May 3, 2018s

A Special Budget Work Session of the Danville City Council convened on May 3, 2018 at 5:32 p.m. in the Conference Room located on the Fourth Floor of the Municipal Building. Council Members present were: James B. Buckner, L. G. "Larry" Campbell Jr., Mayor John B. Gilstrap, Vice Mayor Alonzo L. Jones, Dr. Gary P. Miller, Sherman M. Saunders, Fred O. Shanks, III, J. Lee Vogler, Jr., and Madison J.R. Whittle (9). *Mr. Vogler entered the meeting at 5:40 p.m.*

Staff Members present were: City Manager Ken Larking, Deputy City Manager Earl B. Reynolds, City Attorney W. Clarke Whitfield Jr., and City Clerk Susan M. DeMasi.

Mayor Gilstrap presided.

WORK SESSION ITEMS

DISCUSSION OF THE FISCAL YEAR 2019 BUDGET

City Manager Ken Larking noted he had sent an email showing impacts on the recommended budget; since he presented the proposed budget, there have been a few things that have impacted it. One is the transfer from the Telecommunications Fund that had to be reduced because of the loss of a major customer, the school system; a $221,000 reduction to the General Fund in revenue. To make up for that, he spoke to Dr. Jones, and they will reduce the amount of the transfer to schools to balance that. Staff inadvertently omitted $321,000 in annual debt service payments; that was because of the timing of the payments which happened after the start of budget. Mr. Larking stated the other expense was raising the multiplier from 2.2 to 2.4% which was discussed, that was a $932,880 additional expense to cover that. The Finance Department has reviewed the upcoming billing for personal property tax and anticipates that the City will have $447,880 additional than what was expected; that helps with the debt service payments.

Mr. Larking noted it was his understanding the reason to go to 2.4% multiplier was so the benefit ws comparable to those that have Social Security and retirement. The difference between general employees and public safety employees is that general employees pay 6.2% to Social Security; he would recommend that if Council goes to the 2.4% multiplier, that they require public safety employees to contribute 6.2% of their salary to the retirement system which would generate $806,000 to offset the increase to the multiplier. Mr. Larking noted he would still recommend the City keep the meals tax which is a $1.2M revenue. These items would balance the budget.

Mr. Shanks noted it looks like Mr. Larking or staff were only trying to adjust down to meet the budget needs of those unexpected expenses as opposed to trying meet the budget needs of the future, including whatever steps that could be taken this year to move the City in the direction it needs to be next year. Mr. Larking explained there has been thought to that, they haven't costed out those initiatives and don't have final numbers on that. Staff is not ready to present those, and some of those initiatives may have first year impacts, but they likely will have 2nd, 3rd, 4th and 5th year impacts because it takes time to implement some of them. Any of those cost saving initiatives at this point will likely be, for sustainability, service reductions of some sort, and those things have to be phased in. Mr. Shanks noted since Mr. Larking originally prepared the budget, they have gotten more information from the consultant indicating the City is going in the wrong direction. Council has not considered reducing the amount of money being withdrawn from the fund balance, or any further cuts that would be sustaining cuts and doesn't understand why Council wouldn't do that, knowing now what they didn't know at the beginning of the process. Mr. Larking noted during last year's budget process, when Council was trying to balance the budget in late May or June, he started presenting various options to help cut costs, and some of those ideas are potentially initiatives to be looked at. From experience in presenting a variety of initiatives that result in service reductions, it is best to lay everything out on the table to give Council all the options possible, costed out appropriately.

Mr. Vogler noted taking out the meals tax puts the City $1.2M out of balance. There is $700,000 in the budget for comprehensive blight removal, what if Council changes that $700,000 to $500,000. Mr. Vogler then questioned the funding required for the bridge, is that in the budget and Mr. Larking noted it is being paid for out of fund balance, it wouldn't help balance the budget, it would just reduce the amount of fund balance. Mr. Vogler noted he feels there is a majority of Council that are not favor of taking on the bridge, at least not this year; that is something he would like to discuss. Mr. Larking noted one thing to consider about that is that the City does have a grant to help pay for that and it may go away. Ms. Thomasson noted regarding the bridge, the list of projects that Economic Development proposed is longer than what was put in the budget; to take the bridge out, Council could reduce funding to all the other projects. They received a lump sum, so they may or may not spend it for the bridge. Mayor Gilstrap noted Economic Development is a lump sum amount, by eliminating the bridge, Council is not changing that lump sum amount, they are simply saying they are not going to do it this year; that is not going to affect the budget this year. Mr. Vogler noted reducing the blight removal from $700,000 to $500,000 would put $200,000 back.

