

Relationship of Growth to Fiscal Health

Core Value: Davidson's economic health is essential to its remaining a sustainable community, so town government will judiciously encourage and guide the location of new business opportunities.

Davidson's fiscal health and high quality of life includes a thoughtful approach to growth. Maintaining high standards means planning for increased demand for services as well as inflationary growth in the cost of providing these services – each of which require increases to the annual budget. A municipality which does not have growth is forced to either increase its tax rate or decrease services. Whereas a reduction in services may result in a decreased desire to live in the municipality, an increase in tax rates makes the town less affordable for all citizens – especially those on fixed incomes or those with lower annual incomes. Growth in the tax base enables a community to: Provide for increases in cost, invest in infrastructure, and offer enhanced services to citizens without a tax increase.

Currently, 55% of Davidson's revenues are from ad valorem taxes (i.e. taxes based on the assessed value of items such as real estate or personal property). An additional 16% of our budgeted revenue comes from sales tax revenue allocated by Mecklenburg County (based on ad valorem levies) and Iredell County (based on population). If the tax levy/population does not grow, Davidson's portion of sales tax will decrease in both counties if other municipalities in the counties increase their tax levy or population.

A community's ability to enhance its tax base is improved by having a healthy balance of commercial and residential properties. Communities that build residential properties with no planned commercial nodes typically lag in the development of critical infrastructure, making it difficult to rebalance the residential/commercial ratio at a later date. Compared to residential development, commercial properties typically require fewer public resources and generate higher net revenues per acre (Davidson Cost of Land Use Fiscal Impact Analysis, Major Findings, 2014).

Davidson's Approach to Long-Range Fiscal Planning

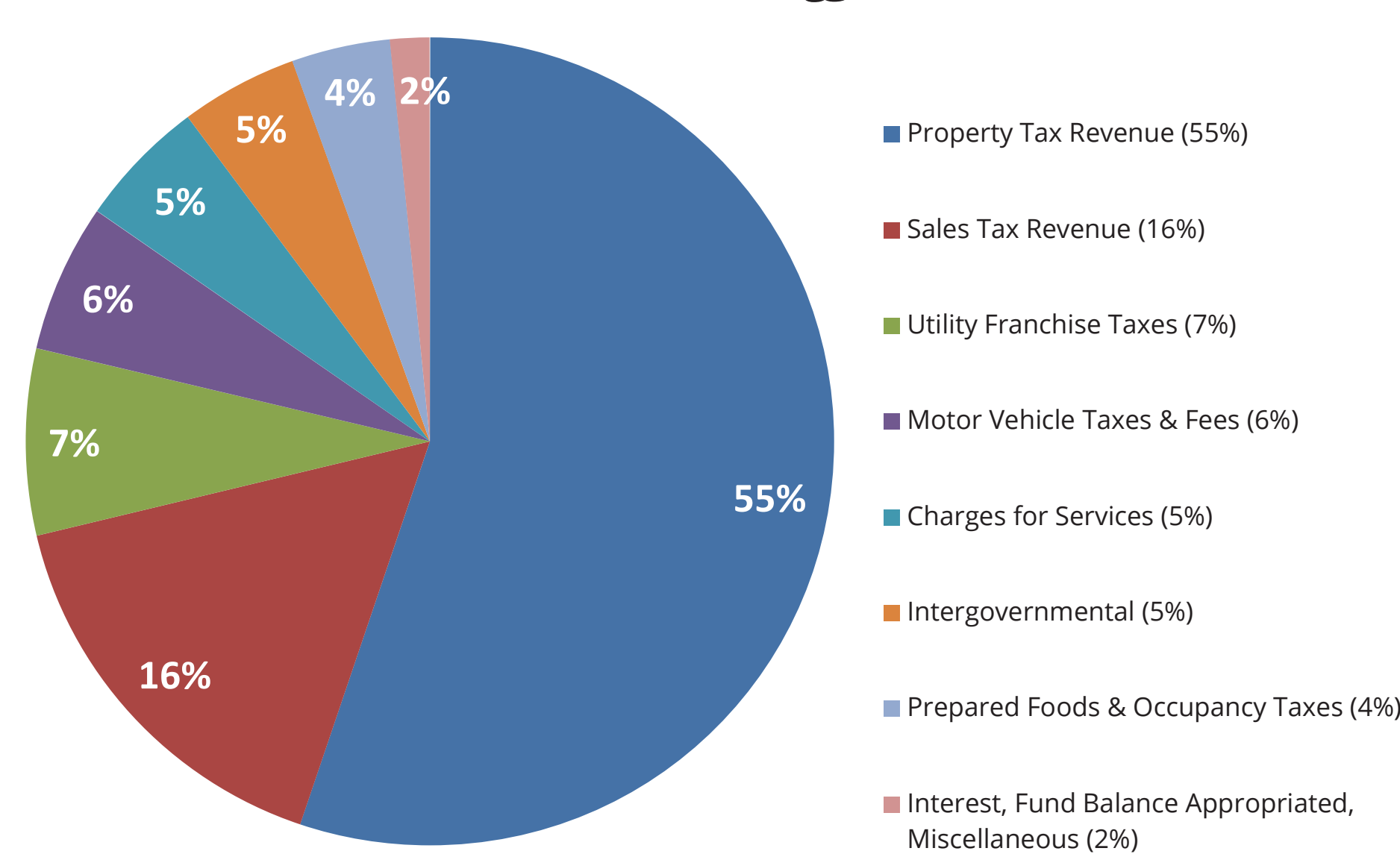
Core Value: Citizens entrust town government with the stewardship of public funds, so government will provide high quality services at a reasonable cost.

