

City of Martinsville

FY21 Proposed Budget

May 26, 2020



Introduction

The proposed FY21 budget is a recommended financial plan for the City of Martinsville for the period from July 1, 2020 through June 30, 2021, and is the culmination of a process that began in late 2019.

Developing the budget requires that both revenue and expenditures are projected for an approximate 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 revenue
- Uncertainty regarding State fiscal policies
- 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
- And new for this year – COVID-19

This budget was originally scheduled for presentation at Council's March 24th meeting, some two months ago, and at the last minute we concluded it simply wasn't practical to consider a budget at that time due to rapidly changing conditions related to the COVID-19 pandemic.

Since that time, much has happened – some businesses were required to temporarily shut down to reduce chances of spreading the virus, some closed and may never reopen, schools closed for the year, projects that were moving along hit the pause button, the stock market tanked, sporting events were cancelled, plexiglass panels and wearing masks became the norm, Zoom meetings are now daily occurrences, drive-in church services happened, work from home became commonplace, shaking hands is no longer considered the polite thing to do, and who would have imagined a shortage, of all things, of hand sanitizer and toilet paper.

The March version of this budget reflected increases in several revenue sources – meals and sales tax revenue was on track to exceed budgeted amounts, projected state funding increases in a number of areas allowed budget adjustments to occur, and cost of living raises were projected for City employees. All of that has now been stripped from the budget and the FY21 spending plan looks almost identical to the FY20 plan. There is still much uncertainty regarding the COVID-19 impact and as more details emerge over the coming weeks and months, we fully expect to be bringing budget adjustments back to Council, either during this budget process, or well into the next fiscal year.

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. FY21 will be unique, however, as we anticipate that financial changes will occur as the impact of COVID-19 plays out.

As we move through the FY21 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 2021 and beyond.

Leon Towarnicki
City Manager
May 26, 2020

FY21 Proposed Budget

General Discussion Revenue and Expenses



FY20 Highlights

As discussion begins on the FY21 budget, here's some highlights of what has occurred and continues to occur in FY20

- Telecom/MiNet growth continues, expansion of residential service moves forward.
- WPBDC – Incubator management continues successfully under C-PEG; incubator remains at or close to capacity
- The City received a Brownfield Assistance Fund grant for cleanup of the American site on Aaron Street expected in 2020, partnered with Landmark for an approximate \$8 to \$9M senior living complex at that site. Burn site across street cleaned.
- Pine Hall Road CDBG application has been submitted.
- Contract signed with Waukeshaw Development for the Chief Tassel Building in Uptown Martinsville.

FY20 Highlights

- Redevelopment of BB & T building under consideration
- Community policing remains strong and crime rate remains low
- Land Bank facilitates redevelopment of properties
- Continued low unemployment
- Local transit system continues with high usage; progress continues on the Virginia Breeze system
- PCS reuse of former Housing Office building continues
- Commonwealth Crossing – PressGlass construction almost complete; CCAT opened, up & running
- Successful partnership with YMCA for management of City parks & recreation programs continues
- Increasing interest in reuse of buildings/properties

FY20 Highlights

- Formation of Uptown Partnership
- Community childcare needs assessment is underway
- Martinsville Mustangs under new management

Objectives

Basic Year To Year Budget Objectives Remain Constant

- Maintain core services
- Address critical capital needs
- Expand tax base (commercial, residential, industrial)
- Explore opportunities to consolidate, improve efficiency, generate new revenue
- Protect existing assets
- Consider Council priorities in allocating resources

Budget Challenges

- Lack of significant revenue growth
- Increasing costs due to inflation, insurance, need to remain competitive with salary & benefits in order to retain/attract employees, mandates, regulatory issues, costs of simply “doing business”
- Capital needs continue to exceed available funding
- School funding
- Increased costs for jail operations
- COVID-19

Budget Challenges

- Aging infrastructure
- Adherence to policy requirement to maintain fund and asset balances to ensure reserve capacity to handle emergencies - recognizing that fund transfers are inevitable, ensure that reserve balances are preserved.
- Adoption of utility cash reserve and fund balance policies establishes guidelines on ability to transfer funds to ensure the City remains fiscally sound. Overlaying policy now in place due to sewer debt service requirements that limits ability to transfer from water/sewer.
- Limited ability to increase rates, fees, etc.

Budget Challenges - Capital

- Capital requests submitted by City departments for FY21 budget consideration totals \$4,099,921 with \$2,447,777 requested for utilities and \$1,652,144 requested for general fund/capital reserve.
- Utilities cover capital internally however the Capital Fund (16 Fund) is consistently underfunded due to primary reliance on available excess Meals Tax funds, after school debt is covered.

