

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 2005-06 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 required capital projects for 2005-06 are the Town Operations Center at a cost of \$26 million and the Transit Operations Center at a cost of \$19 million. We financed the \$26 million for the Town Operations Center over twenty years using Certificates of Participation on June 30, 2005 with reduced principal payments in the first two years. As a result, debt service for the Town Operations Center will increase from about \$1.75 million in 2005-06 to about \$2.5 million in 2007-08 with reductions of about \$50,000 in each of the succeeding years. The reduced principal payments in the first years help spread the effect of the increase in debt service payments over three years. Decreases in other pre-existent debt will off-set most of the increase in debt service requirements for the Town Operations Center from 2005-06 to 2006-07, but there will be an increase in debt service requirements of about \$149,000 from 2006-07 to 2007-08.

We do not anticipate the need to finance the Transit Operations Center. We have already received authorization for \$7.3 million from the State for reimbursement of project costs. Remaining grant funds are federal and are authorized for design and engineering (\$1.3 million), and the project itself (\$8.7 million) with annual allocations, the last portion of which is available no later than December of 2005.

In addition to these two debt-financed projects, we issued the first \$4 million of the \$29.36 million of General Obligation bonds approved by voters in November 2003. We are currently scheduled to issue the remaining General Obligation debt totaling approximately \$25.36 million in three issuances proposed over the next seven years. The Council's plan shows sales of the proposed second, third and fourth installments of the new General Obligation debt in 2006-07, 2008-9 and 2009-10. We show the debt service for each issuance beginning in the year following the year of the borrowing. As a result,

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additional debt service in 2007-08 would be approximately \$775,000 or 1.5 cents on the current tax rate. New debt service in 2009-10 and 2010-11 would be approximately \$828,000 or 1.6 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 adopted 2005-06 budget exceeds the goal of limiting debt service to 10% of the budget. We project that debt service would vary between 10.2% and 11.6% as a percentage of budget over the next five years. We need to examine the debt to budget ratio along with other measures of fiscal well-being to ensure that we retain the Town's bond AAA and AA+ general obligation bond ratings which saves interest costs.

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. Note that as the budget increases, the amount of reserved fund balance needs to increase proportionally to retain fund balance reserves at 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

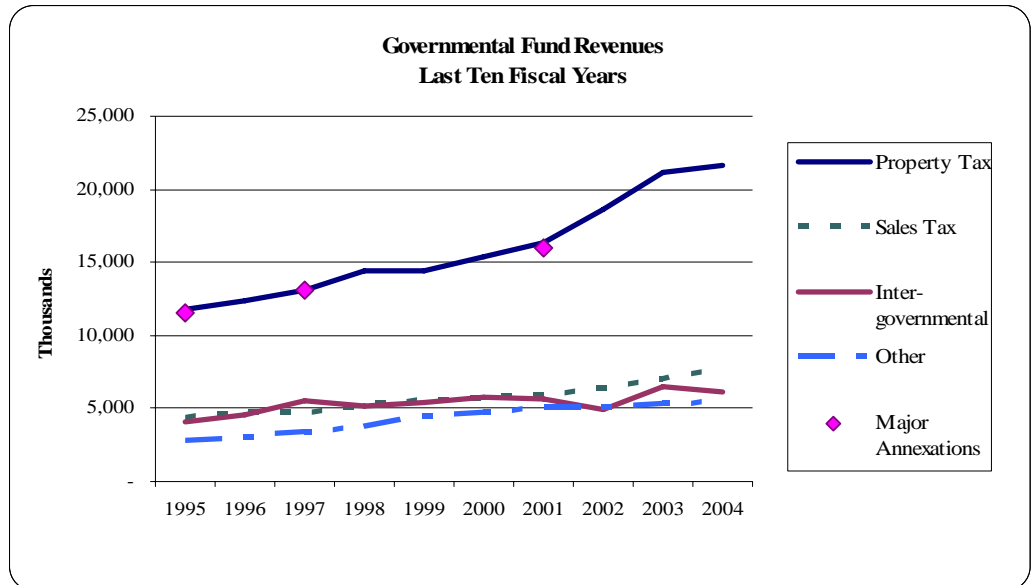
Revenues

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 2005-06 is about \$5.3 billion. Estimated growth in assessed valuation over the next five years is estimated to be about 1.8 % annually. While we have had increases around 3% in the tax base in recent years, we have estimated a 2% growth in the base in 2005-06 over the base in 2004-05, and have reduced our estimation of base increases in future years to about 1.8% beginning in 2006-07. Estimated additions to the base, at the adopted tax rate for 2005-06 of 47.4 cents for the General Fund, would yield increases in property tax revenues of about \$415,000 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.

