

TOWN OF BLOWING ROCK



Fiscal Year
2018-2019

Manager's Proposed Budget

To the Honorable Mayor Charlie Sellers, Mayor Pro-tem Albert Yount, Councilman Jim Steele, Councilman Doug Matheson, Councilwoman Sue Sweeting, and Councilwoman Virginia Powell, the Town Council of the Town of Blowing Rock:

Submitted herein, in accordance with the Local Government Budget and Fiscal Control Act, is the Proposed Budget for Fiscal Year 2018-2019 (FY18-19) for the Town of Blowing Rock. This proposed budget is balanced and meets the Town's fiscal priorities for FY18-19. The Proposed Budget is a *Revenue and Spending Plan* representing the needs of Blowing Rock and the spending priorities of the Town Council. It presents financial information summarized by projected revenues and expenses categorized by departments. It outlines the operations of the Town of Blowing Rock government and its component operating and capital programs and provides guidance for staff throughout the fiscal year.

TOWN OF BLOWING ROCK



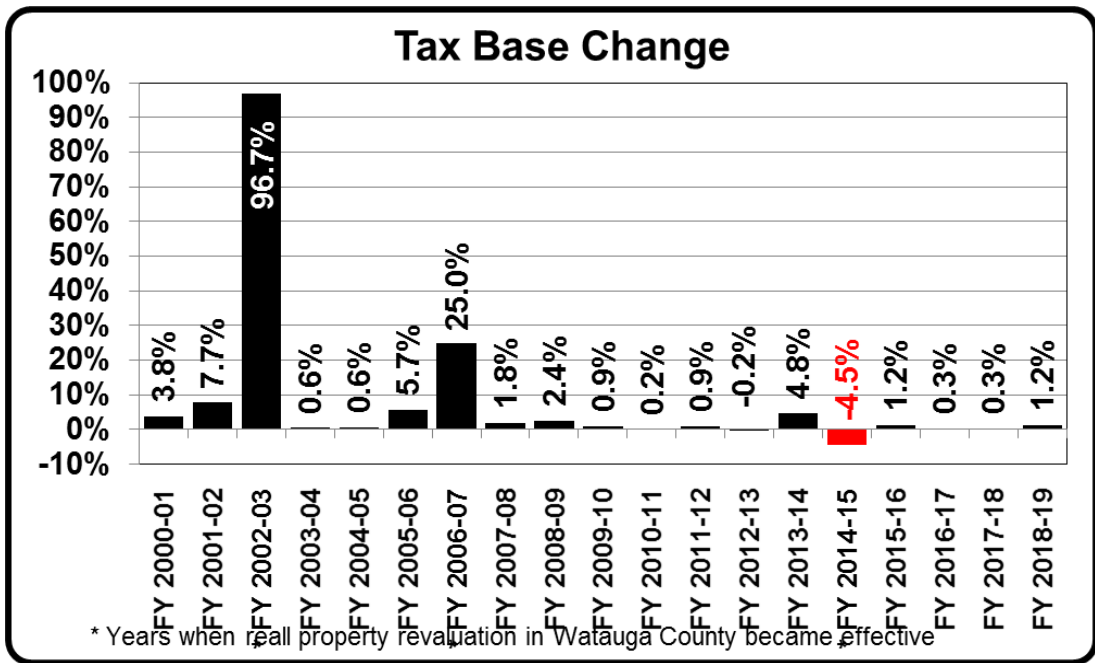
The Town of Blowing Rock is centrally located in the high country and if not “the premier location,” is certainly one of the “premier locations” in North Carolina. It has been known for many years as the “Crown of the Blue Ridge.” The Town prides itself in excellent customer service and will maintain this focus as we plan expenses, providing a quality environment for all Blowing Rock’s citizens and visitors. The Proposed Budget seeks to bolster the Town’s outstanding reputation through investment in infrastructure and staff. Working together, the Town Council and Staff strive to provide transparent, pertinent information regarding the Town’s financial policies, laid out through the budget document. This Proposed Budget document 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. As we continue to implement the voter’s desires approved in the referenda, we continue to be faced with critical decisions regarding levels of investment in both our capital infrastructure, and especially in our human capital, our most valuable resource. We must be thoughtful and strategic in our approach to ensure we maintain our strong financial position while addressing aging infrastructure. Additionally, we need to be able to attract and retain excellent employees who are responsible for delivering our vital services we count on every day.

The FY2018-19 Proposed Budget totals \$13.7 million for all Town operations, capital improvements, and debt service requirements. This is a decrease of \$816,244 compared to last year’s adopted budget of \$14.52 million. The Proposed Budget reflects a tax rate of 38.0 cents (an increase of 1.0 cent or 2.7% above the adopted rate of 37.0 cents for FY17-18), proposes changes to water and sewer fees, with an increase of \$0.50 per month in both water and sewer base fees, and \$0.25 cents increase in the per thousand-gallon rate for all gallons consumed greater than 5,000 per billing period (an increase of 4.35%). The tax and utility rate increases are necessary to help pay for 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 HWY 321 maintenance, many stone/rock infrastructure repairs throughout Town, staff increase in the police department to provide an School Resource Officer to Blowing Rock Elementary School, as well as continued full-time funding to help ensure our Fire Department can respond to the growing number of calls for service.

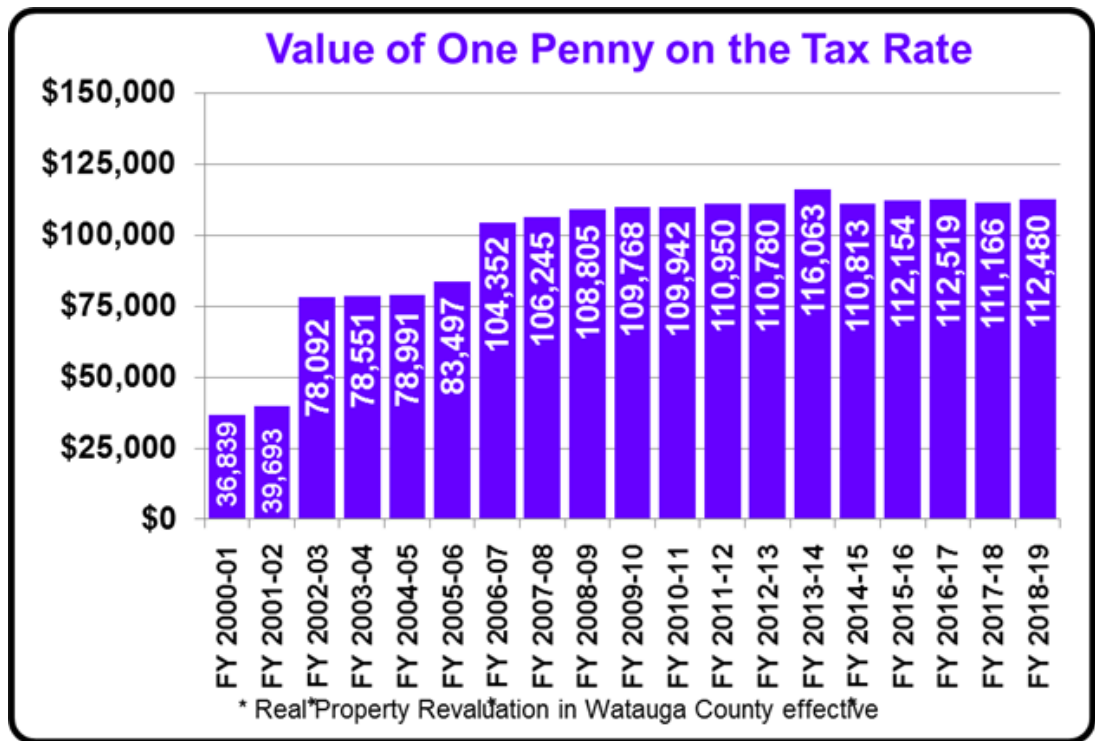
MAJOR ISSUES IMPACTING BUDGET DEVELOPMENT

