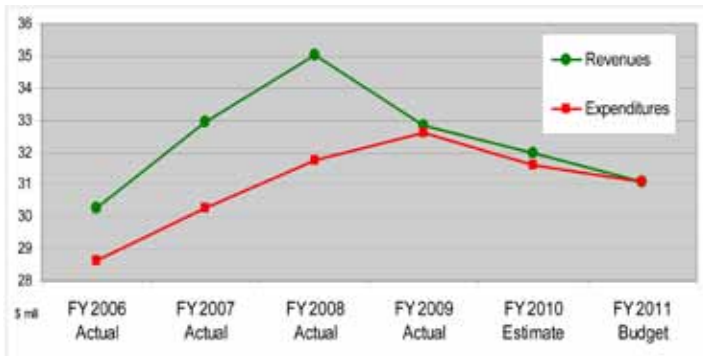


TO: Mayor and City Council
DATE: March 19, 2010
SUBJECT: City Manager's Budget Message

INTRODUCTION

As the recession continues, the effect on government revenues at all levels deepens. Next year we anticipate a further decline of 3.2% which, when added to last year's decrease, will result in a General Fund operating budget in Fiscal Year 2011 that is 8.9% less than the budget adopted two years ago.

The chart below shows the path of General Fund operating revenues and expenditures since FY 2006:



Over the last eighteen months the city has been in serious budget reduction mode. Nevertheless, the city remains committed to advancing the strategic community priorities of City Council and improving the financial and organizational strength of city government.

The FY 11 proposed budget is about much more than cuts. It is about moving forward in difficult economic times. So, the place to start in understanding the proposed budget is City Council Goals (Tab Two) and Performance Metrics (Tab Three).

Looking now at the overall picture for the year ahead, the Proposed General Fund Operating Budget can be summarized by:

- Projected Revenues of **\$31,077,012**, down by **3.16%**.
- Planned Spending of **\$31,077,012**, down by **3.16%**.
- No recommended change in Tax Rates.
- Number of full time equivalent authorized positions reduced from **202** in FY 2009 and **185** in 2010, to **182** in FY 2011.
- No annual pay increases for city employees.



Budget Message

In the **Utility Budget**, recommended is a 5% Water and Sewer rate increase, from \$4.00 to **\$4.20** per one thousand gallons, beginning July 2010, per the **Five Year Water and Sewer Rate Analysis**. The rate increase has been expected as part of the cost of participation in the long term water supply agreement with Newport News.

In the General Fund **Capital Improvement Program**, a total of **\$3,989,967** is projected in new capital spending and including debt service.

The combined total of the four funds – General Operating Fund, Utility Fund, Sales Tax/Capital Fund, and, now shown as a separate fund, the Public Assistance Fund – amounts to **\$44,504,896**.

With the above as an overview, the remainder of the Budget Message discusses a number of issues that are particularly helpful in understanding and reviewing the proposed budget, beginning with General Fund revenue projections.

REVENUE PROJECTIONS

Next year (FY 2011) we forecast General Fund revenues of **\$31,077,012**, a 3.1% decrease from the current year (FY 2010) budget amount. The four broad categories of revenue are all down:

	FY 2010 Adopted Budget	FY 2011 Proposed Budget	Percent Change
All Property taxes	\$ 12,949,320	\$12,695,020	(1.96%)
Other Local Taxes	\$ 13,658,600	\$ 13,140,600	(3.79%)
Fees and Charges	\$ 2,754,393	\$ 2,587,324	(6.07%)
Intergovernmental	\$ 2,728,200	\$ 2,654,068	(2.72%)

Behind the **Budget Guide** tab is a detailed explanation of revenues, explaining the legal basis and ten year trends of all revenue sources. The following is a summary of significant revenue changes in next year's budget under the four categories:

1. **Property Taxes.** Property tax projections are based on a total anticipated value of real estate of \$1.845 billion dollars, a decrease from current land book values of **2.5%**. Assuming no change in the tax rate of \$.54 per hundred dollars of assessed

value, we estimate real property tax collections of \$9,850,000 next year.

The future of real estate values is more uncertain than has been the case in the past due to the nature of this recession. The assessor has completed approximately 60% of his work as of mid-March for the coming annual assessment cycle.

