



Adopted Operating and Capital Budget FY 2010

Transmittal Letter

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MEMORANDUM

TO: Mayor Thomas Tomzak and Members of the City Council
FROM: Beverly R. Cameron, City Manager
Mark Whitley, Budget Manager
DATE: August 20, 2009
SUBJECT: Transmittal and Summary – FY 2010 Budget

INTRODUCTION

We are pleased to transmit the Adopted Operating and Capital Budget for Fiscal Year 2009. The budget is balanced, as required under state law. However, it should be noted that the City balanced the budget using fund balance reserves, and current expenditures exceed current revenues. The proposed General Fund Budget totals \$72.5 million, a decrease of 5.26% over the original FY 2009 General Fund Budget. This marks the third year in a row that the City Council adopted the Operating and Capital Budgets at the same time.

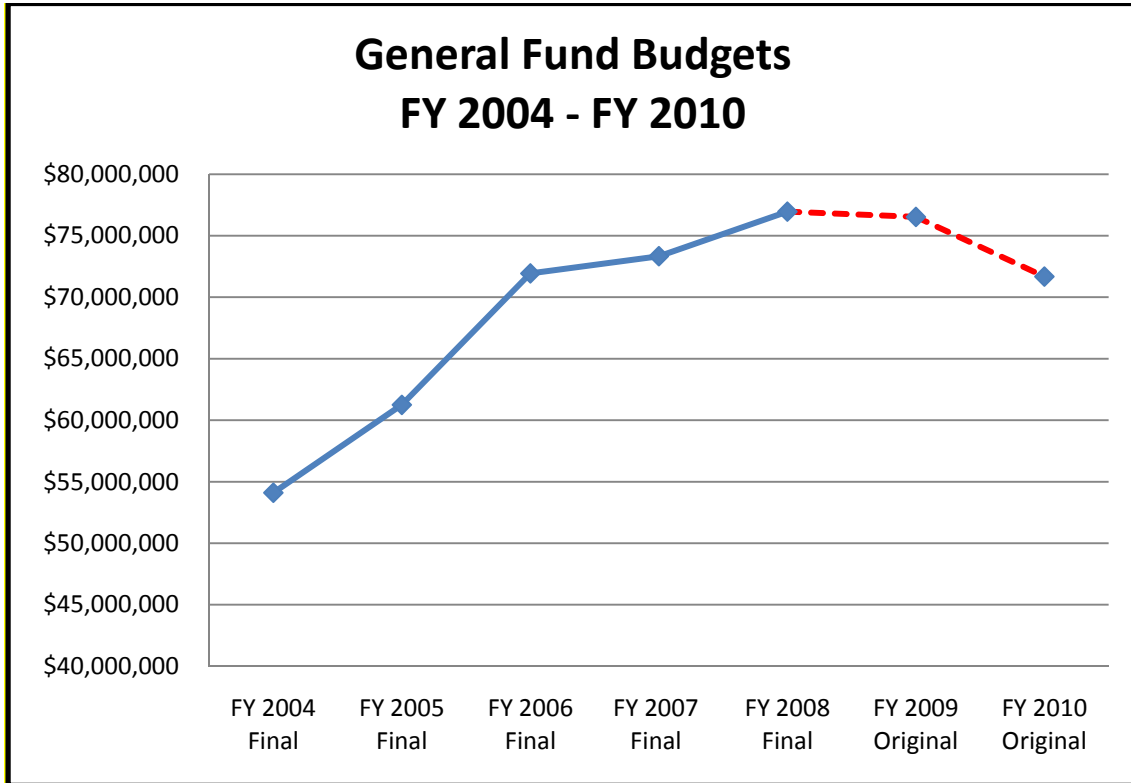
The FY 2010 budget reflects the fiscal challenges of the City. The nation is in the midst of one of the worst recessions in many years, and City revenues have suffered as a result. Key revenues such as the sales tax and revenues shared from the Commonwealth have continued the decline that began in FY 2008 and FY 2009. City revenues are also declining because of increased retail construction throughout the region. The City met the challenge of falling revenues by decreasing expenditures, increasing the real estate, consumer utility, and meals tax rates to raise additional revenue, and using the City's fund balance reserves.

In spite of the progress made in closing the gap between revenues and expenditures in the FY 2010 budget, the outlook for FY 2011 is extremely difficult. The City continues to call upon its dwindling fund balance reserves, and the City has reduced total personnel and deferred maintenance and capital outlay replacements in order to reduce overall expenditures. The City will need to invest in the deferred maintenance and capital replacements eventually, and still needs to maintain service levels in accordance with community expectations. Without significant new revenue growth, the current austerity climate for the City will continue for at least the next two or three years.

