

City of Durham
FY 2014-15 Budget Development Guidelines
March 20, 2014

INTRODUCTION

Based on a presentation to the General Assembly by Barry Boardman, Fiscal Research, for January 2014, the State's FY 2013-14 General fund revenue forecast has aligned with expectations. The current economic forecast does not suggest any swings in revenue either up or down. The second quarter of the fiscal year (Oct.-Dec.) was essentially on target with very little change to the \$80 million surplus established in the first quarter of the fiscal year. Corporate Income tax revenue were \$90M above target, Personal Income collections were \$30.4M below target; the result of wage and salary withholding running 1.2 percent below target for the year (\$60M below a \$5.3B budget). Sales Tax collections were \$33.6M above target; gross collections were up 4.4% over last year. Other tax revenue was bolstered by unanticipated revenue of \$15.9M in Estate tax collections. The revenue represents settlements from previous tax years. (The Estate tax was repealed beginning with the 2013 tax year.). Changes in economic conditions and the impact on revenues are often difficult to recognize. This difficulty will be exacerbated by: new tax laws enacted this past session (S.L. 2013-316), changes to the income taxes that broadened the tax base and lowered rates and changes to some taxpayers withholding amounts.

At this point there is no indication that the State plans to reduce any revenues currently shared with municipalities however, the General Assembly is considering reforming the current local privilege license tax. Under the terms of the draft legislation - titled the "*Fair & Flat Local Business Tax*" - all current caps and exemptions related to the privilege license tax would be eliminated, but the tax would be limited to a flat fee of up to \$100 per physical location. If the tax is totally eliminated the City could suffer a revenue loss of \$2.9M. For the City of Durham, State Shared Revenues account for 12% (\$20.8M) of total General Fund revenues. Those revenue sources consist of utility franchise taxes (telecommunications and video programming), gasoline tax (Powell Bill), and Beer and Wine Tax. For FY15, electricity and gas utility franchise tax will be eliminated. The State has reported that cities will be held-harmless, with offsetting revenues being realized in Sales Tax. The two largest sources of revenue to support General Fund operations are local property taxes and local sales taxes representing 77% (\$130.1) 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 \$34.4 million for FY2013-14. Residential real estate and personal property taxes, sales tax and overall revenue are projected to grow slightly for FY2014-15.

As a result, increases in City spending must continue to be limited in FY2014-15. Accordingly, the City Council directs the City Manager to develop a budget for FY2014-15 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 the City's Strategic Plan. The City Council recognizes that given the limitations for FY2013-14 and beyond, the FY2014-15 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 strategic approach to balancing the budget by assessing revenue enhancement opportunities and cost containment. The FY2014-15 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 FY2014-15 Proposed Budget.**

REVENUES

A tax increase of **0.73 cents** (per \$100 assessed value) will be used in the **debt service fund** to cover increases in debt service costs.

A tax increase of **0.56 cents** (per \$100 assessed value) will be proposed for the General Fund to cover pay and benefit expenses assumed with the expiration of public safety grants (**COPs and SAFER**).

General Fund **savings balance** will not be projected to fall **below 12%** at the end of FY2014-15. Projected General Fund balance over 12% may be considered for one-time (non-recurring) expenditures.

Funding of the Downtown **Business Improvement District (BID)** will continue with a tax rate appropriation of **7 cents** (per \$100 assessed value) on the property within the boundaries of the BID.

The dedicated **Housing Fund** will continue with a tax rate appropriation of **1 cent** (per \$100 assessed value) property tax.

Non-recurring funds shall not be directed toward recurring uses. Nonrecurring funds being used to meet recurring budget requirements.

Fees adjustments will be considered, as appropriate, to align fee revenues with cost of services for better cost recovery rates.

Proposed **water and sewer rate** increases will not exceed an average of **3.0%**.

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 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. **The 2013 Resident Survey rated overall satisfaction with customer service for City employees at 67%. And, 83% were satisfied with the courtesy of our employees.** 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 (3%)
- Pay Plan for sworn Police and Fire employees (3.5% average)
- Supplemental Retirement - 401K – remain at 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 **strategic plan initiatives**.

Funding for **deferred maintenance** will remain at **\$500,000** for FY2014-15.

Dedicated funding for **paving and maintenance of streets and sidewalks** will be increased to **\$1,000,000** (an increase of \$250,000 compared to the FY2013-14 budget).

Funding for **capital projects** will be provided in the form of pay-go funding or for debt service payments, and will be established at a minimum of **\$500,000**.

Existing **Public transit services** should be considered within the **3.87 cents** (per \$100 assessed value) allocated for Transit Services.

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.

A dedicated funding source for **Parks Maintenance** will be considered at an amount not to exceed _____ **cents** (per \$100 assessed value).