



05-01-2024 Manager's Recommended Budget Responses to Council Questions

Tax Increase 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.

Resurfacing

Council Question:

Do we perform a cost/benefit analysis to determine the cost of delaying street resurfacing? Do we have data to show that the cost of resurfacing if held for a future fiscal year would increase enough to outweigh the benefit of allocating bond funds elsewhere now?

Staff Response:

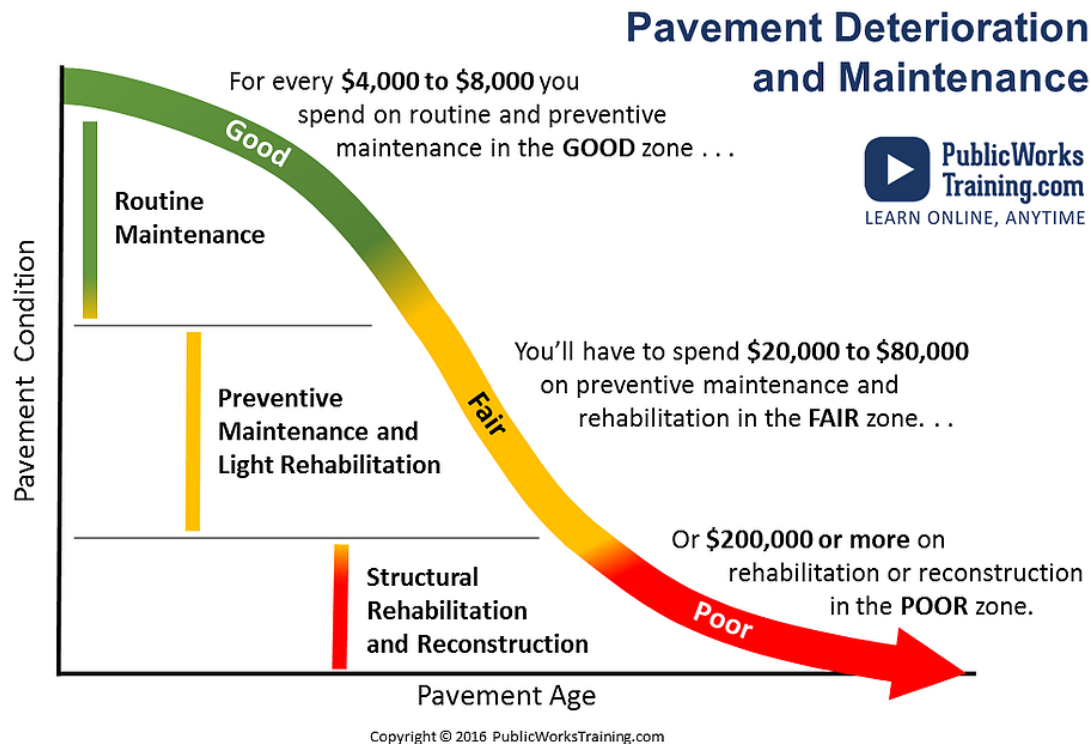
Continued deterioration of the roads leads to significantly increased maintenance costs and could result in the eventual need to reconstruct streets. Proper and timely maintenance including resurfacing (analogy – milling and resurfacing is one of several maintenance activities to extend the life of a street, it like removing old house roof singles and replacing them at the appropriate time to prevent the house plywood from rotting and creating other damage). Properly maintained transportation infrastructure promotes a safe, vibrant, and connected community and supports economic vitality.



