



# City of Danville Five Year Financial Plan

Final Presentation to Council  
July 17, 2018





# Introduction





# The National Resource Network

- The National Resource Network, a core component of the federal government's Strong Cities, Strong Communities initiative, develops and delivers innovative solutions for American cities to help them address their toughest economic challenges
- Since its launch in 2013, the Network has worked with or is currently working in 50 cities nationally. Cities apply to the Network for assistance, the Network conducts an assessment to determine key challenges and opportunities, and cities and the Network work together to identify direct assistance
- In 2017, the work of the Network was continued with a \$4 million grant from the Laura and John Arnold Foundation, with a focus on supporting the Network's efforts to assist economically challenged cities by developing multi-year financial plans

# What is Multi-Year Financial Planning?



A multi-year financial plan helps city leaders think through budget position, structural position, and community goals in a quantified, analytical, logical way and communicate their thoughts and priorities to different audiences. It includes:

- **A baseline projection** is like the diagnosis your doctor gives you after a physical. It reflects the City's current condition, absent significant changes.
  - For revenues, this means no assumed changes in tax rates, new taxing powers, new grants, large fee increases, or reassessment.
  - For expenditures, this means no assumed new hiring, layoffs, or wage increases that deviate from recent trends.
- In response to this diagnosis, a multi-year financial plan will include a **menu of initiatives**. Like treatment options or corrective actions, these initiatives are designed to change the city's anticipated trajectory.
- **A dynamic, easy-to-update budget model** that will help decision-makers to balance policy and operations goals in future years, even when finance staffing is limited.

# A Plan for Danville



- In 2017, the City of Danville applied to the National Resource Network for assistance with multi-year financial planning. The Network had previously worked with City officials to establish a community development corporation.
- Based on an assessment, the Network recommended that the City develop a five-year financial plan to help stabilize the City's finances and increase its economic competitiveness.
- To frame the plan, the Network focused on three areas identified by the Danville City Council as priorities for community resources going forward.
  - Reduce Violent Crime
  - Improving education in City schools
  - Grow Danville
- Danville's application for Network assistance emphasized a need to think strategically on how to effect more change in the above focus areas while maintaining the current level of services to City residents.
- The multi-year financial plan and associated budget model tool will allow the City to project revenues and expenditures to better understand how discrete budget decisions may impact available resources in the future.

# Danville's Challenges



- Danville qualified for Network assistance based on:
  - 2016 poverty rate of 22.5 percent compared to 12.7 percent nationally.
  - Population peaked in 1990 – at approximately 53,000 – and has declined by nearly 20 percent since with an estimated population of 42,000 in 2016.
  - Significant declines in employment in both textile and tobacco industries: as of March 2018, the unemployment rate was 6.4 percent (compared to 4.1 percent nationally).
- Danville has an urgent need to reduce violent crime.
  - In 2016, the City experienced the highest number of murders (16) it has seen in many years, with a majority of those murders involving young African American males.
  - From 2013-2016, violent crime in Danville more than doubled.
  - With 335 violent crimes in 2016, Danville had more violent crimes in any single year than at any point in the last three decades.

# Danville's Challenges



- Danville must take steps to improve the City's school system.
  - Eight of the City's 10 schools have failed to reach accreditation.
  - Thirty-six percent of children living in Danville are living at or below the federal poverty level. Seventy percent of students in Danville Public Schools qualify for free and reduced lunch.
  - Although the statewide graduation rate increased from 82.1 percent to 91.1 percent between 2008 and 2016, the graduation rate in Danville has dropped from approximately 77 percent to 73 percent.
  - Between 2006 and 2016, enrollment declined from 6,906 students to 5,956 students – a 16 percent decline in the last decade.
- Danville needs a comprehensive growth strategy.
  - In 2006, Danville lost its second largest employer, the Dan River, Inc. textile mill, when production moved overseas.
  - The City and Danville Regional Foundation (“DRF”) have actively partnered to spur the redevelopment of the River District.
  - The DRF has partnered with local higher education institutions such as Averett University and Danville Community College.
  - The City has also provided funding for the Danville Neighborhood Development Corporation.

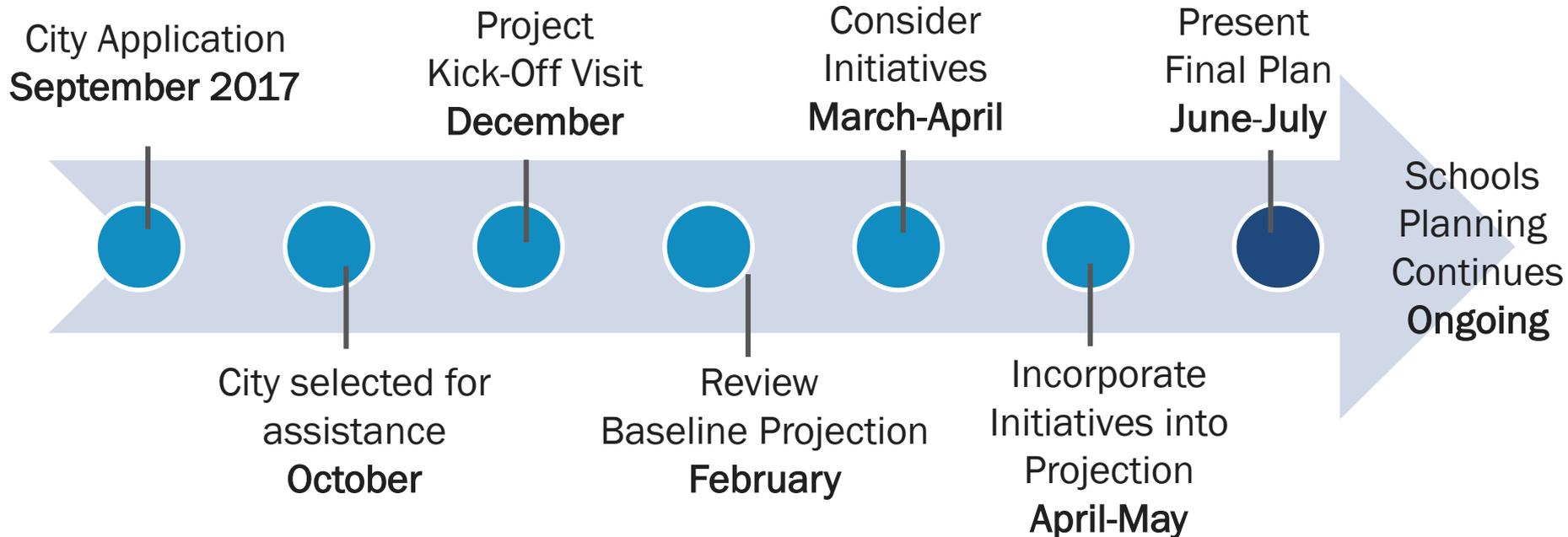
# Project Timeline

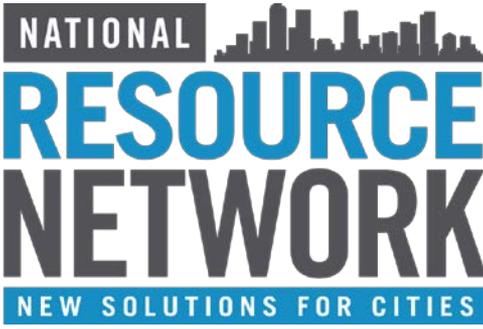
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- In order to incorporate multi-year financial planning into the City's processes, the Network Team and the City jointly agreed to a project scope and timeline.
- First, the Network Team conducted research on City operations and comparable jurisdictions to better understand pressures on City resources and competitiveness.
- Second, a five-year baseline projection was created to model Danville's structural deficit in the event that City leadership does not implement needed reforms.
- Third, specific initiatives were analyzed using information and recommendations from City staff, the Advisory Committee, and best practices research.
- After a presentation to the City Council and the School Board, the City, School Board and Network agreed to move forward with a complementary multi-year planning process for Danville Public Schools.

# Danville Project Timeline





# Summary of Findings

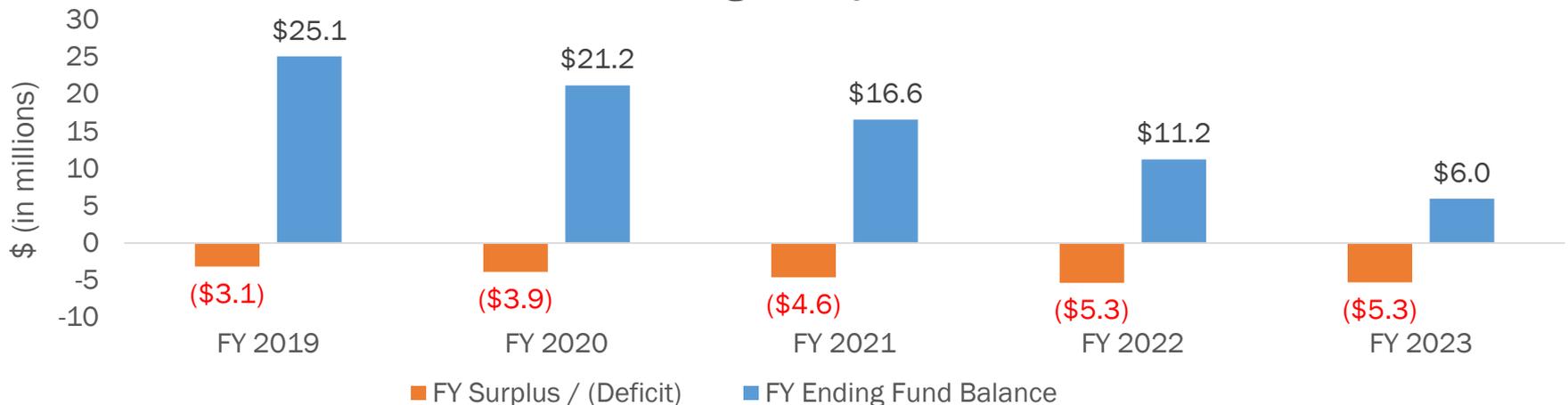


# Danville's Fiscal Gap



- 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



# 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.

# Building on Danville's Strengths



- Danville's downtown core is in the early stages of a renaissance with redevelopment of former warehouses, revitalization of commercial corridors and plans for redevelopment along the waterfront. The City – with the assistance of the Network – has also refocused on neighborhood redevelopment with the creation of a community development corporation.
- Danville has a record of financial controls and conservative budgeting. The City has strong liquidity, with total government available cash equal to 11.5 percent of total governmental fund expenditures and more than ten times greater than annual debt service payments. The City also has solid credit ratings and has historically taken steps to curb costs:
  - A 2011 “Organizational Effectiveness and Efficiency Study” that led to the elimination of 42 staff positions.
  - Elimination of cost of living increases for retirees in the City's pension system.
  - Annual savings from anticipated vacancies based on historic trends.

# The Drivers of Danville's Deficit

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- 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.



# Understanding Danville's Economic Challenges

# Putting Danville's Condition in Context

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- In order to create the best plan for Danville, the Network team researched comparable jurisdictions and examined their economic and demographic conditions as well as their budgeting and spending practices.
- The team also convened the citizen Advisory Committee to understand the community's needs. The Advisory Committee was established to:
  - Review the baseline five-year financial analysis.
  - Provide input on potential revenue and savings initiatives.
  - Advise City leadership on the impacts of various policy choices on the community.
  - Review and provide input on the five-year financial analysis incorporating various policy choices (“the Plan”).
  - Support City leadership in explaining the Plan and creating buy-in among members of the community.

# Danville and Other Communities



- Seven benchmark local governments were selected based on population, land area, and proximity to Danville to provide for comparative analysis in developing the Plan.
  - Harrisonburg, VA
  - Manassas, VA
  - Martinsville, VA
  - Lynchburg, VA
  - Petersburg, VA
  - Pittsylvania Co, VA
  - Roanoke, VA

Comparative Local Government	Population
Roanoke, VA	99,329
Lynchburg, VA	78,755
Pittsylvania Co, VA	62,392
Harrisonburg, VA	51,979
Danville, VA	42,360
Manassas, VA	41,149
Petersburg, VA	31,997
Martinsville, VA	13,551
<b>Median (excl. Danville)</b>	<b>47,170</b>

Source: U.S. Census Bureau, 2016 American Community Survey 5-Year Estimates

# Income



	Median Household Income
Manassas, VA	\$74,371
Pittsylvania Co, VA	\$43,087
Lynchburg, VA	\$40,728
Harrisonburg, VA	\$40,494
Roanoke, VA	\$39,201
Danville, VA	\$33,721
Petersburg, VA	\$32,169
Martinsville, VA	\$31,719
<b>Danville Rank</b>	<b>6 of 8</b>
<b>Median (excl. Danville)</b>	<b>\$40,494</b>

	Income Per Capita
Manassas, VA	\$29,365
Roanoke, VA	\$23,611
Pittsylvania Co, VA	\$22,650
Martinsville, VA	\$22,221
Lynchburg, VA	\$22,016
Danville, VA	\$21,742
Petersburg, VA	\$20,464
Harrisonburg, VA	\$18,892
<b>Danville Rank</b>	<b>6 of 8</b>
<b>Median (excl. Danville)</b>	<b>\$22,221</b>

*Danville's median household income and per capita income are below average relative to comparative cities.*

Source: U.S. Census Bureau, 2016 American Community Survey 5-Year Estimates



# Poverty & Unemployment

	Poverty Level
Harrisonburg, VA	33%
Petersburg, VA	29%
Lynchburg, VA	24%
Martinsville, VA	24%
Danville, VA	23%
Roanoke, VA	22%
Pittsylvania Co, VA	15%
Manassas, VA	9%
<b>Danville Rank</b>	<b>5 of 8</b>
<b>Median (excl. Danville)</b>	<b>24%</b>

	Unemployment
Petersburg, VA	6.8%
Danville, VA	6.4%
Martinsville, VA	5.7%
Pittsylvania Co, VA	4.4%
Lynchburg, VA	4.2%
Roanoke, VA	3.7%
Harrisonburg, VA	3.7%
Manassas, VA	3.0%
<b>Danville Rank</b>	<b>2 of 8</b>
<b>Median (excl. Danville)</b>	<b>4.2%</b>

*Danville's poverty rate is near the benchmark median and its unemployment rate is significantly higher than the benchmark.*

Source: U.S. Census Bureau, 2016 American Community Survey 5-Year Estimates; Bureau of Labor Statistics

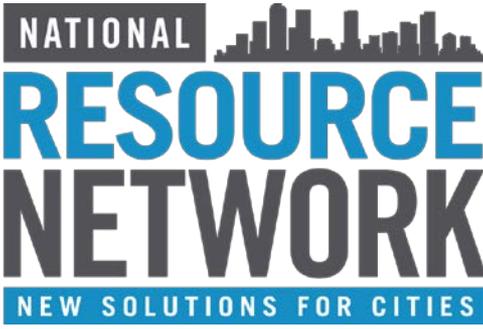
# Home Values



	Median Home Value
Manassas, VA	\$293,500
Harrisonburg, VA	\$197,400
Lynchburg, VA	\$149,600
Roanoke, VA	\$133,000
Pittsylvania Co, VA	\$114,400
Petersburg, VA	\$111,300
Danville, VA	\$90,800
Martinsville, VA	\$88,700
Danville Rank	7 of 8
Median (excl. Danville)	\$133,000

*Danville's median home values are below average for benchmark communities. This impacts property taxes as well as attractiveness to retailers.*

Source: U.S. Census Bureau, 2016 American Community Survey 5-Year Estimates



# Initiative Areas



# Opportunities for Reform

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- To understand Danville's unique circumstances, the Network and the City solicited input from a citizen Advisory Committee, with representatives from members of the community with a stake in Danville's future.
- 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. Specific recommended initiatives for the City follow.
- **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.

