

DATE: July 19, 2015
TO: Mayor and City Council
FROM: Mark S. Watson, City Manager
Janice McGinnis, Finance Director
SUBJECT: FY 2016 CITY BUDGET

On June 1, 2015, the City Manager presented a budget for filing with the City Clerk's office that provided an expenditure plan for the upcoming fiscal year, which technically started on July 1, 2015. Due to unplanned difficulties with developing a certified tax rate for Oak Ridge, full adoption of a budget has not been completed. However, required public hearings and advertising in accordance with Tennessee statutes will be completed with a second reading of an adoption ordinance. Oak Ridge is unique because our tax rate must be coordinated with the appraisal processes of two counties—Roane and Anderson.

The proposed budget currently contains costs for all municipal operations and utilities, as well as proposed costs for Oak Ridge Schools operations. As a municipal corporation, the City basically operates five businesses: Waterworks Fund, which includes sewage and potable water, both treatment and distribution; the Electric Fund and its distribution; the Oak Ridge School Fund and a major contribution of City monies for that operation; and the City General Fund, primarily supported by sales and property taxes. Due to tight state restrictions, these funds are to remain separate and must generally pay for use of each areas services.

The budget as it now stands and as transmitted by the Board of Education and the City Manager is out of balance, with respect to projected revenues in the General Fund. All other funds have been presented with a balanced budget for the coming year. At present, there is a shortfall of revenues for the School budget at \$651,613, while the City General Fund also included an increase to provide \$100,000 in funding for implementing initial stormwater improvements for the City. Based on the prior budget, the equivalent of this amount the Council was considering was an eight-cent increase above and beyond the earlier rate of \$2.39 per \$100. Since the announcement of the certified tax rate and tax roll information, our new certified rate to be considered is \$2.52 per \$100 value. If the full School/City budgets were adopted as is, the rate would be \$2.58 per \$100 value.

The City Council Budget Committee under the chairmanship of Councilman Chuck Hope expressed a desire to (1) keep School Maintenance of Effort (MOE) at the same level as last year, (2) retain the present tax rate or new certified tax rate at the current level generating the same amount of money, (3) attempt to provide some capital improvements for the Parks budget, and (4) provide some sort of salary increase for City employees.

The new certified property tax rate, prior to any final adjustments through the appeals process has been provided at \$2.52 for Oak Ridge owners, up from \$2.39 per \$100 valuation. This will mean that Oak Ridge residents who have the same or increased value in their new property assessments will see an increase in their taxes. For instance, a \$10,000 increase in residential property value will represent a \$3.25 actual tax increase at the 13-cent rate difference. As another example, if your property stayed the same at \$100,000 in value, your current taxes at \$2.39 would be \$597.50. At the new rate of \$2.52, taxes for that same house would be \$630.00. Again, the impact of 13 cents on the tax rate, or a difference of \$32.50.

With the latest recommended changes to the budget and using changes in the City related activities versus cutting all School activities, the proposed School budget would be able to retain \$326,613 in

available funding as proposed. The revised School transfer (MOE) would now be \$14,955,915, or a slight increase for half the current deficit. This change would closely represent the changing dollar value/ inflation from the last property tax increase for Schools in 2012.

Options to Address in Proposed Budget:

Personnel increases are different between the School budget and the City budget. School employees are proposed to receive a 3% salary adjustment and City employees are to receive a 2% adjustment. The cost of the additional 1% as proposed by the School budget is \$325,000. Matching the two public employee sector's COLAs at this time would be appropriate. Final decisions are up to the Board of Education (BOE) to be made with regard to their personnel. The City Council's action to support or not support the BOE's recommended budget would impact property taxes by a 3.61-cent amount, which is addressed through further reductions and fee increase as outlined below.

