



BUDGET MESSAGE

May 12, 2014

Dear Mayor Robertson and
Members of the Fayetteville City Council:



In accordance with the requirements of the Local Government Budget and Fiscal Control Act, I am transmitting herewith the proposed budget for the fiscal year beginning July 1, 2014 through June 30, 2015 for the City of Fayetteville. The proposed budget provides \$209,235,639 total expenditures across all funds under my control and management, with \$156,871,934 in General Fund expenditures. This spending plan represents a 4.2% increase in the General Fund over the FY2014 Adopted Budget. The tax rate necessary to support the base budget would be unchanged at 45.6 cents per \$100 of assessed valuation without any major new initiatives. I am recommending, however, an increase to 49.8 cents per \$100 of assessed valuation in order to address the City Council priorities identified in the Strategic Plan.

As we began the Fiscal Year 2015 budget development process, we found ourselves with the same challenging fiscal outlook that has compounded over the past decade. That is, the cost of enhancing City services to a level commensurate with our municipal peers exceeds our projected revenues for the upcoming fiscal year. We simply have the lowest tax base of our peer cities, which when coupled with a relatively low tax rate, yields per capita property tax revenues significantly less than the other cities in our population category. The consequence results in community problems, as well as opportunities, that all too often go unaddressed due to the lack of organizational capacity, and financial resources, to meet the community's

needs. Understanding our fiscal challenge, and having guidance from Council, I could not lead the City through another budget process without making an attempt to break this cycle of under-resourcing our community's future. I believe it is time that we face up to our revenue limitations and decide that something meaningful is done to address community needs and increase organizational effectiveness in key areas.

The traditional approach to budgeting, and one we have employed for many years, treats every program the same and every cut or reduction the same, which fails to place appropriate emphasis on priorities. . This approach fails to allow the City Council to choose emphasis, and fails to provide a consistent set of performance data to help drive decision-making. With this budget, we are taking the first major step on the journey to performance management and performance-based budgeting.

Through discussions with the City Council and evaluating best practices from other jurisdictions, we have established an approach to budgeting that changes the conversation. A program-based framework was used for the first time to develop the City's performance management system. As we move into future years, data and performance metrics will allow us to begin the conversation not simply with departments' previous spending, but instead by looking at the outcomes and performance measures of each program. Programs will be aligned with the City's Strategic Plan, the adopted City Council Budget Guidelines, and will focus our resources on accomplishing our key goals and objectives accordingly. This new approach aligns us with leading municipal governments, many of whom are in our North Carolina peer group, and represents a dramatic shift in our philosophy to align long-term outcomes with the City services our residents want. Ultimately, this process allows opening up the entire budget for a program by program discussion to ensure all historic funding decisions still reflect our priorities as a City. I am confident that this new approach will bring about positive change throughout the City organization.

With this proposed budget, we are defining the results that the people of Fayetteville expect the City's government to achieve. It outlines our resource inputs required to meet the goals of the City's Strategic Plan and deliver the measurable results that are valued by the community. While many new initiatives were submitted by departments for consideration, \$2,750,510 of the requested new initiatives, including requests for 23 additional full time equivalent employees (FTEs) were not funded due to resource limitations. Instead, this proposed budget makes no significant changes to existing services and operations, but aligns a specific property tax increase package with the City Council's five key strategic priorities:

- Police staffing
- Establish broader citywide economic development program
- Parks & Recreation capital project funding
- Citywide customer service initiatives
- Development of a Comprehensive Land Use Plan

Accordingly, this proposed budget recommends a 4.2 cent increase to the ad valorem property tax rate. On a \$150,000 home, this amounts to an increase of \$5.25 per month, or \$63 a year. This rate will support the following new initiatives:

Police Staffing (phased over two years)

- 57 sworn officers (assumes \$388K grant to fund 4 traffic officer positions)
- 4 Civilian Crash Investigators
- 7 police support positions
- 1 Assistant City Attorney (police)
- 3 Information Technology positions

Police Facilities

- Cross Creek District office
- Jump-start planning for a regional crime lab

Broader economic development program

- 1 Community Redevelopment Manager
- 1 Marketing Manager
- 1 Administrative Assistant

