

# Town of Clayton

## FY 19-20 Operating Budget Message

### General Fund Introduction

In many ways, Town Council has been anticipating and preparing for this year's budget for several years. The tax rate was raised \$0.03 last year, and Council indicated a desire to hold the tax rate steady this year. Council has consistently given the directive for fiscal responsibility while maintaining excellent service delivery. They've added to that directive for us to find ways to achieve capital project wants and needs. Staff have spent a lot of time compiling and refining significant capital project lists and costs and discussing them with Council. As Council considers putting a General Obligation Bond Referendum onto the November 2019 ballot, this year's budget discussion takes on added significance as Council reviews priorities and the Town's ability to pay using pay-as-you-go versus debt issuance methods. In anticipation of these decisions, Clayton has wisely continued to add to its reserves in order to provide greater flexibility towards finding the right balance in paying for recurring and one-time capital needs from reserves, outside alternative funding streams, and other annual recurring revenue sources.

### Highlights of this Recommended Budget:

- Revenues and expenditures are in balance at \$29,789,491.
- The \$0.58 tax rate remains the same.
- One penny on the tax rate will generate approximately \$230,000 per year.
- Initial department requests totaling \$33.2 million contrasted with initial revenue projections of closer to \$26.2 million.
- The \$7 million gap was closed by using a combination of cutting expenditure requests, adjusting fees for services, and projecting growth in sales and property tax base.

### General Fund Revenues

By law, the NC General Assembly decides how and when municipal governments may generate revenue. As it stands, Ad Valorem Property Tax is the largest unrestricted revenue source with which the Town of Clayton has the most discretion on how much to collect and how to use. Property taxes account for nearly half of all Town revenue, and that is projected to increase \$3.2 Million over the current year budget, mostly driven by property valuation growth and the recommendation to maintain the tax rate.

Statutorily required, property revaluation currently only happens every eight years. As the lead agency, Johnston County appraises and values property within every municipality and throughout all unincorporated areas across the County. Clayton's property values rose significantly over the past eight years which helps property owners with added equity in their property, but it also can lead to paying higher taxes. A revenue neutral tax rate for Clayton is

\$0.49, which means that if set as the new tax rate it would generate the same revenue we would anticipate absent the property revaluation. Setting a revenue neutral tax rate does not mean every property tax payer will pay the same amount in taxes, however.

Sales tax is the second leading revenue source (also unrestricted) and in recent years has become an even more reliable revenue. With nearly ¾ of the year behind us, the current year Sales Tax growth is 3.3% over budget. While this revenue continues to beat the forecast, it will always be subject to volatile market and legislative changes. Based on analysts and our own judgement due to recent trends, the FY 19-20 Recommended Budget sales tax revenue will grow by approximately \$400,000 next year, 4.7% over the current end-of-year estimate.

Investment earnings continue to make a comeback, looking more like pre-recession times. We anticipate that this year’s nearly \$200,000 return will double to just over \$400,000 next year.

In summary, it is anticipated that unrestricted new revenues will increase by nearly 20%. Where new revenues are being spent is explained below.

### General Fund Expenditures

Significant spending impacts and decisions are highlighted below via three summary categories: Personnel, Operating, and Capital.

Not all revenue dollars are free and clear to spend on anything. Above we use the term *unrestricted*, which, as the name indicates, means they have the most flexibility in how they may be spent. Conversely, there are restricted revenues and those types of revenues are directly linked to expenditures. Eliminating or adding the latter has a net zero impact on the budget because they are linked or restricted in how they may be used.

### Personnel

Departments originally requested 37 new positions, 5 of which are part-time. The costs captured in this chart include all benefits and not just salaries. Only 14 positions out of the original 37 are included in this recommendation:

Department	Title	FT or PT	# of Positions	Full Year Costs	Budgeted Costs
Fire	Fire Fighters	FT	9	\$1,244,124	\$622,062
Inspections	Building Inspector	FT	1	\$81,891	\$81,891
Engineering	Storm Water Engineer	FT	1	\$107,122	\$53,561
Engineering	Engineer	PT	1	\$43,947	\$43,947
Library	Library Associate – Substitute	PT	1	\$3,966	\$3,966

Parks & Rec	Recreation Program Coordinator	FT	1	\$65,185	\$65,185
<b>Totals</b>			<b>14</b>	<b>\$1,546,235</b>	<b>\$870,612</b>

