

**City of Roxboro  
Annual Budget Message  
2006-2007**

April 21, 2006

Honorable Mayor Joyner and  
Members of the City Council  
City of Roxboro  
North Carolina

Dear Gentlemen:

I am pleased to present to you the City of Roxboro 2006-2007 Annual Budget. The budget was prepared in accordance with N.C.G.S. 159.7, the North Carolina Local Government Budget and Fiscal Control Act. As required, all funds within the budget are balanced, and all revenues and expenditures are identified for FY2006-2007. The budget is designed to function as a working plan – a tool in guiding departmental operations and, furthermore, in accomplishing as many of the Goals and Objectives established in the recently completed Strategic Plan as possible. More than an accurate and comprehensive listing of revenues and expenditures, this report also acts as a convenient at-a-glance reference for anyone interested in achieving a better understanding of the day-to-day financial operations of the City of Roxboro.

The total budget is in the amount of \$13,651,097.

| <u>Fund</u>     | <u>Amount</u>       |
|-----------------|---------------------|
| General Fund    | \$ 8,657,108        |
| Enterprise Fund | \$ 4,478,555        |
| All Other funds | <u>\$ 515,434</u>   |
| Total           | <u>\$13,651,097</u> |

### **Strategic Plan**

During the later months of 2005 and early 2006, the City of Roxboro initiated a strategic planning process to develop a long-term vision for the City. The project was multifaceted and involved numerous stakeholders, including the Roxboro City Council, city staff members and interested citizens. Staff from the UNC School of Government's Public Intersection Project facilitated the entire strategic planning process.

The results of the planning process are clearly evident throughout this budget. Several of the Goals listed below were given emphasis as decisions regarding the allocation of limited funds were made. Both the final adopted budget and the Strategic Plan are excellent planning tools; it is likely that each will evolve as priorities shift over time. However, from a management perspective, identifiable goals and objectives ensures a solid foundation from which to build an annual budget. These specifics also provide the reader with an in-depth overview and, as a result, a more meaningful understanding of the budget.

The following is a complete listing of the Goals as found in the Strategic Plan.

- Increase Tax Base, Not Tax Rate
- Forecast and Plan for Growth Patterns and Needs
- Institute Customer Service Practices and Throughout City Services
- Undertake City Beautification Efforts
- Enhance Housing Stock and Mix
- Provide Support for City Employees
- Encourage Economic Development

As mentioned above, these goals significantly influenced the process of the development of this budget; particularly emphasized were matters or tasks that were identified as priorities. Will they remain unchanged? Inevitably, a shift in priorities will occur as conditions vary and as unforeseen needs arise. Obviously, not all objectives may be accomplished nor can each be adequately funded in a single year. Thus, this strategic plan is a long-range one, to be implemented over several years. Only by making continuous, incremental strides can these long-term goals be realized.

### **Budget Format**

The budget is presented in a traditional line-item format.

### **Budget Summary**

The proposed tax rate for FY 2006-2007 is at \$.62 per \$100 of valuation- a \$.006 increase over the current rate of \$.614 per \$100 of valuation. The amount of revenue from this rate increase is equal to approximately \$36,000. Unfortunately, real property value growth over last year is less than one percent (1%). Total revenues for the General Fund, excluding interfund transfers, debt proceeds and appropriation of fund balance, are estimated to be \$7,528,205. Overall, the net gain for the revenues in the General Fund is 2.99% over the previous year. Total expenditures in the General Fund Budget, excluding interfund transfers and capital outlay financed with debt proceeds, are \$8,085,039 (\$8,549,039 less \$464,000 of debt proceeds). This is a 3.31% increase from last years budget. There are several significant items that are affecting the FY06-07 budget. The transfer of the local option sales taxes to the Enterprise Fund has been reduced from 40% in previous years to only 17.5% for fiscal year 2007. The City's goal is to eliminate this interfund transfer of sales tax entirely and instead, to use these funds strictly for capital purchases and associated debt service in the General Fund. Large capital investments included in this budget are the first debt service payment for the proposed police station and the purchase of a new fire truck. Last, in order to balance the General fund budget there is an appropriation of \$163,000 from fund balance. Elimination of the use of fund balance appropriated to