Customer Service Initiative

- 1 Development Services Customer Service Advocate
- 2 Building Inspectors

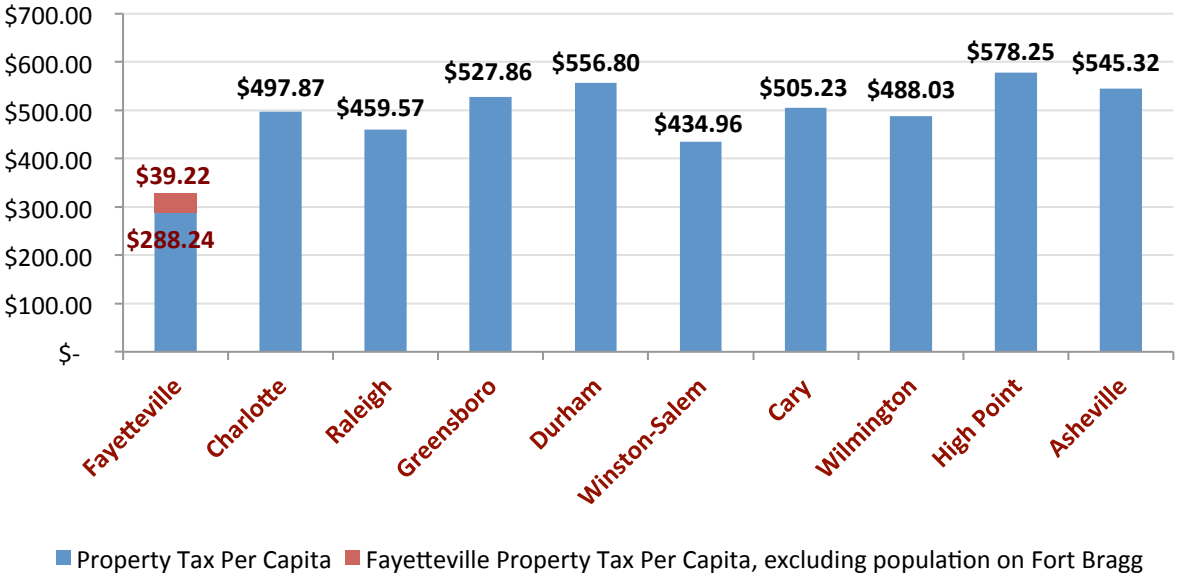
Comprehensive land use plan

- 1 Planner

PEER CITY COMPARISON

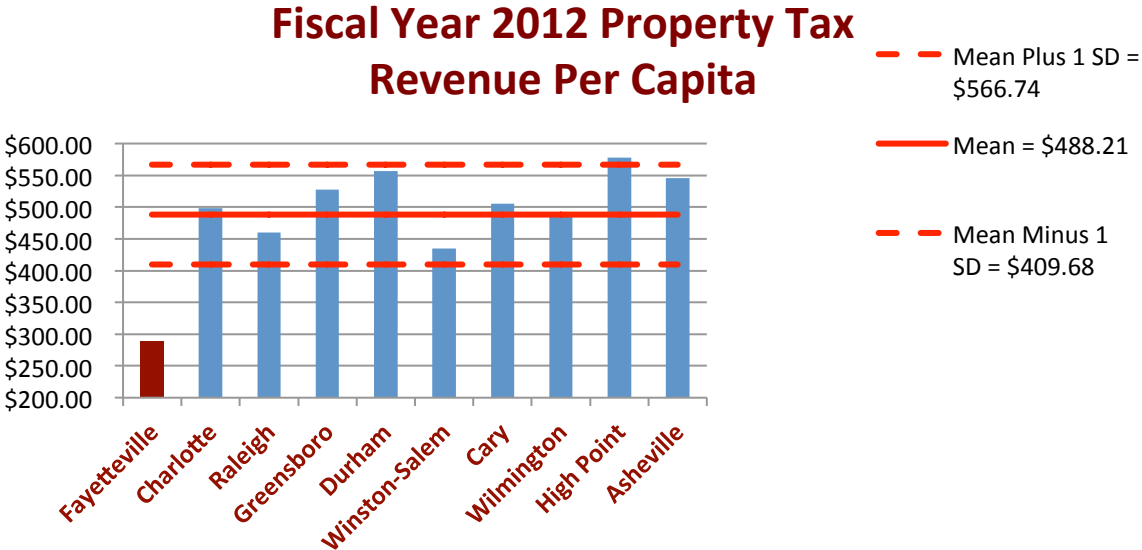
Before recommending a tax increase, it is prudent to take a look at the history of Fayetteville’s tax rates, the tax rates of our Cumberland County municipal governments, and the tax rates of our peer cities state-wide. As discussed at the Strategic Planning Retreat and Council Orientation, Fayetteville has a relatively low tax base when compared to the ten largest cities in North Carolina, and does not have the industrial property that these cities have. Average home values in Fayetteville are lower than our peer cities, though our commercial tax base makes up a similar proportion of total assessable property. Nevertheless, this commercial property is not necessarily of high value. The net result is a low tax base overall, which when multiplied by a relatively low tax rate, results in an unusually low property tax revenue stream per capita. This is illustrated in the chart below.

