

BUDGET MESSAGE

I. Introduction and Overview

We are pleased to present the Manager's Recommended Budget for 2006-07 with a number of priority additions, but with no tax increase proposal for either the General Fund or the Transportation Fund. In preparing the Manager's Recommended Budget, we have taken into account the Council's request to consider the effect of current year budget proposals on future years' budgets as the Council plans for the issuance of additional General Obligation bonds for expanding the library, improving Town sidewalks and street amenities and making improvements to parks and recreation trails. We have carefully considered the effect of the 2006-07 budget on future years, and have addressed its effect in our projections.

The base budgets for the General Fund and the Transportation Fund total \$46.3 million and \$13.6 million, respectively. The budgets with priority options total \$49.2 million for the General Fund and \$14.1 million for the Transportation Fund. The required tax rate for the proposed budget with priority options for both funds combined totals 52.2 cents as in the current year, with a General Fund rate of 47.4 cents and a Transportation Fund rate of 4.8 cents. The value of one cent on the tax rate is \$546,000.

We also have examined service level needs and alternatives for the Downtown Service District. The current tax rate for the Downtown Service District is 5.3 cents. We have included proposals for priority options for the Recommended Downtown Service District Budget for increases to two services: the provision of free on-street parking on Saturdays and the inclusion of a dedicated groundskeeper. The two services would require an additional 3.8 cents on the Downtown District tax rate for a total of 9.1 cents. Other service improvements for the District, notably increasing the downtown police patrol, are included as a part of the General Fund budget.

The base budgets and proposed budgets for the General Fund, Transportation Fund, Downtown Service District Fund and for all other funds are summarized in the following table:

Fund	Base Budget	Recommended Budget
General	46,320,350	49,247,200
Transportation	13,621,800	14,082,000
Downtown Service District	79,000	135,700
All Other	16,484,100	16,484,100
TOTAL	76,505,250	79,949,000

BUDGET MESSAGE

In addition to presenting budget recommendations for 2006-07, we have made projections for five years beyond 2006-07. The projections for 2007-08 show a potential budget shortfall for the combined General Fund and Transportation Fund of about \$764,000. This amount is equivalent to 1.2% of the combined budgets for the General and Transportation Funds. As we come closer to 2007-08 our estimates will improve, but we believe that the current projections are reasonable and suggest that a balanced budget is attainable for 2007-08.

Other key issues for the 2006-07 budget include the following:

- Services and Stability. The budget is intended to preserve the quality of services that citizens need while maintaining fiscal stability.
- Fuel Costs. We anticipate increased fuel costs over the amounts budgeted for 2005-06 of approximately twenty cents per gallon for all types of vehicle fuel. In addition, we have included the provision of an additional \$50,000 in the General Fund and \$160,000 in the Transportation Fund in reserves for additional fuel charges, if needed.
- Bond Sale. Per the Council's proposed schedule, we would issue bonds in the fall of 2006-07. We have reexamined the timing of proposed bond-funded projects and recommend reducing the total borrowing in 2006-07 to \$4.95 million and increasing the borrowing in a later sale, based on expected needs and timing of projects.
- Downtown Development Initiative. The Council has pledged to use \$500,000 from existing funds to support parking for affordable housing in the downtown economic development initiative. We anticipate a reduction in parking revenues when building on Lot 5 begins in 2007. There would also be some additional costs for continued work on this Initiative.
- Cost of operating the new Town Operations Center. There will be a three month transition period during which we will need to have both the new and the current sites in use. Other cost increases include higher operating costs for items such as utilities for the larger-sized plant and additional fuel because the new site is farther from the center of Town than the current site.
- Pay Plan. The Town pay plan needs to maintain competitive compensation that continues to attract quality Town employees, based on prevailing wages in the Triangle labor market.
- Benefits. Medical insurance is currently projected to increase about 11% town-wide.

BUDGET MESSAGE

General Fund Summary

In addressing key budget issues, the Council requested that budget information for next year be presented in a format that separates the base budget for continuing current operations from optional additions to the base budget that could be considered by the Council on a case by case basis. The charts beginning on page xxvii show the budget in this format for the General Fund and the Transportation Fund.

Base Budget

The General Fund base budget for continuing operations would total about \$46.3 million. A base budget at this level would leave \$2.9 million in additional revenues that could be used to consider additions to the base. There is an additional \$2 million in one-time funds that we have recommended for use over the next three years to help reduce the effects of increasing debt from the Town Operations Center and from new General Obligation bonds.

The base budget provides the resources to continue current service levels, including the full-year cost of pay increases authorized for nine months this year (\$230,000), estimated cost increase for employee medical insurance (\$342,000), utility rate increases (\$112,000), fuel rate increase costs (\$108,000), increases related to the higher cost of operating from the new Town Operations Center (\$61,000), the costs of the transition period to the new Town Operations Center (\$13,400), increased vehicle replacement charges (\$115,000) and the costs of preexistent debt service requirements (\$4.8 million). Since the Budget Status Report of March 22, we have increased the base budget to include a fuel reserve (\$50,000), an additional amount to cover the increase in the cost of asphalt for road resurfacing and repair (\$74,000), and an amount for Chapel Hill's share of regional transportation planning projects (\$42,000). These combined costs total \$46.3 million.

We recommend in this budget presentation that the Council consider priority options to the base budget totaling about \$2.9 million. A budget with these additions would total about \$49.2 million.

Priority Options

Priority options for addition to the base budget would include:

- Reserve for general pay adjustments (\$590,000).
- Reserve for special pay adjustments in the Fire and Inspections Departments (\$92,000)
- 5 Officers for Downtown Police Patrol (9 months) (\$250,000).
- Police Mobile Data Terminals (\$54,000).

