



MANAGER'S OFFICE  
Town of Chapel Hill  
405 Martin Luther King Jr. Blvd.  
Chapel Hill, NC 27514-5705

phone (919) 968-2743 fax (919) 969-2063

[www.townofchapelhill.org](http://www.townofchapelhill.org)

## **Introduction and Overview**

The adopted Annual Budget for the Town of Chapel Hill for Fiscal Year 2008-09 is submitted herein, in accordance with the Local Government Budget and Fiscal Control Act. We have balanced this budget with a 5.9 cent tax increase over the 2007-08 budget designed to fund the increasing debt service of the Town without negatively affecting the Town's service levels. We have also dedicated a portion of the property tax to the Debt Service Fund rather than use an annual transfer to pay for debt service. This budget includes no change in the Transportation Fund tax rate or the Downtown Service District tax rate. The resulting total tax rate for the Town is 58.1 cents, with a General Fund tax rate of 42.3 cents, a Debt Service Fund tax rate of 11 cents, a Transportation Fund rate of 4.8 cents, and a Downtown Service District rate of 9 cents.

We are appropriating \$2,744,000 from the Town's fund balance to balance the General Fund budget and accomplish the Council's goals. The source of this available balance is almost entirely from the excess of revenues over expenditures for the 2007-08 budget year. Based on our preliminary estimates it looks like we will finish the current fiscal year with more than 12% undesignated General Fund balance. We believe that 12% is an adequate level of fund balance 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.

Under G.S. 159-11 the Town of Chapel Hill is required to publish a revenue neutral rate for the fiscal year following a revaluation. Durham County completed their revaluation in FY2007-08, which requires the Town to calculate and publish a tax neutral rate adjusting for the increase in value due to revaluation for the portion of Chapel Hill that is located in Durham County. The tax neutral rate for FY2008-09 is 52.06.

## **Budget Goals for 2008-09**

We believe that the 2008-09 budget is consistent with the long-term and service goals presented in subsequent paragraphs. Budget goals for this year are simple:

- Maintain the level of service provided to citizens;
- Absorb the costs of positions added last year as well as the debt service and operating costs of new facilities;
- Fund the highest priorities of the Council as established in the Planning Retreat;
- Address fiscal pressures while maintaining reasonable property tax rates;
- Maintain competitive employee compensation; and
- Maintain undesignated General Fund balance at 12% of the budget.

## **Long-Term Goals**

The Town's primary long-term goals are stated in the revised Comprehensive Plan adopted by the Town Council in the spring of 2000, with goals updated on May 12, 2003. The Town's Comprehensive Plan is organized around 12 major themes which together form a strategy for Chapel Hill's future. These themes are:

- Maintain the Urban Services Area/Rural Buffer Boundary.
- Participate in the regional planning process.
- Conserve and protect existing neighborhoods.
- Conserve and protect the natural setting of Chapel Hill.
- Identify areas where there are creative development opportunities.
- Encourage desirable forms of non-residential development.
- Create and preserve affordable housing opportunities.
- Cooperatively plan with the University of North Carolina.
- Work toward a balanced transportation system.
- Complete the bikeway / greenway / sidewalk systems.
- Provide quality community facilities and services.
- Develop strategies to address fiscal issues.

Taken together, the major themes show a pattern of commitment to community involvement in development and services in the community.

## **Service Goals**

The Town of Chapel Hill strives to achieve the following service goals:

- Provide fair, effective, efficient and fast customer service;
- Offer secure, reliable and affordable services;
- Maintain safe environment and attractive public facilities;
- Provide protection and public safety;
- Provide accurate and timely current and historical public information;
- Maintain basic Town services;
- Retain employees and continue to invest in the maintenance of employee skills, knowledge and abilities as a key community resource;
- Provide funding for maintenance and capital projects at a reasonable level to adequately maintain Town facilities;
- Retain fare-free transportation services;
- Invest in technology as a means to provide fast, secure and reliable information for Council, staff and citizens;
- Maintain current transit service levels and routes;
- Preserve overall financial health of the Town of Chapel Hill; and
- Provide economic, cultural and leisure opportunities.

## **Short-Term Council Goals and Priorities**

The Council held a planning retreat with members of the Senior Management Team. The results of that retreat focused our attention on the following priorities:

- *Continue the Organizational Culture Change:* Continue to work with the Town Manager to develop a style and system of leadership that will ensure the effective provision of services, while supporting the delivery of Council goals and objectives.
- *Champion Downtown:* Create and market an attractive, magical entertainment, cultural, and dining district, mitigate the impact of the High Density Development construction process and work with the IFC in identifying a site for the shelter and transitioning out of downtown to assist them in achieving their goal of providing optimal services.
- *Continue Focus on Land use, Transit and Development:* Make Chapel Hill a better place to live, work, learn, and play, make Chapel Hill a more diverse community and make Chapel Hill a more sustainable community.
- *Maintain and Improve Community Facilities and Services:* Sustain Chapel Hill's vibrant, unique spirit and sense of community, provide a safe and secure community, support and enhance the quality of life in Chapel Hill.
- *Improve Town's Fiscal Condition:* Diversify revenue sources consistent with Town values to reduce pressure on residential property tax, identify and pursue internal operating efficiencies and develop a strategic financial plan for long-term sustainability.
- *Plan Ahead for Carolina North:* Establish a collaborative and trusted environment to enable the University to develop and plan for a Carolina North strategy that will correctly balance the needs of the University with the needs of the citizens of Chapel Hill.

