



City of Covington, Kentucky

FY 2016-2017

City Manager Budget Recommendation

“Staying the Course of Responsibility, Sustainability, and Investment”

June 14, 2016



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Honorable Mayor and Commissioners:

Introduction

I am very pleased to present the City of Covington's FY 2016-2017 Annual Budget Recommendation. As you know, KRS 83A.150(7)(c) requires the City Manager to recommend an annual budget no less than 30 days prior to the end of the fiscal year, which this year is June 30, 2016. In meeting this requirement, the FY 2016-2017 Annual Budget was presented at the May 24, 2016 City Commission meeting.

I am especially pleased to report that the FY 2016-2017 Annual Budget is the first in seven years that is structurally balanced without reducing departmental budgets or staffing as has been necessary in the past due to budgetary constraints. In fact, there are several areas of funding for new or enhanced programs and services.

The City of Covington is required to operate and expend funds under an annual budget that must be adopted by Ordinance (KRS.91A.030(1)). Further, the Kentucky Constitution, Section 157, and KRS 91A.030(8)(b) require that the budget proposal be structurally balanced, meaning that estimated revenues meet or exceed estimated expenditures for the year.

I am also especially pleased to report that the Recommended FY 2016-2017 Annual Budget, the City's first budget of its third century, and for the **first time since 1976, does not require the issuance of short term debt for the City to pay its payroll and benefits and other operating expenses.** Improved software and internal processes have enabled this achievement of more cash on hand, not increased revenue or income. Through controls over purchasing and disbursement, routine bank reconciliations, City management and departmental oversight and control, and improved (faster) revenue management and collections, our cash on hand has increased, breaking the City's addiction to short term debt to pay its operating bills since 1976.



Further, with the need for such short term debt now eliminated, our target becomes the City's reliance on debt to finance its long term capital needs. The Recommended FY 2016-2017 Annual Budget begins the long term plan to even greater financial sustainability by decreasing the City's reliance on debt financing for capital needs with the establishment of a Capital Reserve Fund that dedicates 1% of annual General Fund Revenues toward certain costs related to the City's Capital Budget.

Of course, a budget is not only about numbers. Rather, it demonstrates the City's values and priorities. And a City's annual budget is based on more than just revenue and expenditures. It is based on a vision, a plan, and a direction of where a community wants to go. Legislative actions taken by the Mayor and City Commissioners in FY 2015-2016 have demonstrated a commitment to a particular vision in the Spirit of Progress Vision Statement, and the Fiscal Stability Ordinance, which embodies the values of Responsibility, Sustainability and Investment that were recommended in the FY 2015-2016 Budget Message. A sustained focus on these three values is fueling a birth of fiscal discipline and stability that allows the City to plan its future with confidence and see economic development and public improvement projects through.

Indicators include that 2016 property values are up, again, at \$47 million over 2015, and 2015 property values were up \$37.8 million over 2013. Also, 2015 building permit values totaled \$63.3 million, up over 2014 values of \$24.6 million, and 2016 January through May is already at \$23.2 million.

Arguably, both the City's financial condition, and its prospect for continued growth and improvement, is the best it has been in decades. Our fiscal discipline is paying off by giving us fiscal stability and growth!

And in the same spirit of the FY 2015-2016 Annual Budget, the FY 2016-2017 Annual Budget continues to reflect the City's commitment to sound financial practices and to established priorities for Responsibility, Sustainability and Investment. That is still the best recipe to improve the quality of life for all who experience Covington, and that recipe is working.



A Brief Recap of FY 2015-2016 Annual Budget

Before embarking on a presentation of the FY 2016-2017 budget, it is worth recounting notable accomplishments during the FY 2015-2016.

- 1) Spirit of Progress Vision Statement
- 2) FY 15 Comprehensive Annual Financial Report, completed in December 2015, earlier than in recent years, included a healthy \$2.2 million carryover.
- 3) Fiscal Stability Ordinance, adopted on December 15, 2015.
- 4) Elimination of Short Term Debt (Tax Anticipation Note) by Order Resolution, first time since 1976.
- 5) Launch of the Opengov.com Transparency website, a milestone in the City's commitment to transparency.
- 6) Development Projects: The Lincoln Grant Scholar House, the Duveneck Place Mixed Use Residential Development, the 501 Main Street Mixed Use Residential Development, the Boone Block Residential Development, and many others.
- 7) A Fleet and Equipment Replacement Plan.
- 8) *Most notably, most of the FY 2015-2016 Key Recommendations, reprinted below, have been accomplished, through sustained focus, hard work, and staying the course.*

