

MINUTES
BUDGET PRESENTATION
November 5, 2012

Call to Order

President Collins called the meeting to order at 6:00 p.m. and welcomed everyone to the meeting. Council members present were President David Collins, Msrs., Jarrell Brazzle, Edward Simpson, Mrs. Ingrid W. Jones, and Mrs. C. Villa Hunt. Staff members present included City Manager Kirby Hudson, Finance Director John Marcarelli, Director of Planning and Codes Enforcement Damalier Molina, Acting Fire Chief James Lentz, Interim Police Chief James Bell, and Recording Secretary Ruthann Mowday.

Mr. Hudson read the attached 2013 Budget message.

Mr. Marcarelli explained the 2013 Payroll Budget and the proposed 2013 Real Estate Tax increase that includes the proposed millage to include the Solid Waste fees. He explained the anticipated revenues versus the expenditures for the year 2013.

Mr. Hudson explained that all questions regarding the various departments will be answered at the budget workshops.

Adjournment

Mr. Collins adjourned the meeting at 8:10 pm.

Kirby Hudson
City Manager



City of Coatesville

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CITY HALL

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November 5, 2012

City Council
CITY OF COATESVILLE
One City Hall Place
Coatesville, PA 19360

Ladies and Gentlemen:

Presented herewith is the proposed City of Coatesville Annual Operating Budget for 2013. Included are budget plans for providing for the annual operating expenses of the City as well as financing plans for the acquisition of capital assets, funding capital construction projects, maintaining our fiduciary role in providing for the financial obligations of the City's debt service, and pension plans. The budget was developed with the participation of the department heads, who presented requests for appropriations and, in some cases, revenues to help finance the costs. The director of finance, and his staff were instrumental in being able to complete the process of compiling requests, projecting various costs, revenues and other transactions incurred in the course of the City's business.

The most salient fact that comes to light with this proposed budget is that it will be necessary to request the Council to authorize an increase in the Real Estate Tax by 2.50 mills for general purposes and 3 mills for Solid Waste services. This tax millage rate, incorporated into the annual real estate tax billing, essentially would replace the annual Solid Waste fee. This would provide for a more efficient means of collecting the funds necessary for this service and would provide funds earlier in the year to forestall the need of lending funds from the General Fund to the Solid Waste Fund. Attached is an exhibit that shows the impact of the proposed increase to the average residential taxpayer. The tax increases were proposed as a means of having a balanced budget. This request should come as no surprise as during the past year the City has been functioning with an operating deficit in the general fund. For 2012, revenues were budgeted at \$8,416,550 and expenditures were budgeted at \$8,416,550. In actuality, 2012 revenues are expected to come in at \$7,534,932 net of a transfer of \$2,242,000 from the Reserve Trust Fund and expenditures are expected to be \$9,711,288. The deficit of nearly \$2.2 million will be covered by a transfer from the Reserve Trust Fund. A \$2.2M gap constituted a budgetary shortfall of approximately 27% of the entire General Fund budget. In 2013, with costs increasing as will be outlined further on in this message and other revenues showing signs of slow and even no growth, we are hard pressed not to experience another operating deficit.

Unfortunately, the City has no fund balance that can be relied upon to help weather hard economic times. A fund balance could be used to cushion the blow but should not be solely relied upon to pick up the entire operating deficit. We recommend the Council to consider a long range financial plan to end what has become a vicious cycle of tapping into the Reserve Trust Fund to supplement operating revenues. The more significant shortfall, by far, is the insufficient revenue. The deficit of \$2.2M in 2012 was reduced to \$1.3 M for 2013 prior to any additional tax increase or use of additional monies from the Reserve Trust. The shortfall was based on an increase in proposed expenditures of \$155,128 and anticipated revenues of \$1,154,886.

While I must commend my staff on having made a conscientious effort to assist in offering a budget that is not only fiscally responsible, but as importantly accommodates our work program for 2013, we are unable to continue our current level of productivity without additional tax revenue. The preparation and adoption of the annual budget is one of the most important actions of the City Administration and City Council. The budgetary process determines what services the City will provide, the level of these services and how funds will be provided to finance them. Recognizing the importance of these decisions, I am presenting salient highlights of integral components which constitute the City's budget.

GENERAL FUND

The General Fund is used to account for all current financial transactions, applicable to the general governmental operations of the City, that are not required by law to be accounted for in another fund. Principal revenue sources are real estate taxes, earned income taxes (EIT), deed transfer taxes, local services taxes (LST) followed by a combination of user fee type revenues such as building permits and license fees. This fund accounts for the general operating expenditures of the City including police and fire protection, street repairs and maintenance, code enforcement, parks and recreation, planning, legal and engineering services, and general administration.

