

TOWN OF KERNERSVILLE



DRAFT BUDGET FISCAL YEAR 2017-2018

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May 15, 2017

The Honorable Mayor and Board of Alderman
Town of Kernersville

Dear Mayor and Alderman:

As required by the Local Government Budget and Fiscal Control Act, as amended; enclosed you will find a balanced budget recommendation for all funds of the Town of Kernersville for the Fiscal Year 2017-2018. The public hearing date for the FY 17-18 budget has been set for June 6, 2017 and notice of submission of this budget to the Board of Aldermen will be published in accordance with all the requirements of G.S. 159-12; as well as other State and Federal requirements. A copy of this budget has been placed on file with the Town Clerk, and in the Paddison Memorial Library for public inspection.

BUDGET PREPARATION

The budget outlook for Kernersville started getting better beginning with FY14-15 and in FY15-16 things really began to improve. The revenues were beginning to increase again and the tax base was growing ever so slightly. This was an indication that the economy was improving throughout the state and in many of the different private sectors. The best indicator though was the building and growth that was taking place during these years, but was not yet on the property tax rolls.

The revenue projections for FY 16-17 indicated that the economy was definitely improving for Kernersville. There was a significant increase in the tax base which in turn increased the ad valorem tax received by the Town. There was also an increase in the sales/use tax revenues. Both of these revenues are indicators of the health of the economy. The significant increase from these sources, along with others the Town relies on, allowed the Town to have an unprecedented year in FY 16-17. The Town budgeted for two new buildings, a new communication system, paving of parking lots, and other pieces of equipment that are necessary to the daily operations. This much being done in one year is not common for the Town.

Upon recommendation and approval of the FY 16-17 budget, it was hopeful that there would be enough growth to sustain the Town at that level in FY17-18. As the numbers started to come in it appeared that there would be enough growth to fulfill all the obligations and do so without a tax increase. While the growth was substantial it is not projected to be as much as it was in FY16-17. However, it is still enough that the Town is able to purchase needed equipment and do some other things that are necessary.

FY 2017-2018 Budget Highlights

I. REVENUE NEUTRAL

According to G.S. 159-11(e), in each year in which a general reappraisal of real property has been conducted, the budget officer shall include in the budget, for comparison purposes, a statement of the revenue-neutral property tax rate for the budget. The revenue-neutral property tax rate is the rate that is estimated to produce property tax revenue for the next fiscal year equal to the revenue for the current fiscal year if no reappraisal had occurred. The rate is then adjusted by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal, after adjustments for annexation, de-annexation, or merger.

There was a revaluation done in 2017 for both Forsyth and Guilford Counties. This revaluation did increase the tax base for both counties. The tax base for Forsyth County is projected to be \$2,764,449,842 and Guilford is projected to be \$132,641,043. Based on these numbers, the revenue neutral rate is 52.95 before any growth is calculated. The average growth rate for the period since the last revaluation is 3.86%, making the new revenue neutral rate 55 cents.

However, we feel that this revenue neutral rate is not completely accurate. This rate is calculated using the AVT collection amount from FY16-17. In FY16-17 there was \$572,000 appropriated from Fund Balance. If this appropriation was not made, then the AVT collection amount and the tax rate would have been higher in order to generate the revenue needed to balance the budget. It is likely that without this appropriation the tax rate for FY16-17 would have been 59-60 cents. In turn, this would have made the revenue neutral rate for FY17-18 higher, somewhere between 57.5-58 cents. The revenue neutral rate is also low because there was a growth rate of 0.67% for one of the years during the time since the last revaluation. If we use a more feasible growth rate of 3.25% for this year it makes the average growth 4.7%. This makes the revenue neutral rate 55.45 cents. Based on these facts this is what we feel the true revenue neutral rate is (**See Exhibit A**).

II. REVENUE

The revenues for FY17-18 are estimated to be \$31,973,047 (**See Exhibit B**). This is a decrease from what was approved in FY16-17. However, as you may remember the revenues for FY16-17 were inflated because of the loan amount for installment purchases such as the new buildings and communications system. The budget this year does not include as many high price items so the loan is less. Like last year, there are slight revenue increases projected in most every category for FY17-18. The biggest increases are in Ad Valorem Taxes and Unrestricted Intergovernmental Revenues.

Ad Valorem Taxes

The largest revenue source for the Town is Ad Valorem Taxes (property taxes), which are derived from the tax base of the Town. As mentioned earlier, this category saw a negative increase several years ago because of low growth and a negative revaluation year. However, in FY15-16 there was slight growth in the tax base and then in FY16-17 the growth was a little over 6%.

The growth in the tax base for FY17-18 is projected to be about 4.8%. The tax base for FY17-18 is projected to increase to \$2,897,090,885 which is up from the \$2.69 billion in FY16-17. With all of this growth the Ad Valorem Taxes are projected to be \$15,849,107 for FY17-18. This is up from \$15,083,850 that was approved in FY16-17. These numbers represent the taxes on property and vehicles.

Unrestricted Governmental Revenue

The Unrestricted Governmental Revenues source is the second largest revenue source for the Town. These are revenues that are collected by the State on our behalf and then passed through to us. The revenues that make up this category are the ABC Tax, Sales and Use Tax, Telecom Sales Tax, Utility Franchise Tax, Video Programming Tax, Rental Vehicle Tax and the Solid Waste Disposal Tax. The largest revenue source in this category is the Sales and Use Tax, as it accounts for more than half of the revenue generated by the category.

Sales and Use Tax

This revenue source increased steadily from 1998-2007, seeing increases ranging from 4-15%. From 2007 to 2010 the revenues either decreased or remained flat. Beginning in FY11-12 we observed a slight annual increase in the Sales and Use Tax revenues. The revenues have increased between 2-3.5% since then.

In FY16-17 we projected an increase of about 7% for Sales and Use Tax. If this occurred, it would have been the largest increase in several years for this source. It appears as though the increase is going to be about 6% for FY16-17. Based on this, we are recommending a 5.9% increase for Sales and Use Tax for FY17-18. This projection is slightly higher than the NCLM projections but analysis indicates that we are historically slightly higher in this category than the NCLM projections.

As in the past few years, there are still ongoing discussions taking place at the NC General Assembly about the tax code and the distribution of the Sales and Use Tax. However, we feel slightly more confident that any changes will not have a negative impact on Kernersville. There have been minor changes made to the distribution method and none of these have negatively impacted Kernersville. We may not be getting as much as we would have before the change but it is minimal. It also appears now that the legislators have studied the situation from many different perspectives and are trying to create a

distribution method that will have the least amount of impact on all municipalities. We are hopeful that any future changes will be of little to no impact on Kernersville.

Utility Franchise Tax

The Town experienced about a 40% increase in this revenue source in FY15-16 (compared to approved FY14-15). In FY16-17 we projected an increase of 19% for this category. However, there is actually going to be a decrease in this category over what we projected and what we actually collected in FY15-16. Based on this information, and the projections from the NCLM, we are projecting a decrease of about 6% for this category in FY17-18. Hopefully this will be the case at the end of the year and our decrease is not more than projected.

Functionally Related Revenue

Rent from Town Property

The Town currently collects rent on the following properties: the Communications Tower at Public Services, tower land leases, the Library, the Recycling Center, Allegacy Federal Credit Union, the Chamber of Commerce building and the buildings on South Main Street (115-141S.Main). These properties are a good source of revenue for the Town and they increase slightly every year.

We have a slight increase built in on the rental contracts for Town buildings. Therefore, we are projecting an increase in rental income for FY 17-18. The amount of rent on Town property is projected to be \$203,450 for FY 17-18, up from \$174,238 in FY 16-17. All of the buildings that the Town owns are generating enough rent to pay for themselves and still produce positive income. Currently we have leases in place that will extend through this year for all of the properties.

