



Fiscal Year 2021 Operating Budget

Bill Grant, Mayor

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MEMORANDUM

TO: Mayor & City Council

FROM: Mr. Billy Peppers, City Manager

CC: Mr. Nathan Ingram, Assistant City Manager
Ms. Annie Fortner, City Clerk
Ms. Melissa Forrester, Finance Director

DATE: June 04, 2020

RE: Fiscal Year 2021 Proposed Budget & Millage Rate

The City of Canton is prepared to move forward with the adoption of the property taxing millage rate and begin the process of adopting the Fiscal Year 2021 Operating Budget (October 1, 2020 through September 30, 2021). In accordance with the City's Charter, I am attaching a copy of the Proposed Operating Budget as well as this analysis memorandum related to the budget and the millage rate. Also included in this memorandum is background information related to the processes adopting both the millage rate, the operating budget and the overall operations of the City of Canton. Please feel free to share this information with others as you see fit and also feel free to ask any questions about processes, programming, and budgetary items. Our budget team, including Assistant City Manager Mr. Nathan Ingram and Finance Director Melissa Forrester, are happy to assist you with these concerns.

REQUIREMENTS

The City of Canton operates utilizing a variety of fund sources, including ad valorem taxes on real and personal property, sales taxes on consumable goods, enterprise fund revenues (from utilities such as Water, Wastewater, Stormwater and Sanitation), user fees (such as Hotel/Motel Taxes and Rental Car Taxes), fines through municipal court operations, and development related revenues through the imposition of Impact Fees. The City's Charter provides for the procedures related to the approval of the operating budget and for the adoption of a millage rate necessary to impose ad valorem taxation on real and personal property.

Below are the corresponding sections of the Charter related to property tax and the creation of the millage rate:

Sec. 6.10. - Property tax.

The city council may assess, levy and collect an ad valorem tax on all real and personal property within the corporate limits of the city that is subject to such taxation by the state and county. This tax is for the purpose of raising revenues to defray the costs of operating the city government, of providing governmental services, for the repayment of principal and interest on general obligations, and for any other public purpose as determined by the city council in its discretion.



Sec. 6.11. - Millage rate; due dates; payment methods.

The city council, by ordinance, shall establish a millage rate for the city property tax, a due date, and the time period within which these taxes must be paid. The city council, by ordinance, may provide for the payment of these taxes by installments or in one lump sum, as well as authorize voluntary payment of taxes prior to the time when due.

In 2017, the City of Canton entered into an agreement with Cherokee County to collect City property taxes on behalf of the City. In accordance with this agreement, the City is required under the intergovernmental agreement to provide a millage rate to Cherokee County annually by August 1.

Below are the corresponding sections of the Charter related to the creation of the budget:

Sec. 2.30. - Powers and duties of the city manager.

The city manager shall be the chief administrative officer of the city. He shall be responsible to the city council for the administration of all city affairs placed in his charge by or under this Charter. As the chief administrative officer, the manager shall:

(5) Prepare and submit the annual operating budget and capital budget, including any and all requested substantiating detail supporting planned line item revenues and expenditures, to the city council. The annual operating and capital budgets for the next fiscal year are to be submitted 75 days in advance of the start of the next fiscal year.

Sec. 6.25. - Submission of operating budget.

On or before a date fixed by the city council, but not later than 30 days prior to the beginning of each fiscal year, the city manager or his designee shall submit to the city council a proposed operating budget for the ensuing fiscal year. The budget shall be accompanied by a message from the city manager or his designee containing a statement of the general fiscal policies of the city, the important features of the budget, explanations of major changes recommended for the next fiscal year, a general summary of the budget, and such other comments and information as he may deem pertinent. The operating budget and the capital improvements budget hereinafter provided for, the budget message, and all supporting documents shall be filed in the office of the city clerk and shall be open to public inspection.

Sec. 6.26. - Action on budget.

(a) The city council may amend the operating budget proposed by the city manager or his designee; except, that the budget as finally amended and adopted must provide for all expenditures required by state law or by other provisions of this Charter and for all debt service requirements for the ensuing fiscal year, and the total appropriations from any fund shall not exceed the estimated fund balance, reserves, and revenues.

(b) The city council, by ordinance, shall adopt the final operating budget for the ensuing fiscal year not later than 30 days prior to the end of the fiscal year or until such time as prescribed by city council. If the city council fails to adopt the budget by this date, the amounts appropriated for operation for the current fiscal year shall be deemed adopted for the ensuing fiscal year on a month-to-month basis, with items prorated accordingly until such time as the city council adopts



a budget for the ensuing fiscal year. Adoption of the budget shall take the form of an appropriations ordinance setting out the estimated revenues in detail by sources and making appropriations according to fund and by organizational unit, purpose, or activity as set out in the budget preparation ordinance adopted pursuant to [section 6.24](#).

