



CENTERVILLE CITY

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Incorporated in 1915

Mayor

Clark Wilkinson

City Council

Tamelyn Fillmore

William Ince

Stephanie Ivie

George McEwan

Robyn Mecham

City Manager

Steve H. Thacker

To: Mayor
City Council
Centerville Citizens

From: Steve Thacker, City Manager

Subject: Budget Message – A Summary of the FY 2019 Proposed Budget

Date: May 1, 2018

I am transmitting with this Budget Message my Proposed Budget for Fiscal Year 2019. I recommend the City Council adopt the Proposed Budget as the “Tentative Budget”, initiating a period for public comment. The City Council can revise the Tentative Budget before adopting a “Final Budget”—presumably in their June 19 regular meeting. As required by State law, the City Council will hold a public hearing on the Tentative Budget prior to adoption of the “Final Budget”. The Council has already agreed to meet in one or more work sessions prior to the public hearing to review and discuss budget issues or concerns.

I wish to personally thank Jacob Smith, Management Services Director, for his key role in the preparation of the Proposed Budget.

Overview of Proposed Budget

My Proposed Budget for the fiscal year beginning July 1, 2018 (known as FY 2019) reflects significant progress in addressing the “structural imbalance” in the **General Fund** that I described in my Budget Message last year. A key reason for this improvement is the property tax increase approved by the City Council in August 2018. This 40% increase was projected to generate an additional \$400,000 per year. My current projection is that an increase of approximately \$500,000 will be realized in the current fiscal year. This increase is being used to fund additional street maintenance, attract and retain quality police officers, and build up General Fund reserves which had been declining in recent years.

Another concern expressed last year was the deferment of equipment replacement to fund other operational costs. My FY 2019 Proposed Budget includes the first installment of a recommended annual investment of *at least* \$200,000 in the General Fund to replace equipment in the Streets Department. Making a multi-year commitment for this purpose will allow Public Works management to make long-term decisions about right-sizing and financing an update of their aging truck fleet and other equipment.

The improved financial position of the General Fund also allows the funding of another police officer position. This is the only new position recommended in my Proposed Budget. Public safety costs will also increase, however, due to a \$42,000 increase in the City’s assessment paid to the South Davis Metro Fire Service Area.

I have reserved in the General Fund Proposed Budget a lump sum amount of \$368,969 to be used for several purposes, including employee pay raises, health insurance cost increases, annual and retirement cash-out of accrued leave, increasing the General Fund reserve, and a contingency budget controlled by the City Council. I will recommend an allocation of this sum in an upcoming work session. The City Council will make allocation decisions prior to adopting a Final Budget.

The Proposed Budget includes significant funding for capital projects, including \$1.6 million in water system and drainage improvements and \$1.4 million for road maintenance projects. Another \$1.1 million in outside funding will supplement local funding for roads, but is not shown in the Proposed Budget. Over a three-year period—including the current fiscal year (FY 2018), FY 2019 and FY 2020—about \$2.5 million will be spent on park improvements.

In the Enterprise Funds, the Proposed Budget assumes no increase in drainage fees. However, the third step of a three-step increase in water rates—approved by the City Council in 2016—will raise culinary water rates 10% in July 2018. Most of the revenue generated by these water rate increases is being used to replace the older cast iron water mains, which otherwise will break with greater frequency in years to come. Solid waste collection fees (regular household garbage, recycling and curbside green waste) will also increase in July 2018 as a result of the recent bid for these services from private sector contractors. Staff will recommend what these fees should be in a May work session.

General Fund Revenues

The three largest sources of tax revenue for the General Fund are sales tax, property tax and the Energy Sales and Use Tax (referred to as “franchise tax” for power and natural gas in the budget document). **Sales tax** revenue in the current fiscal year is estimated to be 7% higher than the prior year, stronger than anticipated. I assume a small portion of this increase is coming from some online retailers who are now collecting and remitting sales taxes that were not being collected historically. In my FY 2019 Proposed Budget, I initially projected sales tax revenues to increase 4% over the estimated amount for FY 2018, but trimmed the increase to 3.2% to account for what the State will take out of the Local Option Sales Tax revenues to fund public safety costs relating to homeless shelters in other cities pursuant to 2018 State legislation. Most of this reduction is offset, however, by a transfer of the “affordable housing” earmark in the RDA Fund to the General Fund, as allowed by this new State law.

