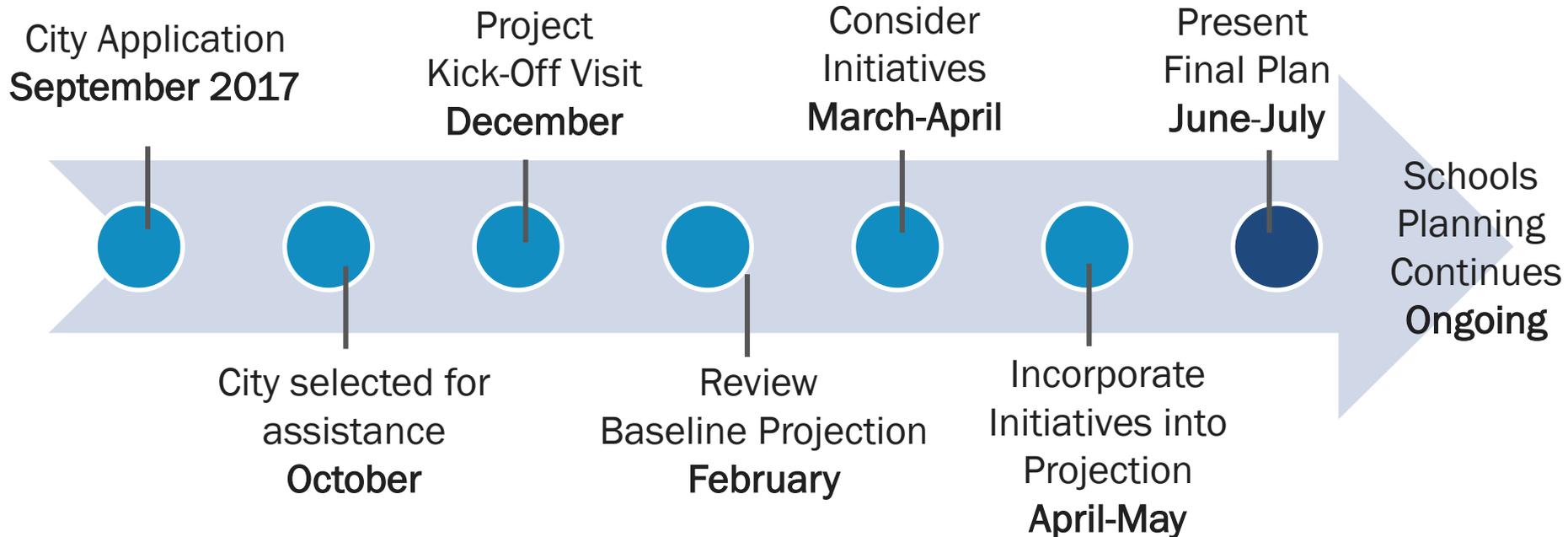


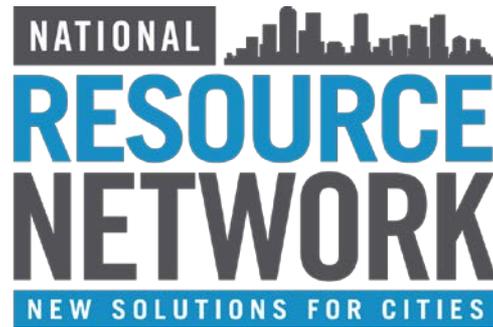
City of Danville Five Year Financial Plan

