



Town of Chapel Hill

Preliminary Report

2010-11 Budget Development

April 12, 2010

Purpose

- Update Status of Budget Preparations
- Identify Budget Issues for FY2010-11
- Review Strategies for Balancing Budget

Budget Status

- Current Status:
 - maintain current service levels
 - no tax increase
 - \$0.5mil of balancing.
- Strategies for balancing:
 - budget savings, fund balance
 - no increases in most departmental budgets.
- Expanded Capital Improvement Plan (CIP) possible using fund balance in excess of 15%.

Key Budget Issues

- Economic Conditions
- Revenue Growth
- Pending Debt Issuance
- Operating Cost of New Facilities
- Benefits Costs
 - Medical Insurance
 - State Pension

The Economy

- Emerging from the recession (longest since the Great Depression)?
 - Stabilized, but not fully recovered
 - State budget situation is still tenuous
 - Significant sales tax growth and improvement in unemployment numbers would signal a true recovery

Local Sales Tax Issue

- Sales taxes collected by State
- Distributed back to counties and cities on either a per capita or ad valorem basis
- Counties, at their sole discretion, can select between the two distribution formulas each year
- Changes must be made in April by the County Commissioners to take effect the next fiscal year

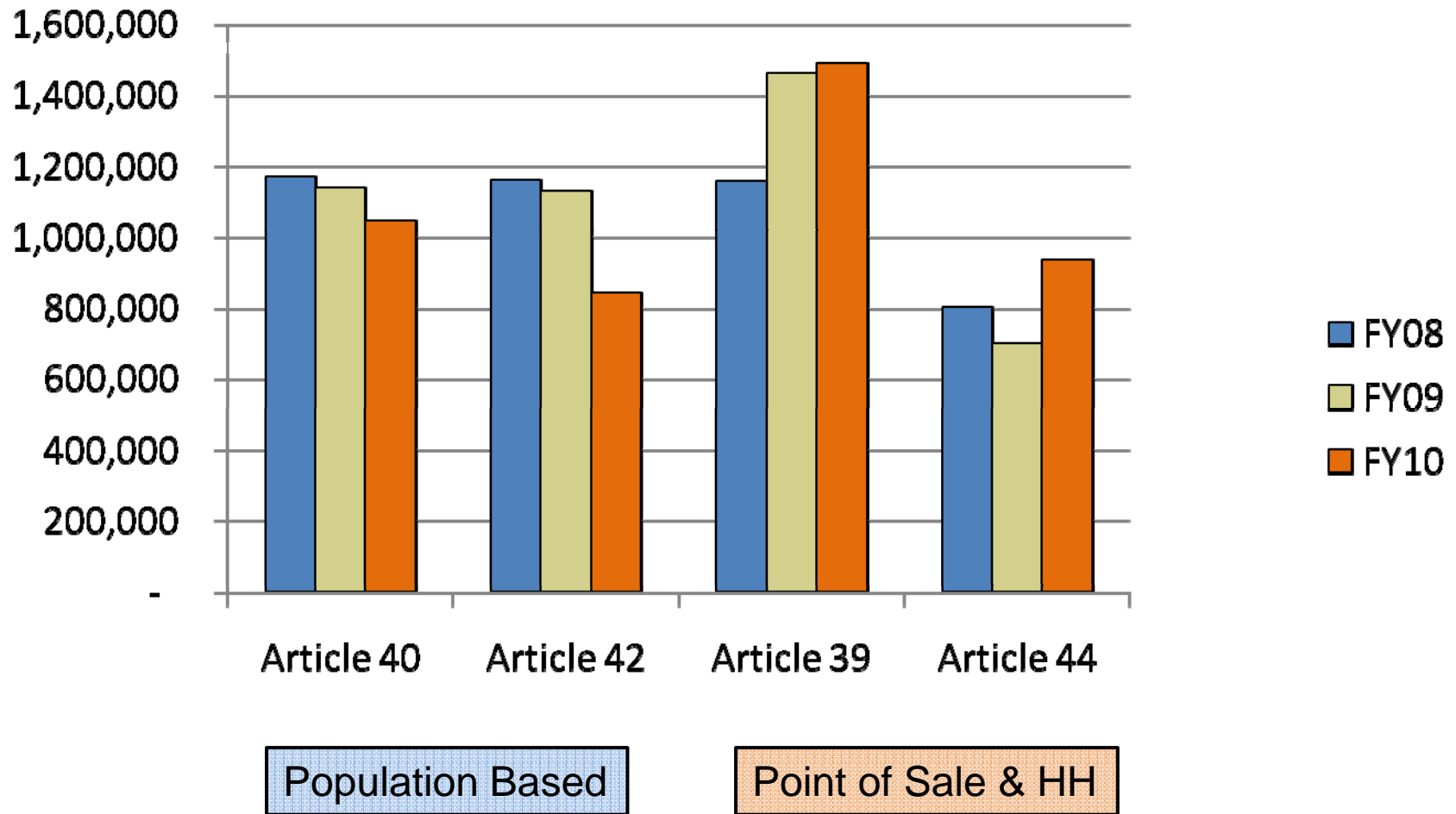
Impact of Change in Sales Tax Distribution Method