Other property taxes include personal property (car tax) and business property. Taken together these categories are near level. All property taxes (real and tangible) taken together are expected to generate \$12,695,020, a 2.0% decrease.

2. **Other Local Taxes.** Other local sources of taxation include various consumer utility taxes and franchise fees, business licenses, transient lodging and prepared food or "room and meal" taxes. Taken together, other local taxes will generate \$13,140,600, a further 3.8% decrease from the current year's disappointing numbers.

The estimate for room and meal tax collections totals \$3,200,000 for room tax, an 8.6% decrease; and \$5,400,000 for meal tax, a 1.8% decrease, from last year's adopted budget. These estimates reflect continued mediocre to poor performance in the city's tourism economy.

While there are some hopeful signs on the horizon, it is too soon to incorporate hopes into our projection. The room tax estimate does not include the \$2.00 destination marketing surcharge for additional tourism promotion, which is a separate line item in the budget of \$1.5 million.

Taken together, all local sources of taxation are expected to generate **\$25,835,620**, a **2.9%** decrease from the current year budget.

3. **User Fees and Charges**

User Fees. User fees include license and permit fees, including building permits, and various charges for service. **Licenses and Permits** are projected to decline further by 13.2% to \$158,180 due to the lack of construction activity.

Fines and Forfeitures. This category covers court fines – mostly for traffic violations, parking fines, and

code violation fines. It is expected to remain level at \$232,000.

Revenue From Use of Money and Property.

This year's budget proposes moving interest income, which is only projected to be \$170,000 for the General Fund due to exceptionally low interest rates, from the Operating Budget to the Capital Budget. The property rental estimate is \$457,054, a 5.5% decrease, covering the Community Building, Transportation Center, City Square, and the Prince George Parking Garage.

Charges for Service. This category covers recreation fees and other user charges. A significant increase of 50.1% to \$458,328 is proposed – primarily for new and increased fees for Waller Mill Park as described below under the Parks and Recreation subheading.

Miscellaneous Revenue. The largest revenue item in the miscellaneous category is Emergency Medical Transport fees enacted five years ago. Increasing these fees based on Medicare allowable rates and comparable rates in the region will allow the budget projection to go up from \$325,000 to \$430,000 next year. (The new rates would be: Basic Life Support \$400, Advance Life Support \$475 (ALS1) and \$700 (ALS2), and an \$8.50 mileage rate.)

4. Intergovernmental - Revenue from the Commonwealth. Revenues from the state government in the amount of \$2,654,068, which includes support for constitutional officers and various categorical grants, are estimated to decrease by 2.7%, based on our predictions of final state action on the FY 11 budget.

This estimate is based upon no change in VDOT funding for street maintenance at \$1,376,050; a 17% decline in police "599" funding to \$329,408; and a 31% decline to \$95,610 in state support for Commissioner of Revenue, Treasurer and Voter Registrar.

The estimate of Sales Tax for Education of \$773,000, based on State Department of Education calculations, is up by 13.7%.

EXPENDITURE ISSUES

Next year we have proposed General Fund operating expenditures of \$ 31,077,012, a decrease of 3.1% from the current year adopted budget. Broken down in four large categories:

The following is a summary of significant expenditure issues:

	FY 2010 Adopted Budget	FY 2011 Proposed Budget	Percent Change
City Departments	\$ 17,345,855	\$16,751,168	(3.4%)
Constitutional Officers and Judicial	\$ 2,006,673	\$ 2,113,402	5.3%
Education and Library	\$ 7,810,692	\$7,744,648	(0.9%)
Outside Agencies and Health	\$ 4,864,773	\$4,467,795	(8.2%)

1. **Salary Ranges and Pay.** Due to declining revenue, no money is recommended for pay raises next year. Moreover, despite a 2.0% increase in the Consumer Price Index for calendar 2009, and a 4.2% increase in the CPI in the prior year; no general increase in city pay ranges are recommended either.

2. **Personnel Positions.** As explained in greater detail under departmental headings, the total number of full time equivalent positions authorized in city departments decreases from 202 in FY 09, and 185 in FY 10, to 182 in FY 11. The reduction has been and will be accomplished through transfer and reorganization, (including the 13 positions transferred to York County as part of the E911 consolidation), job consolidations, and reductions in force.

