

BOARD OF ALDERMEN

ITEM NO. E(1)

AGENDA ITEM ABSTRACT

MEETING DATE: Tuesday, November 20, 2001

TITLE: Report on Cost of Town Services

DEPARTMENT: PLANNING	PUBLIC HEARING: YES ___ NO <u>X</u>
ATTACHMENT: A. Resolution	FOR INFORMATION CONTACT: Roy Williford, 918-7325

PURPOSE:

The Annual Action Agenda includes an item calling for the examination of the cost of town services generated by new residential development to determine if it pays for itself. Since new development is diverse in terms of value and type, an examination of cost and revenue trends over a 20-year period is provided. This report summarizes the audited expenditures made by the Town of Carrboro over this time period in order to assist in visualizing trends associated with the cost of providing services. Likewise, audited revenue source and valuation trends help to identify how the Town of Carrboro pays for its services.

The Administration recommends that the Board of Aldermen adopt the attached resolution accepting this report.

INFORMATION:

Town Service Policies-“Vision 2020”

The Board of Aldermen adopted “Carrboro Vision 2020” on December 5, 2000, which is a policy-making document for the Town of Carrboro to use in planning for its future. The Vision 2020 Steering Committee examined many of Carrboro’s existing programs and services including: Recreation and parks, arts and culture, human services, police, fire, and public works. The committee concluded that these programs and services deserve the Town’s ongoing support.

Section 1.4 of “Carrboro Vision 2020” addresses town services specifically with the following policy statement:

The Town plans to utilize electronic technology to the fullest in order to be a “Community on the Web.” Access to public documents and community updates should increase flexibly and swiftly in response to changing community needs.

- 1.41** Carrboro should encourage paperless transactions to minimize solid waste disposal. All town services should be made available on-line, including information, town forms, ordinances, and payments.
- 1.42** Carrboro town staff should remain dedicated to fast, efficient public service, employing new technologies and skills toward increasingly cost-effective and environmentally friendly town services.
- 1.43** Carrboro should continue to provide a high level of police, public works and fire service to its citizens.
- 1.44** The town should continue to seek opportunities to exercise more local control of revenue options and community health and welfare options.
- 1.45** The town should continue to encourage the active participation of its citizens in community planning.
- 1.46** Carrboro should continue its efforts towards community building by encouraging the use of facilitation and conflict resolution. The town should also seek alternatives or supplements to the traditional public hearing format when controversial issues are before the Board.

Town Services

The cost for town services is determined annually when the Town adopts its budget. Each budget specifies the type and level of each service that the Town intends to provide, how much money will be available for a particular service, new equipment needed, payment of debt and the number of employees that will be available. Each budget identifies the sources of revenue or money that should be available over the course of the year to pay for the services. A review of any one budget will identify the cost for town services during that year but in order to detect changes in costs for services as the Town grows over a number of years a long-term analysis of expenditures and revenues is required. For the purposes of this report a 20-year time frame has been selected.

