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May 4, 2022

Dear Mayor and Council:

I am pleased to formally present for your consideration, the Fiscal Year 2022-2023 Recommended Budget for the Town of Chapel Hill. The total budget of \$127,716,587 is an 8.9% increase from FY 2022.

Last year, our budget restored some of the funding we reduced in previous fiscal years, and also invested in our future with improved recurring revenues. This put the Town in a strong position to recover from the immediate impacts of the COVID-19 pandemic and restored our focus on long-term priorities, especially those that require an ongoing commitment, such as climate action, social equity, and infrastructure.

It is our hope that we have emerged on the far side of this global pandemic, and we recognize that our world will be returning to a “new normal”, that will require us to remain flexible during this time of transition. In the face of our many challenges, we are optimistic.

A municipal budget is an expression of the community's values, and I believe this budget reflects the values of Chapel Hill.

### **Recovery**

Last year, the Council invested in several key areas informed by the 5-year budget strategy, including:

- Climate Action Planning,
- Downtown Recovery & Resiliency Planning,
- New parking in the East Rosemary Street Parking Deck,
- Human Services,
- The Reimagining Community Safety Task Force Recommendations,
- Hiring a Diversity Equity and Inclusion Officer, and
- Funding for preserving and creating affordable housing units in Chapel Hill.

We also made important investments in our employees, who deliver our valuable services, through initial implementation of the Classification and Compensation Study.

## **Moving Ahead**

This year, we are fortunate to have the opportunity to continue building a strong future due to continued federal funding and strong revenue growth.

We have been conservative in managing our budgets through the global COVID-19 Pandemic. Although we did lose revenues during the pandemic, we have also experienced two years of historic sales tax growth. This unexpected condition allowed us to rebound more rapidly than expected. This past year, the Council was able to reinvest surplus revenues—due to a combination of job freezes and high sales tax revenues as well as increases in property values—and we invested in critical infrastructure and our people.

With the American Rescue Plan Act (ARPA) funds—which have federal limitations on eligible uses, we expect to be able to backstop some of our budget shortfalls and to invest in recovery efforts, such as the ReVive economic plan, so our community can bridge the gap from where we've been and where we plan to go as a community. Council has also expressed an interest in supporting parks and recreation needs, assisting those who were most impacted by the pandemic, assisting non-profit organizations as they recover from the pandemic and providing funding to revitalize Downtown Chapel Hill. Decisions related to ARPA funding will occur later this spring and in the fall of 2022.

## **Planning for the Future**

As we look ahead, we have taken a moderate approach to projecting revenues, anticipating continued growth in programming and downtown activity. The one-time federal recovery funds will support our businesses and our community in the next year as we move into what we hope will be our new normal. We know that an important part of our future will be continued investment in our people and our services.

The Council identified several priority areas in the Council retreat and budget discussions.

- Climate Action
- Affordable Housing/Ending Homelessness
- Reimagining Community Safety task force
- Diversity, Equity & Inclusion (DEI)
- Human services
- Multimodal transit plan
- Economic development
- Downtown master plan
- Parks & Recreation
- Community Arts and Culture

This year’s budget attempts to balance our wants and needs with the revenues on hand. Though we have certain committed costs, fortunately we also have revenue increases and a healthy amount to commit to addressing our needs.

**FY 2023 Budget Commitments**

<b>Committed Costs</b>	<b>Amount</b>	<b>Revenue increases</b>	<b>Amount</b>
Health insurance increase 2%	\$ 96,282	Property tax 1.8%	\$ 3,600,000
0.75% retirement rate increase	252,119	Sales tax 6%	3,685,793
Revenue reductions	354,000	Occupancy tax 66.7%	500,000
Absorption of Class and Comp Phase 1 implementation	2,281,587	Powell Bill 24%	345,656
		School Resource Officer	432,342

As in previous years, our departments have identified needs in excess of the funds we have available. While we are not able to fund all these needs at this time, they have been incorporated into our 5-year budget planning efforts.

**Department Needs (requested FY 2023 adds)**

Operational cost increases	\$ 673,000
Building maintenance	362,000
Street resurfacing	591,000
Vehicle replacements	1,480,000
Personnel needs	3,100,000

The Council has expressed an interest in restoring some of the cumulative reductions the Town has made over time. Although we cannot address every need at once, we will need to pace some of our future investments in facilities, maintenance, vehicles, roads, and infrastructure. Phasing our investments in these important areas allows us to maintain critical assets, and to be responsive to the interests of community members and property owners identified in the Community Survey.

**Recognize Town Employees**

Employees are our primary resource, and they continue to work hard as we recover and move ahead. Last year we made significant headway on implementing the Classification and Compensation study and a second phase will address some remaining compression issues. This year, I am recommending a tiered 4-5% of market pay increase (4% increases for employees who have been with us for less than five years and 5% for staff with five or more years of

experience with the Town) and we will reserve \$200,000 for the next phase of the Class & Comp implementation efforts.

Our healthcare broker continues to negotiate our health insurance premium to ensure the best possible rate. The recommended budget includes a 2% increase in health insurance, which is lower than last year's 5.5% increase.

### **Continue the 5-year Budget Strategy**

The Council Retreat in March 2022 focused on priorities for the future and how to pay for them. The Council reviewed the 2020-22 Strategic Goals and received an overview of the 5-Year Budget Strategy. During the retreat, Council affirmed the overarching priorities of Environmental Stewardship, Economic Development and Social Equity and discussed funding priorities for the upcoming year. The strategic initiatives funded in the recommended budget are listed below.

With the growth in our revenues, we can address some important needs with additional funding in FY 2023.

Vehicle Replacement	\$ 95,600
DEI	100,000
Grants Administrator	121,324
Compensation Analyst (1/2 year)	58,039
Council Stipends	40,000
Cybersecurity	68,000
Multifactor Authentication	30,000
Planning Technician	75,177
Cost of Service Increases	200,000
Parks & Recreation Maintenance	50,000
Affordable Housing & Homelessness Initiatives	80,000
Bike Ped Safety	75,000
Downtown Improvements	100,000
Human Services Escalator	27,325
Cultural Arts	20,000
Climate Action	80,000

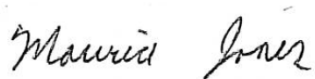
### **Refocusing on the Future**

The recommended budget restores funding needed to continue to deliver high-quality, core services to our residents, businesses, and visitors. The recommended budget also supports the Council's strategic goal areas from climate change to social equity and addresses critical workforce needs.

Chapel Hill has emerged from COVID-19 as well as any community in North Carolina. Our residents were determined to protect each other from infection and made significant sacrifices to do so. Our goal now is to rebound and move our strategic interests as a community forward. These investments in safety, diversity, climate, and quality of life are important steps in the right direction.

I believe this proposed budget offers the critical services and initiatives our community expects. It also continues Chapel Hill's long history as a leader in addressing the critical issues of our times with a strategic, thoughtful, and compassionate approach.

Sincerely,

A handwritten signature in cursive script that reads "Maurice Jones".

Maurice Jones  
Town Manager  
Chapel Hill, NC