

INTEROFFICE MEMORANDUM

To: Mayor Russell
City Council
From: Steve Thacker, City Manager
Subject: Budget Message – A Summary of the FY 2010 Proposed Budget
Date: May 5, 2009

OVERVIEW

This “Budget Message” summarizes my Proposed Budget for the fiscal year beginning July 1, 2009 (known as FY 2010). The City’s long-term financial outlook is sound; however, revenues are currently down and are projected to remain down in FY 2010 due to the economic recession. Sales tax revenue and development-related revenue will remain stagnant until consumer spending and housing construction pull out of the current slump. This has affected the amount of funding available for departmental requests for equipment and projects. Two large projects—the City Hall addition and Davis Cultural Arts Center—are moving forward, however, funded with cash reserves and bonding, respectively. Both projects have been in the planning phase for several years.

No property tax increase is recommended. Garbage collection fees, however, will increase and a new recycling fee will fund a curbside recycling program. One new position is recommended in the Parks Department.

I recommend the City Council adopt my Proposed Budget as the “Tentative Budget,” which would initiate a period for public comment. The City Council can revise the Tentative Budget before adopting a version as the “Final Budget” at their June 16 meeting. Several unresolved issues with potential budget impact are identified in this Budget Message. These matters would be appropriate for a City Council work session prior to June 16.

I wish to personally thank Blaine Lutz, Finance Director/Assistant City Manager, for his assistance and key role in the preparation of the Proposed Budget.

TAXES AND FEES

The primary revenue sources for the General Fund—sales, franchise and property tax—are expected to increase very little, if any, in FY 2010. Development-related revenue will likely remain below normal levels. Garbage collection fees will increase.

Sales Tax – Current fiscal year sales tax revenue is 5-6 percent below the budget estimate due to the economic recession. I assume retail activity will continue to be depressed over the next year, so I am estimating FY 2010 sales tax revenue to match the current year's total.

Franchise Tax – Revenues from franchise taxes on utility services (electricity, natural gas, telephone and cable TV) are projected to collectively increase less than 3 percent.

Property Tax – The Proposed Budget **does not include a property tax increase.** The City Council has not raised tax rates for many years. In fact, the property tax rate levied by Centerville City decreased from 0.002582 in 1994 to 0.000923 in 2008. Centerville City's portion of the total property tax burden on Centerville residents was only 8.28 percent in 2008. On a \$250,000 home, this is about \$127 per year.

Development-related Revenue – The Proposed Budget assumes the current housing construction slump will continue for much of FY 2010. Building permits, plan check and subdivision/engineering fees ranged between \$508,000 and \$625,000 per year from FY 2006 to FY 2008, but are projected to total only \$200,000 in FY 2010. However, expenditures related to the approval and inspection of new development have also been reduced in the Proposed Budget. Budgeted revenues and expenditures can both be adjusted upward during FY 2010, if justified by the actual level of development activity. The low number of new housing units also affects the amount of development impact fees (water, fire and parks) collected to be used for capital improvements.

Utility User Fees – Garbage collection fees, which have not changed since 2006, will increase July 1, 2009. The charge for the first can will increase from \$10.66 to \$10.91 per month. The second can charge will increase from \$7.61 to \$8.19 per month.

The City will initiate curbside recycling early in FY 2010. Residents who do not “opt out” will pay \$3.50 per month for this new service. Residents, however, who exchange their second garbage can for a recycling can will realize a net decrease.

I recommend the City Council review the financial health of the Water Fund during FY 2010, in anticipation of a future bond issue for a new well. However, I do not anticipate a water rate increase, if any, until sometime in calendar year 2010.

PERSONNEL

Only one new full-time position is recommended—a maintenance position for the Parks Department. Significant park acreage has been added in the past few years. In addition, I am

expecting the Parks Director to devote more of his time to higher-level management activities (including some emergency management duties) and less time in maintenance tasks.

The Proposed Budget includes a lump sum equivalent to 2.5 percent of all salaries to fund pay raises that will vary, depending on an employee's performance and position on the pay range. This is only about half of the amount normally approved for pay raises. Current job market conditions do not require a more aggressive response to remain competitive at this time. Pay ranges, therefore, will not be adjusted upward this year; but I will recommend pay increases of 2-3 percent to move employees upward within their pay ranges. The City Council needs to approve guidelines for this year's pay raises, which should be one of the subjects in a work session prior to adoption of the Final Budget.

Fortunately, employee health care cost will increase only about 2 percent this year, a welcome relief from the big increases of recent years.

The retirement systems contribution percentages do not change much in FY 2010. However, State Retirement System officials have warned cities to expect big increases in contribution rates thereafter, to make up for huge investment losses during the current economic recession. This could lead to major changes in the State's retirement programs that affect cities.

CAPITAL PROJECTS AND EQUIPMENT

The Proposed Budget includes funding for street, drainage, and water system improvements, and a building addition to City Hall. Parks and trails improvements, however, will not be funded unless there is a dramatic increase in new housing units and related park impact fee revenues, or the City Council designates another funding source.

