



Town of Chapel Hill

Manager's Recommended Budget for FY 2009-10

May 6, 2009

**Roger Stancil
Town Manager**

Agenda

- Presentation of Manager's Recommended Budget
- Receive requests from Council for additional information
- Next week's budget workshop
 - Presentation By Davenport & Company (Debt)
 - Presentation by Hill, Chesson & Woody (Benefits)
 - Presentation by NCLM (Worker's Compensation)

Key Budget Issues

- Economic Conditions
- Federal Stimulus Funding
- Negative Revenue Growth
- Debt and Operating Cost of New Facilities
- Pending Debt Issuance (Davenport report 5/13)
- Retiree Health Care Costs (OPEB)
- Benefits Costs (HCW report 5/13)

Budget Strategies

- **Principles:**

- Do not make long term commitments in times of economic uncertainty
- Maximize savings in current year in order to be better prepared for next year
- Use budget balancing strategies that preserve service levels and have the least impact on long-term employees
- Maintain adequate fund balance levels for cash flow and credit support

Budget Strategies

- **Practice:**
 - Delay debt issuance and defer CIP projects
 - Establishment of Budget Savings Plan to provide funds to balance the FY2009-10 Budget
 - Maintain current salary levels and preserve core benefits
 - Maintain fund balance above minimal levels to act as insurance against continued revenue declines

Budget Initiative for FY2009-10

- **Retiree Healthcare Liability**
 - Begin addressing \$45 million unfunded liability for retiree healthcare costs
 - Change benefit for **new employees** to defined contribution plan to reduce growth in liability
- **Next Steps:**
 - Define plan details: vesting, contribution levels, etc.
 - Update actuarial analysis
 - Present recommendation for plan design and implementation to Council

Budget Initiative for FY2009-10

- **Employee Safety/Worker's Compensation Costs**
 - Enhanced safety programs to reduce preventable accidents.
 - Change W/C Benefit to conform to Statutory Benefits for claims filed after July 1, 2009.
- **Next Steps:**
 - Continue safety program development
 - Present recommended changes to the Worker's Compensation Salary Supplement Ordinance to Council
 - Develop return to work program and explore on-site employee health options

Goals of the FY 2009-10 Budget

- Support Council's Priorities
- Address Impact of Economic Crisis
- Maintain Existing Services
- Maintain Competitive Compensation for Employees
- Move Toward Financial Sustainability
- Support New Facilities and Maintain Existing Facilities

Goals of the FY 2009-10 Budget

- Support Council's Priorities
 - Steward Organizational Development
 - Champion Downtown
 - Continue Focus on Land Use, Transit and Development
 - Maintain and Improve Community Services and Facilities
 - Improve Town's Fiscal Condition
 - Plan Ahead for Carolina North

The Bottom Line

- The Manager's Recommended Budget is balanced with a recommended revenue neutral tax rate of 49.7 cents.

	FY2008-09	FY2009-10
General Fund	42.3	36.2
Debt Service	11.0	9.4
Transit	4.8	4.1
Total	58.1	49.7

What is **not** being done?

- Vacant positions are being left open
 - Turn-around time for some tasks and transactions may take longer
 - Response time for service or informational requests may increase
 - Some tasks will remain undone:
 - Policy review and update
 - Process improvement
 - Non-essential record keeping
 - Lack of capacity for new initiatives

What is **not** being done?

- Non-personnel costs such as Supplies, Training and Equipment are being reduced.
 - Departments are economizing on training costs by using online training and staying close to home, but some training opportunities will be lost
 - Supplies have been cut to minimum levels
 - Equipment replacements have been delaying increasing potential for failure and emergency replacement

General Fund Budget Costs

- Overall 0.3% increase from Current Year
- Maintains most services at existing levels
- Reduced CIP Funding & Delayed Debt Issuance
- Employee Costs:
 - 0% Salary Adjustment
 - 17.4% Increase in the cost of Benefits
 - \$400,000 for Post Employment Health Coverage

General Fund Revenue Projections

Revenues:	FY2008-09 Revised Budget	FY2009-10 Budget
Property Taxes	\$ 24,733,000	\$ 24,971,000
Other Taxes	1,084,000	989,000
Licenses/Permits	1,602,000	1,812,000
Sales Taxes	9,623,000	8,661,000
State Collected Taxes	6,112,000	6,196,000
Grants	381,000	372,000
Service Charges	1,694,000	1,736,000
Interest & Other	539,000	493,000
Transfers	<u>1,302,000</u>	<u>1,400,000</u>
Total Revenues	\$ 47,070,000	\$ 46,630,000

