

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 2006-07 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

In fiscal year 2004-05, the Council issued the first \$4 million of the \$29.36 million of General Obligation bonds approved by voters in November 2003. The Council's adopted budget includes a sale of \$4.95 million in 2006-07 with two remaining sales scheduled as follows:

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

See the Capital Program, page 255, for a more detailed discussion of the need for changes to match project timing with financings.

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

While the Town has historically had low debt as a percentage of budget, the Council would need to determine how to balance the needs for capital improvements with tax rate alternatives. The debt to budget ratio, along with other measures of fiscal well-being, affects the Town's bond ratings. Retention of the Town's current AAA and AA+ ratings saves interest costs. The adopted 2006-07 budget does not meet the goal of limiting debt service to 10% of the budget. We project that debt service including installment debt would vary between 12% and 15% as a percentage of budget over

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the next five years. We believe that the higher debt service to total budget ratios would be satisfactory, so long as other indicators of the Town's financial well-being remain strong.

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

The main points included in the revenue and cost projections for the General Fund and the Transportation Fund are summarized below. The differences between revenues and expenditures are expressed as tax rate equivalents. As the budget increases, the amount of reserved fund balance needs to increase proportionally to retain fund balance reserves at 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 2006-07 is about \$5.46 billion. Estimated growth in assessed valuation over the next five years is estimated to be about 2.5 % annually.

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

Estimated additions to the tax base, at the adopted tax rate for 2006-07 of 47.4 cents for the General Fund, would yield increases in property tax revenues of about \$675,000 each year. Projections do not

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include the potential impacts of general property revaluations scheduled to occur for fiscal year 2010 and every four years thereafter.

The second largest source of Town revenue, sales tax, is a more volatile source than property tax. Revenues increase when the economy is good and grow at a slower pace, or may actually decrease, when the economy is slow. We have estimated an annual 5% increase in sales tax beginning in 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), 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 2006-07) with minimal projected increases over the next 5 years, fuel tax funds for street maintenance (about \$1.5 million in 2006-07) with no projected growth over the next five years, and the beer and wine tax (about \$225,000 in 2006-07) with minimal growth anticipated beginning in 2008-09.

We assume continuation of State Fire Protection funds at the level received in 2005-06, \$1,064,000. This level reflects an increase of \$214,000 over 2004-05 resulting from legislation to increase the allocation State Fire Protection Funds to units with needs to protect State properties. We recommend that the Council continue to seek additional fire protection funding and that additional funds should be used to complete the staffing increase recommended by the Fire Chief.

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

Other revenues are expected to remain about the same with the exception of appropriated fund balance. In recent years, \$800,000 from fund balance has been included in projections for future years. Based on experience, we believe it would be reasonable to increase the fund balance carryforward to \$1,000,000 as shown in the projections.

Operating and Capital Improvement Costs

Projected costs for general operations are based on a continuation of current service levels and programs for 2006-07 with the exception of provisions for the operational costs associated with the new Town Operations Center that is scheduled to open for business in the middle of 2006-07. Personnel and operating costs are based on assumptions as noted on the attached tables. The projections also include estimated contributions required to provide needed capital maintenance for future years. In keeping with recent funding levels approved by the Town Council, the projected capital maintenance budget for the next five years is \$1.2 million. While the project requests reflected

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in the 15-year capital plan are usually in excess of the \$1.2 million available, this funding demonstrates a commitment to maintaining and renovating Town properties.

Beginning in 2006-07, we have estimated increased personnel costs, including salaries and benefits, totaling 4% annually and increased operations costs totaling 3% annually. Projections show that the greatest changes for the overall Town budget could be debt service related to capital improvements.

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

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

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TRANSPORTATION FUND

The Council has indicated that it plans to continue working with its partners, the University of North Carolina and the Town of Carrboro, to continue fare-free transit services. The Transportation Fund budget for 2006-07 is based on the continuation of federal and State operating assistance for the Transportation System at current levels. Projections of the budget costs with these assumptions indicate that continuation of the expanded fare free transit system would require minimal adjustments in the Transportation tax rate over the next few years. However, projections do not include provisions for adding routes or otherwise expanding service levels or for fuel increases above the general rate of operating cost increases.

The Transportation Fund shows a need for a modest amount of additional revenues, a reduction in costs, or a need for a tax increase beginning in 2007-08. The 2006-07 adopted budget preserves the current Transportation Fund tax rate. Subsequent years show the need for .4 cent tax increase for 2007-08 and .3 cent tax increase in all years until 2011-12. Alternatively, an equivalent in other revenues or cost reductions could cover the shortfall between revenues and costs.

CONCLUSION

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

Tax Rate Equivalents of Needed Revenue (in cents)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	Adopted	Estimated Increase	Estimated Increase	Estimated Increase	Estimated Increase	Estimated Increase
General Fund	47.4	1.6	2.0	2.4	2.0	0.8
Transportation Fund	4.8	0.4	0.3	0.3	0.3	0.3
Total	52.2	2.0	2.3	2.7	2.3	1.1

A tax rate increase of 2.0 cents is equivalent to \$1,092,000 computed on the current tax base. This amount is equivalent to 1.7% of the combined estimated budgets for the General and Transportation Funds in 2007-08.

