



City Manager's  
Recommended  
Budget  
Fiscal Year  
2017



City of Fredericksburg,  
Virginia



TO: Honorable Mayor and Members of the City Council  
FROM: Beverly R. Cameron, City Manager  
RE: City Manager's Recommended Operating and Capital Budget FY 2017  
DATE: March 8, 2016

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## **INTRODUCTION**

I am pleased to present the City Manager's Recommended Budget for Fiscal Year 2017. The total General Fund budget for FY 2017 is \$90,289,500, a 1.95% increase over the FY 2016 base adopted budget (net of transfers to Capital). The General Fund is the primary fund for most City operations. The budget document also includes recommendations for the following operating funds: City Grants, Stormwater, Social Services, Comprehensive Services Act, Water, Wastewater, Transit, Parking, and Celebrate Virginia South Community Development Authority Funds.

This document includes recommendations for the City's capital budget for FY 2017, along with a recommended Capital Improvements Plan for FY 2017–FY 2021. The capital budget continues to improve the City's position by addressing deferred major maintenance, equipment, and technology needs.

Presentation of the City Manager's Recommended Budget represents the start of City Council's annual budget review process. The staff and I have prepared a responsible spending plan for FY 2017 which reflects many of your goals and initiatives.

## **OVERVIEW OF BUDGET RECOMMENDATIONS**

The Recommended Budget maintains the existing real estate tax rate of 82 cents per \$100. The real estate tax rate has increased 8 cents since Fiscal 2014 to provide for a number of important City Council initiatives. The Recommended Budget for Fiscal 2017 uses modest revenue growth from existing sources to support expenditure increases.

Major changes in the budget include:

- A 2.0% Cost-of-Living increase for City employees
- Two new positions in the General Fund (one full-time E911 Communications Officer, and one part-time Custodian)
- Full-year funding in the operating budget for the Historic Resources Planner and Senior Environmental Planner – positions added after adoption of the Fiscal 2016 Budget

- Payment of debt service for the 2016 bond issuance for capital projects (public safety radio system<sup>1</sup>)
- A General Fund Transfer of \$2,506,400 to support capital projects paid by cash
- A \$150,000 increase in City funding for Fredericksburg City Public Schools
- A 15% increase in budgeted health insurance costs

Other significant recommendations include:

- Setting up a trust for “Other Postemployment Benefits” (OPEB)
- Establishing a rate stabilization reserve for future jail costs

## **ALIGNMENT WITH CITY COUNCIL GOALS AND INITIATIVES**

City Council held a strategic planning retreat October 17—18, 2014. During the retreat, City Council established goals and initiatives for the 2015—2016 Council biennium. These goals and initiatives have provided guidance to the city manager in the preparation of his recommended budget. Many of the city manager’s recommendations address specific initiatives identified by Council. (Please see the attached summary at Tab 8.)

## **MAJOR OPERATING EXPENDITURE HIGHLIGHTS**

### ***City of Fredericksburg Public Schools***

Funding for City Schools represents 30.6% of the City’s General Fund for FY 2017. The recommended transfer for City Schools is \$27,594,710, an increase of \$150,000 over the prior year. The recommended transfer does not meet the School Board’s request for an additional \$734,492 in City funds. Should City Council desire to fully fund the School Board’s request, a two-percent increase in the real estate tax will be required.

The City of Fredericksburg’s school system is a critical service provided to our citizens. The budget reflects a continued commitment to ensuring a high quality public education system. Major expenditure increases for City Schools are due to salary adjustments, higher benefit costs, and hiring additional teachers.

During the past six years, the City’s appropriation for schools has increased 14.8%, from \$24,028,000 in Fiscal 2011 to \$27,594,710 in Fiscal 2017 (proposed). State funding has increased 95.7%, from \$7,113,908 in Fiscal 2011 to \$13,920,290 in Fiscal 2017 (estimated). City Schools have benefited from additional State funding which arose from a change in the Local Composite Index over the past three recalculation cycles. The City’s Local Composite Index for 2016—2018 is 0.6071; down from 0.6134 in 2014—2016, from 0.6511 in 2012—2014, and from 0.7763 in 2010—2012.

In FY 2017, the General Fund will also transfer \$522,000 to the School Capital Fund to provide resources for replacement buses, technology upgrades, and the capital lease of the school bus parking facility.<sup>2</sup>

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<sup>1</sup> Principal and interest payments for the Original Walker-Grant School renovation will not begin until Fiscal 2018.

<sup>2</sup> The School Board requested funding in the amount of \$962,000 for Capital Budget projects in Fiscal 2017.

**Debt Service**

The FY 2017 Recommended Budget includes a General Fund transfer of \$7.352 million for debt service. Total General Fund supported debt is expected to increase by approximately \$203,000 over FY 2016. This increase incorporates debt service estimates related to the public safety radio system. The following is a breakdown of the required debt service transfers for FY 2017.