The Town of Davidson expanded its Capital Improvement Plan to a 5-year long term financial model prior to the approval of the 2017 general obligation (G.O.) bonds. In addition to capital projects, the plan incorporates projected general fund revenues and expenditures, debt service, fund balance, and capital project funds. This approach enables the town to perform scenario testing for individual or multiple projects to determine potential effects on the tax rate and fund balance. The outputs of the model include key financial metrics which are used by the North Carolina Local Government Commission to assess financial health and bond rating agencies to determine bond ratings for the Town's bonded debt.

Current Fiscal Snapshot

FISCAL YEAR 2019 BUDGET: \$11,943,988

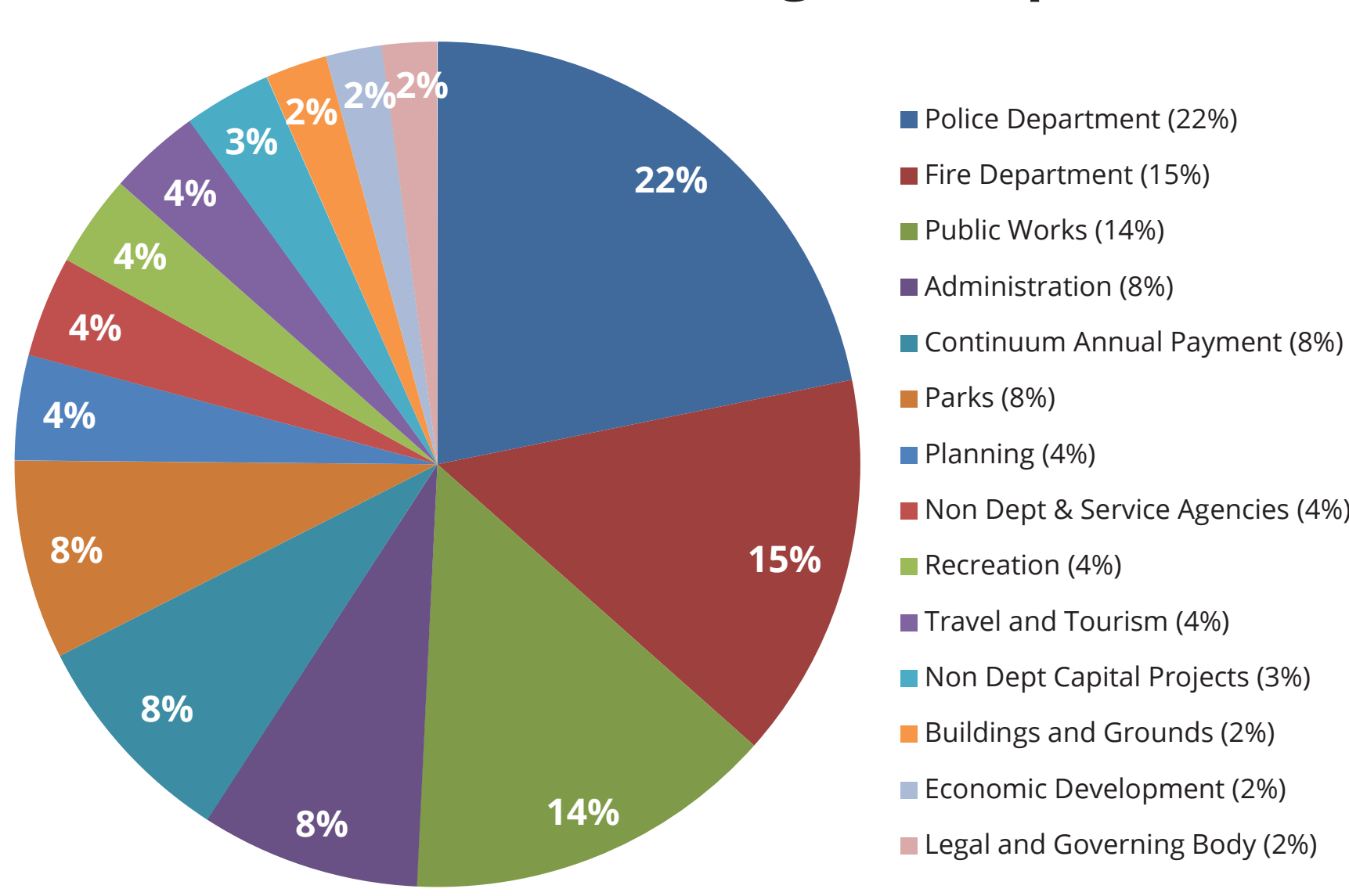
FY 2019 General Fund Budgeted Revenues



Source: Town of Davidson

More than half of the town's FY2019 General Fund budgeted revenues were raised through local property taxes (55%) followed by sales tax revenue (16%). This is typical for most North Carolina communities in particular in the North Mecklenburg County area. The land use and tax status of properties has a direct impact on the town's revenue generation.

FY 2019 General Fund Budgeted Expenditures



Source: Town of Davidson

The police department (22%), fire department (15%), and public works (14%) comprise 51% of the FY2019 General Fund budgeted expenditures. It is important to note that public school expenditures are paid through Mecklenburg County taxes and not through the town's budget.

