

MEMORANDUM

TO: Mayor and Town Council

FROM: Roger L. Stancil, Town Manager
Kenneth C. Pennoyer, Business Management Director
Matthew Brinkley, Budget Manager

SUBJECT: Consideration of Final Budget and Related Items

DATE: June 13, 2018

Enactment of the attached FY2018-19 Budget ordinance would establish the budget for 2018-19 and authorize related actions.

DISCUSSION

The proposed Budget Ordinance constitutes the annual budget for 2018-19. 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 2018-2019 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

- The budget includes several cost control measures to minimize the needed tax increase, while maintaining our focus on core services and Council Strategic Goals. These measures include:
 - Introducing a deductible for our employee medical insurance plan. The Employee Healthcare Taskforce supports this recommendation.
 - Maintaining OPEB pre-funding contributions at FY18 levels rather than increasing by 20% as planned
 - Reducing pay-go capital expenditures by \$230,000
 - Reducing certain General Fund operating costs totaling about \$464,000.
- There are no recommended reductions or additions to core municipal service levels provided by our operating departments. There are no recommended new positions. The personnel costs for the Town's programs and services represent about 75% of our expenditures.
- Our investment in maintenance of public facilities and infrastructure is increased about \$470,000 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, 2018 to be effective July 1, 2018. Market rate is defined as the midpoint of each pay grade.
 - Pay adjustments to meet the Orange County Living Wage standards.
- The Recommended Budget includes a proposed tax rate increase of 2 pennies as follows:
 - A General Fund rate increase of 1 penny per \$100 of valuation. This increase will maintain core service levels and help to rebuild fund balance, which fell below the Town's established target of 22% after FY17. This increase is only the second one cent increase since 2010. With the revenue neutral adjustment with revaluation in 2018, the proposed rate is actually .2 cent less than it was in 2014.

- A Transit Fund tax increase of 1 penny per \$100 of valuation. This increase is necessary to finance bus replacement and to bolster depleted reserves.
- Changes to the Manager's Recommended Budget based on Council suggestions include:
 - Funding a pilot project for providing childcare and/or transportation for advisory board members as a way to increase diversity on our boards and commissions. (\$5,000)
 - Funding for an initiative to enhance urban design review in our development review process. (\$75,000)
 - Restoring funds to the budget for economic development (\$10,000)
 - Delaying an increase in the Debt Management Fund dedicated tax pending Council evaluation of the capital investment program.
 - Increasing occupancy tax revenue projections by \$50,000.

BUDGET SUMMARY ALL FUNDS

The following table compares the FY2017-18 Adopted Budget with the FY2018-19 Recommended Budget for all Town funds.

BUDGET SUMMARY – ALL FUNDS

Fund	FY18 Adopted	FY19 Recommended	Incr./Decr.	Incr./Decr. %
General Fund	\$ 63,531,000	\$ 66,357,000	\$ 2,826,000	4.4%
Transit Funds	23,942,992	24,024,185	81,193	0.3%
Stormwater	2,722,030	2,724,400	2,370	0.1%
Parking Funds	2,668,762	2,706,830	38,068	1.4%
Housing	2,304,199	2,204,372	(99,827)	-4.3%
Debt Service	7,542,793	8,274,231	731,438	9.7%
Capital Projects	561,260	322,260	(239,000)	-42.6%
Other Funds	4,034,352	4,357,916	323,564	8.0%
Total	\$ 107,307,388	\$ 110,971,194	\$ 3,663,806	3.4%

Note: Includes intrafund transfers

THE FINAL BUDGET ORDINANCE

- The budget ordinance includes increases to the General Fund tax rate and the dedicated Transit Fund tax rate.
 - The General Fund rate increase is 1 penny per \$100 of valuation. This increase will maintain core service levels and help to rebuild fund balance, which fell below the Town's established target of 22% after FY17.
 - The Transit Fund tax increase is also 1 penny per \$100 of valuation. The Transit increase is needed to finance bus replacement, due to the unreliability of federal and state funding sources, and to bolster depleted reserves that will be needed for future bus purchases.

