



City of Havelock

Proposed Annual Budget

Fiscal Year 2010-11

TO: Honorable Mayor Jimmy Sanders
Board of Commissioners

FROM: Jim Freeman, Manager & Budget Officer

DATE: June 14, 2010

RE: May 3rd FY 2010-11 Memo Revision - Budget Message

The budget is the single most important document presented to the Mayor and City Commissioners. Generally described, a budget document outlines policy direction and serves as an understanding of the City's fiscal year operating and capital programs. It reflects the City's commitment to maintain necessary services along with striving to improve the quality of service activities while keeping the impact of taxes and fees to citizens at an acceptable minimum level. As Havelock's budget officer during the past five (5) years, coupled with the down economy and County revaluation process, **it is of opinion that this budget work process should be the most challenging for the elected officials.**

Therefore, in accordance with the North Carolina Local Budget and Fiscal Control Act, a proposed City of Havelock's budget for the fiscal year beginning July 1, 2010 was May 3rd presented for the governing body's review and consideration. On the same the budget was submitted to the Board of Commissioners, a copy of same was filed in the office of the clerk where it has and shall remain for public inspection until the Budget Ordinance is adopted. North Carolina General Statutes (GS 150-13(a)) direct that the Budget Ordinance and Tax Rate adoption take place by July 1, 2010.

A public hearing date was advertised and scheduled for 7:05 pm, May 24, 2010 in City Hall. North Carolina General Statute 159-12 requires this date be published and said hearing held before the Commissioners adopt a Budget Ordinance. In addition, North Carolina General Statute 159-16 directs that if the budget ordinance is not adopted by July 1st, the governing body must adopt "interim appropriations for the purpose of paying salaries, debt service payments and the usual ordinary expenses" of the unit until the ordinance is adopted. At the May 24th public hearing, two (2) citizens did speak in opposition to the proposed budget's tax rate and increased fee schedules.

Prior to submitting budget requests to the governing body, all department heads participated both in individual meetings with the Budget Officer and Finance Director along with an April 19th and April 20th full department group review/input session. Consultation and detailed review of budget expenditures requests and revenue projections were provided by Finance Director Lee Tillman. Craven County Tax Administrator Ronald Antry provided the City with the required North Carolina General Statutes 105-286 real property reappraisal results. All revenue estimates contained in the budget are based upon either requirements or recommendations from the North Carolina Local Government Commission, North Carolina League of Municipalities and Finance Director.

A proposed and balanced budget workbook with little to no frills was presented on May 3rd to the governing body for their beginning debate to craft a final FY 2010-11 budget. Accounted for were new mandated expenses and the addressing of both anticipated revenue increases/shortfalls while maintaining a service delivery status quo. In doing so, such May 3rd beginning and balanced budget was funded by a proposed .51 cent tax rate, 5 percent water rate and 5 percent sewer rate increase along with some other proposed schedule increases such as solid waste to \$12.25 per month. Thereafter, both governing body and department heads engaged in a number of work sessions. The result of those work sessions decreased the proposed tax rate to .465 cents and increased residential solid waste to \$13.25 along with an increased General Fund Balance appropriation of \$649,558. Water rates were increased 5% and the sewer rate increased 2.6%.

In the year in which a required real property reappraisal is undertaken, North Carolina General Statute 159-11(e) requires the budget to include for comparison purposes a statement of the revenue-neutral property tax rate for the budget. The revenue-neutral property tax rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. Craven County undertook a reappraisal of real property this year.

Budget Considerations

Entering into another cyclical year of an uncertain national economy, again expected decrease in State revenue receipts and constrained economic regional growth, this proposed fiscal budget struggles to maintain its existing service level. Keep in mind developed February 5, 2009 Planning Retreat priorities directed departmental budgets to be "belt tightened" without a tax rate increase. This 2009 no tax increase approach was accomplished with a reduced seven percent <.07%> overall FY 2009-10 budget in comparison to the previous fiscal year. However when considering implementation of a new solid waste fund and budget amendments as of April 2010, this present budget as of this writing shows an increase of ten (10%).

When calculating a resulting increased revenue base generated by the real property appraisal, the City's revenue-neutral property tax rate is .444 cents per \$100

valuation. In comparison, this rate is .08 cents less than the current FY 2009-10 tax rate of .53 cents per \$100 valuation. However it is of interest, that “new” mandated budget expense of \$681,597 comprises .0878 cents of the tax rate which accounts for the balance of the .444 cent revenue-neutral verses the proposed .51 cent generated ad valorem funds. Thereby such May 3rd proposed .51 cent tax rate may in reality be considered the City’s budget-neutral amount. However, even with a reduced .465 cent tax rate resulting from work sessions, many citizens in all likelihood will not accept such revenue neutral debate being that their actual out-of-pocket paid taxes will increase.

On the expenditure side, without serious consideration given to service level reductions/changes, employee furloughs or force reduction, there is no more “meaningful” departmental “belt tightening” to be found. While a 2.6% COLA was funded under the proposed May 3rd .51 cent tax rate, it was deleted during the budget work sessions. Also not funded were employee performance merits, longevity or career development program funding. Most outside agencies (i.e. library, ACT, appearance committee, etc.) were funded with most at a reduced level. Also, in order to balance, this proposed budget required fund balance allocations from City reserves to fund a number of one-time needed capital expenses along with some short-term debt payoffs.

