

BUDGET MESSAGE

Introduction and Overview

The adopted Annual Budget for the Town of Chapel Hill for Fiscal Year 2007-08 is submitted herein, in accordance with the Local Government Budget and Fiscal Control Act. The Annual Budget is balanced and provides for services to be provided for the local community in the coming fiscal year. The Annual Budget continues the Town's high level of services while addressing several fiscal pressures. The budgets for the General Fund and Transit Fund total \$52.1 million and \$14.7 million, respectively. The property tax rate per \$100 of assessed value is maintained for the General Fund budget at the rate of 47.4 cents and Transit Fund at the rate of 4.8 cents. The property tax for each one cent of the tax rate is approximately \$556,000.

We also have examined service level needs and alternatives for the Downtown Service District. The special district property tax rate of 9 cents per \$100 assessed value is unchanged for 2007-08. The Chapel Hill Downtown Partnership brings the resources of the Town, University and downtown community together to maintain, enhance and promote downtown as the social, cultural and spiritual center of Chapel Hill through revitalized economic development. Other service improvements for the District, notably continuing downtown police patrol, are included as a part of the General Fund budget.

The adopted budgets for the General Fund, Transit Fund, Downtown Service District Fund and other funds are summarized in the following table:

Fund	Adopted Budget
General	\$52,129,000
Transit	14,663,000
Downtown Service District	142,000
Other	19,897,298
Total	<u>\$86,831,298</u>

Budget Goals for 2007-08

We believe that the 2007-08 budget is consistent with the long-term and service goals presented in subsequent paragraphs. Budget goals for this year are simple:

- Maintain the level of service provided to citizens;
- Absorb the costs of positions added last year as well as the debt service and operating costs of new facilities;
- Fund the highest priorities of the Council as established in the Planning Retreat;
- Address fiscal pressures while maintaining reasonable property tax rates;
- Maintain competitive employee compensation; and
- Maintain undesignated General Fund balance at 15% to 12% of the budget.

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Long-Term Goals

The Town's primary long-term goals are stated in the revised Comprehensive Plan adopted by the Town Council in the spring of 2000, with goals updated on May 12, 2003. The Town's Comprehensive Plan is organized around 12 major themes which together form a strategy for Chapel Hill's future. These themes are:

- Maintain the Urban Services Area/Rural Buffer Boundary.
- Participate in the regional planning process.
- Conserve and protect existing neighborhoods.
- Conserve and protect the natural setting of Chapel Hill.
- Identify areas where there are creative development opportunities.
- Encourage desirable forms of non-residential development.
- Create and preserve affordable housing opportunities.
- Cooperatively plan with the University of North Carolina.
- Work toward a balanced transportation system.
- Complete the bikeway / greenway / sidewalk systems.
- Provide quality community facilities and services.
- Develop strategies to address fiscal issues.

Taken together, the major themes show a pattern of commitment to community involvement in development and services in the community.

Service Goals

The Town of Chapel Hill strives to achieve the following service goals:

- Provide fair, effective, efficient and fast customer service;
- Offer secure, reliable and affordable services;
- Maintain safe environment and attractive public facilities;
- Provide protection and public safety;
- Provide accurate and timely current and historical public information;
- Maintain basic Town services;
- Retain employees and continue to invest in the maintenance of employee skills, knowledge and abilities as a key community resource;
- Provide funding for maintenance and capital projects at a reasonable level to adequately maintain Town facilities;
- Retain fare-free transportation services;
- Invest in technology as a means to provide fast, secure and reliable information for Council, staff and citizens;
- Maintain current transit service levels and routes;
- Preserve overall financial health of the Town of Chapel Hill; and
- Provide economic, cultural and leisure opportunities.

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Short-Term Council Goals

The Council held a planning retreat with members of the Senior Management Team to establish priorities for the coming budget. Provisions for some of the highest priorities of that retreat and subsequent discussion have been made in the Annual Budget including:

- Increase employee development to steward the organizational culture change envisioned by the Council as they hired a new manager and defined their vision for the future;
- Plan for Carolina North by creating development regulations for that site;
- Acquire an emergency notification system for the Town to inform residents of Town actions that affect them, from rezoning cases to leaf pickup schedules;
- Improve the Town's website as a communications medium and interactive business tool; and
- Provide the subsidy necessary to meet the federal government's new approach to public housing.

