MEMORANDUM

To: Honorable Board of Commissioners, City of Danville
From: Ron Scott, City Manager
Date: May 28, 2015
Re: FY 2015-16 Proposed Budget and Message

The FY 2015-16 Proposed Budget for the City of Danville is attached. It is a budget that balances revenues and expenditures and is respectfully recommended for your approval.

Under Kentucky law, the city manager is required to prepare and submit to the city commission thirty (30) days prior to the end of the current fiscal year a proposed annual budget that balances revenues and expenditures for the ensuing fiscal year. The board of commissioners is required to vote on the proposed budget submitted prior to June 30, 2015.

The annual budget adopted by the city commission serves a number of important functions:

- It is a legal document through which the commission carries out its legislative and legal responsibility to appropriate funds sufficient for the adequate and proper functioning of the city.
- It is a decision making tool for implementing the goals the commission sets for the city which often involves making difficult public policy decisions.
- It is a management tool which the city manager and each city department uses to plan, administer (control cost), and to deliver essential and desired services to city residents.
- It is a document that helps citizens understand the types and level of services that will be provided by the city and the required finances to support those services.

Budget Priorities. Through a lengthy process over the past several months the city commission, our citizens, and the city manager/department heads, in addition to providing for the continuation of the current basic and essential services provided by the city, have identified a number of new priorities requested to be funded in the next fiscal year. These identified new priorities have been incorporated into the proposed budget at a total additional cost of **$911,719** for the next fiscal year. Before reviewing new priorities, please see the attached listing of ongoing priority services now underway that will be provided by the city during the next fiscal year. (See listing.)

Compensation Adjustments. The city is a municipal corporation with complex and rather sizable operations that must provide services as prescribed by law and which meet local needs. Our employees provide skilled, essential services that enhance and protect the quality of life and property of our citizens, businesses, and corporations. It is recognized that the city must provide all our employees a competitive salary with benefits in order to attract, retain, and develop a productive workforce to provide services on a 24 hour basis 365 days each year. During the past seven (7) years, city staff have been given minimal -- or, in three years of those years -- no salary

adjustment. A goal of this city commission is to provide the appropriate, competitive salary and benefits to all city employees and to maintain that competitive position going forward.

Accordingly, a compensation study was recently completed that reviewed the compensation currently provided to city employees and compared that with compensation paid by both comparable Kentucky cities and with comparable positions in private industry. To be competitive, the study recommended increasing entry-level salaries for some positions and making some additional related grade level adjustments; minimum and maximum grade ranges for all city positions were also identified and in some cases revised to make those more competitive or less broad. Cost of making these recommended entry level (and related grade) adjustments to be more competitive with industry or other city governments, including retirement/social security costs, **is $89,202. A three percent (3.0%) adjustment to the annual salary** for all full-time city employees is included in the proposed budget at an **annual cost of $160,000** (which includes retirement and social security costs). The proposed budget provides that all full-time employees receive either the salary adjustment recommended by the study (which is in all cases 3% or greater) or the general recommended annual adjustment of three percent (3%), but not both adjustments. Note that this recommendation does not apply to the city manager, who is evaluated annually by the city commission with any adjustment that may be granted based upon that performance review. *(Funding source: Occupational/Net Profits tax.)*

Additional Staff. To provide necessary services, the proposed budget will add the additional four (4) new positions as identified below. *(Funding source: Occupational/Net Profits tax.)*