Mr. Shanks stated if Council reduces that $400,000, they can reduce the amount to Economic Development by that much, come back later during the year if they need and make a decision on a case by case basis. On the blight removal, before Council decides whether to fund it in the amount that is in the budget now, Council has been asking for a list of projects, and where the money has gone since 2014, the extra money put in from the Electric, Gas and Water funds. All that money was funded into Economic Development and Blight Removal; Mr. Shanks noted he has asked for a breakdown on how that money has been spent. He has also asked for a balance in those funds; there could be several million dollars there that may indicate that the City doesn't need to fully fund blight or Economic Development. Dr. Miller noted citizens have approached him and said they don't want the City to buy that bridge, it a very unpopular item right now, and noted he was opposed to funding that bridge at this point. Mayor Gilstrap noted Council would have to eliminate $400,000 out of the Economic Development Fund to save money. Council Members noted their agreement and Mr. Shanks noted Council can make a decision about the bridge as well. Mr. Vogler noted he believes there are enough people on Council that have said they would like to analyze how to balance the budget without the meals tax increase, and stated he would like to do that.

Vice Mayor Jones noted the City Manager sent Council an email, was the 2.4 included and Mr. Larking noted it was but it calls for a variety of things to pay for it including a meals tax increase and contribution from public safety employees. Mayor Gilstrap stated what he understands Mr. Vogler to say is where can Council find the $1.2M instead of the meals tax and heard, reduce Economic Development's project funds by $400,000. Mr. Shanks stated he did not know about $400,000, it may be less or more but Council needs to look at that. Mr. Vogler noted the same thing with blight, he wants to know what that money goes for and then come up with a number. Mayor Gilstrap asked if the details of Economic Development projects were in the budget and Ms. Thomasson noted they were not. Mr. Larking explained some of that cannot be discussed in open session; Council cannot talk about all of it, they can discuss some of it. All of it is being paid for with fund balance; it is not going to help Council balance this budget, it is going to reduce a revenue and an expenditure. Blight will reduce the budget, it is a recurring revenue.

Dr. Miller noted he was not opposed to a meals tax if it was designated for a specific purpose such as public safety and raises for teachers but does not think Council should take the $1.2M and put it all in the General Fund. Mr. Shanks stated he would like Council to go back through the Blight section of the CIP and also with those numbers, what balances there are. Mr. Vogler questioned if they budgeted $350,000 for blight instead of $700,000, would that be less demolitions, put $100,000 into the housing authority and maintain the attorney. Mr. Larking noted it probably would cover that, it would demolish or rehabilitate fewer houses and Mr. Reynolds noted between the inspections and the neighborhood development corporation/land bank project, the City probably wouldn't be able to do any demolitions next year with this money. In response to Mr. Shanks, Mr. Reynolds noted staff is projecting an unexpended/unencumbered amount from this year of about $123,000.

Ms. Thomasson reviewed her handout *Balancing the Budget*; noting the budget was balanced but the City had to reduce $221,000 in revenue for Telecommunications and also reduced Support of Schools by the same amount. Staff determined that when the assessments went out on Personal Property, they were higher than anticipated so $447,880 can be added to the revenue stream. $382,927 has been added for debt service, and that brings the budget $64,953 to the positive. The second section of the handout includes the meals tax, the 2.2% multiplier, 50/25 years for public safety beginning January 1st, and funding half of what the actuary says the City needs to have Public Safety at the current level. $268,670 is what it would cost to fund the full amount that the actuary says the City needs to keep Public Safety at the current level. If Council wants to go to the 2.4%, they would have to add another $932,800 over and above what is in the budget right now; that is the additional cost to go from 2.2 to 2.4. If the meals tax is removed, the budget is out of balance $2,336,597.

