



## Budget Message FY2021-2022

May 3, 2021

To the Honorable Mayor and Members of City Council:

This is the official conveyance and presentation of the proposed budget for the 2021-2022 fiscal year. This budget proposes increasing the tax rate to \$0.60 and is based on an overall valuation of \$3,420,066,000 with a property tax collection rate of 99%. This reflects an increase of almost \$154,666,000 in valuation from this fiscal year.

Before going through the recommendation for the upcoming year, it is important to take stock of the achievements that have been made during this fiscal year. Although this is not an exhaustive list, the following shows some of the major decisions and actions that have been made through the 2021 budget year:

### ***General Fund***

1. Employee salary increases and the initiation of a four cycle pay review.
2. Began work on the relocation of Fire Station 1.
3. Received a FEMA Assistance to Firefighters Grant for over \$535,000 for air packs.
4. Signed a development agreement for revitalization of the Vance Hotel.

### ***Enterprise Funds***

1. Funded and began construction on the Larkin Commerce Park water line project.
2. Funded and began construction on the Sullivan Road and Salisbury Road area sewer rehabilitation projects.
3. Commenced work on the Automated Meter Infrastructure (AMI) project.
4. Completed a Water Line Asset Inventory, a critical document for this budget.
5. Continued with major airport projects.

This budget development process had many influences. The City has seen strong revenue growth in both ad valorem taxes and sales taxes, our two biggest categories. We have also been fortunate to have controlled our group health insurance costs, which has been a major pressure on the City over the last few years. However, we have also had competing influences in the form of increasing employee and capital costs. Both are necessary but have raised the cost of operating the City.

At last year's budget retreat, the Council underwent a prioritization process that was used in our budget preparation. Because of the impacts of COVID, we had to start from scratch and slow walk through the beginning of FY2021. Overall, the Council made employee raises their top priority. From a departmental perspective, Police and Fire were identified as the highest priority,

with public works being the second from a department perspective. The Council was also in favor of appropriating fund balance for non-recurring costs. We were able to achieve this through the FY2021 budget, although it did take time.

This year’s retreat focused on water and sewer rates, major capital needs, and employees. As you will see through this document, water and sewer is proposed to change dramatically, and we have included major capital. However, the increases given over the last two years in employee raises and funding the pay studies that we currently have under review, have put a strain on our ability to provide an increase this year.

### **BUDGET SUMMARY**

The 2021-2022 Proposed Municipal Operating and Capital Budget proposal of \$115,955,700 contains six operating funds as follows:

<b>Fund</b>	<b>FY2022 (Proposed)</b>	<b>FY2021 (Adopted)</b>
General Fund	\$45,522,500	\$37,598,800
Electric Fund	\$48,680,000	\$43,277,700
Water and Sewer Fund	\$15,236,000	\$14,957,000
Civic Center Fund	\$1,782,000	\$1,096,250
Airport Operating Fund	\$2,385,200	\$2,326,000
Stormwater Fund	\$2,350,000	\$2,241,000
	<b>\$115,955,700</b>	<b>\$101,496,750</b>

In addition to the recommended operating budget, proposals are included for other annually appropriated funds as follows:

<b>Fund</b>	<b>FY2022</b>	<b>FY2021</b>
Risk Management Fund	\$7,175,000	\$8,105,950
E-911 Fund	\$75,000	\$40,000
Occupancy Tax Fund	\$800,000	\$750,000
	<b>\$8,050,000</b>	<b>\$8,935,950</b>

### **GENERAL FUND SUMMARY**

The proposed General Fund budget of \$45,522,500 reflects an overall increase of \$7,923,700 or 17.5% from the prior year. Most of this increase is found in a fund balance appropriation of \$6,700,000. The ad valorem property tax revenues of \$20,250,000 are based on estimated property values of \$3,420,066,000, a property tax rate of \$0.60 per \$100 in assessed valuation, and a collection rate of 99%. One penny on the tax rate generates \$342,000 in revenue. This reflects an increase of \$155,666,000 in tax valuation over this year.

