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June 12, 2017

Dear Mayor Hemminger 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 2017-18.

## **Budget Highlights**

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- This budget is balanced with no tax rate increase. The adopted tax rate is the revenue neutral tax rate of 50.8 cents per \$100 of assessed valuation, reduced from 52.4 cents in the current year.
- The FY18 Stormwater budget includes a \$6.00 increase in the annual Stormwater fee. This increase includes a portion we previously projected to pay for debt service for the pending sale of Stormwater G.O. bonds and a portion for support of the operating budget for the stormwater division.
- There are no reductions or additions to core municipal services provided by our operating departments. These community programs and services represent about 75% of our expenditures.
- The budget includes employee compensation changes to meet the living wage commitment of the Town and to attract and retain the excellent employees who provide the excellent service recognized in the biennial community survey:
  - A 2.5% of market rate of pay for all employees effective July 1, 2017.
  - Pay adjustments based on a recent market compensation study. These adjustments affect 208 employees and total \$493,000. Most of the affected employees are entry level employees in the Transit and Public Works departments.
  - Pay adjustments to meet the Orange County Living Wage standards for 2018.
  - Value added pay programs for some community safety positions.
  - Implementation of Parental Leave.
  - Continuation of current healthcare benefits.

**Our strategic internal initiatives for FY2017-18 include:**

- An Employee Healthcare Task Force, similar to the one that helped create the wellness program and clinic, to review our healthcare benefits and develop strategies for addressing the rising costs of healthcare.
- Our Employee Compensation Task Force to work with our senior leadership team to continue and enhance the implementation of a pay for value added program.
- Work with our employees to develop additional work/life balance strategies to complement the parental leave program.

**Council Strategic Priorities**

In addition to these basic service priorities, the Adopted Budget also includes resources to address these strategic priorities of the Council:

- **Affordable Housing.**
  - The Town continues the commitment to funding an amount equal to one cent on the tax rate for new programs to promote affordable housing.
  - The Town continues funding nonprofits to support this goal in the amount of \$ 638,637.
  - The Town spends approximately \$5,726,395 on affordable housing programs including management of the 336 dwelling units in thirteen public housing neighborhoods.
  - The Town Council has recognized the connection of public transportation to affordable housing and works with its funding partners to maintain and grow a viable public transit system and a multimodal public transportation system throughout the Town.
  - The Town recognizes that factors in the affordability of housing include the cost of land and governmental development regulations (the Town, OWASA, the Schools, the State). This budget includes funding for
    - A rewrite of development regulations to include consideration of special provisions to support affordable housing
    - A review of public housing and other Town owned properties and how they might be used to facilitate the development of mixed income, higher density affordable housing.
    - Predevelopment costs for the Homestead property project.
- **Planning for the future.** The community survey results tells us our residents are not satisfied with how the Town plans for and manages the future. The Town staff is improving our processes and refining our organizational structure for development review and permitting. To further address those strategic policy concerns, the Council has prioritized the following initiatives funded in this budget:
  - Rewriting the Land Use Management ordinance
  - Addressing other planning initiatives:
    - West Rosemary Street Development Guide
    - Mobility and Connectivity Plan

- Downtown 2020 Work Plan Implementation
  - Station Area Planning
  - Ephesus/Fordham Design Guidelines
  - Downtown Circulation and Parking Study
- Funding for the Town’s share of the cost of sewer construction in Rogers Road and advancing the discussion of tools to guide the future development of the Rogers Road/Greene Tract area
- **Leveraging Town Assets.** The Council identified three strategic concerns and appointed committees to recommend the Town’s approach to addressing them. This budget includes the resources to support the work of those committees and develop resources for implementing recommendations:
  - The Historic Town Hall
  - The American Legion property
  - The Town Properties Task Force to identify use of assets to accomplish Town priorities
- **Downtown.** Resources remain focused on the appeal and accessibility of downtown as a cultural and economic hub, including:
  - Downtown Parking:
    - Acquisition and development of additional surface parking on West Franklin Street behind the Courtyards
    - Design of at least one additional level of parking in the Wallace Deck
    - Acquisition and installation of more customer friendly parking pay stations
    - Best practice land use development strategies for parking requirements related to new downtown development
  - Funding a Downtown Project Manager to coordinate resources and partnerships to implement the Downtown 2020 Work Plan. Expected Deliverables include:
    - Safety, wayfinding and placemaking improvements to pedestrian pathways
    - LED lighting upgrades
    - Downtown traffic, mobility and on-street parking study
    - Implementation of the priority actions in the West Rosemary Street Development Guide
    - Increased artistic and community programming
  - Expansion of partnership with UNC to support entrepreneurial activity and expand co-working and stage two spaces for small businesses and entrepreneurs
- **Replacement of Police Headquarters.** Continued design of Municipal Services Center/ Police administration building
- **Stormwater Improvements:**

- Rate increase (\$6.00 per year) to support major capital projects and stabilize operational funding
- Design and construction work on Lower Booker Creek Watershed recommended projects
- Eastwood Lake subwatershed study
- **Infrastructure improvements.** Management of resources to accomplish Council capital investment priorities:
  - Management of projects on the ground consistent with bond priorities
  - Development of systems for managing and communicating about capital projects
  - Review of programs for maintaining our physical assets, both funding levels and management

## **Budget Outlook**

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The overarching theme for the FY18 budget is one of caution.

We continue to experience positive growth in economy driven revenues such as sales tax. Our property tax base, our largest revenue source, has not kept pace with our costs of providing services over the last 8 years.

Both the State and Federal governments threaten the Towns financial resources. The State legislature is considering actions, such as changing the distribution method of sales taxes that will reduce the Town's revenues without providing options to make up the loss. On the Federal level, housing programs are being targeted for defunding. For jurisdictions like Chapel Hill, that maintain public housing facilities and support affordable housing initiatives, the loss of federal funding could be devastating to those efforts. As we saw with the negative effects on tourism of HB2, legislation does not need to be financial in nature to have a negative impact on municipal budgets. We will continue to monitor pending legislation and budgetary actions on both the state and federal level to gage the impact on the Town and to develop strategies to become more resilient in the face of potential changes.

## **Budget by the Numbers**

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The FY2017-18 Manager's Adopted Budget is balanced without an increase in taxes. The aggregate increase for all funds is 1.97% and the increase in the General Fund is 0.78%. We are projecting a moderate increase in overall revenues that includes increases in some economy driven revenues such as sales and occupancy taxes and decreases in others such as development related inspections and planning fees.

The following table compares the FY2016-17 Adopted Budget with the FY2017-18 Adopted Budget for all Town funds.

