

**FINANCIAL FORECAST
FOR THE PERIOD
FY2014 - FY2019**



**THE CITY OF
MARTINSVILLE
VIRGINIA**

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City of Martinsville, Virginia
FINANCIAL FORECAST
FISCAL YEARS 2014 THROUGH 2019

I. INTRODUCTION

This report is being presented pursuant to our engagement to assist the City in evaluating and forecasting its intermediate term financial operations. It is also prepared within the context of the City's consideration of a change in form of government. The material contained in the report is descriptive and analytic. It is not intended to be prescriptive. It is intended for use by the City Council and City management as they evaluate alternative courses of future action. The document contains:

- A forecast of City financial operations,
- Detail and summary financial information on the City's contemplated capital program, and
- An analysis of the impact of the prospective capital program upon the forecasted financial operations.

Background - Financial forecasts are commonly prepared in conjunction with capital improvement programming; a process which permits the City Council to review and evaluate the affordability of potential public capital facilities that may be needed in the next five years. An opportunity is afforded decision makers to balance potential needs against estimated available resources over a future period substantially longer than that addressed by the City budget. Although affordability of capital projects is considered, emphasis has been placed on evaluating or determining the financial viability, capability or impact of Martinsville continuing its governmental structure as a city.

This comprehensive evaluation will present:

- The City's Prospective capital projects,
 - A forecast of prospective revenues and expenditures and
 - Prospective net cash flow from operations and expected real estate tax rates.
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The forecasts contained in this document are for planning purposes only and are not to be regarded as accountants' opinions of the present or future financial position of the City of Martinsville. The forecasts are based upon past trends and their validity depends upon the outcome of future events. Additionally, modification of these estimates will become necessary as City growth and development progresses, if there are material changes in market or other economic conditions, if there are changes to the City's form of government or in the event of changes in state or federal funding programs. Annual review and revision is recommended. The financial forecasts in this report are intended for the purpose of providing some insight into the potential intermediate term impact of expected and planned general government and School financial operations and capital projects and should not be used for any other purpose.



II. CAPITAL PROGRAM

Capital improvements may generally be interpreted as projects of a fixed nature and having a long service life. The category would include, but not be limited to, such items as schools, libraries and other public buildings, water and sewer utilities, and parks. In addition, it is desirable to include certain types of large equipment, major replacement or reconstruction projects, the costs of site acquisition, pre-construction engineering and planning and reserves/accumulation for anticipated projects. Projects presented are those proposed by the City departments and agencies. These bodies have also developed the best current estimates of project cost and funding levels and sources.

Programming of capital improvements consists of arranging the projects proposed by the various City departments and agencies in a time series schedule of anticipated implementation. As noted, this schedule is then reviewed in light of three major considerations:

- The City's Comprehensive Plan;
- Considerations of the public health and general welfare of the City's citizens; and
- The City's fiscal capabilities.

The first year of the five year schedule of capital projects is generally adopted as the capital budget for the upcoming year. The schedule is reviewed annually and is subject to modification: projects may be added, deleted or rescheduled within the planning period.

Presented on Table 1 is summary financial information concerning the City's schedule of prospective capital projects. The data presented are only financial in nature. No information is presented relative to project: description, justification or need, location, coordination with other agencies or programs and impact on the City's continuing operating budget.¹

- The amounts of and expected funding sources for the projects are presented on this page and detailed in the Technical Supplement.
- The total capital program during the planning period (FY2014 through FY2018) contemplates capital expenditures totaling \$15.4 million.

¹ Detail with respect to each project's funding is presented in the Technical Supplement to this report.

III. FORECAST OF FINANCIAL OPERATIONS

A five year forecasted cash flow of City financial operations was prepared using the City's FY2014 budget as the base year of the forecast. This forecasted cash flow, as are all efforts to extrapolate, is clearly subject to change and modification. The variability or error in the forecast should also be expected to increase with "distance" from the present time. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and these differences may be material. This forecast is intended solely for use by the City as it considers intermediate term financial operations and capital project scheduling. The forecasts do not have to be formally adopted by the City Council, but are intended to assist the City in its decision making process.

Methodology and Assumptions - As noted earlier, the City's FY2014 budget was used as the basis for the cash flow forecast. The forecast was prepared by applying prospective annual rates of change to the individual (detailed) sources of City revenue and objects of expenditure².

