June 15, 2009

To the Mayor and Members of the Durham City Council:

I am pleased to present the Budget for Fiscal Year 2009-10. The annual operating budget is the single most important policy decision elected officials make each year. This budget is especially significant as limited resources require the city to scrutinize every expenditure, prioritize every program and initiative, seek every opportunity to be more efficient and at times, rethink comfortable operational paradigms to ensure that essential public services continue to meet the needs of our community. This budget development process has been a challenging experience for everyone and has been met with incredible commitment and teamwork. We are facing unprecedented economic times in our community, state and nation. Much of our budget development process focused on addressing the projected revenue shortfall by prioritizing programs and services and allocating resources to the highest priorities of the community.

As always, information gathered from citizens, employees and the City Council was used as a guide to developing the budget. At the annual City Council retreats held in January and February, City Council members expressed their priorities for the upcoming fiscal year and were updated on financial projections for the upcoming budget. The administration developed budget guidelines based on feedback from the Community and City Council. These guidelines served as the framework for developing the budget. The guidelines included:

- The City’s property tax rate will remain at $0.54 per $100 of assessed valuation.
- A dedicated street resurfacing fund utilizing a specified portion of the tax rate shall not be proposed at this time.
- The City will create a dedicated neighborhood revitalization fund.
- The City’s General Fund debt ratio will not exceed 15% of General Fund appropriations.
- The City’s fund balance will not be projected at less than 11% at the end of FY 2010.
- The Tier 1 residential water and sewer rates will have no increase for FY 2010. The base water and sewer service charges will not increase. The average water and sewer use rate increase at Tier 3 will be a maximum of 9.5%.
- Non-recurring funds will not be directed toward recurring uses.

Good Things are Happening in Durham
To engage the community in the budget process, five “Coffees with Council” were conducted along with a newly created Citizen Engagement workshop. One hundred citizens were invited to participate in an interactive session at Lyon Park to assist in prioritizing the needs of the entire Durham community.

In addition, various other community meetings were held to gather input from citizens and community leaders. Throughout the process, the City’s goal has been to be transparent regarding the pending budget challenges and share information to help citizens make informed decisions and provide input. Major community priorities identified included:

- Public Safety
- Quality Core Services
- Youth Programs and Activities
- Improved Infrastructure/Deferred Maintenance
- Neighborhood Engagement and Revitalization
- Jobs and Neighborhood Economic Development
- Timely Capital Project Delivery

To keep citizens informed, a new webpage was developed [www.durhamnc.gov/citybudget/](http://www.durhamnc.gov/citybudget/) that features information as the FY 2009-10 budget was being developed, how and why funding decisions were made, up-to-date data on the City’s current and projected economic forecasts, and how the City plans to meet the highest priorities of our citizens. The site also includes a “Share Your Thoughts” page which allows citizens to communicate their ideas, comments, and suggestions.

**BUDGET OVERVIEW**

To meet major community priorities, the budget for **FY 2009-10 is $345.6 million compared to $355.5 million for FY 2008-09**, a decrease of **$9.9 million (2.9%)**, and includes:

A **General Fund budget of $206.9 million** that funds core city services. This represents a **$9.0 million (4.2%) budget reduction from FY2008-2009.**
Highlights of the General Fund Budget:

Revenues
- A real property assessed value increase of 1.7%.
- A tax rate at 54 cents per $100 valuation. This tax rate also supports the increased debt service for previously approved capital projects.
- A 5% decrease in sales tax revenues due to the economic climate.
- A 17.2% decrease in Hotel Occupancy tax due to a decline in usage.
- A 3% decrease in state sharing revenues (Powell Bill, Franchise Tax).
- No transfer from fund balance (savings) to balance the budget. A 12.2% fund balance is projected at June 30, 2010.
- A 5% decrease in inspection fee revenues and a 21.7% decrease in planning fee revenues which reflect the impact of current economic conditions on development efforts.
- A 6% decrease in investment income.
- A continuation of the technology surcharge fee (4%) which is collected from development driven permits.

Expenditures
- Personnel expenditures decreased by $2.1 million ($1.7%).
- Operating expenditures decreased by $1.8 million (4.3%).
- Capital expenditures decreased by $0.6 million (85.5%).
- Debt service decreased by $1.2 million (5.2%).
- Transfers decreased by $3.3 million (14.5%).

