

FY 2026 BUDGET UPDATE



February 12, 2025
Council Work Session

AGENDA

1.

Budget Basics

2.

FY26: Factors

3.

FY26: A Turning Point

4.

FY26: Filling the Gap

5.

Next Steps

Previously, we've shared that we plan to recommend a tax rate that is not the revenue-neutral rate.

Tonight, we'll discuss some of the factors that are driving this year's budget development.

Next month, we'll check in with you about funding gaps, budget shortfalls, and your priorities.

Previously, we've shared that we plan to recommend a tax rate that is not the revenue neutral rate.

- We are still feeling the effects of prior revenue-neutral rate adjustments.
- Adopting the revenue-neutral rate would necessitate significant budget cuts.
- Adopting a non-revenue-neutral rate would allow us to account for natural property tax growth AND stop appropriating fund balance.*

Tonight, we'll discuss some of the factors that are driving this year's budget development.

- We have internal and external factors influencing our operations and our budget.
- We won't have revaluation data for some time.
- When we recommend a tax rate, we will be mindful of the impacts on both our bottom line and the bottom line for our residents/businesses.

Next month, we'll check in with you and discuss gaps, shortfalls, and priorities.

- **Revenue shortfalls**, especially sales tax.
- **Increasing costs** across all departments.
- **Pay & Classification** findings & recommendations.
- **Ongoing backlogs**, for operations and facilities.
- **Council priorities** and interests

BUDGET BASICS

We have a budget imbalance.

Annual revenues < Annual expenditures

We only have a few recurring revenue sources.

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

1. Property taxes

- We can control two things – **our tax rate** and the size and makeup of **our tax base**.
- It takes a lot of new development to significantly increase our tax base.
- The growth we are seeing isn't enough to sustain our budget.

2. Sales taxes

- Sales tax is an economy-driven revenue source.
- Pre-pandemic, annual growth rate was very steady at about 5%.
- The last few years, we had record-breaking sales tax growth that helped balance our budget.
- Huge decline in last 6 months could cause a \$1 million shortfall in FY 2025.

We spend our money across five areas.

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

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.

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

- While inflation is starting to stabilize, costs are still high.
- Even without high inflation, 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.

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.
- Debt Fund keeps operating & capital priorities from competing.
- We have an underfunded 15-year capital plan.

4. The Town operates four enterprise funds.

- Transit, Parking, Public Housing, and Stormwater
- Enterprise Funds account for operations that provide services to the public like a private business.
- These funds are experiencing the same challenges related to staffing, rising operating costs, and aging infrastructure.

5. We balance core services AND community priorities.

- As a local government, we are committed to deliver our core services – solid waste, public safety, parks, etc.
- As a community, we are invested in key priorities – climate action, DEI, affordable housing, etc.
- We need to figure out a long term, *both/and* funding strategy, rather than a short term, *either/or* approach.

FY26: FACTORS



People

Investing in our people continues to be a top priority.

- Employee Survey results
- Pay & Classification Study
- Wellness review & improvement
- Competitive cost of living adjustment

Technology

**Our
enterprise
strategy helps
us keep costs
down – and
tech is still
expensive.**

- Tech proposal process
- Buick vs Cadillac
- Tech Steering Committee
- Annual inflationary increases



Maintenance/Streets/Fleet

Continuing to address backlogs for our facilities and infrastructure is a multi-year priority.

- 2024 Facilities Condition Assessment
- 2024 Pavement Condition Report
- Ongoing Fleet Replacement Model
- Climate Action Plan



Core Programs & Services

**Annual
inflationary
increases are
persistent and
pervasive.**

- Robbing Peter to pay Paul
- Lean department budgets
- Program increases vs program expansions



Enterprise Funds

Our Enterprise Funds are all facing challenges with rising costs and aging infrastructure.

