

City of Martinsville

FY2017 Proposed Budget

April 12, 2016



Introduction

The proposed FY17 budget is the culmination of a process that began during the summer of 2015, shortly after the start of FY16 fiscal year in July.

Projecting revenue and expenditures almost 18 months from the beginning of that process is challenging. As we've seen in the development of prior budgets, many of the same issues occur over and over again:

- Expenses and requests exceeding revenue
- Uncertainty regarding State fiscal policies
- 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 with needs and what citizens can afford

At the end of the day is all about:

- Our citizens
- Services the City must provide
- Our ability to spread resources fairly and adequately over the many needs to do the most good

Despite these challenges, many good and positive developments continue to occur in the City of Martinsville, which are highlighted in this presentation.

Development of the FY17 budget occurred in a slightly different manner this year, although the end result – creation of a proposed FY17 budget – is ultimately the same.

This year the budget was developed with more emphasis initially on the end in sight:

- How much revenue is available
- How can that revenue be allocated to cover as many needs as possible
- What are the priorities

It is no secret that funding isn't unlimited - there simply aren't enough funds available to give everyone everything they want, but there is adequate funding to cover most of what everyone needs.

Striking that balance year after year is what budgeting is all about.

As has been stated in prior budget messages, the budget is the City's annual financial plan and is the opportunity to blend Council's strategic planning 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.

With finite resources, the City's budget obviously cannot provide everything everyone wants; but year after year, most, if not all, needs are addressed.

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 2017 and beyond.

Leon Towarnicki

City Manager

April 12, 2016

FY2017 Proposed Budget

General Discussion

FY2016 Highlights

As discussion begins on the FY17 budget, here's some highlights of what has occurred and continues to occur in FY16

- Henry Hotel – opened summer of 2015 and the property continues to be marketed for residential and commercial purposes.
- Telecom/MiNet continues to expand and add to the customer base. Still have a waiting list.
- Village of Martinsville – redevelopment of the former Liberty Fair Mall continues with a number of new store openings in FY16
- We still are having success with a revised Nuisance Ordinance process – very few complaints.

FY 2016 Highlights

- Transfer of Housing to Danville Redevelopment Housing Authority occurred in early FY16.
- WPBDC – Incubator management continues successfully under C-PEG; incubator remains at or close to capacity
- City’s small business initiative & partnership with CPEG – award of DHCD Community Business Launch grant and CBL project is underway.
- City continues to support both NCI and the Medical School project.
- Brownfields grant of \$400,000
- Northside CDBG Project

FY2016 Highlights

- Community policing remains popular among citizens
- Beginning the implementation of several major projects – the automated metering project and the sewer interceptor projects are underway. Also work continues on the asset management plan
- Renewal of National Club Baseball Association tournament contract at Hooker Field for 2017 and 18.
- Continued decline in unemployment
- Continued economic growth

Objectives

Our Basic Year To Year Budget Objectives Remain Constant

- Maintain or improve core 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

- No to little revenue growth
- Increasing costs due to inflation, insurance, personnel issues, regulatory issues, costs of “doing business”
- Community expectations
- Capital needs continue to exceed available funding - some needs cannot be delayed
- School system request for additional funding
- Sewer Project – no water/sewer transfers

Budget Challenges

- Aging infrastructure – long range capital needs
- 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
- Adoption of utility cash reserve and fund balance policies establishes levels of required reserves.

Budget Challenges - Capital

- Capital requests submitted by City departments for FY17 budget consideration totals **\$4,084,182**, with \$2,173,650 requested for utilities and \$1,910,532 requested for general fund/capital reserve. High priority capital requests in the Capital (16) Fund totals \$1,449,858.

Revenue Analysis

Starting the Process

What resources are available for the FY17 Budget

- Traditional sources – taxes, fees, state funding
- Cash reserve policies – required minimum
- Fund Balance use – required minimum
- FY17 projections, new sources of revenue
- Utility budgets typically balance internally through ability to adjust rates; focus shifts to General Fund budget where shortfall occurs
- **How much do we have to work with?**

Fund & Reserve Balances – Policy

EOY15/Beginning FY16

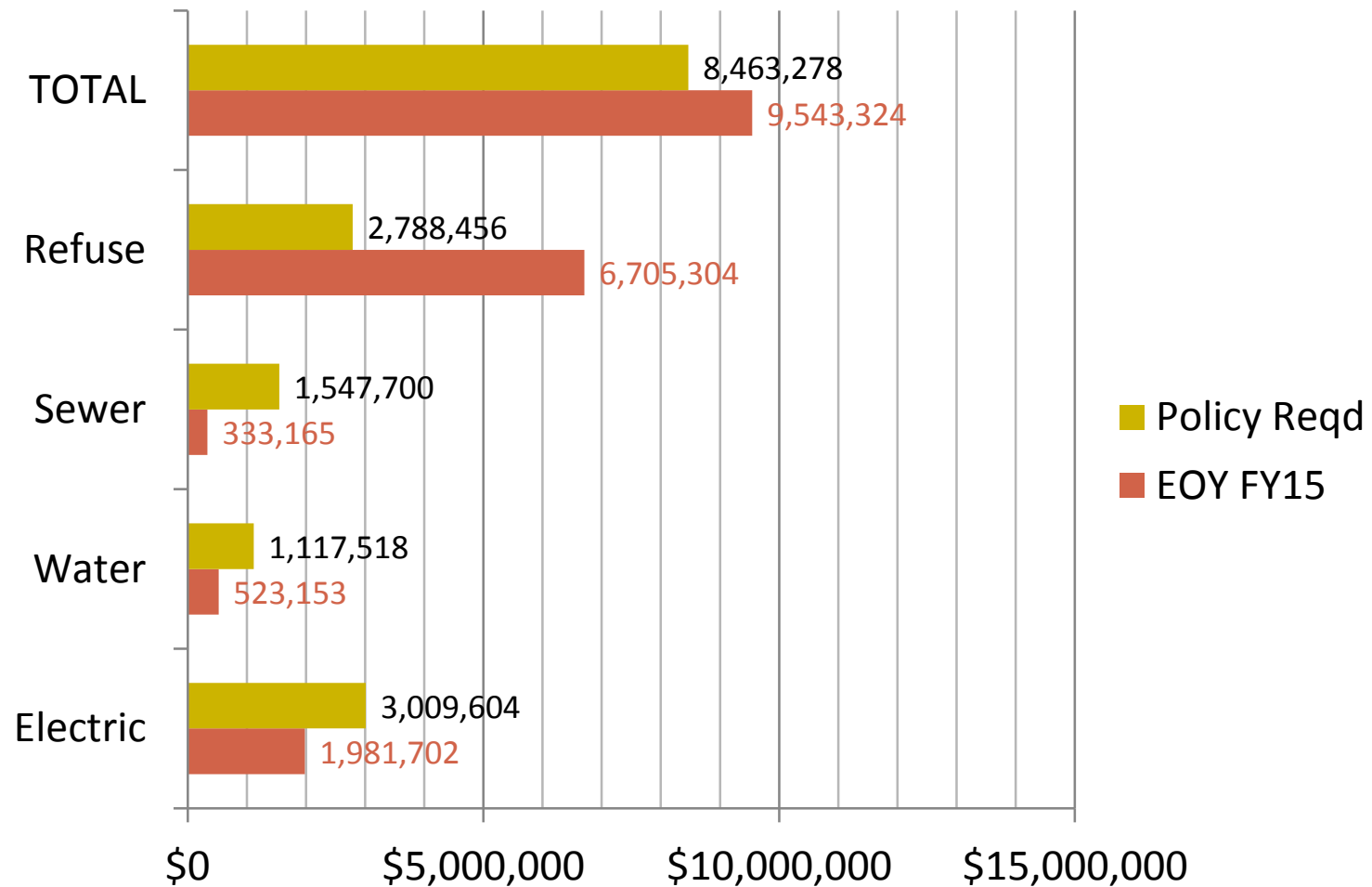
	Current**	Recommended	Difference
Electric	\$1,981,702	\$3,009,604	(\$1,027,902)
Water	\$523,153	\$1,117,518	(\$594,365)
Sewer	\$333,165	\$1,547,700	(\$1,214,535)
Refuse	\$6,705,304	\$2,788,456	\$3,916,848
Telecom	0	\$215,297	(\$215,297)
General	\$4,122,660	\$3,202,706	\$1,482,863
.....			
Total*	\$13,665,984	\$11,665,984	\$2,000,000

