

AGENDA--CITY COUNCIL -- CITY OF MARTINSVILLE, VIRGINIA
Council Chambers – Municipal Building
7:00 pm Closed Session **7:30 pm regular session**
Tuesday, November 10, 2015

7:00 pm --Closed Session

1. Items to be considered in Closed Session, in accordance with the Code of Virginia, Title 2.2, Chapter 37—Freedom of Information Act, Section 2.2-3711(A)—Closed Meetings, the following:
 - a. Appointments to boards and commissions as authorized by Subsection 1.
 - b. Consultation with legal counsel and briefings by staff members, attorneys or consultants pertaining to actual or probable litigation, or other specific legal matters requiring the provision of legal advice by such counsel, as authorized by Subsection 7.

7:30—Regular Session

Invocation & Pledge to the American Flag-Vice Mayor Bowles

1. Consider approval of minutes of October 16 & 17, 2015 Work Session and October 26, 2015 Neighborhood Meeting. (2 mins)
2. Hear public input on the City’s proposed meter and lighting replacement project (10 mins)
3. Consider adoption of a resolution approving lease purchase financing for the City’s meter and lighting replacement project (10 mins)
4. Hear public hearing on FAHI proposal for possible use of former City of Martinsville Housing Office located at 605 Fourth Street (15 mins)
5. Presentation on possible solar project
6. Discussion of 2016 legislative agenda (10 mins)
7. Adopt Utility Fund Cash Reserve Policies (15 mins)
8. Consider approval of consent agenda (2 mins)
9. Business from the Floor
This section of the Council meeting provides citizens the opportunity to discuss matters, which are not listed on the printed agenda. In that the Council meetings are broadcast on Martinsville Government Television, the City Council is responsible for the content of the programming. Thus, any person wishing to bring a matter to Council’s attention under this Section of the agenda should:
 - (1) come to the podium and state name and address;**
 - (2) state the matter that they wish to discuss and what action they would like for Council to take;**
 - (3) limit remarks to five minutes;**
 - (4) refrain from making any personal references or accusations of a factually false and/or malicious nature.****Persons who violate these guidelines will be ruled out of order by the presiding officer and will be asked to leave the podium.**
Persons who refuse to comply with the direction of the presiding officer may be removed from the chambers.
7. Comments by members of City Council. (5 minutes)
8. Comments by City Manager. (5 minutes)



City Council Agenda Summary

Meeting Date: November 10, 2015

Item No: 1.

Department: Clerk of Council

Issue: Consider approval of minutes from October 16 & 17, 2015 Work Session and October 26, 2015 Neighborhood Meeting.

Summary: None

Attachments: October 16 & 17, 2015 Work Session
October 26, 2015 Neighborhood Meeting

Recommendations: Motion to approve minutes as presented.

October 16 and 17, 2015 Minutes Planning Session

A City Council Strategic Planning Session of the City Council of Martinsville, Virginia, was held October 16 and October 17, 2015 at the West Piedmont Development Center, Martinsville, beginning at 4:00 PM on Friday, October 16, 2015, with Mayor Danny Turner presiding.

Council Members present at the Friday, October 16, 2015 session included: Mayor Danny Turner, Vice Mayor Jennifer Bowles, Council Member Gene Teague, Council Member Mark Stroud, and Council Member Sharon Brooks Hodge. City employees present included City Manager Leon Towarnicki, Assistant City Manager Wayne Knox, City Attorney Eric Monday, Karen Roberts, and David Dickerson of Business Results Training. School Board members present included Pam Heath, Superintendent, Rives Coleman, Craig Dietrich, Victor Correa, Lawrence Mitchell and Joan Montgomery. Media present included Paul Collins of the Martinsville Bulletin. Mayor Danny Turner called the Friday, October 16 session to order at 4:00pm. Topics for discussion included: planning for the success of the City and the City Schools, how the City and the School Board will work together, Council expectations of the School Board, School Board expectations of City Council members, Opportunities and Challenges. At the conclusion of the meeting, Council recessed at 7:30 PM to reconvene the following morning at 8:00 AM on Saturday, October 17, 2015.

Mayor Danny Turner called the Saturday October 17th session to order at 8:00 AM. Council Members present included: Mayor Danny Turner, Vice Mayor Jennifer Bowles, Council Member Gene Teague, and Council Member Sharon Brooks Hodge. Council Member Mark Stroud was absent. City employees present included City Manager Leon Towarnicki, Assistant City Manager Wayne Knox, Kathy Vernon, and David Dickerson of Business Results Training. Media present included Mickey Powell of the Martinsville Bulletin. Topics for discussion included: Review of current planned activities, what Council needs to do and in what order, success indicators and accountability to include how to measure success and who is responsible for attaining results.

David Dickerson will provide Council with all the information collected at the two day session and updated Goals & Initiatives sheets for their review. At the conclusion of Saturday's session at 11:00 PM, Council adjourned the planning session.