We do anticipate losing the rent from the library in the near future, most likely in FY18-19. The County will pay \$91,134 in rent this year for the library building. When the County vacates the building the decision will need to be made as to what to do with the building and whether or not the Board wishes to replace the income that it generates. In FY16-17 we also lost one of the lessees on the tower. However, we negotiated a new lease with an existing lessee and had an increase on the other leases and together these offset the loss. The income from the tower will actually slightly increase in FY17-18.

Building Inspection Fees

Building inspection fees are directly related to the economy and building that is taking place. Obviously the more building occurring the more fees we will collect. We are estimating collecting \$350,000 in inspection fees for FY16-17. This is more than the \$330,500 that was budgeted. Based on this we are projecting inspection fees in the amount of \$350,000 for FY17-18. This could increase or decrease depending on how strong the economy stays.

Road Development Fees/Recreational Land Fees

These two revenue sources are directly related to the Caleb's Creek Development. When the development was approved the Board of Alderman made these two fees a condition of the rezoning. The purpose of these fees is to help pay for the road improvements that the Town will have to do and to help with some of the recreational improvements that will be necessary. In previous years there has not been much development in the area and therefore not much revenue generated. However, we are anticipating that changing in FY17-18 and have budgeted the corresponding revenue. We are projecting these two revenues being close to \$70,000 for FY17-18.

Unassigned Fund Balance

The Unrestricted General Fund is broken out into several categories. The Unassigned Fund Balance portion should be used as a "rainy day" fund and to cover expenses that occur mid-year that are not budgeted at the beginning of the year. The Town has always been conservative in its appropriation of the Unassigned Fund Balance and thus has maintained a healthy Fund Balance throughout the years.

Though we would prefer not to, the Town usually appropriates money from the Unassigned Fund Balance to balance the budget. This has been especially true in the last seven years when the economy and growth were down. It varies from year to year as to whether or not the money is actually spent. Some years the full amount appropriated is spent, some years more is spent, and some years there is less spent than what is appropriated.

Exhibit C shows the amount of Unassigned Fund Balance for the last several years and how it has increased/decreased over the years (**See Exhibit C**). The amount of savings/spending is not always a true depiction of what is spent or saved in the Unassigned Fund Balance. One year may show a significant savings when there is actually not one. This may occur because several large pieces of equipment may not be purchased in the year that they are budgeted. If this occurs the money is not spent and it shows as a savings in the Unassigned Fund Balance. However, this money is usually encumbered and spent the following fiscal year. If this happens it will look like more money is spent from the Unassigned Fund Balance than what was actually appropriated. This makes it very difficult to look at the exhibit and determine what was actually spent from the Unassigned Fund Balance.

For FY16-17 we recommended appropriating \$527,009 from the Fund Balance. This was to cover the cost of the new fire engine and the payment on another engine. There will be much more than this spent in FY16-17. The Board made several property purchases that were not budgeted for and there were also several repairs made to different buildings that were not initially budgeted for.

For FY17-18 we are not recommending any appropriation from Fund Balance. This will be the first time in almost seven years that there has not been an appropriation

recommended. We hope that we can go through the year and at year's end not have spent any money from Fund Balance. We would like to see the Fund Balance start to increase instead of a continuing decrease.

III. EXPENSES

The Town of Kernersville is a full service community, which means that we provide a full array of services to the citizens. The Town currently has ten departments that provide services to the citizens: Governing Body, Administration, Fire/Rescue, Police, Public Services, Parks & Recreation, Community Development, Human Resources, Finance, and Information Systems. Through these departments the Town offers services to the citizens and businesses ranging from permits and inspections to four full time Fire/Rescue stations. Other than Winston-Salem we are the only municipality in Forsyth County that offers a full range of services. This wide offering of services is what makes our tax rate higher than municipalities like Clemmons, Lewisville, Walkertown, Rural Hall and Tobaccoville. None of these offer all of the services offered by Kernersville.

The cost of the services provided by all these departments makes up the expenses of the Town. All of the services that the citizens enjoy are provided by one of these departments. These departments also provide many services that some citizens may never use.

The three largest departments are Police, Public Services and Fire/Rescue, in that order. Together they account for about 75% of the entire operating budget. These three departments also account for more than 75% of the employees of the Town. Exhibit D shows the General Fund expenditures by department (**See Exhibit D**).

Operating Expenses

The expenses of the Town basically fall into two categories: Operating Expenses and Capital Expenses. The Operating Expenses are mainly made up of two categories: personnel related and operating/maintenance related. Both of these are necessary to perform the daily operations of the Town. This is usually the largest portion of the budget.

Personnel Related Operating Expenses

The employees are the Town's greatest asset as they provide the manpower for the services that all citizens enjoy. The Town has always operated with a smaller staff than many surrounding municipalities. In FY10-11 the Town experienced a reduction in force and repeated this in FY's 11-13. During this time the force was reduced nearly 10%. However, we were aware that some of the positions would be needed in the future when the growth returned and the economy strengthened.

Over the last two budget cycles the Town has added some of these positions back to the workforce. In FY15-16 we added six new positions to the workforce with the budget. Another four positions were added in Parks and Recreation shortly after the fiscal year started. These new positions really helped the Town get back to the staffing levels necessary to provide adequate services in all areas. In FY16-17 we added a new Police Officer position (security officer at Town Hall) and converted a part-time position in Parks and Recreation to a full-time position.

For FY17-18 we are recommending four new position. Three of these positions will start in January. We feel that all of these new positions are necessary and critical to continuing the service as it is in the departments.

Sanitation Driver

We are recommending adding a new sanitation driver. We have advised the Board in previous years that we were very close to needing a new route and that would entail adding a truck and driver. We have reached that limit and we must now add the truck and driver. This position will start in January when the truck is delivered. The truck is covered later in the budget.

Custodian

This position is being recommended for the new Public Services building. We currently utilize a contract cleaning service to clean the building. The new building is much larger than the existing building and the contract price will increase significantly. After some analysis, it has been determined that it will be less expensive to hire a full-time person for the new building. This position will also serve as a back-up to the custodians at the Town Hall/Library and will help them out when needed and fill in when they are gone.

Police Officer

This position is currently in the budget but it is frozen. This position was originally scheduled to be unfrozen by January 2017 but was not. It is important to unfreeze this position so that the department can be back to full staff.

Safety Officer

This is a new position being recommended for the Fire/Rescue Department. This position will focus on all safety aspects in the department. The person will conduct safety training exercises, create/review safety policy and they will also act in the capacity of safety officer on fire calls. These positions are becoming more critical in the departments because they are the ones that arrive on scene first and assess the situation and make sure the firemen know all safety risks/factors involved. We currently do not have any safety officers in the department. The long term goal is to have one on each shift, so we will need to add two more in the future.

Benefits and Salaries

The employees are the most critical part of the Town operations. Our employees constantly go above and beyond the call of duty when providing services to the citizens. Their dedication to the Town and their job shows in everything they do. For this reason, it is important that we offer competitive wages and benefits so that we can retain them. We are always in competition with other municipalities and employers in the private sector to attract and retain good employees. As the economy continues to improve and jobs become more available we will experience an increase in turnover. We have noticed this starting to occur already. There has been an increase in turnover due to employees taking jobs elsewhere for more pay and better benefits. However, we lose very few employees to other municipalities because our pay and benefits are competitive. The Town employees have always taken pride in their work and they have always done what was asked and more. The Town constantly receives compliments on its workforce and they always make the Town look good.

COLA and Merit Increases/401K Contribution

A Merit or COLA increase was recommended and implemented in FY13-14, FY15-16 and FY16-17. A COLA of 2% was last given in FY15-16. We are recommending a small COLA of 1% for this year.

