



CITY MANAGER'S BUDGET MESSAGE

MAY 21, 2019

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 2019-20. 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 System Development Fee 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 \$11,376,165, which represents a 6.4 percent increase (or \$683,795) over the original 2018-19 Fiscal Year Budget, and a decrease of 0.5 percent (or \$52,176) under the amended 2018-19 Fiscal Year Budget as of this date. This increase over the original budget is primarily due to increased capital outlay spending, the addition of three employees, cost of living increases, general price increases and additional proposed spending on various projects.

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

General Fund	\$ 7,095,360
Water and Sewer Fund	3,958,758
Internal Service Fund	304,547
System Development Fee Capital Reserve Fund	<u>17,500</u>
Total All Funds	<u>\$11,376,165</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 2019-20, the City's property tax base is projected to increase modestly due to natural growth and more because of the following two items: 1) the addition of the Mission McDowell Hospital's real property value to the ad valorem tax base, and 2) the octennial property revaluation. At the time this budget message was written, City staff were continuing to work with the County to obtain complete information on property values.

The Hospital, which was previously owned by Mission Health (a non-profit organization which was considered exempt from ad valorem taxes), was recently sold to HCA (a for profit organization), resulting in the real property being subject to property taxation in Fiscal Year 2019-2020 and personal property being subject to property taxation in Fiscal Year 2020-2021. Current County projections are that the addition of the Hospital as a taxable property will increase values by approximately \$34.7 million resulting in a City tax levy of approximately \$177,000.

As mentioned previously, the County recently completed its octennial property revaluation. There has been a modest increase of 1.89 percent in average annual property values since the last revaluation in 2011. Tax rates were not increased during that time and unavoidable increases in costs were absorbed through either budget decreases in other areas or delayed projects. It is currently projected by the County that growth due to the revaluation will increase City property values by approximately 6.6 percent, with a growth in value of approximately \$29.2 million and an increase in levy of approximately \$149,000.

Staff proposes to use the current County projections resulting in a tax base for real, personal and utility property estimated to be \$503,519,772, an increase of \$65,782,492, or 15.03 percent, over the property tax base estimated in the 2018-19 original budget of \$437,737,280.

This budget proposal recommends that the City tax rate remain at a rate of \$.51 per \$100 valuation. The \$.51 tax rate is projected to generate approximately \$2,490,912 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 2018-19.

Sales tax revenues are expected to decrease by \$15,000, or one percent, in 2019-20, due to a change in the Interlocal Agreement between the City and McDowell County regarding sales tax distribution. The City has been informed that McDowell County will cap the City's sales tax reimbursement from the County for 2019-20 at \$100,000, a reduction in City sales tax revenues of \$60,000 to \$70,000. Sales tax revenues aside from the County sales tax reimbursement are forecasted to increase, but will be more than offset by the reduction in the County sales tax reimbursement, resulting in a projected decrease of sales tax revenues of \$15,000 in 2019-20.

Retail sales in the City and County have been good in recent years, exceeding the growth in Statewide retail sales for eight of the past eleven years, and continued growth in local retail sales is expected to continue in 2019-20. Forecasts call for sales tax revenues across North Carolina to be 4.5 percent higher in 2019-20 than in 2018-19, so there is hope that the sales tax revenue estimates projected for 2019-20 are conservative and that actual sales tax collections may exceed the estimate.

Powell Bill revenues are projected to increase by \$7,000 as compared to the budgeted 2018-19 amount, and be the same as the actual 2018-19 amount, based on State projections. Based on State projections, utility sales tax revenues are projected to increase by \$35,000, or 6.6 percent, over the budgeted 2018-19 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 2019-20.

At the time this budget has been prepared, there has been no proposal for the State to retain any State collected local revenues for 2018-19 or 2019-20 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 a \$1 per month increase in the monthly residential garbage fee from \$3 per month to \$4 per month. This fee was implemented July 1, 2018. 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. 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. Cities in Western North Carolina are generally charging monthly residential garbage fees of \$9 to more than \$19 per month. The budget also recommends a 20 percent increase in commercial garbage rates to offset costs resulting from prior and current year increases in McDowell County solid waste tipping fees that exceed 20 percent. Approximately \$340,000 of costs for sanitation services are funded through other general revenues such as property tax, sales tax, utility sales tax, etc. A \$1 per month increase in residential garbage rates and a 10 percent increase in commercial garbage rates would generate approximately \$47,000 annually to help cover the cost of sanitation services.

The City has requested a \$.02 increase in the Marion Area Fire District ad valorem tax rate which is currently at \$.06/\$100 in value. This increase of approximately \$86,000 will be used to fund a portion of the new Fire Engineer added in 2018-19, two additional Fire Engineers that are

recommended for 2019-20, related equipment and uniforms, and a part-time Administrative Assistant that is recommended in 2019-20.

An increase of just over three percent in water and sewer rates, service charges and minimum charges, is proposed for 2019-20. The rate increase will produce an estimated \$83,410 more in revenue than what was budgeted in 2018-19.

In the proposed budget, there is no budgeted transfer from the General Fund to the Water and Sewer Fund for the eleventh 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 \$150,000, which represents a \$25,000 increase from the 2018-19 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 \$22,500, which represents an increase of \$7,000 from the budgeted interest income of \$15,500 in all funds for 2018-19. Interest rates on investments rose in 2018-19 due to actions taken by the Federal Reserve Board and are expected to increase slightly during 2019-20.

