



Adopted Operating and Capital Budget FY 2012

Transmittal Letter



## MEMORANDUM

TO: Mayor Thomas Tomzak and Members of City Council  
FROM: Beverly R. Cameron, City Manager  
Mark Whitley, Assistant City Manager  
RE: Adopted Budget FY 2012  
DATE: October 9, 2011

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### INTRODUCTION

We present the Adopted Budget for FY 2012. The total **General Fund** budget is **\$75,684,610**, a 4.94% increase from the FY 2011 adopted General Fund budget. Over the past several years, as the City dealt with the economic downturn, the City decreased funding for capital items and deferred many maintenance items. The City's budget in FY 2012 includes funding increases to address the issue of deferred maintenance. The budget includes two major increases. First, the transfer to capital rose from zero in the original FY 2011 adopted budget to \$1.4 million in the FY 2012 original adopted budget. Second, the transfer to City Schools rose by \$900,000, as the schools have seen major enrollment increases.

The City's overall revenue base is forecasted to improve slightly from the prior two budget cycles. However, there is much in the way of deferred maintenance that must be addressed, and all of these needs cannot be met in one budget cycle. The FY 2012 Budget represents a plan to begin to address deferred maintenance in a responsible way, including increased capital outlay spending and an increased transfer to capital for repaving projects and replacement of assets. The need to rebuild the City's capital assets, along with the need to increase the operating transfer to schools, are primary factors that lead to the overall budget increase.

### SIGNIFICANT BUDGET HIGHLIGHTS

The City's FY 2012 Budget represents the start of rebuilding organizational capacity and replacing outdated and worn assets after the cuts from the last three years.

#### *Employee Bonus*

The budget includes a proposal to provide all full-time employees with a bonus in the amount of \$850, which represents 2% of the City's median salary for its workforce (rounded). The City is also including pro-rated bonus amounts for part-time employees. The cost of the bonus, in the General Fund, is \$367,750 (FICA included).

A bonus was provided in lieu of a raise in order to maintain a lower payroll base for the FY 2013 budget, and to save VRS costs in the FY 2012 year. In the future, assuming the economy

continues to improve, the City should consider cost-of-living and merit raises for employees. The staff has not received a cost-of-living increase since July 1, 2008.

#### *Use of Fund Balance*

The budget includes two uses of balance: \$675,000 from unassigned balance for contingency and an operational study, and \$1,000,000 from the assignment for capital needs will supplement the Transfer to Capital.

#### *School Funding*

The budget includes a transfer to schools of \$24,928,000, which is a \$900,000 increase in the school transfer from FY 2011. The Fredericksburg City Public Schools face a major increase in school enrollment, one of the major reasons for the increase in the transfer. The City Schools indicate that they will need to hire five more teachers to handle the increase in the number of school children. Other major cost increases for the City School system include increasing health insurance costs, and an increase in the contribution for the VRS for teacher salaries. The City School Board would also like to provide teacher salary increases during FY 2012.

#### *Transfer to Capital*

The budget includes a transfer of approximately \$1.4 million to the capital budget to help support a variety of capital projects. The staff feels that it is important to provide cash for ongoing capital projects, including street paving, downtown infrastructure replacements, computer replacements, parks maintenance and building maintenance contingencies, and some funds for court security improvements. The staff views these projects as important investments in the ongoing maintenance of City assets.

#### *Replacement Capital Outlay*

The category of capital outlay in the budget includes replacements for old vehicles and equipment, plus any new vehicles or equipment which may be necessary as a result of new positions or programs. The City deferred many equipment and vehicle replacements through the economic downturn. The budget increases funding in the category of capital outlay in FY 2012 by \$208,620 from the FY 2011 original adopted budget. The total capital outlay in the General Fund for FY 2012 is \$692,280.

#### *Employee Benefits –VRS and Health Insurance*

FY 2012 will represent the second year of the City's current actuarial rate for the Virginia Retirement System. The current rate is 15.8% of full-time salary. The City will receive a rate adjustment for future budget years FY 2013 and FY 2014.

The City's health insurance renewal with Anthem was excellent for FY 2012. The City's claims experience stayed low enough that the City's carrier is not recommending a rate increase in FY 2012. This development is a major contrast from previous years, where the City experienced double-digit premium increases.

#### *Line of Duty Act Benefits*

The Commonwealth of Virginia has a benefit program, known as the Line of Duty Act, that provides monetary and health insurance benefits to the families of police officers, firefighters,

and related volunteers who are hurt or killed in the Line of Duty. During the last session of the General Assembly, the state shifted the cost of these benefits to local governments. Local governments will have until June 30, 2012, to decide whether or not to irrevocably join a program of insurance run by the Virginia Retirement System to cover these benefits, or whether to self-pay these benefits as claims may arise.

