

April 19, 2017

City Council and Residents of Villa Hills:

RE: Fiscal Year 2017-2018 Proposed Budget

Introduction

I am pleased to submit my proposed budget for the fiscal year beginning July 1, 2017 and ending June 30, 2018 for your review and consideration. I look forward to hearing from residents and working with Council over the next few months as we go through the budget process.

The proposed budget for FY 2018 calls for total General Fund appropriations of \$3,098,614 and \$3,770,085 for all funds. The General Fund budget being presented is 5.84% more when compared to the General Fund budget that was approved last year, but is only \$8,000 more than the budget in place when I took office 2 and a half years ago. The budget, as proposed, is balanced as required by the Kentucky Revised Statutes.

The Kentucky Municipal Road Aid Fund (KMA) is proposed at \$140,000 for FY 2018. This budget proposal also continues the Capital Replacement Fund with a transfer from the General Fund of \$206,400 and budgeted expenditures of \$127,450 for next fiscal year. The Road Tax fund is proposed to collect and spend the estimated \$460,000 that will be generated by the road tax.

Please remember that budgets set forth the general plan for revenues and expenditures and must be adjusted as the year progresses. Villa Hills has consistently been conservative in its budget estimates, and this proposal continues that tradition.

Current Financial Position and Budget Overview

During FY 2016 the City significantly changed its revenue stream in regards to roads. The 2% increase in Insurance Premium tax was rolled back and replaced with a half percent increase in the payroll tax and a voter approved road tax. Council also approved

borrowing \$750,000 to address critical failing roads. All together the city budgeted \$1.2 million dollars for road work this year.

Expenditures are under tight control thanks to the day-to-day fiscal discipline of our City Administrator/Clerk, Chief of Police, and Public Works Director. Contracted Services is the only department likely to exceed its adopted budget due to

Several unfunded liabilities continue to confront the city, notably spiking penalties totaling roughly \$213,000 and about a half dozen unresolved lawsuits. We are working vigorously to defend the City and bring these issues to closure. It is anticipated that any expenditures for these items will come from reserves through a budget amendment once these items are resolved.

General Fund

Revenues: General Fund Revenues for the City are expected to grow 3.26% as a result of the strong insurance premium tax collections, higher payroll tax receipts and, based on comments made by Council at our March meeting, this proposal contains the 4% increase in property tax revenue.

Villa Hills is heavily dependent on its property tax, which represents nearly half of all revenue to the city. No one likes increasing property taxes, but continued inflation year after year eats away at our ability to provide the level of services you already receive. In the past 15 years, the city has increased its general property tax twice for a combined 6%. I wish I could say that the city's expenses have risen by only 6% over the last 15 years.

Expenses: Our General Fund appropriations for FY 2016 are expected to be 5.85% above current levels.

Personnel Costs: The citizens and taxpayers of Villa Hills are extremely fortunate to have high quality and dedicated employees working for them. The proposed budget includes a 2.5% merit increase in salaries to be distributed based on upcoming personnel evaluations at my discretion. There is also an increase of 7% estimated for medical insurance premiums effective July 1, 2017. Required contributions to the State pension system are scheduled to increase during FY 2018.

It should be noted that during FY 2018 we expect to spend \$1,195,211 approximately 39% of the General Fund budget, to pay employees and their related fringe benefits. This is 2.5% less than last year. Villa Hills runs with a skeleton staff as evidenced by the fact that 61% of the budget is spent on items other than staff.

Administration: There is a 6.11% increase proposed for the Administration budget. This is the result of salary adjustments for both full time employees in this department.

Contracted Services: The proposed budget for FY 2017 is 1.88% higher than the budget for FY 2016. This is due to moving the sidewalk program into the contracted services department and the creation of a new economic development which will fund a study of River Road and cover city related development costs with the St. Walburg property. The Fire Department budget is up 2.5%, but remember that this is the first increase for them in 2 years.

Events & Beautification: This budget is reduced by \$4,500 to match expenditures over the past 2 years since the department was created.

Parks & Recreation: The proposed budget for FY 2018 is \$7,000 higher than the current appropriation due to a bookkeeping issue where the city must expense annually a portion of prepaid contract with the Civic Club. The budget includes all of the materials and supplies needed to fully meet our obligations under the contract with the Sisters at St. Walburg for the public use of Villa's fields.

