

***CITY OF GASTONIA***

***EXECUTIVE SUMMARY***

The following section consists of the City Manager's budget message, which highlights the major policy changes adopted for the new fiscal year, the Budget Schedule for the Fiscal Year 2008 budget, and an Explanation of the Budget Presentation, which details the layout of the balance of this document.

Presented to the City Council  
April 27, 2007

Adopted in Final Form by the City Council  
June 5, 2007





## **CITY MANAGERS' BUDGET MESSAGE**

Dear Mayor and City Council:

Enclosed is Gastonia's fiscal year 2007-2008 Adopted Annual Budget. We want to thank all the City employees whose hard work and dedication to their jobs contributed to the preparation of this budget. The budget is our financial plan that will guide the City through the coming fiscal year. Our goal remains to manage the budget to take advantage of opportunities and meet challenges as they occur during the year. Some of the language in this year's budget message is new, but other language remains the same, because many of our opportunities and challenges require steady commitments through multiple years.

### **CHALLENGES:**

#### **Electric Fund: Address Growth while Reducing the Impact of Increased Costs**

As mentioned in last year's budget message, if Gastonia's load growth does not increase to the average of the other jurisdictions in Electricities Power Agency One, our effective wholesale rate will actually be higher than the Agency average. These conditions continue to apply. Although the City had not previously passed a retail electric rate increase since 2002, a 2% retail rate increase was approved in January of 2007. This addressed increased wholesale costs, as well as, set up a dedicated funding source for capital expansions. However, since 2003, the Electric Department Operating Fund Balance has been annually declining due to an increase in wholesale energy costs, as well as, funds for capital projects, and increases in material costs. The City's outside auditor has also noted this decline and has recommended it be addressed as well. In efforts to balance the 2007-2008 Budget, a 2.5% electric retail rate increase

effective July 1, 2007 is included. Moreover, the average Electricities wholesale rate increase for Agency One cities is estimated at 1.4% for the upcoming fiscal year, and is included in the proposed budget. However, Council recently implemented a policy to annually review whether or not to pass along any wholesale cost adjustment. Therefore, in December of 2007, the Mayor and City Council will likewise need to review the revenue stream of the Electrical Fund to determine whether or not to implement the projected wholesale cost adjustment. On related note, between now and the end of the calendar year, Electricities will be conducting a cost allocation study to better identify and subsequently manage, the actual purchase power cost implications as related to customer class and wholesale rate impacts.

Continued load growth remains a critical component to keep electric rates as low as possible. However, increased load growth usually requires upfront capital expenditures. In the proposed budget, approximately \$1.5 million has been allocated to designated capital projects. Monies from Fund 37 (Settlement Funds) have been allocated to partially fund these capital needs, and if combined with current monies programmed in the rate structure for capital projects, will help us grow over the next 10-year period. However, as these settlement funds are utilized, additional funding may be required, or we will face a reduction in expansion of the system. Without long-term capital growth, wholesale costs will continue to be less stable.

Funds for Rate Stabilization are historically provided through the Electrical Operating Fund (Fund 31). However, because an adequate balance does not currently exist in said Fund, the required 2% allocated by policy for rate stabilization is being utilized from Fund 37. It is important to note that if the Rate Stabilization Fund requires use over the upcoming fiscal year, it will deplete a portion of those same funds programmed for future year capital project needs.

Presently, the City does not charge the majority of municipal buildings for the use of electricity. However, as an on-going effort to help shore up the Electrical Fund, an increase of \$280,100 in municipal use electric charges is included in the proposed 2007-2008 Budget. We would further recommend that this transition continue in future budget years to reduce this subsidy to other Funds as funding allows. Although the 2007-2008 Budget provides more funding for capital projects and load growth efforts, maintenance and customer service are not receiving the same level of funding as in the current budget. Increased funding for maintenance and customer service will be required in future budget years if the same level of quality service is to be provided.

### **Center City**

Gastonia's Center City area remains critical to our economic development and to our image. Interest by the private sector in center city development seems to be at an all-time high from the recent past. In addition, while we are seeing increased activity in pre-development initiatives, significant areas in central, northern, and western portions of the City have still not experienced the kind of economic growth that is otherwise occurring throughout the region. The City will be challenged to work with the private sector to redevelop these areas, thereby expanding Gastonia's economic and revenue base. City

priorities of a Downtown Park, a trolley system, and a Downtown (satellite) Police Station should continue to be pursued as we move into the 2007-2008 fiscal year.

The City should continue to focus on the Center City, and much more work remains in front of us. Construction has been completed on street improvements to the US 321 Corridor between the Downtown and Interstate-85. The City has approved three levels of development incentives for the Center City, including incentives to promote housing. The Rotary Pavilion has become an attractive venue for downtown public events. The City received approval this past year from the US Department of Housing and Urban Development to provide “gap financing” loans to assist with new commercial redevelopment such as the Standard Hardware Project. Additionally, the York-Chester neighborhood has completed the process for National Register recognition. Expanded plans for the North Gate / Highland Community are also progressing, targeting this community for new housing and commercial growth. In the Downtown area, offers have been made for the Rhyne Building and a portion of the City’s Main Avenue property. Loray Mill developers believe that they will be able to begin renovating this year, stimulating the adjoining neighborhood. The Oakland neighborhood has new design standards for infill and rehabilitated housing. Other projects that hold promise for Gastonia’s Center City should continue to develop in the coming months and years.

