



TOWN OF KNIGHTDALE

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May 25, 2010

Mayor and Town Council
Knightdale, NC 27545

Re: Budget Message

Gentleman;

Please find attached the proposed Knightdale Town Budget for FY 2010-11. It has been prepared in accordance with the NC Local Government Budget and Fiscal Control Act. The General Fund budget includes revenues and expenditures each totaling \$9,859,874, an increase of \$609,521 (6.5%) over the current year. The primary components of the increase are a one cent property tax rate increase (2.5%) to fund additional Public Safety personnel and facility improvements, several grants from outside agencies, and increased capital funding from the General Capital Reserve. Each of these is described in detail below. While the General Fund directs the vast majority of Town government operations, the Town also maintains a Water and Sewer Fund to facilitate the “pass through” of water and sewer charges and fees to the City of Raleigh merged system; a yet unfunded Storm Water Fund; a Capital Reserve Fund; and the Short Term Suspension Fund. The Short Term Suspension Fund is used to account for the grant, donations and local contribution that provides operating revenue for the program that provides out of school educational opportunities to suspended students from Knightdale High School and East Wake Middle School. The East Wake Television Fund (EWTV) has been eliminated and the channel is now operated by a not-for-profit corporation.

General Fund Revenue

Ad-Valorem taxes comprise more than 50% of General Fund revenue. The estimated property tax revenue is based on a base of \$1,244,725,152 and a levy of \$.41/\$100 of valuation with a 97% collection rate. Each one cent of the property tax rate generates approximately \$124,000.

Sales taxes are the second largest source of Town revenue, and are estimated to increase approximately 1% over the current year; however are down from FY 09 levels by more than \$50,000. Interest income, while anticipated to be up slightly over FY 10, will also be well below amounts received in FY 09. Solid Waste fees are expected to decline \$--- based upon a per/household reduction in the cost of collection by Waste Industries, which will be passed on to Knightdale customers. Most other taxes and unrestricted intergovernmental revenues are projected to be stable. No fund balance is proposed for appropriation.

Four anticipated grant awards comprise a large increase in restricted intergovernmental revenue. A Governor's Highway Safety Grant will provide 100% funding for two Public Safety Officer's salary, benefits, equipment, and two new vehicles. A condition of the grant is that the Town absorbs an increasing portion of the salary and benefit costs over the next three years, at which time the grant funds expire. A Federal Emergency Management Agency (F.E.M.A.) grant will provide firefighting equipment and a NC Department of Transportation Planning grant is anticipated to complete a Town-wide bicycle and pedestrian plan. Federal Highway Administration STP-DA funds are expected to be available for the completion of a turn lane, curb, gutter and sidewalk on Knightdale Blvd. at Widewaters Parkway. Total grant revenues from these four sources exceeds \$416,000. The Town is seeking additional grants from F.E.M.A. for personnel and from the U.S.D.O.T. and N.C. D.O.T. for the Mingo Creek Greenway which are not included in this budget proposal. Funds are also being sought for Phase II of the First Avenue Improvement Project.

General Fund Expenditures

Employee wages are requested to increase 2% for a cost of living increase based upon the Consumer Price Index increase for all Urban Consumers from March 2009 to March 2010. An additional 1% is proposed for merit pay increases. The Town offers a dual option major medical health plan. The plans were modified, most significantly with increased employee deductibles to limit premium increases. Health, dental, vision and life insurance expenses are slated to increase 4.8%. The Town's contribution to the State and Local Government Employees Retirement System has increased from 4.85% of salary to 6.4%. A 5% contribution to the State 401(k) program has been maintained.

The proposed budget includes four new positions, all Public Safety Officers. Two of the new officer positions are paid for with the additional one cent ad-valorem tax while two more are expected to be hired as a result of the Governor's Highway Safety Grant. The two grant funded positions will primarily perform traffic enforcement. The grant also provides two vehicles, equipment and uniforms.

One position in Administration, Assistant Town Manager, has been eliminated while the recently created Planning Technician position in the Planning Department replaces the formerly frozen Zoning Administrator slot. A minor re-organization in the Finance Department was approved early in 2010, converting two half-time positions that received benefits to one full time position and one part time position under the direction of the Accounting Operations Manager. All other Departmental operating budgets are proposed for funding levels similar to the current year.

