



Town of Chapel Hill

Preliminary Report

2008-09 Budget Development

March 26, 2008

Kenneth C. Pennoyer
Director of Business Management

Purpose

- Update Status of Budget Preparation
- Identify Key Budget Issues for FY09
- Preliminary Budget Numbers for General Fund and Transit

Budget Status

- Developed Preliminary Base Budgets with Departments – Additional review is pending
- Formulating Strategies for Major Budget Issues
- Works in Progress:
 - Capital Budget
 - Other Funds
 - Balancing GF and Transit
 - Department Adds

Key Budget Issues

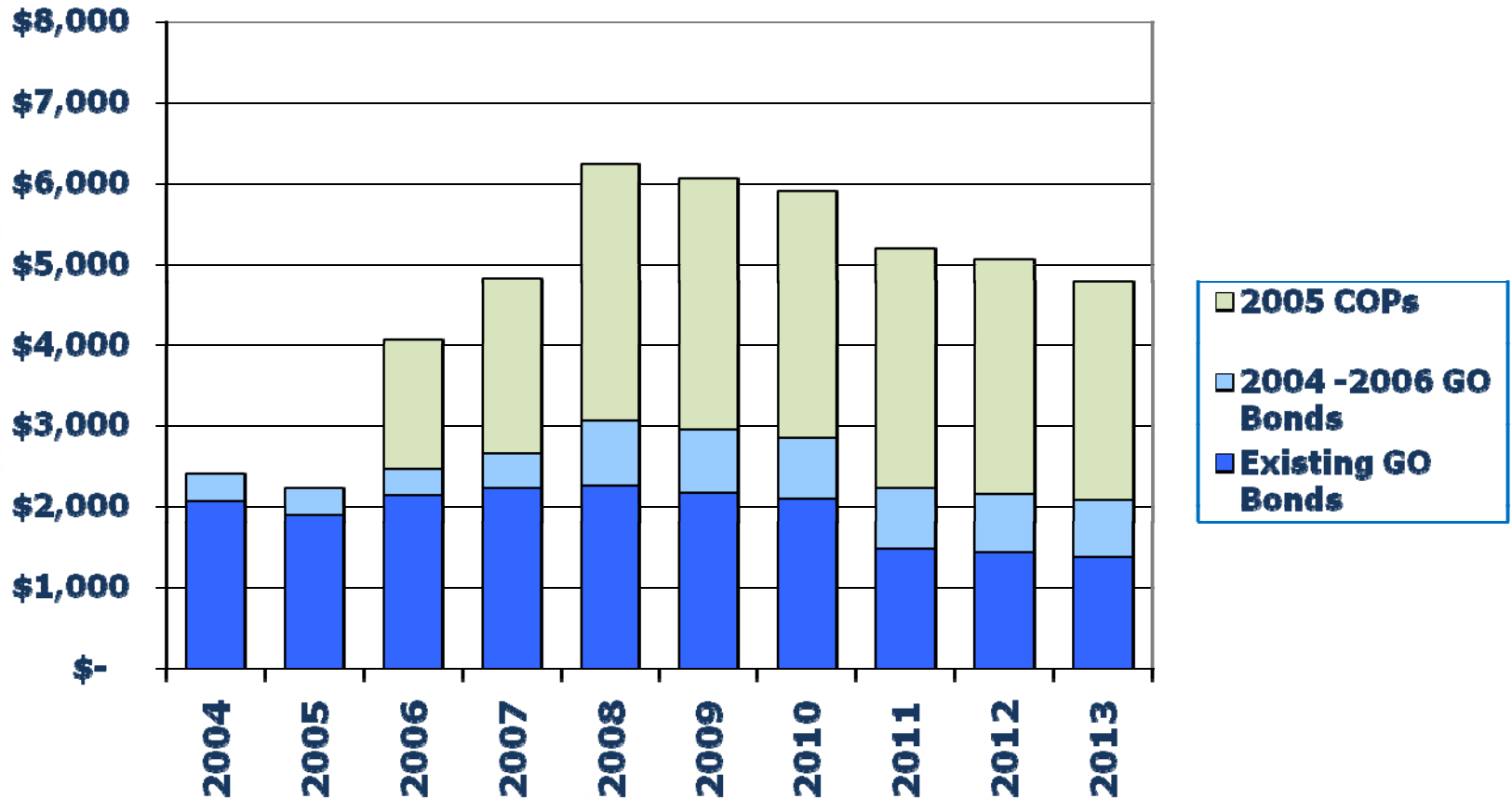
- Debt Service
- New Facilities
- Economic Conditions
- OPEB (Other Post Employment Benefits)
- Fund Balance Reduction
- Slow Revenue Growth

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.

