



CITY MANAGER'S BUDGET MESSAGE

MAY 15, 2018

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 2018-19. A copy of this budget is available for public inspection at City Hall. The budget is composed of three funds, including the General Fund, Water and Sewer Fund, and Internal Service 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 \$10,692,370, which represents a 2.09 percent increase (or \$219,215) over the original 2017-18 Fiscal Year Budget, and a decrease of 1.9 percent (or -\$208,086) over the amended 2017-18 Fiscal Year Budget as of this date. This increase over the original budget is primarily due to cost of living increases, the addition of two employees, general price increases and additional proposed spending on various projects.

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

General Fund	\$ 6,501,308
Water and Sewer Fund	3,895,536
Internal Service Fund	<u>295,526</u>
Total All Funds	<u>\$10,692,370</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:

For 2018-19, the City's property tax base is projected to grow only modestly. At the time this budget message was written, City staff were continuing to work with the County to obtain complete information on property values. Therefore, to estimate conservatively for budget purposes, staff proposes to use the same property values that were billed for Fiscal Year 2017-18. The City's 2018-19 tax base for real, personal and utility property is estimated to be \$437,737,280, an increase of \$6,028,366, or 1.39 percent, over the property tax base estimated in the 2017-18 original budget.

This budget proposal recommends that the City tax rate remain at a rate of \$.51 per \$100 valuation. This would be the 51st consecutive year that the City of Marion has not raised the property tax rate. The \$.51 tax rate is projected to generate approximately \$2,165,487 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 2017-18.

Sales tax revenues are expected to increase by \$85,000, or 5.74 percent, in 2018-19, due to sales tax revenues exceeding the 2017-18 budgeted amount and sales taxes being expected to increase Statewide by 4.5 percent and locally by 2 percent in 2018-19. The sales tax estimate includes \$140,000 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 eleven years, and continued growth in local retail sales is expected to continue in 2018-19. Forecasts call for sales tax revenues across North Carolina to be 4.5 percent higher in 2018-19 than in 2017-18, so there is hope that the sales tax revenue estimates projected for 2018-19 are conservative and that actual sales tax collections may exceed the estimate.

Powell Bill revenues are projected to decrease by \$2,000 as compared to the budgeted 2017-18 amount, and be the same as the actual 2017-18 amount, based on State projections. Based on State projections, utility sales tax revenues are projected to decrease by \$43,000, or 7.5 percent, over the budgeted 2017-18 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 \$9,000 for 2018-19.

At the time this budget has been prepared, there has been no proposal for the State to retain any State collected local revenues for 2017-18 or 2018-19 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.

The budget recommends the implementation of a \$3 per month residential garbage fee. The City of Marion Public Works Department provides weekly back yard residential garbage collection to City of Marion residents. Only 4.5 percent of municipalities in North Carolina still provide back yard collection. Residential garbage is collected four days a week, Tuesday through Friday, for approximately 3,200 customers in the City. The City currently does not charge a user fee for residential garbage pickup. The City does charge for commercial garbage pickup for approximately 275 customers based on the type of business and the number of pickups per week or month. Approximately \$400,000 of costs for sanitation services are funded through other general revenues such as property tax, sales tax, utility sales tax, etc. According to a 2011 report prepared by the North Carolina League of Municipalities, 75.6 percent of cities with a population over 5,000 charged user fees for residential garbage collection. In the 2011 report, the average monthly user fee for residential garbage collection was \$10.53. Currently, cities in Western North Carolina are generally charging monthly residential garbage fees of \$9 to more than \$19 per month. A \$3 per month fee would generate approximately \$100,000 annually to help cover the cost of sanitation services. It is recommended that this fee be assessed through the monthly water and sewer billing process.

An increase of just over three percent in water and sewer rates, service charges and minimum charges, is proposed for 2018-19. The rate increase will produce an estimated \$97,590 in revenue in 2018-19. Due to water and sewer sales being more than forecasted in 2017-18, the budget projects that water and sewer sales will be \$144,200, or 4.5 percent, higher than what was budgeted in 2017-18.

In the proposed budget, there is no budgeted transfer from the General Fund to the Water and Sewer Fund for the tenth 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 \$125,000, which represents a \$12,500 increase from the 2017-18 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.

Interest income from investments in all funds is projected to be \$15,500, which represents an increase of \$9,000 from the budgeted interest income of \$6,500 in all funds for 2017-18. Interest rates on investments rose slightly in 2017-18 due to actions taken by the Federal Reserve Board and are expected to increase during 2018-19.

The General Fund will require a fund balance appropriation of \$370,336, an amount 24.76 percent lower than the \$492,196 General Fund Balance appropriation amount included in the 2017-18 original budget. In the Water and Sewer Fund, a fund balance appropriation of \$325,259 is projected, which is 7.07 percent lower than the original budgeted 2017-18 Water and Sewer Fund

Balance appropriation of \$350,000. 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 \$12,935 lower than in the 2017-18 budget, mainly due to the retirement of the Purchasing Agent during Fiscal Year 2017-2018 and the City choosing not to fill that position at this time.

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 2018-19, but will be approved by City Council prior to being undertaken.

