

TO: Mayor and Board of Aldermen

SUBJECT: Proposed 2008 - 2009 General Fund Budget

The proposed General Fund Budget for the 2008-2009 Fiscal Year is hereby submitted for your review. The document calls for expenditures of \$13,396,910, an increase of \$784,980 from the original 2007-2008 General Fund Budget of \$12,611,930. This represents a rise of 6.22%.

In the second part of this section, there are sheets comparing the estimated revenues and expenditures for the current fiscal year with those proposed for the next fiscal year. With these sheets, there is a brief notation as to the major increases or decreases in various revenue sources or in the expenditures for each department. The budget narrative which follows will give more detail about these changes and attempts to explain any new programs or major differences in the 2007-2008 budget.

I. REVENUES

In the coming year, it is projected that **General Fund Revenues** will be \$11,378,800, and to meet the anticipated expenditures of \$13,396,910, it would require the use of \$800,000 in General Fund reserves, \$198,510 in Powell Bill reserves and the transfer of \$1,019,600 from the Enterprise Funds. During the 2005-2006 fiscal year, we made some sizable transfers from the General Fund reserves for the fire station project and our fund balance was reduced; however, those reserves grew again and we have been able to commit over \$1.4 million from reserves to assist with the renovations and expansion of the police station, development office and town meeting space. Over the years, we have discussed the need to reduce the dependency of various funds upon transfers from the Electric Fund. In the 2006-2007 budget, the Town Board reduced the transfer from the Electric to the General Fund by \$100,000, and in 2007-2008, the Board reduced that transfer to \$875,000. In 2008-2009, we had hoped to reduce that number further, but the economic situation and certain challenges within the Electric Fund made it impossible to reduce the transfer. With the growing health of the Water and Sewer Funds, we are proposing that those funds contribute a portion of their revenues to the General Fund.

During 2006-2007, the tax base grew well and we experienced a nice increase in property tax revenues. There has been significant growth in the tax base in 2007-2008, and this will result in a nice revenue increase from the property taxes. During the past fiscal year, our tax collection percentage ran higher than in previous years, so we are not expecting a large increase in tax revenues for the 2008-2009 fiscal year. If anything, we are concerned that with the possibility of a recession and skyrocketing fuel and food costs, the property tax collection rate may drop some as people have to make decisions about buying essentials and to delay paying property taxes.

Our other major source of revenue in the General Fund is the sales tax. The Town receives four different sales tax revenues. The first is a 1% tax and it is based upon sales in Haywood County. The second and third are two one-half cent sales taxes based upon sales on a statewide basis. The last is a half-cent passed in 2004 as a compensation for various State-shared taxes which Governor Easley took from local governments when the budget for the State of North Carolina was extremely tight. It is also distributed on a statewide basis. This past year, the economy in Haywood County apparently ran a little stronger than that of the rest of North Carolina, for the revenues from the 1% local sales tax increased 3.4% while the two half cent taxes distributed on a statewide basis actually decreased by slightly less than 1%. The third half-cent sales tax remained relatively flat, gaining only \$520, which is around one-tenth of one percent on \$415,720. We are being very conservative in our revenue estimates for the sales taxes for 2008-2009, using a growth rate of 1.25% to 1.5%.

For 2008-2009, major changes in revenue sources in the General Fund would be: Property Taxes (\$92,820), Sales Taxes (\$50,820), Utilities Franchise Tax (\$20,080), Powell Bill Bridge Reimbursement Program (\$300,000), Police Grants (\$40,000), Fire Protection Charges (\$24,620), Sanitation Fees (\$68,770), Recreation Fees (\$32,000) and Donations for Public Art (\$24,000).

There are several revenue sources which we expect to decline or cease in the coming fiscal year, and these include: Cable Television Receipts (\$21,550), Powell Bill Revenue (\$30,660), Building Permits (\$20,000) and Investment Earnings (\$105,140). There are some revenues we expected to decline, such as the Grant Accounts for the Richland Creek Greenway (\$308,000) which will be substantially complete, Miscellaneous Grants (\$72,750) for the federal funds for the fire department radios and the Sale of Fixed Assets (\$323,000) where the sale of the former Pancake House property located at 59 Depot Street is recorded.

As the budget stands, the use of \$800,000 from the General Fund reserves would be necessary to balance the upcoming budget, up from the \$682,080 that we originally appropriated in the 2007-2008 budget. As it turned out, though, it appears that we will not have to use any of those reserves to balance the current budget. Last year, we proposed the use of \$60,600 in Powell Bill Reserves, and we will use around \$39,220 of those funds. In 2008-2009, we are proposing the use of \$198,510 to balance the proposed expenditures for Powell Bill purposes, and this will go primarily toward the Town's share of the cost of the Hendrix Street Bridge.

As noted, we had hoped to reduce the transfer from the Electric Fund to the General Fund in 2008-2009. In 2003-2004, the transfer was \$1,227,050, and that number was reduced to \$900,000 in 2006-2007. The transfer was further reduced to \$875,000 in the 2007-2008 budget. With a tight budget, we are recommending that the transfer remain at that level for 2008-2009, but we maintain a hope that in the future, we will be able to reduce the transfers and continue to free other funds from dependency upon the Electric Fund. For the first time in 2006-2007, we proposed a transfer of a small portion of the Water and Sewer Funds to the General Fund, and we are continuing that plan in 2008-2009. The General Fund should receive \$74,420 from the Water Fund and \$70,180 from the Sewer Fund.

II. EXPENDITURES

In the coming year, it is projected that **General Fund Expenditures** will total \$13,396,910, exceeding our anticipated expenditures for 2007-2008 by \$974,560, an increase of 7.85%. A good portion of this increase relates to loan repayments on capital outlay for buildings and equipment or for construction projects or one time grants. As might be expected, with 165 full time and 60 part time employees, a goodly portion of the Town's budget is tied to personnel costs for wages and fringe benefits. In fact, with an appropriation of \$5,246,920 for salaries and wages and \$2,364,990 for fringe benefits, personnel costs make up almost 57% of the General Fund budget for 2008-2009. In the upcoming year, we are recommending a 3.5% cost of living wage increase, and when combined with the related impact upon fringe benefits, that will mean an increase of \$183,425 in the General Fund budget.

