



FISCAL YEAR (FY) 2022-2023 BUDGET MESSAGE

May 3, 2022

Mayor Hales and Town Council:

Submitted for your consideration is the proposed budget for the fiscal year beginning July 1, 2023. This budget has been prepared in accordance with the North Carolina Local Government Budget and Fiscal Control Act (G.S. 159-8(a)). The budget is balanced and identifies all revenue and expenditure estimates for Fiscal Year (FY) 2022-2023.

OUR ENVIRONMENT

Similar to last year's economic outlook, further recovery from the COVID-19 pandemic and the continuing transition to a "new normal" are major drivers causing uncertainty around projections. Within the last year, COVID-19 vaccines have become widely available, and while cases declined throughout the back half of 2021, the rapid spread of Omicron throughout the winter led to a new spike in cases. Regardless, Americans are reporting that they are increasingly more comfortable with activities such as visiting grocery stores, eating out, and attending indoor concerts and events, which is hopefully a positive indicator for economic activity.¹

Unfortunately, another source of uncertainty has emerged in the form of the Russian invasion of Ukraine. Sanctions by the U.S. and other countries throughout the world on Russia include a ban on importing Russian oil, a move that has contributed to rising fuel prices in the U.S. There may have been impacts on items like food prices and the availability of raw materials.²

The Federal Reserve Bank of Richmond noted North Carolina's unemployment rate as of January 2022 is estimated to be 3.9% compared to 4.0% for the United States. They also note that wages and salaries in NC grew 11.9% year over year for the third quarter of 2021, outpacing national growth of 9.4%. Growth of real personal income in NC for this quarter is noted at 2.9%, outpacing a national average of 0.9%. A report by the NC Department of Commerce noted the three sectors with the largest number of jobs increases since January 2021 are Leisure & Hospitality Services (49,600), Professional & Business Services (37,300), and Government (20,300). Another report by the department notes as of January 2022, real taxable retail sales are at \$18.0B compared to \$15.7B as of the same month in 2021, and the number of job openings increased to 362k from 270k at the same time last year.³

Since the final round of federal stimulus checks in early 2021, consumer spending has continued to increase in North Carolina, but future outlooks grow more uncertain and less optimistic. As of late March 2022, North Carolina total consumer spending increased by 16.6% when compared to January 2020. However, U.S. Census Bureau's noted in the first half of March 2022, an estimated 34.4% of North Carolina adults report difficulties in covering normal household expenses up from 29.9% in the same period last year. Further, gas prices have hovered at \$3.98/gallon, versus \$2.63/gallon last year. The February 2022 Consumer Price Index Summary indicated an increase of 7.9% over the previous year. As a result, the Federal Reserve began raising interest rates and indicated that further hikes are expected throughout 2022.⁴

¹ NCLM Projection of State-Collected Local Government Tax Revenue, April 2022

² NCLM Projection of State-Collected Local Government Tax Revenue, April 2022

³ NCLM Projection of State-Collected Local Government Tax Revenue, April 2022

⁴ NCLM Projection of State-Collected Local Government Tax Revenue, April 2022

A March snapshot of North Carolina by the Federal Reserve Bank of Richmond shows that housing starts were up 34.17% year over year compared to only 0.80% across the US. However, affordable housing continues to be a pressing issue for communities.⁵ Johnston County jumped from about 169,000 to 216,000 residents between 2010 and 2020, according to figures from the U.S. Census Bureau released in August. The 27.8 percent growth rate ranked as the highest in North Carolina. In raw numbers, Johnston County's addition of over 47,000 residents ranked No. 6 in the state.⁶ Estimates from the United States Census Bureau found that Johnston County's population grew by 4.9% between April 2020 and July 2021, the third-fastest rate in the state. Overall, 73 counties in North Carolina grew between April 2020 and July 2021, with the state's population increasing by 112,000 people. Brunswick and Currituck were the two-fastest growing counties, followed by Johnston, Camden, and Franklin.⁷

These indicators and more contribute to North Carolina forecasters projecting continued economic growth in the coming year as of March 2022. Dr. Michael Walden's Index of North Carolina Leading Economic Indicators rose 1.7% from the previous month and 6.0% from the previous year. These net increases to the index are mainly driven by gains in manufacturing and building permits. Dr. John Connaughton's presentation of his North Carolina Economic Forecast, forecasted GDP growth of 6.7% for 2021 over 2020 and 3.3% for 2022 over 2021. Further, he projects growth in 13 of the state's 15 economic sectors, with hospitality and leisure services leading with a 9.3% increase.⁸