3. **Health Coverage.** The city's health plan is largely self-insured. The current provider, Anthem, is paid a set amount to administer the plan, but the city keeps savings when actual costs fall below the "premium," and pays more when costs exceed the premium. That liability, however, is capped at 125% of premiums through excess insurance. Savings to

date have created a reserve, currently \$420,225, to fund losses should losses exceed the amount budgeted in any given year. Therefore, we budget for the expected loss only. We have included a 6%



increase in funds budgeted for health insurance and the dental reimbursement program over the current year budget in the total amount of \$1,340,000. We expect the cost will exceed that and the difference will have to be made up by increased employee contributions. This spring we are requesting proposals for health care to obtain the best deal possible.

4. **Virginia Retirement System.** VRS sets the contribution rate for the city based on biennial actuarial studies. Our rate beginning July 1, 2010 is proposed to be 16.44%, up 6.1% from the current contribution rate. Based on our projected payroll next year, we expect to pay \$1,437,000 to fund employee VRS retirements, nearly the same as the current budget.

5. **Administration.** Six office budgets now make up the central administration group: City Council, Clerk of Council/City Manager, Economic Development, City Attorney and Human Resources. The total of these budgets is \$1,335,261, a 3.3% decrease. The retirement of the City Attorney and a plan for one full time attorney and a part time attorney on retainer has generated the savings.

6. **Non-Department.** This budget in the amount of \$356,550 includes several important expenditure items not assigned to an office or department, including "aid to the Commonwealth" (\$36,000)

and contingency funds both general (\$250,000) and for economic development (\$50,000).

7. **Joint Courthouse and Judicial Functions.**

The Joint Courthouse Agreement, dated December 1996, between the city and James City County, governs cost sharing not only for taking care of the new courthouse, but for judicial functions related to the Courthouse, including: Circuit Court, General District Court, Juvenile and Domestic Relations Court, Clerk of the Circuit Court, Commonwealth Attorney, and City/County Sheriff. The Courthouse Agreement provides that the city and county will determine population based on the annually updated Hampton Roads Data Book published by the Hampton Roads Planning District Commission. The estimate of city cost is \$420,000, a 5% increase from the prior year.

8. **Police and E911 Service.**



The Police Department proposed budget is \$4,007,619, down from the current year by 0.9%. Near level funding takes into account savings from consolidation of E911 Emergency Communications with York County, and restoration of one of the two police positions frozen last year.

In the current budget, therefore, we are one position less than full strength.

9. **Parking Garage.** Based on experience in the first five years of operation, we have set the Prince George Parking Garage operating budget at \$120,416. This expense is covered by \$200,000 in projected parking garage revenues. Revenues in excess of operating costs will help pay debt service on the structure. (The balance owed on the Parking Garage as of February 2010 was \$4,896,786.)

10. **Fire.** The Fire Department proposed budget is \$3,320,670, up from the current year by 1.7%. Over the past four years, five new firefighter/ EMT positions have been added. These firefighters have helped the fire department maintain adequate on duty staffing given the constant pressure of time away for leave and training. The deputy fire chief position, however, remains frozen.



reduction in street repaving. Henceforth, street repaving will be accounted for in the Capital Budget rather than the Operating Budget.

The second is a planned reduction in the cost of the contract with Colonial Williamsburg Foundation for maintenance of the Historical Area streets from \$202,000 to \$150,000. This agreement is being negotiated for a July 1, 2010 renewal date.

Finally, we continue to generate savings by going to once weekly refuse collection.

11. **Code**

Compliance. Due to personnel reassignment and reductions in light of the level of building activity, this budget will drop an additional 8.9% to \$365,392. The original five person professional staff of FY 09 was reduced to four full time positions in FY 10 and three in FY 11.

12. **Regional Jail and Youth Detention.** Funding for the city's share of the Virginia Peninsula Regional Jail is expected to be \$1,175,415, up 9.0% from the current budget. The city share of jail costs is based on the average usage rate over the past five years. Each member jurisdiction (Williamsburg, James City, York and Poquoson) pays for their share of the inmate population based on the location where the offense occurred and the arresting authority. We expect to pay 17.3% of local jail costs this coming year. Other detention related expenditures include: the Middle Peninsula Juvenile Detention Commission at \$70,500, which is projected to decrease by 11.9%; and Colonial Group Home Commission (Crossroads Home) at \$76,256, which is level with the current year. Both are based on amount of usage by city children.