## **Economic Conditions**

Recent operating budgets have reflected the difficult financial conditions that affected our City, County, and State. These conditions have included the great economic impact on our community associated with the passage of international trade agreements, which resulted in the loss of manufacturing jobs, particularly textiles, and the numerous businesses that supported textiles. The loss of textile and other manufacturing has had a significant effect on the majority of City operations as well.

Gastonia has begun to experience some return of positive economic growth. Several retail commercial developments have been constructed. Small industrial relocations and expansions have occurred as well. New residential development is planned and under construction in every direction on the edges of the City. The challenge for Gastonia is to encourage developments of high quality. Developments with high values are more fiscally sustainable and contribute more to the expansion of the tax base. Consistent with our land development plans, Gastonia encourages commercial, office, industrial and residential development arranged in a manner that is interconnected and sensitive to our environment. In particular, infill developments are the most desirable form of economic growth because the infrastructure is already in place, thereby reducing the cost to serve the new development. High value growth is important to the General Fund and also to our utility funds that need the growth of customers to broaden their base. ***It remains our objective to grow our tax and utility bases and to minimize utility rate increases.***

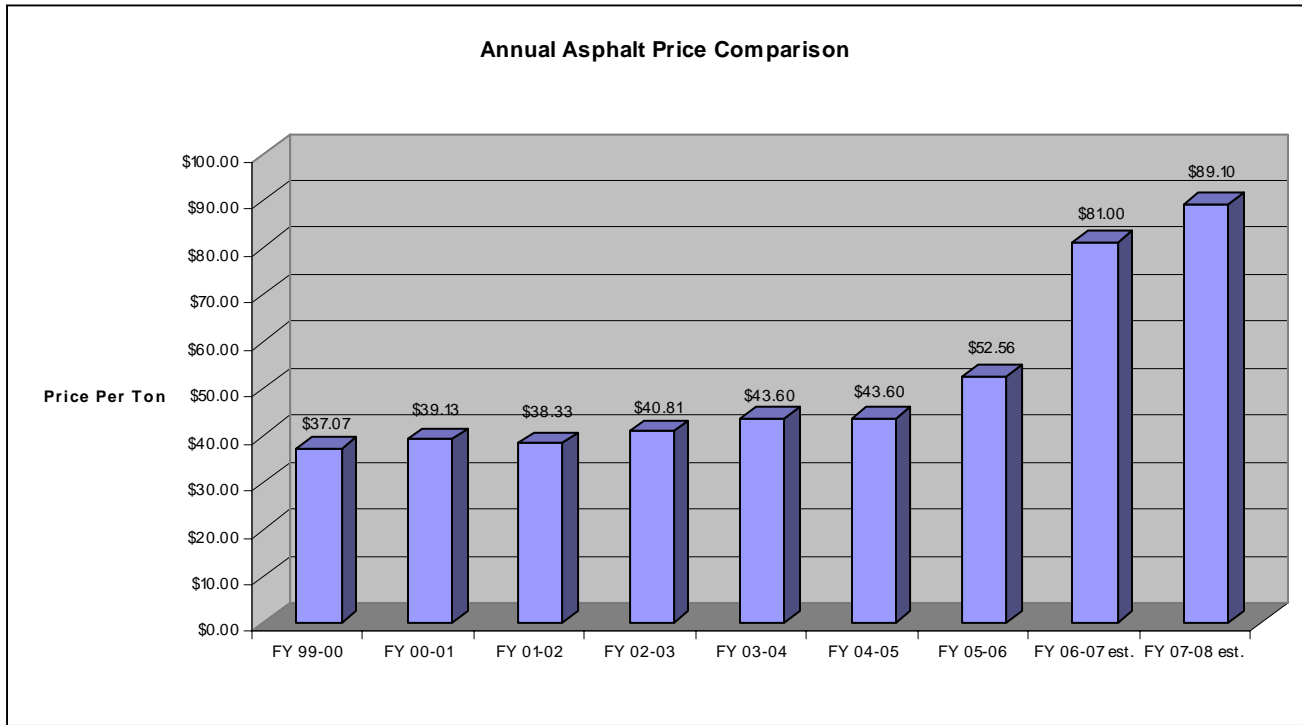
## Sales Tax

Four years ago, the Gaston County Commissioners changed the Sales Tax distribution formula. Through determined efforts of municipal officials and a willingness of County officials to compromise, an Inter-Local Agreement was signed that caps the municipal share of Sales Tax revenues at the 2004-2005 amount. All future growth in the Sales Tax revenues, historically averaging 4.5%, would be assigned to the County, until the economic growth equals 92% of the Ad Valorem method. The Inter-Local Agreement specifies that the County must divide their newly captured money – 50% to the public schools and 50% for water and sewer improvements. The revenue loss for budget year 2007-2008 is estimated to be \$490,000. Since Sales Tax revenues are used to pay for basic operating costs in the General Fund, the annual loss of Sales Tax revenue growth will continue to create a problem for the General Fund operating budget for the next several years.

