CITIZENS' GUIDE TO REVIEWING THE BUDGET

General Comments

This budget document describes Town services and revenue sources adopted for the Town's budget for the fiscal year from July 1, 2011 through June 30, 2012.

The Mayor and Council's adoption of an annual budget is one of the most important decisions of the Town as a service organization and governmental entity. The annual budget translates the values of the Chapel Hill community into a plan of action for services, programs and projects, and resources for providing services.

The Mayor and Council's decisions in adopting a budget are in the form of an ordinance allowing expenses and raising of revenue during the coming budget year, an ordinance authorizing employee positions and wage and salary ranges, resolutions adopting fees and charges and related actions.

In accord with normal accounting and budgeting practices for cities and towns, Town services supported partly or entirely with general taxes are budgeted in a General Fund.

The General Fund includes costs and revenues for police, fire, refuse collection, street maintenance and other public works services, human services, planning, construction, inspections, engineering, library, parks and recreation, general administration and support services, and some miscellaneous items.

The public transit, public parking, stormwater management, public housing, internal service funds and supplemental downtown district services are budgeted in separate, individual funds.

This budget is intended to identify most services offered by the Town and proposed objectives for quality, quantity, timing, etc. of services. The individual department and division overviews give details about current Town services approved by Council. However, there may be a few activities not described or noted only in summary form here. We invite you to call the appropriate Town departments as listed on the Town's website or in the blue pages of the BellSouth directory for additional information. Any changes, deletions or additions to current services which may be decided during the proposed budget discussions will be reflected in the adopted budget for 2011-12.

The information in this budget document is intended to be understandable to citizens with a general knowledge of business practices and of most Town services. We have attempted to minimize the use of technical words and phrases, or to define them when used. A glossary of terms is provided in the Budget Appendices. However, if something in this material is not clear, we invite you to call us at (919) 968-2712 or send an email to the Town Manager at: manager@townofchapelhill.org.

State Laws Regarding Local Governmental Budgets

The Town's fiscal year begins on July 1 in accord with requirements in the North Carolina Local Governmental Budget and Fiscal Control Act.

This legislation requires that the Manager submit a recommended budget to the Mayor and Council, that the Council hold a public hearing, and that the Council adopt an annual budget or interim budget for 2011-12 by July 1.

State laws also determine the types of services and regulatory authority which the Town can provide, the revenue sources available to the Town and in many cases the maximum level of such revenue. For example, the Town is not authorized to levy income taxes, and Orange County has enacted a local option sales tax at the authorized limit of 2 and 1/2%. The Town is authorized to provide various types of services needed in urban areas, including police and fire protection, refuse collection and street maintenance services.

In North Carolina, county governments are responsible for public health, education, social services, and various other programs. Funding for the Chapel Hill-Carrboro City School district serving southeast Orange County is provided through County and State government decisions and funding.

Financial Management Principles

The adopted budget is based on financial management principles including:

* The Town makes conservative estimates of revenues and costs to minimize the chance that actual revenues received during a budget year may be less than expected, or that actual costs may exceed estimates.

* The Town seeks to use stable, annually recurring revenues to pay for costs (such as wages, supplies, etc.) which tend to continue from year to year. The Town avoids using one-time revenues for annually recurring costs.

* The Town seeks to keep a reserve of money saved in past years (undesignated net assets or fund balance) so that the Town will not have to borrow funds early in the fiscal year when revenues are less than the cost of providing services, and so that the Town will have a reserve for any major unexpected costs or revenue fluctuations between budget years. The Town's objective is to have a General Fund balance of at least 12% of the General Fund budget for cash flow purposes in accord with State guidelines, and additional amounts for unforeseen circumstances and emergencies.

* The Town avoids or limits the deferral of costs to future years. When deferrals are proposed, the amount is limited to the extent practical and the deferrals are specifically identified.

* The Town seeks to properly maintain buildings and equipment to protect the community's investment in these assets.

* The Town seeks to recover from user fees all or a significant portion of the cost of some kinds of services, so that the citizens who benefit most from a service will pay for the service. However, several kinds of fees are waived or lowered for low income families, for youth and for senior citizens.

* The Town uses general taxes to provide some special services or assistance to citizens with special needs because of low income or other conditions.

* The Town seeks to maintain a competitive position in the Triangle labor market to recruit and retain employees who will provide services with the quality desired by the community.

* The Town from time to time issues bonds or uses installment contracts authorized by

State law to finance capital projects which will benefit the community for a long period and which should therefore be paid for over a long period.

Budget Process

The Mayor and Council's process and schedule for developing the 2011-12 budget included forums and hearings for citizens to express their views, raise questions and concerns and make comments on services, policies and funding items related to the budget.

The description of the budget process and the budget calendar are included in this Introduction and Background section.

Citizens were invited to make comments at any time by letter to the Mayor and Council or to the Town Manager at 405 Martin Luther King, Jr. Blvd., Chapel Hill, NC 27514, by fax to Town Hall at (919) 969-2063, or by electronic mail at manager@townofchapelhill.org.

Citizens with disabilities in hearing or speaking were invited to call the Town at (919) 968-2743 (TDD: (919) 968-2700) for assistance in participating in public hearing or commenting by other means.

Elements of the Budget Document

- Introduction and background information with regard to the development of the budget including the budget process, the budget goals and assumptions made.

- Department and division mission and duties as well as their budget and a summary of budget changes.

- Explanations of debt and the capital program.

- Summary information with regard to net assets (fund balance), revenues and expenditures for all funds, tax rates and tax collections and staffing and organizational structure.

Each department has a separate overview. The following is an explanation of the information included for departments and divisions.

Department Sections

Each department section contains a department overview intended to provide information about the department; organizational charts for the department; staffing charts for each department; and a budget summary for the department. Also included is the same information for individual divisions within some of the larger departments. Goals and performance measures are also included for appropriate departments.

♦ **Department Overview**

Each department section starts with an overview page which includes the Mission Statement and summarizes key duties of the department.

♦ **Organizational Chart**

Following the department overview is an organizational chart for the department that displays the personnel in the department broken out by divisions, where applicable.

♦ **Staffing Chart**

The staffing chart for each department lists all positions within the department in full-time equivalents in order to provide a snapshot of staffing for the various department functions.

♦ **Budget Summary**

The budget summary for each department provides a summary of significant budget changes in a brief narrative format. It also lists expenditures summarized in the categories of Personnel, Operating Costs and Capital Outlay. Revenues are also listed in a summary format based on revenue sources. These expenditure and revenue summaries provide historic and adopted information as follows:

- 2009-10 Actual
- 2010-11 Original Budget
- 2010-11 Revised Budget
- 2010-11 Estimated
- 2011-12 Adopted Budget
- % Change from 2010-11 Original Budget

♦ **Departmental Trends and Performance Measures**

The departmental trends section provides trend data for particular areas of each department. This section states a Council goal, departmental goal, and an objective for each measure. See the "Performance Measures Program" on page 6 for further explanation.

A reader's guide entitled "Budget Format—The Basics" follows.

In addition to the material described above, the adopted 2011-12 budget contains supplemental information intended to assist the reader. This data includes details regarding fund structure, fund descriptions, major revenues and a glossary.

BUDGET FORMAT - THE BASICS

NOTE: All tables in the adopted budget present the same three-year columns.

Audited data from the last completed fiscal year.

Budget for each category as amended during the prior fiscal year.

The adopted budget for the new fiscal year that begins on July 1.

Budget for each category as originally adopted for the prior fiscal year. The fiscal year begins July 1 of each calendar year.

Estimate of prior year final cost/ revenues by category.

The percentage of change from the original budget in the prior year to the adopted budget.

EXPENDITURES

Includes salaries, wages, and employee benefits (for example FICA, insurances).

	2009-10 Actual	2010-11 Original Budget	2010-11 Revised Budget	2010-11 Estimated	2011-12 Adopted Budget	% Change from 2010-11
Personnel	759,140	833,544	833,544	833,544	809,367	-2.9%
Operating Costs	123,123	106,693	151,605	122,484	107,446	0.7%
Capital Outlay	9,011	5,000	5,000	5,000	-	-100.0%
Total	891,2			961,028	916,813	-3.0%

Includes all operating costs except those related to personnel or capital.

Includes costs for land, buildings, equipment and other purchases with an expected usefulness of 3 years or more and a cost of more than $5,000.

Revenues for the general benefit of the Town and not related to specific functions. These revenues include property taxes, State-shared revenues, sales taxes, interest and appropriated net assets (fund balance).

REVENUES

	2009-10 Actual	2010-11 Original Budget	2010-11 Revised Budget	2010-11 Estimated	2011-12 Adopted Budget	% Change from 2010-11
General Revenues	730,933	776,437	821,349	846,228	770,013	-0.8%
Grants	-	-	-	-	-	N/A
Charges for Services	11,678	10,800	10,800	11,800	11,800	9.3%
Licenses/Permits/Fines	90,594	85,000	85,000	40,000	70,000	-17.6%
Transfers/Other Sources	58,069	73,000	73,000	63,000	65,000	-11.0%
Total	891,274	945,237	990,149	961,028	916,813	-3.0%

These revenues are directly related to departmental functions.