13. **Public Works.** Public Works divisional budgets totaling \$3,278,568 (Engineering, Streets, Refuse Collection, Landscape, Cemetery, Mosquito Control, Facilities Maintenance) is 10.1% below the current year amount. A Streets Division position, and a Landscape Division position will be eliminated.

The budget reduction is also due primarily to two major recommendations: The first is a \$170,000

14. **Information Technology.** A 14.7% reduction to \$290,100 will result from a less aggressive program of IT improvements than we would like.

15. **Parks and Recreation.** The Parks and Recreation budgets total \$1,253,901, a 3.4% reduction. There are some significant changes recommended in two programs: Waller Mill Park and Quarterpath Swimming Pool.

Waller Mill Park is a regional recreational asset on par with the best state parks anywhere. In order for the city to continue to keep the park open to all, I am recommending an entrance/parking fee of



\$2.00 per vehicle. The proposed FY 11 Operating Budget for the park is \$231,350. We estimate that the entrance fee will produce \$120,000 in income. That with \$80,000 projected for existing fees (boat rental, etc.), will yield \$200,000 in revenue to offset \$231,350 in expense. Automated gates similar to

Budget Message

those used at the Prince George Parking Garage will be installed as the control and collection method.

Quarterpath Pool currently costs the city approximately \$60,000 annually to operate net of pool fees. I am proposing that the hours of operation be reduced (from noon to 7 p.m. daily to noon to 5 p.m. Wednesday through Sunday), and admission fees increased to \$3.00 for children and \$4.00 for adults. Swimming lessons will continue to be offered in the morning hours. The reduced hours will lower the cost of operation to \$39,900, and increase revenue to \$12,000, resulting in a project gap of \$27,900.



funding for FY 11 is \$441,105, a decrease of 4.3% from the current year.

The Peninsula Health District budget request to the city is \$92,466, a 17.5% decrease from the current year.

The Human Services Advisory Board has recommended Olde Towne Medical Center (Williamsburg Area Medical Assistance Corporation or WAMAC) receive funding of \$83,430, the same as the current year; and that

the Comprehensive Health Investment Program (CHIP) receive level funding of \$19,349.

OUTSIDE AGENCY ISSUES

Nearly one-half of the city's General Fund budget goes to agencies and activities not under City Council's direct operational control. Funding relationships are often complex, and vary in degrees of funding discretion possible from year to year. The "Notes on Funding Relationship," contained under the **Budget Guide** tab, help explain the city's role in providing financial support to these agencies and activities.

Background documentation from outside agencies is provided in the **Appendix** of the Proposed Budget, or provided under separate cover, as in the case of the School and the Library budgets.

A number of issues concerning outside agency funding requests for the coming year need to be highlighted:

1. **Health Services.** The four agencies named below provide health services to city residents, workers and visitors. The total recommended

Finally, the Colonial Services Board, the agency through which the city provides mental health and retardation services to its residents, requests level funding in city contribution of \$245,860, based on the multi-jurisdictional funding formula.

2. **Schools.** Based on the Superintendent's proposed budget, and expectations of State funding, we can expect a city contribution to the operational budget in the amount of \$6,979,332, 1% increase from the current year. The final amount will be determined by formula as set forth in the current five-year city/county Joint School Agreement, effective since July 1, 2007.

The city's school population has increased (from 780 to 791), while the county's has decreased (from 9692 to 9640). City children numbering 791 now account for 7.58% of the children enrolled in the system. Under the Joint School Agreement, in FY 11 the city pays a share equal to its enrollment times a factor of 1.14. So, the city continues to pay a premium to participate in the joint system. Based on the current enrollment split, the city's contribution is projected at 8.64% and the county's 91.36%, of local funding for the schools.



3. **Library.** The Williamsburg Regional Library is funded under the revised library agreement with James City County, effective July 1, 2006. That agreement calls for funding of operational costs based on the proportion of circulation by residency. Based on the library's figures, the city/county circulation ratio to be applied in FY 11 is 15.46% city, and 84.54% county. The Library's proposed budget of \$5,813,163 is a decrease of 4.1%, which will result in a reduced city contribution of \$750,291.