(c) The amount set out in the adopted operating budget for each organizational unit shall constitute the annual appropriation for such, and no expenditure shall be made or encumbrance created in excess of the otherwise unencumbered balance of the appropriations or allotment thereof, to which it is chargeable.

Sec. 6.27. - Tax levies.

The city council shall levy, by ordinance, such taxes as are necessary. The taxes and tax rates set by such ordinance shall be such that reasonable estimates of revenues from such levy shall at least be sufficient, together with other anticipated revenues, fund balances and applicable reserves, to equal the total amount appropriated for each of the several funds set forth in the annual operating budget for defraying the expenses of the general government of this city.

MILLAGE RATE CALCULATION & ADOPTION

The millage rate is a number by which each \$1,000 of real and personal property is taxed to provide funding for the operations of the City. The Cherokee County Tax Assessor is responsible for calculating the fair market value of the real and personal property in Cherokee County, including said property within the City of Canton. The fair market value is then discounted to a taxable value which is forty percent (40%). This taxable value is then multiplied by the millage rate to determine the taxes due for said property. Below is this equation and an example of this process:

$$\begin{aligned} \text{Fair Market Value (FMV)} \times 40\% &= \text{Taxable Value (TV)} \\ \text{Taxable Value (TV)} \times \text{Millage Rate} &= \text{Taxes Due} \end{aligned}$$

James Smith's Home is given a fair market value (FMV) by the Assessor of \$200,000. The City of Canton's current millage rate is 5.4 mills.

$$\begin{aligned} \$200,000 \text{ (FMV)} \times 40\% &= \$80,000 \text{ (TV)} \\ \$80,000 \text{ (TV)} \times .0054 \text{ (Millage Rate)} &= \$432 \text{ (Taxes Due)} \end{aligned}$$

*James Smith has a tax liability to the City of **\$432** for his property valued at \$200,000.*

Each year, the Assessor provides a draft digest of all property values to the City of Canton around May. The draft digest results in estimated property taxes due to the City prior to appeals utilizing the current millage rate. If the tax digest is higher than prior years, the Assessor will show what the millage rate could be reduced to allowing the total dollars collected in taxes to remain revenue neutral. This is referred to as a *revenue neutral rollback* millage rate. Any rate below the calculated revenue neutral rollback millage rate would be a true tax reduction. Likewise, if the digest value goes down, the Assessor would provide a calculation of a higher millage rate necessary to capture the same amount of taxes. This is also considered a revenue neutral millage rate. According to state law, if the City of Canton utilizes any tax rate that is



different than a revenue neutral millage rate (unless such rate is lower than the prior year), the City must hold three public hearings to adopt such rate. If two meetings are held on the same day, one of these hearings must be held before noon and the other one must be held after 6 p.m. that day. The schedule for these meetings must be advertised by legal notice in the paper at least 7 days prior to the first hearing. The schedule for the public hearings for the 2020 Millage Rate is as follows:

- Thursday, July 2, 2020 at 11 a.m. in the City Hall Auditorium**
- Thursday, July 2, 2020 at 6 p.m. in the City Hall Auditorium**
- Thursday, July 16, 2020 at 6 p.m. in the City Hall Auditorium**

Following the third public hearing the City can adopt the millage rate. Should the City opt to proceed with the revenue neutral rollback millage rate or any rate less than that rate, there is only required to be one public hearing prior to the adoption of the rate. All public meetings will be live-streamed and available via the City website at: <https://canton.legistar.com/Calendar.aspx>. Additionally, if the public wishes to comment on the budget with questions or concerns, they may do so by emailing TellUs@cantonga.gov.

CANTON’S MILLAGE RATE HISTORY & QUICK FACTS

The current millage rate for the City of Canton is 5.4 mills. Below is the historical millage rates of the City of Canton since 1997:

Year	Millage Rate	Year	Millage Rate	Year	Millage Rate
1997	8.500	2004	7.115	2011	6.800
1998	8.250	2005	6.778	2012	6.800
1999	8.250	2006	6.256	2013	6.800
2000	8.250	2007	5.966	2014	6.196
2001	8.000	2008	5.950	2015	5.850
2002	7.500	2009	6.800	2016	5.600
2003	7.385	2010	6.800	2017-2020	5.400

