



MEMORANDUM

TO: Honorable Mayor and Member of the City Council
FROM: Beverly R. Cameron, City Manager
RE: Transmittal Memorandum – FY 2013 Recommended Budget
DATE: March 13, 2012

I am pleased to present for your review and consideration the City Manager's Recommended Budget for FY 2013. The Recommended Budget includes both Operating and Capital Budgets for FY 2013, and Capital Improvement Plan recommendations for FY 2013--2017. These spending plans have been prepared with the intent of reflecting City Council's biennial goals and initiatives.

The **General Fund** in the Recommended Budget is set to increase by 3.85%, from an original adopted budget in FY 2012 of \$75,684,610 to a total of \$78,601,790. This is accomplished largely from current revenue streams that are either growing or stabilizing from the economic recession of the past several years. The budget does not include an increase in the real estate tax rate, beyond that necessary for revenue equalization due to the re-assessment.

In addition to the General Fund, the Recommended Budget includes the following operating funds:

- Water Fund
- Wastewater Fund
- Transit Fund
- Parking Fund
- Social Services Fund
- City Grants Fund
- Comprehensive Act Services Fund
- Riparian Lands Stewardship Fund.

City staff and I look forward to reviewing these recommendations with City Council over the next two months. The Recommended Budget is a fiscally responsible and realistic spending plan as of the date of release. Please note, however, that the Virginia General Assembly is still considering changes to both the state budget and to various laws and mandates which could affect localities. During the next two months, City Council may wish to adjust the budget, both to realign local priorities and to adjust for changes made at the state level.

THE FY 2013 BUDGET IN PERSPECTIVE

The FY 2013 Budget, compared to the past several years, represents an increase in the City's main operating fund, the General Fund. Primary drivers of this increase include:

- Increase in debt service related to Court Construction (\$1,062,360)
- Increase in expenditures related to a proposed 2.5% salary increase for employees
- Increase in expenditures related to an increase in the retirement contribution rate for City employees

Unlike many localities in the Commonwealth, the City is in a position to increase its budget without increasing the real estate tax rate, or any other General Fund taxes. We have been appropriately conservative in our revenue forecasts for the past several years. Revenues have stabilized and in some cases grown. We do recommend an increase in the use of balance for certain expenditures, including transfer to capital, and the establishment of a new fund for preservation and property blight abatement.

During FY 2010 and FY 2011, the City's financial situation has stabilized. This has provided additional flexibility in meeting the challenges presented by the FY 2013 Budget. Also, decisions made in the past to limit spending growth have provided flexibility. For example, the City chose to reward employees with a bonus during FY 2012, rather than a raise. If a raise had been given rather than a bonus, although the cost to the City during FY 2012 was comparatively small, the base costs carried over into FY 2013 would have been approximately \$400,000 higher, including both salaries and benefits.

In the past several fiscal years, the City has begun investing and re-investing in capital maintenance activities that were deferred through the recession. The City is now continuing to reinvest in routine capital outlay, including vehicle and equipment replacements. The City's transfer to capital remains at the FY 2012 levels, and most of the projects in the capital funds constitute the replacement of existing assets.

MAJOR OPERATING EXPENDITURE HIGHLIGHTS

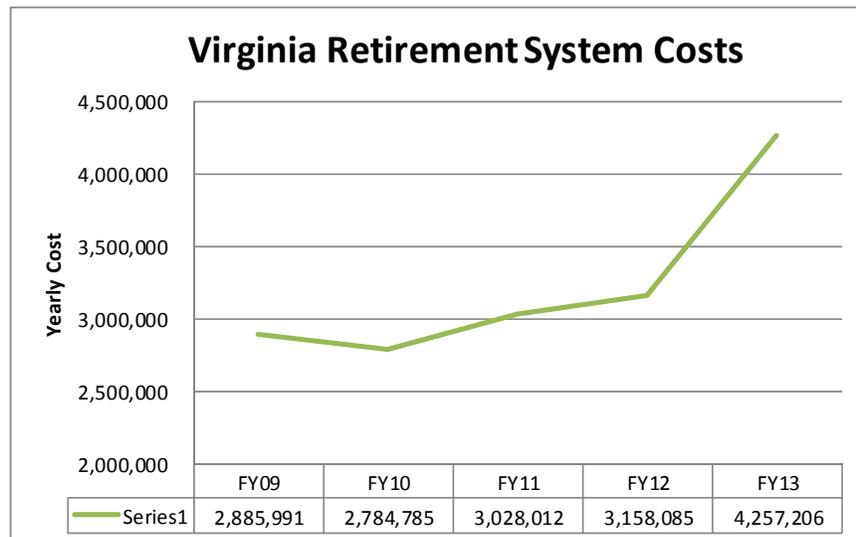
Employee Compensation – The City Manager's Recommended Operating Budget for FY 2013 includes a cost-of-living increase for most employees of 2.5%. Full-time employees received a one-time bonus in FY 2012 of \$1,000. The Fiscal 2013 recommendation represents the first overall salary increase for employees since July 1, 2008.¹

Department Heads who report directly to the City Manager will not receive a cost-of-living increase. Rather, based upon merit, they will receive an average increase of 2.5%. The total cost of the salary increase, including benefits, is \$645,130.

