



# **Town of Chapel Hill**

## **Preliminary Report**

### **2009-10 Budget Development**

**April 15, 2009**

# Purpose

- Update Status of Budget Preparations
- Identify Budget Issues for FY2009-10
- Review Strategies for Balancing Budget and achieving financial sustainability
- Provide Preliminary Budget Numbers for General Fund

# Budget Status

- We have developed a proposed General Fund Budget that maintains current service levels without a tax increase.
- Proposed GF Budget is balanced using budget savings, fund balance, delaying debt issuance and deferred CIP projects, no pay increase and limiting increases in departmental budgets.
- We are currently working on Transit and other funds and will present those at a future budget work session.

# Key Budget Issues

- Economic Conditions
- Federal Stimulus Funding
- Negative Revenue Growth
- Debt and Operating Cost of New Facilities
- Pending Debt Issuance (Davenport report 4/27)
- Retiree Health Care Costs (OPEB)
- Benefits Costs

# 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
- **Additional Long-term Strategies:**

# Long-Term Budget Initiatives 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
- **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.

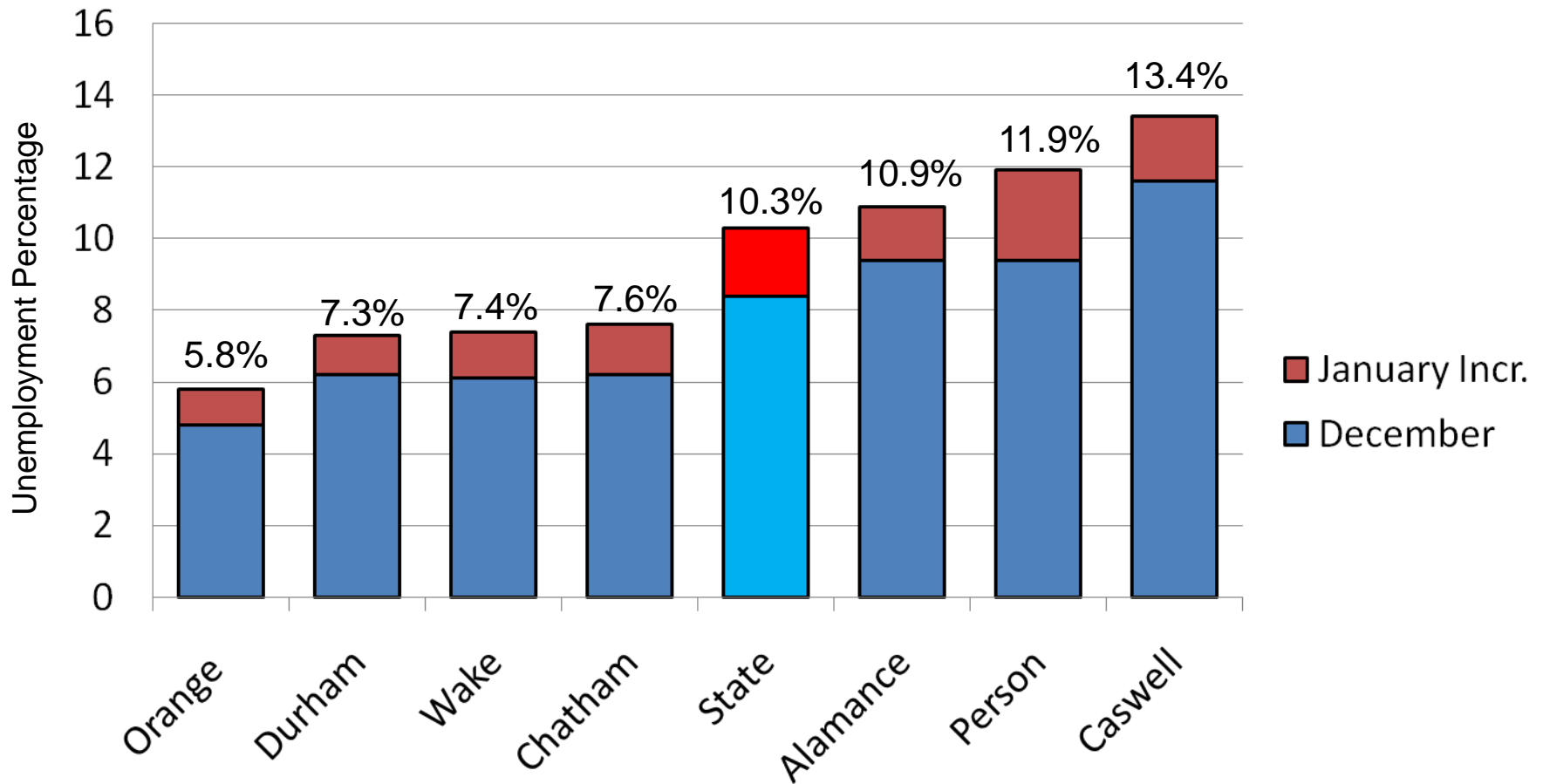
# The Economy

- We are currently in the longest recessionary period since the Great Depression
- Credit markets self-destructed and are slowly being rebuilt
- Consumer confidence, retail sales and employment have deteriorated
- Unprecedented federal intervention has been initiated
- We are waiting for the bottom and the rebound



