

CITY OF HIGH POINT

AGENDA ITEM



Title: Public Hearing- Proposed CHP Annual Budget FY 2017-2018

From: Greg Demko, City Manager

Meeting Date: May 15, 2017

Public Hearing: Yes

Advertising Date / May 3, 2017

Advertised By: Budget Office

Attachments: City Manager's Message
Legal Advertisement

PURPOSE:

To receive public comment on the proposed City of High Point 2017-2018 Annual Budget.

BACKGROUND:

Each year, prior to the adoption of the Annual Budget for the City of High Point, the High Point City Council establishes a public hearing date and time to receive comments from the public. These comments are taken into consideration by Council in budget work sessions.

BUDGET IMPACT:

RECOMMENDATION / ACTION REQUESTED:

Acknowledge public hearing was held to receive public input on the annual budget.

May 1, 2017

Honorable Mayor and Members of the City Council
City of High Point, North Carolina

I am pleased to present the City's 2017-18 Annual Budget for your review and consideration. This budget was prepared in accordance with the provisions of the North Carolina General Statutes and the policies of the North Carolina Local Government Commission. This budget is balanced and reflects the City Council's commitment to responsible fiscal management, while enhancing services that improve the quality of life for the citizens of High Point. Funds included in the budget are adequate to continue providing the services I believe are expected by our citizens. The budget attempts to strike a balance between addressing the needs of today and providing flexibility to address the needs of the future.

The City Council adopted the following goals last fiscal year and reaffirmed these goals at the budget work session held on March 31 of this year:

1. Increase the population of active, engaged, and entrepreneurial and working millennials living in High Point by 25%
2. 100% proactive enforcement of codes
3. Create a downtown catalyst project that produces:
 - o 500 private sector jobs
 - o 15-20 new restaurants and shops
 - o 250 additional housing units
 - o A centralized gathering place

This budget continues to fund programs and initiatives related to these strategic goals and fiscal sustainability. Continued emphasis is being placed on code enforcement, blight removal, and redevelopment of the core city. Engaging the millennial population by supporting the work of the Connect HP task force continues to be a priority. Property acquisition, site planning and working with strategic partners are progressing well for the downtown catalyst project. Design and financing of the stadium and master development of the site will be the next step as we continue to fulfill this strategic goal.

In addition to reaffirming these goals, the City Council identified three more items for City Staff to focus on in the future. The items are:

1. How do we address underperforming schools?
2. How do we plan for and build around our catalyst project?
3. How can we utilize technology to communicate?

Work plans regarding how to address these challenges are being developed by staff, and will be presented to Council in the near future.

TOTAL FY 2017-18 BUDGET

The total FY 2017-18 budgeted expenditures for the City of High Point amount to \$377,513,076. This is an increase of \$2,222,631 or 0.6% from the FY 2016-17 Budget. Details of these increases are summarized later in this message.

Below is a chart of total 2017-18 budgeted revenues and expenditures compared to the 2016-17 Adopted Budget:

CITY OF HIGH POINT					
TOTAL BUDGET SUMMARY					
Sources and Uses of Funds	FY 2016 Actual	Original FY 2017 Budget	Proposed FY 2018 Budget	\$ Change Prop/Orig	% Change Prop/Orig
REVENUES					
Fund Balance	-	7,954,160	5,456,850	(2,497,310)	-31.4%
Property Tax	59,266,182	59,913,410	62,486,758	2,573,348	4.3%
Sales & Use Taxes	26,490,320	26,967,500	28,281,000	1,313,500	4.9%
Intergovernmental Revenues	18,035,575	17,518,741	16,203,181	(1,315,560)	-7.5%
Licenses & Permits	3,532,151	4,463,650	4,688,650	225,000	5.0%
Charges for Services	218,722,326	231,663,644	234,992,282	3,328,638	1.4%
Miscellaneous Revenues	7,462,266	10,035,756	9,019,662	(1,016,094)	-10.1%
Reimbursements	180,000	180,000	180,000	-	0.0%
Net Total Revenues	333,688,820	358,696,861	361,308,383	2,611,522	0.7%
Interfund Activities	16,753,278	16,593,584	16,204,693	(388,891)	-2.3%
Total Revenues	350,442,098	375,290,445	377,513,076	2,222,631	0.6%
EXPENDITURES					
Personnel Services	109,340,595	114,408,469	120,050,803	5,642,334	4.9%
Operating Expenditures	166,276,876	169,646,569	169,138,638	(507,931)	-0.3%
Capital Outlay	13,080,024	15,061,460	11,132,465	(3,928,995)	-26.1%
Debt Service	17,480,702	31,539,908	30,950,500	(589,408)	-1.9%
PayGo Capital	13,663,381	14,600,000	17,281,100	2,681,100	18.4%
Reimbursements	10,702,410	10,517,507	10,397,649	(119,858)	-1.1%
Contingency	-	3,566,518	3,464,128	(102,390)	-2.9%
SubTotal	330,543,988	359,340,431	362,415,283	3,074,852	0.9%
Interfund Activities	15,554,211	15,950,014	15,097,793	(852,221)	-5.3%
Total Uses of Funds	346,098,199	375,290,445	377,513,076	2,222,631	0.6%

FY 2017-18 MAJOR REVENUES HIGHLIGHTS

Total net revenues for FY 2017-18 are projected to increase \$361,308,383, which is a 0.7% increase from the FY 2016-17 Adopted Budget. The 2017-18 Budget proposes very few changes to our current revenue basis. The only significant rate increase is a proposed 3.0% water-sewer rate increase, effective October 1. This increase is consistent with the long range financial plan and is designed to fund future debt service needs for a planned FY 1017-18 revenue bond sale. Greater details are outlined within each fund on the following pages.

