

Budget & Financial Overview

Today's Topics:

- FY 2019 Budget Review
- Budget Drivers
- Next Steps

FY 2019 Budget Overview



Town of Chapel Hill
North Carolina

2018–2019 ADOPTED BUDGET

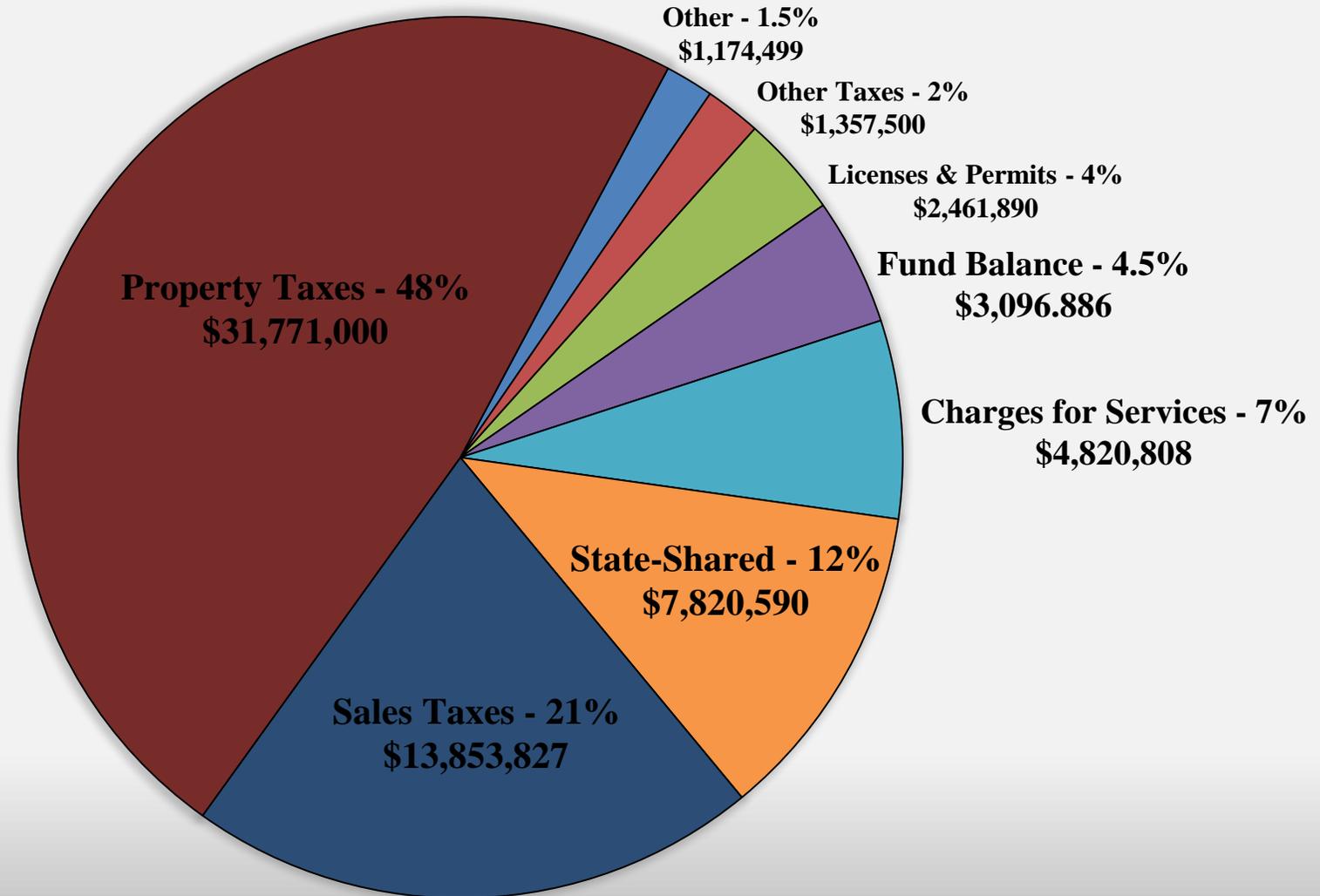


Chapel Hill Town Council, 2018–2019

Your Town Council is Mayor Pam Hemminger and Mayor Pro tem Jessica Anderson and Council members Donna Bell, Allen Buansi, Hongbin Gu, Nancy Oates, Michael Parker, Rachel Schaevitz and Karen Stegman.