COVID-19 Budget Impact

- There is still much we don't know in regard to revenue impact and financial assistance.
- Fully anticipate that budget adjustments will have to be made into FY21, possibly after Q1.
- Anticipating a significant impact, the City is currently: limiting expenditures to essentials, areas where employee & public health & safety are affected, and contractual obligations; delaying remaining capital purchases; and implementing a hiring freeze through the end of June, 2020. Some of these measures will extend into FY21 Q1, particularly capital.

COVID-19 Budget Impact

- FY20 and FY21 meals tax revenue will be impacted. Full effect may not be know for several months.
- Local sales tax will be impacted but again, there will be a delay in determining effect.
- Other local taxes may be impacted.
- State revenue for local operations such as Street Maintenance and Police (HB599 Funding) may be impacted if state does not meet revenue projections.
- None of these impacts are currently known with certainty. Earlier budget draft projected increases, but now projecting level-funding.

Revenue –General Comments

What resources are available for the FY21 Budget?

- Traditional sources – taxes, fees, state funding?
- Fund Balance use – required minimum?
- Cash reserve policies – required minimum?
- Utility budgets balance internally through ability to adjust rates; General Fund budget has historically relied on utility transfers to balance.
- COVID-19 Relief Funding?

Revenue GF Sources

General Fund Revenue

FY21 General Fund revenue before transfers is projected to be **\$28,840,888** (FY20 is \$29,225,291), from taxes, fees, recovered costs, and state funding. Projecting a \$380,000 reduction in meals & sales taxes. Little deviation anticipated in aggregate of other local taxes, permits, fees from FY20 to FY21.

Revenue Analysis

Unassigned Fund Balance- GF

- Audited EOY FY19 unassigned FB is \$4,331,449
- FY21 proposed GF budget is \$32,658,074. 10% reserve policy requirement is \$3,265,807.
- Available unassigned FB of \$4,331,449 less FY21 reserve requirement of \$3,265,807, leaves available **GF FB transfer of \$1,065,642 to maintain 10% reserve.**

Revenue Analysis

Utilities – Cash Reserve Policies

	<u>EOY18 Audited</u>	<u>EOY19 Audited</u>	Cash Reserve Policy
Electric	\$290,557	\$1,238,533	\$4,205,440
Water	\$2,899,231	\$2,699,239	\$1,894,837
Sewer	\$1,907,096	\$1,911,806	\$1,952,495
Refuse	\$5,521,246	\$5,035,497	\$639,341
Total		\$10,855,075	\$8,692,113