- Law Enforcement. One additional police officer, with incentives and equipment, at a cost of **$107,762**. One additional police officer will enhance services and aid in maintaining full staffing for all shifts during the 24-hour coverage day, which is on occasion difficult during training, vacations, illnesses, etc.
- Information Technology (IT). One additional information technology staff member will be added, at an annual cost (including equipment, but no vehicle) of **$87,632**. This will bring the IT Department to total of three (3) persons. The IT Director will oversee all operations and provide direct services to the Police/Fire/911 Emergency services. The second IT person will provide help desk and related services to city hall/water payment staff and resume collection of Geographic Information System (GIS) data, which is helpful for business development, and which has not been collected for several years. The third IT person will specialize in providing service to our water and sewer utility management information systems (at the utility plants and remote utility locations).
- Administrative. One additional staff member to support the administrative functions of the city (city clerk, city manager, and legislative). Annual cost of **$45,741** (includes all benefit costs).
- Code Enforcement. One additional code enforcement officer at **$51,382** (with equipment but no additional vehicle) is included to enhance code enforcement efforts in complying with the building codes and enforcement of financial licensing requirements.
- Grant Writer. In lieu of hiring a professional grant writer and in an attempt to achieve desired results at a lower cost, **$50,000** is allocated to contract for professional grant writing services to seek grants that will benefit the city. Any grant obtained would need to be approved by the city commission and may have local funding requirements to meet.

Community and Economic Development Initiatives. An initiative for the next year is the inclusion of **$45,000** allocated to fund a strategic economic development study for the city (and county). An experienced, professional firm with national experience would be retained to develop a strategic economic development and marketing plan with the goal of enhancing all business sector activities of the city (and county). A collaborative effort is sought by the public and private sources in the city/county to fund the total cost of the study. *(Funding source: Occupational/Net Profits tax.)*

In addition, **$15,000** is included in the proposed budget for the city to retain a professional consultant/engineer to develop a comprehensive local "way finding" signage program to recommend to the KY Department of Transportation. The DOT has indicated they will no longer approve any individual sign encroachment permits in and around Danville until a comprehensive signage plan is developed locally and submitted for their approval. Development of this requested signage program will benefit our city as a whole by promoting Danville and the efficient travel to individual business, cultural, educational, industrial, medical, and historic sites in and around the city. *(Funding source: Occupational/Net Profits tax.)*

Parking Garage System Upgrade. **$95,000** is allocated for replacement of parking garage equipment for our gate/credit card system to meet new credit card requirements. Our current system is obsolete and no replacement parts are allocated. *(Funding source: Occupational/Net Profits tax.)*

Parks System Improvements. The need was identified to refocus on both Millennium and the city's neighborhood parks, regarding development of a plan to provide improvements in programming, services, and to meet future needs. A total of **$25,000** is included in the budget for this purpose. *(Funding source: Occupational/Net Profits tax.)*

Maintaining Street Repair/Paving. The budget next year includes **$75,000** in additional funds allocated to pave local streets/repair potholes in order to supplement the reduced municipal road aid funds Danville will receive from the state next year. *(Funding source: motor vehicle tax.)*

Construction and Repair of Sidewalks/Enhanced Code Services. A total of **$65,000** is allocated to build new city sidewalks. Support for building new sidewalks was expressed by citizens in responding to the National Citizens Survey (76% stated it was very important or essential to connect neighborhoods to the downtown by sidewalks) and by local school children. Also, the establishment of a Code Enforcement Board (if approved by the city commission) to improve local code enforcement would be created, which would use a minor portion of these funds. *(Funding source: allowable increase of 4% in city-only property taxes.)*

Note: This concludes the discussion of general fund expenditures in the proposed FY 2015-16 Budget that are supported by new revenue sources.

Funding Community Agencies & Joint Partnerships. As has been done for quite a few years, the proposed budget provides for continued funding by the city for a total of twenty-one (21) community agencies and four (4) joint partnerships (Airport, EDP, Parks and Recreation, and

Planning and Zoning) for a total of twenty-five (25) agencies funded at an annual cost for FY 2015-16 of **$623,200**. Funding to support senior citizen services is included at last year's level ($66,500); award or allocation is yet to be determined.

