



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 2011
DATE: March 9, 2010

INTRODUCTION

We present the City Manager's Recommended Budget for FY 2011. The total **General Fund** budget is **\$71,751,405**, a 1.03% decrease from the FY 2010 adopted General Fund budget. We recommend a real estate tax rate of \$0.68 per \$100 of assessed value, the same as this year. The overall focus of this report is on the General Fund, which is the main fund for most City operations. Other funds included in the report include Water, Sewer, Transit, Parking, City Grants, Social Services, Comprehensive Services Act, and various capital funds.

This budget represents the start of the City Council's budget review process. It represents a solid spending plan for FY 2011, as of the time it is released. As you are aware, revenues are severely down in all areas – local and state alike – and there are no reliable trends that can accurately predict when the economy might turnaround. The 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.

By way of background, in the FY2010 budget, the City used \$1.3 million of Fund Balance to achieve a balanced budget. In FY2011, staff estimates that General Fund revenues will decline by an additional \$450,000.

In order to close the gap between revenues and expenditures, the Recommended Budget reduces General Fund spending by \$750,000; increases the use of interfund transfers by \$300,000; and uses \$700,000 of Fund Balance.

The Recommended Budget contains many difficult but necessary spending reductions. However, essential services have been protected and no full-time City employees will be laid off. The Recommended Budget places the City in a good position to begin rebuilding fund balance in FY 2012, provided the economy improves and costs are contained. However, the community will need to recognize that the City will be operating with diminished resources for years to come.

SIGNIFICANT BUDGET HIGHLIGHTS

The Recommended Budget for FY 2011 includes many significant policy decisions. A summary of these budget highlights is included in the section below.

Furloughs

The budget recommends the inclusion of **four furlough days** for most of City staff. A “furlough” is defined as a day off without pay – employees subject to furlough will not be allowed to work on these days, and they will not be paid for the day. The recommendation is to set specific furlough days, rather than allowing employees to select the days. The selected days include two days which are normally holidays – Columbus Day (October 11, 2010) and President’s Day (February 21, 2011). In addition, the staff is proposing two additional days which are not holidays – Friday, July 16, 2010 and Friday, June 24, 2011. This proposed calendar allows for the four days to be spread out – one per quarter. The July 16 date also allows the first furlough to be taken in a month with three pay periods.

City employees who provide essential public safety services will be excluded from the furlough requirements. This will generally include police patrol officers and detectives, public safety dispatchers, firefighters, and emergency medical technicians. The Wastewater Treatment Plant operators will also be exempt, as will a limited public works crew (service level will be similar to Saturdays). Otherwise, City offices will be closed to the public.

Four furlough days is roughly equivalent to a 1.5% pay reduction, annualized. The City’s constitutional officers will have discretion as to whether they and their staffs take furlough on the days outlined, or accept an equivalent salary reduction.

The furloughs will save approximately \$140,000 in the City’s General Fund for FY 2011, with an additional \$40,000 in savings to other funds. For a third year, there are no pay raises for City employees. We greatly value our staff and their contribution to the community. We believe there are positive effects of our recommended strategy: job security, avoiding elimination of filled positions, and future affordability during difficult and unpredictable economic times.

Use of Fund Balance

Since FY 2008, the City has reduced its budget each year. This year’s General Fund recommendation continues that trend. However, the City has also been using fund balance to fill in the gap for reduced revenues. The current recommendation contains \$500,000 in fund balance usage for operations – an amount equal to the recommended General Fund Contingency for FY 2011. Even with this proposed use, the City’s undesignated unreserved fund balance will remain over 12% of the prior year’s revenues – the level established by City Council in its financial policies.

Staff recommends setting aside an additional \$200,000 in fund balance as an allowance against additional state budget cuts. This recognizes the fact that the state is in a deep budget crisis, and the General Assembly may make further reductions in payments to the City for shared service responsibilities. However, since this is a use of fund balance, the staff recommends that if

additional cuts in state support are identified, corresponding budget cuts should be identified first and fund balance should be used only as a last resort to protect essential services.

School Funding

The City Manager’s Budget recommends that the transfer to City schools remains level at \$24,028,000 (\$8,181¹ local per pupil). In FY 2009, the City used General Fund balance to increase the transfer to schools by \$1,000,000. In FY 2010, the City Council, in order to reduce overall expenditures, reduced the school transfer by \$700,000. The School Board has preliminarily requested an additional \$745,612, part of which would be used to fund a 2% raise for school employees.