# Public Safety – DPD



Growing crime rates in Danville call for a comprehensive crime reduction plan. By shifting focus to prevention and increasing efficiency in both the City Farm and the Police Department, the City could use savings from the below to fund needed investments.

- Shift operations of the City Farm to the Sheriff and seek funding from the Commonwealth.
  - Cumulative Savings to FY 2023 - \$4.9 million
- Reduce City Farm population by expanding opportunities for community service sentencing.
  - Cumulative Savings to FY 2023 - \$1.6 million
- By consolidating span of control, the DPD could reduce the number of sworn officers by 9 positions.
  - Cumulative Savings through FY 2023 - \$2.6 million
- Reduce current surge in overtime spending
  - Cumulative Savings through FY 2023 - \$1.2 million



# Public Safety – DFD and CSA

By reducing 911 calls through community paramedicine initiatives and Fire Prevention Predictive Analytics, the City can control costs of the Danville Fire Department to better serve the city.

- 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
- After a thorough analysis of demand, response time, and facility age, the City could opt to close one of seven fire stations, subsequently eliminating 12 FTEs.
  - Cumulative Savings through FY 2023 - \$2.4 million

By reducing foster care placement, the City can align more closely with best practices.

- 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

# Workforce



The City's structural deficit is largely driven by growth in employee compensation outpacing growth in revenue. Ultimately, the City needs to match the growth in the cost of compensation to match the City's revenue growth.

- Rather than increasing wages at 2 percent annually, the City could either freeze wages at FY 2019 levels, or cap wage growth at 1 percent for three years (FY 2020 to FY 2023).
  - Citywide Wage Freeze Cumulative Savings to FY 2023 - \$9.9 million
    - Although this would lead to short-term savings, it may cause future compression issues that will be costly to address. Another potential risk is the loss of qualified employees that have other options available to them, and having a less engaged workforce overall.
  - Cap Citywide Wage Growth at 1 percent Cumulative Savings to FY 2023 - \$5.9 million
    - The risk of future compression issues are lower with this option, but savings associated with it are also lower.

# Workforce



Requiring employees to contribute more to Danville's Employee Retirement System (ERS), would mitigate costs.

- Incrementally increasing the employee contribution to Danville's Employee Retirement System from 1 percent to 5 percent would match the requirement for the Virginia Retirement System and reduce costs.
  - Cumulative Savings to FY 2023 - \$5.8 million
- One alternative is to apply this change only to new-hires in order to control costs in the future, depending on other steps taken as part of the Plan that have an impact on compensation.

# Workforce



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



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
- In some cases, it makes sense to consider ending City operation of underutilized services and/or infrastructure entirely, such as the Westover Branch Library and the Danville Regional Airport.
  - Cumulative Savings to FY 2023 - \$1.25 million
- 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.

# Utilities



Danville is the only municipality in Virginia to operate electricity, natural gas, water, wastewater, and telecommunications utilities. By adjusting General Fund contribution amounts, investing in energy efficiency, and conducting an independent review of utility assets the City would be able to act strategically in the interests of ratepayers.

- After reviewing the City's Utility Transfer Funding Formula, adjusting financial policies to allow the City to establish a multi-year minimum rather than a fixed transfer amount would allow the City to maintain reliability in the revenue stream while adding the flexibility to capture potential annual increases in the transfer formula. There is also the opportunity to do a one-time transfer of foregone revenue.
  - Cumulative Revenue to FY 2023 - \$2.75 million

# Revenue



To address the City's structural deficit in a sustainable way, revenue options must be on the table. Adjusting Danville's tax rates and structure would allow for investment in the focus areas identified by the City Council.

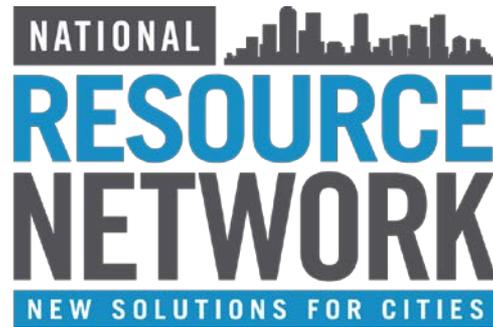
- Danville has the lowest real estate tax among its peers and could significantly increase revenue through an increase in the tax rate to \$1.00.
  - Cumulative Revenue to FY 2023 - \$17.0 million
- By raising the personal property tax, the City could capitalize on the consistent upward trend of personal property value. Raising the tax rate by \$0.10 per year for five years would yield greater earnings without shocking the tax base.
  - Cumulative Revenue to FY 2023 - \$3.35 million
- Because Virginia allows local jurisdictions to levy an additional tax on cigarettes, the City could levy a tax on cigarettes and use the revenue to benefit school or health programs.
  - At \$0.30 per pack - Cumulative Revenue to FY 2023 - \$2.1 million
- Tax base expansion of the personal property tax and legal document taxes can increase revenue without necessarily increasing rates.
- Additionally, adjusting the City's investment strategy to increase returns from the City's holdings could result in increased revenue without raising taxes or affecting services.

# Potential Investments in Danville



Once the structural deficit is addressed, the City can begin to make investments to grow Danville. Various projects outlined by City officials, staff, and stakeholders include:

- Increasing funding for Danville Public Schools, including its capital program.
- Comprehensive crime reduction plan.
- Re-aligning economic development goals with GO Virginia and adopting a regional approach to development strategies.
- Fully funding the City's Capital Improvement Plan.
- Construct new parking structure in River District to facilitate redevelopment of large catalyst buildings
- Redeveloping the White Mill site and the Schoolfield Mill site.
- Building a new police station.
- Building a new sports arena and/or creating a sports commission.
- Reducing energy costs and creating jobs.



# FY 2019 – FY 2023 Projection

# Developing A Baseline Projection



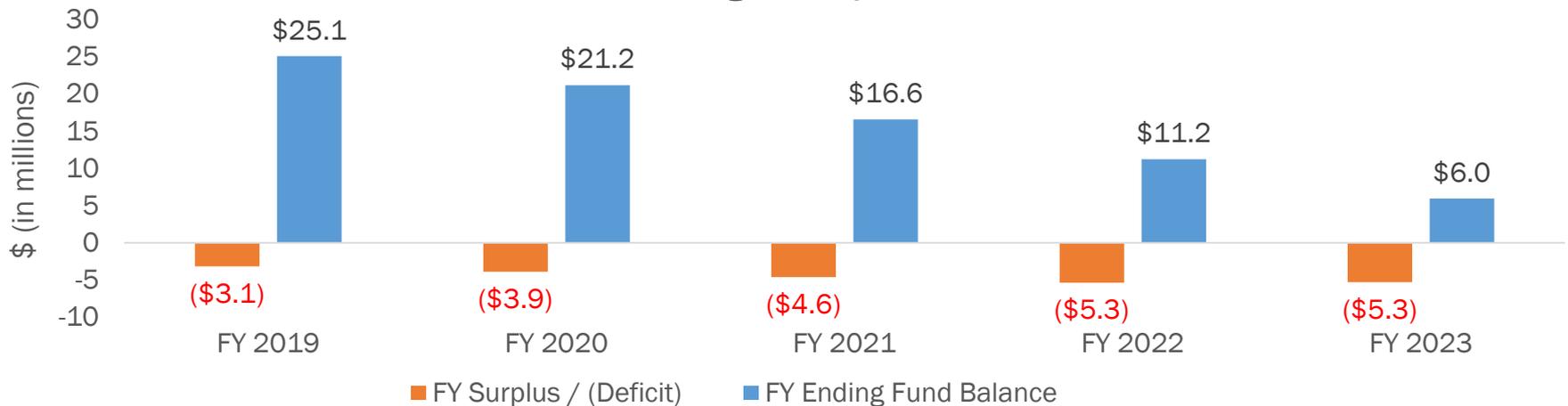
- The process of creating the five-year budget model starts with analyzing the City's historical General Fund actuals and budget data.
- Line-item detail is organized into categories representing the City's major revenues and expenses.
- Growth rates are applied to these categories to project revenues and expenses in future years. The project team works with the City to understand the drivers of revenues and expenses in order to select growth rates.
- For the baseline forecast, growth rates reflect inflation, known or assumed growth in revenues and expenditures, and other known events.
- The model uses the FY 2019 adopted budget in its baseline forecast and applies growth rates to those amounts to project future years.
- The baseline forecast is intended to show what the City's financial results could be with no corrective action.

# Danville's Baseline Projected Deficit



- Danville is projected to end FY 2023 with a General Fund deficit of \$5.3 million and a fund balance of \$6.0 million.
- The **projected cumulative deficit over the next five years is \$22.3 million**, or approximately one year of real estate and business license tax collections combined.

General Fund Budget Projections, FY2019 – FY2023

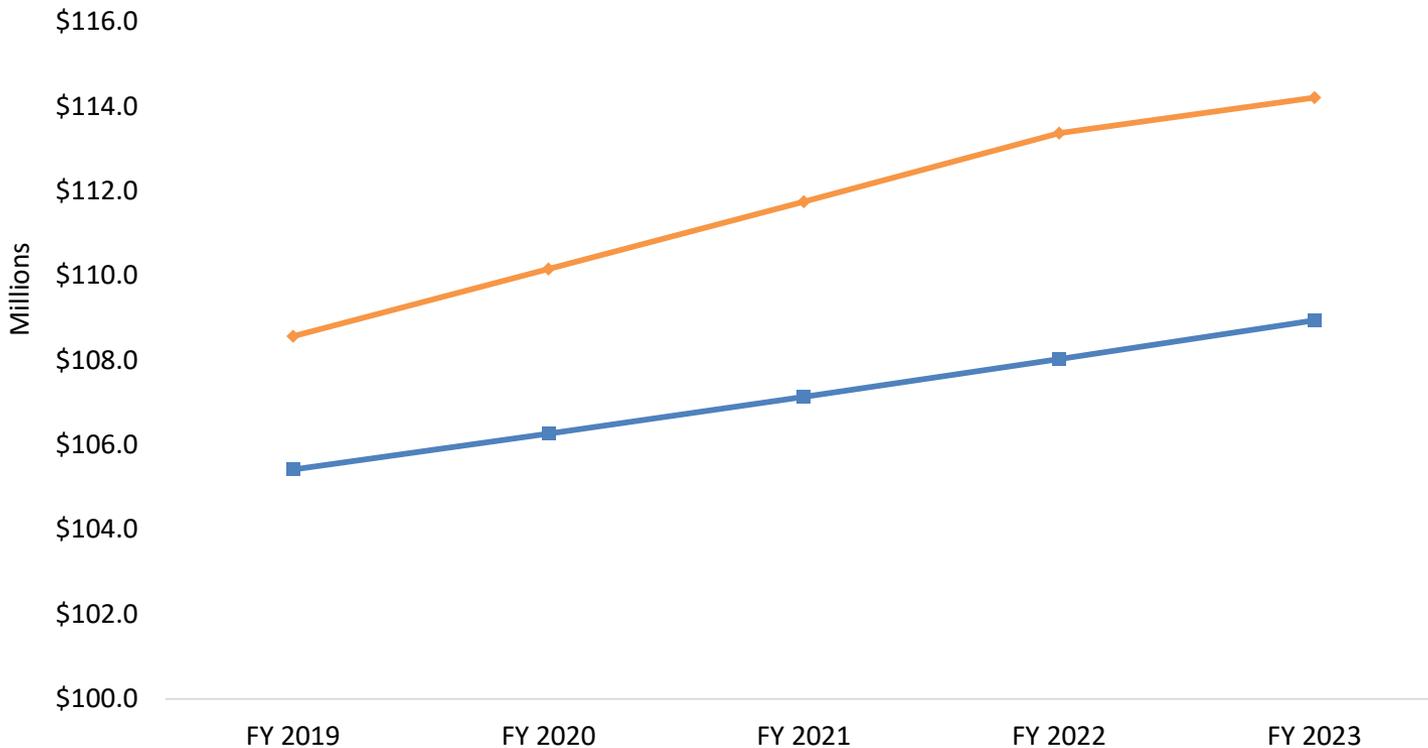


# Unaligned Revenues and Expenditures



- Without corrective action, Danville is projected to experience annual deficits in each of the next five years.

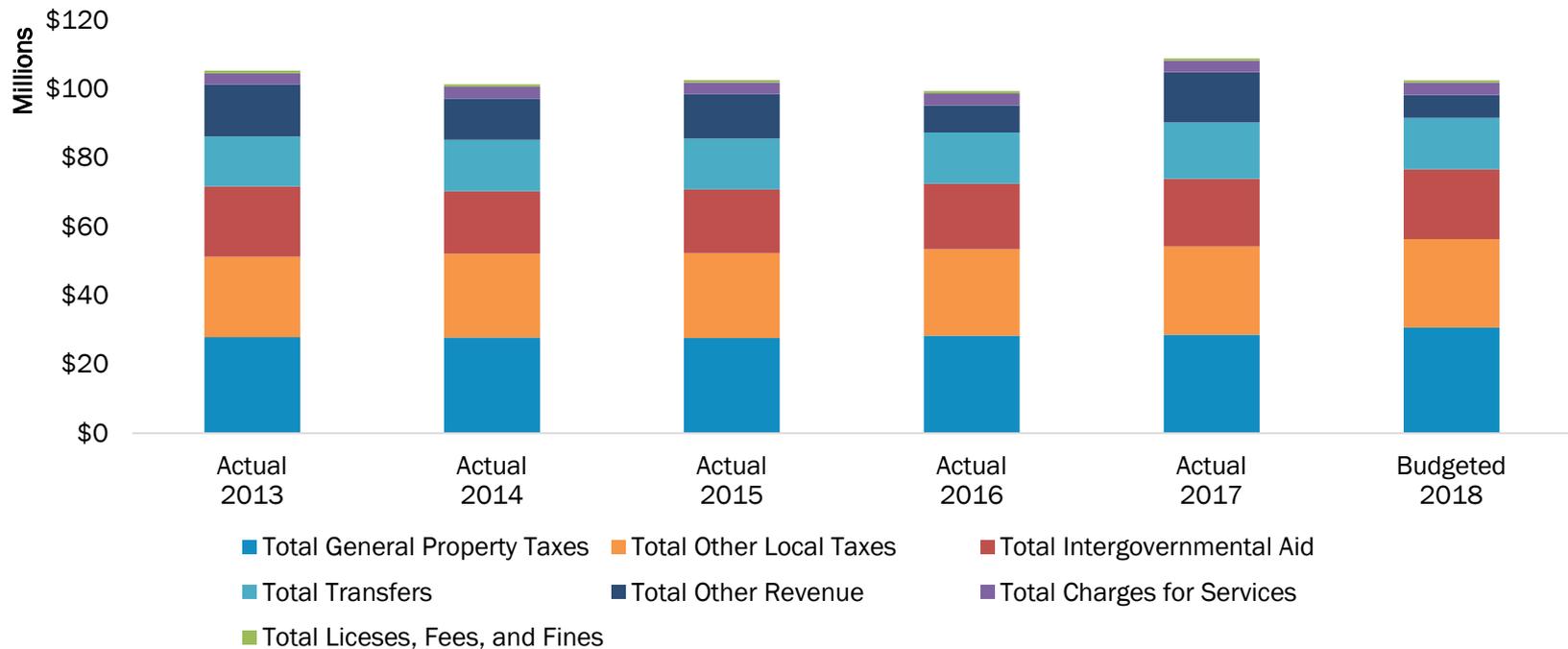
General Fund Budget Projections, FY 2019 – FY 2023



# Historical General Fund Revenues

- Property tax (26 percent), Other Local taxes (24 percent) and Intergovernmental Aid (18 percent) make up 68 percent of Danville’s historical General Fund revenue for FY 2017.