Karen Roberts
Clerk of Council

Danny Turner
Mayor

October 26, 2015

Martinsville City Council toured the Westside area on October 26, 2015 beginning at 5:00pm. Those present for the tour were Council Member Teague, Council Member Stroud, Mayor Turner, Vice Mayor Bowles. Council Member Hodge was absent from the tour. Staff present included City Manager Leon Towarnicki, Property Maintenance Inspector Andy Powers, Assistant City Manager Wayne Knox and Officer Coretha Gravely. Mickie Powell of the Martinsville Bulletin was also present for the tour.

The Westside Neighborhood Meeting was held at the former Housing Office, 605 Fourth Street, Martinsville, VA at 7:30 PM, with Mayor Danny Turner presiding and Council Members present including: Vice Mayor Jennifer Bowles, Council Member Teague, Council Member Stroud, and Council Member Hodge. Staff present: City Manager Leon Towarnicki, Clerk of Council Karen Roberts, Assistant City Manager Wayne Knox, Officer Coretha Gravely, Inspector Andy Powers and City Attorney Eric Monday.

Mayor Turner called the meeting to order and Naomi Hodge-Muse gave the invocation.

Andy Powers summarized the neighborhood tour and provided an update on the property maintenance report. Mayor Turner said they looked at a dead tree at a residence's home and would be asking the Sheriff's Department to see if they had interest in getting the wood for their firewood program, saving the property owner approximately \$2,500.

Vice Mayor Bowles said they visited West End Park where the basketball court has been repaved and the goals had new nets.

City Manager Towarnicki said one thing he noticed during the tour was that there are now several "buildable" lots available. He also mentioned concerns that were mentioned at the previous April meeting: 1. A resident had expressed concern about traffic cutting across the center line at the intersection of Yorkshire onto Pine Hall Road, Towarnicki said a double yellow line & bar had been installed at that intersection to prevent this from continuing; 2. Residents voiced concerns in April about the condition of the pavement on Cardinal Lane, this area has been paved; 3. Towarnicki stated that West End Park on Cardinal Lane had been paved & basketball nets had been installed. Towarnicki asked for residents opinions on the tennis courts

February 13, 2012

on Swanson Street stating that he would like to hear their suggestions of what could be done with that location.

Council Member Stroud said he had never seen Westside & some other areas in the City look as good as they currently do and thanked Property Maintenance and Public Works for working closely with Council on issues.

Officer Gravely invited the community to a Health Fair event hosted by the Police Department at Fuller Memorial Church in November. She stated that the fair would include representatives from Social Services, the Unemployment Office, the Health Department, and others. She stated that there are people in the community who need information on what assistance is available and this Health Fair could provide that.

Chauncey Adams, Executive Director and Faye Holland, Chairman of the Board for FAHI offered a presentation on the Housing office proposal. Ms. Holland said that the Hispanic community and the Boys & Girls Club are new organizations that plan to partner with FAHI. Cynthia Ingram, 163 Yorkshire Rd stated that she considered this location a unique spot for FAHI, stating that the building mirrored other African American museums and that the community could embrace and feel good about the added location.

Comments from City residents: None were made

There being no further business at 8:00pm, Council Member Hodge made a motion to adjourn the meeting, Council Member Stroud seconded the motion, all council members voted in favor.

Karen Roberts
Clerk of Council

Danny Turner
Mayor

Meeting Date: November 10, 2015

Item No: 2.

Department: City Manager

Issue: Hear public input on the City's proposed meter and lighting replacement project.

Summary: For a number of recent Council meetings, City staff and consultants have presented information regarding a project involving replacement of City water and electric meters, and conversion of City street lighting to LED, all being structured as an energy project with savings generated by the project covering most of the project cost. The most recent task completed on this project was a determination of project financing and after reviewing responses to a Request For Proposals, a recommendation was made to Council at the October 27 meeting to proceed with development of financial documents for an equipment lease purchase with U.S. Bank. Council concurred with the recommendation and authorized proceeding as described.

Council has requested that an opportunity for public input be provided and at the November 10 meeting, a brief project summary will be presented. After the presentation, questions from Council and the public will be addressed.

Attachments: None

Recommendations: Hear public input and address questions; provide additional information as may be requested.

Meeting Date: November 10, 2015

Item No: 3.

Department: City Manager

Issue: Consider adoption of a resolution approving lease purchase financing for the City's meter and lighting replacement project.

Summary: For a number of recent Council meetings, City staff and consultants have presented information regarding a project involving replacement of City water and electric meters, and conversion of City street lighting to LED, all being structured as an energy project with savings generated by the project covering most of the project cost. The most recent task completed on this project was a determination of project financing and after reviewing responses to a Request For Proposals, a recommendation was made to Council at the October 27 meeting to proceed with development of financial documents for an equipment lease purchase with U.S. Bank. Council concurred with the recommendation and authorized proceeding as described.