Capital Expenditures, FY 2015-16. In addition to the $18,039,469 in capital expenditures earmarked for the water treatment plant renovation (which has financing secured), an additional $947,000 is identified in other capital needs. Our policy has been, and continues to be, that any annual revenues (new or otherwise) not expended for delivery of direct services each year are used to fund approved capital cost items for that fiscal year (and sometimes we have unexpended funds carried over from the prior year that can be used as well). For FY 2015-16, please note that an additional $375,000 is earmarked for FY 2016-17 for capital expenses that have been identified thus far.

General Fund Capital Projects, FY 2015-16. A brief summary of more major projects included in the budget for FY 2015-16 (other than the $18 million water treatment plant improvement project, which is "on time and under budget" as of this date) are:

- Streetscape Improvements – the state has approved making improvements to Third and Main Streets. The amount of $850,000 is anticipated to be spent making these improvements.
- Weisiger Park – An expenditure of $55,000 is allocated for making surface repairs to reduce liability to the city. The remaining amount ($600,000) of the funds accumulated through savings is reserved for future capital expenditures at Weisiger Park or for other capital improvements, which will be determined by the city commission at a later time.
- Public Works Facility – An amount of $670,000 remains from the bond issue for the purpose of making repairs to the public works facility during the next fiscal year.

Future Capital Needs. The attached "City of Danville 10 Year Capital Forecast" lists significant, multi-million dollars in future capital needs (this needs list will be reviewed in detail following the review of the proposed budget). To finance some of these future capital needs, a financing plan is now being implemented to utilize energy savings performance contracting pursuant to KRS 45A.345 to secure private sector expertise and financing of energy-efficient improvement projects for eligible projects. It is probable that after using performance contracting for appropriate energy-efficient improvement projects, some remaining items will require issuance of municipal bonds. A planned approach will be required (using municipal bonds, performance contracting, use of tax revenue, and creation of reserves to meet debt obligations) to timely meet future capital needs identified thus far (and there are other needs, such as possibly a new community swimming pool or other needs that are not currently included on the needs list).

Revenue to Fund Budget Priorities. Under Kentucky law, cities have but a few revenue sources and within those they are limited as to the tax rates that can be levied. A current review of tax rates levied by a great number of other cities shows that the City of Danville currently has the one of lowest tax structure in terms of at least three taxes/fees: 1) real property taxes, 2) motor vehicle tax; 3) occupational license/net profits fees. (See supplemental information).

As show by the supplemental information, many cities have set tax rates higher than Danville. **It is recommended that the city now adjust these tax rates as reflected below, as the preliminary budget is based upon these revenue increases.** Further, it is essential that the city act very promptly to adjust these taxes. At best, an adjustment to the occupational/net profits fee if finalized by the city commission prior to June 30, 2015 will result in the new tax rates being applied October 1, 2015...which means the city will only get the benefit of ¾ of the year in increased revenue. In reality, any tax increase (except property) will generate revenues less than 100% for the next fiscal year. Here is a summary of the requested rate increases:

Source of Revenue	Rate Increase	Amount in FY 2015-16	Est. Annual Amount
Net Profits	.25 %	$128,000 a	$160,000
Occupational License	.25%	$599,994 b	$900,000
Property	4.0%	$ 65,000 c	$ 65,000
Motor Vehicle Tax	.20 cents per $100	$112,500 d	$150,000
Total Projected		**$905,494**	**$1,275,000**

Footnotes to Above:

a. As examples: The ¼ of 1% increase in net profits tax means that a business making $50,000 annually, net of all expense will pay $125 more in net profits each year. The new total rate of 1.25% on net profits will result in a total payment of $625 annually per $50,000 of net profits. Note Danville's current business license fee is a one-time payment of $25.00, which is very low.

b. As examples: The ¼ of 1% increase in occupational license fee means an employee earning $25,000 annually will pay $62.50 more annually. The new total rate of 1.50% on employee wages will result in employees paying the total amount annually of $375.00 annually per $25,000 in wages.