For the past several years, the Town has been hit with double digit increases in the cost of hospitalization insurance on an annual basis. Fortunately, the past year has been one in which employee usage of insurance benefits was lower than expected, as a result, the premium increase was much lower than normal. In addition, our carrier gave us an option of a "no-increase" situation by changes in the prescription drug program. This will be discussed under the Insurance portion of this report.

Significant budget increases fall into the areas of Capital Outlay, especially for the construction of the Hendrix Street Bridge (\$475,000), Debt Payment on Commercial Garbage Trucks (\$82,900), Debt Payment on the new Fire Station (\$170,060) and Cost of Developing a Debris Landfill (\$50,000). We will also have expenses associated with several studies in the Planning Department: Russ Avenue (\$40,000), Pedestrian (\$20,000) and Historic Preservation (\$8,000). And there is an appropriation of \$30,000 for a Planning Consultant to assist with a review of the Land Development Standards.

In Section 6 of the Budget, you will find comparisons for each of the six funds the Town operates. These show the actual amount of revenues and expenditures we are estimating for 2006-2007 compared with the amount we project for the 2008-2009 fiscal year. These charts may be helpful to the Board in understanding the origin of the money and how it is spent.

III. APPROPRIATION FROM RESERVES & INTERFUND TRANSFERS

The 2008-2009 General Fund Budget calls for a **Fund Balance appropriation** of \$998,510, with \$800,000 coming from undesignated reserves and \$198,510 coming from Powell Bill funds. The amount coming from Powell Bill reserve funds has been building for a few years in anticipation of replacing the Hendrix Street Bridge. The \$800,000 coming from the undesignated reserves of the General Fund is larger than we typically suggest; however, in 2006-2007, we allocated \$682,080 from General Fund reserves and spent none. We feel comfortable making this recommendation.

In the 2004-2005 budget, we transferred \$1,227,050 from the Electric Fund to the General Fund and in 2005-2006 we dropped that number to \$1,000,000. In 2006-2007, there was a reduction to \$900,000, and in 2007-2008, we reduced that to \$875,000. We wanted to reduce this another \$25,000 in 2008-2009, but have been unable to do so. When you consider the total transfer, you should realize that of the \$875,000, \$370,850 is the debt payment on the Waynesville Recreation Center. When that expense is deducted from the \$875,000 to be transferred, the balance used solely to subsidize General Fund operating expenditures is \$504,150. That figure is close to what we were transferring to the General Fund prior to construction of the Recreation Center.

As you know, by subsidizing the General Fund, the Town has been able to keep the property tax rates much lower than other municipalities. Based upon new property valuations, one cent on the tax rate produces around \$100,000; consequently, the transfer of \$875,000 is the equivalent of approximately 8.75 cents on the property tax rate. For the fifth consecutive year, we continue to deal with the financial impact of fuel adjustment charges passed along by Progress Energy, and we have seen reductions in the fund balance in the Electric Fund as we absorbed some of those increases. With the construction of the substation and other needs, there are fewer reserve funds for the Electric Fund to share with other funds, so we feel the Town should continue to reduce transfers as much as possible.

IV. TAXES AND FEES FOR 2008-2009

In the 2008-2009 fiscal year budget, we are proposing that the property tax remain at its present level of 40 cents per \$100 valuation. Of that amount, we anticipate that roughly 4 cents per \$100 will be needed to pay for the local share and the debt service on the new fire station and the new police/development office. We have been transferring funds into a Capital Project Fund to pay for the construction costs, but during 2008-2009, we will begin paying the actual debt service on the loan on the fire station. One loan of \$1,000,000 is with BB&T, and we are already repaying that loan. The other loan is for \$2,000,000 from the Rural Development branch of the U. S. Department of Agriculture. We will be closing the loan with Rural Development in August, 2008, and our debt payments will begin after that. For the police station, the entire \$3,000,000 loan will be with Wachovia Bank, and we will begin making semi-annual payments after the loan is closed this summer.

The Town, like all consumers, has seen the cost of gasoline, oil and diesel fuel skyrocket in recent years, with our expenditures for vehicle fuel rising from \$104,194 in Fiscal Year 2004 to an estimated \$334,900 in Fiscal Year 2009. In terms of fuel costs, the Sanitation Department is one of our most expensive operations. Each day, we operate five sanitation vehicles in residential areas, collecting garbage, junk, recycling, yard waste or leaves and chipping limbs, and most of these units get low gas mileage. This is an expensive operation, and we provide a very high level of services for the small fee charged. In 2008-2009, we are proposing that the residential garbage fee be raised from \$4.50 to \$5.00 monthly. In comparing this fee with other communities, we found that as with our taxes, water and sewer rates, the fee charged for sanitation services is on the low side, and taxes continue to subsidize the sanitation service provided citizens.

We are also recommending that commercial garbage fees increase about 11% to help cover operating costs. Beginning July 1, 2008, the State of North Carolina has mandated a \$2.00 per ton fee on all solid wastes to cover the cost of remediating "orphan" landfills abandoned prior to the implementation of EPA closeout regulations. The County may increase tipping fees, and if so, we will have to ask you to pass along those fees to our customers. The new front loading commercial garbage trucks are on order and will arrive in the early fall, and we are ordering new dumpsters to go with those trucks. We will be assessing the size of dumpsters and frequency of collection needed by the business and working on a new rate structure for those businesses. We will return to the Board later this year seeking your approval of the rates for front loading dumpsters.

During the past year, there have been discussions about establishing a Fire District Tax for all areas located outside of Town and served by the Waynesville Fire Department. At the present time, there are three fire tax districts to which our Fire Department responds, and there are a number of areas on the Town's water system which pay a \$3.00 per month fire fee. There are other areas to which the Town's department responds, but which pay nothing for fire service. We have asked that Haywood County establish a fire tax district for all areas to which the Waynesville Fire Department responds, and this may go into effect in 2008-2009. If not, we are recommending that fire service fees paid by customers outside of the town be raised to \$4.00 per month. This will assist with the operating cost of the new fire station.

