



MANAGER'S OFFICE
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June 13, 2018

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 2018-19.

This budget is balanced with a 2.0 cent tax increase. The total tax rate is 52.8 cents per \$100 of assessed valuation. The increase includes 1.0 cents for the General Fund and 1.0 cent for the Transit Fund.

Budget Highlights

Responsible, Resilient, Lean and Strategic

The decision to include a tax increase is not made lightly but with a commitment to fiscal responsibility and resiliency. We have balanced competing demands and have made choices that emphasize the Town's mission, values and goals with a long-term sustainable perspective. Finally, the adopted budget supports the advancement of the Council's Strategic Priorities, as described in the following section.

Budget Highlights

- The adopted budget includes several cost control measures to minimize the needed tax increase, while maintaining our focus on core services and Council Strategic Goals. These measures include:
 - Introducing a deductible for our employee medical insurance plan. The Employee Healthcare Taskforce supports this recommendation.
 - Maintaining OPEB pre-funding contributions at FY18 levels rather than increasing by 20% as planned.
 - Reducing pay-go capital expenditures by \$230,000
- Reducing certain General Fund operating costs totaling about \$464,000. There are no new positions.

- There are no reductions or additions to core municipal service levels provided by our operating departments. The personnel costs for these community programs and services represent about 75% of our expenditures.
- Our investment in maintenance of public facilities and infrastructure is increased about \$470,000 to avoid greater costs in the future for replacement and reconstruction of neglected assets.
- Employee compensation changes included in the budget are designed to keep the Town competitive in attracting and retaining the excellent employees who provide the excellent services recognized in the biennial community survey:
 - A 3.0% of market rate of pay adjustment for all employees effective July 1, 2018.
 - Pay adjustments to meet the Orange County Living Wage standards.

Telling the Budget Story

The bulk of the budget funds the core business services of the town, including such day to day operations as operating buses, police patrol of the Town, response to fire and medical emergencies, collecting solid waste and yard waste, providing recreation opportunities, and planning for the future. The organization of this document, however, begins with an overview of strategic initiatives that are underway or will be started in FY 19. This information is shared first to highlight that the budget supports the Council’s interests and priorities beyond basic operations.

Following the strategic section, the document provides summary quantitative information about each fund and contextual information about revenues and costs that are driving budgetary decision making. The intent of this document is to provide a narrative to the budget that includes the supporting financial information behind the FY19 budget.

Strategic Priorities

Vision, innovation, collaboration, and dedicated employees serve as the foundation of the Town’s efforts to build a community where people thrive. In 2012, the Town Council adopted the Chapel Hill 2020 Community Vision, a reflection of the values, aspirations, and ideas of the community. In 2017, the Town Council affirmed the Chapel Hill 2020 Vision and initiated a refinement to the strategic planning process to demonstrate how the community vision is the foundation for all the Town does.

Our workforce is committed to meeting the expectations of the community and supporting the strategic goals of the Council. The FY 2018-2019 Adopted Budget is reflective of, and responsive to, Council’s strategic goals established in the 2018 Strategic Planning Framework. A description of the Strategic Goals is provided below.

Goal Area	What Success Looks Like
Connected Community	To create a highly connected community where bicycling, walking, and transit are convenient, everyday choices for our neighborhoods, businesses, and public spaces.
Economic & Financial Sustainability	To steward public assets and support a vibrant economy where there is opportunity for jobs and entrepreneurship that positions Chapel Hill for the future.
Safe Community	To preserve and protect life and property through the fair and effective delivery of Town services.
Affordable Housing	To increase the availability of and access to housing for households and individuals with a range of incomes, from those who are homeless to those in middle-income households.
Vibrant & Inclusive Community	To enrich the lives of those who live, work, and visit Chapel Hill by building community and creating a place for everyone.
Environmental Stewardship	To strategically manage the Town's infrastructure and natural environment by promoting resiliency and sustainability.
Collaborative & Innovative Organization	To create an organization that works collaboratively from a mutual learning mindset, leads innovation, and produces effective outcomes for the betterment of the organization and community.

The following sections provide summary information about initiatives that will be maintained and added in FY 19 to support the Council's strategic goals.

Connected Community

Maintain	Add
Current Chapel Hill Transit Services (with 1 cent tax increase)	Chapel Hill Transit Service Development Plan
Chapel Hill Transit bus replacement program: 5 demand response vehicles and 3 fixed route buses	Chapel Hill Transit Memorandum of Understanding
Current parking services (with use of \$105,462 in fund balance)	Mobility and Connectivity street and sidewalk infrastructure improvements (Bond funds)
	Smart City Parking Technology
	Wallace Deck Repairs
	Downtown Ambassador Program
	Downtown Alleyway Improvements (Bond funds)

- Maintaining convenient, everyday transit choices.** Over the past several years, we balanced the Chapel Hill Transit Budget using appropriated fund balance. This is not a sustainable practice. The FY19 Chapel Hill Transit Budget is balanced using a tax rate increase of 1.0 cents for the Town of Chapel Hill, along with significant increases from the University (\$1,360,000) and Town of Carrboro (\$327,000). The increases are necessary to rebuild fund balance and meet our capital expenditure needs. The budget also includes funding from the Orange County Transit Plan to support service improvements and to continue the environmental and design work for the North South Bus Rapid Transit Project.



- Chapel Hill Transit Sustainability.** 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 replacements has created a critical fleet issue for Chapel Hill Transit that we have been working to address through the Capital Plan (through FY2027) recommended by the Transit Funding Partners and adopted by the Town Council. By the end of FY18 Chapel Hill, Transit anticipates having replaced or placed orders for 34 fixed route transit buses and seven (7) demand response vehicles. In FY19 Chapel Hill Transit plans to replace five (5) demand response vehicles with federal grant funds and place an order for an additional three (3) fixed route buses with Orange County Transit Plan funds.

- Parking Enterprise Fund.** The FY19 Parking Fund Budget is balanced with revenues exceeding expenditures of \$105,462, adding to fund balance. This is a continuation of the trend over the past few years as fund balance use had been declining. This is a positive trend, however the fund has a minimal level of reserves and cannot absorb

major new expenditures yet. A period of fund balance spend-down was expected in the transition of Lot 5 to the 140 West, development 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. Several downtown parking initiatives designed to improve the parking supply and user experience are currently in progress or under consideration, including:



