



TOWN OF CHAPEL HILL

Town Council

Meeting Minutes - Draft

Town Hall
405 Martin Luther King Jr.
Boulevard
Chapel Hill, NC 27514

Mayor Pam Hemminger
Mayor pro tem Jessica Anderson
Council Member Donna Bell
Council Member Allen Buansi
Council Member Hongbin Gu

Council Member Nancy Oates
Council Member Michael Parker
Council Member Karen Stegman
Council Member Rachel Schaevitz

Monday, March 4, 2019

6:30 PM

Library Meeting Room B

Roll Call

Present: 9 - Mayor Pam Hemminger, Mayor pro tem Jessica Anderson, Council Member Donna Bell, Council Member Allen Buansi, Council Member Hongbin Gu, Council Member Nancy Oates, Council Member Michael Parker, Council Member Karen Stegman, and Council Member Rachel Schaevitz

Other Attendees

Town Manager Maurice Jones, Deputy Town Manager Florentine Miller, Mayoral Aide Jeanne Brown, Human Resource Director Cliff Turner, Assistant Town Manager Mary Jane Nirdlinger, Town Attorney Ralph Karpinos, Business Management Director Amy Oland, Budget Manager Matt Brinkley, Management Analyst David Finley, Budget Analyst Anna Hawksworth, Director of Organizational and Strategic Initiatives Rae Buckley, Police Officer Rick Fahrer, Deputy Town Clerk Amy Harvey, Acting Town Clerk Nikki Catalano

OPENING

Mayor Pam Hemminger called the meeting to order at 6:30 p.m.

ANNOUNCEMENTS

Mayor Hemminger stated she was sending a letter to Gov. Cooper the following morning asking him to restore the funding levels for bus maintenance to their previous levels. She mentioned that changes to last year's budget impacted the Town's transit by \$688,000.

Mayor Hemminger stated that the staff was working to bring more pop-up events to the downtown area and said that thanks to UNC, one of the venues would be at the former Ackland store at 109 East Franklin. The Orange Quilter's Guild would be celebrating their 40th anniversary with a pop-up quilt show and sale on Friday as part of the Art Walk.

Mayor Hemminger mentioned that Roger's Road Community drop in sessions would take place on Thursday, March 14th at 6 p.m. and Saturday, March 16th at 10 a.m. She said the Town has a project webpage for people wishing to learn more. She added that staff was working on another mailing to individuals living in the area and would make the appropriate updates to the names on the list.

Mayor Hemminger said the next upcoming Council meeting would take place on Wednesday with topics such as; repairs to the Wallace deck, temporary use of old Town Hall by IFC, funding requests from HABITAT, possible negotiation with KIDZU, and an update from UNC on Campus Development.

AGENDA ITEMS

1. Presentation: Strategic Planning Next Steps.

[19-0197]

Ms. Buckley reviewed a PowerPoint presentation regarding the upcoming steps in the strategic planning process. She said this was the ideal time to transmit the assessment that the Council participated in to review planning for the next work session in April and to provide a chance for the Council to ask questions or provide feedback before that work session. The next step was to have a common understanding with Council regarding the next steps in the work plan, she added. She highlighted the following feedback items: create specific measurable goals, conduct environmental scanning, staff and technical assistance, keep building strategic goal reports, and mid-level engagement with staff during planning. Ms. Buckley stated that Dr. Rebecca Tippet from the Carolina Demography Center/Carolina Population Center and Dr. Monica Allen, Mecklenburg County Director of Strategic Planning and Evaluation and UNC School of Government Adjunct Professor, will be present at the next work session to help staff and Council move forward with strategic planning. Dr. Allen suggested not adding specific goals to the work plan without completing an environmental scan. Prior to the work session in April, information from Carolina Demography with data metrics will be given to the Council. Staff will be building out the goal area reports for the other strategic goal areas in order to provide all information to Council by March 20th via email. Ms. Buckley recommended that the Council read the information provided prior to the upcoming work session and ask all clarifying questions they may have. Additionally, she invited the Council to come to the work session with ideas for adding measures and specificity to the goal areas.

Council member Michael Parker asked if it was possible for staff to go back through the last two or three community surveys to look for ongoing community issues and concerns. He felt that using this data would help the Town keep with their goals. Ms. Buckley thanked Mr. Parker and said she would work on that.

