

Mayor and Members of City Council,

I am pleased to release for your consideration this evening my recommended budget for FY 2022. We also offer tonight an updated 5 year Capital Improvements Plan.

With our many challenges, I still firmly believe that the City of Fredericksburg has “unlimited potential” – potential we are working to maximize every single day. This budget does not look backwards, but instead enables the City of Fredericksburg to lean forward in a prudent, caring, strategic, and equitable manner. It recommends continued investment in our infrastructure, our neighborhoods and schools, fire and rescue, our environment, and our organizational competitiveness. As I have said in the past, there is nothing we cannot accomplish with the right people in the right places.

As a follow up to your 2016 offsite, in October 2018, you renewed your conversation on who we are - and wish to be 20 years from now. That critical work has helped the City organization more clearly focus resources and attention to what matters most. Your Vision (and Desired Future States, and Priorities) better present clarity of purpose for the City management team and our great workforce. In doing so, we are better positioned to pull in the same direction on priorities, focusing our energy in community building efforts most impactful to our residents, businesses and visitors alike. Significant progress is being made and tracked, as highlighted in our quarterly updates to Council and our Community. As you know, we updated Council on Phase II of the work in December.

Now Council will circle back to set new Priorities for Phase III of our work – tentatively planned for May 13, 14, and 15th. This planned offsite, as promised last December, will focus on setting Council Priorities and advancing your Racial Equity Plan.

The Recommended Budget for FY 2022 is a balanced budget that represents a responsible spending plan for the upcoming fiscal year, again - with an eye to future needs as well. The Recommended Budget also continues to strategically utilize the City’s fund balance to meet the City’s ongoing capital needs.

The City of Fredericksburg is the central locality to the fastest-growing region in the Commonwealth. The annual budget process reflects the City’s efforts to maintain and improve our schools, public safety, services, and infrastructure in a growing region with a strong economy.

The City's departments, officers, and partner agencies strive to meet growing and ongoing service and maintenance needs. Although the City Manager's Office always reduces the departmental requested amounts prior to forming a final recommended budget for Council consideration, the total requested General Fund budget for FY 2022 included requests for 36 full-time positions, and totaled over \$130 million, which suggests the magnitude of growth in demand for City services and infrastructure.

The Recommended General Fund budget is \$102,418,000, an increase of \$7,624,000, or 8.04% from the FY 2021 revised General Fund appropriation of \$94,793,000. (It should be noted, though, that this recommended budget is roughly \$1 million lower than my original FY 2021 recommended budget, offered pre-COVID.) 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.

The FY 2022 Recommended Budget anticipates continued impacts of the COVID-19 pandemic and associated public health mitigation measures. It is important to note that several key revenue sources have proved more resilient than others, but general caution is still required. Specifically, the pandemic continues to exert major impacts on local excise taxes such as meals tax, lodging tax, and admissions taxes. Fortunately, local sales tax collections have proved more resilient in the current economy than initially expected, and other revenues for the City, such as real estate taxes and personal property taxes, are also coming in stronger than anticipated.

With that said, revenue forecasts reflect the expectation of a partial economic recovery from the most severe impacts of the COVID-19 pandemic, accelerating through the second half of FY 2022.

While our economy is generally stable, we must lean forward with continued investments as we continue our community building priorities. With this in mind, this recommendation also includes two general fund revenue increases: a proposed increase of 3 cents to the real estate tax rate, from \$0.80 to \$0.83 per \$100 in valuation, and a new recycling fee of \$3 per billing cycle. These two changes are estimated to raise \$1,350,000 and \$125,000 in FY 2022, respectively. These new monies, in addition to organic growth in revenue, are required to responsibly meet increased community service requirements.