Revenue Analysis

Available Transfer From Utilities to GF

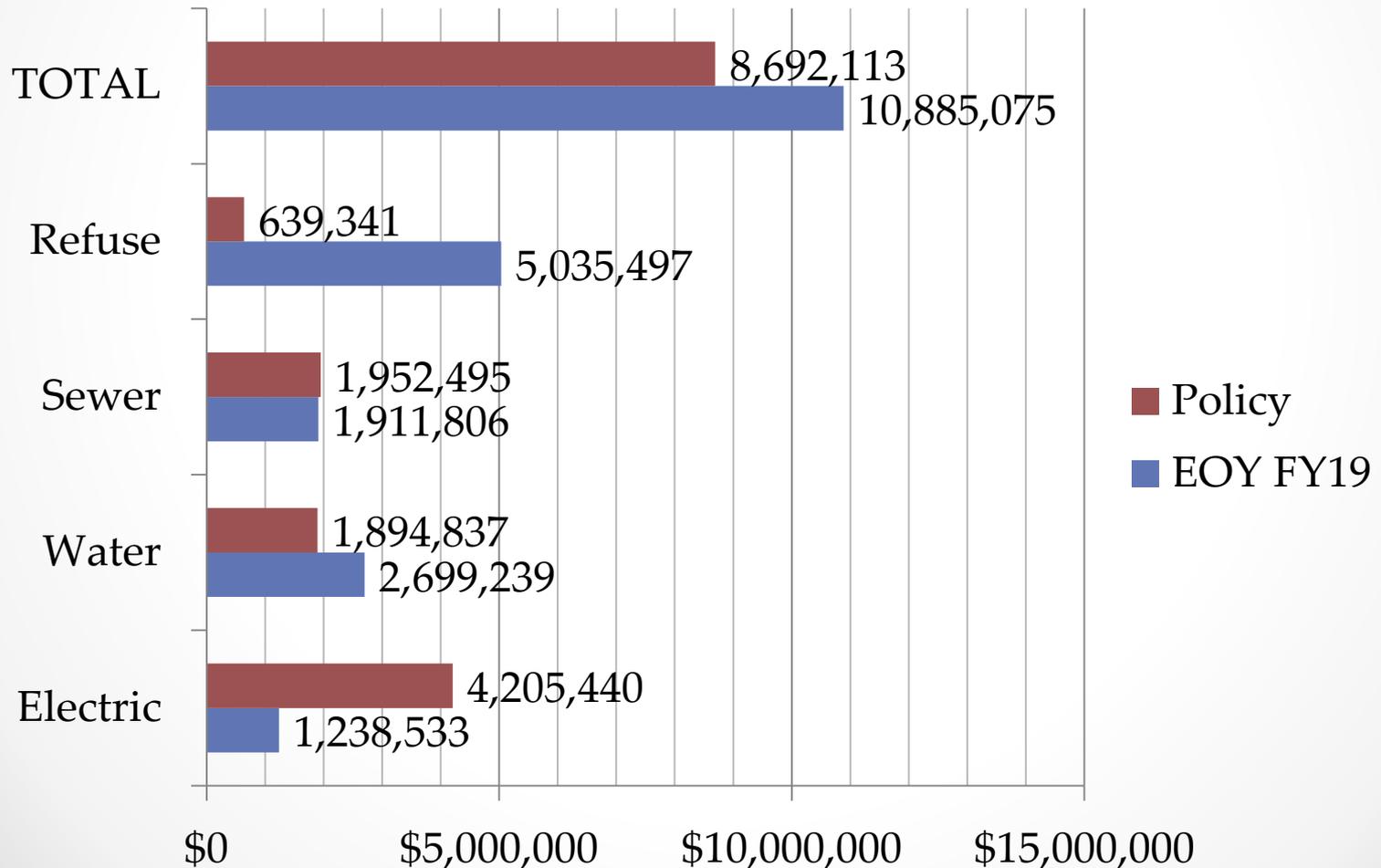
- No FY21 transfer from Electric, Water, or Sewer is proposed.
- Electric is significantly under the recommended reserve requirement and is expected to remain so for the near future.
- Water/Sewer must continue to maintain cash reserve requirements in addition to a required revenue/expense ratio related to VRA financing on the sewer interceptor project. Also anticipated in early FY22 is debt service related to the Beaver Creek Reservoir spillway project.
- Transfer of \$2 million from Refuse to GF is proposed.

GF Budget Balances W/Transfers

- Total available General Fund revenue estimated at \$28,840,888 (taxes, fees, state/federal, etc.)
- Proposed budget balances with Telecom transfer of \$210,931 (\$99,624 included in School transfer to offset e-rate costs) + \$2M (transfer from Refuse) + \$1,606,255 from fund balance for total of \$32,658,074.
- Proposed FY21 General Fund Budget is \$32,658,074.

