



Town of Chapel Hill

Manager's Recommended Budget for FY 2008-09

May 5, 2008

**Roger Stancil
Town Manager**

Goals of the FY 2008-09 Budget

- Support Council's Priorities
- Move Toward Financial Sustainability
- Address Debt Service Funding
- Provide Competitive Compensation for Employees
- Maintain Existing Service Levels
- Support New Facilities and Maintain Existing Facilities

Goals of the FY 2008-09 Budget

- Support Council's Priorities
 - Continue Organizational Culture Change
 - 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 proposed overall 5.9 cent tax increase

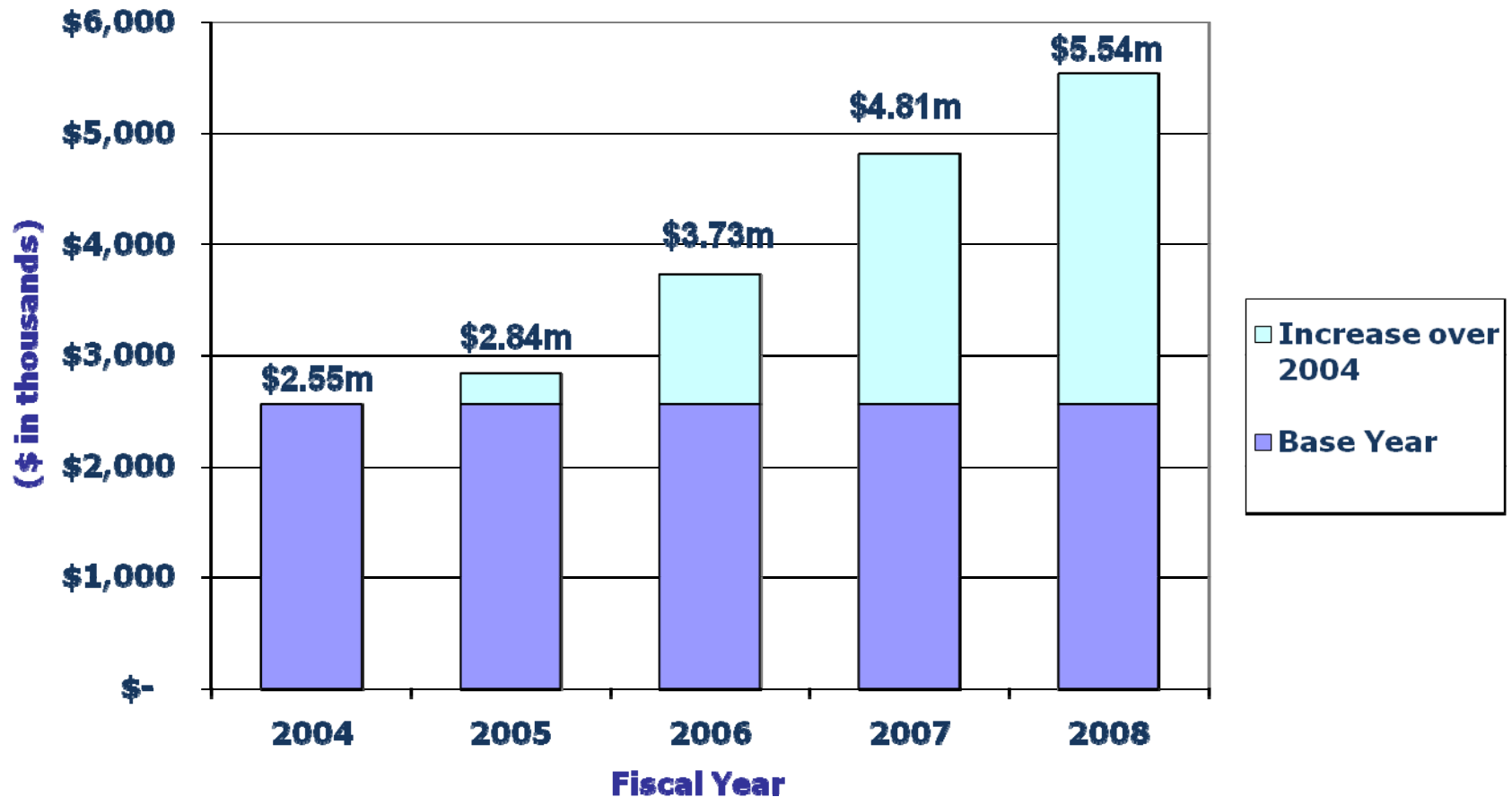
Significant Additions to Current (FY08) General Fund Budget

- Aquatics Center Operating Costs
- TOC Additional Operating Costs
- Employee Costs
 - 3% Salary Adjustment
 - 10% Increase in the cost of Benefits
 - \$400,000 for Post Employment Health Coverage
- Higher Funding Level for Capital Improvements
- Fuel, Energy and Utility Cost Increases

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.

