

City of Martinsville

FY 2023-2024 Proposed Budget

April 25, 2023



Introduction

The proposed FY24 budget is a recommended financial plan for the City of Martinsville for the period from July 1, 2023, through June 30, 2024, and is the culmination of a process that began in late 2022 with the completion of the FY22 audit.

Developing the budget requires that both revenue and expenditures be projected for an approximate 15 - 18-month period and much can happen within that timeframe. The process is challenging and as we've seen in the development of prior budgets, we see many of the same key issues over and over again:

- Budget requests exceeding available resources
- Uncertainty regarding State fiscal policies
- Best and effective use of fund and reserve balances
- How best to allocate limited resources to cover a wide array of needs
- Balancing adjustments to taxes, rates, and fees to adequately cover expenses with needs and what citizens can afford

In March of 2021, the United States Congress approved the \$1.9 trillion American Rescue Plan Act with significant funding earmarked for states and localities. It was later determined that a total of \$15,463,451 in ARPA funding was allocated to the City and those funds have been received. The funding has to be committed to specific uses by December, 2024, and expended by December, 2026. In addition to ARPA funding, there is ongoing discussion at the federal level regarding additional funding programs geared toward infrastructure, broadband, and other needs.

Staff has presented information on several occasions at recent Council meetings regarding possible uses of ARPA funds and Council has voted to approve funding for several projects including improvements to Southside Park, City-wide park improvements, improvements to Hooker Field, funding for stormwater management projects, assistance with affordable housing projects, and upgrades to equipment used in the broadcast of Martinsville's government television channel, MGTV.

Proposed uses of remaining funds will be discussed later.

As stated in previous years, funding is not unlimited – the City has finite resources and there simply aren't enough funds available to fully fund every budget request, but there is adequate funding to cover most of what everyone needs. Striking that balance year after year is what our budgeting process has been about and through it all, the City has managed to remain fiscally sound.

The annual budget is the City's financial plan and is the opportunity to blend Council's vision for the future with what the citizens of Martinsville want and expect, and ultimately with the allocation of resources to turn that plan into reality. The budget process is a unique opportunity for Council, City staff, and citizens to review and shape the direction City government is headed.

As we move through the FY24 budget process, input is essential as efforts are made to create the best financial plan possible to continue moving the City of Martinsville forward into 2024 and beyond.

*Leon Towarnicki
City Manager
April 25, 2023*

FY24 Proposed Budget

General Discussion Revenue and Expenses



FY23 Highlights

As discussion begins on the FY24 budget, here's some highlights of what has occurred and continues to occur in FY23

- Through a Brownfield Assistance Fund grant, cleanup of the American site on Aaron Street has been completed and Landmark has plans to start construction on an approximate \$12M senior living complex in July, 2023.
- Pine Hall Road CDBG is ongoing.
- Strong redevelopment interest in American Plant 10 in Uptown Martinsville (corner of Lester & Depot)
- City acquired former BB&T building Uptown and renovation work is underway, beginning with asbestos abatement and mechanical demolition. Anticipate conveying the property to the developers later in 2023.

FY23 Highlights

- Redevelopment of the former grocery store building at the corner of Fayette & Moss Streets is underway with completion expected later this year
- 5-Points Housing Project on West Church underway – 7 houses have been placed on the 12 lot site.
- Abundant local employment opportunities.
- Local transit system continues with strong usage; the Virginia Breeze system is operational.
- Economic Development – Press Glass & Crown Holdings are operational on revenue sharing sites; CCBC continues to attract interest
- \$5.2M in EDA & DEQ grants for Jones Creek Interceptor Repairs
- \$1.5M FEMA grant for flood control at Nationwide facilities

FY23 Highlights

- Martinsville Mustangs continues with the 2023 season under new management; much-needed park renovations underway.
- Continued successful partnership with YMCA for management of City parks & recreation programs. City is moving ahead with a park's study/plan update with assistance from WPPDC.
- Strong local economy, strong housing/real estate market
- Extensive use of grant funds to facilitate progress on local projects
- Telecom/MiNet expansion continues with business customers and wireless to the home requests for service.
- Armory property deeded to City; redevelopment options pursued
- Use of ARPA funds approved for much needed projects including Southside Park, Hooker Field, and neighborhood parks.

Objectives

Basic Year To Year Budget Objectives Remain Constant

- Maintain core services & ensure the City remains fiscally sound.
- Address critical capital needs; protect existing assets
- Expand tax base
- Explore opportunities to consolidate, improve efficiency, generate new revenue
- Consider Council priorities in allocating resources
- Ensure City remains competitive in regional workforce market

FY24 Budget Challenges

- Lack of significant & sustained revenue growth
- Increasing costs due to inflation, insurance, VRS, mandates, regulatory issues, costs of simply “doing business,” difficulty filling vacancies.
- Capital needs continue to exceed available funding
- School & outside agency funding
- Personnel issues – significant turnover in key positions; need to remain competitive with pay, benefits in order to attract/retain employees.
- State not fully funding its commitments

FY24 Budget Challenges

- Aging infrastructure
- Adherence to policy requirement to maintain fund and asset balances to ensure the City remains fiscally sound and funds are available for emergencies
- Water/sewer debt-service requirements
- Limited ability to increase rates, fees, etc., and overall decreased ability to transfer from enterprise funds
- Reduce the dependence on unsustainable sources of revenue to balance the budget.
- With reversion no longer being pursued, City must align General Fund expenses with available revenue.