FY 2017-18 EXPENDITURE HIGHLIGHTS

This budget continues to address issues related to the strategic plan initiatives that were formulated last year.

Redevelopment and economic development continue to be important to the revitalization of High Point, and funding is included to address these priorities.

The needs, priorities and details of each fund are highlighted in detail throughout this document. Below are the major expenditure highlights included in the FY 2017-18 Proposed Budget:

- The following personnel related items are being proposed:
 - Eight Police Officer positions were added last year and funded in part through a \$1 million, 3 year Federal COPS grant. Eight additional Police Officer positions are included for this fiscal year.
 - Also included are an additional Crime Analyst position, and the upgrade of an existing Police Officer position to a Police Supervisor position. This position will be the Supervisor over the Community Outreach Unit and will serve as the department's Public Information Officer.
 - Includes an additional Accountant position for Financial Services to address critical fiscal issues.
 - The addition of two positions and the upgrading of two existing positions in the Facility Maintenance Division to further focus efforts on maintaining and increasing proactive maintenance of our City assets.
 - Public Services included the addition of 5 part time apprentice positions, in order to encourage younger people to gain knowledge about job opportunities in these areas. In addition, there are 2 seasonal workers in Stormwater and 5 seasonal workers in Streets included in the proposed budget.
 - Due to the difficulty of finding part time staff, Parks and Recreation is proposing adding 6 full time positions and deleting 6 funded part time positions and 16 funded seasonal positions. Parks and Recreation is also proposing to delete 2 full time Custodian positions in order to contract out these services for the recreation centers. All these changes are revenue neutral.
 - The Library is proposing to delete one part time position in order to upgrade another position from part time to full time. This change is revenue neutral.
 - Continues the City's Pay for Performance Program with a 0% - 4% merit increase on eligible employees' anniversary date. This proposal will help the city remain competitive in the retention of staff, and will give department directors more flexibility to reward high performing employees. The cost of this pay plan is approximately \$1,193,471 citywide. The cost by each major fund is: General Fund (\$836,156), Water/Sewer (\$95,151), Electric (\$124,339), all others (\$137,825).

- Continued funding of \$500,000 for redevelopment and blight removal efforts.
- Continued funding of the Forward High Point downtown development group in the amount of \$250,000.
- Increased funding for pay-as-we-go neighborhood street resurfacing from \$2.315 million to \$2.45 million.
- Replaces \$4.15 million in vehicles funded with pay-as-you-go funding from the Fleet division of the Central Services Fund. Planned replacements include two rear loader trucks, 1 front loader truck, and three automated trucks for Environmental Services, a street sweeper unit, 2 dump trucks, 9 marked and 6 unmarked police vehicles, and an assortment of mid-sized sedans and light duty pickup trucks.
- Plans the acquisition of three Fire apparatus for \$1,900,000. These vehicles will be funded using lease purchase funds. This acquisition is in line with the long range fire apparatus replacement plan that has been developed that proposes a steady cash funding source and using a combination of lease purchase financing and cash funding.
- Includes \$1,000,000 for the replacement of the station alerting system at each fire station. Lease purchase financing will be used to fund the acquisition of this equipment.
- Pay-as-you-go projects of \$26.5 million are included in the proposed budget, which is consistent with the level of investment we have made in the past. Details are included later in this message.

2017-18 MAJOR FUND SUMMARIES

GENERAL FUND

The 2017-18 General Fund Budget of \$111,756,574 is \$5,303,516 or 5.0% more than the adopted 2016-17 budget of \$106,453,058. The 2017-18 General Fund Budget is balanced with current revenues of \$105,356,574, \$2,900,000 in lease purchase proceeds, and \$3,500,000 appropriated prior year fund balances.

