

Consider the Final Budget and Related Items for FY 2026-27.

Staff:

Ted Voorhees, Town Manager
Amy Oland, Director

Department:

Manager’s Office
Business Management



Recommendation(s):

That the Council enact the FY 2026-27 budget ordinance to establish the budget for FY 2026-27 and authorize the related items.

Discussion:

The proposed Budget Ordinance constitutes the annual budget for 2026-27. The ordinance reflects the Manager’s Recommended Budget as amended based on discussions with the Town Council. The two amendments include adding a Vision Zero grant in the Capital Improvement Fund and the annual 5303 Transportation Planning grant through the Metropolitan Planning Organization (MPO) in the Grants Fund.

Strategic Priorities:

Vision, innovation, collaboration, and dedicated employees serve as the foundation of the Town’s efforts to build a community where people thrive. Our workforce is committed to meeting the expectations of the community and supporting the strategic goals of the Council. The FY 2026-27 Manager’s Recommended Budget is reflective of, and responsive to, Council’s strategic focus areas and goals. A description of the Strategic Goals is provided below.

Strategic Focus Area	What Success Looks Like
Complete Community	Framework to advance thoughtful growth, more connected neighborhoods, and implementation of key mobility and land use plans. This includes progressing the Land Use Management Ordinance (LUMO) update and moving forward elements of the Everywhere to Everywhere (E2E) plan.
Environmental Resiliency	Strengthening the Town’s ability to prepare for and withstand climate and infrastructure stresses by implementing the stormwater plan, expanding sustainable facility strategies (solar storage, EV charging), and continuing early flood warning sensor deployment.
Housing	Expanding a diverse, attainable, and sustainable housing supply through continued implementation of the Affordable Housing Strategy and Investment Plan, development of a Public Housing Repositioning Plan, and homelessness response in partnership with the towns, Orange County, and the University.
Organizational & Fiscal Sustainability	Ensuring the long-term health of the organization by aligning staffing and equipment needs with capacity, using data to review services, and applying the five-year budget outlook to guide strategic investments.

Budget Highlights:

A municipal budget is an expression of a community’s values. We are excited to share that this year’s budget holds the property tax rate flat.

Following the County’s updated revaluation data post appeals, property tax revenues are now projected to exceed earlier estimates by \$4.5 million across all funds, a 6.9% increase, with \$3.5 million in the General Fund and \$1 million combined in the Debt Service and Transit Funds.

Despite market volatility and recent conflict in the Middle East, sales tax revenues, which are influenced by economic activity, continue to trend upward. Current year collections have grown by about 5% and we project a 3% increase over the current year in FY 2027.

These improved revenue projections position us to make targeted investments in FY 2027 that advance our priorities and strengthen the Town's long-term fiscal sustainability. We remain committed to delivering high-quality core services to our residents, businesses, and visitors. A major focus of this year's budget is to continue addressing the backlog of needs in operations, maintenance, fleet replacement, street resurfacing, and transit. At the same time, the Town faces challenges such as the rising cost of doing business, uncertainty around federal actions, and limited revenue options. By stabilizing our financial base and reinforcing organizational capacity, we will be better equipped to navigate these challenges and remain resilient during this period of change.

Our goal now is to continue advancing our community's strategic priorities. These investments in safety, diversity, climate initiatives, and quality of life represent important steps forward. They include immediate actions supported with one-time funding, as well as a renewed commitment to our longer-term vision and 5-year plan for ongoing budgets.

In the FY 2026-27 budget:

- The FY 2026-27 budget includes a property tax rate of 50.0 cents per \$100 of valuation, maintaining the same rate as the current year.
- The FY 2026-27 budget adds the following priorities:
 - Adds \$294,484 for three new positions – a Destination Coordinator in the Economic Development division of the Manager's Office (using repurposed Visitors Bureau funding to bring this function in-house), a Library Experiences Associate, and a Fleet Technician.
 - Adds \$544,375 for cost-of-service increases.
 - Adds \$250,000 for facilities maintenance.
 - Adds \$250,000 for streets.
 - Adds \$250,000 for vehicle replacements.
 - Adds \$500,000 for fire capital.
- Employee compensation changes included in the recommended budget are designed to keep the Town competitive in attracting and retaining the excellent employees who provide the outstanding service recognized in the biennial survey.
 - A 4% cost-of-living market rate pay increase for all full-time and part-time employees employed with the Town by June 8, 2026, to be effective with the July 10, 2026, payroll. This adjustment will be based on the market rate (midpoint) within each pay grade so that employees currently making less than market will receive slightly larger percentage increases than those currently making more than the market.
 - An 11.5% increase in the cost of providing employee health insurance.
 - A 0.75% increase to the employer share of the North Carolina Local Government Employees' System contribution.
 - \$230,000 to implement the secondary Fire Department pay study results.
 - \$65,000 for skills-based pay adjustments for our Inspectors.

BUDGET SUMMARY ALL FUNDS

The following table compares the FY 2025-26 Adopted Budget with the FY 2026-27 Proposed Budget for all Town funds.