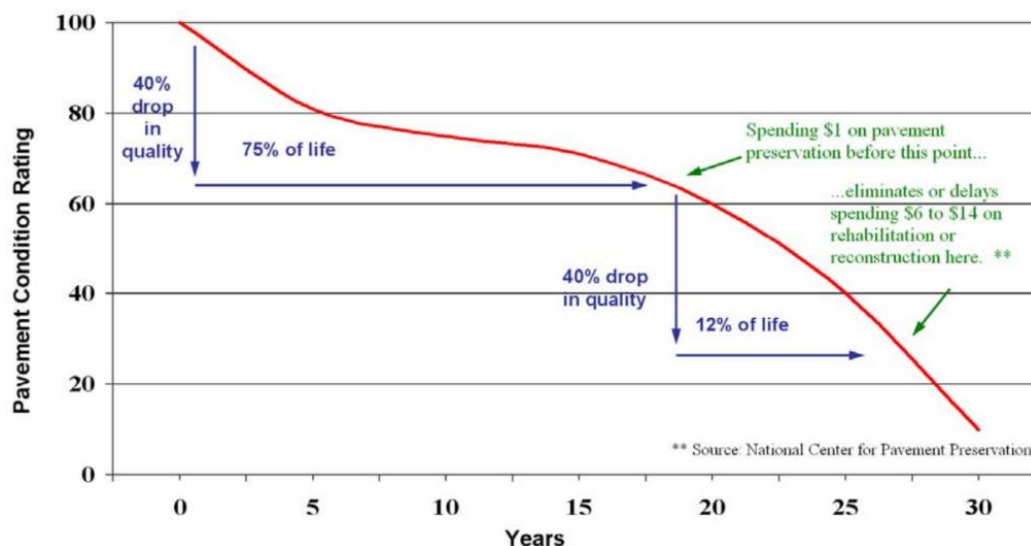
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Resurfacing (Continued)

The below two charts demonstrate the value of having adequate funding to address needs to save money over time.



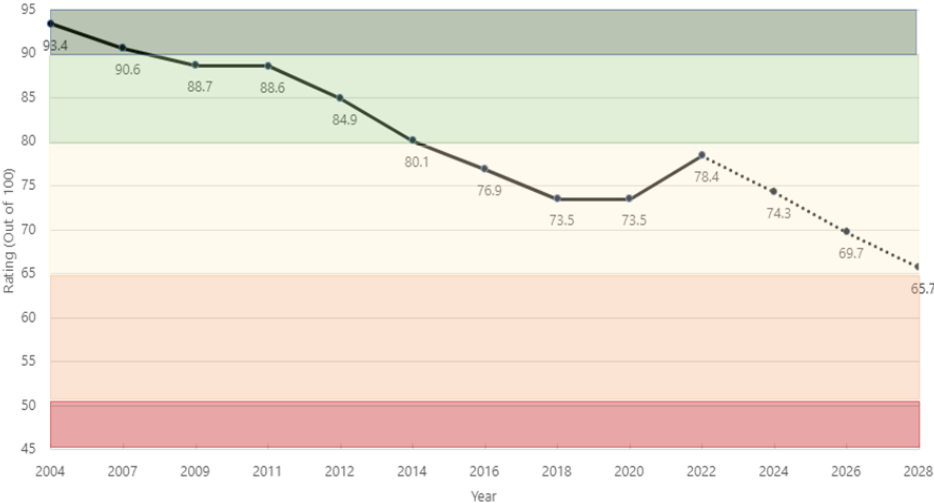
Typical Pavement Deterioration Curve





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Resurfacing (Continued)



Town of Chapel Hill Pavement Condition Evaluation

This pavement condition chart is based on a third-party engineering analysis typically performed every other year and shows a notable decline in our street system due to funding restraints. The deteriorating condition of our streets has resulted in a higher level of dissatisfaction as reflecting in a previous community survey.

Below is additional information that may also be insightful related to our annual operating funding history and our street resurfacing program. (It excludes some previous bond funding and funds from excess fund balance.)

Street Resurfacing Funds	
Fiscal Year	Annual Operating Budget
2009	\$688,000
2010	\$688,000
2011	\$688,000
2012	\$0
2013	\$111,000
2014	\$111,000
2015	\$689,600
2016	\$689,600
2017	\$689,600
2018	\$650,100
2019	\$668,500
2020	\$668,515
2021	\$368,515
2022	\$568,515
2023	\$568,515
2024	\$568,515

760 Town-Maintained Paved Streets or Portions of Total ~165 Center Line Miles.
Estimated Value of Town Streets - \$97M.

Interest to Restore and Increase Funding to Address Backlog of Needs, \$17.3M.

FY24 Annual Funding Level of \$568,515
Represents 3.6% of the \$17.3M, Based on 2022 Pavement Condition Report.



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Affordable Housing & Public Housing

Council Question:

How many households benefitted from the property tax assistance program?

Staff Response:

We partnered with the Marian Cheek Jackson Center and Orange County to serve 128 Chapel Hill households through the property tax assistance program. There were no eligible applications submitted that weren't funded.

Council Question:

How are driveways maintained in our public housing communities?

