Discussion Materials

Town of Ranlo, North Carolina

March 23, 2021 - DRAFT

Topics for Discussion

- General Fund Financial Overview and Observations
- Discussion of Capital Project Financing Options / Alternatives
- Overview of USDA Funding Program and Local Government Commission ("LGC") debt issuance projects / requirements.
- Potential Next Steps

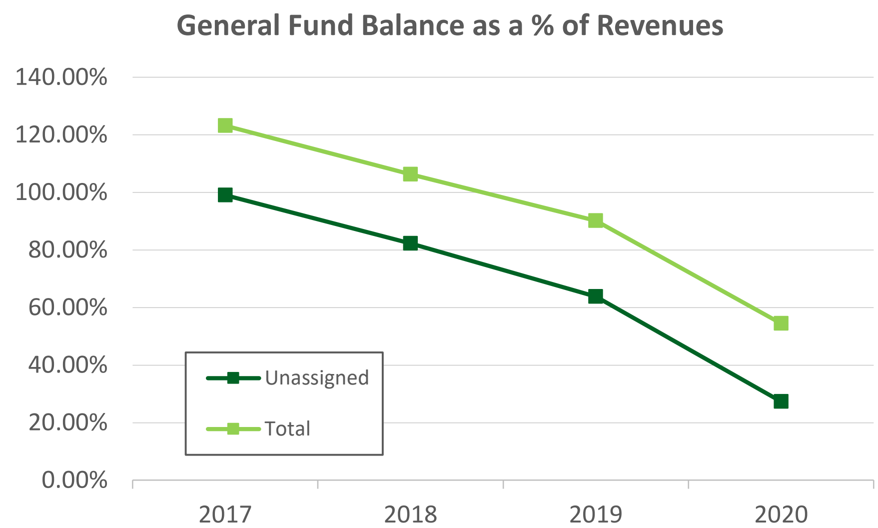
General Fund Financial Overview

General Fund Financial Performance

		2017 Audited	2018 Audited	2019 Audited	2020 Audited
1	**Revenues**				
2	Ad valorem taxes	868,983	892,743	1,018,125	1,143,523
3	Unrestricted intergovernmental	508,282	524,648	566,303	568,880
4	Restricted Intergovernmental	237,329	140,110	113,489	113,750
5	Permits and fees	11,000	13,325	8,150	3,100
6	Sales and services	168,644	187,971	187,875	185,556
7	Investment earnings	6,884	18,756	54,480	34,660
8	Miscellaneous	5,597	60,377	33,588	53,313
9	**Total revenues**	**1,806,719**	**1,837,929**	**1,982,010**	**2,102,783**
10					
11	**Expenditures (Net of Capital Outlay)**				
12	General Government	298,130	299,992	515,109	382,969
13	Public Safety	548,112	654,698	701,390	868,288
14	Public Works	180,381	232,376	298,215	333,647
15	Sanitation	95,505	110,338	159,093	412,492
16	Street Maintenance	94,620	128,063	104,678	137,978
17	Parks and Recreation	32,805	96,619	94,532	92,101
18	Debt Service	49,641	195,870	-	-
19	**Total expenditures**	**1,299,194**	**1,717,956**	**1,873,017**	**2,227,475**
20					
21	**Revenues over (under) expenditures**	**507,525**	**119,973**	**108,993**	**(124,692)**
22					
23	**Other Sources (Uses)**				
24	Capital Outlay	(413,596)	(475,259)	(275,618)	(517,040)
25	Loan Proceeds	240,000	83,944	-	-
26	Transfers in	-	-	-	-
27	Transfers out	-	-	-	-
28	**Total other sources (uses)**	**(173,596)**	**(391,315)**	**(275,618)**	**(517,040)**
29					
30	**Change in Fund Balance**	**333,928**	**(271,342)**	**(166,624)**	**(641,732)**
31					
32	**Fund Balance Ending**	**2,225,846**	**1,954,504**	**1,787,880**	**1,146,148**

