

**BUDGET MESSAGE  
FOR  
FISCAL YEAR ENDING  
June 30, 2018**

May 26, 2017

**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 23rd, the aggregate internal balance in the General Fund Demand Deposit accounts was \$8,236,811. Additionally, the City held \$8,661,049 in short term Certificates of Deposit in the General Fund. Also the City has \$6.718 million in Certificates of Deposit held in the Contingency Reserve Fund which was created in FY2014.

The following amounts are specifically reserved in the general fund account: Capital Projects-\$200,000; Police Cars-\$400,000; Retirement payouts -\$500,000; 911 Equipment -\$200,000; and Health Insurance/Workers comp -\$200,000.

## **General Fund Revenue Summary**

In this budget we are projecting an increase in revenues of approximately 4.50%. 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 14.4 % per hundred and with the proposed four percent increase the new rate would be 14.98% 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 \$93,000.in FY 2018. Estimates have been increased in both payroll taxes and nonprofit taxes based on historical numbers and how fiscal year 2017 is finishing. 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 87% of total revenue. Further analysis shows that payroll taxes are the single biggest contributor averaging approximately 51% of total revenue. Twenty business enterprises comprise 51% 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 estimations. In estimating revenue, we do a historical analysis of the numbers for a minimum of 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. The \$2.10 water meter fee is designated for storm water related expenditures only. Additionally, Richmond Utilities bond payments increased by \$265,800 from \$645,500 to \$911,300. This is reflected as both an increase in revenues and an offsetting increase in expenditures with a net effect of zero on the general fund net income.

## **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 \$109,000 in the budget for the City's portion of operations cost for Madison County E-911. This is a slight reduction from the previous year of \$148,000.

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. These funds will greatly assist him in identifying and removing blighted and unsightly properties in the City.

In fiscal year 2017 the City reduced debt outstanding by approximately \$4.3 million dollars. This included retirement of the bond issue for the aquatic center, payment in full on the note for 40 police

cruisers purchased in 2013 and retirement on a 2007 bond refinance with KLC. In FY2018 we are budgeting \$301,232 for debt service on the last two bonds with outstanding balances. We have forecasted the payoff of these two bonds in the FY2019 budget which is the earliest point we can make a bond call. That payoff is estimated at approximately \$2,850,000 but will save the city roughly \$515,000 in interest over the next ten years.

The City was successful in upgrading our bond rating to an Aa2. 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 \$200,000 transfer to the Contingency Reserve Fund. This will bring the total to \$7.125 million which is approximately 24% of this year's expenditures. In staying fiscally conservative, the goal is to reach 50% coverage of expenditures or approximately six months. During our audit review the external auditor recommended a 50% coverage ratio for a buffer in the event of any economic downturns 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 252 full-time employees, which include hires for two new positions, Landscape/Horticulturist and a Planner. Additionally the City employs approximately 110 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 19.18% of gross salaries for pension expense for non-hazardous duty employees and 31.55% of gross salaries for pension expense of hazardous duty employees. This is an increase of .50 and .49 respectively. The cost of non-hazardous/hazardous pension expense for this fiscal year will be approximately \$863,851 and \$2,015,953 respectively.

In the past several years the health insurance cost have increased by 19.27% in 2015, 25.99% in 2016 and this year the cost was projected to increase another 28.15%. Due to the escalating cost the City has decided to go to a self-funded insurance plan. Based on a self-funding plan the estimated expected cost would be \$1,647,198 and the maximum cost estimated at \$1,969,253. By going self funded the City expects to hold down the cost increase to around 15.8%. The City will offer two plans to the employees this year and projects the cost of the City contributions to be approximately \$550.00 per employee per month. An employee can choose 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 have been enriched by having lower deductibles and out of pocket expenses. Other benefits have been enhanced as well such as an annual eye exam versus a bi-annual exam, additional dollars for eye hardware and lowered co-pays for going to an urgent treatment center. 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 come in under expected cost the city can build reserves for the next year. As part of this plan the City will contract with a stop loss carrier that will limit our exposure to a maximum of \$100,000 per member.

The city pays the full cost of the premium of a \$25,000 term life insurance policy for each full-time employee. The cost this fiscal year is approximated at \$15,120.

The CPI (Consumer Price Index) released in January measured the cost of living index at 2.1%. However, we are pleased to include in this budget a 4% increase across the board for all full time employees.

### **CAPITAL EXPENDITURES**

There is \$2,823,263 in the budget for Capital expenditures. Approximately \$603,293 of this amount will benefit the parks system. The North Street Park is allocated \$200,000 for construction, bathrooms a shelter and fencing. The West Main Street sidewalk project has been allocated up to \$250,000 depending on the progress of the project . Currently the City is in phase 1 and expects to move to phase 2 in this next fiscal year. New vehicles and heavy equipment across several departments totaled \$1,203,150. This included nine police vehicles, a small salt truck and spreader and a front end loader for Public Works as well as six vehicles for several other departments. Also, included is \$70,000 to Kentucky River Foothills to assist the transit program in purchasing another bus. Other expenditures include city wide software , paving of city parking lots, office furniture and equipment and removal of aged wallpaper and painting of walls at City Hall.

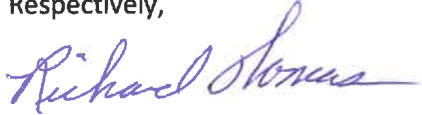
### **CONCLUDING COMMENTS**

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, 2018 is hereby submitted for your review and approval.

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

Respectively,

A handwritten signature in blue ink that reads "Richard Thomas". The signature is written in a cursive style with a large, stylized initial "R".

Richard Thomas  
City Manager