

MEMORANDUM

TO: Mayor and Town Council

FROM: Roger L. Stancil, Town Manager
Kenneth C. Pennoyer, Director of Business Management

SUBJECT: Consideration of Final Budget and Related Items

DATE: June 8, 2009

PURPOSE

Adoption of the attached ordinance would establish the budget for 2009-10 and authorize a variety of related actions. Fiscal year 2009-10 is a real property revaluation year and the tax rates reflected in the recommended budget are established at a revenue neutral rate. The recommended ordinance establishing the budget for 2009-10 sets a tax rate of 36.0 cents per \$100 assessed value for the General Fund, 9.3 cents per \$100 assessed value for Debt Service and 4.1 cents per \$100 assessed value for the Transportation Fund for a combined tax rate of 49.4 cents per \$100 assessed value, a decrease of 8.7 cents from the 2008-09 rate. The recommended ordinance sets the tax rate for the Downtown Service District at 7.1 cents per \$100 assessed value, a decrease of 1.9 cents from the 2008-09 rate.

The comprehensive ordinance approving the FY2009-10 budget comprises several sections:

1. Appropriations
2. Revenues
3. Tax Levy
4. Special District Tax Levy
5. Authorities for Transfers and Adjustments
6. Classification and Pay Plan
7. Recommended User Fees
8. Reappropriation of outstanding Purchase Orders

The Council may choose to make changes to each section prior to approval of the comprehensive ordinance.

DISCUSSION

We recommend enactment of the attached Budget Ordinance which constitutes the annual budget for 2009-10. The final budget proposal:

- Sets a revenue neutral tax rate,
- Maintains fund balance above the 12% minimum target,
- Maintains basic services,
- Maintains current employee pay and benefits levels , absorbing a 17% increase in health insurance premiums,

- Provides for a reduced Capital Improvement Program and delays the issuance of general obligation debt until Spring of 2010
- Continues contributions to Human Services, Arts, Affordable Housing and Economic Development agencies at the same level as the current year, and
- Provides a fare free transit system as in past years

REVENUE NEUTRAL TAX RATE: State law requires the Town to declare a revenue neutral tax rate for FY2009-10, a revaluation year for Orange County. The revenue neutral rate calculated in accordance with State statutes is shown in the table below. We also show the recommended rate that is slightly lower than the revenue neutral rate. We are recommending the slightly lower rate because the growth factor used to calculate the revenue neutral rate is skewed by unusually large growth in the portion of the Town that is in Durham County. The Durham County part of the Town grew at 26.6% per year during the revaluation period, while the Orange County portion grew at a rate of approximately 1.8% per year. To reflect what we believe to be a true growth rate for the Town, we are recommending a tax rate calculated using the average annual growth for Orange County only. We have balanced this budget using the recommended tax rates for the General Fund, Debt Fund and Transit Fund.

Property Tax Rates

	FY2008-09 Current	FY2009-10 Revenue Neutral	FY2009-10 Recommended
General Fund	42.3	36.5	36.0
Debt Fund	11.0	9.6	9.3
Transit Fund	4.8	4.1	4.1
Total	58.1	50.2	49.4

FUND BALANCE: We recommend appropriating \$3,143,373 from the Town’s fund balance to balance the General Fund budget and accomplish the Council’s goals. A portion of this fund balance comes from the budget savings set aside during the current fiscal year and the remainder is from existing fund balance. Based on our preliminary estimates, we will finish the current fiscal year with a 13.0% undesignated General Fund balance. This level of reserves is slightly below the average for the triple A rated peer group. Maintaining an adequate level of fund balance is critical to meet the cash flow requirements of this municipal corporation and to provide an emergency fund to safeguard the Town against the costs of recovering from unforeseen economic, emergency and natural disasters.

MAINTAIN BASIC SERVICES: The key to maintaining high quality services is our ability to retain experienced employees by providing a positive work environment and a competitive compensation plan. This emphasis is also reflected in our cost structure, with employee pay and benefits comprising almost 70% of the General Fund Operating expenditures. These costs also represent the greatest challenge in cost containment. The Town compensation plan strives to maintain compensation that is competitive and continues to attract and retain quality Town employees, based on prevailing wages and benefits in the Triangle labor market. The cornerstone of this strategy for Chapel Hill is maintaining highly competitive employee benefits. Repeatedly, our conversations with employees and prospective employees suggest that the Town’s benefit levels are an important recruiting and retention tool. Unlike many of our surrounding communities we have not decreased benefit levels in response to health care cost

inflation. We need to continue to address these rising costs through employee health initiatives and by ensuring we have the most efficient plan structure for the level of benefits we wish to provide. Over the next year, we will work with our healthcare consultants and our employees to review the current benefit structure to develop a plan that protects our employees on a sustainable basis and continues to serve as a recruiting tool.

For FY2009-10, we are expecting a 17% increase in employee medical benefits. Absorbing this additional expense puts significant pressure on departmental budgets. In order to accommodate this cost increase and still achieve the Council goal of adopting a revenue neutral tax rate, the recommended budget does not include adjustments to employee pay for next fiscal year. Our survey of other jurisdictions indicates that the vast majority of North Carolina governments are not providing a cost of living increase next year. For this reason we believe that the total compensation package offered by the Town continues to be competitive.