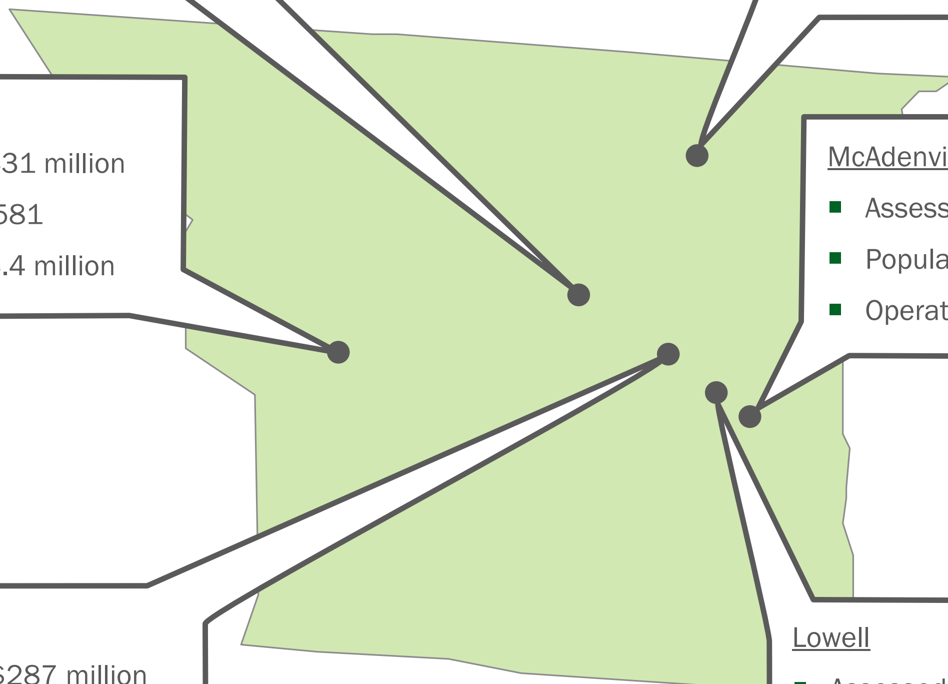
Note: Totals may not foot due to rounding

General Fund Financial Performance



		2017	2018	2019	2020
1	General Fund Budget				
2	Revenues	1,806,719	1,837,929	1,982,010	2,102,783
3	Expenditures	1,299,194	1,717,956	1,873,017	2,227,475
4					
5	General Fund Balance				
6	Nonspendable	-	-	-	-
7	Restricted - Other	286,460	315,519	356,589	402,143
8	Restricted - Stabilization by State Statute	148,807	126,054	165,509	168,376
9	Committed	-	-	-	-
10	Assigned	-	-	-	-
11	Unassigned	1,790,579	1,512,931	1,265,782	575,629
12	Total	2,225,846	1,954,504	1,787,880	1,146,148
13					
14	General Fund Balance Ratios				
15	Unassigned as a % of Revenues	99.11%	82.32%	63.86%	27.37%
16	Unassigned as a % of Expenditures	137.82%	88.07%	67.58%	25.84%
17	Total General Fund Balance as a % of Revenues	123.20%	106.34%	90.21%	54.51%
18	Total General Fund Balance as a % of Expenditures	171.33%	113.77%	95.45%	51.46%

Gaston County Peers



Dallas
- Assessed Value: $299 million
- Population: 4,945
- Operating Revenues: $2.9 million

Stanley
- Assessed Value: $335 million
- Population: 3,818
- Operating Revenues: $3.3 million

Bessemer City
- Assessed Value: $431 million
- Population: 5,581
- Operating Revenues: $4.4 million

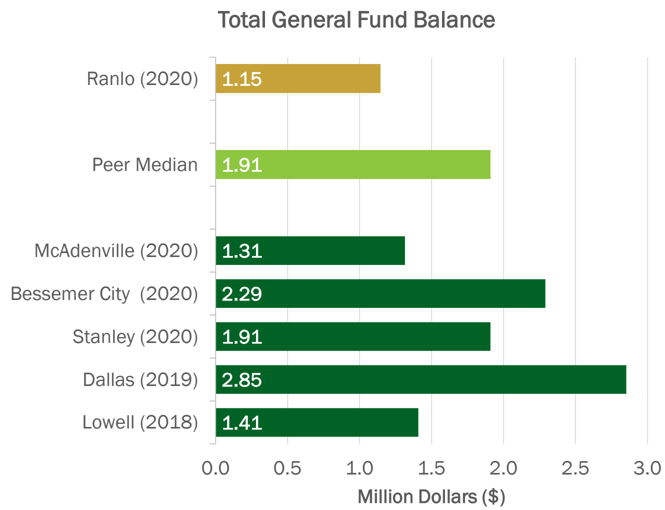
McAdenville
- Assessed Value: $151 million
- Population: 706
- Operating Revenues: $1.0 million