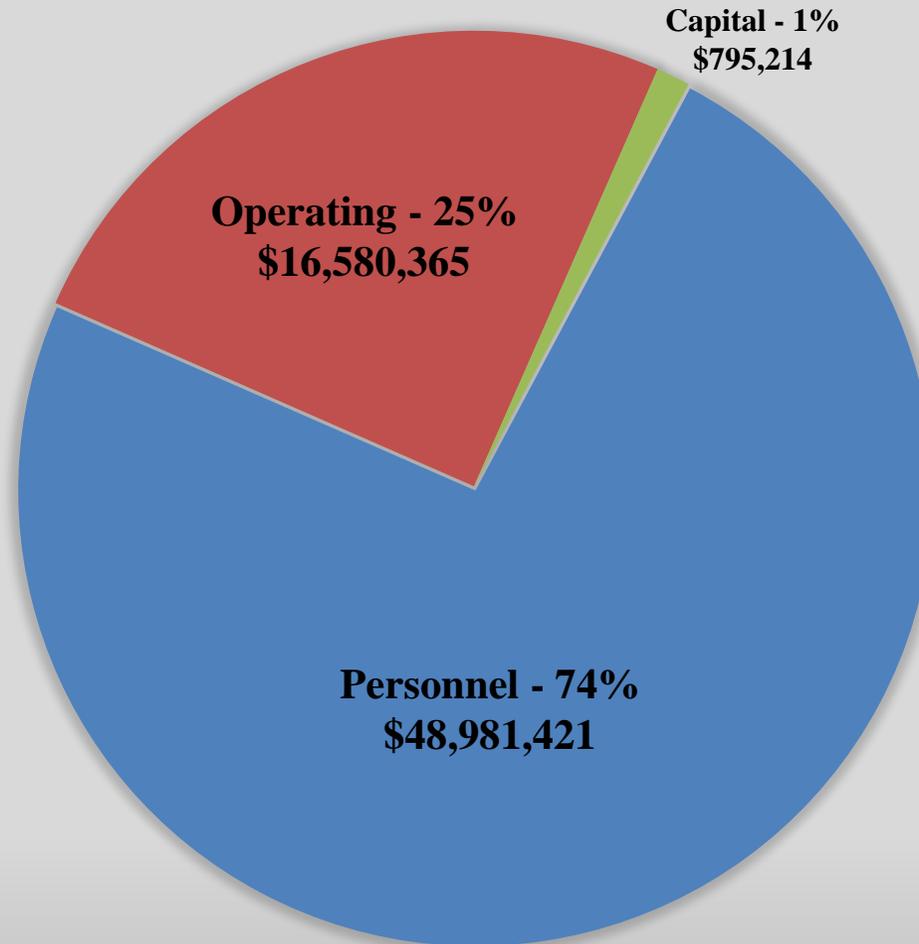
General Fund Revenues FY19

Almost half of the Town's General Fund revenues come from property taxes



General Fund Expenditures FY19

Almost 75% of the Town's General Fund expenditures comes from salaries & benefits



Why Are We Having This Discussion?

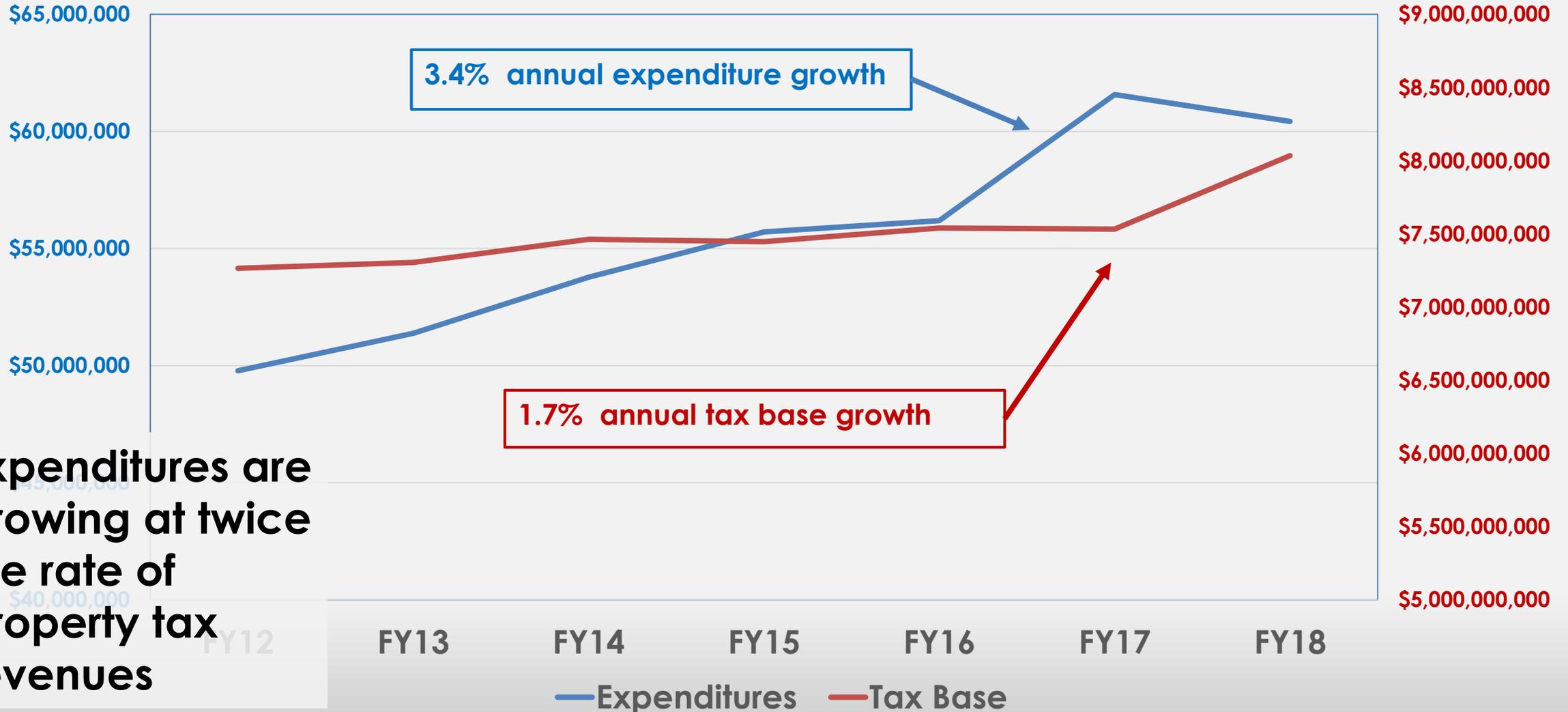
The Town's revenue growth is not keeping pace with the growth in costs



What Is Causing This Imbalance?