- 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**.
- County Manager does not recommend changing
- Rest easier May 1

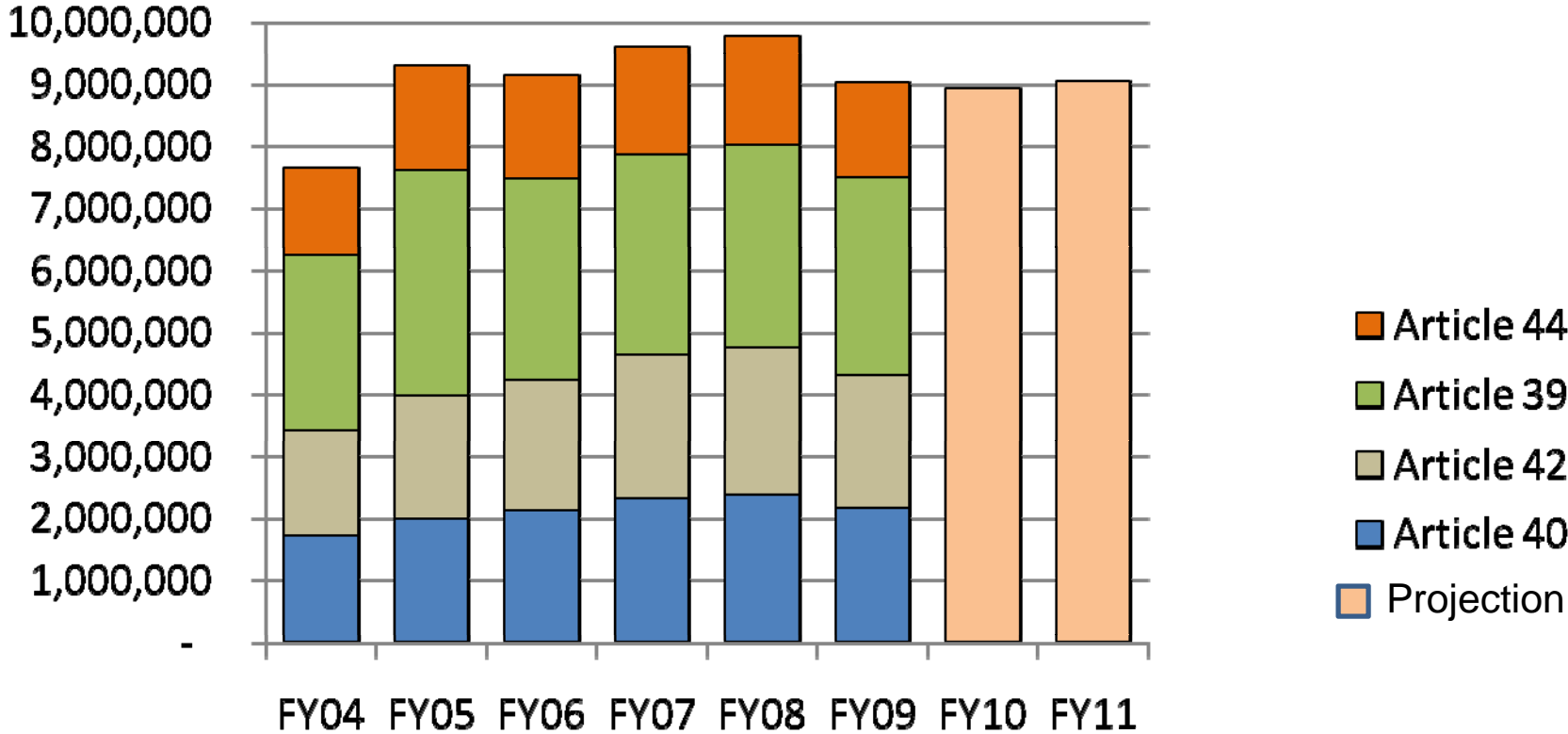
Sales Tax Summary

- Assuming continuation of current population based distribution, we project current year collections to exceed budget by about \$260,000.
- For FY2010-11 we are projecting a small increase (1.5%) over this years expected collections.
- The components of the sales tax that include a point-of-sale component have performed significantly better than state-wide portion that is distributed by population.

