

TO: Mayor and Board of Aldermen

SUBJECT: Proposed 2011-2012 Budgets for the Internal Service Funds

The proposed budgets for the Town's Internal Service Funds for 2011-2012 are hereby submitted for your review. The Internal Service Funds include operating the Public Works Facility and the Garage. The expenditures total \$927,570 which reflects \$267,880 in the Public Works Operation and \$ 659,690 in the Garage Operation. This is up by \$72,000 from the \$855,570 we expect to spend in the current fiscal year. The expenditures for 2011-2012 are up 8.4% from anticipated expenditures in 2010-2011.

The revenues which provide for the operation of the Public Works Fund and the Garage Fund come from the General, Water, Sewer and Electric Funds, and these are called Interfund Transfers. To determine the amount to be transferred to the Public Works Fund from the other funds, we first determine the cost to operate the Public Works facility. Then the other funds are charged a prorated share of these costs based upon the amount of space each department in each fund occupies on the grounds and inside the structure of the public works facility.

In the Garage Fund, departments have been charged a prorated share based upon their record of use. For many years, we gave a best estimate of the appropriate share each department used of gasoline and diesel fuel. In 2008, a new computerized gas pump system was installed with each vehicle identified as to the department to which it is assigned. In the past, based upon our estimates, some departments used more gas than we thought while others used less. We now charge the various departments more in line with the fuel consumed. We are still working on a formula for charging each department based upon the level of maintenance required to vehicles in that department.

I. HIGHLIGHTS OF EXPENDITURES FOR 2011-2012

A. Cost of Living Adjustments and 401(k) Retirement Contributions

The last time Town employees received an across the board pay increase was in summer, 2008, some three years ago. I am pleased to report that the upcoming budget includes funds to allow a cost of living adjustment of 3% for all full-time and permanent part-time employees. The cost of providing this increase, including the fringe benefits cost, would be \$4,270 in Public Works and \$2,300 in the Garage.

Fortunately, all fringe benefits which our employees presently enjoy will continue without interruption or downgrade. 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 chose and may contribute their own money into the 401(k) account. The funds in the 401(k) account are the property of the employee and goes with them when they retire or when they leave Town employment.

In addition to the 401(k), the Town contributes on behalf of every full time employee to either the **Local Government Employees' Retirement System** or to the **Local Law Enforcement Officers' Retirement System**. With the economic recession in recent years, the Retirement Systems experienced a large decline in the value of stocks and other investments of retirement funds. Another factor affecting the retirement systems is the large number of "baby-boomers" reaching retirement age. An actuary study revealed that a higher level of funding was needed to meet future retirement payments. As a result, the Town's contribution to the Retirement System increased by 1.55% in 2010-2011, going from 5% to 6.55% of payroll. In 2011-2012, there will be an additional .48% increase, and the Town will now pay 7.03% into retirement. Employees have a mandatory 6% deducted from their paychecks for this retirement system, but the share employees contribute will not be increased this year. This is one of the finest benefits offered to our personnel.

The Town has some of the best employees to be found in any organization. Many of them have struggled during the recession, and granting them a 3% cost of living increase will be a welcomed reward for a job well done.

B. Employment Levels

The 2011-2012 budget for the Public Works Fund provides three full-time employees and one part-time employee. These employees handle purchasing and help departments in securing the materials and supplies they need from the warehouse. They also answer the telephone, field questions from citizens about public works type services and make a record of complaints received about a variety of topics. The part-time employee assists departments with paper work and administrative details. We actually have funds budgeted for a full time employee in this role, and we are reducing those funds now to fund a part time position.

The Garage Fund provides two employees, the same number that has been in place for several years. These two employees service a large number of vehicles and also maintain many pieces of equipment from lawn mowers to tractors. Some of their time is also spent in ordering and going to pick up parts. The Town has over 100 vehicles and other pieces of equipment which are maintained in the Town garage, and we have two outstanding mechanics.

