

City of New Bern

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MEMORANDUM TO: Mayor and Board of Aldermen

FROM: Walter B. Hartman, Jr., City Manager *Bill*

DATE: May 21, 2008

RE: 2008-2009 Budget Explanation

The budget this year continues in the tradition of previous years in that emphasis remains on the retention of well trained staff by giving cost of living and merit increases and in purchasing these employees modern, up to date equipment with which to accomplish the tasks that you set before them. No tax increase is recommended although energy prices have increased many budgets. There are recommended utility increases due mainly to energy increases and the water treatment plant project, but also affected by chemical costs, other general cost increases and, in some cases, increasingly strict new regulations. A 2.75% overall increase in salaries is recommended as a cost of living increase for city employees. Merits are included in the budget as usual as are longevity raises.

Water rates are recommended to significantly increase as we become enmeshed in construction of the new water plant. I am recommending a 20% increase in water rates to become effective in October of this year. Additional rate increases will be needed after that date that will all be needed to pay debt and the additional operational expenses that will be required. This will generate approximately \$1million additional dollars this year as we move toward completion of the construction phase of the project. This money will be used to offset cash flow for construction since we will be required to seek our anticipated loan money in reimbursements rather than receiving the money up front.

A 5% Sewer rate is recommended to cover additional sewer expenses for energy, chemicals and the addition of 2 positions as a result of additional regulatory mandates from the state.

Construction of additional water facilities, in the form of an elevated tank and related lines and equipment, will begin to be constructed in the Carolina Colours section. These expenses will fulfill our original obligation to the subdivision to provide water capacity to the development. Some additional sewer improvements will need to be made in the future, but probably not for a few years yet. Growth in the Township 7 area is expected to be slowed somewhat in the unincorporated areas, however it is anticipated that it will improve over the past several months rate of growth.

Striving for Excellence

A 7% increase is recommended in electric rates to take effect in July. This will allow us to restore a greater degree of integrity to the Electric Fund by increasing cash on hand by approximately \$1.4 million by January when we will receive a wholesale rate increase of at least 5%. It will then continue to provide us with a somewhat higher margin from that point to keep the fund sound. It would also be my recommendation to eliminate the energy rider and put it into our normal rates. It appears to me that energy prices are not going to decline anytime soon and energy riders shouldn't be used unless there is some temporary condition that would allow the rider to be eliminated after a foreseeable time.

Money is budgeted for the city's share of the grants that are slated to either increase in percentage gradually or will require borrowing through installment purchases to meet grant requirements.

This budget also contains capital improvement forecasts that will allow you, for the first time to look at the overall effect of debt and the impact of new requests on future budgets. For instance, there is a request for a new fire station to be constructed in the Pleasant Hill area. This will entail construction costs in the form of debt service, but it will also entail operational costs for new facilities and salary costs for additional firemen. You will need to decide if now is the time to make that commitment or should we delay that project until later. There are other similar type projects that would purchase land for recreational purposes and, in a few years, put in a new communications system for \$8 million. We are still reviewing whether to purchase property in Township 7 for a Utility complex and I will be discussing the pros & cons with you at the meeting.

The money committed to Tryon Palace has been included in the budget and the funds for drainage projects have been re-budgeted to complete uncompleted work and to do new projects that Danny will discuss with you. The overall total of drainage money has been reduced for ongoing projects as we now have to pay debt on the purchase of land as a portion of our match of the large Jack Smith Creek drainage project. That money will be utilized further when we do a similar thing for our final portion (\$500,000) of match for that item.

The first section of the budget notebook contains a Table of Contents that will help you to locate specific items or divisions that might interest you. I have eliminated many extraneous pages from this year's budget and have done two sided printing. Each separate section, if it is an operating department, is a separate section isolated by tabs. That is followed by a chart of accounts with requested and recommended figures and in the back you will find capital budget information.

Salary information such as name, title, present salary, proposed salary has been included in one separate section at the back of the budget. The salary section will reflect salaries that will be received by employees during the entire year.

As usual, it is important for you to remember that the budgets for the Water Fund, Sewer Fund, General Fund and the Electric Fund are interrelated and dependent on each other for financing in many cases. Many

budgets in the General Fund such as Governing Board, City Manager, Finance, Data Processing, Warehouse, Personnel, Public Buildings and others are funded in part by the Utility Funds. If a reduction is made in these budgets it will mean that revenues also will decline so the reduction made will not translate to a dollar for dollar reduction in the General Fund.

If you have questions prior to the work session, feel free to contact me and I will gather whatever materials that you request. In the mean time, I look forward to working with you to prepare a sound budget for the upcoming year that meets your priorities and keeps the city operating in the manner which both you and the citizens have become accustomed.