Included within the City budget is an amount of \$100,000 in new monies for stormwater improvements. Last year, the City submitted plans to begin the development of improvements to the stormwater system. Significant planning was done this past year under the direction of Pat Fallon. However, a funding source needs to be clearly established and identified in the coming year and first steps to be taken. With the announcement of Mr. Gary Cinder's retirement, further advancement of this may be delayed due to this transition. I believe the hiring of staff and funding of minor projects can wait until further direction and Council policy is established after the first of the year. This would eliminate the proposed tax increase of the City Manager of one cent and a reduction in the General Fund.

With the budget this year and next being impacted by long-term construction of Oak Ridge Main Street, new property tax increment will be associated with TIF district and new sales taxes would not be available until the spring of 2017 (assuming the Christmas 2016 targeted opening date). The Board of Education will be using a substantial amount of their fund balance to minimize community impacts this year (\$2.1M). These funds can only be used this year and will create an impact in next year's budget if not available, or corresponding reductions by the Schools in operating costs.

The City of Oak Ridge must look at further ways to sustain its services, whether this fiscal year and certainly next year. One service provided by the City in the General Fund is that of Library service. One option for provision of that service is to explore privatization options much as is currently seen in Germantown, Tennessee. Contacts that I have had with such companies and reviews by the company offer a projected ongoing \$200,000 in savings to the City if we were to make such a change. An RFP process would need to occur along with further vetting in light of specialty assignments such as the oral history projects and how they correlate with a private contract. Contacts I have had with the City Manager of Germantown reveal high levels of satisfaction with this arrangement. If approved by Council, I would attempt to begin such a service by January 2016. This could create a savings of approximately \$100,000 in this fiscal year and increasing in next fiscal year.

Two members of City Council have expressed reservations about the City Manager recommendation to not include the Healthy Families allocation of \$31,850 within the budget. This recommendation has nothing to do with the quality of the program, but everything with projected revenues for the General Fund as a whole. The Healthy Families program involves a small number of clients receiving continuous counseling and support in the raising of children over the lifetime of the child. The goal is to intercept any action that might lead to juvenile delinquency and parental neglect over participation in the program, thus reducing incarceration and other future costs. This program is no longer funded by Anderson County, who was an original funding partner several years ago with Oak Ridge.

Social services such as Healthy Families are paid from General Fund monies and cannot be with paid for from our Utility funds. Some reinstatement of this funding (\$20,712) is included in this discussion but full reinstatement would be subject to cutting the General Fund budget further. General Fund services have continued to be reduced for the past five years and we are beginning to impact basic services to the point of cautioning about any further cuts. With this program not being central to the mission of the City, I have now reduced funding for this program as this decision will also be faced next year as School shortfalls are anticipated and will be competing for funding in the FY 2017 budget. I am open to further suggestions to address this \$11,138 shortfall.

The Oak Ridge Schools presented three capital needs to City Council as their three top priorities. The middle range expense was a \$200,000 roof for Willow Brook Elementary, which is included in the budget and funded. As with the Pre-K building, recent needs have been brought to the City/School's attention on uncompleted work on the Blankenship Field stadium on the Home side. An estimated need of \$75,000 has been provided to the City. The \$200,000 allocation should address completion before starting on the Willow Brook roof. Health and safety are our most important concerns and the above allocation should be prioritized to allow for this work with the balance reserved for the Willow Brook roof or as can be accommodated with additional capital contributions by the City as the FY 2016 budget is implemented and after the final corrections at Blankenship Field.

In an earlier public budget hearing, Council member Callison identified that he noticed the continued General Fund subsidy of trash services. Rather than the sanitation services being completely paid for by a user fee, the City of Oak Ridge provides General Fund support. Our actual total rate on utility bills for Sanitation service is \$7.00. The total cost of the subsidy is \$1,839,415 from the General Fund.

This would be a major change for our fixed income residents. However, the move to a complete user fee system would place us in a more comparable position with other cities for this service. Our ongoing service contract is very reasonable for a number of years ahead, but the transfer of costs to the utility bill is an accepted method of payment by the general population with an identified service for a specific cost.