In order to provide FY 2010-11 budget guidance, the Board of Commissioners met on March 8, 2010 in a retreat forum to develop a shared vision and priorities. It was anticipated that such developed vision and priorities would play an integral role in the decision making process at budget work meeting discussions. The March 8th developed Governing Body City Vision is:

The Mayor and Board of Commissioners vision for the community is to offer a unique small town atmosphere, and an economy that capitalizes on the presence of Cherry Point while welcoming other economic growth.

When developing priorities, the Board of Commissioners concurred that a common guiding principal should always be consider with the priority. This established principal was that The City of Havelock will be financially responsible in its decisions and actions to undertake their priorities. Also it was underscored that the number one and always most important priority is to: *Address and increase wastewater infrastructure capacity to meet projected growth.* The next priorities which were not listed in order of importance but felt crucial follow:

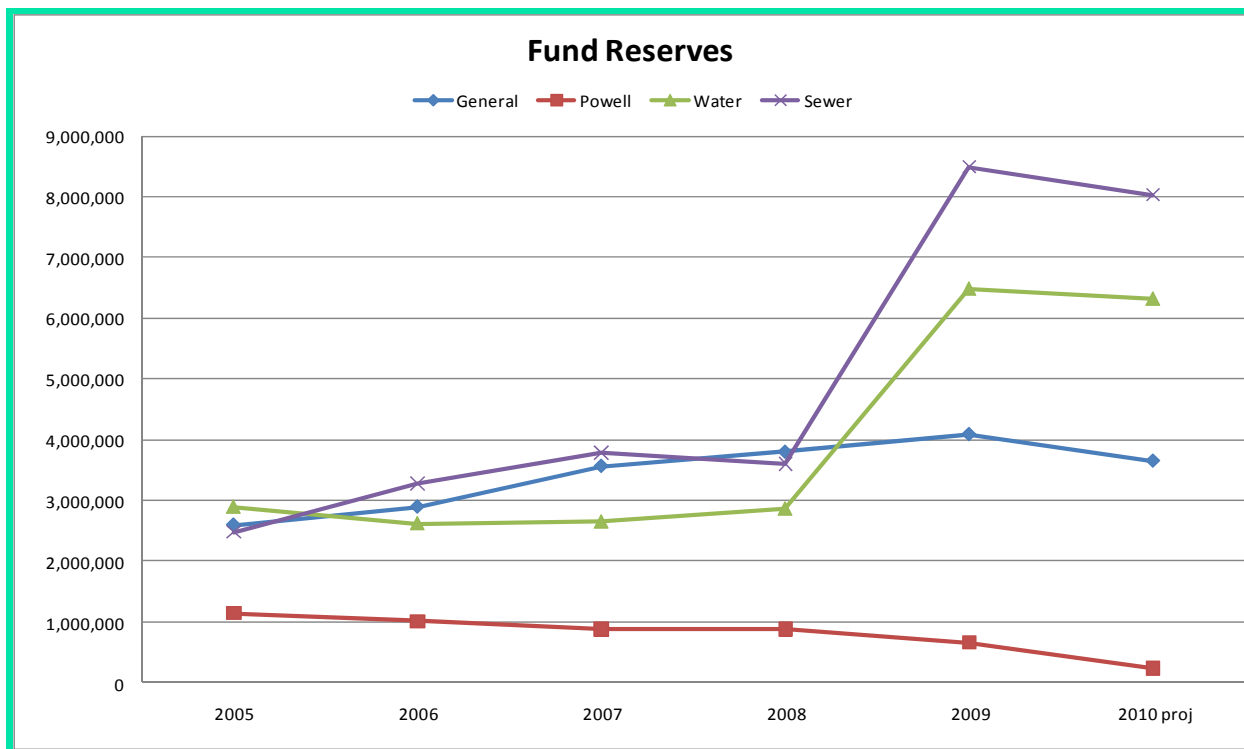
- A. To improve and maintain city infrastructure in addition to wastewater; and
 - Roads
 - Storm Drainage
 - Water Distribution
 - Increased Recreational Facilities/Fields
 - Facilities- Police/Fire/City Hall
 - Clean up Phoenix Site
- B. To pursue activities that would increase the City’s commercial/industrial tax base; and

- C. To advocate for more comprehensive senior services and assisted living options; and
- D. To increase citizenry connectivity by way of sidewalks/greenway trails; and
- E. To pursue activities that would strengthen the local economy; and
- F. To maintain and promote the City's unique quality of life.

In addition the governing body reaffirmed a commitment to maintain a general fund balance reserve of at least 21% of unrestricted revenues for unforeseen emergencies.

Fund Reserves:

Obviously, a City does not want too much or too little in Fund Balance Reserves nor does it not want to commit reserves for continued operating expenses. It is anticipated that with an upcoming June 2010 budget amendment, the City of Havelock will be appropriating approximately \$474,404 dollars of non-budgeted General Fund unrestricted reserves in its present FY 2009-10 budget. This amount accounts for a second year decrease trend in said fund. However even with these appropriations, the proposed budget does meet the Board of Commissioners initiative of 21% unreserved fund balance.



Referencing the restricted Powell Bill Funds, a sharp decline in reserves is projected as more is allocated to maintain a service level for street repairs, street drainage and sidewalk maintenance. This decline is part of a disturbing trend which causes Finance Officer Lee Tillman to issue a warning that Powell Bill Reserves do not

need to be reduced further. It appears that due to the down economy, this State revenue source continues to decline and now considering the Gulf Coast BP oil catastrophe, the future may not be good as gasoline prices could eventually increase to a level which encourages more conservative driving habits. A continued Powell Bill Fund decline hinders the City's ability to sustain an acceptable service level in street, sidewalk and drainage maintenance unless the City would supplement non-restrictive General Fund appropriations. This proposed budget fund transfers some Powell Bill street drainage activities to the solid waste enterprise fund. The City's June 30, 2010 projected Powell Bill balance is \$232,000.