The General Fund budget includes a property tax rate of 54 cents per $100 assessed valuation. This rate remains unchanged from the FY 2008-09 tax rate. Of this rate, 53.85 cents is dedicated to the General Fund to provide core services to citizens and adequately support debt service requirements resulting from the 2005 and 2007 Bond Referendum. The remaining 0.15
cents is dedicated to the Civic Center Fund for payment of debt service on the Durham Convention Center.

The Water and Sewer Fund budget of $78.5 million adequately supports water/sewer operations and increased infrastructure debt service costs.

Revenues
- A new tiered water rate structure was approved by the Council on May 5, 2008. Increased water consumption and water and sewer service charges were effective for services provided after July 1, 2009. The FY 2009-10 budget includes an average 9.25% residential rate increase, with no change in Tier 1 rates and no change in service charges.

Expenditures
- Water and Sewer Capital Improvement Program projects totaling $61.5 million will improve the infrastructure necessary to ensure adequate community water supply and wastewater treatment demands.

Current economic conditions limit the ability to adequately fund other high priority programs and services. In some cases, other sources such as those provided under the American Recovery and Reinvestment Act (ARRA) have been leveraged. The City applied jointly with Durham County for a Justice Assistance Grant (JAG) from the U.S. Department of Justice. These funds will be used to cover most of the costs related to the Warrant Control Office. All of these sources lessen the burden on the General Fund.

Over the last few years City priorities have focused on:

- Major public and private investments to the downtown which have contributed to making Durham an attractive place to live and work. The City has realized a positive return on its investment as indicated by the recent property revaluation.
- Enhanced police protection, through the addition of police officers and vehicles, and reorganization of the Police Department.
- Abatement of blighted properties by engaging citizens to actively enhance their neighborhoods through initiatives such as ComNet. Implementation of other crime reduction strategies include an expedited demolition process to remove unsafe structures, enforcement of the Durham Minimum Housing Code, blight reduction, and encouraging safe and decent housing throughout the City.
- Engagement of youth through various initiatives including the Youth Council and the enhancement of programming in recreation centers and parks.
- Recruitment and retention of our workforce with the implementation of Pay for Performance (P4P) and public safety pay plans, and a competitive benefits package.
• Improvements to streets, parks, facilities and other infrastructure. Many projects are underway utilizing voter approved funding of $110 million in General Obligation Bonds in 2005 and an additional $20 million for streets and sidewalks in 2007.

• **Ensuring a more transparent and accountable government** by delivering on commitments to citizens through programs such as Results Based Accountability, Durham One Call (919-560-1200), Government TV (channel 8), and our award-winning City programming and the Capital Improvement websites ([www.durhamnc.gov/cip](http://www.durhamnc.gov/cip)).

• **Better vehicles and equipment** with the reinstatement of the Fleet Replacement Program. Our employees now have the necessary equipment to adequately provide services to our citizens. Fleet replacement leads to a reduction in maintenance costs, ultimately translating to taxpayer savings.

To continue to focus on streamlining processes, implementing best practices and planning for the City’s future, the Strategic Initiatives Division will merge with Budget and Management Services. Over the last year the department has been focused on streamlining the contracting process. The department will also continue to coordinate the development of a citywide strategic plan.

Financial constraints preclude including other initiatives that would enhance our ability to serve our citizens including:

• Fully funding a $1 million Deferred Maintenance Fund.
• Supplemental funding for our capital improvement program to complete existing projects.
• Funding to implement Year 2 of the independent consultant’s Pay/Classification Study recommendations.
• Funding to cover a $2 million deficit in Transit Fund.

**HIGHLIGHTS OF THE FY 2009-10 BUDGET**

**Police, Fire and Emergency Communication** Crime continues to be the number one concern of most citizens. Feeling safe and lowering the crime rate are the two most important issues raised by the City Council and Durham citizens. To ensure that the Police Department, Fire Department and Emergency Communications Center (911) are staffed and properly equipped to protect our citizens:

• **Overtime funds are included in the budget to allow the Police Department to continue providing targeted enforcement activities and to address vacancy issues. Through the use of overtime, experienced officers can immediately be deployed to hot spots throughout the City to provide a consistent presence and to address vacancy pressures.**
• Fire Station 15, a new station in northern Durham, is funded in the Capital Improvement Plan. Fire personnel will be redeployed to staff the new station.
• Funding is included in this budget to continue the Police and Fire pay plans. Educational and second language incentives that support improved service and professional development will be maintained.

