



MANAGER'S OFFICE  
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June 25, 2012

Dear Mayor Kleinschmidt and Members of the Chapel Hill Town Council:

The adopted annual budget for the Town of Chapel Hill for Fiscal Year 2012-13 is submitted herein, in accordance with the Local Government Budget and Fiscal Control Act.

The Adopted Budget is balanced without a tax increase for the fourth consecutive year. I am, however, recommending a transfer from the General Fund in the amount of \$364,000 for Transit in order to meet our funding obligation to our Transit partners. The Adopted Budget includes a 3% pay increase for all regular Town employees, a 3% reduction in health insurance costs, funding for the first implementation steps for Chapel Hill 2020 and funding for implementation of the fiber network.

Since the Recession began in FY2008-09 we have been struggling to continue to provide service levels consistent with the expectations of the community while keeping taxes and fees at or near pre-recession levels. We are not unique in this respect. Across the Country, many communities have been forced to cut services, lay-off employees and make other difficult decisions. By virtue of conservative budgeting practices, sound financial management and a local economy that has been less susceptible to economic fluctuations, we have been able to avoid drastic measures. Despite the recent encouraging economic numbers, we have not reached budgetary equilibrium. In fact, we have several significant hurdles to clear in the next two year budget cycle that will further stress our resources. Over the past few years, despite the economic difficulties, we have been able to position ourselves financially and organizationally to move forward based on the Council's goals and vision for Chapel Hill. As we emerge from the economic downturn we will have a comprehensive plan to provide policy direction and management tools that will enable us to execute the plan.



### Budget Preparation Goals

Consistent with prior years, our goals for the FY2012-13 Budget continue to reflect our efforts to achieve stability and include the following:

- Tax increase as a last resort
- Fee increases consistent with articulated “Fee Philosophy”
- Funding the implementation of the 2020/Comprehensive Plan
- Continuing current initiatives that invest in our future
  - UNC Healthcare Partnership for Employee Health
  - Ombuds program
  - Town Fiber Network
- Minimizing changes to employee benefits, recognizing that excellent service derives from excellent employees
- No layoffs

### Budget Balancing Strategies for 2011-12

The Adopted General Fund Budget is balanced without a tax increase. To achieve that goal while maintaining core services, we employed the following strategies, some of which are short-term in nature and not sustainable in the long-term:

- Manage spending, including vacant positions, during the current year (2011-12) to provide additional fund balance to offset potential revenue shortfalls in next year’s (2012-13) budget;
- Concentrate efforts on maintaining core service levels and a compensation plan that retains experienced employees;
- Invest in the health and safety of our employees through our innovative partnership with UNC Healthcare to bend the curve of insurance costs;

- Use a limited amount of fund balance to balance the FY2011-12 Budget so that we do not fall below the 15% fund balance target established by Council;
- Pay current OPEB expenses only and forego additional OPEB liability funding until the budget has achieved equilibrium;
- Reduce capital pay-as-you-go expenditures to minimal levels;
- Use non-general fund revenue sources to fund operations that traditionally have been funded through the annual operating budget.

There are several big ticket items in the subsequent year (FY2013-14) that will create significant pressure in next year's budget. These items include the following:

- Expanded Library Operations
- Closure of the landfill
- Revaluation of Real Property
- Retirement Health Savings Liability (OPEB)
- Pay and Classification Study Implementation

Our future budgetary challenges include the effect of continuing financial stress on the overlapping governments and non-profits with which we maintain a financial relationship. Intergovernmental revenues make up 13% of the Town's General Fund budget and \$6.5 million in total revenues for all funds. The trickle-down effect of Federal, State and County budget decisions will, in large part, decide how we balance future budgets and how we deliver services.

### **How are we doing?**

The recently completed biennial Community Survey has provided valuable information about what services the Chapel Hill community values and how successful we are in providing those services. The timing of the survey allowed us to use the results to fine tune the focus of departmental budgets. As part of our Priority Budgeting initiative we will be issuing a separate budget themed survey in odd numbered years beginning in FY2013 (the years that the Citizen Survey is not conducted) in order to capture information for budget program prioritization.

