



CITY MANAGER'S BUDGET MESSAGE

MAY 16, 2017

To the Honorable Mayor and City Council of the City of Marion:

In accordance with the General Statutes of North Carolina, I respectfully submit for your review and consideration the proposed budget for the City of Marion for Fiscal Year 2017-18. A copy of this budget is available for public inspection at City Hall. The budget is composed of four funds, including the General Fund, Water and Sewer Fund, Internal Service Fund, and General Capital Reserve Fund. The City also maintains project funds for individual capital projects. These funds are budgeted on a project basis and are not included as part of the annual budget.

The total budget for all funds is \$10,473,155, which represents a 4.85 percent increase (or \$484,724) over the original 2016-17 Fiscal Year Budget, excluding interfund transfers, and a decrease of 0.56 percent (or -\$58,188) over the amended 2016-17 Fiscal Year Budget, excluding interfund transfers, as of this date. This increase is primarily due to additional proposed capital outlay spending to purchase needed equipment and vehicles and contributions to Capital Project Funds.

The proposed budget figures are broken down into the following allocations:

General Fund	\$ 6,391,117
Water and Sewer Fund	3,773,577
Internal Service Fund	308,461
General Capital Reserve Fund	-
Total All Funds	<u>\$10,473,155</u>

In this budget, the staff and I have attempted to meet the budgetary goals that the City Council has had in place for many years. These goals are:

- Continue to provide quality and cost effective services to the citizens of Marion.
- Keep property taxes as low as possible, while still providing the full range of City services.
- Minimize the impact of increases to water and sewer rates and connection fees while ensuring the financial stability of the Water and Sewer Fund.
- Stress improvements to City infrastructure, particularly water, sewer, streets and sidewalks.
- Continue to stress City appearance, long range planning and economic development.

- Improve the City's quality of life through continued development of mini-parks, greenways and other recreational facilities.
- Continue to keep the City's fund balance adequate for future needs.

Several components of the budget deserve more detailed attention, and are addressed as follows:

REVENUES:

The City experienced considerable commercial development in the past year. For 2017-18, the City's property tax base is projected to grow only modestly. The City's 2017-18 tax base for real, personal and utility property is estimated to be \$431,708,914, an increase of \$11,390,930, or 2.71 percent, over the property tax base estimated in the 2016-17 budget.

This budget proposal recommends that the City tax rate remain at a rate of \$.51 per \$100 valuation. This would be the 50th consecutive year that the City of Marion has not raised the property tax rate. The \$.51 tax rate is projected to generate approximately \$2,135,664 in revenues for real, personal and utility property, and \$190,000 for motor vehicles, based on a tax collection percentage of 97 percent, which is one percent less than the projected City tax collection percentage for 2016-17.

Sales tax revenues are expected to increase by \$97,000, or 7.01 percent, in 2017-18, due to sales tax revenues exceeding the 2016-17 budgeted amount and sales taxes being expected to increase Statewide and locally by 4.25 percent in 2017-18. The sales tax estimate includes \$75,000 in proceeds from an Interlocal Agreement between the City and McDowell County regarding sales tax distribution. The Interlocal Agreement was renewed in June 2016 for a period of three years through June 30, 2019, to allow for the continuation or expansion of the sales tax reimbursement to the City.

Retail sales in the City and County have been good in recent years, exceeding the growth in Statewide retail sales for seven of the past ten years, and continued growth in local retail sales is expected to continue in 2017-18. Forecasts call for sales tax revenues across North Carolina to be 4.25 percent higher in 2017-18 than in 2016-17, so there is hope that the sales tax revenue estimates projected for 2017-18 are conservative and that actual sales tax collections may exceed the estimate.

Powell Bill revenues are projected to decrease by \$5,000 over the budgeted 2016-17 amount, and be \$1,427 lower than the actual 2016-17 amount, based on State projections. Based on State projections, utility sales tax revenues are projected to increase by \$63,000, or 12.35 percent, over the budgeted 2016-17 amount.

In 2014-15, the City budgeted \$60,000 and received approximately \$55,000 in business privilege license tax revenues. Effective July 1, 2015, the City's authority to levy such taxes was eliminated by the North Carolina General Assembly. In 2015, the City Council approved a business registration fee of \$20 per business located in the City which was increased to \$25 per business in 2016-17. Business registration revenues are budgeted at \$8,500 for 2017-18.

At the time this budget has been prepared, there has been no proposal for the State to retain any State collected local revenues for 2016-17 or 2017-18 and no such action is expected this year. In past years, the State has retained as much as \$320,000 of State collected local revenues, so there is

no guarantee that the State will not retain any local revenues, until such time as the State budget is adopted. There has been considerable discussion in the General Assembly of additional tax reform, which could have a positive or negative impact on local revenue sources, depending on what is approved. The exact scope of these impacts is unknown at the time of this budget proposal.

An increase of just over three percent in water and sewer rates, service charges and minimum charges, is proposed for 2017-18. The rate increase will produce an estimated \$93,000 in revenue in 2017-18. Due to water and sewer sales being more than forecasted in 2016-17, the budget projects that water and sewer sales will be \$132,000, or 4.31 percent, higher than what was budgeted in 2016-17.

