April 12, 2018s

A Special Budget Work Session of the Danville City Council convened on April 12, 2018 at 5:33 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). *Rev. Campbell entered the meeting at 5:36 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**

**REVIEW OF DEPARTMENTAL OPERATING/CAPITAL BUDGETS FOR THE WORKING DRAFT OF THE FY2019 BUDGET**

City Manager Ken Larking noted a special work session has been added Tuesday at 5:30 p.m., before the City Council meeting. The purpose is to have David Eichenthal provide an update on the National Resource Network's progress. They have done analysis of the City's revenues and expenditures, they know what the City's outlook is for the next five years and have created a baseline model. The baseline model takes what was proposed in the City Manger's budget and puts it on autopilot for the next five years, what would it look like. No new money for schools, no debt issued, keeping contributions toward capital the same and anticipating a natural growth in revenue and expenditures the City has experienced over time. The City has a structural deficit with the proposed budget of $27.5M. There will be both expenditure and revenue initiatives at a later date that can be plugged into the model and Council will be able to see what effect that will have on the structural deficit over time. Mr. Vogler questioned when does NRN come to Council with suggestions or options, and Mr. Larking noted he has had some preliminary conversations with them and there is a one hundred and three page presentation, working draft that provides some items. They need to be vetted back through the department heads to make sure they are not missing anything and they need to get the financial projections on each of the initiatives. Mr. Larking noted he believes there will be sufficient time to look at their proposals and incorporate some of them.

**INFORMATION TECHNOLOGY**

Ms. Thomasson noted the IT budget overall is down about $20,000. There is no request for additional personnel.

IT CSP

Technology Upgrades for Core Infrastructure – Computer Plan - $200,000 – General Fund Revenues;
Enterprise Resource Planning Enhancements and Upgrades - $137,640 – General Fund Revenues;
GIS – upgrades - $20,000 - General Fund Revenues.

Ms. Thomasson noted the Capital request for IT went down this year. Mr. Shanks stated he uses the City's GIS all the time and uses other localities GIS as well, the City's GIS is the best he has seen across the state.

**COMMUNITY DEVELOPMENT**

Ms. Thomasson stated for the most part, the budget for Community Development is flat. They are not asking for any additional positions and have twenty-five total positions, including the CDGB fund. Mr. Gillie noted there are two open positions in the General Fund and one open under CDGB, a senior planner and a planning technician in the General Fund, and the Housing Planning and Development Specialist is CDGB.

**Community Development CSP**

Comprehensive Blight Removal - $700,000 – General Fund Revenues.

Ms. Thomasson noted that amount was reduced by $100,000 from what was requested.

**SOCIAL SERVICES**

Social Services has an overall increase in their budget of $27,000, but with an increase in their State funding as well. The net cost to the City has gone down $63,000, revenue went up $90,000, and expenditures went up $27,000. Social Services has one person, an eligibility worker, that has been a part time position; the State has authorized it to go full-time and they will be funding about 80% of that position. Social Services has no capital projects this year.

**PUBLIC WORKS**

Public Works is down overall in the General Fund by $207,560 and they have eliminated some positions. Under Administration, a grant funded position was eliminated for the horticulturalist position; they also eliminated a public service worker in the Cemetery.

**Public Works CSP**

Elevator Upgrade – Social Services Building - $275,000 – Bonds;
Emergency Generators – Municipal Building - $300,000 – Bonds;
General Maintenance of Buildings - $150,000 – General Fund Revenues;
HVAC Replacement - $275,000 – Pepsi Building, Stonewall Recreation, City Jail, Public Works Building – Bonds;
Roof Replacement – City Armory - $300,000.

**UTILITIES**

**Wastewater**

Wastewater overall is down $201,000 and will have a contribution to the Fund Balance of $693,560. Their operating budget is down about $201,680, there was a reduction in repairs and maintenance to their buildings, and in their uncollectable accounts. Their IT allocation is down, and one of the largest reductions is in their bond maturities, $141,000 less for FY19.

Wastewater CSP

Northside Plant Process Modifications Phase III, planning and preliminary work - $600,000. They will use some reprogrammed funds.

**Water**

Water will make a contribution to their Fund Balance of $111,960. Their total budget is $14M, which is $3,146,000 greater than 2018, but $4.5M of that is a transfer from Fund Balance for two projects.

