

CITY MANAGER'S BUDGET MESSAGE

May 23, 2016

Mayor and City Council
City of Lexington, NC

Dear Mayor Clark and City Council Members,

In accordance with North Carolina General Statutes, I hereby present you with the fiscal year 2016-17 proposed budget for the City of Lexington. Not unlike many communities across the nation, Lexington has many needs but limited funding resources. Nonetheless, throughout the budget you will see strong support of Lexington City Council's goals and guiding principles for governing.

External events and recent law enforcement incidents across the United States are affecting the recruitment and retention of quality law enforcement officers in agencies across North Carolina and the United States. Both local and state agencies are affected by these events and the influence on the recruitment and retention of quality law enforcement officers, as well as additional equipment expectations such as body cameras. Class sizes in Basic Law Enforcement Training at local and contiguous community colleges have experienced a dramatic reduction in the number of students. The competitive recruitment and hiring of police officers from other agencies has increased. The City of Lexington Police Department is experiencing these adverse impacts resulting in a 17% turnover rate; thus, funding measures are incorporated in this budget to address law enforcement compensation and invest in modernized equipment.

In preparing the budget, moderate personnel, operational and utility reliability investments have been made, while simultaneously leveraging debt, grant and private donation opportunities to mitigate citizen and customer impacts. However, a use of cash reserves in the General Fund was necessary in order to maintain service levels and to incorporate the goals set by the Mayor and Council members at their annual retreat in February 2016, especially given the negative impact of the 2016 property revaluation. Of particular note, the proposed budget of \$97 million is down from the current year by a margin of \$1.8 million, which is generally due to electric wholesale rate savings with the recent debt restructuring by NC Municipal Power Agency #1; countered by additional General Fund revenues and fund balance cash reserves being directed towards City Council's goals and initiatives including strategic investments in the "Re-creation of Recreation" master plan and to address the emerging pressures in law enforcement. To ignite progress towards the long range enhancements of recreational facilities in Lexington, multi-year funding is included to purchase the building to be transformed into an indoor recreation center, debt service for the newly renovated Lexington Aquatic Park (former donated Hillside Pool) and for the renovation of Holt-Moffitt Field and Washington Park including a splash pad, and professional services to facilitate preliminary design and citizen involvement in the remaining phases of the recreation master plan. Revenues are also directed towards City Council's goal of green initiatives to finalize the final year of a four year phase-in of the residential recycling rollout program. In addition, the budget includes \$500,000 for street resurfacing projects, which is identical to current year levels of funding in the General Fund.

With the nationwide impact on local law enforcement creating \$550,000 compensation and equipment cost pressures and a recent property tax revaluation within the last year lowering real property values by approximately \$45 million, there is a proposed \$.05 increase in the property tax rate to \$.65 per \$100 of assessed valuation in the budget. Each penny on the tax rate generates approximately \$146,000. The budget includes transfers made to the General Fund from the Electric and Natural Gas Funds of \$1.25 million and \$972,049, respectively. The proposed budget maintains existing City service levels; while enhancing efforts to pursue green initiatives and simultaneously makes pivotal investments in recreation and continued economic development focus designed to rebuild Lexington's economy.

Specific highlights of the proposed budget are discussed in detail on the following pages.

THE LOCAL ECONOMY AND BUDGET OUTLOOK

The proposed budget continues to be greatly impacted by local economic conditions. In the previous decade, the City suffered dramatic property tax and utility revenue losses from the closing of furniture and other manufacturing plants. These continuing impacts from industrial plant closings have reverberated throughout the City's budget long after the shut downs occurred. Since 2001, a total of twelve industrial plants closed and the City lost in excess of \$9 million in annual revenues and over 3,000 jobs. If all of the \$9 million in lost City revenues had to be replaced by property taxes, that property tax rate increase would be the equivalent of an additional 62 cents. Despite some positive signals of recovery, such as a \$23 million constructed Save-A-Lot distribution center and MasterBrand Cabinets \$12 million investment in the industrial park and a recent uptick in residential and commercial development, equal economic replacement value remains in the distance for Lexington.

Beginning with fiscal year 2016-17, the City expects an estimated additional \$350,000 in local option sales tax due to a redistribution by the State of NC. This additional revenue source is earmarked for economic development activities. The City receives several State collected local revenues that are partially based on State per capita distribution models and remain relatively flat; those being the local option sales tax, beer and wine tax, and the Powell Bill gasoline tax which supports 31% of the City's street maintenance budget. On a positive note, utility sales tax revenues are expected to increase by approximately \$132,100 over the current year.

The City took a significant step to control its own economic future by purchasing the Lexington Furniture Industries Plant 1 (LFI Plant 1) property for \$1 million with payments paid out from November 2006 through July 2008. Plant 1, which has been closed since 2003, contains 18 acres of land and over one million square feet of building space and is located adjacent to the heart of the Uptown District of Lexington. The City faced real threats of declining appearance and tax base due to the expected acquisition of the property by absentee ownership if the City decided against the purchase. This acquisition had an effect on the City's financial flexibility and the task of redevelopment of the property continues to have financial impacts on City budgets. City Council appointed a commission of capable citizens to focus on the redevelopment of the LFI Plant 1 property whose work was completed in 2014, of which the comprehensive planning documents for the identified 'Depot District' are now being used to solicit business redevelopment and pave the way for passenger rail stop. Fortunately, the infusion of \$118,451 of rental income from leased warehouse space to tenants is included in the proposed budget to offset the costs of selective demolition, site preparation and redevelopment efforts in the Depot District. Recently, Bull City Ciderworks landed in 2015 as an anchor tenant and a \$200,000 donation from a local business in 2016 is igniting the construction of an amphitheater in the Depot District. In 2011, the City was awarded a \$700,000 federal grant to begin the planning phase of a multi-modal transportation station for a passenger rail stop in the Depot District which encompasses the LFI Plant 1 property; the final architectural plan report was made available in 2014 at public

workshops garnering the attention of then NC Department of Transportation Secretary Anthony Tata, with the grant closure occurring in 2016. These planning efforts are instrumental to seek additional funding assistance for construction of a rail stop platform.

OTHER MAJOR IMPACTS

In addition to the local economy showing signs of recovery but remaining a bit sluggish, there are other factors that have posed a significant impact on the budget. Unfunded federal and state mandates in Natural Gas, Electric and Water and Wastewater have affected the City budget collectively by \$490,525. Due to a federal mandated Distribution Integrity Management Program in the natural gas industry, the City is incurring costs for public awareness and a natural gas system routine inspection and pipe replacement program. Over the course of the next few years, electric customers will continue to pay a surcharge for the State environmental provision that went into effect in 2008 which requires power companies to develop 10% renewable energy sources such as solar and wind in their portfolio. Finally, the State dictates certain water quality requirements that the City has to meet at the water plants and in setting aside a replacement funding source for the wastewater collection and water distribution system.

Weather and economic conditions have a profound impact on utilities' operating costs and revenues. Moderate winters, industrial load loss from plant closings, energy efficiency trends and drought conditions can affect utility rates to customers and create challenges projecting revenues for the utility funds for budgeting purposes. For example, industrial consumptions for City electric service have lowered by 82 million kWh or 74% since 2001. To compound customer rate pressures, the North Carolina Municipal Power Agency No. 1 (NCMPA1) has implemented multiple wholesale electric rate increases in the past several years. However in July 2015 and July 2016, electric customers received a 2.7% and will receive another 2% average retail rate decrease, respectively. The electric rate relief is made possible by NCMPA1 restructuring outstanding debt in June 2015, which relieved purchased power cost pressures to the City. The fixed wholesale power costs represent 79% of the electric utility budget; reinforcing the significant impact the wholesale rate received from NCMPA1 has on the City's financial inability to absorb cost increases. Future wholesale rate cost impacts to electric customers is also mitigated by the NCMPA1 continuing the transition to 'true up' the allocation of demand costs across the agency members over the course of several years between 2013 and 2021.

A total of nine partner agencies and commissions requested funding for Grants to Agencies totaling \$275,900, which was reduced to \$235,900 in the proposed budget but includes new partner funding to the Davidson County Transportation Fund to sustain the bus route in Lexington. The General Fund subsidy of \$318,584 for the golf course covers the annual debt service of \$168,584 for the course renovations and includes an additional infusion of \$150,000 for golf course maintenance and operations. These factors, plus the strategy implemented to address the nationwide impact on law enforcement, the recreation master plan, continued economic recovery and utility system reliability, account for the major differences between the current year budget and the proposed 2016-17 budget.

The Mayor and City Council have demonstrated leadership and vision in making investments in Lexington's new economy in the aftermath of financial challenges.

CITY MANAGER'S STRATEGY IN PREPARING THE PROPOSED BUDGET

In preparing the proposed budget and analyzing the forces at play, answers to the following questions helped determine the general direction for the proposed budget:

- Can key investments in service levels and partnerships be made in the face of law enforcement adversity and economic challenges while continuing the City's progress forward?

- How can the budget framework fund City Council's goals and priorities and invest in a new economy and an improved quality of life with special emphasis on the "Re-creation of Recreation" master plan for City of Lexington citizens?
- How does the City strike a financially balanced approach to continue to jumpstart the new economic direction, further the City's brand and expedite development in the Depot District?
- What impact will the loss of revenue from the property tax revaluation have on the City's budget?
- What impact will unfunded federal and state mandates have on the City's budget?
- What impact will wholesale electric rates have on utility customers?
- How can the City implement critical utility system reliability maintenance with minimal impacts to customer rates?
- What can the City do to take advantage of technology and reengineer government operations to find efficiencies in order to combat revenue losses?

Answers to these questions, along with City Council goals and other guiding principles, provided the framework for setting budget priorities.

Specifically, some key goals during the budget development process were to exhaust every opportunity to address City Council priorities, maintain and attract new jobs and investment while continue investing in public infrastructure where financially feasible; and restructuring government in order to find lasting efficiencies that limit budget and economic impacts on citizens and customers. In regards to the utilities, emphasis is placed on the need to operate each as a separate self-supporting business with an ongoing goal to add customers to spread costs over a larger customer base; which will help alleviate the rate burden for all utility customers in the long run. Maintaining system reliability in the utility infrastructure and leveraging the wastewater capacity asset for economic development strategic initiatives are of extreme importance to ensure service delivery and sustainability in the future.

In addition, staff continues to research investments in new technology to increase productivity and overall professional development of the workforce, ensure and improve customer service response, and lower or stabilize operating costs. Some restored level of investment is proposed to personnel pay and benefits, offset by strategic delayed funding for various full-time employees; all in an effort to enhance service levels in a struggling economy. The City has aggressively pursued and been successful in acquiring federal and state grants to help finance personnel, equipment and new initiatives; these resourceful efforts will definitely continue next year. It is important to note that the availability of drug forfeiture funds is virtually diminished due to legislative changes to the program.

The proposed 2016-17 budget is balanced with \$772,298 in fund balance, a decrease of \$520,524 from the current year. Fund balance, otherwise known as the City's General Fund savings account, is estimated to decrease by approximately \$1 million in the current year. The projected decrease to fund balance in the current year is primarily due to planned deficit spending towards the recreation master plan and unforeseen costs in construction projects, light replacements at Bingham Tennis Center and strategic investments to further Depot District redevelopment and passenger rail stop grant opportunities. Fund balance can be strategically used during disasters and difficult economic times to minimize impacts to citizens but must be preserved to maintain the financial integrity and debt credibility of the City. It is also imperative that at a moment's notice, the City is able to adapt to further economic deterioration or provide funding for unforeseen emergencies or opportunities like investing in infrastructure and incentives to bring about new jobs and investments for the community. Without these incentives and investments, the local economy may not recover.

Only by the willingness to understand citizen needs, bridge services to meet the needs of the community, and possess the vision to pursue bold actions that can compete and rebrand the image of this City can we hope to restore economic health and quality of life to our community.