## Infrastructure

The City of Gastonia is responsible for approximately 423 miles of roads, both local and State, with sidewalks and traffic control systems; 534 miles of water lines; 492 miles of sewer lines, 260 miles of storm water lines, and 443 miles of electrical distribution lines. Our municipal facilities are spread from Mountain Island Lake to the South Carolina state line. One of the most important responsibilities of our City is to provide and maintain the critical public infrastructures that we all take for granted. One such major commitment, made four years ago by the City, allocated \$15,000,000 for infrastructure maintenance to the City's Water Plant, Waste Water Treatment Plants and related utility lines. This year, the City allocated funds through a separate capital project budget for street resurfacing and parks and recreation (facility) repairs. Additional challenges related to maintaining other aspects of our vast infrastructure continue to be addressed through this budget. Maintenance of our infrastructure, while not glamorous, is critically important and commands significant resources to maintain. In order to capture new economic development opportunities we must also find ways to expand our utilities infrastructure, particularly to the Southeast and to the Northwest.

Fuel costs and other petroleum-based products maintain pressure on our current year's budget and impacts next year's budget as well. While current fuel prices have been somewhat less volatile over the past year, they still remain near all time high values with no major reductions anticipated. In the 2007-2008 Budget, we have forecasted expenditures to remain at these high levels. In just the past three years, the cost of fuel has increased over 60%. Petroleum-based products, such as asphalt, also have experienced sharp increases in price, as depicted by the following chart. These increases greatly impact our ability to resurface streets to meet needed maintenance demands.



### Residential Solid Waste Services

We have seen a significant increase in the cost of providing residential solid waste services for 2007-2008. For the past several years, the City has utilized a “transfer station” for disposal of residential waste. Upon notice of a 40% increase in tipping fees by the station operator, the City investigated alternative measures for maintaining this level of service in a more cost effective manner. Effective July 1, 2007, the City will begin disposing of residential waste at Gaston County’s landfill, and as a result saving approximately 10% over the current tipping fee. Through evaluation of multi-year pro formas for both options, it will be less expensive for the City to change disposal sites versus paying a substantial increase at the existing transfer station. Costs for this change has been programmed in the proposed budget, as well as an additional equipment operator to accommodate this change.

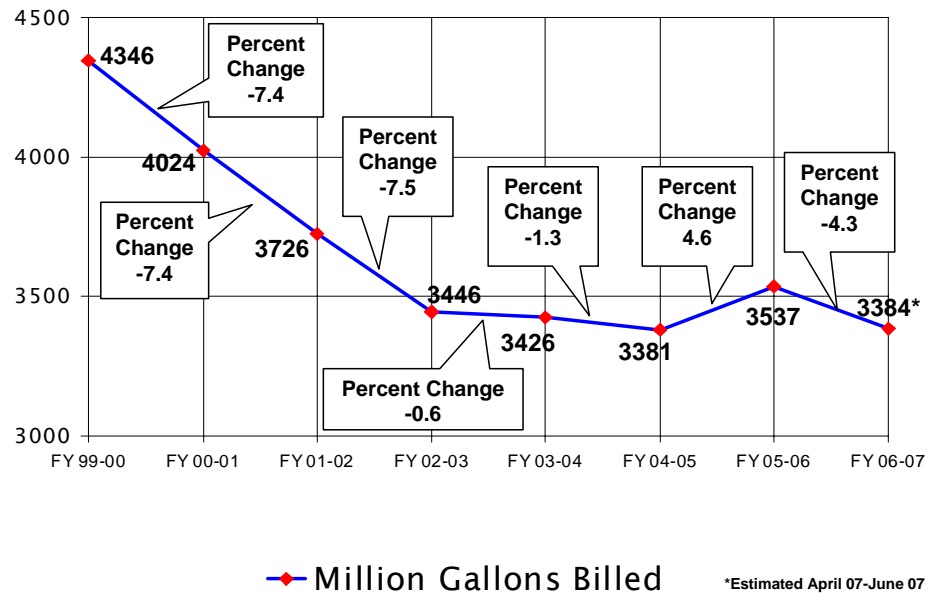
### Water and Sewer Fund: Operations and Capital Improvements

The City’s Water and Sewer Fund continues to be on a stable course at this time. While we remain faced with unique challenges such as the Duhart Force Main repairs, the basic fund remains stable compared to volatile earlier years when large losses in manufacturing usage severely impacted the financial structure of the system. The on-going growth in

usage of water and sewer sales remains in itself critical to continued rate stability. The following chart depicts the current situation in the Water and Sewer Fund.

*City of Gastonia  
Public Works & Utilities*

Annual Million Gallons Billed  
FY 99-00 thru FY 06-07



Although we have seen a recent decline in water and sewer sales, we also see positive signs of growth, and therefore, are not recommending a rate increase in this Fund. However, similar to the Electric Fund, economic trends of the water and Sewer Fund must continue to be closely monitored over the upcoming budget year to insure a growing and solid financial base. Based upon our latest projection of water and sewer sales for next year, a minimum 2% annual increase in overall system growth remains necessary to meet the traditional operation and capital funding level for the system. Federal and State mandates continue to increase operational expenditures, as well as, system maintenance and chemical

costs. An on-going best management performance study will continue to guide operational changes designed to control operating costs and address infrastructure needs.

