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June 10, 2013

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

In accordance with the Local Government Budget and Fiscal Control Act, I hereby submit the adopted annual budget for the Town of Chapel Hill for Fiscal Year 2013-14.

At the 2013 Council Planning Retreat, I proposed a set of priorities that would guide development of the 2013-14 Recommended Budget:

- Continue to develop current efforts and find new ways for Chapel Hill 2020 to guide our work:
 - Priority Budgeting
 - Strategic Planning
 - Asset Management
 - Systemic Thinking
 - Performance Metrics
 - Strategic Partnerships
- Make a successful and cost effective move to our new Library.
- Transition our solid waste disposal to Durham. Plan for a short term transfer station in Chapel Hill. Work with Durham and others for a long term sustainable solution to waste disposal.
- Consider strategic solutions to the financial sustainability of our transportation systems.
- Focus on a nimble organization that retains, develops, rewards and attracts excellent employees to provide excellent service.
- Increase support for technology
- Develop new approaches to programming for youth

The Adopted Budget addresses these priorities. It is balanced with a 1.0 cent tax increase in the General Fund to pay for, among other things, costs related to the closure of the landfill, the operating costs for the expanded Library, investments in technology and funding in the CIP for the Ephesus/Fordham construction project engineering. I am also

recommending a 1.0 cent tax increase for Transit in order to meet our funding obligation to our Transit partners and to replace state and federal funding that has been reduced. The Recommended Budget assumes growth in the property tax base of 0.75% and 2% growth in sales taxes. The Recommended Budget includes an allowance for a 2% pay increase for all regular Town employees, implementation of the first two phases of the Classification and Compensation Plan and a 4% increase in the cost of employee medical insurance for active employees. I am including savings accomplished by modifying our post 65 retiree healthcare, a change which will also reduce our OPEB liability while retaining excellent coverage for our retirees. The net increase in the Town's total cost of providing medical insurance coverage to active and retired employees for FY14, including the cost of the new healthcare reform fees, is about 1%.

Background

Despite the poor economic climate since the fiscal crisis of 2008 and the sluggish pace of growth in the current recovery, the Town has made progress toward its goals. In each of the past four budget cycles we have made difficult choices to balance our need to maintain high service levels and to pursue forward-looking strategic initiatives, such as Chapel Hill 2020 and its implementation. Our reality has been little or no revenue growth, while costs continued to increase. In many cases we compromised and delayed our original vision, making choices that were unsustainable in the hope that a robust recovery would allow us to pick up where we left off before the economic crisis. Unfortunately that is not the case. We cannot make up for the lost revenue growth of the past four years and continue to make progress toward our vision without raising additional revenues through a tax increase.

Leading up to the FY14 budget cycle we anticipated the need to raise the General Fund and Transit Fund property tax rates. In the General Fund, the increased costs for solid waste disposal, the cost of operating the expanded library and the implementation of the classification and compensation plan together almost ensured that our revenues would not keep pace with our costs for FY14. Taken individually, each of these three factors could ultimately cost the equivalent of 1 cent on the tax rate. We have kept the recommended increase to one cent by phasing the classification and compensation plan implementation over two years, by reducing the weekly hours of the Library from 68 to 58 and by limiting new initiatives throughout the budget.

In the Transit Fund the conditions that led to the recommendation of a ½ cent Transit tax increase in last year's recommended budget have not improved. In fact, they have gotten worse and we are now recommending a 1 cent Transit Tax increase for FY14. The additional loss of state funding for FY14 forces our hand with regard to the increase in the Transit Tax and puts into question the future viability of our fare-free system should this trend continue.

Solid Waste

Due to the unexpected early closure of the Orange County Landfill, the Town has been forced to make alternative arrangements for the disposal of solid waste. The short-term solution is to haul solid waste to Durham in collection vehicles. This has necessitated the replacement of existing vehicles with dual axle trucks that are better suited for the longer distances. We will also incur additional maintenance costs for the extra miles and additional personnel costs for the additional time needed to go to Durham and back. The long-term solution will, most likely, include the creation of a transfer station. There is a \$3 million project listed in the long-term capital plan for the construction of a transfer station on Town property.

The increase in the FY14 operating budget due to the closure of the Orange County Landfill is \$355,000. Although it is not reflected in this recommended budget we anticipate that there will be a change in the delivery of recycling services in FY15. We are currently exploring alternatives and will report back to Council in FY14.

Classification and Compensation Plan

Consistent with its adopted Goals, Council adopted a “Compensation Philosophy that balances retention and recruitment, employee interests and financial sustainability”. We initiated a comprehensive Pay and Classification Study aligned with that Philosophy and with the Town’s “*Workforce of the Future*” initiative. The purpose of the study is to update the Town’s classification and compensation system to better reflect the current responsibilities and market value of Town jobs. In essence, the Class and Compensation plan is a “reset” of our policy and practice of paying employees.