FY2012 Property Tax Per Capita



Fayetteville generates \$288.24 per capita from property taxes, the lowest of the peer cities. The comparative data for the peer cities ranges from \$434.96 to \$578.25. If the estimated population on Fort Bragg (24,909) is excluded from the total Fayetteville population (207,996), Fayetteville’s per capita property tax revenue calculates at \$327.46. In either case, the property tax burden on a per capita basis is dramatically lower in Fayetteville than in any other city in our peer group. Just how dramatically below the norm is Fayetteville’s property tax burden? Illustrated in the next chart is a statistical look at what the expected tax burden might be for the ten largest North Carolina cities. The average (mean) tax burden is shown along with a standard deviation of the mean property tax revenue per capita. One would generally expect that all these cities, given that they deliver comparable services in a comparable environment within a comparable tax policy framework would have a tax burden

that falls within one standard deviation from the mean. It turns out that this is basically true, with only High Point slightly *exceeding* the average tax burden per capita. But Fayetteville is the exception, and by a very large amount. The data demonstrate that Fayetteville’s property tax revenue per capita is \$288, which falls not just outside one, but two standard deviations below the mean of \$488.21. Any way you look at this, the property tax burden in Fayetteville on a per capita basis is dramatically lower than the other large cities in North Carolina.

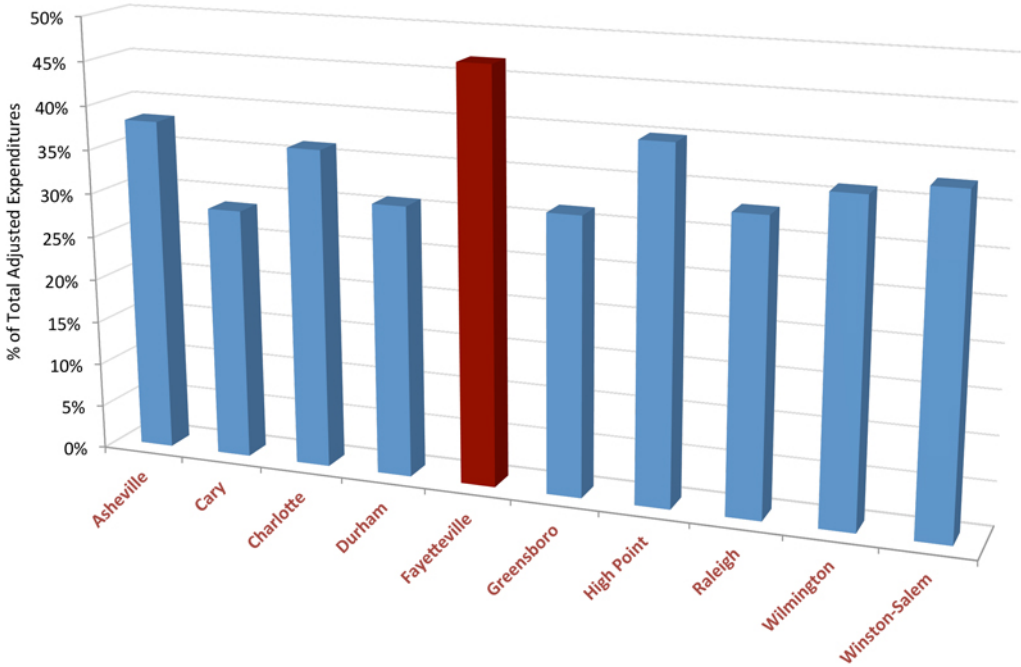


So is this a good thing, or a bad thing? Some might argue that a lower property tax burden will help with economic and business development. Perhaps a low property tax burden will provide an incentive for new development. Unfortunately, this simply has not proven to be the case in our community. While property tax does play a role in economic development considerations, it does not appear to be the primary factor. Unless the property tax rate is well above the expected norm, an increase in our property tax rate will not make us significantly more or less appealing to businesses. In considering Fayetteville, businesses will likely examine and assign greater importance to such factors as work force, quality of life, schools, crime rate, transportation, attitude of customers and income tax rate than the property tax rate. Therefore, the conclusion is that Fayetteville’s unusually low tax burden per capita simply results in an underfunded municipal government, and a City Council that is unable to direct resources to foster community change and meet community demands at the level desired.

So what about the money we do receive? Are we prioritizing our use of funds to focus on our top priorities? It turns out that in Fayetteville we are doing just that. The next chart shows the percentage of municipal expenditures dedicated to public safety. While this data includes more than just police services, it is an “apples to apples” comparison using standards set by the State Treasurer’s Office. Police services are typically the most significant portion of “public safety” expenditures. The chart below shows that Fayetteville spends dramatically more on public safety than our peer cities. In fact, for Fayetteville, 46.9% of the adjusted total expenditures for fiscal year 2012 were expended for public safety, which was the highest of the 10 municipalities. For the nine peer cities, those percentages ranged from 28.69% to 39.97%.

