

MEMORANDUM

TO: Mayor and Town Council

FROM: W. Calvin Horton, Town Manager

SUBJECT: Status Report on Development of the 2004-05 Budget

DATE: March 24, 2004

The purpose of this memorandum is to report the status of work on development of the 2004-05 budget.

This is **not** the Manager's recommended budget. The Manager's recommended budget will be presented to the Council on April 26.

INTRODUCTION

Overall Budget Issues for 2004-05

Key issues for the upcoming budget for 2004-05 include the following:

- Cost of continuing economic development work focused on downtown Chapel Hill.
- The need for additional staff in several departments to meet service demands.
- Estimated cost increases for new debt service for the Town Operations Center, possible issuance of General Obligation debt on the 2003 bonds.
- Pay plan adjustments to be competitive in the Triangle labor market.
- Increases in employee medical and workers' compensation costs.
- Increases in certain operating costs to maintain current services. Current economic conditions including the slow pace of the economic recovery in Orange County.
- Potential impacts on local government revenues of a weak economic recovery statewide and the effects on the State budget.

In addressing these key budget issues, the Council requested that budget information for next year be presented in a format that separates the base budget for continuing current operations from optional additions to the base budget that could be considered by the Council on a case by case basis.

Based on this guidance from the Council, this status report provides our preliminary revenue and cost estimates for General Fund and Transportation Fund base budgets and presents additions to the bases as options for the Council's consideration.

SUMMARY

General Fund

- A combination of expenditure reductions and a one-time change in the distribution method for sales taxes will result in about \$926,000 that could be carried over for use in the 2004-05 budget.
- Base expenditures for next year's budget total approximately \$40.4 million for the General Fund. Base revenues total approximately \$39.2 million. The difference of \$1.2 million is offset by \$926,000 available from the current year and \$491,000 that the Council set aside for this year's budget, leaving approximately \$232,000 available for priority options without a tax rate adjustment.
- We believe that priority for additions to the base budget should include costs for employee compensation adjustments to be competitive in the Triangle labor market, funding for essential operations, human service contracts and several other special program considerations.
- Additional options to enhance and supplement current services would require additional revenue. Options are presented in Attachment I in two priority groupings. Priority Level I options would cost about \$3.7 million. Priority Level 2 options would cost about \$900,000.

Transportation Fund

Preliminary estimates of revenues and expenditures for the Transportation Fund base budget for next year indicate that additional Town revenue of about \$203,000 would be needed to continue current services, and provide funding for estimated cost increases to the base budget.

Budget Process to Date

The Council began the budget development process on January 16, 2004, with discussion at the annual planning retreat, followed by a community forum originally scheduled for January 28 and held on February 2.

Thirteen Town advisory boards made budget requests and comments in work sessions conducted on February 11 and 18.

The Council received budget presentations from fifteen Town departments in meetings conducted on February 25 and 27.

Remaining Budget Schedule

The Council will conduct a community forum on the 2004-2005 budget on March 24.

The Manager will present a budget proposal on April 26, and the Council has scheduled budget work sessions on March 30, April 28, and on May 19. A public hearing on the recommended budget is scheduled for May 12.

The Council is scheduled to consider adoption of the budget on June 14.

PRELIMINARY GENERAL FUND BUDGET

Update on Current Year Revenues

Revenues in the current year are expected to be about \$533,700 higher than budgeted. Property tax revenues continue to be projected higher than budget by about \$436,000. We also expect approximately \$330,000 in revenues from the Federal Emergency Management Authority (FEMA) off-setting current year expenditures for last fall's Hurricane Isabel. In addition, the Town will receive approximately \$600,000 in sales tax revenues that have historically been received after the end of the fiscal year, because the State has changed from a quarterly to a monthly sales tax distribution schedule. Projected revenues that remain lower than the adopted budget include sales tax, utility franchise tax, motor fuels tax (known as Powell Bill funds), and interest. Differences between budget and estimated revenues of 2003-04 are shown below:

Revenues	Adopted '03-04 Budget	Present '03-04 Estimate	Difference	Explanation
Property Tax	21,118,000	21,554,000	436,000	Higher tax base than anticipated
Other Taxes	1,028,000	1,008,000	(20,000)	Lower occupancy taxes than anticipated
Licenses & Fees	1,457,200	1,470,000	12,800	Increase in privilege license revenues
Sales Tax	7,524,610	7,269,510	(255,100)	Decrease in census and slower recovery than anticipated
Sales Tax - one-time	0	600,000	600,000	One-time increase to undesignated fund balance as a result in a change in State sales tax distribution schedule
Powell Bill	1,394,000	1,314,000	(80,000)	Decrease in census and less revenue State-wide
Utility Franchise	2,110,700	1,980,700	(130,000)	Lower receipts than anticipated
Other State Shared	1,055,000	1,055,000	0	
FEMA	0	330,000	330,000	Unbudgeted FEMA reimbursement
Other Grants	740,103	563,103	(177,000)	Off-set by reduced expenditures
Service Charges	1,315,600	1,287,600	(28,000)	Lower fees related to development activities
Interest on Investments	202,500	42,500	(160,000)	Lower cash balances and continued low interest rates
Other Revenues	362,000	322,000	(40,000)	Contribution from Carol Woods less than anticipated
Transfers	1,002,749	1,047,749	45,000	Increase in estimated charges from General Fund to Transportation Fund
Estimated Revenues	39,310,462	39,844,162	533,700	

If the Town prevails in its appeal to the Federal Emergency Management Administration about disputed reimbursement of landfill tipping fees related to last fall's Hurricane Isabel and the ice storm of December 2002, there may also be an addition to fund balance of \$203,000.