Implementation of the plan includes the following three phases:

1. Raising employees that are currently below the lowest step in their new classification to the minimum step.
2. Moving employees that fall between steps in the new pay scale to the next step in the new scale.
3. Step adjustments for time in position up to the mid-point of the band.

The FY14 Budget includes funding for the first two phases of the implementation of the new Classification and Compensation Plan effective October 2013. The total cost for implementation of the first two steps is \$149,000 for the General Fund and \$252,700 for all funds.

Considering the third phase of implementation (changes related to time in position) requires ongoing communication with our employees about the choices and tradeoffs involved. These choices include existing strategies such as longevity pay as well as enhanced incentives for skills and experience gained by an employee for on the job performance. We will initiate those conversations in July with the goal of a report to Council in January, 2014. Funding of the third phase of implementation will be evaluated in the FY15 budget cycle.

In addition to the implementation of the first two steps of the Classification and Compensation Plan, the recommended budget also includes an across the board 2% pay adjustment to employee salaries. This recommendation is consistent with the request of the Employee Forum in their presentation to Council to balance implementation of the plan with an across the board increase. The cost of this adjustment is \$433,000 for the General Fund.

The Town's ability to maintain a high level of service delivery and high customer satisfaction is directly attributable to the quality and dedication of our workforce. As shown in the table below, pay adjustments for FY09 through FY13 totaled 6.0% while inflation during that period was 8.5% (Bureau of Labor Statistics CPI Inflation Calculator). In order to keep up with inflation and to also provide an off-set to the increases in the employee cost of dependent care premiums, that have increased far in excess of the rate of inflation, I am recommending a 2% salary adjustment for all regular employees. This increase is consistent with other jurisdictions in our area and will keep our pay rates competitive so that we can retain and recruit excellent employees.

	Pay Adjustment	One-time Payment	Health Ins. Increase
FY2008-09	3%	0	10.0%
FY2009-10	0	0	17.1%
FY2010-11	0	\$800	13.9%
FY2011-12	0	\$800	10.1%
FY2012-13	3%	0	(3.0%)
FY2013-14*	2%	0	4%

**Proposed*

The Class and Compensation Plan is one of a number of workforce initiatives that are currently underway including the following:

- **Employee Performance Management and Development System** - The purpose of this project is to create a system to manage employee performance in order to achieve the goals of the Town and promote development opportunities for its employees. The system will provide clarity in job expectations and successful job performance and will reinforce two-way communication among supervisors and their employees and the Town's commitment to being a learning organization.
- **Employee Engagement Study** - The Town partnered with the UNC School of Government in the fall to conduct an employee engagement study about the Town workplace. The study is important on several fronts. The Town is currently engaged in several initiatives in response to employee feedback about organizational policies and procedures, compensation and classification, and employment performance

management and development. The study will solicit employee perspectives on these topics so we can measure the effects of changes made over time. Additionally, we are interested in learning more about employee morale in the workplace in general, including perspectives on how the organization values its workers as employees and members of a team.

- **The Personnel Policy and Procedure Improvement Project** - The review was initiated based on employee concerns that policies were not clear and were not consistently applied throughout the Town. The new and revised policies replace and supersede any previous policies, sections of the employee handbook, or unwritten policies or practices covering the same subjects. The personnel policy review and revision process was designed to involve employee participation and included 20 feedback meetings with over 90 employees as well as over 20 trainings for 130 supervisors.

Street Paving

As an interim measure beginning in FY12 to help balance the General Fund Budget, the Town used bond proceeds as a funding source for the annual street repaving program. For FY12 and FY13 the Town used about \$600,000 in bond funds for the annual street resurfacing program. The general obligation bonds available for that purpose have been exhausted, creating a \$550,000 shortfall in the street paving program.

In order to help bridge the gap in resurfacing funding the recommended FY14 budget relies on repurposing a portion of the 2012 two-thirds bonds originally designated for bridge replacement. Cost estimates for the Bolinwood Drive Bridge exceeded the amount budgeted in two-thirds bond funds and there are not sufficient funds available in the pay-go portion of the CIP to make up the difference. Therefore we are recommending using the remaining funding for that project to fund street repaving in FY14. There are no immediate safety issues associated with this delay and this project can be considered for funding with the next two-thirds bonds issue planned for FY15. The amount available from two-thirds bonds for the Bolinwood Bridge project is \$380,000. Added to \$111,000 of street resurfacing funds in the operating budget, there is a total of \$491,000 recommended for street resurfacing in FY14, or about 74% of the amount budgeted in the current year.

Retiree Healthcare

Beginning in FY11 all new Town employees have been enrolled in a defined contribution rather than a defined benefit plan for retiree health care. The defined contribution plan does not create a long-term funding responsibility for the Town, thereby eliminating the growth of the long-term retiree healthcare liability. There are currently 116 members of the defined contribution plan.

