

TOWN OF WARRENTON 2011-2012 PROPOSED BUDGET OVERVIEW AND GOALS

Introduction

During the current budget year the Town has continued its progress toward goals of improved service, professionalism and financial position. The 2010 Annual Audit was a positive marker on this path as the General Fund balance grew to the minimum acceptable standard set by the Local Government Commission from a negative balance three years before, and the Water Sewer reserve fund continues to grow. The utility rate restructuring implemented with the current fiscal year has met essential targets for revenue and for more closely tying rates to consumption. Continued emphasis on cross-training and replacement of aging equipment have contributed to the improved professionalism and service.

Although the current year budget is meeting expectations without undue hardship there are serious challenges in the future. Among these are:

- The result of the 2010 census in which the population has declined 5.7% from 914 to 862. Although the census and Certified State Population (due in September) are not necessarily the same, the census establishes a baseline for a wide variety of revenues and programs and will haunt the Town for the next decade. All of the implications are not clear but the budget assumes a reduction in Powell Bill, Beer and Wine Tax and Sales Tax revenue. Annexation is the primary means to growth but involuntary annexation is difficult and not favored by bills under consideration by the current legislature.
- The loss of Southern States to fire will affect Sales Tax and Property Tax revenue, though it is not clear to what extent.
- The state budget shortfall and how the legislature deals with it. If the legislature decides to withhold shared revenues the general fund activities of Warrenton and most other counties and municipalities will be severely affected.
- Recovery from the recession. State forecasters are optimistically predicting state-wide sales growth at 5.3%, but the League expects it to be 3-4%. The best outcome for Warrenton is that the increase will offset the reductions based on population.
- The collection system rehabilitation project. This is a \$500,000 project of which half will be financed with a 20 year loan. Two payments are expected in the 2011-2011 fiscal year, the first for \$10,000 in November and the second for \$18,050 in May.
- The first phase of rehabilitation of the Waste Water Treatment Plant. This is an \$870,000 project for which the Town will be responsible for a percentage to be determined, but approximately 45% or \$390,000. Repayment will be in the form of annual payments for a 20 year loan, that combined with the collection system project will impose an obligation of approximately \$640,000 plus interest on the Town's utility customers.
- Two significant Workers Comp claims have resulted in a 28% increase in the premium and cancellation of performance credits, a situation that will last three years if there are no further significant claims.
- An increase of 9.9% in health insurance programs.
- The likelihood of fuel prices reaching and remaining at \$4 per gallon.

Personnel

The Town has been fortunate in its stable and experienced staff. All areas have progressed in the shared direction of improved professionalism and much has been accomplished through cross-training and certifications. The staff is too small to be segregated by department and has embraced the concept of learning new skills and working where needed. The Board has supported staff efforts with policy, pay increases when possible and providing the necessary equipment for safe and professional work. This is a year of revenue challenges and increased demands, but it has been possible to budget a 2% across the board wage increase while maintaining health insurance as a 100% benefit. However, the absence of any apparent restraints on health insurance premiums (which increased 17% last year and 9.9% this year) is a trend that almost assures that employees will have to assume some of the cost next year.

General Fund 37

Police Department

The Police Department has continued to improve its programs and professionalism, as befits its obligations as the largest expense of tax revenue. In the fall of 2010 the department was awarded an important grant that will help the department make truly significant progress. CHRP funds worth \$143,040 over three years were awarded for a community policing officer. There is a budget implication as this grant pays the basic salary and benefits of the equivalent of a patrol officer but requires that the Town contribute matching funds for uniforms, equipment and any pay or benefits above minimum. This position appears on separate budget lines for both revenue and expenditure so that it may be accurately tracked.

Technology is one of the means to making a small department more productive, and Chief Younts conducted a detailed analysis of department needs and goals. He then submitted an application for the maximum Governors Highway Safety Grant of \$50,000 plus \$19,000 matching. Unfortunately the grant was not awarded but the needs of the department and Town in general remain. The condition and reliability of the IT equipment is analogous to that of the equipment of both Police Department and Public Works that was in various stages of failure four years ago and had to be replaced. The server is ancient by computer standards and is not really a server at all but a pc that will not accept the modern sql databases on which all new programs (such as the new version of CitiPak) are based. The network has grown haphazardly and is undependable. The budget has been drafted to include the most essential items included in the Police Department plan and the items that benefit all departments by dividing the amount that would have been matching funds among departments.

The second important priority of the department is the pursuit of CALEA accreditation. This would benefit the Town and department from the high level of training and preparation required to the statement of professionalism that makes current officers proud and future officers easier to recruit. The application process has been budgeted for \$10,000. If accredited there would be a lesser annual cost to maintain future membership. There is a related addition of funds for Professional Development. The funds for technology and CALEA are made available in large part by a significant reduction in loan payments for department equipment and the ability to skip a year in the vehicle replacement rotation. Loan payments will be reduced \$25,312 from \$63,877 in the current year to \$38,565 in the next.