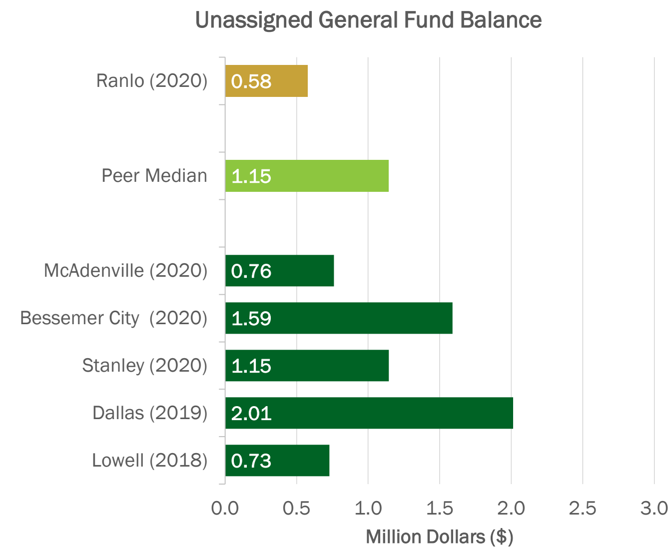
Ranlo
- Assessed Value: $287 million
- Population: 3,607
- Operating Revenues: $2.1 million

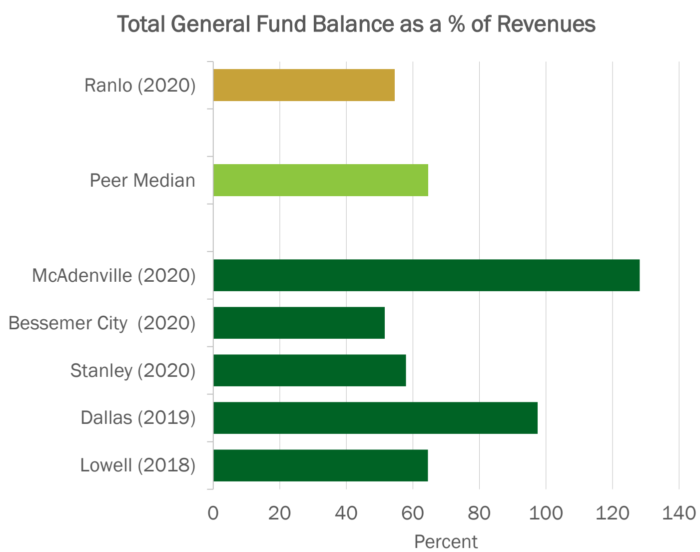
Lowell
- Assessed Value: $279 million
- Population: 3,850
- Operating Revenues: $2.2 million

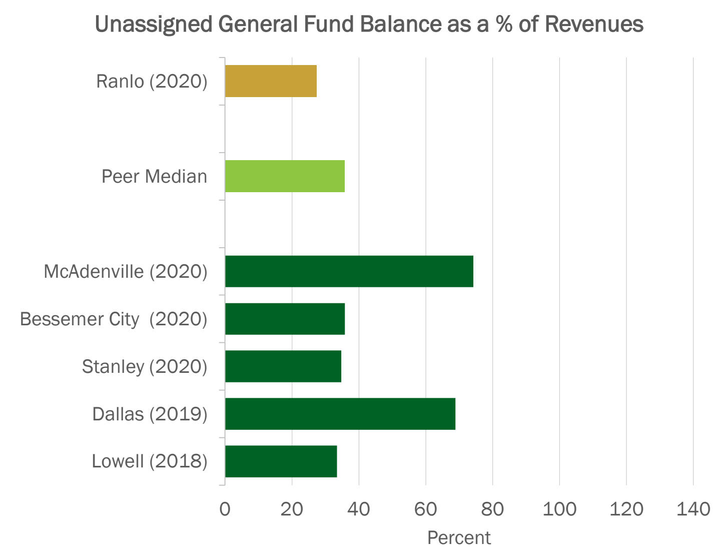
Source: Locality Audits, North Carolina Office of State Budget and Management