A year's forecasted value was prepared by application of a forecasted annual rate of change to the preceding year's value for that revenue or expenditure component. Several assumptions are implicit in a forecast such as this and must be born in mind while considering the computed results. The following assumptions are integral to the forecast:

- A direct relationship is assumed to exist between the item of revenue or expenditure and the factor used to prepare its forecast. The annual rate of change in the factor produces a corresponding proportional movement in the subject item.
- Neither addition of new sources of revenue nor discontinuance of current sources of revenue are anticipated. Revenue components are not expected to display variability attributable to sources other than their associated factors.
- Neither addition of new programs, services, or staff nor discontinuance of existing programs, services, or staff are anticipated. Objects of expenditure are not expected to display variability attributable to sources other than their associated factors.

²The historic values for the various factors: Consumer Price Index, population, etc. were each projected using 2 to 3 different statistical methods. The resulting projection that had the "best" fit to the historical data was selected to be used as a "predictor." The expected rate of change (percent change from one year to the next) for the factor was applied to the revenue or expenditure component to produce the forecasted value. The forecasted rates of change for the several factors may be found in the Technical Supplement and the revenue and expenditure components they were associated with may also be found in the Technical Supplement.

- There are no unanticipated non-recurring costs.

- New capital projects and any new debt service are not included at this juncture nor is existing debt service beyond the budget year.

Historical Factor Values - The base or historic values for the forecast factors are presented below on Table 2. Note the preponderance of declining values, negative trends, for many of the individual revenue items.

Table 2

City of Martinsville, Virginia
 Financial Forecast for the Period FY2014 through FY2019
 Forecast Factors Data Entry & Statistical Analysis

