

TO: Mayor and Board of Aldermen

SUBJECT: Proposed 2012 - 2013 Budgets for the Internal Service Funds

The proposed budgets for the Town's Internal Service Funds for 2012-2013 are hereby submitted for your review. The Internal Service Funds include operating the Public Works Facility and the Garage. The expenditures total \$1,014,730 which reflects \$259,930 in the Public Works Operation and \$754,800 in the Garage Operation. This is up by \$43,440 from the \$971,290 we expect to spend in the current fiscal year. The expenditures for 2012-2013 are up 4.5% from anticipated expenditures in 2011-2012.

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 have records over two years showing what each department is actually using in fuel, and the charge to the various departments should be more in line with the fuel consumed.

I. HIGHLIGHTS OF EXPENDITURES FOR 2012-2013

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

A visit to a grocery store, gas station or shoe store will reveal that prices are on the rise. The Town Board granted our employees a pay increase in the 2011-2012 budget after they suffered through three years without a raise. In the 2012-2013 budget, we are recommending a cost of living adjustment of 3% to most full-time and part-time employees. As noted many times, our employees are the most valuable asset we have and it is one we need to compensate fairly. The cost of the increase, with fringe benefits, is \$6,770, but we feel this is a reasonable expense to reward employees for a job well done.

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 the **Local Government Employees' or the Local Law Enforcement Officers' Retirement Systems**. With the economic recession of recent years, the Retirement Systems experienced a decline in stock values and other investments at a time when there are growing numbers of retiring baby boomers. As a result, in 2010-2011 and again in 2011-2012, the Retirement System increased the amount of employer contribution. In 2012-2013, there will be a slight decrease in the required contribution, but expect future increases as more baby boomers retire. 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.

B. Employment Levels

The 2012-2013 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 employees is health insurance, the cost of which has increased far in excess of the inflation rate over the years. In 2006-2007, we switched coverage from the League of Municipalities to Blue Cross-Blue Shield. After an initial three years of low claims, the past three years have seen very high claims, and this has forced our premiums up. In FY 2011, we changed 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. But our claims continue to rise in 2011-2012 and we were faced with a 17% increase for FY 2013.

Blue Cross-Blue Shield offers a program where we can see a minimal increase, but co-payments on drugs would go to as much as \$100. In negotiations, we reached a compromise where the employees would pay \$10 for generic prescriptions and \$40 for name brand prescriptions. The Town will pay the cost of prescriptions between \$40 and \$100 so employees will not have to pay so much. A third party administrator will bill the Town for its share of co-payments weekly. Details on the new plan are presented in a separate report, but by taking this route, we are looking at an increase from Health Insurance of approximately \$70,000 annually. If we had simply renewed the policy with the same coverage, the increased cost would have been \$262,000.

At present, there is no charge to employees for their own health insurance, only for that of their dependents. In FY 2013, we are proposing that employees begin to pay a greater share of the health insurance costs. When premiums are increased, the insurance company might alter rates differently for different classes of employees depending upon the experience of that class. The rates for individual or employee-spouse or employee-children or the family coverage might go up at different percentages from one year to the next. The portion that employees pay has not changed in several years, and with varying increases to the different classes of employees, some employees are paying 12% of the cost of coverage, some are paying 13% and some are paying 24%. We propose bringing those paying the lowest percentages up to 16% of dependent cost in 2012-2013 and try to bring that higher over two or three years until all are paying 25% of dependent care costs.

Regarding retirement benefits, the Town has 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 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' 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 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 decreases. 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 opportunity 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, there was a request for funds to do some paving of portions of the lot around the building. We decided to forego this request for 2012-2013, and will deal with the situation if the pavement condition grows worse. Employees of the Garage Fund requested a speed balancer for tires for \$6,000 and this is recommended.

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 down \$55,570 from 2011-2012, but that is due to a large appropriation for the construction of equipment sheds and some paving on the main driveways at the public works facility.