Tax Base Growth Minimal

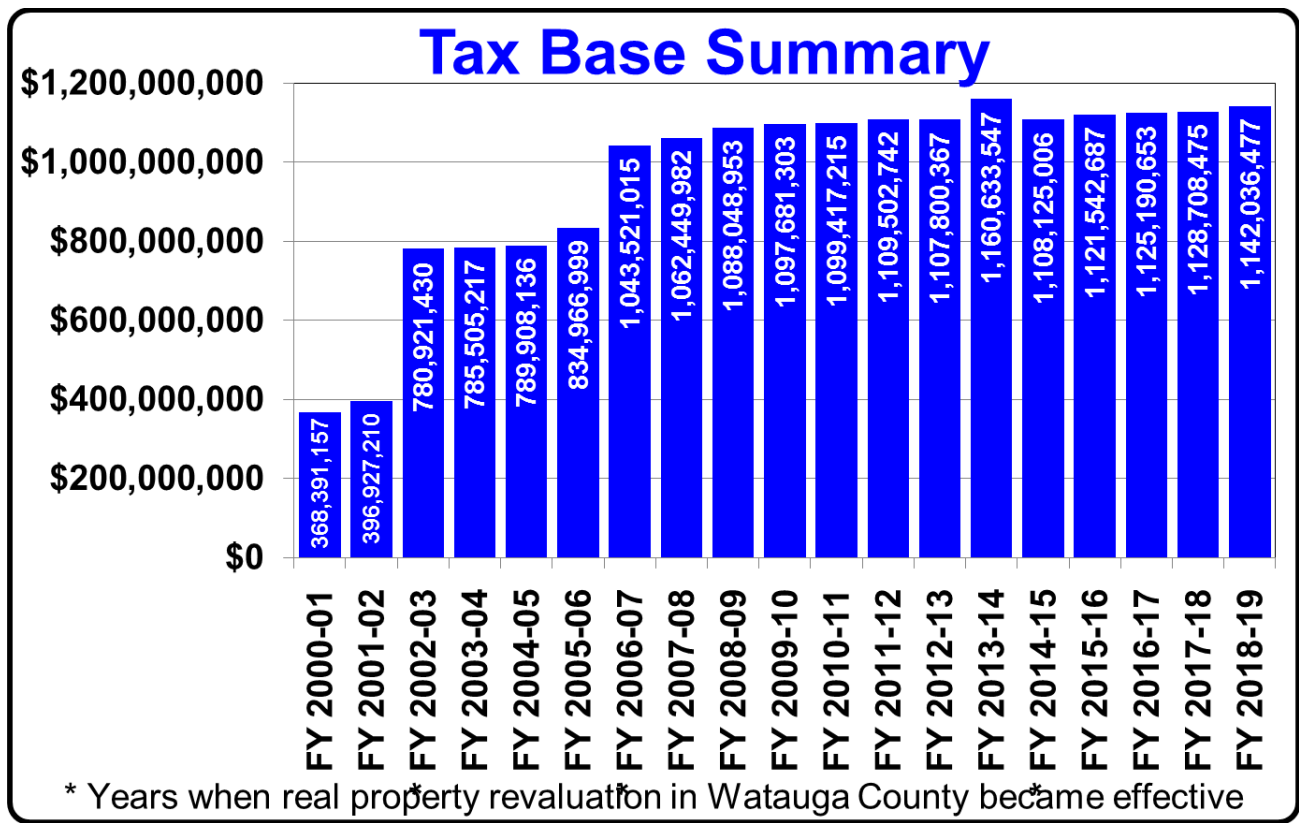
The FY18-19 ad valorem tax base is projected to grow as some projects are underway and others are being planned. The current total value assessment increased by about \$14 million over the assessed value for FY17-18 of \$1.128 billion, increasing to approximately \$1.142 billion dollars. If proposed private development projects move forward, there is at least opportunity for an increase in tax base. The Town of Blowing Rock has seen an average annual growth rate in its tax base of 0.72% since the property revaluation that took effect in FY07-08. The most recent tax revaluation in FY14-15 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 FY02-03.



The proposed FY18-19 tax rate is \$0.38 per \$100 of taxable property, is expected to generate an estimated tax levy of \$4,339,739. One cent on the tax rate equates to \$50 in annual taxes for a home valued at \$500,000. For the Town of Blowing Rock, one cent on the tax rate in FY18-19 is expected to generate \$112,480 after being adjusted for the anticipated collection rates of 98.0% for vehicles and 98.5% for real property. The collection rate projection on vehicles is much better than in the past due to the tag and tax together program implemented by the State. 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.



The total tax base for the Town of Blowing Rock for FY18-19 is estimated to total \$1.142 billion. Approximately \$97.63 million, or 8.5%, of the Town's tax base is in Caldwell County. Reference the graphs below for a tax value summary and the resulting percentage change for the Town of Blowing Rock over time.