Capital Outlay/Equipment

The following equipment is proposed to be purchased with a combination of coming year revenues and short term loan proceeds. Admin/Finance: Town Hall lobby furniture and 2 replacement computers and 2 new servers; Public Safety: 8 public safety patrol vehicles (3 replacement, 2 for new Town funded positions, 2 for new grant funded positions, 1 undercover), 6 sets of turnout gear and 5 sets of SCBA, an extrication tool, 8 computers, and minor building renovations; Public Works: One pickup truck; Engineering: Hinton Oaks median improvements and Widewaters Parkway roundabout improvements; Parks and Recreation: A new pool cover and a salinization system.

Capital Reserve Fund

A number of transfers into and out of the Capital Reserve Fund are proposed resulting in an estimated decrease in Capital Reserve Fund Balance from \$1.9 million to \$1.65 million. Revenue for the fund

includes the equivalent two cent property tax dedication (\$240,000), the loan repayment from EWTV (\$20,000), Restricted Motor Vehicle Taxes (\$73,000) and interest income (\$17,000). Expenditures proposed are a \$320,000 transfer to the First Avenue Capital Project, \$148,000 down payment on the First Avenue park property, \$65,000 for a new 2-ton dump truck w/ leaf box insert, \$31,650 matching funds to complete the turn lane, curb, gutter and sidewalk on Knightdale Blvd at Widewaters Parkway, \$12,000 for a new roof on the pool clubhouse, and \$31,500 for police equipment.

Storm Water Fund

A funding mechanism for the Storm Water Fund will be proposed when an efficient billing mechanism can be made available. Management anticipates recommending a fee to be collected by the City of Raleigh via the water and sewer bill. It is anticipated that this collection method can begin mid-year 2011. The Town is permitted by the NC Department of Environment and Natural Resources as a Phase II community, requiring storm water education, system mapping, facility inspections and maintenance.

Water and Sewer Fund

The Water and Sewer Fund exists solely to service water and sewer debt and the pass through of development fees collected in Knightdale and transferred to the City of Raleigh as part of the Water and Sewer Merger Agreement. The Merger Agreement stipulates that rates and fees increase by 9% on July 1, 2010, the first increase for Knightdale customers since 2005. The Town's performance under the agreement has not met expectations for a number of reasons, including slower than anticipated growth of the customer base, a reduction in customer consumption, use restrictions, and unanticipated increases in rates for Raleigh customers. These circumstances will require the Town to implement a series of rate and fee increases that exceed those anticipated prior to the Merger Agreement. For the coming year, a 15% water and sewer rate increase and a 10% fee increase is recommended.

Short Term Suspension Fund

The Town adopted a Short Term suspension fund in FY 10 to account for the monies used to run a new program aimed at providing students suspended from Knightdale High School and East Wake Middle School supervised classroom time. The revenues from the program come from \$74,000 in State and federal grants, a \$10,000 Town of Knightdale contribution and \$7,500 in private contributions.

Debt Service

At July 1, 2011, the Town's total debt is anticipated to be \$9,267,990 compared to \$7,012,573 at July 1, 2010. Annual debt service payments for the General Fund in the proposed budget are \$742,615, which represents 7.53% of the operating budget. Debt service expenditures for the Water and Sewer Utility Fund are \$491,196, which will be reimbursed in full by the City of Raleigh.

Fund Balance

The total fund balance in the General Fund is expected to be \$3,190,872 as of June 30, 2010, compared to \$3,271,796 as of June 30, 2009. This represents 34.49% of budgeted expenditures for the fiscal year ending June 30, 2010. Approximately \$1,289,055 or 13.94% of the fund balance is reserved, leaving a fund balance available for appropriation of \$1,980,817 or 20.55% of budgeted expenditures.

The General Fund budget for the fiscal year ending June 30, 2011 was balanced without using any reserves or fund balance appropriation. The budget does include \$256,620 of fund balance appropriation in the General Capital Reserve Fund. These funds will be transferred to the Capital Projects Fund and General Fund to pay for various capital projects and the related debt service. As of April 30, 2010, the General Capital Reserve Fund had a fund balance of \$1,938,913.

I look forward to discussing the proposed budget with the Town Council. Please let me know if any further information is desired.

Sincerely,

Seth Lawless
Budget Officer