These priorities have been considered in the 2008-09 budget. While the new initiatives in the adopted budget are largely the result of internal reorganizations, our efforts are guided by these Council goals and priorities.

## **Balancing General Fund Revenues and Expenditures**

A rapid increase in expenditures, in particular debt service for new facilities, has strained the Town's operating budget in recent years, requiring the use of accumulated fund balance. Although the use of fund balance was anticipated in the short term as the Town added major new facilities, it was also anticipated that property tax rate would need to increase to pay debt service obligations over the long term. In order to balance revenues and expenditures in the General Fund while maintaining the existing levels and quality of services, the recommended budget is presented with a net 5.9 cent tax increase. This is a significant increase, but it comes on the heels of two consecutive years of zero tax rate increase and a doubling of the Town's debt load since FY05. This increase will be a major step toward creating a sustainable balance between what the Town spends to provide services and meet debt obligations and the Town's available revenues under the existing tax structure.

## **Fund Balance**

With respect to budget preparation, there are two sources of available or “spendable” fund balance. The first is the residual fund balance accumulated from prior years and the second is the excess of revenues over expenditures from the current year’s budget. The limitation on using fund balance as a funding source in the next year’s budget is the need to maintain a prudent level of fund balance to deal with circumstances where the Town has a sudden loss of revenue or extraordinary unplanned expenses from which it cannot recover in the same budget period.

For the Town of Chapel Hill, given our status as a triple A rated municipality, the minimum level of fund balance should be 12%. In recent years, the Town has used the excess of revenues over expenditures from the current year to fill the revenue gap in the next year’s budget. For FY09 we are planning to use \$2.74 million from the current year. This is an extraordinary year due to a large one-time multi-year tax settlement that almost doubled the estimated amount of funds available for re-appropriation at the end of the year. A good portion of the funds available at the end of a typical year would come from departments spending less than budgeted. This is possible because departments budget for relatively predictable scenarios of severe weather and other costly events so that the Town can be prepared to shoulder these costs. In addition, there has been an increased level of spending restraint exercised in recent years in an effort to stave off tax increases in the next year’s budget.

We are recommending that in future budget years that a portion of the annual carryover from the operating budget be dedicated to pay-as-you-go funding for the Capital Improvement Plan (CIP). This will match a relatively variable revenue source with a funding need that is more flexible from year to year than the operating budget. In addition, this would eliminate the competition between the CIP and the rest of the operating budget that results in the CIP sustaining significant cuts each year. This recommendation requires that the Town achieve equilibrium between current revenues and current expenditures. That equilibrium will be our management focus for the coming year.

## **Debt Costs**

The fact that the bulk of debt service expenses are funded through the General Fund creates a squeeze on resources used to provide most of the Town’s core functions. In the hierarchy of payments, debt service obligations are mandated by state statute as paramount, taking priority over all other costs. Recognizing the stresses that higher debt service creates on the General Fund the FY09 Budget fundamentally changes how debt service costs are handled. Resources for the payment of debt service will be accumulated in the debt service fund through a dedicated portion of the property tax. By isolating a portion of the property tax rate and dedicating it to debt service, the Town will be matching its most important financial obligation with its most reliable revenue source, the property tax. In addition, operating costs that have a greater degree of flexibility will be funded with a higher proportion of revenues that do not grow with the same regularity as

property taxes, and in reality have the potential to diminish. The use of the debt service fund supported by dedicated tax revenues will help to focus funding decisions and create a more direct connection between tax revenues and their eventual use.

With the adopted 5.9 cent increase in property taxes, the tax rate structure change is illustrated in the following table.

