

FY26 Budget Update: Revaluation Data & Budget Scenarios



Council Work Session
April 16, 2025

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Agenda

1.

Where We Are Now

2.

Budget Data

3.

Revaluation Details

4.

Scenarios & Tradeoffs

5.

Next Steps

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What We Need From You Tonight...

1. Guidance about whether there are areas where you would like us to consider a reduction in services.
2. Guidance about where to set the tax rate (between revenue neutral and our current tax rate).
3. Guidance about whether to direct any new funding across the board or to targeted areas of focus.

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WHERE WE ARE NOW

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Updated FY26 Revenue/Expenditure Gap

| | |
|---------------------------|---------------------|
| + Revenues | \$ 86,613,138 |
| - Department Budgets | (89,335,305) |
| - Employee Cost Increases | (2,946,237) |
| - Operating Increases | <u>(1,093,803)</u> |
| = Budget Gap | (\$ 6,762,207) |

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BUDGET DATA PROVIDED

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Budget Data Provided

- Strategic Focus Areas and KPIs
- Possible Budget Reductions
- Employee pay data and trends

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REVALUATION DETAILS

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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
- Revaluations typically occur every four years
- Aims to have County valuation more aligned with market valuation
- Impact on residential and commercial properties may be very different

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Growth in commercial tax base

- In non-revaluation years, our tax base typically grows about 1.14%
- This growth is primarily in our commercial sector, which includes multi-family housing.
- This growth plus the growth in sales tax historically yielded enough revenue to cover the cost of the annual pay increase; that is no longer the case.
- Our natural growth at revenue neutral tax rate for FY26 would be \$420,000 of new revenue for the General Fund.

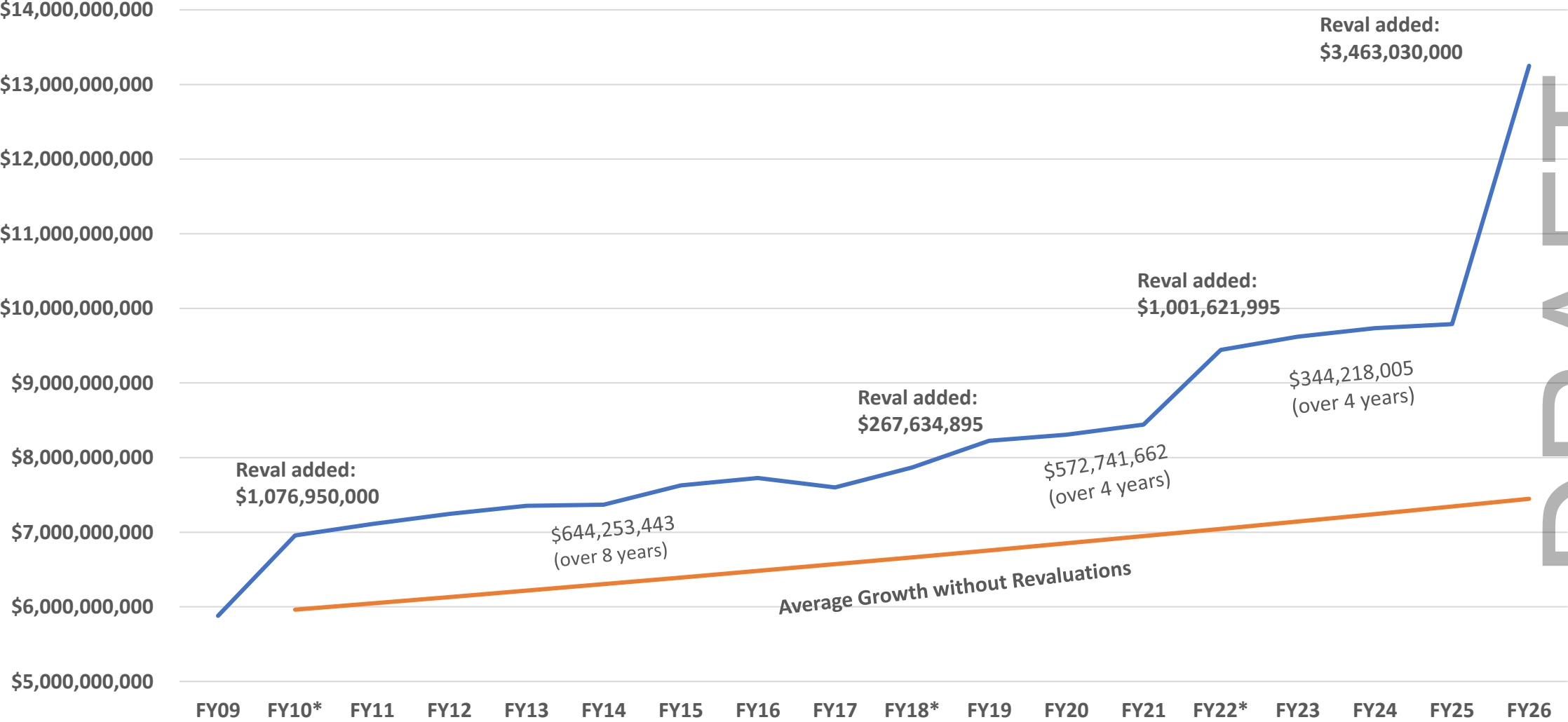
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Growth in residential tax base