General Fund revenues and expenditures are summarized below:

CITY OF HIGH POINT GENERAL FUND BUDGET SUMMARY						
Sources and Uses of Funds	FY 2016 Actual	Original FY 2017 Budget	FY 2017 Estimate	Proposed FY 2018 Budget	\$ Change Prop/Orig	% Change Prop/Orig
REVENUES						
Fund Balance	-	3,555,615	-	3,500,000	(55,615)	-1.6%
Property Tax	56,224,177	56,792,208	56,989,309	59,425,471	2,633,263	4.6%
Sales & Use Taxes	26,058,519	26,532,500	27,845,000	27,845,000	1,312,500	4.9%
Intergovernmental Revenues	10,182,845	9,846,723	9,795,008	9,847,116	393	0.0%
Licenses & Permits	1,515,115	2,448,650	2,610,300	2,673,650	225,000	9.2%
Charges for Services	4,717,111	4,562,362	4,725,948	4,678,087	115,725	2.5%
Miscellaneous Revenues	1,112,813	2,715,000	4,299,000	3,787,250	1,072,250	39.5%
Net Total Revenues	99,810,580	106,453,058	106,264,565	111,756,574	5,303,516	5.0%
EXPENDITURES						
Personnel Services	68,333,865	71,043,182	69,092,159	73,719,462	2,676,280	3.8%
Operating Expenditures	21,073,155	23,680,334	23,308,631	25,332,309	1,651,975	7.0%
Capital Outlay	2,684,689	2,600,739	2,500,000	5,250,800	2,650,061	101.9%
Debt Service	568,112	928,459	543,317	529,860	(398,599)	-42.9%
Contingency	-	400,000	-	400,000	-	0.0%
SubTotal	92,659,821	98,652,714	95,444,107	105,232,431	6,579,717	6.7%
Interfund Activities	8,315,063	7,800,344	7,800,344	6,524,143	(1,276,201)	-16.4%
Total Uses of Funds	100,974,884	106,453,058	103,244,451	111,756,574	5,303,516	5.0%

GENERAL FUND REVENUES

Below is a summary of major General Fund revenue changes:

- Property tax revenues represent 53.2% or \$59,425,471 of the total General Fund revenues. Property tax collections are projected to increase approximately \$2,633,263 or 4.6% due to an increase in assessed valuation stemming from reevaluation in Guilford and Forsyth County. The projected collections are based on continuing with a tax rate of 64.75 cents.
- Sales tax revenues represent about 25% of General Fund revenues and are projected to increase approximately \$1,312,500 or 4.9% due to estimated sales tax growth and the continued effect of a broadening of the sales tax base.
- License and permit fees are projected to increase \$225,000 or 9.2% due primarily to increased building activity.
- Miscellaneous revenues are increasing approximately \$1,072,250 or 39.5% due to lease purchase proceeds related to fire truck and station alerting purchases.

GENERAL FUND EXPENDITURES

Below is a summary of major General Fund expenditure changes:

- Personnel services are increasing \$2.7 million or 3.8% to continue the pay for performance merit program, increased health insurance premiums, and the addition of 8 Police Officer positions, 1 Crime Analyst, 1 Accountant and 2 Building Maintenance Technician positions.
- Operating expenditures are increasing \$1.5 million or 6.2%. The majority of the increases are coming from increases to street resurfacing (\$135,000), equipment to outfit 8 new Police positions (\$181,200), increased software lease contracts (\$183,808), and various other increases.
- Capital outlay is increasing approximately \$870,061 or 33.5%. This is due primarily to the station alerting system, which is being lease – purchased for %\$1,000,000. Other capital outlay includes 8 police cruisers and 3 fire apparatus.
- Debt service is decreasing by \$523,599 or 57.1 due to several lease-purchase financing agreements that were paid off in the previous fiscal year.

ASSESSED PROPERTY VALUES

The combined total assessed valuation estimates from our four County taxing authorities is \$9,470,104,384 for 2017-18, for a 4.5% increase. The value of one cent in tax rate will produce approximately \$947,000 revenues. Below is a chart of our historic assessed value history:

CITY OF HIGH POINT ASSESSED VALUE HISTORY								
Fiscal Year	REAL PROPERTY				Personal Property	Public Service Companies	Total Assessed Value	% Inc yr/yr
	Residential Property	Commercial Property	Industrial Property	Total				
2005	3,437,991,396	2,467,140,893	961,955,850	6,867,088,139	1,353,571,796	111,464,661	8,332,124,596	-
2006	3,481,796,314	2,491,980,410	942,275,410	6,916,052,134	1,372,316,382	117,923,262	8,406,291,778	0.9%
2007	3,615,085,429	2,530,768,578	942,311,760	7,088,165,767	1,409,442,958	122,178,728	8,619,787,453	2.5%
2008	3,778,859,150	2,729,035,922	994,596,450	7,502,491,522	1,441,055,968	131,332,066	9,074,879,556	5.3%
2009	4,231,853,123	2,408,171,911	1,005,788,880	7,645,813,914	1,452,697,393	131,984,351	9,230,495,658	1.7%
2010	4,279,155,000	2,483,747,575	1,008,165,180	7,771,067,755	1,417,186,050	131,456,290	9,319,710,095	1.0%
2011	n/a	n/a	n/a	7,682,834,650	1,402,419,615	129,766,404	9,215,020,669	-1.1%
2012	n/a	n/a	n/a	7,655,916,694	1,455,701,042	129,074,157	9,240,691,893	0.3%
2013	4,300,290,483	1,949,336,323	987,346,355	7,236,973,161	1,501,465,603	148,989,146	8,887,427,910	-3.8%
2014	4,315,429,943	2,149,860,980	969,318,600	7,434,609,523	1,489,840,190	128,387,727	9,052,837,440	1.9%
2015	4,397,388,367	1,872,215,206	977,839,178	7,247,442,751	1,555,428,785	126,857,380	8,929,728,916	-1.4%
2016	4,349,667,380	1,910,440,163	1,018,606,564	7,278,714,107	1,587,787,369	140,281,138	9,006,782,614	0.9%
2017 (est)	4,365,873,203	2,081,487,839	932,088,017	7,379,449,059	1,535,936,592	147,295,195	9,062,680,846	0.6%
2018 (est)	4,471,945,033	2,301,454,600	978,692,418	7,752,092,051	1,560,406,474	157,605,859	9,470,104,384	4.5%