Performance Measures Program

In the Spring of 2010, the Town of Chapel Hill began a pilot program targeted at improving departmental performance measures Town-wide. A committee of four Town employees was formed by the Town Manager to oversee this program. The Town entered into a contract with Dr. David Ammons from the University of North Carolina at Chapel Hill School of Government for his assistance with this program. A one day seminar was held at Town Hall to introduce department heads and others to the performance measure program. To date, the Town has completed Phase 1 & 2 of the program and is currently working on Phase 3. The service areas that have completed the program are:

- Fleet Services
- Information Technology
- Parking Services
- Fire
- Development Review
- Finance
- Communications & Public Affairs
- Inspections

Performance Measurement Process:

- Departments were given an instructional session on goals, objectives, and performance measures.
- Individual meetings were held with the pilot units in which goals, objectives and performance measures were discussed.
- Draft goals, objectives and performance measures were submitted to the committee.
- Dr. Ammons reviewed each submission and offered individual feedback to each unit.
- Final meetings were held with each unit to decide on final set of goals, objectives, and performance measures.

The service units that have yet to go through the program are encouraged to begin looking at improvements to their existing performance measures and consult with the committee. The goal is to have the entire Town complete this process by the Fall of 2012.

This budget document shows new measures from those service areas that went through phase 1 & 2 of the performance measure program. Future budget documents will include updated measures for departments as they go through the program. The performance measures program will provide departments and management with vital information for management and oversight, will focus attention on priorities and results, will identify successful strategies, and will enhance accountability.

CHAPEL HILL –
LOCATION, GOVERNMENT STRUCTURE & DEMOGRAPHICS

Location

The Town of Chapel Hill is located principally in Orange County and partially in Durham County in the north central portion of North Carolina on the Piedmont Plateau, approximately equidistant between Washington, D.C. and Atlanta, Georgia. The area's topography is characterized by rolling hills. The Town, which was incorporated in 1819, presently covers an area of 21.3 square miles and has a population of 56,778 according to the latest estimate issued by the State of North Carolina for July 2009. The Town is the home of the University of North Carolina at Chapel Hill, the nation's oldest public university, established in 1789. Today, the University enjoys a reputation as one of the best public universities in the United States.

The Town conducts an ongoing planning and programming process through which it implements orderly expansion and management of the growth and development of the community in accord with the Comprehensive Plan, last revised in spring of 2000 and updated in May 2003. At present, the Town exercises zoning and building controls over a 27.6 square mile area that includes the corporate limits and a 6.3 square mile planning jurisdiction.

CHAPEL HILL –
LOCATION, GOVERNMENT STRUCTURE & DEMOGRAPHICS

The growth of the Town has been directly related to the expansion of the University of North Carolina at Chapel Hill. Enrollment at the University has risen from 8,791 in 1960 to 29,103 in 2010-11. It is anticipated that expansion will continue to occur in University-related health facilities such as the UNC Health Care System.

Government Structure

The Town has a Council-Manager form of government. The Town Council is comprised of a Mayor and an eight-member Council. All Council Members serve four-year terms. The Mayor and four Council Members are elected every two years. All elections are on a non-partisan basis. The Council appoints the Town Manager and Town Attorney. The Mayor presides over the Council meetings and has full voting privileges. The Town Manager is the chief administrative officer of the Town. Town departments are responsible to the Town Manager for the provision of public services.

Demographics

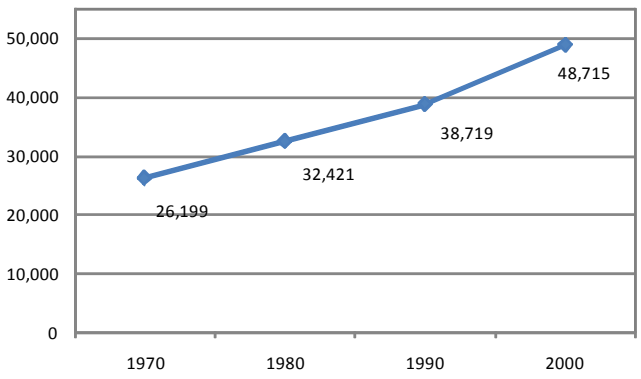
POPULATION GROWTH AND CHARACTERISTICS

Population Growth

Chapel Hill's population increased by over 15,000 since the 1990 Census, totaling 48,715 in the 2000 Census. Figure 1 shows the Town's population growth from 1970 to 2000. The 10-year growth from 1990 to 2000 amounts to 25.8 percent, about 5 percent less than the County, and 2.5 percent less than the 21.4 percent statewide population growth.

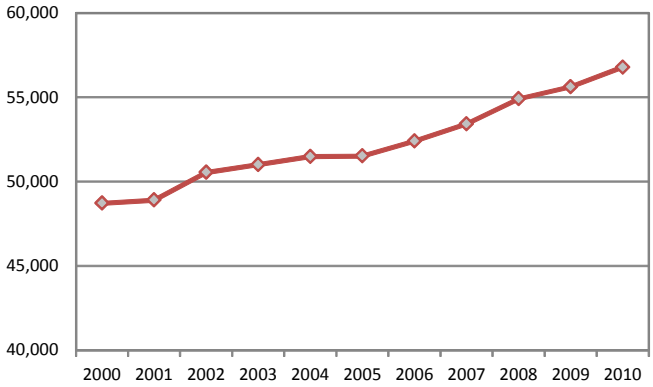
Figure 2 shows the Town's growth since the 2000 Census.

Figure 1. Chapel Hill Population: 1970-2000



Source: US Census Bureau, 2000

Figure 2. Chapel Hill Population: 2000-2010



Source: North Carolina Office of Budget & Management

CHAPEL HILL –
LOCATION, GOVERNMENT STRUCTURE & DEMOGRAPHICS

While most Chapel Hill residents live in Orange County, about four percent of the Town's population lives in Durham County, as shown in Table 1.

Table 1. Chapel Hill Population by County

County	Chapel Hill Population
Durham County	2,347
Orange County	54,431
TOTAL	56,778

Source: NC Office of State Budget and Management, 2009

Racial Makeup, Hispanic Population Growth

A demographic shift in the 2000 Census revealed an increase in the number of people who described themselves as being Hispanic or of Latino origin, a trend evident at the national, state and local levels. In September 2003, the US Census Bureau issued an amended 2000 Census count for the Town of Chapel Hill. Table 2 depicts the amended breakdown of population by race. Although Asian and Pacific Islanders and persons of Hispanic origin comprise substantially smaller population segments that other races/origins, these two groups have been increasing at the highest rate.

The percentage of White and African American persons as a share of the Town's total population declined from 1990 to 2000, although the total numbers for both groups are higher. People who identified themselves as being of more than one race totaled just over 900 in Chapel Hill, or 1.9 percent of the Town's total population.