Budget Challenges - Capital

- Capital requests submitted by City departments for FY24 budget consideration totals \$5,179,889 with \$3,449,305 requested for utilities and \$1,730,584 requested for general fund/capital reserve.
- Utilities cover capital internally however the Capital Fund (16 Fund) is consistently underfunded. Outside of other transfers, the Capital Fund's primary source of funding is available Meals Tax funds after debt service is covered.

Federal Funding

- There continues to be discussion at the federal level regarding infrastructure plans that could potentially funnel significant dollars to the state and local levels. As previously noted, the City has received \$15,463,451 in American Rescue Plan Act funds. Some funds have already been committed for specific purposes. As noted later in this budget presentation, ARPA funds are being used in the FY24 budget.
- As additional information is made available regarding other potential funding, staff will continue to monitor and determine next steps.

Revenue –General Comments

What resources are available for the FY24 Budget?

- Traditional sources – taxes, fees, state funding?
- Fund balance use vs. maintaining required minimum
- Cash reserve policies & required minimums
- Utility budgets balance internally through ability to adjust rates; General Fund budget has historically relied on utility transfers or use of fund balance, to balance.
- Use of remaining ARPA funds – how much & what can it be used for?

Revenue GF Sources

General Fund Revenue

- FY24 General Fund revenue before transfers is projected to be \$33,856,203 (FY 23 is \$30,540,346 & FY22 is \$28,975,888), from taxes, fees, recovered costs, grants, and state funding (10.9% increase)
- Increase in revenue is a result of increases in general property taxes (FY24 budget proposes no adjustment in real estate tax rate), other local taxes, recovered costs, shared expenses, and other state reimbursements.

Revenue Analysis

Unassigned Fund Balance- GF

- Audited EOY FY22 unassigned FB is \$6,286,060 (Exhibit 3, pg. 39 ACFR)
- FY24 proposed GF budget is **\$37,828,870**. 10% reserve policy requirement is \$3,782,887.
- Available unassigned FB of \$6,286,060 less FY24 reserve requirement of \$3,782,887, leaves available **GF FB transfer of \$2,503,173 to maintain 10% reserve.**

Revenue Analysis

Utilities – Cash Reserve Policies

| | <u>EOY20 Audited</u> | <u>EOY21 Audited</u> | <u>EOY22 Audited</u> | <u>Cash Reserve Policy</u> |
|----------|----------------------|----------------------|----------------------|----------------------------|
| Electric | \$2,505,507 | \$1,253,201 | \$307,121 | \$5,298,025 |
| Water | \$2,628,150 | \$3,309,153 | \$4,041,790 | \$1,954,658 |
| Sewer | \$1,740,360 | \$1,982,557 | \$1,919,986 | \$3,529,534 |
| Refuse | \$4,712,005 | \$3,004,087 | \$2,197,623 | \$664,369 |
| Total | \$11,586,022 | \$9,548,998 | \$8,466,520 | \$11,446,586 |