### **What we have done?**

The economic crisis of 2008 had a dramatic effect on the county as a whole and forced local governments including Chapel Hill to change course and devise strategies that reflected the realities of a new economy. It is important to reflect on our accomplishments during this time, which includes the following:

- Reacting early to the economic downturn, preserving fund balance, protecting employee's jobs and benefits and keeping taxes and fees at pre-economic downturn levels.
- Initiating the 2020 comprehensive planning process.
- Continuing investment in assets that have a high value to the community, such as the Library.

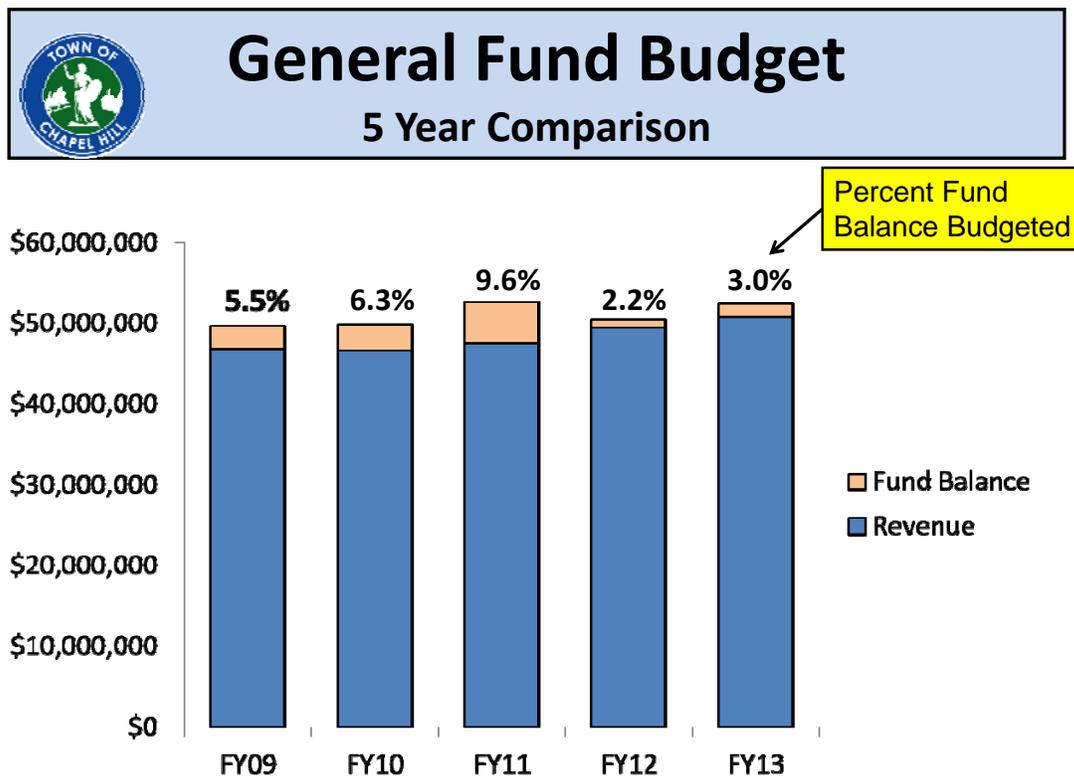
- Evolving our management focus to encompass strategies that work better in times of scarce resources including Priority Budgeting, Workforce Development and Asset management.
- Creating strategic partnerships to address difficult problems, such as the agreement with UNC Healthcare to provide an on-site employee health clinic.
- Continuing our support of outside agencies, through performance agreements that complement the Town’s mission and goals.
- Continuing our economic development efforts.

### Two-Year Budget Planning Cycle

In order to expand our focus beyond the traditional one year budget cycle, we are incorporating key events and issues that will have an impact after FY2012-13 into our budget discussions and analysis. As we move forward with adopting priority budgeting techniques we will formalizing the two year budget planning cycle.