c. This amount reflects four percent increase in all classes of property subject to the tax (including tangible property). The 4% increase on just real and personal property would produce about $55,000 annually. That $55,000 when divided by Danville's 6,223 households would mean the average annual property tax increase to each household would be on average $8.84 annually.

d. A motor vehicle tax is almost universally applied by the state, counties, cities, schools, and taxing districts, and often at much higher rate than the rate proposed herein. Examples of effect of the proposed .20 cents rate per $100 valuation of personal vehicles: A vehicle valued at $20,000 would have an annual fee of $40.00. A vehicle valued at $10,000 would have an annual fee of $20.00. Funds would be used to pay for road/street paving and pothole repairs and would replace reduced state road aid funds to the city.

Last year, the proposed budget and message noted that for the fiscal year ending June 30, 2015 existing services would continue to be provided and the city commission was not requested to take action during that twelve-month period to either increase revenue or reduce services. That

message also noted that such action may be required effective for the following budget year (this year ahead, FY 2015-16) unless sufficient and sustained revenue growth occurred.

Because revenue growth from all sources has not been sufficient to sustain existing city operations going forward nor provide the new services proposed for FY 2015-16, it is necessary that the city commission adopt the additional recommended revenue measures. These recommended measures, while seldom popular, are balanced and are designed to be modest in terms of the individual impact on our citizens and retirees, working individuals and business owners in our city -- particularly in light of being only a slight increase from the very low taxes currently levied in Danville. The tax rates, even after being adjusted upwards, will still be lower than a great many of other cities in our region and throughout Kentucky (see supplemental information).

Accordingly, I respectfully urge you to vote to support making the recommended adjustments to our city tax structure. That supportive action will allow the city to sustain and improve operations, improve our quality of life, and make community investments that will strengthen and enhance economic activity for all of us in Danville.

I would like to recognize and thank all members of the city's management team for their contributions in helping to produce this Proposed Budget for FY 2015-16, and particularly the efforts of Michele Gosser, our chief financial officers. I want to also acknowledge the highly collaborative efforts of the city commission, whose direction, communication, and trust in staff was essential in preparing this proposed budget for their final consideration.

The attached FY 2015-16 Proposed Budget for the City of Danville meets the legal requirements of being a balanced budget and provides a plan for the delivery of services to our citizens for the twelve-month fiscal year beginning, July 1, 2015. Accordingly, it is recommended for adoption by the Danville City Commission.

Respectfully submitted,

Ronald D. Scott
City Manager

Examples of Ongoing Priority Services

- Maintaining a secure facility to collect and deposit funds
- Continue to manage the City in accordance to guidelines set for by the Commonwealth of Kentucky
- Continue to be good steward of the City Finances
- Continue to maintain accurate accounting records
- Stay current with cyber security
- Continue to provide a police force to protect and serve the citizens of Danville
- Provide trained individuals to facilitate special events and details
- Continue safety and Education programs including:
    - youth tours and education
    - RAD programs
    - theft identity programs
    - child ID program
    - civic appearances
    - rape prevention
    - elderly safety
    - car seat safety
    - fire safety and prevention
    - Smoke detector program
- Continue a Fire and Emergency Service Program
- Keep Education and maintain equipment continue to meet requirement for ISO rating (this lowers the citizens insurance premiums)
- OSHA training for industrial facilities
- Keep water hydrants flushed
- Continue to provide 911 and emergency administration
- ABC – Walk-thru program
- ABC – Monitoring
- Code enforcement
- Continue with the Beatification program for downtown Danville
- Continue to provide streetlights for the Downtown area
- Continue to repair potholes
- Continue to pave streets
- Continue to clean streets
- Continue to provide funding to community agencies and joint agencies
- Continue a joint effort with the County with capital improvements at the park
- Continue with the 3rd street streetscape project
- Continue to improve upon our trails program
- Maintain all debt service and required reserve account
- Continue to provide adequate equipment in order for the City Employees to provide services to the Citizens of Danville