Staff Response:

Maintenance and repair of streets, driveways, parking lots, and sidewalks within our public housing communities are funded through dollars available for public housing maintenance or affordable housing. These expenses aren't included in the "streets" category of the General Fund.



05-15-2024 Public Hearing on Manager's Recommended Budget Responses to Council Questions

General Budget Strategy

Council Question:

Will we be seeing a 5-year rolling budget plan? Materials so far have been for the same 5-year period we were looking at last year.

Staff Response:

The table below (shared throughout this budget season) represents year 2 of the 5-year budget strategy. It is our intent in future years to provide a rolling 5-year budget outlook for Council. Staff have not updated the schedule below to reflect an additional outer year because of the revaluation. There is so much unknown about the impact of the revaluation on the Town's tax valuation and therefore the value of the penny on the tax rate, that we did not think adding this information would provide valuable information to Council because so much is subject to change.

We intend to begin discussions about the revaluation and the impact on the rolling 5-year outlook at next year's retreat and will continue those conversations through the FY 2026 budget season.

	FY 2024	FY 2025	FY 2026 *	FY 2027	FY 2028
Staffing	1,850,000	No new \$	300,000	400,000	500,000
Operations	250,000	500,000	500,000	500,000	500,000
Facilities/Streets	250,000	500,000	250,000	250,000	250,000
Fleet	750,000	500,000	250,000	250,000	250,000
Parks Capital	971,000	No new \$	18,000	18,000	18,000
Fire Capital	250,000	No new \$	250,000	250,000	47,000
Aff Housing	282,605	No new \$	18,000	18,000	18,000
Greenways	500,000	No new \$	No new \$	No new \$	No new \$
TOTAL	5,103,605	1,500,000	1,586,000	1,686,000	1,583,000
Proposed Scenario	5.00 cents	1.50 cents	1.50 cents	1.50 cents	1.50 cents

Council Question:

We are making significant investments in staff with this year's proposed budget, following up on earlier pay/position increases. How much farther do we have to go (time, money) until we have reached sustainability (where we're no longer playing catch-up to the market and yearly increases in staff costs should be more in line with cost of living increases)?

[Staff response on following page.]



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Staff Response:

See attached memo for a pay analysis that shows how the Town currently compares to neighboring jurisdictions and what it would take to be more competitive with prevailing market rates.*

Our goal for the compensation study is to better align our jobs and pay with our current labor market. The proposed outcomes of the study will also allow us to create pay progression and career advancement opportunities for our employees. Based on our current experiences in trying to fill our vacancies, we are still having to offer higher salaries than we used to when filling the same roles. Since the last study was implemented, we still lag behind in our regional market for most jobs. Although the recent focus on pay has made some difference for staff, these efforts simply keep us from lagging farther behind in the market and are not moving us up to be more competitive. If we want to be competitive with our regional peers, we will have to continue to focus additional resources on pay for the next three to five years.

** Document Name: Pay Analysis with Market*

Council Question:

How can we pivot staff resources to focus on leveraging more grant funding? Helping our community members to do so as well?

Staff Response:

- More staff time does not guarantee that the Town will be awarded more grants. The challenges of winning grants still apply, most notably municipality fit, competition from other municipalities, capacity to manage grant-funded programs, matching grants, and ongoing funding for projects after grant funding expires.*
- Reallocating staff time to seeking grants and managing grant projects means pulling them away from non-grant funded initiatives.*

Note that we are actively pursuing several new or expanded grants, especially around sustainability, transportation and connectivity, and fire apparatus. We have also recently been awarded new or expanded grants that are fully funding Town positions. Examples include the Safe Routes to School Coordinator and Vision Zero Coordinator which are now full time positions.

It is possible to assist the community in obtaining grant funds but the same risks above apply. Staff consulted with the Central Pines Regional Council on this question and they are not seeing other municipalities dedicating resources to helping individual residents get federal funding.

Council Question:

We have been told many times that we are digging out of a budget hole, so could we pick a few places to show how long it will take us to dig out of that hole? For example, for fleet replacement, streets, technology, and parks and rec maintenance, when will be out of the budget hole and to a place where regular maintenance/replacement can be achieved?

[Staff response on following page.]



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Staff Response:

Streets Resurfacing

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 report recommended an annual sustainable funding level of \$5.2M. Based on the FY25's Recommended Budget additional annual allocation of \$250K, it will take the Town ~18 years in FY43 to reach the recommended \$5.2M to maintain our streets, excluding adjustments for inflation.