# Unemployment by County

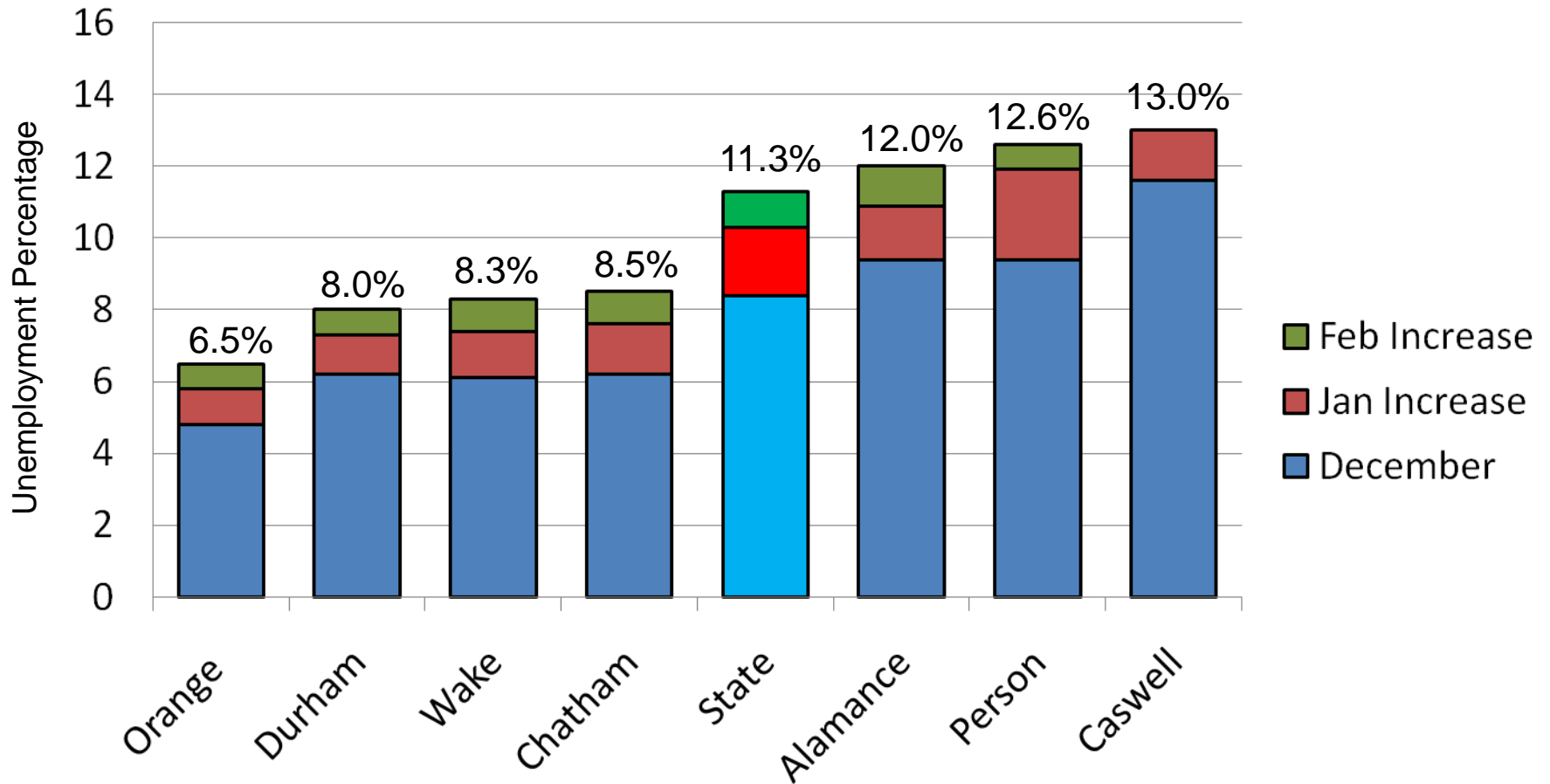
December 2008 to January 2009



Source: Employment Security Commission of NC

# Unemployment by County

December 2008 to February 2009



Source: Employment Security Commission of NC

# Sales Tax Summary

- Due to irregularities in the distribution of November sales tax receipts we have been unable to get a clear picture of the impact of the economy on current year sales tax receipts.
- In order to adjust for these irregularities we averaged November receipts (-11.8%) and December receipts (+5.4%).
- January receipts appear to be more representative of actual collections and reflect a 9.2% decrease from January of last year.