The attached resolution approving lease purchase financing with U.S. Bancorp Government Leasing and Financing, Inc. sets forth the principal amount (not to exceed \$7,425,000), the term (approximately 16 ¼ years), and interest rate (2.47%) for the project.

Attachments: Lease purchase financing resolution with U.S. Bancorp

Recommendations: Approval of the resolution

**RESOLUTION OF CITY COUNCIL OF THE CITY OF MARTINSVILLE
APPROVING LEASE PURCHASE FINANCING**

WHEREAS, the City Council of the City of Martinsville (**the "City Council"**) has determined (i) that a true and very real need exists for the acquisition, construction, renovation and equipping of utility improvements and energy saving improvements to City facilities, including utility meter improvements and street light replacements, all for municipal purposes (**the "Improvements"**) described in the Lease Agreement (as hereinafter defined), all pursuant to a Performance Contract (**the "Performance Contract"**) between the City Council and Johnson Controls, Inc.; (ii) that the Improvements are essential to the governmental functions of the City of Martinsville, Virginia (**the "City"**); and (iii) that it reasonably expects the Improvements to continue to be essential to the governmental functions of the City for a period not less than the term of the Lease Agreement; and

WHEREAS, the City Council has taken the necessary steps under the Procurement Act of the Code of Virginia, 1950, as amended, to acquire the Improvements; and

WHEREAS, the City Council proposes to enter into a Master Tax-Exempt Lease/Purchase Agreement, including Property Schedule No. 1 and exhibits, in the aggregate principal amount not to exceed \$7,425,000 (**together, the "Lease Agreement"**) with U.S. Bancorp Government Leasing and Finance, Inc. (**the "Lessor"**) to finance the purchase of the Improvements over approximately sixteen and one-quarter (16¹/₄) years, such Lease Agreement being substantially in the form presented to this meeting; and

WHEREAS, (i) all amounts payable by the City under the Lease Agreement (**the "Lease Obligations"**) are subject to appropriation by the City Council; (ii) the City Council is not under any obligation to make any appropriation with respect to the Lease Agreement; (iii) the Lease Agreement is not a general obligation of the City or a charge against the general credit or taxing power of the City; and (iv) amounts payable by the City under the Lease Agreement do not constitute a debt of the City within the meaning of any constitutional, charter or statutory limitation; and

WHEREAS, the Lessor requires as a condition of this financing that the city enter into an Escrow Agreement with U.S. Bank National Association (**the "Escrow Agreement"**) governing the use and application of proceeds of the Lease Agreement; and

WHEREAS, the City Council reasonably anticipates that it and its subordinate entities will not issue tax-exempt obligations in the face amount of more than \$10,000,000 during the current calendar year; and

WHEREAS, the City Council desires to designate the Lease Agreement as a "qualified tax-exempt obligation" under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (**the "Code"**);

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF MARTINSVILLE, VIRGINIA, THAT:

1. The City Council hereby accepts the proposal of U.S. Bancorp Government Leasing and Finance, Inc. dated October 9, 2015, as it may be modified, for the lease financing of the Improvements on the terms set forth therein, with a term of approximately sixteen and one quarter (16 ¼) years, an aggregate principal component of Lease Obligations thereunder not to exceed \$7,425,000 and the interest cost of the interest component of Lease Obligations thereunder not to exceed 2.47% per annum (excluding applicable default or event of taxability rates under the provisions of the Lease Agreement).

2. It is hereby found and determined that the terms of the Lease Agreement and the Escrow Agreement (**together, the "Documents"**) in the forms presented to this meeting are in the best interests of the City for the acquisition and installation of the Improvements.

3. The Documents and related financing documents are hereby approved in substantially the forms presented to this meeting. The Mayor, Vice-Mayor, City Manager and any officer of the City who shall have power generally to execute contracts on behalf of the City (**collectively, the "City Officers"**) be, and each of them hereby is, authorized to execute, acknowledge and deliver the Documents and related financing documents with any changes, insertions and omissions therein as may be approved by the individuals executing the Documents and such documents, such approval to be conclusively evidenced by the execution and delivery thereof.

4. The same City Officers be, and each of them hereby is, authorized and directed to execute and deliver any and all other agreements, financing statements, papers, instruments, opinions, certificates, affidavits and other documents and to do or cause to be done any and all other acts and things necessary or proper for carrying out the purposes and intents of this resolution and the Lease Agreement.

5. The approvals set forth in this Resolution to enter into the Lease Agreement are subject to and contingent upon the Performance Contract being entered into by the City and Johnson Controls, Inc.

