



ORANGE COUNTY

NORTH CAROLINA

MEMORANDUM

May 6, 2025

TO: Board of Orange County Commissioners

FROM: Travis Myren
County Manager

RE: Transmittal of the FY2025-26 Recommended Budget

I am pleased to submit the FY2025-26 Recommended Operating Budget for your review and consideration. This budget is submitted to you amid an environment of extreme uncertainty. In the broader economy, trade tariffs will cause prices to increase on a range of goods from building supplies to technology. For our community, higher prices will cut into family budgets and potentially jeopardize essentials like housing and health care.

For County government, departments will prioritize spending on the most critical needs at a time when demand for County services will increase. County departments are expected to absorb inflationary cost increases, forgo new programs and expenses, reduce travel and training expenses, and manage the continuation of the austerity measures such as a hiring freeze. As the year progresses and uncertainty ebbs, adjustments can be made to relax these stringent financial expectations if financial conditions allow for it.

Federal spending and budget reductions also loom. If these reductions include cuts to Medicaid, Food and Nutrition Services, Housing Choice Vouchers, Child Care Subsidies, or other critical programs, the reductions could extract millions of dollars in benefits going to support the County's most vulnerable residents while also removing that money from the local economy. Federal revenue also supports a variety of critical positions in the Department of Social Services, Health, Housing, Aging, and Transportation Services. If the County maintains service levels in those departments after federal cuts occur, reductions would have to be made in other non-mandated portions of the County budget to compensate.

In response to this extreme uncertainty, the Recommended Budget attempts to build in flexibility and resilience should fears about the economy and federal spending become a reality. This Budget was created with six central priorities in mind:

1. Minimize the Tax Rate Increase
2. Create Budget Flexibility in Anticipation of Economic Downturn and Federal Reductions
3. Maintain the County's Investment in Social Safety Net Services
4. Provide Continuation Funding to Schools

5. Invest in the Employee Compensation Package
6. Align Budget Investments with Strategic Plan Goals

In order to remain flexible, the Recommended Budget also contains judicious revenue projections. Revenues that are sensitive to an economic downturn are set to remain flat at FY2024-25 levels.

General Fund Expenditures

The General Fund is the fund through which services such as education, human services, public safety, community services, planning, and general government services are provided. It is also the part of the budget that is primarily supported by general purpose revenue such as the property tax and sales tax. The proposed General Fund budget is \$311.9 million which represents a \$17.4 million or 6% increase over the current fiscal year.

Debt Service Fund

The Debt Service Fund segregates all debt related revenues and expenditures in one location. Allowable expenses in the Debt Service Fund include payments on school, community college and county debt, issuance costs related to financing, and dedicated capital or debt focused personnel. The amount of money budgeted to be transferred into the Debt Service Fund in any given year is based on expected debt service payments in the next fiscal year. Based on the borrowing package currently proposed by staff for FY2024-25, the transfer for FY2025-26 is \$32,331,700.

General Fund Revenue

The Recommended General Fund Operating Budget includes total revenue of \$311.9 million.

- **Revaluation and the Revenue Neutral Property Tax Rate**

Orange County conducted a revaluation of all real property in FY2024-25 which established an updated tax base for the FY2025-26 Budget. Although the County is on a four-year revaluation cycle, this revaluation was mandated by the State in 2022 when the County's sales ratio fell below 85%. The sales ratio compares current assessed values with sales prices to measure the share of value that is captured by current assessments. When assessed values drop below 85% of sale values, State law requires a revaluation within three years. The notice in 2022 mandated a revaluation in 2025.

As part of the revaluation process, the County is required to publish a revenue neutral property tax rate. The revenue neutral rate is the tax rate that would generate the same amount of revenue as the current year using the new tax base with three adjustments.

1. The total tax base is increased by adding personal property, the value of assets owned by utility companies, and the value of motor vehicles.
2. The tax base is decreased by the amount of value lost due to expected appeals of values of individual properties.
3. The amount of revenue generated is increased based on natural growth that would have occurred in the absence of the revaluation. The county experienced a natural growth rate of 2.52% since the last revaluation. This growth adds \$7,042,417 in revenue to the amount contained in the FY 2024-25 Approved Budget.

The following table details the components that comprise the total tax base for FY2025-26. The total tax base increased from \$23.6 billion in FY2024-25 to \$33.3 billion in FY2025-26 or 42.6%.

Property Type	
Real Property <ul style="list-style-type: none"> Land + Improvements/Buildings Adjusted by 3% for expected appeals 	\$30,269,269,567
Personal Property & Public Utilities <ul style="list-style-type: none"> Unlicensed vehicles, trailers, campers, boats, jet skis, etc. Power company, gas company, railroad, etc. 	\$1,242,143,886
Motor Vehicles	\$1,743,029,203
TOTAL	\$33,254,442,655

As the tax base grows due to the revaluation, the revenue neutral tax rate decreases. **The revenue neutral tax rate drops from 86.29 cents to 62.64 cents per \$100 of assessed value.**

The revenue neutral rate for the Special District Tax as well as the Fire districts also resets to a lower amount and detailed in the following table.

Tax District	FY 2025 Tax Rate	Revenue Neutral Rate
CH-CARR SCHOOL	19.80	14.34
CEDAR GROVE FIRE	9.00	6.54
CHAPEL HILL FIRE	13.87	10.79
DAMASCUS FIRE	12.80	9.79
EFLAND FIRE	10.28	7.38
ENO FIRE	11.98	8.71
LITTLE RIVER FIRE	7.39	5.35
NEW HOPE FIRE	13.84	10.15
ORANGE RURAL FIRE	11.49	8.21
ORANGE GROVE FIRE	8.27	5.81
SOUTH ORANGE FIRE	9.09	6.67
SOUTH TRIANGLE FIRE	12.80	8.75
WHITE CROSS FIRE	13.84	10.30

- **Property Tax Rate**

The Recommended Budget increases the Countywide tax rate by 2.95 cents above the revenue neutral tax rate. This increase is comprised of two major drivers.