PUBLIC SAFETY EXPENDITURES

FY12 Public Safety Expenditures*
(as a Percentage of Total Adjusted Expenditures)

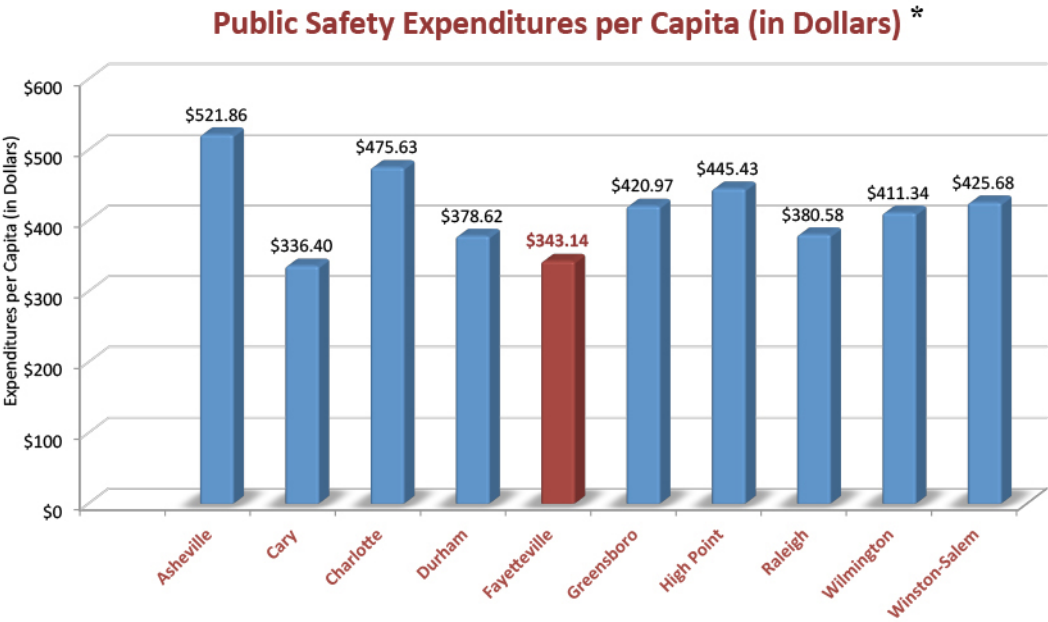


*AFIR public safety expenditure classification includes expenditures for Police, Fire, Rescue, Building Inspections, Emergency Communications, Courts, Jails and Law Enforcement Separation Allowance.

*Adjusted Total Expenditures: Excludes Expenditures Associated with Utilities, Airports and Mass Transit.

So this is good news, right? Fayetteville’s leaders understand that the community wants to focus on public safety, and this is happening. While the City of Fayetteville does spend a

greater proportion of municipal resources on public safety, the following chart illustrates how this may not be such a good thing after all. It turns out, that when this information is converted to actual dollars, on a per capita basis, Fayetteville expended \$343.14, which was the second lowest of the peer cities.



**AFIR public safety expenditure classification includes expenditures for Police, Fire, Rescue, Building Inspections, Emergency Communications, Courts, Jails and Law Enforcement Separation Allowance.*

**Adjusted Total Revenues: Excludes Debt Proceeds and Revenues Associated with Utilities, Airports, Mass Transit*

For the nine peer cities, per capita spending for public safety ranged from \$336.40 to \$521.86. Excluding the estimated population on Fort Bragg, Fayetteville’s per capita public safety expenditures were \$389.82. The net result is that even though we spend a greater percentage on public safety, the dollars are lower. This simply means we aren’t collecting and spending as much money as our peer cities.

In conclusion, if we are going to make a dramatic impact on crime fighting capacity by hiring more police offers and related staff, we simply cannot afford to do so without increasing our property tax rate.

BUDGETING FOR SUCCESS

The Fayetteville City Council is the governing board of our community's municipal government. Accordingly, it is their prerogative to give guidance to the City Manager who serves as the municipality's Budget Officer under North Carolina law. This budget was developed utilizing the budget development guidelines adopted by the City Council:

FY 2015 BUDGET DEVELOPMENT GUIDELINES

ADOPTED April 16, 2014

The two largest sources of revenue to support General Fund operations are property taxes (43%) and sales taxes (24%). The City Council has full authority to set the City's property tax rate, which is currently \$0.456 per \$100 of assessed valuation. Property listing, appraisal and valuation are the responsibility of the Cumberland County Tax Administrator. The City Council has no authority to set the sales tax rate, as it is determined by the General Assembly, with few exceptions reserved to local option referenda by County Commissioners for limited defined purposes. The City Council also has the authority to set user fees for many of the individual services. These fees are an important part of paying for many City services, such as planning and permitting, parks and recreation and other "fee for service" activities. However, the total revenue impact on the General Fund is less than 5%.

