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**To:** City Commissioners

**From:** Peggy Merriss  
City Manager 

**Date:** May 19, 2014

**Subject:** 2013-2014 Revised Budget Estimates  
2014-2015 Proposed Budget Estimates

Following for your consideration are the 2013-2014 Revised Budget Estimates and the 2014-2015 Proposed Budget Estimates. It is recommended that public hearings be scheduled for June 2, 2014; June 9, 2014 and June 16, 2014. You will be asked to take final action on June 16, 2014. The City will also use the Open City Hall forum to encourage comments via the City's website. Copies of the budget will be available on the City's website, at City Hall and at the Decatur Library.

It is recommended that the overall millage rate remain at 13 mills, which includes the present general fund operating millage at 10.20 mills, the capital improvement millage at 1 mill; the debt service millage at 1.42 mills; and, retaining the downtown development authority millage rate at 0.38 mills.

## Introduction

During the past year there have been steady improvements in the overall economy which have served to stabilize and invigorate financial markets resulting in strong economic growth for the City. During the economic recession, the City of Decatur managed to avoid the extreme financial distress felt by many organizations and companies, both in the public and private sectors. Because of our conservative financial approach and compliance with adopted financial policies, the City had accumulated a strong fund balance which we were able to strategically rely on to fund operations and capital improvements during the recession. In addition, while development slowed, the City remained a desirable place to live, visit and do business. Compared to most of the metropolitan Atlanta area and the rest of the United States, our real estate values held steady and our commercial vacancy rates were competitive. We remained a regional destination for restaurants, shopping, festivals and special events. All of this placed the City in a strong position to take advantage of the rebounding economy.

The 2013-2014 Revised Budget Estimates and the 2014-2015 Proposed Budget Estimates were prepared with the knowledge that the economy is improving and that private sector capital investment is occurring, resulting in a cyclical upswing in development. However, we have also taken into account that future economic prosperity is not a given and we continue to base our budget estimates on providing the best possible services at the least possible cost. We also realize that the community expects responsiveness and high quality outcomes which are provided by City employees who are committed to improvement and innovation.

With the 2011-2012 Budget Estimates we began transitioning to what we have termed “vision-based” budgeting. The foundation of vision-based budgeting is to develop a budget that is directly tied to sustaining and improving the outcomes that the community has identified as most important. Each department determines what it does to support these common goals and the budget communicates to the public how the allocation of resources reflects community priorities and our citizens’ vision for the future.

In order to produce the 2014-2015 Proposed Budget Estimates, we relied on information provided in the 2010 Strategic Plan and the results of citizen and employee surveys to provide guidance regarding the community’s priorities. Ultimately five interdepartmental vision-based budgeting teams were part of the budget process, one for each of the four principles articulated in the 2010 Strategic Plan and one to focus on an additional principle that supports the City of Decatur’s organizational commitment to exceptional public service based on innovation, professional expertise and creativity.

The City’s vision-based budget consists of three main elements - a descriptive narrative; an identification of quantitative and qualitative measures that relate the activities and financial resources directly to the community’s goals to determine if we are making a difference; and, broad organization-wide budgets that show how each strategic principle is supported financially. As part of the budget presentations in June, we will also provide a report that compares selected Decatur measures to other cohort cities from across the United States.

The narrative is an extremely important part of the budget document and it should be considered a key part of the City’s overall fiscal plan. A thorough reading of the narrative is required for a full understanding of the basis for making funding recommendations included in this budget. The narrative and department budgets highlight quantitative and qualitative measures as well as results from the 2014 citizen survey and do a thorough job of describing the work plans for the coming year and the successes and accomplishments for the City from the past year.

The Summary of Fund Budgets beginning on page 43 provides a description and comparison of the revenues and expenditures for each fund included in the 2013-2014 Revised Budgets and the 2014-2015 Proposed Budgets. The 2013-2014 Revised General Fund Budget is \$65,190, or 0.32%, more than the 2013-2014 Proposed General Fund Budget. ; The 2014-2015 Proposed General Fund Budget is \$1,144,650, or 5.2% more than the 2013-2014 Revised General Fund Budget.

