



June 23, 2025

Kendra Boyle, Director, Fiscal Management Section
State and Local Government Finance Division and
North Carolina Local Government Commission

Re: Financial Performance Indicator of Concerns

Listed below please find the City of Rocky Mount's plan to rectify the financial performance indicators of concern from the City's 2024 financial audit:

1. (Line 1) Fund Balance available as a percentage of expenditure at 18.38%.

Response: As of June 30, 2024, the City's Available Fund Balance declined significantly to 18.38% of General Fund expenditures, compared to 38.46% at the end of Fiscal Year 2023. This marks a notable decrease that places the fund balance below the 25% minimum threshold that jurisdictions of similar size maintain for fiscal stability and operational resilience. The decline is primarily attributable to unforeseen increases in personnel-related expenditures, including salary adjustments and benefit costs.

Recovery Plan: To meet the City's policy of restoring its fund balance to at least 10% within 36 months, the Fiscal Year 2026 (FY 26) proposed budget outlines several key strategies, that include, but are not limited to, the following:

- No use of fund balance for General Fund operations
- \$1.5 million allocation to unassigned fund balance in FY 2026
- 4-cent Ad Valorem tax increase, projected to generate \$2.4 million of additional revenue.
- Cost-saving measures and revenue enhancements totaling \$1.035 million.

The aforementioned actions are *expected* to rebuild the fund balance to 8% by FY 2026, with the 10% target anticipated by Fiscal Year 2027 or Fiscal Year 2028 through ongoing financial discipline.

2. (Line 2) There was an appropriated fund balance for the General Fund in the 2023 budget, AND your change was negative. Please state if the fund balance was used for operations or capital purposes in the account.

Response: This reduction results primarily from unplanned increases in personnel costs and strategic use of fund balance for capital and operational needs.

Key contributing factors include, but were not limited to the following:

- Unilateral pay increases in April 2023 --- raising Sworn Police Officer starting salaries by nearly 40%, with corresponding increases for higher ranks.
- Adoption of a new Pay Plan in July 2023, which raised General Government minimum salaries by over 13%, despite the proposed FY 2024 budget funding only a 3% increase.

- Personnel expenditures exceeded budget by over \$10.1 million, including wages and benefits.
- Increased use of Fund Balance from \$3.7 million to \$14 million during FY 24, partly supported by \$10 million in American Rescue Plan funds for Police and Parks & Recreation initiatives.

As a result of all of the above, available Fund Balance declined by \$13 million in FY 24.

Recovery Plan: To comply with the City's Fund Balance Policy requiring restoration to 10% within 36 months, the proposed FY 26 budget includes:

- No appropriation of fund balance in the General Fund.
- A \$1.5 million contribution to unassigned fund balance in FY 2026.
- A 4-cent Ad Valorem tax increase, projected to generate \$2.4 million of additional revenue.
- Expenditure reductions and revenue enhancements totaling \$1.035 million.

These measures position the City to restore an 8% fund balance by the end of FY 2026, with the 10% goal achievable by FY 27 or FY 28 through continued fiscal discipline.

3. (line 5) Operating Net Income (Loss), excluding depreciation, including debt service principal and interest.

Response: A review of financial statements indicates that operating expenditures in the Water Fund increased at a faster pace than operating revenues during FY 24, resulting in a notable operating loss. In contrast, the Sewer Fund experienced growth in operating revenues that outpaced expenditure increases, leading to a reduction in the operating deficit compared to FY 23.

Recovery Plan: To address these imbalances, the Adopted Fiscal Year 2025 Budget and the Proposed Fiscal Year 2026 Budget include retail and wholesale rate increases for both Water and Sewer services. These adjustments are intended to ensure that operating revenues fully cover operating expenditures and capital outlay funded through current revenues (i.e., not supported by debt).

- The FY 25 Adopted Budget implemented rate increases of approximately 7.5% for water and 8% for sewer.
- The FY 26 Proposed Budget includes further rate increases of approximately 7.5% for water and 10% for sewer.

These incremental rate adjustments are designed to move the Water and Sewer Funds toward long-term financial sustainability and reduce reliance on fund balance or external financing for routine capital needs.

4. (Line 8) Water and Sewer Asset Ratio at 0.43

Response and Plan: City staff acknowledge the slight decrease in the Water and Sewer Capital Assets Condition Ratio, which declined from 0.44 in Fiscal Year 2023 to 0.43 in Fiscal Year 2024. In response, staff are actively pursuing substantial improvements to both water and sewer treatment and distribution systems to maintain safe, efficient, and reliable utility operations. In early spring 2025, the City began construction on a new sewer pump station. Additional ongoing initiatives include the replacement of galvanized water mains, rehabilitation, replacement, and expansion of sewer outfalls, and modernization of equipment and facilities at both the water treatment and wastewater treatment plants. These infrastructure projects are being financed through a combination of current Water and Sewer Fund revenues, debt issuance, and, where available, state and federal grants and appropriations.

5. (Line 10) Operating Net Income (Loss), excluding depreciation, including debt service principal and interest.