Council Member Gu asked what would be included in the environmental scan.

Ms. Buckley said the scan would include baseline information about the current conditions of the community; education, demographics, and employment information.

Council Member Gu asked Ms. Buckley to clarify that the environmental scan was not restrictive to the natural environment. Ms. Buckley stated that perhaps it was a term that doesn't imply what it actually means and stated they would see if there was another term that may be better.

Mayor Hemminger said that the Council was making steps forward in the use of single use plastics in "Skip the Straw" month. She recommended the use of either compostable and biodegradable items over plastic or Styrofoam eating utensils. She mentioned that Walmart recently announced an environmental goal of reducing plastics by 2025.

2. Council Work Session on the FY 2019-20 Budget Development.

[\[19-0198\]](#)

Mr. Jones stated that this work session would be a follow up to January's Budget Retreat. He mentioned questions were raised at the January work session and said that staff responses to Council could be located on the website. Mr. Jones stated that this discussion would reflect where the Town is in the budget, to assist in developing a framework for future budgets, and to review and obtain feedback on the draft financial policies discussed in January.

Mr. Jones began a PowerPoint presentation and highlighted that the Town's budget was a reflection and extension of the Town's mission and the Town Council's seven strategic goal areas. He spoke on the Town's budget foundations and focused on the smart investments in the maintenance category. Mr. Jones explained that maintenance had been short changed in the past to assist in maintaining the budget but mentioned that the Town would have to work on getting their hands around that area to make sure the Town maintained their assets.

Mr. Jones guided the Council through the general fund revenues. He explained that property taxes are the largest revenue source at 47.4% of the budget and compared this to fiscal year 2012 which was at 54%. He explained that property taxes are not keeping pace with the cost but mentioned both sales taxes and occupancy taxes have shown steady growth over the last three to five years.

Council Member Schaevitz asked Mr. Jones whether occupancy taxes folded into sales tax. Mr. Jones replied, no, that they were separate and said it

was located in other taxes.

Ms. Oland continued the presentation and explained property taxes are at this point estimated to increase 1.1%. She stated that in terms of sales tax, the Town has historically been budgeted at 5% but that they are actually looking at a 6.4% increase. She mentioned attending a conference where the North Carolina League of Municipality mentioned higher than anticipated sales tax growth statewide at 6.5%. She reiterated the growth in occupancy taxes Mr. Jones had previously stated and reviewed the negatives, mentioning it was not an area to be concerned about as there are usually slight fluctuations. Ms. Oland explained that large increases in licenses and permits were being driven by inspection revenues and asked the Council to note that all money received for inspections must be spent for inspection purposes. The next largest percentage area of growth was the category of other revenues which consists mainly of interest revenue, Ms. Oland added.

Ms. Oland addressed a question from the retreat regarding property taxes and whether revenues at 49.1% for property taxes for fiscal year 2019 were good. In response to the question, Ms. Oland displayed a graph showing the other 11 North Carolina AAA rated municipalities showing where Chapel Hill falls in relation to other jurisdictions. She explained Chapel Hill was on the lower end compared to others and that the Town relies less heavily on property taxes. Ms. Oland said that the two biggest factors that impact property tax revenues are assessed valuation and property tax rates. Referring to the graph, Ms. Oland stated property tax rates had a negative increase and stated it's a result of the last revaluation from fiscal year 2009. She remarked the Town had not grown their rate like other jurisdictions have.

Council Member Parker commented that by adhering to the revenue neutral tax rate, the Town has been washing out all new construction from the revenue base. He stated this should be thought of when moving forward and that calculations should be made showing what tax rates on the existing properties would be while also finding a way to capture the value of new construction which is being lost at this point.

Ms. Oland explained that part of the calculation is supposed to take into account some growth but not all growth is able to be captured which in turn results in a loss of valuation that would have been added. Based on the graph presented by Ms. Oland, she demonstrated that the Town is not getting as much revenues based on the cumulation of the assessed valuation growth and the property tax rate is not keeping with the growth.

Council Member Oates asked whether being revenue neutral lowered the tax rate for everyone. Ms. Oland said that across the board, the rate goes down as things go up. She stated some taxpayers would win while others

lose depending on how their personal valuation changed but explained that the calculation is supposed to in theory net out so that the Town, using the revenue neutral rate, would bring in the same amount of revenue from the prior year. She stated that bottom line some growth is lost by going back to the revenue neutral rate.

