

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 2017 budget, and an Explanation of the Budget Presentation, which details the layout of the balance of this document.

Presented to the City Council
April 22, 2016

Adopted in Final Form by the City Council
June 7, 2016





City of Gastonia

A Commitment to Excellence
August 20, 2016

CITY MANAGER'S BUDGET MESSAGE

Mayor and City Council:

Enclosed is Gastonia's 2016-2017 Adopted Annual Budget. I want to thank all our employees for their hard work and dedication in preparing this Budget. The Annual Budget is our financial plan that will guide the City through the coming fiscal year. Under the direction of the Mayor and City Council, the City staff and I will implement and manage the new budget in a manner that takes advantage of opportunities and meets challenges as they occur during the year. The Budget addresses, within the scope of available revenues, the goals and many of the action steps previously identified by the City Council and Mayor.

Supporting economic development that produces jobs and capital investment continues to be the City's focus, as we make decisions on where and when to spend our limited resources. Basic municipal services such as water, sewer, electricity, public safety, roads, and solid waste must be in place to support economic development throughout the City. Parks, recreation, sidewalks, greenways and museum amenities also support the goal of city-wide quality economic development within Gastonia.

Budget Principles and Objectives

The focus for this Budget has been centered on three guiding principles: **Financial Responsibility**, **Customer Service**, and **Economic Development**.

Financial Responsibility means that the budget includes programs and expenditures that are supported by adequate and predictable revenues. Also, financial responsibility means that capital projects, equipment, and human resource costs are budgeted each year so that the City is not faced with a deterioration that would require a crisis in future years. This budget has focused on a three-year operating budget horizon.

Customer Service means that the budget focuses on the direct delivery of services to our customers. Expenditures that are directed to serving our citizens deserve to be emphasized. Our customers include our taxpayers, utility customers, and others that receive a service from the City. Our customer base also includes people simply looking to live or start a business venture in Gastonia.

Economic Development means that the City should invest in specific ways to grow Gastonia's economic base. Expenditures in the budget that are targeted to encourage private economic investment are important because they stimulate additional jobs and commerce in our City. Public sector expenditures and carefully designed revenues can grow the tax base, so we will not have to increase the tax rate.

Budget Objectives:

1. Provide Adequate Funding for the Basic Operations of the City
2. Provide Adequate Funding for City facilities and Equipment
3. Provide Excellent Customer Service Through Effective and Efficient Programs and Projects
4. Maintain a Three-Year Financial Plan
5. Maintain Adequate Fund Balances
6. Provide Adequate Compensation for Employees
7. Stabilize the City's Health Insurance Fund
8. Maintain the City's Existing Infrastructure
9. Expand the City's Infrastructure to Promote Economic Development
10. Fund Capital Projects that Enhance the City
11. Make Improvements to Neighborhoods and Commercial Areas Throughout the City as Funds are Available
12. Look for Opportunities to Reduce the Cost of Municipal Operations
13. Avoid a Property Tax Increase
14. Limit Fee Increases to Amounts Necessary to Provide Acceptable City Services
15. Look for Opportunities to Grow our Local Economy

General Fund

The Adopted Budget for Fiscal Year 2016-17 does not include a change to the City's current tax rate. Property Tax revenue resulting from tax base growth is projected to increase again this year. The 2015 County Revaluation of real property resulted in a slight decrease in value. However, revenues from motor vehicles have increased significantly, so the net revenues from all property tax categories are projected to increase by 2.1% over last year's budget. The tax rate remains the same at \$0.53 per hundred dollars of value. We will continue to closely monitor the general economic conditions as well as any changes by State government to the City's revenues.

The General Fund has had revenue and expenditure challenges which have been graphically depicted by our "thermometers". Fortunately, the City has been able to balance each year with additional revenue, expenditure reductions and the careful use of excess fund balance. For the future, the General Fund will continue to be the area where expenditures and revenues will be pressured. For this reason the staff will continue to focus on the General Fund and manage to a three-year horizon. In upcoming fiscal years, debt service payments begin to fall which will help, but as salary increases are embedded, the pressure on the General Fund will increase.

