

To the Town of Chapel Hill Stakeholders

We are pleased to present to you the fiscal 2016-2017 budget. This document represents a commitment to provide transparency, prudent fiscal management, effective service delivery, and a means of providing our citizens with the highest quality of life given the current challenges we face.

The effects of Chapel Hill's proximity to the Greater Nashville area will present both opportunities and difficulties as the regional economy continues to grow rapidly. The Town has identified key areas of focus to ensure a well-planned transition. We will proactively identify solutions towards promoting a financially sound and responsive palate of municipal government programs and services.

The budgeting process for FY 16-17 was prepared using principles of Cash Based Budgeting which identified specific costs and expenditures for all Town Departments, programs, and services which were then prioritized. There was a review of historic services and program costs in order to identify potential savings and efficiencies. At the conclusion of this examination, and compilation of an initial budget, budget committee meetings began in March 2016.

The Town of Chapel Hill is audited annually by an independent accounting and auditing firm, and the current audit may be viewed on the State of Tennessee, Comptroller of the Treasury website at <http://www.comptroller.tn.gov>.

Budget Highlights

The following highlights are included in the fiscal 2016-2017 budget:

Finance

- § The City's property tax of \$1.75 will remain unchanged.
- § The City's assessed valuation of property increased by 3% from FY 2015-2016.
- § Appropriations for over \$ 1.4 million in capital projects and equipment are identified in the fiscal year 2016-2017.
- § General Fund ending fund balance is projected to be 100% of operating expenditures.

Information Technology

- § Beginning last year, the Town of Chapel Hill began a process of upgrading information technology systems. IT projects are time consuming and require significant initial investment. However, it is critical that we continue to fund IT investments. With Federal and State legislatures trending toward tax cuts, local governments are beginning to feel the pressure of lost intergovernmental revenues, and in Tennessee, other legislation will begin to effect municipalities' ability to generate revenue by traditional means. As these trends continue, our Town will need to operate at unprecedented levels of efficiency. In order to improve current service and maintain a high level of service to our citizens, it is paramount that we utilize available technology to contain cost. The Town is currently in the process of developing a new website which will add user friendly and convenient options for payments, applications, forms and permits. This will increase both stakeholder satisfaction and office efficiency.

Parks and Recreation

- § The first phase of Depot Park is scheduled to conclude this year and includes a half-mile walking track, parking lot, green space, landscaping, restroom facilities and athletic fields that can serve both football and soccer youth leagues. Phase 1 and subsequent phases will be designed to function as complete projects, to avoid the appearance of being unfinished, should parks and recreation capital funding cease, or be delayed due to insufficient revenue, or a shift in government priorities. Phase 1 was designed to be a catalyst for other health, livability, and community projects, as well as federal grant funding aimed at parks, sidewalks, and other multi-modal projects. The components of Phase 1 were also the result of careful consideration of the Town's financial position, and its administrative capacity to maintain completed projects. Careful consideration must also be given to each future phase to ensure that not only initial capital costs, but perpetual maintenance of the facility, is within our financial and administrative capabilities.

Public Safety

- § Public Safety is essential to every vibrant and growing Town. It is the first priority of any local government, and the primary justification for local taxation. The Town of Chapel Hill has invested in additional police personnel to add coverage during the times of high activity. According to the call volume reported by the Marshall County 911 Board, activity has increased by approximately 40% since the initial study to divide costs to support emergency operations in a span of about three years. We are dedicated to providing adequate funding to our Town's police and fire departments to ensure that we are staffed and equipped to serve our local citizens well. The Chapel Hill fire department recently partnered with Marshall County EMS to become the only volunteer department in the region to operate at an EMT level, further enhancing the Town's ability to serve its citizens.

Transportation

§ After completing last year's traffic signal project, the primary focus of the public works function will be paving, as well as maintaining the Town's current facilities. The Town will continue to identify potential projects which would increase traffic efficiency, and reduce the potential for traffic related accidents. We will work closely with TDOT as scheduled maintenance of Highway 31A is completed in 2017 to ensure that potential and realistic projects, which would enhance traffic efficiencies, are completed simultaneously, if possible. We will also continue to look at avenues to replace our current street lights with LED lights which would greatly improve visibility and efficiency. Many cities and towns across the state are currently working with their respective electric cooperatives to find LED lighting solutions, and some have completed very successful projects.