Total revenues budgeted for 2013 are \$8,571,864, an increase of \$155,314 or 1.9%. This includes a 2.5 mill increase in real estate tax. The real estate tax is based on the taxable assessed valuation of properties within the City. The valuation used for the real estate projection is \$259,971,331 (as of October, 2012). The assessed valuation for the 2012 City tax billing was \$254,401,641. The growth in the valuation is a modest 2.2%. Assessments in the county have not been updated recently and the City faces continuing assessment reductions through assessment appeals. Increases in the valuation through new construction have slowed due to 1) a general slowdown in new construction which is related to the state of the economy plus the fact that as development matures within Coatesville, there is less available land for new construction and 2) a trend of increasing assessment appeals which has a reversing effect to the growth of the City's taxable assessed valuation. Deed transfer tax, which is directly based on the value of properties sold within the City, has been declining. Earned income tax, which is the City's largest revenue, has shown negligible growth. Based on projections from the EIT collector, we anticipate there will be little if any growth from 2012 to 2013. The Local Services Tax (LST), which was formerly the Emergency Services Tax, has declined over the past three years. Although the tax rate (\$52 per/year) for people who work within the City stayed the same. Interest income was substantially down from what had been budgeted previously.

Total expenditures budgeted are \$8,571,678, an increase of \$155,128 or 1.8%. Personnel costs account for the largest single category of expense. Salaries are budgeted at a total of \$4,115,382 (or 48% of the General Fund expenditures). There is one new positions in the 2013 budget in Code Enforcement, which is a position that we anticipate will be instrumental in generating revenue. The Assistant City Manager position and the Main Street / Director of Redevelopment position was cut from the 2013 budget as a cost savings measure. In the Police department, we will have five fewer officers than was the case at the beginning of this year. Unfortunately, the 2012 budget was lacking to cover the existing positions that were in place through nearly half of the year in 2012. Included in this budget is a chart that summarizes the comparison of budgeted positions and dollars by department and in total between 2012 and 2013.

Employee benefits account for 12% of general fund expenses. The cost of health insurance benefits is expected to increase by 8.5% percent in 2013. Another expense category to focus on is retirement benefits. Note the calculation of the Minimum Municipal Obligation (MMO) is when the new pension cost is calculated. With the decline in the pension plan portfolios as a result of the financial markets steep declines in recent months, we may be faced with a notably higher MMO next year (for the 2013 budget).

In an attempt to further cut Personnel related expenditures, I met with all three of the City's Union leadership and requested a freeze for the 2013 annually contracted salary increases of 3.5% for Fire and Police & 2.5% for the AFSCME employees. Currently this is being discussed by the Unions and it is my hope to receive an answer soon.

Other expenses in the General Fund budget have been kept under 1.0% overall, although there have been some variations with higher increases for specific line items.

SOLID WASTE FUND

Solid Waste Fund covers the costs of the City's contractor for solid waste collection and disposal. The City is within a multi-year contract which continues through 2014. The other major expense in this fund is the tipping fees charged to the City by the Chester County Solid Waste Authority.

CAPITAL RESERVE FUND

The Capital Reserve Fund is used to account for the accumulation of resources for, and the acquisition or construction of general fixed assets and capital equipment. Resources of the fund are derived from budget transfers from the General and Reserve Trust Funds, interest earnings, sales of retired fixed assets and, most significantly, from grant revenue for various grant-financed projects, such as the rehabilitation of the Coatesville train station. A detailed listing of capital budget items is included.

DEBT SERVICE FUND

The Debt Service Fund is used to record the funding and payment of principal and interest on the City's general long term debt. Currently, there is one outstanding general obligation bond (Capital Appreciation Bonds, Series of 1992). A Tax Anticipation Note will once again be needed in 2013 to provide for sufficient cash flow needs in the beginning of the new year. As the TAN is a short term obligation, its interest expense is paid through the General Fund.

LIQUID FUELS FUND

The Liquid Fuels Fund is a special revenue fund used to account for financial transactions that are eligible for funding in accordance with the Pennsylvania Liquid Fuels Tax Act. The City uses the state funds for traffic and street lighting and utility costs and snow removal supplies. The state aid is expected to be reduced from \$220,037 to \$210,170. There is projected to be a carryover balance of approximately \$73,499 that we can use in addition to the state aid and any interest earned within the fund.

SUMMARY

In summary, the following increases were necessary in order to put together a balanced budget for 2013: 1) increase in Real Estate tax millage for general purposes of 2.50 mills and 2) new Real Estate tax millage for Solid Waste purposes of 3.00 mills.

The City staff is prepared to explain our budget requests and proposals to the City Council and the public. While I expect concerns to be raised because of the tax increase requested and a request for an additional transfer from the Reserve Trust Fund for supplementing operating expenses, I believe a thorough understanding of our progress in 2012 and our proposal for maintaining a generally accepted level of services will be prudent in getting through what appears to be a most difficult budget year.

Respectfully submitted,



Kirby A. Hudson,
City Manager