BUDGET SUMMARY – ALL FUNDS

Fund	FY 26 Adopted	FY 27 Proposed	Incr./Decr. \$	Incr./Decr. %
General Fund	\$ 94,883,000	\$ 99,760,000	\$ 4,877,000	5.14%
Transit Fund	36,481,975	35,946,146	(535,829)	-1.47%
Stormwater Fund	3,713,100	4,583,000	869,900	23.43%
Parking Fund	6,525,673	6,468,125	(57,548)	-0.88%
Housing Fund	2,882,324	3,016,363	134,039	4.65%
Debt Service Fund	9,784,100	10,852,979	1,068,879	10.92%
Capital Project Fund	2,895,996	3,165,996	270,000	9.32%
Other Funds	<u>6,946,318</u>	<u>6,220,699</u>	<u>(725,619)</u>	<u>-10.45%</u>
Total	\$ 164,112,486	\$ 170,013,308	\$ 5,900,822	3.6%

Note: includes intrafund transfers

THE FINAL BUDGET ORDINANCE

- The General Fund tax rate, Debt Management Fund tax rate, and Transit Fund tax rate represent a combined rate of 50.0 cents per \$100 assessed valuation.
 - The tax rates included in the Budget Ordinance are:

▪ General Fund	38.1
▪ Debt Management Fund	6.6
▪ Transit Fund	<u>5.3</u>
Total	50.0 cents

- The Budget Ordinance also:
 - Sets the Downtown Service District tax at 5.5 cents per \$100 assessed value.
 - Establishes the Town’s Fee Schedule for FY 2026-27.
 - Uses \$500,000 in existing fund balance to balance the budget.
 - Includes a 4% of market (midpoint) rate cost of living pay increase for all full-time and part-time employees employed with the Town by June 8, 2026.

FEE SCHEDULE

- The Manager’s Recommended Budget for FY 2026-27 proposes the following changes to the existing fee schedule:
 - Clarification to the Building & Development Services Fee Schedule, so that Re-Inspection and Additional Services fees can be charged to Publicly Assisted Housing Projects, and a doubling of Re-Inspection fees after the second re-inspection for all projects
 - Removal of remaining merchandise from the Clerk’s Office Fee Schedule
 - Removal of all Library and Community Arts & Culture merchandise
 - Increase to the Special Events parking fee and addition of a semester rental option at the 125 E. Rosemary parking deck on the Parking Fee Schedule
 - Several Parks & Recreation climbing wall-related fee increases, a new Skatepark rental fee, and increased cemetery-related fees
 - A complete rework of the Planning Department fee schedule
 - Two increases and one new fee related to vehicle and officer requests for secondary employment charged by the Police Department
 - Addition of two new Public Works fees for Work Zone Permit penalties and Surety Bond Review

FUND BALANCE

The Recommended Budget appropriates \$500,000 from the Town’s fund balance to balance the General Fund budget. Based on our preliminary estimates, it looks like we will finish the current fiscal year without the use of fund balance. Maintaining an adequate level of fund balance is critical to meet the cash flow requirements of this municipal corporation and to provide an emergency fund to safeguard the Town against the costs of recovering from unforeseen economic, emergencies, and natural disasters.

We recommend that each fall following the issuance of the Annual Comprehensive Financial Report (ACFR), we return to Council to consider appropriating fund balance above the 22% target, if available, for capital or other one-time expenditures. In this manner, depending on the level of fund balance, Council will have a method for funding priority capital projects.

DEBT ISSUANCE AND THE CIP BUDGET

The Debt Management Fund is the Town’s primary source of repayment for capital borrowing. The fund was established in FY 2010 to isolate debt service payments from the General Fund so that capital investment decisions could be made independent of the operating budget. In other words, by assigning a dedicated tax to the debt fund, increases in capital investment would be dependent on the adequacy of Debt Fund revenues instead of competing with the cost of providing core services.

- **Pay-Go CIP** - For FY 2026-27, the recommended Pay-Go CIP is up \$270,000 from FY 2026, mainly due to additional funding for facilities maintenance. The Pay-Go CIP is funded from the annual operating budget and includes small-scale projects that can be completed within the fiscal year. The projects listed below are our highest priority small-scale projects.

CIP Project	2026-27 Recommended Budget
Municipal Facilities	\$ 1,339,500
Affordable Housing Rental Facilities	73,093
Infrastructure	607,403
Parks Facilities	<u>1,146,000</u>
Total	\$ 3,165,996

- **General Obligation (GO) Bond Referendum** – In November 2024, Chapel Hill voters approved a general obligation bond order totaling \$44.0 million for affordable housing (\$15.0M), public facilities (\$15.0M), streets & sidewalks (\$7.5M), parks & recreation facilities (\$4.5M), and open space/greenways (\$2.0M). The Town issued the first round of bonds for \$10.63 million in June 2025.