Fire requested 24 new positions in their original request which, alone would carry a \$1.7 Million new cost impact. The Fire Department continues to evaluate needs in light of the recently completed Facility Needs Assessment. Staffing needs continue to fall short of industry standards and part of the challenge is finding reliable part-time fire fighters. Fire departments are changing and the days of having volunteers and part-time help at the ready are going away. The Fire Department submitted a SAFER Grant related to our staffing needs but a definitive response may be eight or nine months from now. If approved, the nine recommended positions will not be filled until January 2020. We hope to have a grant response by then which might provide some relief for a few years. Also, in tandem with these positions being filled, part-time dollars will also decrease this year (\$140,000) and even more in future years. While not a complete offset, having regular full-time employees will bring greater stability and allow us to adjust staffing levels assigned to different engine companies.

Inspections continues to see historically high demand. A part-time position remains unfilled and this request is to convert that into a full-time position. A full-time inspector will be easier to recruit. These costs are offset by restricted revenues (fees).

Engineering has two requests within the Recommended Budget. The first relates to storm water management. Storm water is more and more a priority given our growth and changes in State oversight. We continue to work with the State and Johnston County to ensure that we are in compliance with rules and regulations. It is proposed to hire a Storm Water Engineer in January 2020. Ultimately, the Town bears a lot of responsibility related to storm water oversight and interpretation and having this function in-house will ensure that we are tracking projects and rules more closely. It will also bring greater scrutiny on development. The second position is to formally create a part-time Engineer position. Currently, as a stop-gap, we utilize a retired Engineer from unused FY 18-19 Town Engineer salary. This individual provides instant assistance given his experience. It is hoped to continue to use him through next year in a part-time capacity to keep up with demand for development review, ordinance and code rewrites, and other department needs. There are two major transitions in this department starting next year in hiring a new Town Engineer (already approved) and a new Storm Water Engineer (pending approval). The part-time engineer will help in both of these transitions, having served as the Town Engineer in a neighboring community already.

The Library request is small compared to the others on the list. It is a position that fulfills a function similar to their part-time positions. The big difference is that they will not have regular hours. They will be available to fill in for part-time or full-time employees on short-notice.

We've never had this type of position in the Library before and we will monitor its effectiveness. Based on others' experiences however, we believe it will give the Library access to a qualified person that doesn't want regular hours but otherwise brings experience and professionalism to our Library.

The final recommended position is technically already approved but still carries a budgetary impact moving forward. Council recognized the need for special event oversight in the Parks & Recreation Department and separated that role from the Economic Development Specialist that also serves as the downtown liaison. This was the direction staff has been working towards for some time and the arrival of the new Parks & Recreation Director and their input and support for this change helped validate and solidify the earlier recommendation. Council approval was sought and obtained ahead of the budget due to an unforeseen vacancy.

This is the second year in a row we asked the MAPS group to conduct a Classification and Pay Study, this time for the other half (more or less) of the positions not studied last year. They looked at the comparison market salary rates for positions to determine what adjustments we might make to remain competitive in salaries and benefits. Without this type of analysis we risk the negative effects of salaries that are classified incorrectly and salary compression risks that occur when salaries for longer term employees are too close to the salaries we pay to new and incoming employees. The Recommended Budget includes making the study's recommended salary grade and pay adjustments effective July 2019, which equates to compensation increases at almost 2.5%, but it is targeted and not across the board.

An across the board 2% Cost of Living Adjustment (COLA) effective July 2019 based on the past twelve month period's Consumer Price Index (CPI) change is included in this Recommended Budget. It also includes a second 1% COLA to take effect January 2020, instead of the Merit increase traditionally given at that time. This deviation from recent tradition is part of a transition plan away from across the board COLAs. Moving forward, as long as Council remains committed to Classification and Pay studies, I recommend that FY 19-20 be the last year of across the board COLAs. Clayton's recent practice has been to provide a COLA in July and then a merit increase opportunity each January. The Classification and Pay Study, however, is a more precise or targeted approach to COLAs. Instead of across the board, experts examine vulnerabilities to all positions and market sensitive positions will be adjusted accordingly. Clayton will begin in the following year's budget (FY 20-21) to provide a merit and classification and pay study recommendations that will adjust salary grades (COLAs) as dictated by the market. The intent is to provide higher merit raises in the future to reward performance and to avoid salary compression. So, in this transition year, we are using the second COLA to bridge to next year. The annual evaluation will still take place and will determine the merit raise in FY 20-21. Given that it had been a few years since our last Classification and Pay Study, we hope that moving forward with regular studies, significant or widespread adjustment may be avoided except, of course, where the market is leading.