¹ The City did reduce pay by 1% during the last three months of FY 2009, this reduction was restored on July 1, 2009. For the purposes of this discussion, staff is not counting that as a "raise."

Virginia Retirement System – Change in the Contribution Rate – The Virginia Retirement System has notified the City that the contribution rate for the pension plan has increased for the FY 2013-2014 period from 15.8% to 19.65% of salary. This is a major increase in operating expenditures, and the City is currently obligated to pay the increase in accordance with statute and regulations. The additional cost, in the General Fund alone for FY 2013, is \$725,000+.

There are several noteworthy items in regard to the Virginia Retirement System changes. Unlike the Commonwealth of Virginia, the City does not have the option of not paying the rates set by the Virginia Retirement System Board, and funding at a lower level. The City has funded the rates set by the VRS Board since inception. In recent years, the City has seen a wave of retirements from employees. The number of retirees and beneficiaries expressed in a ratio with active members has gone up significantly.



At the same time, the City’s total active membership and covered payroll has remained relatively static, which has the short-term effect of limiting growth of assets attributable to the City in the system. As a result, the total actuarial liability for benefits has increased, while the assets have not increased at the same rate. The “unfunded” liability, which is the amount of funds necessary to cover all actuarial retirement benefits if the City ceased to exist in the system, has increased, which in turn drives up the retirement rates.

As of the date of the budget release, there are many bills pending in the General Assembly that would radically alter the Virginia Retirement System. Some bills would make the retirement system a defined contribution system for new employees, and others would require future employees to pay the 5% “member” contribution, and make current employees do the same with a phased approach. We will closely monitor these bills, and depending on the outcome, the recommended budget may be amended.

The Virginia Retirement System rates also impact the Fredericksburg City Public Schools. However, the Schools do not pay the rates assigned to the City, but rather pay the rates set by the General Assembly state-wide.

Health Insurance

The City of Fredericksburg self-insures for health insurance, and contracts with Anthem Blue Cross and Blue Shield for administrative services, network access, and reinsurance. City employees were affected by the recent contract dispute between Anthem and Mary Washington Health Care. The City's claims experience shows heavy utilization of Mary Washington Health Care facilities.

During FY 2011, the City was fortunate enough to have no increase in insurance rates. However, the first six months of experience in FY 2012 showed significant increases in health insurance claims. As a result, the City staff increased the per employee premium costs to \$9,300 per employee, an increase of 9.4% pending the results of the City's renewal.

Retiree Health Insurance

The City is also facing increased costs for retiree health insurance. The City altered the retiree health insurance benefit in 1996, so that employees hired after July 1, 1996 are given a credit towards premium costs based on years of service. Employees hired before that date are allowed to remain on the City's group plan until such time as they become eligible for federal Medicare benefits. The recommended FY 2013 budget for retiree health insurance is \$588,635.

Fredericksburg City Public Schools

The City of Fredericksburg received very favorable news in terms of state funding for the Fredericksburg City Public Schools. The Local Composite Index, which is the state's formula for distributing local school aid, decreased for the City in the upcoming biennium, from 0.7763 to 0.6511. This change in the Local Composite Index provides more state aid to the City Schools. School officials estimate the impact of the Local Composite Index change, combined with higher enrollments, will result in approximately \$2 million in additional state revenues.

The City Schools will face increasing expenditures to handle increasing enrollments. The Schools will need to add several instructional positions, and face increased costs for the retirement system and health insurance. The City Schools budget includes a 2.5% salary increase for School employees.

The Recommended Budget provides level local funding for City Schools in Fiscal 2013. The significant increase in state aid largely offsets the additional costs described above. The Recommended Budget includes a small increase in funding for the Head Start Program which will help fund a local salary increase for those employees.

The total transfer from the General Fund to the City Schools Operating Fund is \$24,928,000.

Central Rappahannock Regional Library – The Central Rappahannock Regional Library requested funding in the amount of \$1,353,485. The Recommended Budget includes funding of \$1,238,485. The Library request included funding for employee salary increases and for restoring the library hours at the Headquarters Branch on Sunday and Thursday evenings.

The Library also requested \$100,000 each from the City of Fredericksburg, Stafford County, and Spotsylvania County to support a major expansion of the e-book collection at the Library. The City's Recommended Budget did not fund this request. Otherwise, the recommended funding represents all but \$15,000 of the Library's requested amount.

Other Notable Expenditure Highlights –

Motor Fuel – The recommended budget includes \$1,009,265 for motor fuel and oil, this is a \$234,170 or 30.2% increase. Overall we have seen consumption levels remain fairly constant but as the price of gasoline and diesel fuel continue to rise we have done our best to conservative yet practical in our projections for FY 2013 fuel budgets.

Group Life Insurance – The rate for group life insurance is set by the VRS in FY 2012 the rate was set lower than the actual amount needed to fully fund the program based on short term savings tactics adopted by the General Assembly. The recommended budget included funding at the new rate assigned to the City's portfolio with is 1.32% of each employee's salary for a total expenditure of \$272,435 a \$190,510 increase over FY 2012.