- The growth in the Town's tax base has averaged 1.7% growth over the last 7 years
- Over the same period, our costs have increased about 3.4% each year

Expenditures vs Tax Base - Rate of Growth

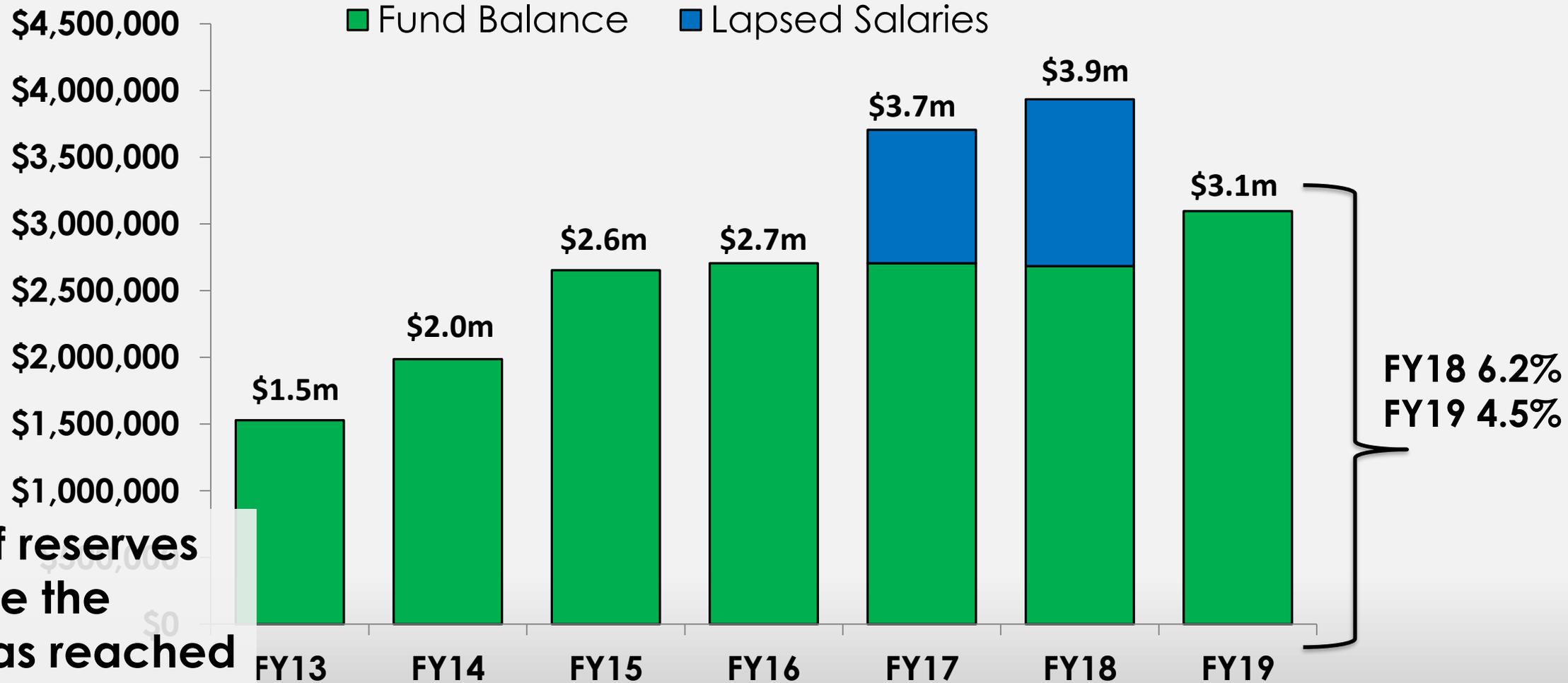


Expenditures are growing at twice the rate of property tax revenues

What Is The Effect Of This Imbalance?

- Until FY 2019, we had been using progressively more fund balance to balance the budget
- Not a sustainable solution

Fund Balance Appropriation & Lapsed Salaries



The use of reserves to balance the budget has reached unsustainable levels

Enterprise Funds

- Government-owned fund that sells goods and services to the public
- Intent of government is for costs of providing services to be covered primarily through user charges
- Government may subsidize a portion of activity
- Accounts for activities similar to those found in the private sector

Transit Fund

FY 2019 BUDGET

– Charges for Services	\$ 834,655
– Chapel Hill Revenues	5,422,552
– UNC Contract	8,573,655
– Carrboro Contract	1,808,945
– Non-operating Revenues	<u>7,128,488</u>
– TOTAL REVENUES	\$ 23,768,295

CHALLENGES:

- **Impact on Partners' Funding Model**
- **Reduced federal and state grant funding**
- **Bus replacement needs**