**Downtown Tax District**

Assessed values for the downtown service district decreased by less than 1% from last year to \$102,081,000. This is the third consecutive year of devaluation in the downtown. I am recommending maintaining the Downtown Service District tax rate at \$0.10 per \$100 assessed valuation. Revenues are estimated at \$100,000 based on a collection rate of 98%. One penny on the service district tax rate generates \$10,000.

**Woods Drive Dam Tax District**

In April 2015, City Council approved the creation of the Woods Drive Dam Municipal Service District effective July 1, 2015 for the purpose of providing funds for routine maintenance and periodic repair of the dam. The assessed value is \$2,183,000. I am recommending maintaining the Woods Drive Dam Municipal tax rate at \$0.21 per \$100 assessed valuation. Revenues are estimated at \$4,000 based on a collection rate of 90%. One penny on the service district tax rate generates \$190. As required by law, any unspent funds on maintenance of the dam each year will be reserved for future repairs to the dam.

**Fund Balance Appropriation**

Fund balance is meant to be used as a “rainy day” fund, or a way to fund major opportunities or projects. This year, I am proposing that we utilize \$6,700,000 in fund balance to account for the following:

Fire Station 1	\$5,700,000
Capital Vehicles	<u>\$1,000,000</u>
	<b>\$6,700,000</b>

**Major Revenues**

Ad Valorem Taxes are estimated at \$20,250,000; an increase of just over \$2,650,000 or 15% from the prior year. This is primarily due to the proposed tax rate increase.

Local Option Sales Taxes are estimated at \$8,000,000; an increase of \$2,008,350 or 33.5% based on current year collections and growth projections. Through this year we have seen historically high sales tax receipts. We are anticipating that same type of activity as we move toward the exit of the pandemic, but we do feel this is not a sustainable trend.

Electricity & Natural Gas Sales Taxes are estimated at \$2,150,000; up from \$1,902,000 in current year collections and projections.

Residential Sanitation Fees are recommended to be eliminated and the service fully funded in the tax rate.

Powell Bill revenue is estimated at \$675,000; which is a decrease from \$730,000 this year.

Recreation revenues are budgeted at \$540,000; over double this year’s total.

## **Major Expenditures**

There were over \$18,000,000 in General Fund capital requests for FY2022. This is a high number, as compared with previous years, due to the addition of Fire Station 1. Within reason, some of those requests are being deferred and are not recommended for approval. The total capital funding request has been decreased to \$8,894,047.

Some of the major capital items included in this budget proposal:

- Fire Station 1 New Construction
- Police Vehicles (9)
- Fire Vehicles
- Sanitation Vehicles (2), leaf machines, and Route Study
- Street Projects, Equipment, and Vehicles
- New flooring at the Bentley Center

As discussed during the retreat, we have also included several building projects in future years. A space needs study for the “Warehouse” complex is nearing completion and money for design is included in this budget.

The most glaring omission on the requests for capital is in the Sanitation Division. The division requested two additional automated trucks, one for garbage collection and one for recycling. This was a direct byproduct of residential growth. I am recommending deferring the purchase of these trucks, and hiring the associated drivers, until we undertake a system and collection analysis to determine the most efficient way to deal with growth. We may find there is an immediate need for these vehicles, and if so, I will report back to Council.

## **Personnel**

Since mid-2019, or the beginning of the 2020 fiscal year, the City has made significant moves that have touched every one of our 428 full time positions. In fact, some employees have seen multiple increases in salary over that time. Several key actions have occurred, including the implementation of a career development program for public safety departments, raises to the City’s minimum wage, and a 2.5% across-the-board increase. These have all been worthwhile and necessary moves. These actions have cost the City roughly \$1,600,000 since 2019, which carries forward each budget year.

In addition, the Council approved developing, and funding, a four cycle pay review for all positions. This was started in the current fiscal year with our public safety departments. This budget proposes to fully fund those results, which would take place in the upcoming budget year. Because there has been so much salary movement that has impacted so many employees over the last year and half, and the second cycle of the study is included in this budget, I am not recommending raises this upcoming year.

The cost of group health insurance has largely been stabilized for this upcoming year. This is a welcome break from increasing costs over the past few years.

This budget does include plans for fully funding a matching deferred compensation program (401k). For each 1% that an eligible employee defers the City will match .5% up to 2.5% of the employee's pay.