balance the annual budget is another goal that management desires to accomplish. However, a couple of significant events have precluded this objective from being met this upcoming fiscal year. Those events are primarily due to the reduction in last year's tax collection rate and a significant increase in workers compensation premiums. One significant factor affecting the tax collection rate is the closure of Collins & Aikman. This one industry represents 3.63% of the entire tax levy for the City of Roxboro. As a result of not collecting this significant portion of property tax, the city's tax collection rate is not likely to exceed 94% for 2006. Last, in regard to worker's compensation premiums, the city's experience modification factor increased 26% that resulted in an annual premium increase of \$52,000.

The Enterprise Fund budget has expenditures totaling \$4,061,653. This year represents a significant change in the rate structure of both the water and sewer systems. Based on a water and sewer rate study by Swartz Engineering, the new structure is designed so that each system is self-supporting. In previous years the water system was offsetting losses in the sewer system. In conjunction with the Swartz study, Pease Associates developed a 20-year Capital Improvement Plan for the Enterprise system. Those projects identified in the first five years of the plan have special emphasis in this and upcoming budgets. In an effort to phase in the new rate structure, it has been proposed that for the first six-months of the fiscal year water rates be slightly modified. Then, on January 1, 2007, it is proposed that the entire new structure be implemented. Sewer rate increases are proposed to be implemented beginning with the new fiscal year on July 1. Looking ahead to FY 2007/2008, it is likely that that rates will be adjusted upwards again to meet needs identified in those studies by Swartz and Pease. A complete summary of the proposed rate structure plan may be found in the revenue section of the detailed line item budget. As noted in the General Fund comments above, one of the primary objectives of the proposed budget is to balance the budget without appropriating any retained earnings. In the Enterprise Fund, this objective was successfully achieved.

The FY07 budget continues to provide complete medical coverage including family coverage for all employees. In an effort to keep medical premiums in check, the City worked with its current insurer to seek coverage at or below current levels.

Fortunately, the City was able to obtain coverage at rate of \$228.51 per month for employees and \$639.83 per month for family coverage. This represents a 2.9% decrease over current rates. Health insurance coverage is a significant expenditure for the city totaling nearly \$751,000 annually. In other personnel matters, the FY07 budget does not reflect a cost of living increase. It does, however, include funding for a previously frozen cemetery worker position. But, the vacant public services director position and the previously frozen fire captain position are not allocated for in the upcoming fiscal year.

The list below illustrates the change in this year's budget as compared to last years by department.

|                           | Increase    |          |
|---------------------------|-------------|----------|
| General Fund              | (Decrease)  | Percent  |
| –Police                   | \$111,615   | 5.01%    |
| –Fire                     | \$364,313   | 26.81%   |
| –Public Works             | \$ 61,000   | 2.69%    |
| –Economic Development     | \$ 14,662   | 6.01%    |
| –Administration & Finance | \$( 21,170) | (7.52%)  |
| –Safety and Purchasing    | \$( 4,079)  | (4.78%)  |
| –General Government       | \$ 9,453    | 1.37%    |
| –Buildings and Grounds    | \$( 17,915) | (15.14%) |
| –Debt Service             | \$205,243   | 39.40%   |
| Total General Fund        | \$723,122   | 9.24%    |
| Enterprise Fund           |             |          |
| –Water Treatment          | \$159,455   | 14.23%   |
| –Wastewater Treatment     | \$ 10,666   | 1.39%    |
| –W & S Maintenance        | \$( 52,303) | (4.35%)  |
| –Water Billing            | \$ 693      | .98%     |
| –Debt Service             | \$112,697   | 17.63%   |
| Total Enterprise Fund     | \$231,208   | 6.04%    |

The increase in the Fire Department budget is attributable to the purchase of a new fire truck. The Police Department budget includes the purchase of four new police vehicles, while Public Works includes funding for two pick up trucks and one cemetery worker position that was previously frozen. The Planning and Zoning budget includes appropriations for additional code enforcement services and an ETJ study. The increase in General Fund debt service is due to the construction of the police station and the purchase of four police cars.