**General Fund revenues
are down about 1%**

General Fund Expenditures

Revenues:	FY2008-09 Original Budget	FY2009-10 Budget	% Change
General Government	\$ 9,270,000	\$ 8,788,000	-5.2%
Environmental & Development	13,287,000	13,338,000	0.4%
Public Safety	19,155,000	19,435,000	1.5%
Leisure	<u>7,909,000</u>	<u>8,198,000</u>	<u>3.7%</u>
Proposed General Fund Budget	\$ 49,621,000	\$ 49,759,000	0.3%

**General Fund expenditures are
increasing 3 tenths of 1%**

General Fund Budget Reconciliation

	FY2008-09 Revised Budget	FY2009-10 Budget
Total Revenues	\$ 47,070,000	\$ 46,630,000
Total Expenditures	<u>51,901,000</u>	<u>49,759,000</u>
Deficit (Revenues – Expenditures)	(4,831,000)	(3,129,000)
Other Funding Sources:		
Budget Savings Plan (FY09)		2,000,000
Fund Balance*	4,831,000	1,129,000

** For FY09 balance includes excess funds generated in FY08*

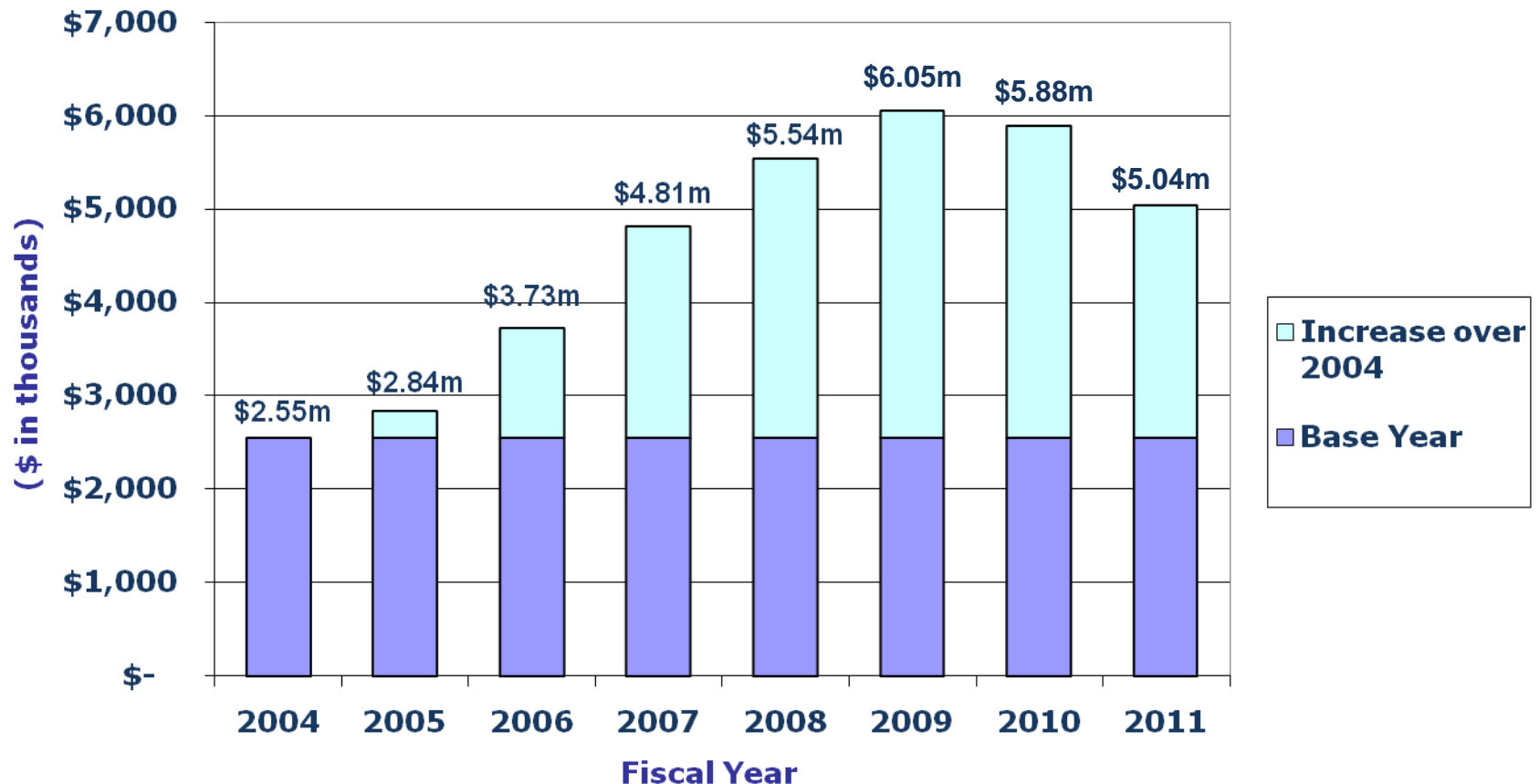
Outstanding Debt

- In 2005, outstanding debt increased from \$32 million to \$70 million.
- Between 2004 and 2008, annual payment of principal and interest on outstanding debt rose from \$2.4 million to more than \$6 million.
- General Fund transfers from Fund Balance were used to pay debt service.

Debt Management Plan

- We are continuing the practice of funding debt service with a dedicated portion of the property tax revenue.
- We are recommending delaying the next issuance of General Obligation Debt (Library, Sidewalks & Parks & Rec.) to Spring of 2010 to ensure adequate funding for debt service.
- Debt Capacity and Affordability study will be presented May 13th by Davenport & Co.

Existing Debt Service Costs



**Debt Service Peaks in FY09 –
additional capacity in FY11**

Property Taxes

- Property Taxes Represent more than 50% of General Fund Revenues and \$34 mil in total revenue.
- The Orange County revaluation resulted in the total Property Tax Base growing from \$5.88b to \$6.93b.
- This change in value includes a 24%* increase in real property and a 10% reduction in motor vehicles and personal property.

** Preliminary subject to change*

Revenue Neutral Tax Rate

- A revenue neutral rate must be published after a revaluation.
- The revenue neutral rate is the property tax rate that generates the same tax revenue as was collected the year preceding the revaluation, adjusted for growth.
- The growth adjustment calculated per state statute is 3.1%. This is skewed by a 26.6% growth rate for Durham Co. We are recommending a growth factor of 1.8% that represents the Orange County growth rate.

