

# *City of Martinsville*



## **FY 2010-2011 City Manager's Recommended Budget**

# Special Thanks To...

- Finance Team
  - Linda Conover
  - Donna O'Dell
  - Staff Members
- City Manager's Staff
  - Brenda Prillaman
  - Karen Walker
- Commissioner of the Revenue
- Citizens that responded to the survey and for giving input by other means

# In This Presentation...

- Budget Process
- Initial Trial Balance
- Why Is There a Deficit?
- Tax Increase or Not?
- Revenue Needed to Provide Core Services
- Expense Reduction Plan
- School Transfer
- Outside Agency Funding
- Positives For Our Future
- Next Steps

# Budget Process

- December- Departmental budget packets prepared
- January- Capital budget submitted and reviewed
- February- Departmental & Constitutional Office Reviews
- March- Revenue Forecasting
- April- Budget adjustments made
  - Final balance of funds determined
  - Presentation of initial budget to City Council
- May- Budget Work Sessions
- May – Public Hearing
- June – Final approval
- July 1 – Effective date

# FY 10 CURRENT Budget Expenditures



Schools  
22%

Judicial  
6.8%

Public  
Works  
13.7%

Health/  
Welfare  
.6%

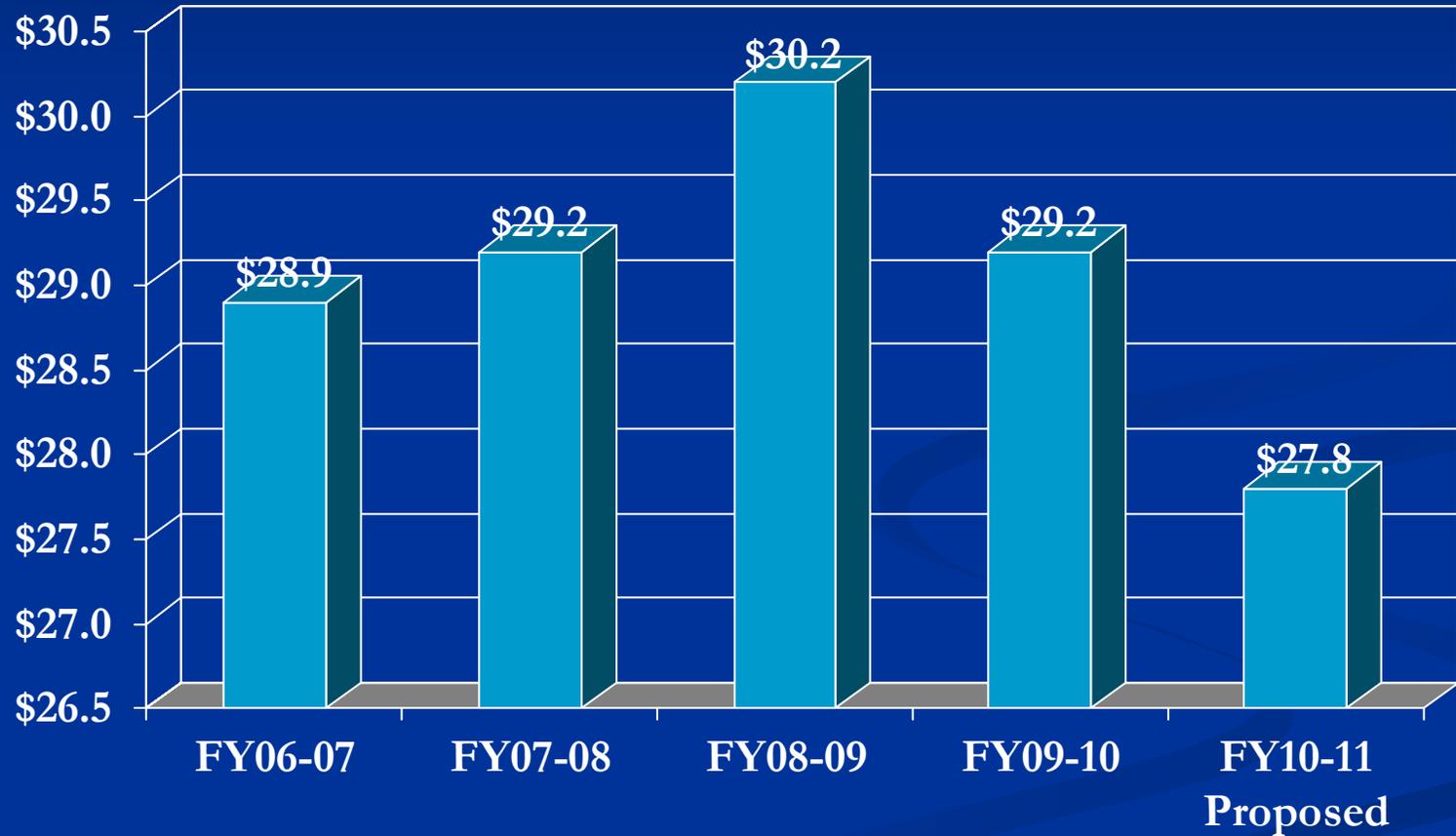
Law  
Enforcement  
& Public  
Safety 32.1%

Parks/  
Culture  
4.7%

Non-  
Dept  
.7%

Gen. Admin/  
Comm Dev  
19.3%

# General Fund Trend



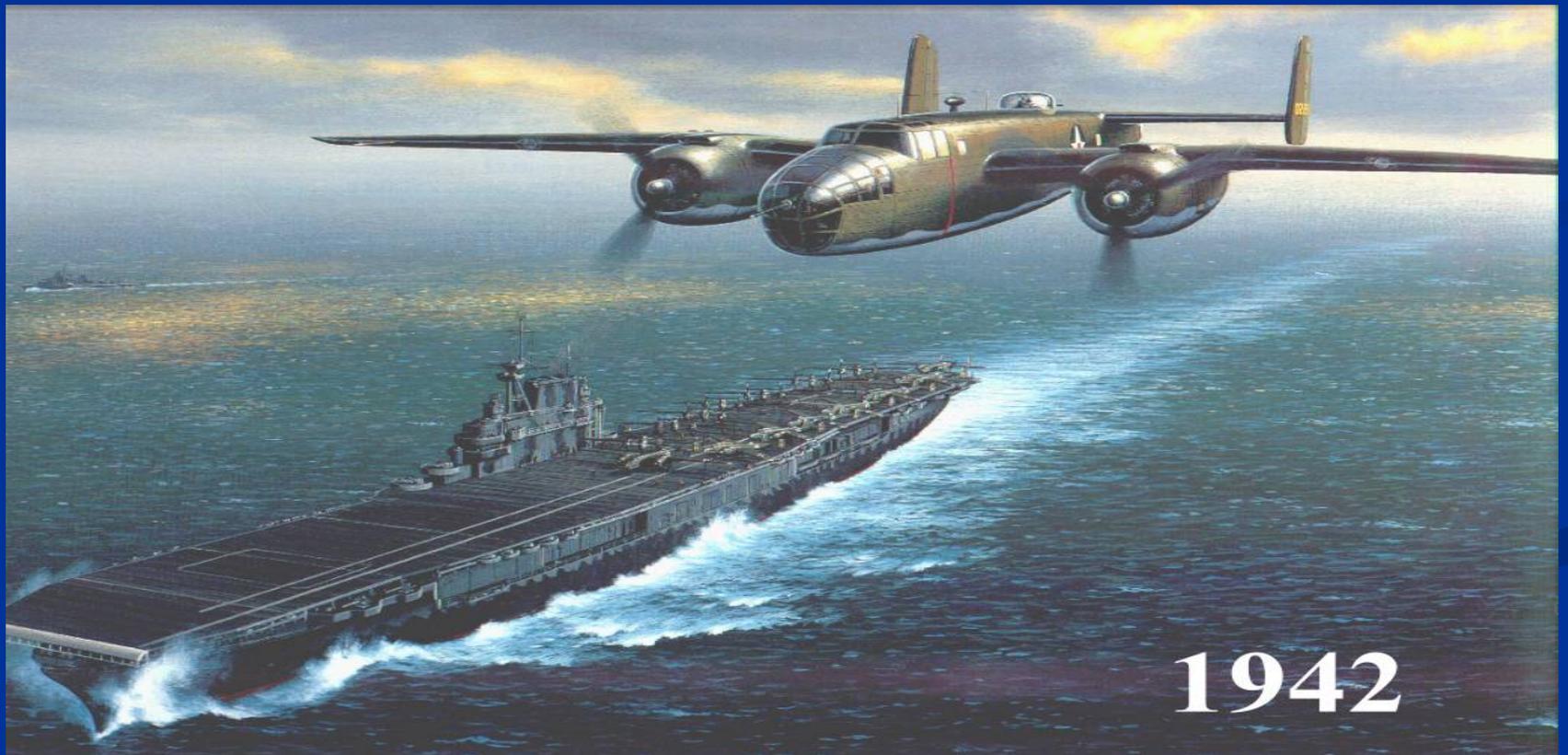
# Initial Trial Balance

- Requested expenditures exceeded anticipated revenues by \$4.8M
- How does this deficit compare to...
  - Fire/EMS/Safety/Inspections budget is \$2.3M
  - Police Department budget is \$3.7M
- Some very tough decisions had to be made!!!!
- How do you cut \$4.8M without making major changes and without affecting everyone?????

