



CITY MANAGER'S BUDGET MESSAGE

MAY 18, 2021

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 2021-22. 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 \$12,970,678, which represents an 8.27 percent increase (or \$991,265) over the original 2020-21 Fiscal Year Budget, and a decrease of 4.63 percent (or -\$629,293) under the amended 2020-21 Fiscal Year Budget as of this date. This increase over the original 2020-21 budget is primarily due to investments in equipment and capital projects, the implementation of the pay and reclassification study, the addition of one employee in the Planning and Development Department and general price increases.

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

General Fund	\$ 8,274,618
Water and Sewer Fund	4,369,555
Internal Service Fund	306,505
System Development Fee Capital Reserve Fund	<u>20,000</u>
Total All Funds	<u>\$12,970,678</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 Fiscal Year 2021-22, the City’s property tax base is projected to increase modestly due to natural growth in the ad valorem tax base. At the time this budget message was prepared, 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 that the 2021-22 budget include an increase of one percent over the property values that were billed for Fiscal Year 2020-21. The City’s 2020-21 tax base for real, personal and utility property is estimated to be \$546,420,809, an increase of \$13,131,116, or 2.5 percent, over the property tax base estimated in the 2020-21 original budget.

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 \$2,703,144 in revenues for real, personal and utility property, and \$195,000 for motor vehicles, based on a tax collection percentage of 97 percent for real, personal and utility property, which is 1.5 percent less than the projected City tax collection percentage for Fiscal Year 2020-21.

Sales tax revenues are expected to increase \$77,000, or 5.19 percent, in Fiscal Year 2021-22 over the Fiscal Year 2020-21 original budget due to sales tax revenues exceeding the 2020-21 budgeted amount netted with the continuing reduction in the sales tax reimbursement from the County.

When preparing the Fiscal Year 2020-21 budget soon after the start of the COVID-19 pandemic and economic shutdown, the City budgeted the most conservative sales tax estimates provided by the North Carolina League of Municipalities and estimated that sales tax revenues would decline 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. The City has actually experienced increases in sales tax thus far for Fiscal Year 2020-21.

Offsetting this growth is the continuing decline in the sales tax distribution directly from McDowell County due to the revision made to the Interlocal Agreement between the City and the County. The City will receive \$33,333 from the County in Fiscal Year 2021-22 as compared to \$66,666 in Fiscal Year 2020-21, a \$33,333 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 per capita 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.

Retail sales in the City and County have shown excellent growth in recent years, exceeding the growth in State-wide retail sales for nine of the past fourteen years, and continued growth in local retail sales is expected to continue in 2021-22. Forecasts call for sales tax revenues across North Carolina to be 2.5 percent higher in 2021-22 than in 2020-21. This budget projects the City’s sales tax distributions in Fiscal Year 2021-22 to be relatively flat as compared to the projected

distributions for Fiscal Year 2020-21 so there is hope that the sales tax revenue estimates projected for 2021-22 are conservative and that actual sales tax collections may exceed the estimate.

Powell Bill revenues are projected to decrease by \$15,000, or 6.67 percent, as compared to the budgeted 2020-21 original budget. While the City expected an increased Powell Bill allocation for 2020-21 based on a legislative decision that was made in the fall of 2019, the State experienced decreased transportation-related revenues once stay-at-home orders were issued and commuting dropped significantly in reaction to the pandemic. The State cut the transportation budget as a result and the Powell Bill allocations were reduced. The City is unsure of what its share of Powell Bill revenues will be for Fiscal Year 2021-22 as it is dependent upon the State's appropriation. Therefore, this budget recommends the same amount of Powell Bill revenues for 2021-22 as the actual 2020-21 allocation, which we feel is conservative.

Based on State projections, utility sales tax revenues are projected to decrease by \$31,000, or 5.7 percent, under the budgeted 2020-21 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 2021-22 which is the same amount that was budgeted in 2020-21.

At the time this budget has been prepared, there has been no proposal for the State to retain any State collected local revenues for 2020-21 or 2021-22 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 \$5 per month to \$6 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 \$11 to \$22 per month. In addition, this budget recommends a 10 percent increase in commercial garbage rates. After both of these increases, approximately \$298,000 of costs for sanitation services will still be 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 will generate approximately \$63,000 annually to help cover the cost of sanitation services.