FY 2015-2016 Key Recommendations

- 1) *Establish Reserve Funds to Meet City's Legal Obligations*
 - *Fund for Repayment of Tax Anticipation Note*
Source of Funds: General Fund
Use of Funds: Annual Repayment of Tax Anticipation Note
 - *Fund for Continued Commitment to City's Pension Funds: City Employees, and Police and Fire*
Source of Funds: General Fund and Bonded Indebtedness
Use of Funds: City Employees and Police and Fire Pensions



Establish Reserve Funds to Meet City's Risk Mitigation Needs

- *Fund for Self-Insured Medical*
Source of Funds: General Fund
Use of Funds: City Employee Medical Claims
- *Fund for Self-Insured Liability*
Source of Funds: General Fund
Use of Funds: City Liability Claims

Establish Reserve Fund for City's Business Needs

- *Fund for Minimum Cash Flow*
Source of Funds: One Time Sale of Assets and 80% of Delinquent Taxes and Fees Collected
Use of Funds: Cash Flow to Meet City's Need for Payroll and Benefits and Ongoing Operational Expenditures During Seasonal Fluctuations of Revenue and Expenditures
 - *Fund for Restricted Capital Improvement*
Source of Funds: Increase in Insurance Premium License Fee Rate
Use of Funds: Capital Projects, as Approved by City Commission in annual Capital Budget
- 2) *Continue the plan initiated in FY 2014-2015 to pay down the City's \$3.5 million Tax Anticipation Note (TAN) over a period of time. The City's banking institution and Moody's Investor ratings have stated the City must do this. The FY 15 budget recommendation included an initial payment of \$350,000 on the TAN that will put the City on a trajectory to pay it off in ten years. The FY 16 budget includes the second annual payment. These actions will demonstrate the City's commitment and self-discipline enabling the confidence the City needs from its lenders and world renowned investment analysts.*
- 3) *Investment. Complete the development of the "Fiscal Stability: Meeting the City's Business Needs – March 19, 2015" recommendation with its new*



dedicated revenue source, based on the Community Investment Plan adopted in 2013. It is imperative that the City continue the reinvestment into our community's Infrastructure, Economic Development and Neighborhood Revitalization, Facilities and Recreation, and Fleet and Equipment that was begun in FY 2013-2014.

- 4) Grow and direct funding where possible toward the City's Economic Development Investment Fund (21). Using the City's lease proceeds from the Kentucky Career Center; TIF district funds; pursuit of non-performing loan repayment, and other private and public sources, ensure that the City has adequate funding to continue to see high quality economic development projects that leverage private investment in the City, increase property values, and produce jobs, all of which will grow the City's General Fund revenues.*
- 5) General Fund. Maintain a lean and strategically focused General Fund budget. Reduce all costs possible in order to maximize the City's ability to reinvest strategically. Pension and health care costs continue to burden the City's overall personnel costs.*
- 6) Continue to pursue a long term physical and financing plan for replacement of aging and deteriorating City facilities including a permanent City Hall, Public Improvements facility, fire and police stations, and assess the benefit of partnerships with other public and private entities to share space, improve upon our collaborative working practices and save on costs.*

Moreover, as further testament to the progress made in FY 2015-2016, and to the theme of "Staying the Course of Responsibility, Sustainability, and Investment", the following is reprinted from the FY 2015-2016 Budget Recommendation, with italicized comments following each as to the progress made.



Into Our Third Century

RESPONSIBILITY

First, and foremost, the City must be responsible as to our legal and financial obligations.

Accomplished

Four years ago the City began to fund its two legacy pension funds, the Police and Firemen's Pension Fund, and the City Employees Pension Fund. Currently the City funds each at 66% and 76% respectively (about \$400,000 annually combined) of its annual actuarially established amount. The Fiscal Stability Ordinance approved in December of 2015 requires the City to achieve 100% funding over the next four years, by allocating from the General Fund each year an amount equal to 25% of the current funding gap between what is actually being allocated and the amount required by the annual actuarial valuation.

The City Commission approved an Order Resolution in May, not to renew the Tax Anticipation Note (TAN), in July of 2016, the first time the City has not needed this short-term borrowing instrument since 1976.

Our annual budget must be structurally balanced. That is a simple matter of law. Current expenditures cannot exceed current revenues.

Accomplished, again but this year without budget or staffing reductions.