TAX RATE AND COLLECTIONS

The proposed FY 2017-18 tax rate is 64.75 cents, unchanged from the Fiscal Year 2016-17 rate. The total proposed tax rate is divided between the General Fund and the General Debt Service Fund. The General Fund receives 61.35 cents, and the General Debt Service Fund receives 3.4 cents. Of the total current year estimated collections of \$61,717,727, the General Fund will receive \$58,476,950, and the General Debt Service Fund will receive \$3,240,776. A blended collection rate of 99.4% is planned for current year tax collections since historically 99.0% of real property tax and 99.8% of automobile property tax is collected within the fiscal year.

REVENUE NEUTRAL TAX RATE CALCULATION

The general reappraisal of real property for the Guilford County portion of High Point occurs once every five years. The Guilford County parcels account for 94.4% of all assessed value in High Point. State law requires that units of local government publish a revenue-neutral tax rate in the budget immediately following the completion of the general reappraisal of real property. The purpose of the revenue-neutral tax rate is to provide citizens with comparative information.

The FY 2017-18 operating budget follows the general reappraisal of real property for the High Point. The revenue neutral tax rate, as defined by G.S. 159-11e, is the tax rate that is estimated to produce revenue for the next fiscal year equal to the revenue for the current fiscal year if no reappraisal had occurred. The rate is then adjusted by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal.

The reappraisal of the Guilford County portion of High Point produced a tax base \$9,076,068,995, and the growth factor since the last general reappraisal is 0.51%. Using the formula mandated by state law, the revenue neutral tax rate for High Point is 62.21 cents. The proposed tax rate for FY 2017-18 is 64.75 cents, which is unchanged from the property tax rate of 64.75 cents for FY 2016-17.

REVENUE NEUTRAL BY CATEGORY

Although it is not required by law to calculate a revenue neutral amount by individual category (i.e., residential and commercial), it is of interest to know what the revenue neutral rate would be for each category.

The estimated residential value of \$4.47 billion is an increase of just over \$100 million, or 2.4%. A tax rate of 63.21 cents (a decrease of 1.54 cents) would be needed to remain revenue neutral on just residential properties.

For commercial and industrial properties, the estimated value is \$3.3 billion, an increase of \$267 million or 8.8%. A tax rate of 59.49 cents (a decrease of 5.26 cents) would be needed to remain revenue neutral on just commercial and industrial properties.

This highlights the fact that residential properties are not increasing in value at the same rate as commercial and industrial properties, and highlights that investment of time and resources are needed to strengthen residential property values.

WATER AND SEWER FUND

The \$50,957,035 Water and Sewer Fund Budget for 2017-18 represents a 1.3% or \$685,166 decrease from the 2016-17 adopted budget, as summarized below:

CITY OF HIGH POINT WATER SEWER FUND BUDGET SUMMARY						
Sources and Uses of Funds	FY 2016 Actual	Original FY 2017 Budget	FY 2017 Estimate	Proposed FY 2018 Budget	\$ Change Prop/Orig	% Change Prop/Orig
REVENUES						
Fund Balance	-	2,262,066	-	294,000	(1,968,066)	-87.0%
Intergovernmental Revenues	407,166	435,000	406,079	435,000	-	0.0%
Charges for Services	46,734,041	48,663,135	48,770,657	49,948,035	1,284,900	2.6%
Miscellaneous Revenues	486,015	282,000	93,762	280,000	(2,000)	-0.7%
Net Total Revenues	47,627,222	51,642,201	49,270,498	50,957,035	(685,166)	-1.3%
EXPENDITURES						
Personnel Services	8,091,471	8,794,634	8,197,075	9,224,652	430,018	4.9%
Operating Expenditures	9,557,435	11,596,960	10,011,382	11,141,834	(455,126)	-3.9%
Debt Service	17,506,370	18,446,217	18,273,856	18,500,554	54,337	0.3%
PayGo Capital	4,582,370	6,350,000	6,350,000	5,757,050	(592,950)	-9.3%
Reimbursements	6,189,342	6,104,390	6,104,390	5,982,945	(121,445)	-2.0%
Contingency	-	300,000	-	300,000	-	0.0%
SubTotal	45,926,988	51,592,201	48,936,703	50,907,035	(685,166)	-1.3%
Interfund Activities	50,000	50,000	50,000	50,000	-	0.0%
Total Uses of Funds	45,976,988	51,642,201	48,986,703	50,957,035	(685,166)	-1.3%

WATER AND SEWER RATES

The 2017-18 Water and Sewer Fund includes a 3.0% water and sewer rate increase effective October 1, 2017. This increase is to fund the debt service on the approximately \$38 million in water and wastewater bonds that will be issued around the beginning of calendar year 2018. This budget includes \$5.7 million in pay-as-you-go project funding detailed later in this message.