Final Presentation to City Council
July 17, 2018



Danville Project Timeline



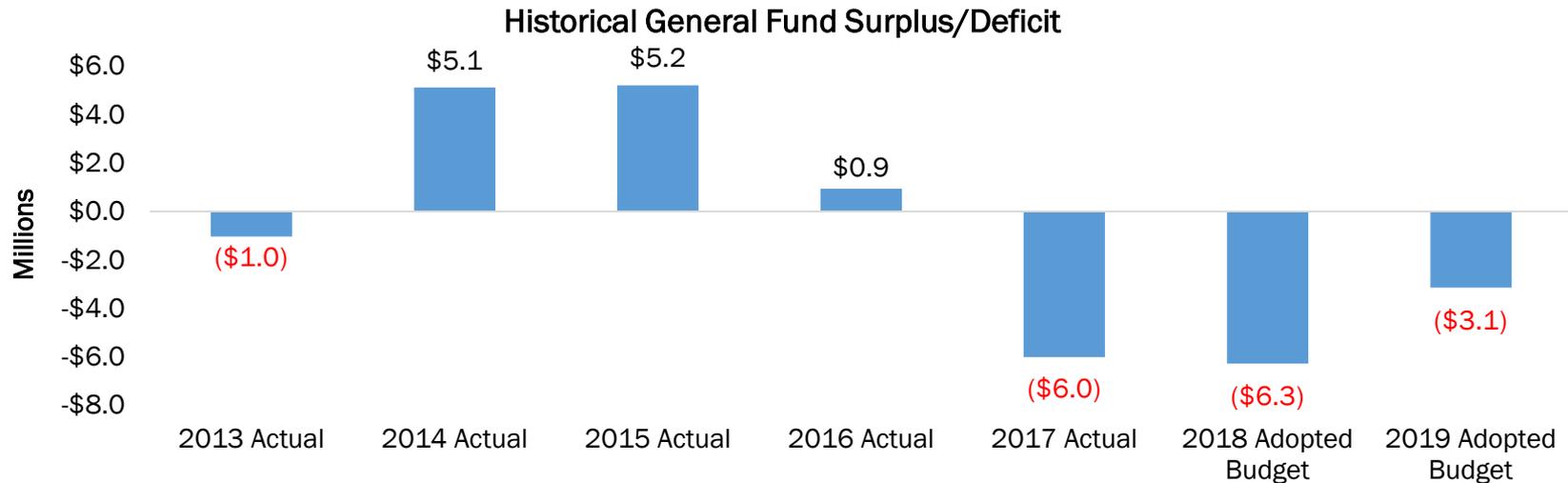


FY 2019 – FY 2023 Projection

Danville's Structural Deficit



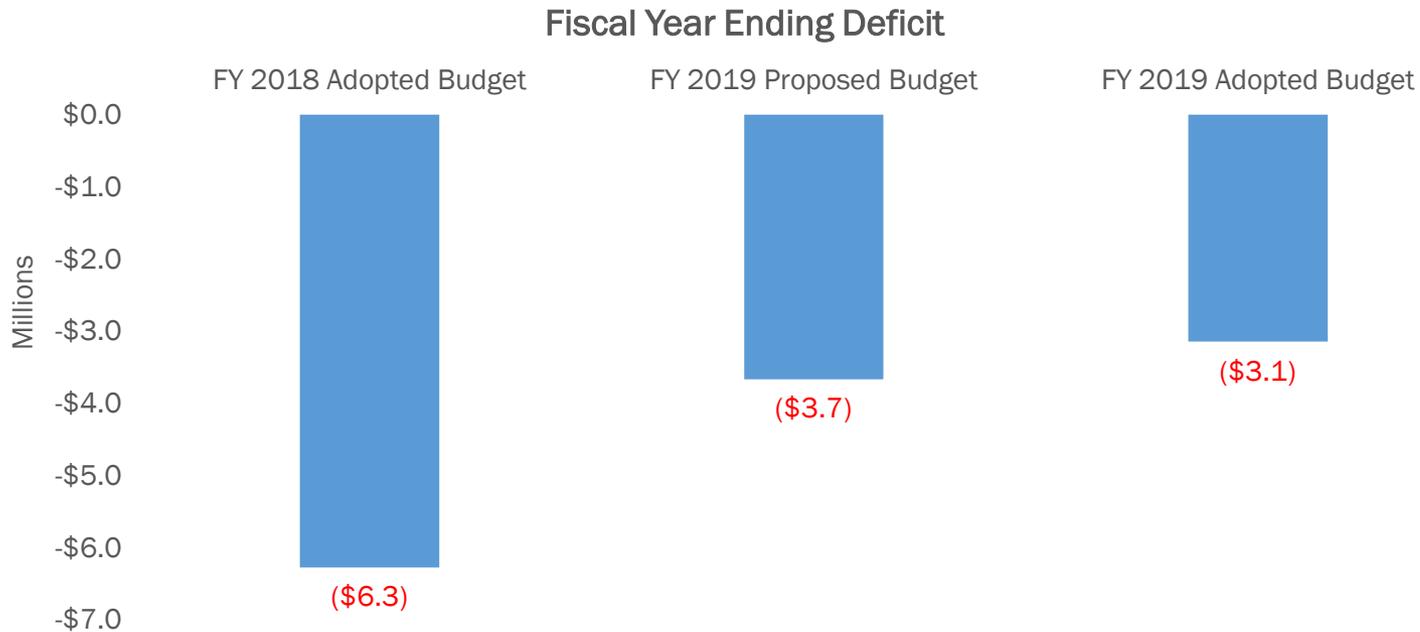
- After three consecutive fiscal years ending in a budget surplus, Danville ended FY 2017 with a \$6.0 million deficit.
- The FY 2018 budget is projected to result in a \$6.3 million deficit.
- Danville's baseline projection includes the aforementioned FY 2018 deficit and a deficit of \$3.1 million in the FY 2019 adopted budget. In other words, the City is on track to spend over \$15 million from fund balance in just three years.





FY 2019 Proposed vs. Adopted Budget

- The FY 2019 adopted budget results in a deficit of \$3.1 million
 - This is a reduction of \$600,000 from the FY 2019 proposed budget deficit and \$3.2 million less than the FY 2018 adopted budget deficit. However, this reduced deficit was largely obtained via the use of one-time cuts and capital spending deferrals.





FY 2019 Adopted Budget

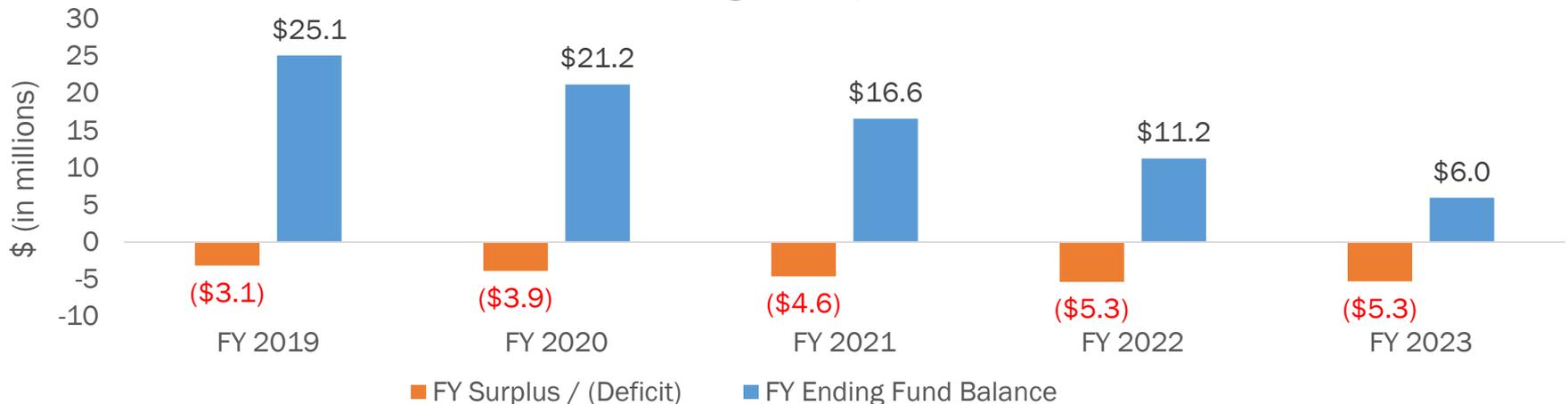
- The baseline includes the City's FY 2019 adopted budget in the five-year projection.
- Outlined below are changes in policy reflected in the FY 2019 adopted budget:
 - Prepared meals tax rate increase from 6 percent to 6.5 percent
 - Transfer to capital fund decrease of \$1.8 million
 - Changes to public safety retirement benefits
 - Retirement eligibility change from 55 with 30 years of service to 50 with 25 years of service
 - Retirement multiplier increase from 2 percent to 2.2 percent
 - A \$2.5 million investment in a new Riverfront Park

Danville's Fiscal Gap



- The Network baseline indicates Danville is projected to end FY 2023 with an annual General Fund deficit of \$5.3 million and a fund balance of \$6 million. The **projected cumulative deficit over the next five years is \$22.3 million.**

General Fund Budget Projections, FY2019 – FY2023



The Drivers of Danville's Deficit



- The City recently adopted a series of revenue increases to close their gap:
 - 7-cent increase to the real estate property tax rate.
 - 50-cent increase to the personal property tax rate.
 - 1 percent increase to the hotel occupancy rate.
 - 50-cent increase to the meals tax rate.
- However, the City's recent actions have not fully balanced the budget in the out-years. The City's structural deficit is driven by the following:
 - Year-to-year average growth in tax revenue is below inflation.
 - Annual contributions to the retirement system are increasing significantly.
 - Employee utilization of health insurance has been higher than projected.
 - The City has recently relied more on debt financing for capital projects.
 - The City has increased its use of fund balances to meet spending commitments and to promote economic development.

Danville's Urgent Challenge



- With a cumulative deficit of over \$22 million in the next five years, the City will completely run out of funds as early as FY 2024.
- The City government will need to make tough choices over the next five years to prevent insolvency. The Danville Plan is designed as a blueprint to provide City leadership with options to curb spending and implement targeted increases in revenue in order to bring the City budget back into balance.
- The Plan does contain recommendations of program cuts and new taxes, but all initiatives are data-driven and based on benchmark research, best practices, and are sensitive to Danville's unique circumstances. Many initiatives would bring Danville's service delivery and revenue structure in line with those of other Virginia cities.
- Most importantly, the overarching goal of the Plan is to allow the City to make the changes necessary to begin to invest in its future in a sustainable way. The Plan also details options for investment in the priority areas identified by Council, but those investments will only be possible if the City first brings its budget into balance.

Methodology

- In developing recommended options for corrective action, the Network team benchmarked Danville against other local governments: Harrisonburg, Lynchburg, Manassas, Martinsville, Petersburg, Pittsylvania County and Roanoke (Richmond was also benchmarked for certain comparisons).
- Network team members regularly consulted with the City Manager and his staff, as well as department heads, on the implications of recommended options.
- The Network team also relied on review of best practices in benchmark and other jurisdictions.

Opportunities for Reform



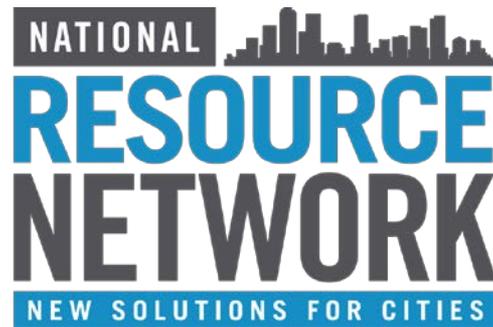
- The Network team has identified initiatives with a total savings or new revenue impact of nearly \$75 million. It is important to note that all initiatives should not (and, in some cases, cannot) be pursued simultaneously. However, the Plan provides the means to fix its structural deficit while identifying resources for re-investment.
- In other words, the City does not need to fully implement all of the recommended initiatives to achieve structural balance. But it does need to adopt a significant number of them to free up resources for future investment.

