

FY 2026 BUDGET UPDATE



Council Work Session
March 26, 2025

AGENDA

1.

Tracking Council Priorities

2.

Funded Council Priorities

3.

Building the Base Budget

4.

Budget "Big Rocks"

5.

Next Steps

TRACKING COUNCIL STRATEGIC PRIORITIES

We have identified 3 key performance indicators for each priority that:

- ✓ We already measure/track
- ✓ Council has some influence on
- ✓ Relate to strategic goals rather than operational functions
- ✓ Are a bridge to 2026-2028 goal development

1 – Environmental Stewardship

- Percentage of new fleet as EVs/hybrids
- Number of affordable housing units within 1/2 mile of a bus stop
- Community-wide carbon emissions data

2 – Economic & Financial Stewardship

- Ratio of commercial to residential
- Sales tax revenue growth
- 10-year payout ratio (how fast we pay off debt)

3 – Affordable Housing

- Percentage of total units approved by Council that are affordable
- Number of new affordable housing units built
- Number of affordable homes preserved with Town's financial support

4 – Connected Community

- Everywhere to Everywhere project milestones achieved
- Number of Chapel Hill Transit customers
- # of mobility plan milestones reached

5 – Healthy & Inclusive Community

- Percentage of population within 0.5 miles of parks and park facilities
- Number of library visits per capita
- Community events participation

6 – Safe Community

- Fire response time at the 90th percentile
- Number of crisis diversion responses (PD co-response)
- Number of reported bicycle crashes

7 – Employee Recruitment & Retention

- Percentage of employees making the market rate for their pay grade
- Turnover rate
- Length of vacancies from resignation date to hire date

These indicators will help us understand how well we are achieving your goals.

Next, we'll start sharing progress on these indicators on a more regular basis.

When you agree on your 2026-2028 goals, you can determine the indicators at the same time.

**FUNDED COUNCIL
STRATEGIC PRIORITIES**

In recent years, you have dedicated funding to advance key aspects of Complete Community:

- ✓ Affordable Housing
- ✓ Climate Action
- ✓ Everywhere to Everywhere

Affordable Housing

- Current Annual Funding Allocation: \$976,000
- Other Funding Sources:
 - Community Development Block Grant (\$437K annually)
 - Affordable Housing Fund (\$725K currently available)
 - Affordable Housing Loan Fund (\$20 million)
 - 2018 Affordable Housing bond referendum (\$10 million)
 - 2024 Affordable Housing bond referendum (\$15 million)

Climate Action

- Current Annual Funding Allocation: \$976,000
- Other Funding:
 - NCDEQ Diesel Emissions Reduction Act Grant (\$297,400)
 - NCDEQ VW Settlement Grant (\$25,000)
 - Orange County Climate Action Grant (\$50,000)
 - Federal EECBG Grant (\$129,010)
 - Utility Incentives (\$10,000)

Everywhere to Everywhere

- Current Annual Funding Allocation: \$625,000
- Other Funding Sources:
 - RAISE grant (\$1 million federal funding/\$300K match)
 - GO bonds for Bolin Creek Extension (\$2 million)
 - GO bonds for Fordham Sidepath (\$2 million)
 - ARPA funding for Bolin Creek Greenway Extension \$500K
 - ARPA funding for Tanyard Branch Connector \$200K
 - Estes Drive Ext (\$3.6 million NCDOT/\$900K match)
 - Cameron Ave Bike Facilities (\$720K NCDOT/\$180K match)

**You have also identified key areas in
our core operations that need
attention...**

BUILDING THE BASE BUDGET

We build our budget on two concurrent tracks:

- We project overall Town revenues
- Town departments share their personnel and operational needs
- These two tracks come together as we get closer to presenting the Manager's Recommended Budget

1. We start by projecting revenues.

- Property taxes
- Sales taxes
- Department fees
- Other miscellaneous revenues

2. Next, departments submit base budgets.

- Must meet a target that is roughly the same as current year
- Meeting the target means absorbing cost increases across some budget lines
- At this stage, departments are not submitting adds for any new positions, programs, projects, etc.