This necessary rate increase is in line with the long-range capital financing plan that has been developed by Davenport & Company. This plan calls for annual rate increases between the 3.0% to 5.0% range to pay for this critical infrastructure development. This strategy was adopted in the early 2000s to avoid some of the 15-22% rate increases that were needed due to lack of proper long range planning.

Below is a history of water and sewer rate increases:

CITY OF HIGH POINT HISTORIC ANNUAL WATER AND SEWER RATE INCREASES			
FISCAL YEAR	EFFECTIVE DATE	WATER % CHANGE	SEWER % CHANGE
FY 2001	7/1/2000	17.20%	15.70%
FY 2002	7/1/2001	5.00%	22.20%
FY 2003	7/1/2002	8.00%	15.00%
FY 2004	7/1/2003	6.30%	14.50%
FY 2005	10/1/2004	4.90%	4.90%
FY 2006	10/1/2005	4.90%	4.90%
FY 2007	10/1/2006	4.90%	4.90%
FY 2008	11/8/2007	4.85%	4.85%
FY 2009	10/1/2008	5.90%	5.90%
FY 2010	10/1/2009	5.00%	5.00%
FY 2011	10/1/2010	4.90%	4.90%
FY 2012	10/1/2011	4.90%	4.90%
FY 2013	no increase	0.00%	0.00%
FY 2014	no increase	0.00%	0.00%
FY 2015	7/1/2014	3.00%	3.00%
FY 2016	10/1/2016	3.50%	3.50%
FY 2017	10/1/2017	3.00%	3.00%

Water and sewer revenue rates are a critical component of funding the operation, maintenance and needed capital improvements for water treatment facilities and distribution lines, and for wastewater collection lines and treatment systems. Property taxes are not used to finance water and sewer utility services.

ELECTRIC FUND

The 2017-18 Electric Fund Budget of \$132,667,110 represents a 0.5% or \$615,012 increase from the 2016-17 adopted budget. There is no change planned to the current rate structure. The increase in revenue this fiscal year is due to projected growth.

Wholesale power cost for FY 2017-18 is budgeted at \$99,700,000, which is the single largest expense in the Electric Fund and citywide budget. The budget continues to include \$100,000 for assistance to qualified low income customers, as well as \$9,206,300 in major capital projects. These routine capital investments are necessary to maintain efficient and ongoing operation of the Electric System.

CITY OF HIGH POINT ELECTRIC FUND BUDGET SUMMARY						
Sources and Uses of Funds	FY 2016 Actual	Original FY 2017 Budget	FY 2017 Estimate	Proposed FY 2018 Budget	\$ Change Prop/Orig	% Change Prop/Orig
REVENUES						
Fund Balance	-	200,000	-	-	(200,000)	-100.0%
Intergovernmental Revenues	1,260,225	-	-	-	-	0.0%
Charges for Services	126,199,652	131,613,098	132,090,871	132,428,110	815,012	0.6%
Miscellaneous Revenues	383,624	239,000	946,138	239,000	-	0.0%
Net Total Revenues	127,843,501	132,052,098	133,037,009	132,667,110	615,012	0.5%
Interfund Activities	-	-	-	-	-	0.0%
Total Revenues	127,843,501	132,052,098	133,037,009	132,667,110	615,012	0.5%
EXPENDITURES						
Personnel Services	8,023,579	8,170,352	8,154,314	9,499,425	1,329,073	16.3%
Operating Expenditures	8,083,157	7,512,622	5,667,838	7,089,731	(422,891)	-5.6%
Wholesale Power Cost	97,797,480	99,500,000	97,579,126	99,700,000	200,000	0.2%
Reimbursements	3,463,099	3,281,606	3,281,606	3,217,526	(64,080)	-2.0%
Electric Capital	4,349,460	9,531,000	7,101,350	9,206,300	(324,700)	-3.4%
Contingency	-	2,866,518	-	2,764,128	(102,390)	-3.6%
SubTotal	121,716,775	130,862,098	121,784,234	131,477,110	615,012	0.5%
Interfund Activities	1,110,000	1,190,000	1,190,000	1,190,000	-	0.0%
Total Uses of Funds	122,826,775	132,052,098	122,974,234	132,667,110	615,012	0.5%

CAPITAL IMPROVEMENT PROGRAM

Capital investments and reinvestments are critical elements in the City's total Financial Program. Capital improvements are financed by one of four basic methods.

