

CITY MANAGER’S BUDGET MESSAGE

MAY 19, 2015

To the Honorable Mayor and City Council of the City of Marion:

In accordance with the General Statutes of North Carolina, I respectfully submit for your review and consideration the proposed budget for the City of Marion for Fiscal Year 2015-16. A copy of this budget is available for public inspection at City Hall. The budget is composed of five funds, including the General Fund, Water and Sewer Fund, Internal Service Fund, General Capital Reserve Fund and the Water and Sewer Capital Reserve Fund. The City also maintains project funds for individual capital projects. These funds are budgeted on a project basis and are not included as part of the annual budget.

The total budget for all funds is \$9,684,230, which represents a 1.97 percent decrease (or \$194,413) over the original 2014-15 Fiscal Year Budget, excluding interfund transfers, and a decrease of 4.09 percent (or \$412,551) over the amended 2014-15 Fiscal Year Budget, excluding interfund transfers, as of this date. This decrease is due to the \$254,000 Water and Sewer Capital Reserve Fund Balance being invested in capital projects in the 2014-15 Fiscal Year and \$39,145 in reductions in Internal Service Fund expenditures.

The proposed budget figures are broken down into the following allocations:

General Fund	\$5,755,737
Water and Sewer Fund	3,457,892
Internal Service Fund	316,657
General Capital Reserve Fund	153,944
Water and Sewer Capital Reserve Fund	<u>0</u>
Total All Funds	\$9,684,230

The total proposed 2015-16 Budget is smaller than the City’s 2008-09 Budget of \$9,915,268.

In this budget, the staff and I have attempted to meet the budgetary goals that the City Council has had in place for many years. These goals are:

- Continue to provide quality and cost effective services to the citizens of Marion.
- Seek to have no property tax rate increase for the 48th consecutive year, unless there is a compelling reason to adjust the tax rate.
- Minimize the impact of increases to water and sewer rates and connection fees while ensuring the financial stability of the Water and Sewer Fund.
- Stress improvements to City infrastructure, particularly water, sewer, streets and sidewalks.
- Continue to stress City appearance, long range planning and economic development.

- Improve the City's quality of life through continued development of mini-parks, greenways and other recreational facilities.
- Continue to keep the City's fund balance adequate for future needs.
- Continue to build the General and Water and Sewer Capital Reserve Funds for future capital projects.

Several components of the budget deserve more detailed attention, and are addressed as follows:

REVENUES:

From 2008 to 2012, growth slowed in the City's property tax base, due to the declining State and National economy. While there was some modest residential and commercial development in the City during this time, any growth was offset by the closing of the City's last two textile plants in the Fall of 2008 and depreciation of personal property and equipment by industry, which resulted in the loss of nearly \$6 million in City personal property tax base, or revenues of about \$30,000 per year. This trend changed in 2012-13 with the addition of nearly \$30 million of industrial and commercial property tax base from the new Rock Tenn plant on US 70 East, the new Wal-Mart Supercenter/Grandview Station commercial development on Sugar Hill Road development and several other new commercial buildings throughout the City.

The City experienced some commercial development in the past year. However, for 2015-16, the City's property tax base is expected to grow only modestly. In an attempt to be very conservative with revenue estimation, the 2015-16 budget proposal assumes no increase in personal property tax values. Therefore, the City's 2015-16 tax base for real, personal and utility property is estimated to be \$416,055,357, an increase of \$2,945,748, or 0.71 percent, over the property tax base estimated in the 2014-15 budget and an increase of \$276,390, or 0.01 percent, over the City's actual property tax base in 2014-15.

This budget proposal recommends that the City tax rate remain at a rate of \$.51 per \$100 valuation. This would be the 48th consecutive year that the City of Marion has not raised the property tax rate. The \$.51 tax rate is projected to generate approximately \$2,058,225 in revenues for real, personal and utility property, and \$200,000 for motor vehicles, based on a tax collection percentage of 97 percent, which is one percent less than the projected City tax collection percentage for 2014-15.