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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 3% increase in sales tax beginning in 2006-07. While this 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) and the receipt of full State-shared revenue in 2004-05, 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 \$2.1 million in 2005-06) with projected increases of 3% annually, fuel tax funds for street maintenance (about \$1.5 million in 2005-06) with 2.5% growth projected beginning in 2006-07, and the beer and wine tax (about \$210,000 annually). We assume continuation of State Fire Protection funds of a minimum of \$850,000, the level received in 2004-05. The State passed legislation to increase the allocation in 2005-06 of State Fire Protection Funds to units with needs to protect State properties; however, we do not know how much of the increase will be allocated to the Town.

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. Based on our experience in past years, we anticipate about \$800,000 from fund balance would be available for use in future years, because of conservative management.

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Costs

Projected costs for general operations are based on the same services and programs for 2005-06 with the exception of provisions for substantial capital investment, as explained above. 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, varying between \$1.8 million to \$2.1 million over the next five years. The increased costs in capital maintenance reflect the goal of maintaining and renovating Town properties as scheduled in the Town's 15-year capital plan.

Projections show that the greatest changes for the overall Town budget could be for capital improvements and related debt service. Beginning in 2005-06, the Town will begin to repay the twenty year loan for the Town Operations Center. The annual costs will vary between about \$1.7 million and \$2.5 million over the next five years.

The Transit Operations Center is anticipated to cost approximately \$19 million. Of that amount, the Town and its partners plan to share 10% of the cost, approximately \$2 million. We expect to have the balance covered by federal and State grants. We do not expect to borrow for any portion of the Transit Operations Center.

We have not incorporated any increased operating costs for the Town Operations Center and the Transit Operations Center at this time.

In November 2003, voters approved \$29.36 million in general obligation bonds, and in November 2004 the Council issued \$4 million. The remaining unissued bonds are for the following purposes and amounts:

| | |
|---------------------------------|---------------------|
| Library Facilities | \$15,760,000 |
| Sidewalks and Streets | 4,100,000 |
| Parks and Recreation Facilities | 4,700,000 |
| Open Space and Areas | <u>800,000</u> |
| Total | <u>\$25,360,000</u> |

The Capital Program section of the budget gives a more detailed description of the bond projects.

The Town Council has adopted the following schedule for bond issuances:

| | |
|---------|---------------------|
| 2006-07 | 7,750,000 |
| 2008-09 | 8,805,000 |
| 2009-10 | <u>8,805,000</u> |
| Total | <u>\$25,360,000</u> |

FIVE-YEAR REVENUE AND COST PROJECTIONS FOR MAJOR OPERATING FUNDS

Our analysis indicates projected costs for basic operations and the proposed additions to operations without adjustments would exceed revenues in each of the next five years. The Council would need to consider an increase in the tax rate, increase in revenues or decrease in costs for each of the next five years. Beginning in 2006-07 we have estimated increased personnel costs, including salaries and benefits, totaling 5% annually, increased operations costs totaling 3% annually, the full amount for capital improvements as shown in our 15-year plan and contributions to other agencies in keeping with past practices. As a result, the projections show a tax rate increase of 3.8 cents from 2005-06 to 2006-07, with increases between 1.7 cents and 3.4 cents in each of the following years.

A chart is included in the conclusion of the projections sections showing the 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 and the Town of Carrboro, to continue fare-free transit services as instituted in 2002. The Transportation Fund budget for 2005-06 is based on the continuation of federal and State operating assistance for the Transportation System at average levels. Projections of the base 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.

In recent years we have increased transfers from the Transportation Fund to the Transportation Capital Reserve Fund in anticipation of building a new Transportation Operations Facility. Since the lease on the current facility's property expires and will not be renewed in December 2006, the facility will need to be replaced. The Town has already purchased land and completed initial design work. Site work began in fall 2004 at the same time as site work began for the Town Operations Center. The Town and its partners have already reserved funds to cover the 10% local match for the new facility. We anticipate that the balance of the cost of the \$19 million facility will be covered by federal and State grants.