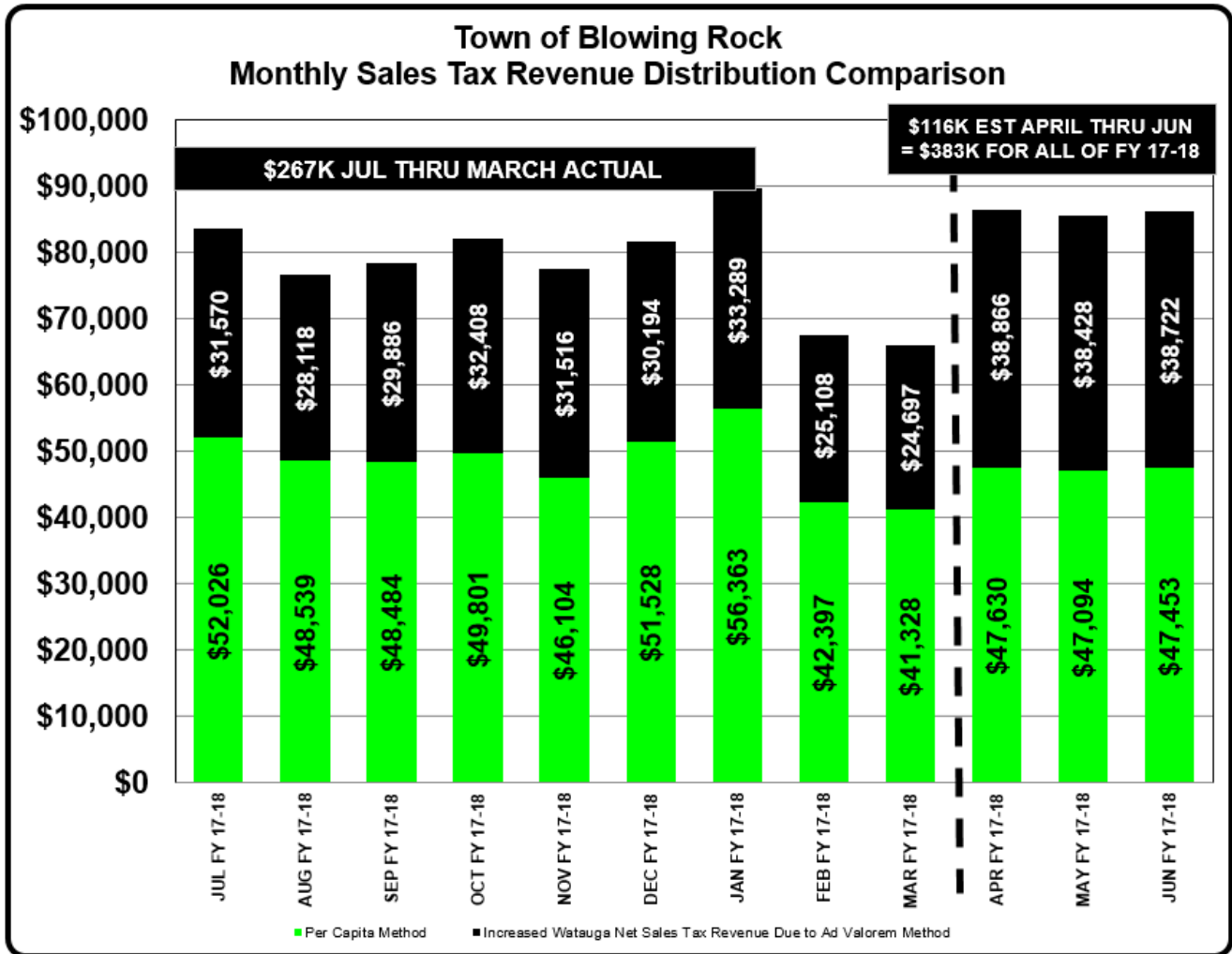
Sales Tax

Projected sales tax revenues totaling \$1.807 million in FY18-19 will make up 22% of all general fund revenues, although the effective percentage is only 11.6% after returning a portion to Watauga County. The Local Option Sales Taxes consists of a one-cent sales tax and two one-half cent sales taxes. In Caldwell and Watauga Counties, sales are subject to a 4.75% State and 2.00% Local rate of tax for a combined rate of 6.75%.

The State of North Carolina collects the local sales taxes and distributes them to the county governments. Sales tax revenues are distributed by one of two methods, 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 five years, impacting revenue distribution in FY13-14, 14-15, 15-16, 16-17, 17-18 and now in FY18-19, to make the sales tax distribution method basis, ad valorem. Prior to FY13-14, the distribution method was the per capita method, after being changed from ad valorem to per capita in 1987. With the distribution method changed to ad valorem in FY13-14, an agreement between the County and some towns was reached and continues to be the agreed upon method of distribution. It required the Towns of Blowing Rock, Seven Devils, and Beech Mountain to appropriate moneys to Watauga County equal to 60% of the higher revenues received compared to the former per capita method during the first four years of the change. For FY17-18 and FY18-19, Watauga County has asked for a larger share of the increase to hold them harmless. The same three municipalities have agreed to return 70% of the increase over the per capita method to Watauga County. The Town of Blowing Rock expects to see an increase in the amount they have received over the past four years due to higher sales tax collection even after agreeing to send back a larger portion, and considerably more than they received over the per capita distribution method. The Town expects to receive approximately \$364,052 in FY18-19 over the per capita method. With the ad valorem distribution method, still in place for FY18-19, the Town expects to receive approximately \$654,823 more in FY18-19 than was received in FY11-12. 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 FY17-18. Similar projections have been built into the FY18-19 budget forecasts estimating a conservative growth rate in revenues of 4%. This growth rate is lower than suggested by fiscal analysts in the Office of State Budget and Management and with the North Carolina League of Municipalities which suggests growth of 4.5%. These incremental sales tax revenues were not incorporated into ongoing operating cost commitments in FY16-17 and prior years,

and a similar approach has been taken in budget development for FY18-19, earmarking the funds for one-time operating expenses and capital projects only.



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

A pressing expenditure for the Town of Blowing Rock, in the coming years relates to the development of a Capital Improvements Plan (CIP). The Town’s engineering firm, McGill Associates, assisted the Town Staff in the development of a ten-year Capital Improvements Plan (CIP) during FY13-14. The CIP identified a variety of improvements throughout the Town including public facilities, parks and recreation, roads, sidewalks, roadside ditches, and water and sewer lines and plants. 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 2015-16 budget development cycle, the Town Council approved the general approach of executing the bond projects in three major phases as summarized in the following table:

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

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

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

Per this plan, the first set of capital project appropriations were approved with the adoption of the FY15-16 budget and the tax rate was increased two cents to pay for the anticipated debt service increases expected beginning in FY15-16. As the borrowing process began, it became clear that due to the extent of the North Carolina Local Government Commission approval and bond rating processes involved, there was no strategic advantage to borrow funds in late 2015-16 and to have a debt service payment in FY15-16 since construction on most 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 FY16-17. 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. In FY16-17 the adopted budget included an additional one cent associated with the bond. This proposed FY18-19 budget includes an additional one cent, again associated with the bond.

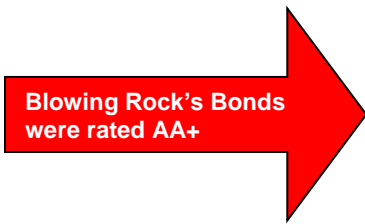
The anticipated tax increases shown in the table above were calculated assuming an interest rate of 5%. During the borrowing process, the Town of Blowing Rock general obligation bonds were rated by Standard and Poor's as AA+. The rationale for this very positive rating per Standard & Poor's is included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



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

- PHASE II Bond Allocations
- Transportation – \$1.628 million
- Parks and Recreation – \$0.129 million
- Water – \$0.543 million
- Sewer – \$0.00 million

The level of investment and pace at which Council decides to pursue the remaining one or 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 implementation of the Town commissioned "Classification and Pay Study" completed in 2014. This study helped document and bring current all our position descriptions and position responsibilities. From that information, the consultants examined the labor market to assess how our starting salary level for each position measured up. It is important that our pay and benefit packages be and remain 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, and as much as 25% behind in some job descriptions. In the FY14-15, FY15-16, FY16-17, and FY17-18 budgets we implemented changes to close this gap in four years. This budget year is the first past the full implementation of the Pay and Classification study. This has a direct and positive impact on our current labor force as well as those we must attract to fill vacancies in the future. Our human capital resources are the most important asset we have, and we must work hard to shrink the market gap that currently exists.