Clayton continues to offer major medical benefits via NC State Health Insurance plan options and dental insurance. No costs are recommended to pass along to employees. The Town continues to incur premium increases on major medical and we budgeted an increase of 7% per the State's estimates. There are no benefit plan changes expected at the time of preparing this budget but the State operates on a different calendar, so we will continue to monitor.

The NC Retirement Fund requires an increase in employer contributions and projects increases for the next several years. We budgeted the required 1.2% increase for the coming year, which brings the employer contribution to 9%. Law enforcement, by statute, is slightly higher at 9.7%.

## Operating

Clayton, as a whole, continues to operate at a high level of professionalism. The summary pages that precede each department's budget continue to improve and highlight that professionalism. Accomplishments and next year's significant impact projects and changes are now both linked to Council strategic priorities. We are still transitioning into performance measures and data reporting will continue to be refined.

There are a few operational areas and changes highlighted next:

This is really the new Planning Director's first budget because she was hired so late into the process last year. That office has seen several new hires and continues to work closely with Engineering and Inspections on refining development standards and processes. This budget reflects a renewed commitment to minimum housing and code enforcement. Also, a significant multi-year project is proposed to do a comprehensive review and update of the Unified Development Code of Ordinances. It has been nearly 15 years since its last major overhaul. This project will entail utilizing both a third-party manager along with community and elected official input. To date, previous direction to do targeted changes has left some sections untouched that need to be amended and an overall lack of cohesion. This overdue comprehensive update seems is overdue considering the Town's growth trajectory. Hesitancy to do a major overhaul before now may have been due to the fact that it is very time consuming and challenging.

The new Parks & Recreation Director was hired last December and hit the ground running. Stepping out of the large shadow of his predecessor, the new director brings many years of experience in leading programs and helping navigate the complexity of major capital improvements including general obligation bond referendums. This budget includes a lot of thought and number crunching behind some significant capital projects related to parks and recreation. This budget includes some changes to fees (mostly to out-of-town participants) which will more cleanly reflect in-town versus out-of-town participation. The most significant fee change recommendation related to Parks & Recreation is raising the Recreation Open Space Fee-in-Lieu for developers to \$2,000 per single family unit or lot. Simultaneously, we recommend eliminating the opportunity to dedicate open space to offset that fee. This revenue

is not used to balance the budget but will continue to be used to meet capital infrastructure needs for Clayton Parks & Recreation.

There are several other fee change recommendations included in the budget and the current and proposed changes are provided for comparison purposes. Fee changes are largely based on periodic benchmarking reviews and based on actual cost increases to operations. Statutes sometimes dictate the restrictedness of these fees. For this reason, we may use indirect charge backs to other departments that are not directly paid for out of the same budgetary line items as that department charging the fees. All fee change recommendations are scheduled to take effect July 1, 2019.

Two years ago Clayton began contracting solid waste, recycling, and yard debris with All Star Waste. It has been a very successful partnership and services were actually enhanced without any cost increases the first year. Each year, by contract, All Star Waste may ask for a CPI adjustment which we pass along to the customer. Just like last year, we again considered outsourcing loose leaf collection, the final in-house piece of our solid waste operation, to them as well. This budget recommends outsourcing loose leaf to All Star due to the need to replace aging vehicles and the need for additional staffing. Savings by way of cost avoidance made this decision more feasible. While it adds \$156,000 per year to the All Star contract, we are avoiding adding 2 new employees requested by the Streets Division, replacing the \$185,000 leaf truck, replacing a \$90,000 pull behind, and avoiding annual fuel and other disposal charges. This budget does not recommend passing along all of the new All Star costs to the customer rates in year one, but we will do so gradually. Customers will see a 5.15% rate increase (\$0.93 per month) to their solid waste bill starting in July. This increase takes into account CPI, rising recycling processing fees, and a small portion of the loose leaf costs. Recycling costs are a concern as options continue to dwindle in the marketplace. We will continue to monitor and adjust accordingly.