"The [Johnston] county was the fastest growing county by percentage in the state at 27.9%," said TJCOG Executive Director Lee Worsley. The town of Clayton has been at the forefront of Johnston County's growth; its population rose by more than 63% over the past 10 years. Experts said the growth mirrored a trend of people moving outside of the Triangle to more affordable communities where they could still commute to work thanks to major highways. "Getting to those places where Apple's going to be in RTP, and downtown Raleigh, downtown Durham, is getting more convenient," Worsley said. "And so folks are making housing choices based on that." Close to 500 new homes a year are being built in Clayton now, and the town has been working to keep up with the demand. "Local government provides a lot of essential services to the community," said Clayton Interim Town Manager Rich Cappola. "Infrastructure, utilities, public safety, those things take a lot of time and effort to scale up."⁹

OUR FINANCES

The General Fund is the chief operating fund of the Town of Kenly. The FY2020 Audit reported an unassigned, general fund balance available for appropriation of \$402,391 or 23.2% of total general fund expenditures available for FYE 2021. General Fund health remains a concern, the trend is negative, decreasing from \$651,008 to \$402,391 since 2014. However, the overall trend of General Fund Revenues is favorable, property collections are normal, however sales tax revenues are dramatically exceeding expectations.

The Towns Water and Sewer Fund is performing as expected with a stable customer base of approximately 925 customers, 680 residential and 125 commercial that are located within Kenly's corporate limits, the remainder are customers outside the corporate limits and the Town of Micro. A rate increase for water and sewer customers has been proposed which uses a rate principle of charging 1.5 – 2x more for out-of-town services than for in town residents and businesses.

⁵ NCLM Projection of State-Collected Local Government Tax Revenue, April 2022

⁶ Dec 29, 2021; source: <https://www.bizjournals.com/triangle/news/2021/12/29/johnston-county-sees-more-growth-in-decade.html>

⁷ <https://abc11.com/clayton-housing-market-johnston-county-rising-home-cost-growth/11680978/>

⁸ NCLM Projection of State-Collected Local Government Tax Revenue, April 2022

⁹ <https://www.wral.com/census-data-johnston-county-is-the-fastest-growing-county-in-the-state-with-growth-expected-to-continue-in-coming-years/19922342/>

Kenly has several special project funds, CDBG-I and Hydrant. Both project budgets are fully resourced through grants. The town also receives funds from the North Carolina State Street-Aid (Powell Bill) Program. Powell Bill funds are generated from the State's Gasoline Tax through which a percentage of revenues are returned to municipalities. These funds are limited to maintaining, repairing, constructing, reconstructing, or widening of local streets. In FY2022, Powell Bill funds were approximately \$49,900, an increase of 21% over the previous fiscal year. I have proposed these proceeds be retained and allowed to accrue to approximately \$350,000 for the purpose of establishing a quadrennial street paving and reclamation program. The Town currently has over \$130,000 of Powell Bill reserves available for eligible activities.

I have proposed creation of a Storm Water Utility, which would resource the maintenance, repair, and construction of storm water facilities for the town, however there are multiple steps that must be taken before the utility could be effective, those elements are described elsewhere in this document.

The Town's total outstanding debt on June 30, 2022, is approximately \$1,462,100, an increase of \$983,000 that occurred this fiscal year. This increase is related to the USDA Water Tank project, which has been completed. Debt service payments are reflected in the FY23 budget.

OUR ACCOMPLISHMENTS

During FYE2022, Team Kenly had multiple meaningful initiatives and successes that were begun and/or completed, below is a partial summary:

USDA Water Tank & Surplus spent: The Town of Kenly had a recurring disinfection byproducts issue within its water system partially caused by water age due to no mixing in their existing 100,000-elevated tank that was built ca. 1939. The Project consisted of demolishing the old town hall, old water tank and constructing a new 100,000-gallon elevated pedestal tank. The Project created a green space for public events within the downtown business district. The Project was on time and well under budget. The Town was allowed to re-purpose the project surplus (grant funds) to purchase much-needed equipment related to the water system that included a Utility Truck, Asphalt Compactor, meters, valves, handheld meter reader, Server, and (3) Workstations. The funds included a \$25,000 STEP grant for the initial study, \$983,000 loan, and \$1,128,000 grant from USDA.

