



**TOWN OF FOREST CITY, NORTH CAROLINA
FY 2014-2015 BUDGET MESSAGE**

To the Honorable Mayor and Council Members,

The proposed budget for fiscal year 2014-2015 is presented for your consideration. This recommended budget is balanced based on a tax rate of 29 cents per \$100 valuation. The net value of one cent of property tax (after applying the collection rate) is \$113,598. The budget message is divided into the following sections:

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I. INTRODUCTION

The FY 2014-2015 budget is presented to the Mayor and Town Council for your consideration. The purpose of this budget message is to share the major features of the Town’s operations as it relates to the budget.

The chart below, “Town of Forest City FY 2013-2014 Amended and FY 2014-2015 Recommended Budgets,” shows the five major funds which make up the Town budget.

**Chart 1: TOWN OF FOREST CITY FY 2013-2014 AMENDED
AND FY 2014-2015 RECOMMENDED BUDGETS**

	Amended <u>FY 2013-14</u>	Recommended <u>FY 2014-15</u>
General Fund	\$ 9,764,059	\$ 9,333,132
Florence Mill Fund	\$ 263,888	\$ 380,796
Parks & Recreation Fund	\$ 1,951,100	\$ 1,820,385
Water & Sewer Fund	\$ 5,488,543	\$ 5,430,960
Electric Fund	<u>\$12,806,780</u>	<u>\$12,495,280</u>
TOTAL	\$30,274,370	\$29,460,553

The major goal of the FY 2014-2015 budget is to maintain services without increasing property tax rates or user fees. Ad valorem property taxes, net of the Facebook levy, have increased by \$253,803 since the revaluation in 2012. When compared to General Fund expenditures, this represents only a 2.5% increase of the total General Fund budget over the past three years. Water and sewer rates have remained unchanged since July 1, 2008. Electric rate increases approved in the past few years have

been implemented to pass on the increases in Duke Energy's wholesale rates to the Town. The last electric rate increase was 4.5% effective January 1, 2014 to match the Duke Energy rate increase to the Town. Increases in electric rates have not occurred related to the other ongoing operational expenses of the Electric Fund. In addition, Rutherford County has announced plans to increase the tipping fee for municipal solid waste. This will be discussed later in the budget message. However, as this budget message will highlight, some areas such as property taxes, combined sales tax and electric utility franchise tax are experiencing some growth at \$300,000, \$36,080 and \$185,000 respectively.

II. PROPERTY TAX, WATER AND SEWER, AND ELECTRIC RATE COMPARISONS

Although this budget does not propose increases in property tax, water and sewer and electric rates, staff felt it was important to provide Council with comparisons of the Town's rates with our peers.

Appendix A provides a comparison of the Town's property tax rates in comparison with the four municipalities right above and below the Town in population for Towns with electric operations. This is the group the Town is compared to in analyses prepared by the Local Government Commission. As the chart shows, the Town of Forest City shares the lowest property tax rate of \$.29 with Edenton. The highest rate is Ayden at \$.54.

Appendix B provides a comparison of the Town's water and sewer residential rates with all other providers in the State of North Carolina. The information provided is from the Environmental Finance Center at the UNC School of Government and the North Carolina League of Municipalities. When comparing water rates at 3,000 gallons of usage (which is the usage that the minimum rate for Forest City is based on), the Town ranks 60 out of approximately 380 providers when comparing rates from the lowest to the highest. When comparing sewer rates at 3,000 gallons of usage (which is the usage that the minimum rate for Forest City is based on), the Town ranks 25 out of approximately 320 providers when comparing rates from the lowest to the highest.

Appendix C provides a comparison of the Town's Electric Residential Rates for 2012 from the EIA-861 and EIA-861S forms. 2012 is the latest year available. The Town ranks 23 out of 67 providers when comparing rates from the lowest to the highest.

In summary, the Town has relatively low and very competitive rates when comparing property tax, water and sewer, and electric rates.

III. GENERAL FUND

Revenues:

Four revenue sources comprise approximately 60% of the General Fund recommended revenues. These sources are ad valorem taxes, sales taxes, electric utility franchise taxes and waste collection charges. A four year history of these revenues is below in Chart 2:

**CHART 2: FOUR YEAR HISTORY OF MAJOR TOWN OF FOREST CITY
GENERAL FUND REVENUES**

	FY 11-12 Actual	FY 12-13 Actual	FY 13-14 Amended Budget	FY 13-14 Estimated	FY 14-15 Recommended
Ad valorem taxes	\$ 1,615,956	\$ 1,874,743	\$ 2,708,359	\$ 3,017,000	\$ 3,361,334*
Sales taxes	\$ 724,209	\$ 714,462	\$ 729,596	\$ 757,200	\$ 765,676
Electric Utility Franchise Taxes	\$ 213,348	\$ 392,044	\$ 315,000	\$ 500,000	\$ 500,000
Waste Collection Charges	\$ 1,011,915	\$ 1,009,777	\$ 1,010,000	\$ 1,000,000	\$ 1,000,000
Subtotal	\$ 3,565,428	\$ 3,991,026	\$ 4,762,955	\$ 5,274,200	\$ 5,627,010

*Facebook accounts for \$1.63 million of the total ad valorem levy but is also reflected on the expenditure side as an incentive grant. Therefore, while ad valorem tax revenues have increased \$1.63 million due to Facebook, expenditures have increased by an equal amount.

Ad Valorem Taxes

Ad valorem taxes include current year taxes, prior year taxes and penalties and interest. The County Tax Office estimates that the Town’s ad valorem tax base for FY 2014-15 will be approximately \$1,177,004,080. See Chart 4, “2014 Real and Personal Property Value Estimates” on page 22. At the FY 2012-13 property tax collection rates of 96.92% for all property excluding DMV and 82.45% for DMV, this equates to a net collectible current year levy of \$3,294,334 (net value of one cent = \$113,598). Approximately \$1.63 million of this \$3,294,334 is Facebook levy of which 100% is returned as an incentive grant to Facebook. Therefore, while overall ad valorem tax revenues have increased by \$1,736,480 (\$3,361,334 - \$1,624,854) since FY 10-11, *ad valorem tax revenues net of the Facebook levy*, have actually *increased* approximately \$110,000. See Section IX. 2014 Property Values and Facebook Impact for further discussion.

Sales Taxes

The four articles of sales tax are estimated to increase 3.75% from a budget of \$253,920, \$174,358, \$126,960 and \$174,358 in FY 2013-14 to \$267,675, \$183,638, \$132,800 and \$181,563, respectively. This \$36,080 increase is largely attributable to the positive impact of Facebook's property value (based on the County use of ad valorem levy for sales tax distribution) and the statewide projected sales tax.

Electric Utility Franchise Taxes

The Electric Utility Franchise Tax has increased from a budget of \$315,000 in FY 2013-14 to an estimated \$500,000 in FY 2014-15, or a \$185,000 increase. This is largely due to Facebook. Tax reform passed in the 2013 North Carolina legislative session capped the Town utility franchise reimbursement to the amount collected in FY 2013-2014 which is currently estimated to be \$500,000. This was the main revenue source that the Town expected to receive due to the annexation of and incentive agreements with Facebook but it currently appears to be a non-growing capped revenue source as of June 30, 2014. This is being coupled with changes in electricity gross receipts tax.