Peer Comparatives – Gaston County









Source: Locality Audits

Observations

- Since 2017, General Fund Revenues have grown at an average rate of 5.5% while General Fund Expenditures have grown at an average rate of 23.8%.
  - In 2017 The Town had an operating surplus of over $500,000. The subsequent increases in operating expenditures have resulted in smaller operating surpluses and most recently an operating deficit in FY 2020.
  - During this same time period, the Town has invested over $1.65 million in Capital Outlay.

- The Town's Total fund balance has reduced form approximately $2.2 million to $1.15 million with unassigned fund balance representing $575,00 in FY 2020.
  - Unassigned Fund Balance as % of revenues has reduced from ~100% of annual revenue in FY 2017 to 27% of annual revenues in FY 2020.

- Based on these trends, the Town's Fund Balance levels (both $ amount and % of budget) are generally below many of its peer communities.

- In the summer of 2020, the Town completed the Financial Audit process for all completed Fiscal Years which will assist in more informed budgeting and financial planning efforts.

Overview of Financing Options

Credit Options

- When accessing the capital markets, the Town has a number of credit options with which it can issue debt:
  - General Obligation Bonds
    - General Obligation Bonds ("GO Bonds") are secured by a pledge of the taxing power and full faith and credit of the Town.
    - GO Bonds must be approved through a referendum by the majority of voters.
  - Installment Purchase Contracts / Limited Obligation Bonds / Certificates of Participation
    - Installment Purchase Contracts / Limited Obligation Bonds / Certificates of Participation are subject to annual appropriation by the Town and are secured by the pledge of an asset.
  - Revenue Bonds
    - Revenue Bonds are secured by a pledge on a specific revenue stream of the Town (i.e. Water and Sewer Revenues).
    - Revenue Bonds typically involve certain financial covenants such as maintaining a minimum Debt Service Coverage and/or liquidity position.
  - Special Obligation Bonds
    - Special Obligation Bonds are secured by a pledge of any available source or sources of revenues, to the extent the generation of the revenues does not constitute a pledge of the Town's taxing power.
    - Potential sources of pledged revenue may include: Sales and Use Tax, Franchise Tax, Tipping Fees, Solid Waste Collection Fees, or Other Non-Tax Revenues Sources.

Issuance Options – Governmental Projects

Issuance Approach	Potential Advantages	Potential Disadvantages
Direct Bank Loan	– Streamlined financing process. – Lower Cost of Issuance. – Flexible Prepayment Terms. – Interest Rate established at beginning of financing process.	– Limitations on borrowing amount, term and structure (level principal). – Typically higher interest rates, subject to market conditions.
Public Sale	– Flexible terms of borrowing (amount and term). – Typically lower interest rates, subject to market conditions.	– Higher cost of issuance. – Ratings / insurance generally required. – More stringent financing requirements / documentation – Interest Rate established late in the financing process. – Limited structuring flexibility (level principal).
USDA Community Facilities Program	– Longer term amortization (30-40 years). – Level Annual Payments – Low / subsidized interest rates. – Maximum Interest rate established upon approval and can be reduced at project completion. – Potential grant funding / loan forgiveness.	– Limited monies available. – Must meet minimum eligibility qualifications. – Limited structuring flexibility. – Detailed application requirements can result in longer process. – Requires a construction loan. – May Require a Debt Service Reserve Fund.

