

City of Martinsville

FY20 Proposed Budget

April 9, 2019



Introduction

The proposed FY20 budget is a recommended financial plan for the City of Martinsville for the period from July 1, 2019 through June 30, 2020, and is the culmination of a process that began months ago.

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:

- 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 to adequately cover expenses with needs and what citizens can afford

At the end of the day it is all about:

- Services the City provides
- Ability to spread resources fairly and adequately to do the most good
- Keeping the City fiscally strong

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

As the budget was developed this year, key questions included:

- What are the budget resources available to work with?
- How can those resources be allocated to cover as many needs as possible?
- What are the priorities?

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 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 and 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.

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 FY20 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 2020 and beyond.

Leon Towarnicki
City Manager
April 9, 2019

FY20 Proposed Budget

General Discussion Revenue and Expenses



FY19 Highlights

As discussion begins on the FY20 budget, here's some highlights of what has occurred and continues to occur in FY19

- Telecom/MiNet growth continues. Residential pilot project in early stages.
- WPBDC – Incubator management continues successfully under C-PEG; incubator remains at or close to capacity
- Promising discussions with Landmark Asset Mgmt regarding a possible residential project on Aaron Street. Brownfield grant used to complete initial environmental testing.
- Northside CDBG Project recently completed and application submitted for Pine Hall Road project.

FY19 Highlights

- Community policing remains strong and crime rate remains low
- Establishment of Land Bank will facilitate redevelopment of properties
- Continued low unemployment
- Local transit system continues with high usage
- PCS reuse of former Housing Office building
- Commonwealth Crossing – PressGlass construction underway at CCBC. CCAT construction nearing completion.
- Successful partnership with YMCA for management of City parks & recreation programs
- Increasing interest in reuse of buildings/properties

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

- Slow 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

Budget Challenges

- Aging infrastructure – some projects are now required
- 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
- Limited ability to increase rates, fees, etc.

Budget Challenges - Capital

- Capital requests submitted by City departments for FY20 budget consideration totals \$4,761,070 with \$2,285,800 requested for utilities and \$2,475,270 requested for general fund/capital reserve.
- Utilities generally 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.

Revenue –General Comments

What resources are available for the FY20 Budget?

- Traditional sources – taxes, fees, state funding?
- Fund Balance use – required minimum?
- Cash reserve policies – required minimum?
- FY20 projections, new sources of revenue?
- Utility budgets typically balance internally through ability to adjust rates; General Fund budget relies on utility transfers to balance.

Revenue GF Sources

General Fund Revenue

FY20 General Fund revenue before transfers is projected to be **\$29,225,291**, from taxes and fees, recovered costs, and state funding. Local sources of revenue (general property taxes, other local taxes, permits, fees) projected for small increases.

Revenue Analysis

Unassigned Fund Balance- GF

- Audited EOY FY18 unassigned FB is \$4,660,378, less mid-year appropriation of \$52,802 to school capital , leaves balance of \$4,607,576.
- FY20 proposed budget is \$32,129,019. 10% reserve policy requirement is \$3,212,902.
- Available unassigned FB of \$4,607,576 less FY20 reserve requirement of \$3,212,902, leaves available **GF FB transfer of \$1,394,674.**

Revenue Analysis

Utilities – Cash Reserve Policies

	EOY18 Audited C & CE	Cash Reserve Policy
Electric	\$290,557	\$4,877,341
Water	\$2,899,231	\$1,695,972
Sewer	\$1,907,096	\$1,744,434
Refuse	\$5,521,246	\$4,198,639*

*Calculated CR of \$698,638+ \$3.5 M Post Closure Obligation

Revenue Analysis

Discussion of Available Transfer From Utilities to GF

- No transfer from Electric or Sewer is proposed. Electric is significantly under the recommended reserve requirement and is expected to remain so for the near future.
- Although audited Refuse C & CE exceeds policy by approximately \$1.3 million, multi-year remediation project at landfill is estimated to close much of that gap. A transfer of \$273,123 is proposed.
- C & CE of Water Fund exceeds policy requirement by \$1.2M. Transfer from Water Fund to GF of \$1M and \$274,372 to Capital (16) are included in the proposed FY20 budget.

