Town of Morrisville

Citizens' Budget Performance Assessment Panel

NOVEMBER 9, 2010

EXECUTIVE SUMMARY

The Panel convened its Quarterly Meeting on October 27th, 2010. Prior to the meeting, the Panel received copies of the FY 2010 CAFR and financial statements for Q1 - FY 2011. The financial statements were for the most part in line with budget projections. Since the overall costs and expenditures were under control, the Panel was satisfied that the Town of Morrisville is operating within budget.

OVERVIEW

We, the members of the Citizens' Budget Performance Assessment Panel (CBPAP) of the Town of Morrisville, NC, have prepared for your review a set of questions and observations regarding the FY2011 Budget and 2010 CAFR. The purpose of this Panel is to review and assess quarterly budget performance, evaluate efficiency and effectiveness of service delivery, and to generally present questions and concerns about the Town's budget performance from the perspective of the citizen. Meetings are scheduled for the fourth Wednesday of each quarter in July, October, January, and April, at 5:30pm.

The Citizens Budget Performance Assessment Panel (CBPAP) welcomed two new members (Dianne Snyder and Robert Kent). We continue to improve our understanding of the budget process. Staff is expanding the information we receive. This has enhanced the Panel's ability to review the Town's budget performance and report to the Council.

At our meeting, considerable time was spent on the LGERS liability (Local Governmental Employees' Retirement System). Staff is continuing to seek ways to reduce this liability.

Revenues discussed included a write off "Ad Valorem Prior Years" which caused a negative amount for the 1st Qtr. However, strong performance was shown in "Permits & Fees" and the "Privilege License" fee schedule. In addition, Sales taxes are expected to be less volatile than FY 2010.

Expenditures discussed included the one time performance bonus for staff, "Interlocal Agreements", and "Dues & Subscriptions" for the Governing Body.

This document, the Panel's first written submittal for FY 2011, is based on information we have acquired through the Q1 Financial Statements for FY2011, CAFR FY 2010, our CBPAP meetings, Town Council meetings, and personal research.

Panel members were polled and a composite of the results are presented below. The questions and comments are presented in two segments: Synopsis and Conclusion. Questions by the Panel referenced the Q1 Budget and 2010 CAFR.

PANEL MEMBERS:

- Barbara Diehl, *Chairman*
- Dianne Snyder, *Vice-Chair*
- Ludwik Wodka
- Leon Washington
- John Koonce
- David Mize
- Robert Kent

BUDGET ASSESSMENT, FY2010

Questions & Answers Pertaining FY2010 Comprehensive Annual Financial Report

1. The auditor had a Significant Finding relative to the recording of grant revenue in proper period. Please provide more detail of the transaction(s) that led to this finding. How are grants being handled now to correct this deficiency?

   Staff Response: Staff routinely reconciles grants. The Town received the grant money in September 2010 and the Town recorded the grant money in September 2010. However, the process for this particular grant should in June of FY2009, not when the Town received the grant money (FY2010). We reconcile cash/bank statements every month. The Town has a policy in place to ensure all grants submitted and awarded are sent to the Purchasing and Contract Office upon submittal and receipt. The Town could not receive grant money and without it being recorded. Also, not every grant is recorded at the time it is awarded. Reporting requirements dictate that it be recorded when the expense is incurred.

2. At the October 12th Town Council Meeting the auditor mentioned a Governance Letter concerning "Other Post Employment Benefits". This refers the to the 18.753% effective rate of interest for amortizing the LGERS liability. Since LGERS is between 7% & 8% of Personal Services (about 7% FY 2010 & 7.8% in FY 2011) it might be a good idea to review the topic in the meeting.

   Staff Response: The Town voluntarily entered Local Government Retirement System (LGERS) in 2003 for recruitment purposes. 90% of municipalities are part of this statewide retirement program, making recruitment for government qualified employees more appealing. Generally Town's that have entered this program did not have such a large buy back, but Morrisville has experienced significant growth since 2003 that was why it has created a negative effect on the payback percentage.

   The Town is required to make monthly payments towards an accrued liability contribution which covers the liabilities for past services at a rate of 5.35% of payroll. At July 1, 2003 the date the Town entered into the LGERS program, an actuarial study determined the valuation of accrued liability to be equal to $3,622,690. The annual required contribution percentage was determined as part of the initial actuarial valuation. The actuarial assumptions included a. 7.25% investment rate of return (net of administrative expenses) and b. an inflation component of 3.75%. This liability is payable for a period of 24 years. Actuarial studies can be performed upon request or once every three years. Staff agreed to supply the study results to the Panel once the next one is performed.