Bond Order	Authority	Issued	Balance
Affordable Housing	\$ 15,000,000	\$ 3,500,000	\$ 11,500,000
Public Facilities	15,000,000	1,230,000	13,770,000
Streets & Sidewalks	7,500,000	5,400,000	2,100,000
Parks & Recreation facilities	4,500,000	500,000	4,000,000
Open Space & Greenways	2,000,000	0	2,000,000
Total	\$ 44,000,000	\$ 10,630,000	\$ 33,370,000

PERFORMANCE AGREEMENTS WITH OTHER AGENCIES

The FY 2026-27 budget includes level funding from FY 2025-26. The proposed amounts include the following:

Performance Agreements with Other Agencies	2025-26 Adopted Budget	2026-27 Proposed Budget
Human Services	\$ 602,516	\$ 602,516
Arts	43,500	43,500
Affordable Housing	1,103,959	1,200,173
Economic Development	<u>270,000</u>	<u>0</u>
Total Contributions to Agencies	\$ 2,019,975	\$ 1,846,189

MAINTAINING BASIC SERVICES

The Town is a service-based organization that relies on a skilled and flexible workforce to deliver a broad scope of governmental services. Personnel-related costs account for 71% of the FY 2026-27 General Fund Recommended Budget. The costs of maintaining a high performing workforce are increasing. For the most part, the market dictates salary levels and we continue to experience turnover, difficulty filling key positions, and retirements of long-serving employees. The Town strives to remain competitive in the labor market by maintaining its comprehensive benefits package and through annual salary adjustments.

In any given year, the Town faces the challenge of addressing the average 3-5% increases to the cost of doing business. In recent years, departments have absorbed these costs into their operating budgets. With continued, historic levels of inflation, this is no longer sustainable. This budget addresses some of these costs in maintenance, insurance, day-to-day operations and expands a few critical services that create operating efficiencies and advance Council’s goals.

FARE FREE TRANSIT SYSTEM

Chapel Hill Transit operates as a pre-paid system in partnership with the University of North Carolina at Chapel Hill and the Town of Carrboro (Transit Partners). The FY 2026-27 Transit operating budget reflects a 1.0% decrease, mainly due to the 420 route being taken back over by Go Triangle and a decrease in interest income due to decreasing interest rates, somewhat offset by the anticipated additional property tax revenues and corresponding partner increases. While Transit maximizes the use of grant funding to reduce Transit Partner contributions, there are no new grants that help with these expenses. The budget maintains existing services and personnel level. In capital, the budget adds funding from the Orange County Transit Plan to purchase vehicles. Corresponding Partner (UNC & Town of Carrboro) increases, a slight increase in state funding, and anticipated level funding in federal annual operating assistance, are included.

STORMWATER MANAGEMENT FEE

The FY 2026-27 budget includes an \$8.79 per ERU Stormwater fee increase to complete the stormwater system inventory mapping under the requirements of the National Pollutant Discharge Elimination System (NPDES) permit cycle.

BUDGET ORDINANCE

The components of the Budget Adoption Ordinance for FY 2026-27 are as follows:

1. **Appropriations** – Authorization of funds to be expended in the FY 2026-27 Budget by function and fund.
2. **Revenues** – Estimated revenues expected to be available during the FY 2026-27 Budget Year.
3. **Tax Levy** – Tax rates for the General, Debt, and Transit Funds expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2026.
4. **Special District Tax Levy** - Tax rate for the Downtown Service District expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2026.
5. **Authorities for Transfers and Adjustments** – Defines the authority to move funds among and between functions, projects and funds.
6. **Classification and Pay Plan** – Establishes salary grades, position classifications, and certain general provisions concerning payment of Town Employees for the FY 2026-27 Fiscal Year. The Manager is authorized to make changes to the Plan during the fiscal year within the adopted budget.
7. **Recommended User Fees** – Establishes all fees, fines, and charges that may be imposed during the FY 2026-27 Fiscal Year.
8. **Stormwater Fee** – Establishes the stormwater fee for FY 2026-27.
9. **Reappropriation of Outstanding Purchase Orders** – Appropriates encumbered balances from prior fiscal year so that financial obligations created in FY 2025-26 can be paid in FY 2026-27.
10. **Performance Agreements** – Authorizes allocation of funds to agencies participating in the Outside Agency application process for performance agreement funding, in the aggregate amount approved by Council.
11. **Recycling Collection Services** – Authorizes Orange County to provide recycling collection services within those areas of the Town situated in Durham County and to impose and administer a basic services fee for recycling services and a solid waste convenience center fee for residents within those areas of the Town situated in Durham County.
12. **Micro-Purchase Threshold** – Authorizes the Town to increase our micro-purchase thresholds related to the expenditure of federal funds.



Attachments:

- Budget Ordinance
- Classification & Pay Plan Effective July 1, 2026
- Fee Schedule Effective July 1, 2026
- Draft Staff Presentation

The Agenda will reflect the text below and/or the motion text will be used during the meeting.

PRESENTER: Ted Voorhees, Town Manager

RECOMMENDATION: That the Council enact the FY 2026-27 budget ordinance to establish the budget for 2026-27 and authorize the related items.