BUDGET MESSAGE

- 6 Firefighters (3 months) (\$92,000).
- Children's/Teen Librarian (9 months) (\$37,000).
- Traffic Technician (9 months) (\$35,400).
- Hargraves after-school tutoring program (\$29,400).
- Part-time administrative clerk, Manager's Office (\$18,100).
- On-demand on-line video streaming of Council meetings (Town Clerk) (\$31,000).
- Downtown Economic Development Initiative (\$60,000).
- Funding for Non-profits for Affordable Rentals Group (\$13,500).
- Orange County Housing and Land Trust additional funding (\$14,000).
- Internship program (\$16,000).
- Performance Agreements with Other Agencies (\$489,000).

Priority additions also include the first interest payment on bonds proposed for issuance in fall of 2006. The recommended debt issuance has been lowered from \$7.75 million to \$4.95 million, primarily because of the additional design time required for several parks and recreation projects. Additional debt funding is recommended for the aquatics center (total cost \$750,000, first year cost of \$57,000) and for the Southern Community Park (total cost - \$400,000, first year cost of \$30,000).

In summary, the recommended budget with priority additions totals \$49.2 million and is balanced at a General Fund tax rate of 47.4 cents, the same as in the current year. The value of one cent on the tax rate is \$546,000.

A summary of the base budget costs and a listing of the priority options recommended for the Council's consideration are included in Attachment I to the budget message.

Transportation Fund Summary

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 base Transportation budget that would continue current services totals about \$13.6 million and includes additional funds for estimated increased medical insurance and workers' compensation costs (\$157,000), increased costs for fuel rate increases (\$313,000), increases in utilities (\$72,000), increases in fuel related to the move to the new Town Operations Center (\$137,000), and increased vehicle maintenance costs (\$82,000). Since the Status Report of March 22, we have added a fuel reserve of \$160,000.

BUDGET MESSAGE

Priority additions to the base budget include the following:

- An allocation for employee pay adjustments effective October 1, 2006, which would cost approximately \$173,000.
- Additional funding for University routes - Bible Church and U route (\$224,000).
- Additional funding for Carrboro feeder service (\$23,000).
- Internship Program (\$2,000).
- Additional General Fund charges based on increased personnel costs (\$38,000).

In 2006-07 the University would cover the cost of the specific additional routes requested for University service and Carrboro would cover the cost of the new feeder service. Pay adjustments or other additions to the base budget would be shared by the Town and our transit partners. The Town pays approximately one-third of the cost of any shared additional costs. Priority options total \$460,000, and the Town portion of the additional costs would be approximately \$70,000.

A Transportation Fund budget with priority additions totals \$14.1 million. The proposed budget including priority options could be accommodated with the current tax rate of 4.8 cents.

Other Funds Summary

The recommended 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. A brief description of each department's services and costs is included in this document.

Department budget line item detail is available in a separate document distributed to the Council. The line item detail is available to citizens on the Town web-site:

<http://www.townofchapelhill.org/finance/budget/2006-2007>

BUDGET MESSAGE

II. Long-Term and Short-Term Goals

Long-Term Goals

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.

Council Goals

At an annual work planning session, the Council establishes an extensive, prioritized list of projects based at three priority levels and their long-term and short-term goals. The following is a list of their highest priorities as of January 2006:

- Continue to develop master plans for development of downtown parking lots.
- Prepare the process and foundational studies for the development of the University of North Carolina development of Carolina North, including the Transit Master Plan.
- Continue the goal of providing affordable housing and inclusionary zoning.
- Initiate the Small Area Planning Process for the Rogers Road Residential Area and the Greene Tract.
- Revise the tree ordinance.
- Monitor and evaluate the Land Use Management Ordinance.
- Develop a comprehensive parking strategy.

BUDGET MESSAGE

- Revise the comprehensive plan.
- Develop a carbon reduction strategy.
- Develop a joint planning process with Carrboro for the West End.
- Increase diversity on Town advisory boards.

Budget Goals

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.
- Good quality, necessary services should be provided at the lowest possible tax rate.
- Fund Balance should be maintained above 12%.
- The Town should continue to invest in the maintenance of employee skills, knowledge and abilities as a key community resource.
- Conserve investments made in Town facilities and buildings through an adequate capital improvements program.
- Fare free transportation services should be retained in 2006-07.
- The budget should minimize the need for a tax rate increase in 2007-08.

III. Budget Environment, Assumptions and Resource Changes

Major issues affecting Town revenues for the 2006-07 Budget include the likely stability of the State budget and its affect on local revenues, anticipated slow 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. Federal budget decisions also have a major effect on the Chapel Hill budget, particularly in the areas of transportation and housing.

The Recommended Budget incorporates the following assumptions:

- We anticipate a slowing of the economy for the State by the end of 2006-07.
- The property tax base is estimated to increase from about \$5.30 billion in 2005-06 to about \$5.46 billion next year.
- We estimate that the Town's revenue from local sales taxes will increase by about 5% from estimated receipts in the current year.

BUDGET MESSAGE

- State operating assistance for the Transportation Fund will remain at about \$3.3 million.
- Interest rates will increase next year.

IV. GENERAL FUND

Revenues for 2005-06

Update on Current Year Revenues

Revenues in the current year are expected to be about \$46,313,000, about \$1,260,000 higher than budgeted. As we reported on January 12, the primary reason for the higher projection is the overall increase in sales tax estimates. The sales tax estimates for 2005-06 were based on the information available in spring of 2005. We underestimated the receipts for the 2004-05 year, and as a result used a base that was too low in estimating the 2005-06 receipts. Current projections show sales tax growth of 7.6% for 2005-06. As a result, we have increased our estimate of sales tax in excess of budget to \$918,000.

