

# Shelby

NORTH CAROLINA  
*City of Pleasant Living*



May 24, 2007

To: The Honorable Mayor and City Council  
From: Rick Howell, City Manager  
Subject: City Manager's Budget Message - Fiscal Year 2007-2008

Presented for your consideration at this time is the proposed budget for fiscal year 2007-2008. The budget is balanced and meets all the applicable requirements of the North Carolina Local Government Budget and Fiscal Control Act. A public hearing has been scheduled as required by NC General Statute 159-12 for your regular meeting of June 4, 2007 in City Council Chambers. Following the close of the hearing Council may act on the proposed budget. The budget must be adopted by City Council prior to June 30, 2007.

It should go without saying that the budget adoption is the most important annual fiscal decision that City Council will make. It is the basis from which I base my day to day decisions and for the services provided to the citizens of Shelby. It has again been a difficult budget preparation process. There continues to be numerous challenges facing the City that affect our ability to serve citizens, residents, and customers today and into the future. These include but are not limited to:

- 1.) Sluggish growth (1.1%) in the property tax base has been realized.
- 2.) Slow growth in utility fund revenues that results from difficult economic times and an inability for various reasons to significantly grow the more profitable utility systems.
- 3.) Rising employee group health insurance costs in double digit percentages despite a reduction in benefits last year and an overall good to average loss experience.

- 4.) Retention of qualified, well trained and experienced employees in key positions is also a concern that I hope will be addressed with a new performance pay system this year.
- 5.) A significant rise in energy costs that affects the natural gas system profits.
- 6.) Elevated fuel costs continue to directly affect the delivery of services to the citizens of Shelby. All of our departments are reliant on fuel to perform the work necessary to serve citizens each day.
- 7.) A continuing reliance by the General Fund on utility revenue subsidies especially at a time when natural gas prices continue to be higher thus causing overall consumption to be down.
- 8.) Aging utility systems and other city infrastructure will need significant investments of capital to continue reliable service and to meet safety and regulatory standards.
- 9.) Reserves in the General Fund are below levels that allow the City to appropriately manage risk, react and fund emergency situations and provide security for new debt issuance for infrastructure that is necessary for growth.

These challenges are not insurmountable but must be addressed consistently and systematically over time in order for the City to realize the goals set forth in the Strategic Growth Plan adopted by Council in late 2005. A commitment to the City's economic development efforts, the provision of desired, quality and reliable services to citizens and the efforts by both local and outside business interests can over time help to overcome these challenges. While I still firmly believe that the initial recommendations contained in my April 30 preliminary message are the best path forward I fully realize that you must temper these to the extent you believe they best serve your constituency. I am confident that my management team and I will implement this budget in an effective manner so as to achieve the goals noted below.

During the City Council annual planning retreat held February 2-3, 2007 you developed and prioritized 11 strategies that were to guide my recommendations for the proposed budget and provide staff with a more defined focus for the fiscal year beginning July 1, 2007. These strategies were formalized by Council action through Resolution No. 28-2007 adopted April 2, 2007. They are enumerated here below for reference and are cited in the text and are some of the basis of my budget recommendations.

- A** Institute a police officer residency program where incentives are given to officers to reside in the City.
- B** Determine a budget and strategy in how the City's portion of tourism funding should be spent.
- C** Convene a workshop/summit with the Police Chief and others to discuss crime reduction strategies, funding for which can be included in the FY 2007-08 budget
- D** Provide funding for the Westside water and sewer improvement programs.
- E** Update the City's trash, nuisance, minimum housing and animal control ordinances.
- F** Implement all of the Year 1 strategies of the Center City Plan and establish responsibilities of the City, Uptown Shelby, Destination Cleveland County and other agencies/organizations that have a role in the City's downtown.
- G** Strengthen the City's abandoned car ordinance.
- H** Update the UDO text and map regarding where and how multi-family developments can take place in Shelby.
- I** Reduce the crime index to 800.
- J** Hire more code enforcement officers.
- K** Engage in discussion with the Sanitary District on the City selling water to the District and ramifications of the Sanitary District's new water reservoir.

Below and on subsequent pages I have summarized significant revenue and expenditure changes within the City's various funds.

### **GENERAL FUND REVENUES**

- **Property Taxes**

The current ad valorem tax rate of 42 cents per \$100 valuation is recommended to be increased to 43.5 cents in this budget. As noted previously the City's tax base growth is anticipated to be no better than 1.1%. New property tax revenue generated at the current tax rate would only generate approximately \$100,000. Pending development projects including Ultra Machine, Walgreens, Hallelujah Acres, among other smaller projects have the potential to alleviate the pressure on the rate in future years as these investments materialize in 2007. However, it is expected that approximately \$20-30 million dollars in tax base will be lost for fiscal year 2008-09 as Copeland closes its door later this year. The recommended tax increase would generate approximately \$237,000 annually.

- **Solid Waste Fees**

The monthly solid waste collection fee for roll out customers is recommended to increase from \$4.95 to \$5.45 per month. It is my ongoing recommendation to Council that the solid waste division services (roll out garbage and yard waste) transition to a fee supported system. This recommended fee increase would generate approximately \$44,000 annually.

- **Natural Gas Fund Transfer**

The Natural Gas Fund transfer is maintained at 06-07 level of approximately \$1,600,000 this fiscal year. This transfer is sustainable for the time being but as natural gas prices continue to be elevated this may ultimately impact the profit margin of the system. This transfer is equivalent to slightly over 10 cents on the property tax rate.