These priorities have been considered in the 2007-08 budget. Although considered a high priority, adding a code enforcement officer to work with citizens in communicating and enforcing the Town's regulations was not included in the budget. Subsequent Council discussions supported some other priorities that are included in the budget:

- Additional funds for the Visitors' Bureau of \$15,000;
- Funding for the Homeless Initiative of \$24,600;
- Operating assistance for the Land Trust of \$50,000;
- Funding for the Downtown Partnership is included in the budget for the Downtown Service District; and
- Increased funding of \$25,000 for the service agencies whose budget requests are reviewed and recommended by the Human Services Advisory Board.

Funding for performance agreements with other agencies remains about the same as 2006-07, with total funding in the 2007-08 budget of \$945,000.

Employee compensation

In the past two years, the Town has begun to experience recruiting difficulties for vacant positions. The turnover rate has increased from less than 5 percent in 2004-05 to more than 10 percent for the past two years. A key strategy to address these trends is to achieve market-based competitive pay rates to retain good employees and recruit replacements for those who leave.

A recent pay survey indicates that 57 percent of the jobs surveyed have range midpoints that fall 5 percent or more below the regional market average. If the organizations surveyed, with which the Town competes for employees, increase employee pay in the first quarter of the upcoming budget year as we expect they will, the pay of Town employees will slip further below the pay of these competitors in the region. In order to begin addressing this disparity, this budget includes a 4% increase for our employees at a cost of \$776,000 for the General Fund for nine months.

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General Fund

The General Fund budget adopted by the Council for 2007-08 totals \$52,129,000 and provides for the continuation of existing Town services as well as several new services. Key issues that Council has addressed in the 2007-08 budget include the following:

- Absorb the costs of positions added last year as well as the debt service and operating costs of new facilities;
- Address fiscal pressures while maintaining reasonable property tax rates
- Preservation of services that citizens expect while maintaining fiscal stability;
- Increase Town-wide employee development initiative to steward the organizational culture change envisioned by Council;
- Employee pay increases averaging 4%;
- Increased health care and workers' compensation benefit costs of approximately 11%;
- Increased funding for operating the new Town Operations Center (\$134,000);
- Increased information technology including new notification system to inform residents of Town actions that affect them, improve the Town's website and provide contracted support services to meet technology needs of the Town Operations Center;
- Funding for the Capital Improvements Program;
- Additional funding for reopening the Community Center (\$189,500) and the new Aquatics Center (\$145,000);
- Other cost increases include higher operating costs for items such as utilities for the larger-sized plant and additional fuel because the new operations center is farther from the center of Town than the current site.

2006-07 General Fund Update

Update of Current Year Revenues

Revenues in the current year are expected to be \$47.7 million, about \$332,000 higher than budgeted. The primary reason for the higher projection is the overall increase in other taxes and licenses (\$ 200,000), licenses and permits (\$100,000), and interest income (\$100,000). State-shared revenues are expected to be below the original budget by about \$100,000, primarily reflecting reduced sales in Orange County. Receipts from property tax revenues and other sources are projected to be close to budgeted amounts.

Update of Current Year Expenditures

Expenditures are anticipated to be below the revised budget for 2006-07. Favorable budget performance in public works, general government, development and leisure resulted in use of less fund balance than budgeted.

Summary of Estimated Current Year Revenues Less Costs

In summary, total estimated revenues for 2006-07 of approximately \$47.7 million and \$2.5 million fund balance are expected to provide for approximately \$50.2 million of expenditures,

