City of Peachtree City
BUDGET WORKSHOP
Minutes of Meeting
August 12, 2002
6:00 p.m.

The City Council of Peachtree City met in a workshop session on Monday, August 12, 2002, 6:00 p.m., in the Floy Farr Room at the Peachtree City Library. Council Members attending were: Mayor Steve Brown, Annie McMenamin, Steve Rapson, Dan Tennant, and Murray Weed.

Staff members present were: Jim Basinger, Paul Salvatore, Betsy Tyler, Troy Besseche, Randy Gaddo, Stony Lohr, Colin Halterman, and Janet Camburn.

Basinger opened the workshop and told Council that a revised FY 2003 draft budget of over $27.4 million was being presented as a result of the July 15 budget workshop. Basinger said both he and Salvatore had expressed their concern at that workshop about the use of over $1.6 million from Cash Reserves to balance the proposed budget. However, as a result of an extensive review of all Public Improvement Program (PIP) expenditures, Council reduced the deficit to $182,000. Council had made some tough decisions related at the PIP during the earlier workshop that resulted in a major decrease in the deficit. After the workshop, staff continued to review expenditures and identified an additional reduction to recommend to Council during the workshop that would erase the remaining deficit, but increase Cash Reserves by $11,000. While still $172,000 short of the Cash Reserve target for 2003, Council could retain the millage rate at 4.315. Basinger continued staff still projected a 1.5 mill increase for FY 2004. Basinger said that staff and Council would go through the same arduous budget review process next year in an effort to reduce expenditures to a level that could possibly reduce the expected increase without an extensive use of reserve funds. Basinger added that even if the entire FY 2004 PIP was deleted, which could not be done because some of the projects were essential, the projected budget would still be $400,000 to $500,000 short. The projects removed from the PIP at the July 15 workshop were not programmed in a future year's PIP, but were placed on a future projects list and each one would be considered again next year during the budget process. Basinger concluded that the budget was balanced without use of reserve funds. Council discussed a possible millage increase this year on July 15. Basinger said he and Salvatore felt it would be prudent to continue the discussion. A delay in increasing the millage this year would require a larger increase next year in order to balance the budget without extensive use of reserve funds. Basinger noted that the major increases in employee health insurance were discussed at the last workshop and staff would like to continue the discussion on increasing employee participation in this benefit.

Salvatore gave a quick recap of the cuts made at the last workshop. He noted that the budget had been short of balancing by approximately $182,000 at the last workshop. Salvatore said he spoke to Chief Murray regarding the replacement of the 36 police vehicles. He continued that the Department really only needed 12-15 vehicles initially, which would delay the debt service on the balance of the fleet. Salvatore said the older vehicles would come off the line in the late fall and the remainder would arrive in the spring. The payments would be delayed until after September 30. Chief Murray agreed that the vehicles should be phased in and said they could not handle 36 new vehicles at one time. The leasing company agreed to work out a payment schedule that accrued interest, but would not receive payment until after October. Salvatore said that helped put $192,000 back into the budget, which resulted in a basically balanced budget. He continued that there was a seven percent (7%) projection in the budget and the figures for the tax digest right now showed the tax digest down 6.9% on growth. Tennant commented that a seven percent (7%) projection was historically conservative and Salvatore agreed and noted the digest growth in the other municipalities

Brown noted that the Police Department was now at full staffing and pointed out that those job vacancies had been used as a balancing act in the past. He asked how that impacted the budget. Salvatore said the City had always had a $400,000 staff savings, which showed as a carryover, and a good bit of that amount was due to the salary savings from the staff vacancies. Salvatore said it would impact the budget some this year, but he did not know if it would take the full $400,000. If the Police Department stayed at full employment, staff would have to look at the number again. Basinger added that the revenue projections were fairly conservative and the revenue projections had always been met, sometimes by more than a half million dollars. He hoped the difference would be made up by increased revenue.

Tennant asked about the proposed $35,000 cut for traffic calming devices. Salvatore said the money was for miscellaneous projects throughout the City. He said Besseche would know more about possible locations, but pointed out the big traffic-calming project in next year's budget was the roundabout at Peachtree Parkway and Walt Banks Road at $283,000. Brown noted that Golfview was a prototype for traffic calming and added there was a funding mechanism for future projects. The individual area would have to match City funding.