## **Overall Financial Condition**

The City’s mature economy, its overall real estate market stability and desirability, long-term growth management strategy and dedication to superior services have resulted in the City being able to weather the recent long-term recession through the appropriate use of accumulated fund balance and reasonable expenditure controls. The investment in physical capital improvements -- while construction costs were extremely competitive and borrowing costs were very advantageous -- resulted in the City being in a positive position as the economy began to improve.

The City Commission has adopted financial policies for the overall operation of the City of Decatur. The purpose of having financial policies is to enable the City to achieve and maintain a long-term positive financial condition. The policies include direction on providing a conservative approach to

budgeting that generally means expenditures are calculated using the best estimate of true cost without discounting and that revenues are estimated at a level that would reasonably be collected within the fiscal year based on historic collection data, as well as realistic expectations about existing and future economic conditions and activities.

Over the years, the City Commission has made strategic decisions that have positioned the City to better withstand financial stress. For the past thirty years, the City's growth has been directed to redevelopment of undervalued and underutilized properties in the central commercial business district and in smaller neighborhood commercial areas. The reasonable scale of this type of growth has provided opportunities for residential and commercial spaces to be absorbed by the market without creating a significant number of vacancies.

Overall, the City has managed to retain a strong financial position by continuing to utilize conservative fiscal practices and by making strategic decisions that support the community's vision. This is confirmed by the City's AA+ bond rating from Standard & Poor's and a Moody's rating of Aa2.

## **Real Property Digest**

The recession generally had its strongest impact on real estate values between 2008–2012, although the value of the 2013 real property digest did not fully reflect the strength of the improving real estate market. The lag between improvements in the real estate markets and increased values being reflected in the taxable digest is typical in economic cycles and is one of the reasons that property taxes tend to be a stable source of revenue over time. The value of the real estate digest is very important to the City of Decatur budget as property taxes are 57% of all general fund revenues.

During the 2010 General Assembly session, SB346 was adopted, which requires that each county assessor's office provide real property valuation notices to all properties, not just to those that had a change in value. It also requires that the notice provide an estimated property tax bill. This requirement has significantly delayed the availability of the digest estimates during our budget development process.

From 2008 – 2012, the City's real estate digest remained relatively flat, showing a 1.2% increase over the five year period. Comparatively speaking, this was outstanding. As the economy began to improve, the 2013 digest showed a modest improvement of 3.35% over the 2012 digest. This was lower than the 6% we had expected based on our building permit activity and real estate sales reports.

We began developing the 2014-2015 Proposed Budgets with varying revenue estimates based on various real estate digest scenarios. Fortunately, we received reliable initial digest information in early May that indicated that the 2014 real estate digest increased almost 12% from the 2013 digest with over half of the increase due to added new value. This increase is supported by real estate sales reports that show an 8% increase in the average sales price of a single-family home from \$420,900 in April 2013 to \$456,600 in April 2014; and, a 24% increase in the average single-family dwelling sales price from \$368,500 in April 2012 to \$456,600 in April 2014. Current permitting activity along with development construction expected to take place in the remainder of 2014 through the end of 2016 indicates that new property values should continue to increase the digest.

It is our understanding that the DeKalb County Board of Tax Assessors approved 2014 digest values on May 15, 2014.

## **Personnel Services**

The City is committed to continuing to provide an exceptional level of public safety, public works and quality of life services that contribute to the stability of property values and have made the City a desirable place to live, work, invest in and visit. In the most recent 2014 Citizen Survey, 97% of respondents rated the overall quality of life in Decatur as “excellent” or “good” which ranked Decatur as number 10 out of the 409 communities that use the survey and ask the question. About 90% of the respondents rated services provided by the City of Decatur “excellent or “good” which ranked Decatur as number 13 out of the 379 communities that use the survey and ask the question. City staff is an integral part of assuring that quality of life and services meet the demanding expectations of our community and rewarding those efforts is an important part of the City’s financial strategy.