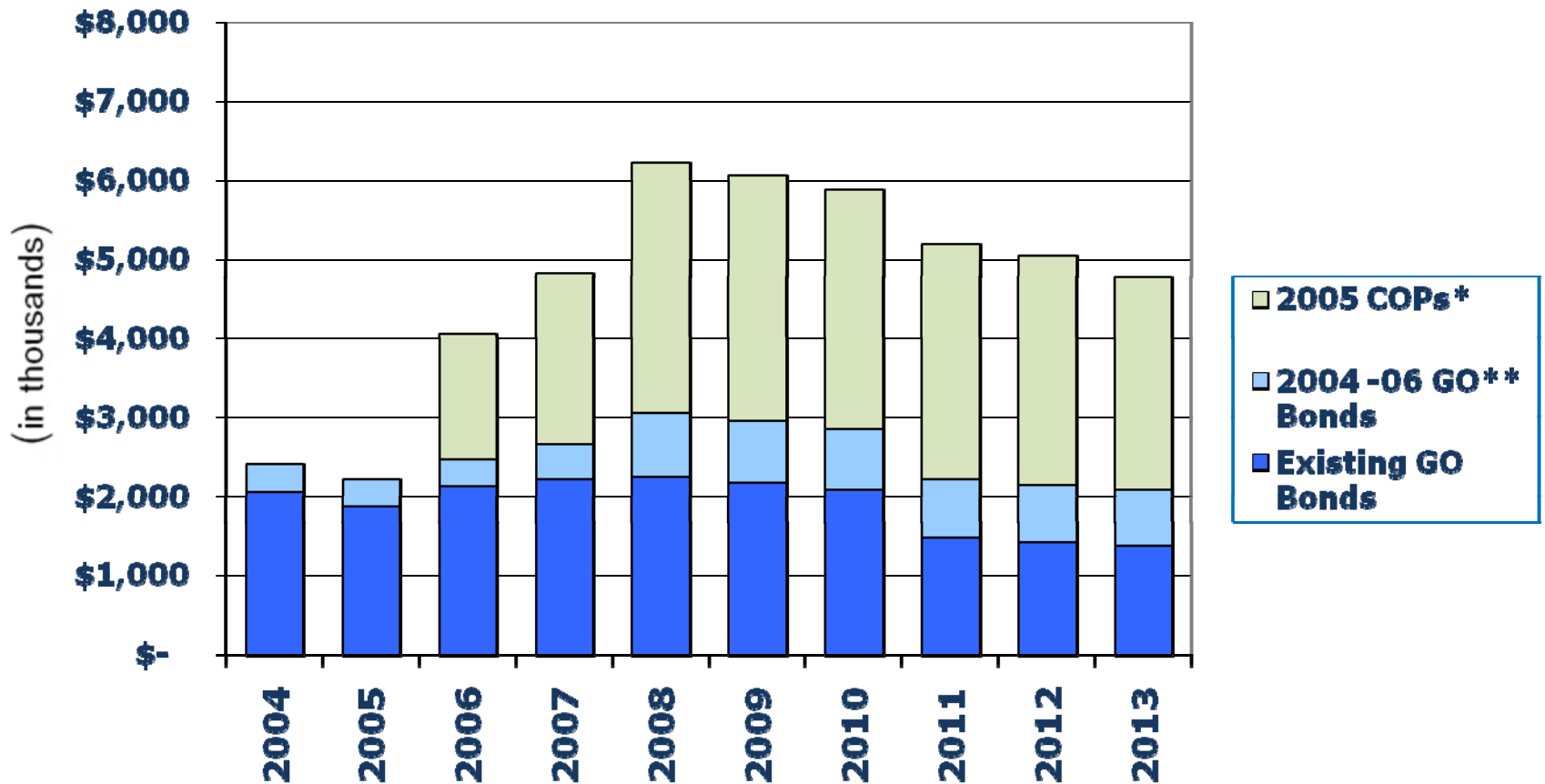
Increase in Transfer for Debt Service



Transfers from General Fund for Debt Service are Depleting Fund Balance

Existing Debt Service

(2004 though 2013)

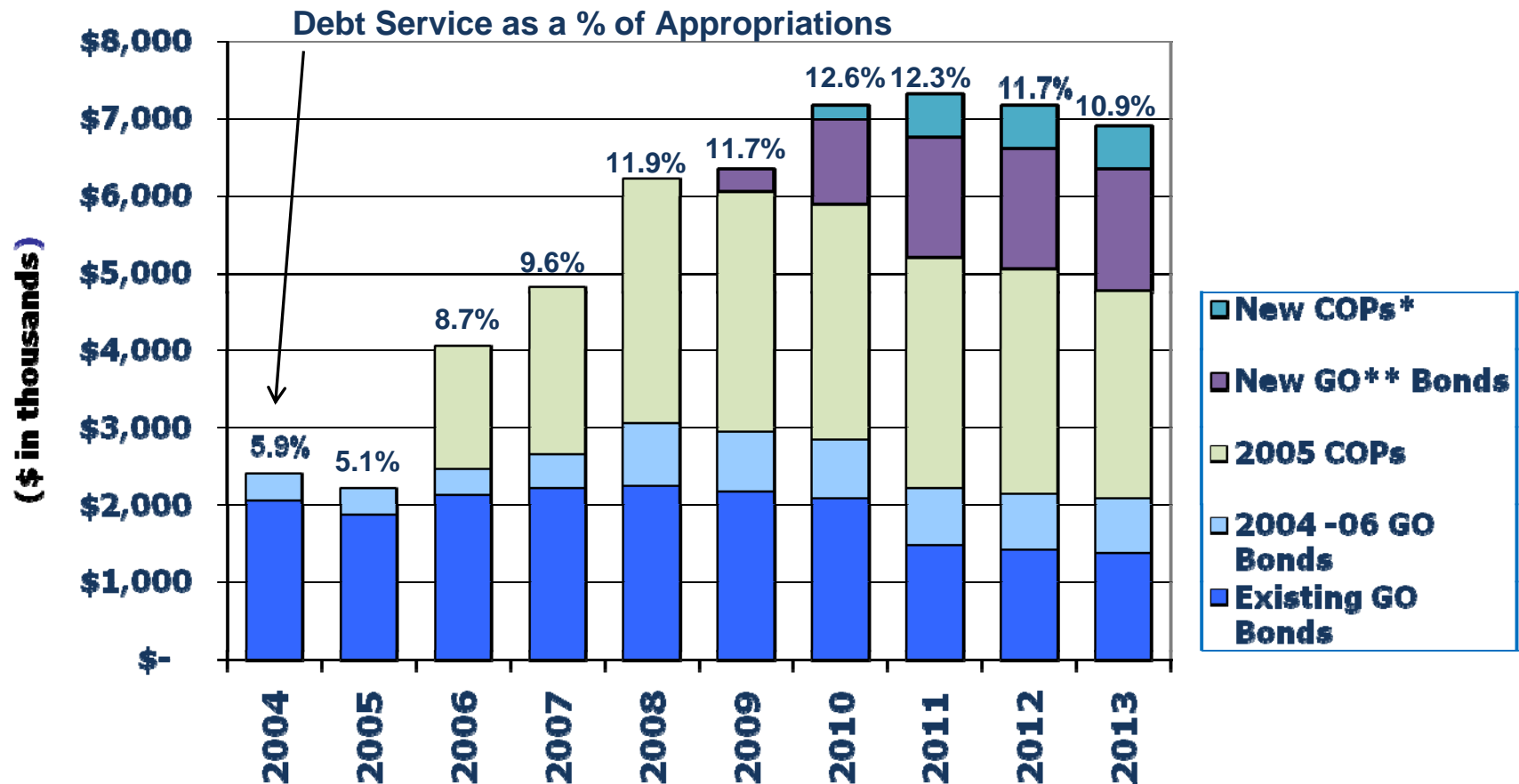


* COPs – Certificates of Participation

** GO – General Obligation Bonds

Existing & Planned Debt Service

(2004 though 2013)