- **Electric Fund Transfer**

The electric fund transfer is held steady at \$475,000. This amount by policy and recommendation of the Local Government Commission is fixed at 3% of the gross fixed assets value of the system. The transfer has also remained at or below 3% of the General Fund revenues.

- **Fund Balance Appropriated**

No appropriation from undesignated fund balance is recommended at this time. This fund has declined over the past three years. The fund as of June 30, 2006 is maintained at 24%. This is significantly below the level needed should the City have an unexpected cash need in an emergency situation.

### **GENERAL FUND EXPENDITURES**

Overall General Fund expenditures are projected to increase approximately 3.2% . Below I have summarized the notable increases tying these where appropriate to the priorities set by Council and enumerated above.

- **Personnel Costs – Overall (General Fund Only)**

A 2.5 % performance pay allocation is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system now being developed. The total cost for this item is approximately \$240,000. There is no recommendation for a market rate or cost of living adjustment in this budget.

A 5.5% increase in health insurance is also expected based upon the stated renewal received from Blue Cross / Blue Shield. The approximate increase in cost for the provision of employee health insurance is \$70,000. An alternate plan has been selected that maintains the current PPO plan but also offers a high deductible (HSA) plan. Under this plan employees would for the first time, if they maintain the PPO plan, be subject to paying a monthly fee for their individual coverage.

Significant changes for the individual departments are enumerated below.

- **Police Department**

Increases in this department reflect the prioritized strategies (A,C,I) identified by City Council. They include the reinstatement of the patrol officer position eliminated in the fiscal year 06-07 budget, an increase in overtime pay, an increase in drug buy money, funding for a police officer residency program, and additional police vehicles. The total recommended increase for the Police Department is \$254,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

- **Fire Department**

Overall spending in the Fire Department would be flat if not for a significant increase in capital cost. However approximately \$98,000 of the \$114,000 capital cost increase is covered by a federal grant program. The total recommended net increase for the Fire Department is \$87,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

- **Planning**

The addition of one code enforcement officer is included in this department. This recommendation relates to strategies E, G and J. I would note that the City has only one code enforcement officer at present to cover nearly 20 square miles. This greatly hinders the City from taking a proactive approach to enforcing the existing nuisance, solid waste and junk vehicle ordinances much less strengthening them. Merely strengthening these ordinances will do little good if the City does not have additional enforcement capacity. The total recommended net increase for the Planning Services department is \$ 38,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

- **Human Resources**

Two positions were eliminated in this department beginning July 1, 2006. One of these was the Safety Officer/Risk Manager position. Duties that were being performed by these employees were assigned to the remaining departmental and other administrative staff. It was mentioned in my 06-07 budget message that it may be necessary to revisit this strategy. The proposed budget would add a part time position back with a portion of the personnel cost being allocated to the Utility Fund. Although a full time position was initially recommended the part time position will suffice until such a time as the budget will allow. The requirements of this position are much too important to be dispersed so widely. The potential cost and risk to the City by not having a focused safety and risk management program are too great to ignore. The total net increase in this department is \$20,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

- **Development Services (Building Inspections)**

The only significant increase in this department is an \$8,000 increase in the contracted services line item. This increase provides additional funding for minimum housing code enforcement for demolition of condemned residential structures. The total net increase for the Development Services department is \$13,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

- **Streets**

A significant change in this department is the shifting of one existing full time position from the Powell Bill Fund Streets department to the General Fund Streets department. This is recommended primarily to allow for and increase monies available for actual street resurfacing and improvements. Over the past several years positions in this department have been shifted to the Powell Bill Fund unnecessarily. While the duties of these positions included some eligible duties they also included other functions not related to Powell Bill street functions. The total net increase for the Streets department is \$68,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

- **Sanitation**

This department will experience a slight decrease in overall expenditures due to a reduction in the amount budgeted for unemployment benefit costs incurred by the City the past two years. This amount was increased during fiscal year 05-06 and 06-07 to account for potential unemployment benefits that would be owed by the City as a result of the significant layoffs that occurred prior to the 05-06 fiscal year. The total net decrease recommended in this department is \$38,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

- **Special Appropriations**

An overall net decrease of \$51,000 is projected here. This department reflects a number of areas including General Fund retiree group health insurance, economic development incentives and services as well as annual debt service payments. The decrease is due to a reduction in the current debt service payment and the reduction of the City's contribution to Cleveland 2020 from \$60,000 to \$30,000.

- **Parks and Recreation**

Adjustment to amounts paid to part time and seasonal staff as a result of the minimum wage law changes are reflected as a \$24,000 increase here. For budgeting purposes this department was split for the first time in fiscal year 06-07. Parks and Recreation is now accounted for separately from Cemetery and Buildings/Grounds. The total increase recommended for this department is \$50,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

• **Cemetery / Buildings and Grounds**

This department was accounted for separately from Parks and Recreation for the first time in fiscal year 06-07 to allow management a better accounting of true expenses for both functions. The only significant increase in this department is in capital cost. The total recommended net increase for this department is \$48,000. This is inclusive of the items mentioned here as well as the increased personnel costs above.

