

## SPECIAL MEETING CITY COUNCIL

February 10, 2022

The City Council of the City of Albemarle met in a special session focusing on strategic planning and budgeting on Thursday, February 10<sup>th</sup> at 4:00 p.m. in the Fellowship Room of Central United Methodist Church, located at 172 North Second Street in Albemarle. Mayor Ronnie Michael and the following Councilmembers were present, to-wit: Mayor Pro Tem Martha Sue Hall and Councilmembers Martha E. Hughes, Dexter Townsend, Christopher Whitley, Benton Dry, Shirley D. Lowder, and Bill Aldridge.

Also present were the following City of Albemarle staff:

- Michael J. Ferris – City Manager
- Britt A. Burch – City Attorney
- David Fath – Public Information Officer
- Chief T. Pierre Brewton – Fire Department
- Jacob Weavil – Finance Department Director
- Kimber Hurlocker – Assistant Finance Department Director
- Dana Chaney – Human Resources Department Director
- Owen Squires – Information Systems Department Director
- Lisa Kiser – Parks and Recreation Department Director
- Kevin Robinson – Planning and Development Services Director
- Chief Jason Bollhorst – Police Department
- Dan Worl – Public Utilities Department Director
- Ross Holshouser – Public Works Department Director

City Manager Michael Ferris facilitated the session.

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The Mayor called the meeting to order.

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### **Introduction and Meeting Overview**

City Manager Michael J. Ferris opened the session by welcoming everyone and briefly summarizing the intent of the meeting. The purpose of this meeting was to begin focusing on the budget process in this phase of planning for the next fiscal year. He briefly introduced the next item on the agenda, the economic outlook and economy of the state by Chris Nida from NCLM.

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### **Economic Outlook**

Mr. Nida gave his presentation which was distributed to the group beforehand. He began by summarizing trends for key revenue indicators and what that means for municipalities around the state.

Per 2018 statistics on total municipal revenue by source (excluding utilities), over a third of revenue is from property taxes, followed by user fees/payments and sales tax. When adding in utilities as a revenue source, utility taxes account for 30% of municipal revenue, followed by property taxes. Mr. Nida commented that there have been changes in revenue sources recently, including federal grants.

For sales tax trends, NCLM has noted a steep increase in year over year growth significantly from the summer of 2020. April, May and June of 2020 showed tremendous growth of sales tax in the range of 12 – 15% growth. Factors contributing to this trend include: changing consumption patterns, more purchases on goods, local grocery tax increasing, and inflation. Currently, sales taxes are up 18% from first quarter 2021.

Other factors contributing to municipality revenue growth in 2021 over 2020 levels were growth in consumer spending due to federal stimulus funds and an increase in consumer spending, based on 2021 Bureau of Labor Statistics and data from debit/credit card companies.

On the consumer spending front, there are mixed indicators. The state's residents have taken a hit on housing prices since 2020, with housing costs more than doubling now since 2000, causing concerns about affordable housing. However the state's unemployment rate in 2021 went down to under 4% overall with pockets of the economy seeing challenges to hiring and retaining employees. The industry sector growing the most is hospitality and leisure. However, in the government sector, employee recruitment and retention remains a challenge.

Mr. Nida gave an overview of utility sales tax trends over the last 5 years. In the first quarter of 2021, there was a large decrease in revenue sources, such as from natural gas or electricity.

As part of the ARPA overview and its impact on the state, Mr. Nida noted that \$350 billion in recovery funds have been dispersed to states, counties, and municipalities. More than \$9 billion has been distributed to North Carolina, with counties receiving \$2 billion, and cities and towns getting \$1.3 billion.

In terms of the state's budget impact on municipalities, the budget has allocated almost \$1.5 billion to various state water and sewer funding programs via numerous directed grants. State funds have been made available for planning and asset assessment, and more than \$100 million has been allocated to a new stormwater fund. The state also has earmarked \$500 million for business recovery grants and \$50 million for rural downtown transformation grants.

Mr. Nida then gave a quick summary of the Local Government Employee Retirement System (LGERS) financial picture in terms of employee contributions versus retiree payouts over the next 10-15 years.

In summary. Mr. Nida wanted to emphasize the following points for the group as they look to develop next year's budget:

- Sales tax revenue continues to be strong;

- Utility revenue performance remains mixed so far;
- The American Rescue Plan is a unique opportunity for state and local investment; and
- Inflation and other price pressures could become a point of concern.

He took questions from Council. Mayor Pro Tem Hall asked if there is any more specific guidance on ARPA funds usage, and whether there would be any sessions at the April CityVision conference about ARPA. He replied that there would be a whole conference track related to ARPA funding. He also pointed to other state guidance and technical assistance programs. In the end the intent of the legislation is what states and municipalities have to follow.

The group thanked Mr. Nida for his presentation.

Mr. Nida ended the video conference.