- Persistent backlogs
- Economic uncertainty
- Future of federal funds

FY 2026
A TURNING POINT

**Your strategic,
five-year budget
approach is
helping us catch
up on significant
backlogs.**

**The FY26 budget
presents a
strategic turning
point in your five-
year budget
approach.**

**By being strategic
with tax rate, we
can rely more on
reval years and
less on annual tax
increases.**

Your strategic, five-year budget approach is helping us catch up on significant backlogs.

- We appreciate the strides we've made in the past two budget years.
- We are still recovering from the lean years post-recession and in pandemic times.
- We want to catch up on backlogs AND create a sustainable funding future for our people, services, and facilities.

The FY26 budget presents a strategic turning point in your five-year budget approach.

- For the first two years of our five-year outlook, we've relied on tax increases.
- Annual tax increases aren't the best solution due to the financial impact on our residents and businesses.
- We need a tax philosophy that allows us to be strategic during a revaluation year.

By being strategic with tax rate, we can rely more on reval years and less on annual tax increases

- The revaluation is an opportunity to reset our budget.
- This is an opportunity to avoid regular, annual tax increases.
- We can't account for the unknown, but we can set ourselves up to be ready for it.

FY26: FILLING THE GAP

Example of FY25 General Fund Budget

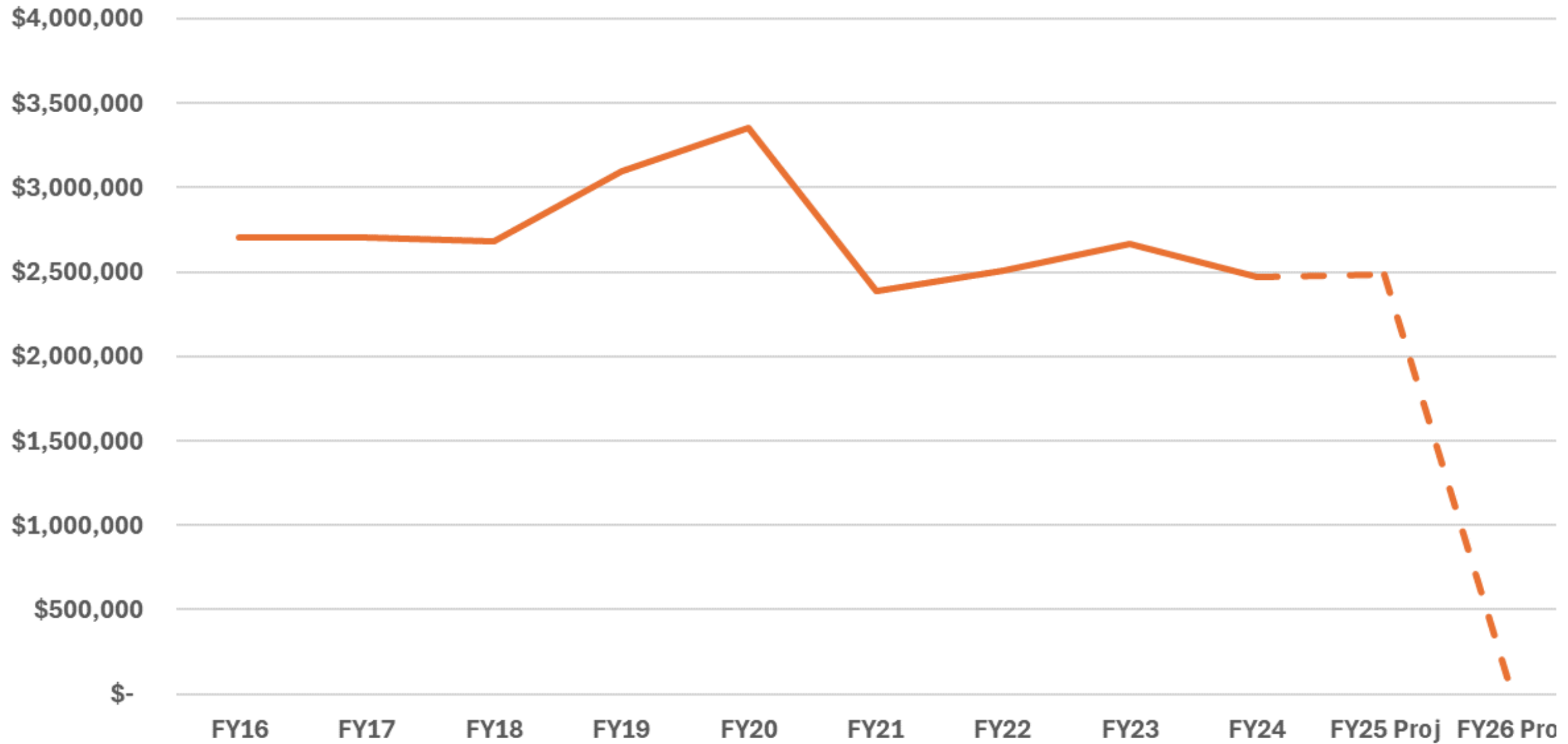
Expenditures	89.5 million
Revenues	87.0 million