**Summary of General Fund Increases**

2.5 % Performance Pay Allowance	\$	240,000.
Group Health Insurance Increase		<u>70,000.</u>
	Subtotal \$	310,000.
Police Department Net Increase*		120,000.
Other Departments Net Increase*		<u>82,000.</u>
	Subtotal \$	202,000.
Expenditure Total		\$ 512,000. (3.22%)
Anticipated current revenue growth	\$	231,000.
Solid Waste fee increase (\$0.50 per month)		44,000.
Property tax rate increase from 42 to 43.5 cents		237,000.
	Revenue Total	\$ 512,000.

\* Exclusive of personnel cost increases (2.5% performance pay and group health insurance)

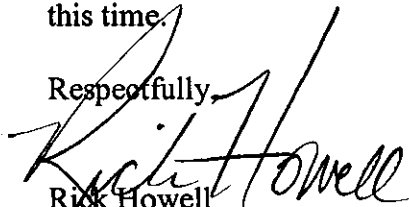
**Municipal Service District Tax – Uptown Shelby**

Upon receipt of a recommendation from the Uptown Shelby Association Board of Directors the property tax rate is reduced from .27 to .22 cents per \$100 valuation. This recommendation takes into account recognized tax base growth within the MSD boundary over the last few years as well as the desire by USA to actively fund and implement the strategies for economic revitalization identified in the Center City Master Plan.

**Final Comments**

I do wish to convey to Council that this budget has been scrutinized and the changes requested by Council are included. Reductions in the preliminary proposed expenditures were achieved through changes in the percentage of performance pay allocation, group health insurance program and some of the recommendations that reflect Council priorities set back in February. The budget is balanced as noted previously and respectfully submitted to the Honorable Mayor and City Council for your thoughtful consideration at this time.

Respectfully,

  
Rick Howell  
City Manager

City Manager's Budget Message  
Fiscal Year 2007-2008

City of Shelby  
 FY 2007-2008 Budget Expenditure Summary  
 For Notebooks

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
<b>Total Revenues</b>	15,929,050	16,441,260	3.22%	512,210

**Governing Board Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	70,050.00	69,500.00	-0.79%	(550.00)
Operating Expenses	18,700.00	16,900.00	-9.63%	(1,800.00)
Allocated Cost	(38,200.00)	(38,700.00)	1.31%	(500.00)
<b>Totals</b>	<u>50,550.00</u>	<u>47,700.00</u>	-5.64%	<u>(2,850.00)</u>

**Administration Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	228,950.00	250,200.00	9.28%	21,250.00
Operating Expenses	89,650.00	108,700.00	21.25%	19,050.00
Capital Outlay	16,000.00	0.00	-100.00%	(16,000.00)
Allocated Cost	(150,800.00)	(160,800.00)	6.63%	(10,000.00)
<b>Totals</b>	<u>183,800.00</u>	<u>198,100.00</u>	7.78%	<u>14,300.00</u>

**Finance Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	253,600.00	336,850.00	32.83%	83,250.00
Operating Expenses	247,100.00	257,250.00	4.11%	10,150.00
Capital Outlay	-	-		-
Allocated Cost	(181,100.00)	(283,600.00)	56.60%	(102,500.00)
<b>Totals</b>	<u>319,600.00</u>	<u>310,500.00</u>	-2.85%	<u>(9,100.00)</u>

**Purchasing Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	124,400.00	125,500.00	0.88%	1,100.00
Operating Expenses	25,200.00	23,300.00	-7.54%	(1,900.00)
Capital Outlay	-	-		-
Allocated Cost	(123,400.00)	(122,100.00)	-1.05%	1,300.00
<b>Totals</b>	<u>26,200.00</u>	<u>26,700.00</u>	1.91%	<u>500.00</u>

**Legal Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Operating Expenses	29,500.00	25,000.00	-15.25%	(4,500.00)
Allocated Cost	(15,000.00)	(12,600.00)	-16.00%	2,400.00
<b>Totals</b>	<u>14,500.00</u>	<u>12,400.00</u>	-14.48%	<u>(2,100.00)</u>

<b>Human Resources Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	149,350.00	182,300.00	22.06%	32,950.00
Operating Expenses	145,900.00	162,100.00	11.10%	16,200.00
Capital Outlay	-	-		-
Allocated Cost	(50,900.00)	(79,950.00)	57.07%	(29,050.00)
<b>Totals</b>	<u>244,350.00</u>	<u>264,450.00</u>	8.23%	<u>20,100.00</u>

<b>Customer Service Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	426,750.00	452,700.00	6.08%	25,950.00
Operating Expenses	177,400.00	178,540.00	0.64%	1,140.00
Capital Outlay	250,000.00	250,000.00	0.00%	-
Allocated Cost	(840,350.00)	(872,500.00)	3.83%	(32,150.00)
<b>Totals</b>	<u>13,800.00</u>	<u>8,740.00</u>	-36.67%	<u>(5,060.00)</u>

<b>Information Systems Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	154,800.00	161,600.00	4.39%	6,800.00
Operating Expenses	66,750.00	49,870.00	-25.29%	(16,880.00)
Capital Outlay	-	-		-
Allocated Cost	(200,400.00)	(194,600.00)	-2.89%	5,800.00
<b>Totals</b>	<u>21,150.00</u>	<u>16,870.00</u>	-20.24%	<u>(4,280.00)</u>

<b>Meter Services Systems Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	201,200.00	206,200.00	2.49%	5,000.00
Operating Expenses	34,500.00	35,550.00	3.04%	1,050.00
Capital Outlay	-	12,200.00		12,200.00
Allocated Cost	(235,700.00)	(253,950.00)	7.74%	(18,250.00)
<b>Totals</b>	<u>-</u>	<u>-</u>		<u>-</u>