Table 2: Chapel Hill Population by Race & Origin

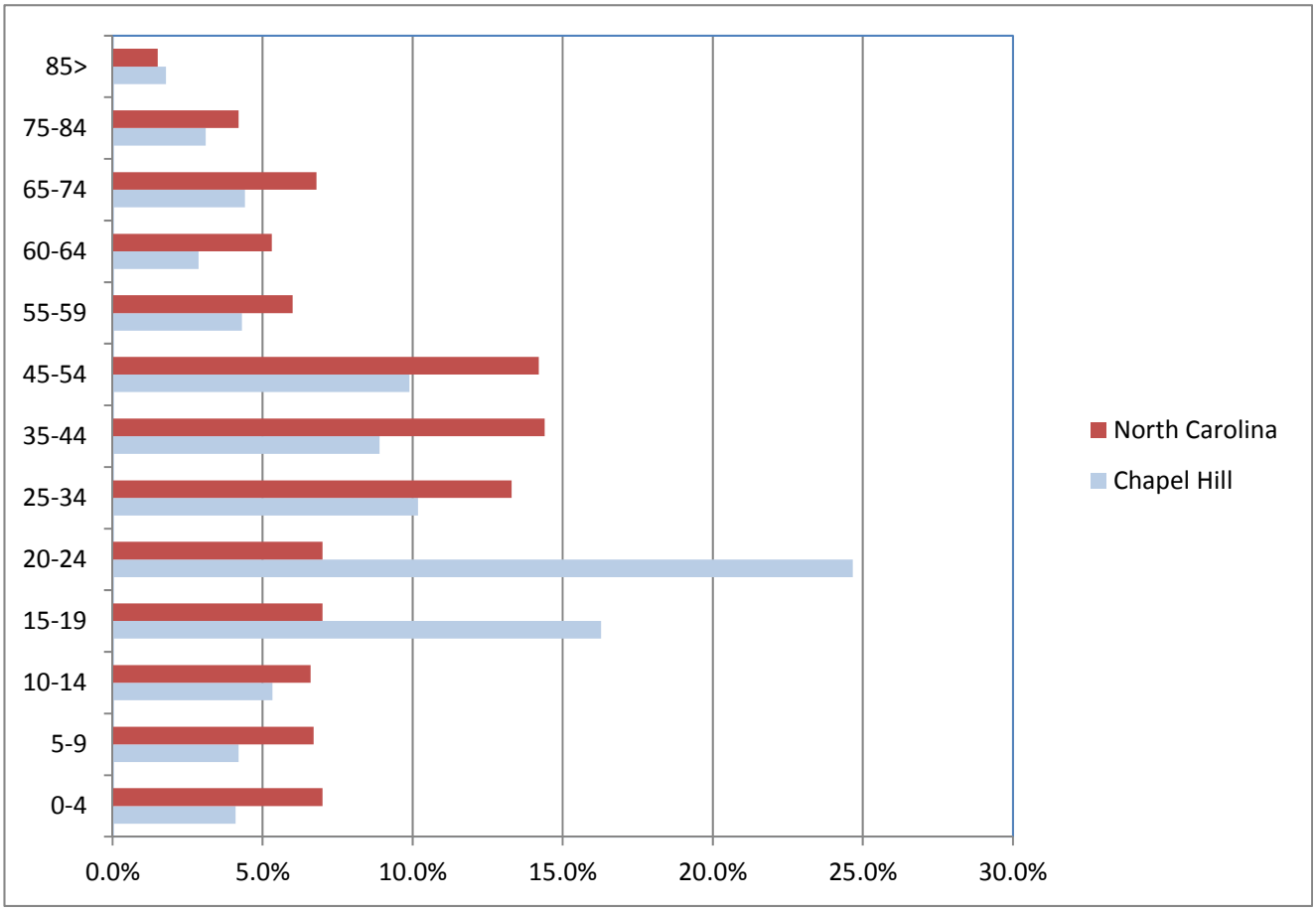
Race/Origin	2000	%
White	37,973	77.9%
Black	5,565	11.4%
Am. Indian, Eskimo, Aleut	203	0.4%
Asian & Pacific Islander	3,509	7.2%
Other	1,465	3.0%
Total	48,715	100.0%
Hispanic Origin (any race)	1,564	3.2%

Source: US Census Bureau, 2000

Age

Figure 3. Age Distribution

Figure 2 shows the population distribution for Chapel Hill and the State of North Carolina according to age groups. For example, the bar chart illustrates that the concentration of residents who are in the 15 to 19 age group comprises 16.3 percent of the Town's population, while the 20 to 24 age group comprises 24.7 percent. As a comparison, the 20 to 24 age group represents 7.0 percent of the State population. The chart illustrates that Chapel Hill has a relatively young population. According to latest estimates, the Town's median age is 23.7 years old, while North Carolina's median age is 36.8.



Source 2007-2009 American Community Survey, US Census Bureau

ADDITIONAL DEMOGRAPHIC INFORMATION

Note: Unless otherwise noted, the following economic and demographic data are taken from the 2007-2009 American Community Survey 3-Year Estimates. The data is produced and disseminated by the US Census Bureau's Population Estimates Program.

Table 3: Family Income (# of families)

	Chapel Hill	Orange County	North Carolina
	Family Income	Family Income	Family Income
Less than $10,000	640	1,413	123,378
$10,000 to $14,999	137	659	92,128
$15,000 to $24,999	677	2,475	235,598
$25,000 to $34,999	527	2,135	257,402
$35,000 to $49,999	751	3,248	358,055
$50,000 to $74,999	1,034	4,661	501,241
$75,000 to $99,999	1,369	3,694	329,470
$100,000 to $149,999	1,692	5,446	304,585
$150,000 to $199,999	1,056	2,851	98,886
$200,000 or more	1,934	3,673	93,074
Total Households/Families	9,817	30,255	2,393,817
Median Income	$94,866	$78,250	$55,738
Mean Income	$132,306	$107,584	$72,454
Per Capita Income	$32,969	$32,417	$24,588

Table 3a: Family Income (% of total)

	Chapel Hill	Orange County	North Carolina
	Family Income	Family Income	Family Income
Less than $10,000	6.52%	4.67%	5.15%
$10,000 to $14,999	1.40%	2.18%	3.85%
$15,000 to $24,999	6.90%	8.18%	9.84%
$25,000 to $34,999	5.37%	7.06%	10.75%
$35,000 to $49,999	7.65%	10.74%	14.96%
$50,000 to $74,999	10.53%	15.41%	20.94%
$75,000 to $99,999	13.95%	12.21%	13.76%
$100,000 to $149,999	17.24%	18.00%	12.72%
$150,000 to $199,999	10.76%	9.42%	4.13%
$200,000 or more	19.70%	12.14%	3.89%
$50,000 or more	72.17%	67.18%	55.45%

Table 4: Educational Attainment

Educational Attainment	Chapel Hill (% of total)	Orange County	North Carolina
Less than 9th	2.7%	4.0%	6.2%
9th to 12th, No Diploma	2.2%	5.6%	10.3%
High School Graduate	7.6%	16.0%	28.1%
Some College, No Degree	8.7%	13.7%	21.0%
Associate's Degree	3.4%	6.0%	8.3%
Bachelor's Degree	29.2%	24.5%	17.5%
Graduate or Professional Degree	46.1%	30.1%	8.7%

Table 5: School Enrollment

School Enrollment	2005-06	2006-07	2007-08	2008-09	2009-10
Elementary (grades K-5)	4,851	4,959	5,141	5,268	5,216
Intermediate (grades 6-8)	2,563	2,592	2,617	2,688	2,697
Secondary (grades 9-12)	3,527	3,528	3,669	3,674	3,650
Total	10,941	11,079	11,427	11,630	11,563

Table 6: Unemployment Rates

Regional Average Unemployment Rates 2000-2011

Year	Chapel Hill	Orange Co.	NC
2000	1.2%	2.5%	3.7%
2001	1.8%	3.5%	5.6%
2002	4.3%	4.3%	6.6%
2003	4.3%	4.3%	6.5%
2004	3.8%	3.8%	5.5%
2005	3.1%	3.7%	5.3%
2006	2.9%	3.3%	4.8%
2007	2.9%	3.2%	4.7%
2008	3.5%	4.0%	6.2%
2009	5.5%	6.6%	10.8%
2010	5.4%	6.5%	10.6%
2011*	5.5%	6.4%	10.0%

*2011 rates based on monthly averages through June.

Source: N.C. Employment Security Commission, U.S. Bureau of Labor Statistics, Labor Market Division

