

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 2004-05 for the Town's major operating funds: the General Fund and the Transportation Fund. Projections are not included for the Public Housing Fund, because federal funds are the primary revenue source for that fund. We have omitted projections for Parking Funds as well, because the Council is considering major development alternatives for parking which could have a material effect on any projections. Absent any development, we would not anticipate major changes in either revenues or expenditures for parking. A summary chart is provided for each fund identifying differences between the projected revenues and costs in each year.

As in past years, 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 both of the major operating funds.

Some of the most important 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. We have assumed in our projections that full State-shared revenues will be received in 2005-06 and in future years and that State and federal operating subsidies will continue as in the past.

Below is a summary of the main points included in the revenue and cost projections for each fund. Detailed discussions of the assumptions and data used in the projections for each of the major operating funds follow. For the General and Transportation Funds, the differences between revenues and expenditures are expressed as tax rate equivalents. The gap between revenues and expenditures 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 State-shared revenues that, combined, comprised about 83% of total General Fund revenues. The estimate of assessed valuation for the tax base for 2004-05 is about \$4.440 billion. Using a conservative estimated growth in assessed valuation, the estimated tax base is projected to increase by 3% in 2005-06 with growth of 1.8% in each of the following four years. Estimated additions to the

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base, at the adopted tax rate for 2004-05 of 51.6 cents for the General Fund, would yield increases in property tax revenues of about \$800,000 in 2005-06 and about \$410,000 in each of the following years.

State-shared revenues include revenue from sales tax (about \$7.4 million) and a utility franchise tax (about \$2 million in 2004-05) with projected increases of 3% annually, and Powell Bill or fuel tax of \$1.3 million with projected increases of 2.5%. We assume continuation of State Fire Protection and Beer and Wine tax funds at the same level as received in the past, \$850,000 and \$205,000 respectively per year.

In summary, our revenue projections for future years include estimated revenue from State-shared sources totaling about \$11.8 million. These revenues are an estimated tax rate equivalent of about 26.7 cents in 2004-05 increasing by about three percent in each of the next five years.

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

The projected increases in property tax revenues and increases in State-shared revenues would provide the only significant revenue increases in future fiscal years and are included in the summary table of General Fund revenue projections. All other revenues are assumed to remain fairly constant during the five-year period through 2009-10. Based on our experience in past years, we anticipate about 3% of the total General Fund budget, or \$800,000 in fund balance, would be available for use in future years.

Costs

The projected costs for the General Fund are divided into two sections - "General Operations for Current Services and Programs" and "Additions/Adjustments to General Operations."

General Operations for Current Services and Programs

Projected costs for general operations are based on the same services and programs and base budget level adopted for 2004-05. 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 at the level of about \$1.8 million annually.

Additions/Adjustments to General Operations

Projected costs for the additions or adjustments to General Operations include the additional costs/savings for the following items:

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- Funds for establishing and continuing the new Downtown Chapel Hill Economic Development Corporation (\$70,000 for 2005-06 and thereafter).
- New debt service cost on the estimated debt of about \$25 million dollars for a new public works facility needed by 2006-07.
- New debt service on the four proposed issuances of the General Obligation bonds approved by voters in November 2003, totaling \$29.36 million for Library expansion, sidewalk improvements, parks, open space and energy efficiency building projects.
- Continuation of investments through grants to human service, tourism, arts, cultural, development and affordable housing organizations.

Assuming continuation of State-shared revenues as noted, our analysis indicates projected costs for basic operations and the proposed additions to operations will exceed revenues over the next five years by margins that are an average tax rate equivalent of about 5 cents annually beginning in 2006-07. The projected increase in 2005-06 based on continuing programs and additions as discussed is 11.5 cents in the General Fund and .5 cents in the Transportation Fund. The projections do not take into account the effects of the revaluation of the property tax base in 2005-06 or potential program changes by the Council. Based on assumptions as noted, the gap between revenues and costs could be closed by service reductions, revenue enhancements or tax rate adjustments.