<b>Garage Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	312,400.00	321,750.00	2.99%	9,350.00
Operating Expenses	51,550.00	58,150.00	12.80%	6,600.00
Capital Outlay	27,300.00	15,500.00	-43.22%	(11,800.00)
<b>Total</b>	<u>391,250.00</u>	<u>395,400.00</u>	1.06%	<u>4,150.00</u>

**City Hall Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	22,000.00	39,800.00	80.91%	17,800.00
Operating Expenses	70,650.00	60,400.00	-14.51%	(10,250.00)
<b>Total</b>	<u>92,650.00</u>	<u>100,200.00</u>	8.15%	<u>7,550.00</u>

**Police Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	4,200,400.00	4,439,550.00	5.69%	239,150.00
Operating Expenses	805,100.00	783,775.00	-2.65%	(21,325.00)
Capital Outlay	225,000.00	261,000.00	16.00%	36,000.00
<b>Total</b>	<u>5,230,500.00</u>	<u>5,484,325.00</u>	4.85%	<u>253,825.00</u>

**Fire Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	2,797,050.00	2,780,700.00	-0.58%	(16,350.00)
Operating Expenses	346,900.00	336,600.00	-2.97%	(10,300.00)
Capital Outlay	5,500.00	119,600.00	2074.55%	114,100.00
<b>Total</b>	<u>3,149,450.00</u>	<u>3,236,900.00</u>	2.78%	<u>87,450.00</u>

**Building Inspections Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	216,550.00	221,100.00	2.10%	4,550.00
Operating Expenses	92,550.00	100,900.00	9.02%	8,350.00
Capital Outlay				
<b>Total</b>	<u>309,100.00</u>	<u>322,000.00</u>	4.17%	<u>12,900.00</u>

**Streets Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	201,600.00	273,350.00	35.59%	71,750.00
Operating Expenses	458,250.00	466,250.00	1.75%	8,000.00
Capital Outlay	12,000.00	-	-100.00%	(12,000.00)
<b>Total</b>	<u>671,850.00</u>	<u>739,600.00</u>	10.08%	<u>67,750.00</u>

**Airport Expenditure Summary**

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Operating Expenses	75,950.00	70,500.00	-7.18%	(5,450.00)
Capital Outlay	-	-		-
<b>Total</b>	<u>75,950.00</u>	<u>70,500.00</u>	-7.18%	<u>(5,450.00)</u>

<b>Sanitation Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	694,050.00	652,450.00	-5.99%	(41,600.00)
Operating Expenses	459,700.00	480,400.00	4.50%	20,700.00
Capital Outlay	17,000.00	-	-100.00%	(17,000.00)
<b>Total</b>	<u>1,170,750.00</u>	<u>1,132,850.00</u>	-3.24%	<u>(37,900.00)</u>

<b>GIS Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	-	247,600.00		
Operating Expenses	-	64,825.00		
Capital Outlay	-	23,000.00		
Allocated Cost	-	(308,600.00)		
<b>Totals</b>	-	<u>26,825.00</u>		

<b>Planning Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	213,500.00	248,150.00	16.23%	34,650.00
Operating Expenses	150,700.00	153,700.00	1.99%	3,000.00
Capital Outlay				
<b>Totals</b>	<u>364,200.00</u>	<u>401,850.00</u>	10.34%	<u>37,650.00</u>

<b>Special Appropriations Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	243,200.00	284,000.00	16.78%	40,800.00
Operating Expenses	376,200.00	346,200.00	-7.97%	(30,000.00)
Debt Service	1,229,600.00	1,167,550.00	-5.05%	(62,050.00)
<b>Totals</b>	<u>1,849,000.00</u>	<u>1,797,750.00</u>	-2.77%	<u>(51,250.00)</u>

<b>Parks and Recreation Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	696,500.00	744,650.00	6.91%	48,150.00
Operating Expenses	302,350.00	309,900.00	2.50%	7,550.00
Capital Outlay	6,000.00	-	-100.00%	(6,000.00)
<b>Total</b>	<u>1,004,850.00</u>	<u>1,054,550.00</u>	4.95%	<u>49,700.00</u>

<b>Maintenance &amp; Cemetery Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	506,250.00	523,150.00	3.34%	16,900.00
Operating Expenses	212,500.00	221,900.00	4.42%	9,400.00
Capital Outlay	26,800.00	48,000.00	79.10%	21,200.00
<b>Total</b>	<u>745,550.00</u>	<u>793,050.00</u>	6.37%	<u>47,500.00</u>

**Total Expenditure Summay**

Personnel Services	11,712,600.00	12,561,100.00	7.24%	848,500.00
Operating Expenses	4,237,100.00	4,310,710.00	1.74%	73,610.00
Capital Outlay	585,600.00	729,300.00	24.54%	143,700.00
Debt Service	1,229,600.00	1,167,550.00	-5.05%	(62,050.00)
Allocated Cost	(1,835,850.00)	(2,327,400.00)	26.78%	(491,550.00)
<b>Grand Totals</b>	<u>15,929,050.00</u>	<u>16,441,260.00</u>	3.22%	<u>512,210.00</u>

**Short Fall**

- -

One penny on the tax rate is \$158,666

**Needed tax increase**

- cents



May 24, 2007

To: The Honorable Mayor and City Council  
From: Rick Howell, City Manager  
Subject: City Manager's Budget Message - Fiscal Year 2007-2008  
Utility Funds

Presented for your consideration at this time are the proposed budgets for the Utility Enterprise Funds (Water, Sewer, Electric and Natural Gas) for fiscal year 2007-2008. The budget is balanced and meets all the applicable requirements of the North Carolina Local Government Budget and Fiscal Control Act. A public hearing has been scheduled as required by NC General Statute 159-12 for your regular meeting of June 4, 2007 in City Council Chambers. Following the close of the hearing Council may act on the proposed budget. The budget must be adopted by City Council prior to June 30, 2007.