Parking Fund

FY 2019 BUDGET

On-Street:

– Charges for Services	\$ 633,560
– Non-operating Revenues	83,250

Off-Street:

– Charges for Services	1,963,930
– Non-operating Revenues	<u>26,090</u>
– TOTAL REVENUES	\$2,706,830

CHALLENGES:

- **Fluctuating charges for services revenues**
- **Debt payment for 140 West & Wallace Deck**
 - **\$914,631 in FY 2019**
- **Low fund balance**

Housing Fund

FY 2019 BUDGET

– Charges for Services	\$	903,642
– HUD Contributions		1,072,644
– Appropriated Fund Balance		226,492
– Non-operating Revenues		<u>1,594</u>
– TOTAL REVENUES	\$	2,204,372

CHALLENGES:

- **Tenant unit vacancies & income variations**
- **Fluctuating Housing & Urban Development (HUD) grant awards**
- **Reliance on Fund Balance**
- **Aging housing units**

Stormwater Fund

FY 2019 BUDGET

– Charges for Services	\$ 2,713,400
– Non-operating Revenues	<u>11,000</u>
– TOTAL REVENUES	\$ 2,724,400

CHALLENGES:

- Previous reliance on fund balance (prior to FY 2018 fee increase)
- GO Bond issuance in FY 2018 (debt payments beginning in FY 2019)
- Future large-scale capital needs
- Weather resiliency

Budget Resolution 2018-06-13/R-5.1

WHEREAS, the Council seeks to consider and review the foundational policies for budget development early in the process, including but not limited to:

- Investment in employee compensation to recruit, retain, and promote Town employees that carry out consistently excellent service to the community as well as the strategic priorities of the Town Council;
- Pre-funding contributions to Other Post-Employment Benefits (OPEB);
- Balancing growth in the property tax base and other revenue sources to cover the increasing costs of providing service;
- Targets for fund balance levels;
- Priorities for capital investments in infrastructure and facilities, including public transit rolling stock;
- Debt management;
- Operational trends, priorities and needs;

Budget Drivers

- Balancing Growth in Tax Base and Other Revenues
- Fund Balance Target
- Priorities for Capital Investments
- Employee Compensation
 - Compensation Philosophy
 - Pay Raise
 - Medical Insurance
- Pre-Funding Other Post Employment Benefits (OPEB)

Balancing Growth in Property Tax Base

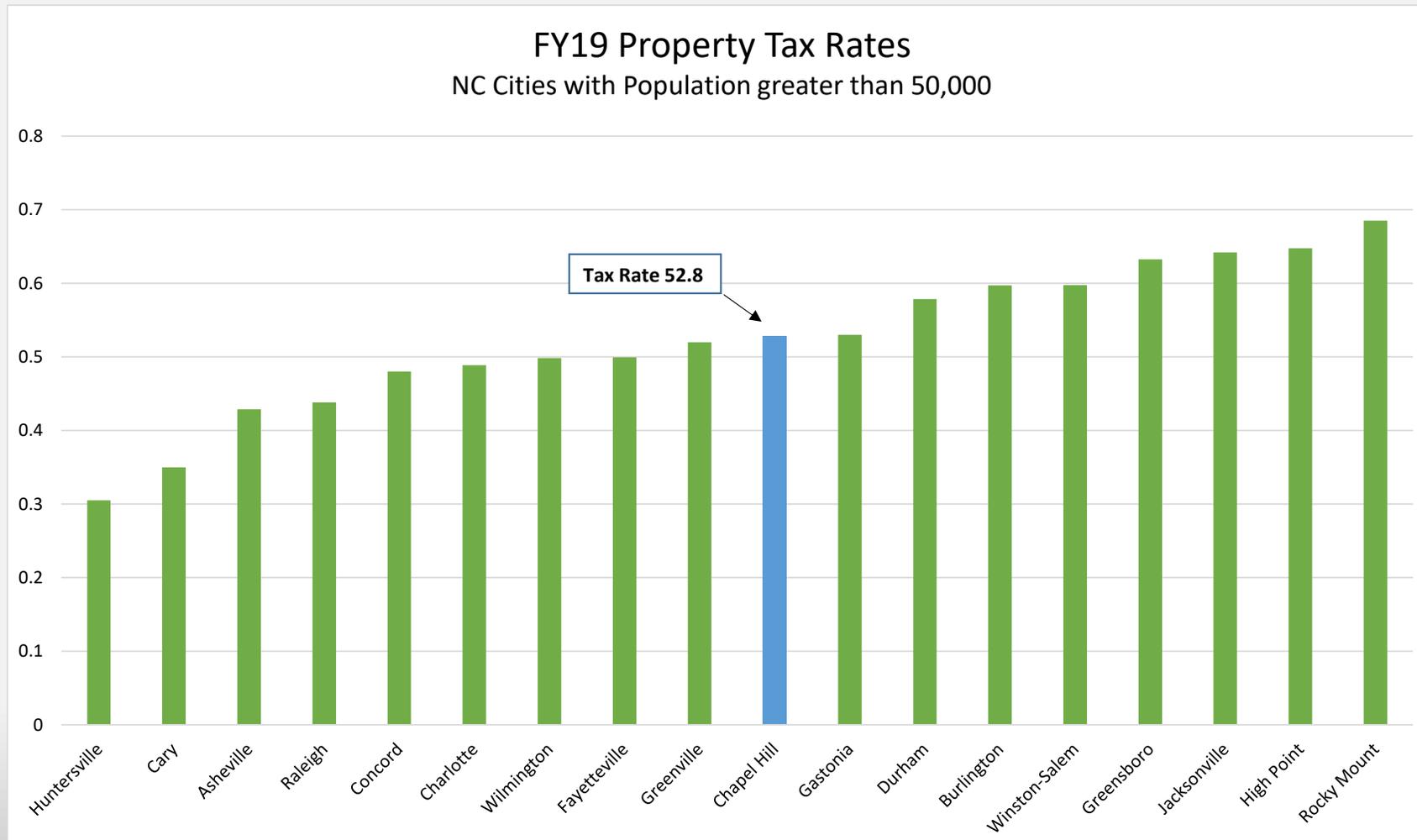
Tax Rate*:

	FY09	FY10**	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18**	FY19
General Fund	42.3	36.0	36.0	37.8	37.8	38.8	38.8	38.8	38.8	37.6	38.6
Debt Fund	11.0	9.3	9.3	7.5	7.5	7.5	8.5	8.5	8.5	8.2	8.2
Transit Fund	4.8	4.1	4.1	4.1	4.1	5.1	5.1	5.1	5.1	5.0	6.0
Total	58.1	49.4	49.4	49.4	49.4	51.4	52.4	52.4	52.4	50.8	52.8

* Tax rates are expressed in cents per \$100 valuation

** FY 2018 & FY 2010 tax rates were the revenue neutral rate

Property Tax Rates



Our Tax Base Value is a BIG NUMBER



It takes a lot to move the needle

- **\$1 million** of new property value generates the following tax revenue:
 - General Fund (38.6) **\$3,860**
 - Debt Fund (8.2) **\$ 820**
 - Transit Fund* (6.0) **\$ 600**



**Transit fund revenues are dedicated to paying for the Transit System*

How much development is needed to add 1% to the tax base?



2 University Places, or



3 Europa Centers, or



4 AC Marriott Hotels

Note: Growth is net new property tax value and does not include other revenues and costs associated with the properties

It takes a lot to move the needle

- **1% added (\$80 million)** to the tax base generates the following tax revenue:

–General Fund (38.6)	\$308,800
–Debt Fund (8.2)	65,600
–Transit Fund* (6.0)	<u>48,000</u>
	\$422,400