One area of benefits where we feel the Town is lacking is in 401K contributions. This was eliminated completely several years ago and it has slowly been re-implemented. We currently offer a 1% 401K contribution to our employees. The average for like municipalities is 3-4%. Based on this we are recommending a slight increase in the 401K contribution this year to 2.0%. This will help us close that gap and hopefully we can continue closing it in future years. This is another important tool in helping to retain our employees because this is a benefit offered by most of our competitors.

Health Insurance

Health insurance is an ever changing cost to a municipality. Aside from salaries it is the greatest part of the benefits/salaries portion of the budget. The Town always works hard to obtain the best coverage possible for the employees for the most reasonable price. In recent years this has been a much tougher challenge, and we look for it to only continue to become tougher. The benefit package that the Town offers is competitive with other municipalities around us. The Town offers insurance coverage to the employee and the employee's family. For many years the employee did not have to pay for any of their coverage but they did pay a percentage of the dependent coverage. This changed in FY11-12 when the employees began paying for a portion of their insurance along with any dependent coverage expense.

Beginning in FY14-15 the employees started contributing even more toward the premiums. They began paying \$40/\$55/\$70 monthly for employee only coverage. The amount they paid depended on their participation level in the wellness program. For all other coverages (employee/spouse, employee/children, employee/family) the Town paid 50% of the premium and the employee paid 50% of the premium. This resulted in

significant increases in the amount the employees had to pay, but it was necessary to keep the cost of the Town's portion under control and reasonable.

FY's 15-16 and 16-17 were perhaps the two most difficult when it comes to insurance premiums. We started negotiations in both of those years looking at steep increases. In FY16-17 we started out at 33% and ended up at roughly an 8% increase. To reach such small increases a lot of plan changes were necessary. We also had to pass a lot of the increase along to employees. The biggest increase was in the area of dependent coverage. This increase was as much as \$40/month for FY16-17. This increase came after two years of increases of \$80/month. We also experienced an increase in employee only coverage during these two years.

For FY17-18 we are anticipating an increase of about 4.5% for our health insurance. In order to have such a small increase, we are recommending changing companies and changing some of the aspects of our plan. There will also be some cost increases to employees but the majority of this increase can be offset if they participate in the Employee Wellness Program. We are increasing the wellness incentives in an effort to get more employees involved. Having more involvement in the wellness program will only drive down our claims cost in the future.

Salary Study/Developmental Pay

Developmental Pay adjustments and the salary study were started in 2000. This pay plan is derived from the average salary range for like jobs in other municipalities our size. Developmental pay is designed so that an employee will be at the mid-point of the salary range within five years of being hired. An employee will receive pay adjustments each year if necessary to help move the salary closer to the mid-point.

Under the salary study we review 1/3 of the workforce every year and make adjustments to the salary grades as necessary. This is designed to make sure that the Town's salaries remain competitive with others. Through the salary study we make pay grade adjustments for employees and we also make pay adjustments for their positions. This helps retain the employees that are above mid-point or maximum for their respective pay grade. This program has been very successful so far and has given the Town a competitive pay plan for most positions.

This year the salary study included every department except the Police Department and the Fire/Rescue Department. The most changes recommended by the study were for positions in Public Services, Parks and Recreation and Inspections. These pay grade changes are badly needed because these positions are the ones that are the most difficult to fill when they become vacant. This is mainly due to the pay. The study also recommended a slight change in the market rate for the Department Heads.

The salary study and developmental pay plan have decreased the amount of turnover for the Town and helped improve employee morale. Therefore, we are recommending no changes to this process. Also, it is not possible to eliminate developmental pay for just one year because of the way the plan is structured. If it is

eliminated this year then only the departments that are currently being studied will be impacted. To be fair to all employees, developmental pay would have to be eliminated for three years so that all Town employees are treated equally. This would then put us about three years behind in the adjustment of the pay scale and would cause our salaries to be out of line with other municipalities. This would result in having a tremendous increase all at once in order to bring our salaries in line with where they need to be. This is something that Greensboro and Winston-Salem have experienced the last couple of years.

The benefits of our plan can be seen by looking at the problems other municipalities are now experiencing with their workforce. Several of the municipalities around Kernersville have been forced to spend a lot of money at once to bring their salaries to competitive levels. The city of Winston-Salem spent over \$2 million last year and they are recommending another \$2 million this year. The Forsyth County Sheriff's Department is also requesting pay raises for their employees. Otherwise, they will lose their employees and have a difficult time replacing them. Kernersville is fortunate that we do not have this problem. The ongoing salary study every year prevents this and it allows us to continue attracting good employees.

Operating/Maintenance Related Operating Expenses

The staff has done an excellent job of holding the line on operating/maintenance expenses for the last several years. For FY17-18 the amount recommended for over 80% of the operating and maintenance line items is the same amount that was recommended for FY16-17. The only changes were for the line items where the Town experiences an increase from an outside vendor or for line items that have items in them that are a necessity. The increase in the overall operating and maintenance category was around 3%.

Capital Expenses

Capital Expenses primarily consist of capital equipment purchases and infrastructure improvements. While this is a large expense these items are usually purchased on an installment purchase plan and financed over a four-year period or longer. This negates the need for a large one-time payment.

Equipment

The Town has a five-year Capital Improvement Plan in place that projects the equipment that should be replaced each fiscal year. This plan takes into account the age of the equipment, the useful life of the equipment and the maintenance and repair expenses associated with a piece of equipment as it gets older. The Town strives to replace equipment before it becomes totally worn out. The Town did fall behind in equipment replacement and upgrades because of the struggling economy and tight budgets several years ago. Fortunately, the Town has made big strides in replacing equipment the last couple of years and our fleet is now much better.

There are several new pieces of equipment recommended in this year's budget. The equipment being recommended for replacement is either beyond its useful life, is mandated to be replaced, or is equipment we need to do the jobs more effectively and efficiently. The pieces of Capital Equipment discussed in the following sections will be purchased using the installment purchase method. Exhibit E shows the recommended Capital Equipment Purchases for FY17-18 and the justifications for each (**See Exhibit E**).

Fire Rescue Equipment

This year we are recommending three new pieces of equipment for the Fire/Rescue Department. We are recommending eight (8) new AED's. These AED's will replace the current ones that are no longer serviceable. This is a critical piece of equipment that is on each apparatus.

We are also recommending two new thermal imaging cameras. Two of the cameras were replaced in FY16-17 and this will replace two of the remaining three cameras. These new cameras will have much better technology than our old ones and will function much better. These cameras are now a critical piece of equipment that is used in a fire.

There is also a new vehicle recommended for the Battalion Chief. The current vehicle is starting to see increased maintenance cost and is becoming less reliable. The current vehicle will be placed into reserve status and will be used as a back-up when necessary.

Police Equipment

The Town has a program in place to replace vehicles in the Police Department every year. The number of vehicles replaced varies from five vehicles to as many as ten. The average life cycle for a vehicle in the Police Department is about eight to nine years and 110,000 miles. These vehicles are at the end of their useful life cycle by the time they are replaced.

This year we are recommending replacing seven patrol vehicles and one CID vehicle. Replacing seven patrol vehicles a year makes the life cycle of a vehicle about nine years. This is the top end of the life cycle and it is hoped that at some point in the future we can replace more vehicles each year and reduce the time we have each vehicle. However, the cost of doing this is not feasible right now because the cost of maintenance is still low for the older vehicles. We weigh the maintenance cost and the vehicle value against the replacement cost each year to determine if it is feasible to replace more.

We are also recommending replacing eight of the in-car cameras. The current cameras are not being serviced and supported anymore and we have several of them that are broken and no longer working. We have been taking cameras out of CID's vehicles and other vehicles to use in patrol vehicles. Our plan is to replace several cameras each year until we have new ones that work in all of the patrol cars.

Parks and Recreation Vehicles/Equipment

In FY16-17 we did not recommend any equipment to be purchased for Parks and Recreation. There were some improvements made to facilities and a fence was erected at the maintenance building, but no equipment was purchased. This year we are recommending three pieces of equipment and a gate for Ivey Redmon Park.