It should go without saying that the budget adoption is the most important annual fiscal decision that City Council will make. It is the basis from which I base my day to day decisions and for the services provided to the citizens of Shelby. It has again been a difficult budget preparation process. There continues to be numerous challenges facing the Utility Enterprise Funds that affect our ability to serve citizens, residents, and customers today and into the future. These include, but are not limited to:

- 1.) Flat net customer base growth is the trend for the current fiscal year and it is anticipated in these budgets that there will be an overall decline in customer usage due to the anticipated loss of Copeland by December 31, 2007.
- 2.) Rising employee group health insurance costs in double digit percentages despite a reduction in benefits last year and an overall good to average loss experience.
- 3.) Retention of qualified, well trained and experienced employees in key positions is also a concern that I hope will be addressed with a new performance pay system this year.

City Manager's Budget Message  
Utility Funds  
Fiscal Year 2007-2008

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- 5.) Aging water and sewer infrastructure will need significant investment of capital to continue reliable service and to meet safety and regulatory standards.
- 6.) Reserves in the Water Enterprise Fund and the Sewer Enterprise Fund are below levels that allow the City to appropriately manage risk, react and fund emergency situations, and provide security for new debt issuance for infrastructure that is necessary for growth.
- 7.) An overall decline in commercial and residential natural gas usage that can be directly attributed to elevated transportation and purchase costs.
- 8.) The ongoing challenge to find ways to expand the electric system customer base in a struggling economy and in an environment where territorial competition with investor owned utilities is limiting.

These challenges must be addressed consistently and systematically over time in order for the City to realize the goals set forth in the Strategic Growth Plan adopted by Council in late 2005. A commitment to the City's economic development efforts, the provision of desired, quality and reliable services to citizens and the efforts by both local and outside business interests can over time help to overcome these challenges.

During the City Council annual planning retreat held February 2-3, 2007, you developed and prioritized 11 strategies that were to guide my recommendations for the proposed budget and provide staff with a more defined focus for the fiscal year beginning July 1, 2007. These strategies were formalized by Council action through Resolution No. 28-2007 adopted April 2, 2007. They are enumerated here below for reference and are cited in the text and are some of the basis of my budget recommendations. Two of them specifically pertain to the Water Enterprise Fund (D&K) and one of them to the Sewer Enterprise Fund (D).

- D** Provide funding for the Westside water and sewer improvement programs.
- K** Engage in discussion with the Sanitary District on the City selling water to the District and ramifications of the Sanitary District's new water reservoir.

Below and on subsequent pages I have summarized significant revenue and expenditure changes within these funds.

## **WATER ENTERPRISE FUND REVENUES**

- **Water Charges**

A 5% water rate increase is recommended in this budget. The water customer base is flat and overall consumption is expected to decline slightly. The rate increase recommended is intended to service the issuance of debt for the Westside Water Improvement Project once completed in 2008.

## **WATER ENTERPRISE FUND EXPENDITURES**

Overall Water Fund expenditures are projected to increase approximately 5.5%. Below I have summarized the notable increases tying these where appropriate to the priorities set by Council and enumerated above.

- **Personnel Costs – Overall (Water Fund Only)**

The overall personnel costs for the Water Fund will decrease by 3.28% primarily for two reasons. The first involves the increase of allocated cost to the General Fund to pay for GIS personnel. The second factor affects the decline to a much lesser extent. Turnover in this area has allowed for the hiring of positions at lower rates of pay.

A 2.5 % performance pay allocation is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system now being developed. There is no recommendation for a market rate or cost of living adjustment in this budget.

A 5.5% increase in health insurance is also expected based upon the stated renewal received from Blue Cross / Blue Shield. An alternate plan has been selected that maintains the current PPO plan but also offers a high deductible (HSA) plan. Under this plan employees would for the first time, if they maintain the PPO plan, be subject to paying a monthly fee for their individual coverage.

Significant changes for the individual departments are enumerated below.

- **Water Distribution System (23.2% increase)**

The only significant change in this department is an increase on the transition from manual meter to the electronic meter conversion. It is proposed that approximately ½ of the meters that are over 20 years old be replaced. This amounts to approximately 1,200 meters. The projected payback is 2.5 years. The upfront cost is approximately \$175,000.

- **Water Plant (2.3% Increase)**

It is anticipated that utility costs will be the most significant increase in this department. The 2008 budget figure is based upon projections of current year expenditures.

## **SEWER ENTERPRISE FUND REVENUES**

- **Sewer Charges**

A 5% sewer rate increase is recommended in this budget. The sewer customer base is flat and overall usage is expected to decline slightly. The rate increase recommended is intended to service the issuance of debt for Phase I of the Eastside Sewer Project expected to be completed in spring 2008.