For the year ended June 30, 2010, the Town's increase in salaries over the last 5 fiscal years was evaluated determining that payroll had increased an average 9.72% per year. Using this anticipated trend over the remaining 16 year payout of this liability will result in an effective interest rate of 18.753% to fully amortize this liability. The total interest calculated on the liability was $671,837, which increased the outstanding balance on this liability by $245,511 during this period. This rate will continue to be evaluated annually and any changes adjusted prospectively over the remaining amortization period of this liability.

Staff sought special legislation to get authority to borrow funds to pay off this debt. Without legislative approval the total buy back could escalate to approximately $20 million. It was determined that it was unconstitutional to give the Town that authority because municipalities could only borrow funds to pay for capital projects and not for operational expenses. Also there was a statement in the CAFR regarding these funds which were accounted for under fiduciary funds and could not be counted in the town's funds. Staff is diligently continuing to explore means to control this future liability concern.

3. Can Unreserved Fund Balance be used to pay off the LGERS liability early?

   Staff Response: No, the Fund Balance would drop below Town Council Policy. Drawing down on Fund Balance to pay off the liability would not position the Town well with Bond raters when going to market in 2011 for the sale of Park Bonds. With 10% of the Town's tax base produced by one company (Duke Realty combined) and with no trend showing the Town's willingness to increase taxes, Fund Balance must be maintained in accordance to policy to receive favorable ratings.

4. What does 25% of expenditures look like compared to Unreserved Fund Balance.

   Staff Response: 25% of reported expenditures equal $4,5M. Fund Balance as of June 30th was $8,362,587. The 4.5M would represent approximately 54% of Unreserved Fund Balance.

5. Of the $11M unrestricted net assets, $2.6M is designated for capital projects - what are these projects?

   Staff Response: Refer to pages 82 & 83 of the CAFR for a listing of Major and Non-Major Capital Projects.

6. CAFR Page 61 Note 5 - What are the Other Unearned Revenues totaling $1,600,243?

   Staff Response: Unearned revenues are performance bonds held as liability in the event that certain contracted or developer required work is not performed. The Town could then utilize these funds to complete to work as required.

7. CAFR - page18-19. It appears that the major reason for the increase in net assets of $8.4 is a contribution from developers of $7.7 for streets and sidewalks. How is this amount determined? Who has the responsibility for future maintenance?

Staff Response: The value of accepted public streets and public infrastructures constructed by development is calculated by the Town's Engineer and reported annually through the audit process. Once infrastructure is accepted by Town Council as Public (after a warranty period ends requiring all identified deficiencies corrected), the Town is responsible to maintain.

8. CAFR page 25-26. Do we have a "rainy day" fund? How much unrestricted CASH is available for funding such a fund, after paying current liabilities?

   Staff Response: The Town's Fund Balance provides for unreserved and reserved balances. That is, cash and assets less liabilities equals fund balance. Refer to page 28 of the CAFR. As of June 30th the Town's Unreserved Fund Balance was about $8.4 million or 46% of expenditures. The goal was to pay recurring expenses with recurring revenue. The Town has a policy that a value of 45% to 25% of expenditures should remain as Unreserved Fund Balance with an agreement that should the balance fall below 25%, Council would adopt a plan to restore the balance within three years. A team of financial advisors was utilized in 2007 to develop this policy. A point to note is that the Fund Balance measure resulting in 46% this year was based on less actual expenditures than experienced in prior years.

9. CAFR page 43. Pension plan and Retirement Health Care Trust Funds - These funds are not included in the government-wide financial statements. Please explain. How much are these funds either over- or underfunded?

   Staff Response: These are Fiduciary Funds, recorded separately and are underfunded. Refer to CAFR pages 53 -60 and pages70 and 72. The Law Enforcement Officers' Special Separation Allowance is 22.99% Unfunded Actuarial Accrued Liability as a percentage of covered payroll. Other Post Employment Benefits is 15.07% Unfunded Actuarial Accrued Liability as a percentage of covered payroll.

10. CAFR page 24. What was the one-time performance pay as a % of the total payroll?

    Staff Response: The total Performance Pay was budgeted at $267,945 or 2.4% of total payroll.

Questions & Answers Pertaining FY2011 1st Quarter Budget Performance

1. Ad Valorem Prior budget is down from about 13% each previous year to 10.8% FY 2011. There is an adjustment or write off of $37,363. Please explain?

   Staff Response: Staff explained that periodically folks would dispute or appeal taxes triggering an adjustment. This was against revenue the Town would receive. This was not a common occurrence for Morrisville and has only happened once in several years when Mid-Way Airlines went bankrupt. This particular event was a result of appeals processed by PNC of NC, Treybrooke Apartments and Cary Marquis for prior year property value reductions.

