



Council Retreat Financial Update

February 4, 2011



Agenda

- Economic Conditions
- Budget Strategies
- Where are we?
- YTD Results
- FY2011-12 Budget Issues
- Principles for Developing 2011-12 Budget



Economic Conditions

- Slow Recovery
 - Nationally recovery of lost jobs will take 6-8 years at current rate of growth
 - Economy-based revenues stagnant
 - Stimulus money going away
 - More than half of states facing 20% + deficits

Source: NCGA Fiscal Research Division

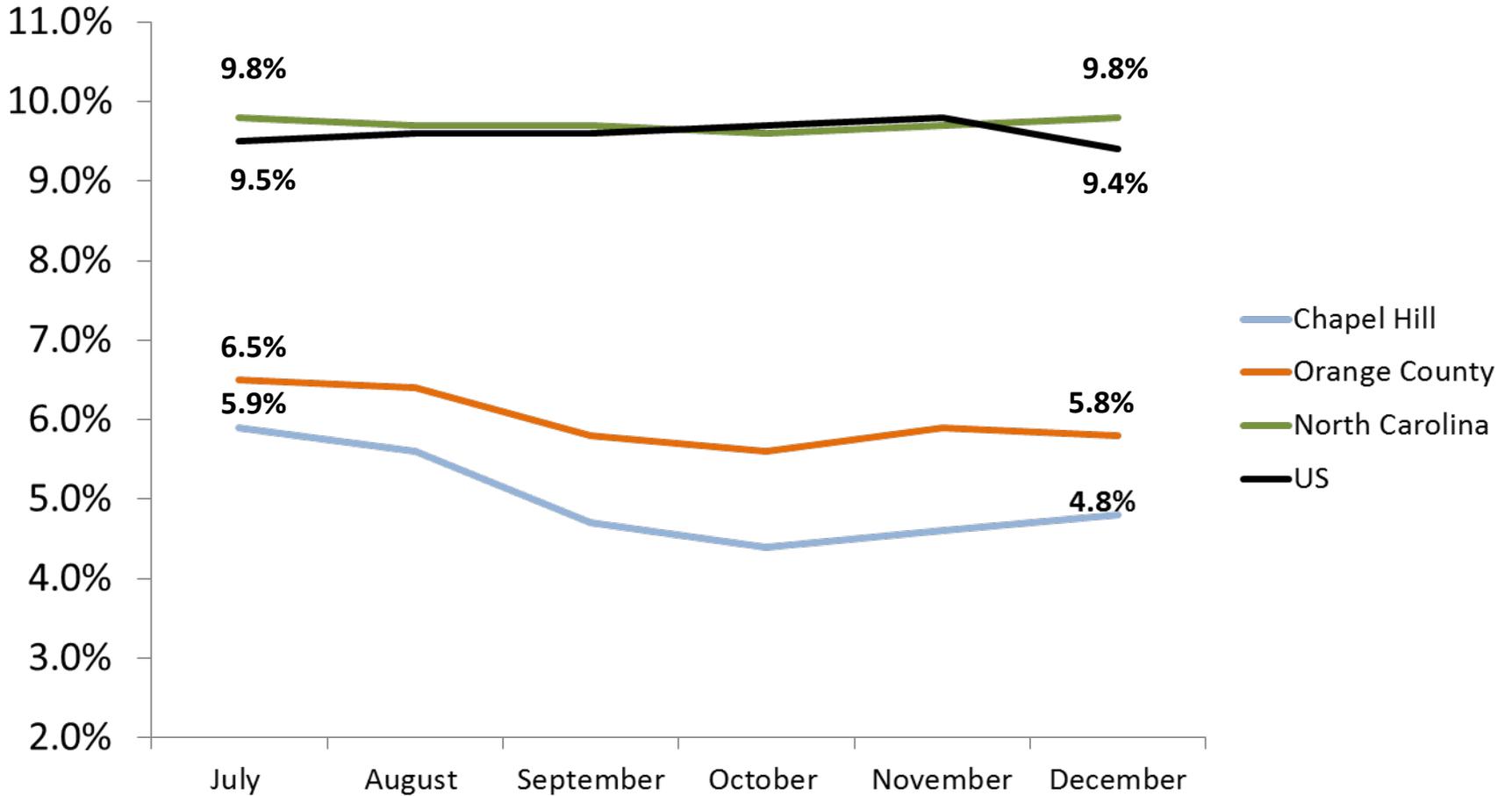


Local Economic Indicators

- **Unemployment** – Lowest in State, but we are vulnerable to second wave of job losses that will hit State Governments
- **Sales Tax Receipts** – Appears to have stabilized, but probably will not return to pre-crisis levels until employment improves state-wide