The first method involves the issuance of voter approved general obligation bonds generally backed and paid by property taxes. The second method is a slight variation of the first, and allows the City to issue small amounts of what are known as two-thirds general obligation bonds from time-to-time that do not require tax increases or voter approval. The third method involves revenue bonds, backed and paid by revenues from our water and sewer and our stormwater system. Revenue bonds do not require voter approval. Both general obligation and revenue bond financing involve principal, interest and cost of issuance expenses. The fourth method is pay-as-we-go capital financing. The pay-as-we-go alternative, developed and expanded in the past ten years, allows us to finance needed capital improvements from current revenues, grants and other funds, thereby avoiding the additional and higher cost associated with the issuance and financing of long-term debt.

The City has engaged Davenport & Company, LLC of Richmond, Virginia as our financial advisor since 2003. Davenport has assisted the City with general obligation and revenue bond planning and modeling, financial policies, rating agency strategies and interactions, bond issuance, investment analysis, and bond refunding analysis.

Capital investments are necessary for a city to replace existing and invest in new infrastructure. Debt financing of this infrastructure is a sound financial strategy as long as the borrowing is done in a strategic and conservative fashion. Local policies are in place to ensure that borrowing is done responsibly, and oversight of our borrowing practices are in place through the Local Government Commission. The City is well prepared to address replacement of existing infrastructure and meet and provide for future growth and development.

GENERAL OBLIGATION BONDS

General obligation bonds are a common type of municipal bond that is secured by the full faith and credit of the tax rate to repay bond holders. This debt instrument was used to fund the 2004 bond authorization. The majority of those projects have been completed and it is time to begin making plans for a future bond authorization. Any new GO Bond authorization will include the following steps:

- Refining the existing debt capacity model
- Developing a debt affordability model which identifies sources of repayment for existing debt service and funds available for future debt service, including accumulated reserves
- Modeling the City's Capital Improvement Plan
- Analyzing the impacts of funding scenarios relative to the City's debt capacity and affordability
- Developing a comprehensive plan of finance
- Implementing the plan of finance

TWO-THIRDS GENERAL OBLIGATION BONDS

Two-thirds bonds are State authorized General Obligation bonds that may be issued without voter approval. The statute allows a local government to issue up to 2/3 of the amount of GO bonds that were paid off in the previous year. These bonds can be used for any other general obligation purpose, except they cannot be issued to finance auditoriums, coliseums, arenas, stadiums, civic centers or convention centers, art galleries, museums, historic properties, public transportation systems, cable television systems or redevelopment projects.

Since 2007, Council has authorized the issuance and use of \$21,515,000 in two-thirds bonds to complete a wide variety of needed improvements.

Through the years, two-thirds bonds have been used to improve and upgrade the Athletic Complex, Oak Hollow Campground, Washington Terrace swimming pool, City Lake dock and pier, Camp Ann restrooms, Lindsay Street utility and landscaping, sidewalk improvements, sidewalk and curb and gutter improvements on Cedrow Drive, improvements to Main Street, the Library Plaza project, a new fire training tower and site improvements at the fire training facility and other improvements. Current projects under design or construction using two-thirds bond money include completion of the greenway, railroad bank stabilization, and various sidewalk improvements.

WATER/SEWER AND STORMWATER REVENUE BONDS

Revenue bonds are municipal bonds that finance income-producing projects that are secured by a specified revenue source, such as water and sewer or stormwater rates. Revenue bonds are issued by the government agency for operations that run in the manner of a business, with operating revenues and expenses, such as our Water & Sewer Fund. The pledge to repay the bond is guaranteed by the rates of the Water & Sewer Fund.

The City has invested more than \$276,790,000 in various major water and wastewater projects in the past seventeen years. This includes the 2014 sale of \$39.1 million for projects such as the Westside Wastewater Treatment Plant, incinerator rebuild and upgrades, water/sewer line expansion to NC66/I-74, and various other projects.

Over the next five years, staff has identified an estimated \$98 million in additional major water and wastewater bond projects. The upcoming bond issue includes approximately \$38 million in projects that were identified in the FY 2016-17 budget, but due to timing delays these bonds were not sold in the previous fiscal year. The projects for this bond sale include \$12,750,000 for the Westside Wastewater Treatment Plant Phase 3; \$8,000,000 for incinerator rehabilitation and emission improvements; \$6,300,000 for various outfall improvements, \$5,000,000 for utilities related to the widening of Skeet Club; \$2,100,000 for the replacement of the Ward Water Tank, and \$2,800,000 for the Ward Water Plant electrical rehabilitation; and others. These investments and the financing of these investments are included in our long-range business plan that has been developed in conjunction with Davenport and Company. Staff is will continue to evaluate the five year plan and make updates as appropriate.

This budget also anticipates issuing revenue bonds for the stormwater system. The amount of bonds have not been finalized. The previous years' budget included a \$1/month stormwater rate increase to pay the debt service on this bond issue.

BOND AGENCY RATINGS

The City's capacity to finance and pay for needed improvements are evaluated from time to time by the following rating agencies: Moody's Investment Services, Standard & Poor's, and Fitch Ratings. Protecting and enhancing our bond ratings is one of our highest priorities.

