



03-13-2024 Town Council Meeting Responses to Council Questions

ITEM #1: Council Work Session on the FY 2024-25 Budget Development

Council Question:

Does this mean that we aren't actually keeping up with the basic expenses of our core services? Is there a budget shortfall in supporting these services' operating costs?

Staff Response:

As a result of the slower than average growth in property taxes and sales taxes (the Town's two largest revenue sources), the Town is not keeping up with the basic expenses of our core services. As an organization we have more needs than resources to cover those needs (costs are escalating at a rate higher than our revenues are growing).

Council Question:

Is the recommended .5 tax increase part of the 1.5 increase recommended earlier or since the Transit levy its own separate tax from the property tax would that mean a cumulative 2 cent tax increase?

Staff Response:

The 1.5 cent tax increase is part of the General Fund's 5-year budget strategy to address many of the backlogs in key priority areas. The 0.5 cent tax increase for the Transit Fund would be in addition and would mean a cumulative 2 cent tax increase for the FY 2025 budget.

Council Question:

It seems that this is pretty universally adopted around the state as best practice, but is it something we should be reconsidering?

Staff Response: *Municipalities are required to publish the revenue neutral tax rate but not adopt the revenue neutral tax rate. When rolling back to the revenue neutral tax rate (the rate at which the new year assessed valuation provides the same revenue as the old year assessed valuation), the government loses the growth that would have been achieved without the revaluation. Since the impact to properties in a revaluation vary so greatly (many properties see large increases, but many do not and some even decrease) it is an opportunity to evaluate the organization's needs and to adjust our tax rate (without having a tax increase).*



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Council Question:

For many years, the council has been asking to have expanded analytics capabilities on staff. Also, we have been talking about the need to have someone who is in charge of Complete Community implementation. Can you let us know how this year's budget and staffing plans will address those interests?

Staff Response:

In December 2021, the Town hired its first Data and Analytics Analyst. This individual worked on projects ranging from analysis of classification & compensation data, fiscal impact analysis, business plan process research, budget communication research, and the development of a budget board game for use with the Business Management segment of the Town's Peoples Academy. The position became vacant in December 2023. We have just filled the position with our former Budget Analyst who will return to the Town on April 1. This position will also head up the Town's Analytics team, which is a cross departmental team of individuals with analytics skills that take on projects that address process improvement opportunities, responses to Council/Town Leadership inquiries, etc.

We have clearly heard from Council that Complete Community should be our "north star" in much of our work, particularly when it comes to land use and place-making. We believe that we can execute this vision using our existing team. With that in mind, I believe that Complete Community is best situated in our Planning Department and under the guidance of our Planning Director, Britany Waddell. And, we know that the concepts of Complete Community inform work across our organization (transit, greenways, bike/ped, housing, etc.) and that Complete Community must be a guiding mindset for our new Economic Development Director, too. Finally, the Manager's office is ultimately responsible for ensuring that Council's interests, including the full implementation of Complete Community, are met and Mary Jane Nirdlinger will help me ensure that we are doing that well. My team is committed to this work and we welcome your feedback along the way.

Council Question:

Want to understand this in context of bonds and other funding sources so that we understand how interests and needs are being met in totality.

Staff Response:

The information presented for the March 13th work session is not intended to cover the Debt Service Fund or the capital project prioritization process. We plan to return to Council at the April 15th work session to return to that conversation.

The FY 2025 budget does not propose any increase to the Debt Service Fund. That means that we are still looking at an available debt capacity of about \$50 million. The revaluation could increase that number significantly based on how the Town addresses our revenue growth in FY 2026.



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Council Question:

For the presentation, can you provide \$ amounts in addition to %? (Thinking of the sales tax numbers, development fee numbers...).

Staff Response:

Please see the table below which presents the major revenue sources in \$ rather than %.

Revenue Source	FY 2024 Budget	FY 2025 Budget	\$ Change
Property taxes	\$ 41,128,500	\$ 41,085,000	(\$ 43,500)
Sales taxes	21,993,943	22,242,060	248,117
Planning fees	905,105	702,089	(203,016)

The negative property tax change is due to an overestimation of FY 2024 tax collections. We have reached out to Orange County to determine if the numbers we are projecting based on actual collections to date are in fact representative of final FY 2024 valuation numbers. The number above could change based on those discussions.