FY 2017 General Fund Debt Service Transfer	
Transfer to Courthouse Debt Service Fund	\$ 2,325,169
2004 GO School Bonds	\$ 3,426,904
Refunding Credit	\$ (153,884)
Transfer to Education Debt Service Fund	\$ 3,273,020
All Other GO Bonds	\$ 1,504,117
Winter 2016 Bonds (Est.)	\$ 250,000
Transfer to General Fund Debt Service	\$ 1,754,117
<b>FY 2017 General Fund Debt Service Transfers</b>	<b>\$ 7,352,306</b>

*2004 GO School Bonds Refunding Credit:* The City realizes savings from two debt service refundings of Virginia Public School Authority (VPSA) bonds. The City received a credit based upon savings from refunding the total bond issue. The credit has been placed in the Education Debt Service Fund. Each year over the remaining payment cycle the City will appropriate this funding to pay a portion of yearly debt service. This funding method allows for continual savings in our General Fund transfer over the life of the bonds, as opposed to one-time savings that would cause inconsistency in funding needs. The refundings allow us to reduce the General Fund transfer by \$153,884 every year, which includes savings of \$47,400 from the first refunding and \$106,484 from the second. The yearly savings will continue through the final maturity of the bonds in FY 2030.

*Winter 2016 General Obligation Bonds:* The City has plans to issue approximately \$14.525 million of General Obligation debt before the end of FY 2016. Of the proceeds, \$2.025 million will be used to fund the City’s public safety radio system and \$12.5 million will be used to fund improvements to the Original Walker-Grant School. The estimated FY 2017 debt service of \$250,000 is anticipated to be funded through the use of General Fund balance.

The City also plans to issue \$2.88 million of General Obligation debt for transportation improvements related to Fall Hill Avenue. This debt would be issued in Winter 2017 with the first debt service payment in FY 2018. Total debt service for the capital improvements funded through both issuances (Winter 2016 and Winter 2017) is estimated at \$1.3 million in FY 2018.

**Employee Compensation**

The City Manager’s Recommended Budget includes a 2% cost-of-living adjustment for City employees which will take effect the first pay period in July. The adjustment will apply to all full-time and regular part-time employees. The budgetary impact to the General Fund is

\$480,000, including salaries as well as associated increases in taxes, VRS, and the Group Life Insurance Plan.

**Staffing Adjustments**

The past several years’ budgets have included several new positions in an attempt to meet the service demands of a growing City. The Novak Organizational Study and other studies, such as the IT Master Plan, have identified possible positions for additional staffing that would enable the City to better serve the community. Examples include five additional Medics, an additional Police Officer, an IT Computer Technician, and a Purchasing Agent.

The City Manager’s Recommended Budget for FY 2017 includes one new full-time position for an E911 Communications Officer and one new part-time position for a Custodian. The Recommended Budget also includes at a full-year of funding two additional positions that were approved on a partial year basis in FY 2016: the Historic Resources Planner (Community Planning & Building – General Fund) and the Senior Environmental Planner (Community Planning & Building – Stormwater Fund).

**Employee Benefits**

*Health Insurance* – The City Manager’s Recommended Budget for FY 2017 includes additional funding to meet increasing costs for employee and retiree health insurance. The budget for health insurance totals \$5,875,010 in the General Fund and \$7,095,620 across all City funds.

For the City’s group health insurance plan, the following table shows the trend over the past several years, including the FY 2016 “expected” and the FY 2017 “projected” claims and costs based upon the renewal proposal.<sup>3</sup>

Fiscal Year	Total Claims & Plan Charges	Notes
FY 2012	\$4,523,530	
FY 2013	\$5,557,495	Includes run-out with Anthem
FY 2014	\$5,004,200	Cigna Transition – Immature Claims Year
FY 2015	\$5,881,367	
FY 2016	\$5,990,338	Original Expected Claims + Fixed Costs
FY 2016	\$6,300,000	Current Trend Estimate for FY 2016
FY 2017	\$7,086,271	Renewal

The proposed FY 2017 renewal from our insurance carrier reflects a difficult claims year for City employees. The current trend shows \$6.3 million in claims and fixed costs for FY 2016. In addition, the carrier is basing the renewal on inflation factors of 12% for medical and 22% for prescription drugs. City staff is working to examine potential changes that may lower the cost slightly, but overall the City’s claims in FY 2016 have been excessive and that contributes to rising premiums.

The City includes a weighted average premium per employee per year in the budget for all full-time employees. The FY 2016 weighted average for full-time employees is \$12,525; the

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<sup>3</sup> Total Claims and Plan Charges include both the employer and the employee’s share.

FY 2017 weighted average included in the City Manager’s Recommended Budget for FY 2017 is \$14,400, an increase of 14.97%. The growth in the weighted average is shown in this table.

Fiscal Year	Cost Per Full-time Employee	Notes
<b>FY 2012</b>	\$8,500	
<b>FY 2013</b>	\$9,150	
<b>FY 2014</b>	\$10,300	Transition Year
<b>FY 2015</b>	\$12,000	
<b>FY 2016</b>	\$12,525	
<b>FY 2017</b>	\$14,400	Renewal

*Virginia Retirement System* – The City’s total contribution rate for FY 2017–2018 is decreasing significantly, from an employer rate of 15.94% to 12.55%.<sup>4</sup>

The lower contribution rate will result in significant savings for the City for FY 2017 and FY 2018, compared to prior periods. For example, the General Fund budget for VRS contributions by the City in FY 2017 is \$2,401,470. In FY 2015, the actual expenditure in the General Fund was \$3,166,815 – a difference of \$765,345.