“The true measure of a man is not how he behaves in moments of comfort and convenience but how he stands at times of controversy and challenges.”

*Martin Luther King, Jr.*

This Budget Strategy is Like  
*The Preparation Before the  
Doolittle Raid*



“To balance this budget, the load was reduced so the mission of the City can go forward.

There will be controversy and challenges to overcome. Our alternatives are few.”

*Clarence Monday, City Manager*

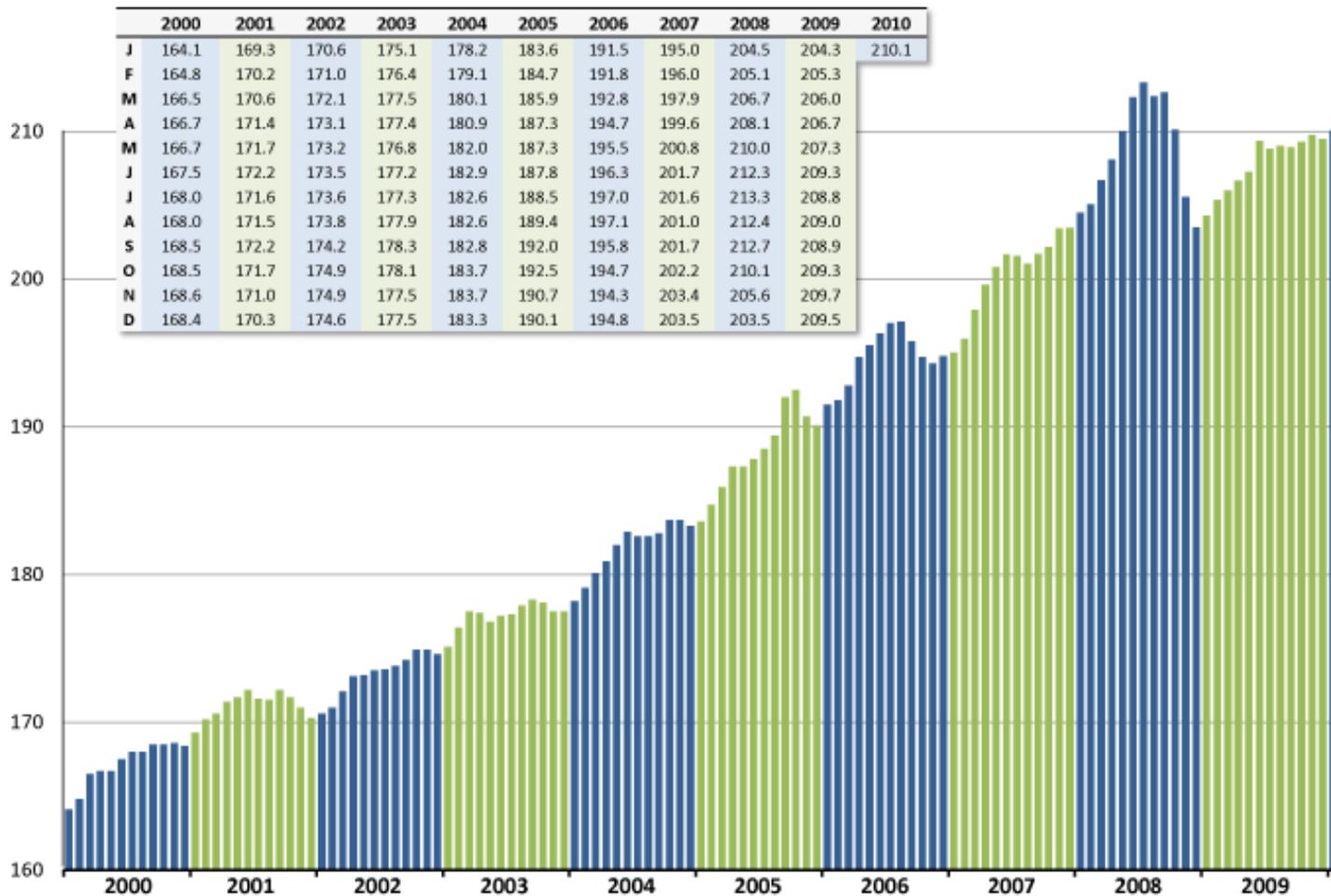
# Why Is There a Deficit?



# Consumer Price Index (CPI)

## CONSUMER PRICE INDEX: 2000 to 2010

All Urban Consumers, South Urban, All Items, Not Seasonally Adjusted  
Base Period 1982-1984 = 100



# State Funding



# Local Funding

- The revenue trend for local governments closely correlates to:
  - Global economics
  - Federal revenue & spending
  - State revenue and ATL
  - Gross domestic product (GDP)
  - Inverse relationship to unemployment
  - Lags “macro” factors by 12-18 months
    - RE, PP, M&T, BPOL, Meals, Sales, etc.



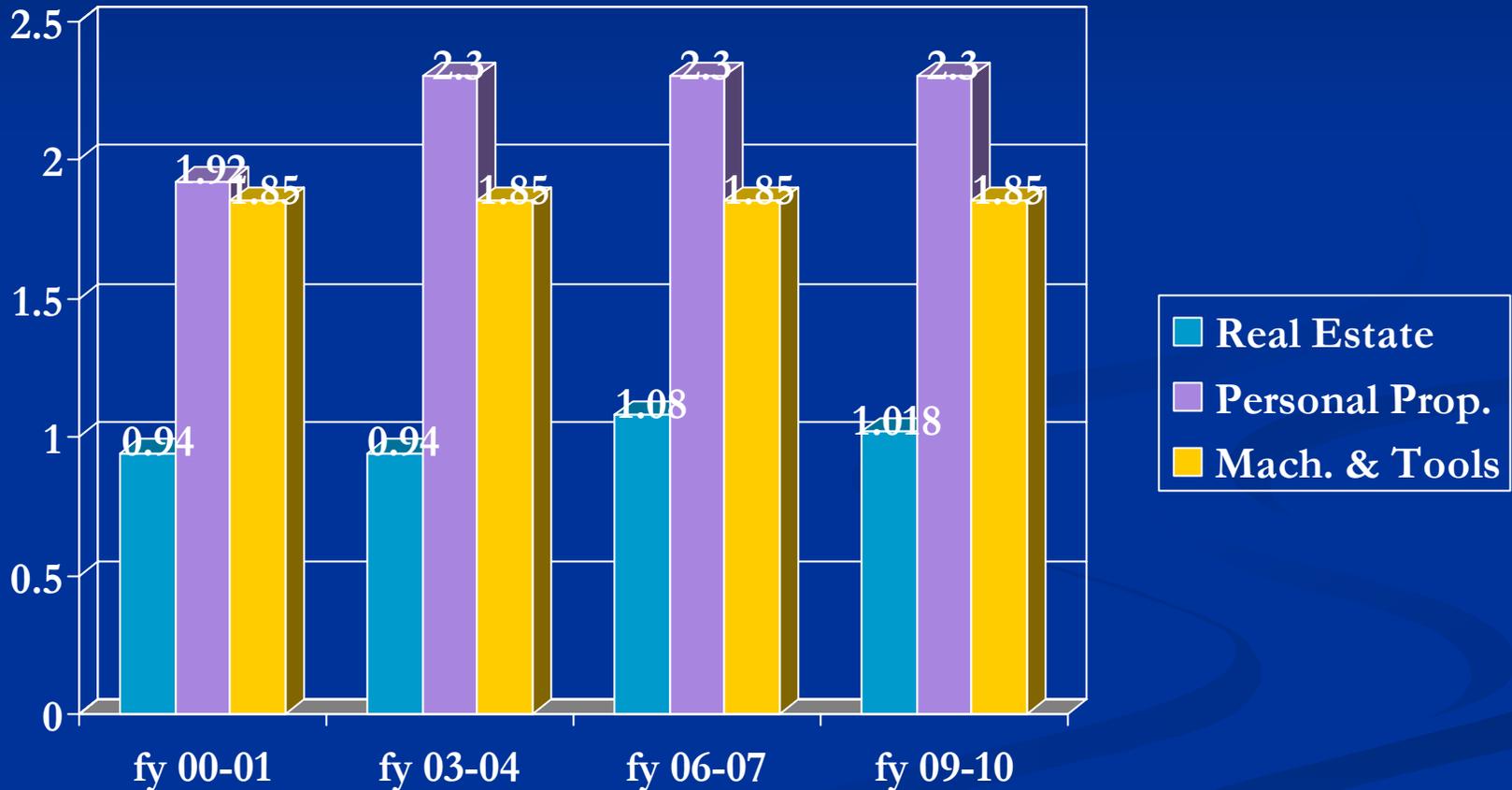
# Why We Have a Deficit

- Local tax revenue down \$1.5M
- Interest revenue down
- Reduced State funding
- Electric consumption down
- All electric rate increases not passed on to customers.
- Increased transmission charges \$1.1M