Historical Fund Balances Per Capita

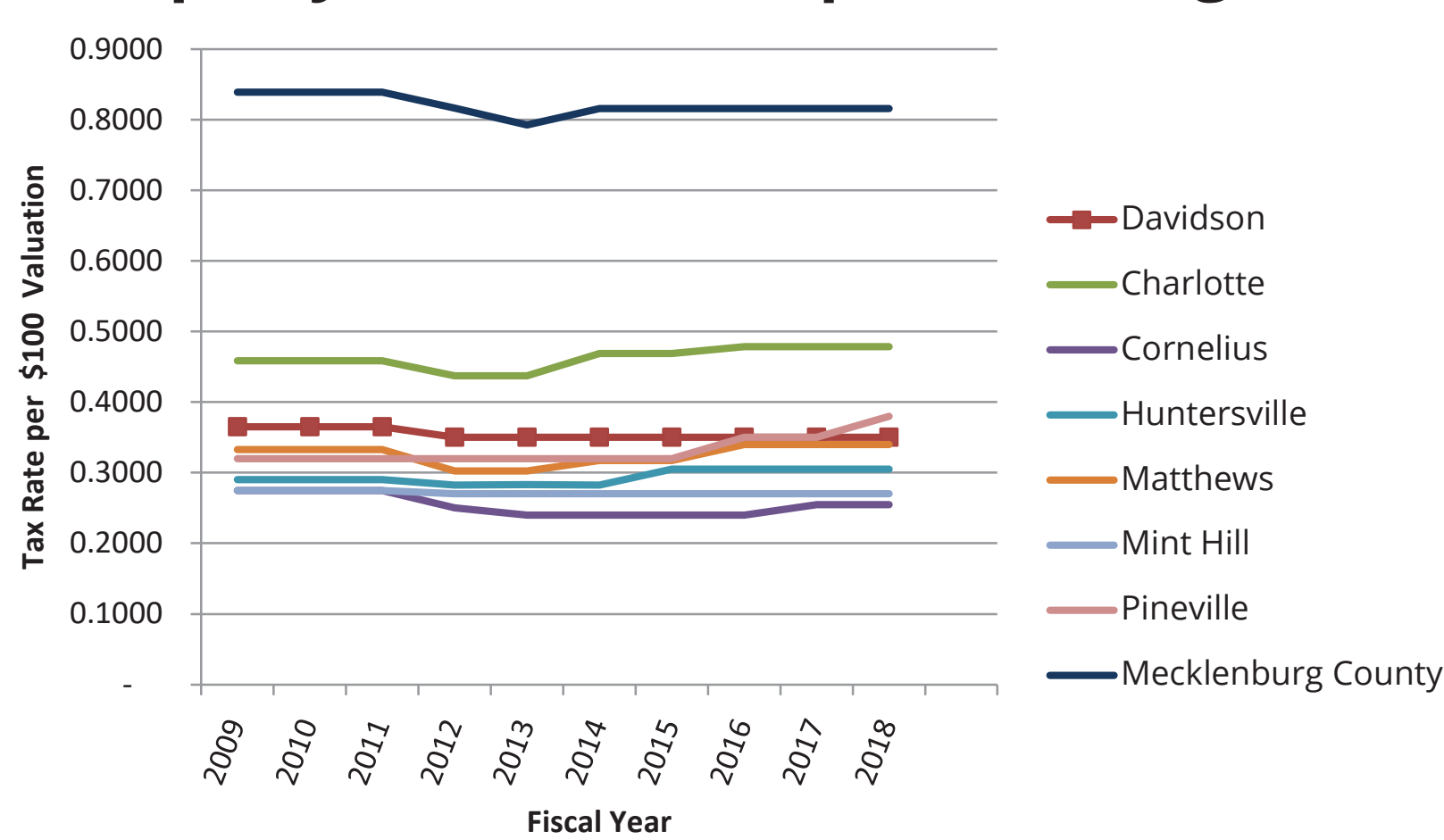
Fiscal Year	General Fund Balance	Unassigned General Fund Balance	Increase (Decrease) in Unassigned General Fund Balance	Population	Unassigned General Fund Balance per Capita
2009	\$ 4,485,833	\$ 3,095,084		10,243	\$ 302
2010	\$ 4,622,982	\$ 2,478,033	\$ (617,051)	10,822	\$ 229
2011	\$ 4,350,938	\$ 2,172,882	\$ (305,151)	10,944	\$ 199
2012	\$ 4,161,517	\$ 2,575,437	\$ 402,555	11,249	\$ 229
2013	\$ 5,014,245	\$ 3,355,159	\$ 779,722	11,594	\$ 289
2014	\$ 6,155,936	\$ 4,602,793	\$ 1,247,634	12,040	\$ 382
2015	\$ 7,869,164	\$ 5,819,821	\$ 1,217,028	12,332	\$ 472
2016	\$ 8,864,548	\$ 6,581,424	\$ 761,603	12,678	\$ 519
2017	\$ 9,545,889	\$ 7,352,238	\$ 770,814	12,921	\$ 569
2018	\$ 9,259,638	\$ 7,016,295	\$ (335,943)	13,228	\$ 530
			\$ 3,921,211		Total ten year increase in unassigned general fund balance