The Recreation Center opened in December, 1999, and since that time, there has been one increase in fees and rates charged. That was in 2005, and there has not been a rate increase in the three years since. In 2008-2009, we are recommending that the membership fees be increased 5% and that daily admissions for all categories be raised by 25 cents per person. Fees for other services and rents at the facility are scheduled to increase if the Town Board is in agreement.

V. HIGHLIGHTS OF EXPENDITURES FOR 2008-2009

A. Cost of Living Adjustments and Retirement Contributions

Starting with the first full pay period in July, we recommend that all full-time town employees receive a 3 ½ % **cost of living** raise. This is close to the rise in the Consumer Price Index for the Southeastern Region and is a figure intended to assist employees in meeting inflation costs. For many employees, most of their income goes for gasoline, home energy costs and food, all of which have been increasing at a rate in excess of the general inflation rate. For them, I wish we could recommend more, but revenue growth has been limited and we have budget constraints that limit additional compensation.

As has been done for several years, funds are provided to make a 5% contribution to a **401(k) retirement account** for every full-time employee. Employees may invest that money as they choose and may contribute their own money into the 401(k) account. In addition to the 401(k), the Town contributes 5% on behalf of every full-time employee to either the **Local Government Employees' Retirement System** or to the **Local Law Enforcement Officers' Retirement System**. Employees also contribute to this retirement system and it is one of the finest benefits that is offered to our personnel.

As the Board is aware, we have some of the best employees that can be found in any organization, and it is important that we continue to provide them with decent wages and fringe benefits as a reward for the excellent work they do for the community.

B. Employment Levels

In 2007-2008, we added several new employees including two police dispatchers, a drug detective, a new building inspector and a new employee in Streets and Sanitation. Some of these positions were funded for one-half year and in 2008-2009, we will be seeing the cost for a full year of employment. We enter the fiscal year with 123 full time positions in the General Fund.

While we considered a few new positions in the 2008-2009 budget, we decided that the financial situation was such that we did not feel comfortable recommending the addition of more personnel at this time. Some positions considered were an assistant in Human Resources to help Ms. Margaret Langston with her work load. Another was the possibility of a full time employee in Information Technology. As an option, we chose to recommend a broad contract with the computer firm we are using now to improve on what we are presently doing and to expand into new areas. We also considered expanding the part-time Administrative Assistant's position in the Administrative Department into a full time position, but again, the financial position was not one that warranted this addition.

In 2006, the Town Board approved the position of Assistant to the Town Manager. During the time that Ms. Alison Melnikova has held the post, she has been a valuable contributor to the organization. She has shown great determination and dedication, and as we begin the 2008-2009 fiscal year, I would like to upgrade that position to Assistant City Manager with compensation more fitting of the duties and responsibilities she has taken on and handled so well.

C. Fringe Benefits Costs

The greatest fringe benefit provided our employees is health insurance. Over the years, the cost of health insurance has increased far in excess of inflation rate. We have tried various means in response to increasing costs - changing deductibles, changing providers and requiring that employees start picking up a share of the cost of this benefit. There is no charge to employees for their own health insurance, only for that of their dependents, and the Town continues to pay the full premium for an employee and for retirees with at least ten years of service. As noted at the Board Retreat, we are looking into some possible changes on health insurance for some of our long term employees.

As we neared completion on the preliminary budget work, it appeared that the health insurance premiums from Blue Cross-Blue Shield would be increasing rates by 5.2%. That is much lower than increases in previous years but still a substantial increase when you consider that the Town is paying around \$1.5 million for health insurance. Then our carrier advised that if the Town would agree to change the prescription drug program, they could continue our coverage for no increase in premiums. While generic prescriptions would remain at a \$10 co-pay, the co-pay on brand names and specialty drugs would increase by \$10. This change will save the Town a great deal of money.

Our dental and life insurance coverage is provided through the North Carolina League of Municipalities which also provides our **Worker's Compensation, Property, Automotive and Liability Insurance**. We were pleased to learn that the premiums on property, automotive and liability insurance will again decline next year as the Town will be receiving some credits due to the length of time it has participated in those programs.

In addition to the 401(k) retirement program, the Town offers the opportunities for employees to participate in other retirement programs, to purchase extra life insurance for themselves or their dependents, to establish pre-tax health savings accounts or special eye care accounts and to take part in a variety of other programs.

The budget includes funds for **Longevity, Safety and Christmas Bonuses**, and as required by federal law, the Town contributes 7.65% of earnings for each employee to Social Security. Our Town employees enjoy a generous fringe benefits program.

D. Capital Outlay/Infrastructure Improvements Costs

In the 2008-2009 fiscal year, the appropriation for capital outlay in the General Fund is recommended to increase by approximately \$245,000. While there are some new capital purchases proposed, most of the increase is the result of loan payments to be made for either the fire station, the commercial garbage trucks or for the expense of establishing a debris landfill.

When budgets are tight, one of the first places people will reduce expenditures is in Capital Outlay, and we had to make some very difficult decisions on some of the items requested by our department heads. We could not fund all of these requests, though we know that department heads were sincere in asking for funding. We ask each department head to prioritize their budget requests for capital outlay when they meet with the Finance Director. In Section VI of the Budget, you will find a listing of the capital items requested by each department and the items approved. You will also see a number in front of each item requested, and that denotes the priority order on the department's list. Waynesville's elected officials have been very generous to provide funds for vehicles and equipment, and I believe the town employees do a good job in providing proper care and maintenance of the equipment. Most of it is in very good operating condition.

One item requested but left off the list is a new fire truck. We would like to give the fire department authorization to begin preparing the specifications to bid the truck in early 2009. Delivery would likely come after July 1, 2009, and the first payment would come in the 2009-2010 budget. This unit would become the front line truck at the new station, replacing a 1988 model which would become the backup pumper.

As we have done since 1995, we continued development of the Five-Year **Capital Improvements Plan (CIP)**, and we expect department heads to pay attention to this planning tool each year when developing budget requests. Much time was spent by the departments in developing the list of items that they felt needed to be replaced over the next five years. A CIP must be adjusted annually depending upon changing conditions or new circumstances. Such a plan should cause us to develop replacement schedules for major equipment, and help prevent a situation where all big-ticket items have to be replaced at the same time. We will continue our annual work on the CIP.

