

**MEMORANDUM**

TO: Mayor and Town Council

FROM: W. Calvin Horton, Town Manager

SUBJECT: Status Report on Development of the 2003-2004 Budget

DATE: March 26, 2003

The purpose of this memorandum is to report the status of work on development of the 2003-2004 Budget.

This is **not** the Manager's recommended budget. The Manager's recommended budget will be presented to the Council on April 28, 2003.

**INTRODUCTION**

**Overall Budget Issues for 2003-2004**

Key issues for the upcoming budget for 2003-2004 include the following as previously discussed with the Council:

- Current economic conditions and uncertainty about the pace of an economic recovery.
- Numerous potential effects of the war with Iraq.
- Potential impacts on local government revenues of a projected State budget deficit of about \$2 billion for 2003-2004.
- Estimated cost increases for new debt service on 1996 bonds, pay plan adjustments to be competitive in the Triangle labor market, and increases in employee medical and workers' compensations costs.
- Increases in certain operating costs to maintain current services.

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 that would continue current operations from optional additions to the base budget that could be considered by the Council on a case by case basis. At its January planning session, the Council also expressed a desire to reserve up to \$1 million in additional State-shared revenues expected in the current year to help balance next year's budget.

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. Below is a brief summary of the main points regarding the preliminary budget at this point in the budget process.

## SUMMARY

### General Fund

- At this point in the budget year, we believe we will receive additional unallocated State-shared revenues that would allow the Council to reserve as much as \$1 million to help balance next year's budget if desired by the Council.
- Assuming full receipt of State-shared revenues next year, the estimated preliminary General Fund base budget could be funded from estimated base revenues, leaving additional revenue that could be used to consider additions to the base budget.
- 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 human service contracts and other agencies, and additional funding necessary to restore the capital improvements program to a reasonable level. A budget that includes funding for estimated costs at this level would require use of about \$952,000 from the \$1 million reserve of additional revenue in the current year.
- Additional options to enhance and supplement current services would require additional revenue beyond the amount reserved in the current year.

### Transportation Fund

Preliminary estimates of revenues and expenditures for the Transportation Fund base budget for next year indicate that additional Town revenue of about \$212,000 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 11, 2003, with discussion at the annual planning retreat, followed by a community forum on January 29.

Nine Town advisory boards made budget requests and comments in work sessions conducted on February 12 and 19, and on March 5, 2003.

The Council received budget presentations from fifteen Town departments in meetings conducted on February 26 and 28, 2003.

### Remaining Budget Schedule

The Council will conduct a community forum on the 2003-2004 Budget on March 26, 2003.

The Manager will present a budget proposal on April 28, 2003, and the Council has scheduled budget work sessions on April 2 and 30, and on May 21, 2003. A public hearing on the recommended budget is scheduled for May 14, 2003.

The Council is scheduled to consider adoption of the budget on June 9, 2003.

## **PRELIMINARY GENERAL FUND BUDGET**

### **Update on Current Year Revenues**

Revenues in the current year remain on target with budgeted amounts and are consistent with information presented at the Council's January 17 planning session. Expenditures are also on target with projections, enabling us to maintain a balanced budget this year and to save \$800,000 from normal operations that can be used for next year's budget, consistent with practice in previous years.

In addition to normal savings, to date we have received additional revenue from the State totaling about \$1,548,000 more than estimated in the original budget adopted for the current year. Based on the latest information available from the State, we continue to believe there is a good possibility that no State revenue will be withheld this year, and that we will receive the full \$2.6 million in additional revenue as originally estimated under our best case scenario. To date, the Council has allocated \$948,000 of this amount, leaving a balance of about \$1.6 million available for further allocations. We recommend reserving about \$600,000 of this amount for additional allocations in the current year, leaving a balance of approximately \$1 million that could be reserved to help balance next year's budget as previously discussed by the Council.

For the additional \$600,000 available for allocation in the current year, we recommend reserving \$250,000 to replenish the debt service reserve used last year to help balance the budget; using \$200,000 for implementing the next phase of the stormwater management program recommended by consultants; and reserving \$150,000 for consultants to assist in developing proposals for economic development for parking lots #2 and #5 and developing parking standards especially designed for Chapel Hill.

### **Major General Fund Revenues for 2003-04**

There is still considerable uncertainty about the economy, and we are unable to predict how the war with Iraq might affect the economy in general and the State and Town specifically. For example, an extended absence of military personnel may have an adverse effect on the North Carolina economy; federal expenditures in support of the war may result in fewer federal dollars being available for other purposes that would affect the Town. In addition, the most recent forecast for the State budget projecting a deficit of about \$2 billion next year could have an impact on local government revenues from the State.