A Plan for Fiscal Sustainability



The Danville Plan focuses on the following areas:

- **Public Safety:** The Police and Fire Departments account for a substantial portion of General Fund spending. Without reducing costs in these areas, structural balance will be nearly impossible to achieve.
- **Workforce Issues:** Nearly half of all General Fund spending goes to employee compensation and benefits.
- **Operational Efficiency:** While efforts are focused on those areas where the City currently spends the most, the City cannot overlook opportunities for efficiency savings across all departments – including determining whether the City should be providing certain services at all.
- **Danville Utilities:** While the Utilities are self-sustaining Enterprise Funds, they provide a significant annual contribution to the City's General Fund.
- **Other Revenue Opportunities:** After expenditures are examined, the City will likely still need additional resources to re-invest in Danville.
- **Investing in Danville's Future:** Beyond achieving a balanced budget, the Plan frees up adequate resources for continued investment in education, economic development and crime reduction.



More Efficient and Effective Public Safety



Reduce the Cost of the ADC (City Farm)



- The local incarceration rate in Danville is nearly five times the national rate and three times the rate for local jurisdictions in Virginia.
 - Danville is the only local government in Virginia that continues to run its own local detention center.
 - In 2016, the average daily population (ADP) for the Jail was 246, the ADP for the Juvenile Detention Facility was 24 and the ADP for the ADC was 135.
- Between FY 2013 and FY 2017, combined actual City spending (not including funding from the State) for the Jail, Adult Detention Center (ADC) and Juvenile Detention Facility has increased by 16.7 percent – compared to overall growth in non-public safety General Fund spending of 5.6 percent.
- When factoring in debt service related to the ADC, JDF and Jail and employee benefit costs accounted for in Non-Departmental spending, the combined FY 2018 cost of ADC, JDF and the Jail is \$9,768,026.
- Most of the cost of operating the Jail is borne by the Commonwealth of Virginia. The cost of the Juvenile Detention Center is shared with the other counties that house juvenile offenders.

Reduce the Cost of the ADC (City Farm)



- The ADC had 38 budgeted positions in FY 2017 and 38 budgeted positions for FY 2018.
- As of December 3, 2017, there were 131 offenders housed in the ADC.
 - The most prevalent charge for ADC housed offenders was revocation of probation – accounting for 52 percent of total inmates on that date. The next two most prevalent charges for ADC inmates were Larceny (7.6 percent) and Assault and Battery (6 percent).
 - For those inmates at ADC because of probation revocation, the charge on initial conviction was largely for non-violent offenses. Out of 68 inmates, 28 were originally arrested for charges related to theft or fraud and another 20 were initially arrested for charges related to drug possession or sale.

Reduce the Cost of the ADC (City Farm)



- The City should shift control of the operation of the ADC to the Sheriff.
 - The City Manager, Police Chief and Sheriff should convene a working group to develop a plan for the transition. The City would need to work with the Compensation Board and its legislative delegation to ensure the Commonwealth would provide additional funding for Sheriff staff assigned to the ADC.
- The goal should be a full transition to the Sheriff by FY 2020. Assuming that the City receives funding from the Commonwealth for ADC staffing in proportion to current funding for the Sheriff and receives a \$4 per day per diem, net savings to the City would be \$1.2 million annually or \$4.9 million over the plan.

Transition control of ADC to Sheriff

- FY 2020 Savings - \$1.2 million
- Cumulative Savings to FY 2023- \$4.9 million

Danville Police Department (DPD)



- The Police Department has more employees and a larger budget than any other City department. The FY 2018 budget calls for spending \$9.8 million on the DPD and there are 132 FTEs (NOTE: These figures do not include the ADC or JDF).
- Between FY 2013 and FY 2017, actual spending on the DPD increased by 22.6 percent – compared to an overall increase of 5.6 percent in non-public safety General Fund spending (NOTE: This does not include centrally budgeted benefits and debt service).
- When factoring in centrally budgeted employee benefit and debt service costs, the budgeted cost of the Police Department increases to \$10.8 million in FY 2018.
- As of December 2017, the DPD had 120 sworn positions and 12 civilians: there were 13 vacant positions.

Cost Control at DPD



- Based on data from the 2016 UCR, Danville had:
 - 315.1 Police FTEs per 100,000 residents compared to an average of 297.9 for the following benchmarks (Harrisonburg, Lynchburg, Manassas, Martinsville, Petersburg, Pittsylvania County, Richmond, Roanoke)
 - 296 sworn officers per 100,000 residents compared to an average of 249.7 for the same benchmark cities
- But Danville has significantly fewer FTEs and officers than benchmarks when factoring in its very high violent crime rate:
 - 394 Police FTEs per 1,000 violent crimes compared to an average of 1,249.1 for the benchmark cities (excluding Richmond)
 - 370.1 sworn officers per 1,000 violent crimes compared to an average of 1,059.2 for the benchmark cities

Cost Control at DPD: Span of Control



- New DPD leadership has already recognized the need to flatten the organization, re-assigning captains from responsibility over individual shifts to geographic areas. The number of regional captains, however, could be reduced over time from four to two: this could be accomplished through attrition and would save two positions.
- Each of the four platoons has a Lieutenant, Sergeant, Corporal and 14 Officers. In other words, there are three supervisors for 14 officers. Eliminating a corporal for each platoon would save four additional positions.
- Within the Services Division, there is a Captain between the Lieutenant and the Major. Eliminating this position would save an additional position.
- The responsibilities of the Accreditation Corporal could be transferred to the Records Clerk, saving an additional position.
- The street crimes unit currently has a Lieutenant, 2 Sergeants and 6 officers assigned to it. One of the Sergeant positions can be eliminated.

Cost Control at DPD: Span of Control



- Together, these shifts in span of control could reduce the number of sworn officers by 9 positions and save \$2.6 million over the next five years.

Total Annual Savings

Rank	Salary	Benefits	Health Insurance	Total	# of FTEs	
Corporal	\$55,952.40	\$7,897.54	\$7,397.34	\$71,247.28	5	\$356,236.40
Captain	\$86,108.35	\$12,153.98	\$7,397.34	\$105,659.67	3	\$316,979.01
Sergeant	\$50,668.89	\$7,151.79	\$7,397.34	\$65,218.02	1	\$65,218.02
						\$738,433.43

Consolidate span of control

- FY 2019 Savings - \$369,000
- Cumulative Savings through FY 2023- \$2.6 million

Danville Fire Department (DFD)



- The Fire Department has more employees and a larger budget than any other City department except the Police Department. When factoring in centrally budgeted employee benefit and debt service costs, the fully budgeted cost of the Fire Department is \$9,934,474 in FY 2018.
- Between FY 2013 and FY 2017, actual City spending for DFD has increased by 8.0 percent -- compared to overall growth in non-public safety General Fund spending of 5.6 percent.
- As of December 2017, the DFD had 119.5 sworn positions and 25.5 civilians operating out of 7 fire stations.
- A 2017 NFPA survey found that for cities of 25,000 to 49,999, the median number of career firefighters per 1,000 residents was 1.0: in the South, the median was 1.64. If the South median were applied to Danville, DFD would have 70 firefighters.