The Transportation Fund shows a need for a modest amount of additional revenues, a reduction in costs, or a need for a tax increase in each of the projected years. In 2006-07, the increase is .5 cents from the 2005-06 recommended budget. Subsequent years show the need for .3 cents tax increase or an equivalent in other revenues or cost reductions until 2010-11 when the requirement is .4 cents or an equivalent.

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) Projections Using Assumptions Used in Prior Years

| | 2005-06 Adopted | 2006-07 Estimated Increase | 2007-08 Estimated Increase | 2008-09 Estimated Increase | 2009-10 Estimated Increase | 2010-11 Estimated Increase |
|---------------------|--------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| General Fund | 47.4 | 3.8 | 3.3 | 1.7 | 3.4 | 2.4 |
| Transportation Fund | 4.8 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| Total | 52.2 | 4.1 | 3.6 | 2.0 | 3.7 | 2.8 |

PROJECTED TAX BASE
2005/2006 - 2010/2011

| Category | 2005-06 Adopted | 2006-07 Estimated | 2007-08 Estimated | 2008-09 Estimated | 2009-10 Estimated | 2010-11 Estimated |
|---|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Assessed Valuation (Real & Personal Property) | 5,300,000,000 | 5,395,400,000 | 5,492,520,000 | 5,591,390,000 | 5,692,040,000 | 5,794,500,000 |
| Tax Levy* - General Fund Only at 47.4/100 | 25,122,000 | 25,570,000 | 26,030,000 | 26,500,000 | 26,980,000 | 27,470,000 |
| Estimated Collections at 99% | 24,895,000 | 25,310,000 | 25,770,000 | 26,240,000 | 26,710,000 | 27,200,000 |
| Estimated Prior Year Collections | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 |
| TOTALS | 25,005,000 | 25,420,000 | 25,880,000 | 26,350,000 | 26,820,000 | 27,310,000 |

* Based on a constant tax rate of 47.4 cents for the General Fund through 2010-11, with estimated growth of 1.8% annually beginning in 2007-08. 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 \$530,000 in fiscal year 2005-06.

GENERAL FUND
PROJECTED STATE-SHARED REVENUES
2005/2006 - 2010/2011

| Category | 2005-06 Adopted | 2006-07 Estimated | 2007-08 Estimated | 2008-09 Estimated | 2009-10 Estimated | 2010-11 Estimated |
|--|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Franchise Tax ¹ | 2,055,600 | 2,117,000 | 2,181,000 | 2,246,000 | 2,313,000 | 2,382,000 |
| Beer, Wine Tax | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 |
| Local Option Sales Tax ¹ | 3,248,800 | 3,346,000 | 3,446,000 | 3,549,000 | 3,655,000 | 3,765,000 |
| 1/2% Local Option Sales Tax (1984) ¹ | 1,744,400 | 1,797,000 | 1,851,000 | 1,907,000 | 1,964,000 | 2,023,000 |
| 1/2% Local Option Sales Tax (1986) ¹ | 1,744,400 | 1,797,000 | 1,851,000 | 1,907,000 | 1,964,000 | 2,023,000 |
| 1/2 % Local Options Sales Tax (2002) ¹ | 1,449,400 | 1,493,000 | 1,538,000 | 1,584,000 | 1,632,000 | 1,681,000 |
| Local Option Sales Taxes | 8,187,000 | 8,433,000 | 8,686,000 | 8,947,000 | 9,215,000 | 9,492,000 |
| Fuel Tax (Powell Bill) ² | 1,484,800 | 1,522,000 | 1,560,000 | 1,599,000 | 1,639,000 | 1,680,000 |
| State Fire Protection | 850,000 | 850,000 | 850,000 | 850,000 | 850,000 | 850,000 |
| TOTAL | 12,787,400 | 13,132,000 | 13,487,000 | 13,852,000 | 14,227,000 | 14,614,000 |

¹Estimated increase of 3% annually.

²Estimated increase of 2.5% annually.