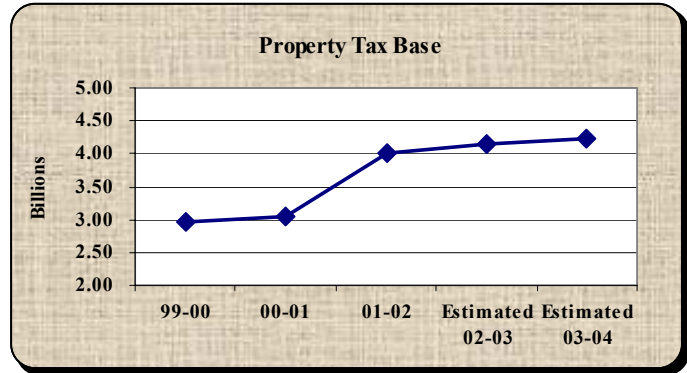
However, based on State legislation adopted last year, continued payment of utility franchise tax revenues and the addition of revenue from the new sales tax adopted by the county this year, our revenue estimates for next year are based on full receipt of State-shared revenues. Estimates for the major General Fund revenues are discussed below, but are subject to change as the budget process continues or economic conditions change.

## Tax Base and Tax Levy

The estimated tax base for the current budget year is expected to be about \$4.16 billion, an increase of \$139 million, or 3.5% over the final tax base last year of about \$4.02 billion.

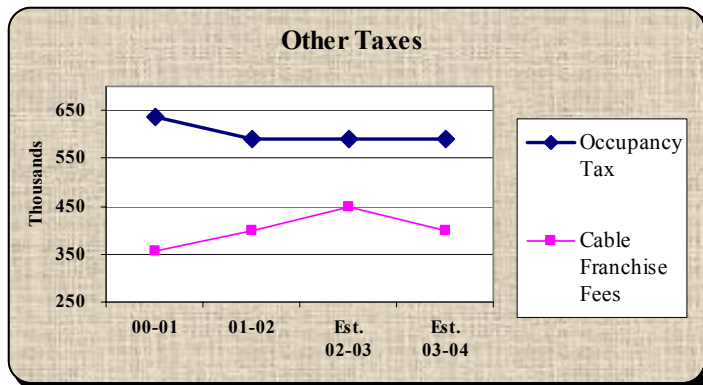
As shown at right, based on preliminary information for 2003-2004 provided by Orange County, we expect the total tax base to increase about \$80,000,000 next year to about \$4.24 billion, about the same as the average growth in recent years.

At a tax base level of \$4.24 billion next year, each 1 cent of the tax rate would generate about \$424,000. The current General Fund tax rate of 51.0 cents on this base would generate about \$21.2 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 \$390,000 in the current year and increase about 2.5% next year to about \$400,000.



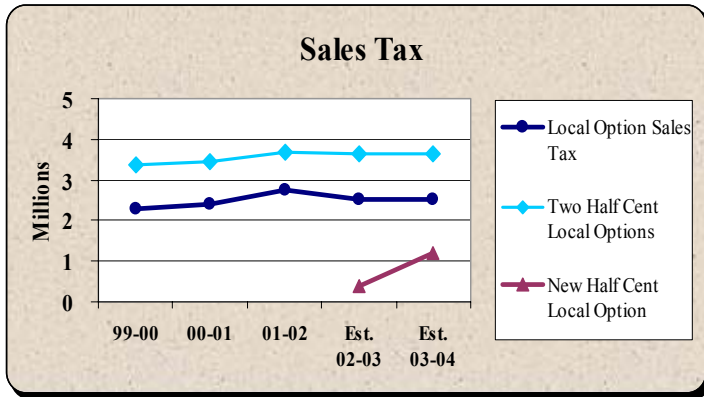
- Revenue from the Hotel/Motel occupancy tax of 3% has remained about the same in the current year as last year and is expected to total about \$590,000. For 2003-2004, we estimate the same amount of \$590,000.

## 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 fell below original budget estimates last year because of the economic recession. The current year's budget for both taxes is based on growth of about 3.5% over last year's lower base. Because of the uncertainty in the overall economy and the war with Iraq, at this point in the budget process, we recommend holding our estimates of sales tax revenue next year to the same as in the current year. The graph below shows the estimates for both of these categories for the current year and next year.