DELAYING DEBT ISSUANCE AND REDUCING CIP BUDGET: In the past few budget years, the Town has made significant investments in public facilities. As a result of those investments between 2004 and 2008, annual debt service on outstanding debt increased from \$2.4 million to more than \$6 million. For the FY2008-09 budget, a debt management plan was adopted to provide a better system for managing the Town’s debt and controlling its effect on the Town’s operating budget. While the current tax rate dedicated to the debt fund is sufficient for the debt service on issued debt, it is not sufficient to pay for the debt service on the \$20.4 million of authorized, but unissued, general obligation bonds. Our projections indicate that we can issue these bonds in Spring of 2010 without increasing the dedicated tax for the debt fund. We also anticipate that the economic conditions that have caused us to delay debt issuance will have improved by that time.

In addition to delaying debt funded capital projects, we have significantly reduced CIP projects funded through a transfer from the General Fund in the FY2009-10 Budget. The projects listed below, for the most part, provide minimal levels of major maintenance and facility improvements. The Fiber Optic Network Project represents a one-time opportunity to install a municipal fiber optic system in conjunction with NCDOT’s traffic signal project. This will create a fiber-optic infrastructure for the Town at approximately one tenth the cost of building it ourselves. Total funding for capital projects in the CIP is recommended at \$ 749,000. Projects included in the CIP for this year include the following:

Extraordinary Maintenance - Emergency Repairs	\$ 100,000
Curb Repairs: ADA Compliance	30,000
Fiber optic cable	300,000
Small Park Improvements	60,000
Playground Replacement	75,000
Greenways Maintenance	50,000
Parking Lots/Paths/Trails	100,000
Sport Art Gymnastics Building and Grounds	14,000
Cemetery Beautification	20,000
Total	<u><u>\$ 749,000</u></u>

By delaying debt issuance until spring of 2010 and scaling back the CIP program, we eliminated approximately \$1.4 million of next year's budget gap.

PERFORMANCE AGREEMENTS WITH OTHER AGENCIES: The FY2009-10 Budget maintains approximately the same amount of funding for performance agreements with other agencies as the current year.

Performance Agreements with Other Agencies

Performance Agreements with Other Agencies	2009-10 Budget
Human Services	
Human Services Advisory Board Recommendations	\$ 357,900
Total Human Services	357,900
Environment	
Piedmont Wildlife	1,000
Total Arts	1,000
Arts	
Cultural Arts Dinner	500
ArtsCenter	10,000
Total Arts	10,500
Affordable Housing	
Orange Community Housing and Land Trust	200,000
Empowerment	13,500
Homelessness Initiative	24,600
Total Affordable Housing	238,100
Economic Development	
Chapel Hill/Orange County Visitors Bureau	130,000
North Carolina High School Athletic Association	29,000
Chapel Hill Downtown Partnership	70,000
Total Economic Development	229,000
Total Contributions to Agencies	\$ 836,500

FARE FREE TRANSIT SYSTEM: The recommended budget for the Transit Fund includes a 2.1% increase over last year's budget. This increase is due in part to increases in administrative and non-departmental costs. Overall operating costs for fixed route bus service is down 2%, due

in part to the use of a fixed price fuel contract to lock in prices at a level far below the current year's average price. State assistance is expected to decrease by 18.2%. This loss, however, is more than made up for by an increase in federal assistance and the anticipated receipt of Recovery Act (Stimulus) funds. Significant challenges lie ahead in FY 2010/11 as the continued availability of stimulus funds is not guaranteed. We need to pursue strategies for reducing costs and/or seeking alternative sources of funding to ensure the long-term stability of the system. In order to mitigate these challenges and to operate a more cost effective system, Chapel Hill Transit staff will:

- Evaluate individual route performance and introduce efficiencies as part of the short range planning process
- Identify additional funding options
- Develop short range operating and capital plans to identify future system needs

The components of the Budget Adoption Ordinance for FY2009-10 are as follows:

1. **Appropriations** – Authorizes funds to be expended in the FY2009-10 Budget by function and fund.
2. **Revenues** – Projects estimated revenues to be available during the FY2009-10 Budget Year
3. **Tax Levy** – Sets tax rates for the General, Debt, and Transit Funds expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2009.
4. **Special District Tax Levy** – Sets tax rate for the Downtown Service District expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2009.
5. **Authorities for Transfers and Adjustments** – Defines the authority to move funds among and between functions, projects and funds.
6. **Classification and Pay Plan** – Establishes salary grades, position classifications, number of authorized and funded positions and certain general provisions concerning payment of Town Employees for the FY2009-10 Fiscal Year. Authorizes the Town Manager to administer the classification and pay plan within the approved budget and authorized number of employees.
7. **Recommended User Fees** – Establishes all fees, fines and charges that may be imposed during the FY2009-10 Fiscal Year.
8. **Reappropriation of Outstanding Purchase Orders** – Appropriates encumbered balances from prior fiscal year so that financial obligations created in FY2008-09 can be paid in FY2009-10.

RECOMMENDATION

We recommend that the Council enact the attached ordinance to establish the FY2009-10 Town Budget.