Salvatore recapped the changes in the General Fund, which led to a net increase to the operating budget of $7,727. Salvatore said the increase would have a negligible effect on the budget and included costs for FICA and Medicare.

Salvatore moved on to the current five-year model and noted there was no increase in the millage rate for FY 2003, but pointed out the City was looking at a 35% increase in the millage in FY 2004 that would leave the budget short of the reserve target. With no millage increase in 2003, the City would be short $172,000 of reserve target. The City was maintaining a $2.3 million reserve, which was a little bit short of two months' worth of expenses. The cost was about $1.25 million a month. There was $800,000 in reserves for self-insurance. Salvatore continued that a 35% millage increase in 2004 would leave the City short of its reserve target, but would still maintain about two months in the reserves. Salvatore said the $800,000 in reserve had been depleted to just under $300,000. He added that the money was needed from the start of the fiscal year until the tax money started coming in in December. All that was left was the $2.3 million and what was left of the $800,000. Tax money was budgeted to replenish the fund. Rapson said they were doing two things – replenishing the $800,000 and in addition resolving the claims problem on an ongoing basis. Rapson continued that based on the same experience level, there was an $800,000 reserve, but no one knew what would happen with health care costs skyrocketing. He continued that the contingency budgeted included the $2.3 million, which he isolated for general fund operating reserves; $800,000 for self-insurance, claims type of reserve; and another $300,000 in the PIP contingency account, which was a type of reserve. Rapson said the City had about $3.4 million unreserved cash, while the true reserved cash was $2.3 million. Salvatore agreed, but said that cash would not be there at the start of the fiscal year. Rapson continued that when the tax money came in that would be the first transfer made.

Salvatore continued that staff did as Council asked and put together a budget with the millage rate constant at 4.315 mills. He showed Council an alternate five-year model with the millage increase phased in over two years. Salvatore proposed a 15% increase this year and 12% in 2004. The alternate plan kept the millage rate at 5.575 mills in 2003 and 2004, which was a lower millage rate than the 5.815 mills proposed in the current model for 2004.

Tennant said he was unequivocally against a 35% millage increase in one year and felt taxpayers would hit the roof. He suggested a model with an eight percent (8%) increase each year rather than a double-digit increase one year and no increase the next year. Salvatore said he could do another model, but added that the Mayor said he did not think people would want a millage increase every year. Tennant explained that most people budgeted their money on a more constant basis, not with a spike and then nothing. Salvatore said bond-rating agencies like to see gradual step increases over a period of time because that showed good financial planning.

Brown said the City was dealing with out-of-control expenses with health care costs, worker's comp claims, and a pension in a bad economy. He continued that in the GIRMA meeting at GMA they were looking at a 40% bump in health care costs this year. Malpractice insurance and other costs were skyrocketing and the costs were passed on to the consumers. Salvatore agreed and said costs would double in five years. Tennant felt a 40% bump would be unlikely, but Brown said the increase this year was almost 40%. Brown said the City was in a situation where unless another carrier could be found at a substantially lower price with similar service, the City would be in a big pinch. He said he would rather try to level some of the costs out. Tennant asked how the other Council Members felt about a 35% tax increase and said he would not support that.

Salvatore said to get the budget balanced without a millage rate increase, staff had to raid next year's budget and this year's PIP to come up with $1.6-1.7 million. They hit one-time revenue sources and cut expenses to fund ongoing expenses in the budget. Looking ahead to next year, 1.5 mills translated to $2.1 or $2.2 million. The entire PIP was $1.8 million and that could not be entirely cut out. Even if that was done, they would still have to find another half million dollars to cut. Salvatore continued that none of the PIP projects that had been cut were put back in the budget. He said cutting the entire PIP and another half million dollars from the budget was unrealistic and would mean cutting employees, too. He pointed out that Peachtree City still had the least number of employees per thousand and that it would be tough to cut down the proposed increase next year.

