

May 27, 2016

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, 2016 and ending June 30, 2017. 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 2015/16. **The General Fund budget for FY 2016/17 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 less than a tenth of a percent increase (+\$42,837) over the FY 2015/16 General Fund budget. The Electric Fund budget reflects a 11% decrease (-\$1,559,976) from FY 2015/16 and of course that is attributable to the wholesale power cost savings and retail rate reductions that were realized due to the NC Eastern Municipal Power Agency's sale of generating assets to Duke Progress Energy. The Electric Fund budget proposes no changes to the retail rate schedules that were adopted by Town Council last fall. The Water & Sewer Fund budget represents a 4% increase (+\$78,010) over the FY 2015/16 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 sixth year of the plan's ten year implementation schedule. The Powell Bill Fund (street, sidewalk maintenance & improvements) reflects a 40% increase in funding over FY 2016/17 (+\$92,972). This additional revenue comes from a new revenue source. In 2015, the NC General Assembly gave municipalities the authority to increase the vehicle tag fee from \$5 to up to \$30 effective July 2016. The budget as proposed recommends increasing fee from \$5 to \$30 per vehicle. The Airport Fund is proposed to increase by 12% (+\$35,864). The increase is attributable to anticipated grant funds to purchase equipment and construct a new aviation fuel farm system to replace the aging (early 1990s) system.

General Fund

The FY 2016/17 Revenue Projections have been formulated based on assessments of historical data and revenues received year to date. While the economies in the metro and urban areas of our state are growing, rural North Carolina and especially rural northeastern North Carolina's local economies are not growing. There has been just **one building permit** issued for a residential dwelling inside the city limits so far this fiscal year. The unemployment rate for Chowan County in March 2016 was 7.1%, as compared to the April 2016 State unemployment rate in of 5.4%. We all know our local economy is still very much in a

recovery mode. We study the NC League of Municipalities' forecasting guide for municipal officials. We consider the Leagues' assessment of economic trends state wide but we focus on local trend by examining historical data. 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 prior year's Audit. We can give a shout out to the Chowan County Tax Office for improving collection rate for real property by three-tenths of a percent. This increase in collection rate last year allows us to increase our projection for collections in FY 2016/17. Also, the State DMV system now collects local vehicle taxes with renewal of state vehicle tags. The collection rate for motor vehicles has increased dramatically. The proposed budget projects a 98.85% vehicle tax collection rate. In FY 2013, prior to the implementation of the DMV collection system, we had a vehicle tax collection rate of 86.69%. We also have recognized an increase in listings thanks to the DMV collection system.

You will note that our 2015/16 budget projection for Land Transfer Tax was almost 30% (- 24,372) less than collected. We based our projection on what was collected in 2014/15 but that was projection was too optimistic. Consequently we reduced the FY 2016/17 projection downward to \$60,000. Sales tax reimbursements are on pace to exceed our projections - by June 30 we project we will collect an additional \$88,401 or 14% more revenue than anticipated. We recommend budgeting for FY 2016/17 less than what we expect to receive this year (\$600,000) as a cushion. We are gun shy after missing projections for Land Transfer Tax revenue.

The budget includes a 1% cost of living increase for employees. We propose the "flat dollar" option you utilized the last several years – the total dollar value of the 1% cost of living is divided by the number of employees to determine a flat dollar amount of the proposed increase. This method helps employees at lower end of the salary scale. In the past, generally employees earning less than somewhere in area of the low thirties benefit from this option. You also made provisions to hold those employees who see less dollars – those who earn more than in the area of the low thirties – "harmless".

As you know from your recent review of health insurance options, we are pleased with the plan proposed for FY 2016/17. This will be the first time I can remember the Town not having to budget for increase in health insurance premiums. Wow. We credit this to having an insurance broker, our continued efforts on health and wellness programming for employees and a slight decline in emergency room visits due to the availability of urgent care facility. We remain committed to working to improve health and wellness awareness for our employees and we are grateful for the support the Town Council gives us to work on this aspect of organizational management. We are communicating messages to employees that the Town Council cares about their health and well-being but also recognizing Town Council has to balance this with their responsibility to the taxpayers to make sure employee benefits plan is fiscally responsible.

