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Dear Mayor Tolley, Board of Aldermen, town staff and residents of Elon

Elon's Strategic Plan envisions a Town building "upon its strong foundation by continuing to ensure a vibrant and progressive community for all residents. To accomplish this Vision, Elon's Mission "is to support a vibrant and connected community life by investing and enabling a high quality of life for all residents.

This concept of moving forward, making progress, improving things is an ongoing effort. Each department looks to the future in planning – what needs to be replaced, what needs to be added, what needs to be repaired, what expansions are necessary, what do we need to accomplish a goal. This year, however, is different from any year we have seen in the past. Past economic downturns have been slow to develop, and we have had time to adapt to changes. This year, these changes have come quickly, and there is no way to predict what the changes will bring over the next year.

Attached to this letter is my proposed budget for the coming fiscal year, which begins on July 1. This budget has been developed in the throes of the Coronavirus Pandemic, which has created a great deal of uncertainty for the coming year – what will our economy look like? What will our sales tax revenues be? What resources will we have available to us from the State and Federal governments? What will our employment situation be? The lack of clarity on each of these issues results in a series of assumptions that have become the bedrock of this proposed budget. With assumptions comes contingencies – what if sales tax drops more, or less, than estimated? What if businesses close, or open or change?

The budget I am presenting has the following assumptions included:

- Property tax collections will be consistent compared to previous years
- Sales tax receipts will drop by 20%, or \$600,000 from the current year's State estimate of \$3.3 million
- Other revenue sources, utility bills, planning review fees, utility franchise fees will also drop
- Service levels will be maintained to the greatest extent possible

These assumptions have shaped every aspect of the upcoming budget.

Revenues

Where once property taxes were the largest source of revenue for Elon, the growing economy over the past 7 or 8 years has put Elon in a position where Sales Tax is now its largest revenue source, by more than \$500,000 in the current budget. Unfortunately, sales taxes are also the most volatile revenue source. Any downturn in the economy hits our budget particularly hard.

As noted, there is a significant lack of data or information about revenues for the coming year. The current year estimate for Elon's receipt of sales tax revenues is \$3.3 million. For the coming year, there



are estimates/guesses that sales tax revenues will be reduced somewhere between 20% and 50% for the first 6 months of the fiscal year. Beyond that, there aren't even any guesses. We have included a 20% reduction in sales tax receipts – based on the State's estimated receipts for the current fiscal year. While this is a \$600,000 reduction overall, it is only \$300,000 to our budget, as we under budgeted revenues for the coming year. However, the loss of \$300,000 that we had not budgeted will be a loss to our fund balance at the end of next year. Current year we have budgeted \$3.0 million, and in the proposed budget that has been reduced to \$2.7 million.

The budget also includes increases in revenues, including a \$.01 increase in the property tax (\$63,000) and the fire tax (\$35,000). Together, these two increases result in approximately \$100,000. As discussed at the Board's strategic planning meeting, we are also including a \$5 per vehicle registration fee. Lastly, we are including a 6% increase in sewer and water rates, to both cover the anticipated increase from Burlington (for budget purposes, we are estimating 2.5%) and to help get our rates to a level that they will cover the cost of the purchase of the Travis Creek Pump Station and to fund a portion of administrative costs that have been paid out of the General Fund previously.

General Fund revenues for the coming year are anticipated to be about \$136,000 less than the current year.

Total reduction in revenues is anticipated to be approximately \$240,000.

Staffing

Despite a recognized need for additional staff, as highlighted in our 2018 staffing study, this budget does not include any new staff. There is an increase in staffing however, as a police officer, who has been on active duty for the past year, returns to the Elon Police Department. To maintain service levels, we had hired a replacement officer to fill this position, and our plan is to retain this position. This fulfills a portion of the staffing analysis identified need.

Staffing change is one additional employee.

Capital Expenses

While the budget process started with a plan to fully develop a 10-20 year Capital Improvement Budget, that could be used to inform budget decisions for years to come, we have had to back off of this ambitious plan. Instead of maintaining our capital investment from this past year, we have proposed to cut our investments by \$150,000. We are still making some investments, however, but not at a sustainable level. By reducing capital expenses this year, we are creating a 'hole' in our Capital Budget that will have ripple effects for several years as we try to get back on track of making consistent annual investments.