*Disregards Telecom

** From FY15 Audit

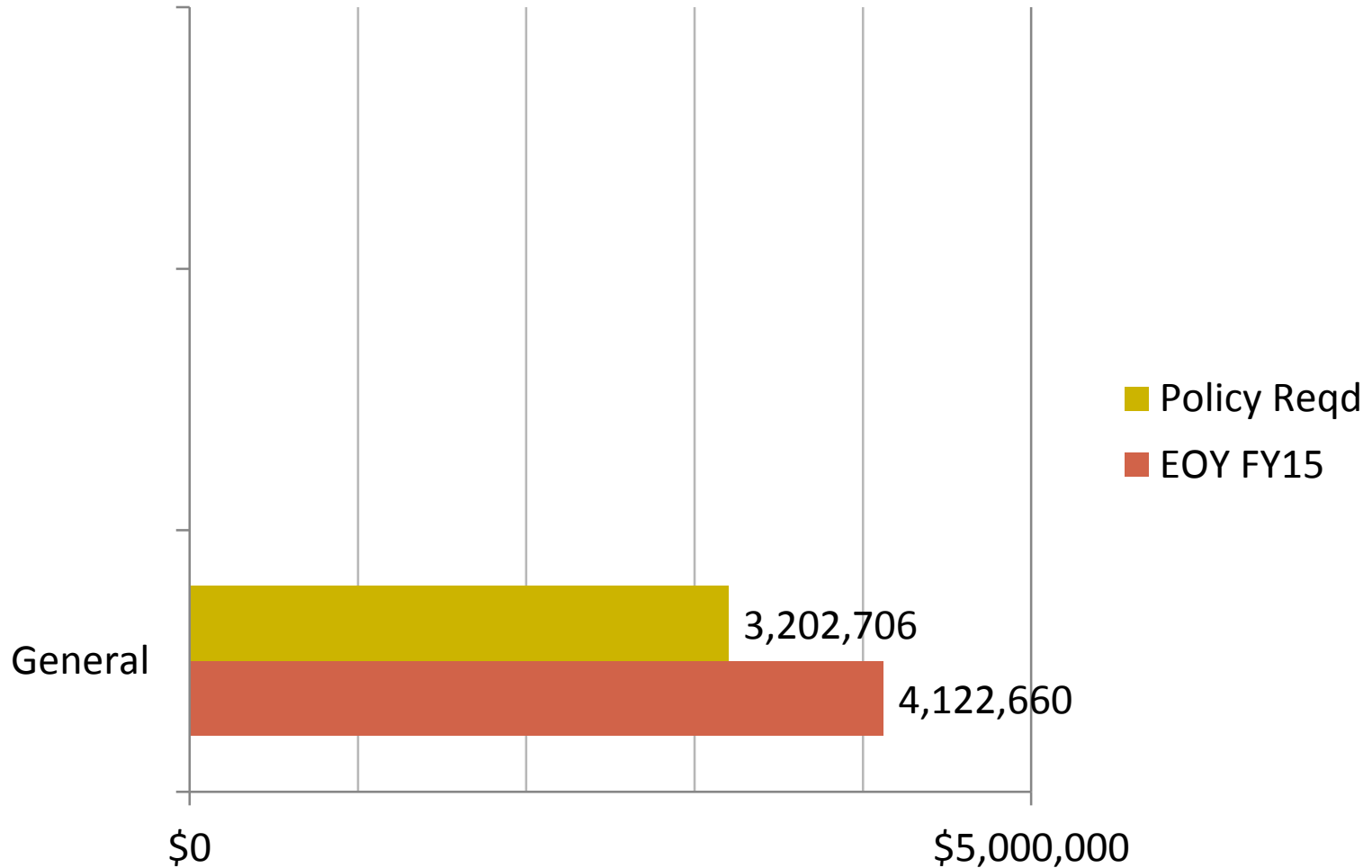
Utilities – Cash Reserves

EOY FY15 vs Policy Requirement



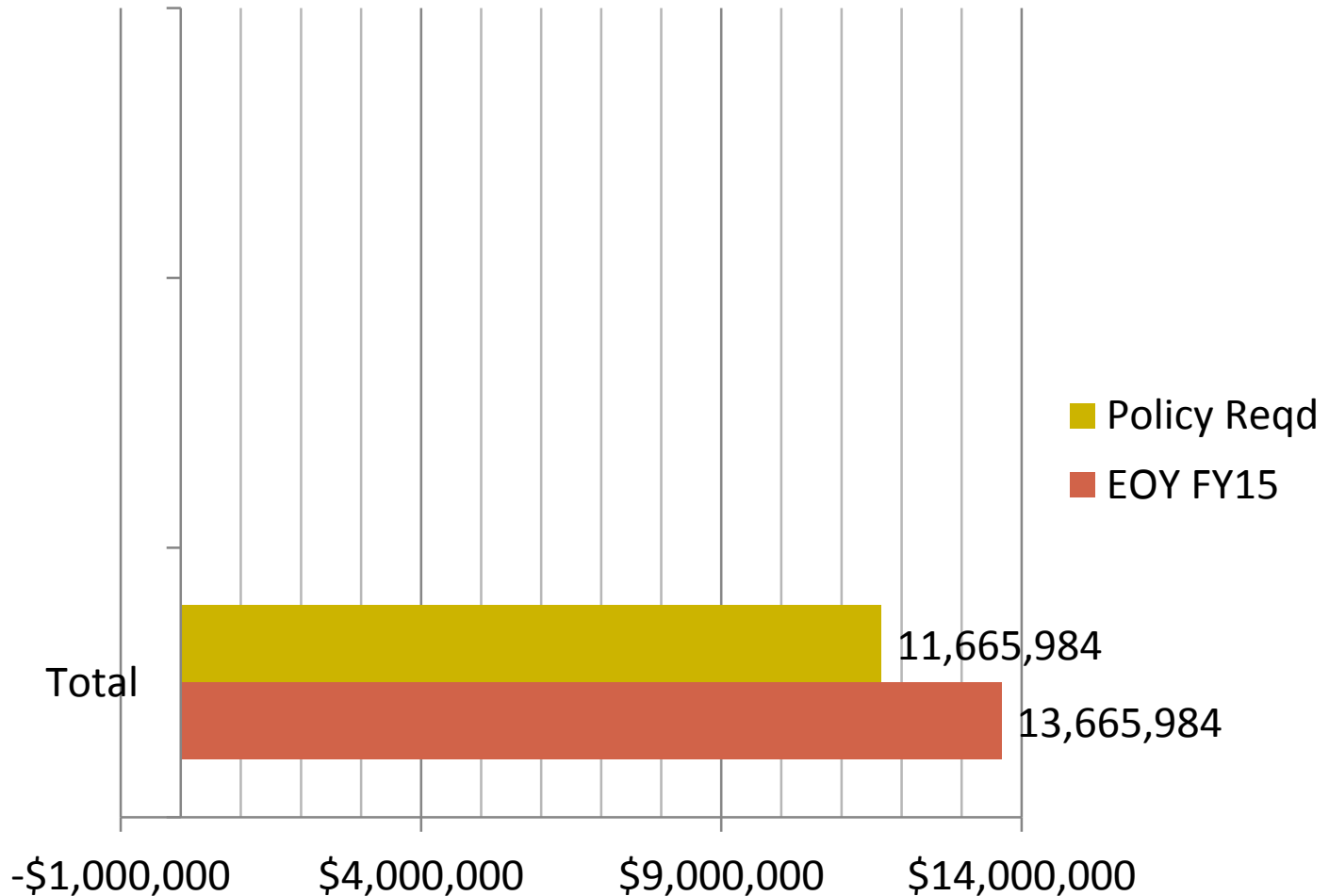
General Fund - Unassigned

EOY FY15 vs Policy Requirement



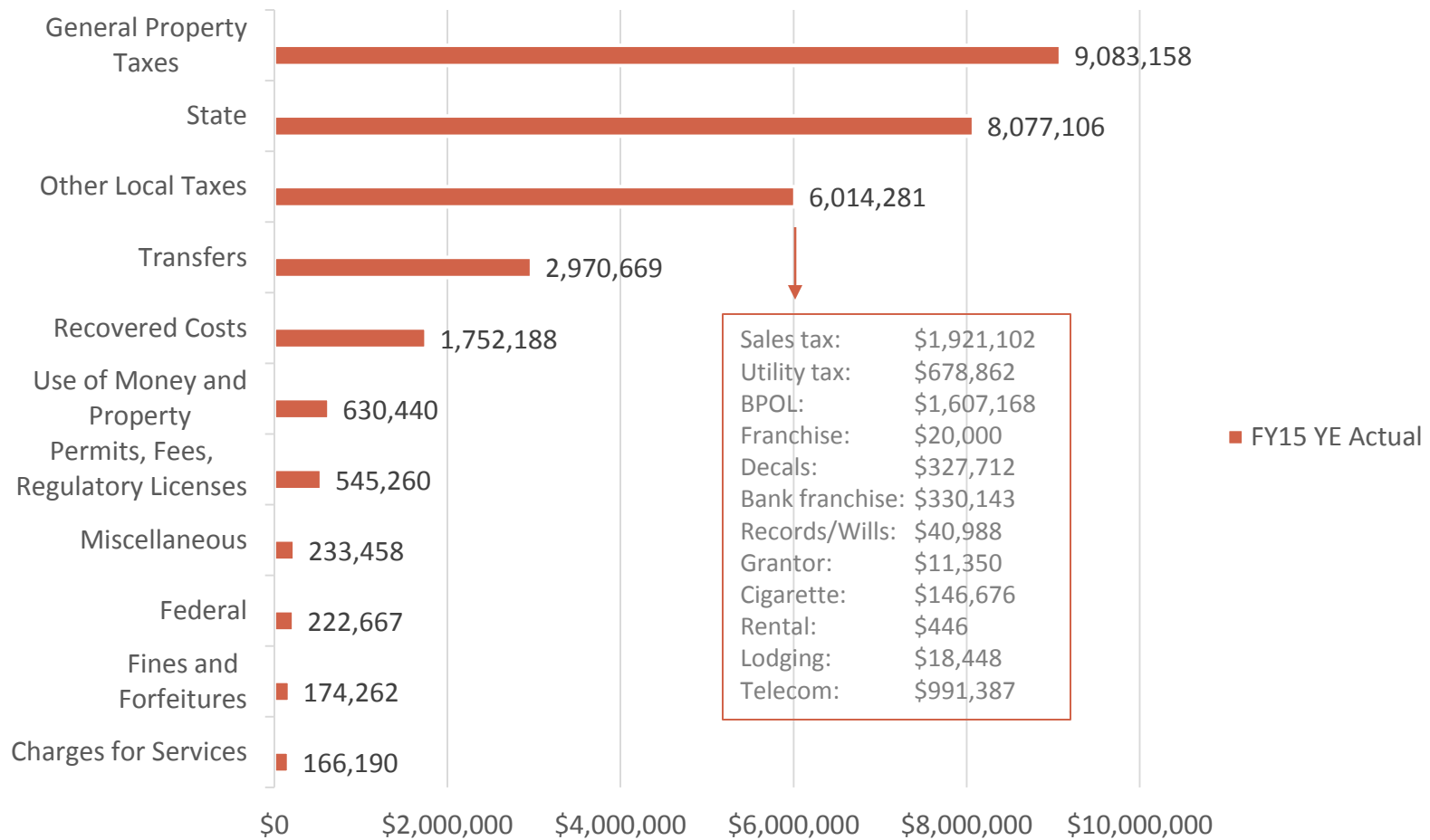
Total All Funds

EOY FY15 vs Policy Requirement



FY15 General Fund Actual YE: \$29,869,679

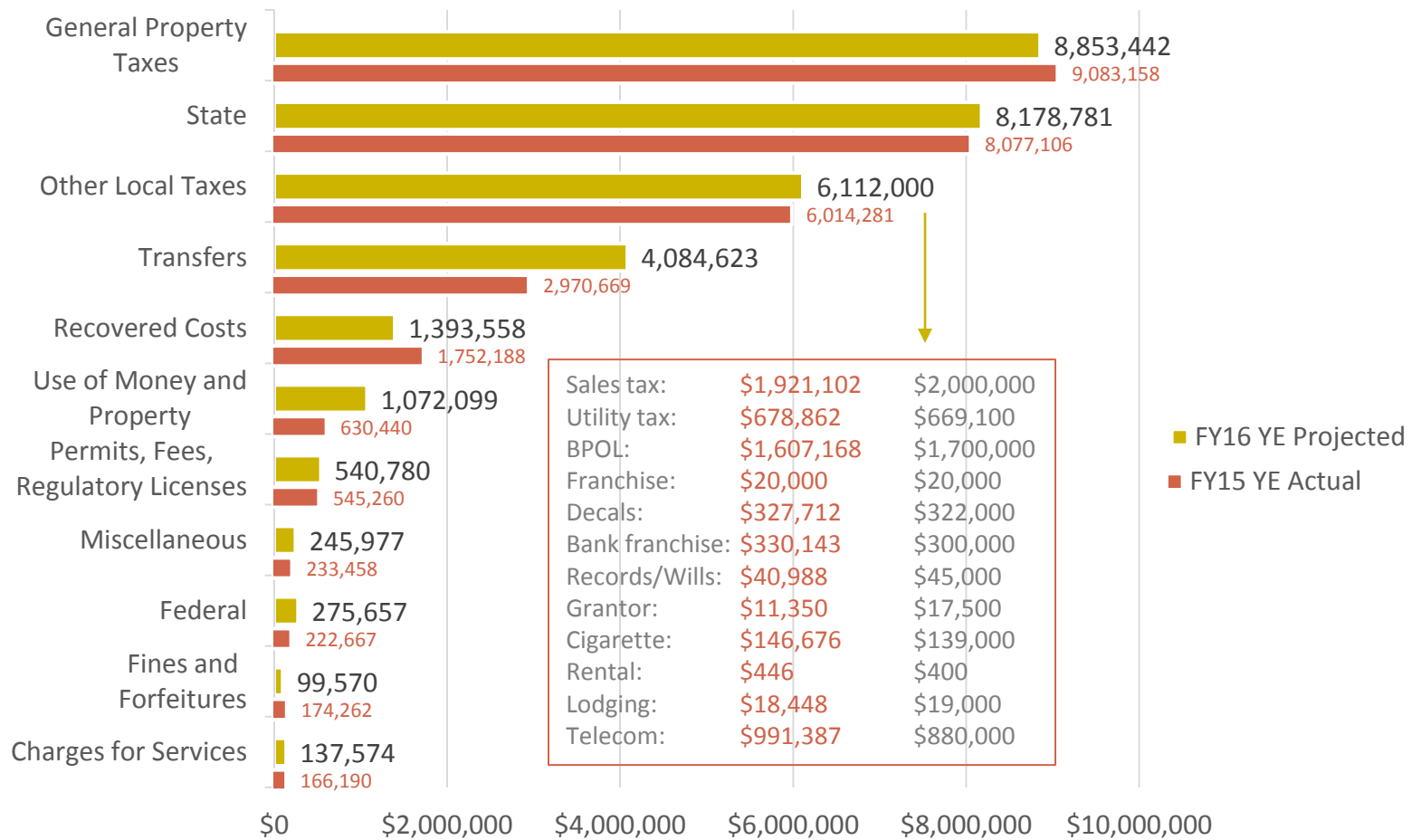
Sources of Revenue



Sources of General Fund Revenue Comparison

FY16 Projected YE: \$30,994,061

FY 15 Actual YE: \$29,869,679



	Sources of Revenue			
	FY15 Actual YE	FY16 Projected YE	FY17 Projected Revenue	Difference FY16 – FY17
Charges for Services	166,190	137,574	130,074	(7,500)
Fines and Forfeitures	174,262	99,570	99,200	(370)
Federal	222,667	275,657	34,500	(241,157)
Miscellaneous	233,458	245,977	245,332	(645)
Permits, Fees, Regulatory Licenses	545,260	540,780	506,280	(34,500)
Use of Money and Property	630,440	1,074,199	1,019,511	(52,388)
Recovered Costs	1,752,188	1,393,558	1,842,704	449,146
Transfers	2,970,669	4,084,623	115,000	(3,969,623)
Other Local Taxes	6,014,281	6,112,100	6,169,700	262,000
State	8,077,106	8,178,781	8,274,281	95,500
General Property Taxes	9,083,158	8,873,442	8,825,500	(67,942)
Total	29,869,679	31,016,261	27,262,082	(3,754,179)

Revenue Analysis

Transfers and Balances

- EOY15 – Utilities Funds Available = \$1,080,046 (audited availability – minimum reserve requirement)
- FY16 – Budgeted transfer from Electric and Refuse (no water or sewer transfers) = \$4,409,968
- FY17 – Projected revenue over expenses = \$2,296,547
- Electric & Refuse FY17 transfer = \$725,079, exclude water/sewer
- Transfer from refuse to electric to meet minimum
- General Fund Projected EOY16 Fund Balance is \$4,677,310. Required FB for \$30M Budget is \$3M; available \$1,677,310. Projected FY17 return to FB is \$600,000.
- Total available transfer is $\$1,677,310 + \$600,000 + \$725,079 = \$3,002,389$. General Fund revenue estimated at \$27,200,000 for General Fund budget target of \$30.0 to 30.2 million