Expenditure Decreases

Offsetting some of the increases are several decreases in operating costs that represented either one-time or periodic costs in FY 2012, which do not have to be repeated in FY 2013, or represent ongoing cost savings. Major items include:

- Bank fees in Treasurer budget – ongoing minus \$65,000
- Lease space for Commonwealth Attorney – minus \$50,000 (the Sheriff will remain in the leased space at a slightly increased cost)
- Lease / purchase completion for the condominium space in Maury Commons (minus \$43,000 net of condominium association dues).

DEBT SERVICE DISCUSSION

During the current fiscal year (FY 2012) several changes altered the City's existing debt service schedule. As a starting point, it is important to remember that debt service payments will change over time as the City continues to make payments on existing bond issues. Without any of the FY 2012 changes, the City's debt service in the General Fund was scheduled to decline from the FY 2012 level of \$5,436,467 to \$5,161,014 – a decrease of \$275,453. This is an unusually large decline in one year, and is tied to the 2001A GO Issue schedule, which declines over time. The following discussion details some of the changes to the debt schedule in FY 2012, which will impact the FY 2013 budget.

New Court Debt

In November 2011, the City issued bonds to fund the new court project and to refund the 2001(A) GO Bond issue. The court project is the major project with this issue, and consists of the construction of a new courthouse for the Circuit and General District Court at the intersection of Princess Anne and Charlotte Streets, and the renovation of the existing General District Courthouse on Princess Anne Street for the use of the Juvenile and Domestic Relations Court.

Interest rates in the municipal bond market are at historically low levels. All three major bond rating agencies – Fitch’s, Moody’s, and Standard and Poor’s – reviewed the proposed issue and the City’s financial and economic situation and provided very strong ratings for a jurisdiction of our size. The ratings are – AA+ (Fitch’s), Aa2 (Moody’s), and AA (Standard and Poor’s).

These strong ratings made the City’s offering attractive to bond buyers, as the City achieved a true interest cost for the bonds of 3.64%. Compared to historical interest costs, the City saved approximately \$10 million on the issue over the twenty-five year life of the bonds.

In any event, the City must now program these new debt service costs into the operating budgets. The court debt issue is a twenty-five year level debt service issue, beginning with an interest-only payment in FY 2013 of \$1,386,565. In FY 2014 and beyond, the debt service payments will increase to approximately \$2.1 million per year.

2001(A) GO Bond Refunding

As part of the same bond issue as the court project, the City issued approximately \$3.8 million in debt to refund the 2001 (A) GO Bond Issue. This component of the new bond issue will follow the same timeline for repayment as the original bond issue, which was set to expire in FY 2022.

Most of the savings will go towards the General Fund, although small portions will be allocated to the Water and the Wastewater Funds. The City’s savings over the life of the issue in the General Fund from the refunding activity will total \$259,997.

Riverfront Park Debt Service

In August of 2011, the City took advantage of an opportunity to purchase the Prince Hall Masonic Lodge at 609 Sophia Street to add to the Riverfront Park. The City’s Economic Development Authority issued a note to the City for \$725,000, and also granted the City \$200,000 to facilitate the purchase. Interest on the note accrues at 3%. The note has a balloon payment at the end of three years; with interest-only payments until FY 2015. At that point, the entire principal will be due. The City does have the option of paying all or part of the principal to the EDA at any time.

The EDA note will add two interest-only debt service payments of \$21,750 each to the FY 2013 debt service schedule.

2004 Virginia Public School Authority (VPSA) Bond Refunding

In 2010, the Virginia Public School Authority issued refunding bonds to refund the 2004 issue, which included approximately \$50 million in debt from the City of Fredericksburg for the construction of Lafayette Upper Elementary School and the new James Monroe High School. Due to the conditions of the refunding issue, the City does not see the benefit of the refunding until FY 2013.

The July 2012 debt service payment for school debt will be discounted by \$853,204 as a one-time credit. Staff recommends that the City Council allocate the proceeds to a “sinking fund” that will serve to offset the debt service costs on the schools every year for the remaining duration of the bond issue. The school bonds are set to be paid off in FY 2030. Under this plan, the City would provide itself a credit each year of \$47,400; beginning in FY 2013, to offset future school debt payments.

New Debt Service Schedule

With all of the changes from FY 2012, the next five year’s debt service schedule will be as follows:

Fiscal Year	General	Education	Total General
2012	1,859,902	3,507,256	5,367,159
2013	3,607,314	3,480,493	6,547,806
2014	3,754,915	3,475,048	7,229,963
2015	4,439,319	3,469,881	7,909,200
2016	3,301,227	3,428,098	6,729,325
2017	3,297,764	3,427,404	6,725,168

Fiscal Year	Total General	Water	Wastewater	Parking	Total All
2012	5,367,159	328,764	2,297,146	319,818	8,312,887
2013	6,547,806	298,089	2,282,282	320,609	9,448,786
2014	7,229,963	276,580	1,718,420	321,084	9,546,047
2015	7,909,200	274,023	1,167,527	319,304	9,670,055
2016	6,729,325	232,368	1,132,878	319,225	8,413,797
2017	6,725,168	233,159	1,132,746	320,767	8,411,840

The table does not include the credit that the City will take on the school debt refunding, which will amount to \$47,400 per year.

Water & Sewer Rate and Management Study

The City of Fredericksburg commissioned a rate and management study of the City’s water and sewer system. As part of that effort, a financial analysis was conducted to determine whether existing rates are adequate to meet the cost of providing service.