4. **Human Service Agencies.** The city's Human Services Advisory Board, as requested by City Council, has evaluated Human Services Agency requests for funding, and made its recommendations to City Council. Their analysis and recommendations are in the Appendix to the Proposed Budget. Proposed for next year is a 19.9% decrease from the current year for a total amount of \$81,144. The proposed budget follows the Human Services Board's recommendations in all respects, except in two cases: The Historic Triangle Senior Center allocation is reduced from the Board's recommended \$12,777 to \$10,000 which covers the "Rides" program; and \$500 for the Senior Services Coalition has been reduced to zero since this program receives no other government funding.

5. **Community and Economic Development Agencies.**



Tourism Promotion

The city has supported tourism advertising and promotion through Colonial Williamsburg and the Greater Williamsburg Chamber and Tourism Alliance.

This year Colonial Williamsburg Foundation has requested \$1,320,000, level with existing funding. The Greater Williamsburg Chamber

and Tourism Alliance, which in turn lends support to the advertising campaigns of the Williamsburg Area Destination and Marketing Committee (WADMC), has also requested level funding of \$880,000.

Due to sharp declines in room and meal tax dollars and the inability to make up all the difference from other sources, I recommend that the city decrease its current \$2.2 million support for CWF and the Alliance

by \$300,000. The resulting \$1.9 million constitutes 59% of the room tax expected in FY 11. I further recommend that the city change its traditional 60/40 split between CWF and the Alliance



to 67/33, resulting in \$1,273,000 for CWF, and \$627,000 for the Alliance, for the following reasons:

a. The city's market share reflected in room tax receipts has slipped significantly in recent years compared to our adjoining counties. The city's ability to fund the regional effort through the Alliance and WADMC has waned. In the last full fiscal year FY 09 room tax receipts were: Williamsburg \$3,574,810, James City County \$2,764,063, and York County \$3,162,169; or City 37.6%, James City 29.1%, and York 33.3%.

b. Despite Williamsburg only collecting 37.6% of room taxes last year, in FY 10 it contributed 63.7% for tourism marketing through CWF or the Alliance. (\$2.2 million to CWF and the Alliance, compared to \$850,000 for James City and \$400,495 for York.)

c. Unfortunately, but arguably understandable, neither county contributes any dollars to the Colonial Williamsburg marketing campaign.

d. Finally, and most importantly, Colonial Williamsburg is the premier brand name and the premier "destination driver" for tourism in the Historic Triangle and in the City of Williamsburg. When it comes to the difficult choice of how best to promote and market the destination, Colonial Williamsburg and Busch Gardens are the drivers.

The proposed budget also includes an estimated \$1,500,000 of pass through funding from the \$2.00 room surcharge to the Williamsburg Area Destination Marketing Committee's campaign. This brings the total city tax dollars for tourism promotion to \$3,400,000.

Economic and Community Development

In addition to tourism promotion, the city support is recommended for a number of other agencies that make important economic development and community development contributions to Williamsburg. These are listed in the Budget Summary section. Significant changes from the current year include:

a. In discussions with the Redevelopment and Housing Authority Director, it is possible to end the \$35,000 annual city operating subsidy next year.



James City campuses as requested.

b. In the past the city has contributed to the lease for TNCC in the Discovery Center in New Town, but that needs to end for the city to increase allocations for support of the Hampton and

c. The Williamsburg Land Conservancy is a fine organization which the city currently supports in the amount of \$9,500. Since the Conservancy does little work in the city, and James City County funded them only \$5,000 this year, the city should reduce its funding to a level not to exceed that of the county.

d. The city had supported the Crossroad partnership at the \$10,000 level until last year when there was no city funding. I suggest the city return to funding this organization, but at \$2500 instead of the \$5000 requested.

6. **Cultural**. The Williamsburg Arts Commission has again performed the task of receiving, evaluating, and recommending funding for the arts. Their report is copied in the Appendix to the Proposed Budget. They recommend local arts funding of \$124,280, a decrease of 5.0%. Of this amount, the city contribution would be \$57,140. This assumes a state arts commission challenge grant of \$10,000, and county funding of \$57,140. If either state or county funding is reduced, then this item could be reduced further.

