

FY 2026 BUDGET UPDATE



Council Retreat
January 11, 2025

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AGENDA

1. Budget Principles
2. FY25 Budget Review
3. FY26 Needs
4. FY26 A Turning Point
5. FY26 Considerations

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CORE BUDGET PRINCIPLES

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Budget Imbalance

Annual revenues < Annual expenditures

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We only have a few recurring revenue sources.

1. Property tax
2. Sales tax
3. Departmental fees

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1. Property taxes

- Property taxes have two main levers – to increase the tax rate or to grow our tax base.
- It takes a lot of new development to move the needle just a little.
- We aren't seeing the growth we need in our property tax base to sustain our budget.

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2. Sales taxes

- Sales tax is an economy driven revenue source.
- Before the pandemic, the annual growth rate was very steady at about 5%.
- During the last couple years, we had record breaking sales tax growth that helped balance our budget.
- Huge decline in last 5 months that could cause us to be \$1 million short in FY 2025 and funding will need to be identified to cover shortfall in FY 2026.

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How do we spend our money?

1. Employees
2. Operations/Facilities/Vehicles
3. Debt & Capital Management
4. Enterprise Funds
5. Community Priorities

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1. We spend most of our budget on our team.

- About 74 % of our total budget is for our employees.
- Excellent services and programs = excellent people providing them.
- Associated costs increase annually – and it's worth every penny to recruit and retain our employees.
- Town has relied on property tax & sales tax growth to cover annual increases – not able to do that now...

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2. The cost of doing business goes up every year.

- While inflation is starting to stabilize, costs are still high.
- Our costs increase every year.
- Department budgets are as lean as they can be.
- For many years, we absorbed these costs – and had to pay the price elsewhere in the budget.

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3. We have a Debt Fund to cover debt service related to capital projects.

- Our current debt is well-managed.
- 8.8 cents on the tax rate (15%) dedicated for debt service.
- Set up Debt Fund so that operating & capital priorities would not need to compete.
- We have more capital needs than funds available.

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4. The Town operates four enterprise funds.

- Enterprise Funds account for operations that provide services to the public like a private business.
- The Town's four enterprise funds are experiencing the same challenges related to staffing, rising operating costs, and aging infrastructure.

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5. Need to balance all our priorities

- Core budget should align with community priorities
- Over the last 15 years, we have added many important priorities including: affordable housing, climate action, DEI, human service agency partnerships, economic development incentives, etc. without raising taxes to pay for these areas.
- We need to find a way to balance core needs with these other priority areas.

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**FY 2025
BUDGET REVIEW**

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We invested in our core functions.



PEOPLE



SERVICES



FACILITIES



FLEET

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**THESE SLIDES ARE
CURRENTLY BEING
DEVELOPED**

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We invested in Complete Community.



GREENWAYS



HOUSING



**CLIMATE
ACTION**



TRANSIT

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**THESE SLIDES ARE
CURRENTLY BEING
DEVELOPED**

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FY 2026 NEEDS

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People

Info on positions/ people

- Feedback from employee survey
- Pay & Classification Study
- Annual cost of living adjustment

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Services

We continue to see increases in core services areas and need to continue allocating additional resources.

**EXAMPLES –
CONTENT BEING
DEVELOPED**

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Facilities / Streets

We are continuing to play catch-up on our facilities maintenance backlog.

**EXAMPLES –
CONTENT BEING
DEVELOPED**

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Fleet

**We are
working to
replace and
electrify our
aging fleet.**

**EXAMPLES –
CONTENT BEING
DEVELOPED**

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**FY 2026:
A TURNING POINT**

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**We are in
excellent
financial
health, and...**

**We take
fiscal
stewardship
seriously, and...**

**We grow
slower than
most of the
Triangle,
therefore...**

We are in excellent financial health.

- We are one of only sixteen NC municipalities to maintain a AAA bond rating with Moody's.
- We consistently receive a clean bill of financial health from external auditors.
- We maintain a healthy "savings account" balance.

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We are in excellent financial health, and...

- The Town's revenue growth is not keeping pace with our expenditure growth
- The use of appropriated fund balance to balance the budget means that technically, it isn't balanced.
- The decrease in sales tax revenues and lapsed salary savings is an issue that will have to be addressed.

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We take fiscal stewardship seriously.

- We have fiscally sound financial policies that guide our decisions.
- We have a tradition of conservative budgeting practices.
- Those policies and practices have served us well in uncertain times.

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We take fiscal stewardship seriously, and...

- Continuing to address our needs and backlogs is critical to ensure our departments can operate effectively.
- Prioritizing our core needs over things we want is necessary to ensure funds are properly allocated.
- Putting the Town's interests first is important to ensure we take care of our needs and resources.

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We grow slower than most of the Triangle.

- Unlike other Triangle cities and towns, our tax base has historically grown 1.5% annually; and less than 1% the last couple years.
- It takes more growth every year to keep up with increasing costs.
- Because of the rural buffer, we can't go "out," we must go "up."
- The university is our biggest landowner – and they don't pay taxes.

If we want to continue on the path that we've started on...

- Following the 5-year budget outlook will continue to help us meet our needs and continue to address our backlogs.
- We are still recovering from lean years post-recession; last two years were good, but we have a long way to go.
- The revaluation is an opportunity to reset our budget.
- This is an opportunity to avoid regular, annual tax increases.

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FY 2026
AREAS TO CONSIDER

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**Available revenue
isn't enough to
keep up with costs.**

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The tax increases from the last two years were a good start to address backlogs.

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**Recommend we
stop budgeting
appropriated
fund balance**

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Needs to address:

- Revenue Shortfalls
- Pay & Classification
- Operating Backlogs
- Facility Needs
- Budgeting Fund Balance

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FY26 Proposed Budget Schedule

**JAN –
APR**

**Topical Work
Sessions**

**MAY
7**

**Manager’s
Recommended
Budget**

**MAY
14**

**Work
Session**

**MAY
21**

**Public
Hearing**

**JUNE
11**

**Council
Vote**

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