

CITY OF MARTINSVILLE

FY2015 Proposed Budget

April 8, 2014



Introduction

Preparation of the FY2015 budget once again presented many of the same challenges seen in previous years – expenses and requests exceed revenue, no adopted State budget, use of fund balance, and how to fairly allocate limited resources to cover a wide array of needs. Despite the challenges, however, there are many positive things that have and are continuing to occur in Martinsville, as described later.

The FY2015 proposed budget maintains the same level of services currently offered to the citizens and businesses of the City of Martinsville. No increases in tax rates, refuse collection fees, or electric rates are proposed, although it is recognized that an electric rate increase will occur in May. A modest increase in water and sewer rates is proposed, funding for high priority capital needs is proposed, and level school and most outside agency funding is also proposed. These and other budget issues will be outlined in more detail throughout this document.

Developing the annual financial plan creates a unique opportunity for Council, City staff, and citizens to review and shape the direction City government is headed. While input is welcome at any time, citizens must realize they are the “stock holders” of this company and the upcoming budget process represents their annual “stock holder’s meeting”. Input from all is critical as we strive to make the most of the available resources that comes to this organization through the broad array of taxes, fees, licenses, and other revenue sources.

Leon Towarnicki
City Manager
April 8, 2014

FY2015 Proposed Budget

General Discussion

FY2014 Highlights

- New College Institute – new construction
- Henry Hotel project
- High School Renovation Project
- Courthouse Project
- Fayette CDBG
- Growth/Expansion of Fiber/MiNet
- Liberty Fair Mall
- Liberty Street Widening project
- Nuisance Ordinance changes
- Continue to explore opportunities – LFG expansion, privatizing services, AMI/AMR

FY 2014 Highlights continued

- Potential transfer of Housing to Danville Redevelopment Housing Authority
- WPBDC – Mgmt. now under C-PEG
- Business Expansions – Stone Dynamics and Solid Stone Fabrics
- Economic development announcements on revenue sharing lots, new shell building
- Medical School
- Key Personnel changes (Human Resources, Public Works, Assistant City Manager, Police Chief)

FY2015 Proposed Budget

Budget Objectives remain constant

- Maintain or improve services
- Address capital needs
- Expand tax base (commercial, residential, industrial)
- Explore opportunities to consolidate, improve efficiency, generate new revenue
- Protect existing assets
- Consider education and outside agency funding

Budget Challenges

- Relatively flat revenue.
- Increasing costs due to inflation, fuel prices, insurance, personnel, regulatory issues, costs of “doing business”.
- Lack of an adopted state budget
- Capital needs continue to exceed available funding. Some needs cannot be delayed
- School system request for additional funding

Budget Challenges

- Aging infrastructure
- Need to maintain adequate fund and asset balances to ensure reserve capacity to handle emergencies.
- January, 2014 electric costs – approximately \$1 million more than anticipated – reduce ability to transfer for other uses
- Recognizing that fund transfers are inevitable, ensure that adequate fund balances are preserved

Budget Challenges

- Total capital requests submitted by City departments for FY15 budget consideration totals \$3,526,671, with \$1,731,377 being for utilities and \$1,795,294 being general fund/capital reserve. Of this amount, cost of capital assigned as high priority is \$1,337,377 for utilities and \$767,770 for general fund/capital reserve.

FY2015 Proposed Budget

What is being recommended?

FY2015 Proposed Budget

- The FY2015 proposed budget continues to maintain or improve the level of services as provided in FY2014.
- Staff continues to evaluate options to increase efficiency, reduce costs, combine operations where possible, and outsource/private where cost reductions can be achieved while maintaining or enhancing levels of service.

