

**Garner Town Council
Budget Meeting
May 3, 2010**

Below is the Manager's budget message as presented in the Proposed Fiscal Year 2010-2011 Budget Document. Comments added during the presentation of this message are noted in ***bold italic***.

"In order to achieve a balanced budget in FY 10-11 without a tax increase, a number of difficult decisions will be made. Some decisions will be unpleasant. This is the unfortunate by-product and reflection of a weak state and national economy.

The key highlights for the upcoming year are as follows:

- The total budget is \$22.4 million and projects \$877,000 less revenue than the current adopted budget, representing a 3.8% decrease; it is a \$1.2 million decrease (5.5%) from the FY 08-09 Actual Audited Budget.
- No tax increase is proposed and fund balance is not utilized as a revenue source.
- Revenue decreases are expected in many categories primarily due to the state and national economic downturn.
- Service levels to our customers will remain virtually the same. Customers shouldn't notice any change. This is accomplished largely through continued efficiency improvements, conscientious effort from Town departments, and significant cost-cutting measures in all areas.
- Capital outlay items combined total approximately \$364,000, approximately 1.69% of the overall budget, a very low amount for a growing Town in the Triangle Region.
- Employee merit and mid-year pay increases are proposed at 50% of the previous year's amount, resulting in a savings of \$150,000.
- A number of staff positions are frozen indefinitely, eliminated via the Town's proposed reduction in force procedures, or re-engineered for a savings of approximately \$300,000.
- High profile operational cuts include elimination of the Town's regular road resurfacing program (cost avoidance of \$500,000) and closing of the Police Department's West District Office (savings of \$25,000 annually).

Our peers are facing the same challenges and having a similar level of difficulty. There are daily news articles that tell about the complexity of the upcoming fiscal year for local governments in Wake County, Triangle region, and other urban areas of North Carolina. Similar stories are reported across the nation daily. The reality of the economic downturn is apparent. As we have worked to balance the FY 10-11 Budget, it has become clear to staff that the weak national and state economy is playing a major role in our plans for 2010-11.

On The Table

There were a number of worthwhile programs and initiatives that were examined and scrutinized by the budget team that ultimately made the final cut. Staff believes these items have merit and demonstrate value for the Town and decided to leave them in the Proposed FY 10-11 Budget. However, it is important to list the items to provide insight into the

depth of the analysis required this year. Those items considered include the following:

- ◆ Reducing merit awards to 33% of current formula (saves \$50,000)
- ◆ Reducing 401-K contributions for all non-Police employees (saves \$50,000 per 1% cut)
- ◆ Closing boathouse/fishing operation at Lake Benson (saves \$20,000)
- ◆ Eliminate agency funding (saves \$62,000)

Staffing Changes

Savings as a result of staffing changes totals approximately \$300,000 annually. This includes indefinitely freezing two full-time vacant positions (Planner II - Urban Design Specialist and Equipment Operator - Public Works) and reducing the vacant Parks & Recreation Marketing Specialist to 19 hours (instead of full-time) to avoid benefits and substantially reduce pay. A Part-Time Events Assistant position in Parks & Recreation will also see a reduction in hours.

The final change is the elimination of three currently occupied full-time positions utilizing the Town's proposed reduction in force policy (borrowed from Wake County).

A previous Information Technology Specialist position in the Information Technology Department (frozen during FY 09-10 following an employee transfer) will be restored and funded in the FY 10-11 Budget. This will cost approximately \$67,300, including benefits and related expenses."

Mr. Watkins added here that the 10 hours the PIO spends in the I.T.Department will now be spent in Parks and Recreation.

Capital Highlights

The capital program proposed for FY 10-11 is significantly smaller than any Town budget in recent memory. The entire program totals approximately \$364,000, an amount that equates to roughly 1.69% of the entire budget. In other words, 98.3% of the Town's budget is not capital.

The items proposed include the following: continuation of the multi-year Garner Road overlay district improvement program (\$60,000), two police vehicles and a new canine (\$66,000), flashing school zone signs (\$28,000), mowing equipment and tractor for Public Works (\$27,300), desktop computer virtualization (\$101,000), improved signage for Garner Historic Auditorium (\$10,000), and improvements to the North Garner Middle School Field as a component of the School Acres Initiative (\$9,700).