Administration

Significant progress has been made through cross training and shared responsibilities. Where once only one employee was able to perform the duties of Accounts Payable and payroll there is now backup, allowing that employee to investigate and pursue many of the more complicated accounting procedural problems previously unaddressed.

Several new budget items are included in the Administration budget. A mandatory item is the fall election at \$3500. Also added is the estimated cost of the Small Town Main Street program on the possibility of being accepted into the program. The addition of a part time administrative assistant for the town administrator to allow better enforcement of Town ordinances and response to inquiries and applications has been relegated to the unfunded priorities list.

Street Department

This department has been treated in part as fee based, with \$5 of the monthly "Landfill" charge on the utility bill directed to its support. The ancient leaf truck was replaced with a new multipurpose truck during the current budget year with the first of five annual payments due in the 2011-2012 budget year. This obligation is included in the Street Department budget for the first time and represents \$2 of the requested increase of \$2.50 in the monthly "Landfill" fee charged to in-town customers; the balance of the request is to fund long delayed tree removal (a necessity) and replacement (desirable). It is expected that the leaf vacuum will require a new impeller as it does every two to three years, and this expense has been added to the appropriate line.

Signs/Lighting

Sidewalk benches add to the ambiance and livability of the downtown district, but those that had served well and been painted and repaired several years ago have been removed because they have become unsafe. It is not considered economically practical to rebuild them and good replacements are approximately \$220 each. As it has not been possible to find adequate funds in the Beautification line item it is proposed to ask business owners and residents to sponsor benches.

Sanitation

There are no major changes in the Sanitation budget.

Water Sewer Department Fund 38

The 2010-2011 budget is based on a fundamental rate restructuring that has met the essential goals of separating infrastructure and consumption, and increasing sewer revenue to address the higher maintenance and repair costs of an aging system. Although the sewer revenue did not meet its target it has not been an issue in the current year as less than average rainfall reduced waste water treatment costs and repairs. However, beginning in 2011-2012 there will be increased demands for revenue. In the fall of 2010 the Town was awarded a \$500,000 50/50 Grant/Loan for rehabilitation of the highest priority collection system problems identified in the recently completed evaluation conducted with a Clean Water Management Trust Fund grant. It is anticipated that closing costs of \$10,000 for this Grant/Loan will be due in November 2011 and the first payment of \$18,050 of the 20 year loan due in May 2012. Adding to this burden will be the Town's share of the first phase of the rehabilitation of the Waste Water Treatment Plant. Although the exact share of this \$870,000 project has yet to be determined, the first annual payment will be approximately \$29,000 and will equal that of the Town's Collection System project next year and exceed it for the next 19 years. The budget includes combined loan payments of \$56,930. Many

years of deferred repair and replacement will start to come due at once for both collection system and WWTP and it will be difficult for utility customers to accept the fact that rates have been artificially low for many years. However, three years ago the Board addressed the need for a reserve fund for capital needs and depreciation, and this fund will have grown to \$138,000 by the end of the current fiscal year and \$198,000 by the end of the next, barring emergency needs. This is far less than the \$217,000 that the audit identifies as what should be set aside annually but is still a meaningful amount. It is proposed that a balance of at least \$120,000 be maintained in this fund and that an amount in excess of that may be used to mitigate the potential impact on rates by paying the combined loan amounts from the reserve fund. Should emergencies or opportunities require the use of the reserve fund the cost of the loans would need to be addressed by raising rates at that time rather than waiting for the next budget cycle. Two things should be kept in mind regarding the reserve fund. First, there will be little change in the need for the reserve fund to deal with unexpected and emergency repairs, and second, these two projects are only the first of a series. The Collection System Project addresses only the most urgent repairs, and the WWTP is only phase 1 of approximately \$3.5 million needed repairs. The Town will need to prepare its utility customers for rate increases because grants cannot be expected in the future.

The projected 5% increase in the cost of water purchased from Warren County will add approximately \$10,000 to the forecast \$200,000 the Town will spend for water in the current year. The budget proposes a 9 cent increase per 1,000 gallons for in-town rates and 18 cents for out-of-town customers to fund this anticipated increase. The infrastructure cost of the collection system is reflected in an availability cost that has been increased 50 cents for in-town customers and 83 cents for out-of-town customers; consumption rates have been increased 25 cents per 1000 gallons for in-town customers and 50 cents for out-of-town customers. Out-of-town customers would also pay an additional \$2.41 more for water availability to correct an error in the current year rates.

There have been incremental changes in the Water Sewer Department through cross training and scheduling that have made the department more professional and effective. There are certain budget implications in increased payroll. The Director is director of both Public Works and the WWTP and his salary has been changed from 25% Public Works/75% WWTP to 50%/50%. At the same time the Backup ORC has been changed from 100% WWTP to 75% WWTP/ 25% Public Works. This is in anticipation of the need of their services in the sewer rehab project and adds \$23,190 to the W/S budget. If more of their time is required at the WWTP the hours will be so attributed. With this change these two employees can also assist the Public Works department more freely. This is only possible because of the outstanding certifications of the WWTP staff.