# Why We Have a Deficit

- Loss of water sales to HCPSA
  - (\$650,000) gross revenue
  - (\$500,000) net income
- No local tax increases since
  - FY 2004 personal property
  - FY 2007 real estate
- Global trade policies
- Loss of population
- Recession that started in 2008

# Tax Rate Trend by Category



# From The National League of Cities...

- Over 80% of 2,200 local governments surveyed responded they are moderately to severely affected by this financial crisis & reported an average budget shortfall of more than 8%.
  - Compared to FY10, Martinsville's revenue is down 8.5%.
- 2 out of 3 of those responding believe that these recessionary changes represent a “new way” of doing business that will continue beyond the fiscal crisis.

# Tax Increase or Not?



# What Does the Public Think?

- December informal session at the Armory
  - Keep current services
  - No tax or fee increases
- Public Input Session
  - City government and school funding both are important
  - Revenue shortfalls should be distributed across the board

# What Does the Public Think?

- 9,000 surveys distributed
- 268 returned
- Question #4 “If significant changes are needed to balance the budget”
- 241 responses to this question

Raise PP Tax	37
Raise RE Tax	19
Reduce Services	119
“Other”	66

# What Does the Public Think?

- “Other” responses:
- Cut jobs and salaries
- Charge less for City services
- Increase taxes on cigarettes, alcoholic beverages
- Raise meals tax
- Consolidate with County
- Stop buying hotels
- Cut bonuses
- Increase fine fees
- Cut education
- Higher local sales tax

# What Does the Public Think?

- HIGHEST priorities
- In order from Highest to Lowest priority, the number of “1” and “2” responses

Law Enforcement	29
Education	23
Fire and EMS	21
Economic Develop.	11

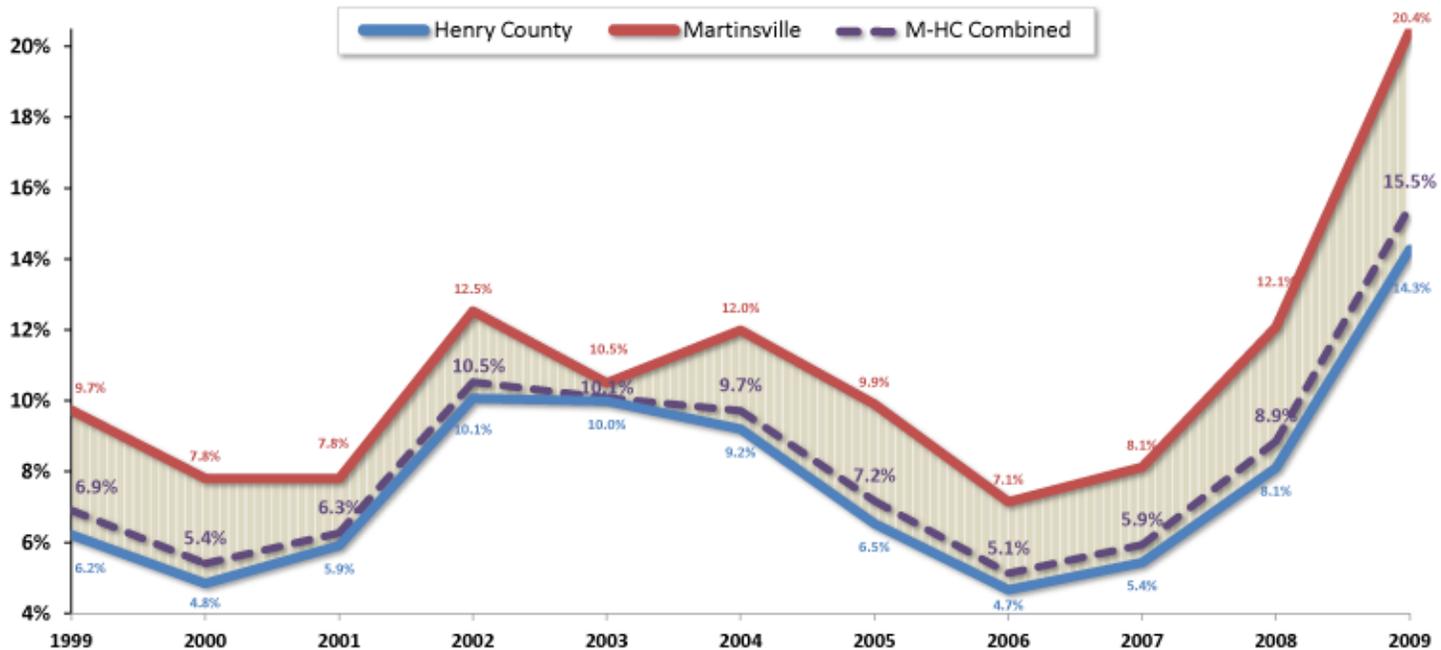
# What Does the Public Think?

- SERVICES to reduce or eliminate
- In order from FIRST to reduce or eliminate, the number of “1” and “2” responses

