

City of Durham
FY 2016-17 Budget Development Guidelines (revised)
February 26, 2016

INTRODUCTION

For FY2015-16, the two largest sources of revenue to support General Fund operations are local property taxes and local sales taxes representing 84% (\$145M) of the fund's budget. Local property taxes also fully support the Debt Service Fund which accounts for the City's General Fund debt service obligations. The property tax appropriation for the debt reserve fund is \$38.2 million for FY2015-16.

North Carolina law requires all counties to reappraise real property every eight years. Reappraisal is the process of taking a market value "snapshot" of all real property in the county, as of January 1 (of the reappraisal year). That market value becomes the tax value for every year until the next reappraisal occurs. Durham County reappraised all real property values as of January 1, 2016. The last reappraisal took effect on January 1, 2008. The new property values will be effective for the upcoming FY2016-17 budget.

Citywide the assessed real property values increased by 16.2% compare to the January 2015 values. Personal property values are projected to increase by 5.0% compared to 2016 adopted budget; sales tax revenue 3.5% and overall general fund revenues are projected to grow by 0.69% for FY2016-17.

G.S. 159-11 requires each taxing unit to publish a revenue-neutral property tax rate ("revenue-neutral rate") as part of its budget for the fiscal year following the revaluation of its real property. Revenue-neutral rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no revaluation had occurred. Revenue-neutral rate provides taxpayers a benchmark against which they can compare a proposed post-revaluation tax rate. **Based on current real property values, the revenue neutral rate is 53.84 cents per \$100 of assessed value.**

Although there is the potential to realize significant additional revenue from the reappraisal, we should continue to be prudent in our financial decisions for long term sustainability. **Therefore, the City Council directs the City Manager to develop a budget for FY2016-17 that prioritizes funding based on the City's Strategic plan, requirements to accommodate population growth, and funding requirements driven by State and/or federal mandates.** The budget may require additional reductions in or elimination of services based on service/program prioritization, and directs that the City Manager begin to review and evaluate where the City should focus adjustments consistent with the City Council's priorities.

The City must use a strategic approach to balance the budget by assessing revenue enhancement opportunities and cost control. This year all departments are reviewing existing fees and benchmarking with peer cities. **The FY2016-17 Budget must support the City's Strategic Plan and identify funding to enhance priority programs and services.**

Recognizing the need to be prudent, while prioritizing the needs of Durham residents, the City Manager shall use the following **Budget Development Guidelines to prepare the FY2016-17 Proposed Budget.**

REVENUES

- The tax rate for the **General Fund** should not exceed the **revenue neutral value** except as required to fund **additional police personnel (20 FTEs)** and to keep **Parks maintenance funding at ½ cent.**
- **The tax rate for debt service and cash funded capital will not exceed the current rate of 13.02 cents** per \$100 assessed value (including fleet replacement).
- General Fund **savings balance** will not be projected to fall **below 12%** at the end of **FY2016-17.**
- The tax rate for the **Solid Waste Fund** will not exceed **revenue neutral value** except as required to fund an **additional collection crew beginning in FY 2017-18 (2 FTEs).**
- Funding of the Downtown **Business Improvement District (BID)** should be considered at the **revenue neutral rate** plus the **addition of downtown compactors** as proposed by the Solid Waste Management Department. Consideration of other new initiatives will require a further increase in the BID property tax rate.
- The tax rate for the **Dedicated Housing Fund** will remain at 1 cent (per \$100 assessed value) pending the adoption of an affordable housing strategy.
- The **Transit Operating Fund** tax rate allocation will not exceed the **adjusted revenue neutral rate.** Consideration of **additional new/expanded services** included in the update to **Bus and Rail Investment** plan will require an increase in the property tax rate allocation.
- **Non-recurring funds** should not be directed toward recurring uses.
- **Fees adjustments** will be considered, as appropriate, to align fee revenues with cost of services for better cost recovery rates.
- Proposed **water and sewer rate** increases will not exceed an average of **3.0%.**
- **Stormwater rates will remain unchanged for the FY2016-17 fiscal year..**

EXPENDITURES

To balance expenditures against forecasted revenues, the City Manager shall continue to monitor performance data to guide focused discussions with City departments regarding program and service priorities, possible areas for elimination, reduction, reorganization, and/or alternative service delivery models that address the performance and efficiency of City programs.

- City employees are at the core of City services. One objective under **Goal 4 of the City's Strategic Plan is to "establish an exceptional, diverse, engaged and healthy workforce"**. Attracting and retaining a competent, high quality workforce is essential to being a high performing organization. Therefore, we will continue to consider employee compensation adjustments as a priority. **The following pay and benefit components will be proposed:**
 - **Pay for Performance (P4P) pay plan for General employees - 4.0% average (0.5% increase).**
 - **Pay Plan for sworn Police employees - 4.5% average (1% increase).**
 - **Pay Plan for sworn Fire employees - 4.0% average (0.5% increase).**
 - **Supplemental Retirement -401K – remain at 5.0%**
 - **Medical Insurance for all employees - average increase for the City 10% and employees 5%.**
 - **Dental insurance – cost will remain flat for both the City and employees**
- **Funding for 20 additional sworn police officers** (20 new FTEs) will be included in the general fund budget to be filled pending the results of the police staffing allocation study.
- New funding priority will be given to those requests that support the **strategic plan including those initiatives that address quality of life issues.**
- Funding for **deferred maintenance** will increase by **\$100,000** from **\$600,000** for FY2015-16 to **\$700,000** for FY2016-17.
- The dedicated **street resurfacing fund** will be increased by **\$1,000,000**, from **\$2,000,000** for FY2015-16 to **\$3,000,000** for FY2016-17.
- **Fleet** replacement funding for the General Fund will be provided in accordance with the **Fleet department's 10-year recommendation plan** within the debt model.
- **General Fund balance** will be considered to fund the sworn **Police take home vehicle initiative.**