

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 2016 budget, and an Explanation of the Budget Presentation, which details the layout of the balance of this document.

Presented to the City Council
April 24, 2015

Adopted in Final Form by the City Council
June 2, 2015





City of Gastonia

A Commitment to Excellence
August 1, 2015

CITY MANAGER'S BUDGET MESSAGE

Mayor and City Council:

Enclosed is Gastonia's 2015-2016 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, and are further outlined in the Mayor/Council section of this budget.

Supporting economic development that produces jobs and capital investment continues to be the City's focus, as we make decisions on where to spend our limited resources. Basic municipal services such as water, sewer, electricity, roads, solid waste, and public safety 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 Excellent Customer Service Through Effective and Efficient Programs and Projects
3. Maintain a Three-Year Financial Plan
4. Maintain Appropriate Fund Balances
5. Provide Adequate Compensation for Employees
6. Stabilize the City's Health Insurance Fund
7. Make Improvements to Neighborhoods and Commercial Areas Throughout the City
8. Provide Adequate Funding for City Facilities and Equipment
9. Fund Capital Projects that Enhance the City
10. Maintain and Expand the City's Infrastructure to Promote Economic Development
11. Look for Opportunities to Reduce the Cost of Municipal Operations
12. Avoid a Property Tax Increase
13. Limit Fee Increases to Amounts Necessary to Provide Acceptable City Services
14. Look for Opportunities to Grow our Local Economy

General Fund

The Adopted Budget for Fiscal Year 2015-16 does not include a change to the City's current tax rate. Property Tax revenue resulting from tax base growth is projected to modestly increase again this year. The County Revaluation of real property resulted in a modest decrease in value (estimated 1.65 %) including a factor that anticipates appeals. Revenues for motor vehicles have increased significantly, so the net revenues from all property tax categories are projected to increase by 1.21% over last year's budget. Therefore, the revenue neutral tax rate remains the same at \$0.53. Finally, we must closely monitor the general economic conditions, and any further changes to the City's revenues issued by the State.

The General Fund continues to have 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 fluctuate. For this reason the staff will continue to focus on the General Fund and manage to a three-year horizon.

In order to address the future challenges in the General Fund, the City must look for ways to reduce expenditures and increase revenues as well as use Fund Balance in a measured way in upcoming fiscal years. All during the year, the City staff will be diligently looking for opportunities to close the future budget gaps in the General Fund. The City must be prepared to reduce operating costs, reduce the size of the workforce, and delay projects until adequate funding can be made available. A total of \$1,042,528 of General Fund Balance (\$750,000 for street resurfacing) is appropriated this year to balance the operating and capital budget. In future fiscal years, debt service payments begin to fall which will help, but as salary increases are embedded, the pressure on the General Fund increases.

Electric Fund

No general retail electric rate increase is planned in the 2015-16 Budget. ElectriCities Power Agency One will be implementing a debt restructuring plan which is projected to lower our wholesale costs next year and stabilize it for the next six years. The debt restructuring must be approved by the NC Local Government Commission, which is expected to give their approval. 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 2015-16 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 2015-16 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

No water and sewer rate increase is recommended at this time. There has not been an increase in our water or sewer rates for the past three budget years. However, soon water and sewer rates will begin to have modest increases to help support the utility's long term financial health as major capital projects move forward. Our rate consultant and our financial advisor for the capital bonds will assist us in determining the rates. Within these reports specific recommendations will be made regarding future rates that will be necessary including the Water Plant Renovation. The focus of the Water and Sewer Fund continues to be addressing our aging Water Plant, 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 rehabilitation of the Water Plant will begin this year with the construction of a new clear well. The total cost of the project is still estimated to be \$58,000,000. The 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. This major effort will update and repair our Water Plant to ensure safe and efficient operation for decades to come. In addition, a major step in utility regionalization will be completed in 2015 when the Stanley Sewer Outfall will be finished 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. 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.***

