



MANAGER'S OFFICE  
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June 8, 2015

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 2015-16.

## Budget in Brief

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The FY2015-16 Manager's Adopted Budget is balanced without an increase in taxes despite a net increase of 3.80% for all funds and a 5.9% increase for the General Fund. This is possible due to increases in revenues led by economy driven revenues such as sales taxes and selective increases in fees to offset the cost of specific functions such as parking and inspections. The adopted budget makes major investments in strategies to achieve Council Goals including the following:

- **Penny for Housing** – Operational funding for housing initiatives, roughly equivalent to a penny on the tax rate, was first budgeted in FY15 and is being continued for FY16. An additional \$100,000 is also being added to the performance agreement with the Orange Community Housing and Land Trust to support their work in providing affordable housing.
- **Support for Development Related Services** – As major development projects have been proposed in the last few years, the need for planning, inspections and other development related services have increased. The FY16 budget adds resources in key areas to address these needs, including 8 new full-time positions related to development. These positions include one dedicated to innovative affordable housing initiatives. The cost of these positions is off-set by an expected increase in inspections and related revenues.
- **Capital Investment Plan** – With the addition of a penny to the Debt Management Fund dedicated tax rate added to the FY15 budget, the Town now has capacity to begin addressing a backlog of major capital projects. In addition to the \$40.3 million general obligation (GO) bond referendum scheduled for November of 2015, there are also plans for several installment financings to fund high priority projects including public safety facilities.
- **Transit Sustainability** – With the scarcity of Federal funds available for bus replacement, the Town's need for new buses has reached a critical level. Based on

- the recommendations of the Transit Sustainability Study the FY16 Adopted Transit Budget includes \$800,000 of funding to finance the purchase of new buses. By borrowing funds and spreading the cost of new buses over their useful life, we can begin the process of bringing the average fleet age within industry standards, thereby reducing breakdowns and maintenance costs.
- **Stormwater** – The GO Bond referendum scheduled for November 2015 includes \$5.9 million for stormwater improvement projects. These funds will be used over the next 7 years to complete projects in the Stormwater Master Plan. For FY16 the adopted Stormwater budget includes an increase of \$1.40 per Equivalent Rate Unit (ERU) to address the cost of capital projects. As discussed in last year’s budget, a series of graduated rate increases over several years will be needed to address Stormwater Master Plan projects, including projects that will be funded through the proposed stormwater referendum bonds.
  - **Public Safety** – The Police Headquarters and the Town’s Fire Stations are in need of replacement. The process for development of a multi-agency complex that could include Police, Fire, Parks & Recreation Administration and other Town Offices is currently in progress. The proceeds of the sale of 523 East Franklin will be used for the design costs of the new facility. The balance of the project costs will be funded through a combination of GO bonds and an installment financing.
  - **Bicycle and Pedestrian Safety** – Recent cyclist fatalities in the area have spotlighted the need to make the Town safer for people using modes of transportation other than motorized vehicles. In addition to the near-term initiatives spearheaded by the Bicycle/Pedestrian Safety Team, creating a safer transportation infrastructure is a key component of our strategy to make the Town a safer place to travel for everyone. The scheduled 2015 GO Bond Referendum includes \$7.8 million for bike and pedestrian safety projects, \$2.0 million for sidewalks and \$5.0 million for trails & greenways. This funding is the first installment of a long-term investment in better infrastructure that supports alternatives to motor vehicle travel.
  - **Employee Compensation** – Maintaining competitive compensation is a key element in recruiting and retaining excellent employees who provide high quality services. For FY2015-16 the employee salary adjustment is split into two parts, with a 2% increase in July and another 2% increase in January. By splitting the increase we reduce the annual cost and also set the stage for implementation of a pay for performance, as recommended by the Employee Compensation Task Force.
  - **Employee Wellness** – Since its inception in 2011, the Employee Wellness Program has helped reduce the rate of increase in the cost of employee medical insurance. For FY16 the cost of employee medical insurance is going **down** by 8.5%. This marks the second time in four years that premiums have actually declined. This represents a dramatic change from the double digit increases of the past.
  - **Safety and Risk Management** – The development of a strong centralized safety and risk management program is a major objective of the FY16 Adopted Budget. Based on staff research with assistance from the NC League of Municipalities’ Risk Consultant, we have created a plan for the development of a risk management program that includes hiring of full-time Risk Manager, reporting to the Town Manager. This position will coordinate safety and risk management activities on an organization-wide basis to improve communication, accountability and consistency of our safety and risk management efforts.

- **Technology** – Two new positions are included in the FY2015-16 Adopted Budget to fill the need for additional technical support in the areas of telecommunications, business support and technology integration. This additional staffing will help improve performance in key areas such as support for over 650 users, managing the Town’s investment in technology and leading the effort to maximize the value of the Town’s fiber communication assets.
- **Changes to Revenues** – Legislative changes to municipal revenues pose the biggest threat to the dependability of the Town’s revenue streams. The loss of privilege license revenue in FY16 will have a minor impact on revenues however recent proposals regarding the distribution of sales taxes could eliminate most of the gains in sales tax made in the last few years. In addition, the growth of sales taxes could be severely curtailed by the proposed elimination of all distributions based on local tax generation.

## Budget by the Numbers

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The following table compares the FY2014-15 Adopted Budget with the FY2015-16 Adopted Budget for all Town funds.