American Rescue Plan Act \$16.7M: The Town of Kenly was notified informally in November 2021 through its Local Delegation that funds were included in the State Budget, totaling \$16,818,000 for use in making utility improvements. A grant like application process was announced that would involve the Division of Infrastructure, NC Department of Environmental Quality to administer the program and disburse funds. Local governments have until December 31, 2024, to obligate ARPA funds and until December 31, 2026, to expend them. Due to the time frame of expending those funds, in consultation with the town engineer, there were two courses of action developed that would be pursued simultaneously, the design of the wastewater treatment facility, and the design of sanitary sewer rehabilitation, both approximating \$16,088,000.

The tasks for the WWTP that can be performed within the funding deadline:

- Find and acquire suitable land for the expansion.
- Apply for speculative limits, prepare the NPDES permit application, and prepare the required Engineering Alternatives Analysis (EAA) required by EPA.
- Perform surveying, sub-surface investigation, and facility design.
- Purchase the additional pounds of Nitrogen, which are required as part of the NPDES permit application.
- Perform a flow reduction study to allow additional capacity at the treatment facility.
- Prepare a Capacity Use Study to assess fees for new development.

Simultaneous with the design of the wastewater treatment facility, sanitary sewer rehabilitation improvements will be designed, that will include:

- Prepare plans and specifications to improve existing gravity sanitary sewers and manholes.
- Replace sanitary sewer services.
- Install and/or replace standby power generator for pump stations and replace the existing pumps.

The combination of these projects will form a \$16M project budget that will be introduced in the next fiscal year, the material is included here for awareness.

Water & Fire Hydrant Upfits: Project Budget Ordinance in the amount of \$728,000 for fire hydrant replacement was adopted in April to appropriate funds that had been provided by the State of North Carolina's Budget 2022. The Town Engineer, Municipal Engineers prepared and submitted documents to receive those funds.

AC Main Replacement: Johnston County issued an RFP entitled "Municipal Funding Requests for Water, Wastewater, or Storm water Projects. The Town will seek funds in the amount of \$426,870 for this project from Johnston County, which has made a portion of their ARPA funds available to municipalities through a grant like program; June is the submission deadline.

Sand Filters are an integral component of the wastewater treatment process. The system removes turbidity and suspended solids and also reduces viruses and other microorganisms that can be present in wastewater. However, the filters didn't operate automatically, many components were past their life expectancy. A contract has been awarded, parts on order, and work is expected to begin within 90 days. The cost is \$336,644; funding source: Fund Balance & ARPA fund; the first transmittal of ARPA funds was: \$225,408 and has been deposited in a special project reserve.

CDBG-Infrastructure Project Kick off: On April 5th, the Pre-Construction Meeting was conducted kicking off the project with Town Staff, Project Engineer: Withers Ravenel, Contractor: KRG Utility, and DEQ. The project area includes installing approximately 8,200 LF of 8-inch to 12-inch sewer line in the areas of Tilghman Street, N Gardner Avenue, W Sixth Street, W Seventh Street, Lincoln Drive, N Church St, W Third Street, and E Third Street. In April 2020, the Town was awarded \$1,998,672 in U.S. Department of Housing and Urban Development (HUD) CDBG-I funds, this project is 100% funded by HUD.

Asset Inventory Assessment (AIA Mapping): included developing a hydraulic water model that will identify areas of low water pressure, reduced flow, and water age-related to the disinfection by-products, primarily THMs. The model can be used to identify areas that will benefit by looping pipes within the water system. Additionally, the water model will perform to the AWWA M-32 standard and will be certified by an Engineer that will allow the fire department to utilize that data when the Department of Insurance rates the water system. Additionally the hydrant project will benefit from this AIA project, the mapping and modeling will be utilized and will not need to be duplicated to support the hydrant upfit. Funds total \$300,000, plus a local match of \$24,000.

Town Manager Search: In 2001 the TJCOG was hired to manage the search for a permanent Town Manager. Vetting more than 30 applicants, the pool was narrowed down for a series of interviews to identify several prospects that garnered more intense evaluation that produced an individual the Town Council is considering as the next town manager for the Town of Kenly.

Economic Development Incentive Grant (EDIG): In 2018 Johnson County and the Town of Kenly agreed to offer an EDIG to Iowa 80 ~ Corbitt Partners, to incentivize the additional capital investment at their complex located in the Town. However, an EDIG Agreement had not been executed by the Town or the Company. Additionally, the Company had appealed their assessed property values for 2019, 2020, and 2021, which delayed payment of economic incentives that would have been due for that Grant (2018) and due for a previous Grant originating in 2008. The Town Council adopted EDIG Agreement(s) that set forth the intent of the Town Council

and the Company as described at the Regular Meeting held on May 14, 2018, and November 9, 2015, funds were subsequently transmitted to Iowa 80 for the 2015 and 2018 grants.

