

April 26, 2004

The Honorable Mayor and Town Council Members:

I am pleased to submit for your consideration a recommended budget for 2004-05.

The recommended budget responds to the Council's request to present a base budget of costs necessary to continue current services, as well as a budget that reflects priority additions for the Council's consideration. The recommended budget as presented identifies the base budget costs for the General and Transportation Funds, with and without the Stormwater Management Utility Fund, and provides priority additions to the base budget that we recommend for the Council's consideration.

Key budget issues are summarized below.

Budget Proposal

General Fund

- The General Fund base budget of about \$40,323,000 could be funded without a tax rate increase; \$197,000 would be available for priority additions.
- The recommended General Fund budget of about \$43,335,000 contains Priority I additions, including the implementation of the Stormwater Management Fund, and would require a tax rate increase of 3.5 cents. Without the Stormwater Management Fund, the recommended budget would require a 6.4 cent tax rate increase.

Transportation Fund

- The Transportation base budget of about \$11,130,400 would require a .6 cent tax increase to continue serving the higher level of ridership resulting from implementing a fare-free system.
- The recommended Transportation budget of about \$11,384,200 includes Priority I additions and would require a tax rate increase of .8 cents.

Stormwater Management Fund

The recommended budget for the Stormwater Management Fund would total \$2,031,200. The Stormwater Management Fund would: pay for programs necessary to meet the requirements of federal stormwater management regulations; provide for the development of a master plan to identify and schedule stormwater management capital improvements in future years; provide a comprehensive public education and participation plan; and continue and enhance stormwater management services provided by the Town. Ultimately, this funding source would be used to improve water quality, reduce runoff and improve the condition of streams throughout Chapel Hill. The Fund would raise approximately \$2 million through fees of \$45 per year, per Equivalent Rate Unit (ERU) of 2,000 square feet of impervious surface. The fee would be assessed to both residential and commercial properties, as well as to properties that are exempt from ad valorem taxes. Most residential properties in Chapel Hill would have between one and three ERUs, for an annual fee between \$45 and \$135. Please see the separate report on the Stormwater Management Fund for greater detail.

**RESIDENTIAL PROPERTIES
Equivalent Rate Tax Unit (ERU) Tabulation**

IMPERVIOUS SURFACE AREA (IN SQ.FT.)	# OF PARCELS	# OF ERU'S PER PARCEL	FEE
200 – 2,000	1,121	1	\$ 45
2,001 – 4,000	4,847	2	90
4,001 – 6,000	2,047	3	135
6,001 – 8,000	681	4	180
8,001 or greater	401	5 or more	\$225 or more

Combined Tax Rate

The combined tax rate increase for the recommended General Fund budget with Priority I additions (including the establishment of the Stormwater Management Fund) and the recommended Transportation Fund budget with Priority I additions would be 4.3 cents.

	2003-04 Current	2004-05 Proposed	Increase
General Fund	50.2	53.7	3.5
Transportation Fund	5.1	5.9	0.8
Total	55.3	59.6	4.3

The property tax is applied to all taxable property within the town as a rate per hundred dollars of valuation. The effect of a 4.3 cent tax rate increase on various property values is shown at right.

Cost of a 4.3 Cent Increase in Property Taxes		
Property Value	Annual Cost	Monthly Cost (on escrow basis)
\$ 100,000	\$ 43	\$ 3.58
150,000	\$ 65	5.38
200,000	\$ 86	7.17
250,000	\$ 108	8.96
300,000	\$ 129	10.75
500,000	\$ 215	17.92
1,000,000	\$ 430	35.83

Downtown Service District Fund

The Downtown Service District Fund would continue at the current tax rate of 6.2 cents, and the funds generated (about \$70,000) would be allocated to a new downtown economic development organization. The General Fund would contribute a similar amount to the organization. The mission of the new organization would be: to bring the resources of the Town, University, and the downtown community together to maintain, enhance, and promote downtown as the social, cultural, and spiritual center of Chapel Hill through economic development of Chapel Hill.

Recommended Additions

General Fund Additions

Recommended Priority I additions to the General Fund are described beginning on page xvi and shown in tabular form beginning on page xxv. The main proposals include:

- \$690,000 Potential pay adjustments to be competitive with rates already being paid by other employers in the Triangle area.
- \$352,000 Issue \$4 million of bonds authorized by voters and begin payment on debt for design of new Town Operations Center.
- \$442,000 Contracts with human service agencies; visitor and tourism promotion.
- \$336,000 Next phase of economic development feasibility study for Town Parking Lots 2 and 5; support for new downtown economic development organization.
- \$612,000 Maintenance of Town properties through capital improvement program.

Transportation Fund Additions

Recommended Priority I additions to the Transportation Fund are described beginning on page xxi and shown in tabular form on page xxvii. Proposed additions include:

- \$190,000 Pay increases for Town employees to remain competitive with rates already being paid by other employers in the Triangle area.

- \$ 24,000 One-half time EZ Rider/Shared Ride reservationist to meet increased demand.
- \$ 40,000 One EZ Rider Transit operator to meet higher service demand.

Recommended Budget for All Funds

The recommended budget for all funds, net of transfers among funds, would total \$60,728,000.

Projections

Major factors that will affect budgets in the years beyond 2004-05 include construction of the Town Operations Center and issuance of \$29 million in General Obligation Bonds authorized by voters in November 2003. Capital projects and related costs could result in a tax rate increase for the General Fund and the Transportation Fund of 8.1 cents in 2005-06 (with no adjustment for property revaluation scheduled for next year). The Projections section of the budget begins on p. 44.

Format and Organization of Budget Document

The budget this year continues the new format and organization of the document as modified in recent years to provide better summary and graphic information on Town services and programs. The budget format is in keeping with governmental budget practices recommended by the Government Finance Officers Association.

Budget Development Process

The Council is scheduled to continue the budget process with additional budget work sessions on April 28th and May 19th. The public hearing on the budget will be held at 7:00 p.m. on May 12th. The Council's calendar calls for consideration of adoption of a budget on June 14th.

Developing a budget for Town services each year is a key responsibility of the Town Council as elected representatives of the community. We look forward to working with the Council as it makes decisions on types and levels of Town services and how they will be funded in the coming year.

Respectfully submitted,



W. Calvin Horton
Town Manager