Utilities

§ This budget includes \$1.3 million in sewer system repairs. The force main responsible for carrying all flow to the wastewater treatment plant is severely overloaded, and is operating well above its designed capacity. This has caused many failures over time, and these failures will undoubtedly increase as operations continue to add stress to an already fragile component of our sewer infrastructure. Although the maintenance plan we have in place will alleviate multiple issues such as failures and breaks, sewer overflows and environmental violations, and collection system surcharges, as well as adding substantial capacity for growth, it will be challenging to spread the cost over our small customer base. We will need to complete in-depth cost analysis and rate studies to develop a timetable that is realistic if we are not able to immediately complete all necessary replacement and maintenance.

We have invested in upgraded equipment and instrumentation at the Town's water plant which has allowed us to collect clear data relating to the capacity of our well, and the efficiency and effectiveness of other plant operations and procedures. We know that our primary water source is finite and limited, and our secondary source is also limited. We also know that the source water table fluctuates with rainfall, and possibly with the level of the Duck River. Our ability to capture new data shows that we struggle to meet our growing demand under normal conditions, and increasingly fail to meet demand in dry weather. Increasing demand will force us to make long term decisions about sustainable water access to ensure that our citizens have a good, clean source of potable water for many years. Prior administrations had been very prudent with debt management, bringing the Town completely out of debt for a time; however, making necessary upgrades and maintenance to our utilities infrastructure will continue to force the Town to utilize responsible debt financing.

Planning and Community Vision

§ The Town has completed its Master Plan for the sewer system, and will continue the process of long range planning for all inventory and infrastructure. We have applied for grant funds through TDOT to fund a comprehensive long range plan for transportation, land use and economic development.

Human Resources

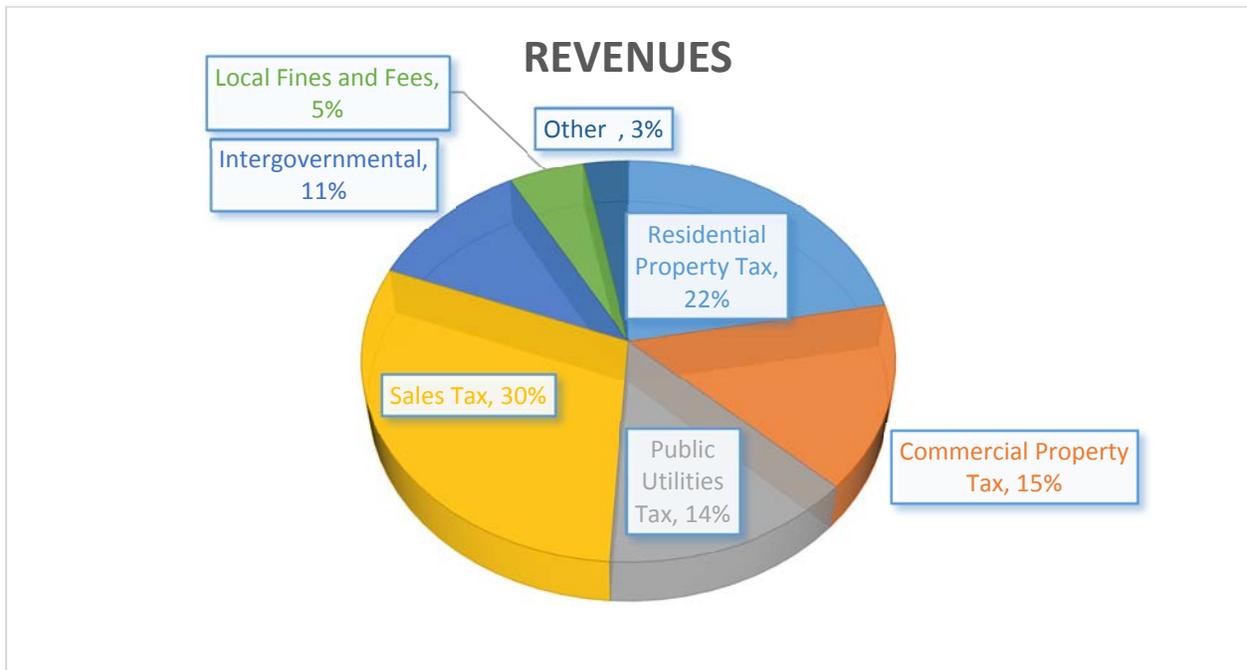
§ The Town completed a market analysis last year to determine a competitive range of overall compensation for Chapel Hill employees. With today's unprecedented levels of oversight and regulation, and the increasing need for information technology skills, it is critical to have an established compensation baseline to recruit skilled employees in a highly competitive market. The Town has also conducted unique personnel training in recent months and will continue to look for training opportunities which will enhance employees' ability to navigate in a 21st century work environment, and to ensure that we both understand, and are equipped to negotiate new and evolving workplace rules of conduct.

