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# Manager's Budget Message

## Fiscal Year 2015-2016

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**To: The Honorable Mayor and Members of City Council**

**Date: April 13, 2015**

This binder contains the City's recommended annual budget as required by North Carolina General Statute 159 and the *Local Government Budget and Fiscal Control Act*. Three general sections comprise the document. The first section is the continuation budget for all funds necessary to carry out the services authorized by the Washington City Council. This section contains financial information and narrative descriptions of the programs and services. The narrative portions of this section are created in an attempt to help explain the purpose and function of the different departments and programs in order to better educate the reader about City services. Financial summaries, as well as line item details, are also provided for the reader to review. The second section is a fee manual that describes the user fees that attempt to recover some or all of the costs of services from the direct beneficiaries of the services, rather than taxpayers. The third section contains information on 15 General Fund and 5 Enterprise Fund service expansions proposed by departments and outside agencies. These are "new and different" programs or activities that expand the current level of service to City of Washington citizens and taxpayers or requests from outside agencies for funding above the level provided to them by the City in the previous fiscal year. The budget is balanced and prepared in accordance with the policies and procedures outlined in the *Local Government Budget and Fiscal Control Act*.

### Goals

This budget is a vision of what the City will strive toward in the coming year. The values communicated during the budget process and incorporated into the recommended budget where possible are:

- ❑ Continue to rely on financial plans and systems in the preparation of the proposed budget;
- ❑ Conservatively estimate revenues and expenditures to avoid expectations of performance that are not realistic;
- ❑ Create an atmosphere where efforts to "spend down" during the fiscal year are discouraged;
- ❑ Present a budget that re-evaluates all expenditures in order to offset projected losses in revenues so that in light of the current economic conditions a tax increase is not needed for general government operations, but allows for policy review and potential service reductions or expansions based on other policy directives.

- Provide an analysis of general government cost centers in order to more clearly demonstrate where general fund tax dollars are being spent and what services are provided.
- Review general fund fees and enterprise fund rates to determine if adjustments need to be made in order to more appropriately recover the costs associated with individual programs or services and reduce the need to use general tax dollars for these operations.
- Reduce short-term financing for capital projects and instead use pay-as-you-go financing when appropriate.

The budget team prepared this document to meet these goals where possible. The proposed FY 15-16 budget maintains all City programs and services as directed by the City Council. The tax rate, however, is recommended to increase by 1.5 cents per \$100 of valuation. This is a 3% increase in the tax rate that moves the rate from 50 cents to 51.5 cents per \$100 valuation. This recommended tax increase is based solely on the loss of revenue from business privilege licenses that were repealed by the NC General Assembly during its last session. The recommended 1.5 cent tax increase is equivalent to an additional \$15.00 in taxes per year on a home valued at \$100,000.00. The recommended budget also increases certain fees in the general fund and rates in the enterprise funds based on the revenue review requested by City Council.

## Overview of the Budget

The City's fiscal year begins on July 1<sup>st</sup> and ends on June 30<sup>th</sup>. The budget is divided into separate funds in order to account for revenue collected and services provided. The following is a list of the funds accounted for in this budget:

- General Fund – this fund is the “typical” governmental fund, where all taxes and some user fees and intergovernmental transfers are used to provide basic governmental services, such as police, fire, finance, planning, zoning, inspections, parks and recreation, library, street maintenance, and administration of all City services.
- Enterprise Funds – these funds are separate “self-sustaining” funds, commonly including all utility services and other functions where taxes are not generally used in its operations. Washington's enterprise funds include:
  - Water Fund
  - Sewer Fund
  - Electric Fund
  - Storm Water Management Fund
  - Airport Fund
  - Solid Waste Fund
  - Cemetery Fund
- Trust Funds – these funds are primarily received from interest proceeds from investments maintained by the City for specific purposes, such as Library and Cemetery operations.
- Special Revenue Funds – these funds are typically restricted in purpose and designation by City Council, and include such funds as capital reserve funds and a façade grant fund.
- Grant Funds – grant funds are restricted in their use and are typically used for ongoing projects. These projects are usually funded by grants from outside agencies and are for short-term operating expenditures.

- Capital Project Funds – these funds are similar to grant funds in that they are restricted for specific uses. They are usually for specific capital improvements projects and can span several fiscal years.
- Internal Service Funds – these funds are utilized by the City in managing services across the entire organization, such as the City’s self-insured workers’ compensation fund program.