The variety of pension reforms undertaken by the General Assembly in recent years should continue to lower the retirement pension costs paid by the City beyond FY 2018. This may or may not be offset by investment returns or changing City workforce demographics.

***Rappahannock Regional Jail***

The City of Fredericksburg is a member jurisdiction, along with the Counties of King George, Stafford, and Spotsylvania, of the Rappahannock Regional Jail. Costs to operate the Regional Jail are generally based upon the prisoner days assigned to the City compared to the prisoner days assigned to the other three jurisdictions. Prisoner days are assigned based upon the location of the offending incident that led to the detention, as opposed to the home address of an offender. The most recent *Jail Cost Report* prepared by the State Compensation Board (Fiscal 2014) shows operating costs of \$54.55 per inmate per day at the Rappahannock Regional Jail, well below the statewide average of \$77.26.

The City’s prisoner days have risen over the past few years, and the City’s share of operating costs for the Regional Jail has increased substantially. However, the City’s proportionate share of usage dropped in FY 2015 and thus creates a temporary reprieve from ever-growing costs. The recommended allocation for the jail for FY 2017 is \$3,853,904 which amounts to a decrease of \$84,816 (-2.15%) over the FY 2016 budget. Overall, the City’s share of prisoner day usage is 23.19% of the total for the four jurisdictions.

Rappahannock Regional Jail	City Contribution	City Prisoner Days
<b>FY 2008</b>	\$3,038,960	85,338
<b>FY 2009</b>	\$3,240,880	89,849

<sup>4</sup> These rates do not include the “member contribution” of 5%, which is now the responsibility of the employees after the funding during FY 2016 of the final “5-for-5” wage increase for employees who were employed prior to July 2012.

Rappahannock Regional Jail	City Contribution	City Prisoner Days
<b>FY 2010</b>	\$3,495,961	87,562
<b>FY 2011</b>	\$3,245,028	80,347
<b>FY 2012</b>	\$2,855,352	96,985
<b>FY 2013</b>	\$3,026,000	110,520
<b>FY 2014</b>	\$3,474,045	117,652
<b>FY 2015</b>	\$3,783,720	108,066
<b>FY 2016</b>	\$3,938,720	117,266 (Projected)
<b>FY 2017</b>	\$3,853,904	-

### **Partner Agency Funding**

The City provides funding to various human services agencies, intergovernmental agencies and other nonprofit organizations that provide arts, cultural, educational and other services to the community. The FY 2017 Recommended Budget includes approximately \$3.02 million in funding to our Partner Agencies. This includes an increase of approximately \$120,000 or 4.2% over the FY 2016 budget.

*Central Rappahannock Regional Library* – The recommendation includes approximately \$1.34 million for the Library, an increase of approximately \$52,000 or 4% over last year’s budget. Funding for the Library has been relatively flat over the past two fiscal years. The Library used its Fund Balance in FY 2015 and FY 2016 for operating costs and to fund a 2% cost-of-living salary increase in FY 2016. The City had planned to include an increase in the FY 2016 budget, but did not since the other participating jurisdictions kept funding level. It is expected that the other jurisdictions will include an increase to the Library’s budget in FY 2017.

*Rappahannock Area Community Services Board (RACSB)* – Included in RACSB’s request is funding for a second Child and Adolescent Psychiatrist for the Mental Health Outpatient program. The RACSB psychiatrist is the only child psychiatrist in the region to accept Medicaid. This physician’s current caseload is 960 patients and the average appointment wait time is twelve weeks. Also included in the request is a 2% cost-of-living adjustment for employees. The recommended budget of approximately \$247,000 includes an increase of 14.8%, or \$32,000. If the other participating jurisdictions do not fund these requests, the City’s funding will be level with FY 2016.

*Germanna Community College* - Germanna Community College operating funding is recommended at \$8,719 for FY 2017. In addition to the operating funding, the City Manager’s Recommended Budget includes a capital commitment of \$35,000 per year for 7 years, totaling \$245,000, to pay for a share of the cost to construct the Science, Engineering and Information Commons Building at the Fredericksburg Campus. FY 2017 will be the fourth year of this contribution to Germanna Community College.

Additionally, the City is partnering with Germanna Community College to provide technical workforce training in the City of Fredericksburg through the Fredericksburg Center for Advanced Training (Fred CAT). The focus is on high wage skilled positions that often require postsecondary education and training, but generally not a college degree. Fred CAT’s goal is to expand needed career programs and provide a pipeline of trained, skilled employees in support of the City’s manufacturing, construction, and industrial trades businesses. The total project cost is \$1.3

million over five years. The City will provide approximately \$25,000 per year for the next five years for a total of \$125,000. The Fredericksburg EDA has committed to match the City's funding level.

*Rappahannock Area Office on Youth (RAOOY) and Chaplin Youth Center* – The City Manager's Recommended Budget for RAOOY / Chaplin Youth Center is approximately \$55,700, an increase of \$14,500. The request reflects an increase in health insurance costs, the implementation of a new case management system, and increases in the City's utilization rate of the Agency's programs.

There remain two issues that could have additional impacts on the Agency's FY 2017 budget. First, the Virginia Juvenile Community Crime Control Act (VJCCCA) may shift funds to services that deal more with 'higher risk' youth than 'lower risk' youth. This would result in a significant decrease in funding from the Commonwealth. Second, the building housing RAOOY is currently for sale by the Stafford County Economic Development Authority. RAOOY has been paying Stafford County rent which is below market rates. If purchased by a private owner, this practice is not likely to continue. The budget impact of these two issues on the Agency has yet to be determined.

