



## MEMORANDUM

TO: Honorable Mayor and Members of City Council  
FROM: Timothy J. Baroody, City Manager  
RE: City Manager's Recommended Operating and Capital Budget for FY 2020  
DATE: March 12, 2019

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### Introduction

I am pleased to present the FY 2020 Recommended Operating and Capital Budget, which begins on July 1, 2019. This document also includes recommendations for the FY 2020 – FY 2025 Capital Improvements Plan. The Recommended Budget for FY 2020 is a balanced budget that represents a responsible spending plan for the upcoming fiscal year. Much work has gone into ensuring that this Recommended Budget is fiscally responsible, advances the City Council's Vision and Priorities, supports our schools and our workforce, and meets the needs of a growing community.

The total General Fund budget for FY 2020 is recommended to be \$100,435,000, which is an overall increase of 4.57% over the FY 2019 original adopted budget. The General Fund is the primary fund for most City operations. This budget document also includes recommendations for a variety of other operating funds, including the City's main enterprise funds: Water Operating, Wastewater Operating, Transit Operating, and the Parking Fund.

Recommended funding levels are also provided for a variety of special revenue funds to help account for special activities, including the Stormwater Management Fund, the City Grants Fund, the Social Services Fund, and the Children's Services Act Fund. FY 2020 will also be the first year of operation for a Baseball Stadium Fund, and the Recommended Budget includes a balanced financial plan for meeting the City's share of obligations for this exciting project in our community.

The General Fund recommendations do include an increase in the real estate rate from the current \$0.80 per \$100 valuation to \$0.84 per \$100 valuation. Of the current rate, one cent on the rate is used for stormwater management purposes. Of the additional four cents, the recommendation would be to increase the amount dedicated to stormwater management purposes from one to two cents, with the other three cents used for school and general government purposes.

### FY 2020 Recommended Budget in Context

The City of Fredericksburg is the central locality to the fastest-growing region in the Commonwealth – and population growth is accelerating in recent years. The annual budget process reflects the City's efforts to maintain and improve our schools, services, and infrastructure in a growing region with a strong economy.

### Regional Population Growth – 2010 – 2018<sup>1</sup>

Year	City	Stafford	Spotsylvania
<b>2010 (Census)</b>	24,286	128,961	122,397
<b>2011</b>	25,484	131,067	123,997
<b>2012</b>	26,024	132,719	124,526
<b>2013</b>	27,945	135,141	125,555
<b>2014</b>	28,213	138,230	126,337
<b>2015</b>	26,969	140,176	128,998
<b>2016</b>	27,025	141,915	129,668
<b>2017</b>	27,645	145,699	131,549
<b>2018</b>	28,387	149,110	133,441

The City’s growth and the strong economy does help with increasing revenues, which helps to fund some of the growth in the Recommended Budget. The Recommended Budget also continues to strategically utilize the City’s fund balance – particularly to meet the City’s ongoing capital needs and to help offset the increase in expenses from the Rappahannock Regional Jail.

The City’s departments, officers, and partner agencies are striving to meet the ongoing service needs. Although the City Manager’s Office always reduces the requested amount prior to forming a final recommended budget for Council consideration, the total requested General Fund budget for FY 2020 included nineteen full-time positions and totaled over \$115.5 million – which is reflective of the growth in demand for services and maintenance needs for the City.

### Budget Highlights – General Fund

The overall General Fund recommendation increases significantly, and includes several highlights.

- Overall revenue forecasts, removing the use of fund balance, is to grow to \$95,916,000, or 4.15% over the original adopted budget revenues for FY 2019
- An increase in the transfer to the Fredericksburg City Public Schools of \$1,000,000;
- Increase in the funding for the Rappahannock Regional Jail of \$960,017;
- Additional funding for the Children’s Services Act of \$540,000, as costs for meeting these service needs continue to increase;
- Additional funding for the Central Rappahannock Regional Library of \$162,845;
- Additional funding for debt service in the General Fund of \$349,580;
- A recommended 2.5% increase in salaries as a cost-of-living increase, effective July 1, 2019; and
- An increase in the solid waste fee of approximately \$2 per month to help meet increases in costs for this program

### Revenues

Overall revenue growth for the City is forecasted to be strong. The overall revenue growth, less the use of fund balance and the recommended increase in FY 2020 of an increase in real estate tax, is an increase of \$2,621,000, or 2.8%.

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<sup>1</sup> Source: Weldon Cooper Center

### Revenue Forecasts – Key Local Revenues

	<i>Original FY 2019 Budget</i>	<i>FY 2020 Recommended</i>
<i>Real Estate</i>	\$30,700,000	\$32,150,000
<i>Personal Property</i>	\$8,525,000	\$9,150,000
<i>Sales Tax</i>	\$11,500,000	\$11,700,000
<i>Meals Tax</i>	\$11,500,000	\$12,300,000
<i>BPOL</i>	\$6,200,000	\$6,300,000
<i>Consumer Utility</i>	\$1,800,000	\$1,850,000
<i>Telecommunications Sales</i>	\$1,650,000	\$1,575,000

#### *Real Estate*

The City Manager’s Recommended Budget includes an increase in the real estate tax rate, from the current rate of \$0.80 per \$100 of valuation to \$0.84 per \$100 of valuation.