The following discussion relates to the coupling of changes in electric utility franchise taxes, sales tax on electricity and the gross receipts tax. These changes affect revenues and expenditures in both the General Fund and the Electric Fund.

Effective July 1, 2014, per NC State law, there will no longer be a gross receipts tax charged on electricity that the Town purchases from Duke. The gross receipts tax is currently 3.22%. The Town will see a corresponding decrease in demand and energy rates that are paid to Duke effective July 1, 2014 from the Electric Fund. It should be noted, however, that the purchases that the Town makes from Duke for resale only represent 55% of the overall electric budget which would translate into an overall decrease of approximately 1.8%. This would equate to an **estimated savings of \$240,000.**

Also, effective July 1, 2014, per NC State law, sales tax charged to the Town's electricity customers will increase from 3% to 7% with the exception of industrial customers. Industrial customers are currently exempt from sales tax on electricity and will continue to be exempt. **This 7% sales tax will be collected by the Town and remitted to the State based on gross sales. All sales tax that the Town bills to customers will be submitted to the State.**

It should also be noted that currently, when the Town submits the 3% sales tax to the State, the Town is allowed to deduct the cost of electricity purchases from the total sales when computing the 3% to be sent to the State. Therefore, **currently, the Town is paying 3% of net sales (sales less costs) to the State.** As of July 1, 2014, this deduction would be

repealed and the Town will have to remit 7% on gross sales as discussed in the previous paragraph. Therefore, the Town would **“lose” approximately \$150,000** annually in funds in the Electric Fund that was available to cover costs in the past.

In addition, the distribution method for the electricity sales tax (electric utility franchise tax) will change in Fiscal Year 2014-15. Revenue from the electric utility franchise tax is a General Fund revenue. According to a recent memo issued by the NC League of Municipalities, “44 percent of the proceeds from the sales tax will be returned to cities and towns. **That percentage was chosen with the intent that it would be sufficient to hold municipalities harmless from the amount they are currently receiving in utility franchise tax distributions.** The amount of electricity franchise tax municipalities receive in Fiscal Year 2013-14 is intended to serve as a baseline for the amount they are to receive going forward. If 44 percent of the general sales tax on electricity is not sufficient to provide every municipality with at least the same distribution that they are receiving in the current fiscal year, then every municipality’s distribution of the electricity sales tax will be reduced proportionally. If there are excess funds remaining from the 44 percent of the general sales tax after every municipality has received the same distribution it receives during the current fiscal year, then the excess revenues will be distributed statewide on an ad valorem basis.”

As this relates to electric rate fees, this budget recommends that the Town maintain the current electric rate structure as of July 1, 2014. Given the extensive changes that are being made with sales tax on electricity and gross receipts tax as previously discussed and the apparent lost deduction for sales tax on purchased power from the State, the Town needs a few months to see the true effect of these implemented changes on revenues. In addition, given the extreme weather conditions that occurred this past winter, Nova Energy Consultants has stated that it is highly likely that the Town will have to pay an additional amount to Duke for the 2014 true up in June 2015. This amount cannot be estimated, however, until the end of 2014. It is recommended that we review any rate adjustment in January 2015 which is the typical time that Council would consider electricity rate adjustments.

Waste Collection Charges

Waste collection charges have remained relatively flat for the past couple of years. The recommended budget for the County includes a \$10 per ton increase in the MSW fee charged at the landfill to be effective July 1, 2014. The fee would go from \$47 per ton to \$57 per ton which is an increase of 21.2%. If the County Board of Commissioners approves this increase, garbage fees will need to be discussed with GDS and it is recommended that any charge that is passed to the Town by GDS is, in turn, passed on to customers. Staff will keep Council abreast of this situation as the budget process progresses and bring a recommendation to the Board.

While the revenues in Chart 2 discussed previously are the most significant revenue sources in the General Fund, transfers from the utility funds represent \$3,913,052 in funding for the General, Florence Mill, and Parks and Recreation Funds. A more detailed explanation of utility transfers is provided in Section XI. Interfund Transfers. In addition, the fund balance available for appropriation is described in more detail in Section X. Fund Balance.

Expenditures:

This section is a brief narrative of changes in individual departments’ expenditures that staff felt needed to be discussed in this report.

Governing Body

The **Governing Body** budget includes two items that require a brief explanation. In order to more accurately allocate the cost of administration of the Water and Sewer Fund and Electric Funds to those funds, two additional line items (Water and Sewer Fund Reimbursement and Electric Fund Reimbursement) have been added to a number of departments. **As the State legislature continues to discuss transfers from Enterprise Funds to the General Fund and the Town is still not sure which position the State will eventually take, this budget allocates enterprise fund costs that have been charged to the General Fund in the past to those Enterprise Funds. A summary of these costs are below:**

	Expenses previously charged to General now charged to		
	<u>Water/Sewer Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Governing Body	\$ 16,801	\$ 41,069	\$ 57,870
Administration	\$ 102,817	\$ 251,331	\$ 354,148
Finance	\$ 48,590	\$ 36,160	\$ 84,750
Legal	\$ 10,080	\$ 24,640	\$ 34,720
Warehouse/Garage	\$ 21,967	\$ 53,696	\$ 75,663
Public Works Buildings	\$ 20,240	\$ 49,478	\$ 69,718
Totals	\$ 220,495	\$ 456,374	\$ 676,869

Administrative

The **Administrative** budget requires several items of explanation. The line item Facebook Grant will increase from \$1,266,941 to \$1,626,636 which is a reflection in the increased value of the Facebook facility from \$436,876,360 (FY 2013-14) to \$560,909,110 (FY 2014-15). This is discussed in further detail on page 23. An additional \$10,000 is budgeted in

Beautification Committee expense. This \$10,000 increase over FY 2013-2014 will cover two additional seasons of new banners – winter and fall. These current banners are approximately 8 years old. Last year the Town replaced the Christmas banners. The goal would be to replace spring and summer next year. In addition, the Building and Grounds Repairs and Maintenance has increased from \$37,500 to \$50,000 in order to continue to improve the building both from a physical appearance standpoint and continue to repair structural issues. In the last two years the brick mortar joints have been replaced/repared, the drop ceiling has been replaced and the basement and foundation moisture issues have been corrected. In addition, one heat pump has been replaced. The capital outlay for IT is budgeted at \$50,000. This comprises three items. First a new MX router is added at a cost of \$17,000. The current firewall would then become the backup. The current IT work van is a 1996. A new van would be more efficient and practical. This price also includes the shelving needed for the vehicle. This is budgeted at \$25,000. Lastly, the wireless mesh net is recommended to be extended. This would allow coverage on South Broadway and East Main Street. The cost is \$8,000.

Finance

The **Finance** budget reflects a more accurate distribution of salaries and benefits of the finance staff between the General, Water & Sewer and Electric Funds as well as the indirect costs as discussed under the Governing Body section.

Warehouse and Garage

The **Warehouse and Garage** budget does not have any significant changes for FY 2014-2015 with the exception of the allocation of indirect costs to the Water & Sewer and Electric Funds discussed under the Governing Body section.

