

City of Harrington
MINUTES
Budget & Finance Committee Meeting
May 21, 2013

A meeting with the Harrington Budget & Finance Committee was held on May 21, 2013 and was attended by the following: Vice Mayor Cheryl Lahman; Council Member Fonda Coleman; Council Member Amy Minner; Council Member Wayne Porter; Council Member Kenneth Stubbs; Norman Barlow, Chief of Police; Teresa Tieman, City Manager; Faye Smith, Finance Director; and Kelly Blanchies, Clerk of Council.

Also in attendance: Anthony Moyer.

Mayor Robert E. Price, Jr. and Council Member Duane E. Bivans were absent.

Vice Mayor Lahman called the meeting to order at 6:35 p.m.

The Pledge of Allegiance was given.

FY 2014 Budget Review

The City Manager stated that the FY14 budget presented is twenty-one thousand five hundred dollars (\$21,500) less than the revised FY13 budget and ninety-seven thousand two hundred dollars (\$97,200) less than the original FY13 budget. The Capital Improvement Plan has three critical projects: the closing of the lagoons for nine hundred fourteen thousand dollars (\$914,000), SCADA pump station monitoring system for ninety-two thousand eight hundred dollars (\$92,800), and the Clark Street water main for two hundred fifty-eight thousand dollars (\$258,000). The Clark Street water main was included as part of the failed bond referendum, but Clark and Commerce Streets are getting ready to be paved by the State. Also included are the water system improvement that failed in the bond referendum and inflow and infiltration (I & I) improvements. Not in the budget are property tax increases, rate increases, salary increases, the Code rewrite of Chapter 440, or rezoning that has to do with the Comprehensive Plan.

The City Manager stated that the City Planner is scheduled to attend the June 4, 2013 meeting to discuss the rewrite of Chapter 440 and rezoning and provide an estimate. Anthony Moyer has a conflict that day, so the Council may wish to have her attend on June 6, 2013. Vice Mayor Lahman asked what the City Planner will be discussing when she attends the budget meeting. The City Manager stated that she will talk about the scope of the rezoning and rewrite. The City has to rezone based on the Comprehensive Plan. Vice Mayor Lahman stated that the Comprehensive Plan has been submitted, but now the City has to rezone. The City Manager replied yes, but it will probably not all be in FY 14.

The City Manager stated that workers' compensation rates are not allocated to divisions at this point but will be. The cost of workers' compensation is included in general government like it always has been. The FY11 audit contained a lot of unfavorable variances in it because workers' compensation and commercial insurance have always been budgeted in general government, but they need to be applied throughout the divisions. Vice Mayor Lahman asked what the percentage is for workers' compensation. The Finance Director stated that it varies based on the department.

The City Manager stated that this year there are allocations of expenses to the water and wastewater funds, including City Hall salaries, general government salaries, and general government expenses, excluding city events and elections. Thirty-one percent of these expenses were allocated to the general fund, sixty-nine percent were allocated to the wastewater fund. According to the auditors, they were based on fixed assets. Vice Mayor Lahman asked if that is one hundred percent accurate. The City Manager stated that it is close. Vice Mayor Lahman stated that money is being moved around to be more accountable. A few years ago, the City was not as detailed.

The City Manager stated that once the City gets through this budget, then she wants to present a new format by funds with the same numbers; it is used by other municipalities. Some may be based on cash balances, but as reserves are used to pay for different projects, the Council needs to be aware of what funds are allocated. We are taking into account that the City needs about a million dollars in reserves. Council Member Minner asked if that information would be presented monthly. The Finance Director stated that the first page of the financial report could include more columns to report money that is reserved and available in different funds. The City Manager stated that there are a couple funds that have some money encumbered.

Council Member Porter asked if everyone is coding their work daily. The City Manager stated that the percentages are based on fixed assets. Salaries will just be a straight percentage because too much time would be spent coding. We know from the last two years of coding in Public Works what the average amount of time they spend on each project. The auditors want to see a good basis.

The City Manager stated that we are asking for approval of a revised FY13 budget, because it was reworked to include allocations to help with the audit. It will be approved by resolution. The FY13 revised budget is lower than the original. The revision will save a lot of audit adjustments.

Anthony Moyer asked if the monthly budget reports for the past year will be thrown off because of the revision. The Finance Director stated that the same figures are there, but things like insurance will be divided up. The bottom line is the same. Mr. Moyer stated that the revenue is not the same. The City Manager

stated that based on the current revenue trend, revenue has been adjusted downward. The City was supposed to use about fifty thousand dollars from a fund balance that the City does not have to be used because expenses have also been adjusted downward. Mr. Moyer stated that the percentages of each line item will change. The Finance Director stated that some will. The revised budget is based on actual figures; when a budget is prepared, it is based on predictions. Mr. Moyer stated that he thought the City went to actual budgets years ago. The Finance Director stated that an actual cannot be used before the year happens. Mr. Moyer stated that when he was on Council, the budget was based on the actual revenue that was received the year before. Vice Mayor Lahman stated that the auditors want the City to use cash accrual now.