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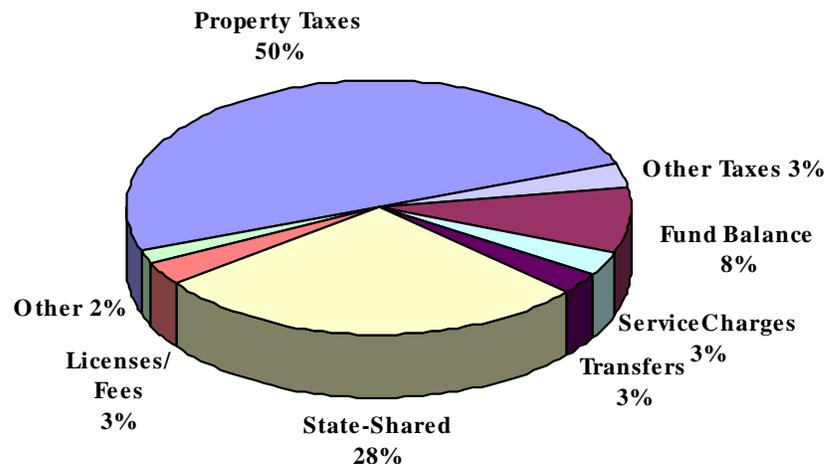
which is \$2.4 million less than the revised budget. The favorable budgetary performance increased the availability of fund balance for the 2007-08 budget.

2007-08 General Fund Revenues

General Fund revenues for Fiscal Year 2008, including the use of \$4.3 million of fund balance, are estimated to total about \$52 million.

Property Tax

We estimate the property tax levy to grow by about \$400,000 to \$26.1 million. We have received estimates from Orange County and have based our budget estimate on their information together with historic trends for the overall tax base. We estimate an increase of about 1.6% overall. The adopted budget is balanced without an increase in the property tax rate. The tax base for 2007-08 is estimated to be about \$5,560,000,000, with 1 cent on the tax rate equivalent to about \$556,000.



Other Local Taxes

Cable franchise revenues represent a 5 percent tax on gross receipts. We are projecting revenues to be about \$550,000 in the previous year. Effective January 1, 2007, the Department of Revenue changed the distribution calculation for cable franchise revenues, but has issued no estimates of the impact on individual governments. Following guidance from the League of Municipalities, we are budgeting 2007-08 revenue to remain about the same as in current years.

Anticipated revenue from the 3 percent Hotel/Motel occupancy tax totals approximately \$850,000 in the current year and is expected to total about \$935,000 in 2007-08. Revenue trends are affected by University events and general economic trends.

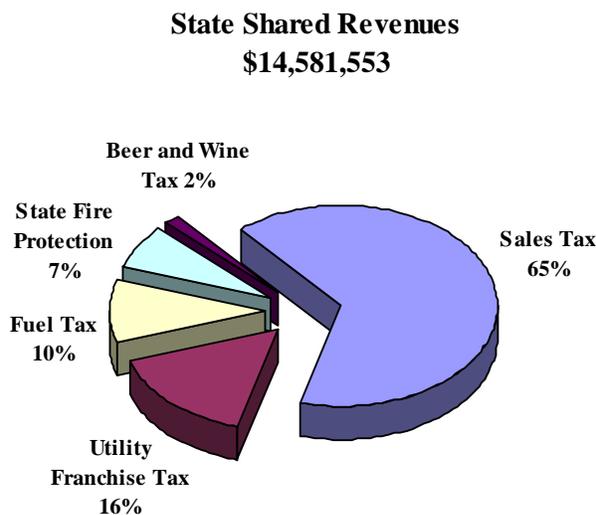
State-Shared Revenues

State-shared revenues consist of local option sales tax, motor fuel taxes, State fire protection funds, utility franchise tax, and beer and wine tax. These revenues are the second largest source of General Fund revenues at 28% of the total and are estimated at \$14,581,553.

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Sales tax revenue is expected to be below budget in 2006-07 by about \$300,000 largely due to the decline in the 1% Orange County sales tax. Based upon an expected strong State-wide economy, sales tax is estimated to increase about 3% over the 2006-07 estimate of \$9.22 million, to \$9.53 million in 2007-08.

A share of the State motor fuel tax revenue is allocated to local governments, based on population and local street mileage in each jurisdiction. This revenue totaling approximately \$1,459,400 in 2006-07 is expected to remain the same at \$1,460,000 for 2007-08.



State fire protection funds represent a payment for fire protection of state-owned buildings. We anticipate no change for 2007-08 in the level of State Fire Protection Funds, totaling about \$1,063,000.

Utility franchise taxes represent a 3% tax on gross revenues of public utilities in cities and towns and are collected and distributed by the State. We estimate that utility franchise tax distributions will slightly exceed the 2006-07 budget of \$2,300,000 and will be the same next year.

Beer and Wine tax revenue is estimated to be \$230,000 for the next year.