### Use of Fund Balance

For the current fiscal year we were able to dramatically reduce our reliance on fund balance to balance the General Fund Operating Budget, reducing it from 9.3% to 2% of total expenditures. The adopted budget includes use of \$1,528,622 of fund balance or 3.0% of total budgeted costs. This is higher than the current year’s percentage, but \$920,000 can be attributed to “one-time” costs including pay-go capital. We believe that this is an appropriate and sustainable level of fund balance.



## **Unassigned Fund Balance**

In our last audited financial statements (2010-11), the Town's General Fund unassigned fund balance was about 26%. Based on the estimated spend-down of fund balance for the current year and the planned use of \$1,528,622 million in FY2012-13, we are projecting that fund balance will be about 17% at June 30, 2013. This is above the minimum level of 15% that we have discussed as being appropriate in the current economic climate.

Maintaining an adequate level of fund balance is critical to meet the cash flow requirements of this municipal corporation and to provide an emergency fund to safeguard the Town against the costs of recovering from unforeseen economic, emergency and natural disasters.

For the Town of Chapel Hill, given our status as a triple A rated municipality, the minimum level of unassigned fund balance should be 12%. Recently we have recommended that we establish 15% as a new minimum target unassigned fund balance. This recommendation is based on our experience over that past four years, as our budgets have become more stressed, our ability to react to unexpected events has diminished. In addition, our revenue sources have become less stable due both to fluctuations in the economy, but also due to impact of decisions by overlapping governments.

## **Employee Safety, Wellness and Healthcare**

In recent years, the increasing costs of health insurance have made it very difficult to maintain the Town's benefit package. After experiencing double digit medical insurance increases over the past 5 years, next year's medical insurance cost will decrease by 3%. A general trend of declining health care inflation and minor changes in plan design helped to reduce costs. But the Town's efforts to address employee safety, wellness and healthcare that began with an employee Health Care Task Force in FY2008-09 was also a primary contributing factor to this dramatic turn-around. Ongoing employee health initiatives include the following.

- Enhanced safety programs designed to reduce preventable accident.
- Changing retiree health benefit from defined benefit to defined contribution for employees hired after July 1, 2010.
- Change in workers compensation policies to eliminated salary continuation and expand light-duty assignments.
- Establishment of a partnership with UNC healthcare to provide health clinic services for Town employees. The clinic provides first line care for non-emergency employee health needs and a wellness/health risk assessment program that will help identify and treat employee health issues before they become debilitating both physically and financially.
- Expansion of employee wellness programs coordinated with employee health clinic.

We have chosen to invest in employee health and safety as a means to controlling healthcare expenditures. We believe that through this initiative we can provide a valuable benefit to employees while reversing the trend of annual double digit cost increases.

### **Other Employee Related Costs**

The Town’s ability to maintain a high level of service delivery and high customer satisfaction, as shown in the recent community survey, is directly attributable to the quality and dedication of our workforce. As shown in the table below, the last pay adjustment for employees was in FY2008-09. Since that time employees have received 2 one-time payments of \$800 each in FY2010-11 and FY2011-12, but no increase to their base salary. For FY2012-13 we are recommending a 3% increase to employee salaries. This increase is consistent with what other jurisdictions in area are doing and it helps to prevent our salary levels from falling too far below the market.

	<b>Pay Adjustment</b>	<b>One-time Payment</b>	<b>Health Ins. Increase</b>
<b>FY2008-09</b>	3%	0	10.0%
<b>FY2009-10</b>	0	0	17.1%
<b>FY2010-11</b>	0	\$800	13.9%
<b>FY2011-12</b>	0	\$800	10.1%
<b>FY2012-13</b>	3%	0	(3.0%)

### **Planning Retreat**

The Council held a planning retreat with members of the Senior Management Team on February 3-4, 2012. The Council Goals that result from that retreat are focused on planning for the future. Funding for these goals is included in the Adopted Budget.

