



CITY MANAGER'S BUDGET MESSAGE

JUNE 2, 2020

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 2020-21. 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 multi-year capital and grant 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 \$11,979,413, which represents a 5.3 percent increase (or \$603,248) over the original 2019-20 Fiscal Year Budget, and a decrease of .03 percent (or -\$3,233) under the amended 2019-20 Fiscal Year Budget as of this date. This increase over the original 2019-20 budget is primarily due to the addition of four employees since the adoption of the 2019-20 budget (three Firefighters and a School Resource Officer), the carry forward of approximately \$133,000 for vehicles that were ordered in FY 2019-20 but will not be delivered until FY 2020-21 due to COVID-19 delays, cost of living increases and general price increases.

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

General Fund	\$ 7,543,695
Water and Sewer Fund	4,112,607
Internal Service Fund	303,111
System Development Fee Capital Reserve Fund	<u>20,000</u>
Total All Funds	<u>\$11,979,413</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:

Given the current situation with the COVID-19 pandemic and its impact on the global economy, staff has attempted to be conservative with revenue estimates using information known at the time of the budget presentation and the guidance received from the State and the North Carolina League of Municipalities (NCLM). Given the unprecedented nature of the virus and its unknown resiliency or resurgence through the upcoming months, staff will need to monitor revenues very closely and further adjustments may need to be made as the 2020-21 Fiscal Year progresses.

For Fiscal Year 2020-21, the City's property tax base is projected to increase modestly due to natural growth and also due to the addition of the Mission McDowell Hospital's personal property value to the ad valorem tax base. 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 sold during FY 2018-19 to HCA (a for profit organization), which resulted in the real property being subject to property taxation in Fiscal Year 2019-20 and personal property being subject to property taxation in Fiscal Year 2020-21. Current County projections are that the addition of the Hospital's personal property as a taxable property will increase values by \$6,748,968 resulting in a City tax levy of \$34,420.

Staff proposes to use the current County projections resulting in a tax base for real, personal and utility property estimated to be \$533,289,693, an increase of \$29,769,921, or 5.91 percent, over the property tax base estimated in the FY 2019-20 original budget of \$503,519,772.

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 \$2,610,986 in revenues for real, personal and utility property, and \$190,000 for motor vehicles, based on a tax collection percentage of 96 percent for real, personal and utility property, which is 2 percent less than the projected City tax collection percentage for FY 2019-20. The City typically budgets for a 97 percent property tax collection rate. The average City property tax collection rate for the past five years has been 98.59 percent, therefore a 96 percent collection rate is more conservative than usual.

Sales tax revenues are expected to decrease due to two factors – 1) the economic impact of COVID – 19 and 2) the continuing reduction in the sales tax reimbursement from the County.

In accordance with the most conservative sales tax estimates provided by the NCLM, staff is estimating that sales tax will *decline* by 20 percent for sales occurring in April – June 2020 (Fiscal Year 2019-20), by 10 percent for sales occurring July – September 2020, by five percent for sales occurring October – December 2020, and have no growth for sales occurring January – June 2021.

In addition, due to the revision made last year to the Interlocal Agreement between the City and McDowell County regarding sales tax distribution, the City will receive \$66,666 from the County in Fiscal Year 2020-21 as compared to \$100,000 in Fiscal Year 2019-20, a \$33,334 reduction. In the revision, McDowell County capped the City's sales tax reimbursement from the County (the reimbursement resulted from a change in the distribution method from population to ad valorem) for 2019-20 at \$100,000, for 2020-21 at \$66,666, for 2021-22 at \$33,333 and eliminated it completely in Fiscal Year 2022-23.

In summary, the City estimates sales tax for 2019-20 to come in approximately \$50,000, or 3.22 percent, under budget and sales tax for 2020-21 to be approximately \$60,000, or 3.92 percent, less than the Fiscal Year 2019-20 original budgeted amount. The City receives its distribution from the State on a monthly basis and will communicate sales tax revenue trends to Council frequently, so that adjustments can be made in expenditures if sales tax revenues fall short of the estimated amount.

Retail sales in the City and County have shown excellent growth in recent years, exceeding the growth in Statewide retail sales for eight of the past thirteen years, and continued growth in local retail sales is expected to continue in 2019-20, despite retail sales being projected to decline by 20 percent for the final three months of 2019-20. However, as noted above, retail sales are forecasted to decline for much of 2020-21, leading to the conservative sales tax estimates noted above for 2020-21.