C. Fringe Benefits Costs

The greatest fringe benefit provided our employees continue to be health insurance. Over the years, the cost of health insurance has increased far in excess of the inflation rate. In 2006-2007, we changed from the League of Municipalities to Blue Cross-Blue Shield, and we had good experience and maintained stable rates for the first three years. Our group experienced a high level of claims in 2009-2010, and as a result, the health insurance premium was to increase by over 20% for 2010-2011. We made some changes in our policy, raising the deductible from \$500 to \$5,000, with the Town taking on the difference of \$4,500 in the deductibles. This led to a substantial savings over what the increase might have been, and our cost of absorbing the higher deductible has paid off this year. We have seen some higher claims in 2010-2011 and Blue Cross-Blue Shield has suggested that another sizable increase may be likely. We

continue to negotiate with our agent, Wells Fargo, and that firm is seeking quotes from other insurance companies. We are also seeking quotes from the League of Municipalities as we search for a way to hold this cost down. Health insurance costs represent approximately 6% of the Town's budget.

At present, there is no charge to employees for their own health insurance, only for that of their dependents. The Town also currently pays the full premium for ten years on a retiree with at least ten years of service. We have two different employee groups in the health insurance program – those employed prior to January 1, 2006 and those hired after January 1, 2006. Those hired prior to January 1, 2006, enjoy lower rates on health insurance costs for dependents and receive free retiree health insurance for ten years if they have at least 10 years of service. Those hired after January 1, 2006, pay a bit more for dependent coverage and will find that retiree health insurance benefits will require varying levels of financial participation for those with less than 25 years of service. The employees in this latter group would have to have 25 years of service to receive free health insurance for up to ten years in retirement.

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**. Some of these policies will have slight increases and some will have slight decreases, but we were pleased to learn that due to our improved experience with accidents, the Workers' Compensation premium will drop by a significant amount. The Town will receive some credits due to our long term participation in these 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. I would note that the Town of Waynesville has always used a third party administrator to manage the pre-tax health savings account and has never had problems with misuse of funds in this program or with the abuse of these benefits.

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

At Public Works, a number of equipment sheds have been added to the rear of the property on Legion Drive, and in 2008-2009 some work was done on the north side of the property to form a buffer with neighboring residential property. The budget request from this department sought \$40,000 for some additional equipment sheds and \$25,000 for paving the equipment yard around the new shed. We had to decline this request but would like to reconsider it in the near future with money from the Capital Project Fund. We wanted to first determine what the cost might be for the renovations to the Municipal Building. In the Garage Operation, funds were requested for a tire speed balancing machine, and this was approved. Funds were also requested for Fleet Software, but we had to deny that for this year.

E. General Operating Expenditures

In the Public Works operation, expenditures will be up due to increases in personnel costs resulting from the cost of living increase, the related increase in fringe benefit costs and the increase in the health insurance costs. Overall, the Public Works Operation is only up \$8,260, with most of that found in the above noted categories.

The Garage Fund is expected to increase by \$63,740 over what we expect to spend in 2010-2011. Of that amount, a small portion is related to the increase in personnel and fringe benefit costs due to the proposed cost of living adjustment granted the two employees in this operation. The real culprits in this operation are for fuel (\$28,000), oil (\$1,500), tires (\$8,000), Materials and Supplies (\$15,000). Those items, along with the \$6,000 for the tire speed balancer represent \$56,000 of the \$63,000 increase. The rest is likely in wages and fringe benefits.

II. NOTEWORTHY ITEMS

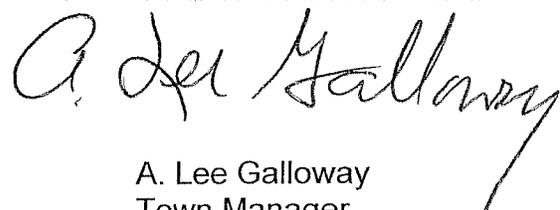
The Purchasing Department has now been under the Finance Director four years, and we continue to believe this was a positive change. Our auditors have noted that the record keeping is better than it has been in many years. The Purchasing Supervisor has been aggressive in expanding our use of the E-Gov system, where we sell surplus property on line, and the proceeds received from this method are far in excess of anything we have previously. The Supervisor also looks for ways to make it easier for department heads to secure goods and services, trying to give them as much flexibility as possible but insisting that the purchasing procedures be followed.

