



# Town of Blowing Rock

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

June 9, 2009

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

I am pleased to provide you a copy of the FY 2009-2010 Annual Budget and Budget Ordinance (#2009-04). This document was prepared by Town Staff and represents a comprehensive publication of the Town's plans and policies for the upcoming fiscal year.

The Adopted FY 2009-2010 Budget was presented to Town Council on May 12, 2009 and copies were made available to the Town Clerk and the public. The Town Council held Budget Worksessions on the budget on May 19 and 26, 2009. Pursuant to N.C.G.S. 159-12 (b), the Council held a public hearing on the budget on June 9, 2009. The FY 2009-10 Budget was formally adopted on June 9, 2009.

The 2009-2010 Budget Document provides a financial plan for the ensuing fiscal year and has been developed in accordance with the Town Council's Priorities and Action Plan established in our January Retreat and during our Council/Departmental meetings held over the past several months. The key components of these directives from the Town Council and the budgetary principles on which this document is based are:

- Basic Town services are continued with funding at adequate levels.
- Revenue projections are estimated at realistic, conservative levels.
- Continued funding of the 5-year Capital Improvements Program, including funding of the Parks/Recreation & Landscape Master Plan, the Water/Sewer Capital Improvements Plan, the Storm Water Master Plan and the Downtown Retail Strategy.
- Continued focus on comprehensive planning efforts.
- Conformance with the adopted Town of Blowing Rock Comprehensive Financial Policy.

The Adopted FY 2009-2010 Budget totals \$6,378,025 for all Town operations, capital improvements, and debt service requirements. This is an increase of only \$1,085 over last year's adopted budget of \$6,376,940. In recognition of the difficult and challenging economic conditions present, the Budget contains no increase in taxes, fees or other charges.

On behalf of all Town coworkers, I thank you for your continued guidance and support of our efforts to meet your priorities in the delivery of quality and efficient services to the citizens of Blowing Rock.

Sincerely,

Scott E. Hildebran  
Town Manager

Attachments

## FUNDS OF THE ADOPTED BUDGET

### General Fund

The General Fund contains all governmental services that do not generate sufficient revenue to support their activities (Police, Emergency Services, Recreation, Public Works, Administration, Planning/Inspections, etc.). The General Fund is balanced with no increase in the current property tax rate of \$0.280 per \$100 valuation. This rate will provide approximately \$2,907,400 in current year property tax revenues based on an expected collection rate of 97.5%.

The Town's tax base is split between two counties – Watauga and Caldwell. Watauga County represents approximately 94.37% of the total property tax base. Caldwell County accounts for the remaining 5.63%. The total property tax base (excluding motor vehicles) is estimated to be \$1,064,981,350, which is higher than FY 2008-2009 budget base of \$1,050,346,650, and is based on information from the Watauga and Caldwell County Tax Offices. A penny on the tax rate is projected to generate approximately \$106,500 in revenue. The Town's property tax base is estimated to be approximately 85% residential and 15% commercial.

The FY 2009-2010 Budget for the General Fund totals \$4,861,775 or 0.005% more than the FY 2008-2009 Budget of \$4,836,060.

### Water and Sewer Fund

The Water and Sewer Fund contains all water production, water distribution, wastewater collection and wastewater treatment activities of the Town. This fund is self-supporting. The Water and Sewer Fund is balanced with no increase in current rates.

The FY 2009-2010 Budget for the Water and Sewer Fund totals \$1,516,250. This is a 1.60% decrease over the FY 2008-2009 Budget of \$1,540,880.

### Capital Reserve Project Funds

The Capital Reserve Project Funds (General and Water/Sewer) exist as a tool to help in the financial planning of future large-expense capital projects. In recent years, Town Council has adopted a number of financial policies related to increasing the amount of money contributed to these Funds. In the FY 2009-2010 Budget, the General Fund and Water and Sewer Fund will both continue to make financial contributions to the Capital Reserve Project Funds. The amount appropriated from the General Fund will be \$290,000 and Water and Sewer Fund will be \$126,000.

The total contribution to the Capital Reserve Projects Funds for FY 2009-2010 is \$416,000, or approximately 6.52% of the Total Budget. This allocation is more than the \$367,200, or 5.75% appropriated in the FY 2008-2009 Budget.