In recent years, a sluggish economy has constrained economic activity and related City revenue growth. State leaders have pledged to minimize the impact of State budget shortfalls on local governments and have largely delivered on that pledge over the most recent biennium. Nevertheless, some actions of the General Assembly have taken place that has created some revenue uncertainty. In particular, the transition to "Tax and Tag Together" is anticipated to be an overall improvement in motor vehicle personal property tax collections; however, the transition leaves some uncertainty in the timing for receipt of revenues. Additionally, the net impact of the new sales tax on utilities, which displaced the former utility gross receipts tax is also unclear at this time. Furthermore, several legislators are proposing a major overhaul of the Business License Tax laws that are likely to have an impact of approximately \$600,000 to our community alone.

Based on current economic trends, it appears that residential real estate and personal property tax growth will remain very modest. As a result, increases in City spending will be limited in FY 2015 and must be targeted to high priorities. The City Council recently conducted its Strategic Planning Retreat and determined that the top five priorities are as follows:

1. Police Staffing
2. Establish broader citywide economic development program/Local merchants
3. Parks and Recreation capital projects funding (sports complex)/bond/limited phase plan
4. Citywide Customer Service Initiatives
5. Development of a Comprehensive Land Use Plan

Accordingly, the City Council directs the City Manager to develop a budget for Fiscal Year 2015 that limits increases to what is needed to accommodate population growth and cost factors for existing service levels, clearly identifies funding requirements driven by State and/or federal mandates and accommodates the City Council's top strategic initiatives.

Revenues

CHARGES FOR SERVICE

- Other than standard water, sewer and electric service rates, the City Manager should not budget for payments or presentation of charges from utility operations to the City's non-utility operations without prior coordination and agreement regarding an appropriate cost allocation methodology as exists., For example, through the operational memoranda and practice for Purchasing and Fleet Maintenance operations.
- Budget allocations for use of the City's fiber optic network shall be minimal, shall cover only the appropriate allocation for maintenance of service and shall not be based on commercial market rates or repayment of capital.
- In light of the fact that a more detailed review of Planning and Development Fees and Transit Fares was conducted within the past two years, the City Manager should conduct a cursory review and discussion of opportunities for non-tax revenue enhancements such as user fees, transit fares and similar charges for service.

PROPERTY TAX RATE

- The City Manager should review the City's property tax rate in comparison to peer municipalities, begin to prepare the FY 2015 budget based on the existing tax rate of \$0.456 and evaluate where the City should focus resources consistent with the City Council's priorities. Should it become necessary to propose new revenues or to propose reductions in existing services to fund the City Council's top priorities, the City Manager should present the budget in such a manner that the City Council will be able to make comparative decisions between existing programs and revenue options.
- Existing Municipal Service District (MSD) tax rates shall be adjusted to cover only actual expenses. An evaluation of MSD revenues and expenditures and long term viability of operations will be conducted and presented to the City Council prior to considering any future rate adjustments.

SALES TAX DISTRIBUTION

- The City Manager shall seek negotiations with Cumberland County for a replacement sales tax distribution agreement that more fairly allocates revenues to the City of Fayetteville in light of needs and the origination of such revenues.

BUSINESS LICENSE TAX

- Replacement revenues should be identified to offset the impacts of General Assembly actions to reform North Carolina's Business License Tax for the applicable Fiscal Year.

FUND BALANCE APPROPRIATION

- Fund Balance shall be targeted to remain at the end of the 2015 Fiscal Year at 12% of General Fund Expenditures. Appropriation of fund balance shall be for "one time" purposes and not recurring obligations.

Expenditures

In order that expenditures may be balanced against forecasted modest revenue growth, the City Manager shall diligently pursue focused discussions with City departments regarding program and service priorities, reorganization and/or alternative service delivery models that provide the opportunity to address the performance and efficiency of City programs.

- Non-recurring funds shall not be directed toward recurring uses.
- Shared services delivery models with utility operations, other local governments or the Army should be considered to eliminate duplication of service and administrative overhead and improved efficiency.
- Fully fund all public safety, Police and Fire positions that are no longer supported by federal grants.
- New positions shall only be funded for a partial year when warranted by the timing of the actual operational impact on the budget.
- Continue to develop options for the creation of a revolving financial resource dedicated to neighborhood and corridor revitalization.
- Dedicate, at a minimum, 5.25 cents of the City's property tax rate to the city's Capital Funding Plan.
- Work towards reducing our paving cycle through increased funding, including identification of alternative revenue sources or funding models.
- Service enhancements added to the current fiscal year shall generally be added to the base budget for FY2015 planning purposes.