*Heritage Festival* - The FY 2017 Recommended Budget includes \$15,500 for the Heritage Festival Committee, a \$3,000 increase over FY 2016. The Fourth of July fireworks display is done in conjunction with Stafford County. The organization which previously provided support for this event can no longer continue in this role. The City and County plan to contract for this service and will share costs related to managing the event. The City's share is estimated at \$3,000.

*Fredericksburg Area Museum* – The FY 2017 budget recommends funding of \$95,975 which is equal to the FY 2016 budget. This level is being maintained in anticipation of the eventual revival of the institution. Additionally, there will be costs associated with maintaining the City-owned museum building.

## **REVENUES**

The City Manager's Recommended Budget for FY 2017 is based on a General Fund with no real estate tax rate increase or other fee increases. The overall budget forecast for the General Fund includes \$1,239,245 in new revenues, which is growth of 1.45% over the prior year. The City Manager's Recommended Budget includes fund balance use in the amount of \$3,716,400, which is an increase of \$496,400 over the prior year's use. The increase in fund balance usage is attributed to a larger transfer to the capital funds.

### ***Real Estate Tax***

The General Fund forecast for real estate tax revenue is \$28,815,000 – an increase of \$200,000 over the FY 2016 budget amount. The City is forecasting growth of \$25,000,000 in taxable real estate, based on the preliminary estimate of the appraiser.

The City is currently undertaking a real estate re-assessment, and the results of the re-assessment are not yet available. Once the preliminary numbers are available, City staff will calculate a tax rate that is equivalent to the current rate, as defined in the state code. The City's current real estate tax rate is \$0.82 per \$100 valuation.

### ***Personal Property Tax***

Personal property tax revenue is projected at \$8,150,000 for FY 2017. This is an increase of 1.88% from the FY 2016 forecast of \$8,000,000.

### ***Meals Tax***

Meals tax revenue is projected at \$10,400,000, an increase of \$450,000 over the FY 2016 budget of \$9,950,000. The City continues to benefit from a thriving restaurant community and this source of revenue in FY 2016 year-to-date has continued to grow.

### ***Sales Tax***

Sales tax revenue is projected at \$11,070,000, the same as FY 2016. Unlike meals tax, sales tax collections have been flat overall. FY 2016 collections year-to-date are on pace to meet budget projections.

### ***Lodging Tax***

Lodging tax revenue is projected at \$1,395,000, an increase of 1.45% from the FY 2016 estimate of \$1,375,000.

### ***EMS Service Fees***

EMS service fee revenue is projected at \$845,000, an increase of 3.05% over the budget estimate of \$820,000 for FY 2016. The Recommended Budget does not propose to increase these fees during FY 2017. However, the additions of staff in the past two years should increase the total calls answered by the Fredericksburg Fire Department, and decrease the calls answered through mutual aid from other jurisdictions.

### ***Solid Waste Collection Fees***

Solid waste collection fee revenue remains the same in FY 2017 at \$981,650. The Recommended Budget does not include a fee increase in FY 2017.

### ***State Revenue – General Fund***

The General Fund receives revenues from the Commonwealth of Virginia for a variety of items, including aid from the Compensation Board for Constitutional Officers, aid for the Registrar, Urban Street Maintenance, and Law Enforcement Assistance (HB 599).

The FY 2017 budget for state aid for these main sources in the General Fund (not including state aid for schools, social services, or the Comprehensive Services Act) is forecasted to total \$5,476,600. This is up significantly from the FY 2016 forecast of \$5,140,200. The majority of the increase is a \$200,000 increase in the forecast for the Urban Street Maintenance payment program. These revenue forecasts will need to be monitored as the General Assembly continues its session.

The state also characterizes the Telecommunications Sales Tax as revenue from the Commonwealth, and that is projected as \$1.75 million in FY 2017. The Personal Property Tax Relief Act amount, which is also considered state aid, remains unchanged at \$1.72 million.

### ***Fund Balance Usage***

The City Manager's Recommended Budget includes total use of fund balance in the General Fund as follows:

<b>Fund Balance Category</b>	<b>Amount</b>	<b>Use</b>
<b>Unassigned</b>	\$500,000	Contingency
<b>Unassigned</b>	\$460,000	Winter 2015 G.O. Debt Service
<b>Unassigned</b>	\$250,000	Winter 2016 Estimated G.O. Debt Service
<b>Assigned for Capital</b>	\$2,506,400	Transfer to Capital Funds
<b>Total Use</b>	<b>\$3,716,400</b>	

## **CAPITAL IMPROVEMENTS PLAN – HIGHLIGHTS OF MAJOR PROJECTS**

The Recommended Budget includes the proposed FY 2017 Capital Budget and the City's FY 2017 – FY 2021 Capital Improvements Plan (CIP).

The Recommended CIP includes both major capital projects that would represent new community facilities, and smaller projects that represent maintenance of existing assets or small improvements to City facilities.

Major community facilities included in the Recommended CIP include:

- New elementary school (FY 2021)
- Downtown parking garage (FY 2020 and FY 2021)
- Fire Station #3 (FY 2018)
- Riverfront Park – Construction (FY 2018).