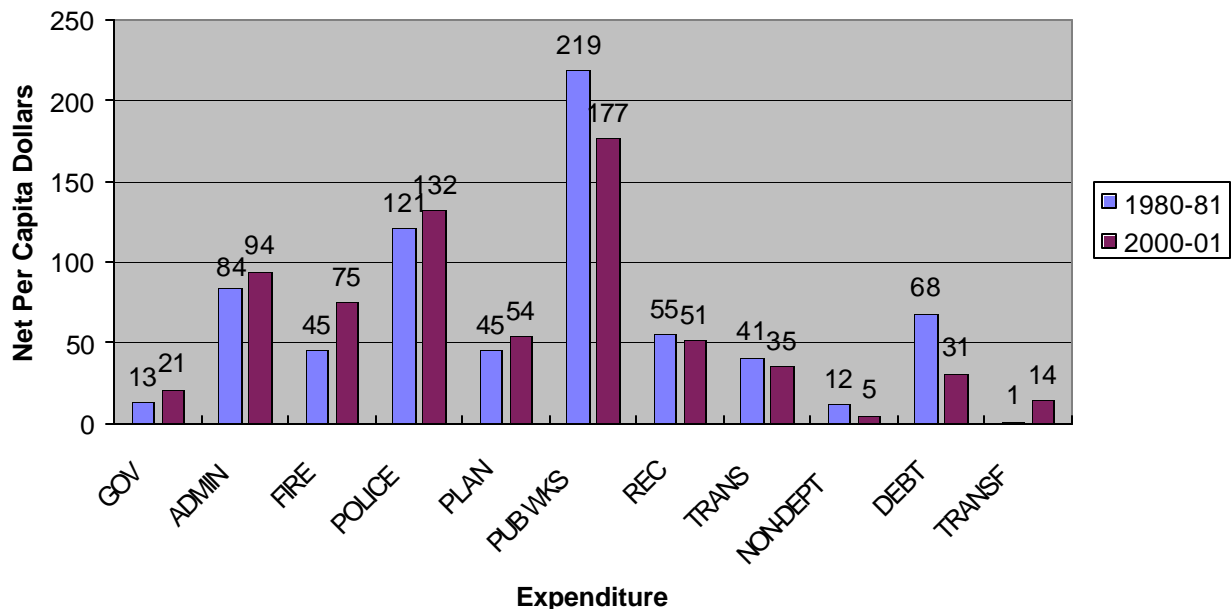
In 1980 the Town’s corporate area contained 2.05 square miles and the planning area contained 7 square miles; by 2000 the corporate area grew by 128% to 4.6 square miles and the planning area grew by 73% to 12.1 square miles. In 1980 the Town had a population of 7,336 and on July 1, 2000 it had an estimated population of 16,958 producing a 131% increase in population over the 20-year period.

This report broadly defines services by traditional budget expenditure categories. These services categories are as follows: Administration, Debt Service, Fire, Governance, Non-Departmental, Planning, Police, Public Works, Recreation, Transportation, and Transfers. All of these services are provided to properties within the town limits and a couple services such as planning and building inspections are also provided to properties within the town’s planning area. Fire Protection services are provided to all properties within the South Orange Fire District as well as to properties within the town. The town has provided these basic services over the entire 20-year period.

Expenditures:

Expenditures are a rough estimate of a local government’s service output. Generally, the more a government spends in net or constant dollars (adjusted for inflation), the more services it is providing. The cost of providing services is accurately reflected by the expenditures reported in the town’s annual audit. Actual audit figures show a significant increase in expenditures made by the Town from 1980-81 to 2000-2001, going from \$2,423,361 to \$11,337,640 respectively, resulting in a 368% increase. This increase far exceeds the percent increase in population and on its surface may lead one to conclude that growth is not keeping up with the increase in cost. However, the value of the dollar changes over time and this change should be adjusted in terms of current value in order to make a fair comparison adjusted for inflation. The value of the dollar (measured by the CPI or Consumer Price Index) changed over this time period to where 2.17 more dollars are needed today to equal one 1980 dollar. The application of the CPI results in a net or current dollar 1980 expenditure of \$5,164,815 producing a 119% increase over the 20 year-period that is less than the 131% increase in population leading to a conclusion that growth in Carrboro has exceeded the level of expenditures or cost required to service it and the type of service provided by the Town has remained similar. Since expenditures have increased along with the increase in population, the division of the net expenditure by the population in each respective budget year produces a per capita expenditure. The per capita net expenditure provides the best method for comparing the change or trend in expenditures made from one period of time to another. Over the 20-year period, per capita expenditures have decreased slightly, from \$704 in 1980-81 to \$693 in 2000-2001. The following chart provides a summary of the change in net per capita expenditure by each service:

NET PER CAPITA EXPENDITURES FOR 1980 & 2000



Overall, the level of output has remained relatively stable with per capita changes varying within major town expenditure categories. Some of these changes can be explained by highlighting events that have contributed to increases or decreases in expenditure levels:

- Governance increases have resulted from the inclusion of advisory board budgets and agency contributions that were previously classified as non-departmental budget items;

