



## **INTERIM CITY MANAGER'S BUDGET MESSAGE FISCAL YEAR 2011**

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### **INTRODUCTION:**

This budget year has been dramatic in its challenges across the nation. Compared to most communities, Jacksonville is blessed with a relatively stable economy due to the stable purchasing power of local military and Department of Defense personnel and the investment resulting from the "Grow the Force" Initiative. That is not to say Jacksonville has completely escaped these difficult times. General Fund revenues are projected to increase by \$478,031 or 1.09% which includes \$900,000 of new revenue from Occupancy Tax during a time when additional revenue growth is truly needed to cover expected cost escalation and increases in demands for services. As a result, the budget does not make significant progress toward addressing service delivery challenges, but it also does not represent a significant step backward. I will discuss the strategies implemented in this budget below.

First, I am honored to present the City of Jacksonville Fiscal Year 2011 budget in the total amount of \$387,533,860. This total consists of \$293,569,811 of prior years' appropriations for ongoing projects, \$77,326,005 to support ongoing operations in all areas, \$3,904,727 for investments in capital projects, and \$12,733,317 in transfers (which do not represent actual spending but are double counting required by municipal accounting standards). The budget is balanced and prepared in accordance with the Local Government Budget and Fiscal Control Act.

The 2011 Budget includes a General Fund budget of \$44.5 million which is 1.1% or \$0.5 million more than FY 10. This increase is attributed to \$900,000 of new revenue from Occupancy Tax. By recognizing historic salary savings, holding departments at their current spending levels, drawing down excess fund balance in the solid waste fund and anticipating the possible use of Occupancy Tax to fund the Museum of the Marine and Vietnam Memorial, we are able to fund increases in the City's mandatory contribution to the State Retirement System, health and dental insurance cost increases and a salary adjustment for City employees in order maintain market parity. The FY 11 Budget is based on the Revenue Neutral Rate which results in a reduction of the current rate from 62.6 cents to 53.8 cents per \$100 of valuation.

## **SIGNIFICANT THEMES:**

The Jacksonville, Onslow County area has been undergoing steady growth over the last decade. The annexation of significant areas adjacent to and including the populated areas of the adjacent military installations; Camp Lejeune and Marine Air Station New River by the Jacksonville City Council, that became effective in 1990, increased our population to a level which attracted major retailers to our area. Consistent investment in these military installations, after the tragedy of September 11, 2001, has supported increasing civilian employment on base and significant construction activity. Improvements in retail, other quality of life amenities, and new employment opportunities have increased the number of military retirees that have chosen to stay in the area after leaving active duty. Finally, the increases projected in late 2007 from the Marine Corps' "Grow the Force" Initiative, have occurred at an even faster rate than initially expected. The City's population has grown 22.72% from 2000 to 2008. This vitality is both a boon and a challenge.

The consistency of the significant federal payroll and construction spending in the area has resulted in an economy that has weathered the global economic downturn better than most. While the failure of national retail chains, financial institutions, and other factors outside of our market have increased local unemployment and resulted in a number of vacant store fronts, retail sales have been strong. While national tightening of investment and financial resources resulted in a significant drop in commercial development activity and frustrated many potential home buyers by making financing almost impossible to obtain, locally construction activity is recovering and home values have remained stable and even improved in some segments of the Jacksonville market. The 2010 property revaluation has resulted in a total assessed value of 3,497,310,190 which is an increase in value of approximately 25%.

We are fortunate that revenues to the City from Sales Tax have appeared to stabilize based on the formula currently used and the stable economy. However, demands for services and the cost of providing those services have been increasing. Water and wastewater utilities are also challenged, as I will discuss further, but a growing challenge is transportation. The discussion about transferring responsibilities for maintaining roads from NC DOT to the City continues. If this occurs, this budget does not have the adequate resources to undertake such an endeavor. Nor does the budget address the more pressing need to expand the capacity of the transportation system which is becoming an inhibitor to efficient growth and economic development.

As challenging as this maintenance dilemma is, it ultimately will be easier to resolve than how we will develop and fund the transportation system that will be needed to serve the growth that is already occurring. In my opinion, the expansion of existing roads and the building of new roads will be a greater challenge than maintaining existing roads. Failing to solve the challenge of expanding the capacity of the transportation system will inhibit efficient growth and economic development.

