

Five-Year Budget



Council Work Session
December 2, 2024

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Agenda

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Where We've Been

2.

What We've Done

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4.

Revaluation Reminder

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**WHERE WE'VE BEEN:
FIVE-YEAR BUDGET PLAN**

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The Five-Year Budget Plan was a result of Council interest in a longer view, and external and internal pressures.

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External pressures

- Recession Economy, followed by Pandemic Economy
- Sustained Inflation and High Cost of Living
- Competitive Regional Job Market
- National and Local Affordable Housing Crisis
- Economic Development Impacts on Tax Base & Revenues
- Growing Demands on Transportation Infrastructure

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Internal pressures

- No significant service changes but everything costs more
- Department line-item budget reductions
- Cuts in maintenance, capital, streets and fleet
- Moved dollars from Debt Fund to General Fund budget
- Use of higher levels of fund balance/lapsed salary

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WHAT WE'VE DONE: FIVE-YEAR STRATEGY

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Our strategy for the initial two years was to meet short-term critical needs while considering a longer-term, sustainable approach.

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Our critical needs were (and are) our core functions

- Our excellent employees are the reason for our highly-rated services and programs.
- Our residents enjoy top-notch services that many towns our size don't offer.
- Our departments need resources to run their operations.
- Our facilities and streets have significant maintenance needs.
- Our fleet is old and needs replacing.

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We've made some progress

- Pay and compression adjustments
- Restoration of pay-go capital & vehicle replacement program
- Expansion of building maintenance & street repaving program
- Built up department operating budgets
- Connections between Council's goals and strategic work plans
- Sustainability of Town's enterprise funds

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Here's how we made progress

- We absorbed cost increases.
- We evaluated areas for cost efficiency.
- We shook the couch cushions.
- We evaluated fees.
- We evaluated our tax rate against others.

For years 1 and 2, we raised taxes to fund our needs, advance Council priorities, and begin to address backlogs.

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WHAT'S COMING NEXT: FIVE-YEAR OUTLOOK

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The Five-Year Budget Outlook will be an ongoing, evolving estimation of the “big rocks” ahead that we expect to influence our budgeting.

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The Five-Year Budget Outlook will...

- Use what we have learned over the last several years to have better informed conversations.
- Be intentional in how we allocate our resources and be our best forecast of issues and opportunities.
- Include a 5-year chart that will guide our annual budget recommendations.

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REVALUATION REMINDER

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What is a revaluation?

- County process of updating all real property to its current market value as of a single appraisal date
- The primary goal is to equalize the tax base
- Revaluations typically occur every four years
- Effective appraisal date for Orange County's revaluation is January 1, 2025

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What might happen with this reval?

- Anticipating significant growth in valuation
- Results vary widely depending on property type and location
- 2021 Revaluation:
 - Residential value increased 9%
 - Commercial value increased 36%
 - Overall value increased 13%

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Revenue Neutral Tax Rate

- The tax rate at which the total value of property tax collections is the same as in the previous year.
- If property values go up overall, the revenue-neutral rate would go down, and total collections would be the same.
- The Town is required **to publish** the revenue-neutral rate.
- The Town **is not required to adopt** a revenue-neutral rate.

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What does this mean for the Town?

- Strategic opportunity to leverage natural tax growth in order to address some significant ongoing needs and strategic priorities
- Chance to rebalance our largest revenue source (property taxes) while accounting for a decline in our second largest revenue source (sales taxes).
- Opportunity to stop using fund balance and lapsed salary to balance our budget, which would align us with best fiscal practices.
- If we do this now and we do this right, we can likely minimize the need for annual tax increases between revaluations.

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Revenue Neutral Hard Truths

We lose natural growth when we adopt the revenue neutral tax rate

We will lose the ground we have made up if we roll back to revenue neutral

We will have no adds and will have to make cuts if we roll back to revenue neutral

The Five-Year Budget has helped the Town begin to make progress towards our backlogs and strategic priorities.

However, we can't make up for 15 years of shortfalls in 2 years.

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Next Steps

- Tonight is the first of several discussions around the budget
- Work session topics will likely include:
 - Outside agency funding
 - Facility maintenance and streets
 - Fleet replacements
 - Operations
 - Revaluation data & discussion with Orange County

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