- For the 1% tax based on receipts in Orange County, we estimate about \$2,520,000 in the current year and for next year.



- For the original two ½ % taxes based on State-wide tax collections, we estimate \$3,648,000 as budgeted in the current year, and the same amount for next year.
- For the new ½ % tax authorized by the County effective December, 2002, we expect receipts of \$400,000 in the current year as previously estimated, and \$1.2 million for a full year next year.

Motor Fuel Taxes (known as Powell Bill funds)

Motor fuel tax revenue is based on receipts from 1 ¾ cents of the State gasoline tax allocated to local governments based on population and local street mileage in each jurisdiction. This revenue totaled \$1,490,000 in the current year, or about \$60,000 less than last year due to changes in the distribution of these funds adopted by the N.C. General Assembly. For next year, we anticipate a further decline to about \$1,390,000 based on the change in distribution.

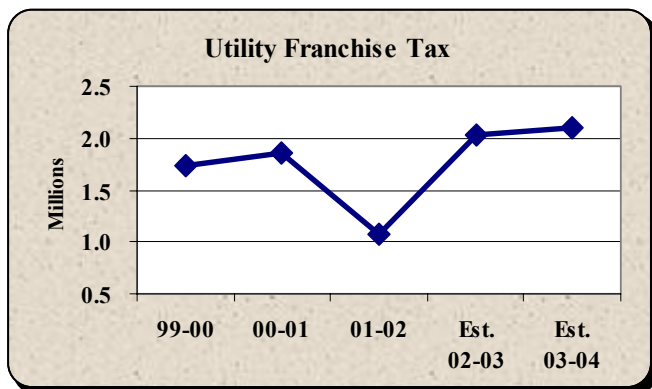
State Fire Protection Funds

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.

Based on final legislation adopted last year by the N.C. General Assembly giving greater protection to the Utility Franchise tax revenue, we believe we will receive the full year’s distribution of these taxes in both the current year and next year.

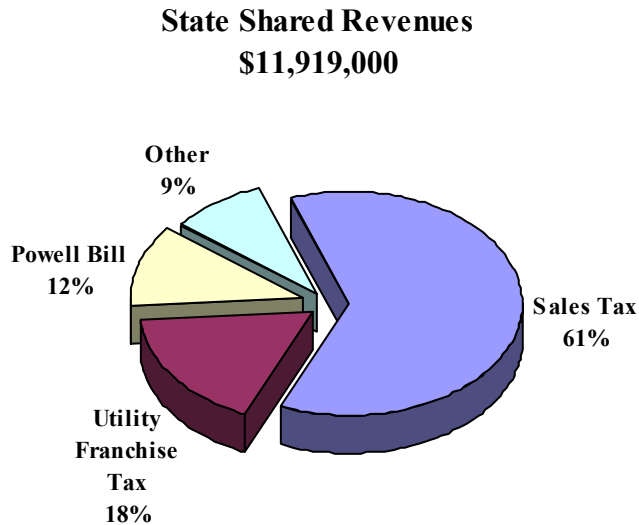


Including the recent quarterly distribution of the utility franchise tax revenue received on March 17, revenue to date in the current year totals about \$1,477,000. Assuming full receipt of the final quarter of these revenues due in June 2002, we estimate total revenue of about \$2,025,000 in the current year. With full continuation of these revenues next year, we estimate receipts from this source will increase about 4% as in prior years to about \$2,106,000.

### 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 the new ½% sales tax adopted this year, we estimate State-shared revenues would total about \$11,919,000 for next year.



### **Other Revenue Sources**

- Service Charges for various Town services and programs, including Parks and Recreation programs, are estimated to remain about the same next year as in the current year, totaling \$1,296,000.
- Most Licenses, Permits, and Fines (including inspection fees, vehicles licenses, and miscellaneous fines) are expected to remain about the same next year as in the current year. We have lowered our estimate of revenue from building permits which are expected to be about \$65,000 less than in the current year, anticipating a potential reduction in building level.
- Investment income is expected to remain at the lower level of about \$200,000 next year based on the expected continuation of record low interest rates next year.
- An annexation being considered by the Council to become effective June 30, 2003, is expected to add revenue, net of costs, of about \$80,000 next year.
- The normal fund balance savings from the current year of \$800,000 would be carried over to next year's budget as in past years. In addition to the normal use of \$800,000 in fund balance, the Council has indicated that it wishes to reserve additional revenue expected in the current year to help balance next year's budget.