Charges for Services

Service Charges for various Town services and programs (including zoning compliance and Parks and Recreation programs) are estimated to increase slightly from the current year's estimated revenues of \$1,576,000 to \$1,664,000. The increase is expected in part because of the opening of parks facilities in 2007-08 (\$70,000).

Licenses/Permits/Fines & Forfeitures

Revenue from most licenses, permits, and fines, including privilege licenses and vehicle licenses, are expected to remain about the same as budgeted in 2006-07, with the exception of special use permits. We estimate special use permit income to decline in 2007-08 because of major developments initiated in 2006-07. Total licenses and permits are expected to be about \$1.6 million in 2007-08.

Other Revenues

Other revenues consist primarily of certain State and local recurring payments, interest on investments, transfers from other funds to recover costs for services and indirect costs, and miscellaneous revenues. Local payments from Orange County for Library and certain Parks and Recreation services are expected to total approximately \$333,000 plus the State appropriation for the Library of \$37,000. Transfers from other funds include estimates of \$182,000 from Parking

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Enterprise Funds, \$57,000 from the Stormwater Management Fund, and \$964,000 from the Transit Fund. These transfers also include a contribution of \$45,000 from the Library Gift Fund.

The General Fund share of interest earned on the Town's investments has been increasing for several years. We anticipate that our cash balances will decrease resulting in a decline of investment income to \$362,000 next year.

Miscellaneous revenue, which includes the sale of cemetery lots and equipment, court cost reimbursements, and donations, is expected to total about \$282,000 for 2007-08.

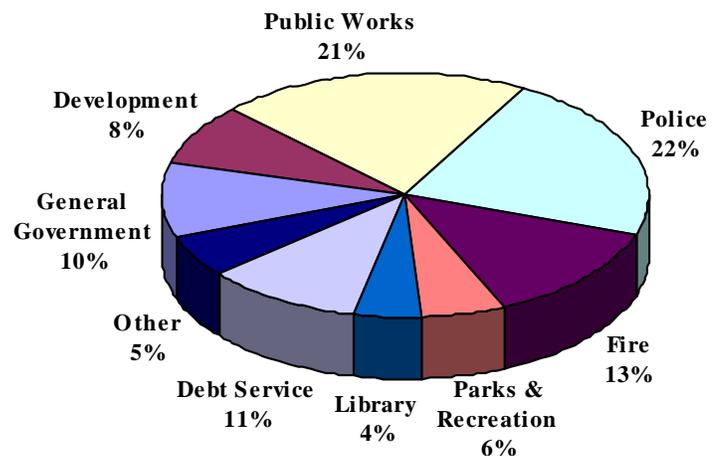
In summary, General Fund revenues, including the use of \$4.3 million of fund balance, totals \$52.1 million. Additional information about General Fund revenues for 2007-08 can be found in the budget section on General Fund Overview.

2007-08 General Fund Expenditures

The General Fund provides basic services for Town citizens including public safety, public works, planning for growth and development, leisure, and general administration services in the community.

2007-08 Expenditures in the General Fund are shown in the adjacent comparative chart totaling \$52.1 million. Public safety services represent the largest portion of the General Fund with budgeted amounts of \$11.7 million and \$6.8 million, respectively.

The Public Works Department has a total expenditure budget of \$10.7 million and provides services for solid waste collection, maintenance of streets, drainage, landscaping and grounds, and maintenance of Town properties.



Combined Police, Fire and Public Works services comprise about 56% of total General Fund expenditures. Other General Fund services include Parks and Recreation programs totaling about \$2.9 million, Library services of \$2.2 million, Development activities (Planning, Engineering and Inspections) totaling about \$4.3 million, and General Governmental activities (Administration, Finance, Information Technology, Human Resources and Legal) totaling about \$5.1 million. The traffic division of Public Works was transferred to the Engineering Department and is the primary cause of the increase in development activities relative to other costs.

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Non-departmental expenditures total \$8.5 million. The largest non-departmental expenditure in the budget is for debt service, including debt service on existing bonds and for the Town Operations Center, all totaling \$5.5 million in 2007-08. Other non-departmental expenditures include transfers for capital improvements of approximately \$1.3 million and other transfers totaling \$411,000.

