March 14, 2023

The Honorable Kirk Rivers, Mayor
Members of the Elizabeth City Council
City Manager Montré Freeman
Elizabeth City, North Carolina

Delivered via email

Mayor Rivers, Members of the City Council, and Manager Freeman,

We remain very concerned about the overall fiscal health of Elizabeth City (the City) and the path forward to restore that fiscal health.

Like yourselves, we understand and value the economic importance of the City. We appreciate that Elizabeth City is:

- An economic hub for the northeast region of North Carolina and the largest city in a region that overall has faced significant economic challenges.
- Offers a variety of services to residents, businesses, and its institutes of higher learning.
- Home to one of the largest Coast Guard stations in the country.
- Home to Elizabeth City State University, a member of the 17 campus University of North Carolina system and one of several public HBCU’s in the state.
- Home to Mid-Atlantic Christian University, a private school, and College of The Albemarle, serving seven counties in northeastern North Carolina.
- A growing area for tourism with a lot of potential, including the Harbor Island Ferry project.

Elizabeth City needs to not only survive, but to thrive to bring more economic opportunity and prosperity to northeast North Carolina and beyond. We believe the potential exists for the City to be the economic leader it should be given its location and size. However, the City, and more importantly its citizens, will continue to struggle if its financial foundation is not sound.

What specifically are we concerned about regarding the City’s finances and fiscal health?

- The City is two years behind on financial statement audits. The independent auditor had some difficulty getting the information and data needed to complete the 2021 work, which is pushing the timeline for completion further out. The City recently provided draft 2021 financials to the auditor, a task that was scheduled to be completed by December 31, 2022. The audit firm will take the time they need to perform a quality audit but the lateness of the financial statements will in turn negatively impact the timeline for the 2022 audit. From our time spent working closely with the City’s fiscal staff, we know the books are not complete. The grant budgets and related expenditures are in question.

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bankaccountreconciliationsarenotcompletedandadjustmentsarenotpostedtimely,andtheaccountsreceivableforutilitybillingsarenotmaintainedtimely.Overall,thefinancialrecordsareinadequate,leavingthegoverningboardwithnoreliableinformationforfinancialdecision-making.ThisisconcerningastheBoardcontinuestomakeexpendituredecisionsthroughundredsofthousandsofdollars.

- BasedonwhatwedoknowabouttheCity’sfinances,wehaverealconcernsaboutcashflow.Poorfinancialinformationhindersstaffandmanagement’sabilitytoenforceexistingpolicyorseethe need for changes. Utility rate changes cannot be properlyevaluatedordocumented to the public. The lack of understanding of the City’s true cashflowputs the City at risk of a cash crisis.

- ANYfinancialdecisionstheCityBoardorstaffaremakingbasedonincompleteror missingfinancialdataaresubjecttopotentiallysignificant error.

- Thephysicalconditionofcapitalassets,particularlyagingutilityassets,iscconcerningto us as well. There is no capital plan in place, and the City does not know what utilityrates need to be over the long term sufficient to support a long-term capital plan. Just as concerning,thereisnoorganizedcapitalmaintenancemaintenanceorimprovementplanfortheCity’s buildingsandinfrastructure.

- If the City did have current financial data to develop a capital plan, existing Financyleadershipandstaffdonotunderstandhowtoimplementormanagecapitalbudgets.

- Most financesstaf rencontreappropriatelytrainedandhave little ornodocumentation of work processestoguidethem.Recently,someofthemoreexperiencedfinancestaffhavebeenreassignedtopositionsthathando takeadvantageoftheirskillsandhavebeen replacedwithstaffthatdo not have the experience or training to adequatelyperformthetaskstheyhavebeenassigned.Thispracticewillnothelp the City move forwardin gettingitsfinancialhouseinorder.

- Board members are “in the weeds” with the staff instead of allowing the manager to be the CEO and allowing themselves to be the visionaries that can lead the City forward. This undermines staff and makes them unsure of how to proceed with their job duties.

- The City had a deadline of February 15, 2023 (extended from January 31), to submit to us its revised customer service policy, as requested in the Board meeting on December 12, 2022. In addition, in a letter dated January 20, 2023, we requested various reports and data. You returned the red-lined customer service policy, that we initially provided to you, with some comments added. The policy does not appear to be ready to be adopted by the City’s Board. We have not received the various reports and data we requested as of the date of this letter.

Becauseofthese facts about the City’s financial issues, Elizabeth City is on the Unit Assistance List (UAL) and is likely to remain for the foreseeable future. What does that mean?

- The City will struggle to get any debt financing approved with the delay in financial audits.
• Because the City is on the UAL, financings at a much lower dollar threshold ($50,000) must be approved by the LGC; this allows for increased oversight by the LGC with regards to debt issuance.
• The lack of capital funding could hamper economic development opportunities which could in turn hurt the City, the university, and the related goods and services that are offered.

What is the solution?
• We are asking the City to ask the LGC to step in and assume control of its finances. LGC staff will make the necessary but hard decisions needed about staffing, tax rates, utility rates, utility billing and collection policy, appropriations, etc. that are necessary to provide the financial foundation upon which the City can prosper.
• LGC staff will work with the governing board to develop a capital plan to address capital asset needs and ensure the current utility rate study is updated to fully inform decisions about utility rates. LGC staff will oversee the evaluation of the electric utility infrastructure and ensure that rates are addressing current and future electric utility needs.
• LGC staff will monitor the work of Isley CPA to get the books caught up so that audits can be completed.
• LGC staff will work with the City staff to evaluate processes and procedures, and make recommendations to the LGC on needed modifications and updates. The LGC will be responsible for approving any modifications and updates.
• LGC staff will assess City Finance staff skills, knowledge, and abilities and work to get the right people in the right positions. This may include utilizing contractors with municipal government finance experience.
• Taking these steps could result in the City coming off the UAL more quickly and allow the City to access financing sooner.

If you choose to make this request, we will work with you to determine a start date that is agreeable for both parties.

In closing, please remember that we all want the same things for the City – for it to be strong and to prosper. We can assist you in making that happen.

We look forward to hearing from you.

Sincerely,

[Signature]

Dale R. Folwell, CPA
Treasurer, State of North Carolina