Prior to last year’s **property tax** rate increase, Centerville City Councils had not raised the property tax rate through a Truth-in-Taxation process for more than 20 years. This means the total property tax amount received year by year did not increase as property values increased and was not adjusted upward for inflation. Therefore, as property values increased, the property tax rate levied by Centerville City decreased from 0.002582 in 1994 to 0.000983 in 2016. The only increase in the amount of property taxes the City received during that period was attributable to new development. The new rate approved last year by the City Council was

0.001354. I am assuming no rate increase this year. I anticipate the “Certified Rate” will actually decrease due to higher residential property values. Centerville City’s portion of the total property tax rate affecting Centerville residents was 10.7% in 2017. On a \$300,000 home, this is about \$175 per year.

The other major tax revenue source in the General Fund is the **Energy Sales and Use Tax**. This tax (6%) is applied to the monthly bills for electric power and natural gas. The amount of revenue from this source fluctuates somewhat from year to year depending on the collective energy usage within the community, but generally speaking, has remained relatively level for several years. By contrast, **municipal telecommunications tax revenue** has declined as telephone users abandoned traditional land lines in favor of cell phones and internet phone service.

Transportation Funding

A “Transportation Projects Fund” was created in FY 2018 to track revenues and expenditures for transportation projects, primarily pavement maintenance. Prior to the current fiscal year, the City was spending an average of about \$700,000 per year for pavement maintenance activities—i.e. crack and slurry seal, overlays and road reconstruction. Fortunately that amount was doubled in FY 2018 to \$1.4 million as a result of three actions:

- HB 362 in 2015 which increased the gasoline tax revenue beginning in 2016;
- Voter approval in Davis County of a ¼ cent “transportation sales tax”, a portion of which flows to cities; and
- City Council approval of a property tax rate increase in 2017.

The FY 2019 Proposed Budget includes \$1.4 million again for pavement maintenance in the Transportation Projects Fund. Daily street maintenance activities—such as pothole patching, snowplowing, streetlights, etc.—continue to be budgeted in the General Fund.

In 2016 the City completed an assessment of the condition of all sidewalks. This study identified thousands of vertical faults. The worst faults—those over 3 inches—have been corrected. All other faults were marked with yellow paint to reduce the tripping hazard. \$25,000 was budgeted for sidewalk grinding in the current fiscal year--double what was spent the prior year for this purpose. I have included \$25,000 again in my FY 2019 Proposed Budget (General Fund) for this purpose. This would also be an eligible expense for the Transportation Projects Fund, if the Council chooses to be more aggressive in correcting these sidewalk faults.

The Frontage Road from McDonald’s to Lund Lane will be widened, overlaid and restriped with standard bike lanes this summer. This will be accomplished with two projects—one with local funds and the other with a federal grant of nearly \$1 million. A portion of the \$1.4 million mentioned above will be used for the local project. UDOT will administer the federal project; therefore, the \$1 million in federal funding is not included in my Proposed Budget. Centerville City and West Bountiful have also secured funding from Davis County and UTA for the improvement of 1250 West connecting these two communities. Those funds will be administered by West Bountiful and, therefore, are not in my Proposed Budget.

Park Improvements Funding

Over a three-year period—including the current fiscal year (FY 2018), FY 2019 and FY 2020—about \$2.5 million will be spent on park improvements.

In FY 2019 three funding sources will be used to complete the expansion of Community Park and/or renovate Island View Park: 1) Recreation, Arts & Parks (RAP) Tax; 2) Park Impact Fees; and 3) a lease agreement with the South Davis Recreation District.

