

To the Honorable Mayor and City Council of the City of Marion:

In accordance with the General Statutes of North Carolina, I respectfully submit for your review and consideration the proposed budget for the City of Marion for Fiscal Year 2011-12. A copy of this budget is available for public inspection at City Hall. The budget is composed of five funds, including the General Fund, Water and Sewer Fund, Internal Service Fund, General Capital Reserve Fund and the Water and Sewer Capital Reserve Fund. The City also maintains project funds for individual capital projects. These funds are budgeted on a project basis and are not included as part of the annual budget.

The total budget for all funds, excluding interfund transfers, is \$9,739,776, which represents a 2.32 percent increase (or \$220,757) over the original 2010-11 Fiscal Year Budget, excluding interfund transfers, and a decrease of 0.54 percent (or \$52,957) over the amended 2010-11 Fiscal Year Budget, excluding interfund transfers, as of this date. The decrease from the amended 2010-11 budget is mainly due to the following revenue losses and expenditure increases:

- Decreased sales tax revenues: -\$44,000
- Declining prior year tax revenue: -\$10,000
- Lower than expected interest income from investments: -\$15,500
- Declining utility franchise tax revenues: -\$40,000
- Lower ABC revenues: -\$18,600
- Budgeting of debt payments for Sugar Hill Road Water and Sewer Extension: +\$129,920
- Increased capital outlay, mainly for Public Works Department large vehicle purchases: +\$167,404

Without these revenue losses and necessary expenditures, the proposed 2011-12 City budget would have decreased by a much larger amount than 0.53 percent.

The proposed budget figures are broken down into the following allocations:

General Fund	\$ 5,392,380
Water and Sewer Fund	3,528,565
Internal Service Fund	277,786
General Capital Reserve Fund	491,898
Water and Sewer Capital Reserve Fund	<u>249,147</u>
Subtotal	9,939,776
Less Interfund Transfers	<u>200,000</u>
Total All Funds	<u><u>\$ 9,739,776</u></u>

In this budget, the staff and I have attempted to meet the budgetary goals that the City Council has had in place for many years. These goals are:

- Continue to provide quality and cost effective services to the citizens of Marion.

- Seek to have no property tax rate increase for the 44th consecutive year, unless there is a compelling reason to adjust the tax rate.
- Minimize the impact of increases to water and sewer rates and connection fees while ensuring the financial stability of the Water and Sewer Fund.
- Stress improvements to City infrastructure, particularly water, sewer, streets and sidewalks.
- Continue to stress City appearance, long range planning and economic development.
- Improve the City's quality of life through continued development of mini-parks and other recreational facilities, if property can be acquired.
- Continue to keep the City's fund balance adequate for future needs.
- Continue to build the General and Water and Sewer Capital Reserve Funds for future capital projects.

Several components of the budget deserve more detailed attention, and are addressed as follows:

REVENUES:

During the past three fiscal years, growth slowed in the City's property tax base, due to the declining State and National economy. While there was some modest residential and commercial development in the City in the past few years, this growth was offset by the closing of the City's last two textile plants in the Fall of 2008 and depreciation of personal property and equipment by industry, which resulted in the loss of nearly \$6 million in City personal property tax base, or revenues of about \$30,000 per year. Once the County property revaluation taking effect on July 1, 2011 and annexations taking effect on June 30, 2011 are factored in, the City's 2011-12 tax base for real, personal and utility property is estimated to be \$368,659,678.

This budget proposal recommends that the City tax rate remain at a rate of \$.51 per \$100 valuation. This would be the 44th consecutive year that the City of Marion has not raised the property tax rate. The \$.51 tax rate is projected to generate approximately \$1,804,957 in revenues for real, personal and utility property, and \$150,000 for motor vehicles, based on a tax collection ratio of 96 percent, which is slightly less than the projected City tax collection percentage for 2010-11.

Sales tax revenues are expected to decrease by \$44,000, or 4.30 percent, in 2011-12, due to McDowell County shifting another \$50,000 in sales tax revenues from the City to the County (for a total sales tax shift from the City to the County of \$350,000 in 2011-12). Sales tax revenues for 2010-11 are expected to end up being \$14,000 less than was budgeted, but sales tax revenues are forecasted to increase modestly Statewide and locally in 2011-12, which should offset the revenue shortfall for 2010-11, but only some of the additional \$50,000 in sales tax shift from the City to the County.