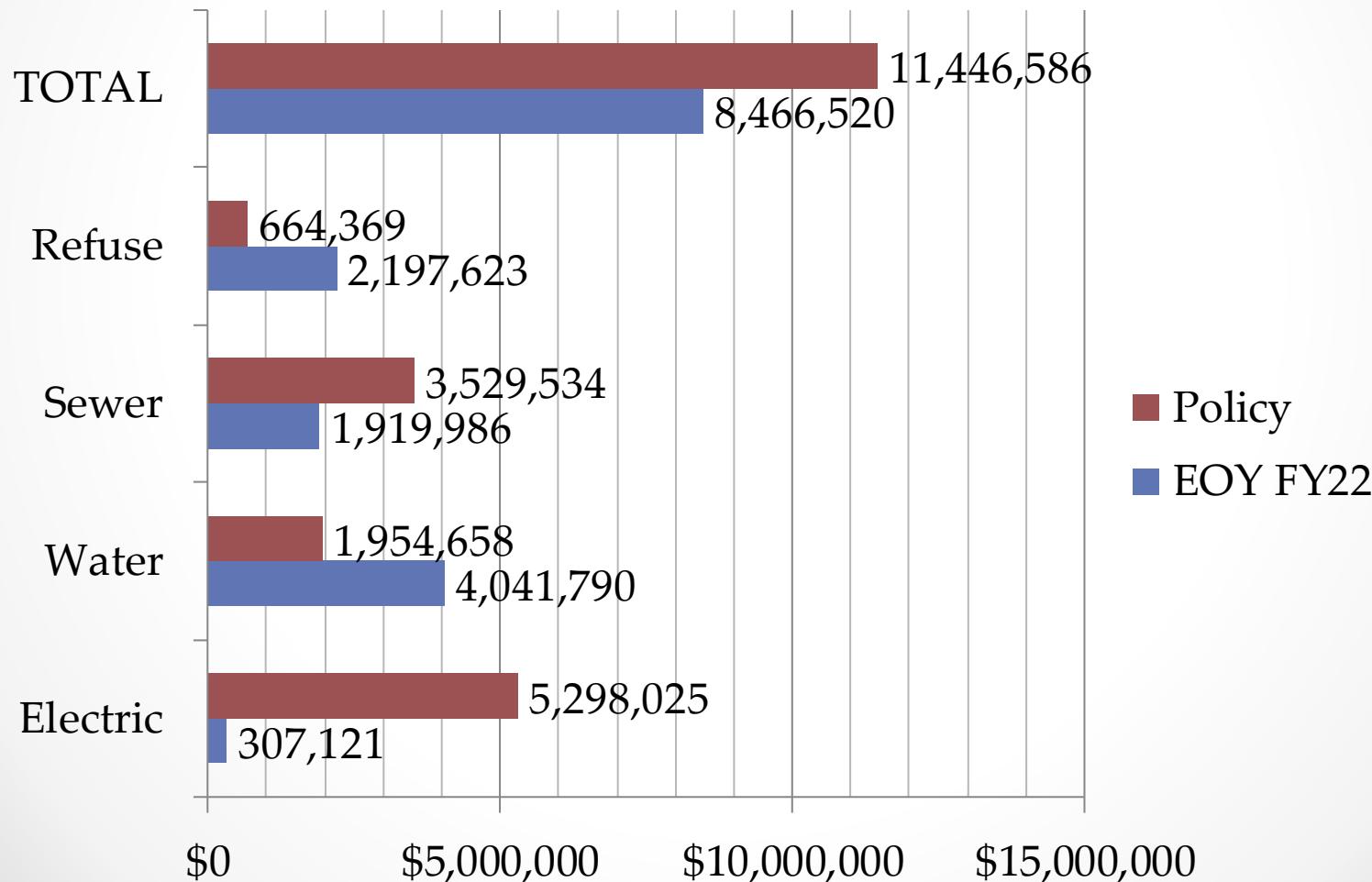
Revenue Analysis

Available Transfer From Utilities to GF

- No FY24 transfer from Electric, Water, Sewer, Refuse, or Telecom is proposed.
- Electric is significantly under the recommended reserve requirement and is expected to remain so for the near future. Rate adjustments should improve that.
- Water/Sewer must continue to maintain cash reserve requirements in addition to a required revenue/expense ratio related to VRA financing of debt service.
- Refuse cash reserve (audited) includes required funding to comply with post-closure monitoring costs. Costs are expected to decline in the future.