The Enterprise Fund budget has been impacted by the anticipated \$155,000 expenditure in the water department to fund a repair project to the intake structure at Lake Roxboro. There is no debt associated with the intake repair project. There is an increase in debt service due to the debt associated with a proposed \$750,000 I&I project. Debt service on this project is projected to be \$140,000 per year for 6 years.

### **Planning/Code Enforcement and Economic Development**

- **Residential Rental Program**

Effective July 1, 2006, the City proposes to implement a Rental Services Program to inspect all rental properties within a five-year period for compliance with the City's minimum housing code. Rental property owners must register their rental dwelling units by July 1 of each year and pay a code enforcement fee to the City's Finance Department.

Funding for this program is generated from a \$20/year annual registration fee paid by the owner of the rental property. According to 2000 census the City of Roxboro has 1808 rental units – an amount equal to half of all residential dwellings located with the City of Roxboro. At this fee level the amount of revenue generated annually should be approximately \$36,160 – enough to off set the cost of the program.

The goal is to reduce the number of unsafe housing units. Deteriorated and dilapidated dwellings negatively impact families, neighborhoods, businesses or industries and the community's marketability. The additional workload demanded by this new program will be filled by contracting for professional code enforcement

services. The \$20/unit annual fee will cover the cost of these services. Last, the Planning Department budget contains an appropriation of \$20,000 for the purpose of removing dilapidated housing.

In other planning related matters, an appropriation of \$15,000 will fund a study to identify areas adjacent to Roxboro that may be appropriate to include in the City's Extra-Territorial Jurisdiction (ETJ).

As well, the Administration Department set aside funds in professional services for the purpose of updating the City's compensation plan. This task was identified in the strategic plan so a picture of the overall wage and benefit package offered by the City may be compared to other similar organizations. It is estimated that an update to the plan would be in the \$5,000 range.

- Economic Development

The budget continues to provide funding for Roxboro Uptown Development in the amount of \$24,000. There is also an appropriation for the small business development coordinator located within the Roxboro Chamber of Commerce. Specifically, the Chamber has requested \$25,000 plus an additional \$2,000 to purchase new software; the software, called PCcensus, is intended to be another tool to aid in the recruitment of business to Roxboro.

### **Fund Balance in the General Fund**

As of March 31, 2006, the General Fund had a total fund balance of \$3,542,099. This represents 42.65% of total budgeted expenditures. The unreserved fund balance available for appropriation was \$2,551,644, which is equal to 30.73 percent of the annual budgeted expenditures of the General Fund. However, the unreserved percentage of fund balance remains below the state average for similar-sized cities. The current level of fund balance appears to be adequate to meet unforeseen events and to avoid cash flow shortfalls during periods of low tax collections. As of March 31, 2006 the General Fund has an *unadjusted* excess of revenues over expenditures of \$255,614. By the end of fiscal year 2006, General Fund expenditures could exceed revenues. That is, a portion of the appropriated fund balance will be spent to cover

expenditures. If the 2006 street paving project is not complete by the end of the current year, this scenario may change.

A summary of General Fund Revenues is shown below:

|  | Prior<br>Year<br>Actual<br>30-Jun-05 | Budget<br>FYE<br>30-Jun-06 | Proposed<br>Budget<br>FYE<br>30-Jun-07 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--|--------------------------------------|----------------------------|--|------------------------|--------------------------------------|
| <b>General Fund:</b>                       |                                      |                            |  |                        |                                      |
| <b>Revenues:</b>                           |                                      |                            |  |                        |                                      |
| Ad-valorem taxes                           | \$ 3,793,796                         | \$ 3,797,290               | \$ 3,810,735                           | \$ 13,445              | 0.35%                                |
| Local Option Sales Tax                     | 1,264,391                            | 1,302,043                  | 1,349,198                              | 47,155                 | 3.62%                                |
| Other taxes and licenses                   | 95,909                               | 94,900                     | 128,864                                | 33,964                 | 35.79%                               |
| Unrestricted intergovernmental             | 701,962                              | 749,792                    | 739,685                                | (10,107)               | -1.35%                               |
| Restricted intergovernmental               | 674,825                              | 694,390                    | 735,969                                | 41,579                 | 5.99%                                |
| Permits and fees                           | 11,044                               | 8,500                      | 43,500                                 | 35,000                 | 411.76%                              |
| Sales and services                         | 540,180                              | 549,710                    | 550,905                                | 1,195                  | 0.22%                                |
| Investment earnings                        | 57,752                               | 57,000                     | 135,000                                | 78,000                 | 136.84%                              |
| Miscellaneous                              | 13,911                               | 31,133                     | 2,348                                  | (28,785)               | -92.46%                              |
| Sale of fixed assets                       | 37,055                               | 25,000                     | 32,000                                 | 7,000                  | 28.00%                               |
| Total revenues                             | 7,190,826                            | 7,309,758                  | 7,528,205                              | 218,447                | 2.99%                                |
| <b>Other Financing Sources:</b>            |                                      |                            |  |                        |                                      |
| Proceeds of capital lease                  | 295,000                              | -                          | 464,000                                | 464,000                | #DIV/0!                              |
| Operating transfers in                     | 70,000                               | 70,000                     | 85,000                                 | 15,000                 | 21.43%                               |
| Reimbursement Enterprise Fund              | 448,660                              | 423,517                    | 416,903                                | (6,614)                | -1.56%                               |
| <b>Fund Balance Appropriated</b>           | -                                    | 500,942                    | 163,000                                | (337,942)              | -67.46%                              |
| Total revenues and other financing sources | 8,004,486                            | 8,304,217                  | 8,657,107                              | 352,890                | 4.25%                                |

Local option sales taxes have increased approximately 4% over the previous year. Interest income should continue to improve next year as interest rates return to normal after several years of record low interest rates. This year's budget includes proceeds from capital leases for a new fire truck and four new police cars. Unfortunately, growth in ad-valorem taxes is relatively flat compared to the prior year at less than 1% growth.

Debt Service - General Fund

## Debt Service Expenditures Existing Debt – General Fund



### Capital Projects and Other Significant Capital Expenditures – General Fund

The fiscal year 2007 budget for the General Fund includes debt service payments for the following capital expenditures as shown in the table below:

| Capital Project/Equipment | Amount Borrowed | Interest Rate | Term (Years) | Annual Payment |
|---------------------------|-----------------|---------------|--------------|----------------|
| Fire Truck                | \$345,000       | 5.00%         | 5            | \$77,483       |
| Police Station            | \$3,188,750     | 4.75%         | 30           | \$201,559      |
| 4 Police Vehicles         | \$118,172       | 3.50%         | 3            | \$40,000       |

