



April 3, 2018

FY 2019 City Manager's Proposed Budget

Honorable Mayor and Members of Council:

Pursuant to Chapter 8, Section 8-6 of the City Charter, I am pleased to present this proposed Fiscal Year 2019 Budget for your review and consideration.

This recommended budget provides a financial plan for the ensuing fiscal year and was developed in accordance with sound fiscal policies. Our budgeting process requires that municipal departments justify every line item and propose not more, or less, than is needed to serve the public at Council-authorized levels. The principles used to develop this budget are:

- Basic City services are continued with funding at adequate levels.
- Revenue projections are estimated at realistic, conservative levels.

Staff recommends a budget that will continue progress on City Council's efforts to improve Danville's economy and its status as a desirable place to call home. Based on Council's input, this year's recommendation includes funding to address City Council's Focus Areas, which are described later in this letter.

Major Fund Highlights

The total proposed budget for FY 2019 is \$290,481,590 for operations, capital and debt service, which includes all funds minus inter-fund transfers. This is \$3,434,510 more than the current budget of \$286,747,080 – a 1.3% increase.

Utility Funds

The total Utility Department budget, which includes Electric, Gas, Water, Sewer and Broadband is \$182,429,420. This is \$4,418,700 more than the current budget of \$178,010,720. **There are no proposed utility rate increases.**

General Fund

This year's proposed General Fund Budget is \$109,181,960, which is \$452,210 more than the current budget of \$108,729,750. **There is no proposed increase to the current real estate tax of 80 cents per \$100 valuation.** Danville's real estate tax is tied for 4th lowest in the state for cities and is 26 cents below the average. **There is a proposed one percent increase to the meals tax,** which will generate \$1.2 million in new revenue and is necessary to fund increased personnel costs including enhancements to Public Safety employee retirement benefits.

Multi-Year Financial Forecasting

The City is in the midst of developing a multi-year financial forecasting model with the help of the National Resource Network. Staff intends to work with City Council during the next few months to use this tool to make funding priority decisions as the budget moves from the proposed stage to the adopted stage in late June.

The goal of multi-year financial forecasting is to help Council make wise and strategic decisions that will put Danville on a sustainable fiscal path. This is not merely a cost-savings program aimed at driving the tax rate down to its lowest possible level. It is imperative that Danville continues to make investments to encourage growth and prosperity. People don't make choices about which community to live in based solely on having the lowest tax rates and having balanced budgets. New residents mainly choose to live in a community because there is economic opportunity and quality of life amenities that make it attractive.

We are in a global competition to attract people, businesses, and visitors to our community in order to help our local economy thrive. When people consider moving themselves and/or their businesses to a community, the following factors drive their decision: availability of good jobs, a strong school system, low crime rate, decent housing, entertainment opportunities, affordability, moderate climate, health care options, and spiritual life. Some of the factors are out of the control of City government, but where there is an ability to make a difference; leaders in Danville have made progress.

Danville has an award-winning River District thanks to targeted investments aimed at improving downtown and encouraging private investment. An aggressive industrial recruitment program has brought in large employers to our City and region. Investments in infrastructure in the Piedmont Drive corridor continue to attract new businesses and have made Danville a regional shopping and dining destination.

Continued investments in the Riverwalk Trail, our parks, and public spaces in the River District like the Crossing at the Dan, Main Street Plaza, and streetscapes have improved quality of life for residents and visitors to our City.

The present and past leaders of our City deserve to be congratulated for all the effort put forth, which led to these successes. However, more must be done to sustain this success and restore Danville's status as a great place to raise a family and grow a business.

The multi-year financial forecasting plan will enable us to be as efficient as possible providing government services so that funds are available to make strategic investments in areas that improve Danville's desirability, while maintaining competitive tax rates. I am confident that we can use this program to chart a path to financial

stability that enables us to continue and, perhaps, expand upon our current efforts to compete with other cities for people, jobs, and visitors.

In order to further enhance this effort, staff is in discussions with Danville Public Schools to help them adopt multi-year financial forecasting so they also can chart a sustainable financial path that leads to DPS becoming a destination school system once again.

