

Council Questions for May 1, 2024

Budget

1. **Council Question:** How did you arrive at the figure of 6% for the staff COLA adjustment?

Staff Response: We arrived at 6% after considering *increases from surrounding jurisdictions, inflation, and statewide historical averages. We also reviewed the last 5 years and saw that the Town has lagged behind the region. (See memo below) A look back at the last 5 years was also completed showing that the Town has lagged behind the region. See memo below summarizing a detailed review at how the Town compares with cost-of-living adjustments in the surrounding area:*

This memo covers cost of living and merit increases offered by area municipalities from Fiscal Year 2020 through Fiscal Year 2024. The memo provides data from municipal budget books, discussions with area budget professionals, and explanations when certain data points may not be fully indicative of standard pay increases. This memo also provides provide CPI-U inflation data for the South region to show how pay increases relate to inflation.

Background

Municipal pay increases are typically split between two categories: cost of living increases/market rate adjustments & merit/performance increases. Cost of living or market rate adjustments are typically a flat rate increase for each employee. Sometimes, these increases are applied differently for various departments and those differences are discussed in the memo where applicable.

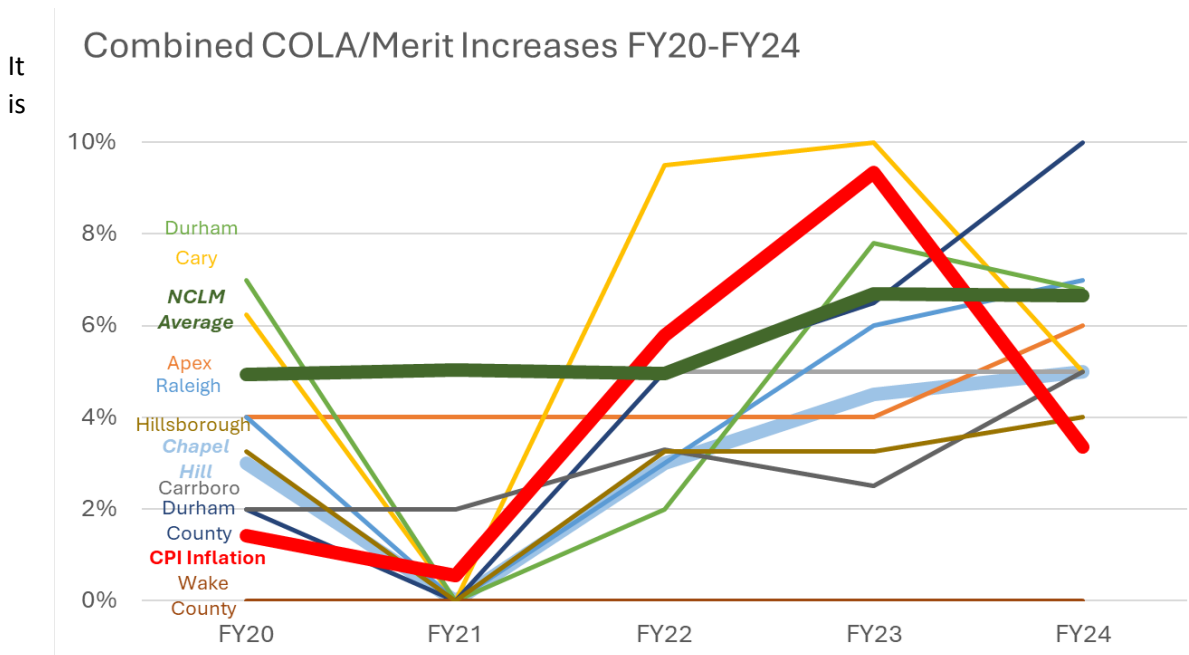
Merit/pay for performance increases are typically a percent range that employees can earn depending on their performance review. Although these are shown as a range in a budget book, municipalities will budget a specific percentage increase across the organization for budgetary purposes. We communicated with budget professionals in each municipality discussed here to find what specific percentage was budgeted to make it easier to compare between municipalities. Please note that in the past, the Town of Chapel Hill has not offered merit increases and pay increases have been cost of living adjustments.