Retail sales in the City and County have been good in recent years, exceeding the growth in Statewide retail sales for six consecutive years, and continued growth in local retail sales is expected to continue in 2011-12. Forecasts call for sales tax revenues across North Carolina to be three to four percent higher in 2011-12 than in 2010-11, so there is hope that the sales tax revenue estimates projected for 2011-12 are conservative and that actual sales tax collections may exceed the estimates.

Powell Bill revenues are projected to increase by \$11,559 over the budgeted 2010-11 amount and be \$3,668 higher than the actual 2010-11 amount, due to projected increases in City population and street mileage and modest increases in State gasoline tax receipts. Utility franchise tax revenues are projected to be \$40,000 below the budgeted 2010-11 amounts, based on actual utility franchise tax revenue collections for 2010-11 expected to be \$30,000 or more below the budgeted amount. The beer and wine tax is budgeted slightly higher than last year's budget, due to the City's continued growth and Statewide projections for modest growth in these revenues.

Two-thirds of the City's beer and wine revenue, approximately \$22,650, was retained by the State in 2009-10. In past years, the State has retained as much as \$320,000 of State collected local revenues. At the time this budget has been prepared, there has been no proposal for the State to retain any State collected local revenues for 2011-12.

No increase in water and sewer rates, minimum charges or service charges is proposed for 2011-12. The 2010-11 Fiscal Year was the fifth and final year of annual six percent water and sewer rate increases, as had been agreed to by the City Council in 2006. The budget projects that water and sewer sales will be an estimated \$2,000, or 0.06 percent, lower than what was budgeted in 2010-11. This projection is based on water and sewer sales ending 2010-11 an estimated \$35,000 (or 1.19 percent) lower than the budgeted amount, but commercial and industrial growth increasing water and sewer sales to the point that 2011-12 water and sewer sales should almost be equal to the budgeted amounts for 2010-11.

The five year water and sewer rate increases offset the heavy reliance on Water and Sewer Fund Balance appropriations and allowed the Water and Sewer Fund to become self sufficient, and not rely on transfers from the General Fund, for the first time in over 15 years. The rate increases over the past five years have helped build the Water and Sewer Fund Balance back to a level acceptable for a water and sewer system the size of the City of Marion and also helped to fund the local debt service on the \$6.6 million Wastewater Improvements Project and the \$2.1 million Sugar Hill Road Water and Sewer Extension, along with rebuilding the City's declining water and sewer reserves. The City received State and Federal grants in recent years for \$6.6 million for these capital projects. However, debt service of approximately \$2.1 million will still have to be issued for these capital projects, in order to completely fund both projects. In the proposed budget, there is no budgeted transfer from the General Fund to the Water and Sewer Fund for the fourth year in a row, meaning that the Water and Sewer Fund will continue to be self sustaining, accomplishing a goal the City Council has had for many years.

ABC revenues are forecasted to be \$60,000, which represents a decrease of \$15,000 from the 2010-11 budgeted amount and an increase of \$10,000, or 20.00 percent, from actual estimated ABC revenues for 2010-11. The projected increase over actual revenues is due to the streamlining

of ABC Board operations resulting from the City taking over accounting and payroll functions for the ABC Board, effective July 1, 2011. These revenues are earmarked for beautification, parks and recreation, downtown/economic development and donations to outside agencies, as shown below in the Expenditure section.

The budget recommends no increases in commercial garbage fees or planning and inspection fees. Some adjustments are proposed for business privilege licenses.

Interest income from investments in all funds is projected to be \$33,500, which represents a decrease of \$15,500, or 31.63 percent, from the budgeted interest income of \$49,000 in all funds for 2010-11. Interest rates on investments continued to decline or remain stagnant in 2010-11, resulting in the conservative approach of assuming decreased interest income for 2011-12.

The General Fund will require a fund balance appropriation of \$426,527, an amount 18.88 percent lower than the \$525,775 General Fund Balance appropriation amount included in the 2010-11 original budget. In the Water and Sewer Fund, a fund balance appropriation of \$345,737 is projected, which is 90.63 percent higher than the original budgeted 2010-11 Water and Sewer Fund Balance appropriation of \$181,366. The main reason for the higher Water and Sewer Fund Balance appropriation is to begin reimbursing the General Fund for past transfers made to balance the Water and Sewer budget for an extended period throughout much of the 1990's and 2000's. While Water and Sewer Fund reserves have been rebuilt to an acceptable level in recent years, the amount of Water and Sewer Fund Balance appropriations will have to be closely monitored, to make sure that the Water and Sewer Fund Balance remains adequate to cover operating expenses and debt service.