The General Fund will require a fund balance appropriation of \$426,608, an amount 15.19 percent higher than the \$370,336 General Fund Balance appropriation amount included in the 2018-19 original budget. In the Water and Sewer Fund, a fund balance appropriation of \$304,571 is projected, which is 6.36 percent lower than the original budgeted 2018-19 Water and Sewer Fund Balance appropriation of \$325,259. 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 \$9,021 higher than in the 2018-19 budget, mainly due to increases in projected supplies and materials needed by departments.

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. As required by State Statute, System Development Fees are receipted into the System Development Fee Capital Reserve Fund and are then transferred to the Water and Sewer Fund for eligible expenditures. Contracted projects, including annual street paving and curb and gutter/sidewalk replacements, will be proposed in the Powell Bill account in 2019-20, 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, \$195,250
- Funding for City's 25 percent share of Blue Ridge and Carson Street repairs due to Tropical Storm Alberto, \$51,089
- Funding for a roof replacement at City Hall, \$35,500
- Painting of City Hall Atrium, \$9,000
- Purchase of two replacement fully equipped Police vehicles, \$86,667
- Building maintenance improvements for the Police Department including replacement of HVAC, \$15,000
- Code enforcement expenses for dilapidated housing demolition, \$30,000
- Replace aging turnout gear and purchase turnout gear washer for Fire Department, \$25,000
- Replace awning at Public Works campus torn off during Winter Storm Diego, \$6,500
- Replace band saw and air compressor at vehicle fleet maintenance, \$6,000
- Replace shed roof on Community Building, \$20,000
- Install camera system at Community Building, \$4,200
- Replace salt/sand spreader for Streets Division, \$16,000
- Replace flatbed dump truck for Streets Division, \$49,000
- Replace half-ton pickup for Streets Division, \$30,000
- Purchase ten replacement dumpsters for Sanitation Division, \$10,000
- Purchase used Knuckle Boom Truck for Sanitation Division, \$27,000
- 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 truck with utility bed for Utility Maintenance Division, \$47,000
- Replace tractor for Utility Maintenance Division, \$27,000
- Replace flail mower for Utility Maintenance Division, \$4,000
- Replace trash pumps for Utility Maintenance Division, \$6,400
- Meter conversion due to required software change for Utility Maintenance Division, \$12,980
- Distillery units for the Water and Wastewater Treatment Plants, \$15,000
- Maintenance vehicle for the Water Treatment Plant for intake road repair, \$19,500
- Valve actuators at Water Treatment Plant, \$26,500
- Raw water pump at Water Treatment Plant, \$32,000

- Quanti Tray Sealer at Wastewater Treatment Plant, \$6,000
- Spare Pumps at Wastewater Treatment Plant, \$12,900

Personnel/Administration

- 2 percent cost of living increase for City employees, \$89,533
- Merit increases for employees, \$0
- 4 percent increase in health insurance, \$28,800
- Increases in employer contributions to the Local Government Employees Retirement System, \$49,604 over 2018-19 budgeted amount
- Additional Narcotics position for Police Department effective October 1, 2019, \$39,558
- 2 additional Fire Engineer positions effective July 1, 2019, \$96,606
- Part-time Administrative Assistant for Fire Department, \$10,404
- Pay/Classification Study and Personnel Policy Update, \$18,000
- Includes the first full year of the Fire Engineer added in FY 2018-19, increase of \$16,024
- Budgeting 5 additional hours per week for Planning Department administrative services, \$3,350
- Budgeting of approximately 4,000 hours of temporary labor for Streets and Sanitation 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, \$242,500
- Cemetery mowing, \$29,900
- Landscaping contract and street right-of-way mowing contract, \$68,900
- Estimated Municipal Election expense to be paid to McDowell County, \$5,000
- County landfill tipping fees, \$130,000
- County dispatching fees, \$118,000
- Audit services, \$26,000

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, \$87,000
- Farmer’s Market Expenses, \$5,100
- Façade Grant Program, \$24,000
- 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 2019-20 budget includes a 2 percent cost of living increase for City employees. The recommended budget includes one additional position for the Police Department and two additional Fire Engineers. It is worth noting that the recommended number of full-time equivalent City positions for the 2019-20 Fiscal Year, 101.5, is only 2.5% higher 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 \$150,000 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 52,000
Beautification/Landscape Maintenance	30,000
Downtown/Economic Development	53,000
Various Community Agencies	<u>15,000</u>
 Total	 <u>\$ 150,000</u>

Total capital outlay in all funds in the proposed 2019-20 budget increases by 14.4 percent, or \$85,536, over the 2018-19 original budget, with General Fund capital outlay increasing by 60 percent and Water and Sewer Fund capital outlay decreasing by 17 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 and the planned reduction of sales tax revenues by McDowell County. The budget is designed to continue City operations, while serving growth occurring in the City with specifically targeted increases in staffing and in capital outlay. 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, including the City's 2019-20 health insurance renewal and estimating the City's property and sales tax revenues for 2019-20. 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 21, 2019	Budget Submittal
Tuesday, June 18, 2019	Public Hearing on Budget
	Adoption of Budget

Respectfully Submitted,

J. Robert Boyette
City Manager