Public Transit	18
Recreation	15
Recycling	9

# Unemployment Trend

## MARTINSVILLE-HENRY COUNTY ANNUAL UNEMPLOYMENT RATES

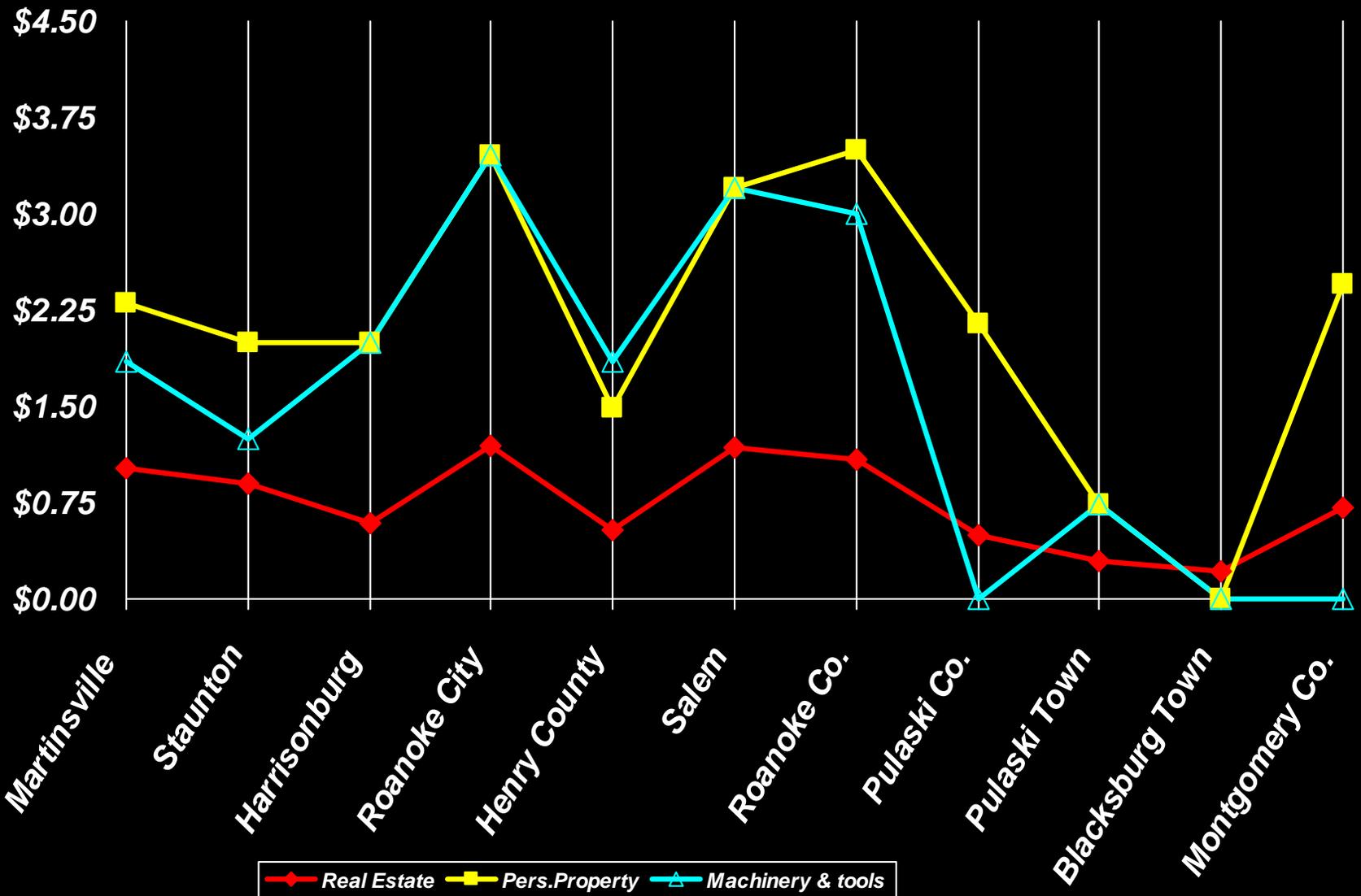


HENRY COUNTY			
Period	Employed	Unemployed	UE %
1999	25,825	1,710	6.2%
2000	27,289	1,389	4.8%
2001	26,742	1,680	5.9%
2002	25,512	2,856	10.1%
2003	25,522	2,832	10.0%
2004	24,080	2,439	9.2%
2005	24,024	1,679	6.5%
2006	24,117	1,179	4.7%
2007	24,529	1,409	5.4%
2008	23,862	2,104	8.1%
2009	22,367	3,724	14.3%

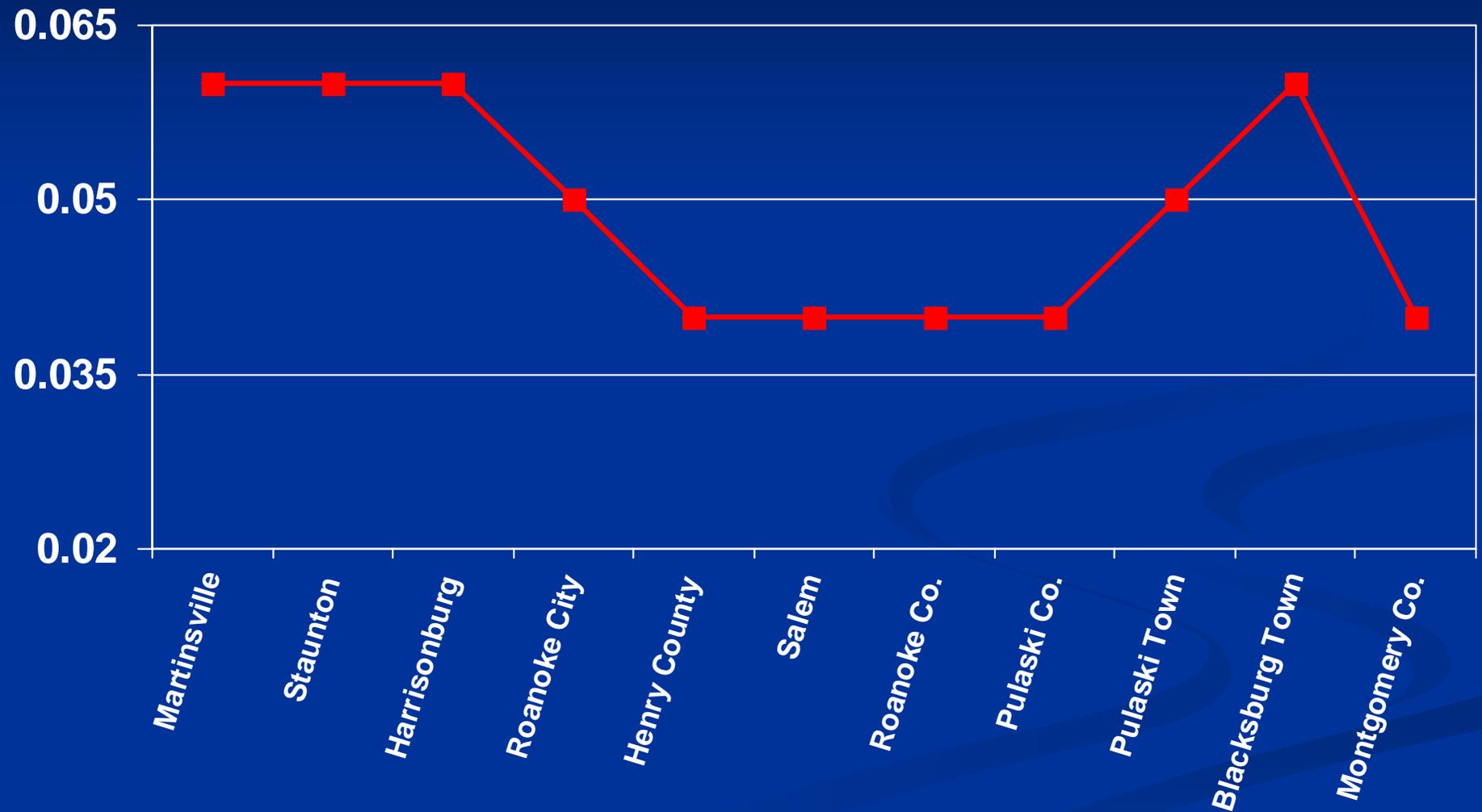
MARTINSVILLE			
Period	Employed	Unemployed	UE %
1999	6,149	663	9.7%
2000	6,175	523	7.8%
2001	6,074	514	7.8%
2002	5,718	819	12.5%
2003	5,726	672	10.5%
2004	5,373	732	12.0%
2005	5,402	594	9.9%
2006	5,458	420	7.1%
2007	5,475	484	8.1%
2008	5,327	732	12.1%
2009	4,992	1,283	20.4%

MARTINSVILLE-HENRY CO. COMBINED			
Period	Employed	Unemployed	UE %
1999	31,974	2,373	6.9%
2000	33,464	1,912	5.4%
2001	32,816	2,194	6.3%
2002	31,230	3,675	10.5%
2003	31,248	3,504	10.1%
2004	29,453	3,171	9.7%
2005	29,426	2,273	7.2%
2006	29,575	1,599	5.1%
2007	30,004	1,893	5.9%
2008	29,189	2,836	8.9%
2009	27,359	5,007	15.5%

# FY10 Taxes & Fees---Locality Comparison



# FY10 Meals Tax—Locality Comparisons



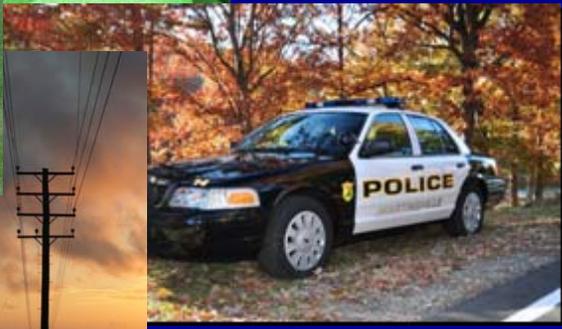
# Tax Increase or Not?

- City Manager does not recommend a tax increase at this time.
  - Up to 30% of City population not working
  - High percentage of older citizens on fixed incomes
  - Current tax rates are already nearing or exceeding other small cities
  - Although no tax increase is recommended, revenue is needed to provide core services expected by our citizens.

# With These Facts, How Will the Budget Be Balanced in the New Fiscal Year?



# Revenue Is Needed to Provide Core Services



# Landfill Methane Project

- Phase I almost complete, some carbon credit revenue may be realized in FY10
- \$300,000 new revenue in Refuse Fund for FY11, in form of carbon credits
- Phase II construction to begin in November, and may be complete in the last quarter of FY11.