After noting slight water/sewer reserve fund increases in FY 2008-09, this present fiscal year does foresee a \$165,000 Water Fund and \$465,000 Sewer Fund retained earnings (reserves) balance decline by June 30th. As past years, the majority of this reserve loss is due to allocating one-time funds to repair further sewer collection system inflow/infiltration related activities and earmarking a \$500,000 allocation for the proposed Cunningham redundant water line extension project. Regardless, the fund balance reserves in both Water and Sewer are adequate for addressing this FY 2010-11 unforeseen system problems/opportunities that could occur. But as past FY years noted, reserve funds are not adequate to fully address mid (5- 10yrs) needed water system improvements (est. \$9.6 million) or long-term (10+ years) sewer infrastructure improvement needs (est. \$28 million). To fully fund those utility capital improvements, other financing sources (i.e. grants, loans, bonds) would need to supplement utilization of the reserves. The proposed FY 2010-11 budget appropriates \$95,592 of water reserve fund balances but none from the sewer fund.

Overall Budget Assessment:

The proposed \$15,750,675 FY 2010-11 overall budget reflects a \$43,934 decrease from last FY 2009-10 budget of \$15,794,609. It is note worthy that such slight decrease also includes funding for \$681,597 of new mandate expenses of building/equipment debt service, new fire station operation/staffing and State increased retirement system contribution. A summary of the overall budget comparison from previous years follows:

Budget Year Comparisons

Audit Actual FY 08-09	Funds	FY 09-10 Budget	FY 10-11 Proposed Budget	Previous Fiscal Year Difference
\$ 8,695,806	General/Powell	\$ 8,788,695	\$ 9,583,438	\$ 794,743
\$ 1,996,656	Water Fund	\$ 1,981,439	\$ 1,989,392	\$ 7,953
\$ 3,172,582	Sewer Fund	\$ 3,415,305	\$ 2,860,067	<\$ 555,238>
-0-	Solid Waste	\$ 1,085,046	\$ 745,824	<\$ 339,222>

\$ 271,344	Tourist Center	\$ 397,124	\$ 351,547	<\$ 45,577>
\$ 204,203	E911	\$ 127,000	\$ 220,407	\$ 93,407
<u>\$14,340,591</u>	...Totals...	<u>\$15,794,609</u>	<u>\$15,750,675</u>	<u><\$ 43,934></u>

In reference to budgeted personnel matters, the budget does not fund cost-of-living (COLA) adjustments, employee career development, employee longevity nor fund employee education reimbursement. However, at the governing body's May 10, 2010 budget session, the governing body generally concurred to revisit the COLA matter later in the fiscal year if sufficient revenue receipts should become more favorable than budgeted.

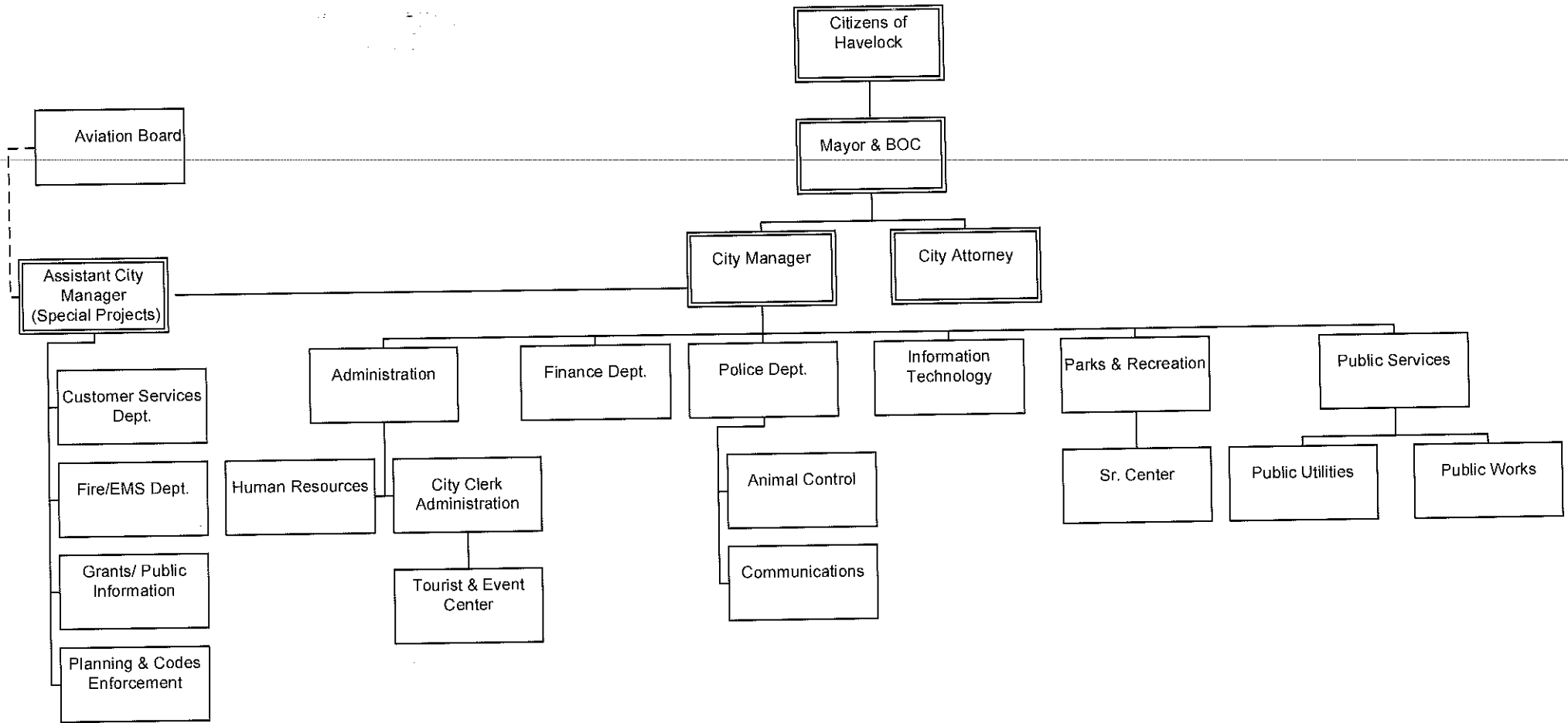
Addressing staffing needs for the recently constructed West End Fire/EMS facility and increased Fire/Ems and police activity calls, the proposed budget does account for needed public safety personnel growth of three (3) Fire/EMS positions and one-half year dispatch position. The three (3) Fire/EMS salaried positions are funded under a two (2) year federal SAFER grant program (\$160,687 FY10-11) and 6 month dispatcher funded (\$16,582 FY 10-11) in the General Fund. Granted after two (2) years, the City will be required to fully incur funding said three (3) Fire/EMS positions and unless public safety call activity decreases, the 6-month funded dispatch position will in all likelihood be requested at a full 12-month position in the FY 2011-12 budget.