## BUDGET SUMMARY – ALL FUNDS

Fund	FY17 Adopted	FY18 Adopted	Incr./Decr.	Incr./Decr. %
<b>General Fund</b>	\$ 63,039,000	\$ 63,531,000	\$ 492,000	0.78%
<b>Transit Funds</b>	20,375,230	22,875,992	2,500,762	12.27%
<b>Stormwater</b>	2,366,284	2,722,030	355,746	15.03%
<b>Parking Funds</b>	2,694,007	2,668,762	(25,245)	-0.94%
<b>Housing</b>	2,442,116	2,304,199	(137,917)	-5.65%
<b>Debt Service</b>	7,528,782	7,542,793	14,011	0.19%
<b>Capital Projects</b>	898,434	561,260	(337,174)	-37.53%
<b>Other Funds</b>	5,894,268	5,101,352	(792,916)	-13.45%
<b>Total</b>	<b>\$ 105,238,121</b>	<b>\$ 107,307,388</b>	<b>\$ 2,069,267</b>	<b>1.97%</b>
<i>Note: Includes intrafund transfers</i>				

- General Fund** – The net increase in the adopted General Fund Budget for FY18 is 0.78%. This is a combination of increases, including a 12.0% increase in the cost of healthcare insurance and a 2.5% of market salary adjustment, and decreases such as a reduction in pay-go capital of 39%. We have recognized a conservative amount of lapsed salaries (\$1.25 million), acknowledging the fact that the Town will have vacant positions throughout the next budget year. Increases in sales taxes and occupancy taxes provide sufficient revenue to balance the General Fund Budget without the need for a tax increase.
- Transit Fund** – The increase in the Transit Fund Budget is due, in part, to increases in personnel costs, including the implementation of salary adjustments for 127 employees based on the recent pay study. The purchase of 19 buses is planned for FY18 using a combination of Orange County Transit Plan and grant funds. The FY18 Transit Budget includes the first debt service payment of \$716,309 for the buses purchased in FY17.
- Stormwater Fund** – The FY18 Stormwater budget includes a \$6.00 increase in the annual Stormwater fee. This increase includes a portion to pay for debt service for the pending sale of Stormwater G.O. bonds and a portion for support of the operating budget which has been using fund balance in the past few years. The increase in operating costs is due, in part, to costs associated with vehicle replacements.
- Parking Funds** – On-street Parking operations are expected to generate \$92,524 in revenues above the amount required to support operations. The additional revenue will be transferred to Off-street parking. The combined Off-street and On-street budgets are balanced without the use of appropriated fund balance.
- Housing** – The 5.65% decrease in the adopted Housing Fund Budget reflects a decrease in capital expenditures and an expected 12.4% decrease in HUD subsidies. The budget is balanced using \$355,845 in fund balance. While this is a decrease in

the budgeted fund balance from FY17, it represents an unsustainable level of fund balance use.

- **Debt Service** – The Town issued \$9.0 million of General Obligation referendum bonds and \$1.4 million of Two-thirds GO bonds in FY17. The first debt service payments for these bonds will be payable in FY18. The adopted Debt Fund budget is balanced using \$15,461 in fund balance. During FY18 a transfer from the General Fund will occur for the Ephesus Fordham District Tax Increment Financing (TIF). This transfer will represent the increase in the tax receipts in the district since the inception of the district. Calculation of the transfer amount will happen at year-end in order to reflect the impact of assessment appeals from the revaluation that could reduce the transfer amount.
- **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, planned debt issuance will fund several high priority projects that might otherwise be funded through pay-go.
- **Other Funds** – The aggregate reduction in these funds, that include internal service and grant funds, is due in part to reductions in one-time expenditures.

The estimated General Fund revenues for FY18 reflect an increase in revenue sources that are driven by economic activity such as sales taxes and utility sales taxes. The following table shows the expected changes to major revenue categories in the General Fund:

### GENERAL FUND REVENUES

Revenue Source	FY17 Adopted	FY18 Adopted	Incr./Decr.	Incr./Decr. %
<b>Property Taxes</b>	\$ 29,535,000	\$ 29,635,000	\$ 100,000	0.34%
<b>Sales Taxes</b>	12,790,797	13,677,177	886,380	6.93%
<b>Other Taxes</b>	1,224,000	1,300,000	76,000	6.21%
<b>State Shared Revenues</b>	8,079,590	8,069,340	(10,250)	-0.13%
<b>Charges for Services</b>	4,602,428	4,748,308	145,880	3.17%
<b>Licenses &amp; Permits</b>	2,917,986	2,129,153	(788,833)	-27.03%
<b>Grants</b>	780,614	779,963	(651)	-0.08%
<b>Other Revenues</b>	402,035	508,053	106,018	26.37%
<b>Appropriated Fund Balance</b>	2,706,550	2,684,006	(22,544)	-0.83%
<b>Total</b>	<b>\$ 63,039,000</b>	<b>\$ 63,531,000</b>	<b>\$ 492,000</b>	<b>0.78%</b>

- **Property Taxes** – As described in the following section, FY2017-18 property tax revenue numbers reflect a revenue neutral tax rate with a growth factor of 1.39% for Chapel Hill properties in Orange County. Chapel Hill property located in Durham County was subject to revaluation effective in FY2016-17. The Durham County revaluation resulted in a significant decrease in the aggregate assessed valuation of the Durham County properties in Chapel Hill. This decrease, combined with the lower revenue neutral tax rate, reduces the growth in property tax revenues to less than one half of one percent.

- **Sales Taxes** – Sales taxes continue to show strong growth. Based on year-to-date results, we are anticipating the growth rate will continue at about 6% into FY18.
- **Other Taxes** – The hotel occupancy tax is the main component of this category. Receipts for FY17 have been down slightly due to a water crisis during a UNC home game weekend and the impact of HB2 on the North Carolina tourism industry. We are budgeting 6% growth based on the repeal of HB2 and additional hotel rooms that will be completed before the end of FY18.
- **State Shared Revenues** – Growth in the Utility Sales Tax is expected to flatten in the coming year after several years of strong growth.
- **Charges for Services** – The net increase in this category is due mostly to increases in Parks & Recreation fees and increases in charges to other funds.
- **Licenses and Permits** – The decrease in this category is due to a decline in Fire and Building permit revenue. This is offset somewhat by an expected increase in planning special use, and development compliance permits.
- **Grants & Other Revenues** – Revenues in these categories are expected to remain about the same as current year.
- **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 FY18 represents about 4.2% of the FY17 Adopted Budget revenues and is slightly lower than the amount of fund balance appropriated in the adopted budget for FY17.

