

Council Budget Questions
2018-19 Recommended Budget
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Newest Response

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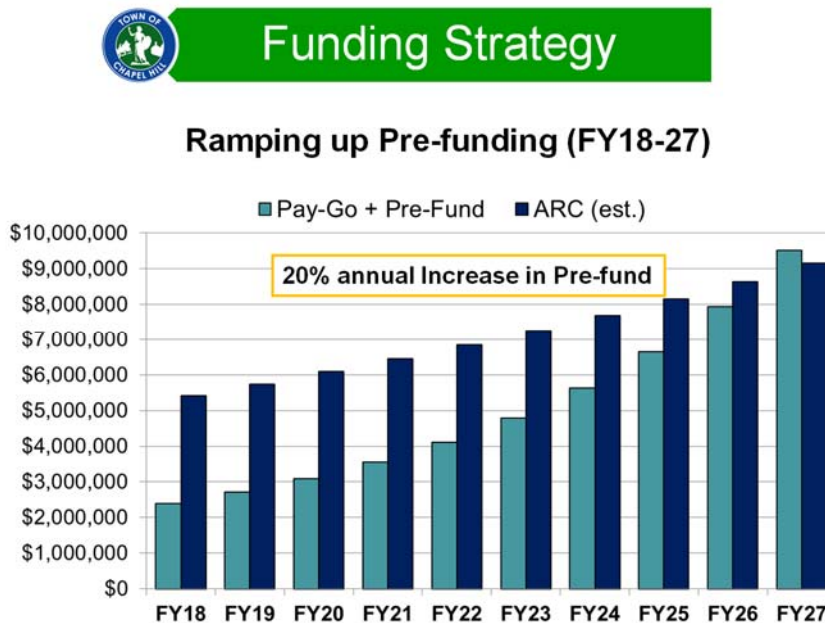
16. How does our 3 percent salary increase compare with what is proposed by surrounding communities?
17. Is it possible to define that portion of the expense budget that can be considered discretionary, i.e., not required for essential services or longstanding commitments?
18. There is a significant decrease in our vacancy pool (to zero). Does that translate to a lower vacancy rate and jobs being filled more quickly?
19. Can we see the major components of new expenditures, e.g. 3 percent salary increase, new programs/initiatives, etc.?
20. The budget notes an increase of about 4.4 percent in RE valuations. What are the projects that have accounted for that and what are the associated dollar amounts for each?

**Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION # 1**

QUESTION: Because OPEB pre-funding contributions would be maintained at FY18 levels in the recommended budget, will there eventually need to be an increase in future FY budgets?

RESPONDENT: Ken Pennoyer, Director, Business Management

RESPONSE: Possibly. The Town has been following a funding strategy to achieve the annually required contribution (ARC) within ten years by increasing our pre-funding amount by 20% per year. This is illustrated in the following graph:



The ARC represents the portion of the present value of the total cost of post-employment benefits earned to date by employees. The ARC is calculated biennially by the Town’s actuarial consultant and can change significantly from valuation to valuation. The calculation of the ARC is based on actuarial assumptions (listed below) that could impact our progress in reaching the ARC payment regardless of whether we adhere to the 20% increase strategy.

Actuarial Assumptions:

- Turnover rate
- Retirement age
- Mortality
- Projected salary increases

- Inflation rate
- Healthcare cost trend data
- Investment returns

Notes:

- There is no requirement to prefund the OPEB liability.
- The Town could choose to fund OPEB costs solely on a pay-as-go basis, as many jurisdictions do. This would ignore the impact of escalating future costs.
- The Town's decision to prefund is based on the potential that the cost of this benefit could grow disproportionately to the rest of the budget forcing the Town to make difficult decisions in order to maintain our commitment. For this reason it is prudent to prefund the liability to the extent practical given our budgetary constraints.
- The Town has chosen to address the OPEB liability by partial pre-funding and ramping up to the ARC amount. In addition, the Town has taken the following steps to limit its OPEB liability:
 - Closed the defined benefit plan in 2010. All employees hired after July 1, 2010 are part of a defined contribution plan that has no future liability for the Town.
 - The Town has established an irrevocable trust for pre-funded assets. The Town has set aside more than \$4 million in the trust.
 - The Town has requested local legislation to expand the investment options for the trust to increase investment earnings and the earnings assumption used in the actuarial calculation.
- There is no Council policy regarding OPEB funding/pre-funding. The decision to pre-fund the OPEB liability is made annually as part of the budget deliberations.
- There is an accounting requirement to report the OPEB liability and the Town's funding progress in the annual financial statements.
- Based on the last actuarial valuation (12/31/16), the Town's total liability is \$56.1 million (present value of all earned and projected benefits) and the ARC is \$5,418,919.

**Budget Questions and Requests for Information
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QUESTION #2**

QUESTION: In terms of lapsed salaries, what is the vacancy rate for each department? Do we categorize positions according to how critical they are to have filled? If there are positions that don't need to be filled, why aren't they eliminated?

RESPONDENTS: Kenneth C. Pennoyer, Director, Business Management
Cliff Turner, Director, Human Resource Development

RESPONSE:

The following table shows the number of vacancies by department as of the end of the third quarter.