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

- Chapel Hill Transit Service Development Plan.** During FY19 we will finalize a service development plan that will serve as a roadmap for the next 10 years and position the system for continued success. This planning effort is focused on funding opportunities, integration of Bus Rapid Transit (BRT) into our system of public transportation, and longer-term strategic issues such as light rail integration and regional coordination.
- Chapel Hill Transit Memorandum of Understanding.** During FY19, we expect to finalize our discussion with the University and the Town of Carrboro regarding the development of a long-term memorandum of understanding, covering ongoing operations and shared costs of Chapel Hill Transit, consistent with our goal of creating a sustainable financial future for public transit in our community.
- Mobility and Connectivity.** The Adopted Budget continues the implementation of the 2015 Bond Referendum, issuing an additional \$5,500,000 of Streets & Sidewalks Bonds. These funds will be used for various projects including Downtown streetscapes and alleyway improvements, bike and pedestrian amenities, sidewalks, Mobility Plan projects, and other street infrastructure improvements.
- Investing in Smart City Technology.** The Adopted Budget provides funding for the implementation of new, user-friendly parking pay stations in our Downtown to improve parking accessibility and user experience. The Adopted Budget also continues to support Town staff working with public and private partners to enable smart city parking technology.
- Addressing Parking and Traffic Issues.** The Adopted Budget funds infrastructure improvements to the Wallace Deck, including the consideration of another level of parking to increase shared parking supply. A Downtown Streets and Sidewalk Study will inform discussions about how a limited right-of-way space can meet the needs for parking, walking, biking, loading, transit, and vehicle traffic downtown. The changes in parking technology in downtown will reallocate staff time from cashier responsibilities to concierge responsibilities that will include assisting visitors with the meters and helping them navigate downtown safely. In the Blue Hill District, the Adopted Budget supports the completion of a multi-modal transportation impact analysis for 2030 future year conditions.



Economic & Financial Sustainability

Maintain	Add
Program Support for Convention and Visitor's Bureau	Restore Pre-Recession Debt Fund with a 0.8 cent increase
Program Support for Chapel Hill Downtown Partnership	Investment in Public Facilities
Partnership Support to LaUNCH	
Commercial Development Strategy marketing and entrepreneurial ecosystem development	

- Program Support.** Performance agreements with economic development agencies include base funding of \$200,000 for the Convention and Visitor's Bureau. Additionally, the Bureau will receive 50% of all Occupancy Tax receipts in excess of \$950,000 for the fiscal year. Also included in economic development agencies allocation is a \$70,000 General Fund 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.
- Capital Investments.** The Adopted Budget maintains the existing 8.2 cents dedicated property tax rate. The Debt Fund supports the Town's capital program, including the recent issuance of \$12.5 million of General Obligation (G.O.) bonds. This was the second issuance from the 2015 referendum authority and the proceeds will be used to fund various major capital projects including:

 - \$5.5 million of Streets & Sidewalks Bonds for various projects including Downtown streetscapes and alleyway improvements, bike and pedestrian amenities, sidewalks, Bolinwood Drive bridge replacement, Mobility Plan projects, and street infrastructure improvements.
 - The \$4.3 million of Parks Facilities Bonds will be used for the installment payments for the purchase of the American Legion property.
 - The \$2.7 million of Stormwater Improvement Bonds will be used for the design and construction of the Elliott Road Flood Storage Project. The Flood Storage facility is the highest priority project identified in the Lower Booker Creek Subwatershed Study.
- Investment in Public Facilities.** The Adopted Budget invests approximately \$472,000 of additional funding for building maintenance programs to optimize the use of the Town's assets



through capital improvement planning, preventative maintenance, and asset management. Below is a breakdown of the immediate needs that will be addressed with this investment:

- FY 19 Projects
 - Boiler Replacement for Pool Heating at Community Center
 - Soffit Repair/Laminate Beam Refinish at Aquatic Center
 - Hargraves Roof Replacement
 - Windows, Doors, and Awning Repairs/Replacement at Fire Station 5
 - Cupola Refurbishment at Post Office
 - Pool Repairs
 - Basic Exterior and Interior Maintenance
- FY 20 Projects
 - Interior Finishes at Community Center
 - Roof Replacement at Town Hall
 - Roof Replacement at Post Office
 - Exterior Wall Cleaning and Painting at Post Office
 - Basic Exterior and Interior Maintenance
- **Taking Chapel Hill's Place on the Map.** The Adopted Budget continues to support the Council's Commercial Development Strategy. Ongoing efforts focus on business recruitment and retention in the categories of Research and Development, Applied Sciences, and Technology. These efforts lead to opportunities that are considered by Council on an individual basis throughout the fiscal year.
- **LaUNCH Chapel Hill.** The Adopted Budget continues to partner with UNC and Orange County to support entrepreneurial activity and expand co-working and stage two spaces for small businesses and entrepreneurs. In its five years, the accelerator program has been home to 75 startup companies. In 2017, LaUNCH startups accounted for more than 1,100 employees and \$20.6 million in revenue. In the next fiscal year, the Town will work with UNC and other partners to implement a new nonprofit charter for LaUNCH that would increase the organization's long-term stability and adaptability.



Safe Community

Maintain	Add
Coordination of private sector investment in internet infrastructure	Municipal Services Center Design
Improvement efforts to Inspections and Code Enforcement	Implement Online Residential Permitting
Youth Initiatives to engage High School Students in Fire Service	Decide course of action for coal ash remediation
Bike and Pedestrian Safety Initiatives	

- Police Headquarters.** The Adopted Budget continues to design the Municipal Services Center / Police Administration Building and reserves significant debt capacity to construct the building. The need to replace the existing police facility was first identified as a Council Goal in 2014.



- Supporting Inspections and Code Enforcement.** The Adopted Budget supports current Town efforts to address permitting and inspections process problems. In the next fiscal year, improvement efforts include the expanded use of SeeClickFix for reporting and accountability for code and inspections functions, a revision of residential parking permit strategies in Northside and Pine Knolls, enhanced outreach to the off-campus student population and the reallocation of resources to create an Assistant Inspections Manager.
- Internet Connectivity.** Staff from several departments are coordinating with wireless service carriers in the deployment of small cell poles to support 5G service, additional cellphone capacity and the infrastructure connecting that network. Staff continues to monitor the impact of this construction in rights-of-way to safeguard the interests of residents during the 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.

Affordable Housing

Maintain	Add
Penny for Affordable Housing Funding	Contingency Planning for Continued Reduction of Federal Funding
Management of 336 units of Public Housing	Affordable Housing Bond Referendum
Program Support for Orange Community Housing and Land Trust	Development on Town-Owned Land
Program Support for Orange County Partnership to End Homelessness	Public Housing Master Plan
CDBG Funding to Affordable Housing Providers	

- Affordable Housing Development Reserve (Penny for Housing).** For the fourth 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.
- Address Decrease in Federal Funding.** The President’s preliminary budget proposes reducing 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 revenue resources to continue to support the Town’s public housing program and the Council’s affordable housing and community development activities.
- Program Support.** The affordable housing agency funding recommendations includes a \$339,831 allocation to the Orange Community Housing and Land Trust. This represents an increase of \$7,317 from the FY18 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. The performance agreement for the Homeless Initiative is increasing by \$18,593 to \$63,899, based on the FY18-19 budget of the Orange County Partnership to End Homelessness (OCPEH) and the cost sharing agreement.
- Affordable Housing Funding Strategy.** The Town currently spends about \$6,235,000 annually on Affordable Housing strategies. The Adopted Budget also gives staff direction to prepare an affordable housing bond referendum to support affordable housing strategies. The adopted referendum, for up to \$10 million of Affordable Housing Bonds, would be scheduled for November 6, 2018. If approved by Chapel Hill residents, the debt issuance would establish a funding mechanism for Council to meet its affordable housing targets established in its strategic planning process. The Town’s five-year goal is to develop 400 affordable housing units and preserve 275 affordable housing units.