- Continue to provide staff to maintain and facilitate grave work at both City Cemeteries.
- Continue to provide funding so that both City Cemeteries are mowed and landscaped.
- Provide repairs and maintain current storm water drains
- Continue to expand our storm water system
- Continue to provide water to the Citizens of Danville, Boyle County, and the surrounding Community.
- Continue to meet water standards
- Continue to repair water lines
- Continue to meet standard with the sanitary sewer
- Continue to repair sewer lines
- Continue with the water treatment plant improvement project
- Complete the Horky Field sewer project
- Complete the Spears Creek sewer project
- Complete ramp at the Community Arts Building
- Continue to provide electric services for Community Arts Building
- Continue to maintain the parking facility to provide parking for the downtown area

Supplemental Information. Cities in Bold are among recent winners of Governor's Cup Top Micro Business Development Areas.

	Real Per 100	Tangible Per 100	Motor Vehicle* Per 100	Occupational License	Net Profit
Louisville/Metro				**1.45%+**	**1.45%+**
Lexington Urban County	8.00	9.31	8.80	2.25%	2.25%
Second Class					
Ashland	28.91	28.91	57.90	2.00%	2.00%
Bowling Green	20.60	20.60	26.00	**1.85%**	**1.85%**
Covington	30.45	30.45	None	2.45%	2.5%
Frankfort	**20.90**	**20.90**	**22.70**	**1.75%**	**1.75%**
Henderson	57.70	80.00	39.27	1.00%	1.00%
Hopkinsville	23.10	25.10	25.10	1.95%	1.50% ($250 min)
Jeffersontown	14.78	*	*	1%+1.45%*	1.45%*
Newport	27.40	25.50	None	2.50%	0.35% Gross Receipts
Owensboro	25.93	27.13	30.30	1.33%	1.33%
Paducah	**25.50**	**39.00**	**52.90**	**2.00%**	**2% Gross Receipts**
Radcliff	15.90	19.90	19.90	2.00%	2.00%
Richmond	12.20	12.90	28.70	2.00%	2.00%
Third Class					
Campbellsville	**19.30**	**19.30**	**53.70**	**1.00%**	**1.00%**
Danville	**14.00**	**14.34**	**None**	**1.25%**	**1.00%**
Erlanger	35.70	60.90	None	1.50%	.075% Gross Receipts
Flatwoods	31.35	None	None	None	None
Florence	24.60	36.80	None	2.00%	.001% Gross Receipts
Glasgow	**17.30**	**17.30**	**27.00**	**1.50%**	**1.50%**
Hazard	31.10	31.10	29.10	1.25%	1.25%
Independence	23.70	65.60	None	1.25%	.075% Gross Receipts
Mayfield	29.00	29.00	34.00	2.00%	2.00%
Maysville	**15.90**	**15.90**	**24.60**	**1.95%**	**.075% Gross Receipts**
Middlesboro	6.9	23.20	23.20	2.00%	2.00%
Murray	42.60	42.60	38.00	None	Tiered Fees
Nicholasville	18.60	18.60	19.70	1.50%	1.00%
Paris	11.10	11.10	17.00	1.50%	1.50%
Prospect	21.25	*	*	1.45%*	1.45%*
Shively	33.90	36.30	36.30	1.50%	1.50%
Somerset	13.00	13.00	13.00	.6%***	.6%***
Winchester	14.60	14.99	19.50	2.00%	1.50%

*In Metro area and combined with Urban Co.
** Last year the commission voted to increase the Insurance Premium percentage from 6% to 8%.
***In 2015

City Rankings by Real Property Tax Rate (Danville is # 111 of 128 Cities)