Revenue/Expenditure Gap	2.5 million
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When we start the year, the gap is filled with **appropriated fund balance**.

When we end the year, the gap is filled with **lapsed salary savings**.

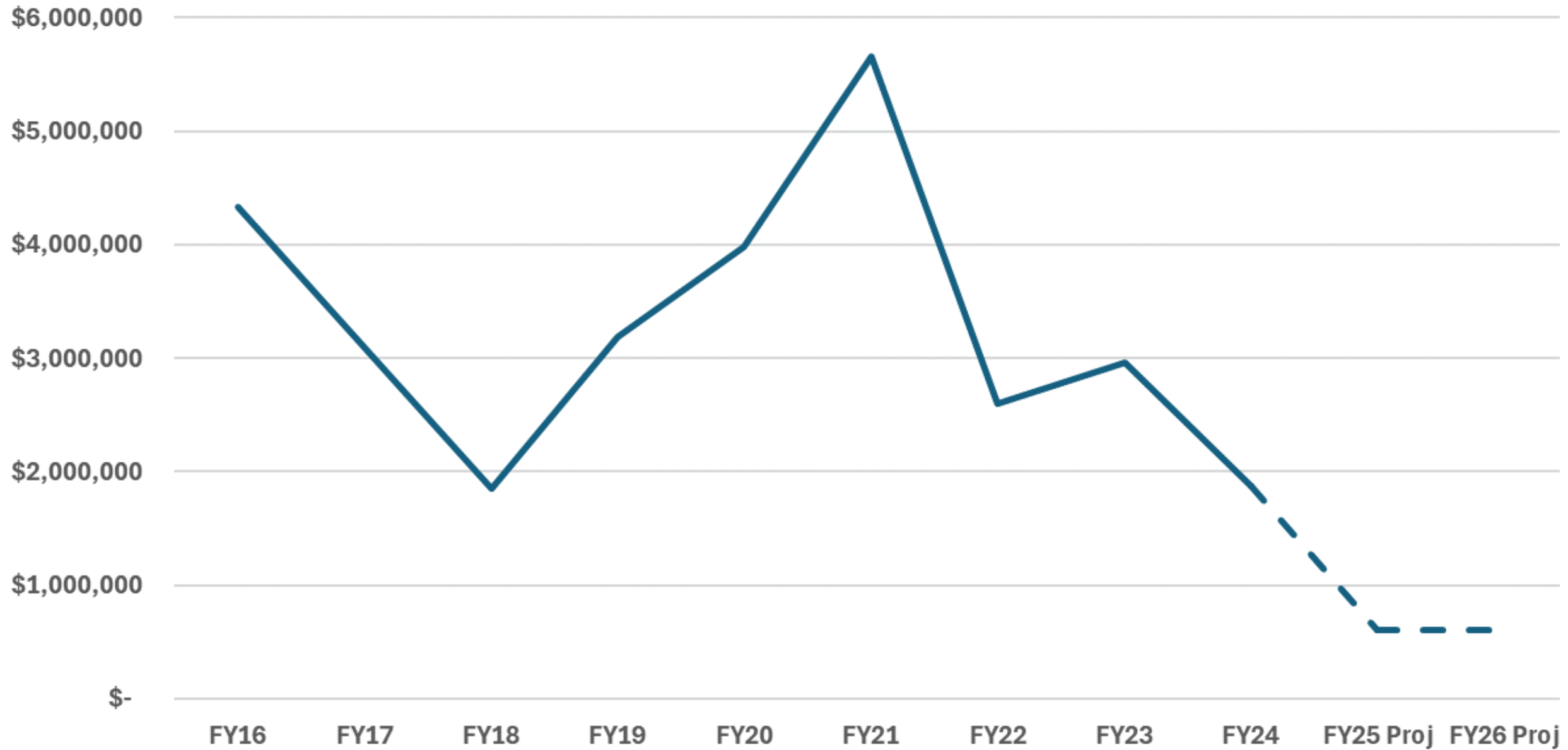
Budgeted Appropriated Fund Balance



Let's talk about appropriating fund balance...

- We maintain a healthy "savings account" balance.
- Annually appropriating fund balance to balance the budget means that, technically, it isn't balanced.
- Relying on fund balance is not a best fiscal practice.