The 2014-2015 Proposed Budget Estimates incorporates a 3% merit-based market adjustment for all positions covered in the pay and classification plan effective January 5, 2015. The adjustment to salary ranges is recommended based on salary survey data collected from metropolitan Atlanta cities that offer similar services to the City of Decatur. Our goal is to maintain our salary ranges at the median level offered in the region. Appendix C provides the results of the survey.

Funding is also included for a 2.5% merit increases for employees who are still below the maximum in their salary range. These merit adjustments occur throughout the budget year on an annual basis. With last year’s budget the merit adjustment was decreased from 5% to 2.5%.

The cost of the market adjustment and in-step merit increase is estimated to be around \$187,350.

The 2014-2015 Proposed Budget Estimates incorporates the reorganization of some functions and the addition of several new positions whose costs will generally be covered by new or increased revenues. The following new positions are recommended:

- A full-time Parking Attendant assigned to Salary Range 1. This is part of a reorganization of the parking management function which will result in two full-time positions and one part-time position compared to the existing staffing of one full-time position and five part-time positions. Total salary costs are estimated to be basically the same.
- One additional Children and Youth Services Site Director assigned to Salary Range 3. This position will manage the Westchester After-School site and have responsibilities for managing camps during the summer. The cost is covered by after-school and camp fees.
- Two Recreation Program Supervisors assigned to Salary Range 9. One represents a transition from a part-time to full-time position for active adult program planning, management and supervision. As the City’s population of active adults continues to grow, the demand for programming and activities increases. We anticipate that the increased salary costs will be covered by program fees.

With the opening of the renovated and expanded Decatur Recreation Center, the demand for rentals and use of the various meeting spaces has been exciting. While the Ebster Gymnasium and Ebster Recreation Center have been under construction, we have been able to repurpose staff hours from Ebster to the facilities management at Decatur Recreation Center. However, Ebster will be reopening in Fall, 2014 and that position will no longer be available. It is recommended that a Recreation Program Supervisor be assigned facilities management responsibilities at the Decatur Recreation Center. We have adjusted rental rates for meeting rooms and special event space at Decatur Recreation Center to cover the additional salary costs.

- The City Schools of Decatur have requested an additional School Resource Officer. City Schools will cover the cost of the officer from August – May. In addition with the re-opening of Westchester Elementary School in August, we have added three School Crossing Guards for a total of 28.
- The Police Department is anticipating the retirement of some staff members in the coming year. It is recommended that the Evidence Technician position be deleted and those responsibilities be redistributed to Police Investigators. A Police Sergeant position has been added to supervise and manage the School Resource Officers, the School Crossing Guards, security at City Schools of Decatur sports activities and special events, and to serve as a general liaison to City Schools.
- Based on increased organizational responsibilities, the following reclassifications are also included:
  - Resource Conservation Coordinator, from Salary Range 10 to Project Manager at Salary Range 14.
  - Project Civil Engineer, from Salary Range 12 to Salary Range 14.
  - Police Sergeant, from Salary Range 12 to Community Education & Information Manager at Salary Range 14.
- Based on market salary studies and internal operating equity, the following changes in salary ranges are included:
  - Accounts Payable Officer, Administrative Assistant, Court Clerk and Revenue Officer, from Salary Range 4 to Salary Range 5.
  - Chief Court Clerk, Crew Supervisor and Revenue Supervisor, from Salary Range 7 to Salary Range 9.
  - City Clerk, Personnel Director and Revenue and Technology Director, from Salary Range 14 to Salary Range 15.
  - Fire Captain and Police Captain, from Salary Range 15 to Salary range 16.
  - Active Living Director and Children and Youth Services Director, from Salary Range 16 to Salary Range 17.
  - Chief – Civic Engagement, Information and Education, Fire Chief and Police Chief, from Salary Range 19 to Salary Range 20.
  - Assistant City Manager, from Salary Range 21 to Salary Range 22.

The cost for these requests, including salaries and benefits totals \$262,800, a majority of which is covered by additional revenues.

The City's group insurance health care costs are not budgeted to increase in the 2014-2015 Proposed Budget. In 2012, the City changed its health insurer to Blue Cross/Blue Shield in order to improve consistency in customer service, expand the available physician provider and hospital networks and to gain access to more useful reporting and wellness opportunities.

