

**Town of Hertford**  
Regular Session (In Person/Zoom)  
Monday, June 13, 2022 – 6:00 p.m.  
Horace Reid Community Center, 305 W Grubb Street

The Council of the Town of Hertford held a Regular Session Meeting at the Horace Reid Community Center (also by Zoom) on Monday, June 13, 2022, at 6:00 pm.

**COUNCIL MEMBERS PRESENT**

Earnell Brown, Mayor (Zoom)	Connie Brothers
Ashley Hodges, Mayor Pro Tem	Jerry Mimlitsch
Sandra Anderson	

**STAFF PRESENT**

Janice McKenzie Cole, Interim Town Manager  
Ashley Eure, Account Specialist  
Gina Durante, Town Clerk  
Johny Hallow, Attorney

A quorum was present.

Mayor Pro Tem Hodges called the meeting to order. Councilwoman Brothers led the invocation which was followed by the pledge of allegiance.

**APPROVAL OF AGENDA**

A motion was made by Councilman Mimlitsch and seconded by Councilwoman Brothers to approve the agenda. The motion was approved unanimously 5-0, with the following voice vote:

Mayor Brown	aye
Councilwoman Brothers	aye
Councilman Mimlitsch	aye
Councilwoman Anderson	aye
Mayor Pro Tem Hodges	aye

**CONSENT AGENDA**

Mayor Pro Tem Hodges asked for a motion to approve the Consent Agenda consisting of the minutes from Town Council Meetings on May 5, May 9, May 12, May 23, and May 31, 2022.

A motion was made by Mayor Brown and seconded by Councilman Mimlitsch to accept the minutes on the Consent Agenda. The motion was approved unanimously with the following voice vote:

Mayor Brown	aye
Councilwoman Brothers	aye
Councilman Mimlitsch	aye
Councilwoman Anderson	aye
Mayor Pro Tem Hodges	aye

### **SCHEDULE APPOINTMENT**

Kari Dunlap, Manager and CPA at Martin, Starnes & Associates, presented the Town of Hertford 2021 Audited Financial Statements. (Presentation is attached to these minutes.)

### **CITIZENS CONCERNS**

Marc Christian expressed his gratitude for the positive changes in Hertford. He expressed concern about abandoned buildings and homes in Hertford and a need for a Town plan to transition those to inhabitable structures.

Tommy Jones, a lifetime resident of Hertford, asked Council for assistance with a utility matter. His contact information was taken and given to Manager Cole.

Gracie Felton addressed the need for a public/portable restroom to be available on SML Flea Market events.

### **CONTINUED BUSINESS**

#### **APPROVAL OF THE ANNUAL BUDGET FOR FISCAL YEAR 2022-2023**

Manager Cole addressed Council stating that more than the obligatory 10 days have passed since the proposed budget was presented to Council on May 31 and a Public Hearing was held on June 8. Council can now vote on the proposed budget for FY 2022-2023.

Mayor Pro Tem Hodges made the following statement regarding the 2021 Audit and budget for FY 2022-2023:

#### FY20-FY21 Audit Comments

First, we did well in stabilizing / improving our fund balance situation during our first budget cycle:

	As of June 30, 2020	As of June 30, 2021
Total Unassigned General Fund Balance (\$)	\$685,983	\$932,549 <b>(+\$246,566)</b>
Unassigned General Fund Balance as a Percentage of Total Expenditures	28.82%	45% <b>(+16.18%)</b>

But if you look at slide 8 you can see that if we hadn't experienced a massive bump in sales tax revenue **(+\$230,684** over the previous year) due to COVID (people shopping here instead of EC or Virginia) we would have barely broken even **(+\$15,882)**. That should tell us we made the right decision in raising taxes 8.5 cents in 2020; had we not raised taxes and not experienced a bump in sales tax revenue we would have **lost \$95,914** in FY20-21, leaving a fund balance too depleted to cover even 4 months of government operations in the event of an emergency.