- The majority of the tax rate increase (1.94 cents) is attributable to funding school planning and design services related to the school bond projects with pay as you go funds or cash. The Board has discussed a goal of providing up to \$10 million per year in pay as you go funding for planning, design, and project management costs related to school construction. The FY2025-35 Capital Investment Plan (CIP) recommended phasing in that funding with \$6.4 million in FY2025-26 and an additional \$3.6 million in FY2026-27. The remaining \$6 million for planning and design is recommended to be borrowed and will be paid off through debt service payments over time.

- The additional 1.01 cents per \$100 of assessed value funds County and school continuation needs.

This tax rate increase generates a total of \$9,733,637 in new revenue. **The tax impact of this rate increase on a home valued at \$500,000 is \$147.50 per year.**

- **Collection Rates**

Property tax collection rates are set to reflect actual performance in recent years. The Budget continues to assume a collection rate of 99.2% for real and personal property and assumes the collection rate of 99.6% for motor vehicles based on recent experience.

- **Sales Tax**

Sales tax collections have already slowed. The FY2024-25 Budget assumed growth of 4% in the Sales Tax Articles that are disbursed on a point of delivery basis and 3% on the Articles based on the per capita allocation. The current sales tax projection for FY2024-25 is that actual collections will not meet budget by as much as \$765,718. This is before the potential impact of tariffs starts to affect retail sales and collections. Because of the three-month lag between the collection of sales taxes and the distribution of sales tax revenue to the counties, the impact of tariffs imposed in April will not be realized until the County's July sales tax payment from the Department of Revenue.

Based on marginal sales tax revenue collection during this fiscal year and the economic uncertainty facing the County next fiscal year, no growth from the FY2024-25 budgeted amount is projected for FY2025-26. This means that the expected sales tax deficit from FY2024-25 will be made up in FY2025-26 which would require growth of 1.8% from FY2024-25 projected collections.

Employee Compensation and Benefits

Employee compensation and benefits comprise 72% of the County's total budgeted expenditures excluding education. Due to slower economic growth and a potential economic downturn, the labor market is expected to relax in FY2025-26. While a more relaxed labor market decreases pressure on wages, it does not shield employees from higher costs due to inflation, potential tariffs, and other factors. This budget provides a modest wage adjustment and continues to offer a robust, County funded benefit package.

- **Two Percent (2%) Wage Adjustment - \$1.8 million**

The FY2025-26 Recommended Budget includes a 2% wage increase for all employees effective July 1, 2025, at a cost of approximately \$1.8 million. This cost increase also captures the corresponding impacts on overtime, performance awards, and the County's 401K contribution.

- **Health Insurance Increase – \$800,000**

The County provides health insurance to employees through a public sector health insurance pool called the North Carolina Health Insurance Pool or NCHIP. This pool allows members to spread risk and increase market competitiveness by creating a large, diverse employee group. Based on the County's claims history, the increased cost of health care services, and the need to maintain reserve levels, the cost of health insurance will increase by 6.5% at a cost of \$800,000. The Budget recommends that the County absorb this entire cost increase and does not recommend increasing employee contributions or altering benefit levels to help pay for the increase. The same health plan will be offered at no increased cost to employees.

- **Mandated Retirement Contribution Increase - \$145,000**

All local government employers participate in the State's Local Government Employee Retirement System. This plan provides a defined benefit retirement structure for local government employees. In order to maintain the financial health of the plan, the State prescribes increases to employer contributions. For

FY2025-26, the Retirement System is mandating an increase of 6% for general employees and 7% for law enforcement employees. This will result in a general fund cost of \$145,000 next year.

- **Retiree Health Benefits Increase - \$500,000**

The County provides retiree health insurance coverage for both pre-65 and post-65 eligible retirees and contributes to the cost of premiums for eligible retirees as required by the Orange County Code of Ordinances. The estimated total retiree health insurance budget for FY2025-26 is \$3,616,413, reflecting a 17.06% overall increase due to an increase in the total number of covered retirees and the increase to premium equivalents based on costs. The total increase in county funding amounts to \$498,810.

- **Living Wage Increase**

A Living Wage increase is applied to the hourly rate for temporary employees. All regular employees currently earn more than the hourly Living Wage. Effective July 1, 2025, the Living Wage will increase from \$17.65 per hour to \$18.18 per hour.

Education

The FY2025-26 Recommended Operating Budget provides a current expense budget increase of 3%. The total current expense budget is divided between the two Districts based on average daily membership (ADM).

- **Average Daily Membership**

The Department of Public Instruction has changed the manner in which average daily membership is projected. The County had historically used March projections, but last year, the Department of Public Instruction began using the best of the 20th day average membership or the 40th day average daily membership to determine funding levels.

Enrollment in both school districts continues to decline. Total budgeted student enrollment will decrease by 123 students in the Chapel Hill-Carrboro City Schools District. Total budgeted student enrollment will decrease by 11 students in Orange County Schools. The combined impact is 134 fewer budgeted students in Orange County.

- **Current Expense Funding**

The FY2025-26 Budget includes a 3% increase in current expense funding which yields an additional \$3,237,729. This increase results in a total local expense budget of \$111,328,011.