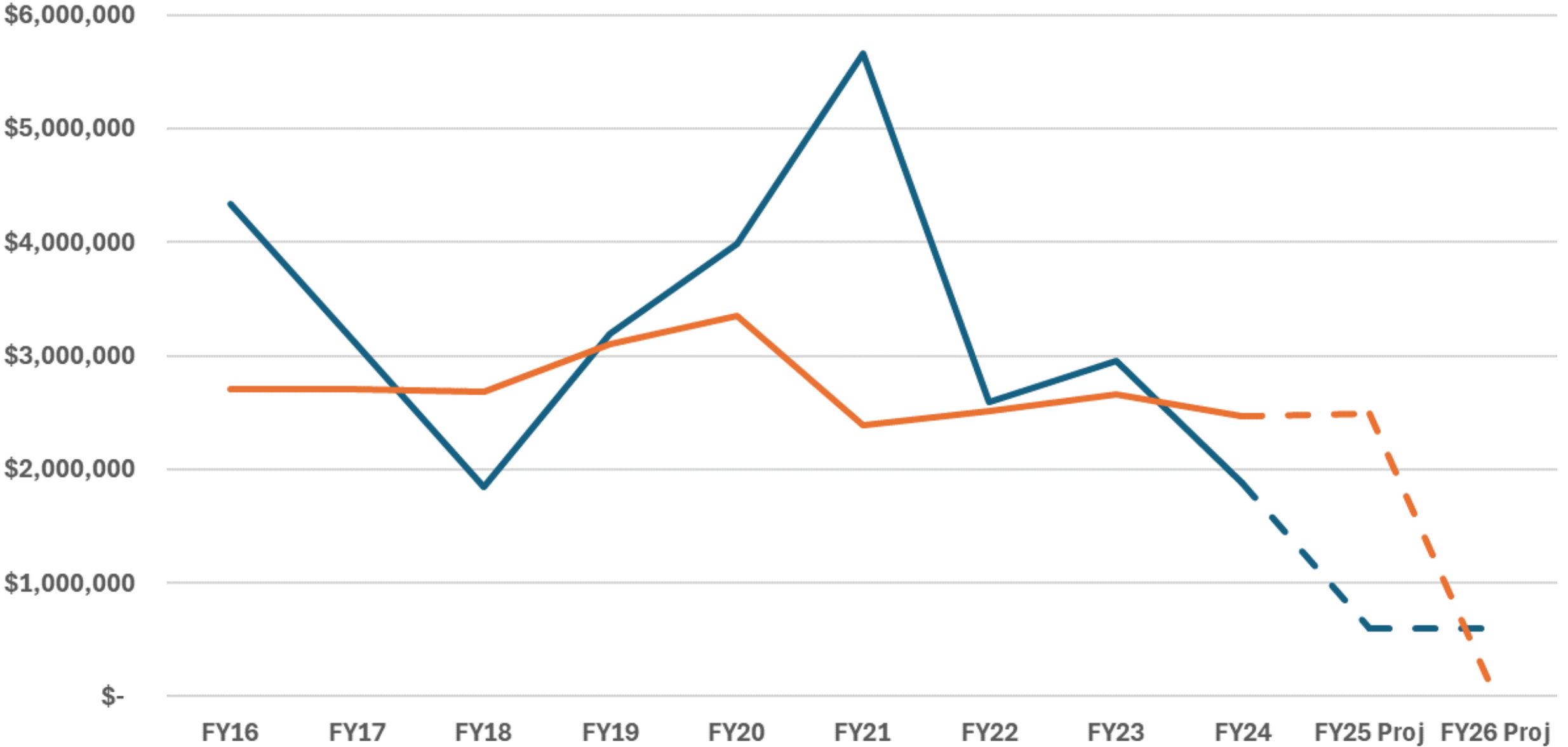
Lapsed Salary Savings



Let's talk about lapsed salary savings...

- We rely on certain amount of personnel savings each year
- Vacancies are at an all time low = positive
- Personnel savings are at all-time low = negative
- Budgets are already so lean it's hard to absorb impacts

Lapsed Salary Savings vs. Budgeted Appropriated Fund Balance