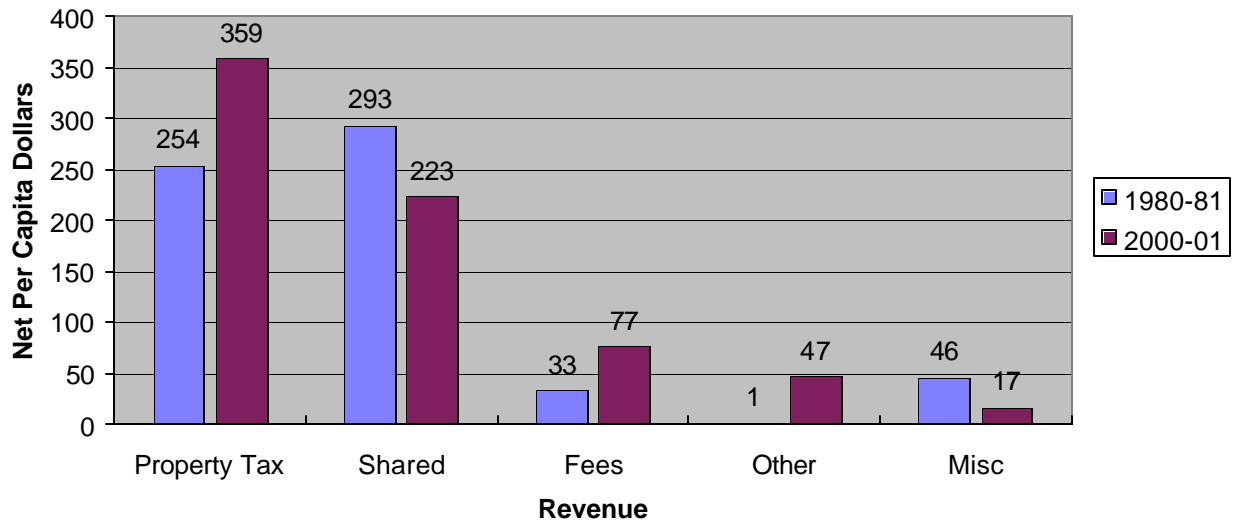
- Administration increases reflect the reclassification of economic development function from Planning to the Administration function, the addition of technology services (computer, network, and phone systems), and separate accounting functions recommended by prior audits;
- Fire Department increases reflect the decision to go from a voluntary to an employee based Fire Department, adding the first responder service and fire truck replacements;
- Police Department increases reflect efforts to provide an adequate levels of patrol, the institution of community policing and scheduled vehicle replacements;
- Planning Department increases reflect the addition of zoning development assistance for the public, geographic information services, engineering services, transportation planning and environmental planning services;
- Public Works decreases reflect the purchase of sanitation equipment in the 80-81 budget, reduction of sanitation crews from three to two man crews as part of purchasing new solid waste truck technology (side-loader truck vs. a traditional rear loader), and implementation of the rollout cart collection system in 80-81, scheduled street resurfacing, reduction of a street maintenance crew in 83-84, and reduction of vehicle maintenance cost resulting from scheduled vehicle replacements;
- Recreation Department decreases resulting from the elimination of the park maintenance division and transferring park maintenance responsibilities to the Public Works Department;
- Transportation services have shown a decrease in part due to the proportional decrease in net per capita contractual cost since 80-81;
- Non-departmental decreases are primarily due to the reclassification of expenditure line items such as advisory board budgets and agency contributions into the governance budget; and
- Debt and Transfer budget items are both categories that support capital investments made by the Board. Debt payments are primarily for general obligation debt and lease financing. Transfers in recent years have funded capital items on a pay-as-you-go (cash) basis, moving funds to capital reserve accounts and capital projects (ie, street resurfacing, Century Center, sidewalks, bike paths, etc). These categories, viewed as a combined unit, reflect the diversification in recent years of capital financing from general obligation bonds to lease financing and pay-as-you go.

