

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

7:00 pm --Closed Session

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. A personnel matter as authorized by Subsection 1.
- C. 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-Mark Stroud

- 1. Consider approval of minutes November 25, 2014 Council meeting. (2 mins)
- 2. Hear a report from the City Garage regarding a vehicle tracking project. (10 mins)
- 3. Introduction of Refuse & Telecommunications Cash Reserve Policies. (15 mins)
- 4. Hear update on schedule for City Council Strategic Planning Session and budget worksessions. (10 mins)
- 5. Consider approval of consent agenda. (2 mins)
- 6. 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: March 10, 2015

Item No: 1.

Department: Clerk of Council

Issue: Consider approval of minutes of City Council meeting November 25, 2014.

Summary: None

Attachments: November 25, 2014

Recommendations: Motion to approve minutes as presented.

November 25, 2014

The regular meeting of the Council of the City of Martinsville, Virginia, was held on November 25, 2014, in Council Chambers, Municipal Building, at 7:30 PM, with Mayor Kim Adkins presiding. Council Members present included: Mayor Kim Adkins, Vice Mayor Gene Teague, Sharon Brooks Hodge, Mark Stroud, Danny Turner and Council Member-Elect Jennifer Bowles. Staff present included: Leon Towarnicki, City Manager, Karen Roberts, Eddie Cassidy, Wayne Knox, Durwin Joyce, and Jeff Joyce.

Closed Session: Mayor Adkins called the meeting to order and advised Council will go into Closed Session as an Addendum to the meeting. In accordance with Section 2.1-344 (A) of the Code of Virginia (1950, and as amended) and upon a motion by Danny Turner, seconded by Sharon Brooks Hodge, with the following 5-0 recorded vote: Adkins, aye; Teague, aye; Hodge, aye; Stroud, aye; and Turner, aye, Council convened in Closed Session, for the purpose of discussing the following matter: (A) Discussion or consideration of the investment of public funds where competition or bargaining is involved, where, if made public initially, the financial interest of the City of Martinsville would be adversely affected, as authorized by Subsection 6. At the conclusion of Closed Session, each returning member of Council certified that (1) only public business matters exempt from open meeting requirements were discussed in said Closed Session; and (2) only those business matters identified in the motion convening the Closed Session were heard, discussed, or considered during the Session. On a motion by Danny Turner, seconded by Mark Stroud, with the following recorded 5-0 vote: Adkins, aye; Teague, aye; Hodge, aye; Stroud, aye; and Turner, aye, Council returned to Open Session.

Following the invocation by Mayor Adkins and Pledge to the American Flag, the Mayor welcomed everyone to the meeting and noted an action item from Closed Session addendum is added to agenda for regular session.

Addendum-Action from Closed Session: On a motion by Gene Teague, seconded by Sharon Brooks Hodge, with a 4-1 vote (Turner-nay as he felt it was too much risk using taxpayer money), Council authorized the City Manager to execute the grant application by the City of Martinsville to the Tobacco Region Opportunity Fund (TROF) on behalf of the Integrative Centers for Science and Medicine and its Associated Medical School, the College of Henricopolis School of Medicine for \$3.5 million.

Minutes: On a motion by Mark Stroud, seconded by Danny Turner, with a 5-0 vote, Council approved the minutes of September 23, 2014 meeting.

City Employee Service Awards recognition: Mayor Adkins read the following list recognizing city employees for years of service for the period of October 1, 2014 through December 31, 2014:

KATHY VERNON	Human Resources	5
JENNIFER BROWN	Police	10
STEVEN JANEY	Electric	10
E. C. STONE	Police	15
ANITA SOWERS	Police	15
MARK CHAMBERS	Waste Water Plant	20
PAMELA SHOEMAKER	Commissioner of the Revenue	20
DONN SHUMATE	Police	20
RANDY GREGORY	Public Works	25
TERRY MORTON	Circuit Court Clerk's Office	35