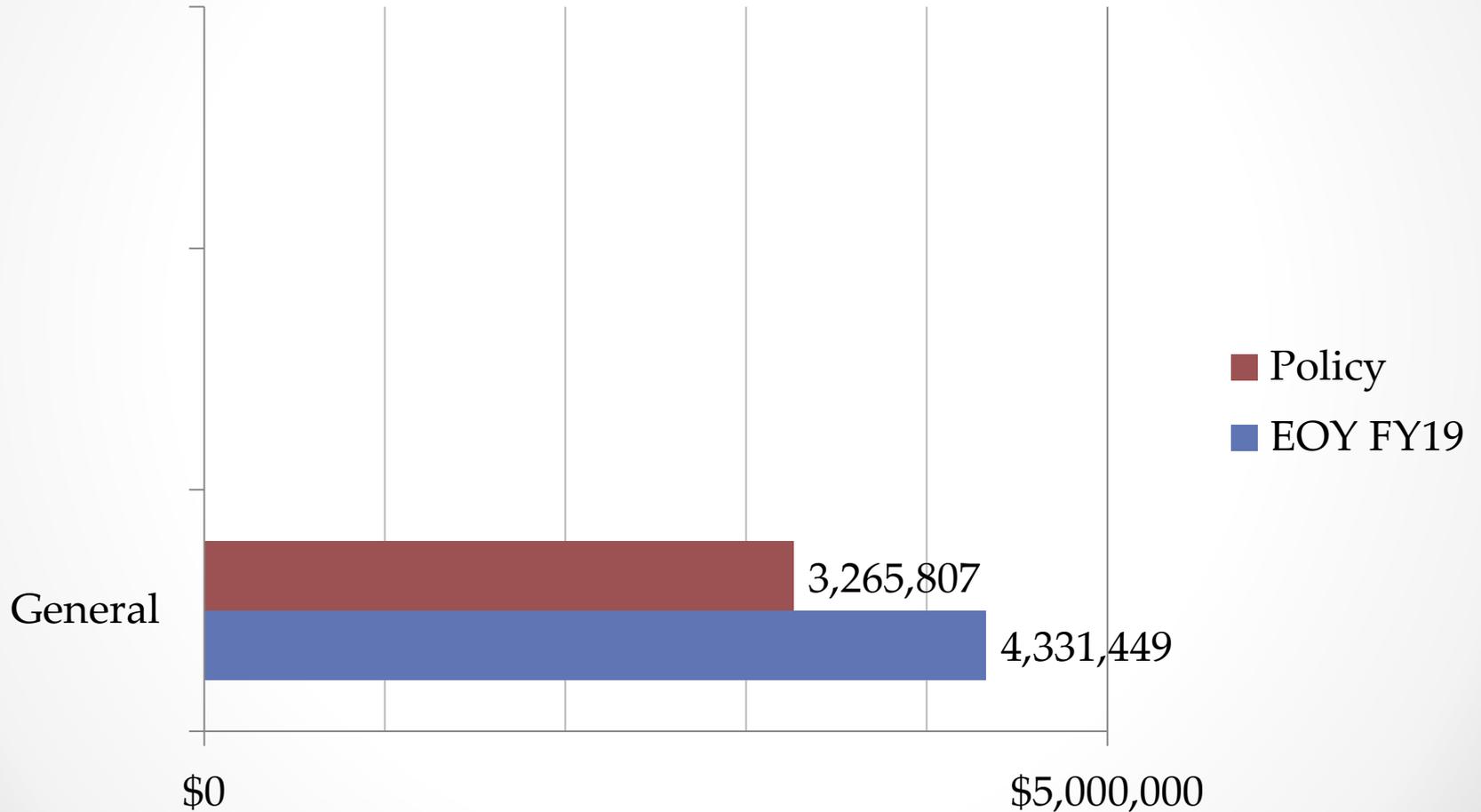
Utilities – Cash Reserves

EOY FY19 vs Policy Recommendation



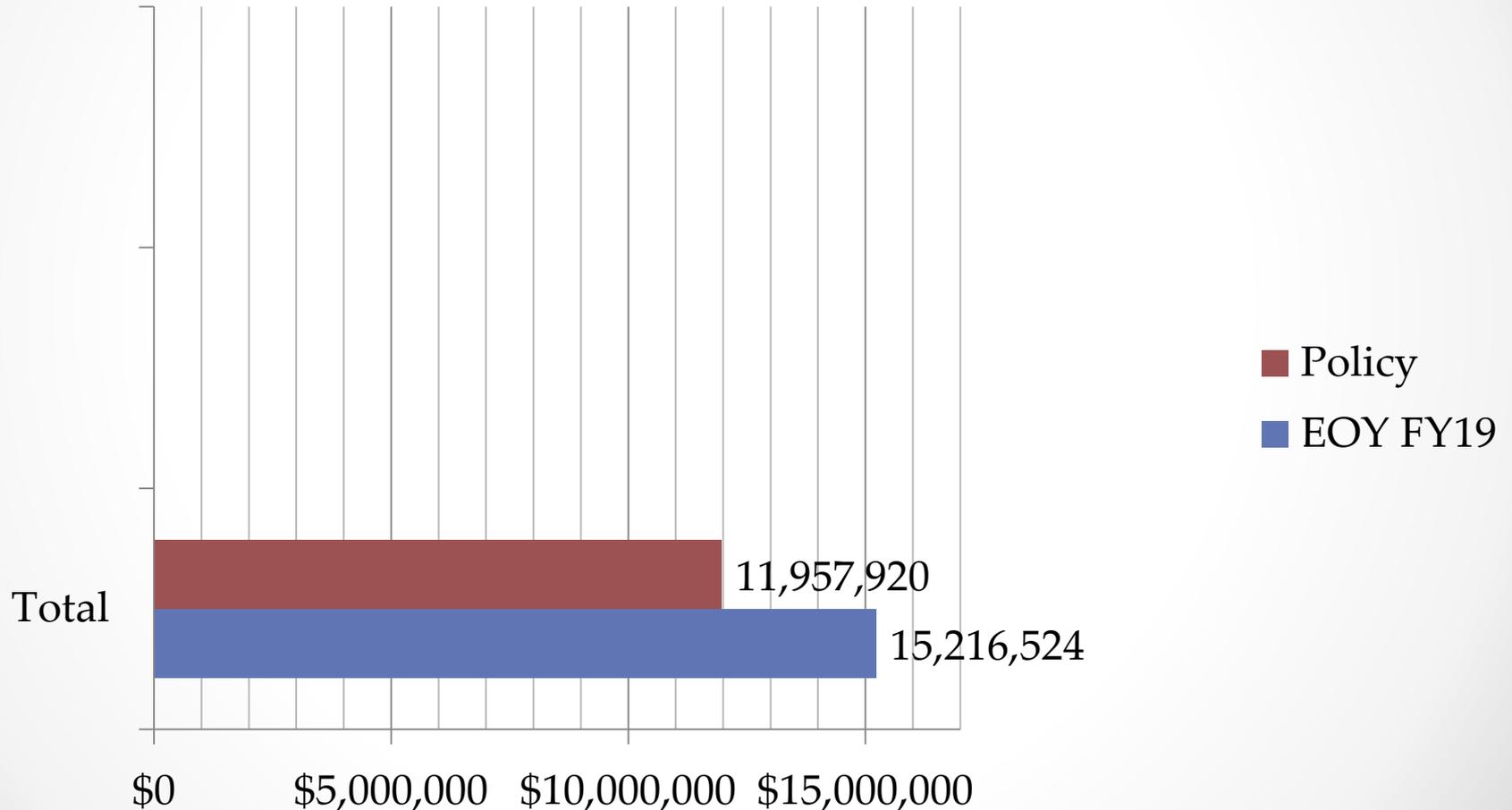
General Fund - Unassigned

EOY FY19 vs Policy Recommendation



Total All Funds

