



City of Washington

P. O. Box 1988, Washington, NC 27889-1988

April 7, 2011

RE: FY 2011-2012 Municipal Budget Message

Honorable Mayor and Members of City Council:

I am pleased to transmit the proposed 2011-2012 fiscal year budget. The proposed operating budget as presented to you is 2.84% less than the amended FY 2010-11 budget. The continuing depressed state of the national and North Carolina economies made the preparation of the City budget a challenging process. In the preparation of this proposed budget, staff was faced with numerous challenges in order to bring expected revenues and proposed expenses into balance. Nonetheless, operating revenues and expenditures are in balance at \$61,611,834. There are no proposed increases in property taxes, water, wastewater, storm water, or trash collections fees. I am pleased to recommend a five percent decrease for in-town residential electric rates. It is anticipated that certain revenue declines such as sales tax, that we saw in the FY 2010-11 budget, will continue into the FY 2011-12 fiscal period. Finally, no appropriation of fund balance has been used to balance any of the operating funds with the exception of the Storm Water Fund. As discussed with Council previously, fund balance must be appropriated in this fund for two years due to the structuring of the debt service for the Recovery Zone Economic Development Bonds.

I would like to make some general statements that apply to all the funds and then I will address and highlight key elements of each fund individually.

Employee Benefits and Expenses:

There are no monies budgeted for COLA increases for the third consecutive year. We have budgeted funds for job maturity, probationary raises, and merit increases based on each employee's annual evaluation.

The City share of medical, dental, and vision will remain the same as FY 10/11. Adequate health insurance for City employees is essential, not only to protect the health and personal finances of City employees and their families, but also to ensure that employees remain on the job to provide the wide range of services which City residents enjoy. Blue Cross/Blue Shield of North Carolina, our health insurance provider, has advised us that over the past four years the cost of health care, annually, exceeded the premiums paid by the City. We are forced to increase these PPO premiums during FY 2011-12 in order to maintain the same benefit plan for this group as previously provided. Employees who choose the PPO Plan

will have to pick up additional costs of \$225/month for individual coverage. As part of the City's health care plan, the City contribution to employee HSA remains at \$975.72 with the cost to employees remaining unchanged for this plan option.

The City's contribution to 401K or HSA remains at \$50 per pay period.

The Local Government Retirement System has again increased the City's contribution to retirement system, from 6.45% to 6.97% for regular employees. Law enforcement officer's contributions increased from 6.41% to 7.04%. This change in the employer's contribution has \$58,300 impact on the proposed budget.

The Longevity payment to the employee remains at \$25 per year after one year of employment.

Operational Cost Increases affecting all Funds:

The cost for property, casualty and liability insurance increased in all funds by 5% in anticipation of increases in the annual premiums.

As we have seen personally at the gas pumps, the City is experiencing extreme volatility with petroleum product prices. Consequently, the staff has budgeted for an increase of 10% in fuel costs over FY 2010-11 estimates in all funds. We will continue to significantly restrict the number of vehicles that City employees drive home while striving to accommodate overnight emergency responses. The City will continue to attempt to downsize its fleet as it did in FY 10/11 by deploying its warehouse vehicle to the Electric Department. These steps will help reduce the amount of petroleum consumed. However, a corresponding reduction in capital expenditures will slow the City's progress in acquiring more fuel-efficient vehicles.

One last area that affects all funds is the transfer to the Worker's Compensation Reserve Fund. There is not a planned transfer to the Worker's Compensation Reserve Fund in FY 11/12. This fund will be made whole by the end of fiscal year 10/11.

I will now address each specific fund and highlight the recommendations in each of them:

General Fund:

The City's general fund, that includes expenses for Police, Fire, Emergency Medical Services, Recreation, Libraries and Administration is proposed to be funded at \$14,188,322. This is a decrease of \$1,530,321 or 9.735% below the amended FY 2010-11 Budget. As mentioned in the opening paragraph of this letter there is no proposed increase in the tax rate for this coming year. I am recommending that the transfer from the Electric Fund to the General Fund remain at the \$973,150 level to cover the service level costs which impact us on a daily basis as the County seat of Beaufort County. The influx of

persons who live outside of Washington but work and shop here require the services of our Police, Fire, and EMS Departments. We also have non residents that use the Brown Library and enjoy our parks and recreation programs and facilities. I am also proposing that the Water and Sewer Fund replace the Powell Bill funds that were withheld by NCDOT for last year and this coming year for the US 17 Bypass utility improvements in Phase 2 (\$224,990). The General Fund Revenues also include an increased rental amount from Impressions to cover the debt payment for the improvements that will be made over the next twelve months.