OVERVIEW

The chart below shows the trend in General Fund budgets over the last several years. The FY 2009 and FY 2010 budgets are original budgets, while FY 2004 through FY 2008 are final budgets after amendments. The City reduced spending in FY 2009, which was the first General Fund budget in several years to decline, in spite of inflation and an additional transfer to City Schools that year of \$1 million. The FY 2010 budget

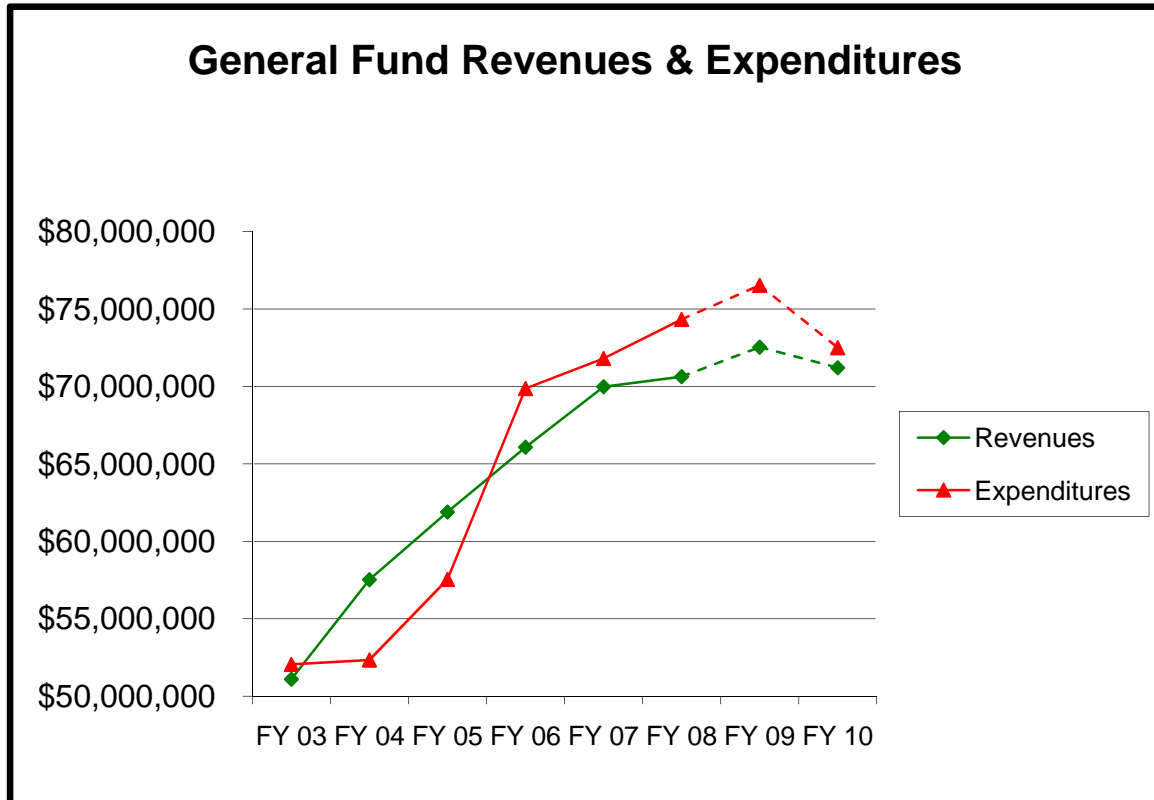
continues the downward trend in total budget, and reduces the transfer to City Schools by \$700,000.



The City has not been immune from the sharp decline in revenues associated with the decline in the national economy. Major retailers such as Circuit City, Linens & Things, and S&K Menswear have gone out of business, or are in the process of going out of business. Many other retailers and restaurants are showing a decline in revenue as consumers decrease their spending levels. The City is also dealing with increased regional retail competition, both of additional locations of City stores or construction in nearby counties of direct competitors of City stores. Since location determines revenues such as sales taxes and business license taxes, the City will have to continue to reduce our reliance on these tax revenue sources.

During a review of the City's ongoing financial situation, Fitch's Rating Service maintained the City's credit rating, but downgraded the outlook to negative. The rating agency cited three factors: declining sales taxes, declining real estate values, and declining fund balance positions. The City's flexibility to handle financial or infrastructure issues that may affect the community has suffered as a result. The increase in the real estate rate, which occurred after the review by Fitch's, will offset the potential revenue decline from declining real estate values. Nevertheless, the other concerns cited in the rating agency report remain, and the City will need to continue its current efforts to reduce spending to match the changes in City revenues.

THE FY 2010 BUDGET IN PERSPECTIVE



The above graph helps make the larger point about the sudden decline in the City’s revenue growth, and the adjustment made beginning with the FY 2009 budget and continued in FY 2010. The FY 2008 and years prior are actual figures, while FY 2009 and FY 2010 are budgetary figures. Estimates concerning FY 2009 at this point indicate that both revenues and expenditures will be lower than projected, and that revenues will be lower than expenditures. Although final audit adjustments will not take place until early autumn, the City will more than likely use between \$2.0 and \$3.0 million in fund balance in FY 2009. The amended FY 2009 budget authorizes fund balance use of \$3.5 million, so the City will stay within its authorized use of balance.

During the early part of this decade, the City had been fortunate in building a fund balance in the General Fund. During the period FY 2006-2008, the City began using that balance to fund capital activities. However, the recent revenue decline has forced the City to become very frugal in its capital construction activities, as the City adjusts its operating budget to meet the gap between revenues and expenditures.

The City has reduced the FY 2010 budget, and increased the revenues largely by increasing the real estate, consumer utility, and meals tax rates. Although significantly reduced in FY 2010, the City’s structural deficit of expenditures in excess of revenues remains, and requires further use of an additional \$1.3 million in fund balance. Even with the additional use, the City is within the bounds of its fund balance policy of maintaining 12% of the prior year revenue in the General Fund undesignated unreserved balance. However, the City will need to continue the ongoing efforts at fiscal restraint to discontinue using balance and bring current expenditures into line with current revenues.