Second, even with the tax rate increase the only way we could get the FY20-21 budget to balance was by eliminating all capital improvements and capital outlay and eliminating pay increases across all departments. As you can see on slide 9, this is primarily due to Public Safety (HPD) eating 45% of our total budget. By contracting with the Sheriff's Office last year, we were able to provide a 6% salary increase across all departments, assign substantial amounts of funding for grant matches, capital improvement, and capital outlays, as well as allocate funds for demolition of derelict buildings. All things being equal we should be able to continue making those investments year-after-year now that we've cut Public Safety expenses back to what we can actually afford. I look forward to seeing where we stand at this time next year, not just in the financial audit but in how much better the Town looks and operates.

#### FY22-23 Budget Comments

At the beginning of budget deliberations Council directed Manager Cole to "build the budget you need to run the Town the right way." We further directed her to develop "bottom-up estimates" based on actual revenue and expense data so we would have a hard number for what our expenditures should look like year-over-year.

Manager Cole presented an initial version of the budget in our May 23rd Work Session, and I spent an entire day with she and Ms. Eure that week challenging every single revenue and expenditure line item in the entire budget. I am confident that all revenues were accurately projected and that every expenditure planned was reasonable and responsible, and as a result I believe we can expect to need approximately \$2M each year for General Fund activities (administration, fire, street maintenance, trash, planning, code enforcement, and so on). At the end of that process, we were able to balance our budget across all funds without increasing tax or utility rates for our residents or businesses beyond the increases put into place last year.

At my request we then took a look at what it would take to eliminate the longstanding practice of moving excess Electrical Fund profits to the General Fund to offset inadequate tax revenue. This is an issue I have raised in every budget season during my term in office. The Town has moved at more than \$100K from the Electric Fund to the General Fund to balance the budget each year since at least 2016, so we did the math on how much the tax rate would have to increase to generate this number and how much the residential electric rate could be decreased by eliminating this transfer. We are not proposing to raise taxes in order to spend more money, but rather to modify the rates so that each fund (or "pot"

as Manager Cole called it) can stand on its own. Our plan is to take in no more money than we did last year when looking across all funds.

In her budget narrative Manager Cole emphasized that fairness, equity, and transparency were the driving factors behind eliminating this practice. It should surprise no one that a former police officer, prosecutor, and judge would lean hardest into this part of the argument. I agree with her reasoning, as does the School of Government, Local Government Commission, League of Municipalities, and General Assembly based on various articles, reports, and legislation that have been published or passed over at least the last 10 years. But I also want to make the case from an equally important perspective: the need to ensure our finances are stable, sustainable, and managed according to good governance practices.

According to the General Statutes, a town's General Government Operations should be funded by sales tax, property taxes, and all other non-utility fees. A town's Enterprise Operations (in our case electrical, water, and wastewater utility operations) should be treated like a separate business, with billing rates just high enough to cover the cost of operations, maintenance, debt payments, and depreciation. This isn't just "one way" to make your government work; it's THE way it's supposed to work, and for good reason.

As Manager Cole noted in her budget message, there are a few exceptions to these rules that are specifically spelled out in the statutes. The one the Town has used for some time allows a government to intentionally overcharge for electricity so the profits can be used to subsidize General Government Operations and avoid raising property taxes.

There are valid reasons for this exception. Imagine a mill or manufacturing town where a business owns a large percentage of the town's property. If that business goes bankrupt and is unable to pay its taxes, the government has to find the revenue somewhere to cover its expenses. This exception allows them to raise electrical rates to make up the gap. However, this exception was not intended, nor should it be used, as a way to permanently avoid raising property taxes to the actual rate needed to cover expenses. There are two important reasons why:

- First, property tax revenue is a much more stable source of revenue. Electrical demand literally fluctuates with the weather outside, whereas property values are fixed by a county assessment that generally occurs only once every 7 years.
  - Right now, if we have an unusually mild year (meaning cooler than average summer or warmer than average winter) the Electric Fund won't sell enough electricity to generate the profit needed to cover the General Fund loss, meaning we have to eat further into our Fund Balance (aka "emergency fund" or "savings account").
  - On the other hand, if we have an unusually hot or cold year "light bills" go through the roof and our poorest residents struggle to pay them, resulting in a higher number of unpaid bills than usual. Although these debts are sent to the State for collection, we only get a part of anything they actually recover, meaning the revenue is largely gone for good. So again, we end up taking a loss and eating into our emergency fund.
  - However, if we do want the Statutes want us to do, meaning charge the correct tax rate to fully fund operations, we know with a very high degree of accuracy what amount of funding we'll receive each year. If someone doesn't pay their taxes the Town can place a lien against the property and eventually auction it to a new owner who wants to

renovate or build a house, start a business, etc. In this process we receive 100% of the back taxes while achieving the side benefit of ensuring all our property is actively used.