The proposed budget does not furlough any regular employees and will continue reliance of inexpensive prisoner assistance to undertake labor intensive public works related activities such as drainage ditch maintenance and mowing. In addition, the proposed organizational structure does have the Customer Services, Fire/EMS, Grants/Public Information and Planning & Inspections Departments reporting to the Assistant City Manager. The Assistant City Manager would also continue to coordinate special capital projects such as wastewater discharge outfall relocation, wastewater plant facility expansion, Carolina Pines wastewater package plant option, municipal administration facility improvements along with some on going minor project activities.

A copy of the City's Departmental Organizational Chart proposed for July 1, 2010 may be referenced on the next page. This departmental organizational chart accounts for 117 full time budgeted positions which is an increase of 121 from last fiscal year. As earlier mentioned, these new increased positions were public safety personnel related.

As for major "new or mandated" budget operation costs, increases accounted for in the proposed budget, this amounts to \$705,932 in the General Fund, \$30,605 in the Utility Fund and \$3,465 in the Tourist Event Center Fund. These are identified in the below table entitled, "FY 2010-11 Major O&M Budget Cost Item Increases". Generally, unless the City does away with the coverage and/or decreases the benefit, the City has little direct control over these cost activities.

City of Havelock
FY 2010 -2011



FY 2010-11 Major O&M Budget Cost Item Increases

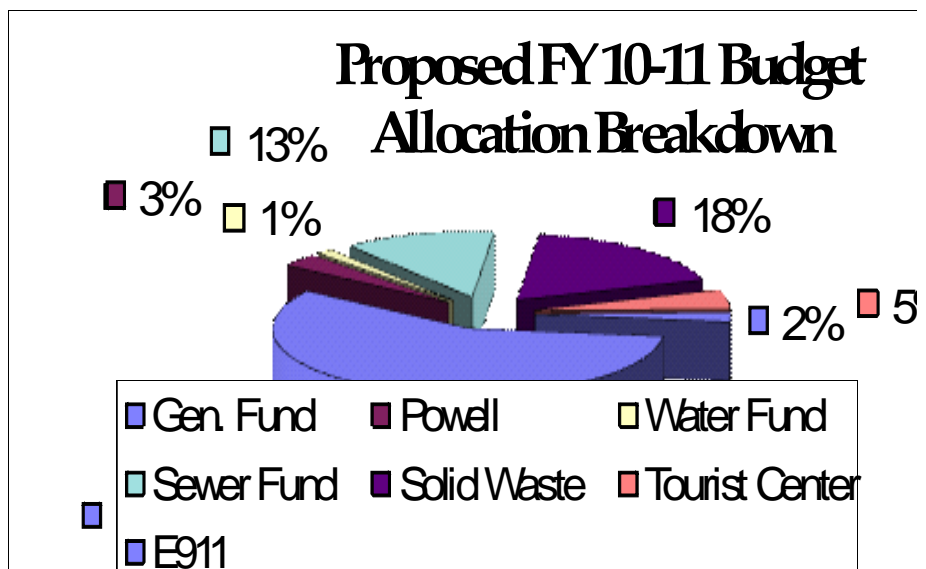
	General Fund	Utilities Fund	TEC Fund	Total
Health Insurance	\$114,377	\$ 19,608	\$ 2,179	\$ 136,164
New Debt Service	\$ 346,798	\$ 0	\$ 0	\$ 346,798
New Personnel	\$ 177,269	\$ 0	\$ 0	\$ 177,269
Retirement Increase	<u>\$67,488</u>	<u>\$10,997</u>	<u>\$ 1,286</u>	<u>\$79,771</u>
Totals....	<u>\$705,932</u>	<u>\$ 30,605</u>	<u>\$ 3,465</u>	<u>\$740,002</u>

In reference to the national recession affecting North Carolina, it is apparent that the City of Havelock like others faces both a cyclical and structural budget challenge. Cyclical problems are typically caused by temporary economic down terms (*i.e. recession, substantial fuel/gas cost increases, housing market concerns, etc.*), whereas structural is caused by long-term gaps between revenue growth projections and “realistic” cost to provide service/infrastructure (*i.e. wastewater capacity*). When dealing with a cyclical fiscal problem, more traditional budget balancing methods such as delay purchases, cut costs, delay maintenance and use one-time reserve funds will likely work. However, in a structural situation, these same traditional balancing methods will only postpone a day of reckoning and make fiscal matters worse.