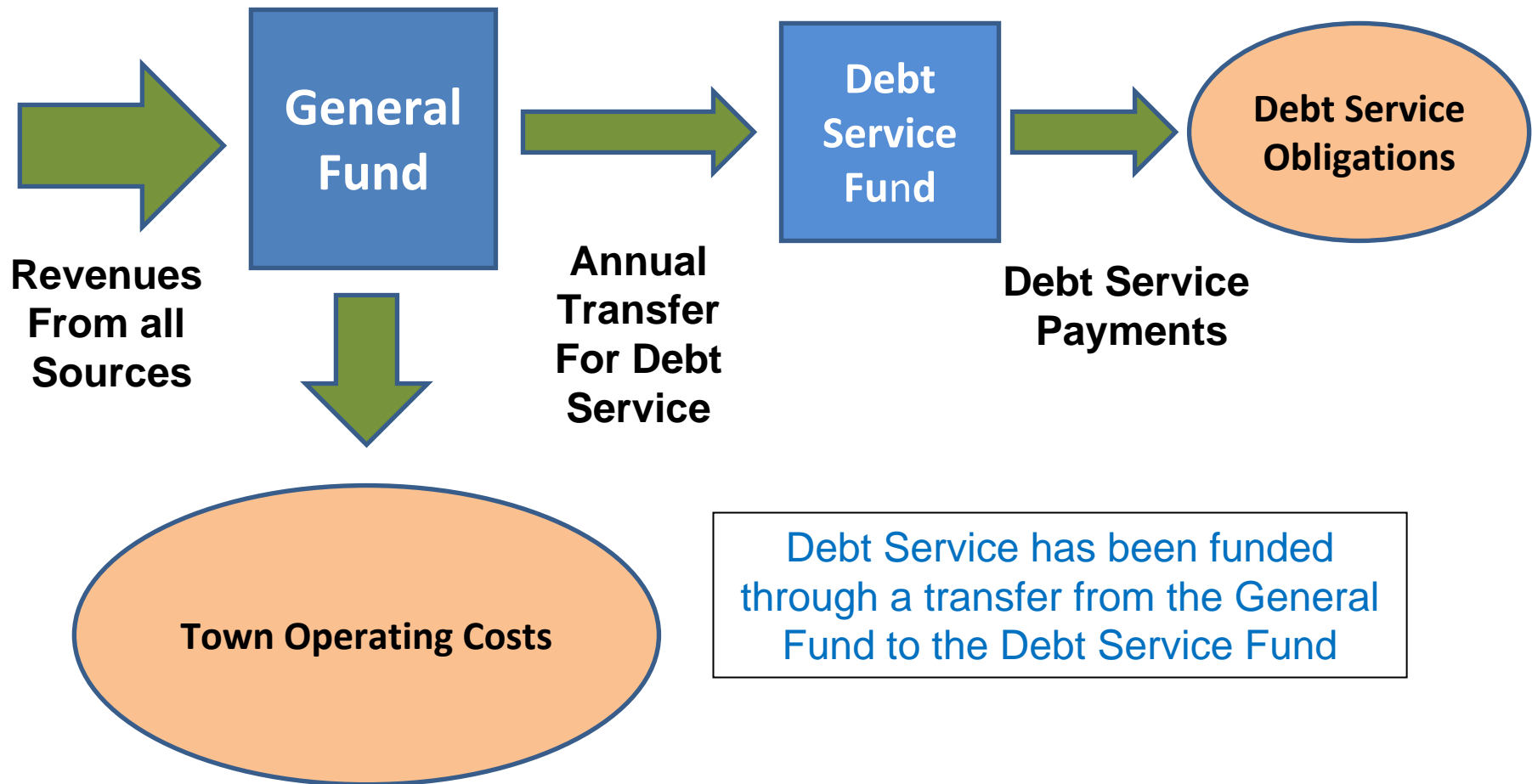
* COPs – Certificates of Participation

** GO – General Obligation Bonds

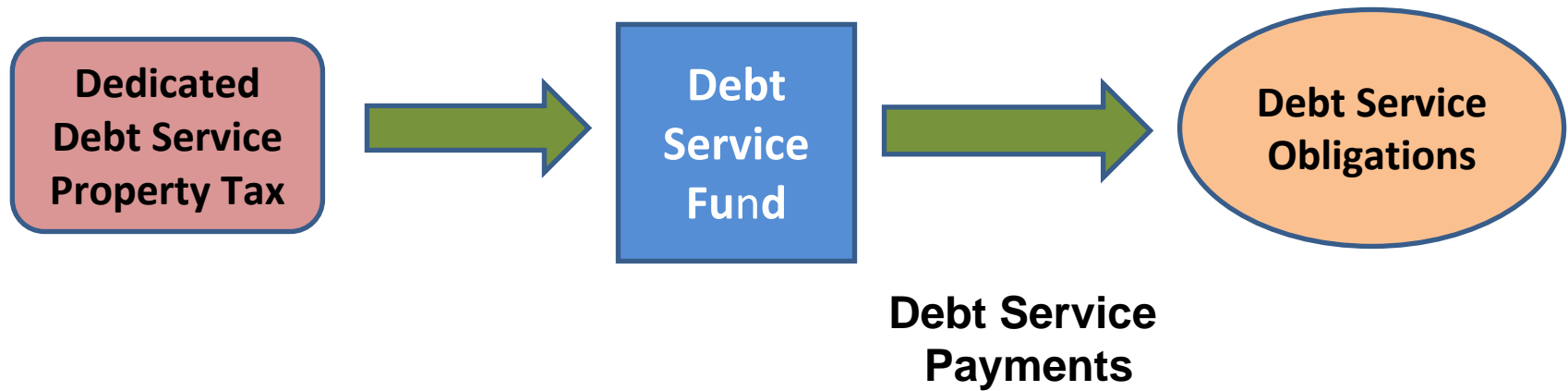
Debt Management Plan

- Use Debt Service Fund to accumulate resources to pay 100% of General Fund Debt Service.
- Fund the Debt Service Fund with dedicated portion of property tax.
- Matching highest priority payable with most dependable revenue source.
- Maintain Triple A Credit Rating.

Current Debt Service Funding



Proposed Debt Service Funding



Debt Service funded through a dedicated portion of the property tax and does not flow through General Fund