New capital needs, both for maintenance and line extensions into growth areas, will challenge the system. As in the current fiscal year, debt service cost is continuing to decrease each year, providing opportunity to address these needs through new debt issuance. *It is anticipated that the next major capital bond program for water and sewer capital needs will be required in 2008-2009, or the following fiscal year at the latest.*

We have and will continue to partner financially with the private sector, other municipalities and the County to extend lines into our important growth areas. We will also seek to increase water and sewer usage through infill development because the infrastructure is already in place. Our priority for the Water and Sewer Fund will continue to be: **increasing our sales, infrastructure maintenance, system performance, and system expansion.**

### **Funding For Equipment**

Equipment (Rolling Stock) and Computer/Communications equipment are funded through an annual equipment loan, spread over a fifty-nine month period, thereby leveling the impact of equipment needs from year to year. In the 2007-2008 Budget, we are funding equipment replacement through this methodology for a total of \$2,280,787 for rolling stock, and \$998,542 for computer/communication equipment. We are proposing to replace 16 Police vehicles and other diverse equipment including two electric line trucks, a stormwater backhoe and a hybrid sedan for Engineering. An as on-going initiative to continually look at ways to reduce our fleet operating costs, several replacement vehicles have been downsized to more fuel efficient models. Additionally, the proposed budget includes a gas/electric hybrid vehicle to test under City use in a pilot program.

More than \$8 million of equipment was requested by City departments for replacement or addition; however, only that equipment recommended by the Equipment Manager/Fleet Services for replacement is included in this proposed budget. On a related note, it is strongly recommended that planning begin soon for a major software replacement initiative regarding the City's Application Software (Data Point). This software is over 30 years old, but still processes all of the City's financial, budget, payroll, human resources, and other accounting procedures. In order to adequately plan for this, it is recommended that \$200,000 to \$250,000 be reserved each of the next four or five fiscal years for this software's ultimate replacement.

## **BUDGET INITIATIVES:**

The Budget, within the scope of available revenues, addresses the goals identified by the Mayor and City Council this year as are outlined on Pages E-2 to E-5. We continue to face **numerous challenges and competing priorities, while still trying to maintain delivery of a diverse group of services that our customers expect.** The following are significant Mayor and City Council initiatives that drove the development of the budget this year.

### **Employee Compensation**

Employee compensation was the highest priority objective identified by the City Council for 2007-2008. Public Safety compensation initiatives were implemented in 2006-2007, along with adjustments for the Parks and Recreation Department staff. Additionally, all employees were upgraded to the pay range minimum. The 2007-2008 Budget focuses on measures to resolve salary compression, market issues, and leap-frogging in the remainder of the general workforce. Within the revenue forecasted, the FY 2007-2008 Budget includes compensation considerations for both the Public Safety Step Plans and the remaining workforce. Based upon principles utilized for implementing the Public Safety Step Plans, the amount required to fund the actual “Steps” for the upcoming fiscal year was considered a minimum increase for the remaining general workforce (3.55%). Using the three compensation principles identified for resolution as noted above, general employees were placed in order based upon years of service for similar positions, and Supervisors were placed a minimum of 5% above their highest paid subordinate. Department Heads, Assistant Department Heads, and some other higher level and/or unique positions are being evaluated based upon the actual job market. This procedure utilized a common methodology similar to that used to develop the Public Safety Step Plans, resulting in a compensation fix for the remainder of the workforce at a cost of almost half of that identified last fall for individual departmental “fixes”.

We feel it's important to complete this initiative in its entirety this upcoming fiscal year, if at all possible. Competing priorities, such as market pressures to adjust all pay ranges including the Public Safety Step Plans, as well as service pressures to expand the workforce due to municipal growth, will have to be addressed as early as 2008-2009. The proposed plan also should allow the City to restore a merit-based plan for non-step employees in subsequent years. As directed by City Council, new employee performance evaluation forms, focusing on priorities identified in previous discussions, are now being tested,

It is important to note that we recognized that not all compensation discrepancies could be 100% resolved; exceptions in a few areas had to be recognized or the “ultimate total fix” was neither financially feasible nor supportable. Additionally, we expect to need to make some adjustments during the year if and when unrecognized issues are discovered as we did with the Public Safety Step Plans. The FY 2007-2008 Budget also maintains the annual Christmas Bonus at 3% with a maximum of \$300 to each eligible employee. In addition, all employees are now benefiting from a 5% contribution by the

City to a 401 Savings Plan. Finally, the 2007-2008 Budget again provides funding for the Employee Education Reimbursement Program.

The 2007-2008 Budget includes an estimated 5.7% increase for health insurance. As proposed, the budget absorbs 100% of the increased cost to the overall health insurance plans for individual employees, retirees, and for dependent coverage and buy-up options. This is achieved by utilizing accumulated reserve funds within our self-funded health program. Life and Dental Insurance coverages have been re-bid for the upcoming fiscal year; more information will be available as the budget process moves forward.

### **Study the Tax Rate and Revaluation**

2008 is a revaluation year for property taxes through Gaston County. **The 2007-2008 fiscal year budget for the City of Gastonia includes a one-cent decrease in the property tax rate.** Although the estimate for property tax revenue received from the County Tax Office varies as we go through our budget process, the tax base growth projection for next fiscal year equates to increased revenues of approximately 9.5% compared to the 2006-2007 budget. This is primarily a result of the revaluation. The County Tax Office is currently calculating changes to the property tax numbers as a result of appealed property values.

