

Salisbury, North Carolina  
April 28, 2020

## **SPECIAL MEETING**

**PRESENT:** Mayor Karen Alexander, Presiding; Mayor Pro Tem Al Heggins (joined meeting at 2:30 p.m.); Council Members William Brian Miller, David Post and Tamara Sheffield; City Manager W. Lane Bailey; Deputy City Clerk Tiffany Crook; and City Attorney J. Graham Corriher.

**ABSENT:** City Clerk Diane Gilmore.

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 1:00 p.m. A moment of silence was taken.

## **ADOPTION OF THE AGENDA**

Thereupon, Councilmember Post made a **motion** to adopt the Agenda as presented. Mayor Alexander and Councilmembers Miller, Post and Sheffield voted AYE. (4-0)

## **FY2020-2021 BUDGET CHALLENGES**

### Current Year Revenue Projects

City Manager Lane Bailey stated the City has a Fund Balance of 33%. Councilmember Post added a healthy fund balance is between 30% to 35%, but a four-month reserve is not a large amount at 8% per month.

Financial Services Manager Wade Furches pointed out the City was through most of the fiscal year before the Stay-at-Home Order was issued in response to COVID-19. He noted revenues and taxes are adequate, payroll will continue, and expenditures are ongoing. He added there has not been a need for layoffs and projects within the City are being completed.

Mr. Furches stated staff is currently projecting a \$1.8 million deficit for FY2020 for the General Fund and the Capital Reserves. He stated the City's budget anticipated using \$4 million of available Fund Balance which is like expecting a \$4 million loss. He indicated the \$1.8 million projected deficit will decrease the projected available Fund Balance to 27.6%.

Councilmember Post asked if the \$40,987,043 projected revenue was projected at the beginning of the fiscal year. Mr. Furches stated the City's budget is \$51 million and includes a \$4 million Fund Balance appropriation, \$2.3 million in grants the City will not receive, and \$3.5 million in transfers from the Water and Sewer and Stormwater Funds. He added \$40 million in projected revenue is slightly above budget for all items excluding these three items.

#### FY2020-2021 Sales Tax and Property Tax Projections

Councilmember Post asked if there are any adjustments for sales tax revenue the City will not receive. Mr. Furches stated sales tax revenue remained strong during the year and was \$900,000 over budget before the Stay-at-Home Order was issued. He explained the North Carolina League of Municipalities has projected a 10% to 25% decrease in sales tax and a 10% decrease over the next four months would result in a \$290,000 shortage. He added he is not expecting a huge decrease for March because the Stay-at-Home Order was not in place for the whole month.

Mr. Furches indicated there is an expectation of a sales tax decrease and no way to predict the percentage based on stores that have closed and those who continued to operate. He stated a 25% decrease in sales tax would cost the City \$725,000. Mr. Post asked if the City receives sales tax revenue when people purchase items on Amazon. Mr. Furches stated the City receives a portion of the sales tax for online purchases and even with a 10% to 25% decrease in sales tax, he projects the City will stay on budget.

Councilmember Miller asked if the information presented suggested a Fund Balance appropriation of \$2 million instead of the originally projected \$4 million, and if the City is in good standing regarding the Fund Balance. Mr. Bailey agreed, and he indicated the City has traditionally budgeted the Fund Balance and is in a position to avoid appropriating until encountering a difficult year. He noted last year \$1.2 million was appropriated from the Fund Balance, and he hoped to avoid appropriating \$4 million this year.

Councilmember Sheffield asked if staff has sales tax information categorized by industry. Mr. Furches stated the City does not receive this information, but the state receives sales tax information on an annual basis.

Councilmember Sheffield thanked Mr. Furches for planning conservatively with projections.

Mr. Bailey reminded Council that franchise tax may be delayed if the state encounters financial hardship.

