



Council Retreat Financial Update

February 21, 2009



Agenda

- What impact do we expect from the economic crisis?
- How will that impact affect our ability to fund operations and capital investments?
- What strategies are available to preserve service levels and to maintain public property?
- Next Steps



State Economic Outlook

- Prolonged Recession
 - Recessionary conditions for most of 2009
 - Slow recovery in 2010?
 - Employment will lag behind recovery
- Revenue picture will continue to deteriorate through 2009-10

Source: NCGA Fiscal Research Division

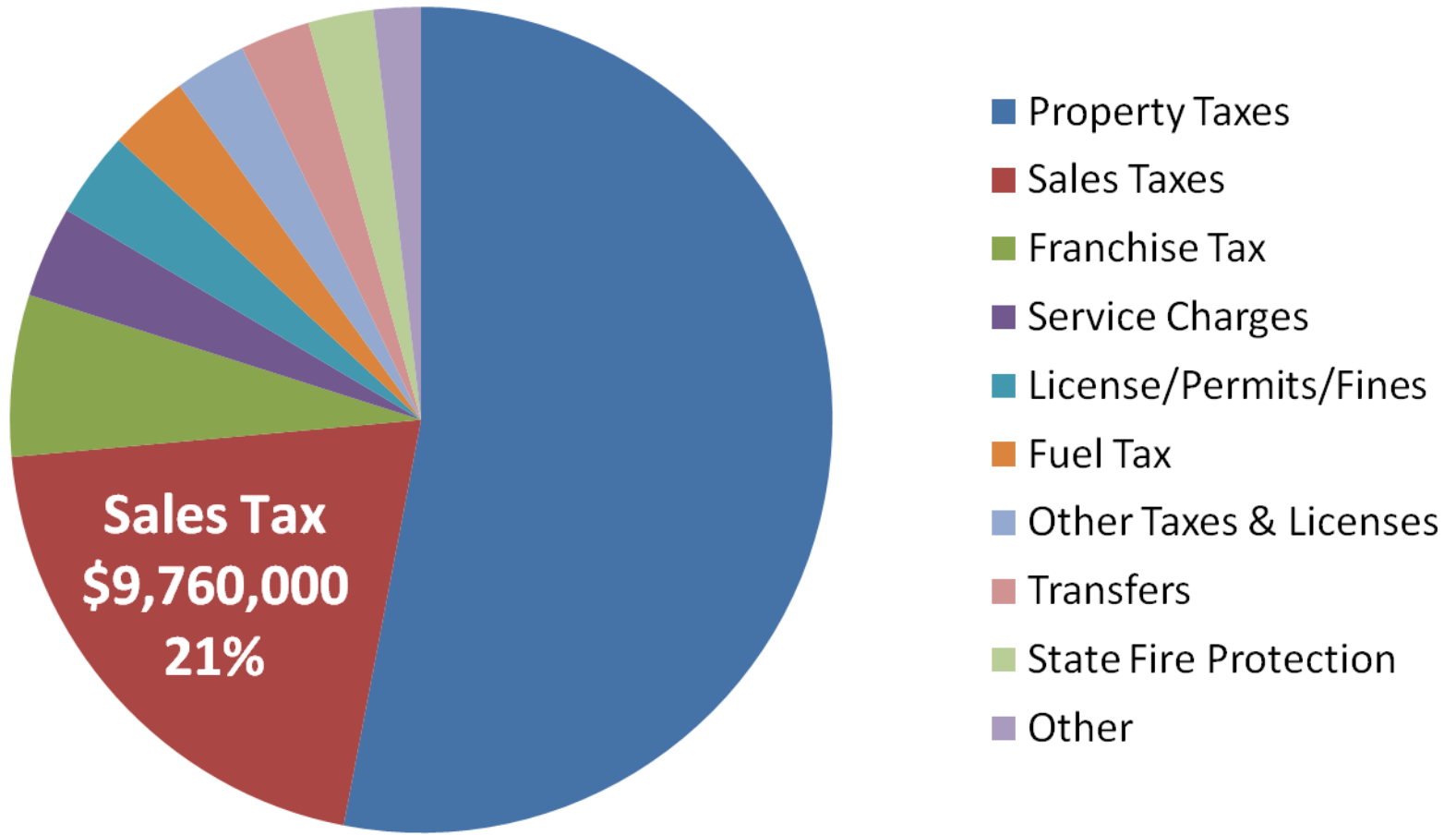


Impact of Economic Crisis

- **Consumer confidence down:** Sales Tax Receipts decline
- **Financial Markets in Turmoil:** Lower investment revenues, higher debt costs, slow down in development fees
- **Unemployment Up:** Lower state income tax receipts – Trickle Down Effect from State
- **Housing Market Flat:** Slower tax collections