The study's key finding is that the City's rates are too low to meet the ongoing costs of providing the services. In addition, although the City has invested heavily in recent years in replacing major water and sewer transmission lines and in renovating both the Wastewater Treatment Plant and several wastewater pump stations, the City must extend that investment as water and sewer lines age and require replacement. The City is faced with a recommendation to increase water and wastewater fees significantly. These increases will be phased in over three years to ease the burden on the customer.

On the management side, the consultants recommended that the City create a separate water and sewer division within the Department of Public Works so that more focus can be placed on the management of the water and sewer function.

There are two key recommendations built into the Recommended Budget for FY 2013. The first recommendation is to implement the first phase of the planned rate increase. Under this proposal, water rates would rise by 9.9% and wastewater rates would rise by 10.7%. Bi-monthly bills for a representative residential water and wastewater customer would increase by \$7.76, while a representative commercial customer would increase by \$95.73.

The second recommendation built into the Recommended Budget for FY 2013 is the hiring of an Assistant Director of Public Works for Water and Wastewater. This position would take over the day-to-day responsibility for the management of the water and wastewater functions. Importantly, the position would focus on capital planning in water and wastewater, with a focus on preparing for a bond issue in three to five years to replace critical sections of water and wastewater lines. The wastewater fund will pay off a significant portion of outstanding debt within that time frame, which will provide the City an opportunity to reinvest in the replacement of aged infrastructure.

There are additional recommendations built into the FY 2013 Recommended Budget that will serve to update fee schedules. The budget proposes an increase in the connection fees, which is the actual cost assessed to contractors for the connection of new construction to the water and sewer lines. The higher rate will assist the City by covering the increased cost of the work. The City will also change the availability fee, which has been re-calculated. The basis of the fee will also change to the size of the meter, rather than estimates of usage, for smaller projects that do not require more than a 1.5 inch meter. The policy change will assist economic development by lowering the costs of redevelopments and changes of uses, particularly in existing buildings. It will also ease the administrative burden on the Department of Building and Development Services, which currently calculates fees based upon evaluating building plans and projecting use based on various factors.

The FY 2013 Recommended Budget also includes a recommendation to increase the fee for late payment to 10% of the bill, which is more in line with standards for late payment, as opposed to the current \$3 per bill. This change should serve to deter late payment of bills, which will in turn lower the number of cut-offs that the City will perform. As part of the recommendation, the City will extend the schedule for payment so that customers will have more time to make timely payments.

RECOMMENDED NEW POSITIONS AND PROGRAMS

The Recommended Budget includes several new positions, all of which will help provide improved service to the citizens of Fredericksburg. All of them further the achievement of the City Council's Goals and Initiatives.

Public Information Officer – the City Council has targeted improved communication as an area of focus and identified this as an initiative under the Goal area of “Governance.” The National Citizen Survey also listed improved communications as an area that could use improvement. The prime responsibilities for the new position would include:

- Becoming proactive in the transmittal of information to citizens and media
- Collaborating with all City departments to craft unified and accurate messages to the public
- Maintaining currency of information on the City's web site
- Starting, monitoring, and maintaining social media feeds for the City government
- Assisting Departments with Freedom of Information Act requests
- Handling media relations, including print and on-line newspapers, radio, and television as necessary
- Handling lead responsibility for emergency operations communications
- Handling both routine and urgent communications releases to the general public, with the assistance of the various Departments.

This position would be located in the City Manager's Office, and would work closely with the City Manager, the Assistant City Manager, and all City Departments.

Police Dispatcher - the City's Police Department operates and maintains the City's E911 Emergency Communications Center, the twenty-four hour seven-day per week point of contact for the City's public safety services. The City currently has four shifts that rotate and provide the required coverage, with at least three stations operational. There are currently fourteen full-time employees, twelve assigned to regular shifts, with two additional employees assigned as “floaters” that provide additional coverage for peak demand periods or for periods of leave or training. The City also fills shifts in through the use of part-time employees and overtime.

The City's Police and Fire Departments would like to extend two additional full-time positions, and convert the two existing floaters to shift work, thereby providing a total of four per shift. The Recommended Budget will add one of these two requested positions, thereby providing the Police Department additional flexibility in meeting service coverage demands.

Assistant Director of Public Works – Water and Wastewater – This position would be added into the Water and Wastewater Funds; it is a key recommendation of the City's Water and Wastewater Management Study. The major tasks of this new position are discussed in

conjunction with the description of the study and the recommendations in the budget included as a response in FY 2013.

Transit Positions – The Transit Fund includes one new full-time position, a full-time maintenance mechanic. Under the direction of the Fleet Manager, the new mechanic will perform maintenance and repair on FRED’s 31-bus fleet and six service vehicles and will work at the new Maintenance Facility projected to open late in 2012 in Spotsylvania County’s Bowman Center.

The Transit budget also includes additional part-time funding for the hiring of two part-time security officers to help provide security at the bus station. The security positions were recommended by the Federal Transit Administration in the course of its recently completed triennial review of FRED operations and finances.