General Fund highlights include the following:

- Administration – FY 2015/16 liability and insurance costs were higher than anticipated (\$18,000). Adjustment made for FY 2016/17. We recommend including a new appropriation of \$750 to the Albemarle Commission. The Commission assesses dues to counties. This year the board asked municipalities to consider paying dues in light of the increased level of services being provided to municipalities. The Commission has really stepped up services under leadership of new executive director.
- Police Department – FY 2016/17 reflects 2% decrease from FY 2015/16, mainly attributable to a \$14,000 grant for mobile in-car computer terminals
- Fire Department – FY 2016/17 2% reflects 2% decrease from FY 2015/16, mainly due to revised projections of fire calls and compensation to volunteers (- \$10,000) and decrease in retiree health insurance premium. You will note a request from Chief to consider funding \$200,000 for replacement of crash truck. I reviewed this request with Chief and we agreed that this is the year to plant the seed that this expense needs to be planned for in the very near future. We are investigating grant/loan opportunities with our friends at Rural Development/USDA – the program that helps us with partial grants for police cars and sanitation trucks may be an option to help fund the replacement of the crash truck. We also took this opportunity to alert Chowan County of the upcoming capital expense.
- Planning & Development – This budget reflects significant increase in funding from prior year of course due to Planner Sam Barrow's return from a yearlong deployment with the Army National Guard. We included funds to purchase gently used vehicle for Sam. We think it important and appropriate for Sam to utilize a town vehicle when he is in the field working on code enforcement, zoning and planning issues. The public will see a town vehicle and recognize Sam as a town official. We have included funds for travel and training for Sam to continue classes at the School of Government. Classes include fundamentals of planning and a zoning official's certification program.
- Garage – Budget reflects an overall 3% increase. The budget reflects a \$30,000 decrease in gasoline expense due lower gas prices but also includes \$10,000 expense to sand blast and paint the fuel tanks and paint portion of the PW building. The budget also recommends a \$15,000 expenditure to replace a 1997 pickup truck.
- Streets & Storm Water: This budget recommends a 2.5% increase that is attributable to replacing a pickup truck with over 215,000 miles with a gently used \$15,000 truck.

- Sanitation: This budget includes a \$155,000 expense to replace aging sanitation truck. You previously reviewed bids and authorized staff to apply for a USDA grant. We are working with the USDA grants administrator for our region and expect to have a grant award for you to consider approving in July. We are optimistic that at least 50% of the cost will be funded through a grant. But for budgeting purposes we have assumed the Town would borrow the full amount of the cost of the truck \$155,000. If you receive the grant, we would recommend a budget amendment and would utilize USDA loan program to lease purchase the balance of the cost of the vehicle. The budget request included \$10,000 to purchase additional recycling carts, but I did not recommend that expense in the budget. We will pursue grant funding to assist with this expense through NC Department of Environmental Quality's Solid Waste Grant Program. We did include funds to purchase roll out trash carts which are easier and more efficient for our sanitation crews to maneuver for disposal into truck. We buy the carts and resell to customers.
- Mosquito Control: The budget recommends increase of \$1,500. Additional personnel costs of \$500 for after-hours spraying and \$1,000 for additional supplies – insecticides for areas with standing water and aerosol for spraying.
- Parks, Cemeteries & Beautification: This budget reflects an 8% overall increase. We did not code personnel charges accurately – winter help should have been coded to another division and will be corrected going forward. The budget also include funds to replace a mower (\$12,000).
- Operational Transfers: This budget reflects prorated cost of lease for the police department. New building should be ready for occupancy in April. Also, we are pleased to report that thanks to additional sources of revenue at the Airport – the land lease for Runway 5-23 and anticipated lease renewals with NC Department of Transportation in the Terminal Building, the General Fund does not need to transfer fund to the Airport Fund. Please note that we are preparing a separate project ordinance for your consideration for the CAMA grant for the bulkhead replacement project. This project is not included in the General Fund budget.

Electric Fund:

As noted in the introduction of this Budget Message, the Electric Fund as proposed reflects an 11% decrease (-\$1,559,976) from FY 2015/16. This is a result of the wholesale power cost savings and retail rate reductions that were realized from the NC Eastern Municipal Power Agency's sale of generating assets to Duke Progress Energy. The Electric Fund budget proposes no changes to the retail rate schedules that were adopted by Town Council last fall. It is amazing to reflect on this decrease – it effectively put \$1.5M back in our local economy. We have been really drilling down on our power wholesale purchase costs and our retail revenues. Electricities assists us with power purchase projections and this year we have the benefit of the projections

that Booth and Associates did for you as part of the multi-year rate study you commissioned last summer. We are continuing our analysis and review of historical data and may very well have recommendations that will change what is presented here.

