

FY26 Budget Update: Revaluation Data & Budget Scenarios



Council Work Session
April 16, 2025

Agenda

1.

Where We Are Now

2.

Budget Data

3.

Revaluation Details

4.

Scenarios & Tradeoffs

5.

Next Steps

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.

WHERE WE ARE NOW

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)

BUDGET DATA PROVIDED

Budget Data Provided

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

REVALUATION DETAILS

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

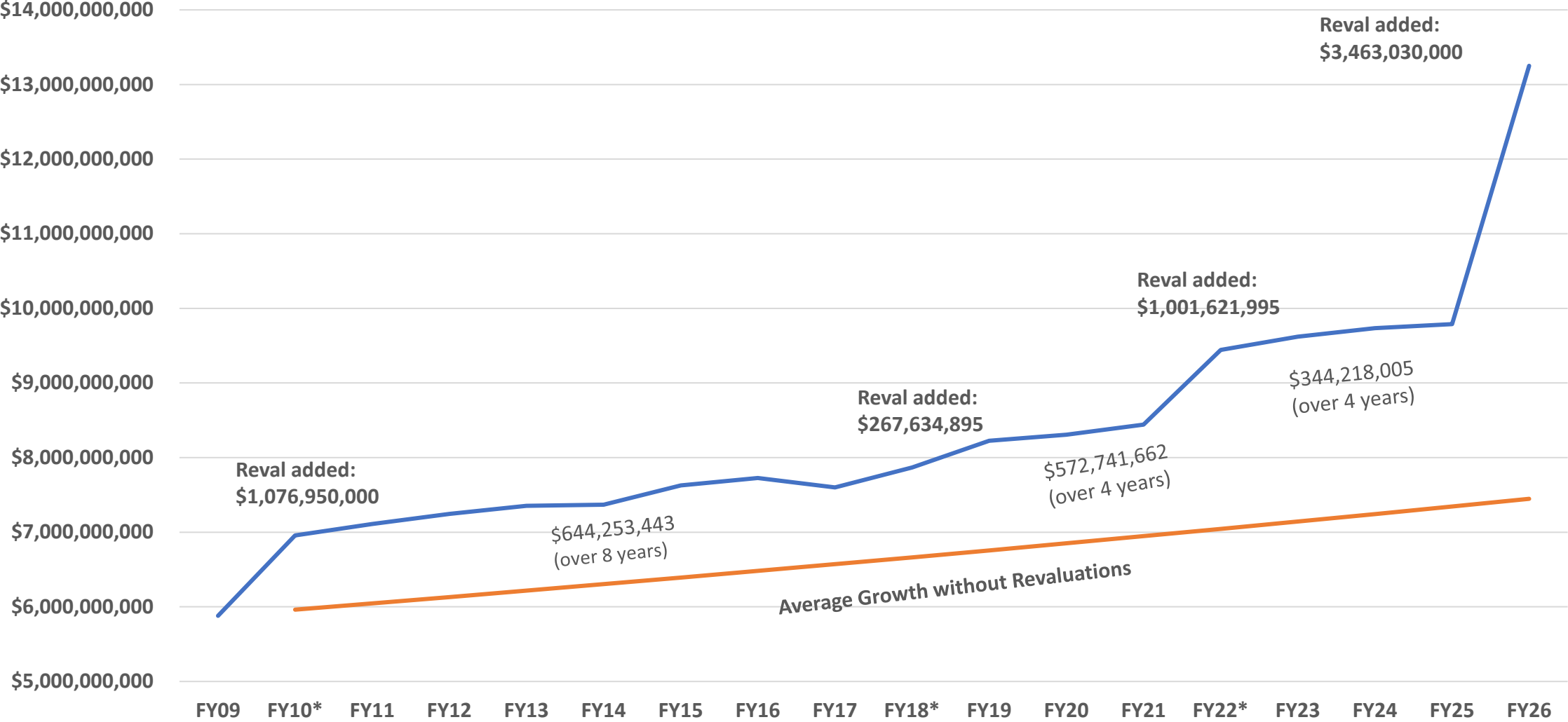
Growth in commercial tax base

- 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.

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

Tax Base FY09-FY26



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.