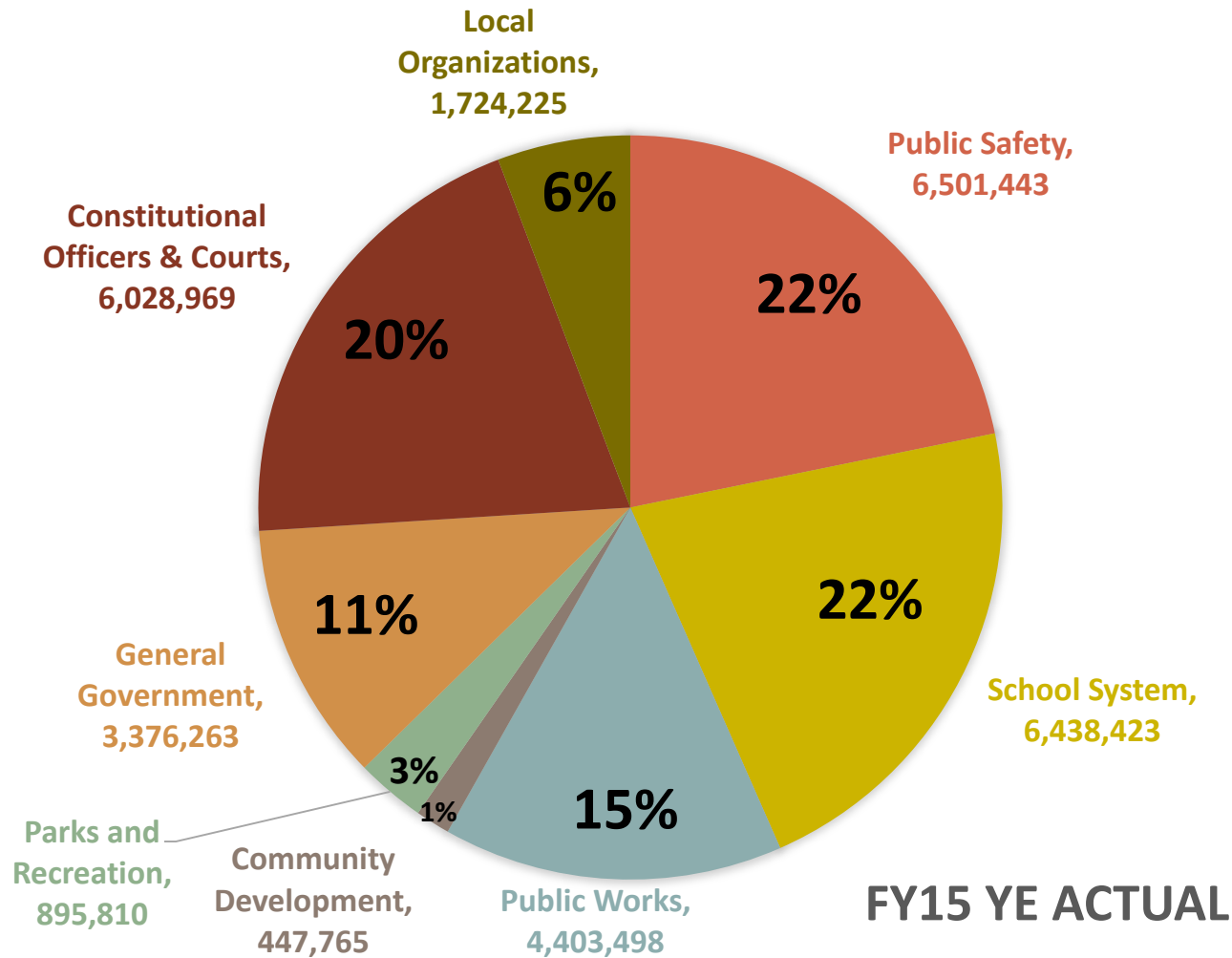
Expense Analysis

Starting the Process

What are the City's priorities?

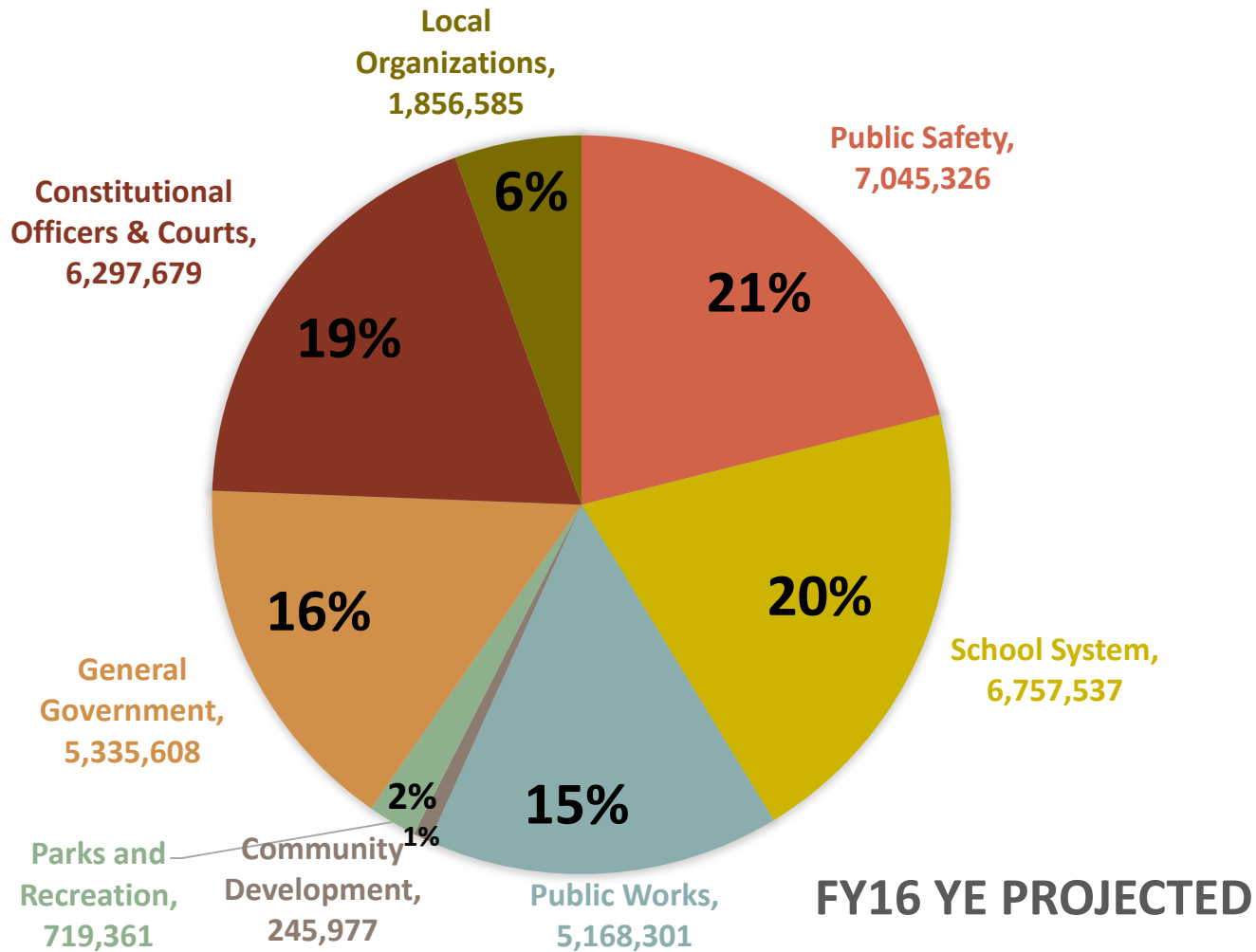
- Realizing a reduction in available funds, how should funds be allocated for education, public safety, economic/business development, capital, etc.
- Changes in services or personnel?
- Major projects?
- Financing obligations?
- **How to allocate available resources efficiently, fairly, and adequately?**