PROJECTED TAX BASE
2006/2007 - 2011/2012

Category	2006-07 Adopted	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated
Assessed Valuation (Real & Personal Property)	5,460,000,000	5,596,500,000	5,736,410,000	5,879,820,000	6,026,820,000	6,177,490,000
Tax Levy* - General Fund Only at 47.4/100	25,880,000	26,530,000	27,190,000	27,870,000	28,570,000	29,280,000
Estimated Collections at 99.2%	25,600,000	26,320,000	26,970,000	27,650,000	28,340,000	29,050,000
Estimated Prior Year Collections	113,000	113,000	113,000	113,000	113,000	113,000
TOTALS	25,713,000	26,433,000	27,083,000	27,763,000	28,453,000	29,163,000

* Based on a constant tax rate of 47.4 cents for the General Fund through 2010-11, with estimated growth of 2.5% 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 \$546,000 in fiscal year 2006-07.

GENERAL FUND
PROJECTED STATE-SHARED REVENUES
2006/2007 - 2011/2012

Category	2006-07 Adopted	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated
Franchise Tax	2,056,000	2,100,000	2,150,000	2,150,000	2,150,000	2,150,000
Beer, Wine Tax	225,000	225,000	227,000	229,000	231,000	233,000
1% Local Option Sales Tax ¹	3,664,000	3,847,000	4,039,000	4,241,000	4,453,000	4,676,000
1/2% Local Option Sales Tax (1984) ¹	2,092,000	2,197,000	2,307,000	2,422,000	2,543,000	2,670,000
1/2% Local Option Sales Tax (1986) ¹	2,070,000	2,174,000	2,283,000	2,397,000	2,517,000	2,643,000
1/2% Local Option Sales Tax (2002) ¹	1,733,000	1,820,000	1,911,000	2,007,000	2,107,000	2,212,000
Total Local Option Sales Taxes	9,559,000	10,038,000	10,540,000	11,067,000	11,620,000	12,201,000
Fuel Tax (Powell Bill)	1,492,000	1,529,000	1,529,000	1,529,000	1,529,000	1,529,000
State Fire Protection	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000
TOTAL	14,396,000	14,956,000	15,510,000	16,039,000	16,594,000	17,177,000

¹ Estimated increase of 5% annually.

GENERAL FUND
REVENUE PROJECTIONS
2006/2007 - 2011/2012

Category	2006-07 Adopted	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated
Property Taxes*	25,713,000	26,433,000	27,083,000	27,763,000	28,453,000	29,163,000
Other Taxes & Licenses	1,235,000	1,260,000	1,285,000	1,310,000	1,335,000	1,360,000
Licenses/Permits/Fines/ Forfeitures	1,532,000	1,532,000	1,532,000	1,532,000	1,532,000	1,532,000
State-Shared Revenues	14,396,000	14,956,000	15,510,000	16,039,000	16,594,000	17,177,000
Grants	424,000	424,000	424,000	424,000	424,000	424,000
Service Charges	1,559,000	1,559,000	1,569,000	1,579,000	1,589,000	1,599,000
Interest on Investments	405,000	405,000	405,000	405,000	405,000	405,000
Other Revenues	306,000	306,000	306,000	306,000	306,000	306,000
Interfund Transfers	1,798,000	1,798,000	1,861,000	1,861,000	1,861,000	1,861,000
TOTAL	47,368,000	48,673,000	49,975,000	51,219,000	52,499,000	53,827,000

* Based on constant tax rate of 47.4 cents for the General Fund through 2011-12.

**GENERAL FUND
PROJECTED COSTS
2006/2007 - 2011/2012**

	2006-07 Adopted	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated
Personnel Services ^a	30,943,000	32,181,000	33,468,000	34,807,000	36,199,000	37,647,000
Operations						
Operating & Maintenance ^b	11,997,000	11,853,000	12,209,000	12,575,000	12,952,000	13,341,000
Existing Debt Service	4,726,000	5,076,000	4,935,000	4,848,000	4,182,000	4,182,000
Capital						
Equipment ^c	68,000	68,000	68,000	68,000	68,000	68,000
Transfer to Capital Improvements Program ^d	1,275,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Other						
Human Service contracts, hotel/motel allocations and grants to other agencies	-	489,000	489,000	489,000	489,000	489,000
New General Obligation Debt Service - 2006-07 Issue (\$4,950,000)	137,000	495,000	483,000	471,000	458,000	458,000
New General Obligation Debt Service - 2008-09 Issue (\$11,455,000)	-	-	298,000	1,203,000	1,172,000	1,140,000
New General Obligation Debt Service - 2009-10 Issue (\$8,955,000)	-	-	-	247,000	941,000	916,000
New Installment Debt Service - \$750,000 Aquatics	56,000	111,000	107,000	103,000	99,000	96,000
New Installment Debt Service - \$600,000 Southern Community Park	45,000	89,000	86,000	83,000	80,000	77,000
TOTALS	49,247,000	51,562,000	53,343,000	56,094,000	57,840,000	59,614,000

Assumptions for years after 06-07, based on base cost estimates for 2006-07.