**Housing Code Enforcement**  Vacant and boarded properties continue to negatively impact the community resulting in property value decline and increased crime in these neighborhoods. Citizens demand and deserve attractive neighborhoods and stable property values. A systematic approach to bring unsafe and deteriorating rental properties into compliance with the housing code and to eliminate vacant and boarded houses has been established. A key focus is educating landlords and tenants of their rights and responsibilities to support the safety of neighborhoods.

• The newly adopted Commercial Code will address issues with deteriorating commercial properties.
• Funding is provided for special needs housing to augment services provided by the Department of Community Development.
• The three employees formerly staffed in the Department of Community Development to support Northeast Central Durham revitalization efforts will move to the Neighborhood Improvement Services Department. These three employees, along with existing Community Relations Coordinators will serve in a newly formed Division of Community Engagement. This Division is projected to greatly enhance efforts in Northeast Central Durham and in neighborhoods throughout the City.

**Youth Programs**  Providing year-round positive activities for youth is a continuing priority:

• City departments will continue to hire youth for summer jobs through the *Mayor's Summer Youth Works Program* and encourage employees to volunteer as mentors or tutors to Durham children.
• The *Holton Career and Resource Center* is scheduled to open in August 2009. Funding of $596,388 is included in the Parks and Recreation Department budget for personnel and operating costs.
• The Durham Fire Department, in partnership with the Parks and Recreation Department and the Office of the State Fire Marshal, will continue its *Junior Fire Marshal Program*.
• The Office of Economic & Workforce Development will maintain the *Youth Employed and Succeeding (YES) program*.
• Durham Parks and Recreation will continue to offer skills training programs for youth including the *Durham Aquatics School, Safe Sitter Program, Guard Start*, and the *Job Readiness Program*.
• The *Walltown Recreation Center* is under reconstruction. Youth care programs (after school and summer camp) have been relocated to
leased space in the area. Additional funding of $219,870 is included in the Parks and Recreation Department budget to fully operate the new facility when it is scheduled to open in April 2010.

- The **Youth Alliance** program, offered by the Parks and Recreation Department, provides opportunities for teens to volunteer in departmental and community service projects and to advise the department regarding teen programming.

- The **Birchwood Neighborhood Center** grand opening was held in February 2009. DPR will locate one full-time staff member at this facility and will provide youth care programs including after school, intersession, fun days, and summer camp programs for this community.

- **Teen Center** - while there will be many uses for the Old Lyon Park building due to its location and availability of young people for programs, there are three anchor programs that Youth Services and Adventure Programs will deploy from the Center in the first year of operation. Staff and operating costs of $20,000 are included in the Youth Commission budget in the City Manager's Office. The site is expected to be ready for occupancy in September 2009.

**Targeting Distressed Neighborhoods**

- An additional $250,000 for a total of $750,000 for Neighborhood Commercial Revitalization will be used to enhance the tax base, create jobs for Durham residents and reduce poverty and crime.

- Continuing to demolish unsafe houses, clean up weedy lots and remove abandoned vehicles from our neighborhoods.

**Solid Waste, Yard Waste and Bulky-Item Programs** - Solid Waste Management will begin a curbside recycling service every other week, provided by City crews. Shifting from 18 gallon bins to 96 gallon carts will increase capacity. The department will begin contracting with a private provider for stationary container service for city facilities. Affected employees will be redeployed to the Curbside Recycling Division.

**Streets and Sidewalks** - Using 2005 and 2007 General Obligation Bonds (GO) and other funds, deteriorating streets will continue to be resurfaced along with paving of dirt streets throughout the City. An annual appropriation of approximately $5 million will be needed after FY 2009-10 to maintain streets.

**Protecting the Environment** - An enhanced focus on sustainability will reduce energy consumption and greenhouse gas emissions.

- Funding the Fleet Replacement Program is one of the best ways to support this goal. All new vehicles are low or ultra-low emission. EPA data show that new diesel engines reduce emissions by 90%, a major reduction in nitrogen oxides and particulate matter.
• DATA will utilize 20 new hybrid buses approved in last year's budget.
• This budget also includes continued funding to support the City/County Sustainability Officer.