### BUDGET SUMMARY – ALL FUNDS

Fund	FY15 Adopted	FY16 Adopted	Incr./Decr.	Incr./Decr. %
<b>General Fund</b>	\$57,400,712	\$60,596,616	\$3,195,904	5.57%
<b>Transit Funds</b>	20,510,813	20,775,015	264,202	1.29%
<b>Stormwater</b>	2,540,516	2,363,388	(177,128)	-6.97%
<b>Parking Funds</b>	1,638,455	1,735,888	97,433	5.95%
<b>Housing</b>	2,347,420	2,091,821	(255,599)	-10.89%
<b>Debt Service</b>	7,524,587	7,602,782	78,195	1.04%
<b>Capital Projects</b>	849,856	853,856	4,000	.47%
<b>Other Funds</b>	4,490,620	4,981,445	490,825	10.93%
<b>Total</b>	<b>\$97,302,979</b>	<b>\$101,000,811</b>	<b>\$3,697,832</b>	<b>3.80%</b>
<i>*Net of Transfers</i>				

- **General Fund** - The addition of 15 new full-time positions, including 8 that are development related, and a 2% + 2% split salary adjustment account for a large portion of the 5.57% increase. An expected increase in tax revenues and revenues from inspection fees cover the additional costs, balancing the General Fund Budget without the need for a tax increase.
- **Transit Fund** – The most significant change in the FY16 Transit Budget is the additional funding (\$800,000) for bus purchase/lease program. With nearly half of the bus fleet at or past replacement age, funding replacement buses is a top priority and key recommendation of the Transit Sustainability Study.

- **Stormwater Fund** - The decrease in the adopted Stormwater Fund Budget for FY16 is due to a reduction in planned capital expenditures. The FY2014-15 Stormwater budget was balanced with about \$400,000 of appropriated fund balance. As discussed in last year’s budget, in order to build capacity for future capital projects and to reduce the reliance on fund balance, annual rate adjustments will be needed. The FY16 Stormwater Budget includes a fee increase of \$1.40 per Equivalent Rate Unit (ERU), raising the rate from \$24.75 to \$26.15.
- **Parking Funds** – Changes to certain parking fees and the use of excess funds from on-street parking to support off-street operations balances the Parking Fund without the planned use of fund balance for FY16. This is a significant change from prior years when the use of fund balance has been as high as \$757,000 in FY13.
- **Housing** – The reduction in the FY16 Adopted Housing Fund Budget is due to a reduction in capital expenditures. In the FY15 budget a major roof replacement project was funded using fund balance. The FY16 budget includes \$70,000 for the Free WiFi in Public Housing Neighborhoods Project.
- **Debt Service** – The Debt Management Fund budget is increasing with the growth in the property tax base. However, the paydown of existing debt reduces the costs for interest and principal on existing debt generating an addition to fund balance of about \$1.19 million for FY16. This addition to fund balance creates capacity for future debt planned in the referendum.
- **Capital Projects** - This budget represents the “pay-go” portion of the Town’s Capital Funding Plan. While the adopted amount falls short of the \$1 million annual pay-go target, the planned \$2.33 million installment financing will fund several high priority projects that would otherwise be funded through pay-go.
- **Other Funds** – The aggregate increase in these funds, that include internal service and grant funds, is due in part to the salary adjustment in internal service funds.

The estimated General Fund revenues for FY16 reflect an increase in revenue sources that are driven by economic activity such as sales taxes and building permits. The following table shows the changes to major revenue categories in the General Fund:

### GENERAL FUND REVENUES

Revenue Source	FY15 Adopted	FY16 Adopted	Incr./Decr.	Incr./Decr. %
<b>Property Taxes</b>	\$29,495,000	\$29,970,000	\$475,000	1.61%
<b>Sales Taxes</b>	10,875,600	12,059,494	1,183,890	10.89%
<b>Other Taxes</b>	1,044,000	1,114,000	70,000	6.70%
<b>State Shared Revenues*</b>	6,439,590	6,649,590	210,000	3.26%
<b>Charges for Services</b>	4,353,948	4,666,537	312,589	7.18%
<b>Licenses &amp; Permits</b>	2,062,092	3,213,451	1,151,359	55.83%
<b>Grants</b>	791,407	780,614	(10,793)	-1.36%
<b>Other Revenues</b>	558,270	540,450	(17,820)	-3.19%
<b>Appropriated Fund Balance</b>	2,654,093	2,705,364	51,271	1.93
<b>Total</b>	<b>\$58,274,000</b>	<b>\$61,701,000</b>	<b>\$3,427,000</b>	<b>5.88%</b>