Main Street Funding – The City Manager’s Recommended Budget includes \$30,000 for a locality contribution to the Main Street Program. The Main Street Program model relies on a public-private partnership model for funding, including funding from the local government, fund raising, and a dedicated and reliable funding stream from the private sector business community that would be served by the Main Street Program. Currently, there is a committee that is exploring various options for the dedicated funding stream from the private sector community. The proposal in the recommended budget is to hold the City’s contribution until such point that the City Council is satisfied that the Main Street Program’s ongoing operations are sustainable financially. At that point, the City’s share would be released.

POSITIONS AND PROGRAMS NOT INCLUDED

City management set up a leadership team this year to help evaluate new positions and programs, particularly those that were in the General Fund. After an initial review, the team met with individual Department Heads to review and discuss the requests for new positions and programs. Many of these positions and programs carry great merit; unfortunately, the City’s funds available for new positions and programs were relatively limited during FY 2013.

Here are some highlights of the requested positions that did not receive funding in the FY 2013 budget:

Three Emergency Medical Technicians – the City’s Fire Department requested three additional Emergency Medical Technicians to help supplement the existing coverage for emergency medical services.

Zoning Inspector – The Planning Department requested a Zoning Inspector to assist with maintaining compliance with the City’s Zoning Ordinance

Public Works – The Public Works Department requested a total of six additional positions in the FY 2013 budget. The Public Works Department requested a Utility Line Locator in the Water and Wastewater Funds, a Street Sanitation Crew Leader, Lead Laborer, and Laborer

in the General Fund, a Street Maintenance Laborer in the General Fund, and a Crew Leader in the Drainage division.

Parks, Recreation, and Public Facilities – The City’s Parks, Recreation, and Public Facilities Department requested four new General Fund positions, including Leisure Programs Supervisor in Parks Supervision, a Custodian in Public Facilities, a Facilities Technician in Public Facilities, and a Receptionist in the Administration division.

Building and Development Services Software – The City of Fredericksburg Building and Development Services Department requested tracking software for their permit system. The tracking software would allow for more efficient processes as inspection requests could be downloaded in advance and Inspectors would spend more time in the field and be able to upload inspection results to provide more timely reports to contractors.

Resources were not available to add this software during the current budget cycle; however, the City should program this expenditure for future budget years.

The City Manager’s Office worked with the Departments to provide an initial review of requests. Requests that passed the initial effort at prioritization were then reviewed by the leadership team. The City’s leadership team to review requests included Wendy Kimball, Assistant Director of Transit, Clarence Robinson, Director of Fiscal Affairs, Mark Whitley, Assistant City Manager, and Amanda Lickey, Budget Manager. The group used the analytic hierarchy process, and the software tool Expert Choice to structure decisions and prioritize new positions and programs. Evaluation factors included improved level of service, attainment of Council’s Goals, offsetting funding streams, cross-departmental impact, and other factors.

NOTES ON ITEMS NOT REQUESTED AND NOT FUNDED

Management would like to note for City Council that there are positions and other items that were not requested, and not recommended for funding, but which may assist the City and should be considered for future budget cycles.

Purchasing Agent – The City currently does not have a Purchasing Department or a Purchasing Agent. Each City Department is responsible for the procurement of goods and services as necessary. The City does take advantage of cooperative procurement, small purchasing, and similar arrangements which save time and money. Nevertheless, public procurement is a highly regulated activity (as it should be); particularly when federal funds are involved. Having a dedicated full-time Purchasing Agent to assist with the procurement of goods and services would help take that workload off Departments, and would decrease the likelihood of errors in procurement processes.

Water & Sewer - the City’s Management Study recommended several additional positions in the Water and Sewer funds in the next five years, including two additional Utility Billing Clerks, an additional field worker, and an additional engineer or field inspector. The consultants recommended as a goal the eventual consolidation of the current Utility Billing function with the utility collections activities of the Treasurer’s Office. In addition, the City is

understaffed in field and engineering positions compared to similar-size utilities in the Commonwealth, and service would benefit from additional personnel.

However, the only recommendation for FY 2013 is the Assistant Director for Utilities position. Once in place, that position may lead to new or different recommendations, or different priorities, than the consultant, based on everyday experience and expertise with the City's water and wastewater services.

George Washington Toll Road Authority – The Fredericksburg Area Metropolitan Planning Authority (FAMPO) serves as staff to the George Washington Toll Road Authority, which consists of representatives of the Virginia Department of Transportation, Stafford County, Spotsylvania County, and the City of Fredericksburg. The Authority was formed by the General Assembly to construct a toll road from I-95 southbound through Celebrate Virginia South to State Route 3 in Spotsylvania County near Gordon Road. The Authority expanded in scope to include improvements to the Interstate in Stafford County as well.

The FAMPO staff had advised the localities verbally that a local contribution for operations might be required during FY 2013. However, before that idea had come to complete fruition, Spotsylvania County decided that the proposed toll road would not be beneficial and pulled their support for that part of the project. As a result, the Authority is not likely to need local support in FY 2013 and the City's Recommended Budget does not include any local funding from the City.

CAPITAL BUDGET AND CAPITAL IMPROVEMENTS PLAN

The City's proposed Capital Budget for FY 2013 includes several major projects. In addition, the Capital Improvements Plan for FY 2013-2017 shows a variety of projects in the upcoming years, including the completion of the court project and a variety of transportation initiatives. The proposed Capital Budget and the Capital Improvements Plan are consistent with the Comprehensive Plan.

