

PROPOSED FY2017 OPERATING AND FIVE-YEAR CAPITAL IMPROVEMENT PLAN



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Introduction

Dear Mayor and Council Members,

I am pleased to present City Council with the Manager's Proposed Budget for Fiscal Year 2017 and the Proposed Five-year Capital Improvement Plan. Staff begin the budget process in the Fall, spending several months identifying, analyzing, and prioritizing what to include in the budget. The \$858.6 million Proposed Budget is the culmination of this analysis and discussion that has included every City department and City Council Members.

We are fortunate to have a strong economy and tax base. Despite our financial position, this year's process was still challenging. First, we plan to open many new or renovated facilities. Second, we continue to face additional service demands due to our population growth. And third, this is the first budget process to reflect our City-wide Strategic Plan. Our goal is to implement the Strategic Plan over the next three to five years, and I am very pleased to share that the Proposed Operating Budget and Capital Improvement Program (CIP) reflect a solid start to this effort. This budget message highlights the connection between the budget and the Strategic Plan's six Key Focus Areas.

Revenue Outlook

Property taxes are the largest revenue source for the City's General Fund, which supports public safety, parks, transportation, and many other service areas. The City is fortunate to have a robust property tax base. The Proposed Budget assumes a regular growth rate of 2% or \$4.6 million, over the FY2016 budgeted amount of \$226.7 million for a total of \$231.3 million in FY2017.

The City's other major revenue sources remain strong. Our budgeted sales tax revenue is estimated to increase by 5% from \$86.7 million in FY2016 to \$91.1 million in FY2017. The utility franchise tax provides \$31.2 million. User fee revenues for water and sewer services, stormwater management, and solid waste services also remain steady. City staff continue to study user fee policies for our development services area and will bring City Council recommended structural changes during FY2017.

Staff will continue monitoring legislative changes that might affect our revenue streams. Though the City absorbed the loss of \$7.2 million in Business Privilege License revenues in FY2016, any additional changes to sales tax distribution or the taxable base could present serious problems.

How the Proposed Budget Implements the Strategic Plan

City Council adopted the Strategic Plan in April 2015. This year's process was our first full budget process in which staff could look to the Strategic Plan for priorities and guidance. Below, you will find how the budget recommendations align with the six Key Focus Areas of the Strategic Plan.



Safe, Vibrant and Healthy Community

The Proposed Budget implements several initiatives aimed at providing citizens with a safe community and high quality of life.

Building on the work of our Downtown Cleanliness Task Force, the Proposed Budget funds 15 new positions to focus exclusively on the downtown area. The new “downtown crew” will provide higher service levels for litter pickup, trash collection, and cleaning of furnishings. The budget also funds a downtown coordinator position to provide stakeholders with a single point of contact. We will consolidate the responsibility and accountability for these services in the new Transportation Department. By having the new crew focus on downtown, the existing Parks maintenance crew that has serviced the area will have additional capacity to maintain facilities around downtown and Southeast Raleigh. The annual costs for the downtown crew comes to \$850,000. These costs will be offset by \$307,000 in revenue from the downtown municipal service district, bringing the General Fund net cost to \$543,000.

The Proposed Budget invests significantly in public safety. Roughly \$1.5 million is budgeted to pilot test a body-worn camera program in the Raleigh Police Department. The camera program presents several policy and technology challenges, but strengthens the public's trust in our law enforcement. The program will also result in better evidence collection and improved officer training.

To further support our law enforcement's training needs, the Five-year CIP funds the design and construction of a new training center for the Police Department. The existing training academy on Spring Forest Road has served the department well since opening in 1988, but the Police Department has outgrown the 12,000 square foot facility. The City will construct a larger facility on the Battlebridge Road property, near the department's driving and firearms training sites, and adjacent to the Wake County Law Enforcement Training Center. A modern and expanded facility improves our ability to prepare and train new police officers before they enter service.

The Proposed Budget enhances our 911 dispatch function with 10 additional call-takers and additional supervisory staff. Staff are currently moving into the new Central Communications Center on Raleigh Boulevard, which provides improved space and infrastructure for our emergency dispatch and emergency management needs.

We will allocate \$450,000 to begin a long-term apparatus replacement schedule to modernize our Fire Department fleet. In FY2017, we will replace two engines and one ladder truck. The Five-year CIP also funds a replacement for Fire Station 1 and the Fire Department's administrative offices. This new facility will move Station 1 out of the Warehouse District, facilitating our economic development efforts in that area. The new facility will include additional bay space, improved living quarters for firefighters, and additional administrative space.

