



Legislation Text

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Council Work Session on the FY 2024-25 Budget Development

Staff:

Chris Blue, Town Manager
Amy Oland, Director

Department:

Town Manager's Office
Business Management

Overview: Tonight, the Council will receive an update on the status of the FY 2024-25 budget development, hear from department directors about the backlog of needs, and discuss year two of the five-year budget strategy.

Key Issues:**Budget Foundation**

- The Town's budget is an extension of the Town's mission and the Council's strategic goals.
- The themes seen throughout the budget are that: revenue is down across major revenue sources; the cost of doing business is up across all departments; we still have a significant backlog of needs.
- The FY 2024-25 budget continues to prioritize our employees, operations, facilities, fleet, and Complete Community.

Property Taxes

- Property tax is a local government's main source of revenue. Property taxes made up 48% of the Town's total revenue sources for FY 2023-24.
- Two factors affect the tax growth that the Town experiences.
 - The first is the property tax rate growth. The Town's tax rate is currently 57.2 cents.
 - The second is the total assessed valuation growth. The Town has historically experienced a 1.8% average assessed valuation growth. Over the last few years, that growth has been closer to 1%.

Sales Taxes

- Sales tax receipts are one of the best indicators we have of local economic conditions.
- Prior to the pandemic, sales taxes increased on average 5-6% per year.
- Post pandemic, sales taxes have increased between 6-12% per year.
- The North Carolina retail economy has slowed down and the record-breaking sales tax growth we have seen has likely come to an end.

Development Fees

- Departments evaluate the fees that they charge for services annually as they begin budget preparations for the year. During their evaluation, they compare the fees they charge with neighboring jurisdictions to make sure that our fees are in line with the services that we provide.
- Development fees represent a smaller but important part of our revenue stream.
 - Planning - Planning revenues are down 22% as there are minimal development projects in

- the review process.
- Building & Development Services - inspection permits and reinspection permits have experienced strong growth over the last couple of years based on development activity in the Town.
- With the decline in development projects, we expect that trend will impact inspections fees collected in a few years, and then will impact our tax base growth.

Framework for the FY 2024-25 Budget

As we work to develop a balanced budget, here are some of the key issues:

1. The amount of available revenue isn't enough to keep up with rising costs.
2. We are simply trying to maintain the existing level of core services because there aren't any additional funds to cover annual operating cost increases or fund new programs/services.
3. Employee Compensation:
 - Competitive market rate adjustment
 - Living wage adjustments to remain compliant with the Orange County Living Wage.
 - We don't anticipate an increase in the cost of medical insurance
 - Mandatory employer increase of 0.75% for the retirement system
4. No increases recommended for community partners. Instead, we recommend focusing on the Town's needs consistent with the 5-year budget strategy.
5. Budget priorities remain focused on:
 - Employees
 - Facilities/Streets
 - Capital
 - Fleet Replacement
 - Complete Community

Five-Year Budget Strategy

The Town has set a good course to address the significant backlogs we have accumulated and to prepare for some big rocks ahead. Last year's increase was a great start to begin rebuilding our annual funding allocations.

Year 2 of the five-year budget outlook includes a proposed 1.5 cent tax increase to address operations, facility maintenance, streets, and fleet replacements. This increase is necessary to continue addressing the needs we have in these priority areas.

Transit

Similar to the General Fund and as shared in the Five-Year Budget Strategy, the Transit Fund is also experiencing funding needs. While a department of the Town, costs related to Transit are shared between the University and Town of Carrboro. Preliminary budget numbers are currently showing an estimated deficit of \$1,427,333 for FY2024-25 (Chapel Hill share is about \$485,293). The deficit is mainly related to necessary adjustments in personnel (compensation and benefits) and operating costs and Transit is no longer able to continue to absorb these costs.

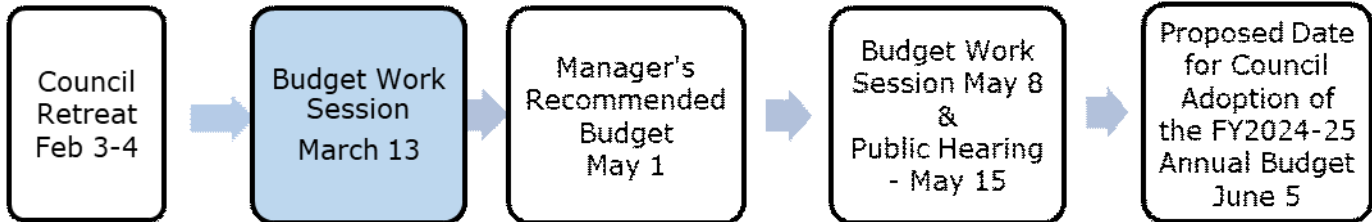
While Transit maximizes the use of grant funding to reduce Partner contributions, there are no new grants that can help with these expenses. The preliminary budget numbers assume maintaining existing service and personnel levels and no new investments in capital - this will need to be revisited in FY 2025-26. This deficit will require an adjustment of around 0.5 cents to the Chapel Hill Transit levy in order to cover these costs and match increased investments from the University and Carrboro. Additional details will be shared at the April 15 work session.

A Revaluation is Coming

The County will be conducting a revaluation effective on January 1, 2025. The results of this revaluation will impact the Town's FY 2025-26 budget. We will likely see property value changes that will have a positive impact on our overall budget.

Our hope is that the FY 2024-25 budget will help bridge the gap to help get us ready to have in-depth discussions about how to most effectively address the impacts of the revaluation on our Town next year.

Where is this item in its process?



The Agenda will reflect the text below and/or the motion text will be used during the meeting.

PRESENTER: Chris Blue, Town Manager

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