Presentation from HD Web Studio: Beth Deatherage of HD Web Studio and Melany Stowe presented the following information for Council: A joint project submission by HD Web Studio and Melany Stowe was recently announced to be one of four national finalists in The Foundation for Excellence in Education's "My

November 25, 2014

School Information Design Challenge” competition. The challenge is a national competition to rethink and redesign school report cards by incorporating 21st century technology. Design submissions were judged by a diverse panel representing parents, educators, and the design community. The competition opened up for public voting for favorite design components November 17 and will continue throughout Excel in Ed’s 2014 National Summit on Education Reform. All winners will be announced in early December. HD Web Studio is a graphic design, website design and web development company with two offices located in Martinsville, Virginia and Danville, Virginia. Beth Deatherage of HD Web Studio and Melany Stowe will be presenting the information.

Special use permit second reading for 200 Sellers Street: The Planning Commission conducted a public hearing on September 18, 2014 on a request from GCS Electronics & Communications to approve a special use permit to allow construction of a 100 ft. communications tower on their property at 200 Sellers Street. As per Section XIII, G, 4, of the City of Martinsville Zoning Ordinance, telecommunication equipment including towers is a use permitted by special use permit in the M-1 District. The applicant desires to install the tower in order to provide a point-to-point link to a main microwave hub in Spencer, VA. No one spoke for or against the special use permit at the public hearing. The Planning Commission voted unanimously to recommend to City Council that the special use permit be granted with the following conditions:

- a. The tower shall either maintain a galvanized steel finish, or subject to any applicable standards of the FCC or FAA, or be painted a neutral color.
- b. The tower shall not be artificially lit, unless required by the FCC or FAA. If lighting is required, City Council may review and approve the design that would cause the least disturbance to surrounding views.
- c. No advertising of any type shall be allowed on the tower.
- d. The tower must meet or exceed current standards of the FAA, the FCC, and any other agency of the federal government with authority to regulate towers
- e. The tower shall be equipped with appropriate anti – climbing devices.
- f. The owner of the tower shall ensure that it is constructed and maintained in compliance with standards contained in applicable federal, state, and local building codes and regulations.
- g. If the tower is abandoned in the future, the owner shall remove the tower within ninety (90) days of receipt of notice from the building official or city manager notifying the owner of the removal requirement.
- h. A survey must be submitted consolidating the multiple parcels and combining them into one parcel on a plat of survey. This will make the tower setbacks to code. The plat of survey must be submitted for review by the City of Martinsville and recorded with the Circuit Court Clerk. It was also noted that the proposed location of the tower is already within an area with secured fencing so there would be no need for additional fencing around the tower itself. On a motion by Danny Turner, seconded by Mark Stroud, with the following 5-0 recorded vote: Adkins, aye; Teague, aye; Hodge, aye; Stroud, aye; and Turner, aye, Council approved the special use permit for 200 Sellers Street. Council Member Hodge pointed out she had previously voted against this on first reading.

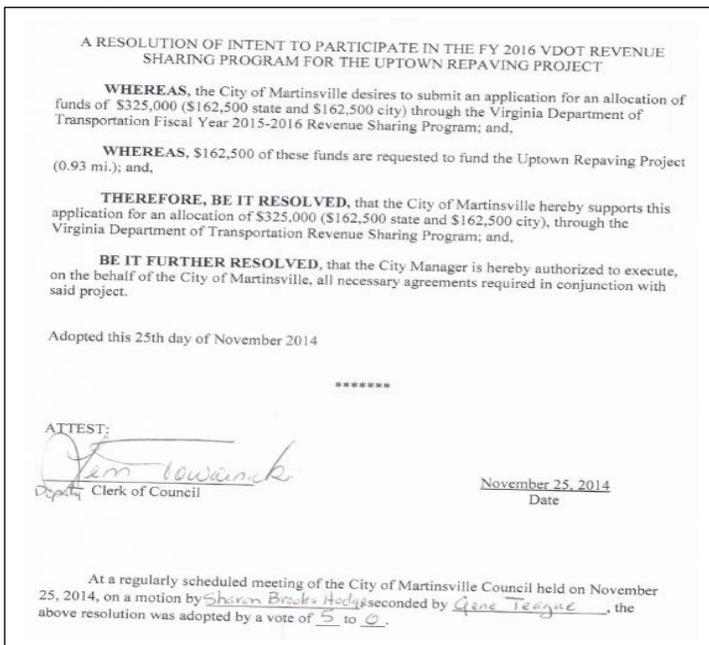
Ordinance approval second reading on renaming Chatham Road: The issue of renaming of Chatham Road has been discussed at length on several occasions in the recent past. The Planning Commission conducted a public hearing on October 7, 2014. At the meeting, several residents from the Chatham Heights area spoke on the subject of the name change and its history. The Planning Commission voted unanimously to recommend that the City Council rename the road “Chatham Heights Road”. On a motion by Gene