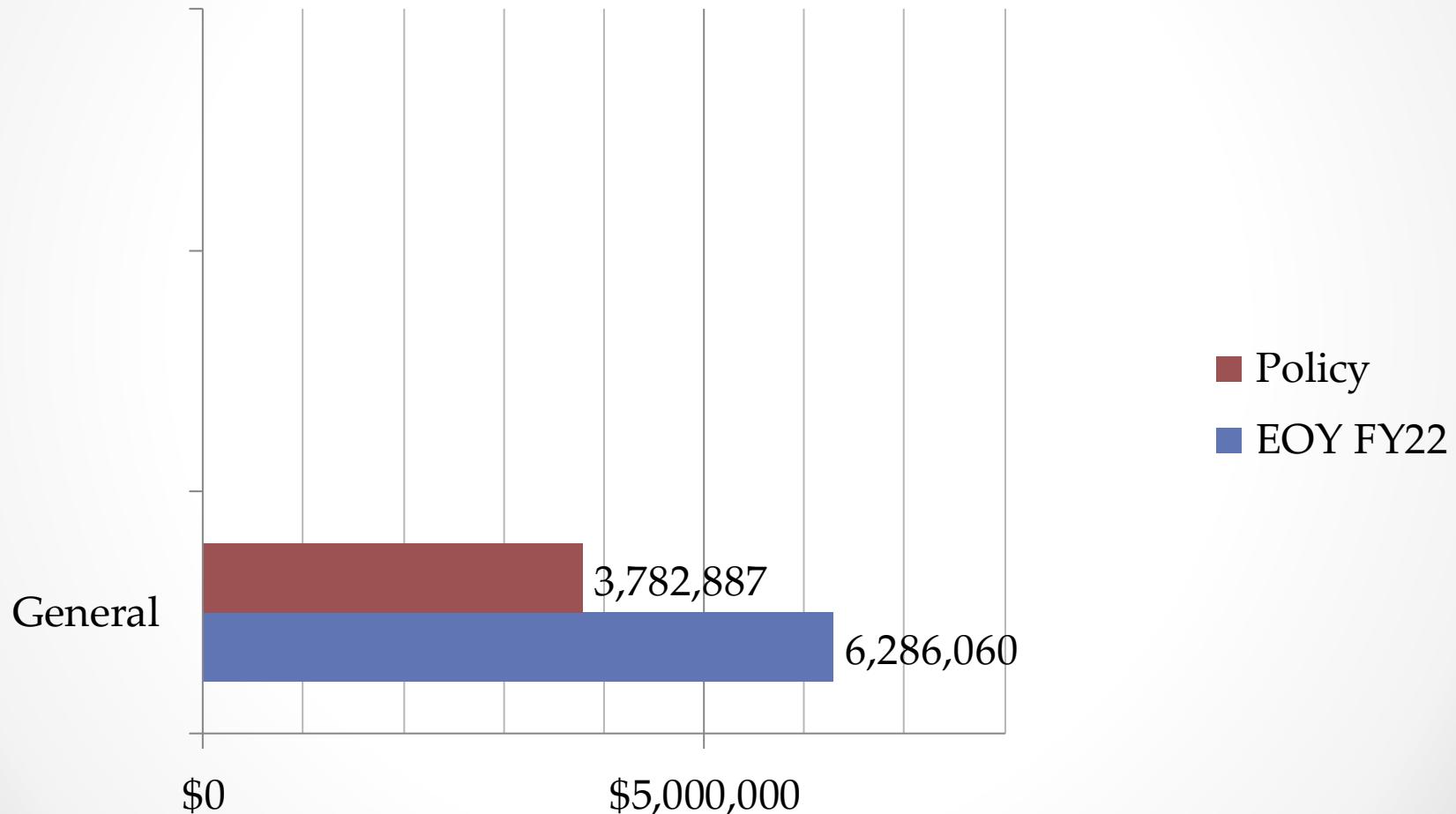
Utilities – Cash Reserves

EOY FY22 vs Current Policy Recommendation



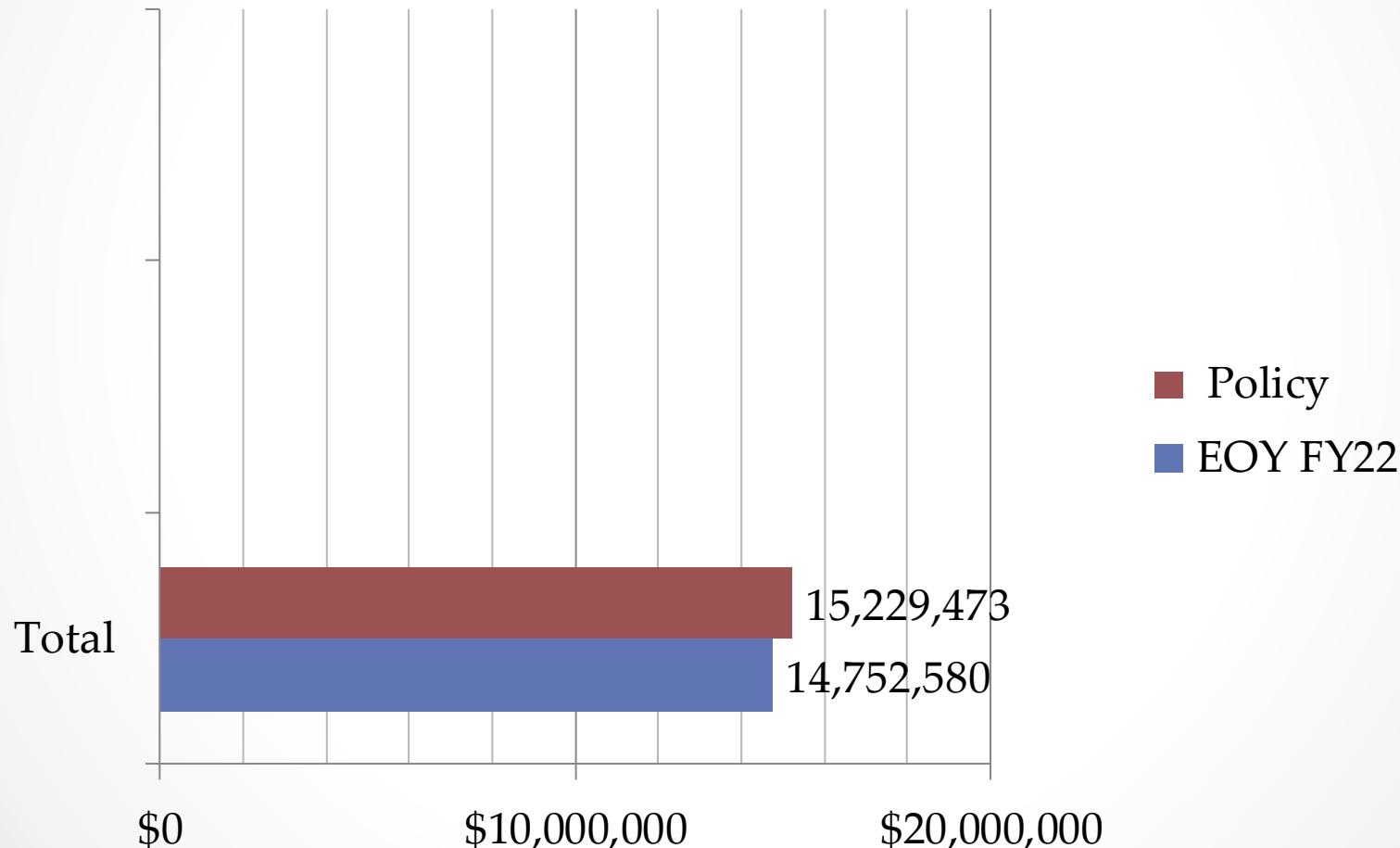
General Fund - Unassigned

EOY FY22 vs Current Policy Recommendation



Total All Funds

EOY FY22 vs Current Policy Recommendation



Expense Analysis

What are the City's priorities?