# Sale of Surplus Property

- Recommendation to sell various residual and/or unused parcels of land as discussed by Council last year
- Assessed value \$160,300
- \$75,000 included in General Fund Revenue

# Water Revenues

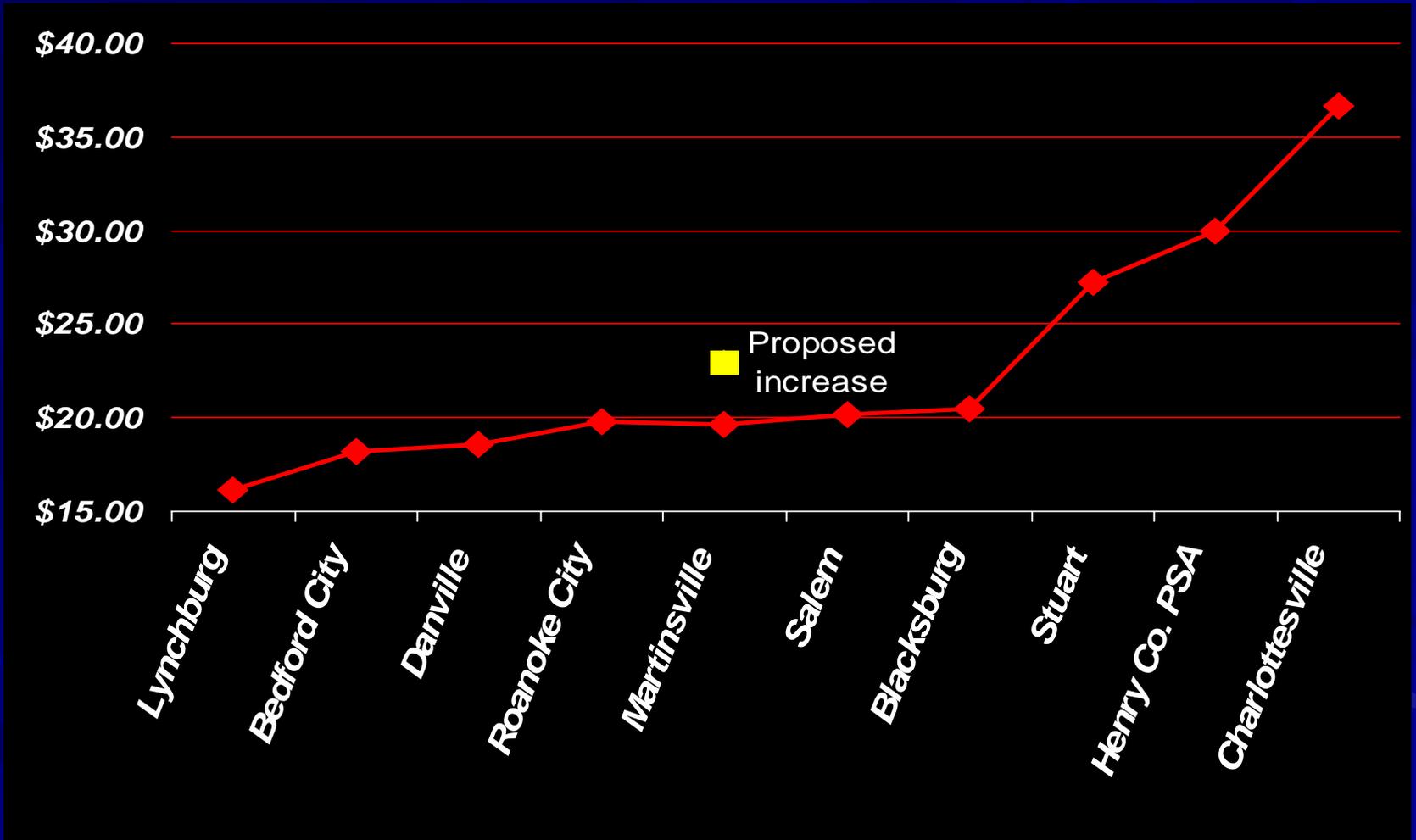
- During FY08/09, the HCPSA ceased purchasing water from the City to supply the Rt 58 East and Rt 220 South areas of the County, resulting in a gross revenue loss of ± \$650,000/yr.
- Subsequently, the City implemented operating cost reductions of ± \$150,000/yr, leaving a net revenue loss of ± \$500,000/yr, approx 19% rate increase to offset this loss.
- Operating costs have also increased including electricity and chemicals for water treatment.
  - Variable costs to treat a gallon of water has increased 64.2%.
- A rate increase for WATER (17.3%) is proposed, generating \$380,170.

# Water Rate Increase

- Currently “Outside City” water rates are 150% of “Inside City” rates. While keeping “Outside City” rates comparable to HCPSA rates, the recommended “Inside” rate increase is 17.3%, and the “Outside” rate increase is 2.6%.

# FY10 WATER RATES COMPARISONS

## Residential 5,000 gallons usage



# Water Rate Increase

## “Inside City”

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	Current	Proposed	Increase
4,000 gal/mo (Min)	16.89	19.81	2.92
5,000 gal/mo (Avg)	<b>19.61</b>	<b>23.00</b>	<b>3.39</b>
6,000 gal/mo	22.33	26.19	3.86
50,000 gal/mo	173.72	203.77	30.05

# Water Rate Increase

## “Outside City”

	Current	Proposed	Increase
4,000 gal/mo (Min)	25.34	26.00	0.66
5,000 gal/mo (Avg)	29.41	30.17	0.76
6,000 gal/mo	33.48	34.35	0.87
50,000 gal/mo	260.34	267.11	6.77

# Water Rate Increase

Rates are compared statewide based on the average residential consumption of 5,000 gal/mo.

## “Inside City” Rates for 5,000 gal/mo

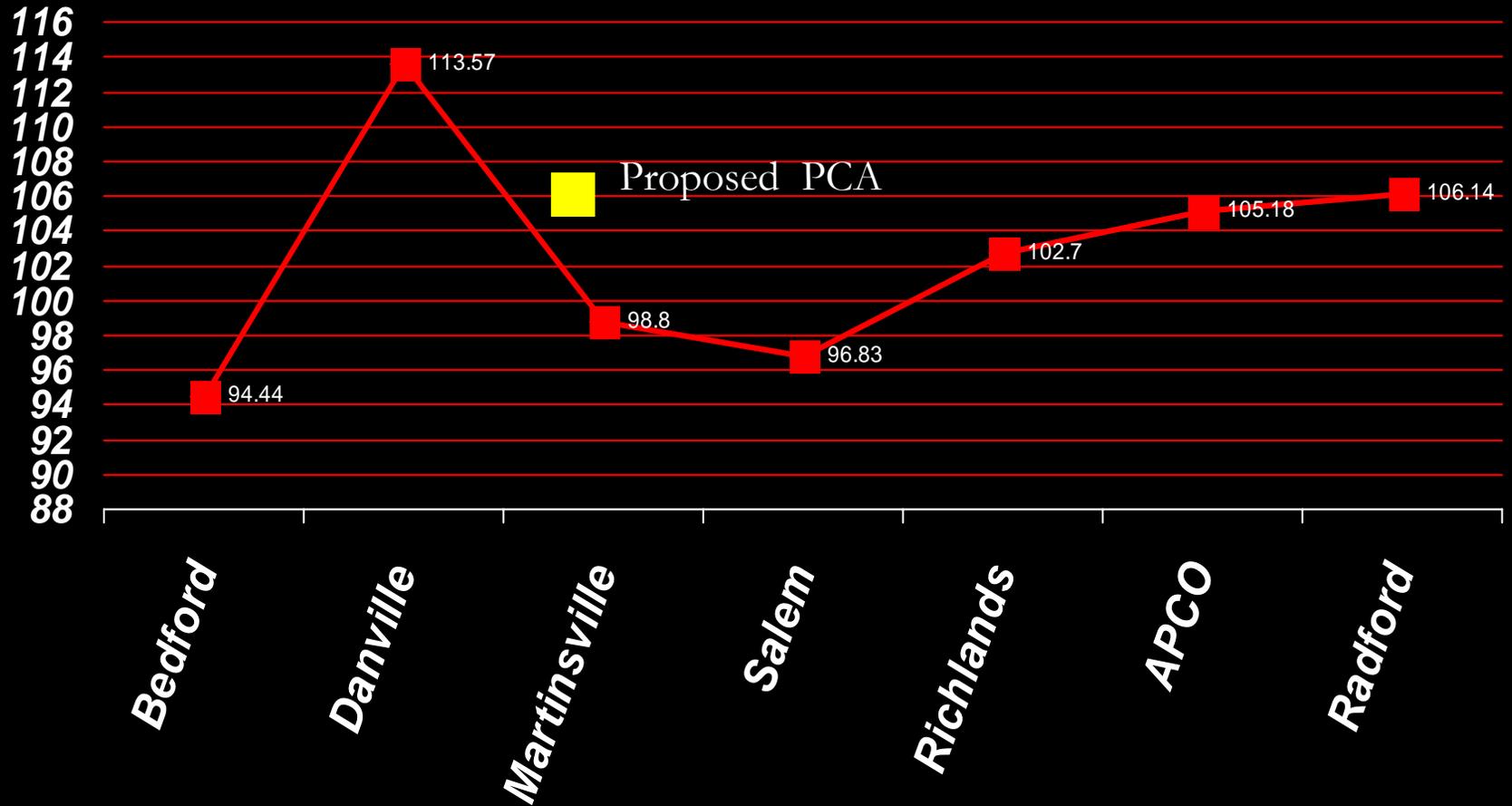
Current	\$19.61
Proposed	\$23.00
State Average	\$25.72
State Average of Similar Size Systems	\$22.28

# ELECTRIC POWER COST ADJUSTMENT

- Since 2008, the city budget has been absorbing the power cost adjustment and no power cost adjustments have been passed on to our electric customers.
- Without a power cost adjustment in FY2011, the city will experience a revenue loss of \$1,156,299.
- A power cost adjustment is necessary to recover our ACTUAL COST of power.