Update on Current Year Expenditures

Expenditures are anticipated to be lower than budget by approximately \$392,300. Differences from the current revised budget are shown below. Where a negative difference is shown, expenditures exceed the current budget.

Department	Adopted '03-'04 Budget	Present '03-'04 Estimate	Difference	Explanation
Mayor/Council	307,544	302,844	4,700	
Manager/Clerk	1,006,961	977,961	31,100	Unfilled position.
Human Resources	607,012	557,012	50,000	Unfilled position.
Finance	952,680	940,380	12,300	
Information Technology	750,037	746,637	3,400	
Legal	239,567	239,167	400	
Planning	1,360,901	1,360,901	0	
Inspections	758,231	758,231	0	
Engineering	1,258,709	1,241,609	17,100	
Public Works	10,281,722	10,182,122	99,600	
Public Works' portion of FEMA revenue	238,000	238,000	0	See note.
Police	9,847,347	9,435,347	404,300	Unfilled positions.
Fire	5,333,763	5,333,763	0	
Parks and Recreation	2,228,973	2,228,973	0	
Library	2,007,411	1,980,311	27,100	Unfilled positions.
Non-Departmental	4,942,380	4,962,080	(19,700)	Workers' compensation.
Estimated Expenditures including Public Works' portion of FEMA revenue	42,121,238	41,485,338	630,300	
Less: FEMA not yet budgeted	(238,000)		(238,000)	
Estimated Expenditures	41,883,238	41,485,338	392,300	

Unfilled positions are the major source of underexpenditures. In order to reflect the Public works contribution to fund balance, we have shown the Public Works' portion of FEMA reimbursement for the cost of last fall's Hurricane Isabel. We have not yet amended the budget for the FEMA revenues. We expect to have a final reconciliation with FEMA soon and will bring a budget amendment to Council at that time.

The underexpenditures of \$392,300 when added to the revenue-generated addition to undesignated fund balance would allow the Council to carryforward an estimated total of \$926,000 for use in next year's budget.

Major General Fund Revenues for 2004-05

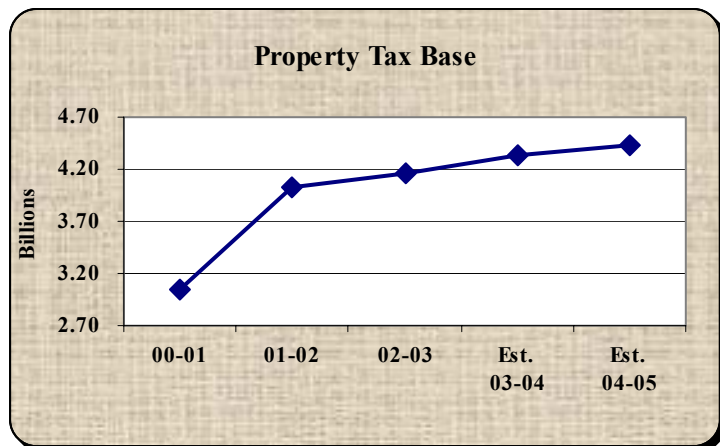
We anticipate minimal growth in both the State and Orange County economies next year. In addition, federal deficit spending can affect the State budget and the Town budget indirectly. The most recent forecast for the State budget for 2003-04 projects a small surplus. However, does not yet include provisions for a number of likely increases needed in 2004-05, including Medicaid charges, possible employee raises and other costs that could total \$500,000 to \$800,000.

Tax Base and Tax Levy

The estimated tax base for the current budget year is expected to be about \$4.34 billion, an increase of \$130 million, or 3.1% over the final tax base last year of about \$4.17 billion.

As shown at right, based on preliminary information for 2004-05 provided by Orange County, we expect the total tax base to increase about \$100,000,000 next year to about \$4.44 billion, about the same as the average growth in recent years.

At a tax base level of \$4.44 billion next year, each 1 cent of the tax rate would generate about \$442,000. The current General Fund tax rate of 50.2 cents on this base would generate about \$21.4 million in property tax revenue.



Other Local Taxes

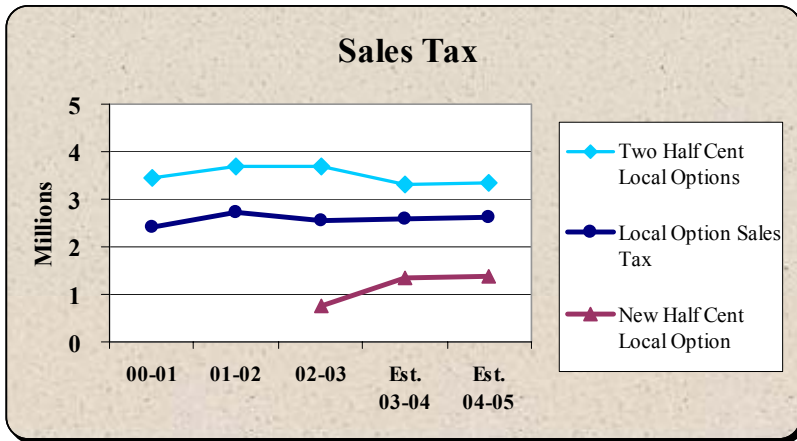
- Cable franchise revenues represent a tax of 5% on local Time Warner gross receipts. We expect revenues to be about \$400,000 in the current year and remain at the same level next year.
- Revenue from the Hotel/Motel occupancy tax of 3% has increased since last year and is expected to total about \$572,000, but not as much as budgeted in 2003-04. For 2004-2005, we estimate an increase to \$580,000.