The City Manager stated that the consumer price index projected no increase in gasoline. Health insurance is increased by ten percent. There is an increase in police pension and decrease in employee pension. No increase in liability insurance. For the fourth year, the City is getting a refund on workers' comp insurance. The liability and workers' comp insurance are tremendous savings from DFIT.

The City Manager stated that the summary of changes for FY13 revised budget include decreased revenue in the general government based on the billing for the year. Penalty and interest payments are based on projected property tax. Salaries expenses are down in FY13. The overall increase in expenses is related to the demolition of 45 Clark Street.

The City Manager stated that 45 Clark Street has been appraised at forty-nine thousand dollars (\$49,000).

The City Manager stated that there were slight increases in City Hall in FY13 because of a cleaning service, leasing of office equipment, and the purchase of a computer. Revenue is expected to be higher for Police. Commercial liability has been charged to correct departments, but overall expenses are expected to be lower. There was no change to Public Works to the budget for FY13 except that commercial liability insurance has been incorporated. Library revenue increased based on actual figures; even with the addition of commercial liability insurance, expenses are projected to be slightly lower. Parks and Recreation has a slight increase in FY13 expenses from addition of commercial liability insurance. Planning and Inspections revenue decreased based on projected invoicing; expenses are down; last year was the first for this department and some expenses were overstated. Water revenue is increased based on actual billing; expenses are higher because commercial liability has been charged to correct departments. Wastewater has a decrease in revenue based on actual billing, and operating expenses are down based on the closure of the pump station; commercial liability has been added. General revenue expenses have been adjusted to the actual amount received.

Council Member Porter asked when a list would be created of what City properties can be sold. The City Manager stated that 45 Clark Street can be offered to the neighbors or turned over to a realtor to sell it. Council Member Porter stated that the auditor said to limit liabilities with properties.

The City Manager stated that the total FY13 budget was three million eight hundred thousand dollars (\$3,800,000), the revised FY13 budget is three million seven hundred thousand dollars (\$3,700,000), and the proposed FY14 budget is three million six hundred eighty thousand dollars (\$3,680,000). Council Member Porter stated that is a bare minimum budget.

Council Member Porter asked about salary increases. The City Manager stated that no salary increases are included in the budget presented. A citywide one percent increase would cost sixteen thousand five hundred sixteen dollars (\$16,516), two percent would be twenty-eight thousand eight hundred thirty-six dollars (\$28,836), and three percent would be forty-one thousand one hundred fifty-five dollars (\$41,155). Council Member Porter asked how much of a raise was given last year. The Finance Director stated two percent. Council Member Minner stated that the County gives a cost of living increase and an increase based on the employee's evaluation. Council Member Porter stated that the City was working on pay scales.

The City Manager stated that the budget for FY14 for property taxes is seven hundred sixty-six thousand dollars (\$766,000) and the revised amount for FY13 is seven hundred forty-six thousand dollars (\$746,000). There is no longer a capitation tax. Penalty and interest is calculated as a percentage. Council Member Minner stated that the penalty and interest went down in FY13. Vice Mayor Lahman stated that the monitions in process right now would increase the interest and penalty. The City Manager stated that the early payment discount was removed.

Council Member Minner asked why the salaries for Council under general government were going up. They were only seventeen thousand dollars (\$17,000) this year. The Finance Director stated that the budgeted amount was previously forty thousand dollars (\$40,000); last year it was reduced to twenty-two thousand dollars (\$22,000); this year it is budgeted at twenty thousand dollars (\$20,000).

Council Member Minner asked why professional contractual accounting has gone up a lot. The City Manager stated that this line was shown in other places last year, but some is because a lot of accounting work is being done for audits. Council Member Porter asked what the hourly rate is for the contracted accountant. The City Manager replied forty dollars (\$40).

The City Manager stated that it makes sense to do a revised budget at the end of every year so that audits do not have so many adjustments. The budget is a

living document and can be revised and that gives a good basis for the next year. Vice Mayor Lahman stated that if the revised budget is accepted now, it could still change before the end of the fiscal year. The City Manager stated that it is a better estimate though; it is easier to estimate the next month and a half than twelve months. Vice Mayor Lahman asked if the auditors will still make adjustments. The City Manager replied the changes will not be material enough.

Council Member Porter stated that the Police Department includes promotions in its budget. The City Manager stated that the promotions from FY13 are reflected in the FY14 budget and more promotions are included in the salary line.

