

STAFF MEMORANDUM

TO: Mayor and Town Council

FROM: Maurice Jones, Town Manager
Amy Oland, Business Management Director
Matthew Brinkley, Budget Manager

SUBJECT: Consideration of Final Budget and Related Items

DATE: June 12, 2019

Enactment of the attached FY2019-20 Budget ordinance would establish the budget for 2019-20 and authorize related actions.

DISCUSSION

The proposed Budget Ordinance constitutes the annual budget for 2019-20. The ordinance reflects the Manager's Recommended Budget as amended based on discussions with the Town Council.

Strategic Priorities

Vision, innovation, collaboration, and dedicated employees serve as the foundation of the Town's efforts to build a community where people thrive. Our workforce is committed to meeting the expectations of the community and supporting the strategic goals of the Council. The FY 2019-20 Manager's Recommended Budget is reflective of, and responsive to, Council's strategic goals established in the 2018 Strategic Planning Framework. A description of the Strategic Goals is provided below.

Goal Area	What Success Looks Like
Connected Community	To create a highly connected community where bicycling, walking, and transit are convenient, everyday choices for our neighborhoods, businesses, and public spaces.
Economic & Financial Sustainability	To steward public assets and support a vibrant economy where there is opportunity for jobs and entrepreneurship that positions Chapel Hill for the future.
Safe Community	To preserve and protect life and property through the fair and effective delivery of Town services.

Affordable Housing	To increase the availability of and access to housing for households and individuals with a range of incomes, from those who are homeless to those in middle-income households.
Vibrant & Inclusive Community	To enrich the lives of those who live, work, and visit Chapel Hill by building community and creating a place for everyone.
Environmental Stewardship	To strategically manage the Town’s infrastructure and natural environment by promoting resiliency and sustainability.
Collaborative & Innovative Organization	To create an organization that works collaboratively from a mutual learning mindset, leads innovation, and produces effective outcomes for the betterment of the organization and community.

Budget Highlights

- There are no recommended reductions or additions to core municipal service levels provided by our operating departments. The personnel costs for the Town’s programs and services represent 74% of our expenditures.
- We have continued with our investment in maintenance of public facilities and infrastructure about \$472,214 to avoid greater costs in the future for replacement and reconstruction of those assets.
- Employee compensation changes included in the recommended budget are designed to keep the Town competitive in attracting and retaining the excellent employees who provide the excellent service recognized in the biennial community survey:
 - A 3.0% of market rate of pay adjustment for all classified employees employed with the Town as of June 30, 2019 to be effective July 1, 2019. Market rate is defined as the midpoint of each pay grade.
 - Pay adjustments to meet the Orange County Living Wage standards.
 - A 4.9% increase in the cost of providing employees health insurance.
- The Recommended Budget includes a proposed tax rate increase of 1.6 pennies per \$100 of valuation as follows:
 - A Debt Service Fund rate increase is 1.6 pennies per \$100 of valuation. One cent of this increase is dedicated to funding the \$10 million Affordable Housing Bonds approved by 72% of the voters in November 2018. The other 0.6 cent increase will assist in paying the debt service on other bonded projects like the future Municipal Services Center, Wallace Deck renovations and Elliott Road Extension.
- Changes to the Manager’s Recommended Budget based on Council suggestions include:
 - Increasing the Downtown Partnership funding (\$20,000)
 - Increasing the allocations made to the Food Council (\$29,110), Community Home Trust (\$5,370), and Project to End Homelessness (\$17,958)
 - Adding Community & Cultural Arts funding (\$23,500), which includes \$5,000 for the Orange County Veterans Memorial
 - Adding funding for the Housing Locator position at Orange County (\$15,000)
 - Adding funding for videography services at the Council on Economic Sustainability meetings and work sessions (\$13,000)

BUDGET SUMMARY ALL FUNDS

The following table compares the FY2018-19 Adopted Budget with the FY2019-20 Recommended Budget for all Town funds.