Historical General Fund Revenues  
FY 2013 – FY 2018 Budget

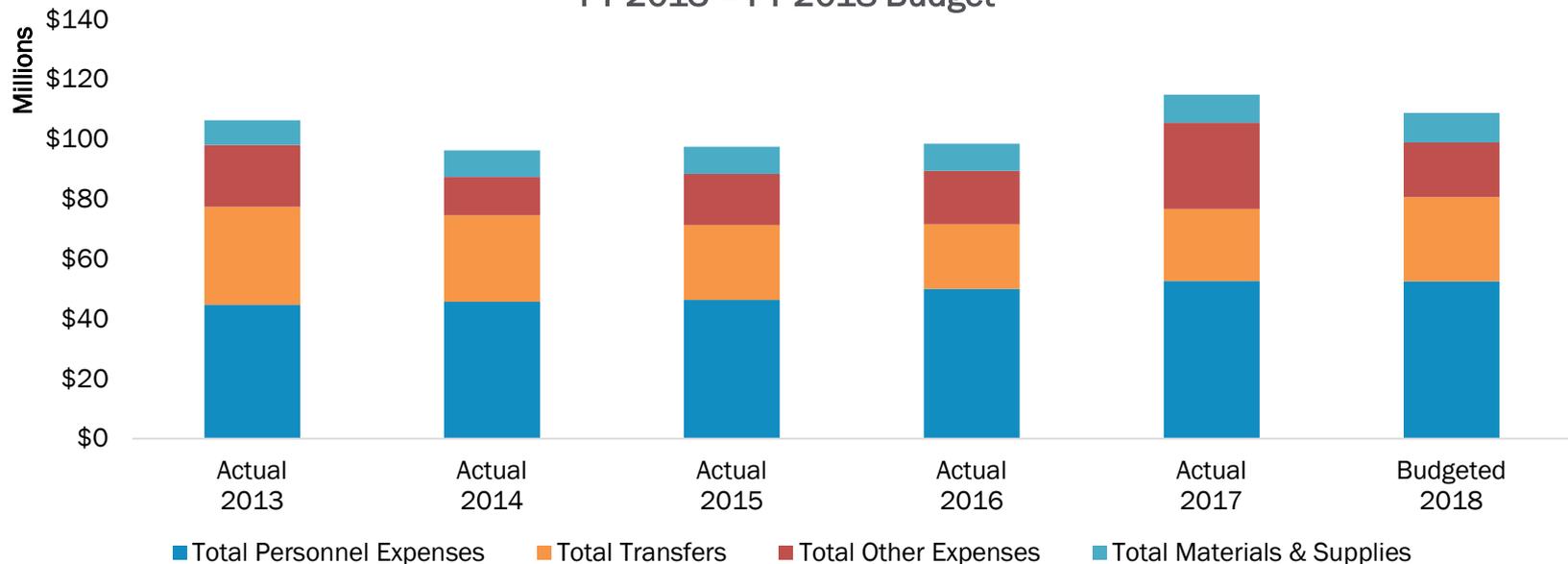


# Historical General Fund Expenditures



- Personnel costs, primarily wages and benefits, make up 46 percent of the City’s General Fund expenditures for FY 2017.
- The City also “transfers out” a significant amount each year. The City contribution to Danville Public Schools, most of which is used for personnel costs, was 15 percent of FY 2017 General Fund expenditures.

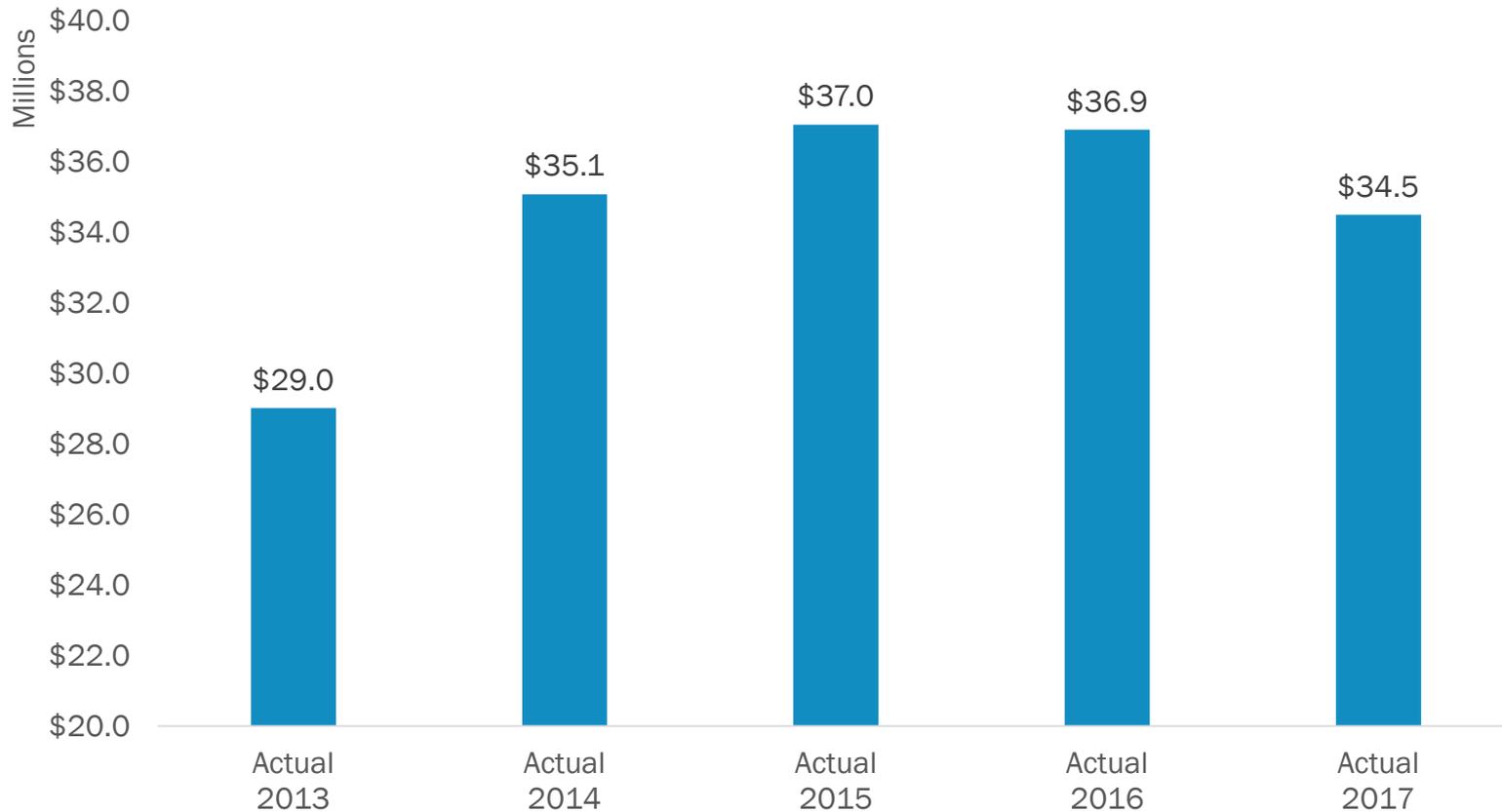
Historical General Fund Expenditures  
FY 2013 – FY 2018 Budget



# Historical Fund Balances



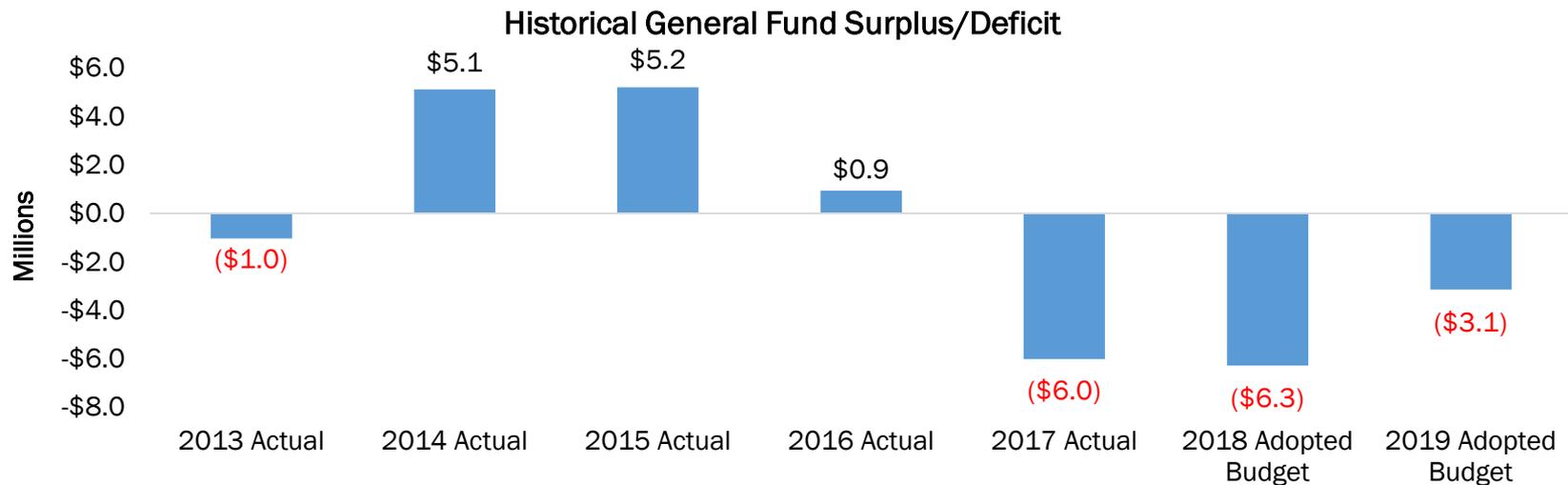
Historical Unassigned Fund Balance  
FY 2013 – FY 2017



# 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 would be spending over \$15 million from fund balance in just three years.





# FY 2019 Adopted Budget

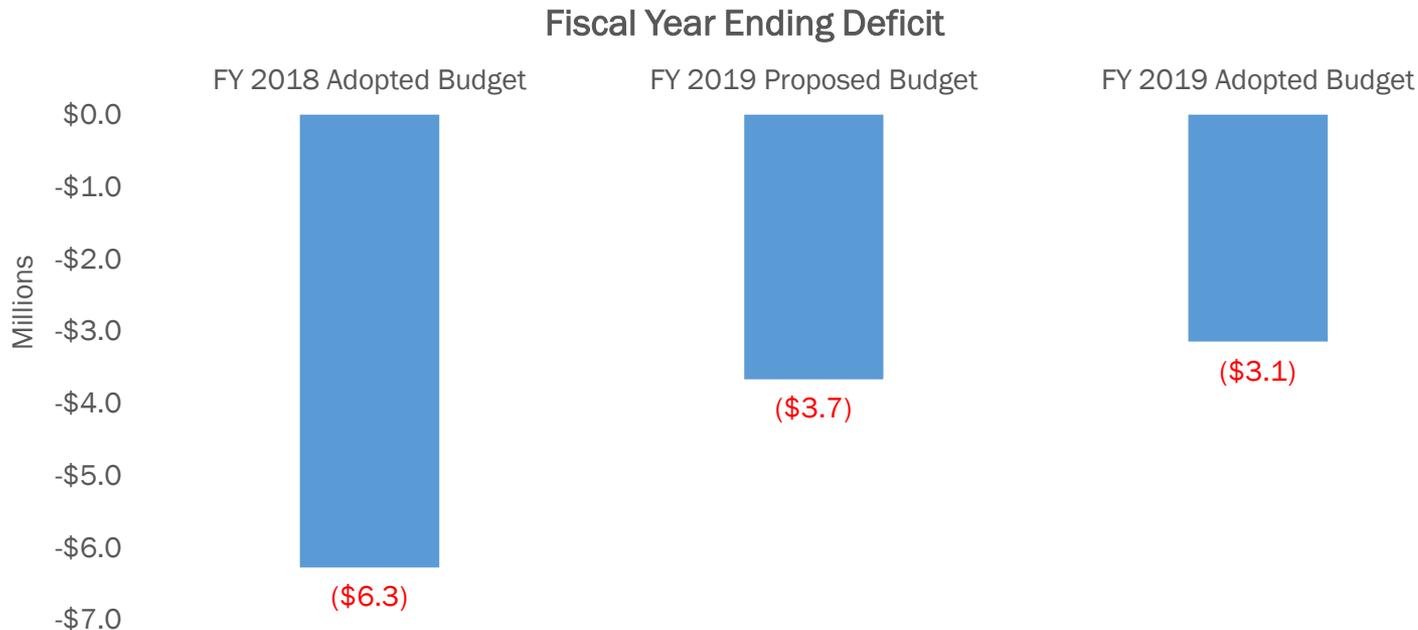
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- The baseline includes the City's FY 2019 adopted budget in the five-year projection.
- Outlined below are changes in policy reflected in the FY 2019 adopted budget:
  - Prepared meals tax rate increase from 6 percent to 6.5 percent
  - Transfer to 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



# 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.



# Revenue Growth Rate Assumptions



- **Real Estate Tax**

- 14 percent of total General Fund revenue in FY 2017
- Held flat in the adopted FY 2019 budget
- 0.35 percent annual growth in subsequent years based on historical growth in assessed value, holding collection rates constant