Danville Fire Department (DFD)



- Just over 1 in 4 departments serving jurisdictions of 25,000 to 49,999 residents are mostly or all volunteer. Nationally, these same communities had an average of .095 stations per 1,000 residents. Applying this average to Danville, DFD would have 4 fire stations.
- An analysis comparing Danville to other specific benchmark cities also found that Danville has a large fire department relative to its population (290 FTE per 100,000 residents compared to 213 for the benchmark cities). In 2015, it was second only to Petersburg out of all comparable cities; Petersburg has since taken drastic steps to achieve fiscal solvency.
- However, when calls for service are factored in, benchmarking results in a different picture. As of 2015, Danville had 519 Fire FTEs per 1,000 fires compared to an average of 626 for the same benchmark cities (Manassas, Martinsville, Lynchburg, Petersburg, Roanoke, Richmond) and 299 Fire FTEs per 1,000 calls for service, compared to 544 for the same benchmark cities.

Control DFD Cost

- **Eliminate one station (12 FTEs):** The City could opt to close one of the seven fire stations. It would need to conduct an analysis in FY 2020 (\$75,000) that weighed both demand, response time and facility age.
 - The number of fire calls per station varies greatly, with Stations 4, 6 and 7 each accounting for less than 8 percent of total 2017 fire calls: by comparison, Station 2 accounted for 23.4 percent of fire calls.
 - This would also result in likely non-personnel savings and reduce potential future capital spending.
 - Closing one of the fire stations could affect the City’s ISO 1 rating. Fewer than 1 percent of all fire departments have earned the ISO 1 rating. While ISO ratings may have an impact on insurance costs for jurisdictions with ratings of 5 or higher, there is little research demonstrating a cost impact between having an ISO 1 rating and an ISO 2 rating.

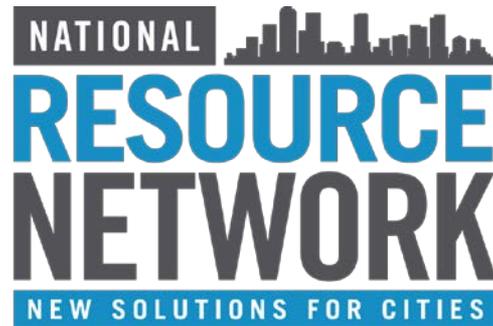
Control DFD Costs – Eliminate One Station

- FY 2020 Savings – **(\$75,000)**
- Cumulative Savings through FY 2023 – \$2.4 million



Other Public Safety Initiatives

- Reduce City Farm population by expanding opportunities for community service sentencing.
 - Cumulative Savings to FY 2023 - \$1.6 million
- Reduce current surge in DPD overtime spending
 - Cumulative Savings through FY 2023 - \$1.2 million
- Eliminating the 9 FTEs currently assigned to fill in for Kelly shifts may lead to a higher overtime rate but would reduce overall DFD costs.
 - Cumulative Savings through FY 2023 – \$1.0 million
- Shifting from foster care placement towards the provision of community services would reduce costs from the estimated 20 children per day in foster care for truancy-related placements.
 - Cumulative Savings through FY 2023 - \$1.4 million



Align Compensation and Benefits to Available Revenue





Aligning Compensation to Revenue

- At its core, the City’s structural deficit is driven by the fact that the growth in employee compensation is outpacing growth in revenue.
- This section of the plan outlines a series of options related to curbing the growth in the cost of compensation and more closely linking growth rates to growth in the City’s ability to pay.
- **The City should not adopt all of these recommendations. Instead, it should consider total compensation in determining the best steps to curb growth in personnel costs.**
- For example, it may make sense to provide for a form of “gainsharing” where employees benefit from increased salary in return for savings in benefits and other related costs. In the alternative, decisions to keep current benefit levels might be directly tied to limits in salary compensation.

Implement Citywide Wage Freeze

- Instead of increasing wages at 2 percent annually, the City could freeze wages at FY 2019 levels or cap wage growth at 1 percent for the entirety of the FY 2020 to FY 2023 period.

Implement Citywide Wage Freeze

- FY 2020 General Fund Savings – \$1.2 million
- Cumulative Savings to FY 2023 – \$9.9 million

Cap Citywide Wage Growth at 1%

- FY 2020 General Fund Savings – \$800,000
- Cumulative Savings to FY 2023 – \$5.9 million



ERS Employee Contribution

- The City of Danville employees are part of the Employee Retirement System (ERS).
- Since March 1, 1979, employees' contributions have been paid by the City. Contributions for employees hired after September 30, 1991 are considered to be 100 percent City contributions.
- Total contributions to the pension plan for the year ended June 30, 2017 amounted to \$2,857,851, of which \$470,599 was made by the City on behalf of its employees.

Source: Danville ERS 2017 CAFR, PDF pg. 38



ERS Employee Contribution

- The City should require employees to pay the actuarially determined employee contribution of their pension up to 5 percent.
- Most benchmarks are in the Virginia Retirement System (VRS) which requires a 5 percent employee contribution. Though not in VRS, Roanoke still requires employees to contribute 5 percent of salary.

City	Retirement System	Employee Contribution
Harrisonburg, VA	VRS	5% of compensation
Manassas, VA	VRS	5% of compensation
Martinsville, VA	VRS	5% of compensation
Lynchburg, VA	VRS	5% of compensation
Pittsylvania Co. VA	VRS	5% of compensation
Richmond, VA	VRS	5% of compensation
Roanoke, VA	ERS	5% of compensation



ERS Employee Contribution

- If Danville employees were required to make a 1 percent contribution in FY 2019, the City would realize \$430,000 in savings.
- A 5 percent employee contribution to pension costs would realize approximately \$2.3 million in annual savings.
- The City should move to a 5 percent employee contribution over the five year plan period starting in FY 2020.
 - The plan recommends phasing-in the employee’s contribution by increments of 1.25 percent per year starting in FY 2020 until employees are contributing the full 5 percent starting in FY 2023.

Require 5% Employee Contribution to ERS

- FY 2020 Savings - \$599,000
- Cumulative Savings to FY 2023 - \$5.8 million

Other Workforce Initiatives



As health care premiums increase, the City should pursue options to reduce its health care costs while being mindful that such benefits are an important recruiting tool.

- For those employees that have access to other health benefit options, Danville could incentivize waiving City coverage by offering \$100 monthly stipends. This limits both the City's health care costs and liability.
 - Cumulative Savings to FY 2023 - \$3.1 million
- Through either a spousal carve-out or buy-up program, the City could reduce the costs of coverage to spouses and families.
 - Cumulative Savings to FY 2023 - \$2.3 million
- Typically finding 8 percent of dependents ineligible, conducting a Dependent Eligibility Verification Audit (DEVA) could aid Danville in realizing savings by controlling dependent costs.
 - Cumulative Savings to FY 2023 range from \$1.2 - \$1.6 million
- Adjusting the employee contribution to health premiums from 11 percent to 30 percent would significantly reduce the City's annual health care burden.
 - Cumulative Savings to FY 2023 range from \$1.3 - \$1.9 million



Operational Efficiency Across City Government



Review Danville's Library System



- Within the parks, recreational, and cultural functional area, Danville spends over \$1 million annually on a public library system. Though the City receives State funding and levies library fines, in a typical year over eighty percent of library funding comes directly from the City's General Fund.
- Aside from Roanoke and Lynchburg, all of Danville's peer cities are served by County or regional library systems.
- Danville operates two library branches: the Main Branch located downtown and the Westover Branch located 7 miles away (13 minute drive).
- The City should consider consolidating the library system by closing the Westover Branch, which is located in a leased facility.
- An alternative to branch closure could be exploration of a joint City-County library system as part of a broader discussion of shared services.