The most significant portion of the estimated difference between revenues and expenditures is based on the projected costs of new debt service of about \$2.5 million annually beginning in 2005-06 for a new Public Works facility; new debt service cost of about \$400,000 annually on the new General Obligation bond issue; and the funding increase required for estimated capital improvements and capital maintenance needs over the next five years.

TRANSPORTATION FUND

The adopted Transportation Fund budget for 2004-05 is based on the continuation of federal and State operating assistance for the Transportation System at the base level received in 2003-04, and on continuation of fare free services instituted in 2002. Cost projections for the adopted budget assume continued cost sharing among the transit partners. Projections of the base 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.

The Transportation Fund projections do not include the cost of temporary debt financing for the new transit operations and maintenance facility that may be required based on the level and timing of federal and State grants for this project.

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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 as discussed above, 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)

	2005-06	2006-07	2007-08	2008-09	2009-10
General Fund					
Current Services and Programs and all Additions*	11.5	3.1	4.1	2.4	4.6
Transportation Fund	.5	.6	.5	.6	.9
Total	12.0	3.7	4.6	3.0	5.5

* Estimated new debt service cost for a new Public Works facility, General Obligation bonds as authorized by the Council, economic development, human services, affordable housing, tourism, arts, culture and other special contracts.

PROJECTED TAX BASE
2004/2005 - 2009/2010

Category	2004-05 Adopted	2005-06 Estimated	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
Assessed Valuation (Real & Personal Property)	4,440,000,000	4,573,200,000	4,655,517,600	4,739,316,917	4,824,624,621	4,911,467,864
Tax Levy* - General Fund Only at 51.6/100	22,919,280	23,597,712	24,022,471	24,454,875	24,895,063	25,343,174
Estimated Collections at 99%	22,492,200	23,361,735	23,781,626	24,209,847	24,645,852	25,089,482
Estimated Prior Year Collections	121,300	110,000	110,000	110,000	110,000	110,000
TOTALS	22,613,500	23,471,735	23,891,626	24,319,847	24,755,852	25,199,482

* Based on a constant tax rate of 50.2 cents for the General Fund through 2009-10, with estimated growth of 1.5% annually beginning in 2005-06. 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 \$442,000 in fiscal year 2004-05.

PROJECTED STATE-SHARED REVENUES ***2004/2005 - 2009/2010***

Category	2004-05 Adopted	2005-06 Estimated	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
Franchise Tax ¹	2,040,000	2,101,000	2,164,000	2,229,000	2,296,000	2,365,010
Beer, Wine Tax	205,000	205,000	205,000	205,000	205,000	205,000
Local Option Sales Tax ¹	2,640,300	2,719,509	2,801,094	2,885,127	2,971,681	3,060,831
1/2% Local Option Sales Tax (1984) ¹	1,678,600	1,728,958	1,780,827	1,834,252	1,889,279	1,945,957
1/2% Local Option Sales Tax (1986) ¹	1,678,600	1,728,958	1,780,827	1,834,252	1,889,279	1,945,957
1/2 % Local Options Sales Tax (2002) ¹	1,387,200	1,428,816	1,471,680	1,515,831	1,561,306	1,608,145
Fuel Tax (Powell Bill) ²	1,315,000	1,347,875	1,381,572	1,416,111	1,451,514	1,487,802
State Fire Protection	850,000	850,000	850,000	850,000	850,000	850,000
TOTAL	11,794,700	12,110,116	12,435,000	12,769,572	13,114,059	13,468,703

¹ Estimated increase of 3% annually.

² Estimated increase of 2.5% annually.