In November 2016 Centerville voters approved the renewal of the RAP Tax, a 1/10th cent sales tax. This renewal became effective April 1, 2016. Prior to that date, 90% of the RAP Tax revenue was used to pay debt service for the Davis Center for the Performing Arts (home of CenterPoint Legacy Theatre). The current City Council has decided to use RAP Tax revenue under this new 10-year authorization for the following purposes:

- 85% for parks
- 5% for Whitaker Museum building and grounds improvements
- 5% for maintenance of the performing arts center building
- 5% for purposes to be determined by the Council

The Parks Capital Improvement Plan prioritizes the completion of the Community Park Expansion Project and renovation of Island View Park. Park improvements related to growth could be funded with park impact fees from new development, but such revenues are insufficient to pay the full cost of new park acreage, such as the expansion of Community Park. Impact fees cannot be used to replace existing park facilities, such as walking paths, playgrounds and restrooms. Funding for these purposes has been essentially non-existent since FY 2008. With voter approval of the RAP Tax renewal, however, the City Council has a revenue source to budget specifically for parks infrastructure maintenance/improvements and other eligible uses defined in State law. A “**RAP Tax Fund**” has been created for budgeting and tracking the specific uses of this revenue over time (see page 50). The RAP Tax revenue estimate for FY 2019 is \$423,000.

The **Community Park Expansion Project** will be completed in 2018. The three construction phases of this project will cost a total of nearly \$2 million. The first two phases have been funded with park impact fees and RAP Tax revenue. The third phase (this year) is being funded via a lease agreement with the South Davis Recreation District. In exchange for providing upfront financing in the amount of \$500,000, the District will have priority use of the two new sports fields for a number of years. The \$500,000 will be repaid to the District over a five-year period from park impact fees and/or RAP Tax revenue. A \$50,000 donation from the Bill & Sylvia Tingey Family will also pay for a pavilion on this expansion site.

The first phase of a major renovation of **Island View Park** is scheduled for FY 2019 and FY 2020. This \$1.3 million phase will be funded with a federal grant and matching amount from RAP Tax revenue.

Enterprise Services and Funding

The City provides drainage utility, culinary water services and solid waste collection using the enterprise approach. In other words, these services are fully funded with user fees. Although drainage fees do not change this year, the Proposed Budget includes a 10% increase in water rates already approved by the City Council in 2016 as the third step of a three-step increase. Solid waste fees will also increase as a result of recent bids for a new contract with a private company for curbside pickup services.

Drainage Utility – Monthly user fees to maintain the City’s drainage system are known as “drainage utility” and “subsurface drain” fees. The increases adopted in 2015 are providing about \$600,000 per year to fund an ambitious capital improvement/replacement program recommended in the latest update of the Drainage Master Plan. More than \$6 million in drainage projects—mostly replacement of existing drainage infrastructure—is being funded over a 10-year period using a pay-as-you-go approach. The replacement of drainage pipes will be coordinated with street repaving work as much as reasonably possible. I anticipate a partnership with UDOT in FY 2019 for the replacement of failing drainage pipes under Main Street prior to UDOT’s pavement resurfacing project.

Federal and State stormwater regulations now require cities to prevent pollutants from entering the drainage system when washing municipal vehicles and equipment. These pollutants (debris) must be collected and disposed of properly. A 2015 State audit concluded the City needed to improve its compliance with these regulations. One of the proposed uses of Drainage Utility revenue in FY 2019 is the construction of a “washout” or “decant” building for this purpose.

Culinary Water -- The most recent update of the culinary water system capital plan focuses on the replacement of water mains. The older area of the City has many miles of cast iron water mains that are coming to the end of their expected life. Breaks in these pipes cause costly damage to roads and interrupt water service to customers. Staff have coordinated these water main replacements with street repaving/reconstruction plans over the next 20 years so that, as much as practical, cast iron pipes are replaced at the same time as the street work is done, thereby reducing overall project costs as well as the road damage caused by breaks in cast iron pipes. As mentioned above, storm drain replacements are also being coordinated with street projects. In addition, staff are working with other utility providers (irrigation, natural gas, etc.) to persuade them to replace their facilities, if needed, at the same time road work is done. The City recently spent about \$650,000 to replace water mains on Main Street in advance of pavement resurfacing UDOT will do next year. Another segment of water main may be replaced on Main Street later this calendar year before that resurfacing occurs.