- Innovative Partnerships in Affordable Housing.** The Town continues funding nonprofits to support affordable housing in the amount of \$398,637. In addition, the Affordable Housing Work Plan for FY 18-20 sets several goals for increasing collaboration on projects with Orange County, UNC and UNC Healthcare, and Affordable Housing Providers. We continue to develop our working relationship with the Chapel Hill Carrboro Schools to support teacher housing initiatives.



- 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. Additionally, in alignment with recommendations of the Town Properties Task Force, the Town is pursuing development of mixed-income affordable housing on a Town-owned parcel on Homestead Road and conducting evaluations of additional sites to determine their suitability for future affordable housing development.
- Public Housing Neighborhoods.** The Town manages 336 dwelling units in thirteen public housing neighborhoods.
- 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 engaged in an effort to assess the condition and value of our portfolio of units. With the assistance of an interdepartmental staff team and consultants, we are prioritizing sites and exploring options for how we could use our existing sites to leverage additional resources to support the revitalization and redevelopment of our communities.
- Relationship with Public Transit.** The Town Council targets affordable housing projects that are near fare-free public transit options, with 84% of existing subsidized housing units within a quarter-mile of a Chapel Hill Transit bus stop.

Vibrant & Inclusive Community

Maintain	Add
Program Support for Building Integrated Communities (2-year project)	Rogers Road Community First Plan
Increase cultural events	Implementation of Mobility and Connectivity Plan
Increase Arts and Culture partnerships	Blue Hill Design Guidelines and Potential Code Changes
LUMO Rewrite Project	Historic Preservation Staff
Downtown 2020 Work Plan	Prototype and Implement the People's Academy
Station Area Planning	Activate 140 West Plaza

- Community Conversations with Foreign-Born Residents.** The Adopted Budget continues the Town's support of dialogue and engagement through its Building Integrated Communities (BIC) project, a two-year project designed to engage with local foreign-born, refugee, and Hispanic/Latinx residents in order to improve relationships, enhance communication, and promote newcomers' civic participation and leadership in local government. This is a two-year collaboration between the Town of Chapel Hill, UNC, local community groups and residents, and the statewide Building Integrated Communities program.



- Arts & Culture.** The Adopted Budget reorganizes Town programs related to community arts and culture with the appointment of the Executive Director for Community Arts & Culture position. This role is responsible for developing policy and strategy that reflect community interests and leverage assets related to arts, culture, and community history. Current initiatives include planning for Historic Town Hall's future use as a community history center, reviewing and revising public arts policies, and developing strong partnerships with arts leaders at UNC, Orange County Arts Commission, and a variety of community arts-based organizations.
- Planning Initiatives and LUMO Rewrite.** The Adopted Budget addresses strategic policy concerns expressed by Council, including the following initiatives:
 - Continued funding for a LUMO Project Manager to rewrite the Land Use Management ordinance so the Town has a better tool for planning, managing, and achieving the community's vision. The first phase of the project is to complete a Future Land Use Map.

- Addressing other planning initiatives:
 - Implementation of Rogers Road Community-First Plan
 - Implementation of the Mobility & Connectivity Plan
 - Station Area Planning
 - Blue Hill Design Guidelines and potential code changes
 - Historic Preservation staff support for the Historic District Commission
 - 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.
- **Strategically Investing in Downtown.** The Adopted Budget continues to prioritize collaboration in the Downtown and focuses resources on the implementation of the Downtown 2020 Work Plan. FY19 Initiatives include:
 - Construct lighting, wayfinding and infrastructure improvements to the alleyways that connect the Wallace parking Deck and Franklin Street.
 - Construct streetscape improvements to cross roads between West Franklin and Rosemary Street.
 - Enact ordinance changes to support safe sidewalk dining and flexible retail options.
 - Conduct design process for public and private open spaces to increase activation
 - Create pedestrian and bike connection between Tanyard Branch Trail and the Downtown with the Northside Neighborhood.
 - Begin planning process to implement the recommendations of the Historic Town Hall Committee.
 - Coordinate with the Department of Transportation on repaving of East Franklin Street and planning for the Merritt Mill Road intersection.
 - Grow marketing and education campaign for downtown parking options.



Environmental Stewardship

Maintain	Add
Community Resiliency and Emergency Management Functions	Triangle Regional Resilience Assessment
Town Facilities and Fleet Energy Management	OWASA Water Conservation Partnership
Continue Year Two of Explore More at Pritchard Park	Electric Bus Purchase
	Install LED lights in Park and Rides
	Create Metrics to track success
	Construction of Elliott Road Flood Storage Project
	Eastwood Lake Subwatershed Study

- **Community Resiliency.** Cities are facing more and more challenges and disruptions every year. Some are climate related, like extreme heat, drought and flooding; others like congestion, resource scarcity, social inequality and population growth are not driven by changes in our climate. The Adopted Budget supports the Town’s goals for environmental stewardship through the appointment of a Community Resilience Officer. With a focus on sustaining our community through resilience, this position will work in conjunction with the Town’s Emergency Management Coordinator to identify and anticipate the growing challenges we face, and to develop multi-disciplinary teams to think about how we can be better prepared for the growing physical, social, and economic challenges of the 21st century.
- **Stormwater Fund.** Although the FY19 Stormwater budget does not include a fee increase, the FY18 Stormwater budget included a \$6.00 increase in the annual Stormwater fee. A portion of the increase (\$3.50) was to help support the operating budget, which has relied on fund balance to balance the budget in the past few years. The remaining portion of the FY18 fee increase (\$2.50) was to pay for debt service for the recently issued Stormwater G.O. bonds.
- **Triangle Regional Resilience Partnership.** The Triangle Regional Resilience Partnership (TRRP) is a cooperative partnership between Orange County, the Town of Chapel Hill, the City of Durham, Durham County, the Town of Cary, and the City of Raleigh, with administration assistance from Triangle J Council of Governments. The Community Resilience Officer and the Emergency Management Coordinator have worked with a core team of staff from Engineering, Planning and Stormwater to represent the Town in the creation of a regional resiliency assessment over the past year. The project team is using a five-step process guided by UNC Asheville’s National Environmental Modeling and Analysis Center (NEMAC). Once complete, this assessment will identify stressors, both climate-related (e.g. storm events, extreme heat) and non-climate related (e.g. population growth, affordable housing), and the vulnerabilities of certain regional assets to those stressors. This work will inform long-range planning and action to increase Chapel Hill’s resilience in a time of rapid change. Specific areas for input include the LUMO Re-write project and emergency management planning.
- **Clean and Renewable Energy.** Building on a recent grant from Duke Energy, staff will look for ways of promoting electric vehicle adoption and increasing access to publically accessible EV charging stations. With the recent announcement about Duke Energy’s solar rebate program, staff will also look for ways to promote solar installations and solar readiness in new construction.
- **Water and Energy Conservation.** In partnership with OWASA, the Town will explore opportunities to promote water conservation using the new Agua Vista metering technology. The Town plans to continue to partner with OWASA and Duke Energy to help low-income families conserve water and energy to sustainably lower their bills.