The amount of the current expense budget allocated to each district is based on average daily membership. Although enrollment continues to decline in both districts, enrollment in Chapel Hill-Carrboro City Schools is decreasing at a faster pace than Orange County Schools. Since FY2022-23, enrollment has declined by 3.7% in the Chapel Hill-Carrboro District and by 1.2% in the Orange County Schools District. The impact of this difference is that the share of current expense funds allocated to Chapel Hill-Carrboro City Schools declines while the share of current expense funds allocated to Orange County Schools increases. In FY2025-26, the percentage allocated to Chapel Hill-Carrboro City Schools will decrease from 58.40% to 58.16% while the share allocated to Orange County Schools will increase from 41.60% to 41.84%.

Based on these new percentage allocations, Chapel Hill Carrboro City Schools will receive a total current expense budget of \$65,752,786. This represents an increase of \$1,627,880 over FY2024-25. Based on amount of natural growth that is allowed in the revenue neutral tax rate calculation, the budget projects that the Chapel Hill-Carrboro Special District will generate an additional \$381,198 for a total of \$28,800,416 in Special District Tax funding.

The County charges all other taxing jurisdictions, excluding fire districts, a rate of 0.5% of collections for the collection and remittance of property taxes. The Budget recognizes \$135,000 in additional revenue by applying that percentage to the District Tax and increases the District Tax rate by 0.07 cents to compensate for the charge. As a result, the total Special District Tax rate is recommended to be 14.41 cents per \$100 of assessed value.

Chapel Hill-Carrboro City Schools had requested a continuation budget of \$66,949,681. Given the uncertainty in the salary increase for teachers that will be approved in the State Budget, the District based its continuation request on a 3% salary increase for teachers and additional operating costs of over \$485,000. The Senate version of the Budget includes a salary increase of 2.3% for teachers.

At 41.84% of total enrollment, Orange County Schools will receive a current expense budget of \$46,575,225. This represents an increase of \$1,609,849 in total new District funding. Orange County Schools requested a continuation budget increase of \$1,815,000 using the same assumption for teacher salary increases as Chapel Hill-Carrboro and an additional \$175,000 in operating expenses.

The FY2025-26 Recommended Countywide per pupil allocation increases by \$211. The total Countywide per pupil amount increases to \$5,877. The Chapel Hill-Carrboro per pupil amount increased by \$274 to \$8,491 when revenue from the Special District Tax is included.

- **Expenses for New Charter Students - \$147,000**

School Districts are required by law to transmit funds to charter schools for students who reside in the District but attend a charter school. Chapel Hill-Carrboro City Schools is expecting nine fewer charter students in FY2025-26, and Orange County Schools is expecting an increase of 34. The FY2025-26 Budget accommodates the expenses associated with a total of 25 new charter students at a cost of approximately \$147,000.

The changes in charter school enrollment result in a total of 222 charter students in the area served by Chapel Hill Carrboro City Schools and 1,125 charter students in area served by Orange County Schools. The combined charter school enrollment in Orange County is 1,347 students or approximately 7% of total budgeted students.

- **School Health and Safety Contracts - \$120,140**

In addition to current expense funding, the County provides funding equivalent to the cost of School Resource Officers in each middle school and high school and one School Health Nurse in every elementary, middle, and high school. The Budget recommends a 3% increase or \$120,140 for these contracts. The total cost for this program in FY2025-26 is \$4,124,806.

- **Funding Target**

The County has a target to provide 48.1% of General Fund revenues to schools. The formula includes all school related spending – current expenses, school health and safety contracts, and school debt service. The percentage of General Fund revenue allocated to schools for FY2025-26 is 47.9%. This is a 1.1 percentage point increase from the ratio of 46.8% in FY 2024-25.

- **Durham Technical Community College - \$28,361**

The Budget recommends increasing the budget for the Orange County Campus of Durham Technical Community College by 3% or \$28,361. As a result, the total budget increases to \$973,724 to fund non-instructional operating costs. The Community College has seen a significant increase in enrollment over the last four years. Orange County resident usage of either Durham Tech Campus has increased by 29% from FY2020-21 to FY2023-24.

In addition to the General Fund support provided to the College, the County funds workforce development related programs through the economic development portion of the Article 46 sales tax. The Durham Tech Promise provides up to \$1,000 annually to any Orange County high school graduate or General Equivalency Diploma (GED) recipient who attends Durham Technical Community College following completion of their degree. The scholarship fund is maintained at the current level of \$200,000 for FY2025-26.

The Budget also recommends maintaining funding for the College's Back to Work Initiative at \$100,000. This initiative provides a \$500 scholarship to each of the participants.

Article 46 will also continue to support the College's Small Business Support Center at \$70,000 and provides \$20,000 for space in the Innovation Hub in Chapel Hill. The Recommended Budget also continues \$9,083 to support the County's share of an Apprenticeship Coordinator. Orange County's total Article 46 investment in the College is recommended to be \$399,083.

County Department Budget Recommendations

- **Aging – Human Services Functional Leadership Team**

The General Fund contribution to the Department on Aging was increased by \$69,520. During FY2024-25, the County continued a higher level of In-Home Respite Care and continued take out meals that were originally offered during the pandemic using American Rescue Plan Act Funding. The FY2025-26 Budget recommends maintaining the higher caseload for In-Home Respite care at a cost of \$40,204 but phasing out take-out meals by the beginning of August. As a result, \$19,760 is budgeted to continue two months of take-out meals. The Department identified 10 individuals who are receiving take-out meals that are homebound. The Department will actively connect those residents to Meals on Wheels to avoid disruption.