What Citizens Will See in FY 2010-2011 - The "Good News"

Although the overall capital program is small and the current state and national economy presents a host of challenges, Garner residents will see some things that will make them happy. Quality of life is important and there are a number of initiatives and investments that will make the Town a little bit better place to be.

- ◆ The Town will be able to maintain existing service levels. All facilities are still open and operating with their regular hours.

- ◆ New Rand Road will finally be resurfaced after many years of patient waiting. Although it will be funded with NCDOT funds, it will greatly improve quality of life and Town officials can take some credit for being a squeaky wheel to get the improvement moving in a timely manner.
- ◆ An extension of the Town's first greenway in White Deer Park to connect the park to Timber Drive, Timber Drive Elementary, and Heather Hills neighborhood will get underway in 2011. The funding for this project was set aside in a previous budget and remains in reserve.
- ◆ Sidewalks will be constructed in the School Acres Neighborhood along Avery, Powell, and Broughton Streets. This is a joint effort of the Town, Wake County, and the federal government. The Town's funding was set aside and reserved in FY 09-10. Construction should be underway in 2010.
- ◆ Improved pedestrian safety and safer school zones will be achieved upon completion of installation of flashing speed limit signs at four schools on busy streets.
- ◆ The Town's continued commitment to improving North Garner and fulfillment of promises made to help fund a better visual image along Garner Road will be ensured with the \$60,000 allocated to install curb and gutter for a number of properties.
- ◆ The School Acres area will see another high profile improvement as funding is made available for relocation of fencing and improvement to the existing concrete baseball field dugouts with see-through fence material dugouts. This is in response to neighborhood concerns voiced to Town staff working with neighborhood leaders.
- ◆ Continued support of the Town's Police Department and its very important mission is provided through the addition of two new vehicles and the transfer of one 2-year old vehicle from the Administration Department. The department will also acquire a new canine to bring the number of canines back to four, a level of depth which was the department norm two years ago. This will ensure one canine unit for each Police shift and help re-supply their well-used fleet of patrol vehicles.
- ◆ The final highlight is a "back of the house" improvement to the Town's Information Technology Department that will see the restoration of the staffing level to the 2008-09 level in order to ensure that the Town's 10 operating departments will continue to be able to deliver excellent services to citizens. I.T. will also receive funding to switch the Town's desktop computers to a virtual system that will prolong the life of the Town's desktop computers and save approximately \$78,000 per year in future years.

Details About Employee-Related Costs

Employee-related costs (salaries, merit increases, insurance, and retirement) have all increased. The initial health insurance increase estimate was 32% and is being whittled down to the 21% range for budget

purposes. NC Retirement System costs will increase by 15.6% as required by the system due to their investment losses. Merit-based pay increases averaged roughly 3% last year; they are proposed at roughly 50% of this level for FY 2010-11. These items combine for a total budgetary increase of around \$385,000.

The Town's employee health insurance options have been studied carefully. Our group will remain with Blue Cross Blue Shield of NC (BCBS) for the upcoming plan year. Our new benefits broker, John Gasiorowski with IBA, successfully negotiated our initial rate increase of 32% from BCBS down to 21%. This was accomplished through careful and thorough analysis of the rates and diligent and persistent negotiations with BCBS. Additionally, the Town achieved an effective 8.5% rate increase due to IBA's recommendation that the Town design and implement a Medical Expense Reimbursement Plan (MERP).

The Town increased its deductible and coinsurance with BCBS to higher levels to achieve rate relief, but these increases will ultimately be covered by the Town. The employee will be responsible for paying the costs at the time of service, but will be reimbursed the difference. The Town budgets for and sets aside funds into a designated MERP account to pay for the difference in the deductible and coinsurance if and when deductibles and coinsurance are used by an employee. The Town retains these funds in our account as opposed to paying the additional premium cost to BCBS. The net result is that employees will ultimately be responsible for the same deductible and coinsurance we currently have in place. While implementing this program translates into a 21% budget increase for FY 10-11, we believe and expect future savings for the Town as it is unlikely that these funds will be depleted each year. This will maintain similar health insurance benefits, improve the Town's overall cash position, and build meaningful financial capacity for the future.

