

City of Martinsville

FY2016 Proposed Budget
April 14, 2015



Introduction

The proposed FY2016 budget is the culmination of a process that began early in 2015. Projecting revenue and expenditures out almost 18 months from the beginning of that process is challenging and as we've seen in the development of prior budgets, many of the same issues occur over and over again – expenses and requests exceed revenue, uncertainty regarding State fiscal policies and impacts to local budgets, use of fund and reserve balances, how to allocate limited resources to cover a wide array of needs, and balancing adjustments to taxes, rates, and fees with needs, and what citizens can afford. Despite these challenges, however, we should not lose sight of the many good and positive developments that continue to occur in the City of Martinsville.

The FY2016 proposed budget maintains the same level of services currently offered to the citizens and businesses of the City of Martinsville and the details are outlined later in this budget document. Work continues on three significant projects – the Smith River sewer interceptor project; the meter replacement project; and renewal of the transfer station contract which could impact City finances into the future. Details and recommendations related to these projects will be presented later to Council as information becomes available.

The budget is the City's annual financial plan and is the opportunity to blend Council's goals and initiatives with what the citizens of Martinsville want and expect, and ultimately with the availability 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.

With finite resources, the City's budget obviously cannot provide everything everyone wants, but year after year most, if not all needs are addressed. That task is becoming progressively difficult, however, as increases in costs outpace resources available to cover those costs.

As we move through the 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 2016 and beyond.

Leon Towarnicki
City Manager
April 14, 2015

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General Discussion

FY2015 Highlights

- “ New College Institute – opened Sept. 2014
- “ Henry Hotel – anticipated completion Spring 2015
- “ Fayette CDBG/extension of improvements
- “ Growth/Expansion of Telecom/MiNet
- “ Village of Martinsville – redevelopment continues
- “ Nuisance Ordinance – streamlined & efficient
- “ Continue to explore opportunities – landfill gas project completed, privatizing services, AMI/AMR

FY 2015 Highlights continued

- “ Transfer of Housing to Danville Redevelopment Housing Authority to occur July 1
- “ WPBDC – Incubator management continues successfully under C-PEG; looking to extend contract
- “ Economic development announcements on revenue sharing lots; new shell building completed in September, 2014
- “ CHSM/ICSM - medical school project – received \$800K TROF Grant and renovations underway
- “ Artificial turf project at Hooker Field completed

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Budget Objectives Remain Constant

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

Budget Challenges - General

- “ No revenue growth
- “ Increasing costs due to inflation, insurance, personnel issues, regulatory issues, costs of “doing business”
- “ Citizen’s expectations
- “ Capital needs continue to exceed available funding - some needs cannot be delayed
- “ School system request for additional funding
- “ Sewer Project

Budget Challenges - General

- “ Aging infrastructure – long range capital needs
- “ Meter replacement project
- “ Need to maintain adequate fund and asset balances to ensure reserve capacity to handle emergencies - recognizing that fund transfers are inevitable, ensure that adequate fund balances are preserved
- “ Decisions – *what to fund - fully, partially, or not at all; use of fund balance/reserves?*

Budget Challenges - Capital

“ Capital requests submitted by City departments for FY16 budget consideration totals **\$4,874,032**, with \$2,713,500 requested for utilities and \$2,160,532 requested for general fund/capital reserve. Of this amount, the cost of capital assigned as high priority is \$2,433,500 for utilities and \$1,961,997 for general fund/capital reserve. \$4,395,497, or 90% of the total capital request is categorized/ranked by department staff as high-priority needs.

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What is being recommended?

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- “ The FY2016 proposed budget continues to maintain the level of services as provided in FY2015 and prior budget years.
- “ Staff continues to explore options to increase efficiency, reduce costs, seek grant funding, combine operations where possible, and outsource/privatize where cost reductions can be achieved while maintaining or enhancing levels of service.

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Taxes, Rates, and Fees

- “ No recommended changes in current tax rates of
- “ \$1.0621/\$100 for real estate
- “ \$2.30/\$100 for personal property
- “ \$1.85/\$100 for machinery & tools
- “ The budget includes a proposed 3% electric rate increase effective July 1, 2015
- “ No other recommended changes in utility rates or fees at this time

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“ The proposed budget does not include a recommended water or sewer rate increase at this time. Work is continuing on engineering related to the Smith River sewer interceptor project, but total project costs, possible phasing, and financing are still being developed. Once project financing is determined, the matter will be presented to Council. The magnitude of the project cost suggests a sewer rate increase is inevitable as a component of project financing.

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Outside Agencies

“ Recommended level funding for most outside agencies, level funding for the EDC and Health Center, slight increase for Social Services and the Library, increase of \$77,773 for 911 which includes operational increases and the City’s share of the local match for the grant to replace call processing equipment. No new outside agencies are included and both The Launch Place and Dental Clinic have been dropped from funding (did not submit requests). Includes \$25,350 for the City’s share of interest in FY16 for the shell building construction loan.

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Schools, Commonwealth Crossing

- “ Recommended transfer to Schools of \$6,832,537 which is level funding from FY15 plus an additional \$97,006 to cover School-related E-Rate program costs. Recommend re-appropriate unexpended FY15 funds up to \$160,000 for capital/school bus replacements.
- “ Includes payment in FY16 of \$1,666,700 to Henry County for the City’s share of grading/site development costs at Commonwealth Crossing.

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Capital (equipment, vehicles, projects, etc.)