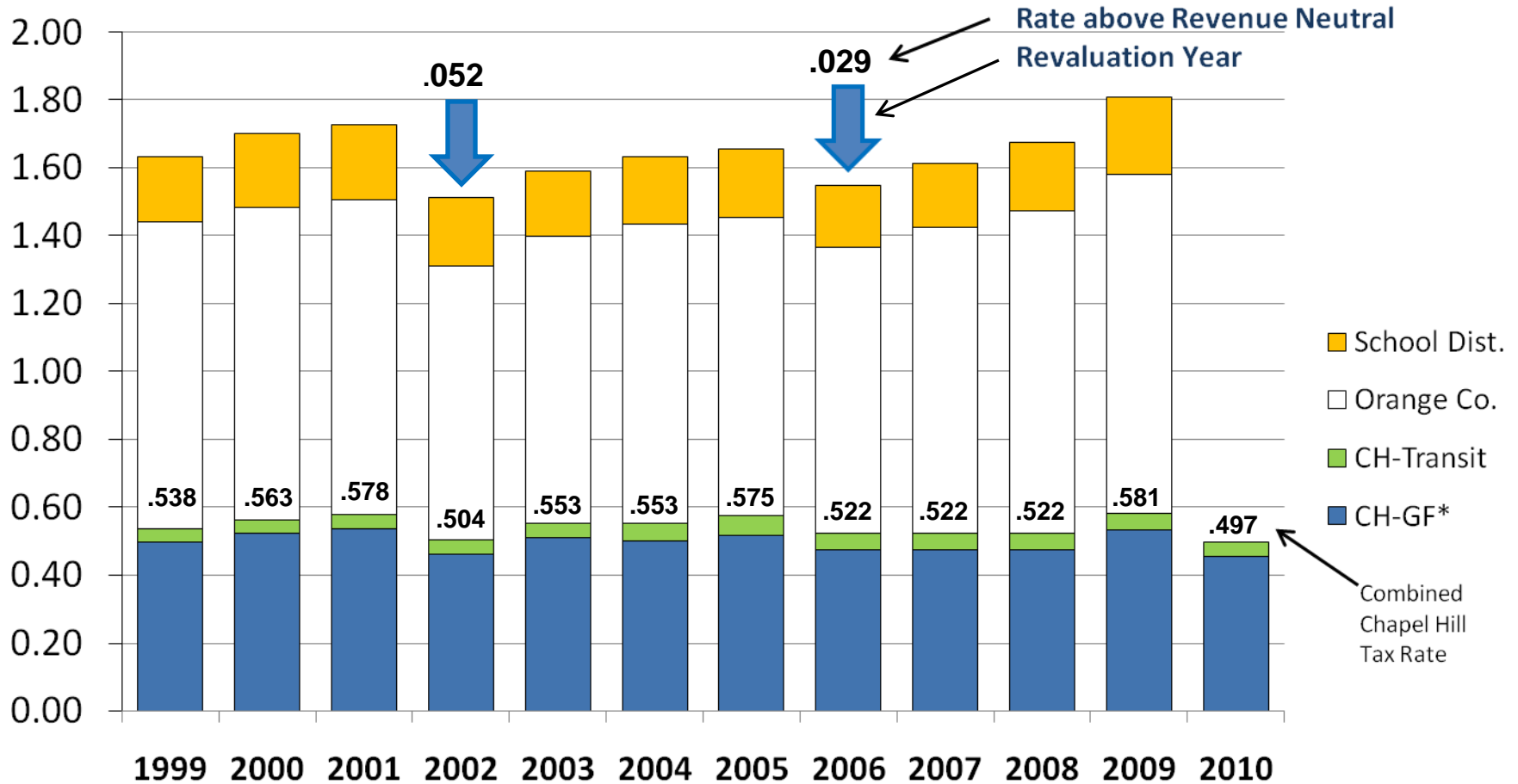
Revenue Neutral Tax Rate Calculation

	Assessed Value	Tax Rate cents	Levy
FY2008-09	5,821,775,337	58.1	\$ 33,782,145
FY2009-10	6,921,472,787	48.8	\$ 33,782,145
	Plus Growth Factor 1.8%*	49.7	

* Growth factor for both Durham and Orange Counties combined is 