The Adopted FY2017-18 budget is based on a revenue neutral tax rate. Since the last revaluation in FY10 the Town’s tax rate has increased 3 cents or 6.1%. That is less than 1% per year and less than the rate of inflation. The last increase in property tax rates was the addition of 1 penny for the Debt Management Fund in FY15 to kick-start the Town’s capital improvement program. In FY14 the Transit and General Fund rates were each increased by 1 penny to pay for increases in operating and capital costs. The property tax rates since the last revaluation and the FY18 revenue neutral tax rates are shown in the following table:

### Property Tax Rates

	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
<b>General Fund</b>	36.0	36.0	37.8	37.8	38.8	38.8	38.8	38.8	37.6
<b>Debt Service</b>	9.3	9.3	7.5	7.5	7.5	8.5	8.5	8.5	8.2
<b>Transit</b>	4.1	4.1	4.1	4.1	5.1	5.1	5.1	5.1	5
<b>Total</b>	<b>49.4</b>	<b>49.4</b>	<b>49.4</b>	<b>49.4</b>	<b>51.4</b>	<b>52.4</b>	<b>52.4</b>	<b>52.4</b>	<b>50.8</b>

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

## Real Property Revaluation

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In North Carolina, counties are required by state statute to revalue real property at least every eight years. The revaluation process is designed to set tax assessments to a market value as of the appraisal date in order to equalize the tax base. Orange County recently completed the revaluation process that will go into effect beginning with the FY18 tax year. The effective date of appraisal is January 1, 2017. It has been eight years since the last revaluation and many properties will see significant changes in their assessed values.

### Revenue Neutral Tax Rate

State law requires the Town to declare a revenue neutral tax rate for the year a revaluation takes effect. **The revenue neutral tax rate is calculated to generate the same amount of revenue that was generated in the tax year prior to the new revaluation assessments becoming effective (FY2016-17). The revenue amount is adjusted by a growth factor based on the average tax base growth in the years since the last revaluation (FY2009-10). The average growth factor used in determining the revenue neutral rate is 1.39%.**

For the FY2017-18 tax year the Town's tax rate will be adjusted to the revenue neutral rate and assessed values will reflect the new Orange County revaluation assessments. The revenue neutral rate calculated in accordance with State statutes is shown in the table below. We have balanced this budget using the revenue neutral tax rate.

### Property Tax Rates

	<b>FY2016-17 Current</b>	<b>FY2017-18 Revenue Neutral</b>
General Fund	38.8	37.6
Debt Fund	8.5	8.2
Transit Fund	5.1	5.0
<b>Total</b>	<b>52.4</b>	<b>50.8</b>

The change in real property value as the result of revaluation, as reported by the Orange County Tax Office, is 11%. This is the combination of a 41% increase in commercial properties and a 2% increase in residential properties. For valuation purposes, Orange County includes apartment residential developments as commercial. This change represents the aggregate increase in the market value of the tax base since the last revaluation in FY2009-10.

It is important to note that although the raw results of the revaluation show an increase of 11%, that number is reduced by expected adjustments due to successful appeals. Based on the estimated impact of appeals provided by the County Tax Office, the net increase is expected to be 5.39% rather than 11%.

The revenue neutral rate is designed to provide the same amount of revenue (levy) as the previous year and therefore has the aggregate impact of maintaining the same tax rate and assessed valuation as the previous year. In other words, theoretically, the average property owner will not see an increase in their taxes. However, in practice, there are very few

“average” property owners and it is much more likely that a property owner will see a change in their tax bill that reflects how the property market values in their neighborhood have changed since the last revaluation.

## Capital Investment

The Capital Program is a 15-year financial plan for the Town’s major capital and infrastructure needs. The program identifies capital needs, establishes priorities and identifies potential funding sources.

The Town has a significant backlog of capital projects that were deferred during the fiscal crisis. Over the past two years we have taken steps to accelerate the capital improvements program, including Council’s increase in the Debt Fund tax rate of 1 cent in FY16 and the approval of a \$40.3 million bond referendum in November of 2015. This has allowed us to begin addressing more of the Town’s capital needs, including the following recent financing activity:

- \$9.0 million G.O. Referendum Bonds for streets and sidewalks (\$3.0 million), trails and greenways (\$5.0 million), and parks facilities (\$1.0 million). Debt service will be paid from the Debt Fund.
- \$1.4 million G.O. Two-thirds bonds for the purchase of public safety equipment including a fire ladder truck. Debt service will be paid from the Debt Fund.
- \$6.4 million Installment Financing for the purchase of 14 transit buses. Debt service will be paid from the Transit Fund.
- \$4.3 million installment financing for the purchase of the American Legion property. Source of repayment has not been determined.
- \$7.9 million installment financing for Ephesus Fordham Phase I, Hamilton Road Fire Station, Town Hall Renovation and other projects. Source of repayment will be the Debt Fund and tax increment from the Ephesus Fordham District.
- \$2.4 million installment financing for public safety and public facility improvements. Debt service will be paid from the Debt Fund.

### Voter Approved Debt

In November of 2015, Chapel Hill voters approved 5 bond orders giving the Town the Authority to issue up to \$40.3 million of G.O. bonds within the next 7 years. The following table shows the authority by bond order, the amounts issued to date and the balance remaining.

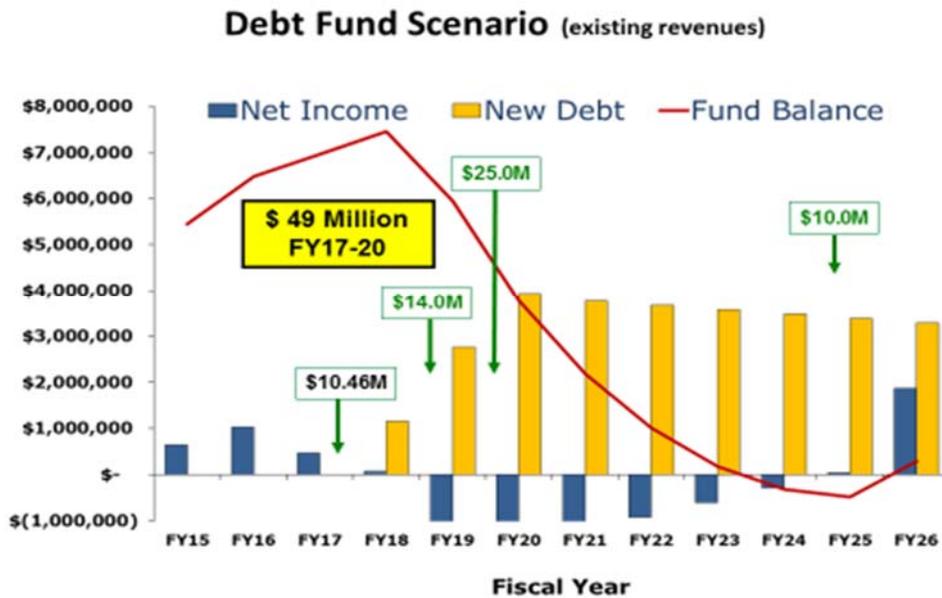
Bond Order	Authority	Issued	Balance
Streets & Sidewalks	\$ 16,200,000	\$ 3,000,000	\$ 13,200,000
Trails & Greenways	5,000,000	5,000,000	0
Recreation facilities	8,000,000	1,000,000	7,000,000
Solid waste Facility	5,200,000	0	5,200,000
Stormwater Improvements	5,900,000	0	5,900,000
<b>Total</b>	<b>\$ 40,300,000</b>	<b>\$ 9,000,000</b>	<b>\$ 31,300,000</b>