We must meet the City's legal obligations to repay our long term debt and the Tax Anticipation Note and to fund the City Employees and Police and Fire Retirement Funds.

Accomplished, as noted above.

When the City's revenues begin to grow, these legal and financial obligations must receive primary consideration for funding to a reasonable level to be determined by the City Commission and established by City Ordinance.

Accomplished, as noted above.



SUSTAINABILITY

The City must maintain certain “reserve” funds in order to meet our ongoing needs. The City cannot “raid” these reserve funds to balance the budget in a given year when current expenditures exceed current revenues. If we do, the consequences can be disastrous for our residents and the long term fiscal health of our City.

We must establish and maintain a minimum amount of cash reserve in order to meet the demand of bi-weekly payroll and benefit expenditures, and ongoing operational costs, that are constant, unlike our cash flow that is dependent on seasonal or volatile receipts of property tax, insurance premium license fees, payroll and net profits tax receipts.

Accomplished. The Fiscal Stability Ordinance established a Minimum Unreserved Cash Fund equal to two months of operating revenues as recommended by the Government Finance Officers Association. The City is at approximately 48 % of this goal presently.

We must establish and maintain a minimum amount of cash reserves for our Self-Insured Medical Plan. The City provides an outstanding health and dental plan to its employees and families. The City pays for all claims directly. The City budgets a fixed amount per employee in each budget year, at \$14,000 in FY 2015-2016. That is an estimate of course as no one can accurately predict the health needs of employees or their families. In some years the \$14,000 is enough to cover the claims. In some years it is not enough. In years when it is enough to cover the claims, the City must “reserve” any unexpended amounts that were budgeted for the claims, in the event that the following year the \$14,000 per employee is not enough. The City cannot use the “savings” in the “good” years, because when the “bad” years occur, then something else has to be cut from the budget, and the consequences can be severe.

Accomplished. The Fiscal Stability Ordinance requires the City to maintain three months of claims expense based on the previous three fiscal years' claims' expense. Currently the City is meeting this goal.

We must establish and maintain a minimum amount of cash reserves for our Self-Insured Liability. The City does not purchase a liability policy to cover claims for damage to City property or property of others. The City pays for these claims directly. In some years, enough is budgeted to cover those legal claims. In some years, claims exceed what was budgeted. In those



years when claims do not exceed what is budgeted, the City must “reserve” any unexpended amounts in the event that the following year what was budgeted does not cover the claims. The City cannot use the “savings” in the “good” years, because when the “bad” years occur, then something else has to be cut from the budget, and the consequences can be severe.

Accomplished. The Fiscal Stability Ordinance requires the City to maintain a minimum of 40% of the liability exposure as determined by our Legal Department and recommended by our external auditors. Currently the City is meeting this goal.

We must provide for the ongoing business needs of the City such as police cars, fire trucks, ambulances, snow plows, dump trucks, lawn mowers, computers, etc. We cannot rely on grants to provide regular funding for these items. Grants help and extend our efforts, but they are not reliable, and when equipment wears out, it needs to be replaced, grant or no grant. We must provide the tools necessary to our employees so they can deliver quality services to our residents, businesses and visitors. We must provide regular funding for our infrastructure needs..

When the City’s revenues begin to grow, our sustainability needs must receive consideration, second only to consideration for our legal and financial obligations, for funding to a reasonable level to be determined by the City Commission and established by City Ordinance.

Accomplished. The Fiscal Stability Ordinance requires that 25% of any carryover from the immediate prior fiscal year, after meeting legal and financial obligations, be allocated to an Infrastructure Fund. In addition, the increase in the City’s Insurance Premium License Fee from 10% to 12% is allocated to a Fleet, Equipment, Technology, Facilities, and Other Capital Projects Fund.



INVESTMENT

With limited funds for investment in the City from bonded indebtedness, grants, federal and state sources, and our private partners such as the Catalytic Development Funding Corporation and others, where we invest is critical.

OUR NEIGHBORHOODS

As we set our goals each year, the City must remain steadfast in its efforts to improve property values, retain and attract residents, businesses, investment and jobs, and in a financially responsible and sustainable manner, despite pressures on our General Fund. The City's strategy to improve property values and encourage other investment; improve our appearance and public realm and appeal, and retain and attract new jobs, is the long term strategy to grow and improve our economic base and to increase our General Fund revenues. Improving property values is accomplished by encouraging and supporting private and public investment; elimination of blight and depressing factors that decrease property value in our neighborhoods through demolition of unsafe and dilapidated buildings; rehabilitation of properties where structurally and economically feasible; and unified, aggressive enforcement of all City codes and laws by our Legal, Police, Fire, Finance, Operations, and Development Departments using every tool at our disposal to ensure that buildings and occupants are safe and orderly and not a hazard, nuisance or detriment to the neighborhood. We are moving from blight to bright, clean and nice.

