

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 2016-17. 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 \$9,988,431, which represents a 3.14 percent increase (or \$304,201) over the original 2015-16 Fiscal Year Budget, excluding interfund transfers, and an increase of 0.59 percent (or \$58,437) over the amended 2015-16 Fiscal Year Budget, excluding interfund transfers, as of this date. This increase is primarily due to additional proposed capital outlay spending to purchase needed equipment and vehicles.

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

General Fund	\$ 6,133,248
Water and Sewer Fund	3,587,733
Internal Service Fund	267,450
General Capital Reserve Fund	100,000
Water and Sewer Capital Reserve Fund	<u> -</u>
Subtotal	10,088,431
Less Interfund Transfers	<u> 100,000</u>
Total All Funds	<u><u> \$ 9,988,431</u></u>

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.
- Keep property taxes as low as possible, while still providing the full range of City services.
- 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 considerable commercial development in the past year. For 2016-17, the City's property tax base is projected to grow only modestly. The City's 2016-17 tax base for real, personal and utility property is estimated to be \$420,317,984, an increase of \$4,262,627, or 1.02 percent, over the property tax base estimated in the 2015-16 budget.

This budget proposal recommends that the City tax rate remain at a rate of \$.51 per \$100 valuation. This would be the 49th consecutive year that the City of Marion has not raised the property tax rate. The \$.51 tax rate is projected to generate approximately \$2,079,312 in revenues for real, personal and utility property, and \$190,000 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 2015-16.

Sales tax revenues are expected to increase by \$133,000, or 10.64 percent, in 2016-17, due to sales tax revenues exceeding the 2015-16 budgeted amount, sales taxes being expected to increase Statewide and locally by 3.75 percent in 2016-17 and the City being projected to receive an additional \$56,000 in sales tax revenues from legislation passed by the North Carolina General Assembly in 2015. 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 is the final year of this Interlocal Agreement, but the City expects that the agreement will be extended, 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 nine years, and continued growth in local retail sales is expected to continue in 2016-17. Forecasts call for sales tax revenues across North Carolina to be 3.75 percent higher in 2016-17 than in 2015-16, so there is hope that the sales tax revenue estimates projected for 2016-17 are conservative and that actual sales tax collections may exceed the estimate.

Powell Bill revenues are projected to decrease by \$1,000 over the budgeted 2015-16 amount, and be \$1,618 lower than the actual 2015-16 amount, based on State projections. In an attempt to be conservative, utility sales tax revenues are projected to increase by only \$10,000, or 2.00 percent, over the budgeted 2015-16 amount, despite actual utility sales tax receipts for 2015-16 likely being much higher.

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 was eliminated by the North Carolina General Assembly. In 2015, the City Council approved a business license fee of \$20 per business located in the City. The 2016-17 Budget recommendation proposes that the business license fee be increased to \$25 per business, which is projected to generate approximately \$8,500 in revenue.

At the time this budget has been prepared, there has been no proposal for the State to retain any State collected local revenues for 2015-16 or 2016-17 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 or reduction of additional municipal revenue sources, with no replacement revenues provided. The exact scope of these impacts is unknown at the time of this budget proposal.

An increase of just over three percent in water and sewer rates, including minimum charges, is proposed for 2016-17. 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 in 2016-17. Due to water and sewer sales being more than forecasted in 2015-16, the budget projects that water and sewer sales will be \$74,000, or 2.47 percent, higher than what was budgeted in 2015-16.

In the proposed budget, there is no budgeted transfer from the General Fund to the Water and Sewer Fund for the eighth 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 \$110,000, which represents a \$10,000 increase from the 2015-16 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 only modest increases in permit fees, along with the increase in water and sewer rates, as described earlier.

Interest income from investments in all funds is projected to be \$3,150, which represents a decrease of \$500, or 13.70 percent, from the budgeted interest income of \$3,650 in all funds for 2015-16. Interest rates on investments continued to be stagnant in 2015-16, resulting in the conservative approach of assuming decreased interest income for 2016-17.

The General Fund will require a fund balance appropriation of \$426,876, an amount 6.91 percent higher than the \$399,291 General Fund Balance appropriation amount included in the 2015-16 original budget. In the Water and Sewer Fund, a fund balance appropriation of \$301,546 is projected, which is 20.76 percent higher than the original budgeted 2015-16 Water and Sewer Fund Balance appropriation of \$249,504. 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 \$49,207 lower than in the 2015-16 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 2016-17 budget proposes that the General Fund and Water and Sewer Fund pay a proportionate share of \$49,580 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. A transfer of \$100,000 is proposed from the General Capital Reserve Fund to the General Fund to purchase needed Public Safety equipment. A Fund Balance appropriation is proposed for the Powell Bill account in the General Fund (\$50,000). Contracted projects, including annual street paving and curb and gutter/sidewalk replacements, will be proposed in the Powell Bill account in 2016-17, 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 2016-17, since all remaining expenditures in this fund were spent on Water and Sewer Capital Projects in 2015-16.