E. General Operating Expenditures

During the past year, we saw significant increases in a variety of products we purchase. Many vendors are assessing fuel charges for the delivery of their products to Waynesville. The higher cost for other products such as gasoline, concrete, materials containing steel and various other items are driven by a worldwide demand for such goods. In February, 2004, the Town was paying 97 cents per gallon for fuel. That number grew to \$1.45 in February, 2005, and in April, 2007, we paid \$2.20 per gallon. We went into 2007-2008 using a cost of \$2.30 per gallon, but we are paying an average of over \$3.00 per gallon for gasoline and diesel at present. Please understand that price does not include the taxes since the Town is exempt from those. We are hoping that prices will settle a bit during the coming year, and we are budgeting an average of \$3.10 per gallon for the 105,000 gallons of fuel the Town uses.

Our travel and training expenses are up slightly for next year as motels and food in restaurants have increased as well as fuel costs associated with travel. We continue to emphasize additional training for our personnel so that they will be more capable of stepping into positions that become vacant in our organization as more and more employees retire. We want to promote from within when we can and when our employees are capable. We have to try to make sure they are. We are also implementing a program in the police department where there will be some reimbursement to officers who seek their criminal justice degrees, and that should extend to other departments for job related education.

F. Miscellaneous Costs

The **Professional and Contract Services** amount will increase this year but are really carryovers from work that was planned but not done in 2007-2008. Some of these include the engineering costs associated with the replacement of the Hendrix Street Bridge and some large expenditures for engineering and planning work on redesign of Russ Avenue and the Pedestrian Grant. As requested by the Town Board, we have allocated funds for a Pay and Classification Study and for a consultant to assist the Planning Department with a review of the Land Development Standards. Our legal fees rose slightly this past year due to the increase in court time and in filing some lawsuits over property issues. If these cases go to trial in the coming year, the legal fees may increase somewhat. We are recommending an increase in the rate paid our town attorney to \$140 hourly, which is more in line with legal fees paid by similar towns.

The expense for **Special Appropriations** in the 2008-2009 budget is about the same as the current year. The Donations and Contributions to various organizations remains at \$155,000. The Town will be making the final payment of \$30,000 in meeting its five year commitment of \$30,000 annually to Folkmoot for improvements made to facilities that organization rents from the Haywood County School System. The Town also contributes \$30,000 annually to the Economic Development Commission. In a separate document, the Board is provided a list of the requests and letters received from various organizations.

The final category in the budget is for **Debt Service**. There are some new debts added to what the Town must pay in the 2008-2009 General Fund budget. The following are debts which appeared in previous budgets:

1. the tenth of twenty years on the Waynesville Recreation Center (\$370,850),
2. the second of four payments on three trucks for sanitation (\$56,250),
3. the sixth of fifteen payments to Haywood County for the parking deck (\$227,050),
4. the fourth of five years of bull dozer payments for the Town's landfill (\$15,800),
5. the second of five years on the telephone system for all town facilities (\$18,030),
6. the second of 15 years on the BB&T loan for the fire station (\$177,550).

New debts appearing in the 2008-2009 budget include the following:

1. the first of 20 years on the \$3,000,000 loan on the police station (\$213,250),
2. the first of 5 years on the front loading garbage trucks (\$82,900)

VI. NOTEWORTHY ITEMS

In evaluating the 2008-2009 General Fund budget, a good deal of the document is related to the growth of the community. In fact, the same can be said about the budgets of the Enterprise Funds as well. Much of the work we have done for the past few years has been planning and constructing the new fire station, and we should be occupying that facility by the time we begin discussions on this budget. During the past year, we have been involved with planning for the renovation and expansion of the police department and the construction of the development office and meeting space. The preconstruction conference on that facility is scheduled for May 14, and the project will be completed by late summer of 2009. These facilities were needed to improve the delivery of services to the citizens and should serve the town for many years into the future

Another noteworthy item in the 2008-2009 budget involves the community planning being proposed. Grants have been received to help the Town evaluate the traffic situation on Russ Avenue and for the development of a plan to try to assist with the current and future flows. This is the busiest street in the town and projects are that traffic counts will increase by 50% over the next 20 years. Another planning effort will see fruition as a result of the Pedestrian Planning Grant which was awarded to the Town. Over the past decade, we have tried to expand our sidewalks and pedestrian facilities, for more and more people are walking for exercise and enjoyment. With the price of gasoline, more people may be walking simply as a means of transportation to and from work or play or shopping. We want to assess walking patterns and the way we construct pedestrian ways at present and find ways to make these more useful for our citizens.

The Land Development Plan was passed in April, 2003, some five years ago, and it seems the appropriate time to revisit the Plan to see how it is serving the community and determine if there are ways to make improvements to the document. In the new budget, funds are provided to hire a Planning Consultant to assist the Town with this work. But the document cannot be one developed by a consultant - the elected officials, town staff and representatives of the community must participate in the process if we are to end up with a document that has any meaning. We must have an understanding of what needs to be accomplished in our community and then set out to adopt a Plan which will lead us there. We have the chance to keep South Main Street from becoming another Russ Avenue. How will we handle that challenge and opportunity?

We are an organization searching for ways to improve performance and that often means that changes are necessary in the way we currently do things. During the coming year, we will begin introducing a switch to front loading trucks for commercial sanitation service. There will be challenges in accomplishing this changeover, for not every location will be interested in making the switch; however, it is a much more efficient means of collecting garbage and much safer for our employees than with the side loading trucks.

We are faced with some decisions about the collection and disposal of the various forms of yard wastes – limbs, wood chips, brush, hedge clippings, leaves and grass cuttings. We are depleting the space the State says we have available at the old landfill site and some new alternatives must be found. Funds are provided in the 2008-2009 budget to begin work on this issue, and we must search for a long term goal to the problem. Perhaps that means finding a new site or perhaps it means finding a way to make additional use of the site we have available.