End Direct City Operation of Airport



- Danville’s Airport currently averages only about 60 general aviation operations per day, half “transient” and half local.
- Following a review of Danville Airport’s runway in 2009, the length of the runway was shortened to 5,900 feet. In order to support most business transit, the runway should be between 6,000 and 6,500 feet for corporate jets, so growth potential is limited.
- Effectively, the General Fund is subsidizing the operations of a small portion of the City’s residents who patronize the airport
- The City should consider operation by a third party or creation of a regional source of funding.

End Direct City Operation of Airport



- Any sale or significant change in operations must be negotiated with the FAA. Sale to a private entity would likely require the repayment of federal grant funds, and this cost may be prohibitive.
- In lieu of a sale, the City could negotiate a multi-year plan to phase out operations while maintaining nominal City ownership.

End Direct City Operation

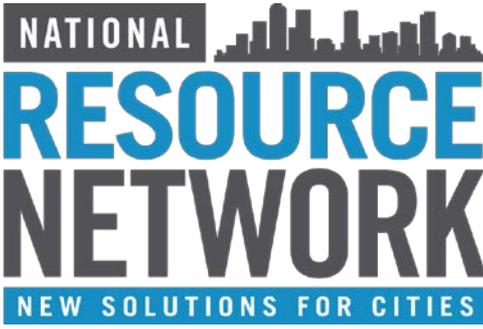
- FY 2019 Savings - \$250,000
- Cumulative Savings to FY 2023 - \$1.25 million

Other Operational Efficiency Initiatives



The City should explore alternative models of service provision – particularly in those areas where Danville’s number of FTEs associated with a discrete function exceeds those of its peers.

- Options include:
 - Departmental Reorganization
 - Managed Competition
 - Shared Services
- Applying the managed competition model to facility maintenance and custodial services within Public Works could drive down costs.
 - Cumulative Savings to FY 2023 - \$200,000
- As Danville attempts to bring its budget in structural balance, the City should review its direct appropriations to outside entities to appropriately prioritize City expenditures.



Danville Utilities



Reform Utility Transfer Formula

- In FY 2013, the City transferred an additional \$5 million from the Electric Fund for economic development initiatives, but there were no “supplemental” transfers from FY 2014 to FY 2018.

Fiscal Year	Possible Contributions	Actual Contributions	Difference
2014	\$14,528,000	\$13,330,000	\$1,198,000
2015	\$14,857,000	\$14,083,000	\$774,000
2016	\$14,897,000	\$14,528,000	\$369,000
2017	\$14,750,000	\$14,528,000	\$222,000
2018	\$14,717,000	\$14,528,000	\$189,000
Total	\$73,749,000	\$70,997,000	\$2,752,000

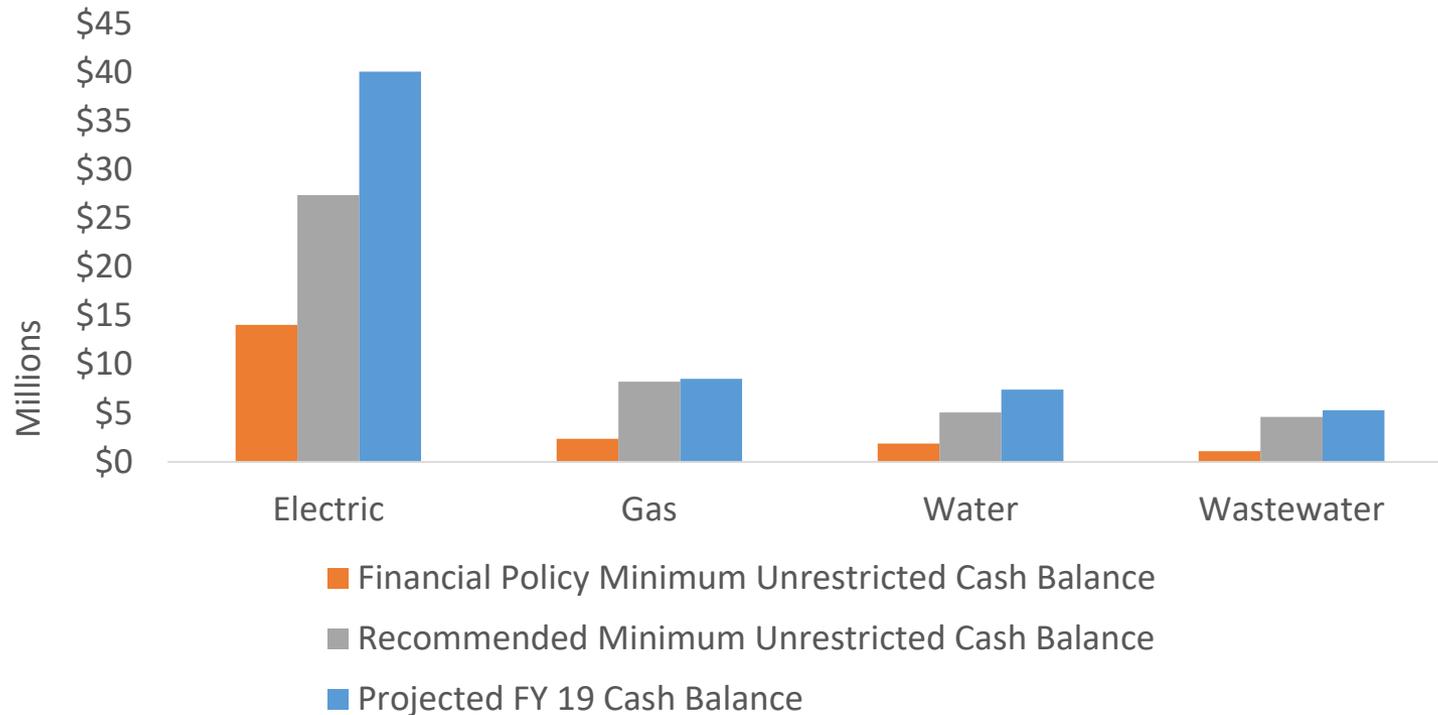
- If the City was able to capture transfer formula increases each year for each utility fund, the General Fund would have received an additional \$2.7 million from FY 2014 to FY 2018.

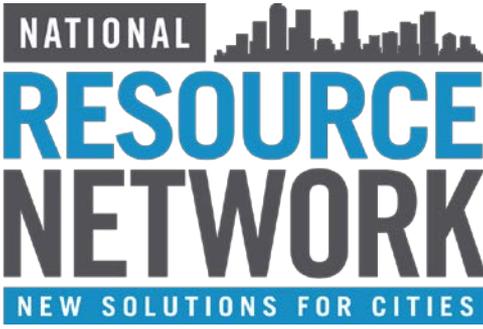
One-time Utility Transfer Adjustment

- FY 2020 Savings - \$2,752,000
- Cumulative Savings to FY 2023 - \$2,752,000

Review Use of Reserves

- Each utility fund is projected to have cash balances above amounts recommended by the biennial rate studies, and well above City financial policy minimums.





Opportunities for Increased Revenue



The Need for Additional Resources



- To address the City’s structural deficit in a sustainable way, revenue options must be on the table, as the annual increase in Danville’s aggregate revenue collections lags behind inflation.
- The priorities and focus areas identified by City Council will require substantial investment, which are not be possible with Danville’s current tax rates and structure.
- Danville residents have experienced tax increases in recent years, with others proposed but not ultimately adopted.
- Some in the community have the perception that they are overtaxed relative to their neighbors. The Network team examined this issue in order to calibrate recommendations with an eye towards maintaining Danville’s economic competitiveness.