YTD by Article -3 year Comparison



Sales Tax FY04 thru FY11



Revenue Projections

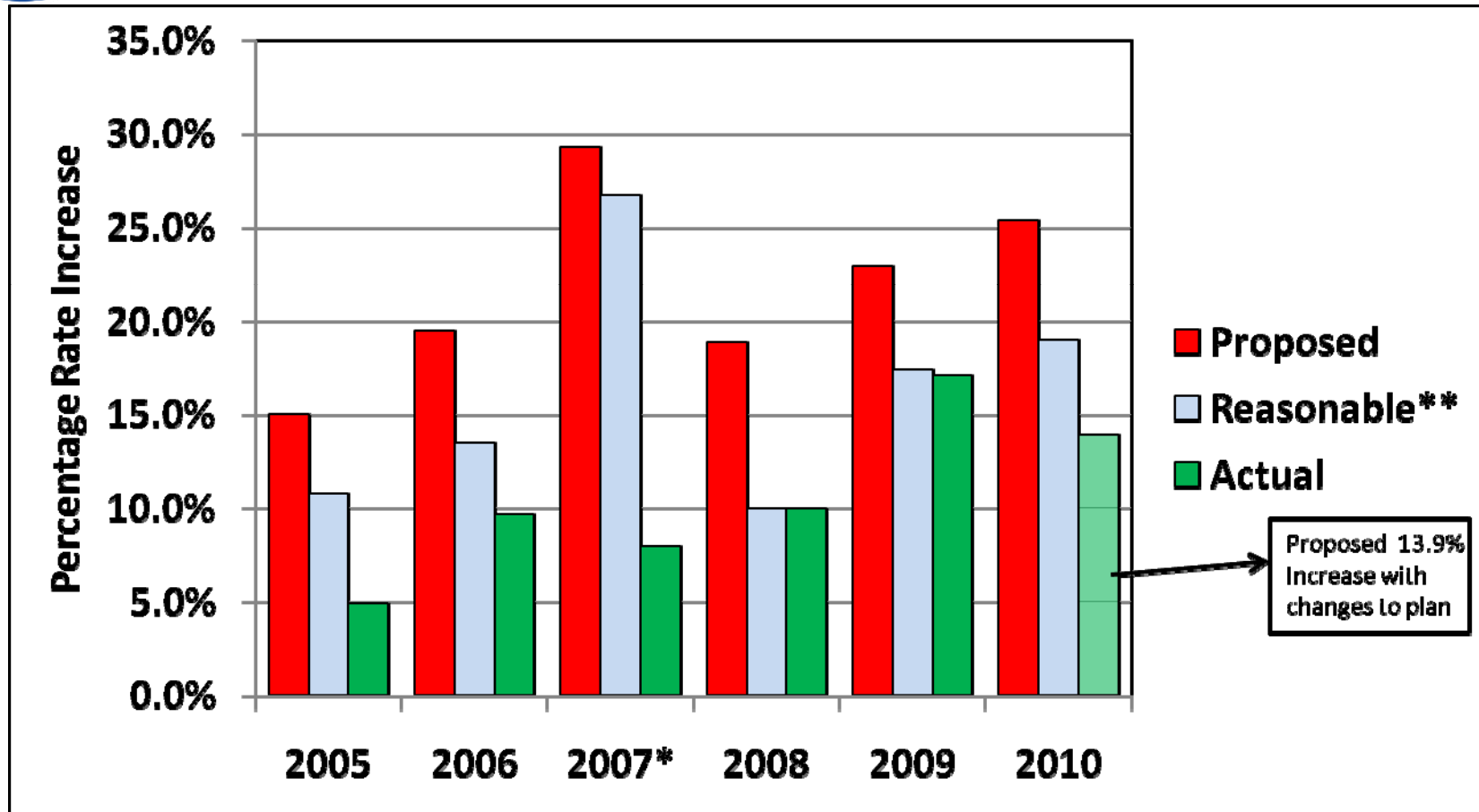
- Overall revenues are projected to increase 1.4% for FY2010-11.
- Modest growth in the property tax base; sales taxes and service charges are expected to offset minor declines in Licenses and Permits and Inter-fund Transfers.
- By design when recession began, use of significant amounts of fund balance (non-current revenues) continues to be a key strategy for balancing the budget.

Budget Balancing Strategies

- Reduce spending in current year to produce savings for next years budget
- Use fund balance in excess of 15% for one-time costs such as CIP or bonuses
- Make changes to Health Care Plan to reduce increase from 19.0% to 13.9%
 - Increased co-pays for office visits, urgent care and emergency room.



Medical Renewal History



* 2007: Changed Carriers – Proposed and Reasonable based on United and Actual is BCBS