- **Utility Transfers**

- 14 percent of total General Fund revenue in FY 2017
- No growth in utility transfer amounts (assumes the City makes no policy decision to increase the transfer)

- **Personal Property Tax**

- 8 percent of total General Fund revenue in FY2017
- 7.7 percent growth in FY 2019 due to the rate increase from \$3.00 to \$3.50 per \$100 valuation on January 1, 2019
- 2.1 percent annual growth in subsequent years based on historical growth in assessed value

# Revenue Growth Rate Assumptions



- **Local Sales Tax**

- 8 percent of total General Fund revenue in FY 2017
- 2.2 percent inflationary growth
- Assuming stable levels of sales in the City and tax collections will grow naturally along with inflation

- **Prepared Meals Tax**

- 7 percent of General Fund revenue in FY 2017
- Adopted FY 2019 budget includes an increase in prepared meals tax from 6 percent to 6.5 percent. The increase is expected to add \$0.7 million in revenue above FY 2018 budgeted levels.
- Following this increase in revenue, 1.3 percent inflationary growth is applied based on the City's expectations

- **Business/Occupation License Tax**

- 5 percent of General Fund revenue in FY 2017
- This revenue is held flat based on historical trends

# Expenditure Growth Rate Assumptions

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- **Salaries and Wages**
  - 32 percent of total General Fund spending in FY 2017
  - 2.0 percent annual growth is assumed, consistent with the City’s pay-for-performance policy
  
- **Transfer to Schools**
  - 15 percent of total General Fund spending in FY 2017
  - Schools transfer declines by \$221,000 from the FY 2018 and FY 2019 budgeted amount, then assumes the City does not make a policy choice to increase or decrease the transfer in any future years

# Expenditure Growth Rate Assumptions



- **Health Insurance**

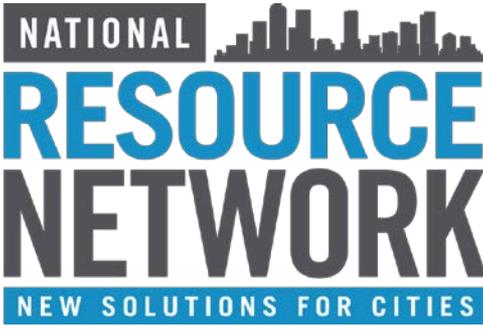
- 8 percent of General Fund spending in FY 2017
- 4.9 percent annual growth, based on Kaiser Family Foundation projections of growth in U.S. health care spending

- **Transfer to Capital**

- 5 percent of General Fund spending in FY 2017
- Held flat at the adopted FY 2019 level, which is a decrease from FY 2018

- **Debt Service**

- 4 percent of General Fund spending in FY 2017
- Projections made using the latest information from the City's debt service schedule
- Assumes no new debt issuances
  - Any capital expenditures above the \$4.8 million budgeted each year from current revenues are not in the baseline (and would have to be borrowed or spent from fund balance).



# A Plan for Fiscal Sustainability



# A Plan for Fiscal Sustainability

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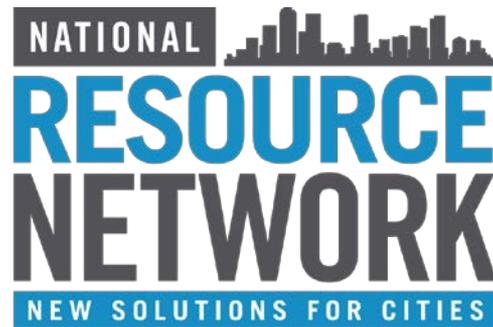
- The fiscal challenges facing Danville are significant and serious. Without draconian measures, it is not possible to close the City's structural deficit in one year.
- And while the City needs to first ensure that existing revenue is being spent well and wisely, any plan for fiscal sustainability also 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.

# 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

# Reduce the Cost of the ADC (City Farm)



- While shifting control of the ADC to the Sheriff would reduce staffing costs to the City, Danville would still bear costs related to inmate custody such as food and medical costs. In addition, the City could bear long term costs related to the need for additional capital investment.
  - Other Virginia municipalities, local sheriffs and City governments operate community service programs where offenders are required to provide a certain, limited number of hours of community service.
  - While there is a risk of non-appearance, most offenders sentenced to community service do attend and participate. Because the programs are non-custodial, the costs are significantly lower.

# Reduce the Cost of the ADC (City Farm)



- The City should work toward a goal of eliminating the ADC and replacing it with a community service alternative by Year 5 of the plan. A phased approach, beginning in FY 2021, would produce an additional \$1.6 million in savings by FY 2023.

## Replacing ADC with Community Service Programs

- FY 2021 Savings - \$282,000
- Cumulative Savings to FY 2023 - \$1.6 million

# Danville Police Department (DPD)

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- 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.

# Danville Police Department (DPD)



- Calls for Service to the DPD have been declining over the last ten years – dropping from a high of 89,762 in 2010 to a low of 58,385 in 2016.
- The majority of calls for service are for less serious offenses, alarms, traffic issues and animal control.

Call Type	Number of Calls For Service
Alarms	5,202
Disturbance of the Peace	3,429
Vehicle Crashes	2,395
Suspicious Person, Object, Vehicle, Circumstances	2,104
Theft	1,642
911 Hang Ups	1,798
Animal calls	1,188
Traffic Hazards	1,118
Trespassing Issues	1,060
Damage, Vandalism, Mischief	914

# Cost Control at DPD

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- 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



# Expand Arrest Diversion Options

- A comprehensive crime reduction plan should include alternative responses to lower level offenses to allow for a greater focus on violent crime and community policing.
- In 2017, DPD made 4,860 arrests – compared to a high of 5,850 arrests in the prior five years. Most DPD arrests, however, were for relatively low level offenses.

Top Ten Arrest Charges by Category, DPD, 2017

Related Charge	Frequency
Contempt	793
Assault	605
Parole, Probation, Supervision Violation	453
Marijuana	436
Drunk In Public	388
Larceny	181
Driving Under the Influence	167
Fail to Appear	131
Trespassing	129
Concealing or Taking Possession of Merchandise	123

# Expand Arrest Diversion Options

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- Other police departments treat relatively minor, non-violent offenses differently. For example, many police departments no longer make arrests for possession of small amounts of marijuana and instead cite and release offenders. The result is a reduction in police time needed for processing of the arrest – and in some cases a reduction in cost related to the Jail.
- By expanding the use of citation, the DPD can further increase the amount of sworn officer time available for patrol. In addition, to the extent that some arrests occur at the end of a shift, reducing arrest activity can also affect police overtime.

# 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

# Cost Control at DPD: Overtime

- Police Department overtime has increased from \$184,814 in FY 2013 to \$486,804 in FY 2017. Based on year-to-date spending in FY 2018, the Department is on track to spend \$492,970 for the full year. While Department officials indicate that overtime is funded out of unfilled salary costs, more effective management may also reduce cost.
- DPD officials indicate that a significant amount of this overtime is due to current on-going investigations that should be ending in the next few months.
- The Police Department should increase monitoring of overtime and leave with a goal of a twenty percent reduction in FY 2019 and a reduction to FY 2013 overtime levels by Year 3 of the plan. Total savings over five years would be \$1.2 million.

## Reduction in overtime hours

- FY 2019 Savings - \$ 97,000
- Cumulative Savings through FY 2023- \$1.2 million

# Cost Control at DPD: Civilianization



- DPD is a “full service” department. In other words, sworn officers respond to virtually all calls for service. Other police departments have recognized that non-sworn officers – civilians – can be used to respond to a number of non-emergency calls.
- These civilians – often known as Police Service Technicians (PST) – can respond to some calls for vehicle crashes, traffic hazards and disabled vehicles. In most cases, there is no requirement for a sworn officer for these calls.
- Civilians could also be deployed – instead of sworn officers – to support efforts at increased community policing. For example, the department could hire civilians focused and specialized in community engagement, outreach and problem solving.
- There are multiple benefits to a PST/Civilian program:
  - It allows sworn officers to spend more time engaged in proactive or community policing
  - It allows sworn officers to spend more time responding to more serious calls
  - It creates a pipeline for future candidates to become officers
  - It produces a cost savings benefit of the difference between the cost of a sworn officer and a PST

# Cost Control at DPD: Civilianization



- Civilianization would occur at the DPD in two phases:
  - Under Phase I, DPD would work to civilianize certain functions in the Services Division that are currently handled by sworn officers but could be performed by civilians. Under this phase, the two lieutenants in the Services Division would be replaced first and they would oversee the transition of the crime scene unit to civilians.
  - Under Phase II, DPD would launch a PST program so that civilians would begin to respond to non-emergency calls that do not require law enforcement. The goal would be to reduce the number of sworn officers by 10 while hiring civilians to fill those positions at 75 percent of the cost.
- Total savings from civilianization over a five year period would be \$651,000.

## Civilianization

- FY 2020 Savings – \$78,000
- Cumulative Savings through FY 2023– \$651,000



# 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)

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- 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.

# Danville Fire Department (DFD)



- Number of firefighters declined from 123 in FY 2007 to 121 in FY 2016 while the number of incidents (service calls, rescues, false alarms, etc.) increased.

Year	Total Incidents
2011	6,430
2012	6,610
2013	6,730
2014	7,196
2015	7,922
2016	8,216

*Source: Danville Fire Department 2016 Annual Report*

- In 2016, 69 percent of calls for service were medical. Among fire calls, just 217 calls were for structural fires and only 27 of those were declared working fires.
- While the majority of Fire Department calls are as first responder, the Fire Department does not provide ambulance or EMS service. Instead, the City provides funding for two EMS related activities. In FY 2018, the City allocated \$97,570 for Ambulance and Rescue and \$9,060 for the Western Virginia EMS Council.

# Control DFD Cost



- In 2015, DFD responded to 186 total calls per 1,000 residents compared to 131 total calls per 1,000 residents as the average for other benchmark cities.

	2017	2016	2015	2014	2013
Fire Calls	1,560	1,576	1,423	1,357	1,320
Working Fires	26	27	42	47	NA
Inspections	1,361	1,170	1,499	1,070	896

# Community Paramedicine



- Fire departments across the U.S. are working to reduce frequent 911 calls through community paramedicine initiatives. Under those initiatives, firefighters responding to frequent medical calls can refer residents to alternative health and social service programs or telecommunicate with doctors from the response scene to avoid the need for transport, emergency room care and future calls.
- Diversion programs are frequently supported by funding from hospitals and insurers as a means of cost aversion. Different diversion programs fall into three categories:
  - Post-Discharge Short-Term Follow Up programs are designed to drive down costly hospital readmission rates for patients with chronic conditions.
  - Frequent EMS User programs identify frequent 911 callers for intensive, short-term case management.
  - Alternative Destination programs empower paramedics to make onsite decisions to offer 911 callers transport to non-emergency room care, either through in-home hospice, health crisis centers, or urgent care facilities

# Community Paramedicine



- Most calls to the DFD are as a first responder on medical calls and medical calls are what is driving the overall increase in DFD calls for service. Many calls to DFD for medical response are from individuals who frequently call 911. Many times these are calls for relatively minor medical incidents and many times calls for emergency response could be avoided by referring callers to medical care or social services.
- In November 2017, the Danville Life Saving Crew launched a Community Paramedicine service to reduce calls by frequent users who could be diverted to other services.
- As of May 2018, the community paramedicine program had identified 78 frequent users who accounted for nearly one-quarter of all calls to 911. DFD should work closely with DLSC, local hospitals and insurers on the current community paramedicine initiative and evaluate opportunities for expansion. Reducing call volume could potentially reduce some of the DFD's staff needs. More importantly, by diverting residents to more appropriate health interventions, it could improve overall health in the community.

# Fire Prevention Predictive Analytics



- DFD can reduce the demand for service through fire calls as well. One step would be to reduce the number of false fire calls – calls where DFD begins a response only to find that there was in fact no fire. Out of 1,560 fire calls in 2017, 615 calls were false alarms.
- DFD could also use data to better predict the location of fires and to engage in fire prevention activities in those locations. The New Orleans Fire Department used data from the American Housing Survey and American Community Survey to identify New Orleans households without smoke detectors and most likely to have a structural fire – including income, age of structure, when resident moved in.
- DFD can utilize the same analytics through <http://labs.enigma.io/smoke-signals/>.

# Control DFD Cost

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- DFD has 114 fire suppression personnel working on 3 shifts, with each shift of 24 hours and 159 hours in a 21 day cycle.
- There are 7 stations, each with 1 captain, 1 Engineer and 2 Firefighters per shift: the exception is Station #1 with 1 captain, 2 Engineers and 8 Firefighters per shift. Each shift has a battalion chief and 2 lieutenants.
- Emergency Communications has 20 personnel with one supervisor and 4 tele-communicators per shift.
- During 2016, DFD had 4 retirements and 2 resignations from the Fire Division and 3 resignations and 1 dismissal from ECC.

# Control DFD Cost



- **Eliminate staff currently assigned to fill in for Kelly shifts (9 FTEs).** These firefighters currently assigned to Station 1 primarily fill in for firefighters on Kelly days.
  - In lieu of these replacement staff, some stations would have to operate with 3 personnel per apparatus. In case of structural fires, it would require multiple stations to deploy.
  - Elimination of 9 firefighters at average compensation of \$54,500 per year (including average salary of \$40,945.85, with some of the savings offset with a need for additional overtime.

## **Control DFD Costs – Eliminate Kelly Shift Replacement**

- FY 2020 Savings – \$161,000
- Cumulative Savings through FY 2023 – \$1.0 million

# 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

# Create a Public Safety Officer Program



- In several U.S. cities, police and fire departments are housed in a single Department of Public Safety. Savings are realized by consolidating certain back office functions of the two departments into one organization – procurement, finance, HR and IT.
- Because of the relative small size of DFD and DPD, opportunities for savings from this type of back office consolidation are limited. The City might, however, consider a full consolidation of the functions of the DPD and DFD – with cross training of police officers and firefighters as public safety officers.
- In Sunnyvale, California, public safety officers have been cross trained since the 1950s. Fire apparatus are staffed with two on an apparatus and then can be supplemented by patrol officers who are trained and equipped on firefighting.

# Create a Public Safety Officer Program



- A 2016 Department of Justice funded study found consolidated departments in more than 130 U.S. communities in 27 states – though none in Virginia. While noting that consolidation is “neither a panacea nor a one-size-fits-all solution,” the study found that “[I]n several communities we studied, consolidation has led to efficiencies and savings,”
- Implementing a Public Safety Officer program in Danville would require considerable study. Rather than trying to re-train existing firefighters and police officers, it might be more feasible to begin recruiting public safety officers in the future. As a result, the proposed initiative contemplates savings based on a reduced number of new hires in FY 2022.