## FISCAL OUTLOOK

Estimating revenues continues to be a challenge. Several factors include:

1. **Economy** – The U.S. economy continues to struggles this year, as recessionary conditions worsened in the second half of 2008. With decline in construction, manufacturing, and the financial services industries, unemployment has grown. Lower energy prices and tax cuts did not outweigh consumer spending declines. The outlook shows some improvement in later 2009 or early 2010. Even then, most economists see a protracted recovery.
2. **The State Legislature** – The State's current FY 2008-2009 budget revenue estimates are running \$3.2 billion below budget. In order to balance the state budget and cover this shortfall, N.C. Governor Beverly Perdue has had to take unprecedented action in the past months – including implementation of a flexible furlough program for all state employees;

requiring budget reversions of 7% from all state agencies; curtailing purchases; freezing vacant positions; deferring capital expenditures; tapping into the state's Savings Reserve Account; utilizing American Recovery & Reinvestment Act (ARRA) dollars; and suspending state travel.

In FY 2009-10, the State, even with utilizing ARRA funds, faces in excess of a \$2.0 billion shortfall to meet their new budget. As always, we must continue to monitor the situation, as the state's budget problems could trickle down to the local level.

Therefore, once again, revenue estimation for the upcoming fiscal year has been a challenge.

## **SOURCES OF REVENUE**

### **Ad Valorem Tax (Property Tax)**

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 FY 2009-2010 property tax rate maintains the current tax rate of \$0.280 per \$100 of valuation. On a \$600,000 home, the total annual Town of Blowing Rock property taxes due would be \$1,680.00.

Although all property in Blowing Rock is appraised at the market value standard as of the effective date of the most recent countywide reappraisal (Caldwell or Watauga) of personal property, the North Carolina General Assembly has enacted several exclusions that may reduce or eliminate an owner's tax liability.

**Homestead Exclusion:** A major exclusion is the Homestead Exclusion (formally known as the Elderly and Disabled Exclusion). The major qualifications for a resident include an age of 65 years or older or a total and permanent disability as of January 1. In addition, for the calendar year 2008, the owner's total income (individual or husband and wife) cannot exceed \$25,600 for the year preceding the year in which the exclusion is claimed. Those who qualify for the exclusion can receive the greater of \$25,000 or 50% of the value of their residence reduced from their tax bill. The annual income limit changes on a yearly basis.

**Circuit Breaker:** A "circuit breaker" provision to expand preferential tax treatment for senior citizens became effective January 1, 2009. This provision is a tax deferral program for North Carolina residents who meet all of the qualifications for the Homestead Exclusion plus they have lived in their current residence for at least five years and the property has been in the same name for the prior five years. Although current recipients of the Homestead Exclusion may choose this option, it may not be as beneficial to them as the exclusion they already receive. It is primarily intended for those seniors whose income exceeds the limit for the Homestead Exclusion. For the 2009 tax year, the income limit for this program will be \$38,400. (Income greater than \$38,400 does not qualify for either program).

**Disabled Veterans:** Beginning in 2009, qualifying veterans or their widowed spouses may receive a reduction of up to \$45,000 in assessed value. The new provision expands the qualifications for the exclusion and increases the amount excluded from taxation.

Due to the complexities of many of the exclusion programs, all interested persons should contact their respective County Tax Office for more detailed information.

Total Ad Valorem tax revenues (including current and prior years, motor vehicles, and penalties/interest) are projected to be \$2,982,300 in FY 2009-2010. 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 Planning Department budget is supported by revenue generated from zoning and building inspection fees. Property tax revenue and other General Fund revenue support a portion of the Planning Department's budget. Some services which produce "Sales and Service" revenue include:

- Commercial Solid Waste/Recycling Fees
- Parks and Recreation Department Fees (Pool, Day Camp, Program Registration Fees, etc.)
- Cemetery Fees
- Zoning/Building Inspection Fees
- Water/Sewer Charges

This source of revenue will provide approximately \$316,450 in revenue for next fiscal year to the General Fund. Water and sewer related charges (and interest) are estimated to total \$1,516,250 in FY 2009-2010.

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**

In FY 2009-2010, there are five statewide revenues received by the Town whose estimates depend on economic forces: Utility Franchise Tax, Telecommunications Sales Tax, Beer and Wine Tax, Solid Waste Tax and the Video Programming Tax (formerly Cablevision TV Franchise Tax).

The assumptions for the utility franchise, telecommunications sales tax, and the beer and wine taxes anticipate only nominal growth over the prior year largely due to the numerous changes in the revenue formulas in recent years and the sensitivity to which these revenues respond to weather and market forces.