Factor Name	5 Years' Data					Ave Ann % Incr	Ave Ann # Incr	Linear Regression Slope
	1 2008	2 2009	3 2010	4 2011	5 2012			
CPI	215.351	218.011	225.922	229.104	233.596	102.05%	4.56	4.76
Population	14,290	14,161	13,821	13,902	13,908	99.32%	(95.50)	(102.30)
Schools - Fall Membership	2,517	2,504	2,551	2,482	2,397	98.79%	(30.00)	(26.20)
Building Permits	11	8	7	5	2	65.30%	(2.25)	(2.10)
Assd Val Personal Property	108,609,168	113,874,992	103,309,715	96,470,212	98,671,555	97.63%	(2,484,403.25)	(3,728,000.60)
Assd Val M & T Taxes	11,452,777	6,715,547	6,124,366	5,676,513	9,451,688	95.31%	(500,272.25)	(504,121.20)
Assd Val Business Equip								
Penalties & Interest	177,948	172,877	170,040	184,096	178,208	100.04%	65.00	1,173.90
Local Sales & Use Tax	2,054,229	2,015,151	1,759,239	1,911,276	1,891,909	97.96%	(40,580.00)	(42,851.50)
Consumer's Utility Tax	749,579	735,458	718,563	710,361	695,041	98.13%	(13,634.50)	(13,417.30)
Motor Vehicle Licenses	321,523	320,831	322,618	327,947	331,072	100.73%	2,387.25	2,621.40
Balance Other Local Taxes	130,051	95,088	83,640	87,334	133,946	100.74%	973.75	3.60
BPOL	1,837,209	1,849,974	1,676,826	1,947,085	1,720,315	98.37%	(29,223.50)	(13,667.70)
Bank Franchise Tax	221,794	265,984	245,584	253,181	257,434	103.80%	8,910.00	5,847.70
Cigarette Tax	99,023	141,790	148,545	148,172	156,355	112.10%	14,333.00	12,104.60
Ambulance Fees	298,036	331,268	396,688	418,294	501,265	113.88%	50,807.25	49,348.40
Other Permits, etc.	134,318	116,008	164,222	87,081	93,498	91.34%	(10,205.00)	(11,056.70)
Fines & Forfeitures	167,266	180,298	172,344	151,231	163,118	99.37%	(1,037.00)	(3,736.30)
Use of Money & Property	952,502	690,007	636,423	559,983	653,278	91.00%	(74,806.00)	(72,847.20)
Charges for services	278,350	334,665	376,859	409,501	409,856	110.16%	32,876.50	33,784.80
State Communication Tax	1,031,174	968,924	937,786	961,470	911,484	96.96%	(29,922.50)	(24,683.40)
State Other NonCat (not PPT)	97,572	77,943	68,638	69,532	93,518	98.94%	(1,013.50)	(1,651.90)
State Shared Expenses	2,948,004	2,428,796	2,579,668	2,793,038	2,744,594	98.23%	(50,852.50)	(4,257.80)
State HB-599 - Police	1,000,553	962,941	841,344	872,180	841,560	95.77%	(39,748.25)	(40,874.70)
State Street Maintenance	2,547,283	2,642,578	2,625,314	2,721,036	2,822,058	102.59%	68,693.75	62,800.80
State Other Categorical Aid	973,886	886,918	689,131	511,016	659,676	90.72%	(78,552.00)	(100,432.20)
Federal Aid	431,715	166,171	335,999	202,661	141,411	75.65%	(72,576.00)	(54,411.80)
Meals Tax Fund Revenue	1,403,131	1,430,326	1,390,907	1,409,442	1,434,966	100.56%	7,958.75	4,278.60
State Schools Fringe Benefit	1,129,632	1,147,346	935,399	742,764	852,874	93.22%	(69,189.50)	(95,809.80)
State Schools Sales Tax	2,595,417	2,470,408	2,480,884	2,606,220	2,637,655	100.40%	10,559.50	22,028.80
State Basic Aid	7,382,116	8,966,076	6,928,225	6,216,816	6,102,241	95.35%	(319,968.75)	(530,901.00)
State Special Ed & At Risk	1,385,699	1,418,241	1,302,039	1,459,932	1,385,682	100.00%	(4.25)	4,165.70
State Schools Reduced K-3	504,667	573,522	521,116	531,481	550,385	102.19%	11,429.50	4,939.50
State Other School	2,684,370	2,688,141	2,248,388	1,771,167	1,857,057	91.20%	(206,828.25)	(257,160.00)
Federal Schools	1,011,577	949,944	264,867	169,421	501,431	83.91%	(127,536.50)	(180,081.50)
Electric Fund Charges for Ser	17,293,482	16,671,430	16,573,219	17,416,005	16,944,974	99.49%	(87,127.00)	4,755.90
Water Fund Charges for Servi	3,540,937	3,107,238	2,769,657	2,972,088	2,962,956	95.64%	(144,495.25)	(129,111.20)
Sewer Fund Charges for Serv	3,810,030	3,845,334	3,737,061	3,604,201	4,022,419	101.37%	53,097.25	18,364.50
Refuse Fund Charges for Ser	1,278,240	1,276,954	1,555,366	1,534,459	1,533,156	104.65%	63,729.00	76,733.70
Total School Expenditures	23,736,017	25,092,869	22,563,191	20,284,535	20,514,056	96.42%	(805,490.25)	(1,125,225.60)

Preliminary Forecast - Based upon the above, a base set of preliminary (unadjusted) revenue and expenditure forecasts were prepared. Respectively presented on Tables 3 and 4 are summaries of the City revenues and expenditures (complete, detailed materials are contained in the Technical Supplement). Reviews of the *preliminary* forecasts indicate that:

- Revenues are anticipated to remain approximately constant at \$71.3 million for the forecast period, FY2012 through FY2019.

