

BUDGET MESSAGE

TO: The Honorable Mayor Gorham and Reidsville City Council
DATE: May 10, 2022
RE: Proposed Budget for Fiscal Year 2022-2023

Dear Mayor and Members of City Council:

Herein submitted for your consideration, pursuant to my responsibility as City Manager and Budget Officer, is the City of Reidsville Fiscal Year (FY) 2022-2023 Annual Budget scheduled to begin on July 1, 2022 and end on June 30, 2023. City Staff is to be commended for all their efforts and hard work to ensure this proposed budget serves the needs of the public while meeting the governing board's priorities and policies.

The budget has been prepared in accordance with the North Carolina Local Government Budget and Fiscal Control Act as required by North Carolina General Statute 150-7. As required, all funds within the budget are balanced, along with all anticipated revenue and expenditure estimates being identified for FY2022-2023. Notice of this submission will be given to the news media and the public, and a public hearing will be scheduled at the City Council's meeting on June 14th at 6:00 p.m. A copy of this proposed budget will be placed on file with the City Clerk and will be available for public inspection during normal business hours 10 days prior to the June 14th public hearing. As is traditional, a copy will also be placed in the Reidsville Branch of the Rockingham County Public Library to facilitate its examination by our citizens and stakeholders.

Introduction

The objective of the proposed budget is to hold operating and capital expenses to a minimum while continuing to serve the citizens of Reidsville. The City of Reidsville, like all County and municipal governments, is being faced with uncertain economic times. As of March 2022, the Consumer Price Index reported inflation at 8.5%. This is the highest inflation has been since 1981. Our residents and employees are feeling the effects of inflation.

All departments were directed to hold all budgetary line items with the exception of fuel. All budgets with fuel line items were increased an appropriate amount due to rising costs. In the past, fuel has been accounted for in a line item designated as Auto Supplies. This budget presents a better reflection of fuel costs and separates fuel from Auto Supplies by creating a Fuel budget line item.

The City of Reidsville FY2022-2023 Annual Budget is composed of seven permanent funds: General; Parks & Recreation; Reidsville Downtown Corporation; Combined Enterprise; Police Separation Trust; Garage; and Insurance Funds. All seven (7) funds are balanced in regards to revenues and expenditures.

The proposed Citywide budget is \$31,759,750 versus FY21-22's amount of \$31,116,450. This is an increase of \$643,000, which is related to personnel costs with the remainder being spread across departmental operations due to inflation. After accounting for payments and transfers between funds, the true total for FY2022-2023 is \$26,730,850.

Personnel Benefits

The City's greatest asset is our employees. All departments were directed not to request any new positions for this budget year. It is imperative that the City of Reidsville focus on retaining and recruiting existing positions. Therefore, this budget includes a Cost-of-Living Adjustment (COLA) of 3% for all full-time employees. The total cost for the COLA is \$348,000, which includes benefits. This budget also includes the \$15.00 minimum wage for all full-time positions and the \$12.00 minimum wage for all part-time positions. The City Council voted at their March 8, 2022 meeting on the new minimum wage for full-time and part-time employees.

Retirement

The City participates in the Local Government Employees Retirement System (LGERS), which is administered by the NC State Treasurer's Office. While the NC retirement system is one of the strongest in the Country, planned increases to contribution rates have been scheduled to maintain the integrity of the plan. FY2022-2023 is the fourth of five annual increases added to the contribution rate. The rate for General employees will increase from 11.44% to 12.17%, and the rate for Law Enforcement will increase from 12.04% to 13.04%. This change in rates represents a \$100,000 approximate increase for the FY2022-2023 budget.

Health Insurance

The City is insured through the Municipal Insurance Trust of the NC League of Municipalities. The City is fully insured in that a set premium is paid per employee, and there is no assessment made if claims exceed the premiums. The increase for the City was only 3%. The FY2022-2023 budget has absorbed this increase, allowing employees to continue coverage at no cost. Rates to electively cover spouses and/or dependents did increase by 3% for employees.

The 3% increase resulted in a \$350 increase in cost per employee and eligible retiree, bringing the annual cost per participant to \$11,350. This increase represents a \$75,000 approximate increase for the FY2022-2023 budget.