Water CSP

Water Line Reconstruction - $500,000 – Utility Revenues (this may switch to water fund balance);
DRI Reservoir – Construction - $3,000,000 – Water Fund Balance;
Water Treatment Plant Modifications - $2,000,000 – Water Fund Balance and Utility Revenues.

Mr. Larking noted the City is using a portion of Fund Balance in the Water Fund for projects; the City planned to do it with debt, and the Utility Commission decided it would be better to use the excess amount of Fund Balance to pay for these projects. Mr. Grey explained it was a total of $5M, $2M for the filter gallery upgrade at the Water Plant and $3M for the Dan River Reservoir Raw Water Impound. The City has been focusing heavily on gas mains for the past twenty years, they are almost at the end of that project and they will be switching to doing predominantly water for the foreseeable future until they get the system where they want it. Mr. Grey stated he believes the rates are where they need to be to get these projects funded without having to bond them out. This is a non-rate study year, so there will not be any rate changes to the base rate; the rate study will be in fiscal year 2020.

Mr. Vogler asked what the City's preemptive efforts were to get the trees before they fall on power lines and Mr. Grey explained they have increased their right of way maintenance budget over the past few years; they used to fund about $1.4M in electric right of way maintenance and have increased it to $1.9M. They have a plan for the heavily grown areas and areas they haven't visited in a while; they have made a lot of progress mainly in the west side of their territory and the very far east. Mr. Shanks questioned the reservoir project, they are pumping up to the reservoir, will that stay there or will it circulate and Mr. Grey stated they will circulate it. Mr. Shanks asked if any consideration has been given to the power generation coming back down to the Wastewater Treatment Plant and Mr. Grey noted they have discussed it, but haven't studied it.

**Gas Fund**

Ms. Thomasson noted the Gas Fund shows reductions in several areas, one of the biggest is Outside Purchase Services which was down $306,000 overall, and Natural Gas Purchases are down $1,847,000; other than that they are flat.

Gas Fund CSP

Cast Iron Main Replacement - $2,300,000 funded with $1,100,00 in Utility Revenues and $1,200,000 in reprogrammed funds. They have increased the amount they had planned to do. Dr. Miller questioned how long the new polyethylene pipes last and Mr. Grey noted fifty to sixty years, plus.

**Electric Fund**

The main increase is in Purchase Power at $3,087,000. Ms. Thomasson noted they discussed the oversite in budgeting for bonds last night in the General Fund, the City also issued Electric Fund bonds and that was also an oversight. The budget states they are making a $150,000 contribution to Fund Balance, however, debt service needs to be added in the amount of $629,000. Utilities feels for now it can come from Fund Balance. They have a significant fund balance and at the end of this year, if they have unexpended money in contingency, staff will reserve it and carry it forward for use on debt service. Mr. Shanks noted he was not at the last Utility Commission meeting, and asked if they agreed to this; Ms. Thomasson explained staff just found out about it last week. Mr. Shanks stated the Utility Commission has a great deal of concern about Fund Balance in the Electric Fund, there is a lot of work that needs to be done in Electric. Mr. Grey noted they will update the Commission at the next meeting.

<u>Electric CSP</u>

<u>Joint use Audit & Pole Attachment Contract Update</u> - $500,000 – Utility Revenues;
<u>Line Rebuilds/25 KV Conversion</u> - $2,000,000 – Bonds.

Mayor Gilstrap questioned if there was a $40M Fund Balance, why would they fund the $2M project through bonds and Mr. Grey noted there is a deficit balance in the Power Cost Adjustment; the Commission has been studying it for a long time and have been trying to reduce that balance. Currently, it is a negative $14M, it needs to be, per Council, within a plus or minus $4M by December 2020; staff is working toward that and hopefully can bring a proposal to City Council soon to pay down that balance using some of the Fund Balance. The City currently has a fixed PCA, a lot of the City's credit scores are affected by that, and financing is increased because the City has a fixed PCA. If the City is within the +/- $4M, they can move to a formula based PCA which would improve the credit score, and over time improve rates.

<u>Street Light Upgrade Program</u> - $500,000 – reprogrammed funds.