A second issuance of referendum bonds is planned for the second half of FY18. This issuance will, most likely, include Streets and Sidewalk and Stormwater Improvement bonds. The total amount will in the \$10 – 15 million range.

**The Debt Fund**

The Debt Fund is the Town’s primary source of repayment for capital borrowing. The fund was established in FY10 to isolate debt service payments from the General Fund so that capital investment decisions could be made independent of their impact on the operating budget. In other words, by assigning a dedicated tax to the debt fund, increases in capital investment would be dependent on the adequacy of Debt Fund revenues instead of competing with operating costs.

For FY18 the Debt Fund is at break-even, with revenues and expenditures at about the same level. The Town’s rapid spend-down of debt and accumulated fund balance in the Debt Fund will provide capacity to issue about \$39 million in additional debt in the next two years. The timing, structure and amount of future debt issuances supported by the Debt Fund may need to be adjusted based on the following scenario that shows fund balance dipping into negative numbers in FY2023-24.



The preceding scenario assumes a \$14 million G.O. bond issue in the second half of FY2017-18 for Streets and Sidewalks and Stormwater Bonds (repaid by the Stormwater Fund) and a \$25 million installment financing in FY19 to pay for the Municipal Services Center. We have used conservative interest rate and debt structuring assumptions for this scenario.

**Public Safety**

Planning for a Municipal Services Center (MSC) that may include Police, Fire, and other Town Offices will continue in FY18. Site selection is currently in progress and it is expected that design will be completed in fall of 2018. The proceeds of the sale of 523

East Franklin are being used for the design costs of the new facility. The balance of the project costs may be funded through a combination of G.O. bonds and an installment financing. This project will also include costs related to the ultimate disposition of the current Police Headquarters Building. The site is a former coal ash dump and analysis to determine the required remediation and clean-up is currently ongoing.

### **Asset Management**

The sale of Town owned properties is an important potential source of funding for major capital projects. The asset management initiative was designed to assess the value of underutilized Town assets and leverage those assets to address critical needs. The following projects involve the reuse of Town owned properties:

- **523 East Franklin** - The sale of 523 East Franklin generated about \$1.7 million that is being used for the planning and design of the new Municipal Services Center complex that will house the new Police Headquarters.
- **Hamilton Road Fire Station Site** - The Council approved a public-private partnership to redevelop the Hamilton Road Fire Station property. The development includes a new fire station and private office building. This innovative partnership provides the Town with a new fire station at a fraction of the cost of building it ourselves and creates an office building on land that was previously not subject to property tax.
- **DHIC Project** – Repurposing underused Town properties can also serve to further Council Goals, such as affordable housing. The use of 10 acres of Town owned land as the site of a Low Income Tax Credit project has made it possible to add about 140 units of much needed affordable housing.



In January of 2017, Council established and appointed a Council Task Force on the Strategic uses of Town properties. The Task Force was established to develop a strategic framework and initial ideas for specific Town owned properties for Council review in June of 2017.

## **Development and Tax Base Growth**

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A great deal of Council and staff resources are consumed by issues related to planning and development. While this is to be expected, because development issues often have long-lasting and dramatic effects on the character of a community, what may be unexpected, is the lack of tax base growth associated with the volume of developments being processed for approval. This is due to two factors. First, the amount of new taxable property needed to “move the needle” with regard to growth of our tax base is enormous. Second, the

amount of time between initial application and new developments paying taxes can be as long as 8-10 years.

### Moving the Needle

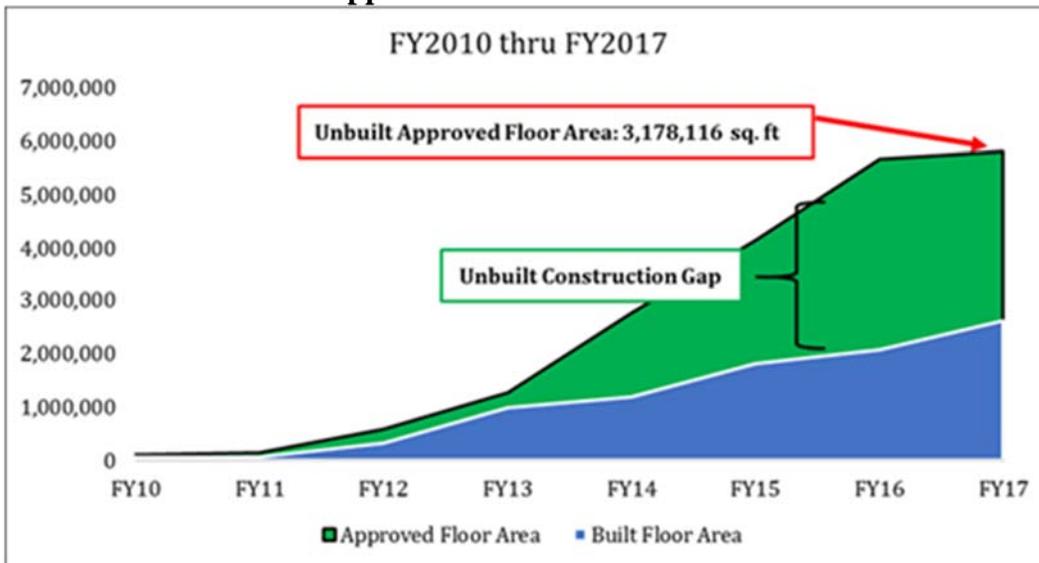
The assessed value of the Town's tax base is \$7.6 billion dollars. In order to increase the Town's tax base by 1%, \$76 million of taxable value needs to be added to the tax rolls. To put that in perspective, some of the Town's largest developments, such as the University Mall (\$32,792,795) and East 54 (\$35,239,900) are individually less than one half of one percent of the tax base. In other words, the Town would need to add more than two East 54 size developments in one year in order to raise the tax base by about 1%.

