City of Raleigh Fiscal Profile and Outlook
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Introduction

Based on demographic data from the University of North Carolina at Chapel Hill, Raleigh's metropolitan area is currently the second-fastest growing "large" metro in the United States. Large metropolitan areas in this case represent entire regions with populations of one million or more that have an economically integrated set of counties with a core central city with a population of 50,000 or more. Raleigh's metro population has grown 23% since 2010, just below the Austin area's growth rate of 29%. Compared to the national average of 7.4%, Raleigh has experienced a growth rate that is more than triple the national average. Per the Census Bureau, Raleigh's 2022 metro area population is currently 1,547,000.

The Raleigh metro area continues to be ranked as "one of the best places to live" in the U.S. News and World Report due to high-quality living standards. Yet, how does an area facing unprecedented population growth achieve such standards? To address this question, I will specifically narrow my analysis to focus on the city of Raleigh's government because it catalyzes the entire metropolitan area (meaning its fiscal decisions shape and impact all the smaller surrounding cities and localities). In the following sections, I explore the performance of Raleigh's governance by assessing its current fiscal conditions, identifying the various factors influencing the city's fiscal outcomes, and finally predicting Raleigh's fiscal outlook in the next several years. The overall aim of this paper is to understand the fiscal operations the city has practiced to achieve high standards in resource delivery and budget management/ capacity building.

Background

The city of Raleigh utilizes an annual budget model that begins on July 1st and ends on June 30th. Every year, each department within the city sends their budget requests to the Budget & Management Services (BMS) staff, where they outline their expected costs - and revenues if they are a business-type enterprise department. These requests are then reviewed and once finalized, are sent over to the City Manager and their staff. The City Manager reviews the requests and ensures that the expected costs match anticipated revenues (are balanced). Upon approval, the proposed budget is then sent over to an 8-member City Council where it receives several public hearings, a Council review, and final adoption. The city of Raleigh creates two types of budgets every year, one is the primary operating budget that includes general funds and business-type enterprise funds. The other is the Capital Improvement Program (CIP). The CIP is an outline of capital-intensive projects or large-scale infrastructure assets that the city will pursue over five years. These projects usually last a minimum of ten years and have an initial cost of at least $25,000. During the first year of every five years, the City Council has to adopt a Capital Budget that will appropriate funds for these 5-year plans. Moving forward, I will primarily assess the operating budget because it mainly reflects the fiscal responsibility of day-to-day activities.

Section 1: Assessment of Current Fiscal Conditions

Comparing adopted budgets since 2015, I have calculated a 34.00% increase in total budget funds over the last six years - which include revenues and expenditures within the general fund and the enterprise fund. Beginning in fiscal year 2014-15, the following budgets are listed in chronological order - $754,208,491; $833,627,661; $859,021,503; $919,110,205 $971,378,848 $1,036,955,770, $1,010,644,940, $1,069,833,785. Overall, the budget has been steadily increasing over time. However, the fiscal year 2020-21 was the only year that experienced a budget decrease because of the economic externality implicated by the Covid-19 pandemic. Observing budget trends, there seems to be only one year since 2015 where the adopted budget was amended midway through and that is the fiscal year 2019-20. In that year, the budget was amended to include an additional $54.091 million increase in the revenues' fund balance. This increase derived from a $25.7 million addition in the general funds' category. $13 million came from the yearly supplement that the city allocates to the funds' balance, and the other additional $12.5 million is from the surplus of the $13 million that was not utilized in the previous 2018-19 year. The other $29.4 million came from a revenue surplus in the enterprise category. The additional $54.091 million in the funds' balance was mostly applied to capital improvements in the amended budget.

Like all the other budgets, the adopted operating budget for the fiscal year 2021-22 is broken down into several categories. The two major categories are the general fund and the enterprise fund. The general fund has a total budget of $543.99 million and includes revenues and expenses that do not rely on service or usage charges to operate. The general fund mostly relies on property taxes, sales taxes, intergovernmental transfers, user fees, and licenses. These revenues are computed by either a base of city residents who pay a share of property taxes or individuals that purchase goods within the city limits and pay sales taxes. The expenditures include services like public safety, infrastructure, capital & debt, government operations, and leisure services. The general fund heavily depends on property taxes (53%), sales taxes (21%), and intergovernmental transfers (9.4%) to fund revenues. Likewise, the largest share of costs comes from public safety including police and fire departments (36%) and infrastructure & public services (20%) which include public education funding. Furthermore, the enterprise fund has a total budget of $548.5 million and does not rely on taxes to operate its various functions. Its largest sources of revenues and costs come from services like public utilities/water and sewer delivery and filtration (47.8%), solid waste processing (8.3%), and public transit fares (7.2%).