Financing Options Comparison – Sample $1 Million Financing

A	B	C	D	E	F	G	H	I	J	K	L
Traditional Capital Markets (Bank Loan/Public Sale) 3.75% Interest Rate with 20-year Term					USDA Loan 2.75% Interest Rate with 2-year Interim Financing and 30-Year Term					Differential	
Year	Principal	Interest	Total	Equivalent FY 20 Tax Rate	Year	Principal	Interest	Total	Equivalent FY 20 Tax Rate	Total	Equivalent FY 20 Tax Rate
Total	$ 1,000,000	$ 393,750	$ 1,393,750		Total	$ 1,000,000	$ 536,533	$ 1,536,533		$ (142,783)	
1	50,000	37,500	87,500	3.1¢	1	-	27,500	27,500	1.0¢	60,000	2.1¢
2	50,000	35,625	85,625	3.0¢	2	-	27,500	27,500	1.0¢	58,125	2.0¢
3	50,000	33,750	83,750	2.9¢	3	21,884	27,500	49,384	1.7¢	34,366	1.2¢
4	50,000	31,875	81,875	2.9¢	4	22,486	26,898	49,384	1.7¢	32,491	1.1¢
5	50,000	30,000	80,000	2.8¢	5	23,105	26,280	49,384	1.7¢	30,616	1.1¢
6	50,000	28,125	78,125	2.8¢	6	23,740	25,644	49,384	1.7¢	28,741	1.0¢
7	50,000	26,250	76,250	2.7¢	7	24,393	24,992	49,384	1.7¢	26,866	0.9¢
8	50,000	24,375	74,375	2.6¢	8	25,064	24,321	49,384	1.7¢	24,991	0.9¢
9	50,000	22,500	72,500	2.6¢	9	25,753	23,632	49,384	1.7¢	23,116	0.8¢
10	50,000	20,625	70,625	2.5¢	10	26,461	22,923	49,384	1.7¢	21,241	0.7¢
11	50,000	18,750	68,750	2.4¢	11	27,189	22,196	49,384	1.7¢	19,366	0.7¢
12	50,000	16,875	66,875	2.4¢	12	27,936	21,448	49,384	1.7¢	17,491	0.6¢
13	50,000	15,000	65,000	2.3¢	13	28,705	20,680	49,384	1.7¢	15,616	0.5¢
14	50,000	13,125	63,125	2.2¢	14	29,494	19,890	49,384	1.7¢	13,741	0.5¢
15	50,000	11,250	61,250	2.2¢	15	30,305	19,079	49,384	1.7¢	11,866	0.4¢
16	50,000	9,375	59,375	2.1¢	16	31,139	18,246	49,384	1.7¢	9,991	0.4¢
17	50,000	7,500	57,500	2.0¢	17	31,995	17,390	49,384	1.7¢	8,116	0.3¢
18	50,000	5,625	55,625	2.0¢	18	32,875	16,510	49,384	1.7¢	6,241	0.2¢
19	50,000	3,750	53,750	1.9¢	19	33,779	15,606	49,384	1.7¢	4,366	0.2¢
20	50,000	1,875	51,875	1.8¢	20	34,708	14,677	49,384	1.7¢	2,491	0.1¢
21					21	35,662	13,722	49,384	1.7¢	(49,384)	-1.7¢
22					22	36,643	12,742	49,384	1.7¢	(49,384)	-1.7¢
23					23	37,651	11,734	49,384	1.7¢	(49,384)	-1.7¢
24					24	38,686	10,698	49,384	1.7¢	(49,384)	-1.7¢
25					25	39,750	9,635	49,384	1.7¢	(49,384)	-1.7¢
26					26	40,843	8,541	49,384	1.7¢	(49,384)	-1.7¢
27					27	41,966	7,418	49,384	1.7¢	(49,384)	-1.7¢
28					28	43,120	6,264	49,384	1.7¢	(49,384)	-1.7¢
29					29	44,306	5,078	49,384	1.7¢	(49,384)	-1.7¢
30					30	45,524	3,860	49,384	1.7¢	(49,384)	-1.7¢
31					31	46,776	2,608	49,384	1.7¢	(49,384)	-1.7¢
32					32	48,063	1,322	49,384	1.7¢	(49,384)	-1.7¢
33					33						
34					34						
35					35						

Note: Preliminary and Subject to change. Assumed 1 Penny generates ~$28,400 based on FY 2020 Audit.