Revenues

Revenues can be analyzed to determine the town's capacity to provide services. Sources of revenues include: Property Tax, Shared Revenues (sales tax, grants and other shared funds), Fees (motor vehicle licenses, privilege licenses, franchise fees, sales/services, user fees and development/building permit fees), Other sources (transfers, fund balance appropriations and installment financing proceeds), and Miscellaneous revenues (earnings and surplus). Under ideal situations, revenues grow at a rate equal to or greater than the combined effects of inflation and expenditures. The major revenue sources for the town comes from property taxes (based on property values) and shared revenues from sales taxes (allocated on the basis of population).

As with expenditures, the per capita net revenues provide the best method for comparing the change or trend made from one period of time to another. Over the 20-year period, per capita revenues have increased by 14%, going from \$627 in 1980-81 to \$717 in 2000-2001. The following chart provides a summary of the change in net per capita revenues by source:

NET PER CAPITA REVENUES FOR 1980 & 2000

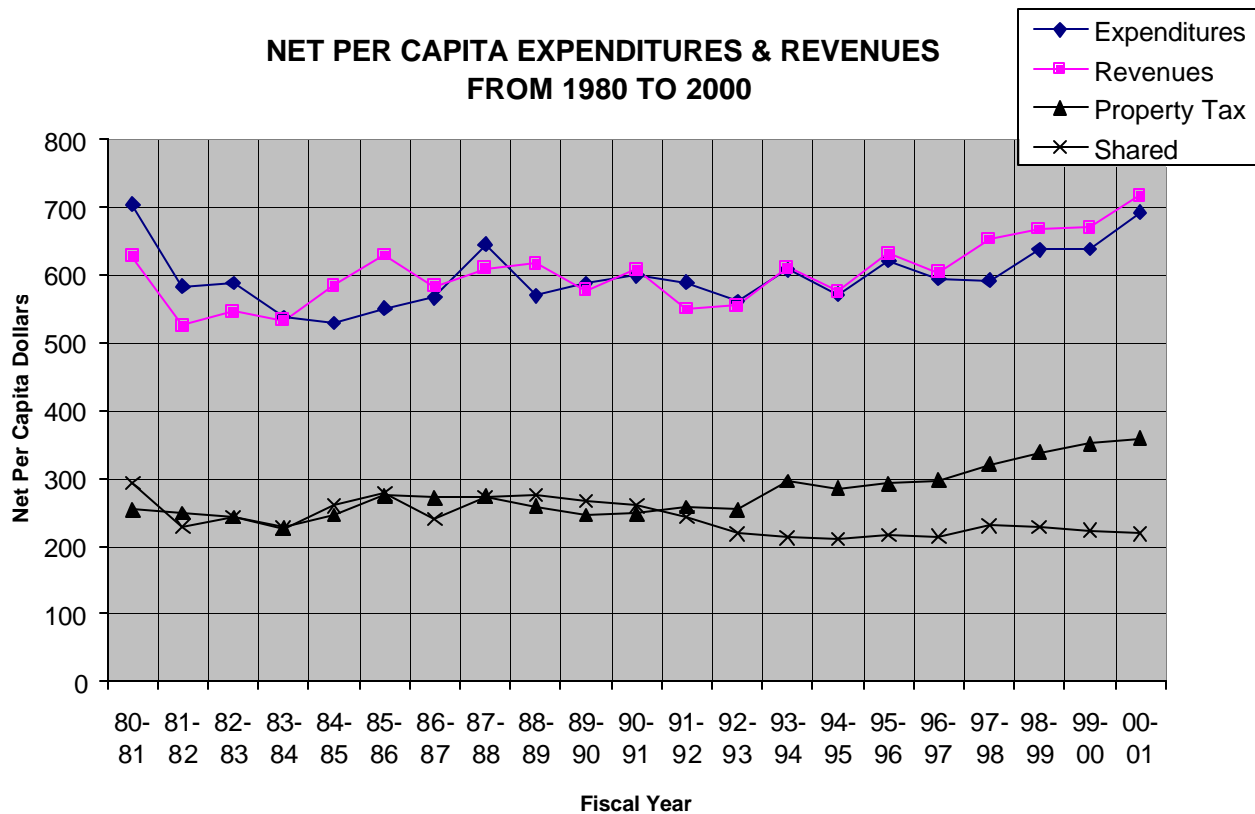


This chart shows that the town’s primary revenue source has shifted from shared revenues in 1980 to property tax in more recent budgets. The reduction in shared state and federal revenues has placed more reliance on local revenue sources such as property taxes and fees over the 20-year period in order to maintain town services. One point of observation is that from a property tax valuation perspective, the two main byproducts of residential development are added property values and population; whereas, the byproducts of nonresidential development are added property values, income, and sales. Development, which creates most of the demand for town services, is also the basis for most of the town’s revenues. Actual audit figures show a significant increase in the town’s revenues from 1980-81 to 2000-2001, going from \$2,112,189 to \$11,670,510 respectively, resulting in a 452% increase. The application of the CPI results in a net or current dollar 1980 revenue of \$5,556,413 producing a 110% increase over the 20-year period. Changes in the other and miscellaneous revenues have occurred primarily as a result of capital financing strategies going from bond financing to installment financing.

Comparing Expenditures to Revenues

The annual audit describes the actual cost for operating the town each year for both expenditures and revenues. The annual budget, on the other hand, projects a balance among both expenditures and revenues. A budget deficit occurs if expenditures exceed revenues and a surplus is created if revenues exceed expenditures. The following chart compares total net per capita expenditures with per capita revenues over the 20-year period. The area between the two lines represents a deficit if the expenditure line is above the revenue line and a surplus if the revenue line is above the expenditure line.