Focus Areas – Investing in Danville’s Future

The City Council Focus Areas continue to be as follows:

- Reduce violent crime
- Improve education in Danville Public Schools
- Grow Danville

Reducing Violent Crime

Over the past several months, the City has taken several steps to reduce crime and our intention is to continue to push new initiatives with the goal of making Danville a family-friendly community again. This includes:

- Establishment of a Gang Task Force
- Establishment of a Youth Services Task Force
- Upgrades to police equipment like Tasers, body-worn cameras and civil disturbance equipment
- Additional funds to purchase and equip three additional police vehicles to be used by officers on overtime to provide additional support during high call-volume times
- Reorganization of existing staff to allow officers to focus on community policing while civilian employees handle routine office tasks
- Increased presence in high-crime neighborhoods
- Increased use of “focused deterrence”
- Stepped up enforcement activities

This recommended budget includes \$443,557 to pay for additional initiatives:

- \$75,000 to pay for expansion of the Closed Circuit Television system
- \$206,952 to pay for upgrades to police equipment, including:
 - SWAT Ballistic Vest Replacement
 - TASER and Body Worn Camera Upgrades/Replacement
- \$60,635 to continue a previously grant funded Crime Scene Analyst position
- \$100,970 to pay for supplements for City Sheriff Office employees

Improving Danville Public Schools

In order to take Danville to the next level, we need to ensure that we have an adequate workforce from which employers can draw to help build successful businesses. This means investing in our existing workforce through programs at the community college level and by actively participating in the West Piedmont Workforce Investment Board. It also means investing in pre-K and K-12 education.

The City Council's FY 2018 budget included \$1.6 million in additional funding for schools, bringing the total to \$20,606,570. This was an increase of 8.42% over the previous year.

In January 2017, the City Council and School Board met during an all-day retreat to talk about a shared vision for the future of Danville Public Schools. For the past several months, the School Board has worked to build upon what was started during that retreat to create a strategic plan for the school system.

The strategic plan will address needs in the following target areas:

- Strong Board/Council Relationship
- Academic Performance and Programs
- Facilities
- Funding
- Human Capital and Engagement
- Positive Perception of Public Education System
- Optimal Student Development

This year's budget does not include any additional funding for operational expenses. It does include a modification to the current budget ordinance, which states that DPS can retain up to \$1 million of any unspent local funds. The new ordinance will allow up to \$2 million in unspent local funds, which are mostly related to teacher and staff vacancies, to be used to enhance teacher recruitment and retention. Any unspent funds beyond the \$2 million amount would be placed in a Capital Reserve Fund for future capital needs for schools.

Grow Danville

During the retreat, the City Council agreed to continue its effort to "Grow Danville."

For the past several years, the City has taken bold action to attract businesses and industry to our community and region. This includes investing in industrial recruitment, retention and expansion through incentives and workforce development. It also includes building the infrastructure necessary to make Danville a regional shopping and dining destination. It also included a focus on our award-winning River District that has made it attractive to residents, businesses and visitors, alike.

Last year's budget included funds for the following efforts to encourage growth:

- Master plan update for the Riverwalk Trail
- Master plan for riverfront redevelopment
- A review of Danville's permitting process
- Revised floodplain mapping along the Dan River in the River District
- Gateway improvements to the Goodyear Boulevard / US 29 entrance to the City
- Continued focus on blight eradication and neighborhood redevelopment

The proposed budget includes:

- Funding for the first phase of a downtown riverfront park. (It is anticipated that the City would use a combination of Duke Energy coal ash settlement funds and donations to cover this cost.)
- \$355,000 for park improvements, which includes \$45,000 for playground equipment and funds to repair/resurface tennis courts at Bonner Middle School.
- \$50,000 for gateway corridor improvements
- \$164,000 for the local share of funds to expand the Riverwalk Trail
- \$162,612 for the City's half of the cost to install a traffic signal at South Main and Goodyear Blvd. to support economic development at the Highway 86 / US 29 interchange.
- Funds to allow for credit card payments for most City services. The cost will be offset by minor adjustments to the fee schedule so that there would be no surcharge for each transaction.

Budget Challenges

In order to continue basic City services with adequate funding and to make continued progress on the City Council focus areas, additional General Fund revenue is needed.

The following shows the major increases in the General Fund for FY 2019:

- \$800,000 – Increased cost for health insurance
- \$700,000 – Average 2% pay-for-performance increases
- \$331,500 – A portion of the retirement contribution increase recommended by the City's actuary and the Employee Retirement System board for Public Safety
- \$386,730 – Increased cost for enhancing public safety retirement benefits starting January 1, 2019

The total of these increases is \$2,218,230. Projected increases in revenue in the General Fund at current tax rates would generate \$1,090,000 of the proposed budget increase, leaving a \$1,128,230 revenue shortfall.

Proposed New Revenues

The proposed budget includes a 1% increase to the Meals Tax from 6% to 7%, which will generate about \$1.2 million per year. Currently, Danville's Meals Tax rate is below

the average for our peer cities, which is 6.29%. The proposed rate would put us on par with Bristol, Martinsville, Petersburg and Staunton. According to the Bureau of Labor Statistics, the average American household spends about \$3,000 per year eating out. This increase would add \$30 to that annual budget.