As the result of a competitive request for proposals process, this year the City switched its benefit consultant and broker service to Marsh and McLennan, who have taken an active part in advising the City on how to most effectively and efficiently provide group health, disability and life insurance benefits. Based on their review of the City's offerings and the current regulatory and benefits financing environment, we have accepted their recommendation to move to a self-funded model for providing group health benefits with Blue Cross/Blue Shield acting as the City's third party administrator starting in July, 2014. As part of the self-funded model, we will purchase reinsurance and stop-loss coverage to protect the City from catastrophic losses.

Employee contributions to health care costs will increase by \$5 per pay period, or an average 5.75% effective with the first pay period in July, 2014. However, employees who participate in the wellness program can reduce their premiums by up to 30%. Based on current experience we anticipate that 135 out of 184 eligible employees will receive a discount ranging from 10% - 30%. To participate, the employee must not use tobacco products and provide a baseline wellness assessment of blood sugar, cholesterol levels, blood pressure and body mass. Discounts are given for maintaining levels in the normal range for each area. An additional discount is available for participation in wellness events and activities throughout the year (walking clubs, Weight Watchers, yoga, Lunch and Learns, etc.). In addition, the City is supporting tobacco-cessation activities for employees who want to quit. The estimated cost of the wellness discounts is \$77,500. We believe that this investment will be recouped over time by reduced future health care costs, less use of sick leave and increased employee productivity. Including health care costs, fees and stop-loss coverage, the wellness initiative and the smoking cessation program, the City's overall health care costs are budgeted to basically remain the same in the 2014-2015 Proposed Budget Estimates.

All full-time employees are also members of the City of Decatur Employees' Retirement System. Public employee pension plans and pension costs have frequently been the subject of sensationalist media headlines and reports over the past several years. The City's system offers conservative benefits to employees who have served the community over a long period of time. In comparison to frequent media reports about other systems, the City's required employer contribution to the system has remained steady over the past six years, fluctuating between 7.76% - 9.07% of payroll, with the required employer contribution for fiscal year 2014-2015 remaining at 9% of payroll or approximately \$968,000. The total required employer contribution is approximately 3.3% of total operating expenditures. Employee contributions to the system average 14% for public safety employees who are not members of Social Security and 8% for general employees who participate in Social Security.

The City relies on private contractors to provide certain services when it makes financial sense and the quality of service can be assured. The City currently has contracts for building inspection services, geographic information systems (GIS), information technology services, payroll, recycling, litter collection, athletic field maintenance and swimming pool management. These contracts are managed and supervised closely to assure that costs are less than or equal to what they would be for the City to provide the same or similar services. In addition, this year the City of Decatur entered into a contract with the City of Brookhaven to provide them with Fire Marshall services. The City has taken steps to assure financial security and to support our ability to provide the high level of services expected by our community. We have emerged from the recent fiscal environment as an organization that is better positioned to take advantage of opportunities, capable of making appropriate investments in our employees and committed to offering superior services for the least possible costs.

## **Fund Balance**

The City's financial policies also provide direction for maintaining an adequate fund balance equal to 20 to 30 percent of operating expenses. Maintaining an adequate fund balance allows governments the ability to weather financial difficulties without having to depend on millage rate increases or service delivery reductions. The City's healthy fund balance position allowed us to maintain or slightly reduce millage rates as well as provide a tax credit to owner-occupied property taxpayers during the economic slowdown. We were also able to provide significant capital construction funding for the Beacon Municipal Complex.

Due to the City's history of conservative budgeting practices that estimates expenditures fully and limits revenue estimates to likely possible collections, the City has been able to maintain a stable fund balance. For the past several years, we have been purposely budgeting an appropriate transfer from fund balance in order to cover costs for non-recurring expenditures and to eliminate the need for a millage rate increase. Last year, we used approximately \$297,740 of the general fund balance, resulting in a balance of \$8,746,320 as of June 30, 2013. This amount represents approximately 42% of the 2013-2014 Revised General Fund expenditures.