INVESTMENT IN OUR INFRASTRUCTURE, FLEET, AND EQUIPMENT

The City must invest in its own infrastructure to improve property values and quality of life, if we want others to invest here. Better property values, more jobs, more residents, more private and public investment, more revitalization in our neighborhoods and business districts, means more revenue in our General Fund, the funding source of our services and programs. It also means more fiscal stability so that the City can grow its financial reserves and; continue to reinvest in itself.

The City Commission in 2015 acted boldly to adopt a plan that began in 2013 with the Community Investment Plan, "Fiscal Stability: Meeting the City's Business Needs", by adopting a dedicated revenue source for sustaining the City's business needs. This action demonstrated its



commitment to public safety, with good equipment and continued investment in infrastructure with adoption of an increase in the City's insurance premium license fee, restricted to such capital expenditures only. This Plan will improve funding for City fleet, equipment, facilities, and infrastructure, and ensure that our workforce has the tools they need to provide high level public services.

INVESTMENT IN OUR GREATEST PHYSICAL ASSET - LOCATION

Covington has not one, but two, natural bodies of water, the mighty Ohio River, and the more serene Licking River. After more than a decade of planning, the City is finally positioned in 2016 to implement its long planned Riverfront Commons development on our Ohio riverfront taking advantage of our greatest physical asset, our location in a thriving and successful metropolitan region. One only needs to look at the Cincinnati, Ohio and Newport, Kentucky riverfronts to envision what Covington will accomplish. The ongoing Licking River Greenway is providing an immense quality of life improvement for residents and visitors and connecting neighborhoods and commercial areas.

The City's continued focus and effort on growth and improvement, and most importantly fiscal discipline, is producing results, which leads to the primary theme of the City Manager's FY 2016-2017 Budget Recommendation, "Staying the Course of Responsibility, Sustainability and Investment". **Once again, the City must be as patient as it is determined. The City's vision and plans for success require constant vigilance, support, and patience, and we are seeing the results of staying the course.**

The FY 2016-2017 Annual Budget Recommendation

Legislative Guidance

It must be noted that the following legislative enactments since 2013 have guided the development of the FY 2016-2017 Annual Budget:

- 1) Order Resolution O/R 43-13 approved in February of 2013, established "A Vision for Our Third Century (2015)
- 2) Order Resolution O/R 166-13, approved in June of 2013, established a Five Year Community Investment Plan



- 3) Order Resolution O/R 173-13, approved in June of 2013, adopted the Covington Center City Action Plan
- 4) Commissioners Ordinance No.0- 06-14, approved on April 15, 2014, adopted the Transparency Policy
- 5) Order Resolution O/R 202-15, approved on June 16, 2015, adopted the Spirit of Progress Vision Statement
- 6) Commissioners Ordinance No. 0-50-15, approved on December 15, 2015, adopted the Fiscal Stability Plan
- 7) Order Resolution O/R 143-16, approved on May 3, 2016, authorizing City staff not to renew the Tax Anticipation Note for FY 2016-2017

Assumptions

- 1) **REVENUE.** General Fund Revenue is expected to increase by 3.1 % over FY 16 projected actual revenue and 6.1% over FY 15 actual audited revenue.
- 2) **PROPERTY TAXES.** The FY 2016-2017 Recommended Budget does not include an increased property tax rate intended to produce additional revenue. The City adopted the compensating tax rate plus 4% of .3130 per \$100 of assessed valuation in 2015 to help fund the Public Safety Staffing Plan that added four (4) additional Police Officers, and a recruit class of 11 new firefighters, and a wage increase for non-union employees comparable to that which was given to union employees in 2015. It is anticipated that the City will adopt a rate in 2016 that yields at least the same amount of revenue, the compensating rate. When the tax roll is certified by the state in August of 2016, further discussion will occur concerning the adoption of the actual tax rate for 2016.
- 3) **PROPERTY TAX ASSESSMENT.** Preliminary 2016 taxable real property numbers increased by \$47 million over 2015 numbers, and the 2015 taxable real property increased by \$37.8 million over 2014 numbers.