Public Works Buildings

In **Public Works Buildings**, four items warrant mentioning. First, the line item CO Other Improvements includes \$15,000 to improve the kitchen/break area for employees. This project was not completed and those funds are being recommended to carry forward and re-budgeted in FY 2014-2015 to come fund balance appropriated. Second, also included in CO Other Improvements is \$48,000 to correct plumbing issues and handicap accessibility to the building. Problems with the original design of the building continue to result in odor issues which are happening more frequently, especially when there is a backup. Several different plumbers have looked at the building and cameras have been through the piping. To correct the issue, several improvements would have to be made. In the process of these improvements, the building could be made handicap accessible. More information on this can be found in Appendix I Capital Request Forms. Third, effective January 1, 2015, Town staff is recommending discontinuing the cleaning contract with Campbell's Cleaning and hiring a full time custodian to clean City Hall, the Annex, Public Works, the Police Department and the Library. The Town would be buying

its own cleaning equipment (vacuum cleaners, etc) and cleaning supplies. This position would report to Public Works. It is estimated that the net increase in FY 2014-15 to do this would be \$6,637. Fourth, the budget includes the allocation of indirect costs to the Water & Sewer and Electric Funds as discussed under the Governing Body section.

Police

In the **Police Department** budget, one position was eliminated during the FY 2013-2014 budget discussion which carries forward in FY 2014-2015. In addition, ammunition budgeted in FY 2013-2014 in the amount of \$16,000 has been re-budgeted in FY 2014-2015. The supplier was not able to fill the order during this budget year. In addition, two items – tactical holsters and aimpoint pro rifle optics – are budgeted at a cost of \$5,300. Implementation of the **Senior** Police Officer Program is estimated at an annual cost of \$17,000 and is recommended with this budget at a cost of \$12,750 if implemented October 1, 2014. This program can be found in Appendix L.

Fire/Volunteer Fire

The **Fire Department** budget includes the purchase of the Quick Response Vehicle which was budgeted in FY 2013-2014 but has been rolled forward to FY 2014-2015. The Town Council gave tentative approval for this vehicle at the April 7, 2014 Town Council meeting by accepting the \$50,000 grant from the Timken Foundation. This \$50,000 grant is coupled with \$110,000 in Town funds for a total of \$160,000. \$90,000 of the \$110,000 in Town funds would be budgeted as fund balance appropriated as this is the carryforward amount that was budgeted in FY 2013-2014. The information on this vehicle and the supporting documentation is in Appendix I. In addition, the Firefighter Specialist Program is recommended for approval at an estimated annual cost of \$25,000. The cost to begin this program effective October 1, 2014 is estimated to be \$18,750. A narrative on the proposed program can be found in Appendix L. The recommended budget also includes hiring a part time administrative assistant to assist with the clerical needs of the department.

In addition, the recommended budget includes continuing the Fire Special District property tax at a rate of 8 cents per \$100 valuation.

Code Enforcement & Planning/Zoning

Three items budgeted in **Code Enforcement & Planning Zoning** need to be noted. First, the Pedestrian Planning grant has been re-budgeted at a cost of \$27,500 due to the fact that it is anticipated that the plan will not be completed as of June 30. It is a multi-year grant ending in the Spring of 2015. There may be some work completed in June. If that occurs, a budget adjustment will be done in FY 2014-2015 to reduce the amount budgeted. The \$27,500 consists of a \$22,000 grant and \$5,500 Town match. The \$5,500 match is appropriated from fund balance as it was budgeted in the FY 2013-2014 fiscal

year. Second, this will be the first full year that the administrative assistant position is funded in Code Enforcement. The position became full time on January 1, 2014. This position is also assisting with payroll. The assistance with payroll requires approximately 1.5-2 days each payroll and there are 26 payrolls per year. This not only provides a backup for our Human Resources Manager but it is also another step in creating the time for our Human Resource Manager to work on personnel issues full time. Third, the Board approved a Streetscape design plan in the FY 2013-2014 budget. McGill and Associates has been working on that design. Although it is not complete, examples can be found in Appendix J. The current staff plan called for meeting with the Beautification Committee to prioritize what areas to begin implementing the program. After priorities were set, the plan would be presented to the Town Council. The requested first year implementation budget is \$50,000. In addition, staff would keep abreast of all grant opportunities.

Streets

In the **Street Department** one new full time position is recommended. The annual cost of this new position is \$35,594. The Town would also decrease the part time salary line by \$27,709; therefore, the net impact of this position would be \$7,885. Although there was a significant cost to provide benefits to a full time employee, it was determined that the department could work more efficiently with a full time person as opposed to constantly re-employing the same part time employees in this department. This continues the policy the Town started in the FY 2013-2014 budget. In addition, a motorgrader is recommended. The Town has depended on a 1960's Fiat Allis grader that has been determined to be no longer serviceable. A good, used grader could be purchased for approximately \$90,000. This is discussed further under Section VIII. Capital Requests/Lease Purchase.

Powell Bill

The **Powell Bill** budget decreases the Powell Bill contracts from \$216,369 to \$214,151. The overall budget for Powell Bill expenditures (\$245,000) reflects the Powell Bill revenue (\$245,000). If it is determined that additional Powell Bill work is needed to be done during the year, a request could be made to the Board for a budget amendment to use some of the Powell Bill fund balance (\$189,358 as of June 30, 2013).

Cemetery

The **Cemetery** budget recommends resurfacing and building up a section of Ridge Drive. This area has standing water and has created an area that is difficult to drain and will remain an eyesore in this part of the cemetery until repaired. It was determined that this method of repair provided the best long term solution.

Sanitation

The recommended budget for the County includes a \$10 per ton increase in the MSW fee charged at the landfill to be effective July 1, 2014. The fee would go from \$47 per ton to \$57 per ton which is an increase of 21.2%. If the County Board of Commissioners approves this increase, garbage fees will need to be discussed with GDS and it is recommended that any charge that is passed to the Town by GDS is, in turn, passed on to customers. Staff will keep Council abreast of this situation as the budget process progresses and bring a recommendation to the Board.

Debt Service

Recommended debt service for the General Fund includes 12 months of payments of the items purchased through lease purchase financing in FY 2013-2014 and 5 months of financing for the Motorgrader and the IT van recommended in the FY 2014-2015 budget. See further discussion under Section VIII. Capital Requests/Lease Purchase.

Contingency

Three other items that will impact the General Fund are Contingency – Cost of Living Adjustment, Contingency- 401k , and Contingency - Merit. These **Contingencies** are discussed further in Section XII. Cost of Living Adjustment (COLA)/401k/Merit.

The above is a brief explanation of some noted changes in the General Fund. The overall General Fund Expense has decreased from \$9,764,059 to \$9,333,132 for a total decrease of \$430,927.

The line item General Fund revenue and expenditure budget is in Appendix D.

