

Memorandum



To: Mayor and Town Council

From: Ryan Spitzer

Date: 5/10/2024

Re: **FY25 Budget Memo**

Overview:

The FY25 Budget is \$36,855,000 made up of \$20,175,000 from the General Fund, \$13,150,000 from the Electric Fund, and \$3,330,000 from the ILEC and CLEC Funds (combined is Pineville Communications System). The tax rate for FY25 will remain the same at \$0.285 per \$100. There was little movement in operation spending from last year, but this budget does remain committed to supporting staff, infrastructure, and quality of life aspects for residents. The Town Council made these commitments through funding a 4% COLA increase, 2.5% Merit increase, increased payments for employee certifications, spending \$1.4 million on CIP projects, and increasing funding to local organizations and non-profit organizations.

General Fund

The General Fund is mostly flat (4.85%) in the operating budget with the major increase (8.15%) coming from salary adjustments. This budget is funding a COLA that is at the adjusted CIP for the last year and salary increases for certifications. This budget is also funding a comprehensive compensation and classification study for the entire organization to see how the town compares to surrounding communities when it comes to pay and pay equity. This is a large commitment and shows how the organization is working to take care of team members.

In the current fiscal year, Council directed staff to perform a financial analysis to see if we can use our monies in a more efficient to fund projects in the upcoming year. The Town hired Davenport Financial Services to perform this analysis. From the analysis Davenport laid out a plan that was presented to the Council on how to strategically use fund balance monies to offset future costs and the need for high tax increases. This year marks the first year that the town will be doing some of the aspects of this financial model. The Town will take \$5 million from Fund Balance to pay for a new radio system for the Police Department as well as take proceeds from this year to start to fund a capital fund reserve to pay for the future fire department that is being designed. By strategically using this money it will position the town to be in a better place when going out for debt, which will relieve the pressure on the tax rate. As the Town moves through successive fiscal years following the model will become more important.

Electric Fund

The Electric Fund represents the second largest fund or area of operation that the town undertakes. It represents about 35% of the FY25 Budget.

In February, the Town completed a Cost-of-Service Study for the Electric Fund. This study indicated that some of the electric rates the town was charging rate payers were not covering the costs to provide electricity to those various rate payers. In order to be fiscally responsible and to capture the costs of providing the service the Town is raising rates by an average of 3% across all rate classes. This moderate increase will put the fund in a good position as we begin capital projects over the next few years. By making a rate increase now, the town will not have to do another rate increase to cover the debt payment of either the new substation or utility complex.

Pineville Communications Systems

PCS is a locally owned internet and telephone company that serves areas of Pineville. These funds are self-sustaining meaning that no General Fund dollars are used to augment their operation. Revenues received through services are used to fund expenditures just as with the Electric Fund.

Revenues for PCS are derived from wired telephone service and internet. Currently PCS has 1200 residential and commercial customers with 93% of those customers being residential. The saturation of other internet providers in Pineville (5 other providers) makes it difficult to build revenue over the long term from new customers. Due to this PCS has been focusing on upgrading speed levels that customers choose to increase revenue, which has been working. This focus has increased the revenues. The proposed budget does not have any fee increases for customers.

The leading expense for PCS is capital projects. This is due to the new developments going in as well as trying to convert our copper infrastructure to fiber to become more competitive. The fund is anticipating spending \$669,000 on capital projects.

The second leading expense is personnel related. The team members who work for PCS are a critical part of the operation. They provide excellent customer service to customers and are the reason why this enterprise fund has done as well as they have. Investments in these employees through a 4% COLA, up to a 3% merit increase, and increases for certifications is worth the expense and they deserve this for their hard work.

PCS generates enough revenue to pay for operational and maintenance costs. However, when you factor in capital costs the enterprise must routinely pull from fund balances. This is not a sustainable long-term strategy for PCS.

Budget Pressures

In the next few fiscal years capital projects and salaries will continue to put pressure on the budget.

As the area grows salaries have to increase to stay competitive and for the town to attract the best team members possible. Salaries and Benefits already equate for over 50% of the town's expenses and I would envision that pressure to continue to increase as the Charlotte region continues to grow. As this pressure increases decisions are going to have to be made on either cutting other operational or CIP expenses or trying to generate more revenue.

The other pressures are the construction of a new Fire Department in the General Fund and a new substation and utility facility in the Electric Fund. The Town has funding plans for both of these projects and have set the groundwork to fully fund these, but they will still put pressure on current and future tax and electric rates. The financial modeling is suggesting that the town raise tax rates by 1.5 cents in FY26 which will be to cover just the debt payment of the new fire department.

Closing Remarks

In 2022 Town Council set six Pillars to guide them and the town's spending over the next two years. For the FY25 Budget staff have worked hard to craft the budget around these Pillars. Each one of these Pillars is reflected in the proposed FY24 Budget. Those Pillars are:

1. Arts and Cultural Resources
2. Economic Development and Innovation
3. Growth and Natural Resources
4. Organizational Excellence
5. Safe, Vibrant, and Healthy Community
6. Transportation and Transit

Finally, I would like to thank each of the Department Managers, as they have been an integral part of the budget development process. Each department manager really looked at their respective budgets and presented to me items that were necessary for the daily operation of their department. I would also like to thank our Finance Director, Mr. Christopher Tucker, for his assistance with the creation of the proposed budget. Christopher works hard on putting the information together and getting all of the changes positioned into the document and took a very active role this year in production of the FY25 Budget.

I would also like to thank each of the Town Council members for their direction and insight into how they envision both the short and long-term future of the Town. Your knowledge and input have been a tremendous resource for us as we worked through the development of the proposed budget. We are excited about the new details provided in this budget, and we feel confident that the Town is taking steps forward and improving upon what is truly a great place to live, work, and play.