Each year, the North Carolina League of Municipalities (NCLM) surveys budget professionals on what their expected pay increases will be for the next fiscal year. This memo uses these surveys as a benchmark for fellow North Carolina municipalities with populations between 25,000 and 99,999. One very important caveat to these data is that their survey for FY21 went out before the onset of the Covid-19 pandemic, so that year of data is likely not reflective of what was budgeted since many municipalities immediately cut pay increases given the uncertainty of the pandemic. But that year's survey does show the intention of organizations to give approximately a 5% increase that year.

That last piece of data is the CPI-U data for the South region. These data were pulled from the US Bureau of Labor Statistics. To standardize the data against the yearly pay increases offered by municipalities, the data presented is a 12-month percentage change. The percentages for each fiscal year are the July year over year percentage change as that is the start of each fiscal year.

Discussion

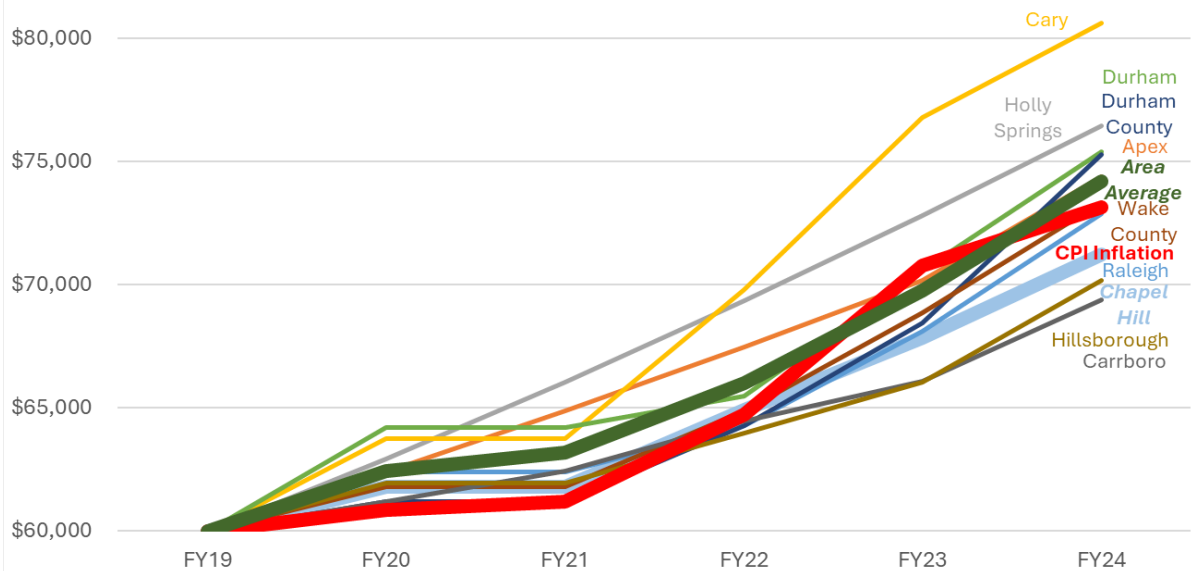
Below is a chart of the combined cost of living adjustments and merit increases of area municipalities, along with the combined increases from the NCLM survey of municipalities with populations between 25,000 and 99,999, and the CPI inflation data for the South region:



¹ NCLM Average for FY21 was taken before the onset of Covid-19
² Durham’s COLA increase in FY22 had 4% increases for Police, 3.5% increases for Fire, and one-time bonuses between \$1,000 and \$1,500 for all employees
³ Durham County’s FY24 increase also included a compensation study recommendation, which skewed their increase higher
⁴ Hillsborough is also offering a one-time \$1,500 bonus for each FTE in FY24 & FY25

clear that many municipalities struggled to keep up with the abnormal inflationary increases of FY22 and FY23.

What does \$60,000 in FY19 make today?



To help illustrate what these pay increases mean for employees, this chart illustrates what a hypothetical employee making \$60,000 in FY19 would earn each year in each of these municipalities, along with the area average and what effect inflation would have on buying power for this employee.

How do we catch up?