Tax Burden for Danville Residents



- Local tax rates and structures are widely diverse: a family that moves from Arlington to Danville would find a significant change in how much they pay in taxes on their home, their car, and their everyday purchases.
- A tax burden analysis can:
 - Determine whether a city’s tax structure is competitive and equitable compared to its peers.
 - Quantify how different municipal tax policies affect residents.
 - Control for outside factors, such as the real estate market and regional wage levels.
- The tax burden analysis focuses on the most significant and most common taxes that vary across Virginia.
 - State income tax and federal taxes are excluded because Virginia residents’ tax liabilities do not vary by place of residence.
 - Local personal property taxes on airplanes are excluded because it is not reasonable to assume that every family owns an airplane.
 - Local business taxes are excluded because this analysis focuses on residents.

Tax Burden Findings



Danville residents have a comparatively low local tax burden. A Danville household earning the median household income pays **\$900 less (34.4 percent less)** than the median household tax burden in peer communities, largely due to the City's relatively low property taxes.

Danville residents' low tax burdens are largely due to the competitiveness of City's tax structure, not to the region's lower prevailing income levels. A household earning a set income would pay **27.7 percent less** in taxes if they lived in Danville compared to the median of other peer cities.



Real Estate Tax Increase

- From FY 2013 to FY 2017, Danville collected an average of \$15.1 million per year in real estate taxes, typically accounting for about 15 percent of the General Fund budget.
- Assessed value of real estate in Danville has shown little growth in recent years, with a compound annual growth rate of 0.35 percent from FY 2013 to FY 2018.
- In FY 2018, the City increased real estate tax from \$0.73 to \$0.80 per \$100 of assessment, adding \$1.5 million to general fund revenues.
 - This increased rate still leaves Danville with the lowest Real Estate Tax rate among our benchmark group.

	Real Estate Tax per \$100 of Assessment
Manassas, VA	\$1.44
Petersburg, VA	\$1.35
Roanoke, VA	\$1.22
Lynchburg, VA	\$1.11
Martinsville, VA	\$1.06
Harrisonburg, VA	\$0.85
*Chatham/Pittsylvania County, VA	\$0.87 (\$0.62 County Tax + \$0.25 Local Tax)
Danville, VA	\$0.80



Real Estate Tax Increase

- During the FY 2018 budget process, an increase in the real estate tax from \$0.73 to \$0.88 was proposed, but not passed by Council.
- This increase would have added \$3.3 million to the FY 2018 general fund budget.
- Raising the rate from \$0.80 to \$1.00 in FY 2020 may generate \$4.2 million in additional revenue.
- Raising the rate to \$1.00 would still leave the City below the median rate.

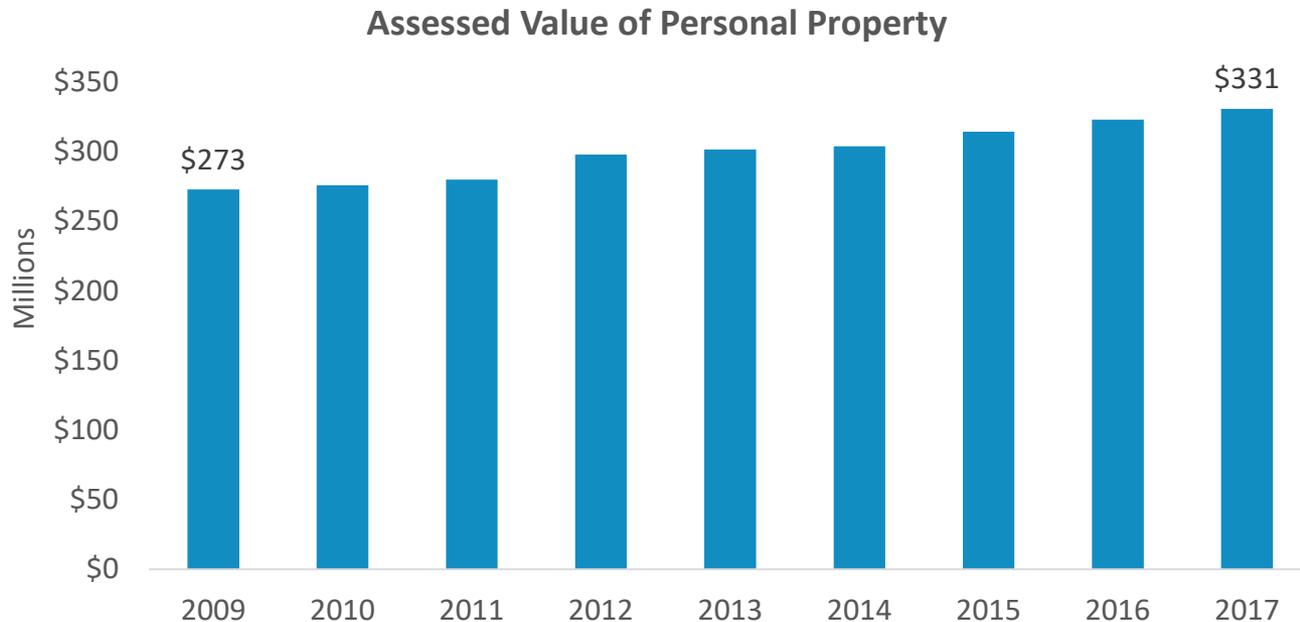
Raise Tax Rate to \$1.00

- FY 2020 Revenue - \$4.2 million
- Cumulative Revenue to FY 2023 - \$17.0 million



Personal Property Tax Increase

- Danville collected an average of \$8.7 million per year in personal property tax from FY 2013 to FY 2017, typically accounting for about 8.5 percent of the budget.
- Since FY 2009, assessed value of personal property has shown a consistent upward trend.





Personal Property Tax Increase

- In FY 2018, the City increased Personal Property Tax from \$3.00 to \$3.50 starting January 1, 2018. This is projected to increase tax revenue by \$750,000 in FY 2018.
 - This new rate places Danville in the middle of our comparison group, but additional rate increases could be phased in.

	Personal Property Tax per \$100 valuation
Pittsylvania County, VA	\$8.75
Petersburg, VA	\$4.90
Lynchburg, VA	\$3.80
Manassas, VA	\$3.60
Danville, VA	\$3.50
Harrisonburg, VA	\$3.50
Roanoke, VA	\$3.45
Martinsville, VA	\$2.30

Raise Tax Rate by \$.10 Per Year for Four Years

- FY 2020 Revenue - \$321,000
- Cumulative Revenue to FY 2023 - \$3.35 million



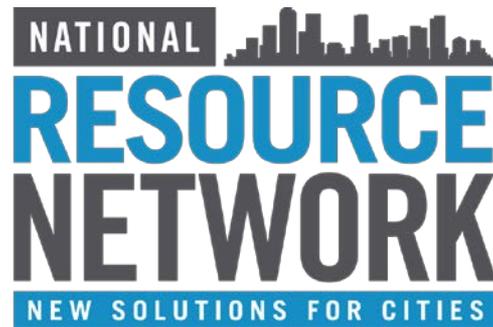
Levy a Cigarette Tax

- Virginia has the lowest cigarette tax in the United States (30 cents per pack), but allows local jurisdictions to levy an additional tax.
- The City of Danville levies no tax on cigarettes. The City could dedicate this revenue to school or health programs. In particular, this revenue stream could help to fund teacher salary increases implemented last year.