Council Member Porter asked if any part time employees are asking to go full time. The Chief of Police stated that he has a part time person paid from a grant. The grant is being applied for again, but her salary is included in the budget in case the grant is not received. Vice Mayor Lahman stated that if there a position added, then it should be noted.

Council Member Porter stated that any employee raises would come from the carry forward balance. The City Manager stated that raises would come from the excess revenue. Felton is giving a two percent raise.

Anthony Moyer stated that raises are not included in the budget so the bottom line will change. The City Manager stated that what is presented is a draft budget, Council reviews and makes changes, and the budget that is approved has that input incorporated.

Mr. Moyer asked if the budget process just began. The City Manager stated that it has been worked on for the last month. The Finance Director stated that there is a problem getting some figures like for health insurance and commercial insurance.

Vice Mayor Lahman asked if the figures for the raises include other employment costs. The City Manager stated that it will be reflected in the revision. Council Member Porter asked about the Police contract. The Chief of Police stated that the officers will go along with the raises that the whole City receives. Council Member Porter recommends revising the budget with a two percent salary increase to be reviewed at the May 23, 2013 meeting.

Vice Mayor Lahman stated that the revised FY13 budget cannot be changed.

Council Member Minner stated that she is concerned about having money available for raises next year. The City Manager stated that another issue is that last year one hundred thousand dollars (\$100,000) was transferred from the sewer escrow in case it was needed to pay the Kent County sewer bill. The sewer bill is estimated to be four hundred twenty thousand dollars (\$420,000). Sewer impact fees can be used to pay for debt service associated with growth.

The debt service for the force main is four hundred twenty-four thousand dollars (\$424,000) annually. This year the debt service is be subsidized from the sewer impact account. That will not be able to be done next year because the account is being depleted. This year rates will also be set based on usage. The City Manager recommended keeping the rates revenue neutral when they are set.

The City Manager stated that the closing of the lagoons has to be done. There is about two hundred sixty-six thousand dollars (\$266,000) left over from the force main project. The difference will have to be made up in the excess revenues unless the City wants to borrow money. The SCADA system will monitor the sewer system. One of the employees goes on his own time on Saturdays and Sundays to check the pump stations. There could be a problem at any time. The cost of ninety-two thousand dollars (\$92,000) would hook the City into the County system; the City would not have to pay monitoring fees. It is important because the City could face DNREC fines from those issues.

Council Member Porter stated that after the new Mayor is sworn in, the Council needs to come up with a plan for the debt service. The City Manager stated that the City has pledged the City's resources to pay its debts.

The City Manager stated that once Council has reviewed the revisions to the FY14 budget then it will be posted at City Hall, the Library, and on the City's website for the public to view prior to the May 29, 2013 Public Hearing.

Council Member Porter stated that the City is lucky that the Police and Public Works vehicles are newer. The City Manager stated that next year Public Works will need a new street sweeper. Vice Mayor Lahman asked about selling the current street sweeper. The Financial Director stated that the value on it is nothing because the sand tears up the inside.

Council Member Minner asked about the General Code expense. The City Manager stated that the rewriting of Chapter 440 will cause additional expense; it is extensive.

Council Member Minner asked what else is included in the holiday celebration line. The City Manager stated pole wraps and lights. Council Member Minner asked if those expenses could be listed separately. The City Manager stated that it is a small line item; it could be incorporated into other lines. Vice Mayor Lahman stated that the Christmas party should be eliminated because of all the talk about it. Council Member Porter stated that he agrees. The Financial Director stated that more than half of the people that attended were volunteers. Vice Mayor Lahman stated that the Fire Company should be called to tell them the party will not happen this year. The City Manager stated that the reservation with the Fire Company will have to be cancelled. The Financial Director stated that the most the party has cost is two thousand eight hundred dollars (\$2,800). Council Member Stubbs asked how much the hall rental is. The Financial

Director stated that most of the cost is the hall rental; the other expenses are the DJ and coverage from the Felton Police. The Financial Director stated that she will remove two thousand eight hundred dollars from that line.

Council Member Minner asked about computer purchases. The City Manager stated that it is a systematic replacement to make them compatible. Vice Mayor Lahman stated that it should be in the budget every year.

Council Member Minner asked about contractual fees being reduced to zero. The Financial Director stated that those fees were moved into each department.

Council Member Minner asked about the education reimbursement for the Police Department. The Chief of Police stated that is a contract issue; each officer is allotted money; it is not used very often.

Council Member Minner asked if the liability insurance includes the gazebo and 45 Clark Street. The Financial Director stated yes.

There being no further business, the Budget & Finance Committee Meeting adjourned at 7:37 p.m.

Respectfully Submitted,

Kelly Blanchies
Clerk of Council