General Fund Revenues

FY2009-10 (projected FY09)



Sales Tax Receipts 2008-09

- November's Sales Tax Collections are down 11.8% (\$88,638) compared to November of last year.
 - Article 40 & 42 segments that are based on population decreased 19.3% and 19.7%, respectively.
 - Article 39 & 44 segments are based on point of sale* and decreased 2.6% and 8.1% respectively.

	Article 40	Article 42	Article 39	Article 44	Total
Nov. 2007	\$ 203,211	\$ 201,824	\$ 279,543	\$ 143,474	\$ 828,052
Nov. 2008	163,929	162,046	272,384	131,788	730,147
Difference	-39,282	-39,778	-7,159	-11,686	-97,905
Percent	-19.3%	-19.7%	-2.6%	-8.1%	-11.8%

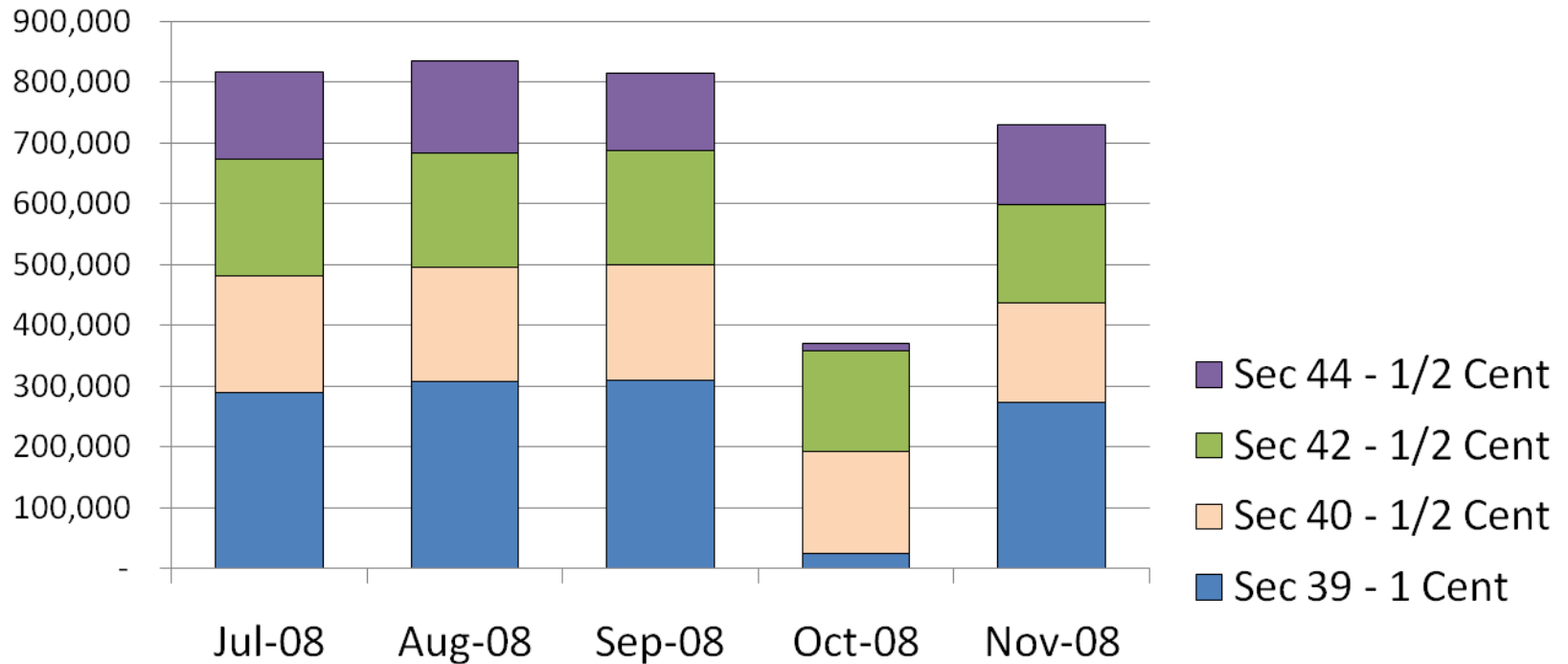
- Article 44 is based on ¼ point of sale plus a hold harmless payment
- Distribution basis describes allocation of sales tax to County.
County distributes to Town on ad valorem basis.