Revenues and expenditures within the Internal Service Fund are projected to be \$837 higher than in the 2010-11 budget, mainly due to the need for some equipment in the City Warehouse. No interfund transfers from the General Fund and Water and Sewer Fund to the Internal Service Fund are proposed for 2011-12, keeping the Internal Service Fund entirely self-supporting. As noted earlier, this budget does not include any transfer from the General Fund to the Water and Sewer Fund, but does include a \$200,000 payment from the Water and Sewer Fund to the General Fund, to begin reimbursing the General Fund for past transfers made to balance the Water and Sewer budget for an extended period throughout much of the 1990's and 2000's. No transfer is proposed from the General Fund to the General Capital Reserve Fund or from the Water and Sewer Fund to the Water and Sewer Capital Reserve Fund. Fund Balance appropriations are proposed for the Powell Bill account in the General Fund (\$50,000), the General Capital Reserve Fund (\$475,898) and the Water and Sewer Capital Reserve Fund (\$246,647). A transfer of \$271,251 from the General Fund Capital Reserve Fund to the General Capital Projects Fund is proposed, to fund the remaining costs of the Downtown Streetscape Plan implementation. No expenditure of the Fund Balance appropriations for the Water and Sewer Capital Reserve Fund is planned for Fiscal Year 2011-12, unless so directed by City Council. The Powell Bill Fund Balance appropriation is proposed to shift labor costs for maintenance and repair of City streets to the Powell Bill account. Contracted projects, including annual street paving and curb and gutter/sidewalk replacements, will be proposed in the Powell Bill account in 2011-12, but will be approved by City Council prior to being undertaken.

EXPENDITURES:

This budget contains recommended funding for day-to-day operating expenses and for one-time capital expenses. Major operating and capital related expenditures are as follows:

Capital Outlay/Projects

- Funding for street, sidewalk, curb and drainage projects, \$198,000
- Code enforcement expenses for dilapidated housing demolition, \$10,000
- Purchase of two replacement marked Police cars, \$70,500
- Purchase of two replacement in-car cameras for Police cars, \$8,600
- Police Department radio repeater improvements, \$4,282
- Miscellaneous Fire Department capital needs, \$7,800
- Purchase of replacement long arm tractor for right-of-way mowing for Street Division, \$75,000
- Purchase of replacement utility truck for Street Division, \$40,000
- Purchase of snow blade to equip additional vehicle for snow removal for Street Division, \$10,000
- Purchase of waste oil heater for City Garage, \$10,000
- Miscellaneous equipment for Fleet Maintenance Division, \$6,500
- Purchase of eight dumpsters, \$7,000
- Purchase of replacement front load commercial garbage truck, \$195,000
- Purchase of replacement one ton dump truck for Sanitation Division, \$50,000
- Mini park funding, including work on Clinchfield Community Park, \$30,000
- Purchase of laptop computers for Administration to replace 6.5 year old computers, \$6,000
- Purchase of water and sewer pipe, valves and hydrants, \$85,000
- Purchase of underground punch or tamp in Utility Maintenance Division, \$2,500
- Purchase of replacement 4x4 pickup truck for Utility Maintenance Division, \$25,000
- Purchase of utility saws for Utility Maintenance Division, \$2,500
- Replacement of raw water gate valve at Water Plant with butterfly valve, \$10,500
- Purchase of new check valve and actuator on finished water pump at Water Plant, \$16,800
- Purchase of replacement 4x4 vehicle for Water Plant, \$23,000
- Purchase of backhoe for Wastewater Plant, \$18,754
- Purchase of bush hog for tractor used for mowing sewer rights-of-way, \$3,200
- Purchase of lab equipment at Wastewater Plant, \$12,400
- Purchase of replacement lawnmower for Wastewater Plant, \$3,000
- Purchase of trailer for towing tractor for Wastewater Plant, \$4,500
- Miscellaneous equipment for Wastewater Plant, \$5,646

Personnel/Administration

- 0% cost of living increase for City employees, \$0 (including benefits)
- Merit increases for employees, \$0

