

FIVE-YEAR REVENUE AND COST PROJECTIONS FOR MAJOR OPERATING FUNDS

INTRODUCTION AND OVERVIEW

This section of the budget outlines in summary form projected revenues and costs for the five fiscal years beyond 2007-08 for the Town's two largest operating funds: the General Fund and the Transportation Fund. A summary chart is provided for the General Fund and the Transportation Fund identifying differences between the projected revenues and costs in each year.

The Projections section of the budget is an important tool in developing long-range financial strategies for the Town's major operations and in maintaining sound financial condition. We believe our projections include all the vital elements and principal drivers of revenue and costs for major operating funds. In short, we have included in the projections the important elements that are "big enough to matter," on both the revenue and cost sides of the budgets for each of the major operating funds. Our presentation includes projections for operations and for additions and adjustments to ongoing operations. The largest additions relate to capital programs and related debt service.

Capital Programs and Related Debt Service

The Council authorized the sale of the first two issuances of the \$29.36 million of General Obligation bonds approved by voters in November 2003: \$4 million in 2004-05 and \$4.95 million in 2006-07. Two remaining sales are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2008-09	11,455,000
2009-10	<u>8,955,000</u>
Total	<u>\$20,410,000</u>

In addition, the Council has approved a plan to borrow funds totaling between \$7 million and \$8 million to pay for underground parking on the current Parking Lot 5 as part of a mixed use development. We currently project that the first debt service payment of about \$770,000 or 1.4 cents on the tax rate would come due in 2010-11

We show the debt service for each issuance beginning in the year following the year of the borrowing. The full year cost of the new debt issued in 2008-09 would be approximately \$1,203,000 or 2.2 cents on the current tax rate and the full cost of new debt issued in 2009-10 would be approximately \$941,000 or 1.7 cents on the current tax rate.

While the Town has historically had low debt as a percentage of budget, the Council would need to determine how to balance the needs for capital improvements with tax rate alternatives. The debt to budget ratio, along with other measures of fiscal well-being, affects the Town's bond ratings. Retention of the Town's current AAA ratings saves interest costs. The adopted 2007-08 budget does

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not meet the goal of limiting debt service to 10% of the budget. We project that debt service including installment debt would reach 12.5% as a percentage of budget in 2010-11 using the current projections.

Some of the other key factors affecting revenues and costs are outside the Town's control, such as State-shared revenues affected by State legislation, and numerous State and federal regulations which affect funding for the Transportation system and the Housing Department, primarily. We project no withholding of State-shared revenues. Projections for transportation operating assistance assume that revenues will remain at levels consistent with historic funding in the absence of specific information to the contrary.

The main points included in the revenue and cost projections for the General Fund and the Transportation Fund are summarized below. The differences between revenues and expenditures are expressed as tax rate equivalents. As the budget increases, the amount of reserved fund balance needs to increase proportionally to retain fund balance reserves at a minimum of 12% of the budget. The gap between revenues and costs could be closed by service reductions, revenue enhancements, tax rate adjustments, or any combination of these options.

GENERAL FUND

Revenues

The most important revenue sources for General Fund operations continue to be property taxes and sales tax revenues that, combined, comprise about 75% of total General Fund revenues. Property tax revenues have increased at a faster pace in the past few years than we anticipate in the future. The estimate of assessed valuation for the tax base in 2007-08 is about \$5.56 billion. Estimated growth in assessed valuation over the next five years is estimated to be about 1.8 % annually.

Two factors may affect our ability to project and collect property taxes in the future. The first relates to Orange County's tax system. The Town relies on the Orange County to assess and record most property tax. (A small portion is collected by Durham County for the citizens that reside in Chapel Hill and Durham County.) Orange County anticipates replacing its current collection system within the next few years. A newer system would improve our ability to analyze data, but will also have increased costs for system installation and maintenance. The second relates to the change in State law that changes the responsibility for motor vehicle tax collection from the County to the State, beginning on January 1, 2009. Orange County has been efficient and effective in collecting motor vehicle taxes. The collection rate and charges for the service may change once the State assumes the responsibility of collecting motor vehicle taxes.

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Estimated additions to the tax base, at the adopted tax rate for 2007-08 of 47.4 cents for the General Fund, would yield increases in property tax revenues of about \$510,000 each year. Projections do not include the potential impacts of general property revaluations scheduled to occur for fiscal year 2010 and every four years thereafter.

The second largest source of Town revenue, sales tax, is a more volatile source than property tax. Revenues increase when the economy is good and grow at a slower pace, or may actually decrease, when the economy is slow. We have estimated an annual 5% increase in sales tax beginning in 2007-08. We have experienced more than a 10% decrease in local sales taxes between calendar year 2005 and 2006, but anticipate that the sales tax rate overall will continue to increase. While the projection is based on past growth and recommendations from the League of Municipalities, the actual year to year change will vary with the economy.