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, \$204,000
- Code enforcement expenses for dilapidated housing demolition, \$16,000

- Purchase of new Payroll software for Administration/Finance Department, \$13,060
- Purchase of two fully equipped marked Police cars, \$83,000
- Purchase of one fully equipped unmarked Police car, \$38,000
- Purchase of Viper 800 MHZ radios for Police Department, \$100,000
- Purchase of workstation and laptop computers for Police Department, \$6,000
- Purchase of new telephone recording system for Police Department, \$7,645
- Miscellaneous Fire Department equipment needs, including replacement of SCBA air bottles, turnout gear and equipment, \$25,000
- Purchase of replacement wheel balancing machine for City Garage, \$8,000
- Purchase of replacement zero-turn mower for Street Division, \$9,000
- Purchase of replacement sign making equipment for Street Division, \$6,000
- Purchase of eight replacement dumpsters for Sanitation Division, \$6,400
- Replacement of shed roof at Community Building Park, \$15,000
- Purchase of water and sewer pipe, valves and hydrants for Utility Maintenance Division, \$85,000
- Purchase of replacement utility truck for Utility Maintenance Division, \$47,000
- Purchase of replacement trench box for Utility Maintenance Division, \$9,000
- Purchase of replacement doors at Water Plant, \$12,500
- Purchase of Water Plant laboratory equipment, \$15,500
- Purchase of generator for Spaulding Road wastewater pump station, \$34,500
- Purchase of replacement pumps for wastewater pump stations, \$12,800
- Purchase of control panel replacement for wastewater pump station, \$5,200
- Purchase of replacement garage doors at Wastewater Plant, \$18,000
- Purchase of salt spreader at Wastewater Plant, \$6,500
- Purchase of Wastewater Plant laboratory equipment and glassware, \$5,000

Personnel/Administration

- 1.5% cost of living increase for City employees, \$57,500
- Merit increases for employees, \$0
- Decreases in health insurance, worker's compensation and property and liability insurance premiums, -\$9,600 over 2015-16 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, \$129,921
- Payments on Automated Water Meter Reading System loan, \$52,538
- Payments on Fire pumper-tanker truck and tower truck loans, \$118,419
- Payments on Wastewater Improvements Project loan, \$62,447
- Payments on Street Sweeper replacement loan, \$42,237
- One-half year payment on Sanitation rear load packer truck loan, \$20,117

Contracted Services/Operational Expenses

- Contracted services for water/sewer line extensions and repairs, \$92,900
- Purchase of City warehouse stock for resale to City departments, \$255,000
- Disposal of wastewater residuals through land application process, \$60,000
- Cemetery mowing, \$26,650
- Landscaping contract and street right-of-way mowing contract, \$62,274
- 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, \$21,000
- Purchase of fireworks for annual July 4th Celebration, \$6,000
- Funding for Downtown/Economic Development/Events and Promotions, \$77,000
- Farmer's Market Expenses, \$4,800
- Funding to McDowell County for Phase 3 of Catawba River Greenway, \$10,000
- Funding for other local agencies, \$18,700

As noted above, the proposed 2016-17 budget includes a 1.5 percent cost of living increase for City employees. No staff additions are proposed in the 2016-17 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, 2017, due to severe budget constraints placed on the City.

It is worth noting that the recommended number of full-time City positions for the 2016-17 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 2015.

As mentioned above in the Revenue section, expenditures in the amount equal to \$110,000 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 27,000
Beautification/Landscape Maintenance	30,000
Downtown/Economic Development	40,500
Various Community Agencies	<u>12,500</u>
Total	<u>\$ 110,000</u>

Total capital outlay in all funds in the proposed 2016-17 budget is increased by 41.63 percent, or \$180,643, from the 2015-16 budget, with General Fund capital outlay increasing by 51.64 percent and Water and Sewer Fund capital outlay increasing by 41.63 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 Interim Finance Director Harriett Thomas for her hard work compiling the information for the budget, formatting the budget document and assembling the completed budget. Harriett officially retired from City service on December 31, 2015, but has been serving as Interim Finance Director for the past several months. As usual, Harriett has done a tremendous job working on the 2016-17 City Budget. I commend Harriett for her dedicated service to the City of Marion for the past 11+ years.

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 17, 2016	Budget Submittal
Tuesday, May 24, 2016	Budget Workshop
Tuesday, June 21, 2016	Public Hearing on Budget
	Adoption of Budget

Respectfully Submitted,

J. Robert Boyette
City Manager