We are recommending a new crew cab truck to replace the older truck that is being used. The last truck that was purchased for Parks and Recreation was a crew cab truck in FY12-13. The truck being recommended this year will replace a 1999 regular cab truck. The 1999 will be moved to a reserve status and the current reserve vehicle will be sold. We have found that it is now much more effective to purchase crew cab trucks for the crews as opposed to regular cab trucks.

There is also a Jacobson Truckster being recommended for the department this year. This is a heavy-duty utility vehicle and it will be used along with the 4X4 Gator that the department now uses. It will most likely replace the Gator in a few years as the Gator ages out. This unit has the towing power of a F250 truck and it also has an 8-foot long dump bed. This will make landscaping work and park maintenance much easier. It will be primarily used at Ivey Redmon park but will also be used in the other parks for jobs that cannot be done using a truck.

The other piece of equipment being recommended is an attachment for the Bobcat. This is an attachment that is designed for turf maintenance. This unit is designed to seed, plug and aerate at the same time. This will allow for faster and more efficient seeding of the fields and will also do a much better job than the current method because this unit places the seeds into the soil as opposed to on top of the ground. This unit will also eliminate the need for the sprigger that has been requested in the past.

An automatic gate for Ivey Redmon Park is also being recommended. This will be a programmable gate that will open and close at the established times. This gate will provide better security than the current gate, which will help mitigate the number of people that are in the park after hours. This gate will be located at the main entrance to the park.

Public Services Equipment- Street Division

We are recommending the purchase of three new salt brine spray systems this year. These will be attachments for the one ton trucks that are currently in the department. This will allow us to brine more, if not all, streets in snow events. We do not currently have this capability.

A new salt brine mixer is also being recommended for FY17-18. This mixer will replace the current mixer that is 10+ years old. It takes more than one day to mix the brine using the current mixer. The mixer that is being recommended will mix the brine in hours. This will allow us to apply more brine to the streets in less time, and also cover more streets.

Public Services Equipment- Solid Waste Division

A few years ago staff told the Board of Alderman that if the residential development continued growing at the rate it was then it would be necessary to implement a new sanitation route in the future. That time has come. Due to this, there is a new automated truck being recommended for FY17-18. This truck will be added to the daily collection routes. We are recommending leasing this vehicle instead of purchasing it. The payments are cheaper through a lease and we also do not have to worry about the maintenance on the truck after five years. We will try a lease with this truck and if it appears to be beneficial to the Town then we may lease future trucks like this one as well.

Community Development- Inspections Division

We are recommending a new vehicle to replace a 2001 Ford Truck. The current vehicle is starting to incur increased repair costs and needs to be replaced now so that we do not have to replace it mid-year. The current truck will most likely remain as a shared back-up and the current shared back-up will be sold.

Information Systems

The last time the Town upgraded the servers that are used for information storage was about six years ago. Those servers are now in need of replacement. They have become unreliable and we are no longer able to secure a hardware maintenance agreement for them. These servers play a critical role in the daily operations of the Town and therefore we need them to function continuously without fail.

We are also recommending a new audio/video system for the courtroom. The current system is not very good and during the meetings it is difficult for both the Board and the citizens to clearly hear the proceedings. The new system will be much better than the current system and it will make it much easier for everyone to clearly hear the proceedings. We are also recommending a new monitor for the courtroom which will allow the citizens sitting near the back to see what is on the screen.

Capital Infrastructure Expenses/Improvements

The most expensive items that a Town faces are usually the improvements to infrastructure or the construction of new infrastructure. The Town has a lot of infrastructure to maintain and repair on an evolving basis. The Board of Alderman approved over \$14 million in capital infrastructure improvements in FY16-17. Based on that, there are not many capital infrastructure improvements being recommended for FY17-18.

Street Repaving

Because of other needs, the Town has not done any major street repaving for the last five years. The roads have continued to deteriorate during this time. The last road condition report showed that a majority of our roads are now rated as a B or C. The Town must spend some money in repaving for the next several years to help improve the condition of our roads. This year we are recommending allocating \$1 million for repaving. It is estimated that we need to allocate \$900,000 a year for several years just to get all of

our roads up to good condition. This may not be possible but we will do what we can to help the situation.

Fourth of July Park Inclusion Renovation

We are recommending renovating some areas at 4th of July Park so that the park is more inclusive and handicap accessible. In the Spring of 2016 the department conducted a system-wide ADA audit to determine which amenities were non-compliant to the 2010 ADA Standards. Based on these findings we are focusing on four areas to upgrade at 4th of July Park.

The first area deals with improved access. There is currently a paved walking trail that goes around the park. There are several areas of this trail that are popping up from the roots growing under the asphalt. This poses a problem for all individuals that are walking, and it poses an especially difficult problem for someone that is disabled and uses a walker/cane or wheelchair. We are recommending replacing the asphalt in these areas along the trail.

The second area of focus also deals with access. We are recommending adding some rest-stop areas along the walkway between the parking lot and play areas. This will give individuals that are not able to walk a long distance a place to stop and sit. This will meet one of the universal design principles as it relates to ADA compliance.

The third area of focus will deal with improving the play spaces. We are recommending retrofitting the playground to allow inclusive and interactive play. There will be some additions and modifications to the current play area and there will be some changes made to make it more accessible. The new playground will also provide better fall protection if someone were to fall onto the ground.

We are also recommending a new approach and entrance to the park from the rear side near Bodenhamer Street. There is not currently a viable ADA accessible entrance in this area, even though there is a parking lot. A lot of people use this side to access the park so it needs to be easily accessible for everyone.

Change in Service

As is the case every year, all services offered by the Town are periodically evaluated to determine if they can be offered in a way that is more beneficial to the citizens and the organization. Several service changes have occurred the last several years as a result of this analysis. However, this year we did not find any service that could be modified to save money while maintaining the high quality service our citizens deserve. Therefore, the only change in service this year will be the additional sanitation route that we are recommending adding.

IV. Financial Position of the Town

The Town has always strived to maintain a strong financial position. Previous Boards worked hard to ensure that the Town is not burdened with heavy long-term debt and low cash reserves. Because of these continued efforts, the Unassigned Fund

Balance of the Unrestricted General Fund has always been strong and the debt load fairly low for many years. There are several indicators used to measure the financial position of municipalities, six of which are highlighted below. Exhibit F shows these indicators and the trend since 2008. The most recent indicators are based on FY15-16 information (**See Exhibit F**).

Service Obligation

The service obligation of a town measures whether or not a government can pay for its annual operations through using its annual revenues. This measurement is done using an operations ratio, which is total revenues divided by total expenditures. Kernersville's operations ratio for FY15-16 was 103%. This means that we had more revenue than we did expenses in FY15-16. This is due to the fact that several large pieces of equipment and some projects were not done in FY15-16. However, they were carried over to the next fiscal year so this ratio will adjust for FY16-17.

Dependency

The indicator of dependency shows the extent to which a local government relies on other governments (i.e. Federal, State) for resources. Dependency is analyzed using the intergovernmental ratio, which is intergovernmental revenue divided by total revenue. This takes into account the unrestricted government revenue sources and some Town grants. If a municipality is heavily dependent upon other governments for resources, it may be hit very hard if funding agencies face difficult economic times and lower or eliminate financial support.

The intergovernmental ratio for the Town for FY15-16 was 34%, meaning that 34% of our total revenue comes from other government resources. Our dependency increased slightly for FY15-16 mainly due to some water/sewer projects and DOT projects that had outside funding sources.

Because of the uncertainty of funding from other government sources, a low ratio is preferred. An example of this is the Sales Tax Hold Harmless revenue. This is a large revenue source for the Town and we rely heavily on it. If the State reduces it our budget is negatively impacted. This has been a concern for the last three years, and is a major reason to reduce our dependency. The more dependent we are on other government resources the larger the potential shortfall may be in the future. We will continue to monitor this ratio and if it increases significantly we will alert the Board of Alderman.