Department	Full-time Positions	Vacancies	Vacancy Rate
Attorney's Office	2	0	0.0%
Business Management	18	0	0.0%
Communications & Public Affairs	7	0	0.0%
Fire Department	96	3	3.1%
Housing and Community	24	4	16.7%
Human Resource Development	10	1	10.0%
Inspections	16	1	6.3%
Library	28	0	0.0%
Manager's Office	12	0	0.0%
Mayor	1	0	0.0%
Parking Services	9	1	11.1%
Parks and Recreation	55	1	1.8%
Planning and Development Services	21	3	14.3%
Police Department	134	22	16.4%
Public Works	113	7	6.2%
Technology Solutions	13	1	7.7%
Transit	204	27	13.2%
Town Total	763	71	9.3%

There is no Town-wide categorization of positions by critical need. Departments, in cooperation with HRD, manage their personnel requirements based on their understanding of Town priorities and operational needs. Each Department reviews vacancies as they occur and determines whether it is critical to fill immediately or if they need to take time to review the position to determine if changes need to be made to the job scope and description. Occasionally, positions are left vacant due to reorganizations or changes in departmental business plans. Having a vacant position that can be repurposed at a future date adds flexibility as priorities change and new initiatives are undertaken. Eliminating a vacant position may have no net budgetary impact as it would reduce the adopted budget, but it would also reduce the amount of savings realized at year-end.

Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION #3

QUESTION: How long will the 1C increase for transit serve our transit needs? How long are you projecting out into the future that this tax increase will suffice for bus costs, etc.?

RESPONDENTS: Brian Litchfield, Transit Director

RESPONSE: Over the past four years, we have used fund balance to keep Town and Partner contributions low (avoiding levy adjustments), most recently using ~\$1.4M in FY18, while also investing in capital, so fund balance is no longer an option for the Transit Fund. During this same time, both federal and state investments in capital were almost nonexistent.

It is important to note that the one cent increase for Transit is not likely sufficient for building fund balance going forward; it is to catch up after years of cost increases and using fund balance to maintain steady operating and capital budgets without tax increases. During this time we have also tried to maximize outside resources, beyond Partners. For example we plan to use ~\$750K in Orange County Transit Plan funds to offset increased cost of existing service. The really good news is that we have made significant progress on capital, replacing (some on order) 34 fixed route buses and seven (7) demand response vehicles by FY18, along with an additional three (3) fixed route buses and five (5) demand response vehicles in FY19. It was originally projected that we would need to debt-finance almost all these vehicles – fortunately with Orange County Transit Plan Funds and unanticipated grant funds, we have only had to debt finance 16 of the vehicles. And, Congress has made great strides in returning capital funding to pre-FY12 levels, the highest we have seen in the past decade.

Additionally, the recommended budget includes service improvements through Orange County Transit Plan funds and we anticipate additional service improvements in FY20. These funds are only available for new service and not available to pay for existing services.

Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION #4

QUESTION: If the public housing budget is not sustainable, what is being done to mitigate this? When do we fall off a cliff, so to speak?

RESPONDENTS: Kenneth C. Pennoyer, Business Management Director
Amy Oland, Assistant Business Management Director

RESPONSE: Generally, the use of fund balance as a significant percentage of revenues, in this case 10.4%, is unsustainable. This is roughly twice the fund balance usage as the General Fund (4.5%). The Housing Fund does however have a relatively large fund balance (unrestricted net position) of \$2,192,817, as of the last audited financial statements FY17, therefore there is no immediate danger of cash flow problems in the fund. Going forward this is something that should be monitored, particularly if there is planned spend down of fund balance for major maintenance of housing units.

Because the primary revenue sources for the Housing Fund are rents, that are subject to rate limitations and federal subsidies that are determined by federal policy, there are few options in the current revenue structure to mitigate the use of fund balance. Should fund balance become depleted (below 25% of budgeted revenues) at some point in the future, alternative revenue sources should be considered.

**Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION #5**

QUESTION: How much income does the transit advertising program bring in to the department? Why is there a move to use a contractor? There are other issues with the transit advertising policy that I have already concerned, so unless the program is bringing in substantial amounts of income for the department, there are other reasons to just eliminate it all together. There are other areas for free speech in town, like Peace and Justice Plaza; how much would it cost to install wireless speakers there, as a way to encourage and help free speech? And by this, I mean true free speech, not “corporations are people” free speech of bus advertising.

RESPONDENTS: Brian Litchfield, Transit Director
Kenneth C. Pennoyer, Business Management Director

RESPONSE:

Financial History

- In 2011, initial estimates indicated that advertising net revenues for Chapel Hill Transit could range from \$200,000 to \$400,000 and could be used to offset Partner contributions. To date revenues have not approached that initial projection. The following table shows the results of transit advertising program since inception:

Transit Advertising	FY12	FY13	FY14	FY15	FY16	FY17	FY18 YTD
Total Expenses	\$ 31,517	\$ 81,274	\$ 84,292	\$ 80,483	\$ 75,587	\$ 82,323	\$ 30,838
Exterior Revenues	44,611	102,864	85,121	92,674	121,844	76,629	108,712
Interior Revenues	15,072	12,975	12,821	13,232	9,568	12,569	8,133
Total Revenues	\$ 59,683	\$ 115,839	\$ 97,942	\$ 105,906	\$ 131,412	\$ 89,198	\$ 116,845
Net Revenues	\$ 28,166	\$ 34,565	\$ 13,650	\$ 25,423	\$ 55,825	\$ 6,875	\$ 86,007

- As a result of performance and a review of experiences from other municipalities/systems related to transit advertising, the Chapel Hill Transit Partners Committee have asked staff to explore a third-party advertising contract to determine if net revenues could be increased to offset costs to the funding partners.