Of the increase, one penny would be dedicated to the Stormwater Management Fund, and three pennies would be used in the General Fund. Each penny is worth approximately \$400,000 in additional revenue. The City is also forecasting an additional \$250,000 from natural growth.

As an example only, here is the impact of the proposed tax increase to two houses and a commercial property at different values.

	House A - \$250,000	House B - \$350,000	Commercial - \$2,000,000
FY 2019 - \$0.80 / \$100	\$2,000	\$2,800	\$16,000
FY 2020 - \$0.84 / \$100	\$2,100	\$2,940	\$16,800
Difference	\$100	\$140	\$800
Difference / Month	\$8.33	\$11.67	\$66.67

#### *Solid Waste Collection Fees*

The City’s costs for the solid waste collection operations will increase in FY 2020, and the staff recommends an increase in solid waste collection fees. The City has not increased the solid waste fee since FY 2015.

### Proposed Rate Increase – Solid Waste Collection Fee

	Current Bi-Monthly	Current Monthly Equivalent	Proposed Bi-Monthly	Proposed Monthly Equivalent
High Density	\$33.40	\$16.70	\$36.74	\$18.37
Regular	\$40.90	\$20.45	\$45.00	\$22.50

The annualized increase for most customers is \$24.50. High-density customers will pay a slightly smaller annualized increase, amounting to \$20.04.

The proposed fee increase is estimated to increase revenue by \$100,000 in the General Fund. The FY 2018 actual revenue for this source was \$1,017,212, and the budget forecast for FY 2019 is \$1,100,000. The forecast for FY 2020, which includes the rate increase, is \$1,200,000.

The overall cost for the City's refuse collection and disposal programs have been increasing over the past several years. As an example, the R-Board Landfill, of which the City is a joint owner along with Stafford County, will be raising the tipping fee for the City's operation from \$28 / ton to \$32 / ton, which is more in-line with the rate being charged by commercial haulers to commercial properties and residents of Stafford County.

#### *Water & Wastewater Fees*

The City is facing several challenges related to capital projects in the Water Operating Fund and the Wastewater Operating Fund in FY 2020 and beyond.

The FY 2020 budget recommended for both of these funds have increased substantially, and FY 2020 is the first full year of debt service payments related to the 2018 bonds that funded a variety of improvements in both the Water and Wastewater Collection systems. Importantly, the Recommended Capital Improvements Plan currently includes approximately \$75 million in additional debt in the next five years – most of which is attributable to the wastewater treatment plant consolidation project. It should be noted that the plan still needs to be negotiated with Spotsylvania County and the timelines on these projects may be extended. Nevertheless, this level of capital investment will increase the debt service payments required in these funds.

The City is currently in the process of finalizing a rate study which will provide recommendations on water and sewer rates over the next several years. As a placeholder, the City Manager's Recommended Budget includes a 10% increase in both the water and the sewer rates, which will assist with the increase in funding needed in FY 2020 as well as the funding needed to meet the future capital needs of both funds.

### Use of Fund Balance

The City has a practice of judiciously using fund balance in the budget to offset the costs of ongoing capital improvements and other one-time types of expenditures. The City also uses fund balance to set aside a contingency for the General Fund operating budget.

The Recommended Budget for FY 2020 includes the use of the Commitment to School Capital Funding for the first time. The original amount committed for this purpose is \$1,000,000. These funds were set aside during FY 2017 to help with future school capital needs.

## Use of Fund Balance in FY 2019 Adopted and FY 2020 Recommended Budget

Use of Fund Balance	FY 2019 Adopted	FY 2020 Recommended
<b>Fund Balance – Committed for Capital</b>	\$3,180,000	\$2,723,000
<b>Fund Balance – Committed for Capital – Schools</b>	\$ -	\$661,000
<b>Fund Balance – Jail Stabilization Fund</b>	\$ - **	\$635,000
<b>Fund Balance - Unassigned</b>	\$775,000	\$500,000
<b>Total</b>	<b>\$3,955,000</b>	<b>\$4,519,000</b>

\*\*The FY 2019 Budget assigned \$605,000 to the Assignment for Jail Stabilization in accordance with policy.

### Human Resources Highlights

#### *Cost-of-Living Adjustment*

The Recommended Budget for FY 2020 includes funding for a 2.5% cost-of-living adjustment effective July 1, 2019. Periodic cost-of-living adjustments are essential in maintaining the City’s competitive position in the labor marketplace, both in terms of recruitment and retention. The cost of the adjustment is \$650,883, including wages and associated benefits, in the General Fund. The total cost for all funds is \$755,262.

#### *New Positions*

As part of the budget process, various City Departments and agencies requested nineteen new positions. This is driven in part by both the City Council priorities and by the City’s recent growth, both in terms of population and in terms of developed areas. However, the additional pressure placed upon the City budget by a variety of factors, including the additional costs for schools, salaries and wages, social services, the jail, among others, limited the number of new positions recommended for funding in this budget. The Recommended Budget includes three new full-time positions, plus funding adjustments for two additional positions added mid-year.