FY 2010 BUDGET INTRODUCTION

The FY 2010 budget was a tremendously difficult budget for the City. Because of declining economic conditions and for the funding of one-time capital projects, the City had originally budgeted almost \$4 million in the use of fund balance reserves in the preceding FY 2009 budget. In addition, the declining economy forced the City to lower the FY 2010 revenue forecasts in several areas, which when added to the FY 2009 use of fund balance created an \$8 million dollar deficit for the City to close in order to balance the budget.

The City closed this gap through a combination of cutting expenditures, using additional fund balance, and raising revenues. The City cut expenditures by \$5 million, used \$1.3 million in fund balance, and raised \$1.7 million in additional revenues, largely through increasing the real estate, consumer utility, and meals tax rates.

OVERVIEW OF MAJOR OPERATING FUNDS

General Fund

The total appropriation recommended for the **General Fund** is **\$72,498,490**, which represents a 5.26% decrease from the Adopted FY 2009 budget.

Social Services Fund

The total appropriation recommended for the **Social Services Fund** is **\$4,236,514**. This is a decrease of 4.78% from the adopted FY 2009 budget. The local transfer from the City's General Fund to assist in supporting the operations of the Department of Social Services is \$822,330 which is an increase of 2.48% from the local transfer in FY 2009. The cost of operations for this fund is shared between the City, state, and federal governments. Even though the City's local transfer increased, the total expenditures in the fund decline, as state and federal contributions decrease. The DSS will lose two positions through attrition in FY 2010.

City Grants Fund

The total appropriation for the **City Grants Fund** is **\$1,808,827**. This appropriation is 6.78% more than the original appropriation in FY 2009. The City Grants Fund includes various state and federal grant projects, plus a few local programs with dedicated self-supporting revenue streams. The City Grants Fund budget is amended by the City Council from time to time as new grants are awarded, and also amended after the close of the fiscal year to update balances on existing grants.

Water Fund

The total appropriation recommended for the **Water Fund** is **\$3,531,600**. This funding represents an increase of 6.07% from the original budget in FY 2009. The City included a 2% increase in the water service charges in FY 2009.

Wastewater Fund

The total appropriation recommended for the **Wastewater Fund** is **\$6,050,802**. The recommendation is a 2.71% increase in the overall fund from FY 2009. The increase is necessary as a result of increasing operating costs at the Wastewater Treatment Plant.

In addition, the City has begun to pay the debt service on four major sewer line replacement projects: City Dock Sewer, Smith Run Sewer, Hazel Run Sewer, and Kenmore Watershed. The City included a 5% increase in wastewater service charges in FY 2010 to meet rising costs.

Transit Fund

The total appropriation for the **Transit Fund** is **\$4,908,860**. This is a decrease of 9.09% over the original FY 2009 appropriation. Ridership remains at an all time high, and the new Transit Headquarters building on Jefferson Davis Highway has proven beneficial for both staff and transit riders. However, the Transit system faces pressure to reduce costs in the face of declining intergovernmental revenues, particularly from other local jurisdictions facing tight budget constraints. The Transit system raised fares for the first time since system inception in conjunction with the FY 2010 budget. Most rides are now \$0.50 per trip.

Parking Fund

The total appropriation approved for the **Parking Fund** is **\$638,778**. This represents a decrease of 3.18% over the FY 2009 appropriation, and represents the same level of service that was provided in FY 2009. The new downtown hotel, which opened in July 2009, will use the garage and provide more operating revenue to the garage.

Comprehensive Services Act Fund

The total appropriation approved for the **Comprehensive Services Act Fund** is **\$1,412,200**. This fund is for mandated services for at-risk youth that is a shared responsibility of the state and the City. The City's local transfer in FY 2010 will fall 13.5% from the FY 2009 adopted level, from \$769,427 to \$665,550. The overall total represents a decrease of 12.42% over the FY 2009 appropriation. Based on the current service population, the staff is able to forecast a lower total expenditure level for the upcoming fiscal year. However, the Comprehensive Services Act is, for many services, a mandated program, and if the service population or its needs should change the City may have to add resources to the CSA Fund.

