



MANAGER'S OFFICE
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June 9, 2014

Dear Mayor Kleinschmidt and Members of the Chapel Hill Town Council:

In accordance with the Local Government Budget and Fiscal Control Act, I hereby submit the adopted annual budget for the Town of Chapel Hill for Fiscal Year 2014-15.

At the 2014 Council Planning Retreat, we began our discussion of Council Goals and specific budget challenges that we face for FY2014-15 and beyond. Based on our discussion we developed draft Council Goals for FY15 and FY16 based on the following overarching community goals:

Create a Place for Everyone



Support Community Prosperity



Facilitate Getting Around



Develop Good Places, New Spaces



Nurture Our Community



**Grow Town and Gown
Collaboration**



Draft Council Goals can be found on the Town’s web-site. These goals are intended to form a bridge between the long-term vision developed during the Chapel Hill 2020 process and the annual budget, helping to ensure that our incremental short-term decisions ultimately take us to the destination that we envisioned as a community.

No journey, no matter how well planned, is without obstacles, detours and delays. It is part of the character of this community to set our sights high and our ideals higher. Becoming the community we envision requires us to address and overcome significant challenges on many fronts.

As part of our annual budget process we have identified specific challenges that are described in this message. These challenges, shown in the table below represent some, but not all, of our most pressing issues that the Town will be dealing with over the next several years.

Budget Challenges

| Capital | Operating | Policy |
|--------------------------|-----------------------|------------------------|
| Transfer Station | Youth Services | Transit Sustainability |
| Asset Management | CIP Funding Target | Northside Community |
| Town Hall Project | Library Operating | Rogers Road |
| Ephesus Fordham | Compensation Plan | Affordable Housing |
| Parks Master Plan | Healthcare Costs/OPEB | Referendum |
| Bike & Pedestrian Plan | Street Resurfacing | |
| Public Safety Facilities | Recycling | |
| Parks & Rec. Facilities | | |

In addition to planning resource allocation for the delivery of services, we are also thinking about how we plan, organize and execute the delivery of those services. To assist in that effort we will continue to develop and use the following tools to focus our energy toward achieving Council Goals:

- Strategic Planning
- Asset Management
- Systemic thinking
- Performance metrics
- Strategic Partnerships
- Priority Budgeting
- Human resource development

The Adopted Budget addresses these challenges and moves the Town forward to achieve Council Goals. The Adopted Budget is balanced with a 1 cent tax increase allocated to the Debt Service Fund. There is a small increase in the use of non-current revenues and increases to certain fees in order to off-set the cost of operations. The Adopted Budget assumes growth in the property tax base of 1.0% and 6% growth in sales taxes. The Adopted Budget includes an allowance for a pay increase for all regular Town employees equivalent to 3% of their respective market salary for each pay grade and a 7% increase in the cost of employee medical insurance for active employees.

The following table compares the FY14 Adopted Budget with the FY15 Adopted Budget.

| Fund | FY14 Adopted | FY15 Adopted | Incr./Decr. | Incr./Decr. % |
|-----------------------------|-------------------------|-------------------------|--------------------|----------------------|
| General Fund | \$53,946,374 | \$57,400,712 | \$3,454,338 | 6.40% |
| Transit Funds | 19,759,665 | 20,510,813 | 751,148 | 3.80% |
| Stormwater | 2,702,517 | 2,540,516 | (162,001) | -5.99% |
| Parking Funds | 1,714,729 | 1,638,455 | (76,274) | -4.45% |
| Housing | 1,909,589 | 2,347,420 | 437,831 | 22.93% |
| Debt Service | 7,404,742 | 7,524,587 | 119,845 | 1.62% |
| Capital Projects | 828,500 | 849,856 | 21,356 | 2.58% |
| Other Funds | 4,478,257 | 4,170,534 | (307,723) | -6.87% |
| Total | \$92,747,373 | \$96,982,893 | \$3,550,125 | 4.57% |

The increase in the General Fund budget is due mostly to the 3% of market pay adjustment, restoration of street resurfacing funds, the addition of 5 new positions, and the addition of the equivalent of 1 penny for housing. The Transit budget increase is due to the pay adjustment and the addition of funds to begin financing vehicle replacements. Both the Stormwater and Parking Funds show a reduction because of major one-time capital expenditures that occurred in FY14, while the Housing Budget increase is due in large part to the addition of one-time capital expenditures in FY15. The increase in the Debt Fund reflects additional funding from the 1 penny added to the tax rate. The additional revenue will be used to accelerate the Town’s capital improvement program. The reduction in “Other Funds” is due to a reduction in the amount of expected grants.

