



May 15, 2019

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, 2019 is submitted for your consideration. The recommendations contained in this budget are the result of Council Retreat in February, 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. 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 look 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 fell to 3.3% in October of 2018. Currently there are more than 6,000 job openings in the Catawba Valley; more than double last year. Conover has had a strong year for economic investment, though not as strong as could be, due to a lack of pad-ready sites and building availability. Some

of our partnerships have included expansion of Axjo America, Duke Energy Construction of a new substation at St. Timothy, Expansion of the Perfect Workout, Phase II of Profile Products Expansion, the addition of two new restaurants, Sweet Taters, and Fresh Chef Kitchen. Council's investment in downtown continues to return dividends. Since the beginning of the downtown revitalization campaign, nine new businesses have opened, and others are in the planning stages.

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 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.

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 11,000 people have toured the new MSC and the rapid prototyping and engineering division has tripled production. MSC has celebrated its 28th year and now serves more than 1,500 companies in 35 countries, five continents and has become a recognized leader of innovation. To the point, NC State University has made several visits and is partnering with MSC to host graduate students of the College of Textiles. The City of Conover built their new facility in 2012 believing it would last for a decade or more before being expanded. The facility is full with equipment and incubator clients. Council will be asked to partner in the next expansion soon.

City staff continues to monitor state and federal agency activity as we struggle to plan and implement unfunded mandates. The General Assembly's changes to the sales tax redistribution formula in the long session has resulted in redistributing revenues to poorer less developed counties, while the utilities franchise tax has been rewritten to be a sales tax. In the past, all franchise taxes generated through electricity and natural gas were distributed back to the city. Under the new sales tax scheme, it is shared across the state based upon population. Municipalities were give a bottom threshold, a minimum, a so called "hold harmless". Our minimums happen to occur while the recession is still affecting our economy before the resurgence of American manufacturing. As a result, Conover has lost out on the growth of revenue generated by the recovery. Crude oil prices are now on the rise after being stable for nearly five years. With higher energy prices, we predict an increase in paving, plastic, and steel parts. A trade war with China could cause disruption in pricing and supply for many consumable goods, and continued tariffs on steel and aluminum will drive up the cost of construction. For example; Fire Station #2 had a base bid just under \$1.7 million, cost estimates at the end of construction put it over \$2.3 million.

Historically, the City of Conover reserves cash funds, in some cases, for many years to purchase essential equipment like fire trucks, 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 by nearly \$600,000 annually and continues to introduce legislation that curtails the ability of cities and counties to govern. 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.

It is because of the Council's focus on basic municipal services, conservative fiscal nature and sound long range planning that we enter the 2019-2020 year optimistically. 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 2019-2020 budget. By continuing the MVT, Council has created a stable revenue to maintain city street infrastructure. The city must publish its Revenue Neutral Tax Rate per §159-11(c). A revenue neutral rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. The revenue neutral tax rate for the City of Conover is .5013¢.

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. Catawba County has increased landfill tipping fees by \$2.30 per ton. They have informed the municipalities and private contractors to expect fee increases over the next five years. I recommend maintaining the Landfill Fee at \$14.00 per month for every customer.

Staff has become increasingly concerned regarding the changes in recycling due to the effects of China Sword. The Chinese Government has limited the import of recycled goods from all major trading partners. Scrap metal has become the sixth largest export from the US to China. Since recycled products have become a commodity with no place to refine them, the market has crashed. Republic Services receives our recycled waste, sorts it and packages it for resale on the market. Mixed paper had a value of \$100 per ton in 2017, today it is worth a negative value. They have informed all the local governments the cost of accepting our recycled waste to process to a cleaner standard will now cost \$35 per ton. In the past, the sale of these commodities covered the processing costs for Republic Services. In light of this development the cities of Conover, Newton, and Hickory have not placed the latest landfill agreement with Catawba County on any of their future agendas and are awaiting negotiations with Catawba County to see what the potential impacts are to operations at the landfill. The impact to our recycling budget is estimated at \$29,840 this

year. We recommend using reserves from the 58 fund (sanitation reserve fund) and no increase to the sanitation fee to our citizens.