Table 7a: Economic Indicators – Building Permits

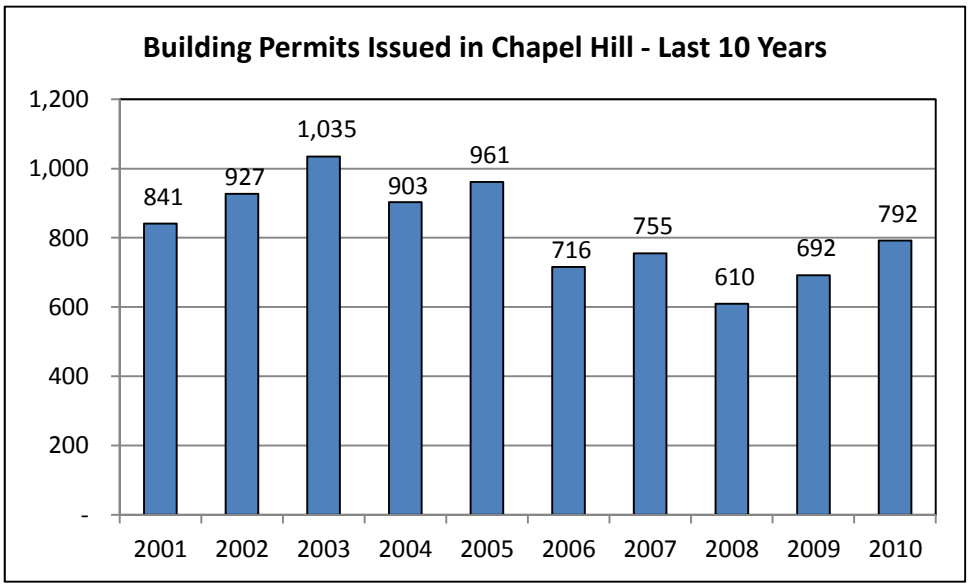


Table 7b: Economic Indicators – Debt Percentage

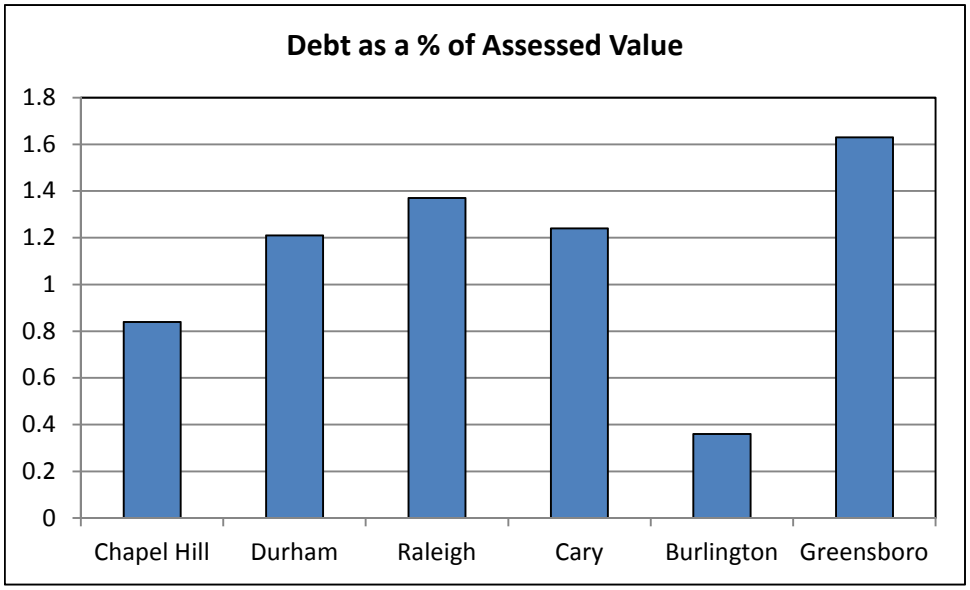


Table 7c: Economic Indicators – Median Home Price

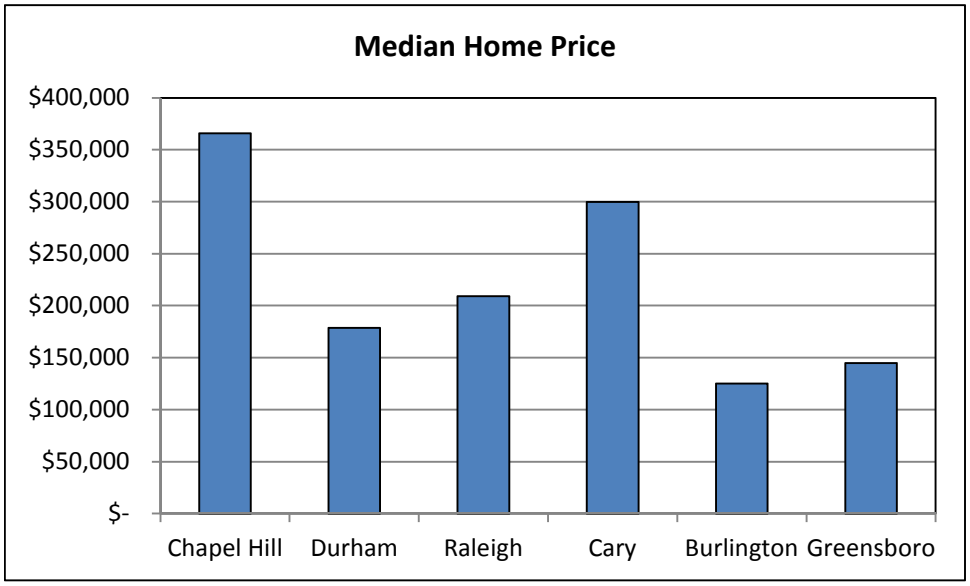


Table 8: Top Employers

Chapel Hill Top Employers By Size

Employer	Number of Employees
UNC	12,204
UNC Hospitals	6,000
Blue Cross Blue Shield of N.C.	4,397
Chapel Hill-Carrboro Schools	2,000
Kenan Transport	1,674
Career Partners International	1,600
Performance Direct	1,019
Divi Hotels	1000
Town of Chapel Hill	754
Petro-Chemical Transport	500

Source: Hoovers: Dun & Bradstreet August 2011

CHAPEL HILL –
MAJOR ECONOMIC DEVELOPMENT

Carolina North

The University of North Carolina at Chapel Hill is developing a satellite campus on the Horace Williams Tract, which is located north of Estes Drive and west of Martin Luther King Jr. Boulevard. Named Carolina North, the satellite campus is proposed to cover approximately 250 acres of the Horace Williams Tract's 1,000 acres and would be built in phases over the next 50 years.

The Town Council and members of the Board of Trustees gained the approval of a new zoning district and a development agreement that became effective July 2009. The development agreement will include specific limitations and detailed conditions of approval that would protect the Town's interests, while also offering certainty to the University regarding what type of development can occur.

When the Council and the University trustees came together for discussions regarding Carolina North, they established key principles for the process. These principles outline their commitment to public participation, calling for multiple opportunities for meaningful public participation and discussion at all phases of the process. Their intent is to provide for open, transparent negotiations and decision-making.

Other Development

At least two major mixed-use developments are currently completing construction in Chapel Hill: East 54, located on Raleigh Road in the former site of the old University Inn, and Greenbridge, located between W. Rosemary and W. Franklin Streets. Both East 54 and Greenbridge are LEED (Leadership in Energy and Environmental Design) certified developments featuring luxury condos, shops, dining and entertainment.

SUMMARY OF KEY INTERGOVERNMENTAL RELATIONSHIPS

The Town of Chapel Hill has many relationships with surrounding communities and with other State and regional organizations. Following is a summary of those relationships:

Town of Carrboro

- Receives fixed-route and E-Z Rider transit service from Chapel Hill.
- Appoints two members to Orange County Solid Waste Advisory Board and two members to the Orange Water and Sewer Authority (OWASA) board of directors.
- Receives traffic signal system services from Chapel Hill.
- Mutual aid agreement for fire protection; limited joint training with Chapel Hill; uses Chapel Hill's fire training facilities.
- Mutual aid agreement for police services.
- Chapel Hill operates 30 public housing apartments in Carrboro.
- Open facilities policy for recreation services.
- Participates with Orange County in the Joint Planning Agreement.
- Regular staff communications regarding services and policies.
- Development at borders affects each community.

Orange County

- Mutual aid agreement for police services.
- Appoints two members to Orange County Solid Waste Advisory Board; provides landfill and recycling services to Chapel Hill.
- Appoints two members to OWASA board of directors.
- Participates in Joint Planning Agreement.
- Operates 911 emergency communications system; dispatches fire and police service units.
- Provides jail services for Chapel Hill.
- Provides tax assessing and collection services for Chapel Hill; Chapel Hill provides a tax collection service point for Orange County.
- Provides grants to Chapel Hill for recreation, library services, Project Turnaround and Retired Senior Volunteer Program.
- Open facilities policy for recreation services.
- Enforces soil and erosion control ordinance in Town of Chapel Hill.

SUMMARY OF KEY INTERGOVERNMENTAL RELATIONSHIPS

Town of Hillsborough

- Mutual aid agreement for fire protection; uses Chapel Hill's fire training facilities.
- Mutual aid agreement for police services.
- Appoints two members of the Orange County Solid Waste Advisory Board.

Orange Water and Sewer Authority

- Is a public, non-profit, community-owned water and sewer agency.
- Governed by a nine-member Board of Directors, to which the Chapel Hill Town Council appoints five members.
- Operates in accord with State law, the contractual obligations in the OWASA Bond Order and the 1977 purchase and sale agreements among Chapel Hill, Carrboro, the University and OWASA.
- Is required to have cost-of-service rates; free service is prohibited.
- Is party to the water and sewer boundary, planning and management agreement with Chapel Hill, Carrboro, Orange County and Hillsborough.

Chapel Hill-Carrboro School System

- Must submit development applications to Chapel Hill for approval if sites are in the Chapel Hill zoning jurisdiction.
- Joint use agreements for use of some recreation facilities.
- Pays for school resource officers provided by Chapel Hill police department in high schools and middle schools.
- Pays for school crossing guards at elementary schools.
- May designate and "reserve" school sites under Chapel Hill zoning ordinance.

SUMMARY OF KEY INTERGOVERNMENTAL RELATIONSHIPS

University of North Carolina

- Purchases fixed-route transit service from Chapel Hill; provides own service to supplement EZ-Rider service provided by the Town; provides Point-to-Point transportation service for students, staff and faculty.
- Provides refuse collection and recycling services for University properties.
- Traffic signals and town streets in University campus area are maintained by Chapel Hill.
- Fire protection services are provided by Chapel Hill; University budget contributes part of the revenues used by the state to pay part of the cost of fire protection services.
- Mutual aid agreement for police services and other emergencies.
- Must submit development applications to Chapel Hill when sites are within the Chapel Hill zoning jurisdiction.
- Joint Staff Committee meets quarterly.

City of Durham

- Competes with Chapel Hill for transportation funding from State and federal government.
- Provides lead planning staff for Metropolitan Planning Organization (Transportation Advisory Committee).
- Durham-Chapel Hill Work Group meets regularly to review development issues.
- Courtesy reviews of development projects along jurisdictional boundary.

