



Finance Director Jill Cabaniss addressed the City Council and asked that they please look at the resolution for merit raises and cost of living before adopting because it was a nightmare last year. She said to make sure these are your intentions. Council President Burrell replied he knew this would take more time for you, but he wanted to make it fair for the employees. Councilmember Boone stated we will spend more money than budgeted.

- Public Works Director Richard Johnson addressed the City Council regarding the Pecan Avenue building. He commented that there would be an assessment and feasibility study for the building. Mr. Johnson said this would be a central business area with a collaborated department space. He said building could hold up to 30 t 35 offices in the building.
- Fire Chief Chris Ellis addressed the City Council and announced the Fairhope Volunteer Fire Department has received a AFG grant for air packs; \$345,000.00 which fund 50 air packs.
- Operations Director Richard Peterson addressed the City Council regarding AT&T and our tower. Council President Burrell asked if we could offer another site. Mr. Peterson replied we have offered a site to them twice. He said the painting of the water tank should be completed by December 1, 2018.
- Special Projects Manager Lynn Maser addressed the City Council regarding our new Marina Manager who the Mayor will introduce. She mentioned Tommy, a part-time marina worker, who has been getting compliments for his work at Fairhope Docks. She also mentioned a new roof over the docks.

There being no further business to come before the City Council, the meeting was duly adjourned at 5:55 p.m.

  
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Jack Burrell, Council President

  
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Lisa A. Hanks, MMC  
City Clerk

# Overview of 2019 Budget

SEPTEMBER 19, 2018 / SEPTEMBER 24, 2018 / 11:52 AM / 1000 WORDS



When I took office in November of 2016, I spent the next several months separating the co-mingling of Utility funds with General City funds in addition to creating departments with their own revenue and expenses.

We now have a budget with much more accuracy, transparency and communication. The hard work has paid off too, as you can see in a previous blog post. The financial health of the City has never been better. The painstaking time invested to update past years' budget figures to easily compare to this new format has enabled us to see trends and better estimate projected expenses and income.

[2016 Budget Proposal](#)

[2019 Budget Proposal](#)

If you review the 2016 proposal link, you will see two columns: one for the previous year's budget and one for the current year's proposed budget. Where are the actual figures? Were we over budget? Under budget? The departments only included expense lines with no departmentalized revenue. It would be no different than you determining what you wanted to spend in a year without knowing how much money you were going to make. There is no adequate information and transparency to determine where we've been, where we are and where we want to go.

Even without the level of transparency and detail we have now, budgets miraculously passed on time.

<b>Fiscal</b>	<b>Delivered</b>	<b>Passed</b>	<b>Timeframe</b>	<b>Notes</b>
2007	9/5/2006	9/25/2006	20 days	
2008	9/6/2007	9/24/2007	18 days	
2009	9/15/2008	12/8/2008	2.8 months	<b>New Term</b>
2010	8/21/2009	9/28/2009	38 days	
2011	7/14/2010	9/27/2010	2.5 months	<b>City Administrator in place and delivered early, passed before end of fiscal year</b>
2012	8/19/2011	9/26/2011	38 days	
2013	10/12/2012	11/5/2012	24 days	<b>New Term</b>
2014	9/16/2013	10/14/2013	28 days	
2015	9/17/2014	9/29/2014	12 days	
2016	8/31/2015	10/12/2015	42 days	
2017	Feb-16	4/24/2017	2.5 months	<b>New Term: Budget was totally redone with Dept Heads &amp; Correcting Expenses in Ea Dept Presented budget by dept from June through Aug, delivered overall budget book early Sept</b>
2018	Started 6/2017	1/22/2018	4.5 months	
2019	8/10/2018	?		

This year's draft budget was delivered on August 10th. Alabama municipalities operate on a traditional fiscal budgetary year versus the traditional calendar year. When municipal legislative bodies fail to pass a timely budget by October 1st, or there about, it results in many unforeseen impacts, issues and operational problems.

These unintended consequences of poor financial discipline run the gambit from day-to-day problems to long-term declines in morale and efficiency.