	Cigarette Tax per Pack	FY 2016 Actual Cigarette Tax Revenue
Petersburg, VA	\$0.90	\$195,360
Manassas, VA	\$0.65	\$810,000
Roanoke, VA	\$0.54	\$2,371,201
Lynchburg, VA	\$0.35	\$900,484
Harrisonburg, VA	\$0.30	\$680,937
Martinsville, VA	\$0.30	\$150,776
Pittsylvania Co, VA	No Tax	No Tax

Levy \$.30 Per Pack

- FY 2020 Revenue - \$555,000
- Cumulative Revenue to FY 2023 - \$2.1 million



Investing in Danville's Future



Investing in Danville's Future



- The goal of the Danville Plan is not just to achieve structural balance in the City's budget. The goal is to free resources for new investment in areas of focus identified by the City Council.
- The City Council's focus areas of reducing violent crime, improving education, and growing Danville are all designed to make Danville a more attractive place to live and work.
- By implementing recommendations for cost savings and revenue, the City should be able to begin to fund a Danville Future Fund so that there is a regular source of funding for these priority areas.
- Given its limited resources, the City should be vigilant about weighing the potential benefits and costs of each investment. In particular, the City should consider a formal, structured approach to evaluating re-development projects that may have complicated net impacts to the City's budget.

Danville Public Schools



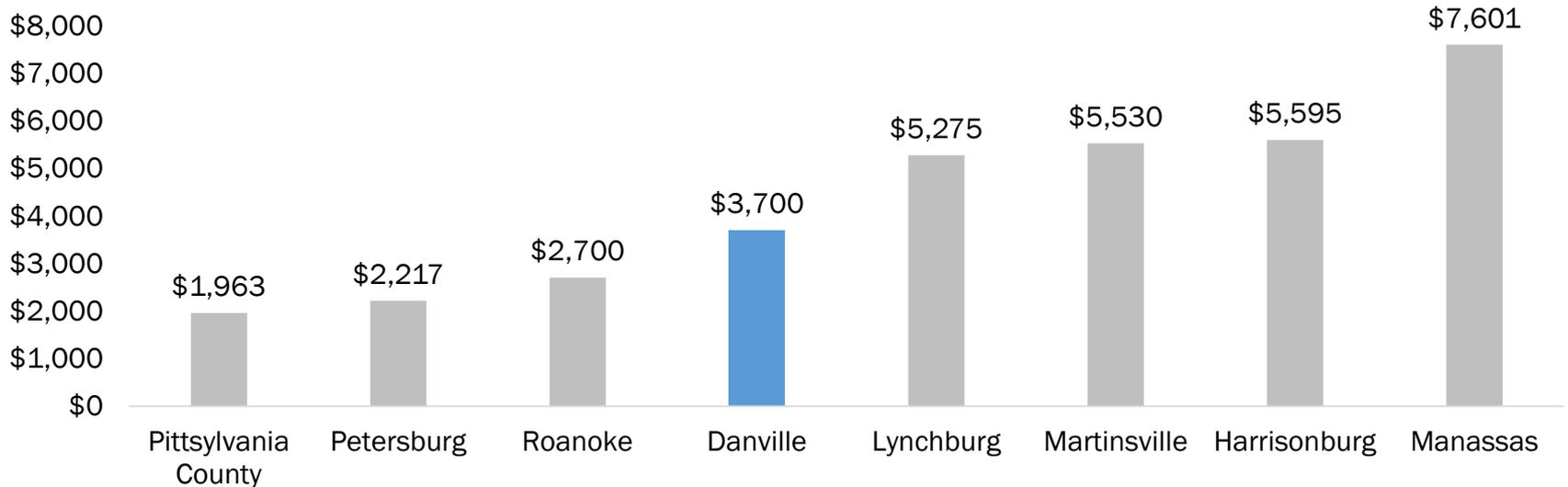
- The City Council and Danville leaders have regularly cited the need to improve public education in Danville as the most important investment that can be made to improve quality of life and economic competitiveness.
- The City’s FY 2018 budgeted contribution to DPS is \$22.5 million. By comparison, the City budgeted \$9.8 million for the Police Department and \$7.8 million for the Fire Department. This contribution:
 - Accounts for 21 percent of General Fund budgeted expenditures in FY 2018.
 - Is equal to \$3,700 per student.
 - Represents about one-third of the School District’s total revenue.
- Danville’s required Standard Of Quality (SOQ) contribution is \$9.5 million.
- In FY 2018, the City Council significantly increased City funding to DPS – up by 20% year to year. Still, when compared to benchmark jurisdictions, the City lags in its annual contribution to schools.
 - In order to meet the FY 2018 average per pupil local funding of the comparison group, Danville would need to spend \$24.6 million, or an increase of \$4.2 million over the FY 2019 Adopted Budget amount.

Danville Public Schools



- In FY 2018, Danville contributed the fifth-highest amount of total and per pupil funding for local schools compared to the benchmark cities and county.

FY 2018 Local School Funding per Pupil



Danville Public Schools



- School officials have also suggested the need for significant new capital investment in DPS schools. The District has 12 school buildings with significant deferred maintenance, and has made initial proposals of \$119 million in new capital investment.
- At the request of DPS and the City, the Network is now also developing a multi-year financial plan for DPS.
- The multi-year financial plan will outline opportunities for savings, areas where DPS and the City can both save funds (shared services) and the need for new operating and capital investment in order to improve the quality of DPS schools consistent with Council's priorities.
- The plan will also likely call for initiatives that improve teacher recruitment and retention, stabilize base funding for IT and maintenance and community partnerships.
- Until the plan is complete, the fiscal impacts of these initiatives and the full need for new investment is not known.

Comprehensive Crime Reduction Plan



- Funding for the comprehensive crime reduction plan should come from savings resulting from increased efficiency in the DPD and the shift in cost for the City Farm.
- Danville has a significant crime issue.
 - Violent crimes (murder, robbery, abduction, forcible sex and aggravated assault) increased by approximately 24 percent, from 294 in 2015 to 366 in 2016.
 - Of the 72 additional violent crimes, 62 were an increase in aggravated assaults and 10 were an increase in murders. Robbery and abduction decreased by a total of 13 and rape increased by 13.
- Efforts to reduce crime in Danville have largely been focused on enforcement and incarceration. Danville has more officers per capita than any other Virginia city of 40,000 residents or more and a high rate of incarceration. There are very few alternative programs in the community and little in the way of juvenile crime prevention.
- The City has launched a different approach to crime reduction through the implementation of a Comprehensive Gang Model – a set of strategies supported by the Office of Juvenile Justice and Delinquency Prevention and the National Gang Center to prevent and reduce gang violence.

Comprehensive Crime Reduction Plan



- In addition to the implementation of the Comprehensive Gang Model, the City is well positioned to convene a criminal justice council focused on developing a comprehensive crime reduction plan that addresses prevention, policing, prosecution and punishment.
- Elements of a prevention focus might include: violence prevention, juvenile crime, gang activity, substance abuse, re-entry issues and family violence. To address these issues, the City would need to bring together non-law enforcement organizations with the DPD, the Sheriff, the Commonwealth Attorney and other leaders in law enforcement.
- Non-law enforcement approaches to crime reduction are often more cost effective in achieving crime reduction. For example, WIPPS found that research supported a \$13.91 benefit for every \$1 invested in drug offender sentencing alternatives – nearly two and a half times the ROI as for adding one police officer without targeted deployment.