November 25, 2014

Teague, seconded by Sharon Brooks Hodge, with the following 5-0 recorded vote: Adkins, aye; Teague, aye; Hodge, aye; Stroud, aye; and Turner, aye, Council approved the following ordinance renaming Chatham Road:

BE IT ORDAINED by the Council of the City of Martinsville, Virginia, in regular session assembled on November 25, 2014, after a public hearing duly conducted according to 15.2-2206 of the Code of Virginia: That "Chatham Road," located in the City, is hereby renamed "Chatham Heights Road."

Resolution VDOT revenue sharing: It has been determined that streets in the Uptown area are in need of repair due to deteriorated pavement conditions. New crosswalks are needed at all intersections. The City can enter into a cost sharing agreement with VDOT to pay for 50% of the costs of these repairs and improvements. This is the City's third application for revenue sharing funds which will be used to enhance the \$294,643 received in the last two year's applications. With the additional funds, the City should have approximately \$457,143 in VDOT money to pair with the City's \$457,143 share, giving us a \$914,286 repaving project. The current paving project around NCI and along Fayette Street cost is \$105,443, leaving a projected balance of \$808,843 to complete the rest of the Uptown paving and installation of new crosswalks. On a motion by Sharon Brooks Hodge, seconded by Gene Teague, with a 5-0 vote, Council approved the following resolution:

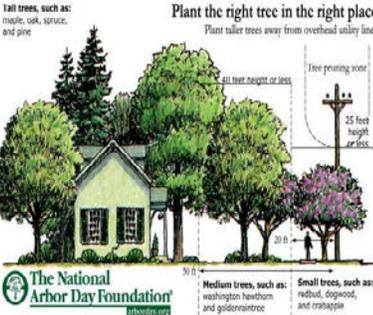
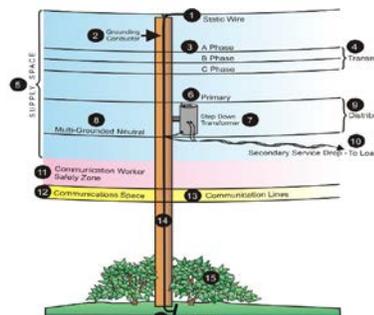


Update on MINET: Mike Scaffidi provided the update to Council:

<p><u>Current customer base</u></p> <ul style="list-style-type: none">• September 1, 2014<ul style="list-style-type: none">◦ Seventy-six (76) Customers w/contracts• Twenty-two (22) Companies Waiting<ul style="list-style-type: none">◦ Waiting for Fiber Build or Connections◦ Includes existing companies / new circuits• Three (3) Companies<ul style="list-style-type: none">◦ Evaluating MINet	<p><u>Customer Base by FY</u></p> <table border="1"><thead><tr><th>FY</th><th>Customer</th><th>Waiting</th><th>Evaluating</th></tr></thead><tbody><tr><td>2009</td><td>7</td><td>0</td><td>0</td></tr><tr><td>2010</td><td>13</td><td>0</td><td>0</td></tr><tr><td>2011</td><td>29</td><td>0</td><td>0</td></tr><tr><td>2012</td><td>51</td><td>0</td><td>0</td></tr><tr><td>2013</td><td>54</td><td>16</td><td>5</td></tr><tr><td>2014</td><td>65</td><td>18</td><td>8</td></tr><tr><td>2015</td><td>76</td><td>13</td><td>3</td></tr></tbody></table>	FY	Customer	Waiting	Evaluating	2009	7	0	0	2010	13	0	0	2011	29	0	0	2012	51	0	0	2013	54	16	5	2014	65	18	8	2015	76	13	3	<p><u>Revenue from Minet Service</u></p> <p>January 2014 \$241,000.00 April 2014 \$255,000.00 September 2014 \$436,720.00</p> <p>January 2015 Expectations \$450,000.00 Goal (revenue is gross, not net)</p>
FY	Customer	Waiting	Evaluating																															
2009	7	0	0																															
2010	13	0	0																															
2011	29	0	0																															
2012	51	0	0																															
2013	54	16	5																															
2014	65	18	8																															
2015	76	13	3																															

<p><u>Value of Service Provided by Minet</u> City Telecommunications \$260,369 School Telecommunications \$230,976 Blue Ridge Regional Library \$4,176.00 Total Internal Contributions (cost allocated) \$495,548.00</p>	<p><u>Revenue vs Expenses</u> Contracted \$436,720.00- (November 2014) Internal Contributions-\$495,548.00 (Current) Total Telecommunications \$932,268.00 Anticipated Additional Funds For FY2016-\$476,596.00 Total Telecom FY 2016-\$1,408,864.00 Resources-\$263,000.00 Plant Expansion and Associated Services-\$320,000.00 Telephone-\$64,000.00 Internet -\$76,000.00 Maintenance Supplies-\$200,000.00 TOTAL MINet \$923,000.00</p>	<p><u>Future</u> MARKETING Work With Partners-MBC; Lumos Networks Target Tech Magazines Market Minet's capacity/speed in conjunction with industrial property and other developable sites Utilize existing partners (EDC, Chamber, etc) to better promote the system's capabilities as a marketing <u>tool</u> RESOURCES NEEDED (future) Sales Executive Technical Associate Construction Crew BACKBONE - FIBER BUILD Time Consuming and Expensive</p>
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Update on tree trimming: City Staff was requested to provide an overview of the Tree Trimming Schedule/ Policy and the Pole Replacement Program as a result of questions at the Uptown/Druid Hills Neighborhood meeting:

<p>20-25% of overhead lines trimmed annually Majority of trimming occurs October thru May Minor trimming, hot spots, and customer requests performed year round Danger trees on city ROW removed Nuisance trees may be removed at owners request, case by case basis, cost prohibitive Trees on private property are the responsibility of the owner</p>	<p>\$85,000 annual budget Contractor performs major annual tree trimming City employees perform emergency restoration tree trimming and removal, minor trimming of summertime problem spots and services Advantages of a tree maintenance program include less overtime, improved customer reliability, fewer outages and momentary interruptions, addresses public safety issues, and contractor may discover line issues allowing repairs to be made proactively</p>	<p>Directional pruning is the method recommended by International Society of Arboriculture American National Standards Institute National Arbor Day Foundation</p>
	<p>Approximately 750 poles tested annually 7% of total- 10,000 poles in the system Some poles may be treated to lengthen service life Expected life of pole in our system is 35 years In addition to testing problem poles are found during routine line patrol and customer observation 120 poles changed out by city crews in an average year</p>	<p>\$20,000 annual budget Doesn't reflect older poles included in major system upgrades, these are included in construction and plant expansion budgets Average results found when testing: No decay 60%, Serviceable 34.5%, Reject 5.5%</p>
<p>Advantages of a pole maintenance program include improved system reliability, employee and public safety, including employees of other companies attached to city owned poles. Other issues addressed during pole change-out may include conductor, service and transformer upgrades, new connections, improved lightning and overvoltage protection, wildlife protection now installed on transformer and switch poles.</p>		

Overview of November 24, 2014 City Council Southside Neighborhood meeting and tour: Mayor Adkins gave an overview of citizen concerns expressed at the recent Neighborhood meeting held at Fuller Memorial Church. It was noted details involving citizen concerns expressed at the November 24, 2014 meeting will be outlined in the minutes for that meeting.