A suggested change to address the budget impacts on the tax rate would be to transfer the cost of the fall and spring cleanup events to an additional fee for service. Anticipated savings to the General Fund would be \$143,568 for a full year, with a \$1.00 increase in the Sanitation rate. This would be the initial steps to move Sanitation costs to a full user fee basis and would impact the General Fund of the City by freeing this transfer.

One item of note is a reduction in the proposed budget amount for City Special Events. These events include reduced funding for the Secret City Festival, support for other community events, and the July 4 Fireworks. The total allocated amount is \$65,000, which was more conducive to a one day festival concept. Last year's amount was \$125,000, exclusive of Fireworks and Secret City Summer Sounds. Council member Baughn has conducted a task force review of City festivals and events, with primarily a concentration on the Secret City Festival. The City has provided a \$50,000 amount available each year for financial support and overtime for required services such as electrical department support. Our July 4th celebration is now a \$25,000 Fireworks show and supported entirely by the City. As you can see, we will need more sponsorships or more creative financing of these events. We shall look forward to the report of the Task Force. Our City support commitment to quality-of-life events continues to accelerate as individual groups find it challenging to hold and host events and do it properly. Sponsorships have changed to available monies from the community corporations, but it has retained its free costs excepting for concerts.

The City has seen some growth in its property tax values due to new developments. There will be further appeals on the properties in Roane County sections of Oak Ridge. However, the additional estimates provided by the Finance Director will allow the anticipated revenues to increase by \$220,000 based on current tax roll information.

The balance of the budget can be monitored through vacancy salary savings to balance the budget with no tax increase. Key positions such as the Public Works Director will more than likely have a longer period of vacancy that can add to the bottom line. These actions and changes would avoid a tax increase in this current year with the new reappraisal occurring and everyone facing the 13-cent increase. At this time, it is better to let our new appraisals settle out before proceeding with allotting for further expenses.

Numerous impacts are on the horizon:

- A report on the Pre-K School Building and SAB will be presented in August, discussing the need for building options for this program as a priority, which may involve financing.
- Future elimination of the Hall Income Tax by the Legislature.
- Discussion on full segregation of Hotel taxes out of the General Fund and limitations of use by Legislature.
- Current need for capital dollars to repair and upgrade Parks and Recreation facilities (\$2.5M).
- Upcoming need for General Ledger software for Utilities and City at large.
- Use of School Fund balance this year will impact budget preparation next year.
- Ongoing capital needs for School and City facilities.
- Water rate increases expected during next five years.
- Declining consumption of water by DOE.
- Depreciation loss from water plant in less than five years (\$331K).
- Capital needs at water treatment plant.
- Ongoing water line rehab.
- Wastewater rate increases expected during next five years.
- Any new debt added by City for rehab and repairs and reconstruction.
- Electric operational annual increases from TVA.
- Capital improvements for SCADA system.

As seen above, there are many capital needs for the City and the School entities. Much of this is dependent upon new property growth and active sales tax growth. Careful prioritization of capital projects will be vital to our financial management and sustaining an acceptable level of personnel is important without long-term, ongoing project costs. I look forward to continuing the final FY 2015-2016 budget discussions of this with you.

Budget Summary:

8 Cents On Property Tax Rate

\$720,000

Less Tax Roll Changes	<u>(\$220,000)</u>
Revised Revenue Requirement	\$500,000
Less 1% School COLA	<u>(\$325,000)</u>
Net Difference	\$175,000
Less Storm Water Funding	<u>(\$100,000)</u>
Net Difference	\$75,000
Add Healthy Start	<u>\$20,712</u>
Revised Revenue Requirement	<u>\$95,712</u>
\$1 Refuse Collection Fee Beginning November 2005	\$95,712
Net	<u>\$0</u>

School Transfer Change	326,613
School Revised Transfer	14,955,915