# FY10 ELECTRIC RATES COMPARISON

monthly fee based on 1,000 KWH usage



# Electric Power Cost Adjustment

<u>City</u>		<u>APCO</u>
\$98.80	Now	\$105.18
\$105.60	Proposed Rate for 1,000 KWH	N/A
\$6.80	Increase	N/A
+\$0.42	Difference Between City & APCO	N/A

# Impact on City Residential Taxpayer

	Average Monthly Increase as Proposed
Water Rate Increase	\$3.39
Power Cost Adjustment	\$6.80
Monthly Increase for Average Household in the City	<u>\$10.19</u>

# Expense Reduction Plan



# Budgets Balanced By...

- Reducing expenditures
  - Eliminated over 11% of the workforce in 3 years along with department reorganizations.
  - Upper management and other staff doing multiple jobs.
  - Reducing department operating costs to rock-bottom levels.
  - Nearly eliminating employee training and career development.
  - Reducing capital purchases.

# Budgets Balanced By...

- Reducing expenditures continued
  - Adopted a market pay plan in the early 90's but remains unfunded.
  - Most department heads earn 40% less than market.
  - Passed increased health insurance costs to employees.

# City Employees



# City Employees

- This is truly the City's most valuable asset!!!
  - “City” employees
  - School employees
  - Constitutional Office employees
- During a recession, the demand for City services does not diminish by the same amount of an economic downturn.

# City Employees

- No pay increase proposed. Last increase was two years ago.
- Recommend following state holiday schedule again.
- Last resort is for further reduction of the workforce.
- Goal is to protect the investment that the City has made in its employees and to be able to provide services that are set by policy.

# City Employees

- (4) employee furlough days proposed.
- Savings \$142,000
- Exact procedure TBD and TBA.
- Will close building when practical to further reduce operating costs.
- Consequences
  - Employee pay reduced by about 1.5%
  - Slower response by staff.
  - Less work out of City offices.
  - May have to say “no.”

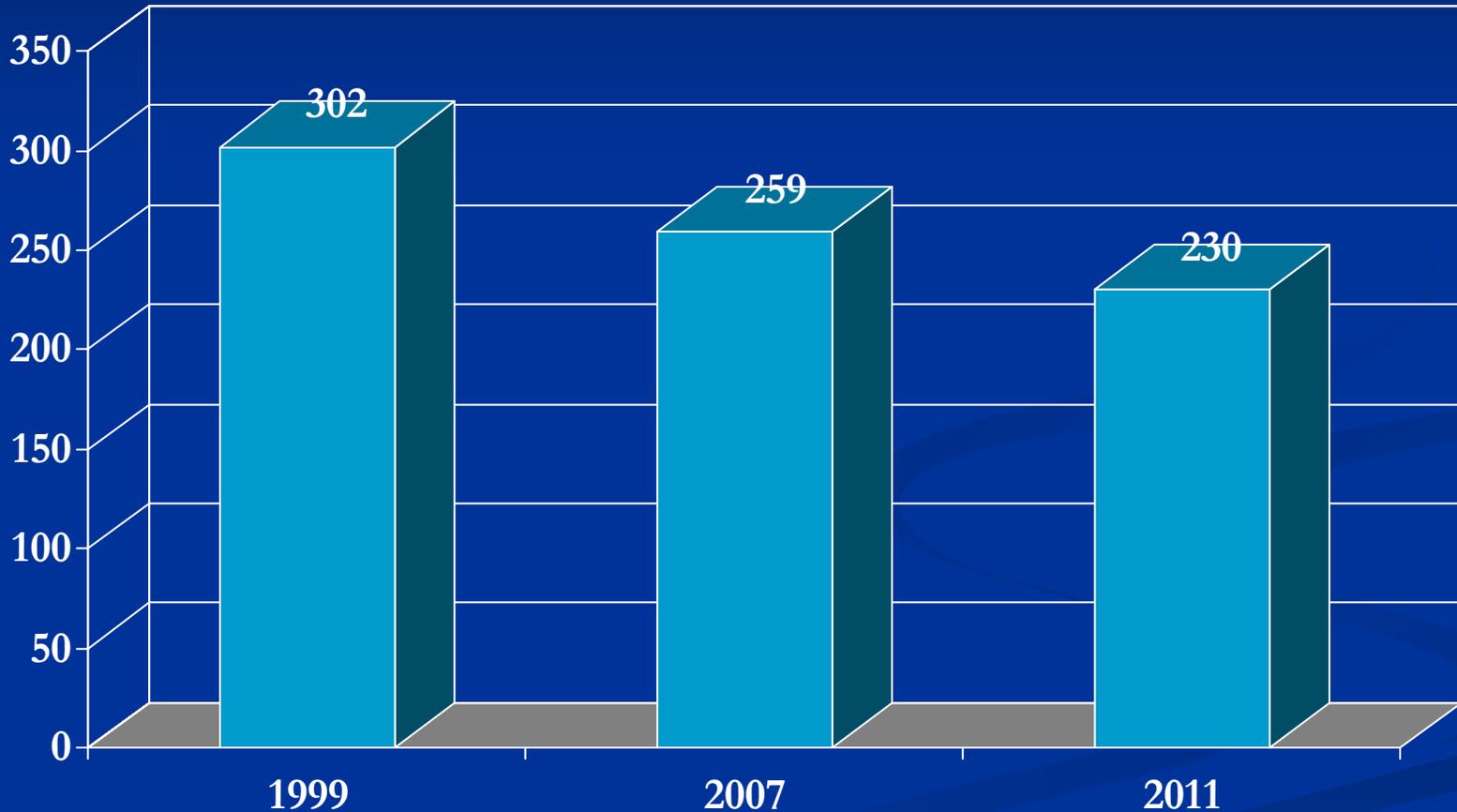
# City Employees

- Reduction in force
- (12) positions in FY10, continuing into FY11
  - Police Officer
  - Police Sgt in Community Oriented Policing
  - Police Captain
  - Firefighter
  - Hydrant Maintenance Specialist / Fire Inspector
  - Automotive Mechanic
  - Utility Billing Associate
  - Electrical Engineer