3.1% giving a true revenue neutral rate of 49.8 cents. Recommended rate uses Orange County growth of 1.8%.

Tax Rates for Chapel Hill

and Overlapping Districts (Orange County)



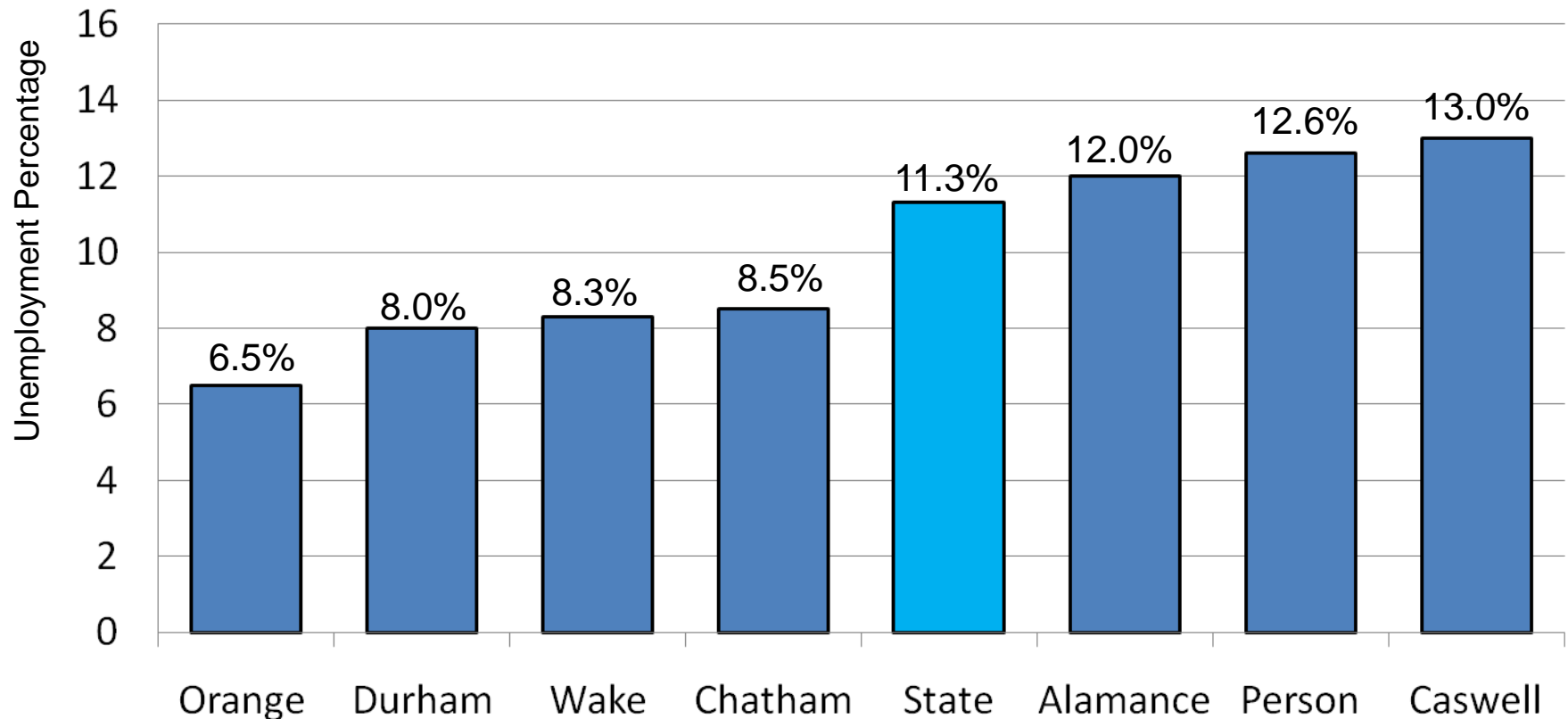
* Does not include Downtown District – Includes Debt Service Fund for 2009