BUDGET SUMMARY – ALL FUNDS

Fund	FY19 Adopted	FY20 Recommended	Incr./Decr.	Incr./Decr. %
General Fund	\$ 66,357,000	\$ 68,552,000	\$ 2,195,000	3.3%
Transit Funds	24,024,185	24,802,491	778,306	3.2%
Stormwater	2,724,400	2,965,115	240,715	8.8%
Parking Funds	2,706,830	2,910,861	204,031	7.5%
Housing Fund	2,204,372	2,182,460	(21,912)	-1.0%
Debt Service Fund	8,274,231	9,845,432	1,571,201	19.0%
Capital Projects Fund	322,260	420,341	98,081	30.4%
Other Funds	4,357,916	4,341,057	(16,859)	-0.4%
Total	\$ 110,971,194	\$ 116,019,757	\$ 5,048,563	4.5%

Note: Includes intrafund transfers

THE FINAL BUDGET ORDINANCE

- The budget ordinance includes an increase to the dedicated Debt Service Fund tax rate.
 - The Debt Service Fund rate increase is 1.6 pennies per \$100 of valuation. One cent is dedicated to funding the \$10 million Affordable Housing Bonds approved by 72% of the voters in November 2018. The additional 0.6 cent increase will assist in paying the debt service on other bonded projects like the future Municipal Services Center.
 - The General Fund rate dedicated Transit Fund rate remain unchanged for FY20.
 - **The tax rates included in the Budget Ordinance are as follows:**

▪ General Fund	38.6
▪ Debt Management Fund	9.8
▪ Transit Fund	<u>6.0</u>
Total	<u>54.4 cents</u>
- The Budget Ordinance also:
 - Sets the Downtown Service District tax at 7.0 cents per \$100 assessed value (unchanged from FY19)
 - Makes minor adjustments to the Town's Fee Schedule (as described below)
 - Uses about \$3.4 million in existing fund balance, of which \$420,000 is for one-time costs such as capital improvements and \$315,000 is to implement interim remedial actions based on the results of the ongoing assessments of coal ash remediation at the police station property at 828 Martin Luther King Jr Blvd.
 - Maintains funding for core services and provides for a 3.0% market rate salary adjustment that will be implemented in July for all classified (full and part-time employees) employed as of June 30, 2019, including Council Members. This increase does not apply to the Town Manager or the Town Attorney.

FEE SCHEDULE

Net changes to fees included in the Manager's Recommended Budget for FY2019-20, total about \$175,000 in additional revenue and include the following:

- **Community Arts & Culture**
 - Changes to various special event fees related to Festifall and other future Town festivals (change)
 - New special event permit fee to offset the cost of providing stage rentals (new)
- **Fire**
 - New fire inspections fee to offset the cost of staff time in providing services that will be based on the square footage of a new construction project (new)
- **Public Works**
 - Increases in commercial solid waste services – part of a phased implementation of full cost recovery (change)
- **Parks & Recreation**
 - Increase in athletic facility rental fees – part of a phased implementation to align Town fees with the market rates (change)
 - New fee to allow individuals who rent the rose garden an opportunity to rent chairs onsite as needed for events held in the garden (new)
 - Round climbing fees to bring fee in-line with the Parks and Recreation user fee policy (change)
- **Planning**
 - 5% across the board fee increases to help offset the cost of staff time in providing services (change)
- **Inspections**
 - Increase to reinspection fees for commercial projects to help offset the cost of staff time in providing services (change)
- **Communications & Public Affairs**
 - New fee for records research requests (new)

FUND BALANCE

The Recommended Budget appropriates \$3,424,766 from the Town's fund balance to balance the General Fund budget. Based on our preliminary estimates it looks like we will finish the current fiscal year slightly above break-even. The FY2019-20 Recommended Budget does not budget lapsed salaries and thereby reduces the reliance on non-current revenues (appropriated fund balance + budgeted lapsed salaries). This is important for the Town to continue to meet the 22% undesignated General Fund Balance target. 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.

