Advanced Budgeting Case Study: City of Danville

Presentation to VRA's Governor's Infrastructure Financing Conference

April 4, 2019

Agenda

- Introduction
- Why do multi-year financial planning?
- Overview of NRN's engagement with City of Danville

Background on the City of Danville

- The City of Danville was founded in 1793, chartered in 1830, and is located on the Dan River in the south-central Piedmont region of Virginia.
  - The North Carolina state line forms the city's southern boundary. The city is surrounded on the west, north, and east by Pittsylvania County.

- Danville was originally established as a tobacco warehousing and export hub with expansion into textiles. In 2006, Danville lost its second largest employer, the Dan River, Inc. textile mill, when production moved overseas.

- The City covers an area of approximately 44 square miles and has a population of approximately 43,055.

- The City operates under the council-manager form of government and provides a full range of services including police and fire protection; sanitation services; the construction and maintenance of streets and infrastructure; recreational activities; and cultural events. In addition to the general government activities, the City provides mass transit, water and wastewater treatment, gas, fiber network, and electric services.

Strengths and Opportunities

- Danville has a strong 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 strong credit ratings. Agencies have affirmed or upgraded the City's debt within the past year.

- The City has taken steps to address its fiscal issues:
  - 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 City recently adopted a series of tax increases:
  - 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.

Background on PFM

OUR PURPOSE

At PFM, asset managers, financial advisors and consultants partner with clients to transform their world. Our clients have individual needs, and our tailored advice reflects this. We have the flexibility to support the largest endeavors any client could contemplate with teams that maintain the camaraderie, the collaboration and the creativity that define working with PFM. We combine superior financial advice, disciplined management and ingenuity to build, power, move and educate.

Advice for people transforming their world

OUR PRINCIPLES

Expertise + Insight = Ingenuity

We are avid problem-solvers, using our collective expertise to deliver the best solutions. We mine the experience of our colleagues, combining wisdom and agile thinking to develop answers and execute strategies for our clients.

Curiosity + Commitment = Sustainability

We are committed to understanding our clients' needs and achieving their goals. We are collaborative advisors, mentoring the next generation, nurturing curiosity and preparing both our clients and ourselves for the future.

Diversity + Grit = Resourcefulness

We believe it takes both diversity of thought and background to understand the integrated and textured worlds of our clients. We use that understanding to work smart, digging deep to deliver, both for our colleagues and our clients. Partnering with our clients in powerful ways, we bring a wealth of perspectives to generate better ideas and better advice.

# Direct Assistance from National Experts

Enterprise℠

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HR&A
Analyze. Advise. Act.

NYUWagner
Robert F. Wagner Graduate School of Public Service

ICMA

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Strategic Partners and other providers (e.g. Jobs for the Future, Center for Community Progress)

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NATIONAL
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NEW SOLUTIONS FOR CITIES

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.

- In 2017, the City of Danville applied to the National Resource Network for assistance with multi-year financial planning.

- The City's Plan was presented in mid-July. The three priority areas in the City's plan included:
    - Reduction in violent crime
    - Improving education in City schools
    - Growing Danville

- The City's Plan also included a multi-year financial projection and a menu of gap-filling initiatives.

- In April 2018, the City requested that the scope of the project be amended to include assistance with multi-year financial planning for Danville Public Schools
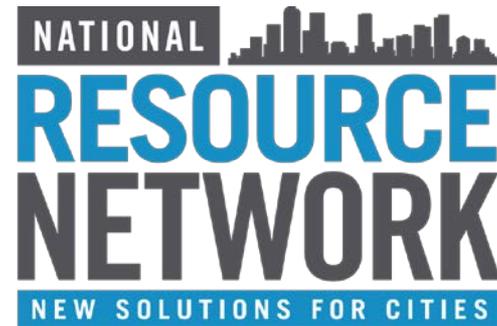
Why do Multi-year Financial Planning?

What is Multi-Year Financial Planning?

A **multi-year financial plan** will help you think through budget position, structural position, and community goals in a quantified, analytical, logical way and communicate your thoughts and priorities to different audiences. It includes:

- **A baseline projection** is like the diagnosis your doctor gives you after a physical. It reflects your 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 or 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.

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Why Do Multi–Year Financial Planning?