Financing Obligation

The financing obligation of a Town is the amount of Town expenditures committed to annual debt service. This indicator is measured by the debt service ratio of the Town, which is debt service divided by total expenditures. For the Town this consists mainly of the installment purchase payments for the yearly capital purchases and also the long-term debt related to infrastructure projects.

The debt service ratio for the Town has ranged from 8% to 11% over the last eight years. The highest of these was FY08-09 at 11% and the lowest was FY05-06 at 8%.

The variance is mainly dependent upon the amount of equipment purchased that year. The debt service ratio decreased to 9% in FY10-11 and remained at 9% through FY12-13. In FY13-14 it dropped to 8%. For FY15-16 it increased just slightly to 9%. This is due in large part to some larger capital purchases that were done on an installment purchase basis. The bond rating agencies have cited a benchmark of no more than 20% for a local government. We are well within their requirements.

Liquidity

The liquidity measures the Town's ability to meet its short-term obligations and is determined by using a quick ratio, which is cash and investments divided by current liabilities. The Town's quick ratio for FY13-14 was 6.49. For FY15-16 the ratio increased to 10.32 indicating that we are in a better financial position to meet our short-term obligations. The Town remains in a good position to meet all of its short-term obligations.

Solvency

The solvency is a measure of the Town's ability to meet long-term obligations and is calculated by determining the amount of fund balance available as a percentage of expenditures. When doing this calculation, the entire General Fund is used in the calculations, not just the Unassigned portion of the General Fund. Over the last eight years the Town's solvency has ranged from a low of 26% in FY05-06 to a high of almost 43% in FY12-13, which is very good considering the recent economic downturn. Our solvency percentage for FY13-14 was 32.53%. For FY15-16 our solvency percentage increased to 34.33%. This is largely due to the fact that some budgeted expenses were not done and the money remained in the General Fund. However, as mentioned earlier the expense will be incurred in FY16-17 and the percentage will be lowered.

The Local Government Commission requires the available fund balance to be at least 8%; however, they prefer that the Town is within the range of its peer municipalities, which is between 30-35%. In doing this calculation, only the Unassigned portion of the General Fund is used. The Town is currently at about 22-26%, which is well above the 8% and within range of our peer group.

Leverage

The Town's leverage measures the extent to which we rely on tax-supported debt and it is calculated by dividing the tax-supported, long-term debt by the assessed value. From FY09-10 - FY12-13, the leverage has ranged from 20-23%. The leverage in FY12-13 was 23%. It decreased just slightly to 22% for FY13-14. In FY15-16 the leverage was 20%.

Overall the Town is strong financially. We are well within the benchmarks that are set by the State and the bond rating agencies. We will continue to monitor our position on an ongoing basis and recommend any changes to the Board of Alderman.

V. RECOMMENDATION FOR FY 17-18

In order to meet the needs of the citizens and continue providing the high quality services they deserve and desire, we are recommending a tax rate of **55.45 cents per \$100 valuation for FY17-18**. The recommendation of a 55.45 cent tax rate accurately reflects the Town's growth since the last revaluation and it accurately accounts for the property revaluation in 2017. Exhibit G shows the Town's tax rate from 1995-2015 (**See Exhibit G**).

While a tax rate of 55.45 cents is a rate decrease of 1.55 cents, not all citizens will see their taxes change. Some citizens will experience a tax decrease, some will experience a tax increase and some will experience no change at all. This will depend on what happens to the value of their property during the revaluation. There is no true way to make it equal for all citizens because of the variance in property values. All we can do is adjust the rate to neutral and account accurately for any growth that has occurred. This has been done and the reflective rate is 55.45

This rate allows the Town to keep the services the same while replacing some old equipment and adding some new equipment. This rate will also allow the Town to do some much need repaving to Town streets. This rate will also allow the Town to cover the projected expenses without having to appropriate much money from the General Fund.

Compared to other services and amenities that they may pay for, the citizens are still receiving a great value for their tax dollars. An analysis was conducted three years ago that compared other average monthly expenses to an average monthly tax bill. This comparison was based on the median priced home in Kernersville. That analysis is updated every year so that we can see what the citizens are getting for their tax dollars in comparison to other services they pay for. The comparison with updated data for FY17-18 is reflected in Exhibit H. The data again reflects that the citizens are actually getting a lot of services for their tax dollars. The taxes that citizens pay monthly is actually less than all of the other services they may use on a monthly basis. The taxes they pay provide them with multiple services compared to just the single service they get when paying the other monthly bills (**See Exhibit H**).

The Board of Alderman has done and continues to do an excellent job planning for the future growth of Kernersville. Kernersville has remained competitive in the marketplace by keeping a low tax rate while providing high quality services. Kernersville has attracted and continues to attract residents and businesses. We are seeing growth in both of these areas and we expect this trend to continue. A lot of this growth and expansion occurred at a difficult time, but it occurred because of the atmosphere that Kernersville offers. It is critical that Kernersville continues to remain competitive. The tax rate being proposed for FY17-18 allows Kernersville to remain competitive in attracting and retaining new citizens and business both now and in the future, while providing high-quality services that the citizens enjoy and deserve.

At a rate of 55.45 cents Kernersville will still have one of the lowest, if not the lowest, tax rate in the Triad among the full service municipalities. There are several municipalities in the Triad that are lower but none of these provide all of the services that Kernersville provides. Exhibit I shows the tax rate of surrounding municipalities (**See Exhibit I**).

VI. FUTURE CONCERNS

Beginning in FY09-10, this section was included in the Budget Message to inform the Board of Alderman of concerns regarding future Town budgets. Many of the past concerns have been addressed and they are no longer a major concern. However, some of them still remain.

For the last three years the biggest concern has been the revenues of the Town. While this is still a concern it is not as pressing as it has been. We experienced significant growth for FY16-17 in the tax base and that has provided some much needed revenue. That growth was less in FY17-18 and will most likely be less in future years. While we continue to have the revenue we need, our ability to do major projects in the future may be slightly diminished when compared to the last two budget cycles. We also have a better idea about the status of the Sales and Use Tax revenue. However, this revenue is controlled by the State and is subject to change at any time. This could be unfavorable for Kernersville or it could be positive. We will continue to monitor this and notify the Board if we see any significant changes.

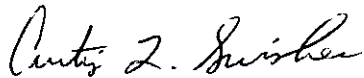
Another big concern is what health insurance will look like and cost in the future. We anticipate the cost of health insurance to continue increasing. This year the Town was able to offset a large increase by changing providers. That most likely will not be an option for the next few years. We have also avoided large increases by making plan changes. This will continue to be something we look at every year but it is becoming more difficult to impact the premiums by changing the plan. In the future the Town may have to look at self-funding as an option. This option has pros and cons and these will need to be weighed when making the decision. There are also other options on the table that will be looked at every year when doing the insurance renewal.

The Board of Alderman has definitely done a lot in the last two budget cycles. There have been buildings built and equipment purchased and other improvements made in town. However, there are still many projects that need doing and a lot of equipment that needs replacing. The Board of Alderman was presented with a list of items to be considered for a bond referendum in February 2016. The total cost of everything on that list was about \$80 million. These items will have to be done at some time in the future. We know that it is not feasible to do this all at once, but it is imperative that the Alderman stay aware of these needs. We will continue to recommend them when it is possible and will work through the list gradually. It is still very probable that a bond referendum or another tax increase will be needed at some point to do other large projects.

