

BUDGET MESSAGE

I. INTRODUCTION AND OVERVIEW

The adopted budget for 2005-06 maintains the Town's high level of services as in prior years. The Council was able to incorporate several initiatives while reducing the actual tax rate by 5.3 cents (4.2 cents in the General Fund and 1.1 cents in the Transportation Fund) and holding the effective tax increase over the equalization rate to a combined rate of 2.9 cents per \$100 assessed value.

PROPERTY TAX RATE CHANGE (in cents per \$100 assessed value)

	2004-05 Rate	Change	2005-06 Rate
General Fund	51.6	(4.2)	47.4
Transportation Fund	5.9	(1.1)	4.8
	57.5	(5.3)	52.2

A major issue in development of the 2005-06 budget is the need for additional funds for debt service. In 2005-06 payments for previously authorized debt increase by about \$285,000, and payments on new debt for the Town Operations Center add \$1,750,000 for a total increase in debt payments of \$2,035,000. The increase in the tax rate required for this new debt service alone is 3.8 cents, and the Council was able to reduce the effective tax increase to 2.9 cents in the adopted budget. The adopted budget has a General Fund tax rate of 47.4 cents and a Transportation Fund tax rate of 4.8. The resulting combined tax rate is 52.2 cents, with one cent on the tax rate equaling \$530,000.

	General Fund (cents)
04-05 Budget	51.60
05-06 Adopted Budget	47.40
Actual rate decrease	(4.20)
Equalization Rate	44.20
05-06 Adopted Budget	47.40
Effective rate increase/(decrease)	3.20

Real property was revalued as of January 1, 2005. On average, real estate property values increased 20%. Based on that average increase, we calculated the equalization rate, that is, the rate at which the Town would continue to receive the same amount of total tax revenues as in the previous year, exclusive of growth. The chart at the right shows the equalization rates for the General and Transportation Funds and the comparison with prior year tax rates and the adopted budget.

In anticipation of a challenging budget year, the Council engaged a management consultant and established a citizens' committee to assist in examining the Town's budget. The budget reflects careful

BUDGET MESSAGE

consideration of the recommendations of the consultant, the citizens' committee, the Town's advisory boards, and the comments of individual citizens made at the Town's Budget Public Hearing and Budget Public Forum.

In response to the challenge of funding increased debt service, the adopted budget keeps most operating costs flat. Exceptions were made for increases in utility rates and, in particular, for anticipated increases in fuel costs, with a budgeted increase of \$85,000 in the General Fund and \$466,500 in the Transportation Fund. We anticipate the need to continue to monitor fuel costs throughout 2005-06.

In response to recommendations by the consultant and the citizens' committee, a variety of fees were increased to rates more in line with the cost of service delivery and the charges for similar services in neighboring communities, including commercial garbage fees, various inspections fees and permits and various engineering fees and permits.

Council initiatives with continuing funding in the 2005-06 budget include the planning for development of parking lots 2 and 5 and the Wallace Deck for possible retail, housing, parking, public transportation transfer station and public space. In addition, the Council is continuing the contract with the new Downtown Economic Development Corporation which, together with the community and the University of North Carolina at Chapel Hill, plans to establish direction for downtown development. The budget also includes funds for incentives to retain police officers in order to address the problem of police turnover. The Council also funded a program to reduce homelessness and funded increases for both human services programs and arts funding.

The Town continues to plan for a 15-year capital improvements program. The current year portion of the program funds park improvements, street improvements, and capital repairs to bike paths as well as emergency generators for the Police Department and Town Hall.

The budget provides for the continuation of fare free bus service. In order to support the increased demand for service, the budget has been increased for a para-transit services supervisor and an additional mechanic and service attendant.

The budget provides for increases in medical insurance rates and workers' compensation insurance rates for all Town employees. In order to keep abreast of market trends, a 3.78% increase in employee pay is included. The budget also includes funds for a Geographic Information Systems Analyst, a Budget Analyst and increases to full-time for staff in the Special Olympics and Apple Chill programs, while eliminating the rental licensing program.