In FY24, this hypothetical employee is already making almost \$3,000 less than the average employee also starting at \$60,000 in FY19 in other area municipalities. Applying the FY24 average area pay increase of 6.14% to the FY24 area average for this hypothetical employee, below is the yearly increase needed to catch the Chapel Hill employee up to the average:

One Year	10.58%
Two Years	8.34%
Three Years	7.60%
Four Years	7.24%
Five Years	7.02%

For instance, Chapel Hill would need to implement three years of 7.6% increases to catch up to the area average.

2. **Council Question:** Can we get a table showing not only the 1-year impact of tax increase on taxpayers, but the cumulative total over five years (starting with last year)?

Staff Response: Please see below the Town of Chapel Hill impact of following the 5-year budget strategy with no changes to the assessed valuation of a property over that period of time:

Property Valuation	FY24 Increase (5 cents)	FY25 Increase (2 cents)	FY26 Increase (1.5 cents)	FY27 Increase (1.5 cents)	FY28 Increase (1.5 cents)	Total Increase (11.5 cents)
\$250,000	\$125	\$50	\$38	\$38	\$38	\$288
\$500,000	\$250	\$100	\$75	\$75	\$75	\$575
\$750,000	\$375	\$150	\$113	\$113	\$113	\$863
\$1,000,000	\$500	\$200	\$150	\$150	\$150	\$1,150
\$13,000,000	\$6,500	\$2,600	\$1,950	\$1,950	\$1,950	\$14,950
\$64,000,000	\$32,000	\$12,800	\$9,600	\$9,600	\$9,600	\$73,600

Council Question: Can we also get an idea of what the 8-cent county tax increase will mean for these categories?

Staff Response: Please see below the Orange County tax Increase impact over the same time period as above. We do not have information to share from the County about their tax rate for FY 2026 – FY 2028.

Property Valuation	FY24 Increase (0.41 cents)	FY25 Increase (8 cents)	FY26 Increase	FY27 Increase	FY28 Increase	Total
\$250,000	\$10	\$200	?	?	?	\$210
\$500,000	\$21	\$400	?	?	?	\$421
\$750,000	\$31	\$600	?	?	?	\$631
\$1,000,000	\$41	\$800	?	?	?	\$841
\$13,000,000	\$533	\$10,400	?	?	?	\$10,933
\$64,000,000	\$2,624	\$51,200	?	?	?	\$53,824

Council Question: I would like more information on how the 100K in tax relief in the FY24 budget has been used.

Staff Response: The Council's \$100,000 funding commitment in this year's budget resulted in 128 low-income households receiving property tax assistance. Our Affordable Housing and Community Connections team initiated a partnership with the Marian Cheek Jackson Center and Orange County to deploy the funding. To learn more about the program results, see the attached Summary.

3. **Council Question:** How many buses will we be buying this year? Will the transit debt fund cover all of that cost?

Staff Response: *Transit is purchasing 16 replacement buses in FY24 with debt-financing, federal, state, and local funds. At this time, we have funding identified to purchase 2 replacement buses in FY25 with federal funds and 2 replacement buses in FY26 with Orange County Transit Plan funds. Transit is also in the process of submitting two federal grants (competitive) for additional replacement buses and will have a better sense of our bus replacement needs for FY25-26 after this grant cycle is completed.*

4. **Council Question:** Re property tax growth in the revaluation: Any rough estimates how much will be from new revenue sources (from new developments coming online) and how much is from the value of existing properties increasing (and the taxes increasing in step, unless we revert to the revenue neutral rate)?

Staff Response: *Property tax revaluation is performed at the County level; therefore, the Town of Chapel Hill is reliant on Orange County for all information tied to assessed valuation data. Once that work is complete (anticipated for January 2025), Orange County will provide all jurisdictions within the county their valuation numbers for all real and personal property. We typically ask, the County Tax Assessor to present their findings to the Town Council at a work session in the spring so they can provide further information such as the breakdown of new development vs. increasing property values.*

Stormwater

Council Question: Will staff be including changes to the stormwater regulations in the LUMO rewrite to mitigate undue burdens on small infill developers?