Rapson said that by realigning the cash reserves policy Council had fixed a million dollar problem already. The problem was a cumulative impact that resulted from actions in regards to the pay plan and adding 12 employees. He continued that no one foresaw the impact of September 11 and the increasing cost of insurance premiums. The portfolio lost $265,000 just because of fair market value and additional participation costs. He said there were a lot of variables to address, including a deferred compensation plan. Until the bids came back and something could be done to the pension plan, not much could be done. Rapson said if Council was going to raise taxes this would be the year to do it because they had something to tie the increase to. He continued that the City was fortunate it had not had to eliminate contracts or employees yet.

Brown said Council would be naïve to think costs would remain stagnant. The costs would keep escalating. Rapson said the major costs that were driving the boat were pension costs, property insurance, worker's comp, and the purchase of the Wynnmeade property. Those costs were closer to 0.8 mills than 0.66 mills and were recurring costs that would not go away. Rapson said that unless Council made recurring decisions then those recurring costs would be there next year.

Basinger pointed out that because of advertising requirements Council had to make a decision that night on which way to go. They did not have time to wait for the insurance bids to come back. Brown said he did not think Council would go wrong by acting on the millage for next year. He said he was not too optimistic things would get rosier next year. He was willing to take action toward an increase now.

Weed said in his mind the question was what was the responsible thing to do. They were able to balance the 2003 budget and Council agreed there would have to be some action in 2004. He was not resolved that Council had to take action in 2003 and was prepared to do so in 2004. If the budget was balanced was it more responsible to do a small increase now and a small increase in 2004? Weed said he was looking for more information on that subject. He asked if Council could consider a lower millage rate in 2004 and then increase the millage again in 2005, rather than no increase.

Salvatore said he had not wanted to show a 1.5 millage increase in 2004. He did not think he had projected enough to cover insurance costs if they doubled. He said he factored in an increase of 1.5 mills and normal growth in the digest. He pointed out that when the millage rate public hearings were advertised the exact dollar amount had to be advertised.

McMenamin said she agreed with Weed and did not want to throw smoke and mirrors at the citizens. She said the citizens would ask where the vision was in planning the budget.

Salvatore said he was worried about the uncertainty of future rising costs. He wanted to address it now and felt he would be remiss if he did not point that out. McMenamin added that the LOST projections from Wal-Mart and Home Depot also were not factored into the revenues. Salvatore said the City took a big hit in industrial taxes with closings. He continued that the County and the cities were renegotiating LOST. Now the City received 35% or 36% and any changes could be to the City's disadvantage. A one percent (1%) loss equaled $175,000. Tennant remarked that he had asked a year ago about what the projected LOST for the City from Home Depot and Wal-Mart. He was told it would be $21,000 and he thought that seemed low. Basinger said the LOST formula had not changed since 1997. The County had seen an increase, but he said the City needed to be tough during the negotiations and keep the formula the same.

Rapson said an increase in the millage rate was a tough decision. He was optimistic and would rather act. He said he had no problem going to the citizens and pointing to TDK or the Westside Fire Station and giving the citizens a reason for an increase. Basinger noted that September 11 was the biggest factor affecting the budget.

Tennant pointed out that the word had hit the street that the budget had been balanced. He thought the best approach might be to leave the millage alone and increase taxes next year, but an increase of 30% or more would not be warmly embraced.

Brown said the budget process would not be nearly as easy next year. He would rather plan for increases in cost and address additional money in next year's budget. Rapson said the decision was simple. They could increase the millage by .65 mill and point to pension costs and the impact of September 11 or ride it out and address the issue next year. He said the problem was not going away. McMenamin said she was concerned about what would happen by stripping the budget so far down if something like September 11 happened again. Rapson said another concern was how insurance companies would react. The City would either pass it on to employees or take care of it. Basinger added another attack would bring spending to a grinding halt.

Tennant said he was surprised that LOST held the course. He felt people would be mentally braced when, or if, something happened again.

Weed commented he would rather spend the year warning people that an increase was on the horizon rather than increasing the millage this year since the budget was balanced. Tennant said that was the problem. Council had promised there would not be a tax increase and this was almost like going back on their word. The idea of "no tax increases" would have to go away. Weed said it was a fact there would be future tax increases. The question was whether it would start this year or next and what was the responsible thing to do. Brown said he hated to get into a two-tiered thing where they had to bump the millage rate and tear the PIP to pieces.