Currently, each town's utility franchise tax is based on actual receipts from electric service only within the municipal boundaries. The League of Municipalities anticipates statewide growth in the 0.5-1.0% range. However, they note that these revenues are highly sensitive to the weather. Mild winters, cool summers, and any significant rate increases or decreases can cause these receipts to change.

Due to a higher tax rate that took effect in April 2008, annual statewide growth in telecommunications revenues is expected in the 5.0-6.0% range.

Beer and Wine taxes are distributed statewide based on local government population, and with a state proposed additional 5% surcharge tax on alcohol, this revenue is estimated to remain flat.

Effective January 1, 2007, state legislation eliminated local cable franchise fee revenue. Local video programming revenue replaced the lost revenue, and due to limited historical data, is estimated at only a modest increase from FY 2008-09 estimated revenues.

State-Collected Local Taxes are collected by the State and are distributed to the Town based on the actual receipts from the providers of these services and commodities within the Town limits.

This revenue source is expected to be \$233,800 for FY 2009-2010. These are strictly General Fund revenues.

#### **Sales Taxes**

The Local Option Sales Taxes consist of a one-cent sales tax and three one-half cent sales taxes. In Caldwell and Watauga Counties, sales are subject to a 4.5% State and 2.25% Local rate of tax for a combined rate of 6.75%. The State of North Carolina collects the sales taxes and distributes them to the local units. Sales tax revenues are distributed on a proportional population basis to municipalities in Watauga County and Caldwell County as opposed to proportional local government ad valorem levies.

According to fiscal analysts in the Office of State Budget and Management and the General Assembly, retail sales in North Carolina are not projected to increase in FY 2009-2010.

Due to the decline in construction, manufacturing, and financial services industries in North Carolina, sales tax revenues are projected to be \$393,950 in FY 2009-2010. Sales taxes are strictly General Fund revenue.

#### **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%. The TDA has approved \$310,010 in funding for the Town in FY 2009-2010 to use in support of the various tourism-related operations of the Town. Additionally, the TDA will compensate the Town with \$17,675 for handling the administration and collection of the occupancy tax.

#### **Powell Bill Street Allocation**

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. Due to a major decline in vehicle purchases and decreased demand for gasoline, the Powell Bill distribution is anticipated to be down over 11% from FY 2008-09 levels. This revenue is estimated to be \$75,000 for FY 2009-2010. Powell Bill allocations are strictly General Fund revenue.

#### **ABC Revenue**

These proceeds come from a contribution from the local ABC Board from the sales of alcoholic beverages in Blowing Rock. The revenue is estimated at \$122,500 for FY 2009-2010.

#### **Grants**

At this time, the FY 2009-2010 Budget does not include any grant funding proceeds. However, the Town continues to pursue grant-funding opportunities and will request amendment of the budget as required. Grant applications have been submitted for eligible water, wastewater and transportation projects under the American Recovery and Reinvestment Act of 2009.

Also, the Town will receive a \$300,000 grant from the Appalachian Regional Commission in FY 2009-2010 to assist in funding the emergency water interconnection to the Town of Boone. This grant project is located in the Water/Sewer Capital Projects Fund and not included in Water/Sewer Fund revenues. Additional grant funding was obtained for this project in applications submitted by both Watauga County and the Town of Boone.

#### **Other**

Other miscellaneous revenue includes: privilege licenses, interest income, parking tickets, donations, book sales, park lease, town property rental income, sale of fixed assets, snow

removal reimbursement, etc. I would point out that interest income has fallen approximately 50% from previous years as a result of market conditions.

These funds are expected to be \$181,500 for FY 2009-2010.

#### **Fund Balance**

The FY 2009-2010 Budget appropriates \$100,000 from general fund balance to be specifically designated for street paving.

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

Over the past six years, the Town has worked to increase the overall Undesignated General Fund balance from just under 30% on June 30, 2002 to a projected 55.0% or \$2,170,000 on June 30, 2009.

#### **Capital Projects Transfer In**

These revenues are transferred funds from the General Capital Projects Fund to cover debt service associated with the fire/rescue building and parking facility projects. This revenue source is expected to be \$128,590 for FY 2009-2010.

In summary, the sources of revenue described in this section account for 100% of all revenues budgeted for FY 2009-2010.