State-Shared Revenues

Sales Taxes

Sales tax revenue from both the 1% sales tax based on Orange County receipts and the two ½ % sales taxes based on State-wide collections were slightly higher than budgeted last year. The current year's budget for both taxes was based on growth of about 3.5% over last year's lower base. Because of the Town's lowered census estimate and slower than anticipated growth, we

estimate that sales tax revenues will be approximately \$7.27 million, approximately \$255,000 less than budgeted. We estimate that sales tax revenues will increase approximately 3.25% next year over the lowered estimated base in the current year to approximately \$7.3 million.



- For the two ½% taxes based on State-wide tax collections, we estimate \$3,320,000 in 2003-04 and \$3,340,000 for next year.
- For the 1% tax based on receipts in Orange County, we estimate about \$2,597,000 in the current year and about \$2,625,000 for next year.
- For the new ½% tax authorized by the County effective December,

2002, we expect receipts of about \$1,353,000 in the current year, and about \$1,380,000 for next year.

Motor Fuel Taxes (known as Powell Bill funds)

Motor fuel tax revenue is based on receipts from 1¾ cents of the State gasoline tax allocated to local governments based on population and local street mileage in each jurisdiction. This revenue totaled \$1,315,000 in the current year, or about \$80,000 less than last year due to a reduction in available funds and the lowered census count for Chapel Hill. For next year, we anticipate revenues to remain at about the same amount.

State Fire Protection Funds

We anticipate no change next year in the level of State Fire Protection Funds, totaling \$850,000.

Franchise Tax

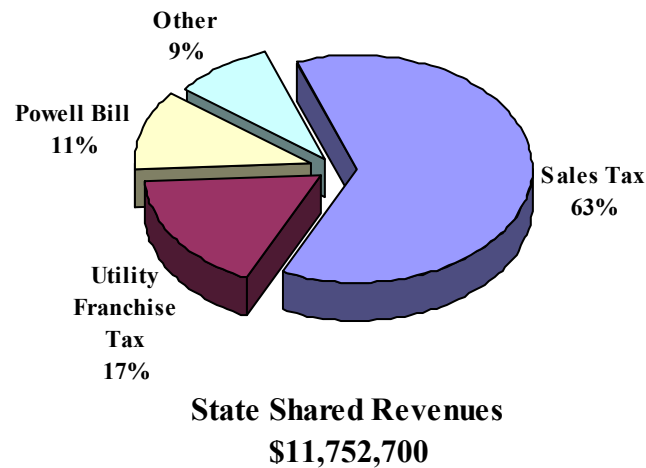
Franchise taxes are derived from a 3% tax on gross revenues from public utilities in each jurisdiction, and are collected by the State for distribution to cities and towns.

Utility franchise fee distributions have lagged behind last year, primarily because of generally mild weather this fiscal year. Including the recent quarterly distribution of the utility franchise tax revenue received on March 15, revenue to date in the current year totals about \$1,436,000. We estimate total revenue of about \$1,980,000 in the current year and an increase of about 3% to \$2,040,000 next year.

Beer and Wine Taxes

Assuming full receipt of the Beer and Wine tax revenue normally distributed in May to cities and counties, we estimate allocations from this source of about \$205,000 for the current year and next year.

In summary, assuming full receipt of State-shared revenues next year, including a full year of the new ½% sales tax adopted last year, we estimate State-shared revenues would total about \$11,753,000 for next year.



Other Revenue Sources

Service Charges for various Town services and programs, including zoning compliance permits and Parks and Recreation programs, are estimated to increase from the current year's lowered estimate of \$1,288,000 and total about \$1,358,000. Service charges for a number of development related activities are projected to decrease.

- Some Licenses, Permits, and Fines including privilege licenses and vehicles licenses, are expected to increase, while fees related to development are expected to decrease next year. Overall, we anticipate a decrease in licenses, permits, and fines to about \$1,383,000 from the current year estimate of \$1,470,000.
- Investment income is expected to increase only slightly from the estimated revenues in the current year of about \$43,200 and is projected at about \$51,000 next year, based on the expected continuation of low interest rates next year.

We will be able to carry forward an estimated total of \$926,000 from the current year for next year's budget. The total is the result of current year operations and the change in the method of State sales tax distribution the will give the Town about \$600,000 from reserved fund balance this year. In addition, the Council has indicated that it wishes to use a reserve of \$491,000 from 2002-03 to help balance next year's budget.

Summary of Revenues

In summary, we estimate General Fund revenues, including the use of \$926,000 carried forward from 2003-04 and the one-time use of the Council reserve of \$491,000 would total about \$40,597,000. However, our estimates at this point are subject to change based on changing national, State and local economic conditions.