Table 3

**City of Martinsville, Virginia
 Financial Forecast
 Fiscal Years 2014-2019**

REVENUE SUMMARY

	F a c #	Base Year 2014 Budget	Forecast				
			2015 Year 1	2016 Year 2	2017 Year 3	2018 Year 4	2019 Year 5
Revenue Summary							
Total Property Taxes (G F)		8,629,000	8,560,254	8,491,478	8,422,720	8,353,960	8,285,304
Total Other Local Taxes (G F)		6,075,000	5,994,547	5,914,222	5,834,129	5,754,276	5,674,676
Total Perm. Lic, Fines, And Forfeitures (I)		732,455	774,178	815,880	857,585	899,298	941,023
Total Use Of Money & Property (G F)		708,207	708,207	708,207	708,207	708,207	708,207
Total Charges And Misc.		354,122	363,338	372,562	381,790	391,005	400,232
Total Recovered Costs (G F)		1,267,470	1,263,870	1,263,870	1,263,870	1,263,870	1,263,870
Total State Sources (G F)		705,928	704,211	702,491	700,771	699,053	697,339
Total State Shared Expenses (G F)		2,936,048	2,931,350	2,926,658	2,921,975	2,917,300	2,912,633
Total Other Va Categorical Aid (G F)		4,182,888	4,247,422	4,311,877	4,376,186	4,440,595	4,505,054
Total Federal Sources (G F)		49,500	49,500	49,500	49,500	49,500	49,500
Total Other Funds		2,133,372	2,133,372	2,133,372	2,133,372	2,133,372	2,133,372
Total Enterprise Funds		26,746,120	26,746,120	26,746,120	26,746,120	26,746,120	26,746,120
Total Meals Tax Fund		1,900,250	1,904,750	1,909,264	1,913,791	1,918,332	1,922,886
Total School Op. Fund - Local		503,859	503,859	503,859	503,859	503,859	503,859
Total School Op. Fund - State		14,280,298	14,307,018	14,333,680	14,360,479	14,387,058	14,413,629
Total School Op. Fund - Fed.		132,634	132,634	132,634	132,634	132,634	132,634

TOTAL Revenue Summary	71,337,151	71,324,630	71,315,674	71,306,988	71,298,439	71,290,338
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- Expenditures are forecasted to grow from \$75.5 million (budget FY2014) to \$78.2 million (forecasted FY2019).

- Note: the use of fund balance, approximately \$4.1 million by all funds, causes an initial (budget FY2014) imbalance between revenues and expenditures. This is exacerbated by the fact that expenditures are forecasted to exceed revenues in each year of the forecast period.

Table 4

City of Martinsville, Virginia
 Financial Forecast
 Fiscal Years 2014-2019

EXPENDITURE SUMMARY BY FUNCTION

Expenditure	F a c #	Base Year 2014 Budget	Forecast					
			2015 Year 1	2016 Year 2	2017 Year 3	2018 Year 4	2019 Year 5	
Expenditure Summary by Function								
Total General Govt Admin (G F)		4,131,644	4,235,516	4,341,525	4,449,443	4,559,294	4,671,406	
Total Judicial Administration (G F)		2,015,400	2,064,314	2,115,170	2,166,829	2,219,299	2,272,750	
Total Public Safety (G F)		9,983,923	10,229,135	10,478,879	10,732,482	10,989,982	11,252,204	
Total Public Works (G F)		4,326,584	4,396,593	4,492,998	4,590,508	4,689,116	4,789,128	
Total Health & Welfare	100	100	102	104	106	108	110	
Total Parks, Recreation & Cultural (G F)		783,492	788,527	806,320	824,312	842,505	860,957	
Total Community Planning (G F)		2,815,264	2,814,684	2,824,712	2,834,915	2,845,461	2,856,246	
Total Special Revenue Funds		2,229,705	2,245,218	2,290,033	2,334,924	2,379,863	2,425,034	
Total Capital Reserve Funds		766,809	166,193	169,451	172,704	175,951	179,207	
Total Meals Tax Fund		1,575,029						
Total School Board		21,277,322	21,700,741	22,126,076	22,550,897	22,974,854	23,399,889	
Total Enterprise Funds		25,592,839	23,140,687	23,601,990	24,065,280	24,530,336	24,999,011	
TOTAL Expenditure Summary by Function			75,498,111	71,781,710	73,247,258	74,722,400	76,206,769	77,705,942

- It should be recalled that **at this juncture the forecast does not include recognition of existing debt service beyond the current budget year nor does it include any new capital projects, new debt service, new programs or operational changes.***

Financial Forecast - “Base Case” - The preliminary forecast was used as a starting point and certain adjustments were incorporated to reflect known or anticipated changes to operations. Included in these adjustments (details may be found in the Technical Supplement) were:

- Computations of prospective Real Property Tax revenue reflecting both “normal” growth (1% per year) and growth attributable to periodic reassessment and market conditions.

-The real property tax rates used represent an “equalized” tax rate³. Tax rates are adjusted with reassessment to produce neither an increase nor decrease in tax revenue. Real Estate rates, used in this forecast, range from: approximately \$1.06 per \$100 of assessed valuation in FY2014 & FY2015 to 96¢ per \$100 of assessed valuation in FY2018 & FY2019.