IBA also successfully negotiated new arrangements with many of the Town's other insurance/benefit providers (Medicare supplemental, flexible spending, short-term disability, and life insurance) that will save \$6,000 this year.

Based upon the current economy and overall short-term fiscal outlook, the Town budget team is not recommending any across the board cost of living adjustment (COLA) for FY 10-11 or the foreseeable future beyond this fiscal year.

The North Carolina League of Municipalities posted their recent municipal salary adjustment survey results on April 26, 2010. Respondents included 241 North Carolina cities and towns which represent approximately 29,975 municipal employees. 161 respondents are not giving a COLA, 36 are undecided, and 43 communities indicate a likelihood of offering COLA. It is interesting to note that no survey respondents of our population size are awarding COLA.

The Bureau of Labor Statistics reported a gain in the CPI-U index from 210.228 in December of 2008 to 215.949 in December of 2009, an increase of 5.721 points or 2.7%. Although 2.7% may be viewed as a material increase worthy of consideration, in our current scenario of minimal

capital expenditures, need for future financial capacity, severe overall cuts, reduction in force, and frozen positions, staff cannot recommend such an increase. Any funds available to increase employee compensation should be utilized to keep health insurance, 401-K, and performance-based merit pay funded as well as possible. Regardless of the current financial challenges, Town management staff greatly prefers to see available dollars paid to the Town's top performers (via performance evaluation system) rather than equally divided amongst all staff regardless of performance (via COLA).

The NCLM survey reports that 185 of 241 municipal respondents are not awarding merit/performance pay for FY 10-11.

The budget team is recommending funding the Town's performance evaluation system and all merit based pay increases at 50% of the amount of the existing awards charts, tables, and formulas. This includes incentive pay for Police staff in the career alternatives and opportunities program and specialty positions at 50% of published amounts/formulas.

Recreation Program Budgets

After approximately 14 months of work by Town staff, the Parks & Recreation Department has transitioned to year one of program budgets for the entire department. Program budgets provide more detailed financial information on both the expense and revenue side for each program offered by the department. The Town will now have a clear picture of the level of subsidy for each departmental program offering. Revenue targets are established for each program. Through the use of this data, the Town knows that the boathouse has a subsidy of \$20,000 and that the July 3 Fireworks cost \$84,000 with minimal revenue projected. This type of data will grow in value over time and will assist with key decisions in the near future.

Mayor Williams asked if it has crossed anyone's mind to cancel the July 3 Celebration. Council Member Marshburn said he has considered it after reading about others doing the same, he asked if this is still something we can consider.

Council Member Kennedy said and others agreed this is a marketing tool for the Town.

Future Decisions by State of NC

Previous action by the State of NC leads one to be cautious about our dependence on state-collected local revenues. Elimination of local privilege license taxes discontinuation of sharing beer/wine taxes with local governments are possible scenarios that the Town should prepare for. These proposals are in the idea stage presently. Both the Senate and House must pass any of these proposals and then the Governor must approve as well.

In an effort to be prudent and anticipate possible state-collected local revenue decreases, possible shifting of some NCDOT maintenance and repair responsibilities to municipalities, undetermined costs for Fire Station #4 (new), staff has set aside a contingency amount in the Town Council Department. If the end of FY 10-11 approaches and these

funds are not needed (thanks to either the state's generosity or a strengthened state economy), these funds can be utilized for items that were cut in this budget proposal or set aside for our multitude of pending capital needs.

As discussed previously, the Town cannot predict or control the behavior or action of the State of North Carolina regarding budgetary or fiscal matters. This unpredictability does not allow staff to be completely confident in all state-controlled or state-handled revenue sources that the Town relies upon.

Detailed Discussion of Revenue

FY 10-11 Revenue is projected to decline in every major category. This is the cause of the inability to fund new initiatives and the need to reduce capital spending and employee-related costs significantly. Ad Valorem Taxes, Other Taxes, Intergovernmental Revenues, Permits & Fees, Sales & Services, Investment Revenues, and Other Revenues all show a decline. The total decrease over last year's adopted revenue projection is \$770,000 or 3.3%.