### **EXPENDITURES BY FUNCTION – GENERAL FUND**

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

This function accounts for \$819,425 or 16.85% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Copier Lease & Computer Upgrades
- Insurance Premiums – General Liability & Workers Compensation
- Transfer to Capital Projects Fund (\$200,000)
- Community Library Support (\$2,000)

#### **General Government (Public Buildings & Grounds)**

This function accounts for \$722,485 or 14.86% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Continued funding for Public Building Improvements
- Continued funding for Tree Planting Program for public areas (via TDA)
- Continued funding for Christmas Decorations (via TDA)
- Continued funding of debt service for Tiller/Lane Property (via TDA)
- Continued funding of debt service for the Visitor Center (via TDA)
- Continued funding of debt service for the Emergency Services Building
- Continued funding of debt service for the American Legion Parking Facility (via TDA)

#### **Public Safety (Police & Emergency Services)**

This function accounts for \$1,377,600 or 28.33% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Absorb funding for E911 Associated Costs formerly provided by Watauga County
- Initial replacement funding for (2) Police Vehicles
- Funding for a Handheld Parking Citation Unit
- Includes funding for Part-time Parking Enforcement
- Continued funding of debt service for (4) Police Vehicles
- Continued funding for In-car Video Cameras
- Continued funding for part-time Emergency Services Staff
- DARE program Support
- Crimestoppers Support

**Transportation (Public Works – Streets)**

This function accounts for \$980,695 or 20.17% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Funding for major overhaul of Street Sweeper
- Continued funding for contracted Right of Way Clearing, Tree and Leaf Removal, etc.
- Continued funding for Master Signage Plan (via TDA)
- Continued funding of debt service for Pick-up Truck
- Continued funding of debt service for Dump Truck
- Continued funding for Sidewalks (Downtown Streetscape Plan)
- Continued funding for various Storm Water improvements
- Increased funding for Pavement Plan implementation

**Environmental Protection (Public Works – Sanitation/Recycling)**

This function accounts for \$312,200 or 6.42% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Continued funding of debt service for (2) Garbage Trucks

**Economic and Community Development (Planning/Zoning)**

This function accounts for \$230,520 or 4.74% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Includes funding for Part-time Inspection Services
- Continued funding for Land Use Code Review & Downtown Retail Strategy Implementation
- Continued funding for GIS Project

**Culture and Recreation (Parks/Recreation & Landscape)**

This function accounts for \$418,850 or 8.62% of the total General Fund budget.

Major capital projects/improvements/programs are:

- Includes funding for Part-time Staff for Downtown Litter Pick-up
- Continued funding for Parks/Recreation & Landscape Capital Improvement Plan
  - Swimming Pool Improvement Project
- Community Contributions totaling \$6,000
  - Appearance Commission - Plant Material and Fountain Utilities (\$3,000)
  - American Legion (\$3,000) for building use
- Continued funding Landscaping/Beautification (via TDA)
- Funding for maintenance of the Ruritan Building

## **EXPENDITURES BY FUNCTION – WATER/SEWER FUND**

### **Environmental Protection – Water/Sewer Fund**

This function accounts for \$1,516,250 or 100% of the Water/Sewer Fund.

Major capital projects/improvements/programs are:

- Continued funding for debt service for replacement Utility Truck
- Continued funding for debt service for Sewer Jet and Sewer Camera
- Continued funding for debt service for Pick-up Truck
- Continued funding for debt Service for Sewer Bonds
- Funding debt service for Water/Sewer Capital Improvements Projects – Phase One
- Funding of future debt service for Water/Sewer Capital Improvements Projects – Phase Three (Blowing Rock/Boone Water Interconnection)

## **EXPENDITURES BY CATEGORY**

### **Personnel Expenditures**

Personnel expenditures include salaries, FICA, group insurance, retirement, longevity pay, and other miscellaneous benefits for 54.5 full-time equivalent positions, several part-time positions as well as seasonal workers. The FY 2009-2010 Budget for Personnel Expenditures is \$2,824,215 or 44.55% of the total budget. In the FY 2008-2009 Adopted Budget, Personnel Expenditures were \$2,840,505 or 44.54% of the total budget.