BUDGET INITIATIVES AND SERVICE ENHANCEMENTS

Numerous short term and long term initiatives are funded in the 2016-17 budget. In order to reduce the cost of government and to be more effective in service delivery, the City is investing in new technology and implementing efficiency measures to reengineer government.

The City currently uses multiple platforms of antiquated technology to track critical work order cost of service information. Once a service order is generated, work orders are an internal accounting methodology used to aggregate the cost of the labor, materials and equipment used on public service and utility jobs. Work order cost information is imperative to request Powell Bill reimbursements and to maintain accurate asset values of the City's utility infrastructure. A comprehensive work order computerized system with funding of \$250,000 will be implemented in the coming budget year. Additional technological enhancements are included for sworn police officer body cameras, reservation software for parks and recreation services, and a water plant SCADA system upgrade for timely notifications with water line breaks in the amounts of \$15,000, \$20,000 and \$86,300, respectively.

City Council's goal of green initiatives will be realized in upcoming budget year 2016-17 with a \$105,000 investment included to expand the residential rollout recycling program to fulfill the final year of a four year phase-in period. On August 13, 2012, City Council accepted a State grant of \$12,600 for the City to implement a new automated rollout recycling program. The City matched the grant using revenues received through the Solid Waste Disposal Tax enacted in 2008 to purchase 500 95-gallon rollout containers to automate the program. Previously, the City primarily used 18-gallon bins. Most people who recycle regularly attest that their recycling has grown much larger than their garbage; thus, the need for the larger container and the need to automate. With the larger size of the rollout containers, collection is scheduled bi-weekly. With increased recycling efforts by citizens, the City can mitigate the cost of service by lowering landfill tipping fees. Four neighborhoods were included in the pilot program that was successfully implemented in January 2013. In January of 2014, 2015 and 2016, the City completed Thursday's, Friday's and Tuesday's collection routes, respectively. In upcoming budget year 2016-17, the City is expanding the program to include Wednesday's route which completes the program citywide.

In an effort to address a key City Council goal, a conceptual recreation master plan was introduced at the 2014 City Council retreat entitled the "Re-creation of Recreation." Key components of the vision to completely revamp recreational facilities and enhance participant recreational opportunities in Lexington are a result of the Parks and Recreation Facility Development Master Plan Study facilitated by Site Solutions in 2013, which included interactive public forums. Youth recreational opportunities in the community have been reiterated for over four decades and most recently reemphasized again by the citizen-led Strategic Planning Committee's *2020 Renaissance* plan. The "Re-creation of Recreation" master plan is recommended to be implemented over several years to mitigate the cost burden to citizens. The proposed 2016-17 budget includes \$105,000 funding to continue the five-year contract to purchase the building to be transformed into an indoor recreation center; \$53,941 debt service for the newly renovated Lexington Aquatic Park (former donated Hillside Pool) which opened in 2015; \$156,100 debt service for the renovation of Washington Park and Holt-Moffitt Field, with the scope of the splash pad improvements at Washington Park partially offset by a \$217,500 NC Parks and Recreation Trust Fund grant; and an estimated \$200,000 cash advance from the General Fund to begin preliminary design of the Radcliffe skate/bmx park and the indoor recreation center while facilitating

citizen involvement in the recreation master plan process for these new facilities. For more information, please visit the City's website at <http://www.lexingtonnc.gov/index.aspx?page=589>.

Given water main break activity over the last year, \$90,000 is included in the proposed budget to fund an engineering consultant to formally evaluate the integrity, reliability and any vulnerabilities of the water and wastewater system, as well as to identify future capital improvement needs and possible funding requirements with a rate study component. Grant funding is being sought to assist in this endeavor. The results of the study and ensuing funding strategy is identified as a priority to be reviewed for further action by City Council in future budget cycles.

Ultimately, seeking grant opportunities and making strategic investments in economic development, technological advancements and reengineering initiatives to seek efficiencies in the delivery of government services offer the best opportunities to create savings in City operations in the years to come.

CAPITAL EQUIPMENT AND OTHER CAPITAL ITEMS

Requests from City departments for capital purchases totaled over \$3.2 million. In order to balance the budget, substantial reductions were made to these requests. All City departments, with specific assistance offered by the Fleet Management department, continue to work together to extend the life of all vehicles and equipment and reduce the size of fleet to be maintained which has culminated in approximately \$900,000 in savings to date related to downsizing the City vehicle and equipment fleet.

However, some equipment needs must be funded in order to sustain efficient and reliable City services. The proposed 2016-17 budget includes \$1,345,659 for equipment and other capital items. The major items include \$242,000 to replace one bucket truck for reliable electric service response, \$100,000 to make improvements at Bingham Tennis Center, \$270,890 for pooled vehicle replacements now that all vehicles have been assigned for maximum utilization in the departments, as well as six police vehicles totaling \$179,220. In addition, capital of \$161,300, \$65,173 and \$60,100 is included in the Water and Wastewater, Natural Gas and Golf funds, respectively. Details regarding capital equipment and other capital items along with corresponding amounts for each department can be found located within this document behind the tabs for the various funds.

CAPITAL CONSTRUCTION PROJECTS

To bundle a finance offering more attractive to lending institutions in conjunction with the renovation of Washington Park and Holt-Moffitt Field, architectural design plans were completed and construction is underway for Phase II of the Lexington Utilities complex that has been in the pipeline for years. A total of \$3.3 million of electric building and \$2.3 million shared utility warehouse facility improvements was financed and leveraged as collateral along with the park improvements. Inadequate electric and warehouse facility needs and improved traffic flow for costly rolling stock at the Lexington Utilities complex are being addressed at a debt service cost of \$302,323 for the Electric Operations Center and \$229,897 for the Warehouse Center, which is shared by electric, natural gas and the water/wastewater utilities to store inventory that supports infrastructure with an aggregate value of over \$2 million.

ORGANIZATIONAL CHANGES AND EMPLOYEE BENEFITS

The proposed budget does not include funding for the City's "pay for performance" employee merit plan, which has not been fully funded since 2007-2008. Without merits in the proposed budget and in an effort to regain some ground with market pressure, the City's pay plan does include a recommended 3% cost of living adjustment (COLA) for employees delayed until October 2016 at a cost of \$331,392, which will increase the grades for new hires by 2%. City employees have only received COLA pay adjustments five out of the last eleven years. The measured amounts budgeted in pay and benefits are

necessary to mitigate the declining revenues from the property tax revaluation and post-recession status of the local economy.

The cost of employee longevity pay remains funded at \$290,936. Longevity pay is a percentage of gross salary that is paid to eligible tenured employees in December. The percentage ranges from 0-2.5% based on years of service. Employees become eligible for longevity after completing three years of continuous service with the City. To help counterbalance rising health insurance costs, the first phase of a comprehensive multi-year plan for health insurance benefits is enacted in the coming year requiring additional contributions from employees and retirees for their health insurance premiums.

Funding dedicated to a 401K City contribution of 2% for all employees, with the exception of sworn police officers, was suspended beginning July 1, 2009 and continues being suspended in the coming budget year resulting in over \$250,000 savings next year. North Carolina General Statutes require the City contribute 5% for sworn police officers; thus, that funding will continue in the coming year. Effective July 1, 2016, the Local Government Employees Retirement System Board of Trustees is including moderate increases in the base employer contribution to 7.35% of payroll for general City employees and 8.15% of payroll for law enforcement employees.

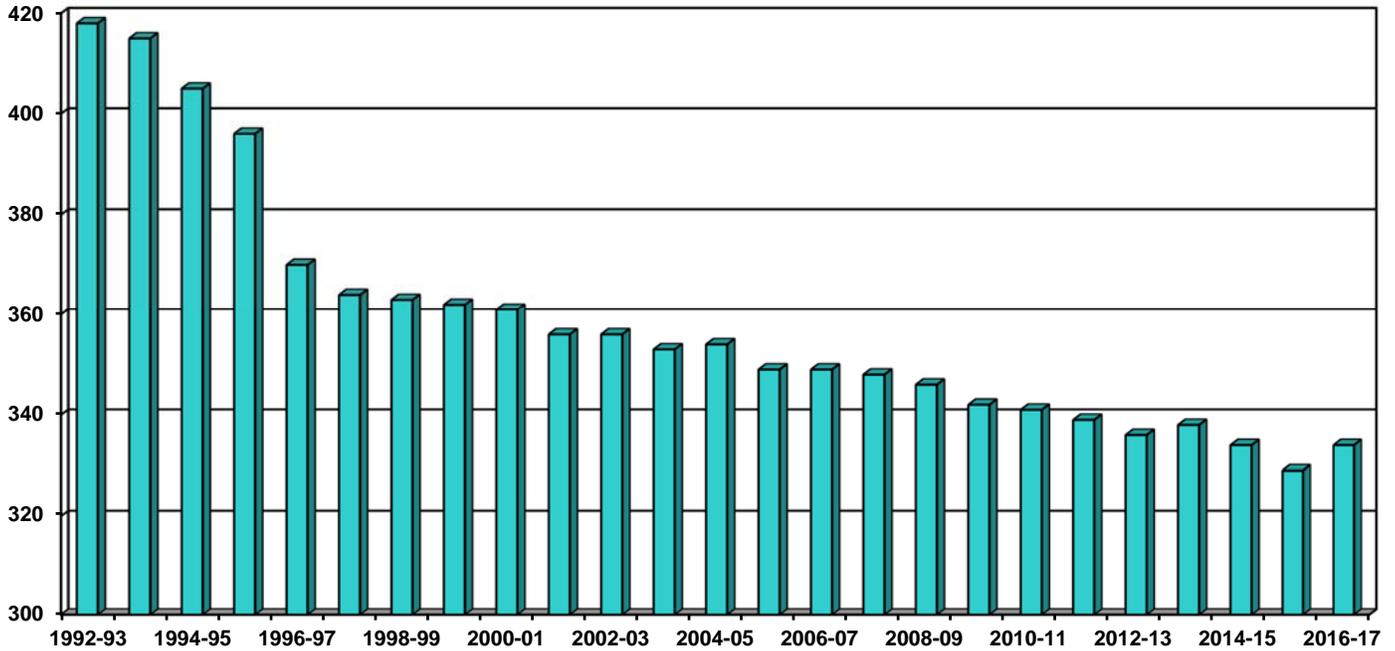
The proposed budget includes the deletion of three full-time positions via attrition, net of the addition of seven full-time positions throughout the following departments: Public Buildings, Police, Fire, Public Works, Golf and Fleet Services. The net effect of total full-time positions will be increased from 330 to 334. Additionally, funding for five full-time positions were delayed in the proposed budget to mitigate cost pressures.

External events and recent law enforcement incidents across the United States are affecting the recruitment and retention of quality law enforcement officers in agencies across North Carolina and the United States. Both local and state agencies are affected by these events and the influence on the recruitment and retention of quality law enforcement officers, as well as additional equipment expectations such as body cameras. Class sizes in Basic Law Enforcement Training at local and contiguous community colleges have experienced a dramatic reduction in the number of students. The competitive recruitment and hiring of police officers from other agencies has increased. The City of Lexington Police Department is experiencing these adverse impacts resulting in a 17% turnover rate; thus, funding measures are incorporated in this budget to address law enforcement compensation and invest in modernized equipment.

The City of Lexington conducted a starting pay salary study for Police Officer I's at 38 law enforcement agencies in North Carolina. Included in this study were benchmark and surrounding agencies. The average starting pay for these 38 agencies is \$35,086. The City of Lexington's current starting pay for a Police Officer I is \$31,666 and is recommended to bring current police officer pay that is under \$35,000 to a minimum of \$35,000 and maintain equitable pay spread. In accordance with the current City of Lexington Personnel Policy, the recommended reclassifications will result in 5% pay increases for current law enforcement officers in the respective positions. All current Police Officer I's and four Police Officer II's receive more than a 5% increase in order to bring minimum pay for current officers to \$35,000 and maintain equitable spreads in pay. These measures are recommended at the May 23, 2016 City Council meeting in an effort to expedite resolution to law enforcement turnover concerns.