Debt Management Plan

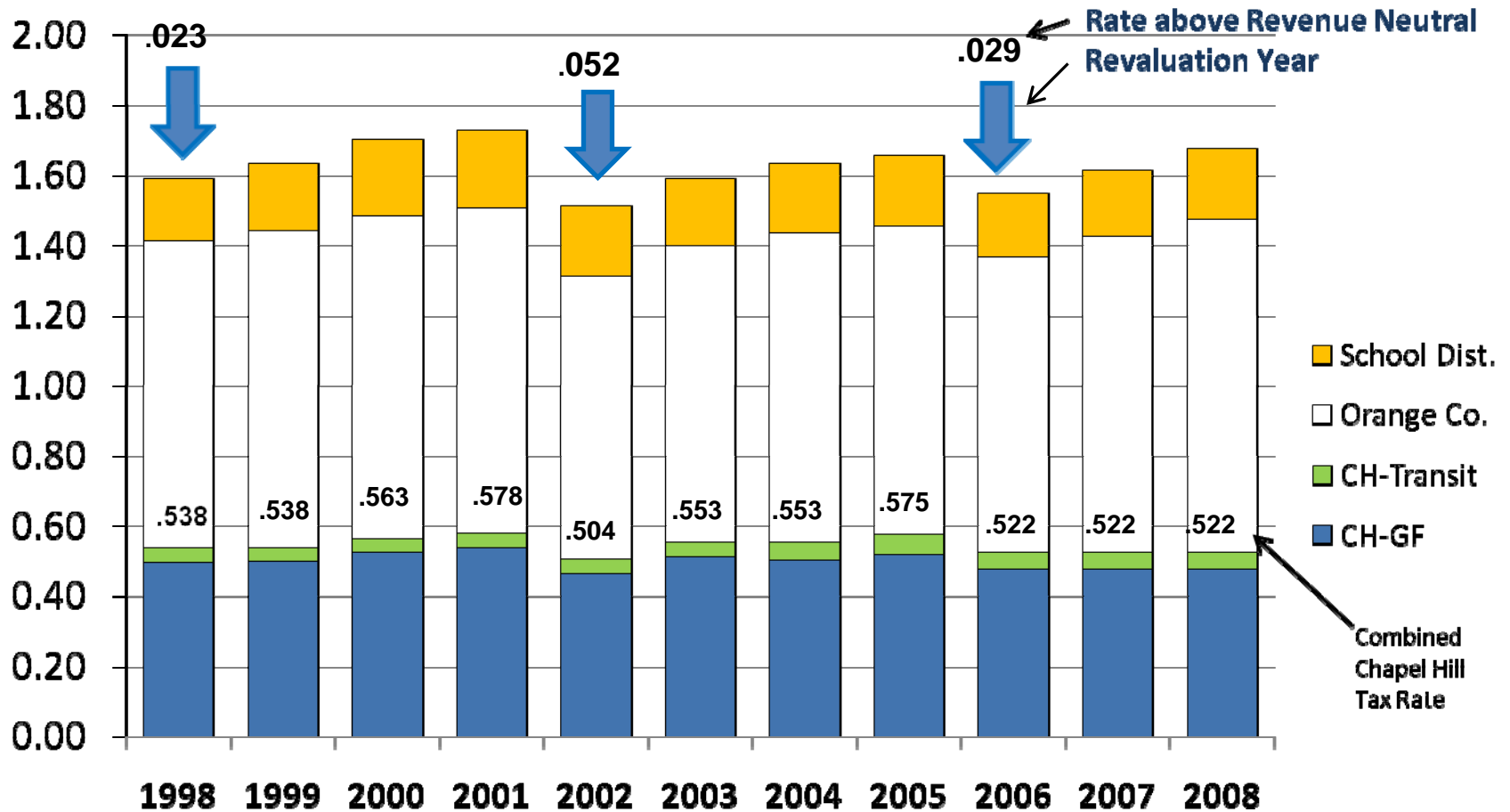
Dedicating a Portion of the Property Tax for General Fund Debt Service

	General Fund	Debt Service Fund	Transit Fund	Total
Current Tax Rates	47.4	-	4.8	52.2
FY09 Recommended	53.3	-	4.8	58.1
FY09 Debt Plan	43.5	9.8	4.8	58.1

Debt Service FY09	\$ 5,670,830
1 cent equals	\$ 582,000
Dedicated Tax needed to fund Debt Service	9.8 cents

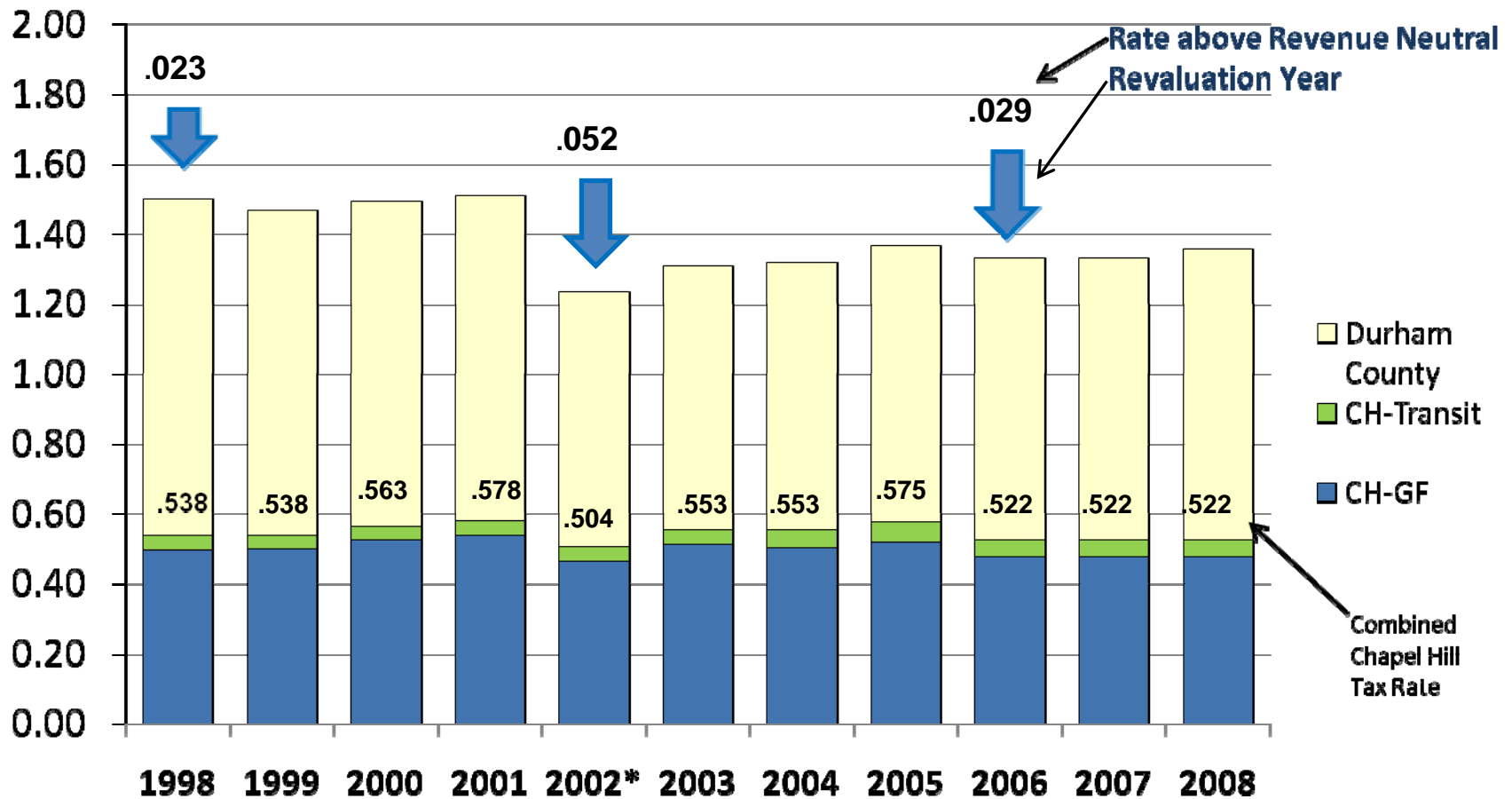
Net Increase in Tax Rate 5.9 cents

Tax Rates for Chapel Hill and Overlapping Districts (Orange County)