Business from floor: Ural Harris-217 Stuart St.- comments on sewer and budget issues.

November 25, 2014

Council comments: Turner-commended Christmas parade success; Stroud-expressed holiday wishes; Hodge-requested HR report on minority hiring and continuing ongoing log in minutes of citizen comments and resolution.

City Manager comments: Mr. Towarnicki gave update on issues with Mr. Kirby and Mr. Wright noting meetings are occurring to resolve the issues; reported technical difficulties with Council meeting videos on website and this will be resolved.

There being no further business, the meeting adjourned at 9:15 pm.

Brenda Prillaman
Clerk of Council

Kim Adkins
Mayor

Meeting Date: March 10, 2015

Item No: 2.

Department: Public Works

Issue: Hear a report from the City Garage regarding a vehicle-tracking project.

Summary: A brief update will be provided for Council regarding a vehicle-tracking project the City's Garage staff has been investigating.

Attachments: none

Recommendations: None – presented for information purposes.

Meeting Date: March 10, 2015

Item No: 3.

Department: Finance

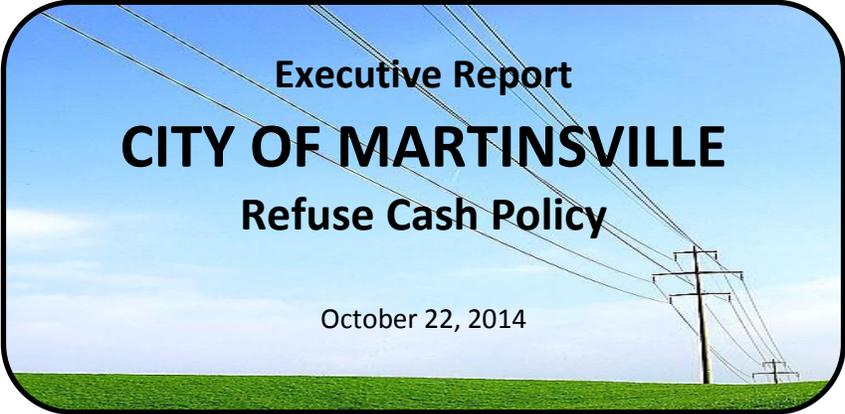
Issue: Introduction of Refuse & Telecommunications Cash Reserve Policies

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 established. 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.

Attachments: Refuse Cash Reserve Policy
Telecommunications Cash Reserve Policy

Recommendations: For review and comments by Council and possible consideration of adoption.



Executive Report
CITY OF MARTINSVILLE
Refuse Cash Policy

October 22, 2014





October 22, 2014

Ms. Linda Conover
Director of Finance
City of Martinsville, VA

Dear Ms. Conover,

We are pleased to present this executive summary report on development of a refuse minimum cash reserve policy for the City of Martinsville, VA.

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, the actual cash reserves may vary substantially above the minimum and is dependent several risk factors for the utility.

The specific purposes of this study are:

- 1) Identify the major risk categories for the refuse Utility
- 2) Establish a risk factor for each exposure
- 3) Determine and recommend a minimum recommended cash reserve

This report includes the results and calculations of the analysis and recommended formula for a minimum reserve policy.

Sincerely,

A handwritten signature in black ink, appearing to read "Dawn Lund", is written in a cursive style.

Utility Financial Solutions, LLC
Dawn Lund
Vice-President



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City of Martinsville Refuse Cash 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 increasing costs, 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.



City of Martinsville Refuse Cash Policy

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 several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, 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 factors including:

Operations and 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 power supply expenditures.**
 - 12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).