Waste Water Treatment Plant Fund 39

The Plant has had a successful year as aging equipment has been repaired or massaged as needed to continue operating without spills and with good effluent reports. One of the employees achieved his Grade 4 Waste Water certification in November 2010, giving the staff excellent credentials with two Grade 4, one Grade 2 and one Grade 1 operators. Both the WWTP Operating Permit and Storm Water Permit passed compliance inspections in October 2010 without any violations. A number of significant repairs have been made including the Clarifier monitoring and alarm circuits, oxidation ditch mixer, air compressor system and influent pump.

The proposed budget is based on several assumptions.

- Contract negotiations are important to all three partners, but because this is a complicated subject that may not be resolved by the next fiscal year it is assumed that operations will continue until an agreement is reached.
- Weather has a dramatic effect on total volume and considerable effect on percentages. The budget is based on the calendar year 2010 as the most recent trendsetter, but it should be noted

that November and December 2009 at a combined 49.3 was almost double the same months in 2010 at 27.8. Although the dry period has been the trend for a year it could be an aberration and a return to “normal” wet weather would drive up WWTP costs.

- The set percentage is preferable to the three partners, leaving only the variable of total cost each month. The calendar year 2010 is the basis of the budget calculation. A worksheet is attached that lists actual usage for January-December 2010 and the percentage calculations that serve as the billing basis. It should be noted that a change in rainfall affects these percentages relative to I&I problems. Thus percentages set during a normal wet year favor the county if the budget year is dryer than normal while percentages based on a relatively dry year favor the towns if the budget year is wetter than expected.

The proposed budget reflects several issues that are of concern to partners Warren County and Norlina. One of these has been the personnel budget, the number of employees and the perceived overlap with Warrenton departments. Regarding the overall personnel budget, there has been an emphasis on developing and keeping a highly qualified staff. The O&M manual states that four positions are required to operate the plant, and for several years 3.75 (plus a part time hourly lawn maintenance position) have been assigned. It could be anticipated that the personnel need would increase in proportion to the needs of the aging plant and upcoming rehabilitation projects. However, the proposed budget reduces the staff to 3.25 positions attributing 50% of the director’s and 25% of the backup ORC’s hours elsewhere. This is possible only because of staff experience and certifications. The budget reduction for personnel is \$31,452 including benefits. If some of these transferred hours are required at the WWTP by upcoming major projects such as the Asset Management Plan, the rehabilitation project or unanticipated repairs, they will be billed back to the WWTP, reversing the current situation. Unfortunately this reduction is partially offset by a rate increase announced by the sludge hauler and an increase in the cost of chemicals and petroleum based products in 39-860-300. Another item that has been questioned is the amount billed for insurance. The formula for this has not changed because the underwriter estimated that if insured as a separate entity without benefit of blanket and umbrella coverage associated with the overall Town coverage, the cost would be significantly more than the current total of the entire current Town policy.

The cost of Phase 1 Rehabilitation of the clarifiers and SCADA system has been addressed as part of the proposed rates in the Water Sewer Department.

The budget does not take into account certain facility repairs that will need to be made in the coming year or two for which estimates have not been received. The largest of these is the administration building roof that needs repair or replacement. This and other such project will be referred to County Maintenance for recommendations as to what needs to be done and the most economical means.

UNFUNDED PRIORITIES

It is helpful to list some of the unfunded priorities which are not yet budget items because of a lack of funding but are presented as priorities when funding is possible. Some of these are carried over from the previous year.

- One of the most important of these is renovation of Town Hall which is in danger of structural damage from a leaking roof and does not well represent the Town’s goals expressed in the Historic District Ordinance and its expectations of property owners. A feasibility study is being completed but there is limited likelihood of grants to help fund what will be a costly project. At the very least the roof must be replaced at a cost of approximately \$110,000-140,000.
- A new edition of Town Ordinances to bring it up to date which can cost several thousand dollars. A thorough revision is more costly and time consuming, and will have to wait for the future.

- The continuation of the vehicle replacement program established for both Police and Public Works Departments.
- The addition of a part time (10 hours weekly) administrative assistant for the Town Administrator to provide support for meetings, scheduling and enforcement of ordinances.
- Plans for the replacement of the 12 year old garbage truck. Service life was extended by a major engine overhaul two years ago, but the body has been in use longer than the eight year estimated life of such equipment.
- A water system map with GIS software that would also allow editing of sewer system map.
- Touch read water meters that would increase accuracy and decrease time spent on monthly readings.

Conclusion

The Town faces a number of substantial financial challenges that will test the governing board, taxpayers and utility customers in the coming years. The goal of the proposed 2011-2012 budget is to meet challenges and obligations while offering a means to continue the discretionary programs that have allowed all departments to improve their professionalism and service to residents.