Does not include Downtown District

Tax Rates for Chapel Hill and Overlapping Districts (Durham County)



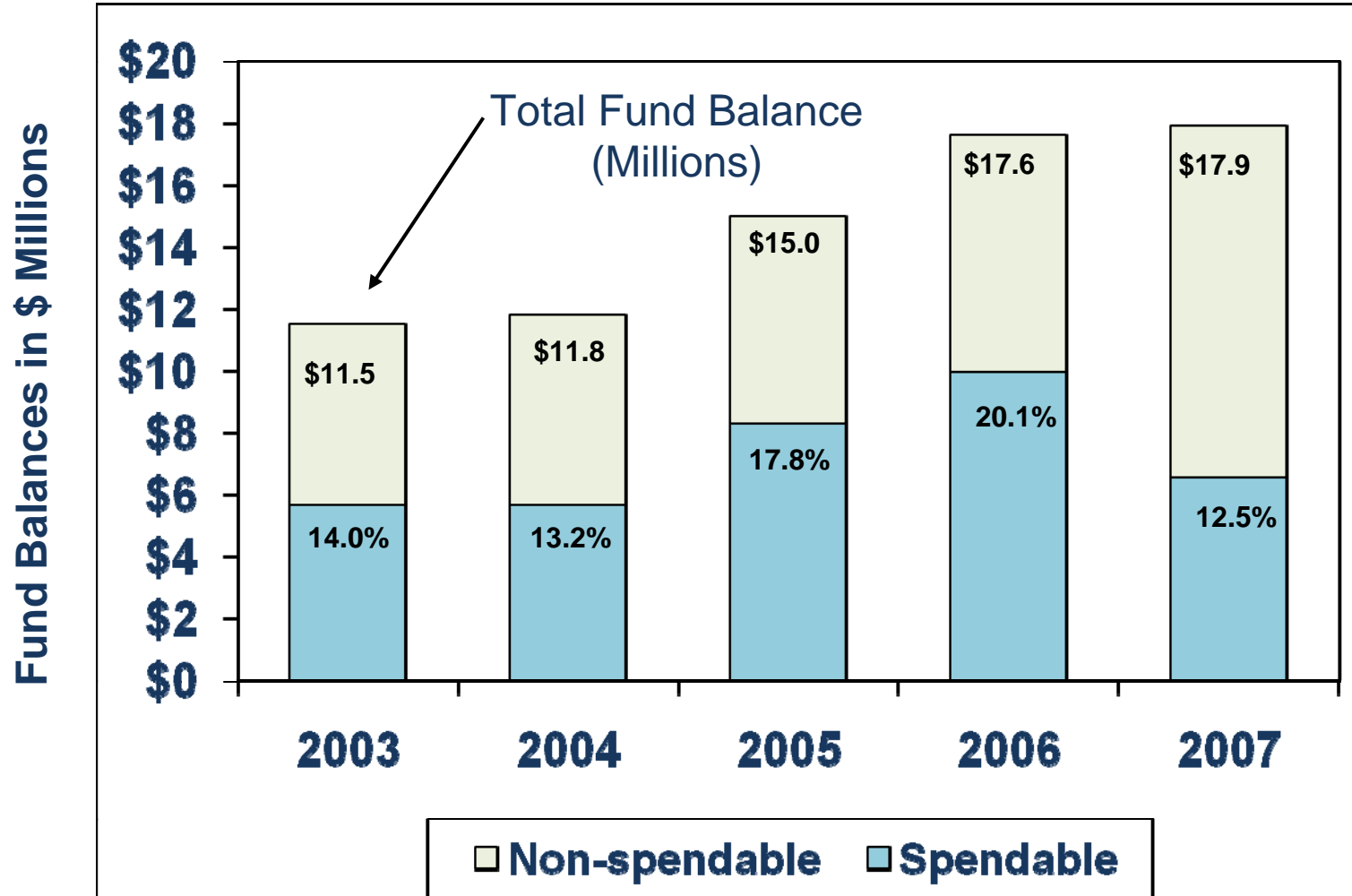
* Durham County Revaluation Effective 2002

Fund Balance

- The increase in the transfer from the General Fund for Debt Service has significantly reduced the Town's available 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 minimal for a Triple A rated municipality.

General Fund Balances

Year Ended June 30



Note: Spendable fund balance expressed as a percentage of next years appropriations

General Fund Budget

• Expenditures for FY09	\$ 50,176,000*
• Revenues for FY09	- <u>44,026,000*</u>
– Budget GAP	6,150,000
Fund Balance Available	- 1,000,000
Fund Balance (one-time)	- <u>1,787,000</u>
Additional Revenue Needed	\$ 3,363,000
Change in Tax Rate Needed	5.9 cents
(Value of a cent \$582,000)	

** Net of Change in Debt Service Funding*

General Fund Budget

- GF Revenues include an additional \$550,000 resulting from Durham Revaluation.
- One-time fund balance use of \$1,787,000 includes \$1,300,000 from Durham County Tax Settlement.

General Fund Budget Includes

- Personnel Costs:
 - 3% Market Salary Adjustments \$ 611,000
 - 10% Medical Insurance Increase 363,000
 - Retiree Medical Liability Cost 400,000 *
 - Groundskeeper-So. Comm. Park 41,000
 - Retiree Medical Insurance 546,000
 - Police Separation Allowance 295,000

* Partial Funding OPEB Liability

General Fund Budget Includes

- Operating Costs:
 - Aquatics Center Operating \$ 478,000
 - Contributions to Agencies 812,500*
 - Web Hosting Project 125,000
 - Vehicle replacement Increase 233,000
 - Increase Vehicle Fuel 104,000
 - Housing Subsidy 176,000

* Public Arts (\$150,000) moved to Manager's Budget

General Fund Budget Comparison

	FY2007-08 Budget	FY2008-09 Budget
Base Budget	\$ 49,532,103	\$ 46,976,000
Less Debt Service	5,536,000	0
Net Base Budget	43,996,103	46,976,000
Priority Additions:		
Salary Increase Proposed	775,947	611,000
OPEB Contribution	0	400,000
Contributions to Agencies	851,000	719,000
Capital Improvements	498,950	1,107,000
Health Benefits Increase	377,000	363,000
Total GF Budget	46,499,000	50,176,000
Deficit	4,315,000	6,150,000
Fund Balance	4,315,000	2,787,000
Net Deficit	0	\$3,363,000
Tax Increase to Balance		5.9