Background

Despite the poor economic climate since the fiscal crisis of 2008 and the sluggish pace of growth in the current recovery, the Town has made progress toward its goals. In each of the past five budget cycles we have made difficult choices to balance our need to maintain high service levels and to pursue forward-looking strategic initiatives, such as Chapel Hill 2020 and its implementation. Since 2008 our reality has been little or no revenue growth, while costs continued to increase. While we have seen an up-tick in revenues recently, we will need several years of consistent growth to fully recover from

the lost revenue growth since 2008 and to put the Town's capital investment program back on course.

In the General Fund, last year's 1 cent tax increase was a function of depressed revenue growth and operating cost increases including the increase in solid waste disposal costs and the cost of operating the expanded library. Likewise, the 1 cent increase in the Transit Fund Tax was a function of increasing costs, particularly maintenance, and the loss of grant funding.

Recycling

In the wake of the unexpected early closure of the Orange County Landfill, the Town has had to make difficult decisions regarding arrangements for the disposal of solid waste. One of these decisions is whether to continue to contract for recycling services through the County or to seek a new arrangement. Both the Town and the County conducted independent RFP processes to evaluate vendors. Due to economies of scale the responses to the County RFP were more aggressive. The County has entered into a five-year contract with the low bidder. We are currently negotiating a comprehensive interlocal agreement with the County that will cover at least a five year term beginning July 1, 2014. The Adopted Budget includes funding to continue use of County recycling services through authorization of the continued Recycling Fee to be collected by the County. The funding level is expected to be about the same as the current year cost.

Compensation Plan

Consistent with its Goals, Council adopted a "Compensation Philosophy that balances retention and recruitment, employee interests and financial sustainability". We initiated a comprehensive Pay and Classification Study aligned with that Philosophy and with the Town's "*Workforce of the Future*" initiative. The purpose of the study is to update the Town's classification and compensation system to better reflect the current responsibilities and market value of Town jobs. In essence, the Class and Compensation plan was a "reset" of our policy and practice of paying employees.

We have used the Class and Compensation plan to raise employees that were below the lowest step in their new classification to the minimum step and to move employees that fell between steps in the new pay scale to the next step in the new scale.

At this time, as we continue to evaluate compression and years-in-service issues through a cross departmental staff work-group. The work of that group will be completed in the Fall of this year for consideration in the 2015-16 Budget. This year, I have included a pay adjustment for FY15 of 3% of market rate for each pay grade. By centering the adjustment on the market rate for each pay grade, employees that are currently below market will get a higher percentage increase, while those that are above market will receive a lower percentage increase. This is consistent



Workforce of the Future

with the movement of salaries in the market. The cost of this adjustment is \$683,000 for the General Fund.

The Town’s ability to maintain a high level of service delivery and high customer satisfaction is directly attributable to the quality and dedication of our workforce. As shown in the table below, pay adjustments for FY09 through FY14 totaled 8.0% while inflation during that period was 9.75% (Bureau of Labor Statistics CPI Inflation Calculator). In order to keep up with inflation and to also provide an off-set to the increases in the employee cost of dependent care premiums that have increased far in excess of the rate of inflation, I have included a 3% of market salary adjustment for all regular employees. This increase is consistent with other jurisdictions in our area and will keep our pay rates competitive so that we can retain and recruit excellent employees.

| | Pay Adjustment | One-time Payment | Health Ins. Increase |
|------------------|-----------------------|-------------------------|-----------------------------|
| FY2008-09 | 3% | 0 | 10.0% |
| FY2009-10 | 0 | 0 | 17.1% |
| FY2010-11 | 0 | \$800 | 13.9% |
| FY2011-12 | 0 | \$800 | 10.1% |
| FY2012-13 | 3% | 0 | (3.0%) |
| FY2013-14 | 2% | 0 | 4% |
| FY2014-15 | 3% (of market) | 0 | 7.0% |

Street Resurfacing

As an interim measure, to help balance the General Fund Budget, beginning in FY12 the Town used bond proceeds as a funding source for the annual street repaving program. We continued this strategy in FY13 and in FY14 a combination of operating funds (\$111,000) and two-thirds bonds funds (\$380,000) were used to maintain the street paving program.

Recognizing the fact that bond funds are essentially “one-time” funds and street resurfacing is an ongoing program that is vital to our goal of supporting mobility throughout the Town, we are restoring operating budget funding of the Street Resurfacing program in the Adopted Budget. The FY15 Adopted Budget includes \$578,600 for street paving. Resurfacing priorities are based on the Town’s complete streets priorities.