Based on legislation adopted in 2002-03 by the North Carolina General Assembly (providing greater but not absolute protection for certain State-shared revenues withheld in past years), we believe it is reasonable to include full State-shared revenues in our five year projections for the General Fund. These State-shared revenues include revenue from utility franchise taxes (estimated at about \$2.3 million in 2007-08) with no projected increases over the next 5 years, fuel tax funds for street maintenance (about \$1.5 million in 2007-08) with no projected growth over the next five years, and the beer and wine tax (about \$230,000 in 2007-08) with minimal growth anticipated over the next five years.

We assume continuation of State Fire Protection funds at the level received in 2006-07, \$1,064,000. This level reflects an increase resulting from legislation to increase the allocation State Fire Protection Funds to units with needs to protect State properties. We recommend that the Council continue to seek additional fire protection funding and that additional funds should be used to complete the staffing increase recommended by the Fire Chief.

The most important revenue sources for the General Fund are shown in the two tables which follow, titled Projected Tax Base and Projected State-Shared Revenues.

Other revenues are expected to remain about the same with the exception of appropriated fund balance. In recent years, \$1,000,000 from fund balance has been included in projections for future years.

Operating and Capital Improvement Costs

Projected costs for general operations are based on a continuation of current service levels and programs for 2006-07 with the exception of provisions for the operational costs associated with the new Town Operations Center that is scheduled to open for business in the middle of 2006-07.

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Personnel and operating costs are based on assumptions as noted on the attached tables. The projections also include estimated contributions required to provide needed capital maintenance for future years. In keeping with recent funding levels approved by the Town Council, the projected capital maintenance budget for the next five years increases by \$100,000 annually. While the project requests reflected in the 15-year capital plan are usually in excess of the projected available amounts, the funding demonstrates a commitment to maintaining and renovating Town properties.

Beginning in 2007-08, we have estimated increased personnel costs, including salaries and benefits, totaling 4% annually and increased operations costs totaling 3% annually. Projections show that the greatest changes for the overall Town budget could be debt service related to capital improvements.

Our analysis indicates projected costs for basic operations and the proposed additions to operations would exceed revenues in each of the next five years. However, as we come closer to the actual projected years, we may need to modify assumptions. Under the current projection assumptions, the Council would need to increase revenues or decrease costs for each of the next five years.

A chart is included in the conclusion of the projections sections showing the projected marginal tax rate increase each year.

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TRANSPORTATION FUND

The Council has indicated that it plans to continue working with its partners, the University of North Carolina and the Town of Carrboro, to continue fare-free transit services. The Transportation Fund budget for 2007-08 is based on the continuation of federal and State operating assistance for the Transportation System at current levels. Projections of the budget costs with these assumptions indicate that continuation of the expanded fare free transit system would require minimal adjustments in the Transportation tax rate over the next few years. However, projections do not include provisions for adding routes or otherwise expanding service levels or for fuel increases above the general rate of operating cost increases.

The Transportation Fund shows a need for a modest amount of additional revenues, a reduction in costs, or a need for a tax increase beginning in 2008-09. The proposed 2007-08 budget preserves the current Transportation Fund tax rate. Subsequent years show the need for a tax increase between .3 and .5 cents increase for all years through 2012-13. Alternatively, an equivalent in other revenues or cost reductions could cover the shortfall between revenues and costs.

CONCLUSION

Based on the assumptions contained in the analysis of projected revenues and costs for the Town's major operating funds for the next five years, differences between revenues and costs for future years could require cost or service reductions, revenue enhancements, or tax rate adjustments. The differences expressed as tax rate equivalents are summarized as follows:

Tax Rate Equivalents of Needed Revenue (in cents)

	2007-08	2008-09	2009-10	2010-11	2011-12	1012-13
	Adopted	Estimated Increase	Estimated Increase	Estimated Increase	Estimated Increase	Estimated Increase
General Fund	0.0	3.9	2.9	3.9	1.2	1.1
Transportation Fund	0.0	0.5	0.3	0.3	0.3	0.3
Total	0.0	4.4	2.7	4.2	1.5	1.4

The largest concern in the budget projection is the expected increase in the percentage of the budget that would be needed for debt service payments under the current projections. The year with the highest ratio of debt service to total budget is 2010-11 where debt service would represent 12.5% of the total budget. The Council could affect the ratio most easily by altering the schedule for issuing general obligation debt.

