

CITY OF OAK RIDGE



POST OFFICE BOX 1 • OAK RIDGE, TENNESSEE 37831-0001

March 3, 2003

Honorable Mayor and
Members of City Council
City of Oak Ridge
Oak Ridge, Tennessee

Dear Mayor and Members of Council:

The city staff is pleased to present the proposed operating and capital budget for fiscal year 2004 beginning July 1, 2003, and ending June 30, 2004, for your review and consideration. This budget has been developed in accordance with the City Charter, applicable city ordinances, state and federal laws, and city policies and procedures.

The proposed budget combines our exceptionally high-quality and distinctive service levels with public affordability. While some programs have been reduced or eliminated others have been enhanced. We believe that City Council and the public will appreciate the investment value offered.

The development of the budget is guided by the broad operating parameters established by City Council, including:

- Oak Ridge City Council Strategic Plan, *The Path Forward 2003-2007* – Where the strategic objective to help Oak Ridge become an exceptional place for all to live, work and visit is established along with the supporting critical outcomes both operationally and financially.
- Oak Ridge Budget and Finance Major Initiatives – Where the major initiatives necessary to achieve a tax rate in the 75th percentile of benchmarked cities are established.
- Multiyear Budget Management Plan – Where the maintenance of adequate fund balance with accompanying projected tax rates are forecasted based on the major initiatives adopted by City Council.
- Compensation Philosophy and Policy – Where the Pay Plan will be adjusted in an amount that does not exceed the current rate of wage inflation for government employees.
- Operational Budget Policies on Personnel Actions – Where the city will attempt to avoid layoffs and will attempt, whenever possible, to achieve reductions-in-force through attrition.

The Proposed Fiscal Year 2004 General Fund Budget of \$34,163,362 has been developed within the established operating parameters and reflects a sound work plan that continues the tradition of high-quality municipal services to the community. The budget is comprised of \$14,833,127 for municipal operations and \$19,330,235 in operating transfers.

Revenues

General Fund revenues, other than property taxes, are budgeted to increase \$689,156, which equates to 11.5 cents in the property tax rate. Roane County sales tax collections are budgeted to increase \$235,000, which equates to 3.9 cents in the property tax rate, an indication of the continuing increase in activity on the Oak Ridge Reservation, particularly at the Oak Ridge National Laboratory. Anderson County sales tax collections are also budgeted to increase \$580,000, the equivalent of 9.7 cents in the property tax rate.

Revenues from state-shared taxes are budgeted to decrease \$215,000, the equivalent of 3.6 cents in the property tax rate. This decline is based on actual collections from the Hall Income Tax that are down as a result of the nationwide decline in investment earnings. Other state-shared taxes are budgeted to remain the same.

However, it should be noted that total state-shared taxes are budgeted at \$2,436,000 in the General Fund with an additional \$850,000 in gas tax allocated to street maintenance and public transit. If the Governor's proposal to reduce state-shared taxes is approved, the resulting loss in revenue of approximately \$700,000 would result in a 12-cent increase in the property tax rate, or an equivalent reduction in expenditures and therefore service delivery.

For General Fund revenues, the short-term outlook remains unclear. While most sources of non-property tax revenue are projected to grow at healthy rates, the unstable status of state-shared taxes makes the future particularly difficult to project. The uncertainty of state-shared taxes coupled with the uncertainty of the city's requested increased Department of Energy Payment in Lieu of Tax (PILT) could result in a potential \$1,100,000 in revenue shortfalls before FY 2004 begins.

There are some bright spots in the local economy. Housing starts are increasing. The construction of the Spallation Neutron Source (SNS) and the modernization of Y-12 provide optimism for the future. The opening of Inslogix is a major step in diversifying the local economy while improving local economy, and the development of Willow Place and Rarity Ridge indicate a residential interest in Oak Ridge if the right housing products are provided to the market. Although important, these positive announcements have not yet provided a basis for projecting significant revenue increases that could offset the potential loss of state-shared taxes or the denial of the requested PILT increase.