In the FY 2012 the budget includes a reservation of \$60,000 in the Insurance portion of the budget as a hedge for the first year of insurance premiums of this program.

*Decrease in Debt Service*

The City in FY 2012 benefits from a decrease in the debt service schedule of \$350,080 from the FY 2011 adopted budget. Specifically, the 2001 G.O. Issue is decreasing as it nears retirement, and the debt service requirements for this issue are available to help offset other needs.

The City will need to issue additional debt for the court project. The FY 2012 capital budget anticipated \$39 million, which was a high estimate. Based on current estimates, if the City approves a new bond issue in FY 2012, annual debt service for the court issue will add to the existing debt service schedule.

**NEW POSITIONS**

The FY 2012 budget also includes several new positions, which will assist the City in rebuilding organizational capacity. The economic downturn, between FY 2008 and FY 2011, forced the City to reduce its General Fund Workforce from 371 positions to 341 full-time positions.

The City has four new positions funded in the FY 2012 budget, as follows:

<b>Title</b>	<b>Department</b>	<b>Salary + Benefits (Rounded)</b>	<b>Comment</b>
<b>Budget Manager</b>	CMO	\$96,600	Would improve budget development in CMO
<b>Deputy Superintendent – Street Maintenance</b>	PW	\$71,700	Would improve operations at City Shop
<b>Deputy City Attorney</b>	Legal	\$34,500	Assists City Attorney. Costs reduced because of offsetting savings from part-time salary funding in that same budget.
<b>Accounting Technician</b>	Treasurer	\$53,000	Assist Treasurer with duties and collections

In addition to these positions, included in the FY 2012 base budget is other positions that have been added during the course of FY 2011. These include:

- Deputy Clerk of Circuit Court
- GIS Coordinator
- Police Officer (formerly funded by expired Community Policing Grant)

E911 Dispatchers (two, formerly part-time)

## REVENUES

### *Increases in Revenue Forecasts*

The City has been fortunate that growth and development have taken place over the last year, and that new businesses have largely taken the place of those that have closed in the past couple of years. The City staff is forecasting base revenues approximately \$1.7 million higher than base revenues in FY 2011; however, this is offset by a decrease in transfers to the General Fund from other funds of \$747,190.

Based on revenue performance in both prior years and so far in FY 2011, the City forecasts have been raised for sales taxes, admissions taxes, and personal property taxes for FY 2012.

### *Real Estate*

The real estate tax will increase in order to provide the necessary funds for deferred maintenance and the transfer to schools in the FY 2012 budget. The budget includes an increase in the real estate rate of four cents – from \$0.68 / \$100 value to \$0.72 / \$100 value. Based on a median home assessed value of \$254,700, the real estate bill will increase from \$1,731.96 to \$1,833.84 – a difference of \$101.88 per year, or \$8.49 per month.

### *Decrease in Transfer from Other Funds*

During FY 2011, the City transferred funds to the General Fund from other funds in a total amount of \$1,832,590. However, many of these items are not available on an ongoing basis, such as the City's closure of the New High School Capital Fund, which was transferred to the General Fund for FY 2011 and used to offset the debt service for the new high school in the current year. For FY 2012, this has been recommended to decrease by \$747,190.

## REGIONAL GOVERNMENTAL AGENCIES

### *Central Rappahannock Regional Library*

The FY 2012 Budget includes an amount of \$1,180,000 for the Central Rappahannock Regional Library, an increase of \$131,310 from the FY 2011 Adopted Operating Budget. The City's share of cost in the regional library is based on circulation, which was 10.08% during CY 2010.

### *Regional Detention Centers*

Both the Rappahannock Juvenile Center and the Rappahannock Regional Jail are recommended to decrease their overall funding for FY 2012. Due to last year's bond refunding, the debt service schedule for the Regional Jail for FY 2012 is very favorable; the Regional Jail will also be using some of their own fund balance to offset debt service costs for FY 2012.

In the future, the debt service payments for the Regional Jail increase for all the jurisdictions, beginning with FY 2013. The City should anticipate higher costs for the Regional Jail after FY 2012. The Juvenile Center costs should fluctuate according to historic patterns, but overall costs for the facility are lower because of decreasing use of the facility.

## OTHER FUNDS

### *City Grants Fund*

The City Grants Fund is approved at **\$1,490,750**. In order to support the expenditures in this fund, the City will need to transfer **\$308,095** from the General Fund, which represents matching funds for various grant programs.

