

Salisbury, North Carolina  
May 6, 2021

## **SPECIAL MEETING**

**PRESENT:** Mayor Karen K. Alexander, Presiding; Mayor Pro Tem Al Heggins, Council Members William Brian Miller, David Post and Tamara Sheffield; City Manager W. Lane Bailey, City Clerk Kelly Baker; and City Attorney J. Graham Corriher.

**ABSENT:** None.

In response to the State of Emergency declaration related to the spread of COVID-19 and to limit physical interactions and the potential spread of COVID-19 the Salisbury City Council met electronically. The meeting was called to order by Mayor Alexander at 5:30 p.m. A moment of silence was taken.

## **ADOPTION OF THE AGENDA**

Thereupon, Councilmember Post made a **motion** to adopt the agenda. Upon a roll call vote Mayor Alexander voted AYE, Mayor Pro Tem Heggins voted AYE, Councilmember Miller voted AYE, Councilmember Post voted AYE, and Councilmember Sheffield voted AYE. (5-0)

## **BUDGET PREPARATION DISCUSSION**

City Manager Lane Bailey discussed preparations of the FY2021-2022 budget. He stated revenues for the current year have been better than anticipated and it is anticipated the City will finish with approximately \$1.5 million in surplus.

Mr. Bailey stated the General Fund of the draft budget is currently out of balance by \$1,266,950. He explained the proposed budget includes several capital items that will be paid using a Fund Balance appropriation of \$909,923 leaving a gap of \$357,027. He reviewed options to cover the gap:

- Fund Balance appropriation for reoccurring expenses
- Cut an additional \$357,027 from operating expenses
- 1 cent tax increase to equal \$309,598 find savings to offset difference
  - 1.04 cent would adjust rate to 0.73 to equal \$321,982

Mr. Bailey reviewed the items included in the current draft budget:

- 5% across the board for sworn Police positions - July 1
- 5% - 15% for Public Works - July 1
  - Streets and Waste Management, Solid Waste, Grounds Maintenance, Stormwater, Utility Asphalt Maintenance
- 2% Cost of Living Adjustment for all employees - January 1

Mr. Bailey then discussed several operating items that are not currently included in the budget but Council may wish to consider funding:

- Additional 1.5% raises for sworn Police positions \$92,000
- Other areas with recruiting challenges \$258,000
- Increase 401(k) from 3% to 4% for all employees except sworn Police
  - General Fund - \$129,000
  - Stormwater Fund - 4,620
  - Water and Sewer Fund - \$47,200
  - Transit Fund - \$5,100

Mr. Bailey noted Fire Station 3, which is estimated to cost \$7 million, is a large capital item that is also not included in the draft budget.

Mr. Bailey reviewed options for covering the items not included in the draft budget:

- Do not fund pay increases not already in the budget
- Appropriate additional Fund Balance - \$479,000
  - \$92,000 salary
  - \$258,000 other recruiting
  - \$129,000 401(k) increase
- Increase tax rate by 1.55 cents - \$479,000

He noted the options for funding construction of Fire Station 3 would be increasing the tax rate by 2.34 cents to cover an estimated debt service of \$725,862, or use American Rescue Plan (ARP) funds if the use is determined to be eligible.

Mr. Bailey reviewed the assessed valuation for the City and noted the valuation in 2011 dropped and did not return to the same value until 2020. He stated he believes the assessed values do not reflect the development and growth that has taken place. He added he is comfortable recommending the appropriation of additional Fund Balance based on the development and growth in the City.

Mr. Bailey stated guidance for use of ARP funds has not yet been issued. He stated staff is waiting for the guidance to determine eligible uses, and there are several large purchases that might qualify:

- Fire Station 3
- Fire Trucks (three needed in next three\* years)
- Fire Station 2 decontamination building
- Telecommunications Upgrade in 2024

Mayor Alexander asked what the City's percentage of Fund Balance would be if additional Fund Balance is appropriated. Finance Director Shannon Moore noted with the anticipated surplus and appropriation it would be 31.59%.