PROJECTED TAX BASE
2007/2008 - 2012/2013

Category	2007-08 Adopted	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Assessed Valuation (Real & Personal Property)	5,560,000,000	5,660,080,000	5,761,960,000	5,865,680,000	5,971,260,000	6,078,740,000
Tax Levy* - General Fund Only at 47.4/100	26,354,400	27,904,194	28,406,463	28,917,802	29,438,312	29,968,188
Estimated Collections at 99.2%	26,017,000	27,680,000	28,180,000	28,690,000	29,200,000	29,730,000
Estimated Prior Year Collections	113,000	113,000	113,000	113,000	113,000	113,000
TOTALS	26,130,000	27,793,000	28,293,000	28,803,000	29,313,000	29,843,000

* Based on a constant tax rate of 47.4 cents for the General Fund through 2012-13, with estimated growth of 1.8% annually. Does not consider the effects of revaluation of real property in future years.

The value of 1 cent on the property tax is estimated as \$556,000 in fiscal year 2007-08.

GENERAL FUND
PROJECTED STATE-SHARED REVENUES
2007/2008 - 2012/2013

Category	2007-08 Adopted	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Franchise Tax	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
Beer, Wine Tax	230,000	232,000	234,000	236,000	238,000	240,000
1% Local Option Sales Tax ¹	3,055,000	3,208,000	3,368,000	3,536,000	3,713,000	3,899,000
1/2% Local Option Sales Tax (1984) ¹	2,400,000	2,520,000	2,646,000	2,778,000	2,917,000	3,063,000
1/2% Local Option Sales Tax (1986) ¹	2,400,000	2,520,000	2,646,000	2,778,000	2,917,000	3,063,000
1/2% Local Option Sales Tax (2002) ¹	1,673,000	1,757,000	1,845,000	1,937,000	2,034,000	2,136,000
Total Local Option Sales Taxes	9,528,000	10,005,000	10,505,000	11,029,000	11,581,000	12,161,000
Fuel Tax (Powell Bill)	1,460,000	1,460,000	1,460,000	1,460,000	1,460,000	1,460,000
State Fire Protection	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000
TOTAL	14,582,000	15,061,000	15,563,000	16,089,000	16,643,000	17,225,000

¹ Estimated increase of 5% annually.

GENERAL FUND
REVENUE PROJECTIONS
2007/2008 - 2012/2013

Category	2007-08 Adopted	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Property Taxes*	26,130,000	27,793,000	28,293,000	28,803,000	29,313,000	29,843,000
Other Taxes & Licenses	1,524,000	1,549,000	1,574,000	1,599,000	1,624,000	1,649,000
Licenses/Permits/Fines/ Forfeitures	1,604,000	1,604,000	1,604,000	1,604,000	1,604,000	1,604,000
State-Shared Revenues	14,582,000	15,061,000	15,563,000	16,089,000	16,643,000	17,225,000
Grants	415,000	415,000	415,000	415,000	415,000	415,000
Service Charges	1,664,000	1,674,000	1,684,000	1,694,000	1,704,000	1,714,000
Interest on Investments	363,000	363,000	363,000	363,000	363,000	363,000
Other Revenues	134,000	134,000	134,000	134,000	134,000	134,000
Interfund Transfers	1,398,000	1,861,000	1,861,000	1,861,000	1,861,000	1,861,000
TOTAL	47,814,000	50,454,000	51,491,000	52,562,000	53,661,000	54,808,000

* Based on constant tax rate of 47.4 cents for the General Fund through 2012-13.

**GENERAL FUND
PROJECTED COSTS
2007/2008 - 2012/2013**

	2007-08 Adopted	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Personnel Services ^a	32,358,000	33,652,000	34,998,000	36,398,000	37,854,000	39,368,000
Operations						
Operating & Maintenance ^b	12,101,000	12,464,000	12,838,000	13,223,000	13,620,000	14,029,000
Existing Debt Service	5,536,000	5,383,000	5,236,000	4,557,000	4,432,000	4,300,000
Capital						
Equipment ^c	68,000	68,000	68,000	68,000	68,000	68,000
Transfer to Capital Improvements Program ^d	1,121,000	1,221,000	1,321,000	1,421,000	1,521,000	1,621,000
Other						
Human Service contracts, hotel/motel allocations and grants to other agencies	945,000	945,000	945,000	945,000	945,000	945,000
New General Obligation Debt Service - 2008-09 Issue (\$11,455,000)	-	298,000	1,203,000	1,172,000	1,140,000	1,140,000
New General Obligation Debt Service - 2009-10 Issue (\$8,955,000)	-	-	247,000	941,000	916,000	916,000
New Installment Debt Service - \$7,705,000 Downtown Initiative	-	-	-	771,000	751,000	732,000
TOTALS	52,129,000	54,031,000	56,856,000	59,496,000	61,247,000	63,119,000

Assumptions for years after 07-08, based on base cost estimates for 2007-08:

^a Increase of about 4% in salaries and benefits.

^b Increase in operating costs of 3% annually and additions for vehicle replacement funding.

^c Estimated cost of miscellaneous non-vehicular capital equipment.

