

**A RESOLUTION INSTRUCTING THE TOWN MANAGER TO PREPARE A FINAL
DRAFT OF THE BUDGET ORDINANCE
Resolution No. 207/2006-07**

**BE IT RESOLVED BY THE BOARD OF ALDERMEN OF THE TOWN OF
CARRBORO:**

Section 1. That the following changes be made to the recommended budget:

- A.
- B.
- C.

Section 2. This resolution shall become effective upon adoption.

TO: Mayor and Board of Aldermen

FROM: Steve Stewart, Town Manager

DATE: May 29, 2007

RE: Insurance for Part-time Employees

In response to concerns raised at the public hearing on the recommended budget on May 22, I am writing to fully explain the reasoning behind my recommendation to continue health insurance coverage for full-time employees only.

First and foremost, I am concerned about the Town's current and future ability to fund retiree health insurance in the long run while also maintaining health benefits for active employees. Adding part-time employees to the Town's health care plan will result in an immediate increase to the budget and may have a long term impact. The FY07-08 budget shows \$102,058 recommended for retiree health insurance vs. \$38,716 five years ago (FY03-04), an increase of 260%. Health care for active employees also reflects significant increases, from \$549,171 expended in FY03-04 to \$1,047,778 recommended in FY07-08, almost 200%.

As you are aware, local governments are faced with changes in governmental accounting standards that require towns to report both the estimated future liability and the funds set aside to meet the liabilities for retiree health insurance benefits. This is a significant departure from the current accounting standards. Currently, the town reports the annual cost of retiree health insurance as the actual cash paid out in a given year for retirees, commonly known as the "pay-as-you-go" method.

The Town has not reported liability for future years' benefits and like many governments does not have any funding set aside to meet future obligations to retirees. The Town will be required to have an actuary develop the estimate for the Town in FY08-09 in order to meet reporting requirements in June 2010. Larger jurisdictions, like Chapel Hill, will need to report and fund retiree health benefits beginning in FY2007-08.

Town staff, however, in a proactive move, contracted with Cavanaugh MacDonald Consulting, LLC to prepare the required calculation with the interest of confirming our assumptions about the long-term liability of our current approach to retiree health insurance. Cavanaugh was contracted by the League of Municipalities to prepare the calculation for local governments in North Carolina. This actuarial study will be required again in FY08-09 to prepare for our audit report in 2010 and will be required triennially thereafter.

This long-term liability, coupled with the short-term negative impacts of retirees on current health insurance premiums prompted the recommendation to make some very minor modifications in the retiree health insurance benefit. This issue also plays a part in the recommendation not to add the Town's short-term and long-term liabilities by adding part-time employees to the health insurance plan.

Cavanaugh MacDonald, based on its assumptions, has calculated that the current year expense for retiree health as \$1,225,577, with a total liability of \$11,024,619, based on a total of 156 current and retired employees. Beginning in FY09-10, the Town will be required to show the calculated current year expenses of \$1.2 million as an annual cost, but the Town is not required to fund this amount. The total estimated liability of \$11 million will also be reported in financial statement notes.

The recent changes proposed to the retiree health benefit plan will mitigate the Town's liability for employees hired July 1 and forward. However, the liability reported for current employees and retirees will remain until paid. If the changes to the retiree benefit plan are not made, the liability will get larger.

Upon implementation of financial reporting for health care liabilities, bond rating agencies will expect local governmental units to develop a plan for addressing the retiree health benefit liability. Preparing such a plan will be important for maintaining the town's bond rating, keeping interests costs of borrowing as low as possible.

At one end of the spectrum, the Board could choose to continue the practice of funding only amount needed for current retirees, that is, the "pay-as-you-go" method. At the other end of the spectrum, the Town could choose to fund the cost of the liability. The Town will need to develop a plan for addressing retiree health insurance liability. We will continue to monitor this issue as the reporting requirements and funding strategies are revealed.

In addition, Hill, Chesson, and Woody addressed the issue of adding part-time employees to the Town's health insurance plan in its February power point presentation to the Board. To reiterate the issues, a small number of employees can have a significant impact on premiums over time as evidence by the cost of retirees to the plan and the basis for making minor modifications to the retiree coverage. Medical underwriters fear that when employers begin to add eligibility that is outside of the marketplace norm, they are positioning themselves to attract people that would not otherwise be able to receive medical coverage due to prior medical conditions. Our experience has shown that only one large claimant can have a huge negative impact on our claims experience, which translates to higher premiums for the Town and employees. Adding part-time employees makes it more likely that the Town will be less attractive in future years to insurers which could mean even larger premium increases. If double digit increases continue in health insurance premiums, coupled with the existing liability for retirees, it will be difficult to maintain good health insurance coverage for our full-time employees. Adding another perceived high risk group will make that task even more difficult.

LBR/DW

At a regular Board meeting on March 6, 2007, the Arts Committee requested the Board to allocate 1% of Carrboro taxes to support the Arts (not mentioned in written request dated February 26, 2007); fund one full-time position to assist the committee; and provide for an increased budget to pay for publicity, the Second Friday Art Walk, food for receptions, and to pay someone to hang art exhibits. The Mayor referred the request to the Town Manager to be reviewed as part of the 2007-08 budget considerations.

