



# BUDGET MESSAGE

## 2020-2021

May 4, 2020

The Honorable Mayor and Members of City Council  
City of Statesville

Dear Mayor and Council Members:

This is the official conveyance and presentation of the proposed budget for the 2020-2021 fiscal year. This budget keeps the tax rate stable at \$0.5478 and is based on an overall valuation of \$3,625,400,000 and a property tax collection rate of 98.5%. This reflects an increase of almost \$49,000,000 in valuation from this fiscal year.

As we started the budget process I was encouraged by the amount of growth and development that the City is experiencing, and some of the pressures from last year seemed to be easing. However, on March 10<sup>th</sup>, in response to the increase of cases of COVID-19 in the United States, the Governor declared a State of Emergency for North Carolina, and on March 16<sup>th</sup>, the Mayor did the same for Statesville. These two acts were the very public beginning of the pandemic that has impacted our residents, operations, and funding for this and the upcoming fiscal year.

At that point our budget staff was in conversations with department directors about their previously submitted budgets. However, as time passed it was evident that our society would be impacted by this crisis for the foreseeable future. As the Governor expanded his State of Emergency to include a "Stay at Home" Order on March 27, 2020 and utility bill paying flexibility on March 31<sup>st</sup>, the true reality of the fiscal impact on our organization began to coalesce. Major revenue streams such as the sales and use tax, occupancy tax, and utility billing have been and will continue to be significantly affected by this crisis.

Last year's pressures included significant increases to our employee health insurance costs, increased mandatory state retirement contributions, and significant capital needs. This year, we have added a significant decrease in forecasted revenues to the mix. The goal of the budget team was to attempt to balance the budget with no tax increase, as this would only exacerbate

the impact on an already aching local economy. Our intent was not to pass the impact of the City's losses along to our residents, business owners, or employees. To do this, we have taken the following steps:

1. Department operating budgets are effectively down to zero-growth,
2. Capital needs that include rolling stock will be financed.
3. One million dollars in fund balance is proposed to be appropriated for several major one-time capital projects.
4. Decision packages have all but been eliminated.
5. Employee salary increases will not be funded at this time.

At this year's budget retreat, the Council underwent a prioritization process that has been used in our budget preparation. Overall, the Council made employee raises their top priority. Public safety was 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 have been able to honor all but the first priority, and that has been impacted, at least partially, by the COVID crisis.

#### **BUDGET SUMMARY**

The 2020-2021 Proposed Municipal Operating and Capital Budget proposal of \$101,196,750 contains six operating funds as follows:

<b>Fund</b>	<b>FY2021</b>	<b>FY2020 (Adopted)</b>
General Fund	\$37,558,800	\$36,683,532
Electric Fund	43,277,700	54,156,867
Water and Sewer Fund	14,957,000	14,333,803
Civic Center Fund	1,096,250	1,121,864
Airport Operating Fund	2,326,000	2,912,034
<u>Stormwater Fund</u>	<u>1,981,000</u>	<u>1,946,346</u>
	<b>\$101,196,750</b>	<b>\$111,154,446</b>

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

<b>Fund</b>	<b>FY2021</b>	<b>FY2020</b>
Risk Management Fund	\$8,105,950	\$6,676,483
E-911 Fund	40,000	41,000
<u>Occupancy Tax Fund</u>	<u>750,000</u>	<u>1,156,101</u>
	<b>\$8,935,950</b>	<b>\$7,844,460</b>

## GENERAL FUND SUMMARY

The proposed General Fund budget of \$37,558,800 reflects an overall increase of \$500,722 or 1.38% from the prior year and includes a fund balance appropriation of \$1,048,745. The ad valorem property tax revenues of \$17,600,000 are based on estimated property values of \$3,265,400,000, a property tax rate of \$0.5478 per \$100 in assessed valuation, and a collection rate of 98.5%. One penny on the tax rate generates \$321,000 in revenue. This reflects an increase of almost \$225,000,000 in valuation from this year.

### Downtown Tax District

Assessed values for the downtown service district decreased by less than 1% from last year to \$103,436,500. We are 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 97%. 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 \$2,035,000. We are 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 95%. 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.

