

***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 2014 budget, and an Explanation of the Budget Presentation, which details the layout of the balance of this document.

Presented to the City Council  
April 26, 2013

Adopted in Final Form by the City Council  
June 4, 2013





*City of Gastonia*

A Commitment to Excellence  
August 9, 2013

## **CITY MANAGER'S BUDGET MESSAGE**

Mayor and City Council:

Enclosed is Gastonia's 2013-2014 Adopted Annual Budget. I want to thank all the City 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.

Our City, like most of the country, is still impacted by the recession that began in 2008. Supporting economic development that produces jobs and opportunities in the private sector must be our 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 and museum amenities likewise support the goal of city-wide economic development in 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. Complete Capital Projects Currently Underway
3. Avoid a Property Tax Increase
4. Limit Fee Increases to Amounts Necessary to Provide Acceptable City Services
5. Provide Adequate Compensation for Employees
6. Maintain a Three-Year Financial Plan
7. Maintain Adequate Fund Balances
8. Stabilize the City's Health Insurance Fund
9. Continue to Look for Opportunities to Reduce the Cost of Municipal Operations
10. Look for Opportunities to Grow our Local Economy
11. Make Improvements to Neighborhoods and Commercial Areas Throughout the City
12. Maintain the City's Infrastructure
13. Provide Adequate Funding for City Facilities and Equipment

## General Fund

The General Fund has revenue and expenditure challenges for the next three fiscal years which have been graphically depicted by our “thermometers”. Specifically, the debt service expenditures increase for Fiscal Year 13-14 by \$1,028,000, the Sales Tax revenue transfer from the County will decrease by \$379,000 (a steeper decrease than is applied to other cities in Gaston County), the loss of COPS revenue will require an additional \$300,000, Retirement contributions mandated by the retirement system will require an additional \$145,000, and County charges for tax collection at a one-half percent level will cost the City an estimated additional \$134,000. These adverse changes to the General Fund for next year amount to nearly \$2,000,000. For Fiscal Years 14-15 and 15-16 the problem grows to an estimated \$3,056,000 and \$3,650,000 respectively. It should also be noted that FY15-16 is the year that Tax Revaluation will be applied to Gaston County.

In order to address the challenges to 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 during the next three 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 work force and delay projects until adequate funding can be made available. A total of \$700,000 of General Fund Balance is appropriated this year to balance our operating budget. For the following two years, our plan would require the additional General Fund Balance appropriations of \$950,000 and \$1,050,000. In subsequent fiscal years, debt service payments begin to fall and the need to supplement the operating budget with appropriated fund balance should end.

Some good news for the General Fund is that the Property Tax revenue resulting tax base growth is projected to increase by \$531,071 from the current year. The County Tax Office is currently calculating changes to the Commercial Personal Property portion of the tax base. We should receive the final estimate in early May. An increase in our tax base is a strong indicator of improving economic conditions. The Adopted Budget for Fiscal Year 2013-14 does not include a change to the City’s current tax rate. The only General Fund fee increase included within this year’s Adopted Budget is the adjustment of the City’s building permit fees to match the rates currently charged by Gaston County.

Finally, the City must closely monitor the general economic conditions and potential changes to the City’s revenues that are being suggested by the State. Actions by the State Legislature and Governor could significantly impact the City’s General Fund.

## **Employee Compensation and Benefits**

The total number of budgeted full-time employees for the upcoming fiscal year is 875. This represents a reduction of 9 positions when compared with the current year's budget. Based on the projected revenue forecast, the FY 2013-2014 Budget includes funding for a one-time bonus of \$750 for all full time employees and \$250 for all part-time employees. The Budget also includes the annual Christmas Bonus of 3% with a maximum of \$300 to each eligible employee. Both bonus payments 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 2013-14 Budget provides continued funding in the amount of \$12,000 for the Employee Education Reimbursement Program (\$500 maximum per employee). At the City's Budget Overview meeting in April, it was agreed by all that the City would try to give as much compensation to our employees in Fiscal Year 2013-14 as we could prudently apply.

The fund balance for the City's self-funded Health Insurance Program will be virtually depleted by the end of current fiscal year. In accordance with the plan submitted to City Council in September 2012, an additional \$500,000 is programmed to be transferred in Fiscal Year 2013 from the operating Fund Balances to the Health Insurance Fund. In addition, another \$400,000 will be appropriated for Fiscal Year 2013-14. The Adopted Budget also provides for a \$550 payment in July to the Health Savings Account for all employees covered by the City's Health Insurance Program. Changes to the City's Health Insurance program, approved by City Council this year, are implemented with the FY13-14 Budget including an enhanced employee wellness initiative. The staff will closely monitor claims filed though the year and notify the Mayor and Council if further funds are needed.