Capital change is a decrease of \$150,000

Pay Equity

In 2017, the Town of Elon recognized that Town staff were paid below the median for the region, and for towns our size. In an effort address this issue, the Board adopted a pay equity plan that provided for cost of living increases, as well as annual merit reviews, with a potential corresponding increase in pay. For the coming year, we are proposing to reduce the cost of living increase from 2% (based on the past 12 months of consumer price increases) to 1%. This increase will assist all employees, and will reduce the deficit our pay scales will see by not achieving a COLA commensurate with the CPI. In an effort to continue to recognize superior performance among our employees, we have retained the merit pay

adjustments for the coming year, but have cut them by 50%. So, as an example, where an employee could have received a 1%, 2% or 3% merit increase, that will be limited to .5%, 1% or 1.5%. It should be noted that of 18 communities that responded to a state-wide question, 8 of them are proposing some form of compensation adjustment this year. Of Alamance County communities that responded, 4 out of 6 are planning some form of adjustment, with another community waiting until January to determine where revenues are.

Contingencies

As previously noted, there are contingencies built into this budget as well, in case sales tax revenues drop by more than \$300,000, or if planning revenue is lower than anticipated, or if any of the other revenue sources we depend on are lower. We have increased the contingency line in the Administration budget from \$25,000 to \$80,350. These are funds to be raised, with no attached expenditure.

While this budget includes proposed expenditures, such as capital items, it should be noted that my proposal includes a freeze on major purchases, even as they are budgeted. I will hold off allowing these expenditures until such time as the revenue picture becomes less murky. I would hope that by January, we will be in a position to better gauge revenues for the year as the economy comes back to life.

Budget details

The current year budget totals \$12,133,101.34 (I have excluded the \$750,000 fire engine from these calculations). My proposed budget for FY 21 is \$11,923,358. The proposed budget represents a \$209,000 reduction from the current year. The current year total revenue is \$12,163,101, and the proposed revenue is \$11,923,358, a reduction of \$240,000.

The General Fund budget shows a reduction from \$8,277,067 to \$7,420,198. If you discount the cost of the new fire engine, the reduction is approximately \$172,000.

General Fund Budget

Administration

Major changes include:

- Moved administrative costs associated with utility billing and collections into the Sewer and Water budget.
- Moved multiple lines from Non-Departmental Budget into Administration Budget
- \$187,000 reduction from year to year.

Board of Aldermen

Major changes include:

- Moved town membership to regional entities into Board budget
- \$27,000 increase from year to year.

Downtown

Major changes include:

- First installment on updating Downtown Master Plan
- Eliminated next phase of W. Lebanon Parking expansion
- \$37,660 decrease from year to year

Development Services

Major changes include:

- Added funding for contract planning services support
- Reduced contracted services for Haggard Corridor Grant match
- Design costs for W. Lebanon sidewalk
- \$10,580 reduction from year to year

Police

Major changes include:

- Wage/benefit and one-time costs for officer returning from Active Military Duty
- Reduction in equipment line
- Includes two replacement cruisers
- Increase of \$163,626 year to year

Fire

Major changes include:

- State retirement costs
- Lease payments on new Fire Engine
- Repair costs to Training Tower
- Reduction in Capital expenses due to no new vehicle
- \$626,000 reduction year to year, but a \$59,000 increase if you remove the full cost of the new engine from last year

Recreation

Major changes include:

- Part time wages and personnel costs
- January 1 upgrade to Director and Coordinator for full time personnel
- Reduction in Maintenance and Repair of buildings
- \$5,717 reduction year to year

Public Works

Major changes include:

- Wage adjustments for new certifications
- Solid waste costs
- Reduction in capital replacement/acquisition of vehicles and equipment
- \$180,000 reduction in year to year

Enterprise Accounts

Federal Asset Forfeiture funds

- \$65,500 reduction from year to year.

Powell Bill Funding

- \$156,000 reduction from year to year

Stormwater Funds

- \$7,000 increase from year to year

Water and Sewer Funds

- Transferring administrative costs from General Fund to Water/Sewer fund
- Reduction in the cost of new meters
- E. Haggard water line replacement design and permitting
- Rate study
- Changes for costs of water purchase and sewer disposal
- \$111,680 increase from year to year

This proposed budget maintains what the Town has been doing. It provides for no significant new ventures or programs. It recognizes that revenue decreases are significant and variable, and not clear. It also recognizes that sacrifices have to be made by all parties, including residents and staff.

I look forward to discussing the details of this budget, and working with the Board to achieve a budget that meets the goals and needs of the community.

Richard Roedner
Town Manager