Staff will also investigate options to incentivize green building that reduces our community's use of natural resources and fossil fuels.

- **Town Facilities and Fleet.** Building off the success of a recent energy performance contract that has lowered energy consumption in Town Hall, the Aquatic Center and the Community Center, staff will continue to explore opportunities for additional energy saving investments for both new construction and existing buildings. Additionally, staff will explore additional fuel economy savings through vehicle replacement (e.g., electric vehicles, hybrids, rightsizing).
- **Electric Buses and LED Lighting:** In the current fiscal year, Chapel Hill Transit developed and issued an Invitation for Bid (IFB) for electric buses that will allow us to purchase or debt-finance a 40-foot electric bus in order to evaluate the feasibility of expanding our use of alternatively powered vehicles. We anticipate this project moving forward in FY19 and we will also continue to pursue state and federal grant funding for electric buses. Additionally, Transit and Community Resilience staff initiated a project to replace all of the surface lights at the Eubanks Road and Southern Village Park and Ride Lots with more sustainable LED lighting. In December 2017, we issued a Request for Proposals (RFP) for the work. Following a proposal review by Transit, Procurement, and Community Resilience staff, we have issued a contract to DTL Energy Solutions Inc., to replace the existing lights at Southern Village and Eubanks Park and Rides with LEDs at the cost of \$22,000. With energy utility rebates, this project has an expected break-even point at 18 months, and a projected savings of more than \$28,000 within the first five years
- **Metrics.** As a way of measuring progress towards Town goals for sustainability and resilience, staff will establish manageable and meaningful metrics for energy, water, waste and related measures.
- **Stormwater Infrastructure:** The recent issuance of Stormwater Improvement Bonds will allow for construction of the Elliott Road Flood Storage project, the top priority project identified in the Lower Booker Creek Subwatershed Study report. This project includes installation of a flood storage area of about 4 acres in the area between Eastgate Shopping Center and South Elliott Road and will incorporate passive park features. Other prioritized projects identified by subwatershed studies will be included in the next issuance of G.O. referendum bonds. The Eastwood Lake Subwatershed Study is nearing completion, the Cedar Fork Subwatershed Study will begin in spring of 2018 and continue into FY19, and the Crow Branch Subwatershed Study is anticipated to begin in FY19. Similar to the Lower Booker Creek Subwatershed Study, these studies will include additional project recommendations.

- Environmental Education:** The Library’s Explore More at Pritchard Park project leveraged federal grant funding with community partnerships to activate Pritchard Park as an extension of the Library’s mission, with nature play spaces, citizen science opportunities, and environmental education programs for all ages. The Library has been officially recognized as an Environmental Education Center by the state, which will allow them access to more resources and grant funding opportunities. Using this designation, the Library will seek Year 2 support, focusing on funding from the Friends of the Library, in-kind support form partners, including UNC’s Institute for the Environment, and continued collaboration with Town departments.



Collaborative & Innovative Organization

Maintain	Add
Customer Service Focus and Analysis	Work Life Balance Initiatives
Leadership Development	Open Data Automating Processes
Wellness	Implement Office 365
Employee Engagement Survey	Complete Diversity and Inclusion Assessment

- Community Satisfaction and Customer Service.** The Town conducted its biennial Community Survey in 2018 and received completed surveys from over 400 households across Chapel Hill. The survey found that 79% of respondents were satisfied with the overall quality of services provided by the Town, approximately 30% higher than national benchmarks. Over the next fiscal year, staff will use analytical tools to overlay the community survey data with other benchmarking data and open lines of inquiry about topics that saw significant change in approval.
- Attracting and Developing Leaders.** The Adopted Budget raises current employee salaries by 3% of market rate to attract and develop leaders who can work collaboratively, lead innovation, and produce effective outcomes for the betterment of the community.
- Complete Diversity and Inclusion Assessment.** The Adopted Budget continues our focus on equity training by including funding to complete an organizational diversity and inclusion assessment. The assessment is the first phase of a program that will eventually build a “Train-the-Trainer” program for every employee. The assessment began this fiscal year by organizing several teams that will conduct the assessment, including a cross-departmental team, a senior leadership team and a compass team.

- **Leading for Collaborative Innovation.** The Adopted Budget develops its employees and organizational capacity for innovation through the Leading for Collaborative Innovation program, a six-month program which includes an assessment center exercise, classroom learning and activities, a team project, and coaching for participants. The purpose of the program is to develop leaders who significantly influence Town strategy, performance, and culture.



- **Long-term Wellness.** The Adopted Budget implements the recommendations of the employee-led Healthcare Taskforce, which includes support for a \$250 deductible. The savings generated from this healthcare plan change are being invested into the Town’s Wellness@Work program, a partnership with UNC Healthcare. The goal of this program is to help our employees be healthier by reducing high-risk health behaviors, improving prevention of chronic health conditions, and promoting healthy lifestyles.
- **Employee Engagement Survey.** The Town’s biennial Employee Engagement Survey was conducted in spring 2018 with an overall participation rate of 66%. Town Leaders and affected departments will use the results to develop action plans to address areas of concern. Over the next fiscal year, staff will open lines of inquiry about topics that saw significant change in satisfaction and topics that relate to the organization’s ability to be innovative and collaborative.
- **Work Life Balance.** The Adopted Budget continues to fund paid parental leave, which was an important first step in building out the Town’s work-life balance program. In the next fiscal year, the Manager will pilot a flexible schedule program and the work-life task force will consider how to support the needs of employees who are primary care-givers for aging family members.
- **Open Data.** The Adopted Budget continues its support of Chapel Hill Open Data, promoting government transparency and access to information, with nearly 100 data sets publicly available. The focus of the next fiscal year will include automating processes to extract, transform and load data and increasing engagement with end users of the system to understand their needs as well as connecting with Code for Chapel Hill group to increase community utilization of the open data portal.
- **Improve Town Services:** The use of technology to support and improve Town services is an ongoing priority. In FY18 technology projects included the implementation of SeeClickFix as a service/work order management system, relocating the phone system to a cloud service, upgrading the public computers in the Library, security camera upgrades throughout the town and supporting the technology needs at

the new Fire Station #2. In addition to continuing the roll out of these systems, FY19 plans include a system wide upgrade of operating systems, the implementation of cloud based Office 365 and the deployment of smart city technology.

Budget Context

The overarching theme for the FY19 budget is one of perspective; balancing competing demands and making smart choices that emphasize the Town's mission, values and goals with a long-term sustainable perspective. Learning from our past and using those lessons learned informs our decision making, refines our focus, and directs our strategies.