The table to the right shows comparative estimates of total General Fund revenues for the current year and next year.

	03-04 Current Budget as Amended	03-04 Estimated	04-05 Estimated	Increase/ Decrease over 03-04
Property Taxes	21,118,000	21,554,300	22,008,000	453,700
Other Taxes	1,028,000	1,008,000	1,017,000	9,000
Licenses/Permits	1,457,200	1,469,735	1,383,450	(86,285)
State Shared	12,084,310	11,620,500	11,752,700	132,200
Grants	713,509	866,619	411,898	(454,721)
Service Charges	1,315,600	1,287,603	1,358,150	70,547
Interest	202,500	43,200	51,200	8,000
Other	362,000	321,366	142,300	(179,066)
Interfund Transfers	1,002,749	1,047,536	1,055,652	8,116
Fund Balance	2,542,107	1,290,306	1,417,000	126,694
Total	41,825,975	40,509,165	40,597,350	88,185

General Fund Costs

As requested by the Council at the initiation of this year's budget process, the preliminary estimate of General Fund costs for next year's budget is shown in a format separating the base budget costs from optional additions to the base budget that could be considered by the Council. The table on the following page is provided to compare the preliminary base budget for next year to the current year's base budget. Attachment 1 is provided to show estimated costs for the base budget next year with additional columns to show options with priority levels for consideration by the Council. Attachment 2 shows the net cost increases for the preliminary base budget next year compared to the base budget in the current budget year.

Base Budget

The base budgets submitted by Departments would allow continuation of basic services, but with little flexibility for unexpected occurrences. The estimated preliminary base budget totals about \$40.4 million, or about 3.1% more than the original current year's operating budget. Most of the additional cost is for the full-year cost of pay increases authorized for eight months this year, the increased cost of employee medical and workers' compensation coverages, and the increased cost of employee medical insurance resulting from the withdrawal of coverage by Doctor's HMO and required shift of coverage to CIGNA.

The preliminary base budget includes costs necessary to continue current operations but does not include the costs for competitive employee compensations adjustments, any new positions or funding for contributions to other agencies beyond the 10% legal requirement of the local occupancy tax law.

General Fund Base Budget Expenditure Estimates			
	03-04	04-05	
Department	Original Budget	Base Budget	% Change
Mayor	89,089	93,334	4.76%
Council	217,655	200,483	-7.89%
Manager	656,509	682,028	3.89%
Clerk	333,536	342,712	2.75%
Human Resources	594,406	600,898	1.09%
Finance	931,404	945,452	1.51%
Information Technology	582,698	652,792	12.03%
Legal	235,943	242,038	2.58%
Planning	990,128	1,051,681	6.22%
Inspections	707,597	743,700	5.10%
Engineering	975,565	1,130,736	15.91%
Public Works	10,116,076	10,490,498	3.70%
Police	9,650,604	9,860,891	2.18%
Fire	5,321,401	5,446,757	2.36%
Parks and Recreation	2,197,961	2,273,824	3.45%
Library	1,959,490	1,987,164	1.41%
Non-Departmental*	509,438	549,040	7.77%
Debt Service	2,552,000	2,485,000	-2.63%
Capital Improvements Transfer	521,000	561,000	7.68%
Reserve for Medical Insurance Increase		25,000	N/A
Total Base Budget	39,142,500	40,365,028	3.12%

*Less Contributions to agencies in excess of 10% required

23% in worker's compensation costs next year (\$160,000).

- Increased cost of employee medical insurance resulting from withdrawal of coverage by Doctor's Health Plan and required shift of coverage to Cigna Healthcare of N.C. (\$147,000).
- Increased allocation for vehicle replacement costs consistent with financial plan (\$150,000).
- Cost increase for property and liability insurance, estimated at 11% (\$60,000).

Funding for human service agencies and hotel/motel tax recipients and other agencies is shown for next year as an option to the base budget for the Council's consideration. We have included the minimum amount of 10% of estimated hotel/motel tax revenue (\$58,000) in the base budget as required by law, with the balance of \$505,200 from last year's funding for recurring contributions to agencies as options for the Council's consideration.

The preliminary base budget expenditure estimates do not include a reserve for pay adjustments needed to be competitive in the Triangle labor market, other service and program additions that the Council may wish to consider, or repayment amounts for any possible new borrowings. Funding needed for potential pay adjustments, optional additions and repayment amounts for any

The table shows a comparison between the current year's original base budget and estimated costs for General Fund base service levels next year. Attachment 2 provides more detailed information on changes from the current base budget to the preliminary base budget for next year. Major elements of the net change of about \$1,2 million for the 2004-05 base budget include the following:

- Full-year costs of pay increases authorized for 8 months in the current year (about \$160,000).
- An increase of 12% in employee medical costs next year (\$294,000).
- A projected increase of

possible new borrowings are presented in Attachment 1. The Council received a report at the January planning retreat that provided a comparison of the Town's pay rates to those of other local government and private employers in the Triangle labor market.