- Pin down creative ideas and innovative best practices that will help your City address fiscal challenges (immediate and long term) and align spending with strategic goals.
  - Define the problem
  - Assess opportunities for cross-cutting savings, efficiencies, and new revenues
  - Determine priorities for future investment

- Sidestep the traps of budgeting one year at a time, such as:
  - Missing out on strategic opportunities for efficiency that require Year 1 investment or do not produce Year 1 savings
  - "Wait 'til next year" approach to investment

- Typically, no sacred cows in the process – everything is on the table

- Fiscal stability and strong local government management are essential to economic competitiveness

- There is a fiscal imperative for cities to "do more with less" and "think outside of the box"
  - Do what they do differently
  - Do different things

GFOA Best Practice and Rating Agencies

"Multi-year planning is a critical exercise. These plans will often have out-year gaps projected which allow governments to work out, in advance, the optimal way to restore fiscal balance."

– Standard & Poor's

"The multiyear plan's value is to anticipate future challenges that may be encountered due to projected revenue and expenditure imbalances. This allows executives and legislators to 'get in front of' potential budget stress, and take corrective action long before budgetary gaps develop into crises."

– Fitch Ratings

"Financial forecasts are at the crux of foresight.

[Use] forecasts to identify the parameters within which to develop and execute strategies, rather than to try to 'predict' the future."

 - GFOA, Building a Financially Resilient Government through Long-term Financial Planning

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NATIONAL RESOURCE NETWORK
NEW SOLUTIONS FOR CITIES

NRN & the City of Danville

A Plan for the City of 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.
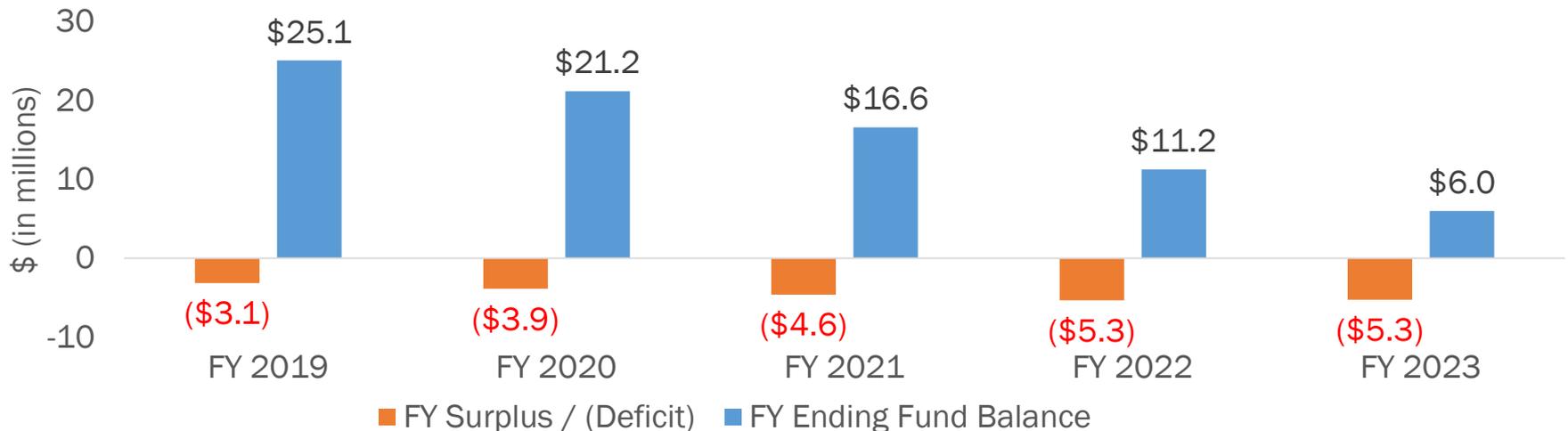
Danville's Challenges

- 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.

- 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.

Danville's Fiscal Gap

- The Network baseline indicated 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.**

- The Network team used the below baseline projection and input from City leadership and staff to outline a number of revenue and expenditure initiatives to address structural deficits and free up money for investments.

General Fund Budget Projections, FY2019 – FY2023

Chart: $ (in millions) vs Fiscal Year

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
FY Surplus / (Deficit)	($3.1)	($3.9)	($4.6)	($5.3)	($5.3)
FY Ending Fund Balance	$25.1	$21.2	$16.6	$11.2	$6.0

# A Plan for Fiscal Sustainability

- The plan ultimately combined 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.

- **The Network team identified initiatives with a total savings or new revenue impact of approximately $80 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.

- 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.

Danville's Fiscal Outlook to Date

- Since completion of the Network engagement in July 2018, the City has worked to implement a number of initiatives and continues to update the model associated with the baseline projection.

