

City of New Bern



ALDERMEN

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BARBARA LEE
DANA E. OUTLAW

TOM BAYLISS, III
MAYOR

WALTER B. HARTMAN, JR.
CITY MANAGER

VICKIE H. JOHNSON
CITY CLERK

MARY B. MURAGLIA
DIRECTOR OF FINANCE

Three Centuries of North Carolina Heritage

FOUNDED 1710

Phone: 252-636-4000 P.O. Box 1129

New Bern, NC 28563-1129

MEMORANDUM TO: Mayor and Board of Aldermen

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

DATE: May 22, 2009

RE: 2009-2010 Budget Explanation

Hold the line! That is the budget document that you have before you for fiscal year 2009-2010. Since the national financial crises started last fall, the City has been operating on a basis for spending that basically says, "If your department doesn't shut down because of the need to spend this money, it can't be spent." Exceptions to that rule have been rare and have to have the consent of both the Department Head and me. As a result, we will be well within the budgeted amounts. At the same time, our revenues have been down, although not as much as some entities.

This year, the recommendation is that we operate on a General Fund budget that is close to our present year and that we continue to operate very close until we can see an end to the slowdown and until it is reflected in our revenues. No salary increase for cost-of-living or for merit increases have been recommended. Only approximately \$400,000 of what would normally be around \$2,000,000 has been recommended for equipment replacement. There are increases in expenses to pay for double digit electrical and water increases and to prepare for additional utility increases this year. Other expenses have increased here and there also. When compared to the current year, the General Fund upcoming will be approximately \$178,000 higher than last. That is an increase of half of one percent.

Since the new Water Treatment Plant will be completed this fall, water rates are recommended to be increased in three separate increases to make our first debt payments and to fund significantly higher increases in operations related items. We have also experienced less growth this year and the projections for connection fees have decreased, even with the increase in the connection fees also beginning in July. The reason for the three rate increases is to bring rates to the point where, at the beginning of July 2010, the city will need to make no further

increases to handle a full year of operations and a full year of debt payment the following fiscal year. These increases will be very expensive; however the city has no choice since the state imposed this unfunded mandate on us. The first increase is projected to be approximately 25% to become effective in July of this year. Additional rate increases are projected to be implemented in November 2009 and March 2010. This will allow the city to look at the revenue stream and possibly make adjustments to the future increases if projections look high or low.

The 5% across the board rate increase adopted last year has not produced but about 2% more money thus far. Additionally, as with water, the connection fees normally budgeted are down significantly. To make that up, and to pay for increasing costs, an additional increase in sewer rates will need to be implemented. An 8% increase to be followed by a smaller increase in January is recommended to cover additional sewer expenses for Phase II of our moratorium agreement with the state, energy, and chemicals.

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.

No increase is recommended in electric rates at this time. My understanding is that the Power Agency does not anticipate raising rates prior to the fall of 2010.

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. 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.