As reported in January, interest earnings are anticipated to be higher than budgeted by about \$200,000 because of interest rate increases. We received a better banking agreement when Central Carolina Bank changed to SunTrust, and we received over \$4 million in property tax from a single mortgage company two months early, providing additional interest earnings.

Other taxes and licenses are anticipated to be \$90,000 greater than originally estimated because cable franchise fees increased substantially in 2005-06, as reported in January. Hotel and motel occupancy has been greater than anticipated, and we estimate that receipts from this source will exceed the \$600,000 budget estimate by about \$100,000.

Utility franchise fees are based on a 3% tax on utility company gross receipts. As such, the fees are affected by changes in the weather. We estimate that we will receive the full budgeted amount for 2005-06 of \$2,056,000.

Receipts from property tax revenues and other sources are projected to be close to budgeted amounts.

Update on Current Year Expenditures

Expenditures are anticipated to be lower than budget by approximately \$500,000. These savings are primarily a result of salary savings from unfilled positions and positions held vacant. The other major source of savings is in costs we were able to avoid as a result of the mild winter.

BUDGET MESSAGE

Summary of Estimated Current Year Revenues Less Current Year Costs

In summary, total estimated current revenues for 2005-06 (excluding any use of fund balance) are expected to be approximately \$46,313,000. Also budgeted for use in the current year is \$2,755,000 in fund balance, providing total available resources of \$49,068,000. Total estimated current expenditures are expected to be approximately \$47,139,000.

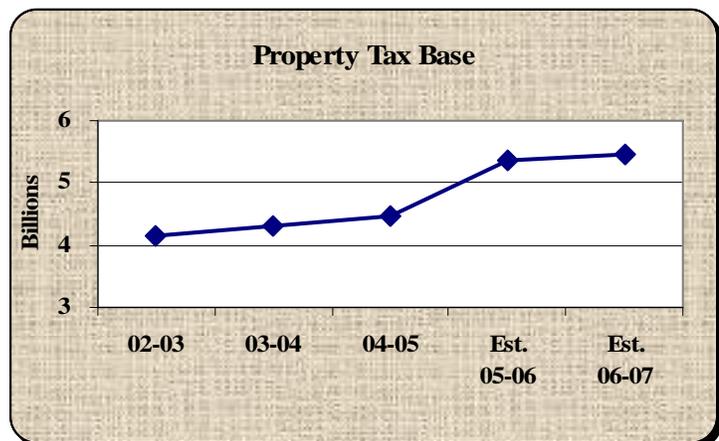
The anticipated fund balance carryforward from 2005-06 available for use next year is made up of several parts:

- Normal carryforward, increased from \$800,000 to a new level of \$1 million.
- Planned set-aside for new fire fighter positions of \$114,000.
- Additional sales tax of \$765,000 (above the amount included as a portion of the \$1 million carryforward).

Revenues for 2006-07

Property Tax

We estimate the property tax levy to grow by about \$705,000 to \$25.6 million. The largest component of the property tax is the levy on real property. We have received estimates from Orange County and have based our budget estimate on their information together with historic trends for the overall tax base. We estimate an increase of about 3% overall.



Other Local Taxes

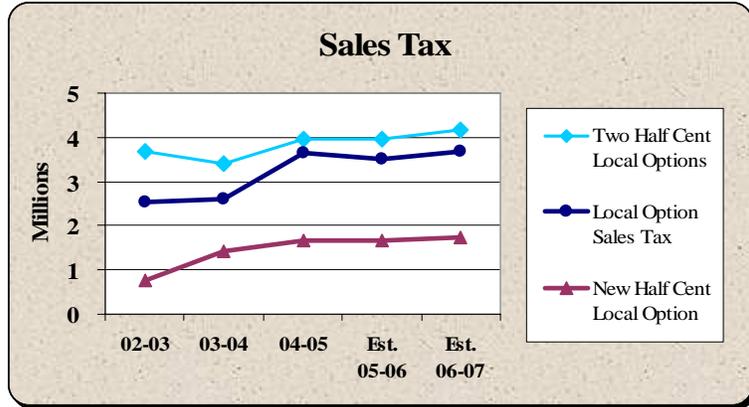
- Cable franchise revenues represent a tax of 5% on local Time Warner gross receipts for cable services. We expect revenues to be about \$500,000 in the current year and to remain at the same level next year.
- Revenue from the 3% Hotel/Motel occupancy tax is expected to total about \$700,000 in 2005-06 and 2006-07.

BUDGET MESSAGE

State-Shared Revenues

Sales Taxes

Sales tax revenue from the 1% sales tax based on Orange County receipts, the two ½% sales taxes based on State-wide collections and the ½% based on a combination of State and county collections are expected to be higher than estimated in the current year. We estimate that the two State-wide ½% taxes will increase from the current year



increase from the current year estimates of \$1.99 million and \$1.97 to \$2.09 million and \$2.07 million, respectively; the 1% tax will increase from the current year estimate of \$3.49 million to \$3.67 million; and the combined ½% tax will increase from \$1.65 to \$1.97 million. Combined, the sales tax is estimated to be \$9.56 million, a \$455,000 or 5% growth over 2005-06 estimates.

Utility Franchise Tax

Utility franchise taxes are derived from a 3% tax on gross revenues from public utilities in each jurisdiction, and are collected by the State for distribution to cities. We estimate that utility franchise fee distributions will meet the current year budget of \$2,056,000 and will be about the same next year. Because the fees are dependent upon utility charges, they are affected by weather conditions and can vary from year to year.

