BUDGET MESSAGE

May 15, 2014

Honorable Mayor

Council Members

Town of Wadesboro, North Carolina

In accordance with the Local Government Budget and Fiscal Control Act and N.C. General Statute 159-11, the proposed Annual Budget for Fiscal Year 2014-15 is submitted for your consideration. The Fiscal Year 2014-15 is presented at $4,714,619 for the General Fund and $2,799,000 for the Water and Sewer Fund. In comparison to the FY 2013-14 Budget, the General Fund budget increases about $500,000 due largely to the East Wade Bridge Repair. The Water and Sewer Fund increases about $97,000. The Budget highlights are as follows.

GENERAL FUND

The Town is on an increasingly unsustainable financial course. For the past seven fiscal years, revenues have been insufficient to pay for the desired service and staff compensation levels. To cover these budget deficits, the Town has opted to increasingly spend its fund balance reserves. This deficit has grown each year due to stagnant revenues, a declining population, and rising costs. Further, the Town has increased the deficit by delaying tax increases and increasing reoccurring expenses.[[1]](#footnote-1)

 This Budget proposal includes police service reductions, approved trash service reductions, further street and sidewalk service reductions, decreased employee health insurance benefits, no employee raise, and an ad valorem tax increase. Such decisions will be unpopular but are not enough. If this proposal is approved, the Town is predicted to spend approximately $300,000 - $600,000 in fund balance. Consequently, this pace indicates that available fund balance may be depleted in approximately two years (assuming nothing unforeseen occurs). As a result, additional tax increases and service reductions in the immediate future will be necessary.

Expenditures are projected to increase due largely to the E. Wade Bridge and Grow Green projects. However, this proposal includes significant cost-cutting measures.[[2]](#footnote-2) These measures include reducing trash service to once per week to save approximately $70,000. Additionally, freezing a police position would result in a savings of $50,000. This measure will result in reduced police service by increasing the frequency of two-officer patrol shifts. This is a safety concern for both citizens and officers. Further, street maintenance funds are reduced for the second straight year. Regarding health insurance, last year’s budget message predicted a large increase[[3]](#footnote-3) and it is no surprise the renewal rate for the same plan increases 34.5%. This budget proposal tempers the increase to 23.4% by decreasing employee health insurance benefits. Finally, based on Council feedback, an annually reoccurring contribution to the Anson County Animal Shelter for $5,706 is included.

Several continuing projects are budgeted between the General and Water and Sewer Funds. The E. Wade Bridge repair is approximately $125,000 of Town funds.[[4]](#footnote-4) The General Fund contributes $90,000 toward the Grow Green Project. Please see the attached summary of capital items, which are kept at a minimum.

Revenues are largely stagnant or declining. Property taxes are predicted to be stagnant. Wadesboro’s recent 93.85% collection rate was second lowest in North Carolina.[[5]](#footnote-5) Hopefully the new “tax and tag” law will improve the collection rate.[[6]](#footnote-6) Since 2010, about 4 cents of buying power has been lost on property tax due to inflation.[[7]](#footnote-7) This amounts to over $100,000 per year. Finally, the County Commissioners are considering a 2 cent fire district tax increase. If approved, this would likely produce about $40,000. Sales tax shows improvement.

*Recommendation:*

 Even after significant spending reductions, expenditures exceed revenues by approximately $760,000. In addition to service and benefit reductions, this budget proposes two additional ways to close the deficit. First, using approximately $620,000 from fund balance, and second, $135,000 by increasing the Ad Valorem tax by 5 cents.

WATER AND SEWER FUND

The Town is in a precarious situation: its customer population base is declining making rates increasingly unaffordable but revenues are still insufficient to adequately cover the costs of an aging system. Over the last 15 years, nearly all industrial customers have closed down or left. The Town is losing its second biggest customer in the hospital. As a result, a smaller group of customers must necessarily cover an increased share of rising costs.

Expenditures decrease in water and increase in sewer. This sewer increase is largely due to a budgeted increase for Anson County’s treatment of Town wastewater. This expense can vary greatly because it is dependent on the amount of rain that occurs in a particular year. In FY 2013-14, the Town did not budget enough money for water treatment due to heavy rains and Anson County’s rate increase. Fortunately, the County will not increase water or sewer rates in FY 2014-15. Further, health insurance and chemicals costs are rising. The amount of $40,000 is budgeted for a necessary sewer line repair by Civitan Park. The Lewis Street Project Town commitment is $50,000.

Per Council’s instructions, this budget takes significant steps to temper user rate increases. However, some of these steps are concerning. Fund balance is used to help moderate rate increases. Needed capital purchases such as a variable speed drive are not included. Across-the-board cuts over the past two years leave little room for error. Given the Town’s aging system, a $150,000 contingency could be used quickly. It is also concerning that no funding is set aside for system depreciation which was approximately $300,000 for FY 12-13. Further, the recent CIP evidenced that Town staff do not have sufficient resources to perform adequate system maintenance.

*Recommendations*:

Expenditures exceed revenues by approximately $395,000. This budget proposal addresses this several ways. First, $180,000 is used from fund balance. The Town cannot continue this practice. Second, $90,000 of the total $120,000 Grow Green commitment is moved to the General Fund. Third, $125,000 is gained from water and sewer rate increases. The minimum water rates increase $1.63 (10%) while minimum sewer increases $1.13 (3.7%). The total combined water and sewer minimum bill increases $2.76 (5.9%). Revenues should be monitored closely and rates adjusted appropriately.

1. For example, the Town declined a tax increase and instituted a raise in FY 2013-14. As a result, about $200,000 more in reserves will be spent in each future year. [↑](#footnote-ref-1)
2. These cuts are in addition to the large cuts from FY 2013-14. Such cuts were an insidious service reduction that provided Town Staff with less resources. [↑](#footnote-ref-2)
3. *“…health insurance benefits remain largely the same after competitively leveraging costs. However, this is a short-term solution and there will likely be a large increase in FY 2014-15.”* FY 2013-14 Budget Message, Town of Wadesboro. [↑](#footnote-ref-3)
4. $475,000 bridge repair costs and $30,000 for related water line work. Grants pay 80% of bridge costs but none of water line work. [↑](#footnote-ref-4)
5. Municipalities: population 5,000 – 8,000, without an electrical system, excluding motor vehicle tax. (NC Department of Treasurer – Fiscal Management Division (FYE 2013). [↑](#footnote-ref-5)
6. It is still too early to definitively understand the impact. [↑](#footnote-ref-6)
7. U.S. Dept. of Labor, Bureau of Labor Statistics, CPI Calculator. [↑](#footnote-ref-7)