The cost of recycling solid waste has increased dramatically over the past several years. In January 2018, China sharply curtailed the amount of recycled waste it accepts from around the world, which reduced demand for recycled materials. In the past, the R-Board landfill (the landfill jointly owned by the City and Stafford County) received revenue from processors for the recycling that was collected. Since the changes in the marketplace, the R-Board now has to pay processors to accept the materials. The R-Board has begun charging the City a fee of \$50 per ton for recycling to offset the costs that the R-Board pays to handle the material.

Therefore, staff recommends that the City add a fee to utility customers of \$3 / bill (or \$18 per year) to help defray the costs of the R-Board charges along with the costs to the City to collect the recycling and deliver it to the R-Board. This charge would apply to all utility customers, as the entire community benefits from our important recycling program and the extension of the useful life of the landfill facility.

Additionally, as we have discussed over the past several years, the City continues to face challenges related to capital projects in the Water Operating Fund and the Wastewater Operating Fund. FY 2020 marked the first full year of debt service payments for the 2018 bonds that funded a variety of improvements in both the Water and Wastewater Collection systems. Additionally, the current Capital Improvements Plan includes significant additional debt in the next five years, the majority of which is attributable to the potential wastewater treatment plant consolidation project with Spotsylvania County. It is important to again note that this level of capital investment will significantly increase the future debt service payments required in these funds.

The rate model commissioned by the City was completed in late 2019, and as discussed last year it recommended an increase in water and sewer rates. Rate increases will be necessary over the next several years to fund required upgrades to the City's critical water and wastewater infrastructure. Consistent with the rate study, this budget recommends, after no increase as originally planned in FY 2021, increases in Water rates by 10% and Wastewater rates by 10% in FY 2022.

Expenditures

Schools:

This recommended budget includes an operating transfer to City Schools of \$30,049,266. The transfer to City Schools is the largest item in the City's General

Fund. There is a total of \$1,267,000 in new monies to City Schools - \$850,000 in operating and \$417,000 in capital.

The School Board initially proposed a City contribution of \$30,427,000, an increase of \$1.2 million over FY 2021 in operating. Major initiatives proposed in the school budget include 4% pay increases, and 13 new instructional positions. The district anticipates potential additional federal COVID-19 funding and potentially new state monies, but those amounts are not known at this time.

The School system is experiencing serious competitive compensation challenges, and this budget is meant to reflect that real challenge. Additionally, the City Capital Improvement Plan has simple placeholders for capacity to address growth at our schools. These are listed as “expansions” because that is how they have been listed in the past, but that is NOT to communicate that a decision to expand schools has been formalized. A joint committee of School and City leaders (Councilwoman Devine and Councilman Graham representing the City) continue to analyze 5 potential solutions. They are expected to report out this summer.

Although final decisions are months off, this budget recommends an additional \$1 million from the City’s Unassigned Fund Balance move to the existing \$1 million that already exists in an “Assigned School Capital” line in the budget. The Superintendent has verbally agreed to match that number from the Schools Fund Balance. If approved, the City of Fredericksburg would have \$3 million reserved as a down payment to the soon to be identified school capacity plan.

Human Resources Highlights

Salaries

Significant wage pressures and regionally historic competitive opportunities for strong professionals is evident in recruitment efforts over the past several years. This is certainly the case in public safety sectors, but it is impacting professionals across the board. We have maintained our commitment to ensuring that the City of Fredericksburg become the employer of choice in the region – with efforts to launch City organizational values, reinstating employee recognition efforts, and increasing opportunities for training and higher education, among other efforts. With Council’s great assistance we are staying the course. But more is needed.

Both Stafford and Spotsylvania counties have outpaced the City of Fredericksburg in wage growth across the board. This budget attempts to respond to that pressure by offering a general raise for all employees of 3% - effective the first pay period in July 2021.

This Budget recommendation also requests funding for a class and compensation study to again study wages region wide. The last time this occurred was in 2017, and at that time there was a commitment to do this work again – every 3-5 years. I believe FY 2022 is the time to do this important work.