EOY FY19 vs 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?

FY21 Proposed Budget

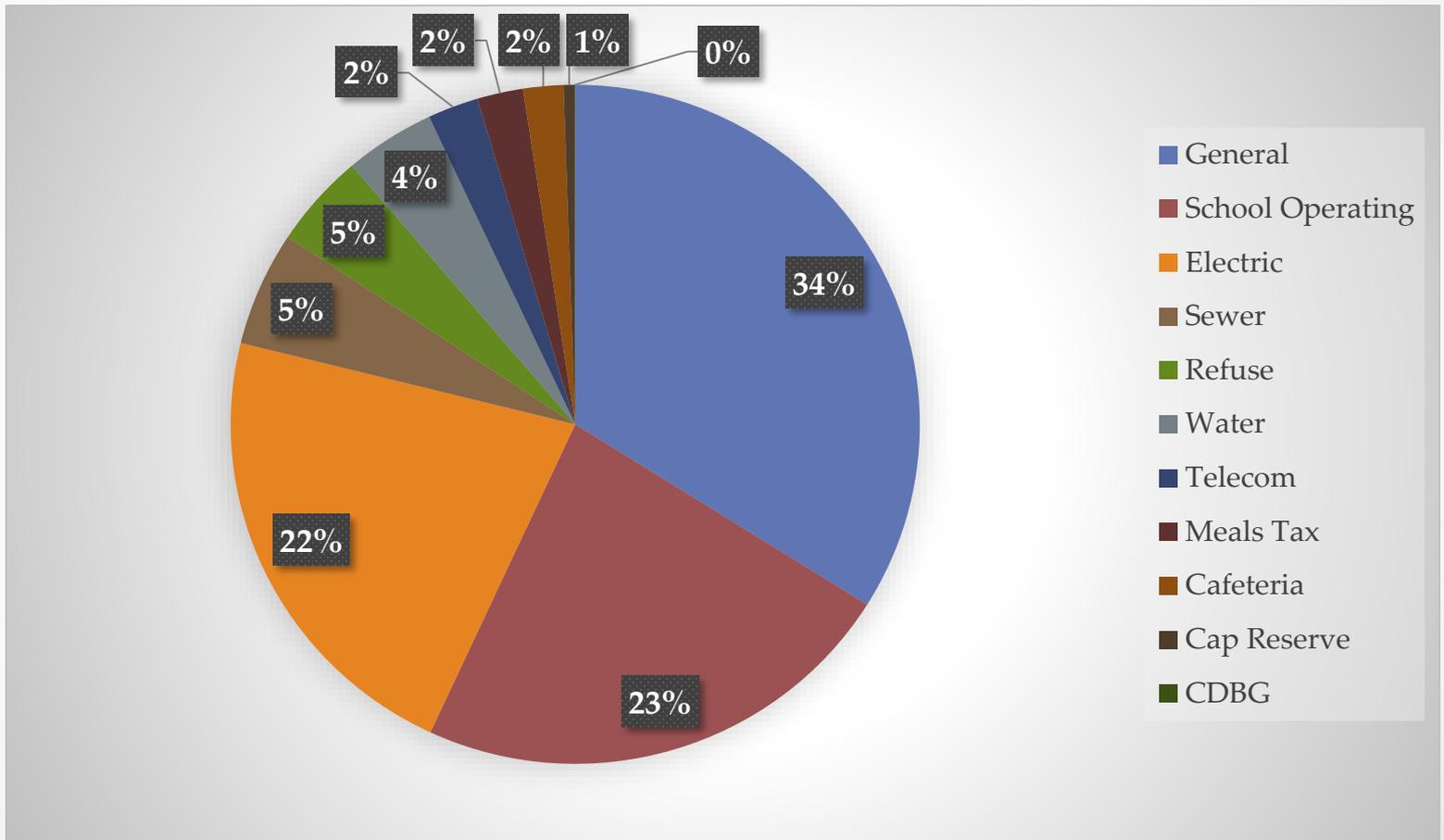
Budget Details
What's Included
Taxes, Rates, Fees
General Fund
Enterprise Funds