Carol Fritz commented that people would understand about pensions. If taxes were raised a little bit there would not be much of a problem with the public. She said she was not thrilled with an increase, but she understood the reason. However, if Council did not raise taxes this year and had a big increase next year, then people would scream and she would scream with them.

Salvatore commented that a 4% (four percent) gain in LOST revenue had been projected and he did not think that was an inflated number if the formula remained the same. Brown added that it was naïve to think the LOST revenue would remain constant if the economy continued to drop. He said the County was fortunate that the local economy was not hit by the current recession.

Tennant said one category that had not been discussed was the workforce. He continued the City ran a lean machine, but Council might have to look at what it could live with in the next couple of years. It was fair and reasonable to bring up the workforce publicly. McMenamin asked who would be cut. She pointed out that cutting lower paid employees would have little impact on the budget, but a great impact on services. Brown said he supported asking the employees for $25,000 for health care costs. He said he would hate to come back and ask the employees to contribute when the costs had tripled. Tennant said he admired the efficiency and productivity of the City employees, but felt it was prudent to look at possible cuts.

Salvatore said Council also needed to look at the impact on service if employees were cut. Basinger said Council would not cut Public Safety employees, but would have to determine the level of service that would be acceptable, which left Recreation, Public Works, and Administration. Brown pointed out that money was taken from the budget for cart path repairs and some of the path was in devastating condition. He questioned giving a 30% bump in taxes and asking for a referendum to save the cart path system.

Rapson said he was an optimist. He said his philosophy was that people would understand a tax increase if Council could point to a reason why an increase was necessary. He recommended increases the millage rate 10% in 2003 and finding another 15% cut in the budget. He also suggested tiering the increase into 2005. Rapson said he was opposed to going after the employees and having them pay more for insurance. He noted how that would affect lower paid employees. Rapson realized there was a lot of uncertainty about health care costs, but added they were just now having to make tough decisions. Rapson said Option B was to ride out this year and not have amnesia when it was budget time next year. He continued that he would rather do the right thing and have a two-tiered process and hopefully things would get better. Rapson pointed out that if the millage rate increased 10% because of a better retirement package for the Police and Fire Departments and insurance increases due to September 11, then Council could point to that as the reason for an increase. It was tangible.

Brown asked if anyone objected to a 10% increase. Tennant opposed a double-digit increase. He suggested an increase of 7.5% this time and 7.5% next year, then looking at the PIP. Tennant continued that he could not live with a double-digit increase. If service levels dropped, then Council would have to live with it. Rapson said they could not let the service level go down. McMenamin added that if the service levels dropped, then property values went down. People would sense trouble. Tennant said people would be fine with 85% to 90% of the service level.

Rapson said he was proposing stretching the necessary increase over three years. He added that as the City increased taxes by 10% this year, the County was rolling back 15%, so it would look like a 5% (five percent) savings. Tennant commented that as the City approached buildout the property values would go up. Brown expressed concern in the City's industrial area. He said the City was not in a position where it was able to get viable industry and they might see another year of decline. Brown said the City would be in a better position to raise taxes 10% now and ask for a referendum, than to wait another year and have a big bump in taxes and a referendum.

Rapson said he did not have a problem with 7.5% increase, but that Council would still have to make tough decisions. Rapson calculated the numbers and said a millage rate of 4.65 would give the City an additional $2.2 million over four years. He continued that when the City was $1.5 million in the hole it took a lot to make it out. Brown pointed out that was if everything stayed the same. Tennant said they could be optimistic and some industry could come in. Brown said the sites available were not the sites industry was looking for and predicted more industry would be lost by the year's end. Tennant added there might be some things in the pipeline that Council was not privy to.

Weed asked what would happen if the millage was increased 7.5%. Rapson said they would be $1 million short in 2004 and $1.5 million short in 2005, assuming they did nothing to the PIP and insurance and self-insurance costs stayed flat. Rapson continued that the only revenue Council could control was the ad valorem tax. Most cities were cutting programs and laying off people.