Ad Valorem Taxes only decline by about 1.2% or roughly \$175,000 from the Amended FY 09-10 Budget. This is led by a reduction of \$110,000 in current year property taxes. An adjustment to the tax value of ConAgra Foods property and reduced vehicle values are responsible for most of this change.

Other Taxes is down about \$300,000 or 7% from FY 09-10 estimates. This includes a \$10,000 decrease in ABC revenues, \$293,000 drop in sales tax (collected countywide), and \$11,000 increase in solid waste disposal fee reimbursement. Sales tax is a volatile category and is subject to consumer whims. Data received from the NC Department of Revenue regarding sales tax is usually three months old and is often met with skepticism by many of our peers.

Intergovernmental Revenues are predicted to be \$40,000 less (1.5%) than our present estimates. Beer & Wine Taxes are expected to be 68% lower (\$75,000 less) and federal asset forfeiture is budgeted at \$0 instead of \$71,500. Powell Bill revenues will be flat, netting about \$640,000 for FY 10-11. This source has been steadily declining statewide; the FY 08-09 audit shows this category at \$723,000.

A \$50,000 increase in utility franchise tax is expected to help offset some other intergovernmental line items. A \$50,000 COPS hiring grant will also help next year.

Permits & Fees is one of two categories showing an increase in revenue for FY 10-11. A small increase of roughly \$40,000 (6.2%) is certainly a bit of good news in an otherwise dismal revenue outlook. Building permit fees are estimated at \$285,000, a possible rebound from the lowest projection (\$200,000) in seven years in FY 09-10. This follows a decrease of \$300,000 in the projection for the previous year. Estimates are made based upon this year's trends and assessment of the development outlook for the next 12 months in the Triangle region. The 7-year building permit collection average compiled last year was \$569,000 annually.

Sales & Services will see a slight increase of \$17,000 overall, representing 3.5%. Parks & Recreation rentals are projected to be 41% higher (\$26,500) due to an increased management emphasis on revenue production and the switch to program-based budgeting for the department. Other sources in this category are virtually the same.

Investment income will likely decline to a record low of \$27,000, a 79% decline from last year's estimate. Poor nationwide interest rates have led to this situation. This category was reduced by 35% last year and the comparison to the FY 08-09 audit shows a decline of 87.5% in the last two years. Our net decrease will be close to \$103,000 for FY 10-11.

Other Revenues is projected to decline by \$323,000 due primarily to a major decrease in proceeds from the issuance of debt. YMCA facility rental of \$28,600 has ceased due to their move to Downtown Raleigh. An increase of \$80,000 in revenue from Wake County Landfill reimbursement is a positive impact.

Transfer accounts will not play a major role in FY 10-11. A number of these transfer accounts were used in FY 09-10 to fund projects.

There is no recommended **transfer of fund balance** contained in this budget document for operations, capital outlay, or decision package needs. As of April 30, 2010, \$0 has been transferred out of fund balance during the current fiscal year.

A complete analysis of our **projected fund balance position** is included on page 39. The Town's estimated fund balance as of June 30, 2010 is \$12,400,000. After the required reserves are set aside from this amount, a total of \$9,600,000 remains. This amount represents 42.8% of our annual operating expense. As previously indicated, the budget team recommends that no fund balance be used for the FY 10-11 Budget.

Contracted Emergency Services

The Garner Volunteer Fire Department appropriation will be based on the financial modeling and methodology developed by the Wake County Budget Analyst and endorsed by the Wake County Fire Commission. The appropriation represents 54.7% of shared expenditures in addition to items solely funded by the Town of Garner.

The Fire Commission Budget Sub-Committee is currently analyzing all fire departments' requests. The Town of Garner will supplement the analysis of the Fire Commission with a cursory review by the Town of Garner Ad Hoc Work Group Fire & Rescue.