Response and Plan: The Fiscal Year 2025 Adopted Budget allocated funding within the Electric Fund to conduct a Cost-of-Service Study, aimed at evaluating the adequacy of current electric rates in covering operating costs, as the last rate adjustment occurred in 2017. In FY 24, the city also began making the first of several “true-up” payments to Duke Energy, our wholesale electric provider, in coordination with fellow members of the North Carolina Eastern Municipal Power Agency (NCEMPA). These payments, scheduled through FY 26, are being covered by the Electric Fund’s rate stabilization reserves, preventing the need to pass these costs on to our customers. The Cost-of-Service Study findings were presented to the City Council in May of 2025. Based on the results, the Council directed staff to prepare for a series of incremental electric rate increases, effective July 1, 2025, as part of the FY 26 Operating Budget. These adjustments will help ensure that electric service revenues fully support the ongoing operations and capital needs of the Electric Fund.

6. Line (12) What date was the audit reported to the LGC?

Response: The audit was presented to the Local Government Commission (LGC) on May 6, 2025. This issue mainly happened due to the following:

- Formal resignation of the former Chief Administrative Officer i.e. City Manager, September of 2024
- The attrition of experienced finance and accounting staff (retirements and career advancements outside of the organization)
- Insufficient knowledge and understanding of North Carolina’s budget and finance rules and procedures by the City’s former Chief Administrative Officer and former Finance Director.

As a result, it has taken longer to set up a consistent process for converting our financial records to meet annual reporting requirements.

Plan of Action: The Mayor/City Council has hired a new Chief Administrative Officer (CAO), who is familiar with the rules and procedures related to North Carolina local government budget, finance and applicable LGC deadlines etc. Said CAO is credentialed by the International City/County Management Association and has over a decade of North Carolina Local Government Budget Management experience. Additionally, said CAO has hired a Certified Public Accountant (CPA) to serve as the City’s Finance Director, who will begin working for the City on July 7, 2025. The new Finance Director has over 30 years of North Carolina budget and finance experience, she even served as Assistant Director of the Local Government Commission at one point in her career. With the addition of these two qualified staff members (and others) we are confident that the City will meet the required deadlines, strengthen internal controls and enhance policies and procedures.

7. Line (15) Did your audit disclose any budget violations at the adopted ordinance level?

Response and Plan: The overages noted in Note 18 resulted from expenditure journal entries made at the direction of the auditors, following the completion of account "true-ups" by Budget Office staff. These adjustments were not communicated to the Budget Office in advance, leading to discrepancies. Although the Electric Fund did not exceed its budget at the fund level, the City’s Accounting and Budget Office staff will coordinate more closely moving forward to ensure alignment and prevent similar miscommunications in the future.

8. Line (16) The unit had material weaknesses, significant deficiencies, and statutory violations.

Response: The City agrees with the finding and acknowledges that the inconsistent application of accounting principles in the enterprise funds—specifically the use of both accrual and modified accrual methods—has resulted in reporting errors, time-consuming reconciliations, and unnecessary adjustments. This issue primarily arises from the loss of institutional knowledge due to the retirement or resignation of key financial personnel, compounded by a shortage of adequately trained staff in governmental accounting. These staffing challenges have delayed the implementation of a consistent process to convert modified accrual records to the accrual basis required for annual reporting. To address this, the City will provide focused training and professional development for finance and budget staff to build internal capacity and ensure compliance with GAAP and GASB standards, while also evaluating and improving internal systems and processes to support accurate and efficient financial reporting. The City remains committed to resolving the root causes of this issue and strengthening its overall financial management framework.

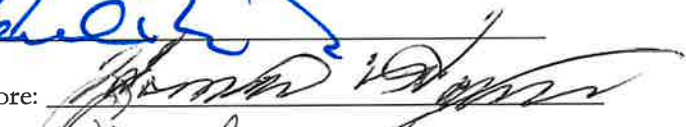
Plan of Action: The City will address the issue immediately by providing targeted training on GAAP and GASB standards, standardizing procedures for converting modified accrual to full accrual, and hiring or contracting experienced accounting professionals to restore lost expertise. Additionally, it will evaluate and improve financial systems to reduce manual reconciliations and implement regular internal reviews to ensure consistency and accuracy in financial reporting.

Closing Remarks

The City acknowledges that it has not met certain mandated deadlines and financial reporting requirements and recognizes the importance of addressing these shortcomings. In response, the City has developed a comprehensive and structured plan to correct the issues, with a strong focus on accountability, transparency, and timely implementation. This plan is already underway and is designed to ensure full compliance moving forward, while restoring public confidence in the City's financial management processes.

Respectfully Submitted:

Mayor: 

Mayor Pro Tempore: 

Councilmember: 

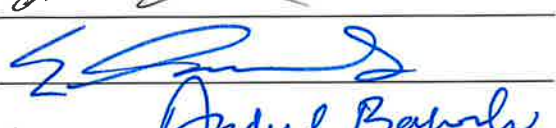
Councilmember: 

Councilmember: 

Councilmember: 

Councilmember: 

Councilmember: 

City Manager: 

Interim Finance Director: 