## Summary of Revenues

In summary, we estimate General Fund revenues, including the normal use of \$800,000 in savings from the current year, would total about \$39,958,000 assuming continuation of full State-shared revenues as discussed above. However, our estimates at this point are subject to change based on changing economic conditions and the unpredictable economic effects of the war with Iraq.

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

	02-03 Current Budget as Amended	02-03 Estimated	03-04 Estimated	Increase/ Decrease over 02-03
Property Taxes	20,707,000	21,098,000	21,341,000	243,000
Other Taxes	1,053,000	1,028,000	1,028,000	0
Licenses/Permits	1,629,000	1,625,700	1,455,700	(170,000)
State Shared	9,489,000	11,133,000	11,919,000	786,000
Grants	531,260	597,555	473,335	(124,220)
Service Charges	1,271,200	1,172,567	1,295,600	123,033
Interest	252,500	200,000	202,500	2,500
Other	387,600	334,000	362,000	28,000
Interfund Transfers	1,506,187	1,053,566	1,001,436	(52,130)
Fund Balance	1,716,561	800,000	800,000	0
Annexation (net)			80,000	80,000
<b>Total</b>	<b>38,543,308</b>	<b>39,042,388</b>	<b>39,958,571</b>	<b>836,183</b>

## 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 below is provided to compare the preliminary base budget for next year to the current year's base budget. Attachment I is provided to show estimated costs for the base budget next year as submitted by Departments. Additional columns are shown with prioritized options for consideration by the Council. Attachment II 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 \$38,367,000, or about 4.4% more than the original current year's operating budget. Most of the additional cost is to pay for the full-year cost of pay increases authorized for seven months this year, the increased cost of employee medical and workers' compensation coverages, and the additional debt service on the final 1996 bonds.

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. Based on this year's budget guidelines, Departments were asked to keep operating costs (not including base personnel costs) the same as in the current year except for special cases in which the Town has little control over costs increases for some materials and contractual services.

The table below shows a comparison between the current year's original base budget and estimated costs for General Fund base service levels next year. Attachment II provides more detailed information on changes from the current base budget to the preliminary base budget for next year. The total comparative increase is higher than normal because the base budget adopted

for the current year was lower than normal due to the overall budget crisis last year and the reduction in revenue included in the original budget adopted for the current year.

The net change of about \$1.6 million for the 2003-2004 base budget includes the following:

- Full-year costs of pay increases authorized for 7 months in the current year (about \$340,000).
- An increase of 12% in employee medical costs next year (\$260,000).
- A projected increase of 15% in worker's compensation costs next year (\$77,000).
- An increase in the cost of continuing the computer replacement (\$45,000) vehicle replacement and vehicle maintenance programs (\$78,000)

<b>General Fund Preliminary Expenditure Estimates</b>			
<b>Department</b>	<b>02-03 Base Budget</b>	<b>03-04 Base Budget Proposals</b>	<b>% Change</b>
Mayor	61,587	86,807	40.9%
Council	168,443	189,926	8.6%
Manager	643,272	641,661	-3%
Clerk	308,928	327,529	6.0%
Human Resources	522,677	558,925	6.9%
Finance	859,361	916,278	6.6%
Information Technology	548,091	567,391	3.5%
Legal	235,096	230,777	-1.8%
Planning	959,729	964,342	0.5%
Inspections	715,815	676,115	-5.5%
Engineering	977,397	946,392	-3.2%
Public Works	9,744,193	9,822,135	0.8%
Police	9,171,100	9,413,874	2.6%
Fire	4,888,744	5,073,801	3.8%
Parks and Recreation	2,089,732	2,139,403	2.4%
Library	1,900,193	1,908,723	0.5%
Non-Departmental*	381,129	490,000	28.6%
Debt Service	2,343,000	2,616,500	11.7%
Capital Improvements			
Transfer	238,000	521,000	118.9%
Reserve for Medical	0	206,000	N/A
Reserve for Workers Compensation	0	77,000	N/A
<b>Total Base Budget</b>	<b>36,756,487</b>	<b>38,367,579</b>	<b>4.4%</b>

\*Does not include funding for other agencies of \$454,000 to be considered as option in 2003-04.

next year, including the replacement of mobile computer units in police vehicles.

- A net increase of about \$273,000 in estimated annual debt service costs next year to provide funding for the recent sale of 1996 bonds.
- An allocation of \$521,000 for the minimal capital improvements program necessary to pay only current debt obligations (about \$113,000 more than in the current year's amended budget).