An increase of just over six percent in water and sewer rates, service charges and minimum charges, is proposed for 2021-22. Water usage for the first nine months of 2020-21 is down 6.35 percent compared to the first nine months of 2019-20. Based on discussions with other water providers,

several units have experienced similar declines in water usage. The rate increase will produce an estimated \$129,000 more in revenue than what was budgeted in 2020-21. The City completed a Wastewater Asset Inventory and Assessment Study in 2019-2020 and will soon be completing a Water Asset Inventory and Assessment Study which assess the condition of the City's current infrastructure and establish a Capital Improvement Plan listing priority projects that need to be considered over the next 10 years. The City is also currently undergoing a Clinchfield Pump Station Basin and System-wide Flow Monitoring and Inflow and Infiltration Analysis to identify areas within the wastewater collection system that need repairs. While the City hopes to qualify for grants to fund a portion of the capital needs that are identified, the City will need to finance many of these costs with either cash on hand or long-term financing. The reduction in water usage during the pandemic, the financing of these future projects and significant unexpected expenses that were incurred during Fiscal Year 2020-2021 lead staff to recommend this six percent increase in water and sewer rates.

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

County fire protection revenues are budgeted at \$648,000 which is an increase of \$148,000, or 29.6 percent, over the 2020-2021 original budget. This increase is due to two factors – 1) the sales tax distribution from the County for the Marion Area Fire District has been higher than projected since the pandemic began, and 2) the City has requested an increase in the Marion Area Fire District tax rate from \$.08/\$100 valuation to \$.0987/\$100 valuation as a result of the City taking on a greater share of costs for five full-time firefighter positions hired through a Federal SAFER grant and the purchase of needed rescue equipment. At the time this budget message was written, staff is awaiting the decision on the requested tax rate increase.

ABC revenues are forecasted to be \$280,000 in 2021-22, which represents a \$100,000 increase from the 2020-21 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 is flat compared to the budgeted interest income in all funds for 2020-21. Interest rates on investments remain close to zero, due to actions taken by the Federal Reserve Board as a result of the current uncertainty from the pandemic.

The General Fund will require a fund balance appropriation of \$592,755, an increase of \$580,221 over the \$12,534 General Fund Balance appropriation amount included in the 2020-21 original budget. While the Fiscal Year 2021-22 fund balance appropriation is significantly higher than the prior year, from 2015 to 2020, the City budgeted an average of \$443,000 in fund balance. Even with these appropriations, the City was able to increase fund balance moderately in each of these years as a result of its budgeting practices.

The City continues to make conservative budgeting estimates. Fortunately, the City added \$544,258 to its General Fund balance in Fiscal Year 2019-20. It is expected that the City will experience a six-figure surplus in the General Fund in Fiscal Year 2020-21. These surpluses were a result of the City's budgeting practices and were needed to shore up the City's fund balance available for appropriation (available fund balance as a percent of total expenditures), which had recovered to 51.27 percent as of June 30, 2020. The North Carolina 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.

In the Water and Sewer Fund, a fund balance appropriation of \$332,951 is projected as compared to the original budgeted 2020-21 Water and Sewer Fund Balance appropriation of \$196,995. 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 \$3,394 higher than in the 2020-21 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 2021-22, 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, \$361,171 (Powell Bill - \$261,171, General Funds - \$100,000)
- Funding for the local match for a potential FEMA Assistance to Firefighters Grant for turnout gear, wildland personal protective gear and thermal imaging cameras for the Fire Department, \$9,000
- Purchase of rescue equipment for the Fire Department, \$64,000
- Replace aging turnout gear for Fire Department, \$10,500
- Code enforcement expenses for dilapidated housing demolition, \$20,000

- Funding for the Moving Up in Marion Program to support redevelopment of upper floor residential in downtown, \$2,500
- Construct building modifications to the City Hall front lobby to install a Planning and Development Department permitting station and permit counter for the public, \$10,000
- Construction of a new shed at the Public Works Department campus to cover and protect vehicles and equipment, \$79,200
- Replace a dump truck in the Public Works Department Streets Division, \$120,000
- Replace a backhoe in the Public Works Department Streets Division, \$122,000
- Purchase a flat skid tamp for the Public Works Department Streets Division, \$3,000
- Replace a ½ ton pickup truck in the Public Works Department Sanitation Division, \$41,000
- Purchase 18 dumpsters, purchase nine dumpsters with a recycle slot, and repair 15 dumpsters for the Public Works Department Sanitation Division, \$29,940
- Replace the shelter at the Community Building Park Splash Pad, \$4,000