- Second, the UNC School of Government advises the practice of transferring across funds can have negative financial consequences for the Town, particularly as it relates to borrowing money. They advise that credit agencies are likely to look unfavorably on any practice that, and these are their words, “destabilizes a fund” or “masks a problem with the [Town’s] financial condition.” Imagine needing to borrow funds to make a major system repair, particularly after a catastrophic event like a hurricane, and being told you can’t because your utility “business” should already have enough money based on its profit margin.
- Third, there are grant implications to consider. The General Assembly passed legislation some years ago that automatically disqualifies towns from receiving water or wastewater grants if they transfer profits from those funds to their General Fund. While this rule does not yet apply to Electrical Fund transfers, you can imagine how a high profit margin would be a major negative when competing against other struggling towns for grant funding.

Hopefully these reasons make it clear why we need to make the change beyond just the equity argument. I believe it is essential to ensuring our government is stable, SUS-stainable, and governed responsibly.

I also want to briefly share some things we learned as we researched property tax rate strategies during this budget season.

Property Tax Revenue is equal to Total Property Value x the Tax Rate, so if you know the amount you need to generate (in our case \$2M for the whole General Fund, of which \$740K needs to come from property taxes) then you divide that by your Total Property Value to get your rate. **What this means is the tax rate is directly determined by property values. If values go up, the tax rate can go down. If values go down, tax rates HAVE to go up.** To demonstrate this principle...

As part of all our research we decided to pull the County’s tax rates going all the way back to 1986. We found that over that time their rate has been as low as 41 cents and as high as 78 cents. Not surprisingly it was highest before Albemarle Plantation was built and it continued to fall as more high value houses and the wind farm were built over the last 20 years. However, it has increased twice since 2016.

Conversely, according to Sperling’s Best Places, which aggregates US Census data and hundreds of other public and private economic and demographic data sources, the median home value in Hertford has depreciated by 38.3% over the last 10 years while inflation over the same period is 26%. Assuming the budget is passed with the new proposed tax rate we will have increased taxes by 38.3% (from 47 cents to 65 cents) since we took office in 2020. These increases are not indicative of a wasteful government, but rather a government fighting high inflation and declining property values while still trying to keep rates as low as possible.

So, what’s the bottom line? We’ve made some difficult decisions during the last few budget cycles to put our house in order and position ourselves to recover from some hard times. Now we need to focus on growing our population and property tax base so we can look at freezing or perhaps even reducing taxes and utility rates in the years to come. This means taking tax and code enforcement seriously, increasing our housing stock, attracting new businesses and residents, and growing our tourism revenue

to reduce the burden on our full-time residents. I look forward to turning our attention more fully to those items now that we have our financial house in order.

Councilman Mimplitsch made a motion to approve the Annual Budget for FY 2022-2023 as presented. Councilwoman Anderson seconded the motion and it passed unanimously with the following voice vote:

Mayor Brown	aye
Councilwoman Brothers	aye
Councilman Mimplitsch	aye
Councilwoman Anderson	aye
Mayor Pro Tem Hodges	aye

## **NEW BUSINESS**

### **BUDGET AMENDMENTS**

Manager Cole presented Budget Amendments 5 & 6 to Council with the recommendation of transferring funds from the ElectriCities grant into Capital Improvements and miscellaneous police revenue into police operations.