For 2019-2020, our prior estimates of a 1.01% increase in real property tax value have been proven correct. I am confident we have estimated revenues conservatively. Our current ad valorem estimated revenue is \$5,523,215 assuming a conservative 98.75% collection rate. Conover has traditionally budgeted general fund balance, and usually returns most of it, last year we decreased fund balance \$182,117, and for fiscal year 2018-2019, we estimate to use \$213,005. The proposed budget has a \$128,254 unreserved general fund balance appropriation and a \$7,484 general fund balance appropriation reserved by state statute for Powell Bill purposes.

GENERAL FUND

The Conover City Council is generous and made sure the staff has the resources needed to fulfill our obligations to the citizens. The proposed budget is based on an assessed valuation of \$1,139,482,691, a net value increase of \$34,839,529. This year's general capital fund includes; replacement of a the Sport Trac SUV in Planning, the purchase of a replacement Fire Engine, replacement of a service truck and the construction of the roof in the Fleet Department, Public Works will replace an air conditioner unit and pressure washer, continue engineering and construction for Public Works addition, replaces a failing 72" culvert on 3rd St NE, purchases a new salt and slag spreader in the Street Department, constructs a new storage facility, replaces a Hook Lift Truck in Sanitation, and an aeration attachment in Cemeteries and Parks. This budget provides for the part time records clerk in the Police Department to be moved to fulltime and reassigns the division of salaries from Water and Sewer for three positions.

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 operating 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 by 2.75% for water and 2.0% for 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 \$1.35 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 46 year old NE Waste Water Treatment Plant (NEWWTP) over the next 12 years. Future capital needs include: head works rehabilitation, equalization basin, aeration basin, and future treatment capacity.

The list of capital improvements for 2019-2020 include; engineering for future infrastructure projects, economic development projects, NEWWTP aeration project, and funds for future water and sewer shelf projects. Capital construction for: Fairgrove Meter Vault upgrade, expanding the SCADA monitoring sites, sewer outfall line replacement behind GDS, aeration and possibly the headworks at NEWWTP. Capital equipment purchases include a boring machine, dump truck replacement, mud well pump, new sewer camera system, and replacement of a utility van. Additionally, this budget prepares the way for future partnerships with Catawba County.

CAPITAL PROJECT RESERVE FUNDS

Major projects in this year's Capital Reserve Plan include a reserve for water capacity upgrades, a reserve for NEWWTP, reserve #2 for a new Water and Sewer storage facility, and begins the reserve for a new sewer vacuum truck which could be used for a lease purchase over several years. Reserve funds also include the continued reserve for Police technology and bullet proof vests, future construction of the mezzanine in the Fleet Department. Street Department reserves include the replacement of a dump truck and swap loader body with a pavement roller and skid steer unit, reserves for generator replacement, pickup truck replacement and office expansions at Public Works, a mower for Grounds and Cemeteries, and continues the technology reserves for future financial package replacement. Sanitation and recycle are reserving for a future rear load truck replacement leaf vacuum and storage facility.

SUMMARY

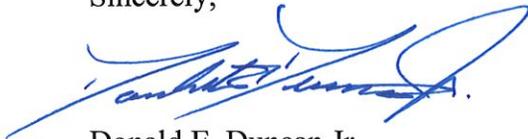
Listed above are the major components of this year's program of work. In addition to items funded in the annual budget, the city will continue the many multi-year projects that are underway including the road work adjustments for 1st St E and W, and the expansion of Conover City Park. Conover has a long 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, but with the caveat staff may bring to Council adjustments for Planning, Fire, Community Room, and others. With the increase in the rate and fixed charges for water and sewer to meet our long term capital needs at the NEWWTP, and continuation of the Motor Vehicle Tax to fund our paving plan, and offset transit costs.

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 maintains 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 2019-2020.

Sincerely,

A handwritten signature in blue ink, appearing to read "Donald E. Duncan Jr.", written in a cursive style.

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