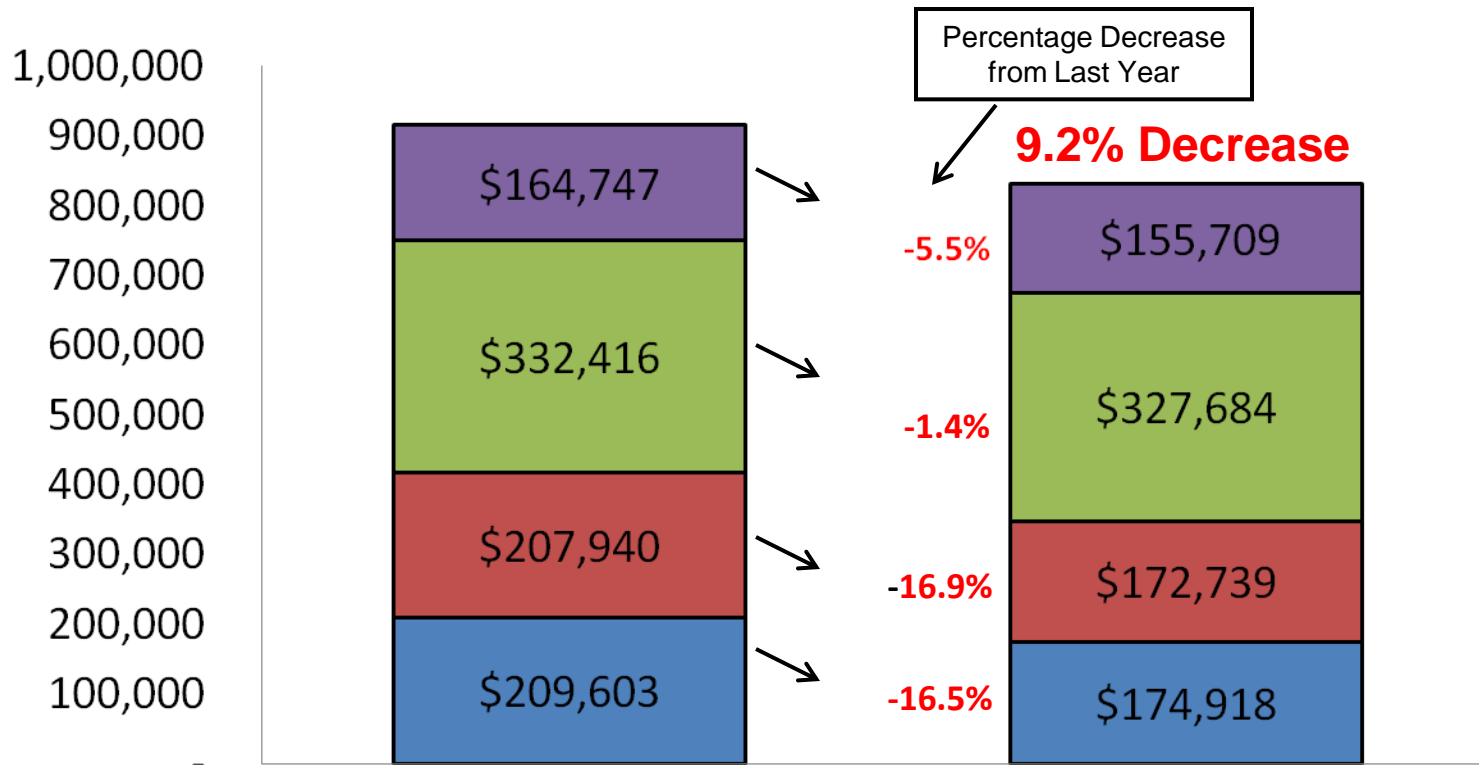
# Sales Tax Receipts 2008-09

- **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 January 2008 and January 2009



**Jan-08**

**Jan-09**

■ Sec. 40 (Population)

■ Sec. 42 (Population)

■ Sec. 39 (Point of Sale)

■ Sec. 44 (Point of Sale\*)

\* Includes Hold Harmless

# Revenue Projections

- Overall revenues are projected to be down for FY2009-10
- The most significant decline is expected in Sales Taxes projected to be approx. \$1 mil. less than currently budgeted
- Sales tax decline is partially off-set by projected increases in Property Taxes, Licenses & Permits and State Collected Taxes

# General Fund Revenue Projections

Revenues:	FY2008-09 Revised Budget	FY2009-10 Budget
Property Taxes	\$ 24,733,000	\$ 25,182,000
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	5,952,000	6,196,000
Grants	374,000	372,000
Service Charges	1,694,000	1,636,000
Interest & Other	537,000	493,000
Transfers	<u>1,302,000</u>	<u>1,400,000</u>
<b>Total Revenues</b>	<b>\$ 46,901,000</b>	<b>\$ 46,741,000</b>

# General Fund Expenditures

Revenues:	FY2008-09 Original Budget	FY2009-10 Budget	% Change
General Government	\$ 8,016,000	\$ 8,132,000	1.4%
Environmental & Development	14,320,000	13,611,000	-4.9%