The 2013-2014 Proposed General Fund budget anticipated using \$654,100 of the general fund balance to provide enough revenue to cover 2013-2014 Proposed General Fund expenditures. The 2013-2014 Revised General Fund Budget also anticipates using \$654,100 of the general fund balance. . In addition, consistent with the City's financial policies which provides that fund balance may be used for one-time capital expenses, \$3,000,000 will be transferred to the 2013 URA Fund for construction of the Beacon Municipal Center. The estimated general fund balance at June 30, 2014 is estimated to be approximately \$5,092,200, or 23% of 2014-2015 Proposed General Fund expenditures.

Due to an improvement in the economy which will result in increased revenues , the 2014-2015 Proposed General Fund budget anticipates contributing approximately \$797,430 to the general fund balance which should increase the general fund balance at June 30, 2015 to approximately \$5,889,600, or 27% of 2014-2015 Proposed General Fund expenditures. The contribution is an important part of replenishing the general fund balance to provide the City with sufficient resources in case there is a need for unforeseen or emergency expenditures or to provide resources in the case of difficult economic times.

## **Capital Infrastructure**

In the late 1990's, when it became obvious that the City was going to have to invest in its capital infrastructure, the City Commission approved a tax levy to establish a capital improvements fund. The capital improvements levy has allowed the City to make scheduled investments in vehicle and equipment replacement, the regular maintenance and upgrade of playground equipment, streets and sidewalks and to provide matching funds for technology and emergency management upgrades.

The City Commission saw a need for more significant capital improvements to facilities and infrastructure and in 2006 voters approved issuance of \$16,000,000 in long-term bonds to fund a variety of capital improvement projects. The bond program made it possible to plan and implement a number of large-scale capital improvements. Because the funding was available, we were able to take advantage of the general slowdown in construction to more effectively use available resources.

It is anticipated that with the completion of the Oakhurst Streetscapes Improvements Project and completion of the Phase V Downtown Streetscapes Improvements Project all of the proceeds from the General Obligation bonds will have been used.

In 2010, the City Commission authorized issuance of \$13,760,000 through the City's Urban Redevelopment Agency as part of the Recovery Zone Economic Development Bond (RZEDBs) program for construction of improvements to Fire Station No. 1, the Decatur Recreation Center and the Public Works facility. The RZEDBs provide a 45% rebate on interest cost provided by the United States Treasury, although that number has been reduced slightly due to a federal sequestration order. Fire Station No. 1, the Decatur Recreation Center and the combined City of Decatur/City Schools of Decatur public works facility are complete and all proceeds from this bond issuance will have been used by June 30, 2014.

In April 2013, the City Commission authorized issuance of \$29,290,000 of revenue bonds through the City's Urban Redevelopment Agency for construction of improvements to the Beacon Municipal Center which includes a significant upgrade to the City's stormwater system, office space for the central administrative functions of the City Schools of Decatur, a new Police Department and Municipal Court, renovations and new space for the Ebster Recreation Center and improvements to Ebster Pool and Bathhouse. City Schools have begun taking occupancy of their new central office. It is anticipated that the City functions will take occupancy by Fall, 2014 and all proceeds from this bond issuance will be used by June 30, 2015.

With the completion of the Beacon Municipal Center, all major City facilities will have been completely renovated or built within the last ten years.

An in-depth narrative description of the City's current capital improvement program can be found starting on page 111.

## **Future Challenges**

During the 2012 General Assembly session, HB 386 was adopted which restructured the ad valorem tax on motor vehicles to a one time title fee paid when the vehicle is purchased. There are provisions in the bill that are supposed to make local governments "whole" in terms of ad valorem revenue but only to the extent that the revenue collected in 2012 will be replaced. There are no provisions for growth in this revenue source and the proposed replacement of existing ad valorem revenue is contingent on collections from the title transfer fee being sufficient to cover the cost. Research done while this bill was being considered indicated that after four to five years, local government revenue would be at risk. Provisions of the legislation went into effect March 1, 2013, so it is still too early to know the full effect of HB 386.