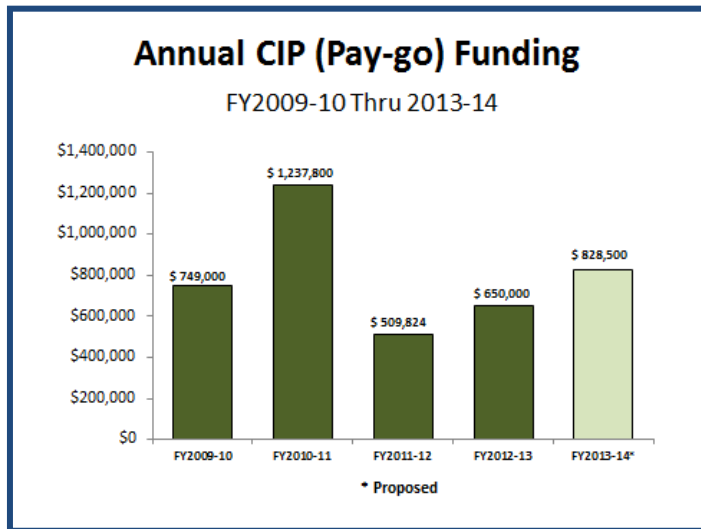
As of the last valuation there were 892 members of the defined benefit plan with 178 receiving benefits. Because of the long-term nature of the commitment (many members will not begin to receive benefits until more than 30 years from now) and the high projected rate of health care inflation, the amount of the unfunded liability, calculated on an actuarial basis, is astronomical. The annual pay-go amount for retirees that are currently receiving benefits is about \$1.2 million. To further reduce our liability we are working to establish post 65 retirees on a new health insurance plan (separate from active employees) that will have less cost and more appropriate coverage for coordinating with Medicare.

In FY09, FY10 and FY11 the Town set-aside \$400,000 as a first step in directly funding the long-term liability for retiree health care coverage. The Town has not made any subsequent payments toward the liability, choosing instead to work on strategies to control the cost, including:

- Elimination of the defined benefit plan for new employees, as described above
- Creating a separate health care plan for post 65 retirees
- Reducing the number of employees currently covered by the defined benefit plan through conversion to defined contribution

Capital Improvements

Traditionally the Town has tried to maintain an annual pay-go CIP of about \$1 million to fund small capital projects. This investment in public assets has been reduced in recent years due to budget pressure. For FY14 the recommended budget includes \$828,500 for pay-go CIP. Funding sources include a transfer from the General Fund (\$758,500), cell tower rental fees (\$55,000) and other revenues (\$15,000) for an increase of \$178,500 over FY13. In addition to annual appropriations for maintenance of Town buildings, parks and other facilities, the FY14 appropriation allows for the addition of the Ephesus/Fordham construction project engineering and the purchase of a mobile stage and police in-car cameras.



Technology Initiatives

IT Business Analyst - The Town, as a dynamic organization, must keep pace with changes in technology that shape the way that we receive, analyze and communicate information. There is an expectation that the Town will “keep-up” with the newest trends in technology and information systems. However the Town’s current IT function is primarily a support organization that provides technical assistance to the Town’s 650 users and maintains the Town’s network of 130 servers running a variety of applications. The demands of keeping the Town’s technology assets up and running and providing responsive service to all users consumes the bulk of the IT staff’s time and resources.

There is little capacity for other value added services from our IT staff. The most significant gap is in business analysis and pre-implementation planning. While we are maintaining our enterprise infrastructure, we are able to pay little attention to the vocational needs of our departments. On a departmental level we are very good at identifying problems and deficiencies in our current systems and the need for improvements in efficiency and effectiveness that can be facilitated by updated systems and new technology. We lack the ability to translate our needs into business plans that will lead to the successful implementation of new systems. A lack of the business analysis role can result in “jumping at solutions” without fully understanding the problem. This in turn can lead to failed implementations.

The FY2013-14 Adopted Budget includes a Business Analyst position in the IT Division. This position will work with departments to develop technology solutions based on need, capacity and available resources, greatly increasing the potential for efficient and successful implementation of new technology.

Technology Pool - In conjunction with the creation of the Business Analyst position, the FY14 budget includes a Technology Pool to fund new technology projects stemming from the business analysis process. The pool represents funding for the technology projects requested in departmental budgets. Rather than evaluating these projects through the budget process, which is not geared to evaluate technology projects, the pool funding will be allocated to projects based on review by the business analyst and coordinated through an internal technology steering committee.

GIG – U - The Town of Chapel Hill is working with a regional group that includes UNC Chapel Hill, Carrboro, Duke University, the City of Durham, NC State University, the City of Raleigh, the Triangle J Council of Governments, and Research Triangle Park to deliver gigabit speeds to the homes and

businesses of these communities. This project is part of a larger initiative that includes 37 research universities across the country. The GIG-U Universities and their respective local governments across the nation are seeking to partner with telecommunications



providers who are able to implement high speed broadband at a reasonable cost. The local group North Carolina Next Generation network (NC NGN) has issued an RFP that received responses from eight telecommunications companies. Representatives of the stakeholders of NC NGN are currently reviewing the responses. The Universities initiated the GIG-U project, but ultimately the Town will be the “owner” of the project since it involves providing a service across the municipal jurisdiction using the Town Fiber Network (TFN). Therefore how NC NGN will be implemented in Chapel Hill will be decided by Council.