Council Member Oates asked for an explanation on how the growth is lost. Ms. Oland responded that rolling back to the old tax rate does not allow a gain in the growth that would have been seen if a revaluation had not been completed.

Council Member Schaevitz questioned the rational for why the Town reverts to revenue neutral. She asked whether it was because it had been a long time since a revaluation had been done and asked if it would have resulted in sticker shock for taxes to rise so dramatically. Ms. Oland stated that the Town is legally mandated to publish the revenue neutral rate. Without doing so, she stated, you are in essence given a tax increase.

Mayor Hemminger commented that it had been eight years since the last revaluation. She stated the difference in the housing prices for the expensive houses came down while the less expensive houses rose up. If the tax rate had been increased, the smaller houses would have been penalized. The decision was made not to penalize the smaller houses.

Council Member Schaevitz asked Ms. Oland if completing a revaluation more frequently would result in less motivation to roll back to the revenue neutral tax rate. Ms. Oland stated that she believed it to be a factor of what's happened in the economy.

Council Member Schaevitz asked Ms. Oland if she knew which cities and towns on the graph opted in favor and which opposed revenue neutral tax rates. Ms. Oland explained that each city and town has a revaluation done at different periods but stated she would provide that information.

Council Member Gu asked whether there was a way to separate these two measures. Ms. Oland stated that staff has asked for information from the county and that the county had been unable to provide information related to the increase regarding revaluation verses new growth. She said they will follow up to see if they can provide information related to larger projects and return to the Council with information.

Ms. Oland resumed her presentation. She informed the Council that over the last 10 years the Town has averaged an increase of 5.3%. As more information is gathered from the state as revenues come in over the next month or two, the Town will evaluate to see whether the numbers are low based on collection information.

Council Member Parker remarked that a recession has not occurred in a long time and asked if the staff is comfortable continuing to project out the 5% knowing that every year without a recession is one year closer to one. He questioned what kind of cushion the Town has if a recession occurs. Ms. Oland stated staff was pretty confident with 5% as it is conservative. She stated information from the League of Municipalities had estimated a 5.3% growth for next year but informed Mr. Parker that the staff would continue to monitor collection rates.

Ms. Oland continued her PowerPoint presentation and reviewed state shared revenues and charges for services.

Council Member Parker asked Ms. Oland where charges for fire inspections were located. He commented that this area seems to be causing the business community a great deal of angst as it is not bringing an enormous amount of money. Ms. Oland asked Mr. Parker if he wanted staff to return with information that they had, and Mr. Parker agreed.

Ms. Oland resumed her presentation with information on licenses and permits.

Mayor Hemminger asked whether numbers on the graph had shifted in the last few years, and Ms. Oland remarked that numbers had remained fairly steady.

Ms. Oland continued on the topic of Fund Balance. She stated the fund had been used in 2017 to place a down payment on the American Legion building, to set up the OPEB Trust and the Affordable Housing fund. She reviewed the general fund expenditures for FY2019-2020 and explained that the total of \$66,676,363 was a .47 increase over the prior year with a majority being the 1.2% retirement increase in fiscal year 2020. She stated the total represents the core budget with no additions, no pay increases, or health insurance increases.

Council Member Parker asked Ms. Oland to clarify that there had not been any increases in the county's contribution to the Town's library. Ms. Oland stated that that was correct. He asked if any steps had been taken to have conversations regarding that information, and Mayor Hemminger replied there would be a meeting regarding this topic later in the month.

Mr. Jones resumed the PowerPoint presentation. He reviewed the baseline budget and informed the Council that staff was addressing expenditure areas internally. He touched on areas that could see significant changes between now and May, such as, employee pay raises and health insurance. Mr. Jones informed the Council that staff was looking to have a classification and compensation study to gather a sense of where the

Town is regarding pay since it has been about six years since the last study was completed. He informed the Council that the study could range between \$50,000-\$100,000 depending on the extensiveness of the study.

Council Member Parker asked about the Town-wide traffic model he had previously mentioned at a cost of \$250,000 and asked where that fit in. Mr. Jones stated the staff was having discussions about it and said they may be able to get funding for the majority of it which is why it is not listed.