## Create Public Safety Officer Program

- FY 2022 Savings – \$150,000
- Cumulative Savings through FY 2023 – \$300,000



# Reduce CSA Local Match Costs

- In FY 2017, the City expended nearly \$1 million in local match funds for services provided under the Children's Services Act (CSA). CSA provides funding for programs for at-risk youth, including children with severe emotional and/or behavioral problems, including but not limited to students with disabilities in private special education facilities and youth in foster care.
- The cost is driven by decisions to place children with multiple incidents of truancy in foster care rather than providing them with community services. Social Services estimates that the monthly cost of foster care is \$9,000 per child compared to a cost of \$3,000 for community services.
- The proposed initiative is based on a similar initiative by the City of Norfolk. Between 2013 and 2017, the number of children in foster care in Danville increased by 42 percent while declining by 37 percent in Norfolk. In 2017, there were 3.1 foster care placements per 1,000 children in Norfolk compared to 5.5 in Danville.

# Reduce CSA Local Match Costs



- An estimated 20 children per day are in foster care for truancy related placements. Shifting those children to community services would save the City (based on a 21 percent local match) \$1.4 million over the next five years.

## Reduce Foster Care Placement

- FY 2019 Savings – \$150,000
- Cumulative Savings through FY 2023 – \$1.4 million



# Align Compensation and Benefits to Available Revenue





# Aligning Compensation to Revenue

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

## Cap Citywide Wage Growth at 1%

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



# ERS Employee Contribution

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- 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 25 percent 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

# Enhanced Vacancy Control



- Vacant positions offer leadership an opportunity to re-evaluate the performance and service level of their division or department.
- The City of Danville maintains 80 vacant positions on average and leverages an informal policy to guide the systematic filling of vacant positions.
  - The policy requires the City Manager to approve a position be filled or created.
  - The Human Resources Department then assists departments with the hiring process and provides a list of applicants to Department leadership.
  - Department leadership are then ultimately responsible for the selection of applicants.
- The FY 2018 approved budget includes a net increase of six new full-time equivalent (FTE) positions from the prior fiscal year.
- The City does not formally track the length of time positions are left vacant and does not have an additional review policy for positions vacant for extended periods of time.



# Enhanced Vacancy Control

- Danville should consider creating a more informed and formalized process for reviewing vacant positions that requires departments to justify the need to fill positions with the HR Director and City Manager. The City should consider the following when determining the need:
  - Will failure to fill the position result in an increase in cost or loss of revenue to the city?
  - If the position is approved to be filled, is there another position in the Department that can be eliminated – either by attrition or layoff?
  - If the position is not approved, explain how the Department will continue to do the work that the current employee performs?
- Adjustments to the City’s policy to fill and add positions may result in savings.
  - Ongoing vacancies with little impact on City service delivery may indicate an opportunity to realize savings for technology improvements or productivity.



# Enhanced Vacancy Control

- The City should also consider instituting a partial hiring freeze during the projected period.

Number of New Positions Added				
	FY 2015	FY 2016	FY 2017	FY 2018
Net Increase in FTE positions	3	2	0	6

- The hiring freeze would prohibit the hiring or creation of new positions that did not directly align to minimum levels of service delivery.
- The freeze would allow City and department leadership to evaluate the productivity and efficiency of current staffing levels to better inform future positions.



# Active Health Benefits

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- The City of Danville offers three options for healthcare coverage for active and retired employees.
- In addition to the traditional health and life insurance plan, Danville offers a competitive benefits package for employees to take advantage of at their own expense.
- Danville proactively managed its health care expenditures in recent years:
  - Required retirees on the City’s health plan to pay the full premium cost of selected plans
  - Developed incentives for High Deductible Plans with Health Savings Accounts
  - Created premium differentials for non-smokers and wellness program
  - Plans to open an on-site clinic in FY 2019



# Active Health Benefits

- Health insurance costs are the largest expenditure category in the General Fund budget outside of employee salaries and General Fund transfers.
- The cost of health care premiums have increased from \$7.5 million in FY 2016 to \$9.1 million in FY 2017 (a 20.1 percent increase), and are anticipated to grow to \$10.4 million (4.5 percent annually) by FY 2023.
- To address the growing structural deficit, the City should pursue options to reduce its health care costs:
  - Increase employee contributions for health insurance
  - Provide active employees with stipends to pay for benefits from another source
  - Create spousal carve-out or buy-up policy
  - Conduct regular dependent eligibility audits
  - Establish on-site health and wellness clinics for insured employees and dependents
  - Move to generic prescription drug coverage
  - Create targeted health management programs for City employees



# Offer Health Benefit Buy-out

- A subset of City employees have access to other health benefit options (e.g. through a spouse, partner, or secondary employer).
- Danville could provide a monetary incentive to these employees for waiving City coverage and enrolling in other eligible coverage. This incentive would in-turn limit the City's health care costs and liability
  - New York, NY; Los Angeles, CA and Manchester, NH all offer incentives via a flat dollar amount to employees to opt-out of city coverage
- Danville could see year to year savings by offering \$100 monthly stipends to opt out of City coverage.

## Offer \$100 Monthly Buy-out of City Health Insurance Coverage

- FY 2020 Savings - \$737,000
- Cumulative Savings to FY 2023 - \$3.1 million

# Spousal Carve-out or Buy-up Program



- The City of Danville currently subsidizes 45 percent of the cost of health care coverage to the spouse and families of active employees regardless of their access to other plans.
- Danville should consider a spousal carve out to limit or deny coverage to employee spouses with access to another form of health benefits.
  - Shelby County, TN uses a spousal carve out for active and retiree health care.
- The City could also consider a spousal buy-up program that requires employees to cover their spouses at 100 percent of the cost difference between single coverage and their chosen enrollment (employee and spouse or family).

## Mandate Spousal Carve-out or Buy-up

- FY 2020 Savings – \$532,000
- Cumulative Savings to FY 2023– \$2.3 million

# Conduct Dependent Eligibility Audit



- The City has 757 spouses and dependents enrolled on the City's health plan. The City verifies the enrollment of dependents upon entering the City's plan and has mechanisms in place to monitor ongoing eligibility
- To continue to manage healthcare cost growth, the City should conduct a benefit audit, which will allow the City to remove non-qualified participants from plans.
- Dependent audits have become an increasingly common practice by large private employers and have become a popular strategy to reduce health care costs for local and state governments as well.
  - In recent years, local governments in Manassas, VA; Richmond, VA; Roanoke, VA; Pittsylvania County, VA; New York, NY; Providence, RI; and Boston, MA have conducted dependent eligibility audits

Source: Mark Mack, Controlling Health-Care Costs with Dependent Eligibility Audits (Government Financial Review, June 2015)



# Conduct Dependent Eligibility Audit

- DEVA audits typically find approximately 8 percent of dependents ineligible.
- Danville could realize savings from reviewing all dependent plans or looking at dependent plans excluding spousal plans.

## Conduct DEVA – All Dependents

- FY 2020 Savings – \$372,000
- Cumulative Savings to FY 2023 – \$1.6 million

## Conduct DEVA – Excluding Spousal Only Plans

- FY 2020 Savings – \$286,000
- Cumulative Savings to FY 2023 – \$1.2 million

Source: Mark Mack, Controlling Health-Care Costs with Dependent Eligibility Audits (Government Financial Review, June 2015)

# Increase Employee Contribution to Health Premium



- Cities across the country are working to identify resources to address growing costs for health care coverage. According to the 2017 Kaiser survey, nationally, workers contribute **18 percent** of their average annual health insurance premium for individual coverage and **31 percent** of their average annual health insurance premium for family plans.\*
- Many cities have moved to a 70 percent employer to 30 percent employee contribution.
  - In Virginia, Petersburg and Roanoke require employees to pay 34 percent of the cost of employee only coverage.
  - Dallas, TX; El Paso, TX; Fort Worth, TX; and Memphis, TN all utilize at least 70-30 percent cost shares

\*Source: 2017 Employer Health Benefits Survey

# Increase Employee Contribution to Health Premium



- Danville’s traditional PPO is the highest enrolled plan (530 of 725 employees) over two high deductible plans with health savings accounts.
  - The City’s covers 85 percent of the PPO premium cost for employee only health plans and 45 percent for employee plus dependent plans
- The City should increase the employee contribution to overall health care premiums to 30 percent by FY 2023 to reduce the City’s growing health insurance costs.

Traditional PPO25 (Wellness)			
	Employee Contribution	City Contribution (% of Premium)	Total Premium
EE Only	\$86.79	\$491.48 (85%)	\$578.63
EE + Spouse	\$640.53	\$944.89 (45%)	\$1,585.42
EE + 1 Child	\$309.56	\$674.10 (45%)	\$983.66
EE + Family	\$723.28	\$1,012.60 (45%)	\$1,735.88

# Increase Employee Contribution to Health Premium



City Contributions % of Premium for Highest Enrolled Plan		
	EE Only % of Premium	EE + Family % of Premium
Danville, VA	\$491.48 (85%)	\$1,012.60 (45%)
Manassas, VA	N/A	33%
Lynchburg, VA	95%	47%
Petersburg, VA	76%	59%
Pittsylvania Co, VA	97%	33%
Richmond, VA	89%	66%
Roanoke, VA	76%	33%

# Increase Employee Contribution to Health Premium



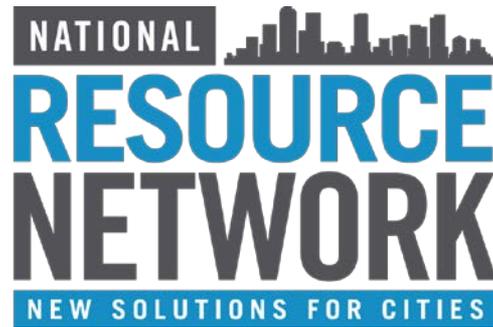
- The City covers 410 lives on employee only plans. Across the three plans, employees contribute an average of 11 percent of the coverage cost.
- Adjusting the employee contribution to 30 percent for employee only plans would reduce the City's annual health care burden.
  - The plan recommends incremental increases starting in FY 2020 until the employee is contributing the full 30 percent in FY 2023.
  - The City could also realize savings by moving all plans to a 30 percent employee contribution, which would be a reduction in cost-sharing for most employees with family coverage.

## **30/70 Employee Contribution – Employee Only Plans**

- FY 2020 Savings – \$173,000
- Cumulative Savings to FY 2023 – \$1.9 million

## **30/70 Employee Contribution – All Plans**

- FY 2020 Savings – \$119,000
- Cumulative Savings to FY 2023 – \$1.3 million



# Operational Efficiency Across City Government



# Danville's Practices and Priorities



In addition to analyzing public safety initiatives and workforce policy reforms, the Network team examined staffing and organizational structure across City government to inform specific recommendations about potential efficiencies and reforms according to best practices.

- The Network team:
  - Conducted a comparative analysis of staffing among Danville peers by Auditors of Public Accounts (APA) functional area.
    - APA functional areas do not necessarily align with the way cities organize departments. For example, the “Public Works” functional area as defined by APA is not equivalent to the Danville Public Works Department.
  - Conducted in-person and phone interviews with department heads to identify the feasibility of various initiatives.
  - Identified alternative methods of service provision for those functional areas where Danville is currently an outlier in terms of personnel (and associated costs).



# Previous Study of Efficiency

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- In 2011, Danville completed an “Organizational Effectiveness and Efficiency Study” of municipal operations and departments conducted by Municipal & Financial Services Group (MFSG). All departments under the City Manager were included in the study.
- The MFSG Group’s report resulted in hundreds of specific recommendations both large and small. The immediate goal of the study was to help inform the City Manager’s FY 2012 Proposed Budget while also examining potential longer-term reforms.
- The City did implement many of MFSG’s organizational recommendations, such as consolidating the public library and parks and recreation into one department, placing emergency communications under the fire department and creating a Cemetery Enterprise Fund. Certain span-of-control reforms were also adopted, particularly in the City Manager’s office. But some recommendations, including more collaboration across departments and consolidation or elimination of certain services remain unaddressed.

# Staffing Changes



- After the completion of the Organizational Study, the City did reduce full-time positions as a result of various government reforms. Filled non-public safety General Fund positions were reduced from 380 to 365. However, Danville now has more FTEs in these positions than before the study was conducted.
- Positions have been added in “Parks, recreational and cultural”; and “Community Development” functional areas. (The increase of 13 FTEs shown in Public Works from FY 2016 to FY 2017 is a result of APA position regrouping – primarily from Public Safety. Danville’s Public Works Department has reduced its number of FTEs over the past several years.)

General Fund Full-Time Employee Count FY 2011 – FY 2017							
APA Functional Area	FY11	FY12	FY13	FY14	FY15	FY16	FY17
General government administration	99	95	95	99	96	101	93
Public Works	111	106	105	103	101	101	114
Health, welfare, and social services	101	98	99	99	99	99	100
Parks, recreational, and cultural	51	49	49	49	52	53	57
Community Development	18	17	17	17	17	17	19
<b>Total</b>	<b>380</b>	<b>365</b>	<b>365</b>	<b>367</b>	<b>365</b>	<b>371</b>	<b>383</b>

# Danville Compared to Peer Cities



## FY 2017 General Fund Full-Time Employee Count, Danville and Peer Cities

APA Functional Area	Danville	Roanoke	Harrisonburg	Manassas	Martinsville
General government administration	93	204	51	60	21
Public Works	114	126	77	53	43
Parks, recreational, and cultural	57	104	72	7	5
Community Development	19	52	17	30	3
<b>Total</b>	<b>283</b>	<b>486</b>	<b>217</b>	<b>150</b>	<b>72</b>

## FY 2017 General Fund Full-Time Employee Count per 1,000 Residents

APA Functional Area	Danville	Roanoke	Harrisonburg	Manassas	Martinsville
General government administration	2.20	2.05	0.98	1.47	1.55
Public Works	2.69	1.27	1.48	1.29	3.17
Parks, recreational, and cultural	1.35	1.05	1.38	0.16	0.37
Community Development	0.45	0.52	0.32	0.72	0.22
<b>Total</b>	<b>6.68</b>	<b>4.89</b>	<b>4.17</b>	<b>0.72</b>	<b>5.31</b>

# Danville Compared to Peer Cities



- In three of the four major functional areas, Danville generally has a higher number of FTEs per capita than its peer cities. In two of those areas, there are potential opportunities for efficiencies.

FY 2017 General Fund Full-Time Employee Count per 1,000 Residents			
APA Functional Area	Danville	Average Excluding Danville	Percent Variation
General government administration	2.20	1.51	45%
Public Works	2.69	1.80	49%
Parks, recreational, and cultural	1.35	0.74	82%
Community Development	0.45	0.45	0%
<b>Total</b>	<b>6.68</b>	<b>4.50</b>	<b>6.68</b>

# Danville Compared to Peer Cities



- The data indicates that Danville’s Community Development functional area – which includes Planning, Code Enforcement (Zoning and Building), and Economic Development – is right-sized for its population.
- While Danville does have more general government administration FTEs than its peer group, this is primarily due to the fact that Danville has centralized functions within the General Fund that perform administrative services for non-General Fund functions, such as Utilities and Constitutional Offices.
  - Peer cities may have decentralized administrative functions and/or “charge” those FTEs to non-General Fund sources (such as enterprise funds), which artificially deflates the size of the general government administration function.
- Even accounting for the variance in service provision, the functional areas where Danville has the largest staffing deviation from its peer group are parks, recreational, and cultural and public works.