In 2016 the City Council studied several rate increase scenarios that would provide the funding needed to replace water mains per the capital plan and keep up with the impact of inflation on water system O&M costs. They subsequently approved a three-step increase consisting of

three annual increases of 10% each. The third step takes effect in July 2018. I anticipate water rates will then stabilize for several years.

Solid Waste Collection – The City’s contract with Ace Disposal for curbside pickup of household garbage, recyclables and green waste expires June 30, 2018. A recent bid for these services resulted in higher costs. Therefore, revisions to customer fees will be recommended at a work session in May and included in the Final Budget adopted by the City Council.

Personnel Costs

Another police officer is the only new position funded in my Proposed Budget. I recommend the Council approve pay raises that will keep the City competitive and recognize the increased value of employees as they continue working for the City. Retention of police officers is particularly critical in the current law enforcement job market. I have not identified a specific amount in the budget document to be used for pay raises, but have assumed these will be funded from the lump sum identified in a later section of this Budget Message.

Centerville City’s compensation plan does not include “cost-of-living adjustments”, or COLAs. There are no step increases within the pay ranges. Pay raises would vary, depending on an employee’s performance and placement within the pay range. The City Council needs to approve guidelines for this year’s pay raises, which will be one of the subjects in a work session prior to adoption of the Final Budget.

Funds Yet to be Allocated

The Proposed Budget for the General Fund includes a “Yet to be Allocated” sum of \$368,969. This sum was achieved through successive trimming of the requested budgets from the department heads. I recommend this sum be used for the following purposes:

- Employee pay raises
- Employee health insurance cost increase
- Annual and retirement-related cash-out of accrued leave (at least four retirements are anticipated in FY 2019)
- Establishing a contingency budget controlled by the City Council
- Increasing the General Fund reserve

Equipment

A table beginning on page xi identifies department head requests for equipment (exceeding \$1000) and which of these requests are included in my Proposed Budget.

Long-Term Financial Obligations

The City has the following long-term financial obligations: 1) repayment of water revenue bonds; 2) an annual pledge for UTOPIA; and 3) repayment of bonds issued for construction of the Davis Center for the Performing Arts. The Proposed Budget includes the payments due in FY 2019 for each of these obligations.

Water Revenue Bonds – The City issued water revenue bonds in 2012 for water system improvements. This bond issue included \$2.1 million in new borrowing and refunded the existing debt of \$2.1 million (relating to water system and drainage projects completed earlier). The debt service requirements will be paid entirely from Water Fund revenue and Drainage Utility fees (pages 61 and 64).

UTOPIA – The City began paying its sales tax pledge for UTOPIA in January 2010. The following funding sources are being used to pay the annual pledge, which will be \$482,275 in FY 2019:

- **Reimbursement from the RDA Fund for Freedom Hills Park construction.** This park was eligible for funding from the RDA’s annual “additional tax increment”. Other City funds, however, were used to complete the park sooner; therefore, the RDA’s additional increment—estimated to be \$192,707 in FY 2019—flows to the City as repayment and is being used for the UTOPIA obligation.
- **General Fund revenue.** The remaining \$289,568 needed to pay the FY 2019 pledge amount comes from General Fund revenue.

See Capital Projects--UTOPIA Fund for the budget relating to the UTOPIA annual pledge payment (page 56).

Davis Center for the Performing Arts – Construction of this \$14.3 million regional performing arts facility was completed in 2011 and is owned by the Redevelopment Agency of Centerville. Debt service for this facility has been paid from four sources: 1) RAP tax approved by voters in Centerville and Bountiful; 2) RDA tax increment (i.e., property taxes from the businesses in the Redevelopment Project Area); 3) Davis County tourism taxes; and 4) private donations. The payment of this debt is shown in the Debt Service Fund section of the Proposed Budget on page 52 under the category of “Sales Tax Revenue Bonds – 2009”. Although sales taxes were pledged as the security for these bonds, debt service has been paid entirely from the sources identified above. As noted earlier in this Budget Message, as of April 1, 2016, RAP Tax revenue is no longer being collected for this purpose. The annual debt service amount dropped dramatically from \$1,657,088 in FY 2016 to \$593,012 in FY 2017 and will be \$592,838 in FY 2019. All remaining debt service will be paid with RDA tax increment until the bonds are fully retired in FY 2021.