Unemployment



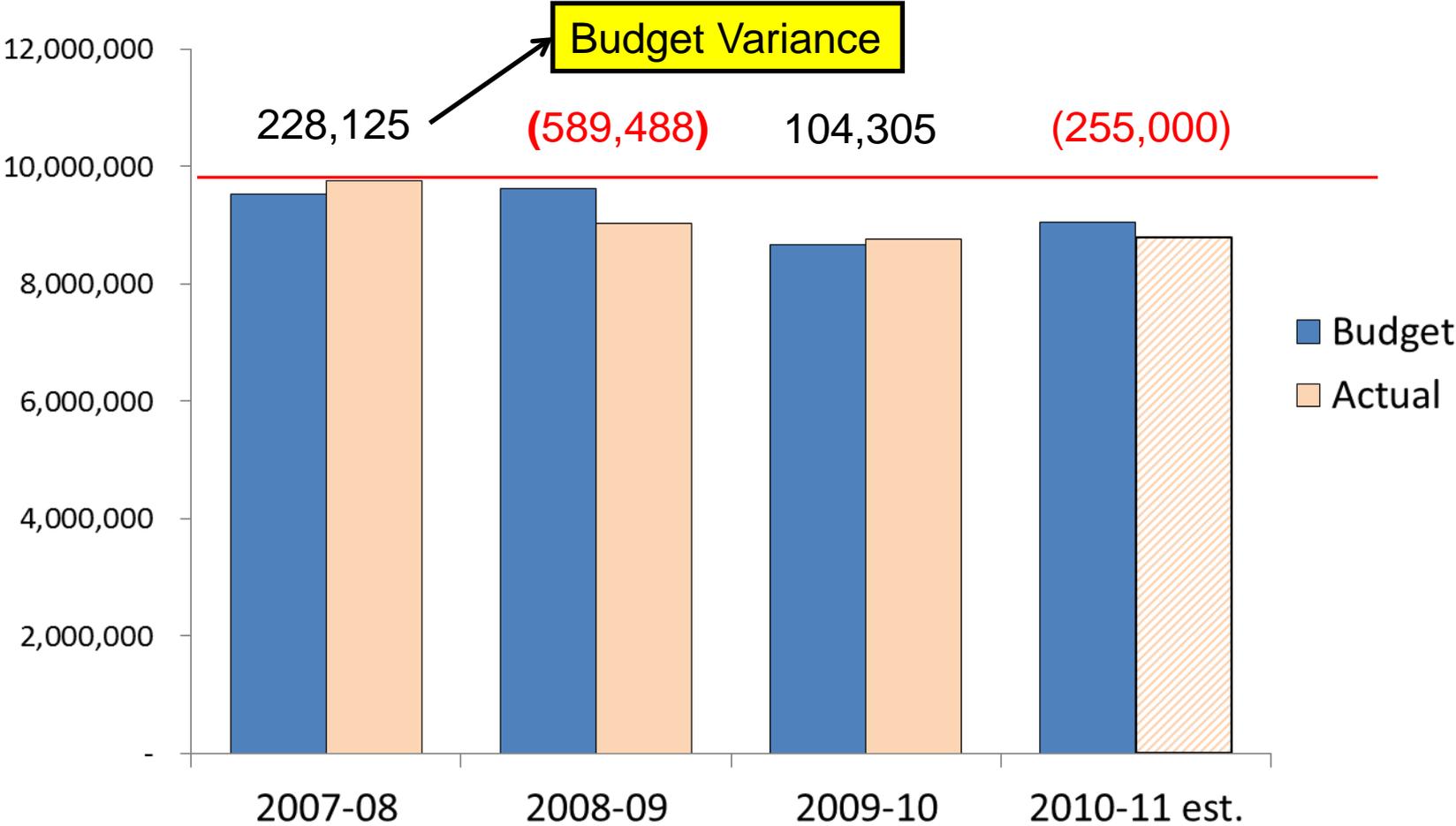


Sales Tax Collections

- Sales Tax Collections are the most vulnerable of Town revenues to economic fluctuations
- Sales Taxes have dropped to 17.2% of total General Fund revenues – down from 19.2% in 2007-08. A loss of about \$960,000.
- Due to the distribution method Town sales taxes have exposure to both local and State-wide economic changes