Another concern that we have is the continued appropriation of the Unassigned Fund Balance of the General Fund to either help balance the budget or purchase items that were not budgeted for initially. As mentioned earlier in another section, there was a large amount spent from the Unassigned Fund Balance in FY16-17 that was not initially budgeted. This was used to purchase several pieces of property and to make building repairs that were not initially budgeted. The Town still has a strong Unassigned Fund Balance but it has declined some in the last few budget cycles. We were in the 30% range for the Fund Balance and now we are down to around 22-24%. Our Fund Balance Policy states that once the balance goes below 20% the Town Manager must inform the Board and then create a plan for getting it back above 20%. We will continue to monitor the situation and inform the Board accordingly.

Kernersville is continuing to prosper and move forward. We have faced some difficult years but we feel like things are starting to turn around. We are hopeful that the growth will continue for many years. We are looking forward to another good year in FY17-18.

Respectfully submitted,

A handwritten signature in cursive script that reads "Curtis L. Swisher".

Curtis L. Swisher
Town Manager

EXHIBIT A: REVENUE NEUTRAL TAX RATE CALCULATION

Step 1: Annual Tax Base Growth Calculation

<u>2013-14</u>	with annex	2,404,246,331	
2014-15	w/out annex	2,420,494,390	0.675807%
<u>2014-15</u>	with annex	2,423,549,290	
2015-16	w/out annex	2,523,113,104	4.108182%
<u>2015-16</u>	with annex	2,523,373,304	
2016-17	w/out annex	2,691,290,236	6.654463%
<u>2017-18</u>		2,897,090,885	3 yr avg growth 3.81%

Step 2: $\frac{\text{Tax Base (FY17-18)}}{100} = \frac{\$2,897,090,885}{100} = \$28,970,908$

Step 3: Calculation of tax rate needed to produce equal tax levy

Tax Base (FY17-18) X Rate Needed = AVT collection for FY16-17

Therefore:

$$\text{Rate Needed} = \frac{\text{AVT Collection (FY 16-17)}}{\text{Tax Base (FY17-18)}}$$

$$\text{Rate Needed} = \frac{\$15,341,990}{\$28,970,908}$$

Rate Needed= .5296 or 52.96 cents per \$100 valuation

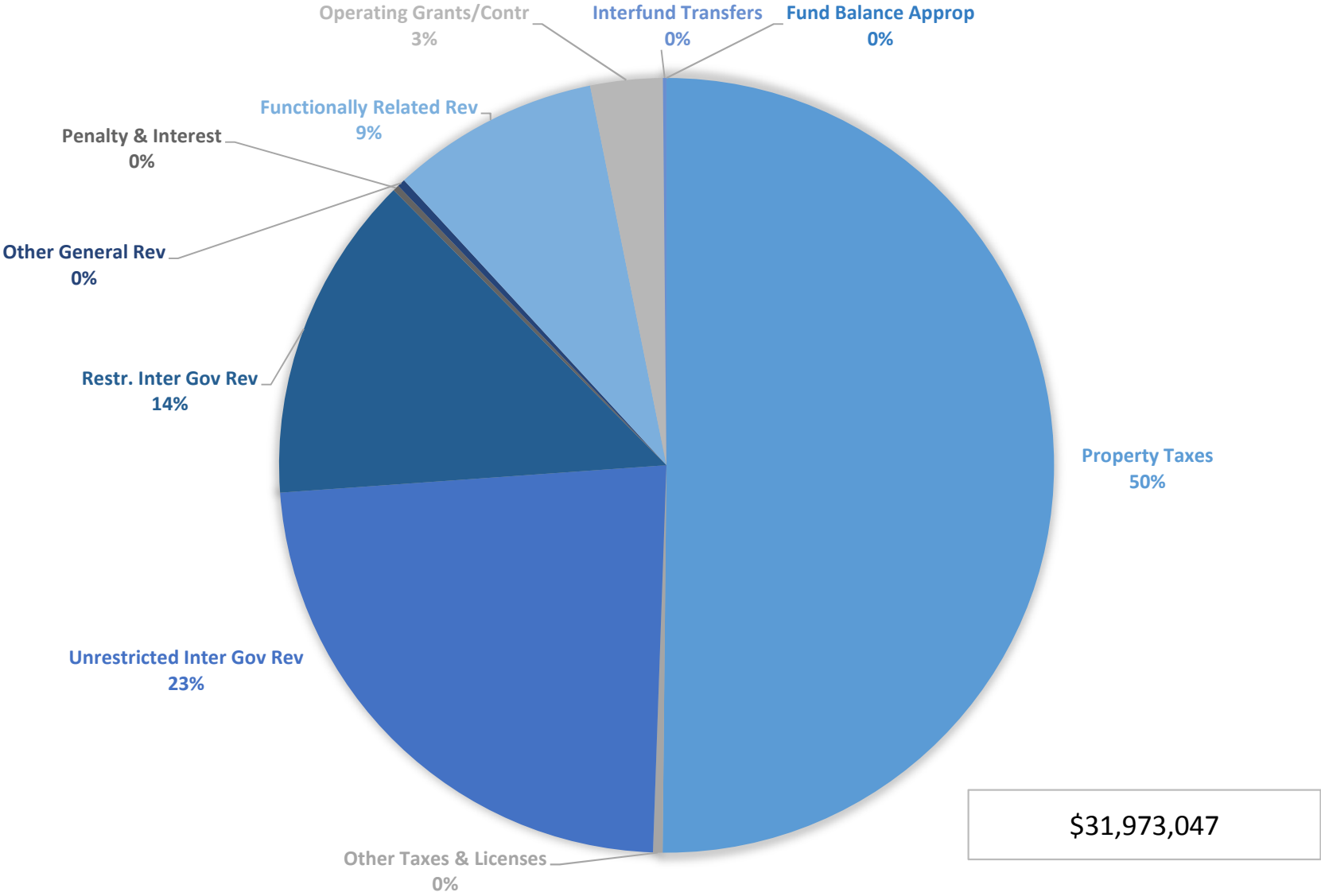
Step 4: Calculation of Revenue Neutral

Revenue Neutral Tax Rate = Revenue Neutral Rate X Growth Factor of 3.81%

$$52.96 \times 1.0381 = 55.02 \text{ cents per } \$100 \text{ valuation}$$

Using a growth rate of 3.25% for the first year would return a 3 year average growth of 4.7%, making the tax rate 55.45.

EXHIBIT B
GENERAL FUND REVENUES
FY 17-18



**EXHIBIT C
TOWN OF KERNERSVILLE
FUND BALANCES,
GOVERNMENTAL FUNDS**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Reserved	\$1,782,385	\$1,843,203	\$1,685,444	\$1,745,510	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved	\$5,859,677	\$8,032,164	\$7,711,465	\$7,214,136	N/A	N/A	N/A	N/A	N/A	N/A
Non-spendable	N/A	N/A	N/A	N/A	\$22,917	\$14,490	\$16,479	\$222,957	\$5,250	\$5,935
Restricted	N/A	N/A	N/A	N/A	\$1,588,285	\$2,939,846	\$2,171,712	\$2,043,075	\$2,227,084	\$4,931,738
Committed	N/A	N/A	N/A	N/A	\$147,933	\$625,097	\$1,120,723	\$821,040	\$684,526	\$730,792
Assigned	N/A	N/A	N/A	N/A	\$302,337	\$500,654	\$397,654	\$226,126	\$253,144	\$527,009
Unassigned	N/A	N/A	N/A	N/A	\$7,034,981	\$5,619,305	\$7,733,398	\$7,178,931	\$8,348,194	\$6,209,156
Total General Fund	\$7,642,062	\$9,875,367	\$9,396,909	\$8,959,646	\$9,096,453	\$9,699,392	\$11,439,966	\$10,492,129	\$11,518,198	\$12,404,630
All other Gov't funds										
Reserved	\$36,154	\$38,724	\$219,342	\$144,729	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved, reported in:										
Special revenue funds	\$1,067,588	\$666,922	\$639,156	\$342,578	N/A	N/A	N/A	N/A	N/A	N/A
Capital projects funds	\$3,811,937	\$4,222,041	\$2,723,237	\$2,190,716	N/A	N/A	N/A	N/A	N/A	N/A
Restricted	N/A	N/A	N/A	N/A	\$429,216	\$200,460	\$258,598	\$362,304	\$385,268	\$363,958
Committed	N/A	N/A	N/A	N/A	\$1,766,051	\$798,805	\$719,729	\$658,824	\$651,339	\$562,150
Assigned	N/A	N/A	N/A	N/A	\$119,429	\$338,229	\$277,892	-	-	-
Total all other gov't funds	\$4,915,679	\$4,927,687	\$3,581,735	\$2,678,023	\$2,314,696	\$1,337,494	\$1,256,219	\$1,021,128	\$1,036,607	\$926,108
Total Fund Balance	\$12,557,741	\$14,803,054	\$12,978,644	\$11,637,669	\$11,411,149	\$11,036,886	\$12,696,185	\$11,513,257	\$12,554,805	\$13,330,738