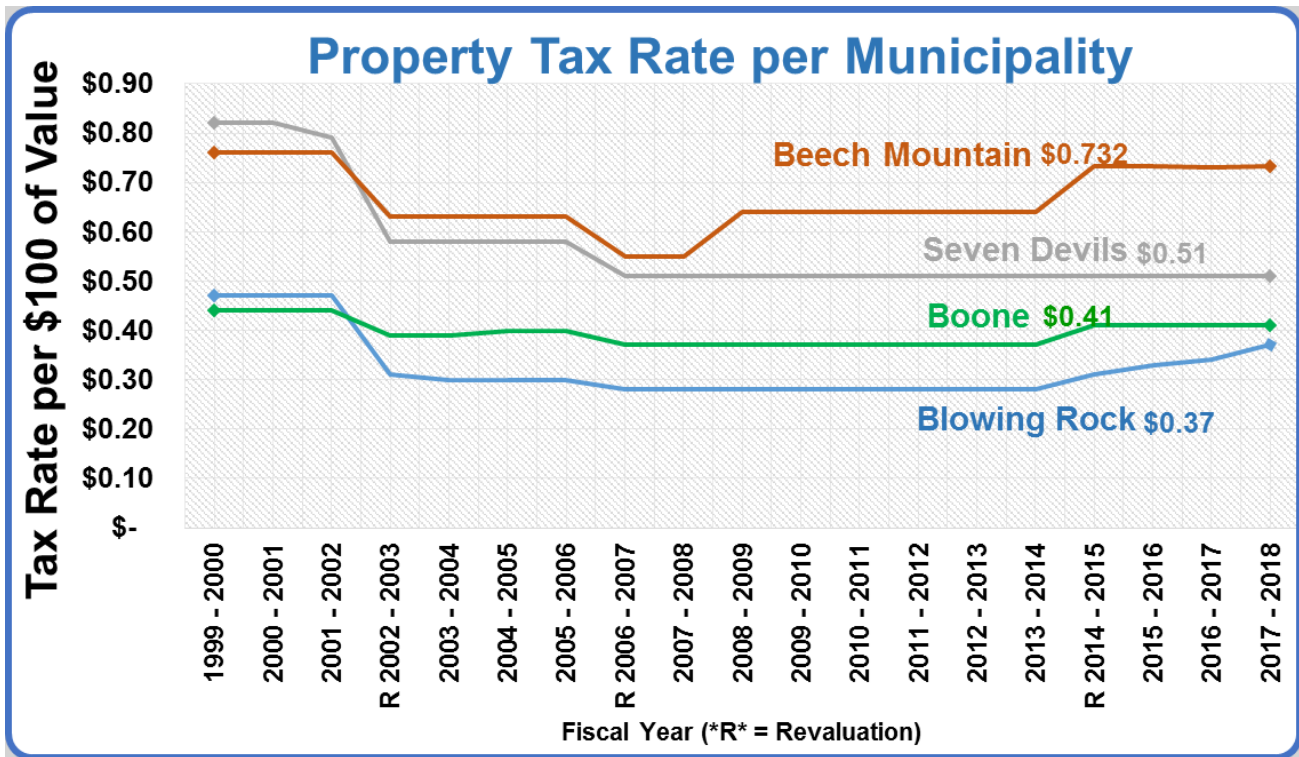
Debt Service

Bringing on debt to fund assets has always been a great way to better match the utility of costly items with the 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 FY15-16 and FY16-17 Adopted Budget and FY18-19 Proposed 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 having taken place in February 2016 and the second issuance having occurred in May 2018, we continue to work on projects as planned and allocated in the FY16-17 and FY17-18 and now in the FY18-19 Proposed Capital budget. Annual Capital equipment replacements and needs are planned to be funded through debt service as well.

Tax Rate Comparisons

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

The Town of Blowing Rock has the lowest property tax rate of the four municipalities in Watauga County. In addition to the municipalities in the County, Watauga County has a tax rate of \$0.353 per \$100 valuation. The taxable property in Blowing Rock has seen an average growth of 0.72% since FY07-08. This low level of growth does not provide very much additional tax base upon which to leverage our existing revenue mechanisms so that we can continue providing service levels expected by our community.



Challenges to Revenue Options

North Carolina General Statute Chapter 159, Article 3, requires all local governments to operate under a balanced budget ordinance adopted and administered in accordance with the Local Government Budget and Fiscal Control Act. The 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 FY15-16, 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 (except licenses and permits would still be allowed for beer and wine sales). This revenue source for the Town of Blowing Rock typically averaged about \$16,000 per year and peaked at nearly \$22,000 in FY 2011-12. 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 was for vehicle license fees. As part of its budget passed in 2015, all cities and towns could charge a \$30 municipal vehicle tax beginning July 1, 2016. The change meant that all municipalities were treated the same regarding the vehicle tax that they can charge. Current law allows cities and towns to charge a \$5 tax, while almost all cities that operate transit systems can charge an additional \$5. Local legislation passed over the years had allowed several other municipalities to charge vehicle taxes of up to \$30, but the additional authority was not applied uniformly. The budget provision (Sec. 29.27 A, pages 365-66) requires that amounts charged above the two uniform \$5 taxes already imposed by cities go toward city street maintenance and construction. The Town Council of Blowing Rock looked at this option in prior years and discussed the option for prior proposed budgets, but decided they did not want to impose this option.

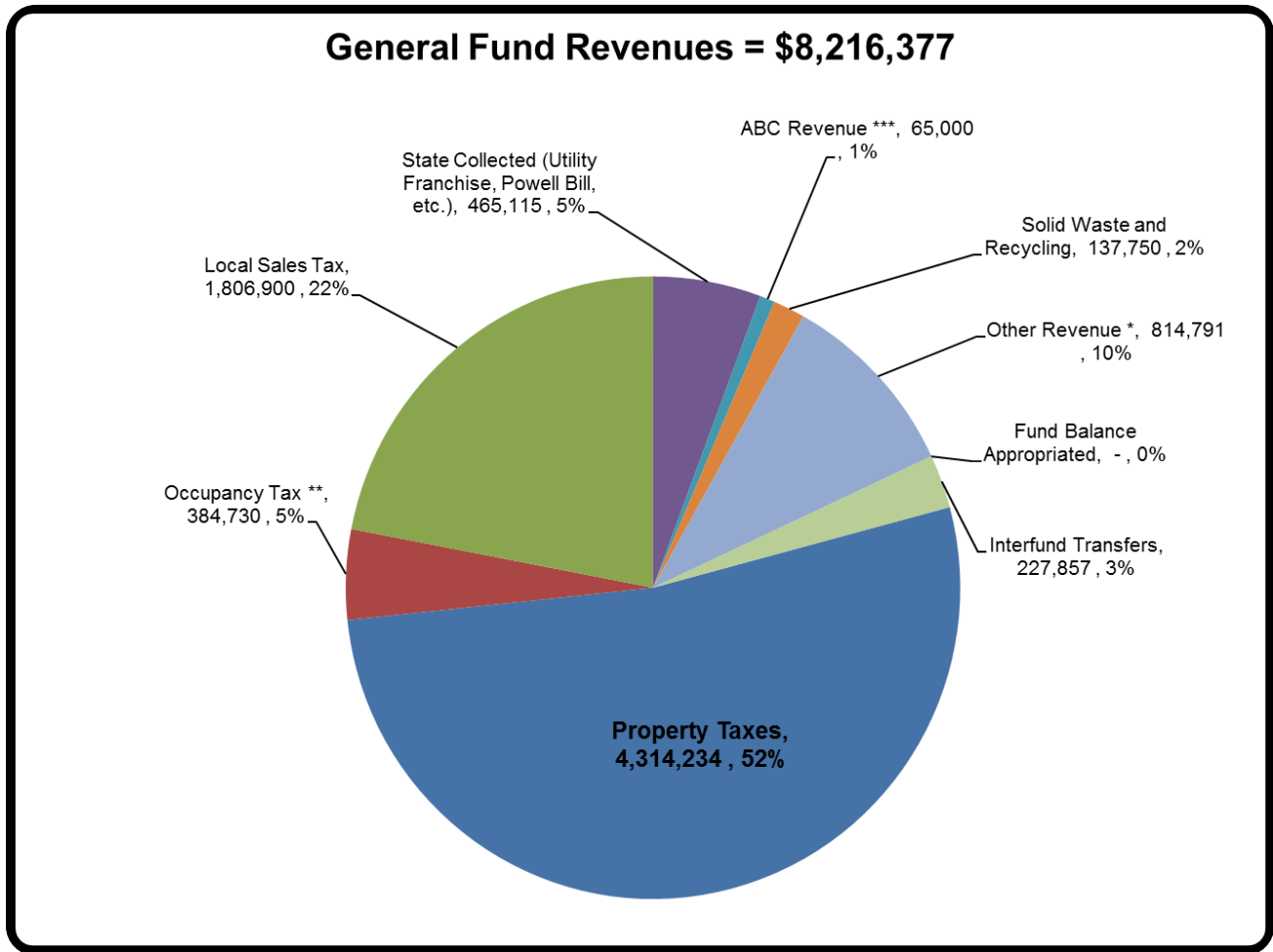
A final major recommendation addresses the Town of Blowing Rock’s property tax rate. A municipality may levy property taxes at a rate not to exceed \$1.50 for each \$100 of appraised value. The Proposed Budget includes a property tax rate of