Examining the growth rates of revenues and expenditures, it appears that property taxes, sales taxes, and intergovernmental transfers have increased the most in the general fund revenues since the fiscal year 2014-15. Currently, property taxes are $290 million, sales taxes are $113.8 million, and intergovernmental transfers are $51.3 million. Respectively, they each represent a 36.2% increase in property taxes, a 42.8% increase in sales taxes, and a 30.3% increase in intergovernmental transfers since 2014-15. Additionally, general fees have decreased 29.7% since that period as well. If I examine general fund costs, public safety and infrastructure management have the most increased costs. Public safety costs have increased 27.9% from 2014-15 to 2021-22, while infrastructure management has risen 43.6% from 2014-15 to 2019-20.

The average fund balance from the fiscal year 2011-12 to 2021-21 has been 16% of subsequent years' general fund budget. The actual unassigned general fund balance is currently $75.8 million or 14% of the subsequent year's general fund budget. According to the city, “The City seeks a fund balance level of approximately 14% of the subsequent year’s budget to assure necessary resources to meet unanticipated emergencies, provide adequate cash flow, and provide the needed measure of financial position to best assure maintenance of the AAA credit ratings for the City.”

Section 2: Economic Overview

It is important to indicate that the significant increases in property and sales tax revenues, as well as public safety expenditures, are shaped by several factors including home-value growth, population shifts, and political motives.

First, as I have mentioned - property tax revenues have increased 36% since 2014-15. Yet, if I hold all other variables constant such as the county & special district tax rates and fees, then the city of Raleigh has decreased its tax rate since 2014-15 from a .421/100 tax rate to a .3730/100 tax rate in 2021. Therefore, the tax rate has decreased. However, the city of Raleigh has experienced significant increases in home values. For example, FRED data presents 2017 median listing prices for Wake County properties at $390,400. In 2021, the median listing price was $464,950. Although median listing prices for homes have inflated due to the increasing demand and shortage of properties during the Covid-19 pandemic, Graph 1 shows that overall average median listing prices have been gradually increasing since 2017.

$$\frac{390400}{100} \rightarrow 3902 \cdot .4253 = \$1{,}660.4 \textit{ property taxes } \text{ for } 2017$$

$$\frac{464950}{100} \rightarrow 4649.2 \cdot .3730 = \$1{,}734.2 \textit{ property taxes } \text{ for } 2021$$

$$\frac{464950}{100} \rightarrow 4649.5 \cdot .4253 = \$1{,}977.4 \textit{ property taxes comparison}$$

As demonstrated above, the increasing property tax revenues are correlated with rising home values and not tax rates themselves. The first portion shows Raleigh's property taxes for 2017, and the second portion shows 202I. Yes, there is an increase in property taxes but the third portion shows what would happen if we applied 2017 tax rates with current home values - the property taxes spike. Using data from Wake county, the computed average tax rate since 2012 for the city was 0.403 and has had very minor fluctuations throughout the years. Hence, these calculations illustrate the strong correlation between increasing property values and the increasing property tax revenues in the general fund.

Second, sales tax revenues have increased 42.8% since 2014-15, however, the city of Raleigh has not changed or increased its sales tax code since that period. Even though Raleigh charges a 4.75% state tax and a 2.5% Wake county tax, it does not have an individual city sales tax. The only sales tax revenue the city receives is a Local Option Sales Tax (1 cent point of the delivery – local economy) which is a 1% tax collected on all eligible goods by the NC Department of Revenue. These revenues are distributed to Wake county not based on the total values of all goods sold in the county (ad valorem), but rather through the basis of total population within the county. The revenues are then redistributed to local economy development (funds directed towards Raleigh's general fund). Additionally, the city receives a Supplemental Sales Tax which is a two-part revenue source - first, a half-cent sales tax collected by the state and remitted to counties and cities on a statewide population basis (1/2 cent per capita – statewide economy). Then, a second half-cent sales tax point of delivery (1/2 cent point of the delivery – local economy).

Knowing that the sales tax revenues for the city are primarily driven by population benchmarks, I can firmly claim that the increase in sales tax revenues for Raleigh is simultaneously connected to the rapid population growth that Wake county has experienced as a whole. In 2014, the population was approximately 997,788. Today, the population estimate is 1,112,000 - representing a 10.8% increase.