Mr. Furches stated property taxes for FY2020 are satisfactory. He explained taxes are due on January 6 of each year and most people have paid their taxes for the year. He noted the City will continue to receive payments which have exceeded the FY2020 budget. He added, the FY2021 tax levy is projecting \$22.6 million and if the City is able to collect at a rate of 98.58%, \$22.3 million will be collected. He stated during the last recession collection rates dropped to 95.31% and if rates for FY2021 are similar, it will cost the City approximately \$740,000 in property taxes. He explained a 1% drop in the collection rate will cost the City \$226,000. He added, if the City continues to be at recession rate levels in December and January, there may be impacts. He stated the City will receive a large number of tax payments in July and August due to banks paying escrow taxes, but there may be a drop in payments in December and January as a result of people making their own property tax payments. Councilmember Post asked if unpaid taxes are eventually paid. Mr. Furches stated the taxes are eventually collected and may increase revenue for a different fiscal year.

Councilmember Miller asked how the loss of tourism sales tax is affecting the City, and if there is information regarding the percentage of sales tax revenue that comes from outside of the County. Mr. Furches stated he does not have that information.

Mr. Furches indicated interest earnings are adequate although interest rates have dropped and will cause next year's interest earnings to be low. He commented vehicle rental tax, parks and recreation programs, and facility rentals will be negatively impacted for FY2021.

Financial Services Director Shannon Moore stated the sale of assets has produced an unexpected revenue stream. She explained the sale of the assets occur when the City has to replace fleet vehicles or when there are surplus vehicles. She noted the vehicles are sold online and with construction increasing there is a market for used vehicles. She indicated the City has received \$135,000 in revenue this year from the sale of old equipment.

#### Update on Collections

City Manager Lane Bailey stated the City is not disconnecting water and sewer services for non-payment because of the Stay-at-Home Order. Ms. Moore noted the City would typically create a cut-off list during the last week of the month and proceed with disconnections. She explained in a normal month approximately 225 accounts are on the cut-off list, but currently there are 427 delinquent accounts. She stated the 427 accounts total a revenue stream of approximately \$144,000. She indicated not charging penalties for the month of April caused the City to lose approximately \$18,000 across the General Fund, Stormwater Fund and the Water and Sewer Fund.

Councilmember Miller asked if the penalties are forgiven or if they are on hold to be paid at a later date. Mr. Bailey stated the Governor's executive order states that citizens cannot be charged penalties, but the service payments must be paid.

Councilmember Miller asked if there is a plan to assist citizens with paying overdue service charges once the executive order is lifted. Mr. Bailey stated the City will work with citizens and community organizations to help get the bills paid. He noted citizens should recognize the holds are non-forgivable and make payments if they are able. Ms. Moore stated there are provisions in the executive order for customers to have a six-month payment plan for delinquent accounts once the order is lifted.

Councilmember Post asked about the percentage of unpaid service charges the City normally collects. Ms. Moore stated several attempts are made to work with customer to pay the debt and any unpaid debt can be pursued through the North Carolina Debt Collections Program which is administered through the State Treasurer's Office and collects payment through tax refunds and lottery winnings.

#### Other Rates (Solid Waste, SRU)

City Manager Lane Bailey stated he has a concern with raising taxes during this time of economic uncertainty. He noted recycling fees are close to where they need to be based on the contract awarded at the last Council meeting. He pointed out as the City continues to make cuts in the Solid Waste budget, costs may decrease and the need for a rate increase may go down.

Ms. Moore explained when full cost recovery for landfill and waste collection is considered, all curb-side services are viewed which includes trash, recycling, and yard and limb collection. She noted the full cost for operations is \$2.7 million with personnel costs, recycling contract, and landfill charges making up the majority of the operating costs. She stated staff will consider revising rates once the budget is balanced.

Councilmember Post stated he would like to see a provision in the recycling contract that would benefit the City if there are price reductions in the recycling market. City Attorney Graham Corriher explained the current recycling contract has a six month termination clause. He added with a six month notice, the contract can be terminated and rebid if there are changes in the recycling market. He indicated he will look for additional protections for the City before executing the contract.