38.0 cents per \$100 of property valuation. Each penny increase on the property tax rate produces approximately \$112,480 after adjusting for predicted collection rates. At this level, property tax revenue is expected to generate a total of \$4.274 million or 52.5% of total general fund revenues.

FUNDS OF THE BUDGET

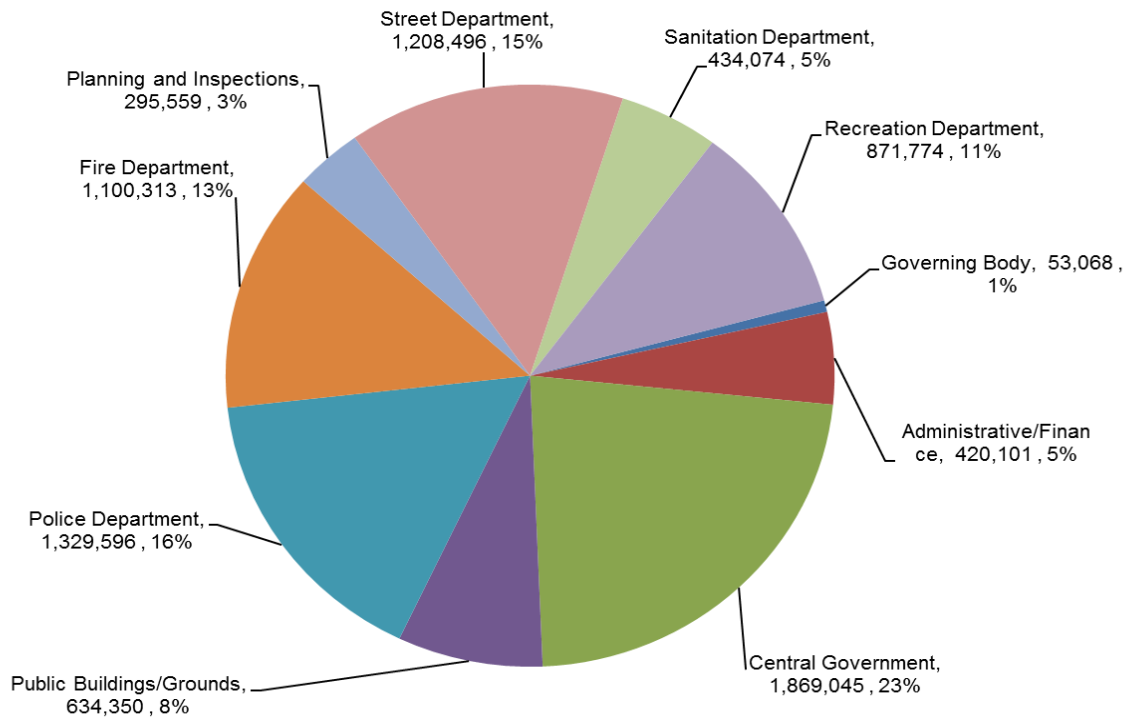
General Fund

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 38.0 cents per \$100 of property valuation. This rate will provide approximately \$4.274 million in real and personal property tax revenues based on a real and personal property collection rate of 98.5% and a vehicle property tax collection rate of 98.00%. The 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 proposed spending breakdown by department for FY18-19:

General Fund Departmental Expenditures = \$8,216,377



The FY18-19 Proposed Budget for the General Fund revenues total \$8,216,377. The primary areas of revenue increase are in property tax due to a proposed increase of one cent on the tax rate to 38 cents per \$100 of taxable value along with sales tax and State collected local revenues. Budgeted revenues are expected to increase 2.6 % over the adopted FY17-18 levels.

The FY18-19 Proposed Budget for the General Fund expenditures includes similar increases. This difference is attributable to a variety of factors including full implementation of the Class and Pay Study and additional full-time funding for a police officer serving as a School Resource Officer.

BRAAC Fund

The Blowing Rock Appearance Advisory Commission Fund contains activities to initiate, promote and assist in the implementation of general community beautification in the Town. The Commission also coordinates the Spring and Fall Planting Days and is the chief sponsor of the annual Town Clean-up Day. This group is also assisting in the Town's efforts and evaluation of a possible gateway project. The FY18-19 Proposed Budget for the BRAAC Fund totals \$25,150. 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.