- **Property Taxes** – The large size of the existing tax base (assessed value of property) requires significant new development to increase the total collections by even a small percentage. The 1.6% increase over last year’s budgeted amount represents a conservative estimate of about \$122 million of new property value. Developments that are expected to be completed in the next couple of years include: Charterwoods, Village Plaza Apartments, Courtyards at Homestead and The Graduate Apartments.
- **Sales Taxes** – After several years of declines and below average growth following the 2008 financial crisis, sales taxes are starting to make up for lost ground with strong increases in the past two years. The 10.9% increase over last year’s budget seems extreme however it is supported by year-to-date receipts which continue to exceed expectations.
- **Other Taxes** – The main component of this category is occupancy taxes which have shown steady growth in the past few years.
- **State Shared Revenues** – Other than an expected 7.1% increase in the Utility Franchise Tax, revenues in this category are expected to remain relatively unchanged from FY15.
- **Charges for Services** – The increase in this category comes from Parks and Recreation and Planning fees. The Parks & Recreation increase is due to both an increase in expected participation in fee funded programs and increases to certain fees designed to recover costs. The increase in planning related fees is based on increased development activity.
- **Licenses and Permits** – By far the largest increase in revenues by percentage is licenses and permits despite the fact that privilege license revenue was eliminated by the State Legislature effective FY16. Growth in this category is due to a new Fire Inspection Fee that is expected to generate an additional \$400,000, and inspection permit fees that are expected to grow by more than \$700,000. These increases will offset the costs associated with staffing for increased levels of service demand generated by development.
- **Grants & Other Revenues** – Revenues in these categories are expected to decrease slightly in the aggregate.
- **Appropriated Fund Balance** – The amount of fund balance used to balance the budget reflects, in large part, the available unspent funding from the previous fiscal year. The amount budgeted for FY16 represents about 4.4% of the FY15 adopted budget and is slightly higher than the amount of fund balance appropriated in the adopted budget for FY15.

The Adopted FY2015-16 budget maintains the existing tax rates. Last year (FY15) the rate was increased 1 penny for the Debt Management Fund and the preceding year (FY14) it was increased 1 penny for Transit and 1 penny for General Fund, as shown in the following table:

## PROPERTY TAX RATES

	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
<b>General Fund</b>	37.8	37.8	38.8	38.8	38.8
<b>Debt Fund</b>	7.5	7.5	7.5	8.5	8.5
<b>Transit Fund</b>	4.1	4.1	5.1	5.1	5.1
<b>Total</b>	<b>49.4</b>	<b>49.4</b>	<b>51.4</b>	<b>52.4</b>	<b>52.4</b>

*Note: Tax rate is expressed as cents per \$100 of assessed valuation*

## Council Goals

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At the 2015 Council Planning Retreat, we continued our discussion of Council Goals and specific budget challenges that we face for FY2015-16 and beyond. Based on our discussion, we refined and confirmed the goals that were developed during the 2014 Council Planning Retreat.

Council Goals, along with status updates can be found on the Town's web-site. These goals are intended to form a bridge between the long-term vision developed during the Chapel Hill 2020 process and the annual budget, helping to ensure that our incremental short-term decisions ultimately take us to the destination that we envisioned as a community.

As we have worked through the aftermath of the global economic crisis we have used the concept of "big rocks" (addressing major issues first before focusing on smaller scale problems) to identify and prioritize budgetary challenges. That concept was further reinforced through our efforts to incorporate the tools of priority budgeting to ensure that we are investing scarce resources (tax revenues) in areas that were providing the most value to the people we serve. As we transition to a period of more robust economic growth, the work we have done in identifying priorities in past budgets, as well as the various master-planning processes that have been ongoing, have provided an excellent basis for targeting operating efforts and capital investments in areas where they will maximize value and provide results consistent with our values.

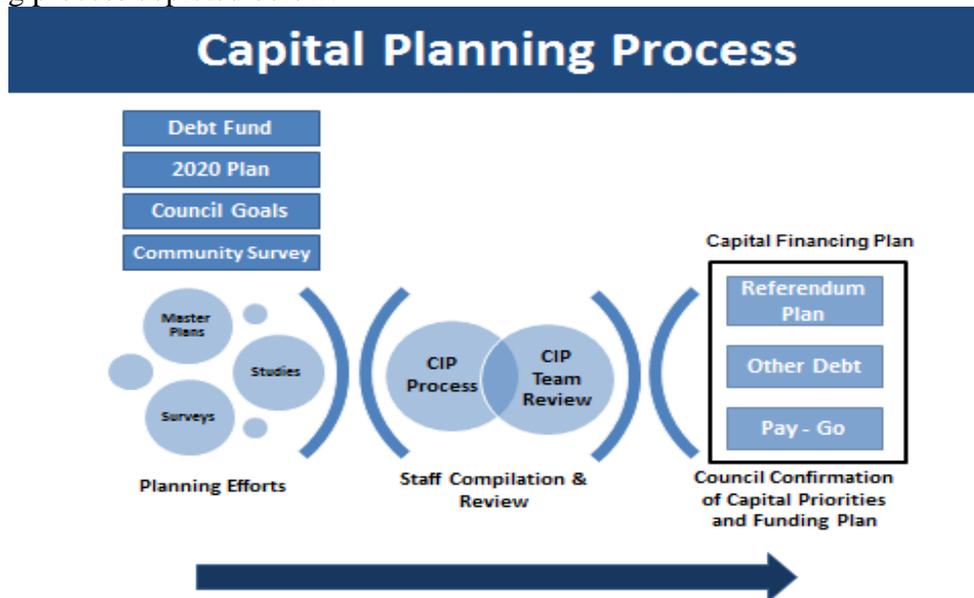
## Budget Challenges

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### Capital Improvements

One of the strategies used by the Town to address the fiscal crisis was to delay investment in major capital projects. This has resulted in a significant backlog of projects that are critical to the Town's mission, but the delay has also provided an opportunity to refine priorities through the master planning process. The work done since the last referendum in 2003, including the creation of the Debt Fund, the 2020 Planning Process, annual Council

Goal development and the community survey, have created the foundation of our capital planning process depicted below:



With the addition of one penny to the dedicated Debt Management Fund tax, Council has kick-started the Town’s capital improvement program and paved the way for a GO Bond referendum in November of 2015. A combination of factors, including a dedicated Debt Management Fund, triple A bond rating, favorable debt benchmarks and a rapid pay-down of existing debt, put the Town in excellent position to ramp-up its capital investments.