## Capital

Several years of work have led us to this decision point regarding capital spending. With the help of Davenport & Company financial services, we have taken capital improvement plans and explored our ability to pay for projects using a combination of pay-as-you-go and debt financing. Wisely, the Town established and adheres to financial policies that guide us on how much debt we are willing to incur as a ratio of expenditures, the timeliness of paying off debt, and how much money to hold in reserves. Using these as tools we explored options to determine how to pay for growing demand for town infrastructure (or capital) wants and needs. As proposed, the equivalent of \$0.06 are being set aside for future capital spending.

A copy of the capital improvement plans are included in the budget document. These plans are updated annually, at a minimum as part of the annual budget. Reliability on priorities and cost estimates declines the further away the project slides away from the current year. The Council wanted to know options for them to consider in order to leverage a low interest rate borrowing

that can be put before the voters via a November 2019 referendum. Without losing sight of the needs on the list we will discuss the following five projects and their cost estimates at the May 1 budget meeting with Davenport:

Project Name	Estimated Costs
Municipal Park – Phase 1	\$4,471,250
Clayton Community Center – Phase 2	\$1,650,000
Clayton Community Center – Phase 3	\$1,806,250
Community Park Upgrade	\$1,237,500
East Clayton Community Park	\$3,921,250
<b>Total</b>	<b>\$13,086,250</b>

These major projects were among some of the top priorities expressed by Council and community input derived from a recent Parks & Recreation outreach effort to validate the Parks & Recreation Master Plan.

Other priorities not included above that are funded in this year’s Recommended Budget or are funded through capital project funds or a combination of both are the following:

Project Name	Estimated Costs
Town Hall Parking Expansion (cont. from FY19-20)	\$550,000
Sam’s Branch Phase II (cont. from FY19-20)	\$3,100,000
Payton Drive Extension (cont. from FY 19-20)	\$500,000
Railroad Parking & 1 <sup>st</sup> Street Extension (Design)	\$75,000
Harmony Playground & Facilities (ECCP)	1,600,000
ADA Town Infrastructure Transition Plan	\$70,000
Sidewalk Improvement Plan	\$69,000
Town Dept Relocations (Parole & Cust Service)	\$334,000
<b>Total</b>	<b>\$6,298,000</b>

We have made conscientious decisions to build Town reserves or Fund Balance in recent years, based on fiscal analysis and our financial plan. To that end, we are setting aside an additional almost \$350,000 in to reserves for future debt service for capital needs.

Street infrastructure needs are and will remain a major priority in this year’s and future year’s budgets. The decision to raise the Municipal Vehicle Tax added with available Powell Bill Funding dollars gives us the ability to spend almost \$1.6 Million on street improvements next year. We expect to complete Payton Dr and Blanche St roadwork out of those fund but we are also updating the Pavement Condition Survey to determine other high priority streets.

Developing a better strategy for street repairs is a priority for the Public Works Department. Council's commitment to funneling dollars beyond what the Powell Bill state money provides will be critical for years to come.

We continue to fund Town-Wide Vehicle replacement and a catch-up (year 2 of 6) on PD vehicle replacement in the Recommended Budget. We are replacing a dump truck and we include the purchase of a used Ladder Truck for the Fire Department. We also include a study to revisit the space needs the Town's Operation Center off of NC Hwy 42 West. NCDOT is looking at a road project that may take a significant portion of our existing property.

Total capital spending is recommended at \$4,354,107 next year. This represents a significant increase over recent years but is reflective of Council's priorities and includes some catch up (noted above as cont. from FY 19-20) from where some budgeted projects are not yet completed.

### Enterprise Fund

Water, Sewer, and Electric services must operate like a business and are not supported by General Fund dollars. Rates and fees are set to cover past, current, and future costs. Building and maintaining healthy reserves are critical to meet anticipated and emergency capital needs.