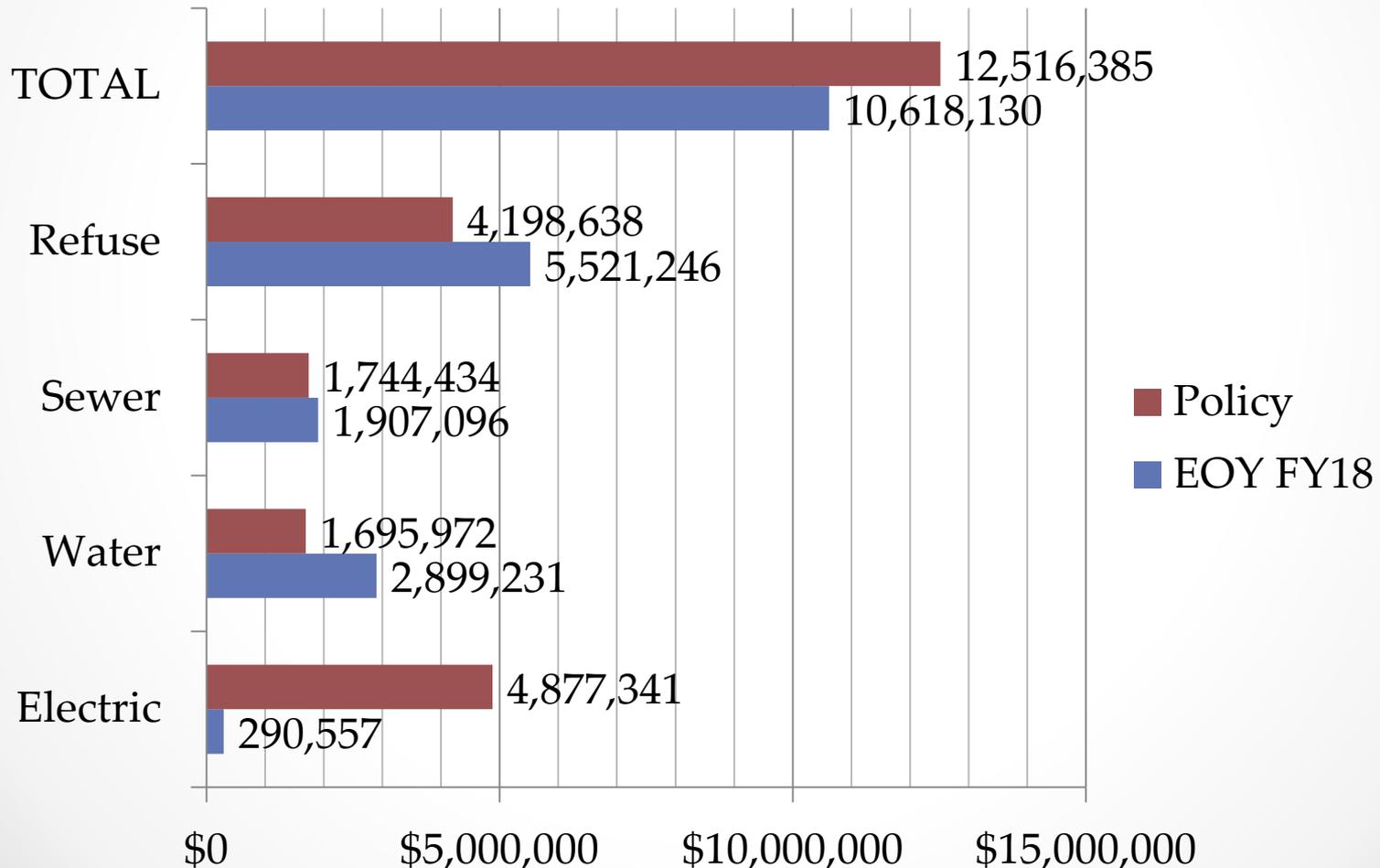
GF Budget Balances W/Transfers

Projected FY20 GF Revenue Available

- Total available General Fund revenue estimated at \$29,225,291 (taxes, fees, state/federal, etc.)
- Proposed budget balances with Telecom transfer of \$210,291 (\$152,526 included in School transfer to offset e-rate costs) + \$1M (transfer from WF) + \$273,123 (transfer from Refuse) + \$25,000 from Street Construction, + \$1,394,674 from fund balance for total of \$32,129,019.
- Proposed FY20 General Fund Budget is \$32,129,019