The general reappraisal of real property for the City of Gastonia occurs once every four years. State law requires that units of local government, including public authorities, publish a revenue-neutral tax rate in the budget immediately following the completion of the general reappraisal of real property. The purpose of the revenue-neutral tax rate is to provide citizens with comparative information.

The Fiscal Year 2007-2008 operating budget follows the general reappraisal of real property for the City of Gastonia. The revenue-neutral tax rate, as defined by G.S. 159-11(e), is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue for the current fiscal year if no reappraisal had occurred. The rate is then adjusted by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal.

The reappraisal produced a tax base of \$4,933,789,573 for the City of Gastonia. The tax levy for the current fiscal year is \$22,940,450, and the growth factor since the last general reappraisal is 1.67%. Using the formula mandated by State law, the revenue-neutral tax rate for the City of Gastonia is 49.7 cents. The adopted property tax rate for Fiscal Year 2007-2008 is 53 cents, which represents a decrease from the property tax rate of 54 cents for Fiscal Year 2006-2007.

### **Maintaining the Fund Balance per Policy**

Over the past four years, the City has increased its Available Fund Balance in the General Fund from 4% to 11.7% (estimated March 2007). Through a disciplined approach to expenditures, Gastonia is now sufficiently over the 8% minimum Available Fund Balance recommended by the Local Government Commission. We continue to maintain our goal as defined in City's Reserve Policy that the Available Fund Balance should be between 12% and 15%. This year's budget plan continues the disciplined approach to maintaining the Fund Balance through capturing expenditure reductions through more efficient operating procedures.

The Fiscal Year 2007-2008 Budget neither reserves new revenues to further build the Available Fund Balance nor allocates the previous Available Fund Balance to cover expenditures for next year. The 2007-2008 Budget maintains our current Available Fund Balance in the General Fund. We anticipate that the Available Fund Balance may increase again when all revenues and expenditures are accounted for after the close of the 2006-2007 Budget Year. The Finance Department and our auditors will not know the exact amount we have added to the Available Fund Balance until September 2007. For the coming year, we would propose to tentatively allocate the estimated amount of Available Fund Balance above the current level for the Unfunded Project List. Therefore, the "one-time" fund balance revenues are not used to fund ongoing multi-year operating expenses. This year's budget plan continues the disciplined approach to maintaining the Fund Balance through capturing expenditure reductions through more efficient operating procedures.

### **Pursue Two-Thirds Bond Issue**

As previously discussed by the Mayor and City Council, a new Two-Thirds Bond Issue should be considered to continue to make progress on capital initiatives. Viable projects such as the Downtown Park, infrastructure improvements in the Highland / Northgate Community, the Linberger Park Master Plan, and others, are all investments in stimulating economic growth and increasing the quality of life in Gastonia.

### **Maintain Service Levels / Investigate Additional Code Enforcement Measures**

Throughout the 2007-2008 Budget process, we have tried to, at minimum, maintain current service levels; however, with other competing priorities, some ground may be lost in the upcoming year. Rising costs in basic supplies, chemicals, fuel, electrical wire, and other materials through inflation may not necessarily be reflected in most departmental budgets. In an effort to resolve employee compensation issues along with providing for a tax rate decrease, the departments as a whole have held controllable spending categories to current fiscal year levels or less.

Making advancements in our efforts on Code Enforcement is also a priority objective. Presented as a new initiative, we are adding one Code Enforcement Officer in 2007-2008 at a cost of approximately \$65,000 per year. This position can

help expedite minimum housing concerns across the City, and in addition, we are currently evaluating other areas of utilization, such as a Lights Out Pilot Program that could be accomplished under the same initiative.

### **Evaluate Street Maintenance and Improvement Projects**

From a low of \$149,000 five years ago, the City increased funds available for street maintenance needs this current fiscal year to \$726,000, utilizing programmed General Fund revenues as well as capital monies funded through a projected increase in Fund Balance. The Budget for FY 2007-2008 maintains the same total (\$471,000 operating and a proposed \$250,000 expenditure by appropriating projected Fund Balance). This initiative should continue to be a priority in subsequent fiscal years as well.

Although funding for any kind of road improvements has been very limited, the City has placed priority on traffic calming, matching grant opportunities, the U.S. 321 North corridor improvements and small-scale sidewalk and streetscape improvements. In order to have even a modest amount of new street, sidewalk and center city streetscape projects for coming years, new debt through a possible bond issue should also be considered for our transportation needs. Working with the State Department of Transportation, we have completed resurfacing of the next section of the Franklin Boulevard and the widening of Union Road (south of Robinson Road). In addition, the NCDOT should this fall complete construction of an interim measure to help alleviate congestion at the US 321 / I-85 Interchange. We should continue to press for State funding for the NC "Moving Ahead" projects, NC Enhancement Grant funding, the Garden Parkway, and as importantly, the overall (total) reconstruction of the I-85 / US 321 Interchange.