Advertising Position

- The Advertising Manager position reflected in the recommended budget was reclassified to the position of Training and Safety Specialist on April 18, 2018, following an internal review by Transit, HRD and BMD. **Due to timing it was not possible to reflect this in the Recommended Budget, however, it will be reflected in the budget moving forward.**

Current Status and Next Steps

- At the request of the Chapel Hill Transit Partners Committee staff is exploring a third-party contract for transit advertising.
 - Transit staff will issue an Invitation for Bid (IFB) for a contractor(s) over the summer of 2018 and staff and Partners will evaluate for feasibility.
 - The City of Greensboro, City of Fayetteville, City of High Point and Piedmont Authority for Regional Transportation (PART) have followed a similar process in the past two to three years and all report favorable revenue results.
 - IFB will be issued by August 2018.
- The Transit Advertising Manager resigned for another opportunity in late 2017. Transit has since reclassified the position to meet operational safety needs.
- Next steps are to finish and issue the IFB and provide Partners and Council with recommendations about the advertising program in early fall.
- Over the summer Transit staff will also work with our Partners and the Town Attorney's Office to determine if there is an option to adjust our existing policy to one that indicates transit vehicles are a nonpublic forum and removes the option for political, religious, or issue advertisements as currently allowed by 3.02 and 3.03 of the currently adopted policy.
 - The Transit Partners have historically been involved in reviewing and making recommendations on advertising policy. There is an expectation that they would have an opportunity to weigh in, although the final decision would be the Council's.

**Budget Questions and Requests for Information
2018-19 Recommended Budget
Question #6**

QUESTION:

1. What was the cost increase for medical insurance without the implementation of a deductible?
2. The Recommended Budget has a 0.6% increase in place even though we now know there is no increase in employee medical insurance. What is that savings?

RESPONDENT: Matt Brinkley, Budget Manager
Kenneth C. Pennoyer, Business Management Director

RESPONSE:

1. The negotiated rate increase without a deductible was 4.9%. The Recommended Budget does include the \$250 deductible, which brings this increase to zero. If we had not gone with the deductible the cost of the 4.9% increase would be as follows:

General Fund:	\$241,590
Transit Fund:	87,788
Stormwater Fund:	6,982
Parking Funds:	3,589
Housing Fund:	<u>7,106</u>
Total:	\$347,055

2. At the time of the preparation of the Recommended Budget, the negotiated increase was at 0.6% with the deductible. Since that time, based on subsequent negotiations, the increase was reduced to zero. The savings from reducing the medical insurance increase from 0.6 to zero is as follows:

General Fund:	\$29,584
Transit Fund:	10,749
Stormwater Fund:	855
Parking Funds:	439
Housing Fund:	<u>871</u>
Total:	\$42,498

**Budget Questions and Requests for Information
2018-19 Recommended Budget
Question #7**

QUESTION: Why are grant revenues down in the General Fund for FY19?

Source	Adopted FY2017-18	Recommended FY2018-19	Difference
Property Taxes	\$ 29,635,000	\$ 31,931,000	7.7%
Sales Taxes	13,677,177	13,853,827	1.3%
Other Taxes	1,300,000	1,307,500	0.6%
State Shared Revenues	8,069,340	7,820,590	-3.1%
Charges for Service	4,748,308	4,820,808	1.5%
Licenses & Permits	2,129,153	2,461,890	15.6%
Grants	779,963	680,899	-12.7%
Other Revenues	508,053	493,600	-2.8%
Approp. Fund Balance	2,684,006	2,999,886	11.8%
Total	\$ 63,531,000	\$ 66,370,000	4.5%

RESPONDENT: Matt Brinkley, Budget Manager
Kenneth C. Pennoyer, Business Management Director

RESPONSE: The decrease in the General Fund Grants revenue category for FY19 (\$100,000 or 12.7%) is due to a change in accounting for revenue generated from Traffic Studies. In FY18 these revenues were categorized as Grants, however these are reimbursements from NCDOT and are more appropriately categorized as Charges for Services. In other words, there is no decrease in grants, just a change in how we account for revenues that were previously in the grants category.

**Budget Questions and Requests for Information
2018-19 Recommended Budget
Question #8**

QUESTION: What is the impact of the American Legion purchase on the general Fund?

RESPONDENT: Kenneth C. Pennoyer, Business Management Director

RESPONSE: The first payment for the American Legion property (\$3.6 million) was paid using the fund balance in excess of the 22% target level. At the end of FY16 fund balance was at 28.4%. Based on our calculations, \$3,583,033 was the dollar difference between the actual fund balance (28.4%) and the target fund balance (22%). A planned spend-down of \$3.6 million, for the first American Legion payment, should have put us at target at the end of FY17, assuming that the rest of the budget was balanced. Unfortunately, some revenues, including permits and charges for services fell short in FY17 and we did not achieve the projected budgetary savings, resulting in a fund balance of 20.0% at the end of FY17.

The practice of using fund balance in excess of target for one-time capital expenditures or OPEB prefunding contributions began in FY14. Uses of fund balance in excess of target are shown in the following table:

	FY14	FY15	FY16
Fund Balance Over Target	\$ 1,166,434	\$ 1,128,698	\$ 3,583,033
Use of Fund Balance:			
OPEB Pre-funding	558,000	500,000	
Rogers Road Project	558,000	500,000	
American Legion Property			\$3,600,000

Had the Town not bought the American Legion property, the \$3.6 million may have been used in a manner similar to previous years. That is, a portion might have gone to fund capital projects such as Rogers Road and a portion would have gone to OPEB pre-funding. However, this is speculation, Council could have made a different decision regarding the \$3.6 million.