- In non-revaluation years, we typically do not see much growth in our residential sector
- While we are building more housing, it is almost all multi-family which is counted in the commercial base, not residential.
- One of few ways we have to capture growth in residential base is by being strategic with the tax rate in revaluation years

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Tax Base FY09-FY26



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Tax Rate History

| | FY 09 | FY 10 * | FY 11 | FY 12 | FY 13 | FY 14 | FY 15 | FY 16 | FY 17 | FY 18 * | FY 19 | FY 20 | FY 21 | FY 22 * | FY 23 | FY 24 | FY 25 |
|--------------|-------|---------|-------|-------|-------|-------|-------|-------|-------|---------|-------|-------|-------|---------|-------|-------|-------|
| 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 | 38.6 | 37.2 | 37.2 | 42.2 | 43.7 |
| 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 | 9.8 | 8.8 | 8.8 | 8.8 | 8.8 |
| 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 | 6.0 | 5.4 | 6.2 | 6.2 | 6.7 |
| Town 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 | 54.4 | 51.4 | 52.2 | 57.2 | 59.2 |

* Revaluation years

About the 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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Chapel Hill Assessed Valuation Data

| | FY25 Valuation | FY26 Valuation | \$ Difference | % Difference |
|------------------------------|-------------------|-------------------|------------------|--------------|
| Orange County Real Property* | \$ 8,775,399,848 | \$ 11,827,195,709 | \$ 3,051,795,861 | 34.8% |
| Durham County Real Property* | 549,427,662 | 905,530,765 | 356,103,103 | 64.8% |
| Orange County Motor Vehicles | 467,848,035 | 481,883,476 | 14,035,441 | 3.0% |
| Durham County Motor Vehicles | <u>34,800,832</u> | <u>35,844,857</u> | <u>1,044,025</u> | <u>3.0%</u> |
| TOTAL VALUATION | \$ 9,827,476,377 | \$ 13,250,454,807 | \$ 3,422,978,430 | 34.8% |

Value of a Penny



FY25: \$ 976,000

FY26: \$1,321,000

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What does this mean for the Town's tax rate?

- Current tax rate is 59.2 cents per \$100 assessed valuation
- Revenue neutral tax rate is 44.2 cents per \$100 assessed valuation
- There is a 15 cent difference between revenue neutral rate and current tax rate

Revaluation - Sample Residential Tax Bill Impacts

| Pre-revaluation | Pre-reval annual bill (59.2) | Post-revaluation | Post-reval annual bill (44.2) | Monthly Increase | Each +1 penny per month |
|------------------|------------------------------------|------------------|-------------------------------------|---------------------|----------------------------|
| \$200,000 | \$1,184 | \$306,800 | \$1,356 | \$14.33 | \$2.56 |
| \$417,327 | \$2,471 | \$640,180 | \$2,830 | \$29.92 | \$5.33 |
| \$600,000 | \$3,552 | \$920,400 | \$4,068 | \$43.00 | \$7.67 |
| \$800,000 | \$4,736 | \$1,227,200 | \$5,424 | \$57.33 | \$10.23 |
| \$1,000,000 | \$5,920 | \$1,534,000 | \$6,780 | \$71.67 | \$12.78 |

- Pre-revaluation assumes existing tax rate of 59.2 cents (Town rate only)
- Post-revaluation assumes revenue neutral tax rate of 44.2 cents (Town rate only)
- Assumes 53.4% average residential property valuation growth
- Average home price in Chapel Hill is \$640,180