Councilmember Post asked what happens to recycling bins that are filled with non-authorized items. Mr. Bailey stated it creates problems for the vendor and could increase prices. He explained a load of recyclables can be contaminated with food waste and half empty containers. He mentioned with the new rates he will recommend rate increases for commercial and residential solid waste customers for full cost recovery.

Ms. Moore stated water and sewer rate increases are based on the February Consumer Price Index (CPI) which is the month used to build the budget. She noted it takes six weeks after the month closes to get a rate. She mentioned the CPI for February from Urban South was 1.87%. She explained a rate model was used to match the Urban South rate as close as possible. She indicated the closest rate staff was able to obtain was 1.83% and will be based on volume charges in the next budget year. She explained the water volume charge will be changing by \$.04 per unit and the sewer volume charge will change by \$.15 cents per unit. She added the average residential account that uses six units will see an increase of approximately \$1.14 per month and larger residential accounts billed for eight units will increase approximately \$1.52 per month. She mentioned the CPI was used to round stormwater rates up by \$.01 which totals \$4.08 instead of \$4.00 per unit per month.

Mayor Alexander asked if the rate increases would make the City whole. Ms. Moore stated rate increases are needed to cover increased annual costs to the City.

## Personnel Costs

City Manager Lane Bailey stated given the City's financial challenges, the 3% merit and Cost-of-Living Adjustment (COLA) increases that were initially included in the budget have been removed. He indicated the main goal is the safety of employees and service to citizens. He noted an objective of the budget is to prevent the need to furlough and eliminate positions that are filled although there may be fewer positions in next year's budget as vacancies remain un-filled.

Mayor Alexander asked if there is a hiring freeze on vacant positions. Mr. Bailey stated the City is not filling vacancies with the exception of safety related positions. He mentioned the utility fund is sufficient and will allow for vacant positions to be filled.

Mr. Bailey noted the retirement system has mandated increases and the State Treasury Department is in charge of its solidity. He mentioned the North Carolina Retirement System is the third strongest retirement system in the country for public pension systems, and the current crisis will strengthen the need for funding. He explained the program is approximately 90% funded and will cost \$225,000 annually from the General Fund. He added, as other governments execute hiring freezes, there will be less money going into the system which will create challenges.

Councilmember Miller asked if the increase is a one-time payment or if it will be ongoing. Ms. Moore stated there is a 10.22 % increase for the regular work force and a 10.97% increase for law enforcement. She noted the projected increase for the next two years may be as high as 13.25% and will continue to increase in the years to come.

Councilmember Sheffield asked about the cost of Personal Protection Equipment (PPE) and measures that are being implemented to keep employees safe. Mr. Bailey stated equipment costs are being tracked by the Finance Department. He indicated the City has spent \$100,000 on masks and staff is currently inspecting facilities to determine changes that can be made to keep everyone safe. He noted safety equipment costs will be reimbursed by Federal Emergency Management Agency (FEMA). He stated once the Stay-at- Home Order is lifted he will continue to platoon employees to combat the spread of COVID-19.

## Hotwire Revenues

City Manager Lane Bailey stated Hotwire is struggling because of suspending disconnections and adding customers for free. He explained staff does not have all of the numbers for Hotwire for the current year, but last year a transfer of \$2.4 million was budgeted which included a \$600,000 settlement. He noted \$3 million will be budgeted this year for the Hotwire transfer. He added, Hotwire is a valuable utility for workers and students.

Mayor Alexander commented she has been in conversation with Salisbury-Rowan Economic Development Commission (EDC) President Rod Crider who is very interested in helping rebrand Salisbury around technology. She stated she is hoping to create a committee to work with the EDC, the County, and the Steering Committee. She added, it is an exciting opportunity for the City.