Redevelopment Agency

The Centerville Redevelopment Agency (RDA) is a separate legal entity created under State law for the purpose of assisting in the redevelopment of under-developed areas in the City. The City Council serves as the RDA Board of Directors. The RDA's Budget is included in the total Budget document, but is subject to its own public hearing and adoption process.

The source of revenue for the RDA Fund is the property tax "increment" (or increase) created by increasing the taxable property value in each "Project Area" through redevelopment activities. The RDA is entitled to use a portion of the new property tax revenues for legitimate purposes identified in State law – such as public infrastructure (roads, utilities, etc.) in the Project Area, public amenities, financial assistance to developers, and construction or preservation of affordable housing.

The Centerville RDA Proposed Budget is shown on page 70. The RDA currently has three Project Areas: 1) Parrish Lane Gateway Project Area (a traditional Redevelopment Area); 2) Legacy Crossing at Parrish Lane Project Area (a Community Development Area, or CDA); and 3) Barnard Creek Project Area (also a CDA). The biggest current commitment related to the Parrish Lane Gateway Project Area is for debt service for the Davis Center for the Performing Arts (DCPA), explained earlier in this Budget Message. In each of the project areas, tax increment flows to developers to reimburse them for public infrastructure (roads, water mains, storm drains, etc.) and some private on-site improvements. The RDA also receives monthly rental payments from CenterPoint Legacy Theatre for use of the DCPA facility. These rental payments are deposited into a restricted account known as the Theatre Reserve Fund, to be used for major repairs to the facility. These monthly payments can also be used to reimburse the RDA for other facility-related expenses that are not the obligation of CenterPoint Legacy Theatre.

Summary of Revenues and Expenditures

A summary for all funds in the Proposed Budget is shown on page 1 of the Proposed Budget detail document, totaling more than \$18 million. Summaries of revenues and expenditures for the General Fund are shown on pages 2-5 of the same document. Proposed General Fund expenditures total almost \$9 million, or half of all proposed spending.