Storm Water Utility: Throughout the Town of Kenly there exists a drainage network, however the maintenance and improvement of the drainage system does not have a reliable source of funding. North Carolina General Statutes (NCGS) set forth a framework that permits jurisdictions to create an enterprise akin to the Town's water and sewer operations that would support storm water system maintenance, improvements and operations. The Town Council authorized a Study that supports establishing a Storm Water Utility.

System Development Fee Study: The Town of Kenly operates a Sewer Collection System, Wastewater Treatment Plant, Water Supply and Water Distribution System, the cost of maintaining, upgrading, expanding, and replacing those systems are funded through rates paid by existing customers. North Carolina General Statutes (NCGS) allows municipal utility providers to structure fees that are applied to new construction. However, the Town has not adopted a fee structure, to establish a structure, NCGS requires completion of a comprehensive study that evaluates System costs as basis for developing fees, their collection, and use of revenues generated from those fees. The Town Council has received general information on conducting a System Development Fee Analysis, however authorization was delayed to allow conducting an RFQ for Professional Services. Proposals were received on April 25th, scored, and ranked. A recommendation for selecting a firm is anticipated for presentation to Council on May 9th.

Departmental Highlights:

Code Enforcement:

- Average 6-8 complaints per month;
- Notice of Violations (letters) sent: 72;
- Complaints received: 84; *Trash:15; Solid waste: 15; Cars:5; Grass: 26; Animal: 8; Other: 15*

Library:

- Community engagement and responsiveness:
 - Established an adult book club that meets every second Saturday from 10am till noon, at the request of patrons
 - Organized 200 books using the Lexile reading level program which aligns books on grade appropriate levels so that elementary school students can easily find reading material on their reading level, at the request of patrons
- Evaluated every book in the children's and juvenile fiction and nonfiction section, repairing spines, adding spine labels and removed books that were damaged beyond repair or had not been read in 5 years
- Improved patron comfort through the replacement of 8 computer chairs, addition of 2 touch screen computers and rearranged the children's seating area for parents and children

Planning/Zoning:

- Since 1/1/2021 there have been roughly 65 zoning permits issued, an average of 4/month;
- Average 10-12 planning related calls/inquires per day;

Police:

- Community engagement and partnering avoided the civil unrest experienced across the country from protests and civil disobedience, which destroyed property and loss of life
- During a period of high employee turnover Kenly has had a low crime rate
- Concluded a number of investigations effectively:
 - Sex trafficking case involving a 12-year-old girl, KPD partnered with the S.B.I., which required 100's of man-hours that resulted in several arrests and convictions
 - Multiple Narcotic cases, KPD partnered with Johnston County Sherriff's office, Selma PD, Four Oaks PD, Pine level PD, Smithfield PD, & S.B.I., numerous arrests and convictions

- Federal counterfeit check ring, KPD partnered with Wilson PD, 100's of thousands of dollars was seized, that resulted in multiple audio and video confessions
- Robberies, KPD partnered with Princeton PD and the S.B.I., that resulted in the arrest of suspects
- Juvenile incidents involving vandalism, property damage, breaking and entering, larcenies and rape, which resulted in multiple arrests and convictions.
- KPD has made 131 arrests, issued 113 citations, processed 81 motor vehicle collisions and conducted 228 investigations.

Parks and Recreation:

Johnston County Tourism Grant funded a number of improvements:

- Disc Golf, an 18-hole course, \$3,500; constructed as an Eagle Scout project;
- Shelters (4), \$6,000; three have been completed, (1) as an Eagle Scout project; (2) by Part Time Town Staff, the fourth is pending;
- Concrete pads for (8) bleachers, \$6,000;
- New dugouts for Special Olympics & T Ball field, \$2,000, 80% Completed
- New LED lights in Gym, \$9,000
- Gym Press Box, \$1,500, (1 staff x roughly 36 hours)

Water, Sewer, & Streets

- Replaced approximately 347 ft of sewer services from 2ft in length to 15ft due to root intrusion at clay joints/collapse line, etc.
- Installed (13) sewer cleanouts
- Performed a small area smoke test on East side of town with NC Rural Water; Located and repaired broken cleanout caps and multiple sewer services
- Using a borrowed smoke machine Staff identified a significant inflow & infiltration problem on 7th street. The downstream pump station ran continuously during rain events, the repaired I & I, has greatly shortened the run time of those pumps, which will extend their life
- Replaced (17) old gate valves with lockable curb stops
- Installed (9) new water and sewer taps
- Installed 32ft of new driveway culverts and cleaned 231ft of ditches on W 6th Street and E First Street; the town will perform the labor associated with replacing driveway culverts while performing drainage ditch maintenance, if the property owner furnishes the culvert;
- John Pitts prepared and submitted documents to FEMA that resulted in the town receiving \$142,351.10, in September 2021. There had been flood damage to the WWTP from a hurricane event.