## **SEWER ENTERPRISE FUND EXPENDITURES**

Overall Sewer Fund expenditures are projected to increase approximately 8.7%. Below I have summarized the notable increases tying these where appropriate to the priorities set by Council and enumerated above.

- **Personnel Costs – Overall (Sewer Fund Only)**

The overall personnel costs for the Sewer Fund will decrease by 12.4% primarily for two reasons. The first involves the increase of allocated cost to the General Fund to pay for GIS personnel. The second factor involves the elimination of one position at the wastewater treatment plant.

A 2.5 % performance pay allocation is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system now being developed. There is no recommendation for a market rate or cost of living adjustment in this budget.

A 5.5% increase in health insurance is also expected based upon the stated renewal received from Blue Cross / Blue Shield. An alternate plan has been selected that maintains the current PPO plan but also offers a high deductible (HSA) plan. Under this plan employees would for the first time, if they maintain the PPO plan, be subject to paying a monthly fee for their individual coverage.

Significant changes for the individual departments are enumerated below.

- **Sewer Administration / Debt Service / Transfer to Fund Balance (23.1% inc)**

There are two notable increases in sewer administration. The first is an increase in the transfer of revenue to fund balance. The fiscal year 2006-07 budget was the first in many years where we were able to transfer funds into a reserve account for emergency situations and future capital projects. The second increase to be noted is an increase in the actual debt service payment due next year. This anticipates an interest only payment on the Eastside Sewer Project and the Influent Pump Station Improvement Project completed earlier this year.

- **Sewer Collection System Operations (5.98% decrease)**

The only significant increase in this department is tied to the accelerated transition from the manual meters to the electronic meters. This cost is approximately \$75,000 and is shared because sewer revenue is derived from these meter readings.

- **Sewer Plant (1.1% increase)**

A significant capital purchase is included in this department. It is necessary to replace the stump/brush grinder now in service at the sewer plant compost facility. This cost is approximately \$270,000.

### **ELECTRIC ENTERPRISE FUND REVENUES**

- **Electric Charges**

A 2% electric rate increase is recommended in this budget. This increase is recommended to cover the additional 1.4% wholesale power rate increase passed along to the City from Electricities, a distributed generation subsidy phase out and a SEPA increase. It also reflects a slight decline in customer demand that resulted from the loss of Winn Dixie.

### **ELECTRIC ENTERPRISE FUND EXPENDITURES**

Overall Electric Fund expenditures are projected to increase approximately 0.6%. Below I have summarized the notable increases tying these where appropriate to the priorities set by Council and enumerated above.

- **Personnel Costs – Overall (Electric Fund Only)**

The overall personnel costs for the Electric Fund will decrease by 10.56% primarily for two reasons. The first involves the increase of allocated cost to the General Fund to pay for GIS personnel. The second factor involves the 2.5% performance pay allocation and the health insurance increase.

A 2.5 % performance pay allocation is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system now being developed. There is no recommendation for a market rate or cost of living adjustment in this budget.

A 5.5% increase in health insurance is also expected based upon the stated renewal received from Blue Cross / Blue Shield. An alternate plan has been selected that maintains the current PPO plan but also offers a high deductible (HSA) plan. Under this plan employees would for the first time, if they maintain the PPO plan, be subject to paying a monthly fee for their individual coverage.

Significant changes for the individual departments are enumerated below.

- **Electric Administration (3.18% inc)**

There is one notable increase in administration. The increase reflects a \$100,000 increase in the amount of expected Tier II funding from Electricities. Tier II funding is allocated to the City by Electricities for system expansion and growth purposes. It is held in a capital reserve account until needed.

### **NATURAL GAS ENTERPRISE FUND REVENUES**

- **Facility and Base Rate Charges**

A \$1.50 per month increase in the facility charge for each residential customer and a \$2.50 per month in the commercial facility charge is recommended. An 8.6% residential, 8.8% commercial, 5.1% industrial and 2.4% interruptible customer base rate increase is recommended in this budget. These increases are recommended to cover the overall transportation cost of natural gas as well as a continued projection of a decline in overall usage. These are the first rate adjustment in the base rate and facility charge in many years.

### **NATURAL GAS ENTERPRISE FUND EXPENDITURES**

Overall Natural Gas Fund expenditures are projected to decrease approximately 2.2%. Below I have summarized the notable increases tying these where appropriate to the priorities set by Council and enumerated above.

- **Personnel Costs – Overall (Natural Gas Fund Only)**

The overall personnel costs for the Sewer Fund will decrease by 3.76% primarily for two reasons. The first involves the increase of allocated cost to the General Fund to pay for GIS personnel. The second factor involves the 2.5% performance pay allocation and the health insurance increase.

A 2.5 % performance pay allocation is provided for within the proposed budget. This amount has been allocated to each department but would be awarded on a performance basis under a new evaluation system now being developed. There is no recommendation for a market rate or cost of living adjustment in this budget.

A 5.5% increase in health insurance is also expected based upon the stated renewal received from Blue Cross / Blue Shield. An alternate plan has been selected that maintains the current PPO plan but also offers a high deductible (HSA) plan. Under this plan employees would for the first time, if they maintain the PPO plan, be subject to paying a monthly fee for their individual coverage.

Significant changes for the individual departments are enumerated below.

