

MEMORANDUM

To: Honorable Mayor/Board of Commissioners
From: Ron Scott, City Manager
Date: May 17, 2017
Re: FY 2017-18 Preliminary Budget/Summary Comments

The FY 2017-18 Preliminary Budget for the City of Danville was first presented on April 27. Here is the requested timeline for further considering and adopting a budget for next year:

- 1) **May 18, 2017, 5:30 pm, City Hall - Meet and consider the 2017-18 Preliminary Budget, which will be distributed to you at the meeting.** This 2017-18 Preliminary Budget is revised from the version presented earlier to more fully incorporate costs for replacing our Main Street Fire Station. Note that during this Thursday's meeting the city commission as a body may request the city manager to make further changes for incorporation into the **FY 2017-18 Proposed Budget**. No hear the public at this meeting.
- 2) **May 22, 2017, 5:30 pm, City Hall – Presentation of the FY 2017-18 Proposed Budget.** This will be given to the city commission on Monday, May 22 (as time will not permit any changes suggested Thursday of this week to be made to the proposed budget before the city commission packets are sent out on Friday). No vote required at this regular meeting on May 22. Public comment may be given to the city commission at our regular city commission meeting on May 22 on the proposed budget or other matters.
- 3) **June 12, 2017, 5:30 pm, City Hall – First reading of Budget Ordinance (vote).**
- 4) **June 26, 2017, 5:30 pm, City Hall – Second reading of Budget Ordinance (vote).**

Thank you all for your questions, comments, and consideration given to the **FY 2017-18 Preliminary Budget** as presented earlier. In this memo, I don't intend to repeat the information presented earlier. Instead, I want to advise you of new or revised changes/cost estimates made to the first preliminary budget, remind you of some of the highlights discussed earlier, and provide additional information/clarification. Hopefully, this will help facilitate a productive review, discussion, and use of the city commission's time when we next meet on May 18, 2017.

Summary of Changes Made from first Preliminary Budget. The earlier FY 2017-18 Preliminary Budget summarized new revenue needs for the city necessary for specifically-identified projects as being a total amount of \$1,541,750. Upon closer examination, that total for our new service needs has been revised to be \$1,991,750 for FY 2017-18 (the larger amount more accurately reflects the first year cost of building a new fire station/purchasing a fire truck). Also, it's important to recognize and understand that those services/needs do not end after the next year, but continue each year into the foreseeable future. This is illustrated by the detailed listing on the following page entitled **City of Danville: General Fund Service/Revenue Needs**.

Table 1: City of Danville: General Fund Service/Revenue Needs

Program/Need	Fiscal Year(s)				
	2017-2018	2018-19	2019-20	2020-21	2021-22
Sidewalk Repairs	60,000	60,000	60,000	60,000	60,000
2 nd Street Bridge	200,000				
Road Paving	100,000	100,000	100,000	100,000	100,000
Blighted Property	95,000	95,000	95,000	95,000	95,000
EMD Services	300,000	300,000	300,000	300,000	300,000
911 Share Reduction*	45,000				
AHB/Preservation	80,000	80,000	80,000	80,000	80,000
EDP**	40,000	40,000	40,000	40,000	40,000
Ad-Hoc Additional	25,000	25,000	25,000	25,000	25,000
Planning/Zoning***	12,500	12,500	12,500	12,500	12,500
BCTC Grant	50,000				
Streetscape	484,250	200,000	200,000	200,000	200,000
Debt/Fire Dept.	500,000	500,000	500,000	500,000	500,000
Fire Equipment		400,000		600,000	
Parking Garage					150,000
Public Works Equip.		150,000			
Other Street Repairs		200,000	200,000	200,000	200,000
Potential Park Improvement					
Debt			500,000	500,000	500,000
Total	\$ 1,991,750	2,162,500	2,112,500	2,712,500	2,262,500

*Still listed in the Preliminary Budget, but may have been clarified by Fiscal Court's commitment to pay their "fair share" of the operational cost of the 911 Center

**EDP Funding for FY 2017-18 is proposed at the same level as current (no increase). This \$40,000 is proposed as an "Incentive Grant" that will match dollar-for-dollar any additional funding of the EDP provided next fiscal year by other public or private sources (to implement RKG recommendations).

***Planning and Zoning increase is provided to allow for going to five days a week. If that doesn't occur, the additional funding would not be provided.

For the city to be able to address the above service needs, additional revenue of about \$2 million dollars (or more) is required not only for the next fiscal year...but for each year going into the foreseeable future. The above list of needs/costs doesn't adjust projected costs for future inflation. The above list also doesn't address unanticipated needs (which could be significant).