3. We Always Prioritize Our People.

- Annual pay increase
- Health insurance increase
- Retirement system increase

4. We must account for some increases.

- Utility & enterprise technology increases
- Tax collection fees charged by county
- Board of Elections fees
- Rogers Road annual commitment
- PD operating costs at new facility

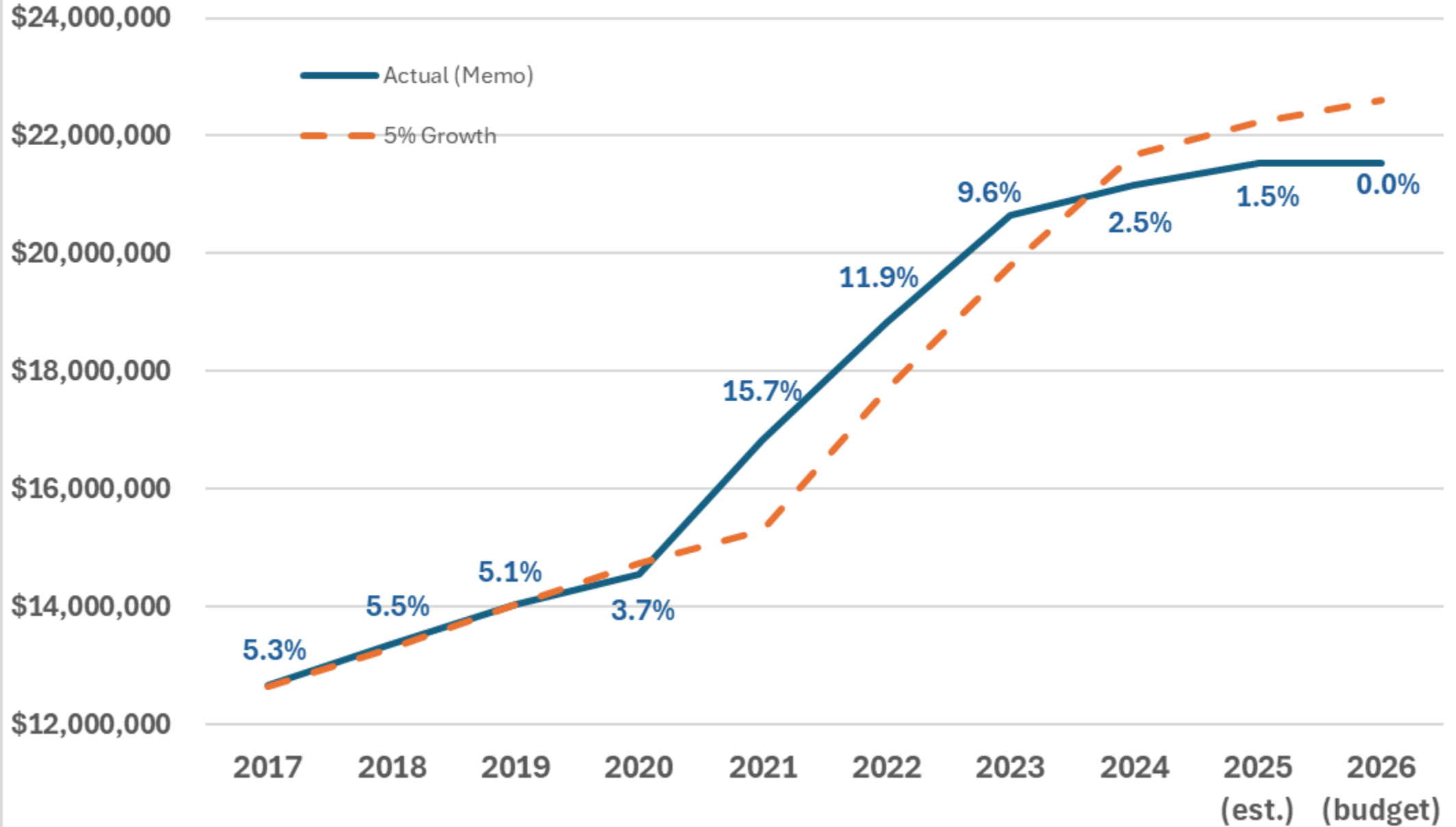
5. Then, we put it all together...