<u>O&M Risk</u>	
2014 Budget Expenses	\$ 1,652,358
Depreciation in Budget	<u>150,000</u>
Net Expenses	\$ 1,502,358
45 Day Working Capital Lag	<u>12.3%</u>
O&M Risk	\$ 184,790



City of Martinsville Refuse Cash Policy

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 – 3%. The following table represents determination of the risk factor:**

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

- **Martinsville is depreciated at 41% as calculated below and allocated a 1% risk factor:**

Historical Investment	\$ 4,438,728
Accum Depreciation	1,820,771
Percent Depreciated	41%
Risk Associated with historical Assets	1.0%
Historical Investment Risk	\$ 44,387



City of Martinsville Refuse Cash Policy

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 50% of the current portion of debt service. Several issuances are paid throughout the year.**

Payment Date	Interest	Total
	\$ -	\$ 444,778
Total		\$ 444,778
Highest Payment Risk		50.0%
Debt Risk		\$ 222,389

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% of the five year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018	Total
Total Capital Plan	\$ 230,000	\$ 22,000	\$ 150,000	\$ -	\$ 380,000	\$ 782,000
Bond Proceeds	-	-	-	-	-	-
Net	\$ 230,000	\$ 22,000	\$ 150,000	\$ -	\$ 380,000	\$ 782,000
Capital Plan Risk						20.0% \$ 156,400



City of Martinsville Refuse Cash Policy

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

Minimum Cash Reserve Calculation

Based on Budget expenditures, the methodology determined minimum cash reserve should be \$607,966 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2014
Operation & Maintenance Less Depreciation Expense	12.3%	\$ 184,790
Historical Rate Base	1.0%	44,387
Current Portion of Debt Service	50.0%	222,389
Five Year Capital Plan - Net of bond proceeds	20.0%	156,400
Recommended MINIMUM Reserves		\$ 607,966

*For simplification, the above calculation can be estimated by taking the total O&M budget and using 134 day working capital lag.

<u>Overall Policy Working Capital Days/O&M expenses</u>	
Expenses	\$ 1,652,358
Minimum Cash Recommendation	607,966
Expenses/Minimum recommendation	2.72
Days in year	365.00
Days working capital	134

It is important to emphasize this is a recommended minimum cash reserve calculation. 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.

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.





October 22, 2014

Ms. Linda Conover
Director of Finance
City of Martinsville, VA

Dear Ms. Conover,

We are pleased to present this executive summary report on development of a telecommunications minimum cash reserve policy for the City of Martinsville, VA.

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, the actual cash reserves may vary substantially above the minimum and is dependent several risk factors for the utility.

The specific purposes of this study are:

- 1) Identify the major risk categories for the refuse Utility
- 2) Establish a risk factor for each exposure
- 3) Determine and recommend a minimum recommended cash reserve

This report includes the results and calculations of the analysis and recommended formula for a minimum reserve policy.

Sincerely,

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Utility Financial Solutions, LLC
Dawn Lund
Vice-President



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City of Martinsville Telecommunications Cash 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 increasing costs, 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.



City of Martinsville Telecommunications Cash Policy

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 several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, 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 factors including:

Operations and 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 power supply expenditures.**
 - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

2014 Budget Expenses	\$ 577,459
Depreciation in Budget	-
Net Expenses	\$ 577,459
45 Day Working Capital Lag	12.3%
O&M Risk	\$ 71,027



City of Martinsville Telecommunications Cash Policy

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 – 3%. The following table represents determination of the risk factor:**

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

- **Martinsville is depreciated at 0% as calculated below and allocated a 1% risk factor. It appears the telecommunications department is new and not depreciated:**

Historical Investment	\$ 687,000
Accum Depreciation	-
Percent Depreciated	0%
Risk Associated with historica	1.0%
Historical Investment Risk	\$ 6,870



City of Martinsville Telecommunications Cash Policy

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% of the five year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018	Total
Total Capital Plan	\$ 207,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 687,000
Bond Proceeds	-	-	-	-	-	-
Net	\$ 207,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 687,000
						20.0%
Capital Plan Risk						\$ 137,400