New Court Project

The cornerstone project for the City's capital budget and capital improvements plan is the New Court Construction Project. The FY 2012 capital budget included an appropriation of \$38 million, which was a budget estimate based upon the concept plans that were under consideration at that time. The City Council voted in November to move forward with a project that is approximately \$35 million in total cost, and includes an interim relocation of the Juvenile and Domestic Relations Court to the Executive Plaza building at 601 Caroline Street, the construction of a new courthouse at the intersection of Charlotte and Princess Anne Streets, which will house the Circuit Court and the General District Courts, and the renovation of the existing General District Court building for the permanent use of the Juvenile and Domestic Relations Court.

The City issued \$35 million in bonds during FY 2012 to fund the project. The City also may use the New Court Construction Fee as a minor revenue in the capital fund, these funds will

help to offset owner's costs during project construction but after construction is completed will be transferred to the City's General Fund to offset ongoing debt service costs. The New Court Construction Fund is estimated to generate approximately \$50,000 per year.

The project is underway, and the Recommended Capital Budget and Capital Improvements Plan have now programmed the costs down over the next three years in accordance with the project schedule.

City staff recommends the creation in the New Court Construction Fund (Fund 315) of a new project, which will show the costs to remodel the Renwick Building. The renovation of the Renwick Building could not take place until the new court building is occupied, which is scheduled for 2014. Therefore, funds for the renovation of the Renwick Building were not included in the initial bond offering. The plan of finance for the renovation of the Renwick Building is to first use all available savings on the existing court project towards the cost of that project. There are opportunities for savings in the current court project, as the City could save substantial funds both as the design progresses and in the construction phase. In addition, the substantial construction contingencies could be transferred to the Renwick renovation project. Once the amount of savings is known, the City will be able to choose between financing the balance of the costs needed to renovate the Renwick Building or, if the amount is small enough, use fund balance savings to fund the project. The Renwick component of the court project is scheduled for FY 2015.

Bridge of Fall Hill Avenue over the Rappahannock Canal

There are several major transportation projects in the proposed capital improvements plan, most importantly including the Bridge of Fall Hill Avenue over the Rappahannock Canal. The project is currently under design, and construction is scheduled to begin during FY 2013. The project represents a VDOT Revenue Sharing project, which is a 50-50 split between state and local funds. The City transferred \$500,000 to this project at the close of FY 2011 to help fund the City's share of the match. The balance is scheduled to come from unexpended motor fuels tax balances.

The total cost of the project is approximately \$3,000,000, of which \$2,100,000 is budgeted for the upcoming year (FY 2013.)

During construction, Fall Hill Avenue will be closed to through traffic for approximately nine months. This will cause a major disruption in traffic patterns throughout the City of Fredericksburg. The interrupted traffic flow is regrettable; however, the City must replace the bridge, which is already restricted in terms of weight and continues to deteriorate.

The new bridge will accommodate an under-grade pedestrian crossing. This crossing will connect the existing Rappahannock Canal Path with the soon-to-be-constructed Rappahannock Heritage Trail, providing a 3.1 mile loop. The under-grade pedestrian crossing will allow trail users to cross Fall Hill Avenue without concern of traffic.

This bridge replacement is a current Council Initiative (7A).

REVENUES

The City has experienced growth and development over the last year, and new businesses have largely taken the place of those that departed. We forecast base revenues approximately \$2.9 million higher than FY 2012. As the General Assembly completes its budget process, the City's revenue forecasts may need to be adjusted. The following paragraphs describe some of the revenue highlights.

Real Estate

The City's largest revenue source is the real property tax. A general real estate reassessment is currently in progress. Based on the preliminary data from the assessor, I will recommend a real estate tax rate in the range of \$0.79 to \$0.83 per hundred value. This is the equalized rate that produces the same tax revenue as was received in FY 2012.

The City Council will be deliberating the budget during the reassessment appeals process. Appeals to the assessor will be taking place in April, and depending upon the findings of the assessor, there may be adjustments in the tax base. The new base will be effective on July 1, 2012.

The City is currently forecasting the addition of \$20 million in new real estate value added to the tax rolls since July 1, 2011. The new construction adds to the revenue base of the City, and the calculations for equalization exclude new construction. The City's overall forecast for real estate revenue in FY 2013 is \$25,051,140.

Personal Property Tax

The Recommended Budget shows an increase of \$750,000 in revenue from the personal property tax. The rate is proposed to remain at its current \$3.40 per \$100 in assessed value; the increase in revenue is caused by an increase in assessed value. Many used cars have begun depreciating at a lower rate since demand has increased for used cars. In addition, new population and business growth added to the personal property base.

Meals Tax

Many successful restaurants thrive in the City of Fredericksburg. Current year meals tax receipts are substantially higher than last year's receipts, which was also very strong. Current year receipts are 7.3% higher than last year's receipts through January. The Budget forecasts revenue growth of \$810,000 based on the growth the City is seeing in this revenue source.

RECOMMENDED USE OF GENERAL FUND BALANCE

The current financial policies of the City allow for the use of general fund balance for non-recurring expenditures if the City's "unassigned" General Fund Balance is more than 12% of the prior year revenues. The City may also use General Fund Balances assigned for certain purposes. In recent years, the City used less balance than budgeted, as revenues either exceed forecasts or expenditures fall short of budgeted levels, or both. This provides the City Council

some flexibility in using fund balance, although it is important to be judicious in using fund balance. Over-utilization of fund balance or the use of fund balance for ongoing operations will require either painful cuts or revenue increases in future cycles.