### **Position Changes**

There were twenty-four positions requested in the upcoming year's General Fund budget. I am recommending funding five of these, two Sanitation Waste Collectors, an Assistant Information Technology Director, a Code Enforcement Officer, and a Skilled Laborer in public grounds.

The waste collectors should help the department keep up better with the services that are being pushed out due to additional housing activity, although the request was for more.

An additional position is being requested in Information Technology (IT). I am recommending we hire an Assistant Director of IT. Most every system has gone electronic, and our IT Department manages these systems. At this point, we are not able to keep up, and need additional staff. This position would back up the Director, who at this point must be the backup for most all of the other positions in the department. Redundancy in this department is weak, while the risks associated with failures are high.

An additional position is being requested in in the Planning Department: A Code Enforcement Officer. This position is integral to the success of the City's Housing Strategy, and for overall code enforcement.

An additional position is being requested in in the Public Grounds Department: A Skilled Laborer. This position will help with needed coverage in public ground maintenance.

There are three- and one-half full time equivalent positions being recommended in the enterprise funds. One part time Customer Service Representative, to cover weekend hours, is being recommended at the airport. Two positions, a line technician and Operation Center Steward are being recommended in Electric, and a commercial driver in Stormwater.

### **AIRPORT OPERATING FUND SUMMARY**

The Airport is continuing to provide growth in the City's General Fund property tax base with an aircraft valuation exceeding \$113,000,000 and buildings over \$30,000,000. The proposed budget for the Airport Fund is \$2,385,200. Operational expenses of the airport are funded primarily with ground and hangar lease and fuel flow revenues generated from the operation of the airport.

## **ELECTRIC FUND SUMMARY**

The proposed budget for the Electric Fund of \$48,680,000 is balanced with no across the board change in retail or wholesale electric rates.

### **Major Revenues**

Electric Sales account for most of the revenues in this fund and are estimated at \$44,050,000; an increase of 10.22% from the prior year adopted budget.

Wholesale purchased power costs of \$36,353,000 are increased by 13.6% from the previous year.

### **Major Capital**

This budget proposal includes almost \$3,700,000 in capital funds for system improvement and expansion, up from \$3,597,000 in FY2021.

## **WATER & SEWER FUND SUMMARY**

This year we received our Water Inventory Assessment, which revealed major infrastructure needs. The primary project that was identified in the assessment is the “spine” water line, which is a main line that travels from the water plant, through the downtown to South Statesville. Replacement of this line is necessary based on age of the infrastructure, the lines are from the 1940s, and the importance of that line to the entire system. This project is estimated at \$12,000,000. Having this additional level of detail about our system has caused the staff to take a fundamentally different look at our water and sewer rate structure.

We have worked to build a five-year Water and Sewer Rate Analysis that incorporates all the costs of this fund, future debt to fund the completion of the main project, and some excess to build fund balance for future projects. The recommendations of our previous analysis were to incrementally move water and sewer rates, but it has not been enough to deal with our current and upcoming capital needs. The bottom line is that we have a better handle on the necessary projects than we did in 2018. The City’s rates are significantly lower than our peers, and much of the State. Although drastic, a rate increase of 20% is necessary to fill the gap.

There could be some flexibility possible through the American Rescue Plan Funds. The City stands to receive over \$8,000,000, but at the writing of this message, we have not received guidance on exactly what the money can be used for. At this point, we are assuming in this analysis that a significant amount of the American Rescue Plan funds will be used to pay for a portion of the major spine project.

### **Major Revenues**

Based on a proposed 20% increase, water sales are estimated at \$5,275,000 and sewer fees at \$8,521,000. Through the pandemic consumption and flow have decreased. It is difficult to say if

this will rebound immediately, so we have been conservative in our planning in this area. In addition, we are budgeting an overall decrease in system development fees, as they are being adjusted downward. This could be somewhat offset in future years as new development continues to come to Statesville.

### **Major Capital**

We are recommending \$1,893,500 in capital outlay this year to address some of the most critical needs. This will be funded through increased water and sewer rates, a transfer from the Water & Sewer Capital Reserve Fund of \$395,000, and appropriated fund balance of \$600,000. This plan is a result of the updated water and sewer rate analysis performed this year, which is heavily influenced by projects coming in the next several years.