In FY17 the Town began making OPEB prefunding contributions directly from the operating budget rather than from fund balance over target. Had the American Legion property not been purchased this contribution of \$525,000 may have been paid from fund balance, making an additional \$525,000 available in the General Fund.

The second and third payments for the property (\$4.3 million total) have been financed using Parks and Recreation Facilities G.O. Bonds. This does not impact the General Fund directly, but it does use a source of financing that may have been used for other projects. To the extent that the repayment of these bonds uses capacity in the Debt Management Fund, theoretically it displaces \$4.3 million of other projects that will need to wait until additional borrowing capacity is created.

Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION #9

QUESTION: During the presentation there was mention that the 1.2 cent increase for the general fund is overdue: Why? Why didn't we do it earlier? What is the rationale for increasing taxes for the general fund?

RESPONDENT: Kenneth C. Pennoyer, Director Business Management

RESPONSE: The reduction in fund balance below our target level at the end of FY17 indicated the need for additional revenue in the FY18 Budget to restore fund balance, however the results of FY17 were not known until after the FY18 Budget was passed. Therefore a tax increase was not recommended for FY18. Based on our current projections we believe that FY18 may also finish with a further reduction in fund balance. Basically, our revenues have not kept pace with our costs. We have used budgetary savings to balance budgets to the extent possible, but that strategy is no longer sufficient to balance the budget.

The rationale for increasing the tax rate is that we need the additional revenue to avoid a budgetary deficit in FY19 that will drive our fund balance even lower. At this point our undesignated fund balance is below our 22% target and we need to rebuild those funds. The fund balance is the Town's reserve or rainy day fund that protects us from unforeseen events that could have negative consequences on our ability to maintain services.

The attached document further explains the Town's use of fund balance to balance the General Fund budget and the history of how we arrived at this juncture.

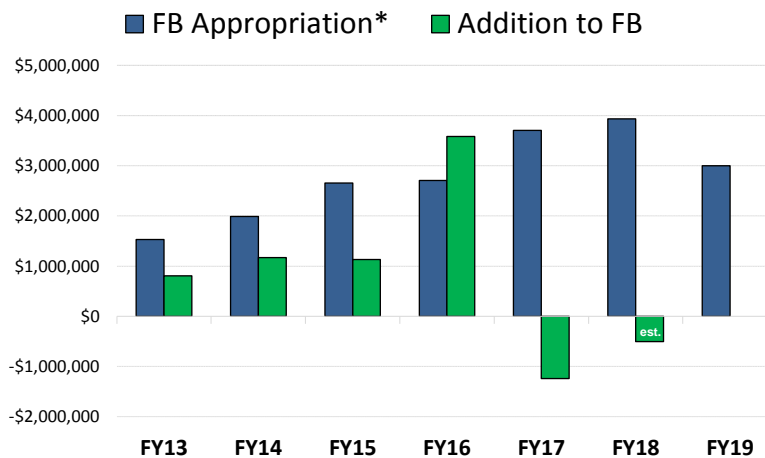
BUDGET QUESTION 9 ATTACHMENT

Balancing the General Fund Budget

- The budget is an estimate of expected financial needs to implement service for the next fiscal year.
- The process is inexact by nature because there are some future events that impact the budget that cannot be predicted accurately 4-16 months in advance, such as weather. So we budget for scenarios that hopefully give us a safety margin. That is, we try to budget for three winter storms if the average for the past few years has been 2. This means we may finish the year with unspent funds, in which case those funds would be put into fund balance and would be available to fund future budgets or could be used for one-time expenditures.
- Budgeting salaries presents a bit of a conundrum. We know we are going to have 8-10% vacancies during the year, but we don't necessarily know where (which department) those vacancies will be in. Chances are, if we guess, we will be wrong and will need to move a lot of money around near year-end to cover deficits in some departments with excess from others. Instead of doing this, we budget for 100% of salaries as if there would be no vacancies during the year. By doing this we avoid shorting departments that have fewer than expected vacancies. But at the end of the year we have a bunch of unspent funds from vacancies. The numbers are pretty big:
 - 8% vacancies is about 60 positions
 - The average Town employees is paid about \$65,000 per year (including benefits)
 - The math works out to be about \$3,900,000
- Having an extra \$3.9 million at the end of the year is the type of problem most folks would like to have, except there is a price to pay at the beginning of the year when we are trying to balance the budget. No one would feel good about a tax increase in a year when we finish with \$3.9 million of savings, but that is exactly what we would need to do to balance a general fund budget with no allowance for vacancies.
- How we have dealt with this issue is to use fund balance (non-current revenue) to balance the budget at the beginning of the year with the knowledge that budgetary savings, mostly from salaries, would off-set that fund balance appropriation so that the net effect would be no actual use of fund balance. In other words, we use fund balance as a proxy for salary and other savings in building the budget. We have done this in lieu of trying to reduce individual department salary accounts for expected vacancies during the year. Reducing individual department salary accounts for expected vacancies is practice known as "budgeting lapsed salaries." The Town has not used this practice prior to FY17.