- How should funds be allocated for education, public safety, economic/business development, capital, etc.?
- Any changes in services or personnel?
- Major projects?
- Financing obligations and debt service?
- Mandates?
- How to allocate available resources efficiently, fairly, and adequately?

FY24 Proposed Budget

Budget Details

What's Included?

Taxes, Rates, Fees

General Fund

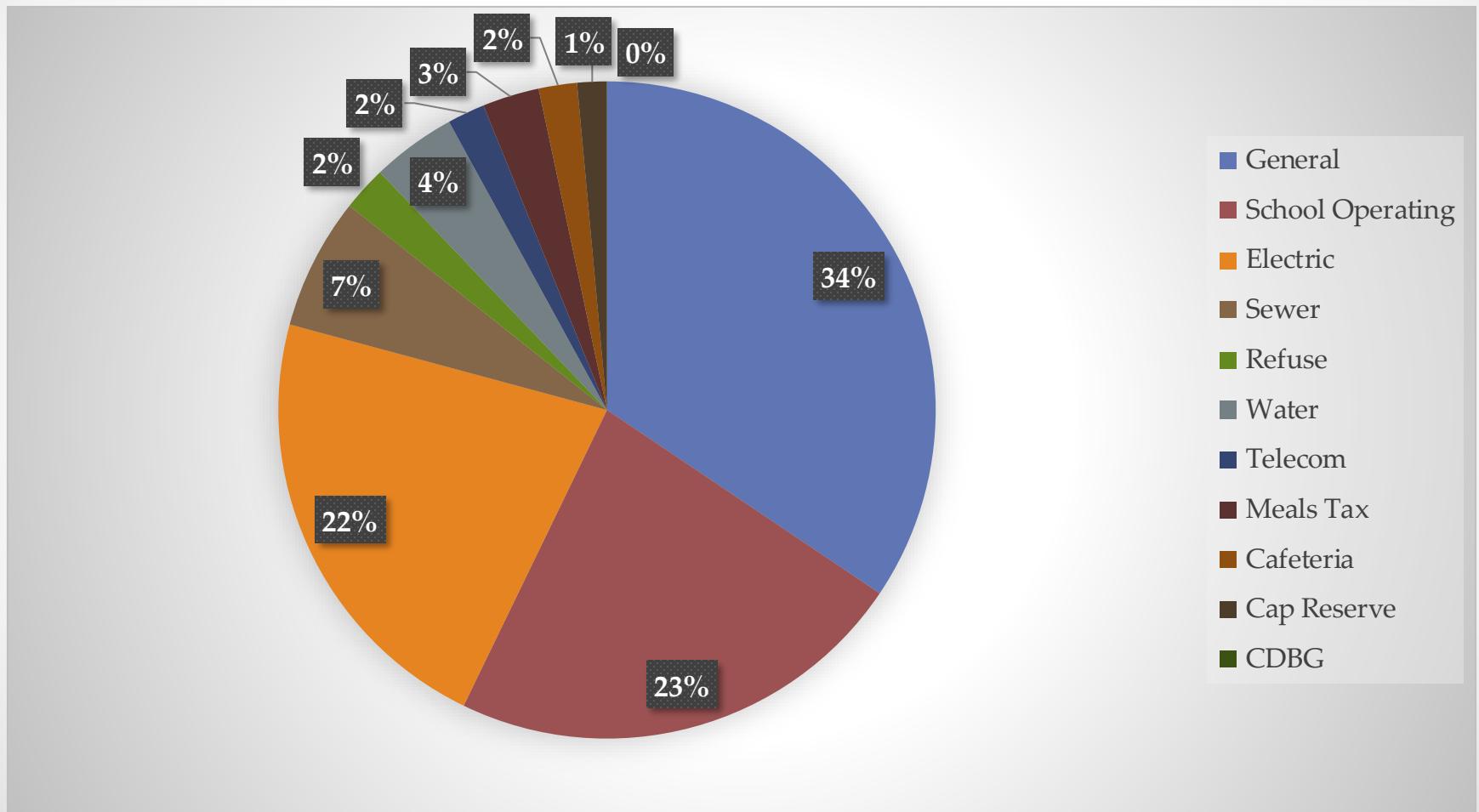
Enterprise Funds



FY24 Proposed Budget

| Fund | Original | Revised | Proposed | Changes |
|--------------------|-------------|-------------|-------------|-------------|
| | FY2023 | FY2023 | FY2024 | FY2024 |
| General | 37,062,878 | 38,959,472 | 37,828,870 | 765,992 |
| Meals Tax | 2,722,721 | 2,722,721 | 3,072,721 | 350,000 |
| Capital Reserve | 1,530,446 | 3,063,122 | 1,595,318 | 64,872 |
| Refuse | 2,271,965 | 2,313,965 | 2,409,704 | 137,739 |
| Water | 4,255,275 | 4,448,585 | 4,570,438 | 315,163 |
| Sewer | 6,387,282 | 11,774,458 | 7,119,720 | 732,438 |
| Electric | 21,356,332 | 22,701,984 | 24,189,063 | 2,832,731 |
| Cafeteria | 2,293,640 | 2,293,640 | 2,069,368 | -224,272 |
| School Operating | 24,585,581 | 25,165,658 | 25,008,772 | 423,191 |
| Telecommunications | 2,195,242 | 2,227,424 | 2,023,651 | -171,591 |
| CDBG | 1,183,320 | 1,192,741 | 2,700 | -1,1806,620 |
| | | | | 0 |
| Totals | 105,844,682 | 116,863,770 | 109,890,325 | 4,047,643 |