### **OPPORTUNITIES:**

Despite the challenges facing the City, the long-range future for Gastonia remains bright. We are located in one of the fastest growing and most affluent metropolitan areas in the United States. The region is home to the second largest financial center in the country. Gastonia is located only twenty-five minutes west of the center of the region. Interstate 85, the transportation link between Atlanta and Charlotte, bisects our City with eight interchanges. US Highway 321 links us to Hickory and Interstate 40, while the proposed Garden Parkway would further connect Gastonia to the Charlotte International Airport and Interstate 485.

We will need to make wise investments that capitalize on our location within the metropolitan region. Also, we will need to capitalize on our current strengths - an abundant water source at Mountain Island Lake, natural features such as Crowders Mountain State Park, the Schiele Museum, the quality of our neighborhoods, schools such as Highland School of Technology, the York-Chester Middle School International program, the Science Academy at Grier Middle School, park facilities from Lineberger Park to Martha Rivers Park, and the on-going connections of our greenway system.

Over the past year, we have initiated improvements at the Schiele Museum and have completed a new branding/marketing/communications initiative. Our new logo and theme, "Great Place, Great People, Great Promise" provides a fresh new momentum to recruiting residential, commercial, and industrial growth to experience the quality of life in Gastonia. To insure our long-term commitment to this goal, the City has filled the position of Marketing and Communications Director. This has been, in our opinion, an extremely important step in updating our image, promoting our City, and further announcing Gastonia's quality of life opportunities. Funding for this initiative will continue to be through Occupancy Tax revenues. To further enhance our ability to attract quality new investment, we must continue to create a positive private investment climate. Streamlining our regulatory process while delivering excellent citizen services will remain our goal through the coming year and for years to come.

### **Creating and Maintaining a Fiscally Sustainable Organization for the Future**

In preparing this budget and during City Council work sessions this year, the staff has focused beyond this year's budget developing and refining pro formas that carry forward revenue and expenditure trends through the next five years. The pro formas for the Water and Sewer Fund and the Electric Fund require on-going growth in sales. The Electric Fund also requires a continuing evaluation (and possible implementation as applicable) of each year's net wholesale rate increase to maintain financial stability. For the General Fund, the loss of Sales Tax revenue growth, resulting from the action of Gaston County, has created an on-going structural deficit that can be addressed in the long term through economic base growth. The health of the General Fund further depends upon tax base growth, which is tied closely to the economic condition of our community. Over 65% of the General Fund expenditures go to pay for salaries and fringe benefits. Any meaningful changes to General Fund expenditures must continue to include human resource costs.

As in the past few years, each City department has been asked to perform (and in a lot of cases, expand) its services with the same or smaller permanent staffing and limited increases in expenditures. This effort has been the singularly most important step taken by the City to control its financial position. The current year budget and the proposed Budget for 2007-2008 continue to stabilize the size of our workforce while maintaining investment to both infrastructure and to our employees. Even though the City's financial situation has improved, we must be always vigilant for ways to reduce operating costs. Some operating costs will increase no matter what we do, such as with the on-going rise in fuel costs, chemical costs, and most recently, copper and aluminum wire in our Electric Department. In some cases, services can be reduced, as the City did when we moved from twice a week rear-yard garbage service to once-a-week rollout service. There may be some services that simply cannot or should not be reduced at all. In those cases, we will still carefully examine their operating procedures to try to produce savings. Expenditure reductions can be accomplished by using the following tools: ***process simplification, technology and automation, program reduction, program elimination, consolidation, privatization, and innovation.***

Our organization and regulations will continue to be evaluated and better streamlined to allow decision-making easier and more efficient. The structure of our organization should be as flat as practical. Fewer levels of organization can help make us more efficient in many cases. We will continue our benchmarking efforts with the FY 2007-2008 Budget through the North Carolina School of Government's Performance Management Program. Gastonia works with Hickory, Winston Salem, Wilson, Salisbury, Cary, Charlotte, High Point, Asheville, Raleigh, Wilmington, and others, in benchmarking and examining best practices for delivering services. We will also utilize offers from local private sector companies, management firms, International City Managers Association (ICMA) resources, as well as information from professional organizations, such as the American Public Works Association, to assist in studying each of these services.

Projections of revenue growth for the near future have increased, allowing more room for some expenditures. New and expanded expenditures are carefully evaluated and must be viewed as investments. Questions should be asked. If we make this expenditure, what kind of investment return will the City receive? It may be tangible, such as a load management generator that could pay for itself in a year and a half, or intangible, such as a new greenway connection that will enhance livability. We must view each new expenditure as one that may allow us to reduce an expenditure elsewhere within the City. A request to spend funds must always be viewed within the larger context of our budget. What is the choice we are making? Are we sure that this is the best utilization of our very scarce resources? We must also ask hard questions about the effectiveness of existing expenditures, be willing to modify our service levels and look for innovative ways to deliver services in the most efficient and effective manner.

Regularly, the City reviews user fees so that the actual costs can be tied to services delivered. Fees are adjusted to better reflect actual costs and to be consistent with City objectives and with the market. Normally, fees increase over time but there are occasions that the City has reduced fees based upon lower actual service costs or to encourage more use of a service. While only one or two specific fee increases are proposed for the upcoming fiscal year, we recommend that the Mayor and City Council annually evaluate other municipal fees for applicability and recoupment as compared to actual cost recovery.