Capital Improvement Costs

For 2004-2005, we propose a capital improvements program in keeping with our fifteen year plan. The base budget would require a \$561,000 transfer from the General Fund and would limit costs to funding current installment debt payments and contractual obligations. This base level would include the following:

- 122,000 Annual installment payment on Town Operations Center land
- 163,000 Annual installment payment on renovations at Hargraves Center and A. D. Clark Pool
- 58,000 Estimated annual payment on proposed installment contract for repairs at the Inter-Faith Council shelter (reappropriation)
- 9,000 Estimated annual payment on roof repairs at the Chapel Hill museum (reappropriation)
- 38,000 Estimated annual payment on roof repairs at the Town Hall, Fire Stations #2 and #3
- 32,000 Estimated annual payment on repairs to various tennis and basketball courts (reappropriated)
- 238,000 Meadowmont School Gym payment

Summary of Revenues and Expenditures

With estimated costs as discussed above and no reserve for pay adjustments or agency funding, the preliminary General Fund base budget costs would be about \$40.4 million for 2004-05, and could be funded with total estimated revenues next year of \$39.2 and the use of \$926,000 from the current year, leaving about \$232,000 for priority additions.

Optional Additions to the Base Budget

The Council requested that potential additions to the base budget for next year be considered separately from the overall budget total so that additions could be considered on a case by case basis. Attachment 1 provides summary budget information showing the base budget request as discussed above and two additional columns showing potential additions to the base budget organized by recommended priority categories. These additions could potentially be funded from the \$232,000 left from the base budget and additional funds from a property tax increase.

Optional Priorities Level I (not included in base budget)

Optional additions in this category and estimated costs are shown in Attachment 1. Including these potential additions to the base budget, the General Fund budget would total about \$44.0 million. With estimated revenue totaling about \$39.2 million next year, a budget at this level would require use of \$926,000 carried forward from 2003-04, use of 491,000 reserved by the

Council for use in 2004-05, and require approximately \$3.5 million in additional property taxes, or about a 7.8 cent tax rate increase.

Priority Level I capital improvements recommended for consideration in the 2004-05 budget total \$1,148,000 and include the following:

Projects proposed for cash financing

- 9,000 Railroad crossing improvements (reappropriation)
- 25,000 Picnic shelter at Meadowmont Park
- 78,000 Extraordinary maintenance, emergency repairs
- 19,000 Parks and Recreation Administration capital maintenance
- 300,000 Replacement of Town Hall heating, ventilation, and air conditioning units
- 130,000 Old Post Office capital repairs (reappropriation)
- 15,000 Weaver Dairy Road and Sedgefield Road improvements
- 25,000 Curb and gutter replacement
- 25,000 Curb repairs, Americans with Disabilities Act compliant
- 50,000 Capital repairs to bike paths, paved trails and public parking areas
- 50,000 Small park improvements
- 100,000 Town Hall telephone system replacement
- 21,000 Homestead Park
- 10,000 Cemetery beautification
- 50,000 Sidewalk improvements
- 60,000 Greenways

Projects proposed for installment contract financing

- 65,000 Fire Station #4: outside wall repair (Total cost \$435,000)
- 51,000 Installation of new Town Hall generator (Total cost \$340,000, includes \$30,000 in reappropriated funds)
- 28,000 Installation of a new Police Department generator (Total cost \$185,000, includes \$23,000 in reappropriated funds)
- 93,000 Bolinwood Bridge Drive replacement (Total cost \$620,000)
- 240,000 Community Center capital repairs (Total cost \$1.6 million, includes \$104,000 in reappropriated funds)

Optional Priorities Level 2 (not included in base budget)

Optional additions in this category and estimated costs are included in Attachment 1. The list includes additional options for consideration by the Council that were requested by Departments to enhance and supplement existing programs and services for 2004-05.

A budget with these additions totaling about \$900,000 would require an adjustment in the current General Fund tax rate or cost reductions in other programs.

In addition to consideration of the above options, the Council has asked us to consider a number of other budget issues including a review of various fees and charges, and we are working on these potential changes. We will report on such issues at upcoming sessions.

PRELIMINARY TRANSPORTATION FUND BUDGET

Key issues for the Transportation budget for next year include:

- The level of State and federal operating assistance available next year.
- Funding increases in employee medical and workers' compensation costs.
- Adequate staffing of services for the Town's bus fleet.

Preliminary estimates of revenues and expenditures for the Transportation Fund base budget for next year indicate that a .46 cent tax increase would be necessary to provide additional revenue of about \$203,000 to continue current services next year.

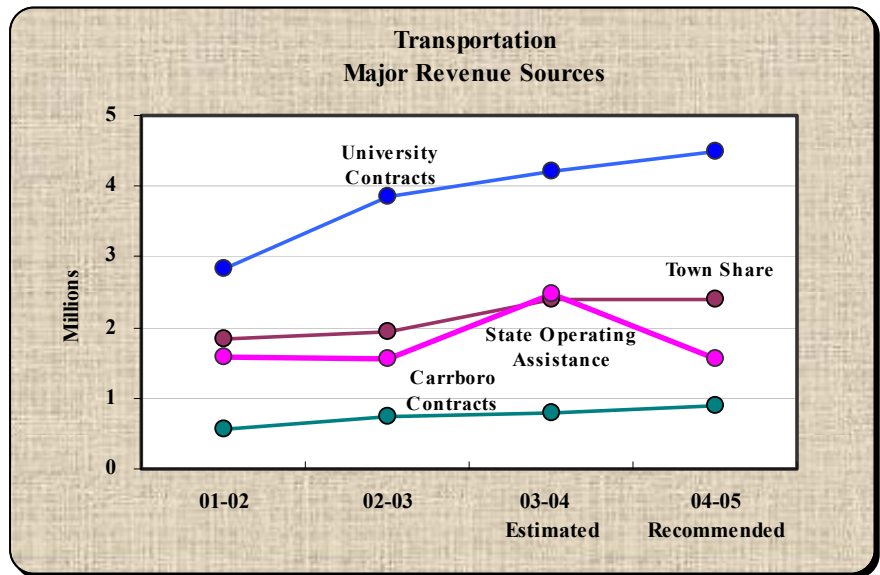
Expected revenue available for the system is based on preliminary estimates of federal and State operating assistance, and assumes that contractual arrangements with Carrboro and the University would continue based on current cost sharing agreements. Discussions are underway with the University and Carrboro regarding specific services desired for 2004-05. The final level of State and federal operating assistance will not be known until later this spring. Preliminary estimates suggest that federal funding will remain about the same as in the current year, except for a one-time disbursement that we received from the State in 2003-04.