#### *Assistant Commonwealth Attorney*

The City of Fredericksburg Police Department was a pioneer in the region in the adoption of body cameras for patrol officers. Body camera recordings provide an outstanding record of evidence for criminal trials.

The Commonwealth’s Attorney has noted, however, that the additional evidence has increased the amount of preparation work for trial, as recorded camera footage must be reviewed and analyzed. This work is in addition to traditional trial preparation work, such as interviewing witnesses, interviewing law enforcement officers, and otherwise preparing the court case for the prosecution of criminal offenses.

This is a state-wide phenomenon, and there is action by the General Assembly to require an Assistant Commonwealth Attorney position be added per every 75 body cameras in use by the

Police Department. The Fredericksburg Police Department currently maintains 89 body cameras, so one position would need to be added under this requirement.

The Recommended Budget includes an additional Commonwealth Attorney position to assist with the additional preparation required by the additional evidence. The cost of the new position is \$99,091, including salary and benefits.

#### *Public Works – Street Sanitation*

The Public Works Department requested an additional Crew Leader position in Street Sanitation to assist with the growing workload in that area.

The new position will act as a “litter liaison,” and coordinate with the R-Board and the Rappahannock Regional Jail litter crews for routine roadside litter collections in the City, coordinate cleanups of illegal campsites on City property as needed, and coordinate with other groups such as Fredericksburg Main Street on various litter and trash collection activities. The position will also assist in improving the monitoring of existing refuse collection accounts, and help ensure that appropriate carts are issued and removed as accounts are opened and closed.

The cost of the position, including both salary and benefits, is \$71,500.

#### *Fire*

The City’s Fire Department requested a Deputy Chief of Operations to provide for additional coverage and assistance in the administration of Fire Department operations. Among other duties, the Deputy Chief of Operations would provide for additional oversight and administrative support for the City, including emergency management and EMS.

The City has invested in additional personnel in the fire service over the last several fiscal years in effort to expand the City’s hours of available service for emergency medical calls. The City has doubled the full-time personnel in the EMS division since FY 2014, from eight full-time employees to sixteen. The expansion of service and personnel has added to the need to restore the Deputy Chief of Operations, which is a position that became vacant and for which funding was eliminated during the Great Recession.

The cost of this position, including salary and benefits, is \$96,354.

#### *Internal Re-adjustments to Current Positions*

##### *Public Information Officer*

The City for several years has acknowledged a need to improve our communications efforts by funding a City-wide Public Information Officer. The advent of the Internet and social media has fundamentally changed the process by which communications occurs between citizens and their local governments, and made the need for a Public Information Officer position even more pressing. The Recommended Budget includes in FY 2020 a separate department which will fund the position, plus small amounts for training and supplies.

The City Manager has re-allocated resources in the FY 2019, largely from Parks, Recreation, and Special Events, to assign existing personnel in that Department to this role. In FY 2020, the Recommended Budget creates a separate budget for this position and removes all remaining funding

from Parks, Recreation, and Special Events. The cost of this position for a full year, including salary and benefits, is \$93,020.

*Parks, Recreation, and Special Events*

The City’s Parks, Recreation, and Special Events Department has been adding park facilities recently, and the number of special events in the City has grown in recent years. During FY 2019 several adjustments were made to assist in meeting these service demands.

The last addition to the Department took place in 2015, in the Supervision division. Budget cuts due to the Great Recession have not been fully restored in this area of City operations. Internal adjustments were made to transition a part-time employee to a full-time employee in the Parks Maintenance division, which helps both in parks maintenance needs and in the management of special events.

The City will be increasing the active park offerings during FY 2020, as the Riverfront Park will be under construction. The FY 2020 recommendation does not include an additional full-time position to help maintain Riverfront Park, but this will more than likely be included in the FY 2021 budget.

*Health Insurance*

Based upon a positive health insurance renewal from Anthem, the City has been able to reduce overall premiums by 4%. The budget number for health insurance on a Per Employee Per Year basis has decreased from \$13,200 in FY 2019 to \$12,670 in the Recommended Budget for FY 2020 – a 4% decline. This results in savings in the General Fund of \$196,895.

The City has a goal to decrease the employer’s share of premiums to 90% for “employee-only” and “plus one child.” The “plus spouse” and “plus family” enrollment options are recommended to decrease to 80% employer share, again, over time. The current budget recommendation advances along that path for the two plans with the vast majority of employees.

	Current	Proposed	Eventual Target
Employee Only	5%	6%	10%
Employee + Child	7%	8%	10%
Employee + Spouse	17%	18%	20%
Employee + Family	17%	18%	20%

Based upon this proposal, the net increase for most employees is between \$4 and \$8 per month depending upon the plan that they are enrolled in and the level of dependent coverage selected.

The proposal also includes having level premiums for employees enrolled in the consumer-driven health plan, which is the least expensive insurance option for City employees. There are twenty-three employees currently enrolled in this plan.

*Turnover Credit*

The FY 2020 budget includes a Turnover Credit of \$250,000, which is the same as the FY 2019 budget. The turnover credit lowers the overall expenditure number in the General Fund.