General Fund Operating Budget

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
General Government	\$5,127,025	\$5,564,426	\$5,435,591	\$5,623,721	9.7%
Development	4,275,908	4,751,391	4,654,545	3,545,430	-17.1%
Public Works	10,663,884	10,927,619	10,658,217	9,626,697	-9.7%
Public Safety	18,474,069	18,585,081	18,289,769	18,714,932	1.3%
Leisure	5,121,923	5,191,366	4,914,161	7,776,546	51.8%
Non-Departmental	8,466,191	8,755,071	8,751,717	4,888,674	-42.3%
Total	\$52,129,000	\$53,774,954	\$52,704,000	\$50,176,000	-3.7%

Decrease in Non-departmental due to moving
Debt Service to Debt Service Fund

General Fund Operating Budget

REVENUES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommend ed Budget	% Change
Property Taxes	\$26,130,100	\$26,130,100	\$27,478,740	\$25,433,000	-2.7%
Other Taxes & Licenses	1,524,000	1,524,000	1,081,000	1,084,000	-28.9%
State Shared Revenues	14,581,553	14,581,553	15,519,234	15,50,5,000	6.3%
Interest on Investments	361,868	361,868	354,000	200,000	-44.7%
Other Revenues	134,000	293,151	401,784	268,150	-5.0%
Grants	415,300	522,641	482,362	374,363	-9.9%
Charges for Services	1,664,476	1,676,162	1,629,046	1,686,653	1.3%
Licenses/Permits/Fines	1,604,425	1,604,425	1,606,050	1,572,000	-2.0%
Transfers/Other	1,398,278	1,249,878	1,286,477	1,265,873	1.3%
Appropriated Fund Balance	4,315,000	5,831,176	0	0	-100.0%
Total	\$52,129,000	\$53,774,954	\$49,838,693	\$47,389,039	-9.1%

General Fund Operating Budget

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Personnel	\$32,358,446	\$32,161,663	\$31,311,177	\$34,089,587	5.3%
Operating Costs	18,581,604	20,131,996	19,837,727	14,250,510	-23.3%
Capital Outlay	1,188,950	1,481,295	1,555,096	1,835,903	54.4%
Total	\$52,129,000	\$53,774,954	\$52,704,000	\$50,176,000	-3.7%

Decrease in Operating Costs due to moving
Debt Service to Debt Service Fund

General Government

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Mayor/Council	\$361,480	\$366,730	\$362,146	\$410,800	13.6%
Manager /CaPA	1,389,012	1,407,948	1,404,726	1,683,591	21.2%
Human Resources	854,627	859,137	740,017	858,168	0.4%
Business Management	2,236,552	2,639,702	2,637,946	2,382,126	6.5%
Town Attorney	285,354	290,909	290,756	289,036	1.3%
Total	\$5,127,025	\$5,564,426	\$5,435,591	\$5,623,721	9.7%

Finance and Information Technology have been combined as Business Management
 Manager/CaPA Budget includes Web-site Project and Public Arts Funding previously part of Outside Agency Contributions

Development

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Planning	\$1,296,971	\$1,330,536	\$1,259,062	\$1,318,443	1.7%
Inspections	813,929	824,213	799,919	0	-100.0%
Engineering	2,165,008	2,596,642	2,595,564	2,226,987	2.9%
Total	\$4,275,908	\$4,751,391	\$4,654,545	\$3,545,430	-17.1%

Inspections has moved to Public Works Department

Public Safety

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Police	\$11,661,021	\$11,701,700	\$11,505,346	\$11,798,336	1.2%
Fire	6,813,048	6,883,381	6,784,423	6,916,596	1.5%
Total	\$18,474,069	\$18,585,081	\$18,289,769	\$18,714,932	1.3%

Leisure

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Parks & Recreation	\$2,865,091	\$2,932,633	\$2,684,337	\$5,464,930	90.7%
Library	2,256,832	2,258,738	2,229,824	2,311,616	2.4%
Total	\$5,121,923	\$5,191,371	\$4,914,161	\$7,776,546	51.8%

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

Public Works

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Administration	\$665,778	\$717,165	\$722,585	\$911,410	36.9%
Inspections	0	0	0	870,828	N/A
Construction	836,352	932,200	894,510	860,721	2.9%
Streets	1,881,178	1,959,452	1,878,784	2,017,008	7.2%
Drainage	330,703	331,331	362,498	0	-100%
Building Maint.	1,493,676	1,572,942	1,600,311	1,493,788	0%
Grounds Maint.	1,970,142	1,945,471	1,853,259	0	-100%
Solid Waste	3,486,055	3,469,055	3,346,270	3,472,942	-0.4%
Total	\$10,663,884	\$10,927,619	\$10,658,217	\$9,626,697	-9.7%

Public Works Budget

- Major changes include:
 - Transfer of Inspections from Development Group to Public Works
 - Transfer of Drainage from Public Works
 - Transfer of Grounds Maintenance to Parks & Recreation Department

Performance Agreements

- Funding levels are largely the same as last year.
- The Outside Agency Funding process will be reviewed after the adoption of the FY09 Budget.
- The use of a universal application and evaluation process building on the Human Services Advisory Board model will be evaluated.

Performance Agreements with Other Agencies

All AGENCIES	FY08 Contribution	FY09 Recommendation
Human Services	\$ 357,900	\$ 357,900
Arts*	160,500	10,500
Affordable Housing	212,100	238,100
Economic Development	214,500	214,500
Total All Agencies	\$ 945,000	\$ 821,000
Less: Amounts included in Base Budget	93,500	93,500
Net Contributions to Agencies	\$ 851,500	\$ 727,500

* Arts Commission funding transferred to General Fund Budget

Downtown Service District Fund

- The 9 cent District Tax pays for a groundskeeper for downtown and funding for the Chapel Hill Downtown Partnership (CHDP).
- In response to the CHDP's request for additional funding their allocation of District Tax is recommended to increase from \$91,000 to \$120,000.
- The CHDP also receives \$70,000 through separate performance agreement.