Mayor Gilstrap asked where the upgrades will be and Mr. Grey noted they will start with the major corridors, South Main, Memorial Drive, West Main, Riverside, Central Boulevard, Piney Forest, North Main and some major thoroughfares in the City of Danville. Mr. Saunders questioned Kemper Road and Mr. Grey stated he assigned it out to check to make sure there were no lights out and Mr. Saunders stated they needed improved lighting. Mr. Grey noted they would make Kemper and North Main a priority.

<u>System Reliability Inspections</u> - $500,000 – Utility Revenues;
<u>Behind the Meter Generation</u> - $500,000 – reprogrammed funds;
<u>Substation Upgrades</u> - $2,000,000 – bonds.

**<u>Telecommunications Fund</u>**

Ms. Thomasson distributed new Telecommunications Fund pages. Mr. Grey explained each year the City proposes e-rate services to the City Schools and to some Pittsylvania County Schools. The City is losing about $915,000 of the $1.5M in Telecom because the City did not win the contract with Danville Public Schools. They have had a contract since 2004, and it will cut more than half of Telecom operations, affect future capital projects and the nDanville network. They have balanced the budget by removing contingency, reducing the regular capital expense, eliminating a position and other smaller items. The capital project for FY2019 is being proposed to move forward, but it is totally funded from fund balance. Telecom does have a healthy reserve in fund balance that has accumulated over a number of years and they plan to complete the Grove Park fiber network. They will have to update the Utility Commission as well, this information was given to staff in the past few weeks.

Mayor Gilstrap questioned how often do the schools bid this and Mr. Grey noted annually; the City will get another chance next year. Mr. Shanks stated he hopes the competition is using their own cables or they should be paying the City a fee to use the City's cables. Mr. Grey noted they are not on the City's system and would install their own infrastructure. Comcast does have a Pole Attachment agreement with the City and they pay the City per attachment. Mr. Larking noted this will affect the General Fund by $221,000, they have a proposal to be able to go through this year to handle the debt issue, but not the Telecomm issue in the General Fund. Mr. Larking stated he did speak with Dr. Jones about this and the affect it was having on the General Fund revenues; Dr. Jones stated he would see what he could do to help alleviate that.

In response to Mr. Whittle, Mr. Larking explained AMP borrowed money to build electric generation projects of which the City of Danville is part owner; the City is responsible for helping pay that off and it is collected through the City's rates. The City gets a small discount because the Federal government is subsidizing some of the interest that is part of that; they promised to do that for the life of the project. Mayor Gilstrap asked what it would cost to get out of AMP and Mr. Grey noted the City would have to make whole on its contracts, there is a provision for that. Mr. Vogler asked what that amount was and Mr. Grey noted $500,000,000. Mr. Vogler asked if Martinsville was involved in the AMP projects and Mr. Grey explained they were not as heavily in projects as the City was, they are more involved in purchase power blocks and less with generation resources. Mr. Grey noted the City is always looking for active buyers for the contracts, but there are a lot of stipulations. Mr. Vogler asked what percentage of agreements end in the next three years and Mr. Grey noted 17% of the City's energy needs expire in 2020. Mr. Vogler asked how many go beyond the next twenty years and Mr. Grey noted 83%.

7:27 p.m. – break
7:36 p.m. - reconvene

Ms. Thomasson noted last night when Council discussed public safety retirement and the cost, she was directed to put some numbers together on what it would cost to raise taxes to cover this. Ms. Thomasson distributed a sheet *Funding for Increased Benefits for Public Safety Employees* and noted she has also included the $381,000 in debt service and the $221,000 reduced revenues for Telecommunications which is a total of $602,000. Mr. Larking noted at the top of the page, for Council's information, is a summary showing what the proposed meals tax covers for increases on the expenditure side: ½ the cost of funding 100% of the retirement benefit, implementation of the 2.2% multiplier effective January 1, implementing the 50/25 age adjustment effective January 1 (these are for half a year and what is in the budget) and the increased health insurance costs.

Ms. Thomasson noted the first column shows the annual costs, $550,170 to fund the Public Safety at what the actuary recommended to keep them at their current benefit level. The next column shows what is in the budget right now, $281,500, the difference is what would have to be added to fund it the whole year, $268,670.