- Increase in medical insurance premiums, \$9,660
- Decrease in worker's compensation and property/liability insurance premiums, \$29,467
- Budgeting of 2,000 hours of temporary labor for Public Works Department to use for fill-in work, \$24,000

Debt Service

- Payment on Police Department loan, \$126,846
- Payment on Automated Meter Reading System loan, \$106,191
- Payment on Sugar Hill Road Water and Sewer Extension loan, \$129,920
- Payment on Fire tanker truck and tower truck loans, \$110,317
- Payment on Wastewater Improvements Project loan, \$65,034

Contracted Services/Operational Expenses

- Contracted services for water/sewer line extensions and repairs, \$128,000
- Purchase of City warehouse stock for resale to City departments, \$180,000
- Disposal of wastewater residuals through land application process, \$70,000
- Disposal of sludge from Water Plant lagoon, \$10,000
- Cemetery mowing, \$18,000
- Landscaping contract and street right-of-way mowing contract, \$52,560
- County landfill tipping fees, \$75,000
- Commercial recycling contract, \$28,800
- Legal/Audit services, \$33,000

Downtown and Economic Development/Outside Agency Funding/Special Projects

- Funding for miscellaneous special projects, \$10,000
- Mountain Glory Festival expenditures, \$20,000
- Purchase of fireworks for annual July 4th Celebration, \$5,000
- Funding for Downtown/Economic Development/Events and Promotions, \$67,000
- Funding for other local agencies, \$3,500

As noted above, the proposed 2011-12 budget does not call for cost of living or merit increases for City employees. No layoffs are planned to take place on July 1; however, a Police Officer position is scheduled to be laid off on January 1, 2012, due to severe budget constraints placed on the City.

It is worth noting that the recommended number of full-time City positions for the 2011-12 Fiscal Year, 92, equals the number of full-time positions the City had during the 2000-01 Fiscal Year, despite the City growing by more than 60 percent in population between 2000 and 2011.

As mentioned above in the Revenue section, expenditures in the amount equal to \$60,000 in projected ABC revenues are designated for the following programs:

As mentioned above in the Revenue section, expenditures in the amount equal to \$60,000 in projected ABC revenues are designated for the following programs:

Parks and Recreation	\$ 20,000
Beautification/Landscape Maintenance	20,000
Downtown/Economic Development	16,500
Various Community Agencies	<u>3,500</u>
Total	<u>\$ 60,000</u>

Total capital outlay in all funds in the proposed 2011-12 budget is increased 21.78 percent (or \$167,404) from the 2010-11 amended budget as of this date, with General Fund capital outlay increasing by 52.20 percent and Water and Sewer Fund capital outlay decreasing by 27.50 percent.

CONCLUSION:

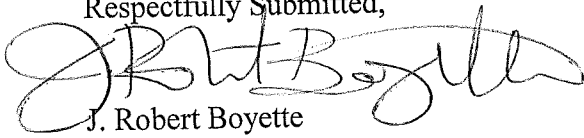
The preparation of this budget has been with the knowledge of a struggling Statewide economy and local uncertainty, as evidenced by declining sales tax revenues and plant closings in recent years. The budget is designed to continue City operations at the current level, while serving annexation areas and growth occurring in the City. The budget also seeks to make necessary expenditure cuts, without affecting core municipal services as much as possible, in order to achieve a balanced budget. An attempt has been made to budget for revenues and expenditures very conservatively, while allowing for unexpected changes in the payment of revenues or for unexpected expenditures. City staff understands that budgeted funds will only be spent on needs. Any items that are not deemed to be necessary will not be pursued this Fiscal Year and expenditures, particularly involving capital outlay purchases, can be cut during the Fiscal Year if revenues are not collected as projected.

I wish to express my appreciation to the department heads for their support and assistance in the preparation of this budget. I particularly wish to thank Finance Director Harriett Thomas for her hard work compiling the information for the budget, formatting the budget document and assembling the completed budget. We look forward to review of this document by you and the public. We are prepared to make adjustments as the Mayor and City Council deem appropriate.

The following schedule is proposed for your consideration of the proposed budget:

Tuesday, May 17, 2011	Budget Submittal
Tuesday, May 24, 2011	Budget Workshop
Tuesday, June 21, 2011	Public Hearing on Budget
	Adoption of Budget

Respectfully Submitted,



J. Robert Boyette
City Manager