Other material adjustments include:

- Incorporating existing debt service (already committed).
- A beginning cash balance of approximately \$17 million. This amount includes funds reserved for future capital projects and debt service.
- Recognition of expected changing patterns (decline) in State and Federal funding and the local revenue generating base.
- *At this juncture the impact of the prospective capital program has not been included.*

The adjusted forecast is presented on Table 5. This reflects all forecasted and anticipated City operations over the planning period with the exception of new capital projects (or any new debt). The level of expenditure is forecasted to exceed revenue in all five years of the forecast period. Requirements of existing debt service, ongoing operations & local revenues, changing State and Federal funding patterns and previous commitments are not supported by anticipated revenues. The City’s \$17 million fund balance is forecast to be completely depleted by some time in FY2018.

We again note: The forecasts are for planning purposes only and are not to be regarded as accountants' opinions of the present or future financial position of the City of Martinsville. The forecasts are based upon past trends and their validity depends upon the

³ The forecast anticipates a general reassessments effective during the planning period. The prospective real estate tax rates are “in the normal course of events” reduced with increased assessed values and increased with reduced values. If the current tax rate were to be maintained throughout the planning period it would effectively result in a real estate tax increase or decrease.

outcome of future events. Additionally, modification of these estimates will become necessary: as City growth and development progresses; in the event of material changes in market or other economic conditions; in the event of changes in state or federal funding programs; or in the event of material deviation from historic or forecasted patterns of revenue and expenditure. Annual review and revision is recommended.

Table 5

City of Martinsville, Virginia
Financial Forecast - "Base Case"
Financial Forecast for the Period FY2014 through FY2019
Preliminary Cash Flow Forecast Exclusive of Capital Projects & New Debt Service

Item	Base Year	Forecast				
	2014 Budget	2015 Year 1	2016 Year 2	2017 Year 3	2018 Year 4	2019 Year 5
Beginning Balance:	16,972,000	12,811,040	10,320,705	6,427,272	1,273,798	(5,149,887)
Revenues						
Total Property Taxes (G F)	8,629,000	8,641,654	8,641,178	8,639,820	8,639,360	8,640,004
Total Other Local Taxes (G F)	6,075,000	5,994,547	5,914,222	5,834,129	5,754,276	5,674,676
Total Perm. Lic, Fines, And Forfeitures (G F)	732,455	774,178	815,880	857,585	899,298	941,023
Total Use Of Money & Property (G F)	708,207	708,207	708,207	708,207	708,207	708,207
Total Charges And Misc.	354,122	363,338	372,562	381,790	391,005	400,232
Total Recovered Costs (G F)	1,267,470	1,263,870	1,263,870	1,263,870	1,263,870	1,263,870
Total State Sources (G F)	705,928	704,211	702,491	700,771	699,053	697,339
Total State Shared Expenses (G F)	2,936,048	2,931,350	2,926,658	2,921,975	2,917,300	2,912,633
Total Other Va Categorical Aid (G F)	4,182,888	4,247,422	4,311,877	4,376,186	4,440,595	4,505,054
Total Federal Sources (G F)	49,500	49,500	49,500	49,500	49,500	49,500
Total Other Funds	2,133,372	2,133,372	2,133,372	2,133,372	2,133,372	2,133,372
Total Enterprise Funds	26,746,120	26,746,120	26,746,120	26,746,120	26,746,120	26,746,120
Total Meals Tax Fund	1,900,250	1,904,750	1,909,264	1,913,791	1,918,332	1,922,886
Total School Op. Fund - Local	503,859	503,859	503,859	503,859	503,859	503,859
Total School Op. Fund - State	14,280,298	14,307,018	14,333,680	14,360,479	14,387,058	14,413,629
Total School Op. Fund - Fed.	132,634	132,634	132,634	132,634	132,634	132,634
		0	0	0	0	0
Total Revenues	71,337,151	71,406,030	71,465,374	71,524,088	71,583,839	71,645,038
Expenditure						
Total General Govt Admin (G F)	4,131,644	4,235,516	4,341,525	4,449,443	4,559,294	4,671,406
Total Judicial Administration (G F)	2,015,400	2,064,314	2,115,170	2,166,829	2,219,299	2,272,750
Total Public Safety (G F)	9,983,923	10,229,135	10,478,879	10,732,482	10,989,982	11,252,204
Total Public Works (G F)	4,326,584	4,396,593	4,492,998	4,590,508	4,689,116	4,789,128
Total Health & Welfare	100	102	104	106	108	110
Total Parks, Recreation & Cultural (G F)	783,492	788,527	806,320	824,312	842,505	860,957
Total Community Planning (G F)	2,815,264	2,814,684	2,824,712	2,834,915	2,845,461	2,856,246
Total Special Revenue Funds	2,229,705	2,245,218	2,290,033	2,334,924	2,379,863	2,425,034
Total Capital Reserve Funds	766,809	2,280,848	2,281,000	2,127,866	1,976,706	1,977,903
Total Meals Tax Fund	1,575,029	0	0	0	0	0
Total School Board	21,277,322	21,700,741	22,126,076	22,550,897	22,974,854	23,399,889
Total Enterprise Funds	25,592,839	23,140,687	23,601,990	24,065,280	24,530,336	24,999,011
Total Expenditure	75,498,111	73,896,365	75,358,807	76,677,562	78,007,524	79,504,638
Revenues Over <Under>						
Expenditures	(4,160,960)	(2,490,335)	(3,893,433)	(5,153,474)	(6,423,685)	(7,859,600)
Ending Balance:	12,811,040	10,320,705	6,427,272	1,273,798	(5,149,887)	(13,009,487)