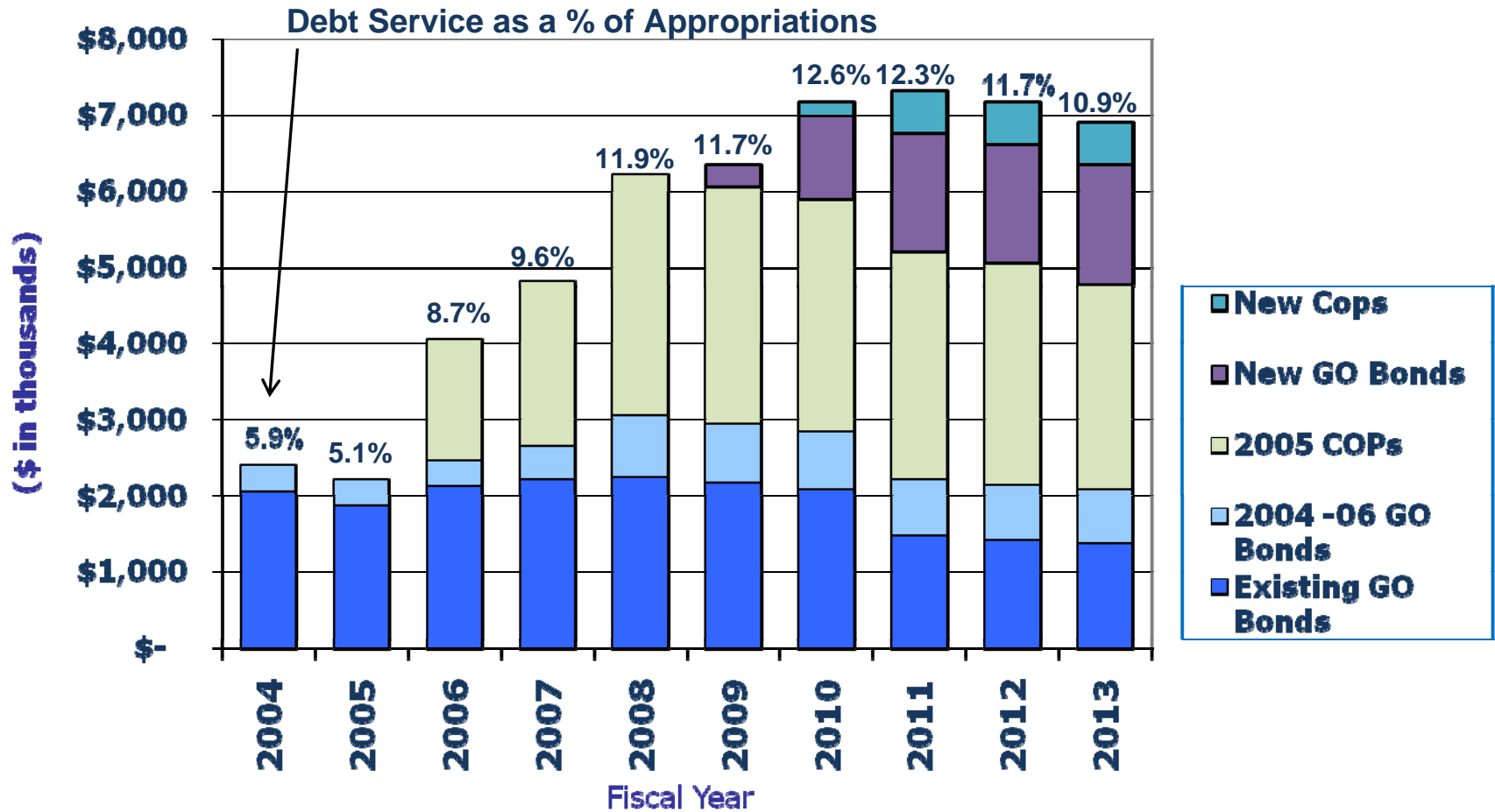
Existing Debt Service

(2004 though 2013)