The Carol Woods Retirement Community has continued to provide an annual donation of \$175,000 to the County to support the implementation of the Master Aging Plan. Much of the Department on Aging's operating budget is dedicated to implementing the Master Aging Plan, so \$75,000 is applied to the Department's General Fund expenses consistent with the FY2024-25 Budget. The Department also received a grant to offset the cost of the Fit Lot at the Seymour Center. Master Aging Plan funds had been designated for this purpose, so approximately \$62,000 in MAP funds will be used to fund urgent home repairs for older adults administered through the Housing Department. The total balance in this fund will be \$595,000 after the \$62,000 is used for the home repair program.

- **Alliance Health Maintenance of Effort (MOE) Funding – Human Services Functional Leadership Team**

The Budget continues to fund \$1,411,382 for behavioral health services through the maintenance of effort budget. The County contracts with Alliance Health for \$842,388 to offer services through community nonprofits like Freedom House, Club Nova, and El Futuro. The balance of this fund is used to pay for positions and services in the Criminal Justice Resource Department, Health Department, and Department of Social Services. The FY2025-26 Budget also transfers the Orange Enterprises outside agency contract and the Mental Health Coordinator position that works with the Community Care and Diversion Response Team to the Maintenance of Effort budget through reallocation. This transfer reduces General Fund costs by \$52,294.

- **Animal Services – Community Services Functional Leadership Team**

The Animal Services budget decreases County costs from the base budget by \$8,577. This decrease was largely achieved by reducing overtime and on-call expenses and reducing training and development costs.

- **Asset Management Services – Support Services Functional Leadership Team**

The Asset Management Services Budget includes utility costs for County facilities, building repairs, security systems, and all other expenses associated with operating and maintaining County facilities. Many of the increases in this budget are unavoidable. The Asset Management Services base budget increased by \$262,129.

Of that total, the increased cost of utilities was the primary driver. Electricity, water, and natural gas costs are expected to increase by \$148,254. An additional \$102,834 was also needed to pay for increases in service contracts for generator inspections, fire sprinkler inspections, HVAC control support, and custodial services.

The County has also been contracting out for life safety inspections for fire extinguishers, emergency lighting, and exit signs. The cost of this service was \$46,585 and was going to increase by \$35,000 next fiscal year. The Budget recommends replacing that contract and the painting services contract of \$25,000 with a new Facilities Maintenance Technician position at a cost savings of \$672 and additional avoided costs of \$35,000.

The Asset Management Services Budget also includes the cost of custodial services, utilities, and other costs associated with the operation of the new Southern Branch Library and Skills Development Center in Carrboro. One of the new costs that will be incurred next fiscal year is the addition of a security guard at an annualized cost to the County of \$45,244. The total cost of operating the entire facility is \$296,924 with Carrboro paying \$132,191 for its share of the joint facility.

- **Board of County Commissioners/Clerk to the Board – General Government Functional Leadership Team**

The net County cost to support the Clerk to the Board's Office increased by \$43,903. The increase is attributable to broadcasting additional Board of Commissioners meetings as well as an increase to membership dues.

- **Board of Elections – General Government Functional Leadership Team**

During the next fiscal year, the Board of Elections will administer municipal elections. As a result, operating costs will increase by \$35,500 and personnel costs will increase by an additional \$190,286. Municipalities pay for a portion of the cost of administering municipal elections, so revenue is also increased by \$102,250 for a net County cost increase of \$122,260.

- **Child Support – Human Services Functional Leadership Team**

Child Support Services generates State and Federal Revenue to enforce and facilitate payment of child support to custodial parents. In FY2025-26 this revenue is expected to increase by \$39,669 due to personnel and operating cost increases in the department. One of those cost increases is to maintain software that was required as part of the transition to e-courts. The cost of the software subscription increased by \$3,374 which is partially offset by a reduction in contract services for a net cost increase of \$1,674.

- **Civil Rights and Civic Life – Human Services Functional Leadership Team**

The Budget for the Office of Civil Rights and Civic Life is recommended to decrease by \$400 based on the Countywide travel and training reduction.

- **Community Relations – Support Services Functional Leadership Team**

The net County cost of the Community Relations Department is recommended to decrease by \$200 based on the Countywide travel and training reduction.

- **Cooperative Extension – Community Services Functional Leadership Team**

The Recommended Cooperative Extension Budget is recommended to decrease by \$150 based on the Countywide travel and training reduction.

- **County Attorney – General Government Functional Leadership Team**

The budget for the County Attorney’s Office is recommended to decrease by \$627 based on the Countywide travel and training reduction.

- **County Manager - General Government Functional Leadership Team**

The County Manager’s Office is the administrative home to the Manager’s Division, Budget Office, Strategic Planning Manager, Sustainability Division, and the Arts Commission. Across all units, the Manager’s Office General Fund base budget was reduced by \$1,709.

Arts Commission operations are funded through the occupancy tax. In addition to administering grant programs and promoting the arts in Orange County, the Arts Commission manages Eno River Mill Studio and Arts Incubator. Due to the success of this program, the Budget adds a Program Coordinator to the Arts Commission which is funded by the occupancy tax. Both the State grant revenue and revenue generated by the Eno Mill are expected to increase next year, adding \$9,806 in net revenue.

- **Courts – Public Safety Functional Leadership Team**

The Courts Budget is used to budget for small improvements to the Courthouse, the cost of the Student Community Support Liaison, and the cost of juvenile stays in juvenile detention. Based on the number of juvenile bed days projected in FY2025-26, the budget for juvenile detention can be reduced by \$90,000. The Budget is also adjusted to increase by \$472 to support the Student Community Support Liaison.