Source: Town of Davidson

Davidson has a policy that requires the annual unassigned fund balance to be no less than 35% of general fund expenditures in the following fiscal year. The purpose of a minimum fund balance policy is to have an adequate balance of general funds in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the town. Davidson currently has an available fund balance of 60.98% of general fund expenditures, while total fund balance represents 80.48% of the same amount.

PROPERTY TAX SNAPSHOT

Property Tax Rate Comparison (Regional)



Source: Town of Davidson and Mecklenburg County

Davidson's ad valorem tax rate (tax rate on real and personal property) has held steady over the last 10 years with a minor reduction following the 2011 property revaluation conducted for all properties in Mecklenburg County. The rate has been consistently lower than the Mecklenburg County and City of Charlotte property tax rates for this period. Historically, it has been higher than other communities in Mecklenburg County, but has recently been surpassed by Pineville and has nearly the same rate as Matthews. It continues to have a higher tax rate when compared to northern Mecklenburg County communities.

Assessed Value & Estimated Tax Values

Fiscal Year (Ending)	Real Property	Personal Property*	Public Service Companies	Total Taxable Assessed Value	Total Direct Tax Rate
2009	1,138,834,846	115,358,388	18,391,932	1,272,585,166	0.345
2010	1,212,741,996	121,709,826	18,334,947	1,352,786,769	0.365
2011	1,237,833,574	119,347,105	16,139,952	1,373,320,631	0.365
2012	1,542,852,072	130,564,308	17,739,235	1,691,155,165	0.365
2013	1,556,639,007	138,703,658	18,121,792	1,713,464,457	0.350
2014	1,571,942,353	152,389,344	18,629,633	1,742,961,330	0.350
2015	1,619,779,199	159,033,601	18,117,147	1,796,929,947	0.350
2016	1,643,126,895	169,623,449	17,892,217	1,830,642,561	0.350
2017	1,699,674,255	185,335,859	16,887,496	1,901,897,610	0.350
2018	1,780,466,491	198,070,032	17,282,832	1,995,819,355	0.350

Source: Town of Davidson; Compiled from NC Department of Revenue-County Taxable Real Property, Personal Property, and Public Service Company Valuations (LGSS)
*Includes motor vehicles

Davidson had a modest decrease in its ad valorem tax rate (property tax rate) in 2012 (decrease from 0.365 to 0.350). In FY2012 the tax rate decreased due to the 2011 revaluation. Although the town approved a decrease in the tax rate, the total ad valorem taxes collected increased by about 18%. This illustrates that even in cases where the tax rate is reduced, overall tax revenues may still increase due to the higher value of properties as a result of revaluation.