Lastly, as I have outlined earlier - public safety expenditures have risen over 27% since 2014-15. Generally, we know that the demand for policing and fire safety is mostly an inelastic public service. Thus, it is a natural response for the city to increase police staff as the city expands over time, which also increases costs in the long run as more police officers retire and require pensions/ retirement payments. However, even within two years, public safety expenditures have risen 7% since 2019-20, when the budget went from $185.2 million to currently $198.3 million. Upon researching for elements that would prompt such an expenditure increase, I suspected that the "Defund the Police" political movement had a positive relationship with the budget. Instead of defunding the police department, the City Council created a unit called ACORNS (Addressing Crisis Through Outreach, Referrals, Networking, and Service). This unit was specifically tasked with employing mental health counselors, community leaders, and trauma experts to address the worsening racial tensions and policing disparities that the city was facing. As quoted by city manager Adams-David, " a large portion of the increased funding was providing resources for new, non-sworn personnel—including crisis and trauma counselors, family violence units, and community ambassadors—as well as an upcoming greenway patrol team." Which explains the recent spikes in public safety expenditures.

Section 3: Fiscal Outlook

The fiscal outlook for the city of Raleigh in the next five years is positive. This is due to the following reasons - first, according to Praxis Strategy Group, the city of Raleigh was ranked the number one city in job growth related to the STEM field. Job growth increases the residents' incomes which compels city officials to either raise property tax rates to fund high-quality services or use the raised property tax rates to alleviate financial burdens that low-income residents are experiencing. This could be done through property tax exemptions and service subsidies. Second, property taxes in the city of Raleigh have maintained a steady and responsible rate that does not overvalue or overassess lower-priced homes. Lastly, the city of Raleigh has been recognized for being the leading city with “outstanding” delivery of services to residents by the ETC Institute, in addition to it being ranked 8th place in Milken Institute’s Best-Performing Cities for job creation, wage gains, and high-tech GDP growth.

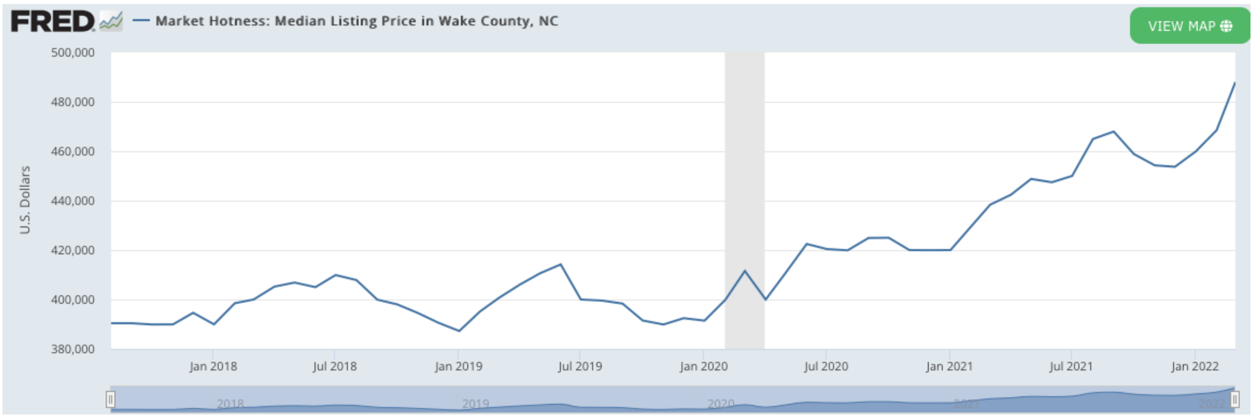
Technology-related job growth in Raleigh grew 62.3% to 38,853 jobs, while STEM-related jobs grew by 39% to 49,593 jobs from 2004 to 2014. Job growth relatively increases residents’ incomes. Rising incomes correspond with increasing demand for public services since the services are considered normal goods. Increasing public demand will raise the price of property taxes/ rates because the city can not increase the quantity or quality of services given the limited funds. Thus, increasing incomes will allow the city to increase property taxes and provide either a greater quantity of city services or better quality services. This was reflected in the 2021-22 General Fund budget, which included a 1.78-cent property tax increase (per $100 of property value) associated with the voter-approved 2020 affordable housing bond referendum (0.78 cents) and a property tax increase for parks capital maintenance (1.0 cent). As depicted in Graph 2.

