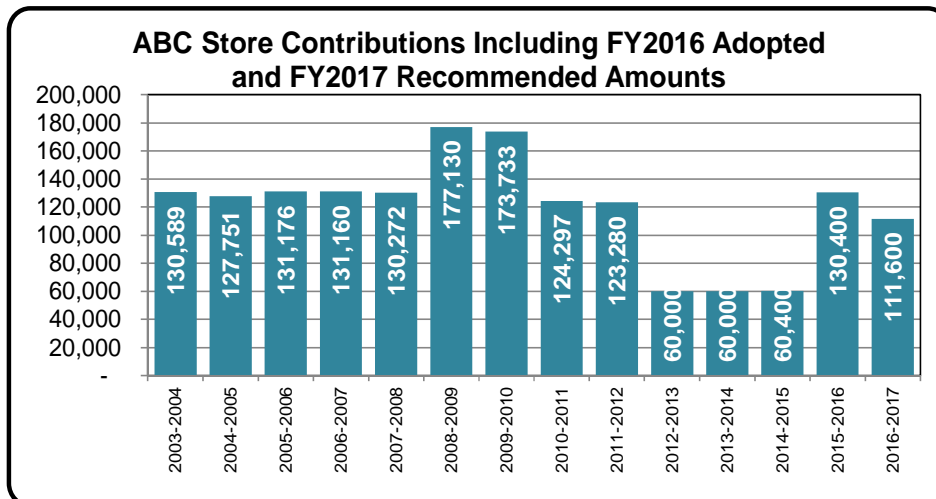
Powell Bill

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 2017 Powell Bill distribution is \$20.15 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 2017 Powell Bill distribution is \$1,624 per street mile. The Powell Bill distribution is anticipated to remain consistent with FY 2015 actual revenues of \$77K. In the FY 2016 budget, these funds were approved 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. Following a thorough review of qualifying street expenditures made thus far in FY 2016, staff is confident there will be enough similar qualifying expenditures for FY 2017



ABC Revenue

These proceeds are from the local ABC Board generated by the sale of alcoholic beverages in Blowing Rock. ABC revenue levels have rebounded slightly in recent years. The ABC Board's budget planning for FY 2017 reflects a slightly decreased annual funding amount for distribution to the Town of \$111K. 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, donations, book sales, park lease, town property rental income, sale of fixed assets, snow removal reimbursement, etc. Budgeted interest income has been once again been budgeted at a low level due to current 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 28% of the total General Fund budget.

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

- J Transfer to Capital Projects including \$22K of TDA revenue to support the new Town Gateway development program and \$25K of TDA revenue to support development of the Middle Fork Greenway section along the Chestnut Ridge property in Blowing Rock
- J \$226K transfer to Capital Projects of net sales tax revenue proceeds to support a variety of general government capital projects
- J Insurance Premiums - General Liability & Workers Compensation
- J Payment to Watauga County of 60% of the Ad Valorem vs. Per Capita sales tax proceeds. This amount represents \$595K of the FY 2017 budget
- J Technology Infrastructure support including servers, applications, and Wi-Fi
- J Community Library Support - \$2,000
- J A new hourly position in the Administrative/Finance Department to assist with the growing project and grant management workloads including execution of the successful general obligation bond referendum execution and grants including the Sidewalk to Bass Lake

General Government (Public Buildings & Grounds)

This function accounts for \$779K or 10.6% of the total General Fund budget.

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

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

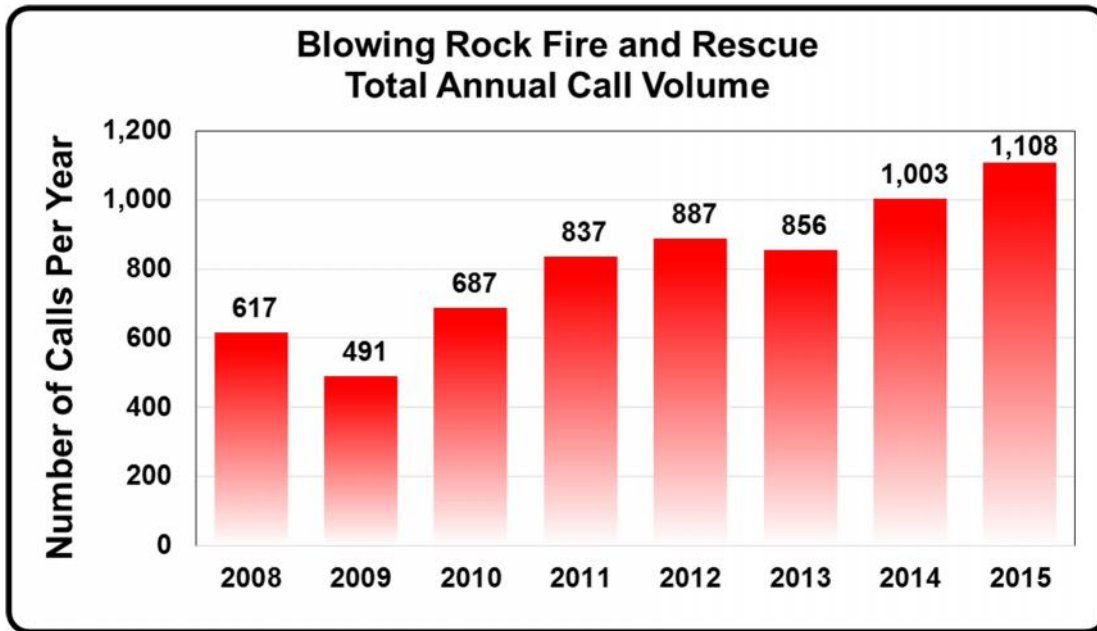
Public Safety (Police & Fire)