Riparian Lands Stewardship Fund

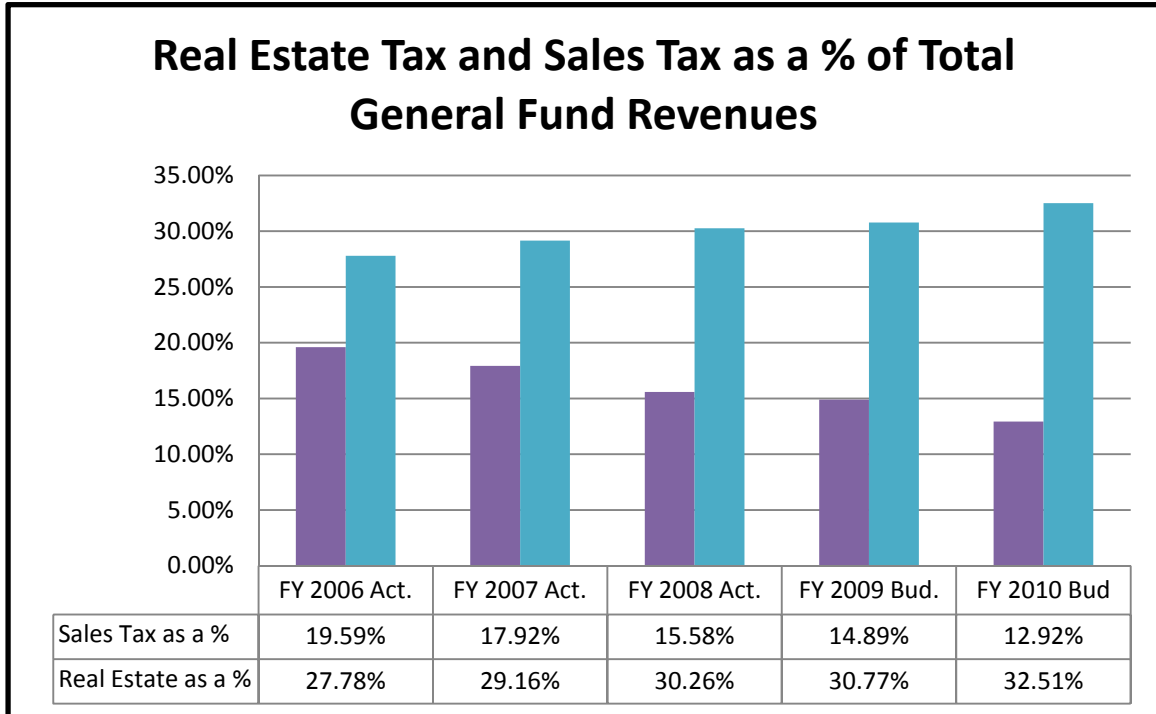
The total appropriation in the **Riparian Lands Stewardship Fund** is **\$78,187**. The fund serves as the permanent protected endowment fund for the City's river steward program.

REVENUE HIGHLIGHTS

Revenues – General Fund

In FY 2010, the City is forecasting a General Fund revenues total of \$71.2 million, which does not include the authorized use of fund balance in FY 2010. This includes the revenue generated by the real estate rate increase from \$0.56 to \$0.68 per \$100 valuation (and which also adjusts for the effects of the recent real estate assessment, which saw a decline in overall property values in the City.) The City also raised the meals tax rate to 6%, effective August 1, 2009. Consumer Utility Taxes will also rise by \$1 per monthly bill for natural gas and electricity service. Many other revenues are in

decline as a result of the recession and increased retail competition throughout the region. The sales tax revenue is the largest example of this decline; however, other revenues have suffered as well. Local revenues forecast to decline as a result of decreased activity include the business license tax, building permit fees, and recreation fees. The City's revenues from the Commonwealth have suffered as a result of the declining financial condition of the state, which is due to the recession.



The chart above shows the relative decline of the sales tax as a percent of total General Fund revenues in the recent past. At the same time, the real estate tax revenues have increased as a share of the total. In FY 2006, the sales tax constituted almost 20% of the total General Fund revenues of the City. Unfortunately, in FY 2010, the City budget forecast is that sales tax will constitute less than 13% of the total. If the budget holds to the forecast for FY 2010, the City will receive over \$3.5 million less in sales tax revenues in FY 2010 than the City received in FY 2006 – a total decline that alone is worth approximately 5% of the City's FY 2010 General Fund budget.

The City continues to face the challenge of providing valuable City services when revenue growth continues to be limited at best. The upcoming fiscal year, FY 2011, will likely be the third year in a row where new service initiatives will not be considered, and existing programs will need to be identified for reduction or elimination. In addition, the City is faced with the need to construct a new courthouse, as the existing facilities, particularly the Circuit Court, are at or beyond their useful service life. The new courthouse will have a significant impact on the debt service for the City, perhaps as soon as FY 2012, depending upon the time frame of the project and the issuance of bonds.

There are several positive developments that will help to mitigate the overall negative financial trends. Several major economic development initiatives will bolster

City revenues in the next few years, and, more importantly, provide needed jobs for City and regional residents. Examples include:

- Wegman's Grocery Store in Celebrate Virginia South (open June 2009)
- Kalahari Resort in Celebrate Virginia South (FY 2011)
- Capital Ale House on Caroline Street (open November 2008)
- Courtyard by Marriot on Caroline Street (open July 2009)
- Free Lance-Star Building in the Battlefield Industrial Park (construction underway – autumn 2010)
- Eagle Village on Jefferson Davis Highway (Phase I construction underway – autumn 2010)
- Women's Health Service Center (autumn 2010).

Revenues- Water and Wastewater Funds

In FY 2008, the City increased its water and sewer fees for the first time in several years. In FY 2009, the City continued its efforts to catch up to rising costs with a rate increase of 4% for water and 8% for sewer. In FY 2010, the City Council continued to raise rates in an effort to balance revenues with increasing costs for operations and debt service. The increases in FY 2010 are 2% for the Water Fund and 5% for the Wastewater Fund, respectively. The City has added debt service costs, beginning in FY 2009, for debt issued to construct several sorely-needed utility line replacement projects which began during FY 2008. These projects are: replacement of the next phase of City Dock Sewer, replacement of the Smith Run Interceptor Sewer, replacement of the Hazel Run Interceptor Sewer, replacement of various sewer lines in the Kenmore Valley area, and replacement of the U.S. 1 Water Transmission Line. In addition, operating costs for aging Wastewater Treatment Plant have increased, and the City is currently replacing equipment at the plant necessary for its continued operation. The City will need to issue additional debt for the plant upgrades, which will need to be paid back beginning in FY 2011.

