



FY 2018 BUDGET TRANSMITTAL LETTER

TO: Honorable Mayor and Members of the City Council
FROM: Timothy J. Baroody, City Manager
RE: FY 2018 Budget Transmittal Letter
DATE: November 11, 2017

INTRODUCTION

I am pleased to transmit the Adopted Operating and Capital Budget for FY 2018, which began July 1, 2017. This adopted budget makes progress on the City Council's adopted priorities, and continues City operations in a fiscally sound manner.

The total General Fund budget for FY 2018 is \$93,475,000 which is a 3.4% increase over the FY 2017 originally adopted General Fund budget, which was \$90,401,800. The budget for FY 2018 does include an increase in the real estate rate for the City of three cents, to a rate of \$0.80 per \$100 valuation. For the first time, the City Council dedicates one of the pennies of the real estate tax to the Stormwater Fund, Fund 229. The remaining real estate tax remains in the General Fund, which is the primary fund for City operations.

The budget document includes the General Fund, and also the City's primary enterprise funds – Water, Wastewater, Transit, and Parking. The document includes special revenue funds such as the Social Services Fund, City Grants Fund and the Stormwater Management Fund.

OVERVIEW OF MAJOR GENERAL FUND OPERATING BUDGET INITIATIVES

The FY 2018 Adopted Budget advances several major initiatives for the City.

- Additional \$530,141 net debt service increase for the renovation of the Original Walker-Grant School – a project advanced by City Council during FY 2016.
- Additional \$471,419 in the City's share of funding costs for the Rappahannock Regional Jail.
- Implementation of a Classification and Compensation Study, a study authorized by City Council in FY 2017. The General Fund includes increases for salaries to accomplish this task of \$655,920.
- Increased transfer to City Schools for school operations in the amount of \$800,000.
- Transfer to support Capital Projects of \$2,000,000.

HIGHLIGHTS OF MAJOR FY 2018 CAPITAL PROJECTS

The FY 2018 Adopted Budget also includes funding for several capital projects that either provide for the maintenance of capital assets or provide progress towards the Council's adopted priorities, or both. Highlights include:

- \$1,791,861 for Asphalt and Concrete Repairs
- \$5,000,000 for the construction of Riverfront Park (Priority 7)
- \$300,000 for the construction of a traffic signal at Fall Hill Avenue and Noble Way
- \$90,000 to re-surface tennis courts at Memorial Park
- \$1,500,000 for the replacement of the City’s financial software system – a multi-year project (Priority 34)
- \$150,000 to continue the City’s efforts at small area plans (Priority 2).

HIGHLIGHTS OF FUTURE PROJECTS - CAPITAL IMPROVEMENTS PLAN

The City Council also adopted a five-year capital improvements plan, with the first year being the current year, FY 2018. There are several major projects included in the adopted CIP that will further the priorities of the City Council and either serve to maintain existing infrastructure or advance City Council priorities. The largest CIP projects planned for future years include:

- New Elementary School (FY 2021 & FY 2022) - \$33,468,110
- New Fire Station (FY 2019 and FY 2020) - \$7,450,000
- Parking Garage (FY 2021 and FY 2022) - \$10,000,000
- Continuation of the College Heights Water System Upgrades (FY 2021) - \$4,000,000.

CHANGES TO HUMAN RESOURCES

The City was able to fund a major classification and compensation study in the FY 2018 budget. The City last undertook a market update to compensation in 2005, and a comprehensive study has not been undertaken since then. The recent study, which conducted a job analysis of the City workforce and compared it to market conditions in fourteen other nearby localities in Virginia, was received in February.

The results of the comprehensive update showed that the City needed to change titles and job descriptions for many City employees. In addition, the City’s pay ranges were identified as being too “short” – that is, there was not enough spread between the minimum and the maximum in the pay ranges as compared to other localities with which we compete for employees.

All employees were brought to the minimum of their newly assigned ranges, and all employees subsequently received a 1.5% across-the-board equity adjustment.

City Council also funded an additional increment for employees who were below the midpoint of their new range, to advance those employees further towards the midpoint of the new range. About 75% of the employees received this adjustment, which varied based upon the relative position of the employee to the midpoint of the range.

The final adjustments for employees varied between 1.5% for employees already over the midpoint of the range to higher amounts. The median increase was 4.83% and the average increase was 5.2%. City staff is very appreciative of the funding of the results of the study, which will improve the City’s competitive position in the area labor market.

Health Insurance

The City Human Resources Department led an effort to renew health insurance carriers for FY 2018. The Department leadership enjoyed excellent support from a committee of employees that assisted with the evaluation of the proposals from the carriers, as well as from the City’s Purchasing

Agent. Ultimately, the City Council, after the evaluation, chose to switch carriers to Anthem Blue Cross and Blue Shield.