There will be adjustments to this year's fee schedule, which will bring in modest amounts of new revenue while maintaining competitiveness with peer cities. This includes \$29,500 in new revenues from increases to Building Inspection Fees, which have not changed since 2009 and are below the average for our peer cities.

Also, based on a recommendation from the Airport Commission, the Airport hangar rental fees are proposed to be increased, which will generate \$10,500 in new revenue.

In addition, there will be slight adjustments to various other fees in order to accommodate the acceptance of credit cards for payment. This is intended to pay for the cost of processing fees and new technology associated with customer service and convenience.

These new rates keep Danville competitive in taxes and fees and enables the City to continue to make key investments in areas that will lead to increased competitiveness in the City Council identified focus areas: reduce crime, improve education, and grow Danville.

Budget Highlights

The following sections are highlights of the various funds.

General Fund

The total proposed FY 2019 General Fund budget appropriation is \$109,181,960. This is \$452,210 (0.4%) more than the FY 2018.

Revenues

This year's budget includes projected increases in General Fund Revenues for most major revenue categories. The following is a more detailed description of each source:

- **Real Estate Taxes** – The real estate assessment reflects no increase in real property valuation, therefore, this revenue is flat. The delinquent real estate reflects a decrease of \$200,000. The City has had a very aggressive effort to collect delinquent taxes, therefore, this revenue has declined over the past several years.
- **Personal Property Tax** – This tax rate was increased from \$3.00 to \$3.50 per \$100 valuation effective January 1, 2018 with the first half of this increase realized in FY 2018. The FY 2019 estimate reflects a full year at the new rate and therefore, this revenue reflects an increase of \$750,000.

- **Machinery & Tools Tax** – This revenue reflects natural growth in the amount of \$90,000.
- **Other Local Tax Revenue** – Local sales, meals, and hotel/motel room tax revenues are good indicators of local economic vitality. Tax receipts for sales, meals, and BPOL tax each are projected to increase in FY 2019 \$100,000 each for sales and BPOL, and \$140,000 for meals tax. In addition, this budget proposes an increase in the Meals Tax rate from 6% to 7% which will produce an estimated \$1,200,000 additional revenue. Meals tax revenue therefore reflects a total increase of \$1,340,000.
- **Other Fee Increases** – Proposed in this budget are fee increases for Airport Hangar Rental and Inspection Fees. These increases are anticipated to provide modest increases of \$10,500 and \$29,500 respectively. The Inspection fees have not increased since 2009. The City will maintain a competitive rate in this area as the City’s fees schedule will still be lower than other localities in our region.
- **Transfer from Fund Balance** – The proposed budget recommendation includes \$3,059,650 in transfers from the unreserved balance of the General Fund for funding economic development incentives and projects. More information is included in the expenditure section below. Funding for repayments to the Tobacco Commission in the amount of \$386,250 are budgeted as a transfer from Reserved Fund Balance. The transfer from unreserved fund balance reflects a reduction of \$700,000. The reduction reflects paying off the amount for Web Parts and GOK.
- **Constitutional Offices** – The State Legislature is proposing a 2% COLA for State employees including constitutional offices. This represents the estimated State share of the increase.

FY 2019 General Fund Revenue - Major Changes

FY 2019 General Fund Expenditures - Major Changes

Health Insurance – Utilization of insurance continues to increase requiring additional funding for insurance costs.

Economic Development Incentives – Economic development incentive payments to our clients reflect a decrease of \$74,720 from FY 2018 levels. This funding was decreased from the amount originally requested by Economic Development. The administration, as necessary to balance the budget, reduced the request and these funds will be held in the General Fund and drawn down by Economic Development as incentive payments are made. If additional incentive payments in excess of the amount budgeted are needed, Economic Development will request City Council to appropriate the funds from fund balance.

Refunds (Tobacco Commission) – This budget provides for the repayment to the Virginia Tobacco Indemnification and Community Revitalization Commission (TROF) Grants made to AllergEase and Danville Hybrid Vehicles. This represents the final payment to TROF as noted below:

| | | |
|--------------------------|----------------|----------------|
| Danville Hybrid Vehicles | Payment 4 of 4 | \$ 105,000 |
| AllergEase | Payment 4 of 4 | <u>281,250</u> |
| Total | | \$ 386,250 |

The City has set aside Reserved Fund Balance to cover these repayments.

Support of Capital Projects – This budget reflects a decrease of \$1,020,310 in General Fund Support of Capital Projects. The portion funded from current operating revenues increased \$506,685 and the transfer from fund balance for projects decreased \$1,526,995. Projects include economic development projects, River District improvements, firefighting apparatus replacement, police department equipment, Information Technology upgrades, Parks and Recreation improvements, Public Works capital maintenance for buildings, and engineering and street projects. See the Capital Improvements Plan for detailed information.