**A summary of Enterprise Fund Revenues is shown below:**

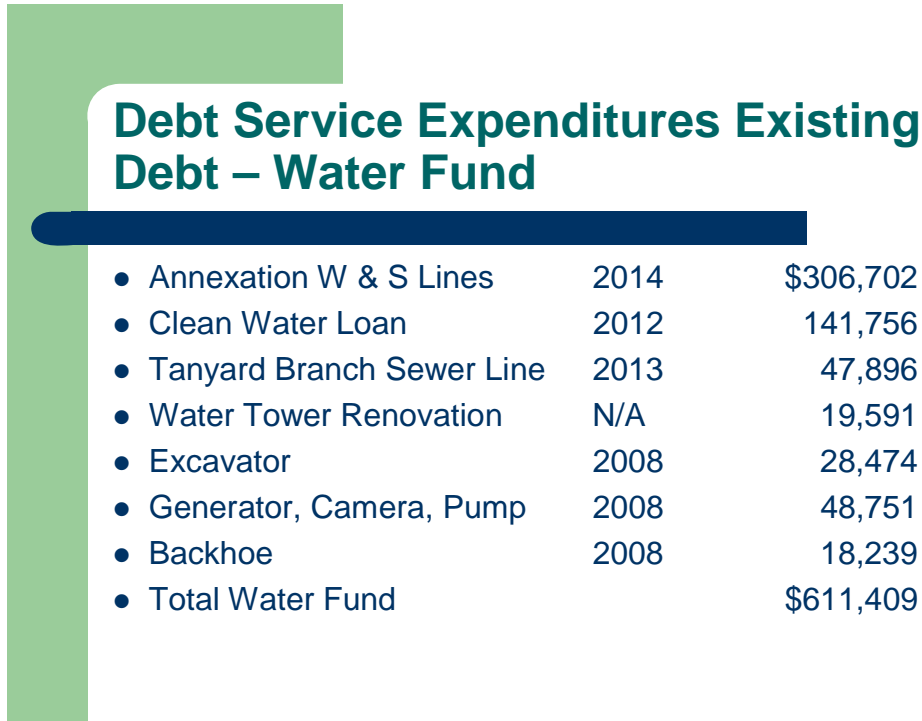
|   | Prior<br>Year<br>Actual<br>30-Jun-05 | Budget<br>FYE<br>30-Jun-06 | Proposed<br>Budget<br>FYE<br>30-Jun-07 | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|---|--------------------------------------|----------------------------|--|------------------------|--------------------------------------|
| <b>Enterprise Fund:</b>                           |                                      |                            |  |                        |                                      |
| <b>Operating revenues:</b>                        |                                      |                            |  |                        |                                      |
| Water & sewer charges                             | 3,311,175                            | 3,602,824                  | 4,074,054                              | 471,230                | 13.08%                               |
| Tapping fees                                      | 40,840                               | 35,000                     | 19,800                                 | (15,200)               | -43.43%                              |
| Other operating revenues                          | 118,692                              | 72,596                     | 65,932                                 | (6,664)                | -9.18%                               |
| <b>Non-Operating Revenues</b>                     |                                      |                            |  |                        |                                      |
| Non-operating revenues                            | 36,191                               | 54,750                     | 21,700                                 | (33,050)               | -60.37%                              |
| Sale of fixed assets                              | 6,337                                | 5,000                      | 5,000                                  | -                      | 0.00%                                |
| <b>Total revenues</b>                             | <b>3,513,235</b>                     | <b>3,770,170</b>           | <b>4,186,486</b>                       | <b>416,316</b>         | <b>11.04%</b>                        |
| <b>Other Financing Sources:</b>                   |                                      |                            |  |                        |                                      |
| Operating transfers in                            | 145,000                              | 93,000                     | 156,000                                | 63,000                 | 67.74%                               |
| Local option sales tax - transfer from GF         | 221,110                              | 227,700                    | 108,069                                | (119,631)              | -52.54%                              |
| Proceeds of capital lease                         | 70,000                               | 116,000                    | -                                      | (116,000)              | -100.00%                             |
| <b>Fund Balance Appropriated</b>                  | <b>-</b>                             | <b>47,091</b>              | <b>28,000</b>                          | <b>(19,091)</b>        | <b>-40.54%</b>                       |
| <b>Total revenues and other financing sources</b> | <b>3,949,345</b>                     | <b>4,253,961</b>           | <b>4,478,555</b>                       | <b>224,594</b>         | <b>5.28%</b>                         |

As mentioned at the beginning of this budget message, the rate structure has been significantly altered. However, such significant impacts need to be phased in over time. Thus, it is proposed that one-half of the proposed water rate increase be implemented over the first six months of the new fiscal year. It is recommended that the entire sewer rate adjustment be implemented on July 1. On January 1, 2007, the second phase of the water rate structure will be implemented. For a complete listing of the proposed water and sewer rate structure, see the revenue section in the budget.