These major projects are recommended to be financed through future bond issues. Highlights of these projects, and other significant projects, are discussed below.

### **Public Education Capital Fund**

#### *Original Walker-Grant School Renovation*

The City and the School Board have approved a contract to renovate the portions of Original Walker-Grant School built in 1950 and 1961. This facility will be used for the Head Start Program, Early Childhood Special Education, and School Board administrative offices. Funding in the amount of \$12.5 million was approved by the City in FY 2016, and the project is expected to be completed in August 2017.

#### *New School Bus Lot Lease*

The City and the School Board are working with a private developer to design and construct a facility in the City's Battlefield Industrial Park for school bus parking. Funding is included in each of the upcoming years of the plan, based on the projected lease payments. Funding is included in FY 2017 in the amount of \$102,000.

#### *New Elementary School*

The School Board has requested that a new elementary school be placed in the Capital Improvements Plan. The school is projected to be 95,000 square feet and accommodate approximately 750 students. The City Manager's Recommended Budget includes funding for architectural and engineering design in FY 2020, and includes funding for construction of the new

school in FY 2021. The projected construction cost is \$26,000,000. Staff recognizes that this cost is subject to change based on inflation and program design of the facility.

#### *Walker-Grant Middle School Roof Replacement*

The Recommended CIP includes funding to replace the roof at Walker-Grant Middle School. The cost of the project is \$1.2 million in FY 2019.

### **Public Facilities Capital Fund**

The City Manager's Recommended Capital Budget for FY 2017 and the Recommended Capital Improvements Plan include several key projects in the Public Facilities Capital Fund.

#### *Memorial Park Restrooms*

The City Manager's Recommended Capital Budget for FY 2017 includes funding in the amount of \$105,000 for the construction of a permanent restroom facility in Memorial Park. This facility will replace the existing portable restrooms.

#### *Technology Replacements & Other Technology Projects*

The City Manager's Recommended Capital Improvements Plan includes funding in each year for technology replacements, including \$237,500 in FY 2017. The Recommended Capital Improvements Plan includes funding for the replacement of the Enterprise Resource System, in the amount of \$1.5 million over the FY 2018 through FY 2020 period. There is also funding recommended for implementation of the IT Resilience Plan (FY 2017 – FY 2019), funding for a replacement telephone system for the Police Department (FY 2018), and replacement of the Parking Garage access and revenue control system (FY 2018).

#### *Alum Springs Park Projects*

The City Manager's Recommended Capital Improvements Plan includes funding in FY 2020 in the amount of \$1,310,000 for a bridge to replace the existing ford. In addition, the recommended FY 2018 plan year includes \$224,000 for renovations to the restroom facility.

#### *Parking Garage Facilities*

The City Manager's Recommended Capital Improvements Plan includes funding in FY 2018 for the City's agreement to develop an underground parking facility at the Liberty Place development in downtown. The amount is \$2,150,000 in FY 2018 which includes purchase of the parking condominium from the developer and installation of a parking access and revenue control system.

The City Manager's Recommended Capital Improvements Plan also includes a total of \$10 million in FY 2020 and FY 2021 for the development of a second structured parking garage in the downtown.

#### *Planning Area Updates*

The City Manager's Recommended Capital Improvements Plan includes funding in each of the plan years for the development of small area plans. Funding is included in FY 2017 for one additional plan, in the amount of \$75,000. Funding is included in future years for two plans per year.

### **Public Works Capital Fund**

The City Manager's Recommended Capital Improvements Plan for FY 2017–2021 includes several major projects in the Public Works Capital Fund.

### *Fall Hill Avenue Widening Project*

The Virginia Department of Transportation is currently administering the widening of Fall Hill Avenue from the I-95 area to the Rappahannock Canal, and the construction of a new road from the Canal area to Mary Washington Hospital. The FY 2017 Recommended Capital Budget includes \$2,880,000 as the City's portion of funding through the state's Revenue Sharing program. The City will issue bonds for its share of project cost.

### *Riverfront Park*

The City Manager's Recommended Capital Budget for FY 2017 and the Capital Improvements Plan for FY 2017–2021 include \$500,000 in FY 2017 for continued design development and \$5,000,000 in FY 2018 for construction.

The funding in FY 2017 is the remaining amount of funds that were borrowed in 2015 for design and other pre-construction services. Funding for construction will be obtained by issuing general obligation debt.

### *Embrey Dam / Rappahannock Canal Footbridge*

The City Manager's Recommended Capital Budget for FY 2017 includes \$100,000 to replace the washed-out footbridge on the Embrey Dam / Rappahannock Canal trail. The footbridge washed out during a severe rainstorm in Autumn 2015, and the replacement of the bridge will re-open the trail to full use.

### *Asphalt Program*

The City Manager's Recommended Capital Budget for FY 2017 includes an amount of \$1.4 million for the asphalt program. The major portion of this amount relies on approximately \$1.2 million in Revenue Sharing Funds from the state – which represents half local funding and half state funding. If the City does not receive the full amount of the request, the plan will need to be adjusted.

The City may also receive "Primary Extension" funding from VDOT, which would supplement the City's annual asphalt program and provide additional maintenance funding for the City's major roadways. These funds are 100% state funds, and if the City were to be awarded a project under this program the budget would need to be supplemented to recognize these additional funds.