The effect of the proposed rate increase for both water and wastewater on a residential customer using 10,000 gallons per bi-monthly billing cycle is an additional \$2.83 per bill. The same usage at current rates is billed for \$70.38. Between 1993 and 2007, the City increased its water and wastewater rates 13.2%. During that same period, the Consumer Price Index (CPI-U) rose 44.3%.

Revenues – Transit

The total revenue forecast for next fiscal year for the Transit Fund is \$4,908,860. This includes a transfer of fund balance to match the anticipated depreciation expense of \$525,000. The majority of the Transit Fund is funded by federal and state grants. Other localities in the region served by FRED also share in the cost of service to their areas, as does the University of Mary Washington. The revenue also includes an anticipated transfer of \$454,344 from the surplus gasoline tax receipts for the City's share of service costs and capital equipment grant matches.

The FRED Transit system raised fares to \$0.50 for most rides for the first time in system history effective July 1, 2009. (Previously, the system had discontinued free transfers, but had not increased the per ride fare of \$0.25). This was done in response to rising cost burdens, and in order to increase the share of farebox revenue for the system.

The FY 2010 budget projects fare revenue of \$192,500. The Public Transit Advisory Board set a target farebox recovery of 12% for operating expenses to be obtained by FY 2015. (The FY 2008 ratio was 6.2%).

Revenues – American Recovery and Reinvestment Act of 2009

The resources made available by the federal government in the American Recovery and Reinvestment Act of 2009 (the “Stimulus Package”) have been directly beneficial to the City and its Schools. The City Schools received a total of \$390,465 in direct fiscal stabilization aid from these funds, which helped the schools to avoid large numbers of layoffs in light of the reductions from both City and state funding. City Schools may also receive additional stimulus package funds for Title I and the IDEA Special Education programs that would need to be supplemental appropriations later during FY 2010. The City received a small additional allocation of \$62,192 for the Community Development Block Grant program, which is appropriated in the City Grants Fund. The City also received an award of \$92,590 for the Edward C. Byrne Memorial Justice Assistance Grant program, which assists the Police Department and is also part of the City Grants Fund.

The City also benefitted indirectly in terms of the Commonwealth receiving federal funds and using them to balance the state budget. Without stimulus funds, the City would more than likely have faced additional reductions in state-shared revenues such as the HB 599 (aid to law enforcement) and compensation board programs.

Additional opportunities to apply for grants made available as a result of the Stimulus Package are developing. For example, the City recently completed an application for a \$4.9 million grant for the construction of Fire Station #3, under a Federal Emergency Management Agency program to aid fire station construction. This grant is highly competitive, and the City may not know if we have been awarded the grant for nine months to a year.

The City is also in the process of developing an application for funds that will be given as a block grant for energy efficiency projects. The state has been given an award to give to jurisdictions under 35,000 in population throughout the state on a competitive basis. As of this writing, the state is still developing guidance for this program.

HIGHLIGHTS OF THE CAPITAL BUDGET AND FIVE-YEAR PLAN

In the early and middle years of this decade, the City of Fredericksburg underwent a major capital construction campaign to replace existing capital assets and construct new capital assets. The City replaced major buildings such as the James Monroe Senior High School. In addition, the City constructed new assets which met service demands or served to functionally replace outdated buildings. Examples include the new Lafayette Upper Elementary School, the new Police Headquarters Building on Cowan Boulevard (moving the Police out of a collection of offices downtown), the new Sophia Street Parking Garage, FRED Central, the new Dixon Park and Dixon Park Pool. There were other, smaller scale projects during these years as well. The City paid for the capital program through a combination of the use of fund balance and debt issuance.

The City has now transitioned to a smaller capital program, focused on smaller replacement and maintenance projects with some additional projects funded by grants.

The total adopted capital budget for FY 2010 is \$13,036,450, which is down slightly from the average of the past three years original capital budgets of \$17.3 million.¹

Much of the City's capital budget in FY 2010 consists of grant-funded projects. Examples include the VCR Trail project, the improvements to the intersection of Sophia and William Street, the improvements to the Princess Anne Street corridor, the improvements to the Traffic signals along U.S. 1 and State Route 3, and the FRED Transit Maintenance facility.

In spite of the reduced funding, the City also has several major capital maintenance / replacement projects underway. These include the Wastewater Treatment Plant upgrades, which is the final year of a multi-year effort to upgrade the plant and bring it into compliance with state Department of Environmental Quality requirements; the major Court replacement project, and the multi-year effort to replace several major transmission lines for the Water and Wastewater systems (the "Spratt PPEA" project).

The City also includes in the Public Works Capital Fund Budget three major bridge projects: the bridge of Jefferson Davis Highway over William Street, the bridge of Fall Hill Avenue over the Rappahannock Canal, and the bridge of Jefferson Davis Highway over Hazel Run. These have been multi-year efforts to complete, and the Virginia Department of Transportation has two of these bridges awarded as projects under the Revenue Sharing program (which pays 50% of the project costs). The City has included as a debt issued project the repairs to the Jefferson Davis Highway bridge over Hazel Run.

Capital Budget Highlights – VCR Trail

The City has two major projects underway for Pathways – the Virginia Central Railway Trail (VCR Trail) and the Rappahannock Heritage Trail. Both of these projects rely to great extent on transportation grant funding from the federal government, awarded through the state and the regional transportation planning agency. The VCR Trail is currently in final design, and may go to construction as soon as design, environmental reviews, and other related grant requirements have been completed. The Trail will travel from the train station area in the downtown southwest through the City, crossing the Blue and Gray Parkway and Jefferson Davis Highway before eventually ending near Interstate 95. This trail will serve as a nice addition to the City's existing Canal Path, which runs along the old Rappahannock Canal from the downtown north towards Fall Hill Avenue. The VCR Trail project received a grant of \$1,000,000 in new transportation grant funding, which is included in the FY 2010 capital budget. In addition, the City Council will consider in the fall an amendment to the capital budget to carryover appropriation authority on grant funds awarded prior to FY 2009 but not yet spent – an estimated \$1.1 million.