Since the last revaluation, the average annual increase in the tax base has been 1.39%. This equates to an annual increase in tax value of about \$100 million or three University Malls. While this seems to be a large increase it is about the same as the rate of inflation for the period and it is less than the annual increase in the cost of providing Town services.

### The Development Cycle

The amount of developable land in Chapel Hill is relatively small, adding pressure for land use decisions to be made cautiously and with great care to ensure congruity with the Council's vision for the community. This level of scrutiny can stretch out the approval process and require multiple iterations. The amount of effort used in this process can seem out of proportion to the results, with regard to tax base growth. This disconnect appears larger when you consider large developments that make it through the approval process and construction does not begin for an extended period of time, such as Glen Lennox and Obey Creek developments. This is illustrated in the following graph that shows the disparity between what has been approved for construction and what has actually been built.

**Total Approved Floor Area and Built Floor Area**



Another trend that increases the delay between development approval and tax base impact is the use of economic incentives. The Caraway Village and Wegmans projects include economic incentives that reduce the net gain from tax base growth for several years after construction is completed. Development in the Ephesus Fordham District will have a similar delayed tax impact because increases in the tax base of the district will be used to offset the cost of the debt service for public improvements in the district.

## **Fund Balance**

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The Town has maintained a strong and consistent General Fund fund balance (see graph below) over the last 7 years, keeping unassigned fund balance levels between 20% and 30% . Unassigned fund balance is the portion that is available for appropriation and represents the Town “rainy day fund.”

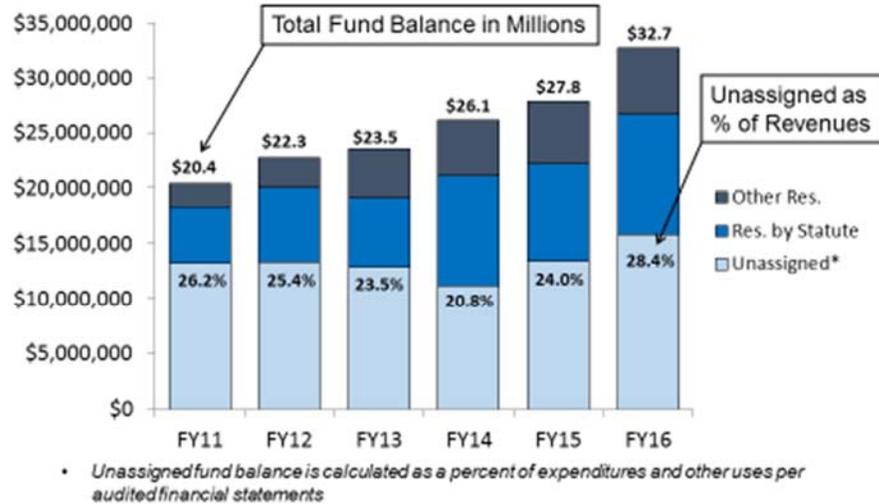
Maintaining an adequate level of fund balance is critical to meet the cash flow requirements of this municipal corporation and to provide an emergency fund to safeguard the Town against the costs of recovering from unforeseen economic, emergency and natural disasters. The Town’s strong fund balance levels are a positive factor in assigning credit ratings to the Town’s debt. The Town has continually received the highest possible rating for its general obligation bonds.

In past years, unassigned fund balance over the 22% (target) was split between high priority capital investments, such as Rogers Road, and funding for the retiree healthcare liability (OPEB). Beginning with the FY17 Budget the Town included pre-funding of the OPEB liability in the operating budget, thereby making all fund balance over target available for one-time capital needs. The appropriation of fund balance over 22% in FY17 (\$3.6 million) was used as a first installment for the purchase of the American Legion property.

For FY18 the Town is budgeting about \$2.7 million of fund balance to balance the General Fund operating budget. This amount is consistent with prior year’s use of fund balance. In addition, the Town is budgeting \$1,250,000 of lapsed salaries. That is, the Town is recognizing that there will be vacant positions throughout the year and is therefore reducing the funding for personnel costs. Also, with increased capital project activity the Town will be making use of fund balance for intra-fund borrowing to fund planning and design of major projects prior to permanent financing. All of these factors will depress fund balance levels and we will need to carefully monitor fund balance throughout the year in order to maintain the 22% target unassigned amount.

## Total GF Fund Balance

FY2010-11 thru FY2015-16



## Council Goals

The starting point for building the Town’s annual operating budget is the development of Council Goals. Council Goals for FY16-18 and the initiatives that are planned to further those goals are attached.

Council Goals, along with status updates can be found on the Town’s website. These goals are intended to bridge the long-term vision of 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.

### Council Goals:

☒		Create a Place for Everyone	☒		Develop Good Places, New Spaces
☒		Support Community Prosperity	☒		Nurture Our Community
☒		Facilitate Getting Around	☒		Grow Town and Gown Collaboration

# Affordable Housing

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## **Affordable Housing Development Reserve (Penny for Housing)**

For the third year, the Manager’s preliminary budget continues to include \$688,395 for the Affordable Housing Development Reserve. These funds, nearly a penny on the property tax rate, develop and preserve affordable housing opportunities consistent with the Council-adopted Affordable Housing Strategy. Each year, the Council also allocates \$200,000 of these funds to Self Help to support administrative expenses related to a land banking initiative in the Northside Neighborhood.

There is additional affordable housing agency funding for two new agencies: the Marian Cheek Jackson Center for Saving and Making History (\$40,000) to implement strategies identified in the Northside and Pine Knolls Community Plan, and the Town’s contribution to the HOME Program Match (\$32,128). In years past, funds from the Affordable Housing Fund were used for this purpose; however, there are no longer resources available in the Fund to cover these expenses.

## **Decrease in Federal Funding**

The President’s preliminary budget proposes elimination of the Community Development Block Grant (CDBG) and HOME Program and a reduction in funds allocated for the Capital Fund Grant for public housing maintenance and operations. In response, we are evaluating options that would generate new funding resources to continue to support the Town’s public housing program and the Council’s affordable housing and community development activities.