Public Safety	19,376,000	19,864,000	2.5%
Leisure	<u>7,909,000</u>	<u>8,405,000</u>	<u>6.3%</u>
<b>Proposed General Fund Budget</b>	<b>\$ 49,621,000</b>	<b>\$ 50,012,000</b>	<b>0.8%</b>



# General Fund Budget Reconciliation

	FY2008-09 Revised Budget	FY2009-10 Budget
Total Revenues	\$ 46,901,000	\$ 46,741,000
Total Expenditures	<u>51,723,000</u>	<u>50,012,000</u>
Deficit (Revenues – Expenditures)	<b>(4,822,000)</b>	<b>(3,271,000)</b>
Other Funding Sources:		
Budget Savings Plan (FY09)		2,000,000
Fund Balance*	4,822,000	1,271,000

\* For FY09 balance includes excess funds generated in FY08

# Budget Balancing Strategies

- 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
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# Delay Debt Issuance and Defer CIP

- Average annual debt service costs for the \$20,410,000 authorized unissued General Obligation Debt will be approximately \$1.6 mil. per year.
- Under current conditions issuing this debt in FY2008-9 would require major cuts and reductions in service in other areas of the budget.
- Delaying issuance until Spring of 2010 will provide adequate time to pay-off some existing debt and create capacity in the debt fund to pay new debt service without a tax increase.