**Transit fund revenues are dedicated to paying for the Transit System*

Economic Development Investments



Wegmans \$2.0 million



EF TIF (Blue Hill) \$7.0* million



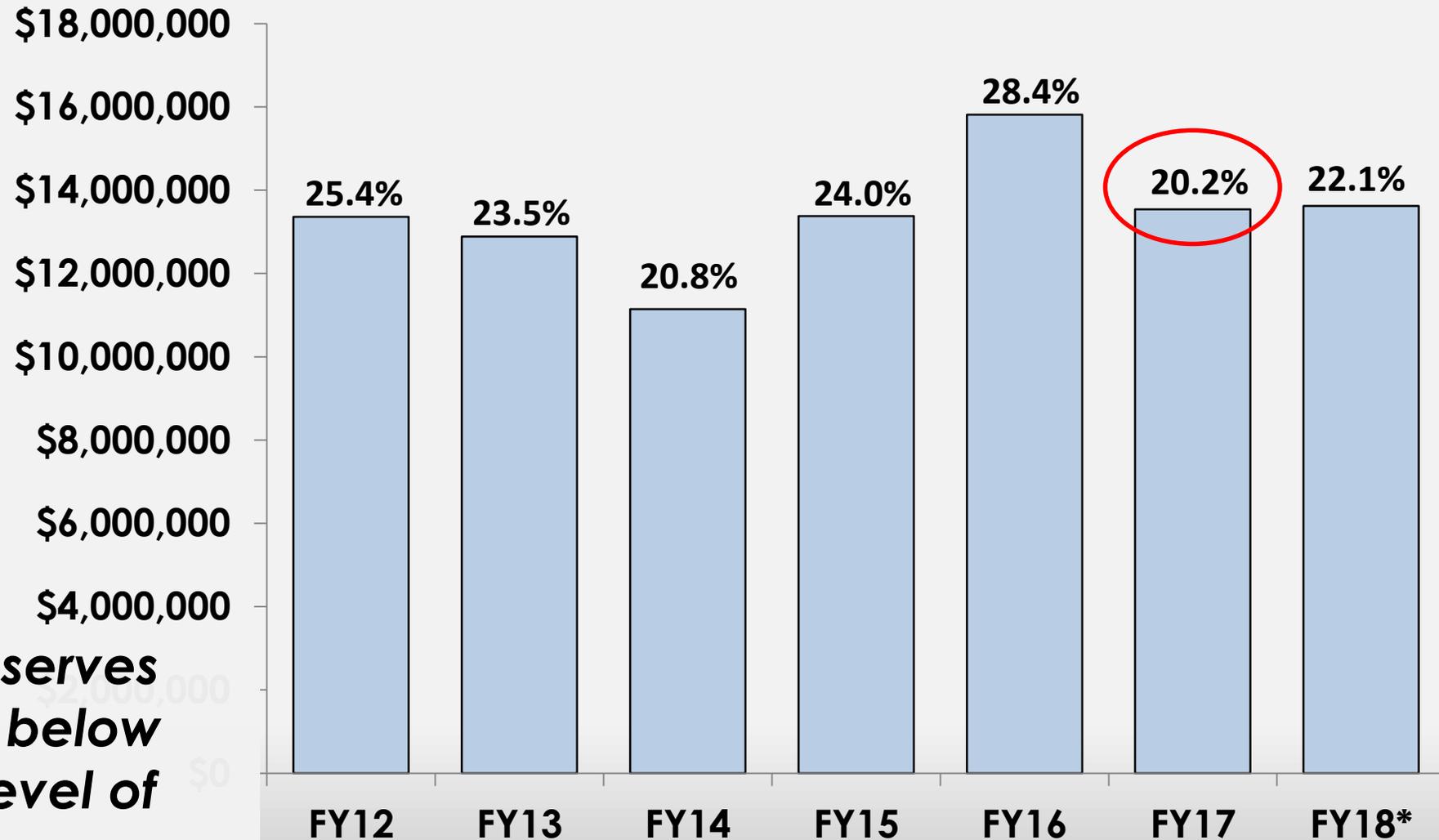
Carraway Village \$1.3 million

***Phase I & Phase II Roadway Improvements**

Fund Balance Target

- Current practice - Internal unassigned fund balance target of 22% of higher of General Fund expenditures.
 - Any amount over the 22% is made available for one-time capital expenditures.
- NC AAA rated agency average is 28%
- Recommendation - Draft fund balance policy to establish minimum level of unassigned fund balance.
 - Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund

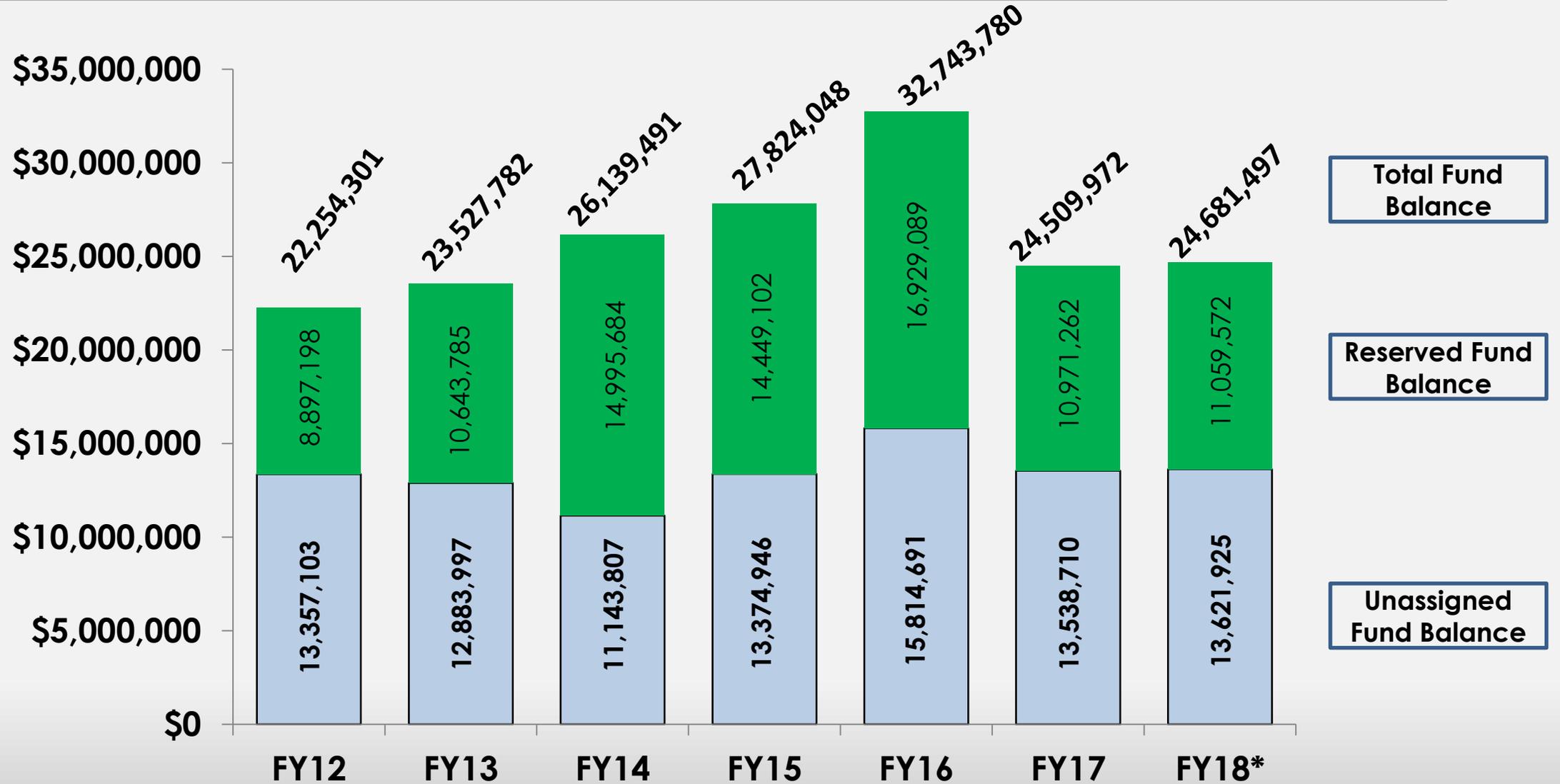
Unassigned GF Fund Balance %



**Town reserves
dipped below
target level of
22%**

Unassigned fund balance is calculated as a percent of expenditures and other uses per audited financial statements