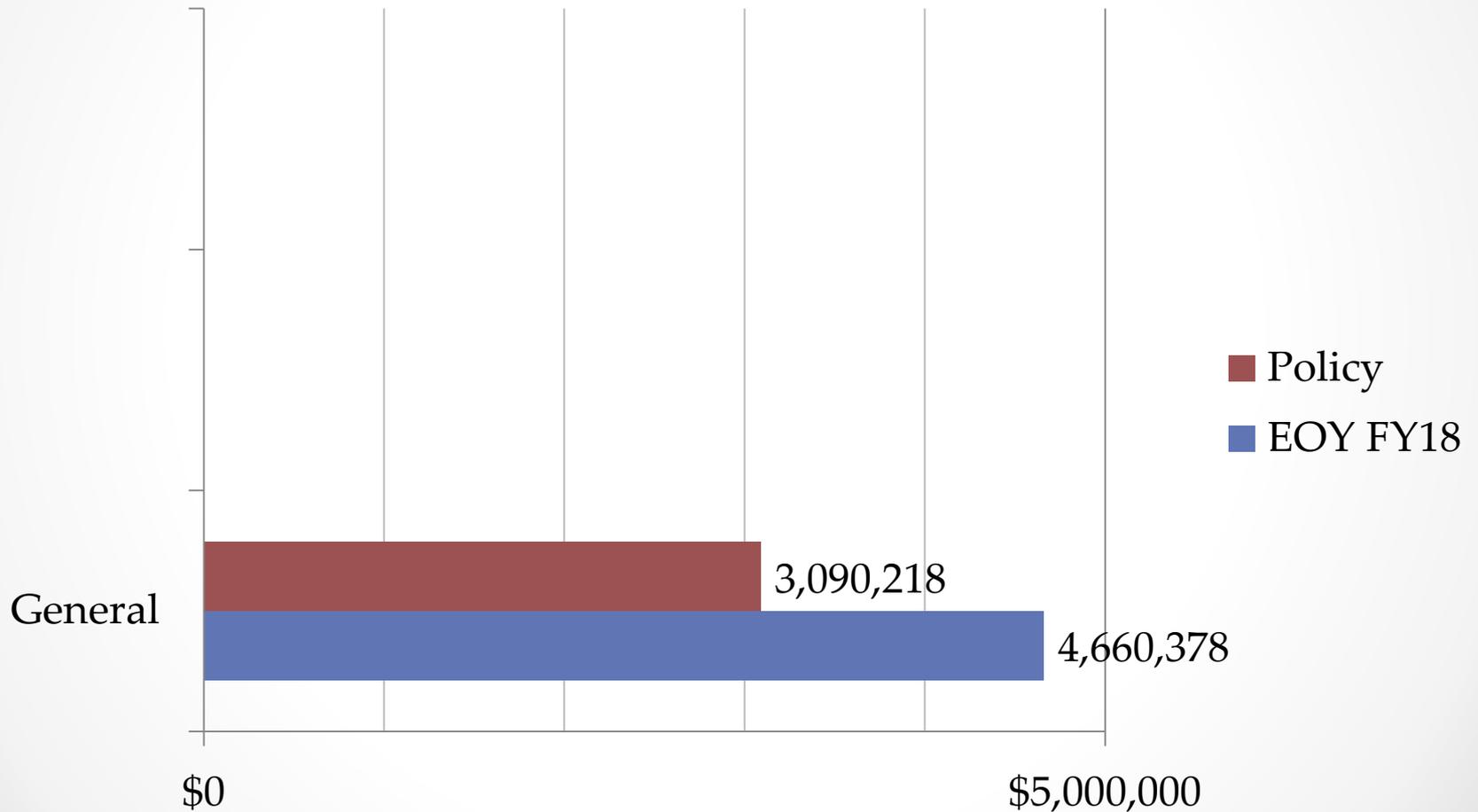
Utilities – Cash Reserves

EOY FY18 vs Policy Recommendation



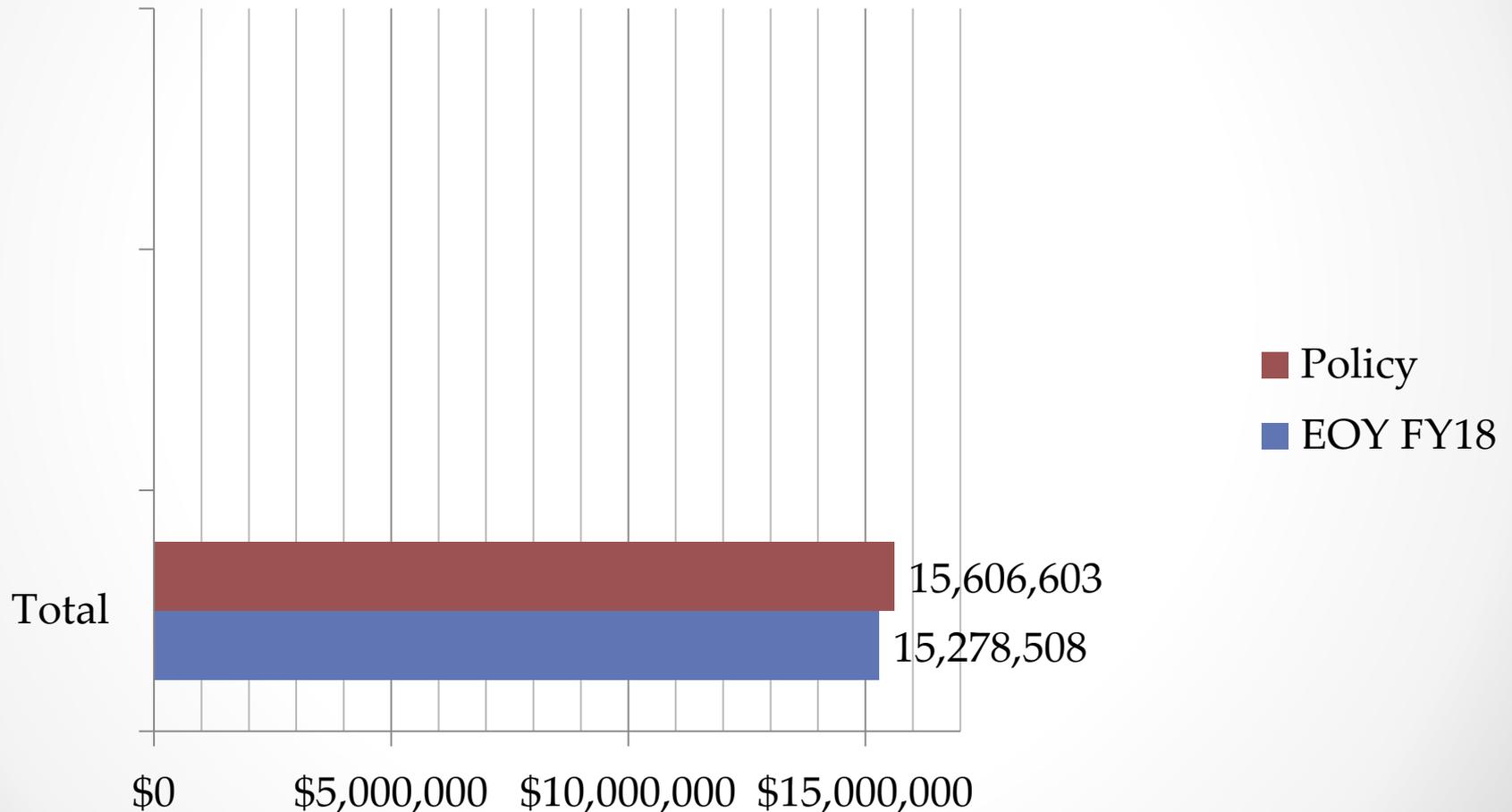
General Fund - Unassigned

EOY FY18 vs Policy Recommendation



Total All Funds

EOY FY18 vs Policy Recommendation



Expense Analysis

Starting the Process

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?

FY20 Proposed Budget

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



FY20 Proposed Budget

				Changes
	Original	Revised	Proposed	FY2019 to
Fund	FY2019	FY2019	FY2020	FY2020
General	30,902,180	32,127,776	32,129,019	1,226,839
Meals Tax	2,187,978	2,187,978	2,250,744	62,766
Capital Reserve	1,059,021	2,001,855	948,017	(111,004)
Refuse	2,442,000	3,005,700	2,788,758	346,758
Water	4,223,949	4,321,880	4,180,751	(43,198)
Sewer	4,814,210	5,874,349	4,860,393	46,183
Electric	21,453,640	22,220,015	21,518,640	65,000
Cafeteria	1,680,362	1,680,362	1,580,310	(100,052)
School Operating	22,753,464	23,223,577	22,221,198	(532,266)
Telecommunications	1,931,728	1,962,736	2,113,176	181,448
CDBG	10,930	75,465	28,048	17,118
Totals	93,459,462	98,681,693	\$94,619,054	\$1,159,592