The bond referendum is the centerpiece of the capital funding plan, but it is just one of several pieces of the capital funding plan that includes the following elements:

- **Pay-as-you-go (pay-go) funding** - Used for small and/or recurring projects that can be accomplished within the fiscal year. Projects may include on-going costs for major maintenance of facilities and projects that can be divided into small annual segments.
  - The FY16 Adopted Budget includes \$853,856 for pay-go projects.
- **Two-thirds Bonds** - Used for eligible high priority projects that have relatively short timelines and are too large for pay-go. Projects may include major equipment purchases, facility and infrastructure improvements.
  - The Town will have approximately \$1.7 million of two-thirds bonds authority available in FY16. Although it has not been determined whether this capacity will be used or what it would be used for, it is a valuable tool to finance projects that may otherwise be difficult to fund.
- **Installment Financing** - Used for priority projects that are essential and for which adequate collateral is available. In cases where collateral for an installment financing is sufficient to cover multiple projects, combining financing is a useful tool to fund projects that would otherwise be problematic to fund. Projects may

include construction, renovation or major repair of essential facilities and major equipment and vehicles purchases.

- The Town is currently planning an installment financing, in lieu of a planned two-thirds bond issue, in order to finance the following projects
  - Fire Self Contained Breathing Apparatus (SCBAs)     \$ 500,000
  - Town Hall Emergency Generator                                 720,000
  - Energy Efficiency Projects (various locations)                 530,000
  - Town Hall HVAC Improvements                                         290,000
  - Hargraves Roof Replacement     290,000

**Total                                 \$ 2,330,000**

The first interest payment for this debt will be included in the FY16 Debt Management Fund Budget.

- The Town will finance the Town Hall Renovation project (\$900,000) and other high priority CIP projects (\$800,000), including fire apparatus, using an installment financing secured by Town Hall. The value and essentiality of the collateral allow for combining this financing with additional projects to take advantage of the available security. The need to finance Ephesus Fordham (Ef) public improvements (\$10,000,000) created an opportunity to combine that project with the Town Hall financing. The plan calls for the Ef debt to be paid through the incremental increase in the property values in the Ef district. This “synthetic Tax Increment Financing (TIF) is backstopped by the Town’s Debt Fund.

- Public Safety Projects are generally considered “essential” for financing purposes and thereby can be funded by an installment financing using the new facility as collateral. Replacement of the Police Department Headquarters Building was first identified as a Council Goal in 2009-10 and there are opportunities for combining a new Police facility with other Town needs including a Fire Station, Parks and Recreation facilities and other ancillary functions such as a wellness clinic and information technology. Combining some or all of these functions in one facility would save costs and create opportunities for sale or re-use of properties that currently support these functions. The potential for combining projects also suggests that using installment financing which is more flexible regarding financing amounts and timing, would be more appropriate. The cost for public safety facilities is estimated as follows:

• Police Headquarters Building	\$17,800,000
• Fire Facilities (stations 2,3,4 and training facility)	<u>11,700,000</u>
<b>Total</b>	<b>\$ 29,500,000</b>

- **GO Bond Referendum** - The planned November 2015 referendum will include streets & sidewalks, trails and greenways, recreation facilities, a solid waste transfer station and stormwater improvements. The total amount of the planned referendum is \$40.3 million, including \$34.4 million of General Fund Projects and \$5.9 million of Stormwater projects. The Town finances its long-term capital improvement through its Debt Management Fund. Based on our projections, the proposed referendum bonds can be paid using the existing capacity in the Debt Management

Fund. In other words, it is expected that the Town will not need to increase taxes in order to pay the debt service on the planned referendum debt. The Town's last general obligation bond referendum was in 2003 and the issuance authority was exhausted in 2010.

- **Bond Orders** - The planned bond orders (categories of projects that will be presented on the ballot) include projects that have been prioritized through the Town's internal review process. The bond order categories and project dollar amounts are as follows:
  - **Streets & Sidewalks**
    - Bicycle & Pedestrian Safety \$ 7,800,000
    - Sidewalk Construction 2,000,000
    - Street Infrastructure & Bridge 3,400,000
    - Downtown Streetscape 3,000,000
    - Total \$ 16,200,000**
  - **Trails & Greenways**
    - Morgan Creek Trail \$ 3,000,000
    - Bolin Creek Trail/Tanyard Branch 2,000,000
    - Total \$ 5,000,000**
  - **Recreation Facilities**
    - Administration Building \$ 3,600,000
    - Cultural Arts Building 3,400,000
    - Park Renovations 1,000,000
    - Total \$ 8,000,000**
  - **Solid Waste Facilities \$ 5,200,000**
  - **Stormwater Improvements \$ 5,900,000**

The following table summarizes the sources and uses of funds for all planned debt issuance. Except as otherwise noted the debt will be issued within the next 7 years.