***GENERAL FUND
REVENUE PROJECTIONS
2005/2006 - 2010/2011***

| Category | 2005-06 Adopted | 2006-07 Estimated | 2007-08 Estimated | 2008-09 Estimated | 2009-10 Estimated | 2010-11 Estimated |
|--|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Property Taxes* | 25,005,200 | 25,420,000 | 25,880,000 | 26,350,000 | 26,820,000 | 27,310,000 |
| Other Taxes & Licenses | 1,047,000 | 1,087,000 | 1,127,000 | 1,167,000 | 1,207,000 | 1,247,000 |
| Licenses/Permits/Fines/ Forfeitures | 1,584,400 | 1,584,400 | 1,584,400 | 1,584,400 | 1,584,400 | 1,584,400 |
| State-Shared Revenues | 12,787,400 | 13,132,000 | 13,487,000 | 13,852,000 | 14,227,000 | 14,614,000 |
| Grants | 424,400 | 409,000 | 409,000 | 409,000 | 409,000 | 409,000 |
| Service Charges | 1,675,000 | 1,675,000 | 1,675,000 | 1,675,000 | 1,675,000 | 1,675,000 |
| Interest on Investments | 131,200 | 150,000 | 150,000 | 150,000 | 150,000 | 150,000 |
| Other Revenues | 323,500 | 223,500 | 223,500 | 223,500 | 223,500 | 223,500 |
| Interfund Transfers | 1,860,900 | 1,860,900 | 1,860,900 | 1,860,900 | 1,860,900 | 1,860,900 |
| Appropriated Fund Balance | 1,515,000 | - | - | - | - | - |
| TOTAL | 46,354,000 | 45,541,800 | 46,396,800 | 47,271,800 | 48,156,800 | 49,073,800 |

* Based on constant tax rate of 47.4 cents for the General Fund through 2010-11.

**GENERAL FUND
PROJECTED COSTS
2005/2006 - 2010/2011**

| | 2005-06 Adopted | 2006-07 Estimated | 2007-08 Estimated | 2008-09 Estimated | 2009-10 Estimated | 2010-11 Estimated |
|---|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Personnel Services ^a | 29,328,000 | 30,794,400 | 32,334,100 | 33,950,800 | 35,648,300 | 37,430,700 |
| Operations | | | | | | |
| Operating & Maintenance ^b | 10,171,950 | 10,477,110 | 10,791,420 | 11,115,160 | 11,448,610 | 11,792,070 |
| Existing Debt Service | 4,817,200 | 4,826,710 | 5,075,710 | 4,935,010 | 4,848,060 | 4,182,340 |
| Capital | | | | | | |
| Equipment ^c | 104,000 | 104,000 | 104,000 | 104,000 | 104,000 | 104,000 |
| Transfer to Capital Improvements Program ^d | 1,116,000 | 2,132,000 | 1,872,000 | 1,889,000 | 1,804,000 | 1,760,000 |
| Other | | | | | | |
| Human Service contracts, hotel/motel allocations and grants to other agencies | 816,850 | | | | | |
| New General Obligation Debt Service, 2006-07 Issue | - | - | 775,000 | 755,630 | 736,250 | 716,875 |
| New General Obligation Debt Service, 2008-09 Issue | - | - | - | - | 827,750 | 808,375 |
| New General Obligation Debt Service, 2009-10 Issue | - | - | - | - | - | 827,750 |
| TOTALS | 46,354,000 | 48,334,220 | 50,952,230 | 52,749,600 | 55,416,970 | 57,622,110 |

^a Increase of about 5% in salaries and benefits.

Assumes increases of about 10% annually in medical insurance and workers' compensation costs.

^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
2005/2006 - 2010/2011

| | 2005-06 Adopted | 2006-07 Estimated | 2007-08 Estimated | 2008-09 Estimated | 2009-10 Estimated | 2009-11 Estimated |
|---|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Estimated Total Costs | 46,354,000 | 48,334,220 | 50,952,230 | 52,749,600 | 55,416,970 | 57,622,110 |
| Estimated Total Revenues | 46,354,000 | 45,541,800 | 46,396,800 | 47,271,800 | 48,156,800 | 49,073,800 |
| Revenues Needed | 0 | 2,792,420 | 4,555,430 | 5,477,800 | 7,260,170 | 8,548,310 |
| Fund Balance Available | | 800,000 | 800,000 | 800,000 | 800,000 | 800,000 |
| Additional Revenue Needed | 0 | 1,992,420 | 3,755,430 | 4,677,800 | 6,460,170 | 7,748,310 |
| Change in Tax Rate in Specific Years | 0.0 | 3.8 | 3.3 | 1.7 | 3.4 | 2.4 |
| Value of a cent | 530,000 | | | | | |