FY2015 Proposed Budget

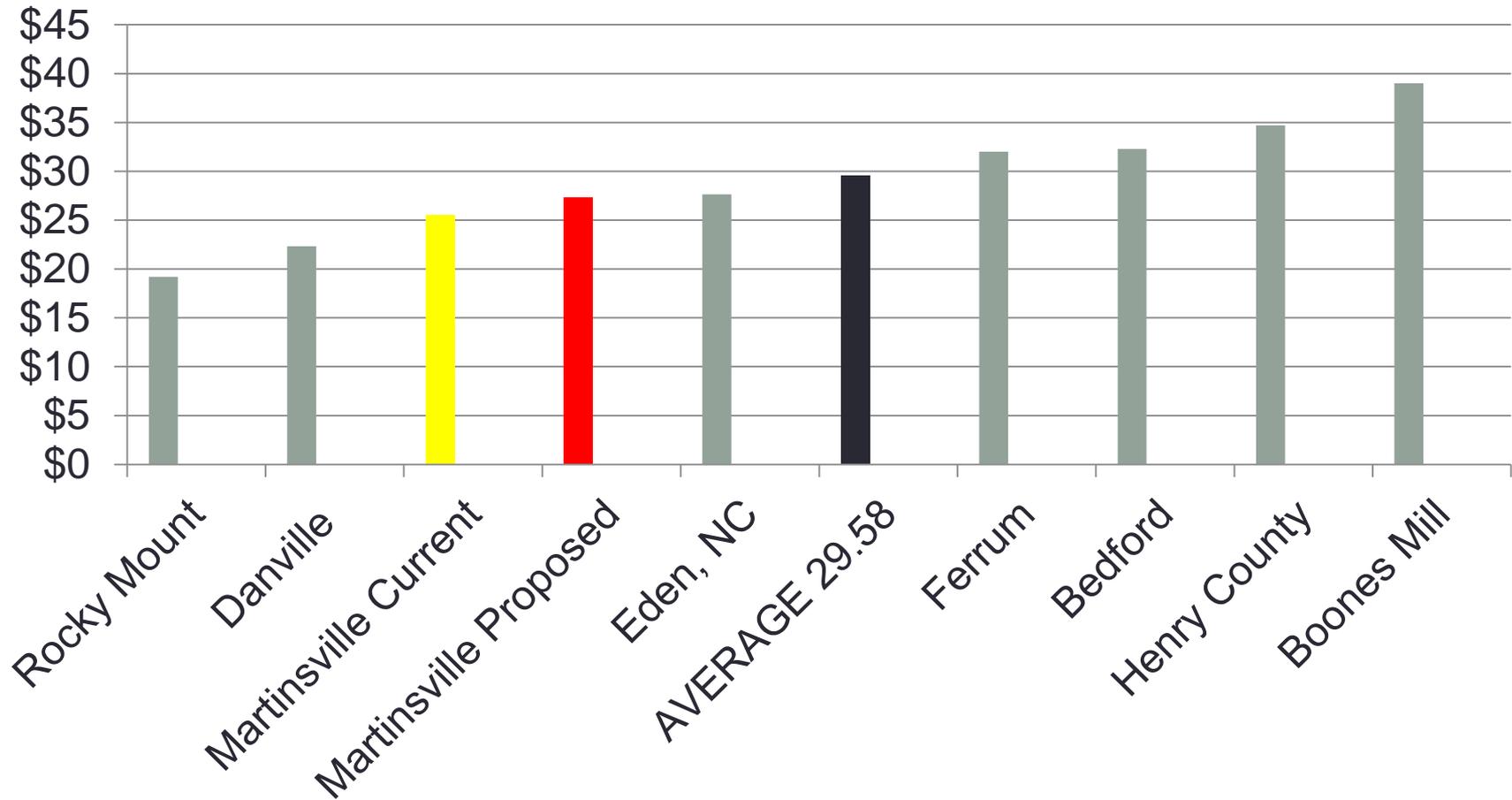
Fees, Rates, and Taxes

- No recommended changes in tax rates or refuse collection fees.
- The budget takes into account the electric rate increase approved by Council effective May 1.
- The budget includes a recommended increase in both water and sewer base rates

