



CITY MANAGER'S BUDGET MESSAGE

MAY 17, 2022

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 2022-23. 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 \$15,001,348, which represents a 15.66 percent increase (or \$2,030,670) over the original 2021-22 Fiscal Year Budget, and a decrease of 4.09 percent (or \$638,984) under the amended 2021-22 Fiscal Year Budget as of this date. This increase over the original 2021-22 budget is primarily due to increased revenues, investments in equipment and capital projects, the rising costs of fuel, supplies and materials and insurance, increased costs for temporary labor due to the loss of inmate labor and pay adjustments for City employees to allow for recruitment and retention of staff.

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

General Fund	\$ 9,489,027
Water and Sewer Fund	5,021,046
Internal Service Fund	471,275
System Development Fee Capital Reserve Fund	20,000
Total All Funds	<u>\$15,001,348</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 2022-23, 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 2022-23 budget include an increase of one percent over the property values that were billed for Fiscal Year 2021-22. The City's 2022-23 tax base for real, personal and utility property is estimated to be \$552,580,793, an increase of \$6,160,073, or 1.1 percent, over the property tax base estimated in the 2021-22 original budget.

This budget proposal recommends that the City tax rate increase from a rate of \$.51 per \$100 valuation to a rate of \$.55 per 100 valuation, the first proposed tax rate increase in the City of Marion in 53 years. The \$.55 tax rate is projected to generate approximately \$2,948,019 in revenues for real, personal and utility property, and \$262,974 for motor vehicles, based on a tax collection percentage of 97 percent for real, personal and utility property, which is 2.0 percent less than the projected City tax collection percentage for Fiscal Year 2021-22.

Sales tax revenues are expected to increase \$266,000, or 17.05 percent, in Fiscal Year 2022-23 over the Fiscal Year 2021-22 original budget due to sales tax revenues exceeding the 2021-22 conservatively budgeted amount netted with the final reduction in the sales tax reimbursement from the County.

Retail sales in the City and County have shown excellent growth in recent years, exceeding the growth in State-wide retail sales for 10 of the past 15 years, and continued growth in local retail sales is expected to continue in 2022-23. Forecasts call for sales tax revenues across North Carolina to be 3.75 percent higher in 2022-23 than in 2021-22. This budget projects the City's sales tax distributions in Fiscal Year 2022-23 to be \$44,000 less than the projected distributions for Fiscal Year 2021-22 so there is hope that the sales tax revenue estimates projected for 2022-23 are conservative and that actual sales tax collections may exceed the estimate.

Powell Bill revenues are projected to increase by \$21,115, or 10.05 percent, as compared to the 2021-22 original budget, due to Powell Bill revenues being higher than expected in 2021-22, due to a State legislative decision. The State has indicated that Powell Bill funding in 2022-23 will remain at 2021-22 levels, so this budget recommends the same amount of Powell Bill revenues for 2022-23 as the actual 2021-22 allocation.

Based on State projections and actual revenues received in 2021-22, utility sales tax revenues are projected to decrease by \$10,000, or 2.0 percent, under the budgeted 2021-22 amount.

At the time this budget has been prepared, there has been no proposal for the State to retain any State collected local revenues for 2021-22 and no such action is expected in 2022-23. 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 \$2 per month increase in the monthly residential garbage fee from \$6 per month to \$8 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 \$351,000 of costs for sanitation services will still be funded through other general revenues such as property tax, sales tax, utility sales tax, etc. A \$2 per month increase in residential garbage rates and a 10 percent increase in commercial garbage rates will generate approximately \$91,000 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 2022-23. The rate increase will produce an estimated \$304,220 more in revenue than what was budgeted in 2021-22. The City completed a Wastewater Asset Inventory and Assessment Study in 2019-2020 and a Water Asset Inventory and Assessment Study in 2021-22. These studies assessed the condition of the City's current infrastructure and established Water and Wastewater Capital Improvement Plans listing priority projects that need to be considered over the next 10 years. In addition, the City also completed 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. These studies identified over \$35 million in water and sewer system capital needs over the next 10 years. 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 the past two Fiscal Years 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 fourteenth year in a row, meaning that the Water and Sewer Fund remains self-sustaining.

County fire protection revenues are budgeted at \$653,000 which is an increase of \$5,000, or 0.77 percent, over the 2021-2022 original budget, due to a conservative estimate of an approximately one percent increase in the Marion Area Fire District property tax base and no projected increase in the sales tax distribution for the Marion Area Fire District. The 2022-23 budget recommends that the Marion Area Fire District tax rate remain at \$.0933/\$100 valuation.

