

**Budget Questions and Requests for Information
2013-14 Recommended Budget
QUESTION 12**

QUESTION: What tradeoffs were made in developing the FY14 Budget that will have an impact of the FY15 Budget?

RESPONDENT: Kenneth C. Pennoyer, Business Management Director

RESPONSE: The FY14 Budget includes a number of key decisions, compromises and tradeoffs that will impact subsequent budgets. As you know, operating budgets are adopted annually, but the decisions represented in each budget have consequences that last far longer than one year. Listed below are some of the significant decisions made in developing the FY14 recommended budget with projections of their impact in future years.

Budget Impacts FY15 and Beyond	FY15 (General Fund)	FY15 (Other Funds)	Subsequent Years
County Recycling Changes	\$ 1,290,000	\$ -	\$ -
Class & Comp Plan Implementation	538,688	241,318	-
Library Hours	235,000	-	-
Street Resurfacing	550,000	-	-
Expansion of Retiree Healthcare Defined Contribution	380,000	120,000	178,360
Transit Costs	-	TBD	TBD
Transfer Station for Solid Waste	-	-	280,000
FY14 Pay adjustment - full year differential	148,000	56,270	-
Total	\$ 3,141,688	\$ 417,588	\$ 458,360

These costs do not include employee pay adjustments, increases in medical insurance costs or potential increases in other operating costs such as fuel and utilities. Any increase in these costs along with the costs listed above would need to be absorbed in the “natural” growth of the Town’s revenue base, unless there is an increase in tax rates. Natural revenue growth in the general fund is expected to be between \$500,000 and \$800,000 for FY15.

- **County recycling services changes** – Due to legal issues the County may no longer provide recycling services in the Town of Chapel Hill on the same basis as they have in the past. The Town may wish to explore other options to continue the service within the Town limits. We are currently working with the Town’s waste management consultant to identify and price options. Preliminary estimates of the cost for the Town to provide recycling services are about \$640,000 for one-time set-up costs and \$650,000 for contractual recycling collections services.
- **Classification and Compensation Plan implementation of phase three** – The proposed phase three of the Classification and Compensation plan involves compensating

employees for their time-in-grade. The recommended budget does not include the proposal for two reasons. First, the cost is significant. Second, developing recommendations on compensation strategies based on the adopted compensation philosophy deserves discussion with our employees. We plan to have those discussions in the Fall and report to Council in January 2014 about the results of these discussions and the costs of the strategy options we develop. Our goal is a balanced system that acknowledges performance, skills and experiences that employees bring to the job as well as tenure. The implementation cost of the proposed phase three is considerably higher than that of phases one and two because of the number of long-tenured employees working for the Town. The full year implementation cost for the proposed Phase III is \$716,838, which includes 19.72% for benefits. Phase I and II are being implemented in October of 2013, therefore the cost for FY14 will be 25% less than the full year implementation costs for FY15. The incremental increase in cost for Phase I and II for FY15 is \$63,168 as shown in the table below. The additional cost in FY15 assuming full-year implementation of the proposed Phase III would be \$780,006.

Class and Comp Plan Implementation Costs for all Funds (includes 19.72% for benefits)			
<i>Class & Comp Phases</i>	Class & Comp Costs with Benefits		
	Full Year Cost All Phases	Implementation (I & II) October 1, 2013	FY15 Cost for Phase I & II (full year)
Adjustment to Proposed Range Minimum (I)	\$ 15,523	\$ 11,643	\$ 15,523
Adjustment to Closest Step in Proposed Range (II)	237,149	177,862	237,149
Time in Grade Adjustment (III)	716,838	N/A	N/A
Total Cost FY2013-14	\$ 969,511	\$ 189,505	\$ 252,673
FY2014-15 Cost Differential	\$ -	\$ 780,006	\$ 63,168

