

May 27, 2015

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, 2015 and ending June 30, 2016. The budget has been prepared in accordance with the NC Local Government Fiscal Control Act. **The General Fund budget for FY 2015/16 as proposed is based on a tax rate of 38.5 cents, which equates to a 1.5 cent increase in the ad valorem tax rate.** This recommendation to raise the tax rate is directly attributable to the loss of the annual privilege license tax revenue. As you know, the NC General Assembly took away municipalities' authority to levy a privilege license tax effective June 30, 2015. The Town of Edenton has levied this tax for many years and relied on this revenue to help diversify our tax base. Businesses, mainly commercial retailers, paid this annual tax to the Town. This current fiscal year the Town will receive approximately \$60,000 in revenue from privilege licenses. The loss of this source of revenue equals about 1.4 cents on the Town's tax rate. The General Assembly is still in Session and there is legislation alive that would give municipalities the authority to levy a local sales tax. HB 903 would allow governing bodies to pass by resolution a ¼ cent sales tax. The best available data to estimate the value of this sales tax dates back to 2008/09 when the NC Department of Revenue last collected gross taxable sales data for municipalities. Based on 2008/09 data, a quarter cent sales tax would generate about \$148,000 for the Town. Our sales tax revenue actually decreased in subsequent years as the recession deepened. We have just this year seen some uptick our sales tax revenues, so this projection may be fairly accurate for current economic conditions.

This weekend an action alert to municipal officials went out encouraging contact with legislators urging support of legislation for municipal revenue options. We are not asking for a state appropriation, but rather for local revenue options. I know several of you made calls to our legislators – thank you and keep the pressure on! Below is an overview of the proposed budget, by fund.

### **General Fund**

The FY 2015/16 Revenue Projections are showing signs of very slight improvements. Every year the NC League of Municipalities issues a guide for municipal officials to help with budget forecasting. We rely on this document – we factor this assessment of economic trends state wide and “translate” to trends we see locally. The General Fund budget assumes a 98.15% collection rate for ad valorem taxes and a 96.76% collection for motor vehicle taxes. These collection rates come from

the prior year's Audit. The budget includes a 1.5% cost of living increase for employees. We will work on the "flat dollar" option you have utilized the last several 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. 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".

This year's budgeting challenges focused on the loss of the privilege license tax and the increase in our health insurance premiums. We are very grateful that the Town Council agreed this coming year to fund the gap insurance for all employees and their dependents. We also are grateful for the Town Council holding our employees who purchase dependent coverage "harmless" from dramatic increases in the cost of premiums purchased for families and children. And I know your retirees are grateful for the restricted plan that saves them tremendous dollars. But we heard you loud and clear that the Town cannot continue to shoulder the cost of health insurance. We will use this coming budget year to work with the Sorin Group to identify options for employee participation in premiums – meaning payroll deductions for the employee to share in the cost of the important but costly benefit. We are committed also to working to change the culture of health and wellness for our employees. We care about their health and well-being but we also have a responsibility to the taxpayers to make sure we administer our employee benefits plan in a fiscally responsible manner.

In addition to the loss of revenue from privilege license tax, we see the loss of \$20,000 rental income from the NE Commission. We carefully examined our year to date revenue collections and finally see some increases! Since 2009, we have had virtually no growth – our revenues have been all about "staying flat". But recent activity on the plan review front gives us confidence that the local economy is starting to tick up. We project minor increases in revenue line items based on current year actuals in your "economic sensitive revenues" such as land transfer tax and prior year tax collections. You will see a \$25,000 increase in Sales Tax Revenue. This projection is based on an anticipated percentage change in the distribution method. Because the Town raised taxes last year and the County decreased taxes, we estimate our share of the distribution to increase from 12.31% to 13.5%. We also budgeted a savings in salaries, benefits and fringe due to our planner being deployed for the next year.

**Electric Fund:**

We are all excited and pleased to be nearing the finalization of the Power Agency's Sale of Assets Transaction with Duke Progress. The Power Agency economic analysis projects Edenton's wholesale power costs will decrease by an average of 16%. You recently authorized Booth & Associates to conduct a retail rate design analysis to assist in determining what the new retail rates should be in light of the wholesale rate decrease. Staff is working closely with the consulting team on this project. We expect this analysis to be complete in late July and ready for your consideration and review in August. When you set the new retail rates, you will also have to do budget amendments to reduce power purchase sales and retail power sales revenue.

**Water & Sewer Fund:**

The Water & Sewer Fund as balanced includes a 30 cents per thousand gallons of water and same for sewer. This is a continuation of the rate increase plan you adopted in 2011 – a ten year plan – to avoid rate shock. The plan called for a 14 cents per 1,000 gallons but last year you approved 30 cents and I recommend you do the same this year. The budget does not include any major capital improvements. We will complete the long-range water supply study this fiscal year and then you will be faced with making plans for future upgrades.

**Powell Bill Fund:**

The Powell Bill Fund budget continues plan to build the reserve fund for streets repaving initiative in the spring of 2016. The revenues received from proceeds of the gasoline tax continue to remain flat and are down from pre-recession days by almost 10%. The League is fighting mightily to protect this revenue source from further reductions in the General Assembly – and we are grateful for this. If and it is a big if – the General Assembly adopts legislation granting authority to levy local option sales tax it would be my recommendation that a certain amount of that sales tax be designated for the Powell Bill, street overlay program.

**Airport Fund**

Often times it is the smallest budget that is the most challenging! This year the Finance Officer and I were committed to trying to reduce the transfers from other funds that have been supporting airport operations. The budget as proposed is extremely tight, and we did increase the transfer from the General Fund by \$8,345 – from \$26,230 to \$34,575. There is no planned capital improvements included in this budget. Chairman Jim Kalbach is working hard on the Governor's Aviation Task Force pushing for Tier One communities not to have to pay a 10% match for Division of Aviation grants. Chairman Kalbach learned that a match is not required by the Federal Aviation Administration – the match is mandated by the NC Division of Aviation. This would be good news for us as the Airport Commission is just starting to evaluate options for possible replacement of the fuel system, which would be done with state grant money. Eliminating the 10% cash match would be a huge help financially – otherwise we will have to look at funding support from the Town.

**In Closing:**

The proposed budget includes a property tax increase to replace privilege license tax. As I reported to you last week, a tax that was derived from commercial businesses to help provide for services that this segment of our local economy needs – a higher level of fire protection, a higher level of police services, traffic, storm water and the like. Now, this \$60,000 tax burden will be spread across the entire tax base. We all know that municipalities can only do things that the General Assembly allow us to do, and here is a prime example. We very much wanted to avoid recommending a tax increase in the heels of last year's 3.71 cent

May 31, 2015

tax increase but I could not find the revenue needed to replace the loss of the privilege license tax. As always, I look forward to working with you to review the proposed budget in more detail, hear your feedback and questions. I will help you evaluate my recommendations and finalize the budget based on what you, the elected officials, decide is best for the Town. The Public Hearing is scheduled for Tuesday, June 9, 2015 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 22, 2015 Special Meeting.

Sincerely,

Anne Marie Knighton

Cc: Department Heads