BUDGET MESSAGE

Other key issues for the 2005-06 budget included the following:

- Preserving the quality of services that citizens want.
- Preserving the overall financial health of the Town while accommodating the debt payments associated with building the Town Operations Center and the new General Obligation debt issued in fall of 2004.
- Addressing the need for additional staff in several departments to meet service demands.
- Maintaining a competitive pay plan in the Triangle labor market.
- Anticipating paying for increases in the cost of fuel.

General Fund

The General Fund budget adopted by the Council for 2005-06 totals \$46,354,000 and provides for the continuation of existing Town services. Additions over a continuation budget include employee pay increases averaging 3.78%, continued funding for the downtown Chapel Hill economic development initiative, funding for the new Downtown Economic Development Corporation, continuation of the Capital Improvements Program and additional funding for the Public Arts Commission. The budget was balanced by a General Fund tax rate of 47.4 cents (a decrease of 4.2 cents).

The budget will preserve a fund balance of about the same as last year, at 12% of budget. We consider 12% a minimum amount considering cash flow needs, potential emergencies and the desire to maintain the Town's good bond rating. The bond rating is important, because it affects the interest rate that is charged on Town debt service.

Transportation Fund

The adopted 2005-06 Transportation Fund budget includes increases in employee pay and medical and workers' compensation costs. The budget also includes an increase for anticipated increases in fuel costs of \$466,500 and for adding a para-transit supervisor to assist the program for riders with limited mobility, an electronic mechanic specialist and a service attendant. The adopted Transportation Fund budget of \$12,255,300 includes a decrease in the Transportation tax rate of 1.1 cents, from 5.9 cents to 4.8 cents.

Other Funds and Budget Details

The budget is balanced for all other funds. Revenue and cost changes are included in the Summary and Department sections, with descriptions of major revenue sources and costs by fund.

BUDGET MESSAGE

A brief description of each department's services and costs is included in this document. Departmental budget line item detail is available in a separate document distributed with the adopted budget and on the Town web-site. (Contact the Town of Chapel Hill Finance Department or go to www.townofchapelhill.org/2005-2006_budget_detail.)

I. LONG AND SHORT-TERM GOALS AND PROJECTIONS

The Town's primary long-term and short-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 directing government investment in community development and in services.

II. 2005-06 BUDGET GOALS

Reflected in the Town's Comprehensive Plan is the goal to maintain financial stability and to plan for fiscal needs so that the Town can provide services and manage its development. In order to maintain financial stability over the long-term, the Town needs to maintain an adequate level of unrestricted fund balance. Unrestricted fund balance represents assets that are immediately available to assure that the Town will have adequate cash to cover payments in periods of slow cash flow and in the case of emergencies or unexpected opportunities.

The North Carolina Local Government Commission requests that all North Carolina municipalities maintain a minimum of 8% of their budget in unrestricted fund balance for

BUDGET MESSAGE

cash flow. Additional amounts are necessary for emergencies and opportunities. The Town's General Fund unrestricted fund balance was about \$5.6 million at June 30, 2004. Bonding agencies consider fund balance a key indicator when assessing the Town's creditworthiness. We estimate that the Town's unrestricted fund balance will continue to be at about 12% at the beginning of 2005-06.

We believe that the 2005-06 Budget as presented is consistent with the long-term goals adopted by the Council, and consistent with the following short-term objectives and principles:

- Basic Town services should be maintained.
- Tax rate increases should be considered within the context of increased demand for services, the need for construction of a replacement Town Operations Center, the need to conserve investments made in town buildings, and the need for downtown economic development.
- Fund Balance should be maintained at about 12% of budget.
- The Town should continue to invest in the maintenance of employee skills, knowledge and abilities as a key community resource.
- Fare-free transportation services should be retained next year.
- Maintenance and capital projects should be funded at a reasonable level to adequately maintain Town facilities.
- Technology investment should help provide access to fast, secure and reliable information for Council, staff and citizens.
- The Town should explore opportunities for partnerships for investing in Town assets.

BUDGET MESSAGE

III. BUDGET ENVIRONMENT

Major issues affecting Town revenues for the 2005-06 Budget include the likely stability of the State budget and its affect on local revenues, anticipated slower growth in the State and Orange County economies, and the indirect effect of funding and growth decisions of the University of North Carolina at Chapel Hill. The anticipated effects of projected rising fuel and utility fees have been included in the budget. Federal budget decisions also have a major effect on the Chapel Hill budget, particularly in the areas of transportation and housing.

