



MANAGER'S OFFICE
Town of Chapel Hill
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June 12, 2019

Dear Mayor and Council:

It is my pleasure to formally present the Fiscal Year 2019-2020 Adopted Budget for the Town of Chapel Hill. The budget of \$113,447,530, is a 4.1% increase from FY 2019.

A municipal budget serves as a reflection of its community's values and this adopted budget is no exception. It continues to significantly invest in the core services offered by the Town and expected by our residents and businesses, including, but not limited to, public safety, transit, streets and sidewalks and parks and recreation. The budget also includes new investments in environmental sustainability, affordable housing and urban design.

In recent years, the cost of providing Town services has outpaced Town revenue trends. This budget includes slight growth in property tax (1%), continued strong growth in sales tax (5.3%), and a slight increase in the appropriation of fund balance. The budget is balanced with a 1.6 cent property tax increase for the Debt Service Fund, with 1 cent dedicated to funding the \$10 million Affordable Housing Bond approved by 72% of the voters in November of 2018. The additional .6 cent increase will assist in paying the debt service on other bonded projects like the future Municipal Services Center. The total adopted tax rate is 54.4 cents per \$100 of assessed valuation. There is no increase for the General Fund or for the Transit Fund.

Responding to Council and Community Priorities

The goal of the budget is to align allocations with Council and community priorities. This budget provides continued support for the delivery of high-quality core services and key investments in strategic goal areas identified as priorities by the Council. Below are summaries of the key priorities in the budget.

Strategic Initiatives

Vision, innovation, collaboration, and dedicated employees serve as the foundation of the Town's efforts to build a community where people thrive. In 2018, the Town Council established strategic goal areas to add specificity and short-term focus to the Chapel Hill 2020 Comprehensive Plan. Strategic Work Plans were created by staff to identify actions and projects that will make progress

towards the Council's goals. In addition to supporting the implementation of the Strategic Work Plans, the adopted budget includes targeted funds for key strategic interests expressed by Council.

- \$50,000 will support a Climate Action Plan. While it is generally understood this amount will not be adequate when it comes to implementing future programs or projects that are included in a completed Plan, this will fund the current stage of developing a framework and initiating a public engagement process needed to draft a Plan.
- \$315,000 to implement interim remedial actions based on the results of the ongoing assessments of coal ash remediation at the police station property (828 Martin Luther King Jr. Blvd.). As the community explores possible courses of action for remediation, the Town continues to work with an environmental engineering firm and a recently-hired firm performing human health and ecological risk assessments. The funds initially allocated to this project are almost depleted and interim remedial measures will need to be taken until a future for the property is determined by Council.
- \$100,000 for urban design services in FY2019-20 to include placemaking and urban design standards at the beginning stages of development project proposals. An early success of this effort came from the use of contracted urban design services for the Eastowne Medical Office Building project.

Debt Funds

Fiscal sustainability and prudent management of public finances are critical elements of a financial strategy that secures the public trust and maximizes the investment of limited resources. Maintaining a Aaa bond rating and producing award-winning budget documents and financial reports has allowed the Town to secure optimal long term debt terms for the Town. To this end, the budget includes a long term funding strategy for several key initiatives that contribute to the quality to life in Chapel Hill.

- A 0.6 cent tax increase for the Debt Service Fund, which will generate the revenue necessary for the Town to continue meeting its existing debt obligations and create the needed borrowing capacity for planned capital investments, including a new Municipal Services Center.
- A 1.0 cent tax increase for the Debt Service Fund will fund the repayment of new debt in the form of voter-approved general obligation bonds dedicated to affordable housing projects. This new borrowing capacity follows Chapel Hill voters' overwhelming approval of an Affordable Housing Bond Referendum in November 2018. Over the next several years, the bonds will help support several large-scale affordable housing projects including public housing redevelopment and development on Town-owned parcels.
- A \$2.82 increase to the annual Stormwater Management fee associated with the debt service to issue the remaining \$3.2 million general obligation bonds in FY2019-20. The new fee will increase stormwater fees inside the town to \$34.97 for each 1,000 square feet of impervious surface.

Investment in Town Employees

The 2018 Community Survey reflects that Chapel Hill residents rank the overall quality of services at 79% which is 30 percentage points higher than the national average. As a service based organization, the Town relies on a skilled and nimble workforce to deliver a broad scope of governmental services. Personnel related costs account for 74% of the FY20 General Fund Adopted Budget. The costs of maintaining a high performing workforce are increasing as the competition for labor grows. In recent years we have seen increased turnover, including a significant increase in retirements. The Town's turnover rate of almost 14% is on the high end 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. Key investments are described below.

- 3% pay increase for employees based on the market rate of their position, maintaining health insurance benefits for employees and their dependents, pay adjustments to meet the Orange County Living Wage standards, and keeping up with a required increase in employer contribution to the State retirement system.
- \$200,000 to adjust the starting pay for police officers and make additional adjustments throughout the officer pay ranges. During the past few years, the Police Department has had an increasingly difficult time recruiting and retaining Police Officers. One contributing factor is that we have fallen behind the market in our pay for sworn officers. We are at a critical time when action is needed.
- \$100,000 to fund a comprehensive classification and compensation study, to review all salary ranges to ensure they are competitive with the market, compare all job classes for appropriate compensation level and create a compensation policy which will allow us to be more competitive in the market and be sustainable for the Town.
- The FY20 Adopted Budget includes additional funding to pay for an increase in the Orange County Living Wage (OCLW) standard. The 2020 standard is \$14.25 per hour for employees without health benefits and \$12.75 with 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 2020.
- The FY20 increase for Medical Insurance is 4.5%. After several years of moderate increases including an 8.5% reduction in FY16, our rates increased substantially in FY17 and FY18. The spike in rates is due to a combination of significant claims experience from a relatively small number of high dollar claims and a general increase in the cost of healthcare. In FY19, the Town implemented a \$250 deductible which reduced premiums by 1.5%.

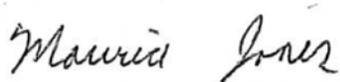
Meeting Current and Future Needs

This budget continues to support the delivery of high-quality core services to our residents, businesses and visitors. The budget also provides key investments in strategic goal areas identified as priorities by the Council, from affordable housing to climate action. Overall, it reflects a commitment to implementing the policy decisions of the Council and upholding the values of the community.

We recognize that more work must be done to address the growing gap between the wants and needs of our community and the resources to fund those initiatives. In order to reach a shared understanding of how we prioritize our resources in the future, I am proposing the creation of a long term budget strategy that will help guide future budgeting processes. While this adopted budget outlines a short-term path, it will be important to continue having in-depth, open discussions about the future of Chapel Hill with the Council and members of the community over the next 6-12 months. We anticipate initiating this process soon after the FY 20 budget is passed.

With this type of dialogue, we can build a five-year plan that identifies opportunities for new investment, and develops options for the Council to consider in order to make informed spending decisions in the future.

Sincerely,

A handwritten signature in cursive script that reads "Maurice Jones".

Maurice Jones
Town Manager