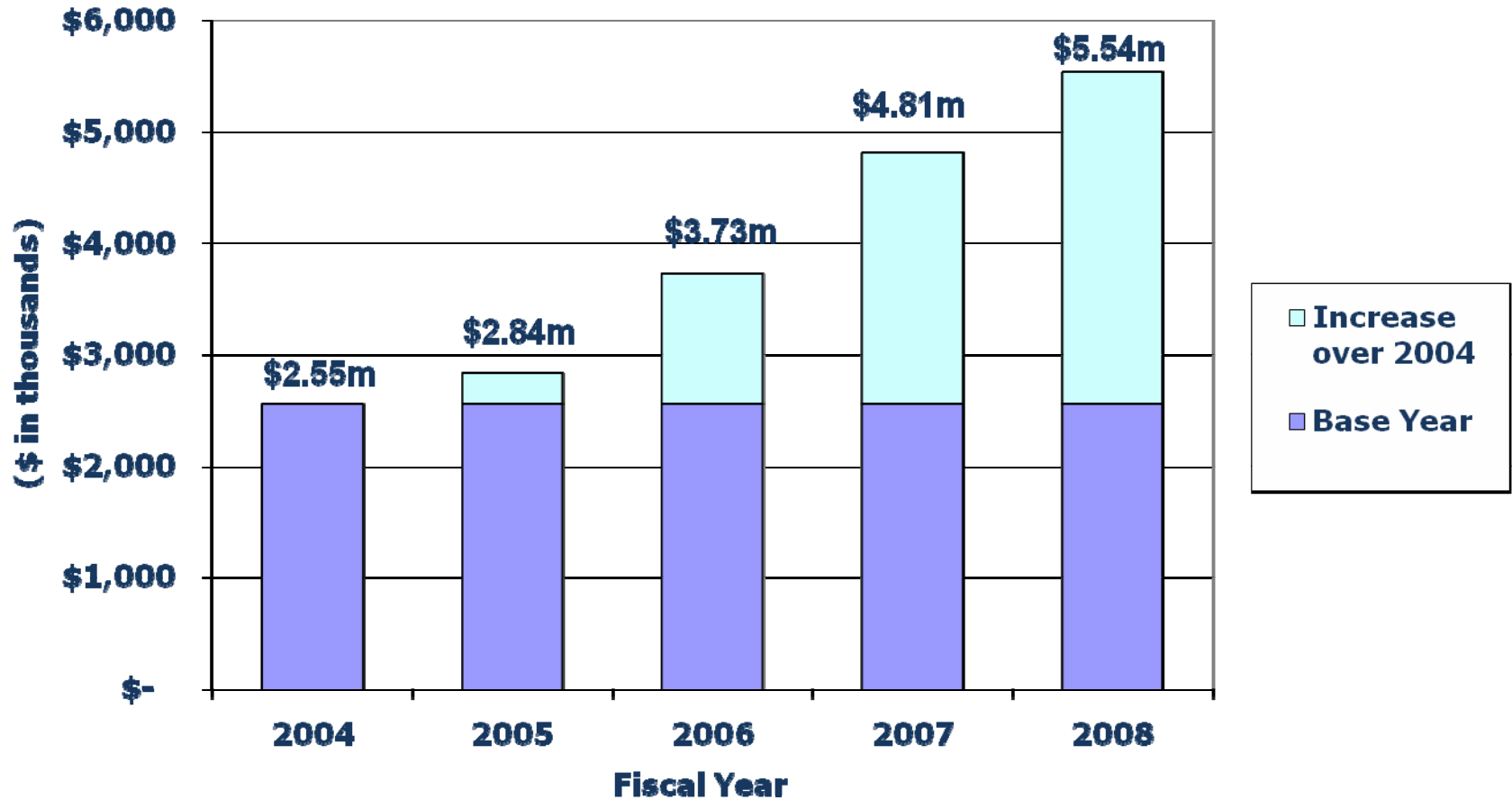


Existing & Planned Debt Service

(2004 though 2013)



Increase in Transfer for Debt Service



Transfers from GF for Debt Service are Depleting Fund Balance

Cost of New Facilities (General Fund)

| | FY09 Base Budget | FY 09 Requested ADD |
|-------------------------|-------------------|---------------------|
| Public Works - TOC | \$ 63,200 | \$ 133,600 |
| PW Stormwater Fees | (30,000) | 0 |
| IT Support - TOC | 10,000 | 29,700 |
| Aquatics Center | 427,900 | 112,300 |
| Southern Community Park | 0 | 50,000 |
| Total | \$ 471,100 | \$ 325,600 |

Economic Conditions

- Energy Cost Volatility - Fuel
- Housing Market slow-down impact on Municipal Debt and property taxes
- Health Care Costs
- Sales Tax Revenues – Losing market share to surrounding communities

Other Post Employment Benefits

- The Town's Liability for Post Employment Benefits includes both Health Insurance Coverage for retirees and the **Law Enforcement Officers (LEO) Special Separation Allowance**.
- The LEO Separation Allowance is a defined benefit plan that provides retirement benefits to sworn law enforcement officers based on their base rate of compensation and years of service.
- The Town is using the pay-go method of funding and the estimated cost for FY09 is \$294,500.