### *Bridge Replacement – U.S. Route 1 and Rappahannock Canal*

The Recommended CIP shows funding awarded through VDOT for the replacement of the bridge on Jefferson Davis Highway over the Rappahannock Canal. This would be a major community project, as Jefferson Davis Highway is a key north-south transportation corridor not just for the City, but throughout the region. The bridge is nearing the end of its useful life. Should VDOT or FAMPO adjust the timing of this project, the City will need to adjust the timing in the CIP.

## **Public Safety Capital Fund**

### *Fire Station #3*

The City currently has a project in the planning stage for a third fire station which will be located in Celebrate Virginia South. Funds for design were included in the FY 2015 bond issue, but the City will need to borrow additional funds for construction. The Capital Improvements Plan includes \$6,500,000 in FY 2018 for this station to be delivered as a PPEA project, and an additional \$1,000,000 in FY 2019 for equipment to furnish the station upon completion.

### *Ambulance Replacement*

The FY 2017 Recommended Capital Budget includes \$260,000 for a replacement ambulance for the use of the Fredericksburg Rescue Squad. There are additional replacement ambulances planned for FY 2019 and FY 2020 for career and volunteer emergency medical services.

### *E911 Center Improvements*

The FY 2017 Recommended Capital Budget includes \$275,000 for the replacement of the Digital Voice Logger and the VESTA Pallas call-taking system at the E911 Center at the Police Department.

## **New Courts Capital Fund**

### *Renovations to Renwick Complex*

The City Manager's Recommended Capital Budget for FY 2017 includes an amount of \$250,000 in FY 2017 as a set-aside for potential repairs that might be needed to the Renwick Courthouse, the Old Wallace Library, or the Old Jail building that may result from the historic structures report. This funding will enable the City to handle critical structural repairs that may be recommended by the historic structures report, but is not intended to provide a full renovation.

### *General District Courtroom Completion*

The Recommended Capital Improvements Plan also includes funding in FY 2019 for the completion of the second General District Courtroom, in the amount of \$500,000.

## **Water Capital Fund**

The FY 2017 Capital Budget includes only one major new capital construction initiative in the water fund – the balance of the Caroline Street water line project. Other projects have been deferred until future years, although the budget requests that \$400,000 be retained in an Internal System Improvements account to enable small-scale repairs or replacements that may become necessary during the fiscal year.

### *Caroline Street Water Line*

The City has awarded a contract to W.C. Spratt to replace the water line on Caroline Street. The FY 2017 Capital Budget includes \$1.4 million for the completion of this project.

## **Wastewater Capital Fund**

The City Manager's Recommended Capital Budget for FY 2017 includes an acceleration of a project – the replacement of the sewer line in a section of Caroline Street.

### *Caroline Street Sewer Replacements*

The City's Public Works Department is recommending the replacement of the sanitary sewer line in Caroline Street in sections: from Route 1 to the Pump Station at Ford Street, from the Pump Station to Lafayette Boulevard, and from Lafayette Boulevard to the southern end of the line at the City Dock Interceptor.

The City's engineer has preliminarily identified the section between Lafayette Boulevard and the City Dock Interceptor as a priority for replacement. This work could be done to coincide with the City's work on the water line for Caroline Street. The FY 2017 Recommended Capital Budget includes \$500,000 for this replacement.

The other phases are recommended for future funding, including:

- Route 1 to Pump Station (\$1.3 million, FY 2021)
- Pump Station to Lafayette Boulevard (\$500,000 in FY 2020 and \$1,000,000 FY 2021).

The Recommended CIP also includes \$400,000 to renovate the Caroline Street pump station in FY 2021. All of these future projects would be eligible for funding from a future bond issue, and could be combined with other major capital needs during that time frame (for example, a second downtown parking garage or the proposed elementary school).

#### *Wastewater Treatment Plant Improvements*

The City Manager's Recommended Capital Budget and the proposed CIP also include several projects at the City's Wastewater Treatment Plant.

Future projects include rehabilitating the oxidation ditch (\$250,000 in FY 2018); renovating the influent pump station (\$1,000,000 in FY 2019); and various improvements or replacements to the sludge systems (\$80,000 in FY 2017 and \$210,000 in future years).

## **OTHER FUNDS – HIGHLIGHTS**

### ***City Grants Fund***

Funding of \$1,241,170 in the City Grants Fund is recommended for approval. This is a decline of 8.84% from FY 2016 and is due to several factors. FY 2016 included a PEG Access grant and Rescue Squad assistance grant that have been fulfilled. The decrease also reflects several changes in Parks and Recreation programs. Programs that have been inactive for several years, such as First Fridays and the Frejus Sports Exchange, are not included. The budget for other programs within Parks and Recreation has been adjusted based on actual expenditures. All other program budgets are consistent with FY 2016.