Sales tax revenues are expected to increase by \$50,000, or 4.17 percent, in 2015-16, due to sales tax revenues exceeding the 2014-15 budgeted amount and being expected to increase Statewide and locally by 4.0 percent in 2015-16. The sales tax estimate includes \$50,000 in proceeds from an Interlocal Agreement between the City and McDowell County regarding sales tax distribution. 2015-16 will be the final year of this Interlocal Agreement and the City will need to work with the County to extend the existing agreement or negotiate another agreement to allow for the continuation or expansion of the sales tax reimbursement to the City for 2016-17 and future years.

Retail sales in the City and County have been good in recent years, exceeding the growth in Statewide retail sales for six of the past eight years, and continued growth in local retail sales is

expected to continue in 2015-16. Forecasts call for sales tax revenues across North Carolina to be 4.0 percent higher in 2015-16 than in 2014-15, so there is hope that the sales tax revenue estimates projected for 2015-16 are conservative and that actual sales tax collections may exceed the estimate.

Powell Bill revenues are projected to increase by \$1,000 over the budgeted 2014-15 amount, but be \$1,845 lower than the actual 2013-14 amount, due to an expected decrease in State gasoline tax receipts. In an attempt to be conservative, utility sales tax revenues are projected to be unchanged from budgeted 2014-15 amounts.

In 2014-15, the City budgeted \$60,000 and received approximately \$55,000 in business privilege license tax revenues. Effective July 1, 2015, the City's authority to levy such taxes has been eliminated by the North Carolina General Assembly. Despite promises by the General Assembly to replace such revenue losses for cities, no revenue replacements have been approved by the General Assembly as of the preparation of this Budget Message. The 2015-16 Budget recommendation eliminates the \$60,000 in business privilege license tax revenues included in the 2014-15 Budget. The 2015-16 proposed Budget does contain \$8,000 in revenues from business registration fees, although pending proposals in the General Assembly would also eliminate the authority for such fees, which would necessitate this revenue projection also being reduced to \$0.

At the time this budget has been prepared, there has been no proposal for the State to retain any State collected local revenues for 2014-15 and no such action is expected this year. In past years, the State has retained as much as \$320,000 of State collected local revenues, so there is no guarantee that the State will not retain any local revenues, until such time as the State budget is adopted. There has been considerable discussion in the General Assembly of additional tax reform, which could have a significant positive or negative impact on local revenue sources, ranging on the positive side from authorization of a local option sales tax for cities to on the negative side the elimination of the authority for business privilege license taxes and business registration fees, with no replacement revenues provided. The exact scope of these impacts is unknown at the time of this budget proposal.

A three percent increase in water and sewer rates, including minimum charges, is proposed for 2015-16. No increase in water and sewer service charges is proposed, other than minimum charges. The rate increase will produce an estimated \$46,000 in revenue. However, due to water and sewer sales being lower than forecasted in 2014-15, the budget projects that water and sewer sales will be only \$39,000, or 1.32 percent, higher than what was budgeted in 2014-15.

In the proposed budget, there is no budgeted transfer from the General Fund to the Water and Sewer Fund for the seventh year in a row, meaning that the Water and Sewer Fund will continue to be self sustaining, continuing a goal the City Council has had for many years.

ABC revenues are forecasted to be \$100,000, which represents a \$20,000 increase from the 2014-15 budgeted amount, due to increased sales and efficiency improvements at the two ABC stores in Marion. These revenues are designated for beautification, parks and recreation, downtown/economic development and donations to outside agencies, as shown below in the Expenditure section.

The budget recommends no increases in fees, other than for water and sewer rates, as described earlier.

Interest income from investments in all funds is projected to be \$3,650, which represents a decrease of \$9,110, or 71.39 percent, from the budgeted interest income of \$12,760 in all funds for 2014-15. Interest rates on investments continued to decline in 2014-15, resulting in the conservative approach of assuming decreased interest income for 2015-16.