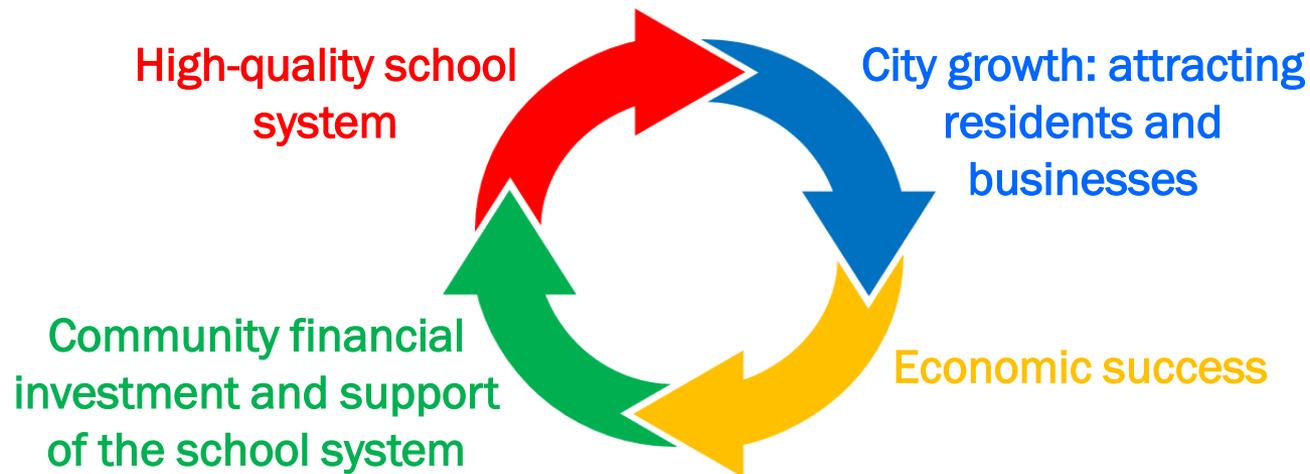**July 2018, General Fund Budget Projections, FY2019 – FY2023**
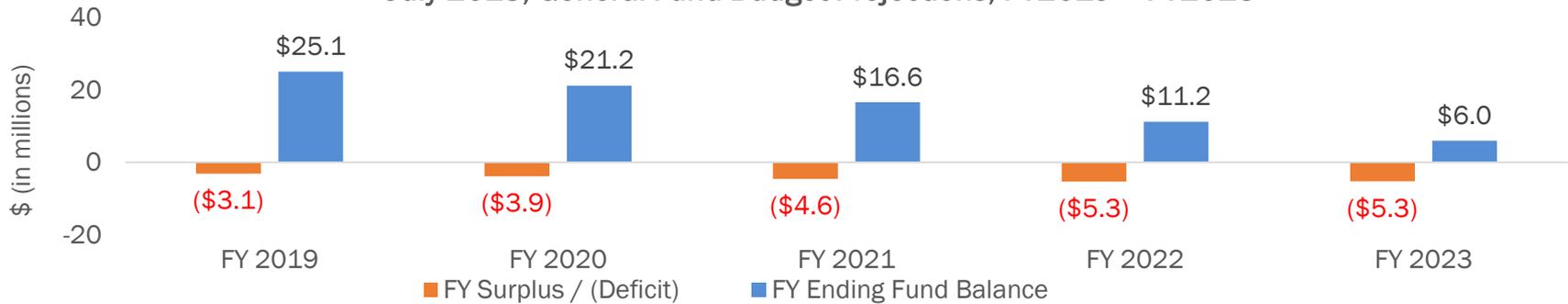
- As of April 2019, the City of Danville projects a $10.9 million difference in FY2023 ending fund balance compared to the July 2018 baseline outlook.

April 2019, General Fund Budget Projections, FY2019 – FY2023

A Plan for Danville Public Schools

- In 2018, the City of Danville amended their project scope with the National Resource Network to assist Danville Public Schools with multi-year financial planning. The Network agreed based on the financial relationship between the City and the DPS and the City Council's commitment and goal to improve public education.

- Furthermore, the City recognizes that their growth and success hinges on the quality of the Danville Public Schools.

- The key to a great school system is community investment.

High-quality school system

City growth: attracting residents and businesses

Community financial investment and support of the school system

Economic success

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NATIONAL RESOURCE NETWORK
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A Plan for Danville Public Schools

- The Network recommended that DPS develop a five-year financial plan aligned with the City's plan to give City and District leaders the tools to make sound, coordinated decisions.

- To frame the plan, the Network focused on areas identified as priorities to address going forward including:
  - Provide and maintain top-of-the-line facilities
  - Attract and retain highly effective teachers/staff
  - Align education initiatives with workforce development needs

- Network assistance emphasized a need to think strategically on how to affect change in the above focus areas while maintaining/increasing the level of services and support to DPS staff, students, and families.