The Garage Fund is expected to increase by \$99,010 over what we expect to spend in 2011-2012. 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 primary reasons for this increase relates to the costs involved in transporting solid wastes to the White Oak Landfill. Gas/Diesel Fuel is up \$89,250, Tires are up \$5,000 and Materials and Supplies are up \$2,000, mostly for the higher costs involved in the trips to White Oak.

II. NOTEWORTHY ITEMS

We continue to see good results with having the Purchasing Division within the Finance Department, and it has been beneficial to have the personnel become more highly trained in purchasing procedures and inventory management. Our auditors have been high in praise for the improvements in the oversight and the more professional manner in which the division operates. We have been pleased in the results seen from the sale of surplus equipment, for it is generating more income for us to plow back into the budget for replacing that equipment.

The Garage Operation has oversight of the maintenance and repair of more than 100 vehicles and pieces of equipment, and the two employees assigned to this division save the Town a great deal of money. They are knowledgeable and dedicated employees who like a challenge but who also understand when certain jobs should be delegated to others. 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.

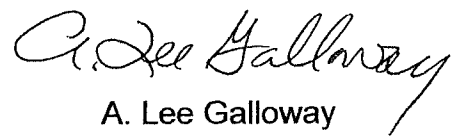
III. SUMMARY

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,



Marcia D. Onieal
Town Manager



A. Lee Galloway
Management Advisor

V. PUBLIC WORKS OPERATION			
A. REVENUES			
	EST. ACTUAL 2011-2012	PROPOSED 2012-2013	DIFFERENCE
Charges to Other Funds	250,470	259,890	9,420
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 2012-2013..			
Miscellaneous Revenue	30	0	(30)
Investment Income	0	40	40
Fund Balance Appropriated:	65,000	0	(65,000)
Comment: Board allowed fund balance from 2010-2011 to be used for sheds and paving at Public Works. This will not be available in 2012-2013.			
TOTAL PUBLIC WORKS REVENUES	315,500	259,930	(55,570)
B. EXPENDITURES			
	EST. ACTUAL	PROPOSED	DIFFERENCE
Public Works Operations	315,500	259,930	(55,570)
Comment: Wages and fringe benefits will be up slightly in 2012-2013, but there will be an overall drop in expenses since the expense for more equipment storage sheds and some paving on grounds will not be repeated next year.			
TOTAL PUBLIC WORKS EXPENDITURES	315,500	259,930	(55,570)
C. PUBLIC WORKS SUMMARY			
	EST. ACTUAL	PROPOSED	DIFFERENCE
REVENUES	315,500	259,930	55,570
EXPENDITURES	315,500	259,930	55,570
DIFFERENCE	0	0	0

PART 4 - 2012 - 2013 - PROPOSED SERVICE FUND BUDGETS

VI. GARAGE OPERATIONS			
A. REVENUES			
	EST. ACTUAL 2011-2012	PROPOSED 2012-2013	DIFFERENCE
Charges to Other Funds	655,190	754,800	99,610
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 2012-2013 primarily due to expenses associated with trips by Streets and Sanitation Department to White Oak Landfill.			
All Other Revenue	600	0	(600)
Investment Income	0	0	0
TOTAL GARAGE REVENUES	655,790	754,800	99,010
B. EXPENDITURES			
	EST. ACTUAL	PROPOSED	DIFFERENCE
Garage Operations	655,790	754,800	99,010
Comment: Wages and Fringe will be up slightly next year, but the main increase is related to the addition of 60,000 gallons of diesel fuel and tires needed for trucks making the trips to the White Oak Landfill to dispose of garbage.			
TOTAL GARAGE EXPENDITURES	655,790	754,800	99,010
C. GARAGE SUMMARY			
	EST. ACTUAL	PROPOSED	DIFFERENCE
REVENUES	655,790	754,800	99,010
EXPENDITURES	655,790	754,800	99,010
DIFFERENCE	0	0	0