+ Revenues	\$ 86,944,597
- Department Budgets	(89,335,305)
- Employee Cost Increases	(2,946,237)
- Operating Increases	<u>(1,093,803)</u>
= Budget Gap	(\$ 6,430,748)

Why is there a gap & what does it mean?

- Sales tax shortfall
- Personnel (salary & benefits) increases
- Other required operating increases
- Does not include fund balance appropriation
- **Gap is first priority that needs to be addressed**

Actual Sales Tax Collections FY2017-2026



Lapsed Salary Savings vs. Budgeted Appropriated Fund Balance



Based on what we know right now, to maintain the status quo, we will need a minimum of 4.5 to 5.0 pennies above the revenue neutral tax rate to have a balanced budget.

BUDGET
“BIG ROCKS”

We have some operational “big rocks” that need both one-time and ongoing funding.

Our discussions with you about these rocks will inform the tax rate in the Manager’s Recommended Budget.

OPERATIONAL “BIG ROCKS”

1. Pay and classification study
2. Program increases/expansions
3. Vehicle Replacements
4. Facility Maintenance
5. Street Resurfacing
6. Fire Capital

1. Pay & classification study implementation

- Town engaged Evergreen Solutions to conduct a pay & classification study
- There are several options for implementation, and all would require additional resources.
- Recommendation focuses on both Town and job tenure
- Efforts we've made to pay with Council's support have helped keep our salary ranges competitive with the market.
- **Recommended option would cost about \$900,000**

2. Program increases

- **Program increases** represent something that we are already doing but it now costs more to do the exact same thing.
 - \$1 - \$1.5 million of program increases (annual average)
 - In any given year, we fund less than 10% of program increases
- **Ideally, the Town would be able to incorporate annual program increases.**

2. Program expansions

- **Program expansions** are additions to something that we already do or something brand new
 - \$7.5 million submitted as program expansions
 - In most budget years, we aren't able to fund program expansions
- **Ideally, we would have an annual allocation of \$1.5 million for program expansions.**

3. Vehicle replacements

- Current Backlog: \$13 million
 - Current Annual Funding Level: \$1.6 million
 - Sustainable Annual Funding Need: \$2.8 million
 - **Annual Funding Gap: \$1.2 million**
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- Average Fleet Age is 10 years (was 4.75 years in 2001)
 - 220 Vehicles are past due for replacement
 - Greening the fleet costs more

4. Facility maintenance

- Current Backlog: \$14 million
- Current Annual Funding Level: \$840K
- Sustainable Annual Funding Need: \$1.65 million
- **Annual Funding Gap: \$810K**

- Community Survey satisfaction decline from 78% to 70%
- Deferred maintenance results in higher costs, building deterioration, employee morale, and potentially operational interruptions for facility users

5. Street resurfacing

- Current Backlog: \$14.67 million
- Current Annual Funding Level: \$818K
- Sustainable Annual Funding Need: \$4.8 million
- **Annual Funding Gap: \$3.98 million**

- Current resurfacing schedule is once every 82.5 years
- Industry standard is once every 15 years

6. Fire capital

- Current Backlog: \$13.3 million
 - Current Annual Funding Level: \$250K (est. FY 2024)
 - Sustainable Annual Funding Level: \$1 million
 - **Annual Funding Gap: \$750K**
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- Fire apparatus replacement needs a reliable funding source.
 - Need greater investment to have a sustainable plan for replacement of apparatus.