FY24 Budget Allocations



FY24 Proposed Budget

- The proposed FY24 budget is \$109,892,325, an increase of \$4,047,643 over the approved FY23 original budget.
- Debt is well-managed. Existing debt service costs are covered either through project savings (AMI/Lighting and Building Energy Projects) or through fees and rates.
- Budget maintains reserves in all utilities but Electric, and 10% in GF. Expenditure additions will necessitate additional revenue, reductions in proposed budget, or additional use of FB/reserves.

FY24 Overall Budget Drivers

- Salary & Benefits
- 11.2% increase in health insurance
- Outside Agencies
- Continued inflation impact on fuel, materials, supplies and its effect on projects, schedules, & capital needs
- Need to more closely align the General Fund budget with revenue from traditional General Fund sources – reduce the dependency on transfers and unsustainable sources of revenue.
- Inability to fill certain vacant positions and the need to contract for services related to those vacancies.

FY24 Proposed Budget

General Fund

FY24 Proposed General Fund Budget is \$37,828,870 compared to \$37,062,878 for FY23 (2.07% increase) and \$34,218,454 for FY22.

The General Fund budget balances with a projected use of fund balance of \$2,503,173; and use of \$1,469,494 of ARPA funds; no proposed transfer from Electric, Water, Sewer, Telecom, or Refuse. Anticipate a return to FB of approximately \$1.5 M to \$2M at EOY23.

FY24 Proposed Budget

Taxes, Rates, and Fees

- Recommends keeping the current real estate tax rate at the current rate (\$1.03975/\$100)
- Includes an 8% average electric rate increase. Most likely another rate adjustment will be necessary in January 2024.
- No other increases recommended effective July 1
- Includes utilizing the anticipated increase in real estate tax revenue resulting from higher assessments

FY24 Proposed Budget

School Funding

- Recommended funding for Schools at **\$5,417,637** which is a reduction of \$750,000 from the Schools requested local funding of \$6,167,637, however that amount is still \$339,854 more than the average audited actual contribution for the most recent 4 year period of FY19 – FY22. The actual audited School contribution in FY22 for example, was \$4,940,076.

FY24 Proposed Budget

- Continues the use of cost allocation analysis to recover expenses incurred by General Fund operations in support of the operation of City utilities (Electric, Water, Sewer, Refuse, Telecom). FY24 GF budget includes \$886,783 in cost allocation revenue. This amount is included as part of utility operational costs in the respective funds.
- Budget includes a 5% budget reduction for several major departments along with reductions in smaller departments.

FY24 Proposed Budget

Outside Agencies

- Recommended level funding for most outside agencies; 911 increases 13.4% from \$510,101 to \$578,263; 9.1% increase in Social Services funding from \$548,056 to \$598,136; level funding for the Health Department at \$132,907; EDC level at \$100,000; and level Library funding of \$308,450. Continues small business/Uptown development at \$60,000.

FY24 Proposed Budget

Personnel & Services

- 7% COLA for City employees & constitutionals to match state COLA; increase in health insurance costs (11.2%), other minor plan adjustments
- Includes 1 personnel addition – law clerk position for Circuit Court; temporary hiring freeze in certain areas
- There are still a number of vacant/unfilled positions.

FY24 Proposed Budget

Ambulance Transport Services

- In July 2021, Council approved Fire/EMS to proceed with ambulance transport services of discharged hospital patients. City purchased an ambulance and brought additional staff on board. Operation currently averages 18 -19 transports per week and at anticipated billing rates, revenue (estimated at \$170K) will exceed costs (\$161K).
- Operation continues to be closely monitored and if transport numbers decline and/or actual billing receipts do not support program costs, City can terminate the program. There is added benefit to the City by having additional staff & equipment available for City needs. Currently being discussed is a transport contract for services that would serve to stabilize the program and improve financials.

FY24 Proposed Budget

Capital (equipment, vehicles, projects, etc.)

- Funding of Capital Reserve (16 Fund) in the amount of **\$1,595,318** is proposed; of this amount, \$361,380 is required for debt service and the balance of **\$1,233,938** will be assigned to capital purchases on a prioritized basis by the capital review committee.
- This amount funds 71% of the capital (non-enterprise) fund requests of \$1,730,584. Capital is funded through Meals Tax revenue after school and capital debt is covered.

Capital – Enterprise Funds

Capital (equipment, vehicles, projects, etc.)

- In the enterprise (utility) funds, \$3,339,305 is included in the respective fund budgets to address capital and equipment needs. Included in the enterprise funds are Refuse (09), Telecom* (11), Water (12), Sewer (13), and Electric (14).