The Town received a one-time disbursement of Highway Trust Funds of \$897,000 during the current year. Because of the extra disbursement, the Town was able to transfer \$897,000 of local funds to the Capital Reserve Fund for future capital funding for the Town Operations Center.

Budget Revenues

For the Transportation Fund budget for 2004-05, revenue sources are expected to remain about the same next year with estimated amounts as follows:

- Federal operating assistance is expected to be about \$1,024,500, an increase of about \$92,500 over the current year.
- State operating assistance is expected to be about \$1,565,700, a decrease of approximately \$897,000 from the current year as described above.
- University payments would be about \$4.5 million based on its share of requested services.
- Carrboro payments would be about \$900,000.
- The Town's share of costs would be about \$2.4 million.



We assume continuation of vehicle license fees as in past years. With assumptions as noted above, we estimate total revenues of about \$10.8 million next year, which is approximately \$203,000 less than projected expenditures.

Transportation Budget Costs

The cost of providing the base budget Transportation services next year is estimated to be about \$10,955,487 or about 2.3% over the current year's amended budget, with key cost increase areas as noted below:

- Funding the full-year costs of pay increase authorized for 9 months in the current year (\$49,700)
- Funding expected increases of 12% in employee medical costs and 23% in worker's compensation costs (\$152,000)
- Funding expected increases of 11% in liability insurance (\$20,000)

With preliminary cost projections of about \$10,955,487 to continue current services and total projected revenues of about \$10,758,244, additional Town revenue of approximately \$203,000 would be needed to balance the Transportation Fund base budget if the current level of services remains the same.

Potential Additions to the Transportation Base Budget

Potential Priority Level I additions to the Transportation Base Budget include an allocation for employee pay adjustments effective October 1, 2004, which would cost approximately \$190,000 and additional staffing for the E-Z Rider service provided to persons with disabilities. These additions to the Transit system would require additional revenue from our transit partners and from the Town.

OTHER FUNDS

Housing Fund: Because of the budget schedule required by the Department of Housing and Urban Development (HUD), the Council adopted a budget on March 1 for the Town's public housing program for 2004-2005.

Estimated costs for next year total about \$1,652,000, a decrease of about \$7,000 from the original 2004-05 budget of \$1,659,000. No significant changes or new personnel were proposed for Housing operations next year. Federal operating assistance is proposed to decrease and only provide 91% of the subsidy that is actually necessary for operations. Rents paid by public housing residents are expected to be lower in next year's budget than in 2003-04. While there is a possibility that the subsidy amount may increase, we are reducing our budget for operating costs so that we can continue to retain the federally recommended fund balance. We propose to continue the current level of maintenance services as much as possible.

Debt Service Fund: A transfer from the General Fund of \$2,485,000 would be required to make scheduled payments for principal and interest on the Town's debt obligations for next year.

Capital Improvements Fund: Transfers and other revenues would provide funding for the \$561,000 for payments limited to current obligations. A transfer of \$561,000 is included in the base General Fund budget proposal. Optional funding levels for the capital improvements program are presented in a separate report.

On-Street Parking Fund: On-street parking revenues are expected to be about \$624,000, only about \$5,000 more than estimated for 2003-04. For 2004-05, we estimate revenues to be sufficient to allow a transfer of about \$167,000 to the General Fund.

Off-Street Parking Facilities Fund: Revenues for the off-street parking lots are estimated to be about \$14,000 less than the original budget for the current year. We believe the decline could be attributed to a combination of the fare free bus system and slower economic activity in the downtown area. We estimate revenues will be adequate to meet operating costs and debt service payments this year and next year. For next year, we estimate total revenues of about \$1,264,000 and costs for a base budget of about \$1,188,000, leaving a difference of \$76,000 which could be considered for essential basic maintenance on the deck recommended by the Public Works department.

Housing Loan Trust Fund: Projects will be funded as directed by the Council, with costs restricted to be in balance with revenues.

Library Gift Fund: For the preliminary base budget, we project a transfer to the General Fund of \$45,000.

Downtown Service District Fund: The current tax rate of 6.2 cents is estimated to generate about \$70,000 in revenue in the current year and next year. The Mayor's Downtown Steering Committee is working on further recommendations that would affect the use of the Downtown Service District funds. A separate report will be forthcoming.