## **Public Housing Master Plan**

We identify public housing as an important part of affordable housing in Chapel Hill and strive to provide excellent public housing to the residents of Chapel Hill. In response, we are engaged in an effort to assess the condition and value of our units. We are exploring options for how we could use our existing sites to leverage additional resources to support the revitalization and redevelopment of our communities. In addition to an interdepartmental staff team working on this effort, the Town has also



engaged a consultant to help us identify financing and redevelopment options as well as development of a five-year capital plan for maintenance and operating expenses.

## **Development on Town-Owned Land**

Both the Council-adopted Affordable Housing Strategy and the Affordable Rental Housing Strategy identify development of affordable housing on Town-owned land as a key priority and a method to increase the affordability of housing. For many years, the Town has donated land for affordable housing purposes, and there is significant value associated with these properties that is often not accounted for in the Town’s contributions to affordable housing. Recent recipients of Town-owned land include DHIC, Habitat for Humanity and Self-Help Ventures Fund. The outcome of the study underway by the recently appointed

Town Properties Task Force might identify additional properties suitable for affordable housing. We will continue to identify Town-owned properties that could be used to create new affordable housing opportunities consistent with the Council’s goals.



*Greenwood Place Affordable Housing Phase I*

## 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. For FY17 funds allocated based on the recommendations from the Human Services Advisory Board were increased by \$64,400. The adopted FY18 Budget adds an additional \$8,000 to the Human Services Advisory Board.

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.

<b>Performance Agreements with Outside Agencies</b>	<b>2016-17 Adopted Budget</b>	<b>2017-18 Adopted Budget</b>
<b>Human Services</b>	\$ 411,500	\$ 419,500
<b>Environmental</b>	1,000	500
<b>Arts</b>	23,000	13,500
<b>Affordable Housing</b>	379,557	398,637
<b>Economic Development</b>	280,000	280,000
<b>Total Performance Agreements</b>	<b>\$ 1,095,057</b>	<b>\$ 1,112,137</b>

The affordable housing agency funding includes a \$339,831 allocation to the Orange Community Housing and Land Trust. This represents an increase of \$11,270 from the FY17 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.

We have discussed the Agreement with our partners and with the Community Home Trust. We believe that the Agreement provides sufficient guidance for our partnership with the Community Home Trust and do not recommend changes at this time. We will continue to review the agreement on an annual basis and recommend modifications for consideration as appropriate. In addition to the performance agreement amount, the Community Home Trust has also been allocated \$50,000 of the Town's FY18 CDBG funds.

The economic development agency funding includes \$200,000 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 allocation is a \$70,000 allocation to the Downtown Partnership for services in the Downtown Municipal Service District (MSD). The Downtown Service District Budget also includes \$120,000 for services in the MSD.

The budget continues affordable housing agency funding to Orange County for management of the Partnership to End Homelessness (\$45,306) and EmPOWERment, Inc. (\$13,500) to support a position that manages its affordable rental properties.

## Town Employees

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### Employee Compensation

The Town is a service based organization that relies on a skilled and nimble workforce to deliver a broad scope of governmental services. Personnel related costs account for 73.7% of the FY18 General Fund Adopted Budget. The costs of maintaining a high performing workforce are increasing as the competition for labor increases. In recent years we have seen increased turnover, including a significant increase in retirements. The Town's



**Workforce  
of the Future**

Turnover rate (about 8%) is typical for local governments in our region. The Town can stay competitive in the labor market by maintaining its comprehensive benefits package and through annual market based salary adjustments.

The FY18 Adopted Budget includes a 2.5% salary adjustment effective July 1, 2017. This adjustment will be based on the market rate (mid-point) within each pay grade so that employees currently making less than market will receive slightly larger percentage increases than those currently making more than the market.

The Adopted Budget also includes adjustments based on the recent market compensation study. The study, conducted by a third party, identified 41 positions that were determined to have salary ranges below market. The cost for implementing the adopted market adjustments is about \$ 493,000 and there are a total of 208 employees in the affected positions, with 127 of those employees in the Transit Department.

	<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%)
<b>FY2016-17*</b>	2% - 1.5%	0	16.9%
<b>FY2017-18*</b>	2.5%	0	12.0%

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

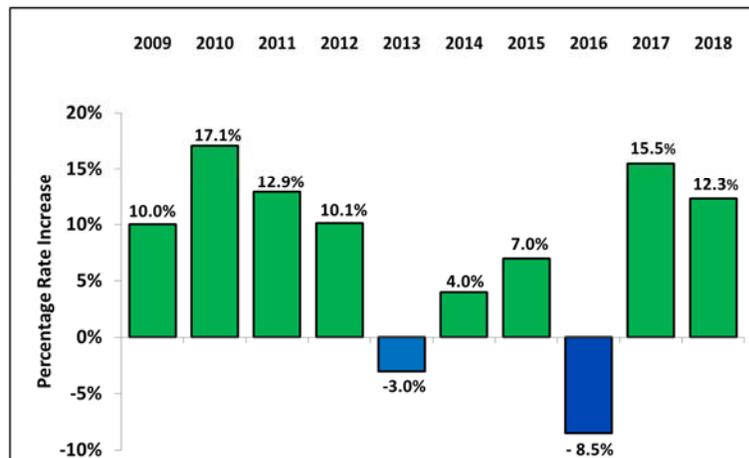
### Living Wage

The FY18 Manager’s Adopted Budget includes additional funding to pay for an increase in the Orange County Living Wage (OCLW) standard. The 2018 standard is \$13.75 per hour for employees without health benefits. This affects seasonal and program support employees in the Parks and Recreation Department and the budget includes an additional \$93,000 to cover this cost. With this change, the Town will be in compliance with the OCLW standard for 2018.

### Employee Health

As shown in the following graph, after several years of moderate increases including an 8.5% reduction in FY16, our rates increased significantly in FY17 and continue to increase at a double-digit rate for FY18. While this reverses favorable claims experience prior to FY17, it does not negate the progress made in the Town’s Wellness @ Work Program. The spike in rates is due to a combination of bad claims experience from a relatively small number of high dollar claims and a general increase in the cost of healthcare. The rate of increase for FY17 and FY18 is not sustainable and we need to explore options, in addition to wellness, to control costs.

**Medical Insurance Cost**  
Increase from Prior Year



### Wellness@Work

The easiest and quickest path to controlling health insurance costs would have been to ration healthcare for our employees. This is a path that many other businesses and local

governments have taken, basically solving the problem by transferring the cost to their employees. While this may have been an effective solution financially, the long-term impact on the Town's workforce would have been detrimental. Rationing healthcare simply does not create a more healthy and productive workforce. In fact it does the opposite. Rather than taking the easy short-sited approach, the Town embarked on a wellness initiative designed to identify and treat chronic illnesses, reach-out to employees who may be medically underserved, and help our employees make good healthcare and lifestyle decisions.