The Budget incorporates the following assumptions:

- Slow economic growth with continue in North Carolina next year.
- The Town will receive full State-shared revenues next year.
- We estimate that the Town's revenue from the local sales taxes will increase by about 3% from estimated receipts in the current year.
- Revenue from the fuels tax (Powell Bill funds) for street maintenance next year will increase because of the Town's annexations, from about \$1.47 million to approximately \$1.48 million.
- The property tax base is estimated to increase from about \$4.44 million in 2004-05 to about \$5.3 billion in 2005-06 after revaluation and annexations.
- Interest rates and interest income will increase next year.

IV. REVENUES

General Fund

Revenues in 2004-05 exceeded the overall adopted budget, primarily because of increased sales tax income. We estimate that sales tax for the full year will exceed the budget by close to \$1 million for an overall increase of 10% over the prior year's actual receipts. Anticipated increases over the budgeted sales tax were presented to the Council in January, when we estimated that revenues would exceed the budget by more than \$500,000. At the same time we learned that fuel taxes (Powell Bill) were approximately \$159,000 above the budgeted amount. The final Utility Franchise fees for 2004-05 will not be known until mid-September, but we currently anticipate that those revenues will be about \$2.2 million, or 12% below the budget.

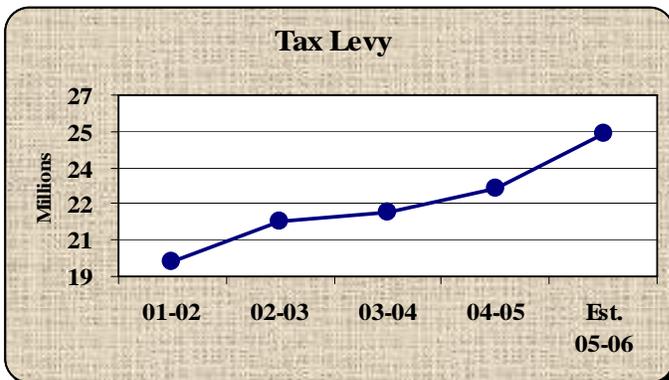
BUDGET MESSAGE

The adopted revenue budget for 2005-06 totals \$46,354,000. The budget includes increases in the two largest revenue sources for the Town, property tax and sales tax, both with increases of about 3%.

Property Tax

The property tax estimates are based on the value of real estate and the property tax rate. Real property was revalued in January 2005, and the property tax base for 2005-06 reflects that revaluation. The property tax base grew by about 20%, and the tax rate was recalculated at the equalization rate, that is, the rate at which total tax receipts would remain flat from 2004-05 to 2005-06, exclusive of growth. The chart below shows the property tax rate for 2004-05, the equalization rate, and the adopted rate for 2005-06:

	General Fund	Transportation Fund	Combined Tax Rate
	(cents)	(cents)	(cents)
04-05 Budget	51.60	5.90	57.50
05-06 Adopted Budget	47.40	4.80	52.20
Actual rate decrease	(4.20)	(1.10)	(5.30)
Equalization Rate	44.20	5.10	49.30
05-06 Adopted Budget	47.40	4.80	52.20
Effective rate increase/(decrease)	3.20	(0.30)	2.90



The Town's property tax base continues to increase at a consistent pace of about 3% to 4% in years exclusive of revaluation. Property tax revenues were in excess of budget in 2004-05 by about \$350,000. The final tax base for the 2004-05 year was about \$4.46 billion, an increase of \$153 million, or 3.5% over the base in 2003-04 of about \$4.31 billion.