Requests by Others

The Council has received a number of funding requests from other agencies which are not included in the base budget or in the list of priority additions for the Council's consideration.

Some of these requests are appropriate for consideration through Community Development or HOME Program funding and are discussed in separate reports in this agenda item. Some are appropriate for consideration by the Human Services Advisory Board and have been referred to the Board for their review. Others will be addressed in separate budget working papers. All will be considered as we work toward preparation of the Manager's recommended budget.

CONCLUSION

We hope that this status report on development of the 2004-2005 budget will help the Council as it continues its deliberations. We look forward to receiving further feedback, advice and instruction from the Council as we continue work on the Manager's recommended budget. The Manager's recommend budget will be presented to the Council on April 26.

ATTACHMENTS

1. General Fund Base Budget and Potential Additions (p. 1.1).
2. Primary Changes from 2003-04 Base Budget to Preliminary Budget (p. 2.1).

**GENERAL FUND BASE BUDGET AND POTENTIAL ADDITIONS
2004-2005**

ATTACHMENT I

Category	2004-2005 Base Budget	Potential Options Priority Level I		Potential Options Priority Level II	
Personnel Costs - Base salaries and benefits (See Attachment II for major changes from FY 2003-2004.)	27,786,228	<ul style="list-style-type: none"> • Potential costs of competitive employee pay adjustments effective October 1, 2004 690,000 • Web Programmer/Analyst 53,500 • Information Systems Technician 45,600 • Senior Planner for Current Development 49,200 • Restore Police Officer position held vacant 40,200 • Reallocation of Fire positions (4,600) • Additional Groundskeeper II position to handle snow removal and increase in landscaped acreage 41,000 		<ul style="list-style-type: none"> • Permanent full-time Geographic Information System (GIS) Enterprise Manager - 6 months 57,990 • Six additional full-time Fire personnel 289,700 • Temporary part-time Administrative Clerk for Manager's office 5,000 • Four full-time police officers-downtown foot patrol 160,700 • Two additional full-time traffic officers & vehicles 111,000 • Full-time secretary for Project TurnAround 38,900 • Police Administrative Technician 38,900 • Change Special Olympics Recreation Specialist II from part-time to full-time 14,400 • Change Parks Marketing Recreation Specialist I from part-time to full-time 7,600 • Temporary library employees for extended computer lab 3,100 • High School Intern-Planning 2,500 • High School Intern - Clerk's records 4,300 	
Base Personnel Costs	27,786,228	Personnel Base Plus Priority I Options		28,701,128	Personnel Base Plus Priority I and II Options
Operating Costs - Base operating costs excluding grants to other agencies (See Attachment II for major changes from FY 2003-2004.)	9,454,200	<ul style="list-style-type: none"> • Aggregate increase in departmental operating costs 191,000 • Increase ammunition budget to meet state-mandated training and qualification requirements 26,000 • Update aerial photography topographic GIS coverage 45,000 • Position classification review 6,800 • Spanish language instruction for employees 5,000 • Credit card processing fees 17,000 • Increased cost of road resurfacing materials of 11.3% 27,000 • Athletic field maintenance 20,000 		<ul style="list-style-type: none"> • Expenses to connect substations and schools to Chapel Hill Police Department network 12,000 • ¾ ton pick-up truck for Public Works (financed) - cost of first year 4,950 • Supplemental funding for building maintenance & repairs 7,000 • Contract snow removal 8,000 • Reel Mower (financed) - cost of first year 2,600 • Mower trailer (financed) - cost of first year 1,500 • Supplemental funding for small building improvements 10,000 • Additional for Apple Chill 8,000 	
Base Operating Cost	9,454,200	Operating Base Plus Priority I Options		9,792,000	Operating Base Plus Priority I and II Options
Capital Equipment - Base Capital Equipment	78,700	<ul style="list-style-type: none"> • Leaf collection box 6,500 • Pickup truck for Fire Department 7,170 • Fire Department power rescue equipment 7,300 • 1 replacement automatic defibrillator 3,000 		<ul style="list-style-type: none"> • Snow Plow 8,000 	
Base Capital Equipment	78,700	Capital Equipment Plus Priority I Options		102,670	Capital Equipment Plus Priority I and II Additions
Debt Service - Payments on current bonds	2,485,000	<ul style="list-style-type: none"> • Estimated payment on Town Operation Center design and site work 150,000 • Estimated payment on \$4 million issuance of new General Obligation debt - half year payment 202,500 			
Base Debt Service	2,485,000	Debt Service Plus Priority I Options		2,837,500	Total Debt Service