- **Criminal Justice Resource Department – Public Safety Functional Leadership Team**

The Board of Commissioners has supported criminal justice reform by consistently increasing the County’s investment in the programs managed by the Criminal Justice Resource Department. Approximately 50% of this work is supported by funds received by the County through the ABC Board and other outside grants. The County has requested a 3% increase from the ABC Board which would add \$25,200 in revenue. The overall net County cost of the Criminal Justice Resource Department increases by \$11,365.

As noted above, the cost of the Mental Health Coordinator position that works with the Community Care and Diversion Response Team was transferred to the Maintenance of Effort budget for a General Fund savings of \$111,691. This position had been supported by a grant from the North Carolina Department of Health and Human Services, but funding for that grant was suspended due to federal budget reductions. The Maintenance of Effort budget allows this collaboration between Social Workers and law enforcement agencies to continue.

The Department also includes a Clinical Coordinator position that performs behavioral health assessments in the Detention Center and works with incarcerated individuals with co-occurring substance use and mental health issues. This work is aligned with the County’s high impact strategies for the use of Opioid Settlement funds. As a result, the cost of this position is transferred to the Opioid Settlement Fund for a \$79,240 savings to the General Fund.

- **Department of Environment, Agriculture, Parks, and Recreation (DEAPR) – Community Services Functional Leadership Team**

The Department of Environment, Agriculture, Parks and Recreation budget represents a net County cost decrease of \$54,027.

The Recreation and Parks Divisions of the Department charge fees for program participation, park shelter rental, concessions and other services that directly benefit individuals. The Budget is recommending a new parking fee for special events, particularly tied to parking at Soccer.com. The proposal is to charge \$5 per car per day which would generate a total of \$15,000 in revenue.

The Recreation Division is also expanding programming by accommodating higher enrollments for programs offered to children to reduce the wait list. The current wait list for summer programming is 127 which is down from 474 before expanding programming. This expansion increases expenses by \$5,825 but is offset by \$14,612 in new revenue.

The Department is responsible for ground maintenance throughout the County. In FY2023-24, the two positions that were assigned this primary responsibility were vacated, so the County moved to a contracted service model for grounds maintenance. This model has proved successful in terms of quality and cost. The Budget recommends eliminating the vacant positions and continuing to fund the grounds maintenance contract for a net savings of \$42,464.

- **Economic Development and the Visitors Bureau – Community Services Functional Leadership Team**

The Economic Development Department is supported by the economic development portion of the Article 46 sales tax fund. Since this fund does not include any General Fund money, the County charges the fund for overhead expenses for finance, human resources, information technology, and other support services that occur in the General Fund. Those costs are expected to increase next fiscal year by \$26,164 which offsets costs in the General Fund.

Costs for operating the Visitors Bureau are paid using the occupancy tax collected from hotels and short-term rentals. Both transient occupancy and the average daily rate charged by hotels and short-term rentals are expected to continue to increase into next fiscal year, resulting in an occupancy tax revenue increase of \$253,529.

The Town of Chapel Hill has historically provided the Visitors Bureau with base funding of \$200,000 and 50% of the revenue collected over \$1 million from the additional occupancy tax levied by the Town as the Town is primary municipal beneficiary of Visitors Bureau spending. The Town's Recommended Budget removes the 50% over \$1 million portion of past Town occupancy tax payments, so revenue to the Visitors Bureau Fund is reduced by \$175,000.

Three tourism related outside agencies are recommended to be funded through the Visitors Bureau. The Hillsborough and Orange County Museum, The Alliance for Historic Hillsborough, and the Historic Hillsborough Commission all reported large visitor attendance from outside the County. Based on outside agency scores, total funding for these agencies is recommended to decrease from \$49,500 to \$44,550.

Finally, the Budget recommends funding for building and accessibility improvements (\$33,070) and an audit of occupancy tax collections (\$15,000). If the Recommended Budget is approved, the Visitors Bureau Fund balance is projected to be \$373,061 at the end of FY26 or 12% of expenditures. As a point of comparison, two months of personnel expenditures would equate to approximately 6% of total expenditures.

- **Emergency Services – Public Safety Functional Leadership Team**

The Department of Emergency Services is responsible for administering Emergency Management, Fire Marshal, Emergency Telecommunications (911), and Emergency Medical Services. This is a large department with total expenditures of over \$18.5 million. For FY2025-26, the total net General Fund cost is budgeted to decrease by \$430,927.

Much of the decrease is driven by an increase in revenue for Emergency Medical Services (EMS). The County is now following the reimbursement rates for EMS as promulgated by the Center for Medicare and Medicaid Services. Those rates increased in FY2024-25 by approximately 2.4%, resulting in an increase in revenue of \$200,000. The Budget also recommends an additional staffing resource in Tax Administration to increase the collection rate of EMS charges. Adding this staff person is expected to increase revenue by an additional \$275,000. This projection was substantiated by reviewing collection rates when an EMS light duty staff person was assisting with billing and when they were not.

In FY2023-24, the Board of Commissioners provided funding for a mobile crisis pilot program in collaboration with the Town of Chapel Hill to respond to non-violent behavioral health crises in lieu of law enforcement. The original team included a community Emergency Medical Technician, a peer support specialist, and a crisis counselor assigned to the 911 Call Center to help divert calls. The County contracted with the Town of Chapel Hill to staff the crisis counselor position.