- **Library hours** – The recommended budget funds the expanded Library for a 58 hour week. Increasing the number of weekly hours the Library is open to the pre-expansion level of 68 hours per week would cost an additional \$235,000.
- **Street Resurfacing** - As an interim measure to help balance the General Fund Budget, the Town used bond proceeds as a funding source for the annual street repaving program beginning in FY12. For FY12 and FY13 the Town used about \$600,000 in bond funds for the annual street resurfacing program. The general obligation bonds available for that purpose have been exhausted and for FY14 we are recommending the use of Two-thirds Bonds funds that are available due to a delay in the Bolinwood Bridge project created by a lack of funding. This will make \$380,000 in bond funds available to augment the \$111,000 in the operating budget. Together these two sources are still only about 74% of the typical annual street resurfacing budget. Increasing the operating budget to restore the resurfacing program to its normal level would cost an additional \$550,000 in the FY15 budget.
- **Changes to retiree healthcare for non-vested employees** - Beginning in FY11 all new Town employees have been enrolled in a defined contribution rather than a defined benefit plan for retiree health care. The defined contribution plan does not create a long-

term funding responsibility for the Town, thereby eliminating the growth of the long-term retiree healthcare liability. There are currently 116 members of the defined contribution plan.

In order to further reduce the long-term liability for retiree health the Town could expand the defined contribution plan to include additional employees. The logical group to move to the defined contribution plan is employees that have less than 5 years of service because they are not vested in the defined benefit plan. The legal structure of the defined contribution plan requires that all employees that are members of the defined group, in this case all employees with less than 5 years of service, are required to join the plan. There is no way to opt out of joining the plan, it is mandatory. The Town may want to consider compensating employees for the time they have toward vesting in the defined benefit plan that they lost due to their inclusion in the defined contribution group. An amount equivalent to the annual flat rate the Town currently contributes to the defined contribution plan (\$910) multiplied by the number of years of service would match the contributions that the Town would have made had they joined the plan when they were hired. The total cost of providing the lump sum would be about \$500,000. It would also reduce the number of covered employees by 20%, thereby reducing the long-term liability by a proportional amount. We believe investing in this strategy in a manner that is equitable for current non-vested employees is a more effective way to address our OPEB liability than making a similar contribution to the Town's future liability.

- **Transit costs and declining State and Federal support** – The recent trends in State and Federal funding of Chapel Hill Transit suggest further financial difficulty in the future that could potentially jeopardize the fare-free nature of the service. In order to develop a sustainable plan for long-term operations of the Transit System, we are working with the Systems funding partners to engage a firm to develop a Financially Sustainable Long-Term Strategic Plan. It is anticipated that the study will be completed in FY14 and the cost will be covered by Transit grant funding.
- **Transfer Station Decisions** - Due to the unexpected early closure of the Orange County Landfill, the Town has been forced to make alternative arrangements for the disposal of solid waste. The short-term solution is to haul solid waste to Durham in collection vehicles. The long-term solution will, most likely, include the creation of a transfer station. There is a \$3 million project listed in the long-term capital plan for the construction of a transfer station on Town property. Based on the timeline for planning and constructing a transfer station on Town owned property the annual debt service payments would start no sooner than FY16 and would be approximately \$280,000 per year assuming level principal, 20 year debt at 4%. An alternative approach we are pursuing is soliciting private interest in building and operating a transfer station for the Town. That option would also likely include increased operating costs for the Town
- **Asset Management Decisions** – Generally, with the exception of planned open space, the Town has no interest in holding land and buildings for which there are no plans for future public use. In some cases these assets could be put to better use by placing them on the market so that they could generate economic impact under private use and also

generate tax revenue for the Town. In addition, the proceeds of the sale of these properties could be used to off-set the cost of capital projects. Budgetary impacts related to the sale of Town owned property would be primarily capital due to the one-time nature of the transaction. In some cases there may be savings from reductions in maintenance and insurance associated with the sale. As individual properties are brought to Council for consideration under the asset management plan, an estimate of budgetary impacts will be provided.