** Through the City's annual audit process, Telecom is not identified as a separate enterprise fund although for internal City budgeting and tracking purposes it is considered and programmed as such. Telecom is a component of the General Fund.*

FY24 Proposed Budget

Refuse (09)

- No increase in collection fees proposed.
- Budget includes increase in disposal cost (transfer station costs) from \$540K to \$580K
- FY24 capital includes year 2 of 2 cost (\$220K) of replacing '05 front loader truck, pickup truck replacement (\$50K); and delaying to FY25 replacement of tractor (\$54K) and real-loader garbage truck. (\$105K)

FY24 Proposed Budget

Telecommunications (11)*

- The projected FY24 Telecom budget is \$2,023,651 and includes \$81,997 under a cost allocation analysis going back as revenue to the GF. \$252,657 is included in capital for a continuation of system upgrades, expansion to additional customers, and wired/wireless-to-home project.
- There continues to be a backlog of businesses desiring to connect to MiNet and interest in residential service continues to be high. Staff will continue to explore grant possibilities for system expansion.

**Telecom is listed as a separate (11) fund to simplify internal accounting but is actually a component of the General Fund*

FY24 Proposed Budget

Water (12)

- Summit View water line project underway
- Water/Sewer construction crew continues to make infrastructure repairs at substantial savings over contract costs.
- Continuing to pursue grants for reservoir generator
- \$623,612 in capital for various projects at water plant
- Possible requirement to determine usage of lead pipe in water system.
- Capital includes \$88K shared cost with PW to replace skid-steer loader; \$62,750 for mini excavator, and \$69,150 for dump truck, shared cost with Sewer.

FY24 Proposed Budget

Sewer (13)

- The Sewer budget includes \$95,233 to replace pumps; \$250K to convert to a sodium hypochlorite tank/feed system & SCADA
- Budget includes 20% EDA & DEQ grant match for Jones Creek project.
- Includes \$390K to replace jet truck, \$62,750 for mini excavator, and \$69,150 for dump truck, shared cost with Water.
- Annual debt service for the interceptor rehab project is included at \$634,336.
- Long term project being investigated is in regard to sludge process at waste water plant and reduction of disposal costs.

Water/Sewer Projects

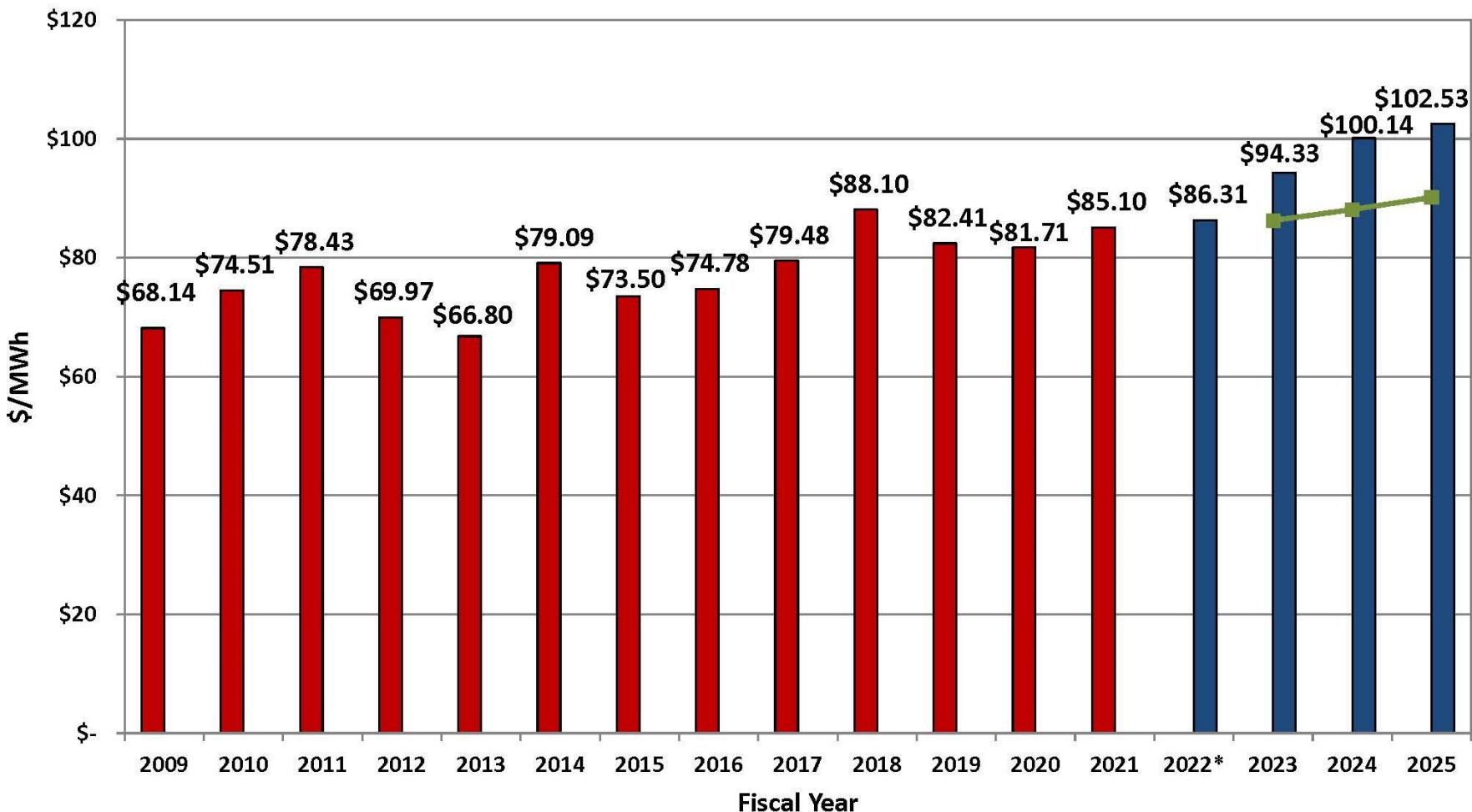
| YEAR | STREET (s) | WATER | SEWER | STATUS |
|-----------|------------------|------------------|-------|---|
| 2022-2023 | AUBURN PLACE | 15200' | | BEGIN 4/1/2023 |
| 2022-2023 | VENNA/EDWARDS | 900' | | BEGIN 6/1/2023 |
| 2022-2023 | ASKIN | | 2000' | BEGIN FALL 2023 |
| 2024-2025 | LAKEMONT | 1000' | | SPRING 2024 |
| 2024-2025 | LAKEVIEW | 1800' | | FALL 2025 |
| 2024-2025 | D STREET | 500' | | POSSIBLY BETWEEN LAKEMONT & LAKEVIEW |
| 2026-2027 | CORN TASSEL | ENTIRE STREET | | MULTI YEAR PROJECT |
| 2025-2026 | PROSPECT HILL DR | ENTIRE STREET | | SPRING 2026 |
| 2022-2023 | AUBURN PLACE | 15200' | | BEGIN 4/1/2023 |
| 2022-2023 | VENNA/EDWARDS | 900' | | BEGIN 6/1/2023 |
| 2022-2023 | ASKIN | | 2000' | BEGIN FALL 2023 |
| 2024-2025 | LAKEMONT | 1000' | | SPRING 2024 |

