



May 19, 2020

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, 2020 is submitted for your consideration. The recommendations contained in this budget are the result of intense deliberations by all departments to deliver our best estimations considering the COVID-19 global pandemic and impending economic depression. Revenue estimates vary widely and none of them are good. 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. As we enter this fiscal year we are still under a statewide State of Emergency, and a local Joint Declaration of Emergency for Catawba County and all municipalities.

Therefore, we will begin this new fiscal year as we end the current; with financial austerity measures still in place allowing for emergency purchases only and a hiring freeze for non-essential employees. I expect this to continue at least through the end of September 2020. Revenue projections from the North Carolina League of Municipalities and Association of County Commissioners range from bad to apocalyptic. Staff has taken a reasonable approach and estimate we will see a loss of 21% sales tax revenue, a 12% reduction of Powell Bill revenue and significant reduction in ad valorem revenue due to late filing of personal and corporate income tax, potential bankruptcies, and idling of manufacturing equipment.

The North Carolina General assembly estimates the state will lose \$3.5-\$4 billion in statewide revenues, and that loss will trickle down to the creatures of the statutes. The Department of Revenue issued a weekend order allowing citizens to delay paying their motor vehicle taxes for up to one year. The General Assembly amended that rule to only six months. Because of this we anticipate a 15% reduction.

Now, more than ever, we should focus on Economic Development. The City should consider how we revitalize a downtown that is nearly empty and has more than a dozen properties on the market. Retail as we knew it is gone. Online sales and marketing will eliminate many traditional storefronts and we should reimagine and create new policy to allow niche market manufacturers to move in and fill the void.

Priority should be given to pad-ready industrial sites, spec buildings, and expanding our workforce in quantity and quality. Conover has developed partnerships with Catawba County Schools and Newton Conover Schools to help expand their internship and apprenticeship programs and partner with K-64. K-64 engages the student with work-based learning, exposes them to technology in real work settings, and supports the teachers with help from industrial partners. This year we lost a great leader in Mark Story. It is imperative to keep his legacy alive and grow our workforce and teach the next generation about lifelong learning to constantly adapt to a changing world.

This past year Manufacturing Solutions Center (MSC) has helped recruit an investor to develop a Public Private Partnership (P3) to build a new and larger manufacturing incubator. With the onset of a global pandemic we see how fragile the global supply chain has become. Creating a stronger local supply chain to source materials and manufacture finished goods has innumerable value. MSC has developed a new partner to create the Smart Factory and it has long term implications of securing finished goods at the local level rather than relying on foreign partners.

It is because of the Council's focus on basic municipal services, conservative fiscal nature and sound long-range planning that we enter the 2020-2021 fiscal year cautiously. In order to provide the same level of service expected by our citizens, I recommend the current tax rate of .50¢ and continue the \$30.00 per Motor Vehicle Tax (MVT) for the 2020-2021 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. 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. The proposed budget includes a capital reserve fund for future sanitation trucks, and equipment purchases. We have seen an improvement in recycling practices from our citizens. As a response to China Sword, North Carolina launched the Recycle Right campaign. This campaign has helped us produce a cleaner commodity resulting in reduced processing fees from Republic Services to \$58,200 or \$125/ton. I recommend no increase to the Landfill Fee at \$14.00 per month for every customer.

GENERAL FUND

For 2020-2021, our prior estimates of a 1.03% increase in real property tax value are proven correct. Our current ad valorem estimated revenue is \$5,499,416 assuming a reduction in tax base of 1.5% due to the impact of COVID-19 on both personal and motor vehicle revenue and a dismal 94.00% collection rate. Conover has traditionally budgeted general fund balance, and usually returns most of it, last year we increased fund balance \$943,726, and for fiscal year 2019-2020, we estimate to use \$220,000. The proposed budget has a

\$1,036,177 unreserved general fund balance appropriation and a \$46,125 general fund balance appropriation reserved by state statute for Powell Bill purposes.

The Conover City Council has made a priority for staff to have the resources needed to fulfill our obligations to the citizens. The proposed budget is based on an assessed valuation of \$1,170,088,400, a net value decrease of \$18,189,400. This year's general capital fund includes; Fleet Department shop improvements for a storage and inventory room over the office area, replacement of the gas heating unit, replacement of a dump truck, and skid steer unit for the Street Department. The Sanitation Department will purchase a semi-automatic leaf vacuum unit, for weekly collection of leaf and yard debris, and Cemeteries/Parks will replace a 10-year-old zero turn mower.

