

Budget Workshop Report

To: Mayor and Council
 From: John M. McCarthy
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Enterprise Funds

Water and Sanitary Sewer enterprise fund fees have been the center of much concern. According to the LMC Handbook for Cities, "...the people benefiting from a particular service should bear the cost of providing the service. General revenues should fund services of direct and essential benefit to the city as a whole, and for which the city cannot equitably apportion costs....Fees and service charges should depend strictly on the costs involvedfees should equal total costs....costs should include both operating and capital expenditures....Enterprise funds are like city businesses that operate on the revenue generated by the products they sell, such as water and sewer services...."

Several factors have contributed to what to some appear to be excessive fees for water and sewer. Some of the more significant factors seem to be:

1. Projections done in 2005 seem to indicate bond payments from fees of about \$260,000 beginning in 2007 through 2025. Actual principal and interest paid from revenue in 2007 was about \$512,000 and about \$495,000 in 2008. In 2009, Council agreed to use TIF revenue to pay bonds issued for water infrastructure improvement. With that action, actual net annual enterprise fund bond payments from fees were reduced to about \$320,000 through 2017, and will then increase to about \$360,000 through 2025.
2. In May of 2006, in order to take advantage of reduced interest rates, Council unanimously approved issuing two refunding bonds which are projected to save the rate payers about \$828,000 in interest. The downside of the action was an increase in annual principal and interest payments of about \$78,000. If the 2005 bonds were refunded with bonds which added 5 years in to the debt service, the annual debt service would be reduced by about \$40,000 but interest over the term of the bond would increase by about \$540,000. If the bonds were refunded with bonds adding 10 years to the debt service, the annual payments would be reduced by about \$60,000 but a projection indicates total debt service will increase over \$1 million dollars.
3. Projections done in 2005 anticipated annual growth of about 44 connections per year through 2015. It was projected there would be about 260 new connections by the end of 2011. Current numbers indicate about 152 new connections. Connections include both an one time access charge and an ongoing user charge. **By the end of this year the cumulative effect of fewer connections and access charge revenue is estimated to be about \$775,000 less than projected. At the end of 2012 the shortfall in revenue could be over \$900,000. Much of the current revenue comes from user charges,**
4. The 2005 analysis projected 2010 water sales based on flows of about 46.6 million gallons. Actual flows were about 38.3 gallons. Sewer flows were projected to be about 34.5 million gallons. Actual 2010 flows were about 27.9 million gallons.
5. The water and sewer analysis done in 2005 projected increases in the base rate and flow fees over a 5-year period. Resolutions 2005-33 and 2006-07 eliminated the proposed increase in 2010. Comparing the proposed fees to the current amount indicates:
 - a. The current base charge for water and sewer, including the first 1000 gallons is \$40.65, which is \$16.85 less than the projected base, including the first 3000 gallons of \$57.50.
 - b. A residential customer using about 2,250 gallons / month would be paying the same amount with either the current or 2005 proposed rates.
 - c. If 4,500 gallons / month is used for an average residence, the current charge for water and sewer would be \$87.70 or \$12.95 more than the 2005 projected amount of \$74.75.

Water Fund: Current projections based on year-to-date information indicate the revenue from water may be \$60,000 less than anticipated in the budget. Expenses appear to be about \$37,000 less than budgeted for a shortfall of about \$23,000.

Year-to-date information indicates a positive cash flow in the water fund of about \$98,000. The 2011 budget anticipated a positive cash flow of about \$137,000. With no change in current rates, the water fund should show a positive cash flow until 2018 when revenue has to pay the entire amount of the 2005 bond principal and interest payment.

A \$1.00 increase in the water fund base rate for 2012 should result in about \$75,000 in additional income in ten years.

Sewer Fund: Current projections based on year-to-date information indicate the revenue from sewer flow may be \$91,000 less than anticipated in the budget. Expenses appear to be about \$25,000 less than budgeted for a projected shortfall of about \$66,000.

Year to date information indicates a negative cash flow in the sewer fund of about \$137,000. The 2011 budget anticipated a negative cash flow of about \$22,000. With no change in the current rates, the sewer fund shows a negative cash flow until 2018 when the 1997 Clean Water Loan and 2006C bonds are paid in full.

A \$1.00 increase in the residential water base rate for 2012 should result in about \$75,000 in additional income in ten years.

Current General Fund Budget Considerations

Reductions in state aids appear to have created a shortfall of about \$65,000 in anticipated revenue. The City has received its first ½ LGA payment but will not receive the first ½ of MVHC until October.