ABC revenues are forecasted to be \$350,000 in 2022-23, which represents a \$70,000 increase from the 2021-22 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 \$1,700 in 2022-23, down from the \$2,150 budgeted interest income in all funds for 2021-22. Interest rates on investments remain close to zero, due to actions taken by the Federal Reserve Board as a result of the remaining economic uncertainty from the pandemic. While interest rates are expected to rise in 2022-23, staff has not budgeted for an increase in interest income due to the uncertainty of the amount of such increases.

The General Fund will require a fund balance appropriation of \$622,397, an increase of \$29,642 over the \$592,755 General Fund Balance appropriation amount included in the 2021-22 original budget. The City has been able to increase fund balance moderately in recent years. The City continues to make conservative budgeting estimates. Fortunately, the City added \$612,206 to its General Fund balance in Fiscal Year 2020-21. It is expected that the City will experience a small surplus in the General Fund in Fiscal Year 2021-22. 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 49.07 percent as of June 30, 2021. 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 \$480,254 is projected as compared to the original budgeted 2021-22 Water and Sewer Fund Balance appropriation of \$332,951. 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 \$164,770, or 53.76 percent higher in 2022-23 than in the original 2021-22 budget, but up only slightly over the amended 2021-22 budget amount of \$466,505. The rising cost of fuel, supplies and materials sold to City departments is driving the increase in Internal Service Fund expenditures.

As noted earlier, this budget does not include any transfer from the General Fund to the Water and Sewer Fund, nor transfers from the Water and Sewer Fund to the General 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 2022-23, 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, \$162,809
- Funding for grant writer costs for a potential FEMA Staffing for Adequate Fire and Emergency Response (SAFER) Grant for six new full-time firefighters, \$20,000
- Purchase of a replacement command vehicle for Assistant Fire Chief, \$70,000
- Replacement of aging turnout gear for Fire Department, \$15,000
- Purchase of a replacement vehicle for Building Inspector/Code Enforcement Officer, \$32,000
- Purchase of a replacement large format printer for Planning and Development Department, \$15,000
- Code enforcement expenses for dilapidated housing demolition, \$40,000
- Purchase of two replacement marked, fully-equipped patrol cars in the Police Department, \$96,000
- Purchase of a replacement unmarked vehicle in the Police Department, \$36,000
- Purchase of a replacement Ordinance/Animal Control vehicle in the Police Department, \$32,000
- Electrical upgrades to allow for main Public Works Department building and fuel pumps to be powered by a generator during power outages, \$11,000
- Purchase of a replacement asphalt roller in the Public Works Department Streets Division, \$58,650
- Purchase of a trailer for the asphalt roller in the Public Works Department Streets Division, \$11,000
- Purchase of two light towers in the Public Works Department Streets Division, \$12,650
- Purchase of two replacement half-ton pickup trucks in the Public Works Department Streets Division, \$101,200
- Purchase of a replacement dump truck in the Public Works Department Streets Division, carried over from 2021-22 Budget, \$127,450
- Purchase of a replacement one-ton dump truck in the Public Works Department Sanitation Division, \$70,000
- Purchase of a replacement bed installation for a half-ton pickup truck in the Public Works Department Sanitation Division, carried over from 2021-22 Budget, \$9,500
- Purchase of 12 dumpsters, purchase of six dumpsters with a recycle slot and repair of 10 dumpsters in the Public Works Department Sanitation Division, \$34,594
- Installation of a culvert replacement on Kathy Street, \$77,130, to be paid by State disaster funds

Water and Sewer Fund

- Purchase of a tap machine to make water and sewer taps in the Public Works Department Utility Maintenance Division, \$4,025

- Purchase of a replacement equipment van in the Public Works Department Utility Maintenance Division, \$58,650
- Purchase of a replacement bar screen at the Prison Lift Station for the Public Works Department Utility Maintenance Division, \$82,216
- Purchase of a replacement pump at the Hospital Lift Station for the Public Works Department Utility Maintenance Division, \$33,000
- Purchase of a replacement service truck with a crane for the Public Works Department Utility Maintenance Division, \$133,968
- Purchase of a replacement mini excavator for the Public Works Department Utility Maintenance Division, \$36,000
- Purchase of a replacement dump truck for the Public Works Department Utility Maintenance Division, \$92,000
- Purchase of water and sewer pipe, valves and hydrants for the Public Works Department Utility Maintenance Division, \$42,500
- Purchase of four replacement turbidity meters for the Water Treatment Plant, \$17,600
- Purchase of a replacement hoist used to move chlorine cylinders for the Water Treatment Plant, \$11,000
- Purchase of a replacement quarter-ton pickup truck for the Water Treatment Plant, \$32,000
- Purchase of additional security system cameras for the Water Treatment Plant, \$20,000
- Purchase of a replacement autoclave for the lab in the Wastewater Treatment Plant, \$7,453
- Purchase of a replacement zero turn mower for the Wastewater Treatment Plant, \$7,800
- Purchase of chemical oxygen demand testing equipment for the Wastewater Treatment Plant, \$2,866
- Purchase of a replacement RAS pump for the Wastewater Treatment Plant, \$92,496
- The first of three years of payments to the Gateway Wellness Foundation for the partial reimbursement of a water and sewer extension for a 26 unit affordable housing development on Old Morganton Road, \$20,000