Sales Tax Summary

- Receipts are trending downward as we see the full impact of the recession.
- The overall decrease of 11.8% based on November collections suggests a shortfall for the current FY of between 8% and 9% (\$770,000 – \$866,000)
- If this trend continues we will see a loss of between \$1.2 mil and \$1.4 mil for FY2009-10.
- The small decline in Point of Sale collections (2.6%) suggests that Chapel Hill is doing considerably better than the State as a whole.

Sales Tax Receipts by Month

FY2008-09



	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
Sec 44 - 1/2 Cent	144,675.56	151,572.73	126,926.25	11,822.10	131,788.00
Sec 42 - 1/2 Cent	191,180.26	186,728.96	188,312.90	166,672.49	162,046.00
Sec 40 - 1/2 Cent	192,846.56	188,580.81	190,137.62	166,630.32	163,929.00
Sec 39 - 1 Cent	288,556.40	307,579.03	308,767.95	25,174.02	272,384.00

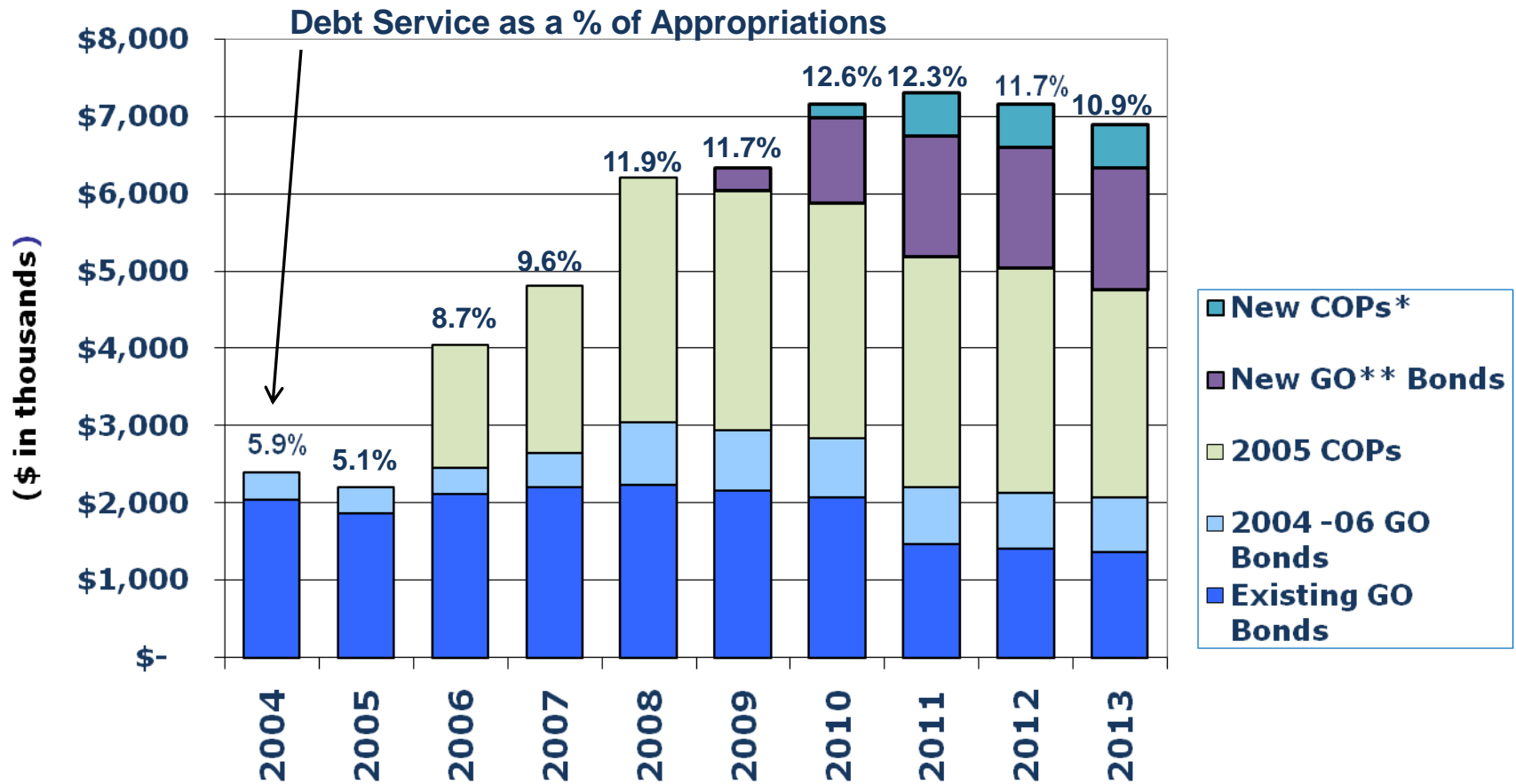


Strategies

- **Principle:** Do not make long term commitments in times of economic uncertainty
- **Practice:** Delay debt issuance until Spring of 2009 (or when revenues stabilize)
- **Impact:** Savings of \$1 - 1.2 million Debt Service Costs in FY2009-10 and operating costs of \$800k per year will be delayed until FY2012
- **Downside:** Needed capital improvements will be delayed 1-2 years or more

Existing & Planned Debt Service

(GF Only - 2004 though 2013)