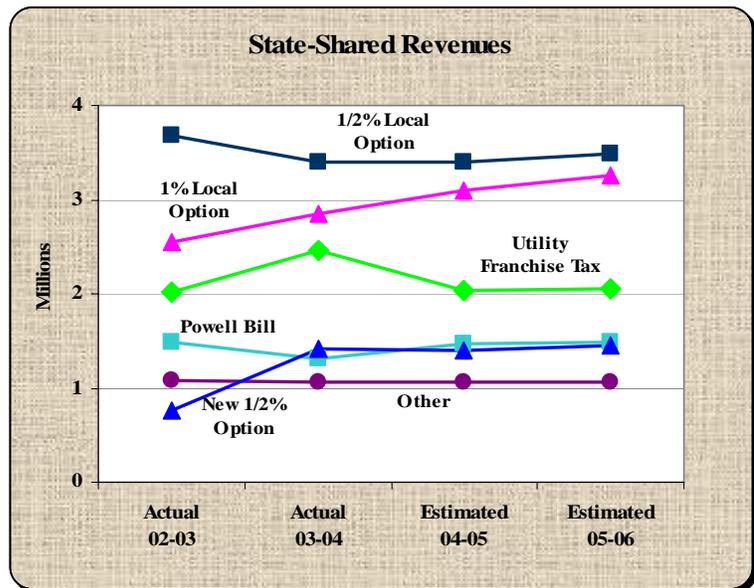
BUDGET MESSAGE

Based on information for 2005-06 provided by Orange County, we estimate the total tax base to increase about \$842 million in 2005-06. With these additions, the estimated tax base totals about \$5.3 billion for 2005-06.

At a tax base level of \$5.3 billion, each cent of the tax rate generates about \$530,000. The adopted General Fund tax rate of 47.4 cents generates about \$25.0 million in property tax revenue.

State-Shared Revenues

In 2004-05 sales tax revenues came in at about \$8.4 million and were budgeted at \$7.4 million. The unpredicted size of the overall improvement in the State and local economy, brought in revenues in excess of budget estimated to be about \$1 million. The fuel tax (Powell Bill) revenues were about \$158,000 more than last year; however, we anticipate that Utility Franchise Tax revenues will be about \$2.17 million, or 12% lower than last year. We will not know the final amount of 2004-05 receipts until mid-September. Utility Franchise Fees were low because of mild weather conditions during both last summer and winter months. The graph above shows past and projected revenues for the major State-shared revenue sources that total about \$12,787,000 for 2005-06. State-shared revenues increased over the 2004-05 budget as a result of projected increase in sales tax revenues of about 3%. Other state-shared revenues are expected to be about the same as 2004-05 actual revenues.



Other General Fund Revenues

In an effort to produce revenue to cover additional debt service costs without greater reliance on property tax, the Council, at the recommendation of the budget consultant and the citizens' committee, raised a number of fees including commercial garbage fees, and development related fees. Revenue from other sources in the General Fund is expected to remain at about the same level as in the 2004-05 year, with no significant variation in any major source. As in past years, the 2005-06 budget includes the use of \$800,000 in

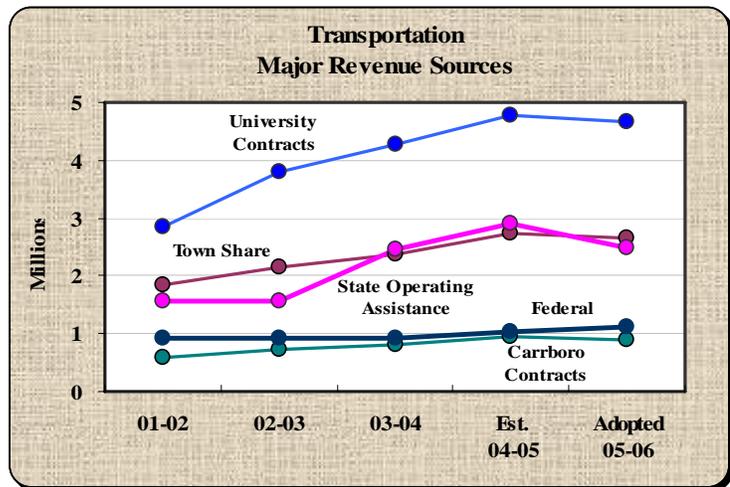
BUDGET MESSAGE

normal carryover fund balance; we also carried forward and an additional \$715,000 in revenues expected to exceed the budget in 2004-05. Additional information about General Fund revenues for 2005-06 can be found in the budget section on General Fund Revenue Sources and Descriptions.