The Town Manager asked department heads to think about ways to adjust their completed budget plans which had been submitted in early February to accommodate the request made by the Arts Committee in a manner that could provide reasonable assistance to the Committee with minimal impact on the budget.

Given that significant administrative responsibilities for implementing numerous community events with citizen-based groups, including those that spawn from the Arts Committee, often rest with the Recreation and Parks Department, one thought was to include working with the Arts Committee as an additional responsibility of Recreation Department. A request within the Recreation Department proposed budget had been submitted to the Town Manager to upgrade a part-time permanent recreation supervisor position to a full-time position to meet current responsibilities and to meet ongoing demands that have been added to the position over a period of time, particularly in administering community events. The Recreation and Parks Department, without requesting additional funds, proposed increasing the hours of the part-time recreation supervisor position (25 hours per week) with existing temporary salary hours across divisions in the department.

After consulting with internal staff, the Recreation and Parks Director agreed to the possibility of adding the Arts Committee liaison responsibilities to the proposed list of duties that had already been submitted for upgrading the part-time recreation supervisor position, given the significant programming support the position has provided to the Arts Committee and the expertise of the department in working with citizen-based committees and community events.

The programming duties of this existing part-time position include serving as program coordinator of five "community events". The use of the term "community" indicates that these programs include two or all of the following:

- Other groups are involved in the planning and implementation of the events.
- The service population includes more than the citizens of the Town of Carrboro
- Includes funding from other resources besides the Town of Carrboro and the participants (i.e., grants, sponsors, donations).

These community events consist of Carrboro Day, Carrboro Music Festival, July 4th Celebration, West End Poets Weekend, Orange County Easter Egg Hunt, and (in 2006) the Carrboro Film Festival. The size and nature of the programs listed, and the involvement of other individuals and groups in the planning of these events require a longer period of planning and preparation. The coordination of duties among the individuals, contractors such as those used for the Music and Film Festivals, and groups involved in the planning requires detailed plans and communication. The monitoring of funds (revenue and expenditures) requires that all involved follow proper purchasing procedures, and adequate accounting records are also maintained. This

requires an integral understanding of internal operations including an understanding of how to coordinate services across departments (Police, Public Works, and Management Services) to implement an event and an understanding of town financial, risk management, and contractual guidelines that are necessary to meet state legal requirements.

Over the past couple of years, the involvement of the Recreation Supervisor in such events as Carrboro Day, Carrboro Music Festival and poetry events has increased substantially. Duties have grown in the area of publicity, the responsibility and control of the funds available for the event, and overall accountability of the program. The discontinuation of the Carrboro Poetry Festival led to the department coordinating the "Poetry Alive - West End Poets Weekend". This year, the naming of the Town's new poet laureate (selected by the Arts Committee) will occur at this event.

Additional program responsibilities assigned to the position have increased over the past year. The Carrboro Film Festival is an example of a program that the Department was requested to become involved with in 2006. The responsibilities included the monitoring of the funds (revenue and expenditures), the collection of film entries, publicity, staffing of the event, and as a resource to the Arts Commission during the planning stage for this event. The overall consensus of those involved was that the event was successful and the coordinated effort between the Arts Committee and the Recreation and Parks Department during the planning and implementation of the event went smoothly. The part-time recreation supervisor position, temporary hourly assistance, and in-kind administrative support of 150 hours were integral in making this event a success. The Arts Committee, with assistance from Recreation, has submitted a grant application to the Orange County Arts Commission for the next Film Festival. In addition, the Town Manager's proposed budget recommends secured local funding and staff support for the Film Festival.

In addition to these events, the part-time recreation supervisor position has had the responsibility for other recreation-sponsored events: Kite Fly, Olde Orange County, Lunchbox Concert Series, Breakfast with an Expert, and the Kids-Cookies-and Candy Canes event. Even though these events are smaller in scale, each requires similar expertise and concentrated effort in the planning and implementation duties.

It is necessary to mention that if this upgrade is not implemented, the funds combined from across the department to provide for the upgraded full-time position will need to be redirected to continue staff support for various recreation programs, albeit in a less effective manner than proposed in the FY07-08 budget.

The recommendation made by the Town Manager recognizes the structure and expertise needed to implement the programming suggested by the Arts Committee which is consistent with how staffing is provided to other advisory groups. In addition, it is believed this is also an opportunity to explore the new initiatives being considered by the Arts Committee to refine and improve support for the arts in the community. Having the expertise of the recreation department will assist in identifying, anticipating, and planning for fiscal implications of programs sought while being cognitive of limited dollars to maintain current levels of service.

Staff was asked to provide option(s) and pertinent information as a result of the request to eliminate the Town Commons reservation fees. Prior to and during the budget hearing people expressed support to eliminate the fees to accommodate the Really Really Free Market that is held in that location. At the budget hearing various Aldermen expressed a desire to accommodate this group and support the event and some voiced support of the event. However, uncertainty was also expressed regarding elimination of the reservation fee structure.