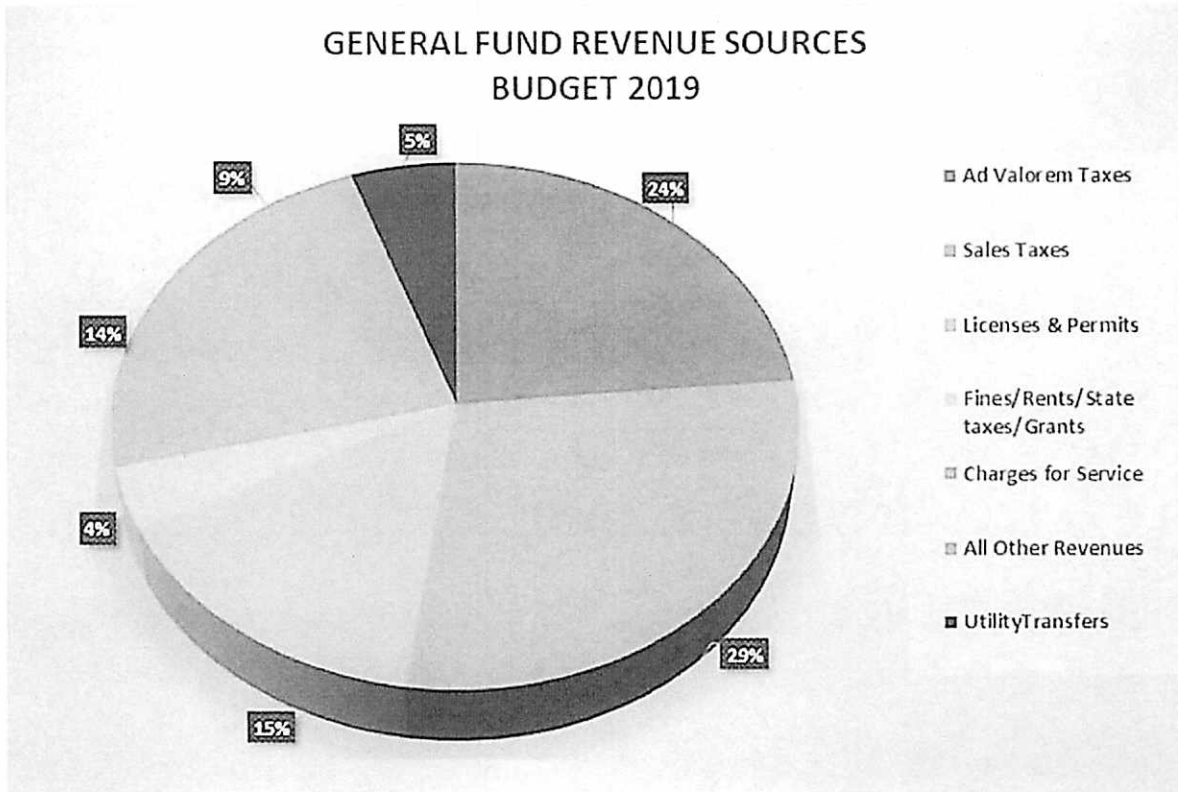
- Creates a "dead" period where City Staff cannot be proactive in planning, procuring and prepping Capital Projects, Equipment and Personnel.
- Skewed snapshot of year-to-year comparisons because the time-frame is not consistent.
- Cost taxpayers more in inefficiency and process

Example of how the delay affects the procurement of a capital purchase.

Below is the overview I was going to present during 9/18 special called meeting I requested to go over the budget with Council. Unfortunately, the meeting was changed to 9/19 and I'll be out of town at a Mayor's Conference. Consequently, I am taking the additional time to present these notes with the slides from the presentation in order to stay on schedule: An overview similar to the last two years (which has not been done in the past and not required in order to pass the budget).

# Overview of 2019 Proposed Budget

## CITY REVENUE



<b>General Fund</b>		
<b>Revenues and Transfers</b>		
<b>Ad Valorem Taxes</b>	7,534,100	23.5%
<b>Sales Taxes</b>	9,208,220	28.7%
<b>Licenses &amp; Permits</b>	4,861,015	15.2%
<b>Fines/Rents/State taxes/Grants</b>	1,207,070	3.8%
<b>Charges for Service</b>	4,581,000	14.3%
<b>All Other Revenues</b>	2,953,800	9.2%
<b>Utility Transfers</b>	1,716,000	5.4%
	<b>32,061,205</b>	<b>100.0%</b>

Sales tax remains our largest source of income for the City. It is important to invest in ways to increase this revenue with shop local campaigns and initiatives with investment in ways to capitalize on the tourism we already have and enhance community events which drive local business.

Property Taxes are our second largest source of income, incentivizing annexation and increasing the benefits for those who live inside our municipal limits (our voters) is critical.