Healthcare Costs / OPEB

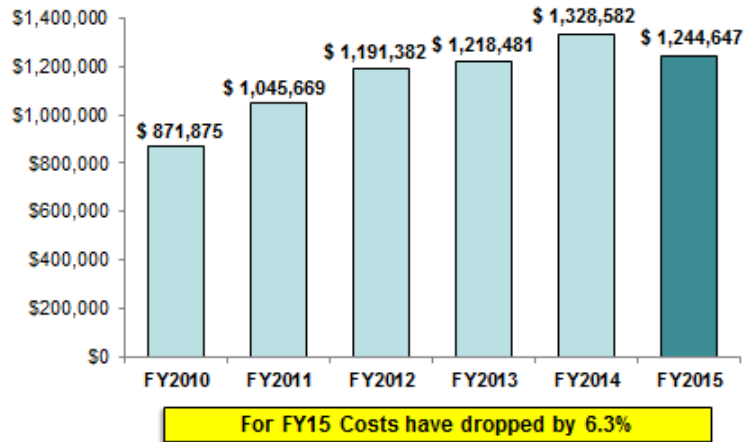
The Town’s commitment to paying healthcare expenses for retirees represents a major long-term liability and a significant annual budget cost. Steps taken in prior years have begun to show results, both in terms of reducing the long-term liability and slowing the increase in pay-as-you-go expenses.

Beginning in FY11 all new Town employees have been enrolled in a defined contribution plan 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 due to increases in the number of eligible employees. Currently there are 150 employees enrolled in the defined contribution plan. Based on the last actuarial valuation (December 2012) the Town's long-term liability for providing

retiree healthcare has declined by about \$8 million dollars from its highpoint in 2010. There were 892 members of the defined benefit plan with 178 receiving benefits as of the last valuation.

Retiree Healthcare Benefits Pay-as-you-go Costs (FY10 thru FY15)



We are currently paying for retiree healthcare benefits on a pay-as-you-go basis. The annual pay-go amount for retirees that are currently receiving benefits will be about \$1.24 million in FY15. This represents a 6.3% decrease in pay-go costs. One of the factors contributing to this reduction was moving post 65 retirees to a new health insurance plan (separate from active employees) that is less costly and more appropriate for coordinating coverage with Medicare.

Despite these gains, the amount of the long-term liability (\$56,370,479) is still extremely large. In FY09, FY10 and FY11 the Town set-aside \$400,000 as a first step in directly funding the long-term liability for retiree health care coverage, but the Town has not made any subsequent payments toward the liability, choosing instead to work on strategies to control the cost. In order to get back on track with direct funding of the retiree healthcare liability, we are recommending that Council adopt a policy establishing a funding mechanism based on available fund balance. Specifically, the proposed policy would designate that any fund balance (General Fund) in excess of 22% be split evenly between capital project funding and funding of the retiree healthcare liability.

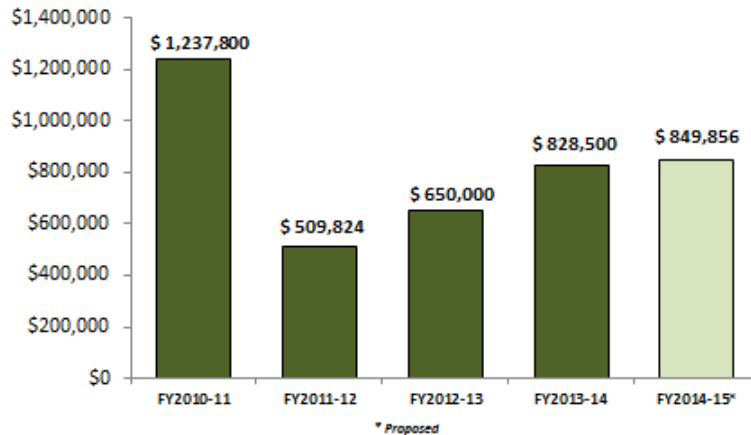
Capital Investment

Pay-Go Capital - Traditionally the Town has tried to maintain an annual pay-go CIP of about \$1 million to fund small capital projects. This amount has fluctuated in the past few years falling well short of the \$1 million in years of increased budget stress. For FY15 the adopted budget includes \$849,856 for pay-go capital improvements. This is approximately the same amount as FY14, the availability of debt funding associated with

the financing of the Ephesus Fordham Renewal Project will make up to \$800,000 of additional capital funding available for high priority projects.

Annual CIP (Pay-go) Funding

FY2010-11 Thru 2014-15 (original budget)