The Garage Operation has oversight of the maintenance and repair of more than 100 vehicles and pieces of equipment. I cannot say how much these two employees have saved the Town over their years in the garage, but they are knowledgeable and dedicated employees, not afraid to take on tough jobs, but wise enough to know when they need to have the work done outside by a private firm. We are very well served by these two employees. If the Town were ever in a financial position to add any more employees, another mechanic or mechanic helper or parts-runner would be beneficial.

III. SUMMARY

The Public Works and Garage Operations are solely to provide support to the other four funds. It is important that we properly maintain the facility and give good care to the rolling stock the town owns and operates. We believe that the expenses proposed for these two funds are realistic and warrant your approval.

Respectfully submitted,



A. Lee Galloway
Town Manager

PART 4 - 2011 - 2012 - PROPOSED SERVICE FUND BUDGETS

| V. PUBLIC WORKS OPERATION | | | |
|--|----------------------------------|-------------------------------|-------------------|
| | | | |
| A. REVENUES | EST. ACTUAL 2010-2011 | PROPOSED 2011-2012 | DIFFERENCE |
| Charges to Other Funds | 259,600 | 267,860 | 8,260 |
| Comment: Each department is charged a prorated share of the cost of this department based upon the square footage the department occupies at the public works facility. There will be a slight cost increase in 2011-2012. | | | |
| Miscellaneous Revenue | 0 | 0 | 0 |
| Investment Income | 20 | 20 | 0 |
| | | | |
| TOTAL PUBLIC WORKS REVENUES | 259,620 | 267,880 | 8,260 |
| | | | |
| | | | |
| B. EXPENDITURES | EST. ACTUAL | PROPOSED | DIFFERENCE |
| Public Works Operations | 259,620 | 267,880 | 8,260 |
| Comment: Wages and fringe benefits are up to cover cost of living raise and higher contributions to the retirement system, but funding for a full time position has been cut to parttime to offset the increases. Other increases go to Maintenance and Repair of Building and of Equipment and for Capital. | | | |
| | | | |
| TOTAL PUBLIC WORKS EXPENDITURES | 259,620 | 267,880 | 8,260 |
| | | | |
| | | | |
| C. PUBLIC WORKS SUMMARY | EST. ACTUAL | PROPOSED | DIFFERENCE |
| REVENUES | 259,620 | 267,880 | 8,260 |
| EXPENDITURES | 259,620 | 267,880 | (8,260) |
| DIFFERENCE | 0 | 0 | 0 |

PART 4 - 2011 - 2012 - PROPOSED SERVICE FUND BUDGETS

| VI. GARAGE OPERATIONS | | | |
|--|----------------------------------|-------------------------------|-------------------|
| A. REVENUES | EST. ACTUAL 2010-2011 | PROPOSED 2011-2012 | DIFFERENCE |
| Charges to Other Funds | 595,950 | 659,690 | 63,740 |
| Comment: Each department is charged a prorated share of the cost of operating the Garage based upon the number of vehicles and equipment and the mileage placed on the vehicles. Costs will be up considerably in 2011-2012. | | | |
| All Other Revenue | 0 | 0 | 0 |
| Investment Income | 0 | 0 | 0 |
| TOTAL GARAGE REVENUES | 595,950 | 659,690 | 63,740 |
| B. EXPENDITURES | EST. ACTUAL | PROPOSED | DIFFERENCE |
| Garage Operations | 595,950 | 659,690 | 63,740 |
| Comment: Wages and Fringe will be up slightly to cover cost of living increase and contribution to retirement system. Big increases are allowed for fuel, tires and materials and supplies and some for capital outlay. | | | |
| TOTAL GARAGE EXPENDITURES | 595,950 | 659,690 | 63,740 |
| C. GARAGE SUMMARY | EST. ACTUAL | PROPOSED | DIFFERENCE |
| REVENUES | 595,950 | 659,690 | 63,740 |
| EXPENDITURES | 595,950 | 659,690 | (63,740) |
| DIFFERENCE | 0 | 0 | 0 |