### **CIVIC CENTER FUND SUMMARY**

The proposed budget for the Civic Center is \$1,782,000; an increase of 32% from last year, with the primary reason for the increase being a roof replacement budgeted at close to \$700,000. Civic Center fees are estimated at \$150,000, a decrease from last year. Transfers from occupancy tax receipts are projected at \$632,000 to balance the budget. Any excess collections of occupancy taxes will be reserved for future capital and/or debt service for the facility.

In FY2021, this was one of our hardest hit funds. Although we are being extremely cautious in this budget, we do expect revenues to come back in the fund.

### **STORMWATER UTILITY FUND SUMMARY**

The proposed budget for the Stormwater Fund is \$2,350,000 with no recommended increase in fees. Stormwater fee collections are anticipated at \$1,950,000 and we have appropriated fund balance at \$400,000. This was a planned appropriation as we knew there were several large projects on the horizon and the fund was performing at a surplus to build into those projects. Major capital projects and equipment are budgeted at \$715,000.

### **KEEP A WEATHER EYE ON THE HORIZON**

There has been significant activity and actions have been taken over the last year that are worth noting, and which will affect this coming, and future years' budgets:

- Since 2016 the City has seen the completion of 1,005 new homes. Most of this development has been in two subdivisions on the southern side of town. However, there are five new developments in the entitlement process that would add another 1,300 lots over the next five years, and we are receiving development inquiries on a weekly basis. We estimate that in 2022-2023 we will see a doubling of the number of housing starts in the City.



- The City is in the process of extending a water line to the Larkin Industrial Park to serve several proposed industrial buildings. When completed this water line will serve a much larger area and will likely open Exit 45 up for more development. Completing this line, beginning our water and sewer major maintenance projects, and planning for economic development opportunities is of paramount concern and should be a priority. These actions cost money but are necessary to the current and long-term health of the City.

Growth is here and affecting operations. Although revenues are increasing, alone these cannot fund some of the necessary actions that have taken place, and the overall needs of the City. A tax rate increase, coupled with water and sewer rate increases is not ideal, but it is a significant step toward stabilizing our financial position.

Statesville weathered the pandemic much better than expected. We are standing strong based on development, sales tax activity, and developer's bullish view of the City. This budget helps us to maintain our status, take care of our infrastructure, and provide the basic services to our residents. However, it does not truly contemplate economic development opportunities, employee raises, and some of our capital needs. There are always needs that will be left unmet, and in this case, it is because of the balance necessary to complete this budget exercise without pushing too far.

### **Recommendation**

As this budget message has portrayed, I am recommending significant changes. A tax rate increase of just over five cents, elimination of the solid waste fee, and increases to the water and sewer rates by 20% are all suggested in the spirit of moving the City forward and addressing our needs, for now and the future. It does not fund all the requests, but the City is evolving and its needs and the ability to pay for them will evolve as well.

Therefore, based on the factors I have presented I would like to recommend to the City Council the City of Statesville's FY2022 Operating and Capital budget. This budget of \$118,606,611 reflects an overall increase of 14.5% from the current fiscal year. Ad valorem property tax revenues are projected at \$20,250,000, based on estimated property values of \$3,420,066,000, which reflects an increase of \$155,666,000 in valuation from this fiscal year. I propose raising the property tax rate to \$0.60 per \$100 in assessed valuation, based on a collection rate of 99%. A General Fund balance appropriation of \$6,700,000 has been included for one-time capital expenditures. Fund balance is estimated to be just over 31% at the end of FY2021. One penny on the tax rate generates \$342,000 in revenue.

I want to thank the departments of the City for their assistance and patience in preparing the 2021-2022 budget proposal.



I appreciate the consideration of the City Council in reviewing the budget and providing us with the tools to provide quality services to the citizens of the City of Statesville. We look forward to reviewing this budget proposal with you and receiving your comments and instructions.

Respectfully submitted,

A handwritten signature in black ink that reads "Ron Smith". The signature is written in a cursive, flowing style.

Ronald R. Smith  
City Manager