We believe that due to the hostile legislative climate for municipal initiated broadband services, GIG-U and NC NGN represent our best chance of achieving a wider use of our enterprise fiber assets.

Our Technology priorities in this budget also include

- An administrator for the technology based permitting and information system known as LAMA. The full implementation of this system for staff and community access will be accelerated by the addition of this position.
- A social media position in Communications and Public Affairs available to assist all departments in the use of social media for communication with our community.

The Expanded Library

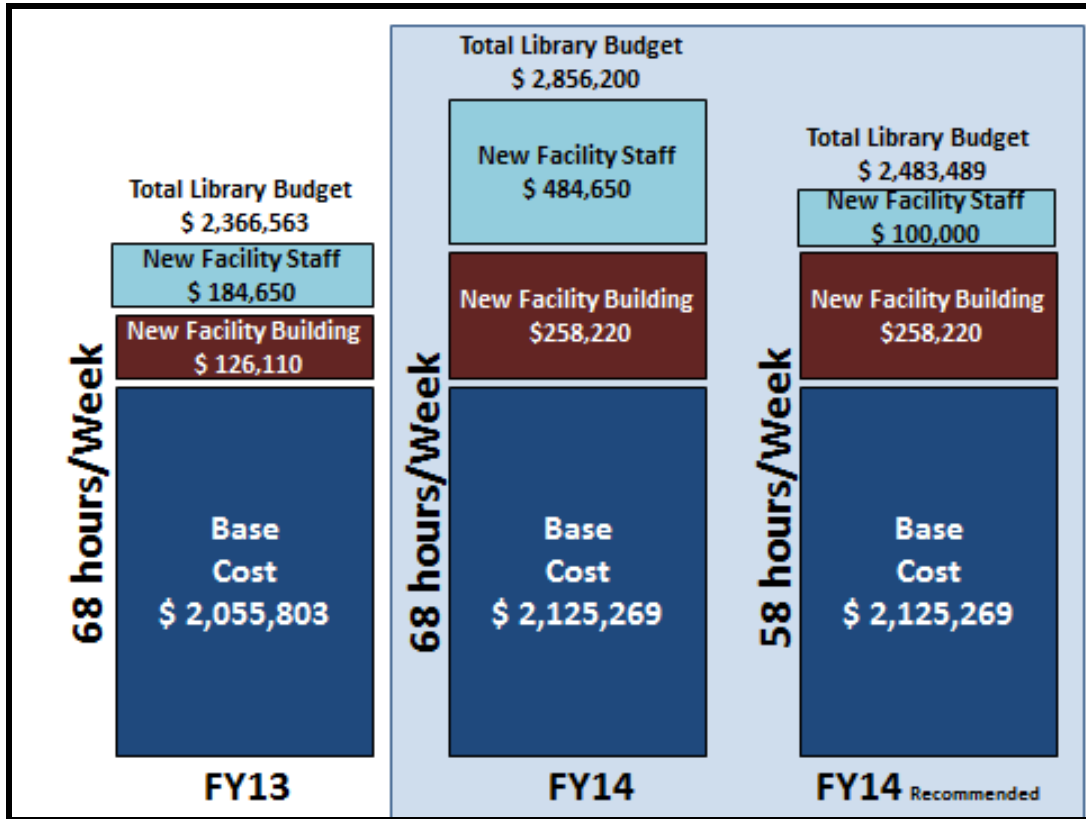


In 2003 Chapel Hill citizens voted to approve a referendum to borrow funds for an expanded Library. In April of 2013, ten years after receiving 76% “yes” votes, the new expanded Library has opened and is servicing an ever-expanding group of patrons. Throughout the last 10 years of planning, designing, delaying and finally constructing, the community and the Council have been unwavering in their support of the expansion. The fact that the Town moved forward with the projects during an economic downturn is testimony to the importance of the Library as a public building and institution within Chapel Hill.

The Library is a special place for the residents of Chapel Hill and Orange County. It is a hub for the community and a resource for all. In a state where Libraries are predominantly a County “function” the presence of a state-of-the-art 63,800 square foot Library with the largest circulation per capita in the state is a source of pride and awe. The decision to move forward with the project was made despite some concern for the ongoing operating cost of a facility more than twice the size of its previous incarnation. At the time of the decision to move ahead with the construction project it was estimated that the additional costs to operate the expanded Library would be the equivalent of about

one penny on the tax rate. In order to control costs Library hours were cut from 68 to 54 hours per week concurrent with the opening of the new facility.