Partial presentation - see text for discussion of methodology and summary of significant assumptions.



IV. FORECASTED IMPACT - OPERATIONS AND CAPITAL PROGRAM

Materials presented earlier in this report are summarized and incorporated on Table 6. These materials have been interpreted in terms of their potential impact upon the City's real estate tax rate. Further, the forecasted cash flow (Table 5) has been subjected to a supplemental level of fiscal constraint and performance: the City's cash balance policy requirement that a minimum cash balance be maintained that equals at least 10% of the City's annual expenditures. Given the cash flow position forecast and presented on Table 5, the impact of any new capital projects (Table 1) have not been included in the analysis reflected on Table 6.

Table 6

**City of Martinsville, Virginia
 Financial Forecast - "Base Case"
 Financial Summary - Forecasted Impact
 Financial Forecast for the Period FY2014 through FY2019
 --- DOES NOT INCLUDE CIP PROJECTS ---**

Item	Base Year 2014 Budget	Forecast				
		2015 Year 1	2016 Year 2	2017 Year 3	2018 Year 4	2019 Year 5
Average Forecasted Assessed Value of RE for FY	\$665,893,372	\$689,449,872	\$713,072,872	\$738,125,372	\$763,416,372	\$790,236,872
Forecasted Net Annual "Cash Flow" From Operations Prior to Inclusion of New Debt Service or Capital Project Expenditures	(\$4,160,960)	(\$2,490,335)	(\$3,893,433)	(\$5,153,474)	(\$6,423,685)	(\$7,859,600)
Average Forecasted Real Estate Tax Requirement Necessary to Fund Any Operating Shortfall (Cents Per \$100 of Assessed Value)	\$0.62	\$0.36	\$0.55	\$0.70	\$0.84	\$0.99
Forecasted Cash Balance At Beginning of Year	\$16,972,000	\$12,811,040	\$10,320,705	\$7,536,000	\$7,668,000	\$7,801,000
Forecasted Net Annual "Cash Flow" From Operations Prior to Inclusion of New Debt Service or Capital Project Expenditures	(\$4,160,960)	(\$2,490,335)	(\$3,893,433)	(\$5,153,474)	(\$6,423,685)	(\$7,859,600)
Forecasted Capital Improvement Program Funding Requirements For: New Capital Project Debt Service Capital Project Expenditures Funded By Current Revenues						
Forecasted Net After Operating Expenses and Provision of Funds For Capital Improvement Program Requirements	(\$4,160,960)	(\$2,490,335)	(\$3,893,433)	(\$5,153,474)	(\$6,423,685)	(\$7,859,600)
Forecasted Cash Balance After Operations	\$12,811,040	\$10,320,705	\$6,427,272	\$2,382,526	\$1,244,315	(\$58,600)
Funds Necessary to Meet Operational and Minimum Cash (10% Of Expend. Budget) Requirements	\$0	\$0	\$1,108,728	\$5,285,474	\$6,556,685	\$8,008,600
Forecasted Cash Balance At End of Year	\$12,811,040	\$10,320,705	\$7,536,000	\$7,668,000	\$7,801,000	\$7,950,000
Average Real Estate Tax Rate Necessary To Support Operations & Minimum Cash Requirement	\$0.00	\$0.00	\$0.16	\$0.72	\$0.86	\$1.01
Average Annual Change in Real Estate Tax Rate	\$0.00	\$0.00	\$0.16	\$0.56	\$0.14	\$0.15

