



CITY MANAGER'S BUDGET MESSAGE

May 21, 2024

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 2024-25. 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 \$18,416,610, which represents an 9.8 percent increase (or \$1,643,818) over the original 2023-24 Fiscal Year Budget, and an increase of 4.01 percent (or \$709,294) over the amended 2023-24 Fiscal Year Budget of \$17,707,316 as of this date. This increase over the original 2023-24 budget is primarily due to investments in equipment and capital projects, the continuing rising costs of fuel, supplies and materials and insurance, targeted staff additions in the Fire and Information Technology Departments 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:

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|---|----------------------------|
| General Fund | \$ 11,913,642 |
| Water and Sewer Fund | 5,925,406 |
| Internal Service Fund | 537,562 |
| System Development Fee Capital Reserve Fund | 40,000 |
| Total All Funds | <u>\$18,416,610</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 2024-25, the City's property tax base is projected to increase due to some natural growth. At the time this budget message was written, City staff were continuing to work with the County to obtain complete information on property values.

Staff proposes to use the current County projections resulting in a 2024-25 tax base for real, personal and utility property estimated to be \$718,881,182 which is an increase of \$14,969,741, or 2.1 percent, over the property tax base estimated in the 2023-24 original budget of \$703,911,441.

This budget proposal recommends that the City tax rate increase by \$.045 to a rate of \$.595 per \$100 valuation. The \$.595 tax rate is projected to generate approximately \$4,149,022 in revenues for real, personal and utility property, and \$290,000 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 2023-24.

Sales tax revenues are expected to increase \$142,800, or 7 percent, in Fiscal Year 2024-25 over the 2023-24 original budget due to sales tax revenues exceeding the 2023-24 conservatively budgeted amount.

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 17 years, and continued growth in local retail sales is expected to continue in 2024-25. Forecasts call for sales tax revenues across North Carolina to be 6.3 percent higher in 2024-25 than in 2023-24. This budget projects the City's sales tax distribution in Fiscal Year 2024-25 to be 2.0 percent higher than the projected distribution for Fiscal Year 2023-24, so there is hope that the sales tax revenue estimates projected for 2024-25 are conservative and that actual sales tax collections will exceed the estimate.

Powell Bill revenues are projected to increase by \$22,000, or 9.6 percent, as compared to the 2023-24 original budget, due to Powell Bill revenues being more than expected in 2023-24, due to a State legislative decision.

Based on State projections and actual revenues received in 2023-24, utility sales tax revenues are projected to increase by \$15,000 or 3 percent, over the 2023-2024 budgeted 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 \$10 per month to \$12 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 \$25 or more per month. In addition, this budget recommends a six percent increase in commercial garbage rates. After both of these increases, approximately \$413,138 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 6 percent increase in commercial garbage rates will generate approximately \$84,000 annually to help cover the cost of sanitation services.

A 9 percent increase in water and sewer rates, service charges and minimum charges, is proposed for 2024-25. The rate increase will produce an estimated \$403,020 more in revenue than what was budgeted in 2023-24.

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 \$52 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 three Fiscal Years lead staff to recommend this 9 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 fifteenth year in a row, meaning that the Water and Sewer Fund remains self-sustaining.

County fire protection revenues are budgeted at \$984,361, an increase of \$148,313, or 17.7 percent, over the 2023-24 original budget, due to significant funding needs for the Marion Fire Department for debt service for the purchase of two new pumper tanker fire trucks, the addition of two Fire Engineer position, pay increases for Fire Department staff and capital outlay for equipment. The 2024-25 budget recommends a \$.0231 increase in the Marion Area Fire District tax rate per \$100 valuation.

ABC revenues are forecasted to be \$350,000 in 2024-25, which represents no change from the estimated 2023-24 ABC revenue distribution. 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 \$136,500 in 2024-25, a substantial increase from the \$86,500 budgeted interest income in all funds for 2023-24, due to rising interest rates on investments.