Council should remember that while many City Departments are reduced in FY 2011, and while the overall General Fund is reduced for FY 2011, the maintenance of level support for City schools represents an increase in the relative support for City schools compared to the City’s other services and requirements.

Fleet Replacements

The past couple of years have seen a decline in fleet replacement funding as the City has struggled to balance the budget. Extending the life cycle of equipment and vehicles can result in real savings; however, eventually equipment and vehicles wear out and need to be replaced. In order to work through what has become a bit of a backlog, the City recommends using a combination of short-term equipment financing and fund balance in the capital budget to replace vehicles and equipment. This will include the following items:

Item	Department	Projected Cost
Public Works Capital		
Two Large Dump Trucks	Public Works-Street Sanitation	\$150,000
Tractor	Public Works – Street Sanitation	\$28,000
One Small Dump Truck	Public Works – Street Sanitation	\$38,000
Three Replacement Salt Spreaders	Public Works – Snow Removal	\$39,000
Two Replacement Snow Plows	Public Works – Snow Removal	\$13,000
One Additional Salt Spreader	Public Works – Snow Removal	\$17,600
Contingency	–	\$9,800
Total Public Works Capital Fund Fleet Replacement	–	\$300,000
Public Facilities Capital Fund		

¹ Based on the state’s projected Average Daily Membership of 2,937 for FY 2011. Actual per-pupil may be higher or lower depending upon the final enrollments. The FY 2008 state-wide average for local per pupil funding for all localities was \$5,508.

Item	Department	Projected Cost
Tractor Replacement	PRPF – Parks Maintenance	\$50,000
Playground Equipment & Parks Needs Contingency	PRPF – Parks Maintenance	\$100,000
Public Facilities Maintenance Contingency	PRPF – Public Facilities	\$100,000
Total Public Facilities Capital Fund Fleet & Equipment Replacement	–	\$250,000
Public Safety Capital Fund		
6 Police Vehicles	Police	\$140,000
1 Sheriff Vehicle	Sheriff	\$25,000
Contingency	–	\$5,000
Total Public Safety Capital Fund Fleet Replacement Program	–	\$170,000

In addition, the Recommended Budget increases capital outlay funding in the General Fund in various places in order to bring replacement expenditures up to a more normal level. An example is an increase in funding for the replacement of traffic control boxes in the Public Works Traffic Engineering division.

Employee Benefits –VRS and Health Insurance

In December, the City received bad news from the Virginia Retirement System -- the pension plan’s contribution rate for full-time City employees will increase from 14.41% to 15.8% of salary. A bill in the General Assembly that would have allowed localities to require employees to pay a portion of the member contribution – which totals 5% of the overall rate – appears at this writing to have been rejected. The Recommended Budget therefore includes full funding for the higher rate, at a cost to the City of \$267,270.

Of note, another bill in the General Assembly to reduce employee pension benefits for employees hired after July 1, 2010 is still alive, and appears to be gaining momentum as part of the General Assembly’s strategy to close the state budget gap. The City may have an opportunity in the spring to consider changes to the benefits for new employees if that effort continues to go forward.

Based on health insurance bid proposals and likely outcomes, the City is budgeting an increase in insurance premiums of 6% over the current budget year. Much work remains to evaluate the bid proposals and recommend a contract award to City Council. However, this funding level, while not “worst case,” does provide sufficient flexibility in the budget so as not to constrain decision-making on health insurance. Staff will bring a recommendation to Council that provides maximum savings while continuing to maintain a quality, competitive health insurance benefit for City employees.

Turnover Credit

The Recommended Budget also includes \$70,000 for a turnover credit for FY 2011. In FY 2009, the City adopted a turnover credit of \$150,000, based on a ninety-day hiring freeze for positions that did not affect public safety. The City will implement another hiring slowdown for FY 2011 in order to capture turnover credit savings. However, due to a couple of factors, the City is projecting lower savings from the turnover credit:

- 1) Decreased turnover as fewer employees are leaving City service
- 2) Decreased opportunity for savings as there are fewer positions in the budget than there were in FY 2009.

The City will approach the turnover credit as it did a couple of years ago – as a negative expenditure. The City will identify and transfer turnover savings throughout the year as they become apparent, with a goal of eliminating the negative expenditure by the close of the year.

