

DURHAM COUNTY BUDGET UPDATE

Board of County Commissioners Overview October 6, 2025

Overview

Durham County faces a challenging fiscal environment characterized by declining revenue growth, rising expenditure pressures, and significant uncertainty from federal and state policy changes. This overview presents preliminary FY 2024-25 results, current year budget management challenges, the FY 2026-27 budget development framework, and Capital Improvement Plan updates.

The County confronts several critical challenges simultaneously. Sales tax revenues are stagnating, with a \$11 million shortfall materializing in FY 2024-25. The federal government shutdown and accompanying policy shifts threaten critical programs across multiple departments. Beginning in FY 2026-27, the loss of one-time funding sources, including ARPA and various transfers, will create significant budget gaps. Meanwhile, rising inflationary costs continue to pressure expenditures. The County must begin prioritizing early in the budget process and consider the long-term sustainability of all programs and services.

FY 2024-25 Preliminary Actuals

The FY 2024-25 annual financial report is underway, with completion targeted for December 2025. Overall spending reached approximately 91% of the budget throughout the fiscal year. Property tax collections performed near budget projections, demonstrating the relative stability of this revenue source. Investment income and state hold harmless revenues significantly exceeded expectations, providing some positive offset to other revenue challenges.

However, sales tax revenues reached only 91.6% of the budgeted amount, creating an \$11 million shortfall that required increased reliance on fund balance to close the fiscal year. The preliminary actuals paint a picture of a County that successfully managed within budget constraints but faced emerging challenges that will require careful attention in the years ahead.

FY 2025-26 Budget Management

The federal government shutdown and potential policy changes at both the federal and state levels pose challenges for Durham County operations across multiple departments. To proactively address these challenges, preliminary base budget assessments commenced in July 2025 at the department level, evaluating funding allocations by source. This assessment will continue through the budget development process and build upon previous evaluations, including a rigorous review of contracted services during last year's budget development.

Federal and State Budget Impacts on Human Services

The Department of Social Services and the Public Health Department face the largest impact from potential shifts in federal and state policy. Nearly 125,000 residents receive direct or indirect services through the Department of Social Services for food stamps, Medicaid, child welfare, Meals on Wheels, Adult Protective Services, Guardianship, Child Protective Services, and crisis services. In FY 2024-25, the Public Health Department served over 37,000 clients across medical and dental care, laboratory testing, and pharmacy operations. Residents also access Environmental Health services, School Nurses, Durham's Innovative Nutrition Education (DINE) program, and the Formerly Incarcerated Transition (FIT) program. Additionally, over 28,000 instances of individuals benefiting from health education programming were recorded.

Durham's Innovative Nutrition Education (DINE) program faces significant reductions due to a \$1 million loss in federal SNAP program funding, which ended September 30, 2025. Recognizing the program's importance, local funds have been allocated through June 30, 2026, to partially offset this funding loss. However, this local backfill of federal funding raises sustainability questions for future budget years.

Federal Medicaid cuts implemented on October 1, 2025, are projected to decrease Public Health Department revenue by \$75,228, requiring either service reductions or local funding to maintain current service levels. Additionally, on September 25, 2025, the Department received a stop-work order for Title X Family Planning funds. The North Carolina Department of Health and Human Services is reassessing the impact of a retroactive federal funding cut, and Durham County's exposure totals \$87,553. The Department is awaiting further guidance from NC DHHS on how to proceed. Beyond these identified impacts, the Department is awaiting clarity from the state regarding potential impacts to other program areas, including WIC funding.

The Department of Social Services similarly faces significant uncertainty from the federal government shutdown. The NC Department of Health and Human Services continues to work with state and federal partners on strategies to lessen potential repercussions during the shutdown period. For each program potentially impacted, the federal government is deciding which would be classified as "exempt" from shutdown provisions.

On the Medicaid front, NCDHHS has received notice from the Centers for Medicare & Medicaid Services that they will continue operations during a lapse in appropriations. CMS has confirmed it will have sufficient funding for Medicaid to fund the first quarter of FY 2026, based on the advance appropriation provided for in the Full-Year Continuing Appropriations and Extensions Act, 2025. Despite these assurances, NCDHHS will continue to monitor impacts on Medicaid as the situation remains fluid.

Current Year Revenue and Expenditure Management

The current fiscal year presents challenges independent of federal and state policy uncertainty. On the revenue side, no major revenues have been collected yet in FY 2025-26, making early projections difficult. The County faces the loss of one-time funds that supported the FY 2025-26 budget. Sales tax stagnation continues to be a significant concern, building on the shortfall experienced in FY 2024-25. State hold-harmless revenue remains volatile and difficult to predict. On a more positive note, property tax collections may overperform projections due to conservative holdback assumptions.

To address these revenue pressures and maintain fiscal discipline, all departments have been urged to control spending aggressively and maximize revenue collection. Position freezes have been implemented for non-mandated services as a cost control measure. However, Public Safety positions, select Department of Social Services and Public Health positions, compliance-related areas, and high service demand areas are exempt from the freeze. This targeted approach balances fiscal restraint with maintaining essential services and meeting legal mandates.

Employee benefits costs continue to rise at elevated rates, well above general inflation levels, and further analysis of these cost drivers is currently in progress. Inflation more broadly is driving increased baseline expenditures for utilities, fuel, and other essential costs that cannot be easily controlled through management action.