Fortunately this proposed budget does begin to partially address structural needs by allocating a portion of the utility rate increase to a utility capital improvement project fund. In addition the increase of the monthly solid waste fee to \$13.25 does close the gap to make this fund more self-sufficient. As to when the economy will fully turn around, such may not happened during this proposed budget year.

Recommended Budget:

This proposed budget does proposes a general fund tax rate of .465 cent per \$100.00 valuation, increases the per month residential fee charge to \$13.25 and some minor zoning related fee increases. In addition, the monthly water/sewer billing schedule and water/sewer



capacity fees are proposed to be increased by 5.0% water and 2.6% sewer. The recommended budget reflects an increase of 5.0% in water & 2.6% in sewer rates. At this time, there are no other fee schedules proposed to be increased.

The proposed overall \$15,750,675 budget at a .456-cent per \$100 tax rate is balanced and does provide sufficient funding for the City to meet debt-servicing obligations and continue basic service operations in most departments. In addition, funding is appropriated to support a service level expansion in the provision of Fire/EMS department and public safety dispatching.

Resulting from budget work sessions, \$764,558 of non-restrictive general fund and capital reserve reserves were appropriated for the following capital expenditure activities. A summary breakdown of said annual reserve expenditures may be referenced in the below table:

Debt Payoff Program	\$ 528,715
Rehab of Public Safety Building	\$ 120,843
EMS Vehicle	<u>\$ 115,000</u>
Total....	<u>\$ 764,558</u>

Major Initiatives - General Fund:

As referenced in the previous section, new continued operating cost increases totaling \$705,932 are absorbed in this proposed budget. With that said major initiatives that were implemented in fiscal year 2009-10 are still moving forward such as citywide software (Tyler), and Public Safety software (New World).

A summary of the major general fund initiatives included in the proposed budget follows:

Solid Waste Collection Program - Last fiscal year, the City implemented a new residential solid waste program which generated approximately \$648,018 of revenues from a monthly \$11.00 residential solid waste charge. This amount does not make this program self-sufficient and should in all likelihood be in the \$15 - \$16 per month range. Thereby off-setting collection expenditures such as contractual services with Waste Industries, landfill tipping costs and City pick up and related disposal activities of brown goods, leaf/limb/grass and white goods. The County of Craven will continue to operate a recycling program and at this time the City does not intend to undertake funding its own recycling program. Increasing the monthly solid waste charge to \$13.25 does close the gap on making this enterprise program self-sufficient as permitted by North Carolina Statute 160A, Article 16 and reducing the general fund’s burden.

West-End Fire Station & Staffing - Last April 2010, the City began operating out of its newly constructed \$3,744,800 West End Fire/EMS station. The proposed budget includes new funding to provide an additional three (3) Fire/EMS positions along with picking up last fiscal year's 6-month funding to full 12-month funding for said three (3) Fire/EMS positions. A total of six (6) positions were needed to operate both the main and West End Stations. Budgeted salary expenditures for the three (3) new positions are off-set funded by a two year federal Safety grant program. Also, USDA debt servicing in the amount of \$278,829 for this new facility is included in this budget. Debt financing is for 30 years at an interest rate of 4.125%.

Fire and EMS Vehicles and Equipment - The proposed budget includes funding for the replacement of an EMS vehicle (\$115,000) and associated equipment. In addition, the first \$67,969 payment of USDA debt servicing for last fiscal year's purchase of a fire fighting /suppression vehicle (Quint), EMS vehicle and associated support equipment for both is included in this budget. Debt financing is for 20 years at an interest rate of 4.25%.

Joe's Branch Drainage Project - At a budget estimated cost of \$530,000, the City is working closely with USDA to finance the construction of this Joe's Branch Drainage Project to begin FY 2010-11. To-date, the environmental assessment, preliminary engineering report, construction related documents and an USDA application are completed. This project consists of replacing exiting corrugated metal pipe culverts along Joe's Branch, a tributary of the East Prong of Slocum Creek. The culverts have been in service since an adjacent residential neighborhood was developed in the 1960's. The existing culverts are failing structurally and are at the end of their useful life. Once USDA financed approved, the short-term debt servicing for this project would not come due until the FY 2011-12 budget. This budget does have funds for some up front engineering costs that may become necessary.

Municipal Facility Project - At this time, the municipal facility project is considered to be in a planning stage. After much governing body work session discussions regarding the engineering/architectural assessment and cost to address major structural, environmental and space concerns of the existing municipal facility, staff was directed to look into new construction. Not actually budgeted but being pursued this fiscal year is seeking potential federal 4.2% loan financing of \$2,550,000 and grant of \$450,000 for a new municipal facility complex. If financing (loan/grant) should be feasible, and at what amounts approved, the governing body would need to revisit this matter and decide on acceptance and/or addressing any cost difference that may not be federally financed. In all likelihood, some up front actual costs related to this project may appear in next FY 2011-12 budget and debt servicing payments are projected to begin in the FY 2012-13 budget year.