While some of the listed amounts might be modified or eliminated, minor adjustments to the identified program needs will not significantly change the overall total amount of new revenue needed each year – if the city is going to meet the needs/provide the identified services. Given recent plant closures/employment losses/reductions in occupational license fees in Danville, no revenue growth is projected to occur from occupational license fees/not profits fees at the current rate for the next fiscal year. Without a rate adjustment, revenue growth (if it occurs) is not anticipated to be adequate to provide and sustain the costs associated with providing the services listed above.

Discussion of (Some of) the Above List of Needs.

Sidewalk Repairs, 2nd Street Bridge Replacement, Road/Street Paving. Kentucky's basic formula for funding the construction, reconstruction, and maintenance of rural and urban roads/streets (and sidewalks) has remained unchanged since its enactment into law in 1948. The current formula focuses primarily on highway mileage and geographic size without consideration for highway usage. As a result, highway funding flows toward less-traveled rural roads at the expense of more heavily traveled urban streets. By state law, 48.2 percent of Kentucky motor fuels tax collections is distributed as follows: county road aid (18.3%); rural secondary aid (22.2%) and municipal road aid (7.7%). Without going into this too deeply, the decline of gas prices has affected the total funds collected and distributed by the state (even though the state set a minimum tax "floor" as gas prices declined). In 2012, cities received about \$23.50 per capita in road aid funds shared by the state vs. the \$140 per capita received by county governments. The Kentucky General Assembly is considering amendments to this antiquated formula, but no changes have been yet made. The City of Danville currently receives about \$310,000 annually from this state sharing of gas taxes to make road/street/sidewalk improvements. It is not enough to keep pace with what needs to be done ...to make road/street/sidewalk/bridge improvements.

After many years of not addressing the problem of inadequate sidewalks (relying instead on the voluntary repairs made by abutting property owners to existing sidewalks, if they existed), the city last year initiated an active program of sidewalk repairs and construction, and proposes to continue those efforts to promote a walkable city in future years (there are many benefits resulting from a more walkable city: economic, health of population, property values, etc.). Replacement of the 2nd Street Bridge is essential as it doesn't meet current weight requirements for the road (and is a safety issue as our fire truck cannot cross that bridge). The additional \$100,000 in road paving will help address the need to keep streets/roads paved (with spring and fall paving being done) in the face of declining/insufficient state road aid funds.

Blighted Property. In response to the request for increased service for code enforcement, \$95,000 is recommended to allocated to address the existing problem of blighted and abandoned properties (both residential and commercial). While undesirable to demolish buildings, at a point in time such action becomes desirable to avoid public health or safety hazards, and to clear

property for redevelopment. The usual cost for demolishing a small residential building is \$15,000...and that cost can increase greatly if the building is larger or has hazards such as asbestos. This allocation will allow the city to address a limited number of buildings next year.

EMD Services. Emphram McDowell Regional Hospital (our largest employer in Danville and Boyle County) has requested that the city provide Emergency Medical Dispatch (EMD) services, citing the poor survival rates of those having cardiac arrest when EMD services are not provided. Nationally, about 50% of 911 centers provide EMD services, and that seemingly holds true in Kentucky as well. Currently, our fire department responds to 911 emergency calls and arrives generally within 5 minutes within the time of the call being made, providing paramedic services on a wide range of health issues (drugs, accidents, cardiac, other) until EMS arrives (if they arrive prior to the EMS Ambulance, which is often the case). EMD services would probably benefit residents of the county more than city residents (given our fire departments prompt response times within the city limits, and EMS Ambulance much longer response time to county residents), but provision of EMD services would enhance medical outcomes for both city and county residents, and enable our hospital to be certified as a provider of cardiac care (which would be good for our hospital, city, taxbase, and future city revenue). Accordingly, it is recommended that the city plan to provide EMD services (with financial support from the county government). The fiscal court recently agreed to allocate \$105,000 to support this EMD services, and to also contribute their "fair share" to the ongoing operational cost of the 911 Center (which serves Danville and all of Boyle County).

Regarding the Danville 911 Center generally: The current analog 911 equipment in place in the Danville 911 Center is approximately 20 years old. The current system is approaching obsolescence – we are no longer able to purchase new parts for this system and currently have to rely on our reserve stock of parts or locate used parts from other vendors. The current 911 equipment is not compatible with the coming Next Generation 911 Standards (NG11). These new standards in short will allow new methods of communication (text and video) and greater scalability of our system to add new trunk lines as the city and county grows. Upgrading our current 911 software will allow police units to access call information in car and on scene. It will allow for the use of "Automated Vehicle Location" (AVL) to ensure safety of first responders. Current voice recorders and radio console systems do not support the new NG911 protocols. As our current equipment is almost 20 years old, parts are now hard to obtain, and don't meet the new standards, it's now time to replace our equipment with the type of equipment that does meet the new standards.