Pay Plan

As a point of reference, the three groups for the pay plan study are as follows:

Year 1: Police Category

Year 2: Public Works Category

Year 3: Remaining Category (All Others)

The implementation of Year Two (2) of the Three (3) year study of the market pay plan was proposed for this FY2021-2022 at the May 10, 2022 City Council meeting. The total cost for the Public Works pay plan implementation is \$175,000, which includes benefits. The City Council also voted at its March 8, 2022 meeting to move forward with the implementation of the market pay plan for the Fire Department to help with recruitment and retention. The total cost for the Fire Department pay plan implementation is \$133,500, which does include benefits.

Funds are included in the FY2022-2023 budget to complete the study for Year Three (3) **All Other Group**, with a July 1, 2023 planned implementation date. Also, funds have also been allocated in the amount of \$5,000 to start a compression study for all positions in the FY2022-2023 budget year.

Capital Outlay

All capital outlay requests were eliminated from the proposed FY2022-2023 budget. This was necessary in order to balance the proposed budget. Capital requests were cut in order to account for a 3% COLA, pay plan implementation, minimum wage increase for both full- and part-time employees, benefit increases and fuel inflation. However, the current fiscal year has expected expenditure surpluses due to conservative spending, vacant positions and reduced part-time hours. These funds can be utilized to fund some of the capital requests.

General Fund

Capital outlay of \$2,333,900 was requested for FY2022-2023.

The following Capital Outlay requests for \$547,800 is recommended utilizing the expected expenditure surplus from the FY2021-2022 budget:

- Public Works Administration	Radios	\$132,000
- Streets Division	Pick-Up Truck	\$51,000
- Cemetery Division	Zero Turn Mower	\$12,500
- Solid Waste	Road Tractor	\$134,300
- Solid Waste	Transfer Station Scales	\$51,000
- IT	Equipment & Computers	\$100,400
- Community Development	Plotter	\$11,500
- Police Department	Police Vehicle	\$55,100

The additional requested capital of \$1,786,100 will be considered in carryover funding in Fall, 2022. Carryover funding is from revenue surplus. Revenue surplus is projected for current FY2021-2022 budget based on an unexpected increase in Sales Tax revenue.

Parks & Recreation Fund

Capital outlay of \$42,500 was requested for FY2022-2023.

The following Capital Outlay requests for \$26,500 is recommended utilizing the expected expenditure surplus from the FY2021-2022 budget:

- Facilities	Zero Turn Mower	\$12,500
- Teen Center	HVAC	\$14,000

Combined Enterprise Fund

Capital outlay of \$443,600 was requested for FY2022-2023.

The following Capital Outlay requests for \$143,600 is recommended utilizing the expected expenditure surplus from the FY2021-2022 budget:

- Plants Maintenance Wastewater	Tertiary Filter Trough	\$100,000
- Plants Maintenance Wastewater	Pump Rebuild	\$43,600

The additional requested capital of \$300,000 will be considered in carryover funding in Fall, 2022.

Revenues

Revenues will be discussed via the respective funds for easier understanding. As a point of reference, please see Section B, Citywide Revenues, for a breakdown of requests and recommendations.

General Fund

The FY2022-2023 proposed budget recommends the General Fund’s tax rate remain the same at \$0.739/\$100 of valuation. The FY2022-2023 budget year will be the first budget prepared with no tax dollars generated from the Cigarette Factory. The Cigarette Factory was historical the City of Reidsville’s largest tax contributor. The Municipal Service District tax rate is recommended to remain the same at \$0.25/\$100 of valuation. There is no appropriation of Fund Balance in the proposed FY2022-2023 General Fund budget.

Section B, Appendix D – Historical Summary of Property Tax Information provides traditional tax data.

Rising inflation costs are a contributing economic factor for the City of Reidsville's revenues. Revenues in the FY2022-2023 budget were kept flat with the exception of Sales Tax. Sales Tax is projected to be \$900,000 (22.67%) more in the FY2022-2023 budget than in current fiscal year budget. Most of this increase has been realized in current year collections, but this rate of increase will most likely vary with the current rate of inflation. The North Carolina League of Municipalities is projecting Sales Tax to increase 3.00% for the 2022-2023 fiscal year. Property tax collection rates are as expected and tracking with the previous year.

Parks & Recreation Fund

This fund has an overall increase in revenues of \$180,950 (10.46%) generated from an increase in the funding provided by the General Fund in order to offset personnel increases in part-time salaries. This is due to raising the minimum pay to \$12.00 per hour for all part-time employees. There are no rate increases proposed for this fund in the FY2022-2023 proposed budget.