Capital Budget Highlights – Court Replacement Project

The City is continuing its efforts to construct a new courthouse for the City, which will require a major bond issuance. The current courthouses are in various degrees of repair and serviceability, and the Circuit Courthouse is in need of replacement with a

¹ The capital budgets have many large multi-year projects, and the City usually makes amendments to the capital budgets during the year to carry forward appropriation authority for unspent balances of capital projects. The original budget totals are averaged here to provide an "apples-to-apples" comparison.

newer, larger, more modern facility. During FY 2009, the City Council reconsidered its decision to move forward with building one combined courthouse on the site of the existing downtown U.S. Post Office due to cost. Rather, the City is now investigating the feasibility of constructing a new courthouse on the site of the existing Juvenile and Domestic Relations Court building, which would combine the Circuit Court functions with the Juvenile and Domestic Relations Court functions. The existing General District Court building, located across Charlotte Street from the site of the existing Juvenile and Domestic Relations Court Building, would be renovated for continued use.

During FY 2009, the City also hired a new architectural firm, Glavé Holmes, which will guide the City as site selection and preliminary concepts for the building are finalized. The FY 2010 capital budget includes \$150,000 in funds that will support the ongoing architectural work for the project. However, the major design work and the construction funds are included in the Capital Improvements Plan for future years, and may need to be amended as preliminary plans are brought forward for approval.

GENERAL BUDGET EXPENDITURE HIGHLIGHTS

The reductions in expenditures needed to balance the FY 2010 budget totaled over \$5 million from FY 2009 levels, and represent meaningful and consequential reductions to City programs and services.

Many impacts from these reductions will be easy to discern – for example, the closure of the Motts Reservoir facilities for two days per week, or reductions in the schedule for Street Sanitation services. Others will manifest themselves in slower response times to requests for information, or slower internal processes, or decreased ability to respond to opportunities or initiatives as various work groups absorb the loss of personnel and re-parcel out the workload to remaining workers.

The largest reduction in the budget was the elimination of the Transfer to Capital, which decreased the City's paving program, for example. The City also reduced its Transfer to Schools for the first time in many years. The number of full-time positions in the General Fund fell from 358 to 347, and is down from 371 in FY 2008. Most of these job losses are the result of attrition – not filling positions that become vacant through retirement or other separation.

Schools

The transfer from the General Fund to the Fredericksburg City Public Schools is \$24,028,000, a decline of \$700,000, which represents a decrease of 2.83% from the FY 2009 level. The main priority for the school system in FY 2010 was to minimize the impact of reductions in state and local funding as much as possible on the provision of education in the classroom. The school system will benefit from the federal government "stimulus package" in FY 2010; however, after the close of FY 2011 these funds will more than likely be exhausted, and further cuts will be necessary if other sources of revenue are not available. In addition to the local transfer, the schools receive resources from the state, and an additional small portion of their budget comes from user fees (e.g. tuition, school lunch fees, etc.). The school transfer, which does not include the debt service on the two recently constructed schools, represents the largest single item in the City's General Fund budget. The City pays the debt service for the new schools, which amounts to an additional \$3.3 million per year, separately.

Employee Salaries

Aggressive action was taken during FY 2009 to reduce City salaries because of revenue shortfalls experienced during the fiscal year. During the first pay period in April 2009, the City instituted pay reductions for all City employees. Most employees received a salary reduction of 1%. Those employees earning more than \$70,000 per year were reduced by 1.5%. This measure was on top of a hiring freeze (with public safety exceptions) that went into place in the fall of 2008.

City Council, in the budget deliberations for the FY 2010 budget, restored the 1% reduction in employee salaries, effective July 1, 2009. Those employees making salaries above the cut-off maintain 0.5% of the reduction first implemented in April 2009. There will be no merit increase or cost-of-living increase for City employees in FY 2010.

Employee Benefits – Health Insurance

As is the case with many employers, the City faces strong inflationary pressure on health insurance premiums. The City offers three health plans to employees – an HMO, a standard fee-for-service based plan, and a plan that offers payments after a deductible. The City and employees share premiums, with the City paying the majority of the premium as an employee benefit. The percentage of the premium paid by the employee varies with the level of coverage (e.g. single, plus one, or family).

The City self-insures for health insurance, with stop loss coverage if costs exceed a certain amount. To help protect against a poor claims year, there is a reservation of \$950,000 of General Fund Balance to cover any excess of costs over the premiums collected by the health insurance company. Although the City has not had to pay excess costs for some time, preliminary results in FY 2009 indicate that a balance of approximately \$245,000 will be owed. In addition to the negative impact of this payment in FY 2009, the City anticipates that the deficit will create pressure on the health insurance company underwriters to raise premiums significantly in FY 2011.

The City budgets its health insurance costs by using a weighted average per employee cost, based on the different classes of premiums paid by the City. The following table shows the increases in health insurance premiums budgeted over the last several years.