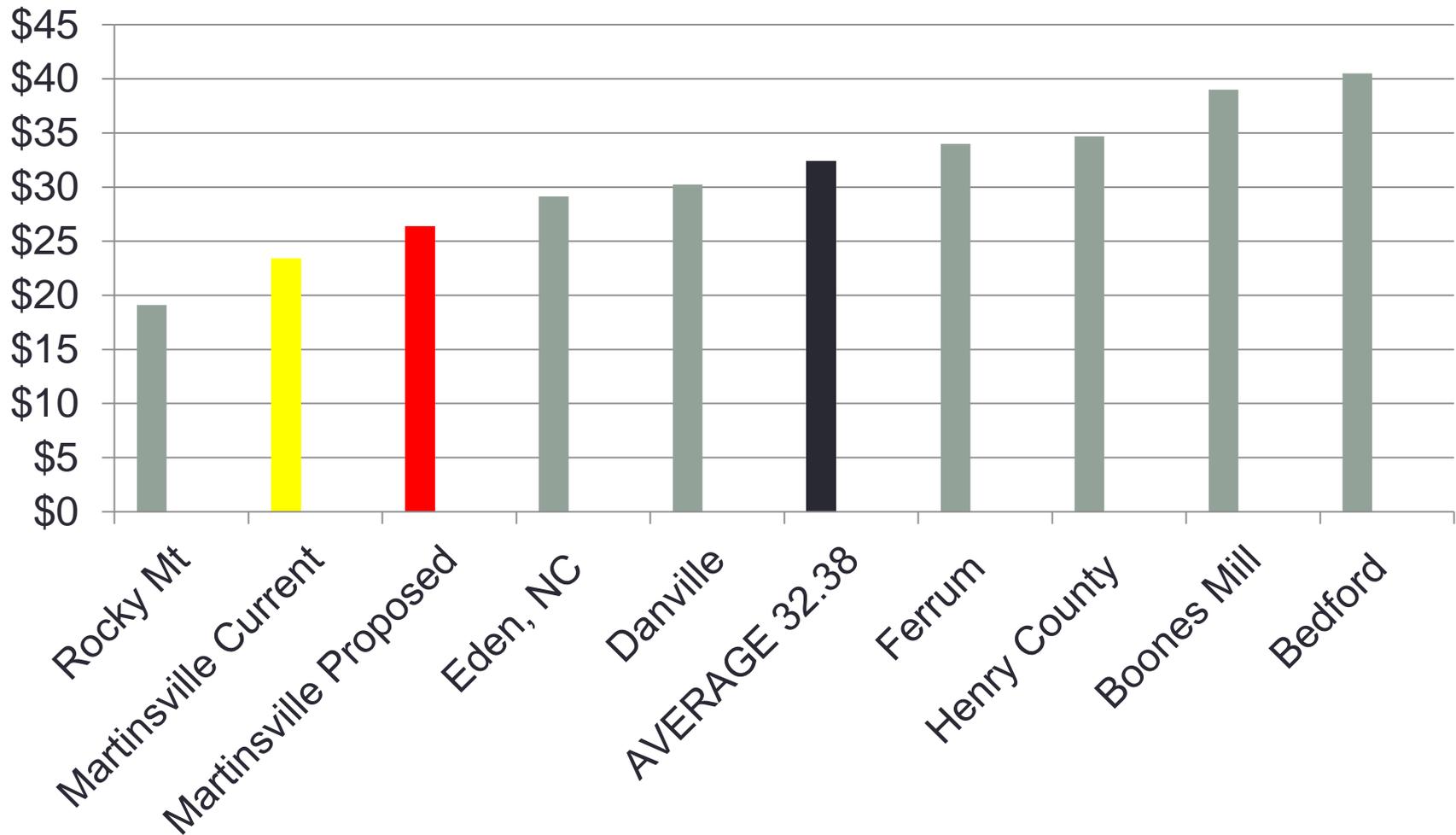
FY2015 Proposed Budget

- An increase in the base water rate from \$22.31 to \$24.10/month (4000 gallon minimum) is recommended.
- An increase in the base sewer rate from \$20.64 to \$23.65 (4000 gallon minimum) is recommended.
- These increases will result in a \$4.80 increase in the monthly water and sewer bill for minimum monthly usage, an 11.2% increase. Martinsville's rates will still be considerably less than the area average.

Water Rates \$/5000 Gallons



Sewer Rates \$/5000 Gallons



FY2015 Proposed Budget

- Recommended level funding for most outside agencies; minor increase for 911, Health Dept., and Extension Office, and funding for one additional outside agency – Dental Clinic, in the amount of \$4,832.
- A School appropriation of \$6,360,531 representing level funding from FY14; \$736,070 less than requested in the School's FY15 budget. Reappropriate unexpended FY14 funds up to \$160,000 for capital/school bus replacements.

FY2015 Proposed Budget

- An allocation of \$1,094,682 to the Capital Reserve Fund. Of this amount, \$353,987 is required for debt service and the balance of \$740,695 will be assigned to capital purchases on a prioritized basis by the capital review committee. This amount will fund 100% of the high priority needs, and 41% of total capital (non-utility) fund requests of \$1,795,294.