## **Infrastructure**

The City of Gastonia is responsible for approximately 334 miles of paved streets, with sidewalks and traffic control systems, 548 miles of water lines, 505 miles of sewer lines, and 465 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 and 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

Equipment (Vehicles) and Computer/Communications equipment 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 \$5 million of vehicle equipment was requested by City departments for replacement or addition. In the FY 2013-2014 Budget, we are funding equipment replacement through the fifty-nine month loan method for a total of \$2,390,941 for Rolling Stock, and \$700,000 for Computer/Communication equipment. We are proposing to replace 45 vehicles including 16 Police vehicles. All requests by departments for replacement equipment that were approved by the Equipment Manager/Garage are included in the Adopted Budget. Also included in the total is a Fire Rescue Truck for \$565,000 as recommended by the Fire Department, an Asphalt Recycler for \$140,000 and \$50,000 for trailers to more efficiently transport our off-road equipment to various site locations.

## Fuel Costs

Fuel costs and other petroleum-based products are also creating pressure on our current year's budget and impact next year's budget as well. We have budgeted an additional 5% increase above this year's projected fuel use to deal with rising gas prices. Also, \$200,000 is reserved in the Adopted Budget for fuel use city-wide in case prices continue to rise. Increases in the cost of asphalt, which is also a petroleum-based product, will likewise affect our budget. An increase cost of asphalt diminishes our ability to provide much-needed road resurfacing efforts throughout the City.

## Electric Fund

Retail electric rates need to increase by an average of 3.32% due to a 4.9% increase in the City's wholesale electric costs from NC Power Agency 1 and Duke Energy. The retail electric increase only passes-through the amount of the wholesale cost. It is important to expand economic development into the areas served by City's electric system. Funds will be available for redevelopment as well as for new growth corridors. The FY 2013-14 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 - three percent of Gross Electric Fixed Assets. The City should continue to reduce the subsidy to the General Fund as it may practically be done. The 2013-14 Budget provides funding for maintenance and capital projects. Expenditures in the Electric Fund are organized into three priorities: *safety & maintenance, peak shaving & generation, and load growth initiatives.*

## Water and Sewer Fund

No water and sewer rate increase is recommended at this time. A report from our water utility consultant and our financial advisor for capital bonds should be received later this year. Within these reports specific recommendations will be made regarding future rates that will be necessary for 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 repair costs to the plant will be significant (currently estimated at \$58,000,000 for the First Phase covering the next several years). The staff will work to trim costs where we can, dividing the project into phases and establishing a funding plan that will use debt service and some fund balance to pay for this improvement over a 20 year period. This major effort will update and repair our Water Plant to ensure safe and efficient operation for decades to come.

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 continue to be: *increasing our sales, infrastructure maintenance, system performance, and system expansion in those areas that provide a viable return on our investment.*

## Stormwater Fund

At the City Council Work Session held on January 26, 2013, the staff provided information pertaining to the revenues and the operation of the Stormwater Fund. Currently the 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 right-of-way) are given priorities by the Stormwater Citizen's Advisory Committee. Projects are rated according to a three-tier priority system. Very limited funding is available for non-public rights-of-way projects. City Council indicated that during the May Budget Work Sessions a decision could be made to regarding the problem. The stormwater rate of \$2.75 has not been increased since the inception of the program. Additionally, the City Council should consider amending the program for improvements on private properties by setting a maximum amount per project as well as a shared financial participation requirement by property owners.

## **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. Traffic calming devices such as speed humps, continue to be funded (\$50,000) in the 2013-14 Budget to address neighborhood safety issues. Powell Bill funds will be used next year for road maintenance and resurfacing. The big State Highway project upgrading the US 321/I-85 Interchange will not begin actual construction until 2015. Finally, the Mayor and City Council will consider whether or not to move forward with the Multimodal Center (for design and land acquisition) and the Park & Ride Lots (for acquisition and construction) during FY13-14. The Environment Study for the Multimodal Center, funded in the 2012-13 Budget, is expected to be completed by January 2014. The City's share for the project is expected to be 10% - 20% of the total project cost.

## **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 20.39% of annual expenditures and above our goal as defined in City's Reserve Policy, that the Available Fund Balance should be between 12% and 15%. Beginning in the current fiscal year and over the next three fiscal years, the General Fund Balance will be drawn down to an amount just over 12% for transfers to the Health Insurance Fund and to the operating budget of the General Fund. The 2013-2014 Budget does not appropriate any fund balance from the Electric and Water & Sewer Funds. Funds are budgeted from the Hotel Occupancy Fund to cover the operating deficit at the Conference Center, which is stipulated in the Amended Management Agreement to be \$185,000 for Budget Year 2013-14.

We will not know the precise amount of fund balances for each fund until September 2013 after the close of the 2012-13 Budget Year. Accounting practices will allocate the last three months of sales tax and reimbursements received during the summer back to the 2012-2013 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 working with private property owners will identify key parcels throughout Gastonia that have the potential for development or redevelopment. High value growth is important to the General Fund and also to our utility funds that need the growth of customers to broaden their 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, 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 through the coming year and for years to come.

## **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 57% 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. During the upcoming budget year, the staff will review fees and make recommendation to the Mayor and City Council for their consideration.