FY15 Actual YE Revenue Use

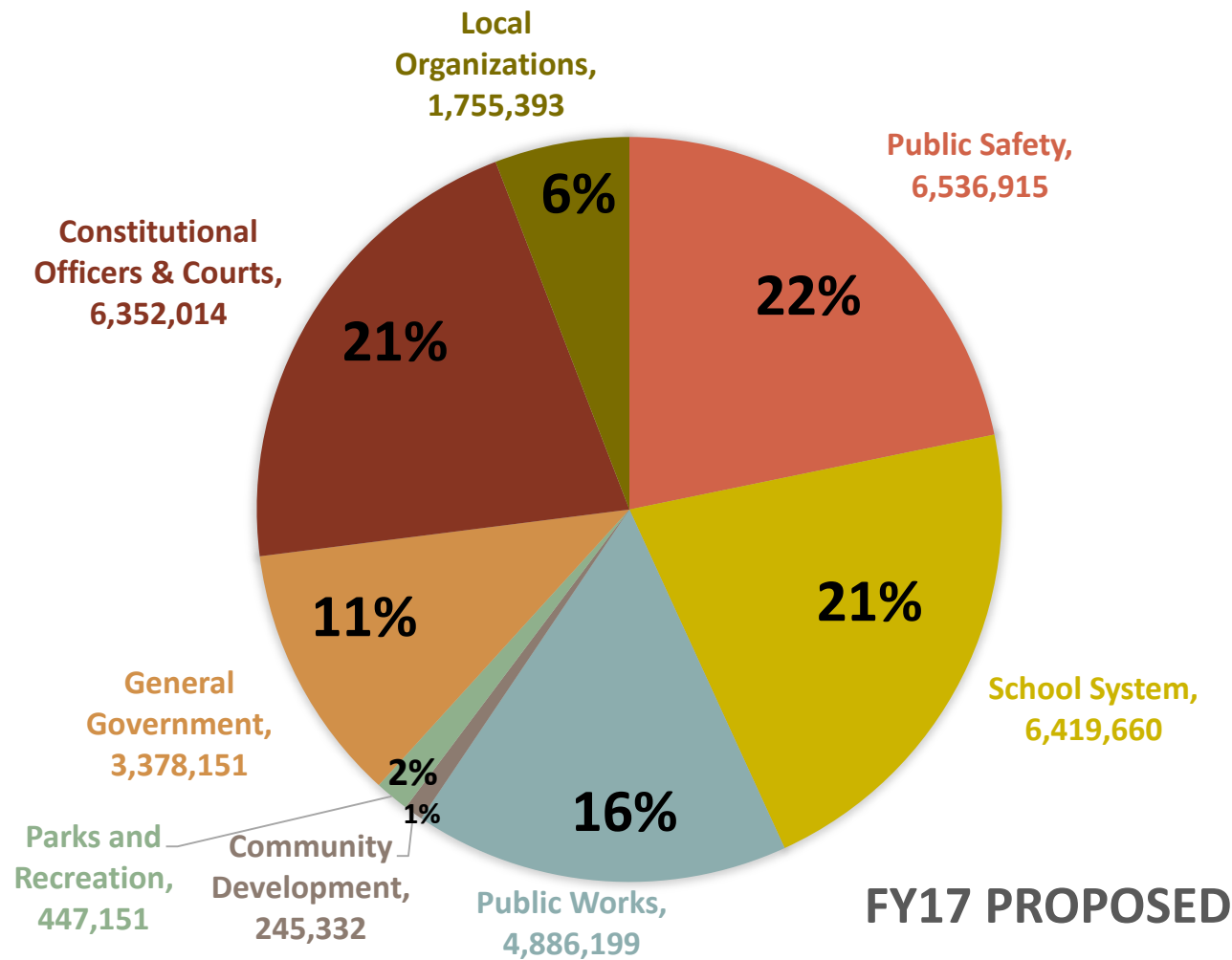


FY15 YE ACTUAL

FY16 Projected YE Revenue Use



FY17 Proposed Revenue Use



	Revenue Use			
	FY15 Actual YE	FY16 Projected YE	FY17 Projected Expenses	Difference FY16 – FY17
Public Safety	6,501,443	7,045,326	6,473,907	(508,411)
School System	6,438,423	6,757,537	6,437,654	(337,877)
Public Works	4,403,498	5,168,301	4,828,998	(282,102)
Community Development	447,765	505,402	460,114	(645)
Parks and Recreation	895,810	719,361	447,151	(272,210)
General Government	3,376,263	5,334,608	3,378,151	(1,956,457)
Constitutional Officers & Courts	6,028,969	6,297,679	6,346,014	54,335
Local Organizations	1,724,225	1,856,585	1,755,393	(101,192)
Total	29,816,396	33,693,756	30,127,382	(3,566,374)

	Revenue Use Percentage Changes			
	FY15 Actual YE	FY16 Projected YE	FY17 Projected Expenses	Difference FY16 – FY17
Public Safety	22%	21%	22%	1%
School System	22%	20%	21%	1%
Public Works	15%	15%	16%	1%
Community Development	1%	1%	1%	0
Parks and Recreation	3%	2%	2%	0
General Government	11%	16%	11%	(5%)
Constitutional Officers & Courts	20%	19%	21%	2%
Local Organizations	6%	6%	6%	0
Total	100%	100%	100%	

FY2017 Proposed Budget

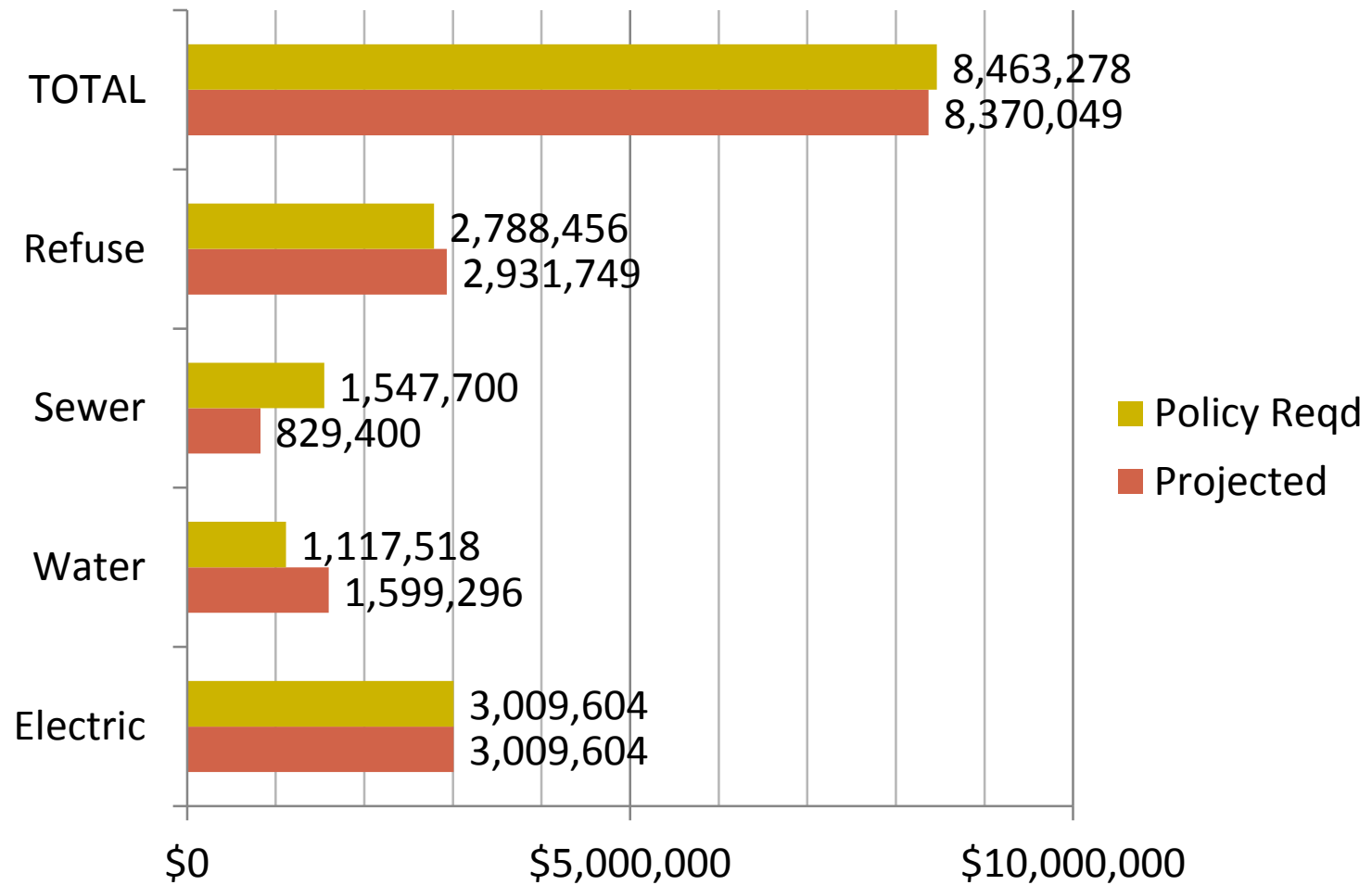
FY17 Proposed General Fund Budget is \$30,127,382; \$4,212,598 less than the revised FY16 General Fund budget of \$34,339,980, a 7.8% reduction after taking into account the one time payment of \$1,666,700 in FY16 for Commonwealth Crossing.

The General Fund budget balances with a projected use of Fund Balance of \$2,140,221 and transfers of \$325,407 from Refuse, \$399,672 from Electric, and \$115,000 from Telecom.