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

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

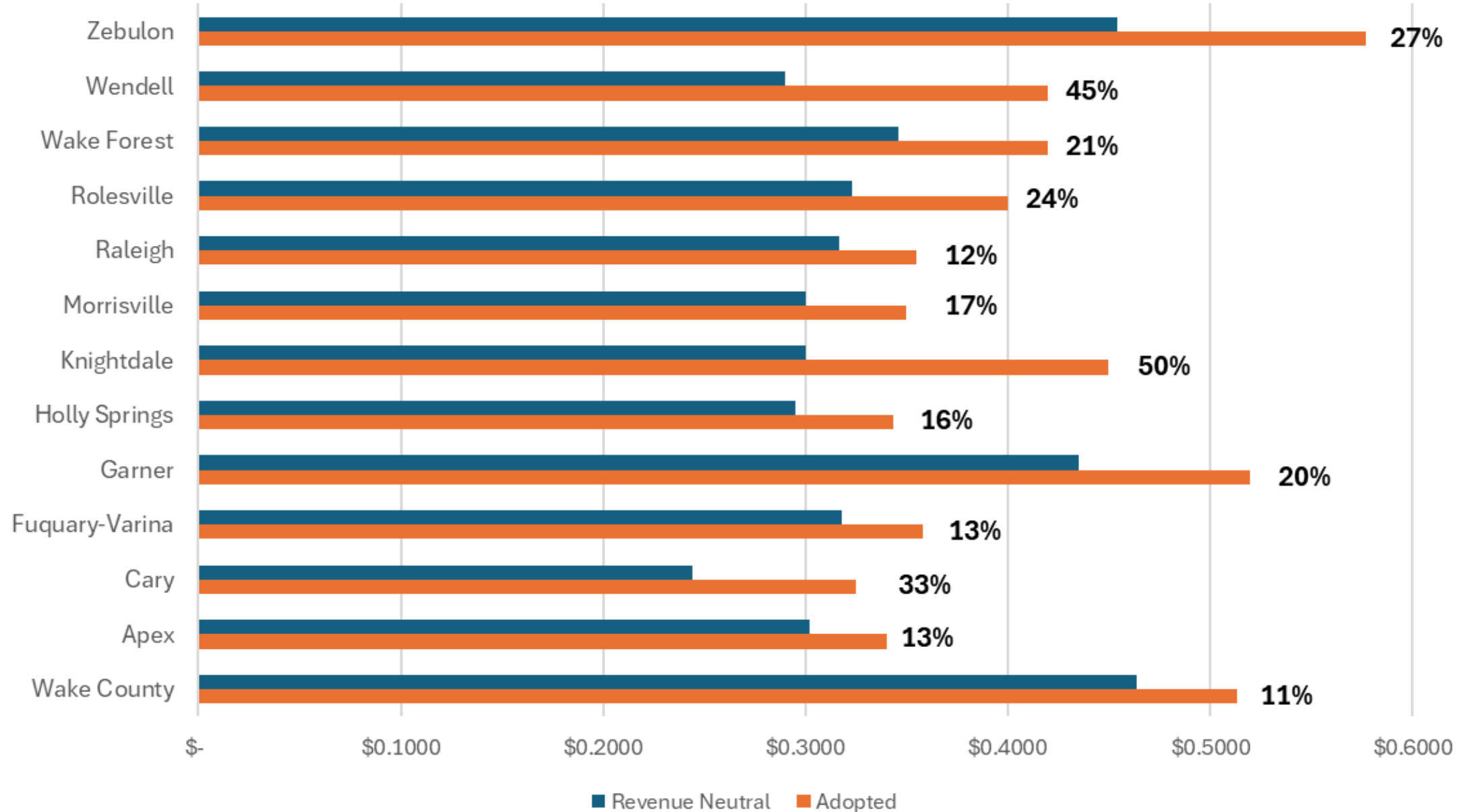
- Pre-revaluation assumes existing tax rate of 59.2 cents (Town rate only)
- Post-revaluation assumes revenue neutral tax rate of 44.2 cents (Town rate only)
- Assumes 53.4% average residential property valuation growth
- Average home price in Chapel Hill is \$640,180

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

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



SCENARIOS & TRADEOFFS

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

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

SCENARIO 3 – Base Budget

Revenue neutral tax rate	44.2
+ Base budget option	<u>5.0</u>
	49.2

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

SCENARIO 4 – Base Budget + 1.5

Revenue neutral	44.2
Base budget option	5.0
+ Preliminary 5-yr outlook plan	<u>1.5</u>
	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

SCENARIO 5 – Base Budget + ?