Transportation Fund

The major revenue sources for the Transportation Fund include federal operating assistance, State operating assistance, University contract payments, Town of Carrboro contract payments and Town of Chapel Hill contributions, including the Town's property tax levy for transit. The Transportation budget decreased by 1.1 cents from 5.9 cents to 4.8 cents. This tax rate is expected to generate about \$2.56 million in property tax revenue for the transit system.

The adopted 2005-06 budget includes State assistance of \$2,500,000, an increase over the original 2004-05 budget of about \$1 million. The increase is a result of a number of factors, the largest of which is the effect of increased ridership of the transit system since the adoption of the fare free system. Federal operating assistance is budgeted to increase by \$91,000 to \$1.1 million. University and Carrboro contract payments total about \$5.57 million based on cost sharing agreements. Advertising revenues are expected to increase by about \$11,000. All other revenue sources are expected to remain about the same as in the 2004-05 fiscal year bringing total revenues for the Transportation Fund to about \$12.2 million.



The graph above shows major revenues for the transit system over the last several years and for the 2005-06 adopted budget. With revenues as discussed above, fare free service will continue.

Public Housing Fund

We have not received the final budget for federal assistance to Public Housing, but anticipate the possibility that federal assistance may be less than the current 2005-06 budget of about \$1,077,000. We have sufficient fund balance to cover the possible subsidy shortfall when combined with revenues from rents paid by residents of about

BUDGET MESSAGE

\$397,000. These two sources provide most of the revenue for the housing program, as in past years. We anticipate receiving notice of any changes in the federal Department of Housing and Urban Development subsidy in October 2005 when the new federal year begins. The Council may need to amend the Public Housing budget if there is a significant change in the amount of the subsidy.

Parking Funds

The adopted budget for parking operations in 2005-06 includes continuation most of the on-street and off-street parking rates adopted last year. The Council made changes to the amounts charged for various violations in cases where the Town rates were below the University of North Carolina at Chapel Hill rates for similar violations. Just under half of \$1.3 million in estimated revenue for off-street operations are expected from the Wallace Parking Deck. Revenues of \$448,000 are anticipated from Lot 2. Revenues are estimated to be sufficient to fund operating costs and debt service costs on these parking facilities.

Downtown development opportunities on Lots 2 and 5, as well as above the Wallace Parking Deck, may affect the parking revenue streams as early as 2006-07. The Council will continue to plan for the parking needs of the Town and the replacement of parking revenue streams as a part of their development considerations.

For on-street meter and parking enforcement operations, we estimate total revenue of about \$597,000, sufficient to meet operating costs and allow a transfer of about \$124,000 to the General Fund.

Stormwater Management Fund

The Stormwater Management Fund, established on July 1, 2004, has a budget of about \$1.6 million. The budget is based on funding through the assessment of fees of \$39 per each 2,000 square feet of impervious surface on property that contributes to stormwater runoff.

Other Funds

Revenues from borrowing have been increased in the Vehicle Replacement Fund by approximately \$354,000 because of the planned replacement of a ladder truck for the Fire Department, in addition to usual purchases. Revenues have been reduced for the Town's Computer Replacement Fund; purchases have been reduced by \$61,000 to \$150,000. The Grants Fund, established in 2004-05, has increased revenues by about \$84,000 to \$207,000.

BUDGET MESSAGE

Revenues are expected to remain approximately the same in 2005-06 for most of the Town's remaining funds, including the Vehicle Maintenance Fund, the Library Gift Fund and the Downtown Service District Fund. While Downtown Service District revenues continue to be budgeted at \$70,000, as a result of the Orange County real estate revaluation, the actual tax rate has decreased from 6.2 cents to 5.3 cents per \$100 assessed valuation.

The Council increased the contributions from the General Fund to the Capital Improvements Program from \$944,000 to \$1,116,000 for continued basic capital improvement needs.