OPEB Funding Requirements

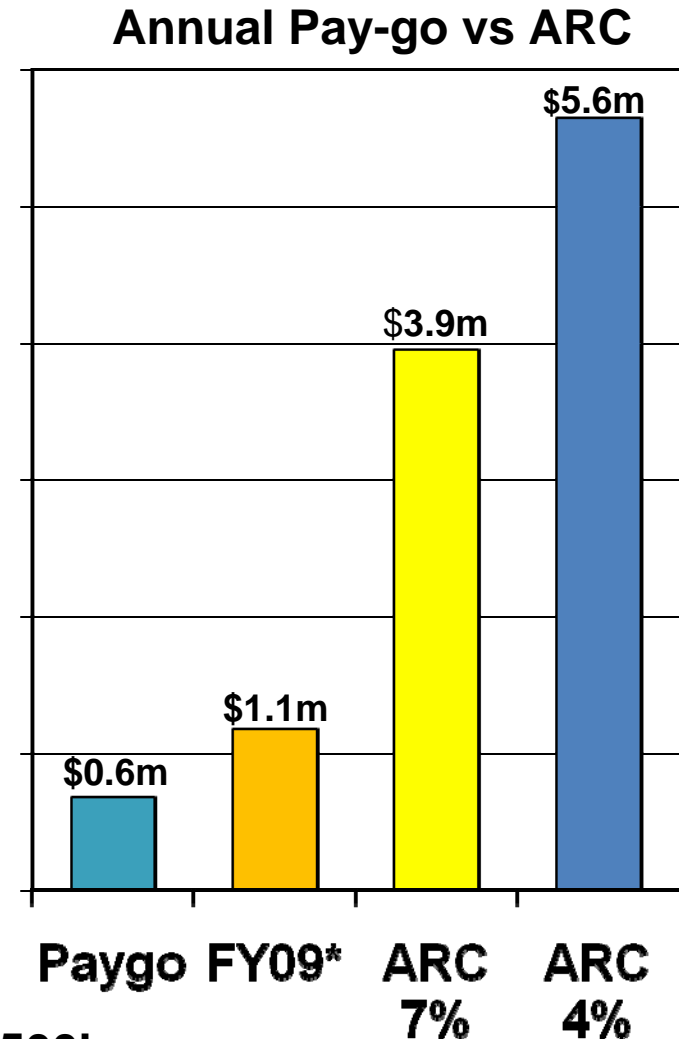
- GASB 45 - Requires that all governments treat OPEB in the same manner as pension fund obligations beginning FY08.
- Based on the current benefit structure the Town's Liability is \$45 million.
- Annual required contribution (ARC) will be determined by actuarial study and reported starting in FY08.
- Currently we are handling OPEB expenses on a pay-as-you-go basis (\$655,000 per year for retiree health and \$294,500 for LEO separation allowance).
- Based on current benefit levels and a conservative interest rate assumption, ARC payments will be \$5.6 mil per year.

OPEB Next Steps

- Set up irrevocable trust for other post employment benefits
- Begin funding OPEB at a level higher than pay-go (\$500,000 – recommended minimum)
- Invest trust funds with the State Treasurer's Local Government Other Post-Employment Benefits Fund
- Reduce liability and ARC by changing benefit structure

Future OPEB Liability

- Amount needed to fund OPEB on an actuarially sound basis will exceed our current funding level by more than nine times the current pay-as-you-go cost



* Recommended fund level – pay-go plus \$500k

Fund Balance

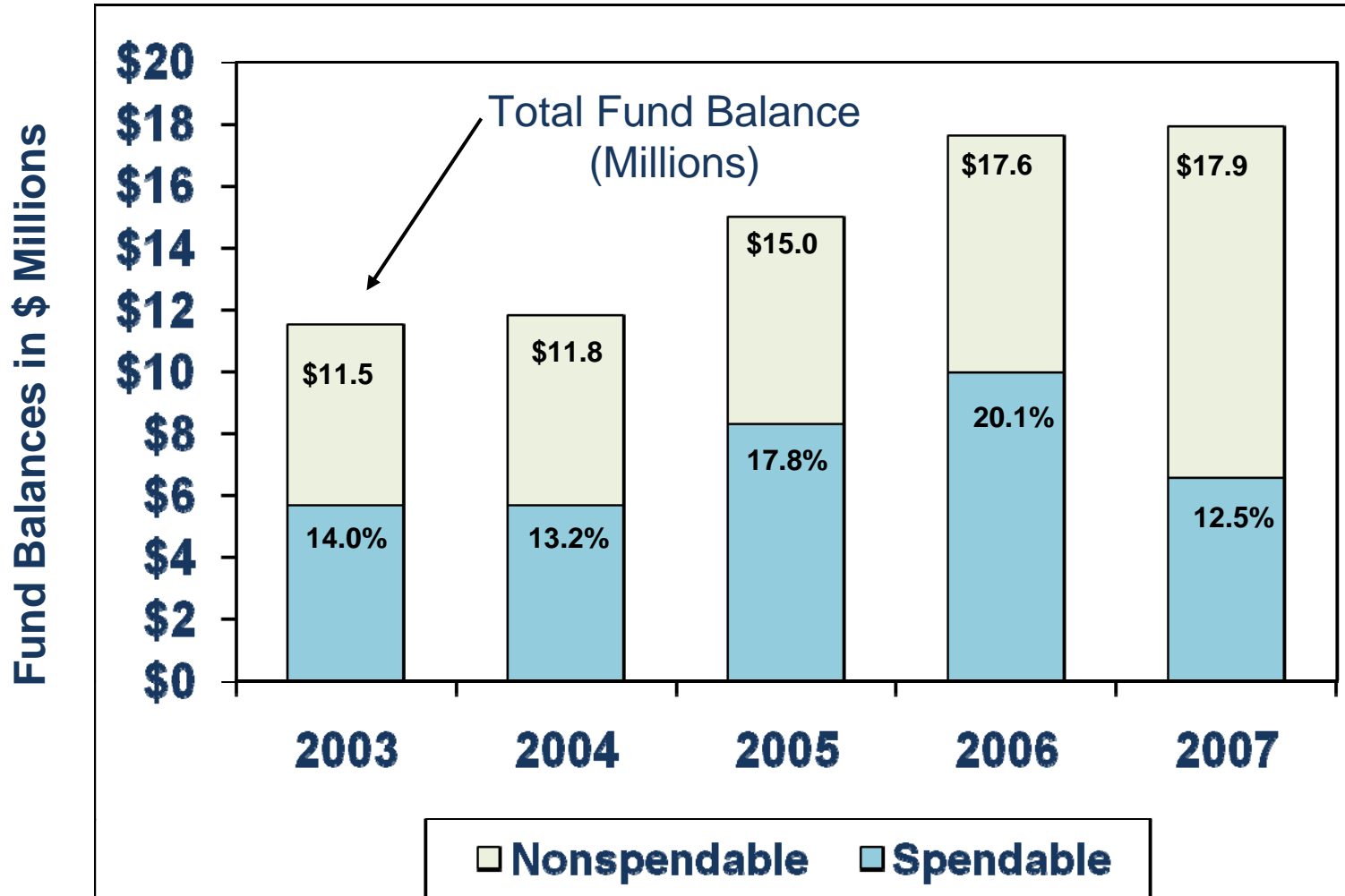
- There has been some confusion concerning the levels of fund balance and how fund balance is calculated.
- In different presentations, the portion of fund balance “available” was represented as either undesignated or unreserved fund balance.
- Designations and reservations of fund balance are equivalent with respect to calculating available or spendable fund balance.