Where Money Comes From

General Fund

The following chart outlines the general government sources of revenue that the Town uses to meet its general government obligations. Revenue from water and sewer utilities, or proprietary funds are not included, and cannot be used to subsidize general government operations.

Property Tax is broken down into three (3) categories. Residential property tax (including farm and agriculture) generates approximately 22%, Commercial property tax (including industry) generates approximately 15%, and Public Utilities Tax generate approximately 14% of the total revenue collected. Tax generated from retail sales inside the Town Limits generate approximately 30%. Taxes shared by other State or Federal governments generate approximately 11%. Local Fines and Fees 5%, and All Other Sources 3%. Approximate values are used in this sample because the ratio of sources change from year to year.



Based on \$1.2 million dollars total general government revenue, the totals would be as follows:

| | |
|---------------------------------|-------------|
| Sales, Wholesale and Liquor Tax | \$360,000 |
| Residential Property Tax | \$264,000 |
| Commercial Property Tax | \$180,000 |
| Public Utilities Tax | \$168,000 |
| Intergovernmental | \$132,000 |
| Local Fines and Fees | \$60,000 |
| All Other Sources | \$36,000 |
| Total | \$1,200,000 |

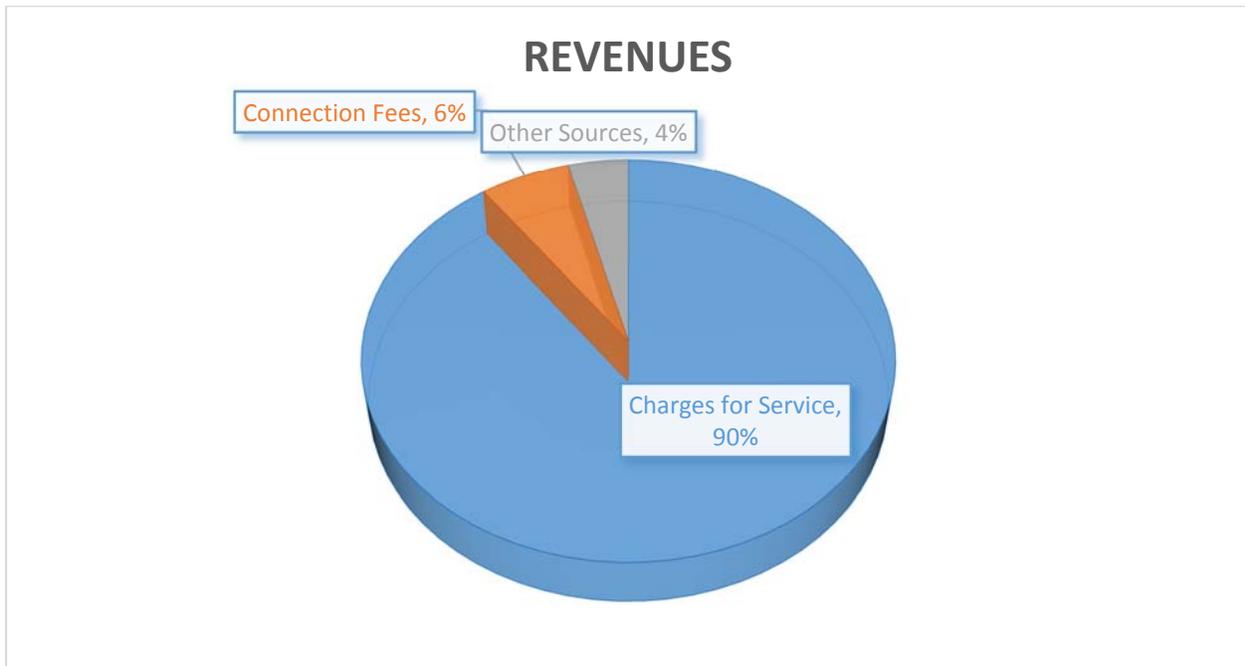
Proprietary Funds

The following chart outlines the water and sewer (proprietary) sources of revenue that the Town uses to meet its water and sewer obligations. Revenue from taxes, or general government revenues are not included, and cannot be used to subsidize proprietary operations. The following is from Tennessee Code Annotated:

TCA 7-34-115. Operation of utility systems -- Disposition of revenue.

(a) Notwithstanding the provisions of any other law to the contrary, as a matter of public policy, municipal utility systems shall be operated on sound business principles as self-sufficient entities. User charges, rates and fees shall reflect the actual cost of providing the services rendered. No public works shall operate for gain or profit or as a source of revenue to a governmental entity, but shall operate for the use and benefit of the consumers served by such public works and for the improvement of the health and safety of the inhabitants of the area served.

Water and sewer revenues come primarily from one source; charges for service. The following chart represents a sample, average year, and changes from year to year depending on the level of activity within the system.



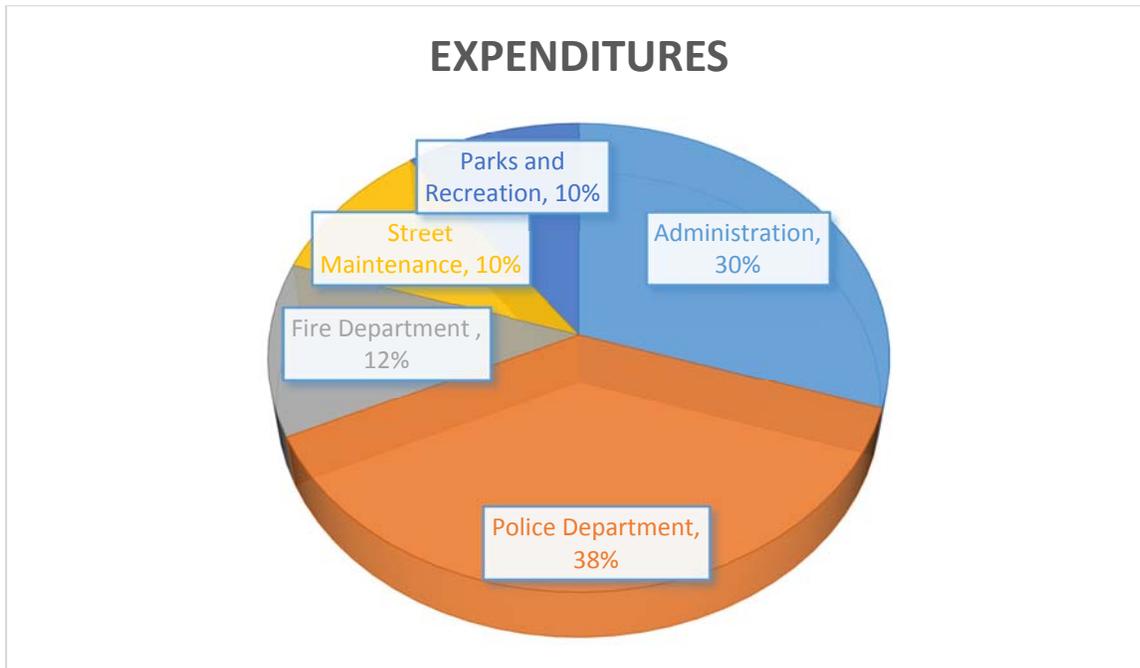
Based on \$530 thousand dollars total water and sewer revenue, the totals would be as follows:

| | |
|---------------------|-----------|
| Charges for Service | \$477,000 |
| Connection Fees | \$30,000 |
| Other Sources | \$23,000 |
| Total | \$530,000 |

Where Money Goes

General Government

The following outlines General Government Expenditures by function. General Government functions typically include the following operations: General Government Administration, Police Department, Fire Department, Street Maintenance, Parks and Recreation, Codes and Public Buildings. The chart is based on a sample, average year and will change from year to year depending on the needs of the general government operations. These numbers include capital projects and improvements, as well as any related debt service.