Construction has begun on WalMart at the Waynesville Commons Shopping Center at the former Dayco Products site. During the coming fiscal year, there will be more commercial development in this center and on properties abutting South Main Street. We anticipate a number of other commercial projects in West Waynesville as there will be such a concentration of people around Waynesville Commons.

The present lull in the housing market will not last forever, and there are a number of residential projects that are on the back burner until the economy gets refocused and reenergized. Many of the housing developments proposed are for second homes or for retirees, and as our senior population increases, the types of services offered by our Parks and Recreation Department will need to change to be more responsive to those who will use our services. The Department is significantly expanding the types of programs offered and will continue to strive to be a broad based department.

We have included a **large appropriation from fund balance**, but the Finance Director and I are comfortable with that number. We have not historically used the reserves, even though we pledge them each year simply to balance the budget. We have been good stewards of the funds entrusted to us by the public, and the reserve funds have been returned to the citizens in the form of facilities such as the recreation center, new fire station, new police station/development office or buying the Dayco site out of bankruptcy. Waynesville remains in a much stronger financial position than most local governments, and our fund balances have consistently been high.

Town personnel will be granted a 3 ½ % pay increase in 2008-2009, and there will be no increase in health care costs for the Town or in the portion employees have been paying. The level of benefits is far superior to what most employers are able to offer. The quality of life in a community is often associated with the quality of services the municipal government is able to provide. Those services are provided best by a contented and dedicated workforce. With a satisfactory level of compensation and quality fringe benefits offered to the employees, we believe we can continue to have a workforce that is contented and dedicated. This in turn will lead to a continuation of those high level of services which we believe will result in a high quality of life for our town.

VII. SUMMARY

During the late 1970s and early 1980s, inflation was rampant, running at 12% or more a year. At the time, I was the manager of a small town in the mountains of Virginia. When you ordered an item, it was quite likely that by the time it arrived, the price would have increased. You never knew what you were going to be paying for a commodity and if you would be able to afford the item.

As I look at our economic situation today, I see some similarities. The price of gasoline and diesel fuel has increased astronomically, and the price of so many other commodities has increased because of those same increases in energy costs. We see higher prices for nearly everything that the Town buys, and as we enter the next fiscal year, we are very uncertain about the economic conditions for 2008-2009 and how those conditions will affect Waynesville.

Because of the uncertainties, we believe we will need to approach the next year with caution. We are not convinced that we have allocated sufficient funds to cover the costs of gasoline and diesel in the year to come, and we will gauge those costs constantly as the year progresses. If costs continue to rise and it appears that they will exceed what has been appropriate or if our revenues do not measure up to projections, we may need to consider cutbacks in certain projects or delay purchases planned.

I do not mean to preach 'gloom and doom', I just want to express our concerns about how the national and global economy may affect the budget for Waynesville. If we need to make changes during the coming year, we will be prepared to make whatever changes are necessary to assure that our organization maintains its fiscal strength.

We are concerned for our town employees, for we know that they face the same rising prices that the Town faces. We had to make severe cut backs to capital outlay requests for the coming year, but we wanted to make sure the pay increases proposed for our personnel were protected. As we have stated many times, there is no greater asset in this organization than the town employees, and they are largely responsible for the high level of services offered our citizens.

We are also blessed with an outstanding group of elected officials, people who are sincere in their desire to serve the community and dedicated to making things better. If there are challenges and hurdles ahead, I can think of no other group of employees, department heads and elected officials with whom I would rather face those challenges.

These are certainly challenging times, but they are exciting times. We look around our community and we see many changes. The manufacturing industry of old is fading and new forms of economic development are emerging. Many years ago, the economy of Waynesville was driven by tourism, and tourism has again emerged as one of the strongest legs of our local economy. To take advantage of that, we must have a community that is attractive, a clean environment and a local economy that is viable. And we need to build partnerships with other communities to draw outsiders to our region.

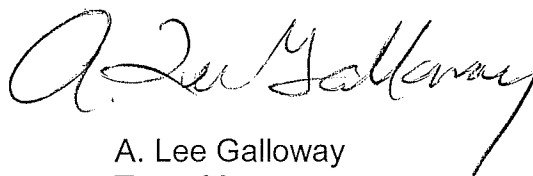
It is exciting to see a new fire station going into service, to see contracts ready to be let for the renovation and expansion of the police department and construction of the development department, to see the water plant lab expansion placed into operation and seeing plans for the new electric substation being finalized. But it is also exciting to see new sidewalks and storm drainage being constructed and water and sewer lines being upgraded and replaced.

But I find excitement in more than construction projects. I am enthused when I see planning efforts underway to improve current and future traffic flows on Russ Avenue, to enhance the pedestrian connections in our community and to revisit the Land Development Standards with a goal of having that document serve the needs of this community better. I know that a greater attention to Public Art will make our community more interesting and attractive to residents and visitors alike. I am honored to work with a group of dedicated professionals and volunteers in developing the Forestry Management Plan for the watershed, and I find great satisfaction in participating on the Watershed Committee and seeing the environmental consciousness displayed by that group.

Little pleases me more than to assure that this organization maintains a solid financial foundation, regardless of the enormous challenges that lie ahead. We are constructing buildings, caring for the infrastructure, making our community more attractive and safer and improving the quality of life for our citizens and all the while, we are continually building the finest group of employees possible and looking after their needs. More than anything, as we do these things, we must be good stewards of the money and resources with which we are entrusted by the citizens. If we leave any legacy to those who follow as administrators or elected officials, it must be that we are able to accomplish all of these things and more and still keep the town financially sound. Now that is the ultimate challenge!

We stand ready to answer any questions which you might have and to assist you as you proceed through the consideration of the 2008-2009 document. As you review the materials presented, please contact Finance Director Eddie Caldwell or me to answer your questions or if additional information is needed

Respectfully submitted,

A handwritten signature in cursive script, reading "A. Lee Galloway". The signature is written in dark ink and is positioned above the printed name and title.