Fund Balance

- New Government Accounting standards will change nomenclature so that fund balance will be either spendable or nonspendable.
- Spendable fund balance is the number that represents funds available for appropriation.
- The spendable fund balance in the GF as of the last audited financial statements is 12.5%.
- Continued spend-down of fund balance below 12% would be a negative credit rating factor.

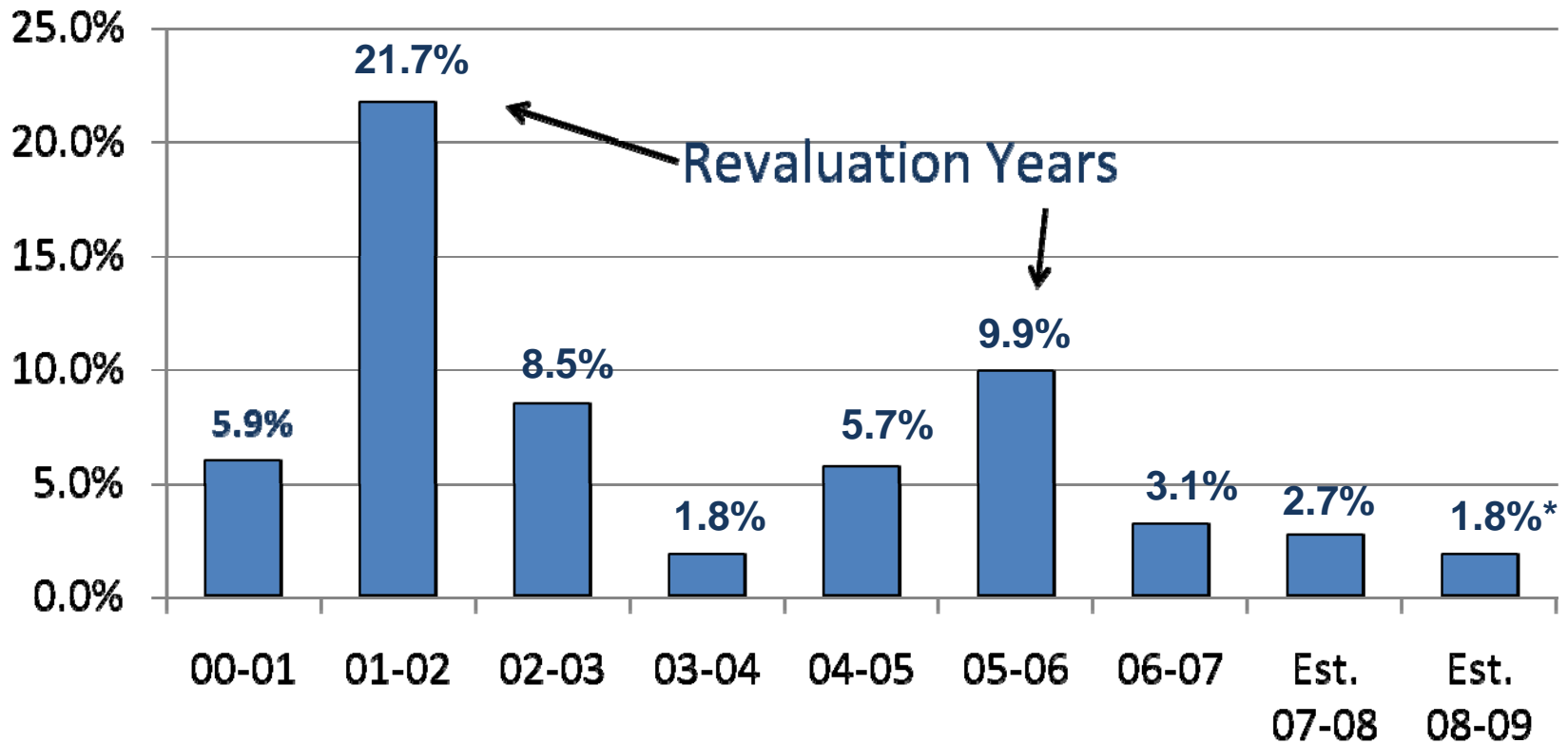
General Fund Balances

Year Ended June 30



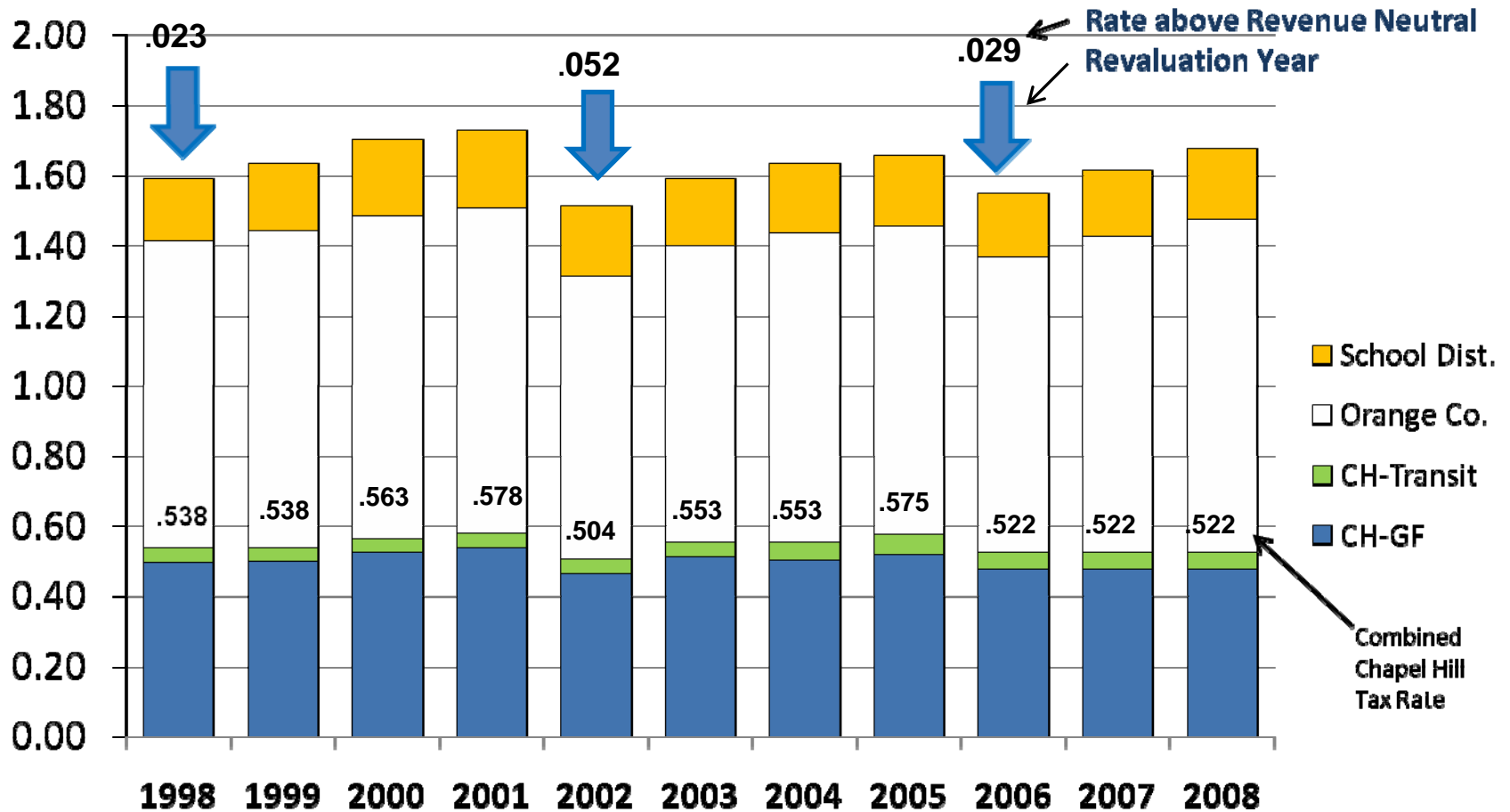
Property Tax Base Growth

Percent Increase in Tax Base

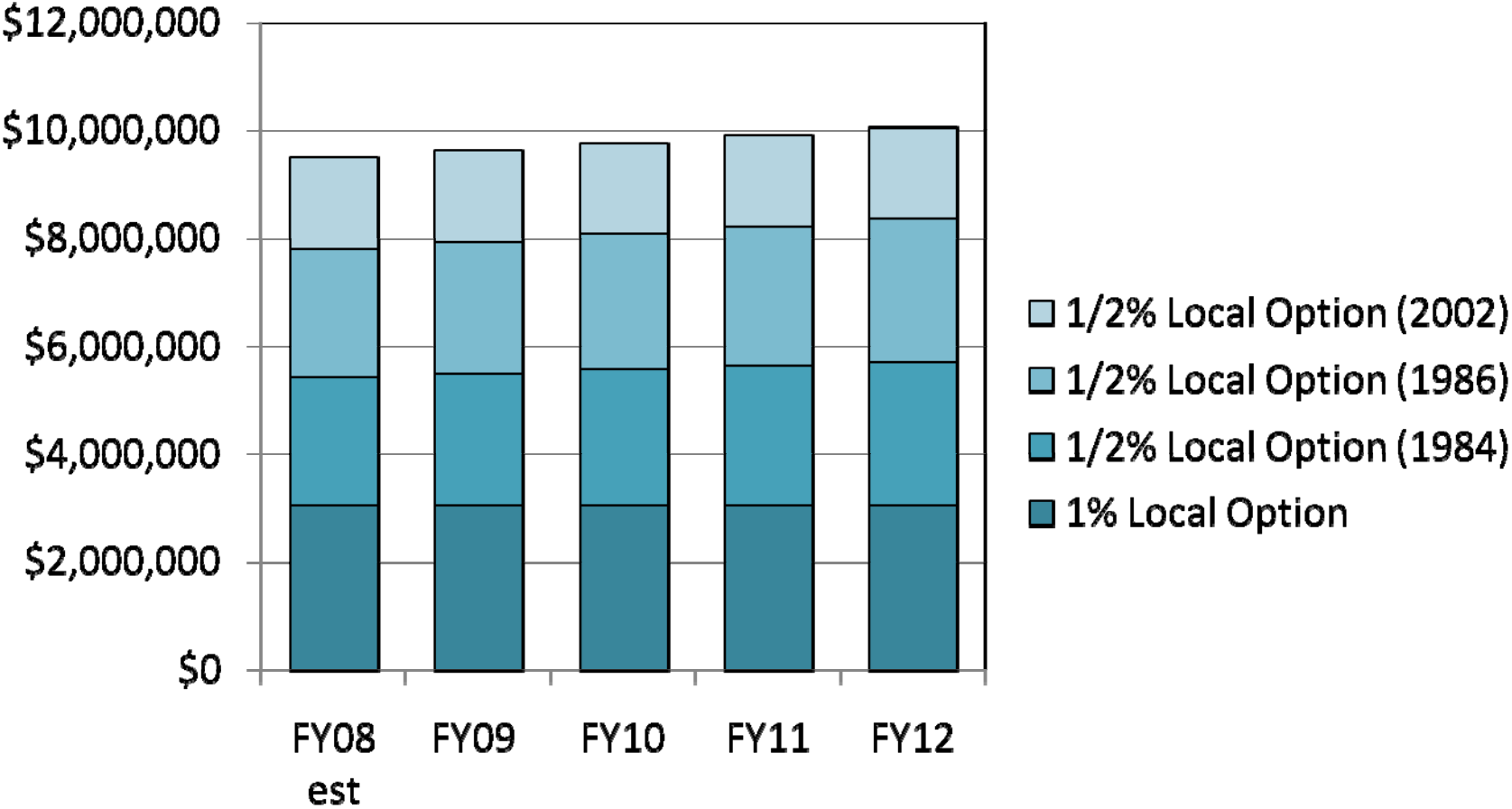


* Does not include Durham Revaluation

Tax Rates for Chapel Hill and Overlapping Districts

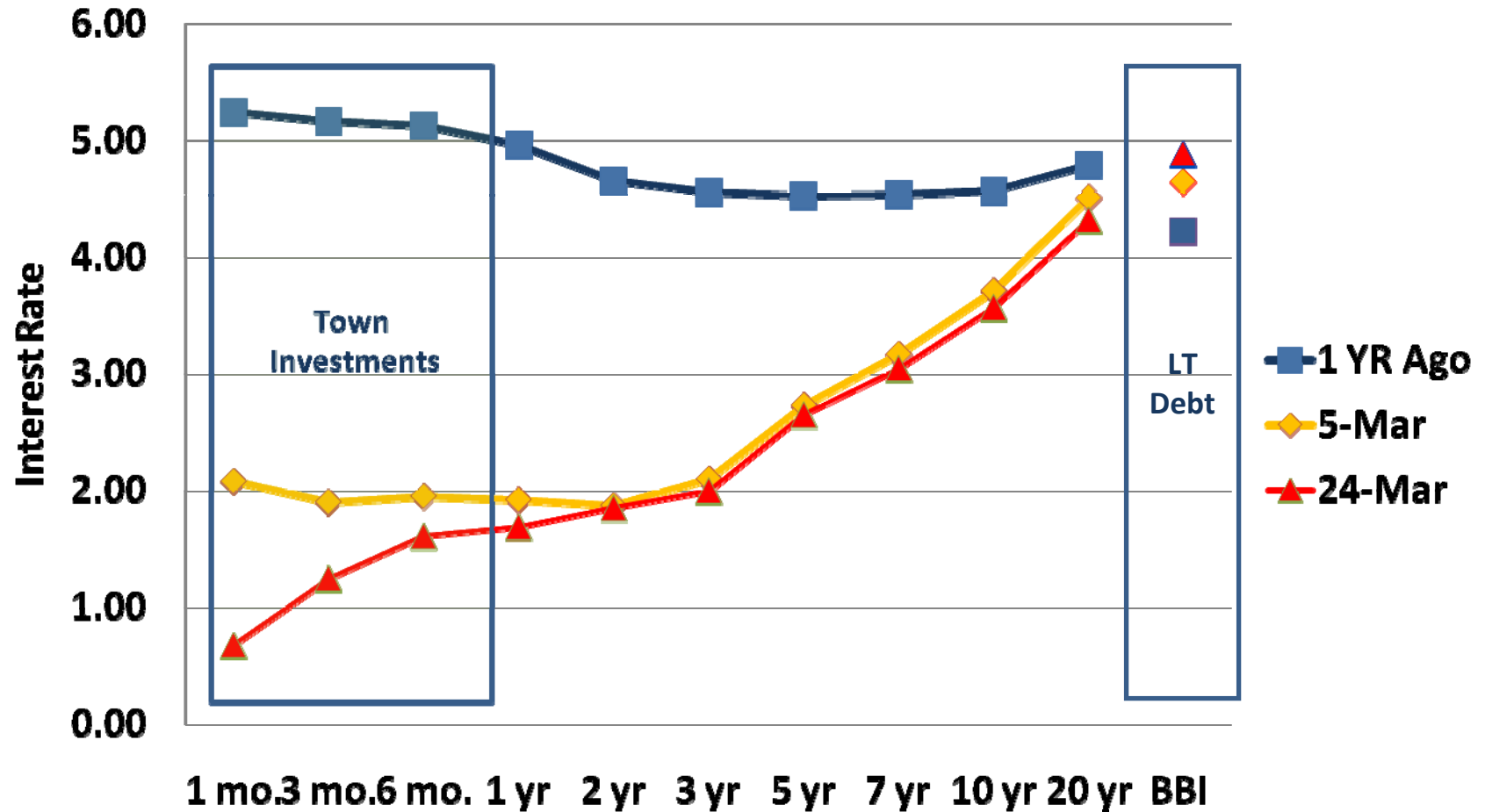


Sales Tax Revenue Projections



Projected annual increase of about 1%