Use of Funds:	Referendum	Installment Financing	Two-thirds	Pay-go
Referendum Bonds	\$ 40,300,000	\$ -	\$ -	\$ -
Ephesus Fordham/Town Hall	-	11,700,000	-	-
FY15 Various Projects	-	2,330,000	-	-
Public Safety Projects	-	29,500,000	-	-
FY16 Various Projects (TBD)	-	-	1,700,000	-
FY16 Pay-Go Capital	-	-	-	853,856
Bus Replacement	-	21,000,000	-	-
<b>Total</b>	<b>\$ 40,300,000</b>	<b>64,530,000</b>	<b>\$ 1,700,000</b>	<b>\$ 853,856</b>

Source of Funds:	Referendum	Installment Financing	Two-thirds	Pay-go
Debt Management Fund	\$ 34,400,000	\$ 23,877,750	\$ 1,700,000	\$ -
Stormwater Fund	5,900,000	-	-	-
Asset Management	-	9,652,250	-	-
Synthetic TIF	-	10,000,000	-	-
GF Operating Budget	-	-	-	853,856
Transit Fund	-	21,000,000	-	-
<b>Total</b>	<b>\$ 40,300,000</b>	<b>\$ 64,530,000</b>	<b>\$ 1,700,000</b>	<b>\$ 853,856</b>

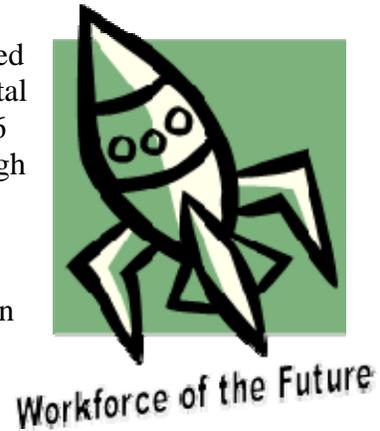
### Asset Management

The sale of Town owned properties is an important potential source of funding for major capital projects. In addition, evaluation of Town owned property to determine if there is potential to leverage unused or underused properties to help achieve Council goals can also lead to opportunities for public-private cooperation and other creative reuse options.

- **523 East Franklin** - The recent sale of 523 East Franklin has generated about \$2 million that will be used for the planning and design of the new multi-function complex that will house the new Police Headquarters.
- **Hamilton Road Fire Station Site** - The Council approved a Memorandum of Understanding for a public-private redevelopment project for the Hamilton Road Fire Station, including a new fire station and private development, subject to subsequent approval by the Council of the development in its regulatory role. The arrangement will provide the Town with a new fire station and other economic benefits through the redevelopment of an underutilized site.

### Employee Compensation

The Town is a service based organization that relies on a skilled and flexible workforce to deliver a broad scope of governmental services. Personnel related costs account for 70% of the FY16 General Fund Adopted Budget. The costs of maintaining a high performing workforce are increasing as the competition for labor increases. To a large extent the market dictates salary levels and as the economic recovery has gained traction we have seen increased turnover including a significant increase in retirements. The Town has kept competitive in the labor market by maintaining its comprehensive benefits package and through annual salary adjustments, although salary adjustments have historically lagged behind the market.



The FY16 Budget includes a salary adjustment that is split into two parts, with a 2% increase in July and another 2% increase in January. By splitting the increase we reduce the annual cost and also set the stage for implementation of a pay for performance system by separating future pay adjustments and pay for performance increases. This adjustment also brings the average Town employee slightly higher than where they would have been if they had they received annual adjustments equal to the consumer price index (CPI) over the last 10 years (including FY16). In terms of total earnings during that 10 year period, the hypothetical average employee would be slightly lower than but within \$140 of CIP adjusted wages.

Moving toward a performance based pay system and maintaining salaries that are competitive with the market are consistent with the recommendations of the Compensation Task Force.

The 2% + 2% split raise will be calculated from the “market” or “mid-point” level of each employee’s pay grade rather than simply applying a percentage to an employee’s

salary. This method of calculation was also used in the FY15 salary adjustments. By calculating adjustments in this manner, employees below market will receive larger adjustments than employees that are above market. The FY16 cost of the 2% + 2% split salary adjustment is \$1,030,000 for the General Fund. The following table shows pay adjustments and medical insurance premium changes over the past 8 years.

	<b>Pay Adjustment</b>	<b>One-time Payment</b>	<b>Health Ins. Increase</b>
<b>FY2008-09</b>	3%	0	10.0%
<b>FY2009-10</b>	0	0	17.1%
<b>FY2010-11</b>	0	\$800	13.9%
<b>FY2011-12</b>	0	\$800	10.1%
<b>FY2012-13</b>	3%	0	(3.0%)
<b>FY2013-14</b>	2%	0	4%
<b>FY2014-15*</b>	3%	0	7.0%
<b>FY2015-16*</b>	2% - 2%	0	(8.5%)

\* Increase calculated from market (mid-point) for each grade

### **Employee Health**

As shown in the following graph the rate of increase for the cost of employee medical insurance is trending downward with FY16 rates dropping by 8.5%. Not entirely by coincidence, the start of the downward trend is when the Town began its Wellness @ Work Program.