Highlights of the Electric Fund are here:

- Replacement of three breakers \$80,000 needed to be upgraded as part of the new SCADA system funded in FY 2015/16
- Replace remaining 19 regulator control panels \$28,500 – remaining upgrades at Substation for new SCADA system
- Defer streetlight and streetscape improvements \$35,000 – needs design & planning and funding may evolve through proposes solar farm interconnect agreement
- Revise formula for shared costs with General Fund administrative costs – adds \$165,000 to Electric Fund
- Upgrade billing system to allow on-line bill payments and other customer service enhancements \$14,000

Water & Sewer Fund:

The Water & Sewer Fund as balanced represents a 4% increase (+\$78,010) over the FY 2015/16 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 sixth year of the plan's ten year implementation schedule. We are making progress with the rate increases but we still have progress to make so we applaud you for supporting this plan. We should learn in late August if our grant application for the asset inventory project will be funded. Thanks to the NC Connect Bonds, we will apply for grant funding to make improvements to the water treatment plants to permanently remove precursors that create disinfection byproducts (TTHMs). Below are the highlights of items included in the Water & Sewer Fund.

Highlights:

- Replacement of pump station \$60,000
- SCADA system for water system: \$25,000
- Dehumidifiers at Water Treatment Plants \$12,000 - to protect filter housing motors and pipe fittings at plants
- Replace radios for personnel \$9,000
- Revise formula for shared costs with General Fund administrative costs – reduces \$165,000 in Water & Sewer Fund
- Roof replacements at Water Plants \$14,000
- Mower and Trailer for Wastewater Treatment Plant \$21,000
- Bypass Pump \$45,000
- 2nd year of multi-year water main valve maintenance plan - \$12,000

Powell Bill Fund:

The Powell Bill Fund budget (street, sidewalk maintenance & improvements) reflects a 40% increase in funding over FY 2016/17 (+\$92,972). This additional revenue comes from a new revenue source. In 2015, the NC General Assembly gave municipalities the authority to increase the vehicle tag fee from \$5 to up to \$30 effective July 2016. The budget as proposed recommends increasing fee from \$5 to \$30 per vehicle. We recommend continuing to appropriate revenue from a \$5 tag fee to the General Fund to help support Street & Storm Water maintenance (\$19,000). The Powell Bill Budget proposes allocating revenue from \$25 per vehicle tag - \$95,000. This new revenue will supplement the \$139,000 reimbursement the Town receives from the municipal share of the statewide distribution of gasoline sales tax. This additional vehicle tag revenue will enable you to implement a street repaving initiative in the fall. Based on current paving cost estimates, you could expect to mill and overlay approximately 3,500 feet of pavement that is 24 ft wide. Twiddy Ave is approximately 1,175 ft in length but a lot wider than 24 ft – but this should give you general idea how much street surface area can be paved within these budget parameters. The 2013 Pavement Management Report identifies priorities. If you approve of this funding plan, we will update the Pavement Management Plan and submit a list of recommendations of priority streets to be repaved. Going forward, this new revenue source will allow you to have adequate resources to pave a certain amount of pavement area each year instead of having to try to save funds over a period of years.

If you decide to implement a tag fee of less than \$30 per vehicle, we can adjust the paving line item accordingly. Levying a \$25 fee reduces paving line item from \$131,000 to \$112,000. We estimate this would reduce overlay from 3,500 ft to 3,000 ft which probably equates to one street block of resurfacing.

Airport Fund

The Airport Fund is proposed to increase by 12% (+35,864). The increase is attributable to anticipated grant funds to build a new aviation fuel farm system to replace the aging (early 1990s system). Also, in anticipation of renewing terminal building leases with NCDOT, we have for the first time in many years, eliminated the need to transfer funds from the General Fund or Water & Sewer Fund to help subsidize the Airport Fund. The recession has been difficult for all of our enterprise funds and it is fair to say the recession has been especially harsh on the Airport Fund. Sales of aviation fuel and jet fuel have been down for the past two years and this fiscal year we will have to make a transfer to the Airport Fund. The Airport Commission has requested financial support from Chowan County in the form of the hangar rents the County earns for the county-owned hangars. We hope to hear something in the affirmative from the County soon. The budget does not assume County contribution but it would be extremely helpful to be able to add \$6,500 to the FY 2016/17 budget to offset decline in fuel sales.

In Closing:

We have worked hard to prepare a budget plan that does not increase property taxes. We are pleased the budget includes investments in infrastructure, technology and equipment that will enable Town personnel to continue to deliver quality services to Edenton citizens, businesses and visitors. We value the investments our citizens make in their property and the investment our businesses make in our community. This proposed budget reflects a level of investment of Town resources that we hope you will support and be proud of. I look forward to reviewing the budget with you and answering questions and make adjustments that you as elected officials see fit to make. The Public Hearing is scheduled for Tuesday, June 14, 2016 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 adoption at your June 27, 2016 Special Meeting.

Sincerely,

Anne Marie Knighton
Town Manager

Cc: Department Heads