\$945,000 is budgeted for investments in other agencies in support of human services, visitor and tourism services, and cultural and arts programs, development of affordable housing, and economic development through performance agreements as follows:

Performance Agreements with Other Agencies	
Human Services	
Human Services Advisory Board Recommendations	\$ 250,000
Friends of the Chapel Hill Senior Center	30,000
Joint Orange/Chatham Community Action Agency	18,900
Orange County Senior Center	46,700
Orange County Retired Senior Volunteer	12,300
Total Human Services	357,900
Arts	
Chapel Hill Public Arts Commission	150,000
Cultural Arts Dinner	500
ArtsCenter	10,000
Total Arts	160,500
Affordable Housing	
Orange Community Housing and Land Trust	174,000
Affordable Rentals Group	13,500
Homelessness Initiative	24,600
Total Affordable Housing	212,100
Economic Development	
Contributions to culture and tourism	8,500
Chapel Hill/Orange County Visitors Bureau	100,000
North Carolina High School Athletic Association	30,000
Chapel Hill Economic Development Corporation	70,000
Orange County Economic Development Commission	6,000
Total Economic Development	214,500
Total Contributions to Agencies	\$ 945,000

Additional information about General Fund revenues and expenditures for 2007-08 can be found in the budget section on General Fund Overview and departmental pages.

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Transit Fund

Public transit services are provided for the Town of Chapel Hill and on a contractual basis for the neighboring Town of Carrboro, the University of North Carolina and the UNC Health Care System. The transit system operates fare-free services, with the exception of fares for the Tar Heel Express service provided for athletic and other special events for the University.

The budget for the Transit Fund for fiscal year 2007-08 totals about \$14.7 million. Major revenue sources include Federal and State operating assistance, University and Town of Carrboro contract payments, and local property taxes.

Revenues	Adopted Budget	Percent of Total
UNC Contract	\$ 5,705,300	39%
State Assistance	3,475,000	24%
Carrboro Contract	1,015,239	7%
Federal Assistance	1,115,308	8%
Property Taxes	2,644,700	18%
Service Charges	507,938	3%
Other	199,515	1%
Total Revenues	\$ 14,663,000	100%

Seventy percent of the Transit System revenues come from State operating assistance and annual contracts with the University of North Carolina and Town of Carrboro. The system also expects to receive federal funding for operations of \$1,115,000 in 2007-08, which is about the same as in the current year

The State operating assistance is based on a formula involving various operating statistics with ridership as a major component. Therefore, the success of the fare-free service has enhanced the State subsidy. We estimate that the subsidy will increase slightly from \$3,432,000 in 2006-07 to \$3,475,000 in 2007-08.

The University of North Carolina contracts with the Town for bus service for routes on and surrounding the campus of the University and UNC Health Care System. The University contract also covers routes determined to serve mainly students and employees of the University. The cost of these services is based on an annual cost sharing contract between the University, and the Towns of Carrboro and Chapel Hill. Based on proposed routes, the University's share of cost for the recommended 2007-08 budget totals about \$5.7 million and Carrboro's cost is about \$1 million.

The Town's share of cost for the Transit Department is funded by a property tax levy for public transit services. The budget for the Transit Fund in fiscal year 2007-08 includes \$2.6 million from a tax rate of 4.8 cents, which is the same as the 2006-07 rate.

Other revenues expected for the system include about \$404,000 for Tar Heel Express services, \$140,000 in vehicle license fees.

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Major expenditures of the system consist primarily of operating costs for fixed routes, demand response and special event services and maintenance costs for a fleet of 99 buses, two 15-passenger vans, 15 lift-equipped vans, 9 wagons or minivans, and two maintenance service trucks that provide transit service to the entire community. We anticipate increased costs (like utilities, liability insurance and fuel) at the new center and for increased marketing efforts to boost ridership.

Other Funds

Stormwater Management Fund

The 2007-08 budget continues stormwater management services currently provided by the Town and implements stormwater management activities necessary to comply with State and federal regulations. Stormwater management budget of \$1,751,897 is funded by a fee charged to property owners based on the amount of impervious surface area on a property. The fee remains unchanged at the initially established rate of \$39 for each 2,000 square feet of impervious surface, and fees are estimated at \$1,660,000 in 2007-08.