The General Fund will require a fund balance appropriation of \$399,291, an amount 1.42 percent higher than the \$393,702 General Fund Balance appropriation amount included in the 2014-15 original budget. In the Water and Sewer Fund, a fund balance appropriation of \$249,705 is projected, which is 7.76 percent lower than the original budgeted 2013-14 Water and Sewer Fund Balance appropriation of \$270,720. The budget recommends no further reimbursements from the Water and Sewer Fund to the General Fund for past transfers made to balance the Water and Sewer budget for an extended period throughout much of the 1990's and 2000's. The last transfer from the Water and Sewer Fund to the General Fund was actually made in 2013-14. While Water and Sewer Fund reserves have been rebuilt to an acceptable level in recent years, the amount of Water and Sewer Fund Balance appropriations will have to be closely monitored, to make sure that the Water and Sewer Fund Balance remains adequate to cover operating expenses and debt service.

Revenues and expenditures within the Internal Service Fund are projected to be \$39,145 lower than in the 2014-15 budget, mainly due to less need for the stocking of inventory in the City Warehouse to meet City departmental needs and because of decreasing fuel and delivery charges. The 2015-16 budget proposes that the General Fund and Water and Sewer Fund pay a proportionate share of \$50,337 of Internal Service Fund personnel expenditures. As noted earlier, this budget does not include any transfer from the General Fund to the Water and Sewer Fund. No transfer is proposed from the General Fund to the General Capital Reserve Fund or from the Water and Sewer Fund to the Water and Sewer Capital Reserve Fund. Fund Balance appropriations are proposed for the Powell Bill account in the General Fund (\$50,000) and the General Capital Reserve Fund (\$153,944). No expenditure of the Fund Balance appropriation for the General Capital Reserve Fund is planned for Fiscal Year 2014-15, unless so directed by City Council. Contracted projects, including annual street paving and curb and gutter/sidewalk replacements, will be proposed in the Powell Bill account in 2015-16, but will be approved by City Council prior to being undertaken. The Water and Sewer Capital Reserve Fund shows projected revenues and expenditures of \$0 for 2015-16, since all remaining expenditures in this fund were spent on Water and Sewer Capital Projects in 2014-15.

EXPENDITURES:

This budget contains recommended funding for day-to-day operating expenses and for one-time capital expenses. Major operating and capital related expenditures are as follows:

Capital Outlay/Projects

- Funding for street, sidewalk, curb and drainage projects, \$198,000
- Code enforcement expenses for dilapidated housing demolition, \$16,000

- Purchase of ArcGIS Server Upgrade and Equipment for Planning and Development, Police, Utility Maintenance and other departments, \$25,000
- Purchase of two fully equipped marked Police cars, \$76,000
- Purchase of one fully equipped unmarked Police car, \$33,000
- Purchase of two in-car video camera systems for Police cars, \$8,500
- Purchase of replacement computer server for Police Department, \$17,000
- Purchase of body cameras for Police patrol officers, \$5,000
- Miscellaneous Fire Department equipment needs, including replacement of SCBA air bottles, turnout gear and hose, \$25,000
- Purchase of eight replacements dumpsters for Sanitation Division, \$6,400
- Purchase of replacement park equipment, \$10,000
- Repair and repainting of Community Building Park basketball and tennis courts, \$12,000
- Purchase of water and sewer pipe, valves and hydrants for Utility Maintenance Division, \$85,000
- Purchase of boring machine for Utility Maintenance Division, \$6,000
- Purchase of replacement pickup truck for Water Plant, \$24,000
- Replacement of Water Plant laboratory equipment, \$12,500
- Purchase of replacement 4x4 pickup truck for Wastewater Plant, \$27,500
- Purchase of composite sampler for influent wastewater samples at Wastewater Plant, \$5,200
- Purchase of Wastewater Plant laboratory equipment and glassware, \$11,867
- Purchase of replacement gas and diesel pumps for Internal Service Fund, \$12,500

Personnel/Administration

- 1.5% cost of living increase for City employees, \$50,136
- Merit increases for employees, \$0
- Increases in health insurance, worker's compensation and property and liability insurance premiums, \$49,456 over 2014-15 budgeted amount
- Budgeting of 2,000 hours of temporary labor for Public Works Department to use for fill-in work, \$24,000