A transfer from Refuse will occur to meet Electric minimum reserve; Water/Sewer with rate adjustments meets 91% of minimum (EOY FY15 meets 32%) but expected to fully meet EOY FY17; Refuse exceeds minimum reserve; General Fund projected to meet minimum.

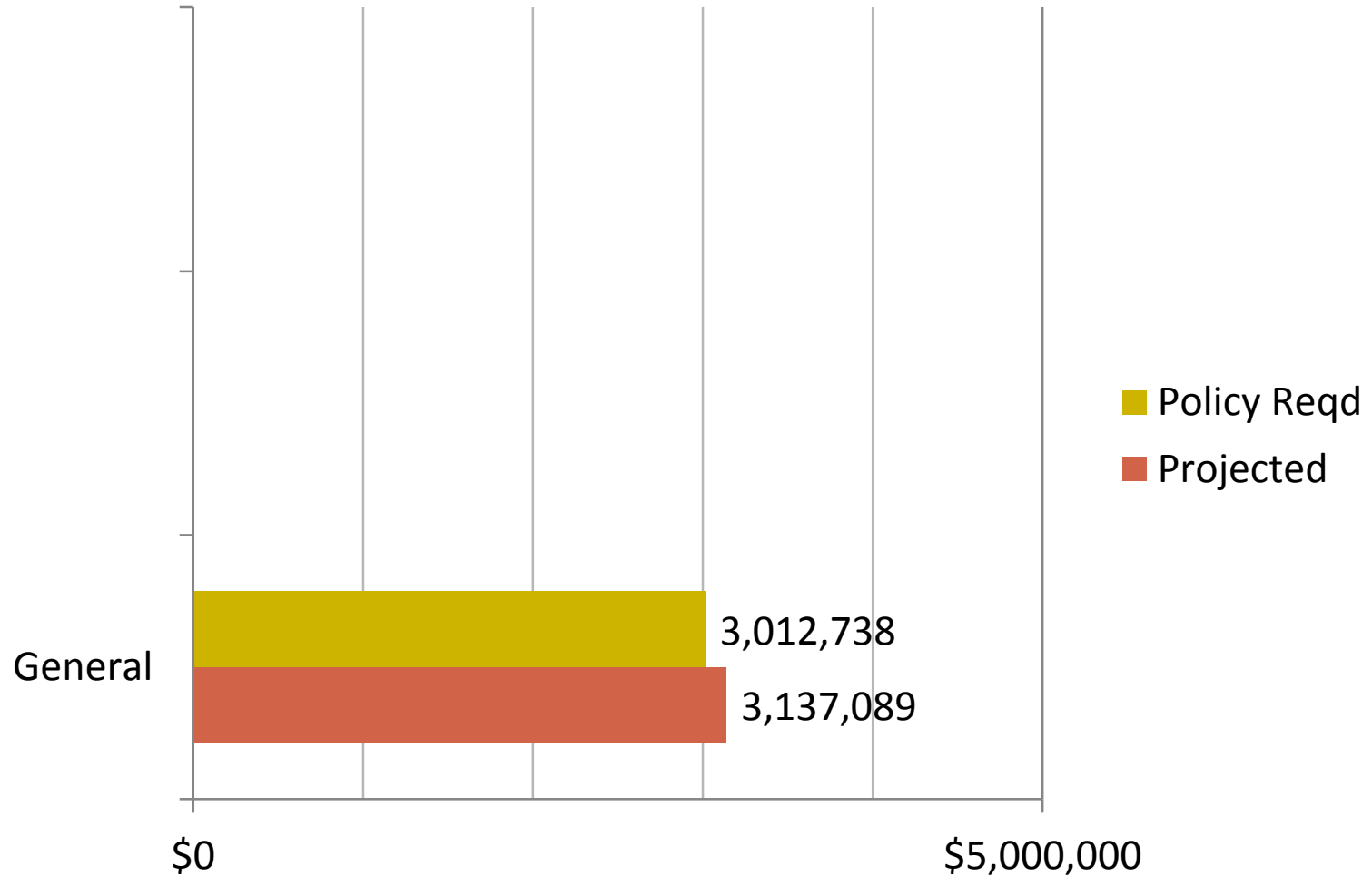
Utilities – Cash Reserves

Projected FY17 vs Policy Requirement



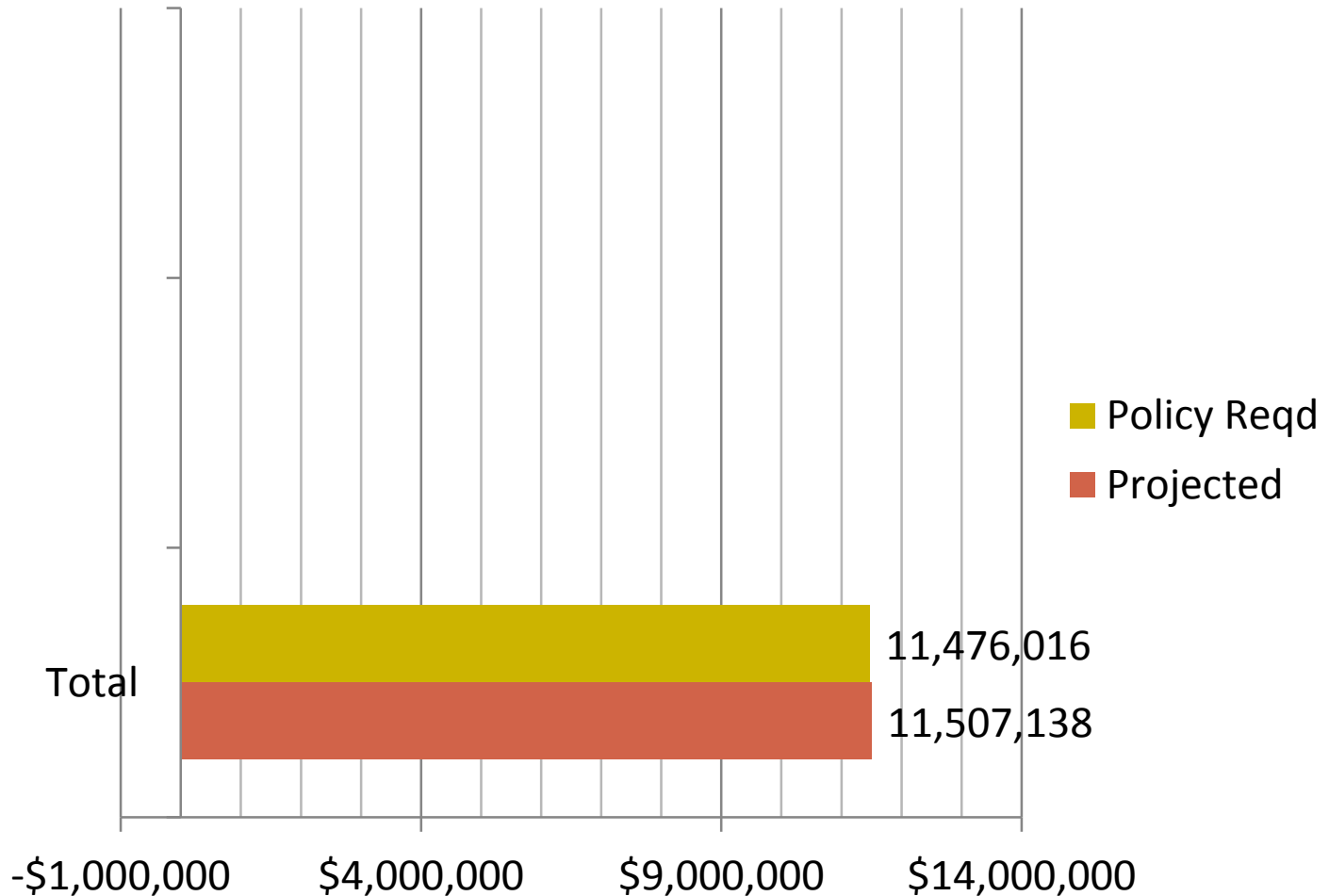
General Fund - Unassigned

Projected FY17 vs Policy Requirement



Total All Funds

Projected FY17 vs Policy Requirement



FY2017 Proposed Budget

REDUCTIONS

- Recommended transfer to Schools of \$6,437,654 which is **\$319,883** less than FY16 and includes a minor adjustment to cover School-related E-Rate program costs. Recommend re-appropriate unexpended FY16 funds up to \$160,000 for capital/school bus replacements.
- Police and Fire reduced **\$355,957**
- Health Insurance Savings **\$270,000**
- National Guard Armory defunded, net savings of approximately **\$80,000**

FY2017 Proposed Budget

REDUCTIONS

- EDC funding decreases from \$219,500 to \$100,000, a reduction of **\$119,500**.
- 9 full time positions are being eliminated (City Garage, Finance, 2 Meter Reader positions, 3 Street Maintenance, and 2 Full Time/7 Part Time in Senior Services) Senior Services program is not included for funding in FY17. Total estimated reduction is **\$370,000**.