The program was funded in FY2024-25 through a grant from Alliance Health using funds from the NC Department of Health and Human Services. That grant is expiring at the end of this fiscal year. Although the County has applied for an extension, the Budget currently contemplates that grant funds will not be available. As a result, the Budget recommends eliminating the crisis counselor contract with the Town and moving the cost of the Community Emergency Medical Technician to the General Fund. The realignment recognizes the loss of grant funds while maintaining the core team that is dispatched to crisis events. The program evaluation through the School of Government's Criminal Justice Innovation Lab will continue until the end of the pilot period. The cost of that evaluation was funded in prior fiscal years.

The Budget also provides funding for an electronic document and policy management system that is required to maintain emergency and law enforcement certifications and a medical defense course for workplace violence prevention.

- **Finance and Administrative Services – Support Services Functional Leadership Team**

The Finance and Administrative Services Department provides purchasing, payroll, accounting, and debt management services to County departments. The Recommended Finance and Administrative Services Budget is recommended to decrease by a total of \$7,621. A \$2,050 reduction is based on the Countywide travel and training reduction, and the Department was able to produce an additional \$5,571 in operational savings.

- **Fleet Services - Community Services Functional Leadership Team**

Fleet Services is responsible for the routine maintenance and repair of the County vehicle fleet. The Sheriff's Office has been contracting for these services, but the costs are now exceeding the cost to provide those services internally. The Budget recommends internalizing maintenance of the Sheriff's vehicle fleet by adding two mechanics and a budget for parts. The combined recommendation totals \$306,000. These costs are completely offset by a reduction of contracted services in the Sheriff's Office. This recommendation also avoids an additional \$150,000 in costs next fiscal year based on the vendor's quote.

The Budget decreases overtime and temporary employee funding by \$16,091 to match actual usage and captures cost savings in diesel fuel and leased vehicles (\$22,736).

- **Health Department – Human Services Functional Leadership Team**

The Health Department’s net County cost is budgeted to decrease by \$125,553. Almost all of this reduction came from an additional \$174,868 in fee revenue:

- \$11,745 in Dental Health
- \$28,211 in Community Health
- \$69,958 in Environmental Health, and
- \$64,954 in Personal Health.

The Recommended Budget recognizes the end of pandemic grants. A County contribution of \$50,182 is eliminated and two vacant positions connected to these grants are recommended for elimination. The County had also been receiving grant funds from the federal government to purchase vaccines. Those grant funds have expired, but the Budget recommends transitioning the cost of those vaccines (\$40,000) to the General Fund.

The County maintains a contract with UNC Health to provide Medical Director services for the medical clinics. The Medical Director is authorized to write prescriptions and to oversee all protocols and processes in the clinics. This position is required by law to run the medical clinics to supervise clinical staff in their care of patients. The Department received notice that the cost of this contract is going to increase by \$93,067 in FY2025-26. Since this service is required to operate the medical clinics, the increase is recommended.

- **Housing Department – Human Services Functional Leadership Team**

The Longtime Homeowners Assistance (LHA) program is intended to relieve some of the property tax burden for long time homeowners. The base budget for this program was \$250,000. The Board had expressed support for increasing funding to the program consistent with increases in the tax rate associated with the school construction bond. The Budget is recommending a 1.94 cent increase to the tax rate for school planning and design funds. In order to keep pace with the rate increase, the Longtime Homeowners Assistance program is recommended to grow by \$24,000.

The Emergency Housing Assistance (EHA) program provides rental assistance to residents experiencing a life-changing event or facing imminent eviction. The Budget reallocates \$70,000 within the department to partially cover the loss of remaining American Rescue Plan Act (ARPA) funds used for EHA in FY2024-25.

The Housing Department administers the contract between the County and Community Home Trust. In FY2024-25, the cost of that contract increased, but the budgeted amount was not increased to reflect the full amount. The FY2025-26 Budget increases the budget by \$41,666 to reconcile the amount being paid to Community Home Trust to the actual FY2024-25. The Budget does not recommend an increase in funding for FY2025-26.

The Housing Department has offices in Hillsborough and Chapel Hill. However, office support in Chapel Hill has been provided by temporary personnel that tend to turn over which makes building and maintaining institutional knowledge difficult. During FY2024-25, the Housing Grants Coordinator position became vacant. That position is being reclassified to provide full-time office support to the Chapel Hill Office, and the amount of funding for temporary personnel is reduced resulting in a cost savings to the General Fund.

The County serves as the administrative home for the Partnership to End Homelessness which relies on County and municipal contributions to fund programs and services for those experiencing homelessness. In FY2024-25, the County started a cold weather cot program where additional emergency beds were opened when the temperature was forecast to drop to 32 degrees or lower. The expansion budget for the

Partnership includes an increase of \$25,000 to continue the cold weather cot program based on FY2024-25 actual costs. The County share of that funding is \$9,875. Other costs to continue personnel and operations were also funded through the County and municipal partnership.

HOME funds are federal funds used to support affordable housing, tenant based rental assistance, and home repairs for low-income residents. In FY2024-25, the County's HOME award was reduced by approximately \$60,000. As a result, the FY2025-26 award is adjusted from \$539,438 to \$478,406 to reflect the reduction in FY2024-25.

Finally, the Budget recognizes \$1,101,678 in expenses and revenues that are attached to additional Housing Choice Vouchers. Approximately 80% of this increase represents an increase in per unit costs due to higher rents, not new vouchers. The average subsidy per unit is increasing from \$786 to \$937 per month.

- **Human Resources and Risk Management – Support Services Functional Leadership Team**

The Human Resources Department is responsible for the countywide administration of personnel and benefit programs for County employees as well as Risk Management programs for liability insurance, workers compensation, and property insurance among others. The FY2025-26 Budget increases the net cost to the County by \$146,334. Total funding for insurance related expenses increased by \$171,891, including an \$83,760 increase for the County Bonds & Insurance Package, a \$42,131 increase in Workers Compensation Premiums, and a \$46,000 for Workers Compensation Claims to better align with recent claims experience.