The current millage rate of **5.4 mills is the lowest millage rate in the last 27 years** for the City of Canton. Additionally, this millage rate accounts for all City services: police, fire, recreation, streets, municipal courts, community development, code compliance, building and safety services, and administration. In 2017, the City of Canton began a contract with Cherokee County for the provision of fire and emergency services. Canton joined the cities of Ball Ground, Holly Springs, and Waleska in receiving said services on behalf of the incorporated residents. Cherokee County assesses a fire district tax of 3.269 mills to pay for said services. In the cities of Ball Ground and Waleska, the residents are assessed an additional fire district millage rate on their County property tax bills for said services. The cities of Canton and Holly Springs pay a flat fee to the County based upon the application of the fire district millage rate across the digests for those cities. Including the provision of fire services, the area millage rates (2019) are as follows from highest to lowest:

- Ball Ground 7.976 Mills (4.707 mills for operations plus 3.269 mills for fire)
- Holly Springs 7.879 Mills (includes operations and fire)
- Waleska 6.924 Mills (3.655 mills for operations plus 3.269 mills for fire)



Woodstock 6.554 Mills (includes operations and City provided fire)
Canton **5.400 Mills** (includes operations and fire)

In addition to operating under the lowest effective millage rate in Cherokee County, Canton residents also benefit from the lowest sales tax rate in Georgia (6%) and Canton seniors (age 62 and up) receive a full exemption of property taxes on the fair market value of a home up to \$280,000.

Annual Operating Budget

The City of Canton has an annual operating budget of over \$50,000,000. In the current fiscal year, the operating budget was just over \$55 million. The proposed Fiscal Year 2021 Operating Budget is \$67 million or an overall increase of \$ 11.5 million. Of this increase, \$633,249 is attributable to an increase in the general fund of the City. The remaining \$10.8 million comes from a mixture of increased and decreased revenues in sales taxes, impact fees, user fees, and the use of fund balance in the enterprise funds (Water, Wastewater, Storm Water and Sanitation). The budget reflects \$11.45 million in increased funds in the Water and Sewerage Fund related to bond proceeds for the waste water treatment plant expansion.

Personnel

The City operates with 122 full time employees (currently 119 of these are filled). Of these, 11 are paid for fully through enterprise funds. The average hourly rate of pay for non-exempt full-time employees is \$19.90 per hour. The average annual pay for sworn police positions (work 2,236 hours annually) is \$50,789 and civilian hourly employees (work 2,080 hours annually) earn an average of \$48,865. This class of hourly employees includes police officers through the rank of lieutenant, public works technicians, court clerks, inspectors, support managers, finance clerks, administrative assistants, utility billing customer service representatives, technology support, community development customer service representatives, records clerks, investigators, public outreach staff, and maintenance. For the upcoming budget, consideration was given for an adequate way to compensate staff as the cost of living is additionally rising. According to the Bureau of Labor Statistics, the compensation costs for state and local government employees nation-wide had increased by 2.8 percent for the prior 12-month period ending March 31, 2020. Compensation costs for Civilian Workers (2.8 percent) and Private Industry Workers (2.8 percent) were also up. Given the current economy amid a public health pandemic and social unrest, many local governments have either implemented or are considering furloughs, workforce reduction and no COLAs.

The proposed budget does not include a cost of living allowance for City employees. Additionally, the budget does not include any furloughs or staff level reductions. There will be some position adjustments based upon duties. The City will continue its policies of trending pay classifications upward with the latest employment cost index (ECI), but given the history of pay increases and COLAs along with a review of neighboring jurisdictions, no COLA is proposed for the upcoming fiscal year. The budget does reflect keeping the Christmas Bonus program intact at last year's level. If revenues are trending well and the economy appears to be rebounding, staff may provide a budget amendment to Council mid-year to consider COLA adjustments to help offset potential health insurance costs after that renewal is completed.



Increased Expenses

The current general fund budget does not reflect the addition of any new full-time positions. It does reflect the transfer of a position from Finance to General Administration for the new role of the Assistant City Manager. That position is not being backfilled in the Finance Department at this time. Additionally, the proposed budget does include the purchase of two new patrol vehicles to replace older existing fleet vehicles. The proposed FY21 budget is an increase of \$633,249 in the general fund expenditures. Of this increase, \$174,157 is proposed in increase spending in the Police Department, \$94,689 in Parks, \$200,000 in Contingencies for estimated increases in health insurance, and \$200,000 in Interfund Transfers to offset increases to the annual Cherokee County Fire Services Contract based upon growth in the tax digest. The Police Department remains the largest user of City revenues for operations, with 59 full-time employees, or 48 percent of all City personnel. As of the proposed draft FY21 budget, there are 3 existing vacancies.