The City has seen a series of bond rating upgrades since 2003, including the addition of a AAA bond rating assignment by Standard & Poor's. The City's bond ratings were re-affirmed in conjunction with our bond sale in April 2014, and Fitch Rating Services re-affirmed their ratings in March 2016. The City enjoys highly favorable bond ratings from each agency, which in turn lowers our cost of borrowing. These favorable ratings were due to strong and conservative financial management practices and adherence to financial policies, Local Government Commission regulations and state laws. The chart below shows High Point's current ratings:

CITY OF HIGH POINT BOND RATING HISTORY			
	Moody's	Standard & Poor's	Fitch
GENERAL OBLIGATION BONDS	Aa1	AAA	AA+
REVENUE BONDS	Aa2	AAA	AA+

PAY-AS-WE-GO FINANCING

The City has made a commitment to fund a healthy level of pay-as-we-go financing for routine improvements, infrastructure maintenance, and grant matches of capital projects funded from state and federal grant programs. Below is a summary of pay-as-we-go projects in each fund.

GENERAL FUND PAY-AS-WE-GO

General Fund pay-as-we-go capital investments have for FY 2017-18 are budgeted at \$4,430,000. The pay-as-we-go investments in the General Fund include:

Street Resurfacing	\$2,450,000
Fire Station Renovations	500,000
GIS Base Mapping	30,000
Parks & Rec parking lot improvements	490,000
Dog Park	125,000
Playground Equipment	50,000
Athletic Complex Track Resurfacing	100,000
Tennis Center Improvements	100,000
Library Plaza alternate improvements	200,000
Mendenhall Terminal Improvements	150,000
I-74 Signing	35,000
Traffic Services Storage Building	100,000
City Hall electric system upgrade	<u>100,000</u>
General Fund Total	\$4,430,000

WATER AND SEWER PAY-AS-WE-GO

Water and Sewer pay-as-we-go capital reinvestments are budgeted at \$5,639,550. A list of 2017-18 Water and Sewer pay-as-we-go investments are shown below:

Replace Obsolete Neighborhood Water Lines	\$1,250,000
Replace Obsolete Neighborhood Sewer Lines	1,250,000
Waterview Pump Station	200,000
Developer reimbursements	100,000
Water Storage tank maintenance	100,000
Eastside Safety Equipment upgrades	340,000
SCADA system upgrades	200,000
Kendale Outfall	449,500
Alum Sludge Removal	300,000
NCDOT – TIP Program	100,000
Water Meter Change-out	1,150,000
Water System Improvements	100,000
Sewer System Improvements	<u>100,000</u>
Water & Sewer Total	\$5,639,550

ELECTRIC PAY-AS-WE-GO

The Electric pay-as-we-go projects are budgeted at \$9,206,300. Projects include:

Electric System Improvements	\$2,659,800
Automated Meter Reading	200,000
Outdoor Lighting	110,000
Linden Substation 100kv conversion	500,000
Hammer Substation	1,750,000
Downtown underground	200,000
Load Management	148,000
Street lighting	200,000
Breaker replacement	100,000
Oak Hollow second transformer	1,688,500
100kv breakers	150,000
SCADA upgrade	150,000
Overhead conversion	100,000
Russell to Burton conversion	1,000,000
Utility Software upgrade	<u>250,000</u>
Electric Capital Total	\$9,206,300

SOLID WASTE PAY-AS-WE-GO

The Solid Waste pay-as-we-go budget is \$1,171,000. The projects planned are:

Screener - Ingleside	\$350,000
Kersey Valley Road Relocation	250,000
Landfill land purchase	50,000
Collection cart replacement	300,000
Hazardous waste building	50,000
KV Phase I-IV reserve	<u>171,000</u>
Landfill Capital Total	\$1,171,000

OTHER PAY-AS-WE-GO

The \$3,742,121 in other 2017-18 pay-as-we-go investments includes the scheduled replacement of vehicles, normal computer and radio replacements, routine stormwater projects, and others outlined below:

Fleet Replacement Program	\$4,400,000
Stormwater projects	75,000
Radio System Equipment	55,000
Computer System Replacements	<u>300,000</u>
Other Capital Total	\$ 4,830,000

FUND BALANCES/RETAINED EARNINGS

Fund balances and retained earnings are an absolutely critical, but often misunderstood and overlooked part of the Annual Budget. Fund balances and retained earnings consist of unencumbered and un-appropriated monies. They are essential for maintaining our strong bond ratings as well as to maintain positive year-round and year-to-year cash flows. Strong fund balances are essential as we plan ahead for subsequent budgets.

The North Carolina Local Government Commission recommends maintaining an 8.0% balance in each fund. This is necessary for maintaining positive year-round cash flows, reducing the need for short term borrowing, and assisting in maintaining investment grade bond rating. The High Point City Council adopted Fiscal Policy calls for a minimum 10.0% fund balance of estimated expenditures as a signal of financial strength and fiscal stability. The City of High Point applies the policy to all operating funds *except* the Water-Sewer Fund, which calls for a 50% fund balance, and the Economic Development, General Debt, and General Capital Project funds, which are covered by more specific strategic plans.