Durham County

- Portion of Chapel Hill is in Durham County.
- Provides tax assessing and tax collection services for Chapel Hill portion of County.
- Development at border affects each community.
- Courtesy reviews of development projects along jurisdictional boundary.

SUMMARY OF KEY INTERGOVERNMENTAL RELATIONSHIPS

Chatham County

- Orange-Chatham Work Group meets occasionally to review development issues.
- Development at border affects each community.

Triangle Transit Authority

- Chapel Hill appoints one member of the 13-member governing board.
- Provides bus service in Chapel Hill connecting to Durham, Research Triangle Park and other areas of the Triangle.
- Competes with Chapel Hill for transit funding from the federal and state government.

Triangle J Council of Governments (TJCOG)

- Chapel Hill appoints one delegate and one alternate to the board of delegates.
- The Town pays dues to support basic operations of the TJCOG and receives planning and other services.

State of North Carolina

- The State established the Town by granting a municipal charter.
- The Town's powers are granted by the State, and the State imposes limits on the powers of the Town.
- The State constructed and maintains a road network within the Town limits.
- The State is the conduit for transportation improvement funds used to maintain roads and to maintain and operate the transit system.
- The State collects certain taxes and shares proceeds with the Town (sales tax, beer and wine tax, etc.) that amount to nearly a third of the total General Fund revenues in normal years.
- Town provides maintenance service for traffic signal system in Chapel Hill and Carrboro for the State.

FUND DESCRIPTIONS AND MAJOR REVENUES

Fund Title	Accounts For	Primary Funding Sources
GENERAL FUND	Normal recurring Town activities such as planning, inspections, engineering, public works, public safety, parks and recreation and library	Property and other taxes, State-shared revenues, grants, charges for services, licenses, permits and fines
TRANSPORTATION		
Transit Fund	Operation and maintenance of public transportation, E-Z Rider and Shared Ride services	Federal and State grants, property taxes and charges for services
Transit Capital Reserve Fund	Reserve fund for replacement of buses and other capital equipment and improvements	Contributions from the Transit Operating Fund
PARKING		
Off-Street Parking Fund	Off-street parking facilities, James Wallace Deck, and monthly rental parking	Short-term parking fees and monthly rentals
On-Street Parking Fund	Parking enforcement and parking meters	Parking meter collections and parking citations
STORMWATER MANAGEMENT		
Stormwater Management Fund	Management of stormwater to protect water quality as mandated by NC General Statutes	Fees
HOUSING		
Public Housing Fund	Management of public housing units and residential rehabilitation	Federal grants and rental income
Housing Loan Trust Fund	Loan programs for the purchase and renovations of homes for lower income families	Second mortgage payments and interest income

FUND DESCRIPTIONS AND MAJOR REVENUES

Fund Title	Accounts For	Primary Funding Sources
DEBT		
Debt Service Fund	General obligation debt, proprietary debt, COPS debt, and other governmental debt	Property taxes
CAPITAL PROGRAMS		
Capital Improvements Funds	Capital improvements projects such as park improvements, fire hydrants, stormwater management and traffic signals	Transfers from Capital Reserve Fund and General Fund
Capital Reserve Fund	Reserve fund for capital improvements projects such as the library facilities, parks and recreation improvements, fire hydrants, stormwater management and traffic signals	Transfer from General Fund
OTHER FUNDS		
Special Revenue Funds		
Grants Fund	Miscellaneous grants	Federal and State Grants
Downtown Service Fund	Promotion of Downtown economic development	Property taxes
Library Gift Fund	Gifts and donations received for the library	Gifts and donations
Internal Service Funds		
Vehicle Replacement Fund	Centrally managed vehicle replacement	Charges to General Fund
Fleet Maintenance Fund	Centrally managed fleet maintenance	Charges to General, Parking and Housing Funds
Computer Replacement Fund	Centrally managed computer replacement	Charges to General Fund

FUND BALANCE

Fund balance (net assets) is the accumulated difference between revenues and expenditures in a governmental fund, and is similar to "working capital" for a private business. Portions of fund balance are intended to meet the cashflow and working capital needs of the Town in accordance with reserve recommendations of the North Carolina Local Government Commission. A portion of fund balance is reserved for specific purposes and as required by North Carolina statute and is not available for appropriation, and the remainder is available for Council appropriation. It is a Town goal to maintain fund balance at a level that will meet on-going cash flow needs and provide available funds to meet unexpected emergency situations.

Effective with the financial statements for FY11, fund balance will be presented in the new categories required by GASB Statement No. 54 as shown at right.

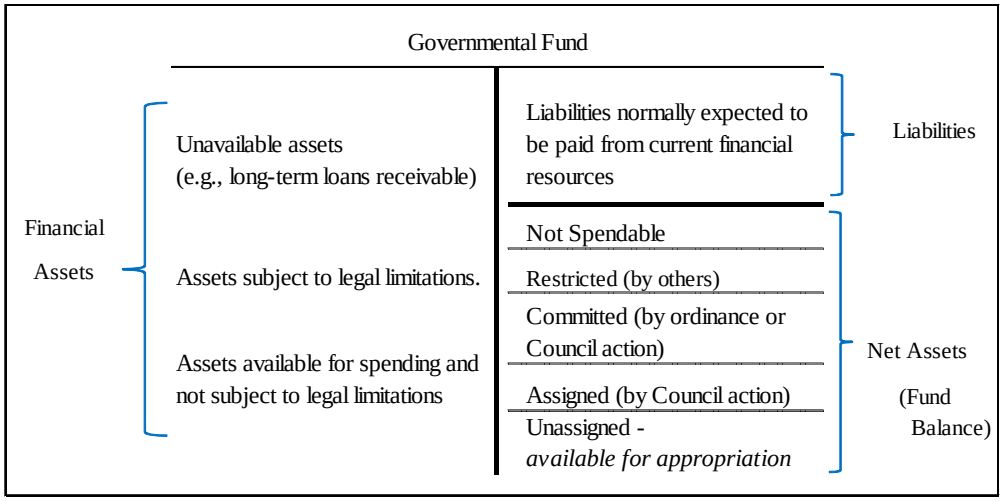
Fund balance designation

Nonspendable	Not available	Restricted
Restricted		
Committed	Constraint imposed by Council action	
Assigned		
Unassigned	Available for appropriation	Available

Town practices with regard to net assets (fund balance) include the following:

- The Town seeks to continue to maintain a financial reserve minimum of 12% of their unrestricted net assets consistent with the recommendations of the North Carolina Local Government Commission. The reserve is for cash flow, emergencies and opportunities.

- The Town seeks to maintain a level of net assets which is appropriate to retain its high bond ratings: Moody's Investor Service—AAA and Standard and Poor's—AAA. Bonding agencies use the percentage of unrestricted net assets as a key indicator when assessing the Town's creditworthiness.



DEBT
INTRODUCTION & BACKGROUND

The Town has the authority to finance purchases for major projects, buildings, renovations and major equipment. The underlying principal for this type of financing is that the public can and should pay for capital investments over a long time frame in order to spread the cost among citizens over time and to better match the expected usefulness of the capital purchase. This method enables governments to undertake large capital projects without having to pay cash for the projects at the time they take place.

The State of North Carolina allows local governments a number of methods to finance these sorts of purchases:

- General Obligation Bonds
- Two-thirds General Obligation Bonds
- Revenue Bonds
- Contract Installment Financing
- Certificates of Participation

ESSENTIALS

Town policy and practice limits annual general government debt service to 10% of total General Fund expenditures.

State statutes only allow debt issuance for capital expenditures.

Per State law, the Town's debt may not exceed 8% of the Town's assessed property valuation.

General obligation bonds are secured by the pledge of "full faith and credit" and taxing authority of the Town.

General Obligation Bonds

The issuance of General Obligation bonds (GO bonds) is the most commonly used financing method for the purchase of large capital equipment and for construction projects. Issuance of GO bonds requires approval by the public through a bond referendum and requires approval by the North Carolina Local Government Commission (LGC). When approved GO bonds are issued, a local government pledges to repay the debt from any and all revenues available to the unit. This pledge is generally referred to as a pledge of the "full faith and credit" of the governmental unit, including a pledge of property tax revenue. Maturities on GO bonds are normally about 20 years. In North

Carolina, General Obligation bonds can be used only for capital expenditures and never for operating costs.

The basic rule on the amount of debt that may be issued by a local government in North Carolina is that the principal amount of debt may not exceed 8% of the value of the taxable property base in the unit.

Two-thirds GO Bonds
There is a provision in North Carolina Statutes that allows units to issue bonds each year in an amount equal to two-thirds of the principal amount of debt retired in the previous year. These bonds may be issued without a referendum but must be approved by the LGC in the same manner as other debt financing methods. Because the cost of issuing GO bonds is about $25,000 to $30,000 per issue, it is generally more cost effective to issue two-thirds bonds only at the same time as another planned bond issuance, perhaps totaling several million dollars.