Summary – Capital Requests

	<u>Requested</u>	<u>High Priority</u>
GF/Cap Reserve	\$ 1,795,294	\$ 767,770
Utilities	\$ 1,731,377	\$1,337,377
Total	\$ 3,526,671	\$ 2,105,147

Capital - Utilities

- In the utility funds, \$1,337,377 is included in the respective utility budgets to fund all high priority needs, and 77% of the \$1,731,377 in total utility requests.
- Of the total FY15 submitted capital requests of \$3,526,671, \$2,105,147 (59.7%) is being recommended for funding

FY2015 Proposed Budget

- Includes a 1% pay increase effective July 1, 2014 to cover the 3rd year of the required 5% VRS contribution.
- Includes the full amount of the 1.9% health insurance cost increase
- Includes the cost associated with merging the two employee health insurance contribution schedules into one schedule. (employees paying the lower tier will pay at the higher tier, but given an offsetting salary increase).

FY2015 Proposed Budget

- Based on a recent pay/classification plan review by Human Resources, the City's plan requires a minimum 7% shift to be reflective of market conditions. (current plan hasn't been revised since 2002). The proposed budget includes salary adjustment costs necessary to reestablish the pay for 46 employees at their respective grade minimum.

FY2015 Proposed Budget

- MiNet – budget includes capital funding of \$185,000 for MiNet expansion. As infrastructure is developed, there are initial capital costs related to construction that will be recovered over multiple multi-year contracts. The customer list is currently at 65 with another 24 either waiting to be connected or evaluating the system.

FY2015 Proposed Budget

- Budget is once again balanced by use of fund balance and utility transfers. Use of \$750,000 in General Fund balance is included, along with \$800,000 from Electric, and \$300,000 from Water.
- To fully fund the FY15 budget with no use of fund balance, fully funding the School's request and all capital requests, an additional **\$4,007,594** is needed.

CDBG/47 Fund

- Cherry Street CDBG Project was overspent relative to available grant funding
- Staff recommends allocating as a receivable all available CDBG program income, property sales, and other forms of CDBG revenue, and transferring a contribution from the General Fund to cover the balance since the deficit is already accounted for through the annual audits.
- Leave fund as a separate fund to provide for transparent accountability related to future grant projects

Conclusion

The FY15 budget is balanced with a projected use of utility revenues and fund balances - \$1.85 million from General, Electric, and Water. Assuming a “normal” year, those amounts however, are within a range of what could be returned to fund balance at the end of FY15.

It should be noted that the budget as presented is “proposed” and over the coming weeks Council will have an opportunity to shape the FY15 budget as it deems appropriate. Throughout the process, staff will provide support and additional information as needed, and ultimately will take budget that is adopted by Council and implement that plan to the best of its ability.

Next Steps

- Review the document, request additional information, ask questions, and talk with citizens.
- Three work sessions have been set – April 10th for Schools and outside agencies, April 23rd for capital and departments, and April 24 for departments and wrap-up. Additional sessions scheduled as needed.
- Consider setting a public hearing for adoption of the budget on first reading at the May 13, 2014 Council meeting.



Office of the City Manager

DATE: April 8, 2014
TO: Honorable Mayor and Members of Council
FROM: Leon Towarnicki, City Manager
SUBJECT: FY15 Budget Discussion

As has been stated previously, developing the annual budget for the City is arguably the most important task the management team performs. It requires much time and thought – looking back and reviewing the previous and current budget years to gauge how accurate projections were compared to actuals, how well projects performed, and in some cases what particular elements need to be carried forward into the new budget year. And looking forward - since the annual budget process typically begins around December and January of each year culminating with the adoption of a budget in late May or June for the 12 month period beginning in July, budget work requires looking forward some 15 to 18 months and developing the most accurate revenue and cost projections possible. Fortunately, the annual City audit shows that most of the time the numbers hit pretty close, and credit for that goes to many – City and Constitutional staff members who administer their respective components of the budget; the financial offices including Finance, Treasurer, Commissioner of the Revenue; and ultimately City Council and citizens who seek information, ask questions, and demand explanations and accountability.