GENERAL FUND BASE BUDGET AND POTENTIAL ADDITIONS
2004-2005

ATTACHMENT I

Category	2004-2005 Base Budget	Potential Options Priority Level I	Potential Options Priority Level II
Transfer for Capital Improvements - Based on 15-year Capital Improvement Plan	561,000	<ul style="list-style-type: none"> Estimated sidewalk and bicycle Capital Improvements allocation that could be applied to debt service Proposed additions for Capital Improvement 	
Base CIP Transfer	561,000	Transfer for CIP Plus Priority I Options	Transfer for CIP Plus Priority I and II Options
		(50,000)	
		1,198,000	
		1,709,000	1,709,000
Subtotal	40,365,128	Subtotal	Subtotal
		66,700	
		(66,700)	
Total Base Costs	40,365,128	Total Base Plus Priority I Options	Total Base Plus Priority I and II Options
		43,142,298	43,938,438
Special Programs and Service Contracts -		<ul style="list-style-type: none"> Human service contracts, hotel/motel allocations and grants to other agencies Downtown Chapel Hill economic development consultant - next phase for lots 2 and 5 4 automatic defibrillators for Town meeting spaces Contract with new Economic Development entity Support of Public Art program 	<ul style="list-style-type: none"> Additional contribution to Inter-Faith Council Additional support of Public Art program
		505,200	30,000
		266,000	73,000
		8,000	
		70,000	
		75,000	
Total Special Programs and Service Contracts	0	Total Special Programs and Service Contracts	Total Special Programs and Service Contracts
		924,200	1,027,200
Base Plus Priority I Options and Special Programs	40,365,128	Base Plus Priority I Options and Special Programs	Base Plus Priority I and II Options and Special Programs
		44,066,498	44,965,638
Estimated Total Revenue Available	39,180,350	Estimated Total Revenue Available	Estimated Total Revenue Available
Council Reserve for 1-time Use	491,000	Council Reserve for 1-time Use	Council Reserve for 1-time Use
Normal Use of Fund Balance	800,000	Normal Use of Fund Balance	Normal Use of Fund Balance
Additional One-time Use of Fund Balance	126,000	Additional One-time Use of Fund Balance	Additional One-time Use of Fund Balance
Difference	232,222	Difference	Difference
		(3,469,148)	(4,368,288)

**TRANSPORTATION FUND BASE BUDGET AND POTENTIAL ADDITIONS
2004-2005**

ATTACHMENT I

Category	2004-2005 Base Budget	Potential Options Priority Level I		Potential Options Priority Level II	
Personnel Costs - Base salaries and benefits	7,906,687	<ul style="list-style-type: none"> • Potential costs of competitive employee pay adjustments effective October 1, 2004 190,000 • Full-time EZ Rider/Shared-Ride Reservationist 43,598 • Part-time EZ Rider/Shared-Ride Reservationist 23,757 • Full-time EZ Rider Transit Operator III 39,981 		<ul style="list-style-type: none"> • Part-time Shared Ride Driver - Transit Operator I 22,313 • 5 Part-time Transit Operator II's 122,241 • Change Administrative Clerk from part-time to full-time 18,960 • Full-time Bus Service Technician (Preventative Maintenance) 37,117 • Full-time Bus Service Technician (Cleaning, Fueling, Tires) 34,149 	
Base Personnel Costs	7,906,687	Personnel Base Plus Priority I Options	8,204,023	Personnel Base Plus Priority I and II Options	8,438,803
Operating Costs - Base operating costs adjusted for projected changes in utilities	3,048,800			<ul style="list-style-type: none"> • Bus interior cleaning 16,000 • Bus shelter cleaning 6,990 • Snow removal from park & ride lots 9,600 	
Base Operating Cost	3,048,800	Operating Base Plus Priority I Options	3,048,800	Operating Base Plus Priority I and II Options	3,081,390
Total Base Costs	10,955,487	Total Base Plus Priority I Options	11,252,823	Total Base Plus Priority I and II Options	11,520,193
Estimated Total Revenue Available	10,752,245	Estimated Total Revenue Available	10,752,245	Estimated Total Revenue Available	10,752,245
Difference	(203,242)	Difference	(500,578)	Difference	(767,948)

ATTACHMENT 2

Primary Changes from 2003-04 Base Budget to Preliminary Budget

Below is a summary of the primary increases in the base budget cost from the 2003-04 base budgets to the estimates for the 2004-05 base budgets.

1. Personnel:	a. Additional (full-year) cost of compensation increases authorized for 8 months in 2003-04	160,000
	b. Cost increase in employee medical insurance, estimated at 12%	294,000
	c. Cost increase in workers' compensation insurance, estimated at 23%	160,000
	d. Cost of continuing portion of medical insurance for 15 additional retired employees	54,000
	e. Increased cost of employee medical insurance resulting from withdrawal of coverage by Doctor's Health Plan and required shift of coverage to Cigna Healthcare of N.C.	147,000
	f. Additional (full-year) costs of mid-year position classification and pay adjustments	36,000
		851,000
2. Operations:		
Information Technology	a. Increased cost of network charges (\$27,700) and cost of software licensing fees (\$25,300)	53,000
Public Works	b. Cost of increase in tonnage disposed of at Orange County landfill (additional 1,160 tons)	53,000
Computer Replacement	c. Increased cost of additional computers	23,000
Vehicle Maintenance	d. Estimated increase for gasoline prices	30,000
Vehicle Replacement	e. Increased allocation for vehicle replacement costs consistent with financial plan	150,000
Non-Departmental	f. Cost increase for property and liability insurance, estimated at 11%	60,000
		369,000

3. Off-Setting Items:		
Public Works	a. Traffic Signal Maintenance:	
	<ul style="list-style-type: none"> Traffic signal maintenance projects including: extraordinary repairs and small capital projects such as, signal pole replacement, cabinet upgrade, and spot improvements. 	25,000
	<ul style="list-style-type: none"> Reimbursement from the North Carolina Department of Transportation 	(25,000)
	<ul style="list-style-type: none"> Net Costs 	0
	TOTAL CHANGE	1,220,000