II. MAJOR SERVICE LEVELS AND COSTS

General Fund

The adopted 2005-06 budget allows for the continuation of basic services totaling about \$44 million. The basic services budget includes \$1.75 million for additional debt service to cover the first year debt cost of building the new Town Operations Center. Public Works and Transportation Departments are currently located on property owned by University of North Carolina at Chapel Hill. The University of North Carolina at Chapel Hill informed the Town several years ago that the current lease would not be renewed when it expired in December 2006 and work on the new Town Operations Center is under way. The basic services budget also includes additional funds for fuel and utility cost increases of approximately \$165,000, service to annexed areas of Vineyard Square and Larkspur of approximately \$99,000 (off-set by revenues from annexation), the full-year cost of pay increases authorized for nine months in 2004-05, and the increased cost of employee medical and workers' compensation premiums. The basic budget includes continued funding for the Downtown Economic Development Initiative for building retail, housing and parking on Lots 2 and 5 and the Wallace Deck.

The budget adopted by the Council includes the following major additions:

- 746,000 Cost of competitive pay adjustments averaging 3.78%
- 70,000 Incentives to retain police officers (9 months)
- 62,000 Geographic Information Systems Analyst (9 months)
- 50,900 Budget Analyst (9 months)
- 48,610 Fire Department equipment
- 18,450 Homelessness initiative
- 15,900 Increase Recreation Specialist from part-time to full-time (Special Olympics)

BUDGET MESSAGE

In addition, the Council has increased its investments in support of human services, visitor services and tourism, cultural and arts programs, economic development, and development of affordable housing through performance agreements with other agencies as follows:

Performance Agreements with Other Agencies	2005-06 Budget
Total Human Services Advisory Board Recommendations	225,000
<u>Special Allocations:</u>	
Homelessness Initiative	18,450
Interfaith Council	20,000
Total Human Services	263,450
Arts	
Cultural Arts Dinner	500
Chapel Hill Public Arts Commission	150,000
ArtsCenter	10,000
Total Arts	160,500
Affordable Housing	
Orange Community Housing and Land Trust	110,000
Economic Development	
Chapel Hill/Orange County Visitors Bureau	69,000
North Carolina High School Athletics Association	30,000
Downtown Economic Development Corporation	70,000
Orange County Economic Development Commission	6,000
Total Economic Development	175,000
Service to Seniors	
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 Senior Services	107,900
Total Agreements with Other Agencies	816,850

All together the General Fund budget totals \$46,354,000.

BUDGET MESSAGE

Transportation Fund

The budget for the Transportation Fund for 2005-06 totals \$12,255,300 and includes cost increases for base level services including funding for the full-year costs of pay increase authorized for 9 months in 2004-05, and funding for rate increases of 4.9% in employee medical costs (\$46,000) and 5% in workers' compensation costs (\$14,000). The largest increase in the Transportation basic services budget is \$466,500 for anticipated increases in fuel costs.

Implementation of the fare free system caused an increase in ridership which has created additional system needs, particularly in the area of para-transit service, a special service for individuals with mobility limitations and in mechanical services. In response to these needs, the Council approved the following additions to the base budget:

- 192,400 Cost of competitive pay adjustments averaging 3.78%.
- 58,530 Electronic Mechanic Specialist (12 months).
- 52,600 Paratransit Services Supervisor position (9 months).
- 38,480 Services Attendant (12 months).

Stormwater Management Fund

The total adopted budget for the Stormwater Management Fund is \$1.64 million. A primary objective in the Stormwater Management Fund is to prepare the master plan for future services including restoring streams, reducing flooding and protecting the environment through capital improvements, mitigation activities and maintenance. In addition, the fund will support citizen education about water quality, flood prevention and stream protection.

Capital Improvements Fund

The Capital Improvements Fund budget adopted by the Council totals \$1,176,000. Funding for the capital improvements program requires a transfer of \$1,116,000 from the General Fund, and is supplemented by \$60,000 in estimated revenue for cell tower leases. New and continuing capital improvement projects include the following:

- 225,000 Police department generator
- 100,000 Town Hall telephone system replacement
- 90,000 Traffic signal system upgrade local match
- 85,000 Small park and greenways improvements
- 76,000 Extraordinary maintenance, emergency repairs
- 75,000 Fire Station #2 capital repairs
- 70,000 Town Hall generator
- 50,000 Small park improvements

BUDGET MESSAGE

- 50,000 Library capital maintenance
- 40,000 Parking lots/Bike and pedestrian paths/Greenways
- 35,000 Greenways
- 30,000 Parks and Recreation Administration capital maintenance
- 25,000 Curb repairs, Americans with Disabilities Act compliance
- 20,000 Cemetery beautification

In addition, the Capital Improvements Fund budget includes \$290,000 for debt service payments on completed capital projects.

