

May 24, 2016

Honorable Mayor and City Council
City of Conover
Conover, North Carolina

Dear Mayor and Members of Council:

The proposed budget for the Fiscal Year beginning July 1, 2016 is submitted for your consideration. The recommendations contained in this budget are the result of Council Retreat in March, and the budget workshop in May. The proposed budget represents many hours of analysis by the entire staff and presents a financially sound plan for the provision of municipal services at present levels.

Many of our partnerships have flourished this year such as; the Greater Hickory Metropolitan Planning Organization, the Western Piedmont Water Resources Committee with the Western Piedmont Council of Governments (WPCOG), and the Hickory-Conover Tourism Development Authority. These partnerships continue to benefit all involved by providing support and insight on complex issues facing our community and the region. Other partnerships, like the North Carolina Data Campus, have furthered regional cooperation and thinking. Conover has been at the forefront of regional initiatives to protect our resources, limit liabilities, and leverage taxpayer dollars.

Economic Development activities are more important than ever if the city is to be successful long term. The Catawba County Economic Development Commission (EDC), the Hickory-Conover Tourism Development Authority (TDA), and the WPCOG continue to share their expertise and assist the city and region as we looked for new and expanded opportunities to create jobs and expand resources. The City continues to maintain confidence in their ability to assist us with strategies to take advantage of all development opportunities by participating in regional planning and marketing efforts enhancing the city's appearance, and strengthening our relationships with existing industries, as we continue to provide an atmosphere where business can grow and prosper.

Council's continued aggressive economic development strategy has resulted in the expansion of investment in Conover. Think back to January of 2010, there were 2.5 million sq. ft. of industrial space completely vacant and another 3 million sq. ft. of space that was once served as manufacturing being used as warehousing. As of today, there are no vacant buildings available. Furthermore, our unemployment rate for the region is at 5.4%. Currently there are 3,000 job openings in the Catawba Valley. Conover has had a banner year for economic investment. Some of our partnerships have included expansion of West Penn Hardwoods, Vanguard Furniture, Classic Leather, Axjo America, Southern States, Sheetz, Snyder Paper, Trimtech, Amphenol Antennae, Dominos, Piedmont

Staffing, Freight Breakers, Zenith Freight, Perfect Workout, Lil Saigon, Dalco Non-Wovens, Piedmont Truck Tires, Everything Attachments, and many more.

We should now focus on having pad-ready sites, spec buildings, and expanding our workforce in quantity and quality. Conover has developed partnerships with Catawba County Schools to help expand their internship program and completed the construction of NC Works. NC Works is a one-stop resource for job seekers and employers, where job seekers can search for jobs, create resumes, and find education and training. Employers can find candidates, post jobs, and search labor market information and be matched to employees.

Most importantly, the city has benefited from our relationship with Manufacturing Solutions Center (MSC) and Catawba Valley Community College (CVCC) to create a sustainable strategy for economic development and true entrepreneurship. More than 8,000 people have toured the new MSC and the rapid prototyping and engineering division has tripled production. MSC has added accelerator tenants five, six, and seven. One of these, InnovaKnits, a manufacturer of three dimensional apparel has hired five new employees.

MSC has celebrated its 25th year and now serves more than 1,500 companies globally and has become a recognized leader of innovation, to the point, Massachusetts Institute of Technology is now referring graduates here to start their companies. The City of Conover built their new facility in 2012 believing it would last for a decade or more before being expanded. As of June 2016 the building is full with equipment and incubator clients. Council will be asked to begin planning the next expansion later this year.

City staff continues to monitor state and federal agency activity as we struggle to plan and implement unfunded mandates. The General Assembly changed the sales tax redistribution formula in the long session. Council fought hard to keep the city from losing revenue. Your efforts saved the city more than \$800,000 annually. Sales tax revenues are under attack once again. Please continue to be vigilant even though, this year we have seen an increase in sales tax revenue due to record low fuel prices. Crude oil prices are on the rise and are predicted to once again reach \$50 per barrel later this year.

Historically, the City of Conover reserves cash funds, in some cases, for many years to purchase essential equipment like fire trucks, police cars, tractors, snow plows, and sanitation trucks without borrowing. Over the last 10 years, Conover continues to see revenues once generated from retail sales, manufacturing, and licensing fees, used for these major purchases, eliminated by the NC General Assembly. The NC General Assembly has cut revenues to Conover over \$400,000 and continues to introduce legislation that curtails the ability of cities and counties to govern themselves. Council should consider an increase in revenues in the coming years to avoid financing and interest charges.

Federal budget challenges continue to concern staff and international instability would likely affect any recovery locally. Conover is in contact with our delegation in Washington D.C. weekly in an effort to maintain needed funding for city infrastructure. Federal funding impacts transportation funds both in transit and surface systems. Other funds impact police, fire, and public works. Your staff continues to be aggressive with securing grants. Council has made this possible, even in such a competitive environment, by continuing funding of shelf projects and committing to grant matches.

In order to mitigate this attack on city revenues, in fiscal year 2014, Council wisely decided to increase the tax rate by .03¢. Two of the three cents went to replace some of the revenue repealed by the General Assembly, and used for General Fund Capital Reserves. The other penny is dedicated to maintaining streets and paving throughout the city. The proposed budget is a step in the right direction to become more independent of state revenues.

It is because of the Council's focus on basic municipal services, conservative fiscal nature and sound long range planning that we enter the 2016-2017 year optimistically. In order to provide the same level of service expected by our citizens, I recommend maintaining a tax rate of .47¢ for the 2016-2017 budget.