We also remain concerned about other activities at the General Assembly that would have a negative impact on the City's ability to generate operating revenue such as ongoing efforts to reintroduce the property value cap and efforts to remove or reduce franchise fees. These efforts by the General Assembly limit a local government's ability to control their own taxing authority thereby restricting local citizens from determining how their tax dollars are spent and their ability to fund local community priorities.

E-911 operations are accounted for in a separate fund that is subsidized by the General Fund. In addition to the General Fund subsidy, the other primary source of funding for E-911 services has been a monthly assessment on land line and cell phones. The decreased number of land line based

telephones has significantly affected this revenue. In 2008-2009 the E-911 Fund received approximately \$582,900 in revenue from fees. We estimate we will collect approximately \$510,000 in the 2014-2015 Proposed Budget, a decrease of 13%. It is anticipated that increased subsidies from the General Fund will be necessary in the future for operation of the E-911 Center unless new sources of revenue are identified or the Georgia General Assembly increases the E-911 fee.

During the 2014 session, the Georgia General Assembly passed HB60, which has been called the "Guns Everywhere" law. We are still assessing the provisions of the law and its financial impact on City operations. Preliminary estimates for providing weapons screening equipment and screening staff have been in the \$500,000 range. This expenditure is not currently included in the 2014-2015 Proposed Budget.

## **Millage Rate Adoption**

The 1999 General Assembly adopted O.C.G.A. § 48-5-32.1, known as the "Truth in Taxation" law. It requires every levying authority (i.e., the City) and every recommending authority (i.e., the City Schools) to take the percentage of the digest increase due to property reassessments and calculate the millage rate reduction due to the increased digest. To the extent that the recommended millage rate exceeds the "roll-back" rate, certain advertisements and public hearings are required. This requirement began with the certified 2000 digest. The current combined 13.00 millage rate exceeds the "roll-back" rate of 12.183 so the City Commission is required to provide a legal advertisement, issue a press release and hold three public hearings. It is recommended that public hearings be held at your regular meeting on Monday, June 2, 2014; at 6:00pm on Monday, June 9, 2014; and, at your regular meeting on Monday, June 16, 2014.

DeKalb County may not have a certified digest returned from the State of Georgia until late summer. The law does allow millage rate adoption based on an estimated digest as long as the estimated digest is within three percent of the certified digest. Because it is more convenient and because residents can have more impact on the budget and millage rate setting process when both are discussed at the same time, the budget and millage rate hearings are held concurrently. However, if the certified digest varies by more than three percent, we may need to repeat this process.

## **CONCLUSION**

Ultimately, the City's objective is to provide quality services that reflect the community's goals and vision within reasonable fiscal limits. This means that we have to take a strategic approach that relies on and develops the City's strengths while preserving and protecting community financial resources. To that end the 2013-2014 Revised Budget Estimates and the 2014-2015 Proposed Budget Estimates include funding for a number of programs and projects that should position the City well for the future.

The 2014-2015 Budget Estimates assure that that City will maintain its capacity to offer the high-level, high-quality services desired by our residents. This budget also supports our continued commitment to making the necessary infrastructure improvements and investments that will benefit our community long into the future. We remain committed to our conservative fiscal policies that allow us to meet the needs of the community today while assuring future generations will have the same access to resources and quality of life we currently enjoy.

Below is a summary of property tax millage rates since 2009 and the recommended 2014 millage rates:

	2009	2010	2011	2012	2013	2014
	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>
General Fund	10.215	10.215	10.215	10.20	10.20	10.20
General Fund						
Cap. Improv.	1.00	1.00	1.00	1.10	1.00	1.00
Bond Fund	1.44	1.44	1.44	1.32	1.42	1.42
Downtown Dev.						
Authority	.38	.38	.38	.38	.38	.38
TOTAL:	13.035	13.035	13.00	13.00	13.00	13.00

Completion of the 2013-2014 Revised Budget Estimates and 2014-2015 Proposed Budget Estimates would not be possible without the assistance of the Accounting Division staff, the teamwork and support shown by City employees in all departments, and particularly without the work of Assistant City Manager Andrea Arnold and Budget & Performance Measurement Manager Meredith Roark.

I will be glad to review the following budget proposals with you at your convenience.