As depicted by the graph below, the City has eliminated 90 full-time positions, an annual rate of reduction of 21% over the 24 year period. These reductions have been achieved by a combination of automation, new technology, outsourcing, restructuring and the effective use of part-time employees

and interns. For a detailed position count by fund and department, please refer to pages 9-10 of this document.



TRANSFERS BETWEEN CITY FUNDS

The Electric Fund and the Natural Gas Fund transfer monies to the General Fund each year, which helps balance the General Fund budget. These transfers serve as dividends to municipalities that own and operate utilities locally. The transfer in the current year for the Electric Fund is \$1.275 million, while the transfer for the Natural Gas Fund currently stands at \$939,882. The Electric Fund transfer decreases in the proposed budget for 2016-17 to \$1.25 million as a good faith effort to invest in electric system reliability; while the Natural Gas Fund transfer is budgeted at \$972,049, a \$32,167 increase. The expansion of the natural gas system allows for the increased transfer. The budgeted transfer amounts for fiscal year 2016-17 have been thoroughly reviewed according to the State of North Carolina’s established guidelines, which govern the recommended dividend amounts transferred from utility funds to the General Fund.

The General Fund transfers monies to the Golf Fund if needed to balance the Golf Fund budget. The proposed budget includes a subsidy transfer of \$168,584, which covers the debt payment on the golf course renovation loan from 2003. This debt will be paid off in 2018. Also included is a \$150,000 additional infusion to support golf course maintenance and operational needs.

CONTINGENCY

The 2016-17 proposed budget contains one contingency appropriation in the Electric Fund in the amount of \$245,180 as a planned addition to build electric cash reserves that register below the municipally owned utility averages in the State of NC.

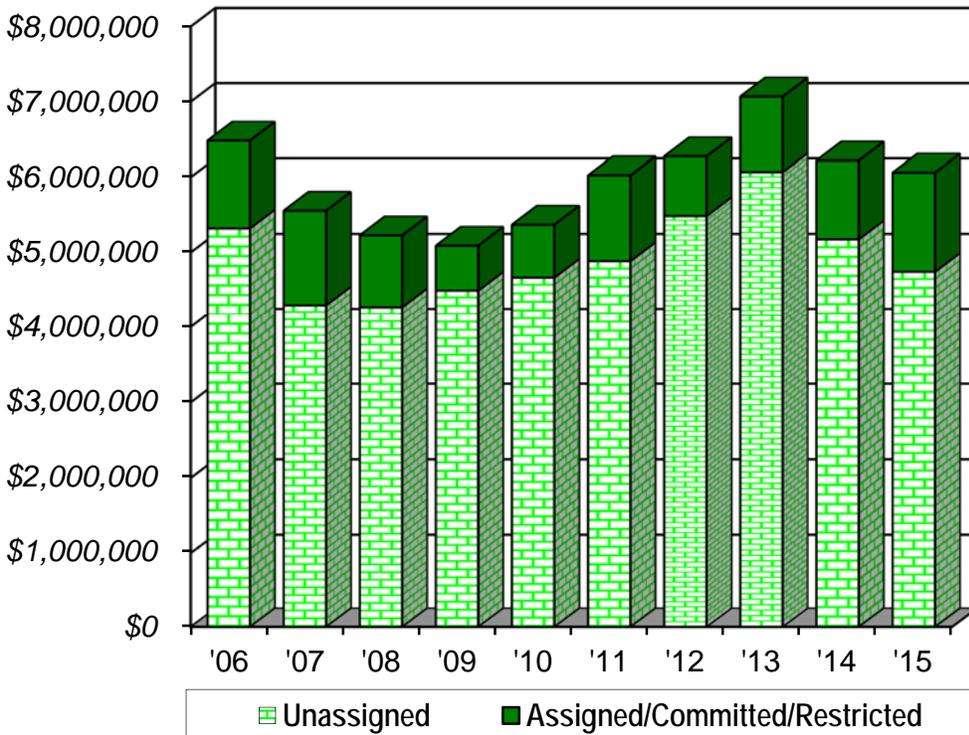
In the General Fund, the City will rely on a strong fund balance to cover any unexpected events, emergencies, or economic development opportunities. The following table estimates available fund balance in the General Fund for next fiscal year.

FUND BALANCE PROJECTION

Unassigned Fund Balance 6/30/15 (24%)	\$ 4,744,018
Fund Balance Appropriated for FY 2015-16	1,292,822
Projected Reclassification from Fund Balance Restricted by Statute for FY 2015-16	809,920
Projected Revenues for FY 2015-16	21,249,132
Projected Expenditures for FY 2015-16	<u>(22,858,373)</u>
Projected Unassigned Fund Balance 6/30/16	<u>\$ 5,237,519</u>
Projected Fund Balance Available for Appropriation for FY 2016-17	\$ 5,237,519
Divided by General Fund Budget for FY 2016-17 (less administrative charges)	\$ 22,720,029
City of Lexington Fund Balance Percentage Projection (target goal 25-32%)	23%
Projected Fund Balance Available for Appropriation for FY 2016-17	\$ 5,237,519
Less Recommended Appropriation for FY 2016-17	<u>(772,298)</u>
Remaining Fund Balance Available for Appropriation	<u>\$ 4,465,221</u>

The City Council has consistently listed “maintain the City’s financial integrity” as one of its top goals. Fund balance is expected to decrease by approximately \$1 million in the current year. The following chart demonstrates the City’s strong commitment to healthy and consistent levels of General Fund reserves over ten years and the rationale for strategic intermittent reliance and rebuilding of fund balance.

HISTORY OF GENERAL FUND BALANCE AVAILABLE FOR APPROPRIATION



MISCELLANEOUS FEE CHANGES

The City practices controlling costs by assigning appropriate fees for services to citizens and customers using those services, as opposed to general citizen or customer based funding through taxes or utility rates. City staff has evaluated current fee structures and recommends changes to the following fees for the 2016-17 budget:

- Implement a security deposit to rent the Robbins Recreation Center for community activities
- Increase fees to recover costs for weekend and holiday burials at the cemeteries
- Implement expanded fees to recover electric costs for relocating service lines and poles
- Increase fees to recover wastewater costs for staff laboratory testing and monitoring mandated by the State of NC for industrial customers
- Increase fees at the municipal golf course and for the newly renovated Commons on the Green facility.

Please refer to page 160 (and the corresponding attachments) of this document for specific fee structures that will change and the corresponding amounts.

UTILITY RATE CHANGES

Continued stagnant consumptions in the electric utility are anticipated in the proposed budget year due to local economic conditions and plant closings, energy conservation and post-recession impacts. Key factors affecting the decisions to recommend changes to utility rates, as well as a brief synopsis of the rate changes are outlined below. However, please refer to page 160 (and the corresponding attachments) of this document for specific proposed rate structures.

Electric Rates:

Since July 1, 2001 due to plant closings, City electric industrial customer consumption has dropped by 82 million kWh or 74%. Despite the City's intense efforts to trim operation costs and delay system maintenance projects in the electric budget over the last decade or more, the City received over \$13 million in wholesale power cost increases from the North Carolina Municipal Power Agency No. 1 (NCMPA1) during that same time period. The fixed wholesale power costs represent 79% of the electric utility budget; leaving little financial flexibility for the City to absorb these cost increases in previous years. Initial projections for the 2015-2016 and 2016-2017 budget years indicated potential 5% rate hikes from NCMPA1, which could have adversely affected customer rates; however, this increase was avoided with the 2015 debt restructuring by NCMPA1.

Instead in July 2015 and proposed for July 2016, electric customers receive a 2.7% and 2% average retail rate decrease, respectively due to the successful 2015 NCMPA1 debt restructuring. Future wholesale rate cost impacts to electric customers are also mitigated by NCMPA1 continuing the transition to 'true up' the allocation of demand costs across the agency members over the course of several years between 2013 and 2021.

Proposed rate changes were prepared by ElectriCities' rate analysts and reflect the aggregate 2% electric rate reduction. Beginning July 2016, a typical residential customer who uses 1,000 kWh's per month will receive a monthly average of \$3.09 less on their utility bill. However, this may not be the exact percentage or dollar change a customer will see on a bill because the change in a customer's bill varies depending on consumption levels at various intervals of the year and the uniqueness of that particular account.

Given water main break activity over the last year, the proposed budget includes an independent vulnerability assessment for the water and wastewater system and line replacement funding, intended to identify future capital improvement needs and possible funding requirements with a rate study component. Grant funding is being sought to assist in this endeavor. However beginning July 2016, proposed increases to the water and wastewater base rates are included at \$1.50 and \$.50 per month, respectively. The results of the consultant study and ensuing funding strategy for any system improvements is identified as a priority to be reviewed for further action by City Council in future budget cycles.

RATE AND FEE IMPACTS ON RESIDENTS

With the nationwide impact on local law enforcement creating \$550,000 compensation and equipment cost pressures and a recent property tax revaluation within the last year lowering real property values by approximately \$45 million, there is a proposed \$.05 increase in the property tax rate to \$.65 per \$100 of assessed valuation in the budget. For a home that is valued at \$100,000, the proposed \$.05 tax rate increase will affect a City resident by \$50 per year or \$4.17 per month.

The July 1, 2016 average 2% electric rate decrease will affect each electric utility customer differently depending on their consumption levels of electricity and the uniqueness of each customer account. For a typical residential customer who averages 1,000 kWh’s per month, the bill will decrease an average of \$3.09 per month for a potential savings of \$37 per year.

The July 1, 2016 \$1.50 water and the \$.50 wastewater monthly base rate charge increases will affect each water and wastewater utility customer depending on the size of the meter, with commercial and industrial size meters bearing a higher prorated cost of service. For residential customers who receive both water and wastewater services, the bill will increase \$2 per month for a total of \$24 per year.

BUDGET COMPARISON

In summary, a comparison of the proposed fiscal year 2016-17 budget versus the current fiscal year 2015-16 budget is outlined in the table below.

**CITY OF LEXINGTON
BUDGET SUMMARY AND COMPARISON**

Fund	15-16 Budget	16-17 Budget
General Fund	\$ 23,929,085	\$ 24,991,302
Controlled Substance	89,152	84,680
Special Tax District	90,000	100,000
Electric Fund	51,967,136	50,634,511
Water & Wastewater Fund	8,863,961	9,696,926
Natural Gas Fund	13,237,331	10,698,509
Golf Fund	1,008,732	1,146,431
Total City Budget	\$ 99,185,397	\$ 97,352,359

The chief differences, leading to the \$1.8 million decrease from the \$99 million current budget to the \$97 million proposed budget, are generally due to electric wholesale purchased power cost savings with

the 2015 debt restructuring by NC Municipal Power Agency #1 and anticipated savings in the wholesale market cost of natural gas; countered by additional General Fund revenues being directed towards combating nationwide pressures on law enforcement through compensation and equipment investments, City Council's goals and initiatives including strategic investments in the "Re-creation of Recreation" master plan, and economic development initiatives. To ignite progress towards the long range enhancements of recreational facilities in Lexington, multi-year funding is included to purchase the building to be transformed into an indoor recreation center, debt service for the newly renovated Lexington Aquatic Park (former donated Hillside Pool) and for the renovation of Holt-Moffitt Field and Washington Park including a splash pad, and professional services to facilitate preliminary design and citizen involvement in the remaining phases of the recreation master plan. Finally, General Fund revenues are also directed to fund City Council's goal of green initiatives to complete the final year of a four year phase-in of the residential recycling rollout program.

SUMMARY AND CONCLUSION

The City's Annual Budget is the ultimate partnership between City Council, staff, citizens, customers and partners in the Lexington community. In the aftermath of tough economic times, the proposed budget reflects a balanced approach of limiting impacts to its citizens and customers, securing electric rate relief for utility customers; while simultaneously providing funding for a revitalized economic direction, the "Re-creation of Recreation" master plan, quality of life and green initiatives. The budgeted funding is weathering the storm of the local economy and revenue losses, while fulfilling the responsibility to maintain and protect important infrastructure and invest in a new Lexington economy and quality of life.