Motor Fuel Taxes (known as Powell Bill funds)

Motor fuel tax revenue is based on receipts of 1¾ cents of the State gasoline tax allocated to local governments, based on population and local street mileage in each jurisdiction. This revenue totaled \$1,482,000 in the current year, or about \$9,000 more than last year. For next year, we anticipate revenues will increase to \$1,492,000.

State Fire Protection Funds

We anticipate no change next year in the level of State Fire Protection Funds, totaling \$1,063,000. If State Fire Protection Funds were to increase, we would recommend that this increased funding be used to hire additional firefighters.

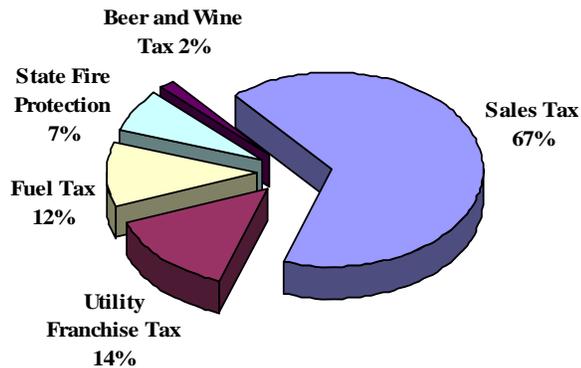
Beer and Wine Taxes

Assuming full receipt of the Beer and Wine tax revenue normally distributed in May to cities and counties, we estimate allocations from this source of about \$220,000 for the current year and \$225,000 next year.

BUDGET MESSAGE

In summary, we estimate State-shared revenues will total \$14,396,400 for next year.

State Shared Revenues \$14,396,400



Other Base Budget Revenue Sources

- Service Charges for various Town services and programs (including zoning compliance permits and Parks and Recreation programs) are estimated to decrease slightly from the current year's estimated revenues of about \$1,650,000 to about \$1,620,000. The decrease of about \$30,000 from current year revenues is expected because of anticipated decreases in a number of development related revenues. There may be additional decreases in charges for services because of the possible closure of the Community Center if the Council decides to proceed with renovation plans, although we anticipate that the reduced revenues would be offset by reduced costs.
- Revenue from most licenses, permits, and fines, including privilege licenses and vehicle licenses, are expected to remain about the same as budgeted in 2005-06, with the exception of Special Use Permits. We anticipate a drop in revenues in 2006-07 to about \$72,000. Total charges for services are expected to be about \$1.6 million in 2005-06 and \$1.5 million in 2006-07.

Summary of General Fund Revenues

In summary, we estimate General Fund revenues, including the use of \$1,000,000 in a new level of funding to be carried forward and \$879,000 in one-time carryforward from the current year, would total about \$49 million.

Additional information about General Fund revenues for 2006-07 can be found in the budget section on General Fund Revenue Sources and Descriptions.

BUDGET MESSAGE

Major Service Levels and Costs

As requested by the Council, the General Fund estimates for next year's budget are shown in a format separating the base budget costs from optional additions to the base budget that could be considered by the Council. The table on the following page is provided to compare the base budget for next year to the current year's base budget. Attachment I is provided to show estimated costs for the base budget next year with an additional column to show priority options for consideration by the Council.

Base Budget

The base budgets submitted by departments would allow continuation of basic services. The increase in the base budget is about \$1.4 million or 3% as shown in the following chart.

General Fund Expenditures			
Department	05-06 Base Budget	06-07 Base Budget	% Change
Mayor	104,100	102,350	-1.7%
Council	232,360	226,660	-2.5%
Manager	756,810	792,700	4.7%
Clerk	373,240	374,000	0.2%
Human Resources	642,440	657,220	2.3%
Finance	1,068,400	1,104,960	3.4%
Information Technology	801,030	871,350	8.8%
Legal	258,410	265,050	2.6%
Planning	1,030,080	1,086,420	5.5%
Inspections	742,890	748,060	0.7%
Engineering	1,950,690	1,927,670	-1.2%
Public Works	10,015,080	10,501,580	4.9%
Police	10,490,470	10,548,780	0.6%
Fire	5,986,250	6,231,680	4.1%
Parks and Recreation	2,394,950	2,438,810	1.8%
Library	2,065,940	2,137,620	3.5%
Non-Departmental	972,230	853,450	-12.2%
Capital Improvements Transfer	290,000	283,000	-2.4%
Estimated Medical Insurance Increase	-	342,000	N/A
Subtotal	40,175,370	41,493,360	3.3%
Debt Service - Base	3,067,200	2,661,000	-13.2%
Debt Service - Town Operations Center	1,750,000	2,166,000	23.8%
Total Base Budget	44,992,570	46,320,360	3.0%

BUDGET MESSAGE

To facilitate comparison in the chart above, we have restated prior year base budget to show the Traffic Division in Engineering and have removed the division from Public Works. In addition, Non-Departmental excludes Contributions to Agencies of \$498,000 because similar contributions are considered an option in 2006-07 and are not included in the Base Budget.

We have been able to offset most new costs for items such as fuel cost increases and increased cost of operations at the new Town Operations Center with reduced costs in other areas in the base operating budget. Items of increase, or changes from the Budget Status Report of March 22, 2006, include the following:

- Fuel Reserve (\$50,000)
- Asphalt cost increase (\$74,000)
- Chapel Hill share of regional transportation planning projects (\$42,000)

The base budget does not include contributions to other service agencies except for the Chapel Hill Downtown Economic Development Corporation (\$70,000), the Chapel Hill Public Arts Commission (\$150,000) and \$69,000 for visitor information and cultural events as required by the law regarding Hotel/Motel taxes. Capital improvement costs in the base budget are limited to items involving contracts or other binding commitments made by the Council.