FY2017 Proposed Budget

- Completion of Cost Allocation Plan to determine expenses currently absorbed by General Fund for the operation of City utilities (Electric, Water, Sewer, Refuse, Telecom) identified **\$540,207** in costs. In FY17 this amount is included as part of utility operational costs and transfers to the General Fund to offset expenses.
- Treasurer/Finance - Additional interest on City accounts results in approximately **\$220,000** in additional revenue.
- **Approximately \$2.3 million in adjustments**

FY2017 Proposed Budget

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 4.97% electric rate increase effective July 1, 2016
- A \$3/month increase in both water and sewer base rates is recommended
- An increase in meals tax from 6.5% to 7% is proposed

FY2017 Proposed Budget

Outside Agencies

- Recommended level funding for most outside agencies; 911 increases 4.9% from \$438,992 to \$460,383 to cover costs of a multi-year lease purchase to replace outdated console equipment; a reduction in funding for the EDC from \$219,500 to \$100,000 reflecting a change in Board composition; level funding for the Library; a 3% increase in Social Services funding from \$322,193 to \$331,812; and a 2.3% decrease in Health Dept funding from \$203,010 to \$198,401. Funding is once again included for the Dental Clinic at \$4,832; and half of the cost for a third PART bus is included. No other new outside agencies are included. Also includes \$25,350 for the City's share of interest in FY17 for the shell building construction loan.

FY2017 Proposed Budget

Capital (equipment, vehicles, projects, etc.)

- Funding of Capital Reserve (16 Fund) in the amount of \$995,018 is proposed; \$725,500 less than FY16. Of this amount, \$354,369 is required for debt service and the balance of \$677,148 will be assigned to capital purchases on a prioritized basis by the capital review committee. This amount funds 47% of the capital (non-enterprise) fund requests of \$1,449,858. Revenue (approx. \$100,000) from the proposed Meals Tax increase goes toward capital. Capital is funded through Meals Tax (\$595,018) and Meals Tax Fund balance/reserve of \$400,000, and Capital Reserve of \$36,499.

Capital – Enterprise Funds

Capital (equipment, vehicles, projects, etc.)

- In the enterprise funds, \$ 1,685,650 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).

FY2017 Proposed Budget

Personnel & Services

- Includes a 2% pay increase effective December, 2016, to match the same increase given state employees. Also included are minor adjustment in pay/grade for a small number of employees to meet market adjustments.
- City health insurance costs will decrease approximately 11% in FY17. Most of the savings (approximately \$270,000) are included in budget reductions; some is used to reduce employee premiums from \$159/mo to \$145/mo.
- One new position added in water/sewer

FY2017 Proposed Budget

Personnel & Services

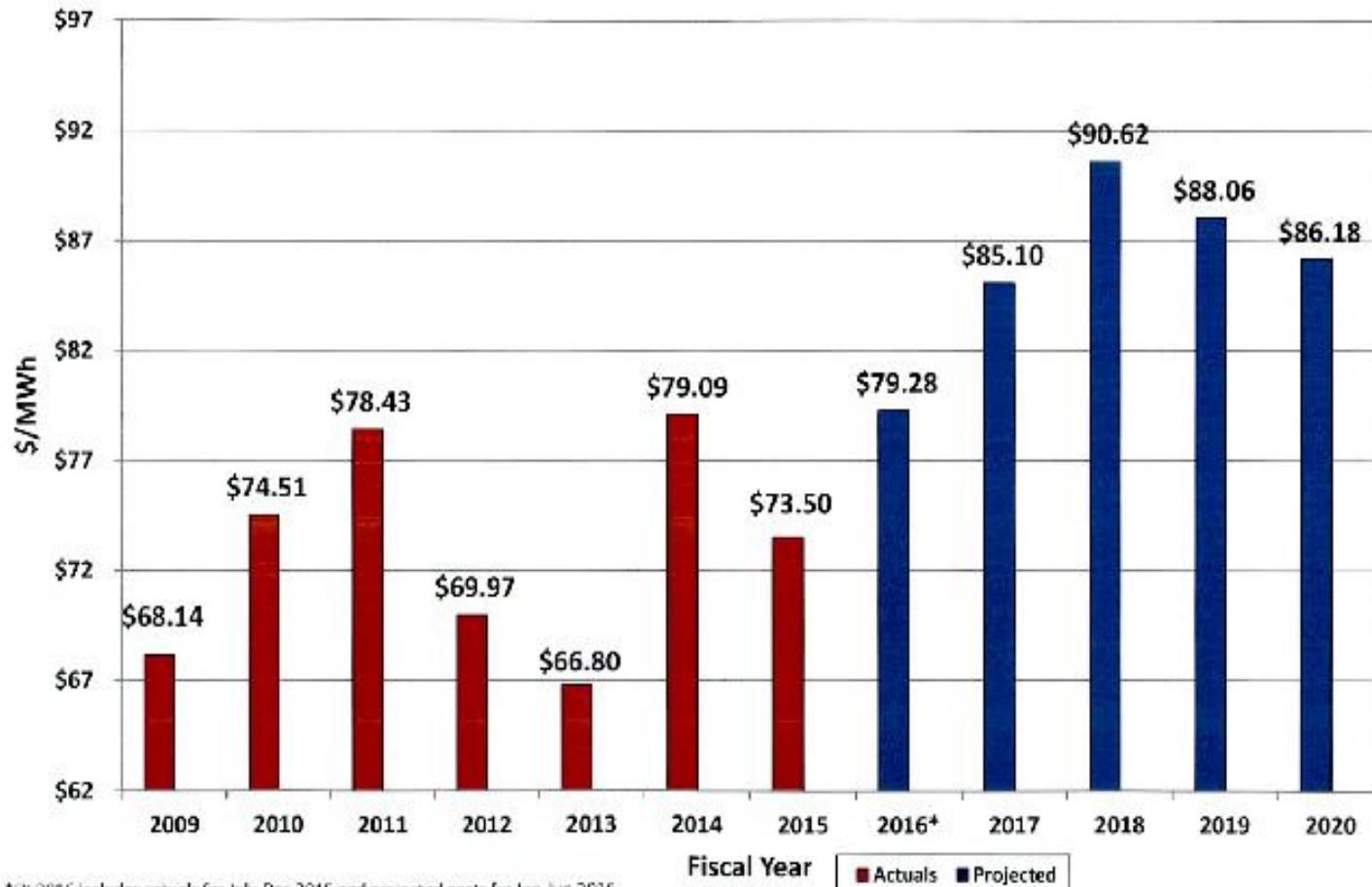
- Includes reduction of 9 full time positions (Garage, Finance, 2 Meter Readers, 3 Street Maintenance, and 2 FT/7PT in Senior Services). Some reductions anticipated; some occurred through internal realignment of personnel, and remaining positions through budget process.
- Funding of Senior Services program is not included in the proposed FY17 budget.

FY2017 Proposed Budget

Electric

As noted, an electric PCA of .00568 is being requested which translates to a 4.97% increase for a 1000 kwh consumption homeowner to cover the projected increased cost of power. The request if approved will result in the monthly bill for a 1000 kwh consumption homeowner increasing from \$114.26 (before taxes) to \$119.94. This compares to APCO's present rate of \$114.83. The latest power cost projection shows the all-in rate for Martinsville going from \$0.07928 kwh in 2016 to \$0.08510 kwh in 2017. The proposed 0.00568 PCA will generate a projected \$956,840 of additional revenue to offset the projected \$1,081,000 increased power cost.

City of Martinsville Fiscal Year Rate Summary



*FY 2016 includes actuals for July-Dec 2015 and projected costs for Jan-Juni 2016

*FY 2019 and FY 2020 rates include 50% of energy requirements purchased at projected market prices and projected capacity rates. Market & capacity prices could fluctuate causing a change in projected rate.

