

Town of Danbury

BUDGET MESSAGE FY 2024-25

To: Mayor Janet Whitt
Council members Gary East, Dave Hoskins, Wendi Spraker, Steve Shelton

From: Mike Barsness, Town Administrator

Date: May 2, 2024

Subject: Proposed Budget for Fiscal Year 2024-25

Introduction

In accordance with the North Carolina Local Government and Fiscal Control Act (G.S. 159-8), I am submitting for your review and eventual adoption a proposed balanced budget for Fiscal Year 2024-25. A Public Hearing has been scheduled for 6:30 PM on Wednesday, May 22, 2024, at the Danbury Public Library. After public comment is received, I will need any final budgetary direction from you no later than Thursday, June 20th. On Wednesday, June 26th, I will present for adoption the budget for Fiscal Year 2024-25.

Message

The current state of Town finances remains strong and stable. The ability to provide basic services remains manageable. Economists' forecast of a recession in 2023-24 has not materialized as of this date. The flattening of general sales tax receipts is upon us with only a slight gain of 2.2% projected for FY 2024-25. Electricity and solid waste disposal taxes are expected to increase 1.3% and 1.9% respectively while telecommunications and video programming will decline 8.5% and 3.1%¹. All considered, the FY 2024-25 revenue picture is expected to resemble the current year's total.

Given this likelihood, I am proposing an operating budget that will allow us to adequately cover basic services while safeguarding investments. No draw from fund balance is necessary to balance the budget nor is raising the tax rate necessary. Increased costs for auditing, insurance, and street lights will be offset by elimination of election costs and adjustment of various line items.

¹ NCLM Projections for State-Collected Local Government Tax Revenue FY 24-25

Estimated Valuation

The Stokes County Tax Administrator has estimated the total valuation within the town of Danbury will **increase** by \$44,000.00 after allowing for deferrals, tax relief and exemptions, based on 2023 scroll amounts.²

When preparing the annual operating budget, the Town is prohibited from projecting revenue based on an anticipated collection rate higher than the previous year's actual collection rate³. According to the 2023 tax records, Stokes County collected 98.13 percent of levied taxes last year.⁴ It should be noted that collection rates have been slightly higher than 97% for all years in the last decade. Given the possibility of an economic downturn, the FY 2024-25 budget will once again be proposed with an estimated collection rate of 97.0 percent.

State-collected Taxes

General sales & use taxes have shown a flattening tendency of late. Utility sales taxes have been trending downward for the last several years. For Danbury, natural gas is not available so the sale of electricity has been the primary factor in determining the amount of utilities tax revenue to be distributed. Note that the weather in any given year has an impact on utility usage and therefore on the amount of revenue to be received.

A source of revenue that has remained relatively stable is motor vehicle tax. There should be no significant change in FY 2024-25.

FY 2024-25 Budget Proposal

The Danbury Budget for FY2024-25 is proposed at **\$76,980.00**. This represents a **0.5%** decrease over FY 2023-24. In short, there will be minor savings across many line items to include no election costs but payroll will be increased due to upcoming changes at the clerk position and electricity rates are rising significantly.

The March 2024 reading of the U.S. Bureau of Labor Statistics, Table 2, CPI-U, indicates a 5.3% increase in garbage collection costs year-over-year. The budget anticipates 6.0%. Audit fees will increase 5.0% but insurance costs are not expected to change or may be slightly lower.

No capital projects are planned for FY 2024-25. All ongoing grant-funded projects will be completed prior to the new fiscal year. Town Hall may need to be painted and, if approved, can be funded through budget amendment.

² 2024 Town of Danbury Value Estimations

³ G.S. 159-13(b)(6)

⁴ Town of Danbury Assessment by Tax Rate, 2023 Actual

Achieving Balance

Being able to achieve balance between estimated revenues and planned expenditures without drawing from Fund Balance or alternatively raising taxes is a perpetual challenge. What is planned at the beginning of a year and what gets accomplished by the end of a year are often quite different. Planned projects get canceled and new needs arise. Conducting Town business in FY 2024-25 will not require a draw from Fund Balance barring an unforeseen event or need.

Looking Ahead

The Town's General Fund is described by the independent auditor as being very healthy.⁵ While this is a good position to be in when looking at the balance sheet of assets relative to debt and fiscal obligations, it is also fair to say that we are only one disaster away from having no reserves at all. While it is true that the Town of Danbury carries no general obligation debt and has a debt margin of \$1,061,719.00, taking on long-term debt to resolve an immediate need, e.g., street paving, greenway, or sidewalks, will simply add to the list of ongoing obligations in the form of *debt service*. This is inherently problematic in very small communities and, arguably, there is no affordable way to overcome this fact short of no-match grant funding which is a rare opportunity.