Employee Compensation and Benefits

The total number of budgeted full time employees for the upcoming fiscal year is 870. The size of our workforce has stabilized. Changes in the State annexation laws and the delay of the Garden Parkway has slowed the City's expected growth significantly. With new residential subdivisions under construction, the need increases to hire additional building inspectors and a new solid waste collection crew. FY 2015-2016 Budget includes a salary increase for all full time and part time employees. The specific salary plan recommended for FY 2015-16 was included in the City Council's Budget

Outlook Work Session, held on April 8, 2015. The salary plan is as follows: All full time employees - \$1,000 (annual amount) and a 1% salary increase embedded in pay bi-weekly (\$100 minimum). All part time employees - \$0.24 per hour increase and a 1% salary increase embedded in pay bi-weekly. The Budget also maintains the recently increased annual Christmas Bonus from \$300 to \$350 for each eligible employee. 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 2015-16 Budget provides continued funding in the amount of \$7,000 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 2015-2016 Budget increase for the City's Health Insurance Fund is \$342,000 (5%) higher as compared to the current year. The Proposed 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 considered during FY15-16 Budget Year. We will use employee focus groups and closely monitor claims filed though the year as we consider any changes as may be necessary. The staff will work closely with the Council Insurance Committee.

Infrastructure

The City of Gastonia is responsible for approximately 438 miles of paved 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 \$7 million of vehicle equipment was requested by City departments for replacement or additional

equipment. In the FY 2015-2016 Budget, we are funding equipment replacement for a total of \$2,718,207. In addition, \$411,800 for computer/communication equipment is also included for replacement and upgrade. We are proposing to replace 45 vehicles, including 16 Police vehicles, a new and upgraded Fire Truck (Quint) for \$751,006 and \$734,024 for new and upgraded Solid Waste vehicles and equipment, as well as a new automated leaf truck that will be purchased in this fiscal year for delivery by September, 2015. Requests by departments for replacement equipment that were approved by the Equipment Manager/Garage are included in the adopted budget.

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.

Transportation

The major work in transportation next year will be to move the bond projects approved by the voters in 2010 to construction. The major projects include widening Union Road, Titman Road, and Myrtle School Road, as well as South New Hope Road, funded in part by the State. The contract for Myrtle School Road has been let and major construction should begin this summer. The Titman Road contract will be let next month and construction could begin this summer. We have initiated a significant program to increase the amount of money allocated to resurfacing City streets beginning with \$997,000 for Spring 2015, and another \$809,000 for the Summer of 2015. Traffic calming devices such as speed humps, continue to be funded (\$20,000) in the 2015-16 Budget to address neighborhood safety issues. Work still remains to be done to establish adequate funding sources long term for maintenance and resurfacing of our streets. The State Highway project upgrading the US 321/I-85 Interchange will not begin actual construction until 2016. During the 2015-16 Fiscal Year, we will receive the results of the comprehensive Transit Study in cooperation with Gaston County and NCDOT and the Cox Road / I-85 Congestion Study in cooperation with NCDOT and the City of Lowell. 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. Finally, continuing discussions should take place this year with the State regarding their impending decision to widen I-85 to US 321 and reversing their support for the Garden Parkway. 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 31% of annual expenditures. This is well above our goal as defined in the City's Reserve Policy: that the Available Fund Balance should be between 12% and 15%. Beginning in the next fiscal year and over the next two fiscal years, the General Fund Balance will be drawn down carefully to an amount just over 15%. The 2015-2016 Budget maintains strong fund balances for both the Electric and Water & Sewer Funds. The Hotel Occupancy Tax Fund revenues currently cover the Conference Center debt service and operating deficit. 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, 2015, after the close of the 2014-15. Budget Year. Accounting practices will allocate the last three months of sales tax and reimbursements received during the summer back to the 2014-2015 Budget Year.

Economic Development

Gastonia is beginning to experience 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. Previously approved residential developments, primarily in the southeastern portion of the City, that were halted during the 2008 Recession, are beginning to restart. 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 a special 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.

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 (expenditures) 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.