### **Goal 1. Govern with Quality, Responsiveness and Efficiency**

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#### **POLICY AGENDA**

- Adopt a format for strategic planning aligned with the Comprehensive Plan vision and priorities for action, including measurable milestones to guide decision-making and an annual strategic plan
- Adopt compensation philosophy that balances retention and recruitment, employee interests and financial sustainability to retain and attract the best employees to maintain quality, responsive and efficient services
- Adopt a workforce plan that identifies jobs for the future and a future job structure aligned with the priorities of the Comprehensive Plan
- Define roles and responsibilities for advisory boards and commissions
- Ensure success of the organizational approach to strengthening community connections and resolving issues of discrimination & mistreatment
- Adopt an asset management policy that identifies assets to be aligned with and used in a way consistent with the priorities of the Comprehensive Plan

## **Goal 2. Champion Downtown**

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### **POLICY AGENDA**

- Refine the vision of Downtown as a key element in economic vitality, social justice, and environmental protection consistent with the adopted Comprehensive Plan.
- Compare alternative approaches from successful peer communities and modify ordinances and policies as appropriate in key downtown policy areas

## **Goal 3. Focus Economic Development, Land Use and Transportation for a Balanced and Sustainable Future**

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### **POLICY AGENDA**

- Align Town operations and decision making with the Comprehensive Plan, based on the principles of economic vitality, social justice, environmental protection with measurable implementation steps
- Identify policy aspects of the development review process for revision and adopt timetable for review and action
- Define Town role in transportation
- Make best effort to coordinate Comprehensive Plan with UNC, UNC Healthcare and Chapel Hill-Carrboro school system

## **Goal 4. Maintain and Improve Community Facilities and Services**

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### **POLICY AGENDA**

- Decide Library expansion policy issues
- Align public investment strategy and the delivery of community services with the adopted Comprehensive Plan
- Decide municipal solid waste disposal strategy for the future in response to County landfill decision

## **Goal 5. Set Course for a Sustainable Financial Future**

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### **POLICY AGENDA**

- Implement a strategic planning process that links the annual budget as a means for allocating resources and financial policies that support the Comprehensive Plan

## **Employee Driven Initiatives**

In our efforts to create a more efficient and cost effective organization we reached out to our greatest organizational resource, our employees. We pride ourselves on being an open and innovative organization that values input and contributions from all employees regardless of their positions or pay grade. However, sometimes the traditional lines of communications and methods of developing ideas into real change are clumsy and inefficient. In order to reach out to employees and mine their wealth of experience, skills and creativity, we developed the “If I were Boss” campaign. The premise is simple; if you were in charge, what changes would you make to improve how we do business. By

asking this simple direct question we have been able to engage employees in helping us generate ideas for organizational improvement and have directly involved them in solving problems that are preventing us from accomplishing our goals. The results of the campaign have been positive and enlightening. Although many suggestions represent ideas that were impractical or inconsistent with our established Town goals and values, an equal number either reinforced existing initiatives or presented unique perspectives that were not previously being captured. More importantly this project has given us the opportunity to encourage employee engagement and open up new lines of communication.

Another ongoing initiative that we hope will pay dividends in next year's budget and beyond is the "Work Smart, Save Money" initiative spearheaded by the Town's Office of Sustainability. This initiative is focused on managing enterprise wide costs such as utilities, vehicles and copiers/printers. By bringing a sharper focus to our management of these major cost centers we can make changes in how we work that can reduce costs and also make strategic investments in technology that decrease future energy consumption.

## **Debt Management**

In FY2009 Council established the Debt management Fund to help address the Town's sudden growth in debt and the ongoing need to fund major capital projects. The Debt Management Fund receives a dedicated portion of the Town's property tax. For FY2011 the allocation of property tax to the Debt Management Fund was 9.3 cents. This was changed in FY2012 as the cash flow needs of the fund declined due to the delay in issuance of the Library expansion bonds and also due to the favorable interest rates received on those bonds when there were eventually issued, including the use of Build America Bonds available through the American Recovery and Reinvestment Act. By moving 1.8 cents from the Debt Management Fund to the General Fund we were able to balance the current year's budget without a tax increase or significant service reductions. This shift provided adequate resources in the Debt management Fund to pay the debt service on all existing debt, however it will be several years before the Fund has adequate capacity to take on any new significant debt issuance.