In conclusion, City Council's goals and general approach to governing remains highlighted in the budget for fiscal year 2016-17; those directives being to expand citizen involvement, employ and retain professional staff, pursue partnerships, proactively plan, make strategic investments, maintain financial integrity and take calculated risks.

The City Budget is City Council's Number One Policy Statement

- Economic development initiatives are pursued
- Service levels are set and service efficiencies sought
- Partnerships are nourished
- New technology is acquired
- Community's security is enhanced through public safety
- Retains and supports professional employees in delivering efficient and effective services
- Public infrastructure is built and maintained
- Recreation for citizens is enhanced
- Public health is guarded by recycling, waste collection and water resources
- Reliability of utility services and enhancements to emergency responsiveness is funded
- Key City services necessary to support local economy are maintained and enhanced
- City financial integrity is maintained to meet service and debt obligations
- Affordable housing and addressing community appearance is supported
- Improved quality of life is sought for all citizens

The budget is hereby formally presented to City Council at the May 23, 2016 City Council meeting and City Council is requested to set a public hearing date for June 13, 2016 at 7:00 pm in City Hall. After holding the public hearing and if there are no other changes, I recommend the fiscal year 2016-2017 City Budget for adoption by City Council.

Respectfully submitted,

A handwritten signature in black ink that reads "J. Alan Carson". The signature is written in a cursive style with a large, sweeping initial "J" and "C".

J. Alan Carson
City Manager



FACTS AND INFORMATION ABOUT THE CITY OF LEXINGTON, NORTH CAROLINA

History

The City of Lexington, North Carolina, was settled in the industrial region of North Carolina known as the "Piedmont Triad Area" in 1775. Lexington was incorporated in 1828 by the North Carolina General Assembly and became the county seat of Davidson County in 1847. Lexington has a long heritage in furniture making and "Lexington Style" barbecue.

Location

With a land area of 18 square miles, Lexington is centrally located in the heart of the Piedmont Triad Area; situated no more than 30 minutes from the cities of Winston-Salem, Greensboro, and High Point as well as the Piedmont Triad International Airport. Lexington is approximately 60 miles from Charlotte and approximately 90 miles from Research Triangle Park near Raleigh.

Geography and Climate

Lexington is just a few hours from the beautiful beaches of both North and South Carolina and less than 2 hours from a relaxing scenic mountain ride along the Blue Ridge Parkway. Closer to home, the Yadkin River borders Davidson County to the west with High Rock Lake serving as one of the primary reservoirs and one of the area's best recreational facilities. With January's average high temperature of 50 degrees, even the coldest month provides ample opportunity to get out and discover Lexington.

Population and Demographic Statistics

The Census 2010 population results record Lexington's population at 18,931. This revised population figure is a 1,213 or 6% decrease from the Census 2000 results. The population distribution is 52% female and 48% male, with 24.6% of the population under age 18 and 15.1% of the population over age 65. The median age in the City of Lexington is 37.4 years while the median age in the U.S. is 36.8. The population distribution by race is as follows: African American – 28%, Asian – 3%, White – 39%, Hispanic – 16%, Other – 11%, Two or more races – 3%. The most recent population estimates made by the NC State Demographer puts Lexington's population at 18,730.

The median household income is \$26,226. The March 2016 unemployment rate for Davidson County was 5.2%, compared to the State of North Carolina rate of 5.4%.

Government

The City has a Council-Manager form of government and is governed by an eight-member City Council consisting of two members elected at large and six elected by ward. The Council operates under the guidance of a popularly elected Mayor. Council members are elected on a nonpartisan basis for staggered four-year terms; and the Mayor is elected on a nonpartisan basis for a two-year term. The Mayor may vote only in case of a tie among members of the City Council. The City Council is responsible for establishing policy, passing ordinances, adopting the budget, appointing committees and hiring the City's chief administrative officer, the City Manager, and the City's legal counsel. The City Manager is responsible for carrying out the policies and ordinances of the governing board, for overseeing the day-to-day operations of the City, and for the appointment of the Department Heads who direct City staff to deliver the services and to meet the goals of the organization. The City provides a full range of services including police and fire protection, recycling and waste collection services, the construction and maintenance of streets and infrastructure, recreational activities including a municipally owned golf course, cemetery services, and utility services.

Utilities

The City of Lexington has been providing reliable utility services since 1904 and currently owns and operates four utility services: a water treatment and distribution system, a wastewater treatment and collection system, an electric distribution system, and a natural gas distribution system. These enterprise funds serve portions of Davidson County in addition to servicing citizens within the City corporate limits.

Transportation

Interstate and Business 85 pass directly through Lexington along with US 52, US 64, US 29/70, and NC 8. Other NC highways serving the Lexington area include Highways 47, 49, 109, and 150. The proximity to I-85 and US 52 places the City an hour or less from major population centers such as Charlotte, High Point, Greensboro, and Winston-Salem; and the City is just over an hour from the Research Triangle Park. For rail, freight carriers such as Winston-Salem Southbound and Norfolk Southern serve the area; and passenger access via Amtrak is only 15 minutes away in Salisbury or High Point. The City is working with the Rail Division of the NC Department of Transportation to secure a passenger rail stop in Lexington.

For air travel, the Davidson County Airport is located just 3 miles southwest of Lexington and can accommodate executive travel needs. A full taxiway to a 5000' x 100' runway paves the way for an airport that continues to expand. For commercial flight options, Lexington is approximately an hour or less from Charlotte-Douglas International and Piedmont Triad International in Greensboro, and just over an hour from the Raleigh-Durham International airport.

Public Safety

The Lexington Police Department maintains order and offers public safety services within its respective jurisdiction. The Police Department strives to be a very progressive law enforcement agency by continued training in fields such as fingerprints, firearms, investigative techniques, crime prevention, patrol procedures and community-oriented policing.

The Lexington Fire Department provides fire and life safety protection to the community twenty-four hours a day operating 3 fire stations throughout the City. The department has evolved the traditional mission of fire suppression to include: rescue services, hazardous material abatement and medical response. Additionally, the department provides decentralized, comprehensive education and fire code compliance programs. The Fire Department has a Fire Protection Class rating of 3.

Education

The Lexington City Schools system is an independent administrative school district comprised of six schools serving grades K through 12. Private schools are also available within the City limits. For higher education, Lexington hosts Davidson County Community College, which offers over 50 instructional programs to help prepare students for enhanced employment. In addition, located within approximately 90 miles from Lexington are over two dozen colleges and universities including well-renowned higher education institutions such as University of North Carolina at Chapel Hill, NC State University, Wake Forest University, Duke University, High Point University, and University of North Carolina at Charlotte.

Culture and Recreation

The North Carolina Legislature has designated Lexington as "The Hickory Smoked Barbecue Capital of North Carolina." Each year in late October, over 100,000 visitors experience Lexington first hand during the annual Barbecue Festival. The Barbecue Festival is held in Uptown Lexington on an eight-block stretch of Main Street. Over four hundred exhibitors sell everything from handmade crafts to homemade fudge. Five stages of entertainment showcase local and national artists. The festival is designed for people of all ages to enjoy and includes a special section of rides and games for children known as Piglet Land. Barbecue is served out of three main tents, two at the town square and another at the north end of the festival near Piglet Land. To expand the barbecue tourism attraction Lexington has to offer, a Barbeque Cook-Off made its debut in April 2011. Sanctioned by the Kansas City Barbeque Society, the event brought competitive chefs and judges from across the United States to Uptown Lexington. This event is poised to become Lexington's spring compliment to the annual Barbecue Festival that celebrated their 32nd anniversary this past year.

Internationally known artist Bob Timberlake, a Lexington native and resident, has a beautifully constructed gallery and welcome center just off Interstate 85 within the City limits. The gallery displays works of art as well as furniture and unique home décor items available for retail purchase. The gallery offers open houses throughout the year at which patrons can meet Bob Timberlake and have him personally sign their Timberlake collectables.

The excitement of NASCAR Sprint Cup racing can be found at the nearby Richard Childress Racing (RCR) Museum in Welcome, North Carolina. A patron can view many of RCR's greatest racecars along with famous machines from Indy car and the National Hot Rod Association. Richard Childress's personal collection of hot rods can also be spotted along with many trophies, awards, and unique memorabilia.

Richard Childress has anchored the west gateway entrance to the City with a 65-acre vineyard complex at the intersection of US Highways 64 and 52. This location also serves as the gateway to the Yadkin Valley, the only federally designated grape growing region in the State of NC. Childress Vineyards is a 35,000 square foot winery inspired by the Italian Renaissance architecture of rural Tuscany and produces approximately 40,000 cases of 9 varieties of premium European wines. The winery includes a banquet hall that can accommodate 500, a bistro, as well as a wine tasting room and gift shop. The winery includes another 15 acres comprised of a hotel and retail shop space known as Vineyards Crossing.

Several natural attractions complement the Lexington area. Bordering the western part of Davidson County, the Yadkin River offers a place for many to fish and boat. The river fills High Rock Lake in the southern portion of the county, where skiing and sailing are popular alternatives. High Rock Lake has hosted The BASS Masters Classic fishing tournament. In the southernmost part of Davidson County, Uwharrie National Forest can be found for hiking and mountain biking enthusiasts. Finally, Boone's Cave Park in western Davidson County is the area believed to have been one of Daniel Boone's homes during his adventurous life.

The City of Lexington provides an extensive list of recreational alternatives. City facilities include 24 public park properties, including 15 tennis courts, 7 ball fields, 5 multipurpose fields, 16 basketball courts, 1 volleyball court, over 2 miles of surfaced trail, 1 aquatic facility. In addition, the City of Lexington Parks and Recreation Department offers a year round program of recreational activities for youth and adults, including two city-wide festivals.

Completely renovated in 2004, the City's municipally owned 18-hole championship golf course rounds out the list of recreational activities. Lexington Golf Club was voted "Top 5 Public Renovations of the Year for 2004" by Golf Inc. Magazine, a highly regarded trade journal in the golf industry.

Recreation in the area is further enhanced by the City's proximity to exciting professional and collegiate sporting events ranging from Carolina Panthers and Charlotte Hornets professional football and basketball to Atlantic Coast Conference basketball at top notch programs such as the University of North Carolina at Chapel Hill, Duke University, NC State University and Wake Forest University.

Healthcare

Medical services are readily available in the City of Lexington. Within Davidson County, there are more than 150 doctors in specialties ranging from internal medicine to neurology. Wake Forest Baptist Health Lexington Medical Center provides a full complement of modern health care services. Other nearby medical facilities include Novant Health Thomasville Medical Center, Veterans Administration Medical Center in Salisbury, High Point Regional UNC Health Care, and Wake Forest Baptist Medical Center in Winston-Salem, a world-renowned teaching and research hospital offering general care as well as specialized treatment.

