

May 17, 2023 Budget Work Session

A budget work session of the Council of the City of Martinsville, Virginia, was held on May 17, 2023, in Council Chambers, Municipal Building, at 6:00PM with Mayor LC Jones presiding. Other Council Members present included Vice Mayor Rawls, Council Member Lawson, and Council Member Mitchell. Staff present included City Manager Leon Towarnicki, Finance Director Mandy McGhee, and Assistant Finance Director Crystal Ferguson. Mayor Jones explained that Council Member Pearson was unable to attend but had requested to participate remotely. Under Code of Virginia § 2.2-3708.3 Section 4, Council Member Lawson made the motion to allow Pearson to participate in the meeting remotely. Vice Mayor Rawls seconded the motion with all present Council Members voting in favor.

Mayor Jones opened the meeting.

Mark Heath, Director of the EDC shared a PowerPoint introducing the staff, briefly summarizing the services offered in tourism and business development, FY2023 funding, business development workshops and small business clients, procurement, annual tourism expenditures for Martinsville-Henry County, and tools used including brochures, the Visit Martinsville website and app, and the Martinsville Made program. Heath also touched on marketing and recruiting by the EDC, collateral material, wage and benefit survey, M-HC EDC website, updates on Commonwealth Crossing and Patriot Centre Industrial Parks, marketing tools and activities, etc. Vice Mayor Rawls said the EDC is doing a lot more in Martinsville than they get credit for.

City Manager Towarnicki reminded Council of the budget report changes including the discrepancy of the meals tax fund. Under the risk management section on page 31 of the budget binder, there is a worker's comp line. Towarnicki explained that number had been loaded in as a "place holder" but while going through the budget, the worker's comp amount had also been loaded in a previous location, making the risk management line overstated. The net effect of that, looking back at page 14 Council will see the section called Transfers from ARPA - with the \$275,000 removed from the ARPA transfer, that line item would be \$1,194,494 after the correction was made. The new budget sheets reflect the \$3 rate increase on both water and sewer. The budget public hearing will be held during the Tuesday May 23, 2023 Council meeting. With no further questions, Towarnicki stated that his budget presentation was complete.

Vice Mayor Rawls shared ideas suggested by Council Members related to the proposed budgets and invited Council Members to chime in at any time with comments or opinions. Rawls shared goals including 1. Eliminating use of one-time money (ARPA) to balance the general fund, 2. Reduce use of the enterprise (utility) funds to balance the general fund, 3. Lower real estate tax rate, 4. Stabilize expense growth rate, 5. Provide pay increase to city employees, and 6. The budget issues of the past become the past. We do not revisit the same known and preventable challenges in 2024. Rawls detailed key factors affecting budget

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decisions including: 1. Inflation of -20%, this budget is a tale of inflation, 2. Health insurance increase of 11.2%, 3. State employee pay increase of 7.2% (overall package increase of -10%), 4. Rapid growth of department expenses, 5. Real estate assessment increase of -20% (note this is aligned with inflation), and 6. National increase of real estate values by 27%-30% since 2020 per Zillow and Freddie Mac. Rawls explained his proposals and what is different vs the City Manager's budget - : 1. No ARPA money used to balance the general fund, 2. Lower the real estate tax of \$0.99, 3. Historically modest transfer from the water fund, 4. Modest transfers from the meals tax and telecom (MiNET), 5. a reduction to non-personnel departmental costs such as services, consulting, software, travel, etc. 6. Combining two positions and deferred hiring of a third position, 7. Lodging tax rate of 7% compared to Roanoke 7%, Danville 8% and Lynchburg 6.5%, and 8. City employee pay increase of 5% instead of 7%. Rawls detailed the "bottom line" being: 1. removal of \$1.5million ARMA money from budget revenues, 2. Removable of \$390,000 of real estate tax revenues from the budget, 3. Replacing ARPA and RE revenues with a mixture of other existing revenue sources, expense reductions, organization changes, and a 2% reduction in payroll increase. One way to look at this is we are balancing \$1.2million in increased real estate tax revenues against \$1.2million in employee pay increases. A \$0.05 decrease in real estate tax rates provides residents with some tax relief (\$390,000) while still providing city employees with a stable pay raise of \$850,000. Rawls explained the future that Council hopes to achieve sharing that: 1. Pay increases will be very difficult to pull off without significant revenue growth. A pay increase always results in corresponding benefits expenses which are a 30% addition to salary costs. A 1% increase to salary is a 1.3% increase in expenses. Note this does not include health insurance costs which are also growing rapidly., 2. Department expenses will not grow at double digit rates, 3. General fund revenues are sufficient to cover general fund expenses, 4. Telecom (MiNET) will grow and be a strong source of revenue for the City, 5. We will not inhibit but will instead move heaven and earth to make new, legitimate revenue sources a reality, and 6. Non tax-generating properties become tax-generating. Rawls continued by explaining budget principles: 1. New expenses will not be added to the budget without corresponding revenues, 2. All pay raises, programs, etc. must have a dependable and recurring revenue source, 3. New/updated expenses will include a narrative explanation/overview to Council, 4. Core government functions come first, 5. We are shrewd negotiators/consumers, 6. We are frugal with citizen's money, 7. We pursue grants aggressively, 8. We do not spend money just because it needs to be spent, 9. We adopt technology that creates convenience and reduces cost, and 10. We aggressively pursue new sources of revenue.

Vice Mayor Rawls said he has a spread sheet of how Martinsville taxes compare to other cities in the state as well as an analysis of constitutional offices. Council Member Lawson asked about pay raises for constitutional offices and if the City would be required to honor

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what the state passes for those positions. Towarnicki explained that approximately 1/3 of the City staff are in constitutional offices.

City Manager Towarnicki said he would like to take time to review Rawls' suggestions before recommending Council's approval for those changes and asked Rawls to forward him the spreadsheets he referenced. Council agreed on the lodging tax and would like to review the cigarette tax again prior to budget approval.

City Manager Towarnicki asked Council for confirmation that they prefer to eliminate the use of any ARPA money; Rawls confirmed 100%. Towarnicki also asked for confirmation that Council preferred to reduce the real estate tax rate to \$0.99; Rawls confirmed that was also correct. Towarnicki said he and Mandy McGhee, Finance Director would look over Council's suggestions to see how they can fit some or all of those recommendations into updating the proposed budget. Rawls said the \$275,000 from the risk mitigation would make it much easier.

Council Member Lawson suggested postponing Monday's neighborhood meeting and having another budget work session Monday at 6:00pm. Towarnicki and Council Members agreed. Towarnicki shared that Kimball Payne of the Berkley Group requested 2 hours to meet with Council Members prior to the May 23 meeting beginning around 4:00pm. There will also be a Closed Session that evening.

Fire Chief, Dan Howell questioned the 5% reduction to departments, Rawls confirmed that was still in place.

There being no further questions or discussion, the meeting adjourned at 8:30pm.

Karen Roberts, Clerk of Council

LC Jones, Mayor