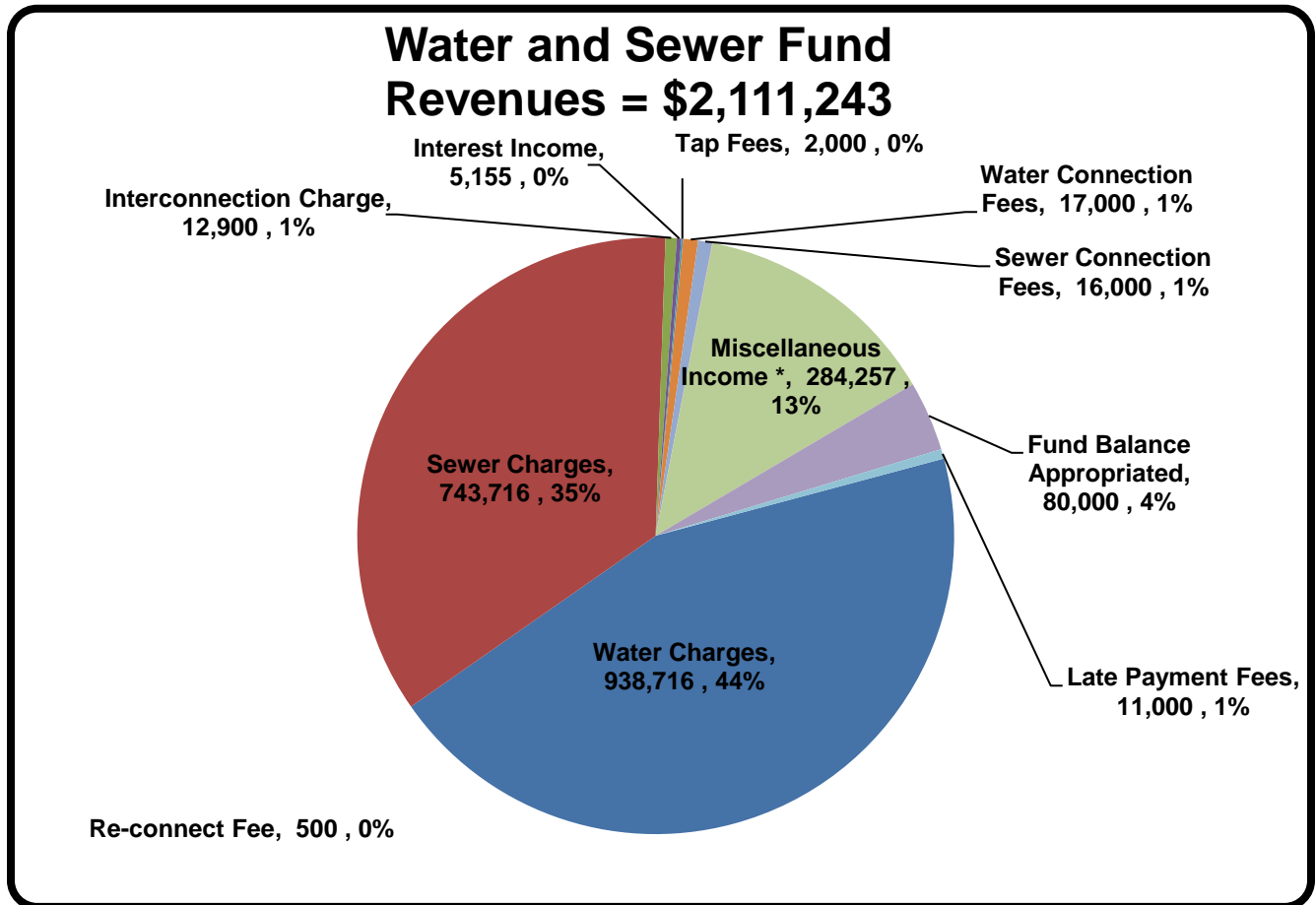
Most BRAAC Fund expenditures are appropriated to "Flowers/Landscaping" efforts totaling about half of their Proposed Budget. This year's Proposed Budget level is virtually the same as the FY17-18 budget, due largely to the annual contract that BRAAC initially funded in FY15-16 to maintain the Legacy 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 received verbal approval from all the property owners through this area that they were willing to provide a maintenance easement to the Town for this purpose.

Water and Sewer Fund

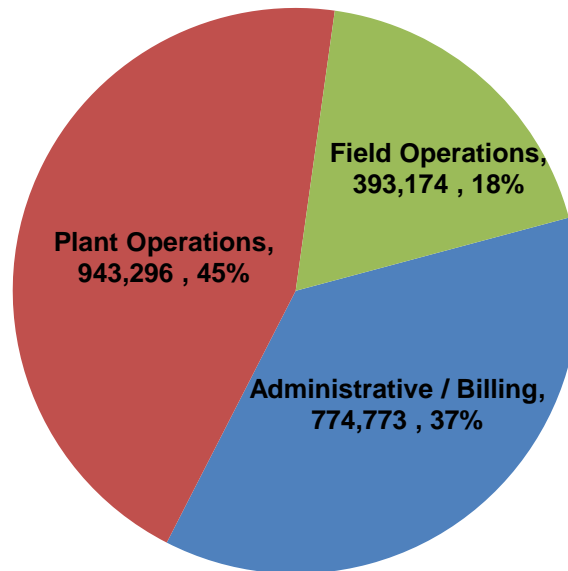
The Water and Sewer Fund contains all water production, water distribution, wastewater collection and wastewater treatment activities of the Town. Water and sewer revenues come from rates and fees. This fund is self-supporting. The FY18-19 Adopted Budget includes a minimum water and sewer base rate adjustment of \$1.00 per billing cycle (Bi-monthly) for both the water and sewer base fee and 25 cents increase in the per thousand-gallon fee to help offset increasing operating and capital costs.

The FY18-19 Proposed Budget for the Water and Sewer Fund totals \$2,111,243. This is a \$385,497 decrease from the FY17-18 Adopted Budget of \$2,496,740. The decrease is due largely to not including revenue and expenses in the proposed budget year for Automated Meter Infrastructure.

Graphs below outline the Revenue and Expenditures for the Water and Sewer Funds.



Water and Sewer Fund Departmental Expenditures = \$2,111,243



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 FY17-18 property tax rate was \$0.37 per \$100 of valuation. On a \$500,000 home, the total annual Town of Blowing Rock property taxes due would be \$1,850.00. The \$.38 proposed rate for FY18-19 would make the same property tax \$1,900.

The FY18-19 Proposed Budget includes an increase of one cent for a total tax rate of \$0.38 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 \$4.274 million in FY18-19 after adjusting for a 98% collection rate on personal property and 98.5% collection rate on real property. In North Carolina, the property tax is the only significant source of revenue that the State allows local governments to control.

Sales and Services

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

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

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

State-Collected Local Taxes

State-Collected Local Taxes are distributed by the State to the Town based on the actual receipts from the providers of these services and commodities within the Town limits. These revenue sources are expected to total \$465K in FY18-19 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 FY18-19, there are six statewide revenues received by the Town whose estimates depend on economic forces: Utility Franchise Tax, Telecommunications Sales Tax, Beer and Wine Tax, Solid Waste Disposal, Powell Bill, and Video Programming Tax (formerly Cablevision TV Franchise Tax).

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

Each town’s utility franchise tax is based on actual receipts from electric service only within the municipal boundaries. The distribution method for the electricity sales tax, along with that of the sales tax on piped natural gas, changed in FY14-15 because of the tax reform legislation passed during the General Assembly session. The general sales tax rate is now applied to the sales of electricity, and 44 percent of the proceeds from the sales tax will be returned to cities and towns. It is important to note that if total tax collections next year (and any year in the future) exceed the total necessary to provide every municipality the same amount that they received in quarterly distributions for FY13-14, that revenue will be distributed statewide on an ad valorem basis. Beginning in FY15-16, the Town of Blowing Rock experienced strong growth in this revenue source and accordingly, revenues from this source are expected to total \$366,165, or about 61.2% higher than the level budgeted in FY15-16. These revenues are highly sensitive to the weather. Mild winters, cool summers, and any significant rate increases, or decreases can cause these receipts to change.

Annual statewide growth in telecommunications revenues is expected to continue its decline which is mainly attributable to loss of landline purchases, as more customers transition to using cell phones only. The budget proposes this revenue to drop approximately \$1,000 to \$32,900.

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 FY12-13, beer and wine sale revenues decreased. The NCLM expects this decrease to level out and the projection for FY18-19 is the same as FY17-18. 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. The NCLM expects Video Programming revenue to increase slightly.

Sales Taxes

Effective July 1, 2013, (FY 2013-14) Watauga County changed the distribution method of sales tax revenues from per capita to ad valorem. As part of this change, the Town of Blowing Rock agreed to transfer 60% of the revenue increase over what would have been received under the per capita method back to Watauga County. Due to continued ad valorem distribution, the Town of Blowing Rock is budgeting the additional revenue in FY18-19 toward one-time expenses. FY18-19 sees a change to the formula and Blowing Rock will now be required to return 70%. It is uncertain how long this method will remain or how long the County will require the 70% transfer of revenues. We are anticipating an additional \$364,052 in net revenue to the Town in FY18-19 over and above the typical per capita distribution amount.