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
- Funding for Administration for a tax software upgrade, server upgrades, and/or server migration, \$8,750
- Purchase of a replacement 4-wheel drive Inspection vehicle, \$28,000
- Purchase of three replacement fully equipped Police vehicles net of Governor's Highway Safety Program credits and other funding, \$99,500
- Building maintenance improvements for the Police Department, \$15,000
- Code enforcement expenses for dilapidated housing demolition, \$15,000
- Replace aging turnout gear and air bottles for Fire Department, \$10,000
- Purchase extraction tool/Jaws of Life for Fire Department, \$15,000
- Install automated security gate with keypad for Public Works campus, \$12,000
- Replace drill press at vehicle fleet maintenance, \$5,500
- Replace diagnostic tool at vehicle fleet maintenance, \$4,400
- Replace shed roof on Community Building, \$20,000
- Replace salt/sand spreader for Streets Division, \$15,000
- Purchase of twelve replacement dumpsters for Sanitation Division, \$10,800
- Replace pickup truck for Sanitation Division, \$26,000
- Purchase modified truck bed for Sanitation Division, \$6,000

Water and Sewer Fund

- Purchase of water and sewer pipe, valves and hydrants for Utility Maintenance Division, \$85,000
- Replace sewer jetter for Utility Maintenance Department, \$67,000
- Replace dump truck for Utility Maintenance Department, \$65,000
- Replace tracks for excavator for Utility Maintenance Department, \$18,000
- Replace raw water pump at Buck Creek, \$30,000
- Replace turbidity meters at Water Treatment Plant, \$13,500
- Replace obsolete fluoride meter at Water Treatment Plant, \$8,200
- Replace aging lab equipment at Water Treatment Plant, \$6,400
- Replace wastewater lift station pumps, \$15,000
- Replace aerator brushes at Wastewater Treatment Plant, \$25,800
- Gearbox for bar screen at Wastewater Treatment Plant, \$4,250
- Purchase of 5,000 pound hoist for service truck at Wastewater Treatment Plant, \$15,800

Personnel/Administration

- 2.5 percent cost of living increase for City employees, \$95,383
- Merit increases for employees, \$0
- Decrease in health insurance due to change in health insurance provider, (\$40,078)
- Increases in worker's compensation and property and liability insurance premiums, \$5,250 over 2017-18 budgeted amount
- Increases in employer contributions to the Local Government Employees Retirement System, \$24,683 over 2017-18 budgeted amount
- Additional Maintenance Worker position for Streets Division effective July 1, 2018, \$35,846
- Additional Firefighter position effective October 1, 2018, \$32,338
- Includes the first full year of the IT Support Technician, increase of \$23,773
- Includes the first full year of the Police Department Training Coordinator, increase of \$30,375
- Elimination of Police Department Administrative Lieutenant position replaced with Administrative Assistant position, decrease of (\$16,175)
- Continues vacancy of Purchasing Agent, decrease of (\$52,532)
- Budgeting of 10 hours per week for Planning Department administrative services, \$6,717
- Budgeting of 15 hours per week for Police Department administrative services, \$16,793
- 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, \$52,539
- Payments on Airport Road Sewer Extension loan, \$55,333
- Payments on Fire pumper-tanker truck and tower truck loans, \$118,419
- Payments on Wastewater Improvements Project loan, \$62,447

- Payments on Street Sweeper and Backhoe loans, \$66,069
- Payments on Sanitation rear load packer truck loan, \$36,042

Contracted Services/Operational Expenses

- Contracted services for water/sewer line extensions and repairs, \$82,000
- Purchase of City warehouse stock for resale to City departments, \$235,000
- Disposal of wastewater residuals through land application process, \$60,000
- Cemetery mowing, \$31,200
- Landscaping contract and street right-of-way mowing contract, \$63,700
- Paving of Bakersville Road, \$11,040
- County landfill tipping fees, \$87,000
- Audit services, \$24,550

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, \$85,000
- Farmer’s Market Expenses, \$5,100
- Funding to McDowell County for Phase 3 of Catawba River Greenway, \$10,000
- Façade Grant Program, \$25,000
- Contribution to Municipal Events Center Lease, \$25,000 (with \$10,000 offset by McDowell Tourism Development Authority’s contribution to the Mountain Glory Festival)
- GEM Class Grant Program, \$7,500
- Funding for other local agencies, \$23,000

As noted above, the proposed 2018-19 budget includes a 2.5 percent cost of living increase for City employees. The recommended budget includes one additional position for the Streets Department and one additional Firefighter. It is worth noting that the recommended number of full-time equivalent City positions for the 2018-19 Fiscal Year, 98, is less than the number of full-time positions the City had during the 2007-08 Fiscal Year (99 budgeted positions), despite the City growing considerably in population since 2007.

As mentioned above in the Revenue section, expenditures in the amount equal to \$125,000 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 27,000
Beautification/Landscape Maintenance	30,000
Downtown/Economic Development	53,000
Various Community Agencies	<u>15,000</u>
Total	<u>\$ 125,000</u>

Total capital outlay in all funds in the proposed 2018-19 budget decreased slightly from the prior year original budget by 3.7 percent, or \$22,850, from the 2017-18 budget, with General Fund capital outlay decreasing by 30.6 percent and Water and Sewer Fund capital outlay increasing by 30.7 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 City department heads for their support and assistance in the preparation of this budget and for submitting reasonable and justifiable budget requests. A debt of gratitude is especially owed to Finance Director Julie Scherer for her hard work on this budget, evaluating numerous budget alternatives and spending a great deal of time on individual aspects of the budget, most notably the City's 2018-19 health insurance renewal. The final budget ended up being much more positive than expected, in large part to Mrs. Scherer's efforts.

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 15, 2018	Budget Submittal
Tuesday, May 22, 2018	Budget Workshop
Tuesday, June 19, 2018	Public Hearing on Budget
	Adoption of Budget

Respectfully Submitted,

J. Robert Boyette
City Manager