** Reasonable: Based on claims experience and standard costs

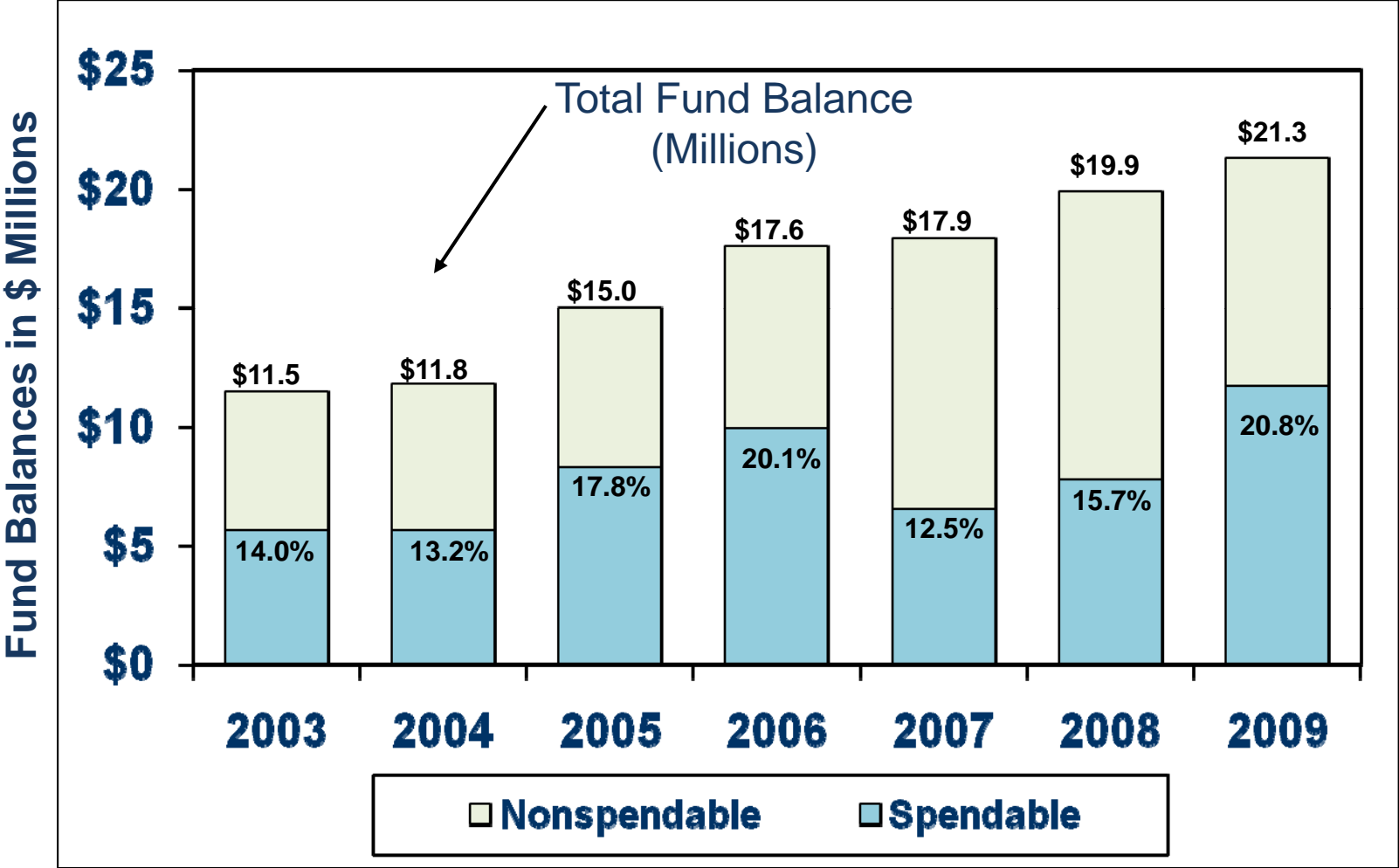
Long-Term Budget Initiative for FY2010-11

- **Employee Safety, Wellness and Health Care**
 - Enhanced safety programs to reduce preventable accidents
 - Change retiree healthcare benefits for new employees to a defined contribution plan
 - Expansion of employee wellness programs
 - Work with UNC Healthcare to partner with their Family Medical Services to provide alternative healthcare delivery system option