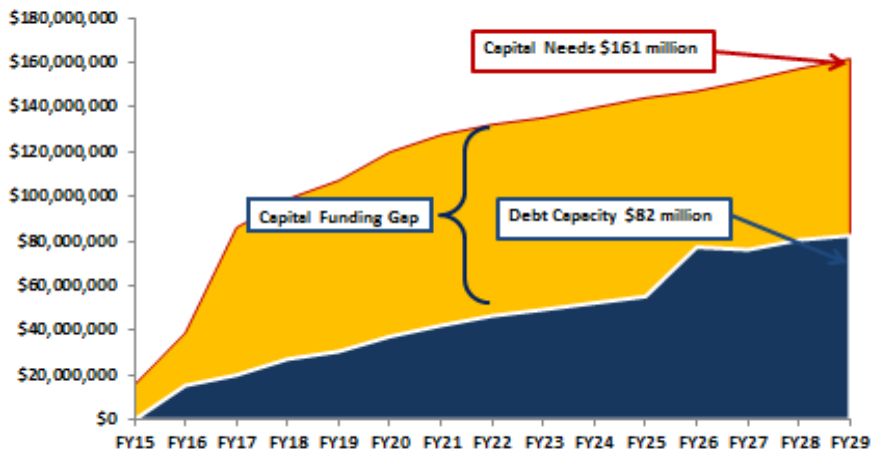
Referendum - The Town finances large scale capital projects mostly by issuing debt. In FY2009 Council created a Debt Management Fund to provide a dedicated funding source for debt service associated with large capital projects. The Debt Fund receives a portion of the Town's property tax levy. Initially the Debt Fund tax was 11.0 cents and it was subsequently reduced after revaluation to a revenue neutral rate of 9.3 and then further reduced to 7.5 in FY12 when 1.8 cents was shifted to the General Fund to help balance the operating budget. The FY2014-15 Budget adds 1 penny to the Debt Fund tax rate partially restoring the revenue that was shifted to the General Fund in 2012. This increase in the tax rate will allow the Town to accelerate the pace of debt financed capital improvements.

As shown in the following graph, the Town's capital needs, as represented by departmental CIP requests over the next 15 years, exceed our capacity to fund those capital needs through the issuance of debt, assuming that the source of repayment will be the Debt Management Fund at the current tax rate. The cumulative difference in capacity, represented by the yellow area in the graph is about \$79 million over the next 15 years. In order to manage this mismatch of needs versus capacity, one or more of the following must happen:

- Large projects are sequenced over a longer period of time
- Some projects are scaled back or tabled
- The property tax base grows faster than the 1.5% built into the current calculation
- Additional increases in the Debt Fund tax rate
- Other sources of funding are found

Capital Needs and Debt Fund Capacity

FY2015 Thru 2029



Based on the current Debt Fund tax rate the Town will have capacity for a significant debt issuance of approximately \$20 million in FY16. General Obligation (G.O.) bonds represent the lowest cost alternative for financing large capital projects however voter approval is needed for authority to issue G.O. bonds. In order to take advantage of Debt Fund capacity available in FY16 a bond referendum should be held in either FY15 or FY16.

The next referendum would probably include some of the following projects. Projects recommended for inclusion in the proposed referendum will be determined based on the urgency of the need for the project and the availability of other funding sources.

- Transfer Station \$ 5,142,500
- Fire Station Replacement 14,971,000
- Police Department Headquarters 17,283,400
- Parks & Recreation facilities 7,778,000
- Parks Improvements 12,463,000
- Affordable Housing 4,500,000
- Streets & Sidewalks 5,860,000
- Bike Plan Projects 6,500,000

Ephesus Fordham Renewal and Town Hall Renovations

In order to support the renewal of the Ephesus Fordham area the Town must make investments in much needed traffic and stormwater capital improvements. The total cost of these improvements is \$10.0 million (\$8.8 million for traffic improvements and \$1.2 million for stormwater).



The Town plans on issuing debt to finance the capital cost for these public improvements. The most efficient and cost effective way for the Town to finance this project is to coordinate the financing with other projects that can provide collateral for a combined financing.

The Town is planning on financing the Town Hall Renovation project and other CIP projects with debt. By combining the financing of these projects using two-thirds bonds and an installment financing using the Town Hall as collateral, the total cost of financing these projects will be reduced and can be completed on the timetable established for the Ephesus Fordham Project.

The Projects

| | | |
|-------------------------------|------------------|-----------------------------|
| Town Hall Repair & Renovation | | \$ 900,000 |
| High Priority CIP Projects | | 800,000 |
| Ephesus Fordham: | | |
| Traffic Improvements | 8,800,000 | |
| Stormwater Capital | <u>1,200,000</u> | |
| Total Ef Project | | <u>10,000,000</u> |
| Total All Projects | | <u>\$ 11,700,000</u> |

The Debt

| | |
|-------------------------------------|-----------------------------|
| Two-thirds General Obligation Bonds | \$ 1,700,000 |
| Installment Financing | <u>10,000,000</u> |
| Total Planned Debt issuance | <u>\$ 11,700,000</u> |

The portion of debt used for Town Hall and CIP projects will be repaid through the Town’s Debt Management Fund. The portion of the debt used for the Ephesus Fordham public improvements will be repaid using the incremental increase in tax revenues resulting from redevelopment. In other words, the redevelopment we are hoping to generate through the Ephesus Fordham Renewal Project will increase property tax receipts from the area. Those tax receipts, over and above the base level of tax receipts that existed prior to the project, will be dedicated to pay off the debt for the public improvements.