FY2017 Proposed Budget

Water/Sewer

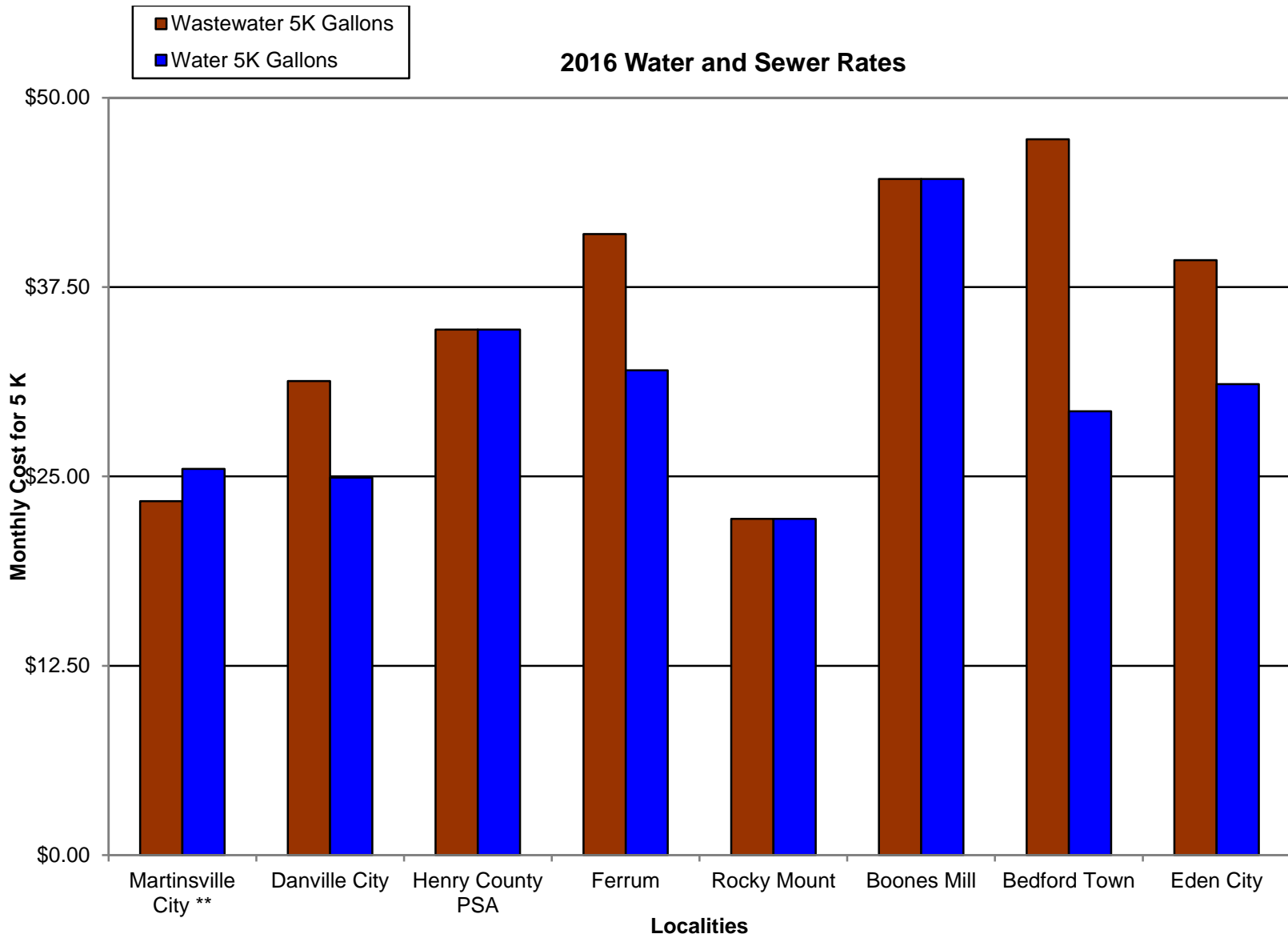
- Although separate funds, for purposes of this discussion water and sewer are being considered together due to the combined assets for the revenue bond related to the Virginia Resource Authority loan for the sewer interceptor project. The FY15 audit shows cash/cash equivalents for water and sewer of \$856,318. The adopted cash reserve policy for water and sewer combined indicates \$2,665,218 is needed. Taking into account both revenue and expenses (including the proposed \$3 rate increases for both), water and sewer is projected to return \$1,572,378 to fund reserves in FY17, bringing the total back to \$2,428,696. Coupled with typical under-expenditures of budgeted amounts and conservative estimation of revenue, the remaining gap between projected and required reserve balance is expected to close in FY17, meeting the cash reserve requirement.

FY2017 Proposed Budget

Water/Sewer

- The proposed \$3 water/sewer rate increases will change the water 4000 gallon base rate from \$22.31/month to \$25.31/month, and the sewer 4000 gallon base rate from \$20.64/month to \$23.64/month, both well under the state average of \$30.77/water and \$40.37/sewer.
- Also as noted, the water/sewer budgets include the addition of one new position under water/sewer maintenance and construction. The new position along with existing employees will be used to create two construction/maintenance crews who will begin work on a multi-year list of water and sewer replacements and repairs. There is both an increase in personnel and material costs included in the FY17 budget to reflect this change, which will allow projects to be done internally at a substantial savings over contracted costs. Recent efforts to contract a water line project on Spruce Street resulted in project bids far exceeding available funding, necessitating a change in approach.

2016 Water and Sewer Rates



Water/Sewer Projects

<u>Year</u>	<u>Projects - Water</u>	<u>Contractor</u>	<u>Material</u>	<u>Labor</u>
2017	Replace Water Main on Indian Trail 3800 ft 6 Inch	\$250,000	\$60,000	\$40,000
2018	Replace Water Line Corn Tassel Trail Spruce to Sam Lions 3600 Ft. 6 In.	\$250,000	\$60,000	\$40,000
2019	D st 2nd to 3rd 400 ft 2 Inch and Roselawn 400ft. 2 Inch	\$50,000	\$10,000	\$40,000
2019	Lakeview Trail 1000'	\$100,000	\$28,000	\$0
2020	Dan Lee Terrace 400 Ft. 4 Inch Cherokee 500 ft	\$30,000	\$10,000	\$40,000
2020	Venna 2" 1000 ft Columbus 2" 700 ft	\$170,000	\$60,000	\$0
2021	Cherokee Mulberry to Root 3000 ft	\$250,000	\$60,000	\$40,000

<u>Year</u>	<u>Projects - Sewer</u>	<u>Contractor</u>	<u>Material</u>	<u>Labor</u>
2017	Highland ST 1000 Ft. 8 Inch	\$120,000	\$30,000	\$40,000.00
2017	High, Dunlap and Spenser	\$140,000	\$30,000	0
2018	Forest Street 6" Pt. 1 1750 Ft	\$175,000	\$50,000	\$40,000.00
2019	Forest Street 6" Pt. 2 1750 Ft	\$175,000	\$50,000	\$40,000.00
2020	Hairston and Bridge beside Lester Penn, Independence to Mulberry 2000 ft. 8Inch	\$250,000	\$60,000	\$40,000.00
2021	Barton 1000 ft. and Amy 680ft 6 In.	\$160,000	\$40,000	\$40,000.00

FY2017 Proposed Budget

Refuse

No significant changes in Refuse are projected for FY17 compared to FY16. Funding for replacement of a collection truck along with continuing work at the landfill to comply with DEQ requirements is included. Monthly collection fees are currently sufficient to continue recovering costs for collection, disposal, capital, landfill maintenance, and overhead.

FY2017 Proposed Budget

Telecommunications

Telecommunications began FY16 with a negative fund balance of \$355,914 due in large part to up-front capital expenses associated with system construction. In FY16, revenues are projected to be \$1,643,871 and expenses are projected to be \$1,220,694 resulting in revenue exceeding expenses by \$423,177. The difference not only recovers the beginning negative fund balance of \$355,914 but produces a projected FY16 positive fund balance of \$67,263. In FY17 that trend continues with revenue projected to exceed expenses by \$395,411, with \$280,411 accruing to fund balance for a projected end of FY17 balance of \$347,674, and a transfer to the General Fund of \$115,000, which is included in the projected School transfer of \$6,437,654, to cover the School's Minet/Telecom cost. Minimum cash reserve requirements for Telecom are being established and until that work is completed, transfer of funds from Telecom is not being considered.

Comments and Conclusion

The FY17 budget continues the practice of transfers to balance, although the proposed budget greatly reduces the amounts while attempts to keep policy-directed minimum balances and reserves intact. Adjustments to future budgets will obviously continue to be necessary to match available revenue to budget requests.

It should be noted 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 effort into development of the FY17 budget and much credit and thanks goes to them for their continuing hard work. FY17 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.

As always a special thanks goes to Linda Conover and the Finance Department; Wayne Knox, Assistant City Manager; and our Human Resources office for their input throughout this process.

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Next Steps

- Review the budget details, request additional information, ask questions, and talk with citizens.
- Three work sessions have been scheduled – April 14 for Schools & Electric, and April 19 for departments, constitutions, capital, and outside agencies; April 21 for wrap-up/conclusion as may be needed.
- Consider setting a public hearing for Council's April 26, 2016 meeting and adoption of the budget on first reading, and second reading/final approval at the May 10 meeting.