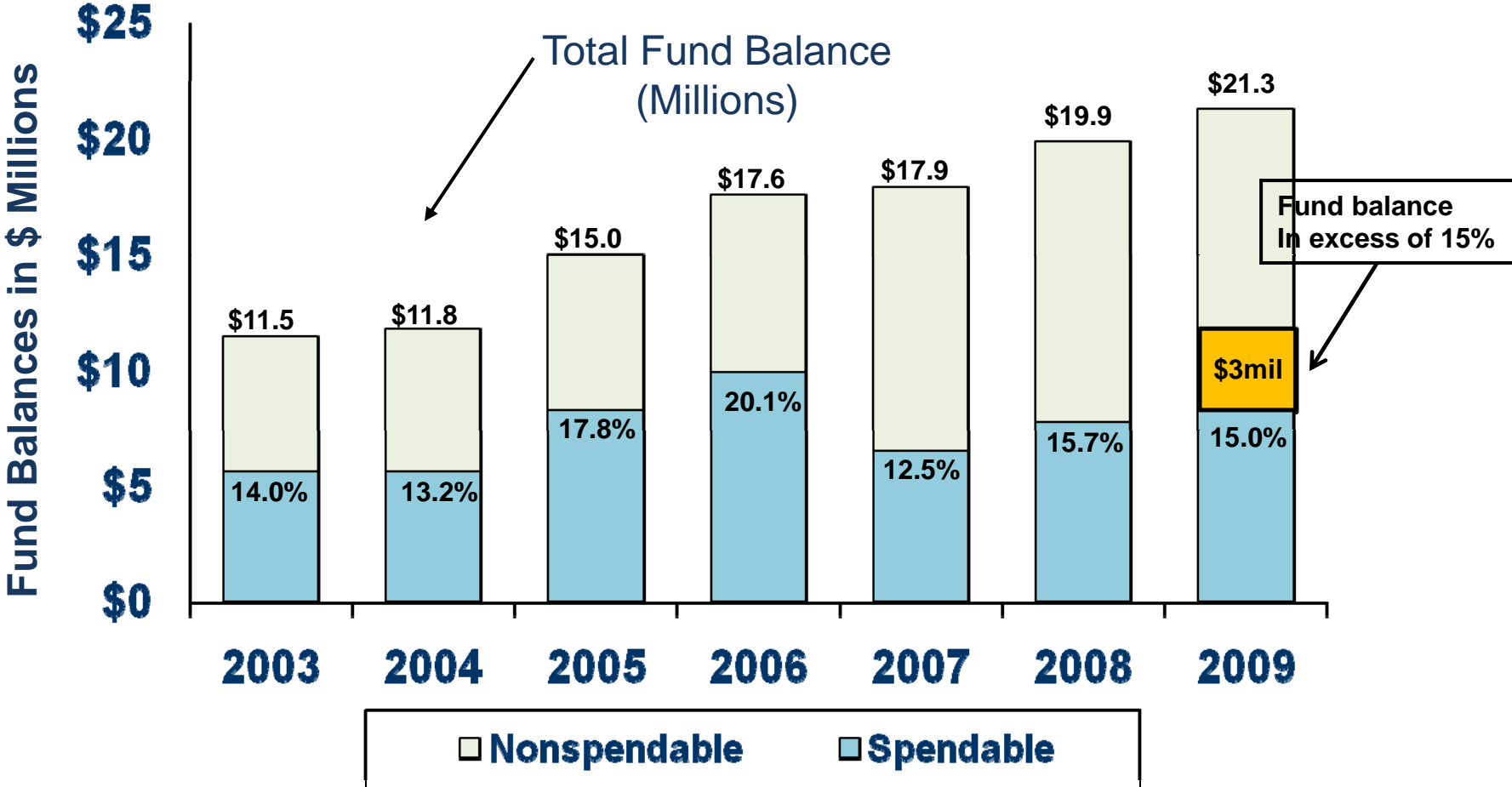
Budget Balancing

- The Town finished FY2008-09 with a 20.8% undesignated fund balance. We are recommending that the excess over 15% (\$3.0mil) be used for one time costs such as capital improvements.
- We are estimating that the town will have between \$2.3mil and \$2.8mil savings from the current year's budget that can be used to help balance next year's budget.

General Fund Balances Year Ended June 30



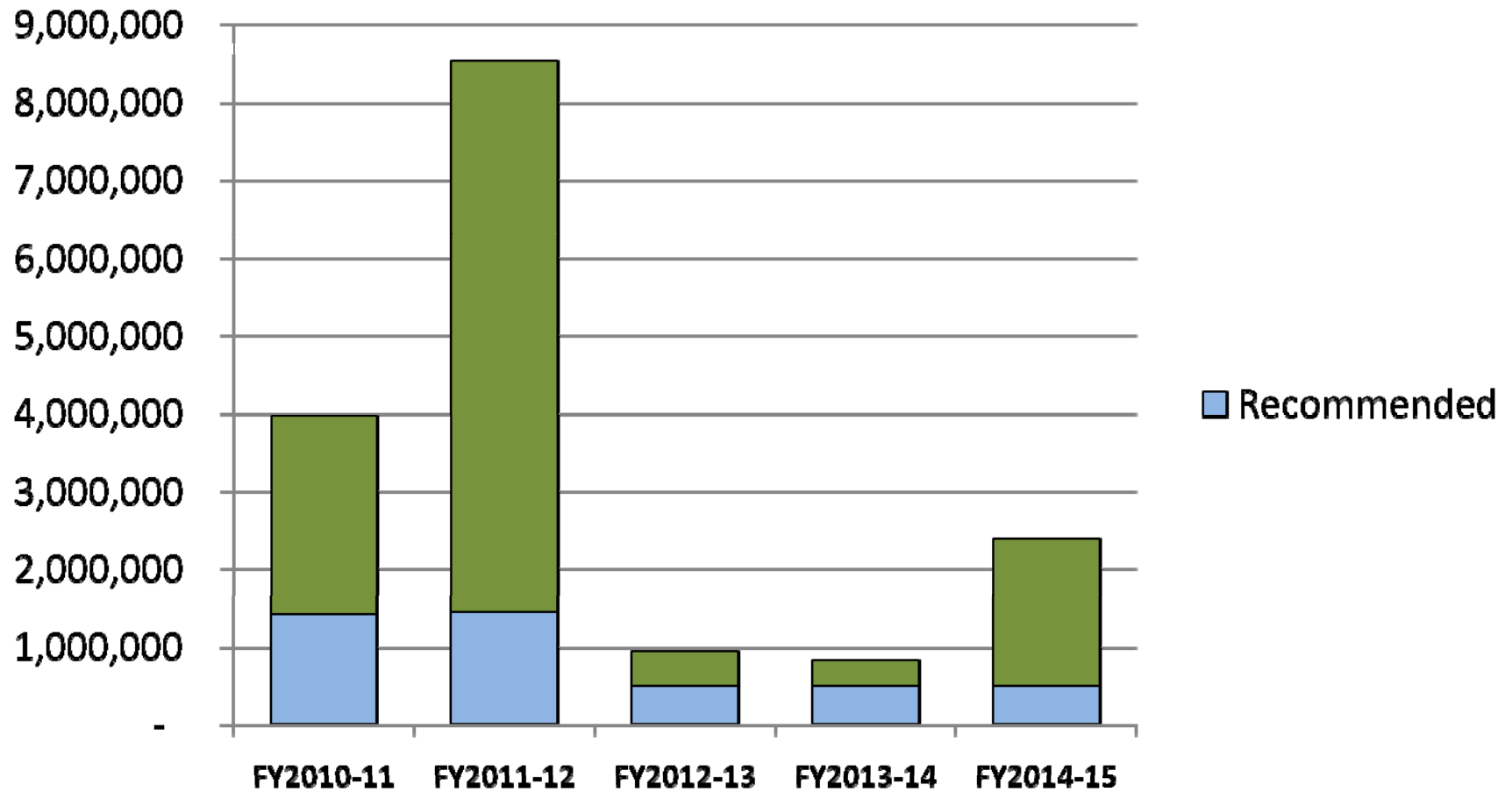
General Fund Balances Year Ended June 30