The Town started its Wellness @ Work Program in 2012. The program is a comprehensive wellness initiative 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. Participation in the program has grown each year with 95% of employees taking the health risk assessment (HRA) in FY17. The HRA includes screenings for important health issues and provides information for employees to better manage their health. The Town is continuing its commitment to this partnership because we believe that employee wellness pays dividends beyond the cost of health insurance by improving the quality of employees' lives and helping them to be healthier, happier and more productive.



The recent reversal of a positive trend in health insurance premiums is disappointing, but improving employee health is the most important outcome of the program. The FY18 adopted budget continues these efforts by encouraging participation in the HRA program by giving a discounted employee medical insurance rate for program participants.

### **Retiree Healthcare**

The Town has taken several positive steps in managing its retiree healthcare liability, including establishing a defined contribution plan in 2010 for all new employees, making periodic pre-funding contributions and setting-up an irrevocable trust for pre-funding assets. In order to accelerate pre-funding of the liability we starting making annual pre-funding contributions from the operating budget in FY17. The total pre-funding contribution in the FY18 adopted budget is \$840,000.

## **Transit Sustainability**

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Chapel Hill Transit, 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 Chapel Hill Transit. The Transit Funding Partners have adopted a Capital Plan through FY2027, which will assist Chapel Hill Transit

in achieving a more sustainable average fleet age. During FY17 we purchased 16 fixed-route buses using debt-financing and capital reserve funds. For FY18 we plan to purchase up to 19 fixed-route buses using Orange County Transit Plan and grant funds, which should bring us in-line with the Capital Plan. The FY18 Transit Budget also includes funds to assist with the lease of a 40-foot electric bus that will allow us to evaluate the feasibility of expanding our use of alternative fuel vehicles.



*Proposed Route of BRT*

Beginning with the FY18 we will undertake a service development plan that will serve as a roadmap for the next 10 years and position the system for continued success. The planning effort will look at funding opportunities, integration of Bus Rapid Transit (BRT), and longer-term strategic issues such as light rail integration and regional coordination. Ultimately, the plan will provide an implementable approach to guide transit service in Chapel Hill and Carrboro for the next 10 years and beyond. Chapel Hill Transit’s efforts will be coordinated with funding partners (Town of Carrboro and University of North Carolina at Chapel Hill), customers, public, GoTriangle, Orange County and other regional partners/stakeholders. This effort will include analyzing routing options and costs for bus service connections to light rail stations planned within or adjacent to Chapel Hill Transit’s existing service area.

The FY18 Chapel Hill Transit Budget is balanced using \$2.4 million of appropriated fund balance. The bulk of these funds represents greater than expected Federal and State assistance received in FY17, but not yet spent. Partner contributions are consistent with FY17 levels due to this unexpected State and Federal funding. As we move into FY19 we expect that Partner increases will be needed to cover current operating

costs and additional capital expenditures needs.

During FY18, we will also begin a discussion with the University and Town of Carrboro regarding the development of a long-term memorandum of understanding, covering ongoing operations of Chapel Hill Transit, consistent with our goal of creating a sustainable financial future for public transit in our community.

## Stormwater Fund

The FY18 Stormwater budget includes a \$6.00 increase in the annual Stormwater fee. This increase includes a portion to pay for debt service for the pending sale of Stormwater G.O.

bonds (\$2.50) and a portion for support of the operating budget which has been using fund balance in the past few years (\$3.50). The increase in operating costs is due, in part, to costs associated with vehicle replacements.

With the Council approval of the Lower Booker Creek Subwatershed Study report and project recommendations, we now have a list of priority projects to be designed, permitted and constructed. These projects include:

- Elliott Storage \$1,140,000
- Red Bud Storage 914,000
- Booker Creek Road 1,285,000
- Honeysuckle Rd 336,000
- Piney Mountain Rd Storage 1,906,000

The design costs for these projects will be paid from fund balance and the Stormwater operating budget. Projects that have completed design will be included in the next issuance of G.O. referendum bunds scheduled for the second half of FY18.

Lake Ellen could also be considered as the preliminary analysis demonstrated that modifications to the lake would result in reductions in flood volumes and elevations downstream.



Additionally, we have begun the second subwatershed study, Eastwood Lake. Similar to the Lower Booker Creek Study, it is expected to be substantially complete by the end of FY18 and will include its own set of project recommendations.

## Technology Initiatives

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The use of technology to support and improve Town services is an ongoing priority. The FY17 allocation from the Technology Pool included funding for projects including a learning management system, a service/work order management system, automated vehicle locator upgrades and a variety of smaller projects. Implementation of these projects will continue into FY18.

The Town supports a diverse and growing base of over 650 technology users. Additional speed and redundancy were added to the Town's networks to improve service. To protect the technology equipment and services, several security improvements were introduced and systems were upgraded. Protecting critical systems from harm and securing confidential information is a never-ending, active process reflected in several areas of the budget. At the same time increasing transparency by making more public data and visualizations available to everyone on the open data portal continues.



Staff from several departments are coordinating with wireless service carriers as deployment of 5G cellphone and data networks begins. In addition, staff are monitoring the impact of this deployment on residents so that their interests are protected in this process. Ensuring residents have the wireless communication services they need is an ongoing priority requiring a multipronged approach. Work continues to coordinate with the private Internet Service Providers (ISPs) to connect more residents, community centers, schools and other facilities to high speed Internet including gigabit service.

The Town is also working closely with UNC and property developers to safe guard and improve the fiber network infrastructure around the Town. The key to effectively leveraging our fiber assets to create a more level digital playing field is to build relationships with organizations that share our interests, such as UNC, the School District and Carrboro. Through these partnerships 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.

## Library Operations / Youth Services

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**The Circulator** is a major new Town service that will take Library programs, services, and collections out into the community - in a fun and flexible vehicle that is more like a food truck than a traditional bookmobile. First year costs, approximately \$100,000, were made



possible by a federal grant and additional funds from the Friends of the Library, with the Town providing ongoing support for the service. The Circulator advances several of the Library's strategic goals, including increasing capacity for community programs, partnering for educational success, and taking library services beyond 100 Library Drive.

**The Leaders Library Card Challenge**, which Mayor Hemminger and Interim CHCCS Superintendent Causby signed onto, is a national initiative to connect K-12 students to educational resources available at public libraries. In FY2018, the Library and CHCCS will launch a system so that all CHCCS students and staff can gain easy and immediate access to library resources that support their leaning. This initiative fulfills Library and Council goals around educational success, strengthening partnerships with CHCCS, and creating a community where everyone thrives.