Sales Tax Receipts Budget vs Actual

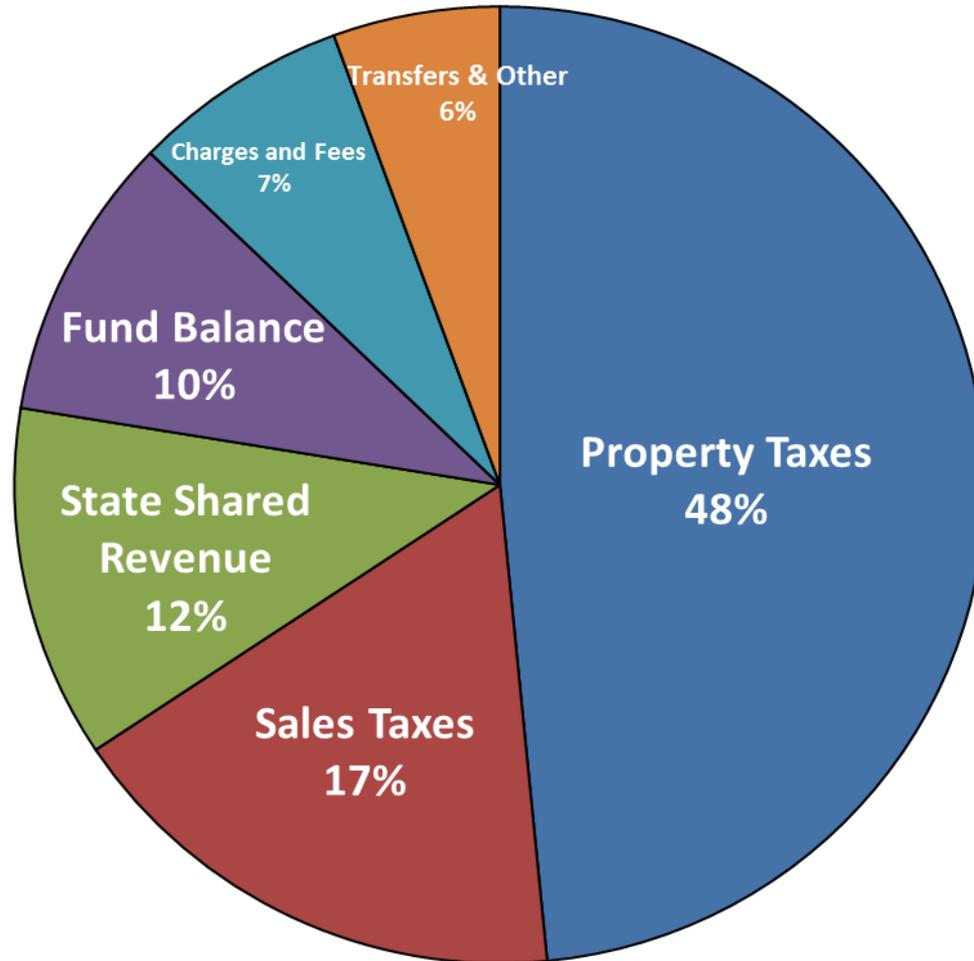
FY2007-08 thru 2010-11





General Fund Revenue Structure

FY2010-11





Budget Strategies for an Economic Crisis

- Defer non-critical Long-term Commitments
- Maximize Savings in Current Budget Year
- Use strategies that have least impact on Long-term employees
- Maintain Fund Balance
- Monitor economy based revenues
- Avoid tax increase

Where are we? The new reality of slow recovery

- 2 Years past worst economic downturn since the Great Depression
- Technically we are in a recovery
 - A very slow jobless recovery with an economy that is sending mixed signals
- Governments are the next crisis area
 - Stimulus has dried up and revenues are not rebounding as they have in past cycles
 - More than 30 state have projected deficits of 20% or more for 2011

Adjusting to a Slow Recovery

- The short-term budget balancing strategies are not effective in the long-term
 - Delay capital investment, defer maintenance and reduce discretionary spending is not a sustainable solution
- Our trusty roadmap for dealing with downturns is no longer useful, we are in uncharted territory
- We are now orienteering, without a set route or proven formula for finding our way



Budget Strategies for Economic Recovery

- Re-set service levels to match available revenues
- Adopt program budgeting to avoid across-the-board budget “non-decisions” and to identify options to adjust service levels
- Make strategic investment in CIP consistent with capacity
- Make investments for future cost savings
- Incentivize departmental savings



Program Budgeting

- Emphasis on services rather than line items
- Define service units within each department
- Budget actions targeted to specific programs rather than across-the-board
- Reduces organization-wide dilution of service quality caused by random cuts
- **Creates difficult service level decisions**

Managing the Current Budget

- We are continuing to use budget strategies to save money in the current year to help balance next year's budget, including:
 - Filling vacancies strategically
 - Controlling discretionary spending
 - Incentivizing savings
- Based on mid-year expenditure levels we are on target to save \$3.2 million (6%) in the current year's budget. Our goal is 8%.

Comprehensive Financial Plan

- Workforce and Compensation Planning
- Resource Allocation
- Program Prioritization
- Capital Improvement Plan
- Revenue Forecasting & Planning