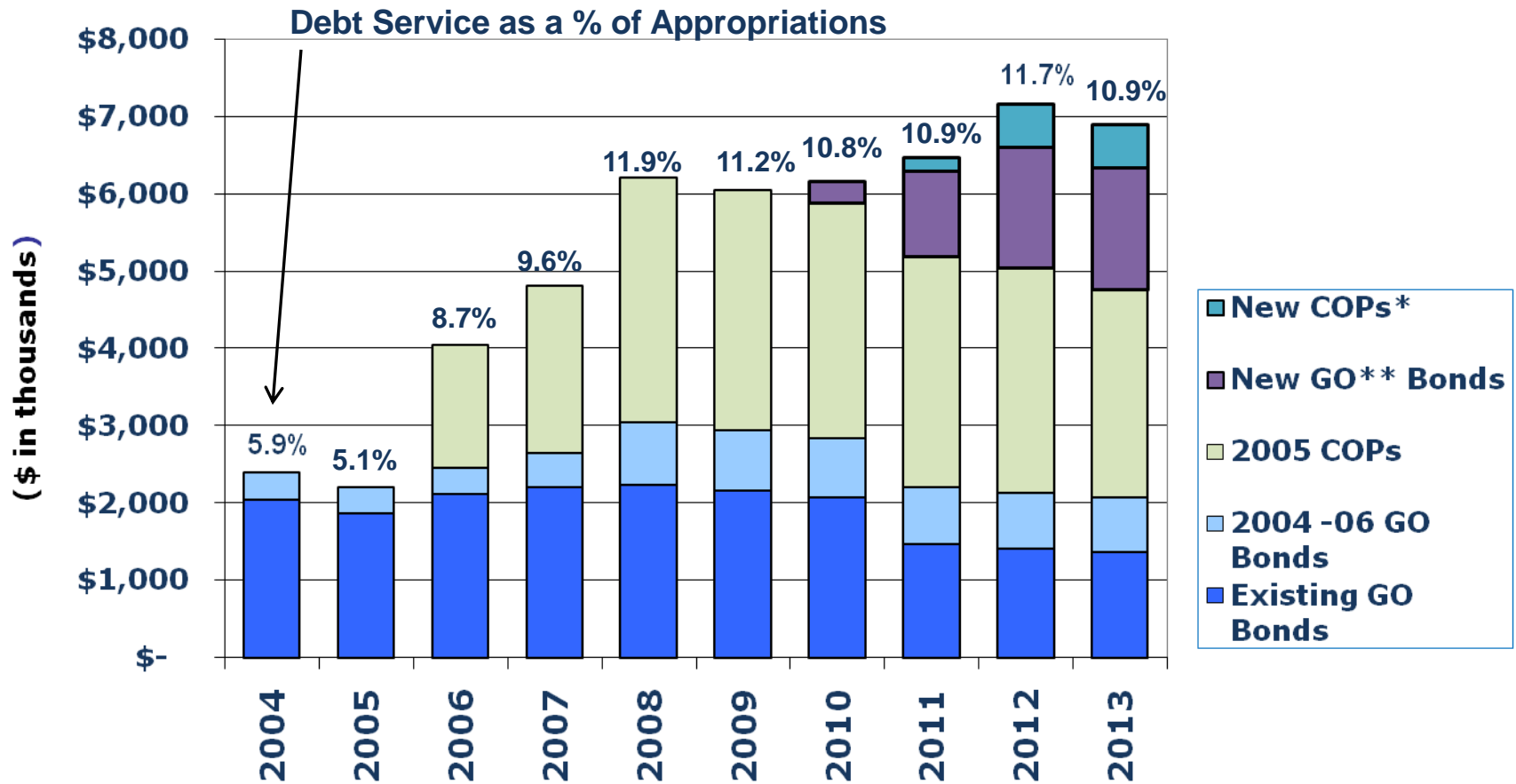


* COPs – Certificates of Participation

** GO – General Obligation Bonds

Existing & Planned Debt Service (Revised)

(GF Only - 2004 through 2013)



* COPs – Certificates of Participation

** GO – General Obligation Bonds



Strategies

- **Principle:** Do not make long term commitments in times of economic uncertainty
- **Practice:** Defer not critical capital improvement projects
- **Impact:** Savings of \$200k – 400k in current year's Budget
- **Downside:** Needed capital improvements will be delayed 1-2 years or more



Strategies

- **Principle:** Maximize savings in current year in order to be better prepared for next year
- **Practice:** Create Budget Savings Plan – use balance for next year’s budget
- **Impact:** Savings of \$1 million from FY2008-09 Budget available for FY2009-10 Budget.
- **Downside:** Unfilled vacancies and cost cutting could impact quality of service delivery



Budget Savings Plan

Goal: Maximize savings in current year's budget without compromising service delivery.

Target: 5% of the overall Town Budget.

Savings target is **\$2,482,000.**

Amount transferred to Reserve: \$2,303,824

(This amount will increase as we get closer to year-end)