Other Funds

The budget of Public Housing Fund has been lowered to \$1,600,750 because of the anticipated reduction of \$58,000 in federal subsidy. In particular, a residential services position has been eliminated because of the lack of funding.

There has been a decrease in the transfer to the General Fund of about \$36,000 from \$160,000 to \$124,000 as a result of decreased revenues in the On-Street Parking Fund.

As recommended by the Technology Advisory Committee, the Computer Replacement Fund budget has been reduced overall from the original 04-05 budget by \$87,000 to \$346,000. The Vehicle Replacement Fund budget has been increased by \$1,069,600 from the original budget in 04-05 of \$1,800,000 to \$2,869,600 primarily because of the cost of the replacement tower truck for the Fire Department.

Ongoing and new grants in transportation planning, energy efficiency, engineering and public safety have increased our budget for the Grants Fund by \$84,000 to about \$207,000.

For other operating funds, service levels in the adopted budget for 2005-06 remain about the same as in 2004-05, including services for the downtown service district and parking programs.

VII. Issues, Trends Projections

We believe that key issues in the next several years will pose new opportunities as well as fiscal challenges:

- The Council is progressing on its Downtown Initiative. The Council has selected a developer to continue to work with on proposals for developing downtown parking lot 5 and the Wallace Deck with housing, retail space, public space and additional parking. Negotiations with the developer are proceeding and it is

BUDGET MESSAGE

possible that a Memorandum of Understanding could be signed in fall of 2005. If the Memorandum of Understanding is approved, building on Lot 5 and the Wallace Deck could begin in 2006-07.

- The debt service for the Public Works portion of the new Town Operations Center (needed by December 31, 2006 with building construction beginning in 2005-06) will increase \$470,000 from 2005-06 requirement of \$1.75 million to \$2,22 million in 2006-07. The debt service will increase by an additional \$310,000 to \$3.53 million in 07-08, before beginning a gradual decline of about \$50,000 per year .
- The new Transportation Maintenance and Operations Facility needed by December 31, 2006 is being developed at the same time as the Public Works Town Operations Center. The Town and its partners have already reserved the local matching funds for the Facility. We have commitments of approximately \$17 million in federal and State support for the remaining facility construction costs.
- Our projections include significant needs for capital repair and maintenance of the Town's assets that would require funding of about \$2.2 million in 2006-07, and remaining between \$2.2 million and \$1.6 million through 2016-17.
- In March of 2004, the Town Council authorized a schedule for issuance of the \$29.36 million in bonds approved by voters in November 2004. The largest portion of the bonds is for a \$16 million expansion of the Town Library. In addition, \$5.6 million is approved for various sidewalk and street improvements, \$5 million for parks and recreation facilities, \$2 million for open space and \$500,000 for energy efficient projects for public buildings. After the first issuance of \$4 million in 2004-05, there are three additional issuances planned by the Council: \$7.75 million in 2006-07, and \$8.8 million in 2008-09 and 2009-10.
- Pay adjustments will continue to be needed to remain competitive in the Triangle labor market, and employee medical and workers' compensation costs are likely to continue to increase.
- We believe that operating costs will continue to increase approximating the rate of inflation in the general economy in future years and with some additional operating costs associated with expansion of the library.
- See the Projections Section of the budget for forecasts for the next five years.

BUDGET MESSAGE

VIII. SUMMARY

We believe the adopted budget for 2005-06 will maintain basic General Fund services at a level similar to the 2004-05 fiscal year. We are pleased to be able to include the priority additions to budget as discussed above with a 5.3 cents decrease in the combined General and Transportation Fund tax rate totaling 52.2 cents.

Respectfully submitted,

W. Calvin Horton
Town Manager