# Service Provision Reforms



- The team has explored 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:
  - Managed Competition
  - Shared Services
  - Consolidation
- In some cases, it makes sense to consider ending City operations of underutilized services and/or infrastructure entirely.
- As Danville attempts to bring its budget in structural balance, the City should review the City’s direct appropriations to outside entities to appropriately prioritize City expenditures.
- Finally, adjusting the City’s investment strategy to increase returns from the City’s holdings could result in increased revenue without raising taxes or affecting services.

# Parks, Recreational, and Cultural



The APA functional area where Danville has the largest staffing deviation from its peer group is parks, recreational, and cultural.

- Danville has approximately 80 percent more FTEs than the comparison group.
- Some of this staffing deviation is due to providing more services, such as the City running its own public library system.
- However, staffing structures within the Parks and Recreation Department could be examined.
  - Seven Division Directors report to the Department Director.
  - Below the Division Directors, there are 17 Managers and Supervisors who report within their Division.
  - The department has 59 budgeted FTEs in FY 2018 (in addition to part-time staff).
  - Therefore, over 40 percent of Department FTEs are in management. Re-organization of the department organizational structure may allow the City to bring the department's staffing in line with the comparator group.

# Danville Parks Conservancy



To maintain the City's current parks system without reforming the department's structure while lessening the cost to the General Fund, alternative funding could be identified. The City could explore the creation of a Danville Parks Conservancy to provide additional support to the City's parks. A Parks Conservancy could:

- Provide a new source of non-tax revenue to fund Parks facilities and programs from individuals and entities that might not otherwise fund projects of a government agency.
- With 501(c)3 tax status, would serve as the recipient of tax-deductible contributions or as a conduit ("pass-through") for payment of expenses for a parks project.
- Provide a formal, proactive approach to directly tap into the passion of individuals who use and care about parks, as well as corporations, other foundations, and grant agencies dedicated to quality of life enhancement.

# Danville Parks Conservancy



Other jurisdictions in Virginia have found that outside parks conservancies can often operate with more flexibility than a government agency. In fact, the launch of a Danville Parks Foundation with its own trustees (and ultimately staff) can help build community support for projects and programs, resulting in a virtuous cycle of increased funding – ultimately allowing for offsetting reductions in General Fund spending.

Successful examples of Park Conservancies in Virginia include:

- Monroe Park Conservancy in the City of Richmond
  - Leases the Park from the City for 30 years (beginning in March 2014)
  - Helps to oversee and finance the renovation, enhancement, and operation of the Park
  - Raised **\$3 million** in private funds to renovate and maintain the Park
- Loudoun Wildlife Conservancy
  - Founded in 1995
  - Raised **\$176,782** from contributions, grants, membership dues, fundraising events, sales, and investment income in 2017.
- Bull Run Mountains Conservancy in Broad Run
  - Founded in 1994
  - Member donations and contributions leveraged over **\$57,000** in matching funds from private foundations in 2017.

# 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) on Danville's west-side.
- Danville's libraries have total circulation of approximately 180,000 per year, but circulation is concentrated at the Main Branch.

# Consider Closure of Westover Branch



- The City should consider consolidating the library system by closing the Westover Branch, which is located in a leased facility.
- The Main Branch offers over 30 programs and activities for children, families, and seniors, while the Westover Branch offers just three programs for children and hosts a Book Club.
- The majority of the City's library amenities are located at the Main Branch: an auditorium, computer lab, genealogy room, "Maker's lab," story time/activity room, and Law Library.
- According to the Director of Parks and Recreation, the majority of the patrons of the Westover Branch are not residents of Danville.
- By consolidating the system at one location, the City could potentially eliminate several of the system's 19 FTE.
- An alternative to branch closure could be exploration of a joint City-County library system as part of a broader discussion of shared services (explored further below).

# Public Works Alternative Models



The APA functional area where Danville has the second largest staffing deviation from its peer group is Public Works.

- Danville created a special revenue fund that separated street maintenance functions supported by VDOT funds from the General Fund in order to reduce reliance on General Fund revenues for street and right of way construction and maintenance
- Danville has already chosen to “outsource” several functions that would otherwise be performed by Public Works staff, including pest control, HVAC, painting, major electrical repairs, and complex lawn care.
- Danville could pursue outsourcing of additional functions such as facility maintenance and custodial services. Beginning in FY 2018, the City of Petersburg outsourced these functions, resulting in a reduction of 12 FTE and cost savings of seven percent.
- Outsourcing decisions can be subject to a “managed competition” process where City staff bids against private service providers to compete on cost.
  - The Government Finance Officers Association considers managed competition a best practice and recommends that governments identify and evaluate service level, cost, efficiency, effectiveness, quality, customer service, and the ability to monitor the service provider’s work.

# Public Works Alternative Models



- A managed competition process allows the City to explore alternative models without committing to a particular course of action. For example, the City recently requested proposals for grounds maintenance functions and found that private providers were not competitive with City staff on cost.
  - Cities like Charlotte, NC and Phoenix, AZ have used managed competition and realized savings. Charlotte conducted approximately 60 competitions from 1994 to 2010 and saved \$10 million dollars in the areas of transportation, neighborhood development, garbage collection and water treatment. Phoenix has leveraged managed competition since 1979 and realize annual savings of \$1.2 million per year.
- For services that are cheaper to provide “in-house,” shared services arrangements across governmental entities should be explored.
  - The Government Finance Officers Association recommends shared services as a best practice: “shared services take advantage of economies of scale by aggregating like services across the organization or between organizations. They also promote best practices by organizing services into ‘shared-service centers’ that are focused on the most efficient/effective performance of that service and that are subject to result-based accountability via formal service-level agreements with customers.”

# Public Works Alternative Models



- The competitive process associated with Managed Competition helps to develop and ensure that maintenance costs remain low. Even in cases where the initial cost for contracting is higher, research indicates that a price differential of less than 10 percent between government in-house costs and private sector contract costs can encourage the process of cost savings.
- Danville staff identified facility maintenance and custodial services as areas that may realize savings through a competitive process. The City provides these services for the majority of public buildings, consisting of building repair, heating and air conditioning, equipment, electrical, and utilities.

# Public Works Alternative Models

- Including the costs of salary, benefits, and operational costs associated with these services, the City could realize a 10 percent savings through the managed competition process.
  - Managed competition for facility maintenance and custodial services across the City could yield nearly \$200,000 in savings.
  - Alternately, the City could chose to subject specific buildings or locations to managed competition. Doing so would allow the City to focus resources for building maintenance and related custodial services in specific City facilities while allowing outside entities to manage other locations. Savings would depend on which buildings are selected for outsourcing.

## Public Works Managed Competition: Buildings Maintenance and Custodial Services

- FY 2020 Savings – \$37,500
- Cumulative Savings to FY 2023 – \$192,200

# Shared Services



- Danville has several potential partners for consolidation of services including Pittsylvania County, Danville Public Schools, and other regional agencies.
- Each of these opportunities need to be weighed for potential cost savings and to ensure fairness in funding and service delivery.
- The City recently started discussions with Pittsylvania County to potentially consolidate 911 call center functions. The City should formalize this process more broadly by creating a Shared Services Working Group that would review opportunities across both governments, particularly for public works functions, a City-County library system, or other regional authorities.
- The City of Danville and Danville Public Schools may have duplicative services and opportunities for coordination, consolidation or shared services in the following areas: Building Maintenance and Grounds, Fleet Maintenance, Human Resources, Information Technology, and Libraries. The NRN Schools Team is currently exploring these opportunities in depth.

# End Direct City Operation of Airport

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- For those areas where managed competition or shared services are not sufficient to provide affordability for the City, ending a service or the operation of certain infrastructure may be considered.
- 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 – residents who are likely disproportionately affluent.
- 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



# Contributions To Other Entities

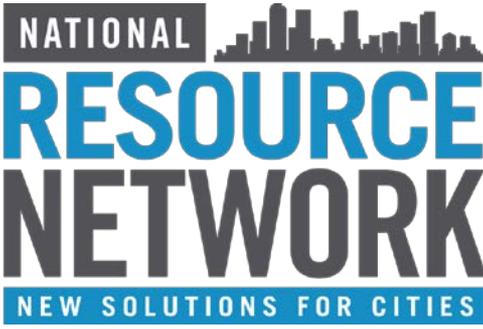
- The City of Danville spends \$2.01 million on annual contributions to independent organizations that promote the well being of its citizens.
  - 53% (\$1,069,650) to the health department and health services
  - 42% (\$850,630) to economic development and planning initiatives
  - 5% (\$91,830) to other groups
- While some of the City’s contribution to other entities is required by state law or is a pass through contribution, the City should consider reducing or eliminating non-mandated funds.
- Reducing or eliminating the City’s contribution to independent organizations will free up needed resources to close the City’s growing structural deficit. In the alternative, it would allow the City to manage the use of these funds so that they are more directly tied to meeting the City’s priorities
- An incremental phase out of non-mandated contributions will allow for local organizations to secure outside funding sources and free up critical City dollars for investment.



# Contributions To Other Entities

- The City should evaluate the mandates and uses of the below contributions and potentially phase-out funding for those not legally required.

Organization	2017 Contribution	2018 Contribution
Western Virginia EMS Council	\$9,060	\$9,060
Danville-Pittsylvania Community Services	\$329,860	\$361,050
Danville Health Department	\$601,970	\$601,970
Ambulance and Rescue	\$96,750	\$97,570
Metro Planning Organization	\$11,950	\$11,950
The Dan River Business Development Center	\$115,000	\$115,000
The Industrial Development Authority	\$689,390	\$650,000
Downtown Danville Association	\$50,000	\$50,000
The West Piedmont Planning District	\$24,130	\$23,680
Danville Community College	\$10,480	\$10,480
Southern Area Agency on Aging	\$5,460	\$5,460
Danville Area Humane Society	\$10,480	\$10,480
Virginia Cooperative Extension	\$64,750	\$65,410
<b>Totals</b>	<b>\$2,019,280</b>	<b>\$2,012,110</b>



# Danville Utilities



# Danville Utilities



- Danville is the only municipality in Virginia to operate electricity, natural gas, water, wastewater and telecommunications utilities.
- While investor-owned utilities set rates to provide return on investment for shareholders, in Danville the City is the shareholder.
- Biennial rate studies are performed to determine revenue requirements and rates for Gas, Electric, Wastewater, and Water utilities.
- Electric, natural gas, water, and wastewater enterprise funds make transfers to the General Fund in amounts meant to mirror what a private utility would pay in taxes. The total of these transfers account for a significant portion of the general fund budget.

Utility Fund Transfers	FY 2015	FY 2016	FY 2017	FY 2018
Electric	\$9,896,610	\$9,896,610	\$9,896,610	\$10,021,610
Gas	\$2,906,330	\$3,008,330	\$3,008,330	\$3,008,330
Water	\$937,300	\$937,300	\$937,300	\$942,300
Wastewater	\$685,760	\$685,760	\$685,760	\$693,760
<b>Total</b>	<b>\$14,426,000</b>	<b>\$14,528,000</b>	<b>\$14,528,000</b>	<b>\$14,666,000</b>
% of General Fund	14.8%	14.8%	12.6%	13.5%

# Danville Utilities

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- **Electric**

- Danville’s electric distribution system serves about 42,000 customer locations and covers approximately 500 square miles including the City and portions of three adjacent counties.

- **Water**

- The water utility serves about 18,000 residential and commercial accounts in Danville. It also distributes water through to Caswell County, NC and the Pittsylvania County Service Authority.

- **Wastewater**

- Wastewater utility operates wastewater collection lines, two treatment plants and nine pumping stations.
- Northside plant has the capacity to process 24 million gallons per day but is treating only 7 million due to loss of industrial customers.

# Danville Utilities

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- **Gas**

- The gas utility serves about 16,000 accounts.

- **Telecommunications**

- This utility provides e-rate service to Pittsylvania County Schools, but recently lost the Danville Public Schools contract.
- It also maintains and operates a fiber optic network in Danville.
- Danville telecomm is currently connected to 60 government buildings and 50 businesses.

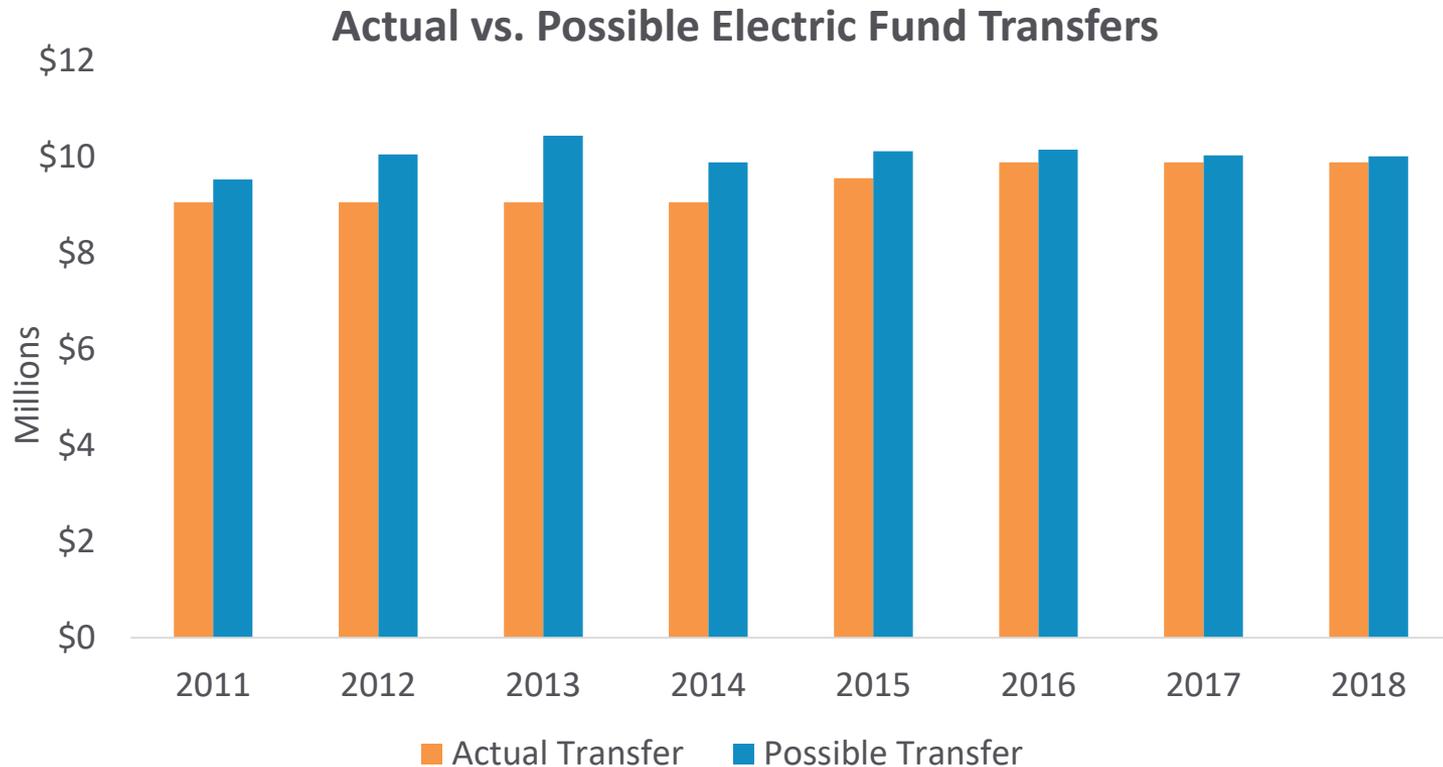
# Review Utility Transfer Funding Formula



- City financial policies establish that fund transfers should increase by half the average percentage growth in the fund's net fixed assets over the previous five fiscal years.
- Once transfer amounts are set, they are typically fixed for at least a two-year period. Changes are slow to take effect because of the biennial schedule of rate studies and sensitivity around already-high utility rates. This delay does not allow the City to capture annual transfer increases calculated by the formula as they occur.
- Adjusting financial policies to allow the City to establish a multi-year *minimum* rather than a fixed transfer amount would allow the City to maintain reliability in the revenue stream while adding the flexibility to capture potential annual increases in the transfer formula.