The city/county staff have held meetings to discuss these 911 needs/issues, and are continuing to me to implement solutions. For example, recently the fiscal court agreed to allocate the capital funds (around \$500,000 out of about \$750,000 reserves held for this purpose) for use by the 911 Center for these needed equipment upgrades. In July the city will proceed to advertise a

Request for Proposal (RFP) for NG11 system, voice recorder, and radio consoles. We are making related preparations to install that equipment at city hall and anticipate transitioning to that new location with the equipment anticipated to be installed in January, 2018, to hold testing/training after installation, and to go live with the new NG911 system in April, 2018.

AHB Preservation Staffing. The City of Danville is a Certified Local Government (CLG) by Agreement between the city and the Kentucky Heritage Council (KHC). The CLG status brings both opportunities and obligations to the city, but the status benefits both the city and its residents. As noted in the recent draft document updating our Historic Overlay Guidelines, "...Danville is a special place, an invigorated community in which the cultural and historical ties of the city are expressed in a rich collection of commercial, residential, and institutional buildings that are truly the centerpieces of the landscape." The CLG benefits Danville by maintaining a close relationship with the KHC who provides support, assistance, and technical expertise for all local preservation issues. CLG's in good standing may compete for small matching grants to complete preservation projects and initiatives in their communities.

A recent audit of our CLG status (letter attached) noted that Danville does not currently have professional historic preservation staff to assist our AHB in their work, and having a qualified staff is a requirement of the CLG program in Kentucky. That attached letter noted that "While previously Danville met the requirement for access to qualified staff through the Main Street Program, this is not the ideal way to meet your CLG responsibility. Main Street is primarily responsible for a subset of Danville that contains historic resources. Being a CLG requires a focus on historic preservation that encompasses all of Danville's many significant resources in addition to those that are in the "Heart" of Danville. We are pleased to learn that you are proposing funding for historic preservation staff in your budgeting process, and hope the community will support your efforts".

The proposed \$80,000 (maximum) cost is to hire or contract with a professional staff that meets the CLG requirements (KHC must approve of the staff/contract) to enhance Danville's preservation efforts and to assist property owners with preserving their properties. The alternative to not approving this funding would be to forego our CLG status and to diminish our capacity to assist with preservation efforts in Danville.

Other New Cost Items. We have previously discussed these items. Note the change to the funding recommended for the EDP, which has been modified in recognition that any increased funding of this "partnership" above the current level of funding for economic development should be supported by other public and private investors, and not solely by the city. Earlier, I had proposed \$90,000 in additional funding be provided to enable hiring a second person for the EDP and to implement some of the RKG final recommendations. The revised recommendation is that the city provide a "grant" program that would support providing additional funding (up to

\$40,000 more) for implementation of the RKG recommendations -- if matched by other public/private sources.

We have previously discussed the other items. The Streetscape funding of \$484,250 is the local match required to improve Main Street in two grant phases from 5th Street to 2nd Street. Funding in future years of \$200,000 per year is in recognition that we anticipate further streetscape improvements need to be made (next on the list would be 4th Street). The \$500,000 is in recognition of annual debt payments required to replace the Main Street Fire Station (estimated cost of at least \$ 7 million, including land cost) and \$1.5 million for a new fire ladder truck. These are essential governmental services necessary for our city/businesses/residents to continue to have the excellent fire protection services they now enjoy and to continue to receive the benefits of lower insurance costs derived from our current ISO rating of a "4".

Recommendation. For all the above reasons, it is recommended that the city commission act promptly (in order to give the required timely notice) to adjust the current occupational license fee/net profits fee to increase each by ½ of 1% (0.50), effective October 1, 2017. The new effective rates would then be an occupational license tax fee of 2.0% on all employee wages and a net profits fee of 1.75% for businesses filing net profit returns. The proposed effective date of the changes would be October 1, 2017; the city would first begin receiving the additional revenue around January 31, 2018. The additional amounts projected to be received in FY 2017-18 as a result of these changes would be \$1.6 million in occupational license fees and \$300,000 in net profits fees.

DISCUSSION OF OTHER ELEMENTS OF THE PRELIMINARY BUDGET

Funding of Community Agencies and Jointly-Funded Agencies. On page 12 is listed the amounts currently recommended for funding community agencies. I would note that generally speaking, the funding for each community agency has been reduced in the preliminary budget by seven percent (-7%). The city commission may still wish to review the recommended amounts and by consensus request the city manager to make changes to the amounts listed.

I would note that under Community Education, where the amount of \$4,000 is proposed, other funding support for that position has not been continued for next year by Boyle County School. So, you may wish to agree to not provide any funding for that community service ... as the \$4,000 amount now included as city funding will be insufficient to effectively provide Community Education Services.