Funding for human service agencies and hotel/motel tax recipients and other agencies (included in the current year's budget at the level of \$513,000) 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 (\$59,000) in the base budget as required by law, with the balance of \$454,000 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, nor other service and program additions that the Council may wish to consider. Funding needed for potential pay adjustments and optional additions are presented in Attachment 1. We will present a report to the Council on April 30 that will provide 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 2003-2004, we propose a capital improvements program that includes three optional levels of funding. The first level included in the preliminary base budget would total about \$521,000 and would limit costs to funding current installment debt payments and contractual obligations.

This base level would include the following:

- 126,000 annual installment payment on public works land purchased last year.
- 175,000 annual installment payment on renovations at Hargraves Center and A. D. Clark Pool.
- 9,000 estimated annual payment on proposed installment contract for repairs at the Inter-Faith Council shelter and at the Chapel Hill museum.
- 28,000 annual payment on current installment contract for infrared cameras.
- 238,000 payment to the Chapel Hill-Carrboro school system as part of an agreement providing the Town access to the gym at the Meadowmont Elementary School.

Funding for a capital improvements program at this minimum level would require a transfer of \$521,000 from the General Fund, and be supplemented by \$55,000 in estimated cell tower revenue in the Capital Improvements Fund. A full discussion of the proposed capital improvements program and the three optional levels of funding proposed for consideration next year is provided in a separate memo.

The additional funding that would be required from the General Fund to restore this program to Scenario B as shown in the memo would be about \$862,000 and is included in the priority additions to the General Fund base budget shown in Attachment 1. The additional amount necessary to fund capital improvements under Scenario C totaling \$2,000,000 would be \$1,424,000 more than the base budget of \$521,000.

### **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 \$38,367,000 for 2003-2004, and could be funded with total estimated revenues next year of \$39,958,000 with no adjustment in the current tax rate for the General Fund. A base budget at this level would leave a balance of about \$2.6 million (including the \$1,000,000 reserve) for priority additions by the Council, including potential pay adjustments, funding for other agencies or other optional additions as the Council may desire.

### **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 balance of estimated revenues next year and from the unallocated additional revenues being reserved this year to help fund next year's budget.

#### Optional Priorities Level I (not included in base budget)

Optional additions in this category and estimated costs include the following:

- 815,000 A reserve for potential costs of competitive market and merit adjustments effective October 1, 2003 that includes general market and merit adjustments as defined in the Town classification and pay plan.
- 215,000 A 2% range adjustment for employees below the job rate for their grade
- 200,000 One-time adjustment for employees in specific job groups determined to be below a competitive market level.
- 454,000 Funding for human service contracts, hotel/motel allocations and grants to other agencies as in past years.
- 862,000 Additional funding needed to restore Capital Improvements Program to prior year level of about \$1.4 million .
- 10,000 Increase in allocation for operating costs requested by the Orange Community Housing Land Trust.

2,556,000 Total Priorities Level I

Including these potential additions to the base budget, the General Fund budget would total about \$40,923,000. With estimated revenue totaling about \$39,958,000 next year, a budget at this level would require use of about \$965,000 from the additional \$1,000,000 expected in the current year that is in reserve, leaving a balance of about \$34,000 for potential other additions.

#### Optional Priorities Level II (not included in base budget)

The list below includes additional options for consideration by the Council that were requested by Departments to enhance and supplement existing programs and services for 2003-04.

<b>Department</b>	<b>Description</b>	<b>Amount</b>
Mayor/Council/	Membership US Conference of Mayors	2,000
	Volunteer recognition	1,000
	NC Legal Defense Fund	200
Manager/Clerk	Business Meetings and Training	500

Information Technology	Information Technology Specialist II to support website publication and GIS	55,000
Planning	New Planner for LUMO	55,000
Engineering	Engineering Technician for Traffic program	44,600
	Engineering Technician for development review	55,800
Public Works	Addition to Street Resurfacing	28,000
	Restore Street Reconstruction to Prior Level	22,000
	Additional Sanitation crew	108,000
Fire	Fire Training Officer	68,000
	1 <sup>st</sup> Phase, three full-time Firefighters	122,000
Parks & Recreation	Reinstate 4th of July Celebration	22,335
Other	Funding an emissions measure program	30,000
	Additional cost of biodiesel fuel	21,000
	Holiday parking coupons at \$1	5,000
	Increase to Public Arts Commission	40,000
	Council communications program	20,000
	Addition requested by Greenways Commission above \$55,000 in CIP	52,000
	Historic District Commission request for mediation related to demolition permits	1,000
	Increase in Human Services Advisory Board allocations	10,000
Capital Improvement	Additional funding to \$2 million level	562,000
	<b>Total Additions</b>	<b>1,325,435</b>

A budget with these additions totaling about \$1.3 million 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 options for program changes including a review of various fees and charges, and we are working on these potential changes. We will report on such options 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

- Funding potential compensation adjustments.
- Providing increased funding for the Town's share of capital replacement costs (including the planned new transit maintenance facility).
- Continuing to provide adequate maintenance services for a bus fleet that has increased by 27 buses in the past two years.