The turnover credit is entered as a negative number in General Fund Expenditures at the beginning of the fiscal year. Based on prior experience, departments will experience turnover throughout the year as employees separate from City employment for various reasons. During the year, budget authority is transferred from departments to the turnover credit as savings from turnover is realized. At the close of the fiscal year, the turnover credit will be zero as a result of these activities.

#### *Part-time Regular Employees and Paid Time Off*

The budget also includes a proposal to provide part-time regular employees with at least one year of service with the equivalent of 24 hours (three days) of paid-time off. The City has many employees who are in part-time status, and the extension of paid leave to these valuable employees will lessen the impact to them of becoming sick or otherwise going on leave. The proposal is for the City to grant the leave at the beginning of the year, and the hours would not roll-over or be carried forward, and would not be paid out upon separation.

The cost of this proposal is estimated to be \$40,000, which is funded between the General Fund and the Transit Fund, which has a large number of part-time regular employees.

## City Schools

The recommended budget includes an increase in the transfer to City Schools of \$1,000,000, for a total of \$29,844,710. Including the City's transfer to support Head Start of \$215,500, the total transfer to the Fredericksburg City Schools Operating Fund is recommended to be \$30,060,210. This represents a 3.44% increase in the transfer for schools and Head Start. The transfer to City Schools is the largest item in the City's General Fund.

The Fredericksburg City Public Schools request in their budget adopted on February 4 requested a total transfer from the City of \$2,125,515 – or, a total transfer of \$31,185,725. This would have represented a 7.31% increase in the school transfer from the current year. The FCPS request would support a 5% salary increase and 19 additional instructional positions. It should be noted that the FCPS budget followed the Governor's proposed budget's guidance for proposed state funding, and the FCPS budget will need to be amended based upon the results of the General Assembly session which concluded in late February.

The population growth seen in the City is reflected in enrollment growth in the Fredericksburg City Public School system.

## Fall Membership (September 30) Report – Enrollment<sup>2</sup>

FY 2011	3053
FY 2012	3106
FY 2013	3181
FY 2014	3277
FY 2015	3306
FY 2016	3356
FY 2017	3386
FY 2018	3442
FY 2019	3533

As a note, the current overall capacity of the system at the four main schools is 3934.

The City Manager’s Recommended Capital Improvements Plan, which covers FY 2020 – FY 2025 does include funding for two expansions of existing schools – one at Lafayette Upper Elementary School and one at James Monroe High School. These two projects will ensure that there is sufficient school building capacity within the system to meet the system’s needs for the next several years.

### Children’s Services Act Fund

The City’s funding for the Children’s Services Act “CSA” Fund is recommended to increase in FY 2020 to \$1,480,899. The City’s transfer from the General Fund is \$1,480,000 – a major increase from the FY 2019 transfer of \$940,000. The remaining amount is a use of the residual fund balance of the Children’s Services Act Fund.

The overall fund is a combination of state and local funding to meet the needs of identified at-risk children in the community for a variety of services. The City’s population of children served has increased in recent years, as has the cost of special education day placements for the children served by CSA. The overall fund, including state revenue, is recommended for funding at \$3,924,510 in FY 2020. By contrast, the original adopted budget for FY 2019 for the CSA Fund is \$2,794,989.

### Regional and Local Partners

#### *Central Rappahannock Regional Library*

The budget includes a significant increase in the funding for the Library on the part of the City. The FY 2020 Recommended Budget includes support for the Central Rappahannock Regional Library of \$1,463,835 which is an increase of 12.52% over the FY 2019 funding of \$1,300,990.

The Library’s overall costs for the Local Administrative Center has increased, which is part of the increase for the City’s share of funding. In addition, the Library is back to a share of funding based upon the locality use, and the City’s share of circulation is approximately 12% of the total circulation. The total Library budget is \$12,870,412.

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<sup>2</sup> Virginia Department of Education, Superintendent’s Annual Reports.

### *Rappahannock Regional Jail*

The City will face a significant increase in the cost for the Rappahannock Regional Jail in FY 2020. The current fiscal year (FY 2019) showed a significant decline in costs from FY 2018 and prior years. The recommended amount in FY 2020 is more consistent with prior fiscal years in terms of the City's requirement to fund the Rappahannock Regional Jail.

### **Historical Funding – Rappahannock Regional Jail**

<b>Fiscal Year</b>	<b>Rappahannock Regional Jail Funding</b>
<b>2015</b>	\$3,741,869
<b>2016</b>	\$3,917,709
<b>2017</b>	\$3,861,804
<b>2018</b>	\$4,327,955
<b>2019 (Budget)</b>	\$3,120,000
<b>2020 (Recommended Budget)</b>	\$4,080,017

In FY 2019, the Jail utilized remaining bond proceeds to help offset debt service costs for that year. This one-time activity helped the City and the other jurisdictions save significantly on jail debt service in FY 2019.

The City Council has established a Jail Stabilization Fund to help smooth out the annual increases and decreases in the City's contributions to the Jail budget. In FY 2019, in accordance with that policy, the City set aside \$605,000 of the savings from that year's decrease in jail funding to add to this reservation.