- 4) **SALARIES AND WAGES:** The FY 2016-2017 Annual Budget does not include wage increases for any employees. All collective bargaining agreements expired in December of 2015, but due to the “evergreen” clause in each, all existing terms and conditions stay in place.
On January 1, 2015, each of the City’s collective bargaining units, FOP, Local 38, and AFSCME, received 3% wage increases, the last wage increase of a four year labor contract that expired on December 31, 2015. Non-union employees received wage increases effective July 1, 2015. During those four year labor contracts, wage increases totaling 9% were given to employees represented by our three collective bargaining units, FOP, Local 38, and AFSCME.
- 5) **KENTUCKY RETIREMENT – Hazardous Duty Employees:** The City’s current employer contribution rate of 32.95% will decrease to 31.06% for FY 17 effective July 1, 2016, for all salaries and wages for Police Officers and Fire/EMS personnel.
- 6) **KENTUCKY RETIREMENT – Non-Hazardous Duty Employees:** The City’s current employer contribution rate of 17.06% will increase to 18.68% for FY 16 effective July 1, 2016 of administrative, managerial, and supervisory personnel.
- 7) **HEALTH AND DENTAL INSURANCE.** A Reference Based Plan (RBP) option has been added to the City’s Employee Health Plan effective July 1, 2016. To date, 76% of non-union employees have voluntarily opted for this new plan that will save employees and the City money. The RBP has been offered to all three labor unions during contract negotiations. The City funds the City employees’ health and dental plans from the General Fund.
- 8) **TAX ANTICIPATION NOTE.** Use of a Tax Anticipation Note as a Short Term Debt Instrument to finance City Payroll and Benefits and Other Operating Expenses was eliminated by Order Resolution O/R 143-16, approved on May 3, 2016, authorizing City staff not to renew the Tax Anticipation Note for FY 2016-2017.
- 9) **PUBLIC SAFETY STAFFING.** The Police Department Budget includes the four (4) new additional Police Officer positions and the Police Computer Forensic Analyst position authorized in FY 2015-2016 Annual Budget.



10) POLICE AND FIREMEN'S PENSION FUND, AND CITY EMPLOYEES

PENSION FUND. Per the Fiscal Stability Ordinance (0-50-15), the FY 2016-2017 Annual Budget increases its funding of both of these legacy City pension funds, of which approximately 105 former employees of the City or their dependents rely on, from 66% and 76% funding respectively, to 75% and 82%, according to the most recent annual actuarial valuation of July 1, 2015.

11) FISCAL STABILITY ORDINANCE.

- A) Police and Fireman's Retirement Plan Fund and City Employees Retirement Plan Fund. Increases the General Fund Financial Contribution to Police and Firemen's Retirement Plan, and City Employees Retirement Plan, on trajectory to full actuarial funding over next three years.(link here)
- B) Established a goal to maintain a Minimum General Fund Unreserved Fund Balance equivalent to at least two months of operating revenues as recommended by the Government Finance Officers Association to meet the general operating expenses of the City including payroll, benefits, and other operating expenses.
- C) Self-Insured Liability Fund. Established a goal to maintain a minimum of 40% of the historical average of the previous five fiscal years of estimated liability, as required by the City's external auditors, and as determined annually by the Legal Department for the City's Comprehensive Annual Financial Report.
- D) Self-Insured Employee Health Plan. Established a goal to maintain a minimum fund balance equal to three months of claims' expense based on an average of the most recent three fiscal years' claims' expense amounts.
- E) Personnel and Benefits Fund. Established a fund for appropriate staffing and compensation for City employees, allocating 25% of the carryover of the prior year's CAFR after any allocation required by Ordinance 0-58-12 for the TIF District and after satisfaction of other requirements of the Fiscal Stability Ordinance.
- F) Fleet, Equipment, Technology, Facilities, and other Capital Projects Fund. Established to meet the City's business needs for fleet, equipment, technology, facilities and other capital projects, funded by the 2% increase in the Insurance Premium License Fee fund.
- G) Infrastructure Fund. Established to provide for more reliable funding and reinvestment in the City's infrastructure needs (streets, curbs, sidewalks, street lights, sewers, and bridges), allocating 25% of the carryover of the prior year's CAFR after



any allocation required by Ordinance 0-58-12 for the TIF District and after satisfaction of other requirements of the Fiscal Stability Ordinance.