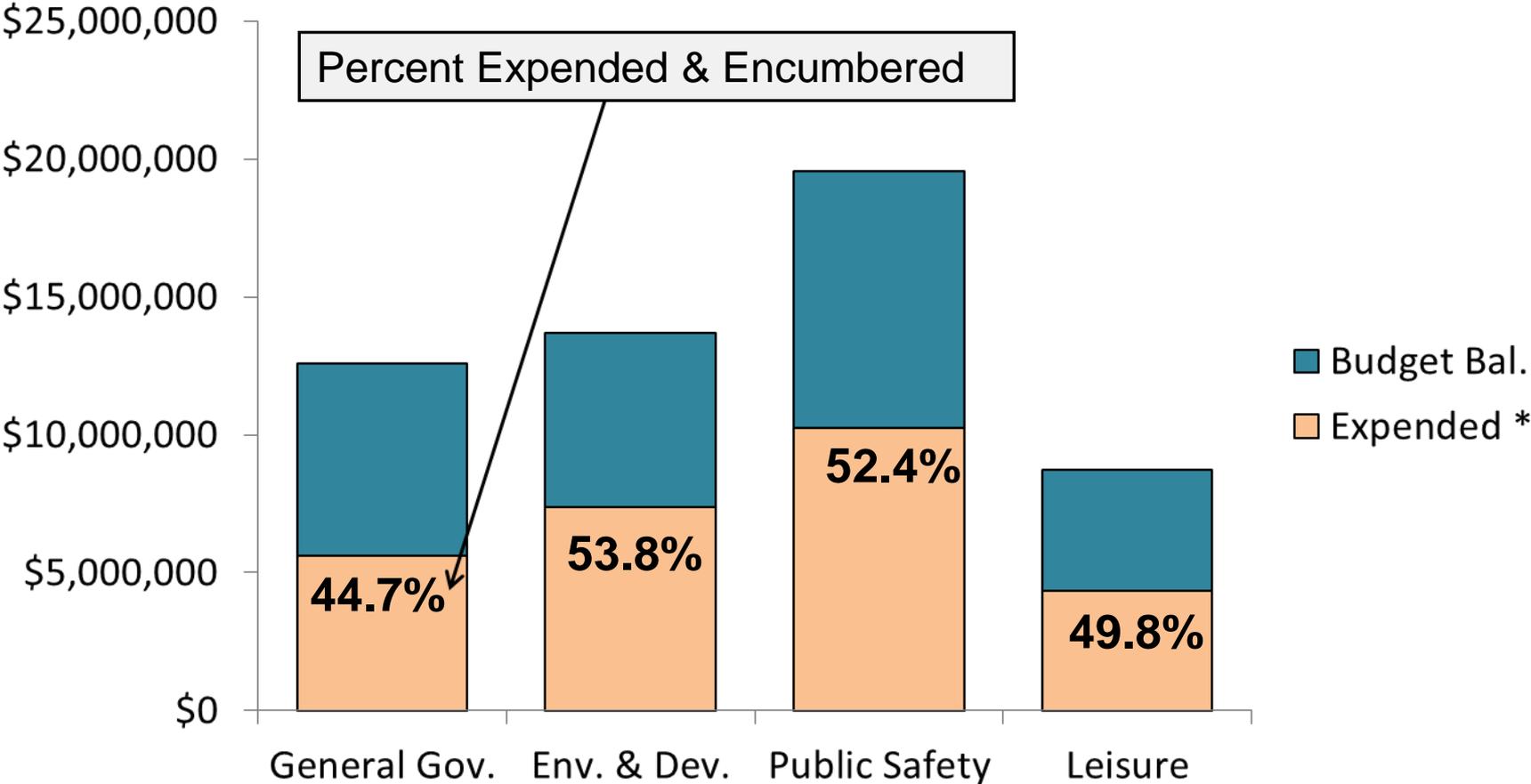
Year-to-date Results - Revenues

- Current year revenues are projected to be about \$900,000 less than budgeted
- The following major revenue sources have projected short-falls
 - Sales Taxes (\$255,000)
 - Inspection Permits (\$200,000)
 - Wine & Beer Tax (\$81,180)
 - Powel Bill Funding (\$40,276)
 - Traffic Signals (\$55,700)

Year-to-date Results - Expenditures

- With the following exceptions expenditures are within budgeted range for this time of year
 - Generally personnel costs are **slightly** higher than last year due to fewer vacancies
 - Expenditures tend to be higher in the first half of the year due to encumbrances for LT contracts
 - Budgetary savings in the current year are needed to minimize use of Fund Balance

Percent of Budget Expended at Mid-YR



**Includes Encumbrances*



FY 2011-12 Budget Issues

- Property Tax Rates
- Sales Tax Distribution
- Employee Costs Increases
 - Cost of Living
 - Health Care & Pension
- Intergovernmental Relationships
- Fund Balance Use
- Capital Needs



Property Tax Rates

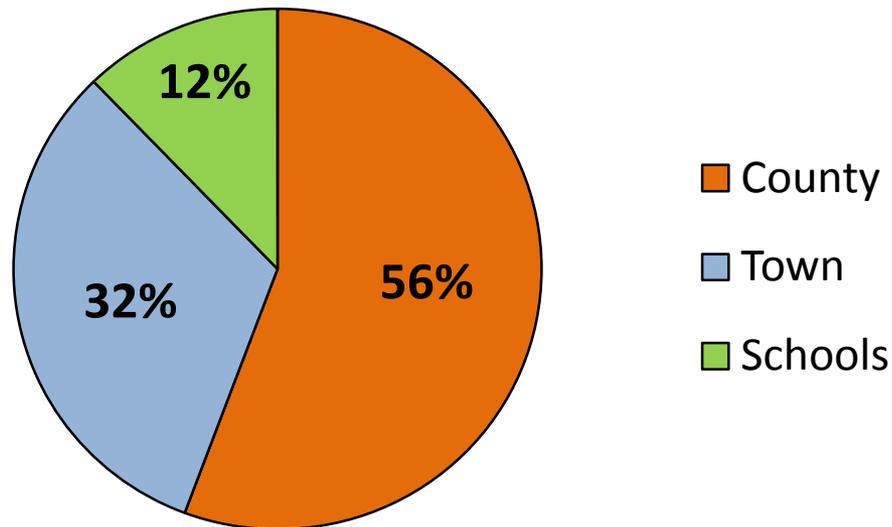
Town	FY2007-08	FY2008-09	FY2009-10*	FY2010-11
General Fund	47.4	53.3	36.0	36.0
Debt Service	0.0	0.0	9.3	9.3
Transit	4.8	4.8	4.1	4.1
Total	52.2	58.1	49.4	49.4