**Chapel Hill Open Data** facilitates access to public information and increases transparency in local government, both of which align with Council goals around civic understanding and engagement. The service, launched in 2016 and managed by staff from the Library



and Technology Solutions, continues to grow and expand. For FY2018, the Open Data program goals include increasing the number of data sets on the site, inventorying and evaluating data sets across Town departments, and creating a sustainable framework for the future of the service.

## American Legion Property

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In March of 2017, the Town closed on the purchase of the American Legion Property, a 35 acre parcel of mostly undeveloped land. Plans for the land may include creation of a park and sale of a portion of the land for private development.

The Town Planning and Development Services Department has begun a master planning process to evaluate potential future use of the land and to develop recommendations for Council action.

The purchase price of the land was \$7.9 million and the Town used an owner financing structure to fund the transaction. Under the terms of the agreement the Town paid \$3.6 million at closing and will pay the balance in two equal \$2.15 million installments at the first and second anniversary of the closing date. Interest of 1% will be charged on the two installments. The terms of the agreement include a three year lease arrangement with the American Legion giving them access and use of the clubhouse and dance studio located on the property for a three year period for a nominal cost.



The source of the closing payment was General Fund fund balance above the designated 22% target as of June 30, 2016. The source of payment for the next two installments has not been determined and may be contingent on the disposition of the property following the master planning process. The Town has \$7 million of General Obligation (GO) authority that can be used to pay for a portion of the land that will be used as a park. Alternatively, the Town can use proceeds from the sale of a portion of the property or proceeds from an installment financing to pay for some or all of the future installments. The next payment of \$2.15 million is due in March of 2018.

## Parking Fund

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The FY18 Parking Fund Budget is balanced with the use of \$27,431 in fund balance. This is the second year in a row that the fund has been at or close to break-even after several years of significant deficits following the issuance of debt for the 140 West parking structure. 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.

In FY16 the practice of transferring excess on-street parking revenue to the General Fund was stopped and these funds are being 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.

Several downtown parking initiatives designed to improve the parking supply and user experience are currently under consideration or in progress, including:

- Addition of a floor to the top of the Wallace Parking Deck.
- Expansion and paving of parking lots in the West Franklin Street area.
- Replacement of Parking Pay-stations

With the assistance of the Downtown Partnership and other parking stakeholders, the Parking Enterprise, under the supervision of the Police Department, will continue to engage the community and industry experts to fulfill their goal of building a sustainable parking system that supports the commerce and vitality of Downtown.

## Conclusion

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For the next fiscal year and beyond, legislative risks will continue to weigh heavily on our future budgetary decisions. There are many issues, controlled on the state and federal level that have potential to disrupt our plans and jeopardize our goals. Our strategy in dealing with this uncertainty should be two-fold. First, we need to remain vigilant in detecting and evaluating these threats, maintaining our voice in resistance to policies that are harmful to our residents and contrary to our values. Second, while we hope for the best, we must also plan for the worst, taking measures to build our resiliency both financially and operationally. Having adequate financial reserves and being operationally nimble will help us maintain service levels in the face of unfavorable legislative actions.

We feel that the FY18 Budget makes positive steps toward creating a resilient and nimble organization that is better positioned to deal with adversity. Among other things, the FY2017-18 adopted budget does the following:

- Maintains Town services at the high levels expected by Town residents

- Adopts the revenue neutral tax rate
- Maintains our commitment to public/affordable housing and continues the affordable housing master planning process.
- Leverages our relationships with human service agencies to more efficiently provide services to communities in need.
- Makes important investments to renew our infrastructure and public facilities to make them safer and more efficient for all users.
- In cooperation with our Transit Partners and regional transit agencies, continues the process of replacing our aging bus fleet and starts the planning/design process for future transportation options.
- Continues the design process for a new facility (Municipal Services Center) to replace the inadequate and antiquated Police Headquarters and other sub-par Town offices.
- Provides Town employees with a market competitive compensation package that will help us retain and recruit excellent employees.
- Continues our commitment to pre-funding our retiree healthcare liability.

The budget is the tool we use to allocate resources that move us 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 2017-18 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 "R. S. P.", written in a cursive style.

# Council Goals 2016–2018

*Learning, serving and working together to build a community where people thrive!*



## Create a Place for Everyone



- A. Adopt and support affordable housing programs, projects and policies that increase our diversity in income, race, age and lifestyle
- B. Increase internet access for families with school-age children and spark innovation with mutually defined goals defined by Chapel Hill- Carrboro City Schools, other local governments and UNC
- C. Leverage partnerships to increase cultural arts opportunities to enhance civic engagement

## Support Community Prosperity



- A. Increase the number of incubator and co-working spaces in downtown or in development corridors
- B. Focus resources to achieve economic development goals:
- C. Develop a strategy for creating vocational classes and career development for youth with the school system, Durham Tech and other non-profit organizations

## Facilitate Getting Around



- A. Adopt a plan for financial sustainability for public transit in partnership with UNC-Chapel Hill, Carrboro, GoTriangle and Orange County
- B. Conduct a town-wide comprehensive traffic analysis
- C. Develop a holistic mobility plan to establish a systemic framework for review of future development and to inform development of a holistic mobility plan

## Develop Good Places, New Spaces



- A. Sustain momentum in the Northside Neighborhood Initiative through continued support and partnership and implementation of the Northside and Pine Knolls Community Plan
- B. Continue focus on Rogers Road area planning and development:
- C. Strategically invest in Downtown to attract and engage residents, students, visitors, workers, investors and businesses
- D. Initiate planning, funding and design for creative arts and social programming and space that connects people from different backgrounds
- E. Develop and approve strategies for increased energy efficiency in local development

## Nurture Our Community



- A. Enhance and focus development review process to achieve Council Goals and encourage diverse types of development
- B. Define and support clear, predictable code enforcement strategies to promote safety and accountability (Departments: Building Inspections, Stormwater, Fire, Engineering, Police)
- C. Initiate a residents' academy to improve civic understanding of how to share ideas and influence outcomes of Town government and increase diversity on the Towns boards and commission
- D. Enhance future Town services

## Grow Town, UNC and UNC Healthcare Collaboration



- A. Adopt strategy for leveraging community fiber and private ISP investment with UNC, UNC Health Care, Carrboro and local businesses to maximize access and speed for homes and businesses
- B. Seek strategies to address student housing demand that are consistent with mutual goals for connectivity, mobility and parking goals that prioritize student safety and protect neighborhoods
- C. Work collaboratively with the university and their master planning process to address mutual interests, including affordable housing, community health, Downtown investment, shared facilities, and innovation