Prior to 1993 the two lines exchanged positions periodically indicating a use of fund balances to off set revenue short falls. Since 1993, revenues have remained above but closely tied to expenditures providing for an increase in reserves. This chart also shows that net per capita expenditures and revenues have remained fairly predictable, around \$600 to \$700 per year. In addition, this chart, as in the previous graph, illustrates the dynamics of the net per capita revenues generated from the property taxes and shared revenues as these are the primary revenue sources generated by new development.



It is evident that the Town has experienced a downward trend in shared revenues requiring the Town to leverage property taxes, its only significant local option to generate revenues to pay for Town services. The net per capita property tax for 2000 is around \$359, which accounts for about half of the total revenues needed annually.

Fiscal Impact of New Development

Another way of looking at the cost of town services is find the point where the cost generated by any residential development equals the revenue that is generates. A technique that is frequently used by local governments is a “per capita multiplier” whereby the fiscal impact analysis of development may be ascertained. This method is often used to approximate the cost of providing services for new development. This technique is used by multiplying the net per capita cost of providing municipal residential services by the projected number of new residences. The advantage of the “per capita multiplier” is that it is relatively easy to employ and the results are easy to understand. A modification of this method will be used for this study, looking at the Town as a whole to illustrate the breakeven point for a household in Carrboro.

The average household size in the 2000 census is 2.00 persons for rental housing and 2.63 persons for owner occupied housing. If the per household factor is multiplied by the net per capita expenditure of \$693 for 2000 then a average rental household should require approximately \$1,386 in annual expenditures and the average owner household should require about \$1,822in annual expenditures. Since per capita property taxes currently generate about half of the net per capita revenues, then it is reasonable to expect that about half of the average

household expenses should be funded with property taxes. Therefore, about \$693 in property taxes is needed to cover average rental household needs and \$911 for average owner households.

The average value of rental or owner properties required to generate their respective property tax revenues can be calculated as follows:

$$\frac{\text{Average Household Property Tax Revenue Needed}}{\text{Tax Rate}} = \text{Average Household Value}$$

Therefore; dividing the property tax revenue needed from average rental households (\$693) or average owner households (\$911) by Carrboro's 2000-01 tax rate of .007120 produces a break-even average rental property value of \$97,331 and an average owner break-even value of \$127,950. Average household size properties with tax values exceeding the break-even point will generate revenues that theoretically exceed the cost of services and those that fall below the break-even tax values will not produce enough revenue to meet cost.

RECOMMENDATION:

The administration recommends that the Board of Aldermen adopt the attached resolution accepting the report on the cost of town services.