We are recommending that on an annual basis following the issuance of the Comprehensive Annual Financial Report in October, that we return to Council in late fall for Council to consider appropriating fund balance above the 22% target for capital or other one-time expenditures. In this manner, dependent on the level of fund balance, Council will have a method for funding priority projects.

DEBT ISSUANCE AND THE CIP BUDGET

The Debt Fund is the Town's primary source of repayment for capital borrowing. The fund was established in FY10 to isolate debt service payments from the General Fund so that capital investment decisions could be made independent of their impact on the operating budget. In other words, by assigning a dedicated tax to the debt fund, increases in capital investment would be dependent on the adequacy of Debt Fund revenues instead of competing with the cost of providing core services.

Currently the fund's revenues exceed the cost of annual debt service and the fund has a healthy fund balance. However, given the planned borrowing over the next 5 years, we have projected a deficit in the Debt Fund beginning in the FY24 timeframe. In order to address this deficit, we have recommended that Council adopt a 0.6 cent tax increase to the dedicated debt tax rate for FY20 so that we will not need to reduce or delay planned projects. We have also recommended that Council adopt a 1.0 cent increase to the dedicated debt tax rate for FY20 so that we can issue the \$10 million Affordable Housing bonds to carry out the projects approved by the voters in November 2018.

- **Pay-Go CIP** - For FY2019-20 the recommended Pay-go CIP is \$98,081 more than FY19, representing increases in facilities maintenance across the organization. The Pay-go CIP is funded from the annual operating budget and includes small-scale projects that can be completed within the fiscal year. The projects listed below represent our highest priority small-scale projects.

CIP Project	2019-20 Recommended Budget
Municipal Facilities	\$ 184,100
Leased Facilities	36,241
Infrastructure	100,000
Parks/ Public Use Facilities	100,000
Total	\$ 420,341

- **General Obligation (GO) Bond Referendum** - The successful 2015 bond referendum authorized \$40.3 million in GO Bonds, including \$34.4 million of General Fund Projects and \$5.9 million of Stormwater projects. To date \$21.5 million of the authorized bonds have been issued, as shown in the following table:

Bond Order	Authority	Issued	Balance
Streets & Sidewalks	\$ 16,200,000	\$ 8,500,000	\$ 7,700,000
Trails & Greenways	5,000,000	5,000,000	0
Recreation facilities	8,000,000	5,300,000	2,700,000
Solid waste Facility	5,200,000	0	5,200,000
Stormwater Improvements	5,900,000	2,700,000	3,200,000
Total	\$ 40,300,000	\$ 21,500,000	\$ 18,800,000

The authority to issue the remainder of the 2015 Bonds expires in November 2022. A three-year extension is available with approval of the Local Government Commission.

- Plans for future debt issuance include the following major projects:
 - Municipal Services Center \$34,000,000
 - Wallace Deck 2,400,000
 - Elliott Road Extension 2,600,000
 - Streets & Sidewalks 7,700,000
 - Affordable Housing 10,000,000

PERFORMANCE AGREEMENTS WITH OTHER AGENCIES

The FY2019-20 budget increases the amount allocated for performance agreements for Human Services, Affordable Housing, Arts and Economic Development by \$27,000. The net increase in the total amount of funding for performance agreements with other agencies is \$ 90,938. The recommended amounts include the following changes:

- An increase of \$29,110 to the Food Council.
- An increase of \$5,370 for the Orange Community Housing and Land Trust based on the funding formula in the interlocal agreement with the Towns of Carrboro and Hillsborough and Orange County.
- A one-time increase of \$17,958 for the Partnership to End Homeless Initiative based on the partnership funding formula.
- An additional \$15,000 set aside for the housing locator position.
- An additional \$23,500 set aside for community and cultural arts needs.