Personnel/Administration

- 6.1 percent cost of living increase for City employees, effective September 1, \$317,297
- A one-time bonus for full time and permanent part-time employees, \$69,500
- Merit increases for employees, \$0
- New Grant Administrator/Project Manager position, \$50,378 including salary and benefits
- New School Resource Officer position, funded by McDowell Technical Community College, \$68,779 including salary and benefits
- New School Resource Officer position, funded primarily by McDowell County Schools, \$68,779 including salary and benefits
- Cost increases for health, dental, vision, and life insurance, \$87,200
- Increases in employer contributions to the Local Government Employees Retirement System, \$50,000
- Budgeting of temporary labor for the Public Works Department Streets and Sanitation Divisions to use for fill-in work, \$140,358

Debt Service

- Payments on the Automated Water Meter Reading System loan, \$52,539
- Payments on the Airport Road Sewer Extension loan, \$55,332
- Payments on Police Department vehicle loans, \$37,055
- Payments on the Fire pumper-tanker truck and tower truck loans, \$118,419
- Payments on the Wastewater Improvements Project loan, \$62,447
- Payments on Street vehicle loans, \$108,992
- Payments on Sanitation vehicle loan, \$8,182
- Payments on the USDA Stormwater Loan, \$23,862
- Payments on various Utility Line Maintenance vehicles and equipment financed in Fiscal Year 2020-21, \$22,803
- Payments on various Utility Line Maintenance vehicles and equipment financed in Fiscal Year 2021-22, \$32,731
- Payments on various vehicles and equipment to be financed in Fiscal Year 2022-23, \$94,805

Contracted Services/Operational Expenses

- Contracted services for water/sewer line extensions and repairs, \$260,000
- Purchase of City warehouse stock for resale to City departments, \$400,000
- Cemetery mowing, \$55,900
- Landscaping contract and street right-of-way mowing contract, \$104,520
- County landfill tipping fees, \$172,430
- Audit services, \$25,500

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 the annual July 4th Celebration, \$11,000
- Funding for Downtown/Economic Development/Events and Promotions, \$101,500
- Funding for the Façade Grant Program, \$25,000
- Farmer's Market Expenses, \$5,500
- 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 2022-23 \$15,000 contribution early in Fiscal Year 2021-22 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, \$37,000

The proposed 2022-23 Budget contains three additional staff positions, including a new Grant Administrator/Project Manager position funded with American Rescue Plan money, a new School Resource Officer funded by McDowell Technical Community College and a new School Resource Officer position primarily funded by McDowell County Schools. In addition, the City has applied

for and is awaiting word on the potential receipt of a FEMA Staffing for Adequate Fire and Emergency Response (SAFER) Grant to hire six new full-time firefighters.

As mentioned above in the Revenue section, expenditures in the amount equal to \$350,000 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 110,075
Beautification/Landscape Maintenance	68,925
Downtown/Economic Development	134,000
Various Community Agencies	<u>37,000</u>
 Total	 <u>\$ 350,000</u>

Total capital outlay in all funds in the proposed 2022-23 budget increased by 58.8 percent, or \$536,429, above the 2021-22 original budget, with General Fund capital outlay increasing by 37.7 percent and Water and Sewer Fund capital outlay increasing by 93.0 percent.

CONCLUSION:

The preparation of this budget has been with the knowledge of improving, but still uncertain, national, state and local economies, as we come out of the COVID-19 pandemic. As a result, conservative estimates for property tax and sales tax revenues are included in the proposed 2022-23 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, 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 many budget alternatives and spending a great deal of time on many individual aspects of the budget, including the City's 2022-23 health insurance renewal and estimating the City's property and sales tax revenues for 2022-23, along with managing numerous grant and capital projects as well as the City's American Rescue Plan funding. 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 17, 2022

Tuesday, May 24, 2022

Tuesday, June 21, 2022

Budget Submittal

Budget Workshop (if needed)

Public Hearing on Budget

Adoption of Budget

Respectfully Submitted,

J. Robert Boyette

City Manager