One cent on the tax rate = \$700,000

** Revaluation Year*

Property Tax Burden

Jurisdiction	Tax Rate	Assessed Value	Property Tax
Town	49.40	300,000	\$ 1,482
County	85.80	300,000	2,574
Schools	18.84	300,000	565
All Jurisdictions	154.04	300,000	\$ 4,621



Sales Tax Overview

- Sales taxes are collected at the State level and the local portion is distributed back to the counties and cities based on either a per capita or ad valorem basis
- The counties at their sole discretion can select between the two distribution formulas
- Changes to the distribution method must be made in April by the County Commissioners and would take effect the next fiscal year

Impact of Change in Sales Tax Distribution Method

- Orange County currently distributes sales taxes on the per capita basis
- If Orange County were to change to ad valorem distribution, the Town's portion of the sales tax distribution would be reduced by approximately **\$2.5 million.**

Employee Compensation Strategy

- Balance wages and benefits in a way that allows the Town to retain existing employees and keeps us competitive in the job market, while controlling overall employee costs so as not to create a increasing gap between revenue and expenditure growth.
- **Excellent employees provide excellent service**

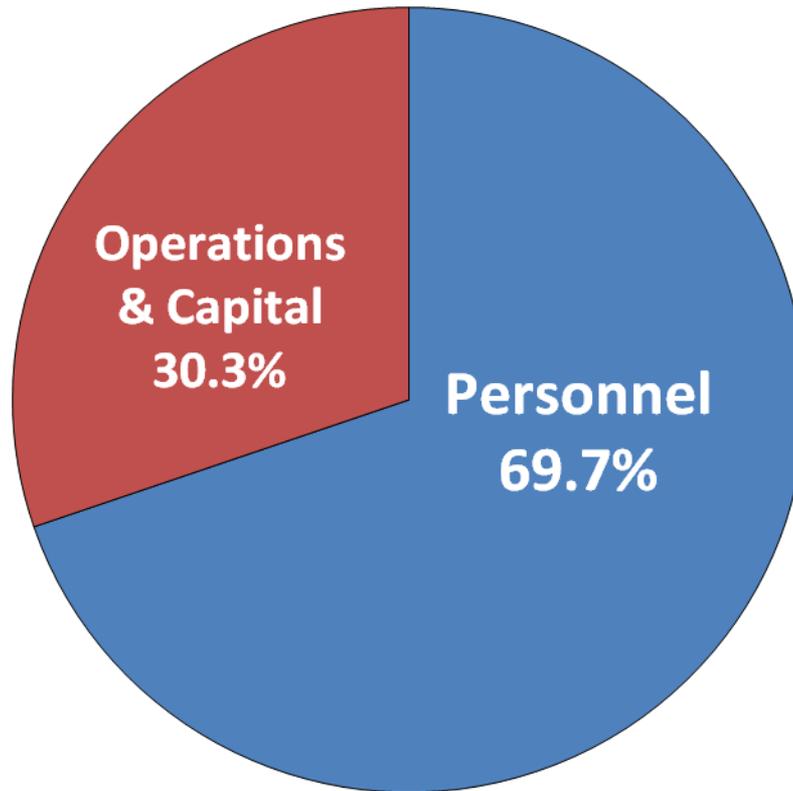


Personnel Costs

- Personnel costs represent 70% of GF non-capital expenditures
- Medical Benefits are increasing at double digit rates (11.4%) past five years
- Employees last received a COLA of 3% in 2008-09. FT Employees also received a flat rate payment of \$800 in 2010-11
- Employer pension contribution increasing by 7.7%



General Fund Personnel Costs FY2010-11





Cost of COLA Increase

Fund	1% Increase	2% Increase	3% Increase
General Fund	\$ 290,900	\$ 581,800	\$ 872,700
Transit	83,240	166,480	249,720
Parking	5,515	11,030	16,545
Housing	9,142	18,284	27,426
Stormwater	8,494	16,988	25,482
Total All Funds	\$ 397,291	\$ 794,582	\$ 1,191,873

The cost of the 2010-11 \$800 payment to employees was \$453,204 for the General Fund and \$223,733 for all other funds.