There are some changes in the City Grants Fund from prior years. The Parks, Recreation, and Public Facilities Department terminated the Finally Fridays program during FY 2011, and this has been taken out of the City Grants Fund budget. In addition, the Four-for-Life program, which is dedicated for the use of the Fredericksburg Rescue Squad, was in the General Fund in FY 2011 but will move to the City Grants Fund for FY 2012. The City is also moving the Farmer's Market program to the City Grants Fund, and will match dedicated Farmer's Market revenue with a local transfer to create a budget for a Market Manager in the amount of \$15,000. Finally, during FY 2011 the City received a COPS community policing grant that will pay for an officer during FY 2012. There is no local match in FY 2012 for this grant.

#### *Social Services Fund*

The City Social Services Fund is approved at **\$4,886,312**. This is a 2.04% decrease over the original adopted FY 2011 budget. This activity is paid for by the federal and state governments; however, the DSS projects lower revenues from the state and federal government to pay for these services in FY 2012. The City's transfer from the General Fund to the Social Services Fund is recommended to increase from \$823,000 to **\$893,215**.

#### *Water Operating Fund*

The City's Water Operating Fund is approved at **\$3,482,000**, which is an increase of 1.03% from the FY 2011 adopted budget. The City has engaged a consultant to perform an evaluation of the City's rate structures and management structures for both the water and wastewater operating funds. The results of the study should be available in time to inform the FY 2013 budget.

#### *Wastewater Operating Fund*

The City's Wastewater Operating Fund is approved at **\$6,300,000**, which is an increase of 0.19% from the FY 2011 adopted budget. The debt service requirements in the fund have increased in FY 2011 and FY 2012, as the City has completed improvements to both the Wastewater Treatment Plant and several main interceptor sewer lines. Improvements to three City pump stations are also currently underway.

#### *Transit Operating Fund*

The City's Transit Operating Fund is approved at **\$5,178,037**, which is an increase of 9.13% from the FY 2011 adopted budget. The Transit Fund increased for capital replacement items. The Transit budget is also affected by the expiration of the DRPT demonstration grants for the City and Spotsylvania County, which combines those program budgets with the main City and Spotsylvania program budgets. Finally, as a cost-saving measure for Caroline County one of their two routes has been eliminated.

### *Parking Fund*

The City's Parking Fund, which reflects operations at the Sophia Street Parking Garage, is approved at **\$650,630**, which is an increase of 1.18% over the FY 2011 adopted budget.

### *Comprehensive Services Act Fund*

The City's Comprehensive Services Act Fund is approved at **\$1,417,500**, which is an increase of 13.35% from the FY 2011 adopted budget. The CSA program reflects mandated costs for special needs children, and is a shared responsibility between the City and the state government. This reflects continued decreases in cost from shifts in the service population. The City's General Fund transfer to support the CSA program increased from \$563,240 to \$620,000. In addition, the budget includes the use of \$50,000 in Comprehensive Services Act Fund balance, which constitutes leftover local matching funds from prior periods. The City continues to be hurt by the state's Aid to Localities Reduction program, which in FY 2011 reduced the City's funding from the state's share of the cost of this program by \$67,650. (This constitutes lost revenue to the CSA Fund.)

### CAPITAL BUDGET AND CAPITAL IMPROVEMENTS PLAN

The City's Capital Budget will need to include funding for major capital improvements, including an increased amount for paving in FY 2012. In addition, the City will need to include an amount for downtown streetscape improvements, streetlight painting, replacement of the bridge of Fall Hill Avenue over the Rappahannock Canal; and other important capital projects.

The City will provide additional details on the capital budget through a separate report.

### LOOKING AHEAD – FY 2013

Nationwide, the economy continues to struggle with high unemployment and a declining real estate market. Locally, the City's economy has remained resilient, although there has been some turnover in the retail sector, particularly in Central Park. A new trend has emerged to construct more multi-family housing, which buoyed the City's economy in recent months.

FY 2012 is a year for reinvestment in deferred maintenance items. The renewed investments in street maintenance, downtown streetscapes, wastewater lift stations, bridge replacements, and pathway trails will help keep the foundation of the local economy strong.

The City must now turn its attention to the next large infrastructure replacement project: the courthouse. The Council will be working through various options in FY 2012, and as of this writing the Council will decide between three options, all on Princess Anne Street, for a new building to replace the existing Circuit Court building.

## CLOSING AND ACKNOWLEDGEMENTS

The City Manager's Office gratefully acknowledges all the hard work on the part of the City Departments, Constitutional Officers, regional government partners, and others that provided the information necessary to bring this document to City Council for review.

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Beverly R. Cameron, City Manager

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D. Mark Whitley, Assistant City Manager