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. 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 2013-2014**

<b>January 11, 2013</b>	<b>Initial equipment requests due to the Budget Office.</b>
<b>January 18, 2013</b>	<b>Preliminary revenue and expenditure budget worksheets and information distributed to Departments.</b>
<b>January 26, 2013</b>	<b>City Council Retreat (Set Budget Goals &amp; Objectives).</b>
<b>February 15, 2013</b>	<b>Expenditure and revenue worksheets, new program initiatives and capital project worksheets due. Comments justifying all requests, should be entered at the same time department requests and current year projections are entered.</b>
<b>February 19, 2013</b>	<b>The Departments can make no further changes unless approved by the Budget Office.</b>
<b>March 1, 2013</b>	<b>Mission Statements/Goals &amp; Objectives/Accomplishments due. Analysis and reports prepared by the Budget Office.</b>
<b>March 11-March 20, 2013</b>	<b>Review of departmental requests by City Manager, Assistant City Managers, Department Heads and Budget Department staff. Reviews will be scheduled daily. Department Heads should try to leave their schedules open for these two weeks.</b>
<b>April 4, 2013</b>	<b>Council work session: Budget Outlook.</b>
<b>April 12, 2013</b>	<b>Budget should be finalized and balanced based on recommendations of the City Manager.</b>
<b>April 25, 2013</b>	<b>Proposed budget should be printed and notice of public hearing completed.</b>
<b>April 26, 2013</b>	<b>Budget presented to City Council and press.</b>
<b>May 7, 2013</b>	<b>Public Hearing on the Budget and Budget discussion at the Council Meeting.</b>
<b>May 9 &amp; 22, 2013</b>	<b>City Council budget work sessions.</b>
<b>June 4, 2013</b>	<b>Adoption of the Fiscal Year 2013-2014 budget.</b>

8/16/2013

# 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 2014 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.

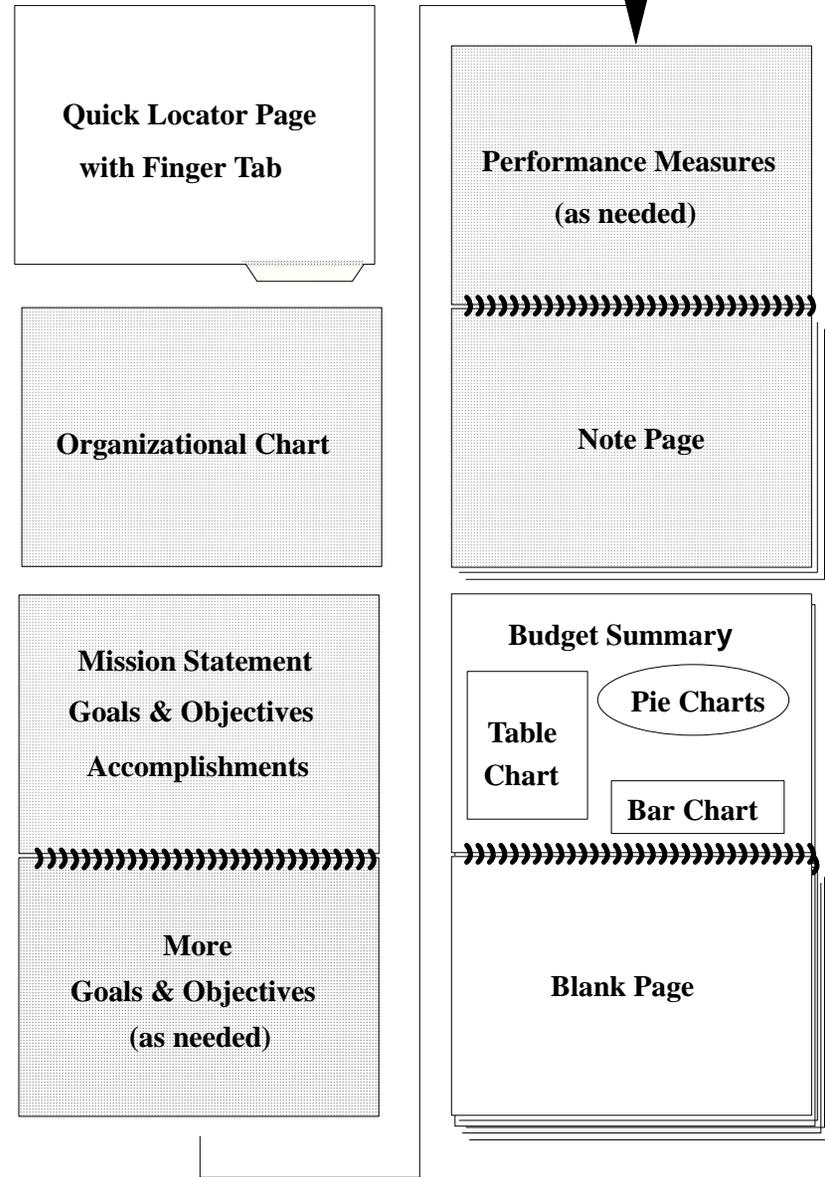
The layout of the expenditure detail information is graphically explained on the following pages.



# 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 2014 Objectives and Fiscal Year 2013 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.