Streets – Approximately \$690,000 is earmarked for the annual street resurfacing and reconstruction project. Staff are using the long-range Street Maintenance Plan as a guide for determining which streets are included in each year's project. Street projects are also coordinated with water line and drainage improvements, to the extent feasible, to realize cost savings. Another \$316,266 is included for the Pheasantbrook project, which consists of street, drainage and fire safety improvements, and is funded with a \$150,000 CDBG grant, \$130,848 from the Water Fund and Drainage Utility Fund, and homeowners' assessments.

Drainage – Approximately \$177,000 will be available in the Storm Drain Capital Improvement Fund for several projects recommended in the City's drainage master plan.

Water – The culinary water system master plan recommends a new well to replace two other wells that would be deactivated. The current Water Fund Proposed Budget includes funding for purchase of a well site. However, the City would need to borrow an estimated \$315,000 to drill the well and another \$435,000 to construct the pump station/building. The Proposed Budget assumes this borrowing will occur later than FY 2010.

Parks – The City spent more than \$4 million between 2004 and 2008 on park improvements. This extraordinary investment was possible because of funds from the sale of City and RDA property. The primary source of funds for parks and trails improvements in FY 2010, however, will be park impact fees. Since these are related to permits for new housing units, these revenues will be lower than normal, and will be used to make the final payment on land purchased in 2006 for the future expansion of Community Park.

The Proposed Budget, therefore, does not provide funding for two of the City Council's priorities: Parrish Creek Parkway (Phases 2 & 3) and bicycle routes/lanes. I recommend the Council consider the possibility of using some General Fund balance for these purposes, upon close-out of FY 2009 and a reevaluation of the status of that balance.

Building Addition – Construction of an addition to City Hall will begin this month. This expansion and related remodeling is fully funded with General Fund reserves accumulated over several years. The total cost is estimated to be \$750,000, with \$200,000 being expended in the current fiscal year and \$550,000 in FY 2010.

List of Capital Expenditures – On pages ix and x I identify department head requests for equipment and projects over \$5,000 and indicate which requests are included in my Proposed Budget. The total of all capital expenditures in the Proposed Budget is approximately \$2.35 million (excluding the Cultural Arts Center).

CONTINGENCY AND SURPLUS FUNDS

A general contingency of \$30,000 is included in my Proposed Budget, under the direct control of the City Council, to cover unanticipated expenses. This is lower than normal and is shown as being funded from General Fund reserves rather than by current revenues, as is normally the case. A special contingency of \$15,000 is also earmarked for technology projects yet to be recommended by the City's Information Technology Committee.

UTOPIA

The City may have to begin paying its sales tax pledge for UTOPIA some time in calendar year 2010. A sum of \$387,378 is already set aside to pay the first year's pledge, if needed. The City would then be required to begin replenishing that reserve account. The City Council has agreed the following funding sources could be considered for this replenishment, as needed:

- Reimbursement from the RDA to the General Fund for Freedom Hills Park construction. This park was eligible for funding from the RDA's additional tax increment (i.e., "haircut"), which will average more than \$100,000 per year over a 15-year period. Other City funds, however, were used to complete the park sooner, and the RDA's additional increment is now flowing to the City as repayment. In the FY 2010 Proposed Budget, \$110,000 of additional increment is shown as revenue in the Capital Projects Fund and could be used for this purpose.

- Freed up debt service capacity in the General Fund. Beginning in FY 2013, the General Fund will no longer be paying approximately \$150,000 per year for the City Hall debt.
- General Fund balance/reserves

REDEVELOPMENT AGENCY

The RDA Fund deserves special mention in this Budget Message. Construction of a regional performing arts facility (known as the Davis Cultural Arts Center) will begin this month on a parcel owned by the Redevelopment Agency of Centerville. Since the facility will be owned by the RDA, the enclosed RDA Budget shows funding for this \$14-15 million project in FY 2009 and FY 2010, including a \$12 million bond issue. Funding will come from four sources: 1) a RAP tax approved by the voters in Centerville and Bountiful; 2) RDA tax increment (i.e., property taxes from the businesses in the Redevelopment Area); 3) Davis County tourism taxes; and 4) private donations. Although Centerville City will issue the \$12 million in bonds as sales tax revenue bonds, this debt will be repaid by the RDA from the revenue sources mentioned above.

OTHER BUDGET ISSUES

I recommend the City Council address the following issues in addition to any issues they identify, before adopting the Final Budget:

- establish guidelines for this year's pay raises for City employees
- determine funding level for Museum programs and Whitaker Home maintenance priorities
- determine whether to continue participation (\$2,000) in Davis Channel 17 sponsored by the Chamber of Commerce
- agree on an appropriate salary for the Justice Court Judge (per 2008 State legislation)
- review my request for one new Parks position
- approve garbage collection contract extension and related rate increase
- approve contract and fee for new curbside recycling service
- determine whether to use General Fund reserves for any unfunded projects, such as bike routes/lanes, the Parrish Creek Parkway (Phase 2) and landscaping Parrish Lane west of I-15
- reaffirm strategy for replenishing the City's UTOPIA pledge account, as needed
- several other minor issues to be identified during a future work session

SUMMARY OF REVENUES AND EXPENDITURES

A summary of all funds in the Proposed Budget is shown on page xi. Summaries of revenues and expenditures for the General Fund are shown on pages xii and xiii.