GO Virginia Regional Strategy



- The City should work to continue to align its efforts to create new jobs and economic opportunity with state and regional strategies.
- The Commonwealth has a regional development program focused on growth and opportunity (“GO Virginia”). Danville is a major population center of Region 3 (of nine regions) covering much of southwest Virginia. Last year, Region 3 released its growth and diversification plan focused on the following three areas:
 - **Workforce Talent Development and Recruitment** — Making sure we develop and retain people that have the hard and soft skills our region needs to advance economic opportunity and the growth of higher wages;
 - **Sectoral Development** — Given limited resources, what are the business sectors that have the greatest potential of growing the number of employees, the wage levels and the types of businesses in the region; and,
 - **Cyber Infrastructure** — In the 19th Century it was railroads, in the 20th Century it was roads; going forward it will be areas with internet and broadband that will be more competitive; all of this region must be "connected" with this infrastructure in order to sustain a healthy economy.

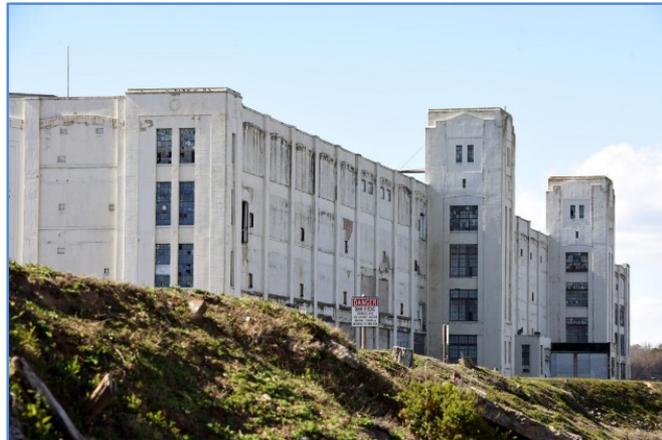


Danville's Capital Plan

- Continued, reliable, and prudent funding for redevelopment and maintaining the City's infrastructure is essential to meeting the Council's goal of job growth.
- The City has a \$144.6 million five-year Capital & Special Projects Plan ("CSP"), of which FY 2019 projects total \$31.4 million. This includes projects for all City departments and other funds (e.g. Utilities).
- Because of the City's structural deficit, current revenues from the General Fund do not cover annual needs. In each of the past two years, the General Fund has contributed between \$5 and \$6 million to the capital plan, but less than half of that amount has come from current revenues. The remainder is being drawn from fund balance, and that practice is not sustainable going forward.
- During the FY 2019 Budget process, additional cuts to capital funding were proposed, including ten percent cuts to the information technology, street improvements, and storm water capital budgets. Other projects were deferred or recommended for reduced funding, such as the Blight Removal Project, which is specifically designed to improve the City's image as a great place to live, work and raise a family.

Example: Mills

- The City has two main sites of former industrial mills: the White Mill site and the Schoolfield Mill site.
- The 650,000 sq. ft. White Mill (pictured) was built in 1920 and was part of the Dan River Inc. textile company. The mill was bought in 2009 by Gibbs International but development efforts stalled. Now, the City's Industrial Development Authority (IDA) owns the mill and is currently seeking tenants with a focus on mixed-use residential and retail.
- The City, through the IDA, purchased the Schoolfield site for \$5 million and is now marketing it to prospects who would be interested in the robust utility infrastructure that once supported extensive textile manufacturing.



Example: New DPD Headquarters

- While the CSP includes funding for certain police technology upgrades, it does not include funding for a new police headquarters.
- The Danville Police Department is housed on the bottom floor of Danville City Hall (pictured), which was built in 1926. The building lacks many features of modern police stations. Building a dedicated headquarters could improve efficiency and safety.
- The City continues to evaluate sites for the new headquarters, but there are currently no formal cost estimates for construction.



- Building a new headquarters would allow the City to choose a location that is proximate to crime hotspots and/or that could spur neighborhood revitalization efforts.

Example: Sports and Recreation

- Earlier this year, the Mayor's Committee on Sports Tourism recommended that the City Council pursue a feasibility study to construct a track for track-and-field events. The goal is to increase sports tourism to Danville.
- The City has been evaluating sites for the track (Langston Focus School), and preliminary cost estimates indicate the facility could cost about \$2 million.
- Averett University completed a \$5.2 million stadium in 2016 (pictured), but the stadium does not include track-and-field infrastructure.



- The City should continue to explore partnerships with Averett and other local organizations to secure funding. Absent third-party support, a new track or arena should be weighed against the City's other capital needs and/or be formally incorporated into the City's CSP.



Reduce Energy Cost and Create Jobs

- A large portion of Danville's energy costs are outside the City's control. This increases the importance of energy efficiency, particularly due to the age of the City's housing stock and commercial infrastructure.
- The City currently has residential and commercial energy efficiency rebate programs (Home\$ave and Custom\$ave), but the programs combined have only about 250 annual participants with approximately \$125,000 rebated.
- The electric fund has a particularly high cash balance. The fund's FY 2019 projected cash balance is:
 - \$12.6 million above the minimum recommended by the biennial rate study.
 - \$26 million above the minimum recommended by the City's financial policy.
- Reserves could be used to seed an energy efficiency investment fund that would allow Danville residents and businesses to make significant capital investments with reduced up-front costs, with repayments added to utility bills (a structure attractive to potential banking partners).
 - Any use of these funds must be mindful of the electric utilities planned uses of part of fund balance to offset high industrial prices adopt a high load factor rate

Reduce Energy Cost and Create Jobs



- Any capital investment could ultimately raise property values and property tax collections over time and would also reduce utility bills, freeing up capacity for additional revenue from other sources while holding the overall burden constant.
- Investment in energy efficiency would also yield short-term employment opportunities for local residents. “Green jobs” could be created from the accelerated design, installation, and maintenance of energy efficiency systems and retrofitting of Danville’s residential and commercial stock – and these jobs can often pay a higher wage than comparable construction jobs.
- Other potential alternative uses of utility fund reserves include:
 - Long term rate reductions through reduced reliance on debt
 - Targeted relief for low income ratepayers
 - Economic development investments designed to increase rate base

What's Next?



- The fiscal challenges facing Danville are significant and serious. Without draconian measures, it is not possible to close the City's \$22.3 million structural deficit in one year. The Plan is designed to be implemented over time.
- The Plan ultimately combines projections of the City's fiscal future and focus area initiatives to articulate a strategic path forward for fiscal and economic growth. The Plan will allow City leadership to make informed decisions to ensure that Danville has sufficient resources to invest in its future.
- While the City needs to first ensure that existing revenue is being spent well and wisely, a responsible path to fiscal sustainability also needs to consider opportunities for increased revenue.
- Finally, the goal of a multi-year financial plan must be more than just a balanced budget. The City must have adequate resources to make necessary investments in infrastructure and continue to support the priorities outlined by the City Council: reducing crime, improving local education, and creating economic opportunity to grow Danville.

What's Next?



- City Council, in consultation with the City Manager, should build up to a total “target” amount of savings and revenue necessary for the City to meet its goals:
 - Close the City’s structural deficit
 - Bring school spending in line with peer cities and true student need
 - Consistent funding for infrastructure and economic development
 - Other Council priorities over the next five years
- The targets should be viewed from both an annual and cumulative perspective.
- City Council and City Manager should then categorize the various initiatives in order to reach the targets:
 - Implement immediately
 - Implement with a delay or over time
 - Requires further study
- Using the budget modeling tool, staff can model the impacts of the chosen initiatives to ensure that the City has the resources necessary to fund its priorities in a sustainable way.