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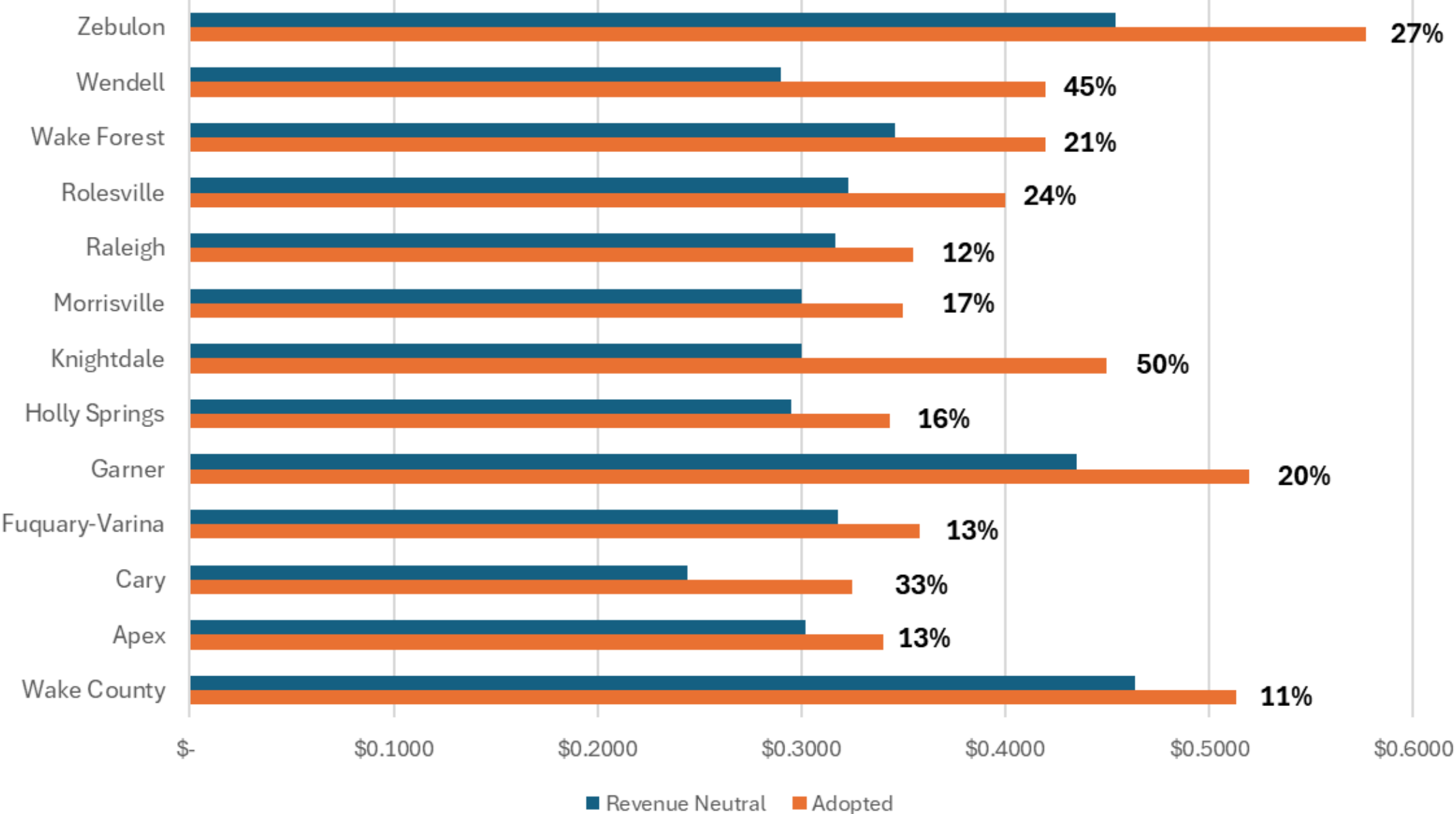
Revaluation - Sample Commercial Tax Bill Impacts

| Pre-revaluation | Pre-reval annual bill (59.2) | Post-revaluation | Post-reval annual bill (44.2) | Monthly Decrease | Each +1 penny per month |
|--------------------|------------------------------------|--------------------|-------------------------------------|---------------------|----------------------------|
| \$1,000,000 | \$5,920 | \$1,302,000 | \$5,755 | (\$13.75) | \$10.85 |
| \$2,685,317 | \$15,897 | \$3,496,283 | \$15,454 | (\$36.92) | \$29.14 |
| \$5,000,000 | \$29,600 | \$6,510,000 | \$28,774 | (\$68.83) | \$54.25 |
| \$ 7,000,000 | \$41,440 | \$9,114,000 | \$40,284 | (\$96.33) | \$75.95 |
| \$10,000,000 | \$59,200 | \$13,020,000 | \$57,548 | (\$137.67) | \$108.50 |