General Fund Revenue & Expenditure Overview:

Revenues - In consultation with Finance Officer Lee Tillman, General Fund revenues were conservatively based upon normal historic trends and provided North Carolina League of Municipalities (NCLM) Municipal/State-Collected Revenue Estimates. However, being that the legislators are still in session tackling major State budget problems (i.e. \$472 million Medicare gap), it is unsure if the City can count on fully receiving its State revenue share. Thereby, this proposed budget accordingly accounts for the following conservative best guess:

FY 09-10 Budget	FY 09-10 Projected	State Revenue	NCLM Forecast	Havelock Budget
\$1,340,750	\$1,475,957	Sales Tax	Flat to 1%	\$1,572,150
\$1,016,750	\$1,060,716	Franchise Tax	Flat	\$1,060,706
<u>\$515,000</u>	<u>\$518,170</u>	Powell Bill	Sharp Decline	<u>\$500,000</u>
<u>\$2,872,500</u>	<u>\$3,054,843</u>	Total		<u>\$3,132,856</u>

Havelock’s General Fund revenue budget totals \$9,583,438 of which State source allocations (i.e. *Powell Bill, sales tax, franchise tax, etc.*) comprise approximately 35% of said budget, with the largest single State source being Sales Tax. A source which is affected by economic conditions, especially with the recent County of Craven revaluations.

Another City main fund source of revenue generation is the property tax rate, which is assessed on a citywide valuation of \$800,000,000. *Based upon a tax rate of .465 cents per \$100 valuation and applying a 99.5% collection rate*, the General Fund should receive \$3,701,400 which represents 38.6% of the total \$9,583,438 Fund revenues. Thereby, **one penny on the tax rate is equivalent to generating approximately \$80,000 of revenue.**

After State allocated and property tax generated revenues, the balance of General Fund revenues generated are derived from sources controlled locally, such as fee schedules, permits, reserve balances appropriated, contributions, etc.

Also in order to balance the fund and as part of the locally controlled revenue sources, it should be noted that \$764,558 of non-appropriated fund balance and reserves along with a \$796,219 Water/Sewer Fund Administration contribution is proposed to be allocated. These W/S administration contributions are for shared General/Utility costs paid for in the General Fund and reimbursed by Water/Sewer Funds.

Expenditures - Capital equipment/ vehicle costs are proposed to be kept at a minimum this fiscal year. Additionally, this budget fund incorporates a mandated State retirement contribution increase of \$67,488.

Another General Fund expenditure included at this time in the proposed budget is the USDA debt servicing for the \$3.8 million fire/EMS facility. In addition this proposed budget includes three (3) FTE (Fireman/Paramedics) and one dispatcher for six (6) months.

In regards to insurance cost matters, such health, worker’s comp and property/liability there are anticipated increases budgeted. This proposed budget includes the finance officer’s best estimate for such insurance carrier premiums and any earlier cost increase notifications.

Also in reference to general fund related contributions, a number of organizational requests were received. Per budget work session discussions and as of this writing, the following were proposed to be funded in this budget:

Requestor	Amount Requested	Budgeted
Library	\$45,563	\$45,563
Historical Society	-0-	-0-
HRDC	-0-	-0-
ACT	\$5,000	\$2,100
Appearance Commission	\$6,100	\$4,000
BOC Discretionary Funds	\$3,000	\$3,000
Community Band	\$500	\$500
Art Committee	\$3,000	\$2,100
ECAHF	<u>\$31,000</u>	<u>\$Match Possible</u>
Total	<u>\$94,163</u>	<u>\$61.763</u>

Water Fund Revenue & Expenditure Overview:

Revenues - In consultation with Finance Officer Lee Tillman, Water Fund revenues were conservatively based upon normal historic trends. Thereby this proposed budget projects a \$199,142 increase in overall revenue sources when compared to the present budget. The increase is a result of including a rate adjustment increase of 5.0% (2.6% CPI and 2.4% increase) to the monthly billing fee schedule. This monthly billing revenue budgeted translates to receiving \$96,000 from said source. Other sources such as investment interest, taps, reconnects, activation fees, \$2.00 per month capital charge and miscellaneous should realize \$103,142. Combined with monthly billing revenue total, other source revenues of and no fund balance appropriated, the total revenues projected for this fund will amount to \$1,989,392. The capacities and tap-on fee schedules are proposed to be increased by the 5% adjustment. A summary of the proposed residential sized water tap/capacity fee increases discussed at prior budget work sessions follows:

3/4 " Meter Size	Current Rate	Proposed Rate
Tap	\$ 1,155	\$ 1,224
Capacity	<u>\$ 1,345</u>	<u>\$ 1,426</u>
Total....	<u>\$ 2,500</u>	<u>\$ 2,650</u>

Expenditures - Capital equipment costs are proposed to be kept at a minimum this fiscal year and may be more detailed referenced in departmental capital outlay sections of the budget document. Generally these capital cost amounted to 3.2% of the total water fund budget and operations. Operations amounted to 72.80% and personnel amounted to 24% of this fund’s expenditures. In comparison to last year’s budget, there is a proposed \$7,953 increase in overall expenses.

As reported in the general fund expenditure section, this fund also is addressing operation and maintenance (O&M) increases related to insurance and state retirement system contribution increase. Additionally, replacement of the water plant’s SCADA system, estimated at \$100,000 is addressed in the budget.

It is anticipated that a water line extension reimbursement agreement with the Croatan Station developer should be entered into and construction beginning spring of 2011. This project extends 21,200 lf of water line (est. \$1.8 million) to a proposed out-of-City Croatan Station development consisting of 450 homes along with commercial development. The development would within an agreed time become a satellite annex of the City of Havelock. Sewer service for the development would be provided by the City of New Bern. Generally, project reimbursement terms deeds the constructed to City specifications water line extension to the City of Havelock and for a seven year period, City reimburses the developer only capacity/tap fees up to the construction

cost. If after seven years, there are not sufficient capacity/tap fees to pay back the developer for construction, the City is no longer obligated.