The General Fund will require a fund balance appropriation of \$462,742 a decrease of \$77,914 from the \$540,656 General Fund Balance appropriation amount included in the 2023-24 original budget. It is expected that the City will experience a small surplus in the General Fund in Fiscal Year 2023-24, as has been the case in recent years. However, it is important that the City maintain an adequate fund balance available for appropriation (available fund balance as a percent of total expenditures), which was 53 percent as of June 30, 2023, up considerably from the 47 percent fund balance available for appropriation as of June 30, 2022. 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. The City maintains an available fund balance comparable to identified peer cities in Western North Carolina, but the City's available fund balance percentage is considered lower than the group average (non-electric cities 5,000 – 9,999 population) calculated by the North Carolina Local Government Commission.

In the Water and Sewer Fund, a fund balance appropriation of \$450,592 is projected as compared to the original budgeted 2023-24 Water and Sewer Fund Balance appropriation of \$541,843. 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 \$5,081, or .95 percent higher in 2024-25 than the original 2023-24 budget amount of \$532,481. 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 law, 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. Street improvements, as previously approved by the City Council, will be pursued during the 2024-25 Fiscal Year, using the Street Improvements Capital Project Fund and any other funding designated for street improvements from Powell Bill funds and other approved sources.

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 the City of Marion's second LFNC Fellow, \$30,000
- Funding for a 1,500 SF Building for the Public Works Department, \$272,000
- Funding for West Marion Park Improvements-Drainage, \$30,000
- Funding for Brick Building Renovations/Electronic Gate Operator at Public Works, \$42,000
- Purchase of new Admin department software, \$69,000
- Purchase of VIPER radios and pagers for Fire Department, \$28,000
- Purchase of Fire Station Alarm System, \$32,000
- Replacement of aging turnout gear for Fire Department, \$20,000
- Funding for Exterior Improvements to Fire Station \$38,000
- Code enforcement expenses for dilapidated housing demolition, \$45,000
- Replacement of both marked and unmarked command vehicles for the Police Department, \$121,000
- Funding for Police Department Renovations, \$18,000
- Purchase of Building Cameras and Server for Police Department, \$25,000
- Purchase of a ¾ Ton Truck for Fleet Maintenance, \$69,400
- Purchase of a replacement bucket truck in the Public Works Department Streets Division, \$204,427 (carried forward from FY 23-24)
- Purchase of a 3500 Service Truck for the Public Works Street Department Division, \$92,220
- Purchase of a Knuckle Boom Grapple Truck for the Public Works Sanitation Division, \$200,418
- Purchase of Half Ton Truck for the Public Works Sanitation Division, \$59,880
- Replacement of two HVAC units at the Community Building, \$15,000

Water and Sewer Fund

- Replacement of a Crane Truck for Public Works Department Utility Maintenance Division, \$129,346 (carried forward from FY 23-24)
- Replacement of Dump Truck for Public Works Department Utility Maintenance Division, \$176,000
- Replacement of One Ton Truck for Public Works Department Utility Maintenance Division, \$112,000
- Replacement of Half Ton Truck for Public Works Department Utility Maintenance Division, \$51,700
- Replacement of a utility trailer for the Public Works Department Utility Maintenance, Division, \$8,960
- Purchase of water and sewer pipe, valves and hydrants for the Public Works Department Utility Maintenance Division, \$21,250
- Purchase of pumps for Clinchfield, Finley, Hospital and Catawba Lift Stations, \$56,200
- Replacement of Water Treatment Plant Building roof, \$22,882
- Replacement 2 Chlorine regulators at the Water Treatment Plant, \$8,806
- Replacement of 2 safety eye wash showers for the Water Treatment Plant, \$6,500
- Replacement of rescue tripod for the Water Treatment Plant, \$5,046

- Installation costs of a replacement RAS pump for the Wastewater Treatment Plant, \$57,313 (carried forward from Fiscal Year 2022-2023)
- Purchase and installation of a Water Distillation System for the Wastewater Treatment Plant Laboratory, \$13,650
- Purchase of Portable Trash Pump on a trailer for the Wastewater Treatment Plant, \$68,250
- Replacement of one aerator in the aeration basin at the Wastewater Treatment Plant, \$53,760
- Purchase of a replacement Remote Terminal Unit for SCADA at the Influent Pump Station at the Wastewater Treatment Plant, \$6,097
- Purchase of riding mower for the Wastewater Treatment Plant, \$6,050
- Installation of 2 Metal Sheds for the Wastewater Treatment Plant for backhoe and tractor storage, and aerator maintenance, \$11,325
- Purchase of composite sampler for the Wastewater Treatment Plant, \$11,785
- Purchase and installation of a replacement Variable Frequency Drive at the Influent Pump Station at the Wastewater Treatment Plant, \$7,935
- The first of three years of payments to the Gateway Wellness Foundation for the partial reimbursement of a water and sewer extension for a 12 unit affordable housing development on Old Morganton Road, \$20,000