Wastewater Treatment Plant:

- Implemented operational improvements that reduced Total Nitrogen Load discharged to the Neuse River Basin, those permit limits were met for 2021
- Completed an Energy Assessment with Rural Water which developed an action plan that will improve the utilization of energy by the Treatment Plant over the next two years
- Developed more effective process controls that will reduce chemical usage and operating costs

FY2022-2023 BUDGET

A Council Retreat was held on February 3rd and included a goal setting session. The results of the goal setting session was used to guide the development of the spending plan for FYE2023. The Goals, votes tallies, and the resource allocations proposed for this budget are shown below:

Retreat Goals & Projects ~ Budget Integration FYE 2023				
Status	Revised 5/22/22)	Amount (4/18/22)	Item	Remarks
Budgeted		\$22,500	Demo Auditorium [votes 5]	\$100k est; five yr loan, at 4%;
Budgeted	\$88,000	\$79,000	Street Paving Program [votes 5]	Muni Vehicle Tax (fee) [\$27k] & Powell Bill [\$50k], set up a Project Fund for Paving; grow funds for 3-5 years; PB Reserve \$132k (est)
		\$ 50,000	Enhance-Paving Prog [votes 5]	Increase tax rate by 3.5 cents for street paving project; combine other funds tools Powell Bill and Car Tag fee
Budgeted		\$60,000	Update Technology: [votes 5]	<u>Digital Records Mgt: Laserfiche: \$3100/yr-subscription; \$25k-Laserfiche training/system established; Total \$30k; Project Components (2):</u> (1)Laserfiche System - \$30k (2)Scanning: \$30k -Scanning – Admin - \$5k -Scanning – Pub Works/Wastewater - \$25k Total: \$60k; GF: \$21860; W&S: \$36240
Budgeted	\$32,000	\$35,800	Update Technology: various [votes 5]	Managed Services: \$32k/yr: Monitoring: Firewall & Cyber Protection, Offsite Backup;
Project Budget (pending)		\$16.1M	WWTP Capacity [votes 4]	ARPA Funds for (2) Projects: a. Plant design, buy land, prepare bid documents b.Sewer & Pump Station Rehab
Project Budget 4/11/21		\$728,000	Fire Hydrant (ARPA)	ARPA Funds to replace/ add fire hydrants, loop water lines; NC State Budget 2022
Budgeted		\$ 55,000	Establish Storm water Program [votes 4]	Conduct a study, establish a utility, build revenue base, study basins, develop CIP
Budgeted	\$35,600	\$19,600	Training & Development [[All Dept] [votes 4]	Funded conferences, webinars, courses; <u>added</u> Staff programs & UNC-School of Government program: Municipal Administration Course \$11k; approximate
			PD Inadequate Manpower [votes 3]	Add 2-3 Police Officers; Increase Part Time Hours
		\$46,000		Several options to improve competitiveness of KPD; each option involves freezing 1 of 3 vacant positions, reallocating those funds to the remaining positions: (1) an equal basis to 7 positions; (2) to reach a targeted salary level (\$44,000) and decompress all KPD salaries for grade and longevity;

			Competitive Salary: KPD [votes 4]	(3) to reach a targeted entry salary level (\$42,000), decompress all KPD salaries for grade & longevity <i>Salary compression results when employees with different years of experience or of different supervisory levels are being paid approximately the same salary;</i>
Budgeted		\$45,400	Competitive Salaries: General Government [votes 4]	<u>General Gov/Enterprise: 10%;</u> <u>KPD 7%;</u> Two allocation methods: a. <u>Competitive Adj</u> : GG: 7%, & KPD: 4% effc: 7/1/22;
Budgeted		\$32,100	Competitive Salaries: Enterprise: [votes 4]	b. <u>Merit</u> up to 3% (Performance based) Effc no earlier than 1/1/23, w/Evaluation: Meet Expectations or better; <i>pay gap estimated at 14% between Kenly ~ Peer jurisdictions</i>

As Kenly’s Interim Town Manager, I introduced a collaborative approach for budgeting that sought greater involvement of Town Staff than had been the norm, together we are committed to a budget development process that identifies critical community requirements and the solutions that will satisfy them if adequately resourced. I have approached the budgeting responsibility in a manner that conservatively estimates revenue projections to ensure prudent use of town funds. I am committed to developing a better financial position, however I recognize that will require several years to transform the current financial environment into a system of stronger internal controls that include policy and practices such as, fund balance policy, purchasing policy, the routine use of budget amendments and/or line item transfers, and greater consistency across all departments in classifying transactions, combined those elements will allow the Town to recognize the cost of services and operations and align resources more effectively.