***GENERAL FUND
REVENUE PROJECTIONS
2004/2005 - 2009/2010***

Category	2004-05 Adopted	2005-06 Estimated	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
Property Taxes*	22,613,500	23,471,735	23,891,626	24,319,847	24,755,852	25,199,482
Other Taxes & Licenses	1,017,000	1,017,000	1,017,000	1,017,000	1,017,000	1,017,000
Licenses/Permits/Fines/ Forfeitures	1,383,400	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
State-Shared Revenues	11,794,700	12,110,116	12,435,000	12,769,572	13,114,059	13,468,703
Grants	411,900	470,000	470,000	470,000	470,000	470,000
Service Charges	1,570,900	1,315,600	1,315,600	1,315,600	1,315,600	1,315,600
Interest on Investments	111,200	160,000	200,000	200,000	250,000	250,000
Other Revenues	267,300	142,300	142,300	142,300	142,300	142,300
Interfund Transfers	2,043,100	1,178,000	1,178,000	1,178,000	1,178,000	1,178,000
Appropriated Fund Balance		-	-	-	-	-
TOTAL	41,213,000	41,364,751	42,149,526	42,912,319	43,742,811	44,541,085

* Based on constant tax rate of 51.6 cents for the General Fund through 2009-10.

**GENERAL FUND
PROJECTED COSTS
2004/2005 - 2009/2010**

	2004-05 Adopted	2005-06 Estimated	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
GENERAL OPERATIONS (Current Services & Programs)						
Personnel Services ^a	28,183,642	29,592,824	31,072,465	32,626,089	34,257,393	35,970,263
Operations						
Operating & Maintenance ^b	9,889,658	10,186,348	10,491,938	10,806,696	11,130,897	11,464,824
Existing Debt Service	2,485,000	2,719,000	2,318,000	2,246,000	2,162,000	2,081,000
Capital						
Equipment ^c	75,500	100,000	100,000	100,000	100,000	100,000
Transfer to Capital Improvements Program ^d	872,000	1,745,000	1,837,000	1,922,000	2,023,000	2,062,000
Subtotal Current Programs	41,505,800	44,343,172	45,819,403	47,700,785	49,673,290	51,678,087
ADDITIONS/ADJUSTMENTS TO GENERAL OPERATIONS:						
Economic Development Human Service contracts, hotel/motel allocations and grants to other agencies	336,000	70,000	70,000	70,000	70,000	70,000
Debt Service on New Public Works Facility	517,700	500,000	500,000	500,000	500,000	500,000
New General Obligation Debt Service, 2004-05 Issue	150,000	2,000,000	2,590,625	2,521,875	2,453,125	2,384,375
New General Obligation Debt Service, 2006-07 Issue	202,500	345,000	437,500	375,000	365,000	355,000
New General Obligation Debt Service, 2008-09 Issue	-	-	-	814,000	792,000	771,000
New General Obligation Debt Service, 2009-10 Issue	-	-	-	-	-	925,000
	-	-	-	-	-	-
Subtotal Additions/Adjustments	1,206,200	2,915,000	3,598,125	4,280,875	4,180,125	5,005,375
TOTAL COSTS OF CURRENT PROGRAMS AND ADDITIONS/ ADJUSTMENTS	42,712,000	47,258,172	49,417,528	51,981,660	53,853,415	56,683,462

^a Increase of about 4.0% in salaries to provide merit increases to maintain competitive market salaries.
Assumes increases of about 10% annually in medical insurance and workers' compensation costs.

^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.)

ANALYSIS OF REVENUE AND COST PROJECTIONS
2004/2005 - 2009/2010

	2004-05 Adopted	2005-06 Estimated	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
Estimated Total Costs *	42,712,000	47,258,172	49,417,528	51,981,660	53,853,415	56,683,462
Estimated Total Revenues	41,213,000	41,364,751	42,149,526	42,912,319	43,742,811	44,541,085
Revenues Needed	1,499,000	5,893,421	7,268,002	9,069,341	10,110,604	12,142,376
Fund Balance Available	1,499,000	800,000	800,000	800,000	800,000	800,000
Additional Revenue Needed	0	5,093,421	6,468,002	8,269,341	9,310,604	11,342,376
Tax Rate Equivalents in Specific Years	0.0	11.5	3.1	4.1	2.4	4.6

Value of a cent

* Includes base costs and financing for General Obligation debt repayment per Council schedule and Town Operations Center debt repayment.

