

MEMORANDUM

TO: Mayor and Town Council

FROM: Roger L. Stancil, Town Manager
Kenneth C. Pennoyer, Business Management Director

SUBJECT: Consideration of Final Budget and Related Items

DATE: June 9, 2014

Enactment of the attached ordinance would establish the budget for 2014-15 and authorize a variety of related actions.

DISCUSSION

The proposed Budget Ordinance constitutes the annual budget for 2014-15. The ordinance reflects the Manager's Recommended Budget as amended based on discussions by the Town Council:

- The Debt Management Fund tax has been increased by 1 cent (from 7.5 to 8.5 cents) to partially restore capital funding capacity that was reduced in FY12 as a response to budgetary pressures created by the fiscal crisis. The additional tax funding will be used to jump-start high priority capital projects authorized by Council. This increase in the Debt Fund tax rate brings the overall tax rate from 51.4 cents per \$100 of valuation to 52.4 cents.
- Funds from a number of sources were refocused to provide roughly the equivalent of 1 cent on the tax rate for affordable housing. These following changes are in addition to the original \$188,750 appropriation to begin implementation of the housing recommendations of the Northside Community Plan and other unspecified affordable housing activities that were included in the recommended budget.
 - Previously unbudgeted revenues from Ephesus Fordham development fees, estimated to be \$355,000 will be added to affordable housing.
 - Funding for the upgrade of a residential garbage truck purchase (\$145,000) to allow for an automated truck pilot project will be reallocated to affordable housing. We would still purchase a replacement truck but delay the pilot project.
- The recent change in the Business Privilege Tax law eliminated the Town's ability to apply privilege license requirements to businesses that do not have a physical location in Chapel Hill. This will reduce the Business Privilege revenue in FY15 by \$50,000.
- According to the County Manager's recommended budget, the County's contribution to the Chapel Hill Library for FY15 will be \$568,139. This is an increase of \$72,010 over the amount reflected in the Town Manager's Recommended Budget.

- The recommended budget includes an increase in Stormwater Fees of \$0.75 per Equivalent Rate Unit (ERU) to begin to address the need for Storm water quality and infrastructure projects. This increase raises the rate from \$24.0 per ERU to 24.75 per ERU.
- The budget ordinance does not include a tax rate for the newly created Ephesus Fordham Municipal Service District. The next opportunity to levy a tax for the Ephesus Fordham Service District will be with the adoption of the FY16 budget.

The final budget ordinance:

- Establishes the overall property tax rate with a 1 cent increase in the Debt Management Fund portion of the tax. The property tax is split between the General, Transit and Debt Management Funds as follows:

○ General Fund	38.8
○ Debt Management Fund	8.5
○ Transit Fund	<u>5.1</u>
Total	<u>52.4 cents</u>
- Maintains the Downtown Service District tax rate of 7.1 cents per \$100 assessed value
- Makes adjustments to the Town’s Fee Schedule (as described below)
- Uses about \$2.65 million in existing fund balance, of which approximately \$1,240,000 is for one-time costs such as capital improvements.
- Maintains basic services, maintains benefits levels and provides for a 3% of market salary adjustment for all classified (full and part-time employees), including Council Members.
- Absorbs a 7% increase in medical insurance, half of which (3.5%) is due to Affordable Care Act fees and taxes.

FEE SCHEDULE: The following changes to the Town’s Fee Schedule are included in the recommended budget:

- **Library** – Standardizes fines for various overdue, lost and damaged items. Reduces fine for lost library cards. New charge for small conference rooms and computer classroom.
- **Police** – New graduated fee schedule for false alarm activation.
- **Public Works** – Increase in the fees for roll-off and yard-waste container rentals. Addition of fire lanes to Engineering and Design Services fees for street construction and removal of fire lanes fees for sidewalks/trails.
- **Inspections** – New administrative review fee based on estimated dollar value of construction. New mechanical and plumbing fees for geothermal piping tests, refrigeration, hood systems and other mechanical appliances.