- Pre-revaluation assumes existing tax rate of 59.2 cents (Town rate only)
- Post-revaluation assumes revenue neutral tax rate of 44.2 cents (Town rate only)
- Assumes 30.2% average commercial property valuation growth
- Average commercial property in Chapel Hill is \$3,496,283

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Wake County and Municipalities
January 1, 2024 Revaluation - Revenue Neutral vs. Adopted



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SCENARIOS & TRADEOFFS

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SCENARIO 1 - Revenue Neutral Budget

Roll back to revenue neutral tax rate of 44.2 cents

- Fund balance appropriation of \$1M
- Projects 2% sales tax growth
- Provides no annual pay increase
- Accounts for required operating cost increases
- Requires budget cuts

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SCENARIO 2 – Reduced Base Budget

| | |
|-------------------------------------|-------------------|
| Revenue neutral tax rate | 44.2 |
| + Reduced base budget option | <u>2.5</u> |
| | 46.7 |

- Fund balance appropriation of \$1M
- Projects 2% sales tax growth
- Provides annual pay increase of 3%
- Accounts for required operating cost increases
- Requires higher amount of budget cuts

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SCENARIO 3 – Base Budget

**Revenue neutral tax rate
+ Base budget option**

44.2
5.0
49.2

- Removes the fund balance appropriation
- Keeps sales tax revenue flat
- Provides annual pay increase of 5%
- Accounts for required operating cost increases

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SCENARIO 4 – Base Budget + 1.5

| | |
|--|-------------|
| Revenue neutral | 44.2 |
| Base budget option | 5.0 |
| + Preliminary 5-yr outlook plan | 1.5 |
| | 50.7 |

- Includes all the things planned in Scenario 3/Base Budget
- Adds funding for priorities in preliminary 5-yr outlook:
 - Staffing, operations, facilities, streets, vehicles, fire capital

FY 2025 5-Year Budget Outlook

| | FY 2024 | FY 2025 | FY 2026 * | FY 2027 | FY 2028 |
|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Staffing | 1,850,000 | No new \$ | 300,000 | 400,000 | 500,000 |
| Operations | 250,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Facilities/Streets | 250,000 | 500,000 | 250,000 | 250,000 | 250,000 |
| Fleet | 750,000 | 500,000 | 250,000 | 250,000 | 250,000 |
| Parks Capital | 971,000 | No new \$ | 18,000 | 18,000 | 18,000 |
| Fire Capital | 250,000 | No new \$ | 250,000 | 250,000 | 47,000 |
| Aff Housing | 282,605 | No new \$ | 18,000 | 18,000 | 18,000 |
| Greenways | 500,000 | No new \$ | No new \$ | No new \$ | No new \$ |
| TOTAL | 5,103,605 | 1,500,000 | 1,586,000 | 1,686,000 | 1,583,000 |
| | | | | | |
| Proposed Scenario | 5.00 cents | 1.50 cents | 1.50 cents | 1.50 cents | 1.50 cents |

NEW SCENARIO

| | |
|----------------------------------|-------------------|
| Revenue neutral | 44.2 |
| Base budget option | 5.0 |
| Updated 5-yr outlook plan | <u>2.5</u> |
| | 51.7 |
| Transit | <u>1.0</u> |
| | 52.7 |

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SCENARIO 5 – Base Budget + ?

**Revenue neutral
Base budget option
+ Additional Priorities**

44.2
5.0
— ?
?
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- Includes all the things planned in Scenario 3
- Accounts for a number of priorities anywhere from the base rate to the current tax rate (up to 10 cents)