**Water and Sewer System** - Rate increases for water and sewer charges were adopted in May 2009 for FY 2009-10. This rate increase does not impact service charges and the first tier water rate. The increase is projected to equate to the following change for a residential customer:

<table>
<thead>
<tr>
<th>Billing Period</th>
<th>2 CCF Monthly Use</th>
<th>4 CCF Monthly Use</th>
<th>8 CCF Monthly Use</th>
<th>12 CCF Monthly Use</th>
<th>16 CCF Monthly Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Increase</td>
<td>$0.00</td>
<td>$3.07</td>
<td>$4.82</td>
<td>$7.56</td>
<td>$20.70</td>
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<tr>
<td>Bi-Monthly Increase</td>
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<td>$6.13</td>
<td>$9.64</td>
<td>$15.11</td>
<td>$41.39</td>
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<tr>
<td>Annual Increase</td>
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<td>$36.79</td>
<td>$57.82</td>
<td>$90.67</td>
<td>$248.35</td>
</tr>
</tbody>
</table>

**Revenues**

Revenues are projected to increase 4.4% or $3.3 million mostly from the rate increase noted above. Water demand is projected to show a slight recovery from the drought years. However, focused conservation measures and a strong customer response will keep demand at manageable levels.

**Expenditures**

An additional $1 million in rate-funded CIP is budgeted for FY 2009-10. Two billing positions will be added to support the automated meter reading installation project and will allow monthly billing to begin later in the fiscal year. Chemical and residuals costs continue to rise due to chemical cost and mandated process changes.

**Durham Area Transit Authority (DATA)** - The budget maintains current service levels. Unfortunately, demand for other new routes or expansions in service to existing routes go unmet. It is anticipated that $1 million in federal stimulus funds will be available to address operations and $2.2 million for capital. If the additional $5 license tag fee is approved by the General Assembly, opportunities for expanded services and new routes will be explored. DATA continues to need a dedicated source of funding.

**Fleet** - The City established a Fleet Replacement Fund in FY 2006-07 to provide a systematic approach to replacing vehicles while spreading the costs over the life of the fleet. Certificates of Participation will be used to replace $3 million of vehicles determined to be beyond their recognized useful life. This outlay will allow timelier replacements and will substantially reduce the lost productivity and high maintenance costs associated with servicing older vehicles.
City Workforce - We recognize that employees are at the core of quality City services and attracting and retaining a competent, high quality workforce is essential. The economic downturn and limited resources require that a number of changes be made to employee compensation and benefits in the budget:

- The “Pay for Performance” (P4P) plan for FY 2009-10 will be suspended. Employees earning less than $40,000 annually will be awarded a lump sum bonus of $500 in August 2009.
- The Police and Fire pay plans will be maintained to ensure continuity in those plans and the ability to retain qualified public safety personnel.
- Last year's budget included funding for Year 1 of the Comprehensive Compensation and Classification Study recommendations to ensure the pay plan is market competitive. Funding for Year 2 of the plan is not included in the FY 2009-10 budget. However, the recommendations will be reassessed next year to determine the appropriate level of funding under new market conditions.
- The City’s Longevity plan provides bonus compensation to employees hired prior to 1998. This budget includes a reduction of the payments to existing employees. Eligible employees will receive a lump sum of $500 for longevity in December 2009. A phase out of the program is proposed over the next few years, since P4P was adopted to comprehensively address pay equity issues.
- The employee 401K Supplemental Retirement plan provides additional retirement savings for employees. The City currently contributes 5% of eligible employees’ salary to the plan. This budget includes a temporary reduction of that amount to 3% for general employees. There will be no adjustments to the Local Government Employees Retirement plan for employees.
- Health insurance premiums will increase by approximately 9.4% effective September 2009. Employees will also be required to share more in their health benefit plan by 2% to allow the City to retain its quality insurance program. While single dental coverage is currently offered to employees at no charge, these employees will now pay a $10 monthly premium. Employees who select two party and family coverage will experience a 20% premium increase. There is also a 5% increase in mental health premiums. These increases are lower than anticipated due to aggressive negotiations with vendors. Funding will continue for the wellness program to help improve the well-being of the workforce and control health care costs through improved claims experience.
- Due to budget constraints and based on program prioritization, 113 positions will be unfunded or eliminated. This reduction in force will allow the City to focus its resources on the highest priorities. While not all positions were occupied, employees slated for layoff were tentatively notified early in the process to allow as much opportunity as possible for employees to engage in job seeking opportunities. The Human
Resources department met with each individual and provided job seeking services. The hiring freeze initiated in the 1st Quarter of FY 2008-2009 to respond to anticipated revenue shortfalls allowed for some qualified employees to transition into other positions. The City is also providing outreach services through the Job Links program and other venues.