FY20 Proposed Budget

- The proposed FY20 budget of \$94,619,054 represents a 1.24% increase over the FY19 original budget.
- To fully fund all requests including schools and capital, **an additional \$2.25 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 minimum FB/reserves in all but Electric. Expenditure additions will necessitate additional revenue, reductions in proposed budget, or use of FB/reserves.

FY20 Proposed Budget

General Fund

FY2020 Proposed General Fund Budget is \$32,129,019; compared to the FY18 General Fund budget of \$31,374,404, and the FY19 revised budget of \$32,127,776.

The General Fund budget balances with a projected use of Water transfer of \$1,000,000; GF fund balance of \$1,394,674; \$210,931 from Telecom, and \$273,123 from Refuse. No proposed transfer from Electric or Sewer.

FY20 Proposed Budget

Taxes, Rates, and Fees

- No recommended tax rate increases.
- No recommended electric or refuse rate increase.
- Proposed budget includes \$2.50/month sewer rate increase related to sewer interceptor debt service.
- A water rate increase (\$2.00) **may** be necessary January 1, 2020 depending on financing options made available to the City related to the reservoir spillway project. Funding application has been submitted.

FY20 Proposed Budget

School Funding, TROF Grant Repayment

- Recommended funding for Schools at **\$5,978,276**. The proposed funding represents level FY19 local contribution per-student funding of \$6,427,640 based on projected student enrollment of 1885, reduced proportionally based on projected FY20 enrollment of 1750.
- Includes year 2 (of 5) repayment of TROF grant in amount of **\$156,000**.

FY20 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). FY20 GF budget includes **\$631,800** in cost allocation revenue. This amount is included as part of utility operational costs in the respective funds.

FY20 Proposed Budget

Outside Agencies

- Recommended level funding for most outside agencies; 911 increases 3.3% from \$422,870 to \$436,798; 0.8% increase in Social Services funding from \$397,099 to \$400,303; level funding for the Health Department at \$198,401, EDC at \$100,000, Library at \$295,308 and continuation of the CPEG contract at \$60,000. Includes \$35,000 for Mustangs management contract for 2020.
- No other new outside agencies are included. Also continues payment (\$31,350) for the City's share of interest in FY20 for the Patriot Centre shell building construction loan.

FY20 Proposed Budget

Personnel & Services

- Four new personnel positions are included in the proposed FY20 Budget – one position in the Treasurer’s office; one in Street Maintenance/Traffic Signals; one in Telecom; and an Asst Commonwealth Atty position mandated by the state (related to body-worn cameras)
- A 3% cost of living adjustment for all City personnel and constitutionals is proposed. Other adjustments for certain employee groups relative to regional market.
- Minor changes in health insurance costs for FY20 as the City anticipates changing provider

FY20 Proposed Budget

Capital (equipment, vehicles, projects, etc.)

- Funding of Capital Reserve (16 Fund) in the amount of **\$948,017** is proposed; of this amount, \$256,390 is required for debt service, \$17,198 is committed for COR Software, and the balance of **\$674,429** will be assigned to capital purchases on a prioritized basis by the capital review committee. This amount funds 27% of the capital (non-enterprise) fund requests of \$2,475,270 . Capital is funded through Meals Tax (\$673,645), and Water transfer of \$274,372.

Capital – Enterprise Funds

Capital (equipment, vehicles, projects, etc.)

- In the enterprise (utility) funds, \$2,285,800 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.*

FY20 Proposed Budget

Refuse (09)

No significant changes in Refuse are projected for FY20 compared to FY19 with the exception of major funding (\$375K/year 3 of 3) to address remediation of the solvent disposal areas used at the landfill years ago. Work is required by DEQ and project estimates are in the \$1.4M range. Project estimated to be completed in FY20. Monthly collection fees are currently sufficient to continue recovering costs for collection, disposal, capital, routine landfill maintenance, and overhead. FY20 includes ½ funding (\$210K) to replace a front and rear loader collection vehicle.