The table below summarizes changes in annual fund balances/retained earnings, including early estimates for June 30, 2016:

FUND BALANCE AVAILABLE FOR APPROPRIATION									
FUND	ACTUAL JUNE 30, 2016	ESTIMATED BALANCE JUNE 30, 2017	APPROPRIATED FY 2017-18	ESTIMATED BALANCE JUNE 30, 2018	FUND BALANCE POLICY	FY 2017-18 PROPOSED EXPENDITURES	FUND BALANCE MINIMUM	RESERVE % OF EXPENDITURES	AMOUNT ABOVE MINIMUM FUND BALANCE
GENERAL	13,400,032	19,057,341	3,500,000	15,557,341	10%	110,756,574	11,075,657	14.0%	4,481,684
GENERAL DEBT	16,428,100	16,599,949	-	16,599,949	50%	8,394,206	4,197,103	197.8%	12,402,846
ECONOMIC DEV.	2,208,272	2,416,681	275,000	2,141,681	n/a	750,000	n/a	n/a	n/a
CENTRAL SERVICE	3,285,864	3,290,698	944,267	2,346,431	n/a	13,845,309	n/a	n/a	n/a
WATER & SEWER	30,521,399	30,805,194	294,000	30,511,194	50%	50,957,035	25,478,518	59.9%	5,032,676
ELECTRIC	24,605,356	28,605,356	-	28,605,356	10%	132,667,110	13,266,711	21.6%	15,338,645
MASS TRANSIT	393,961	450,696	-	450,696	10%	4,191,822	419,182	10.8%	31,514
PARKING	355,553	389,419	315,197	74,222	10%	579,897	57,990	12.8%	16,232
SOLID WASTE	1,791,435	3,016,089	128,386	2,887,703	10%	15,718,886	1,571,889	18.4%	1,315,814
STORMWATER	1,760,926	1,956,978	-	1,956,978	10%	5,195,804	519,580	37.7%	1,437,398
TOTAL	94,750,898	106,588,401	5,456,850	101,131,551		343,056,643	56,586,630	29.5%	40,056,809

CONCLUSION

I am pleased to present to you a budget that addresses the strategic goals of the City Council of High Point. This budget continues to provide the quality programs and services our residents have come to expect and enjoy. High Point's financial condition is stable and strong. The FY 2017-18 Budget is balanced, meets all statutory requirements, and addresses many of the critical issues that Council has expressed interest in addressing.

I want to thank the City Council and the community for their interest, engagement and assistance. The work we do cannot be successful without the partnership of citizens and community agencies from all areas of the city. I look forward to a bright future as we continue to make High Point the single most livable, safe and prosperous community in America.

I want to acknowledge all of the staff members who assist in the preparation of this policy document. The efforts and professionalism of Eric Olmedo, Laura Altizer, Roslyn McNeill, Cindy Smith, Jeff Moore, Randy McCaslin, Randy Hemann, Jeron Hollis and the rest of our executive team are appreciated. I also thank the Mayor and City Council for your leadership and commitment to the City of High Point.

Respectfully submitted,

A handwritten signature in black ink that reads "Greg Demko".

Greg Demko
City Manager

**PUBLIC NOTICE
CITY OF HIGH POINT
BUDGET HEARING**

Affidavit of Publication

STATE OF NORTH CAROLINA }
COUNTY OF } *Cumford* SS

Lisa Robertson, being duly sworn, says:

That she is the billing clerk of the The High Point Enterprise, a daily newspaper of general circulation, printed and published in High Point, County, North Carolina; that the publication, a copy of which is attached hereto, was published in the said newspaper on the following dates:

May 03, 2017

That said newspaper was regularly issued and circulated on those dates.

SIGNED:

Lisa Robertson
the billing clerk

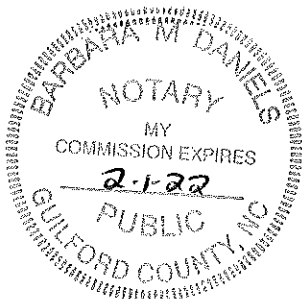
Subscribed to and sworn to me this 3rd day of May 2017.

Barbara M Daniels
Barbara Daniels, Notary, County, North Carolina

My commission expires: February 01, 2022

30000567 30756188

HPE LEGAL ACCT
CITY OF HIGH POINT
PO BOX 230
HIGH POINT, NC 27261



The public will take notice that the Proposed Budget for the City of High Point for the Fiscal Year 2017-2018 has been filed with the City Council of the City of High Point. The Proposed Budget is available for public inspection in the office of the City Clerk, 211 S. Hamilton Street, High Point, North Carolina. A copy of the Proposed Budget is also available in the High Point Public Library located at 901 N. Main Street, as well as on the City website: WWW.HIGHPOINT-NC.GOV

One public hearing on the Proposed Budget will be held. The public hearing will be held on Monday, May 15, 2017 at 5:30 P.M. The hearing will be held in the City Council chambers of the Municipal Building, 211 S. Hamilton Street, High Point, North Carolina.

Oral and written comments will be received from any interested citizen at the hearing.
May 3, 2017