- The dedicated Debt Management Fund tax rate remains unchanged for FY19, pending review by Council of the long-term capital investment plan. **The tax rates included in the Budget Ordinance are as follows:**

○ General Fund	38.6
○ Debt Management Fund	8.2
○ Transit Fund	<u>6.0</u>
Total	<u>52.8 cents</u>

- The Budget Ordinance also:
 - Sets the Downtown Service District tax at 7.0 cents per \$100 assessed value (unchanged from FY18)
 - Makes minor adjustments to the Town's Fee Schedule (as described below)
 - Uses about \$3.1 million in existing fund balance, of which approximately \$0.5 million is for one-time costs such as capital improvements.
 - 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, 2018, 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 FY2018-19, total about \$47,000 in additional revenue and include the following:

- **Library** – Elimination of collection agency fee due to discontinuing practice of using a collection agency.
- **Police/Inspections** – An increase in hood system inspection fees and the addition of a commercial appliance inspection fee based on the time and effort needed to complete associated inspections.
- **Public Works/Stormwater** – Fee adjustments for stormwater control and storm sewer lines inspections to offset the cost of performing inspections.
- **Parks & Recreations** – Changes to various program fees based on adopted program fee philosophy.
- **Planning** – Various changes to fees to offset the cost of staff time in providing services.

FUND BALANCE

The Recommended Budget appropriates \$3,096,886 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 near or slightly below break-even. The FY18-19 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 rebuild its fund balance back to the 22% 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 Council 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 are projecting a deficit in the Debt Fund beginning in the FY24 timeframe. In order to address this deficit, the Council will need to increase the dedicated debt tax will or reduce or delay planned projects. Council will review the capital investment plan during FY19 in order to align planned investments with debt capacity.

- **Pay-Go CIP** - For FY2018-19 the recommended Pay-go CIP is \$239,000 less than FY18. This reduced level of pay-go capital projects reflects the Town's near-term emphasis on bond-funded projects and the need to minimize capital expenditures in the General Fund to balance the budget. 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	2018-19 Recommended Budget
Municipal Facilities	\$ 100,000
Leased Facilities	22,260
Infrastructure	100,000
Parks/ Public Use Facilities	100,000
Total	\$ 322,260

- **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 \$31,400,000
 - Wallace Deck 2,400,000
 - Streets & Sidewalks 7,700,000
 - Affordable Housing 10,000,000 (pending bond referendum 11/06/18)

PERFORMANCE AGREEMENTS WITH OTHER AGENCIES

The FY2017-18 Budget increases performance agreements for Human Services, Affordable Housing, Arts and Economic Development and Arts. The net increase for in the total amount of funding for performance agreements with other agencies is \$ 15,410. The recommended amounts include the following changes:

- An increase of \$7,317 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.
- An increase of \$18,593 for the Partnership to End Homeless Initiative based on the partnership funding formula.

	2017-18 Budget	2018-19 Recommended Budget
Performance Agreements with Other Agencies		
Human Services	\$ 419,500	\$419,500
Arts	13,500	13,500
Affordable Housing	398,637	424,547
Economic Development	280,500	270,000
Total Contributions to Agencies	\$ 1,112,137	\$ 1,127,547

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 FY19 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 FY19 Recommended Budget includes a 3.0% salary adjustment effective July 1, 2018. 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. The FY19 Recommended Budget also includes a change to employee's health insurance, instituting a deductible in order to help control benefits cost. The decision to make this change is based on the work of an employee taskforce. The Town's cost for employee healthcare will be reduced by about 1% in FY19, in contrast to double-digit increases in each of the last two years.

The FY19 Recommended Budget continues to make investments in employee health through the Wellness @ Work program, which is a comprehensive wellness initiative for the employees of the Town of Chapel Hill administered through a partnership with UNC Health Care Department of Family Medicine and the Town of Chapel Hill. The success of this program is a direct result of this partnership and the work of the Wellness @ Work Committee. Participation in the program has grown each year with 95% of employees taking the health risk assessment (HRA) in FY18.

FARE FREE TRANSIT SYSTEM

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 have been forced to finance the purchase of buses through debt 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 order for the Town to maintain its proportional share of the cost of operating the transit system, the Transit tax, the primary source of the Town's funding, needs to be increased. The FY19 Recommended Budget includes a 1 penny increase for the dedicated Transit Fund Tax.

BUDGET ORDINANCE

The components of the Budget Adoption Ordinance for FY2018-19 are as follows:

1. **Appropriations** – Authorization of funds to be expended in the FY2018-19 Budget by function and fund.
2. **Revenues** – Estimated revenues expected to be available during the FY2018-19 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 2018.
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 2018.

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 FY2018-19 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 FY2018-19 Fiscal Year.
8. **Stormwater Fee** – Establishes the stormwater fee for FY2018-19.
9. **Reappropriation of outstanding Purchase Orders** – Appropriates encumbered balances from prior fiscal year so that financial obligations created in FY2017-18 can be paid in FY2018-19.
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 FY2018-19 Budget:

- Enact the attached ordinance establishing the FY2018-19 Town Budget.

Attachments:

1. Budget Ordinance
 - a. Classification & Pay Plan Effective July 1, 2018
 - b. Fee Schedule