Financing Options Comparison – Sample $5 Million Financing

A	B	C	D	E	F	G	H	I	J	K	L
Traditional Capital Markets (Bank Loan/Public Sale) 3.75% Interest Rate with 20-year Term					USDA Loan 2.75% Interest Rate with 2-year Interim Financing and 30-Year Term					Differential	
Year	Principal	Interest	Total	Equivalent FY 20 Tax Rate	Year	Principal	Interest	Total	Equivalent FY 20 Tax Rate	Total	Equivalent FY 20 Tax Rate
Total	$ 5,000,000	$ 1,968,750	$ 6,968,750		Total	$ 5,000,000	$ 2,682,663	$ 7,682,663		$ (713,913)	
1	250,000	187,500	437,500	15.4¢	1	-	137,500	137,500	4.8¢	300,000	10.6¢
2	250,000	178,125	428,125	15.1¢	2	-	137,500	137,500	4.8¢	290,625	10.2¢
3	250,000	168,750	418,750	14.7¢	3	109,422	137,500	246,922	8.7¢	171,828	6.1¢
4	250,000	159,375	409,375	14.4¢	4	112,431	134,491	246,922	8.7¢	162,453	5.7¢
5	250,000	150,000	400,000	14.1¢	5	115,523	131,399	246,922	8.7¢	153,078	5.4¢
6	250,000	140,625	390,625	13.8¢	6	118,700	128,222	246,922	8.7¢	143,703	5.1¢
7	250,000	131,250	381,250	13.4¢	7	121,964	124,958	246,922	8.7¢	134,328	4.7¢
8	250,000	121,875	371,875	13.1¢	8	125,318	121,604	246,922	8.7¢	124,953	4.4¢
9	250,000	112,500	362,500	12.8¢	9	128,764	118,158	246,922	8.7¢	115,578	4.1¢
10	250,000	103,125	353,125	12.4¢	10	132,305	114,617	246,922	8.7¢	106,203	3.7¢
11	250,000	93,750	343,750	12.1¢	11	135,944	110,978	246,922	8.7¢	96,828	3.4¢
12	250,000	84,375	334,375	11.8¢	12	139,682	107,240	246,922	8.7¢	87,453	3.1¢
13	250,000	75,000	325,000	11.4¢	13	143,524	103,398	246,922	8.7¢	78,078	2.7¢
14	250,000	65,625	315,625	11.1¢	14	147,471	99,452	246,922	8.7¢	68,703	2.4¢
15	250,000	56,250	306,250	10.8¢	15	151,526	95,396	246,922	8.7¢	59,328	2.1¢
16	250,000	46,875	296,875	10.5¢	16	155,693	91,229	246,922	8.7¢	49,953	1.8¢
17	250,000	37,500	287,500	10.1¢	17	159,974	86,948	246,922	8.7¢	40,578	1.4¢
18	250,000	28,125	278,125	9.8¢	18	164,374	82,548	246,922	8.7¢	31,203	1.1¢
19	250,000	18,750	268,750	9.5¢	19	168,894	78,028	246,922	8.7¢	21,828	0.8¢
20	250,000	9,375	259,375	9.1¢	20	173,539	73,383	246,922	8.7¢	12,453	0.4¢
21					21	178,311	68,611	246,922	8.7¢	(246,922)	-8.7¢
22					22	183,214	63,708	246,922	8.7¢	(246,922)	-8.7¢
23					23	188,253	58,669	246,922	8.7¢	(246,922)	-8.7¢
24					24	193,430	53,492	246,922	8.7¢	(246,922)	-8.7¢
25					25	198,749	48,173	246,922	8.7¢	(246,922)	-8.7¢
26					26	204,215	42,707	246,922	8.7¢	(246,922)	-8.7¢
27					27	209,831	37,091	246,922	8.7¢	(246,922)	-8.7¢
28					28	215,601	31,321	246,922	8.7¢	(246,922)	-8.7¢
29					29	221,530	25,392	246,922	8.7¢	(246,922)	-8.7¢
30					30	227,622	19,300	246,922	8.7¢	(246,922)	-8.7¢
31					31	233,882	13,040	246,922	8.7¢	(246,922)	-8.7¢
32					32	240,313	6,609	246,922	8.7¢	(246,922)	-8.7¢
33					33						
34					34						
35					35						

Note: Preliminary and Subject to change. Assumed 1 Penny generates ~$28,400 based on FY 2020 Audit.