The FY13 budget contained funding to hire new staff so that the expanded Library could operate for the full 68 hour weekly schedule, however those new positions were not hired due to the uncertainty that we could afford to maintain these positions in the FY14 budget. As shown in the following graph the library costs have increased \$132,110 for building related costs, such as utilities and the cost of increasing the weekly hours to 64 would be about \$300,000. The FY14 adopted budget includes \$248,000 for additional library staffing in order to add hours as we determine through community input where those hours are most needed. While that currently appears to be on Saturday, we will work with our new director to bring the total weekly hours to 58. We will report to Council in January 2014 on the status of library operations in anticipation of the FY15 Budget. This total adopted budget for the expanded Library for FY14 is \$2,662,885 or 12.5% above the FY13 budget and 24.8% higher than the actual cost in FY2011-12, the last year that did not include library expansion costs.



Stormwater Fund

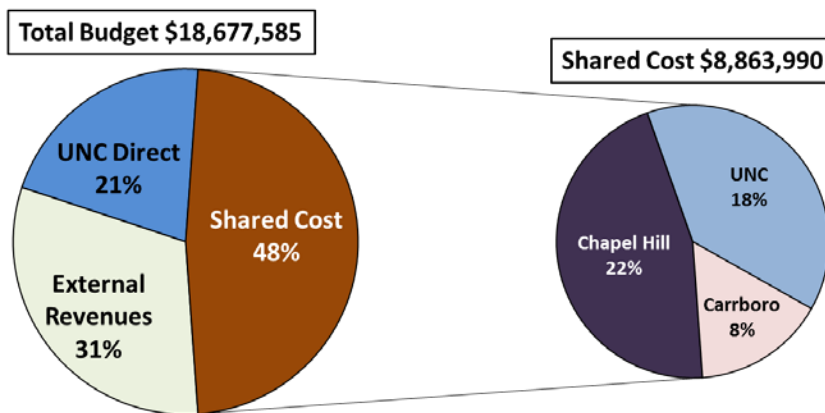
The FY14 Stormwater fund budget includes a \$9 per Equivalent Rate Unit (ERU) fee increase, bringing the total fee to \$48 per ERU. The Stormwater fee has not increased since the creation of the Stormwater Management Fund in 2004 despite a 40% increase in

the Stormwater operating budget. As it stands, the Stormwater fund is using fund balance to pay for normal operating expenses. The fund balance is sufficient to support the operating budget for a few more years, but does not provide for capital projects. Currently there is a high priority stormwater project, the Elliot Road culvert replacement estimated at \$750,000 that would drain most of the fund balance if the rate increase is not approved. The Elliot Road culvert is one of many projects that will need to be addressed in the next few years and the rate increase will help to create capacity to address these important projects. In keeping with the Council’s interest in development of this area, the recommended budget includes funding for this project, requiring a fund balance appropriation of \$479,496, offset by an increase in fees of \$411,000.

Transit Fund

Over the past few years as fuel prices have trended upwards, fleet maintenance costs have increased and state and federal funding sources have become less dependable. The Transit budget has become more difficult to balance. For FY13 the only way to balance the budget without a tax increase was to “borrow” money from the General Fund. Obviously, this is an unsustainable trend. The Transit Partners are pursuing long-term sustainability strategies through an independent study. For FY14 the Transit Budget picture has been further clouded by a major reduction in State Funding and changes in the sales tax structure that will provide partial relief from the State funding shortfall.

The FY14 Transit Budget is balanced with a 1 cent tax rate increase. This increase is needed to maintain services at the current level and to address increasing personnel and operating costs. This will be the first tax increase for transit since FY07. Transit’s budget is split between the three funding partners after deducting the cost of routes that benefit UNC exclusively (UNC Direct) and the amount of anticipated revenues from state and federal sources (External Revenues), as shown below.



Beginning in FY14 the Town will begin charging for its 1,238 park & ride spaces. This change in policy was necessitated by the University’s decision to begin charging for

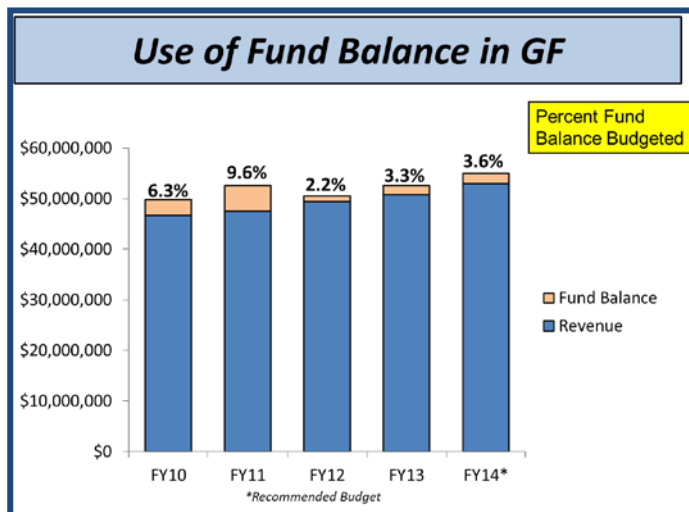
parking in the University’s Park & Ride lots. If the Town maintained its free park and ride policy after the University starts charging, the Town’s lots would quickly overflow creating traffic and enforcement issues. Because of the start-up costs associated with charging for park and ride, the net revenue from operating the lots in the first year will be minimal. The University will be paying the Town \$150,000 annually to allow University permit holders to use Town park and ride lots.