During the past decade, many City departments have been asked to perform their responsibilities with smaller permanent staffing. This effort will continue because it is an important way that we can control our financial position. 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. The City must continue to seek ways to further reduce expenditures through a variety of means. 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. There will never be a day or 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.

Respectfully submitted,

Edward C. Munn

Edward C. Munn
City Manager

BUDGET SCHEDULE - FISCAL YEAR 2015-2016

January 9, 2015	Initial equipment requests due to the Budget Office.
January 16, 2015	Preliminary revenue and expenditure budget worksheets and information distributed to Departments.
February 7, 2015	Strategic Planning Meeting.
February 13, 2015	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 17, 2015	The Departments can make no further changes unless approved by the Budget Office.
February 27, 2015	Mission Statements/Goals & Objectives/Accomplishments due. Analysis and reports prepared by the Budget Office.
March 9-March 17, 2015	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.
April 8, 2015	Council work session: Budget Outlook.
April 10, 2015	Budget should be finalized and balanced based on recommendations of the City Manager.
April 23, 2015	Proposed budget should be printed and notice of public hearing completed.
April 24, 2015	Budget presented to City Council and press.
May 5, 2015	Public Hearing on the Budget and Budget discussion at the Council Meeting.
May 7, 2015	City Council budget work session.
June 2, 2015	Adoption of the Fiscal Year 2015-2016 budget.

7/29/2015

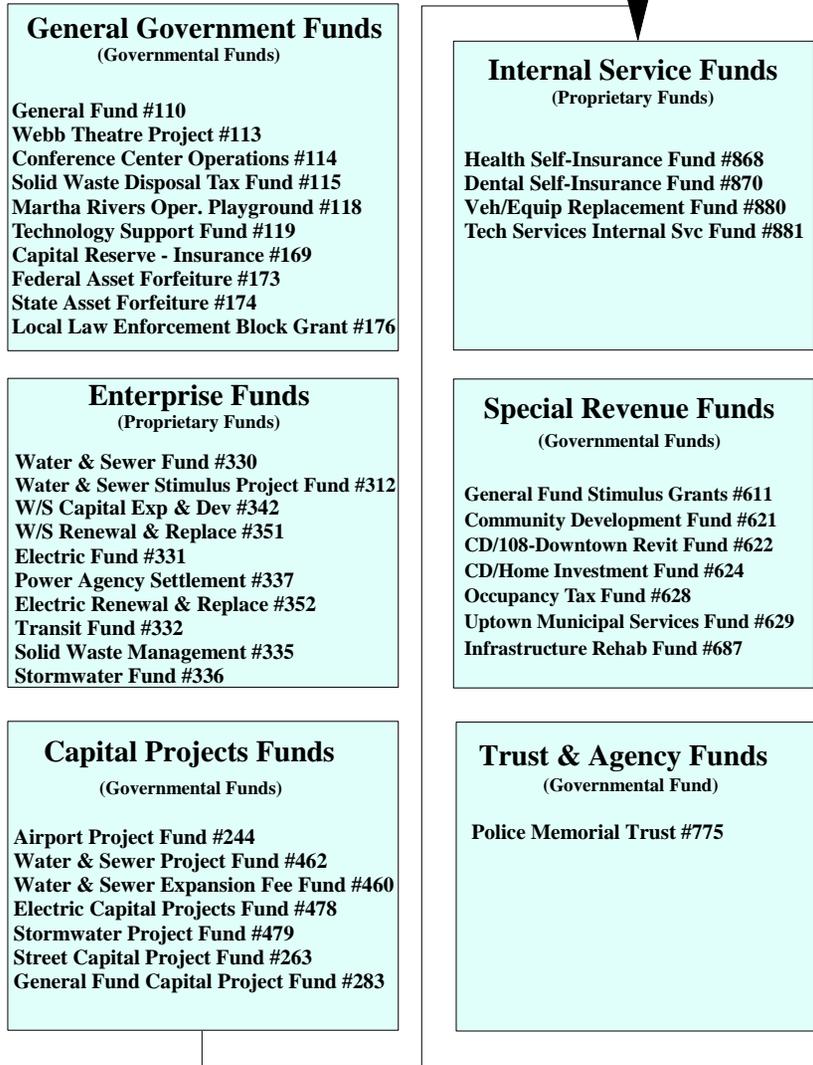
Explanation of the Budget Presentation

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 2016 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.