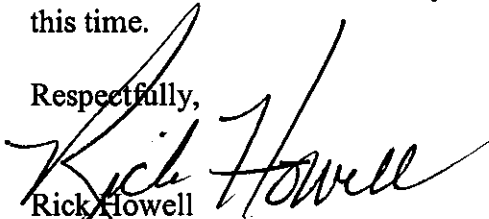
- **Natural Gas System Operations (5.27% decrease)**

The only significant increase in this department is tied to gas line replacements projects previously detailed to Council.

**Final Comments**

I do wish to convey to Council that this budget has been scrutinized and the changes requested by Council are included. Reductions in the preliminary proposed expenditures were achieved through changes in the percentage of performance pay allocation, group health insurance program and some of the recommendations that reflect Council priorities set back in February. The budget is balanced as noted previously and respectfully submitted to the Honorable Mayor and City Council for your thoughtful consideration at this time.

Respectfully,



Rick Howell  
City Manager

**Utility Fund Summary**

		FY 06-07	FY 07-08	% inc/dec
Water Fund	\$	3,458,200.	3,649,200.	+ 5.52 %
Sewer Fund		4,064,350.	4,420,900.	+ 8.77 %
Electric Fund		16,948,350.	17,047,750.	+ 0.59 %
Natural Gas Fund		<u>22,805,550.</u>	<u>22,306,325.</u>	<u>- 2.19 %</u>
Utility Fund Totals	\$	47,276,450.	47,424,175.	+ 0.03 %

City of Shelby-Water Fund  
 FY 2007-2008 Budget Expenditure Summary  
 For Notebooks

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
<b>Total Revenues</b>	3,458,200.00	3,649,200.00	5.52%	191,000.00
<b>Water Administration Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	168,650.00	130,900.00	-22.38%	(37,750.00)
Operating Expenses	70,650.00	70,500.00	-0.21%	(150.00)
Transfers To Other Funds/Fund Balance	114,580.00	43,267.00	-62.24%	(71,313.00)
Capital Outlay	2,600.00	-		
Debt Service	789,650.00	775,150.00	-1.84%	(14,500.00)
Allocated Cost	320,350.00	439,700.00	37.26%	119,350.00
<b>Totals</b>	<u>1,466,480.00</u>	<u>1,459,517.00</u>	-49.41%	<u>(4,363.00)</u>
<b>Water Lines Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	341,550.00	338,500.00	-0.89%	(3,050.00)
Operating Expenses	241,600.00	382,500.00	58.32%	140,900.00
Capital Outlay	140,000.00	170,000.00	21.43%	30,000.00
<b>Totals</b>	<u>723,150.00</u>	<u>891,000.00</u>	23.21%	<u>167,850.00</u>
<b>Water Plant Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	374,200.00	386,000.00	3.15%	11,800.00
Operating Expenses	778,970.00	825,483.00	5.97%	46,513.00
Capital Outlay	115,400.00	87,200.00	-24.44%	(28,200.00)
<b>Totals</b>	<u>1,268,570.00</u>	<u>1,298,683.00</u>	2.37%	<u>30,113.00</u>
<b>Total Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	884,400.00	855,400.00	-3.28%	(29,000.00)
Operating Expenses	1,091,220.00	1,278,483.00	17.16%	187,263.00
Transfers To Other Funds	114,580.00	43,267.00	-62.24%	(71,313.00)
Capital Outlay	258,000.00	257,200.00	-0.31%	(800.00)
Debt Service	789,650.00	775,150.00	-1.84%	(14,500.00)
Allocated Cost	320,350.00	439,700.00	37.26%	119,350.00
<b>Grand Totals</b>	<u>3,458,200.00</u>	<u>3,649,200.00</u>	5.52%	<u>191,000.00</u>

City of Shelby-Sewer Fund  
 FY 2007-2008 Budget Expenditure Summary  
 For Notebooks

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
<b>Total Revenues</b>	<u>4,064,350.00</u>	<u>4,420,900.00</u>	8.77%	<u>356,550.00</u>

<b>Sewer Administration Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	160,950.00	104,550.00	-35.04%	-56,400.00
Operating Expenses	65,600.00	62,900.00	-4.12%	-2,700.00
Transfers To Other Funds/Fund Balance	39,650.00	321,522.00	710.90%	281,872.00
Capital Outlay	2,600.00	-	-100.00%	-2,600.00
Debt Service	1,118,850.00	1,171,500.00	4.71%	52,650.00
Allocated Cost	292,400.00	408,250.00	39.62%	115,850.00
<b>Totals</b>	<u>1,680,050.00</u>	<u>2,068,722.00</u>	23.13%	<u>388,672.00</u>

<b>Sewer Lines Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	283,700.00	275,345.00	-2.95%	-8,355.00
Operating Expenses	177,700.00	256,300.00	44.23%	78,600.00
Capital Outlay	370,000.00	250,000.00	-32.43%	-120,000.00
<b>Totals</b>	<u>831,400.00</u>	<u>781,645.00</u>	-5.98%	<u>-49,755.00</u>

<b>Sewer Plant Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	527,950.00	471,740.00	-10.65%	-56,210.00
Operating Expenses	537,950.00	651,793.00	21.16%	113,843.00
Capital Outlay	487,000.00	447,000.00	-8.21%	-40,000.00
<b>Totals</b>	<u>1,552,900.00</u>	<u>1,570,533.00</u>	1.14%	<u>17,633.00</u>