- **Parking** – Increases monthly and semester rental charges for 140 West and Wallace Parking Decks.
- **Parks** – Establishes rental fees for mobile stage and payment in lieu of Outdoor Amenity Space (Ephesus/Fordham Area).
- **Planning** – New zoning compliance permits for special events and transportation management plans. New form district permits and special appearance district certificate. New fee for site plan review project name change. New special use permit fees for pre-application, abandonment and revocation. New development agreement permit fee. Increase in the development notification postcard fee. Waiver of certain fees for non-profits areas documented as low to moderate income.

FUND BALANCE: I recommend appropriating \$2,654,093 from the Town’s fund balance to balance the General Fund budget and accomplish the Council’s goals. Based on our preliminary estimates it looks like we will finish the current fiscal year above the 20.0% undesignated General Fund balance target. 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.

I am recommended that Council consider appropriating excess fund balance, above 22%, for reduction of the Town’s liability for retiree healthcare (OPEB) and for priority capital projects (such as Roger’s Road). The Council decision and actual funding amount would be based on the unobligated General Fund fund balance as a percentage of General Fund revenues as of June, 30 2014, as reflected in the Comprehensive Annual Financial Report released in October of 2014. At that time, the Council may also want to consider adopting a policy formalizing the use of excess fund balance.

DEBT ISSUANCE AND THE CIP BUDGET:

For the FY2008-09 budget, a debt management plan was adopted to provide a better system for management of the Town’s debt and its effect on the Town’s operating budget. In 2012, in order to balance the General Fund Budget, a portion (1.8 cents) of the Debt Management Fund’s dedicated property tax rate was shifted to the General Fund. While this left a sufficient amount available to pay for existing debt service, it reduced capacity to address new capital needs. Funding high priority projects such as Public Safety and Parks and Recreation facilities, the Solid Waste Transfer Station, and Parks, Bicycle and Greenway Master Plan projects, in a reasonable timeframe, will require additional resources. In order to make progress on these important projects Council supported a 1 cent increase in the Debt Fund tax rate (from 7.5 cents to 8.5 cents). This increase will support new debt to kick-start work on high priority projects and to begin to address the \$158 million of long-term capital needs identified in the FY15-29 Capital Plan.

For FY2014-15 the recommended Pay-go CIP is increased slightly from the current year. The Pay-go CIP is funded from the annual operating budget and includes small-scale projects that can

be completed within the fiscal year. The projects listed below represent our highest priority small scale projects including major maintenance and facility improvements.

Projects included in the CIP for this year include the following:

CIP Project	2014-15 Recommended Budget
Extraordinary Maintenance, Emergency Repairs	\$ 100,000
Small Capital Improvements	100,000
Facility Condition Assessment	85,000
Housing Maintenance	14,856
Path, Trail and Lot Maintenance	50,000
Curbs/ADA	30,000
Fiber Optic Network	91,000
Greenways	80,000
Playground Replacement	100,000
Fire Radios	49,000
Small Park Improvement	100,000
Accessible Playground	50,000
Total	\$ 849,856

PERFORMANCE AGREEMENTS WITH OTHER AGENCIES: The FY2014-15 Budget maintains approximately the same total amount of funding for performance agreements with other agencies as the current year. The recommended amounts include the changes noted below.

	2013-14 Budget	2014-15 Recommended Budget
Performance Agreements with Other Agencies		
Human Services	\$ 337,100	\$337,100
Environmental	1,000	1,000
Arts	10,500	10,500
Affordable Housing*	255,715	257,074
Economic Development	260,000	260,000
Total Contributions to Agencies	\$ 864,315	\$ 865,674

**Increase in Affordable Housing due to additional allocation to the Homeless Initiative of \$1,359*

MAINTAIN BASIC SERVICES: The Town's services are highly valued by our residents, as evidenced by their comments in the 2013 Community Survey. The Town's ability to

consistently deliver high quality services is dependent on our ability to hire and retain a high quality work force.