Asset Management – The sale of Town owned properties, such as 523 East Franklin and 100 West Rosemary, are a potential source of funding for major capital projects. During FY15 staff will continue to evaluate Town owned property to determine if there is potential to leverage unused or underused properties to help achieve Council goals. All proposed changes to the disposition of Town owned properties will be subject to Council approval.

Technology Initiatives

In order to maximize the Town’s investment in technology, the FY14 budget included a

Business Analyst position in IT to evaluate and facilitate technology projects. In addition, funding for technology projects was consolidated in a Technology Pool in order to better ensure that our limited resources are used on the highest value technology applications.

The FY15 Budget reflects the reorganization of the IT function from a division of the Business Management Department to a separate Department of Technology Solutions. This organizational change reflects the strategic importance of technology in our organization and in our community.

GIG – U - The Town of Chapel Hill is working with a regional group that includes UNC Chapel Hill, Carrboro, Duke University, the City of Durham, NC State University, the City of Raleigh, the Triangle J Council of Governments, and Research Triangle Park to deliver gigabit speeds to the homes and businesses of these communities.



This project is part of a larger initiative that includes 37 research universities across the country. The GIG-U Universities and their respective local governments across the nation are seeking to partner with telecommunications providers who are able to implement high speed broadband at a reasonable cost. The local group North Carolina Next Generation network (NC NGN) has issued an RFP that received responses from 8 telecommunications companies. Representatives of the stakeholders of NC NGN are working through the process of providing detailed data to the respondents in order to validate their business model and to determine if they can meet the initiatives objectives. It is anticipated that the local group will present a recommendation regarding how to proceed with this initiative during FY15.

Google - In February of this year, Google announced that Chapel Hill was selected as one of 34 municipalities in nine U.S. metro areas for potential fiber-optic network build-out. The Triangle area municipalities included in this effort are: Chapel Hill, Carrboro, Durham, Raleigh, Morrisville, Garner, and Cary.



Between late February and May 1st, a team of Town staff completed a checklist of information for submission to Google about existing infrastructure, Town permitting and construction policies and procedures, and local and state legislation that would affect the build-out. Town staff worked collaboratively with other Triangle area municipalities to coordinate our submissions. This information is now being evaluated by Google as it conducts a detailed city study to scope the costs and timelines for network build-out.

Google Fiber will announce the next round of cities for fiber installation by the end of 2014. If Chapel Hill is selected as a Google Fiber City, Google will bear the cost necessary to design, construct, and operate a fiber-based network that provides residents

with Gigabit-speed broadband service. Google will deploy the Network to “Fiberhoods”, or geographically defined areas of town where at least 5-10% of residents pre-register for service. Google does not intend to offer broadband service to businesses, although home-based entrepreneurs would be able to take advantage of their residential service.

Our Technology priorities in this budget also include initiating a document management project that will transition our paper dependent systems to digital media and provide greater open data availability and transparency.

Library Operations / Youth Services



Library Operations - The Library is a special place for the residents of Chapel Hill and Orange County. It is a hub for the community and a resource for all. In a state where Libraries are predominantly a County “function” the presence of a state-of-the-art 63,800 square foot Library with the largest circulation per capita in the state is a source of pride and awe. The decision to move forward with the project was made despite some concern for the ongoing operating cost of a facility more than twice the size of its previous incarnation. At the time of the decision to move ahead with the construction project, we estimated that the additional costs to operate the expanded Library would be the equivalent of about one penny on the tax rate. In order to control costs Library hours were cut from 68 to 54 hours per week concurrent with the opening of the new facility.

Thanks to additional funding in the 2013-14 budget, the Library was able to restore 8 hours of operation, bringing the total to 62 hours per week. Expanded hours meant expanded staff, and expanded staff meant more access to resources, services, and programs that help our community thrive. With record numbers of people coming through our doors, using our meeting rooms, checking out materials, and attending events, the Library is truly establishing itself as a place for everyone.

The 2014-15 Adopted Budget includes funding that will allow the Library to better respond to the community’s growing demand for both print and digital materials. It also includes funds that will enable the Library, and therefore the Town, to better engage youth and support their interests. In 2014/15 - as in 2013/14 - the Library will continue to increase operational efficiencies, leverage technology, and improve processes in order to best use our resources to serve our community.

Youth Services – To address the need for coordination and expansion of youth services in the community, funding for a Teen Engagement Specialist is included in the FY15 budget. While this position will be located in the Library’s organizational chart, this

person will serve the Town's interests of expanding teen programs/services and fostering collaboration between internal and external groups serving teens. This position will work closely with colleagues in Parks and Recreation, Chapel Hill Police Department, and other departments and organizations that already have dedicated teen staff. This position will play a key role in furthering the work begun by the Youth Initiative and serving the interests shared by the Town and the Chapel Hill Community.