The Fiscal Year 2016-17 Budget reduces the subsidy to the Solid Waste Fund by \$659,580 annually. These General Fund dollars have not been programmed to any project or program as directed by City Council at our Work Session. They are currently reserved for future appropriation. These funds can be used for capital improvement projects such as the Franklin Urban Sports and Entertainment Complex, additional funds for local street resurfacing or for other needs.

Electric Fund

No general retail electric rate increase is planned in the 2016-17 Budget. ElectriCities Power Agency One implemented a debt restructuring plan last year which is projected to lower our wholesale costs next year and stabilize it for the next five years. It is important to expand economic development into the areas served by City's electric system. The City will continue to advocate for rate equity in Power Agency One according to the approved schedule. Some adjustment and consolidation of our 21 rate classifications may be necessary to provide equity and consistency with the whole rate structure. Funds will be available for redevelopment as well as for new growth corridors. The FY 2016-17 Budget maintains the same amount of transfers to the General Fund as in the current budget year. Gastonia needs to maintain the level of transfers established by the Local Government Commission as acceptable: 3% of Gross Electric Fixed Asset. The 2016-17 Budget provides funding for maintenance and capital projects (including the new substation planned for the Gastonia Technology Park). Expenditures in the Electric Fund are organized into priority areas: ***safety & maintenance, peak shaving & generation, load growth initiatives, and use of innovative ideas and technology.***

Water and Sewer Fund

A 2% Water and Sewer rate increase to be implemented effective January 1, 2017. There has not been an increase in our water or sewer rates for the past four budget years. However, as we have discussed in our previous meetings, water and sewer rates will begin to have modest increases periodically to help support the utility's long term financial health as major capital projects move forward. The focus of the Water and Sewer Fund continues to be completing the Water Plant renovation currently underway (\$65,000,000), meeting demands for economic development extensions, rehabilitation of older water and sewer lines and continuing to develop cooperative agreements with surrounding municipal systems and the County. The Water Plant project is scheduled to be completed in 2019. The City was able to secure two no-interest loans from the North Carolina Department of Natural Resources totaling \$35,000,000. The no-interest loans are expected to save the City approximately \$19,000,000 over the life of the twenty-year loan. In addition, a major step in utility regionalization was completed in 2016 when the Stanley Sewer Outfall was completed and fully connected to Gastonia's (Two Rivers Utility) treatment facility at Long Creek.

We have and will continue to partner financially with the State, the private sector, other municipalities and the County to extend lines into our important growth areas. This is particularly important now as the City and County see renewed development pressure following the last recession. New developments planned between the Union Road and New Hope Road corridors are underway and our water and sewer system will need to accommodate this growth. 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 be: ***safety, increasing our sales, infrastructure maintenance, system performance, system expansion in those areas that provide a viable return on our investment, and use of innovative ideas and technology.***

Solid Waste Fund

The City's Solid Waste fund created a few years ago receives revenues directly from solid waste fees and from transfers from the General Fund. The City Council's direction to move the solid waste fees from \$4.00 a month to \$6.50 per month will reduce the General Fund subsidy from \$ 3,476,769 budgeted in FY15/16 to \$ 2,817,189 budgeted in FY16/17, an estimated reduction of \$659,580 annually. A new contract for recycling services will be completed this year. It should be noted that the market for recycled materials continues to struggle. More new equipment and stable landfill tipping fees help to maintain the effective operations in this Fund.

Stormwater Fund

The changes to the City's Stormwater Fund, approved by City Council in November, 2013, were fully implemented in the FY 2014-15 Budget. The new revenues have been directed to stormwater improvement projects throughout the City. Currently the Stormwater Fund pays for a wide variety of maintenance and capital improvement projects. The priority for stormwater projects is concentrated on projects within public rights-of-way that the City has an obligation to maintain and repair. Improvements proposed for stormwater problems (outside of the rights-of-ways) are given priorities by the Stormwater Citizen's Advisory Committee. Projects are rated according to a three-tier priority system. In addition, the City will be working on the Durharts Creek Conservation Area – Short and Long Term Land Management Plan, approved by City Council in November 2015.