Furthermore, the reports from the Property Tax Fairness project show that the city of Raleigh does not practice a regressive taxing process within property taxes. Although some less expensive homes are not assessed 100% of their value, it is only a minor 12% misvalued difference compared to an 8% misvalued difference for expensive homes. Additionally, the city of Raleigh met all three IAAO standards for the following studies: COD (average absolute percentage difference from the median sales ratio), PRD (homes assessments are at the same rate regardless of their sale price), and PRB (how much-assessed values change as a property’s market value increases). The results indicate that the COD measurement of assessment uniformity, or horizontal equity was stable over an extended period; the PRD measurement of regressivity or vertical equity was relatively flat over time; and the PRB measurement of regressivity (vertical equity) was also flat over time with relative fluctuations in 2008 due to the economic recession in the U.S. As shown in Graphs 3, 4, and 5.

Overall, the city of Raleigh demonstrates positive fiscal outlooks in the next five years. With strong job growth, stable property tax assessments, and public support for resource delivery - Raleigh is a prime example for fiscal responsibility across U.S. cities.

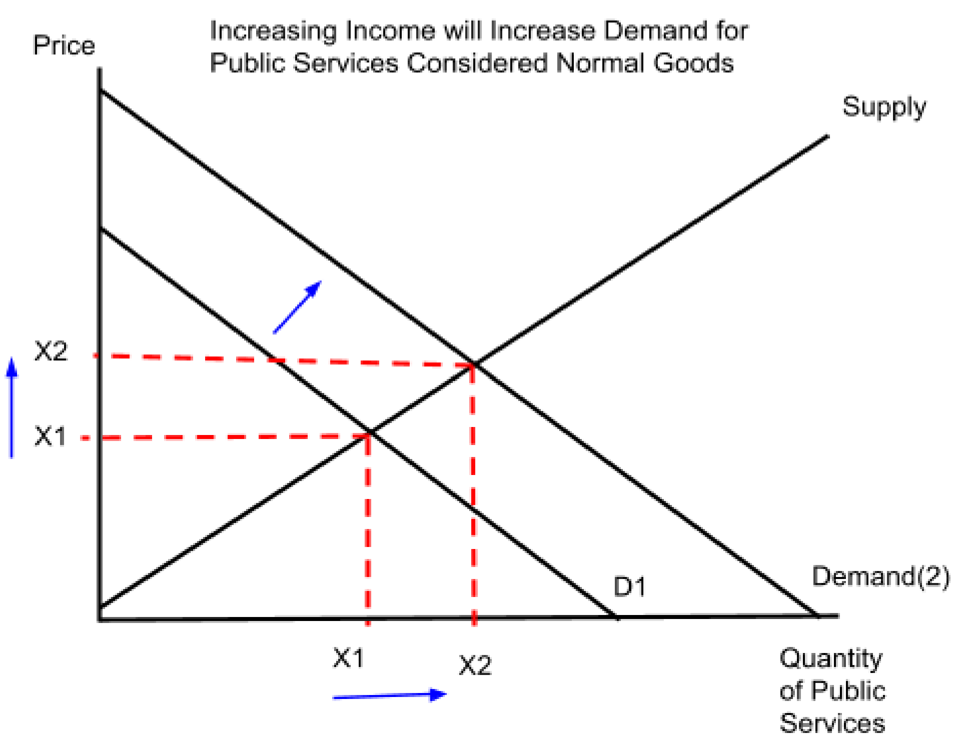
Resources

Graph 1)



Source: https://fred.stlouisfed.org/series/MELIPRCOUNTY37183

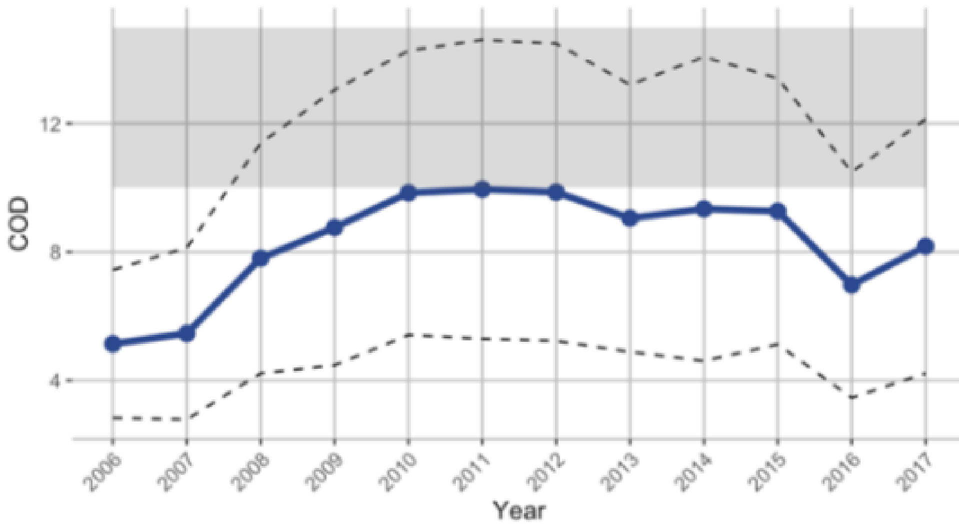
Graph 2)