FY24 Proposed Budget

Electric (14)

- Includes a proposed 8% electric rate increase effective July 1
- Electric budget capital \$912,500 replace 55 foot bucket truck, digger derrick, station transformers; pole & line replacements, increased costs for flood insurance, tree trimming, generator fuel, dam repairs
- FY24 Electric budget is \$24,189,063 and the purchased power item is \$17,500,000, the largest single line item expense in the City's budget, and represents 72.3% of the Electric budget.
- Solar project expected to be operational Q2 of 2024; possible long term projects - investigate an alternate electric feed to City; work at hydroplant (dredge & replace turbines)
- Anticipate the need for an additional rate increase Jan 2024

City of Martinsville Fiscal Year Rate Summary



*FY 2022 includes actuals for July-Dec 2021 and projected costs for Jan-Jun 2022

Market & capacity prices could fluctuate causing a change in projected rate.

**AMP Rates includes Taxes, BRPA Fees, and GDS Fees for comparison purposes

| | | | | | |
|---|---------|---|-----------|---|-----------|
| ■ | Actuals | ■ | Projected | ■ | AMP Rates |
|---|---------|---|-----------|---|-----------|

Future Considerations

- Consider changing sludge processing to create Class A sludge that can be marketed or disposed of at no cost to eliminate landfill disposal fees
- Engineering cost is budgeted under Electric to investigate dredging behind spillway and replacement of electric generation equipment
- Cost is also budgeted for preliminary engineering to investigate alternate electric supply to City
- Consider relocating City school bus garage to alternate site and using existing site for redevelopment purposes.
- Consider raising City's fund balance percentage

Comments and Conclusion

The FY24 budget continues the practice of the enterprise operations balancing internally, and use of FB as available all while attempting to keep policy-directed minimum balances and reserves intact.

That process, however, is getting increasingly difficult while attempting to maintain reserves without increasing revenue, reducing services, or combinations. Of particular importance is the fact that the proposed FY24 General Fund budget is balanced by a projected use of \$1,469,494 of ARPA funds, the equivalent of a \$0.21 tax increase on real estate.

Comments and Conclusions

The budget as presented is proposed, and over the coming weeks Council will have an opportunity to make changes as it deems appropriate. Throughout the process, staff will provide support and additional information as needed, and ultimately will take the budget adopted by Council and implement that plan to the best of its ability.

Comments and Conclusion

As always, our department staff, constitutional offices, and schools put significant effort into the budget process and much credit and thanks goes to them for their efforts. As in previous years, the budget requests were generally found to be reasonable and needed, and Council will have an opportunity through the upcoming work sessions to ask questions.

#

Next Steps

- Review the budget details, request additional information, ask questions, and talk with citizens.
- Conduct a public hearing at Council's May 9 meeting on the effective real estate tax rate increase resulting from increased assessments.
- Three work sessions have been scheduled – May 10 for Schools, City departments, and capital; May 16 for City departments, constitutionals, outside agencies; and May 17 for follow up, and additional discussion as may be needed.
- Consider setting a public hearing on the FY24 Budget for Council's May 23, 2023, meeting.