Employee Compensation and Benefits

The total number of budgeted full time employees for the upcoming fiscal year is 876. The size of our workforce has grown slightly following the cutbacks initiated during the recession. Although changes in the State annexation laws and the delay of the Garden Parkway has slowed the City's expected growth significantly, new residential subdivisions are under construction placing increased demands on City services. FY 2016-2017 Budget includes a 3% salary increase (effective March 19, 2016) for all full time and part time employees. The on-going market review of salaries should be finished by November 2016. The Budget also maintains the annual \$350 Christmas Bonus for eligible employees. The bonus will be given to employees the last week in November. The City will continue the 401(k) program for all full time employees at the 5% level. The 2016-17 Budget provides continued funding for the Employee Education Reimbursement Program (\$500 maximum per employee).

Like other public and private organizations, controlling health care costs remains a budgetary challenge and will be so for the foreseeable future. The FY 2016-2017 Budget increase for the City's Health Insurance Fund is \$758,000 (12.5%) higher as compared to the current year. The Adopted Budget also provides funding for a \$750 payment to the Health Savings Account for all employees covered by the City's Health Insurance Program. Employees not eligible for a federally designated HSA would get the same dollar amount. Wellness initiatives and incentives that positively impact employee health and claims will be implemented during FY16-17 Budget Year. We plan to use employee wellness committees and focus groups to improve our Health Insurance Program. The staff will continue to monitor claims filed though the year and work closely with the City Council Insurance Committee.

Infrastructure

The City of Gastonia is responsible for approximately 440 miles of paved streets (340 miles of local streets) with sidewalks and traffic control systems, 592 miles of water lines, 554 miles of sewer lines, 250 miles of storm drains, and 473 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 and most cities is to provide and maintain the critical public infrastructures that we all take for granted. The City maintains the water plant, overhead storage tanks, stormwater systems, waste water treatment plants, parks and rights-of-ways. Additional challenges related to maintaining other aspects of our vast infrastructure will be addressed through this budget and future budgets. Maintenance of our infrastructure, such as roads, water, sewer, electric, and other City facilities, while not glamorous, is critically important and commands significant resources. In order to capture new economic development opportunities, we must always maintain and expand when necessary, our diverse infrastructure.

Funding For Equipment

Vehicles, large equipment, and computer/communications hardware are funded through an annual equipment loan. The loan for the equipment is spread over a fifty-nine month period, thereby leveling the impact of equipment needs from year to year. More than \$6.5 million of vehicle equipment was requested by City departments for replacement or additional equipment. In the FY 2016-2017 Budget, we are funding equipment replacement for a total of \$3,184,045. This includes, \$411,800 for computer/communication equipment is also included for replacement and upgrade. We are proposing to replace vehicles, including 14 Police vehicles, a new and upgraded Fire Truck (Quint) for \$774,506 and \$245,012 for Solid Waste vehicles and equipment. Requests by departments for replacement equipment that were approved by the Equipment Manager/Garage are included in the budget.

Transportation

The two bond projects approved by the voters in 2010 should be completed in FY16/17: Titman Road - Fall 2016 and Myrtle School Road - Spring 2017. The contract for the South New Hope widening project will be let by the State in the next few months and the Union Road project is currently under design. The FY16/17 Budget provides \$1,715,676 for local City streets. Funding comes from Powell Bill funds— \$165,675, new Auto Tag Fee revenues \$800,000 and \$750,000 from the General Fund Balance. Traffic calming devices such as speed humps, continue to be funded in the 2016-17 Budget to address neighborhood safety issues. The State Highway Project upgrading the US 321/I-85 Interchange should move forward to construction in the coming year. During the 2016-17 Fiscal Year, we will receive the results of the Comprehensive Transit Study. Funding scheduled for the Gastonia Airport this year includes \$166,667 for improvement to the fueling area

and tarmac (90% State and Federal funding). Ongoing communications with NCDOT will continue to identify and fund pedestrian improvements, medians and lane realignments along the Franklin Boulevard Corridor. The City remains concerned that the proposed widening project for I-85 will create a bottleneck in the middle of the City at the US 321 Interchange. The widening should extend at least to the US 29/74 Interchange. Finally, the City should strongly support the Catawba Crossings Project (bridge crossings over the South Fork and Catawba Rivers) It is a critically important transportation project, connecting South New Hope Road to I-485.