Unassigned GF Fund Balance \$



- Unassigned fund balance is calculated as a percent of expenditures and other uses per audited financial statements

Priorities for Capital Investment

- Existing projects (2015 & 2018 bond referendums)
- Carry out proposed debt plan (FY 2019-FY 2023)
- Invest in annual capital & maintenance needs
 - Pay-go capital
 - Maintenance
 - Street repaving

Debt Management

- Capital Financing Plan for FY19-FY23 \$ 56.7 million
- Debt Fund Capacity 44.1 million
- Capital Financing Gap \$ 12.6 million

Tax increase need to close the Gap 0.6 penny (FY20)
Affordable Housing Penny + 1.0 penny (FY20)

Debt Financing Plan Projects (FY19-FY23)*

Projects included in the Plan

- Streets & Sidewalks \$ 7.7m
- Affordable Housing 10.0m
- Municipal Services Cntr 34.0m
- Ef (Blue Hill) Phase II 2.6m
- Wallace Deck 2.4m
- **Total** **\$ 56.7m**

Projects not in the Plan

- Solid Waste Facility \$ 5.2m
- Fire Station No. 3 3.5m
- Fire Station No. 4 3.5m
- Varsity Theatre ?
- Old Town Hall ?

* Does not include enterprise debt

Employee Compensation

Town Employees:

- Excellent employees are the key to excellent service delivery
- Recruitment
- Retention

Compensation Philosophy

Compensation system that:

- Offers compensation that is at least 90% of our benchmark agencies
- Bases pay grades on market studies, consumer price index (CPI), and peer municipalities
- Allows employees to reach market rate within 7 years
- Provides incentives for education, specialized skills and skill development goals
- Enables employees to receive formal training, cross-training and on-the-job training

Compensation is:

- Direct pay
- Benefits (health, life, retirement, paid leave)

Pay Raise

Pay Raise is based on:

- Comparison Organizations
- National trends in wage growth
- CPI

Need to define who the Town's comparison organizations are.

Comparison Organization Chart

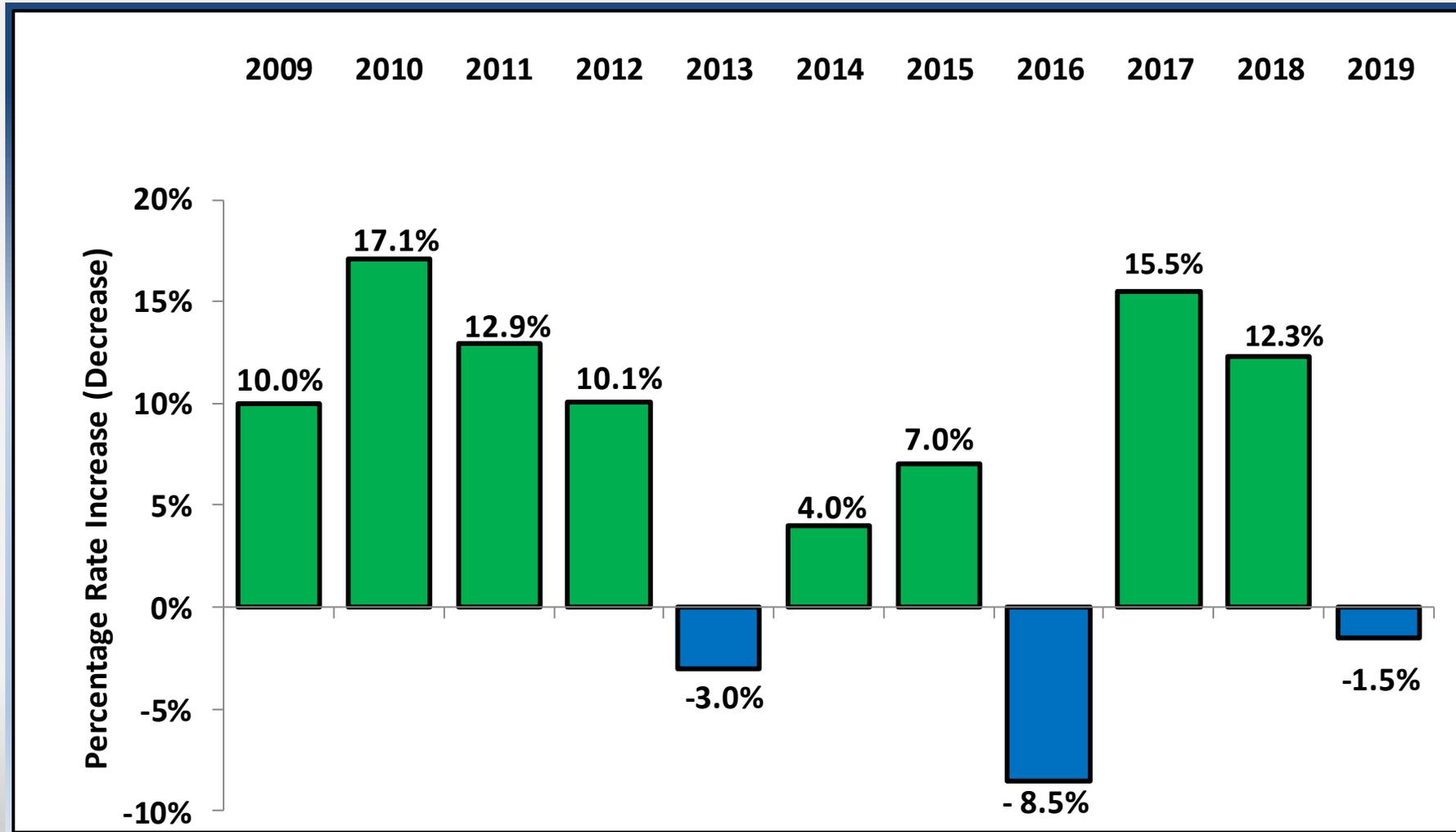
	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Chapel Hill	\$ 800	\$ 800	3%	3%	2%	3.5%	2.5%	3%
Hillsborough	2.2%	2%	2%	3.25%	3.25%	3.25%	3.25%	3.25%
Carrboro	1.7%	3%	2%	2%	2%	1.50%	3%	3%
Orange County	0%	3%	3%	2%	2%	3%	2%	2%
Durham County	Pay-for-Performance	4.25%	4.25%	3%	3%	3%	2%	2-3% (performance review)
Wake County	2%	2%	2.75%	2.75%	2.75%	Pay Study	3%	3%
Raleigh	\$ 500	2%	3%	2.9%	3.50%	3.25%	4%	Performance Reviews
Durham	2%	2%	3%	3%	3%	4%	4%	4%
Cary	3%	3%	3%	3%	4%	4%	4%	3.5%
Burlington	-	2%*	2%*	Pay Study	2%*	2%*	2%*	2%*