Mayor Brown made a motion to accept the amendments as presented and Councilwoman Brothers seconded the motion. The motion passed unanimously 5-0 with the following voice vote:

Mayor Brown	aye
Councilwoman Brothers	aye
Councilman Mimplitsch	aye
Councilwoman Anderson	aye
Mayor Pro Tem Hodges	aye

### **COUNCIL REPORTS/CONCERNS**

Mayor Brown first thanked Mayor Pro Tem Hodges for the time he has put into getting our audio system hardwired at the community center. It was an extensive project to improve the sound system. She thanked Mayor Pro Tem Hodges for assisting with the budget. He participated in the analysis, research, and made recommendations to stabilize the town's financials and build the General Fund. Mayor Brown thanked all those involved in the budget process and commended them for having it completed and approved before June 30, 2022. She attended the Perquimans High School Commencement Ceremony on Friday, June 10, 2022. The graduating class has approximately \$750,000 in accepted scholarships, and approximately \$1.2 million in

scholarships have been offered. Mayor Brown addressed the potholes on the roads. Although the Streets Department is currently short staffed, they are working on the issue. Seeds of Success fundraiser held June 11 was a success. A schedule of Hertford events for July through December has been distributed to downtown businesses to post

Councilwoman Brothers thanked all those who volunteered and participated in the successful June 4, Community Cleanup Day. She also noted that Saturday, June 18<sup>th</sup>, is Hertford's Juneteenth Celebration. A Freedom March will start at the Colored Union Soldiers Monument at the corner of Hyde Park and King Street and will end at Central Park where there will be music, food trucks, vendors, and many activities.

Councilwoman Brothers thanked Susan Cox of HHI for all her assistance.

Councilwoman Anderson announced the success of the first Saturday Morning Live Flea Market. Sixteen vendors participated. She did acknowledge that public restrooms are a concern, and she will be looking into options. The next SML event will be June 25. Vendor applications are available online, at the Municipal Building, and Carolina Trophy.

Councilman Mimlitsch stated that the first Friday Night Stroll was also a success. Many people attended and there were plenty of activities and some vendors. The kids could participate in face painting, street chalk, and the painting of the mural on Barrow Alley. Councilman Mimlitsch mentioned that public/temporary restrooms are an issue for this event as well. He congratulated Perquimans High School on their second consecutive State Championship for Varsity Boys Baseball. On a final note, Councilman Mimlitsch thanked the citizens of Hertford for their support during budget season, and recognized Manager Cole, Mayor Pro Tem Hodges, and Account Specialist Ashly Eure for their efforts in producing a financially sound budget.

Mayor Pro Tem Hodges thanked Council members for the efforts they have put into the activities/events happening in Hertford. He has been working with Manager Cole on the budget and is now working with Manager Cole and Sharon Smith on an EDA grant. He congratulated the baseball team on their state championship.

Manager Cole announced that Municipal Offices will be closed Monday, June 20<sup>th</sup>, in observance of Juneteenth.

## **ANNOUNCEMENTS**

None

A motion was made by Councilwoman Brothers to adjourn the meeting and was seconded by Mayor Brown. The motion passed unanimously, 5-0, with the following voice vote:

Mayor Brown                      aye

Councilwoman Brothers      aye

Councilman Mimlitsch     aye

Councilwoman Anderson   aye

Mayor Pro Tem Hodges     aye

The meeting adjourned at 7:08 p.m.



**MARTIN·STARNE**  
**& ASSOCIATES, CPAs, P.A.**

**TOWN OF HERTFORD**

**2021 AUDITED FINANCIAL STATEMENTS**



# Audit Highlights

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- Unmodified opinion
- Cooperative staff



# Fund Balance

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- Serves as a measure of the Town's financial resources available.

## 5 Classifications:

- **Non spendable** - not in cash form
- **Restricted** - external restrictions (laws, grantors)
- **Committed** - internal constraints at the highest (Council) level-do not expire, require Council action to undo
- **Assigned** - internal constraints, lower level than committed
- **Unassigned** - no external or internal constraints



# Fund Balance

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Available fund balance as defined by the Local Government Commission (LGC) is calculated as follows:

Total Fund Balance

Less: Non spendable (not in cash form, not available)

Less: Stabilization by State Statute (by state law, not available)

Available Fund Balance

This is the calculation utilized as the basis for comparing you to other units and calculating your fund balance percentages.