This information is provided only as a reminder of our fiscal fragility and not as indicating support of, or opposition to, any particular solution. Discussion remains warranted.

Tax Rate Recommendation

The current Danbury tax rate is set at twenty-seven cents (\$0.27) per \$100.00 of assessed property value. At the public hearing scheduled for May 22, 2024, you will be presented a balanced budget along with a recommendation for **no** tax rate increase for FY 2024-25.

Budget Notables

Following is a list of several notable facts regarding the FY 2024-25 Proposed Budget:

On the REVENUE side:

- Line 2 - Property tax collection is calculated at 97.0%.
- Line 4 – Motor vehicle tax collection is calculated at 100%.
- Line 5 - General Sales & Use Tax is budgeted at the same level as FY 2023-24.
- Line 6 - Utility Sales Tax revenues are budgeted at the same level as FY 2023-24.
- Line 8 - Income from investments will increase significantly from the initial 2023-24 budget estimate but will stall at the 2023-24 year-end level.
- Line 11 - Zoning permit applications are not expected to increase in the coming year.
- Line 12 - Powell Bill revenue will remain at 2023-24 level.

⁵ Rouse, Rouse, Rouse & Gardner

- Line 13 - No appropriation from Powell Fund Balance will be included.
- Line 15 - No appropriation from General Fund Balance is necessary to balance the budget.

On the EXPENDITURE side:

- Line 21 - Annual audit fees will increase approximately 5.0%.
- Line 28 - Garbage collection costs *may* increase nearly 6.0% due to consumer price increases.⁶
- Line 29 - Recycling costs may increase nearly 6.0% due to a CPI-U increase but disposal fees have been discontinued resulting in no change to the line item.
- Line 30 – A fuel surcharge remains in the budget as fuel prices remain high.
- Line 38 - There will not be municipal election expenses in 2024-25.
- Line 42 - The town administrator salary line reflects a return to normal monthly cost following a one-time increase of \$1,200 as approved by the town council in March of 2023.
- Line 43 – The town clerk salary line is increased in anticipation of start-up cost for a new employee.
- Line 45 – Street light electricity costs are scheduled to increase and one additional light has been added. 38% increase.
- Line 46 – Historically, the entire Powell Fund annual allocation has been budgeted for street maintenance purposes with attention focused on basic road repairs, roadside mowing, and snow removal. In 2024-25 not all funds will be budgeted due to recent street paving and drainage improvements.
- Line 47 – A small increase in Telephone and Internet expenses are expected.
- Line 48 – Utility costs will increase 17% due to higher electricity costs.

Associated Documents

You are being provided with the proposed *Budget Ordinance* in addition to this *Budget Message*. The *Budget Explanations* and *Budget Expenditure Detail* will be provided by separate email. The latter are intended to provide some line-item clarity and a foundation from which to generate questions or to direct changes prior to the public hearing on May 22nd. Expenditure Detail gives insight into the details of accounts with subcategories.

Observations

The fiscal uncertainty during the coronavirus years is largely in the past, but now high inflation and economic slowing is reason to move forward with caution. This proposed budget contains only the level of funding necessary to provide basic services and to support daily operations.

⁶ Table 2. CPI-U, U.S. City Average, Water and Sewer and Trash Collection Services(2), March YOY

There are no special projects or capital improvements included. Two grant projects (ARP and OSBM) will be undertaken but will be funded and managed through separate grant project budgets.

Lastly, and as I remind council members annually, we can balance the budget this year and likely for the next several years without severe impact to Fund Balance. However, there will undoubtedly be hard decisions to make in future years as personnel costs return to actual [non-artificial] levels and capital needs such as street paving, pedestrian accessibility, greenway, trailhead, and town park improvements press for attention. This will require a frank and informed discussion regarding the Town's financial picture including opportunities, challenges and inherent limitations. This should be addressed in the near-term so a framework for future guidance can follow.

Next Steps in Process

1. After reviewing the Budget Message and Ordinance, council members are encouraged to contact me with any questions or suggestions, preferably by Thursday, May 18.
2. We will hold a public hearing on the proposed budget on Wednesday, May 24, 2023, at 6:30 PM. This hearing will be held at the Danbury Library.
3. Additional public comment, if received, will be provided to Council through Thursday, June 8, 2023.
4. Between June 9 and June 22, we will make any suggested changes to the proposed budget. During this time we will also get one last estimate of likely revenue and adjust the budget as necessary.
5. On Wednesday, June 28, 2023, at 6:30 PM, council will be asked to set the tax rate and adopt the budget for FY 2023-24.
6. Also at the June 28th meeting, council will need to adopt an *amended* year-end budget for FY 2022-23 in order to bring it into balance for eventual audit and close-out.

Respectfully Submitted.