Capital Improvement Plan (CIP)

- Recommend increase in CIP funding to help catch-up with major maintenance and repair work and to start planning phase for some major projects
- Funding is available from fund balance in excess of 15% which is approximately \$3 mil of “one-time” funds
- Spend down of excess fund balance should be spread over the next 2-3 years in order to match project funding needs

Recommended CIP Funding



Debt

- In November of 2003 voters approved General Obligation Bonds for the purposes and in the amounts shown in the table below. The Town has \$20.41m in remaining authority that is due to expire in November of 2010, unless the Town receives a extension from the LGC.

Purpose	Original Authority	Issued to Date	Unissued Balance
Library	\$ 16,260,000	\$ 2,000,000	\$ 14,260,000
Sidewalk/Street	5,600,000	3,150,000	2,450,000
Parks & Recreation	5,000,000	1,300,000	3,700,000
Open Space	2,000,000	2,000,000	-
Public Buildings	500,000	500,000	-
Total	\$ 29,360,000	\$ 8,950,000	\$ 20,410,000

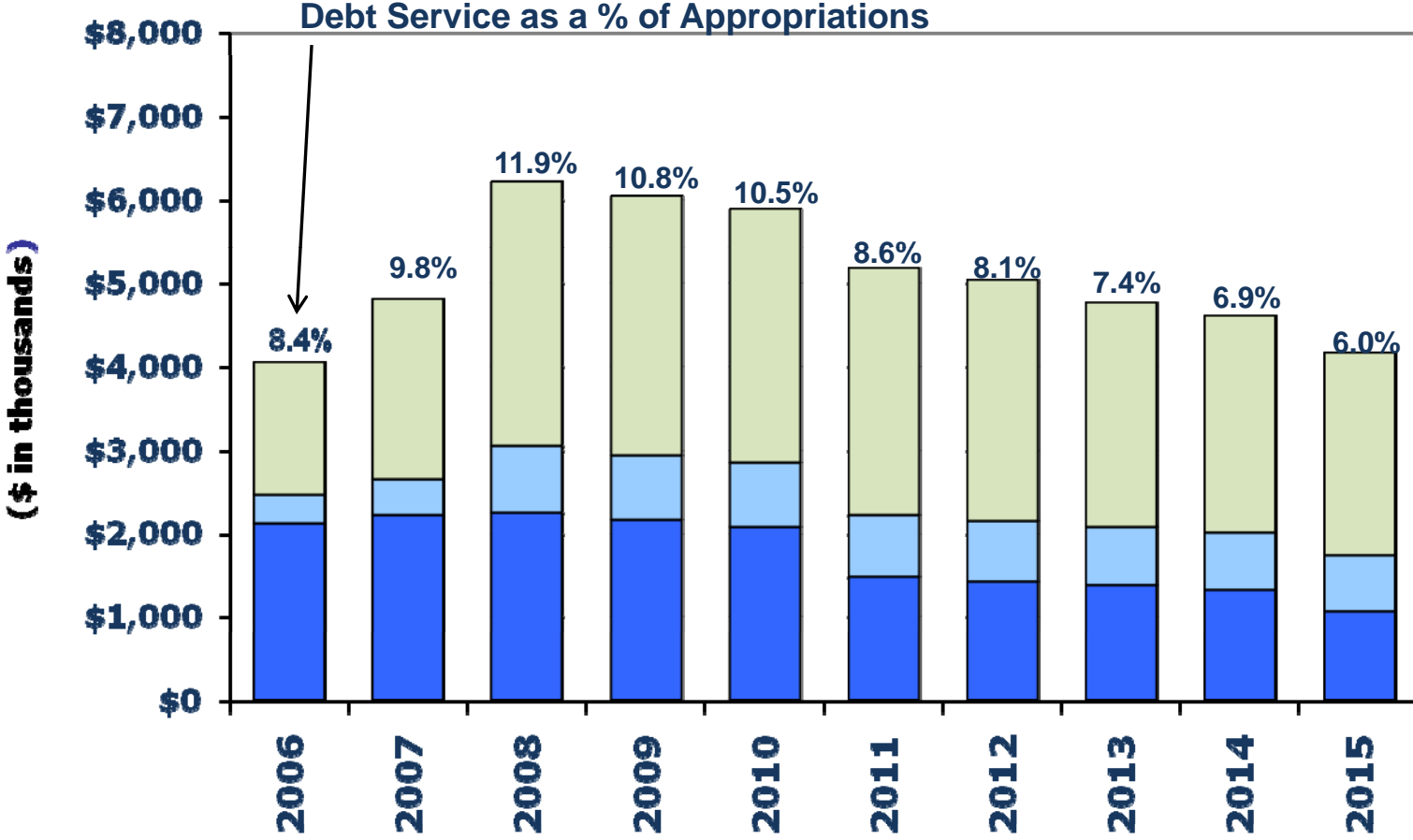
Debt Service Fund Capacity