Other Highlights of the Preliminary Budget.

- All current city services are recommended to be continued for the next fiscal year;

- Enhanced Services are recommended for 911 EMD (4 staff) and to provide CLG required staffing services (1), by employment or contract;
- Provide all full-time and part-time city employees with a two percent (2%) cost-of-living increase and authorize merit increases of up to 1 percent (1.0%) for full time city employees (other than the city manager). Continue to provide family medical coverage to all full-time city employees as the key component of our employee benefit package to attract and retain full-time employees. The total cost of our negotiated family medical benefits contract for next year declined 1% from the contract expiring June 20, 2017. No other benefit changes are proposed.
- Fleet Management. In the next fiscal year, to save money, as recommended by management, our city commission has changed our procedure for purchasing capital items. Instead of purchasing new cars/trucks annually or semi-annually in our various departments (police, public works, other) ...we are, effective July 1, 2017 the leasing essentially all city vehicles (except certain large dump trucks, fire trucks, etc.) as a cost-savings alternative to purchasing passenger cars and trucks. The projected average annual savings of leasing vs. purchasing passenger vehicles is \$48,077

General Fund Capital Improvement Projects. This fiscal year (FY 2016-17), the City Commission has undertaken a number of important planning steps to determine how to best and most economically meet a variety of our city's key future needs. These include contracting for: 1) a master park facilities planning study, now underway, 2) initiation of a wayfinding study for our city and downtown; 3) conducting a design study to determine the design/size and any other issues pertaining to upgrading our Fire Station # 1 on Main Street; and 4) completing an almost two-year analysis of our city's cost for energy usage and how to reduce that cost going forward.

We recently were advised that the recommended option was to construct a new fire station, and are now in the planning design phase for that fire station. Accordingly, the preliminary budget for next fiscal year anticipates beginning construction of the downtown fire station and purchase of a new ladder truck. The preliminary budget for FY 2017-18 allocates \$1,750,000 for fire station first-year capital construction costs (see attached 10-year Capital Budget) and an additional \$500,000 for debt service payments (see page 13). The balance of the costs for construction of the fire station will be incorporated into the following fiscal year (FY 2018-19).

The City has previously approved implementation of the Energy Efficiency Improvements for next fiscal year, with work scheduled to begin in the fall of 2017. Also, the city recently received an Economic Development Act (EDA) Grant to begin to make water line improvements to the Industrial Park and to Perryville (anticipated start, Fall of 2017). To fund the implementation of Energy Improvements, to make EDA Grant Water System Improvements, a bond issue in the amount of \$10 million is anticipated to be issued by the city in calendar year 2017. To address a portion of the costs associated with construction of the new fire station # 1

and the fire truck, a bond issue in the approximate amount of \$7.5 million will be issued in calendar year 2018. These two bond issues are issued separately to achieve most-favored tax status in two separate calendar years (2017 and 2018, respectively) but both bonds will be issued during the next fiscal year of 2017-18.

Utility Fund Summary (page 33). A major milestone next fiscal year will be the completion of our Water Treatment Plant; the dedication date of that event will be held at a date yet to be determined during the first two weeks of August, 2017. Next fiscal year will also be the start up of the EDA Grant/City funded improvements planned for water line enhancements to the Industrial Park and the City of Perryville (about \$1.9 million for next fiscal year, with some additional work/cost the following FY 2018-19). Next fiscal year will also be the initiation of Energy Efficiency Improvements to our water operations (installation of new remote-read meters) with anticipated first-year costs of that project being \$6,970,000...just for the utility part of the energy improvement projects. We also are planning to initiate the needed Master Planning Project for our Sewer Utilities...which haven't been updated in over twenty (20) years. Other than these major new initiatives, the utility operations (water and sewer) may be considered to be continuations of existing operations, with existing staff, for the next fiscal year.

As recommended, the City of Danville's FY 2017-18 Budget has Total Resources of \$57,940,456 Total Appropriations of \$53,826,435, and Total Reserves of \$4,114,021 as listed on the Budget Summary (Page 1).

Operationally, see the General Fund Summary (Page 2) and note that the anticipated Total Fund Balance for the next fiscal year is \$3,017,358. When compared to the Fund Balance Target (20% Minimum) of \$2,758,163.....only \$259,225 remains as a "margin of operational error". That remaining "margin of operational error" is only 0.00821% of the Total Available Resources at the start of the fiscal year (\$31,573,326).

Thank you for your consideration of this recommended Preliminary Budget for FY 2017-18. I want to thank our city management team, and all members of the city commission, for your individual and collective input and discussion on these matters. I look forward to receiving your additional comments, if any, and to making the presentation of the Proposed FY 2017-18 Budget for the City of Danville to you next Monday, May 22, 2017.