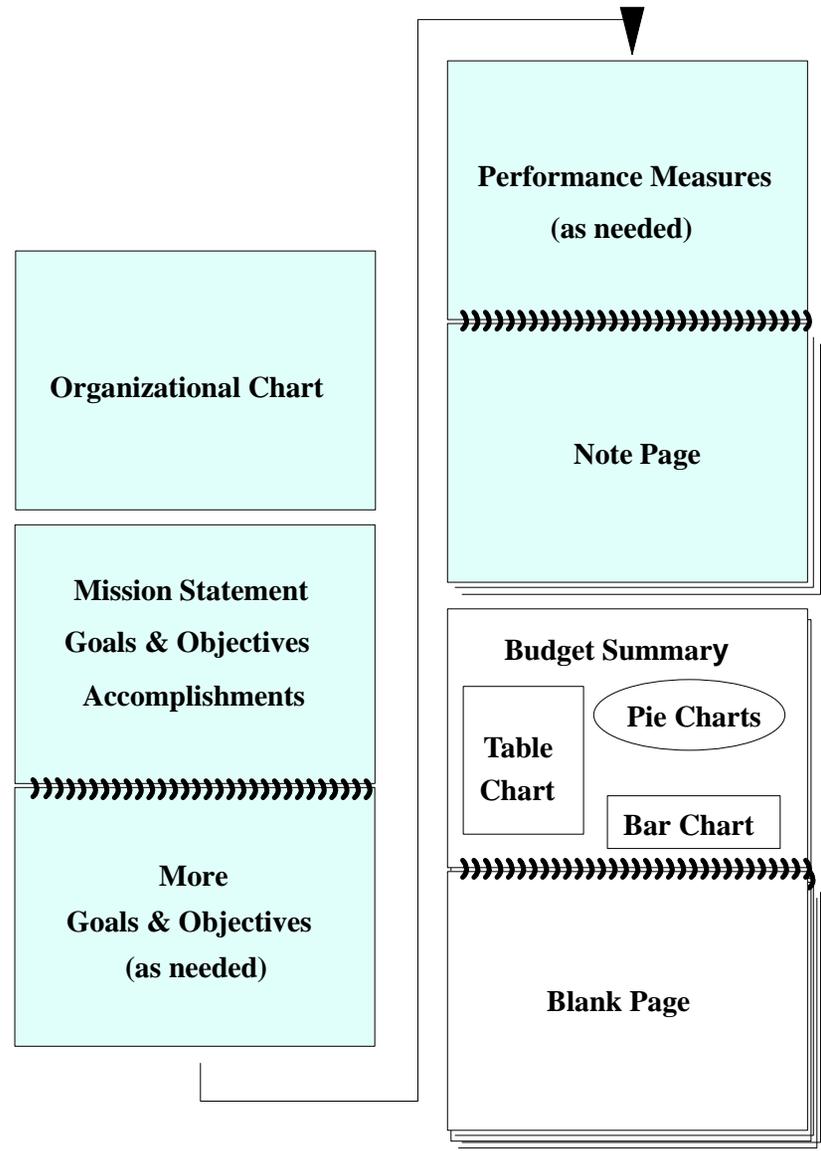
The layout of the expenditure detail information is graphically explained on the following pages.



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/program areas which are directly under his perview. Thereafter, it is organized by Assistant City Manager with the departments/program areas following alphabetically.

Following the organizational chart are the department/program area Mission Statement, Fiscal Year 2016 Objectives and Fiscal Year 2015 Accomplishments. The next page presents an overview of the department/program area 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/program area budget. 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 department codes included in each division (or function) subtotal are listed in the bar beside the division (or function) name. These codes (XXX-YYY) represent the fund (XXX) and cost center (YYY). 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.