Viewed in the context of the last ten years, the Town's progress has been considerable, despite the challenges of an uneven economy, adverse legislative actions and sustained demand for expanding services, while maintaining the high quality that resident of Chapel Hill expect. Some of the trends over that time period include:

- **Stable Taxes Rates:** For 7 out of the last 10 years tax rates have not increased. The average annual increase in tax rates over that time period, including the FY19 increase is about 1.2%.
- **Slow Tax Base Growth:** Growth in the tax base over the past 10 years has been considerably slower than the increase in our costs.
- **Employee Healthcare and Other Post-Employment Benefits Costs Rising:** These costs are a larger portion of the operating budget. Medical insurance costs increased at double digit rates the last two years.
- **Legislative Setbacks:** Recent history suggests that the interests of local governments are not priorities of the state and federal governments. This is shown by the State's repeal of local business licensing and the Fed's tax legislation eliminating advanced refunding of bonds; an important tool for local governments to reduce interest costs. Legislation that is harmful to our interests, whether it is HB2 or the proposed elimination of CDBG and HOME programs, is a continuing risk to the Town.
- **Economy Based Revenue Growth:** Revenues that fluctuate with changes in the economy, such as sales taxes, occupancy taxes and fees for services have grown as a percentage of General Fund Revenues while property taxes, our most dependable revenue source, has decreased as a percentage of revenues.
- **Environmental Hazards:** Adverse weather events have been increasing in frequency and intensity. While some debate the effects of climate change, we continue to experience storm events that impact public safety with greater frequency and with greater intensity. As we saw with the Town Hall flood of 2013, the effect of these events can be expensive, long-lasting and a challenge to our ability to deliver services. In addition to

natural environmental risks, the Town also must address manmade environmental hazards such as the coal ash under the Police Headquarters.

- **Restraint after the Economic Collapse of 2008:** The recession of 2008 was an unprecedented event in its global impact and the subsequent slow recovery. The Town of Chapel Hill was not as deeply impacted as many communities, however the 10% drop in economy based revenues forced us to make the following decisions in order to maintain services at expected levels:
 - Delayed capital expenditures, including postponing the expansion of the Library for two years.
 - No increase to employee salary levels for three years. This includes one year of no pay adjustments and two years of an \$800 one-time payment for all full-time employees.
 - No increase in the tax rate for four consecutive years (FY10-FY13)
 - Shifted 1.8 cents of the Debt Fund tax rate to the General Fund tax rate to compensate for the loss of economy driven revenues.

What does our past tell us about the future?

- **Prepare for uncertainty by being resilient:** Resiliency is the capacity to absorb unexpected negative events without compromising your basic goals and values. The Town faces a number of risks ranging from federal and state policies that are hostile to local governments to environmental dangers both natural and manmade. The Town is preparing itself for these challenges in the following ways:
 - Developing a nimble and adaptable workforce
 - Maintaining facilities and reserves
 - Being thoughtful about preparing for risks as we plan for the future
- **Develop and retain an excellent Workforce:** Our future relies on our ability to attract, retain and promote excellent employees that are capable of meeting the high expectations and ideals that are encompassed in the Town's values and goals. We have done this by maintaining competitive pay and benefits, by creating an environment where people want to work and providing opportunities for employees to learn, grow and lead.
- **Invest in Facility Maintenance:** Foregoing basic maintenance to save money only works in the short-term. In the long-run it costs more and is more disruptive to allow public assets and infrastructure to decline due to lack of maintenance. Stewardship of public assets is a foundational responsibility of local government that must be properly funded and thoughtfully considered in making spending choices. The FY19 Budget makes key investments in the maintenance of public facilities and the establishment of a stronger maintenance function.
- **Manage Debt Strategically:** Balancing near-term capital investment opportunities with financing capacity constraints and future needs. Delaying some capital projects to match the pay-down of existing debt obligations.
- **Economic Growth:** Specifically target nonresidential development and job creation through streamlined processes and limited, focused and strategic financial incentives. The Council's current five-year incentive policy for reimbursement from incremental tax revenue produced will deliver significant long-term revenue enhancements.

- **Preparing for risks:** The key to preparation is understanding and addressing known risks and maintaining capacity to deal with unknown risks. The Town is improving its preparedness in the following ways:
 - Maintaining strong financial reserves that provide capacity for dealing with unexpected occurrences both economic and operational. The FY19 Recommended Budget moves the Town closer to our target fund balance.
 - Establishing a Risk Management function and strengthening our commitment to safety is an important step in protecting against preventable losses and their aftermath. In addition, the collaboration among our public safety and operational functions has been strengthened under the leadership of our Emergency Management Coordinator.

Budget by the Numbers

The FY2018-19 Adopted Budget is balanced with a combined 2.0 cent increase in property tax rates. The increase includes 1.0 cents for General Fund and 1.0 cents for Transit.

The aggregate increase for all funds is 3.4% and the increase in the General Fund is 4.4%. We are projecting a moderate increase in overall revenues that includes small increases in some economy driven revenues, such as sales and occupancy taxes and decreases in others such as state shared revenues and grants.

The following table compares the FY2017-18 Adopted Budget with the FY2018-19 Recommended Budget for all Town funds.

BUDGET SUMMARY – ALL FUNDS

Fund	FY18 Adopted	FY19 Recommended	Incr./Decr.	Incr./Decr. %
General Fund	\$ 63,531,000	\$ 66,357,000	\$ 2,826,000	4.4%
Transit Funds	23,942,992	24,024,185	81,193	0.3%
Stormwater	2,722,030	2,724,400	2,370	0.1%
Parking Funds	2,668,762	2,706,830	38,068	1.4%
Housing	2,304,199	2,204,372	(99,827)	-4.3%
Debt Service	7,542,793	8,274,231	731,438	9.7%
Capital Projects	561,260	322,260	(239,000)	-42.6%
Other Funds	4,034,352	4,357,916	323,564	8.0%
Total	\$ 107,307,388	\$ 110,971,194	\$ 3,663,806	3.4%

Note: Includes intrafund transfers

- **General Fund** – The net increase in the General Fund budget for FY19 is 4.4%. This is a combination of increases, including a 3.0% of market salary adjustment, an additional

\$470,000 for maintenance of public facilities, and a reduction in the use of “lapsed salaries” (shorting salary accounts to compensate for vacancies) of \$1.25 million. There are also about \$464,000 in reductions in various operating accounts. The increase in property tax revenues resulting from the proposed tax rate increase of 1.0 cents and the 4.4% increase in assessed valuation, along with growth in Licenses/Permits/Fines provide sufficient revenue to balance the General Fund Budget.