A. Lee Galloway
Town Manager

PART 2 - 2008 - 2009 - PROPOSED BUDGET

I. GENERAL FUND			
A. REVENUES	EST. ACTUAL 2007-2008	PROPOSED 2008-2009	DIFFERENCE
Real Estate Taxes - Town Comment: The collection percentage has increased and allows us to use that higher collection percentage to estimate collections in the subsequent year. We also have some growth in the tax base from the prior year with some new construction and annexations.	3,848,870	3,941,690	92,820
Real Estate Taxes - Downtown Association Comment: The Tax Collector was aggressive in collecting back taxes in the Municipal Service District last year. Since he has collected much of the past due taxes, available revenues for him to collect will be less.	92,300	87,310	(4,990)
Motor Vehicle Taxes Comment: Values of new vehicles have risen over previous years, but the auto sales are down and we anticipate a slight decline in taxes on vehicles.	284,850	273,740	(11,110)
Motor Vehicle Rental Tax Comment: A tax levied on the rental proceeds on vehicles.	21,000	21,000	0
Tax Refunds and Discounts Comment: Refunds normally issued when people duplicate tax payments made by their mortgage company.	(4,500)	(4,500)	0
Penalties/Interest/Advertising Comment: Revenues in this area hold pretty steady each year.	27,600	28,100	500
Local Option Sales Tax - 1 % Comment: The growth in the sales tax based on Haywood County proceeds increased more this past year, than the other sales taxes based on Statewide distribution. With a stronger local economy, we are estimating a growth of approximately 3% in proceeds.	933,310	960,120	26,810
Local Option Sales Tax - 1/2 % Comment: This revenue source is based upon statewide sales and this resource did not grow as rapidly as local proceeds. We used a growth rate of 1.5% in this revenue source.	967,020	981,390	14,370
Additional 1/2% Sales Tax to Replace Reimbursements Comment: This is the last of the half cent sales taxes approved by the State to replace revenues once shared but subsequently taken. We used a 2.3% growth rate in this category.	416,240	425,880	9,640
Privilege License Tax	19,000	19,500	500
Cable Television Gross Receipts Comment: Under new State laws, the cable company revenues from sales of advertising are not taxable, so we anticipate losing about \$24,000 in revenues in 2008-2009. We do expect some growth in subscriber fees since the cable company increases rates each year.	147,000	125,450	(21,550)

PART 2 - 2008 - 2009 - PROPOSED BUDGET

REVENUES	EST. ACTUAL	PROPOSED	DIFFERENCE
Beer and Wine Tax	43,830	44,710	880
Comment: Growth in this revenue source has been slow and it is distributed on a statewide basis. Areas with faster population growth are likely seeing higher revenues than we are.			
Court Facilities Fees	3,800	4,000	200
Franchise Taxes			
Comment: These revenue sources used to grow steadily, but in recent years, they have been unpredictable. We are being very conservative in our estimated growth and even show a decline in the revenues from natural gas sales over the past two years. Revenues from Telecommunications are estimated higher due to increased use of cellular telephones. Revenues from Electric may be higher due to increases in rates and higher fuel adjustment charges.			
A. Telecommunications	269,310	274,690	5,380
B. Electric	325,000	340,740	15,740
C. Natural Gas	10,450	9,410	(1,040)
Powell Bill Revenue	395,630	365,000	(30,630)
Comment: Waynesville did see a substantial increase in the Powell Bill funds in 2007-2008, but with the increase in gasoline prices, we would anticipate a decrease in consumption and a reduction in revenues from the gas tax. We are being conservative and estimating a smaller amount in Powell Bill fund receipts in 2008-2009.			
80% Bridge Reimbursements	80,000	380,000	300,000
Comment: This is for the 80% reimbursement from the State for Hendrix Street bridge construction. We paid on engineering in 2007-2008 and we expect to see construction underway in the 2008-2009 budget year.			
Sidewalk Reimbursement from DOT	0	0	0
Payments on Behalf of Firemen for Pensions	16,000	16,000	0
Powell Bill Interest Earnings	24,150	14,490	(9,660)
Comment: We may have a little more money in Powell Bill funds to invest, but interest rates have dropped so much, we expect interest earnings to drop as well.			
Police Grant - Others	10,000	50,000	40,000
Comment: Grant funds have been much more limited as federal funds are being used elsewhere and not for law enforcement purposes.			
Unauthorized Substance Funds	10,000	30,000	20,000
Comment: When funds are taken as part of a drug raid or in connection with drug deals/sales, the funds are distributed back to the department involved in the police actions. There has been a decline in funds confiscated in recent years, but we are budgeting an average sum.			

PART 2 - 2008 - 2009 - PROPOSED BUDGET

REVENUES	EST. ACTUAL	PROPOSED	DIFFERENCE
Richland Creek Grant	308,000	0	(308,000)
Comment: Through the support of the Department of Transportation and the State Legislature, additional monies were appropriated for the Greenway. That will be dedicated this year and the grant will cease.			
Richland Creek Action Committee Grants	0	0	0
Comment: Additional funding from the Pigeon River Fund were received in 2006-2007.			
Miscellaneous Grant	137,250	64,500	(72,750)
Comment: We anticipate funds for a pedestrian study and for a study on the redesign of Russ Avenue in 2008-2009 as well as some grant funds for historic preservation and storm water system evaluation. We will lose the grant that paid for fire radios & equipment in 2007-2008.			
Sale of Fixed Assets - Powell Bill Items	2,500	13,500	11,000
Comment: We anticipate the sale of some trucks which were paid for with Powell Bill funds, and we must return the proceeds to the Powell Bill.			
Building Permits	145,000	125,000	(20,000)
Comment: We do not know how to estimate the impacts of the economic slowdown on construction, but seeing a decline in building activity this spring leads us to estimate a decline in permits collections next year.			
Planning Fees	9,000	8,000	(1,000)
Comment: As with building permits, we would anticipate a decline in the applications for changes in the rules and regulations.			
Rezoning and Annexation Fees	3,000	3,000	0
Homeowners Recovery Fund	-500	-500	0
Connection and Reconnection Fees	41,000	41,000	0
Late Payment Penalties	19,000	18,500	(500)
Charges to the Water Fund	181,930	202,280	20,350
Charges to the Sewer Fund	165,320	181,720	16,400
Charges to the Electric Fund	329,730	373,140	43,410
Police Contract Services	55,000	67,570	12,570
Comment: These are revenues for police services contracted out and includes money from the School System for School Resource Officer Waynesville Middle School. The rest is for police services at banks, stores or private functions. We expect an increase in 2008-2009.			
Fire Protection Charges	147,000	171,620	24,620
Comment: With a need for a new fire truck and the higher cost with a new fire station, we are recommending an increase in the fire district fee which is assessed on water bills for those not paying in a fire tax district.			