- **Information Technologies – Support Services Functional Leadership Team**

The Department of Information Technologies is responsible for maintaining and supporting Countywide technology needs. One of the ongoing obligations of this department is to budget for software maintenance and licensing. Increasingly, software packages are moving to the cloud as a subscription-based service, so the costs associated with software acquisition must transition from the capital budget to the annual operating budget as an ongoing cost. These costs are expected to increase by approximately \$567,131 next fiscal year.

- **Library Services – Human Services Functional Leadership Team**

The base budget for the Library includes the annualization of personnel costs for the new staff assigned to the Southern Branch Library. The cost of this annualization is \$120,653. Facility operating costs are reflected in the Asset Management Services Department budget.

The Recommended Library Services Budget is recommended to decrease by \$1,740 based on the Countywide travel and training reduction.

- **Planning and Inspections Department – Community Services Functional Leadership Team**

Overall, the Planning Department and Inspection Department's General Fund budget represents a net cost decrease of \$100,425. A new projection for Erosion Control fees contributed approximately \$84,350 in the General Fund.

In an effort to segregate the revenue and expenses of the Inspections Division from the rest of the Department, the Inspections Division is in its own fund. Inspection permit activity is expected to slow by 200 permits in FY2025-26, and the total square feet permitted is also expected to decrease. Although inspection fees are recommended to increase by 5% next year, the lower number of permitted square feet is contributing to a net revenue reduction of \$34,499.

In FY2024-25, one Building Inspector position was reallocated to Information Technologies to serve as the Systems Administrator for the online permit system used by Inspections, Environmental Health, and the Fire Marshal to process and track all permit activity. Due to the declining revenue and activity noted above, the FY2025-26 Recommended Budget recommends removing funding from another position in the Inspections Fund for a savings of \$84,716.

- **Register of Deeds – General Government Functional Leadership Team**

The housing market drives much of the revenue collected by the Register of Deeds. Two factors influence the amount of revenue that is collected. Excise tax revenue is based on sale prices, so as sale prices increase, excise stamp revenue increases, all other things being equal. The other factor driving Register of Deeds revenue is volume or the number of transactions that are processed. Evidence from the revaluation indicates that housing prices have not ebbed, but revenue projections for FY2024-25 show that Register of Deeds revenue is already slowing with revenue projected at \$1,963,000 on a budgeted amount of \$1,967,000. Total revenue in the Register of Deeds Office is projected to be flat, continuing the FY2024-25 budgeted amount of \$1,967,000.

- **Sheriff's Office – Public Safety Functional Leadership Team**

The net County costs in the Sheriff's Office are recommended to increase by \$1,208,621 in FY2025-26. Overtime costs are the primary driver here. In FY2024-25, the Sheriff's Office is projected to spend \$560,000 over the budgeted overtime amount. If these known expenditures are not budgeted, the County risks an exposure of not being able to cover those actual costs at the end of the year because revenues set at the beginning of the fiscal year had not been calibrated to pay for those costs.

Although the Sheriff has taken steps to manage overtime spending through changes made to scheduling, the Budget recommends adding \$400,000 in budgeted overtime so that the overtime budget matches actual spending. The Sheriff's Office also uses temporary staff for court staff, for elementary school resource officers and as administrative staff. Those costs are also expected to exceed the current budgeted amount by \$500,000 in FY2024-25. The same risk analysis is applicable to not budgeting for known expenses. The Recommended Budget adds \$500,000 in temporary staffing funding.

The Mental Health in Policing grant is currently funding a Social Worker in the Sheriff's Office. The grant is expiring, but the Sheriff's Office has proposed retaining that position by reclassifying a vacant, higher cost position and using that savings to fund the Social Worker position.

Finally, the amount of revenue collected from the Federal Marshal for holding federal inmates awaiting adjudication has been declining in recent years. The Budget recognizes this revenue loss of \$491,000.

- **Social Services – Human Services Functional Leadership Team**

Social Services is the largest department funded by the County with total expenditures of approximately \$27.5 million. Overall, the Recommended FY2025-26 Social Services Budget remains flat at its base budget amount. This was accomplished by recognizing increased revenue as well as reducing expenditures.

Medicaid and Food and Nutrition Services administration revenue was increased by \$179,643 based on increased costs. Operational reductions were used to offset an increase in overtime with \$30,000 being incurred in the Medicaid program. Grant revenue was reduced for the NC Integrated Care program. The grant ended in December 2024, but the revenue and position authority were not adjusted at that time. A Social Services Assistant position that is assigned to assist with custodial services at the Social Services facility is eliminated as it has been vacant for more than a year.

Finally, the Budget increases funding for In-Home Aide services by \$100,000. The In-Home Aide budget funds paraprofessional services to assist functionally impaired older and disabled adults and/or their families with essential home management and personal care and/or supervision to enable the adult to remain at home as long as possible. The budgeted increase will fund approximately 60 hours of additional service per week.

The Social Services budget typically contains about \$40,000 in funding for technology, equipment, and furnishings since those expenses may be eligible for partial reimbursement. The FY2025-26 Budget funds Café 113 equipment replacement, replacement of office furniture, a scanning and indexing project, and routine IT upgrades.