Rank #	Name of City	Real Tax Rate
1	Hartford	57.30
2	Henderson	54.20
3	Morganfield	53.00
4	Providence	50.00
5	Dayton	47.30
6	Harlan	45.20
7	Anchorage	41.60
8	Murray	41.10
9	Adairville	41.00
10	Catlettsburg	40.00
11	Cloverport	39.20
12	Augusta	38.80
13	Wickliffe	36.78
14	Eddyville	36.10
15	Ft. Thomas	36.00
16	Manchester	36.00
17	Taylor Mill	36.00
18	Ashland	35.53
19	Erlanger	35.50
20	Elsmere	35.00
21	Shively	33.90
22	Hickman	31.40
23	Flatwoods	31.00
24	Beattyville	30.90
25	Dawson Springs	30.90
26	Hardinsburg	30.40
27	Eminence	30.10
28	Perryville	30.10
29	Booneville	30.00
30	Corbin	30.00
31	Salyersville	30.00
32	Williamstown	30.00
33	Covington	29.90
34	Owenton	29.20
35	Hazard	29.10
36	Carrollton	29.00
37	Mayfield	29.00
38	Fulton	28.00
39	Pineville	27.90
40	Shelbyville	27.50
41	Tompkinsville	27.50
42	Bellevue	27.30
43	Williamsburg	27.10
44	Clinton	27.00
45	Cadiz	26.60
46	Columbia	26.25

City Rankings by Real Property Tax Rate (Danville is # 111 of 128 Cities)

47	Calvert City	26.00
48	Ludlow	26.00
49	Owensboro	25.93
50	Newport	25.80
51	Dry Ridge	25.50
52	Mt. Sterling	25.40
53	Ft. Wright	25.10
54	Paducah	25.00
55	Florence	24.60
56	Jackson	24.21
57	Owensville	24.10
58	Owingsville	24.10
59	Edgewood	24.00
60	Marion	23.80
61	Central City	23.70
62	Independence	23.70
63	Hopkinsville	23.60
64	Morehead	23.10
65	Munfordsville	22.90
66	Liberty	22.40
67	Wilmore	22.40
68	Crestview	21.60
69	West Liberty	21.50
70	Frankfort	20.90
71	Brandenburg	20.70
72	Bowling Green	20.60
73	Benton	20.10
74	St. Matthews	20.00
75	Wilder	20.00
76	Grayson	19.80
77	Carlile	19.50
78	Greensburg	19.30
79	Campbellsville	19.20
80	Scottsville	19.20
81	Lebanon	19.10
82	Lewisport	19.10
83	Burgin	19.00
84	Bardstown	18.70
85	Nicholasville	18.60
86	Hurstborne	18.50
87	Lawrenceburg	18.40
88	Horse Cave	18.30
89	Alexandria	18.10
90	Albany	18.00
91	Paintsville	18.00
92	Glasgow	17.60
93	Cynthiana	17.40

City Rankings by Real Property Tax Rate (Danville is # 111 of 128 Cities)

94	Vine Grove	17.10
95	Jamestown	17.00
96	Russell Springs	16.70
97	Cold Spring	16.40
98	Hindman	16.00
99	Maysville	16.00
100	Radcliffe	15.90
101	Lancaster	15.60
102	Cave City	15.10
103	Richmond	15.10
104	Pikeville	15.00
105	Shepherdsville	14.80
106	Taylorsville	14.80
107	Jeffersontown	14.78
108	Winchester	14.60
109	Ft. Mitchell	14.50
110	Springfield	14.00
111	**Danville**	**13.90**
112	Somerset	13.00
113	Junction City	12.60
114	Hodgenville	12.50
115	Monticello	12.30
116	Madisonville	12.20
117	Leitchfield	11.71
118	Burkesville	11.70
119	Franklin	11.70
120	Elizabethtown	11.60
121	Paris	11.00
122	Morgantown	10.40
123	Berea	9.90
124	London	9.00
125	Harrodsburg	7.19
126	Middlesboro	6.90
127	Georgetown	6.50
128	Versailles	5.60