6. The City Council hereby designates the Lease Agreement as a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Code and represents and covenants that not more than \$10,000,000 in bonds, notes, leases and other obligations of the City (including any subordinate issuing entities), excluding private activity bonds, will be issued in calendar year 2015 and that neither the City Council nor any subordinate entity thereof will designate more than \$10,000,000 of "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

7. The City Council covenants that it shall not take or omit to take any action the taking or omission of which will cause the Lease Obligations to be "arbitrage bonds" within the meaning of Section 148 of the Code, or otherwise cause interest on the Lease Obligations derived from the interest component of rental payments made by the City Council under the

Lease Agreement to be includable in the gross income for Federal income tax purposes of the registered owners thereof under existing law. Without limiting the generality of the foregoing, the City Council shall comply with any provision of law that may require it at any time to rebate to the United States any part of the earnings derived from the investment of the gross proceeds of the Lease Agreement.

8. The City Council further covenants that it shall not permit the proceeds of the Lease Obligations to be used in any manner that would result in (a) 10% or more of such proceeds being used in a trade or business carried on by any person other than a governmental unit, as provided in Section 141(b) of the Code, provided that no more than 5% of such proceeds may be used in a trade or business unrelated to the City Council's use of the Improvements, (b) 5% or more of such proceeds being used with respect to any "output facility" (other than a facility for the furnishing of water), within the meaning of Section 141(b)(4) of the Code, or (c) 5% or more of such proceeds being used directly or indirectly to make or finance loans to any persons other than a governmental unit, as provided in Section 141(c) of the Code; provided, however, that if the City Council receives an opinion of nationally recognized bond counsel that any such covenants need not be complied with to prevent the interest component of the Lease Obligations from being includable in the gross income for Federal income tax purposes of the registered owner thereof under existing law, the City Council need not comply with such covenants.

9. The City Council hereby declares, in accordance with U.S. Treasury Regulation Section 1.150-2, as amended from time to time, the City Council's intent to reimburse the City Council with the proceeds of the Lease Agreement for expenditures with respect to the Improvements (**the "Expenditures"**) made no more than 60 days prior to the date hereof. The City Council reasonably expects on the date hereof that it will reimburse the Expenditures with the proceeds of the Lease Agreement. Each Expenditure was and will be either (a) of a type properly chargeable to a capital account under general federal income tax principles (determined in each case as of the date of the Expenditures), (b) a cost of issuance with respect to the Lease Obligations, (c) a nonrecurring item that is not customarily payable from current revenues, or (d) a grant to a party that is not related to or an agent of the City Council so long as such grant does not impose any obligation or condition (directly or indirectly) to repay any amount to or for the benefit of the City Council. The maximum principal amount of the Lease Obligations expected to be issued for the Improvements is \$7,425,000. The City Council will make a reimbursement allocation, which is a written allocation by the City Council that evidences the City Council's use of proceeds of the Lease Obligations to reimburse an Expenditure, no later than 18 months after the later of the date on which the Expenditure is paid or the Improvements are placed in service or abandoned, but in no event more than three years after the date on which the Expenditure is paid. The City Council recognizes that exceptions are available for certain "preliminary expenditures," costs of issuance, certain de minimis amounts, expenditures by "small issuers" (based on the year of issuance and not the year of expenditure) and expenditures for construction projects of at least 5 years.

10. The recitals to this resolution are hereby incorporated by reference and are declared to be findings of the City Council in connection with its decision to acquire, install and finance the Improvements.

11. Nothing in this Resolution, the Documents or other related documents shall constitute a debt or pledge of the faith and credit of the city, and the City shall not be obligated to make any payments under the documents except from funds that may be appropriated by the City Council.

12. All acts of the officers, agents, and representatives of the city that are in conformity with the purposes and intent of this Resolution and in furtherance of the acquisition of the Improvements are hereby approved, ratified and confirmed.

13. Any authorization herein to execute a document shall include authorization to deliver it to the other parties thereto, to record such document where appropriate and to pay from City funds all appropriate filing fees, taxes and related charges.

14. The Post-Issuance Compliance Procedures for Tax Exempt financing adopted by the City on January 10, 2012 as procedures to monitor the requirements of Section 148 of the Code and to ensure remediation of nonqualified borrowing are recognized as applicable to the Lease Agreement.

15. This resolution shall be effective immediately upon its adoption.

Date of Adoption: November 10, 2015.

CERTIFICATION OF ADOPTION OF RESOLUTION

The undersigned Clerk of the City Council of the City of Martinsville, Virginia certifies that the Resolution set forth above was adopted on November 10, 2015 in an open meeting, by the City Council with the following votes:

Aye:

Nay:

Abstentions:

Signed this ____ day of November, 2015.

By: _____
Clerk
City of Martinsville, Virginia

Meeting Date: November 10, 2015

Item No: 4.

Department: City Manager

Issue: Conduct a public hearing on proposal submitted by Fayette Area Historical Initiative (FAHI) for use of the former Martinsville Housing Office located at 605 Fourth Street.