Highlights include:

- Due to the current economic climate and a negative Consumer Price Index (0.1 percent – February 2009), the Budget includes no Market/Merit salary adjustments. I suggest that Town Council revisit the matter in the fall of 2009 and determine if economic conditions warrant additional consideration. Furthermore, as an alternative form of compensation, the Budget grants each full-time employee an additional 12-hours of paid leave time during the new FY.
- Health insurance costs will increase 8.9% in FY 2009-10 and an additional 8.9% in FY 2010-2011. Dental insurance costs were unchanged.
- The Budget continues to fund a Town 401K supplement of 2.0% of salary for all general personnel to go toward the N.C. 401K Supplemental Retirement System. Sworn law enforcement personnel receive a 5.0% supplement per state statute requirement.
- The Budget includes continued funding for a part-time parking enforcement position and a part-time building inspection position. A detailed list of all FTE (Full-Time Equivalent) positions by department can be found in the *Authorized Position Allocation Summary* section of the budget document.

### **Operating Expenses**

Operating expenditures include all costs other than personnel, capital outlay and debt service. Many operational expense increases are linked to inflation, so the CPI is used to evaluate proposed increases. Increased energy and fuel costs, increased service demands, and enforcement of regulations directly affect other operational expenditures. The FY 2009-2010 Budget for Operating Expenditures is \$2,199,205 or 34.48% of the total budget. In the FY 2008-2009 Adopted Budget, Operating Expenditures were \$2,177,675 or 34.15% of the total budget. This category also includes transfers to the Capital Reserve Project Funds.

Highlights include:

- Funding for increases in insurance – Property/Casualty/Liability due to additional facilities/equipment and Workers Compensation coverage costs due to loss-ratios.
- Funding for expected higher energy and fuel expenses.
- Continued capital transfers to the General Capital Projects and Water/Sewer Capital Projects Funds.

**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 \$1,000, and have a life expectancy of at least one-year. The FY 2009-2010 Budget for Operating Capital Outlay expenses, for both the General Fund and Water/Sewer Fund, total \$143,050 or 2.24% of the total budget. In the FY 2008-2009 Adopted Budget, Operating Capital Outlay Expenditures were \$172,400 or 2.70% of the total budget.

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

Highlights include:

- A detailed list of capital purchases for FY 2009-2010 can be found in the *Five-Year Capital Improvements Plan* section of the budget document.

**Debt Service**

Debt service requirements for payment of principal and interest on borrowed funds such as bonds (Sewer Bonds) and lease-purchase payments are allocated in this category. The FY 2009-2010 Budget for Debt Service expenses, for both the General Fund and Water/Sewer Fund, total \$1,211,555 or 19.00% of the total budget. In the FY 2008-2009 Adopted Budget, Debt Service expenditures were \$1,186,360 or 18.60% of the total budget.

Highlights include:

- A detailed Amortization Schedule for FY 2009-2010 can be found in the *Debt Payments* section of the budget document.

**Comprehensive Plan Initiatives**

Over the past six years, the Town Council has had a major focus on overall comprehensive planning and its implementation. The FY 2009-2010 Budget maintains this trend and continues to fund the following planning initiatives:

- |   |  |
|---|--|
| - <i>Town Comprehensive Plan</i>                      | - <i>Town Master Signage Plan - TDA funded</i>       |
| - <i>Parks/Recreation &amp; Landscape Master Plan</i> | - <i>Town Pavement Plan</i>                          |
| - <i>Water &amp; Sewer Capital Improvements Plan</i>  | - <i>Town Storm Water Plan</i>                       |
| - <i>Downtown Streetscape Plan</i>                    | - <i>Downtown Retail Market Strategy -TDA funded</i> |

In future budget years, Town Council may have to strongly consider the establishment of a Downtown Municipal Service District Tax to aid in funding specific downtown enhancement initiatives, such as public restrooms, streetscape (sidewalks, landscape, street furniture, etc.), drainage and parking maintenance. As you are aware, many municipalities have utilized such a method to pay for special downtown enhancements not required in other parts of the Town and to provide equity to all taxpayers.

## **CLOSING**

This Budget for FY 2009-2010 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.

In closing, the enclosed budget reflects my recommendations based on departmental meetings, evaluation of existing service needs, and input from the Town Council and citizens over the past year. Though the current economic climate remains difficult, the FY 2009-2010 budget represents a level of funding, which will allow the Town to continue to maintain current service levels while making organizational changes to be cost effective and more efficient. It is important to remember that with any budget, external forces can affect these projections, especially as economic uncertainty remains.

Finally, I would like to take this opportunity to express my sincere appreciation to the staff and the Board for their patience, understanding, and dedicated work on this important policy document.