Conover's sanitation service is well known as comprehensive and efficient. These essential sanitation services include street sweeping, recycling, garbage removal, white goods removal, leaf removal, grass clippings, and limb collection. These services are vital, noticed by our citizens, and provide a great service for everyone. With the expanded recycling program, we have seen a greater than 34% increase in recycled tons collected to date. Staff ran the Sanitation Department with obsolete and recycled equipment for more than a decade. The Street Department often used their capital reserves to fund leaf collection machines and street sweepers to assist the Sanitation Department. With the increase in Sanitation Fees, the city now has a capital reserve fund to adequately fund capital purchases and remove some of the burden on the Street Department. Council made all this possible with the increase in landfill fees in prior year. The proposed budget includes a capital reserve fund for future sanitation trucks, and equipment purchases. I recommend maintaining the Landfill Fee at \$14.00 per month for every customer.

For 2016-2017, our prior estimates of a 10% reduction in real property tax value have been proven correct. I am confident we have estimated revenues conservatively. Our current ad valorem estimated revenue is \$4,820,360 assuming a conservative 98.08% collection rate. Conover has traditionally budgeted general fund balance, and usually returns most of it, last year we increased fund balance of \$380,953, and for fiscal year 2015-2016, we estimate to increase general fund balance \$505,847. The proposed budget has a \$523,520 unreserved general fund balance appropriation and an \$11,790 general fund balance appropriation reserved by state statute for Powell Bill purposes.

GENERAL FUND

The Conover City Council understands this budget has been challenging for our Department Heads as they have looked for additional ways to reduce expenses. Every line item in this budget has been up for discussion. Exceptions have been personal safety equipment required for city staff and a reduction of services for our citizens. The proposed budget is based on an assessed valuation of \$1,045,685,964, a net value increase of \$41,451,584. This year's general capital fund includes; replacement of four vehicles in the police department, the addition of a narcotics officer in the Investigation Division, a part time records clerk, replacement of a compressed air system in the Fleet Department, replacement of a truck and mower for the Cemeteries and Parks Department, replacement of two pickup trucks for the Street Department and replaces a sanitation packer body and a leaf collection machine in the Sanitation Department. Additionally, this budget provides matching funds for the 1st Ave S Bike and Pedestrian Improvement Plan, and for the Pedestrian Crossing over the Norfolk Southern Railway at Conover Station.

The budget provides funding for annual commitments for park equipment replacements to improve safety and comply with ADA standards. It funds the maintenance of the City's facilities, right of ways and streetscapes. It funds street repair, sanitation services, and fleet operations. Paving streets and extending the life of our street network is one of the primary focuses. It also includes the city's participation in many regional organizations such as the Western Piedmont Council of Governments, the Greater Hickory Metropolitan Planning Organization, the Western Piedmont Regional Transportation Authority, the Catawba County GIS Consortium, and the United Arts Council.

WATER AND SEWER FUND

The water and sewer fund is in stable condition. Council and staff achieve this by leveraging key partnerships to keep our rates among the lowest in the state. Ongoing maintenance and inspections keep our system from falling into a state of disrepair and keeps basic life giving services such as clean water affordable. The proposed budget will increase the rate on water usage by 1.8%. The increase comprises a 1.8% pass through from the City of Hickory. The average customer uses 5,000 gallons per month equating to an additional .20¢ per month. The list of capital improvements include; sewer relocation for 6th St NW, water improvements for 6th St. and 5th St. PI NE water upgrades, Conover Blvd-Old Startown Loop, improvements for the Northeast Wastewater Treatment Plant, the improvements agreed to as part of the regional Clark Creek partnership with the City of Newton, replacement of a backhoe, replacement of a one ton truck, and continued replacement of the 35 year old auxiliary power unit at the NEWWTP. Additionally, this budget prepares the way for future partnerships with Catawba County, and the cities of Newton and Claremont.

CAPITAL PROJECT RESERVE FUNDS

Major projects in this year's Capital Plan include a reserve for utility capacity upgrades, utility relocations, and a reserve for engineering improvements to the North East Wastewater Treatment Plant, and the replacement of the water line on Deer Run. Reserve funds also include the reserve for a future fire engine, Taser and bulletproof vest upgrades for Police, reserve for replacement of future solid waste and recycling truck, swap loader and leaf vacuum in the Sanitation Department, reserve for replacement of fuel dispensary, reserve for truck and equipment replacement in the Street department, reserve two of three for the Conover City Park Expansion, and the second of a four year reserve for a new storage facility for equipment at the Public Works Facility.

SUMMARY

Listed above are the major components of this year's program of work. In addition to items funded in the annual budget, the city will continue the many multi-year projects that are underway. This year we expect to complete the final phases of the North Carolina Data Campus, and begin the construction of 1st Ave S pedestrian and bicycle improvements. Conover has a long history of having little or no fees, but with the current economic situation and the Council's strong desire to maintain a low tax rate, I recommend adopting the Schedule of Fees, with an increase in the Fire Inspection Fees and increase in the water rates.

In conclusion, this year's budget is based on your direction, the city's long range plans, and input received from citizens throughout the year. It includes added attention to those items that will make us competitive in this economic environment, addresses regulatory challenges, and expands our present level of service. It focuses on basic municipal services and is our best effort to predict future needs. It builds on past decisions and looks optimistically to the future. This plan of work is the culmination of many hours of thought and work by you, the staff, and the city's volunteers serving on our appointed boards. The budget considers state and federal fiscal issues and their potential effects on the city. It also weighs the impact of falling revenues, a rebounding economy, increasing mandates, future partnerships, and debt necessary for infrastructure improvements. The budget, as presented, will maintain the current level of city services and allow us to live reasonably within our means.

I am proud of the professional manner in which the city staff assisted with the preparation of this budget, and I commend each of them. We stand ready to assist you in any way possible as we move to adopt this budget for the fiscal year 2016-2017.

Sincerely,

Donald E. Duncan Jr.
City Manager