

May 27, 2013

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, 2013 is submitted for your consideration. The recommendations contained in this budget are the result of the economic development workshop in February, the budget retreat in May and the five year capital improvement plan presented in the prior year. 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 Multi-Jurisdictional Park, 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 continued 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 businesses can grow and prosper.

The council's continued effort of a more aggressive economic development strategy, has resulted in the expansion of foreign investment in Conover; including Wauxi Taji of China, Smart Electric of Taiwan, and HSM, (formerly Hickory Springs) expanding their operations to include a new FoamTech facility and the planned relocation of half of their

Asian production capacity back to the United States. The engineering for the Multi-Jurisdictional Park (MJP) is nearly complete and the majority of construction should be complete within the next fiscal year. 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 5,000 people have toured the new MSC and testing inquiries have increased nearly 300%. The first accelerator tenant, Symtegra, has already doubled their space and the second client Advanced Finishing Technologies will begin operations in late June.

The City continued to monitor state and federal agency activity as we struggled to plan and implement unfunded mandates. The General Assembly has passed legislation that limits our annexation authority in the prior year; other cities have seen de-annexation bills passed, while the General Assembly continues to introduce legislation that curtails the ability of cities and counties to govern themselves. Furthermore, the General Assembly is proposing to amend the state income tax system. Many of these proposals include reducing or eliminating personal and corporate income tax, and increasing state sales tax base, while repealing local revenues such as privilege license and franchise taxes. Council has made the wise decision to hire the services of a lobbyist. These efforts have paid off in preparation time and the ability to influence legislation before it is presented to the legislative committees.

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. I can safely predict, that many of the grants we have seen in the past will become more competitive with less funding. Any loss of these revenue streams would have a major impact on services for all North Carolina cities. All of these actions continue to place burden on local governments.

In addition to Duke Energy's 16.7% increase in electricity since 2008, the city is forced to accept another 7.2% this year for street lighting. Staff is not estimating an increase in fuel, oil, and tires for motor vehicles. Interest earnings on investments continue to be the lowest in the city's history, showing no growth since last fiscal year.

The "hold harmless" revenue of \$164,655 in the 2012-2013 budget equivalent to 1.52¢ of the property tax, has expired despite efforts to keep it for another five years (1¢=\$108,092). This special sales tax was initiated in 2001 when the General Assembly established the Article 44 tax and repealed the reimbursement payments to the local governments for the inventory tax, sales tax on food stamp purchases and homestead exemptions. Council has wisely taken the offensive on restoring decline by restructuring the Privilege License Tax to account for the burgeoning retail sector. Conover reserves these funds for capital purchases.

Our fleet department dutifully stretches assets beyond their normal life cycle. Continuing to defer large capital expenditures only puts the burden on the future. In past years the city transferred revenue from the two ½ cent sales taxes to fund capital expenditures. Because of reduced general fund revenues and increased expenses we have discontinued the transfer to capital reserves and use these funds for operating expenses. This is not a sustainable policy and will not allow the City to maintain its present level of service long term. Continuing this policy will not allow for adequate reserves to be set aside for future capital purchases, therefore staff will alter implementation of the City's Capital Improvement Plan, and comply with mandates impacting municipal operations. The proposed budget is a step in the right direction to reverse this trend.

It is because of the Council's focus on basic municipal services, conservative fiscal nature and sound long range planning that we enter the 2013-2014 year with guarded optimism. I do not recommend a tax rate increase while maintaining the same level of service. Our budget estimates are based upon property valuation numbers from Catawba County. The last two revaluations from Catawba County negatively affected Conover's property values, especially appealed industrial values. Since 2001, Conover has experienced a shift from industrial clients, who funded a large majority of Ad Valorem revenues, to residential.

Conover's sanitation service is well known as comprehensive and efficient. Continued fuel increases and environmental regulations increase costs, man-hours and staffing requirements. I recommend maintaining the Landfill Fee at \$11.00 per month for every household. This will help defer some of the rising costs and offset a portion of the expenditures for the service. The proposed budget includes a capital reserve fund for future sanitation truck and equipment purchases.

For 2013-2014, we estimate no reduction in tax value. I am confident we have estimated revenues conservatively. Our current ad valorem estimated revenue is virtually flat, when compared to the previous year, yielding \$4,175,000 assuming a conservative 96.6% collection rate. Conover has traditionally budgeted general fund balance, and usually returns most of it; however for fiscal year 2012-2013, we estimate to spend \$252,000 general fund balance appropriation. The proposed budget has a \$410,391 unreserved general fund balance appropriation and a \$153,840 general fund balance appropriation reserved by state statute for Powell Bill purposes. Besides conservative revenue estimates, I recommend reinstating the merit pay system at 1.5% to be administered upon the employee's annual evaluation, continued freezing of the pay scale, and a onetime pay adjustment of \$500 added to all employees base pay effective July 1st. I also recommend staffing to remain at current levels.

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 associates and a reduction of services for our citizens. The proposed budget is based on an assessed valuation of \$1,080,923,250. This year's general fund includes; replacement of four vehicles in the police department, the replacement of two vehicles in administration, and a service vehicle for the Fire Department. The budget also funds the replacement of a 1990 dump truck with a snow plow assembly, backhoe, parks improvements, funding for the single stream recycling roll out containers, and replaces a 1997 sanitation truck. It includes funding for 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 of capital improvements. 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, and the Catawba County GIS Consortium.

WATER AND SEWER FUND

The water and sewer fund is in stable condition, but fuel and energy increases directly impact the cost of replacement and repair of lines, and all materials based in petroleum including steel. The city continues to use partnerships to keep our rates among the lowest in the region. 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 includes a 3% increase in water purchased from the City of Hickory, with an additional 2% in water and 5% in sewer fee increases to fund the city's annual utility debt obligations. This includes the Highway 16 water tank loan, the ARRA loan, the state loan for the Northeast Wastewater Treatment Plant, the improvements agreed to as part of the regional Clark Creek partnership with the City of Newton, the sanitary sewer bonds sold in 1997. Other items to note are; sludge disposal at the regional compost facility, the transfer to the Utility Capital Reserve Fund for line extensions and enlargements. Water and Sewer fund Capital projects include replacement of two service trucks, the purchase of a used road tractor for sludge disposal, and the continued replacement of the cities automated meter reading program. 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 improvements of the North East Wastewater Treatment Plant. Reserve funds also include the reserve for a future fire engine, taser upgrades, reserve for replacement of future sanitation trucks, and the reserve for one swap loader dump trucks, street sweeper and a backhoe.

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 see rehabilitation of our utilities in the Northeast and Southwest quadrants of the City.

We were able to take advantage of the abandoned Broyhill Furniture property now known as Conover Station. This property has generated a strong interest in the community. This year we have seen the completion of the Manufacturing Solutions Center, the Conover Station Park and the stormwater treatment facility.

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 and the increase in the water and sewer fund. This year council implemented electronics recycling with great success. Due to increasing regulatory requirements, it will be necessary for us to continue looking for ways to better use our resources and be more productive in order to continue providing a high level of service. Future service modifications such as single stream recycling are forthcoming, and will result in significant efficiencies for our Sanitation Service, significant outreach and education will be necessary to prevent citizen backlash.

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, begins to address regulatory challenges, and maintains our present level of service. It focuses on basic municipal services and is our best effort to predict what the future holds in these uncertain times. 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 slowing 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 2013-2014.

Sincerely,

Donald E. Duncan Jr.
City Manager