# 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**.

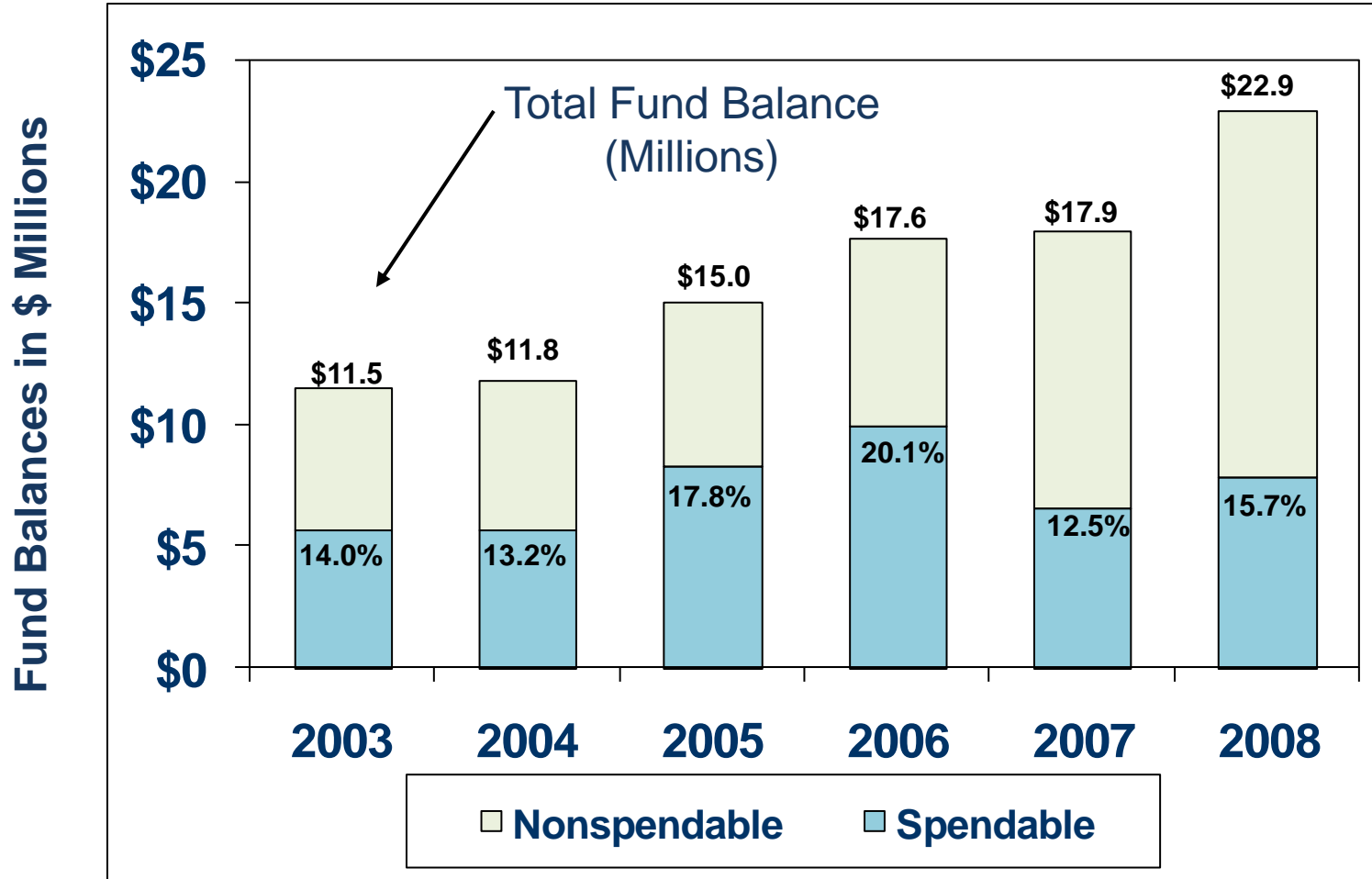
**Estimated Savings at Year-end: \$2,656,000**

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

# Use of Fund Balance

- The 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



# Budget Balancing: Compensation Plan

- Employee health insurance costs are increasing 17.4% for FY2009-10 due to HC inflation and rising number of claims
  - Wellness plan is being revised and we are working with consultant to reduce costs
- No recommended salary increase for FY2009-10 due to depressed employment market
  - Survey shows most (35 out of 40) NC municipalities recommending no cost of living adjustment

# Budget Calendar

- **April 15 - Budget Status Report to Council and Public Hearing**
- April 27 – Debt Capacity and Affordability Study
- May 6 - Manager's Recommended Budget
- May 13- Budget Work Session
- May 20 - Public Hearing and Budget Work Session
- June 3 - Budget Work Session\*
- June 9 - Budget Adoption

\* *As needed*