The current backlog of needs based on the 2022 Pavement Condition Report was \$17.3M. It's expected that this backlog will continue to increase until a sustainable level of funding is reached and which time it will start to stabilize and reverse over the flowing fifteen years or so.

There's a rule of thumb for estimating the cost of deferred streets maintenance – a dollar spent repairing a street in good condition turns into 6 dollars for a street in fair condition, and 14 dollars for a street in poor condition. Most of our streets are in fair condition, but they will continue to deteriorate until sustainable funding is achieved.

Based on the 2022 Report, our overall Pavement Condition Rating was 78.4 (Fair Condition) and continue to trend downwards with a projected 2024 rating of 73.4 (Fair Condition). Good Condition is 81-90. Based on 30 municipalities pavement condition evaluations by the same firm, including the municipalities of notable interest, the average Pavement Condition Rating is 80.

Progress in attaining sustainable funding level and the condition of our streets can be evaluated biennially based on the Pavement Condition Evaluations.

Facilities Management

Public Works Facilities Management Division contracts with a consulting firm every 7 years to conduct a Facility Condition Assessment (FCA). The most recent FCA was completed in FY24 by Alpha Facilities Solutions. The initial review of the reports indicates a sustainable funding level to be \$1.8M-\$2M annually, excluding adjustments for inflation, to address current capital facilities maintenance needs.

Based on the FY25's Recommended Budget additional annual allocation of \$250K, it will take the Town ~5 years to reach \$2M in FY30. Other factors that could potentially impact the funding levels includes bringing new and larger facilities online, and/or leasing space for which maintenance is included in the lease.

Consistently maintaining this level of funding would not only address the back log of deferred maintenance needs but would also allow staff to follow a more sustainable proactive 5–10-year facilities work plan that addresses current needs while maintaining some flexibility for changing priorities.

The next FCA in 2031 will also indicate progress made in addressing our backlog of deferred maintenance.



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Fleet Management

Based on a thorough review in FY22, a recommended sustainable funding level was \$2.2M. A new review was recently completed based on current costs and the sustainable amount needed is \$2.8M in the General Fund. The recommended General Fund increase of \$500K will result in a budget of \$1.605M. This excludes needed funding for large Fire Apparatus, Transit's fleet and buses, and vehicles funded through non-General Funds (i.e., Public Housing, Parking Services, and Stormwater).

If we continue to increase funding for Fleet Replacement in outyears of \$500,000 annually, we anticipate achieving a sustainable funding allocation in FY28, excluding vehicle charging infrastructure. This is based on current dollars and excludes additional cost for electrifying the fleet beyond FY25. Based on current information, we anticipate cost parity between light and some medium duty electric vehicles and fossil fuel vehicles by no later than FY30.

Our current estimated backlog of needs is \$13M, and it's expected that this backlog will continue to increase until a sustainable level of funding is reached. Once a sustainable funding level is achieved, it will take 5-7 years for light to medium duty vehicles and up to 10 years for heavy-duty vehicles to rotate out the older vehicles to attain desirable replacement cycles.

It is anticipated that fuel and maintenance costs for electric vehicles will be less than fossil fuel vehicles. Electrifying our fleet will reduce our carbon footprint and consistent with the Town's Climate Action Plan to electrify light to medium duty vehicles by 2040 and heavy-duty vehicles by 2050.

Based on vehicle type and use, replacement schedules are established to attain the best life cycle cost. The longer-term interest is to get the greatest use of the vehicle before major repairs are required and sell the vehicles/ equipment to achieve the greatest return that can be used to offset the cost of a new vehicle.

Parks & Recreation

The new Comprehensive Parks and Recreation Master Plan will provide guidance on tracking maintenance needs and lifecycle improvements along with outlining associated budgetary impacts. The Comprehensive Parks and Recreation Master Plan process is anticipated to take two years and kick off in the summer 2024.