*Includes debt savings and OPEB contribution

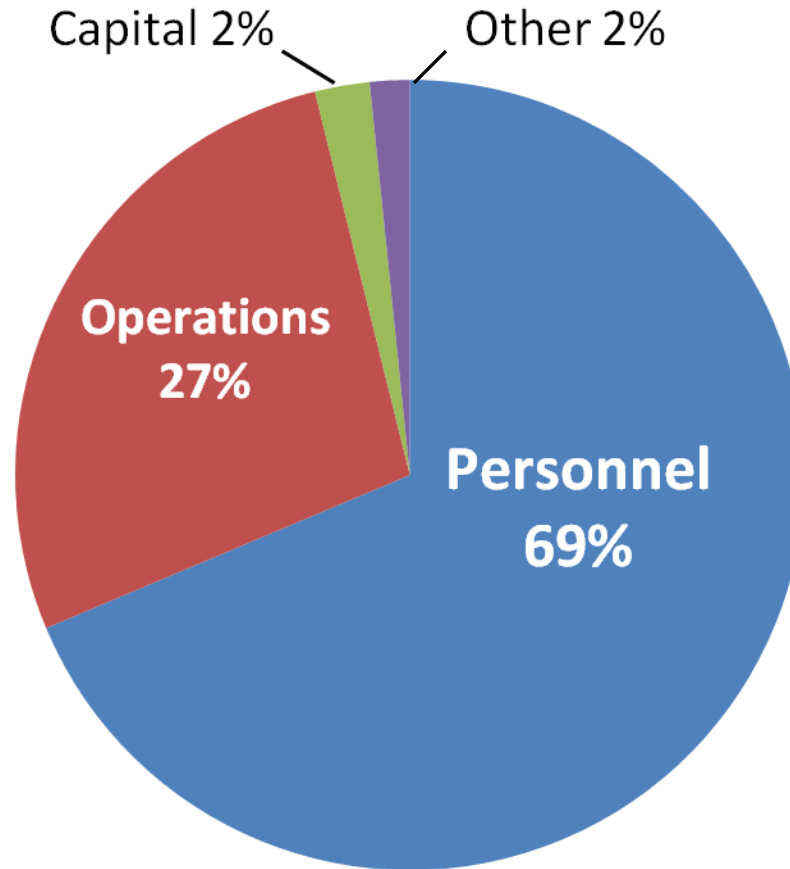


Strategies

- **Principle:** Hedge short position in fuel market with long term contracts to limit exposure to price volatility (TRANSIT)
- **Practice:** Enter into fixed price contracts for portion of fuel needs for next 12 months
- **Impact:** Lock in price significantly below current budget price
- **Downside:** Opportunity cost if prices stay at current level or decline



General Fund Personnel Costs





Strategies

- **Principle:** Use budget balancing strategies that have the least long-term impact on employees
- **Practice:** Prioritize budget cuts according to impact on employees:
 1. **Non-personnel Budget Cuts**
 2. **Maintain current salary levels (No COLA)**
 3. Furloughs
 4. Benefit Reductions
 5. Reductions in Force



Strategies

- **Impact:** Cost to General Fund of Salary adjustments:
 - 1% - Implemented October 1 \$ 287,000
 - 2% - Implemented October 1 \$ 574,000
 - 3% - Implemented October 1 \$ 861,000
- **Downside:** Competitiveness of salaries and employee morale may suffer



Strategies

- **Principle:** Maintain adequate fund balance levels for cash flow and credit support
- **Practice:** Maintain fund balance at 12% (minimum) and use excess for one-time costs
- **Impact:** Provides funding to balance budget
- **Downside:** Lowering fund balance levels makes the Town more vulnerable to future revenue shortfalls



GF Budget Projection FY2009-10

Balance Budget Scenario

- Pre-crisis Budget Gap Projection \$3.3 mil
- Potential Impact of Crisis 1.9 mil

Total Potential GAP **\$5.2 mil**

- Delaying Debt Issuance \$1.0 mil
- No Salary Increase 1.0 mil
- Budget Savings Plan* 2.0 mil
- Fund Balance 1.0 mil
- Deferred Capital Projects 0.2 mil