City of Martinsville Telecommunications Cash Policy

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

Minimum Cash Reserve Calculation

Based on Budget expenditures, the methodology determined minimum cash reserve should be \$215,297 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2014
Operation & Maintenance Less Depreciation Expense	12.3%	\$ 71,027
Historical Rate Base	1.0%	6,870
Current Portion of Debt Service	100.0%	-
Five Year Capital Plan - Net of bond proceeds	20.0%	137,400
Recommended MINIMUM Reserves		\$ 215,297

*For simplification, the above calculation can be estimated by taking the total O&M budget and using 136 day working capital lag.

Expenses	\$ 577,459
Minimum Cash Recommendation	215,297
Expenses/Minimum recommendation	2.68
Days in year	365.00
Days working capital	136

It is important to emphasize this is a recommended minimum cash reserve calculation. 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.

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.

Meeting Date: March 10, 2015
Item No: 4.
Department: City Manager
Issue: Hear update on schedule for City Council Strategic Planning Session and budget worksessions.

Summary: Council's Strategic Planning Session:
Dates: Friday, March 20, 2015 from 4:00 pm to 8:30 pm
Saturday, March 21, 2015 from 8:00 am to 12 noon
Location: West Piedmont Bus. Develop.Ctr. (incubator)

Council's budget worksessions: (tentative)

Dates: Tuesday, March 24, 2015 --- 6:00pm (schools) prior to regular mtg.
Wednesday, April 15, 2015 from 6:00pm to 9:00pm (capital & five mandated agencies)
Thursday April 16, 2015 from 6:00pm to 9:00pm (departments)
Tuesday, April 21, 2015 from 6:00pm to 9:00pm if needed as wrap up

Location: Council Chambers

Attachments: none
Recommendations: For Council information.



City Council Agenda Summary

Meeting Date: March 10, 2015
Item No: 5.
Department: Finance
Issue: Consider approval of consent agenda.

Summary:

Item #1 -

The attachment amends the FY15 Budget with appropriations in the following funds:

General Fund: \$ 2,255 – Insurance & Training Reimbursements

CDBG Fund: \$952,971 – Grants

Item #2 –

Business License refunds due to adjustments to original estimates:

Refund – 2012 Business License #6866 - \$2,987.68

Refund – 2013 Business License #443 - \$2,702.13

Attachments: Spreadsheet-Consent agenda 3-10-15

Recommendations: Motion to approve.

BUDGET ADDITIONS FOR 3/10/15

ORG	OBJECT	DESCRIPTION	DEBIT	CREDIT
<u>FY15</u>				
<u>General Fund:</u>				
01100909	490104	Advancd/Recovered Cost		1,755
01311085	506104	Police Department - Non-Capital Equipment Insurance for replacement of in-vehicle laptop computer.	1,755	
01100909	490104	Advance/Recovered Costs		500
01321102	506130	Fire Dept. - Repair & Maint.-Burn Building Reimbursements for training	500	
Total General Fund:			2,255	2,255
<u>CDBG Fund:</u>				
47102926	447047	Categorical Federal - Uptown Revitalization Program		9,067
47823521	506324	Uptown - Commercial Rehab - Façade Improvements Project drawdowns #16 & #17	9,067	
47102926	447063	Categorical Federal - Northside Neighborhood Project		943,904
47835525	505370	Northside Project - Administration	80,000	
47835525	505371	Northside Project - Acquisition	77,276	
47835525	505372	Northside Project - Clearance & Demolition	37,200	
47835525	505373	Northside Project - Owner Occupied Rehabilitation	196,600	
47835525	505374	Northside Project - Investor-owned Rehabilitation	57,600	
47835525	505375	Northside Project - Owner Occupied Reconstructoin	299,515	
47835525	505601	Northside Project - Homeownership Creation	48,000	
47835525	505601	Northside Project - Street Improvements	134,963	
47835525	505601	Northside Project - Flood Drainage Facilities	12,750	
Total CDBG Fund:			952,971	952,971