# Review Utility Transfer Formula

- The possible contribution amount, as calculated using the increase formula was higher than the actual contribution from the electric fund in every year since FY 2011.



# 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 2018 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
<b>Total</b>	<b>\$73,749,000</b>	<b>\$70,997,000</b>	<b>\$2,752,000</b>

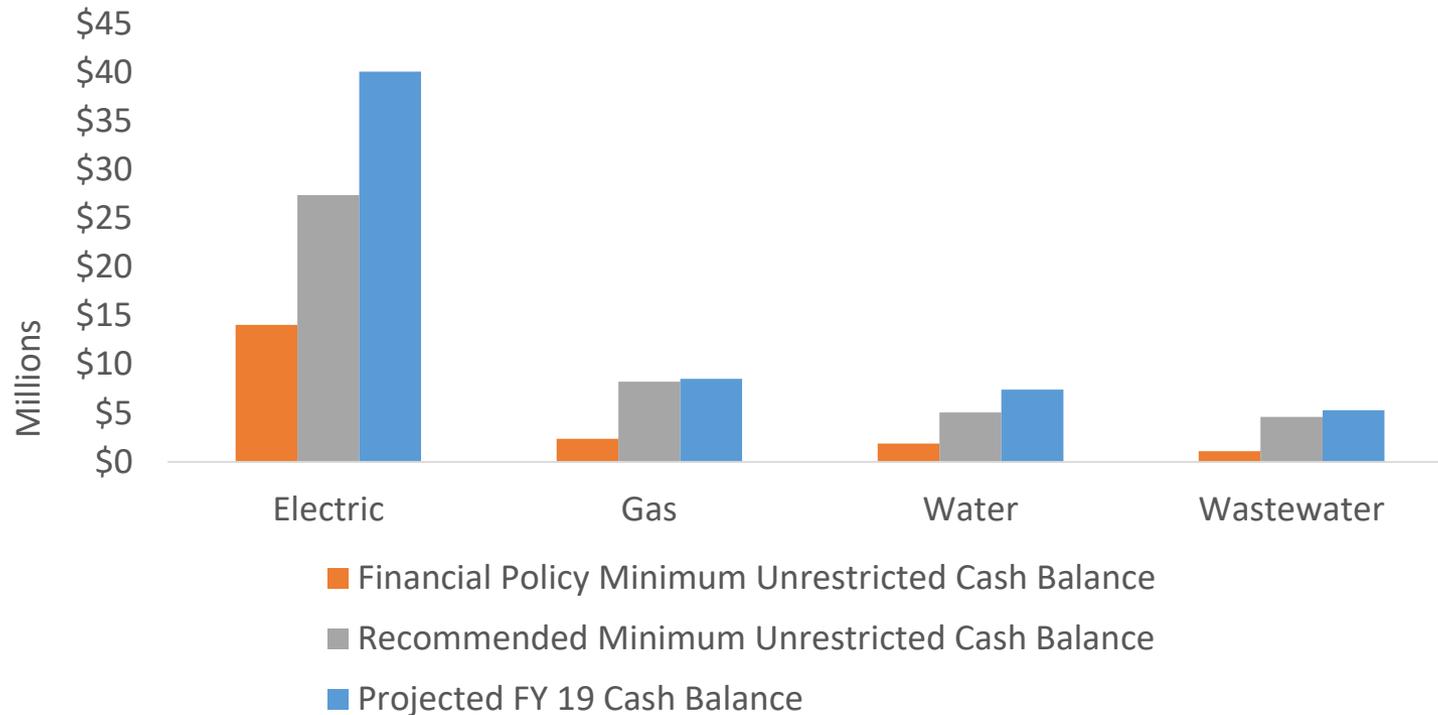
- If the City was able to capture transfer formula increases each year for each utility fund, the General Fund would have received an additional \$2.7 million from FY 2014 to FY 2018.

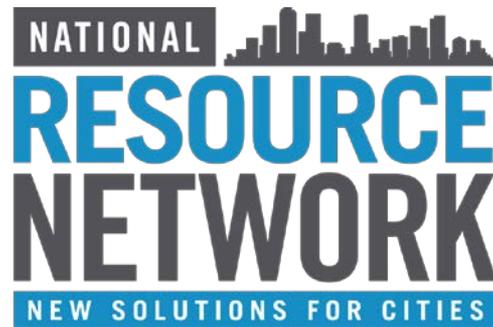
## One-time Utility Transfer Adjustment

- 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.





# Other Opportunities for Increased Revenue



# The Need for Additional Resources

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- 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 following 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.

# Methodology: Real Property Tax Burden



Adjustment for different municipal assessment practices

Adjustment for real estate markets differences

Adjustment for differences in prevailing wages & employment opportunities

	[A]	[B]	[A]x[B]	[C]	[D]	[C]/[D]	[A]x[B]x[C]	[A]x[B]x[C] / [D]
	FY18 Statutory Tax Rate	2015 Median Assessment / Sales Ratio	Effective Tax Rate	Median Value of Owner-Occupied Homes	Median Household income	Median Home Value / Household Income Ratio	Property Tax Burden Associated with the Median Home Value	Median Property Tax Paid per \$100 in HH income
<b>Danville</b>	<b>0.80%</b>	<b>98.27%</b>	<b>0.786%</b>	<b>\$90,800</b>	<b>\$33,721</b>	<b>\$2.69</b>	<b>\$713.50</b>	<b>\$2.12</b>
Harrisonburg	0.85%	98.57%	0.838%	\$197,400	\$40,494	\$4.87	\$1,653.91	\$4.08
Manassas	1.44%	96.57%	1.391%	\$293,500	\$74,371	\$3.95	\$4,081.43	\$5.49
Martinsville	1.06%	97.03%	1.031%	\$88,700	\$31,719	\$2.80	\$914.10	\$2.88
Lynchburg	1.11%	96.51%	1.071%	\$149,600	\$40,728	\$3.67	\$1,602.61	\$3.93
Petersburg	1.35%	104.13%	1.406%	\$111,300	\$32,169	\$3.46	\$1,564.61	\$4.86
Pittsylvania County	0.62%	100.64%	0.624%	\$114,400	\$43,087	\$2.66	\$713.82	\$1.66
Roanoke	1.22%	94.98%	1.159%	\$133,000	\$39,201	\$3.39	\$1,541.15	\$3.93
<b>Median</b>	<b>1.11%</b>	<b>97.03%</b>	<b>1.07%</b>	<b>\$133,000</b>	<b>\$40,494</b>	<b>\$3.46</b>	<b>\$1,564.61</b>	<b>\$3.93</b>
Danville vs Median	-0.31%	1.24%	-0.29%	-\$42,200	-\$6,773	-\$0.77	-\$851.10	-\$1.82
Danville vs Median	-38.8%	1.3%	-36.3%	-46.5%	-20.1%	-28.5%	-119.3%	-86.0%
Danville rank	7	4	7	7	6	7	8	7

Source: Weldon Cooper Center, Virginia Local Tax Rates 2017; Virginia Dept of Taxation, May 2017 Virginia Assessment/Sales Ratio Study; 2012-2016 American Community Survey, Tables B25076, B25077, B25078

# Methodology: Sales Tax Burden



2017 Mid-Atlantic estimates of the average % of household income allocated to various purchases

x

Census estimates of median household income, by City

x

City + State Statutory Sales & Use Tax Rates

=

## Estimated Sales and Use Taxes Paid Annually on a Median Household Income

	Median Household Income	Misc Taxable Purchases	Food for Home Consumption	Meals	Cigarette and Tobacco (a)	Gas	Total Annual Taxable Purchases	Sales tax per \$100 HH income
<b>Danville</b>	<b>\$33,721</b>	<b>\$290</b>	<b>\$58</b>	<b>\$180</b>	<b>\$25.3</b>	<b>\$78</b>	<b>\$630</b>	<b>\$1.87</b>
Harrisonburg	\$40,494	\$348	\$70	\$235	\$56.3	\$93	\$802	\$1.98
Manassas	\$74,371	\$683	\$117	\$377	\$106.7	\$155	\$1,438	\$1.93
Martinsville	\$31,719	\$272	\$54	\$177	\$37.3	\$73	\$614	\$1.94
Lynchburg	\$40,728	\$350	\$70	\$227	\$60.9	\$94	\$801	\$1.97
Petersburg	\$32,169	\$276	\$55	\$172	\$31.0	\$74	\$608	\$1.89
Pittsylvania County	\$43,087	\$342	\$65	\$157	\$30.1	\$102	\$695	\$1.61
Roanoke	\$39,201	\$337	\$67	\$191	\$74.5	\$90	\$759	\$1.94
Median	\$40,494	\$342	\$67	\$191	\$56	\$93	\$759	\$2
Danville vs Median	-\$6,773	-\$52	-\$9	-\$11	-\$31	-\$16	-\$129	\$0
Danville vs Median	-20.1%	-18.0%	-16.3%	-6.0%	-122.1%	-20.1%	-20.5%	-3.5%
Rank	6	6	6	5	8	6	6	7

(a) According to 2016 CDC data, the average pre-tax cost of a pack of 20 cigarettes in Virginia is \$3.792.

(b) According to the U.S. Energy Information Administration, the average gross price of gasoline in the Lower Atlantic Region is \$2.69/gallon as of 5/7/2018

Sources: *Virginia Local Tax Rates, 2017, Table 16.*; *Bureau of Labor Statistics' Consumer Expenditure Survey (CES), 2017*; *2012-2016 American Community Survey*; *Centers for Disease Control and Prevention, Tax Burden on Tobacco Volume 51, 1970-2016.*

# Methodology: Personal Property Tax Burden

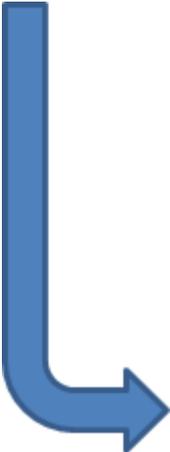


## Motor Vehicle Ownership Assumptions

Description of Automobile	Household Income: \$25k-\$50k	Household Income: \$50k - \$75k	
	Sedan, 4 door 4-cylinder, Automatic	Car 1: Sedan, 4 door 4-cylinder, Automatic	Car 2: 4WD Utility, 4 Door 6-cylinder, Automatic
Engine Size (L)	1.8	2.5	3.5
Weight (lbs)	2,851	3,300	4,178
Retail Value	\$12,875	\$17,925	\$15,375

Source: 2016 Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison

## Personal Property and License Tax Burden for Cars and Trucks



	Tangible Personal Property Tax Rate	Adjusted Effective Rate *	Local License Fee if		Tax Burden if	
			<4,000 lbs	>4,000 lbs	Household Income: \$25k-\$50k	Household Income: \$50k - \$75k
<b>Danville</b>	<b>3.50%</b>	<b>2.98%</b>	<b>\$25.00</b>	<b>\$25.00</b>	<b>\$408.03</b>	<b>\$1,040.68</b>
Harrisonburg	3.50%	2.98%	\$40.00	\$40.00	\$423.68	\$1,072.34
Manassas	3.60%	3.06%	\$25.00	\$25.00	\$418.98	\$1,068.98
Martinsville	2.30%	1.77%	\$29.00	\$29.00	\$256.89	\$647.41
Lynchburg	3.80%	3.23%	\$29.50	\$34.50	\$445.36	\$1,139.59
Petersburg	4.40%	3.39%	\$23.00	\$28.00	\$459.46	\$1,179.87
Pittsylvania County	8.75%	2.23%	\$38.75	\$38.75	\$325.86	\$820.09
Richmond	3.70%	3.15%	\$23.00	\$28.00	\$428.56	\$1,099.95
Roanoke	3.45%	2.66%	\$28.00	\$28.00	\$370.48	\$941.78
Median	3.65%	3.02%	\$28.50	\$28.50	\$421.33	\$1,070.66
Danville vs Median	-0.15%	-0.04%	-\$3.50	-\$3.50	-\$13.29	-\$29.98
Danville vs Median	-4.3%	-1.5%	-14.0%	-14.0%	-3.3%	-2.9%
Rank	6	6	6	8	6	6

\* [Adjusted effective rate] = [statutory tax rate] x [relationship to retail value] x [assessment ratio]

Source: Virginia Local Tax Rates, 2017, Tables 9.1, 9.3, and 15.1

# Findings: Household Tax Burden



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.

	Real Property Tax	Sales and Excise Tax	Tangible Personal Property Tax	Total State and Local Annual Tax Liability	
				per Household	per Capita
<b>Danville</b>	<b>\$713.50</b>	<b>\$630.40</b>	<b>\$408.03</b>	<b>\$1,751.94</b>	<b>\$771.46</b>
Harrisonburg	\$1,653.91	\$802.01	\$423.68	\$2,879.59	\$921.07
Manassas	\$4,081.43	\$1,438.26	\$1068.98	\$6,588.67	\$1,990.26
Martinsville	\$914.10	\$613.97	\$256.89	\$1,784.96	\$762.27
Lynchburg	\$1,602.61	\$801.36	\$445.36	\$2,849.33	\$1,023.23
Petersburg	\$1,564.61	\$608.24	\$459.46	\$2,632.30	\$1,083.87
Pittsylvania County	\$713.82	\$695.06	\$325.86	\$1,734.75	\$732.00
Roanoke	\$1,541.15	\$759.38	\$370.48	\$2,671.00	\$1,096.11
Median	\$1,552.88	\$727.22	\$415.85	\$2,671.00	\$1,023.23
Danville vs Median	<b>-\$839.37</b>	<b>-\$96.82</b>	<b>-\$7.82</b>	<b>-\$919.07</b>	<b>-\$251.78</b>
Danville vs Median	<b>-54.1%</b>	<b>-13.3%</b>	<b>-1.9%</b>	<b>-34.4%</b>	<b>-24.6%</b>
Danville Rank (out of 8)	8	6	5	7	6

Note: Figures reflect the estimated tax burden for a family earning the median household income for the locality.