EXHIBIT D GENERAL FUND EXPENDITURES FY 17-18

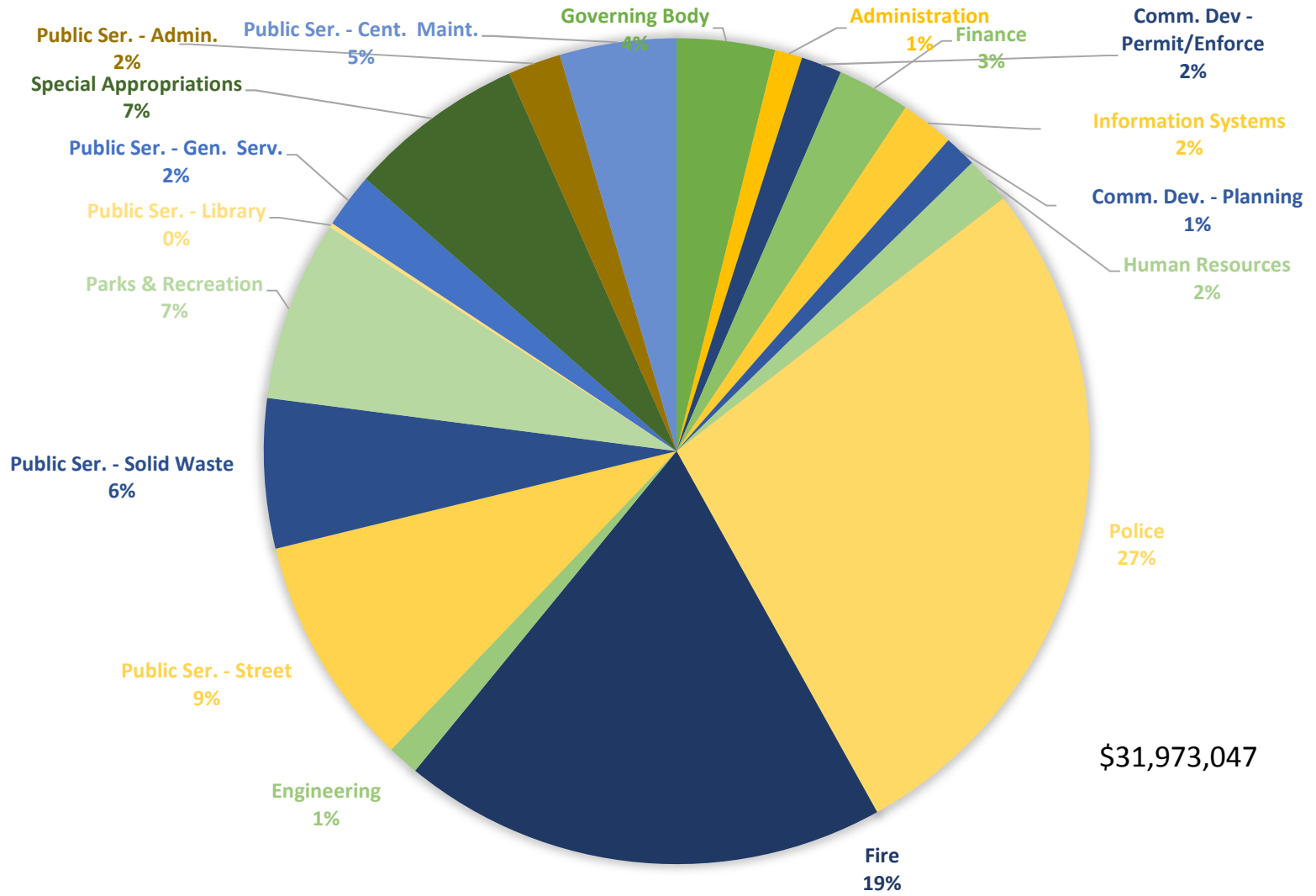


Exhibit E: Recommended Capital Purchases FY17-18

<p>Police Dept.- 8 Vehicles</p>	<p>\$389,000 \$83,361 p/yr/5yrs</p>	<p>These vehicles will replace older vehicles in the fleet with high mileage and excessive maintenance costs. This may be a mix of patrol vehicles and CID vehicles. The price includes the necessary equipment.</p>
<p>Police Dept.- 8 In-Car Camera Replacements</p>	<p>\$46,400 \$9,976 p/yr/5 yrs</p>	<p>These in-car cameras will replace the current cameras that are no longer working. Our current cameras are no longer supported by the manufacturer and parts are no longer available. We have been forced to switch cameras out of other cars and use parts from one to make another. This is no longer an option.</p>
<p>Fire Rescue Dept.- Battalion Chief Vehicle</p>	<p>\$40,000 \$8,600 p/yr/5 yrs</p>	<p>This vehicle will replace the current vehicle being used by the Battalion Chief. The current vehicle is starting to experience increased maintenance cost and is becoming more unreliable. It will be placed into a reserve status.</p>
<p>Fire Rescue Dept.- 8 AED Replacements</p>	<p>\$34,000 \$7,310 p/yr/5yrs</p>	<p>We carry AED's on all of our Fire/Rescue vehicles. These AED's are older and not as reliable as they once were. We are recommending replacing them before they become a liability for the Town.</p>
<p>Fire Rescue Dept.- 2 Thermal Imaging Cameras</p>	<p>\$20,000 \$4,300 p/yr/5 yrs</p>	<p>This will replace two of the remaining three thermal imaging cameras in the department. Our current cameras are 10+ years old and not reliable. These recommended cameras will use the newest technology and will provide a much better service to the user.</p>
<p>Community Development Dept- Inspections Division Inspector Vehicle</p>	<p>\$24,000 \$5,160 p/yr/5 yrs</p>	<p>This vehicle will replace a 2001 truck that is currently being used. This current vehicle is starting to incur increased repair costs and needs to be replaced now so that we do not have to replace it mid-year.</p>

Exhibit E: Recommended Capital Purchases FY17-18

<p>Public Services Dept.- Street Division</p> <p>3 Salt Brine Spray Systems</p>	<p>\$18,000 \$3,870 p/yr/5 yrs</p>	<p>These systems will be used on the 1 Ton trucks in the Street Department. With these three extra spray systems we will most likely be able to brine all of the road in town during a snow event. We are not currently able to do that.</p>
<p>Public Services Dept.- Street Division</p> <p>Salt Brine Mixer</p>	<p>\$35,000 \$7,525 p/yr/5 yrs</p>	<p>This mixer will replace the current mixer that is 10+ years old. The current mixer takes 24 hours to mix the brine solution. The recommended mixer will do it in less than 8 hours. This will allow us to spread more brine faster during snow events.</p>
<p>Public Services Dept. – Central Maintenance Division</p> <p>Hydraulic Lift</p>	<p>\$25,000 \$5,375 p/yr/5 yrs</p>	<p>This is a replacement lift for one that is currently being used in the garage. The current lift is not reliable and not safe.</p>
<p>Public Services Dept. – Sanitation Division</p> <p>Automated Collection Truck</p>	<p>Lease of \$48,840 for 5 years</p>	<p>This will be a new truck added to the sanitation fleet. New residential growth has made it necessary to add a new route. This truck will be used for that route.</p>
<p>Information Systems Dept-</p> <p>Server Storage</p>	<p>\$77,000 \$16,691 p/yr/5 yrs</p>	<p>Our current servers used for storage have reached the end of their useful life and are not as reliable as they need to be. We can no longer get a hardware maintenance agreement for them.</p>
<p>Information Systems Dept-</p> <p>Courtroom Audio/Video upgrade</p>	<p>\$36,000 \$7,740 p/yr/5yrs</p>	<p>This will replace the current system in the courtroom. The current system does not work correctly all of the time and is not really good when it does work. The new system will make it easier for the citizens and the Board to hear/see the proceedings.</p>