A large portion of the Transit Fund’s revenues come from state and federal funding. These “external revenues” usually make up about 30% of the fund’s total revenue. For FY14 state assistance is being reduced drastically from \$3,077,868 (budgeted) in FY13 to \$2,205,868 projected for FY14, a reduction of \$872,000.

In November of 2012, Orange County voters approved a ½ cent sales tax for Transit. Triangle Transit is working on the implementation of the ½ cent transit tax as well as vehicle registration fee (VRF) increases of \$7 and \$3. The adopted budget includes \$472,000 in vehicle fees from this new source. Additional revenues from these sources will be budgeted when they are collected. The Transit budget is balanced with the use of about \$87,000 of fund balance.

Fund Balance

Beginning in FY12 we have reduced our reliance on non-current revenues (fund balance) in the General Fund. The FY14 recommended budget seeks to keep the use of fund balance to a manageable level and uses \$1,973,201 million of fund balance, about 3.6% of total revenues, to help balance the budget. We believe that this is an appropriate and sustainable level of fund balance use.



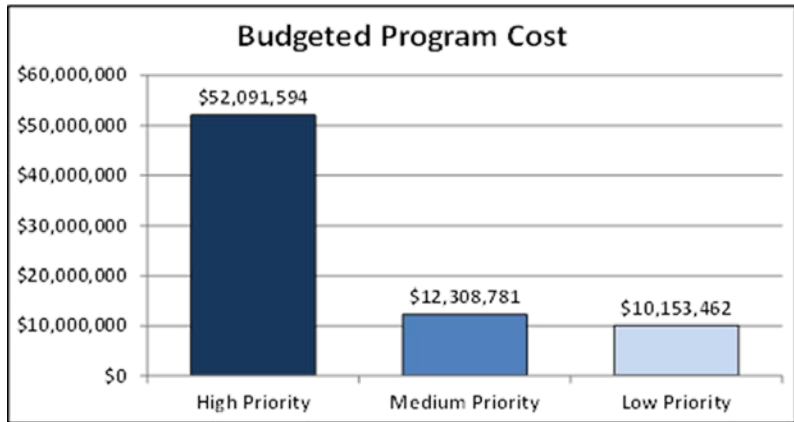
In our last audited financial statements (2011-12), the Town’s General Fund unassigned fund balance was about 25%. Based on the estimated spend-down of fund balance for the current year and the planned use of \$1,884,738 in FY2013-14, we are projecting that fund balance will be about 18% at June 30, 2014. This is above the minimum level of 15% that we have discussed as being appropriate in the current economic climate.

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

factor in assigning credit ratings to the Town’s debt. The Town has received the highest possible rating for its general obligation bonds

Priority Budgeting

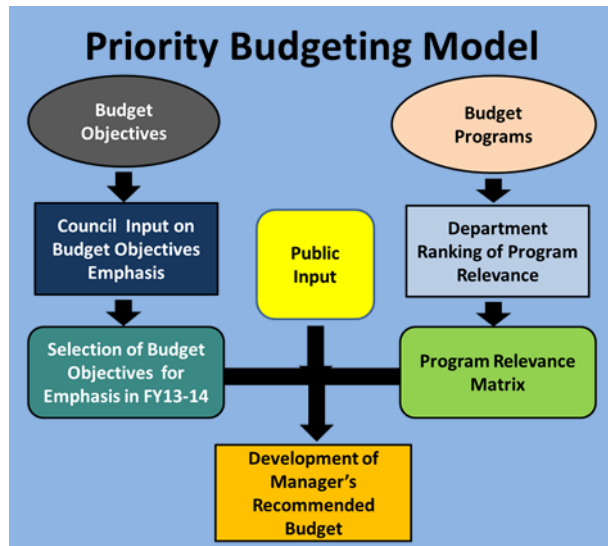
FY2013-14 marks the first year of using a priority based system as part of the budget decision making process. Although we have not fully implemented the system and we are still working out the bugs, the establishment of the priority budgeting structure has given us better insight into and the scope, depth, and value of the Town’s public services. Also, our work on priority budgeting has confirmed the fact that the Town’s budget investments are already heavily weighted toward high priority service programs as shown in the following graph.



The priority budget impetus was created to address a perceived need to improve our decision making process by putting programmatic decisions in the broader context of the full scope of Town services. It is a way to recognize that for everything we decide to fund we are making the choice to not fund something else. In other words, budgeting is about allocating limited resources. Those allocation decisions should not be made in isolation; rather they should be evaluated systematically in a way that recognizes that not all services the Town provides are equally valued by those who use them.