Consistent with its adopted Goals, Council adopted a “Compensation Philosophy that balances retention and recruitment, employee interests and financial sustainability”. We implemented 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 was 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.

The FY15 Budget includes a 3% of market pay adjustment for all regular employees. The adjustment will give all employees in the same pay grade the same dollar amount increase based on 3% of the market rate for that pay grade. This means that employees at the low end of a grade will get a slightly higher percentage pay adjustment than those at the high-end of the pay grade. By adjusting incumbent compensation and leaving pay ranges as they are, this approach also addresses compression. Implementation of this recommendation also implements a pay plan without steps. This approach will also facilitate the work of the employee based Compensation Task Force, charged with helping develop a plan for compensation in the future. The results of that effort will be presented to Council in the Fall of 2014 for implementation in the FY 16 Budget.

FARE FREE TRANSIT SYSTEM: Chapel Hill Transit operates as a pre-paid system, resulting in no fares being collected on the bus. Absent new grants, the recommended budget for the Transit Fund includes a 3.8% increase over last year’s budget. This increase is due in part to the increases in bus maintenance costs, and increases in personnel costs. State assistance is expected to increase by 7% and Federal assistance, not including operating grants which are not budgeted, is expected to increase by 2.4%. Even with these increases State and Federal assistance are at historically low levels. Contributions from the transit funding partners, Carrboro and the University will both increase about 5.4% for FY15. The Town’s contribution is increasing by 3.8%. The FY15 Budget also includes a \$653,000 increase in revenues from the TTA from the Orange County sales tax for transit.

Significant challenges lie ahead in FY 2014-15 and beyond as increasing costs and the uncertainty of state and federal funds continue to stress the Transit budget. The most pressing need is for bus replacement, which has traditionally relied on Federal and State Funding. With the dependability of those sources of funding diminishing in recent years an alternative means of paying for bus replacement is needed. Pending the completion of a financial sustainability study for Transit, the FY15 Transit operating budget includes \$400,000 to begin the process of financing the replacement of buses. The FY15 Transit budget is balanced without the use of non-current revenues (fund balance).

BUDGET ORDINANCE: The components of the Budget Adoption Ordinance for FY2014-15 are as follows:

1. **Appropriations** – Authorization of funds to be expended in the FY2014-15 Budget by function and fund.
2. **Revenues** – Estimated revenues expected to be available during the FY2014-15 Budget Year
3. **Tax Levy** – Tax rates for the General, Debt, and Transit Funds expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2014.
4. **Special District Tax Levy** - Tax rate for the Downtown Service District expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2014.
5. **Authorities for Transfers and Adjustments** – Defines the authority to move funds among and between functions, projects and funds.
6. **Classification and Pay Plan** – Establishes salary grades, position classifications, and certain general provisions concerning payment of Town Employees for the FY2014-15 Fiscal Year. The Manager is authorized to make changes to the Plan during the fiscal year within the adopted budget.
7. **Recommended User Fees** – Establishes all fees, fines and charges that may be imposed during the FY2014-15 Fiscal Year.
8. **Reappropriation of outstanding Purchase Orders** – Appropriates encumbered balances from prior fiscal year so that financial obligations created in FY2013-14 can be paid in FY2014-15.
9. **Performance Agreements** – Authorizes allocation of funds to agencies participating in the Outside Agency application process for performance agreement funding, in the aggregate amount approved by Council.
10. **Recycling Collection Services** - Authorizes Orange County to provide recycling collection services within those areas of the Town situated in Durham County and to impose and administer a basic services fee for recycling services and a solid waste convenience center fee for residents within those areas of the Town situated in Durham County.

RECOMMENDATION

We recommend that Council enact the attached ordinance to establish the FY2014-15 Town Budget.

Attachments: Budget Ordinance

1. Classification & Pay Plan Effective July 1, 2014
2. Fee Schedule