The Fire Department request from the Town of Garner is \$1,573,000 and an additional request to pay a portion of a \$340,000 tanker/pumper truck. The Town share would be approximately \$154,000 according to the Fire Department submittal. The Town of Garner will also be responsible for 15.5% of the operating costs of the new Station 4. The total first year operating costs for Station 4 are not finalized but is expected to be in the \$390,000 range.

Fire Station #4 is scheduled to open on Spaceway Court in November 2011. There will be some Town fiscal responsibility for operational expenses upon opening. The Town is obligated for 15% of the

construction expense of Station #4, payable on a previously negotiated annual schedule. The Town's first payment will be due in FY 11-12.

Please see the detailed information regarding GVFRD, Inc. in the relevant section of the budget document.

There are a number of uncertainties with GVFRD, Inc. pending completion of an SBI investigation and independent audit for FY 08-09 by Cherry Baekert & Holland. Once the investigation and audit report are concluded and released, a clearer understanding of fiscal matters will be available for Town decision makers.

Town staff is recommending funding for **Garner Rescue** at the same amount as last year, \$270,285. The Garner Rescue Squad request is \$278,523, approximately \$8,000 more than what was appropriated in the current fiscal year. The primary expense for Garner Rescue is personnel-related. The \$8,000 expansion request is to fund a cost of living adjustment. Their request also includes the annual payment for the rescue truck.

Their EMS services will be transitioning to Wake County EMS on May 31, 2010. EMS is statutorily assigned to Wake County Government, so the Town has no role in those services. The Garner Basic Life Support Transport Division (BLS) will continue to operate independently of Wake County EMS.

Once the EMS staff and equipment transfers to Wake County and Rescue and Basic Life Support get settled into a routine without a Garner EMS operation, a clearer picture of operational needs and their fiscal implications for the Town will be available for decision makers.

There is a degree of uncertainty with each agency that may impact the Town's FY 10-11 Budget outlook. Staff will look to the Ad Hoc Work Group on Fire & Rescue and the entire Town Council for guidance as the process moves along toward a final budget document in June 2010.

Capital Outlay Items

There were also a number of **capital outlay items** that did not go through the decision package process due to their routine nature as replacements or ongoing operational nature. The items listed below carry a price tag over \$5,000 and are recommended for funding by the budget team.

Information Technology		
	39 laptop computers for Police *	56,000
Police		
	Patrol Vehicle *	22,250
	K-9 Transport Vehicle *	30,000
	K-9 Purchase, Training & Supplies	13,750
Public Works		
	Clipper Street Saw *	5,400
	Mower *	11,000
Total		\$138,400

Decision Packages

There are a small number of recommended decision packages this year. These items are required for daily operational support, fulfill a previously made commitment, or have been identified as Town Council priorities.

Planning		
	Garner Road Grant Program *	60,000
Engineering		
	School Zone Flashers - 4 Locations *	28,000
Information Technology		
	IT Specialist Position	67,200
	Desktop Virtualization * (\$23k true cost)	101,000
Public Works		
	White Deer Park Mowing Equipment *	16,300
Parks & Recreation		
	Auditorium Marquee Sign *	10,800
	North Garner Field Improvements *	9,700
Total		\$293,000

* Capital outlay items from both combine for a total of \$364,200.

The relative lack of capital projects and decision packages included this year indicates a deferment of needs and will certainly push many needs to subsequent budget years and create pressure for funding in the future.

Conclusion

How is this budget balanced? There are a number of factors that allow us to continue forward in a fiscally responsible manner without noticeable service level reductions to our citizens.

- ☑ Departments submitted lean and responsible budgets and limited their spending requests. The Town's senior department managers are commended for their work in this regard.
- ☑ A very minimal amount of capital expenditures is included. There are no costs for a major Town-wide sidewalk or resurfacing program. The total program is \$364,000 or 1.69% of the budget.
- ☑ There are no transfers out or reserve account set asides.
- ☑ Freezing, eliminating and re-engineering of staff positions has resulted in \$300,000 in savings.
- ☑ Performance-based merit increases will be limited to 50% of the current award chart amount resulting in a \$150,000 savings.
- ☑ Staff worked hard to creatively minimize health insurance costs and offset the 8.5% increase with savings in other insurance areas.
- ☑ The Town has displayed a tendency to be frugal and fiscally conservative in the past which has built a solid foundation to weather tough times.