FY21 Proposed Budget

				Changes
	Original	Revised	Proposed	FY2020 to
Fund	FY2020	FY2020	FY2021	FY2021
General	32,379,019	33,726,385	32,658,074	279,055
Meals Tax	2,250,744	2,250,744	2,081,930	(168,814)
Capital Reserve	2,308,420	2,925,575	501,095	(1,807,325)
Refuse	2,853,758	2,893,837	4,328,401	1,474,643
Water	4,180,751	4,229,515	4,091,165	(89,586)
Sewer	4,860,393	5,182,598	5,241,248	380,855
Electric	21,518,640	22,192,740	21,150,059	(368,581)
Cafeteria	1,715,706	1,715,706	1,815,660	99,954
School Operating	22,021,820	22,655,081	22,156,475	134,655
Telecommunications	2,113,176	2,115,909	2,295,365	182,189
CDBG	28,048	47,797	22,666	(5,382)
Totals	96,230,475	99,935,887	96,342,138	111,663

FY21 Budget Allocations



FY21 Proposed Budget

- The proposed FY21 budget is \$96,342,138, an increase of \$111,663 over the approved FY20 original budget.
- To fully fund all General Fund requests including schools and capital, **an additional \$2.3 M is needed.**
- 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 balances and maintains reserves in all utilities but Electric. Expenditure additions will necessitate additional revenue, reductions in proposed budget, or additional use of FB/reserves.

FY21 Overall Budget Drivers

- Electric Costs
- Reservoir Repairs
- VRS, State Life, Health Insurance
- Cost to house inmates
- Outside Agencies
- Children's Services Act Funding

FY21 Proposed Budget

General Fund

FY21 Proposed General Fund Budget is \$32,658,074 compared to the FY20 General Fund budget of \$32,379,019, and the FY20 revised budget of \$33,726,385.

The General Fund budget balances with a projected use of Refuse transfer of \$2,000,000; GF fund balance of \$1,606,255; and \$210,931 from Telecom. No proposed transfer from Electric, Water, or Sewer. Available GF fund balance to maintain 10% reserve is \$1,065,642; an additional \$540,613 is necessary. Anticipate a return to FB of approximately \$1 to \$1.5 M at EOY20.

FY21 Proposed Budget

Taxes, Rates, and Fees

- No recommended tax rate increases.
- Proposed budget includes a 2.5% increase to the Electric PCA
- Includes a water rate increase of \$1.50/month to offset anticipated debt service in late FY21/early FY22 related to the Beaver Creek Reservoir spillway project.
- No other increases recommended.

FY21 Proposed Budget

School Funding, TROF Grant Repayment

- Recommended funding for Schools at **\$6,045,015** which includes an FY21 Telecom e-rate contribution/adjustment of **\$99,624**.
- Includes year 3 (of 5) repayment of TROF grant in amount of **\$156,000**.

FY21 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). FY21 GF budget includes **\$696,376** in cost allocation revenue. This amount is included as part of utility operational costs in the respective funds.

FY21 Proposed Budget

Outside Agencies

- Recommended level funding for most outside agencies; 911 increases 9.7% from \$436,798 to \$479,053; 18.4% increase in Social Services funding from \$400,303 to \$473,917; level funding for the Health Department at \$198,401, EDC level at \$100,000, and 2.2% increase in Library funding \$295,308 to \$301,719. Continues small business/Uptown development at \$60,000 and \$35,000 for Mustangs management contract for 2021.
- Includes one new request – Southern Virginia Recreation Facilities Authority - \$8,000 to match Henry County's \$16,000 to help close a \$40,000 reduction in grant funding in calendar 2021.