A significant portion of the City's growth is occurring at the outer edges of Gastonia, requiring the extension of utility services, roads and other municipal services from sanitation and meter reading to police and fire. Evidence across North Carolina is that annexation of land around a city is good in the long run, and the healthiest cities are those that annex the strategic surrounding areas. We must be careful to manage the growth and the delivery of services so that the revenues balance expenditures. Typically, municipal services are stretched for a short period of time before comfortable service levels are achieved. As we move forward in subsequent fiscal years, the City will continue to be faced with increasing pressures to expand the work force to provide delivery of these services, and to meet our customers' needs and expectations within the framework of local government.

In closing, there were many operating, equipment, and capital projects that were worthy of implementation, but limited funding has resulted in their consideration for subsequent years. Issuance of approximately \$2,900,000 of Two-Thirds General Obligation Bonds in the coming year provides one option to provide additional resources for capital needs. Additionally, the anticipated sale of some City properties might also provide funding for some of these expenditures. For the new fiscal year, our efforts will focus on implementing actions that support the 2008 City Council/Mayor Goals to build a City with on-going economic development and livability. There will never be a year when we have finished our efforts. We will continue to move toward a system of constant quality improvement that always examines what we are doing and looks for ways to do it better and more efficiently.

Respectfully submitted,

*Larry Wood and J. Philip Bombardier*

Larry Wood and J. Philip Bombardier,  
Interim City Co-Managers

## **BUDGET SCHEDULE - FISCAL YEAR 2007-2008**

<b>January 16, 2007</b>	<b>Preliminary revenue and expenditure budget worksheets and information sent to the Departments.</b>
<b>February 1, 2007</b>	<b>Council worksession to establish goals and objectives.</b>
<b>February 2, 2007</b>	<b>Preliminary revenue projections due.</b>
<b>February 23, 2007</b>	<b>Expenditure worksheets, new program initiatives and capital project worksheets due. Comments can be entered once expenditure worksheets have been turned in to the Budget Office. Initial insurance and equipment requests due to the Budget Office.</b>
<b>March 2, 2007</b>	<b>All comments should be entered. The Departments can make no further changes unless approved by the Budget Office.</b>
<b>March 7, 2007</b>	<b>Mission Statements/Goals &amp; Objectives/Accomplishments due. Analysis and reports by the Budget Office.</b>
<b>March 12-March 16, 2007</b>	<b>Review of departmental requests by City Manager, Assistant City Managers, Department Heads and Budget Department staff. Reviews will be scheduled daily. Department Heads should try to leave their schedules open for this week.</b>
<b>March 19, 2007</b>	<b>Council worksession: 2/3rds General Obligation Bond Issue.</b>
<b>April 16, 2007</b>	<b>Council worksession: Budget Outlook.</b>
<b>April 18, 2007</b>	<b>Budget should be finalized and balanced based on recommendations of the City Manager.</b>
<b>April 26, 2007</b>	<b>Proposed budget should be printed and notice of public hearing completed.</b>
<b>April 27, 2007</b>	<b>Budget presented to City Council and press.</b>
<b>May 1, 2007</b>	<b>Public Hearing on the Budget at the Council Meeting</b>
<b>May 10 &amp; 21, 2007</b>	<b>City Council budget work sessions to be held Council Conference Room, City Hall.</b>
<b>June 5, 2007</b>	<b>Adoption of the Fiscal Year 2007-2008 budget.</b>

8/30/2007

# Explanation of the Budget Presentation

## FUND LAYOUT

This budget is designed to present revenues and expenditures by Fund and expenditure detail by Department. The format of this budget is basically the same as last year. It begins with a section laid out by Fund which includes revenue and expenditure summaries. Each Fund type has a locator tab with the Fund type listed on the tab.

There are six Fund types in the Fiscal Year 2008 budget. They are as listed on the right side of the page. An explanation of each Fund type is included in the glossary located in the Appendices section of this budget.

The layout of the expenditure detail information is graphically explained on the following pages.

**General Fund #10**  
Marketing/Communications Fund #17

**Enterprise Funds**  
Water & Sewer Fund #30  
W/S Capital Exp & Dev #42  
W/S Renewal & Replace #51  
Electric Fund #31  
Power Agency Settlement #37  
Electric Renewal & Replace #52  
Transit Fund #32  
Golf Fund #33  
Stormwater Fund #36

**Capital Projects Funds**  
Airport Project Fund #44  
Water & Sewer Project Fund #62  
Street Project Fund #63  
Insurance Reserve Fund #69  
Golf Capital Projects Fund #77  
Electric Capital Projects Fund #78  
Stormwater Project Fund #79  
General Fund Capital Project Fund #83

**Internal Service Funds**  
Health Self-Insurance Fund #68  
Veh/Equip Replacement Fund #80  
Tech Services Internal Svc Fund #81