- H) Covington Economic Development Program Fund. Established to provide more reliable funding of economic development projects, programs and services in the City, funded by the net proceeds of lease facilities of the City.
- I) Tax Increment Financing (TIF) District Funding. Established to provide for the City's economic development needs, funded by 80% of the City's Incremental Revenues from City Real Property Ad Valorem Taxes and Occupational Taxes generated within the Tax Increment Financing (TIF) district, as enacted by Ordinance 0-58-12. Kenton County and Planning and Development Services of Kenton County also contribute a portion of their incremental property tax revenue to this fund.

Key Recommendations for FY 2016-2017 Annual Budget

- 1) A Structurally Balanced Budget per Kentucky Revised Statute and State Constitution.
- 2) Establish a (Rolling) Five Year Capital Plan Leveraging Use of Non-City Funds. The Five Year Rolling Capital Improvement Plan identifies what projects are planned and needed; what financing is projected from existing funding sources; what priority projects lack a funding source; and is updated every year. Asset categories include Technology, Facilities Maintenance, Facilities Construction, Equipment, Infrastructure, Parks and Recreation, and Fleet.

Potential funding sources include: General Fund, Fiscal Stability Ordinance Infrastructure Fund, federal CDBG/HUD funds, state Road Aid Fund, Federal Transportation Grants (OKI), Devou Trust/Devou Properties, Inc., Fiscal Stability Ordinance Economic Development Fund, One Time Funds (various other grants and donations), Insurance Premium Tax, Capital Reserve Fund, additional Bond debt.

- 3) Reduce Reliance on Debt Financing for Capital Needs
 - Establish Capital Reserve Fund by Ordinance with Annual Commitment of 1% of General Fund Revenues
 - Initially allocating \$350,000 from FY 2015-2016 Budget, plus \$350,000 from 2016-2017 Budget for a Total of \$700,000, and each budget year thereafter an amount not less than 1% of General Fund Revenue.



- Use of this Fund is intended for Up Front Costs for Approved Debt-Financed Projects in the 5 Year Capital Plan
- 4) Establish a Long Term Debt Policy - Appoint a Committee to include the City's Audit Committee, Business and Resident representatives, and Subject Matter Experts to develop a Long Term Debt Policy for the City
- 5) Continue to Improve the City's credit rating
- 6) Continue Leveraging City Investment with Non-City Investment

Economic Development. Since 2012, the City's Investment of \$11,919,853 (11%), with \$97,935,012 (89%) of private investment, has resulted in a total \$109,854,865 in economic development projects.

Infrastructure and Public Improvements. The City's investment of \$11,379,600 (45.52%), using federal CDBG funds, bond funds, and other sources, with \$13,618,810 (54.48%) has resulted in \$24,998,410 in Infrastructure and Public Improvements projects ranging from riverfront development to road reconstruction in Latonia to sidewalks and storm water improvements. In addition, \$3,008,077 of City funds, combined with federal transportation grant funds from OKI of \$10,318,510, has resulted in \$13,326,587 in infrastructure and public improvements' projects.

- 7) Long Term Tax Rate Reduction Plan - Assess Where Our Tax Rates Stand Compared to others and determine if they are Fair, Balanced and Competitive.

Other Notable Points about the FY 2016-2017 Annual Budget

Dramatic Increase in Tax Increment Financing District Funding from "Zero" in Calendar Year 2014, to \$191,293 in 2015 and projected to be \$195,000 in Calendar Year 2017, further evidence of a taxable real property base and number of jobs that is growing.



Easier-to-Read All City Funds Budget Summary with Beginning and Ending Balances by Fund, Revenue and Expenditures, and Transfers In and Transfers Out

Maintains Four New Police Officer Positions and Computer Forensic Analyst Position in Police Department

A Robust Capital Budget Investing More Than \$31 Million in the City

More than \$1 Million in Acquisition of Police, Fire, Public Improvements Fleet and Equipment

Moving Solid Waste Division to City Operations for Better Coordination with Legal, Finance and Code Enforcement functions within the City.