Total base debt service requirements are about level between 2005-06 and 2006-07, because the planned increase in the Town Operations Center debt is almost entirely offset by the decrease in other preexistent debt for a total base budget debt service of \$4.8 million.

The preliminary base budget includes costs necessary to continue current operations, but does not include costs for competitive employee compensation adjustments, any new positions or funding for contributions to agencies other than those listed above.

The base budget also includes transfer of the traffic division functions from the Public Works Department to the Engineering Department, as previously reported to the Council.

Capital Improvement Costs in the Base Budget

The base budget for the capital improvements program is \$283,000 and would require a transfer from the General Fund. The base budget would limit costs to current installment debt payments and contractual obligations. This base level would include the following:

- 152,000 Annual installment payment on renovations at Hargraves Center and A. D. Clark Pool
- 56,000 Annual payment on proposed contract for repairs at the Inter-Faith Council shelter

BUDGET MESSAGE

- 45,000 Annual payment on roof repairs at the Town Hall, Fire Stations #2 and #3 and the old Library Building
- 30,000 Annual payment on repairs to various tennis and basketball courts

Summary of Base Budget Revenues and Expenditures

With estimated costs as discussed above and no reserve for pay adjustments or additional agency funding, the General Fund base budget costs would be about \$46.3 million for 2006-07, and could be funded with total estimated revenues next year of \$47.3 million excluding use of fund balance, leaving about \$900,000 in available revenue. When the remaining available revenue is combined with the new level of carryforward (\$1,000,000) and the one-time use of \$879,000, \$2,885,000 is available for priority additions.

Priority Options for the Base Budget

Operations

We recommend the following priority options to the base budget:

Reserve for Pay Adjustments

- The base budget does not include funding for pay adjustments needed to be competitive in the Triangle labor market (\$590,000) and special pay adjustment needed in the Fire and Inspections Departments (\$92,000).

Police

- 5 Officers for Downtown Police Patrol (9 months) (\$250,000). Additional positions are needed to increase downtown police patrol services. We recommend adding 5 positions and transferring 2 positions from other police operations. The recommended budget includes one vehicle for the downtown patrol, rather than three as previously proposed.
- Police Mobile Data Terminals (\$54,000).
- Additional software licenses and maintenance (\$17,700).

Fire

- 6 Firefighters (3 months) (\$92,000). The six additional officers would be the second phase of a three year plan to increase staffing for the Fire Department by 18 firefighters. State Fire Protection funds carried forward from the current year would offset the cost of the new firefighters by \$70,000, leaving a net cost of \$22,000 in 2006-07.
- Vehicle to be shared by 3 on-shift Assistant Fire Marshals (first year cost) (\$4,200).

BUDGET MESSAGE

Library

- Children's/Teen Librarian (9 months) (\$37,000). The position would assist in serving children and youth at the library and respond to the 37% increase in children's program attendance between 2000 and 2005.

Engineering

- Traffic Technician (9 months) (\$35,400). The traffic technician would assist with signs and markings. The cost of the position would be offset by a combination of increased revenues and reduced costs.
- New vehicle for Traffic Program Supervisor (first year cost) (\$3,700).

Parks and Recreation

- Temporary salaries and supplies for Hargraves after-school tutoring program (\$29,400).

Town Manager

- Part-time administrative clerk (\$9 months) (\$18,100). This position is needed to provide clerical staff support for the Deputy and Assistant Town Managers.

Other

- Interior bus posters to recruit advisory board members (\$1,000).
- On-demand on-line video streaming of Council meetings (\$31,000).
- Downtown Economic Development Initiative (\$60,000).
- Funding for Non-profits for Affordable Rentals Group (\$13,500).
- Orange County Housing and Land Trust additional funding (\$14,000).
- Internship program (\$16,000).

Performance Agreements with Other Agencies

- Level provided for human service contracts, hotel/motel allocations and grants to other agencies in past years (\$489,000). This level represents a continuation of payments made to various recipients for service contracts, allocations and grants at the same level as the current 2005-06 fiscal year. The chart on the following page shows the base budget and recommended priority additions for 2006-07.

BUDGET MESSAGE

Performance Agreements with Other Agencies	Base Budget	Priority Additions
Human Services		
Total Human Services Advisory Board Recommendations	-	225,000
Arts		
Chapel Hill Public Arts Commission	150,000	
Cultural Arts Dinner		500
ArtsCenter		10,000
Total Arts	150,000	10,500
Affordable Housing		
Orange Community Housing and Land Trust		110,000
Total Affordable Housing	-	110,000
Economic Development		
Chapel Hill/Orange County Visitors Bureau	69,000	
North Carolina High School Athletic Association		30,000
Downtown Economic Development Corporation	70,000	-
Orange County Economic Development Commission		6,000
Total Economic Development	139,000	36,000
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 Contributions to Agencies	289,000	489,400

Debt Service

Priority additions also include the first interest payment on bonds proposed for issuance in fall of 2006. The recommended debt issuance has been lowered from \$7.75 million to \$4.95 million, primarily because of the additional design time required from several parks and recreation projects.