Property Tax Rate

In light of the revenue projections above, funding of the proposed General Fund Budget of \$34,163,362 requires a property tax rate of \$2.97 per one hundred dollars of assessed valuation. This is a 3-cent increase over the \$2.94 fiscal 2003 tax rate, and is 20 cents less than the \$3.17 rate projected for FY 2004 during the FY 2003 budget deliberations.

Fund Balance

The proposed tax rate will maintain a combined city and school fund balance of over \$6,000,000. The city will maintain this level of fund balance despite spending in excess of \$40,000,000 for capital assets that were not envisioned by the original "SCORE" plan. In addition, to avoid even more borrowing, funding from the General Fund has been established for capital maintenance at \$1,057,000 annually and street resurfacing at \$550,000 annually. Debt service and funding for these capital expenditures is equivalent to nearly 75 cents on the property tax rate.

Expenditures

Increases in General Fund expenditures and transfers include:

Description	General Fund Amount	Tax Rate Equivalent
Schools Transfer Increase Request	\$ 705,908	11.8
Increased Maintenance Funding	346,000	5.8
Medical & Workers Compensation Increases	295,603	4.9
Merit Pay Pool (3%)	250,000	4.2
Utilities, Insurance & Contractual Commitments (TVA Increase)	57,390	1.0
Property Maintenance Inspector	46,245	0.8
CVB Increase	15,267	0.2
Solid Waste	9,895	0.1
	<hr/>	
Total	\$1, 726,308	29.0

Reductions in General Fund expenditures include:

Description	General Fund Amount	Tax Rate Equivalent
Eliminate Economic Development Department (3 positions)	\$ 184,233	3.1
Debt Restructuring	178,722	3.0
Reduce Incentive and Marketing Transfer	149,608	2.5
Departmental Line Item Reductions	146,488	2.4
Medical Insurance – Increase City Employee Share	76,803	1.3
Fire Department Reorganization	72,839	1.2
Dispatcher Funding from E911 Fund	60,000	1.0
	<hr/>	
Total	\$ 868,693	14.5

The minimal increase in the property tax rate can be achieved by the growth in sales tax collections discussed above, as well as the \$775,000 increase in general property tax collections primarily attributable to the construction of the new facilities at ORNL by UT-Battelle.

Municipal expenditures for operations have been held to inflationary and contractual adjustments. It has been the staff's approach to hold expenditures to the FY 2003 level while maintaining the quality and quantity of municipal services our citizens have come to expect. In fact, the Municipal Operations Budget decreased \$66,170 (1.1 cents on the tax rate) from the FY 2003 level. The primary reasons for this reduction are that most city employees received a lump-sum payment instead of a general wage increase in FY 2003, and employees are being asked to absorb more of the medical insurance costs in FY 2004, along with reductions to departmental line items such as travel, supplies and maintenance. With these reductions, had the school's FY 2004 transfer request not increased over its FY 2003 level, a tax rate reduction of 9 cents, to a rate of \$2.85, would have been possible.

Tax rate competitiveness is the primary driver in this effort. With an established critical outcome of a tax rate in the 75th percentile by July 1, 2007, maintaining or lowering the tax rate in each year is critical for the next four years in order to achieve this outcome. Over the past few years, the Oak Ridge property tax rate has become one of the highest in the state from its mid-level position in the early nineties.

Strategic Reorganization

Staff efforts have been and will continue to be directed to projects and activities that maintain the quality of community life and serve as building blocks for the successful economic diversification and environmental improvement so necessary for future viability. With the adoption of the five-year Strategic Plan, it is recommended that the staff be reorganized to better reflect the emphasis placed on neighborhood improvement and development, and to more accurately reflect the philosophy of contracting out marketing services.