Transfer to Schools – The City’s support of schools is flat; however, the Schools have requested an increase in the carryforward for FY 2018 from \$1,000,000 – to \$2,000,000 of unspent funds to enhance teacher recruitment and retention. This will require an ordinance for FY 2018 to modify the current year’s budget appropriation.

Employee Retirement System – See “All Funds” Section

Pay-for-Performance Salary Increase – See “All Funds” Section

All Funds

Pay-for-Performance Salary Increases – In 2014, market rate adjustments were made to various employee job classifications to prepare the way for a pay-for-performance system initiated in FY 2015. At the end of the current fiscal year, employees will be evaluated against established performance standards and given pay increases based on their performance. Employees on probation or with less than one year of service to the City are not eligible for a performance increase. The Proposed FY 2019 Budget includes funds for an average 2% pay-for-performance salary increases pending City Council approval of the budget. Each fund will be impacted as shown on the chart on the next page.

Salaries for Social Services and the Juvenile Detention Facility receive partial funding from the State and the Juvenile Detention partners. The General Fund total above reflects the total cost of the salary increase and reduced by the State and Juvenile Detention partners portion of the increase.

Employee Retirement System – Recently, the Employee Retirement System had a review of assumptions performed by the system’s actuary. The review indicated a need to adopt new mortality tables and to also adjust the expected age of future retirees in order to account for increased life spans and increased years of service, especially among public safety employees. This resulted in an increased pension liability which was partially funded in FY 2018. The actuarial recommended contribution rates for FY 2019 are shown below. The recommended rate for Public Safety for FY 2019 would have required an increased contribution of approximately \$600,000. The administration is proposing to fund one-half of that increase for FY 2019 in order to fund the cost of enhanced Public Safety benefits effective January 1, 2019 at a cost of \$386,730.

| | Current Rate FY 2018 | Actuary Recommended FY 2019 | Proposed Rate FY 2019 |
|------------------|----------------------------|-----------------------------------|-----------------------------|
| General Employee | 7.659% | 7.756 | 7.756 |
| Public Safety | 7.448% | 12.089% | 9.768 |

The proposed rate and Public Safety Benefit adjustments for FY 2019 is an increase in citywide funding of \$740,970. The chart on the next page shows the increase by fund.

Retirement System Cost Increases

Personnel Changes – The table below details requested changes to the Authorized Positions for all funds.

The Police Department is requesting City funding for the Crime Scene Analyst, which has been a grant funded position. The grant has expired.

The Parks and Recreation Department is requesting replacing part-time positions in Community Recreation and Special Recreation with a full-time position in each. There is no budgetary impact for either of these requests.

The Social Service Department is requesting a part-time Senior Eligibility Worker be reclassified to full-time. The State will fund 80% of this position.

Mass Transit is requesting the addition of two drivers needed to reduce the need for overtime. State and Federal operating revenues fund a significant portion of these positions. Overtime funding reflects a reduction which will need to be increased if these positions are not approved. The budget also includes funding for a 2nd shift dispatcher. Presently, no dispatcher is on duty after 7 pm.

Debt Service – General Fund (tax supported) debt as of June 30, 2017, was \$44.3 million, with debt service payments averaging \$4.66 million over the next five years, including debt for schools. The table on the following page shows debt service requirements for each fund.

The City maintains the following standards to ensure a higher level of security than afforded by State standards:

- Debt to Assessed Value – General Fund tax revenue will not exceed 3% of total taxable assessed value of property within the City limits. As of June 30, 2017, tax supported debt was 1.63% of the total taxable value of property.
- Debt Service to Expenditures – Debt service paid from general tax revenue will not exceed 10% of total General Fund Expenditures. As of June 30, 2017, tax supported debt service was 3.93% of General Fund Expenditures.
- Debt Payout Ratio – The City will structure bond issues to maintain an overall 10-year payout ratio of not less than 60%. As of June 30, 2017, the City's overall payout ratio was 72% (68.1% General Fund and 76.6% Proprietary Funds).

The Chart on the next page shows the changes in debt service from FT 2018.

Changes in Debt Service

The preparation of the City Manager's Proposed Budget is complete. I along with the Department Directors, will now work with you, the City Council, to review what we have developed, and mold it into a City Council Proposed Budget; which is currently scheduled for presentation to the Public on April 17. Public input will be actively encouraged in May and June before a final budget is adopted and associated funds appropriated by June 30th.

I am grateful to our budget team for its hard work getting to this point. City staff stands ready to assist Council throughout the remainder of the budget process. We are all ultimately accountable to the citizens in providing needed municipal services and facilities in an effective and efficient manner.

Respectfully,

A handwritten signature in black ink that reads "Ken Larking". The signature is written in a cursive, flowing style.

Ken F. Larking
City Manager