

**BUDGET MESSAGE  
FOR  
FISCAL YEAR ENDING  
June 30, 2019**

May 18, 2018

**BOARD OF COMMISSIONERS:**

Jim Barnes, Mayor

Jim Newby, Mayor Pro Tem

Robert Blythe, Commissioner

Morgan Eaves, Commissioner

Jason Morgan, Commissioner

I am pleased to present the general fund operating budget for the City of Richmond, Kentucky. The Finance Director and I believe it will effectively guide the City through the forthcoming fiscal year. The preparation of the Budget is the most important single activity that occurs on behalf of the City during any fiscal year. It states and directs all programs and activities throughout the fiscal year. The process of creating this budget began with providing a worksheet to each Department Head with instructions for completion by a certain date. Meetings were held with every Department Head at least once. Department heads, as well as other employees, have worked diligently and cooperatively with us to produce this budget. We have been careful not to overstate the projection of revenue and have estimated expenses based on historical analysis of actual expenses from past years and careful consideration of current year requests.

**CASH RESERVES**

As of the close of business May 15th, the general fund had unreserved cash assets of approximately \$10,550,000. The Contingency Reserve balance is approximately \$8m which includes a \$1m transfer authorized in the amended budget of FY2018. The cash balance in the general fund is net of the \$10 million to be transferred to the Capital Projects account, the \$500,000 transfer to the Workers Comp fund and the \$1m to the Contingency Reserve account.

We have previously reserved funds in the general fund for specific purposes such as capital projects, workers compensation, police car purchases and health insurance. With the funding in FY2018 of the capital projects fund, the establishment of the workers compensation fund and the self-insured health insurance fund we will no longer set aside reserves in the general fund.

### **General Fund Revenue Summary**

In this budget we are projecting an increase in revenues of approximately 2.0%. This projection includes increasing the ad valorem tax rate by four percent over the compensating rate. For example, last year's rate on real property was 14.7 % per hundred and with the proposed four percent increase the new rate would be 15.29% per hundred. This would result in less than a \$6.00 annual increase for property assessed at \$100,000. It would increase city revenue by approximately \$93k. Estimates have been increased in payroll taxes based on trends over the past five and ten years as well as the current expectations in the local economy. The net profit tax is trending with little variation so the estimation is the same as last year. The City's revenue is heavily concentrated in five line items; property tax, payroll tax, net profits tax, insurance premium tax and utility franchise fees. These five lines average 88% of total revenue. Further analysis shows that payroll taxes are the single biggest contributor averaging approximately 53% of total revenue. Twenty business enterprises comprise approximately 53% of this total. Because of this concentration small changes in the business environment can have a significant impact in the financials. As always, we have been conservative in our estimates.

In estimating revenue, we do a historical analysis of the numbers for up to ten years, review current year trends, as well as review economic factors and forecasts relevant to our geographical area, the State and the Nation. The City continues ongoing efforts in identifying new business enterprises in the City and ensuring all businesses are properly set up and are submitting returns and tax payments in a timely fashion.

Richmond Water Gas & Sewerage Works continues financial support by transferring \$25,000 per month to the City's general fund. These funds are in addition to the monthly \$2.10 fee per water meter that is remitted to the City as collected. Currently we still show the debt service of \$909,350 for two Richmond Utilities bond issues which are secured by the full faith, credit and resources of the city, as both a revenue item and an expense line item in non-department. This has a zero net effect but is presented for transparency and tracking purposes.

### **GENERAL FUND EXPENDITURE SUMMARY.**

We continue to monitor expenditures closely and make necessary changes to control and or lower expenses. There is some overtime pay in this budget. We monitor overtime and control it as much as possible. However, overtime has not and cannot be totally eliminated.

There is \$186,769 in the budget for the City's share of cost for Madison County E-911. This is an increase of 71.35% over the previous budget. Of this amount \$53,469 is for operations and \$133,333 is for capital projects. The capital cost includes an upgrade in phone and computer systems.

Again, this year there is \$75,000 in this budget for the probable demolition of certain structures. The Codes Department Director will oversee the management of these funds. The City will continue to identify and remove blighted, unsightly and unsafe properties in the City.

The City has two bond issues still outstanding in the amount of \$2,665,000. The City plans on retiring the debt on one of the bonds in the amount of \$1,175,000 in FY2019. This will save the City approximately \$277,675 of interest charges by retiring the debt 10 years early. The remaining bond cannot be paid off until FY2022 and is scheduled in the 10 year budget/financial projections for retirement at that time.

The City has been successful in maintaining our bond rating of Aa2 despite outside challenges of rising pension cost and projected increased inflation. Per the Moody's Investors Service report, the upgrade to Aa2 reflects well managed financial operations resulting in ample reserves and liquidity. The rating also factors in the city's moderately sized tax base that benefits from significant institutional presence, and a below average debt burden. The Aa2 is the highest rating the city can achieve at this time based on the tax base and current diversification.