Revenue neutral	44.2
Base budget option	5.0
+ Additional Priorities	<u>?</u>
	?

- 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

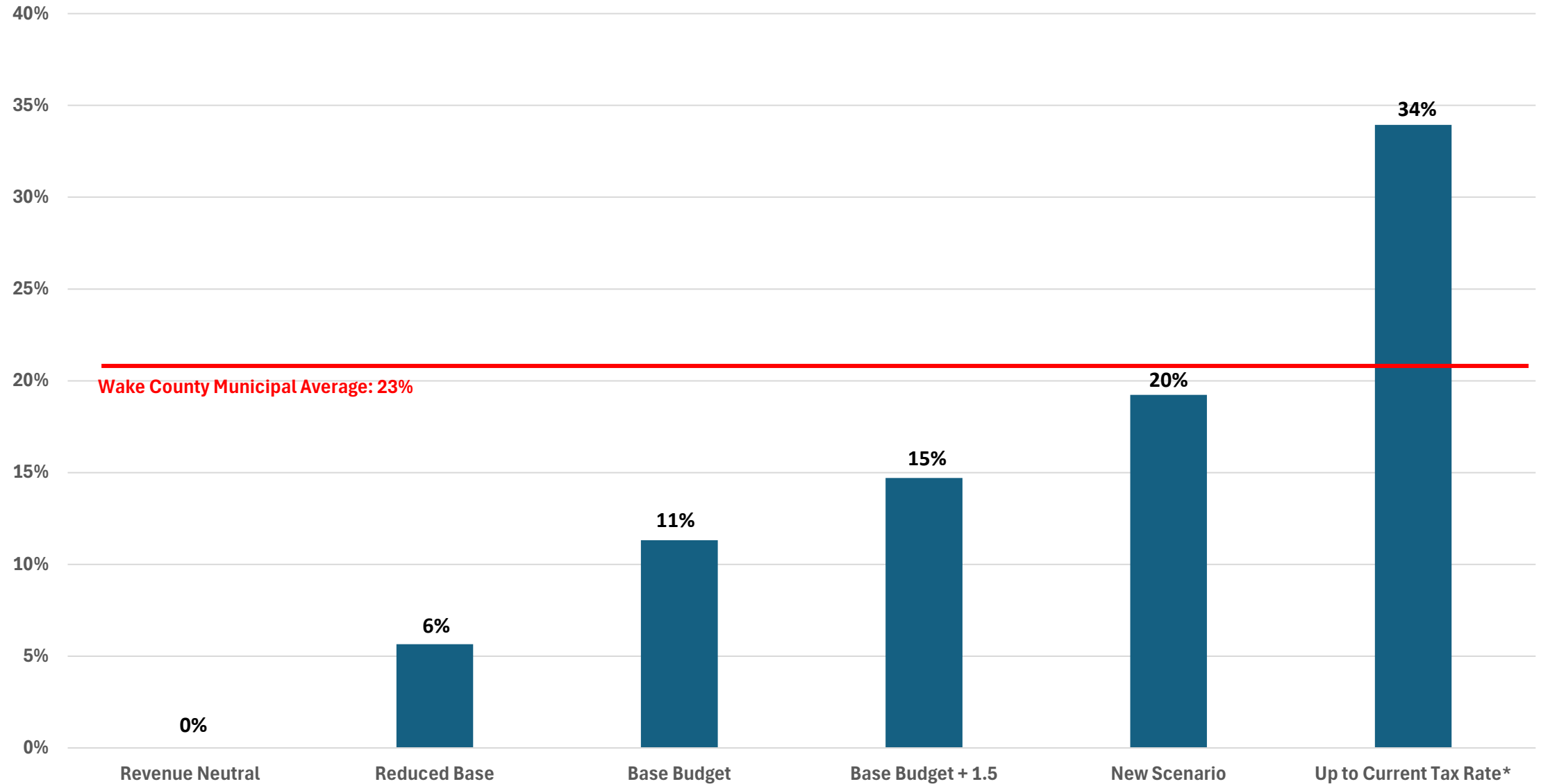
Monthly Increase to Tax Bill

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%

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

NEXT STEPS

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

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.