Combined Enterprise Fund

The Combined Enterprise Fund contains a slight overall decrease of \$25,000 (.26%) This decrease was driven by a reduction in the Interest Income revenue lines; all other revenue line items are the same as the previous year. No rate increase is proposed for the FY2022-2023 budget.

Although there are no Capital Outlay items included in the proposed FY2022-2023 budget, the City remains committed to provide not only for operations but also for inflationary and Capital Outlay costs, which is something that has to be reviewed on an annual basis in order to properly maintain our utility system. While the industry suggested standard operating margin is 1.2, the City strives to keep an operating margin between 1.05 and 1.10 due to affordability. This is combined with City Council's desire to keep rate increases at a minimum when a rate increase becomes necessary. Section B, Appendix E – Utility Rate Information Comparison provides additional data.

Other Funds

The other remaining funds are either internal or special funds that serve a specific purpose within the organization (Police Separation Allowance Trust, Garage, and Insurance Reserve Funds) or community (Reidsville Downtown Corporation). All remained relatively the same, with slight increases, for the upcoming fiscal year.

Expenditures

Expenditures will be discussed via the respective funds for easier understanding. As a point of reference, please see Section B, Citywide Expenditures, for a breakdown of requests and recommendations.

General Fund

The General Fund's expenditures are proposed to increase by \$436,000 (2.36% overall). This increase is from a 6.73% increase in operations, a 3.25% increase in debt service and a 100% decrease in Capital Outlay. The increase in debt service is \$11,700.

Parks & Recreation Fund

The Parks and Recreation Fund expenditures saw an overall increase of \$180,950 (10.46%). This increase was driven by personnel-related items. The increase of \$199,050 in operations was offset in part by a (\$10,800) reduction in Capital Outlay.

Section D includes Parks and Recreation departmental overviews, objectives, and line item details.

Combined Enterprise Fund

The Combined Enterprise Fund did see an overall decrease in expenditures in the proposed budget of (\$25,000) or .26%. While expenditures decreased overall, operating costs increased by \$576,550 or 7.92%. This increase was more than offset by a reduction in debt service of (\$1,200) and a reduction in Capital Outlay of (\$600,350). City Staff will look to use surplus funds if available for Capital needs.

Section F includes Combined Enterprise Fund departmental overviews, objectives and line item details.

Other Funds

The Reidsville Downtown Corporation budget remains the same as the prior fiscal year. The RDC is a partnership between the private sector and the City so staff will be assisting as in past years. The remaining internal funds see the anticipated expenditures for the upcoming fiscal year met.

Sections E, G, H, and I include departmental overviews, objectives, and line item details for each fund.

Debt Service

The City of Reidsville Debt Service Summary is located in Section B, Appendix C. The General Fund and Parks & Recreation Fund have a total FY2022-2023 beginning balance of \$7,236,772. Debt Service payments FY2022-2023 total \$618,759 with no new debt being proposed in the upcoming FY2022-2023 budget.

The Combined Enterprise Fund has a total FY2022-2023 beginning balance of \$17,468,151 with debt service of \$1,799,896 scheduled to be paid. The greatest amount of the debt is involved with upgrades for the Water & Wastewater Treatment Plants and the Dam/Spillway repairs. A 0% interest State Revolving Fund loan totaling \$3,963,089 has been approved for the BNR WWTP Project, but no funds have been drawn down to date while the project

remains in the planning phase. Two additional capital projects, the WWTP Headworks and the Redundant Water Line, have been awarded grants and low interest loans as well, but this funding has not been officially accepted by the City at this point. The 2012 and 2013 Revenue Bond issues of the City have debt covenants that must be considered when issuing any new debt financing, along with the ability to pay the related debt service. At any point, debt financing remains a viable method to improve the City's existing infrastructure.

Summary

This budget for FY2022-2023 is balanced as required by law and continues to provide existing services while meeting the governing board's priorities and policies.

The FY2022-2023 budget proposal involved a lot of teamwork by the Management Team and many others. Assistant City Manager/Finance Director Chris Phillips is to be commended for his and his department's hard work and financial fortitude in assisting with preparation of the proposed FY2022-2023 budget. Assistant City Manager Haywood Cloud is also to be commended for his assistance in this proposed budget. I would also like to thank City Clerk Angela Stadler and Deputy City Clerk Latasha Wade for their hard work and commitment in preparing the budget notebooks.

I look forward to working with the City Council, City staff and our citizens to implement this budget over the FY2022-2023.

Respectfully Submitted,

Summer Woodard
City Manager