The Economy

- We are currently in the longest recessionary period since the Great Depression
- Most significant impact for Town is sales tax receipts
- Recently, signs of economy rebounding have emerged:
 - North Carolina State Unemployment Down 0.4%
 - Nationally consumer confidence numbers improving from 26.9 in March to 39.2 in April

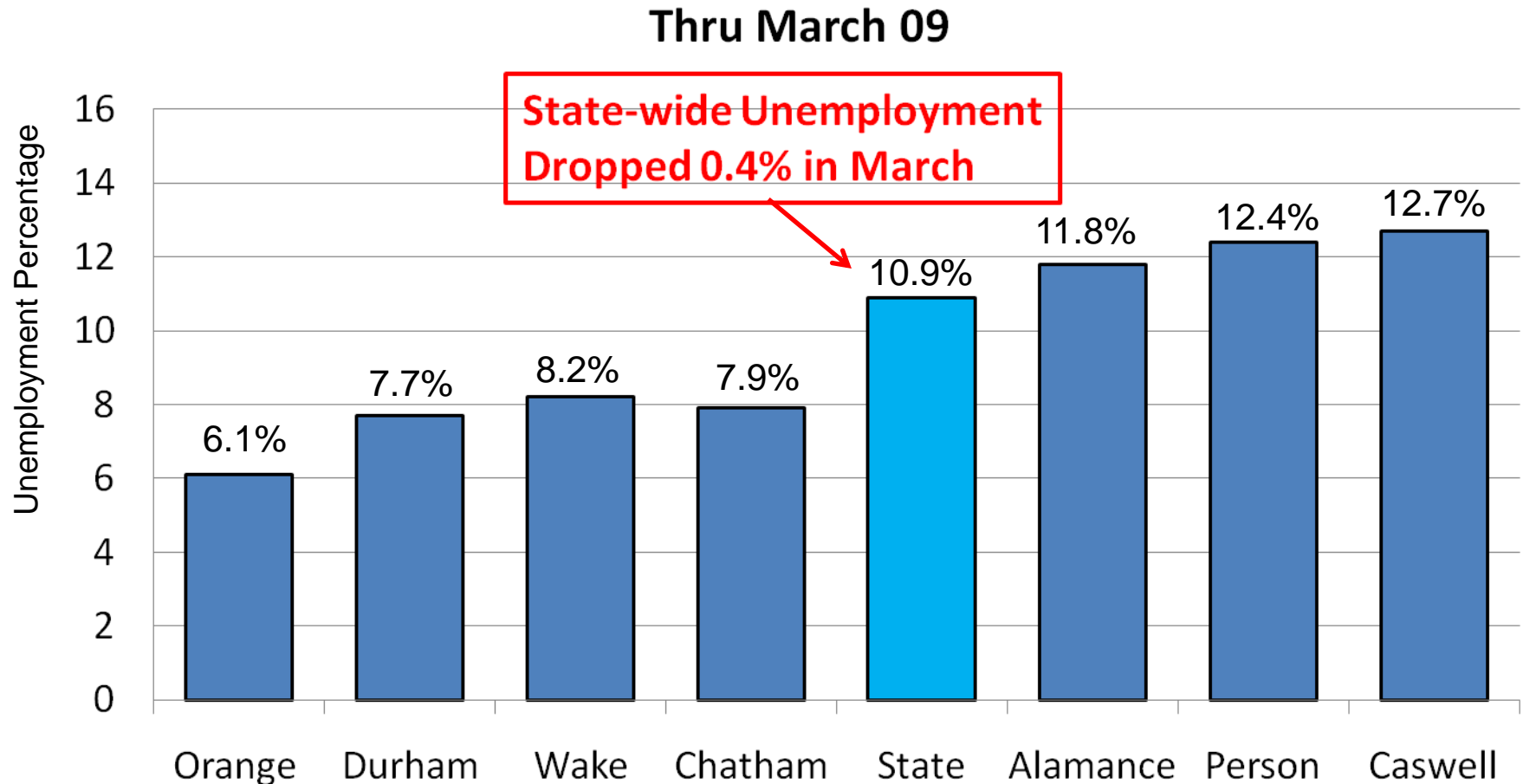
Unemployment by County

Thru February 09



Source: Employment Security Commission of NC

Unemployment by County



Source: Employment Security Commission of NC

Sales Tax Receipts 2008-09

- **January's** Sales Tax Collections are down 9.2% (\$83,657) compared to January of last year.
 - Article 40 & 42 segments that are based on population decreased 16.5% and 16.9%, respectively.
 - Article 39 & 44 segments are based on point of sale* and decreased 1.4% and decreased 5.5% respectively.

	Article 40	Article 42	Article 39	Article 44	Total