Transit Sustainability

Over the past few years as fuel prices have trended upwards, fleet maintenance costs have increased and State and Federal funding sources have become less dependable making the Transit budget more difficult to balance. For FY14 the Transit portion of the property tax was increased by one cent and we are pursuing long-term sustainability strategies through an independent study with our Transit partners, UNC and Carrboro. Although the FY15 CHT budget is balanced without using fund balance, the operating budget does not reflect the looming crisis created by the lack of funding for bus replacement. The delay in replacing buses has, in effect, created a huge unfunded liability. Based on the consultants preliminary report an investment of \$42 million will be needed by 2023 in order to keep up with scheduled replacements.

Chapel Hill Transit (CHT), like most transit systems, relies heavily on State and Federal funding in order to maintain operations. The recent lack of reliable Federal funding, particularly funding for bus replacement, has created a critical maintenance issue for CHT. Based on the consultant's preliminary report, 42 of the 99 fixed route-buses CHT are beyond their useful life and all of the 19 demand response vehicles are beyond their useful life. In order to maintain CHT without significant reductions in fleet size and service levels, plans must be made for an alternative to the current replacement strategy that relies almost completely on Federal and State funding. Pending final recommendations of the sustainability study, the FY15 budget includes \$400,000 to begin a program of financing bus purchases. The details of the program, including a long-term financing strategy will be developed during FY15.

Stormwater Fund

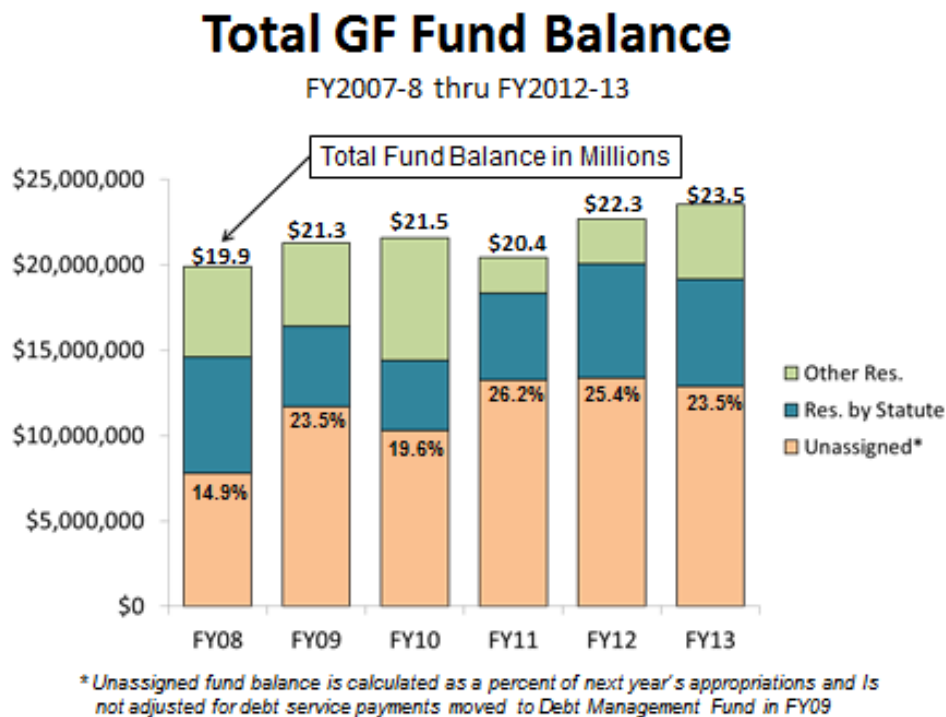
The FY14 Stormwater fund budget included a \$9 per Equivalent Rate Unit (ERU) fee increase, which brought the total fee to \$48 per ERU. Also, the size of the ERU was reduced from 2,000 to 1,000 square feet and the rate changed proportionally to \$24 per ERU. This was the first increase in the stormwater fee since the creation of the Stormwater Management Fund in 2004 despite a 40% increase in the Stormwater operating budget.

Recognizing the acute need to address stormwater issues in the Town and the high cost of stormwater related capital improvements, the FY15 Adopted Budget includes an increase of \$0.75 per Equivalent Rate Unit (ERU). This increase will bring the fee to \$24.75 per ERU and will generate an additional \$66,075 in revenue. It is anticipated that additional

future rate increases will be needed to address major capital projects and to reduce the reliance on one-time funds.