In order to support these programs, a transfer of \$380,500 is recommended from the General Fund. This is an increase of \$15,000 or 4.1% over last year. Declines in the matching portion of the Rescue Squad grant and the transfer required for the Community Development Block Grant (CDBG) program were offset by increases in the Victim Witness program and Parks and Recreation programs. The FY 2016 budget included a onetime use of fund balance to partially offset the General Fund transfer to the Victim Witness program; therefore, the transfer to this program in FY 2017 increases by \$15,000, although the overall program budget is comparable to FY 2016. The transfer to Parks and Recreation is recommended at \$36,500 in FY 2017 compared to \$14,000 FY 2016. Transfers in FY 2017 include \$13,000 to Midnight Madness, \$12,500 to the Farmer's Market, \$10,000 to First Night, and \$1,000 to the Soap Box Derby. These programs are not self-supporting and require support from the General Fund. Transfers to other programs such as Regional Group Tourism and Marketing, the Art Commission, and Virginia Domestic Violence are level with FY 2016.

### ***Stormwater Fund***

The FY 2017 City Manager's Recommended Budget includes \$210,500 for the Stormwater Fund. This is a new fund. The fund will be supported by stormwater management fees estimated at \$85,000 and a General Fund transfer of \$125,500. This fund will support the new Senior Environmental Planner position approved mid-year of FY 2016 and a Stormwater Administrator/Planner previously included in the budget for the Department of Community Planning and Building. This new division will be responsible for plan reviews and managing the MS4 permit requirements and TMDL Action Plan for the City.

### ***Social Services Fund***

The Department of Social Services' budget, as well as the General Fund transfer, has decreased slightly. Budget savings in FY 2017 reflect the elimination of one-time capital expenses in FY 2016 and the removal of certain rental payments. The overall budget is \$5.26 million, a decrease of 0.5% from the previous year.

The City's General Fund transfer is \$1.089 million, a decrease from \$1.24 million in FY 2016. The Department's FY 2017 budget includes the use of \$21,293 in fund balance (Social Services Fund).

### ***Comprehensive Services Act Fund***

The City's Comprehensive Services Act (CSA) Fund totals \$1,874,432 for FY 2017. The CSA program budget reflects mandated costs for special needs children, and is a shared responsibility between the City and the State government. The FY 2017 Recommended Budget is a decrease of 2.8% from the FY 2016 adopted budget. The decline is primarily due to a decrease in salary and benefits and a decrease in the requested amount for purchased services related to Special Education Day placement costs. The transfer from the General Fund is level with FY 2016 at \$675,265. The use of the CSA Fund balance is \$72,815.

### ***Water Operating Fund***

The City's Water Operating Fund is recommended for approval at \$4,409,765, a decline of 0.68% over the FY 2016 budget. The debt service is budgeted at \$832,000, a decline of 12%, reflecting that actual debt service on the 2015 A Water Revenue Bonds was below the estimate included in the FY 2016 budget. The FY 2017 budget request includes two items that will be split between the City's Water Fund and the Wastewater Fund. First is \$15,000 for a water and sewer rate study. The last study was conducted during FY 2012. Also included is \$55,500 for a new dump truck. Revenues are expected to be on par with FY 2016 and do not include an increase in water rates.

### ***Wastewater Operating Fund***

The City's Wastewater Operating Fund is recommended for approval at \$7,073,784, an increase of 1.14% over the FY 2016 budget. The debt service is budgeted at \$1.61 million, a decline of 4%, reflecting that actual debt service on the 2015 A Water Revenue Bonds was below the estimate included in the FY 2016 budget. In addition to the two items mentioned above that will be split between the City's Water Fund and the Wastewater Fund, funds are included for equipment replacements including replacement parts at pump stations and heaters for the wastewater treatment plant. Revenues are expected to be on par with FY 2016 levels and do not include an increase in rates.

### ***Parking Fund***

The City Manager's FY 2017 budget request for the Parking Fund is \$781,000. The Parking Fund is an enterprise fund and includes the 297-space Sophia Street Parking Garage and surface lots at 904 Princess Anne, and Amelia and Charles Streets. The recommended budget is an increase of \$95,380 or 12.21%. The increase provides funds for improvements identified in an analysis performed by Walker Parking Consultants. These improvements are estimated at \$90,000 and include waterproofing and minor repairs at the parking garage. The increase is also impacted by employee benefit costs and maintenance costs for the lot at Amelia Street and Charles Street.

FY 2017 operating revenues are projected to cover expenses. Debt service of \$301,505 is expected to be funded from a combination of the City's motor fuel tax account and revenue generated from parking fees.

### ***Transit Fund***

The recommended budget for the City's Transit Operating Fund is \$5,606,633. This is a reduction of 1.8% or approximately \$104,000 from FY 2016. The reduction is due to trends in fuel prices and the capital spending on bus replacements. Included in the budget are additional hours for a part-time analyst. The analyst will assist with the Transit System's reporting requirements related to Federal and State funding, especially regarding data analysis of ridership trends.

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

The City serves as the fiscal agent for the Celebrate Virginia South Community Development Authority. As part of the ongoing agreement with the Authority, the City includes in the annual budget the amount of the debt service for the year. The Treasurer is responsible for billing and collecting the special assessments, and for paying the debt service on the CDA bonds. The appropriation amount for the special fund is \$1,951,836.

## **RECOMMENDATIONS FOR FINANCIAL PLANNING**

I wish to bring to your attention two major initiatives which I strongly recommend as part of my last budget as city manager. These initiatives will help the City in the future—both are long-term, strategic approaches to planning for future financial obligations. These initiatives are: (1) setting up an OPEB Trust and providing advance funding of \$1 million into the Trust; and (2) assigning fund balance in the amount of \$1.25 million to serve as a rate stabilization reserve for future costs associated with the Rappahannock Regional Jail and the Juvenile Detention Center.

