



TOWN OF CHAPEL HILL

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

Legislation Text

File #: [21-0527], Version: 1

Consider the Final Budget and Related Items for FY 2021-22.

Staff:

Maurice Jones, Town Manager
Amy Oland, Director
Matt Brinkley, Assistant Director

Department:

Manager's Office
Business Management



Recommendation(s):

That the Council enact the FY 2021-22 budget ordinance to establish the budget for FY 2021-22 and authorize the related items.

Discussion:

The proposed Budget Ordinance constitutes the annual budget for 2021-22. 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 2021-22 Manager's Recommended Budget is reflective of, and responsive to, Council's strategic goals established in the 2020-22 Strategic Plan. 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 Stewardship	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 past year has been a true test of our organization and community. Last year, we focused on protecting the Town's core services and establishing flexibility to face the unknowns brought on by COVID -19. A municipal budget is an expression of a community's values and this year is no exception. We must focus on the long-term future of our community. Recovery will include immediate action with one-time funding as well as a return to our longer-term vision and 5-year plan for the ongoing budget.

This year's budget seeks to restore some of the services that were limited last year, and to make investments in our future with our recurring revenues. We are putting the Town in a strong position to recover from the immediate impacts of the COVID-19 pandemic and to restore our focus on long-term priorities, especially those that will require an ongoing commitment, such as climate action, social equity, and infrastructure.

The FY 2021-22 budget includes:

- There are no recommended reductions or additions to core service levels provided by our operating departments.
- 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 survey.
 - A 3% of market rate pay adjustment for all classified employees employed with the Town as of June 30, 2021 to be effective July 1, 2021. Market rate is defined as the midpoint of each pay grade.
 - A 5.5% increase in the cost of providing employees health insurance.

- Orange County completed a property revaluation as of January 1, 2021. As a result, the Town experienced a 12.1% increase in total assessed valuation. The revaluation offers the Town an opportunity to apply some of the property tax growth to priorities that we have struggled to adequately fund in the past. Therefore, the Recommended Budget includes a property tax rate of 51.4 cents per \$100 of valuation. This represents a 2-cent increase from the revenue neutral tax rate of 49.4 cents and a 3-cent decrease from the existing tax rate of 54.4 cents.
- The FY 2021-22 budget restores/adds the following priorities:
 - Adds \$444,000 for three new positions - Assistant Town Attorney, Diversity, Equity, and Inclusion (DEI) Officer, and a Crisis Counselor
 - Restores the Ephesus Fordham Tax Increment Financing (TIF) transfer to pay the debt service for phase I roadway improvements.
 - Adds \$470,000 to begin implementation of the Climate Action Plan.
 - Adds \$100,000 to Human Services program funding.
 - Adds \$100,000 to implement recommendations from the Community Safety Task Force.
 - Adds \$400,000 to begin implementation of the classification and compensation study.
 - Restores \$350,000 to the building maintenance budget.
 - Restores \$345,000 to the vehicle replacement program.
 - Restores \$200,000 to the street resurfacing budget.
 - Restores \$250,000 to the pay-go capital program.

BUDGET SUMMARY ALL FUNDS

The following table compares the FY 2020-21 Adopted Budget with the FY 2021-22 Recommended Budget for all Town funds.

BUDGET SUMMARY - ALL FUNDS

Fund	FY21 Adopted	FY22 Recommended	Incr./Decr. \$	Incr./Decr. %
General Fund	\$ 66,288,000	\$ 71,020,000	\$ 4,732,000	7.14%
Transit Fund	25,457,647	26,300,046	842,399	3.31%
Stormwater Fund	3,010,500	3,009,500	(1,000)	-0.03%
Parking Fund	3,204,287	3,335,988	131,701	4.11%
Housing Fund	2,176,756	2,176,756	-	0.00%
Debt Service Fund	9,332,831	9,664,932	332,101	3.56%
Capital Project Fund	98,949	697,241	598,292	604.65%
Other Funds	3,595,635	3,893,220	297,585	8.28%
Total	\$ 113,164,605	\$ 120,097,683	\$ 6,933,078	6.13%

Note: includes intrafund transfers

THE FINAL BUDGET ORDINANCE

- The General Fund tax rate, Transit Fund tax rate, and Debt Management Fund tax rate represent a 2 cent increase from the revenue neutral tax rate of 49.4 cents as determined by the revaluation.
- The tax rates included in the Budget Ordinance are as follows:
 - General Fund 37.2
 - Debt Management Fund 8.8
 - Transit Fund 5.4
 - Total 51.4 cents**

- The Budget Ordinance also:
 - Sets the Downtown Service District tax at 6.4 cents per \$100 assessed value (revenue neutral rate)
 - Establishes the Town's Fee Schedule for FY 2021-22.
 - Uses about \$2.5 million in existing fund balance to balance the budget.
 - Maintains funding for core services and provides for a 3% of market rate salary adjustment that will be implemented in July for all classified (full and part-time employees) employed as of June 30, 2021, including Council Members.