Sources: 2012-2016 American Community Survey; Weldon Cooper Center, Virginia Local Tax Rates 2017; Bureau of Labor Statistics, Consumer Expenditure Survey; District of Columbia, 2016 Tax Rates and Tax Burdens: A Nationwide Comparison;



# Findings: Household Tax Burden

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.

## Tax Burden for a Hypothetical Household living on \$33,721/year \*

	Real Property Tax	Sales and Excise Tax	Tangible Personal Property Tax	Total State and Local Annual Tax Liability	
				per Household	per Capita
<b>Danville</b>	<b>\$713.50</b>	<b>\$630.40</b>	<b>\$408.03</b>	<b>\$1,751.94</b>	<b>\$771.46</b>
Harrisonburg	\$1,377.27	\$653.59	\$423.68	\$2,454.54	\$785.11
Manassas	\$1,850.59	\$638.19	\$418.98	\$2,907.75	\$878.35
Martinsville	\$971.80	\$638.77	\$256.89	\$1,867.45	\$797.50
Lynchburg	\$1,326.89	\$649.30	\$445.36	\$2,421.55	\$869.61
Petersburg	\$1,640.09	\$623.95	\$459.46	\$2,723.50	\$1,121.42
Pittsylvania County	\$558.65	\$532.34	\$325.86	\$1,416.86	\$597.86
Roanoke	\$1,325.71	\$639.26	\$370.48	\$2,335.44	\$958.40
Median	\$1,326.30	\$638.48	\$413.50	\$2,421.55	\$869.61
Danville vs Median	-\$612.80	-\$8.07	-\$5.47	-\$626.56	-\$62.10
<b>Danville vs Median</b>	<b>-46.2%</b>	<b>-1.3%</b>	<b>-1.3%</b>	<b>-27.7%</b>	<b>-11.3%</b>
Danville Rank (out of 8)	7	6	5	7	7

\* According to the 2012-2016 American Community Survey, \$33,721 is the mean household income in Danville.

Sources: 2012-2016 American Community Survey; Weldon Cooper Center, Virginia Local Tax Rates 2017; Bureau of Labor Statistics, Consumer Expenditure Survey; District of Columbia, 2016 Tax Rates and Tax Burdens: A Nationwide Comparison;



# 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)
<b>Danville, VA</b>	<b>\$0.80</b>



# 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.

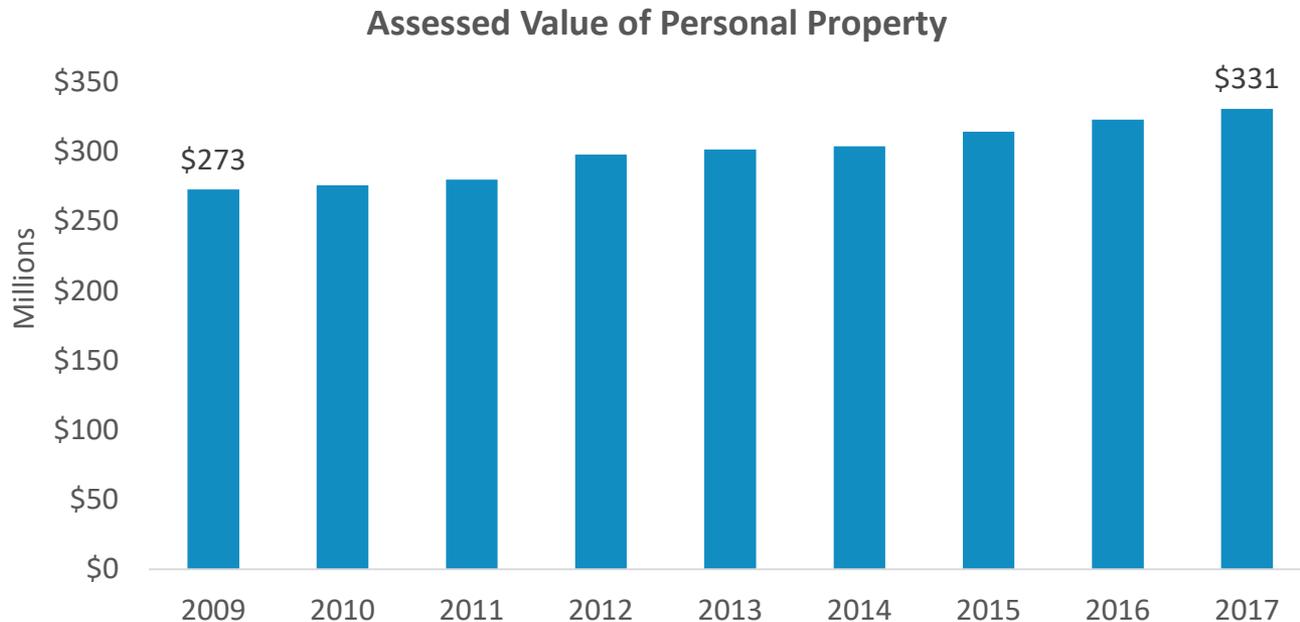
## Raise Tax Rate to \$1.00

- 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



# Tax Base Expansion

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- Danville may be able to increase revenue by expanding the base of certain taxes to apply to additional property or services.
- It is difficult to project how much these changes may add to tax revenue, but tax base expansion can help the City to collect more revenue without necessarily increasing tax rates.
- Two examples of tax bases that can be expanded include personal property tax and legal document taxes.

# Tax Base Expansion



- Personal Property Tax
  - Unlike the cities in our comparison group, Danville does not apply Personal Property Taxes to:
    - Generating Equipment
    - Research & Development
    - Biotechnology
    - Livestock
    - Farm Equipment
    - Recreational vehicles
    - Horse trailers
    - Special fuel vehicles
    - Electric vehicles

# Tax Base Expansion

- Personal Property Tax

- The following table shows whether comparable jurisdictions levy property tax on certain items

	Generating Equipment	R & D	Bio-technology	Livestock	Farm Equipment	Recreational Vehicles	Horse Trailers	Special Fuel Vehicles	Electric Vehicles
Danville, VA	No	No	No	No	No	No	No	No	No
Harrisonburg, VA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lynchburg, VA	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Manassas, VA	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes
Martinsville, VA	Yes	Yes	Yes	No	No	Yes	Yes	No	No
Petersburg, VA	No	No	No	No	No	Yes	No	Yes	Yes
Pittsylvania Co, VA	Yes	Yes	Yes	No	No	Yes	Yes	No	No
Roanoke, VA	Yes	Yes	Yes	No	No	Yes	Yes	No	No
<b>Total</b>	<b>6 of 8</b>	<b>6 of 8</b>	<b>6 of 8</b>	<b>1 of 8</b>	<b>1 of 8</b>	<b>7 of 8</b>	<b>5 of 8</b>	<b>4 of 8</b>	<b>4 of 8</b>

# Tax Base Expansion



- Legal Document Taxes

- Danville levies a legal document recordation tax but does not levy a tax on wills and administration.
- State law permits cities and counties to levy a 3.3-cent tax on the probate of every will or grant of administration.
- A majority of comparable jurisdictions choose to levy this tax.

	Will and Administration Tax Levied
Danville, VA	No
Harrisonburg, VA	No
Lynchburg, VA	Yes
Manassas, VA	No
Martinsville, VA	Yes
Petersburg, VA	Yes
Pittsylvania County, VA	Yes
Roanoke, VA	Yes
<b>Total</b>	<b>5 of 8</b>



# Review Investment Policies

- The City typically realizes between \$500,000 and \$1.7 million in income per year from its cash holdings and investment portfolio. It is possible that with a different investment strategy the City could realize additional returns without assuming excessive risk.

Fiscal Year	Investment Income
2008	\$1,626,835
2009	\$1,327,296
2010	\$683,469
2011	\$591,487
2012	\$986,545
2013	\$521,402
2014	\$1,641,092
2015	\$1,020,884
2016	\$1,333,951
2017	\$632,649

# Review Investment Policies

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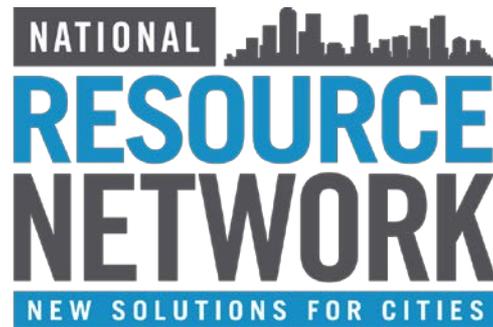


- The City might reconsider their investment policy on permitted investments to ensure it aligns with the Commonwealth's guidelines.
- The City's investment policy appropriately differentiates funds needed for liquidity from funds available for investment; however, the investment strategy is relatively formulaic once the funds are segregated. It is possible that the City could consider longer-term strategies for a portion of the funds marked for investment by using an alternative cash flow scenario.
- The City could consider more aggressive investment performance benchmarks for third-party accountability and to realize higher returns.

# Review Investment Policies

Investment	FY 2014	FY 2015	FY 2016	FY 2017	Weighted Average Maturity (FY 2017)
Municipal taxable bonds	\$23,438,225	\$16,131,371	\$12,475,353	\$8,757,393	0.97
Municipal non-taxable bonds	\$2,641,290	\$496,130	\$505,880	\$499,385	1.48
Corporate bonds	\$22,409,315	\$15,542,190	\$13,398,790	\$10,087,510	0.67
Corporate foreign bonds	-	\$2,536,820	\$2,516,255	\$2,000,710	0.41
U.S. Government bonds	\$9,074,420	\$25,345,680	\$25,092,590	\$29,789,840	7.73
Certificates of deposit	\$31,607,229	\$32,107,229	\$52,500,000	\$52,500,000	2.77
LGIP	\$5,060,391	\$5,066,055	\$5,082,418	\$5,120,813	-
SNAP	\$7,722,468	\$4,593,005	\$9,285,492	\$12,036,291	-
<b>Total</b>	<b>\$101,953,338</b>	<b>\$101,818,480</b>	<b>\$120,856,778</b>	<b>\$120,791,942</b>	

- Finally, the City may be able to get better pricing on their investment securities by soliciting multiple bids on each security.



# Investing in Danville's Future



# Investing in Danville's Future

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- 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



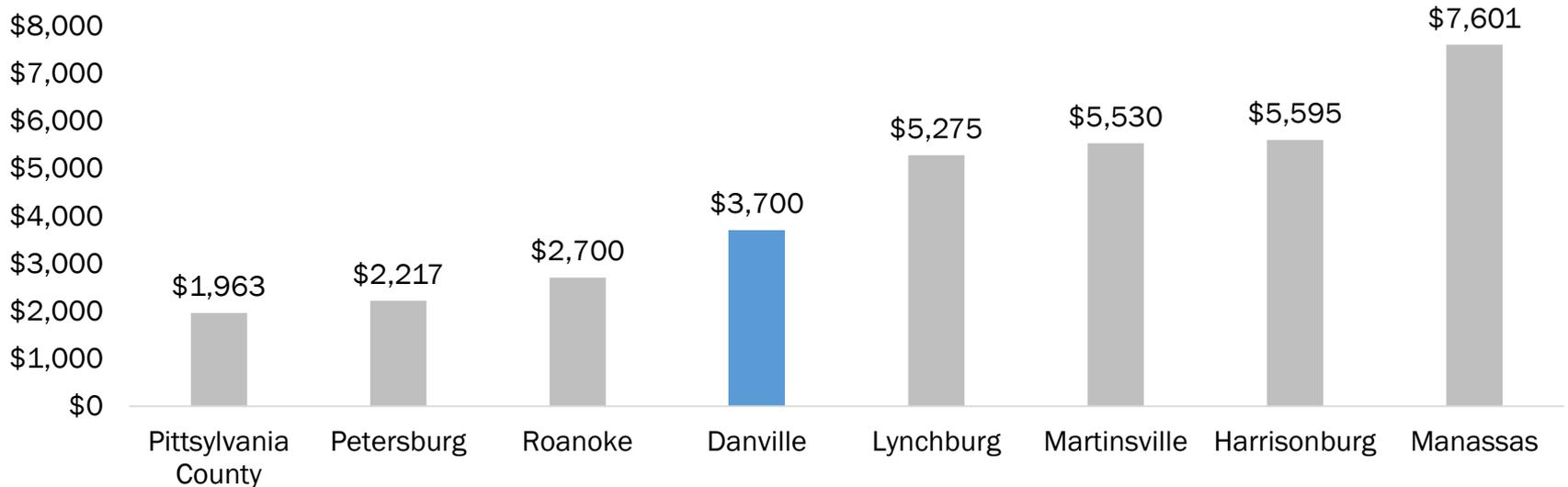
- The City Council and Danville leaders have regularly cited the need to improve public education in Danville as the most important investment that can be made to improve quality of life and economic competitiveness.
- The City’s FY 2018 budgeted contribution to DPS is \$22.5 million. By comparison, 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

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- 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

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- 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.

# Increase Funding for DPD Technology

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- In the last five years, Danville has made a series of significant investments in new technology designed to be “force multipliers” – low cost ways to expand police coverage, particularly in high crime areas.
- A 2012 PERF brief identified a series of potential investments in cameras (red light, traffic, speed, crime), shot spotter technology and license plate readers as key investments. In addition, a number of police departments have developed real time crime centers as a way of proactively using technology for intelligence and crime fighting.
- The “force multiplier” aspects of technology investment mean that the DPD can have greater coverage with fewer officers. For example, instead of ten officers patrolling ten beat areas, the use of cameras may mean that only five officers are needed supported by a single officer monitoring 20 camera locations.

# 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

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- 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

- For example, Danville could potentially pursue the creation of a Property Assessed Clean Energy (“PACE”) program, which makes it possible for owners of commercial, industrial, multifamily, and nonprofit properties to obtain low-cost, long-term financing for energy efficiency, water conservation, and renewable energy projects.
- Businesses and organizations can obtain 100 percent financing for clean energy improvements from a local PACE program. Municipalities and counties work with private-sector lenders to provide this financing for qualified projects, such as solar panel installations, which is paid back through an annual assessment on the organization’s property tax bill. A marketing campaign directed toward landlords and other potential beneficiaries of the program can be used to boost participation.
- The Commonwealth is one of 34 states with PACE-enabling legislation. There is an active commercial PACE program in Arlington County, and a program in development in Loudoun County, but Danville could be the first municipality to launch a PACE program.
- A financial advisor with specialization in environmental finance or energy efficiency programs could recommend a specific program structure and the magnitude of the initial investment, but approximately \$2 million would be consistent with comparable programs for a City of Danville’s size.

# 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?

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- 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?

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- 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.