Note: Forecasted tax rate requirements above should be considered as supplemental (in addition to) the real estate tax rate anticipated by the original budget, as adjusted for reassessment(s).

Average R E Tax Rate Used To Compute Revenues For FY	\$1.06	\$1.06	\$1.01	\$1.01	\$0.96	\$0.96
Plus Change Noted Above	\$0.00	\$0.00	\$0.16	\$0.72	\$0.86	\$1.01
Average Total R E Tax Rate For FY	\$1.06	\$1.06	\$1.17	\$1.73	\$1.82	\$1.97

The data are presented on Table 6 in 2 sections:

- Top section - presented here is: a forecast of City real estate assessed values, the summary forecasted net annual cash flow (Table 5) and
 - Forecasted estimates of the "pennies" on the real estate tax rate that would be necessary to "balance" any forecasted annual operating deficits. Funding *just* the forecasted annual operating deficits is estimated to range from 36¢ to 99¢ per \$100 of assessed valuation.
 - Lower section - Beginning cash balances, the forecasted cash flow results of adjusted annual operations and the 10% cash balance policy are melded into a summary but comprehensive cash flow forecast schedule.
 - The last two lines indicate the pennies on the real estate tax rate necessary to annually support operations and the cash balance policy. In this case annual real estate tax rate increases are forecast to be necessary beginning in FY2016 when it is expected that additional funds will be necessary to meet the Fund Balance Policy. The final real estate tax rate is anticipated to be \$1.97 per \$100 of assessed valuation.
 - The forecast data indicate that significant expenditures are scheduled each year of the planning period to fund ongoing operations. These expenditures exceed the forecast operating revenues and have the effect of "drawing down" the City's accumulated fund balance to the point where the City's fund balance policy is "triggered" (FY16) and a real estate tax rate increase is "forced". The extent of the forecasted fund balance draw down may be mitigated to some extent by (factors that are controllable by the City):
 - Controlling and reducing City expenditure patterns and or programs offered.
 - Enhancing revenues attributable to City growth and development.
 - Rate and fee increases for services rendered.
 - Tax rate adjustments.
-

- The City should closely monitor on-going revenue and expenditure levels for material deviation from forecasted levels.

Clearly, the City must address significant revenue and expenditure issues prior to consideration of any further major program of capital expenditure such as that envisioned by the CIP (Table 1). Nevertheless, presented on Table 7 is an analysis comparable to that used in Table 6, only including capital projects.

Table 7

**City of Martinsville, Virginia
 Financial Forecast - "Base Case"
 Financial Summary - Forecasted Impact
 Financial Forecast for the Period FY2014 through FY2019
 *** INCLUDES CIP PROJECTS *****