To assist socio-economically disadvantaged members of our community, the Proposed Budget provides \$200,000 for a Bill Assistance Program to help eligible citizens with past-due water and sewer bills. City staff will develop this program in coordination with Wake County.

Despite our vibrant local economy, we have citizens who struggle to pay their rent or mortgage payments. To better address housing challenges, City Council adopted the Affordable Housing

Improvement Plan in October 2015. The plan lays out several strategies to preserve and increase the affordable housing supply. One strategy to address the City's shortage of affordable rental units is to provide gap financing to developers seeking to construct or preserve affordable rental housing. However, we will need additional resources to fund the approved Affordable Housing Improvement Plan, which is discussed below.



Arts and Cultural Resources

The Proposed Budget invests significantly in Raleigh's cultural resources, enhancing current services and funding future opportunities.

The Proposed CIP includes three new government facilities, including a new civic campus, fire station and administrative space, and police training center. Following our Half-Percent for Art program, these three capital projects will generate roughly \$850,000 for the Public Art and Design Board to allocate to new art projects. The Proposed Budget also creates an additional art exhibit curator position to enhance our public art program.

In the operating budget, we propose funding monthly editions of Oak City Sessions, our monthly RTN series highlighting local musical talent, at an annual cost of \$70,000. In addition, we will enhance our historic preservation efforts with an additional preservation planner position and fund a survey of historic properties for potential inclusion in the National Historic Register.

In Summer 2015, the City acquired the 308 acre Dorothea Dix property from the State for \$52 million. The Dix property will, ultimately, become a premier park and cultural facility. The Proposed Budget includes funding to begin master planning this Summer. The City recently entered into an agreement with the Dix Park Conservancy to raise funds to cover future master planning costs. Funding the debt service on the property acquisition requires additional resources—this need is discussed below.



Economic Development and Innovation

To maintain a diverse and vibrant economy, we propose investing new resources in the Economic Development and Innovation Key Focus Area.

As part of the Proposed Budget, we re-brand our economic development unit as the Office of Economic Development and Innovation. This better reflects our current efforts to foster innovation within the City. The budget also funds two new positions in this Office to expand our City's marketing efforts, promote more diverse retail choices, and provide additional research support.

The City's Economic Development Toolkit includes a new Building Upfit Grant to help property owners and small business owners improve buildings throughout the City, and encourage new retail development and other uses. Staff continue to refine criteria and policies to use in awarding these grants. The Proposed Budget provides \$500,000 annually for this new program, should City Council approve it.

As in last year's adopted budget, the Proposed Budget provides new resources to serve our development community. Staff continue to implement EnerGov, our new web-based planning and permitting system. The Proposed Budget funds the system's ongoing maintenance and licensing costs. In addition, we will add positions in our Development Services department, including:

- Two positions to fully staff a major projects team focusing on large-scale building projects,
- One project advocacy position to serve as a single point of contact for major projects,
- One Project Engineer to focus on right-of-way permits and related issues, and,

- Two positions to support plan review and inspections.

Within our City Planning department, the Proposed Budget provides funding for additional area plan studies, including the Avent Ferry Road study. Two new positions will support civic design projects and the historic preservation efforts discussed above. Finally, to better address questions and comments during the rezoning process, City Planning will attend all Citizen Advisory Council (CAC) meetings when zoning cases are discussed.



Growth and Natural Resources

Supporting this Key Focus Area, the City will continue to maintain critical infrastructure and respond to growth-driven service demands.

The Proposed Budget significantly expands the Stormwater Management capital program. Funded by a \$1 per month increase in the average resident's stormwater fee, we will increase the Five-year CIP by 33% from \$36 million to \$48 million. Staff will complete a higher volume of drainage assistance projects, system repairs, and conduct more watershed planning. The City will also have more funding available to acquire flood-prone property.

To further enhance Stormwater Management services, the Proposed Budget provides 12 positions to create two new project crews. These new crews will provide faster response to stormwater system failures, reduce contractor costs, and complete 20 to 25 additional stormwater projects each year.