Total Savings **\$5.2 mil**

* Includes savings from FY2008-09 & FY2009-10

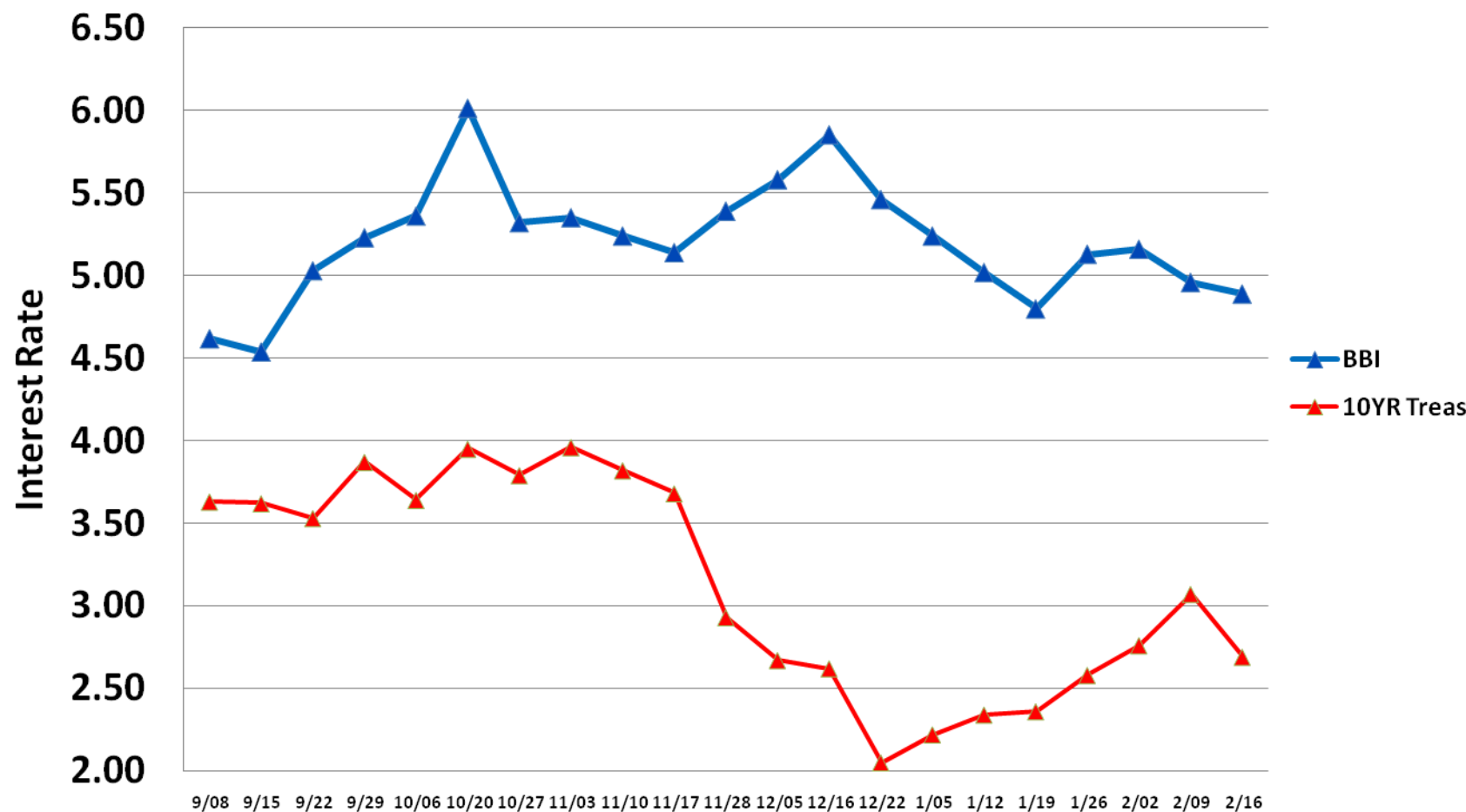


Debt Markets

- No real change – some positive signs
- Issuers paying a premium to sell bonds in current market
- Spreads between GO Bonds and Treasuries are at historic highs
- Triple A rated issuers are doing better in the market due to premium on quality



Municipal Bond Index (prev. 5 months)





Major Budget Issues for FY2009-10

- Revenue Reductions due to Financial Crisis
- Cost of Healthcare benefits up 17-22%
- Stopping the growth of the Liability for Retiree Healthcare (\$45 million)
- Cost of Worker's Compensation Coverage



Major Budget Initiatives for FY2009-10

- Worker's Compensation Costs
 - Enhanced safety programs to reduce preventable accidents.
 - The Towns W/C insurance costs are 60-100% higher than similar size towns in NC.*
 - Change W/C Benefit to conform to Statutory Benefits for claims filed after July 1, 2009.

* Risk Management Audit 2007



Major Budget Initiatives for FY2009-10

- Retiree Healthcare Liability
 - Begin addressing \$45 million unfunded liability for retiree healthcare costs
 - If steps are not taken to reduce liability the burden to fund (approx. \$5 mil/yr) will overwhelm the Budget
 - Change benefit for **new employees** to defined contribution plan to reduce growth in liability



Next Steps

- March 16th - Dec. Sales Tax Numbers Available
- March 23rd - Capital Improvement Plan Update
- April 15th - Medical Insurance Renewal Decision
- April 15th - Budget Update
- April 16th - Jan. Sales Tax Numbers Available
- May 6th - Manager's Recommended Budget
- May 13th - Budget Work Session
- May 20th - Public Hearing & Budget Work Session
- June 3rd - Budget Work Session
- June 9th – Adoption of FY2009-10 Budget