The Anthem proposal resulted in an overall decrease in City premiums, and reversed a long trend of increasing medical costs for employee health insurance. The City saved \$417,800 in budgeted premiums from FY 2017 to FY 2018 in the General Fund as a result of this change. The per-employee-per year budget number for health insurance premiums now stands at \$13,200.

Virginia Retirement System

The City's contribution rate for FY 2018 remains constant at 12.55%. This is the second year for the lower contribution rate, which will be amended based upon an updated actuarial study performed by the Virginia Retirement System for the upcoming biennium – FY 2019 and FY 2020.

New Positions

The Budget for FY 2018 includes two new positions in the General Fund, and several others outside the General Fund.

General Fund

Funding is included for a Deputy Fire Marshal position for the Fire Department. The Fire Department had a Deputy Fire Marshal position added during FY 2006, but the position was removed during the Great Recession through attrition. However, the need for an additional Fire Marshal to assist with the enforcement of the Statewide Fire Prevention Code has only grown as Fredericksburg continues to expand and develop. The cost of the restoration of this position is \$71,790.

Funding is also recommended for a Business Analyst for the Information Technology Department. The Business Analyst will assist the entire organization with the implementation of the new Enterprise Resource Platform ("ERP") software system, and assist in its operation after implementation. The replacement of the City's ERP system is one of the City Council's identified Goals over the next three years. The cost of this position is \$100,900.

The City also included the restoration of a couple of positions that were held open as part of the City's 2017 re-organization plan. These include funding for a Senior Planner in the Department of Community Planning and Building at one-half year, plus restoration of the Assistant Public Works Director position.

Water & Wastewater Operating Fund

Funding is included for a full year of the Utility Line Locator position that was authorized by City Council during FY 2017. The Utility Line Locator position is an additional position which helps meet the City's obligations to locate underground utilities (such as water, sewer, storm sewer, and fiber optic) when requested for construction. The volume of requests for such locations has risen considerably over the last several years, and the City will now have two positions dedicated full-time to this function.

The Budget also includes a Utility GIS Technician for FY 2018 at ½ year. This position will improve the City's GIS data layers for the water and sewer system. It is very important to update the City's water and sewer data layers based upon new construction, and the position will be dedicated to this purpose.

Transit Fund

The Budget includes several recommendations concerning human resources in the Transit Fund. The budget includes the conversion of two part-time Transit Driver positions to full-time, which increases the total number of full-time drivers to nine. For perspective, there are currently 61 part-time drivers on the roster for FRED. Increasing the total number of full-time drivers aids retention of experienced personnel and aids greatly in scheduling.

Also included is an additional full-time position for an Assistant Operations Manager, and a part-time maintenance mechanic. The Assistant Operations Manager will support the current Operations Manager for FRED, particularly with scheduling duties and the oversight of the maintenance function. The Operations Manager would dedicate more time to assist FRED management with strategic planning, budget development, fleet specifications, and long-range planning.

The cost is largely offset by a proposed reduction in the number of part-time hours by approximately 8% of the budgeted total, or 7,300 hours.

HIGHLIGHTS OF OTHER OPERATING FUNDS

Fredericksburg City Public Schools

The total for the Fredericksburg City Public Schools operating fund in FY 2018 is \$43,740,830. Of that total, the City transfer is \$28,344,710 for operations, plus an additional \$215,500 for the Head Start program, for a total transfer of \$28,560,210. The level of transfer represents an increase in local funding of \$800,000 over FY 2017 for the FCPS.

The City Schools will be able to use the newly renovated Walker-Grant Center (formerly the Original Walker-Grant School) for Head Start, school administration, and other special programs beginning with the FY 2018 school year. The School Board will also be able to meet in the newly renovated Walker-Grant Center meeting room space. The Schools will be able to return to the City the Old Wallace Library Building that formerly housed the administrative offices, and the City will be able to re-purpose that building for other uses.

The City issued bonds for the renovation of the school building and the purchase of a new public safety radio system, and the portion of the debt related to the Walker-Grant Center will begin to be paid in FY 2018. The portion of the debt related to the renovation of is \$830,141.

The City will use \$300,000 of the School Operating Fund balance for the next five years to help offset the debt service costs. The net impact of the new debt service for the school renovation to the General Fund is approximately \$530,000.

Social Services Operating Fund

The City Social Services Operating Fund includes a total appropriation of \$5,642,469. This includes the operations of the City's Social Services Department. The City's local transfer to the Social Services Operating Fund is \$1,040,000. The Commonwealth and the federal government together contribute the majority of resources to the fund – estimated at approximately \$4.4 million in FY 2018.