ENTERPRISE FUND
BIG ROCKS

Parking Fund

- Current annual funding allocation is \$6.7 million
- Revenues for the Rosemary Deck are currently less than projected
- Work is underway to increase revenues by:
 - Stop leasing spaces at the Wallace Deck
 - Regional marketing campaign
 - Improved signage & wayfinding
- Current debt funding plan does not account for shortfall in the Parking Fund from the 125 East Rosemary Deck
- **Current shortfall is about \$1 - \$1.5 million**

Transit Fund

- Current annual funding allocation: \$36.5 million
- Partner Split: UNC 56%; Town 32.5%; Carrboro 11.5%
- Transit system funding supplemented by federal and state grants
- Facing rising costs for equipment, materials, and contracts
- Behind on bus replacements
- Need to replace critical infrastructure

Stormwater Fund

- Current annual funding allocation: \$3.3 million
- Major revenues source: Stormwater fee (\$34.97/ERU)
- Last fee increase was in FY 2020
- Funding Needs & Gaps to meet National Pollutant Discharge Elimination System (NPDES) MS4 Permit Requirements:
 - Stormwater Control Measures \$150K (\$1.83/ERU)
 - Stormwater Infrastructure Improvements \$200K (\$2.43/ERU)
 - Subwatershed Studies \$150K (\$1.83/ERU)

Public Housing Fund

- Current annual funding allocation: \$2.7 million
- Major revenues sources: HUD operating grant & rent revenue
- Backlog of needs is tied to aging infrastructure
 - Majority of units built in 1960s-70s
 - Maintenance and repairs focused on flooring, foundations, siding, HVAC, and plumbing

OTHER BIG ROCKS

Federal Funding replacement

- The amount of annual funding that pays in whole or part for employee salaries and program operations:

Public Housing (HUD)	\$ 1,295,000
CDBG	437,000
Traffic/Greenways	472,000
Police	<u>328,000</u>
	\$ 2,532,000

- If any of these funds are frozen or taken away, we will need to determine how to fill these funding gaps.

Coal Ash Remediation

- Current debt funding plan does not account for any future borrowing for coal ash remediation which would require additional resources in the Debt Fund
- Funding gap will depend on what option Council decides to move forward on
- Coming back to Council on April 16th for discussion

Outside Agency Funding

- Just like we are experiencing, our outside agency partners are experiencing cost increases across the board
- We are all concerned about the potential impact of federal funding cuts
- We expect that requests for outside agency funding will increase
- We will need to evaluate these in conjunction with all our other needs.

Consolidated List of Big Rocks

Pay and classification study

Program increases/expansions

Vehicle Replacements

Facility Maintenance

Street Resurfacing

Fire Capital

Parking

Transit

Stormwater

Public Housing

Coal Ash

Federal Grant Replacement

Outside Agency Funding

We have a lot of these “big rocks” and we have limited ways to solve for them.

Other communities are facing these same challenges, especially in these uncertain economic times.

In our next session on 4/16, we will bring some options and discuss tradeoffs and impacts with you.

That discussion will inform the development of the Manager’s Recommended Budget.

NEXT STEPS

**We'll return on
April 16th to
discuss...**

- Revaluation with Orange County
- Property tax valuation
- Options/Tradeoffs

FY26 Proposed Budget Schedule

**APR
16**

**Work
Session**

**MAY
7**

**Manager's
Recommended
Budget**

**MAY
14**

**Work
Session**

**MAY
21**

**Public
Hearing**

**JUNE
11**

**Council
Vote**

* On 4/9, we will host a People's Academy "Deeper Dive" about the budget

We have shared a lot of information with Council this evening. We know we won't solve everything at once.

- Are we aligned on not appropriating fund balance?**
- Does the list of big rocks match Council's strategic interests for this year's budget?**
- What interests would you like to share as we develop scenarios for our April work session?**