PERSONNEL

- The City Council has made efforts over the past two fiscal years to advance the City's pay plan to be more comparable to similar positions in County government and in the City's utility operations. In order to maintain this momentum relative to our market, structural adjustments to the pay system should be considered to avoid "backsliding."
- The amount budgeted for merit or performance pay adjustments and how the funding will be applied shall be clearly articulated in the budget document and relevant published personnel policies. If resources limit this option, a cost of living adjustment should be considered.
- Dialogue and efforts should continue to bring benefit programs into consistency and coordination with those provided to the City employees assigned to utility operations.
- State law requires certain "asymmetrical" compensation policies, such as the mandatory 5% 401(k) contribution to sworn law enforcement personnel. Options to phase in such a deferred compensation or retirement benefit to the remainder of the workforce, including utility personnel, should be explored as a matter of equity and fairness.
- Consistent with open government and state laws, all compensation policies and procedures will be memorialized and available for review.

BEST PRACTICES REVIEW

- The City Manager is generally discouraged from seeking additional positions or revisions to existing positions in the operational areas or functions being studied under the "Best Practices Review," until such time as the analysis and recommendation has been completed, considered and acted upon.
- Resolution 2013-052 shall guide the City Manager in taking action to increase, decrease or realign resources across all City operations whenever necessary and appropriate to carry out the intent of the Resolution and the interests of the City Council.
- Resources should be included in the FY2015 budget to continue the Best Practices Review process.

CAPITAL PLANNING

- The City Hall renovation project should include efforts to accelerate the upfit of a 1st Floor "Design Center" to create an improved customer service environment for the

development review and approval functions, including the Development Services, Engineering and Infrastructure and Fire departments.

- All utility capital projects should be fully supported by utility funds without contribution or set-off from the City's General Fund, whether planned and included in the City's adopted Capital Improvement Plan or unplanned due to emergency repair or infrastructure failure. General Fund support for utility capital projects in the Phase V Annexation Area shall be reduced to zero over a timeframe to be determined by the City Council. FY15 contributions shall be proposed as discussed in budget work sessions in April.
- Projects related to the provision of basic utility services should be prioritized over service enhancement or automation initiatives. Additional or expanded projects to hasten the provision of water and sewer service to current City residents should be a priority.
- In accordance with the Downtown Renaissance Plan, the draft CIP may be modified to accommodate and leverage public-private partnerships that will foster economic activity.
- The draft CIP may be modified to accommodate and leverage public-private partnerships that will foster economic activity in key corridors with an emphasis on those with adopted redevelopment plans.
- Capital Improvement Plans for all City operations, including utility operations, shall be presented to the City Council in advance of the general budget consideration with sufficient time and information to allow the City Council to take appropriate action prior to adoption.

Beyond Dollars and Cents

While budgets necessarily include a great deal of information about revenues and expenditures, it is important to understand that this is just one way to tell the story of our municipal operations. Until now, we didn't have a performance measurement system that could help us understand whether the dollars were achieving program goals and objectives. In other words, are the dollars making a difference? We have changed that with this proposed budget. A lot of thought and hard work went into making this dramatic shift to bring the City Council a system of strategic planning, program budgeting and performance management that aligns all these elements with the City Council's priorities. What follows is a bit more detail of what we have accomplished.

PROGRAM & PERFORMANCE MEASUREMENT "PRIDE"

Performance

Results

Integration

Data

Evaluation

The system of strategic planning, program budgeting and performance management aligns programs and spending with long-term goals, brings critical needs into focus and provides an organizational roadmap for success. Integrated, the two processes will strengthen our organization. Program budgeting allocates costs to a set of services and defines the purpose. Performance management transforms data and creates vital information for effective decision making and management oversight.

Recently, the City has transitioned from a departmental line item budget to a program based budget and worked to develop a performance management system. We developed a team structure with the PRIDE program (performance, results, integration, data and evaluation) to assign roles, leverage efforts and build accountability. We then implemented a communication and training plan, which included an organization-wide overview of program budgeting and performance management. The first focus was on developing the City's program inventory and financially mapping the programs for presentation during the Council orientation this past December and preparation of the FY15 Budget. Program objectives and performance measures were then developed and aligned to the City's Strategic Plan.

As we move forward with implementation and refinement, it is imperative that the organization continues to grow in capacity to develop and manage performance with metrics. We will provide additional organizational training on performance management techniques and work to attain the necessary tools needed to capture, validate, assess and report

performance results as we align them with Council’s strategic plan. During the next fiscal year, we will work to further define the PRIDE program by establishing goal champions that lead teams to identify strategic initiatives, build action plans and track and evaluate performance. Our mission is to provide the tools and information needed for our leaders to compare performance over time, review trend analysis, evaluate and benchmark our results and ultimately to continuously improve the organization. Below are a few key definitions that you will find in the budget document. I hope that the City Council and public find it helpful in understanding what we do and determining the value of municipal services.