This function accounts for \$2 million or 28% of the total General Fund budget.

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

- J Continued funding of costs associated with consolidated dispatch with Watauga County (\$175K)
- J 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.
- J Continued funding for Part-time Parking Enforcement

-) Four replacement radar units as the current type's certification will expire soon
-) A new electronic, mobile speed enforcement and recording device capable of remote monitoring
-) DARE program Support
-) Crimestoppers Support
-) Increased funding for Fire Department part-time support from \$72,664 to a total of \$275,000. Half of the cost of the part-time support is recommended to be paid for through a reimbursement provided by the Fire Department outside funding sources (district tax). This increased support is necessary to create a dependable part-time program that will help ensure two part-time fire fighters are on duty at all times. This is an increased need due to the continuing growth in call volume which has increased the number of calls that overlap one another, thus increasing the need for responding personnel to be available. See the increase in call volume in the chart below.



Transportation (Public Works – Streets)

This function accounts for \$1.13 million or 15% of the total General Fund budget.

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

-) Funding to replace a 1988 chipper, a 2008 dump truck with plow, and a street sweeper
-) 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)
-) \$23,417 is included as the incremental increase under the street lighting account expected due to the new LED lights being installed with the 321 widening project. Light installation is expected to start in the fall of 2016 and all lights are expected to be in by March, 2017. The amount will total almost \$47K once all 185 coach lights and 19 tall intersection lights are operational for a full twelve months which will occur in FY 2018, next year's budget. The Blue Ridge Electric Membership Cooperative Board approved the rates for LED lighting at their Board meeting on April 28, 2016. (\$17.24/month for American Revolution LED Full Cut-off (100W HPS equivalent) on 12' steel pole; \$35.56/month for Autobahn Series LED Full Cut-Off (400W HPS "cobra head" equivalent) on 30' steel pole)

Environmental Protection (Public Works – Sanitation/Recycling)

This function accounts for \$394K or 5.3% of the total General Fund budget.

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

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

Planning and Inspections

This function accounts for \$251K or 3.4% of the total General Fund budget.

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

- J Continued funding for implementation of the Town Comprehensive Plan Update approved in 2014
- J Continued Downtown Retail Strategy Implementation
- J Continued funding of the permit application, review, approval, and inspection processes

Culture and Recreation (Parks/Recreation & Landscape)

This function accounts for \$687K or 9% of the total General Fund budget.

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

- J Continued funding for Part-time Staff for Downtown Litter Pick-up and Memorial Park Attendants
- J Continued funding for Landscaping/Beautification (via TDA)
- J Replacing the 2000 Light Truck with a service truck to better facilitate landscaping and maintenance projects being undertaken by staff on a regular basis
- J 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 is already 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 2017.

Environmental Protection – Water/Sewer Fund

This function accounts for \$1.6 million or 100% of the Water/Sewer Fund.

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

- J 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)
- J Funding for the Field Operations group that maintains the water and sewer collection system
- J Funding for the Utility Plant staff members and operation of the water and sewer plants

Culture and Recreation – BRAAC Fund

This function accounts for \$23,850 or 100% of the Blowing Rock Appearance Advisory Commission Fund.

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

- J Funding to support Landscaping/Beautification of public property
- J Downtown Hanging Baskets/Planters
- J Town Clean-up Day and Planting Day (Spring and Fall)
- J The Blowing Rock Appearance Advisory Commission, in partnership with staff, created and presented a presentation to the Broyhill Foundation in pursuit of funding to support maintenance and improvement

items identified in and adjacent to Broyhill Park. The Foundation awarded a \$60,000 grant payable in two installments of \$30,000 (one in FY 2016 and one in FY 2017).

EXPENDITURES BY CATEGORY

Expenditure levels have increased in recent years to invest in our people that provide great customer service each and every day as well as some of our capital infrastructure that has been in need of attention. Debt service has increased to help pay for the new Public Works Facility and to fund the first phase of the 2014 voter approved General Obligation bond referendum.