City Grants Fund

The City Grants Fund is \$1,525,328 for FY 2018. The City transfers a total of \$346,500 to the City Grants Fund to support local shares of matching programs. The City Grants Fund supports a variety of programs, including the Community Development Block Grant program, Fire and EMS programs, the Victim Witness Program, and regional tourism programs, among several others.

Stormwater Management Fund

The Stormwater Management Fund is \$562,099 for FY 2018. The Stormwater Management Fund was created in FY 2017 to begin separately tracking a variety of activities related to the management of stormwater in the City. The FY 2018 appropriation represents a significant increase in the level of activity in this Fund for FY 2018, as the four-person Drainage crew that operates from the City Shop to assist in maintaining the City's storm sewer system has been transferred from the General Fund to the new Stormwater Management Fund. This represents a shift in funding of approximately \$300,000 from the City's General Fund over to the Stormwater Fund.

The City Council included new revenue dedicated to the Stormwater Management Fund of \$395,000, which is an estimate of the revenue generated by one penny on the real estate tax rate. In addition to the new local sources, the General Fund will transfer an additional \$100,000 to the fund to support operations, with the balance of resources coming from fee revenue and a small use of the prior year's fund balance of \$25,000.

Water Operating Fund

The total Water Operating Fund appropriation for FY 2018 is \$5,101,580. As part of the budget process, the bi-monthly water rates did increase by 2%, which will help offset increases in operating costs.

The City Public Works Department will complete the Caroline Street water line replacement project, which was well underway during FY 2017. At the conclusion of the project, the water line in Caroline Street will have been replaced from Amelia Street all the way to the southern end of the street.

Wastewater Operating Fund

The total Wastewater Operating Fund for FY 2018 is \$7,740,947. Costs for operations have also increased in the Wastewater Operating Fund as debt service has been added for new capital projects, such as the new belt filter press for the Wastewater Treatment Plant.

The budget process did include a 4% rate increase in bi-monthly fees for sewer customers. The fees were not increased in FY 2017.

Transit Operating Fund

The Transit Operating Fund for FY 2018 is \$5,833,614. The Transit Operating Fund is the fund that supports the City's FREDericksburg Regional Transit System, which currently serves the City and three surrounding counties – Caroline, Spotsylvania, and Stafford. Additional routes are also run to serve the University of Mary Washington campus during the school year.

The City's share of the system is \$480,000, and the City uses the surplus of the local motor fuels tax, which must be used for transportation purposes, for the support of FRED Transit.

Parking Fund

The Parking Fund for FY 2018 is \$872,239. Generally speaking, this Fund includes the operation of the City’s Sophia Street Parking Garage. In recent years, the Fund has also added the accounting for the operations of smaller parking lots in the City’s downtown, including the 904 Princess Anne lot, the lot at Charles and Amelia, and the lot at Barton Street and William Street.

The FY 2018 budget for the Parking Fund includes a capital project for the replacement of the gate and software system at the Sophia Street Parking Garage, which is approximately twelve years old.

School Grants Fund

The total appropriation in the School Grants Fund is \$5,141,035. The School Grants Fund includes the cafeteria program for City Schools, as well as a variety of state and federal aid programs. There are currently no General Fund resources transferred to the School Grants Fund to support these operations.

FUND BALANCE DISCUSSION

The Budget includes fund balance use in the amount of \$2,670,000, which is slightly less than the \$2,775,000 included in the original Recommended Budget for FY 2018. The level of fund balance use for FY 2018 is a decline in the budgeted use of Fund Balance from the original FY 2017 budget - \$3,697,300. The City has a long-standing practice of utilizing fund balance reserves for pay-as-you-go capital projects.

In addition, City Council recently instituted a fund balance reserve to “smooth” funding for the Rappahannock Regional Jail and the Rappahannock Juvenile Center. These regional institutions generally speaking allocate their local share of funding between member localities based on usage, which can fluctuate from year-to-year and create significant changes in funding for the City budget.

The proposed uses of Fund Balance in FY 2018 included with the Budget are shown in the following table.

Proposed Use	Amount	Category of Fund Balance
Pay-as-you-go Capital Transfer	\$2,000,000	Assignment for Capital
Contingency	\$395,000	Unassigned
Assist with City Share of Rappahannock Regional Jail	\$275,000	Assignment for Jail Stabilization Reserve
Total	\$2,670,000	

CONCLUSION

The FY 2018 Budget represents significant advances in achieving the priorities of City Council, as we move together to achieve the desired future states for the community for the longer term. The FY 2018 Budget supports our workforce and makes our compensation more competitive, continues and increases support for our City Schools, and further invests in public safety and our community assets. Management staff and I are ready to support you as we move together through the 2018 fiscal year.

I do wish to thank you, as City Council, for your efforts through the budget review process and throughout the year. In addition, I would like to thank our City staff, in particular our Finance and

Budget teams, for their hard work in pulling this important document together. I look forward to an excellent year.