IV. FLORENCE MILL FUND

With the potential of a development agreement with Gene Rees, the Town reestablished a Florence Mill budget beginning in FY 2013-2014. In the FY 2014-2015 budget, the following items are recommended. First, in the line item Payment to Developer, \$190,000 has been budgeted assuming that the Town and Gene Rees agree upon the contingent contract that is currently under consideration and that the project is completed. The Board by consensus had agreed on this amount in FY 2013-2014. Assuming the contract is complete, the Town will need to begin work on the grounds around the 1941 and prepare for the marketing of the remainder of the Florence Mill area. Once the 1941 building construction begins, the marketing strategy for next steps should be underway. The second budgeted item will be to remediate the area of the former dry cleaner. Based on an environmental consultant's estimate, \$55,000 is recommended in Professional Services-Remediation. This would level the site bringing in

additional soil and compact and seed the site. Also included in Professional Services-Remediation is \$5,796 for monitoring of the wells placed at the site in FY 2013-2014. Furthermore, an amount of \$80,000 is recommended for Building & Grounds Repairs and Maintenance. This would fund the improvements to the public area, boarding up and securing the windows at the former Blanton Hotel and the continuance of repair issues that pop up around the site such as roof repairs. In addition, some streetscape improvements, sidewalk improvements, decorative light poles, and some additional landscaping might need to be done. \$50,000 is also included in the Florence Mill budget to move sewer lines located in the area that would need to be moved as part of the project development.

The line item Florence Mill Fund revenue and expenditure budget is in Appendix E.

V. PARKS AND RECREATION FUND

The total Parks and Recreation budget will see a decrease from FY 2013-2014 to FY 2014-2015 \$1,951,100 in FY 2013-2014 to a recommended \$1,820,385 in FY 2014-2015. This decrease is mainly due to the fact that new golf carts and a new mower were purchased in FY 2013-2014. There are two major capital projects recommended in FY 2014-2015. The Cool Springs gym experienced a significant period during the past winter when the heating system could not properly heat the building. Now that three phase power supply is available, the heating system can be upgraded. The estimated cost to upgrade the heat pumps is \$27,000. The second project is to replace the fence at the ROC at an estimated cost of \$16,500 which is shown under Parks and Playgrounds.

The contingencies discussed under the General Fund section above are also included in the Parks and Recreation Fund and are discussed further in Section XII. Cost of Living Adjustment (COLA)/401k/Merit.

The Parks and Recreation Board has plans to review the rate structure for all of the Town's athletic facilities later in 2014. If any changes to the rate structure are recommended it would be best to implement these January 1, 2015. The difference between the revenues the Town receives for Parks and Recreation and the expenses to operate Parks and Recreation is \$1,528,177. A review of the parks and recreation fees has not been conducted in a number of years. The Board may be asked to consider some fee increases in 2015.

The line item Parks and Recreation revenue and expenditure budget is in Appendix F.

VI. WATER AND SEWER FUND

Revenues:

Water

In FY 2014-2015 there are two revenues that need to be noted. First, in the FY 2013-2014 budget the Town had based water revenue on Horsehead starting production on October 1, 2013. Horsehead's water usage is estimated at 800,000 gallons per day. Although Horsehead has done considerable testing in FY 2013-2014 that required millions of gallons of water, they have not started actual production. We are now estimating Horsehead to be in operation by January 1, 2015. Due to the expectation in FY 2013-2014 that Horsehead would begin operations October 1, 2013, \$3,320,000 was budgeted for water fee revenues. Water fee revenues for FY 2013-2014 are now estimated to be \$3,120,000. FY 2014-2015 water fee revenues are recommended at \$3,260,000. In addition the Horsehead loan (\$950,000) repayment began in October 2013 and \$142,860 is budgeted for that repayment in FY 2014-2015.

Expenditures:

Water and Sewer Administration and Billing

One item requires a brief explanation. A call system for utility cutoff notification was added at a cost of \$3,100 in the Water and Sewer and Electric Fund during the FY 2013-2014 budget year. The Town had a notification system for a few months in a prior year which helped to decrease the amount of cutoffs but when the system was destroyed by lightning, it was not replaced. This was recommended to be reactivated in FY 2013-14 with the expectation that it will improve customer relations and cut down on the number of utility cutoffs. This call system has resulted in approximately 75 less cutoffs per month. This represents a decrease of approximately 30%.

Water Operations and Construction

There are four items that need to be specifically noted. The MAPS Group recommended the establishment of a program in the distribution and collection operations for employees that obtained certifications that were not required by their job description. In the water distribution department there are A, B, C Distribution and Cross Connection Control. In the sewer collection department there are four certifications, collection 1-4. This program would work the same as the certification programs in both the water and wastewater plant certification programs. The annual implementation cost of this program could be up to approximately \$7,305 in water operations. This budget recommends implementation October 1, 2014 at a cost of \$5,552. Information on the proposed program can be found in Appendix L. Second, \$9,000 for part time salaries was added in FY 2013-2014. Last year the Town began using a part time person to expedite

the exchange of old meters to new meters. New meters should be more accurate and will allow the Town to read those meters electronically. Over time this should bring in more revenue, reduce cost and improve efficiency. This program was very successful and is budgeted to continue. Approximately 650 meters were replaced. Third, C O Improvements in the amount of \$200,000 is recommended to be budgeted. This is the amount that has been budgeted annually in the last several years to replace/rehabilitate old lines. In FY 2014-15, these funds will be used in the Grahamtown area pending funding of CDBG funds for sewer line rehabilitation in that area. Lastly, funds for the Highway 221 water line relocation have been re-appropriated as it does not appear that these funds will be expended prior to June 30, 2014.

Water Plant

One item needs a brief explanation. Department Materials and Supplies were increased at the water plant from \$90,000 to \$130,000 in the FY 2013-2014 budget. The principle reason for this increase was the increased water production expected for Horsehead and the necessary chemicals that the plant would need. The final estimate for FY 2013-2014 for this line is \$100,000. The recommended budget for next year is \$115,000 based on Horsehead starting operations January 1, 2015.

Sewer Operations and Construction

There are two items of note. First, the certification program referenced under the heading Water Operations and Construction could require up to \$5,308 annually to implement this in sewer operations. This budget recommends implementation October 1, 2014 at a cost of \$1,800. C O Other Improvements recommended in the amount of \$200,000 is budgeted to replace some sewer lines identified as needing to be replaced. The Town has made it a practice to budget this amount annually for these types of projects.

Waste Treatment Plant

The waste treatment plant budget is requested to go from \$837,753 in FY 2013-2014 to \$775,578 in FY 2014-2015. Outside of normal operations, there is only one large capital item recommended that has a large impact on the budget. A \$35,000 return activated sludge pump is included for consideration. This is a crucial piece of equipment for the plant. The current pump is 25 years old. One was replaced in FY 2013-2014. With the purchase of the second pump the wastewater plant should be in good shape with this equipment for 25 years. This item will be discussed in more detail in the Section VIII. Capital Requests/Lease Purchase. During FY 2013-2014, the Town conducted a sludge study to determine how the Town should be processing this product. After analyzing that study, it has been determined that funds to handle this operation will need to be included in future budgets.

Waste Treatment Plant - Riverstone

This represents a relatively new expense for the Town. Prior to Horsehead beginning operation, the Town pumped and hauled the wastewater from Arvin Meritor. With the addition of the Horsehead wastewater more than doubling the daily wastewater flow, the 50,000 gallon per day package plant has been placed into operation. Because Horsehead has not begun full operation and the wastewater flows thus far included some stormwater discharge, the Town does not have a full year's experience for the plant. In addition, a new company, Bonita Pioneer, will open in FY 2014-2015 in the former Riverstone shell building. Because of these factors, the budget is very similar to FY 2013-2014. One capital item, an emergency dialer and surge protection on site will be installed at an estimated cost of \$5,000.

