

**CITY OF CHARLOTTESVILLE, VIRGINIA  
CITY COUNCIL AGENDA**



|                  |                                                                     |
|------------------|---------------------------------------------------------------------|
| Agenda Date:     | March 18, 2024                                                      |
| Action Required: | Public Hearing                                                      |
| Presenter:       | Samuel Sanders, Jr., City Manager                                   |
| Staff Contacts:  | Krisy Hammill, Director of Budget                                   |
| Title:           | <b>Meals Tax Rate for the City Manager's Proposed FY2025 Budget</b> |

**Background**

The City currently levies a 6.5% meals tax on the purchaser of every meal sold in the city by a restaurant or caterer. As part of the FY 2025 budget, an increase of 1% is proposed, raising the tax rate to 7.5%. The City estimates that this change will bring in an additional \$3,054,545 million in revenue for FY2025. This additional revenue is included in the FY 2025 City Manager's Proposed Budget.

**Discussion**

The meals tax is paid by consumers of prepared hot foods sold for immediate consumption on and off a premises including restaurant and grocery store food bars. This tax does not apply to foods purchased for home consumption and preparation, which are taxed at 2.5%. Meals tax revenue continues to grow, projected to generate \$19.5 million in FY 2024 and with the proposed increase to 7.5%, revenues are expected at \$22.8 million in FY 2025.

**Alignment with City Council's Vision and Strategic Plan**

The new revenue supports several initiatives that are included in the City's Strategic Plan including strong emphasis on affordable housing, education, transportation and supporting our employees.

**Community Engagement**

There are several opportunities for the community to provide input into the budget with several public hearings on the budget and a few minutes reserved at the end of each budget worksession for public comment and input, along with the Community Budget Forum. In addition, this ordinance change requires a separate public hearing, which was advertised via a legal ad, in the Daily Progress with information on this public hearing and the tax rate change, on March 11, 2024.

**Budgetary Impact**

Staff estimates that the rate change will generate an additional \$3.1 million in FY 2025 revenue and is included in the City Council's FY 2020 Proposed Budget.

**Recommendation**

N/A

**Alternatives**

Council could elect not to raise the meals tax rate at this time, or approve a different rate increase. If that's the case, staff will have to identify additional revenue or expenditure reductions in order to balance the budget.

**Attachments**

1. Draft budget ordinance - meals tax 3.11.24