In FY 2020, the City will use, rather than add to, the Jail Stabilization Fund. This helps to offset the major increase in the City's requirement to fund the operation of the Rappahannock Regional Jail. The amount of the Jail Stabilization Fund used to offset the increase in the FY 2020 Rappahannock Regional Jail Budget is \$635,000.

### *Rappahannock Juvenile Center*

The City's cost for the Rappahannock Juvenile Center is set to decline from \$467,000 in the FY 2019 original adopted budget to \$413,236 in the FY 2020 Recommended Budget. The City's share of the cost of operations at the Center declined from just over 13% to 11.48%, based on the share of usage at the Center.

### *Rappahannock Health District & Rappahannock Area Community Services Board*

The Rappahannock Health District is recommended for level funding for FY 2020, at \$414,280, which is consistent with their request. The RACSB is recommended for total funding of \$286,306, which is an increase of 5.1% over the FY 2019 amount, and is also consistent with their request.

## **Baseball Stadium Fund**

FY 2020 is the first fiscal year where a partial impact of a new multi-purpose baseball stadium in Celebrate Virginia South will impact the City. The timeline for the construction of the stadium is for construction to be underway for much of the fiscal year, with an opening in April 2020 to coincide with the 2020 minor league baseball season.

The City has agreed to fund \$1,050,000 per year for Potomac Baseball, LLC, in quarterly installments. The first quarter payment would be due in July 2020 for the April – June 2020 quarter. The Baseball Stadium Fund includes an amount of \$262,500 in payment to Potomac Baseball, LLC in conjunction with the agreement.

The City proposes to offset this payment by recording tax revenues related to the stadium and team operations in the Baseball Stadium Fund, which would be a Special Revenue Fund for the City. Affected revenues would include real estate taxes, personal property taxes, business license taxes, meals taxes, admissions taxes, and sales taxes. The City's revenue from the license for outdoor concerts is also part of this fund and accounted for here as well.

The Fund also includes a small amount for payments to the team for parks and recreation programming, as allowed under the agreement for special services or operations.

The Baseball Stadium is forecast to be a balanced fund, with revenues equal to expenditures. There is no transfer from the General Fund included in the proposed budget for FY 2020. In the future, any balance forward would be available to help meet the City's future obligations under the agreement.

The total appropriation recommended for the Baseball Stadium Fund is \$267,500.

## Stormwater Management Fund

The budget recommendation for the Stormwater Management Fund (Fund 229) is for a total appropriation of \$898,304. This is an increase of 54.5% from the FY 2019 original adopted budget of \$581,323.

The Stormwater Management Fund includes the City's efforts to meet the mandates of the Municipal Separate Storm Sewer ("MS4") program permit. The City's MS4 permit requires capital improvements to help clean stormwater runoff before it returns to the Rappahannock River and ultimately, the Chesapeake Bay.

The City also uses the Stormwater Management Fund to assist with the ongoing maintenance, replacement, and upgrading of existing storm sewer culverts and other facilities. The City's Public Works Drainage crew was moved to the Stormwater Management Fund in FY 2019. The City's Stormwater Management Fund is a relatively new fund, and the City's General Fund continues to support major capital projects related to stormwater, as well as a transfer to support the operations of the Stormwater Management Fund in FY 2019.

These maintenance activities are recommended to continue in FY 2020. There is a major pipe replacement project in Huntington Hills that is recommended for construction in FY 2020. The proposed Capital Improvements Plan also identifies major pipe replacements in Learning Lane and other parts of the City.

The future capital improvements plan also targets a major improvement to Pond D, which is located between State Route 3 and Cowan Boulevard along the Smith Run nature trail. Staff recommends an expansion of Pond D utilizing wetlands and appropriate plantings, which will increase the

treatment of the runoff in that watershed to the point where the City will be able to meet mandated goals for removal of nutrients. The cost is significant – an estimated \$10,000,000. The City will be applying for available stormwater funds from the Commonwealth to assist in paying for this project, on a 50/50 basis, but local funds will be needed as well.

In order to support these projects, the recommended budget includes a \$0.01 per \$100 value increase in the real estate tax rate. The Stormwater Management Fund will have two pennies in revenue assigned to it, for a total of \$800,000 in revenue. The additional revenue in the Fund enables the FY 2019 General Fund Transfer of \$134,000 to the Stormwater Management Fund to be eliminated. In addition, in FY 2020 the Stormwater Management Fund will transfer \$300,000 to the Public Works Capital Fund, which does not completely cover the cost of the current year stormwater improvements but it does lower the support for stormwater projects needed from the General Fund.

## Other Operating Funds

### *City Grants Fund*

The City Grants Fund is included in the FY 2020 recommendation for \$1,512,484, which is a decline of 5.8% from the FY 2019 original adopted budget of \$1,605,545. The City Grants Fund is amended from time to time throughout the fiscal year as the City receives grant awards. The transfer to the City Grants Fund from the General Fund is \$308,000 which is an increase of 19.3% from the FY 2019 transfer of \$258,096.