	2018-19 Budget	2019-20 Recommended Budget
Performance Agreements with Other Agencies		
Human Services	\$ 419,500	\$446,500
Arts	13,500	23,500
Public Health	0	29,110
Affordable Housing	424,547	449,375
Economic Development	270,000	270,000
Total Contributions to Agencies	\$ 1,127,547	\$ 1,218,485

MAINTAINING BASIC SERVICES

The Town is a service-based organization that relies on a skilled and flexible workforce to deliver a broad scope of governmental services. Personnel related costs account for about 75% of the FY20 General Fund Recommended Budget. The costs of maintaining a high performing workforce are increasing as the competition for labor increases. For the most part, the market dictates salary levels and as the economy has improved, we have seen increased turnover including a significant increase in retirements. The Town has remained competitive in the labor market by maintaining its comprehensive benefits package and through annual salary adjustments.

The FY20 Recommended Budget includes a 3.0% salary adjustment effective July 1, 2019. This adjustment will be based on the market rate (mid-point) within each pay grade so that employees currently making less than market will receive slightly larger percentage increases than those currently making more than the market.

FARE FREE TRANSIT SYSTEM

Chapel Hill Transit operates as a pre-paid system, resulting in no fares being collected on the bus. The FY2019-20 Transit operating budget reflects a 4.3% increase as a result of a \$1.3 million increase from the Orange County Transit Plan for the purchase of bus replacements. The changing and unreliable nature of federal funding for bus replacement has significantly changed the financial picture for the Town's Transit operations. In the past, 80% of the cost of replacement buses has been funded through Federal grants. As those grants dried up, the Town and its funding partners were forced to finance the purchase of 14 buses through debt in FY 2017 in order to keep the fleet from falling into a state of decline that would ultimately jeopardize service delivery. While debt spreads the cost over a 10-year period, the Town and its funding partners are now paying 100% of the cost of these new buses. In the last couple of years, there has been a turnaround and we have received grant funding that has allowed the Town to purchase and replace 12 buses plus an addition 8 that are on order.

BUDGET ORDINANCE

The components of the Budget Adoption Ordinance for FY2019-20 are as follows:

1. **Appropriations** – Authorization of funds to be expended in the FY2019-20 Budget by function and fund.
2. **Revenues** – Estimated revenues expected to be available during the FY2019-20 Budget Year.
3. **Tax Levy** – Tax rates for the General, Debt, and Transit Funds expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2019.
4. **Special District Tax Levy** - Tax rate for the Downtown Service District expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2019.
5. **Authorities for Transfers and Adjustments** – Defines the authority to move funds among and between functions, projects and funds.

6. **Classification and Pay Plan** – Establishes salary grades, position classifications, and certain general provisions concerning payment of Town Employees for the FY2019-20 Fiscal Year. The Manager is authorized to make changes to the Plan during the fiscal year within the adopted budget.
7. **Recommended User Fees** – Establishes all fees, fines and charges that may be imposed during the FY2019-20 Fiscal Year.
8. **Stormwater Fee** – Establishes the stormwater fee for FY2019-20.
9. **Reappropriation of Outstanding Purchase Orders** – Appropriates encumbered balances from prior fiscal year so that financial obligations created in FY2018-19 can be paid in FY2019-20.
10. **Performance Agreements** – Authorizes allocation of funds to agencies participating in the Outside Agency application process for performance agreement funding, in the aggregate amount approved by Council.
11. **Recycling Collection Services** – Authorizes Orange County to provide recycling collection services within those areas of the Town situated in Durham County and to impose and administer a basic services fee for recycling services and a solid waste convenience center fee for residents within those areas of the Town situated in Durham County.

RECOMMENDATION

We recommend that Council take the following actions regarding the approval of the FY2019-20 Budget:

- Enact the attached ordinance establishing the FY2019-20 Town Budget.

Attachments:

1. Budget Ordinance
 - a. Classification & Pay Plan Effective July 1, 2019
 - b. Fee Schedule