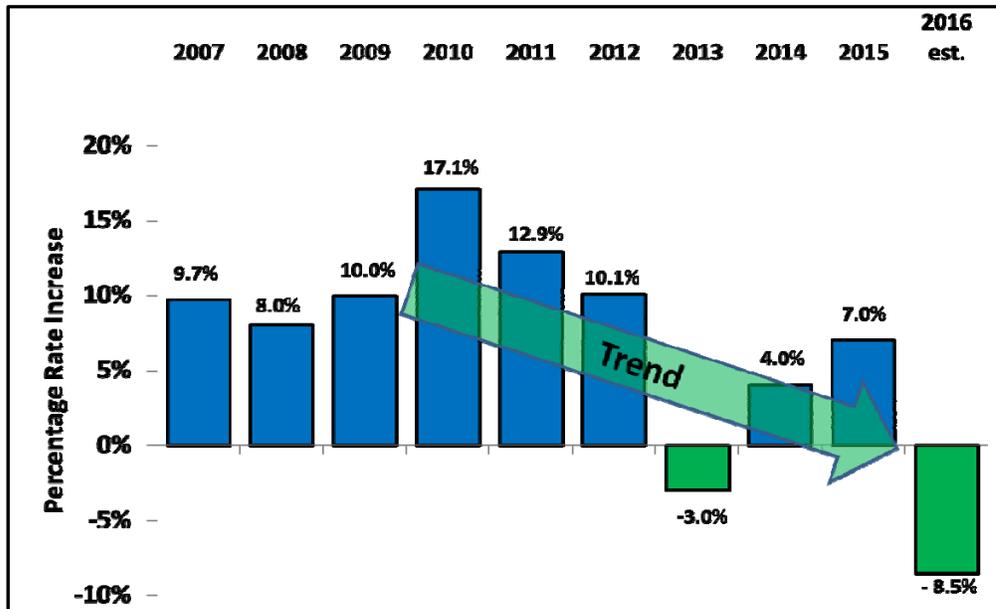
The Chapel Hill Wellness @ Work Program is a comprehensive wellness program for the employees of the Town of Chapel Hill. The program is a partnership between the UNC Health Care Department of Family Medicine and the Town of Chapel Hill. The success of this program is a direct result of this partnership and the work of the Wellness @ Work Committee. Highlights over the last year include:

- Health Risk Assessment (HRA) participation as of Jan. 30, 2015 was 82% (goal is 85%); last year's HRA participation was at 40.5%
- Employee Health Clinic (located at 317 Caldwell St. – lower level of Housing Dept. offices) utilization is up by 7% over last year
- Health Clinic visits and HRA lab data continue to show a drop in blood pressure for employees with diabetes; decrease in well-controlled diabetes; improvements in diabetes control for those with high risk complications
- Comprehensive Tobacco Cessation program – during the time that the Wellness Clinic has been open for employees, 89 employees have participated in the Tobacco Cessation Program with 42% quitting for 3 months; 30% quitting for 6 months and 28% quitting for 12 and longer.

Although the reduction in medical insurance premiums is impressive, improving employee health is the most important outcome of the program. The FY16 adopted budget continues these efforts by encouraging participation in the HRA program by giving a discounted employee medical insurance rate for program participants.

# Medical Insurance Cost

## Increase from Prior Year



## 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 6 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 adopted amounts are shown below.

Performance Agreements with Outside Agencies	2014-15 Adopted Budget	2015-16 Adopted Budget
Human Services	\$ 337,100	\$337,100
Environmental	1,000	1,000
Arts	10,500	20,500
Affordable Housing	257,074	361,238
Economic Development	260,000	260,000
<b>Total Contributions to Agencies</b>	<b>\$ 864,315</b>	<b>\$ 979,838</b>

The affordable housing agency funding includes a \$300,414 allocation to the Orange Community Housing and Land Trust. This represents an increase of \$100,414 from the FY15 performance agreement. This increase is based on the interlocal agreement, authorized by Council April 13, 2015, with the Towns of Carrboro and Hillsborough and Orange County formalizing the long-standing relationship with the Community Home Trust. In addition to the performance agreement amount, the Community Home Trust has also been allocated \$50,000 of the Town's FY16 CDBG funds.

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 will receive an allocation from the Downtown Service District of \$120,000.

## **Technology Initiatives**

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Beginning with the reorganization of the IT function into a separate "Technology Solutions" Department in the FY15 Budget, two major steps have been taken to better align our technology assets with our service mission. The creation of the Technology Pool provided a separate funding mechanism for technology projects that in the past would be competing with other capital and operating needs. Also the creation of a Business Analyst position in IT to evaluate and facilitate technology projects has allowed a more thoughtful and deliberate investment in new technologies.

One of the remaining challenges for Technology Solutions Department is to effectively support a diverse and growing base of over 650 users. This has become more challenging as we deal with competing demands for higher levels of security to protect confidential information and the need to embrace open data concepts to provide higher levels of transparency by making Town data available to everyone. Two new positions are included in the FY2015-16 Adopted Budget to fill the need for additional technical support in the areas of telecommunications, business support and technology integration.

Closing the digital divide – getting all Chapel Hill residents online – has been an ongoing priority that requires a multipronged approach. While progress has been slow in laying the infrastructure, Chapel Hill is working on a variety of fronts to ensure residents have access to internet, access to computer equipment, and access to digital literacy educational opportunities. The FY16 Budget includes \$70,000 in the Public Housing Fund Budget for continuation of the initiative to provide free Wi-Fi to public housing neighborhoods.

## **Library Operations / Youth Services**

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**Library Operations** - The opening of the new expanded Library created new space and new resources for the residents of Chapel Hill and Orange County. With this new community asset came additional costs and challenges to operate the facility in a way that meets the needs of its patrons. Over the past year the Library has been working to implement an organizational structure and staffing model that will more effectively allocate resources, better serve our growing community and meet the future in a sustainable manner. That effort continues in FY16 as services and employee skills shift and expand to meet new demands.

Through a gift from the Chapel Hill Public Library Foundation and additional support from the Library Gift Fund, an automated materials handler will be purchased in FY16. This new equipment will leverage technology to stabilize labor costs, reduce work related injuries, and ensuring faster more accurate sorting of materials. This equipment will also allow staff to be redeployed to more value-added jobs.