Accordingly, the FY 2004 budget has been developed with a new staffing plan in these areas. The Economic Development Department, including the three encumbered positions, is eliminated. Within the Community Development Department, the Code Enforcement Division is renamed the Office of Neighborhood Improvement to more accurately define its role in the property maintenance area. An additional Property Maintenance Inspector is added to the office to enhance our efforts at enforcing this code, which is essential to improve our existing neighborhoods. The office will also work with the City Council's Housing Committee and the various non-profit rehabilitation agencies operating in the city to ensure that the strategic housing rehabilitation initiatives as well as new housing development initiatives are achieved. Finally, programmatic responsibility for the Community Development Block Grant program will be assigned to this office with financial and contracting support provided by the Finance Department. This plan creates the organizational emphasis necessary to focus the city's efforts on housing development and rehabilitation.

Renegotiation of the Chamber of Commerce's contract objectives will be sought to expand its role as the city's lead marketing representative into the housing and retail areas as well as the industrial development area. Staffing for this important task will be provided by the City Manager's Office.

The FY 2004 proposed budget also includes a budget reduction for the Fire Department based on a reorganization aimed at flattening the management structure. A vacant Assistant Fire Chief position is eliminated and three Firefighter positions are recommended for funding. With the cost savings from the eliminated position and overtime reductions resulting from an additional position on each shift, a savings of \$72,839, or about 1.2 cents on the property tax rate, can be achieved. In accordance with high performance and continuous improvement principles, this change eliminates overhead expenses while providing more employees to directly service our citizens during medical, accident or fire emergencies.

These changes in our organizational structure achieve the budget initiative of adding no new staff and reducing expenditures. It also enhances our ability to achieve the housing and quality of life critical outcomes outlined in the Strategic Plan.

Technology Improvement

Again, technological improvement continues in FY 2004. While major technological advancement has taken place, considerable technological improvement is still necessary. Through improved technology, human, and financial resources will be released from routine report preparation and file management resulting in more effective public services. Major technological initiatives will continue in FY 2004.

As you may recall, the city joined with the property assessors of Anderson and Roane counties, as well as other entities within the counties, in the joint implementation of a Geographic Information System (GIS). Such system will provide the opportunity to combine spatial information (maps) with electronic databases to more effectively manage and evaluate various planning, development, and maintenance projects. Creation of the mapping system can be combined with the dispatching module of the "Visions" package thereby allowing dispatchers to give emergency responders more accurate information concerning the location of various incidents. Implementation of the system is viewed as critical to enhancing the staff's ability to manage and evaluate spatially related data. The City has acquired the necessary software and initial data files; however, due to some acquisition issues at the state level, deployment of this system has been postponed until FY 2004.

Research into an electronic Records Management System continues. Maintenance of paper records has become increasingly expensive in terms of climate controlled storage space, human resources, and management. It is also increasingly difficult to research these records in terms of their volume alone, not to mention the fact that they are stored in various facilities throughout the city. In order to preserve these legally required records, as well as ease their search, an electronic Records Management System combined with an integrated correspondence management will be initiated in FY 2004. These initial steps, along with the move to electronic City Council agenda packets late in FY 2003, will relieve human resources for the accomplishment of more effective research and policy development.

Funding for these projects is included in the Equipment Replacement Fund budget for FY 2003. While these projects have no impact on the General Fund in FY 2004, use charges will be necessary in later years.

In order to proceed with service enhancement, it is vitally necessary that the city improve its technological ability to manage and use the data and records it acquires. While reduced expenditures are not a direct result of this effort, new expenditure avoidance in the future can be expected.

Economic Development Agencies

The Economic Diversification Fund has been revamped to reflect the broadened approach to tax base enhancement. Funding has been provided to enhance residential, commercial and industrial development through efforts to stimulate tax base growth in Oak Ridge for all revenue categories.

Funding has been proposed in the FY 2004 Budget for several agencies that provide economic development and tourism-related services to the city including the Oak Ridge Convention and

Visitors Bureau (CVB), the Chamber of Commerce, the East Tennessee Economic Development Agency, Melton Hill Regional Industrial Development Association (MHRIDA), and The Roane Alliance.