In spite of our ongoing fiscal belt-tightening, staff will strive to improve and enhance service delivery and improve and beautify our facilities for safe and enjoyable use by our citizens.

Town staff will continue to work very hard to carry out the wishes of the Town's elected officials, citizens, property owners, and stakeholders. There are numerous hard-working staff members that enable us to meet our goals and have allowed the Town to be successful. There is ample evidence of the many good and positive things that are happening in Garner. Please refer to the Appendix to see over 25 noteworthy accomplishments from 2009-2010 that the Town should be extremely proud of.

There were numerous accolades for service excellence including the Certificate of Excellence in Financial Reporting for the Town's financial reports to the Senior Center's designation as a Center of Excellence. Phil Faucette, Paul Shambaugh, Mike McIver, and Sonya Shaw all received individual recognition during the year for professional achievement. A number of impressive new programs were rolled out such as the School Acres Initiative - Neighborhood Improvement Program, larger rollout carts for household recycling, outdoor and adventure programming at White Deer Park, and a redesigned and easier to navigate Town website. Two major developments for the improvement of Downtown Garner occurred: designation as a National Main Street Community and adoption of the Historic Downtown Garner Plan. In spite of the economic downturn, Garner is continuing to thrive and achieve!

Assistant Town Manager Rodney Dickerson and Finance Director Lin Jones worked many hours to complete this budget document. They encouraged, coached, and worked tirelessly with our department heads in an effort to prepare the best outcome possible in a peculiar financial climate. They deserve acknowledgement and appreciation for their hard work.

Purchasing Manager Marcey Hubbell plays an important role in budget production and I.T. Director Phil Faucette lays the groundwork each year for our electronic budget tool and both deserve kind appreciation for their contributions and important roles.

The Town's senior management team of department heads played a major role in helping balance this very complex budget in a very unusual year. While advocating for their individual department needs, they were also able to contribute positively to meaningful and thoughtful cuts to help the budget team find a way to balance.

The Town's elected officials endure long meetings, read volumes of paperwork, think about and debate complex policy matters, and dedicate time year round to set the Town's objectives. Town Council provides guidance for the senior management staff, sets our pace, and keeps us moving in the right direction. Thanks to each of you for giving up your personal time and family life in order to improve your community.

Your unselfish service and commitment to professional local government management is greatly appreciated. We will persevere and work through the difficulties created by the weak state and national economy. Steady and constant progress has been made and will continue to be made on your behalf to advance the Town in the direction you have set. There are some exciting initiatives in the Town's future and we are setting a course for achievement of these initiatives and bold goals."

Council Comments:

Council Member Marshburn asked as things change, what will we see improve. Mr. Jones said improvements will be most likely in the sales tax and building related areas. Council Member Marshburn said he did not feel the Council should be immune to budget cuts and said he feels that they can suffer some cuts along with the others.

Council Member Kennedy suggested the Council look at a possible 25% reduction in salary.

Mayor Williams said we need to look at employee travel and training. If we are eliminating positions, maybe we need to look at some of these out of town trips. Council Member Kennedy said it is important to invest in their employees.

Council Member Kennedy asked for a number on out of state travel. Mr. Jones agreed to provide this information.

Agency Funding

Mr. Dickerson said that in 2009 - 2010, each request was reduced by 5%. In this budget proposal, only agencies that were funded last year were recommended for funding this year. Again a 5% reduction was applied. Kids Voting was not funded and will in the future be funded during municipal elections. Programming Partners are included in the Parks and Recreation recommended budget. Mr. Dickerson said they discussed an increase in out of town fees with the Programming Partners.

Direction for May 13 Budget Meeting

Emergency Services to begin with Garner Volunteer Fire Department.

Review of Decision Packages.

Overview of Parks and Recreation Program Budget

Revenue Forecast: this needs to be reviewed before we make any major decisions.

Mr. Watkins asked the Council to e-mail any new ideas.

Council Member Kennedy said he wants to look at trends and how it will affect us in the next budget year.

Adjourn: 10:15

Motion: Kennedy

Vote: Unanimous