Schedule of Top Ten Taxpayers for Fiscal Year Ended June 30, 2015

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Tax Levy</u>	<u>Percent of Total Assessed Valuation</u>
Kimberly Clark Corp. (1)	Tissue Products	\$ 83,522,002	1	\$ 501,132	5.42%
Moran Foods Inc.	Food Distributor	24,477,434	2	146,865	1.59%
Jeld-Wen Inc.	Windows and Doors	22,814,893	3	136,889	1.48%
Windstream	Communications	21,449,639	4	128,698	1.39%
Vitacost.com Inc.	Online Retail	19,512,027	5	117,072	1.27%
Wal-Mart	Retail	15,102,641	6	90,615	0.98%
NewBridge Bank	Banking	14,899,523	7	89,397	0.97%
Chesapeake Printing & Packaging Co.	Printing	8,757,309	8	52,544	0.57%
Parkdale Mills Inc.	Textiles	8,099,265	9	48,596	0.53%
Childress Winery & Vineyards	Viniculture	7,975,196	10	47,852	0.52%
Total		<u>\$ 226,609,929</u>		<u>\$ 1,359,660</u>	<u>14.72%</u>

Schedule of Top Ten Electric Customers for Fiscal Year Ended June 30, 2015

Customer	Type of Business	Consumption (kWh)	Amount Billed	Percent of Total Operating Revenue
City of Lexington	Government	8,203,960	\$ 1,334,397	2.49%
Davidson County Schools	Public School System	6,616,490	1,013,669	1.89%
Lexington Memorial Hospital	Hospital	8,321,760	835,862	1.56%
Lexington City Schools	Public School System	5,412,454	706,580	1.32%
Davidson County	Government	4,505,764	591,248	1.10%
Food Lion	Grocery Store Chain	5,407,444	513,269	0.96%
Leggett & Platt, Inc.	Furniture	3,577,828	446,280	0.83%
Cardinal Container	Corrugated Fiber Boxes	4,483,506	417,310	0.78%
Wal-Mart	Retail	4,753,226	237,718	0.44%
National Wholesale Co. Inc.	Online/Catalog Retail	1,653,873	214,119	0.40%
		<u>52,936,305</u>	<u>\$ 6,310,452</u>	<u>11.77%</u>

Schedule of Top Ten Water Customers for Fiscal Year Ended June 30, 2015

Customer	Type of Business	Consumption (CCF)	Amount Billed	Percent of Total Operating Revenue
PPG Industries	Glass Products	345,739	\$ 843,236	9.68%
Parkdale Mills Inc.	Textiles	58,330	98,976	1.14%
Halyard Health Corp. (1)	Healthcare Products	45,173	82,548	0.95%
Lexington City Schools	Public School System	13,637	39,201	0.45%
Davidson County	Government	16,216	39,032	0.45%
City of Lexington	Government	9,210	37,933	0.44%
Lexington Memorial Hospital	Hospital	19,422	32,959	0.38%
American Children's Home	Residential Care	6,934	32,231	0.37%
Cardinal Container	Corrugated Fiber Boxes	5,542	25,154	0.29%
NC Department of Public Safety	Prison	12,207	22,302	0.26%
		<u>532,410</u>	<u>\$ 1,253,572</u>	<u>14.41%</u>

Note:

(1) Formerly Kimberly-Clark Health Care

Schedule of Top Ten Wastewater Customers for Fiscal Year Ended June 30, 2015

Customer	Type of Business	Consumption (CCF)	Amount Billed	Percent of Total Operating Revenue
Davidson County Schools	Public School System	25,684	\$ 220,007	2.53%
Atrium Companies Inc.	Vinyl Windows & Doors	10,468	80,997	0.93%
Davidson County	Government	16,738	71,057	0.82%
Lexington Memorial Hospital	Hospital	19,422	64,305	0.74%
Halyard Health Corp. (1)	Healthcare Products	17,626	49,757	0.57%
Cardinal Container	Corrugated Fiber Boxes	9,301	46,817	0.54%
Brookstone Rest Home	Residential Care	5,829	43,036	0.49%
NC Department of Public Safety	Prison	12,207	42,222	0.48%
Matcore Metal Fabrication	Machine Tools	5,204	39,523	0.45%
Asco Power Technologies	Power Switches & Controls	4,705	38,489	0.44%
		<u>127,184</u>	<u>\$ 696,210</u>	<u>7.99%</u>

Note:

(1) Formerly Kimberly-Clark Health Care

Schedule of Top Ten Natural Gas Customers for Fiscal Year Ended June 30, 2015

Customer	Type of Business	Consumption (DT)	Amount Billed	Percent of Total Operating Revenue
Halyard Health Corp. (1)	Healthcare Products	151,080	\$ 993,682	7.80%
PPG Industries (2)	Glass Products	906,729	683,964	5.37%
J E Jones Lumber Company	Lumber Dry Kiln	73,884	473,747	3.72%
Matcor Metal Fabrication	Machine Tools	43,731	318,403	2.50%
Leggett & Platt, Inc.	Furniture	36,075	295,239	2.32%
Kurz Transfer Products LP	Stamping Technology	35,012	261,016	2.05%
Hanes Construction Company	Paving	33,256	216,693	1.70%
Lexington Memorial Hospital	Hospital	31,692	196,174	1.54%
JT Russell and Sons, Inc.	Asphalt Plant	26,249	166,641	1.31%
Cardinal Container	Corrugated Fiber Boxes	18,414	154,783	1.21%
		<u>1,356,122</u>	<u>\$ 3,760,342</u>	<u>29.52%</u>

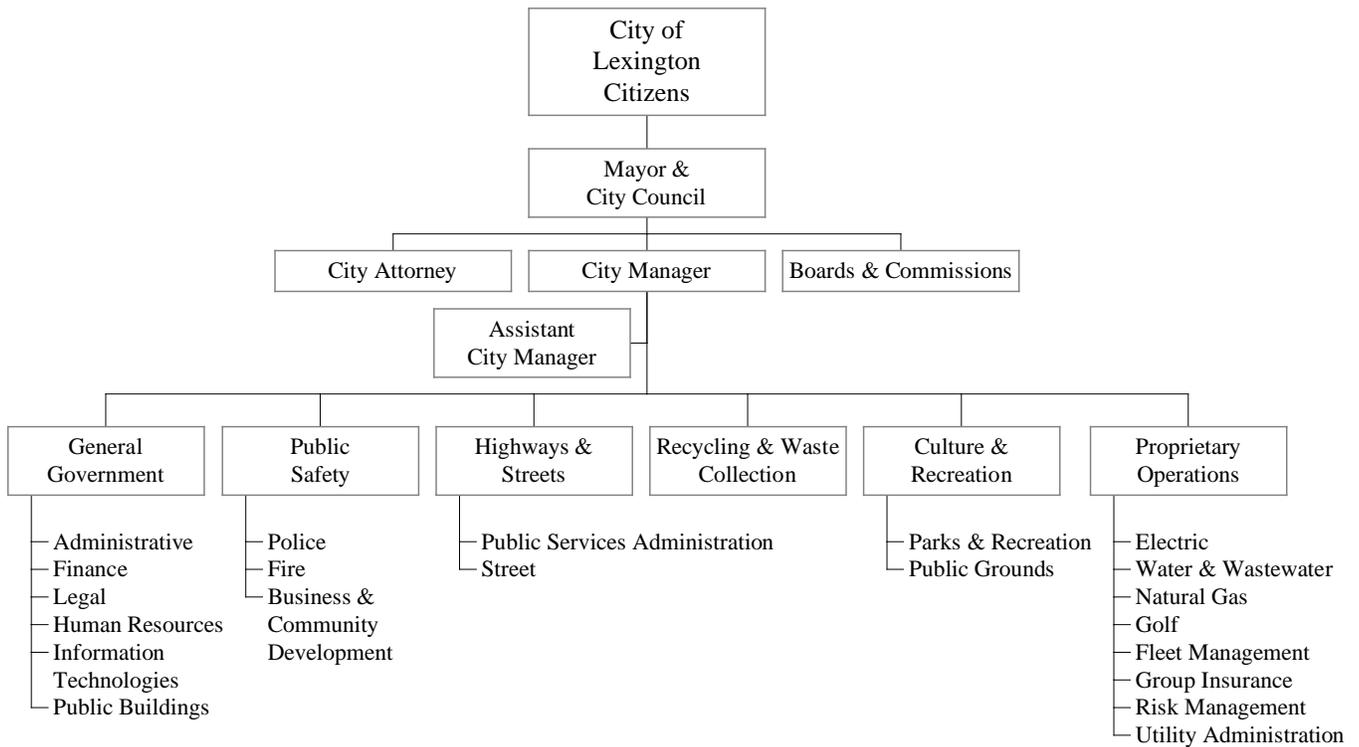
Notes:

(1) Formerly Kimberly-Clark Health Care

(2) Transport only customer



City of Lexington, North Carolina Organizational Chart

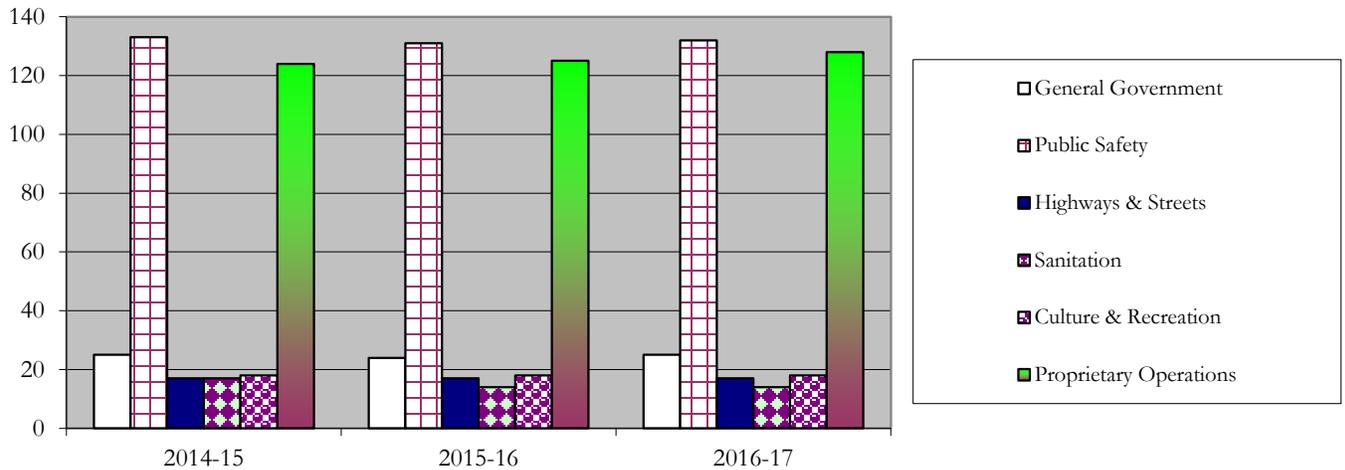


List of Principal Officials

May 9, 2016

City Manager	J. Alan Carson
Assistant City Manager	Terra A. Greene
City Clerk	Sara S. Lanier
City Attorney	Phyllis S. Penry
Director of Finance	John M. Overton
Director of Human Resources	Susan E. Nunn
Police Chief	John M. Sink
Fire Chief	Phillip S. Hartley
Director of Business and Community Development	Tammy V. Absher
Public Services Manager – Administration	Tammy E. Michael
Public Services Manager – Recycling & Waste Collection & Fleet Services	Dirk W. Apt
Director of Parks and Recreation	Laura V. Duran
Public Services Manager – Water Resources, Public Works and Engineering	Roger D. Jones
Director of Public Utilities	Chris C. Smith & Timothy W. Baker
Golf Director/Pro	James J. Fashimpaur

CITY OF LEXINGTON
PERSONNEL POSITIONS



Function	2014-15 Budgeted Full Time	2015-16 Budgeted Full Time	2016-17 Budgeted Full Time
General Government			
Administrative	5	5	5
Finance	9	9	9
Human Resources	4	3	3
Information Technologies	5	5	5
Public Buildings	2	2	3
Public Safety			
Police	73	71	72
Fire	51	51	52
Business & Community Development	9	9	8
Highways & Streets			
Engineering ⁽¹⁾	2	0	0
Public Services Administration ⁽²⁾	0	4	4
Street	15	13	13
Sanitation			
Recycling & Waste Collection	17	14	14
Culture & Recreation			
Parks & Recreation	6	6	6
Public Grounds	12	12	12

Function	2014-15 Budgeted Full Time	2015-16 Budgeted Full Time	2016-17 Budgeted Full Time
Proprietary Operations			
Electric	23	23	24
Water & Wastewater	43	44	44
Natural Gas	20	20	20
Golf	5	5	6
Fleet Management	7	5	6
Group Insurance	0	1	1
Risk Management	2	2	2
Utility Administration	24	25	25
Total	334	329	334

⁽¹⁾ Due to City reorganization in fiscal year 2015-16, the Engineering Department is no longer a functioning City department.