Despite the reduction in the Debt Management Fund tax, there remained sufficient capacity to issue a small amount of two-thirds bonds to augment the Town's CIP. The two-thirds bonds were sold, along with refunding bonds, on May 15, 2012. The bonds were sold at very competitive rates, 2.26% for the two-thirds bonds and 1.42% for the refunding bonds, due to the Town's triple A rating. The refunding portion of the transaction generated \$432,217 net present value savings. The debt service for the two-thirds bonds and the savings from the refunding are reflected in the Debt Management Fund's budget.

On June 14<sup>th</sup> the Town sold \$6.9 million of Limited Obligation Bonds (LOBs) to finance the Town's portion of the 140 West parking garage and other parking improvements. The transaction included refunding of approximately \$24 million of existing installment financings, including the Town Operations Center debt. The LOBs were sold at very

competitive rates, 3.22% for the “new money” Parking bonds and 2.28% for the refunding bonds. The refunding portion of the transaction resulted in a net present value savings of \$746,580 over the remaining life of the bonds. The debt service costs for 140 West will be paid from the Parking Fund budget and the savings from the refunding will be split between the Parking Fund and the Debt Management Fund.

**Other budget issues**

Outside agency funding remains at about the same level as the current year. The Human Service Advisory Board and staff refer to Council recommendations on funding specific agencies.

The FY2012-13 Library budget takes into consideration the fact that they will be operating in the mall location for first nine months of the year and moving into the expanded library building for the last three months of the year. Full-year operating costs in the expanded library will be the equivalent of 1 penny on the tax rate in FY2013-14.

**Property Tax Rates**

For the FY2012 budget 1.8 cents of the 9.3 cent Debt Management Fund property tax was shifted to the General Fund, we are maintaining this adjustment for FY13. For FY2012-13 we are not changing the tax rate. This represents the fourth consecutive year that the Town has not increased the over-all property tax rate.

**Property Tax Rates**

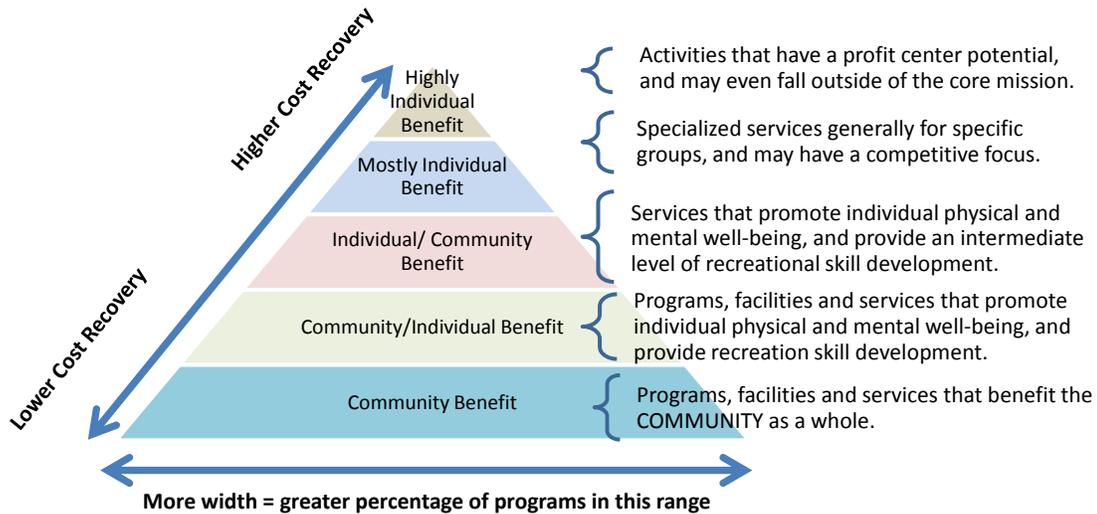
	<b>FY2010-11</b>	<b>FY2011-12</b>	<b>FY2012-13</b>
General Fund	36.0	37.8	37.8
Debt Fund	9.3	7.5	7.5
Transit Fund	4.1	4.1	4.1
<b>Total</b>	<b>49.4</b>	<b>49.4</b>	<b>49.4</b>