General capital reserve and fund balance appropriations are recommended as follows:

### General Capital Reserve

Streetscape/City Hall Debt Service	<u>\$720,215</u>
	\$720,215

### 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 \$1,048,745 in fund balance to account for the following projects:

Brookdale Connector Road	\$262,415
Jane Sowers Road Interchange Feasibility Study	154,365
Broad Street/Eastside Drive/Davie Avenue Sidewalks	49,430
US 21 Bike/Pedestrian Facilities	200,100
Third Creek Bridge Bike/Pedestrian Facilities	77,435
Fire Station 1 Renovation	125,000
<u>Greenway Development</u>	<u>150,000</u>
	<b>\$1,048,745</b>

**Major Revenues**

Current Ad Valorem Taxes are estimated at \$17,600,000; an increase of just over \$209,000 or 1.2% from the prior year.

Local Option Sales Taxes are estimated at \$5,991,650; a decrease of \$1,057,350 or 15% based on current year collections and growth projections.

Electricity & Natural Gas Sales Taxes are estimated at \$1,902,000; down from \$2,159,000 in current year collections and projections.

Residential Sanitation Fees are budgeted at \$1,035,000, remaining the same as this year.

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

Recreation revenues are budgeted at \$240,000; a decrease of over 50% from the prior year.

**Personnel**

Generally, it has been Council's policy to provide a Standard Performance Pay Increase (SPPI) to employees, and this was priority one at this year's budget retreat. This program awards a pay increase to employees performing at an "expected" level. However, because of the difficulty of this budget process we are not recommending an SPPI at the current time. However, as will be discussed further in this message, there is additional appropriation in contingency that will be held in abeyance and at the appropriate time when revenues rebound could be used for employee salary increases.

The costs of group health insurance and property and liability insurance in each operating fund are increased by roughly 30% and 10% respectively. As of the completion of this budget and the writing of this message we are in negotiations with our insurance broker to determine if several of our options for coverage will help decrease the cost we are anticipating for next year. As it stands, there will have to be a significant increase in the contribution from the City, and we may have to pass some of this along in the form of a cost for individual coverage for our employees.

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 employees pay.

**Position Changes**

There are three new proposed positions in the General Fund. We recommend hiring two telecommunicator positions in the Police Department and one GIS Analyst in Information Technology. The Telecommunicator positions will offset the use of temporary part time employees and account for increased call volumes. This move will limit the need to use patrol officers to run dispatch during absences and vacancies.

The additional position in IT will offset the need for professional services funds over the next year, and once that first year is completed will enable us to fill a need that has been growing for several years regarding the City's reliance on GIS data and Information Technology in general.

One additional position in the Water Department (Water and Sewer Fund) is also being proposed. We currently cannot meet federal mandates regarding inspections on backflow prevention devices. I recommend adding a position that will allow us to move toward compliance with these regulations. This is not a General Fund position.

### **Major Capital**

There were over \$6,500,000 in capital requests for FY2021. Within reason, some of those requests are being deferred and are not recommended for approval. This was done last year as well, and we saw many of the same requests again this year. The total capital funding request has been decreased to \$3,939,602. I am proposing a variety of funding mechanisms to pay for these requests, including financing, fund balance allocation, pay-go, and Powell Bill.

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

- Simulcast Radio System Upgrade
- Police Vehicles (9)
- Sanitation Vehicles (3)
- Street Projects and Equipment
- Street Sweeper

We have included several building projects in future years. City staff is in the process of developing a better plan for future facility planning. Within the next two months you will receive a new fire station location analysis, additional options for a police building. A space needs study for the "Warehouse" complex is included as a proposal in this budget.

### **AIRPORT OPERATING FUND SUMMARY**

The Airport is continuing to provide growth in the City's General Fund Property Tax Base with an aircraft valuation in excess of \$115,000,000 and buildings over \$30,000,000. During FY2019 the City purchased Statesville Flying Service, the Fixed Base Operator (FBO) at the airport. This purchase included eight hangars, the terminal building, and a fuel farm.

The proposed budget for the Airport Fund is \$2,326,000. 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 \$43,277,700 is balanced with no across the board change in retail or wholesale electric rates. Recent changes to collections rates, due to COVID-19, have affected the Electric Fund's revenue projections. However, the fund remains strong and will rebound as the economy returns to a point of confidence.

### **Major Revenues**

Electric Sales account for most of the revenues in this fund and are estimated at \$40,905,200; a decrease of 12.5% from the prior year.

Wholesale purchased power costs of \$32,000,000 are decreased by 9.8% from the previous year.

### **Major Capital**

This budget proposal includes almost \$3,600,000 in capital funds for system improvement and expansion, down from almost \$12,000,000 in FY2020.