Preliminary estimates of revenues and expenditures for the Transportation Fund base budget for next year indicate that additional revenue of about \$212,000 would be needed to continue current services, and provide additional funding for expected costs increases in the base budget next year.

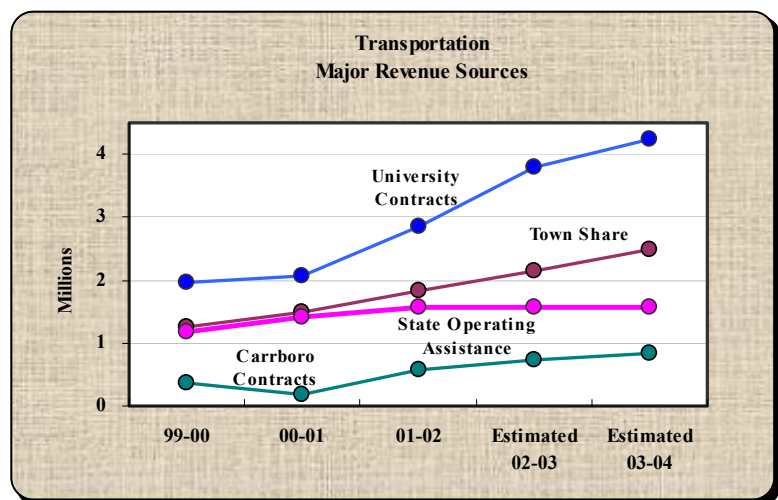
Expected revenue available for the system is based on preliminary estimates of federal and State operating assistance, and assumptions that contractual arrangements with Carrboro and the University would continue, based on current cost sharing agreements. Discussions are underway with the University and Carrboro regarding specific services desired for 2003-2004. The final level of State and federal operating assistance will not be known until later this Spring, although we believe at this point that funding levels will remain about the same as in the current year.

### Budget Revenues

For the Transportation Fund budget for 2003-2004, revenue sources are expected to remain about the same next year with estimated amounts as follows:

- Federal operating assistance is expected to be about \$932,000, about the same as in the current year.
- State operating assistance is expected to be about \$1,573,000, the same as estimated for the current year from the State's continuing operating allocation.
- University payments would be about \$4.24 million based on its share of requested services.
- Carrboro payments would be about \$824,000.
- The Town's share of costs would be about \$2.5 million.

We assume continuation of vehicle license fees as in past years. With assumptions as noted above we estimate total revenues of about \$10.15 million next year, including use of about \$300,000 in available fund balance.



## Transportation Budget Costs

The cost of providing the base budget Transportation services next year is estimated to be about \$10,378,000 or about 5.9% 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 7 months in the current year (\$85,000).
- Funding expected increases of 12% in employee medical costs and 15% in worker's compensation costs (\$180,000).
- Funding an increase in fuel costs at \$1.05 per gallon, we estimate total costs of about \$553,000.
- Increasing the estimated transfer needed to the Capital Reserve Fund for the local share of capital expenditures for bus replacements and matching funds for a replacement Transportation facility (\$121,000).

With preliminary cost estimates of about \$10,378,000 to continue current services and total estimated revenues of about \$10,150,000 (including use of \$300,000 in fund balance), additional Town revenue of \$212,000 would be needed to balance the Transportation Fund base budget.

## Potential Additions to the Transportation Base Budget

The growth of the Transportation fleet in the past two years (from 54 buses in 2000 to a current fleet of 83 buses) and the increase in ridership from implementation of the fare free system has created additional needs for the system, particularly in the area of bus maintenance. Below is list of optional additions to the Transportation base budget that we believe should be considered by the Council.

- 77,000      Assistant Director of Maintenance to address the increased fleet size and complexity of technology incorporated into the new buses.
- 122,000      Addition of three maintenance mechanics to address increasing maintenance needs for the larger bus fleet by creating a third shift to be available from 10:30 p.m. to 7:30 a.m.
- 81,000      Net cost of converting existing part-time driver positions and hours to 10 full-time drivers to address the increase in ridership and corresponding need for driver availability.
- 47,000      Addition of a position to provide assistance in monitoring all financial transactions and federal and state grant reports for a \$10 million transit operation.