**Fee Adjustments**

Fees for service are an important revenue source for the Town’s General Fund representing about 3% of total revenues. As we evaluated fees and charges in the FY2012-13 budget we took into consideration a number of factors, but our primary focus was on whether fees were set in a manner that was consistent with a clear fee philosophy. That is, rather than setting fees simply to maximize revenues, we also looked at what we were trying to achieve with the programs associated with those fees. In some cases, when the Town has discretion to set fees, full cost recovery may be appropriate and in other cases, encouraging participation across a broad spectrum of the community is more important than cost recovery.

The Parks and Recreation Department has developed a program philosophy that incorporates a hierarchy of cost recovery based on the goals of the programs they offer and the population being served. This hierarchy, illustrated in the diagram below, represents a model for setting fees based on a clear fee philosophy.

### Determining the types of program offered: The Programming Continuum



Changes to fees included in the Adopted Budget for FY2012-13 total about \$150,000 in additional revenue and include the following:

- **Library** – Increases to overdue fines, lost item charges and an increase in the out of County library card fee
- **CAPA** – Changes to the price of “Town Store” goods
- **Fire** – Changes to various NC Fire Code mandatory permit fees and a charge for fire incident reports
- **Parks & Recreations** – Changes to various program fees based on program philosophy
- **Police** – Increases in finger print, vehicle storage and video production fees. New fees for door to door vendors and precious metal dealers
- **Public Works** – Increases to engineering and inspection fees including utility inspection and engineering plan review. Increase in fees for street cuts and commercial garbage fees
- **Parking** – Increase in monthly rental parking, visitor permits for residential permit parking zones and non-payment repeat offender’s fee

### CIP

In past years the Town has tried to dedicate about \$1 million of the General Fund annually for non-major pay-as-you-go capital projects. For FY2011-12 we fell well short of that goal, funding \$487,300 of high priority projects. For FY2012-13 we are increasing our pay-go investment to \$650,000 to fund the projects listed below.

Extraordinary Maintenance - Emergency Repairs	\$ 100,000
Municipal Fiber	240,000
Curb Repairs: ADA Compliance	30,000
Small Park Improvements	90,000
Playground Replacement	85,000
Greenways	75,000
Parking Lots/Paths/Trails	<u>30,000</u>
<b>Total</b>	<b><u>\$ 650,000</u></b>

In addition to pay-as-you-go projects funded from the General Fund, we are also issuing two-thirds bonds to augment next year's CIP and help it catch-up from several years of under-funding. Under the Local Government Bond Act, the "two-thirds rule" authorizes local governments, under certain circumstances, to issue general obligation bonds without a referendum. The Town has a number of priority projects that can be completed in a relatively short period of time that do not currently have adequate funding sources. The availability of two-thirds bonds and the current low cost of borrowing provide an opportunity to fund these projects. The projects included in the Town's planned two-thirds bond issuance are listed below.

Street Resurfacing	\$600,000	
Bolinwood Drive Bridge Replacement	<u>400,000</u>	
Total Streets & Bridges		\$1,000,000
Cedar Falls Park Toilet Building	300,000	
Tennis Court Reconstructions	145,000	
Umstead Park Playground Replacement	100,000	
Northern Community Park Lighting	<u>155,000</u>	
Total Parks & Recreation Facilities		<u>700,000</u>
<b>Total Planned Two-Thirds Bonds</b>		<b><u>\$1,700,000</u></b>

The Town's planned CIP investment for FY2012-13 includes HUD Grant funding for Comprehensive Public Housing Renovations in the amount of \$448,270. This brings the Town's total planned investment to \$2,798,270.