Revaluation Scenario Tax Bill Impacts

Monthly Increase to Tax Bill

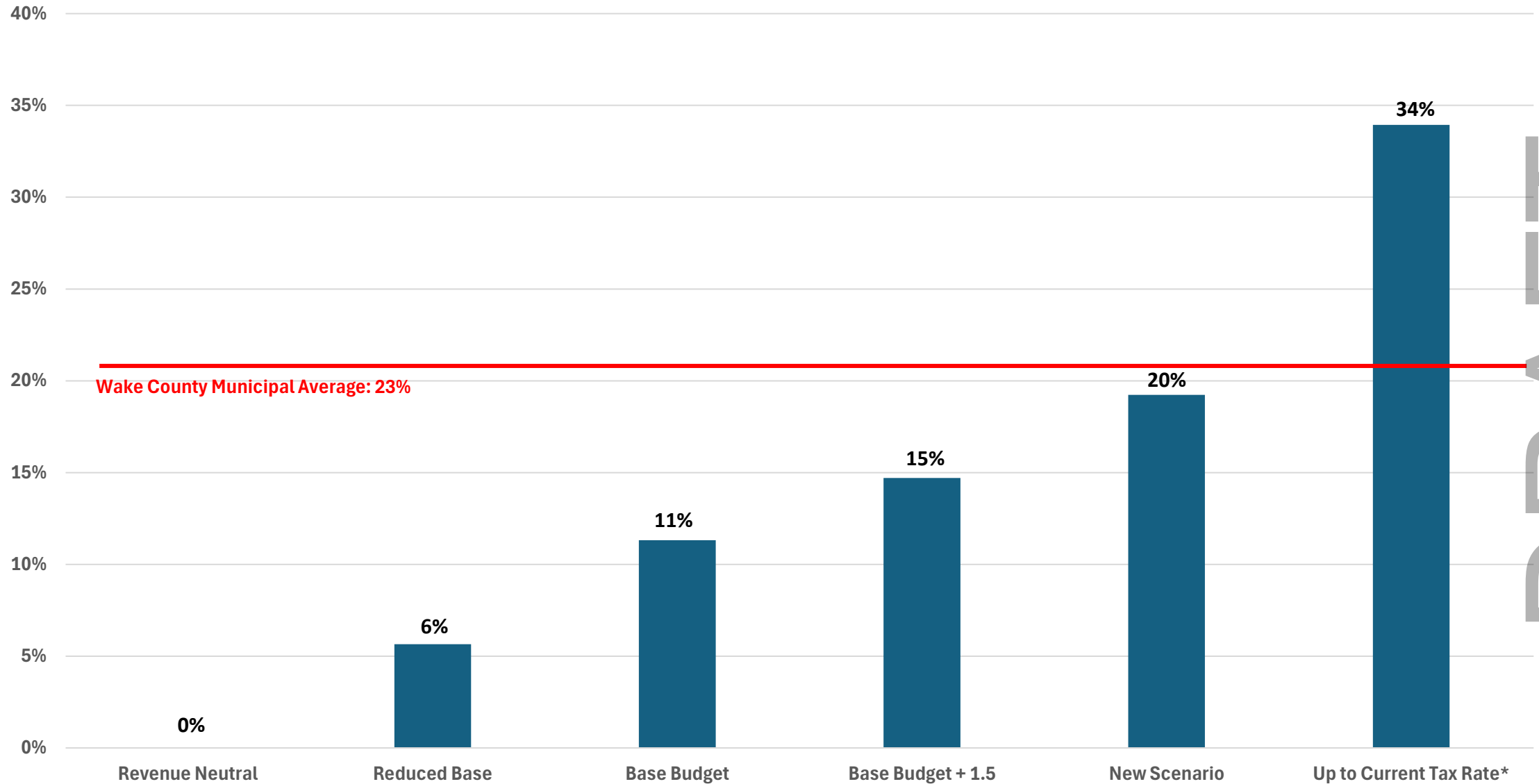
| Scenarios | Residential | Apartment | Office |
|--------------------------|-------------|------------|-----------|
| Revenue Neutral (44.2) | \$30.66 | (\$184.61) | (\$26.28) |
| Reduced Base (46.7) | \$44.33 | \$179.22 | \$25.51 |
| Base Budget (49.2) | \$57.99 | \$543.05 | \$77.30 |
| Base Budget + 1.5 (50.7) | \$66.19 | \$761.35 | \$108.37 |
| New Scenario (52.7) | \$77.13 | \$1,052.41 | \$149.80 |
| Up to Current Rate | \$112.66 | \$1,998.37 | \$284.45 |

Chart assumes:

- Average residential home value = \$656,026
- Average apartment value = \$17,463,851
- Average office value = \$2,485,776
- Average residential growth of 53.4% and commercial growth of 30.2%

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Tax Rate Scenarios, % Difference Between Revenue Neutral and Potential Tax Rates



* - Depending on Council's interests, the final scenario could be anywhere from base budget +1.5 to the current tax rate

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NEXT STEPS

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FY26 Proposed Budget Schedule

**APR
23**

**Business
Meeting***

**MAY
7**

**Manager's
Recommended
Budget**

**MAY
14**

**Work
Session**

**MAY
21**

**Public
Hearing**

**JUNE
11**

**Council
Vote**

* On 4/23, Council will offer a public comment section on the budget

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Guidance from Council:

1. Guidance about where to set the tax rate (between revenue neutral and our current tax rate).
2. Guidance about whether to apply resources across the board or to targeted areas of focus.
3. Guidance about whether there are areas where you would like us to consider a reduction in services.

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