These additions to the Transit system would require additional revenue from our transit partners and from the Town. We have contracted with consultants to assist us in determining an adequate level of maintenance staff and drivers needed for the expanded transit system. We expect to have their recommendations before the recommended budget is submitted in April.

### **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 4 for the Town's public housing program for 2003-2004.

Estimated costs for next year total \$1,659,000, an increase of \$45,000 over the current budget of \$1,614,000. No significant changes or new personnel were proposed for Housing operations next year. Federal operating assistance, rents paid by public housing residents, and use of fund balance should be sufficient to meet costs and maintain adequate reserves.

Debt Service Fund: A transfer from the General Fund of \$2,616,500 would be required to make scheduled payments for principal and interest on the Town's debt obligations for next year. This amount includes \$362,500 in new principal and interests payments on the final 1996 bonds sold on March 25.

Capital Improvements Fund: Transfers and other revenues would provide funding for the \$576,000 for payments limited to current obligations. This transfer of \$521,000 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 have declined in the current year by about \$25,000 compared to last year. For 2003-2004, we estimate revenues to be sufficient to allow a transfer of about \$280,000 to the General Fund.

Off-Street Parking Facilities Fund: Revenues for the off-street parking lots are estimated to be about \$88,000 less than the original budget for the current year. We believe the decline could be contributed to a combination of the fare free bus system, slower economic activity in the downtown area and the increase in parking rates effective this year. We are not able to determine which factors contribute most to the shortfall in revenues, however, 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 \$1,278,000 and costs for a base budget of about \$1,188,000, leaving a difference of \$90,000.

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. The Council may want to consider other capital funding needs for the Library as described in the separate Capital Improvements Program item that could come from the Library Gift Fund.

Downtown Service District Fund: At this stage of budget development, we propose no change in services in the Downtown Service District. The current tax rate of 6.2 cents is estimated to generate about \$70,000 in revenue in the current year and next year.

### **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.

In addition, the following items were requested by the Bicycle Pedestrian Advisory Board and are not included in the priority additions list:

- \$300,000 for sidewalks, in addition to amounts proposed in the Capital Improvements Program.
- \$100,000 for intersection improvements.
- An unspecified amount for raised pedestrian safety islands.
- Additional funding for bus shelters.

### **CONCLUSION**

We hope that this status report on development of the 2003-2004 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 28.

### **ATTACHMENTS**

1. Preliminary Base Budget and Potential Additions for 2003-2004 General Fund (p. 16).
2. Primary Changes from 2002-2003 Base Budget to 2003-2004 Preliminary Base Budget (p. 17).