***TRANSPORTATION FUND
REVENUE PROJECTIONS
2003/2004 - 2009/2010***

	2004-05 Adopted	2005-06 Estimated	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
Taxes ^a	2,597,000	2,218,000	2,284,540	2,353,076	2,423,668	2,496,379
Vehicle Taxes ^b	144,000	148,000	152,000	156,000	160,000	164,000
Federal Operating Assistance ^c	1,024,600	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000
State Operating Assistance ^c	1,566,000	1,566,000	1,566,000	1,566,000	1,566,000	1,566,000
UNC Contract (Net) ^d	4,743,000	4,950,000	5,247,000	5,562,000	5,895,000	5,895,000
Carrboro Contract (Net) ^d	946,000	963,000	1,021,000	1,082,000	1,147,000	1,147,000
Service Charges ^e	388,000	388,000	388,000	388,000	388,000	388,000
Other	8,000	8,000	8,000	8,000	8,000	8,000
Fund Balance	-	-	-	-	-	-
TOTAL	11,416,600	11,266,000	11,691,540	12,140,076	12,612,668	12,689,379

Revenue Notes:

^a Based on the adopted tax rate of 5.9 cents through 2008-09.

^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 levels recommended for 2003-04, 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 Tar Heel Express.

***TRANSPORTATION FUND
COST PROJECTIONS
2003/2004 - 2009/2010***

	2004-05 Adopted	2005-06 Estimated	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
Personnel Services ^a	8,143,646	8,550,828	8,978,370	9,427,288	9,898,653	10,393,585
Operations ^b	2,802,710	2,886,791	2,973,395	3,062,597	3,154,475	3,249,109
Capital Reserve Fund ^c	470,244	470,244	470,244	305,000	305,000	305,000
TOTAL	11,416,600	11,907,864	12,422,009	12,794,885	13,358,127	13,947,694

^a Includes estimated increase of 4.5% in salaries to provide merit or competitive market salary adjustments and projected increase of 10% in employee medical and workers' compensation cost.

^b 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. These amounts do not include the cost of temporary debt financing for the transit facility that may be necessary based on the level and timing of federal and State grants available for this project.

**TRANSPORTATION FUND
REVENUE AND COST PROJECTIONS
2004/2005 - 2009/2010**

	2004-05 Adopted	2005-06 Estimated	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
Estimated Costs	11,416,600	11,907,864	12,422,009	12,794,885	13,358,127	13,947,694
Estimated Revenues	11,416,600	11,266,000	11,691,540	12,140,076	12,612,668	12,689,379
Revenue Needed	-	641,864	730,469	654,809	745,459	1,258,316
Fund Balance Available	-	-	-	-	-	-
Additional Revenue Needed	-	641,864	730,469	654,809	745,459	1,258,316
Marginal Increase in Tax Rate Equivalents in Specific Year		0.5	0.6	0.5	0.6	0.9

1 cent on the tax rate = \$442,000

Assumptions on Revenues and Costs:

- Same revenue sources as available in 2004-05 (assumes current level of State funding for operating assistance)
 - Assumes continuing constant level of federal operating assistance over the five-year period. Assumes funding of capital subsidies at level of 10% of total capital costs.
 - Same personnel recommended for 2004-05; same routes and service levels recommended for 2004-05.
 - Includes estimated adjustments of 4.5% in employee compensation.
 - 3% increase in operating costs.
 - Includes normal local matching capital contributions for future bus replacement and a new Transportation facility, but excludes any temporary debt financing cost that may be required based on the level and timing of federal and State grants for the project.
 - Assumes the Town of Chapel Hill's portion of increased system costs is approximately 33%.
-