


## MEMORANDUM

**TO:** Charleston City Council Members

**FROM:** Victor Grigoraci, CPA  
Charleston City Treasurer 

**DATE:** June 30, 2016

**SUBJECT:** Charleston City Budget Article

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Since several of you did not see this article, enclosed for your ready reference and files is my Charleston City Budget article published by the Charleston Sunday Gazette-Mail on May 22, 2016,

Please let me know if you have any questions and / or comments.

## IT'S ANNUAL 2017 BUDGET TIME AGAIN!

By Victor Grigoraci

Citizens: Where have you been during this 2017 annual budget season – at the state, county, school board, and city levels?

The state has lobbyists, and interested parties on each side of the dollar and, of course, legislators and governor who have yet to construct a 2017 balanced budget. However, I have seen little interest from citizens regarding the Charleston Gazette-Mail published budgets of the other public bodies.

Well, as to Charleston in particular, the 2017 budget was drafted by the administration, presented to the finance committee, and city council, and then approved by council without change. Of course, council is charged with representing the citizens. Yet I have not seen citizens express any special interest in Charleston's operating budget, which has grown from about \$52 million in 2003 (when I was first elected as Charleston City Treasurer) to about \$95 million for the fiscal year ending June 30, 2017. Moreover, this 2017 balanced budget has about \$1.9 million of unallocated funds today that is being held for employee raises effective July 1, to be based on a wise independent salary study. Citizens, you may review the detailed budget on the city's website.

The primary revenue growth over these 15 years is from property taxes, business and occupation taxes, hotel occupancy taxes, ambulance fees, and lease proceeds. New revenue comes from dedicated city service fees of \$6.7 million for traffic and street maintenance and police services and protection, and dedicated sales tax reserve transfer of \$2.7 million for uniform employee legacy pension contributions.

The major expense increases from 2003 to 2017 consist of salaries and wages (\$25 million to about \$38 million), medical insurance (\$5.6 million to \$9.4 million). Non-uniform employee pension contributions increased \$1.3 million, while uniform employee pension contributions increased \$8.3 million. Let me mention that due to expanded services, overall employee count has increased about 5 percent over this period.

There have only been three new fee/taxes during this period: the City Service Fee for those who work in the city, starting at \$1, now

at \$2.50 and eventually going to \$3 per week in 2020 for about \$8 million per year; and the sales tax of ½ cent for the Civic Center improvements and expansion; and the ½ cent sales tax to help fund the uniform employee legacy pension contributions, which is about \$7.3 million each annually.

As stated above, the city's operating budget is about \$95 million. In reality the budget is over \$106 million because the collected sales taxes are held in reserve accounts dedicated for the Civic Center project and the uniform employee legacy pension contributions.

This \$100 million Civic Center project is well on its way, with an expected completion date of January 2018, is fully funded by the \$97.5 million bonds supported by the ½ cent sales tax. This project will be a tremendous enhancement to Charleston and surrounding areas, for which Mayor Danny Jones needs to be recognized for his bold initiative. While it is awkward for me to say, I have yet to receive any projections regarding increased city revenue by way of return on investment, increased business and tourism projections, and the possible increased operating costs, and whether the city subsidy will need to be greater/lesser from the general fund of \$1.1 million, plus special transfers of about \$250,000. Nevertheless, being the optimist that I am, from the start I supported and welcomed this project.

At June 30, 2015 the under funded legacy police and firemen pensions totaled over \$308 million, while it was about \$103 million in 1995. (Is this making progress?) Well, we are making some progress due to reduced pension benefits and current funding for new hires after June 1, 2011 and with the ½ cent sales tax dedicated to these legacy pensions to the tune of about \$7.3 million per year into a Pension Reserve Fund. I would guess this fund could give relief for about 10-13 years. But there is no certainty for a number of factors – sales tax collections, earnings on the Reserve Fund, actuarial changes, mortality tables, etc. When this fund is fully used, the city can expect a funding short fall as soon as 10 years from now that I would call a “train wreck,” absent other relief.

Other Post Employment Benefits (OPEBs) represent promises to current and retired employees of health insurance benefits for life, subject to varying employee/retiree contributions and conditions. As noted above, the cash cost for 2017 is estimated at \$10.8 million, with

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an under funded OPEB liability of about \$126 million at June 30, 2014, all on a pay-as-you-go basis, with potential modifications.

Even though I am an optimist, I am also well aware of our economic situation that is beginning to look like a recession for the state. While Charleston is somewhat of an oasis when it comes to economic activity, we cannot lose sight of the lost jobs in the surrounding areas due to reduced coal production/pricing and gas production/pricing, and coal company bankruptcies, causing Kanawha County Commission to reduce its 2017 budget by over \$1 million to \$51 million according to the March 23 Charleston Gazette-Mail. Plus we need to recognize a continuing reduction in population. Thus, it seems to me that our future budgets will be at risk, even though Charleston has a \$4.1 million "rainy day fund," and Health Insurance Reserves of \$9.7 million.

I hope that citizens, especially community leaders and businesses, will assume responsible ownership of city budgets in Charleston, and neighboring cities as well. Citizens: We have a stake in our cities; let's accept our obligations.

Now, let's not panic – but let's get informed, prepared and be extremely judicious and assume citizenship responsibility in the budget process. Citizens: It's your city to win or lose.

Victor Grigoraci is a certified public accountant in Charleston, WV and Charleston City Treasurer.