FY21 Proposed Budget

Personnel & Services

- One new personnel position is included in the proposed FY21 budget in Street Maintenance for landscape maintenance due to Gateway ceasing to operate after June 30. Anticipate receiving approximately \$80,000 EOY FY20 as Gateway assets are distributed between the City and County.

FY21 Proposed Budget

Capital (equipment, vehicles, projects, etc.)

- Funding of Capital Reserve (16 Fund) in the amount of **\$501,095** is proposed; of this amount, \$361,393 is required for debt service and the balance of **\$139,702** will be assigned to capital purchases on a prioritized basis by the capital review committee. This amount funds only 7% of the capital (non-enterprise) fund requests of \$1,986,599. Capital is funded through Meals Tax and if collections rebound (or federal/state funding for COVID-19 relief is allowed to replace lost revenue), it is possible capital may be expanded. Will review at the end of FY21 Q1.

Capital – Enterprise Funds

Capital (equipment, vehicles, projects, etc.)

- In the enterprise (utility) funds, \$2,241,360 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.*

FY21 Proposed Budget

Refuse (09)

Remediation work related to the landfill solvent pits was completed during the summer of 2019 and later testing results exceeded project expectations. Monthly collection fees continue to remain sufficient to continue recovering costs for collection, disposal, capital, routine landfill maintenance, and overhead. FY21 includes ½ funding (\$167.5K) to replace a rear loader collection vehicle and the vehicle used to serve roll-off containers. The landfill generator continues operating, burning a combination of landfill and natural gas. The Refuse budget is \$4,328,401 and includes a \$2M transfer to the General Fund.

FY21 Proposed Budget

Telecommunications (11)

The projected FY21 Telecom budget is \$2,295,565 and includes transfer to General Fund of \$210,931 (includes \$99,624 for School e-rate costs), and \$45,250 under a cost allocation analysis. \$388,160 is included in capital for a continuation of system upgrades, expansion to additional customers, and wireless-to-home project.

FY21 Proposed Budget

Water (12)

- Proposed rate increase of \$1.50 July 1 to cover anticipated debt service for reservoir spillway project.
- Water/Sewer construction crew continues to make infrastructure repairs at substantial savings over contract costs.
- Water capital (\$580K) includes replacing valves at the plant, sludge collectors, turbidity meters and ½ cost of an emergency generator.

FY21 Proposed Budget

Sewer (13)

- The Sewer budget includes capital funding (\$105,700) to replace a vehicle and purchase mini-excavator. Several capital requests delayed until FY22
- Annual debt service for the interceptor rehab project is included at \$652,578.