Transit Fund Budget

- Preliminary Budget for FY09 is \$16.1 million
- 9.6 % increase over FY08
- Major Increases:
 - Fuel
 - Maintenance Costs
 - Capital Reserve
 - Salaries
- Budget is balanced using \$800,000 in grant funds to offset operating costs

Transit Budget

EXPENDITURES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Non-Departmental	\$ 46,006	\$46,006	\$55,917	\$455,677	890.5%
Administration	670,543	672,941	612,862	564,184	15.9%
Fixed Route	9,067,088	9,074,336	9,320,904	9,754,405	7.6%
Demand Response	1,423,276	1,429,650	1,475,157	1,549,398	8.9%
Special Events	360,549	360,549	267,109	367,831	2.0%
Maintenance	3,095,538	3,256,964	3,433,851	3,375,898	9.1%
Total	\$14,663,000	\$14,840,446	\$15,165,800	\$16,067,393	9.6%

Non-departmental Increase due to reserve for
Salary/Benefits Increase

Transit Budget

REVENUES	FY08 Original Budget	FY08 Revised Budget	FY08 Estimated	FY09 Recommended Budget	% Change
Charges for Service	\$ 507,938	\$507,938	\$490,678	\$480,105	-5.5%
Federal Assistance	1,115,308	1,115,308	1,440,308	1,900,000	70.4%
State Assistance	3,475,000	3,385,000	3,545,519	3,545,519	2.0%
UNC Contracts	5,705,300	5,705,300	5,770,156	6,082,783	6.6%
Carrboro Contracts	1,015,239	1,015,239	948,935	1,028,822	1.3%
Chapel Hill	2,844,215	2,844,215	2,950,773	2,929,515	3.0%
Fund Balance	0	267,446	19,431	100,649	N/A
Total	\$ 14,663,000	\$14,840,446	\$15,165,800	\$16,067,393	9.6%

Cost of New Facilities (General Fund)

	FY09 Base Budget
Public Works - TOC	\$ 63,200
PW Stormwater Fees	(30,000)
IT Support - TOC	10,000
Aquatics Center	478,000
Southern Community Park	41,000
Total	\$ 562,200

Capital Improvement Plan Funding

- The proposed CIP for FY09 includes \$1,107,000 for new projects, including \$227,000 in technology projects.
- The CIP Budget also includes \$673,100 for debt service payments.
- We recommend that future budgets dedicate the excess of current year revenues over expenditures to funding the CIP.

Employee Costs

- Recruiting and retaining a high performing workforce is essential to fulfilling our mission.
- Approximately 62% of the Towns operating costs are employee costs.
- We are recommending a 3% salary adjustment to keep compensation competitive.
- Health insurance costs are increasing 10% with significant increases anticipated next year.

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 pay-go costs in the FY09 budget for post retiree benefits are as follows:
 - Police Separation Allowance \$ 295,000
 - Retiree Medical Insurance \$ 546,000

OPEB Funding Requirements

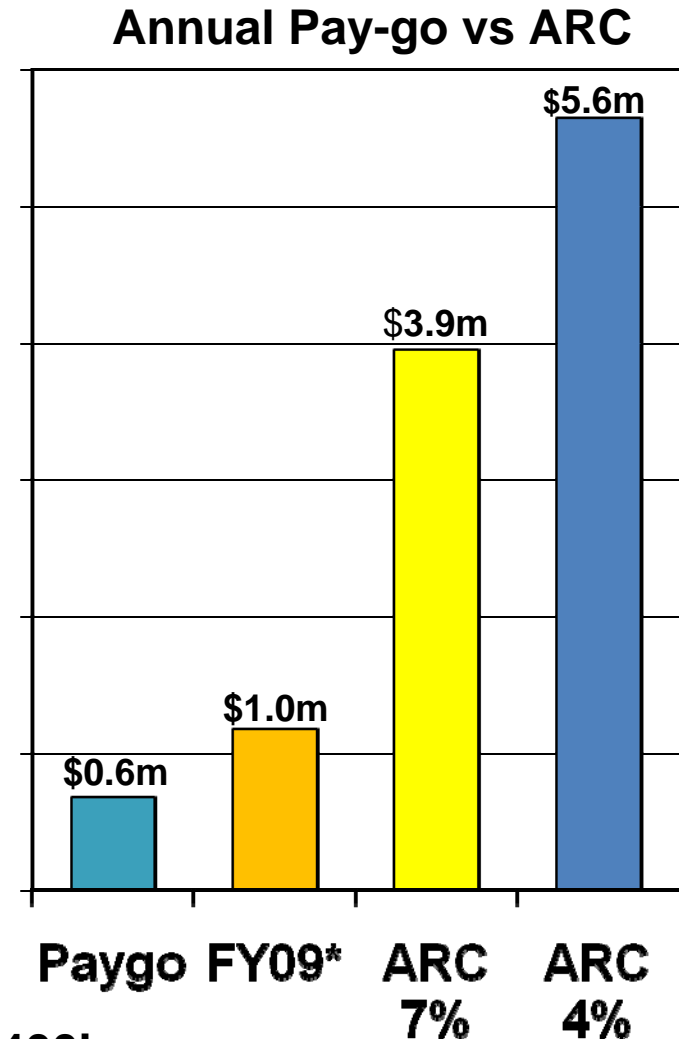
- GASB 45 - Requires that all governments treat OPEB in the same manner as pension fund obligations beginning FY08.
- Based on the current benefit structure the Town's Liability is \$45 million.
- Annual required contribution (ARC) will be determined by actuarial study and reported starting in FY08.
- Currently we are handling OPEB expenses on a pay-as-you-go basis.
- Based on current benefit levels ARC payments will be between \$3.9 million and \$5.6 million per year depending on the interest rate assumption.

OPEB Next Steps

- Set up irrevocable trust for other post employment benefits.
- Begin funding OPEB at a level higher than pay-go (\$400,000 – 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 for new employees.