Maintaining the Fund Balance

Gastonia is well over the 8% minimum Available Fund Balance for the General Fund as recommended by the Local Government Commission. In the General Fund, we are currently at 35% of annual expenditures. This is well above our minimum, as defined in the City's Reserve Policy: that the Available Fund Balance should be between 12% and 15% as a minimum. Beginning in the this fiscal year and over the next three fiscal years, the General Fund Balance will be drawn down carefully to an amount just over 15%. A total of \$2,019,036 of General Fund Balance (\$750,000 again for street resurfacing) is appropriated this year to balance the operating and capital budgets. It should be noted that although the City uses fund balance appropriations to balance each year, these funds are not actually spent, since revenues have expanded and expenditure have been contained.

The 2016-2017 Budget will increase fund balances for both the Electric and Water & Sewer Funds so that funds will be available for capital projects and rate stabilization. The Hotel Occupancy Tax Fund revenues currently cover the Conference Center debt service and operating deficit. The new management company has significantly reduced the projected operating deficits for this year and next. However, beginning in Fiscal Year 2020, the annual debt service rises in two years from \$283,862 to \$751,006.

We will not know the precise amount of fund balances for each fund until September, 2016, after the close of the 2015-16 Budget Year. Accounting practices will allocate the last three months of sales tax and reimbursements received during the summer back to the 2016-2017 Budget Year.

Economic Development

Gastonia has experienced some return of positive economic growth. Several new retail commercial developments are under construction throughout the City. The Gastonia Technology Park is almost at full capacity with new industrial development. Additional industrial sites will need to be identified to sustain further industrial growth. The County and the City are perusing potential properties for a new technology park. Previously approved residential developments, primarily in the southeastern portion of the City, that were halted during the 2008 Recession, have restarted. 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 in each sector of the City. 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. The City staff, working with Gaston EDC and ElectriCities, have identified key parcels throughout Gastonia that have the potential for development or redevelopment. The Chamber of Commerce and the Greater Gaston Development Corporation will also be important to achieving our economic goals. In the coming year, the City may be more pro-active and create a new position to initiate economic 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 revenue base. ***It is our objective to grow our tax and utility bases and not our rates.***

Gastonia's Center City area has been identified as being critical to our economic development and to our image. However, significant areas in the northern and western portions of the City have still not experienced the kind of economic growth that is otherwise occurring throughout the region. Specifically, the City will focus on the West Franklin corridor and the surrounding neighborhoods. The Loray Neighborhood will receive continued focus so that the \$40 million redevelopment effort underway at the Mill and the new Optimist Park on Vance Street can be leveraged and the surrounding community revitalized. The possibility of a Technology Incubator at Loray Mill is a strong possibility in the coming year. The City Council authorized a Market and Financial Feasibility Study for the potential Franklin Urban Sports and Entertainment (FUSE) Economic Development District. Major decisions regarding this potential economic development initiative will likely be made this year.

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. Our 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. Our location is excellent. 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, our City parks, the Conference Center, the quality of our neighborhoods and our schools. To further enhance our ability to attract quality new investment, we must create a positive private investment climate. Streamlining our regulatory process while delivering excellent citizen services will be our challenge every year.

Creating and Maintaining a Fiscally Sustainable Organization for the Future

In preparing this Budget and during City Council work sessions earlier this year, the staff looked beyond this year's Budget to identify revenue and expenditure trends focused on the next three years. On the revenue side, the General Fund depends upon tax base growth, which is tied so closely to the economic condition of our community. Regarding future expenditures, over 58% of the General Fund consists of salary and fringe benefits. Therefore, most meaningful changes to General Fund expenditures in the future will have human resource implications.

We must always be vigilant for ways to reduce operating costs. Some operating costs will increase no matter what we do, such as with the recent rise in fuel costs. In some cases services can be reduced or even eliminated. 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 produce savings. The nature of these changes will be developed cooperatively with each City department and the Budget Office of the Financial Services Department. Expenditure reductions can be accomplished by using the following tools when appropriate: ***process simplification, technology and automation, program reduction, program elimination, consolidation, privatization, and innovation.***

Our organization and regulations should be streamlined to allow decision-making easier and more efficient. The structure of our organization should be as flat as we can make it. Fewer levels of organization will make us more efficient. We will search for best practices for delivering services by examining other jurisdictions and benchmarking our efforts with theirs.