Jan 2008	\$ 209,603	\$ 207,940	\$ 332,416	\$ 164,747	\$ 828,052
Jan 2009	174,918	172,739	327,684	155,709	730,147
Difference	(34,685)	(35,201)	(4,733)	(9,038)	(83,657)
Percent	(16.5%)	(16.9%)	(1.4%)	(5.5%)	(9.2%)

- 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 Receipts down
9.2% Jan 08 vs Jan 09**

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**.

Estimated Savings at Year-end: \$2,656,000

(This amount is partially based on departmental estimates – does not include OPEB contribution)

Fund Balance

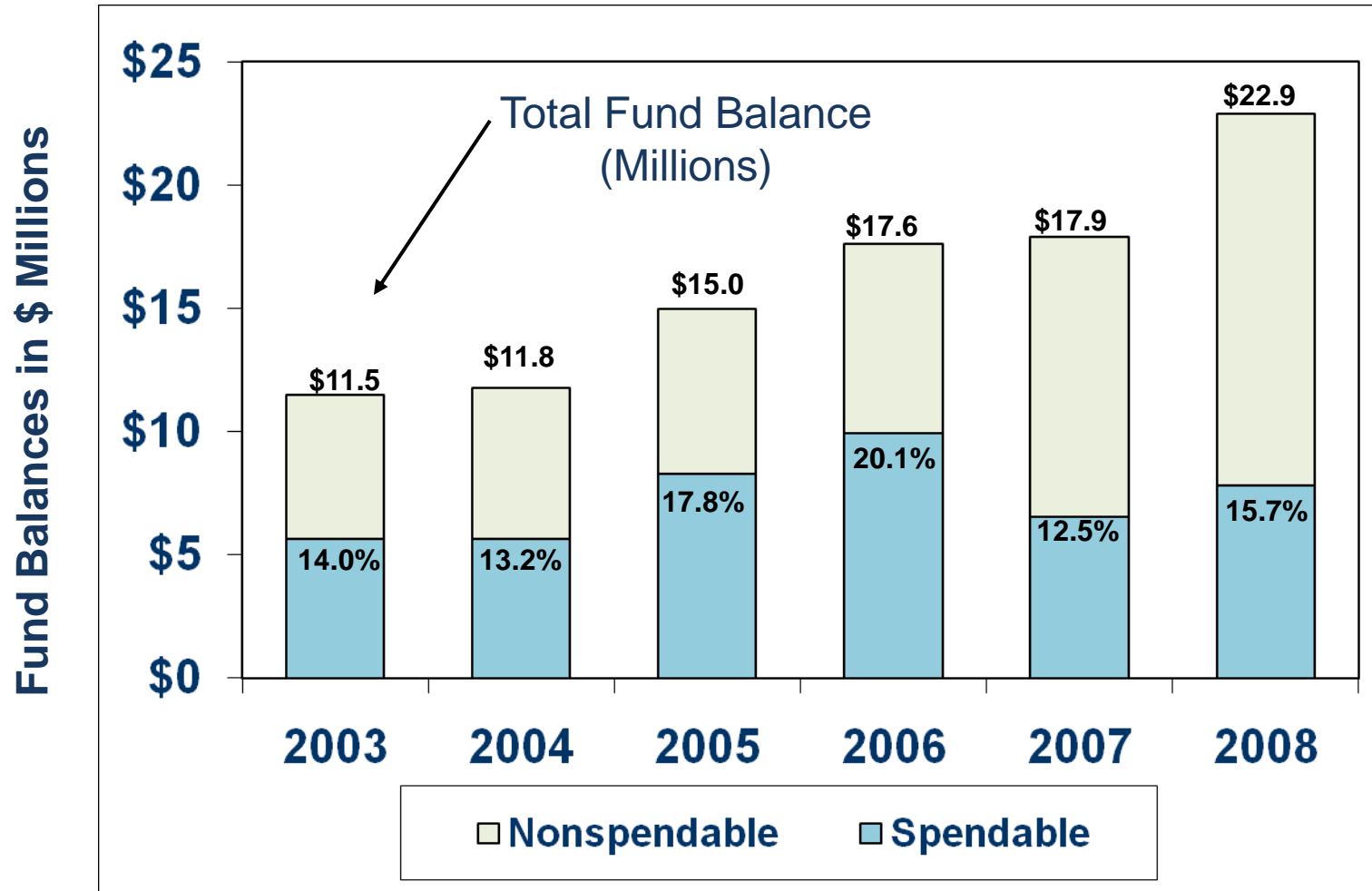
- Healthy fund balance levels are necessary to facilitate cash flow and to act as insurance against unplanned extraordinary expenditures.
- Fund balance levels are important credit criteria for bond rating agencies.
- Our current fund balance level is consistent with the triple A peer group.
- The projected fund balance is lower than the triple A peer group