### Property Tax Rates for FY09

	General Fund	Debt Service Fund	Transit Fund	Total
Current Tax Rates	47.4 cents	-	4.8 cents	52.2 cents
FY09 Tax Rates	53.3 cents	-	4.8 cents	58.1 cents
FY09 Tax Rates w/ DS Fund *	42.3 Cents	11 cents	4.8 cents	58.1 cents

Debt Service FY09	\$ 6,400,000
1 cent equals	\$ 582,000
Dedicated Tax needed to fund DS	11 cents

### Employee Costs

The Town’s most important assets are its employees. Maintaining and developing a high performing workforce through recruitment and training is essential to the Town’s mission. By offering competitive salaries and benefits, the Town can continue to attract and retain a high performing workforce. Appropriately, the cost of compensating employees is the Town’s largest cost component accounting for more than 62% of all General Fund expenditures. The pressures of maintaining competitive compensation for our employees has reached a critical point as healthcare costs continue to increase at approximately three times the rate of inflation, taking a larger share of the Town’s operating budget each year. The added pressure to fund retiree health care obligations in the same manner as a pension fund, as mandated by GASB 45, makes it imperative to optimize our delivery of health care benefits to our employees and retirees. First, we must maintain the Town’s commitment to providing a high level of benefits to our employees. It is time, however, to determine if we are getting the most for our healthcare dollar in today’s turbulent market. To assist us in this undertaking, we have engaged a benefits consultant to provide alternatives for optimizing our investment in employee healthcare and maximizing the utility of the overall compensation package. Rather than looking at employee healthcare as an independent cost center we need to take a systemic approach that incorporates health, wellness and safety. In this effort, we are seeking to partner with employees to improve their quality of life by keeping them safe on the job,

providing programs that help them make smart choices that impact their health and by providing the highest quality healthcare when needed.

### **Facilities**

The Town has made great strides in providing new state of the art facilities to support Town programs. With the renovation of the Community Center and the completion of the Town Operations Center (TOC), Aquatics Center, Southern Community Park and the soon to be constructed Library expansion project, the Town is making a major investment in public facilities that will pay dividends for many decades to come. In addition to the increase in debt service to pay for these new facilities, however, they generate other pressures on the Town's budget:

- To operate these new facilities requires additional staff and operating costs such as utilities.
- To sustain our public infrastructure, the investment in new facilities must be matched with a commitment to repair, maintain and improve existing facilities that are falling into a state of disrepair. Future CIPs must continue to expand to keep pace with the demand for renovations, major maintenance and upgrades to town facilities. The long-range impact of deferring these projects is an increase in the cost of maintenance and potential for the loss of use if facilities are allowed to deteriorate to the point that they are unsafe for public use.

### **Capital Improvement Program**

In addition to adding new facilities to meet the needs of the residents, the Town must maintain its investment in existing facilities by funding replacement, renovation and major repair projects through the CIP Fund. The budget for the FY09 CIP Fund is \$1,107,000, representing a wide range of projects including key technology projects that will improve communications and increase the efficiency of operations.

### **General Fund**

The General Fund budget adopted by the Council for 2008-09 totals \$49,621,000 and provides for the continuation of existing Town services.

### **Transit Fund**

The adopted budget for the Transit Fund includes a 9.6% increase over last year's budget. This increase is due in part to the increases in fuel and maintenance costs and the commitment to maintain a high level of service. In our efforts to minimize the tax rate increase this year for Chapel Hill taxpayers, we have increased the use of FTA formula funds for operations by supplanting formula capital funds with federal Surface Transportation Program funds allocated through the Metropolitan Planning Organization. The availability of these funds made it possible to offset an additional \$800,000 in operating costs. This action is a one-time fix that also reduces the previously projected costs allocated to the funding partners (UNC and Carrboro) for FY 2008/09. Significant challenges lie ahead in FY 2009/10 if we do not take steps to reduce costs and/or seek

alternative sources of funding. In order to mitigate these challenges and to operate a more cost effective system, Chapel Hill Transit staff will:

- Evaluate individual route performance and introduce efficiencies as part of the short range planning process
- Identify additional funding options
- Develop short range operating and capital plans to identify future system needs

The budget for the Transit Fund for fiscal year 2008-09 totals about \$16.25 million. Major revenue sources include Federal and State operating assistance, University and Town of Carrboro contract payments, and local property taxes.

<b>Revenues</b>	<b>Adopted Budget</b>	<b>Percent of Total</b>
UNC Contract	\$ 6,005,404	37%
State Assistance	3,545,519	22%
Carrboro Contract	1,033,837	6%
Federal Assistance	2,201,666	14%
Property Taxes	2,985,869	18%
Service Charges	480,105	3%
<b>Total Revenues</b>	<b>\$ 16,252,400</b>	<b>100%</b>

### **Conclusion**

The FY2008-09 budget takes an important step toward ensuring adequate resources are available to pay for the recent investments in public facilities. While the Town has been able to avoid tax increases over the past two years, the pressure of higher costs and additional debt service have necessitated a significant tax increase. In addition, changing how we allocate our tax dollars, using the debt service fund to accumulate resources for the payment of all debt service through a dedicated portion of the property tax, we can better match our most consistent revenues with the highest priority payables. I am confident that the adopted budget for 2008-9 will maintain basic services at a level consistent with the 2007-08 fiscal year. In addition, with the 5.9 cent tax increase, this budget takes a major step toward addressing the ongoing operating and debt service costs for new public facilities.

Respectfully Submitted,



Roger L. Stancil  
Town Manager