Areas of Additional Spending

Police

Replace Body Cameras and Storage Software	\$171,864
Recruiting Materials and Registration Fees	8,900
10 Digital Field Cameras	3,000

Fire Department

Personal Protective Equipment (PPE) Replacement	27,700
PPE Washer/Dryer (Plant and Facilities Budget)	34,000

Public Improvements Department

Part Time Administrative Assistant	\$20,000
Software for Work Order Management	10,000



Development Department

Land Management Software (for Code Enforcement too)	\$133,000
Pool Management Vendor	55,000
Zoning Ordinance Review	10,000
Business Attraction Strategy Software	50,000

Community Development Block Grant Fund

- \$847,292 funded for infrastructure/public improvements including 6th Street Streetscape, Licking River Greenway, 3rd and Johnson Street improvements, Latonia Avenue Reconstruction, and Annual Street Resurfacing Program
- \$84,397 for Targeted Acquisition of Slum/Blighted Properties
- \$245,000 for Father Hanses Park Improvements, Austin burg, and Other Park Improvements
- \$100,000 for Homeowner Emergency Repair Program- Will Assist Approximately 20 Households
- \$80,000 for Upper Floor Rehab- Will Create Approximately 4 New Residential Units
- \$50,000 for Targeted Policing in City Heights, Matched with \$50,000 from the Housing Authority of Covington
- \$100,000 for Targeted Policing in Areas of Need Identified/Prioritized by the Police Department
- \$58,362 for Code Enforcement Targeted Inspections
- \$90,000 for Code Enforcement Hardship Rehab- Will Assist Approximately 6 Households



HOME Fund

- \$225,000 for Covington Homebuyer Assistance- Will Assist Approximately 45 New Covington Homeowners
- \$200,000 for CHDO Housing Development- Will Create 3-4 New Homeownership Units
- \$250,000 in Other Housing Development- Will Create 3-4 New Homeownership Units

Capital Fund

The proposed Capital Fund for FY 2016-2017 is \$31,085,278 million leveraging non-City funds such as federal Community Development Block Grant (CDBG), Devou Properties, Inc., state and federal grants and programs, and direct state budget allocations for projects for Technology, Facilities Maintenance, Facilities Construction, Materials and Equipment, Infrastructure, Parks and Recreation, and Fleet., with an Unfunded Need of \$5,790,768 that must be funded through other sources yet to be identified.

A brief list of several Capital Projects Includes:

- Replacement of Mobile Data Terminals in Police Department Vehicles
- Firehouse Rehab Projects
- Firehouse Replacement
- Public Improvements Facilities' Repairs
- Caroline Avenue Drainage Project
- Peaselburg and Pointe Benton Stormwater Improvements
- North Covington Sidewalks
- Electric Alley (Gateway Community and Technical College)
- Scott and 6th Street Corridor Streetscape Project 7th from Washington to Greenup, and Madison from 8th to 11th Streetscape Projects
- Licking River Greenway Project Next Phase
- Randolph Park Improvements



**CITY OF
COVINGTON
KENTUCKY**

- Riverfront Commons
- Annual Park Improvements
- Street Resurfacing
- Johnson Street from 3rd to Madison
- Reconstruction of Latonia Avenue
- Riverside Drive Stabilization
- Demolitions/Foreclosures/Acquisitions

Devou Park Projects

- Devou Drive Design
- Armed Services Memorial Relocation
- Interpretive Signage and Wayfinding
- Haven Gillespie Traffic Island
- Prisoner's Lake Aerator
- Butterfly Way Stations
- Backcountry Trail Phase 2 Invasive Species Removal
- Resurface Walking Trails
- Behringer-Crawford Museum Improvements



Budget Process

In addition to several staff meetings regarding the budget, since January of 2016, the City Commission has been developing and discussing the FY 2016-2017 Annual Budget in several public meetings. The following is a chronology of those dates and discussion items.

- January 19 Caucus: Discuss Budget Development Process and Timeline
- January 26 Commission Meeting: FY 16 Q2 Results to Commission
- February 16 Caucus: Commission Affirms and Adopts Updated Vision Statement
- March 15 Caucus: Discussion of FY 17 Draft #1 Budget – Status Quo Budget
- April 12 Commission Meeting: FY 16 Q3 Results to Commission
- April 26 Caucus: Discussion of FY 17 Draft #2 Budget – “Wish List” Budget Presented by Departments
- May 24 Commission Meeting: Discussion of FY 17 Draft #3 Budget – Departments Prioritized Budget “Wish List”
- June 14 Commission Meeting: 1st Reading of Recommended FY 17 Budget
- June 15-28 Public Comment Period
- June 20 Open Public Meeting: Feedback on Recommended FY 17 Budget
- June 28 Commission Meeting: Second Reading of Recommended FY 17 Budget



City staff has worked to make the budget process transparent as well. Operating from an internal budget calendar, City staff began working as a team on the FY 2016-2017 Annual budget in January of 2016, six months in advance of the new budget year that begins July 1, 2016.

Using the City's new Financial Software system, SpringBrook, Department Directors and Managers input their estimated expenditures directly into the system using the FY 2015-2016 budget as a guide.