Use of Fund Balance

- There are two components of fund balance being used to fill the FY2009-10 Budget Gap.
 - The first is excess of revenues over expenditures generated during FY2008-09 and reserved in Budget Savings accounts. We propose to use \$2,000,000 of these funds.
 - The second is accumulated fund balance which does not include current year excess of revenues over expenditures. The following slide shows the history of accumulated fund balance. We propose using \$1,270,000 of accumulated fund balance.
 - Using this strategy we believe fund balance will drop to between 13% and 14% calculated at year-end.

General Fund Balances

Year Ended June 30



General Fund Budget Includes

- Personnel Costs:
 - 17.4% Medical Insurance Increase 786,000
 - Retiree Medical Liability Cost 400,000 *
 - Retiree Medical Insurance 704,000
 - Police Separation Allowance 279,000

* Partial Funding OPEB Liability

General Fund Budget Includes

- Operating Costs:
 - Aquatics Center Operating \$ 1,045,000
 - Contributions to Agencies 836,500
 - Housing Subsidy 176,000
 - CIP Funding 397,000

General Fund Operating Budget

EXPENDITURES	FY09 Original Budget	FY09 Revised Budget	FY09 Estimated	FY10 Recommended Budget	% Change
Personnel	\$34,079,451	\$32,912,321	\$32,263,980	\$34,688,941	1.8%
Operating Costs	14,428,549	17,522,671	15,492,505	14,673,059	1.7%
Capital Outlay	1,113,000	1,466,158	1,455,162	397,000	-64.3%
Total	\$49,621,000	\$51,901,150	\$49,211,647	\$49,759,000	0.3%

General Government

EXPENDITURES	FY09 Original Budget	FY09 Revised Budget	FY09 Estimated	FY10 Recommended Budget	% Change
Mayor/Council	\$444,572	\$444,572	\$446,349	\$529,378	19.1%
Manager /CaPA	1,737,425	1,939,716	1,790,750	1,666,042	-4.1%
Human Resources	875,446	891,419	807,339	877,714	0.3%
Business Management	2,574,619	2,952,820	2,768,100	2,556,376	-0.7%
Town Attorney	295,591	298,984	288,328	294,130	-0.5%
Total	\$5,927,653	\$6,527,511	\$6,100,866	\$5,923,640	-.1%

Development

EXPENDITURES	FY09 Original Budget	FY09 Revised Budget	FY09 Estimated	FY10 Recommended Budget	% Change
Planning	\$1,355,536	\$1,423,702	\$1,303,248	\$1,291,492	-4.7%
Public Works	11,931,449	12,532,593	12,066,924	12,046,988	1.0%
Total	\$13,286,985	\$13,956,295	\$13,370,172	\$13,338,480	0.4%