Ms. Thomasson then reviewed her handout *Full Year Cost for Public Safety Benefits Enhancement* and the costs for the 2.2% multiplier and age benefit with a total cost of $1,323,630. If public safety contributed 6.2% to their retirement, it would be $150,600 to the good; this includes the $1.2M for meals tax. If Council adopted the 2.3% multiplier, they would need an additional $929,120 and if public safety pays 6.2% into their retirement, Council would still need $123,120 and that includes meals tax; if meals tax is removed, Council would need $1.3M. With the 2.4% multiplier, and Public Safety contributes 6.2%, Council would need an additional $395,550; this includes meals tax, if that is removed, Council would need the $395,550 plus $1.2M. Mr. Shanks questioned if Council could agree to look at 2.3 instead of 2.4% and work through the budget with that assumption. Vice Mayor Jones noted his agreement and Mr. Shanks stated he thought the City cannot afford the 2.4%. Mr. Shanks also asked if Council could agree the 6.2% contribution should be made by the employee and Ms. Thomasson noted every other locality does that. Dr. Miller noted he has spoken with a lot of Police and Fireman and they would like to have the 2.4, but they realize Council has to balance the budget and thinks they would understand the 2.3. Mayor Gilstrap noted they probably would understand but does not know if they were aware they were going to pay 6.2% of their salary to that; that is a salary reduction.

Mr. Vogler discussed his concern with raising the meals tax and Mr. Shanks noted his agreement, the real issue he has with the meals tax is the fact that Council knows they are overspending at an unsustainable rate and they need to fix that. To constantly go back to tax increases is not what needs to be done; the City has a spending issue. Mr. Vogler noted last year when the meals tax didn't pass, Council came back to a work session and there was a list of different options for cuts, Council went through the list and made decisions on what they wanted to prioritize in the budget and balanced it without the meals tax. Mr. Vogler questioned if they can do that this year and get a list to review of things that can be reduced.

Mr. Saunders noted the reason for the incentive for Public Safety was to attract and retain public safety employees, he is still in support of that. With regard to blight, the City made improvements by getting rid of blight, can the City slow down. Mr. Saunders questioned if Public Safety employees paid the 6.2% would that be a net loss, would they get that money back when they retired. Mr. Larking noted he ran the numbers; under the scenario of the 2.4 multiplier with a 6.2% contribution, depending on the person, if someone starts working at a young age, works 25-30 years, retires at the age they are allowed to retire at and dies at age 75, under that scenario, Public Safety would take home more money through their retirement to death than a general employee would.

Mr. Vogler questioned the EPA grant for the covered bridge and Mr. Larking noted Economic Development applied for it, it is a Brownfield site grant. They applied for a grant for the Schoolfield site, to help clean that up and they put in another one for the bridge; DEQ scored the bridge higher. Mr. Vogler noted he did not understand why they would apply for a grant for a bridge the City didn't own. Mayor Gilstrap questioned how much was appropriated for blight removal this year and how much has the City spent. Mr. Reynolds noted $900,000 and the projection for June 30th is a balance carried forward of $123,000. Mayor Gilstrap noted staff could reduce the $700,000 to $570,000 and still have $700,000 to spend next year. Mayor Gilstrap questioned if there were any objections to reducing Blight from $700,000 to $570,000 and Mr. Shanks stated he did not think that was big enough.

Mr. Vogler noted the Blight removal strategy, even at $350,000 a year, is substantially more than what the City did in years prior. That is something Council needs to factor in; it is still a priority. Mr. Larking stated, in the email he sent Council, he suggested if they don't want to do a meals tax, they could delay certain new expenditures until they found a way to pay for them. That could go for all the projects; they could cut Blight down to $350,000 but if after the City received a report they find an amount of dollars in savings they could put it back in. They do have to balance the budget every year but it can be amended within the year after that under certain circumstances.

Vice Mayor Jones asked, as a Council, could the City Manager to go back and bring to them ideas to cut or delay projects. Mayor Gilstrap noted he would like to go to 2.3% for police and fire rather than cut back on the blight program because he believes that will hurt the City down the road. Mr. Larking noted he could come up with a few things, he will delay the Public Safety benefit until it is funded and delay Pay for Performance until there is a sustainable revenue source. Vice Mayor Jones noted he did not want to delay Public Safety and Mr. Vogler noted he would like to see some of the other things to cut or delay. Mr. Shanks noted he would not support delaying Public Safety and would still suggest Council consider the 2.3% and the 6.2% contribution. The 2.3% multiplier shows a net cost to the City of $123,120, it substantially increases when it goes to the 2.4%. Mayor Gilstrap took a straw poll on how many wanted to reduce Blight to $400,000, five agreed to reduce it. Mayor Gilstrap noted assuming it is reduced by $300,000, the budget is still $1.3 out of balance. Mayor Gilstrap encouraged Council Members to make their own lists of reductions.

MEETING ADJOURNED AT 6:48 P.M.

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MAYOR

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CITY CLERK