- DS Fund: sufficient capacity with existing 9.3 cent tax to issue remainder of Authorized GO Debt (\$20.41m) this Fall.
- DS Fund capacity for projects beyond the authorized GO Bonds limited until FY2013-14, unless GO bonds are delayed or restructured.
- **Decision to structure GO Debt** – Restructuring (level payment v. level principal) can gain near term capacity at the cost of additional interest expense over the life of the bonds. Management of debt is a significant bond rating factor.

Deadline for Issuance and Extension

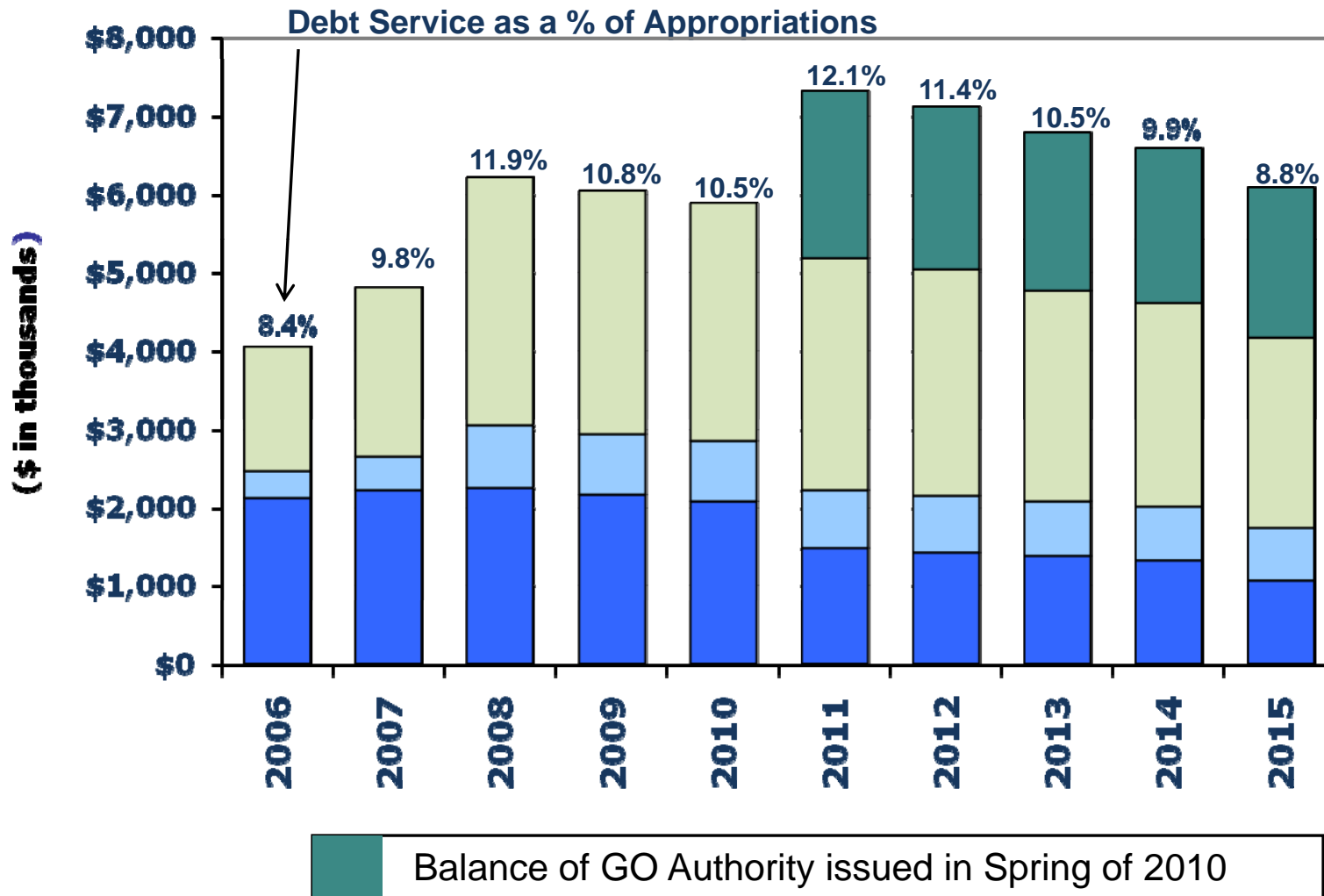
- The authority to issue the remaining \$20.41million in GO Bonds can be extended by 3 years by making application to the Local Government Commission (LGC). The extension is not “automatic” but it is very likely that it will be granted in these circumstances.
- In addition to the authorized GO bonds for the Library, Parks and Streets there are additional bond funded projects that are being contemplated for the near future including:
 - Public Safety Facility
 - Parks & Recreation Office and Program Space
 - Town Operating Center Office Expansion