Cost of Medical Insurance and Pension Contribution

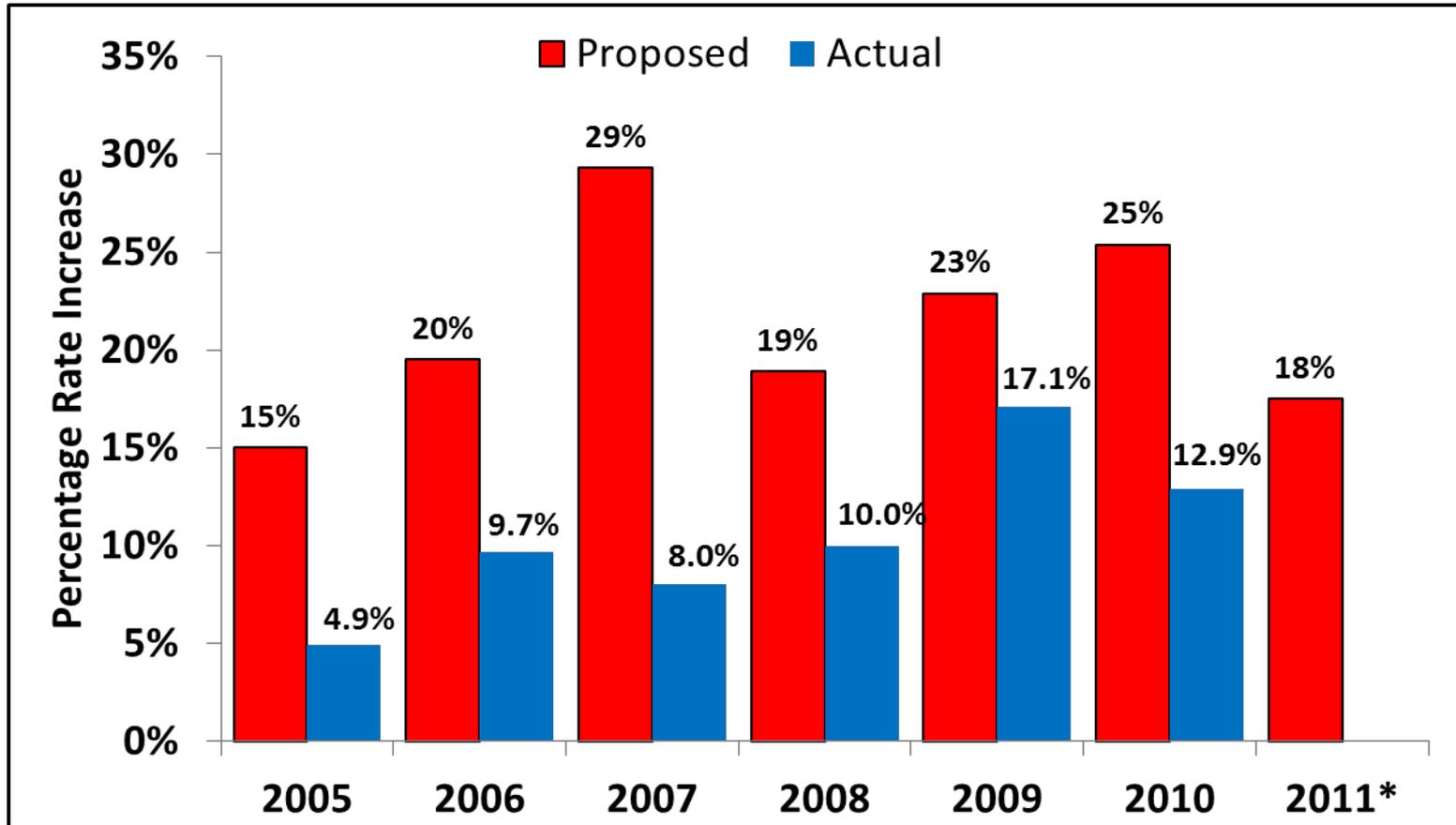
Fund	17.5% Increase*	7.7% Pension Increase
General Fund	\$ 807,919	\$ 128,620
Transit	259,690	36,995
Parking	18,429	2,466
Housing	27,888	4,071
Stormwater	24,763	3,780
Total All Funds	\$ 1,138,689	\$ 175,932

* Based on preliminary renewal quote from BCBCS



Medical Insurance Cost

11.4% Average Annual Increase since 2005



* 2011: Preliminary renewal quote from BCBS

Living Wage

- On January 25, 2010, the Council adopted a resolution to establish a living wage policy for all full time employees with a wage rate of not less than seven and one-half percent (7.5%) above the Federal Poverty Guidelines, as defined by the Bureau of Census, for a family of four.
- An automatic adjustment will be calculated on an annual basis and incorporated into the Town's pay plan as part of the annual budget process. Adjustment for 2011-12 will be reported to Council in February
- This adjustment methodology is based on guidelines set by the Bureau of Census, which we believe to be a credible data source, and consistent with the living wage rates of local entities surrounding Chapel Hill.
- The Town's current living wage rate is \$11.40



Intergovernmental Relationships

The Town has numerous intergovernmental arrangements with bordering municipalities, the County, the State and the University.