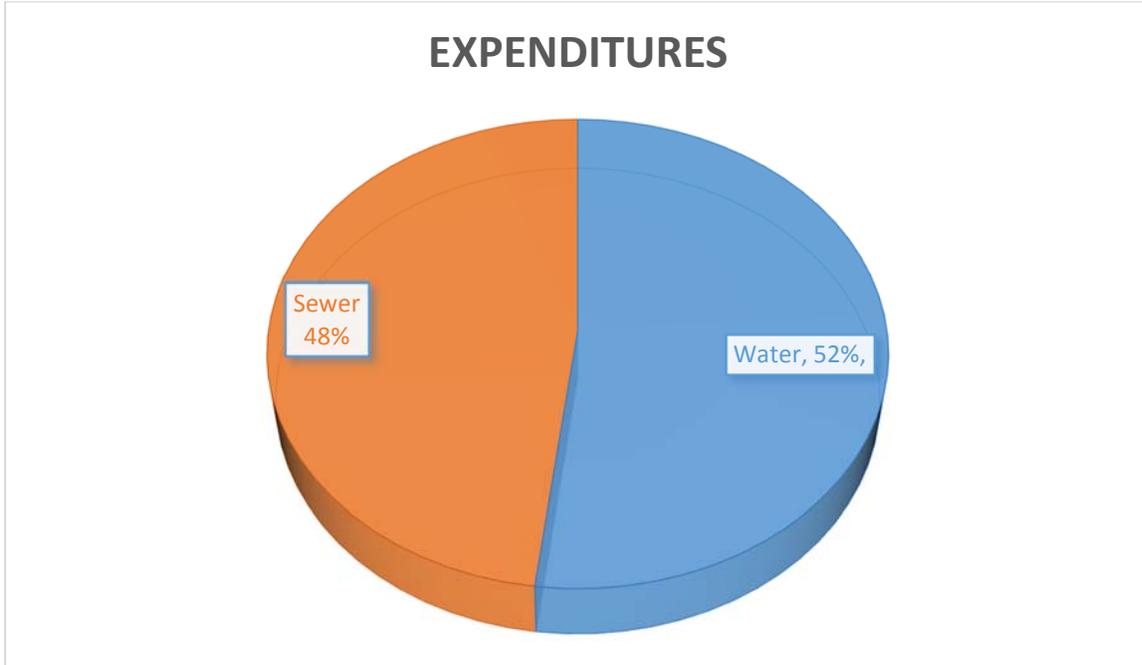


Based on \$1.2 million of general government expenditures, a typical year would be broken down according to these functions.

| | |
|--|-------------|
| Police Department | \$456,000 |
| Administration (Includes Codes and Public Buildings) | \$360,000 |
| Fire Department | \$144,000 |
| Street Maintenance | \$120,000 |
| Parks and Recreation | \$120,000 |
| Total | \$1,200,000 |

Proprietary Funds

The following outlines Water and Sewer (Proprietary) Expenditures by function. Proprietary functions include the following operations: Water and Sewer. The chart is based on a sample, average year and will change from year to year depending on the needs of the proprietary operations. These numbers include capital projects and improvements, as well as any related debt service.



Based on \$530,000 dollars of Proprietary Expenditures, a typical year would look like this.

| | |
|-------|-----------|
| Water | \$275,600 |
| Sewer | \$254,400 |

Keep in mind that these numbers represent approximate historical values and will change (increase) as significant improvements are made to the infrastructure in each department.

Other Funds

Activity in small funds (Sanitation, Drug Fund, etc.) will be detailed in the line items budget section of this document.

Other Issues Affecting the Budget

In the current economic climate, the Town continues to address many challenges with respect to meeting service demands. Providing municipal services, developing infrastructure and public facilities, maintaining an environment of physical safety and security, quality of life, developing pedestrian- friendly neighborhoods, along with appropriate planning for commercial and business areas, family oriented open spaces and parks, quality educational opportunities, cultural amenities, as well as up to date transportation systems that allow people to travel easily throughout the city, will be a challenge.