In the proposed budget, there is no budgeted transfer from the General Fund to the Water and Sewer Fund for the ninth year in a row, meaning that the Water and Sewer Fund will continue to be self sustaining, continuing a goal the City Council has had for many years.

ABC revenues are forecasted to be \$112,500, which represents a \$2,500 increase from the 2016-17 budgeted amount, due to increased sales and efficiency improvements at the two ABC stores in Marion. These revenues are designated for beautification, parks and recreation, downtown/economic development and donations to outside agencies, as shown below in the Expenditure section.

The budget recommends only modest increases in permit fees and a small increase in commercial garbage fees, along with the increase in water and sewer rates, as described earlier.

Interest income from investments in all funds is projected to be \$6,500, which represents an increase of \$3,450 from the budgeted interest income of \$3,050 in all funds for 2016-17. Interest rates on investments rose slightly in 2016-17 due to actions taken by the Federal Reserve Board and are expected to increase during 2017-18.

The General Fund will require a fund balance appropriation of \$492,196, an amount 15.30 percent higher than the \$426,876 General Fund Balance appropriation amount included in the 2016-17 original budget. In the Water and Sewer Fund, a fund balance appropriation of \$350,000 is projected, which is 16.07 percent higher than the original budgeted 2016-17 Water and Sewer Fund Balance appropriation of \$301,546. The budget recommends no further reimbursements from the Water and Sewer Fund to the General Fund for past transfers made to balance the Water and Sewer budget for an extended period throughout much of the 1990's and 2000's. The last transfer from the Water and Sewer Fund to the General Fund was actually made in 2013-14. While Water and Sewer Fund reserves have been rebuilt to an acceptable level in recent years, the amount of Water and Sewer Fund Balance appropriations will have to be closely monitored, to make sure that the Water and Sewer Fund Balance remains adequate to cover operating expenses and debt service.

Revenues and expenditures within the Internal Service Fund are projected to be \$41,011 higher than in the 2016-17 budget, mainly due to the need for the stocking of inventory in the City Warehouse to meet City departmental needs. The 2017-18 budget proposes that the General Fund and Water and Sewer Fund pay a proportionate share of \$51,274 of Internal Service Fund personnel expenditures. As noted earlier, this budget does not include any transfer from the General Fund to

the Water and Sewer Fund. No transfer is proposed from the General Fund to the General Capital Reserve Fund or from the Water and Sewer Fund to the Water and Sewer Capital Reserve Fund. Contracted projects, including annual street paving and curb and gutter/sidewalk replacements, will be proposed in the Powell Bill account in 2017-18, but will be approved by City Council prior to being undertaken. The General Capital Reserve Fund and the Water and Sewer Capital Reserve Fund show projected revenues and expenditures of \$0 for 2017-18 since all remaining expenditures in these fund have been spent in the last two fiscal years.

EXPENDITURES:

This budget contains recommended funding for day-to-day operating expenses and for one-time capital expenses. Major operating and capital related expenditures are as follows:

Capital Outlay/Projects

General Fund

- Funding for street, sidewalk, curb and drainage projects, \$166,000
- Finance \$120,000 backhoe for Street Department, ½ year debt service, \$13,711
- Purchase of two fully equipped marked Police SUVs, \$93,333
- Contribution towards Drexel Cleanup Project and Trestle Study, \$47,500
- Purchase of one fully equipped marked Police car, \$33,667
- Purchase of 4 wheel drive SUV for Fire Department, \$27,000
- Code enforcement expenses for dilapidated housing demolition, \$15,000
- Implementation of Police Canine Program, \$15,000
- Replace shed roof on Community Building, \$15,000
- Purchase salt/sand spreader, \$14,000
- Purchase of new camera system for Interview Room at Police Department, \$10,000
- Purchase of ten replacement dumpsters for Sanitation Division, \$8,150
- Install electric lobby door locks for Police Department, \$6,036
- Install fence and gate at Marion Elementary, \$6,000
- Purchase modified truck bed for Sanitation Department, \$6,000
- Install automatic timers on Downtown Christmas lights, \$5,000
- Purchase of new time clock for Police Department, \$3,050 upfront cost with \$1,700 annual subscription
- Purchase of 2 tablets for Fire Department vehicles, \$3,000
- Purchase of 2 additional iPads for Planning and Inspections, \$2,100

Water and Sewer Fund

- Contribution towards I-40/Highway 226 Sewer Line Extension Project, \$86,650
- Purchase of water and sewer pipe, valves and hydrants for Utility Maintenance Division, \$81,700
- Purchase of 2 replacement utility trucks for Utility Maintenance Department, \$54,000
- Purchase of replacement SUV for Wastewater Treatment Plant, \$34,500