Sewer Fund Revenue & Expenditure Overview:

Revenues - In consultation with Finance Officer Lee Tillman, Sewer Fund revenues were conservatively based upon normal historic trends. This proposed budget projects an increase of \$77,528 in total revenues over last fiscal year which is partially a result of a CPI increase of 2.6%. The monthly billing revenue budgeted projects receipt of \$2,773,278 from customer billings. Other sources such as investment interest, taps, reconnects, activation fees, and miscellaneous should realize \$87,399 and combined with monthly billing revenue and with no fund balance appropriation; the total revenues projected are \$2,860,677. There is a proposed 2.6% increase in the capacities and tap-on fee schedule. A summary of such cost follows:

3/4 " Meter Size	Current Rate	Proposed Rate
Tap	\$ 650	\$ 670
Capacity	<u>\$ 2,715</u>	<u>\$ 2,785</u>
Total....	<u>\$ 3,365</u>	<u>\$ 3,455</u>

Expenditures - Capital equipment replacement costs are proposed to be kept at a minimum this fiscal year and may be more detailed referenced in departmental capital outlay sections of the budget. As reported in the general fund expenditure section, this fund also is addressing operation and maintenance (O&M) increases related to insurance and other mandated cost increases such as the State’s retirement system. Operation and maintenance expenses comprise a high 77.1% of this department. Overall, this proposed budget projects a \$555,238 decrease from the previous year.

As reported in past years, the major issue in the Sewer Fund is now focusing on problems with the sewer collection system along with implementing a wastewater treatment capacity solution. Funding solutions need to be concentrated towards relocating the City’s wastewater discharge point and ultimate 3.5 mgd facility.

In today’s dollars, these long term sewer infrastructure needs are in excess of \$28 million. As part of the long term \$28 million cost, is a need for short term (3 yr) sewer facility treatment and discharge improvements to relocate from Slocum Creek to the Neuse River at an approximate \$10 million cost. Thereby, if successfully permitted and implemented, such may permit some increased sewer capacity use from 1.9 mgd to 2.25 mgd while the City continues to move towards an ultimate 3.5 mgd treatment capacity resolution at its existing wastewater facility.

As the City moves towards its wastewater discharge relocation and capacity solution, it should not be a surprise of being challenged by environmental

organization(s) who expressed public comments of not wanting additional wastewater related discharges into the Neuse River. Any legal cost to defend potential challenges is not included in the wastewater long term capacity resolution. The City's engineers and environmental sub-contractor have conducted a river modeling analysis of the Neuse River which was completed in fiscal year 2008-09 and received the State's ok. In addition, the City Engineer is completing a specific route location assessment with MCAS Cherry Point. It is anticipated that the actual wastewater outfall relocation easement across MCAS Cherry Point should be authorized/granted by the end of this 2010 calendar year. Three financing sources are being pursued for said \$10 million relocation project. These are a USDA \$3 million grant application, USDA loan financing and utilization of the City's reserve Utility funds.

The City will continue to address its wastewater collection system inflow and infiltration problems by budgeting \$150,000 for repairs. In addition, the City does have in place a sewer allocation ordinance method which should assist in not using all its capacity before the wastewater outfall relocation project is complete.

Tourist Center Fund Revenue & Expenditure Overview:

Revenues – In consultation with Finance Officer Lee Tillman, Tourist & Event Center revenues were conservatively based upon normal historic trends. The Center has been open for eight years and we are better able to make realistic revenue projections. Adjustments were made in this budget to align estimated revenue from fees with actual revenue attained in previous years. This proposed budget incorporates a general fund contribution of \$114,618 to balance a \$351,547 Tourist Center Operation.

It is important to note that in 2006 the City created the Eastern Carolina Aviation Heritage Foundation to assist and coordinate planning and marketing efforts for the Tourist Center. This Foundation is a non-profit and capable to solicit for private firm contributions such as but not limited to Lockheed Martin which contributed \$10,000 in FY 2008-09 along with conducting fund raising events. Their budget is overseen by the City.

Expenditures – There are no new positions proposed in this budget and no major capital improvements or capital equipment purchases proposed. While no match has been funded, the Board of Commissioners did stated during the budget workshop sessions that they would be open to reconsidering the Foundation's request if the foundation found other funding sources. It is anticipated that the County's TDA will grant match \$20,000 to this effort and the foundation did recently solicit/raise \$10,000 of private contributions.

Presently the Foundation is in the process of undertaking a marketing concept plan to expand the TEC facility. It is anticipated that the architects should complete marketing plan efforts by fall of 2010. The Foundation will be using said plan to raise an estimated \$4 million.

E911 Fund

This \$220,407 fund is earmarked monies, which are obligated to be expended upon City’s emergency 911-telephone system activities only. These funds cannot be allocated to other City functions and must be separately accounted for. Generally, the budget proposes that the majority of the funds be expended on equipment upgrades, computer software and supplies related to E911.

Project Debt Financing

Proposed in the budget are payments to satisfy debt service financing for this upcoming fiscal year. As of this Budget Message, the total outstanding General Fund principal debt is \$6,481,103 and interest is \$5,940,897. This General Fund debt includes the Tourist Center Fund Project. The combined Water and Sewer Fund total outstanding principal debt is \$7,179,007 and interest is \$3,444,329. It is of interest to note in the Sewer Fund, that past sewer plant facility improvement debt is scheduled for a 2014 pay off....three (3) years from now. These annual sewer principle payments are \$436,565 per year and once paid off should assist the City in financially funding its long-term wastewater capacity needs.