In 2004 the City was placed under a Special Order of Consent (SOC) by the State which required the rationing of the remaining capacity at the wastewater treatment

plant. With the completion of the City's \$46 million investment in the expansion of the capacity of the land application wastewater treatment facility to 9 million gallons per day, the SOC has been rescinded. The increased treatment capacity, the revised sewer allocation policy and Sewer Master Plan approved by Council and regional cooperation with ONWASA, we have the necessary tools and treatment available to support growth and protect the environment for foreseeable future. The next challenge however becomes expanding the collection system handle future growth and improving its efficiency. Doing so will help encourage development in areas that the Council desires growth to take place in. Additional improvements are needed to further reduce the volume of inflow & infiltration (I&I) which wastes available treatment capacity and to increase the efficiency and effectiveness of our maintenance operations.

The unfunded mandate from the State to reduce the volume of water the City has drawn from the Black Creek Aquifer has forced the City to get water from the Castle Hayne Aquifer. Sixteen wells and a water plant together valued at \$53 million are nearing completion. When the City was drawing from the Black Creek Aquifer, a plant was not needed because the water was so pure. Our new plant, along with the associated costs of new manpower to operate the plant, will come on line this summer. The expenses listed in this budget are our best estimates as the City has not operated a plant previously.

Utility rates have increased by 58.5% over the last three years and facilities fees have increased by 91% in 2009 and 2010 to support the \$100 million in debt incurred to support these projects. The City issued its first bonds in thirty years in order to provide the long-term financing for these projects. New operational costs and the need for additional investment in the conveyance systems continue to place pressure on existing utility rates. As part of this budget process, Council will consider the remaining increases to facilities fees proposed last year. These are efforts to properly balance the impact of needed investment between existing ratepayers and new developments. Ensuring that the City has the financial capacity for further investment will be a challenge as the City competes to create an environment that will attract development into the City limits.

A final significant theme is the need for infill development. In order to preserve the City's tax base, and avoid the sprawl development that has increased the need for services outside the City while failing to provide income to the City to provide those services. Further, increasing infill development will help to provide affordable housing for the diversity of our new residents.

## **SALES TAX**

The County Commissioners voted to distribute sales tax revenue for FY 10 based upon a split of 40% per capita and 60% ad valorem. This change is estimated to increase General Fund Sales Tax revenue for FY 10 by \$1.6 million over the use of ad valorem alone. This beneficial change allowed the reliance on fund balance to be reduced to \$4.2 million, but sales tax revenue is still projected to be lower than it would be had the distribution method not been changed in 2007. In the preparation of this year's budget, we have assumed that the County will continue to use the 40% per capita and 60% ad valorem distribution formula that was used in FY 10.

## **UNCERTAINTY**

Under the revised sales tax distribution methodology, 60% of the distribution is still based upon the previous year's property tax receipts. Lowering property taxes in FY 11 would mean a smaller proportion of sales taxes in FY 12. If property taxes are reduced in FY 11 and then increased in FY 12, the proportion of sales taxes would not be recovered until FY 13. Further, the City's proportion of sales taxes in FY 11 will be affected by the County's decision to raise property taxes for FY 10.

There are a number of other factors in addition to the uncertainty and potential negative impact of the County's decision on property taxes that increase the risk of a property tax reduction at this point. The City will be entering the bond market again this summer to sell debt to support additional investments in water and wastewater treatment capacity and infrastructure. The cost of that debt will depend on the bond rating established based on rating agencies perception of the City's financial health.

The State of North Carolina has not amended its budget for the second year of the biennium and is facing significant shortfalls. The State has a tradition of impacting local revenues as part of balancing its budget. The last state budget shortfall cost Jacksonville about \$232,000 in revenues. Reducing taxes in FY 11 would decrease the City's ability to respond to further budget challenges. Further delay in economic recovery nationally would impact on the State's budget for the next biennium all of which would set the stage for almost guaranteed need for a tax increase in FY 12, as well further hamper the City's ability to respond to growing demands for service.

At this writing, we are uncertain of the decision by Onslow County as to whether to charge the City for the recycling materials we take the county facility. A charge of \$28 a ton had been proposed and a team was negotiating on the issue.

Finally, even with a tax reduction, the budget includes a salary adjustment for City employees in order maintain our pay scale market parity in our compensation plan, takes advantage of historic salary savings, uses one-time funds from the General Fund Capital Reserves, and does not currently provide any additional police staffing in the absence of federal grants that are not assured.

## **BUDGET PURPOSE:**

The budget document is the annual financial plan for City operations for the fiscal year, July 1 – June 30. This plan describes sources of revenues and how funds will be spent during the year.

The Annual Budget has four basic functions:

**First**, it expresses the policy of the City Council. Through the budget, the City Council exercises its authority to increase services in some areas of City operations and decrease them in others. As a part of the budget review process, the City Council determines the tax rate for each fiscal year. Other fees, such as water and sewer rates, also are reviewed and adjusted as necessary.