## General Fund

The recommended General Fund budget for FY 15-16 is **\$14,407,419**. This is \$221,441 or 1.5% less than the FY 14-15 amended budget. When compared to the original starting FY 14-15 budget, the FY 15-16 recommended budget is \$278,915 or 2% greater.

### Revenues

- ⇒ The recommended budget increases the ad valorem tax rate by 1.5 cents to \$0.515 for each \$100 of assessed property valuation. This is a direct result of legislation passed by the NC General Assembly that repeals business privilege licenses and the associated revenue for the City. The recommended 1.5 cents increase equals an additional \$15.00 per year in City property taxes on a home valued at \$100,000.
- ⇒ The proposed tax rate continues to include \$0.0198 designated for the Public Safety Capital Reserve Fund to service the debt for Fire Station #2.
- ⇒ Ad valorem taxes are projected to be 3% higher than the prior year due to the recommended tax increase.
- ⇒ Other Taxes and Licenses as a whole are projected to increase by approximately 2%. Sales tax revenues are projected to increase due to tax reform changes at the State level and local occupancy tax revenues are also trending upward. However, the occupancy tax revenue is a pass through revenue that goes to the Tourism Development Authority, minus a 3% administrative fee from the City, and the complete loss of the privilege license tax proceeds keeps this revenue category generally flat.
- ⇒ Unrestricted Intergovernmental revenues are projected to be flat with a slight 1% increase.
- ⇒ Restricted Intergovernmental revenues are projected to increase by 3%. However every revenue line item in this category is project to be lower except revenue from the renegotiated County EMS contract, the annual programmed increase for Fire/EMS services to Washington Park and an anticipated Library contribution of \$100,000 from the County based on recent negotiations regarding the sharing of services.
- ⇒ Permits and Fees revenues are projected to decrease by 25% due to the continued slow recover of the residential and commercial building industries in Washington.
- ⇒ Sales and Services revenues are projected to remain flat despite the implementation of the sports league participation fee.
- ⇒ Investment Earnings are projected to decrease by 10% due to the continued low interest rates in the investment market.
- ⇒ Miscellaneous revenues are projected to decrease by \$15,559 based on FY 14/15 current trends.

- ⇒ Transfers From revenues are recommended to remain flat. It was a desire of Council to again reduce the amount of the Electric Fund transfer this year, however due to the substantial recurring loss of revenue from other sources, this transfer is recommend to remain at the FY 14-15 level.
- ⇒ Administrative Charges are recommended to increase by \$165,039. These charges are allocated to other funds in order to help pay for their share of resources used in the General Fund. Each fund is assessed based on a specific metric that attempts to most accurately reflect its burden on the General Fund. The main driver for the projected increase is the increase in sales and services related to the Electric Fund.
- ⇒ The recommended budget appropriates \$300,996 in General Fund Balance or 2.1% of General Fund expenditures. This is a decrease of \$551,435 or 65% from the prior year.
- ⇒ As of June 30, 2014 the unassigned/unreserved General Fund Balance was \$6,238,713. In FY 09-10 the Council adopted a resolution recognizing the need to maintain a \$2M unassigned/unreserved General Fund Balance for a natural disaster recovery in excess of a 16.7% or two-month operating reserve. This equals \$4,401,236 for FY 15-16. A proposal to use a portion of the remaining unassigned fund balance to establish a vehicle replacement fund and a facility maintenance fund will be discussed during budget workshops.

### **Expenditures**

- ⇒ Administrative Cost Centers – expenditures in these cost centers increased by \$196,340 or 5.6% from the original FY 14/15 budget. The majority of this increase is due to capital expenditures needed to replace end of life computer network equipment and switches, as well as the replacement of the financial accounting software. There are also increases associated with the reimbursement of election expenses to the County for holding municipal elections this year.
- ⇒ Other Cost Centers – expenditures in these cost centers decreased overall by \$158,404 or 12.3%. The largest decrease was in the miscellaneous area. Clawbacks for the Keysville CDBG project were paid from this line item last year but are not included this year. Additionally general fund transfers to the Airport Fund and the Cemetery Fund are not needed this year to balance those funds.
- ⇒ Public Safety Cost Centers – expenditures in these cost centers increased overall by \$162,430 or 2.8%. The largest increase in this category is related to EMS expenditures for a replacement ambulance and the expansion of the Paramedic program approved last year.
- ⇒ Public Works Cost Centers – expenditures in these cost centers increased overall by \$22,465 or 1.6%. The majority of this increase is due to capital maintenance needs and the replacement of a retaining wall on Holloman Street.
- ⇒ Cultural and Leisure Cost Centers – expenditures increased overall by \$57,584 or 2.8%. The main driver of this increase is the roof replacement project at the Bobby Andrews Center and capital equipment replacement needs.
- ⇒ Outside Agencies – The funding for all outside agencies was held flat in the recommended budget with any requested increases being addressed as service expansions. Per the direction of the City Council the funding for the Human Relations