Pump Maintenance

There are two items of note. First, the certification program referenced under the heading Water Operations and Construction could require up to \$5,231 annually to implement in Pump Maintenance. This budget recommends implementation October 1, 2014 at a cost of \$3,923. Secondly, the recommended budget for Equipment Service and Repair includes an increase of \$10,000 due to the age of the equipment in this department.

Water Meter Services

The meter department budget has no substantial change from FY 2013-2014 to FY 2014-2015.

Debt Payments

The FY 2014-15 recommended budget includes the first annual payment on the NCDENR loan related to the Central Business District Sewer Rehabilitation Project. A payment of \$24,642 on the 20 year 0% interest loan is budgeted.

Contingency

As discussed previously in the General Fund section, other items that will impact the Water and Sewer Fund are Contingency – Cost of Living Adjustment, Contingency- 401k , and Contingency - Merit. These **Contingencies** are discussed further in Section XII. Cost of Living Adjustment (COLA)/401k/Merit.

The line item Water and Sewer Fund revenue and expenditure budget is in Appendix G.

VII. ELECTRIC FUND

Revenues

As discussed previously, this budget recommends that the Town maintain the current electric rate structure as of July 1, 2014. The next rate review is recommended to be in January 2015 at the time that the Town would experience its next change in Duke's 2015 wholesale rates. Revenues in the Electric Fund for FY 2014-2015 are tracking FY 2013-2014 for the most part. Electric sales in FY 2013-2014 are estimated to be \$11,800,000 and \$11,850,000 in FY 2014-2015. It should be noted that there are no revenues shown for sales tax collected. As discussed previously, prior to July 1, 2014, the Town was able to retain the sales tax it collected related to the cost of purchases from Duke for resale. Beginning July 1, 2014, all sales tax collected will have to be remitted to the State.

Expenditures

There are three items that need brief explanation. First, Purchases for Resale are budgeted at \$7,460,000. This increase reflects two things which were discussed previously— the 4.5% increase in Duke's rate as of January 1, 2014 and the anticipated decrease as of July 1, 2014 due to the repeal of the gross receipts tax. Second, Christmas decorations have increased from \$25,942 to \$38,000. The major reason for this increase is that the 60 large snowflakes need to be reworked and rewired. The plan is to be complete 30 each in the next two budgets at a cost of \$12,100. In addition, the center trees need some reworking at a cost of \$3,200. These two items account for a cost of \$15,300. Third, Equipment Service and Repair has increased \$20,000 to complete much needed repairs to equipment on the trucks. These repairs would increase the safety of the trucks.

The transfer out of the Electric Fund to the General Fund is recommended at \$2,223,431 which is a decrease from \$3,000,000 in FY 2013-2014 due to more accurate direct and indirect cost accounting for expenses related to the administration of the Electric Fund. The transfer from the Electric Fund to Parks and Recreation is reduced from a budgeted \$515,345 in FY 2013-2014 to \$439,906 in FY 2014-2015. The FY 2014-2015 budget includes a recommended transfer of \$163,536 to the Florence Mill Fund. The Transfer of utility dollars to the General Fund, Parks and Recreation Fund and Florence Mill Fund will be discussed in Section XI. Interfund Transfers.

Contingency

As discussed previously in the General Fund section, other items that will impact the Electric Fund are Contingency – Cost of Living Adjustment, Contingency- 401k , and Contingency - Merit. These **Contingencies** are discussed further in Section XII. Cost of Living Adjustment (COLA)/401k/Merit.

The line item Electric Fund revenue and expenditure budget is in Appendix H.

VIII. CAPITAL REQUESTS/LEASE PURCHASE

Chart 3, "Capital Requests FY 2014-2015," on the following three pages shows all the capital requests made by fund. The "Request" column lists all requests made. The "Recommended" column shows those recommended requests. It is recommended that the IT van be lease purchased over 36 months and the Motorgrader be lease purchased over 59 months. Those items are in the third column "Lease Purchase". It is estimated that these items can be financed at an interest rate of 3% or less based on today's market. However, to be conservative for budgetary purposes, the recommended budget is based on the financing occurring on or after January 1, 2015 at an interest rate of 5%. Column four, "5 Months Debt Service on Lease Purchase" is the amount budgeted to make five months of debt service payments on these items in FY 2014-15. By lease purchasing these items, the Town can spread the cost of these items over their useful life and have use of these equipment items that are being recommended in FY 2014-2015 without a major reduction in the fund balance in FY 2014-2015. Interest expense over this period is estimated to be \$8,000-\$14,000.

All capital items recommended in the budget have additional information on Capital Request Forms in Appendix I.

**CHART 3: CAPITAL REQUESTS
FISCAL YEAR 2014-2015**

	Request	Recommended	Lease Purchase	5 Months Debt Service on Lease Purchase
GENERAL FUND				
10-4120 Information Technology				
Replace Firewall	\$ 17,000	\$ 17,000		
Mesh Extension	\$ 8,000	\$ 8,000		
Van (to replace '96 truck)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 3,746
IT Total	\$ 50,000	\$ 50,000	\$ 25,000	\$ 3,746
10-4260 Public Works				
Re-model Kitchen (Carried forward from FY 2013-14)	\$ 15,000	\$ 15,000		
Replace plumbing in Public Works building	48,000	\$ 48,000		
Public Works Total	\$ 63,000	\$ 63,000	\$ -	\$ -
10-4310 Police				
Records Management System (RMS) - Software Local Match (Use \$13,000 Substance Tax Funds)	\$ 19,896	\$ 19,896		
(Local match for grant. Total project \$79,583. If grant is not awarded, Town would still need server at an estimated cost of \$16,070.)				
Security Camera Replacement	6,585	6,585		
Interview Room Camera Replacement (This would replace 2)	4,000	2,000		
Police Total	\$ 30,481	\$ 28,481	\$ -	\$ -
10-4340 Fire				
Quick Response Vehicle (Replacement for 1983 Brush Truck) (Carried forward from FY 2013-14 Timken Grant \$50,000, Fund Balance \$90,000, Increase in Cost FY 14-15 \$20,000)	\$ 160,000	160,000		
Fire Total	\$ 160,000	\$ 160,000	\$ -	\$ -
10-4510 Streets				
Motorgrader (Used)	\$ 90,000	\$ 90,000	\$ 90,000	\$ 8,619
Service Truck	\$ 42,000			
Streets Total	\$ 132,000	\$ 90,000	\$ 90,000	\$ 8,619
10-4540 Cemetery				
Regrade and re-pave curve at Ridge Rd	\$ 10,000	\$ 10,000		
TOTAL 2014-2015 GENERAL FD	\$ 445,481	\$ 401,481	\$ 115,000	\$ 12,365