Salvatore went over the PIP figures and grant money that would be available. Basinger added that Council would not be able to cut $1.6 million out of the PIP next year. Salvatore said he was not trying to predict "gloom and doom," but he was worried about the LOST renegotiation.

Tennant asked which PIP projects could be brought to the voters. Basinger said the cart path system. Weed said he wanted to make sure a referendum was specific and very limited and used only for one or two things. Rapson pointed that if the voters said no to major work on the cart paths that did not mean the City would not pay to repair the system. Salvatore said it would take $7 million to $8 million to completely re-do the cart path system. Rapson added that now the City was only making repairs and maintaining the system. Tennant commented that in such a situation people would say it was fine if the service level dropped so there would be money to repair the system.

Brown pointed out that if the medians sprouted weeds and the grass was cut once a month then Council would hear about it. Halterman said grass was cut once every two weeks along the highways and once a week in other places. Weed asked what was the minimal increase necessary to keep the budget in a conservative safety zone. Rapson and Brown both said it would take 10%. Rapson added that 2.5% would not make a whole lot of difference. Rapson continued that with 10% they would be able to live with pension and insurance costs. Outside costs that no one had control over were driving the millage increase. Salvatore said he would not want an increase below 10%. With the rollback from the County, it would be a wash. Brown pointed out the County was working on a Countywide transportation study and any road improvements would be paid for with a SPLOST. He said the SPLOST could hit next year. McMenamin asked if the road improvements could be paid for with a one-cent tax on gas.

Tennant reiterated that he could not support a 10% millage rate increase. Weed said Salvatore and Rapson were the experts and their best advice was to increase the millage by 10%. Weed said he would have to support that as much as it bothered him. Rapson agreed that a tax increase pained him, but if it had not been for September 11 the City would be "fat and happy." Rapson continued he thought the stock market and the economy would bounce back, but insurance costs would not.

Tennant commented that it all came down to compromise. Weed said Council had cut the budget and the cuts were not going back in the budget. He continued that he had not heard a good alternative to a tax increase and he was going to take the experts' best advice. Basinger said Council needed to give staff guidance so the tax increase could be properly advertised. Tennant pointed that out in the mind of the taxpayer a double-digit increase would make a difference. McMenamin said she would rather increase the millage 10% this year and explain why to the public, then take a hard look at next year's budget. She added that they might not need another 10% increase next year.

Weed asked if the increase would be 8.5% or 10%. Rapson pointed out that in the scheme of a $20 million budget $68,000 would not make much of a difference. He continued that going to the public with a unanimous vote was worth $68,000. Rapson, Brown, and McMenamin said they all supported a 10% increase. Weed said he could also support a 10% increase since the logic and motivation were sound.

Salvatore continued with the budget presentation and pointed out that the numbers would change with a 10% tax increase. He noted that they would be taking corrective action with the pension plan and evaluating the administrator. Staff was determining if a consultant's input would be helpful, such as the consultant used to help with insurance. Staff would also look at the hotel/motel taxes and alcoholic beverage tax to insure the City was getting was it was supposed to receive from those revenue sources.

Salvatore showed Council the information on employee participation in insurance costs. Rapson noted that maybe eight (8) people were driving the insurance claims. To be equitable, those people should pay more, but the City could not do that. He said he had no problem informing the employees that in the future they might have to share in insurance costs. Basinger pointed out that the only entity in the County with no employee participation was Tyrone. Rapson said they should show the employees what happened and what Council could have done. The insurance was a benefit and many of the lower paid employees stayed because of that benefit. Weed agreed that Council had been generous regarding health insurance costs and that it was something Council would have to look at in the future. Rapson and McMenamin were not in favor of doing anything with the insurance costs this year. McMenamin added that they needed to start preparing the employees.

Tennant said he would rather see a unanimous vote on the budget and that a 4-1 vote did not send a good message. Tennant said he could support a 9% (nine percent) increase. Rapson agreed. The other Council Members agreed.

The meeting adjourned at 8:15 p.m.

Betsy Tyler, Deputy City Clerk

Stephen D. Brown, Mayor

Pamela Dufresne, Recording Secretary