## Fund Balance – General Fund

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- Increase in Fund Balance      \$    243,122
- Fund Balance - General Fund      \$ 1,307,253
- Available Fund Balance      \$    932,549

Available fund balance is approximately 45% of  
General Fund expenditures



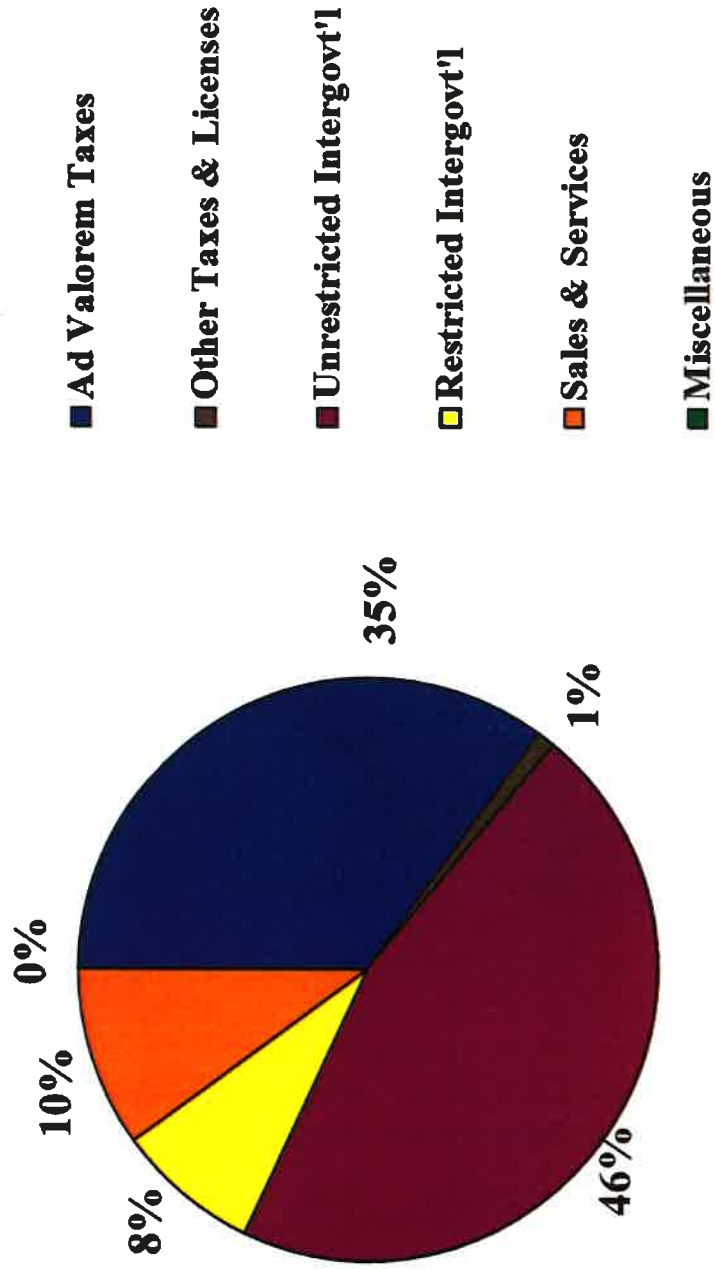
## Audit Highlights

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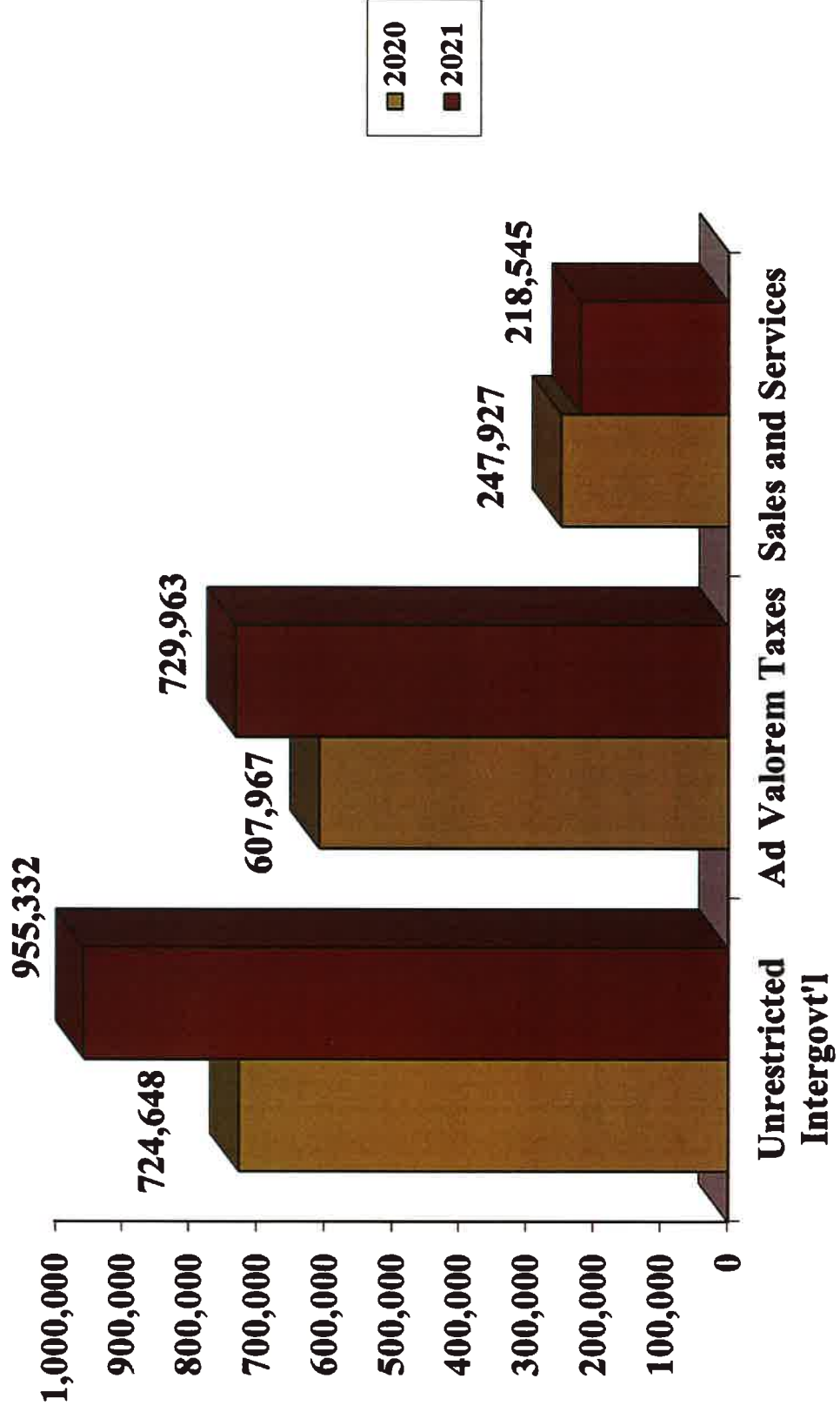
- 2021 property tax revenues \$ 729,963
- 2020 property tax revenues \$ 607,967
- 2021 collection rate 95.94%
- 2020 collection rate 95.46%