In years of growth, tax revenues will increase due to “intrinsic growth factors”. Property values increase and sales activity will likely increase in growth years which will completely or substantially cover annual inflation. Sales tax will increase without additional activity in a typical year due to the increase in the cost of goods and services. However, our proprietary funds have no such intrinsic factor. The only ways to increase revenue to cover annual inflation and keep up with critical maintenance are to increase our customer base and/or increase rates. This will be a challenge going forward as our customer base is subject to the limitations of our water source and the status of our sewer infrastructure. Our water and sewer infrastructures are limited with both a small physical area, and capacity constraints.

Much of the Town's physical water and sewer infrastructure is around 30 to 60 years old and is undersized. Planning for infrastructure needs and requirements always provides major challenges. Global assessment of Town's existing water and sewer facilities and capacity will continue to be a priority.

Linking the Budget with the Strategic Plan

The key characteristic of a budget is to provide linkage with Town goals or priorities. The Town must be receptive to the needs of its citizenry and proactive in the management of growth, development, and revitalization in order to promote a safe and vibrant environment throughout the community. The Town is going through the process of developing strategic goals and a Comprehensive Plan that will lead us into tomorrow, and we offer these long-range goals as the basis for our decisions:

1. Financial Stability
2. High Quality Service
3. Smart, Diverse Local Economy
4. Safest and Most Beautiful Town in Tennessee
5. Functional and Sustainable Public Facilities and Infrastructure
6. Capitalize on Our Town's Unique Culture and Utilize Them to Create a Brand

Beyond broad, long-range goals, our annual objectives should be SMART: Specific, Measureable, Achievable, Realistic, and Time specific.

The Budget Document

The budget provides four functions.

1. The budget functions as a policy document in that the decisions made within the budget will "reflect the general principles or plans that guide the actions taken for the future." As a policy document, the budget makes specific attempts to link desired goals and policy direction to the actual day-to-day activities of the Town staff.
2. The budget of the Town reflects its operation. Activities of each Town function and organization have been planned, formalized, and described in the following sections. This process will help to maintain an understanding of the various operations of the Town and how they relate to each other, and to the attainment of the policy issues and goals of the Board of Mayor and Aldermen. In this effort, the budget addresses areas that may not be traditional budget document topics. These include current and future debt management, staffing levels, long-range planning, and capital spending plans, and the tax base and its relationship to the provision of services.
3. The budget provides a unique opportunity to allow and encourage public review of Town operations. The budget describes the activities of the Town, the reason or cause for those activities, future implications, and the direct relationship to the citizenry.
4. Traditionally a financial planning tool, the budget is also a State law requirement of all cities as stated in Tennessee Code Annotated. The budget must be adopted as a balanced budget and must be in place prior to the expenditure of any Town funds. The budget is the legal authority to expend public monies and controls those expenditures by limiting the amount of the appropriation at the departmental or function level. The revenues of the Town are estimated, along with available cash reserves, to indicate funds available. The staff requests for appropriations comprise the disbursement side of the budget.

The Budget and GAAP

The Town prepares an annual financial report in conformance with generally accepted accounting principles (GAAP). The Governmental Fund types are reported on a modified accrual basis. The Proprietary Fund types are reported on a full accrual basis. The budget is prepared using the cash basis of accounting for ease of understanding. The budget is what gives the Town the legal authority to spend money and budgets must be amended if expenditures exceed original budget amounts. The Town makes every effort to stay within the appropriated budget at the function level and typically amends the budget at the end of the fiscal year, if necessary. The Purchasing Law of 1983, the Town of Chapel Hill Charter and local purchasing guidelines create additional layers of controls to ensure that Town officials are effective stewards of the Town's money.

The Budget Process

The fiscal year of the Town runs from July 1 to June 30. The budget process is ongoing throughout the fiscal year, as Town officials and staff compare the financial plan to what is actually happening. The new fiscal year's budget preparation generally begins in January when the Finance Officer begins to project revenues and expenditures for the remainder of the fiscal year, makes necessary adjustments and builds a foundation for the next year's recommendations.