- Objectives are statements of the program’s performance intentions, which are expressed in measurable terms. We’ve identified performance measures that evaluate objectives.
- Workload measures are very limited as to the managerial or policy making value they provide as information. They are output indicators.
- Efficiency measures are ratios of inputs used per unit of output. They are input indicators that relate the service or product to your resources consumed.
- Knowing the volume of work is important, but to understand what strategies are needed to move the organization forward, effectiveness measures are developed. These measures speak to the results of a program and the quality of service. These measures describe the impact or benefit the program has on our customers.

CUSTOMER SERVICE INITIATIVE

Fayetteville Cares

Now that we have taken the time to develop a performance measurement system, I’d like to pause and mention that this initiative will not make the impact we desire if we fail to pay attention to our customers. Even if we have “the numbers” to tell our story, poor customer service will trump all other information. Accordingly, we are launching “Fayetteville Cares” in response to the City Council priority to enhance customer service across the entire organization. In keeping with this priority, below is a vision for the City’s customer service program, which will create a culture of customer service and build a community where we demonstrate that each person is important.

Communication
Awareness
Responsiveness/RESPECT
Execute & Evaluate

Communication

- Communicate internally/externally through an integrated multi-channel approach – consistent and accurate information across all channels (website, in-person, phone, social media, etc.) and across all departments
- Provide easy access to information on where to go for answers, FAQs (aim to eliminate customer run-around). Encourage customer self-service/interactive websites
- Capture the voice of the customer and listen; establish channels for hearing the customer – customer survey on expectations and preferences, encourage customer feedback at the point of interaction. Develop system for two-way communication with customers. Internal & external communication should be fast, accurate and efficient – employees could be updated daily on the intranet with news alerts provided.

Awareness

- Who is the customer? Every department should know their customers.
- Organizational knowledge for City employees. Every employee should have knowledge beyond their department's function.
- Employees should know each other and have a general idea of the role of each person.
- Map out the customer experiences in departments.
- Manage customer-related data to discover patterns and trends.
- Each department should develop service standards for each service line and communicate standards to team members.

Responsiveness/RESPECT

- Treat customer requests/expectations as priority. Aim for shortest time for complaint resolution.
- Empower customer, allowing employees to solve some problems on the spot.
- RESPECT: Treat internal and external customers with courtesy and respect.

Execute & Evaluate

- Develop and implement customer service plan. Leverage technology to enhance customer service delivery and customer experience.

Customer Service Plans

Each department develops a customer service plan, which incorporates the Fayetteville Cares components and according to the following guidelines:

- Set goals for overall customer service delivery
- Identify who the customer is for departmental programs and services
- Identify expectations of each customer group/clusters and develop systems to continuously update customers' changing needs

- Map out operational processes to seek to reduce cost, accelerate delivery and identify opportunities for customer self service
- Develop service standards and metrics by way of performance goals and key actions required to achieve goals
- Train employees on customer service skills
- Leverage innovative technology to improve the customer experience and reduce cost
- Develop evaluation plan to assess customer service program

Now that I have outlined the revenue context through a peer city comparison, reviewed the budget development guidelines, and discussed the dramatic shift to performance management with a customer service focus, I'll turn my attention to a summary of the revenues followed by expenditure highlights.

REVENUES

- Property tax rate of 49.8 cents per \$100 of assessed valuation, a 4.2 cent increase from the previous fiscal year (9.2% rate increase). The property tax hike will fund new initiatives for Police, Development Services and Economic Development
- Fee increases for Parks & Recreation after-school and summer programs (\$35K), and a variety of Development Services fees (inspections, permits, citations, etc. - \$167K)
- Environmental Services Fund – Residential Solid Waste fee increase of \$2 from \$38 to \$40 per year
- Stormwater Fund – Stormwater fee increase of 50 cents to \$3.50 per month (per ERU)
- Airport – New \$4 rental car customer facility charge dedicated for future capital improvements
- Project 8.3% increase in FY2015 current year taxes over FY2014 estimate
- 1.0% estimated growth in real and personal property tax base - 1.84% excluding FY2014 late listings and discoveries; 2.0% estimated growth in motor vehicle tax base; Offset by return to 12 cycles of motor vehicle tax collections due to transition to the Tax and Tag Together program
- FY2014 sales tax revenues expected to be 3.1% below budget; sales tax remains a volatile revenue source
- Expenditure budget includes \$6.5 million payment to Cumberland County and other municipalities for revenue losses due to past City annexations; FY2015 will be year 2 of the 3-year sales tax agreement

- Project FY2015 utility tax distribution revenues to be 0.4% below FY2014 budget primarily reflecting a decline in telecommunication taxes due to technology shifts by consumers
- Interfund transfer from the Electric Fund is projected to increase by 1.8% over FY2014 - \$12.5 million in FY2015 compared to \$12.3 million in FY2014
- FY2015 proposed budget includes \$2.11 million in loan proceeds to purchase vehicles
- Fund balance appropriation for FY2015 of \$1.9 million is 44.4% less than FY2014 appropriation of \$3.5 million
- FY2015 appropriation of \$1.9 million for one-time uses including \$1.7 million for various capital improvement and information technology projects

