**BUDGET MESSAGE**

 **TO:** The Honorable Mayor Gorham and Reidsville City Council

**DATE:** May 5, 2023

 **RE:** Proposed Budget for Fiscal Year 2023-2024

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 2023-2024 Annual Budget scheduled to begin on July 1, 2023 and end on June 30, 2024. 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 Fiscal Year 2023-2024. 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 13, 2023 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 within 10 days prior to the June 13th 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 this proposed budget is to ensure the needs of all our citizens are met in a cost-effective manner. The City of Reidsville is seeing record inflation costs in our operating expenses. Operating expenses have continued to increase due to inflation. Suppliers and contractors have significantly increased their prices on goods and services. According to the Consumer Price Index (CIP) for North Carolina as of March, 2023, prices increased 0.4 percent over the month and 5.3 percent over the past year.

The Water and Waste Water Treatment Plants have experienced the highest price increases due to rising chemical costs. For example, prices for chemicals at the Water Treatment and Waste Water Treatment plant change every month. In the past the prices were locked in for one (1) year. This makes it extremely difficult to budget for these line items. The proposed Fiscal Year 2023-2024 budget reflects current and proposed price increases on all expenditures. However, if inflation continues to rise the budgeted amounts reflected in the proposed expenditures may need to be increased as we move through Fiscal Year 2023-2024.

Our residents and employees are feeling the effects of inflation. Therefore, the proposed budget for Fiscal Year 2023-2024 does not propose a tax increase or a water and sewer increase. However, this budget does propose increases in our fee schedule. Beginning on page B-10, you will find our current fee schedule with our proposed fee increases. Certain fee increases are needed to balance costs that departments are incurring. Departments are operating in the negative on certain line items because current fees do not cover costs.

The City of Reidsville Fiscal Year 2023-2024 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 $33,398,450 versus FY 22-23’s amount of $31,759,750. This is an increase of $1,638,700, which is related to personnel costs with the remainder being spread across departmental operations due mainly to inflation. After accounting for payments and transfers between funds, the true total proposed for Fiscal Year 2023-2024 is $28,190,250.

**Personnel Benefits**

The City’s greatest asset is the employees. It is imperative that the City of Reidsville focus on recruiting and retaining existing positions. Therefore, this budget includes a Cost-of-Living Adjustment (COLA) of three (3) percent for all full-time employees. The total cost for the COLA is $364,650, which includes benefits. This budget also includes one (1) floating holiday for all full-time employees.

**Retirement**

The City participates in the Local Government Employees Retirement System (LGERS), which is administered by the NC State Treasurer. 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. 2023-2024 is the fifth consecutive annual increase added to the contribution rate. The rate for General employees will increase from 12.17% to 12.92%, and the rate for Law Enforcement will increase from 13.04% to 14.04%. The change in rates represents a $90,000 approximate increase for the 2023-2024 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 originally came in at nine (9) percent. However, City staff was able to negotiate and bring the proposed increase down to six (6) percent. The 2023-2024 budget has absorbed this increase, allowing employees to continue coverage at no cost. Rates to electively cover spouses and/or dependents did increase by 6% for employees.

The 6% increase resulted in a $700 increase in cost per employee and eligible retiree, bringing the annual cost per participant to $12,250. This increase represents an $150,000 approximate increase for the 2023-2024 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 Three (3) of the market pay plan is proposed for this Fiscal Year 2023-2024 for the June 13, 2023 City Council meeting. The total cost for the All Other Group pay plan implementation is $154,700, which includes benefits.

Funds are included in the 2023-2024 budget to complete the study for Year One (1) of **Police,** with a July 1, 2024 planned implementation. Also, funds have been allocated to start a compression study for the Police Department in the 2023-2024 budget year. Moving forward the City will have a compression study in with the pay plan study for all three (3) groups.

**New Positions**

This proposed budget for Fiscal Year 2023-2024 allots for the following new positions:

The Penn House budget moves one part-time position to a full-time position. The total cost to implement this position is $34,000, which is needed given the new building/outdoor venue that is being built at the Penn House. This position can also be offset by increased revenue at the Penn House.

The Police Department is budgeted for one (1) new full time Lieutenant position. The total cost to implement this position is $86,500, which would be directly responsible for overseeing the City’s Student Resource Officers (SROs) and revitalizing our Community Watch Program. This position would also be over the Lake Warden and Downtown Officer positions.

The Water Treatment Plant is budgeted for one (1) new full time Lab Supervisor position. The cost to implement this position, which is needed to conduct testing in house, is $72,700. By having the ability to conduct some testing in house, we can quickly determine what the chemical levels are at the Water Treatment Plant instead of having to wait on outside results that can take days and weeks.

**Capital Outlay**

All capital outlay requests were cut from the proposed 2023-2024 budget. This was necessary in order to balance the proposed budget. Capital requests were cut in order to account for a three (3) percent COLA, pay plan implementation, benefit increases, inflation and new positions.

**General Fund**

Capital Outlay of $2,500,490 was requested for the 2023-2024 fiscal year. Additional cuts have been made since the first budget work session on April 18, 2023. The Capital Outlay requests have been reduced to $1,086,046. The items listed below, in order of most urgent need, are recommended for current year surplus revenues or carryover funds. There is a surplus in expenditures and revenues expected in the 2022-2023 budget year. This is due to conservative spending and increased revenue received in Sales Tax and Interest Earnings.

The Capital Outlay request for a new fire truck for $970,000 has been removed from Capital Outlay. City Administration recommends paying the current fire truck debt off in the amount of $240,000, which would then open up additional financing options. It is taking approximately four (4) years to build. Payment would not be due until the fire truck is delivered, which is projected to be July, 2027. The City will need to agree to purchase the new fire truck by July, 2023 in order to secure the $970,000 price that has been quoted. City Administration will be bringing this item to the June 13, 2023 City Council meeting for consideration.