***TRANSPORTATION FUND
REVENUE PROJECTIONS
2005/2006 - 2010/2011***

| | 2005-06 Adopted | 2006-07 Estimated | 2007-08 Estimated | 2008-09 Estimated | 2009-10 Estimated | 2010-11 Estimated |
|---|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Taxes ^a | 2,499,960 | 2,545,000 | 2,590,800 | 2,637,400 | 2,684,900 | 2,733,200 |
| Vehicle Taxes ^b | 145,000 | 149,000 | 153,000 | 157,000 | 161,000 | 165,000 |
| Federal Operating Assistance ^c | 1,116,100 | 1,116,100 | 1,116,100 | 1,116,100 | 1,116,100 | 1,116,100 |
| State Operating Assistance ^c | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 |
| UNC Contract (Net) ^d | 4,658,800 | 4,667,200 | 4,675,600 | 4,684,000 | 4,692,400 | 4,700,800 |
| Carrboro Contract (Net) ^d | 906,600 | 908,200 | 909,800 | 911,400 | 913,000 | 914,600 |
| Service Charges ^e | 416,640 | 416,640 | 416,640 | 416,640 | 416,640 | 416,640 |
| Other | 12,200 | 12,200 | 12,200 | 12,200 | 12,200 | 12,200 |
| Fund Balance | - | - | - | - | - | - |
| TOTAL | 12,255,300 | 12,314,340 | 12,374,140 | 12,434,740 | 12,496,240 | 12,558,540 |

Revenue Notes:

^a Based on the adopted tax rate of 4.8 cents through 2010-11.

^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 levels 2005-06, 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
2005/2006 - 2010/2011***

| | 2005-06 Adopted | 2006-07 Estimated | 2007-08 Estimated | 2008-09 Estimated | 2009-10 Estimated | 2010-11 Estimated |
|-----------------------------------|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Personnel Services ^a | 8,552,000 | 8,979,600 | 9,428,600 | 9,900,000 | 10,395,000 | 10,914,800 |
| Operations ^b | 3,434,000 | 3,537,000 | 3,643,100 | 3,752,400 | 3,865,000 | 3,981,000 |
| Capital Reserve Fund ^c | 269,300 | 270,000 | 283,000 | 286,000 | 287,000 | 287,000 |
| TOTAL | 12,255,300 | 12,786,600 | 13,354,700 | 13,938,400 | 14,547,000 | 15,182,800 |

^a Includes estimated increase of 5% 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. These amounts do not include the cost of temporary debt financing for the transit facility that may be necessary based on the level and timing of federal and State grants available for this project.

***TRANSPORTATION FUND
REVENUE AND COST PROJECTIONS
2005/2006 - 2010/2011***

| | 2005-06 Adopted | 2006-07 Estimated | 2007-08 Estimated | 2008-09 Estimated | 2009-10 Estimated | 2010-11 Estimated |
|---|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Estimated Costs | 12,255,300 | 12,786,600 | 13,354,700 | 13,938,400 | 14,547,000 | 15,182,800 |
| Estimated Revenues | 12,255,300 | 12,314,340 | 12,374,140 | 12,434,740 | 12,496,240 | 12,558,540 |
| Revenue Needed/(Excess) | - | 472,260 | 980,560 | 1,503,660 | 2,050,760 | 2,624,260 |
| Fund Balance Available | - | - | - | - | - | - |
| Additional Revenue Needed | - | 472,260 | 980,560 | 1,503,660 | 2,050,760 | 2,624,260 |
| Change in Tax Rate in Specific Years | - | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |

1 cent on the tax rate = \$530,000

Assumptions on future revenues and costs:

- Same revenue sources as available in 2005-06 (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 10% of total capital costs.
 - Same personnel as adopted for 2005-06; same routes and service levels as adopted for 2005-06.
 - Includes estimated adjustments of 5% in salaries and benefits.
 - 3% increase 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%.
-