Revenue Bonds
Revenue bonds are typically issued for enterprise operations, in which there is a stream of revenues in connection with an enterprise operation that is pledged to the repayment of the bonds. Examples include parking operations, water and sewer operations, electrical operations, etc. In the case of a revenue bond issuance, the revenues from the project operations are pledged only for repayment of bonds, and may not be used for other purposes. In order to obtain approval from the LGC for the issuance of revenue bonds, the LGC requires that a feasibility study be conducted by an independent, nationally recognized consulting firm, and that revenues from the project be 20% greater than total debt service costs and operating expenses of the project. The issuance of revenue bonds normally requires the use of an underwriting firm and involves substantial issuance cost.

In past years, the Town issued revenue bonds for off-street parking operations, including the purchase of parking lots 2 and 5 and for the James C. Wallace Parking Deck. In 1994, all of the Town's parking revenue bonds were replaced by Certificates of Participation.

Installment Contract Financing
General Statute 160A-20 allows local governments to enter into installment contracts to finance the purchase of equipment and land, or for construction projects. Under this method of financing, the unit enters into a contract with a financial institution in which the financial institution provides funding for the purchase of equipment, land, or for construction projects. The financial institution maintains a security interest in the

equipment or project until the governmental units repays the loan over a specified maturity. For these contracts, local units pledge to pay the installments from any revenues available, but do not pledge the "full faith and credit" of the unit. Contracts under $500,000 and less than a five-year maturity do not require approval by the LGC.

Installment contracts for equipment greater than $500,000 or maturities over five years require approval by the LGC, except the purchase of vehicles and rolling stock which may be purchased in any amount without LGC approval. Installment contracts involving the purchase of land or buildings, and improvements to land or buildings require approval by the LGC regardless of the dollar amount or maturity involved.

The Town has used installment contract financing for the annual purchase of vehicles and computers, for land for a public works site and for capital renovations for existing Town buildings as a part of its proposed Capital Improvements Program.

Certificates of Participation
General Statute 160A-20 also allows a local government unit to issue Certificates of Participation (COPS) which involve another form of installment contract financing. The certificates are similar to revenue bonds, except that the purchasers of the certificates are entitled to receive installment payments from any revenues available to the unit, not solely from the operation of the project financed with certificates. The "full faith and credit" of the government may not be pledged for repayment of certificates. Issuance of Certificates of Participation also normally requires the use of underwriters and involves substantial issuance costs.

Debt Options under the Stimulus Act
Several new debt options were made available to local governments with the passage of the American Recovery and Reinvestment Act in February of 2009. The primary new financing tools are Build America Bonds (BABs) and Recovery Zone Economic Development Zone Bonds (RZED). Both of these instruments are based on the issuance of taxable debt by the municipality with the Federal Government providing a subsidy that effectively reduces the borrowing rate to the equivalent of tax exempt debt or lower. BABs can be issued for any capital project purpose, but they cannot be used to refund existing bonds. Issuers of BABs receive a 35% rebate of interest costs by making an annual application to the IRS. REZD bonds provide a 45% rebate, but must be used in conjunction with the declaration of a recovery zone. The deadline for issuance of both BABs and REZD bonds is December 31, 2010, although it is possible that the authorization may be extended under different terms.

Additional Debt Information
Please refer to page 171 for additional information on the Town's debt and bond ratings.

CAPITAL PROGRAM INTRODUCTION AND BACKGROUND

The Capital Program is a 15-year financial plan for the Town's major capital and infrastructure needs. The Capital Program identifies capital needs, establishes priorities, identifies potential funding sources, and includes needs for which sources of funding have not been identified. Key sources for identifying capital needs include the 2000 Facility Condition Assessment, the Comprehensive Plan, Council Goals and Priorities, special studies, and other ideas from the Council, citizens and staff.

The Capital Program is comprehensive in scope: It includes all identified capital projects and a range of funding sources, as well as projects that have been identified but for which funding is not available. It includes projects that are funded through the Town's annually budgeted Capital Improvements Fund, and also those projects that are funded through bonds, State and federal grants, and other sources. The Capital Program does not include the capital needs of the Chapel Hill-Carrboro City School System, the Orange Water and Sewer Authority, or the Orange Regional Landfill which was transferred to Orange County in 2000. Most projects funded by bonds, grants and other special funding sources are accounted for in Multi-Year Capital Project Funds, such as various capital projects funded from bonds, and are therefore not included in the annual operating budget.

Please refer to the Capital Program section (page 235) for additional information on the Town's Capital Improvements Fund.

FUND STRUCTURE & BASIS OF BUDGETING

The accounts of the Town are organized on the basis of funds each of which constitutes a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts reflecting its assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses. The funds of the Town are created because of the diverse nature of governmental operations and the necessity of complying with legal provisions. The Town has two broad fund categories: governmental and proprietary.

BASIS OF BUDGETING

The budgets of general government type funds (for example, the General Fund and Debt Service Funds) are prepared on a modified accrual basis. Briefly, this means that obligations of the Town (for example, outstanding purchase orders) are budgeted as expenditures, but revenues are recognized only when they are measurable and available.

The Enterprise Funds (Transit, Parking, Stormwater Management, Housing and Internal Service) also recognize expenditures as encumbrances when a commitment is made (e.g., through a purchase order). Revenues, on the other hand, are recognized when they are obligated to the Town (for example, charges for transit services are recognized as revenue when service is provided).

In all cases (Enterprise Funds and General Governmental Funds) when goods and services are not received by year end, encumbrances evidenced by unfilled purchase orders lapse, but are normally reappropriated to the following year's budget through an amendment to the budget approved by the Town Council.

The Comprehensive Annual Financial Report (CAFR) shows the status of the Town's finances on the basis of "generally accepted accounting principles" (GAAP). In most cases this conforms to the way the Town prepares its budget. Exceptions are as follows:

a. Compensated absence liabilities that are expected to be liquidated with expendable available financial resources are accrued as earned by employees (GAAP basis) as opposed to being expended when paid (Budget basis).

b. General staff and administrative charges for the Transit, Parking and Stormwater Management Funds are accounted for and funded by operating transfers into the General Fund from these funds on the Budget basis as opposed to a GAAP basis.

c. Principal payments on long-term debt within the Enterprise Funds are applied to the outstanding liability on a GAAP basis, as opposed to being expended on a Budget basis.

d. Capital outlays within the Enterprise Funds are recorded as assets on a GAAP basis and expended on a Budget basis.

e. Depreciation expense is recorded on a GAAP basis only.

One type of budget entry that is shown differently for budgetary purposes and GAAP is the purchase of an item using installment financing. The actual budget entries for an installment financing agreement can make it appear that the Town is paying twice for the same purchase, because there are two pairs of budget entries in the year that an installment financing takes place. The first pair gives the Town budget authority to make a certain purchase, for example, a fire truck, and receive the financing from a bank or other financial institution for the purchase. In the case of a fire truck costing $250,000, the budgetary lines would show the following:

REVENUES	Financing Proceeds	$250,000
EXPENDITURES	Capital Equipment	$250,000

The second pair of budget entries allow for the first year repayment of the installment (or lease-purchase) debt. That set of budget entries shows the amount of the debt to be paid in the year and the source of the revenue that will provide the cash to make the payment. For the fire truck example, assuming that the Town secures financing for eight years at 5% and that the Town will make a payment for one-eighth the cost of the fire truck in the first year, the budgetary lines would show the interest and principal payment as following:

REVENUES	Appropriated Fund Balance (or other revenue source)	$38,680
EXPENDITURES	Installment (lease/purchase) financing payment	$38,680

If the Town made no further installment financing agreements, the Town would show the budgetary requirement for repaying the bank or other financial institution in each of the following seven years.

In addition to approving the budget authority for the above transactions, the Town Council would have to specifically approve each installment financing agreement as required by State law.

The Comprehensive Annual Financial Report shows fund expenditures and revenues on both a GAAP basis and Budget basis for comparison purposes. Because the Town prepares its financial statements using the Government Accounting Standards Board 34 Model, the financial statements include government-wide financial statements aimed at presenting a broad overview of a government's finances. There are two basic government-wide financial statements: the statement of net assets and the statement of activities. These two statements report a government's governmental activities separately from its business-type activities. Fiduciary funds and fiduciary-like component units are excluded from the government-wide financial statements. All activities included within the government-wide financial statements, both governmental and business-type, are measured and reported using the economic resources measurement focus and the full accrual basis of accounting.

FUND STRUCTURE & BASIS OF BUDGETING

GOVERNMENTAL FUNDS

Governmental funds are those which finance most governmental functions of the Town. The Town follows the modified accrual basis of accounting and budgeting for all governmental funds. Under this method, revenues are recorded as the amount becomes susceptible to accrual by becoming measurable and available to finance the Town's operations. Available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, money must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized when the expenditures are recorded. Major components of this type of revenue are grants and gas tax refunds. In the other, funds are virtually unrestricted as to purpose of expenditure and are revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Major revenues susceptible-to-accrual under this category are State-shared revenues.

Licenses and permits, charges for services and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Interest on investments is recorded as earned since it is both measurable and available.