Staff Response: *At the May 1 Council Meeting, staff will recommend that, at the outset, the 100-yr storm requirement only apply to new Conditional Zoning and major Special Use Permit applications. Staff are recommending this change to avoid a scenario in which smaller-scale developments are temporarily subjected to the more stringent rules before they are potentially pared back. As part of the LUMO rewrite, staff will develop proposals to address how more stringent stormwater standards can be applied to smaller-scale developments without causing an undue burden.*

Impact on taxpayers

Council Question: Per our recent discussion, please provide a table showing the year-by-year and cumulative cost of tax increases (including the 8-cent county tax increase) beginning last year on renters and small businesses based on the following:

- Midway Business Center
- Franklin Motors
- Joe Van Gogh Coffee Shop
- Shadowood Apartments

- Kingswood Apartments
- 612 Hillsborough Townhomes

Staff Response: Property tax bills are generated by Orange County for real and personal property owners based on the valuation of that property. Renters and small business owners that lease space are tenants and therefore not directly subject to changes to property taxes. While it's certainly plausible that changes to property taxes could be passed down to tenants, the Town wouldn't have definitive information to display this. For example, we would need to know the baseline rent to offer a hypothetical increase based on property tax increases. In the example of apartments, we would need estimates of the valuation of individual units. Also, there are other factors that could affect the cost of rent increases such as insurance, labor costs, etc. which the Town doesn't control or have that information.

General Fund Revenues – Grants

1. **Council Question:** We are projecting less for 2024-25 than 2023-24. (\$750k v \$775k)

Staff Response: During the development of the FY24 Budget, we received information suggesting that the Town would receive \$653,139 in funding from Orange County in support of the Town of Chapel Hill Library. This was miscommunicated and the final number was \$621,323. This has been right sized in the FY25 budget, therefore showing a reduction in the "Grants" category.

2. **Council Question:** Please provide information on our grant pipeline and how we can pivot to leverage more of the once in two generations monies that are out there.

Staff Response: The Town's Sustainability staff is aware of and monitoring opportunities coming from the Inflation Reduction Act. We have applied for multiple specific grants while others are either not available yet or will not be available directly to local governments.

Here is a summary of some recent grant updates and successes:

- Chapel Hill is part of a cross-jurisdictional partnership that received a \$500,000 grant through the Department of Energy's Energy Future Grants (EFG) program to fund a regional planning process for establishing resilience hubs. You can read a recent press release from CPRC [here](#).
- We are eligible for up to \$129,010 in formula funding through the [EECBG Program](#) and are currently applying for approval to begin an electric bike-share program (in combination with Council-approved ARPA bike-share funding).
- Our team has received [VW Settlement Grant](#) funding for EV charging stations in the new parking deck and [DERA](#) funding for a new electric garbage truck. We are working on implementing both of these projects.
- We received funding through the [Orange County Community Climate Action Grant Program](#) to plant trees in Northside and Pine Knolls, and this project was completed earlier this spring. You can learn more [here](#).

Planned Facility Projects

Council Question: My understanding is that there are billions of dollars in rebates to support energy and building efficiencies in the IRA. Are there IRA monies available to help with the HVAC and other facility improvements on this list?

Staff Response: See response above from the Office of Sustainability.

Stormwater

Council Question: What is a reasonable estimate for the NPDES permit requirements and when do we expect to know the real number?

Staff Response: As part of the annual report, I'm doing a fiscal analysis using the information that was projected in the Stormwater Master Plan for implementation of the MS4 permit. It will be completed during the summer.

Roads

Council Question: Help us understand how and when we get caught up and to a sustainable level?

Staff Response: The Public Works Department contracts biennially with a third-party engineering firm to conduct a pavement evaluation of the condition of the Town's 165 paved centerline miles of town-maintained streets.

FY23's Pavement Condition Evaluation identified a backlog of needs totaling \$17.3M. The report recommended an annual sustainable funding level of \$5.2M. This amount increased significantly from the previous report which recommended an annual funding level of \$2.9M.

Year 2 of the 5-Year Budget Strategy recommendations include an additional \$250K for street resurfacing. We would recommend increasing our annual funding an additional \$550K over the next three years (FY26-28) to get us to \$2.486M and reevaluate the sustainable funding level based on the recommendations and cost trends included in the next two biennial reports. The next Pavement Condition Report will be available in December 2024.