⁽²⁾ Due to City reorganization in fiscal year 2015-16, the Public Services Administration was added as a functioning City department.

BUDGET STRUCTURE AND PROCESS

GOAL SETTING AND BUDGET PROCESS

The City Council and management team meet in the early part of each calendar year at an annual retreat held for the purpose of establishing goals and priorities for the City. During the retreat, the Five Year Financial Planning Model is presented to the City Council. This financial model incorporates revenue trends and describes each department's operational and capital needs citywide for the next five years, along with the related costs and financial impact of selecting various levels of municipal services for the citizens of Lexington. As part of the retreat, City Council begins the process of adopting formal goals in strategic areas; these goals can be either multi-year goals or annual goals. These strategic goals guide the development of the budget for the upcoming year. These City Council goals are outlined in the City Manager's budget message.

The Finance Department staff prepares and distributes the budgetary request forms in accordance with the budget calendar. Upon return of the completed forms, the City Manager and budget team meet with each Department Head to review service levels and the respective budget requests along with detailed justifications. The City Manager and budget team then evaluate each department's zero based requests for personnel, operational items, and capital outlay. The evaluation process is detailed and time consuming. For each department, every line item justification is reviewed in light of the departmental goals and needs and compared to current funding levels and the requests made during the update of the Five Year Financial Planning Model. Any requests for additional personnel must be justified by the department and then reviewed by Human Resources for an independent recommendation on appropriate staffing levels. The City Manager and budget team modify departmental requests and ultimately reach a balanced budget.

The City Manager's recommended budget is prepared and presented to City Council at budget work sessions. City Council has the opportunity to make changes to the City Manager's recommended budget prior to the final budget being prepared, which ultimately becomes City Council's budget and policy statement for the upcoming fiscal year. Once the budget is in its final form, a public notice is published for a public hearing on the budget. During the public hearing, citizens are given the opportunity to speak to the City Council about the proposed budget. The City Council has the option of making recommended changes to the final budget pending any discussion at the public hearing. The City Council then adopts the budget through the passage of an ordinance at a public meeting prior to July 1st.

The City of Lexington's adopted budget document is accessible for downloading through the City's web site at www.lexingtonnc.gov.

BUDGET SCHEDULE

December 14	Budget calendar is presented to City Council
January 13	Department Heads receive budget preparation forms at staff meeting
February 1	Letters are issued to local partner agencies indicating due dates and needed information in order to request grant funding from the City
February 9-10	City Council Retreat
February 12	Personnel requests are due from Department Heads
February 17	Revenue budgets and fee change requests are due from Department Heads
February 25	Partner agency grant requests are due to the City
February 25	Expenditure budget requests, program objectives, performance measures, and organizational charts are due from Department Heads
March 17-22	Budget hearing meetings with Department Heads and budget team
March 23-April 8	Budget team reviews and balances the proposed budget
April 11-26	City Manager's recommended budget is prepared
April 27-28	Budget work sessions with City Council and budget team
May 3	Budget is balanced
May 4-13	City Council's budget is prepared
May 23	City Council's budget is presented at City Council meeting to call for public hearing on the budget
May 27	Publish notice for public hearing
June 13	Public hearing is held and adoption of budget at City Council meeting
June 27	Additional meeting for City Council to adopt budget (if necessary)

BASIS OF BUDGETING

The City's annual balanced budget is adopted as required by the North Carolina General Statutes. All budgets are prepared using the modified accrual basis of accounting, as is described in the financial reporting systems section of this document. The budget ordinance must be adopted by July 1st of the new fiscal year; otherwise, the governing board must adopt an interim budget that covers that period of time until the annual ordinance can be adopted.

BUDGETARY CONTROL

Budgetary control is an essential element of governmental accounting and reporting. The City Council is required by state law to adopt an annual balanced budget for all funds and to utilize "encumbrance accounting" as defined in the statutes. Budgetary control is maintained by management at the departmental level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Open encumbrances lapse at year-end and are reinstated against the subsequent year's budget. They are shown as a restriction of fund balance in the Comprehensive Annual Financial Report (CAFR) for the governmental funds. Expenditures for annually budgeted funds may not legally exceed appropriations at the functional level and fund level. A function is a group of related activities aimed at a major service, such as public safety; a department is a component of a function, such as police. All annual appropriations lapse at fiscal year-end. The Budget Officer, who is the City Manager or his/her designee, is authorized by the budget ordinance to transfer amounts between appropriations at these levels within a fund up to \$20,000. Any revisions that alter total appropriations of any fund or that change appropriations by more than \$20,000 at these levels must be approved by the City Council. In addition, it requires City Council action and approval of transfers or appropriations from City Council Neighborhood Revitalization Funds.

BUDGET STRUCTURE

The City's budget is divided into funds. Within each fund, there are separate functions and departments with various individual budgets. The Annual Budget is adopted at the functional and fund level. An annual budget is adopted for the General, Controlled Substance, Special Tax District, Electric, Water and Wastewater, Natural Gas, Golf, Fleet Management, Group Insurance, Risk Management, Utility Administration, Capital Reserve, and Rate Stabilization funds. Additional funds are presented in the City's CAFR. These additional funds are comprised of multi-year capital and grant project funds for which annual budgets are not adopted; rather an ordinance is adopted for the life of the project. In addition, the CAFR may present funds with balance sheet and income statement activity for which no budget is adopted and no expenditures are made.

DESCRIPTION OF ANNUALLY BUDGETED FUNDS

The City of Lexington's annual budget consists of two basic fund types: Governmental Funds and Proprietary Funds.

Governmental Funds are used to account for general government services such as Police, Fire, and Recycling and Waste Collection, which are generally supported by taxes, intergovernmental revenues, and limited user fees. The governmental funds include the General Fund and Special Revenue Funds. Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds are made up of two fund types: Enterprise Funds and Internal Service Funds. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Internal Service Funds are used to account for services provided by one city department to other city departments. A listing and description of the City's annually budgeted funds follows.

GOVERNMENTAL FUNDS:

General Fund - The General Fund is the principal operating fund of the City. The General Fund accounts for all financial resources except those that are accounted for in another fund. The primary revenue sources are ad valorem taxes, intergovernmental revenues, limited user fees, and transfers from Enterprise Funds. The primary expenditures are for general government services, public safety, highways and streets, sanitation, culture and recreation, economic and physical development, and debt service.

SPECIAL REVENUE FUNDS:

Controlled Substance Fund – The Controlled Substance Fund is used to account for monies received from federal and state sources that are restricted for public safety use.

Special Tax District Fund – The Special Tax District Fund is used to account for the additional ad valorem property tax levied by the City, collected and contributed to Uptown Lexington, Inc. for the revitalization of the uptown district.

PROPRIETARY FUNDS:

ENTERPRISE FUNDS:

Electric Fund – The Electric Fund is used to account for the operation of providing electric service to customers. This includes all operating, debt service, and capital improvements associated with providing the service.

Water and Wastewater Fund – The Water and Wastewater Fund is used to account for the operation of providing water and wastewater service to customers. This includes all operating, debt service, and capital improvements associated with providing the service.

Natural Gas Fund – The Natural Gas Fund is used to account for the operation of providing natural gas service to customers. This includes all operating, debt service, and capital improvements associated with providing the service.

Golf Fund – The Golf Fund is used to account for the operation of the City's golf course. This includes all operating, debt service, and capital improvements associated with the course.

INTERNAL SERVICE FUNDS:

Fleet Management Fund – The Fleet Management Fund is used to account for the accumulation and allocation of costs associated with maintaining the City’s fleet of vehicles and equipment.

Group Insurance Fund - The Group Insurance Fund is used to account for the self-insurance costs associated with providing health and dental benefits to employees of the City and their dependents, as well as retirees who are eligible for continued coverage.

Risk Management Fund - The Risk Management Fund is used to account for the City’s self-retention costs and for the premiums on the City’s reinsurance program pertaining to workers compensation, property, and liability exposures.

Utility Administration Fund - The Utility Administration Fund is used to account for administrative overhead costs, which are shared by all of the utility enterprise funds and the General Fund such as administrative supervision of the utilities, billing and collections, customer service, meter reading, warehouse, and marketing the utilities.

Capital Reserve Fund - The Capital Reserve Fund is used to account for the accumulation of resources for future capital needs in the Electric, Water and Wastewater, Natural Gas, and Fleet Management Funds.

Rate Stabilization Fund - The Rate Stabilization Fund is used to account for the accumulation of resources to mitigate future retail rates for customers of the Electric and Natural Gas utilities.

FINANCIAL REPORTING SYSTEMS

FUND ACCOUNTING

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The measurement focus and basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized and reported in the financial statements.

Governmental Funds are reported in the CAFR using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available to pay the liabilities of the current period. In general, the City considers revenues available if they are collected within 90 days after year-end. Expenditures are

recorded when the related fund liability is incurred; except for principal and interest on general long-term debt, claims and judgments, compensated absences, and other postemployment benefits, which are recognized as expenditures when they are due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and installment purchase contracts are reported as other financing sources.

Proprietary Funds are reported in the CAFR using the economic resources measurement focus and the accrual basis of accounting. The generally accepted accounting principles used in these funds are similar to those applicable to private sector businesses where the focus is upon determination of net income, financial position, and cash flows. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

DEPARTMENT AND PROGRAM MATRIX FOR FY 2016-17 BUDGET

	General Government	Public Safety	Highways and Streets	Sanitation	Culture and Recreation	Economic and Physical Development	Utilities
General Fund:							
Governing Board	X	X	X	X	X	X	X
City Administration	X	X	X	X	X	X	X
General Administration	X	X	X	X	X	X	
Finance	X	X	X	X	X	X	X
Legal	X	X	X	X	X	X	X
Human Resources	X	X	X	X	X		X
Information Technologies	X	X	X	X	X	X	X
Public Buildings	X	X	X	X	X	X	X
Police		X					X
Fire		X					
Business and Community Development		X				X	
Public Services Administration	X	X	X	X	X	X	X
Street			X				
Recycling and Waste Collection				X			
Parks and Recreation					X		
Public Grounds	X	X	X	X	X	X	X
Lease/Bond Debt	X	X	X	X	X		
Other Financing Uses					X		
Special Revenue Funds:							
Controlled Substance Fund		X					
Special Tax District Fund						X	
Enterprise Funds:							
Electric Fund							X
Water and Wastewater Fund							X
Natural Gas Fund							X
Golf Fund					X		
Internal Service Funds:							
Fleet Management Fund	X	X	X	X	X		X
Group Insurance Fund	X	X	X	X	X		X
Risk Management Fund	X	X	X	X	X		X
Utility Administration Fund				X			X
Capital Reserve Fund	X	X	X	X	X		X
Rate Stabilization Fund							X

City of Lexington, North Carolina
Total Budget Summary

	General Fund	Special Revenue Funds	
		Controlled Substance	Special Tax District
Beginning Estimated Unassigned Fund Balance/Net Position	\$ 5,237,519	\$ 162,825	\$ -
Estimated Revenues:			
Ad Valorem Taxes	9,694,600	-	100,000
Other Taxes	314,150	-	-
Unrestricted Intergovernmental	6,594,804	-	-
Restricted Intergovernmental	689,075	-	-
Permits and Fees	220,400	-	-
Sales and Services	1,519,110	-	-
Administrative Charges	2,271,273	-	-
Interest	26,767	-	-
Miscellaneous	22,950	-	-
Other Operating	-	-	-
Other Nonoperating	-	-	-
Total Estimated Revenues	21,353,129	-	100,000
Appropriations:			
General Government	6,388,473	-	-
Public Safety	10,684,520	84,680	-
Highways and Streets	2,107,512	-	-
Sanitation	1,670,563	-	-
Culture and Recreation	1,774,692	-	-
Economic Development	402,912	-	100,000
Cost of Sales and Services	-	-	-
Purchases for Resale	-	-	-
Administrative Charges	-	-	-
Capital Outlay	527,668	-	-
Debt Service:			
Principal Retirement	812,407	-	-
Interest and Fees	198,971	-	-
Total Appropriations	24,567,718	84,680	100,000