Budgeted Per Employee Premium Cost	
FY 2006	\$5,500
FY 2007	\$5,900
FY 2008	\$6,250
FY 2009	\$7,100
FY 2010	\$7,800

This trend corresponds with rising costs for health care felt throughout the economy. The federal government is currently debating a variety of reforms to the provision of health insurance; however, it is far too early to tell if any reforms will be enacted and what impact those reforms might be on the cost of health insurance for the City. In the meantime, the City will continue efforts to mitigate costs while providing a competitive health insurance benefit to its employees.

Employee Benefits – Virginia Retirement System

The City's retirement cost rate remains constant at 14.43% of salary per employee for FY 2010, which is the second year for that rate. The rate will be re-set based on VRS's actuarial study next year for the upcoming two years. The City's payroll costs will not have grown much in the period since the last study, which may help mitigate any potential increase. On the other hand, the City retiree population has grown, and the Virginia Retirement System sustained heavy investment losses in the most recent economic downturn. Once the City receives the results of the study and the new rate from the Virginia Retirement System, that rate will need to be built into the FY 2011 budget.

Employee Benefits – Other Post-Employment Benefits (GASB 45)

The Governmental Accounting Standards Board has released its Statement 45, which will change accounting standards for the City of Fredericksburg beginning with FY 2009 for "Other Post Employment Benefits" (OPEB). Practically speaking, OPEB for the City equates to health insurance coverage provided to retirees.

The City provides health insurance coverage to retirees in various ways. Those not eligible for the federal Medicare coverage are allowed to remain in the City employee health plan with subsidized premiums. The level of subsidy equals the cost for individual coverage for those hired prior to July 1996, but is reduced for those hired after that date. Retirees must pay the cost of dependent coverage, and must obtain their own coverage if they move out of state (with a reimbursement equal to the current subsidy, less an administrative charge). Upon reaching Medicare eligibility, retirees must migrate to Medicare, and they also receive a Medicare Supplement Plan through the City and subsidized by the City.

GASB Statement 45 requires that the City recognize as a liability the future costs of retiree health insurance coverage benefits. The liability may be reduced if the City "pre-funds" cash into a dedicated trust for these benefits, which is allowed to earn interest but must not be spent on anything other than these benefits. An actuarial study determines the amount of annual contribution required to "fully fund" the cost of current and future benefits. The current contribution for retiree health insurance benefits is deducted from the actuarial "Annual Required Contribution," ("ARC") and that amount becomes the liability.

The City's estimated Unfunded ARC, less current contributions, is \$1,508,000, and that amount will need to be recorded as a liability on the City's balance sheet in FY 2009. This amount will not directly affect the budget, but it will impact the City's ongoing financial position over time.

Given the prevailing financial and economic conditions, the City did not elect to provide a cash contribution to an OPEB trust to lower the ongoing liability through the FY 2010 budget. The ARC required to eliminate any liability for the FY 2009 balance sheet was calculated as \$1,427,000, but any amount of funds for this purpose in the FY 2010 budget was extremely difficult. The City may look for opportunities to amend the FY 2010 budget to create an OPEB trust and begin pre-paying benefits, in order to reduce future liabilities. In the meantime, the reduction in the total number of positions will

serve to reduce the amount of future costs, and the City will continue to meet its commitment to current employees and current retirees to provide retiree health benefits.

Descriptions of Personnel Changes

The City reduced its overall General Fund workforce by 11 full-time positions in the FY 2010 budget. The City reduced 13 full-time positions in the FY 2009 budget, for a total of 24 full-time positions over two years. The total number of authorized full-time positions has fallen from a high of 371 at the close of FY 2008 to 347 in FY 2010. During this two-year period, most, but not quite all, of these reductions have been through attrition. Two employees have been transitioned to part-time status, and one has been transferred to the Water Fund. The City also ended in FY 2009 the informal agreement to carry judicial legal secretaries from the entire 15th Judicial Circuit on the City payroll, with reimbursement from other jurisdictions. Other jurisdictions now have the Judicial Legal Secretaries for their sitting judge on their own payrolls, reducing the City's workforce by four positions.

The overall reduction in positions is a primary reason behind the City's ability to reduce overall expenditures during this period. The following section will describe the job losses seen by the City for the FY 2010 budget.

City Manager's Office – Executive Assistant

In FY 2009, the City Manager's Office had two Executive Assistant positions. During the year, one of the incumbents was promoted to Clerk of City Council, and the vacancy thus created remains frozen. As a result, the total number of full-time positions in the City Manager's Office changes from five to four.

The City also had a part-time Special Assistant position, responsible for handling public information officer duties, grant coordination, and special projects as assigned by the City Manager. The position is vacant, and the City is currently using the part-time funds to fill an Office Assistant position in this office to help meet walk-in and telephone inquiries, plus accounts payable and other administrative functions in the office.

Treasurer – Deputy Treasurer

The long-serving Deputy Treasurer retired in FY 2009. The Treasurer's Office has several positions that are local-only funded, and the City will not be filling one of these positions. The total number of positions in the Treasurer's Office will go from eight to seven.

Registrar

The City had two full-time positions in the Registrar's Office. One of these positions has been transitioned to part-time status, reducing the total authorized positions to one.

Fire – Captain of Operations & Deputy Fire Marshal

The City froze the Deputy Fire Marshal vacancy last year for half the year, and did not fill it mid-year because of the ongoing financial difficulties of the City. The City will not fill this position again in FY 2010.