Position Reductions

The City is continuing to reduce the overall number of positions in the General Fund, a process which began during FY 2008. The City has reduced a total of 25 positions during the past two years, and is recommending the elimination of an additional seven full-time positions through attrition and/or reassignment:

Full-Time Positions Lost Through Attrition and/or Reassignment				
Position	Department	Through	Net Savings	Notes
Budget Manager	City Manager's Office	Attrition	\$95,920	N/A
Legal Secretary	City Attorney	Attrition	\$28,335	Pending Retirement, backfilled with part-time
Police Officer	Police	Attrition	\$59,455	Extradition duties backfilled with contractor
Police Officer	Police	Attrition	\$51,475	School Resource Officer in middle school transferred back to patrol duties
Permit Clerk	Building and Development Services	Reduction-in-force/Reassignment	\$34,655	Employee allowed to transfer to another vacancy

Full-Time Positions Lost Through Attrition and/or Reassignment				
Position	Department	Through	Net Savings	Notes
Rental Housing Inspector	Building and Development Services	Reduction-in-force/Reassignment	\$74,720	Employee allowed to transfer to another vacancy
Tourism Development Manager	Economic Development and Tourism	Attrition	\$92,210	N/A

In addition, the Recommended Budget makes significant cuts in the part-time budgets for the Sheriff, Treasurer, and Commissioner of the Revenue. These are equivalent to an additional 1.5 full-time positions, in terms of work hours foregone.

With these additional cuts, the total General Fund positions have decreased from a high of 371 positions in the FY 2008 budget to 340 positions recommended for FY 2011 – a decrease of 8.36%. These position eliminations bring the total number of positions back to FY 2006 levels – five years ago.

On February 23, 2010, City Council approved a retirement incentive, which doubles the normal sick leave payout for employees who have reached the age and service requirements for unreduced retirement. The recently adopted retirement incentive may provide additional opportunities for expenditure savings; however, any savings will be dependent upon which employees take advantage of the incentive, and the corresponding service needs of the City. Employees who wish to take advantage of the program must notify the City by May 1, 2010.

NEWLY CREATED POSITIONS AND DIVISIONS

The Recommended Budget includes a recommendation to create one new position, a Personal Computer (PC) Technician in the Information Technology Department, which would be funded by eliminating a Clerk / Typist position in the Police Department. The new position, coupled with the transfer of the Police Information Systems Manager from the Police to the Information Technology Department, will enable the Information Technology Department to take over IT support service for the Police Department – something for which it was insufficiently staffed to provide in the past. The City Fire Department remains outside the regular maintenance profile of the IT Department, and continues to rely on a combination of outside contractor assistance plus Departmental expertise.

The transfer of Police IT service support from the Police Department to the IT Department will improve Police IT service functions through the combined efforts of having multiple employees with IT expertise all helping to provide IT service and support for the Department. The improvement in IT support and service for the Police Department represents one of the Department's highest priorities for the FY 2011 budget.

The Recommended Budget also includes two new divisions for the General Fund: Safety and Risk Management; and Public Works – Snow Removal. The Safety and Risk Management division represents the former Firefighter – Safety position, which will be re-titled and separated

from the main Fire Department budget to better account for the costs of the City's safety efforts. The Public Works – Snow Removal budget removes chemical and overtime costs that were included in the regular Street Maintenance budget, and supplements it with additional funding for contract assistance for snow removal.

SERVICE REDUCTIONS

The city staff tries to find more efficient ways of providing service to the public – doing more with fewer resources. An example is the steady replacement of incandescent light bulbs for traffic signals with lower wattage and longer lasting LED light bulbs. However, opportunities to do this are not always readily apparent, and the Recommended Budget also contains reductions in service levels – “doing less with less” – in order to re-align service expectations with the reality of diminished resources, both for the City and in the community that supports us.

Service reductions proposed through the FY 2011 budget include the following:

- Elimination of the Rental Housing Inspection Program
- Removal of the School Resource Officer from Walker-Grant Middle School
- Elimination of the police horse patrol
- Reduced hours of operation – particularly through the furlough days when the offices will be closed to the public
- Elimination of the DMV Select program at the Commissioner of the Revenue's Office in City Hall
- Postponement of the General Property Re-assessment which would normally be scheduled for the FY 2011 work plan

In addition to these service reductions, the reduction in the total number of positions has led, and will lead to more subtle service reductions throughout the organization. These will include such things as slower rotations on rights-of-way grass cutting, fewer resources for street maintenance work such as pothole patching and leaf collection, deferred maintenance on City buildings (e.g. painting and carpet replacement), fewer grant applications, and slower progress on ongoing capital projects.