FY 2026-27 Budget Development Framework

Comprehensive Base Budget Review Process

The FY 2026-27 budget development process will feature a comprehensive evaluation of all County-funded entities receiving recurring dollars. This base budget review will continue the work begun in FY 2025-26 and represents a fundamental reassessment of how the County allocates its resources. The review will evaluate all allocations for alignment with general statute requirements, local mandates, and Board of Commissioners priorities.

Operational assessments will be conducted to understand the true cost and efficiency of service delivery across departments. Benchmark service costs will be developed and, where appropriate, compared with peer jurisdictions to identify best practices and potential efficiencies. Recognizing the uncertain external environment, contingency strategies will be developed to plan for potential shifts in federal, state, or local revenue streams.

The Budget Office will work closely with the new Organizational Effectiveness department to connect relevant Key Performance Indicators to department budgets. These KPIs will help identify the efficiency and effectiveness of programs and services while also highlighting areas where more detailed analysis is needed. The goal is to create a data-informed budget process that can clearly articulate the return on investment for County spending.

Revenue Risks for FY 2026-27

The FY 2026-27 budget faces substantial revenue risks that require proactive planning. The most significant structural challenge is the loss of one-time funds that have supported county operations in recent years. ARPA funding will no longer be available, as all ARPA funds must be used by December 31, 2026. Although most ARPA funds supported one-time projects, a small percentage may require continuation funding. Various transfers that bolstered the budget in prior years are similarly non-recurring.

The County will need to appropriate a lower level of fund balance as revenue in the FY 2026-27 budget, aligning with best practices for maintaining adequate reserves. Staff will present recommendations for refining fund balance use and propose modifications to the current fund balance plan. This discussion will take place during the November 2025 BOCC work session or at an upcoming BOCC policy discussion.

Expenditure Pressures for FY 2026-27

The County faces multiple significant expenditure pressures that will compete for limited resources. Durham Public Schools' continuation funding represents a substantial and growing commitment, reflecting both enrollment growth and the need to maintain competitive compensation in a tight labor market. Pre-K funding similarly faces upward pressure as demand grows and the County seeks to expand access to early childhood education.

Inflation and benefits growth continue to drive baseline expenditure increases largely outside management control. Health insurance costs, retirement contributions, and other benefit expenses are rising faster than general inflation. Utility costs, fuel prices, construction inflation, and other commodity-driven expenses have shown particular volatility. The implementation of a new Enterprise Resource Planning (ERP) system represents a major multi-year financial commitment. CIP-related property tax pressures will intensify as planned projects move forward and require debt issuance.

The County must maintain its fiscal foundation and preserve its strong bond rating while navigating these multiple pressures. State and federal policy shifts create uncertainty and may eliminate revenue sources or mandate new expenditures with little warning. Revenue growth has stagnated across multiple categories, limiting the County's ability to grow its way out of fiscal gaps. The convergence of revenue pressures and expenditure demands means that difficult choices cannot be deferred.

Capital Improvement Plan Update

CIP Framework and Challenges

The County's Capital Improvement Plan has evolved from a static five-year plan toward a more dynamic, annually updated document. This evolution reflects the reality that project costs change rapidly in the current inflationary environment, making multi-year cost projections highly uncertain. New projects emerge annually and must be incorporated into capital planning, while existing projects frequently require updates to cost estimates and funding plans.

The current CIP must establish potential General Obligation Bond referendum amounts for several major capital needs, including Durham Public Schools, Durham Technical Community College, the North Carolina Museum of Life and Science, and various County facilities. Each faces significant capital needs that exceed available pay-as-you-go funding capacity. A GO Bond referendum represents the most efficient financing mechanism for these large-scale capital investments, but the size and timing require careful analysis.

The cost of CIP-related debt service may rise significantly in the next five years, depending on the size of a near-future GO Bond referendum. The County must carefully balance capital investment needs against the operating budget capacity to support the resulting debt service without forcing unacceptable service reductions.

To ensure the CIP reflects current best practices and market conditions, the County's Financial Consultant will conduct a comprehensive review of the current plan. This external review will provide an objective analysis of the County's capital planning process, debt capacity, and financing strategies. Following this review, an updated CIP will be presented to the Board of Commissioners.

Budget Development Timeline

The tentative timeline for FY 2026-27 budget development reflects the need for extensive Board engagement and public input throughout the process. In December or January, a possible Board of Commissioners Policy Retreat may be scheduled to establish budget priorities and provide policy directions to staff. During January and February, departments will develop and submit their budget requests based on the base budget review framework and Board guidance. In February, the Board will hold its Annual Budget Retreat to review preliminary budget information, discuss priorities, and provide further directions to the County Manager. In early May, the County Manager will present the Recommended Budget to the Board of Commissioners, with the goal of the Board adopting the FY 2026-27 budget in early June.

Conclusion and Recommendations

Durham County stands at a critical juncture in its fiscal history. The County must prioritize long-term fiscal sustainability over short-term solutions that may provide temporary relief but worsen the structural imbalance between revenues and expenditures. The base budget review process, enhanced performance measurement, and operational assessments will provide the data and analysis needed to make informed decisions. The Board's leadership and strategic guidance will be essential to successfully navigate this challenging fiscal period and emerge with the County's financial foundation intact.