FY 2014 Budget – General Comments

Before beginning discussions on the FY15 budget, it is important to look at where we are now. In reviewing the current budget year, there were (and are) a significant number of developments that indicate a very promising future for Martinsville is on the horizon. For some of these, City staff was instrumental in

moving the project forward; and in others, staff played a lesser role, but regardless, the list is impressive:

- Construction of the New College Institute Facility on Baldwin Block – The project is nearing completion tentatively scheduled for late spring, 2014.
- The Henry Hotel Project – The City recently partnered with Waukeshaw Development, a firm from Petersburg, Virginia with a track record of redeveloping properties such as the Henry Hotel. The City was successful in its effort to secure grant funding to assist with costs related to the project and work is expected to begin over the next several months.
- Completion of the High School Renovation Project – Work was completed during the summer of 2013 and ready for use with the new school year.
- Courthouse Project and Fayette CDBG Project - Work is currently underway reconstructing the plaza in front of the historic Henry County Courthouse and two mini-park areas along Fayette Street between the Courthouse and the New College facility.
- Expansion of MiNet – Last year during a budget presentation on expansion of the City’s MiNet system, it was noted that at that time, there were approximately 20 customers waiting to be connected. Last September, there were 51 customers on the City system and still around 20 on the waiting list. As of April 1 of this year, there are now 65 customers connected to MiNet, 18 customers waiting to be connected, and an additional 8 customers currently evaluating MiNet for potential connection.
- Liberty Mall – Redevelopment of the Mall is occurring under ownership by retail property specialist Hull Storey Gibson with the overall goal of freshening appearance of the site with new landscaping, façade work, interior store renovations, and a different variety of tenants.
- Liberty Street Widening – After two decades of planning, programming, and acquiring funding, the second phase of the Liberty Street widening project has been completed by widening to five lanes, the section of Liberty Street from York Street to the north corporate limits. The project is the completed missing component connecting the widened Liberty/Stultz/Clearview intersection with the four lane section of Route 174 extending into Henry County toward the Patriot Center Industrial Park and Patrick Henry Community College.

- Nuisance Ordinance Changes – Over recent months, City staff has worked diligently to revise the City’s nuisance ordinance to streamline the process of resolving complaints in an effort to be more responsive to citizen concerns. That process will begin in the spring of 2014.
- Other Opportunities – City staff continues to explore opportunities to save costs, generate revenue, and improve delivery of services through a variety of projects. A natural gas supplement to the landfill generator is being considered to utilize maximum output; privatization of certain services is being explored as a means to reduce cost and improve service quality; an automated meter reading system is being investigated; options to dry and market municipal solid waste sludge are being investigated; and discussions regarding conversion of certain City vehicles and equipment from diesel fuel to compressed natural gas are some of the projects.
- Possible Transfer of Housing Operations – For many years the City has operated a housing/rental assistance program – initially from within the Municipal Building and in later years at the Housing Office located at Fourth and D Streets. The City currently operates this program for residents of both the City and County, with the majority of clients actually being non-City residents. The City is currently developing a partnership with Danville Redevelopment Housing Authority to transfer this operation in an effort to reduce City costs while continuing to maintain this important program for the community.
- West Piedmont Business Development Center – Beginning April 1, management of the WPBDC has transferred over to the Martinsville Henry County Chamber of Commerce’s Partnership for Economic Growth. The vast majority of the Chamber’s members are small businesses and transition to C-PEG management is a natural fit that should significantly enhance and expand the role of the business incubator.
- Business Expansions – During the FY14 budget year there have been two significant business expansions that were made possible through a combination of City incentives and Tobacco Commission grant funding. During the summer of 2013, Stone Dynamics relocated their operations to the former Coca-Cola bottling plant on Memorial Boulevard and this past winter, Solid Stone Fabrics – a business that originally had beginnings in the West Piedmont Business Development Center, announced an expansion

to the lower level of the former American of Martinsville office on Church Street in uptown Martinsville.

- Economic Development Growth - This past year there have been a number of economic development announcements with the creation of new jobs and capital investment in the Henry County Patriot Center Industrial Park on revenue sharing sites – sites from which the City will receive a share of revenue/taxes generated once development costs are recovered. Although not in the City, this growth and expansion will create a demand in the community for employment, housing, shopping and related services, contractor work, and may ultimately impact schools all in a positive way.
- Medical School – Efforts are continuing related to development of a medical school by Dr. Noel Boaz, who just recently moved operations from the West Piedmont Business Development Center to the medical complex located on Hospital Drive. Efforts are continuing to attain accreditation with a possible first class of students in the fall of 2015.
- Key Personnel Changes – In the past several months, much time has been devoted to filling a number of key management/department head positions within the City organization – Public Works Director, Human Resources Director, Assistant City Manager, and just recently Police Chief. These are some of the key positions that will help shape and drive management and operational decisions in the future.
- Reversion Discussion – During the fall of 2013, there was much discussion regarding the City possibly reverting to a town, ultimately resulting in a vote to not proceed at this time. The reversion study did point out key financial issues facing the City and while it is understood the question of reversion can, and will likely surface again, the decision to not pursue reversion at this time has provided direction in regard to future budgeting and perhaps more important, ensuring that budgeting remains consistent with what can be afforded while maintaining reasonable fund balances.