### General Fund Budget

The adopted General Fund Budget represents a 4.0% increase from the current year's original budget. The major changes from FY2011-12 include the following:

- Increase in CIP pay-go funding \$140,176
- 3% Pay increase beginning October 1, 2012 \$621,376
- Restoring Street Paving funds in operating budget \$111,000
- Transfer to Transit Fund to meet funding partner obligations \$364,000
- Restoring 4<sup>th</sup> of July celebration \$42,000\*
- Three months of Library Operations in expanded building \$107,798
- Vacancy Pool funding \$266,903

- 2020 Comprehensive Plan Implementation \$170,000
- Addition of Ombuds Program \$75,000
- Reduction in Group Medical Insurance cost (\$164,058)
- Fiber network implementation \$240,000 (included in CIP pay-go)

*\*Does not include donations*

## **Priority Budgeting**

### **Implementation is a multi-year process**

This year, we have attempted some new ways to involve the public in our budget process. We hope to build on this outreach in subsequent years to further our goal of being transparent and engaging the public throughout the process.

Our new efforts this year included conducting a Special Topic Presentation on Priority Budgeting as part of the Chapel Hill 2020 process; creating a new web page about Priority Budgeting (<http://www.townofchapelhill.org/index.aspx?page=1835>); and making budgetary issues a topic of discussion throughout the 2020 process.

Included in this document are the initial draft programs that were identified in the fall of 2011. These programs can be found on the departmental Mission Statement pages throughout this document. The program identification will serve as a basis for the priority budgeting process that will take place during FY2013.

In addition, we held public forums on the overall budget on February 27 and April 30 and hearings on the Community Development Block Grant, HOME program and public housing capital program on February 13 and March 19.

We also made a presentation to the Council at their February 3 Planning Retreat and gave updates to the Council on the state of the economy and current revenue on October 10<sup>th</sup> and February 4<sup>th</sup>.

We have started down the road to building a better decision support system for our budget process by adopting “Priority Driven Budgeting” techniques. The traditional decision making process works well in a time of abundant resources. But those assumptions are unsustainable in times of scarce resources. As we move forward to implement our vision for Chapel Hill we will need to have budget system that puts decisions in the context of the value they provide to the people we serve. We believe we are on the path to making that happen in the next budget cycle.

## **Conclusion**

The focus for the FY2012-13 Adopted Budget is to achieve long-term financial stability and position ourselves for the future by incorporating the goals and vision developed in the 2020 comprehensive planning process. Also, we are refocusing the way we think about resource allocation by using priority budgeting techniques. While we still have a way to go to finish the task of linking the budget to comprehensive plan and fully adopting priority budgeting, we have made great strides in that direction and we believe the FY2012-13 budget will support our continuing journey.

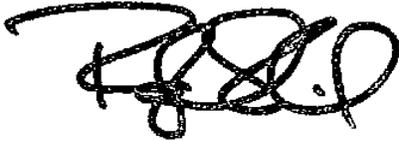
We believe this budget achieves our goal of maintaining service levels at or near current levels, continuing funding of performance agreements with outside agencies, maintaining competitive salaries and benefits for employees, and investing in key public initiatives. Long-term projections suggest that we must reset service levels to meet available revenues in order to put the town on a stable financial footing in the long-term.

The budget as presented is balanced without a tax increase.

The development of this budget has been a team effort of the Town's Senior Management Team with assistance from a number of others who work for the Town. We are fortunate to have a talented and creative workforce. Our sustainable future is dependent on retaining and attracting that talent for the future as we reset service levels, seek process improvements and identify new revenue sources in a systemic and strategic approach.

I look forward to working with the Council and staff to refine our strategic focus for the future.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'R. Stancil', with a large, sweeping flourish extending to the left.

Roger L. Stancil  
Town Manager