Exhibit E: Recommended Capital Purchases FY17-18

<p>Parks and Recreation Dept-</p> <p>Crew Cab Truck</p>	<p>\$49,500 \$10,642 p/yr/5/yrs</p>	<p>This truck will replace a 1999 regular cab truck. We have found that it is more effective to purchase crew cab trucks as opposed to regular cab because they can haul more people. The 1999 truck will be moved to a reserve status and the reserve truck will be sold.</p>
<p>Parks and Recreation Dept-</p> <p>Jacobson Truckster</p>	<p>\$30,000 \$6,450 p/yr/5/yrs</p>	<p>This is a heavy-duty utility vehicle that will be used along with the 4X4 Gator that the department now uses. It will most likely replace the Gator at some point in the future. The Truckster has the towing power of a F250 truck and it also has an 8-foot long dump bed. This unit will make landscaping work and park maintenance much easier. It will be primarily used at Ivey Redmon Park and is much more practical for everyday use than a truck.</p>
<p>Parks and Recreation Dept.-</p> <p>Bobcat Attachment</p>	<p>\$6,500 \$1,397 p/yr/5 yrs</p>	<p>The is an attachment that will be used with the Bobcat. It will allow us to overseed all turf areas faster and more effective, and it will do a much better job than the current method we are using.</p>
<p>Parks and Recreation Dept.-</p> <p>Automatic Gate for Ivey Redmon Park</p>	<p>\$21,000 \$4,515 p/yr/5yrs</p>	<p>This will replace the current entrance gate at Ivey Redmon Park. This gate will be automatic and it will also be programmable so that we can program the times for it to open and close. This will greatly enhance the security at the park during off hours.</p>

North Carolina Financial Condition Analysis

EXHIBIT F

Key: **KERNERSVILLE** ■

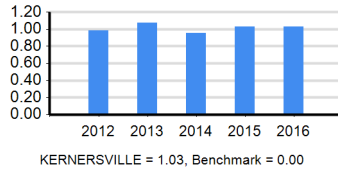
General Fund

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Resource Flow

Service Obligation

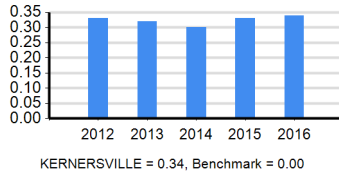
Operations ratio



Service obligation measures whether or not a government's annual revenues were sufficient to pay for annual operations. The operations ratio is calculated as total revenues divided by total expenditures (plus transfers to debt service fund).

Dependency

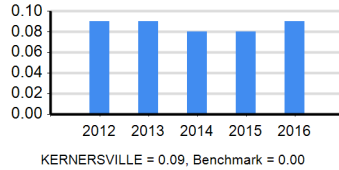
Intergovernmental ratio



Dependency measures the extent to which a government relies on other governments for resources. The intergovernmental ratio is calculated as total intergovernmental revenue divided by total revenue.

Financing Obligation

Debt service ratio

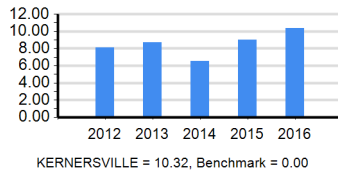


Financing obligation addresses service flexibility or the amount of expenditures committed to annual debt service. The debt service ratio is calculated as debt service divided by total expenditures (plus transfers to debt service fund).

Resource Stock

Liquidity

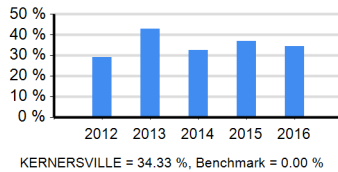
Quick ratio



Liquidity measures a government's ability to meet its short-term obligations. The quick ratio is calculated as cash & investments divided by current liabilities.

Solvency

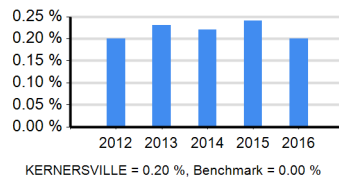
Fund balance available as percentage of expenditures



Solvency measures a government's ability to meet long-term obligations. Fund balance as a percentage of expenditures is calculated as available fund balance divided by expenditures plus transfers out.

Leverage

Debt as percentage of assessed value



Leverage measures the extent to which a government relies on tax-supported debt. The ratio of debt as a percentage of assessed value is calculated as tax-supported, long-term debt divided by assessed value.

Exhibit G: Kernersville's Tax Rate FY 1996-97 to Current

Tax Year	FY End	Tax Rate
1996	1997	0.56
1997*	1998	0.52
1998	1999	0.52
1999	2000	0.52
2000	2001	0.54
2001*	2002	0.47
2002	2003	0.495
2003	2004	0.495
2004	2005	0.525
2005*	2006	0.525
2006	2007	0.55
2007	2008	0.55
2008	2009	0.55
2009*	2010	0.4975
2010	2011	0.4975
2011	2012	0.4975
2012	2013	0.4975
2013*	2014	0.5275
2014	2015	0.5425
2015	2016	0.5425
2016	2017	0.57
2017*	2018	0.5545 (proposed)

* Revaluation Year

Exhibit H: Comparison of Monthly Bills

Possible Resident Monthly Bills	Amount
Tax Bill at rate of 55.75 cents (Median Single Family Home of \$150,000)	\$ 69.69
Current Tax Bill at rate of 57 cents (Median Single Family Home)	\$ 71.25
Gas for Car (30 miles/day, 25 mpg, \$2.25/gallon)	\$ 82.13
City of W-S Water/Sewer Usage (1500 cu ft bi-monthly) (amount is monthly)	\$ 82.67
YMCA Membership (Kernersville Branch-Household w/ dependents)	\$ 83.00
Spectrum New Customer (Digital TV & Internet)	\$ 84.21
Duke Power (Average of 900 kwh)	\$ 102.39
Century Link New Customer (Internet & Home Phone) with taxes/fees	\$ 103.00
Spectrum New Customer (Digital TV, Internet & Home Phone) with taxes/fees	\$ 104.29
Cell Phone (AT&T 2 lines with unlimited minutes/text/data) with taxes/fees	\$ 130.64
Car Payment (5 year loan on 2016 Honda Civic Sedan @ \$19,500 @ 2.95%)	\$ 349.10
House Payment (30 yr Fixed at 3.75% for \$145,000, 20% down)	\$ 535.87

Exhibit I: Current Tax Rate of Surrounding Municipalities

Jurisdiction	Tax Rate
Guilford County	0.755
Reidsville	0.74 (0.99 downtown)
Forsyth County	0.731
Asheboro	0.665
High Point	0.6475
Greensboro	0.6325
Eden	0.609
Lexington	0.60 (0.80 downtown)
Burlington	0.58 (0.74 downtown)
Winston-Salem	0.585 (0.675 downtown)
Thomasville	0.56
Kernersville	0.57 (0.5545 proposed)