Existing Debt Service



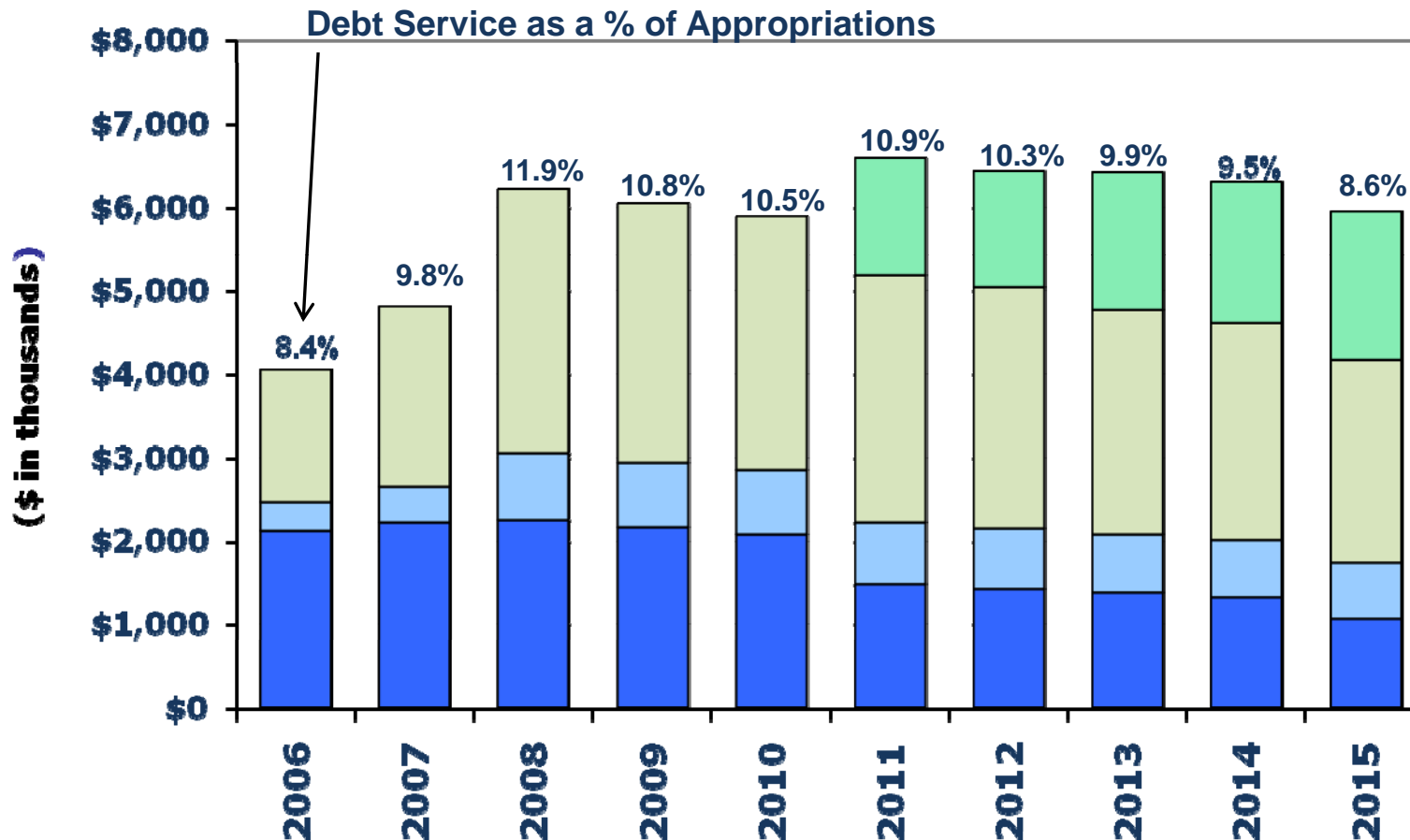
Balance of GO Authority issued in Spring of 2010

Existing Debt Service Plus Authorized GO Bonds



Existing Debt Service Plus Authorized GO Bonds

Re-structured Principal



Balance of GO Authority issued in Spring of 2010

Next Steps

- Continue to work on employee compensation and Council priorities
- Close the budget gap without a tax increase
- Refine revenue projections, including decision on sales tax distribution
- Maintain funding for outside agency performance agreements
- Continue working with UNC Healthcare to change healthcare delivery model

Budget Calendar

- **April 12 - Budget Status Report to Council and Public Forum**
- May 10 – Manager’s Recommended Budget
- May 12- Budget Work Session
- May 19 - Public Hearing and Budget Work Session
- May - 24 Library Expansion Decision
- June 2 - Budget Work Session*
- June 7 - Budget Adoption

* *As needed*