- Prior to FY17 we had been appropriating greater amounts of fund balance each year as we continued to see significant savings at year-end resulting mostly from vacancies. (Please note that the Town has not attempted to slow the hiring process or freeze positions to achieve these savings.) The annual savings (additions to fund balance) in past years are shown in the following graph (green bars). As budgets got tighter in FY17 and FY18 we sought to capitalize on these year-end savings in excess of fund balance appropriation by beginning to budget lapsed salaries in larger departments where it was easier to predict the number of vacancies. Our reasons for doing this was to balance the budget and avoid a tax increase by taking advantage of expected year-end savings on the front-end of the budget process. We calculated how much lapsed salaries we could budget by taking the historic number of vacancies and applying average annual cost of an employee as shown in the third bullet above. Unfortunately, due to some revenue shortfalls and additional appropriations of fund balance during the year, we did not achieve the expected savings and our fund balance dropped to 20%. Our goal in FY17 had been to spend down fund balance from 28.4% to 22% using prior year savings for the American Legion purchase, but we missed our target.

General Fund Fund Balance Use & YR-End Additions



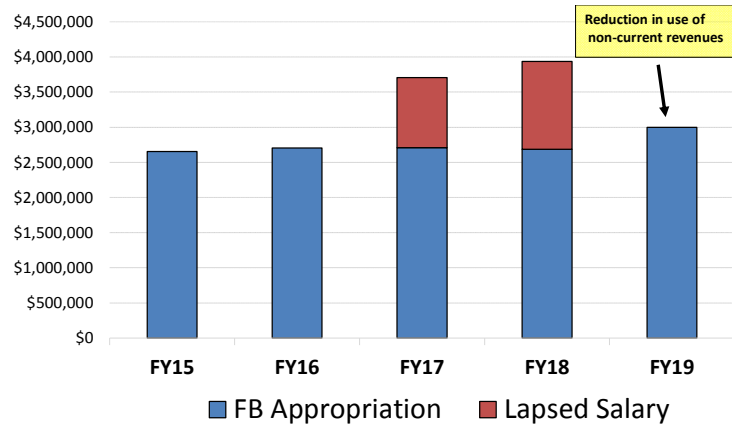
* Includes fund balance appropriation and budgeted lapsed salaries

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- The FY18 Budget was approved several months before we knew the final results of the FY17 Financial Audit that revealed the drop in fund balance below target. In FY18 we again used both fund balance and lapsed salaries to help balance the budget. Although it's too soon to tell, our projections suggest that we will finish FY18 slightly below break-even, meaning that fund balance will drop again.

- For FY19 we have eliminated the use of lapsed salaries and slightly increased the use of fund balance for a net reduction in non-current revenues of about \$1 million. This is illustrated in the graph below:

General Fund Fund Balance & Lapsed Salary Use



**Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION #10**

QUESTION: What is the effect of the proposed tax rate increase on property taxes for various levels of property values in Chapel Hill?

RESPONDENT: Ken Pennoyer, Director, Business Management

RESPONSE: See chart below

Impact of Proposed Town Tax Increase					
Assessed Property Value	Current Tax 50.8 cents	Proposed Tax 53.8 cent	Increase	Monthly Increase	
\$ 100,000	\$ 508	\$ 538	\$ 30	\$ 2.50	
150,000	762	807	45	3.75	
200,000	1,016	1,076	60	5.00	
250,000	1,270	1,345	75	6.25	
300,000	1,524	1,614	90	7.50	
350,000	1,778	1,883	105	8.75	
400,000	2,032	2,152	120	10.00	
450,000	2,286	2,421	135	11.25	
500,000	2,540	2,690	150	12.50	
550,000	2,794	2,959	165	13.75	
600,000	3,048	3,228	180	15.00	
650,000	3,302	3,497	195	16.25	
700,000	3,556	3,766	210	17.50	
750,000	3,810	4,035	225	18.75	
800,000	4,064	4,304	240	20.00	
850,000	4,318	4,573	255	21.25	
900,000	4,572	4,842	270	22.50	
950,000	4,826	5,111	285	23.75	
1,000,000	5,080	5,380	300	25.00	
Median home value					

**Budget Questions and Requests for Information
2018-19 Recommended Budget
Question #11**

QUESTION:

1. What is the impact of delaying the debt fund tax increase?

RESPONDENT: Kenneth C. Pennoyer, Business Management Director

RESPONSE: The Debt Management Fund cash flow projection includes the following assumptions regarding projects that will be financed from the fund over the next 5 years (FY19-FY24).

Project	Financing Cost	Financing Date	Debt Service	Interest Rate
MSC	\$ 34,100,000	5/01/19	\$ 2,430,000	4.0%
Wallace Deck	2,400,000	5/01/19	171,000	4.0%
Affordable Housing	5,000,000	5/01/19	360,000	4.0%
Blue Hill Phase II	2,600,000	5/01/19	184,600	4.0%
Affordable Housing	5,000,000	7/01/20	372,000	4.5%
Streets & Sidewalks	7,700,000	7/01/21	592,844	5.0%

Affordable Housing (AH) Bonds

It is assumed that the Debt Fund tax rate will be increased in the year that the affordable housing bonds are issued in an amount sufficient to cover the additional debt service cost. Based on the assumptions above the rate increase needed would total one penny, applied as follows:

FY20 – 0.5 cents

FY21 – 0.5 cents

Debt Fund Cash Flow (not including AH Bonds)

In order to keep the Debt Fund from experiencing negative cash flow one of two things needs to happen. Either the capital financing plan described above needs to be delayed or reduced significantly or the dedicated property tax needs to be increased. The amount of property tax increase needed depends on the year the tax is applied. The low-point for cash flow is FY2024-25, therefore the tax rate increase does not have to be instituted immediately however it does get more expensive with each year of delay.