# General Fund Revenues

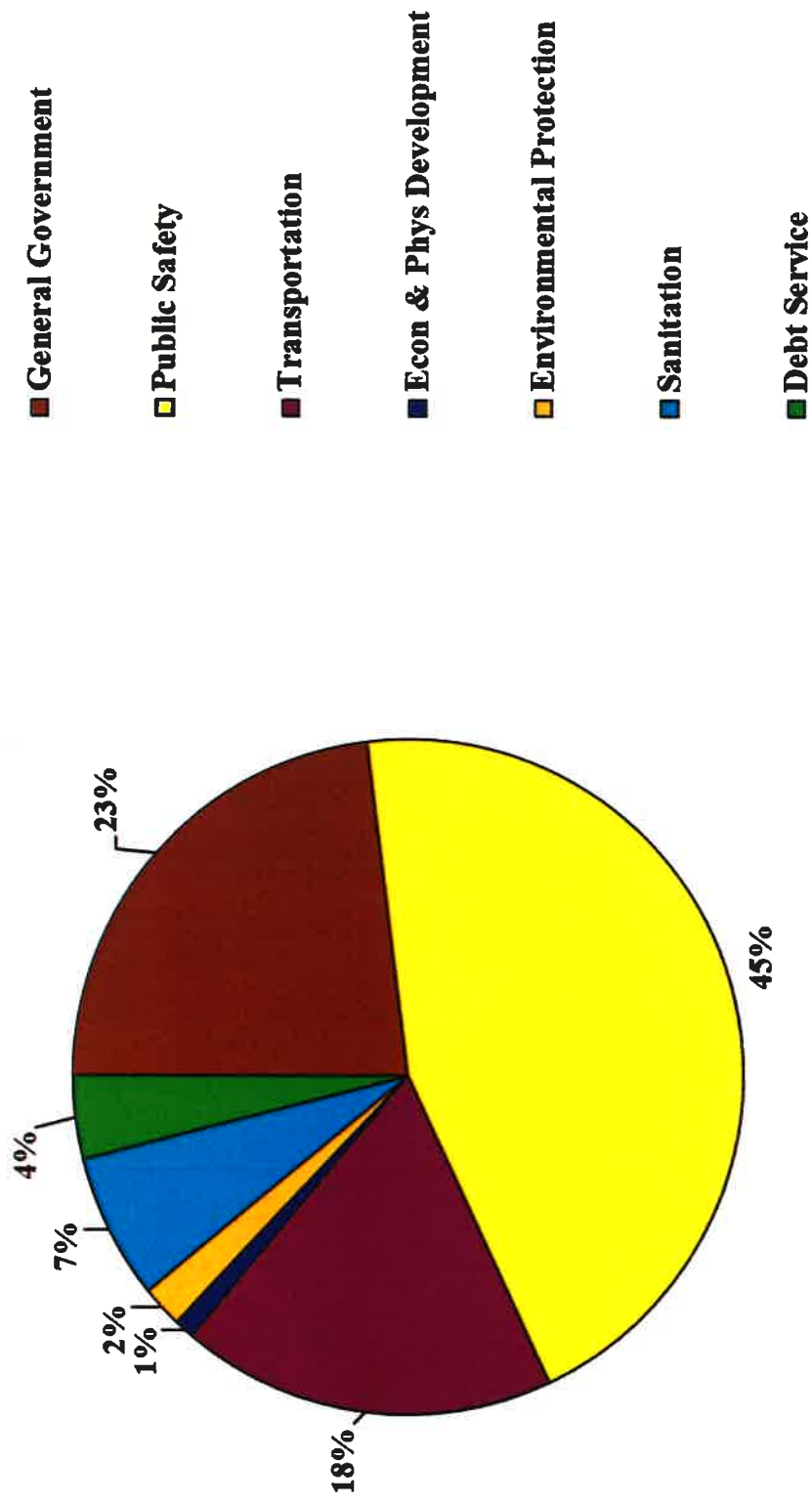
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