After weighing the information, requests, and concerns expressed staff is recommending to modify the initial consideration if there is a desire to change the current policy. This consideration evolved from an idea shared by James Harris, the Town's Economic and Community Development Director as a way to meet the competing concerns cited by the Board at the budget hearing.

The Town can offer a time slot on Sundays from 1:30 pm to 5:30 pm for free reservations except during times that are scheduled for Town-sponsored events. During all other times, however, the current reservation process shall apply. Reservations will be free of charge and insurance requirements as long as the event is free and open to the public and electricity and staffing are not needed to open the restrooms. Total liability falls on the Town for these events. Town sponsored events include Carboro Day, Music Festival, 4th of July and Halloween. (This reservation option can only be used once a month so that more will have an opportunity to reserve the space). Staff is scheduled to share this idea with a representative of the Really Really Free Market on Friday, June 1.

If this new community option is considered, the revenue projection changes from \$2,500 to 1,100. This new figure is estimated based on removing the monthly reservation for the RRFM and an anticipated two additional events taking advantage of the new option. We believe that this revenue projection would be impacted even further if we eliminate reservation fees for reservations that request up to 4 hours. During this fiscal year only one reservation was booked for 4 or more hours.

The relative information below was given to the Board in the staff response to May 1st questions packet and by email on May 17th. It only provides a quick view of what was shared and possibly discussed.

May 1st response:

Alderman Coleman asked that the town staff consider eliminating the reservation fee for use of the Town Commons for four hours or less.

Response: Anita Jones-McNair, Recreation and Parks Department

A significant majority of reservations are for four hours or less. The revenue estimated in FY07-08 for reservations at Town Commons is \$2,500. Staff anticipated reservations to be four hours or less. The breakdown includes:

- \$1,800 – Community Events
- \$ 400 – Fundraising Events
- \$ 300 – Private Events
- \$2,500 Total

The initial proposed fee schedule for the

TOWN COMMONS FACILITY:

\$100 for 0 – 4 hours

\$150 for 4 or more hours

An additional fee of \$25 is charged if the event is approved to sell good or services. Renters may be required to hire parking attendants when events are expected to draw more than 100 vehicles. Off Duty Police Officers can be provided at renter's request for an additional fee.

With each reservation the department/town incurs expenditures with the current process due to staffing and usage of electricity if requested.

Staff would like to Board to consider the following:

Department/Town will reserve space for preparation, implementation and clean-up for community events. (current)

Maintain current reservation process which may require insurance by the group or individual reserving the facility. Insurance is required if the event includes major physical activity and moderate/severe exposure to participants; expected attendance of over 500; large amounts of cash (\$1000+) or quantities of merchandise will be brought onto Town Property, and food will be served and/or sold to the general public. (current)

Reservation is free if staff does not work during the event, no public access to Town Hall bathrooms, no money exchanged during the event and electricity is not used. (This reservation option can only be used once a month so that more will have an opportunity to reserve the space) (proposed)

Reservation fee - \$75 for reservations up to 4 hours which includes staffing, public access is available to Town Hall bathrooms and electricity if needed. (proposed) Reservation fee will be \$150 for reservations over 4 hours which includes staffing, bathroom facilities and electricity if needed.

(current) An additional \$25 charged if the event is approved to sell goods or services. (current)

May 17th email:

Here is the latest analysis from Recreation and Parks. Staff is prepared to continue with the current policy, move to a new policy as suggested by Anita at the budget work session or consider other alternatives. While the projected revenue for FY 07-08 that is based on current policy and this year's usage pattern may turn out to be over or understated, it is expected that allowing groups to make reservations under 4 hours at no charge will reduce the amount of revenue to be received. The policy question for the Board appears to be whether or not to grant exclusive use of the facility to groups at no charge that will have some negative impact on the revenue stream for the Town in the next fiscal year. Currently, as the Board is aware, people who want to use the facility for unadvertised activities may do so at no cost as long as the facility is not being used for a paid reservation event.

Steve

We project revenue for Town Commons and all town facilities based on historical data.

2005-06 - Total Commons Reservations - \$925 in revenue and 8 reservations - 6 of those reservations were 4 hours or less

2006-07 - Reservations to date - \$1,300 in revenue and 14 reservations - 13 of those reservations are 4 hours or less

The department projected anticipated revenue for 2007-08 of \$2,500 based on a breakdown of \$1,800 in community events which include the RRFM reservations, \$400 fundraising events and \$300 private events. That figure projection is based on the increased use of the facility. There is the possibility that repeat reservations may not occur however, new ones can surface as well. The revenue identified in 2006-07 is to date only and the community has approximately 46 days left in the fiscal year to reserve the facility.

If the RRFM sponsorship and/or reservations fees went away, there is the possibility of a shortfall. We have not been informed that the RRFM will stop using the facility. As a matter of fact, the group has booked the space every first Saturday of the month through the month of September. When we originally prepared the budget, staff projected the revenue based on the current reservation fee structure and an increase of reservations during the spring, summer and fall months.