### *Social Services Fund*

The City's Social Services Fund accounts for the operations of the City's Department of Social Services. The FY 2020 recommendation is for funding in the amount of \$6,411,125, which is an increase of 4.6% from the original adopted budget in FY 2019 of \$6,126,905. The transfer to the Social Services Fund from the General Fund is \$1,000,000 which is an increase of 6.4% from the FY 2019 transfer of \$940,000.

### *Blight Abatement Fund*

The City's Blight Abatement Fund is recommended for level funding in the FY 2020 recommended budget, at an amount of \$95,000.

### *Fredericksburg Opportunity Fund*

The Fredericksburg Opportunity Fund, which assists with various economic development activities as the need arises throughout the year, is recommended for funding at \$75,000 in FY 2020. This is the same funding level as FY 2019.

### *Water Operating Fund & Wastewater Operating Fund*

The Water Operating Fund is recommended to be funded at \$5,735,209, which is a 10.4% increase over the FY 2019 original adopted budget level of \$5,193,594. The Wastewater Operating Fund is recommended to be funded at \$9,367,381, which is a 19.1% increase in the FY 2019 original adopted budget level of \$7,862,561.

Both funds are impacted by the increase in debt service requirements related to the 2018 Bond Issuance, which included projects related to both the water distribution system and the wastewater collection system throughout the City.

The City currently has a rate study underway which will provide recommendations to the Council concerning water and sewer rates that will be needed over the next several years to meet the challenges posed by the major capital improvements and the associated debt that will be needed in the next several years.

The City Manager's Recommended Budget currently includes a ten percent rate increase for water and for sewer, which will provide a start in meeting the funding needed in these two areas. For a residential user using 4500 gallons per month, the estimated increase is approximately \$4.93 per month.

#### *Transit Operating Fund*

The Transit Operating Fund supports the ongoing operations of the FREDericksburg Regional Transit bus system, which serves the City and several surrounding counties.

The Transit Operating Fund is recommended to be funded at \$6,552,221, which is an increase of 9.6% over the FY 2019 budget level of \$5,979,624. The Transit Fund does include an expansion of service for Stafford County, funded at the request of Stafford County. The Transit Fund recommendation also includes an increase for the replacement of several buses in FY 2020.

The City's share of funding for the Transit Operating Fund is recommended to be \$480,000, which is the same level as FY 2019. The City uses surplus motor fuels taxes to pay the City's share of FRED Transit operations.

#### *Riparian Lands Stewardship Fund*

The Riparian Lands Stewardship Fund is recommended to be funded at \$95,382, which is a 2.2% increase over the FY 2019 level of \$93,324. This fund accounts for the activities of the City's River Steward who helps patrol the riparian lands along the Rappahannock River owned by the City.

#### *Parking Fund*

The Parking Fund is recommended to be funded at \$733,427, which is a decline of 0.19% from the FY 2019 funding level of \$734,809.

The Parking Fund includes the operations of the Sophia Street Parking Garage, along with some expenditures for parking lots that are currently under lease by the City in the downtown. The service level in the Parking Fund is not recommended to change in FY 2020.

#### *Celebrate Virginia South Community Development Authority Fund*

The Celebrate Virginia South Community Development Authority utilizes the City as a fiscal agent for the billing of the special assessments required for their debt service. The annual amount included in the budget is recommended to be the same as the current year, at \$1,746,150.

## City Manager's Recommended Capital Improvements Plan

The City Manager's Recommended Capital Improvements Plan is included and covers Fiscal Years 2020-2025. The first fiscal year, FY 2020, represents the current Capital Budget. Future fiscal years are considered planning years.

## Summary of Highlighted Projects

### *Gateway Boulevard*

The Gateway Boulevard project consists of the construction of a road between State Route 3 north to Cowan Boulevard roughly parallel to Interstate 95. The construction of Gateway Boulevard opens up property for economic development, and is a key component of the City's package to attract a Veteran's Affairs clinic to the City of Fredericksburg.

The project is debt financed, and has \$2.5 million in engineering and design funds beginning in FY 2020. The City continues to seek alternative funding for all or part of the project through the Virginia Department of Transportation. The project will not be constructed if major economic development partners are not available to assist in the payment of the debt service that would be required if the City were to finance the project without VDOT assistance.

### *Pedestrian Bridges*

The Capital Improvements Plan includes projects in the planning years (FY 2021 – FY 2025) for repairs and renovations to four pedestrian bridges along the Rappahannock Canal path and the Quarry Bridge.

The plan also includes some engineering and design funds in FY 2020 to begin that work on the bridges. The total for the five bridges is \$1,099,000.

### *R-Board Cell F3 Construction*

The City's plan for FY 2020 includes an amount of \$2.5 million for construction of Cell F3 by the R-Board. The City would be a partner with Stafford County for the construction of the next cell. The City's plan is to issue Revenue Bonds for this purpose, and the R-Board would pay the City back for the debt service required through tipping fee revenue received by the R-Board.

### *Motts Run Expansion*

Spotsylvania County serves both major areas of the County and the City through the Motts Run Treatment Plant, and both the County and the City share the responsibility for capital upgrades at the facility.

The County is planning to expand the facility, and renovate some of the equipment. The FY 2020 Capital Budget includes \$491,300 for the City's share of the cost of upgrades to Motts Run Treatment Plant. Another \$10.3 million is included for the remainder of the planning period for additional renovations at the plant.

