

TO: Mayor and Board of Aldermen

SUBJECT: Proposed 2010-2011 Budgets for the Internal Service Funds

The proposed budgets for the Town's Internal Service Funds for 2010-2011 are hereby submitted for your review. The Internal Service Funds include operating the Public Works Facility and the Garage. The expenditures total \$885,940 which is up \$54,440 from the \$831,500 we expect to spend in the current fiscal year. The expenditures for 2010-2011 are up 6.55% from anticipated expenditures in 2009-2010.

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 so that each car would be charged the exact amount of gasoline used. In some cases, we found some departments used more gas than we thought while others used less. We are now attempting to charge the various departments more in line with the fuel consumed. We are still working through whether we should change the way to charge each department for the amount of maintenance and repair work in the garage. Sometimes the cost of maintaining precise records just to redistribute the same amount of money to different departments is simply not justified. An estimate might work best.

I. HIGHLIGHTS OF EXPENDITURES FOR 2010-2011

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

With the continuing recession and the prolonged negative impact upon the Town's revenues, we are unable to recommend a cost of living raise or a merit increase for our employees in the 2010-2011 budget. Unfortunately, this is the second year that we have not had funds to grant increases. Last year, we were able to grant employees a larger Christmas bonus. If financial conditions improve during the fiscal year, perhaps we will be able to revisit the compensation issue.

Fortunately, all fringe benefits our employees now 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 to either the **Local Government Employees' Retirement System** or to the **Local Law Enforcement Officers' Retirement System**. The Retirement Systems have been impacted by the economy as well, and the drop in the stock market affected the value of the retirement funds. In addition, with so many "baby-boomers" reaching retirement age, the Systems had an actuary study performed and it revealed that a higher level of funding was needed to meet future retirement payments. So the Town's contribution to the Retirement System will increase by approximately 1.55%, going from approximately 5% of payroll to approximately 6.55% of payroll. 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 that are offered to our personnel.

As we have stated many times, and I know the Board is aware of this, the Town has some of the best employees that can be found in any organization. While we are unable to offer them higher compensation at this time, at least we are able to maintain the generous fringe benefits program as a reward for the excellent work they do.

B. Employment Levels

The 2010-2011 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.

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 is health insurance. Over the years, the cost of health insurance increased far in excess of the inflation rate, but for the past three years, rates from Blue Cross-Blue Shield remained stable. Our group experienced a few very high claims in 2009-2010, and as a result, the health insurance premiums could increase by up to 25% for 2010-2011. If that is true, the Town would be paying \$1,678,460 for health insurance for employees, dependents and retirees. We have talked with the agency handling the Town's account, and they have provided a number of alternatives for ways to reduce our premiums. The employee's deductible could be increased from the present \$500 level to something higher - \$1,000, \$1,750, \$2,500 and even \$5,000. There is a program through which the deductibles could be raised but then the Town could fund the higher deductibles so the cost does not come directly from the employees. We could also agree to higher co-pays, where the employee would pay an additional \$5.00 for office visits to primary care physicians or specialists. These would have varying impacts upon the potential 25% increase.

The agency is continuing to seek ways to reduce our premium, and they will be meeting with us in early May with the rates to maintain the health insurance programs we presently offer employees. In addition, they will have more precise information on alternatives to reduce the premiums more. The budget which is presented to you has an estimated 25% increase in the line item for health insurance premiums. When we have the final numbers, we suspect that line item can be reduced.

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 if they have less than 25 years of service.

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, so we do not anticipate much change overall. 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, but with limited resources, we declined to include that in the budget. They have also requested funds to resurface a portion of the work yard. After the work is completed at the Hazelwood Office, we could look at the Capital Fund to see if funds were sufficient to allow the construction of the sheds and perhaps some paving work. A new road will be built from our Electric Substation into the Town's landfill, providing a much safer situation, and we will need some additional work on that road in 2010-2011.

E. General Operating Expenditures

In the Public Works operation, operating expenditures will be up by about \$21,000. Virtually all of that increase may be attributed to the higher cost for health insurance and retirement.

The Garage Fund is expected to increase by approximately \$33,000. Of that amount, \$7,000 is attributed to the higher cost of health insurance and retirement, \$24,000 is due to an anticipated increase in the cost of gasoline and diesel fuel and \$3,000 is budgeted for a higher cost of tires.

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. The auditors have noted that the record keeping is better than it has been in many years. We still have to work with departments to reduce the number of employees who are doing their own, independent purchasing rather than looking to the Purchasing Department to handle the purchase of materials and supplies. We still believe there are savings to be realized if we continue to experiment with a more centralized purchasing. We have seen good results with the E-Gov system, through which we sell surplus equipment for a much better price than at auctions held in the past.

The Garage Operation has oversight of the maintenance and repair of more than 100 vehicles and pieces of equipment. The two employees assigned to this area save the Town a tremendous amount of money as opposed to sending all vehicles out for repairs. The operation probably may need an additional employee to help handle the volume of vehicles the Town owns, and we hope to do that in a future year.

III. SUMMARY

As the Public Works and Garage Operation Funds are set up solely to provide support to the other four funds, this report is brief. 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 recommend your approval of these budgets.

Respectfully submitted,



A. Lee Galloway
Town Manager

PART 4 - 2010-2011 - PROPOSED SERVICE FUND BUDGETS

V. PUBLIC WORKS OPERATION			
A. REVENUES	EST. ACT. 2009-2010	PROPOSED 2010-2011	DIFFERENCE
Charges to Other Funds	267,740	289,540	21,800
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. Expenses are expected to rise in 2010-2011.			
Miscellaneous Revenue	700	0	(700)
Investment Income	100	150	60
TOTAL PUBLIC WORKS REVENUES	268,540	289,690	21,150
B. EXPENDITURES	EST. ACT.	PROPOSED	DIFFERENCE
Public Works Operations	268,540	289,690	21,150
Comment: Wages and fringe benefits up \$40,100, with Retirement and Health Insurance accounting for \$ 22,610, Building Maintenance down \$6,000, Road to Landfill up \$15,000, Capital Outlay down \$24,500.			
TOTAL PUBLIC WORKS EXPENDITURES	268,540	289,690	21,150
C. PUBLIC WORKS SUMMARY	EST. ACT.	PROPOSED	DIFFERENCE
REVENUES	268,540	289,690	21,150
EXPENDITURES	268,540	289,690	(21,150)
DIFFERENCE	0	0	0

PART 4 - 2010-2011 - PROPOSED SERVICE FUND BUDGETS

VI. GARAGE OPERATIONS			
A. REVENUES	EST. ACT 2009-2010	PROPOSED 2010-2011	DIFFERENCE
Charges to Other Funds	559,220	596,140	36,920
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. Expenses were down in 2009-2010. With the new gas tracking system, we are able to assess these charges in a more equitable manner with departments paying for gasoline actually used.			
All Other Revenue	3,620	0	(3,620)
Investment Income	120	110	(10)
TOTAL GARAGE REVENUES	562,960	596,250	33,290
B. EXPENDITURES	EST. ACT.	PROPOSED	DIFFERENCE
Garage Operations	562,960	596,250	33,290
Comment: Wages and Fringe Benefits up \$6,350, with Retirement and Health Insurance up \$7,010, Oil, Gas and Tires up \$29,100.			
TOTAL GARAGE EXPENDITURES	562,960	596,250	33,290
C. GARAGE SUMMARY	EST. ACT.	PROPOSED	DIFFERENCE
REVENUES	562,960	596,250	33,290
EXPENDITURES	562,960	596,250	(33,290)
DIFFERENCE	0	0	0