



MEMORANDUM

TO: Mayor Thomas Tomzak and Members of City Council
FROM: Beverly R. Cameron, City Manager
Mark Whitley, Assistant City Manager
RE: City Manager's Recommended Budget FY 2012
DATE: March 8, 2011

INTRODUCTION

We present the City Manager's Recommended Budget for FY 2012. The total **General Fund** budget is **\$75,564,610**, a 4.78% increase from the FY 2010 adopted General Fund budget. The budget includes a use of balance to transfer to the capital funds in the amount of \$1,000,000, which was not included in the FY 2011 budget. Without the transfer of balance to capital, the City General Fund would increase by 3.39%. We recommend a real estate tax rate of \$0.72 per \$100 of assessed value, an increase of four cents from the City's current rate of \$0.68 per \$100. The overall focus of this report is on the General Fund, the main fund for most City operations. Other funds included in the report are the Water, Sewer, Transit, Parking, City Grants, Social Services, and Comprehensive Services Act funds.

This budget represents the beginning of the City Council's budget review process. It is a solid and responsible spending plan for FY 2012, as of the date of release. The General Assembly approved a budget on Sunday, February 27th, and many details are still emerging. There may yet be changes in state-shared revenues or mandated costs for the FY 2012 budget. City Council and the staff may have to make adjustments throughout the review process as conditions change, or as the City receives new information from the state concerning the state budget process.

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 Recommended 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.

Since FY 2008, the City has weathered major reductions in General Fund revenues from the Commonwealth. Revenues from the State Compensation Board, H.B. 599 funding for law enforcement, and public safety grants have been cut by over \$632,000 in total.

Major cost increases recommended in this budget include:

- Transfer to Schools (\$900,000)
- Transfer to Capital (\$1.4 million)
- Increased in Replacement Capital Outlay (\$200,000)
- Employee Bonus (\$367,750)
- Additional Personnel (\$200,000)
- Increased Payment to Central Rappahannock Regional Library (\$131,000)
- Increased Transfers to Department of Social Services & CSA (\$125,000)

These cost increases are partially offset by some declines, including:

- Transfer to Debt Service (\$350,080)
- Rappahannock Regional Jail (\$389,969)
- Rappahannock Juvenile Detention Center (\$78,965).

SIGNIFICANT BUDGET HIGHLIGHTS

The City's FY 2012 Recommended 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 Recommended 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). The bonus would be paid at the second full pay period in November (November 18).

The City staff recommends a bonus 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 Recommended Budget includes two uses of balance: \$600,000 is recommended for the operating budget contingency, and \$1,000,000 is recommended to supplement the Transfer to Capital. The amount for contingency is recommended to come from the Undesignated Unreserved amount, while the \$1,000,000 is recommended to come from the Fund Balance Designated for Capital.

School Funding

The Recommended Budget includes a transfer to schools of \$24,928,000, which is a \$900,000 increase in the school transfer from FY 2011. The recommended transfer represents a local per pupil expenditure of \$8,379; by far the highest in the region. The preliminary City School Board's budget calls for a \$1,093,219 increase in the transfer.

The Fredericksburg City Public Schools face a major increase in school enrollment, one of the major reasons for the recommendation to increase 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. Many of the final decisions on the school budget will depend upon the final outcome of the State budget and its impact on education funding. Council and the School Board may have to make adjustments depending upon the final level of local school funding provided by the State.

Transfer to Capital

The Recommended 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.

Fleet Replacements

During FY 2011, the City funded through its capital funds a fleet replacement program as a one-time effort to address aging vehicle fleets, particularly in Public Works, but also including other Departments.

The Recommended Budget increases the City's spending on replacement capital outlay in FY 2012, but funds it in the operating budget rather than the Capital Fund. The largest impact is in the Police budget, where the City is funding the replacement of nine police vehicles, at a cost of \$228,500. These include patrol, detective, and other police vehicles.

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 current General Assembly considered several proposals to fundamentally alter the Virginia Retirement System. The adopted budget – not yet signed by the Governor, includes a 5% raise for state employees, while requiring them to pick up the 5% member contribution. The City Manager's Recommended Budget treats the City's contributions to VRS as status quo. The Council may need to discuss this during budget deliberations this spring.

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 is an unprecedented shift 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 City Manager’s Recommended Budget, the staff has placed 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.

Turnover Credit

The City staff is recommending the elimination of the Turnover Credit in the FY 2012 Recommended Budget. The Turnover Credit was created with the intent to capture turnover savings from vacated positions throughout the year. However, staff recommends that the turnover credit be phased out, which will cost an additional \$70,000 in the FY 2012 budget. Any actual turnover savings in FY 2012 would be used to offset the use of fund balance, which is recommended to be \$1.6 million in FY 2012.

NEW POSITIONS

Title	Department	Salary + Benefits (Rounded)	Comment
Budget Manager	CMO	\$96,600	Would improve budget development in CMO
Deputy Superintendent – Street Maintenance	PW	\$71,700	Would improve operations at City Shop
Deputy City Attorney	Legal	\$34,500	Assists City Attorney, also offsetting savings from PT

In addition to these positions, a major cost included in the FY 2012 base budget is other positions that have been added to the budget 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)

ADDITIONAL POSITIONS REQUESTED

Not counting the Sheriff’s supplemental request for court security, City Departments requested a large number of positions. The Recommended Budget could not fund these positions, but they are listed here to give you a sense of the requests that are being made. If Council wishes to consider any of these positions, the City Manager’s Office recommends the following priorities for consideration: Medic (Fire / EMS); Jury Coordinator (Sheriff); Eligibility Worker (DSS).