## **WATER & SEWER FUND SUMMARY**

Next year's water and sewer consumption/flow is estimated to continue relatively flat based on current year trends. The budget proposal of \$14,957,000 is balanced with a 3.0% increase in water rates and a 3.5% increase in sewer rates, which are intended to continue to maintain the City's major asset and prepare for future growth of the system. These increases are in step with the recommendations from the water and sewer rate study approved by Council in 2018. The increases provide the revenues for operations and capital, as well as the necessary debt service in the coming years from the major expansion of the Third and Fourth Creek Wastewater Treatment Plants. There is no fund balance appropriation in this fund.

### **Major Revenues**

Water Sales are estimated at \$4,500,621; a decrease of 2.94% over the prior year.

Sewer Fees are estimated at \$6,743,639; a decrease of 3.12% over the prior year.

### **Major Capital**

We are recommending \$2,409,000 in capital outlay this year to address some of the most critical needs. This will be funded primarily through a transfer from the Water & Sewer Capital Reserve Fund of \$2,663,923. This transfer is in accord with the Water and Sewer Fund Analysis from 2018.

## **CIVIC CENTER FUND SUMMARY**

The proposed budget for the Civic Center is \$1,096,250; a nominal decrease from last year.

## **Major Revenues**

Civic Center fees are estimated at \$243,750; a decrease of over 20% from last year. Transfers from occupancy tax receipts are projected at \$592,500 to balance the budget. Any excess collections of occupancy taxes will be reserved for future capital and/or debt service for the facility.

This is one of our hardest hit funds. Our revenues could rebound in the upcoming year; however, it will be largely dependent upon when Governor Cooper lifts the Stay at Home Order and allows for mass gatherings and meetings.

## **STORMWATER UTILITY FUND SUMMARY**

Effective July 1, 2019 the City established a Stormwater Utility Fund. This fund set forth a monthly fee that is assessed to all property owners within the City. The fee is based on an equivalent residential unit (ERU) system that has been established to equitably address and bill for impervious surfaces within the City limits. The proposed budget for the Stormwater Fund is \$1,981,000 and includes money for major capital projects and day-to-day activities.

## **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 565 new homes, with 70 in this fiscal year up to the end of March. This does not include non-residential development, and the fact that before the pandemic, Statesville was seeing significant interest in large properties on the northern and southern sides of town. That interest has not diminished, and the addition of more residential lots will necessitate increased services.
- The City is in the process of extending a water line to the Larkin Industrial Park to serve a proposed 400,000 square foot industrial spec building. When completed this water line will serve a much larger area and will likely open Exit 45 up for more development.
- The Planning Department is leading the City through a comprehensive Land Use Plan rewrite. This document will plot our course as development occurs.

It is difficult to determine how the current economic situation will affect our City moving forward. Signs point to a phased approach that will guide our state to a more normal way of life sometime this summer. We have and will feel impacts of the slowdown through decreased utility bill collections, sales tax and occupancy tax distributions, and if we are unable to open some of our shuttered facilities. We have taken measures to curb costs until the end of this fiscal year and will continue to monitor and take the same actions, if necessary, in FY2021.

However, growth is here and affecting several of our departments. There were several requests for new employees in the budget requests, although the vast majority were not funded due to limited revenue. Those needs will not disappear and must be addressed at some point.

It is my sincere hope that the economy comes roaring back and we can come to you with proposed budget amendments in this coming year, the first of which could be employee raises, Council's highest budget priority. Additional money has been set aside in contingency in the event the economy recovers, and revenues stabilize. If Council agrees, that money could be allocated to employees in the form of salary increases. However, we will closely watch revenues and keep you apprised, while not acting prematurely.

**Recommendation**

Based on the factors I have presented tonight I would like to recommend to the City Council the City of Statesville's FY2021 Operating and Capital budget. This budget of \$101,196,750 reflects an overall decrease of 9% from the current fiscal year. Ad valorem property tax revenues are projected at \$17,600,000, based on estimated property values of \$3,265,400,000, which reflects an increase of almost \$49,000,000 in valuation from this fiscal year. I propose keeping the property tax rate stable at \$0.5478 per \$100 in assessed valuation, with a collection rate of 98.5%. A General Fund balance appropriation of \$1,048,745 has been included for one-time capital expenditures. Fund balance is estimated to be just over 33% at the end of FY2020.

I want to thank the departments of the City for their assistance and patience in preparing the 2020-2021 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,



Ronald R. Smith  
City Manager