City of Lexington, North Carolina
Total Budget Summary

Enterprise Funds				2016-2017
Electric Fund	Water & Wastewater Fund	Natural Gas Fund	Golf Fund	Total Budget
\$ 38,434,169	\$ 41,167,553	\$ 24,034,524	\$ 624,405	\$ 109,660,995
-	-	-	-	9,794,600
-	-	-	-	314,150
-	7,783	23,624	-	6,626,211
-	-	-	-	689,075
-	-	-	-	220,400
50,436,183	8,954,209	10,568,919	703,253	72,181,674
-	-	-	-	2,271,273
26,828	21,301	16,471	242	91,609
-	-	-	-	22,950
164,000	194,840	15,000	-	373,840
7,500	-	5,000	-	12,500
<u>50,634,511</u>	<u>9,178,133</u>	<u>10,629,014</u>	<u>703,495</u>	<u>92,598,282</u>
-	-	-	-	6,388,473
-	-	-	-	10,769,200
-	-	-	-	2,107,512
-	-	-	-	1,670,563
-	-	-	-	1,774,692
-	-	-	-	502,912
4,986,768	6,753,359	3,136,136	899,745	15,776,008
39,891,909	-	4,526,983	-	44,418,892
1,986,977	1,474,727	1,396,950	18,002	4,876,656
242,000	161,300	65,173	60,100	1,056,241
927,433	821,314	391,789	154,491	3,107,434
182,910	54,683	131,660	14,093	582,317
<u>48,217,997</u>	<u>9,265,383</u>	<u>9,648,691</u>	<u>1,146,431</u>	<u>93,030,900</u>

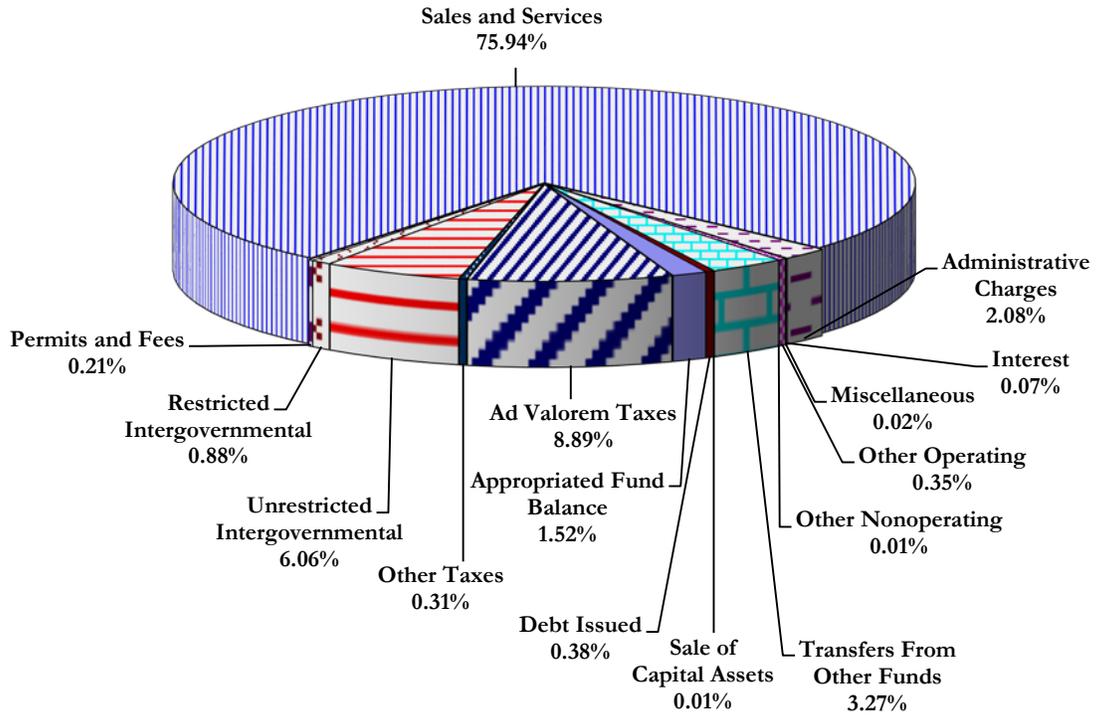
City of Lexington, North Carolina
Total Budget Summary

	Special Revenue Funds		
	General Fund	Controlled Substance	Special Tax District
Other Financing Sources (Uses):			
Transfers From Other Funds:			
General Fund	-	-	-
Electric Fund	1,250,000	-	-
Natural Gas Fund	972,049	-	-
Payment in Lieu of Taxes	636,826	-	-
Internal Service Funds:			
Group Insurance Fund	-	-	-
Capital Reserve Fund	-	-	-
Rate Stabilization Fund	-	-	-
Transfers to Other Funds:			
General Fund	-	-	-
General Capital Projects Fund	(105,000)	-	-
Electric Construction in Progress Fund	-	-	-
Water & Wastewater Construction in Progress Fund	-	-	-
Natural Gas Construction in Progress Fund	-	-	-
Golf Fund	(318,584)	-	-
Payment in Lieu of Taxes	-	-	-
Internal Service Funds:			
Utility Administration Fund	-	-	-
Capital Reserve Fund	-	-	-
Sale of Capital Assets	7,000	-	-
Installment Purchase Debt Issued	-	-	-
Total Other Financing Sources (Uses)	2,442,291	-	-
Budgeted Increase (Decrease) in Fund Balance/Net Position	(772,298)	(84,680)	-
Ending Estimated Unassigned Fund Balance/Net Position	\$ 4,465,221	\$ 78,145	\$ -

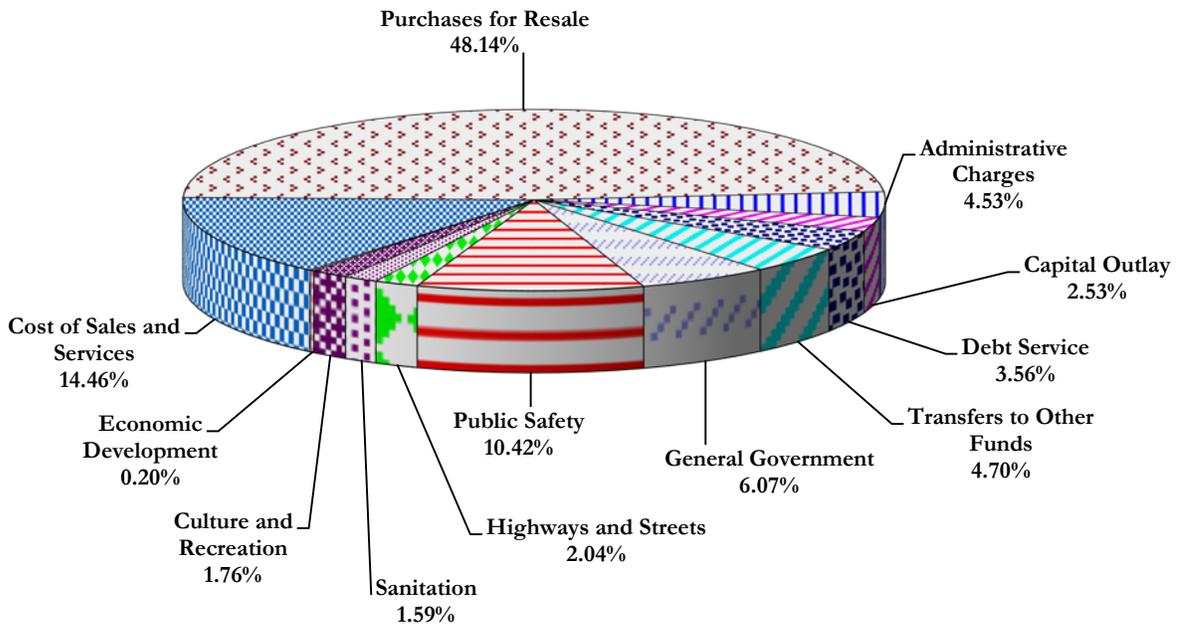
City of Lexington, North Carolina
Total Budget Summary

Enterprise Funds				2016-2017
Electric Fund	Water & Wastewater Fund	Natural Gas Fund	Golf Fund	Total Budget
-	-	-	318,584	318,584
-	-	-	-	1,250,000
-	-	-	-	972,049
-	-	-	-	636,826
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(1,250,000)	-	(972,049)	-	(2,222,049)
-	-	-	-	(105,000)
(964,000)	-	-	-	(964,000)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	(318,584)
(202,514)	(356,543)	(77,769)	-	(636,826)
-	-	-	-	-
-	(75,000)	-	-	(75,000)
-	-	-	-	7,000
-	-	-	-	-
(2,416,514)	(431,543)	(1,049,818)	318,584	(1,137,000)
-	(518,793)	(69,495)	(124,352)	(1,569,618)
\$ 38,434,169	\$ 40,648,760	\$ 23,965,029	\$ 500,053	\$ 108,091,377

CITY ESTIMATED REVENUES BY TYPE (Total Budget)



CITY APPROPRIATIONS BY TYPE (Total Budget)



CITY OF LEXINGTON
MAJOR REVENUE ASSUMPTIONS FOR FISCAL YEAR 2016-17

GENERAL FUND REVENUES

Ad Valorem Property Taxes:

Current Year Ad Valorem Property Taxes – Based on information provided by Davidson County, the government entity which bills and collects the City’s property taxes, the total assessed valuation for the City is estimated to be \$1.516 billion for fiscal year 2016-17, a slight increase from the previous year. Property collections, although improved, still remain down due to the local economy; therefore a 96.0% collection rate was used in deriving the budget for property taxes. The property tax rate will increase \$.05, from \$.60 to \$.65 per \$100 of assessed valuation.

Prior Year Ad Valorem Property Taxes – Based on historical trends and adjusted for the amount outstanding of the 2015 property tax receivable balance projected as of June 30, 2016.

Interest on Delinquent Ad Valorem Property Taxes – Based on historical trends and adjusted for the amount outstanding of the 2015 property tax receivable balance projected as of June 30, 2016.

Other Tax:

Occupancy Tax – The City is authorized by the NC General Statutes to collect an occupancy tax of 6% on gross revenues from hotel/motel room occupancy within the corporate limits. This tax is restricted for the use of promoting tourism activities. The revenue budget was derived based on historical trends of gross revenues for each hotel/motel.

Unrestricted Intergovernmental:

Local Option Sales Tax – The budget is based on estimates provided by the North Carolina League of Municipalities (NCLM) as well as current collections. The City is projecting an increase of \$350,000 due to the impact of sales tax redistribution enacted by the State of North Carolina. The increase due to sales tax redistribution is earmarked for economic development purposes. Including the impact of sales tax redistribution, the City is projecting a 14.2% increase for fiscal year 2016-17 over prior year budgeted revenue.

Board of Alcoholic Control Distributions – The NC Statutes require the Board to distribute a portion of the profits to the City of Lexington. The budget was calculated based on historical trends.

Sales Taxes on Electricity, Piped Natural Gas, Telecommunications, and Video Programming – These taxes are levied by the State of North Carolina. A portion of these revenues are shared with municipalities based on statutory formulas. Statewide weather conditions, electricity and gas consumption patterns, population changes, and changes in tax levies influence these revenue sources. The City is projecting a 5.6% overall increase in these revenues for fiscal year 2016-17 over prior year budgeted revenue. This information was also supplied by the NCLM.

Restricted Intergovernmental:

Solid Waste Disposal Tax – Effective July 1, 2008, the State enacted a \$2 per ton solid waste disposal tax. Proceeds of the tax are distributed as follows: 50% to pay for remediation of pre-1983 landfills, 18.75% to cities on a per capita basis for solid waste management programs, 18.75% to counties for solid waste management programs, and 12.5% to the Solid Waste Management Trust fund for grants for local governments and state agencies. The revenue for fiscal year 2016-17 is projected to slightly decrease based on the trends recognized in fiscal year 2015-16 and information supplied by NCLM.