<b>Total Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	972,600.00	851,635.00	-12.44%	-120,965.00
Operating Expenses	781,250.00	970,993.00	24.29%	189,743.00
Transfers To Other Funds	39,650.00	321,522.00	710.90%	281,872.00
Capital Outlay	859,600.00	697,000.00	-18.92%	-162,600.00
Debt Service	1,118,850.00	1,171,500.00	4.71%	52,650.00
Allocated Cost	292,400.00	408,250.00	39.62%	115,850.00
<b>Grand Totals</b>	<u>4,064,350.00</u>	<u>4,420,900.00</u>	8.77%	<u>356,550.00</u>

City of Shelby-Electric Fund  
 FY 2007-2008 Budget Expenditure Summary  
 For Notebooks

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
<b>Total Revenues</b>	<u>16,948,350.00</u>	<u>17,047,750.00</u>	0.59%	<u>99,400.00</u>

<b>Electric Administration Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	153,850.00	104,500.00	-32.08%	(49,350.00)
Operating Expenses	163,450.00	140,650.00	-13.95%	(22,800.00)
Transfers To Other Funds/Fund Balance	974,350.00	1,073,850.00	10.21%	99,500.00
Capital Outlay	2,600.00	-	-100.00%	(2,600.00)
Debt Service	809,150.00	746,900.00	-7.69%	(62,250.00)
Allocated Cost	538,750.00	660,150.00	22.53%	121,400.00
<b>Totals</b>	<u>2,642,150.00</u>	<u>2,726,050.00</u>	3.18%	<u>83,900.00</u>

<b>Electric Purchases Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Operating Expenses	<u>12,589,400.00</u>	<u>12,594,150.00</u>	0.04%	<u>4,750.00</u>

<b>Electric Lines Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	522,800.00	500,700.00	-4.23%	(22,100.00)
Operating Expenses	822,000.00	821,850.00	-0.02%	(150.00)
Capital Outlay	372,000.00	405,000.00	8.87%	33,000.00
<b>Totals</b>	<u>1,716,800.00</u>	<u>1,727,550.00</u>	0.63%	<u>10,750.00</u>

<b>Total Expenditure Summary</b>	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	676,650.00	605,200.00	-10.56%	(71,450.00)
Operating Expenses	13,574,850.00	13,556,650.00	-0.13%	(18,200.00)
Transfers To Other Funds	974,350.00	1,073,850.00	10.21%	99,500.00
Capital Outlay	374,600.00	405,000.00	8.12%	30,400.00
Debt Service	809,150.00	746,900.00	-7.69%	(62,250.00)
Allocated Cost	538,750.00	660,150.00	22.53%	121,400.00
<b>Grand Totals</b>	<u>16,948,350.00</u>	<u>17,047,750.00</u>	0.59%	<u>99,400.00</u>

City of Shelby-Gas Fund  
 FY 2007-2008 Budget Expenditure Summary  
 For Notebooks

	FY 07 Budget	FY 08 Budget	% Change	\$ Change
<b>Total Revenues</b>	<u>22,805,550.00</u>	<u>22,306,325.00</u>	-2.19%	<u>(499,225.00)</u>
<b>Gas Administration Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	229,750.00	171,200.00	-25.48%	(58,550.00)
Operating Expenses	209,850.00	168,500.00	-19.70%	(41,350.00)
Transfers To Other Funds/Fund Balance	1,635,200.00	1,616,050.00	-1.17%	(19,150.00)
Capital Outlay	2,600.00	-	-100.00%	(2,600.00)
Debt Service	1,023,300.00	1,023,150.00	-0.01%	(150.00)
Allocated Cost	775,100.00	912,100.00	17.68%	137,000.00
<b>Totals</b>	<u>3,875,800.00</u>	<u>3,891,000.00</u>	0.39%	<u>15,200.00</u>
<b>Gas Purchases Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Operating Expenses	<u>17,183,300.00</u>	<u>16,043,550.00</u>	-6.63%	<u>(1,139,750.00)</u>
<b>Gas Lines Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	661,200.00	680,900.00	2.98%	19,700.00
Operating Expenses	490,050.00	552,025.00	12.65%	61,975.00
Capital Outlay	565,000.00	1,110,000.00	96.46%	545,000.00
<b>Totals</b>	<u>1,716,250.00</u>	<u>2,342,925.00</u>	36.51%	<u>626,675.00</u>
<b>UOC Garage Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	95,300.00	97,050.00	1.84%	1,750.00
Operating Expenses	25,650.00	24,650.00	-3.90%	(1,000.00)
Allocated Cost	(90,750.00)	(92,850.00)	2.31%	(2,100.00)
<b>Totals</b>	<u>30,200.00</u>	<u>28,850.00</u>	-4.47%	<u>(1,350.00)</u>
<b>Total Expenditure Summary</b>				
	FY 07 Budget	FY 08 Budget	% Change	\$ Change
Personnel Services	986,250.00	949,150.00	-3.76%	(37,100.00)
Operating Expenses	17,908,850.00	16,788,725.00	-6.25%	(1,120,125.00)
Transfers To Other Funds	1,635,200.00	1,616,050.00	-1.17%	(19,150.00)
Capital Outlay	567,600.00	1,110,000.00	95.56%	542,400.00
Debt Service	1,023,300.00	1,023,150.00	-0.01%	(150.00)
Allocated Cost	684,350.00	819,250.00	19.71%	134,900.00
<b>Grand Totals</b>	<u>22,805,550.00</u>	<u>22,306,325.00</u>	-2.19%	<u>(499,225.00)</u>