Personnel Expenditures

Personnel expenditures include salaries, FICA, group insurance, retirement, longevity pay, and other miscellaneous benefits for 59 full-time equivalent positions, inclusive of two additional positions in FY 2017, several part-time positions including an increase in part-time funding for the Fire Department, and other seasonal workers including summer camp counselors life guards. The FY 2017 Recommended Budget for Personnel Expenditures includes two new positions: 1) a new hourly position in the Administrative/Finance Department to assist with the growing project and grant management workloads including execution of the successful general obligation bond referendum projects and grants including the \$988K grant received this past year for the \$1.2 million Sidewalk to Bass Lake project. 2) a new hourly 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 is already 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 2017.

The total personnel cost in the Recommended Budget is \$3,971,948 or 44% of the operating budget. The FY 2016 Adopted Budget for Personnel Expenditures was \$3,557,977 or 42% 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 for each position varies according to how far each position is away from the identified level for that position. Many positions are close to having achieved the target salary level. All positions in the budget include an allocation for a minimum of a 2% increase in base pay.

As one of 880 cities, towns, counties and local commissions that participate in the North Carolina Local Government Employees' Retirement System, FY 2017 contribution rate increased 0.25% to 7.25% for this fiscal year. Health insurance costs are anticipated to increase 5% beginning in January 2017, but the actual rate of increase will not be known until the fall of 2016.

The Recommended Budget includes increasing the funding of the Town 401/K supplement from 4.0% of salaries for all general personnel to 5.0% 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. All 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 \$23,860.

A detailed list of all FTE (Full-Time Equivalent) positions by department can be found in the *Authorized Position Allocation Summary* section of the budget document.

Operating Expenses

Operating expenditures include all costs other than personnel, capital outlay and debt service. Fluctuations in energy and fuel costs, increased service demands, and state funding requirements directly affect other operational expenditures. The FY 2017 Recommended Budget for Operating Expenditures is \$3,040,509 or 34% of the total operating budget.

Highlights include:

Continued funding of costs associated with consolidated dispatch with Watauga County is funded at \$175K. Operating expenses also includes \$595K 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 2017 Recommended Budget for Operating Capital Outlay expenses, for both the General Fund and Water/Sewer Fund, total \$285K or 3% of the total budget. The FY 2016 Adopted Operating Budget for Operating Capital Outlay expenses, for the General Fund and Water/Sewer Fund, totaled \$304K or 5.7% of the operating budget.

A detailed list of capital purchases for FY 2017 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 2017 Recommended Budget for debt service expenses, for both the General Fund and Water/Sewer Fund, total \$1,265,368 or 14% of the total operating budget. The FY 2016 Adopted Budget for debt service expenses, for the General Fund and Water/Sewer Fund, totaled \$1,147,107 or 13.5% of the total budget.

Highlights include:

- A detailed amortization schedule for FY 2017 can be found in the *Debt Payments* section of the budget document.
- In FY 2017, the first full year of the 2014 voter approved general obligation bond debt service is being realized. The general fund portion, covering transportation and park bond borrowings, equals \$250,740. The utility fund portion, covering water and sewer bond borrowings, equals \$77,980.
- In FY 2017, amounts provided through TDA infrastructure support have been directed towards BRAHM parking facility debt service (\$105,169) as anticipated following the FY 2015 American Legion parking facility debt service retirement the Authority funded. Other areas funded this year by TDA infrastructure contributions include landscape/beautification (\$20,801), Christmas decorations (\$3,300), Memorial Park maintenance/clean-up (\$6,000), Town Center Beautification (Sanitation) (\$3,000), Gateway Support (\$21,931), Electronic Kiosk (\$30,000), Electronic Parking Space Counting System (\$30,000), General Business Wi-Fi Connectivity (\$10,000) and Support to Middle Fork Greenway (\$25,000). These specific project allocations are subject to change following official budget adoption by the TDA board, but represent our recommendations for Infrastructure funding areas.
- Due to the level of debt funded projects and vehicles included in the FY 2017 budget, the total debt service obligation of the general fund is expected to rise approximately \$51K in FY 2018 as the first year of debt service on the borrowings come due. As additional borrowings take place, especially related to implementation of the second and third phases 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

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

- *Town Comprehensive Plan Update*
- *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*

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 recent NC General Assembly sessions, there have been a variety of bills introduced that might have impacted the level of sales tax revenues that Blowing Rock receives. This is something we will have to monitor closely during future legislative sessions. The current Recommended Budget assumes no change for the upcoming fiscal year, but instead relies on a portion of the revenue stream for one-time operating or capital project funding. We must continue to work with the North Carolina League of Municipalities to help monitor potential threats such as this that might take away Council's ability to ensure the Town of Blowing Rock is cared for properly, given whatever the circumstances may be.

CLOSING

This Recommended Budget for FY2017 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)
 - o Implementation of the voter approved General Obligation Bond Referendum
 - o Technology Infrastructure
 - o Water/Sewer Line Expansion/Improvements
-) Class and Pay Study Implementation
-) Tax Base Growth through development and redevelopment
-) Execution of grants (e.g. Sidewalk to Bass Lake awarded in March 2016)
-) Privilege License Revenue elimination and initiation of vehicle license taxes
-) 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