Personnel/Administration

- A 3.5 percent cost of living increase for City employees, and a 7 percent market increase for Public Safety staff that will allow the City to improve employee recruitment and retention, effective September 1, 2024, \$269,721
- Hiring of two new full-time Fire Engineer positions in the Fire Department, moving a Fire Department part-time Administrative Assistant to a full-time position and adding an Information Technology Support Specialist position, effective July 1, 2024, \$202,215
- Cost increases for health, dental, vision, and life insurance, \$ 40,950
- Increases in employer contributions to the Local Government Employees Retirement System, \$48,000

Debt Service

- Payments on the Automated Water Meter Reading System loan, \$26,270
- Payments on the Airport Road Sewer Extension loan, \$55,332
- Payments on Police Department vehicle loans, \$98,563
- Payments on the Fire pumper-tanker trucks and tower truck loans, \$234,849
- Payments on the Wastewater Improvements Project loan, \$62,447
- Payments on Public Works Department Street Division vehicle loans, \$165,129
- Payments on Public Works Department Sanitation Division vehicle loans, \$102,633
- Payments on Planning and Development Services Department vehicle loans, \$12,405
- Payments on the USDA Stormwater Loan, \$23,862
- Payments on various Utility Line Maintenance vehicle and equipment loans, \$136,084
- Payments on various Water Treatment Plant vehicle and equipment loans, \$6,894
- Payments on various Wastewater Treatment Plant vehicle and equipment loans, \$19,931
- Payments on Building and various vehicles to be financed in Fiscal Year 2024-25, \$132,128

Contracted Services/Operational Expenses

- Contracted services for water/sewer line extensions and repairs, \$250,000
- Purchase of City warehouse stock for resale to City departments, \$450,000
- Cemetery mowing, \$55,900
- Landscaping contract and street right-of-way mowing contract, \$104,520
- County landfill tipping fees, \$180,000
- Audit services, \$30,930

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, \$11,050
- Funding for Downtown/Economic Development/Events and Promotions, \$120,000
- Funding for the Historic Marion Façade Grant Program, \$24,000
- Funding for the Growing Entrepreneurs Marion (GEM) Class Grant Program, \$7,500
- Funding for other local agencies, \$28,000
- Marketing, \$25,000

The proposed 2024-25 Budget contains funding for two full-time Fire Engineers in the Fire Department, moving a Fire Department part-time Administrative Assistant to a full-time position and adding an Information Technology Support Specialist position, effective July 1, 2024.

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:

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|--------------------------------------|-----------------------|
| Parks and Recreation | \$ 93,575 |
| Beautification/Landscape Maintenance | 68,925 |
| Downtown/Economic Development | 157,000 |
| Various Community Agencies | <u>30,500</u> |
| Total | <u>\$ 350,000</u> |

Total capital outlay in all funds in the proposed 2024-25 budget is increased by 27.8 percent, or \$466,149, above the 2023-24 original budget, with General Fund capital outlay increasing by 24.8 percent and Water and Sewer Fund capital outlay increasing by 33.4 percent.

CONCLUSION:

The preparation of this budget has been with the knowledge of improving, but still uncertain, state and local economies. As a result, conservative estimates for property tax and sales tax revenues are included in the proposed 2024-25 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 Dawn Penland and Human Resources Director Kathleen Nolan for their 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 2024-25 health insurance renewal and estimating the City's property and sales tax revenues for 2024-25, along with developing a 10 year City Capital Improvement Plan and 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 the efforts of Mrs. Penland and Mrs. Nolan.

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:

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| Tuesday, May 21, 2024 | Budget Submittal |
| Tuesday, June 18, 2024 | Public Hearing on Budget |
| | Adoption of Budget |

Respectfully Submitted,

J. Robert Boyette, ICMA-CM
City Manager