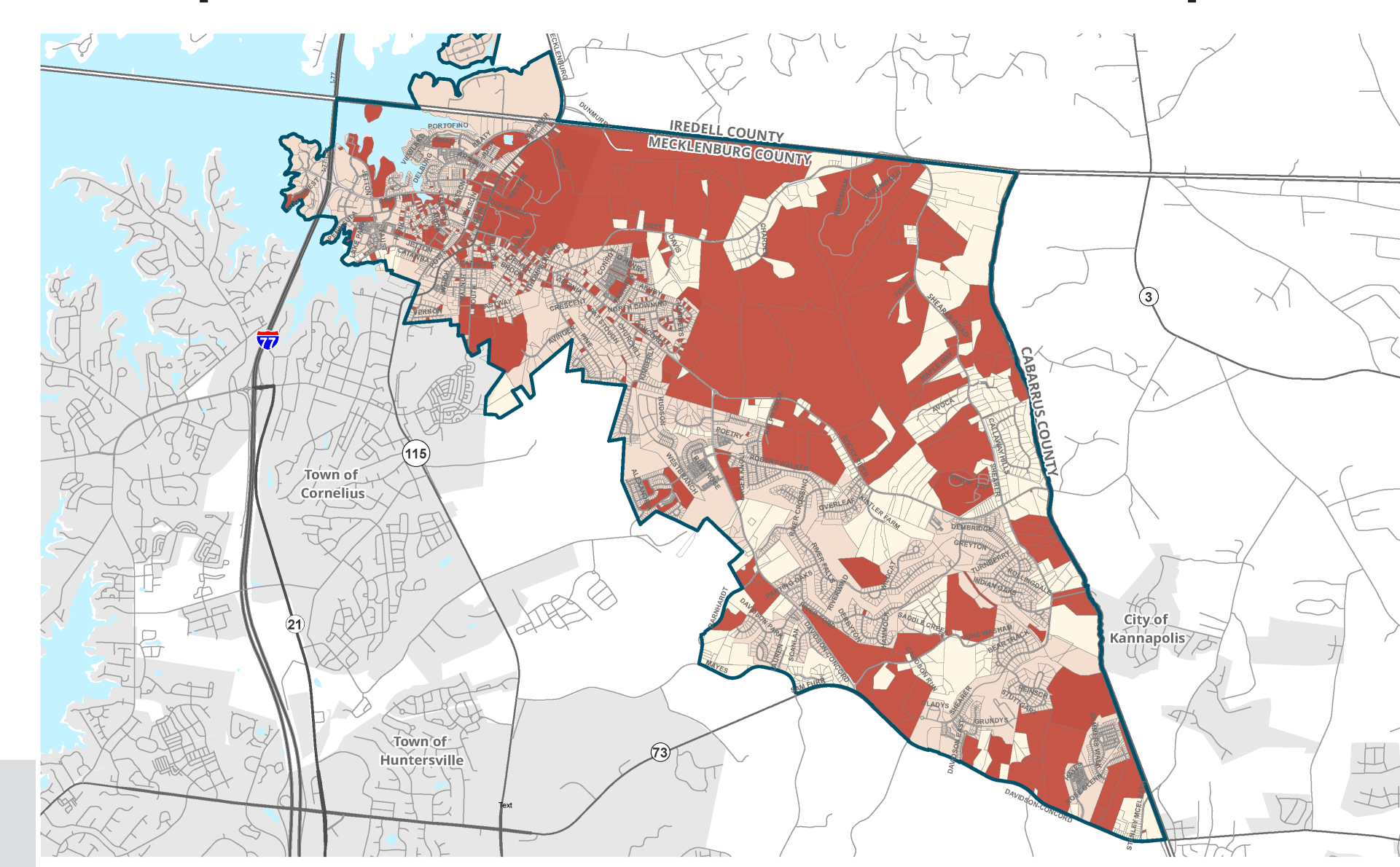
Types of Tax Exemption by Acres

Exemption	Number of Acres	Percent of Total Exempt Acres
Agriculture	1,990.2	46.2%
Education (Non-govt)	1,142.6	26.5%
County	537.6	12.5%
Township Owned	311.1	7.2%
Continuing Care Retirement Community	99.5	2.3%
Religious	58.4	1.4%
All other exemptions	165.1	3.75%

Source: Mecklenburg County; Note: More information about these exemptions is available in the Mecklenburg County Assessor's Office, Uniform Schedule of Values, Standards and Rules.

There are currently 4,305 acres of tax-exempt property (48%) in the town's sphere of influence. The majority of tax-exempt property consists of agricultural land, Davidson College, and county-owned property. Tax-exempt lands, especially in the downtown area, also tend to be important community assets. Although Davidson has a significant quantity of exempt property within its jurisdictional boundaries, its taxable assessed value per capita is nearly the highest among the neighboring communities.

