

5 Year Budget Strategy Discussion



Meeting Agenda

1. Context
2. Review 5-year budget plan: gaps and takeaways
3. Balancing our needs
4. Next steps

1. CONTEXT

Council Provided Guidance

Council Strategic Plan and Policy Goals set priorities:

- Connecting strategic work plans and budget decisions
- Promoting environmental resiliency
- Increasing ability of departments to meet operational needs
- Restoring pay-go capital and vehicle replacement programs
- Expanding building maintenance and street paving programs
- Sustaining enterprise funds

We were developing a 5-year plan

- ✓ Council adopted a strategic work plan
- ✓ Council had retreat discussions on priorities
- ✓ 5-year budget strategy meetings were beginning
- FY 2021 budget development outlook was:
 - Stable revenue growth
 - Employee compensation and retention
 - Focus on core services
 - Maintenance, streets, vehicles and capital needs
 - Incorporating 5-year plan into the budget process

And Then.....

COVID pandemic

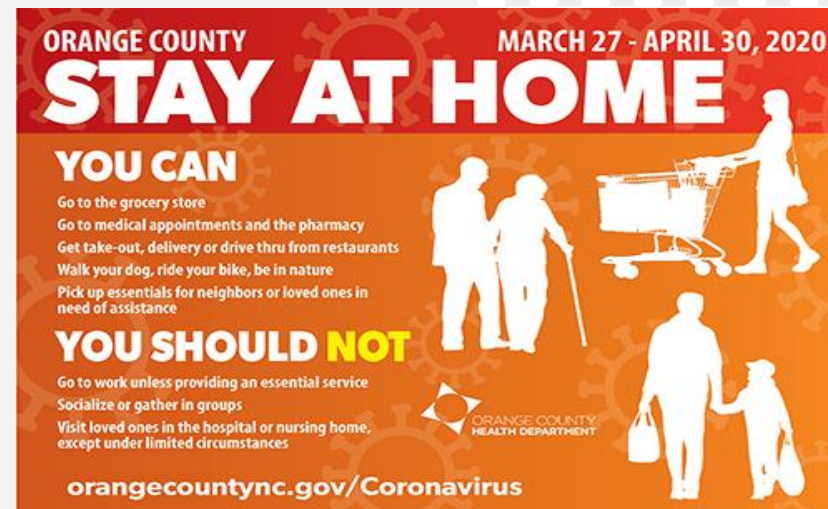
The territorial impact of COVID-19: Managing the crisis across levels of government

Financial forecast continues to change with the many unknowns related to the effects COVID-19:

- Longevity of event
- Extent of revenue shortfalls
- Impacts to service delivery

Projected GDP Losses Due to COVID-19 Far Larger Than Losses in Great Recession

Greenstein: New COVID-19 Bill Helpful But Inadequate — More Needed for States and Localities, the Most Vulnerable, and the Economy



COVID-19 State Budget Shortfalls Could Be Largest on Record

Response to COVID-19 Driving Skyrocketing Unemployment

Enacted Budget Legislation in Response to COVID-19

How to Plan for the FY 2022 Budget?

- **Review Council priorities** – retreat 2021
- **Receive County property revaluation data** - spring 2021
 - assessed valuation
 - property tax rate
- **Evaluate economic impacts** – ongoing
- **Focus budget process – spring 2021**
 - Most current information and projections
 - Operational decisions
 - Department needs
 - Strategic direction

Gaps and Key Takeaways

2. REVIEW 5-YEAR BUDGET PLAN

5-year Budget Plan

- Theme Areas:
 1. Environmental Sustainability
 2. Capital
 3. Human Services
 4. Human Capital
 5. Transportation
 6. Operational Sustainability
 7. Economic & Financial Sustainability
- High level review of Town needs
- ***Note: COVID impact***
- Key takeaways



Theme Area #1: Environmental Sustainability

The Environmental Sustainability theme captures a range of investments that will strengthen operational and community sustainability.

5-year budget gap ~ \$38.5 million



Environmental Sustainability – Key Takeaways

- **Fleet + buildings** are our two largest sources of municipal carbon emissions
 - keep **upgrading the buildings we have** (HVAC, lighting, renewables where possible)
 - begin **transitioning our fleet to electric** (starting with light duty, infrastructure)
- Climate change is making it harder to manage flooding and water quality – **stormwater maintenance and planning** is key
 - a quarter of the gap (\$10M) is made up of stormwater capital projects in FY25 (identified by our subwatershed studies)
- Community Demonstration projects & grants (**leading by example**) cost \$
- **Remediation plan** for Coal Ash site can have significant budget implications

Theme Area #2: Capital

The Capital theme is focused on the parts of the town budget dealing with the acquisition or maintenance of capital assets such as land, buildings, equipment and major software procurement.