Proposed FY2015 Budget – General Discussion

Work on the FY15 budget occurred with a number of key objectives in mind – continue to maintain and if possible enhance the current level of service provided to the citizens and businesses of the City; address capital needs in a realistic

manner and as much as possible, do the things necessary to preserve, protect, and maintain the City's infrastructure; look at opportunities to foster an environment where businesses will find it attractive to locate here, stay here, and grow/expand here; wherever possible investigate opportunities to consolidate services, improve efficiency, privatize if it makes sense, and enhance the City's revenue potential; and recognize the needs of the City school system as well as the importance of maintaining funding for the many outside organizations and agencies that provide services to the community.

On the other hand, there were a number of challenges in developing the FY15 budget – some were unique and specific to this particular year, and some are recurring from year to year. Of the many different revenue categories that comprise the City's budget, some are up slightly while most are generally level or slightly down. There were several grant-related projects with funds that washed through the City's annual budget in FY14, both on the revenue and expense side and when comparing the bottom line from year to year, these must be taken into account. Likewise on the expense side, many individual budgets are down or essentially flat compared to FY14. One major expense that surfaced unexpectedly in the current budget year that will have an effect on FY15 finances was the City's January 2014 electric bill being approximately \$1 million more than anticipated. Obviously, had that extra \$1 million not been spent, those funds would be available for other uses. While the signs are in place that the local economy is gradually beginning to improve, several budget cycles may elapse before a predictable trend emerges.

As with operating most businesses, the City generally sees increases in costs on an annual basis that are simply factors dependent upon a national and global economy – increase in fuel costs, supplies, insurance, vehicles and equipment, and occasionally additional costs related to compliance with state or federal mandates. Fortunately for the FY15 budget, such increases are projected to be some of the lowest in recent years.

The lack of an adopted state budget has once again created uncertainty in the City's budget process. State and to a lesser extent, federal funds make up a significant component of the City's general fund revenue – roughly 27%. Early information regarding the state budget indicated a possibility of changes in funding in one category in particular – 599 funds which goes to offset expenses related to operation of the City's Police Department, and in Martinsville's case represents \$841,560 in FY14. In the absence of state budget information, the City

has projected level funding for FY15. The City has also generally attempted to provide periodic salary adjustments for employees to match those given to state and constitutional employees and again, in the absence of an adopted state budget that may provide for such increases, no overall salary increases are included in the City's FY15 budget.

A higher emphasis was placed on funding capital needs in the FY15 budget since reduced funding from previous years is beginning to have a compounding effect by adding more and more capital needs to future years. Additionally, some capital items such as roof replacements simply cannot be ignored and must be done. And again in the FY15 budget, capital needs in the utilities are included in the respective utility budgets before consideration of availability of funds for transfer occurs. The utilities – electric, water, and sewer, have traditionally provided significant transfers to the City's General Fund and it is imperative that these operations be provided with sufficient resources to operate efficiently.

Regarding education funding, the Martinsville City School system has requested an increase in local funding for FY15 of \$576,070, from \$6,360,531 in FY14 to \$6,936,601, plus an additional \$160,000 for capital/school bus replacements; a total 11.6% increase over FY14 funding.

Proposed FY15 Budget – What's Included

The proposed FY15 budget includes maintaining the same levels of service as provided in the FY14 budget and as previously noted, staff continues to explore ways to reduce costs, increase efficiency, combine/consolidate operations, and to privatize where practical.

There are no recommended changes in tax rates, or refuse collection fees. Refuse collection fees were increased in the FY14 budget, taking into account increasing costs related to disposal, collection costs, and costs associated with long-term maintenance of the City's closed landfill. Also, the electric rate increase scheduled to begin May 1, 2014 is taken into account in the FY15 proposed budget.

The proposed FY15 budget does include a recommended increase in both the water and sewer base rates – water from \$22.31 to \$24.10 per month, and sewer from \$20.64 to \$23.65 per month. These two increases represent an 11.2% increase in combined base rates, or \$4.80 per month.