Fund Balance

Throughout the fiscal crisis, conservative budgeting practices and the use of one-time budget strategies such as curtailing capital spending and using bond funds for street resurfacing, have allowed the Town to maintain a strong and consistent General Fund fund balance (see graph below). In order to help address the Town’s capital needs and to create a funding mechanism for the Town’s long-term liability for retiree healthcare, we are recommending that unassigned fund balance (the portion of fund balance available for appropriation) over 22% be split between high priority capital investments, such as Rogers Road, and funding for the retiree healthcare liability. This recommended distribution would begin with the fund balance calculated from the FY14 financial statements when they become available in October of 2014.



Based on the unassigned fund balance from FY13, the amount in excess of 22% would be about \$830,000. Splitting this amount equally between capital and retiree healthcare liability would provide \$415,000 for each use.

The establishment of 22% as a fund balance “floor” for the purpose of allocating excess fund balance is based on the following:

- 22% fund balance (\$11 million) would provide about 2.5 months of operating funds for the Town’s General Fund.

- Based on the timing and dependability of Town revenue sources, 22% provides adequate operating funds to avoid borrowing for operating cash flow needs.
- Although 10% has generally been considered the floor for purposes of satisfying the Local Government Commission and bond rating agencies, the experience of many municipalities during the fiscal crisis has suggested that 10% is insufficient.

Maintaining an adequate level of fund balance is critical 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. The Town's high fund balance levels are a positive factor in assigning credit ratings to the Town's debt. The Town has received the highest possible rating for its general obligation bonds.

The FY15 Adopted Budget seeks to keep the use of fund balance to a manageable level and uses \$2.65 million of fund balance, about 4.5% of total revenues, to help balance the budget. We believe that this is an appropriate and sustainable level of fund balance use.

Affordable Housing / Northside Community

Clearly there is a strong demand for affordable housing in Chapel Hill and a high degree of awareness concerning the importance of affordable housing in creating the community that fits the Town's shared vision. Because of the strategic importance of how and where the Town invests funds to leverage existing community efforts, the FY15 budget increases the Town's affordable housing funding by about 1 penny for housing. During FY15, the newly formed Housing Advisory Board will have an opportunity to review the Town's investment in affordable housing supported by a more focused staff arrangement of housing resources. Together, they can recommend changes to that investment strategy and plan for the best use of any newly dedicated funds toward the affordable housing effort.

The FY15 Adopted Budget includes the equivalent of approximately 1 penny on the tax rate (\$688,395) to fund new affordable housing initiatives including the Northside Community Plan. This investment is in addition to the Town's existing commitments to affordable housing through performance agreements with outside agencies, pass through funding from CDBG and HOME, the work of the Housing and Neighborhood Services Division of the Planning Department, and the Public Housing Department.

Rogers Road

The FY15 budget includes \$100,000 as the Town's contribution for a New Rogers Road Community Center. Additional funding for improvements in the area, specifically water and sewer service, are dependent on the County's efforts to identify a viable funding plan either through a County Utility District or some other mechanism. Future investments

from the Town for this purpose could be funded from the distribution of excess fund balance as described above.

Priority Budgeting

During the FY11 budget process staff began work on creating a priority based budgeting system. Our goal was to improve our budget decision support system in a way that facilitated difficult decisions. Our efforts have been guided by the work of the Center for Priority Based Budgeting (CPBB) and other communities that have instituted similar budgeting systems. The development of a priority based budget system is usually done in two phases. The first phase is to reorganize the structure of the budget into service specific programs. The second phase is the creation of a decision system that compares the relative value of each program based on established budget priorities. The first phase was completed and, from the staff prospective, provided a different way of looking at the budget that helped connect service efforts with resource allocation. The second phase is currently a “hybrid” approach that uses priority budgeting methodology on a staff level and maintains the Council role on the policy level through setting Council Goals. The Budget process has also focused on priority use of resources through the asset management initiative, the review of service provisions such as stormwater services and cemetery expansion, the realignment of staff resources for planning and housing, and the pursuit of new approaches to development.

Parking Fund



In order to address the revenue deficit in the Parking Fund, created in part by the closure of Lot 5 when the 140 West project started, certain parking fees were increased for FY14. The first set of fee changes increased rates on high-demand lots and on-street spaces to \$1.50 per hour. Both the Wallace Deck and the 140 West Deck will remained at \$1.00 per hour in order to encourage their use. Other fee changes provided reductions in fees, including discounts for off-peak use at the Wallace Deck, a reduction in the commercial service permit fee from \$300 to \$150 and discounted pre-paid validation tickets that will be accepted at 140 West. With these fee changes, it was anticipated that Parking Fund should return to break-even in FY15 however our projections suggest that off-street parking will need to use about \$245,000 in fund balance. This continued use of fund balance to balance the Parking Fund budget reflects the slower than expected ramping-up of usage of the new 140 West parking deck. As the remainder of the commercial spaces in the 140 West Complex are leased and people become more familiar with the location of the parking deck, revenues will improve, decreasing the need to use fund balance.