- Some of these arrangements have significant financial implications, such as:
 - County sales tax distribution formula
 - State road maintenance
 - University and Carrboro participation in bus system

Relationship with Orange County*

- Mutual aid agreement for police services.
- Appoints two members to Orange County Solid Waste Advisory Board; provides landfill and recycling services to Chapel Hill.
- Operates 911 emergency communications system.
- Participates in Joint Planning Agreement.
- Appoints two members to OWASA board of directors.
- Provides jail services for Chapel Hill.
- Provides tax assessing and collection services; Chapel Hill provides a tax collection service point for Orange County.
- Provides grants to Chapel Hill for recreation, library services, Project Turnaround and Retired Senior Volunteer Program.
- Open facilities policy for recreation services.
- Enforces soil and erosion control ordinance in Town of Chapel Hill.
- **Determines distribution method for Sales Taxes**

** In most cases County provides similar services to other municipal governments located in the County*

Relationship with State

- The State established the Town by granting a municipal charter.
- The Town's powers are granted by the State, and the State imposes limits on the powers of the Town.
- The State constructed and maintains a road network within the Town limits.
- The State is the conduit for transportation improvement funds used to maintain roads and to maintain and operate the transit system.
- **The State collects certain taxes and distributes proceeds to the Town (sales tax, beer and wine tax, etc.) that amount is nearly one third of the total General Fund revenues in normal years.**
- Town provides maintenance service for traffic signal system in Chapel Hill and Carrboro for the State.

Relationship with UNC

- **Purchases fixed-route transit service from Chapel Hill; provides own service to supplement EZ-Rider service provided by the Town; provides Point-to-Point transportation service for students, staff and faculty.**
- Provides refuse collection and recycling services for University properties.
- Traffic signals and town streets in University campus area are maintained by Chapel Hill.
- Fire protection services are provided by Chapel Hill; **University budget contributes part of the revenues used by the state to pay part of the cost of fire protection services.**
- Mutual aid agreement for police services and other emergencies.
- Must submit development applications to Chapel Hill when sites are within the Chapel Hill zoning jurisdiction.
- Joint Staff Committee meets quarterly.



Projected GF Budget FY2011-12

- Revenues \$ 48,535,000
- Expenditures 53,783,000
- **Projected Deficit \$ 5,248,000***

*** Before use of fund balance/budget savings**

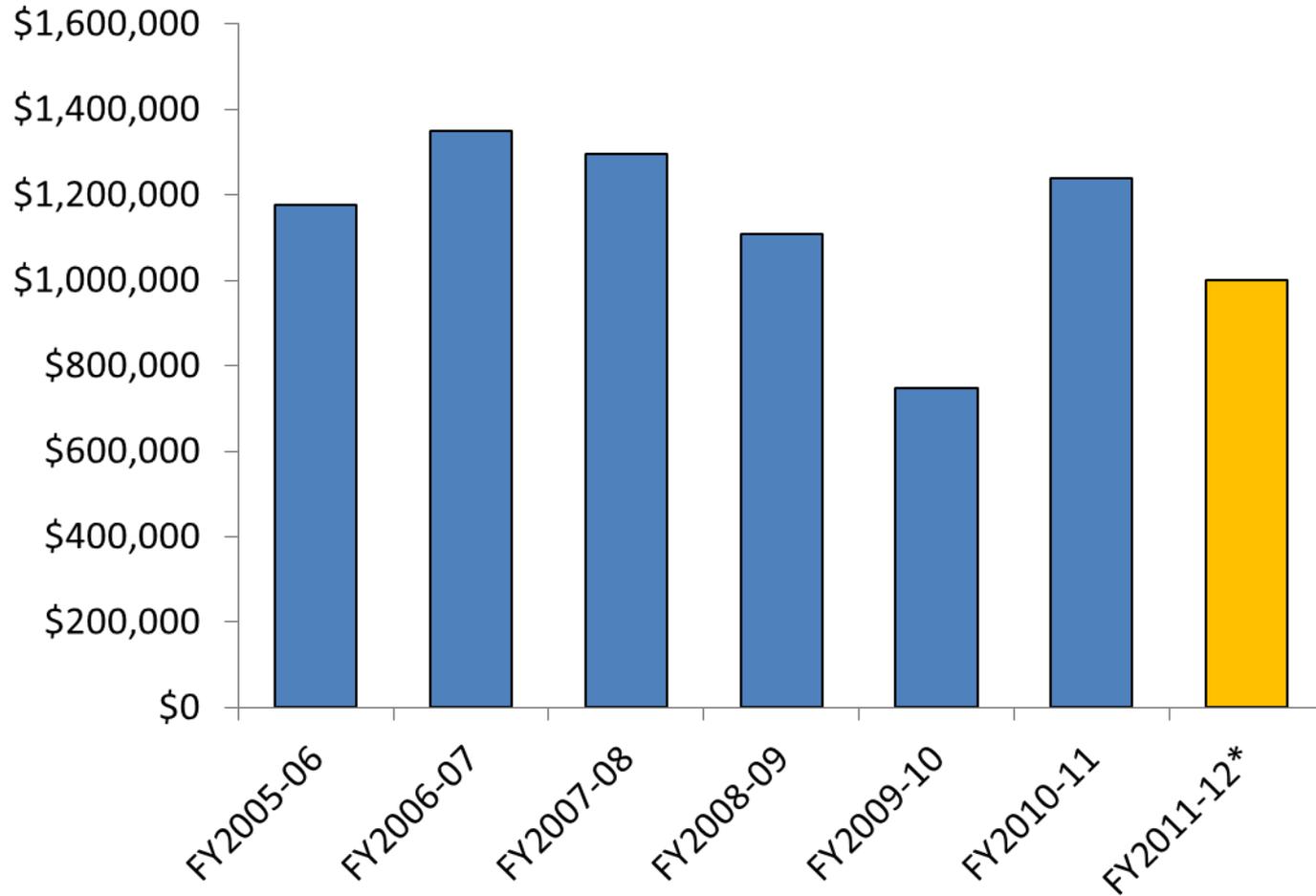
Assumptions: Revenues will increase 2% (\$0.99m)
No COLA, health insurance up 17.5%
No change in tax rates