Properties with Some Level of Tax Exemption



Source: Mecklenburg County; Note: More information about these exemptions is available in the Mecklenburg County Assessor's Office, Uniform Schedule of Values, Standards and Rules.

Future Fiscal Considerations

2019 Revaluation of All Real Property

Both Mecklenburg and Iredell Counties have completed the revaluation of all parcels in 2019. Revaluation occurs at least every eight years per state law; the last property revaluation in Mecklenburg County occurred in 2011 and Iredell County's most recent revaluation occurred in 2015. Revaluation brings property values into greater alignment so that each property owner pays an equitable share of the property tax burden for a community. The Mecklenburg and Iredell Counties Assessor's offices began distributing updated property value notices to property owners in early 2019.

The Mecklenburg County Assessor's office reports that the total value of real estate in the county increased by 54% since 2001. The Assessor's office is currently processing appeals from property owners that suggest their property value is lower than the revaluation calculated.

While this revaluation could have an effect on local property taxes in Davidson, it will not necessarily mean property taxes will change. The Town of Davidson sets the ad valorem tax rate that is applied to determine the property taxes a property owner must pay. After the last 2011 revaluation, the town leaders chose to make a slight reduction in the ad valorem tax rate to offset the increase in property values. The town's financial planners take into account expected future revenues and expenditures when advising on whether the tax rate should be amended in response to the revaluation. The tax rate will be approved as part of the FY2020 Town Budget scheduled for adoption by June 30, 2019.

\$15 million General Obligation (GO) Bond Prioritization

By town referendum, Davidson's citizens voted to approve \$15 million in GO bonds on November 7, 2017.

The GO bonds are approved to fund the following types of projects.

- \$ 6,000,000 for Mobility and Transportation Projects
- \$ 5,000,000 for Greenways Projects
- \$ 4,000,000 for Parks Projects

Next steps in the process are: to create a prioritization strategy for identifying the projects that will be completed; develop a funding plan for paying back the GO bonds; and, determine the phasing of projects. Evaluations of the potential property tax impacts of the GO bonds are available on the town's website along with a potential list of GO bond projects <http://www.townof davidson.org/> (search for General Obligation Bond). This analysis demonstrates that if all three GO bonds were issued (\$15 million) and necessitated an increase in the tax rate to 0.3862, a property valued at \$500,000 would have an annual tax increase of \$181 or \$15 per month.

Public Facilities

As Davidson's population has grown from 4,000 in 1990 to almost 13,000 today, we have outgrown our existing town hall. Ensuring adequate space for our police and fire departments is particularly critical. We need to invest in public facilities in order to keep pace with our service needs.

In December 2018, the Town of Davidson purchased the former Davidson International Baccalaureate School / Lake Norman Christian School located at 251 South Street with the intent that this facility could meet the needs of the growing administrative activities as well as community programming spaces. The town's South Street Steering Committee is leading the process to engage residents in considering the uses that the building should include. Concurrently, the town is conducting planning work for the renovation of the existing town hall to accommodate the police and fire departments.

The pricing for the renovation of 251 South St. and the existing Town Hall also will be presented to the board of commissioners in May to meet the deadline for a November GO Bond referendum. This is an ongoing process and residents are invited to share their thoughts by participating in feedback opportunities along the way.

Recent News: Continuum Sale

A recent review of the town-owned communications asset Continuum has motivated the elected officials of Mooresville and Davidson to put the successful company on the market. The sale is expected to garner significant interest from qualified buyers. If the towns receive a satisfactory offer, the citizens of Mooresville and Davidson will be asked to approve the sale on the November ballot, per state statute. Originally called MI-Connection, the company was established in 2007 as an interlocal agency by the North Carolina legislature and the towns of Mooresville and Davidson in order to build an advanced communication network that better served their communities.