Item	Base Year 2014 Budget	Forecast				
	2015 Year 1	2016 Year 2	2017 Year 3	2018 Year 4	2019 Year 5	
Average Forecasted Assessed Value of RE for FY	\$665,893,372	\$689,449,872	\$713,072,872	\$738,125,372	\$763,416,372	\$790,236,872
Forecasted Net Annual "Cash Flow" From Operations Prior to Inclusion of New Debt Service or Capital Project Expenditures	(\$4,160,960)	(\$2,490,335)	(\$3,893,433)	(\$5,153,474)	(\$6,423,685)	(\$7,859,600)
Average Forecasted Real Estate Tax Requirement Necessary to Fund Any Operating Shortfall (Cents Per \$100 of Assessed Value)	\$0.62	\$0.36	\$0.55	\$0.70	\$0.84	\$0.99
Forecasted Capital Improvement Program Funding Requirements For:						
New Capital Project Debt Service		\$0	\$0	\$0	\$0	\$0
Capital Project Expenditures Funded By Current Revenues		\$3,644,000	\$3,339,000	\$2,612,000	\$2,286,000	\$0
Total Annual Funding Requirements	\$0	\$3,644,000	\$3,339,000	\$2,612,000	\$2,286,000	\$0
Average Forecasted Real Estate Tax Rate Necessary to Fund:						
New Capital Project Debt Service	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Capital Project Expenditures Funded By Current Revenues	\$0.00	\$0.53	\$0.47	\$0.35	\$0.30	\$0.00
Average Forecasted Total Annual Real Estate Tax Rate Requirements	\$0.00	\$0.53	\$0.47	\$0.35	\$0.30	\$0.00
Forecasted Cash Balance At Beginning of Year	\$16,972,000	\$12,811,040	\$7,390,000	\$7,536,000	\$7,668,000	\$7,801,000
Forecasted Net Annual "Cash Flow" From Operations Prior to Inclusion of New Debt Service or Capital Project Expenditures	(\$4,160,960)	(\$2,490,335)	(\$3,893,433)	(\$5,153,474)	(\$6,423,685)	(\$7,859,600)
Forecasted Capital Improvement Program Funding Requirements For:						
New Capital Project Debt Service		\$0	\$0	\$0	\$0	\$0
Capital Project Expenditures Funded By Current Revenues	\$0	\$3,644,000	\$3,339,000	\$2,612,000	\$2,286,000	\$0
Forecasted Net After Operating Expenses and Provision of Funds For Capital Improvement Program Requirements	(\$4,160,960)	(\$6,134,335)	(\$7,232,433)	(\$7,765,474)	(\$8,709,685)	(\$7,859,600)
Forecasted Cash Balance After Operations	\$12,811,040	\$6,676,705	\$157,567	(\$229,474)	(\$1,041,685)	(\$58,600)
Funds Necessary to Meet Operational and Minimum Cash (10% Of Expend. Budget) Requirements						
Forecasted Cash Balance At End of Year	\$0	\$713,295	\$7,378,433	\$7,897,474	\$8,842,685	\$8,008,600
Average Real Estate Tax Rate Necessary To Support Operations & Minimum Cash Requirement	\$0.00	\$0.10	\$1.03	\$1.07	\$1.16	\$1.01
Average Annual Change in Real Estate Tax Rate	\$0.00	\$0.10	\$0.93	\$0.04	\$0.09	(\$0.15)

Note: Forecasted tax rate requirements above should be considered as supplemental (in addition to) the real estate tax rate anticipated by the original budget, as adjusted for reassessment(s).

Average R E Tax Rate Used To Compute Revenues For FY	\$1.06	\$1.06	\$1.01	\$1.01	\$0.96	\$0.96
Plus Change Noted Above	\$0.00	\$0.10	\$1.03	\$1.07	\$1.16	\$1.01
Average Total R E Tax Rate For FY	\$1.06	\$1.16	\$2.04	\$2.08	\$2.12	\$1.97

Introduced on Table 7 is a “middle section” where the real estate tax rate impact attributable to new capital projects (cash outlay and new debt service) is calculated. It is noted that, at this point, this computation is made independently from any other operational forecast in this report. For example, the indication on Table 7 that 47 cents are needed to fund capital expenditure and new debt service in FY2016 should be interpreted to mean: given the forecasted assessed values for that year, a real estate tax rate of 47 cents would generate the funds necessary to support projects funded from current revenue.

The last two lines of the lower section indicate the pennies on the real estate tax rate necessary to annually support operations, new capital and debt and the cash balance policy. In this case annual real estate tax rate increases are forecast to be necessary each year beginning in FY2016. The final real estate tax rate is anticipated to be the same: \$1.97 per \$100 of assessed valuation



And we reiterate: during contemplation of the budget and any capital expenditure, it is recommended that revenue, expenditure and fund balance levels be carefully monitored. In particular, application and the amount of fund balance used should be of primary concern. The City’s financial condition is being negatively impacted by a combination of: reliance on fund balance to finance ongoing operations, negatively trending real estate and other local market conditions, and decreases from State and Federal funding sources.

The prudence of City Council’s timely decision to undertake this financial planning exercise has been borne out. It would appear that the City is at a juncture where careful fiscal deliberation can preserve its current fiscal position and mitigate anticipated trends. With the passage of time, the validity of the assumptions underlying the forecast must be carefully monitored.