Clean and Green Team

Council Question: Where do things stand with this program?

Staff Response: The Clean and Green Program is funded through December 2024 through the American Rescue Plan Act monies and there is no identified funding to continue the program beyond this date. The Town receives monthly reports from the Downtown Partnership related to

the operations and level of funding use. However, there has been no holistic review/assessment of the program's effectiveness at this time.

Cedar Falls Park Tennis Courts

Council Question: What are the environmental conditions at Cedar Falls and will the proposed investments mitigate the reported problems with water that have caused problems there. If no, can we consider using the monies to build courts elsewhere?

Staff Response: *The demolition and reconstruction of the tennis courts at Cedar Falls will include removal of the current sub-base and installation of new sub-base drainage. The Town had a soils report performed by Summit Design and Engineering firm. We will be installing courts and a sub-base system that are recommended by the design firm and the soils report at the current site of the tennis courts at Cedar Falls Park.*

Budget Memo Interests

1. **Council Question:** A holistic understanding of how the various funding sources (general fund, bond funds, enterprise funds...) and budget plans are meeting the towns needs and wants.
 - Please give us a table, chart, or one-pager for key areas that show what we will be accomplishing and what the options/trade-offs are.

Noting, for example, there are five different lists for Parks & Rec (2015 bond funds, proposed 2024-25 budget, proposed 2024/25 bond, Penny for Parks, 5-year plan). Also, how do we pull together, talk about, and set priorities for the Everywhere-To-Everywhere greenways within the bigger framework of mobility? Right now, there are pieces spread out between Parks & Rec, Transit (NS-BRT), and Public Works. Please provide us with a more comprehensive look.
 - A chart that demonstrates current and anticipated progress toward sustainability in the various areas.
 - It would also be helpful to have a consolidated list of the gaps – funded and unfunded - along with information that helps us understand the trade-offs being made. In some cases, such as Comp & Class as well as Stormwater, I know the actual dollars aren't known. For informed decision-making and transparency, we need a complete list.

Staff Response: *The asks in this section would require well thought out staff responses that would be better served by a cross-departmental project. This project could begin over the summer and we could return to Council before the next budget season begins with more thorough responses to these requests upon completion of the joint effort amongst various staff.*

2. **Council Question:** An explanation of the criteria used to prioritize spending decisions.

- Wanting to make sure we are taking a fresh look at our lists (especially Parks & Rec, greenways) with Complete Community, serving as many people as possible, and effective use of limited resources in mind. Cedar Falls Tennis courts is an example of where we may not be using this lens.

Staff Response: *Staff included a slide on this topic at the April 15th work session. The initial focus of budget development each year is always on the Town's core services – and the people who provide those services. As we've shared, every year the cost of providing those services goes up. After we cover the costs of department personnel, operating budgets, the annual cost of living increase, and the cost increases in utilities, fuel, vehicle maintenance, and technology there typically isn't much revenue leftover to allocate. If there is, staff think creatively and collaboratively about Council's priorities. They consider how to allocate current funding and staff to achieve Council's goals and what new funding might be needed to address them.*

3. **Council Question:** An understanding of opportunities for adding efficiencies or cost savings within the organization.

Staff Response: *Departments are consistently looking for ways to add efficiencies or cost savings within the organization. Our department budgets are lean and departments work collaboratively to reduce costs and look for better ways to carry out our day-to-day business.*

4. **Council Question:** Creating a 10-year outlook and schedule for our Capital Improvements plan.

Staff Response: *The Town has a 15-year capital plan that is included with the annual budget document each year. It is a comprehensive look at our capital project needs broken out with a recommended timeline proposed by departments (in the next 1-5 years, 5-10 years, and 10-15 years). The CIP plan does not look at the resources available to actually complete the projects. That examination is done with the Debt Management Fund and the 5-year outlook compiled for borrowing purposes. It is difficult to accurately forecast out project funding needs beyond the 5 years because of the numerous factors that impact the analysis (construction costs, interest rates, labor market, supply/demand, etc).*