Water and Sewer Fund

- Purchase of water and sewer pipe, valves and hydrants for the Public Works Department Utility Maintenance Division, \$42,500
- Replace the sewer camera system for the Public Works Department Utility Maintenance Division, \$88,000
- Replace a skid steer track loader for the Public Works Department Utility Maintenance Division, \$67,000
- Purchase a rotary cutter attachment for the skid steer for the Public Works Department Utility Maintenance Division, \$6,400
- Purchase a leak detector for the Public Works Department Utility Maintenance Division, \$2,700
- Replace a 4" boring tool for the Public Works Department Utility Maintenance Division, \$10,000
- Purchase an upright microscope for the Water Treatment Plant, \$3,000
- Replace an RAS pump at the Wastewater Treatment Plant, \$89,925
- Replace a pump for the Finley Road wastewater lift station in the Wastewater Treatment Plant budget, \$29,000
- Replace a vacuum pump for the lab at the Wastewater Treatment Plant, \$2,500
- Replace a refrigerated composite sampler at the Wastewater Treatment Plant, \$8,000

Personnel/Administration

- Implementation of the Pay and Reclassification Study (Option 2) performed by the MAPS Group, \$293,203
- 1.5 percent cost of living increase for City employees, \$86,300
- Merit increases for employees, \$0
- Cost increases for health, dental, vision, and life insurance, \$68,900
- Increases in employer contributions to the Local Government Employees Retirement System, \$58,990

- Funding for six months of a full time Permit Intake/Residential Inspector for the Planning and Development Department, \$27,575
- Budgeting of approximately 4,000 hours of temporary labor for the Public Works Department Streets and Sanitation Divisions to use for fill-in work, \$70,000

Debt Service

- Payments on the Automated Water Meter Reading System loan, \$52,539
- Payments on the Airport Road Sewer Extension loan, \$55,333
- Payments on the Fire pumper-tanker truck and tower truck loans, \$118,419
- Payments on the Wastewater Improvements Project loan, \$62,447
- Payments on the Street Sweeper and Backhoe loans, \$58,989
- Payments on the Sanitation rear load packer truck loan, \$36,042
- Payments on the USDA Stormwater Loans, \$23,863
- Payments on various vehicles and equipment financed in Fiscal Year 2020-21, \$59,859
- Payments on various vehicles and equipment to be financed in Fiscal Year 2021-22, \$46,299

Contracted Services/Operational Expenses

- Contracted services for water/sewer line extensions and repairs, \$89,000
- 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, \$40,000
- Audit services, \$27,700
- Website development and maintenance, \$7,000

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 the annual July 4th Celebration, \$7,000
- Funding for Downtown/Economic Development/Events and Promotions, \$96,500
- Funding for the Façade Grant Program, \$25,000
- Farmer's Market Expenses, \$5,100
- Marketing, \$5,000
- Contribution to the 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 Fiscal Year 2021-22 \$15,000 contribution early in Fiscal Year 2020-21 to assist with delayed rental revenues at the Event Center due to COVID-19)
- Funding for the GEM Class Grant Program, \$7,500
- Funding for other local agencies, \$35,500

As noted above, the proposed 2021-22 budget includes the implementation of the recently completed Pay and Reclassification Study, as well as a 1.5 percent cost of living increase for City employees. The recommended budget includes one new position in the Planning and Development Department. It is worth noting that the recommended number of full-time equivalent City positions for the 2021-22 Fiscal Year, 108, is only nine 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.

As mentioned above in the Revenue section, expenditures in the amount equal to \$280,000 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 83,500
Beautification/Landscape Maintenance	42,000
Downtown/Economic Development	119,000
Various Community Agencies	<u>35,500</u>
 Total	 <u>\$ 280,000</u>

Total capital outlay in all funds in the proposed 2021-22 budget increased by 22.9 percent, or \$170,719, above the 2020-21 original budget, with General Fund capital outlay increasing by 18.75 percent and Water and Sewer Fund capital outlay increasing by 30.3 percent.

CONCLUSION:

The preparation of this budget has been with the knowledge of an uncertain future for the national, state and local economies, due to the continuing COVID-19 pandemic. As a result, conservative estimates for property tax and sales tax revenues are included in the proposed 2021-22 Budget. The hope is that the economy will continue to improve and that economic growth seen locally in recent years can continue.

The budget is designed to continue City operations, while making targeted investments in equipment and capital projects and the City’s workforce, while serving growth occurring in the City.

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 2021-22 health insurance renewal and estimating the City’s property and sales tax revenues for 2021-22. 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 18, 2021	Budget Submittal
Tuesday, May 25, 2021	Budget Workshop
Tuesday, June 15, 2021	Public Hearing on Budget
	Adoption of Budget

Respectfully Submitted,

J. Robert Boyette
City Manager