

BUDGET MESSAGE

June 3, 2013

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 2013-14 is submitted for your consideration. The Fiscal Year 2013-14 is presented at \$4,493,788 for the General Fund and \$2,627,688 for the Water and Sewer Fund. In comparison to the FY 2012-13 Budget, the General Fund budget decreases about \$210,000 and the Water and Sewer Fund remains about the same. The Budget highlights are as follows.

GENERAL FUND

Regarding the General Fund, the Town is on a financially unsustainable course. Recent discoveries regarding non-existent revenue and overestimations compound existing issues. This Budget proposes large spending cuts combined with tax and fee increases. Yet, approximately \$380,000 from fund balance is still used to offset the deficit. If this proposal is approved, the Town is predicted to have about \$500,000 - 900,000 in available fund balance. Consequently, current pace indicates that available fund balance will be depleted in approximately three years (making the risky assumption that nothing unforeseen occurs). As a result, further tax increases and service reductions in the immediate future will be needed to offset future operating deficits and maintain a healthy fund balance level. If the proposed increases are not approved, tax increases and service reductions in the immediate future will likely need to be progressively larger or the fund balance will run out at an earlier date.

Even with rising costs, large spending cuts have lowered expenditures by approximately \$220,000 through a variety of methods. 6 positions totaling about \$125,000 are eliminated; this means certain employees have increased responsibilities. While there is no raise for employees, 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 for comparable benefits in FY 2014-15. Also, across-the-board cuts mean reduced resources for service delivery. Further, there are no capital expenditures with the exception of grant supplemented purchases. As a result, current service level and decreased spending level is likely unsustainable. Additionally, City Pond Park hours are reduced to the weekends to save about \$10,000. Using this savings, \$7,500 is budgeted for website improvements which is a concern for many citizens. Current garbage rates are \$9 and there is no charge for either leaf pickup or limb pickup. The average rate for comparable service is \$13. Notably, contingency is higher due to potential litigation expenses.

Several continuing projects are budgeted between the General and Water and Sewer Funds. The Cobb-Vantress addition, Lewis Street infrastructure project, and Coffing Hoist incentive payments total approximately \$145,000. Also, the East Wade Bridge replacement is largely funded by grant money and should be started in FY 13-14. The Town's share is budgeted at about \$100,000. Notably, the State's engineer has indicated this project (and thus payment) can be delayed a year.

Overall General Fund revenues decrease about \$260,000 (6%). Numerous revenues are declining or ending entirely. Property tax revenue is predicted to decline. Specifically, a low collection rate is concerning. Wadesboro's recent 93.86% collection rate was second lowest in North Carolina. For all property, about \$120,000 was not collected in FY 2011-12. This is the tax rate equivalent of almost 4 cents. Since 2010, about 1.7 cents of buying power has been lost on property tax due to inflation. This amounts to about \$45,000 per year. Alternatively, a conservative sales tax estimate shows a slight increase.

Recommendation:

Even after large spending cuts, expenditures exceed revenues by about \$650,000. As a result, this budget proposes three ways to close this deficit. First, \$380,000 from fund balance. Second, \$127,000 by increasing the Ad Valorem tax 4.7 cents. Third, \$145,000 by increasing the garbage rate \$6 per month.

WATER AND SEWER FUND

Regarding the Water and Sewer Fund, the Town is on a financially unsustainable course. Recent discoveries regarding non-existent revenue and overestimations compound existing problems. Over the last 15 years, nearly all industrial customers have closed down or left. Consequently, approximately two-thirds of all revenue is lost. Further, about 13% of housing stock is vacant. As a result, a smaller group of customers must necessarily cover an increased share of water and sewer costs. Further, debt service and regulatory requirements have increased. Consequently, water and sewer rate increases are included to balance this Budget proposal.

Despite rising costs, this proposed Budget keeps expenditures about the same. The Town has rising costs for a variety of reasons. The upcoming first Uptown waterline debt service payment is approximately \$115,000. Recent water rate increases do not cover this cost as previously predicted. Also, Anson County is raising water and sewer rates. Further, increasing regulations raise costs. Despite these realities, overall expenditures are approximately the same because this Budget is bare-bones. Notably, it is concerning that funding for system depreciation is not included.

Overall, Water and Sewer revenue is predicted to decline from current year estimates without any rate increases. Over the past 15 years, the loss of all but one industrial user has resulted in a loss of approximately two-thirds of all revenue. To put this in perspective, the lone remaining industrial user accounts for approximately 25% of all consumption. Also, an estimated 300 homes are vacant/up for sale. Compounding the problem, revenue overestimations and non-existent revenue have hurt the Town's long-term financial outlook.

Recommendations:

This budget proposal changes the rate structure and increases both water and sewer rates. Pursuant to a 2012 Town Council Resolution, the rate structure changes from declining to uniform/flat rate. Rate increases are due to a \$380,000 deficit. The minimum water rates increase \$2.30 (16.43%) while minimum sewer increases \$5.99 (23.66%). Substantial increases and structure changes means that demand will be difficult to predict. As a result, revenue estimates are conservative. However, incoming revenues should still be monitored closely and rates adjusted appropriately.