**Second**, the budget process is a management and planning tool. The budget and subsequent accounting reports allow department directors and supervisors to evaluate their management of funds provided for their operations.

**Third**, the Annual Budget is a means of communicating to the Citizens of Jacksonville and others how public funds will be invested. The budget is a tangible expression of the City Council's policy direction.

**Finally**, the budget is the foundation for the proper accounting of City funds. It expresses in financial terms the goals and plans of the City Council. The types and amounts of authorized expenditures and the means for financing them are set forth in the budget. Once the budget is recorded in the accounting system, it serves as a control device to keep spending within authorized limits.

## **BUDGET PREPARATION:**

The City's budget was prepared based upon estimated revenue growth percentages supplied by the North Carolina League of Municipalities and past performance. Through utilization of information from the City's budget and financial statements, combined with past performance and economic indicators, anticipated and known changes in financial condition, including the County's decision to change the sales tax distribution methodology, have been assessed and incorporated.

While all of this information is fundamental, the Goals adopted by the City Council, on March 23, 2010, provided the vision which guided the policy recommendations embodied herein. These goals and corresponding organizational responses are also discussed in the Goals section of this budget document.

## **MISSION**

*To provide the leadership, vision, and oversight necessary to ensure the responsible stewardship of Jacksonville's environment and natural resources, for the effective and efficient delivery of municipal services, and for the proper planning for the future.*

## **VISION**

*A Jacksonville whose abundant natural resources, healthy environment, military presence, and vibrant economy make it the best place to live, work, and visit.*

### **CITY COUNCIL FY 11 GOALS, MISSION AND VISION**

The FY 11 Goals adopted by the City Council are not expressed in any specific order or priority. They have been numbered simply for ease of reference.

#### **GOAL 1: Develop Planning Strategies to Promote Sustainable & Environmentally Sound Growth**

Objective 1.1 – Promote infill development that makes efficient use of existing infrastructure

- Describe infill development and identify geographical area
- Include design guidelines and other regulatory mechanisms in revisions to the City's land use regulations
- Propose financial incentive programs to promote infill
- Explore the development of stormwater service areas in order to increase the amount of usable land for infill development while protecting water quality
- Create neighborhood plans

Objective 1.2 – Promote sound growth planning practices in coordination with neighboring jurisdictions

- Seek partnerships in creating regional capacity to serve basic utility needs and land use planning
- Work with neighboring jurisdictions to remediate existing and prevent future environmentally damaging development practices
- Work to prevent growth near City limits that will be expensive to serve and/or retrofit in the future
- Work to educate public regarding the benefits of annexation in providing for the efficient expansion of urban services, the prevention of environmental degradation, and protection of quality of life

Objective 1.3 – Promote environmentally sound strategic planning to ensure consistent service levels in existing and growth areas as identified by the adopted Annexation Plan

- Explore strategies for the incremental extension of services to growth areas

- Plan for investments in advance of growth to increase efficiency of future service delivery
- Explore strategies to encourage development that contributes to a stable revenue environment in support of service delivery
- Sustain and expand greenspace and recreation areas
- Continue environmental rehabilitation activities

## **GOAL 2: Develop Strategies to Implement Downtown Development Plan**

Objective 2.1 – Encourage stakeholders to invest in downtown

- Seek opportunities to leverage public investment to remove blight and promote development
- Support the efforts of private non-profit organizations to develop assets that improve quality of life and promote tourism in the downtown area
- Solicit and support private investment in support of development and redevelopment

Objective 2.2 – Tailor City planning for downtown development

- Examine infrastructure adequacy to support planned and desired development
- Explore ways to encourage businesses to open in or relocate to the downtown area
- Recommend regulatory mechanisms to encourage higher density residential development consistent with the downtown plan

## **GOAL 3: Assess and Respond to the Needs of the Community**

Objective 3.1 – Develop and refine strategies to engage the public

- Examine opportunities for using surveys to gain feedback from customers and citizens
- Review existing communication strategies for opportunities to improve effectiveness
- Develop processes to engage citizens in examining areas important to them and develop community-based solutions
- Develop strategies to increase the effectiveness of existing City Boards, Commissions and Committees

Objective 3.2 – Determine existing service levels

- Enhance performance measures in order to provide a basis for accurate performance assessment
- Ensure that data collection support systems are fully implemented and effectively used
- Use best management practices to establish quantifiable service level measures for major service areas