- The multi-year financial plan and associated budget model tool allows DPS to project revenues and expenditures to better understand how discrete budget decisions may impact available resources and outcomes in the future.

- The multi-year financial plan also supports the City in securing the necessary resources for DPS over a five-year period.
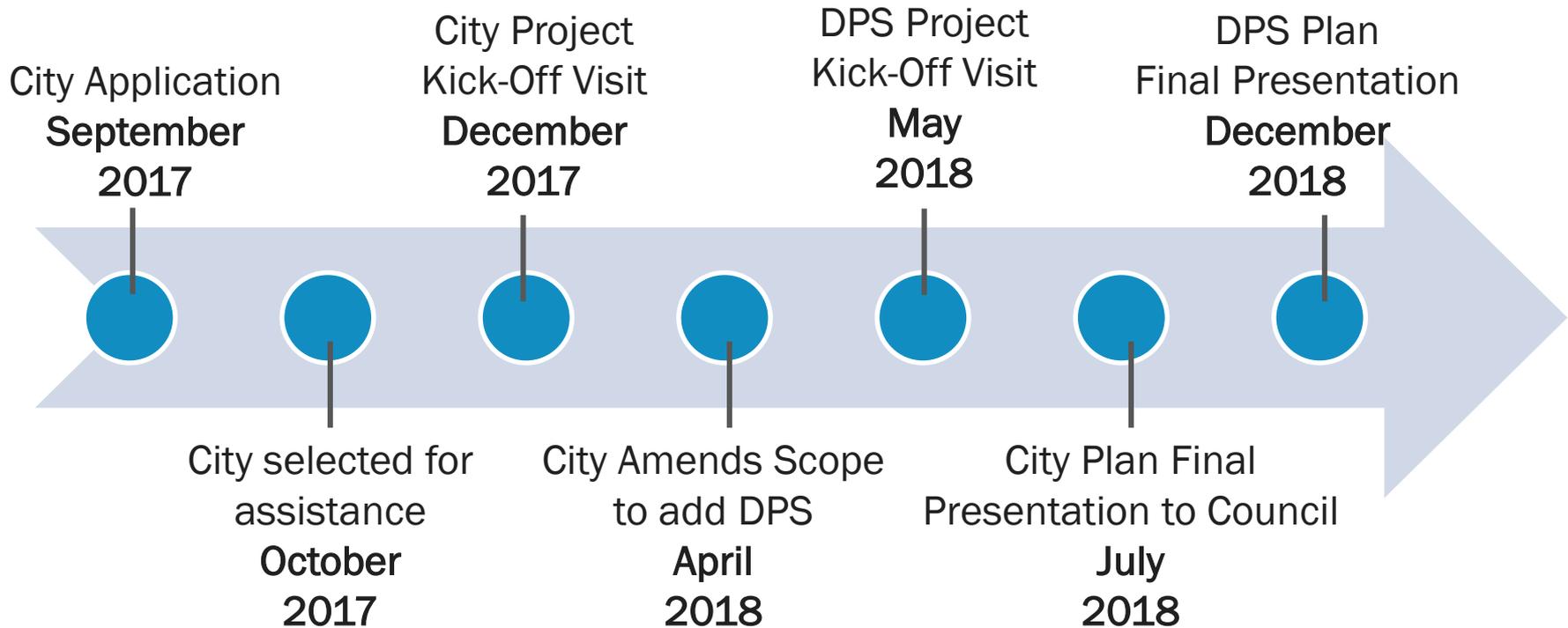
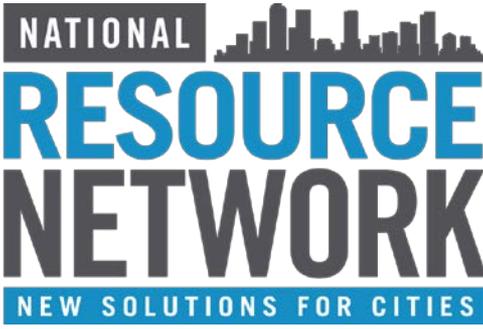# Takeaways from the Danville Multi-year Financial Plans

NRN's work with Danville demonstrated a number of unique takeaways and considerations for future multi-year plan engagements.

- Value in using the Multi-year Plan process to engage local governmental entities.
  - Collaboration between the City and School District

- Role and benefit of engaging local stakeholders and organizations
  - Advisory Committee
  - Partial funding from Danville Regional Foundation

- Benefits of a Tax Burden Analysis

Questions?

Thank You!