Tax rate increase needed (not including AH bonds)

FY2018-19 - 0.80 cents

FY2019-20 – 0.95 cents

FY2020-21 – 1.15 cents

FY2021-22 – 1.35 cents

FY2022-23 – 2.0 cents

Delaying or Reducing Projects

The MSC represents the bulk of the Town's planned borrowing for the next 5 years, therefore any change to projects to delay or avoid a tax increase in the debt fund would impact that project. In order to avoid a tax increase in the debt fund altogether, the cost of the MSC would need to be reduced by \$9-10 million. Alternatively the project could be delayed approximately three years. This would solve the cash flow problem in FY2024-25, but the building cost is expected to escalate by 6% per year, adding about \$5 million to the project.

Budget Questions and Requests for Information
2018-19 Recommended Budget
Question #12

QUESTION: How can we evaluate the projected construction costs and potential cost savings strategies for the Municipal Services Center?

RESPONDENT: Eric Schoenagel, AIA, LEED® AP; Little

RESPONSE: I wanted to share some points for consideration in evaluating the projected construction costs and potential cost savings strategies for you to discuss with the Town Council. First, it's important to understand that when we create preliminary construction budgets we utilize a cost per square foot model to develop the budget. As such, there are only 2 ways to effectively lower the costs. The first is to lower the anticipated costs per square foot (how much we pay) and the second is to reduce the amount of building area (how much we build). I'll further outline my thoughts on both approaches below. I've also double checked with contacts in the construction market place and the currently budgeted amount of \$350/SF does align with similar projects constructed in the Triangle. If the final goal is to create savings of between \$9M and \$10M, I believe drastic measures will be required to achieve that kind of savings.

Cost Savings #1 – reduced construction costs (per sf)

- We believe that with careful consideration of the design of the building, and alignment of needs for the project with the budget, we can target a reduced cost of \$300/sf potentially saving \$3.6M. Some enhancements, for example solar panels or full building emergency power, could not be included. However, the building program and anticipated functionality would be preserved. The whole team would have to challenge ourselves to stay focused on the needs rather than the wants and everyone involved in the project, including Boards and Commissions, would need to buy into this approach to help achieve this savings.
- By targeting a reduced cost/sf, we will need to lower the cost of the finishes used within the building. To do this we may have to target specific areas to look at using more cost-effective materials for example linoleum tile in lieu of porcelain tile in the lobby.
- Due to the front-loaded costs with how the site is initially being developed, some savings could be achieved by reducing the amount of site infrastructure initially installed and/or by relocating the building to a flatter area of the site. Further savings could be achieved by reducing the amount utilities and of storm water measures installed initially.
- It might be possible to further Value Engineer the building, but past a certain threshold (level noted above) the cuts become drastic and generally affect the maintenance and operations of the facility. Typically, the results from this approach are increased operating (energy consumption) and maintenance costs.

- It might not be possible to save the anticipated \$9M to \$10M without drastic value engineering or further reductions to the site development or building area.

Cost Savings #2 – reduced building program area

- Reducing the building to 45,000 sf (cut 40%) a savings of \$9M could be achieved. Careful consideration of the building program would be required to achieve such a drastic cut.
- The Town would need to determine which program areas would be cut. Assuming the police program is not reduced, to achieve a 27,000-sf reduction at least 4 departments would have to be removed from the building in addition to a significant reduction in the shared/collaboration/meeting spaces.
- The reduction in area would reduce the site development area required by reducing parking. The police function might still require the dual entrances and connecting roadways.
- At times, smaller buildings can be less cost effective to build.

As you probably know, the current construction market is very volatile and experiencing a 4% yearly escalation rate. The costs/sf noted in option #1 are expected to work through our bidding in 2019.

If bidding were to be postponed past 2019 the 4% escalation should be included in any budgeting. For the \$25M construction budget (hard costs), this would equate to a \$1.1M in escalated costs. According to my contacts in the construction market place, they do not see a reduction in escalation for the next 2-3 years.

**Budget Questions and Requests for Information
2018-19 Recommended Budget
Question #13**

QUESTION: How many people work in Town communications?

RESPONDENT: Roger Stancil, Town Manager

RESPONSE:

***COMMUNICATIONS & PUBLIC AFFAIRS OFFICE
STAFFING COMPARISONS - IN FULL-TIME EQUIVALENTS***

	2016-17 ADOPTED	2017-18 ADOPTED	2018-19 RECOMMENDED
Communications & Public Affairs Director / Town Clerk	1.00	1.00	1.00
Town Clerk-Deputy	1.00	1.00	1.00
Administrative Assistant	1.00	0.00	0.00
Assistant Town Clerk	0.00	2.00	1.00
Office Assistant	0.53	0.53	0.53
Community Participation Coordinator	1.00	0.00	0.00
Communications Manager	1.00	1.00	1.00
Records Manager	0.00	0.00	1.00
Graphic Artist	1.00	1.00	1.00
Communications Specialist	1.00	1.00	1.00
Communications and Public Affairs Department Totals	7.53	7.53	7.53

Most Town communications staff are in Communications and Public Affairs office. In addition to the Director, who oversees both communications and Town clerk functions, there are two communications staff. The Graphic Artist provides support to the Town’s communications and web services. The balance of the positions in CAPA are primarily responsible for Town clerk functions such as Council meetings and advisory board support.

There is a communication specialist in public safety, who coordinated with CAPA communications staff as well as an individual in the Library and Transit, who have a role in providing communications support to those functions. All staff with a communications element to their job coordinate with our Communications Manager in CAPA to support the Town’s strategic messaging.

**Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION # 14**

QUESTION: How much revenue are we obtaining from the Tar Heel Express?

RESPONDENT: Matt Brinkley, Budget Manager
Kenneth C. Pennoyer, Business Management Director

RESPONSE: See chart below for breakdown of Tar Heel Express fare box revenues:

FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Adopted	FY 2017-18 Estimated	FY 2018-19 Recommended
\$ 366,468	\$ 329,503	\$ 324,160	\$ 280,757	\$ 390,445	\$ 340,445	\$ 340,445

Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION # 15

QUESTION: Why are we not projecting any increase in the hotel occupancy tax?

RESPONDENT: Matt Brinkley, Budget Manager
Kenneth C. Pennoyer, Business Management Director

RESPONSE: Based on our FY 2017-18 Occupancy Tax receipts to date, we believe that we will end the year at close to the budgeted amount of \$1,225,000. We are not seeing any significant growth in our year to year comparisons and sometimes the occupancy tax revenues are hard to predict. For those reasons we decided to be conservative and budget the same amount that we expect to receive in the current year. See history of Occupancy Tax in table below:

FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Adopted	FY 2017-18 Estimated	FY 2018-19 Recommended
\$ 1,044,856	\$ 1,100,478	\$ 1,202,746	\$ 1,187,080	\$ 1,225,000	\$ 1,225,000	\$ 1,225,000

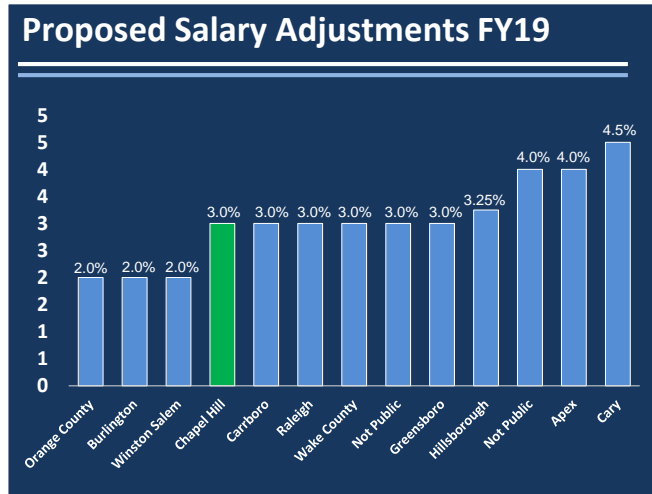
Budget Questions and Requests for Information 2018-19 Recommended Budget Question #16

QUESTION: How does our 3 percent salary increase compare with what is proposed by surrounding communities?

RESPONDENT: Matt Brinkley, Budget Manager
Kenneth C. Pennoyer, Business Management Director

RESPONSE:

The following chart shows the proposed salary adjustments for FY19 for surrounding communities:



The following table shows the historic pay adjustments for surrounding communities:

	Proposed Increase	FY18	FY17	FY16	FY15	FY14	FY13
Chapel Hill	3.00%	2.50%	2-1.5%	2.00%	3.00%	3.00%	\$ 800
Hillsborough	3.25%	3.25%	3.25%	N/A	N/A	N/A	N/A
Orange County	2.00%	2.00%	3.00%	2.00%	2.00%	3.00%	3.00%
Carrboro	3.00%	3.00%	1.50%	2.00%	2.00%	1.90%	3.00%
Burlington	2.00%	2.00%	1.5-3%	Pay Study	0.00%	5.00%	2.00%
	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%	2.00%
	3.00%	3-5%	3.25%	3.50%	2.90%	3.00%	2.00%
Wake County	3.00%	3.00%	Pay Study	2.75%	2.75%	2.75%	2.00%
Durham County	3.00%	2.00%	3.00%	3.00%	3.00%	4.25%	4.25%
Cary	4.50%	4.00%	4.00%	N/A	N/A	N/A	N/A
Apex	4.00%	4.00%	3.75%	N/A	N/A	N/A	N/A
Greensboro	3.00%	2.50%	3.00%	2.50%	2.00%	1.50%	1.50%
Winston-Salem	2.00%	2.00%	2.00%	N/A	N/A	N/A	N/A
	Budgets have not been made public yet						

Budget Questions and Requests for Information
2018-19 Recommended Budget
Question #17

QUESTION: Is it possible to define that portion of the expense budget that can be considered discretionary, i.e., not required for essential services or longstanding commitments?

RESPONDENT: Kenneth C. Pennoyer, Business Management Director

RESPONSE:

Identifying discretionary expenditures in the budget is problematic because what is discretionary is in the eye of the beholder. The list of things the Town must do by law is very short, but the list of things that we have chosen to do is much longer. Many people would think that 4th of July Fireworks is discretionary, but when the Town attempted to cut this expense there was a groundswell of support to add it back. To a significant group of people this was essential and not discretionary. There are many programs that we maintain that could be considered amenities or levels of service that are beyond essential. These programs exist because the Council and the community asked for them. Determining which are discretionary is a decision that should probably be made on a Council level with time for deliberation and community input.

With regard to specific expenses that might be considered discretionary, most provide benefits either directly or indirectly, to the organization that allow us to provide the level of service that the community expects and values. For instance, some might argue that travel and training expenses for employees are discretionary because they can be reduced with minimal short-term impact on services. However, over time our employees will be less prepared and less equipped to keep up with service demands. In addition, failure to invest in employee's professional development may increase the turnover rate for high performing employees who are looking for career advancement. This could also reduce our excellent record of internal promotions as our employees would either not be prepared to move up or they might prefer to pursue advancement at an employer that supports professional growth.