I stated last year that FY 18-19 was, in many ways, going to be the year of the Enterprise Fund and that turned out to be the case. The State changed some rules late last year that required a shift in focus to system development fees before we could focus on what turned out to be a very challenging rate study and an updated wastewater capacity analysis. For the better part of the first half of the current fiscal year, staff worked with third party engineering firms to work through both. This topic has been the subject of many Council meetings and discussions with the public. We have so many questions yet to answer, we are moving forward with clearer direction from Council to get the design done for a new wastewater facility sized appropriately to handle all of Clayton's treatment flow. We plan on updating the rate study this year, once we have clearer information on probable size and cost for a new facility, the largest single project driving the rate changes. The good news is Clayton has a rate study and model to utilize for longer range forecasting. The bad news is longer range forecasting isn't as reliable without the new facility designed. However, the forecast is consistent in that rates are on the rise. [UNC School of Government recently shared telling data that water and wastewater systems across the State have been underfunded for years and that costs are rising even faster than the consumer price index.](#)

Water and Sewer rates are recommended to increase in this budget by a combined rate of 9%. That represents a water rate increase of 3% and a Sewer increase of 16.5%. A portion of these increases are due to pass along costs from Johnston County, from whom we purchase water and send some wastewater for final treatment. We anticipate that future year increases are coming and, as stated, we will refine the model as new information becomes available.

On the Electric side, rates were adjusted last year. Thanks to a newly implemented rate model we did not have to raise rates to account for a wholesale rate increase that took place in early 2019.

### Personnel

Departments requested 4 new positions. The costs captured in this chart include all benefits and not just salaries. Only 3 positions are included in this recommendation:

Department	Title	FT or PT	# of Positions	Full Year Costs	Budgeted Costs
Water & Sewer Prev Mainten	Utility Maint Crew Leader	FT	1	\$64,168	\$48,126
Water & Sewer Operations	Utility Maint Mechanic	FT	1	\$54,797	\$54,797
Wastewater Treatment Plant	Lab Technician	FT	1	\$56,132	\$56,132
<b>Totals</b>			<b>3</b>	<b>\$175,097</b>	<b>\$159,055</b>

### Operating

In Water and Sewer, under new leadership, next year will be a time to refine plans and costs especially related the capital planning. Stronger coordination on projects that impact Streets and other departments will also be of focus.

On the Electric side, next year we will focus on branding and marketing our small Town electric department. We will continue making progress in LED conversion of area and street lights across Town. We don't say enough how often our electric crew steps up to the challenge of keeping the lights on and getting them back on when they go out.

### Capital

All three funds have an updated capital improvement plan and we will work with Davenport this year to refine those plans and align them with debt and pay-go capacities, similar to the work underway on the General Fund side of the ledger.

A significant cross-over capital project for all three of these funds is migrating water and electric meters to AMI (Advanced Metering Infrastructure) or smart meters. This new product will result in tremendous efficiency gains in that all meters will be read remotely and can be accessed by the consumer as well. Electric meters will have the ability for remote disconnects and limited water meters will have the same (due to cost only select meters will be installed with this feature). The Town began transitioning away from manual read meters many years ago but due to many factors the transition was never completed. With the age of the infrastructure we have reached a critical decision point to either finish the transition or move to

the next generation and more efficient technology. We chose the latter and it will take approximately 18 months to complete the transition.

The Water Fund includes additional Johnston County water capacity purchases in the amount of \$1.4 Million. We made an additional purchase in the current year prior to a cost increase that will take effect in July. We need to continue to purchase water to ensure compliance with State rules and to maintain adequate supply.

Sewer capacity remains a top priority and until the new wastewater facility is completed. Additional capacity purchases totaling over \$10 Million are anticipated next year, the majority of which are for industrial customers. Additional purchases from Johnston County and Raleigh are still necessary. Having transmission lines to those destinations will serve the Town for many years to come even beyond the expansion of our current capabilities. Nitrogen purchases are another focus of concern and there has been recent attention at the NC Department of Environmental Quality (NCDEQ) and at the NC General Assembly regarding rules and costs for towns like Clayton that discharge back into the Neuse River. We are still in discussion with Raleigh about the availability of an additional .25 MGD capacity.

The new Electric substation is now online which provides a redundancy loop and better quality of service.

#### Conclusion

This has been a unique and challenging budget to prepare. Prioritization is critical when facing Clayton's growth challenges. We continue to transition from small to medium size town and we want the community to know that we are committed to providing excellent services and amenities to the place we all call home.

I want to express my thanks to all of staff that helped prepare this budget and especially Deputy Town Manager Nancy Medlin and Finance Director Robert McKie.

Respectfully,

Adam J. Lindsay  
Town Manager