Summary: In response to a City advertisement for proposals for use of the now-vacant Martinsville Housing Office located at 605 Fourth Street, two proposals were received. After withdrawal of one of the proposals, FAHI's proposal is still up for consideration.

An initial presentation of the FAHI proposal was made at an October 14th Council meeting, followed by presentations at both the West Side Neighborhood meeting on October 26th and again at the October 27th regular Council meeting. In accordance with §15.2-1800 of the Code of Virginia, disposition of public property requires a public hearing and accordingly, Council set a hearing for the November 10th meeting.

Attachments: None

Recommendations: Given there are no other currently planned or discussed uses for the facility, the recommendation is to consider a short-term renewable lease of the property to FAHI subject to a number of conditions/issues that need addressing – maintenance, payment of utilities, insurance, voting equipment storage and usage, etc. Should Council concur, a draft lease will be developed for consideration by both the FAHI Board and Council. Once a final draft version is developed, it will be placed on a future Council agenda for consideration.

Meeting Date: November 10, 2015

Item No: 5.

Department: City Manager

Issue: Hear a presentation regarding a potential solar power project in the City of Martinsville.

Summary: As a result of interest expressed in recent months by solar power firms in a possible project locally, City staff requested GDS Associates, Marietta, GA (the City's power supply consultant) to explore options. A request for proposals was developed and advertised, and a number of responses were received.

Information will be presented at the meeting regarding a potential project in the City. Should there be interest in proceeding further with such a project, the next phase would be development of a power purchase agreement that would be brought back to Council at a later date for consideration/approval.

Attachments: None. Information will be presented at the meeting

Recommendations: Will be discussed at the meeting. Should Council desire to proceed with a project, development of a power purchase agreement would occur, to be brought to Council at a later date for consideration/approval.

Date: November 10, 2015

Item No: 6.

Department: City Attorney

Issue: Discussion of 2016 legislative agenda

Summary: The City annually determines its legislative priorities. Attached is 2015's legislative agenda for consideration and possible amendment. Several potential amendments are shown in red.

The prefiling deadline for specific legislation is December 7, 2015.

Most mandates (funded and unfunded) are addressed through modification of the state budget, may not require individual bills, and could be addressed during the General Assembly session.

Attachments: 2015 Legislative Agenda, with potential amendments.

Recommendations: Discussion, potential amendments for final approval at November 10 meeting.



The City of Martinsville appreciates the efforts its legislators undertake at both the state and federal level on behalf of its citizens. Listed below are the City's priorities requested of its legislative delegation in 2015.

Virginia General Assembly

Transportation

1. In the short term, upgrade those portions of Route 220 overlaying I-73 to interstate standards. Any construction or upgrades to the I-73 corridor should begin on those sections passing through Henry County.
2. Continue to place priority on Route 58 improvements, particularly the section between Stuart and Hillsville, Virginia.

Education

1. City Council endorses the agenda proposed by the Martinsville City School System and also endorses the educational priorities adopted by Henry County, on behalf of its school system.
2. Oppose the imposition of unaided education mandates and in the event of revenue cuts by the Commonwealth opposes targeted cuts by the Commonwealth, instead preferring local decision making authority on where to make any such cuts.
3. Recognizing its potential to promote economic development within our community and region, continue support for the development and funding of the New College Institute; urge that any funding reductions to New College Institute, if considered, be minimized to the greatest extent possible; and support the affiliation of The New College Institute as a branch of a four-year public university.
4. Request the Commonwealth to fully fund the expenditures imposed upon local school systems by implementing the Standards of Quality.
5. Encourage the Commonwealth to continue or increase the current levels of financial support provided to Patrick Henry Community College.
6. Encourage the Commonwealth to provide financial support to the College of Henricopolis School of Medicine.
- ~~6.7. Request the Commonwealth to provide incentives for consolidation of school systems.~~

Comment [EM1]: No such agendas have been provided.

Economic Development

1. Maintain current levels of funding for economic development incentives, including but not limited to the Governor's Opportunity Fund.
2. Enhance the authority granted to localities to address and eliminate blighted properties, and the formation of interstate compacts to allow expedited recourse against out-of-state property owners.
3. Continue current funding levels of the Virginia Museum of Natural History.
4. Request enhanced state and federal financial assistance for localities which exceed the average state unemployment rate by 150% for a period of five consecutive years.
5. Support continued tourism awareness initiatives in the Martinsville-Henry County region.
- ~~5.6. Expand local authority to designate Enterprise Zones and establish incentives.~~

Governance

1. Request the appointment of a joint gubernatorial/legislative commission to examine the structure of local government in Virginia, the commission's mandate to include:
 - a. Examination of local government in the other 49 states for potential adaptation to Virginia.
 - b. Enable cities to expand their revenue base
 - c. Elimination of the "zero-sum" revenue base structure, which creates friction between cities and counties.
 - d. Elimination of redundant services and programs between contiguous cities and counties.