In addition, the County would like to expand the facility. The Capital Improvements Plan includes an additional \$2.5 million for the City's share of expansion costs, beginning in FY 2021.

## Wastewater Treatment Plant Project

The largest project in the Capital Improvements Plan is the wastewater treatment plant project, which impacts both the City and the County.

The City currently treats wastewater in the context of a long-term agreement with Spotsylvania County. Most of the City's wastewater is treated at the City's Wastewater Treatment Plant, while

some portion is by-passed downstream to the FMC Wastewater Treatment Plant owned and operated by Spotsylvania County.

The City’s Wastewater Plant is relatively older, and would require significant upgrades to the plant within an approximate ten-year time frame to maintain its’ viability. Spotsylvania’s FMC plant is also old, and relatively small, and Spotsylvania County plans to remove it from service in the next few years and expand the County’s more modern facility downstream at Massaponax to handle the additional flows.

This creates a difficult long-term choice for the City. The City can either 1) negotiate a long-term agreement with Spotsylvania County for treatment capacity at the Massaponax Plant and remove the City’s plant from service or 2) upgrade the City’s plant and have a smaller portion of the wastewater going to an expanded Massaponax Plant. The County, and subsequently the City, have undertaken engineering studies to explore the various options and the various improvements associated with each one. Cost estimates will continue to be updated as the project advances, but the rough order of magnitude is correct based upon current information.

The Recommended Capital Improvements Plan includes planning based upon the City successfully negotiating a share of capacity that will be available at an expanded Massaponax Plant. There are parts of these projects that are required either way, such as the reconstruction of the City’s influent pump station.

### **Current Plan – WWTP Improvements**

	Project Start	Project Finish	Total Cost
<b>Massaponax Expansion – City Share</b>	FY 2020	FY 2024	\$30,264,000
<b>Rebuild Influent Pump Station</b>	FY 2023	FY 2025	\$17,100,000
<b>Transmission System Improvement</b>	FY 2020	FY 2025	\$10,350,000
<b>De-commission City Plant</b>	FY 2025	FY 2025	\$2,251,000
<b>FMC – Interim Changes &amp; De-commissioning</b>	FY 2020	FY 2021	\$4,674,200
<b>Total</b>			\$64,639,200

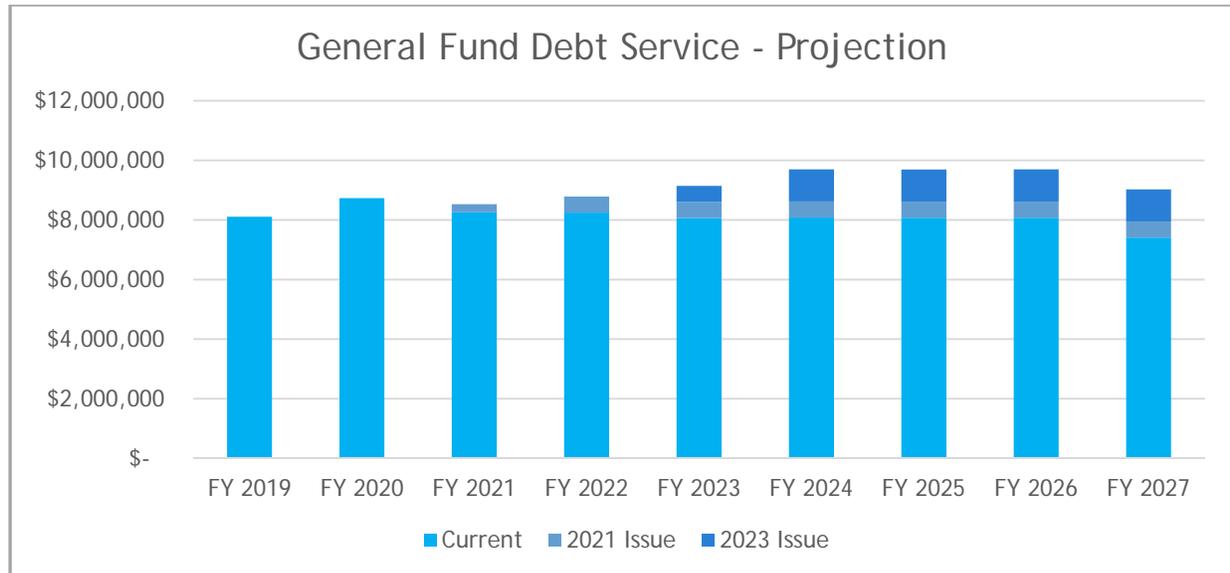
A project of this magnitude will require major increases in the City’s sewer rates over the next few years. The final capital program still requires negotiations with Spotsylvania County, but engineering and design for the expansion program at Massaponax is under consideration by the Spotsylvania County Board of Supervisors in FY 2021. The City is currently engaged with a rate management consultant to examine potential increases in both water and wastewater rates for the next several years.

## **Debt Management Plan**

### *General Fund*

The City’s General Fund debt service requirement for FY 2020 is projected to be \$8.735 million, which does not take into account the yearly credit from the refinancing of the 2004 VPSA Bond Issue by the Commonwealth. The current debt service schedule for FY 2021 is slightly less - \$8.26 million.