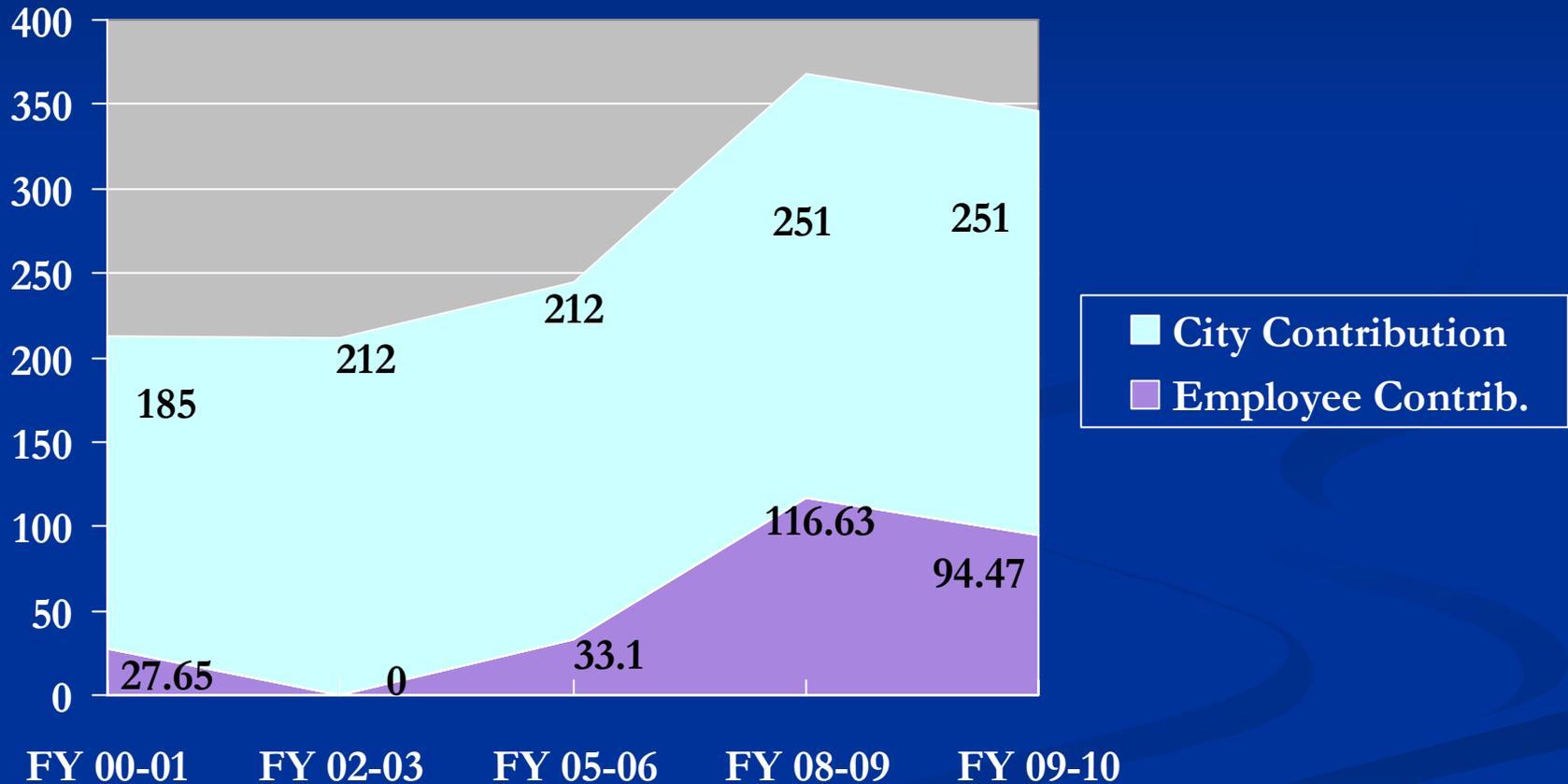
# City Employees

- Reduction in force continued
- (12) positions in FY10, continuing into FY11
  - Engineering Technician
  - Admin Office Associate in Parks & Recreation
  - Admin Office Associate in Purchasing
  - Public Information Officer
- Reduces city payroll by \$667,036
- Total workforce on July 1 = 230 City employees

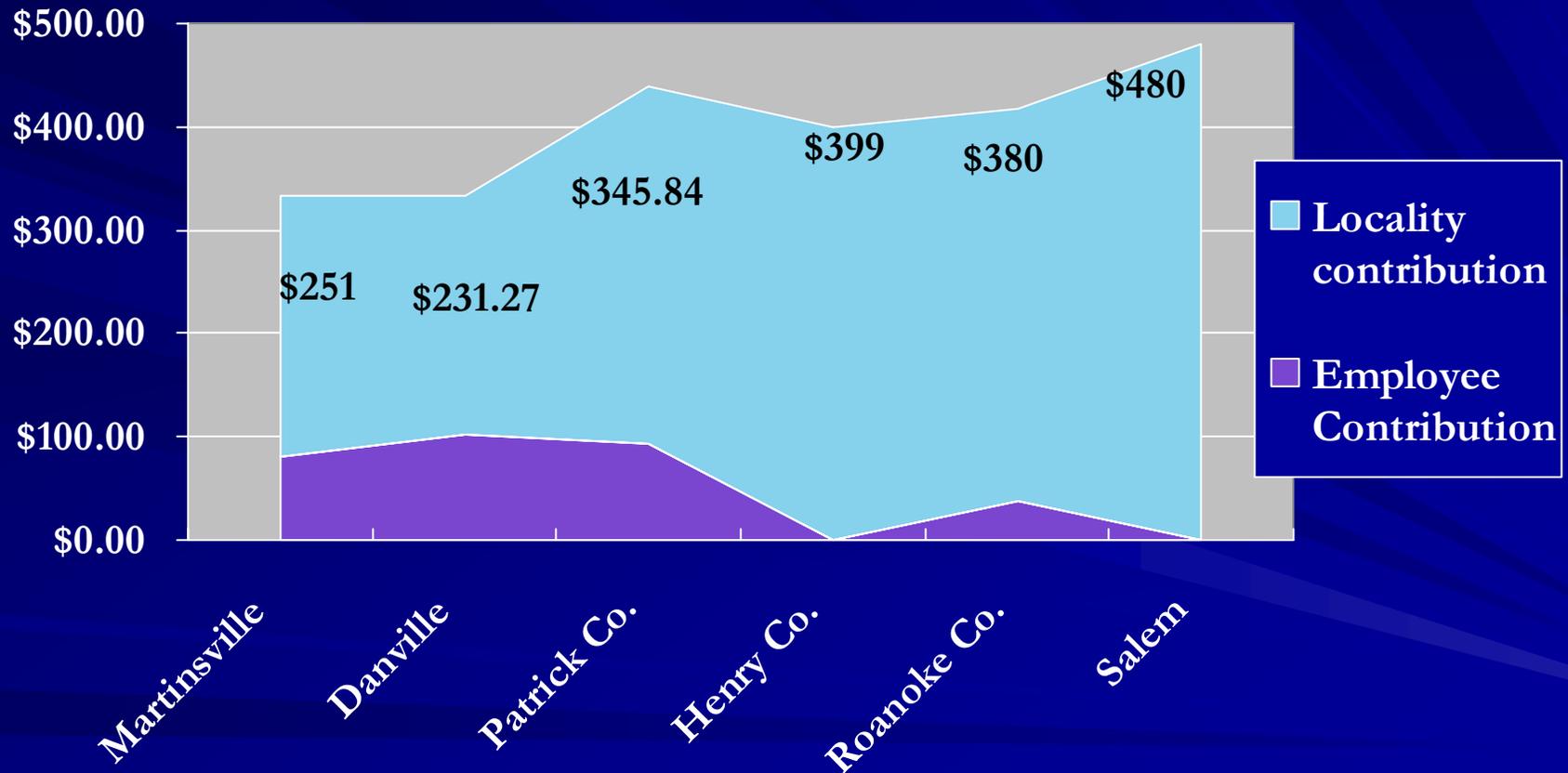
# City Employee Trend, 23.8% Reduction in 13 Years



# Health Insurance Gap



# Health Insurance Funding Comparison by Localities



# Health Insurance for FY11

- Exact rate increase unknown at this time.
- Per City and School insurance consultant KSPH, rate increase may be as much as 16%.
- Negotiations underway.
- Will know exact rate on May 4<sup>th</sup>.
- Depending on history of HRA usage, may be able to redirect unused dollars to help offset rate increase.

# Capital Projects

- Only VITAL projects included
- General Fund
  - Fire Truck: delivery in last quarter FY11, 1<sup>st</sup> payment not due until FY12
- Garbage Truck: same strategy as fire truck
- Waste Water Plant – intake screening device. One quarterly payment in FY11.

# Other Changes

- Continued “lean” department budgets.
- Employee travel and continuing education at bare minimum, mandatory/essential only.
- Recommend pay reduction for City Council Members at 5%

# Constitutional Offices



# Additional Constitutional Office Reductions By the State

■ Commissioner of Revenue	\$20,765
■ Treasurer	\$21,638
■ Sheriff	\$127,385
■ Commonwealth's Attorney	\$39,944
■ Circuit Court Clerk	\$29,145
■ Total	<u>\$238,877</u>
■ Past reductions in FY09 and FY10	
■ New reductions passed on to these offices	

# Commissioner of Revenue

- In order to meet the budget reduction goal, the Commissioner's office will:
- Take a 2% reduction in pay (which is the pay increase provided by the City in FY2009)
- Take 5.5 furlough days where the office will be closed. These days will be coordinated with the City and other Constitutional Offices.
- Reduced miscellaneous line items including advertising, and travel and training budgets.

# Treasurer

- In order to meet the budget reduction goal, the Treasurer's Office will:
- Reduce Full Time Salary
- Reduce Part Time Funds
- Reduce Miscellaneous Expenses

# Sheriff

- Did not fill one full time position in the jail
- Will wait 3 months to fill 2 other positions
- Plan 5 furlough days for all employees over the year
- Reduced various operating budget lines totaling approximately \$38,600

# Commonwealth's Attorney

- Vacant attorney's position eliminated in FY10.
- Position to remain vacant.
- Annual cost savings more than accommodates state budget reduction.

# Circuit Court Clerk

- Take a 2% reduction in pay (which is the pay increase provided by the City in FY2009).
- Decrease office expenses.
- Contribute new revenue to the City including remote access fees, local copy fees, passport photo revenue, and recovered costs for passport fees.

# Martinsville City Public Schools

*"Where Learning Has No Limits and Academic Excellence is Measured  
One Child at a Time"*

## School Transfer



# School Transfer

- We are proud of the accomplishments of our School System!



# School Transfer

- The School Budget consists of Federal and State Funds, Local Dollars, and Grants.
- The School Board approves the School Budget and determines what programs are funded.
- The City Council only approves the local contribution to schools.
- State budget adjustments in FY09 and FY10 were made in City departments and Constitutional Offices and were not passed on to Schools.