Also, again this year the budget includes a \$1,000,000 transfer to the Contingency Reserve Fund. This will bring the total to approximately \$9m which is approximately 30.8% of current recurring operating expenses. In staying fiscally conservative, the goal is to reach 50% of expenditures or approximately six months coverage. Our external auditors have recommended a 50% coverage ratio for a buffer in the event of an economic downturn or other unforeseeable calamities.

Taking the above conservative fiscal approach will assist us in keeping the city financially healthy and in maintaining the Aa2 bond rating.

## **PERSONNEL**

We budgeted for 254 full-time employees, which includes one new position for an Inspector in the Fire Department. Additionally, the City employs approximately 98 seasonal and or part-time workers, including Boards. The City will continue to hire seasonal and or part-time employees where possible in order to control cost and provide adequate services.

This fiscal year, the City will contribute 21.48% of gross salaries for pension expense for non-hazardous duty employees and 35.34% of gross salaries for pension expense of hazardous duty employees. This is an increase of 12%. This cost is expected to increase by at least 12% each year for the next five years or until the CERS pension fund is fully funded. The cost of non-hazardous/hazardous pension expense for this fiscal year will be approximately \$995,784 and \$2,383,418 respectively. This is compared to the previous year expense of \$872,730 non-hazardous and \$1,979,888 hazardous.

One of the major challenges going forward is to ensure the City manages its resources to meet the rising cost of the pension expense. Comparative figures, including cost of living adjustments, are projected as follows:

FY2018	\$2,852,618	FY2019	\$3,379,202	FY2020	\$3,922,849
FY2021	\$4,495,826	FY2022	\$5,157,243	FY2023	\$5,915,558
FY2024	\$6,791,358				

These estimates are in line with the current projected rates from CERS following the April legislative override.

Last year the City established a self-funded health insurance fund to help alleviate the escalating annual cost increase from outside carriers. The City projected an estimated cost of \$1,647,198 with a maximum exposure of \$1,969,253. This is the first year and all cost will not be accounted for until the fiscal year is over, so it is too early yet to make a determination if costs will come in under those projections. Looking forward to FY2019 the City will hold with these same projections until the first years' figures are available for review.

The City will offer the same two plans at the same cost to our employees in FY2019. The City cost will be \$550.00 per employee per month regardless if the employee selects the Core plan or the HSA plan. The employee has a choice between a no cost plan, the HSA, or a PPO plan. If an employee chooses the HSA plan the city will also pay \$50.00 per month into their HSA account. If an employee chooses the PPO plan he/she will make a \$35 per pay period contribution. The benefits on the plans remain the same as in FY2018. All employee contribution rates will remain the same. The city has budgeted the maximum expected cost of \$1,969,253 and will fund at the estimated expected cost of \$1,647,198. One of the more positive features of the self-funding plan is if claims do come in under the expected cost the city can build reserves for future years. As part of this plan the City contracts with a stop loss carrier that limits our exposure to a maximum of \$100,000 per member. There was a slight increase in the fixed cost of approximately \$14,000 due to renewal of contract and the carryover clause.

The city pays the full cost of the premium of a \$25,000 term life insurance policy for each full-time employee. The cost did not change this year. Currently it is budgeted for \$12,954.

The CPI (Consumer Price Index) released in January measured the cost of living index at 2.1%. In this budget we have included salary increases across the board of 4%.

### **CAPITAL EXPENDITURES**

There is \$1,611,850 in the budget for normal recurring capital expenditures line itemed in the general fund department budgets. This includes approximately \$272,000 for technology, \$842,750 for vehicles

and equipment, \$277,600 for property/ building repairs and \$219,500 for smaller expenditures such as office furniture, outside fitness workout equipment and sidewalks.

The Capital Projects fund includes the Parks Project, KY Wired Project, downtown Fountain Park Project, West Main Street Project, Gibson Bay Building, Waterline Project in the Richmond Industrial Park, the Hill/Francis Project and gates for downtown parking lots. All of these projects will be expensed from the Capital Projects Fund. Once the project is completed the Finance Director will set up an amortization schedule for reimbursement from the general fund and will schedule the transfers in the appropriate budget year. The funds must be reimbursed to the Capital Projects within a ten-year time frame. The 2017 Comprehensive Plan ranks GOAL #1 -Promote Economic and Downtown Development. Accordingly, 90% of the above projects are in line with this vision.

### **CONCLUDING COMMENTS**

The singular purpose for adopting a budget is to forecast the financial position of the City for a definite period of time based on estimates of revenue and expenditures during the period. The focus was on this objective as this budget was being prepared.

The sum of the budgets for each department generates the City's general fund budget in its entirety. In addition, the remaining city fund budgets have been presented as well. Therefore, the budget for the fiscal year ending June 30, 2019 is hereby submitted for your review and approval.

I am deeply appreciative to all who participated in the endeavor.

Respectively,

Richard Thomas  
City Manager