With that in mind, the Recommended Budget uses some fund balances to help offset certain expenditures.

Transfer to Capital

The City Manager's Recommended Budget for FY 2013 includes a transfer to capital funds in the amount of \$1.2 million. This funding represents both local matching and local-only projects for the FY 2013 capital projects. The source of the transfer is General Fund Balance Committed to Capital.

General Fund Contingency

The Recommended Budget includes General Fund Contingency in the amount of \$550,000. The recommended source for these funds is the Unassigned Fund Balance in the General Fund.

Health Insurance

The City is currently projecting an increase in Health Insurance costs of \$378,375. The City, because it is self-insured, bears some risks associated with a high claims year, but on the other hand, enjoys slightly lower premiums than fully-insured plans and also retains surpluses if premiums exceed claims and expenses. Over the past several years, the City has had relatively good experience with health insurance claims, and Anthem retains a surplus balance of health insurance premiums of approximately \$1,000,000. The City requested that Anthem release \$300,000 of that surplus balance during FY 2012, which is recommended to offset the expected premium increases in FY 2013.

Preservation and Property Blight Abatement

City Council has established as one of its Goals and Initiatives the protection of the quality of the City's neighborhoods. One area of focus has been property maintenance and blight abatement. The City has engaged in several efforts at blight abatement in recent months on vacant, abandoned properties in poor condition. With properties in conditions that are too poor to save, the City attempts to engage the property owner to demolish the property. However, often the property owner is unwilling or unable to handle the situation, and in that case, the City steps in and performs the work. The cost of the work is then passed on to the property owner, and if left unpaid, collected in the same manner as unpaid real estate taxes.

In FY 2013, we recommend the creation of a Preservation and Property Blight Abatement Fund, with an initial General Fund transfer to establish the fund. Blight abatement activities, including demolitions and other contracted cleanups, would be funded through the one-time transfer, and ultimately re-paid through owner costs. The re-payments would come in as revenue

to the new fund, and could at that point be used to fund future property maintenance and blight abatement activities. We envision that this fund may be used to partner with non-profit organizations to achieve specific preservation goals. The budget recommends an initial amount of \$100,000, the source of which is Unassigned General Fund Balance.

OVERVIEW OF OTHER OPERATING FUNDS

The other operating funds of the City, including the Enterprise and grant funds, are also affected by the proposed salary increase and the rising VRS contribution rate.

City Grants Fund

The City Grants Fund is recommended for approval at **\$1,870,460**. In order to support the expenditures in this fund, the City will need to transfer **\$343,570** from the General Fund, which represents matching funds for various grant programs; this is a 12% increase in the general fund transfer from the FY 2012 Adopted Budget.

The Community Development Block Grant that supports the Planning Department's Community Development Planner was reduced by approximately \$70,000; much of the reduction is requested to be covered by a reduction in the scope of services the program provides. The local match associated the Community Development Block Grant has increased by \$16,600; which is requested to be appropriated to cover the remainder of the Community Development Planner's salary and fringe benefits.

The Police Department has two grants that support positions, the Justice Assistance Grant for the Automated Fingerprint Information System; the grant was obtained in FY11 and covers majority of the detective's salary, the general fund transfer is increased \$4,130 attributed to the increased cost in benefits. The same is true for the COPS grant with a slight recommended increase of \$2,900 to cover hiring a pre certified individual and the increase in fringe benefits.

Regional Group Tourism has requested an increase of \$10,000 from the City of Fredericksburg making our total contribution \$50,000. The submitted budget also requests the same increase from Spotsylvania and Stafford counties and would bring the Regional Group Tourism budget to \$150,000 which was its pre-recession funding level. The funding will be used mostly for advertising in group tourism outlets in the effort to make region a major stop for large bus tours.

Building and Development Services has received a grant from the Environmental Protection Agency with some of the work beginning the FY 2012 and the remainder \$300,000 being requested for appropriation in FY 2013. There is no local match for these funds.

Social Services Fund

The City Social Services Fund is recommended for approval at **\$4,009,586**. This is a 17.9% decrease over the original adopted FY 2012 budget. This activity is paid for by the federal and state governments; however, the Department of Social Services projects lower revenues from the state and federal government to pay for these services in FY 2013. The City's transfer from the General Fund to the Social Services Fund is recommended to increase from **\$893,215** to **\$911,670** an increase of 6.86%. The recommended budget proposes using \$50,000 from the Public Assistance Fund Balance.

The overall budget is being reduced significantly because the Child Care Assistance Program is now going to be administered by the Commonwealth's Department of Social Services, in the form of an EBT program, similar to the way SNAP is currently being administered. One major driver in the increase of the requested General Fund transfer is the expenditures linked to the requested cost of living adjustment and the fringe benefits. These are categorized as administrative costs and are reimbursed from the State and Federal government at a lower rate; thus being more costly to the City than other program changes.