Commission was moved out of this cost center and under the City Manager's Office budget.

## **Enterprise Funds**

The combined Enterprise Fund budgets for FY 15-16 are **\$47,186,374**. This is \$1,996,525 or 4.4% more than the FY 14-15 original budget due to proposed rate/fee increases across the funds. All of the enterprise funds are balanced. An analysis of rate/fee revenues was conducted over the past year and reviewed by the Council. Rates/fees in certain enterprise funds were adjusted based on this study.

### **Water Fund**

The Water Fund recommended budget is \$3,103,417, which is 2.2% greater than the prior year original budget and includes the following significant items:

- ⇒ A 2% increase in water rates is recommended. Based on City-wide average residential water use this equals a \$5.17 increase per year on a water bill. The last water rate increase occurred 7 years ago and was 4%.
- ⇒ The Water Fund has no debt service. All bonds and installment notes are paid off
- ⇒ No fund balance is appropriated this year
- ⇒ Expenditures include a payment-in-lieu-of-taxes (PILOT) to the General Fund in the amount of \$139,072 and a transfer to the water capital reserve in the amount of \$66,684.
- ⇒ Capital expenditures in the amount of \$94,588 are recommended as PayGo and are detailed on the recommended capital sheet

### **Sewer Fund**

The Sewer Fund recommended budget is \$3,126,681, which is 2.1% less than the prior year and includes the following significant items:

- ⇒ A 4% increase in sewer rates is recommended. Based on City-wide average residential sewer use this equals a \$13.09 increase per year on a sewer bill. The last sewer rate increase occurred 7 years ago and was 7.5%.
- ⇒ Sewer bonds were paid off in FY 14-15 leaving only the State Revolving Loan debt. Debt service is down \$150,470.
- ⇒ \$52,000 in Sewer Fund balance is appropriated to balance the budget. This amount is down by \$95,619 from the prior year.
- ⇒ Expenditures include a payment-in-lieu-of-taxes (PILOT) to the General Fund in the amount of \$195,607.
- ⇒ Capital expenditures in the amount of \$135,588 are recommended as PayGo and are detailed on the recommended capital sheet

### **Stormwater Management Fund**

The Stormwater Management Fund recommended budget is \$756,665, which is 20% higher than the prior year and includes the following significant items:

- ⇒ A 20% increase in storm water rates is recommended. Based on City-wide average storm water rates this equals a \$10.48 increase per year on a stormwater bill. The last storm water rate increase occurred 7 years ago and ranged from 15-22%. A storm water rate study is currently being conducted and it is anticipated that rates will have to continue to increase over the next several years in order to fund the improvements needed to manage the existing flooding issues.
- ⇒ \$70,328 in Stormwater Fund balance is appropriated to help balance the budget
- ⇒ \$300,000 in capital spending (\$150,000 budgeted this year plus \$150,000 remaining in the RZDB fund) is recommended for storm water maintenance projects.

### **Electric Fund**

The Electric Fund recommended budget is \$38,049,158, which is 4.5% greater than the prior year and includes the following significant items:

- ⇒ No changes in the rate structure or load management credits are recommended until after the NCEMPA asset sale is finalized and a cost of use study is completed.
- ⇒ Sales and service are anticipated to increase 3% from the prior year based on the Booth forecast. This forecast is dependent on weather conditions and is susceptible to change.
- ⇒ No fund balance is appropriated.
- ⇒ Transfer to the General Fund remains at \$470,000. An additional \$190,000 payment in lieu of sales tax is budgeted due to the loss of revenue created by the changes in the sales tax formula adopted by the NC General Assembly last year.
- ⇒ Tree trimming funds have been increased by \$191,000 to support the right-of-way clearing program instituted last year. This program will reduce outages and costs associated with restoring them.
- ⇒ \$283,942 in PayGo capital expenditures and \$1,602,500 in capital installment financing are detailed on the recommended capital sheet.