REVENUE SUMMARY

FEE SCHEDULE

The town has a comprehensive fee schedule for all Town services, the cost of services was scrutinized, and staff has suggested revisions that are proposed in the FYE2023 Schedule of Fees. This tool is a resource for citizens, business, and developers to access all town related fees. There have been multiple adjustments made to fees that better align the cost of providing town services.

PROPERTY TAXES

This proposed budget does not include an increase in the tax rate, the current ad valorem tax rate is \$0.63 cents per \$100 of assessed value, the collection rate for FYE2020 was 98.7%. At the time of this Messages preparation the FYE 2021 Audit had not been completed, thus the collection rate could not be confirmed, the estimated revenues are \$936,065 based on a total assessed value of \$153,256,877.

SALES TAXES

The second highest revenue stream for the Town, sales taxes are less stable than property taxes and can be more volatile during times of economic instability. During the height of COVID-19 Pandemic, most municipalities anticipated constrained retail spending which would have negatively impacted sales tax revenues. Surprisingly that was not the situation, many municipalities experienced improving receipts, Kenly’s experience was trending at \$521,950 for FYE22, and favorability continues being positive, \$469,753 was budgeted for FYE 2023, \$355,000 was budgeted FYE2022.

SANITATION

The Town received notice of a 3% price increase from Johnston County, which is being addressed through a proposed rate adjustment for curb services and bulk pickup. The current and proposed rates are:

Solid Waste Fees		FYE 22	FYE 23
		Current	Proposed
Residential			3.0%
Standard Collection - Monthly Fee		\$ 19.44	\$ 20.02
Additional Roll Out Container (Each Container)		\$ 19.44	\$ 20.02
Churches/Non Profits			
Standard Collection - Monthly Fee		\$ 19.44	\$ 20.02
Additional Roll Out Container (Each Container)		\$ 19.44	\$ 20.02
Bulk Pick Up			\$1; \$5
Minimum Fee		\$ 5.00	\$ 6.00
Charges per Truckload		\$ 60.00	\$ 65.00
Stuffed Charis, Recliners		\$ 10.00	\$ 11.00
Coaches and Sectionals		\$ 20.00	\$ 25.00
Tables-Large/Dining Room		\$ 10.00	\$ 11.00
Tables-Small		\$ 5.00	\$ 6.00
Small Chairs-Dining Room /Kitchen Size (each)		\$ 5.00	\$ 6.00
Beds		\$ 10.00	\$ 11.00
Room Size Rug/Carpet		\$ 10.00	\$ 11.00
Mattress/Box Springs		\$ 10.00	\$ 11.00
White Goods: Stove, Washer/Dryer, Refrigerator, Freezer		\$ 25.00	\$ 30.00

VEHICLE FEE

I have proposed a municipal vehicle tax, at a flat fixed amount of \$25 per vehicle that is registered in the town of Kenly. Funds derived from this source have been recommended to be combined with Powell Bill Funds and allowed to accumulate to approximately \$350,000 for use in the proposed quadrennial street paving and reclamation program. \$29,650 has been estimated.

STORM WATER

I have proposed creation of a Storm Water Utility, which would resource the maintenance, repair, and construction of storm water facilities for the town. The cost of maintaining and improving Kenly’s drainage and storm water system is not recognized, nor are capital improvements regularly resourced in a deliberate manner. Drainage system improvements that are performed are funded through property taxes or grants that periodically

may become available. An effective manner of resourcing storm water management improvements, maintenance activities, and operations is through structuring a fee that is based on the amount of impervious area contained on private property. Thus, the more impervious area that a parcel has, the larger is the fee paid. This linkage is more effective than using property taxes which can disproportionately affect high valued real property that lacks the proportional amount of impervious area than a lesser valued property with an expansive roof system and parking area, for example the differences between a church, warehouse, and commercial truck services campus. \$55,000 has been budgeted. The elements associated with developing the utility are:

Phase I: Perform the Study and develop a Fee Structure, deliverable: August 8, 2022 (\$43,500)