- **Solid Waste Management – Community Services Functional Leadership Team**

The Solid Waste Fund is in a strong financial position. The Fund is currently carrying reserves of \$8,857,525 or 65% of total expenses and is paying for high priced capital equipment with available cash. The Solid Waste Management Department is supported by the Solid Waste Program Fee and other program revenue. The Program Fee is a single, countywide fee assessed on each improved parcel within the County, including the municipalities and the portion of the Town of Chapel Hill located in Durham County. This fee is adjusted for parcels in the City of Mebane that also receive solid waste collection services from the City. Based on the health of the Solid Waste Fund, the Recommended Budget maintains the fee at \$138 per parcel for parcels outside the City of Mebane and \$92.07 for parcels in the City.

The Solid Waste Management Department is expecting large cost pressures in several areas including contract services, vehicle maintenance, dumpster replacements, and temporary personnel which are offset by improvements in the recycling processing market, resulting in a net \$457,275 increase in costs to continue. As with other funds outside the General Fund, the Solid Waste Management Department pays for administrative costs provided by departments funded in the General Fund. Those costs will increase by \$119,142 in FY2025-26.

- **Sportsplex – Operating Performance and Debt Coverage - Community Services Functional Leadership Team**

Total Sportsplex revenues are expected to entirely offset operating expenses of \$5,720,578. The Sportsplex is also on track to pay for debt service and cash financed capital expenses in its Replacement and Renewal Fund. Indirect costs will also be added to the Sportsplex budget in FY2025-26 for a General Fund savings of \$183,290.

- **Tax Administration – General Government Functional Leadership Team**

The Tax Administration Department is responsible for Land Records, Tax Assessment, and Tax Collections. The Tax Administration Budget is proposed to increase net County costs by \$29,066. In addition to the new staff added for EMS billing and revenue from charges to collect the Special District Tax, the Budget adds \$25,000 to cover the fees taxpayers would otherwise have to pay to make an electronic bank (ACH) transfer to pay their property taxes and \$15,000 for an occupancy tax audit which is funded with occupancy tax proceeds.

- **Transportation Services – Community Services Functional Leadership Team**

Transportation Services is comprised of the Transit Services Division which provides mobility services to residents and the Transportation Division which is responsible for all transit and transportation planning functions.

The Transit Services Division relies heavily on the Article 43 Transit Tax to support expansion and the cost to continue existing services. This revenue is expected to increase by \$469,451 next fiscal year. Budgeted

expenses are recommended to increase by temporary staffing, overtime, cleaning expenses for buses, and maintenance costs that are being incurred this fiscal year but have not been budgeted in the past.

Outside Agencies and Fire Districts

The Budget continues to recommend structural changes to the way that outside agencies are funded and managed. The Budget transfers three outside agency contracts to the Visitors Bureau and one contract to the Maintenance of Effort budget. Based on these changes, \$119,307 is moved outside of the outside agency budget. This leaves a balance of \$800,146 in the Outside Agency section of the Budget. For FY2025-26, the scoring process was modified to collaborate more closely with the towns and to weight scores for agencies that support elements of the County’s Strategic Plan. Agencies providing social safety net services, for example, are recommended to receive an increase while those that are not as well aligned are recommended to decrease.

Ten of the County’s twelve Fire Districts requested modifications to their District tax rates. The table below shows each District’s revenue neutral rate, the requested tax rate for FY2025-26, and the increase requested over the revenue neutral rate.

Tax District	FY 2025 Tax Rate	Revenue Neutral Rate	FY 2026 Request	Requested Increase Over Revenue Neutral
CEDAR GROVE FIRE	9.00	6.54	7.54	1.00
CHAPEL HILL FIRE	13.87	10.79	11.50	0.71
DAMASCUS FIRE	12.80	9.79	10.20	0.41
EFLAND FIRE	10.28	7.38	8.38	1.00
ENO FIRE	11.98	8.71	8.71	-
LITTLE RIVER FIRE	7.39	5.35	5.35	-
NEW HOPE FIRE	13.84	10.15	12.50	2.35
ORANGE RURAL FIRE	11.49	8.21	9.21	1.00
ORANGE GROVE FIRE	8.27	5.81	7.00	1.19
SOUTH ORANGE FIRE	9.09	6.67	8.17	1.50
SOUTH TRIANGLE FIRE	12.80	8.75	10.20	1.45
WHITE CROSS FIRE	13.84	10.30	14.00	3.70

The recommended rate increases would generate approximately \$1,685,398 in new revenue for the Districts requesting rate increases.

Fund Balance Appropriation

This year’s budget recommends a fund balance appropriation of \$7.06 million to balance the budget and maintain an unassigned reserve of 16%. For the FY2025-26 Budget, the total unassigned fund balance target is \$42.3 million.

Next Steps and Appreciation

The FY2025-26 Budget strives to balance the need to fund basic education and support County services with the financial responsibility placed on taxpayers. Striking this balance would not have been possible without the creative efforts of our leadership team. Each of the department directors and their respective budget teams should be proud of what they have accomplished.

The Budget Office led by Budget Director Kirk Vaughn and supported by Denise Clark, Christy Dodson, and Alex Norwood provided the highest quality technical support throughout the process. Their advice, professionalism,

and responsiveness shaped and produced the document we are presenting today for the Board's consideration. The Budget process was further enhanced this year with the addition of Kelly Guadalupe as the County's Strategic Planning Manager. Her insight provided focus and fidelity to the priorities of the Strategic Plan.

As you know, two public hearings and four work sessions are scheduled for consideration of the FY2025-26 Budget. Final adoption of the Budget is currently scheduled for June 17. I look forward to working with you over the next several weeks to improve upon the Manager's Recommended Budget. Please contact me, the Deputy Manager, or the Budget Director if you have any questions.