<b>2018</b>	<b><u>Council</u> Passed</b>	<b><u>Mayor</u> Proposed Budget</b>	<b><u>Without Sales</u> Tax Amendment</b>
Utility Transfers	\$ 3,181,000	\$ 3,181,000	\$ 1,941,403
Total Expenditures	\$ 31,689,945	\$ 29,657,439	\$ 29,830,890
<b>SURPLUS (DEFICIT)</b>	<b>\$ (517,553)</b>	<b>\$ 1,050,326</b>	<b>\$ 101,905</b>

If the budget passed as presented, final numbers in BLUE which would have:

- ~ Met Expense projection
- ~ Required less money from Utilities
- ~ Surplus

As the leading revenue stream, sales tax needs to be used to operate the City to reduce its need for unnecessary utility subsidy. We exceeded revenue projection in 2018 with \$8.69 million, a 17% increase since 2016.

Council, by local ordinance, appropriates 25% of sales tax income to City Debt Reduction and 25% to Capital Project funding. Although the proposed 2018 budget only included \$173k for capital purchases, the ordinance was not updated resulting in over \$2MM being transferred unnecessarily to the fund. Subsequently, the City showed a deficit in 2018 and required needless utility transfers.

I recommend amending this ordinance by deleting the requirement for sales tax use for capital projects as we have the cash account available to pay for the project and reduce amount for City debt reduction to \$460k in 2019 & 2020. City debt will be paid in full. The City needs to use these funds to be fully independent of any Utility subsidy.

The sooner we eliminate the need for our utilities to prop up the City financially, the sooner we can use this same funding for quality of life and community development.

## Lodging Tax

- Propose Increase from 4% to 7%
- Fairhope is the one of the lowest % in Baldwin County
- Paid by visitors and is an expected expense.
- This rate is the same as Foley, Spanish Fort and Elberta
- Increases income by ~43% (only 30% increase in budget)
- Use a portion to fund Downtown Improvements & Tourism
- Helps the City become financially self-reliant
- Reduces dependence on Utility subsidy

Increasing lodging tax will bring in an income stream we could earmark for downtown improvements and other areas which drive the tourists to our area and further increase the lodging and sales tax income. This is a tax that does not come out of taxpayer wallets.

## Impact Fees

- Average used since 2014 ~ \$600k a year
- Estimated Balance \$2.3MM
- Proposed 2019 Use for Police, Fire, Streets, Parks & Rec \$968k
- Estimated 2019 Projected Revenue ~\$1.1MM - *(Conservative since it does not include the new increases from the most recent Impact study)*
- Must use or lose

With the 2019 budget, The City will have reduced its reliance on our Utility subsidy by 70%. The City relied on an average of \$5.27MM from our utility department until this term.

**This is an unprecedented improvement.**

The goal will be to bring the subsidy to zero and use these funds instead for the good of the community.