Police Department: The Police Department is proposed to be 0.99% lower than the current budget as a result of hiring another retired police officer and avoiding the state pension costs. Some of the savings have been used for salary adjustments for police officers. Staffing for the department is maintained at its current levels of 8 full-time officers and a part-time police clerk.

Public Works: This budget is proposed to decrease 10.77% in FY 18. This is due to the removal of Road salt and the sidewalk program from this department budget. No counting these items, the Public Works Budget would have risen 3.25%.

Designated Expenditures: The city restricts the use of the additional 0.5% on the payroll tax to roads. That is proposed to be \$125,000 in FY 18. Other designated funds include \$3,000 in delinquent vehicle license fees collected by a third party debt collector for years 2013 and 2014; and \$206,400 to be transferred to the Capital Fund.

General Fund Balance: Two reservations are proposed within the General Fund reserve. An "Operational Expenses" reservation at \$750,000 to cover cash flow for city operations, and the \$315,000 reservation to be the matching funds for the Buttermilk Pike project grant. This is reduced from \$400,000 last year with \$75,000 authorized this year to pay for pre-construction costs. Any additional funds remaining in the General Fund balance after this designation would be undesignated and unappropriated to be used upon authorization from Council through a budget amendment.

In the future I would like to work towards the creation of a Stabilization Fund equal to 25% of the City's General Fund budget with triggers on when those funds could be used to ensure City services could continue during financial hardships or unexpected emergencies. While the current undesignated fund balance is not nearly

large enough to set this up this year, I hope we can accomplish this change in next year's budget.

KMA Fund

KMA is revenue collected from gasoline taxes imposed by the state and shared with local jurisdictions. The city is expected to receive about \$140,000 in municipal road aid from the state. About \$87,000 in debt service for the road lease agreement signed last year will be paid for out of KMA funds. The remaining \$53,000 will be used for qualified road projects.

Special Revenue Funds

These are funds held in trust by the City on behalf of city-affiliated organizations such as our Adopt-a-Unit account and the "Shop-with-a Cop" fund. These funds do not receive taxpayer funds and are not budgeted by the City. Nevertheless, they show up on our balance sheet and are held in a separate fund from the city's General and KMA funds.

Capital Replacement Fund

The budget proposal transfers \$206,400 to the Capital fund to pay for capital expenditures. With the prior year balance, expenditures of \$80,650 are proposed to pay for a new computer server, replace obsolete in-car cameras for the Police, purchase a needed pick-up for the public works department, and install building cameras at the city offices and Tom Braun field. Also included are debt payments for the police cruisers and dump truck purchased last year and reservations for new radios for the police and fire department that need to be purchased when Kenton County converts to a new, more advanced, radio system.

Road Fund

This proposal include a new Road Fund for the road tax proceeds approved by voters. This fund is anticipated to receive \$460,000 and with the approved 10 year road plan in place, all these funds will be used to improve the city's roads.

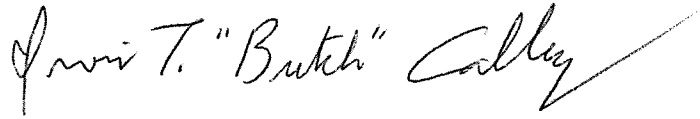
Acknowledgements

It takes extraordinary effort on the part of numerous individuals to prepare this document. I would like to thank Councilmembers for their comments and input during the during the budget process. I would also like to thank the City Administrator/Clerk, the Chief of Police, and the Public Works Director for their efforts in preparing their requests and for working cooperatively to make the appropriations fit within our available resources. Finally, I would like to thank our Finance Committee, Jim Cahill, Scott Campling, Bob Hagedorn, Denny Merschner,

Tom Noll, and the Chairperson, Councilmember Gary Waugaman for their input and insights while drafting this plan.

If you should have any questions regarding this document please feel free to contact me.

Sincerely,

A handwritten signature in black ink that reads "Irvin T. 'Butch' Callery". The signature is written in a cursive style with a long, sweeping flourish at the end.

Irvin T. "Butch" Callery
Mayor