Service reductions from regional government partners, such as the library, agencies, and City schools will also become apparent as the boards that govern them will struggle to meet service obligations in the wake of reduced funding from the City and other local and state partners. These reductions are an unfortunate but necessary response to the City's diminished financial capacity.

REVENUES

The Recommended Budget does not include any new taxes or fees in the General Fund, save one – the retention of the increase in the Admissions Tax from 5 to 6%, which was part of the original Kalahari Agreement and goes into effect July 1, 2010. The budget does not include any increase from this revenue, as a result of increased regional competition – specifically the new movie theater and bowling alley opening in Spotsylvania Towne Center in the spring of 2010.

There is modest forecast growth in revenues for sales tax, business license tax, personal property tax, and real estate tax. The City has been fortunate in gaining some new construction over the past year, and there has been some good news as new retailers and restaurants continue to show interest in the City, even in the midst of the down economy. Personal property revenue will grow compared to FY 2010, as the City Council raised the rate to equal the revenue that the City received in calendar year 2008. The timing of that will increase the revenue received during FY 2011, while revenues declined in FY 2009 and FY 2010. These sources of growth, although modest, will offset some of the impact of the state budget cuts.

The state budget cuts are severe and continuing, although the exact level is yet to be finalized at the time of this writing. The cuts to the VDOT Street Maintenance and the HB 599 support for law enforcement are particularly damaging to the City's service efforts. The City is also bearing the brunt of reduced support for the Constitutional Officers, which are made available through the state Compensation Board. At this time, it also appears that both the House of Delegates and the Senate versions of the budget re-instate the state tax relief for Personal Property, so that transfer payment from the state is included in the budget revenue, and will be used, as in the past, to offset the personal property tax payments paid by City residents.

TRANSFERS INTO THE GENERAL FUND

The City General Fund revenue includes Transfers from Capital in the amount of \$472,190. This includes \$191,370 from the Riverfront Park project – borrowed money that will be returned to the General Fund to pay the FY 2011 debt service payment on this project. In addition, \$280,820 is remaining in the New High School Construction Fund, which must be used for debt service. The New High School Construction funds are therefore transferred to the General Fund to help pay for education debt service in FY 2011.

In addition, the City General Fund includes \$600,000 in transfers from the Fall Hill Avenue Special Tax District Fund and the Central Park Special Tax District funds for FY 2011. The Central Park Special Tax District funds are for debt service on Cowan Boulevard, and \$300,000 will be transferred from this fund to help offset the Cowan Boulevard debt service payment for FY 2011. In addition, the Fall Hill Avenue Special Tax District went to fund the improvements at the intersection of Fall Hill Avenue and the Carl D. Silver Parkway, which are now complete. This fund is being drawn down over time to repay the General Fund for the funds needed to pay for that project.

It should be recognized that while it is wise to go ahead and use these funds for these purposes in FY 2011, they do not represent ongoing revenues. The City, in future years, will need to either continue to cut expenditures or find new revenues in order to replace these transfer revenues.

OUTSIDE PARTNER AGENCIES

The Recommended Budget contains recommendations concerning funding for the City's agency partners – both regional governmental agencies and non-governmental agencies. Most partners that receive \$15,000 or more from the City are decreased by 5% from FY 2010 levels. Partners receiving that amount or less are level-funded. However, there are some exceptions, with six agencies proposed to be eliminated from funding for various reasons. These are:

Agency	FY 2010 Budget	Notes
Heritage Festival	\$4,000	Special event which is not a “core service” for the City
Sister City Association	\$2,000	Special event-related which is not a “core service” for the City
Bluemont Concert Series	\$5,000	Special event which is not a “core service” for the City
Senior Visitor’s Program	\$12,240	Human service agency which serves seniors overlaps with other agencies
Rappahannock Council for Children and Parents	\$1,700	Human service agency which provides family education overlaps with other agencies
Regional Disability Services Board	\$960	Agency closed; no request

City staff notes that the two human service agencies listed above do not provide the exact same services as other agencies; rather, that their similar mission, which may also overlap to an extent with the City’s Department of Social Services, should be considered for elimination as the City continues its effort to reduce overall expenditures.