PART 2 - 2008 - 2009 - PROPOSED BUDGET

REVENUES	EST. ACTUAL	PROPOSED	DIFFERENCE
Commercial Sanitation Fees	360,000	400,000	40,000
Comment: With the increasing cost of fuel and labor and a State imposed fee of \$2 per ton on landfill disposal, we have little choice but to raise rates. If the County's tipping fee rises, we may need to increase rates even more.			
Residential Sanitation Fees	241,000	267,770	26,770
Comment: As with commercial fees, with the increasing cost of fuel and labor and the State imposed \$2 per ton fee on landfill disposal, we feel we must increase rates by \$.50 cents per household.			
Solid Waste Containers - Sales	0	2,000	2,000
Comment: Since the Board approved the switch to front loading trucks we have declined to sell anyone new side loading dumpsters. There may be situations where we must sell the dumpster to the customer, so we are listing a small revenue from any potential sale.			
Solid Waste Containers - Rental	15,600	15,600	0
Comment: In truth, this revenue source will likely be much higher once we implement the front loading collection system and begin leasing front loading dumpsters to our commercial customers.			
Cemetery Lot Sales	20,000	20,000	0
Comment: No increases in charges are recommended for next year.			
Cemetery After Hours Call Out Fees	100	100	0
Comment: This is the charge for call outs on weekends and holidays. It is now being collected on a regular basis.			
Recreation - Memberships	266,000	280,000	14,000
Comment: We are recommending an increase of 5% in membership fees for 2008-2009, the first increase in three years.			
Recreation - Daily Passes	137,800	145,000	7,200
Comment: We are recommending an increase of approximately 25 cents in all of the daily admission categories, the first increase in three years.			
Recreation - Rentals	41,700	42,000	300
Comment: Our facilities are becoming more popular to rent for various meetings and functions, and this is a good source of revenue for the Town.			
Recreation - Department Services	45,000	55,000	10,000
Comment: We are seeing an increased use of all portions of the facility and feel revenues for departmental services will continue to grown.			
Recreation - Contribution from Haywood County	70,000	70,000	0
Recreation - Adult and Children Recreation Programs	70,000	70,000	0
Comment: There was a substantial increase in the revenues for various adult and children programs, and we expect this to remain strong as we continue to expand activities offered the public.			
Recreation - Program Fees at Armory	5,100	5,100	0

PART 2 - 2008 - 2009 - PROPOSED BUDGET

REVENUES	EST. ACTUAL	PROPOSED	DIFFERENCE
Recreation - Rentals Collected at Armory	6,000	6,000	0
Recreation - Child Care	4,550	5,000	450
Recreation - Commissions on Vending Machines Comment: This is the revenue related to sales from vending machines that are placed by others.	3,950	4,000	50
Recreation - Proceeds from Concessions Comment: Since we reopened the concession stand, we seem to see more revenues for the town than from the vending machines.	32,000	32,000	0
Recreation - Playground Comment: There is about \$16,700 left over from contributions toward the Community Playground. This money was presented to the Town for annual maintenance on the playground. Auditors advised us to appropriate the entire balance each year, show what is spent, and then reappropriate the account balance in the following year.	5,000	21,700	16,700
Contributions/Donations - Police	40	0	(40)
Contributions/Donations - Recreation	3,700	0	(3,700)
Community Foundation Donation Comment: When the Recreation Center was being planned, a special fund was established to receive donations. This fund normally provides donations from interest earnings.	1,500	1,500	0
Memorials Comment: This was a new account last year to which citizens and others may donate to purchase items as a memorial to others. Several items were purchased last year but we do not know how much to expect in the future.	10,000	10,000	0
Public Art Comment: These are donations made in support of the Public Art Program. The large budget estimate is in anticipation of donations in support of the art piece that is to be placed at the top of Miller Street.	3,000	30,000	27,000
Miscellaneous Comment: There was a large insurance settlement last year for water damages to the basement of the police department. We do not expect to see similar damages under normal conditions.	38,000	5,000	(33,000)
Rents Comment: These are primarily the rents from cell tower locations, but we anticipate some rental income related to the parking lot in Hazelwood.	28,800	31,200	2,400
Sale of Materials & Fixed Assets Comment: The income in this account was unusually high in 2007-2008 due to the sale of the Pancake House for \$335,000. We expect revenues to return to a more normal level in 2008-2009.	350,000	27,000	(323,000)
Parking Tickets	2,800	600	(2,200)

PART 2 - 2008 - 2009 - PROPOSED BUDGET

REVENUES	EST. ACTUAL	PROPOSED	DIFFERENCE
Noise Ordinance Violations	0	200	200
Comment: This was new in 2001-2002, and allows a process by which an officer can assess an immediate fine if a vehicle's radio is in violation of the noise ordinance. It has been very effective.			
Cash - Over and Short	0	0	0
Bad Check Charges	600	600	0
Investment Earnings	174,520	69,380	(105,140)
Comment: Interest rates have dropped considerably since 2007, and the interest earning are declining as well. We will be reducing our reserves to pay a portion of the cost of the police station and development office, so there will be less funds to invest. Interest earnings will be down a good bit.			
ABC Store Sales Distribution	84,340	82,000	(2,340)
Comment: The ABC Store has reached the maximum amount of funds which it can accumulate and must now submit reserves above that amount to the Town, so our income has been higher in recent years.			
ABC Distribution - Law Enforcement	14,260	13,500	(760)
ABC Distribution - Rehabilitation	8,920	8,500	(420)
Transfer from Water Fund	52,450	74,420	21,970
Comment: We transferred a portion of the water revenues after fund balance is deducted to the General Fund.			
Transfer from Sewer Fund	49,400	70,180	20,780
Comment: We transferred a portion of the sewer revenues after fund balance is deducted to the General Fund.			
Transfer from Electric Fund	875,000	875,000	0
Comment: Over the years, our contribution from the Electric Fund grew to as much as \$1,227,000. As our electric proceeds were eroded by higher fuel costs, we saw the need to transfer fewer funds to the General Fund. We dropped this amount another \$25,000 in the 2008-2009 budget, but in a tight budget situation, we could not do so.			
Fund Balance Appropriated-Powell Bill	39,220	198,510	159,290
Comment: Because of delays in the Hendrix Street Bridge Project, it was not necessary to use as much of our Powell Bill reserves as we expected. We will likely see more used in 2008-2009.			
Fund Balance Appropriated	0	800,000	800,000
Comment: In 2007-2008, we pledged \$687,000 from the reserves of the general fund to balance the budget. Fortunately, our financial position was such that we did not use any of that money. In order to balance the budget for 2008-2009, we are pledging \$800,000 in reserves of the General Fund.			
TOTAL GENERAL FUND REVENUES	12,544,440	13,396,910	852,470