It is important to note, that the governing body decided on using a portion of its General Fund Balance \$528,715 for early payoff of the following project loans:

- Ballfield lighting - \$147,333
- Phone System - \$39,938
- Software - \$278,527
- Playground Equipment - \$62,918

Per more detailed information, Finance Officer Lee Tillman provides the following debt service breakdown per project:

GENERAL FUND:		GENERAL FUND CONTINUED:	
	<u>Senior Service Center</u>		<u>Phone System</u>
Lender:	USDA	Lender:	BB&T
Maturity:	2036	Maturity:	2013
Annual Payment	\$53,264.58	Annual Payment	\$13,780,07
Principal Payoff:	\$633,435	Interest Rate on Loan	3.73%
Interest Rate on Loan	4.25%	Principal Payoff:	\$39,938

GENERAL FUND:		<u>Playground Equipment</u>	
	<u>Software</u>	Lender:	BB&T
Lender:	BB&T	Maturity:	2014
Maturity:	2014	Annual Payment	\$32,917
Annual Payment	\$73,546	Interest Rate on Loan	3.09%
Principal Payoff:	\$278,527	Principal Payoff:	\$62,917
Interest Rate on Loan	3.19%		
GENERAL FUND & TOURIST CENTER FUND:		<u>Ballfield Lights</u>	
	<u>Recreation and Tourist Centers</u>	Lender:	BB&T
Lender:	BB&T	Maturity:	2016
Maturity:	2017	Annual Payment	\$32,026
Annual Payment	\$85,012	Interest Rate on Loan	3.16%
Principal Payoff:	\$454,760	Principal Payoff:	\$147,333
Interest Rate on Loan	4.89%		
FIRE STATION PROJECT:		SOLID WASTE FUND:	
	<u>Land</u>	<u>Trucks</u>	
Lender:	USDA	Lender:	BB&T
Maturity:	2040	Maturity:	2016
Annual Payment	\$278,829	Annual Payment	\$74,410
Principal Payoff:	\$3,800,000	Interest Rate on Loan	3.08%
Interest Rate on Loan	4.125%	Principal Payoff:	\$352,476
FIRE VEHICLES:		WATER FUND:	
	<u>Quint/EMS</u>	<u>Water Plant</u>	
Lender:	USDA	State of North Carolina	
Maturity:	2029	Lender:	Carolina
Annual Payment	\$67,969	Maturity:	2024
Principal Payoff:	\$725,000	Annual Payment	\$191,711
Interest Rate on Loan	4.25%	Interest Rate on Loan	2.87%
		Principal Payoff:	\$2,061,541
FIRE VEHICLES:		SEWER FUND:	
	<u>Quint/EMS</u>	<u>Annex Debt</u>	
Lender:	USDA	State of North Carolina	
Maturity:	2029	Lender:	Carolina
Annual Payment	\$67,969	Maturity:	2023
Principal Payoff:	\$725,000	Annual Payment	\$121,207
Interest Rate on Loan	4.25%		

	Interest Rate on Loan	2.55%
	Principal Payoff:	\$1,315,081
		<u>Sewer Plant</u>
		State of North Carolina
	Lender:	Carolina
	Maturity:	2014
	Annual Payment	\$436,565.54
	Interest Rate on Loan	3.04%
	Principal Payoff:	\$2,009,507
		<u>Sewer I&I Project</u>
	Lender:	USDA
	Maturity:	2047
	Annual Payment	\$204,250.00
	Principal Payoff:	\$2,895,750
	Interest Rate on Loan	4.375%

Closing

It continues to be the desire of management and staff of the City of Havelock to provide services at the levels the citizens / customers demand and deserve, while maintaining effective controls over the cost of those services. Through the policy setting actions of the Mayor and Board of Commissioners, we strive to accomplish these goals and objectives. During the many budget work-sessions these goals and objectives were established: with the overall national and regional economic condition under a **“recession”** the City needed to “tighten our belts” and reduce expenditures while maintaining basic services and no employee lay-off or furloughed. The proposed budget does meet these goals and objectives. The proposed budget is a financial plan that realistically defines the financial structure to meet those objectives.

While the country and the region are in an economic recession, the management and staff continue in partnership with various consulting firms (Marlowe & Company and Hazen and Sawyer) to explore many funding mechanisms. In addition, we continue to explore many potential grant opportunities to meet the tremendous infrastructure and labor requirements for the city. The projects that we constantly search for funding opportunities are: wastewater treatment and discharge capacity, potable water distribution system improvements, transportation (Slocum Road “fly-over”), Public Safety personnel, and Parks and Recreation improvements.

This proposed “lean budget” does address the today service needs but does not fully address future planned growth issues. Those future impacts needing addressing are identified such as but not limited to are related to increased public safety calls, vehicle replacements, transportation, long-term wastewater capacity and MCAS Cherry Point’s potential F-35B squadron basing in 2010.

While this budget is proposed by the City Manager, it is neither final nor is it necessarily a reflection on what will be approved by the Board of Commissioners. The Manager recognizes that the nation's overall economy is in recession and many of our citizens are coping with higher consumer price increases like food and fuel. The management and staff will work diligently to provide the highest level of services to the citizens during this uncertain economic period.

During our budget work sessions, the Mayor and Commissioners seriously reviewed these proposed budget recommendations and provided direction as to arrive at what it considers the proper expenditure of available revenues and setting of a tax rate which is best for our City.