FY20 Proposed Budget

Telecommunications (11)

The projected FY20 Telecom budget is \$2,113,176 and includes transfer to General Fund of \$210,931 (includes \$152,526 for School e-rate costs), and \$57,990 under a cost allocation analysis. \$344,000 is included in capital for a continuation of system upgrades and expansion to additional customers, and pilot wireless-to-home project. Also included are costs for an additional Telecom position.

FY20 Proposed Budget

Water (12)

- Rate increase of \$2/month may be necessary January 1, 2020 depending on financing arrangements made available to the City for the reservoir spillway project. (increase is not reflected in proposed FY20 budget)
- Water/Sewer construction crew continues to make infrastructure repairs at substantial savings over contract costs.
- Water capital (\$285K) includes sludge settling basin repairs and allocation of funds toward spillway project.

FY20 Proposed Budget

Sewer (13)

- Includes sewer rate increase of \$2.50/month on base rate from \$23.64/month to \$26.14/month.
- The Sewer budget includes capital funding (\$256K) for sludge building repairs; replacement of a tractor mower, and replacement of a 2-ton dump truck.
- Annual debt service for the interceptor rehab project is included at \$652,496.

Water/Sewer Projects

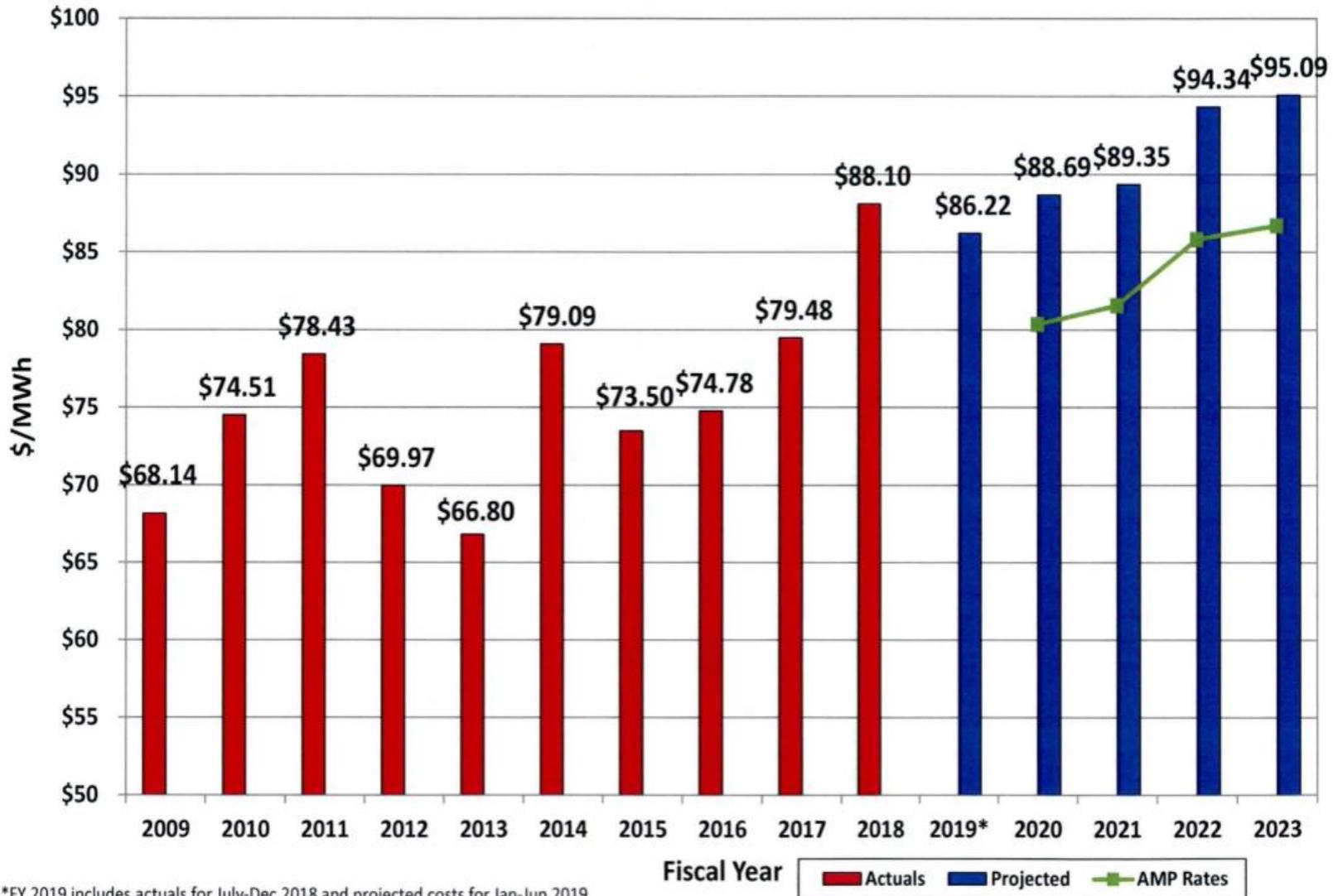
Year	Projects - Water	Contractor Price	Material Cost	Labor	Status
2017	Roselawn Hts, 400 ft. 2 in	\$25,000.00	\$4,000.00	\$10,000.00	Completed (was 2019)
2017	Adele St. 300 ft . 2 in	\$25,000.00	\$4,500.00	\$10,000.00	Completed
2017	Spruce St Ext 2,000 ft 6 in.	\$300,000.00	\$45,000.00	\$40,000.00	Completed
2018	Indian Trail 2,400 ft. 6 in. Spruce St. to Prospect	\$250,000.00	\$40,000.00	\$40,000.00	Completion by 4/30/18
2019	Corn Tassel Trail 3,600 ft	\$250,000.00	\$40,000.00	\$40,000.00	
2019	D to 2nd 400 ft. 2"	\$25,000.00	\$5,000.00	\$10,000.00	
2019	Lakeview Trail 1000' 6"	\$100,000.00	\$15,000.00	\$20,000.00	
2020	Dan Lee Terrace 400 ft. 4" Cherokee Ct 500 ft. 4"	\$30,000.00	\$10,000.00	\$20,000.00	
2020	Venna 1,000 ft. 2" Columbus 700 ft. 2"	\$170,000.00	\$60,000.00	\$20,000.00	
2021	Cherokee Mulberry to Root Trail 3,000 ft. 6"	\$250,000.00	\$60,000.00	\$40,000.00	
2018	Highland St 1000 ft. 8"	\$120,000.00	\$30,000.00	\$20,000.00	Begin after High Dunlap and Spencer
2018	High, Dunlap and Spencer	\$140,000.00	\$30,000.00	\$20,000.00	Est start 5/1/18
2019	Forest Street 6" Part1 1750 ft.	\$175,000.00	\$50,000.00	\$40,000.00	Spring 2019
2020	Forest Street 6" Part2 1750 ft.	\$175,000.00	\$50,000.00	\$40,000.00	
2020	Independence to Mulberry 2000 ft 8" Hairston and Bridge beside Lester Penn	\$250,000.00	\$60,000.00	\$40,000.00	
2021	Barton 1000 ft. and Amy 680 ft. 6"	\$160,000.00	\$40,000.00	\$40,000.00	