<u>Option 1</u>

The 2.2% multiplier for a whole year would cost $514,540, in the budget now is $261,770; that is a January 1 implementation, a whole year would cost another $252,000. The next line is the age adjustment, a full year to adjust the age is $258,920, the current amount in the budget is $124,960 with an additional $133,960 needed. The total amount for all three line items is $1,323,630; what is in the budget currently is $668,230, for an entire year, another $655,400 is needed. Also included is the $602,000 from the bottom of the page which is the principal and interest on the

bonds, and the loss of revenue of $221,000. Ms. Thomasson noted staff does have a plan that can cover the $381,000 for one year but that would mean for 2020, the City would have to find the money. Staff does not have a plan for the $221,000. If Council wanted to fund what is needed to do the whole year, plus cover the $602,000, that is equal to a 5.7% real estate tax.

Option 2

Ms. Thomasson noted for the 2.3% multiplier, the City is short for a whole year by $929,120. Adding in the $602,000, the total the City is short is $1,531,120; that corresponds to about a 6.960 real estate tax.

Option 3

Ms. Thomasson noted at the 2.4% multiplier the City is short $1,201,550, adding in the $602,000, totals $1,803,550 which is a 8.198 real estate tax.

Mr. Shanks noted he hoped Council would look at cutting expenses instead of raising taxes to pay for this; they are waiting to hear from the NRN with some recommendations with regard to staff level or services. Mr. Shanks stated if Council really wants to deal with the problem, they have to look at where expenses can be cut as part of the solution, maybe even most of the solution. Dr. Miller noted it may not be services, are there priorities that can be pushed back such as the bridge, that is $400,000, 205 Jefferson Street, does the City have to spend $500,000 on that. Are there other projects that can be deferred. Mr. Larking noted they can be, but all those things are one time projects that don't tackle the ongoing operational deficiencies. Mr. Vogler noted his agreement, the City has $1.9M right now for River District property purchases, maybe the City doesn't need all $1.9M. There is $700,000 for Comprehensive blight removal, maybe the City doesn't do $700,000 this year and drops it to $400,000. That is an ongoing item, because the City has been allocating a fairly consistent level for a number of years; those are discussions Council needs to have and personnel, all those things. The City's revenues are not matching expenses and at some point Council needs to take a look, is the City getting too far out in front of itself. Mr. Larking noted pretty much all of the City's Economic Development activity is funded with fund balance; Council would be reducing the expense and revenue and still have a deficit.

Mayor Gilstrap noted if he understands Mr. Shanks' point, to not do this every year, Council is going to have to make some tough decisions of where to reduce ongoing expenditures. How much can the City afford and how many employees can the City afford. The City did a major reduction six or seven years ago and are back up to almost the same level of authorized positions. He wants to hear what the consultants have to say.

Mr. Larking explained in the baseline projection that Council will see Tuesday, in the current year there is already a $3.4M deficit which means fund balance being used. The first $3.4M of one time cuts found in this budget will have no affect on the amount needed to get to the 2.4 multiplier, fix the error of omission and the change to Telecom fund. The City is using $3.4M of General Fund balance to balance this year's budget, all of that is one time expenditures and primarily for Economic Development. The structural deficit is based on continuing to do things the way they have been. Currently, the City provides government services that people have been accustomed to getting, plus have made investments through Economic Development to help the City grow. If Council wants to continue to make investments to grow as a City they need to address the structural deficit, because the City will run out of fund balance eventually.

Mr. Larking noted the General Fund budget is $190,000,000, $32,000,000 is transfers out, the majority of it is schools; others are required transfers out, that brings it down to $82M. Of the $82M, $30M is public safety which brings it down to $50M; some of that is required by the State, such as Social Services, Courts and Constitutional Offices. Mr. Larking explained there will be information that describes all of that and what Council's opportunity is; at a certain level, it is going to get down to non-essential governmental services like Economic Development and Parks and Recreation.

Mr. Larking noted he has told the group there are no sacred cows, Council has said no sacred cows, and they are going to look at everything in order to save money. From his preliminary information, it includes everything and some of the most significant cost savings from the consultants are in public safety. Their benchmark for information is against other cities, they are not going to ask the City to do something that is draconian, they are looking at what other cities have done, and fire fighters is one of them. Danville has four per station, other cities have three. Mr. Vogler noted he thinks Council needs to take a hard look at the spending but the City has to be smart about the way the City grows, it might be the time to take a step back or slow down.

MEETING ADJOURNED AT 8:16 P.M.

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MAYOR

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CITY CLERK