- **Transit Fund** – The major change in the Transit Fund Budget is the reduction in the use of fund balance and the addition of 1.0 cent on the tax rate. The level of fund balance used in the FY18 budget is unsustainable and the tax rate increase is needed for the Town to maintain its funding commitments to the partnership.
- **Stormwater Fund** – The FY19 Stormwater budget is balanced without a change in the stormwater fee, which was raised \$6.00 in FY18 to cover increases in operating costs and debt service for major capital projects.
- **Parking Funds** – On-street Parking operations are expected to generate \$23,567 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 with an excess of revenues over expenditures of \$105,465, adding to fund balance.
- **Housing** – The 4.26% net decrease in the Housing Fund Budget reflects a 9.8% decrease in operating costs due to one-time expenditures in FY18 and an expected 8.3% increase in HUD subsidies, based on need. The budget is balanced using \$229,538 in fund balance. While this is a decrease in the budgeted fund balance from FY18, it represents an unsustainable level of fund balance use.
- **Debt Service** – The Town issued \$12.5 million of General Obligation referendum bonds in FY18. The first debt service payments for these bonds will be payable in FY19. Revenues in the Debt fund include a transfer from the General Fund representing Ephesus Fordham (Blue Hill) District Tax Increment Financing (TIF). This transfer pays the debt service on the financing of the public roadway improvements in Phase I of the Ephesus Fordham project. In addition, there is a \$914,631 transfer from the Parking Enterprise Fund to pay the debt service on the Wallace Deck and 140 West parking facility. A \$16,919 contribution to reserves is budgeted. It is anticipated that the Debt Fund will need an increase in the dedicated tax in the next year or two in order to address a projected cash flow deficit in FY24-25, based on the current financing plan.
- **Capital Projects** - This budget represents the “pay-go” portion of the Town’s Capital Funding Plan. While the amount falls well 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 following table shows the expected changes to major revenue categories in the General Fund:

GENERAL FUND REVENUES

Revenue Source	FY18 Adopted	FY19 Adopted	Incr./Decr.	Incr./Decr. %
Property Taxes	\$ 29,635,000	\$ 31,771,000	\$ 2,136,000	7.2%
Sales Taxes	13,677,177	13,853,827	176,650	1.3%
Other Taxes	1,300,000	1,357,500	57,500	4.4%
State Shared Revenues	8,069,340	7,820,590	(248,750)	-3.1%
Charges for Services	4,748,308	4,820,808	72,500	1.5%
Licenses & Permits	2,129,153	2,461,890	332,737	15.6%
Grants	779,963	680,899	(99,064)	-12.7%
Other Revenues	508,053	493,600	(14,453)	-2.8%
Appropriated Fund Balance	2,684,006	3,096,886	412,880	15.4%
Total	\$ 63,531,000	\$ 66,357,000	\$ 2,826,000	4.4%

- **Property Taxes** – As described in the following section, FY2018-19 property tax revenue numbers reflect a 1.0 cent increase in the General Fund tax rate. In addition, the tax base for FY19 grew by 4.4% for a total increase in expected property tax receipts of 7.7%. Property tax revenues were flat the prior two years.
- **Sales Taxes** – Sales tax growth in the current year is estimated to be about 4% which is significantly below the FY18 adopted number. We expect FY19 sales tax receipts to increase about 5% over the current year estimates, although this is only a 1.3% increase when comparing budget to budget.
- **Other Taxes** – The hotel occupancy tax is the main component of this category. Receipts for FY18 are expected to exceed FY17 actuals by about 3.2%. FY17 numbers were 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 a small increase of less than 1% in FY19 based on current year receipts.
- **State Shared Revenues** – Growth in the Utility Sales Tax is expected to decline slightly based on state-wide forecasts.
- **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 Increase in this category is due to an expected increase in development based permit revenue.
- **Grants & Other Revenues** – Revenues in these categories are declining due to reductions in available grant funding.
- **Appropriated Fund Balance** – The amount of fund balance included in the FY19 budget is an increase of 11.8% over the current year’s adopted budget. Overall, the budget reduces the amount of non-current revenue used to balance the budget by eliminating the practice of budgeting lapsed salaries (shorting salary accounts to compensate for vacancies). This was done based on fund balance dipping below the 22% target at the end of FY17.

Property Tax Increase

The FY2018-19 budget includes tax rate increases in the General and Transit funds. These increases total 2 cents, representing a 3.9% increase in the Town's overall property tax rate. The tax rate changes for the three funds that rely on property taxes are described below:

- **General Fund:** The General Fund increase is 1.0 cents which is needed to maintain services at their current level. This is only the second increase in the last seven years. Over that period the Town has been using increasing amounts of fund balance to compensate for the fact that revenues were not keeping pace with costs. Operating results for FY17 (Fund balance reduction of more than \$2 million) and expected results for FY18 (break-even at best) show that our reliance on fund balance has reached its limit.
- **Debt Fund:** The Debt Fund tax rate will remain unchanged for FY19. The cash flow needed to support the debt service for capital projects that are planned for the next five years will require a tax increase or a reduction in the dollar amount of planned projects. Based on our projections the debt fund tax increase needed in FY20 will be 0.95 cents per \$100 of valuation. The major projects that are planned for the next five years include the following:
 - Municipal Services Center \$ 31,400,000
 - Wallace Deck 2,400,000
 - Streets & Sidewalks 7,700,000

The increase needed in FY20, described above, does not cover the proposed affordable housing referendum bonds that are scheduled to come before voters in November of 2018. It is anticipated that funding to repay those bonds will come from an increase to the Debt Fund tax when the bonds are approved.

- **Transit Fund:** The unreliability of federal funding for bus replacement has significantly changed the financial picture for the Town's Transit operations. In the past, 80% of the cost of replacement buses has been funded through Federal grants. As those grants dried up, the Town and its funding partners have been forced to finance the purchase of buses through debt in order to keep the fleet from falling into a state of decline that would ultimately jeopardize service delivery. While debt spreads the cost over a 10-year period, the Town and its funding partners are now paying 100% of the cost of these new buses. In order for the Town to maintain its proportional share of the cost of operating the transit system, the Transit tax, the primary source of the Town's funding, needs to be increased.

Over the past ten years the Town has been reluctant to increase taxes, recognizing the burden on taxpayers of having one of the highest combined tax rates in the state. We have been successful in limiting tax increases by using strategies that maximize existing resources and in some cases

delaying major expenditures. As shown in the following table the Town’s tax rate has increased an average of about 1.2% per year, with no increase in 7 out of 10 years.