“ Funding of Capital Reserve (16 Fund) in the amount of \$1,757,580. Of this amount, \$353,271 is required for debt service and the balance of \$1,404,309 will be assigned to capital purchases on a prioritized basis by the capital review committee. This amount will fund 72% of the high priority needs, and 65% of total capital (non-enterprise) fund requests of \$2,160,532.

Capital – Enterprise Funds

Capital (equipment, vehicles, projects, etc.)

“ In the enterprise funds, \$2,203,870 is included in the respective fund budgets to address capital needs. This amount funds 91% of the \$2,433,500 high priority needs and 81% of the total \$2,713,500 capital needs that were requested. Included in the enterprise funds are Refuse (09), Telecom (11), Water (12), Sewer (13), and Electric (14).

Summary – Capital Requests

	<u>Requested</u>	<u>High Priority</u>
GF/Cap Reserve	\$ 2,160,532	\$1,961,997
Funded		\$1,404,309
Enterprise Funds	\$ 2,713,500	\$2,433,500
Funded		\$2,203,870
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Total	\$ 4,874,032	\$4,395,497
Total Funded		\$3,608,179

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Personnel

- “ Includes a 4% pay increase effective July 1, 2015. Of this amount, 2% is a general cost of living increase matching the increase given state employees by the General Assembly. The remaining 2 % completes the City’s obligation to provide employees covered under VRS with a total 5% salary increase, while employees likewise contribute 5% toward VRS, matched by a corresponding decrease of 5% in the City’s contribution to VRS.
- “ Covers the 12.4% health insurance premium cost increase
- “ No new positions

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Telecommunications

“ The proposed FY16 budget moves Telecom (fiber optic program, MiNet, telephone and Internet service) to a self-sustaining entity supported by user fees. The user fees consist of charges to external customers for services, charges to internal customers (City departments) for the value of telephone/Internet service, and charges to the school system for telephone/Internet services. The majority of school costs are recovered through the E-Rate program.

Fund & Asset Balances - Policy

	Current**	Recommended	Difference
Electric	\$5,068,770	\$3,140,536	\$1,928,234
Water	\$821,172	\$1,218,859	(\$397,687)
Sewer	\$513,129	\$1,564,737	(\$1,051,608)
Refuse	\$2,982,021	\$607,966	\$2,374,055
Telecom	0	\$215,297	(\$215,297)
General	\$4,544,853	\$3,061,990	\$1,482,863
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Total*	\$13,929,945	\$9,594,088	\$4,335,857

*Disregards Telecom

** From FY14 Audit

Audit Information – FY12, 13, & 14

	Unrestricted (enterprise)	Unassigned (general)	Total
2012	\$8,058,407	\$4,151,062	\$12,209,469
2013	\$10,467,030	\$3,939,302	\$14,406,709
2014	\$9,385,092	\$4,544,853	\$13,929,945

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- “ Proposed General Fund budget of \$33,687,879, which includes \$1,666,700 for CCBC.
- “ General Fund budget is once again balanced by use of fund balance and enterprise transfers from electric and refuse. No water or sewer transfers are used since asset balances are below recommended values from cash reserve policies.
- “ Proposed FY16 budget shows an increase/return to net assets for water/sewer of \$911,725.

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- “ General Fund budget balances by use of \$3,166,700 in GF fund balance (\$1,666,700 for CCBC) along with \$1,943,315 from refuse, \$2,309,804 from electric, and \$97,006 from Telecom.
- “ Capital is budgeted through use of Capital Fund Reserve (\$250,000), Meals Fund (\$492,664), and Electric (\$788,351).

Comments and Conclusion

The FY16 budget balances with a projected use of Electric, Refuse, and Telecom revenues and reserves, and fund balance from the General Fund. No water/sewer transfers are utilized for FY16 and quite likely will be unavailable for transfer in FY17, and perhaps beyond. In the FY16 General Fund budget, the difference between expenditures and normal sources of General Fund revenue, excluding transfers, exceeds \$7.5 million. Backing out the approximate \$1.7 million CCBC commitment previously allocated, leaves a gap of approximately \$5.8 million that is covered entirely by transfers from Electric, Refuse, Telecom, and fund balance. That level of transfer reduces estimated asset and fund balances in Electric, Refuse, and the General Fund to near minimum levels and is unsustainable.

Comments and Conclusion

The transfer “pool” available for the FY17 budget will be predicated on how FY15 finishes, but it is a reasonably safe assumption \$5.8 million will not be available. Consequently, it is anticipated that FY17 and beyond will see the need for significant budget reductions, increases in revenue, or combinations of both. As deliberations occur regarding the FY16 budget, the future beyond FY16 needs to also be considered.

It should be noted that 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

Our department staff, constitutional offices, and schools put a great deal of thought into the FY16 budget development and much credit and thanks goes to them for their continuing hard work. FY16 budget requests were generally found to be reasonable and needed, and Council will have an opportunity through the upcoming work sessions to hear more details.

A special thanks goes to Linda Conover and the Finance Department, and Wayne Knox, Assistant City Manager for their input throughout this process.

Next Steps

- “ Review the budget details, request additional information, ask questions, and talk with citizens.
- “ Two work sessions have been scheduled – April 16 for outside agencies and capital, and April 22 for departments. April 23 is an available open date if an additional meeting is needed.
- “ Consider setting a public hearing for Council’s April 28, 2015 meeting and adoption of the budget on first reading, and second reading/final approval at the May 12 meeting.