A bit of deeper dive on public safety compensation is warranted. The north-central Virginia region continues to experience growing wage competition for public safety personnel – Police, Fire, E-911, Emergency Medical, and Sheriff Deputies. In 2019, the City commissioned a human resources consultant to analyze the regional public safety labor market and make recommendations concerning increasing compensation to stay competitive.

In late 2019, the City Council amended the budget mid-year to provide for additional salary increases and adopted an increase in multiplier for the Virginia Retirement System. Additionally in calendar year 2020, the City implemented the results of the study, which increased pay by 10% for Police & Sheriff Lieutenants & Captains, Fire Battalion Chiefs and Captains, and increased pay by 5% for Police & Sheriff Sergeants & Detectives, Fire Lieutenants, and pay by 5% for all public safety employees serving 10 years or longer.

Additionally, Public Safety employees were held harmless from the 2-3% pay reduction instituted for part of FY 2020 and FY 2021 in response to the pandemic, and were included in the 1% mid-year increase with all other City employees – when the pay reductions were reversed. Lastly, Council approved \$3500 increases across the board for law enforcement personnel in an effort to keep salaries competitive as we work to fill an unacceptable number of vacancies in the ranks.

These are historic investments in public safety. This FY2022 Budget further invests in our valued public safety professionals by funding growth ladders for the Fire and Rescue Department. If adopted, this funding will enable a fire fighter to advance training and credentials, while climbing in rank and compensation. And this budget recommends public safety stipends for health care coverage beyond retirement, until Medicare eligibility. All of these efforts are meant to strengthen retention and attraction efforts long term in the City. We want our highly valued public safety professionals to grow here, be promoted here, and to ideally stay in Fredericksburg for their entire careers.

New Positions

Again, as part of the budget process, various City Departments and agencies requested 36 new positions (27 full-time, 6 converted part- to full-time, and 3 part-time). These requests are driven in part by City Council priorities and by the City's recent growth, both in terms of population and in terms of developed areas. Upon difficult review by the City Manager's office, the Recommended Budget recommends that a net of 5 new general fund positions be funded. In addition to the General Fund, this budget recommends 4 positions in the Transit Fund, and one in the Wastewater Operating Fund. ...A summary detail on new positions created in the FY 2022 budget is provided in the Personnel section and presented within program narratives.

Some new position highlights:

- The Economic Development & Tourism Department requested a new full-time Assistant Director of Economic Development and Tourism (dedicated for Tourism). This is the first step in the Plan of Action set forth in the study *Tourism 2020* recently completed by DMO Proz and adopted by City Council last February.
- Parks, Recreation, Events will grow by one maintenance worker to accommodate increased workload on Riverfront Park, and throughout the Parks system.
- The Voter Registrar requested a new assistant to accomplish new state election mandates.
- The Police Department requested three new positions to meet the recommendations of a recent staffing study, and this budget funds one position at January 1, 2022.
- A new Fire Captain is required to manage a growing EMS Division.
- A new Property Maintenance Inspector is needed to manage compliance issues related to tall grass, abandoned vehicles and other community nuisances.
- A new Program Manager will assist in Utilities with projects and a critical Fats, Oils and Grease (FOG) program to ensure state compliance is met. We will also be discussing the potential for creating a standalone Utilities Department in the future.
- Environmental Sustainability Manager to assist the City in advancing on the important environmental goals adopted in late 2019 by Council.
- And an Equity Officer to assist the City in advancing the Racial Equity Plan adopted by Council.

This last position, the Diversity/Equity Officer, will be the first full year of funding for this important new full time position. Council will certainly recall that, after many conversations, last summer I detailed Mrs. Angela Freeman to the role of Diversity, Equity and Economic Advancement Officer from her position in the Department of Economic Development and Tourism. She has done significant work to assist and guide the City organization, both internally and externally, through difficult work. Mrs. Freeman has advanced us in so many ways, to include ongoing efforts to tell a “more complete history,” efforts to craft and advance Council’s Racial Equity Plan, efforts to gain input from the community through additional ISCS engagement last Fall, and in so many other ways.