Powell Bill revenues are budgeted at the same amount as the prior year budget at \$225,000. While the FY 2019-20 allocation came in \$3,289 under budget, an increased allocation is expected for 2020-21 based on a legislative decision that was made last fall. The City does not know our share of this additional allocation at this time but feels that a budgeted amount of \$225,000 is conservative. Based on State projections, utility sales tax revenues are projected to decrease by \$23,000, or 3.5 percent, under the budgeted 2019-20 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 \$8,000 for 2020-21 which is \$1,000 less than the FY 2019-20 budgeted amount due to the uncertainty of the economic impact on local businesses.

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.

The budget recommends a \$1 per month increase in the monthly residential garbage fee from \$4 per month to \$5 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. This budget recommends no increase in commercial garbage rates as it is our understanding that the County does not plan to increase tipping fees. Approximately \$250,000 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 will generate approximately \$30,000 annually to help cover the cost of sanitation services.

An increase of just over five percent in water and sewer rates, service charges and minimum charges, is proposed for 2020-21. The rate increase will produce an estimated \$148,000 more in revenue than what was budgeted in 2019-20. The City recently completed a Wastewater Asset Inventory and Assessment Study which assessed the condition of our current infrastructure and established a Capital Improvement Plan illustrating our priority projects that need to be considered over the next 10 years. This Plan includes projects totaling approximately \$8.25 million. While the City hopes to qualify for grants to fund a portion of this, the City will need to finance many of these costs with either cash on hand or long-term financing. The City will be starting a Water Asset Inventory and Assessment Study in the near future. This study will reveal water projects that will need to be undertaken in the next 10 years. Financing of these future projects as well as significant unexpected expenses that were incurred during Fiscal Year 2019-2020 lead staff to recommend this 5% increase in rates.

In the proposed budget, there is no budgeted transfer from the General Fund to the Water and Sewer Fund for the twelfth year in a row, meaning that the Water and Sewer Fund continues to be self-sustaining.

ABC revenues are forecasted to be \$180,000 in 2020-21, which represents a \$30,000 increase from the 2019-20 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 \$2,150, which represents a decrease of \$20,350 from the budgeted interest income of \$22,500 in all funds for 2019-20. Interest rates on investments are now close to 0% due to actions taken by the Federal Reserve Board as a result of the current economic decline.

The General Fund will require a fund balance appropriation of \$12,534, an amount 97.06 percent lower than the \$426,608 General Fund Balance appropriation amount included in the 2019-20 original budget. Even though the City has added to its General Fund Balance over the past several years, budget increases that occur (such as the addition of 5 Firefighters and an SRO in FY 2019-

20) will lead to an increase in General Fund total expenditures. If fund balance additions do not trend the same as budget increases, a decrease in the fund balance available for appropriation (available fund balance as a percent of total expenditures) can occur. The Local Government Commission uses fund balance available for appropriation as an indicator of fiscal health and compares the City to its peers in this assessment. While the current fund balance is deemed to be adequate, the City will need to monitor fund balance in the future to ensure that the amount of cash on hand is sufficient for continuity of operations if an emergency were to arise.

In the Water and Sewer Fund, a fund balance appropriation of \$196,995 is projected, which is 35.32 percent lower than the original budgeted 2019-20 Water and Sewer Fund Balance appropriation of \$304,571. 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 relatively flat and are estimated to be \$1,436 lower than in the 2019-20 budget.

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 2020-21, 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, \$220,830
- Replace three fully equipped Police vehicles, \$133,000
- Replace three Special Response Team tactical vests for Police Department, \$12,000
- Year two payment on AXON Fleet body cameras and in-car camera system, \$35,000
- Local Match for potential FEMA AFG grant to replace SCBA airpaks, bottles, and face pieces for the Fire Department, \$32,000
- Rescue equipment for the Fire Department to obtain Rescue certification, \$7,000
- Replace six sets of aging turnout gear for Fire Department, \$23,000

- Code enforcement expenses for dilapidated housing demolition, \$15,000
- Replace manual gate at Public Works campus with automated security gate, \$15,000
- Replace tow behind leaf collector in Public Works Department Streets Division, \$85,000
- Replace tractor in Public Works Department Streets Division, \$32,000
- Replace mower in Public Works Department Streets Division, \$8,000
- Purchase eighteen dumpsters and repair fifteen dumpsters for Public Works Department Sanitation Division, \$22,200
- Carry forward of a Police Department replacement vehicle ordered in FY 2019-2020 that will not be delivered until FY 2020-2021 due to COVID-19 delays, \$46,312
- Carry forward of a Street Department replacement vehicle ordered in FY 2019-2020 that will not be delivered until FY 2020-2021 due to COVID-19 delays, \$48,894