The City also received funding requests from a variety of “new” agencies that did not receive City funding in FY 2010. None of these requests were recommended for funding.

In addition, many of these agencies may also be targets of reductions in state funding, if they are partially reliant on funding from the Commonwealth. Staff recommends that the City not supplant lost funding for agencies from the state government, as we may need to supplant services that are core to the City’s function and the City does not have a surplus of resources to provide these partners.

Also of note, the staff recommends in the Capital Budget that two Council commitments that were deferred in FY 2010 – the \$100,000 contribution to the Fredericksburg Area Museum capital campaign and the \$42,000 contribution to the Moss Free Clinic capital campaign – be paid in FY 2011. These items can also be added to the Capital Improvements Plan for the balance of the commitments. The staff does not recommend funding, or making any future commitment, to the Germanna Community College for their capital building expansion.

OTHER FUNDS

City Grants Fund

The City Grants Fund is recommended for approval at **\$1,322,425**. In order to support the expenditures in this fund, the City will need to transfer **\$142,663** from the General Fund, which represents matching funds for various grant programs.

Social Services Fund

The City Social Services Fund is recommended for approval at **\$4,978,580**. This is a 17.51% increase over the original adopted FY 2010 budget, and is driven largely by increased caseloads and mandated activities. This activity is paid for by the federal and state governments, as the City's transfer from the General Fund to the Social Services Fund is recommended to decrease from \$822,330 to **\$813,000**.

Water Operating Fund

The City's Water Operating Fund is recommended for approval at **\$3,446,415**, which is a decline of 2.41% from the FY 2010 adopted budget. The staff will have further recommendations concerning the Water Operating Fund later in the review process.

Wastewater Operating Fund

The City's Wastewater Operating Fund is recommended for approval at **\$6,287,967**, which is an increase of 3.92% from the FY 2010 adopted budget. The major increase in the Wastewater Operating Fund is an additional amount of \$405,982 for debt service related to the renovations at the Wastewater Treatment Plant and two pump stations. The staff will have further recommendations concerning the Wastewater Operating Fund later in the review process.

Parking Fund

The City's Parking Fund, which reflects operations at the Sophia Street Parking Garage, is recommended for approval at **\$643,036**, which is an increase of 0.67% over the FY 2010 adopted budget.

Comprehensive Services Act Fund

The City's Comprehensive Services Act Fund is recommended for approval at **\$1,250,270**, which is a decrease of 11.47% from the FY 2010 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 declines from \$665,550 to \$563,000 – a major savings in the FY 2011 Recommended Operating Budget. However, the recommendations for the CSA program may need to be revised if the General Assembly reduces the grants available to the City to implement the requirements of the CSA program.

Other Funds

The staff will bring forward recommendations for several other funds at the March 23, 2010 meeting. These include:

- Transit
- Celebrate Virginia South CDA Fund
- Regional Transportation (Train Station Fund)
- Riparian Lands Stewardship Fund.

CAPITAL BUDGET AND CAPITAL IMPROVEMENTS PLAN

The City's Recommended Capital Budget and Capital Improvements Plan will be provided to Council for review at the March 23, 2010 meeting. Highlights will include:

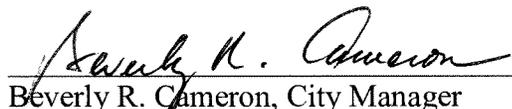
- the Fleet Replacement Program
- a Salt Storage facility in the Public Works Capital Fund
- restoration of the \$100,000 capital grant for the Fredericksburg Area Museum capital campaign
- restoration of the \$42,000 capital grant for the Moss Free Clinic capital campaign
- continuation of various grant-funded projects, including the VCR Trail and the Heritage Trail.

COURT PROJECT

The New Court Construction Fund, in the City's capital budget, represents the ongoing efforts for the Court project. Council has directed staff to proceed with a plan to build court facilities in accordance with Scheme 5 – a concept that envisions a new courthouse on the site of existing Fire Station #1. Funding has been placed in FY11 to re-locate Fire Station #1 (which is currently next to the existing General District Court building on Princess Anne Street.) The staff recommends an amount of \$4,500,000 for land acquisition, design, and construction of the new Fire Station. These funds will need to be borrowed. The Fire Station project may be undertaken using the Public-Private Education and Infrastructure Act (PPEA).

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