**Youth Services** – To address the need for coordination and expansion of youth services in the community, a Teen Engagement Specialist was included in the FY15 budget and hired earlier this year. While this position is located in the Library, this person is serving the Town’s interests of expanding teen programs/services and fostering collaboration between internal and external groups serving teens. The addition of this position has already had a dramatic impact with a 244% increase in teen programs and a 168% increase in program attendance. In FY16 this position will continue to work closely with colleagues in Parks and Recreation, Chapel Hill Police Department, and other departments, furthering the work begun by the Youth Initiative and serving the interests shared by the Town and the Chapel Hill Community.

## **Transit Sustainability**

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Chapel Hill Transit (CHT), like most transit systems, relies heavily on State and Federal funding in order to maintain operations. The lack of reliable Federal funding for bus replacement has created a critical maintenance issue for CHT. Based on the consultant’s preliminary report, 42 of the 99 fixed route-buses CHT are beyond their useful life and all of the 19 demand response vehicles are beyond their useful life. In order to maintain CHT without significant reductions in fleet size and service levels, plans are being made for an alternative to the current replacement strategy that relies almost completely on Federal and State funding. The FY15 budget included \$400,000 to begin a program of financing bus purchases; the FY16 Transit Budget doubles this amount to \$800,000. Further expansion of the bus financing program is dependent on successful negotiation of long-term commitments for debt repayment to be negotiated with CHT’s funding partners.

## Stormwater Fund

In order to keep pace with needed stormwater improvements it became necessary in FY14 to begin increasing the stormwater fee to meet current and future needs. Prior to FY14 the rate had not changed since the inception of the fund in 2004, despite a 40% increase in the operating budget. Also, the size of the Equivalent Rate Unit (ERU) was reduced in FY14 from 2,000 to 1,000 square feet.

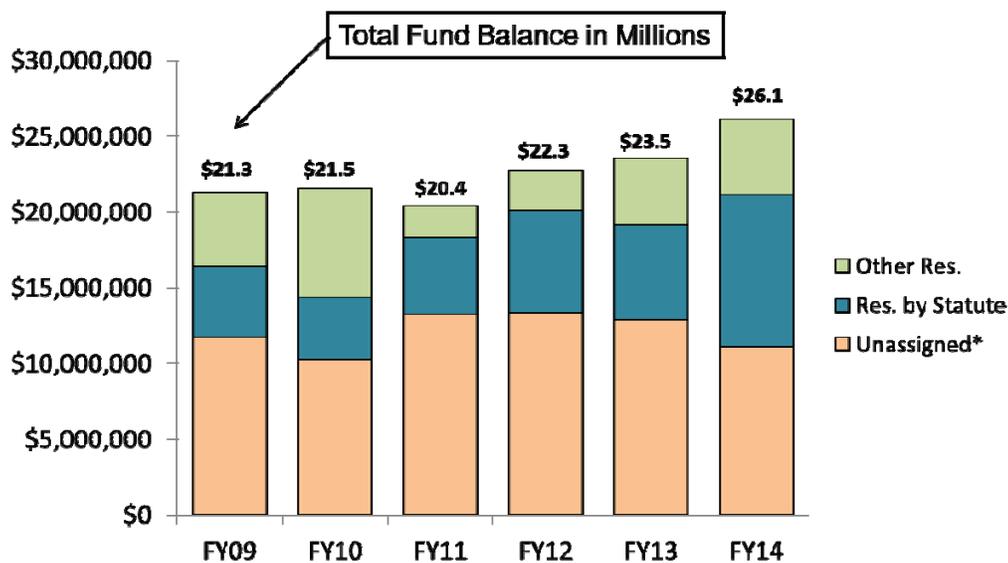
In FY15 the rate was increased by \$0.75 to \$24.75 per ERU. For FY16 we are increasing the rate an additional \$1.40 per ERU to help address capital needs, including the need to pay debt service on General Obligation Bonds should the November 2015 referendum be successful.

## Fund Balance

The Town has maintained a strong and consistent General Fund fund balance (see graph below) over the last 6 years. In order to help address the Town's capital needs and to create a funding mechanism for the Town's long-term liability for retiree healthcare, last year we recommended that unassigned fund balance (the portion of fund balance available for appropriation) over 22% be split between high priority capital investments, such as Rogers Road, and funding for the retiree healthcare liability. This distribution would begin with the fund balance calculated from the FY14 financial statements, however due to an unusually high amount of receivables at year-end, the unassigned fund balance percentage went down below 22%.

### Total GF Fund Balance

FY2008-9 thru FY2013-14



\* Unassigned fund balance is calculated as a percent of next year's appropriations and is not adjusted for debt service payments moved to Debt Management Fund in FY09

Because the General Fund receivables at the end for FY14 represented an anomaly that was resolved soon after the year end “snap-shot.” We are adjusting receivables to FY13 levels to calculate available funding for OPEB and capital projects. Using this adjustment we arrive at 24% fund balance with \$1,170,000 available to split between OPEB prefunding and high priority capital projects such as Roger’s Road.

The establishment of 22% as a fund balance “floor” for the purpose of allocating excess fund balance is based on the following:

- 22% fund balance (\$11 million) would provide about 2.5 months of operating funds for the Town’s General Fund.
- Based on the timing and dependability of Town revenue sources, 22% provides adequate operating funds to avoid borrowing for operating cash flow needs.
- Although 10% has generally been considered the floor for purposes of satisfying the Local Government Commission and bond rating agencies, the experience of many municipalities during the fiscal crisis has suggested that 10% is insufficient.