Accountability - The City continues to maintain its excellent fiscal status as evidenced in three areas:

- A continuing AAA bond rating by all three rating agencies, the highest measure of financial security and one attained by only 21 of the nation’s more than 22,500 cities;
- Unqualified opinions by independent auditors of the City's financial statements and compliance with major federal and state grants; and
- A strong Audit Services Department, ensuring compliance with applicable laws, policies and procedures. In addition to conducting audits based on risk, the Audit Services Department operates a “fraud, waste and abuse” hotline.

Performance Improvement Efforts - To reduce operating costs and improve services to the public, several enhancements to government operations will continue in the upcoming fiscal year:

- The Budget & Management Services Department and Office of Strategic Initiatives Division will merge to provide a continuous focus on improving performance throughout City government.
- The Audit Services Department will continue to conduct financial and compliance audits and provide an increased number of performance audits conducted in the next year.
- The utility and general billing components of our Enterprise Resource Planning (ERP) System were fully implemented in FY 2008-09. This resulted in an upgrading of our information technology and provided increased management decision support.
- An informed and active citizenry is important to local government operations. Over the next fiscal year, the City will expand its outreach and educational efforts through a major programming effort for Government TV.
- DurhamFirst is the City’s initiative to reshape Durham’s government into a high performing organization by identifying ways to improve operations, policies and procedures through employee task teams and by training and developing our next generation of leaders. A major emphasis this year will be on instilling a “Culture of Service” that is integrated into every aspect of our organization and that recognizes the opportunity and responsibility employees have every day to make a difference in the community and in the lives of citizens.
**Non-Profit Support** - The budget funds 36 non-profit or Non-City Agencies (NCAs) to provide arts, public safety, youth, community development programs and other activities for Durham citizens at a total cost of $480,155. Funding for these agencies will continue to phase according to the revised NCA policy adopted by City Council. In accordance with the budget guidelines, no new agencies are recommended for funding. The City also has management agreements with the Carolina Theatre, Durham Arts Council and St. Joseph’s Historic Foundation for $585,966, $605,126 and $292,000, respectively.

**CAPITAL IMPROVEMENT PROGRAM**

The FY 2010-2015 Capital Improvement Program (CIP) is presented to the City Council in a companion document to the FY 2009-2010 annual budget. The capital improvement budget includes $71 million for new projects and to complete existing projects. Funding is provided through impact fees, grants, water and sewer revenues and revenue bonds, stormwater fees, general obligation bonds, COPs, and general fund revenues.

In November 2005, voters overwhelmingly granted approval for the City to issue $110 million in General Obligation bonds for long needed street, water and sewer, parks and recreation, public facilities and other improvements throughout the City. In November 2007, the voters approved an additional $20 million in General Obligation Bonds for streets and sidewalks. The primary focus of the FY 2010-15 CIP is to complete existing projects already approved and underway. We are committed to providing complete and ongoing communications to citizens and the City Council about the progress of all projects. To monitor the status of any capital project, citizens can visit our website at [www.durhamnc.gov/cip](http://www.durhamnc.gov/cip).

During the Bond campaign in 2005 and 2007, voters were informed of a possible tax increase to pay debt service on bonds issued for projects. The budget includes funding to pay debt service for the 2005 and 2007 bonds with no additional tax increase.

This budget includes new capital funding for the following projects:

- Funding for Phase II of the Civic Center (Durham Convention Center) project at approximately $2.6 million. Durham County will provide the same level of funding for the project.
- Funding of $140,683 for upgrades to Rock Quarry Park/Edison Johnson Center, $859,143 for upgrades at the Durham Arts Council, $2,200,000 for Durham Bulls Athletic Park upgrades, and funding for a master planning study for a new police headquarters.
- A new Deferred Maintenance fund is also included in this budget to begin addressing deferred maintenance issues outside of the CIP. The
initial funding level is $500,000. All deferred maintenance projects have been prioritized and funding will be applied in priority order and as additional funding is provided.

Conclusion

Even in these challenging economic times I am confident this budget allocates scarce resources to the highest priorities of the citizens of Durham. This budget will support the community priorities; public safety, quality core services, youth programs, improved infrastructure, neighborhood economic development, and timely delivery of capital projects.

I want to take this opportunity to thank the City Council for their support and clear direction in the early stage of the budget development process and thank the city departments for their innovation and creativity put forth to continue to provide quality programs and services to Durham in a time of shrinking resources. Together we will continue to strive to make Durham a better place for all its citizens.

Respectfully Submitted,

Thomas J. Bonfield
City Manager