The following are the Town's Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Town's special revenue funds consist of the Community Development Entitlement Grant Projects Ordinance Fund, the Transit Grant Projects Ordinance Fund, the Grants Fund, the Downtown Service District Fund, Transitional Housing Fund, Revolving Acquisition Fund, the Housing Loan Trust Fund, the Land Trust Fund, and the Library Gift Fund.

Debt Service Fund - The Debt Service Fund is used to account for the payment of general obligation long-term debt principal, interest and related costs. A portion of the property tax provides the revenues for this fund. Payments of long-term debt associated with Enterprise Fund operations are shown in the Enterprise Funds themselves.

FUND STRUCTURE & BASIS OF BUDGETING

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by special revenue, proprietary funds and trust funds). The Town has four capital projects funds: the Capital Projects Ordinance Fund, the Capital Projects Fund, the Capital Improvements Fund and the Capital Reserve Fund. Only the Capital Improvements Fund and Capital Reserve Fund are budgeted annually and are included in detail in this document.

PROPRIETARY FUND TYPES

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (total expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Town has four Enterprise Funds: the Transit Fund, the Parking Facilities Fund, the Stormwater Management Fund and the Public Housing Fund. For budgeting purposes the Parking Facilities Fund is shown in two parts, On-Street Parking and Off-Street Parking.

The enterprise funds are accounted for using the accrual basis of accounting. The revenues of these funds are recognized when they are earned and expenses are recognized when they are incurred.

Internal Service Funds – Internal Service Funds are used to account for the financing of goods or services provided by one unit, or to other governmental units, on a cost-reimbursement basis. The chief aim of an internal service fund is cost reimbursement including the exhaustion of fixed assets or "depreciation expense." The Town has three Internal Service Funds: the Vehicle Replacement Fund, the Computer Replacement Fund and the Fleet Maintenance Fund.

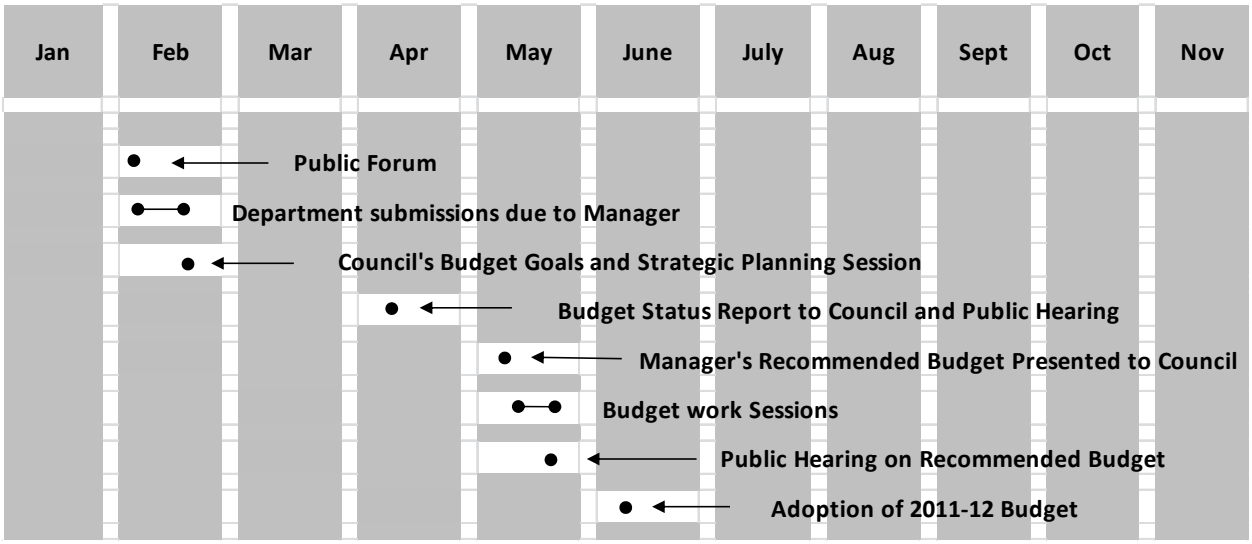
BUDGETARY CONTROL

The appropriations in the various funds are formally budgeted on a departmental or functional basis depending on the fund type. Changes of functions and total budgets of any fund require approval by the Town Council. Budgetary control is maintained at the individual budget object line item level (e.g., salaries, supplies, etc.). Neither an operational expenditure nor an encumbrance is processed when the transaction would result in an overrun of an individual line item budget.

DEPARTMENTS/DIVISIONS

Departments may be further represented by divisions. In this document, each department or division summary contains a key objective, a budget summary by expenditure category, major offsetting revenues, major expenses, including capital outlay and an authorized full-time equivalent position count. For departments consisting of more than one division, a department summary precedes the department's division summaries.

OVERVIEW OF BUDGET PROCESS



Budget preparation allows departments the opportunity to reassess goals and objectives and the means for accomplishing them. Even though the budget may be heard by the Mayor and Town Council in April and adopted in June, its preparation begins at least six months prior, with projection of Town reserves, revenues, expenditure limit requirements, and financial capacity. It is with this "groundwork" that departmental expenditure requests are made and subsequently reviewed.

Financial Capacity Phase

Forecasting is an integral part of our decision making process. Both long-range and short-range projections are prepared. The Town's Long-Range Financial Projections are updated annually to assess not only current financial condition given existing Town programs, but future financial capacity, given long range plans and objectives.

A five-year financial forecast is prepared for each major operating fund projecting both expenditures and revenues and their fiscal impact on the respective funds.

Policy/Strategy Phase

The Town Council's goals and directives set the tone for the development of the budget. Shortly after the budget is adopted for the next year, the Council meets, as early as September, but not later than January, to identify priorities, issues, and projects impacting the next fiscal year budget. In January or February of each year, the Council holds a strategic planning meeting to identify key policy issues that will provide the direction and framework of the budget. The Manager and Finance Officer provide an updated short- and long-range financial forecast to assist the Council in providing budget policy and direction for the upcoming budget.

Aside from the Council's own objectives, Town departments identify and discuss their policy issues with the Town Manager throughout the year. In December of each year, a budget kickoff meeting led by the Manager provides budgetary directions and guidelines to the departments.

Participants also help formulate and identify internal and overall budget objectives for the coming year.

The meeting includes discussion of Town-wide goals and objectives, budgeting guidelines for the operating and capital budgets, timelines, an overview of fiscal constraints, and resources available for allocation. The Budget Directives and Instructions distributed at these meetings are designed to assist the departments in preparing all budget requests and forms.

Needs Assessment Phase

The departments have an opportunity to assess current conditions, programs and needs. During this phase, departments are encouraged to thoroughly review all programs and services assessing their value and priority to the citizens of the Town. Programs are examined for possible reductions, eliminations or trade-offs. Additionally, departments reassess service level standards and workload indicators. They then attempt to provide the "best fit" of resource allocation with service and workload estimates. From this process, they prepare preliminary departmental budget requests that are submitted to the Manager in February.

Review/Development Phase

Within the framework of the Town's financial capacity, the Town Council and Town Manager review priorities and departmental needs assessments; review budget requests; and a preliminary Town-wide operating budget takes shape. The departments initially prepare and submit base budgets. In addition, department heads submit proposals for program changes and budget additions or deletions.

Implementation/Adoption Phase

After the Town Council's initial budget planning session, the Council holds an initial budget public forum to receive input, information and requests from citizens on any aspect of the Town's budget for the coming fiscal year, including the Town's operating and capital improvement budget. The forum also solicits comments on the Town's use of federal Community Development funds, the Town Public Housing program and use of federal and State grants for housing, public transit and community development activities.

In March, each Departmental Budget Request is reviewed in detail with the Manager, Deputy Manager, Assistant Manager and the Finance Officer to review service and funding levels for each Department as part of the total budget and to begin work on recommendations for the Council's consideration.

In April and May, the Council also holds budget work sessions in which the Town presents preliminary budget requests and discusses budget goals, policies and departmental needs with the Council. The Town Manager and designated Department Directors also present requests for additional services to the Council. In these sessions, the Town Council provides further direction to the Manager and Departments on development of the budget for the coming year.

After the initial budget work sessions in April and May each year, the Manager presents to the Council a status report on development of the operating and capital budgets and on preliminary recommendations for the use of all federal and State grant funds for housing programs, public transportation and community development activities.

The status report provides preliminary estimates of revenue and expenditures for the upcoming budget, identifies the most important budget issues for the Council and provides an assessment of how the preliminary revenue and expenditure estimates may impact the tax rate for the coming year. The presentation of this report is provided at a public forum of the Council in which interested citizens and community groups provide budgetary information, feedback or make funding requests to the Town Council. In April and May, the Council may hold additional budget work sessions as desired, providing further direction to the Manager and staff regarding a recommended budget.