City sponsorship for the sixth annual "Festival Williamsburg" is provided, but at a 2.5% reduction to \$48,750, and an allowance of \$5,000, reduced from the \$10,000 provided last year, to partially fund the Virginia Symphony Lake Matoaka Concert at the beginning of fall term.

7. **Transportation**. The Williamsburg Area Transit Authority, which operates Williamsburg Area Transport, has requested level funding based on the Cooperative Agreement between the partners. Our estimate of the FY 11 cost to the city will not exceed \$265,000, level with the current year. In my view this allocation should be reduced in collaboration with our partners to help shoulder some of the burden.



Under Transportation are two continuing regional partnerships to promote alternatives to highway travel. Continued support for Virginians

for High Speed Rail in the amount of \$4,000 is recommended, and \$4,245 to provide funds for the Williamsburg EDA to participate in business development underwriting for Newport News/Williamsburg International Airport.

CAPITAL IMPROVEMENT PROGRAM

Revenue to fund the CIP comes from 1% Sales Tax Receipts, grants, and funds reserved for capital improvements. Beginning in FY 11 I am proposing that interest income, estimated at \$170,000 for FY 11 on General Fund reserve funds, be used to help fund capital expenditures. CIP items are explicitly linked to City Council's Goals, Initiatives and Outcomes for the biennium.

Due to estimated Sales Tax Receipts of only \$3.8 million, down from a peak over \$4.75 million in FY 07, the CIP has been trimmed down mainly by deferring projects.



Here are some of the highlights from this year's update of the Five Year Capital Improvement Program:

- Annual Repaving in the amount of \$300,000 for FY 11 has been moved from the Operating Budget to the Capital Budget (together with a revenue item – interest income as noted above).
- Traffic Signal improvements, depending upon the pace of traffic growth sufficient to satisfy “signal warrants,” are now planned in FY 12 for Richmond Road/Waltz Farm Drive, York Street/Quarterpath Road projected in FY 13, and Second Street/Parkway Drive in FY 14 – all most covered by VDOT Urban Funds and developer contributions.
- Ironbound Road Widening engineering money, mostly VDOT Urban Funds, is budgeted for FY 15, but project construction will not likely occur in the five year window.
- Underground Wiring will accompany the reconstructed portions of Ironbound Road near Richmond Road. The next major city financed, stand alone underground project on Page Street, is pushed back to FY 12. Funds in the amount of \$300,000 are budgeted in FY 11 for the Underground Wiring Improvement Project on Ironbound Road where it touches the front yards of city residents across from Tewning Road.
- Sidewalk Upgrades carried over from FY 10 with VDOT Revenue Sharing assistance are still pending for various locations, including, along Route 199 east of Jamestown Road, and Nassau Street tour bus loading area.
- No park improvement again next year, but the next phase of Quarterpath Park lighting improvements is planned in FY 12.

- E911 Consolidation funding of \$45,000 annually will save previously planned spending on a city E911 center.
- The Ironbound Fire Station has been removed from the CIP as no longer operationally feasible.
- The Municipal Building Renovation and Expansion Project, previously funded, is currently under construction with a spring 2011 completion date.
- W/JCC Schools capital needs receive city funding per the joint school agreement with James City County.

The Planning Commission's review of the draft CIP, used in developing the final recommendation, is provided under the **Capital Improvements** tab.

UTILITY FUND OVERVIEW

The Utility Fund budget calls for \$5,890,000 in operating revenues, and a 2.1% increase. A 5% water rate increase, \$4.00 to \$4.20 per 1,000 gallons, is recommended.

A Rate Analysis for the Utility Fund is provided under the Appendix tab in the Proposed Budget. The analysis shows a future with rate increases, and a future with no rate increases. The Rate Analysis is updated annually as part of the budget process.

NEXT STEPS

The budget process now moves from the staff level, formation phase, to the Council and public level, adoption phase.

The Budget Work Sessions, principally to look at outside agencies, are scheduled for Monday, March 22 and Tuesday, March 23. The school budget will be reviewed at the Monday, April 5, City Council work session. The formal budget hearing will be advertised for the April 8 City Council meeting. Adoption is scheduled for the May 13 Council meeting.

Jackson C. Tuttle
City Manager

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