BUDGET MESSAGE

Capital Improvement Program

Other optional capital improvements presented for consideration in the 2006-07 budget would total \$951,000. With \$60,000 of funding available from cell tower rental fees, these additions would require a transfer from the General Fund of \$891,000. The capital improvements include the following:

- 75,000 Extraordinary Maintenance, Emergency Repairs
- 25,000 Curb Cut Improvements - ADA Compliance
- 16,000 Jay Street Paving
- 280,000 Town Hall: Replacement of HVAC Units
- 70,000 Mobile 800 MHz Radios for Fire Apparatus and Command Vehicles
- 95,000 Fire Station #3 Capital Maintenance
- 163,000 Fire Station # 2 Capital Maintenance
- 60,000 Small Park Improvements
- 25,000 Building Condition Assessment Program
- 75,000 Parking Lots/Bike and Pedestrian Paths/Greenway Trails
- 47,000 Greenways
- 20,000 Cemetery Beautification

In addition to the capital improvement priority additions listed above, we have included a recommendation to fund the first year cost of debt to finance increased construction costs for the Aquatics Center and Southern Community Park. Increased cost estimates would require additional funding of \$57,000 as the first year cost of financing \$750,000 for the Aquatics Center and \$30,000 as the first year cost of financing \$400,000 for Southern Community Park.

Since the presentation of the March 22, 2006 Budget Status Report, we have also learned that we will need additional time to begin construction on the recommended Estes Drive Community Center renovations. As a result, the debt service for the project will begin in fiscal year 2007-08 rather than in 2006-07.

BUDGET MESSAGE

Other Options

Other options that we are unable to recommend because of concern for budgetary constraints include the following requests by Departments, Advisory Boards and Commissions, and citizens to enhance existing programs and services for 2006-07:

- Temporary salaries for “Learn to Swim” program at A.D. Clark Pool (\$1,800).
- Inspections Plan Reviewer (12 months) (\$71,700).
- Library Materials Processor (temporary) (\$27,800).
- Database Administrator (10 months) (\$66,000).
- Groundskeeper - TOC (6 months) (\$18,400).
- Two Police Officers (9 months) (\$104,333).
- Rescue equipment (Fire) (\$4,700).
- Defibrillators (Parks and Recreation) (\$10,200).
- Online Parks and Recreations registration application with online payment capability (\$12,400).
- Street Reconstruction - Friday Center Drive (\$200,000).
- New vehicle for Streets crew leader (first year cost) (\$3,300).
- Self Contained Breathing Apparatus (Fire) (\$59,100).
- Chapel Hill Public Arts Commission, additional funding (\$35,000).
- A Community Design Commission request for a part time planner.
- An Active Living by Design request for a transportation planner.
- A citizen request for \$60,000 for seed money for a children’s camp at the Piedmont Wildlife Center.
- A Million Solar Roofs Committee request for \$10,000.
- Family House (\$25,000).

General Fund Fund Balance and Summary

The recommended budget including priority options for the General Fund totals \$49.2 million and can be funded at the current tax rate of 47.4 cents. With a budget of \$49.2 million, we would recommend a normal fund balance reserve of 12% to 13% of the budget, or about \$6.3 million.

At the end of fiscal year 2005, we had undesignated fund balance of \$8.3 million. We recommend that the Council retain \$6.3 for normal reserves. We recommend holding the remaining \$2 million of currently available fund balance to reduce the effect of increased debt service requirements in 2007-08 through 2009-10. For more detail, see the projections section beginning on page 39.

BUDGET MESSAGE

V. Transportation Fund

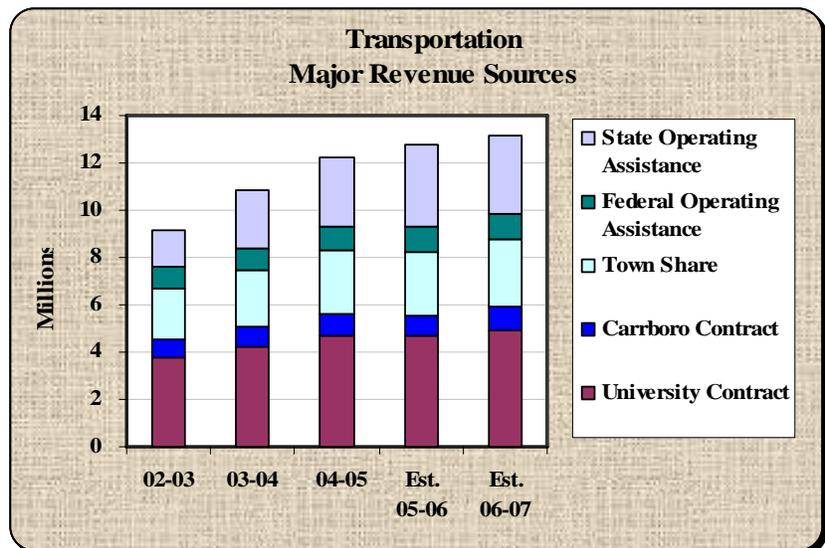
Revenue

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. Because historic ridership is a major component of the calculation of State subsidy to transit systems, and ridership increased by 11% from 2002-03 to 2003-04, the Town received an increase in State funding in 2005-06. The increases in ridership resulting from the fare-free system and reductions in University parking availability as a result of on-going University construction projects continue to put pressure on the transit system. The estimated Transportation base budget that would continue current services totals \$13.6 million and provides a reserve of \$48,000 in Town funds which could be used for additions to the base budget.

Additional Priority Options recommended for consideration by the Council could be accommodated without increasing the current tax rate for the Transportation Fund of 4.8 cents.

Revenue estimates for the base budget include:

- Our preliminary estimate of federal operating assistance includes almost flat funding of \$1,115,000.
- We anticipate that we will receive State operating assistance of \$3,396,000 for 2005-06, \$896,000 more than we originally budgeted. A portion of the increase is one-time and a portion is continuing. We estimate that in 2006-07 we will receive \$3,300,000, an increase of \$800,000 over the original 2005-06 budget.