The City's General Fund debt burden will increase modestly in the next several years, assuming that the Gateway Boulevard project will not be funded using City General Obligation bonds. The major projects in the General Fund requiring debt issuance include work for a new fire station and renovations to Fire Station #1, work on the Pond D Stormwater Project, and the proposed expansions of Lafayette Upper Elementary School and James Monroe High School.



*Water Fund*

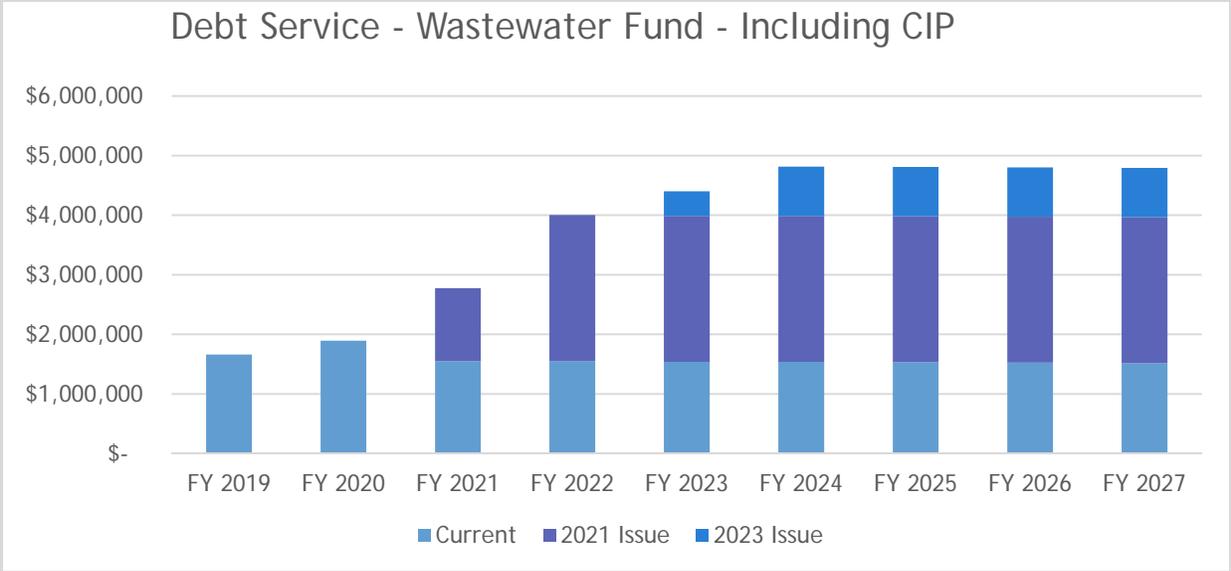
The City's Water Fund debt service is projected in FY 2020 to be \$739,602. Based on the current schedule, the Water Fund debt service would decline to \$601,207 in FY 2021, and remain at roughly \$585,000 beginning in FY 2023 for the next several years.

The Recommended Capital Improvements plan includes the City's share of cost for a variety of improvements and expansion at the Motts Run Water Treatment Plant. The additional debt service planned in the Capital Improvements Plan would increase the debt service requirement to approximately \$1.2 million per year, beginning in FY 2024.

*Wastewater Fund*

The City's Wastewater Fund debt service is projected in FY 2020 to be \$1.89 million. Based on the current schedule, the wastewater debt service would decline slightly to \$1.55 million in FY 2021. This decline represents the retirement of the short-term portion of the 2015 bond issue.

The City will need to work very carefully with Spotsylvania County to manage the consolidation project between the three current plants serving the City and the County. To the extent possible, the City will need to extend the life of the existing Wastewater Plant. The consolidation project will require major increases in the debt service schedule and major increases in the rate schedule, based on the current recommended Capital Improvements Plan which is based on the plans currently under consideration in Spotsylvania County.



### Conclusion and Next Steps

The budget document you have before you is the result of many hours of hard work on the part of our departments, Constitutional Officers, local and regional partners, and many others. I would especially like to thank our Budget Manager, our Finance Department, and both Assistant City Managers for their tireless efforts in bringing the recommended budget and the capital improvements plan together.

The FY 2020 budget will also be unusual, at least from a staff perspective, in that FY 2020 will be the first budget administered entirely in the Tyler Munis software. The chart of accounts has changed, although the Finance Department was able to utilize much of the current structure for the City in creating the new account numbers.

Again, these recommendations are fiscally responsible, strengthen public education, and support our workforce, all while meeting the needs of a growing community. They also work to advance Council’s priorities to a point at which staff will be positioned to successfully report on achieving prescribed milestones throughout the upcoming year.

The City Manager’s Recommended Budget will be updated with additional information over the next couple of months. The General Assembly recently concluded its session, and there may need to be changes based on the budget adopted by the Assembly and ultimately signed by the Governor.

I look forward to working with you over the next couple of months to answer any questions you may have about the budget, to update any information that becomes available, and to make any changes you wish to make as you adopt a budget for FY 2020.