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### **City of Albemarle Financial Review**

Finance Director Jacob Weavil provided the group with the City's financial status in order to give Council and the Leadership Team information on which to draw during the development of the Fiscal Year 2022-23 budget.

He began by covering 6-year trends of fund-level cash, unrestricted cash and days cash on hand for the Water and Sewer, Electric and Landfill funds, and the general balance. He then reviewed the 6-year trend of property tax and sales tax revenue, along with year-to-date figures for both.

For the fund level cash review, Mr. Weavil noted that there was a dip in cash reserves in 2017 due to funding the sports complex, providing health insurance, and upgrading the Central School auditorium. In 2018 the City still was funding the health insurance plan shown in general fund. In 2019 the City used \$738,000 towards the new Police Headquarters building. In 2021, although the trend in municipal governments saw increases in budget but drops in sales tax revenue, other municipalities had to furlough employees but the City of Albemarle did not.

For the Water and Sewer Fund, cash is trending upwards since FY 2019. Mayor Pro Tem Hall asked if the balance showing is for all accounts. Mr. Weavil replied that the figure shown is the City's net position which includes all long and short term liabilities, and is the most conservative way to look at cash balances.

For the Electric Fund, the year by year graph shows an \$11.4 million expense.

For the landfill Fund, the cash net position is \$6 million. This fund has higher reserves. In 2017 the City moved \$1.6 million to fill back the reserves.

Mr. Weavil then went over the City's unrestricted cash and investments in general then by fund. This information was taken from the City's government-wide financial statement section of the audit. Figures include project commitments and other cash reserves not previously shown.

Next Mr. Weavil walked through the City's General Fund balance review. Unrestricted cash totaled \$9.19 million in FY 21, with \$1.98 million due from other governments. Notable liabilities included accounts payable totaling \$1.04 million in FY 2021, and advances to other funds totaling

\$130,000. Unassigned fund balance was defined and measured from FY 2016 through FY 2021 showing an increase in the unassigned fund balance over time. Another graph depicted how the unassigned fund balance changed as a percentage of expenditures from FY 2016-FY 2021, with the last year as 45.2% of expenditures.

Fund balance available and net expenditures were defined, and graphs depicting fund balance available over the period FY 2016-FY 2021 presented to show **the upward** trends.

General Fund major revenues largely were made up of property taxes as 41% of total revenues in FY2021, and sales tax as 27% to total revenues in FY 2021.

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There was a short dinner break.  
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### **First Tryon Presentation**

Mr. Cheatwood provided a presentation to the group related to financial modeling and forecasting. He began with discussing historical General Fund operating trends from FY 2017 – 2021, followed by financial model assumptions using top ranked City projects over the next 7 years, such as development of the Albemarle Business Center, heavy equipment across a few departments, and renovation of Fire Station 2. He then summarized model assumptions for revenues and expenditures in order to generate projections in the capital planning model.

For the General Fund projected impact, Mr. Cheatwood summarized annual debt service requirements for the existing and proposed City projects, the unassigned fund balance over time, net earnings over time, and tax increase requirements. To show comparisons, he presented a chart of where the City of Albemarle's General Fund balance and unassigned fund balance (as percentage of revenue) measured up to other similar municipalities in the state. He also presented comparison charts for direct net debt as percentage of full value and per capita along with these municipalities.

The last section of the presentation went through the historical operating trends, supported capital projects, model assumptions, project impact, and peer comparison for the Water and Sewer Fund.

Mr. Ferris remarked that the financial model laid out by First Tryon has been built with several safeguards. With no growth and no change the City still will maintain itself financially due to the safeguards put in place.

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### **Next Steps and Wrap Up**

Parks and Recreation Director Lisa Kiser summarized next steps in the strategic planning process. Since Council provided its endorsement to the plan, CRC is compiling information and drafting the final plan. Full adoption of the final strategic plan for the City is expected in March 2022. The Leadership team will start working with the committee about use of funds from the second tranche of ARPA.

Mr. Ferris noted that next in the budgeting process is staff entering funding into the budget. At the end of February, he will review the budget with every department head. Expected adoption of the budget would occur in June 2022.

Ms. Kiser made a quick announcement about looking for sponsors for Food Truck Fridays.

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**CLOSED SESSION**

Upon a motion by Councilmember Hall, seconded by Councilmember Whitley, unanimously carried, Council went into closed session pursuant to N.C.G.S. 143-318.11(a)(6) Personnel back in City Hall.

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**RETURN TO OPEN SESSION**

Upon a motion by Councilmember Hall, seconded by Councilmember Dry, and unanimously carried, Council returned to open session. The Mayor stated that a closed session was held pursuant to N.C.G.S. 143-318.11(a)(6) Personnel.

There was nothing to report.

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Upon a motion by Councilmember Dry, seconded by Councilmember Hughes, unanimously carried, the meeting was adjourned to Monday, February 21, 2022 at 6: 30 pm in City Council Chambers in City Hall.