5-year budget gap ~ \$73.3 million

COVID-19 budget impact:

- Eliminated maintenance funding
- Eliminated small capital funding
- Eliminated vehicle replacement funding
- Eliminated Blue Hill TIF transfer
- Reduced street resurfacing



Capital – Key Takeaways

- Replenish essential maintenance, vehicle replacement, street repaving and small capital project funding
- Establish plan for long-term maintenance, vehicle replacement, street repaving and small capital project budgets
- Plan for large-ticket items (fire apparatus, bike/ped improvements, ADA compliance, etc.)

Theme Area #3: Human Services

The Human Services Theme Area is focused on programs, services, and initiatives that support the residents of our community with a goal of achieving economic and social well-being and opportunities for all residents to thrive

5-year budget gap ~ \$9.0 million

COVID-19 Impact:

- Town was awarded \$1.553 million in CARES \$ passed through Orange County; over 50% spent on human service programs in response to COVID



Human Services – Key Takeaways

- Focused on initiatives and programs identified by the Council as priorities
- Affordable Housing Bond and other local resources will allow us to address most of the anticipated funding gap for affordable housing initiatives
- Demand expected to continue increasing for human services funding
- Develop plans to more fully resource Community Connections efforts – racial equity, language access, equitable engagement
- Focus on serving residents not typically served



Theme Area #4: Human Capital

The “knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively, the cumulative total of which represents a form of wealth available to organizations to accomplish their goals.” *In practical terms, human capital is people.*

5-year budget gap ~ \$16.6 million

COVID-19 Budget Impact:

- No market rate adjustment for employees
- Implementation of the comp & class study put on hold
- Reduced pre-funding contribution to OPEB



Human Capital – Key Takeaways

- Outcome of Classification & Compensation Study
- Importance of being competitive in the market to retain and recruit quality employees. The Town is a service organization and those services are primarily delivered by staff. These services are valued by the Community as evidenced in the high ratings in the Community Survey



Theme Area #5: Transportation

The Transportation theme addresses connected mobility systems that provide residents and visitors convenient choices to safely move around our community, support regional connectivity and environmental stewardship.

5-year budget gap ~ \$39.5 million

COVID-19 Budget Impact:

- Town awarded \$5.737 million in CARES \$ for operating or capital needs which helped offset \$2.6 million loss of SMAP \$



Transportation – Key Takeaways

- Significant planning efforts have identified community priorities, however lack of dedicated funding and/or new funding limits Town's ability to move forward on key transportation projects.
- Identified priorities will increase access and connectivity and support walking, bicycling and transit while reducing greenhouse gas emissions.
- Funding for maintenance of existing investments is critical.



Theme Area #6: Operational Sustainability

Operational Sustainability theme is evaluating the resources needed to carry out day-to-day operations. By day-to-day operations, we mean our core services.

5-year budget gap ~ \$6.9 million

COVID-19 Budget Impact:

- Hiring freeze
- Hold placed on major purchases
- No opportunity to fill department operating needs



Operational Sustainability – Key Takeaways

- Analysis revealed that little of our annual budget spending is “discretionary” after personnel and contractual obligations are met.
- The costs of contracted services, from software support to snow removal, generally increase over time.
- Changes to services are often ruled out due to the start-up costs associated with equipment or software purchases, despite the potential for long-term efficiencies and savings.
- Innovations of all types, to include those discussed in other theme areas, have been limited due to consistently constrained budgets.



Team Area #7: Economic & Financial Sustainability

The Economic & Financial Sustainability theme is reviewing general trends in revenues and opportunities to increase the Town's financial sustainability.

COVID-19 Budget Impact:

- Drastic reductions in sales tax, occupancy tax and department fees which led to a decrease in the General Fund budget of \$2.195 million



Economic & Financial Sustainability – Key Takeaways

Context:

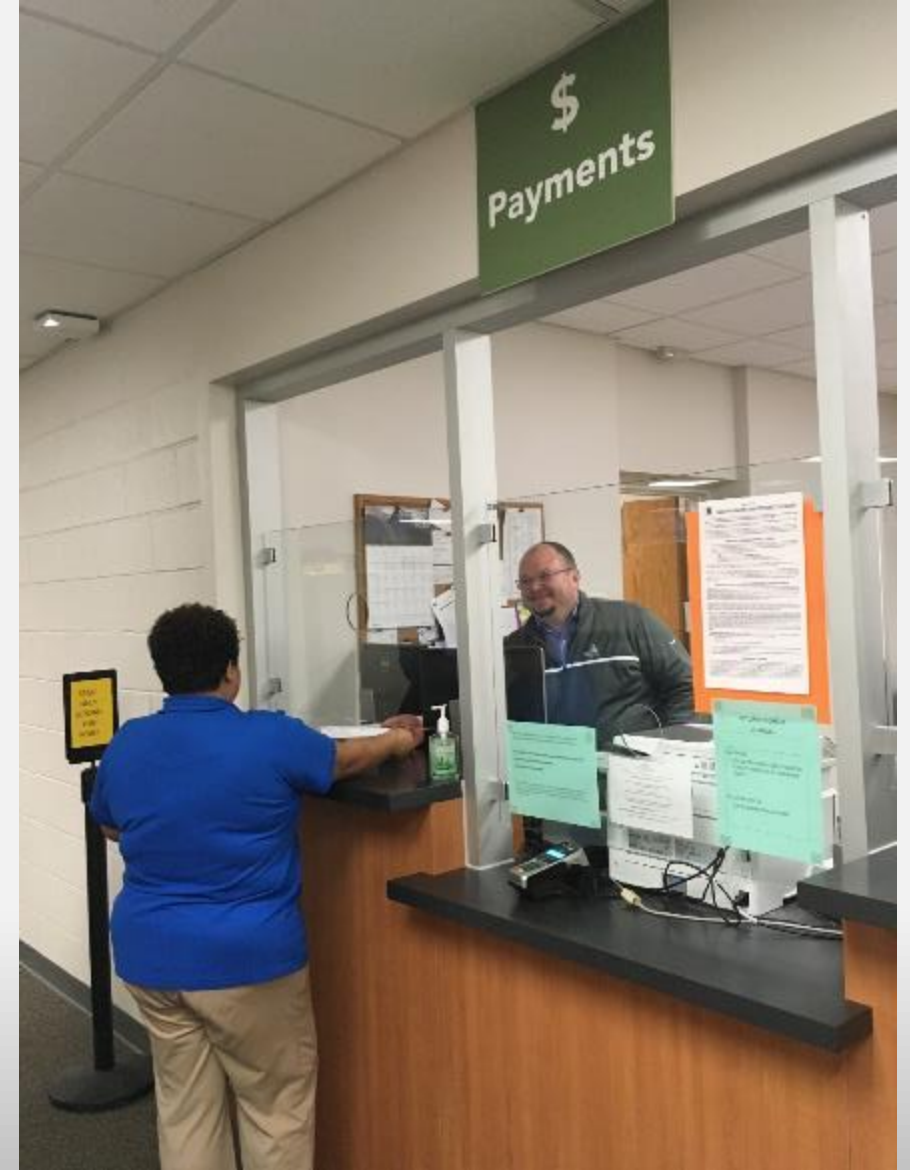
- From FY00 (56.3) to FY20 (54.4) our **tax rate** has experienced less growth than our comparison communities in North Carolina.
- Before COVID, our **sales tax revenues** had grown on average just over 5% per year
- Our **economic development incentive** payments began in FY20.



Economic & Financial Sustainability – Key Takeaways

Review our fees philosophy:

- When do we **waive fees** and how much?
- Should we **recover a higher percentage** of our costs for some programs?
- Try **new approaches** (performance pricing)?
- Should “**free**” **services** have a cost (credit cards, code enforcement)?
- Can fees **encourage positive behavior** (false alarms, fire compliance)?
- Should we **lift the cap or adjust** development fees?



3. BALANCING OUR NEEDS

Moving forward with a 5-year plan

Council identified interests:

- Connecting strategic work plans and budget decisions
- Increasing ability of departments to meet operational needs
- Promoting environmental resiliency
- Restoring pay-go capital and vehicle replacement programs
- Expanding building maintenance and street paving programs
- Sustaining enterprise funds

Options:

Maintain priorities:

- Promoting environmental resiliency
- Restoring pay-go capital and vehicle replacement programs
- Expanding building maintenance and street paving programs
- Sustaining enterprise funds

Additional emphasis

- Community resiliency: environmental, economic recovery, housing, racial equity, community safety

Discuss funding options

- Fees, cost recovery, service reduction, post-revaluation tax rate

Balancing Growth in the tax rate*

	FY09	FY10**	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18**	FY19	FY20
General Fund	42.3	36.0	36.0	37.8	37.8	38.8	38.8	38.8	38.8	37.6	38.6	38.6
Debt Fund	11.0	9.3	9.3	7.5	7.5	7.5	8.5	8.5	8.5	8.2	8.2	9.8
Transit Fund	4.8	4.1	4.1	4.1	4.1	5.1	5.1	5.1	5.1	5.0	6.0	6.0
Total	58.1	49.4	49.4	49.4	49.4	51.4	52.4	52.4	52.4	50.8	52.8	54.4

* Tax rates are expressed in cents per \$100 valuation

** FY 2018 & FY 2010 tax rates were the revenue neutral rate

Impact of the Revaluation

- FY 2022 is the next revaluation for Orange County (effective January 1, 2021)
- Revaluation timing & process
- Return to Council at April work session with revaluation data and tax rate impact
- Opportunities for additional revenue generation

4. NEXT STEPS

Next Steps

- Discussion of Council priorities at Council Retreat
- FY 2022 budget discussions:
 - Council Retreat February 5,6 & 8
 - Initial Budget Public Forum February 24
 - Budget Work Session March 17
 - Budget Work Session April 14
- Update and return to Council with 5-year budget strategy document