Capital Planning

- The Town's 15 year Capital Plan consists of annually funded pay-as-you-go projects and larger multi-year projects funded through debt and/or other dedicated funding sources
 - The Town has funded about \$1 million of pay-as-you-go CIP projects each year
 - The Staff CIP Committee has prioritized CIP projects for the FY2012-27 Capital Plan



CIP Pay-go Funding FY06-12



* Recommended Funding



Recommended Projects for FY2011-12

<u>Project</u>	<u>FY12 Budget</u>
Greenways	\$ 70,000
Playground Replacement Program	70,000
Extraordinary Maintenance	90,000
Curb Cut Improvements	30,000
Small Parks Improvements	85,000
Parking Lots, Paths & Trails	50,000
Street Infrastructure Improvements	85,000
Municipal Fiber Optic Cable	90,000
Battle Branch Trail	79,000
Modular Health Clinic	165,000
Parks ADA Improvements	40,000
Police Technology Upgrades	96,000
Pond & Dam Rehabilitation	<u>50,000</u>
Total	\$1,000,000



Future Bond Projects

- **The CIP Committee identified the projects below as possible future bond projects:**

<u>Project</u>	<u>Total Cost</u>
New Public Safety Headquarters	\$ 16,620,000
Parks Building	5,600,000
523 East Franklin Renovations	2,214,000
Town Hall Renovation	4,840,000
100 W. Rosemary Renovation	2,483,500

Future Debt Capacity

- Debt service costs for the \$20.41 million of GO debt were less than expected
- The Town's debt retirement is relatively aggressive
- **Based on the projected cash flows in the debt fund the Town could issue about \$20 million in new debt in FY2012-13**

	DEBT SERVICE FUND PROJECTIONS				
	Revenue (1)	Existing Debt Service	New Debt Service (2)(3)	Surplus	Fund Balance
FY2008-09	\$6,365,232	\$5,969,584	\$0	\$395,648	\$1,043,175
FY2009-10	6,513,000	5,885,000	-	628,000	1,671,175
FY2010-11	6,549,000	5,126,089	269,245	1,153,666	2,824,841
FY2011-12	6,660,000	4,984,883	1,593,540	81,577	2,906,418
FY2012-13	7,330,000	4,715,005	2,123,140	491,855	3,398,273
FY2013-14	7,446,250	4,567,371	2,078,790	800,089	4,198,362
FY2014-15	7,552,500	4,119,713	2,044,640	1,388,147	5,586,509
FY2015-16	7,665,290	3,704,775	2,000,290	1,960,225	7,546,734
FY2016-17	7,780,358	3,578,850	1,955,940	2,245,568	9,792,302
FY2017-18	7,897,744	3,148,988	1,911,590	2,837,166	12,629,468
FY2018-19	8,017,491	3,032,013	1,857,040	3,128,438	15,757,906
FY2019-20	8,139,641	2,647,363	1,812,690	3,679,588	19,437,494

1) Beginning FY2012-13 revenue includes transfer from Parking Fund for Lot 5 debt service

2) Includes \$20.41mil GO Bonds in Fall of 2010 (actual rates) and issuance of \$5.4 mil for Lot 5 FY2012-13

Level Principal Structure, 20 year term., 5% interest

3) Includes Net Interest Costs for BABs



Next Steps

- March 28th – HOME & Community Dev. Public Forum
- April 18th - Budget Status Report
- April 25th – HOME & Community Development Plans
- May 9th - Budget Work Session – Managers
Recommended Budget
- May 11th – Budget Work Session
- May 16th - Public Hearing & Budget Work Session
- June 13th – Adoption of FY2011-12 Budget



Principles for the Development of the FY2011-12 Budget

- No tax increase
- Protect jobs
- Identify any program changes needed to achieve no tax increase
- Use excess fund balance for one-time capital & other needs and retain safety margin (target 15%)
- Position Town for the New Economy