

June 2, 2017

The Honorable Mayor and Town Council
Town of Edenton
P O Box 300
Edenton, NC 27932

Dear Mayor and Members of the Town Council:

Enclosed please find for your consideration the proposed budget for Fiscal Year beginning July 1, 2017 and ending June 30, 2018. The budget has been prepared in accordance with the NC Local Government Fiscal Control Act. Below you will find summaries of each of the funds that comprise the Town's overall budget but here is a summary of each fund as compared with the current fiscal year, FY 2016/17. **The General Fund budget for FY 2017/18 as proposed is based on a tax rate of 38.5 cents, which equates to no increase in the ad valorem tax rate.** The General Fund budget reflects an increase of \$457,001 (9%) over the FY 2016/17 General Fund budget . The Electric Fund budget reflects a \$31,997 increase from the FY 2016/17. We are awaiting the results of the retail rate study and anticipate a modest retail rate reduction will be proposed. We expect to have the results for you to consider at your June Committee meeting. The Water & Sewer Fund budget proposes a budget increase of \$218,683 (11%) over the FY 2016/17 Budget. The W&S Fund includes rate increases for water and sewer per the Town Council's ten year rate study plan. This will be the seventh year of the plan's ten year implementation schedule. The Powell Bill Fund (street, sidewalk maintenance & improvements) reflects funding for the proposed Street Overlay Surge Plan. The Airport Fund is proposed to increase by \$85,513. Below is summary of each fund.

General Fund

Finance Officer Jennifer Baldwin and I prepared the FY 2017/18 Revenue Projections based on our assessment of revenues received year to date and a review of historical data from previous year end reports. Our local economy is still slowly recovering from the recession - for the second year in a row we have issued just one single residential building permit. We have issued 24 permits for residential additions and renovations as compared to 19 last fiscal year. The unemployment rate for Chowan County in April 2017 was 5%, as compared to the April 2016 rate of 6%. We acknowledge an uptick real estate transactions, improvements and renovations to existing buildings. We currently are working on several redevelopment and expansion projects which will add tax value to the base in FY 2018/19. The General Fund budget assumes a 98.44% collection rate for ad valorem taxes and a 98.76% collection for motor vehicle taxes. These collection rates come from the FY 2014/15 audit. While collection rates were higher in FY 2015/16, we wanted to be a little bit conservative.

The budget includes a 1.5% cost of living increase for employees. We propose the “flat dollar” option you have implemented the last few years - the total dollar value of the 1.5% cost of living is divided by the number of employees to determine a flat dollar amount of the proposed increase. You embrace this method to help the employees at the lower end of the salary scale. You also make provisions to hold harmless the employees who would see less dollars, those who earn more than approximately \$33,000 harmless – they would earn the 1.5%.

We have been conducting due diligence on United Health Care, the insurance company that quoted a substantially lower premium for employee health insurance. The Sorin Group recommends not moving the business to United, a more in-depth discussion is included in this week’s management report but for budgeting purposes, we have budgeted the cost of premiums being the same as last year with the proposal Sorin negotiated with First Carolina Care, our current provider.

General Fund highlights include the following:

- Elected Officials – We have included funding for the salary / position classification study and funding for a community planning assessment. These two initiatives are part of the Town Council’s 2017 Vision Statement.
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- Administration – We have received a request from the Town Attorney for the first time in 5 years to increase fees. We will present the request for your consideration at the June Committee meeting, but in anticipation of a modest increase, we have increased the legal fees line item.
- Police Department – We have been deferring purchasing new police cars for the last few years and recommend we purchase three new vehicles. We are working on grant application with USDA that if approved would pay 50% grant, but we have not budgeted the 50% grant. We budgeted proceeds from loan for the cost of three new vehicles. Also, the budget reflects lower building maintenance costs and utility costs. We also have rolled over the grant for the digital repeater, we are still working on technical issues but expect the project to launch soon.
- Fire Department – This budget as proposed is relatively similar to the FY 2016/17 budget with the exception of the purchase of a new command vehicle. I am recommending purchase of new vehicle – a Command Vehicle – 4 wheel drive, SUV vehicle. Critical incidents at Leon Nixon’s (multiple patients evacuated by helicopter at Vidant Hospital) and Hurricane Matthew citizens rescues justifies the purchase of a more appropriate equipped response vehicle for the department. The plan is to fund this purchase through a lease purchase. We may be able to get half of the cost funded through USDA grant. Also, we need to plan for and begin to have dialog with Chowan County about major capital expenditure in FY 2018/19 for replacement of fire engine (\$200,000).