Council Member Parker asked for assurance that the \$66,600,000 total assumed no tax increase and sought reassurance that the capital campaign driven design, pay-raise, and health insurance were not included in the total. He inquired as to whether any of these items would lead to a tax increase. Mr. Jones stated he was correct and that the \$66,600,000 did not include a tax increase and said they did not necessarily lead to a tax increase on the general fund side but an increase could be seen on the debt service side.

Council Member Buansi asked what the schedule was for the sales tax revenue redistribution. Ms. Oland replied that it all funnels from the state to the county and then from the state to the municipalities. She informed Council Member Buansi that when the state distributes to the county, the county for a couple of articles has the option as to how they can keep a larger portion or can say how it gets distributed to the municipalities. She stated that there was a three-month lag in distribution and explained that collections for the month of March would be from December sales.

Council Member Gu asked if there was any plan for a climate action plan. Mr. Jones stated that it was currently being worked on, with John Richardson leading the project, and stated that Mr. Richardson was working on trying to get an understanding of the cost. It would take about three weeks to gather an estimate, stated Mr. Jones.

Council Member Gu asked if that included stormwater maintenance and if it was planned for or if it was included in the budget. Mr. Jones replied that stormwater maintenance was a separate issue. He explained that it was a big-ticket item and suggested a longer conversation with Council to include as part of a five-year plan. He stated that if there was anything done regarding stormwater in fiscal year 2020, it would be more from a planning perspective.

Mr. Jones resumed his presentation and spoke on maintaining core services. He explained the Town would be looking for opportunities to find savings within the budget; the goal of maintaining core services would remain. He stated the Town was looking at market adjustment options for employees, yet a definite decision had not been reached. Mr.

Jones said there would be an increase in living wages, medical insurance increases, and retirement system increases.

Ms. Oland resumed her presentation of core services and highlighted large-scale maintenance areas. Ms. Oland explained that in fiscal year 2016-17 a facilities condition assessment had been performed at a cost of \$8 million. This assessment identified tasks and projects to be completed over a 15-year period. She stated the Public Works Department has an interest in updating the assessments to a five-year schedule to ensure they are keeping up to date with facility needs.

Council Member Parker commented that if the Town already knows they are under \$600,000 for fiscal year 2019, shouldn't that amount be rolled into the subsequent years. Ms. Oland stated that if the Town does not fund in one year, it would accumulate down the rows. When the allocation is received, the priority projects are reviewed and the list of projects is re-evaluated each year.

Ms. Oland reviewed the next largest need area, the Pay as you go (Pay-go) Capital, which addresses small scale capital projects such as greenways, playground equipment, small scale building maintenance, technology and public safety equipment. She described the fund as unsustainable and stated there are current needs that have to be addressed and wanted the Council to note this area during the development for future years.

Council Member Parker asked Ms. Oland if she had an idea of what the funding should be. Ms. Oland stated that the staff is currently in the process of reviewing CIP requests and information will be put together for review in the manager's recommended budget.

Ms. Oland reviewed the topic of vehicle replacement, the funds used to replace the Town's fleet. She informed the Council that the amount had been reduced in past years to assist in balancing the budget but explained this would eventually result in higher maintenance costs as the fleet ages. Council Member Buansi asked Ms. Oland whether this amount included buses. Ms. Oland replied that buses were not included in the Town's fleet. Mayor Hemminger asked Ms. Oland if it included the police cruisers. Ms. Oland responded that police cruisers are included and clarified that the fleet did not include firetrucks as their replacements are too costly. She explained that other funding sources have since been located for those vehicles.

Mayor Hemminger asked if the Town had looked into energy efficient or hybrid type vehicles. Ms. Oland responded that the fleet manager and staff have looked into conversions as vehicles are replaced.

Council Member Rachel inquired as to what happens to the older vehicles, and Ms. Oland responded that they are sold through an online site called Govdeals, with private parties, and to other governments.

Ms. Oland reviewed the street paving portion of the large-scale maintenance needs. She stated this area has been constant but informed the Council that the needs are outpacing the money funded annually.

Mr. Jones continued the presentation on the debt fund on capital financing.