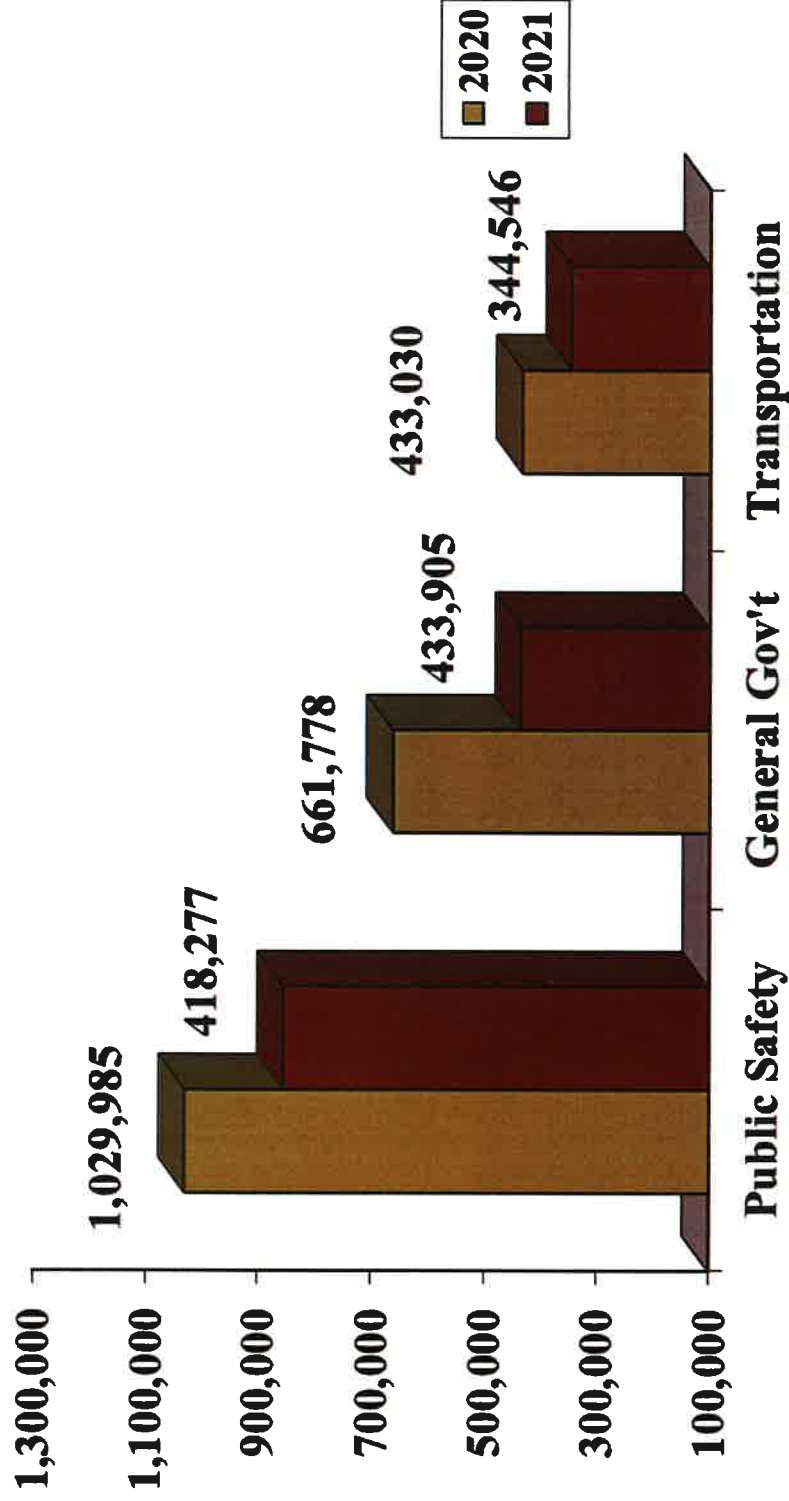
# General Fund Revenues 2020 and 2021