- Planning & Development – I have included funds to hire a planner/community redevelopment director with significant experience. We are on the verge of major initiatives in the two redevelopment zones and we want to keep that momentum going strong.
- Garage – Budget reflects decrease from the current year mainly due to projected lower gasoline purchase costs.
- Streets & Storm Water: This budget includes a replacement of a very old former NDOT flat bed truck that exceeded its useful life. We also are requesting funds to purchase a truck with a “grapple”. Think hurricane debris clean up, contactors with truck with a mechanical contraption that picks up limbs and yard waste – this will be much more efficient collection procedure for us. We will be able to collect more debris much more efficiently. This will make our customers happy.
- Sanitation: This budget includes a \$155,000 expense to replace aging sanitation truck. Staff promises to move forward with this grant application – we have recently been in touch with USDA and funding is available for 50% grant – but we have budgeted full loan amount. If we are funded by USDA we would present a budget amendment to reflect the grant proceeds and reduce the amount loan proceeds.
- Mosquito Control: No change to previous year’s budget.
- Parks, Cemeteries & Beautification: This budget includes \$15,000 to replace playground equipment at neighborhood parks and also includes the PARTF grant received for the renovations to the playground at Colonial Park. We also have rolled over funds from the Downtown Redevelopment Grant received this fiscal year for the sidewalk on S. Granville St and W. Water Street. We have received quotes and will be sharing options with neighbors and hope to present to you for action in July.
- Operational Transfers: This budget reflects our first debt service payment for the new police station, which will be due in July. The payment is decreased each year for fifteen years. Budget also includes partial payment for the bulkhead replacement project as well as the first year’s debt service payment (\$31,678). We also request appropriating \$20,539 to the Airport Fund. \$16,666 is needed for the local match to the \$150,000 grant for the new fuel farm. We could not squeeze enough money from the airport fund to balance the budget, so we ask that you approve \$3,693 as a transfer. We have included funds for the new lease, using dollar values that the State Properties Office last offered to us, and we

were in the middle of negotiating a higher value when the mold issue was reported and negotiations were put on hold. So, we anticipate higher revenues that could be used to offset future shortfalls. And we are grateful that the Division of Aviation has instituted a program whereby Tier One airports will no longer be required to provide a local match! So, looking ahead to FY 2018/19, we may see a balanced airport budget with no appropriations from the Town.

Electric Fund:

As noted in the introduction of this Budget Message we are waiting on the recommendations from consultant working on the retail rate study. We hope to have this recommendation for your consideration at the June 22 meeting and we would then have to adjust the budget ordinance accordingly.

Highlights of the Electric Fund are noted below:

- Increase line and system maintenance from \$125,000 to \$269,000. Our debriefing after the winter storm (all day and into the night outages) identified recommendations to improve system to help minimize areas/customers impacted by outages. Glenn has requested and I recommend funds to pay for equipment such as reclosers and switches that will be strategically located on circuits to isolate and minimize outage areas. This line item would also fund replacement of poles and continuation of contractor to do tree trimming around right-of-ways that support distribution lines.
- Funds for engineering work to design streetlight and streetscape improvements for the N. Oakum Street corridor and downtown. This was another initiative from the Council's 2017 Vision Statement.
- We delayed upgrade of billing system due to staff changes and in hopes the County would join us with upgrade. We are ready for the upgrade and can proceed with or without the County and request funds be carried forward to the FY 2017/18 budget
- Replacement of Bucket Truck, funded through a lease purchase (\$200,000)
- Implementation of multi-year project to revamp our residential load management program. (\$89,000). Startup cost include new signal equipment, purchase of new load management switches and fees for contractor to install switches.
- Winter storm opened my eyes to the need for us to update the break room. We need proper restrooms, kitchen area with proper kitchen equipment and technology improvements to make the break room a training room. (\$50,000).
- \$6,000 for community branding video. This is another initiative from the 2017 Vision Statement.
- \$25,000 to help fund purchase of grapple truck which will be a benefit to the Electric Department.