PART 2 - 2008 - 2009 - PROPOSED BUDGET

B. EXPENDITURES	EST. ACTUAL	PROPOSED	DIFFERENCE
Governing Body	127,750	116,160	(11,590)
Comment: Operational costs are down for 2008-2009 since there were two elections that had to be funded in the 2007-2008 budget.			
Administration	808,220	887,320	79,100
Comment: Salaries and fringe benefits are up \$56,280, Professional Services are up \$25,000 for cost of a Pay Study, Fuel Costs up \$6,140, Legal & Insurance deductibles up \$12,500, Capital Outlay down \$30,430.			
Finance Department	755,420	814,950	59,530
Comment: Salaries and fringe benefits up \$19,740, Accounting fees up \$5,000, Professional Services up \$28,000 for contract services on Town computers and systems, Equipment Repair up \$4,000.			
Public Buildings	698,000	909,190	211,190
Comment: Wages and Fringe Benefits up \$3,460, Building Lease up \$11,000 for temporary location for Police, Contract Custodial Services up \$12,400 to add new Fire Station, Loan Payments up \$170,060 to pay for debt payments on new Fire Station.			
Horticulturist	41,500	41,600	100
Comment: We have established a separate account for horticulture to plan and track expenditures a bit easier. Virtually no increase here.			
Police Department	2,977,210	3,183,470	206,260
Comment: Wages and fringe benefit costs up by \$219,530 since 3 new positions authorized in January, 2008, will be fully funded in new budget. Fuel costs up \$5,000, Training up \$11,000, Materials and Supplies up \$5,000, Capital Costs down \$44,800.			
Miscellaneous Police Grants	20,000	80,000	60,000
Comment: Grant funds were not as easy to secure this past year as there have been many cutbacks at the federal and state levels. We will work harder for grants in 2008-2009.			
Fire Department	891,400	830,130	(61,270)
Comment: Wages & Fringe Benefits up \$35,500, Fuel up \$4,000, Capital equipment costs down \$105,000 with close out of grant for fire radios.			
A. Emergency Responders	10,000	12,690	2,690
Streets and Sanitation	2,167,070	2,341,860	174,790
Comment: Wages and fringe benefit costs are up \$63,530, Electricity for street lights up \$10,000, landfill tipping fees up \$10,500, Capital Outlay up \$113,500 for new equipment and composting landfill, and loan payments up \$82,900 for debt on front loading garbage trucks. Dumpsters down \$12,000, Fuel down \$14,000, Vehicle Repairs down \$21,000, Contract Services down \$30,000 from stormwater grant and Equipment Repair down \$25,000.			

PART 2 - 2008 - 2009 - PROPOSED BUDGET

B. EXPENDITURES	EST. ACTUAL	PROPOSED	DIFFERENCE
Powell Bill	541,500	971,500	430,000
Comment: Hendrix Street Bridge construction was planned in 2006 2007 budget but was delayed by State. We are optimistic the bridge will be constructed in 2008-2009, increasing this account considerably.			
Cemetery	122,450	143,910	21,460
Comment: Wages and fringe benefit costs were low last year due to some vacant positions. We expect to have them filled next year and that will mean higher personnel related expenditures.			
Planning and Code Enforcement	222,790	319,300	96,510
Comment: This increase is related to the three grants that are funded in this department - Pedestrian Study, Russ Avenue Design Study and Historic Preservation Grant. These are all expected to be underway and completed in the 2008-2009 budget.			
A. Building Inspectors/Code Enforcement Officer	251,880	269,660	17,780
Comment: Wages and fringe benefits are up \$16,090 since we will have a full year with the four positions in this department filled.			
Special Appropriations	265,580	262,170	(3,410)
Comment: We anticipate a slight reduction in collection of property taxes in the Municipal Service District. There will be a corresponding reduction in the distribution to Downtown Waynesville Association.			
Parks and Recreation	1,992,610	2,161,300	168,690
Comment: Wages and fringe benefit costs are up \$138,990 as there were some vacant positions in 2007-2008. Fuel is up \$12,000, Advertising is up \$11,000 for quarterly publications by department.			
Recreation - Special Projects	351,000	51,700	(299,300)
Comment: There were extra funds from the Department of Transportation and the North Carolina General Assembly that went toward completing the Greenway. There will be a reduction since the Greenway is completed.			
Operating Transfers to Other Funds			
A. Transfer to Capital Projects Fund - Fire & Police Projects	177,970	0	(177,970)
Comment: Last year, we transferred the full revenue from the taxes assessed for these projects. This year, the tax for the police project will be transferred, but the tax for the fire department will remain in this fund for payment on the debt on the station.			
TOTAL GENERAL FUND EXPENDITURES	12,422,350	13,396,910	974,560
C. GENERAL FUND SUMMARY	EST. ACTUAL	PROPOSED	DIFFERENCE
REVENUES	12,544,440	13,396,910	852,470
EXPENDITURES	12,422,350	13,396,910	(974,560)
DIFFERENCE	122,090	0	(122,090)