# General Fund Expenditures



# General Fund Expenditures 2020 and 2021





# Electric Fund

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	<u>2020</u>	<u>2021</u>
□ Operating Revenues	\$ 2,968,459	\$ 3,359,299
□ Change in Net Position	\$ (1,828)	\$ 113,437



# Electric Fund

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	<u>2020</u>	<u>2021</u>
□ Cash flow from operations	\$ 173,727	\$ 272,672
□ Unrestricted net position	\$ 1,139,864	\$ 1,219,483
□ Quick Ratio	4.01	4.00



# Water and Sewer Fund

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	<u>2020</u>	<u>2021</u>
□ Operating revenues	\$ 1,307,957	\$ 1,719,074
□ Change in net position	\$ 19,701	\$ (157,258)



# Water and Sewer Fund

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	<u>2020</u>	<u>2021</u>
□ Cash flow from operations	\$ 423,557	\$ 708,558
□ Unrestricted net position	\$ 633,518	\$ 840,663
□ Quick Ratio	1.12	1.47



# General Performance Indicators

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- Stable property tax valuation & collection %
- Electric and W&S net income and cash to expense ratio are above minimum thresholds



# General Performance Indicators continued

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- Red flags present
- Audit Findings
  - 2021-001: Material Weakness
  - 2021-002: Material Weakness, Non-Compliance
  - 2021-003: Material Weakness, Non-Compliance
  - 2021-004: Material Weakness, Non-Compliance
  - 2021-005: Material Weakness
  - 2021-006: Material Weakness, Non-Compliance