To date we have accomplished the following steps toward incorporating a priority based decision element into our budget system:

- Defined our budget in terms of service programs that produce specific outcomes
- Drafting budget goals and objectives based, in part, on the 2020 Themes and Goals.
- Conducted a pilot process to test the use of ranked budget objectives to score the relevance of budget programs.
- Conducted a public survey



This is the first year of a multi-year process and the data gathered from this cycle is preliminary in nature and does not supersede prior decisions or Council direction. We have checked our decisions against the priority budget data to note concurrence with or deviation from priority rankings. We will continue this process throughout the budget cycle in order to have diagnostic information to improve the priority budget process in future years.

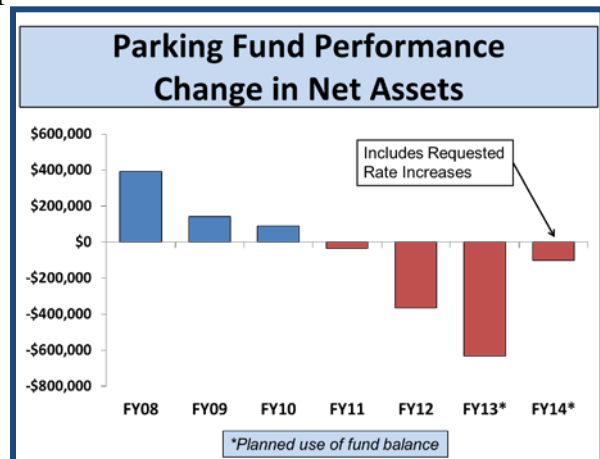
Parking Fees



Downtown Chapel Hill can be a challenging place to find parking, particularly during peak periods. Over the past few years, working with the Downtown Partnership and the Downtown Parking Taskforce great strides have been made in improving the downtown parking experience. These improvements include many of the recommendations of the Parking Study of 2008 and are listed below.

- New downtown parking signage
- Multi-space pay stations that accept credit cards
- Opening 4 new parking lots as replacement parking for Lot 5
- Courtesy Parking Program for on-street meter violations
- Opening of the 140 West Parking Structure
- Development of the nighttime use of private lots (Downtown Partnership)
- Downtown valet parking (Downtown Partnership)
- Pay-by-phone (to be implemented in May 2013)

Over the past few years the Parking Fund has been running deficits due to the loss of Lot 5 when the 140 West project started and the cost of securing replacement parking spaces. In addition, other operating costs such as personnel and utilities have continued to increase while revenues have been flat. We have known for some time that the financing costs of the 140 West parking structure would further unbalance the revenues and expenses in the Parking Fund and although the financing resulted in lower than expected debt service payments, we still face growing deficits if rates are not adjusted. The FY14 Budget includes two types of parking fee changes. The first set of fee changes increase rates on high-demand lots and on-street spaces to \$1.50 per hour. Both the Wallace Deck and the 140 West Deck will remain at \$1 per hour in order to encourage their use. Other fee changes provide reductions in fees, including discounts for off-peak use at the Wallace Deck, a reduction in the commercial service permit fee from \$300 to \$150 and discounted pre-paid



validation tickets that will be accepted at 140 West. With these fee changes the Parking Fund should return to break-even in FY15.

Debt Management Fund

In FY2009 Council adopted the Debt Management Plan to help address the Town’s sudden growth in debt and the ongoing need to fund major capital projects. The Debt Management Fund receives a dedicated portion of the Town’s property tax to be used to pay debt service for all Town debt obligations. For FY2011 the allocation of property tax to the Debt Management Fund was 9.3 cents. This was changed in FY2012 as the cash flow needs of the fund declined due to the delay in issuance of the Library expansion bonds and also due to the favorable interest rates on the Library bonds and subsequent refunding bonds. By moving 1.8 cents from the Debt Management Fund to the General Fund we were able to balance the FY12 budget without a tax increase or significant service reductions. This shift provided adequate resources in the Debt Management Fund to pay the debt service on all existing debt however it reduced the capacity to issue any significant new debt issuance.

Project(s)	Amount
Public Safety Headquarters **	\$ 16,620,000
Fire Station Renovations/Replacements**	14,000,000
Transfer Station	3,000,000
Town Hall Renovations	4,840,000
Parks & Recreation Master Plan (net)	44,917,000
100 West Rosemary Renovations**	2,484,000
523 East Franklin Renovations**	2,214,000
Total	\$ 88,075,000

** Does not include projects that will be paid for by other funds*
*** Asset Management Plan*

There is no new debt planned for the FY14 Budget. The Debt Management Fund is balanced drawing on its fund balance, which will be the case through FY15. In FY15 the Town will be eligible to issue \$1.7 million of two-thirds bonds and will have additional debt capacity in subsequent years, due to the pay-down of existing debt, to pay the debt service on the two-thirds bonds. With the existing tax rate, the fund will not be able to support significant new debt issuance until FY17 when there will be capacity to issue \$20 million in new debt.