Objective 3.3 – Determine sufficiency of existing services and service levels

- Provide information to the public on existing City service

- Obtain community input through public hearings, surveys, neighborhood meetings, advisory board meetings, or focus groups to determine our success in meeting desired service levels
- Explore how existing services can meet needs and what new services or service enhancements are desired if any

Objective 3.4 – Define customer expectations and provide that service in a responsive, courteous, professional, and cost-effective manner

- Identify areas for improvement and provide staff with the resources needed to achieve those improvements
- Streamline processes to the extent possible without undermining ability to provide desired level of regulatory oversight

#### **GOAL 4: Ensure Adequate Infrastructure to Meet Current Needs and Future Growth of the Community**

Objective 4.1 – Engage in long range infrastructure planning

- Establish an appropriate 25 year growth planning horizon to support effective long range infrastructure planning
- Develop operational capacity to both plan for and construct improvements required to support future growth without neglecting existing infrastructure

Objective 4.2 – Increase the City’s ability to analyze, monitor, and remediate the condition of existing infrastructure

- Look for opportunities to upgrade current infrastructure through repair or replacement to support infill and redevelopment
- Implement systems to monitor infrastructure condition more effectively

Objective 4.3 – Develop a strategic financial plan to support infrastructure investment

- Examine rate and fee structures to ensure that growth pays its fair share of growth-related infrastructure investments
- Analyze cash flow needs over the planning horizon and prepare strategic plan to satisfy investment needs

#### **GOAL 5: Reduce Reliance on Property Tax as a Major Source of Revenue**

Objective 5.1 – Explore and maximize use of alternative methods of funding

- Continue to advocate for a favorable allocation of sales tax
- Use media resources available to the City to educate the public about the alternative sources of funding
- Execute tax and annexation strategies to secure sufficient sales tax revenue
- Pursue grant and no cost/low cost loan opportunities

#### **GOAL 6: Build Key Relationships**

Objective 6.1 – Create, improve and maintain networking strategies

- Apply strategies at the local, state, and federal levels

- Join and participate in associations designed to serve this goal
- Build strong internal and external relationships through communication with our employees, citizens, non-profits, local businesses, and military bases
- Look for opportunities to form partnerships to improve service, efficiency, and/or otherwise further this goal
- Build greater trust with the community

## **GOAL 7: Maintain a Quality Workforce**

### Objective 7.1 – Improve recruitment and retention of employees

- To ensure adequate pay and benefits for all staff, survey the COJ market annually to determine the need for pay structure adjustments and appropriate benefit changes
- Seek continuous improvement in recruiting approaches and processes
- Analyze, evaluate, and report COJ Turnover and Exit Interview data

### Objective 7.2 - Invest in employee skills and knowledge through education, training, and career development

- On an annual basis conduct an organization-wide needs assessment for appropriate education and training, and career development
- Develop an annual schedule of learning opportunities in response to identified needs

### Objective 7.3 – Promote a positive and supportive work environment

- Communicate information to employees in an open and timely manner
- Support City Wellness and Safety initiatives

## **CAPITAL BUDGET:**

Beginning with the FY 08 Budget, significant capital investments have been identified, discussed and included in the City's Capital Improvement Plan ("CIP"). The City Council considered and adopted the CIP on April 6, 2010. The capital budget from the CIP is included herein, but is not discussed in detail. The CIP represents significant long-term investments in the City's infrastructure. Utility infrastructure expenditures are supported by utility rates, while general fund expenditures are supported by tax revenue. Several years ago, prior to the creation the CIP, the City set up a General Fund Capital Reserve Fund to support projects titled "Council Initiatives." Currently four (4) cents of the property tax levy is transferred into the Capital Reserve Fund annually. Beginning with the FY 2007 budget, Council added an additional 3.84 cents of property tax levy to support the Public Safety Complex. Based on the current project cost estimate and projected interest rates, an additional 1.45 cents of property tax levy is needed to cover the cost of the debt service for the Public Safety Complex. All FY 11 CIP projects in the General Fund with the exception of the Public Safety Complex, Firearms Training Range Improvements, Northeast Creek Park and Market Street Park have been funded by the Capital Reserve Fund.

## **CONCLUSION:**

In very trying financial times across the entire nation, the City of Jacksonville has been able to tread water. The current sales tax distribution formula coupled with property tax revenue growth has placed the City in a more sustainable financial position. The Council has proactively made significant planning decisions in key policy areas such as annexation, pedestrian transportation planning, and water and wastewater service development that are improving the organizations' ability to forecast future financial needs. That improved ability indicates significant challenges in FY 11 depending upon the County's and City's property tax levy decisions, but additional revenues in FY 12 with planned annexation could improve the City's financial position.