Phase II: Develop a Storm water Ordinance, deliverable: September 5, 2022 (\$11,500)

Phase III: Analyze and model the area's drainage network and drainage basin

Phase IV: Develop Storm water Capital Improvement Plan

Total Cost of Phases I & II: \$55,000

WATER AND SEWER

A rate increase is proposed for the Towns Water and Sewer Fund using a rate principle that sets IN TOWN rates less than OUT OF TOWN rates. While analyzing various rate options the rate for OUT-OF-TOWN Commercial services did not adhere to that principle. The rate proposal seeks to correct the discrepancy, more perfectly for sewer services than water, for this reason the town provides a substantial sewer service to outside customers, the town of Micro, consequently greater emphasis was placed in this category of rates. There are a number of principles for rate setting which the town could choose:

1. Flat rate per gallon (equitable and impartial, and has become an industry norm)
2. Increasing or decreasing consumption rates (e.g. volume discounts or penalizes large vs small consumption)
3. Over weighting Residential or Commercial rates (subsidizes a class of customers)
4. Over weighting IN TOWN vs OUT OF TOWN rates (encourages annexation)

Kenly has generally followed principles 1 & 4 to set rates. In regard to Water, the town received notice in April that Johnston County was increasing the contract service fee (\$200 to \$400/month) and the Bulk Commodity Charge from \$3.02 to \$3.20 per 1,000 gallons. In terms of Sewer, the cost of operations has increased, the approximate rate increase varies by category, for the average residential customer the sewer portion of billed services increases by an estimated 12.7%. The increase in a Utility bill for an average monthly consumption level (2,831 gallons) is \$5.36, from \$57.66 to \$63.03, which is an overall increase of 9.3%.

The current and proposed rates are illustrated below:

Water (net increase)		Current		Proposed	
		Residential	Commercial	Residential	Commercial
Base (IN)	\$ 0.25	\$ 5.00	\$ 5.00	\$ 5.25	\$ 5.25
Usage (IN)	\$ 0.25	\$ 6.42	\$ 6.81	\$ 6.67	\$ 7.06
					\$ -
Base (Out)	\$ 0.55	\$ 10.00	\$ 10.00	\$ 10.55	\$ 10.55
Usage (OUT) Residential	\$ 1.00	\$ 10.59		\$ 11.59	
				\$ -	
Usage (OUT) (2x IN commercial)	\$ 3.45		\$ 8.24		\$ 11.69
Net Change Revenue (est)	\$ 38,750				
Sewer (net increase)		Current		Proposed	
		Residential	Commercial	Residential	Commercial
Base (IN)	\$ 2.00	\$ 8.50	\$ 8.50	\$ 10.50	\$ 10.50
Usage (IN)	\$ 0.85	\$ 9.18	\$ 10.20	\$ 10.03	\$ 11.05
					\$ -
Base (Out)	\$ 4.00	\$ 15.00	\$ 15.00	\$ 19.00	\$ 19.00
Usage (OUT) Residential	\$ 1.70	\$ 16.36	\$ 9.15	\$ 18.06	\$ 10.85
Town of Micro	\$ 1.85	\$ 8.48		\$ 10.33	
Usage (OUT) (2x IN commercial)	\$ 11.25		\$ 9.15		\$ 20.40
Net Change Revenue (est)	\$ 129,900				

EXPENDITURE SUMMARY

GOVERNMENT SERVICES

The General Fund is the funding mechanism for government services that most commonly affect our citizenry on a daily basis. For most municipal governments, the largest government service appropriations are in Public Safety (Police and Fire). For FY2023, Kenly's Public Safety represents 44.4% of the General Fund's expenditures.

The total general fund budget for next year is \$1,924,673. This is an increase of \$186,676 or 9.7% from the prior year.

A summary of FY2023 departmental appropriations in the General Fund are as follows.

	Current <u>FY 2022</u>	Proposed <u>FY 2023</u>
GOVERNING BODY	\$25,530	\$32,865
ADMINISTRATION	\$237,170	\$252,212
POLICE	\$634,025	\$708,380
FIRE	\$146,000	\$146,000
STREETS	\$202,697	\$231,480
SANITATION	\$88,875	\$140,969
PLANNING BOARD	\$1,600	\$2,874
LIBRARY	\$95,325	\$101,381
PARKS & RECREATION	\$185,053	\$208,777
CODE ENFORCEMENT	<u>\$63,630</u>	<u>\$64,368</u>
GENERAL FUND	\$1,737,997	\$1,924,673

DEBT SERVICE

For FY2023, debt service increase is mostly related to \$20,000 for the Water Tank and \$22,500 for the proposed demolition of the Auditorium, and the potential debt of \$35,000 to purchase a squad car. Debt service payments are estimated at approximately \$113,500, plus the amortized cost of a squad car loan.