2. Privilege Licenses are substantially increased in the 1st quarter comparisons, and more importantly in the Total Budget. Would you discuss the increase, including what is the basis (gross receipts?), and the historical information, i.e. last time there was an increase? Also, how does our rate for the privilege license compare to that of surrounding towns?

Staff Response: Privilege Licenses had a substantial increase due to improved collection processes and rates increases over the past three years. Council approved Resolution 2008-033 establishing a three year tiered increase applying a $1,000 increase to the Gross Sales Maximum and increasing the multiplying factor $0.10 for each fiscal year between 2009 and 2011. Staff conducted research when the tiered rate was brought to Council in 2008, concluding that this method of charging was similar to surrounding municipalities. Many other communities for economic reasons are now looking for revenue streams and are proposing to switch to the gross sales receipt method. The state legislator was considering removing municipalities' authority to charge based on gross sales. Several special interest groups have been able to be exempted by the legislator. This revenue source represents approximately 3% of total revenues for Morrisville.

3. Youth Program Services are down substantially in the 1st qtr comparisons; I realize this is the lowest quarter historically, but what staff attributes this reduction to?

   Staff Response: The Town shifted the registration period for Youth Programs to offer an earlier opportunity. Doing so moved revenue that was typically collected in the 1st quarter of a fiscal year to the 4th quarter of the prior year. It is not due to any loss in participation, merely an accommodation to customer request.

4. Miscellaneous Revenue - What is "Surplus" as listed in this revenue category??

   Staff Response: Surplus Revenues consist of items or equipment that has been replaced or no longer used by the Town. These items are disposed of through a surplus process to sale the items. The Town primarily uses the GovDeals service with the state to get the best sale value for these products. This revenue stream is a non-reoccurring revenue source.

5. What are Interfund Transfers of $942,000?

   Staff Response: The General Fund transfers money out to fund up the Capital Reserve Fund to replace vehicles, apparatus, equipment and technology equipment. Such housekeeping transfers are typically processed in the 1st quarter.

6. How are Development Fees and/or Sales Taxes distributed between Morrisville and Durham for the Wal-Mart site which straddles over the municipal boundary?

   Staff Response: Sales Tax revenue for the Wal-Mart and Sam's businesses were agreed to be distributed based on the location of the sales terminals within the building. The assessed property value used to determine the ad valorem taxes appears to be split 50/50 for the Wal-Mart site and appears to be an 80/20 spilt for the Sam's location (Most of the Sam's location is within Morrisville) based on the examination of the tax bills for each jurisdiction. This information is being confirmed with the Wake County Department of Revenue. Development fees were paid in full to the Town of Morrisville. Utility fees were collected by Cary for that site. This helped pay off debt carried by Morrisville residents for the Morrisville/Cary Utility Merger.

7. Permits & Fees – Engineering – are already at almost twice budgeted amount. Please explain?

   Staff Response: The large project known as Park West is now active and in the process of going through Planning and Engineering reviews for several components causing an upswing in collected Engineering Fees and Planning Fees. Likely within the next year or so the project will work through to Inspections and Permit Fees should experience a similar surge.

8. Governing Body –Interlocal Agreements & Dues & Subscriptions account for about 22.5% of the Governing Body's Operating Costs (12.3% & 10.1% respectively). What are the Interlocal Agreements and what are the other larger $ amounts in the Dues category for all departments?

   Staff Response: Staff explained that there were annual fees typically paid in the first quarter for CAMPO, Board of Elections, Mayors Association, National League of Cities and League of Municipalities. The Interlocal Agreements line account pays for the services of the Triangle J Council of Governments for local cost share for a study on infrastructure for all the jurisdictions in area. As well, the Town participates in the Center of the Region Enterprises that meets once a quarter and reviews developments occurring in the Triangle area to coordinate transportation, pedestrian and other interconnectivity concerns.

Conclusion

Revenues were received at about 17% of budget. This is consistent with historic performance. A shortfall in Ad Valorem taxes for prior years was caused by a onetime write off of taxes. This may have been only the second time in recent history that receipts in this account have been a negative for a quarter. Lower amounts in "Parks & Rec Fees" were caused by a change in policy to accept early registration payments.

Permits & Fees are strongly outperforming budget projections. This is due mainly to the development of Park West and the Chef's Academy. Improved performance in this category is expected to continue as these developments proceed.

Expenditures as a percent of budget are also consistent with historic performance for the 1st Qtr. Items effecting this quarter included seven pay periods and one special performance bonus, as well as payment of some annual dues and contracts.

At this point, the Panel is satisfied that the Town of Morrisville is operating within budget and within available resources during the 1st quarter of FY 2011. However, the LGERS liability poses an ongoing concern . The Panel will continue to monitor this situation.