2. Require full funding for HB 599 funds, in fulfillment of the Commonwealth's commitment to cities in return for their acquiescence in the annexation moratorium.
3. Require that the Commonwealth fully fund its obligations to the Virginia Retirement System, and refrain from borrowing from VRS funds.
4. Request the elimination of "local aid to the Commonwealth" in the state budget; local aid artificially inflates state revenues by shifting responsibility for cuts in vital services onto localities.
5. Elimination of all unfunded mandates from the Commonwealth to localities.
6. Oppose any elimination or alteration of local revenue streams, and specifically oppose any amendment to the current manner in which the Business Occupation and Licensing Tax and the Machinery and Tools Tax are levied, unless a replacement revenue stream, not subject to biennial appropriation, is guaranteed by the Commonwealth.
7. Request at a minimum, level funding for operational requirements of the Henry-Martinsville Department of Social Services.
8. Request that the General Assembly leaves intact the fire programs fund and the rescue squad assistance funds and not use these funds as a way to balance the state budget.
9. Request that the Commonwealth fully fund its obligations to constitutional officers.
10. Oppose any attempt to curtail the doctrine of sovereign immunity for localities.
11. Oppose any attempt to permit collective bargaining for state and local government employees.
12. Oppose any amendment of the existing burden of proof or process in local tax appeals cases.
- ~~12-13.~~ Request authority to refund erroneously paid taxes at an interest rate which differs from that imposed on delinquencies, and to refund taxes erroneously paid through the fault of the taxpayer at no interest.

United States Congress

1. Oppose any effort to impose additional taxation or regulation of electrical power generation by coal or natural gas.
2. Urge the Federal Highway Commission to adopt the CTB's designated route for I-73, or alternatively to preserve the current record of decision in the event the CTB's route is rejected.
3. In the short term, upgrade those portions of Route 220 overlaying I-73 to interstate standards.
4. Request \$3.72M in funds for the redevelopment of brownfields extending from the former American Furniture and Sara Lee sites, along Aaron Street, to Rives Road
5. Request \$6.25M in funds for the elimination and redevelopment of blighted areas in the city.
6. Request legislation to provide special federal incentives to businesses locating in regions which have experienced job losses in excess of 5% of the total workforce and/or declines in median incomes since the adoption of NAFTA, WTO or GATT. Target such areas for increased federal funding in education or workforce retraining.
7. Extend high speed broadband service throughout southern Virginia.
8. Request enhanced state and federal financial assistance for localities which exceed the average state unemployment rate by 150% for a period of five consecutive years.
9. Oppose the EPA's proposed expansion of the definition of "waters of the United States" in 40 CFR 230.3.

Staff Designations

City Council empowers the following staff members to speak on its behalf and in its best interests to the Virginia General Assembly and United States Congress, its members and committees:

City Attorney Eric Monday

City Manager Leon Towarnicki

Other department heads as appointed by the City Manager

City Council Agenda Summary



Meeting Date: November 10, 2015
Item No: 7.
Department: Finance
Issue: Adoption of Utility Fund Cash Reserve Policies

Summary:

To help ensure financial stability, timely completion of capital improvements, and enable the utilities to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be adopted. While minimum cash reserves attempt to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent upon several risk factors for the utility. Cash reserve policies and guidelines are established to ensure that enough cash exists for timely payment of bills; both short- and long-term financial health of the individual utilities; stable rates for customers; ability to fund unanticipated cost contingencies; and identifying the amount and timing of future bond issues. Adopting a cash reserve policy meets a significant factor for bond rating agencies.

The policies presented are based on FY15 year-end information. These are the equivalent of the Fund Balance Policy previously adopted by Council, but for utility funds. The original policies were presented to Council for review on November 12, 2013 and March 10, 2015, and now are being presented for adoption.

Attachments:

Cash Reserve – Electric 10-19-15
Cash Reserve – Refuse 10-20-15
Cash Reserve – Sewer 10-20-15
Cash Reserve – Water 10-19-15
Cash Reserve – Telecommunications 10-20-15

Recommendations: Adoption of Policies

City of Martinsville Electric Fund

Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of power supply cost uncertainties, a sluggish economy, volatile energy prices, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in power costs
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

UTILITY CASH RESERVE POLICY FOR ELECTRIC CITY OF MARTINSVILLE

Purpose

To help ensure financial stability, timely completion of capital improvements and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be established. Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve. Actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets, future capital plan, rate setting polices, and debt policies.

Methodology

The methodology outlined in this ordinance is based on certain assumptions related to percent of:

1. Operation and maintenance
2. Purchase/production electric costs
3. Historical investment in assets
4. Debt service
5. Five-year capital plan

After the reserve minimum is determined, management should consider the minimum “in total” and not each individual category. For example; catastrophic events can occur and the amount may far exceed the amount set aside under “Historical investment in assets”.