- University base budget payments would be about \$5.0 million based on its share of requested services.
- Carrboro payments would be about \$973,000.
- The Town's share of costs would be about \$3.0 million.

BUDGET MESSAGE

Our preliminary estimate of total revenues available for next year would be about \$13.6 million including the use of vehicle license fees, as in past years, and \$140,000 of fund balance.

The graph on the previous page shows major revenues for the transit system over the last four years and for the 2006-07 base budget. With revenues as discussed above, fare free service would continue for all routes.

Major Service Levels and Costs

Base Budget

The cost of providing base budget Transportation services next year is estimated to be about \$13.6 million or about the same as the current year's amended budget, with key cost increase areas as noted below:

- Anticipated medical insurance increase of 11 percent (\$94,000).
- Workers' compensation increases (\$63,000).
- Utility cost increase (\$72,000).
- Fuel rate increases (\$313,000).
- Increased costs related to the move to the new Transit Operations Center (\$137,000).

At the Council's suggestion, we have added a fuel reserve of \$160,000 to the Transportation Fund base budget to safeguard against future fuel price increases.

Potential Additions to the Transportation Base Budget

Below is list of priority options for the Transportation base budget that we recommend for consideration by the Council.

- An allocation for employee pay adjustments effective October 1, 2006, which would cost approximately (\$173,000).
- Additional funding for University routes - Bible Church and U route (\$224,000).
- Additional funding for Carrboro feeder service (\$23,000).
- General Fund charges, based on addition of personnel (\$38,000).
- Internship program (\$2,000).

In 2006-07, the University would cover the cost of the specific additional routes requested for University service, and Carrboro would cover the cost of the new feeder service. Pay adjustments or other additions to the base budget would be shared by the Town and our transit partners. The Town pays approximately one-third of the cost of any

BUDGET MESSAGE

additions. Priority options total \$460,000, but shared options total about \$213,000, so the Town portion of the additional costs would be approximately \$70,000.

Transportation Fund Balance and Summary

The Transportation Fund includes an increased budget for fuel and a fuel reserve totaling \$593,000, as well as the costs related to the move to the new Town Operations Center. The budget with priority additions can be funded at the current tax rate of 4.8 cents with use of \$162,000 in fund balance.

VI. OTHER FUNDS

Stormwater Management Fund

Stormwater Management Fund estimated revenues for 2006-07 total about \$1.6 million, approximately the same amount as budgeted in 2005-06. The \$532,000 transfer to the General Fund for current operations is expected to remain about the same as in 2005-06.

We propose the following program changes within the Stormwater Fund:

- Drainage design and investigation (\$10,000).
- Drainage projects within rights-of-way (\$50,000).
- An allocation for employee pay adjustments effective October 1, 2006 (\$10,560).

We could incorporate these changes within budgeted Stormwater revenues of \$1.6 million.

Parking

On-Street Parking

On-street parking revenues are expected to be about \$601,000, about the same as originally budgeted for 2005-06. If the Council approves the proposal for the Downtown Service District to cover the cost of free on-street parking on Saturdays, revenues would be transferred from the Downtown Service District to the On-Street Parking Fund to offset lost revenue. Total revenues would remain unchanged. For 2006-07, we estimate revenues to be sufficient to allow a transfer of about \$127,000 to the General Fund. Costs in the On-Street Parking Fund are expected to total \$600,660, about the same as in the current year.

BUDGET MESSAGE

Off-Street Parking

Revenues for the off-street parking lots are estimated to be about \$1.6 million, about the same as originally budgeted for 2005-06, despite the proposed closure of Lot 5 in February 2007 for the construction of the condominiums, retail space and parking as proposed in the Downtown Economic Development Initiative. The introduction of pay stations in Lot 5 and Lot 3 are expected to increase revenues enough to compensate for the loss of revenue from the proposed closure of Lot 5 in February. Current estimates assume that all other parking would continue to be available.

While the Town has not yet signed a contract to develop Parking Lot 5 and the space above the Wallace Deck, we anticipate that such a contract may be signed in the near future. The development of either lot would produce economic benefits; however, the development would also pose challenges for parking alternatives during redevelopment of the properties. As part of any development proposal, we will need to consider both parking needs and the need to pay debt obligations on the Wallace Deck during construction.

As a part of the Downtown Initiative, the Town has preliminarily agreed to contribute a total of \$500,000 for parking for the affordable housing proposed as a part of the development. We recommend \$300,000 of the needed funds come from fund balance in the Off-Street Parking Fund and that the remaining \$200,000 come from the Town's Revolving Fund for affordable housing. The Council would need to amend the ordinance establishing the Revolving Fund to include the purpose of providing parking for affordable housing. Because the Revolving Fund is a project fund, it is not included as a part of the Town's annual budget.

Housing Fund

Estimated costs for next year total about \$1,638,000, an increase of about \$38,000 from the original 2005-06 budget. Fund balance has been used to achieve a balanced budget, because no increase is anticipated in the federal housing subsidy. Estimation of the subsidy has been made more difficult, because the federal government is requiring a new budgetary year for public housing. The federal subsidy will be determined on a calendar year basis; although the Town will continue to budget on a fiscal year basis. As a result, the Council may need to amend the public housing budget mid-year, when we learn of the amount of the subsidy for public housing for the second half of the fiscal year.