Councilmember Post stated even though the Fund Balance percentage may go down he thinks this year may be the time to appropriate Fund Balance. He noted with the increase in development permits the tax base should increase. He commented on the potential use of ARP funds and noted if the Fibrant debt could be refinanced it would free up money for use in other areas.

Councilmember Miller asked if it made sense to use Fund Balance to pay down the Fibrant debt to either shorten the term or reduce the payments. He commented he would like to see an analysis that shows what amount of Fund Balance could be used without hurting the City's reserve and still create a benefit on the debt. He stated he could not support a tax increase for the next fiscal year. Mayor Alexander agreed.

Mr. Bailey stated staff can explore paying down the debt and will talk with the Local Government Commission (LGC) about the possibility of refinancing the debt. He noted the LGC would typically give pause if the Fund Balance percentage was to drop substantially, but if it knew it was reduced to reduce debt they may approve the use.

Ms. Moore indicated staff will work with the City's financial advisor to discuss the debt, and she noted there is a penalty for early payment associated with it.

Mayor Pro Tem Heggins commented she would also like to have the analysis suggested by Councilmember Miller along with projections for rebuilding the Fund Balance if it is used. She added she did not want to raise taxes if possible.

Mr. Bailey stated there is a consensus from Council for no tax increase but to move forward with the appropriation of Fund Balance and work with the LGC regarding refinancing the Fibrant debt. He noted an analysis could not be done prior to the budget presentation May 18, 2021, but staff would continue to work on gathering the information and action could be taken after the new budget was in place.

There was discussion regarding the interest rate on the current debt. Ms. Moore stated the rate for the Fibrant debt is 2.15% and the debt for Fire Station 6 is 3.17%.

Councilmember Sheffield stated she understands Councilmember Miller's idea, but she is concerned about the percentage of Fund Balance that would be available and if the City would be

prepared if another pandemic emergency occurs. She asked staff to look at the interest rate trends and to also determine the amount of the penalty if the debt is paid early. She added she could not support a tax increase.

Mayor Alexander commented that when the City's tax rate is out of alignment with surrounding communities it can drive economic development away from the City.

Mr. Bailey reviewed the direction from Council that it would not support a tax increase and to use Fund Balance to balance the next fiscal year budget. He stated he will use the direction provided by Council to finish the draft budget. He added staff will also begin working with the financial advisor and the LGC to discuss refinancing the Fibrant debt.

There was discussion regarding the lowest percentage of Fund Balance that would be acceptable, and Mr. Bailey stated he would not be comfortable going lower than 24%. Council agreed. Mr. Bailey indicated he will present the draft budget to Council at its May 18, 2021 meeting, and Council can set worksessions following the presentation to go through the budget in more detail.

Councilmember Miller reminded Mr. Bailey of the Delta sheets provided to Council last year indicating the major areas of change in the budget. Mr. Bailey stated staff believed the Delta sheets were extremely helpful and will provide them as part of this budget process as well.

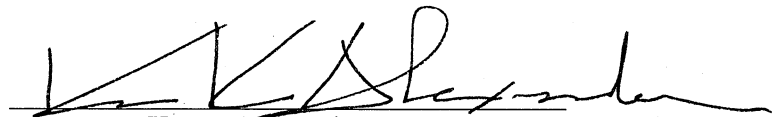
Mayor Alexander asked if Mr. Bailey had looked at the retirement increases being proposed by the State. Mr. Bailey indicated he has and the increases have been incorporated in the budget. He added there will not be an increase in health insurance rates for either the City or employees, and he noted staff has been impressed with the vendor handling the insurance contract.

Mr. Bailey thanked Ms. Moore, Budget Manager Anna Bumgarner, Finance Manager Wade Furches and the Management Team for its work throughout the challenges of the past year.

**ADJOURNMENT**

Motion to adjourn the meeting was made by Councilmember Post. All Council members in attendance agreed by roll call vote to adjourn. The meeting was adjourned at 6:31 p.m.

  
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Kelly Baker, City Clerk

  
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Karen Alexander, Mayor