Treasury Yield Curve and Bond Buyer 20 Yr Index



Reduction in short-term interest rates will reduce interest earnings in FY09

General Fund Budget

- Revenues for FY09 projected at \$49,726,000*
an increase of 4% over FY08 Budget
 - Additional \$550,000 due to Durham Revaluation
- Available from Fund Balance for FY09 Budget is \$2,707,000
 - Estimated \$970,000 FY08 Budget Expenditure Variance and \$1,737,000 Revenue Variance
 - \$1,300,000 from Durham Tax Settlement

* Updated – does not agree with memo

General Fund Budget

- Preliminary Base Budget for FY09 is \$52,289,280* a 3% increase over the FY08 Base Budget
- Additional costs to be distributed:
 - Medical Insurance Increase and Market/Merit Salary Adjustments estimated at \$973,000
 - Final calculation of Medical Ins. & Salary Adj. pending completion of Broker/Consultants work

* Updated – does not agree with memo

General Fund Budget

- Priority Additions to GF Budget
 - OPEB Trust Contribution \$500,000
 - Contributions to Agencies 851,000*
 - CIP Projects 447,000
 - Total \$1,798,000

 - Deficit Before Fund Balance 5,530,200*
 - Available Fund Balance 2,707,000
 - Net Deficit \$2,823,200*
 - Pennies on the tax rate (@\$576,000) **4.9***

* Updated – does not agree with memo

General Fund Budget

| | FY2007-08 Budget | FY2008-09 Budget |
|---------------------------|------------------|------------------|
| Revenues | \$47,814,000 | \$49,726,000 |
| Expenditures: | | |
| Base Budget | 49,532,103 | 52,484,200 |
| Priority Additions: | | |
| Salary Increase Proposed | 775,947 | 611,000 |
| OPEB Contribution | 0 | 500,000 |
| Contributions to Agencies | 851,000 | 851,000 |
| CIP Projects | 498,950 | 447,000 |
| Health Benefits Increase | 377,000 | 363,000 |
| Total GF Budget | \$52,129,000 | \$55,256,200 |
| Deficit | 4,315,000 | 6,174,200 |
| Fund Balance | 4,315,000 | 2,707,000 |
| Net Deficit | 0 | \$2,823,200 |
| Tax Increase to Balance | | 4.9 |

Transit Budget

- Preliminary Budget for FY09 is \$16.8 million
- 14.5 % increase over FY08
- Additional Revenue of \$738,000 (1.3 pennies on tax rate) is needed
- Major Increases:
 - Fuel
 - Liability Insurance
 - Capital Reserve
 - Salaries

Budget Calendar

- **Mar 26 - Budget Status Report to Council**
- April 16 – Budget Work Session – Reports from Other Agencies
- April 28 – Public Forum - Manager’s Recommended Budget
- May 7- Budget Work Session *
- May 14 – Public Hearing
- May 21 - Budget Work Session *
- June 4 - Budget Work Session *
- June 9 - Budget Adoption

* *As needed*