Debt Service

- Payments on Sugar Hill Road Water and Sewer Extension loan, \$129,920
- Payments on Fire pumper-tanker truck and tower truck loans, \$118,419
- Payments on Wastewater Improvements Project loan, \$62,447
- Payments on Automated Water System Project loan, \$52,537
- One-half year Payment on Street Sweeper replacement loan, \$23,916

Contracted Services/Operational Expenses

- Contracted services for water/sewer line extensions and repairs, \$110,000
- Purchase of City warehouse stock for resale to City departments, \$250,000
- Disposal of wastewater residuals through land application process, \$60,000
- Cemetery mowing, \$26,650

- Landscaping contract and street right-of-way mowing contract, \$57,004
- County landfill tipping fees, \$75,000
- Legal/Audit services, \$22,000

Downtown and Economic Development/Outside Agency Funding/Special Projects

- Funding for miscellaneous special projects, \$15,000
- Mountain Glory Festival expenditures, \$21,019
- Purchase of fireworks for annual July 4th Celebration, \$5,000
- Funding for Downtown/Economic Development/Events and Promotions, \$69,000
- Farmer’s Market Expenses, \$5,000
- Funding for other local agencies, \$22,000

As noted above, the proposed 2015-16 budget includes a 1.5 percent cost of living increase for City employees. No staff additions are proposed in the 2015-16 budget. No layoffs are planned to take place on July 1; however, a Police Officer position is scheduled to be laid off on January 1, 2016, due to severe budget constraints placed on the City.

It is worth noting that the recommended number of full-time City positions for the 2015-16 Fiscal Year, 96.0, is almost exactly equal to the number of full-time positions the City had during the 2002-03 Fiscal Year (95.5 budgeted positions), despite the City growing by more than 60 percent in population between 2001 and 2014.

As mentioned above in the Revenue section, expenditures in the amount equal to \$100,000 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 27,000
Beautification/Landscape Maintenance	20,000
Downtown/Economic Development	40,500
Various Community Agencies	<u>12,500</u>
 Total	 \$100,000

Total capital outlay in all funds in the proposed 2015-16 budget is decreased by 36.79 percent, or \$252,551, from the 2014-15 budget, with General Fund capital outlay decreasing by 32.95 percent and Water and Sewer Fund capital outlay decreasing by 43.79 percent.

CONCLUSION:

The preparation of this budget has been with the knowledge of an improving Statewide and local economy, as evidenced by increasing property tax and sales tax revenues and new commercial and industrial expansions over the past few years. However, the continuation of the recent growth trends remains uncertain, as does the future of many local revenues due to potential action by the North Carolina General Assembly. The budget is designed to continue City operations at the current level, while serving growth occurring in the City. The budget also seeks to make necessary expenditure cuts, without affecting core municipal services as much as possible, in order to achieve a balanced

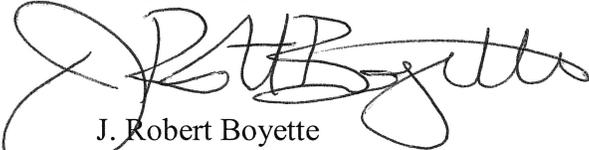
budget. An attempt has been made to budget for revenues and expenditures very conservatively, while allowing for unexpected changes in the payment of revenues or for unexpected expenditures. City staff understands that budgeted funds will only be spent on needs. Any items that are not deemed to be necessary will not be pursued this Fiscal Year and expenditures, particularly involving capital outlay purchases, can be cut during the Fiscal Year if revenues are not collected as projected.

I wish to express my appreciation to the department heads for their support and assistance in the preparation of this budget. I particularly wish to thank Finance Director Harriett Thomas for her hard work compiling the information for the budget, formatting the budget document and assembling the completed budget. We look forward to review of this document by you and the public. We are prepared to make adjustments as the Mayor and City Council deem appropriate.

The following schedule is proposed for your consideration of the proposed budget:

Tuesday, May 19, 2015	Budget Submittal
Tuesday, May 26, 2015	Budget Workshop
Tuesday, June 16, 2015	Public Hearing on Budget Adoption of Budget

Respectfully Submitted,



J. Robert Boyette
City Manager