## Transit Fund Transfers

City Manager Lane Bailey stated he is concerned about the growing cost of Transit and the cost of providing services to areas outside the City. He indicated the General Fund transfer this year to Transit was \$633,000 and was greater because of federal revenue that was received. He noted the goal is to get the transfer down to \$600,000, which creates a 5% reduction. He added, there may be relief funds available to assist with the reduction.

Ms. Moore indicated a 5% reduction in the Transit Fund would allow the City to maximize federal grant dollars. She noted staff will look for ways to streamline the Transit Fund and lessen the impact to the General Fund.

Transit Director Rodney Harrison stated staff will review services being provided outside the City and other ways to reduce expenses.

## Deferred Capital Projects and Budget Reductions

City Manager Lane Bailey presented deferred capital projects and budget reductions:

- Downtown Incentives projects: \$150,000 in the budget; several projects are from last year and have a two year completion window
- West End Transformation: \$400,000 in the budget; \$96,000 has been spent, \$104,000 will be spent on current projects, and \$200,000 will roll over into next year's budget for the transformation
- Ketner Corner: \$100,000 in the budget has been deferred
- Parks and Recreation playground structures: \$40,000 in the budget has been deferred
- Grant's Creek Greenway: \$675,000 in the budget and in progress
- City Park Lake: \$200,000 in the budget to be completed at a later date
- Train Station: \$780,000 in the budget for a second platform to be completed at a later date
- Newsome Road: sidewalks and bike lanes in progress
- Old Concord Road and Brenner Avenue: street improvements will begin at a later date
- Asphalt Resurfacing: \$525,000 in the budget with 100% reimbursement
- HVAC System Replacement: projects have been deferred
- Roof Replacement: projects deferred except The Plaza and Hall Gym
- Fire Station 3: project has been deferred
- Fire Department Thermal Imaging Camera: project has been deferred.
- Fire Department Breathing Air Compressors: project has been deferred
- Fire Department truck replacement: project will take place in the upcoming fiscal year
- Housing Stabilization Program: \$100,000 in the budget; \$200,000 in home sales that can fund the program
- School System: \$95,000 in the budget that has not been requested and can no longer be funded

Mayor Alexander asked for the next step in the process. Mr. Bailey stated he wanted to give Council a picture of the challenges the City is facing. He mentioned the proposed budget is the most challenging he has seen in his career, and he is concerned about the effects that the cuts and changes will leave behind.

Councilmember Miller asked if there will be a tax rate increase. Mr. Bailey noted he is recommending the tax rate remain the same given the current situation.

Mayor Alexander asked about the estimated yearly cost on a tax bill. Mr. Bailey stated there is a monthly increase of \$.94 for recycling. He explained the residential portion of the cost will increase \$.48 for landfill charges and \$.88 for waste collection. He noted as staff makes reductions in expenditures actual costs will decrease and not exceed \$2.50 per month or \$25.00 per year. He added water volume charges will increase by \$.04 and sewer fees will increase by \$.15.

Councilmember Post stated the City could end up in more dire circumstances than what is conservatively projected. He mentioned revenues may not keep up, and he would like to see plans and options showing various projections with comparative outcomes.

Councilmember Miller indicated he would like to see an analysis of the impact of a rolling furlough on the budget. He stated he is not advocating for furloughs but would like to know if it is a viable option. Mr. Bailey stated staff will get the information to Council and continue to be diligent in monitoring revenue and expenditures.

Councilmember Sheffield pointed out it should be determined whether fee increases are absolutely necessary based on the current circumstances. She added, there may be areas where the City can cut back rather than raise fees.

Council thanked staff for its work to improve the difficult budget.

**ADJOURNMENT**

Motion to adjourn the meeting was made by Councilmember Post. All Council members in attendance agreed unanimously to adjourn. The meeting was adjourned at 3:00 p.m.



Karen Alexander, Mayor



Tiffany Crook, Deputy City Clerk