

MINUTES

Special Meeting – Budget Workshop
City Hall Council Chamber

May 10, 2022
Tuesday, 12:00p.m.

Present: Mayor O. Stanhope Anthony III, presiding; Council Members Andrew L. Hopper Sr., David White, David Causby, Charles Webber, Violet Arth and Emilie Bullock.; City Manager Rick Howell, MPA, ICMA-CM, Assistant City Manager Justin S. Merritt, MPA, Assistant City Manager of Utilities Benjamin (Ben) Yarboro, City Clerk Carol Williams, Director of Finance Elizabeth (Beth) B. Beam, Police Chief Jeffrey (Jeff) Ledford

Mayor Anthony called the meeting to order at 12:10 p.m.

A. Budget Session: Utility (Enterprise) Funds – Natural Gas and Electric

Mr. Howell began his presentation by stating this session would cover the Natural Gas Fund and the Electric Fund revenues and expenditures. The presentation and all handouts are hereby incorporated by reference and made a part of these Minutes.

Mr. Howell stated that it's important to consider each of the Enterprise funds (Electric, Natural Gas, Water, Sewer and Stormwater) as separate self-sustaining budgets.

As a reminder, Mr. Howell reviewed the City Manager's responsibilities in the budget process as well as by the Local Government Budget and Fiscal Control Act, adding:

- North Carolina General Statute 159-9 designates the City Manager as the budget officer.
- North Carolina General Statute 159-11 requires submission of a balanced budget and budget message prior to June 1 each year, which does not have to occur at a formal Council meeting.
- The City Manager is obligated as the Chief Operating Officer to submit a responsible budget that provides for desired service levels and addresses Council's goals and priorities for the City.
- North Carolina General Statute 159-13(b) (14) directs and limits no appropriation may be made from a utility or public service enterprise fund to any other fund than the appropriate debt service fund unless the total of all other appropriations in the fund equal or exceed the amount that will be required during the fiscal year, as shown by the budget ordinance, to meet operating expenses, capital outlay, and debt service on outstanding

utility or enterprise bonds or notes.

Mr. Howell stated that the enterprise funds need to be self-supporting, and the City needs to pay their bills and maintain the systems with the money that is received, and if there is excess money left over, then Council has the option of transferring that money.

Mr. Howell stated that the overview of the Enterprise funds will include a description and explanation of revenue sources, discussion of significant budget drivers, description and explanation of services provided, and breakdown by utility department and function.

Mr. Howell commented the reserve funds in the Enterprise funds are relatively healthy. Use of these reserve funds should be limited largely to emergency situations, protection of the City's credit rating with bondholders in accordance with our legally binding bond covenants, cash flow for day-to-day operations, and capital projects deemed important by City Council. These monies are not limitless and unnecessary use to fund annually recurring operational or expenses only puts the City at enhanced financial risk.

Mr. Howell stated that City Council needs to consider building in an annual inflationary factor based on the Bureau of Labor Statistics consumer price index (CPI) in the budget beginning with fiscal year 2023.

NATURAL GAS FUND

Mr. Howell stated that the largest factor in the Natural Gas Fund for the 2023 proposed budget is the increase in gas charges, that number increasing from \$15,900,000 in 2022 to \$23,977.747 in 2023. This is an \$8 million increase.

Mr. Howell explained that the City has recently conducted an Allocation Study and found an amount that each Enterprise fund pays to the General Fund that provide services or support. The Allocations line item is that funds fair share of supporting the employees that are paid out of the General Fund. This Allocation is shown as an expense in each of the Enterprise funds.

Mr. Howell stated that most of the money spent in the Natural Gas fund is for operating expense which is used for the purchase of natural gas. In 2021 the net position in the Natural Gas fund (after transfers) was \$2.5 million, which was a good year.

Mr. Howell stated that Natural Gas commodity purchases is a major factor in the proposed 2023 budget. In fiscal year 2022 gas purchases were projected at \$8.7 million, in 2023 they are projected at \$16 million. Mr. Merritt commented that the number for 2022 is going to be closer to \$16 million due to the increase in the natural gas market.

Mr. Howell added that the Natural Gas Fund is more dependent on cold weather.

Mr. Howell indicated no increase for the margin rate schedule is recommended for this coming fiscal year.

Mr. Howell further indicated that there is a proposed 5% market rate adjustment for natural gas employees. The natural gas department will be included in year 2 of the new market pay plan, which could be implemented in January 2023.

ELECTRIC FUND

Mr. Howell stated the Electric Fund is down slightly, 6 percent, in overall spending from Fiscal Year 2021-2022 from \$22,039,455 to \$20,696,000.

Mr. Howell further stated no rate increase is recommended for the coming fiscal year. Revenue is expected to remain relatively flat with growth not to exceed 1 percent.

Mr. Howell stated that most people think the City buys our power from Duke Energy – this is incorrect. The City buys power from ourselves due to being a member of the North Carolina Municipal Power Agency Number 1 (NCMPA1).

Mr. Howell noted that there is a \$1.27 million decrease in Electric charges. Mr. Howell also pointed out that the increase in pole rental charges is due to the other entities (Spectrum, BellSouth, etc.) are starting to pay their rental fees.

Mr. Howell explained the gap in the revenues and expenditures in the Electric Fund over the past two years. The Power Agency had several successful years from an operating standpoint, so the City received a rebate in 2020 and 2021 which was added to the Electric Fund reserves. These were one-time credits.

In 2021 the net position in the Electric fund (after transfers) was \$5.9 million, which was a good year.

Mr. Howell added that the Electric Fund is more dependent on hot summers.

Mr. Howell stated that a 13 percent decrease in wholesale power costs from NCMPA1 is anticipated. This could bring a retail rate reduction to our customers, however, Mr. Howell stated that he does not have an exact number at this time.

Mr. Howell further indicated that there is a proposed 5% market rate adjustment for electric employees, in addition, the electric department will be included in year 1 of the new market pay plan.

B. Adjournment:

1) Motion to adjourn

ACTION TAKEN: Upon a motion made by Ms. Arth, City Council voted unanimously to adjourn the meeting at 1:36 p.m.

Respectfully submitted,

**Carol Williams
City Clerk**

**O. Stanhope Anthony III
Mayor**

Minutes of May 10, 2022

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