Council Member Parker asked if there was a sense of when projects would be addressed in regard to affordable housing (AH). Mr. Jones stated the AH staff were working on determining the order of AH projects and that those projects would be discussed with Council in the spring or summer.

Mr. Jones explained the goal of developing a five-year plan. He addressed the topic of draft financial policies which he commented was discussed with the Council at the last retreat and stated that a fiscal policy guideline had been sent to the Council last week for consideration. Areas covered in the policy were debt policy, fund balance reserves policy, cash management, investment policy, and OPEB prefunding policy. He proposed the following steps:

March 20: Public Forum.

May 1: Managers Recommendation Budget.

May 8: Public Hearing.

May 15: Budget Work Session.

June 5: Budget Work Session.

June 12: Proposed Budget Adoption.

FEEDBACK ITEMS:

Council Member Schaevitz inquired as to how the climate action planning was going to affect the budget.

Council Member Stegman questioned how the Town would recommend keeping taxes from an increase. She voiced her curiosity as to the Town Manager's recommendations. Mr. Jones stated that the Town looks for savings opportunities but informed Council Member Stegman that the numbers for AH and the debt service were significant cuts needing to be made. Council Member Stegman asked if there were other services that could be cut, whereas Mr. Jones responded that if Council preferred reducing services over tax increases the Town could do that. Council Member Stegman stated she would be interested in that option.

Council Member Parker requested information to be brought to the Council

prior to May 1st regarding the transit budget and also asked for a better understanding of what would occur if a tax increase was inevitable.

Council Member Oates inquired if there was an accumulation of money gathering in the inspections budget. Mr. Jones responded that he was unsure if there was much of a reserve fund in that area. Ms. Oland explained that there would be new reporting requirements showing a reservation in the fund balance so it would stay a reserve for inspections. Although the money has to be spent for inspections, she mentioned it does not need to be spent in the year collected. Council Member Oates asked if the money could be kept in the fund to continue saving and Ms. Oland stated, yes.

Council Member Buansi stated there had been news from the Actuary and the State Treasurer's office that this likely would not be the only year a rate increase would need to take place and urged the Town's staff and Council to keep that in mind when planning for future budgets. Mr. Jones acknowledged that this would be a great conversation to have when designing the five-year plan.

Council Member Gu requested to see the long-term plan on how to correct the inconsistent increases between revenue and expenditures. Mr. Jones responded that the most important step would be to develop a five-year plan to gain an understanding of what initiatives the Town wants to invest in and which core services to reduce.

Council Member Gu commented that the biggest driver in the expenditure is personnel and asked Mr. Jones if he was in agreement. He stated that this area is one of the drivers of expenditure increases. Council Member Gu then asked if he thought it was the most important driver in the increase. Mr. Jones replied that it is the most important driver in terms of delivering services.

Council Member Gu asked how much new construction needed to happen to equal the 3% increase in the tax revenue. Mr. Jones asked for clarification of Council Member Gu's question and asked if her interest is in knowing how much of an increase is needed in order to meet the Town's future needs. Mr. Jones stated that detailed information would be brought to the Council at a later time but stated a significant amount of new construction would be needed to generate the revenue necessary to catch up to the growth being seen on the expenditure side.

Council Member Gu emphasized a sense of urgency about bringing the revenue growth together with the expenditure growth and stated that she believed the Town has been in the same position since last year.

Council Member Bell questioned the decision to go revenue neutral and

wondered how to know what areas of the budget can be flexible and which areas the Town should not be flexible. She wondered if the Town had a recovery plan should there be a recession.

Mayor Hemminger requested updates to any budget changes regarding health insurance and the state retirement program prior to April. She stated that she believed the Council should be responsible for adequately funding all the projects on the list and to not leaving a debt for the next Council. She stated she believed the Blue Hill project should be listed as one of the projects. She explained that if money is being spent, the Council has to be able to show how and why it's not coming from these other numbers. She believed the Town needs to help increase the revenues from the commercial base to help the tax rate.

Mayor Hemminger stated the policy on the fund balance was a little concerning but thought the policy was a good guideline and pathway to follow. She suggested the staff list the vehicles included in the vehicle maintenance and advised including the enterprise funds on future presentations.

Mr. Jones asked if the Council was interested in having another discussion in April and stated he and the Mayor would discuss meeting.

ADJOURNMENT

The meeting adjourned at 8:15 p.m.