City water and sewer rates have traditionally been low compared to regional averages for two main reasons. Most water and sewer infrastructure was put in place and paid for years ago, consequently these two utilities carry practically no debt – water has none and sewer has very little, and ongoing costs are related mostly to operational expenses. Also, for many years the City was fortunate to have a number of “wet” industries that used such high amounts of water and sewer that rates could be kept well below market rates due to the revenue generated from such high-volume users. Those industries are now gone and the City must ensure adequate resources are in place to address ongoing capital needs as the infrastructure ages.

Information on water and sewer rates obtained for communities in close proximity to Martinsville – Danville City, Henry County, Ferrum, Rocky Mount, Boones Mill, Bedford, and Eden indicates the average monthly charge for water is \$29.58 and \$32.38 for sewer, based on 5000 gallon minimums. By comparison, using Martinsville’s base rate for 4000 gallons plus the cost for an additional 1000 gallons, the current comparable rate for water is \$25.50, and \$23.37 for sewer, 13.8% and 27.8% below the area average. The recommended increase to \$24.10 for water and \$23.65 for sewer equates to a 5000 gallon rate of \$27.29 for water and \$26.38 for sewer, still 7.7% and 18.5% below the area average. These two recommended rate increases will generate approximately \$400,000 a year in additional revenue that can be applied to on-going operational and capital costs, as well as other uses Council may deem appropriate.

The proposed budget also includes funding for outside agencies. Most are recommended for level funding with the exception of minor increases for 911, the Health Department, and the local Extension Office. Social Services has reduced their request and one new agency is being recommended for funding in FY15 – the Piedmont Virginia Dental Health Foundation (the “Dental Clinic”). Henry County has included new funding in their budget of \$9,664 for FY15 and the City’s budget includes half of this amount, or \$4,832, representing an approximate 2/3 to 1/3 ratio used in other similar cost-sharing arrangements.

Also included in the proposed budget is level funding for the Martinsville City School System, or \$6,360,531. Additionally, it is recommended that unexpended FY14 funds up to \$160,000 be reappropriated to FY15 for school bus replacements. Should Council desire to fully fund the School’s request of \$7,096,601, additional sources of revenue will need to be identified, significant reductions in services and costs will need to occur, additional use of fund balance

will need to occur, or various combinations of these options will need to be considered.

Regarding capital needs, City and Constitutional offices submitted a total of \$3,526,671 in capital requests for FY15 budget consideration. Of that amount \$1,731,377 is in utilities (Refuse, Telecomm/MiNet, Water, Sewer, Electric) and \$1,337,377 of that amount has been identified as high priority. The remaining amount of \$1,795,294 is General Fund capital, and of that amount \$767,770 has been identified as high priority. The proposed FY15 budget includes funding for all high priority capital totaling \$2,105,147, or 59.7% of the total FY15 capital requests.

Funded capital includes:

- Balance of funding needed for a new refuse collection truck
- \$185,000 for continued MiNet expansion
- \$371,000 in the Water Fund to rebuild filters, replace meters, and other equipment
- \$273,438 in the Sewer Fund for the balance of funding for the outfall line engineering/inspection report, costs to dismantle an old aeration basin, and costs for sewer/manhole rehabilitation to reduce inflow.
- \$428,510 in the Electric Fund for the second half of the bucket truck, line replacements and new projects, repairs to the hydro dam, replacement of substation voltage regulators, and purchase of uptown street lights.
- General Fund capital includes replacement of a variety of vehicles and equipment, annual computer replacements, replacement of the Municipal Building roof, half of the cost of a real estate assessment program, reseal the roof at the Fire Station, the City's share of costs for the neighborhood warning project, replacement of a storage shed roof at the City Shop, pavement repair at the Shop, and a number of smaller items.

While the proposed budget does not include across the board cost-of-living adjustments for all employees, it does include costs for several important employee-related issues. For the third year, employees will be given a 1% salary increase effective July 1, offset by a 1% employee increase in the contribution to VRS, part of the 5% contribution requirement imposed by VRS beginning with the FY13 budget. Funds are also included for the City to cover the full cost related to the health insurance premium increase of 1.9%. Additionally, the proposed

budget includes eliminating the two-tier employee medical insurance premium schedule by requiring employees making less than \$35,000/year to pay the same premium as employees making over \$35,000/year, with the increase in insurance premium offset by a corresponding pay increase for those employees making less than \$35,000/year.