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

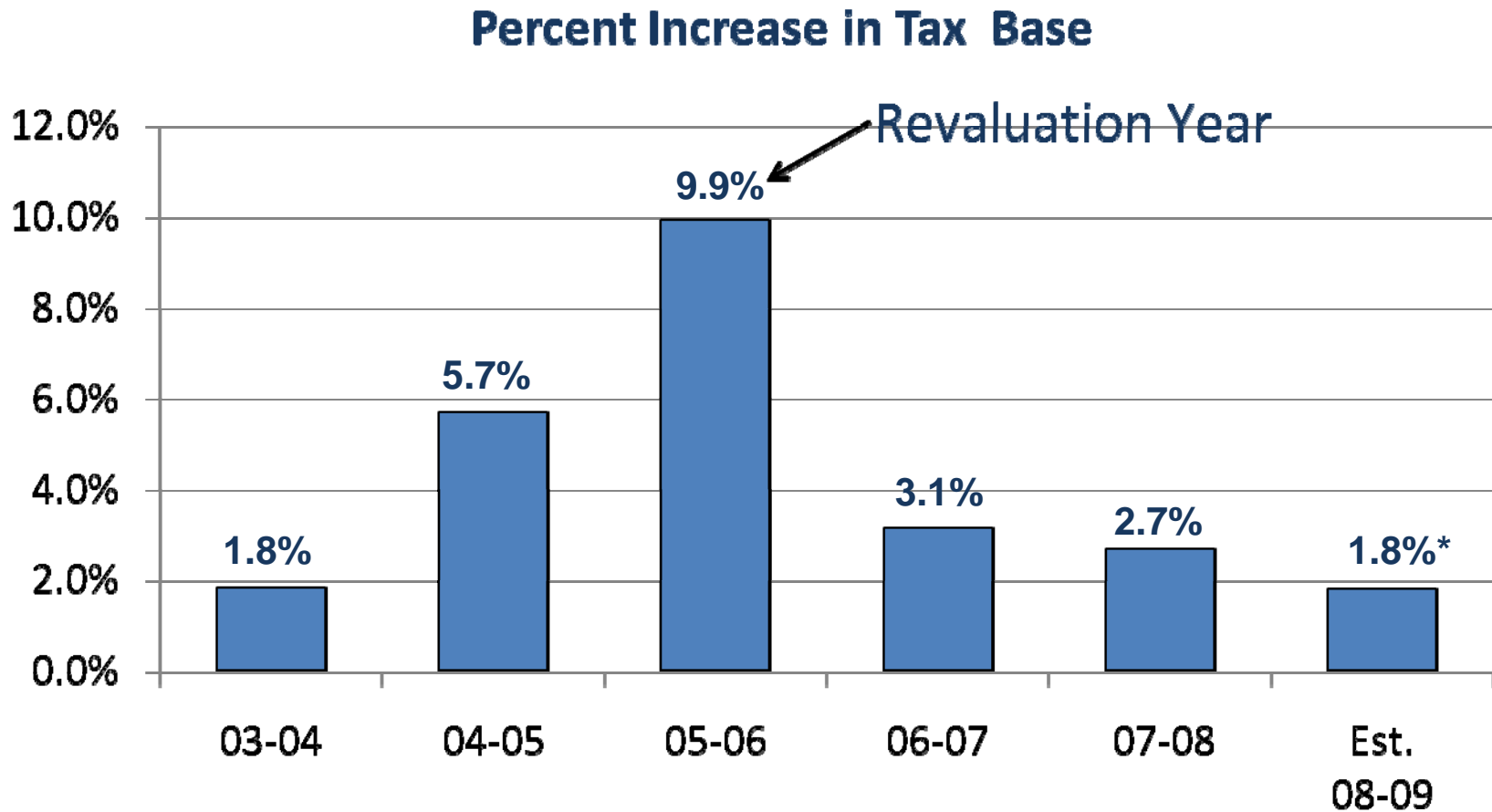


* Recommended fund level – pay-go plus \$400k

Economic Conditions

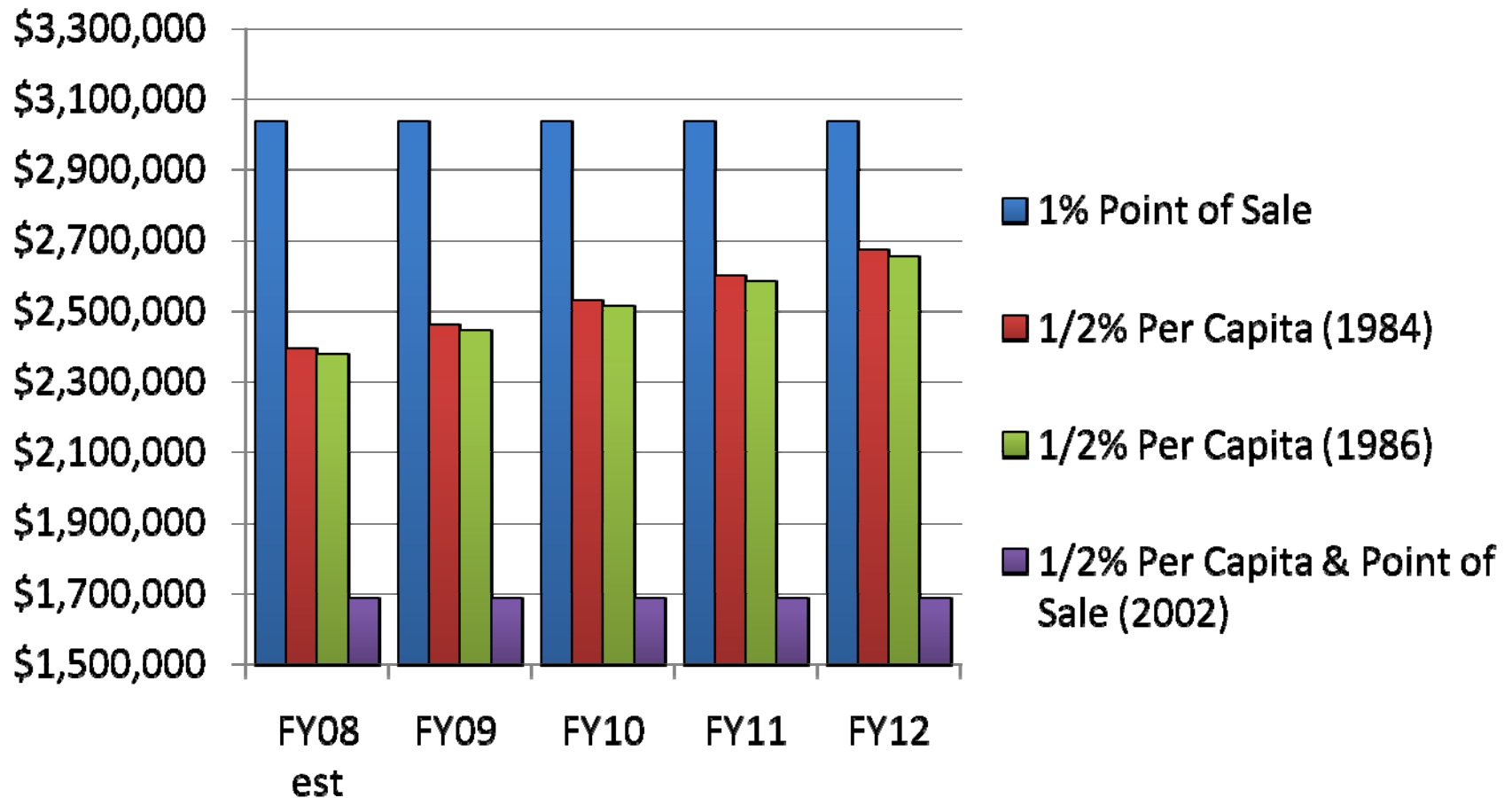
- Energy Cost Volatility - Fuel
- Housing Market slow-down potential impact on Municipal Debt and Property Taxes
- Health Care Costs
- Sales Tax Revenues – Losing market share to surrounding communities

Property Tax Base Growth



* Does not include Durham Revaluation

Sales Tax Revenue Projections



Projected annual increase of approximately 1%

Budget Calendar

- **Mar 26 - Budget Status Report to Council**
- **April 16 – Budget Work Session – Reports from Other Agencies**
- **May 5 - Manager's Recommended Budget**
- May 7- Budget Work Session – Debt Management Plan
- May 14 - Public Hearing
- May 21 - Budget Work Session *
- June 4 - Budget Work Session *
- June 9 - Budget Adoption

** As needed*