General Fund Reserves: For 2010, the audited financial statements indicate the City's general fund reserves are \$503,752. This is 58% of the 2010 general fund expenditures. City policy targets an undesignated reserve of 42%. Council has designated \$10,041 to Public Safety Capital Improvement and applied \$24,305 to the purchase of the warning siren. This leaves about \$105,585 in undesignated General Fund reserves. Past Councils have targeted using the general fund to repay costs associated with the construction of the pavilion at Memorial Park and the Trailhead. The pavilion costs have been repaid and \$45,526.16 currently remains in the Trailhead account. Current estimates indicate an additional \$30,000 may be available to add to the general fund reserves at the end of 2011.

The City is currently reviewing a budget range to insure the citizens are getting both needed and desired services at the lowest possible price.

Wages comprise one of the largest portions of the budget. A comparison based on census and financial records from 2000 to 2010 indicates the population of Dundas has increased by 150% and total wages have increased by 80%. The city has added several full time positions to accommodate the growth in population and resources. Wage cost on a per capita basis has decreased by about 28%.

Dundas contracts with outside consultants for many services which are not always cost effective to provide in house. In 2006 consultants cost the City about \$193,000. Some, but not all, of the expenses related to consultants are reimbursed by projects. The cost of consultants was reduced to \$93,000 in 2010 with the largest percentage of unreimbursed costs occurring with the planner and accountant. Administrative staff has been able to assume some of the work formerly provided by consultants.

Council meetings can be more efficient with support staff. For the first 8 months of 2006, the median ending time of Council meetings was 9:40 PM. By the end of August 2006, there had been 15 special meetings in addition to the 16 regular meetings. The median end time for regular council meetings in 2011 has been 9:07 PM with 2 special meetings.

Proposed 2012 Budget

Revenues:

The preliminary budget suggested a 3% increase in the levy. On September 13, 2011, Council approved a preliminary levy of \$690,060 which is no increase from 2011. A final levy needs to be submitted five (5) working days after December 20. The final levy can be lower but cannot be higher than the preliminary levy.

Franchise fees / lease payments have been increased to more correctly reflect the amount the City should receive. The fee paid by ATT/Cingular for tower space will be allocated to the water fund in 2012 and future years.

Decertifying vacant properties with no buildings would permit a reduction in the levy of about \$20,000. District 2 TIF revenues would decrease by about \$40,000 / year but a preliminary cash flow review suggests it will not create a problem with the district.

Expenditure changes reflected in the Minimum Service Budget:

General Government:

General government operating expenses have been increased due to the anticipation of higher professional fees, primarily legal, associated with two ongoing lawsuits.

Mayor and Council have been slightly decreased to more closely reflect past expenditures.

City Administrator expenditures have been decreased to reflect a reduction in salary.

Administration clerical has been decreased to reflect a reduction in work hours. *In early 2007, after the departure of the Deputy Clerk/Treasurer, Council authorized a temporary hire to assist in the financial department until a full time replacement was hired. The full time position was changed to a financial assistant to more clearly reflect the duties and was filled in mid-2007.*

No change in Elections, an every two-year item.

Planning and Zoning is proposed to have a decrease. This is primarily related to reducing consultant fees.

In the early 2000s, Council made a decision to change the then current City Clerk position to an Administrator/Clerk position. In the mid 2000s, Council changed one of the part time support positions to a full time position. A significant reduction in administrative costs could be achieved by eliminating one position in the administrative offices. The two clerical positions provide the necessary services for the city to function. Under this scenario, the City Administrator/Clerk/Treasurer position would revert to a more standard Clerk/Treasurer position which served the city until the early 2000s. Some of the services currently provided by the City Administrator could be covered by consultants. Other services and information would be eliminated and Council may have to work with more raw data in making their decisions. *Some of the financial concerns impacting the City may have been avoided if someone had been assigned to administratively track the cumulative impact of all of the worthwhile projects embarked on during the period of rapid growth*

Public Safety:

The Police budget could decrease due to a reduction in coverage hours and capital outlay. Other alternatives being considered are contracting for police services with another agency and a reduction in full time positions. *According to a recent article in the Northfield News, Northfield has 21 licensed officers, this equates to one officer / 950 people. Beginning in 2005, the City of Dundas employed a full time chief and 2 two full time officers. In 2008, the City Council reaffirmed the commitment to employ two full time officers and a chief.*

Fire protection has been increased in anticipation of higher costs associated with possible changes in providers. The need to budget to set aside funds for future fire expenses could be reduced by dedicating some of the general fund reserve to anticipated costs for fire protection.

There is no change in building inspections.

Streets:

Streets are proposed to have an increase based on the need for substantial preventative maintenance. Council should consider a line item for tree maintenance.

Parks and Recreation:

The Park budget is proposed to decrease.

A minimum service budget could reduce the amount needed to levy by \$50,000 or more.