Powell Bill – The City receives funding for street maintenance through the State of North Carolina’s Powell Bill Fund, which is allocated 75% based on population and 25% based on city maintained street mileage. The revenue for fiscal year 2016-17 is projected to slightly decrease based on historical trends and information provided by the NCLM.

Permits and Fees:

Inspections and Permits – Based on existing user charges and projected commercial and residential development as well as historical trends.

Sales and Services:

Recycling and Waste Collection – Based on existing user charges for residential and a 10% vacancy rate from the traditional level of customers for collection of residential and commercial solid waste.

Cemetery – Based on user charges and the projected burials and graves sold as indicated by historical trends.

Recreation – Based on projected activities, participation and fees from existing user charges.

Administrative Reimbursement Charges:

Interfund Revenues – Based on estimated expenditures for services provided by General Fund departments that are reimbursed by the Electric, Water and Wastewater, and Natural Gas Funds. These reimbursements, calculated annually, are the sum of the estimated percentage of time and resources each General Fund department expends on behalf of the respective utility funds.

Interest:

Interest Earned on Investments – Based on estimated cash balances during fiscal year 2016-17 and estimated interest rates. Interest rates, although slightly increased, are expected to remain relatively flat in the coming budget year. Thus, the City has budgeted roughly a 33.2% increase as compared to the fiscal year 2015-16 revenue budget.

Other Financing Sources:

Transfer from the Electric Fund – The City has budgeted to transfer \$1.250 million from the Electric Fund to the General Fund to balance the budget. This represents a decrease of \$25,000 as compared to fiscal year 2015-16 in a good faith effort to continue slowly reducing General Fund dependency. The transfer amount is quantified based on an amount not to exceed 3% of electric’s gross capital assets and is in compliance with the City’s 2014 transfer policy.

Transfer from the Natural Gas Fund – The City has budgeted to transfer \$972,049 from the Natural Gas Fund to the General Fund to balance the budget. This represents an increase of \$32,167 as compared to fiscal year 2015-16. Current expansion activity in the Natural Gas Fund, which has increased the value of the capital assets and infrastructure, has ultimately enabled an increase in the transfer amount. The transfer amount is quantified based on the formula provided by the NC State Treasurer is an amount not to exceed 3% of natural gas’s gross capital assets, which equals \$972,049 for Natural Gas.

Payment in Lieu of Taxes (PILOT) from the Electric, Water and Wastewater, and Natural Gas Funds – The utility funds pay the General Fund an amount equal to the value of their respective capital assets within the city limits multiplied by the property tax rate.

Appropriated Fund Balance – Every effort is made to maintain a stable or reduced level of fund balance appropriations. The City is budgeting \$772,298 in fund balance in order to balance the fiscal year 2016-17 budget. This is a decrease of \$520,524 as compared to the fiscal year 2015-16 original budget. Appropriations of fund balance to balance the budget is limited to cash and cash equivalents less current claims against that cash. The statutory formula is cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts.

SPECIAL REVENUE FUND REVENUES

Ad Valorem Property Taxes:

Current Year Ad Valorem Property Taxes – Based on information provided by Davidson County, the government entity which bills and collects Uptown Lexington’s property taxes, the assessed valuation for the Special Tax District is estimated to increase slightly to \$50.5 million for fiscal year 2016-17. Property collections, although improved, still remain down due to the local economy; therefore a 96.0% collection rate was used in deriving the budget for property taxes. The property tax rate for the Special Tax District will remain at \$.20 per \$100 of assessed valuation for fiscal year 2016-17.

GENERAL CAPITAL PROJECT FUND REVENUES

Sales and Services:

Property Rental – Funding derived from leasing warehouse space to Lexington Furniture Industries and Bull City Ciderworks is included in the amount of \$118,450, to be used for expenditures associated with the LFI, Inc. Plant One property redevelopment.

ELECTRIC FUND REVENUES

Due to the aftermath of the recession, the revenue budget is based on no anticipated growth in power consumption in the residential and commercial classes. In addition, Lexington's industrial consumptions remain very low due to significant losses in industrial load from manufacturing plant closings since 2001.

Electric rates for residential and commercial customer classes are being decreased by an average of 2.0% effective July 1, 2016. Debt restructuring by North Carolina Municipal Power Agency No. 1 (NCMPA1) during 2014-15 has provided the opportunity to provide this rate relief to customers.

WATER AND WASTEWATER FUND REVENUES

Water and wastewater revenues are based on the proposed increases in base rate charges for water and wastewater as well as consumption estimates. The July 1, 2016 increase of \$1.50 for the monthly water base rate charge and \$0.50 for the monthly wastewater based rate charge is projected to generate approximately \$329,000 in revenues. Consumption for water and wastewater is budgeted with a slight increase overall for all customer classes due to voluntary conservation, the aftermath of the economic recession, and industrial load loss from plant closings.

NATURAL GAS FUND REVENUES

The revenue budget is based on adding 240 residential equivalents due to customer base growth in areas of the City and Davidson County where natural gas lines are expanding. Consumption estimates have been weather normalized to reflect typical warmer winter weather trends, and based on historical trends and anticipated customer growth as it relates to natural gas consumption in the residential, commercial and industrial classes. Adversely impacting the revenue budget are the dwindling consumptions from the recession and plant closings in recent years.

The City is not changing the base rate charged to natural gas customers, and the budgeted cost of gas component is anticipated to decrease by 22.22% for 2015-16 compared to the 2014-15.

GOLF FUND REVENUES

The Golf Course revenue budget is based on the same 28,500 rounds that the City has experienced over the last several years for rounds played and cart rentals. The General Fund subsidy to the Golf Fund has been budgeted at \$318,584 for 2015-16. This subsidy includes \$168,584 to offset the debt payment for the golf course renovations and \$150,000 for other operational support. There is no fee increase expected.

INTERNAL SERVICE FUND REVENUES

Charges for Sales and Services:

Interfund Revenues – Based on estimated expenditures for services provided by the Fleet Management, Group Insurance, Risk Management and Utility Administration departments that are reimbursed by other funds. These reimbursements, calculated annually, are the sum of the estimated percentage of time and resources each Internal Service Fund department expends on behalf of the respective general, enterprise and internal service funds.

CAPITAL RESERVE FUND REVENUES

Other Financing Sources:

Transfer from Electric Fund – Funding set aside from Electric operations into capital reserve that is restricted for future capital infrastructure replacements and expansions for the electric utility system.

Transfer from Water and Wastewater Fund – Funding set aside from Water and Wastewater operations into capital reserve that is restricted for future capital infrastructure replacements and expansions for the water and wastewater utility system.

Transfer from Fleet Management Fund – Funding set aside from Garage to fund future vehicle and equipment needs for use by all City departments.

DEBT INFORMATION

INSTALLMENT PURCHASES

The City enters into installment purchase agreements to finance purchases of capital outlay equipment, major capital items and construction of major capital facilities. Installment purchase agreements have been entered into for both general government and proprietary activities and are being repaid from the applicable resources. The debt is collateralized by a security interest in the property until the loan is liquidated.

GENERAL OBLIGATION (G.O.) BONDS

The City issues G.O. bonds to finance the purchase of major capital items and the acquisition and construction of major capital facilities. G.O. bonds have been issued for both general government and proprietary activities and are being repaid from the applicable resources. All G.O. bonds are collateralized by the full faith, credit, and taxing power of the City.

REVENUE BONDS

The City issues revenue bonds to finance the purchase of major capital items and the acquisition and construction of major capital facilities. Revenue bonds were issued for a natural gas system expansion in 2006. The revenue bonds are being repaid from the Natural Gas Fund. The City has been in compliance with the covenants as to rates, fees, rentals and charges in Section 704 of the Bond Order since its adoption in 2006. Section 704(a) of the Bond Order requires the debt service coverage ratio be no less than 120%. The debt service coverage ratio calculation for the year ended June 30, 2015 follows:

Operating Revenues	\$12,738,749
Operating Expenses*	<u>9,421,798</u>
Operating Income	3,316,951
Nonoperating Revenues (Expenses)**	<u>(61,532)</u>
Income Available for Debt Service	3,255,419
Revenue Bond Debt Service Principal and Interest Paid	\$ 284,020
Debt Service Coverage Ratio	1146%

*Per rate covenants, this does not include the depreciation expense of \$561,669.

**Per rate covenants, this does not include revenue bond interest paid of \$106,767.

(\$86,791 interest paid and \$19,976 increase in accrued interest)

TOTAL OUTSTANDING DEBT PRINCIPAL AS OF JUNE 30, 2016

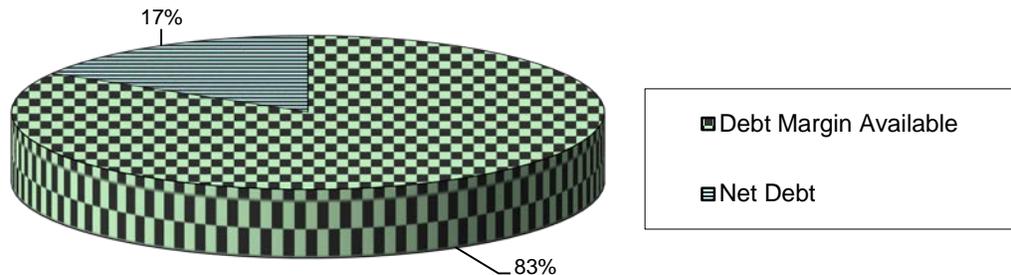
Fund	Installment Purchase	Bonds	Total Debt
General Fund	\$ 6,418,476	\$ -	\$ 6,418,476
Electric Fund	7,341,103	362,966	7,704,069
Water & Wastewater Fund	1,186,289	1,011,034	2,197,323
Natural Gas Fund	1,136,797	1,634,284	2,771,081
Golf Fund	397,643	-	397,643
Utility Administration Fund	2,514,000	-	2,514,000
Total	\$ 18,994,308	\$ 3,008,284	\$ 22,002,592

LEGAL DEBT MARGIN AS OF JUNE 30, 2016

As demonstrated below, the City has maintained an ample legal debt margin. This margin is based on a debt limit of 8% of assessed valuation as required by North Carolina General Statute 159-55c. The margin allows for the issuance of new debt as described in the section below.

Assessed Valuation*	1,510,000,000
Debt Limit (8 percent of total assessed value)	<u>120,800,000</u>
Debt Applicable to Limitation (Gross Debt):	
Authorized and Outstanding G.O. Bonded Debt	1,374,000
Installment Purchase	18,994,308
Statutory Deductions:	
Electric G.O. Bonds	<u>(362,966)</u>
Total Debt Applicable to Limitation (Net Debt)	<u>20,005,342</u>
Legal Debt Margin Available	<u>\$100,794,658</u>

*Assessed valuation estimate is presented based on information provided by the Davidson County Tax Department and the North Carolina Division of Motor Vehicles for the Fiscal Year Ending June 30, 2016.



DEBT SERVICE BUDGET FOR FISCAL YEAR 2016-17

Fund	Installment Purchase		Bonds	
	Principal	Interest	Principal	Interest
General Fund	\$ 812,407	\$ 198,971	\$ -	\$ -
Electric Fund	778,448	174,561	148,985	8,349
Water & Wastewater Fund	428,298	31,429	393,016	23,254
Natural Gas Fund	107,430	67,612	284,359	64,048
Golf Fund	154,491	14,093	-	-
Utility Administration	167,600	62,297		
Total	\$ 2,448,674	\$ 548,963	\$ 826,360	\$ 95,651

PROPOSED DEBT

The City of Lexington currently anticipates issuing long-term debt in the amount of \$750,000 in FY 2016-17 for the construction of Radcliff Skate Park. This financing is anticipated to be issued at an interest rate of 4% or less with a repayment period of 15 years.