If property tax revenues were consistently growing at 1.8%, we would see a FY 2025 budget projection of \$41,868,813 which would yield an additional \$783,813 in property tax revenues.

If sales tax revenues were growing at the average 6%, we would see a FY 2025 budget projection of \$23,313,580 which would yield an additional \$823,403 in sales tax revenues.

Council Question:

Given we will be looking at numbers, can you please make sure we have something to review on Monday? The memo is very high level and general.

Staff Response:

A draft presentation was shared with Council on Sunday evening. We apologize for the delay in getting that sent out.



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Council Question:

Can you include in the presentation an update on the county's timeline and current thinking about a tax increase?

Staff Response:

Staff have reached out to Orange County. Similar to us, the County is currently working on the development of their budget. They have not yet determined if a tax increase will be needed in order to balance.

Council Question:

For the transit tax: Why are we considering a tax increase tied to a specific area as a hold-over rather than as part of the general fund? Where are we in conversations with our transit partners about the increase?

Staff Response:

Chapel Hill Transit is an enterprise fund for the Town of Chapel Hill, meaning the fund was created for the purpose of dedicating and protecting funding for the provision of public transit services for Chapel Hill, Carrboro and the University. All annual revenues and expenses for the system are accounted for in the fund and separate from the General Fund. The operating and capital expenses for Transit are shared between the Transit Partners on a proportional basis. The main revenue generator for Chapel Hill's share of Transit expenses is the Transit Levy.

The Transit Fund is experiencing similar inflationary pressures as the General Fund, mainly from personnel (compensation and benefits) and operating expenses. Transit is no longer able to continue to absorb these expenses. The main revenue generator for the Transit fund for Chapel Hill is the property tax levy (currently 6.2) and the rate of growth from the levy is not keeping pace with the growth rate of expenses. The Transit Partners have discussed the draft Transit Budget over the past two months and are aware of the need for proportional increases from each Partner for FY25 (Chapel Hill - ~\$485,293, University - ~\$785,032, and Carrboro - ~\$157,008). The Transit Partners will meet on March 28th to continue this conversation, informed by the discussion from this week's Council Work Session.



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Council Question:

I want to follow up on a question from the work session on the bond timing. A question was asked about the impact on our affordable housing strategy on the timing of an affordable housing bond. Could you share your thoughts on the impact of a bond passing this year vs next year, vis-vis our strategy? Are there projects or planned efforts that would be able to happen sooner or conversely, would be postponed, depending on that timing?

Staff Response:

We hope to hear more from the Council about priorities for use of bond funds at the April 15th, Work Session. As the Council is aware, a challenging task for the upcoming budget discussions is to balance all of the Town's capital funding needs, including those outlined in the Affordable Housing Plan.

If a bond is placed on the ballot and approved by voters in November 2024, funding could be available as early as the winter of 2025. This funding could support:

- Subsidy needed for a 2025 Low Income Housing Tax Credit (LIHTC) project, as well as the 800+ units of Town-initiated and community partner projects in the pipeline.*
- Gap financing needed to complement the Town's new Affordable Housing Loan Fund anticipated to launch this summer. Without additional gap financing, partners may not be able to utilize the Loan Fund as a tool to preserve NOAH and create new affordable housing. The funding needs would be substantial as we know there is a significant need to serve deeper levels of affordability (<80% AMI).*
- Implementation of other recommendations of our Affordable Housing Plan focused on maintaining or scaling up programs and tools such as: property tax assistance, master leasing, employee housing, transitional housing, downpayment assistance, rental assistance, and relocation assistance for households facing displacement.*

Without additional funding before 2025, we will make limited progress on implementation of the Affordable Housing Plan. The current level of funding of about \$800,000 in the local Affordable Housing Development Reserve could only likely support the development of a maximum of 50 units a year. This number would only be possible with very high leverage projects like LIHTC projects, and even those typically require closer to \$2-\$3 million in subsidy per project. If competing with a LIHTC project, community partner projects in the pipeline for development likely would not move forward until additional Town funding was available. While the Town has approximately \$250,000 in federal CDBG funding available annually for affordable housing projects, given the restrictions and amount of this funding, this funding source has more limited impact towards our affordable housing goals.