Within the Comprehensive Parks and Recreation Master plan process, we will identify the current state of the department's facilities and make recommendations for the department's future. Through the plan process parks and recreation's maintenance needs will be identified through the following:

- An inventory and evaluation of existing parks, cemeteries, teen center, recreation facilities, greenways, and open space/lands.
- Establishment of levels of service for the Town's Parks and Recreation facilities guided by industry standards and best practices while including:
 - Amenity lifecycle data
 - Maintenance standards
 - Associated cost with preventive maintenance, operational costs, and staffing levels
 - Prioritized listing of recommended improvements and associated cost estimates



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- Identify and evaluate the current undeveloped facilities and open spaces/lands owned by the Town and make recommendations for the potential for utilization to serve the community through further recreation services. Provide general cost estimates for these projects.

Council Question:

How would we track to make things more transparent (i.e., less downtime, decreased backlog, etc.)?

Staff Response:

We track a variety of benchmarking data and compile the results each year. Some of the metrics we track are average age, cost per mile, preventative maintenance on-time percentage, fleet down-time percentage, number of scheduled repairs vs unscheduled repairs, repair types, repairs broken down by hours open, fuel usage, carbon emissions, etc. We would expect to see improvements in all these metrics with consistent, sustainable funding levels.

Affordable Housing

Council Question:

One way to help low-income renters burdened by tax increases would be to make a contribution to/set up a utilities relief fund. Is that something we could consider/implement?

Council Question:

What are possible resources and ways for providing assistance to struggling renters?

Staff Response:

For the last 4 years, the County-wide Emergency Housing Assistance (EHA) Program has been the primary resource available in Orange County to support residents with rental and utility assistance. Town staff regularly refers residents to this program. The current scope of the EHA Program is focused specifically on eviction prevention and does not prioritize utility assistance. Due to pandemic relief funding and other resource limitations, Orange County is currently evaluating options for the future of the Program and funding may be exhausted for EHA within the next 3-6 months, depending on whether the eligibility guidelines are further restricted. There are also other programs in place that supplement the County-wide program, including those administered by IFC, OWASA, and local faith communities.

If there is interest from the Council, we could return in the fall with a recommendation for supplementing the utility assistance program for Chapel Hill residents.



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Clean & Green Program

Council Question:

Who will be evaluating the program? When will that take place?

Staff Response:

The Clean and Green Program is currently funded with American Rescue Plan Act funds through December 2024. The Downtown Partnership receives monthly reports related to the program's operations and level of funding use. Over the summer, the Partnership will further assess the program's importance and effectiveness through their annual business membership survey. The Partnership will compile survey findings to evaluate interest in continued funding of the program by November 2024.

Planned Facility Projects

Council Question:

There are several HVAC replacements planned for town facilities this year. How much is the total cost? What are the opportunities for covering some or all of those costs through IRA programs such as 179d?

Staff Response:

Public Works Facilities Maintenance estimates to spend ~\$3.13M on design and engineering, and construction of HVAC units at 6 different facilities (i.e., Parks & Recreation facilities, Town Hall, Fire Station 1, and Public Works TOC) between FY25 - FY28. This is based on the current five-year plan and priorities and assumes annual adjustment of \$250K per year.

Staff is aware of available tax incentives like 179D but based on the current list and type of projects, none would be suitable for the tax deduction. The Sustainability Team is actively tracking all opportunities from the IRA and has applied to multiple funding streams that are available to local governments.

Stormwater

Council Question:

What is a ballpark or range for NPDES permit costs? Do we expect it to be significant or insignificant in the grand scheme of things?

Staff Response:

The draft plan on the next page spreads out the total fiscal impact over the next four years to total \$2.28M and does not include costs incurred during Permit Year 1 (FY24). It may be possible to mitigate the impact some depending on recommendations made by the Lower Brooker Creek Subwater Study Group and the interest of Town Council.

It is currently anticipated that a Stormwater Fee increase would be needed in FY26 to address the funding needs.



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Task	FY25	FY26	FY27	FY28	Total
Major Outfall Data Collection & Mapping	250,000	250,000	250,000	250,000	\$1,000,000
Perform Dry Weather Screening	20,000	20,000	20,000	20,000	\$80,000
SCM Inspections & Maintenance at Town-owned Facilities*	415,000	200,000	75,000	100,000	\$790,000
MS4 Compliance System	83,000	80,000	80,000	80,000	\$323,000
Program Support	21,500	21,500	21,500	21,500	\$86,000
Grand Total	\$789,500	\$571,500	\$446,500	\$471,500	\$2,279,000

**Estimate based on over 30 structural SCMs*

The estimates above are preliminary and can be used to help develop a more detailed analysis.