Some decreases in the revenue budget are anticipated. The State sales tax for FY 2011-12 is reduced an additional 2% below the FY 2010-11 estimates. Additionally, there are several grants that are running out during the next fiscal year. Also there are some revenue/expenses that are included for the coming year. They are as follows:

- General Fund debt service is decreasing by \$286,000 due to paying off the fire engine before the impact of the Impressions debt service
- 9 months of Police Department construction interest is included (\$62,500)
- The Fire Department SAFER grant runs out in FY 11/12, (\$25,245)
- The Police Department Gang Investigator grant runs out in FY 11/12, (\$22,500)
- A Police officer position is recommended to be unfunded for FY 11/12 but remain as a vacant position for funding in future years
- The Police Department Project Next Step funding expires, (\$50,000)
- County 911 call answering, \$59,738
- Administrative charges for storm water fund to the general fund have been eliminated, (\$94,708)

The General Fund capital items proposed for the coming year are: an ambulance and a power stretcher for the Fire/EMS Department, three police cars, virtualization and Microsoft exchange server upgrade, and recreational ground upgrades/improvements.

In the area of funding the requests of the outside agencies, I have not recommended funding for the Turnage Theater (\$100,000) and the Veterans Park sign project (\$10,000). I am proposing funding most of the remaining agency requests 10% below their current allocation level.

Enterprise Funds:

Electric:

The Electric Fund is proposed for funding at \$38,136,962. This is \$226,410 (.59%) below the previous year's amended budget. The operational expenses are \$8,123,006 as compared to \$8,940,680 in FY 2010-11. The estimated cost of Purchased Power is \$29,064,240. The transfer to the General Fund is recommend to remain at the FY 2010-11 level for the reasons outlined under the General Fund section. Capital Outlay items included in this budget are: a small truck, peak shaving generator catalyst installations, transformer replacement at Whitepost, load management switches, bucket truck replacement, replacement of trenching machine for underground services, and continued upgrades to the Terra Ceia/Hwy 32 lines.

As mentioned at the beginning of the budget message, I am please to recommend a five percent decrease for in-town residential electric rates.

Water:

The Water Fund is proposed for funding at \$2,960,612. This is a slight increase of \$2,075 (.07%) above the FY 2010-11 amended budget. There is no proposed rate increase in the current water rates. As noted earlier, I have proposed reimbursement for Powell Bill Funds that the NCDOT has withheld during the current year's budget and the FY 2011-12 proposed budget (water line work). The only major capital outlay item in the water budget is the replacement of a backhoe. This fund is balanced with a \$17,530 contingency that may be used for unforeseen, emergency expenditures.

Sewer:

The Sewer Fund is proposed for funding at \$3,710,671. This is an increase of \$533,314 (16.79%) above the FY 2010-11 amended budget. Like the Water Fund, there is no proposed rate increase in the current sewer rates. The Sewer Fund also contains a proposed reimbursement for Powell Bill Funds that the NCDOT withheld during the current year's budget and the FY 2011-12 proposed budget (sewer line work). Major capital items proposed for funding in the Sewer Fund are: upgrade of the Main and Respress pump station, accounting for the majority of the increase in the Sewer Fund budget, an emergency generator to be installed at one of pump stations, pump and control upgrades at 13th and Bridge Streets, and an equipment storage shelter at the public works yard.

It should be noted that there is offsetting revenue for the pump station upgrade. This will be a low interest loan from the State Revolving Loan Fund with a term of 20 years.

This fund is balanced with a \$24,051 contingency that may be used as management and Council deem appropriate during fiscal year 2011-2012.

Solid Waste Fund:

The Solid Waste Fund is proposed for funding at \$1,248,500. This is a decrease of \$356,920 (22.23%) below the FY 2010-11 amended budget. No rate increase is proposed for the Solid Waste Fund. There are no major capital items proposed for this year which explains the large decrease in the budget from the current year when \$340,000 was expended for a rear loader (\$140,000) and roll out carts (\$200,000). Revenues are expected to exceed expenses for fiscal year 2011-2012 by \$36,327, creating a 2.90% contingency.

Storm Water Management Fund:

The Storm Water Management Fund is proposed for funding at \$689,229. This is a slight increase of \$2,770 (.40%) above the FY 2010-11 amended budget. There is no rate increase proposed for this fund. Administrative charges for the Storm Water Fund to the general fund have been eliminated, (\$94,708) to allow for the debt service on the RZEDB (\$461,358 net of interest).

Airport Fund:

The Airport Fund is proposed for funding at \$406,229. This is a decrease of \$232,702 (36.42%) below the FY 2010-11 amended budget. This large decrease is driven by the timing of revenues and expenses.

Cemetery Fund:

The Cemetery Fund is proposed for funding at \$271,309. This is an increase of \$5,975 (2.25%) above the FY 2010-11 amended budget. The subsidy from the General Fund to the Cemetery Fund is increased by \$29,800 due primarily to the anticipated decline in the sale of cemetery lots, as a result of the economy.

We look forward to reviewing the budget details with the Mayor and City Council over the next few weeks and are confident we can demonstrate the fiscal restraint and financial responsibility embodied in our proposals.

I wish to express my sincere appreciation to all City Departments and Division Heads who worked long and hard to prepare this FY 2011-12 municipal budget. I especially wish to thank Chief Financial Officer and Assistant City Manager, Matt Rauschenbach, Assistant Finance Director, Anita Radcliffe, and Financial Accountant, Tammy Swindell for their many hours revising, compiling, and publishing this financial plan for the coming year.

Respectfully,

Peter T. Connet

Interim City Manager