Calculation and Risk Factors Used

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense and purchased/production electric expenditures.**
 - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Electric O&M Budget	17,037,924
Depreciation	-377,832
Power Supply	-13,718,361
Expense w/o Depr & Power Supply	2,941,730
45 Days Working Capital Lag	12.3%
O & M Risk	\$361,833

Power Supply Risk

Max Month – The peak month power supply was used in the cash reserve calculation. This represents 9.7% of the total yearly power supply.

- **The cash reserve policy will include the max month or 9.7% of annual power supply.**
 - **9.7% was derived by dividing the max month power costs by the total budgeted power supply. ($\$1,325,263/\$13,718,361 = 9.7\%$)**

	Monthly Cost
July	1,328,263
August	1,236,991
September	1,143,886
October	1,073,658
November	1,020,081
December	1,126,238
January	1,173,332
February	1,212,283
March	1,268,575
April	969,741
May	1,194,029
June	971,284
TOTAL:	13,718,361

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can take between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 3% of the historical investment in assets as recorded in the financial statements.**
 - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

- **The Electric Department's assets are currently depreciated at 70.1%.**

Historical Investment	\$32,943,355
Accumulated Depreciation	\$23,124,591
Percent Depreciated	70.1%

Risk Associated with Historical Assets	3.0%
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Historical Investment Risk	\$988,301
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Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- **The cash reserve policy will include 100% of the current portion of debt service.**

Payment Date	Principal	Interest	Total
7/14/2014	\$18,000	\$848	\$18,848
1/6/2015	\$0	\$950	\$950
Total			\$19,798

Highest Payment Risk	100%
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Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% (1/5th) of the five-year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Total
Total Capital Plan	582,000	298,000	298,500	285,000	650,000	2,113,500
Bond Proceeds						
Net	582,000	298,000	298,500	285,000	650,000	2,113,500

Capital Plan Risk	20.0%	\$422,700
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Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk “in total” and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under “Historical investment in assets”.

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is \$3,120,895 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2016
Operation & Maint Less Deprec & Purch Pwr	12.3%	\$361,833
Purchase Power	9.7%	\$1,328,263
Historical Rate Base	3.0%	\$988,301
Current Portion of Debt Service	100.0%	\$19,798
5-Year Capital Plan - Net of Bond Proceeds	20.0%	\$422,700
Recommended MINIMUM Reserves		\$3,120,895

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies. The cash reserve calculation should be updated annually as part of the budget process.

City of Martinsville Refuse Fund

Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of cost increases, a sluggish economy, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, production costs, historical investment in assets, debt service and the five-year capital plan.

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense.**
 - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Refuse O&M Budget	1,709,327
Depreciation	-172,361
Expense w/o Depreciation	1,536,966
45 Days Working Capital Lag	12.3%
O & M Risk	\$189,047

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can take between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 3% of the historical investment in assets as recorded in the financial statements.**
 - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

- **The Refuse Department’s assets are currently depreciated at 46.2% as calculated below:**

Historical Investment	\$4,713,844
Accumulated Depreciation	\$2,179,346
Percent Depreciated	46.2%

Risk Associated with Historical Assets	1.0%
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Historical Investment Risk	\$47,138
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Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk “in total” and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under “Historical investment in assets”.

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is \$793,279 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2016
Operation & Maint Less Deprec	12.3%	\$189,047
Historical Rate Base	1.0%	\$47,138
Current Portion of Debt Service	100.0%	\$439,094
5-Year Capital Plan-Net of Bond Proceeds	20.0%	\$118,000
Recommended MINIMUM Reserves		\$793,279

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies. The cash reserve calculation should be updated annually as part of the budget process.

City of Martinsville Sewer Fund

Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of cost increases, a sluggish economy, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in power costs
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, production costs, historical investment in assets, debt service and the five-year capital plan.

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense.**
 - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Sewer O&M Budget	3,963,175
Depreciation	-226,088
Expense w/o Depreciation	3,737,087
45 Days Working Capital Lag	12.3%
O & M Risk	\$459,662

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can take between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 3% of the historical investment in assets as recorded in the financial statements.**
 - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

- **The Sewer Department’s assets are currently depreciated at 83.2% as calculated below:**

Historical Investment	\$19,570,097
Accumulated Depreciation	\$16,283,208
Percent Depreciated	83.2%

Risk Associated with Historical Assets	3.0%
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Historical Investment Risk	\$587,103
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Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk “in total” and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under “Historical investment in assets”.

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is \$1,595,876 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2016
Operation & Maint Less Deprec	12.3%	\$459,662
Historical Rate Base	3.0%	\$587,103
Current Portion of Debt Service	100.0%	\$18,311
5-Year Capital Plan-Net of Bond Proceeds	20.0%	\$530,800
Recommended MINIMUM Reserves		\$1,595,876

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies. The cash reserve calculation should be updated annually as part of the budget process.