This proposed budget includes up to 10 percent increase on employee benefits that represent only the employer share. There is an increase of 5 percent in workers compensation insurance, 10 percent in all other insurance, 2 percent in natural gas, and 2 percent in electricity. These increases represent \$108,772 of the expenditure increases alone.

The largest increases in the City Budget are based in the Enterprise Funds for Water & Wastewater. The City will have capital projects beginning or continuing next fiscal year to include: Inflow & Infiltration Project, Waste Water Treatment Plant Expansion, Old Ball Ground Sewer Expansion, Etowah River Trail Westward, Etowah River Trail Eastward, Amos Road Booster Pump Station, Laurel Canyon Booster Pump Station, and SR 140/Riverstone Parkway Improvement Designs.

Use of Fund Balance

Since 2013, the City of Canton has utilized reserves to keep property taxes low. In 2016, the fund balance was budgeted for use but due to vacancies and projects that did not get started, none was used. In 2017, the City utilized \$1.7 million in reserves for general operations, allowing the City to reduce the millage rate from 5.6 mills to 5.4 mills. As employment with the City has steadied and departments are being efficient in the expenditure of budgeted funds, the fund balance that has been utilized to supplement revenues in the budget has been decreasing. As of the most recent audited fiscal year ended (September 30, 2019), the fund balance of the City was \$5,834,563. The current budget was built upon using \$871,648 in fund balance and staff estimates that none of that will be needed. This in mind, the fund balance projected to start next fiscal year remains \$5.8 million. To keep the current millage rate at 5.4, the City will need to utilize \$1.55 million in fund balance to meet budget. This would reduce the overall fund balance to just less than \$4.28 million at the end of the upcoming fiscal year. The City utilizes approximately \$1.43 million monthly for operations, meaning that at the end of the upcoming fiscal year, the City would have three-months operating in reserves.

New housing starts are driving growth within the City, but these also come at a cost. While the senior tax exemption provides a benefit to attracting new citizens, last year there was a growth in exempted properties from 1,763 exemptions to more than 2,100 exemptions or 15% more properties that are paying reduced taxes, if paying taxes at all, for the services residents' demand, including public safety.



This is a particular hit to the City's budget as the cost of fire services with the County is based on the total digest. As this exempted property category continues to grow, the non-exempted properties will continue to offset these expenses, and this cannot be accomplished through the continued use of fund balance or property tax rollbacks and cuts.

If the City did not have fund balance, the budget would require a millage rate of **6.7 mills**.

**City of Canton
Fiscal Year 2021
Budget Comparison**

Fund #	Fund Name	2020	2021	Change
REVENUES				
100	General Fund	\$ 16,530,561	\$ 17,163,810	\$ 633,249
210	Confiscated Assets Fund	15,010	8,000	(7,010)
275	Hotel/Motel Tax Fund	635,060	472,857	(162,203)
280	Rental Car Tax Fund	95,000	295,000	200,000
310	Canton Building Authority	2,410,671	2,223,005	(187,666)
321	SPLOST VI Fund	86,745	-	(86,745)
322	SPLOST VII Fund	7,300,250	8,666,051	1,365,801
350	Road & Sidewalk Fund	500,000	150,000	(350,000)
355	Impact Fee Fund	1,795,000	1,502,000	(293,000)
505	Water & Sewerage Fund	22,274,764	33,724,942	11,450,178
520	Storm Water Fund	917,321	466,259	(451,062)
540	Sanitation Fund	2,077,307	1,621,000	(456,307)
745	Municipal Court Fund	1,075,180	873,180	(202,000)
		<u>\$ 55,712,869</u>	<u>\$ 67,166,104</u>	<u>\$ 11,453,235</u>
EXPENDITURES				
100	General Fund	\$ 16,530,561	\$ 17,163,810	\$ 633,249
210	Confiscated Assets Fund	15,010	8,000	(7,010)
275	Hotel/Motel Tax Fund	635,060	472,857	(162,203)
280	Rental Car Tax Fund	95,000	295,000	200,000
310	Canton Building Authority	2,410,671	2,223,005	(187,666)
321	SPLOST VI Fund	86,745	-	(86,745)
322	SPLOST VII Fund	7,300,250	8,666,051	1,365,801
350	Road & Sidewalk Fund	500,000	150,000	(350,000)
355	Impact Fee Fund	1,795,000	1,502,000	(293,000)
505	Water & Sewerage Fund	22,274,764	33,724,942	11,450,178
520	Storm Water Fund	917,321	466,259	(451,062)
540	Sanitation Fund	2,077,307	1,621,000	(456,307)
745	Municipal Court Fund	1,075,180	873,180	(202,000)
		<u>\$ 55,712,869</u>	<u>\$ 67,166,104</u>	<u>\$ 11,453,235</u>