The Town's staff level budget reviews are designed to eliminate non-value added costs. Therefore we feel that we have provided a budget that supports the expected level of service and all of the budgeted expenditures contribute, directly or indirectly to that goal.

Budget Questions and Requests for Information 2018-19 Recommended Budget Question #18

QUESTION: There is a significant decrease in our vacancy pool (to zero). Does that translate to a lower vacancy rate and jobs being filled more quickly?

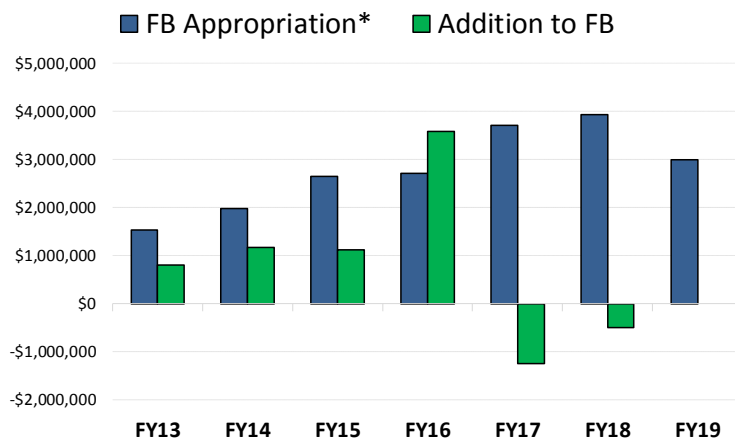
RESPONDENT: Kenneth C. Pennoyer, Business Management Director

RESPONSE:

While it out ongoing goal to fill needed vacancies more quickly, the reduction in vacancy pool is to adjust the amount of non-current revenues budgeted to avoid further draw down of fund balance. Appropriated fund balance and vacancy pool represent the two sources of non-current revenues used to balance the budget that are offset by the expected budgetary savings, which are mostly from lapsed salaries. We did not budget vacancy pool funds in FY19 in order to restore fund balance to the target level. Budgeting Vacancy Pool funds has no impact on the vacancy rate or the speed with which positions are filled.

The following table and graph summarize the change in use of non-current revenues and the year-end addition to fund balance (savings less non-current revenues):

	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Non-Current Revenue							
Appropriated Fund Balance	\$ 1,528,622	\$ 1,986,150	\$ 2,654,093	\$ 2,705,364	\$ 2,706,550	\$ 2,684,006	\$ 2,999,886
Vacancy Pool	-	-	-	-	1,000,000	1,250,000	-
Total Non-current Revenues	\$ 1,528,622	\$ 1,986,150	\$ 2,654,093	\$ 2,705,364	\$ 3,706,550	\$ 3,934,006	\$ 2,999,886
Budgetary Savings	2,336,588	3,152,584	3,782,791	6,288,397	2,467,129	3,450,000	2,999,886
Net (savings less: nc revenue)	\$ 807,966	\$ 1,166,434	\$ 1,128,698	\$ 3,583,033	\$ (1,239,421)	\$ (484,006)	\$ -



* Includes fund balance appropriation and budgeted lapsed salaries

Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION # 19

QUESTION: Can we see the major components of new expenditures, e.g. 3 percent salary increase, new programs/initiatives, etc.?

RESPONDENT: Matt Brinkley, Budget Manager
Kenneth C. Pennoyer, Business Management Director

RESPONSE: The Manager's Recommended Budget includes an increased investment in Building Maintenance (\$472,214). This is based on data from the Facilities Condition Assessment and the work of an internal staff task force that analyzed the Town's building maintenance needs. The budget also includes a 3% of market rate salary adjustment. There are no other major increases or new expenditures in the operating budget. The totals by fund for the salary increase are as follows:

General Fund	\$1,023,564
Transit	270,344
Stormwater	33,748
Housing	25,395
Parking	14,129
Total	\$1,367,180

Budget Questions and Requests for Information
2018-19 Recommended Budget
QUESTION # 20

QUESTION: The budget notes an increase of about 4.4 percent in RE valuations. What are the projects that have accounted for that and what are the associated dollar amounts for each?

RESPONDENT: Matt Brinkley, Budget Manager
Kenneth C. Pennoyer, Business Management Director

RESPONSE: The Manager’s Recommended Budget is based on a valuation of \$8,225,444,551 that was provided to the Town from both Orange and Durham counties. This number represents an increase of \$356,606,213 over the current fiscal year’s budget. We received figures from Orange County on some major developments that are driving this number (see table below).

The larger factor in the increased property valuation is the difference between the expected loss of value through appeals after the revaluation and the actual loss of value. Orange County’s post revaluation number included a significant allowance for losses due to appeals. The revenue neutral tax rate was based on this conservative number. The actual loss of value due to appeal was considerably less than expected and that translates into an increase in the 2018 valuation (the FY19 tax levy is based on the 2018 valuation). The source of this increase is revaluation of existing property that was not included in the 2017 valuation rather than from new development.

Property	2017 Valuation	2018 Valuation	Increase
Berkshire Apartments	\$61,604,500	\$68,603,700	\$6,999,200
Carolina Square	10,540,000	97,260,700	86,720,700
AC Marriot (3 parcels merged for 2018)	1,591,300	11,700,800	10,109,500
Greenfield Place	1,674,300	4,264,000	2,589,700
Total	\$75,410,100	\$181,829,200	\$106,419,100