In accord with North Carolina State law, the Manager is required to submit a recommended budget to the Town Council. The Manager's Recommended operating and capital budget is submitted to the Town Council in early May and includes proposed revenue and expenditure levels and recommended changes in the tax rate for the coming year. Submittal of the recommended budget is followed by several budget work sessions as desired by the Council. A public hearing as required by law on the recommended budget is held in early May, followed by additional budget working sessions held by the Town Council.

In accord with State law, the Town Council must adopt a final budget and set the tax rate for the next fiscal year by June 30 each year or must adopt an interim budget providing temporary appropriations until a permanent budget is adopted. After adoption of the budget, management control of the budget is maintained by conducting budget performance reviews at least quarterly throughout the fiscal year. The reviews are aimed at examining expenditure patterns and recommending corrective action to be taken during the year. Additionally, detailed financial records are maintained to evaluate actual revenues and expenditures against the budget.

Budget Amendments

The Town Manager may transfer funds between departments within a function, between functions of the operating budget of the same fund and between projects of the Capital Improvement Plan (CIP) with a quarterly report to Council. The Town Manager may also approve intradepartmental transfer requests and transfers between line items within capital project budgets. Transfers between funds, however, may only be authorized by the Town Council.

OVERVIEW OF BUDGET PROCESS

Budget Roles and Responsibilities

Every employee plays a role in budgeting, whether in its formulation, preparation, implementation, administration or evaluation. Ultimately, of course, the Senior Management Team, through the Town Manager, is accountable to the Town Council for the performance of departmental personnel in meeting specific objectives within allocation resource limits. Actual budget preparation responsibility can be identified more specifically:

1. Division heads and the Senior Management Team are responsible for reviewing, modifying and assembling their cost data into a departmental request package and potential budget plan. The Senior Management Team critically evaluates all requests, prioritizes, and submits only those requests which are consistent with Council policies, administrative direction and departmental objectives. The preparation of the budget requests, goals and objectives should coincide with stated annual goals.

2. The Finance Officer and staff within the Business Management Department are responsible for (a) preparing short and long range revenue and expenditure forecasts, (b) reviewing departmental budgets with Senior Management and individual departments, (c) analyzing, summarizing, and making recommendations on the budget requests to the Deputy Manager, Assistant Manager and the Town Manager, and (d) reviewing the linkage between budget requests and overall budget goals and policies.

3. The Deputy Manager and the Assistant Manager are responsible for reviewing the departmental operating and CIP requests within the context of the Council priorities, Town Manager directives, and budget goals for their respective groups and submitting their recommendations for review by the Town Manager.

4. The Town Manager is responsible for reviewing the total financial program and formulating the Town-wide Recommended Budget to be submitted to the Town Council for adoption.

5. The Town Council is responsible for the review of the Manager's Recommended Budget and approval of a final budget.

Budgeting for the Capital Program

Each year, the Town Council, citizens, boards and commissions, and staff consider the Town's capital project needs and possible funding sources. Beginning in the fall of each year, departments submit project requests that are reviewed by the Senior Management Team and the Town Manager. This team develops a draft proposal for consideration by the Town Council.

At the same time, the Council solicits input from advisory boards and citizens on ideas for inclusion in the Capital Improvements Plan. Input from the departmental review process and the citizen and advisory boards assist the Council in deciding which capital improvements the Town may undertake as funding becomes available.

BUDGET GUIDELINES & PRACTICES

The budgetary guidelines and practices enumerated below outline a general framework of budgetary goals and objectives regarding the operating budget, debt service, capital expenditures, reserves, and financial reporting. They provide standards against which current budgetary performance can be measured, as well as proposals for future program evaluation.

*****

OPERATING BUDGET	
Guideline	**Comment**
Current revenues will be sufficient to support current operating expenditures.	The Town seeks to use stable, annually recurring revenues to pay for costs which tend to continue from year to year, and seeks to avoid using one-time revenues for annually recurring costs.
Financial systems are maintained to monitor expenditures, revenues and program performance on a continuing basis.	The Town maintains a computerized financial system on a continuing basis that monitors and compares all actual revenues and expenditures to approved budget estimates and appropriations.
Revenues and expenditures are projected for a five-year period and updated annually.	The Town's annual budget includes a five-year forecast for the revenues and expenditures of the Town's major operating funds, and monitors and updates the forecast at periodic intervals during the fiscal year.
All fund budgets are balanced.	Planned expenditures equal anticipated revenues including possible fund balance appropriations. In North Carolina, it is required that the budget submitted to the Town Council be balanced.
DEBT SERVICE	
Guideline	**Comment**
Long-term debt is not issued to finance current operations.	In accordance with North Carolina State law, long-term debt may be issued only to finance capital improvements and capital purchases over the life of the improvements or equipment. Deficit financing for current operations is not permitted by State law.

General Obligation Bonds will be issued to finance capital improvements and equipment at moderate levels that will not exceed the Town's resources and capacity for repaying the debt.	General Obligation bonds are normally issued to finance capital improvements as desired by the Town Council and Town citizens at levels that maintain financial stability and require moderate and stable tax rate increases. Consistent with this guideline, the Town strives to maintain annual debt service payments totaling less than 10% of General Fund expenditures in a given year. This conservative guideline assists the Town in maintaining its Triple A (AAA) bond rating.
CAPITAL EXPENDITURES	
Guideline	**Comment**
Consistent with the policy of the Town Council, a fifteen-year capital improvements program is developed and updated during the annual budget process, including anticipated funding sources.	Annually the Town prepares a fifteen-year Capital Improvements Program Budget that summarizes current capital improvements projects and future capital improvement needs. This program includes ongoing pay-as-you-go financing, installment contract financing, current and proposed long-term bond-financed projects, and projects funded by grants and miscellaneous funding sources.
Capital projects financed through the issuance of bonds are financed for a period not to exceed the expected useful life of the project.	Consistent with general State law and guidelines in North Carolina, general obligation bonds are normally issued for a period of 20 years for capital improvements that extend over the same 20-year period.
The Town coordinates development of the capital improvements budget with development of the operating budget. Future operating costs associated with the new capital improvements should be projected and included in the operating budget forecasts.	Operating costs of projects included in the Capital Improvements Program and budget are incorporated into the Town's operating budget annually, and are reflected in the Town's annual five-year forecast for its major operating funds.

The Town strives to maintain all its physical assets at a level adequate to protect the Town's capital investment and to minimize future maintenance and replacement costs.	The Town strives to maintain its capital investment by addressing future maintenance and replacement costs in its fifteen-year capital improvements program. Both pay-as-you-go financing and installment financing are used to address capital maintenance needs. When deferrals of capital maintenance are proposed due to unusual budgetary constraints, the amount of deferrals are specifically identified and limited to the extent practical.
NET ASSET (FUND BALANCE) RESERVES	
Guideline	**Comment**
The Town seeks to continue to maintain its financial reserve position consistent with the recommendations of the North Carolina Local Government Commission to reserve a minimum of 12% of General Fund expenditures for cash flow considerations and emergencies.	The Town's annual budget and revenue and expenditure recommendations are developed and designed to ensure that its financial position and reserve levels are adequate to retain reserve levels recommended by the North Carolina Local Government Commission for the General Fund and other major operating funds, including the Transportation and Parking enterprise funds. The Town's current balances are consistent with the minimum recommendation. The Town seeks to increase these reserve levels as the expenditure levels increase in each fund to maintain a constant reserve percentage.

BUDGET GUIDELINES & PRACTICES

FINANCIAL REPORTING	
Guideline	**Comment**
The Town's accounting and financial reporting systems will be maintained in conformance with current generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).	The Town participates in the accounting and budgeting awards programs of the association, receiving the Certificate of Achievement for Excellence in Financial Reporting for fiscal year ending June 30, 2010 and Distinguished Budget Award in 2010-11 and in past years. The Town plans to continue participation in these programs annually.
Consistent with State law, an annual audit will be performed by an independent public accounting firm with subsequent issuance of a Comprehensive Annual Financial Report (CAFR). Full disclosure will be provided in the general financial statements and all bond representations.	The Town prepares a Comprehensive Annual Financial Report that receives an unqualified opinion by an independent accounting firm each year. As required by State law, the annual report is submitted to the N. C. Local Government Commission staff for a detailed review of compliance with Commission recommendations and guidelines and compliance with applicable accounting and financial reporting standards.

BUDGET ASSUMPTIONS

Major issues affecting Town revenues for the FY 2012 budget include the expected continued economic recession and its affect on local revenues, anticipated slower growth in the State and Orange County economies, and the indirect effect of funding and growth decisions of the University of North Carolina at Chapel Hill. Federal budget decisions also have a major effect on the Chapel Hill budget, particularly in the areas of transportation and housing.

The FY 2012 budget incorporates the following assumptions:

- We anticipate a slow recovery lasting through the end of FY 2012, with minimal revenue growth.

- The property tax base is estimated to increase to $7.25 billion in FY 2012.

- We estimate that the Town's revenue from the local sales taxes will increase slightly FY 2012.

- State operating assistance for the Transit Fund will decline slightly for FY 2012 as the state continues to struggle with the impact of the recession.