By implementing a rate structure as proposed, the water and sewer systems are self-supporting, as an enterprise system should be. The combined studies of Swartz Engineering and Pease Associated have clearly and concisely delivered long-term plans for the successful maintenance and operation of the City's Enterprise functions.

In addition to the amended rate structure, Enterprise Fund revenues have been altered by the discontinuance of the transfer of a portion of the Local Option Sales Tax from the General Fund to the Enterprise Fund. In previous years, 40% of the two local option one-half cent sales taxes were transferred to the Enterprise Fund. In the proposed budget, this transfer has been reduced to 17.5%. The goal for FY2007-2008 is to eliminate the transfer entirely – as suggested by the Swartz study.

**Debt Service Expenditures Enterprise Fund**



**Debt Service Expenditures Existing Debt – Water Fund**

|                             |      |           |
|-----------------------------|------|-----------|
| • Annexation W & S Lines    | 2014 | \$306,702 |
| • Clean Water Loan          | 2012 | 141,756   |
| • Tanyard Branch Sewer Line | 2013 | 47,896    |
| • Water Tower Renovation    | N/A  | 19,591    |
| • Excavator                 | 2008 | 28,474    |
| • Generator, Camera, Pump   | 2008 | 48,751    |
| • Backhoe                   | 2008 | 18,239    |
| • Total Water Fund          |      | \$611,409 |

## **Capital Projects and Other Significant Capital Expenditures – Enterprise Fund**

The single largest capital project planned for next year in the Enterprise Fund is a sewer line rehabilitation project. This project will focus on those lines identified in a study performed by Hydrostructures, Inc. It is estimated that \$750,000 should be adequate to address the most critical lines needing repair. In the Water Department, there is an appropriation to fund a repair project to the gates in the intake structure at City Lake. It is anticipated that this project will be performed without assuming any debt. The projects described above are summarized below:

| Capital Project            | Amount Borrowed | Interest Rate | Term (Years) | Annual Payment |
|----------------------------|-----------------|---------------|--------------|----------------|
| I & I Sewer Lines          | \$750,000       | 5.00%         | 6            | \$140,625      |
| City Lake Intake Structure | \$0             |               |              | \$155,000      |

### **Enterprise Fund Capital Reserve**

A result of the Swartz study is the creation of a new or expanded Enterprise Capital Reserve. Previously, the fund collected \$.25 per thousand gallons of water purchased. The proposed rate structure also charges \$.25 per thousand gallons of sewer. As a result, each function has its own source of funds that are currently earmarked for capital projects. Based on historical data, water sales should produce \$155,733 for capital reserve and sewer will collect \$88,461. For FY07 the Enterprise has appropriated \$206,133 for capital expenditures and \$752,034 for debt service payments on capital projects.

### **Enterprise Fund Net Assets**

As of June 30, 2005, net assets in the Enterprise Fund totaled \$19,336,447. Of this amount \$17,224,108 represented the City's investment in capital assets, such as the water and wastewater treatment plants, water distribution lines and sewer

collection lines, net of any related debt. Unrestricted net assets were \$2,112,339. As of March 31, 2006, the unadjusted fund balance of the Enterprise Fund is \$658,152 . This represents 14.62% of budget expenditures for the fiscal year ending June 30, 2006.

### **Closing**

It has been my pleasure to submit the fiscal year 2006-2007 Annual Budget to the City Council of the City of Roxboro. This year's budget is somewhat of a departure from prior years in some respects. First, the strategic plan initiative assisted in the development of this year's budget. As a result, particular emphasis on identifiable goals, developed early on in the budgetary process, ensured that the budget meets the objectives designated most important by the council. As well, water and sewer rates were analyzed and amended accordingly.

Finally, I would like to thank the staff for their invaluable input. A special thank you to Thomas S. Warren, Assistant City Manager, and James C. Overton, Finance Director, for their effort and commitment in assisting with the completion of this budget.

Respectfully Submitted,

Jonathan R. Barlow  
City Manager