- Purchase of generator for Spaulding Lift Station, \$34,500
- Purchase of replacement water still at Water Plant, \$13,500
- Purchase of distillation unit for lab at Wastewater Treatment Plant, \$13,500
- Purchase of replacement pumps for wastewater pump stations, \$12,800
- Purchase of replacement autoclave at Water Plant, \$12,500
- Purchase of control panel replacement for wastewater pump station, \$5,200
- Purchase of Wastewater Plant laboratory equipment and glassware, \$5,000
- Purchase of IDEX Quanti Tray Sealer for lab at Water Plant, \$4,500
- Purchase of pipe locator for Utility Maintenance Department, \$4,200

Personnel/Administration

- 2% cost of living increase for City employees, \$86,059
- Merit increases for employees, \$0
- Increases in health insurance, worker's compensation and property and liability insurance premiums, \$31,297 over 2016-17 budgeted amount
- Increases in employer contributions to the Local Government Employees Retirement System, \$16,000 over 2016-17 budgeted amount
- Increase IT Analyst from part-time to full-time on February 1, 2018, \$15,105
- Budgeting for GIS services to assist Planning Department, \$12,500
- Budgeting of 10 hours per week for administrative services for Planning, \$9,500
- Budgeting of 2,000 hours of temporary labor for Public Works Department to use for fill-in work, \$27,656

Debt Service

- Payments on Sugar Hill Road Water and Sewer Extension loan, \$129,921
- Payments on Automated Water Meter Reading System loan, \$52,538
- Payments on Airport Road Sewer Extension loan, \$55,332
- Payments on Fire pumper-tanker truck and tower truck loans, \$118,420
- Payments on Wastewater Improvements Project loan, \$62,447
- Payments on Street Sweeper replacement loan, \$42,237
- Payments on Sanitation rear load packer truck loan, \$36,041
- Payments on Street Department Backhoe, \$13,711

Contracted Services/Operational Expenses

- Contracted services for water/sewer line extensions and repairs, \$92,000
- Purchase of City warehouse stock for resale to City departments, \$250,000
- Disposal of wastewater residuals through land application process, \$60,000
- Cemetery mowing, \$31,200
- Landscaping contract and street right-of-way mowing contract, \$61,490
- County landfill tipping fees, \$82,000
- Audit services, \$22,000

Downtown and Economic Development/Outside Agency Funding/Special Projects

- Funding for miscellaneous special projects, \$15,000
- Mountain Glory Festival expenditures, \$21,000
- Purchase of fireworks for annual July 4th Celebration, \$7,000
- Funding for Downtown/Economic Development/Events and Promotions, \$81,000
- Farmer’s Market Expenses, \$5,100
- Funding to McDowell County for Phase 3 of Catawba River Greenway, \$10,000
- Façade Grant Program, \$20,000
- GEM Class Grant Program, \$7,500
- Funding for other local agencies, \$18,000

As noted above, the proposed 2017-18 budget includes a 2 percent cost of living increase for City employees. The recommended budget includes converting a part time IT Analyst position to a full time position February 1, 2018.

It is worth noting that the recommended number of full-time City positions for the 2017-18 Fiscal Year, 96.0, is almost exactly equal to the number of full-time positions the City had during the 2002-03 Fiscal Year (95.5 budgeted positions), despite the City growing by more than 60 percent in population between 2001 and 2016.

As mentioned above in the Revenue section, expenditures in the amount equal to \$112,500 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 27,000
Beautification/Landscape Maintenance	30,000
Downtown/Economic Development	40,500
Various Community Agencies	<u>15,000</u>
Total	<u>\$ 112,500</u>

Total capital outlay in all funds in the proposed 2017-18 budget is increased by 23.72 percent, or \$145,806, from the 2016-17 budget, with General Fund capital outlay increasing by 15.49 percent and Water and Sewer Fund capital outlay increasing by 34.23 percent.

CONCLUSION:

The preparation of this budget has been with the knowledge of an improving Statewide and local economy, as evidenced by increasing property tax and sales tax revenues and new commercial and industrial expansions over the past few years. However, the continuation of the recent growth trends remains uncertain, as does the future of many local revenues due to potential action by the North Carolina General Assembly. The budget is designed to continue City operations at the current level, while serving growth occurring in the City. The budget also seeks to make necessary expenditure cuts, without affecting core municipal services as much as possible, in order to achieve a balanced budget. An attempt has been made to budget for revenues and expenditures very conservatively, while allowing for unexpected changes in the payment of revenues or for unexpected expenditures.

City staff understands that budgeted funds will only be spent on needs. Any items that are not deemed to be necessary will not be pursued this Fiscal Year and expenditures, particularly involving capital outlay purchases, can be cut during the Fiscal Year if revenues are not collected as projected.

I wish to express my appreciation to the department heads and especially Finance Director Julie Scherer for their support and assistance in the preparation of this budget.

We look forward to review of this document by you and the public. We are prepared to make adjustments as the Mayor and City Council deem appropriate.

The following schedule is proposed for your consideration of the proposed budget:

Tuesday, May 16, 2017	Budget Submittal
Tuesday, May 23, 2017	Budget Workshop
Tuesday, June 20, 2017	Public Hearing on Budget Adoption of Budget

Respectfully Submitted,

J. Robert Boyette
City Manager