Property Tax Rates

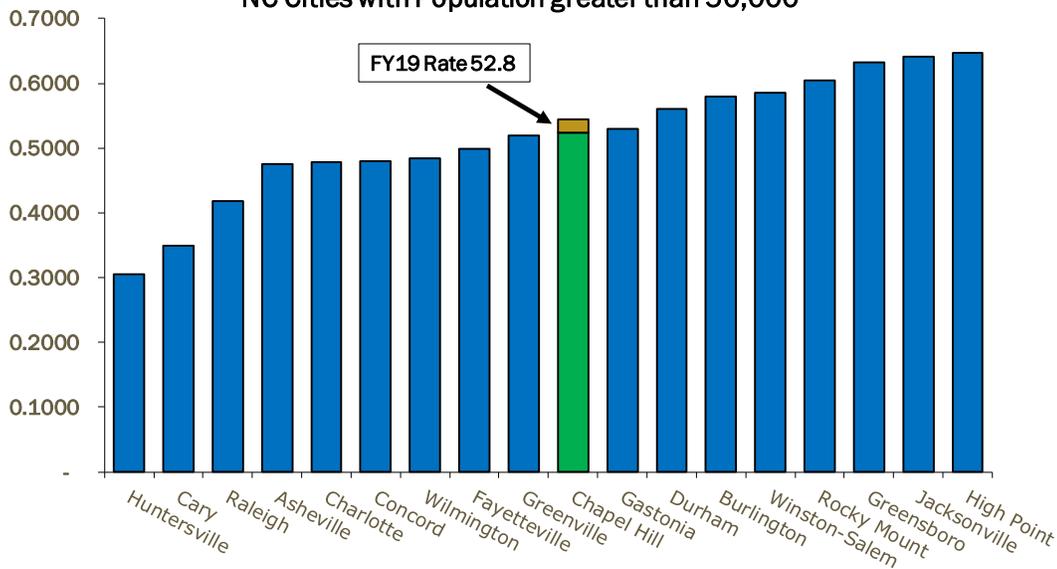
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
General Fund	36.0	36.0	37.8	37.8	38.8	38.8	38.8	38.8	37.6	38.6
Debt Fund	9.3	9.3	7.5	7.5	7.5	8.5	8.5	8.5	8.2	8.2
Transit	4.1	4.1	4.1	4.1	5.1	5.1	5.1	5.1	5.0	6.0
Total	49.4	49.4	49.4	49.4	51.4	52.4	52.4	52.4	50.8	52.8
Rate of Increase	(0.8)*	0	0	0	4.0%	1.9%	0	0	0*	3.9%

Downtown Fund 7.0 cents

** Revaluation year – increase measured from revenue neutral rate*
Average Annual Rate of Tax increase over last 10 years 1.0%

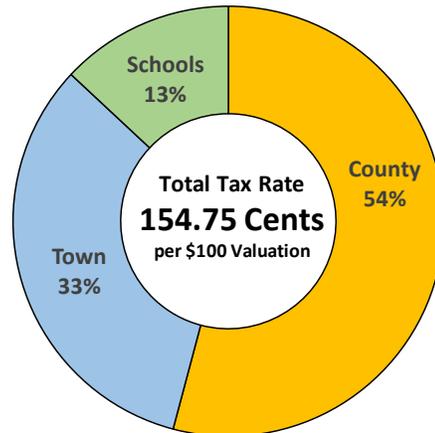
How does the Town’s tax rate compare to other jurisdictions? The following graph compares the Town’s tax rate for FY19 with the FY18 tax rates for all NC municipalities with populations of over 50,000. This graph does not include any changes in tax rates for FY19 from the other jurisdictions. As shown, the Town’s tax rate, including the 2 cent increase, is in the middle of the pack of the peer group. While services in each jurisdiction varies in scope and quality, it is significant to note that the Town is unique, in that it supports a library with the highest circulation per capita in the state and the second largest transit system in North Carolina.

FY18 Property Tax Rates
 NC Cities with Population greater than 50,000



Combined Tax Rates: Many taxpayers do not differentiate between overlapping taxing districts. Because tax bills combine the taxes for all three jurisdictions, it is easier to focus on the bottom line: the total of the three jurisdictions. The Town’s tax rate is not out of line with its peers and we provide unique (Library and Fare Free Transit) and high quality (rated 29% higher than the national benchmark in the community survey) services, but adding the County and the Schools results in a tax rate that is among the highest in the State. This fact creates a high degree of sensitivity to tax rate changes and this has been a factor in decisions to **not** raise taxes in prior years. As shown in the following graph, among the overlapping jurisdictions in Chapel Hill, the Town currently accounts for 33% of the total tax rate.

Chapel Hill Combined Tax Rate FY18



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 been working to address a significant backlog of capital projects that were deferred during the fiscal crisis. At that time, 1.8 cents of the Debt Fund tax rate was shifted to the General Fund to cover the decline in economy based revenues. In FY16 Council added 1.0 cent back to the Debt Fund tax rate to partially restore the Debt Fund revenue lost in the rate shift of FY12 in anticipation of funding the 2015 referendum bond projects. This has allowed us to begin addressing more of the Town’s capital needs, including the following recent financing activity:

- \$12.5 million G.O. Referendum Bonds for streets and sidewalks (\$5.5 million), stormwater improvements (\$2.7 million), and parks facilities (\$4.3 million). Debt service will be paid from the Stormwater Fund for the stormwater improvement bonds and from the Debt Fund for the other bonds.
- \$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. This is an interim financing that will be defeased by the \$4.3 million of parks facilities bonds described above.

- \$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 before November of 2022. 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	\$ 8,500,000	\$ 7,700,000
Trails & Greenways	5,000,000	5,000,000	0
Recreation facilities	8,000,000	5,300,000	2,700,000
Solid waste Facility	5,200,000	0	5,200,000
Stormwater Improvements	5,900,000	2,700,000	3,200,000
Total	\$ 40,300,000	\$ 21,500,000	\$ 18,800,000

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 FY19 the Debt Fund is at break-even, with revenues expenditures both at about \$8.2 million. The accumulated fund balance in the Debt Fund plus an increase in the dedicated tax rate in the next few years will be needed to pay debt service on the major projects planned over the next 5 years.

Public Safety

Planning for a Municipal Services Center (MSC) that would include Police, Fire, Parks & Recreation and other Town Offices will continue in FY19. Negotiations for a site for the project are ongoing and it is expected that design will be completed by spring of 2019. The proceeds of the sale of 523 East Franklin are being used for the design and pre-construction 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.

Affordable Housing Referendum

The Town is planning a \$10 million affordable Housing G.O. Bond referendum for November of 2018 to accelerate progress toward the Town's affordable housing goals. The Town has developed an Affordable Housing Investment Plan to guide our efforts in meeting Council's affordable housing goals. The five-year goals for the investment plan include development of 400 new affordable housing units and preservation of 275 units. To further progress toward our goals, general obligation bonds were identified as one of the key resources to leverage additional funding for affordable housing. The \$10 million referendum amount is based on five-year targets and the estimated amount of subsidy needed per unit. In addition, the survey of planned projects suggested that there is sufficient demand to use the \$10 million for eligible projects over the next 5 years.

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. The new station will be completed and occupied in FY19.
- **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 rental housing in the Blue Hill District.
- **Sale of Rosemary Street Parking Lot** – The recent sale of a small gravel parking lot on Rosemary Street for \$300,000 to an adjacent property owner will provide funding to design the Wallace Deck expansion project. This sale will also allow the new owner to consolidate parking facilities while allowing for public use after-hours.



Development and Tax Base Growth

Decisions involving future development often have long-lasting and dramatic effects on the character of a community. Thoughtful deliberation and careful planning take up a great deal of Council time and staff resources. While this is to be expected, 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 about \$8,100,000,000 (\$8.1 billion). In order to increase the Town’s tax base by 1%, \$81 million of taxable value needs to be added to the tax rolls. To put that in perspective, the taxable value of 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 2009 revaluation, the average annual increase in the tax base has been 1.72%. This equates to an annual increase in tax value of about \$125 million or four University Malls. While this seems to be a large increase 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.