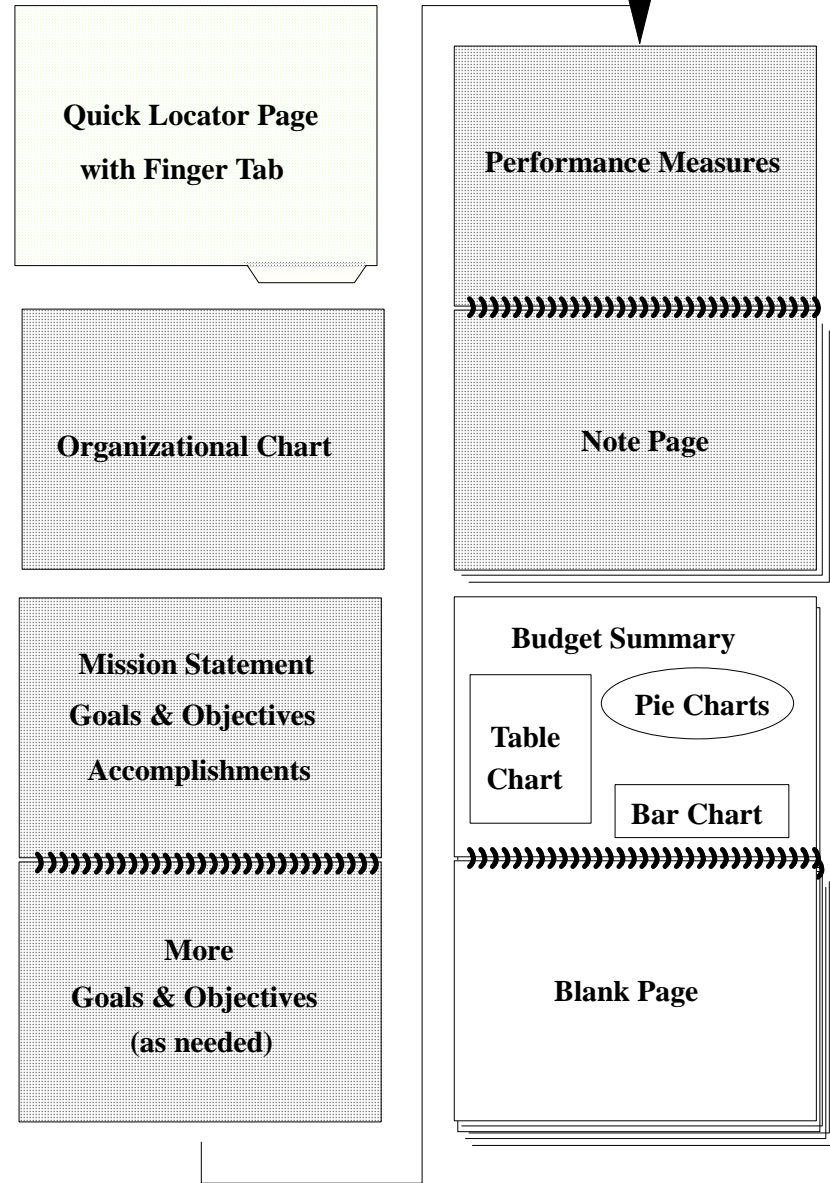
**Special Revenue Funds**  
Technology Support Fund #19  
Community Development Fund #21  
CD/108-Downtown Revit Fund #22  
CD/Rehabilitation Fund #23  
CD/Home Investment Fund #24  
CD/108 Loan/Neighborhood Fund #25  
CD/108-Economic Devel Fund #26  
CD/Economic Devel Fund #27  
Occupancy Tax Fund #28  
Uptown Municipal Services Fund #29

**Trust & Agency Funds**  
Federal Asset Forfeiture #73  
State Asset Forfeiture #74

# EXPENDITURE DETAIL LAYOUT

The expenditure detail section includes the information as shown in the page layout on the right side of this page. The detail begins with the Mayor/Council budget and proceeds to the City Manager and those departments which are directly under his perview. Thereafter, it is organized by Assistant City Manager with the departments following alphabetically.

Following the organizational chart are the department's Mission Statement, Fiscal Year 2008 Objectives and Fiscal Year 2007 Accomplishments. The next page presents an overview of the department's budget in the form of a summary. (Please see the next page in the introduction for a more detailed explanation of the overview/summary section.)



The budget summary page is in chart form. It allows the reader to get a "quick picture" of the department's proposal. The chart on the left side of the page is a table which summarizes expenditures by division (or function) within the categories as generally used in the City's monthly financial reports. These categories are as follows:

- Salaries
- Fringe Benefits
- Equipment
- Other Capital Outlay
- Purchases for Resale
- Debt Service
- Other Operating Expenditures

The divisions are listed top to bottom in the same sequence as the detail following the chart. The department codes included in each division (or function) subtotal are listed in the bar beside the division (or function) name. These codes (XX-YYY) represent the fund (XX) and department (YYY) as reported in the upper left corner of the detail sheets which follow the summary page. In the case of multi-division/function departments, totals are provided at the bottom of the chart. Total expenditures are compared to total revenues and utility reimbursements. Utility reimbursements are overhead costs charged to the Enterprise Funds for services provided.

The right side of the chart page is basically a visual illustration of the text and numbers which appeared in the table discussed above. Just below the department name is the department's total expenditures as compared to the total operating budget and reported as a percentage figure. Next is a pie chart showing the percentage of the budget allocated to each division (or function). A second pie chart portrays the allocations by the expenditure categories. The horizontal bar chart at the bottom right compares expenditures, revenues and utilities reimbursements/service charges. This is a graphic illustration of the information on the bottom line of the table.