	Request	Recommended	Lease Purchase	5 Months Debt Service on Lease Purchase
PARKS AND RECREATION FUND				
15-6125 Cool Springs Gym				
Update Heating System	\$ 27,000	\$ 27,000		
15-6130 Parks and Playgrounds				
Replace fencing at Crowe Park-Little League Field	\$ 28,500			\$ -
Fencing at the Rock	\$ 16,500	\$ 16,500		
Parks and Playgrounds Total	\$ 45,000	\$ 16,500		
TOTAL 2014-2015 PARKS AND RECREATION FUND	\$ 72,000	\$ 43,500	\$ -	\$ -
WATER AND SEWER FUND				
61-7120 Water Operations				
Grahamtown Area Sewer Line Replacement (CDBG Grant)	\$ 200,000	\$ 200,000		
Water Ops Total	\$ 200,000	\$ 200,000	\$ -	\$ -
61-7130 Sewer Operations				
Prioritized Rehab Projects	200,000	\$ 200,000		
Sewer Ops Total	\$ 200,000	\$ 200,000	\$ -	\$ -
61-7131 WWTP				
60 HP Return Activate Sludge Pump	\$ 35,000	\$ 35,000		
(2) 75 HP Aerators	32,500			
Refrigerated Sampler	5,500			
WWTP Total	\$ 73,000	\$ 35,000	\$ -	\$ -
61-7132 WWTP Riverstone				
Refrigerated Sampler	\$ 5,500			
WWTP Riverstone Total	\$ 5,500	\$ -	\$ -	\$ -
61-7135 Pump Maintenance/Storage				
New station at Dogwood Lift Station	\$ 1,250,000	\$ -	\$ -	\$ -
Relocate force main from Erwin				
Erwin Construction				
TOTAL 2014-2015 WATER AND SEWER FUND	\$ 1,728,500	\$ 435,000	\$ -	\$ -

	Request	Recommended	Lease Purchase	5 Months Debt Service on Lease Purchase
ELECTRIC FUND				
63-7220 Electric Operations				
Lawing Rd and Beaver St Regulator Services (hopefully done 13-14)	\$ 25,000			
Lawing Rd and Beaver St Station Batteries	\$ 10,000	\$ 10,000		
LED Lighting	\$ 60,000			
Bucket Truck (replace 1999 GMC Altec)	\$ 185,000			
TOTAL 2014-2015 ELECTRIC FUND	\$ 280,000	\$ 10,000	\$ -	\$ -
TOTAL 2014-2015 ALL FUNDS	\$ 2,525,981	\$ 889,981	\$ 115,000	\$ 12,365

IX. 2014 PROPERTY VALUES AND FACEBOOK IMPACT

Chart 4, "2014 Real and Personal Property Value Estimates," shows property values in Forest City from FY 2010-2011 to the estimate for FY 2014-2015. The value of the Town has increased from \$639,196,330 in FY 2012-2013 (the last time revaluation occurred) to an estimated \$1,177,004,080 in FY 2014-2015. This represents an increased value of \$537,807,750 or 84.1%.

CHART 4 : 2014 REAL AND PERSONAL PROPERTY VALUE ESTIMATES

C04 - Town of Forest City	2010-2011		2011-2012		2012-13		2013-2014		2014-2015		ESTIMATED GAIN/(LOSS)	Percentage Gain/(Loss)
	Actual		Actual		Actual		Actual		ESTIMATE			
Real Property	447,413,840		445,444,780		458,878,430		520,567,250		549,500,000			
Less Homestead & DV Exclusions	(8,317,050)		(8,262,550)		(6,657,680)		(7,325,500)		(7,092,450)			
Less Exempt	(4,507,150)		(3,826,350)		(3,089,580)		(3,089,580)		(3,425,000)			
Less Present Use Value (deferred)	(337,180)		(338,180)		(582,960)		(766,970)		(806,000)			
Subtotal Real Taxable Value	434,252,460		433,017,700		448,548,210		509,385,200		538,176,550		28,791,350	5.3498%
Personal Property	736,590		1,387,450		1,483,360		908,600		900,000			
Business Personal Property	74,337,400		68,101,970		134,314,360		487,496,730		581,927,530			
Public Utility Values	24,833,620		23,643,510		23,728,360		23,895,590		23,000,000			
DMV Value	30,811,900		31,535,320		31,122,040		34,564,464		33,000,000			
Subtotal Personal Taxable Value	130,719,510		124,668,250		190,648,120		546,865,384		638,827,530		91,962,146	14.3955%
Total Net Taxable Value	564,971,970		557,685,950		639,196,330		1,056,250,584		1,177,004,080		120,753,496	10.2594%
	-4.7871%		-1.3065%		12.7520%		39.4844%		10.2594%			

Note: Increase in Business Personal Property is due to the increase in Facebook. 2014 BPP value is \$423,175,810.
 04/16/14 - REAL PROP EXEMPT AMOUNT UP \$26,200 AND BPP DOWN APPROXIMATELY \$250,000 DUE TO NCDENR EXEMPTION
 FOR RECYCLING AT COLLINS METAL CO.

Source: Rutherford County Tax Department

However, upon a review of Chart 5 below, "Facebook Property Value Comparisons," the total property value increase in Facebook from FY 2012-2013 to FY 2014-2015 was \$450,289,400. Therefore, without Facebook the Town's value would have increased \$87,518,350.

Chart 5: FACEBOOK PROPERTY VALUE COMPARISONS

	<u>FY 12-13</u>	<u>FY 14-15</u>	Increase FY 12-13 to <u>FY 14-15</u>
Real Property Value	\$48,505,000	\$137,733,300	\$ 89,228,300
Business Personal Value	<u>\$62,114,710</u>	<u>\$423,175,810</u>	<u>\$361,061,100</u>
Total Value	<u>\$110,619,710</u>	<u>\$560,909,110</u>	<u>\$450,289,400</u>
Levy @ \$.29/100	\$320,797	\$1,626,636	\$1,305,839

This increase of \$87,518,350 is best shown below in Chart 6, "2014 Property Values excluding Facebook." The overall value of the Town (excluding Facebook) in FY 2012-2013 was \$528,576,620 increasing to \$616,094,970 in FY 2014-2015.

Chart 6: 2014 PROPERTY VALUES EXCLUDING FACEBOOK

	<u>FY 12-13</u>	<u>FY 14-15</u>	Increase (Decrease) FY 12-13 to <u>FY 14-15</u>
Real Property Value	\$410,373,430	\$411,766,700	\$ 1,393,270
Less Homestead & DV Exclusions	\$ (6,657,680)	\$ (7,092,450)	\$ (434,770)
Less Exempt	\$ (3,089,580)	\$ (3,425,000)	\$ (335,420)
Less Present Use Value (deferred)	<u>\$ (582,960)</u>	<u>\$ (806,000)</u>	<u>\$ (223,040)</u>
Subtotal Real Taxable Value	\$400,043,210	\$400,443,250	\$ 400,040
Personal Property	\$ 1,483,360	\$ 900,000	\$ (583,360)
Business Personal Property	\$ 72,199,650	\$158,751,720	\$ 86,552,070
Public Utility Values	\$ 23,728,360	\$ 23,000,000	\$ (728,360)
DMV Value	<u>\$ 31,122,040</u>	<u>\$ 33,000,000</u>	<u>\$ 1,877,960</u>
Subtotal Personal Taxable Value	\$128,533,410	\$215,651,720	\$ 87,118,310
Increase in Total Net Taxable Value Excluding Facebook	\$528,576,620	\$616,094,970	\$ 87,518,350

X. FUND BALANCE

Historically, the Town of Forest City has kept healthy fund balances in the General Fund (all references to the General Fund for the purpose of this section includes the Parks and Recreation Fund as the annually audited financial statements roll these two funds together) and the Enterprise Funds (Water and Sewer; Electric). This is a brief analysis of the state of those funds.