In addition to the change in distribution method, the NCLM is projecting a 4.5% increase in local sales taxes state-wide for FY18-19. They caution municipalities to consider the impacts of local construction on these revenues. Sales tax revenues under the per capita approach are budgeted for FY18-19 at \$593k, and the additional \$364K has been largely allocated to one-time operating costs and capital projects in the FY18-19 Proposed Budget. The table below summarizes the differential net sales tax revenue received the last two years and the anticipated amounts for FY16-17 and FY18-19.

Fiscal Year	Per Capita Revenue	Net Increase Due to Watauga Ad Valorem Method	Total
FY 14-15 Actual	484,054	351,789	835,843
FY 15-16 Actual	522,985	396,634	919,619
FY 16-17 Actual	551,658	434,438	986,096
FY 17-18 Estimate Thru Jan	537,524	350,130	887,654
FY 18-19 Budget	593,226	364,135	957,360
Five Year Totals	2,689,446	1,897,125	4,586,572

Projected Increase of 70.5 Percent Over Five Years

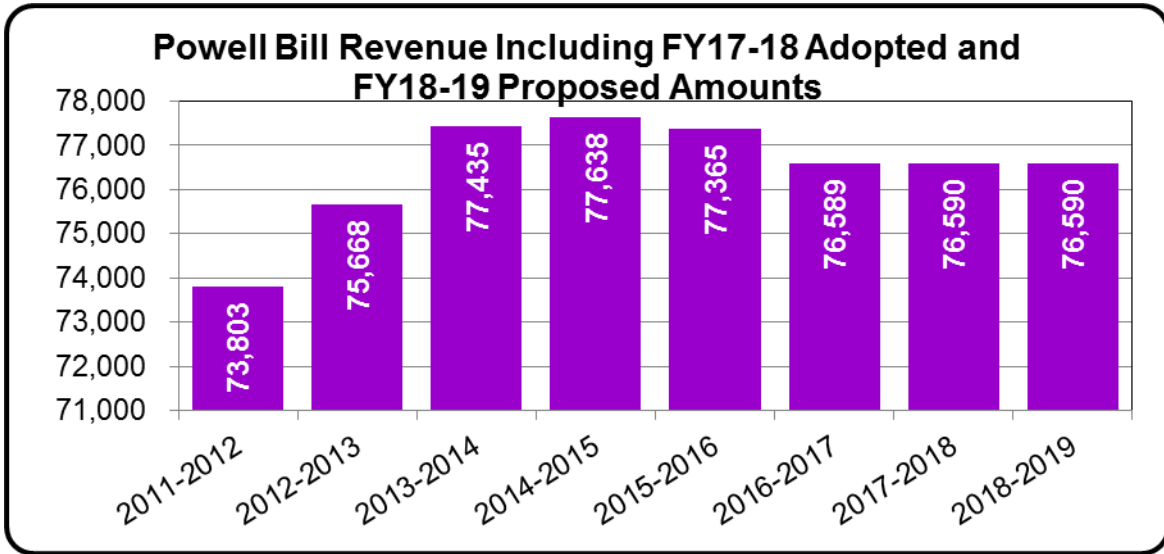
Hotel/Motel Occupancy Tax

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 \$384,730 in funding for the Town in FY18-19 to use in support of the various tourism-related operations of the Town. This revenue source is projected to be slightly higher than the estimated levels for FY17-18. Market analysts are predicting a slight slowdown in tourism revenues after several years of increases. Any proceeds over and above these budget expectations can be recognized and appropriated during the fiscal year or in the subsequent year.

Powell Bill

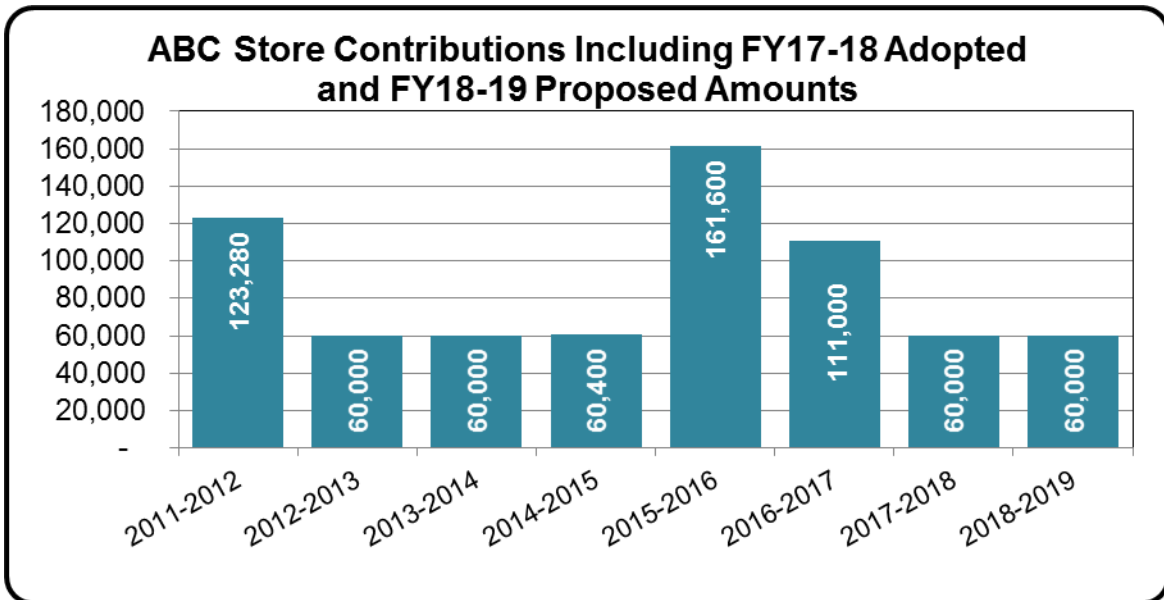
The use of these funds is restricted to maintaining, repairing, constructing, reconstructing or widening any public street or thoroughfare within the Town limits that is not State-maintained. Bridges, drainage, curb and gutter, sidewalks and other necessary appurtenances are also approved uses of these 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 FY18 -19 Powell Bill distribution is \$19.74 per person. The remaining 25 percent of the Powell Bill distribution is allocated based on the number of city-maintained street system miles in each municipality. The projected value of the mileage-based allocation for the FY18-19 Powell Bill distribution is \$1,613 per street mile. The Powell Bill distribution is anticipated to remain relatively consistent with FY18-19 actual revenues of approximately \$76.6K. In the FY15-16 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 FY17-18, staff is confident there will be enough similar qualifying expenditures for FY18-19.



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 FY18-19 reflects an annual funding amount for distribution to the Town of \$60K. 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 once again been budgeted at a low level due to current market conditions. In addition, FY14-15 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 FY11-12.

EXPENDITURES BY FUNCTION

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

This function accounts for \$2,342,214 or 28% of the total General Fund budget.

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

- Transfer to Capital Projects including \$71,674 of TDA revenue to support the new Town Gateway development program and \$10K of TDA revenue to support development of the Middle Fork Greenway section along the Chestnut Ridge property in Blowing Rock, and support of Memorial Park enhancements of \$33k
- \$123K transfer to Capital Projects of net sales tax revenue proceeds to support improvements on Park Avenue
- Insurance Premiums - General Liability & Workers Compensation
- Payment to Watauga County of 70% of the Ad Valorem vs. Per Capita sales tax proceeds.
- Technology Infrastructure support including continued public Wi-Fi and other IT support
- Community Library Support - \$2,000

General Government (Public Buildings & Grounds)

This function accounts for \$634,350 or 8% of the total General Fund budget.