Financing Options Comparison – Sample $10 Million Financing

A	B	C	D	E	F	G	H	I	J	K	L
Traditional Capital Markets (Bank Loan/Public Sale) 3.75% Interest Rate with 20-year Term					USDA Loan 2.75% Interest Rate with 2-year Interim Financing and 30-Year Term					Differential	
Year	Principal	Interest	Total	Equivalent FY 20 Tax Rate	Year	Principal	Interest	Total	Equivalent FY 20 Tax Rate	Total	Equivalent FY 20 Tax Rate
Total	$ 10,000,000	$ 3,937,500	$ 13,937,500		Total	$ 10,000,000	$ 5,365,326	$ 15,365,326		$ (1,427,826)	
1	500,000	375,000	875,000	30.8¢	1	-	275,000	275,000	9.7¢	600,000	21.1¢
2	500,000	356,250	856,250	30.1¢	2	-	275,000	275,000	9.7¢	581,250	20.5¢
3	500,000	337,500	837,500	29.5¢	3	218,844	275,000	493,844	17.4¢	343,656	12.1¢
4	500,000	318,750	818,750	28.8¢	4	224,862	268,982	493,844	17.4¢	324,906	11.4¢
5	500,000	300,000	800,000	28.2¢	5	231,046	262,798	493,844	17.4¢	306,156	10.8¢
6	500,000	281,250	781,250	27.5¢	6	237,400	256,444	493,844	17.4¢	287,406	10.1¢
7	500,000	262,500	762,500	26.8¢	7	243,928	249,916	493,844	17.4¢	268,656	9.5¢
8	500,000	243,750	743,750	26.2¢	8	250,636	243,208	493,844	17.4¢	249,906	8.8¢
9	500,000	225,000	725,000	25.5¢	9	257,529	236,315	493,844	17.4¢	231,156	8.1¢
10	500,000	206,250	706,250	24.9¢	10	264,611	229,233	493,844	17.4¢	212,406	7.5¢
11	500,000	187,500	687,500	24.2¢	11	271,888	221,956	493,844	17.4¢	193,656	6.8¢
12	500,000	168,750	668,750	23.5¢	12	279,365	214,480	493,844	17.4¢	174,906	6.2¢
13	500,000	150,000	650,000	22.9¢	13	287,047	206,797	493,844	17.4¢	156,156	5.5¢
14	500,000	131,250	631,250	22.2¢	14	294,941	198,903	493,844	17.4¢	137,406	4.8¢
15	500,000	112,500	612,500	21.6¢	15	303,052	190,792	493,844	17.4¢	118,656	4.2¢
16	500,000	93,750	593,750	20.9¢	16	311,386	182,458	493,844	17.4¢	99,906	3.5¢
17	500,000	75,000	575,000	20.2¢	17	319,949	173,895	493,844	17.4¢	81,156	2.9¢
18	500,000	56,250	556,250	19.6¢	18	328,748	165,097	493,844	17.4¢	62,406	2.2¢
19	500,000	37,500	537,500	18.9¢	19	337,788	156,056	493,844	17.4¢	43,656	1.5¢
20	500,000	18,750	518,750	18.3¢	20	347,077	146,767	493,844	17.4¢	24,906	0.9¢
21					21	356,622	137,222	493,844	17.4¢	(493,844)	-17.4¢
22					22	366,429	127,415	493,844	17.4¢	(493,844)	-17.4¢
23					23	376,506	117,338	493,844	17.4¢	(493,844)	-17.4¢
24					24	386,860	106,985	493,844	17.4¢	(493,844)	-17.4¢
25					25	397,498	96,346	493,844	17.4¢	(493,844)	-17.4¢
26					26	408,430	85,415	493,844	17.4¢	(493,844)	-17.4¢
27					27	419,661	74,183	493,844	17.4¢	(493,844)	-17.4¢
28					28	431,202	62,642	493,844	17.4¢	(493,844)	-17.4¢
29					29	443,060	50,784	493,844	17.4¢	(493,844)	-17.4¢
30					30	455,244	38,600	493,844	17.4¢	(493,844)	-17.4¢
31					31	467,763	26,081	493,844	17.4¢	(493,844)	-17.4¢
32					32	480,627	13,217	493,844	17.4¢	(493,844)	-17.4¢
33					33						
34					34						
35					35						

Note: Preliminary and Subject to change. Assumed 1 Penny generates ~$28,400 based on FY 2020 Audit.