Downtown Service District Fund

The current tax rate of 5.3 cents is estimated to generate about \$79,000 in revenue in 2005-06 and in 2006-07. Currently, \$70,000 of the Downtown District revenues are allocated to the Downtown Partnership. The Chapel Hill Downtown Partnership brings the resources of the Town, University and downtown community together to maintain,

BUDGET MESSAGE

enhance and promote downtown as the social, cultural and spiritual center of Chapel Hill through economic development.

We have included proposals within the Recommended Downtown Service District Budget for increased services to benefit the Downtown Service District: the provision of free on-street parking on Saturdays and the addition of a dedicated groundskeeper. In the budget working paper presented on April 5, we combined the cost of providing free Saturday service for on-street meters and pay stations for a total cost of \$60,000. In the table below we have only included the cost of Saturday on-street meters (\$39,000) and excluded the pay stations. A parking limit of two hours would be enforced by marking tires or other methods. Violators would continue to receive parking tickets.

The two services would require an additional 3.8 cents on the Downtown District tax rate for a total District tax rate of 9.1 cents. Other service improvements for the District, notably establishment of a Downtown Police patrol, are included as a part of the General Fund budget.

Downtown Service District Priority Additions to the Budget

	<u>Amount</u>	<u>Tax Rate Equivalent</u>
1. Free Saturday parking:		
• On-street meters only	39,000	2.6
2. Groundskeeper (9 months)	26,700	1.8
TOTAL ADDITIONS	<u>65,700</u>	4.4
Less Available Revenue	<u>(9,000)</u>	(0.6)
DIFFERENCE	<u><u>56,700</u></u>	<u>3.8</u>

We also recommend that the Council make adjustments to the Downtown Service District border to apply updated and consistent regulations defining participation in the Downtown Service District. Changing District boundaries may have a small affect on the assessed property value of the District (\$151 million as of March 1, 2006). A public hearing on the proposed District boundaries will be conducted on May 22.

Capital Improvements Fund

A transfer of \$283,000 is included in the base General Fund budget proposal. The Capital Improvements Fund also has revenues of \$60,000 from cell tower rental fees, for a total base budget of \$343,000.

BUDGET MESSAGE

Debt Service Fund

A transfer from the General Fund of approximately \$4,827,000 would be required to make scheduled payments for principal and interest on the Town's current long-term debt obligations for next year. The debt payments include about \$2,661,000 for on-going debt and an estimated \$2,166,000 for the debt service payments related to the Town Operations Center. Total base debt service would be about level between 2005-06 and 2006-07, because the planned increase in the Town Operations Center debt is almost entirely offset by the decrease in other preexistent debt for a total base budget debt service of \$4.8 million.

The planned issuance of \$4.95 million in General Obligation bonds in the fall of 2006 would require an interest-only payment of about \$137,000 in 2006-07 and an additional debt service payment of about \$495,000 in 2007-08.

Grants Fund

In 2004-05 we established a Grants Fund for grants previously recorded in the General Fund. The total budget for the Fund in 2005-06 is \$1,079,000. We have not yet received awards of continuing grants such as Transit Planning and Project Turnaround. Any grants awarded and approved by the Council will be included in the budget to be adopted in June.

Transit Capital Reserve Fund

The Transit Capital Reserve Fund holds the local matching funds for the future Transit Operations Center building and future bus and equipment purchases. Because of the expected completion of the Town Operations Center in 2006-07, we will use \$1 million of fund balance to meet the local match requirements for the Transit Operations Center and routine equipment purchases. The transfer from the Transportation Fund will be \$300,000, which together with interest income totals a budget of \$1.4 million.

Housing Loan Trust Fund

The Housing Loan Trust Fund provides funds to help subsidize low-income housing in Chapel Hill. The recommended 2006-07 budget of \$106,000 shows a reduction from the amended 2005-06 budget of \$85,000, because we do not currently expect additional revenues next year other than a small amount of interest earnings. After the 2006-07 budget year, we anticipate that we will have less than \$20,000 remaining in the Housing Loan Trust Fund.

BUDGET MESSAGE

Miscellaneous Funds

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

VII. Issues, Trends Projections

We believe key issues in the next several years that may pose additional challenges include:

- The Downtown Economic Development Initiative to construct mixed use developments at Lots 5 and the Wallace Deck has a number of fiscal and operational challenges. Debt service requirements on the Wallace Deck will continue during construction. We will also need to find alternatives for the parking that will be unavailable during construction.
- Our projections include significant needs for capital repair and maintenance of the Town's assets that would require funding of between \$2.8 million and \$4.7 million in the next five years. We anticipate that increases in construction costs may increase the funding requirements for proposed projects.
- The Council adopted a schedule with General Obligation bond issuances in 2006-07, 2008-09 and 2009-10. Debt financing will increase in each of the years following a bond issuance when debt repayment begins. While we have recommended allocating one-time fund balance of \$2 million over 2007-08 to 2009-10, we have not been able to eliminate entirely the effect of increased debt service on the budget requirements.
- The Fire Department requested the addition of a total of eighteen firefighters over a three year period to achieve an appropriately sized force for the Town of Chapel Hill. With the step that the Council recently took to add six firefighters to the force, and with the priority addition of another six firefighters as a part of the 2006-07 budget, we would have twelve of the requested addition. We recommend that the Council approach the State legislature again next year for additional funding to bring the force to the full complement of eighteen additional firefighters.

BUDGET MESSAGE

VIII. Summary

Immediately following the Budget Message are charts showing revenues and cost estimates for 2006-07 for the General Fund and for the Transportation Fund.

We look forward to discussing the issues presented in the budget and will furnish any additional information needed by the Council in its budget deliberations.

Respectfully submitted,

W. Calvin Horton
Town Manager