Graph 3)

For 2017, the COD in RALEIGH was 8.18 which **did meet** the IAAO standard for uniformity.

Figure 3.1

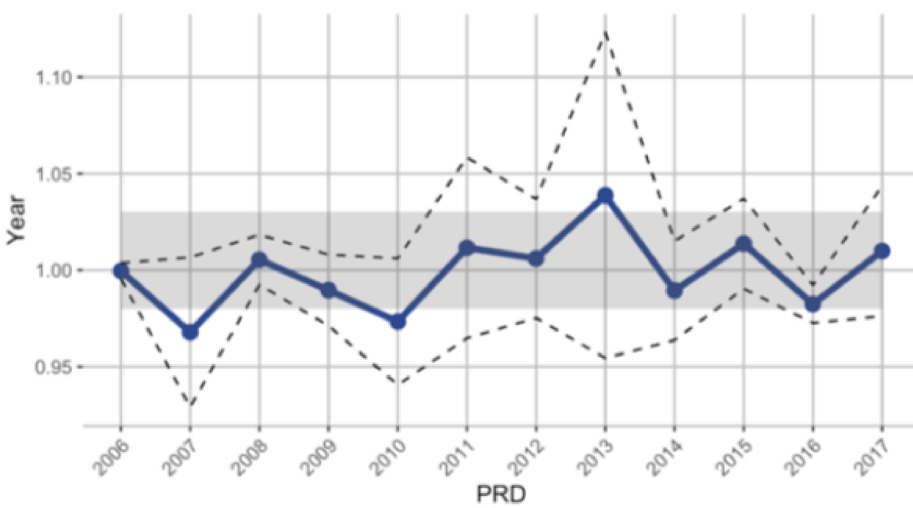


IAAO Benchmark: 15 or below (shaded). Dotted lines represent the 95% Confidence Interval.

Graph 4)

In 2017, the PRD in RALEIGH, was 1.01 which **meets** the IAAO standard for vertical equity.

Figure 3.2

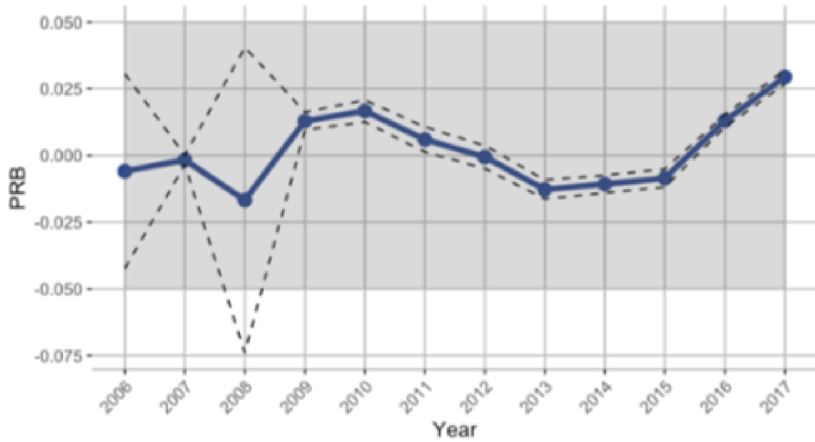


IAAO Benchmark: 0.98 to 1.03 (shaded). Dotted lines represent the 95% Confidence Interval.

Graph 5)

In 2017, the PRB in RALEIGH was 0.029 which indicates that sales ratios increase by 2.9% when home values double. This **meets** the IAAO standard.

Figure 3.3



IAAO Benchmark: +/- 0.05 (shaded). Dotted lines represent the 95% Confidence Interval.

Sources

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