FY16 (Planning Year)

In order to expand our focus beyond the traditional one year budget cycle, we are incorporating key events and issues that will have an impact after FY2015 into our budget discussions and analysis. The major issues that we are tracking that will impact FY16 and beyond include the following:

- Planning for the construction of a local transfer station for solid waste
- General Obligation bond referendum to fund large capital projects
- Implementation of financial sustainability model for Transit
- Possible changes to the state tax structure
- Adopting strategies for adding office and retail tax base
- Evaluate optimal ratio for office, retail and residential uses to meet Chapel Hill 2020 plan goals.
- Expand small business loan program
- Initiate a Pedestrian Plan
- Evaluate a transit trolley
- Initiate future development planning for the Greene Tract with ownership partners
- Create a strategy to impact out of school time, ESL, and vocational classes for youth with non-profit organizations
- Initiate strategy for use of fiber with UNC, UNC Health Care, Carrboro

Performance Agreements

The Town's operating budget includes funding for performance agreements with outside agencies that provide services consistent with the Town's goals and values. We have maintained approximately the same overall level of funding for these agreements over the past 6 years.

Applications for human service agencies are processed through a joint application process with Orange County and the Town of Carrboro. The human service agency applications are evaluated by the Human Services Advisory Board who make recommendations to Council for funding. All other agencies are evaluated by a cross departmental staff team. The recommended amounts are shown below.

| Performance Agreements with Outside Agencies | 2013-14 Adopted Budget | 2014-15 Adopted Budget |
|---|-------------------------------|-------------------------------|
| Human Services | \$ 337,100 | \$337,100 |
| Environmental | 1,000 | 1,000 |
| Arts | 10,500 | 10,500 |
| Affordable Housing | 255,715 | 257,074 |
| Economic Development | 260,000 | 260,000 |
| Total Contributions to Agencies | \$ 864,315 | \$ 865,674 |

The affordable housing agency funding recommendations includes a \$200,000 allocation to the Orange Community Housing and Land Trust. Orange Community Housing also has an allocation of the Town’s CDBG and HOME funds of \$25,000 and \$129,989 respectively.

The economic development agency funding recommendations includes \$175,000 for the Convention and Visitor’s Bureau. Their contract includes a clause that increases their funding if the Town’s Occupancy Tax receipts exceed \$950,000 for the fiscal year. The Bureau will receive 50% of all receipts in excess of \$950,000. Also included in economic development agencies is a \$70,000 allocation to the Downtown Partnership. The Partnership is also recommended to receive an allocation from the Downtown Service District of \$120,000.

The Town entered into a performance agreement with the Downtown Partnership to facilitate a joint venture among the Town, Orange County, UNC Chapel Hill, 3Birds Marketing and a private donor for a downtown business incubator called Launch Chapel Hill. Launch Chapel Hill offers its resident teams a place to work on their business, training events and mentorship from experienced entrepreneurs who bring industry and fundraising contacts. UNC Kenan-Flagler students will serve as consultants and potentially as members of venture teams. The FY15 Adopted Budget for the Downtown Fund includes funding for the second year of this joint venture.



Tax Rates

The Adopted FY15 budget increases the tax rate by 1 cent for Debt Service, bringing the total to 52.4 cents. As shown in the following table the Town’s property tax rate went up by 2 cents for FY14 after four years of maintaining the same rate. Last year’s increase included a 1.0 cent increase in the General Fund portion of the tax and a 1.0 cent increase in the Transit portion, for a total increase of 2.0 cents.

| | FY10-11 | FY11-12 | FY12-13 | FY13-14 | FY14-15 |
|---------------------|----------------|----------------|----------------|----------------|----------------|
| General Fund | 36.0 | 37.8 | 37.8 | 38.8 | 38.8 |
| Debt Fund | 9.3 | 7.5 | 7.5 | 7.5 | 8.5 |
| Transit Fund | 4.1 | 4.1 | 4.1 | 5.1 | 5.1 |
| Total | 49.4 | 49.4 | 49.4 | 51.4 | 52.4 |

Conclusion

The focus of the FY2014-15 Adopted Budget is to begin to reverse the unsustainable, but successful, strategies used during the economic crisis while continuing to make progress on Council policy goals. The community vision articulated through the 2020 process provides guidance for achieving our long-term objectives; our challenge is to translate that vision into concrete steps that are true to our intended direction.

The budget is the tool we use to build steps toward a future based on our shared vision. But, moreover, the budget is about choices. Choices dictated by limited resources, serious challenges and ambitions goals. The choices reflected in the Adopted Budget represent our best efforts to move forward toward achieving Council Goals. The 2014-15 Adopted Budget keeps the Town on its path toward sustainably achieving the long term goals of the community.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'R. Stancil', with a large, sweeping flourish at the end.

Roger L. Stancil
Town Manager