The following Capital Outlay requests for $1,086,046 are recommended utilizing the expected revenue and/or expenditure surpluses for the 2022-2023 budget year. The Capital requests outlined below should be considered for carryover funding in Fall, 2023. Beginning on page B-25, please find a detailed list with photos and a description of the items below.

* Penn House **Furniture & Appliances** $70,000
* Sanitation **Front Loader** $191,400
* Fire Department **Roof Repair & Apron Repair** $91,000
* Police Dept **New Roof** $206,000
* Cemetery **Survey & Expansion** $6,000
* Sanitation **Scales** $32,346
* IT **Computer Replacements** $30,000
* Streets **Roller** $192,000
* Streets **UTV**  $15,700
* Public Works **CIP Plan** $100,000
* IT **Three New Servers** $27,000
* Main Street **New Split Unit Heating/Air Unit** $12,000
* Sanitation **Refuse Trailer** $112,600

**Parks & Recreation Fund**

Capital outlay of $56,000 was requested for 2023-2024 fiscal year. All Capital was cut in the proposed 2023-2024 budget. Additional cuts have been made since the first budget work session on April 18, 2023. The Capital Outlay requests have been reduced to $26,000. Surplus funds are projected for current 2022-2023 budget year, and $26,000 will be considered for funding in the current fiscal year.

* Lake Reidsville **Score Board** $7,000
* Lake Reidsville **Jump Pad**  $19,000

**Combined Enterprise Fund**

The total requests for Capital Outlay within this fund were for $320,500. All Capital was cut in the proposed 2023-2024 budget. At this time Administration is not comfortable recommending any carryover funding to fund Capital requests in this fund. This fund will be extremely tight this current fiscal year due to inflation and current project costs.

**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 Fiscal Year 2023-2024 proposed budget recommends the General Fund’s tax rate remain the same at $0.739/$100 of valuation. The Municipal Service District tax rate is also recommended to remain the same at $0.25/$100 of valuation. There is no appropriation of Fund Balance in the proposed 2023-2024 General Fund budget.

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

Rising inflation costs are a contributing economic factor for the City of Reidsville’s revenues. Revenues in the 2023-2024 budget are mostly unchanged, with the exception of Sales Tax, Investment Earnings and School Resource Officers (SROs). Sales Tax is projected to be $486,550 (9.99%) more in the 2023-2024 budget than in current 2022-2023 budget. Investment Earnings are projected to be $400,000 more than in the current budget due to the federal reserve increasing interest rates to combat inflation. There is also a $100,000 increase due to the addition of a fifth School Resource Officer. Property tax collection rates may see a modest increase based on expected current year collections. There are some other small increases based on the current year revenue projections as well.

**Parks & Recreation Fund**

This fund remains largely the same as last year with an overall increase of $49,850 (2.61%) related primarily to personnel increases due to the COLA and pay study. There are no rate increases proposed for this fund in the 2023-2024 proposed budget.

**Combined Enterprise Fund**

No rate increase is proposed for the 2023-2024 fiscal year budget. The Combined Enterprise Fund increased $340,000 (3.52%). This increase was due to Interest Earnings increasing $240,000 more than the current budget due to the federal reserve increasing interest rates to combat inflation. However, there was a rate adjustment in the City’s current agreement with the City of Greensboro, based on an annual CPI calculation. The rate adjustment will generate an additional $100,000 for the proposed fiscal year. All other revenue line items are the same as the previous year.

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, Garage, and Insurance Reserve Funds) or community (Reidsville Downtown Corporation). The Police Separation Allowance Trust decreased $3,300 from the current year. The Garage increased $90,000 due to inflation. The Insurance Reserve Fund increased $40,000 due to rate increase. The RDC increased $3,200 due to an increase in insurance coverage.

**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 $1,106,200 (5.85% overall). This increase is from a 5.97% increase in operations, no increase in debt service and no Capital Outlay.

**Parks & Recreation Fund**

The Parks and Recreation Fund expenditures saw an overall increase of $62,100 (3.25%). This increase was driven by inflation, the COLA and pay plan implementation. Section D includes Parks and Recreation departmental overviews, objectives, and line item details.

**Combined Enterprise Fund**

The Combined Enterprise Fund did see an increase in expenditures in the proposed budget of $340,000 or 3.52%. This increase was due to inflation and COLA in all departments. The biggest increases are in chemical supplies for both the Water Treatment Plant and Waste Water Treatment Plant. Chemical suppliers will no longer guarantee prices for more than thirty (30) days.

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

**Other Funds**

The Reidsville Downtown Corporation budget remains the same as in the prior fiscal year with the exception of an increase in their insurance coverage. This line item is now correctly budgeted. In previous budgets, there were not adequate costs budgeted. 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 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 Fiscal Year 2023-2024 beginning balance of $6,567,257. Debt service payments for Fiscal Year 2023-2024 total $612,249 with no new debt being proposed in the upcoming 2023-2024 budget.

The Combined Enterprise Fund has a total Fiscal Year 2023-2024 beginning balance of $20,096,613 with debt service of $1,798,721, which is scheduled to be paid. The greatest amount of the debt is involved with upgrades for the Water & Waste Water 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 with 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 Fiscal Year 2023-2024 is balanced as required by law and continues to provide existing services while meeting the governing board’s priorities and polices.

The Fiscal Year 2023-2024 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 hard work and financial fortitude and that of his department in assisting with preparation of the proposed 2023-2024 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 2023-2024 fiscal year.

Respectfully Submitted,

Summer Woodard

City Manager