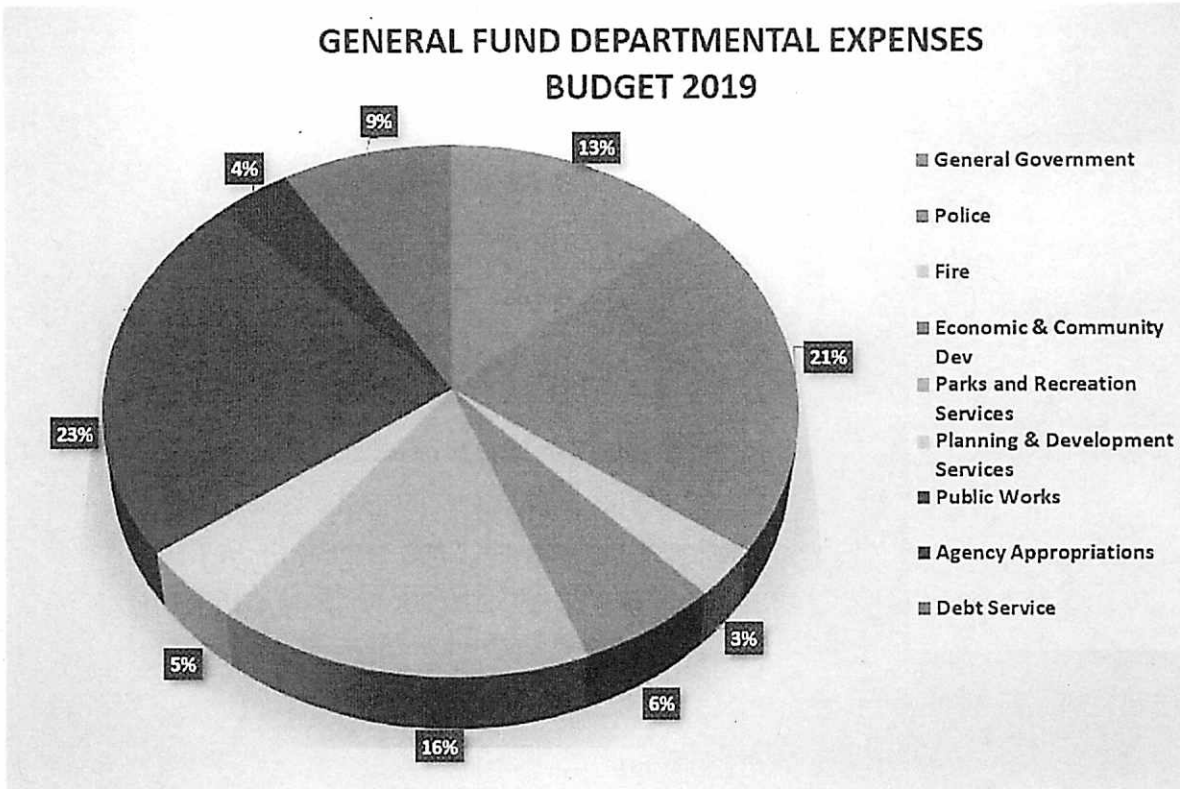
## Utility Subsidy to City Since 2012

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$6,094,493	\$5,163,145	\$5,576,865	\$4,269,206
<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$5,748,308	\$2,719,583	\$3,181,000	\$1,716,000

**The City has reduced its need for a  
Utility Subsidy Significantly**



# CITY EXPENSES



<b>General Government</b>	4,383,000	13.5%
<b>Police</b>	6,954,374	21.4%
<b>Fire</b>	983,589	3.0%
<b>Economic &amp; Community Dev</b>	2,001,026	6.2%
<b>Parks and Recreation Services</b>	5,256,379	16.2%
<b>Planning &amp; Development Services</b>	1,471,577	4.5%
<b>Public Works</b>	7,388,614	22.8%
<b>Agency Appropriations</b>	1,231,077	3.8%
<b>Debt Service</b>	2,776,007	8.6%
	<b>32,445,643</b>	<b>100.0%</b>

## UTILITY NET EARNINGS

Utility Net Earnings	Actual 2016	Actual 2017	Budget 2018	Projected 2018	Proposed Budget 2019
ELECTRIC	\$ 2,829,509	\$ 1,034,053	\$ 2,958,005	\$ 3,135,687	\$ 3,256,921
GAS	\$ 1,289,561	\$ 707,732	\$ 1,098,077	\$ 1,566,525	\$ 1,443,813
WATER	\$ 2,316,082	\$ 2,625,612	\$ 2,423,304	\$ 2,969,729	\$ 3,177,305
SEWER	\$ 327,516	\$ (90,881)	\$ 122,970	\$ 272,309	\$ 339,107
<b>TOTAL</b>	<b>\$ 6,762,668</b>	<b>\$ 4,276,516</b>	<b>\$ 6,602,356</b>	<b>\$ 7,944,250</b>	<b>\$ 8,217,146</b>

## UTILITY INFRASTRUCTURE OVERVIEW

### 5 YEAR CAPITAL IMPROVEMENT PLAN

#### Sewer \$6.855,000

- Two transmission projects for sewer = \$2,000,000 ea.
- New lift station at Fels and Mobile St. = approx. \$250,000
- Mapping upgrades = \$50,000 to \$75,000
- Study for the Grand Hotel = \$25,000 to \$30,000
- Three future force main projects and at least one major pump station project = approx. \$2,500,000

#### Water \$6,230,000

- Add a production facility and connecting transmission mains = \$4,000,000.
- System modeling and connect the balance of our production facilities with SCADA to balance system pressures and production min = \$250,000
- Potential transmission mains = ~\$1,000,000.
- Complete Fairhope Avenue water tank at \$980,000.

#### Gas \$5,000,000

- Replace 16 miles of cast iron main = \$4,000,000.
- Work on exposed transmission mains min = \$1,000,000

#### Electric \$11,500,000

Agreed in 2017 to go with an option which addresses an overall upgrade (recommended from a 2016 study)

- Substation upgrade project = \$9,000,000
- Relocate the Fairhope Substation = \$1,000,000
- Upgrade to the 46,000-volt transmission line = \$1,000,000
- We have a pole maintenance contract in the works that we anticipate will cost as much as \$500,000 by the time we get all the poles replaced that are identified as in poor condition.

All total, the probable spending needs over the next 5 years will be approximately \$31MM (including facility remodel).