The Proposed Budget includes an increase in the monthly water and sewer volume-based rates, as well as increases in the infrastructure replacement charges. Overall, the average residential customer (using 5 CCF per month) will see an increase of about \$1.99 per month, or 3.8%. The primary reason for these fee increases is to further support our long-term infrastructure maintenance program. The Proposed Five-year CIP invests \$686 million in such water and sewer projects as main replacements, sewer interceptors, pump stations, recovery facilities, and other infrastructure necessary to keep our public water and sewer system running.

The Strategic Plan, as well as our Climate Energy Action Plan, calls for the implementation of anaerobic digesters. This approach to biosolids treatment shifts the treatment process from an energy consumer to an energy producer. The process produces several sustainable by-products, including methane gas, which can be cleaned to compressed natural gas quality and be used for fuel to run generators or compressed natural gas (CNG) vehicles. The CIP programs roughly \$92 million to construct anaerobic digesters at the Neuse River Resource Recovery Facility. Over time, the digesters will reduce the facility's operating expenses and meet our sustainability goals.

Looking at Solid Waste Services, the City has worked steadily toward improving services and reducing the amount of General Fund support for this service area. The Proposed Budget includes a 75 cent increase in the monthly residential collection fee to support these goals. To improve route efficiency and support the yard waste center, the department will add five total positions. To advance us closer to our 80% cost recovery goal, we propose reducing General Fund support for the Solid Waste Services Enterprise Fund by \$2.3 million.

In our parks system, the City of Raleigh will open four renovated or new facilities over the next 18 months, including the Thomas G. Crowder Woodland Center, Horseshoe Farm Nature Reserve, Forest Ridge Park, and Moore Square. The Proposed Budget provides over \$1.1 million to operate these new facilities, including 12 new positions for recreational programming and maintenance. City staff will also continue implementing the \$92 million bond program, which includes significant

improvements at John Chavis Memorial Park, Walnut Creek Softball Complex, and expansions to the greenways system.



Transportation and Transit

Within this Key Focus Area, the City will add resources to improve implementation of our capital programs. The Proposed Budget funds the following positions:

- Project Engineer to support road widening and other capital projects,
- Inspections Coordinator to support our ongoing resurfacing program,
- One position to support a pilot program of alternative street maintenance strategies, and,
- One position to support transit capital projects, including the installation such accessible bus stop infrastructure as shelters, benches, and sidewalks and ramps.

Staff will continue to implement the \$75 million 2013 Transportation Bond program. The program includes several road widening projects, including Mitchell Mill Road, New Hope Church Road, Pleasant Valley Road, Sandy Forks Road, and Tryon Road Part C. The second phase of the Hillsborough Street streetscape project is also under way.

Construction of Raleigh Union Station will begin in Summer 2016 and staff expect to open the facility in late 2017. The Proposed Budget funds two positions for this critical transportation hub, one to serve as a facility manager and a second position for maintenance support. The FY2018 budget will incorporate additional operating impacts for Union Station.

To implement the new Bike Share program, the Proposed Budget funds a program coordinator position for a partial year. The Bike Share system facilities will be installed in FY2018, funded by a \$2 million grant from CAMPO and \$425,000 in matching City funds. The City has also invited Wake County and North Carolina State University to contribute capital funding. Any additional contributions from other stakeholders will reduce the City's capital matching funds.



Organizational Excellence

The Proposed Budget invests significantly in our City's communications efforts, government facilities, and employee compensation.

As part of the budget proposal, we re-brand the public affairs unit as the Communications Department. This better reflects the broad range of communication services provided, including video, graphics, event management, and media relationships. The Proposed Budget provides two additional positions to the Communications Department to increase graphics and video services, and provide more support to City departments. We will also realign three other positions, which have been supporting multiple departments, from City Planning to Communications to create a central graphics unit.

We propose funding a city-wide branding study in early FY2017. Presently, City departments and divisions use dozens of different logos and symbols. This planning effort will develop a common City branding approach, and, ultimately, make it easier for citizens and stakeholders to identify City of Raleigh services.

The Proposed Budget funds a citizen survey, which will be administered in Fall 2016. The survey will collect data and feedback from citizens to help staff and Council Members determine City priorities, modify policies, and reconsider how we provide services.