City of Martinsville Water Fund

Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of cost increases, a sluggish economy, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in power costs
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, production costs, historical investment in assets, debt service and the five-year capital plan.

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense.**
 - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Water O&M Budget	3,017,201
Depreciation	-202,797
Expense w/o Depreciation	2,814,403
45 Days Working Capital Lag	12.3%
O & M Risk	\$346,172

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can take between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 3% of the historical investment in assets as recorded in the financial statements.**
 - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

- **The Water Department’s assets are currently depreciated at 71.2% as calculated below:**

Historical Investment	\$15,940,573
Accumulated Depreciation	\$11,352,568
Percent Depreciated	71.2%

Risk Associated with Historical Assets	3.0%
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Historical Investment Risk	\$478,217
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Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- **The cash reserve policy will include 100% of the current portion of debt service.**

Payment Date	Principal	Interest	Total
	\$0	\$0	\$0
	\$0	\$0	\$0
Total			\$0
Highest Payment Risk			100%

Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% (1/5th) of the five-year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Total
Total Capital Plan	689,370	761,000	230,000	250,000	300,000	2,230,370
Bond Proceeds						
Net	689,370	761,000	230,000	250,000	300,000	2,230,370
						20.0%
Capital Plan Risk						\$446,074

Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk “in total” and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under “Historical investment in assets”.

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is \$1,270,463 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2016
Operation & Maint Less Deprec	12.3%	\$346,172
Historical Rate Base	3.0%	\$478,217
Current Portion of Debt Service	100.0%	\$0
5-Year Capital Plan-Net of Bond Proceeds	20.0%	\$446,074
Recommended MINIMUM Reserves		\$1,270,463

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies. The cash reserve calculation should be updated annually as part of the budget process.

City of Martinsville Telecommunications Fund

Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of cost increases, a sluggish economy, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in expenses
- Debt policies
- Future capital improvements needed by utility

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, production costs, historical investment in assets, debt service and the five-year capital plan. The utility should adopt the methodology to determine the minimum reserve, not the calculated number. The establishment of minimum cash reserves should consider a number of factors including:

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense.**
 - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Telecommunications O&M	
Budget	960,170
Depreciation	0
Expense w/o Depreciation	960,170
45 Days Working Capital Lag	12.3%
O & M Risk	\$118,101

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 1% of the historical investment in assets as recorded in the financial statements.**
 - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

- **The Telecommunications Department’s assets are currently depreciated at 46.2% as calculated below:**

Historical Investment	\$932,931
Accumulated Depreciation	\$0
Percent Depreciated	0.0%

Risk Associated with Historical Assets	1.0%
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Historical Investment Risk	\$9,329
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Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- **The cash reserve policy should include 50 - 100% of the current portion of debt service, depending on the timing of payments. There is currently no debt in the Telecommunications Department, but a debt line item for future debt issuances should be included in the policy.**

Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% (1/5th) of the five-year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Total
Total Capital Plan	250,600	317,875	536,000	339,500	240,000	1,683,975
Bond Proceeds						
Net	250,600	317,875	536,000	339,500	240,000	1,683,975
						20.0%
Capital Plan Risk						\$336,795

Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk “in total” and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under “Historical investment in assets”.

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is \$464,225 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2016
Operation & Maint Less Deprec	12.3%	\$118,101
Historical Rate Base	1.0%	\$9,329
Current Portion of Debt Service	100.0%	\$0
5-Year Capital Plan-Net of Bond Proceeds	20.0%	\$336,795
Recommended MINIMUM Reserves		\$464,225

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies.

The cash reserve calculation should be updated annually as part of the budget process. The discussion with the City Council should include a visual description of the past trends, current position and future projections.

**City Council
Agenda Summary**



Meeting Date: November 10, 2015
Item No: 8.
Department: Finance
Issue: Appropriation Approvals

Summary:

The attachment amends the FY16 Budget with appropriations in the following funds:

General Fund: \$2,272 – Donations

Attachments:

Consent Agenda 11-10-15

Recommendations: Approve

BUDGET ADDITIONS FOR 11/10/15

ORG	OBJECT	DESCRIPTION	DEBIT	CREDIT
<u>FY16</u>				
<u>General Fund:</u>				
01100908	480420	Misc Revenues - Donations/Senior Services		100
01100909	490801	Recovered Costs - Senior Services		2,172
01714212	506016	Senior Citizens - Program Supplies	100	
01714212	501300	Senior Citizens - Part-time Wages	1,375	
01714212	502100	Senior Citizens - Social Security	85	
01714212	502110	Senior Citizens - Medicare	20	
01714212	506049	Senior Citizens - Vehicle Fuels	692	
		Christmas Tea donation; Transportation Grant July, Aug. & Sept.		
Total General Fund:			2,272	2,272