I am sad to say though that Mrs. Freeman is going back to the private sector and will be leaving us later this month. She will offer one more brief tonight, and leaves us with a good hand off and some momentum. ...Angela, I know you are listening – I am going to miss you, your candor, your wisdom, your guidance. I take some comfort in that Mrs. Freeman will still be local, and has agreed to assist in recruitment of her replacement. ...Thank you Angela.

The City of Fredericksburg is committed to advancing important equity work, and we have established an internal committee of Directors to include Lesley Moore, Chuck Johnston, Brian Layton, and Jamie Jackson. They will be working in the coming months to bring recommendations forward to advance this effort internally to our organization – leaning on GARE principals. Mrs. Freeman will talk more about GARE later this evening.

In summary, compensation and jail funding are the major drivers in this coming budget. Health insurance premiums are only anticipated to increase 1%, offering some good news. Social Services continues to accomplish important work in our community, but will require additional support moving forward. Partner Agencies have received level funding in this recommended budget, an acknowledgement of the good work they do in our community. ...We have scheduled 5 meetings to discuss all of these matters in greater detail.

Conclusion and Next Steps

The City Council will be reviewing these recommendations for the next several weeks, and the staff is happy to facilitate changes to the budget prior to adoption.

The public hearing on the budget is scheduled for Tuesday, April 20, 2021, at 7:00 p.m. Related public hearings for tax rate increases or service fee increases will also be held at that time. The City Council will need to adopt the budget for the

schools by May 15, 2021, and the remainder of the budget by June 30, 2021. Staff recommends working towards adopting the entire budget by May 15, if possible.

This year is somewhat unusual in that there are major changes that could occur from federal and state sources. The General Assembly completed the adoption of its budget during the last week of February, and it is submitted to the Governor for approval. The Governor will need to act by the end of March, and the veto session is scheduled for April 7. The state budget currently includes additional state funding for compensation for state-supported positions that will need to be evaluated for potential impact on the City's budget in the coming weeks.

There is also the potential for major federal legislation that will provide additional support for state and local governments. As of this writing, Congress appears to be wrapping up the next pandemic relief plan, and then it should head to the President for signature later this week.

As the legislation currently stands, the City may receive approximately \$5 million to further the economic recovery and provide additional relief related to the pandemic. It is unclear at this time what, if any, will be the final amount of relief provided to the City, and if relief is provided, what the guidance will be on how the funds may or may not be used. This may become clear during City Council budget review.

As a preliminary plan, if the City were to receive \$5 million in federal relief, preliminarily the City staff would seek and recommend projects that are already planned and included in the budget, which would otherwise be supported through planned debt – such as Downtown infrastructure, fire station construction and school capacity advancements.

The staff would also recommend utilizing the potential federal funds to assist in homelessness prevention or services. I believe the City should allocate \$2 million, of the potential \$5 million federal monies, to this issue, and seek matching monies from the region. I have asked the CoC to support a Homelessness Summit this summer so that all parties can come together to build consensus on a plan to greatly reduce unsheltered homelessness in our region if this money materializes.

In conclusion, the Recommended Budget 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, our Directors, and both Assistant City Managers for their tireless efforts in bringing the recommended budget and the CIP.

Again, these recommendations are fiscally responsible, strengthen public education, and support our workforce, all while meeting the needs of a growing community. This budget was crafted with a keen focus on your Desired Future States: **Employment Epicenter, Public Services, Learning is a Way of Life, Historic Preservation, Cultural Vibrancy, Green and Clean Environment, and Transportation...**

The City Manager's Recommended Budget will be updated with additional information over the next couple of months. As the Virginia and the federal government finish their work on related financial matters, we will be certain to share that information with you and the public.

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 2022.

Thank you.