FY2020 Proposed Budget

Electric (14)

- No electric rate increase is recommended.
- Electric budget capital (\$815K) includes replacement of a pickup; year 2 of 2 for funding a bucket truck; year 1 of 2 for funding a 55 foot bucket truck; purchase of a backyard machine, funding for new projects and station transformers; increase in funding for tree service; and an increase for pole testing & mapping. FY20 Electric budget is \$21,518,640, and the purchased power line is \$16,260,000, the largest single line item expense in the City's budget, and represents 75.6% of the Electric budget.

City of Martinsville Fiscal Year Rate Summary



*FY 2019 includes actuals for July-Dec 2018 and projected costs for Jan-Jun 2019
Market & capacity prices could fluctuate causing a change in projected rate.

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

Comments and Conclusion

The FY20 budget continues the practice of utilities generally 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 FY20 budget, is getting increasingly difficult while attempting to maintain reserves, without increasing revenue, reducing services, or combinations. As noted previously, to fully fund all FY20 budget requests, an additional \$2.25M 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.

At the request of Council, an EMS review committee was established, the committee has concluded its work, and committee recommendations will be presented during the budget work sessions.

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 continuing hard work. FY20 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 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 10 for City departments, constitutionals, & capital; April 15 for Schools and City depts; and April 17 for major outside agencies, follow up, and additional discussion as may be needed.
- Consider setting a public hearing on the FY20 Budget for Council's April 23, 2019 meeting.