The following table shows planned debt funded projects. Based on the current revenue structure of the Debt Management Fund the timeline for funding these projects extends more than 20 years to FY33. This schedule can be accelerated if the tax rate dedicated to the Debt Fund is increased at some point in the future. Some of the projects listed in the table above involve property that is currently being evaluated through the Asset Management Plan. Development of the Asset Management Plan will result in recommendations to Council, specific to each project, to retain, repurpose or sell each property.

FY15 (Planning Year)

In order to expand our focus beyond the traditional one year budget cycle, we are incorporating key events and issues that will have an impact after FY2013-14 into our budget discussions and analysis. The major issues that we are tracking that will impact FY15 and beyond include the following:

- Planned Issuance of \$1.7 million of two-thirds bonds
- Changes to the County recycling program
- Planning for the construction of a local transfer station for solid waste
- Implementation of the third phase of the Classification and Compensation Plan
- Adjustments to the Library hours of operation
- General Obligation bond referendum to fund large capital projects
- Implementation of financial sustainability model for Transit
- Restoration of street resurfacing funds in the operating budget
- Possible changes to the state tax structure
- Retiree healthcare costs
- Restoring CIP pay-go to \$1 million
- Funding Youth Initiative Programs recommended by the Task Team

Performance Agreements

The Town's operating budget includes funding for performance agreements with outside agencies that provide services consistent with the Town's goals and values. We have maintained approximately the same overall level of funding for these agreements over the past five years.

Applications for human service agencies are processed through a joint application process with Orange County and the Town of Carrboro. The human service agency applications are evaluated by the Human Services Advisory Board who make recommendations to Council for funding. All other agencies are evaluated by a cross departmental staff team. The recommended amounts include the changes noted below.

Performance Agreements with Other Agencies	2012-13 Budget	2013-14 Adopted Budget
Human Services	\$ 337,100	\$337,100
Environmental	1,000	1,000
Arts	10,500	10,500
Affordable Housing	244,250	255,715
Economic Development	260,000	260,000
Total Contributions to Agencies	\$ 852,850	\$ 864,315

The affordable housing agency funding recommendations includes a \$200,000 allocation to the Orange Community Housing and Land Trust. Orange Community Housing also

has an allocation of the Town’s CDBG and HOME funds of \$20,941 and \$80,000 respectively.

The economic development agency funding recommendations includes \$175,000 for the Convention and Visitor’s Bureau. Their contract includes a clause that increases their funding if the Town’s Occupancy Tax receipts exceed \$950,000 for the fiscal year. The Bureau will receive 50% of all receipts in excess of \$950,000. Also included in economic development agencies is a \$70,000 allocation to the Downtown Partnership. The Partnership is also recommended to receive an allocation from the Downtown Service District of \$120,000.

The Town has also entered into a performance agreement with the Downtown Partnership to facilitate a joint venture among the Town, Orange County, UNC Chapel Hill, 3Birds Marketing and a private donor for a downtown business incubator called Launch Chapel Hill. Launch Chapel Hill offers its resident teams a place to work on their business, training events and mentorship from experienced entrepreneurs who bring industry and fundraising contacts. UNC Kenan-Flagler students will serve as consultants and potentially as members of venture teams.



Tax Rates and Stormwater Fees

As shown in the following table the Town’s total property tax rate has been the same for the last four years. For FY14 we are recommending a 1.0 cent increase in the General Fund portion of the tax and a 1.0 cent increase in the Transit portion, for a total increase of 2.0 cents. We have resisted raising taxes for the last four years. Pressures from increasing costs, flagging intergovernmental revenues and demands for expanded services make it no longer prudent to use non-sustainable tactics to avoid raising taxes. We believe that this 2 cent investment will pay dividends by allowing the Town to continue toward its goals and to pay for decisions made in prior years.

	FY2009-10	FY2010-11	FY2011-12	FY2012-13	Recommended FY2013-14
General Fund	36.0	36.0	37.8	37.8	38.8
Debt Fund	9.3	9.3	7.5	7.5	7.5
Transit Fund	4.1	4.1	4.1	4.1	5.1
Total	49.4	49.4	49.4	49.4	51.4

As mentioned above we are also recommending a \$9 increase in the annual Stormwater fee, raising it from \$39 per year to \$48. For a homeowner whose home is valued at \$200,000 the increase in taxes would be \$40 per year. Combined with the Stormwater fee increase that hypothetical homeowner would see a combined increase of \$49 per year.

Conclusion

The focus of the FY2013-14 budget is to bridge the gap between the Town's goals and the resources available to accomplish those goals. Over the past several years we have successfully delayed needed tax and fee increases as we waited for the economic recovery to take hold. During that time we have used strategies that are unsustainable in the long-term. Now that we see signs of improvement in the economy, it is time to begin to address the imbalances between our revenues and our expenses by continuing to make investments in cost saving strategies, keeping costs in check and finally raising taxes and fees to fund high priority services. The 2013-14 Budget keeps the Town on its path toward sustainably achieving the long term goals of the community.

Respectfully Submitted,

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

Roger L. Stancil
Town Manager