Water & Sewer Fund:

The Water & Sewer Fund as balanced represents an 11% increase (+\$218,683) over the FY 2016/17 Budget. The W&S Fund includes rate increases for water and sewer per the Town Council's ten year rate study plan – this year seven. \$150,000 expense is for the purchase of generator the State says we need to have at the Wastewater Treatment Plant. We propose a lease purchase, so this expense represents a significant portion of the 11% increase. We are anxiously awaiting word from USDA on our grant/loan application for the improvements to the two water treatment plants to permanently remove precursors that create disinfection byproducts (TTHMs). A separate project budget ordinance will be prepared when we are informed of the proposed terms. You have authorized Wooten Company to do the various analyses at the Wastewater Treatment Plant – soils, hydrological, agronomic and preliminary engineering report to assess and evaluate the permitted capacity and determine improvements needed to alleviate hydrological overloading (over spraying of the sprayfields) and get us back into compliance with our state permit. We expect the engineering report in the fall, and then we will seek funding and set up a project ordinance. Below are the highlights of items included in the Water & Sewer Fund. You will note we deferred a number of capital projects – were uncertain if FEMA and or insurance would reimburse us for damages to infrastructure from Hurricane Matthew. The failures of the two pumps at the main lift station caused us to rent two by pass pumps – the total cost of this recovery effort was almost \$100,000. In January we made decision to hold off on capital expenditures. Insurance has just recently paid for the repairs of the two pumps (\$76,000). Now we are in process of submitting all this to FEMA with high hopes they will reimburse the costs associated with the rental equipment (\$24,000).

Highlights:

- We deferred due to FEMA concerns so request project be carried forward- install telecommunications at pump stations and water stations: \$25,000
- Deferred due to FEMA concerns: Dehumidifiers at Water Treatment Plants \$12,000 - to protect filter housing motors and pipe fittings at plants
- Deferred due to FEMA concerns: Replace radios for personnel \$9,000
- Deferred due to FEMA concerns: Roof replacements at Water Plants \$14,000
- Generator WWTP \$150,000
- Shelter for generator and portable generators - \$15,191.
- Replacement of tractor - \$45,689
- Purchase of mini-excavator - \$25,000 (shared expense with Electric) – we have staff skilled in operating and have rented equipment a few times to do projects that we otherwise would contract out.

Powell Bill Fund:

The Powell Bill Fund budget (street, sidewalk maintenance & improvements) reflects the planned Street Overlay “Surge”. The plan proposes appropriating \$300,000 from reserves and borrowing \$600,000 over a seven or ten year period to pave priority streets. I have asked the Wooten Company to review the pavement assessment report prepared by the former public works director. The initial review did find cost estimates were low – but Wooten also questioned the depth of asphalt recommended. So I asked Wooten to come to Edenton to review conditions and compare to the assessment and give us a revised assessment. I expect a report in late June. The budget as proposed includes funds for street maintenance (\$29,000) and maintenance of storm water drainage system (\$24,000).

Airport Fund

The Airport Fund is proposed to increase by 29% (\$85,513). The budget includes grant funds for the new aviation fuel farm system. And as noted earlier, the Division of Aviation has instituted a program for Tier One airports – we will no longer be required to provide local cash match to grants – this will be the last cash match hopefully for a while in the Airport Fund. We expect to receive additional grant funds in FY 2017/18 for the fuel farm project and will not have to match with local cash from the Town. So, looking ahead to FY 2018/19, we may see a balanced airport budget with no appropriations from the Town thanks to this change in policy on grants and a successful negotiation of lease with NC DOT for space at the Terminal Building.

In Closing:

We look forward to reviewing the proposed budget with you and hearing your feedback and suggestions for possible changes. The Public Hearing is scheduled for Tuesday, June 13, 2017 at 6:00 p.m. This budget message and proposed budget will be posted on the Town’s web site and is available for inspection at Town Hall. The Budget Ordinance will be presented for consideration for adoption at your June 26, 2017 Special Meeting.

Sincerely,

Anne Marie Knighton
Town Manager

Cc: Department Heads