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.

The FY16 Adopted Budget seeks to keep the use of fund balance to a manageable level and uses \$2.7 million of fund balance, about 4.38% of total revenues, to help balance the budget. We believe that this is an appropriate and sustainable level of fund balance use.

## **Affordable Housing / Northside Community**

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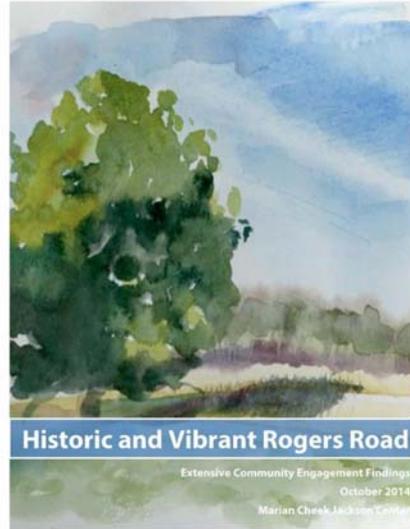
Leaders from the Town of Chapel Hill and the University of North Carolina at Chapel Hill (the University) announced in March of 2015 a major investment in the future of the Northside neighborhood. The investment – a \$3 million no-interest, 10-year loan from the University and annual funding from the Town of Chapel Hill for administration of that investment – will allow Northside and community partners to achieve a shared vision for the historic neighborhood: a family-friendly, socially-connected community where long-term residents, new owners, renters and students can live together.

The Town of Chapel Hill's adopted FY16 Budget includes \$688,395 to support affordable housing development and preservation, an amount equal to nearly one penny of the property tax rate. A portion of those funds will be used for the Town’s commitment to pay for the administration of the loan program that will be facilitated through a contract with Self Help, a nonprofit community developer and credit union.

## Rogers Road

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The FY15 budget included \$100,000 as the Town's contribution for a New Rogers Road Community Center. Also, the Town, along with Orange County and Carrboro funded a \$130,000 preliminary engineering contract with OWASA. The preliminary engineering work made some adjustments to the initial proposal and identified sewer alternatives. The estimated project costs to install 3.5 miles of sewer lines is \$5.7 million including engineering design, permitting, bidding, construction, construction administration, and contingency. This cost does not include installation of sewer individual laterals and connection fees or easement acquisitions. It is estimated that the project will take a minimum of two years to complete. The next phase of the project, engineering design and permitting, is tentatively scheduled to begin in July 2015. The cost of this phase is estimated to be \$370,000. Future contributions from the Town for this project could be funded from the allocation of excess fund balance as described above.



## Parking Fund

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For the first time since FY2009-10, the Parking Fund Budget is balanced without the use of appropriated fund balance. A period of fund balance spend-down was expected in the transition of Lot 5 to 140 West, however the addition of unexpected capital repair costs and a slower ramp-up of revenues from new facilities prolonged the period during which the fund ran budgetary deficits. Another factor in achieving a balanced Parking Fund budget is the elimination of the practice of transferring excess on-street parking revenues to the General Fund. Beginning in FY16 these excess funds will be used to support off-street parking operations. While the Parking Fund has achieved a balanced operating budget there are still major capital improvement challenges to be addressed, including repairs to the Wallace Deck roof to fix ongoing water infiltration problems.

Changes in parking fees for FY16 include the following:

- Conversion of some under-used hourly spaces to leased spaces
- Changing lease terms for some spaces from monthly to semester
- Instituting a 15 minute grace period from some off-street parking facilities and eliminating ½ hour increments
- Increasing the maximum time limit in off-street metered lots to 10 hours
- Adding a \$2.00 weekend rate Saturdays from 9:30am to 5:00pm

## Conclusion

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The focus of the FY2015-16 Adopted Budget is to prepare the Town for growth by ensuring that we have resources to meet service demands created by new development and by making strategic capital investments to improve public facilities and create infrastructure that is safe for all modes of transportation.

Town functions that deal with development should not serve as a bottleneck to progress. Whether it is a major development project or a backyard gazebo, the process of regulating development and construction needs to be deliberate and efficient at the staff level. Investing in resources to improve timeliness and responsiveness of these services will help to provide a fair and equitable process that accurately reflects a regulatory structure designed to protect the character and uniqueness of our community while allowing for planned growth and renewal. It is also important to note that these new resources are paid for by the increase in expected permit revenue.

The Town's Capital Improvement Plan acts as a hub for the various planning processes that have been conducted over the last few years. Priorities drawn from a variety of sources, including the Bicycle Plan, The Comprehensive Parks Plan, the Stormwater Management Program, the Greenway Master Plan and the 2020 Comprehensive Plan, to name a few, guide the development of the capital program. In addition, the public input process used in the creation of these plans helps maintain the focus on projects that add value from the perspective of the people we serve.

The budget is the tool we use to build steps toward a future based on our shared vision. But, moreover, the budget is about choices. Choices dictated by factors both within and outside of our control. Our ability to understand, manage and anticipate these factors is greatly enhanced by our ability to build trust and respect through open communication and the participation of the public in our planning, goal setting and decision making processes. The choices reflected in the Adopted Budget represent our best efforts to move forward toward achieving Council Goals. The 2015-16 Adopted 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 be a stylized name or set of initials, possibly "R. J. P.", written in a cursive or semi-cursive style.