Water and Sewer Fund

- Purchase of water and sewer pipe, valves and hydrants for Public Works Department Utility Maintenance Division, \$85,000
- Replace camera head for sewer camera for Public Works Department Utility Maintenance Division, \$25,000
- Purchase light tower for Public Works Department Utility Maintenance Division, \$3,500
- Replace excavator, \$73,000
- Application of epoxy coating on exterior of alum storage tank at Water Treatment Plant, \$15,000
- Replace fluoride analyzer at Water Treatment Plant, \$8,200
- Replace exterior doors at Water Treatment Plant, \$20,000
- Carry forward of a Utility Maintenance Division replacement vehicle ordered in FY 2019-2020 that will not be delivered until FY 2020-2021 due to COVID-19 delays, \$38,100

Personnel/Administration

- Cost of living increase for City employees to be paid later in 2020-21 if the local economy improves and the City budget allows, \$56,013
- Merit increases for employees, \$0
- Cost increases for health, dental, vision, and life insurance, \$0
- Increases in employer contributions to the Local Government Employees Retirement System, \$59,370 over 2019-20 budgeted amount
- Funding for the first full year of five additional Fire Engineers for the Fire Department, increase of \$157,500
- Funding for the first full year of the Narcotics position for the Police Department, increase of \$13,186
- Funding for the first full year of an additional School Resource Officer at the elementary schools in the City, increase of \$22,850
- Budgeting of approximately 4,000 hours of temporary labor for Public Works Department Streets and Sanitation Divisions to use for fill-in work, \$70,000

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
- Payments on Various Vehicles and Equipment to be Financed in FY 2020-21, \$48,800

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, \$240,000
- Cemetery mowing, \$29,900
- Landscaping contract and street right-of-way mowing contract, \$68,900
- County landfill tipping fees, \$155,000
- County dispatching fees, \$80,000
- Audit services, \$26,500

Downtown and Economic Development/Outside Agency Funding/Special Projects

- Funding for miscellaneous special projects, \$15,000
- Mountain Glory Festival expenditures, \$22,000
- 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
- Marketing, \$29,000
- Contribution to Municipal Events Center Lease, \$10,000 (Offset by McDowell Tourism Development Authority's contribution to the Mountain Glory Festival. The City will be making its direct FY 2020-21 \$15,000 contribution early in FY 2019-20 to assist with delayed rental revenues at the Event Center due to COVID-19)
- GEM Class Grant Program, \$7,500
- Funding for other local agencies, \$25,500

The recommended 2020-21 Budget calls for the suspension of the City's residential recycling program for one year. The implementation of this recommendation will save the General Fund an estimated \$63,000 in 2020-21.

As noted above, the proposed 2020-21 budget includes funding for a cost of living increase for City employees to be paid if the local economy shows improvement and the condition of the City budget allows. The recommended budget does not include any new positions. It is worth noting that the

recommended number of full-time equivalent City positions for the 2020-21 Fiscal Year, 107, is only eight percent 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.

The City completed a Pay and Reclassification Study in Fiscal Year 2019-20 and had hoped to include funding for the implementation of the study in the 2020-21 Budget. Due to anticipated revenue shortfalls related to the COVID-19 pandemic, funding for the implementation of the Pay and Classification Study will be delayed until at least the 2021-22 Fiscal Year.

As mentioned above in the Revenue section, expenditures in the amount equal to \$180,000 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 70,000
Beautification/Landscape Maintenance	42,000
Downtown/Economic Development	53,000
Various Community Agencies	<u>15,000</u>
Total	<u>\$ 180,000</u>

Total capital outlay in all funds in the proposed 2020-21 budget increased by 18.53 percent, or \$116,459, above the 2019-20 original budget due to the carry forward of approximately \$133,000 for vehicles that ordered but not delivered in 2019-20 due to COVID-19, with General Fund capital outlay increasing by 42.7 percent and Water and Sewer Fund capital outlay decreasing by 9 percent.

CONCLUSION:

The preparation of this budget has been with the knowledge of a struggling national, state and local economy, as a result of the COVID-19 pandemic. As a result, conservative estimates for property tax and sales tax revenues are included in the proposed 2020-21 Budget. The hope is that the economy will bounce back relatively quickly and that the economic growth seen locally in recent years can continue. It is also hoped that the United States Congress and/or the North Carolina General Assembly will provide funding to local governments to replace revenues lost as a result of the COVID-19 pandemic, but the proposed 2020-21 Budget does not assume any such appropriations.

The budget is designed to continue City operations, while serving growth occurring in the City, with no staffing additions and an overall reduction in capital outlay spending. 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 2020-21 health insurance renewal and estimating the City's property and sales tax revenues for 2020-21. 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, June 2, 2020	Formal Budget Submittal
Tuesday, June 30, 2020	Public Hearing on Budget
	Adoption of Budget

Respectfully Submitted,

J. Robert Boyette
City Manager