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, and the Catawba County GIS Consortium.

WATER AND SEWER FUND

The water and sewer operating funds are 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 by 2.75% for water and sewer. The increase includes a pass through on water purchased from the City of Hickory of 3.75%. The average customer uses 5,000 gallons per month equating to an additional \$1.37 per month.

Staff recommends continuing the monthly fixed charges of \$5.00 for a 3/4" meter. This fixed charge will continue to fund capital reserves for future upgrades to the 47-year-old NE Wastewater Treatment Plant (NEWWTP) over the next 11 years. Future capital needs include head works rehabilitation, equalization basin, aeration basin, and future treatment capacity.

The list of capital improvements for 2020-2021 include; engineering for future infrastructure projects, economic development projects, and funds for future water and sewer shelf/shovel ready projects. Capital construction for: NEWWTP blower and sludge pump replacement, SCADA and Server Replacement. Capital equipment purchases include replacement of a 1-ton truck with lifting crane, the Rock Barn Pump Station Generator, one 1/2 ton pickup truck, one 3/4-ton pickup truck, and construction of an Equipment Storage Building. Additionally, this budget prepares the way for future partnerships with Catawba County.

CAPITAL PROJECT RESERVE FUNDS

Historically, the City of Conover reserves cash funds, in some cases, for many years to purchase essential equipment like fire trucks, tractors, snowplows, and sanitation trucks without borrowing. Council has taken on the challenge to set aside ad valorem taxes for reserves and limited borrowing money to avoid paying interest rates. These reserves and low debt burden have facilitated Moody's improving Conover's bond rating to Aa2. Capital reserves are now made up of .03¢ ad valorem, revenue from the cell tower leases, and sale of surplus property. Council has created a stable revenue to maintain long term capital reserves and most importantly prevented the need for future councils to borrow money and pay interest.

Major projects in this year's Capital Reserve Plan include the following: a reserve for Police and Fire Technology for radio upgrades. This unfunded mandate requires early replacement of nearly half of our mobile and personal radios. A reserve for fleet equipment to continue fleet facility upgrades and lift replacements. Beginning the reserve for a new fire truck, a new pavement roller for Street Department, and funds generator replacement, truck replacement and office area expansion in Public Works. It also establishes reserves for Cemeteries and Grounds for a mower, truck, and sickle mower replacements.

In the utility fund we continue reserves for water and sewer infrastructure including, replacement of the headworks and upgrading the aeration system at the NEWWTP. It also continues the reserves for a vacuum truck. These funds could be called upon to match CARES Act monies used to stimulate the economy. All of these are currently or will soon be shovel ready projects.

The single largest capital project is the replacement of the city's General Ledger software. This software has been in use for more than 30 years. The provider has been bought numerous times and is not expanding services in the municipal market. The staff who service our account are retiring or have passed away. This software maintains all our finances, including the budget, utility billing and collections, payroll, and accounts payable. In preparation the City reserved funds for more than 12 years in the General Fund. The total estimated cost of the project is \$220,272 split between the General Fund and Utility Fund, with an annual service and maintenance cost of \$41,513. Recurring annual maintenance costs are shared by the General, Utility, and Sanitation Funds.

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 including the road work adjustments for 1st St E and W, and the upgrading of Punch Loop Road for Aarhus Furniture Distribution Center.

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 the caveat, staff may bring to Council adjustments for Planning, Fire, Community Room, and others. The increase in rates and fixed charges for water and sewer help to meet our long-term capital needs at the NEWWTP. The continuation of the Motor Vehicle Tax funds our paving plan, and offsets transit costs. In conclusion, this year's budget is limited based upon the collection of revenues. We expect to see significant cashflow shortages well into the Fall. Therefore, we will continue austerity measures by allowing only emergency purchases and continuing the hiring freeze for non-essential personnel. No capital purchases will be made unless we have sufficient revenue on hand. As the economy changes, you may be called upon to amend this budget to reflect growth or loss. Most importantly this budget is only possible through the concerted efforts of staff. Since the recession the City has made significant investment to strengthen our local economy and revenues. Because of that decade's long effort, we can borrow from our reserves and maintain services to our citizens.

Sincerely,

A handwritten signature in blue ink, appearing to read "Donald E. Duncan Jr.", written over a horizontal line.

Donald E. Duncan Jr.
City Manager, ICMA-CM