Initially, Departments were instructed to submit a "status quo" budget request, meaning that they should use their FY 16 budgeted amounts as their guide to developing the FY 17 draft # 1 budget. Each Department analyzed each and every line item in their budgets to justify each dollar of expenditure, much the same as is done on a continuous basis in private businesses. In the draft # 1 budget, each Department was afforded the flexibility to establish their own priorities in spending as long as the total department "bottom line" met the operating budget directive.

Draft # 1 of the FY 17 budget was presented to the Mayor and Commissioners in a Caucus meeting on March 15, 2016. Immediately after this presentation, Departments were asked to develop a draft # 2 FY 17 budget. In draft # 2, Departments were asked to insert additional expenditures they felt were important to the success of their departments given the possibility that revenues would allow for such expenditures in the FY 17 budget. Departments entered these requests and then presented them to the Mayor and Commissioners in a Caucus meeting on April 26, 2016. The total dollar amount of the draft # 2 additional expenditures was \$2,714,527. Departments were then asked to participate in a prioritization exercise to determine which of the \$2,714,527 in additional spending should be added to the FY 17 budget. That prioritization session occurred on May 12th and resulted in the creation of draft # 3 of the FY 17 budget.

On May 24th, draft # 3 of the FY 17 budget was presented to the Mayor and Commissioners during a scheduled Commission meeting. Since May 24th, the Finance and Operations Director and Department Directors and Managers have continuously reviewed the FY 16 budget to get closer to an accurate estimate of the year ending FY 16 budget. This exercise has helped to refine the FY 17 estimated revenues ensuing they are in line with the planned draft # 3 expenditures inserted into the FY 17 budget. The final FY 17 Recommended budget is to be presented to the Mayor and Commissioners on June 14, 2016.



Transparency

In April of 2014 the City Commission unanimously approved a Transparency Policy by City Ordinance (Commissioners Ordinance No. 06-14) committing itself to several aspects of transparency, including budgetary and financial. City staff has attempted to make the FY 2016-2017 Annual Budget even more transparent than FY 2015-2016, by introducing an All City Funds Budget Summary that shows all funds, beginning and ending fund balances, revenues and expenses by department, and sources and uses of funding. The budget format includes details of every fund, department and line item of the total City budget all of which is available for the public to view on the City's website as well as copies available at no charge at our Finance Department every day that City Hall is open.

The FY 2016-2017 Annual budget includes a Summary page of all City funds with beginning and ending balances, revenues and expenditures, interfund transfers, and sources and uses of funding, as a quick and easy overview of the entire City budget.

The All City Funds Budget Summary also illustrates the reserve funds that have been established, the sources of revenue for each, and any expenditures or transfers to or from them.

A "Description of All City Funds" explains the purpose and use of each City fund.

The City's annual budget and annual CAFR (Comprehensive Annual Financial Report) are posted on our website, www.covingtonky.gov.

The City's Director of Finance and Operations updates the City Commission and public each quarter on the status of the City's budget, revenues and expenditures, as well as meeting quarterly with the Audit Committee. In addition, the City posts the budget as well as actual revenues and expenditures for all City funds to its OpenGov Transparency website launched in May of 2016. Updates are performed two times each month, at the end of the month and mid-way during the month. The public is invited to visit OpenGov at <https://covingtonky.opengov.com/transparency> at any time to view the City's most recent financial data.

The City Manager and the Director of Finance and Operations meet quarterly with Department Directors to review departmental budgets and expenditures.

Public Input Meeting, June 20, 6:00 P.M.



SUMMARY

The FY 2016-2017 Annual Budget recommendation is based on a vision, a plan for the future of Covington, and “staying the course of Responsibility, Sustainability and Investment”. This plan, still rooted in the tenets of investment in our neighborhoods and our greatest physical assets, our riverfronts, is our best way forward with patience, discipline, constant vigilance, and your support.

Next Steps in the FY 2016-2017 Annual Budget Process

June 14	First Reading of Budget Ordinance
June 15 – June 28	Community Feedback
June 20	Public Input Meeting at City Hall, 6:00 P.M.
June 28	Second Reading of Budget Ordinance
July 1	FY 2016-2017 Budget Begins

Thank you for your time, attention and consideration to the Recommended Budget for FY 2016-2017.

Most importantly thank you for your dedication, hard work, and sacrifice on behalf of the citizens of Covington.

Respectfully Submitted,



Larry Klein

City Manager

City of Covington, Kentucky