PERSONNEL

Total salary and benefit expenditures for FYE2023 are budgeted at approximately \$1,414,000 for all positions. This represents approximately 37.2% of the Town's total annual operating budget and is increase of approximately 11.6% from the prior year. However, there are no new position proposed for FYE 2023. The costs associated with most of these positions are split among multiple departments and across the General and Water Sewer Funds. For example, the salary and benefits costs for the positions of Town Manager, Town Clerk, and Utility Clerk are split among a number of departments, Administration, Solid Waste, Water Distribution, Sewer Collection, and WWTP. Likewise, the positions that perform maintenance activities for water, sewer, and streets are split amongst those three departments that are in the Water ~ Sewer Fund and General Fund.

There are two sets of salary adjustments proposed for town employees in this budget, a market adjustment and merit adjustment pursuant to completion of a performance appraisal. These two adjustments differ in the availability date and percentage that would be used to adjust Police Department employees and all other employees. The difference is in part due to the Police Officers received a 7% market salary adjustment in January, no other employee received an adjustment. The proposed adjustments for Kenly employees are shown below:

	Market Salary Adjustment <i>(effective 7/1/2022)</i>	Merit Salary Adjustment <i>(eligible 1/1/2023)</i>
Governmental Employees	7%	3%
Police Employees	4%	3%

The merit salary adjustment is predicated on a goal setting process between each supervisor and employee, and completion of a performance appraisal at approximately 6 – 9 months later (January 2023). The merit would be awarded based on achieving a successful performance result, which should be for employee performance that demonstrates Meets Expectations or Exceeds Expectations, the specifics should be determined by the permanent manager in consultation with Town Council. A consistent merit system is important to recruiting and retaining employees, allowing salary and benefits to lag regional peers will erode morale, and increase turnover in the most critical asset the town has, personnel. \$45,400 for the market adjustment and \$32,100 for the merit adjustment has been budgeted.

The town funds a 401k at a rate of 2% for general governmental employees and 5% for Police, the latter is mandated by the State. There is no change being proposed in contribution levels.

The Town will continue to provide the same level of healthcare insurance for employees, the renewal for Blue Cross Blue Shield benefits will be 3% less than current year rates. However, the Town’s insurance is quoted using an age ban rate, which simply means, older employees are rated at a higher cost level than younger employees, thus changes in the character of employees may have a dramatic effect on the monthly cost of medical insurance. While the employee’s healthcare premiums are fully paid by the Town, the employee may elect to carry dependent insurance, which is paid by the employee.

WATER AND SEWER SERVICES

The Water and Sewer Fund resources utility operations for citizens, businesses and the Town of Micro. For FYE2023, Kenly’s Utilities represent 49.4% of the Towns Expenditures.

The Water and Sewer budget for next year is \$1,877,677. This is an increase of \$140,215 or 7.47% from the prior year. A summary of FYE2023 departmental appropriations are as follows.

	Current <u>FY 2022</u>	Proposed <u>FY 2023</u>
ADMINISTRATION	\$248,562	\$405,850
WATER DISTRIBUTION	\$625,990	\$641,587
SEWER COLLECTION	\$427,880	\$401,207
WASTEWATER TREATMENT	<u>\$435,030</u>	<u>\$429,033</u>
WATER & SEWER FUND	\$1,737,462	\$1,877,677


CAPITAL PROJECTS AND IMPROVEMENTS

The Town is the recipient of \$16,728,000 from the state as ARPA funds, which will be used for water and sewer improvements. Also the Town anticipates receiving approximately \$426,870 from Johnston County to replace Asbestos Cement Water pipes. The town is quite fortuitous in being considered and to have received those funds, however as recipients of ARPA and CDBG-I funds there are greater expectations for financial reporting and accountability. I have proposed \$30,000 as Contracted Services to provide supplementary accounting support. The cost of those services may be ARPA eligible and allow re-purposing these budgeted funds.

SUMMARY

The proposed FY2023 Operating Budget provides the financial resources to address the most significant service and operational requirements of the community. However, community interests and needs evolve, thus continued vigilance is needed that ensures community interests are systematically evaluated and priorities developed for allocating scarce resources in an effective manner.

Respectfully submitted,


 Larry Faison, Interim Town Manager