

**City of Durham**  
**FY 2012-13 Budget Development Guidelines**  
**March 22, 2012**

**INTRODUCTION**

**Based on information presented by Karl Knapp, Director of Research and Policy Analysis, NCLM, the State's budget looks stable.** The State General Fund revenues through February 2012 are \$145M above an \$11.1B revenue target. Key revenue sources, sales tax collections and withholding income, continue to equal or surpass budget forecasts. Recent economic data indicate the recovery is slowly regaining the traction lost this past summer and fall. The employment picture remains troublesome with very little growth being reported or expected for most of the year. Global economic risks continue to threaten the recovery, particularly rising gas prices. Some of the assumptions made in the FY2012-13 State revenue forecast may not come to fruition. Fortunately, the biennium forecast adhered to a cautious philosophy, which could minimize the impact of recent downward revisions of economic forecasts.

At this point there is no indication that the State plans to reduce any revenues currently shared with municipalities. For the City of Durham, State Shared Revenues account for 11% (\$20M) of total General Fund revenues. Those revenue sources consist of utility franchise taxes (electricity, telecommunications, piped natural gas and video programming, gasoline tax (Powell Bill), and Beer and Wine Tax. The two largest sources of revenue to support General Fund operations are local property taxes and local sales taxes representing 79% (\$144.7M) of the fund's budget. Local property taxes also fully support the Debt Service Fund which accounts for the City's General Fund debt service obligations. The property tax appropriation for the debt reserve fund is \$23.4 million for FY2011-12. Residential real estate and personal property taxes, sales tax and overall revenue are projected to grow slightly for FY2012-13. As a result, increases in City spending must continue to be limited in FY2012-13. Accordingly, the City Council directs the City Manager to develop a budget for FY2012-13 that limits increases to what is needed to accommodate population growth and cost factors, and clearly identifies funding requirements driven by State and/or federal mandates and major City initiatives. The City Council recognizes that given the limitations for FY2012-13 and beyond, the FY2012-13 budget may require additional reductions in or elimination of services based on service/program prioritization and directs that the City Manager begin to review and evaluate where the City should focus such adjustments consistent with the City Council's priorities.

The City must use a carefully crafted approach to balancing the budget by assessing revenue enhancement opportunities and cost containment. The FY2012-13 Budget must determine the required investment to preserve priority programs and services and support the City's Strategic Plan.

To continue to meet priority service needs of Durham residents while recognizing the slow economic return, the City Manager shall use the following **Budget Development Guidelines to prepare the FY2012-13 Proposed Budget.**

## REVENUES

- Reserves in the **debt service fund** will be used in-lieu of a tax increase to cover increases in debt service costs.
- General Fund **fund balance** will not be projected to fall below 12% at the end of **FY2012-13**. Projected General Fund balance over 12% may be considered for one-time (non-recurring) expenditures.
- Funding of the Downtown **Business Improvement District (BID)** will be considered with a tax increase of up to 7 cents (per \$100 assessed value) on the property within the boundaries of the BID.
- Establishment of a dedicated **Housing Fund** will be considered with up to an additional 1 cent (per \$100 assessed value) property tax increase.
- **Non-recurring funds** shall not be directed toward recurring uses.
- **Fees adjustments** will be considered, as appropriate, to align fee revenues with cost of services for better cost recovery rates.
- **Parks and Recreation fees** will be adjusted and simplified based upon guidance from City Council.
- Proposed **water and sewer rate** increases will not exceed an average of 4% for FY2012-13.
- Proposed **stormwater rate** increases will not exceed 8.5% for National Pollution Discharge Elimination System (NPDES) required monitoring, maintenance and watershed plan implementation.

## DEBT

- Property tax dedicated to support **debt service** paid from the Debt Service Fund should not exceed 15% of total expected property tax collections plus all other General Fund and Debt Service Fund revenues.

## EXPENDITURES

To eliminate the need for many technical amendments to the City's Budget Ordinance, the FY2012-13 City of Durham Budget Ordinance shall be prepared to allow for maximum flexibility within North Carolina General Statute 159-13. The General Fund portion of the ordinance will no longer be artificially segregated into expenditure budget groups. Budget groups are useful for information and are being revised to better match the services the City currently provides. They are not necessary in the Ordinance, and just serve to arbitrarily limit transfers of budget resources. The new format will allow

the City Manager more flexibility in addressing needs to reallocate budget resources throughout the year, thereby lessening the need to burden City Council with the review of routine technical corrections to the Ordinance.

- Budget groups will continue to be reported in the budget document.
- Budget groups will be revised to better match current City operations.
- Attachment 1 of the City of Durham Budget Ordinance (Appropriations) shall discontinue the use of budget groups.

To balance expenditures against forecasted revenue reductions, the City Manager shall continue focused discussions with City departments regarding **program and service** priorities, possible areas for elimination, reduction, reorganization, and/or alternative service delivery models that address the performance and efficiency of City programs.

- Program or service level reductions should be considered to balance the budget.
  - Program and service level prioritization shall be established within each department.
  - Program and service reductions may result in elimination of authorized positions, reductions in force or employee furloughs within departments, as appropriate, based on service/demand.
- **City employees** are at the core of City services. Attracting and retaining a competent, high quality workforce is essential even in an environment of high unemployment. We must commit to consider employee compensation adjustments as a priority therefore, the following **pay and benefit** components will be proposed:
    - Pay for Performance (P4P) pay plan for General employees (2%)
    - Pay Plan for sworn Police and Fire employees (3%-5%)
    - Supplemental Retirement -401K (increase by 0.5% to 4.5%)
    - Medical and Dental insurance – the priority will be to limit increased costs for the City and employees
  - Priority will be given to those requests that support the **strategic plan initiatives**.
  - Funding for **deferred maintenance** will be increased to **\$600,000** for FY2012-13 (an increase of \$100,000 compared to the FY2011-12 budget).
  - A dedicated **street resurfacing fund** will be established for paving and maintenance services of streets and sidewalks, and will be funded at **\$1,000,000** (an increase of \$500,000 compared to the FY2011-12 budget).
  - Funding for **capital projects** will be provided in the form of pay-as-go funding or for debt service payments, and will be established at a minimum of **\$500,000**.

- **Public transit services**, including consideration of route adjustments resulting from the Building a Better Bus Service Plan: General Fund support of expanded service beyond 3.2 cents per \$100 must be specifically allocated by the City Council without impact to other General Fund allocations.
- **Fleet** funding will be maintained to replace vehicles with costs not to exceed \$3,000,000 for the General Fund.
- **New positions** will only be funded for a partial year when warranted by the timing of the actual operational impact on the budget.
- Up to \$166,000 will be provided to support the contract with the NC Administrative Office of the Courts the **Domestic Violence Court Contract**.