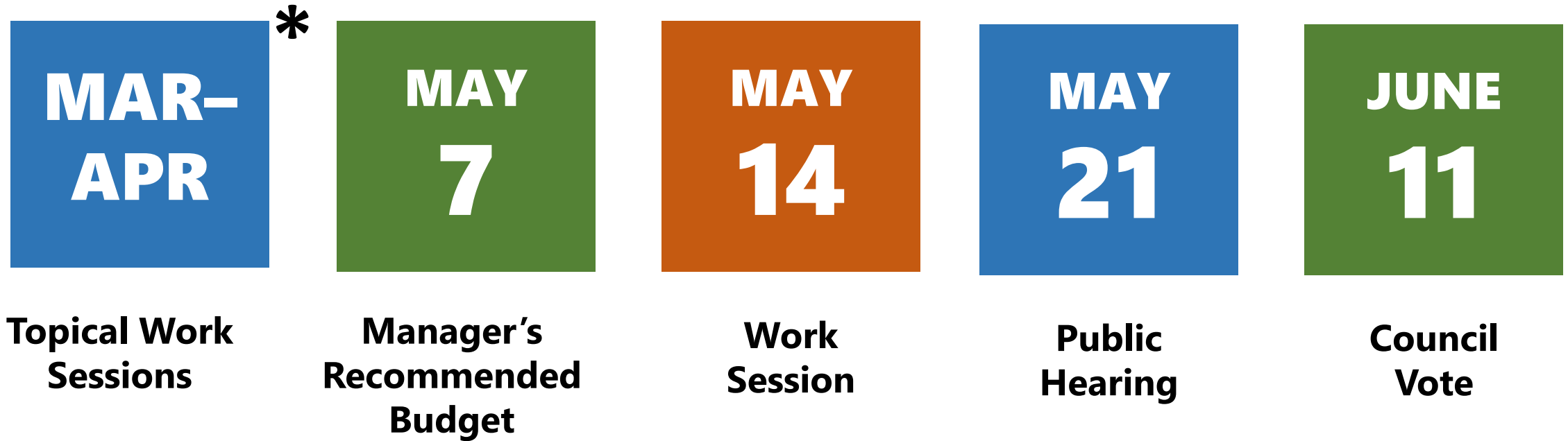


NEXT STEPS

**We'll continue
to engage you
on these
critical issues.**

- Revenue Shortfalls
- Increasing Costs
- Pay & Classification
- Operating Backlogs
- Facility Needs
- Budgeting Fund Balance
- Federal Grant Funds

FY26 Proposed Budget Schedule



* We will host a People's Academy "Deeper Dive" about the budget