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

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

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

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

GENERAL FUND
ANALYSIS OF REVENUE AND COST PROJECTIONS
2006/2007 - 2011/2012

	2006-07 Adopted	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated
Estimated Total Costs	49,247,000	51,562,000	53,343,000	56,094,000	57,840,000	59,614,000
Estimated Total Revenues	47,368,000	48,673,000	49,975,000	51,219,000	52,499,000	53,827,000
Revenues Needed	N/A	2,889,000	3,368,000	4,875,000	5,341,000	5,787,000
Fund Balance Available	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
One-time use of Fund Balance	879,000	1,000,000	400,000	600,000	-	-
Additional Revenue Needed/ (Available)	-	889,000	1,968,000	3,275,000	4,341,000	4,787,000
Change in Tax Rate in Specific Years		1.6	2.0	2.4	2.0	0.8

Value of a cent = \$546,000

***TRANSPORTATION FUND
REVENUE PROJECTIONS
2006/2007 - 2011/2012***

	2006-07 Adopted	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated
Taxes ^a	2,598,000	2,663,000	2,730,000	2,798,000	2,868,000	2,940,000
Vehicle Taxes ^b	140,000	144,000	148,000	152,000	156,000	160,000
Federal Operating Assistance ^c	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000
State Operating Assistance ^c	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
UNC Contract (Net) ^d	5,297,000	5,307,000	5,317,000	5,327,000	5,337,000	5,347,000
Carrboro Contract (Net) ^d	1,008,000	1,010,000	1,012,000	1,014,000	1,016,000	1,018,000
Service Charges ^e	441,000	441,000	441,000	441,000	441,000	441,000
Other	10,000	10,000	10,000	10,000	10,000	10,000
Fund Balance	162,000	-	-	-	-	-
TOTAL	14,071,000	13,990,000	14,073,000	14,157,000	14,243,000	14,331,000

Revenue Notes:

- ^a Based on the adopted tax rate of 4.8 cents through 2011-12.
- ^b Assumes continued levy of \$5 vehicle tax for Transportation begun in 2000-01.
- ^c Assumes continuing constant level of Federal and State Operating Assistance over the five-year period.
- ^d Assumes continued participation by the University and Carrboro at an annual growth rate of 1.8%, including assumptions on cost sharing for adopted fare-free services. (Amounts net of federal and State rebates for operating assistance.)
- ^e Based on continuing fare-free services, with remaining service charge revenue generated primarily by Tarheel Express.

***TRANSPORTATION FUND
COST PROJECTIONS
2006/2007 - 2011/2012***

	2006-07 Adopted	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated
Personnel Services ^a	9,432,000	9,809,300	10,201,700	10,609,800	11,034,200	11,475,600
Operations ^b	4,339,000	4,469,000	4,603,000	4,741,000	4,883,000	5,029,000
Capital Reserve Fund ^c	300,000	300,000	300,000	300,000	300,000	300,000
TOTAL	14,071,000	14,578,300	15,104,700	15,650,800	16,217,200	16,804,600

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

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

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

***TRANSPORTATION FUND
REVENUE AND COST PROJECTIONS
2006/2007 - 2011/2012***

	2006-07 Adopted	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated
Estimated Costs	14,071,000	14,578,300	15,104,700	15,650,800	16,217,200	16,804,600
Estimated Revenues	14,071,000	13,990,000	14,073,000	14,157,000	14,243,000	14,331,000
Revenue Needed/(Excess)	N/A	588,300	1,031,700	1,493,800	1,974,200	2,473,600
Fund Balance Available		-	-	-	-	-
Additional Revenue Needed		588,300	1,031,700	1,493,800	1,974,200	2,473,600
Change in Tax Rate in Specific Years		0.4	0.3	0.3	0.3	0.3

1 cent on the tax rate = \$546,000

Assumptions on future revenues and costs:

- Same revenue sources as available in 2006-07 (assumes current level of State funding for operating assistance).
 - Assumes constant level of federal operating assistance over the five-year period. Assumes funding of capital subsidies at level of 90% of total capital costs.
 - Same personnel as recommended for 2006-07; same routes and service levels as recommended for 2006-07.
 - Includes estimated adjustments of 4% in salaries and benefits.
 - Includes estimated adjustments of 3% in operating costs.
 - Includes normal local matching capital contributions for future bus replacement.
 - Assumes the Town of Chapel Hill's portion of increased system costs is approximately 33%.
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