Chart 7, "General Fund Balance Available for Appropriations Calculations," is a six year history of the General Fund fund balance available for appropriation. The current estimate is that the General Fund fund balance available would increase by \$793,405 for the fiscal year ending June 30, 2014. This increase is mainly due to four items – 1) the sale of the old Food Lion building at a net revenue of \$270,000, 2) a higher than expected tax levy than the one provided by Rutherford County during last year's budget preparation which increased revenues by \$300,000, 3) electric utility franchise tax receipts higher than budgeted resulting in \$185,000 in additional revenue, and 4) budgeted expenditures that were unspent (especially the Quick Response Vehicle \$90,000). The balance available for appropriation would increase to a still healthy 45.06% as of June 30, 2014 up from 39.75% on June 30, 2013.

**CHART 7: GENERAL FUND BALANCE AVAILABLE FOR APPROPRIATION CALCULATIONS
FISCAL YEARS 2008-2009, 2009-2010, 2010-2011, 2011-12, and 2012-13 Actuals (Estimate 2013-14)**

	FY 2008-2009	FY 2009-2010	FY 2010-2011	FY 2011-12	FY 2012-13	FY 2013-14
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ESTIMATE
Fund Balance Available for Appropriation:						
Cash and Investments	\$ 2,605,020	\$ 3,264,531	\$ 3,593,706	\$ 3,999,568	\$ 4,409,806	\$ 5,203,211
Accounts Payable	(379,165)	(365,097)	(274,483)	(457,685)	(475,239)	(475,239)
Prepaid Taxes	(1,796)	(4,161)	(2,388)	(23,289)	(1,308)	(1,308)
Fund Balance Available for Appropriation	\$ 2,224,059	\$ 2,895,273	\$ 3,316,835	\$ 3,518,594	\$ 3,933,259	\$ 4,726,664
Annual Increase (Decrease) in Fund Balance Availa	\$ 674,388	\$ 671,214	\$ 421,562	\$ 201,759	\$ 414,665	\$ 793,405
Total Expenditures	\$ 8,834,524	\$ 8,608,631	\$ 9,442,245	\$ 9,679,678	\$ 9,861,845	\$ 10,903,770
Total Transfers to Other Funds	111,153	53,094	88,886	11,500	33,000	-
Lease Purchase Proceeds	-	-	-	-	0	(413,517)
Expenditures to Use for Calculation	\$ 8,945,677	\$ 8,661,725	\$ 9,531,131	\$ 9,691,178	\$ 9,894,845	\$ 10,490,253
% of Fund Balance Available	24.86%	33.43%	34.80%	36.31%	39.75%	45.06%
LGC 8% Minimum - One month Operating Over Minimum	\$ 745,473	\$ 721,810	\$ 794,261	\$ 807,598	\$ 824,570	
Months Operating Expense in Reserve	\$ 1,478,586	\$ 2,173,463	\$ 2,522,574	\$ 2,710,996	\$ 3,108,689	
Group Weighted Average % FBA	2.98	4.01	4.18	4.36	4.77	
Average Fd Bal % for Electric Towns	41.32%	47.34%	48.56%	49.18%	51.49%	
	34.32%	33.60%	34.72%	38.53%	38.76%	

As this chart shows, the Town's fund balance available for appropriation as a percentage of expenditures as of June 30, 2013 is well above the LGC minimum of 8% (one month of operating expense) at 39.75%. This equates to 4.77 months of operating reserve. This chart also provides some comparison of Forest City to other towns of the approximate same size (average fund balance % 51.49%) and electric city towns (average fund balance % of 38.76%).

Chart 8, Enterprise Fund Cash Balances shows the five year history of the Town's Enterprise Funds. As the chart shows, the estimate is that the Water and Sewer Fund will increase in the current fiscal year from \$5,046,470 to \$5,272,410 or \$225,940. The Electric Fund is estimated to decrease from \$2,609,167 to \$2,378,824 or (\$230,343). The Town anticipated a \$600,000 decrease due to the planned use of cash reserves for the retrofitting of the generators due to new EPA regulations.

CHART 8: ENTERPRISE FUNDS CASH BALANCES
FISCAL YEARS 2009-2010, 2010-2011, 2011-2012, AND 2012-2013 ACTUALS (Estimate FY 2013-14)

	FY 2009-2010 ACTUAL	FY 2010-2011 ACTUAL	FY 2011-2012 ACTUAL	FY 2012-2013 ACTUAL	FY 2013-2014 ESTIMATE
Water & Sewer Fund Cash & Cash Equivalents	\$4,459,847	\$5,583,193	\$4,924,906	\$5,046,470	\$5,272,410
Electric Fund Cash & Cash Equivalents	\$2,464,822	\$3,285,695	\$2,959,059	\$2,609,167	\$2,378,824

While cash balances as of June 30, 2014 for the Water and Sewer Fund and the Electric Fund are expected to be approximately \$5,272,410 and \$2,378,824, respectively, the budgets for these funds excluding transfers are recommended to be \$4,344,781 and \$9,668,407, respectively, for FY 2014-2015.

The recommended budget does include the appropriation of some fund balance in each fund. Below is a discussion of these appropriations by fund.

General Fund - Fund Balance Appropriated

The General Fund recommended budget appropriates \$539,500 of fund balance. It is estimated that \$139,500 of this will be spent and \$400,000 would not be spent. The \$139,500 represents either 1) specific items that were budgeted in FY 2013-14 but were not completed or 2) funds that were received in previous fiscal years that must be spent for specific purposes. These items are Fire Department Quick Response Vehicle \$90,000, Police Ammunition not received \$16,000, Public Works breakroom \$15,000, Pedestrian Planning Grant local match \$5,500, and Police Department Substance Tax \$13,000. The

\$400,000 in fund balance appropriated that is estimated to not be spent is based on the thought that it would not actually be spent due to the use of relatively conservative revenue estimates and the fact that, historically, all appropriations for Town functions are not totally exhausted by year end.

Florence Mill Fund – Fund Balance Appropriated

The \$217,260 fund balance appropriated for the Florence Mill Fund is the estimated balance in the fund at June 30, 2014 from FY 2013-2014 transfers and unspent expenditures. It is estimated that these funds will be spent in FY 2014-2015.

Water and Sewer Fund - Fund Balance Appropriated

The Water and Sewer Fund recommended budget appropriates \$579,100 of fund balance. It is estimated that \$329,100 of this will be spent and \$250,000 would not be spent. The amount estimated to be spent represents 2 items. First, \$154,100 of this amount is related to the re-appropriation of the Highway 221 water line relocation project. Second, \$175,000 was budgeted in FY 2013-2014 for the Grahamtown sewer line rehabilitation project which was not completed and is therefore re-appropriated. It is estimated that the \$250,000 would not actually be spent based on conservative revenue estimates and appropriations that have historically not been spent.