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

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

Public Safety (Police & Fire)

This function accounts for \$2,429,909 million or 29% of the total General Fund budget.

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

- Funds to provide a School Resource Officer
- Continued funding of costs associated with consolidated dispatch with Watauga County (\$178K)
- Replacement funding for two Police Vehicles
- Increased funding for Part-time Parking Enforcement
- Two dual-band radios, two new MDT in car computers, and two radar units.
- Two new electronic, mobile speed enforcement and recording devices capable of remote monitoring
- DARE program Support
- Crimestoppers Support

Transportation (Public Works – Streets)

This function accounts for \$1,208,496 or 15% of the total General Fund budget.

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

- Equipment and tools necessary for the Fleet Mechanic
- Continued funding for contracted Right of Way Clearing, Tree and Leaf Removal, etc.
- Continued funding for Master Signage Plan (via TDA)
- Additional funding for increased street lighting on the US321 Bypass. The Blue Ridge Electric Membership Cooperative Board approved the rates for LED lighting at their Board meeting on April 28, 2016. (\$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 \$434,074 or 5% of the total General Fund budget.

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

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

Planning and Inspections

This function accounts for \$295,599 or 3% of the total General Fund budget.

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

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

Culture and Recreation (Parks/Recreation & Landscape)

This function accounts for \$871,774K or 11% of the total General Fund budget.

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

- Continued funding for Part-time Staff for Downtown Litter Pick-up and Memorial Park Attendants
- Continued funding for Landscaping/Beautification (partially via TDA)
- The Town will be responsible for maintaining the landscaping along the Valley Boulevard project. The NCDOT is preparing a Landmark Landscape Plan which the Town has already previewed. The project is tentatively scheduled to start in late fall 2018 and be complete in the spring of 2019.

Environmental Protection – Water/Sewer Fund

This function accounts for \$2,113,876 or 100% of the Water/Sewer Fund.

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

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

Culture and Recreation – BRAAC Fund

This function accounts for \$25,150 or 100% of the Blowing Rock Appearance Advisory Commission Fund.

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

- Funding to support Landscaping/Beautification of public property
- Downtown Hanging Baskets/Planters
- Town Clean-up Day and Planting Day (Spring and Fall)
- Funding of landscaping/maintenance at Legacy Garden

EXPENDITURES BY CATEGORY

Expenditure levels have increased in recent years to invest in our people that provide great customer service every day as well as some of our capital infrastructure that has needed attention. Debt service has increased to help pay for 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 67 full-time equivalent positions, inclusive of five additional positions added in FY17-18 in Fire, several part-time positions including some part-time funding for the Fire Department, and other seasonal workers including summer camp counselors and life guards. The FY18-19 Proposed Budget for Personnel Expenditures includes one new position: 1) a Police Officer position to serve as a School Resource Officer (SRO).

The total personnel cost in the Proposed Budget is \$4,744,782 or 45.8% of the total operating budget. The FY17-18 Adopted Budget for Personnel Expenditures was \$4,466,567 or 44.4% of the total budget.

Highlights include:

The Proposed Budget includes an allocation for a minimum of a 2.1% cost of living adjustment (2.1% COLA) 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, FY18-19 contribution rate increased 0.25% to 7.75% for this fiscal year. Health insurance costs are anticipated to increase beginning in January 2019, but the actual rate of increase will not be known until the fall of 2018.

The Proposed Budget includes funding of the Town 401/K supplement at 5.0% of salaries for all personnel to go toward the N.C. 401K Supplemental Retirement System. This level of funding for 401/K plans helps to keep the Town competitive with other towns and cities. All sworn law enforcement personnel have received a 5.0% supplement per state statute requirement.

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

Operating Expenses

Operating expenditures include all costs other than personnel, capital outlay and debt service. Fluctuations in energy and fuel costs, increased service demands, and state funding requirements directly affect other operational expenditures. The FY18-19 Proposed Budget for Operating Expenditures is \$3,223,892 or 31.1% of the total operating budget.

Highlights include:

Continued funding of costs associated with consolidated dispatch with Watauga County, funded at \$178K. Operating expenses also includes \$849K for payment to Watauga County for 70% of the anticipated incremental sales tax proceeds associated with the ad valorem distribution methodology vs. the per capita approach.

Operating Capital Outlay

Operating Capital Outlay expenditures are for the purchase of machinery, equipment, and other items that are too permanent to be considered expendable at the time of purchase, have a value greater than \$5,000, and have a life expectancy of at least one year. The FY18-19 Proposed Budget for Operating Capital Outlay expenses including transfers, for both the General Fund and Water/Sewer Fund, total \$126,997 or 7% of the total budget. The FY17-18 Adopted Operating Budget for Operating Capital Outlay expenses, for the General Fund and Water/Sewer Fund, totaled \$1,465,387 or 13.9% of the operating budget.

A detailed list of capital purchases for FY18-19 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 FY18-19 Proposed Budget for debt service expenses, for both the General Fund and Water/Sewer Fund, total \$1,659,732 or 16% of the total operating budget. The FY17-18 Adopted Budget for debt service expenses, for the General Fund and Water/Sewer Fund, totaled \$1,373,232 or 13% of the total budget.

Comprehensive Plan Initiatives and Long-Term Capital Planning

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

- *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 is a challenge, because simply stated, they are projections. The future continues to look bright for the recovery we are experiencing. However, we must always remember projections are not definite and there is always an element of risk. We minimize that risk to the best of our ability by monitoring closely the past and trends for the future. Due to our size and constrained geographic borders, the Town of Blowing Rock will not likely grow its way into significant increased revenues, even if the economy were to come roaring back. It is more apparent that we must continue to make high value choices that focus on our people and on our infrastructure if we are to care for and protect this wonderful community in the way that it has come to expect and deserve.

The General Assembly is continuously examining various changes to statewide laws and local government authority is sometimes impacted. Legislation continues to be debated in each session, and the uncertainty of the outcome sometimes disturbing. During recent NC General Assembly sessions, there have been a variety of bills introduced that might have impacted, and might still impact, the level of sales tax revenues that Blowing Rock receives. Monitoring will be required. This Proposed Budget assumes no change for the upcoming fiscal year, but instead relies on a portion of the revenue stream for one-time operating or capital project funding. We must continue to work with the North Carolina League of Municipalities to help monitor potential threats such as this that might take away Council's ability to ensure the Town of Blowing Rock is cared for properly, given whatever circumstances may be.

CLOSING

This Proposed Budget for FY18-19 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 several important decisions regarding the Town of Blowing Rock's organizational, fiscal, and infrastructure investments to be assessed this year and in the next several years to come. Some of the major highlights include:

- Capital Improvements Budget Plan (CIP)
 - Continued Implementation of the voter approved General Obligation Bond Referendum
 - Technology Infrastructure
 - Water/Sewer Line Expansion/Improvements
- Tax Base Growth through development and redevelopment
- Execution of grants (e.g. Sidewalk to Bass Lake awarded in March 2016)
- Water/Sewer Rate Structure & Changes
- Adding a Police Officer (School Resource Officer) at the local Blowing Rock Elementary School

This Proposed Budget document reflects my recommendations based on analysis, study, and meetings with staff and Council. This budget seeks to establish reliable and effective funding levels 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,

Ed Evans

Ed Evans
Town Manager