Public Works now includes
Inspections and Engineering

Public Safety

EXPENDITURES	FY09 Original Budget	FY09 Revised Budget	FY09 Estimated	FY10 Recommended Budget	% Change
Police	\$12,073,399	\$12,090,420	\$11,464,374	\$12,138,197	0.5%
Fire	7,081,622	7,117,716	6,804,096	7,296,270	3.0%
Total	\$19,155,021	\$19,208,136	\$18,268,470	\$19,434,467	1.5%

Leisure

EXPENDITURES	FY09 Original Budget	FY09 Revised Budget	FY09 Estimated	FY10 Recommended Budget	% Change
Parks & Recreation	\$5,550,595	\$5,692,799	\$5,432,027	\$5,823,996	4.9%
Library	2,358,636	2,370,237	2,263,009	2,373,932	0.6%
Total	\$7,909,231	\$8,063,036	\$7,695,036	\$8,197,928	3.7%

Increase in Parks & Recreation Costs due to opening of the Aquatics Center and Southern Community Park, as well as transfer of Landscape Division from Public Works.

Performance Agreements

- Funding levels are largely the same as last year.
- The use of a universal application and evaluation process building on the Human Services Advisory Board model was used
- A panel consisting of key staff reviewed applications that did not go to HSAB.

Performance Agreements with Other Agencies

All AGENCIES	FY09 Contribution	FY10 Recommendation
Human Services	\$ 357,900	\$ 357,900
Arts*	10,500	10,500
Affordable Housing	238,100	238,100
Economic Development*	214,500	229,500
Total All Agencies	\$ 821,000	\$ 836,500

* Includes Visitors Bureau increase to \$130,000

Downtown Service District Fund

- Adoption of the revenue neutral rate will reduce the District Tax from 9 cents to 7.1 cents.
- The fund pays for a groundskeeper for downtown, funding for the Chapel Hill Downtown Partnership (CHDP) and special project.
- CHDP's allocation is for FY2010 is \$120,000.
- The FY2010 budget also includes \$50,000 for the Downtown Master Plan.

Transit Fund Budget

- Preliminary Budget for FY10 is \$16.7 million
- 2.6 % increase over FY09
- The revenue neutral tax rate for Transit is 4.1 cents
- Major Changes:
 - Fuel Contract Pricing
 - ARRA Funds
 - Capital Reserve
- Budget is balanced using \$603,000 in grant funds to offset operating costs

Transit Budget

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Administration & Non-Departmental	\$770,535	\$890,882	\$1,391,977	\$1,272,804	65.2%
Grant-Funded	344,155	316,166	316,165	101,666	-70.5%
Recovery Act	-	-	-	500,000	N/A
Fixed Route	9,891,876	9,796,185	9,432,368	9,648,399	-2.5%
Demand Response	1,548,841	1,530,426	1,350,636	1,572,152	1.5%
Special Events	366,631	346,631	324,942	326,044	-11.1%
Vehicle Maintenance	3,330,362	3,253,927	3,206,718	2,649,088	-20.5%
Building Maintenance	-	-	-	603,479	N/A
Total	\$16,252,400	\$16,134,217	\$16,022,806	\$16,673,632	2.6%

Transit Budget

REVENUES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Charges for Service	\$480,105	\$480,105	\$598,156	\$623,965	30.0%
Federal Assistance	2,201,666	2,201,666	2,201,666	2,389,666	8.5%
State Assistance	3,545,519	3,319,737	3,319,737	2,900,000	-18.2%
Recovery Act	-	-	-	500,000	N/A
UNC Contracts	6,005,404	6,005,404	6,005,404	5,988,321	-0.3%
Carrboro Contracts	1,033,837	1,033,837	1,033,837	1,038,180	0.4%
Chapel Hill	2,985,869	2,945,869	2,864,006	3,233,500	8.3%
Fund Balance	-	147,599	-	-	N/A
Total	\$16,252,400	\$16,134,217	\$16,022,806	\$16,673,632	2.6%

Capital Improvement Plan Funding

- The proposed CIP for FY10 includes \$749,000 for new projects, including:
 - \$ 300,000 for technology projects
 - \$ 100,000 for Municipal Facilities
 - \$ 130,000 for Infrastructure
 - \$ 219,000 for Parks/Public Use Facilities

Budget Calendar

- **May 6 - Manager's Recommended Budget**
- May 13- Budget Work Session
 - Report from Financial Advisor, Benefits Consultant and NCLM
- May 20 - Public Hearing and Budget Work Session
- June 3 - Budget Work Session*
- June 8 - Budget Adoption

* *As needed*