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

The Town has maintained a strong and consistent General Fund fund balance (see graph below) over the last 6 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. The Town’s triple A rating was recently affirmed by Moody’s and Standard & Poors with the issuance of G.O. bonds in April of 2018.

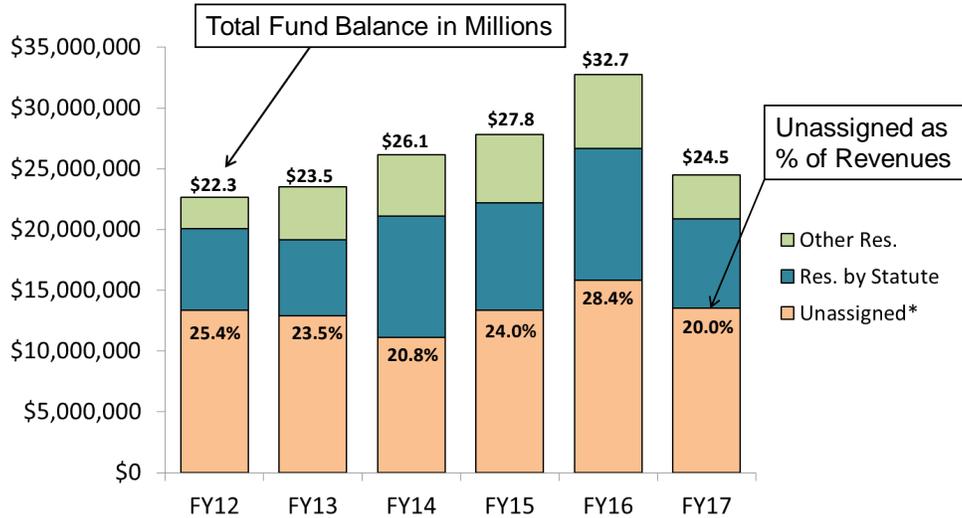
The 22% target fund balance level was established by evaluating the Town’s cash flow needs, dependability of revenue sources, and environmental and economic risks. In past years, unassigned fund balance over the 22% (target) was split between high priority capital investments, such as Rogers Road, and 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 – based on FY16 results (\$3.6 million) was used as a first installment for the purchase of the American Legion property.

For FY17 the Town dipped below its 22% unassigned fund balance target due to a combination of lower revenues than expected and not achieving the expected level of savings. In order to build fund balance back to the target level, the FY19 budget eliminates the use of lapsed salaries.

For FY19 the Town is budgeting about \$3.0 million of fund balance to balance the General Fund operating budget. This amount is consistent with prior year’s use of fund balance, however the budget does not include budgeted lapsed salaries. Budgeting lapsed salaries means “shorting” salary accounts to account for vacancy savings at the beginning of the budget year rather than at the end. Basically, appropriated fund balance and budgeting lapsed salaries are both uses of non-current revenues to balance the budget. We believe that this net reduction in the use of non-current revenues will help build the fund balance back to target levels.

Total GF Fund Balance

FY2011-12 thru FY2016-17



Town Employees

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 75% of the FY19 General Fund Budget. The costs of maintaining a high performing workforce is increasing as the competition for labor increases. In recent years we have seen increased



Workforce
of the Future

turnover, including a significant increase in retirements. The Town's Turnover rate (about 10%) 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 FY19 Budget includes a 3.0% salary adjustment effective July 1, 2018. 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. As described below the FY19 budget introduces an employee paid deductible for medical insurance, as a cost control measure.

	Pay Adjustment	One-time Payment	Health Ins. Increase
FY2008-09	3%	0	10.0%
FY2009-10	0	0	17.1%
FY2010-11	0	\$800	13.9%
FY2011-12	0	\$800	10.1%
FY2012-13	3%	0	(3.0%)
FY2013-14	2%	0	4%
FY2014-15*	3%	0	7.0%
FY2015-16*	2% - 2%	0	(8.5%)
FY2016-17*	2% - 1.5%	0	16.9%
FY2017-18*	2.5%	0	12.3%
FY2018-19*	3.0%	0	(1.5%)

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

Living Wage

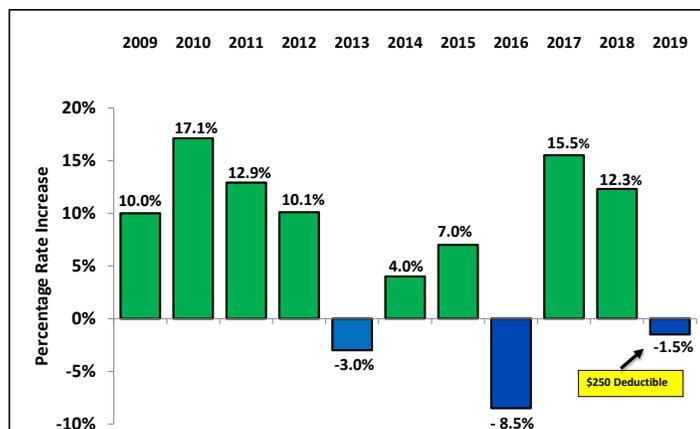
The FY19 Adopted Budget includes additional funding to pay for an increase in the Orange County Living Wage (OCLW) standard. The 2019 standard is \$13.70 per hour for employees without health benefits. This affects some seasonal and program support employees in the Parks and Recreation Department and the budget includes an additional funding to cover this cost. With this change, the Town will be in compliance with the OCLW standard for 2019.

Employee Health

An Employee Healthcare Task Force, similar to the one that helped create the wellness program and clinic was convened to develop strategies for addressing the rising costs of healthcare. The Task Force supports the manager in recommending a deductible amount for our plan that he considers in the best interests of the Town and its employees and using any savings in healthcare costs to enhance wellness programs. This budget includes the implementation of a \$250 health insurance deductible. After two years of double-digit increases, healthcare insurance costs with the new deductible will decrease by 1.5%.

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,

Medical Insurance Cost
Increase from Prior Year



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 the implementation of a deductible will reduce premiums by 1.5%.

Wellness@Work

In 2012 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 program is a comprehensive wellness initiative for the employees of the Town of Chapel Hill administered through a partnership with 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 FY19 budget continues these efforts by encouraging participation in the HRA program by giving a discounted employee medical insurance rate for program participants. Also enhancements to wellness program as recommended by Wellness Committee focused on addressing chronic conditions

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 FY19 budget is \$840,000. This is the same contribution as FY18.

Conclusion

We feel that the FY19 Budget takes positive steps toward creating a resilient and nimble organization that is better positioned to deal with uncertainty and to make progress toward our shared vision and goals. Among other things, the FY2018-19 budget does the following:

- Maintains Town services at the high levels expected by Town residents
- Increases the total property tax rate by 2.0 cents (1.0 cents for the General Fund and 1.0 cents for the Transit Fund)
- 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 and maintain 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 to achieve Council's strategic goals and to move us toward a future based on our shared vision. 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 listen to the people we serve and to move forward toward achieving their goals. The 2018-19 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.