Average	2.68%	2.89%	2.74%	2.94%	3.14%	3.16%	3.13%
Minimum	2%	2%	2%	2%	1.5%	2%	2%
Maximum	4%	4%	3%	4%	4%	4%	4%

Medical Insurance

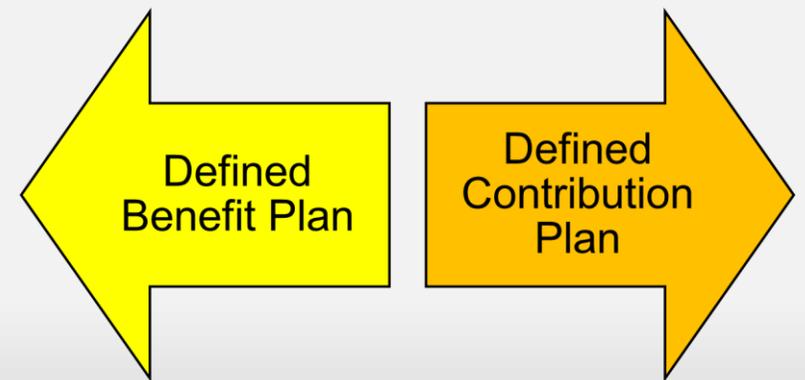
- Rate Fluctuations
- Employee Healthcare Task Force
 - \$250 deductible with FY 2019 budget
- Wellness @ Work Initiatives
 - Wellness Program
 - Health Clinic
- Claims Data

Medical Insurance Trends



Other Post Employment Benefits (OPEB) Liability

- The Town provides retiree healthcare coverage based on years of service
- This defined benefit plan was closed in 2010 and was replaced with a defined contribution plan for new employees
- The Town's net OPEB liability for the defined benefit plan is \$53.6 million
- The Annually Required Contribution (ARC) is \$5.4 million.



Pre-Funding OPEB

- The Town began pre-funding OPEB in 2009 and now has \$4.4 million in an irrevocable trust
- Contributions from the annual operating budget to the trust are currently \$840,000
- The Town pays annual pay-go expenses of \$1.63 million per year
- The plan was to ramp-up contributions to get the ARC (\$5.4 million) within 10 years
- Recommendation - Draft OPEB pre-funding policy to establish minimum level of funding.

Budget Balancing – What We Have Already Done

- Maintained Core Services
- Trimmed department budgets
- Established Defined Contribution Plan in FY 2010
- Began pre-funding OPEB liability in FY 2017
- Implemented Health Insurance Deductible in FY 2018
- Reduced Pay-Go Capital
- Reduced Vehicle Replacement

Budget Calendar

Date	Council Action
January 7	Legislative Breakfast
January 25-26	Council Retreat
February 13	Financial & Economic Update
February 20	Initial Budget Public Forum
March 4	Budget Work Session
March 20	Budget Public Forum
May 1	Manager's Recommended Budget
May 8	Public Hearing on Budget
May 15, June 5	Budget Work Sessions
June 12	Adoption of FY 2019-20 Budget

A wooden easel with a blue chalkboard. The chalkboard has the word "QUESTIONS ?" written in white, bold, sans-serif capital letters. The easel is made of light brown wood and has three legs. The background is a plain, light gray surface.

QUESTIONS ?