Title	Department	Salary + Benefits (Rounded)	Comment
Public Information Officer	CMO	\$96,600	Would improve communications
Accountant	Treasurer	\$71,700	Request from Treasurer
Purchasing Agent	Fiscal	\$96,600	Would assist entire organization with purchasing
Eligibility Worker	DSS	\$27,000	Requested due to increased caseloads
Conference Sales Specialist	EDT	\$30,600	Transition PT to FT
Deputy Fire Marshal	Fire	\$80,500	Position eliminated in prior budgets
Deputy Chief of Operations	Fire	\$102,800	Position eliminated in prior budgets
Medic	Fire – EMS	\$65,500	Increase ALS coverage
Medic	Fire – EMS	\$65,500	Increase ALS coverage
Medic	Fire – EMS	\$65,500	Increase ALS coverage
Parks Maintenance Worker	PRPF	\$41,900	Position eliminated in prior budgets
Leisure Program Supervisor	PRPF	\$59,100	Position eliminated in prior budgets
Asst Chief Special Projects	PRPF	\$63,500	Position eliminated in prior budgets
Facility Technician	PRPF	\$48,600	Position eliminated in prior budgets
Jury Coordinator	Sheriff	\$67,800	Request from Judge Willis
Utility Line Locator	W/S	\$65,300	Request to fill Line Locator Needs

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 City Manager's Recommended Budget requests 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 Recommended Operating 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.

TREATMENT OF THE SHERIFF'S SUPPLEMENTAL BUDGET REQUEST – COURT SECURITY

The Sheriff has presented the City Council and the staff with a supplemental budget request, related to court security. The request is segmented into phases. The highlights of the request include six new full-time deputies, seven part-time deputies, and a variety of x-ray scanners and equipment, all in Phase I. Phase I also includes a pay plan adjustment for all Sheriff's Office employees. Phase II includes making all seven of the new part-time deputies into full-time deputies, replacing additional vehicles, and other equipment needs.

The provisional cost of Phase I implementation is over \$900,000. The City Manager's Recommended Budget does not include the new full-time or part-time positions in the budget. The staff does recommend the inclusion of an allowance in the capital budget, where some of the physical security improvements, made with the approval of the court and coordinated by the Department of Parks, Recreation, and Public Facilities, can be made. Finally, after evaluation the staff recommends that the Sheriff's budget be supplemented to bring part-time employees up to the current pay scale for Deputy Sheriff.

Staff recommends that the City continue to pursue an overall court complex rather than investing significant resources in either new personnel or new equipment. All court studies undertaken to date indicate that new court facilities are needed, both to provide a fifty-year solution to the security issues and for space and capacity reasons. The current court facilities are inadequate, and no investments in personnel or physical security improvements will make them safe or adequate for long-term use.

RELATIONSHIP TO CITY COUNCIL GOALS AND INITIATIVES

The Recommended Operating Budget contains a section that will relate the recently adopted Goals and Initiatives document to the FY 2012 budget. Many of the items in the Goals and Initiatives are already included in the FY 2011 budget, and still others do not require a separate allocation. Council may find this new section useful as a way to consider the FY 2012 budget in the review process.

OTHER FUNDS

City Grants Fund

The City Grants Fund is recommended for approval at **\$1,409,200**. In order to support the expenditures in this fund, the City will need to transfer **\$266,125** 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 recommended for approval at **\$4,886,314**. 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 recommended for approval at **\$3,482,000**, which is an increase of 1.03% from the FY 2011 adopted budget. The staff is in the midst of procuring the services of a consultant for an evaluation of the City's rate structures and management structures for both the water and wastewater operating funds; however, the results of the study will not be available in time to inform the FY 2012 budget.

The staff does recommend an overall rate increase of 2.7% for the water commodity charge only, which would not affect the fixed base charge. The commodity charge would rise from

\$1.85 per 1000 gallons to \$1.90 per 1000 gallons. A small user that uses 10,000 gallons in two months would see their water bill rise by \$0.50 in the bi-monthly cycle. A larger user that uses 100,000 gallons in two months would see their bill rise by \$5.00 in the bi-monthly cycle.

Wastewater Operating Fund

The City's Wastewater Operating Fund is recommended for approval 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.

The staff recommends an increase of \$0.14 for the sewer commodity charge only, which does not affect the fixed base charge. The commodity charge would increase from \$3.86 per 1000 gallons to \$4.00 per 1000 gallons. A small user that uses 10,000 gallons in two months would see their sewer bill rise by \$1.40 in the bi-monthly cycle. A larger user that uses 100,000 gallons in two months would see their bill rise by \$14.00 in the bi-monthly cycle.

Transit Operating Fund

The City's Transit Operating Fund is recommended for approval at **\$5,386,042**, which is an increase of 13.51% 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 recommended for approval 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 recommended for approval 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 is recommended to increase from \$563,240 to \$620,000. 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, 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.

COURT PROJECT

On March 1, 2011, the City will receive proposals from design teams for a new courthouse facility. Later in March, the City Council will have an opportunity to entertain the proposals and have solid cost estimates for inclusion in the Capital Budget and Capital Improvements Plan.

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. We look forward to the review process with City Council, and welcome any changes you may wish to make.



Beverly R. Cameron, City Manager



D. Mark Whitley, Assistant City Manager