To provide the City with sufficient office space for the next several decades, the Five-year CIP funds a new consolidated civic campus. At present, staff who work downtown are spread across three

City-owned buildings and several leased spaces. The consolidated civic campus will bring over 1,100 staff onto the existing municipal block adjacent to Nash Square. The parking deck and former Police headquarters building at 110 S. McDowell St. will be demolished and replaced with an office tower and expanded parking deck. The Raleigh Municipal Building will remain in place. Besides providing over 300,000 square feet of office space, the new campus will enable us to improve customer service and civic engagement, improve staff efficiency, and create new economic development opportunities. Master planning for the civic campus begins this Summer.

Our employees continue to be the most important resource in the City of Raleigh. The Proposed Budget funds our competitive employee compensation package with an average merit-based increase of 3.25%. This amount is slightly above market trends in North Carolina and the private sector. We also propose increasing the number of official City holidays from 11 to 12. By adding an additional holiday at Christmas, the City's holiday schedule will be consistent with the State, Wake County, and other government employers in the region.

Within our employee health plan, the City has experienced a significant increase in medical claims expenses. For our 2016 plan year, we estimate a 14% increase in expenses over 2015. Looking to 2017, we expect another 5% increase. One major cost driver behind these increases is the higher costs of covering spouses. Both the number of covered spouses and cost per spouse have risen the past two years. Another major cost driver is the increasing volume and magnitude of high-cost claims.

The Proposed Budget will have the City absorb over 80% of the health plan increase in FY2017. The remaining costs allocated to employees will come in the form of premium increases and increases to the out-of-pocket maximums. We propose increasing premiums for plan types with spouse coverage, which links the premium increases to this major cost driver. We also propose applying a spouse surcharge to employees in situations when the spouse has access to health coverage from another employer. Plan types covering children will also increase, but by a lower amount. Employee-only plans will see no premium increase.

Our covered services, health plan premiums, and out-of-pocket maximums will remain very competitive with other governmental and private sector organizations. During FY2017, staff will carefully monitor our health plan trends. We will develop a policy for allocating future health plan expenses between the City and employees. After staff research and develop a proposal, we will bring the policy to City Council for review prior to the next budget process. The new policy will provide employees and City Council with a consistent and predictable approach to these annual budget decisions.

New Resources for the Future

With our strong local economy and tax base, we are able to produce a balanced budget that funds many strategic plan initiatives and high priority services. However, additional resources are required to achieve two initiatives. Looking again at our property tax base, Wake County conducted a revaluation process in 2015, consistent with the historic eight year schedule. The revaluation resulted in an 8% increase to the property tax base and a revenue neutral tax rate of 39.83 cents. Overall, residential property remained flat, while commercial property values increased 23%.

Rather than lower the property tax rate to the revenue neutral rate, we propose lowering the rate by 0.27 cents from the current 42.10 cents down to 41.83 cents. By lowering the tax rate 0.27 cents, we can allocate one cent of tax revenue, or \$5.7 million, to expand our affordable rental housing program. Affordable rental housing is our highest priority. The City of Raleigh has 32,000 low to moderate income renter households who are cost burdened, meaning that rental costs exceed 30% of their income. Additionally, there are 16,000 households with rental costs exceeding 50% of their

income. At present, the City funds roughly 200 affordable rental units per year to support our community. The additional funding will enable us to increase output by over 60% to roughly 325 units per year. Allocating property tax revenue provides a permanent funding stream to address this long-term need. This proposal implements not only the Affordable Housing Improvement Plan, but also an important Strategic Plan objective--*preserve and increase the supply of housing for all income groups*.

This proposal also allows us to allocate one cent of revenue, \$5.7 million, to fund the debt service on the Dorothea Dix property acquisition. City Council approved the purchase in June 2015 with a ten year debt financing at 2.18%. The acquisition implements an Arts and Cultural Resources objective within the Strategic Plan— *protect, enhance and develop unique places that reflect the City's character, history and values*. Master planning for the park starts soon, which begins the process of transforming the property into a valuable asset our citizens will enjoy for generations to come.

Conclusion

In this Proposed Budget, we present you with important choices about the City's future. Please share with us your follow-up questions as you consider these choices. We appreciate City Council's support throughout the budget process. And, we look forward to working with you as you consider these important policy and resource allocation decisions.

To discuss the Proposed Budget, City Council will hold a work session each Monday in June, beginning at 4pm in Council Chambers. These work sessions continue weekly until Council adopts the FY2017 operating and capital budgets. A public hearing will be held Tuesday, June 7 at 7pm in Council Chambers.

Thank you,

A handwritten signature in cursive script that reads "Ruffin L. Hall".

Ruffin L. Hall, City Manager