For the CVB, \$309,826 is proposed for operation in FY 2004, a \$22,786 increase over FY 2003 funding levels. This is the amount requested by the CVB and equates to the actual collections of hotel/motel taxes in fiscal 2002.

For the Chamber of Commerce, \$215,476 in funding is included in FY 2004, unchanged from FY 2003. The programmatic emphasis of the Chamber continues to be directed toward marketing and economic development opportunities that will create a diversified local economy. While the Chamber has requested an increase, it is not possible to grant the increase and continue our efforts at mitigating the rising property tax rate.

Funding for the Baker Donelson contract and other legal services is budgeted at \$155,000, MHRIDA is budgeted at \$15,000, and The Roane Alliance is budgeted at \$10,000 for FY 2004. These amounts remain unchanged from FY 2003.

Operational funding for marketing and incentives is also included in this fund. \$100,000 is budgeted to support an enhanced city marketing program and development incentives. The Economic Diversification Fund is projected to have a fund balance of over \$2.4 million at the end of FY 2003.

Staffing

A total of 354.74 staff years is included in the Personnel Schedule for FY 2004, the same as FY 2003. The organization changes outlined above achieve the budget initiative of adding no new staff unless the addition reduces expenditures while enhances our ability to achieve the housing and quality of life critical outcomes outlined in the Strategic Plan.

Salaries and Benefits

Merit pay has been budgeted at \$250,000, or 3 percent of payroll. This amount will provide adequate funding for merit raises in the first quarter of FY 2004 ranging from 0 to 5 percent depending on performance evaluations. Based on the pay system design, no cost-of-living raises will be granted to city employees.

A reduction in employee medical benefits is included in the proposed FY 2004 budget. The budget has been developed with the increase in employee payments for medical insurance recommended to City Council in October 2003. This change is projected to save the General Fund \$76,803 in medical insurance costs—the equivalent of 1.3 cents on the tax rate.

As proposed by the Employee Medical Insurance Task Force, employee payment for individual coverage would increase from 0 percent to 15 percent of the highest premium; employee payment for family coverage would increase from 17 to 25 percent depending on plan selection to a 30 percent contribution regardless of plan selection.

Medical insurance rates continue to increase in an amount greatly exceeding inflation nationwide. The city's premiums have increased 30 percent in 2002, 25 percent in 2003, and are projected to increase 20 percent in 2004. With medical insurance accounting for approximately 10 percent of

the General Fund operating budget, the budget and finance major initiatives and the critical outcome of a tax rate in the 75th percentile cannot be achieved unless some of the increased cost of medical insurance is transferred to city employees.

Other Agencies and Boards

FY 2004 funding for Social Service programs provided by Aid to Distressed Families of Appalachian Counties (ADFAC) is proposed at \$150,000, and \$35,000 for the Anderson County Health Council for the Healthy Start Program, which equates to 3.1 cents on the property tax rate. The recommended contribution is unchanged from last year.

For the Arts Council and the Youth Advisory Board, \$9,500 and \$9,000, respectively, are proposed in the FY 2004 budget. This is same funding level as the previous year.

Major Budgetary Recommendations Report

Significant program considerations and changes for FY 2004 are addressed in the Major Budgetary Recommendations Report, which will be presented to City Council under separate cover.

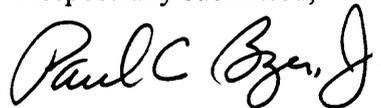
Recognition and Thanks

The development of the budget is a significant project undertaken each year by staff, requiring the support and effort of many city staff in all departments. Coordinating this process is Deputy City Manager Steve Jenkins, and the Finance Department, led by Janice McGinnis, which is assigned programmatic responsibility for this task and is responsible for the quality of the management information presented.

Many city employees play crucial roles in the research, preparation, and completion of the various budget related documents for which thanks are made. Without their assistance this document would not be possible.

It is my honor to present the FY 2004 Proposed Budget for your consideration. All city staff stand ready to assist you in the careful deliberation of this work plan to meet the long-term goals and objectives of the city.

Respectfully submitted,



Paul C. Boyer, Jr.
City Manager