**General Fund  
Preliminary Base Budget and Potential Additions for 2003-04**

Category	03-04 Base Budget	Potential Options Priority Level I		Potential Options Priority Level II			
<b>Personnel Costs -</b> Base salaries and benefits  (See Attachment II for major changes from FY 02-03)	26,088,933	Potential costs of competitive market and merit adjustments effective October 1, 2003:		Information Technology Specialist II to support website publication and GIS	55,000		
		<ul style="list-style-type: none"> <li>• General market and merit adjustments as defined in Town Classification and Pay Plan</li> </ul>	815,000	Engineering Technician for Traffic Program	44,600		
		<ul style="list-style-type: none"> <li>• 2% range adjustment for employees below the job rate for their grade</li> </ul>	215,000	Additional Sanitation Crew	108,000		
		<ul style="list-style-type: none"> <li>• One-time adjustment for employees in specific job groups determined to be below competitive market level</li> </ul>	200,000	Fire Training Officer	68,000		
				New Planner for LUMO	55,000		
				Engineering Technician for development review	55,800		
				1st Phase, three full-time Firefighters	122,000		
		<b>Personnel Base Plus Priority I Options</b>	<b>27,318,933</b>	<b>Personnel Base Plus Priority I and II Options</b>	<b>27,827,333</b>		
<b>Operating Costs -</b> Base operating costs excluding grants to other agencies  (See Attachment II for major changes from FY 02-03)	9,051,346	<ul style="list-style-type: none"> <li>• Level provided for human service contracts, hotel/motel allocations and grants to other agencies in past years (above minimum requirement of 10% included in the base budget)</li> <li>• Increase in Orange Community Housing Land Trust for operations</li> </ul>	454,000	<ul style="list-style-type: none"> <li>• Membership US Conference of Mayors</li> </ul>	2,000		
			10,000	<ul style="list-style-type: none"> <li>• Volunteer recognition</li> <li>• NC Legal Defense Fund</li> <li>• Business Meetings and Training</li> <li>• Addition to street resurfacing</li> <li>• Restore street reconstruction to prior level</li> <li>• Reinstate July 4th celebration</li> <li>• Funding an emissions measurement program as designed by ICLEI</li> <li>• Additional cost of biodiesel fuel</li> <li>• Issuing 5,000 \$1 parking coupons at holiday season</li> <li>• Increase requested by Public Arts Commission</li> <li>• Council communications program</li> <li>• Addition requested by Greenway Commission above \$55,000 in CIP</li> <li>• Historic District Commission request for mediation related to demolition permits</li> <li>• Increase in Human Services Advisory Board allocations</li> </ul>	1,000 200 500 28,000 22,000 22,335 30,000 21,000 5,000 40,000 20,000 52,000 1,000 10,000		
				<b>Operating Base Plus Priority I Options</b>	<b>9,515,346</b>	<b>Operating Base Plus Priority I and II Options</b>	<b>9,770,381</b>
				<b>Total Debt</b>	<b>2,616,500</b>	<b>Total Debt</b>	<b>2,616,500</b>
				<b>Total Capital</b>	<b>89,800</b>	<b>Total Capital</b>	<b>89,800</b>
				Additional funding needed to restore Capital Improvements Program to prior level	862,000	Additional funding to bring Capital Improvements Program to the \$2 million level	562,000
				<b>Transfer Plus Priority I Options</b>	<b>1,383,000</b>	<b>Transfer Plus Priority I and II Options</b>	<b>1,945,000</b>
				<b>Base Plus Priority I Options</b>	<b>40,923,579</b>	<b>Base Plus Priority I and II Options</b>	<b>42,249,014</b>
			<b>Total Base Costs</b>	<b>38,367,579</b>			
			<b>Estimated 03-04 Revenue Available</b>	<b>39,958,000</b>		<b>39,958,000</b>	<b>39,958,000</b>
<b>Subtotal Surplus (Deficit)</b>	<b>1,590,421</b>		<b>(965,579)</b>	<b>(2,291,014)</b>			
<b>Revenue Available from 02-03 Reserve</b>	<b>1,000,000</b>		<b>1,000,000</b>	<b>1,000,000</b>			
<b>Difference</b>	<b>2,590,421</b>		<b>34,421</b>	<b>(1,291,014)</b>			



### Primary Changes from 02-03 Base budget to 03-04 Preliminary Base Budget

Below is a summary of the primary increases in the base budget cost from the 02-03 base budget to the preliminary estimates for the 03-04 base budget.

<b>Personnel:</b>	Estimated full year cost of pay increases authorized for 7 months in the current year	340,000
	Increase in employee medical insurance for converting all employees to one medical plan and 12% increase in cost for next year	260,000
	Estimated increase in workers' compensation cost (15%)	77,000
	<b>Primary Personnel Changes</b>	<b>677,000</b>
<b>Operating:</b>		
Council	Computer use and Internet charges	11,000
Clerk	Net increase for cost of local elections (23,000) offset by reductions for postage and contracted services (19,000)	4,000
Finance	Increase in tax collection contracts, bank service fees, and replacement of finance system server	40,000
Engineering	Traffic Calming (one time allocation in 02-03)	(44,000)
Public Works	Increases in street reconstruction (30,000), street lighting (22,000) and landfill charges (65,000) offset by cost reductions for Southern Village sanitation contract (92,000) and other miscellaneous contracted services (22,000)	3,000
Police	Software license systems support (46,000), replacement of mobile laptop computers (24,000) and grant expenditures from state grants (88,000)	158,000
Fire	Cost for participation in USAR emergency response team (12,000), increase in annexation contracts (15,000) and miscellaneous contracts and equipment repair (19,000)	46,000
Non-Departmental	Estimated increase in property and liability insurance coverages	50,000
Computer Replacement	Increase in computer replacement program to replace an increasing number of computers	15,000
Vehicle Replacement	Increase to continue vehicle replacement and vehicle maintenance programs	78,000
	<b>Primary Operating Changes</b>	<b>361,000</b>
<b>Capital Equipment:</b>	Increase in miscellaneous capital equipment for snow removal	11,000
	<b>Primary Capital Changes</b>	<b>11,000</b>