USDA Community Facilities Program

In order to obtain financing under the USDA Community Facilities Program, an applicant must follow a detailed 4-Step Application / Funding Process:

- STEP 1: Eligibility Determination. In order to qualify for the USDA Community Facilities Program, the applicant/project must be able to demonstrate minimum eligibility requirements, including a population less than 20,000 and over half of the population served must be located in an eligible rural area.

- STEP 2: Pre-Application Process. The applicant must provide a number of due diligence items in order to qualify to submit an application for funding, including:
  - Submitting Organizational Documentation for review.
  - Obtaining letters from banks establishing alternative funding options.
  - Third Party Consultant Reports including a Preliminary Architectural Report, Environmental Assessment, Appraisal Report and Financial Feasibility Report backed by an examination opinion from a Certified Public Account.

- STEP 3: Application Submittal. The applicant must submit completed application form along with required consultant reports developed during the Pre- Application Process.

- STEP 4: Closing and Construction. The last phase of application process involves preparation and approval of construction plans, specifications, and the procurement of construction contractor(s) through free and open bidding, construction of the project and closing of the loan.
  - Approval of all bidding documentation, bid award, construction method and contracts proposed by the construction contractor.
  - Interim financing agreement (Construction Loan) must be submitted to USDA for review and concurrence.
  - Maximum interest rate established.
  - Ongoing construction period requirements including requirements during construction, such as daily inspections, payouts, and schedules.
  - Construction Complete and USDA Loan Closed.

Local Government Commission – Debt Management

- The Local Government Commission ("LGC") oversees and approves debt issuance for North Carolina localities and conducts due diligence to ensure that the debt is being taken on in a responsible manner. As part of their approval process, the LGC must find that:
  - The proposed bond issue is necessary or expedient.
  - The amount proposed is adequate and not excessive for the proposed purpose of the issue.
  - The unit's debt management procedures and policies are good, or that reasonable assurances have been given that its debt will henceforth be managed in strict compliance with the law.
  - The increase in taxes, if any, necessary to service the proposed debt will not be excessive.
  - The proposed bonds can be marketed at reasonable rates of interest.

- In order to support these findings, the LGC traditionally requires:
  - Construction bids and major permits in hand approximately 3-4 week prior to approval.
  - Conservative amortization structures – Level Principal is preferred and no longer than 20 year terms for governmental projects.
  - A demonstrated ability to repay the debt obligation.
  - Current Audit submitted to the LGC for any approvals after October and any Audit Findings / Unit Letters are addressed ahead of consideration for approval.

- To assist in achieving the necessary approvals in a timely fashion, the LGC requests that:
  - A Pre-application meeting typically occurs at least 2 months prior to approval.
  - An Application is submitted at least 1 month prior to approval.
  - Reponses to Unit Letters and site visits by Fiscal Management (if applicable) are received prior to approval.

Observations and Potential Next Steps

- Based upon our preliminary review of the Town's financial trends/activities, we believe that the following next steps should be considered:
  - Develop a plan to address the Town's recent operating deficits and consider adopting a fund balance policy to alleviate potential cash flow pressures.
  - Consider initiating a multi-year budgeting forecast process that will provide management the opportunity to identify and manage financial trends and additional funding for capital projects.
  - Development of a more formalized Capital Improvement Planning process inclusive of annual vehicle/equipment and facility maintenance projects as well as major capital project needs / initiatives.
  - Develop a series of formal Financial Policy Guidelines incorporating best practices related to budgeting, capital planning, debt management, investment activities, and reserves/fund balances.

- Considerations:
  - The recommendations above will need to be prioritized by the Town Council with Senior Staff input.
  - These initiatives, if they are to be impactful, will need to be "institutionalized" within Town Governance and Management.
  - These initiatives will require significant investment, including:
    - Financial Commitments
    - Staffing Commitments
    - Information Technology Commitments
    - Budgeting Commitments

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