Water/Sewer Projects

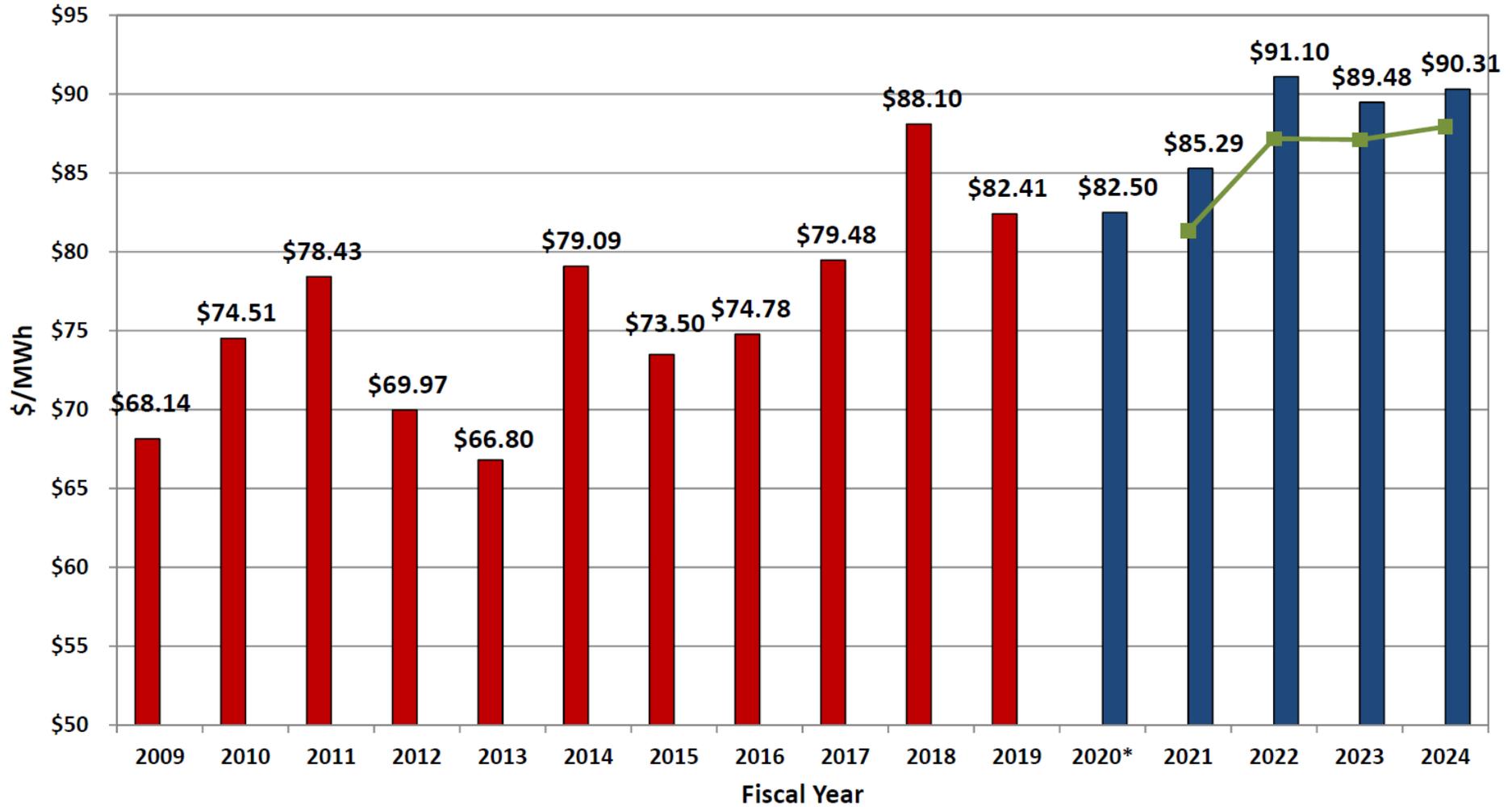
Year	Street(s)	Water	Sewer	Status
2021	Corn Tassel Trail	3600 ft - 4 inch		
2021	D to Second St	400 ft - 2 inch		
2022	Lakeview Trail	1000 ft - 6 inch		
2022	Dan Lee Terrace	400 ft - 4 inch		
2022	Cherokee Ct	500 ft - 4 inch		
2020	Cherokee	3000 ft - 6 inch		Have materials, begin summer 2020
2022	Highland St	1000 ft - 8 inch		
2021	Forest St Part 1		1750 ft - 6 inch	
2021	Forest St. Part 2		1750 ft - 6 inch	
2021	Barton		1000 ft - 6 inch	
2021	Amy		680 ft - 6 inch	

FY21 Proposed Budget

Electric (14)

- Proposed 2.5% PCA rate increase.
- Electric budget capital (\$650K) year 2 of 2 funding a 55 foot bucket truck; station transformers; year 1 of 2 to replace digger derrick; and \$350K for solar transmission line.
- FY21 Electric budget is \$21,150,059, and the purchased power line is \$15,850,000, the largest single line item expense in the City's budget, and represents 74.9% of the Electric budget.

City of Martinsville Fiscal Year Rate Summary



*FY 2020 includes actuals for July-Dec 2019 and projected costs for Jan-Jun 2020
 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

Comments and Conclusion

The FY21 budget continues the practice of utilities balancing internally, utility transfers when available to balance in the GF, and use of FB as available, all while attempting to keep policy-directed minimum balances and reserves intact.

That process, as demonstrated by the FY21 budget, is getting increasingly difficult while attempting to maintain reserves, without increasing revenue, reducing services, or combinations. As noted previously, to fully fund all FY21 GF budget requests, an additional \$2.3M is needed.

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.

It is important to note that the proposed FY21 budget does not include potential costs related to reversion litigation, and it is expected that budget amendments will be necessary, possibly around the end of FY21 Q1, as COVID-19 impacts are known.

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. FY21 budget requests were found to be reasonable and needed, and Council will have an opportunity through the upcoming work sessions to ask questions.

As always a special thanks goes to Linda Conover and Mandy McGhee of the Finance Department for their input throughout this process.

#####

Next Steps

- Review the budget details, request additional information, ask questions, and talk with citizens.
- Three work sessions have been scheduled – May 27 for Schools and outside agencies; June 2 for City departments, constitutionals, & capital; and June 4 for follow up, and additional discussion as may be needed.
- Consider setting a public hearing on the FY21 Budget for Council's June 9, 2020 meeting.