The \$21,000,000 dollars our Operation Director, Richard Peterson, proposed last year was assessed after only a few months on the job. He has better identified overall needs. It will be like a remodel, we won't know exactly what to expect until we get started!

	2019	2020	2021	2022	2023
SEWER	\$ 1,500,000	\$ 2,500,000	\$ 1,750,000	\$ 570,000	\$ 535,000
WATER	\$ 100,000	\$ 1,750,000	\$ 2,500,000	\$ 1,500,000	\$ 380,000
GAS	\$ 575,000	\$ 1,425,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
ELECTRIC	\$ 1,500,000	\$ 6,500,000	\$ 2,250,000	\$ 750,000	\$ 500,000
<b>TOTAL</b>	<b>\$ 3,675,000</b>	<b>\$ 12,175,000</b>	<b>\$ 7,500,000</b>	<b>\$ 3,820,000</b>	<b>\$ 2,415,000</b>

A proposed rate & fee increase was included in the 2018 budget but it was taken out. In order for us to maintain quality service with experienced staff and infrastructure/rehabilitation upgrades without borrowing money, this must be addressed. We are addressing 50 years of neglect and hope to put our utilities in a proactive position in the future. **The same rate & fee increases have been proposed for 2019 (with a reduction in the proposed increase for irrigation systems) even though the estimated price tag has gone up 50%.** At the very least, there needs to be a staged approach to the rate increase to pay for all of this.

## LIST OF ALL CASH ACCOUNT BALANCES CITY & UTILITIES

- Increased the cash account balances by 50%: From ~\$30 million to ~\$45 million = +\$15 million.
- Decreased the City's debt by 46% from \$6.83 million to \$3.68 million = -\$3.15 million *The City of Fairhope debt is now on track to be paid off by 2020*
- Decreased the Utility Department debt by 21% from ~\$19 million to ~\$15 million = -\$4 million

## PERSONNEL PROPOSED NEW POSITIONS

Cost of Living Adjustment (COLA) has historically been the main increase city employees have been rewarded. Whether it's called COLA or across the board raises, the result is everyone is treated the same and exemplary performance is not rewarded. I am a proponent of Merit Performance Based Raises to retain and reward standout employees. This has not been supported and for the last 2 years there has been NO meaningful merit increases and we are losing valuable staff as a result.

EMPLOYEE RAISES	2014	2015	2016	THIS TERM	
				2017	2018
ACROSS THE BOARD RAISE	328,661	273,871	214,609	200,226	183,633
MERIT/PROMOTION	189,071	147,305	256,352	-	61,211
<b>TOTAL</b>	<b>517,732</b>	<b>421,176</b>	<b>470,961</b>	<b>200,226</b>	<b>244,844</b>
GROSS SALARY	12,312,930	12,698,854	13,609,306	13,577,000	14,561,615
<b>% OVERALL INCREASE</b>	<b>4%</b>	<b>3%</b>	<b>4%</b>	<b>2%</b>	<b>2%</b>

~ The total % of overall increase is around half since 2017  
 ~ The COLA (Across the Board Raises) has prevented meaningful raises for exemplary employees  
 ~ What passed in 2017 was a 2% COLA and in 2018: A 1.5% COLA with .5% MERIT for Hourly employees and a 1% COLA with a 1% MERIT for salaried employees (total 2%)

In 2017, the merit increase was turned down completely and a 2% COLA was passed instead. This approval also came late which caused unnecessary frustration with employees and brings down departmental morale. Employee evaluations which used to occur before the budget process is not happening now until after the budget passes. The empty promise of proposed merit increases has proven to be counterproductive. This is another reason why having a % for merit increases has been proposed. It has been extremely difficult for managers to keep morale up when high level performance is not being rewarded – especially with today’s unprecedented low employment rate. Our valued employees are being stolen by other municipalities and businesses because they are more competitive.

Some studies (such as SHRM) estimate it costs 6 to 9 months’ salary on average to replace an employee after they leave. This is not counting the time it takes to hire an experienced candidate which is taking a long time in this job market. The loss of well-trained employees is costing you, the taxpayer.

The 2019 budget includes a 3% pool of money for department heads to manage merit raises and \$33k for promotions. This total is still less than previous years’ total increases. Some employees are at the top of their pay grade due to a long overdue comp study. We are proposing a 5% pay grade increase to allow those who qualify for a merit raise can be rewarded while the new comp study is ordered for 2019. This will not affect the budget numbers.

This budget represents my commitment to fiscal responsibility and retaining & rewarding our valued employees who provide the high level of services our citizens expect.

By Mayor Karin Wilson