Water Operating Fund

The City's Water Operating Fund is recommended for approval at **\$3,392,365**, which is a decrease of 2.57% from the FY 2012 adopted budget. The City's Water and Sewer Rate and Management Study found that the City needed to raise rates substantially, both to meet ongoing operating costs and to plan for future improvements. In particular, the City will need to begin planning to replace existing aged water and sewer lines over the next ten to twenty years. Many policies and procedures were also recommended to change. The Recommendation for water rate increase for FY 2013 is 9.9%, and the increase in fee revenue from water service will replace availability fee revenue in the operating fund.

Other than the addition of the position of Assistant Director of Public Works for Utilities, the level of service in the Water Operating Fund is relatively similar to the current year.

Wastewater Operating Fund

The City's Wastewater Operating Fund is recommended for approval at **\$7,366,425**, which is an increase of 16.93% from the FY 2012 adopted budget. The City's Water and Sewer Rate and Management Study found that the City needed to raise rates substantially, both to meet ongoing operating costs and to plan for future improvements. In addition to planning for future improvements, the Wastewater Operating Fund includes debt service for recently completed capital improvements over the past several years, including replacements of several major sewer lines, renovations at the Wastewater Treatment Plant, and the renovation of three pumping stations. The recommendation for the sewer rate increase in FY 2013 is 10.7%.

Transit Operating Fund

The City's Transit Operating Fund is recommended for approval at **\$4,867,030**, which is a decrease of 6.01% from the FY 2012 adopted budget. The decrease in the proposed budget can be attributed principally to the elimination of service in King George County and need for fewer replacement buses in FY2013 compared to FY2012. The recommended FY 2013 Transit Fund budget includes service by FRED in the City, Spotsylvania, Stafford and Caroline counties, as well as the Eagle Express service provided to the University of Mary Washington. As of this writing, King George County has indicated that it will not fund FRED in FY 2013, choosing to explore other options to serve its transit needs. The net payments required from local governments to support the FRED system may change during the review period depending upon decisions in Richmond and Washington about state and federal transit funding.

Parking Fund

The City's Parking Fund, which reflects operations at the Sophia Street Parking Garage, is recommended for approval at **\$662,630**, which represents a 1.84% increase in the overall budget for the Parking Garage.

The City raised monthly and daily early bird rates in January 2011; however, at the same time the City extended the "free" parking period from two to three hours.

Comprehensive Services Act Fund

The City's Comprehensive Services Act Fund is recommended for approval at **\$1,855,610**, which is an increase of 30.09% from the FY 2012 adopted budget. The CSA program reflects mandated costs for special needs children, and is a shared responsibility between the City and the state government. The City's General Fund transfer to support the CSA program is recommended to increase from \$620,000 to \$719,150. In addition, the Recommended 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, even after the reduction in the proposed by the Governor's Office the City is still being reduced by an estimated \$57,000 in FY 2013.

THE FY 2014 BUDGET – A BRIEF LOOK AHEAD

The City of Fredericksburg is well-positioned to meet the challenges of the next few years. Compared to many areas around the Commonwealth and around the country, the City's key strategic location and stable economic anchors help provide assurance that the City's economic foundation is in good condition. The major redevelopment of Eagle Village, the development of the hospital campus, Surgi-Center, and Print Innovators are just a few of the signs that the City's underlying economy remains resilient and that this community is an outstanding place to live and work.

The City will nevertheless remain challenged to handle several challenges presented by the FY 2014 budget. One of the main challenges is the service demands, particularly on the City Schools, represented by population growth. The following table, which includes the 1990 and 2000 Census results for historical perspective, shows some of the population growth seen over the past few years:

City of Fredericksburg Population Estimates

Year	Source	Population
1990	Census	19,027
2000	Census	19,279
2006	Cooper Center Estimate	22,044
2007	Cooper Center Estimate	22,651
2008	Cooper Center Estimate	22,899
2009	Cooper Center Estimate	23,353
2010	Census	24,286
2011	Cooper Center Estimate	25,484

The Weldon Cooper Center estimated that the City grew at the fastest rate of any locality in the Commonwealth between 2010 and 2011. Of course, the City has a smaller base than many localities, and the addition of several multi-family developments helps to account for some of the growth. In any event, the increase in population does create service pressure, particularly with the schools, but also across other areas of local government, including Social Services, Public Safety, Public Works, and Parks and Recreation.

Further, the City is at the acknowledged center of one of the fastest growing regions in the Commonwealth – including the very rapidly developing counties of Stafford, Spotsylvania, King George, and Caroline. Rapid population growth in other counties does not create pressure on our City schools, and on balance it is probably beneficial to the City’s business community. However, there are related service costs, including public safety costs and public works costs related to high traffic volume.

There are several other challenges that will present themselves in the FY 2014 Operating Budget. These include:

- the full impact of the payments of the debt on the New Court project
- continued implementation of the City’s plan to stabilize the water and wastewater operating funds
- continued investments in deferred capital replacements, plus modernizations and implementations of new technology as may be cost-effective.

CLOSING AND ACKNOWLEDGEMENTS

The City Manager’s Recommended Budget for FY 2013 represents a great deal of hard work on the part of City Departments, Constitutional Officers, regional governmental partners,

and others that provided the information necessary to bring this document before City Council for review. The Manager's Office looks forward to the review process with City Council, and we welcome any changes you may wish to make.