^d General Fund contributions to fund projected requirements of Capital Improvements Program (includes lease purchase payments for various projects and building maintenance needs from building conditions report.)

GENERAL FUND

ANALYSIS OF REVENUE AND COST PROJECTIONS 2007/2008 - 2012/2013

	2007-08 Adopted	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Estimated Total Costs	52,129,000	54,031,000	56,856,000	59,496,000	61,247,000	63,119,000
Estimated Total Revenues	47,814,000	50,454,000	51,491,000	52,562,000	53,661,000	54,808,000
Revenues Needed	4,315,000	3,577,000	5,365,000	6,934,000	7,586,000	8,311,000
Fund Balance Available	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,100,000
One-time use of Fund Balance	3,315,000	400,000	600,000	-	-	-
Additional Revenue Needed/ (Available)	-	2,177,000	3,765,000	5,934,000	6,586,000	7,211,000
Change in Tax Rate in Specific Years	0.0	3.9	2.9	3.9	1.2	1.1

Value of a cent = \$556,000

***TRANSPORTATION FUND
REVENUE PROJECTIONS
2007/2008 - 2012/2013***

	2007-08 Adopted	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Taxes ^a	2,645,000	2,693,000	2,741,000	2,790,000	2,840,000	2,891,000
Vehicle Taxes ^b	140,000	144,000	148,000	152,000	156,000	160,000
Federal Operating Assistance ^c	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000
State Operating Assistance ^c	3,475,000	3,475,000	3,475,000	3,475,000	3,475,000	3,475,000
UNC Contract (Net) ^d	5,705,000	5,715,000	5,725,000	5,735,000	5,745,000	5,755,000
Carrboro Contract (Net) ^d	1,015,000	1,017,000	1,019,000	1,021,000	1,023,000	1,025,000
Service Charges ^e	508,000	528,000	548,000	568,000	588,000	608,000
Other	60,000	60,000	60,000	60,000	60,000	60,000
Fund Balance	-	-	-	-	-	-
TOTAL	14,663,000	14,747,000	14,831,000	14,916,000	15,002,000	15,089,000

Revenue Notes:

^a Based on the adopted tax rate of 4.8 cents through 2012-13.

^b Assumes continued levy of \$5 vehicle tax for Transportation begun in 2000-01.

^c Assumes continuing constant level of Federal and State Operating Assistance over the five-year period.

^d Assumes continued participation by the University and Carrboro at an annual growth rate of 1.8%, including assumptions on cost sharing for adopted fare-free services. (Amounts net of federal and State rebates for operating assistance.)

^e Based on continuing fare-free services, with remaining service charge revenue generated primarily by Tarheel Express.

***TRANSPORTATION FUND
COST PROJECTIONS
2007/2008 - 2012/2013***

	2007-08 Adopted	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Personnel Services ^a	9,744,000	10,133,800	10,539,200	10,960,800	11,399,200	11,855,200
Operations ^b	4,919,000	5,067,000	5,219,000	5,376,000	5,537,000	5,703,000
Capital Reserve Fund ^c	-	300,000	300,000	300,000	300,000	300,000
TOTAL	14,663,000	15,500,800	16,058,200	16,636,800	17,236,200	17,858,200

^a Includes estimated increase of 4% in salaries and benefits.

^b Includes increases in operating costs of approximately 3% annually.

^c Amounts allocated for Capital Equipment Reserve Fund for replacement of buses, purchase of capital equipment, and local cost of replacement of Transportation facility.

***TRANSPORTATION FUND
REVENUE AND COST PROJECTIONS
2007/2008 - 2012/2013***

	2007-08 Adopted	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Estimated Costs	14,663,000	15,500,800	16,058,200	16,636,800	17,236,200	17,858,200
Estimated Revenues	14,663,000	14,747,000	14,831,000	14,916,000	15,002,000	15,089,000
Revenue Needed/(Excess)	-	753,800	1,227,200	1,720,800	2,234,200	2,769,200
Fund Balance Available	-	-	-	-	-	-
Additional Revenue Needed	-	753,800	1,227,200	1,720,800	2,234,200	2,769,200
Change in Tax Rate in Specific Years	-	0.5	0.3	0.3	0.3	0.3

1 cent on the tax rate = \$556,000

Assumptions on future revenues and costs:

- Same revenue sources as available in 2007-08 (assumes current level of State funding for operating assistance).
 - Assumes constant level of federal operating assistance over the five-year period. Assumes funding of capital subsidies at level of 90% of total capital costs.
 - Same personnel as recommended for 2007-08; same routes and service levels as recommended for 2007-08.
 - Includes estimated adjustments of 4% in salaries and benefits.
 - Includes estimated adjustments of 3% in operating costs.
 - Includes normal local matching capital contributions for future bus replacement.
 - Assumes the Town of Chapel Hill's portion of increased system costs is approximately 33%.
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