New and expanded expenditures are carefully evaluated and must be viewed as an investment. 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 community policing effort that addresses neighborhood crime. We must view each new expenditure as one that may cause 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 not representative of true costs should be evaluated and adjusted to reflect actual costs. Fees should be consistent with City objectives and within the market rates for similar services. 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. As in previous years, the staff will review fees and make recommendations, if warranted, to the Mayor and City Council for their consideration.

Challenges Ahead

In closing, there were many worthy operating and capital projects that were considered for this budget, but limited funding means they must be considered in subsequent years. Employee related costs will continue to be the most significant challenge to fund each year. As pay increases are implemented and embedded into our budget, the new total becomes the floor for the following year. Growing our revenues through economic development will be our way to provide the services expected for our City.

For the new fiscal year, our efforts will focus on implementing actions that support the Mayor and City Council goals to build a City with on-going economic development and livability. 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.

Respectfully submitted,

Edward C. Munn

Edward C. Munn
City Manager

BUDGET SCHEDULE - FISCAL YEAR 2016-2017

January 8, 2016	Initial equipment requests due to the Budget Office.
January 15, 2016	Preliminary revenue and expenditure budget worksheets and information distributed to Departments.
January 23, 2016	Strategic Planning Meeting.
February 12, 2016	Expenditure and revenue worksheets, capital project worksheets and new program initiative requests are due. All departmental requests (expenditures & revenues) along with comments justifying all requests should be entered.
February 16, 2016	The Departments can make no further changes unless approved by the Budget Office.
February 26, 2016	Mission Statements/Goals & Objectives/Accomplishments due. Analysis and reports prepared by the Budget Office.
March 7-March 15, 2016	Review of departmental requests by City Manager, Assistant City Managers, Department Heads and Budget Office staff. Reviews will be scheduled daily. Department Heads should try to leave their schedules open for these two weeks.
March 29, 2016	Council work session: Budget Outlook.
April 8, 2016	Budget should be finalized and balanced based on recommendations of the City Manager.
April 21, 2016	Proposed budget should be printed and notice of public hearing completed.
April 28, 2016	Budget presented to City Council and press.
May 3, 2016	Public Hearing on the Budget and Budget discussion at the Council Meeting.
May 16 & 19, 2016	City Council budget work session.
June 7, 2016	Adoption of the Fiscal Year 2016-2017 budget.

4/22/2016

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 revenues 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 2017 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 and in the Accounting System and Budgetary Control description in the Financial Summary section.

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

General Government Funds (Governmental Funds)

General Fund #110
Webb Theater Project #113
Conference Center Operations #114
Solid Waste Disposal Tax Fund #115
Martha Rivers Oper. Playground #118
Technology Support Fund #119
Capital Reserve – Insurance #169
Federal Asset Forfeiture #173
State Asset Forfeiture #174
Local Law Enforcement Block Grant #176

Enterprise Funds (Proprietary Funds)

Water & Sewer Fund #330
Water & Sewer Stimulus Project Fund #312
W/S Capital Exp & Dev #342
W/S Renewal & Replace #351
Electric Fund #331
Power Agency Settlement #337
Electric Renewal & Replace #352
Transit Fund #332
Solid Waste Fund #335
Stormwater Fund #336

Capital Projects Funds (Governmental Funds)

Airport Project Fund #244
Water & Sewer Project Fund #462
Water & Sewer Expansion Fee Fund #460
Electric Capital Project Fund #478
Stormwater Project Fund #479
Street Capital Project Fund #263
General Fund Capital Project Fund #283

Internal Service Funds (Proprietary Funds)

Health Self-Insurance Fund #868
Dental Self-Insurance Fund #870
Veh/Equip Replacement Fund #880
Tech Services Internal Service Fund #881

Special Revenue Funds (Governmental Funds)

General Fund Stimulus Grants #611
Community Development Fund #621
CD/108-Downtown Revit Fund #622
CD/Home Investment Fund #624
Occupancy Tax Fund #628
Downtown Municipal Services Fund #629
Infrastructure Rehab Fund #687

Trust & Agency Funds (Governmental Funds)

Police Memorial Trust #775

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 through the City Departments.

Following the organizational chart are the Department Summary, Budget Highlights, Goals and Objectives. 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 remaining pages are line item details for each area within the department.