Electric Fund - Fund Balance Appropriated

The Electric Fund recommended budget appropriates \$300,000 of fund balance. It is estimated that this \$300,000 will not be spent based on conservative revenue estimates and appropriations that have historically not been spent.

XI. INTERFUND TRANSFERS

Chart 9 on the following page, Interfund Transfers FY 2011-2012 Projected through FY 2014-2015, shows a brief window of the historical perspective of transferring among funds by the Town. During this four year period the low transfer was in FY 2013-2014 with \$4,636,501 being transferred from utilities to the General Fund (including Parks and Recreation) and the Florence Mill Fund. FY 2012-2013 represents the high year with \$4,827,413 being transferred. An ongoing concern is that discussions have taken place by the legislature that could limit or eliminate the amount the Town transfers from utility funds to the General operating fund. If this became a reality, the Town would by necessity have to drastically reduce General Fund spending and services or significantly increase property taxes or a combination of the two. As discussed previously under the Governing Body section in the General Fund, Town staff has made a concerted effort in the FY 2014-2015 recommended budget to more accurately allocate the cost of administration of the Water and Sewer Fund and Electric Funds to those funds. As a result the FY 2014-2015 transfers have decreased to \$3,913,052.

Chart 9: INTERFUND TRANSFERS FY 2011-2012 PROJECTED THROUGH FY 2014-2015

	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015
Parks & Rec from Water/Sewer	\$ 1,000,000	\$ 1,072,175	\$ 850,000	\$ 1,086,179
Parks & Rec from Electric	\$ 637,738	\$ 755,238	\$ 515,345	\$ 439,906
Florence Mill from Water/Sewer			\$ 213,888	
Florence Mill from Electric				\$ 163,536
General from Electric	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 2,223,431
General from Water/Sewer			\$ 57,268	
	<u>\$ 4,637,738</u>	<u>\$ 4,827,413</u>	<u>\$ 4,636,501</u>	<u>\$ 3,913,052</u>

XII. COST OF LIVING ADJUSTMENT (COLA)/401k/MERIT

The number of full time authorized positions by department is included in Appendix K. This budget recommends a 1.5% COLA effective July 1, 2014. This is the same percentage increase social security recipients will receive in 2014 based on the measured social security inflationary index. The cost of this total 1.5% increase for all Town employees is \$102,250.

In addition, a contingency of \$25,562 is recommended to be set aside for merit increases. The allocation process for these funds has yet to be determined; however the evaluation process will be used. It is not anticipated that these merit awards would take place before October 1, 2014.

One position is recommended for a job reclassification. The Street Department has functioned in the last five years without a supervisory position. The Public Works Director has assumed the direct supervision of approximately 15 people who cut grass, do curbside pick-up, leaf pick-up, street maintenance and repair, and other street related functions. This position had previously been part of the Town staffing patterns. An internal promotion would occur to appoint someone as Street Department Supervisor at a cost of \$2,237 representing a 5% increase. No personnel would be added.

In addition, the Police Department and Fire Department have requested a mechanism to recognize police officers and fire fighters who have achieved a certain level of training and met performance standards. This budget recommends that those officers be given the opportunity to become Senior Police Officers and Fire Fighter Specialists. In addition, there is a recommendation to reward employees for attaining certifications in the Water and Sewer distribution and collection system. A description of these qualifications is in

Appendix L. The estimated annual cost to implement these new standards would be \$17,000, \$25,000 and \$15,032 for the Police Department, Fire Department, and Water and Sewer Fund respectively. This totals \$57,032. This is included in this recommended budget to be effective October 1, 2014 at a total cost of \$42,775.

This recommended budget implements a matching 401k program for non-law enforcement employees. *The Town is currently required by North Carolina General Statutes to contribute 5% of law enforcement officers' salaries to a 401k plan.* This does not require any match by the law enforcement officer. The FY 2014-2015 budget begins a contribution plan for non-law enforcement employees matching \$10 per pay period *if* the employee contributes at least \$10 per pay period. It is estimated that 75 employees would participate in this plan at an annual cost to the Town of \$19,500. This budget has a January 1, 2015 implementation date at a cost of \$9,750.

The FY 2014-2015 budget shows a great commitment to Town employees. Through decisions the Board made in approving the Pay and Reclassification Plan and the recommendation to incorporate professional development plans for Fire, Police, Water and Sewer Distribution system employees, a cost of living raise, the implementation of a merit system, and the beginning of a 401k matching contribution system for non-law enforcement employees shows the value the Town places on employees. The total annual cost of the program implementation is in Chart 10 below.

Chart 10: Employee Salary FY 2014-2015 - Pay Plan Implementation, Professional Development Implementation, COLA, Merit, and 401k

Pay Plan Implementation	\$180,904
Senior Police Officer	\$ 17,000
Fire Fighter Specialist	\$ 25,000
Water, Sewer, Collection/Distribution	\$ 15,032
Cost of Living Increase	\$102,250
Merit	\$ 34,084
401k	<u>\$ 19,500</u>
Total	\$393,770

XIII. MAJOR GRANTS

It is recommended that the balances remaining in the current active grants, if any, as of June 30, 2014 be re-appropriated in FY 2014-2015:

- Horsehead
- Central Business District Sewer Project

XIV. CONCLUSION

As stated in the introduction, the major goal of this budget is to maintain services without increasing property tax rates or user fees. This budget as recommended accomplishes that goal with the exception of a probable increase in garbage fees due to the proposed increase in the tipping fee by the County. In addition, the recommended capital requests set the stage for allowing the Town to continue to progress forward. This budget also makes an investment in the employees who are the major service providers to the Town. With a 1.5% COLA, the establishment of a performance based merit program and the establishment of a matching contribution to 401k for non-law enforcement employees, and the addition of Career Development Plans or certification increase plans for Police, Fire, and Water and Sewer Operations the Town should be well positioned in the future. The chart below shows that the overall recommended budget of the Town would decrease from \$30,274,370 in FY 2013-2014 to \$29,460,553 in FY 2014-2015 which is a decrease of \$813,817 or 2.69%. This reduction occurred while Facebook taxes and the offsetting economic development grant back to Facebook increased the Town's overall budget by \$359,695.

**TOWN OF FOREST CITY FY 2013-2014 AMENDED AND
FY 2014-2015 RECOMMENDED BUDGETS**

	Amended <u>FY 2013-14</u>	Recommended <u>FY 2014-15</u>
General Fund	\$ 9,764,059	\$ 9,333,132
Florence Mill Fund	\$ 263,888	\$ 380,796
Parks & Recreation Fund	\$ 1,951,100	\$ 1,820,385
Water & Sewer Fund	\$ 5,488,543	\$ 5,430,960
Electric Fund	<u>\$12,806,780</u>	<u>\$12,495,280</u>
TOTAL	\$30,274,370	\$29,460,553

I would like to thank all the Town Department Heads for their efforts during the budget preparation process and their assessment of what was needed to accomplish their respective tasks.

Respectfully Submitted,



John Condrey
City Manager