The Town's Charter requires the formation of a budget committee which is to make a recommendation to the BOMA for the passage of each year's budget. The budget committee is comprised of the Mayor, Town Administrator, Finance Officer and one Alderman appointed by the Mayor. The committee usually begins meeting in February to discuss general information and will assess increasingly detailed information as the budget approaches the Final Reading of the Ordinance in June.

Currently, the Town's Charter requires that the budget ordinance pass on three separate readings. Usually the scheduled readings will be considered as follows: First Reading during the regular meeting of the BOMA, the second Monday in May; Second Reading during the regular meeting of the BOMA, the second Monday in June; Third and Final Reading during a special called meeting of the BOMA during the last week of June. The Final Budget must be publicized in a newspaper of general circulation at least ten days prior to the Final Reading.

Budget Components

The operating budget consists of appropriations necessary to carry out daily functions of the government and maintain service to the stakeholders. The operating budget includes items such as personnel, professional and maintenance services, maintenance parts and utilities. The Town uses a Zero-Based Budget approach, requiring that all department expenditures are justified by the need maintain and/or improve upon current levels of service.

The capital budget is derived from the Capital Improvement Plan (CIP). The Town is currently working on adopting its first CIP. The CIP will authorize a series of projects and their anticipated time frames and funding plans and sources. The capital budget will reflect current expenditures necessary to fund the current fiscal year's segment of the CIP.

Financial Structure of the Government Organization

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in these funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Governmental Fund

General Fund - The general fund is the general operating fund of the City. All general tax revenues and other receipts that are not required either legally or by generally accepted accounting principles (GAAP) to be accounted for in other funds are accounted for in the general fund.

Proprietary Fund Types

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Town's enterprise funds consist of the Water and Wastewater Utility Fund, and the Sanitation Fund.

Capital Outlay (All Funds)

Administrative - \$0. No capital expenditures are scheduled in this department for the upcoming fiscal year, however we will look for opportunities to invest in property or facilities which may be beneficial to the Town.

Police - \$45,000. One new vehicle will be planned for purchase in each fiscal year going forward to rotate the entire fleet every 6-8 years. This year the Town will purchase a new SUV that will be used for regular police duty, as well as, specialized police functions.

Fire - \$40,000. Upgrades old or dilapidated equipment. There is a need for a new engine at some point, which may be discussed during the year. I believe that a piece of equipment of this size would warrant additional funding from other governments who stand to gain from the services.

Streets - \$150,000. Projects include paving, and new equipment including skid steer attachments. These projects and equipment will improve the Town's aesthetics and ability to serve the public effectively.

Parks and Recreation - \$100,000. Phase1 of Depot Park has begun and will conclude this year. The first phase includes a walking track and parking areas, which can be used by all residents, plus ease parking needs for the Tractor Pull and other local events, and serve as a trail head for future sidewalk projects. This will also serve as a catalyst for grant funding and future projects which fit within the scope of the Comprehensive Plan. The parks and recreation committee will serve as the advisory group for the Board of Mayor and Aldermen on all plans and projects. This year's funding will focus on play areas and equipment.

Water and Sewer - \$1,350,000. This includes replacing the force main from Morningside lift station to the wastewater treatment plant, other collection system maintenance, and maintenance to the wastewater treatment plant. The final inventory of equipment and projects may depend on grant funding. Water and Sewer infrastructure and capacity will be directly linked to the Town's revenue and growth potential going forward and, therefore, will be a focal point of this year's planning efforts.

Sanitation – \$50,000. We have available fund balance to utilize for equipment purchases which can be used in sanitation. I recommend that we replace the backhoe that we currently own. This plus the skid steer attachment would give us two digging options.

Conclusion

The Town of Chapel Hill is poised to forge ahead in this unprecedented time of growth and opportunity in the Greater Nashville area. Our hope is that this document serves to inform stakeholders of the important decisions that are being made on their behalf, and to help build confidence that your local government is operating efficiently and effectively. We hope to build on this document going forward to include a long-range Capital Improvement Plan and a Comprehensive, Strategic Plan. Thank you all very much for the contributions that help make Chapel Hill a great place to live.