# School Transfer

- In FY10, the City's transfer to schools is \$6,439,251 before agreement to allow reappropriation of up to \$300,000.
- City revenues are down 8.5% in FY11 alone.
- With across the board cuts, 8.5% of the school contribution is \$547,336 or \$572,836.
- City Manager's recommendation for funding is \$5,826,394
  - FY10 shortfalls were not passed on to the School System
  - More funding will take policy changes, tax increase, and/or other budget adjustments
  - \$612,857 less than current FY

# Outside Agency Funding

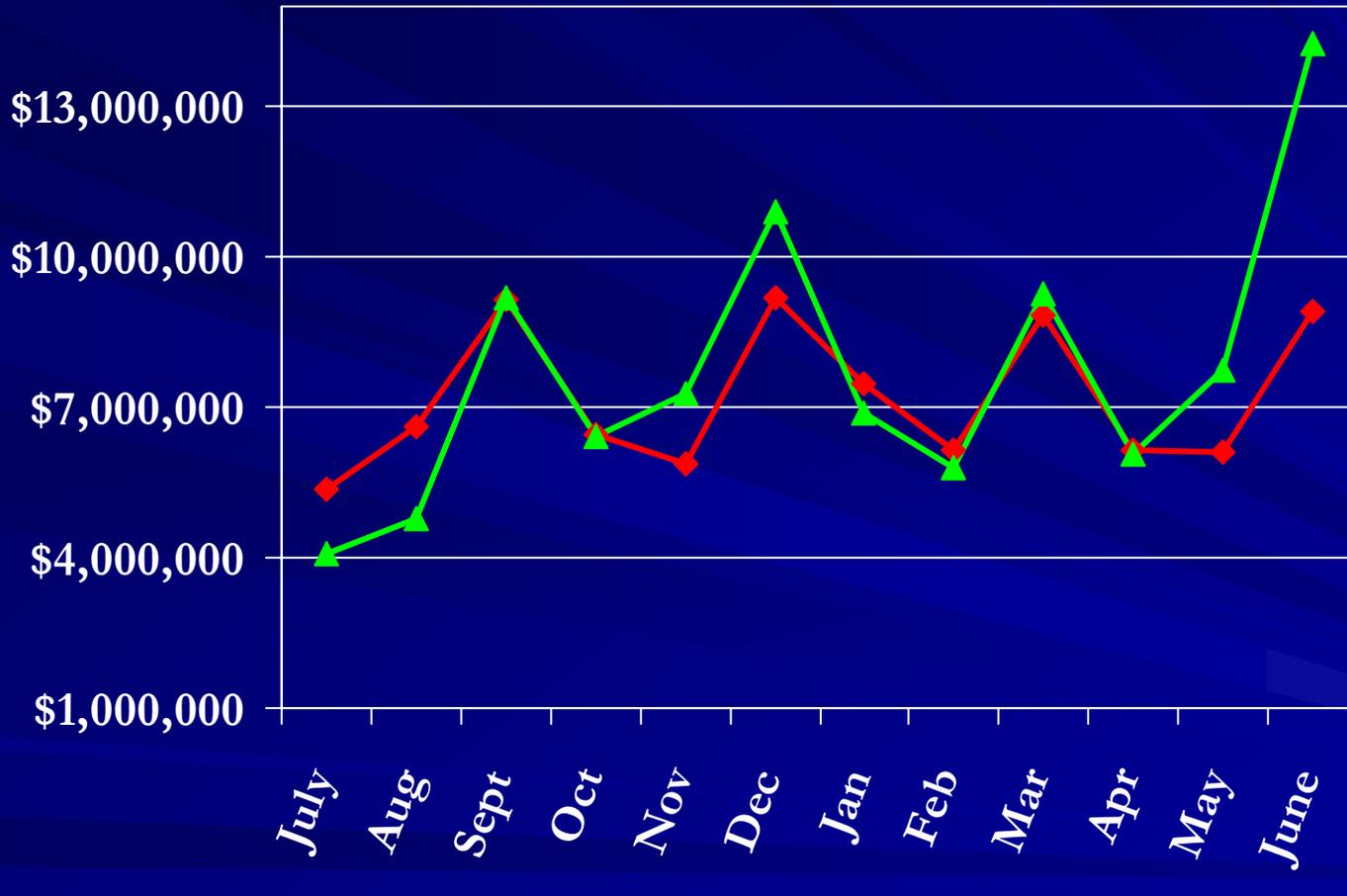
# Outside Agency Funding

- All of these agencies and their work highly valued
- However, we are in a major recession,
  - No new agencies funded in FY11
  - All existing agency funding reduced by 5-10% unless this would result in failure to leverage mandatory state/federal funds, or
  - Agency demonstrated this would result in major adversity
  - Letters mailed to all agencies on April 21 with FY11 budget recommendation

# Fund Balance

	<b>Audited Fund Balance</b>	<b>Reappropriations</b>
<b>FY 2005</b>	<b>9,944,727</b>	<b>458,049</b>
<b>FY 2006</b>	<b>10,967,723</b>	<b>1,065,811</b>
<b>FY 2007</b>	<b>13,304,837</b>	<b>796,448</b>
<b>FY 2008</b>	<b>15,717,064</b>	<b>1,950,516</b>
<b>FY 2009</b>	<b>13,582,957</b>	<b>2,121,342</b>

# Fund Balance



On average, the City expenses are \$7 million per month, so a Fund Balance of \$13 million would be a 7 week reserve for a \$92 million business.

# Fund Balance

- The Fund Balance is necessary, adequate, and **MUST** be protected.
- Should not be used for “routine” expenses.
- For FY11, budget includes use of Fund Balance in the amount of \$425,000.

# Summary of City-Only Expenditures

<b><u>FUNDS</u></b>	<b><u>BUDGETED</u></b>
General	27,873,331
Meals	1,342,260
Refuse	2,312,000
Water	3,502,495
Sewer	4,334,512
Electric	17,981,566
Capital	1,158,702
CDBG	87,823
Housing	2,244,912
<b>TOTAL</b>	<b>\$60,837,601</b>

# FY 11 PROPOSED Budget Expenditures



↓	↓	↓	↓	↓	↓	↓	↓	↓
Schools 20.9%	Judicial 7%	Public Works 14.2%	Health/ Welfare .6%	Law Enforcement /Public Safety 32.1%	Parks/ Culture 4.7%	Non- Dept 1.4%	Gen. Admin & Comm Dev 19.2%	

# Positives for Our Future



# Positives for Our Future

- Landfill project.
- State-of-the art fiber system.
- Uptown revitalization underway with \$16M Harvest pledge.
- Revenue-shared lots.
  - Patriot Center
  - Commonwealth Crossing
- Public-private economic development.
- Paid EMS response 24/7 with a revenue stream.
- School merger discussions.
- City-county relations.
- Quality of life
  - Low cost of living.
  - Recreational activities.
  - Regional trail system.
- Recession will not last forever!

# Comparison of Annual Taxes & Fees Martinsville City & Henry County

Henry County	FY11 Proposed City	Martinsville
\$405.00	Real Estate--\$763.62	\$763.62
\$75.18	Pers.Property-- \$97.40	\$97.40
\$360.00	Water--\$23.00*	\$276.00
\$360.00	Sewer--\$238.56	\$238.56
\$245.88	Garbage--\$195.00	\$195.00
\$1,446.06	Electric--\$105.60*	\$1,570.58

Assuming home value \$75,000; auto value \$10,000, water usage 5,000 gals, electric KWH usage 1,000 less local utility tax

# Summary

- Initial Snapshot...\$4.8M deficit
- No tax increase recommended
- New revenue in budget
  - Landfill project, carbon credit revenue
  - Sale of surplus property
  - Water rate increase
  - Power cost adjustment

# Summary

- Expenditure Adjustments
  - (12) City positions eliminated
  - (4) employee furlough days
  - Pass health insurance rate increase to employees
  - Department budgets “very lean”
  - Reductions across the board
  - Only vital capital projects funded

# Summary

- Expenditure Adjustments
  - State dollar losses to Constitutional Offices passed on accordingly
  - Reduction in school funding
- Fund balance adequate, but need to protect
  - Used \$425,000 to balance the budget
- “We” are doing the rights things, and this recession hit us extremely hard!

# Next Steps



# Next Steps

- Recommend that
  - City Council, at its next strategic planning session, take the current Goals & Initiatives and go to the next step, develop “Priority Based Budgeting”
  - Goal is to assign priorities to City services and allocate resources accordingly
  - City and Schools merge “like” functions
  - Both City and County governments
    - Seriously discuss school merger and
    - Consider continued partnerships and cost saving opportunities

# Next Steps

## ■ Recommend that

- Council consider moving the May election to November for cost savings in FY12
- The City explore the option of a combined Public Safety Department
  - Fire/EMS
  - Police Department
  - Examine and determine if this is in the best interest of the City
  - Phased in approach, with gradual cost savings

# Next Steps

- Set the date for the Public Hearing on the budget.
- Decide on how many budget work sessions desired and set the dates for such.
- Suggest...before deciding on ANY appropriations, Council discusses proposed rate increases.

# That Concludes the City Manager's Budget Recommendation for FY11

*“The budget is now off my  
desk, and on to you Council  
for final amendment and  
approval!”*

*Clarence Monday, City Manager*