EXPENDITURES

- \$1.6M for modest 2% performance increases for general employees and police upper ranks. Current police step plan to remain unchanged (GF, Transit and Environmental Services only)
- 4.7% vacancy rate savings for all GF departments except Fire/Mayor/Council, plus Environmental Services (\$2.7M)
- \$225K for parks bond referendum expenses and education materials
- Additional vehicles associated with new initiatives (\$2.2M)
- FY2015 transfer of \$3.5M to the utility system for water and sewer projects and debt service in annexed areas
- FY2015 transfers to other funds include:
 - ✓ \$6.1M to Environmental Services Fund
 - ✓ \$3.7M for street resurfacing
 - ✓ \$3.5M to Transit Fund
 - ✓ \$1.4M for information technology projects
 - ✓ \$2.2M for other transportation projects
 - ✓ \$1.5M for facility renovations and improvements
 - ✓ \$0.9M for loan repayment to Risk Management Fund
 - ✓ \$0.5M for facility repairs

HIGHLIGHTS

- Unassigned Fund Balance for General Fund - projected to be \$16.7 million at June 30, 2014; projected unassigned fund balance at 11.0% of FY2015 General Fund budgeted expenditures, excluding County recreation program. Policy is 10% and goal is 12%

Budget Message

- Municipal Service Districts Property Tax Rates - Propose Central Business District remain unchanged at 10 cents per \$100 value
- Lake Valley Drive Municipal Service District current rate is 34.5 cents per \$100 value; propose 24.5 cents for FY2015
- Stormwater utility fee is currently \$3 per month (ERU) and is proposed at \$3.50 per month; annual increase of \$6 to produce an additional \$879K per year; primary purpose of increase is to fund storm drainage system improvements
- Environmental Services Fund proposed solid waste fee is \$40 per year; annual increase of \$2 to produce an additional \$121K, which equates to \$3.33 fee per month; purpose of increase is to reduce subsidy from General Fund
 - ✓ Provides contribution towards curbside household trash, yard waste, recycling and bulky item services, as well as annual leaf vacuum services; \$1.09 million in capital lease proceeds to finance vehicles
 - ✓ Customer service initiative - transition to automated collection trucks continues to improve service without increasing costs; created an excess debris crew; added a route administrator
- Transit Fund customer service initiative - added two full-time customer service representatives in place of temporary agency services; added four full-time bus operators in place of overtime and temporary employees; added a civil rights analyst in place of an office assistant

SUMMARY

The proposed budget for FY2015 is balanced and:

- Increases the current tax rate of 45.6 cents per \$100 of assessed valuation to 49.8 cents per \$100 of assessed valuation, a 4.2 cent increase from the previous fiscal year
- The property tax increase will fund new initiatives for Police, Development Services and Economic Development
- The tax rate assumes grant funding for four of the added police officer positions
- FY2014 sales tax revenues expected to be 3.1% below budget
- Minor fee increases are included for Parks & Recreation, Development Services, Environmental Services and Stormwater
- Expenditure budget includes \$6.5 million payment to Cumberland County and other municipalities for revenue losses due to past City annexations; FY2015 will be year 2 of the 3-year sales tax agreement
- 4.7% vacancy rate savings is projected for all GF departments, except Fire/Mayor/Council, plus Environmental Services (\$2.7M)
- \$225K is budgeted for parks bond referendum and education campaign
- Additional vehicles associated with new initiatives are budgeted (\$2.2M)
- FY2015 transfer of \$3.5M to the utility system is for water and sewer projects and debt service in annexed areas

Budget Message

This proposed budget focuses on implementing the City Council's strategic goals: police staffing; broader economic development program; parks and recreation capital projects funding; customer service initiative; and comprehensive land use plan; thereby responding to community concerns, realizing efficiencies and leveraging new revenues when possible, all while maintaining a solid base of core services for our residents.

On behalf of the City Manager's Office, I would like to thank City staff for their service to the community and assistance in developing this recommended budget. In particular, I would like to thank Chief Financial Officer Lisa Smith, Budget Manager Tracey Broyles and the Finance Department staff for their efforts that resulted in the enclosed balanced budget. I'd like to thank Rebecca Rogers-Carter for her leadership on performance measurement. I'd like to thank Deputy City Managers Small-Toney and Bauer and Assistant City Manager Reinstein for their attention to detail and good counsel. Finally, I would like to thank the City Council for providing clear strategic direction for the budget development process.

Respectfully submitted,



Theodore L. Voorhees, ICMA-CM
City Manager