The budget includes \$500,000 for stormwater-related activities and support carried out by the Public Works, Inspections and Finance departments, and is \$32,000 less than in 2006-07. Additions to the budget for 2007-08 include an additional engineer to review stormwater plans, conduct construction and maintenance inspections and address requests for drainage assistance. An engineering technician would assist in compliance with the Town's National Pollution Discharge Elimination System (NPDES) stormwater municipal discharge permits by mapping the stormwater drainage infrastructure and implementing an illicit discharge detection and elimination program.

Parking Fund

The Town budgets parking-related revenues in two funds for off-street parking facilities and on-street parking. The Off-Street Parking Fund, with a 2007-08 budget of \$1,436,505, accounts for revenues from the James Wallace Deck and five parking lots in the downtown area. Construction of a mixed use development on the Lot 5 site is planned to begin in March of 2008. As a result, the Town expects reduced annual revenues totaling about \$251,000. The On-Street Parking Fund major revenue sources are from parking meter fees and parking ticket fines totaling approximately \$599,000 for 2007-08.

The primary expenditures of the Off-Street Parking Fund include the costs of personnel to manage the parking facilities and debt service. The recommended revenues are expected to yield a reserve of \$263,000 for use on future construction or other parking initiatives.

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Housing Fund

Budgeted costs for next year totals \$1,833,013. The Public Housing program provides for the administration and operation of the Town's 336 public housing units, and is funded primarily through federal grants and rents paid by residents. HUD is changing the grant process from a fiscal year to a calendar year basis; therefore Town has received confirmation of HUD's funding for only the first half of fiscal year 2008. The final federal subsidy will not be available until late 2007. Our preliminary estimate of HUD's subsidy for FY 2008 is \$1,000,724, a 3.8% decrease from the estimated FY 2007 subsidy of \$1,040,994.

Downtown Service District Fund

The Downtown Service District Fund has a total budget of \$142,000 funded from a tax rate of 9.0 cents on property within the designated special service district. The budget provides for continued funding of the Downtown Partnership and includes a groundskeeper and a reserve of \$17 thousand to address parking or other downtown concerns.

Capital Improvements Fund

The Capital Improvements Fund has a budget of \$1,296,600. The primary revenue source is a transfer of \$1,120,950 from the General Fund. The following project groups are included in the annual Capital Improvements Fund. The Town has other capital projects included in various multi-year capital projects funds as discussed in the Capital section of the Budget.

Appropriations	Adopted Budget
Municipal Facilities	\$ 213,000
Facilities Leased by Others	93,000
Infrastructure	115,000
Communication/Technology	50,000
Parks/Public Use Facilities	825,200
Total Capital Improvements Fund	\$ 1,296,200

Debt Service Fund

A transfer from the General Fund of \$5,536,025 is budgeted in the Debt Service Fund to make scheduled payments for principal and interest on the Town's long-term debt obligations for next year. The debt payments include about \$3,480,000 for principal payments and an estimated \$2,056,025 for interest expense. Debt service for the Town Operations Center totals nearly \$2.5 million in FY 2007-08.

Transit Capital Reserve Fund

The recommended budget for the Transportation Capital Reserve fund reflects an increase of about \$909,000 over the previous year as we near completion and full matching requirements on

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grants for the Real Time Passenger System, bus purchases and construction of the Town Operations Center. Of the \$2,274,500 budgeted for grant matches in 2007-08, \$1,109,000 is provided for the new Transit Operations Center.

Housing Loan Trust Fund

The Housing Loan Trust Fund provides funds to subsidize low-income housing in Chapel Hill. The 2007-08 budget of \$106,000 reflects continuation of existing programs for mortgage assistance and includes funding for the Town's share of matching funds for the HOME program that is administered by Orange County.

Miscellaneous Funds

Revenues are expected to remain approximately the same this year and next in most of the Town's remaining funds including Vehicle Replacement, Vehicle Maintenance, Library Gift, Grants, Computer Replacement and Cable Public Access.

We believe the adopted budget for 2007-08 will maintain basic services at a level similar to the 2006-07 fiscal year. We are pleased to be able to present an adopted budget with a level tax rate for both the General Fund and the Transit Fund, totaling a combined tax rate of 52.2 cents for FY 2007-08. A brief description of Town services and costs is included in this document.

Respectfully submitted,



Roger L. Stancil
Town Manager