### **Airport Fund**

The Airport Fund recommended budget is \$506,589, which is 64% greater than the prior year and includes the following significant items:

- ⇒ \$150,000 in Vision 100 grant funds from the State are anticipated in this budget.
- ⇒ No transfer from the General Fund is needed this year to balance the budget. \$110,984 of Airport Fund Balance is appropriated but is anticipated to be a onetime occurrence.
- ⇒ Fuel sales are anticipated to increase by 12%.

### **Solid Waste Fund**

The Solid Waste Fund recommended budget is \$1,300,300, which is 0.2% higher than the prior year and includes the following significant items:

- ⇒ A \$1.00 per month increase in the residential solid waste rate is recommended (\$14/month to \$15/month). The last solid waste rate increase occurred 7 years ago and was a \$2 per month increase.
- ⇒ One position is recommended for elimination upon the retirement of the employee in September 2015.
- ⇒ No fund balance appropriation is needed to balance the budget.
- ⇒ No capital purchases are recommended, but \$89,508 is recommended to be transferred to the Capital Reserve Fund for future capital needs.
- ⇒ Contingency in the amount of \$10,000 is available for emergency expenses.

### **Cemetery Fund**

The Cemetery Fund recommended budget is \$343,564, which is \$16,616 more than the prior year and includes the following significant items:

- ⇒ Various fee changes are recommended as detailed in the fee manual. The last fee changes occurred 2 year ago.
- ⇒ Perpetual fees are recommended to be included in the grave opening fees.
- ⇒ No transfer from the General Fund is required to balance the budget. Cemetery fund balance in the amount of \$111,414 is appropriated instead.
- ⇒ Capital expenditures in the amount of \$26,800 are recommended as PayGo and are detailed on the recommended capital sheet

## Summary

The City of Washington continues to face many known challenges in the coming year. There are however many of them that are still unknown. This recommended budget continues current City operations and services in accordance with the Council's directive at the budget planning session. It is, however, unable to maintain the current tax rate as requested and instead recommends an increase of 1.5 cents from \$0.50 to \$0.515 per \$100 of assessed property value. The recommended budget also adjusts many of the general funds fees and enterprise fund rates as a result of revenue analyses done over the past year.

This recommended budget clearly does not meet all the expectations expressed by the City Council. It recommends a tax increase in order to make up for business privilege license revenues that were eliminated by the NC General Assembly. When this revenue source was eliminated, the Governor and members of the General Assembly said that they would work to provide a solution for municipalities but that promise has yet to come about. Local governments are "creatures of the legislature" and can only do those things that they are given specific authority to do by the General Assembly. This includes their revenue streams. By eliminating a revenue stream, the Legislature has forced municipalities to raise local property taxes or cut the current levels of services it provides to its residents. To put this in perspective, the local impact of the amount of the business privilege licenses revenue eliminated by the General Assembly is roughly 2.5 police officer or firefighter positions. This recommended budget, as requested, maintains those levels of services but it is only done at the expense of a tax increase that equals \$15.00 per year on a home valued at \$100,000. Yes, it is possible to go another year without a tax increase and maintain the current levels of service, however it is not fiscally responsible to do. Putting off maintenance or deferring capital replacement needs again and again is a short term fix that never goes away and only costs more tax dollars in the long run. The City of Washington cannot continue to push hard financial decisions down the road and put off what is inevitable: revenues must be increased or services must be cut.

Putting together a budget is a tremendous effort. Chief Financial Officer Matt Rauschenbach and Assistant Finance Director Anita Radcliffe, as well as the entire Finance team, did an outstanding job in creating an informative and functional document that serves as a management tool and an outline from which to debate policy. Thank you for your many long hours of hard work.

Department managers did an outstanding job of analyzing and compiling budgets that met the expectations they were given. They deserve many thanks and tremendous admiration. The people working for City of Washington are truly special people who care about their community and take pride in providing efficient and effective services that make life better for others. I am grateful to have the privilege to work with them.

Respectfully submitted,

Brian M. Alligood, City Manager