FEE SCHEDULE

The Manager's Recommended Budget for FY 2021-22 does not propose any changes to the existing fee schedule.

FUND BALANCE

The Recommended Budget appropriates \$2,510,221 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 by adding to fund balance. This is the result of much higher than anticipated sales tax revenues and conservative budgeting practices that included maintaining the hiring freeze through FY 2021 and holding on large purchases. The FY 2021-22 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, we return in late fall for Council to consider appropriating fund balance above the 22% target for capital or other one-time expenditures. In this manner, depending on the level of fund balance, Council will have a method for funding priority capital projects.

DEBT ISSUANCE AND THE CIP BUDGET

The Debt Management Fund is the Town's primary source of repayment for capital borrowing. The fund was established in FY 2010 to isolate debt service payments from the General Fund so that capital investment decisions could be made independent of 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.

- **Pay-Go CIP** - For FY 2021-22, the recommended Pay-Go CIP is up \$598,292 from FY 2021, due to the partial restoration of budget cuts related to COVID-19. 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 are our highest priority small-scale projects.

CIP Project	2021-22 Recommended Budget
Municipal Facilities	\$ 430,000
Housing Rental Facilities	36,241
Infrastructure	61,000
Parks Facilities	170,000
Total	\$ 697,241

- 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.

The successful 2018 bond referendum authorized \$10 million in GO Bonds for affordable housing. The Town issued \$4.755 million in May 2021 for three key projects: Weavers Grove, 2200 Homestead Road and Johnson Street Apartments.

- Plans for future debt issuance include the following major projects:
 - o Municipal Services Center \$ 34,000,000
 - o Elliott Road Extension 6,480,000
 - o Streets & Sidewalks 7,700,000
 - o Affordable Housing 5,245,000
 - \$ 53,425,000**

PERFORMANCE AGREEMENTS WITH OTHER AGENCIES

The FY 2021-22 budget includes an increase of \$100,000 to the amount allocated for performance agreements for Human Services. The recommended amounts include the following changes:

Performance Agreements with Other Agencies	2020-21 Budget	2021-22 Recommended Budget
Human Services	\$ 446,500	\$546,500
Arts	23,500	23,500
Public Health	29,110	29,110
Affordable Housing	454,309	454,309
Economic Development	270,000	270,000
Total Contributions to Agencies	\$ 1,223,419	\$ 1,323,419

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 73% of the FY 2021-22 General Fund Recommended Budget. The costs of maintaining a high performing workforce are increasing. For the most part, the market dictates salary levels, and as the economy begins to improve, we will see an increase in turnover including a significant increase in retirements. The Town strives to remain competitive in the labor market by maintaining its comprehensive benefits package and through annual salary adjustments.

The FY 2021-22 Recommended Budget includes a 3% salary adjustment effective July 1, 2021. 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 FY 2021-22 Transit operating budget reflects a 4.4% increase mainly due to the anticipated return of the state maintenance operating program (SMAP) funds. 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 several buses with more currently on order.

BUDGET ORDINANCE

The components of the Budget Adoption Ordinance for FY 2021-22 are as follows:

- 1. Appropriations** - Authorization of funds to be expended in the FY 2021-22 Budget by function and fund.
- 2. Revenues** - Estimated revenues expected to be available during the FY 2021-22 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 2021.
- 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 2021.
- 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 FY 2021-22 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 FY 2021-22 Fiscal Year.
- 8. Stormwater Fee** - Establishes the stormwater fee for FY 2021-22.
- 9. Reappropriation of Outstanding Purchase Orders** - Appropriates encumbered balances from prior fiscal year so that financial obligations created in FY 2020-21 can be paid in FY 2021-22.
- 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.



Attachments:

- Budget Ordinance
- Classification & Pay Plan Effective July 1, 2021
- Fee Schedule Effective July 1, 2021
- Draft Staff Presentation

The Agenda will reflect the text below and/or the motion text will be used during the meeting.

PRESENTER: Maurice Jones, Town Manager

RECOMMENDATION: That the Council enact the FY 2021-22 budget ordinance to establish the budget for 2021-22 and authorize the related items.