### ***Setting Up an OPEB Trust***

Prior to the implementation in recent years of the accounting standards under GASB 43 and GASB 45, most public sector employers had not established a trust fund for "other postemployment benefits" (OPEB). The City's primary "other postemployment benefit" is health insurance for retirees. Now that employers are aware of the large magnitude of the actuarial liabilities for OPEB benefits, they are looking at ways to manage and reduce those costs. In addition, municipal budgets continue to be under extreme pressure in general, which is adding another reason to find solutions to the current situation. Establishing a trust fund is one way to address the challenges that public sector employers are facing with respect to OPEB benefits. There are three main reasons for setting up an OPEB Trust.

First, an OPEB Trust harnesses investment returns to help pay for the benefits. In the absence of a dedicated trust fund, an employer pays for OPEB on a "pay-as-you-go" basis as eligible participants retire and receive those benefits. Once a trust is established, the employer funds the OPEB benefits each year while the participant is working, and those accumulated contributions—together with investment returns compounded over the participant's career—are designed to fully pay for the OPEB benefits that the participant is expected to enjoy during his or her retirement. The power of compound interest generates a significant amount of investment return over a participant's career, thereby resulting in a significant reduction in the employer's contributions needed to fund the OPEB benefits versus the amount needed under the pay-as-you-go approach.

Second, an OPEB Trust improves the City's financial statements and creates a favorable view from credit rating agencies. Under GASB accounting standards, the actuarial valuation of the OPEB benefits must reflect an investment return assumption—also known as the “discount rate”—that is consistent with the expected long-term rate of return on assets used to pay those benefits. The City's current Net OPEB obligation (at 6/30/15) is \$5.49 million. By setting up a trust and regularly making prefunding contributions, the City will greatly reduce its Net OPEB obligation, thus improving the City's Statement of Net Position in the Comprehensive Annual Financial Report. This demonstrates to credit agencies that long-term obligations are being funded in a prudent manner that reflects sound financial management.

Third, setting up an OPEB Trust enhances intergenerational taxpayer equity by having the employer (and taxpayers) fund OPEB benefits during the same time period that the plan participants are earning those benefits. Without an OPEB Trust fund, an employee may work for 30 years, but the employer does not record any costs for OPEB benefits during that time. Only when the employee retires does the employer begin to pay for OPEB benefits on a pay-as-you-go basis. As a result, future generations of taxpayers are paying for OPEB benefits that were earned in the past. However, if the employer sets up an OPEB Trust and prefunds the benefits during the employee's career, then OPEB benefits are fully funded by the time the employee retires, and future generations of taxpayers stop paying for OPEB benefits that were earned long ago.

#### ***Establish a Rate Stabilization Reserve for Future Jail Costs***

The City should establish a rate stabilization reserve for future costs associated with the Rappahannock Regional Jail and the Juvenile Detention Center. The purpose of this reserve is to create a “rainy day fund” to provide a cushion during years when the City's required contributions spike to levels that are difficult to accommodate within the annual operating budget.

For over 30 years, the City has participated in a regional jail system for the incarceration of adult and juvenile inmates. This has proven to be a cost-effective approach to providing an essential but unpopular service. The Rappahannock Regional Jail (for adults) has a total budget in FY 2017 of \$36.8 million. The average daily inmate population is 1,350 persons, 24% of whom are sent there by Fredericksburg courts.

The City's future jail costs are likely to increase due to several factors: (1) more City-responsible inmates; (2) the loss of Federal revenue for housing inmates from the U.S. Immigration and Customs Enforcement division of the Department of Homeland Security; (3) planned use of jail fund balance in previous years has depleted unassigned jail reserves; and (4) higher jail debt service payments begin in FY18 to pay for \$14 million in facility renovations.

Jail costs are allocated to the four participating jurisdictions based on the number of “inmate days.” This is a proportionate usage formula. The jail budget for FY 2017 is based on the inmate census from FY 2015, a two-year lag. This approach helps the City, and all localities, have certainty in budgeting for jail costs during a specific fiscal year. Unfortunately, this approach inadvertently creates volatility in the distribution of jail costs from one year to the next as each locality's proportion of inmate days rises and falls due to a multitude of uncontrollable factors.

The proposed rate stabilization reserve in the City's General Fund will assist in lessening the budget impact of future increases. The rate stabilization reserve will not be used in the FY 2017 budget, but the City will most assuredly use some of it in FY 2018.

## **ABOUT THIS DOCUMENT**

This document represents many hours of hard work from the City staff, Constitutional Officers, regional governmental partners, and others. This transmittal letter is intended to be an introduction, overview, and summary of the many recommendations and policy choices included in the Recommended Budget.

Other sections of the document include:

- Tab 2: Budget at a Glance
- Tab 3: Summary Tables and Graphs
- Tab 4: Program Narratives
- Tab 5: Capital Improvements Plan
- Tab 6: Partner Agency Table
- Tab 7: Line Item Details
- Tab 8: Budget Alignment with Council Goals and Initiatives
- Tab 9: Supplemental Materials

Staff looks forward to the review process with City Council. We are happy to answer any questions you may have, and welcome changes that implement your policy priorities.