In addition, the long-serving Deputy Chief retired during FY 2009. The Fire Department promoted the Captain of Operations, Mark Bledsoe, to the Deputy Chief position in FY 2010, but will not fill the newly vacated Captain of Operations position in FY 2010.

The City has created a position for a Firefighter dedicated to the City's safety efforts, in an effort to increase the safety of the workforce and decrease the number and cost of ongoing worker's compensation claims. Therefore, the new net authorized positions in the Fire Department will go from 46 to 45, not including the Emergency Medical division.

Police – Domestic Violence Unit Transfer to General Fund

The City Police Department has two positions – a Detective and a Victim Advocate – dedicated to a Domestic Violence Unit that, up until FY 2010, was partially grant funded in the City Grants Fund. The Police Department is very pleased with the results of the Domestic Violence Unit, and the City decided to add these two positions to the General Fund in FY 2010. Otherwise, these public safety services to the community would have been curtailed.

Public Works

The Public Works Department lost four employees through attrition in the FY 2010 budget. The Street Maintenance division lost a supervisory position, the Drainage division lost a Lead Laborer, and the Street Sanitation division lost two laborers. The loss of positions will have an impact on service delivery, which will come in the form of slower response times to complaints and slower schedules for ongoing maintenance activities.

As a note, an additional Drainage division employee was transferred to the Water and Wastewater Funds, which is a reflection of the duties of that position. The transfer will not affect service delivery.

Parks, Recreation, and Public Facilities

The City Department of Parks, Recreation, and Public Facilities lost several positions as a result of the attrition process. The Buildings and Grounds division was reduced by one supervisory and two custodial positions. The Parks Maintenance division was also reduced by one Maintenance Worker.

Other Personnel Changes

The City made a variety of other personnel changes that will impact service delivery. The Department of Social Services (Social Services Fund) lost two positions through attrition. The Wastewater Treatment Plant (Wastewater Operating Fund) also reduced two employees through attrition. The City will also dramatically reduce part-time hours in the Parks Supervision program, the Parks Maintenance program, and the Dixon Aquatics program which will impact services in those areas. The City also ended part-time positions for office assistance in the Building and Development Services Department and building technician services in the Buildings and Grounds Special Projects Department.

Outside Agencies

The City funds grants or contributions to a variety of non-profits or regional agencies that provide important services to the community. Because these groups are not part of the City's organizational structure, they are referred to as "outside agencies." The funding level for outside agencies was reduced for the vast majority of outside agencies in FY 2010 in response to the City's financial conditions. This continued a trend of declining grants to outside agency partners begun in FY 2009. The City Council wishes to hold a worksession in the autumn of 2009 to evaluate current processes and give further direction to staff in preparation for the FY 2011 budget.

The following table provides the levels of funding for outside agencies, broken into "Non-Government Agencies" and "Government Agencies." The "Non-Government Agencies" category includes the not-for-profit agencies that provide human services or cultural services to the community. The "Government Agencies" category includes regional government agencies (but not including the Regional Jails), plus agencies such as the Fredericksburg Rescue Squad that provide governmental-type services. It also includes the Central Rappahannock Regional Library.

Agency Funding	Non-Government Agency	Government Agency
FY 2006	\$385,341	\$2,563,481
FY 2007	\$446,196	\$2,718,061
FY 2008	\$457,978	\$2,699,177
FY 2009	\$397,147	\$2,716,435
FY 2010	\$280,835	\$2,345,544

Capital Outlay – Deferred Maintenance

The City has been forced to defer routine replacements of capital equipment because of the recent declines in the revenue base. Although it is an inexact proxy for the total capital needs of the City, the following table shows the City's spending on "Capital Outlay," which is the spending on vehicles, desks, and similar items that need to be replaced on a routine basis.

Capital Outlay (General Fund Only)	
Fiscal Year 2007 (Actual)	\$1,022,901
Fiscal Year 2008 (Actual)	\$1,066,596
Fiscal Year 2009 (Amended Budget)	\$753,861
Fiscal Year 2010 (Original Budget)	\$220,800

The decline in overall spending for capital replacements can be an effective short-term strategy for dealing with financial shortfalls, as the City has experienced in the last couple of years. In addition, some capital replacement spending (for example, computer replacements) has been undertaken through the capital budgets in the last couple of years. Nevertheless, the underlying trend of deferred replacements of routine capital items is real, and the City will need to dedicate additional resources in the future to capital outlay replacements in order to maintain service quality and not unduly increase expenditures for maintenance.

CONCLUSION AND ACKNOWLEDGEMENTS

In conclusion, the budget for FY 2010 is a responsible spending plan which continues the process of reducing the City's overall spending, but continues to provide the services necessary to meet the needs of the citizens of the City. The final budget represents many hours of preparation on the part of the departments, Constitutional Officers, and outside agencies and many hours of deliberation and review on the part of the staff and the City Council. Many thanks should go to all involved for their efforts in pulling together this important plan.

The City's continued adjustment to a paradigm of reduced spending will carry on into FY 2011 and beyond. Even though the City was forced to use its fund balance to balance the budget, the amount was much lower than the FY 2009 use of balance, and hopefully the City will have less of a deficit in FY 2011 than was the case in FY 2010. Still, the City and its school and agency partners should prepare for a difficult year in FY 2011, as City revenues are not likely to increase dramatically in the near future. As we all look forward to better days, our City will continue our efforts to support our community in an efficient and effective manner.

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