The City's Human Resources office recently completed a pay and classification plan review by obtaining data from a number of jurisdictions comparable to Martinsville for a representative sample of positions within the City's plan. The City's plan has not had a comprehensive review since 2002 and data indicated that overall, the City's plan is lagging considerably behind the regional market for comparable positions. After careful review of the data, it was concluded the City's overall plan needed to be shifted upward by approximately 7% across the board to bring positions back in approximate alignment with the market. In so doing, 46 employees will see their pay drop below the minimum of their respective pay grades and the proposed budget includes a salary adjustment for those employees to reestablish their pay at the grade minimum, with 31 of the 46 affected employees being in pay grades 10 or lower. It would be difficult to find adequate funding to completely address the plan issues all at once and in subsequent budget years, consideration will need to be given to addressing the issue of pay compression.

CDBG (Community Development Block Grant) Fund;

The FY13 audit showed a CDBG Fund deficit of \$592,879, slightly more than the \$583,105 deficit for the end of FY12. The FY13 audited deficit is taken into account when establishing the City's audited unassigned FY13 General Fund balance of \$3,939,302. (exhibit 3, pg. 38, FY13 CAFR)

After review by the Finance Department, Community Development, and consultation with the City's auditing firm, the conclusion drawn is simply that one of the CDBG projects – Cherry Street, a block grant project that began in 2008 and ended in 2011 was overspent relative to available grant funding. There is the possibility of capturing as a receivable the aggregate amount of program income due to the CDBG Fund from all CDBG projects, but that number is not expected to substantially reduce the deficit. There is also the possibility of reallocating in-kind expenditures that may have incorrectly been attributed to the project, but again that number is not expected to be significant.

After review, there appears to be two ways to handle this issue from a budgeting standpoint. Since the General Fund is responsible for covering the deficit, one option is to simply eliminate the CDBG/47 Fund and combine all revenues and expenditures under newly-titled categories within the General Fund. Expenses would simply show as General Fund expenses, and revenues would likewise simply show as General Fund revenues. This option, however, is not recommended.

The recommended approach is to leave the CDBG/47 Fund as is, determine as accurately as possible the full amount of revenue that can realistically be allocated to the Fund from the category of program income (loans that homeowners pay back who have received block grant funds for property rehab), proceeds from property sales that may occur for which the CDBG Fund would be credited, as well as any other form of revenue that could reasonably and appropriately be applied toward this fund, and beyond that aggregate amount note the difference as being covered by a contribution to the CDBG Fund through a transfer from the General Fund. This approach will provide for a clean, concise, and transparent accounting process and will allow for both revenue and expenditures for future grant projects to be separately tracked.

FY15 Proposed Budget – Balancing

As in previous years, the proposed FY15 Budget is balanced by a significant use of transfers from the utilities as well as use of General Fund balance. Efforts were made to limit the use of fund balances to reasonable levels and if the typical conservative budgeting approach prevails, expenditures will be less than budgeted and revenue equal to or greater than budgeted, all of which generally results in a favorable return to fund balances at year's end.

The proposed FY15 budget is balanced by a projected use of General Fund balance of \$750,000; by a transfer from the Water Fund of \$1,429,704 which includes \$300,000 from fund balance and \$1,129,704 in expected FY15 revenue exceeding expenditures ; by a transfer from the Sewer Fund of \$529,656 in expected FY15 revenue exceeding expenditures; and by a transfer from the Electric Fund of \$1,418,584 which includes \$659,006 in expected FY15 revenue exceeding expenditures and \$800,000 from fund balance. Other transfers include \$494,373 from the Meals Tax Fund to Capital Reserve; \$244,116 from Refuse to MiNet; \$124,378 from Water to MiNet; \$559,887 from Sewer to Capital

Reserve; and \$40,422 from Electric to Capital Reserve. It should be noted that to fully fund the budget with no use of fund balance, fully funding the School system's request, and funding all capital, an additional \$4,007,594 is needed.

The projected uses of fund balances - \$750,000 from the General Fund, \$300,000 from Water, and \$800,000 from Electric are within the range of what could be returned to fund balance at the end of FY15, assuming a "normal" year with no unexpected major expenses. However, staff and administration will need to closely monitor both revenue and expenses and must be prepared to make mid-course corrections should the need arise.

#####