**Capital Equipment
FY 2019 (over \$1000)**

Admin/Exec	Dept. Request	Proposed	Notes
Photography Backdrop/Blue Carpet - Mayor's Luncheon	\$ 900	\$ -	
Computer Reserve	\$ 7,000	\$ 7,000	Used for unscheduled replacements, repairs, monitors, printers, etc.
Customer Workstation	\$ 2,000	\$ -	
Network Switches (2)	\$ 5,000	\$ 2,500	
Firewall	\$ 1,500	\$ 1,500	Old Firewall is on last leg
Online Backup and Antivirus (3 year)	\$ 9,400	\$ 9,400	3 year subscription saves 30% over annual renewals
Copier Replacement (2,300 charged to Rec Fund)	\$ 6,857	\$ 6,857	Cost share with Recreation
Police			
EOC Equipment	\$ 1,500	\$ 1,500	
Four replacement vehicles	\$ 162,000	\$ 115,000	
7 Radios	\$ 20,650	\$ 17,750	
12 Mobile Radios	\$ 25,200	\$ 23,100	
4 Laptop and Desk Computers w/ Printers	\$ 3,500	\$ 3,500	
18 Glock 9mm handguns	\$ 4,320	\$ 4,080	Changing out to 9mm for cost savings on ammunition and due to age of current handguns
2 M4 Rifles with Ecotech sights	\$ 2,800	\$ 1,400	
10 Body Cameras	\$ 6,000	\$ 6,000	Liquor Law funds
Two Radars	\$ 6,600	\$ 6,600	Liquor Law funds
Purchase K9	\$ 3,000	\$ 3,000	Purchased through donations
Public Works			
Magnetic Drill Press	\$ 1,500	\$ -	
Upgrade Shop Lift for 1 Ton & Dump Truck	\$ 42,500	\$ -	
Snap-on Scan Tool (state bid)	\$ 9,600	\$ 9,600	
Stainless Steel undercarriage truck wash	\$ 1,600	\$ 1,600	
Barricades, cones, special signs	\$ 4,500	\$ 4,500	
3 Replacement Sets Carbide Plow Blades	\$ 3,400	\$ 3,400	
Backhoe Changeout	\$ 850	\$ 850	
10 wheel hook lift/dump w/plow replace two 2001	\$ 257,000	\$ -	
Bobtail dump truck w/plow retrofit replace 2006	\$ 168,000	\$ -	
Bobtail dump truck w/plow retrofit replace 2005	\$ 168,000	\$ -	
Cat 938M Wheel loader replace 2002 Case	\$ 163,000	\$ -	
F-550 4X4 Dump truck to replace truck #204 w/ plow and spreader	\$ 95,000	\$ -	
Cat CB24B Pavement compactor replace 1992	\$ 40,000	\$ -	
Continuation of salt rack for storage	\$ 22,000	\$ -	
Lump Sum for Equipment (Streets)		\$ 200,000	To be used to begin replacement cycle for old fleet
Aerial Photography Citywide	\$ 1,200	\$ 1,200	
GIS server & Desktop Standard Concurrent Use License(to be shared between Planning & Drainage)	\$ 10,822	\$ -	
GPS Reciever-Trimble R2(survey grade) My GPS receiver is 12 yrs old & can't utilize multiple sat constellations	\$ 25,017	\$ -	
Parks			
Backhoe Annual Trade Out	\$ 2,000	\$ 2,000	
Zero-turn mower (2)	\$ 24,000	\$ 24,000	
pick up truck 2x4 (2)	\$ 55,000	\$ 27,500	
Small equipment	\$ 5,000	\$ 5,000	
Lawn sweeper	\$ 31,000	\$ -	
Buildings			
Replace Exit Lights	\$ 3,500	\$ -	Put into regular maintenance budget

Resolve Tower Clock problem	\$ 3,000	\$ 2,000	
Paint/Carpeting (City Hall)	\$ 6,000	\$ 4,000	
Council Rm SW Door	\$ 1,000	\$ 1,000	Security measure
Lobby Furniture	\$ 10,000	\$ -	Use FY18 surplus
Front Office Security	\$ 10,000	\$ 10,000	Includes security window and counter, finish work, and rework of office area
Replace Pressure Washer	\$ 6,900	\$ -	Wait and possibly include in design of new washout building
Carpet/tile/paint (PW Bldg)	\$ 4,700	\$ 4,700	
Replace Overhead Door Opener	\$ 1,000	\$ 1,000	
<u>Community Development</u>			
Computer Replacement	\$ 1,500	\$ -	Use Computer Reserve from GF
TOTAL GF EQUIPMENT	\$ 1,446,816	\$ 511,537	

<u>Recreation Fund</u>			
Copier Replacement	\$ 2,300	\$ 2,300	Cost share with GF

<u>Water Fund</u>			
New Truck #102 Replacement Score 25	\$ 38,500	\$ 38,500	
Telemetry Upgrade	\$ 17,000	\$ 17,000	
Air Compressor Replacement Score 31	\$ 28,000	\$ 28,000	
Computer	\$ 2,200	\$ 2,200	
Line Locator Steve S	\$ 3,300	\$ 3,300	
Compactor Replace Score 25	\$ 3,000	\$ 3,000	
Electrician Tools	\$ 3,000	\$ 3,000	
Load Test Water Department Generator	\$ 3,000	\$ -	
Telemetry Battery Change Out	\$ 3,700	\$ 3,700	
Total	\$ 101,700	\$ 98,700	

<u>Drainage Fund</u>			
Grate Retrofit	\$ 5,000	\$ 5,000	This will finish the retrofit project
Utilisync Renewal	\$ 3,000	\$ 3,000	
Total	\$ 8,000	\$ 8,000	

<u>Whitaker Fund</u>			
Storage Container	\$ 3,700	\$ 3,700	For storing donated furniture; Alternative is renting a storage unit
Security Cameras	\$ 1,290	\$ 700	
Total	\$ 4,990	\$ 4,400	