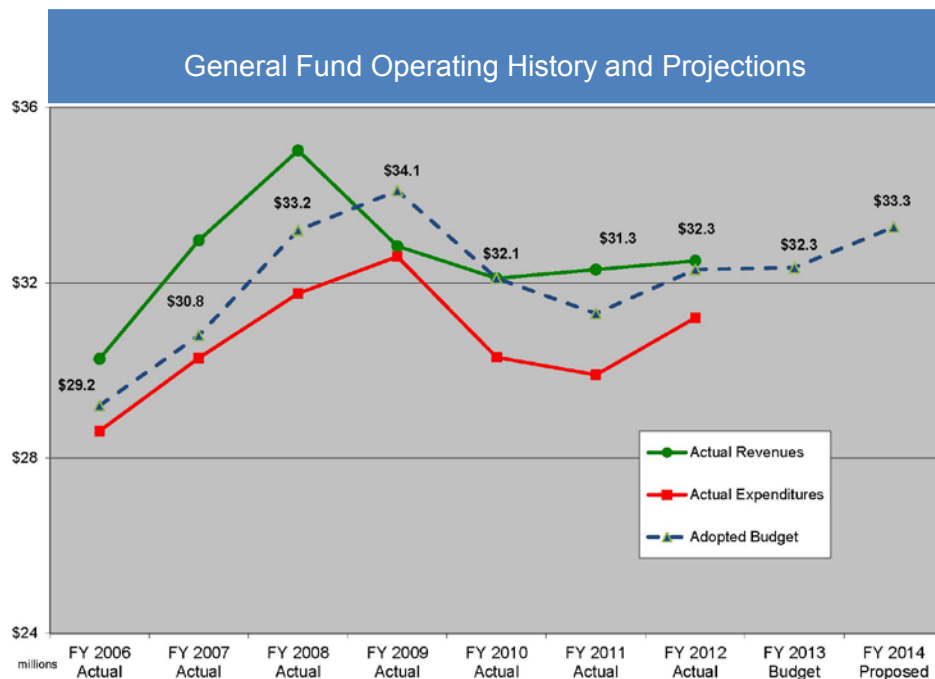




TO: Mayor and City Council
DATE: April 1, 2013
SUBJECT: City Manager's Budget Message

INTRODUCTION

In fiscal year 2009 the City's general fund operating budget exceeded \$34 million. In fiscal 2014, five years later, the city will continue to operate below that level.



Fiscal Year 2014, with one notable exception, should be a positive year for Williamsburg's general fund financial outlook compared to Fiscal Year 2013. Positive trends include:

- Property tax revenue should finally turn the corner and increase by 2.8%, even taking into account the recently announced transfer of the Hospitality House to tax exempt status.
- Intergovernmental revenue should be up significantly, by 10.5%, primarily due to higher state sales tax for education and VDOT street maintenance payments.



Budget Message

- All other tax and fee revenue when taken together as a whole should just barely land in positive territory.
- General fund expenditures, for all purposes except public education, are projected to be held to an increase of 1.1%.

The one big exception to the overall modestly positive financial trend in fiscal 2014 will be the cost of the city contribution to the Williamsburg/James City County School System. A contribution of \$8,368,814 will be required, an 8.1% increase in city school costs, based on full funding of the Superintendent's proposed school budget, according to the funding formula set forth in the current Joint School Agreement with James City County.

In just two years' time the city's spending for schools will have increased by over one million dollars, coming at a particularly difficult time while the city tries to rebound from the Great Recession. Since fiscal 2012 the portion of the city's general fund budget devoted to public education will have increased from 23.5% to 25.2% of the total.

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

- Projected Revenues of **\$33,176,575**, up by **3.2%**.
- Planned Spending of **\$33,285,206**, up by **2.8%**.
- Reserves brought forward of \$108,631 to fund in part appropriated contingencies.
- No recommended increases in tax rates or fees for service.
- Full time equivalent authorized positions of **188**, an increase of five due to incorporation of WRHA employees; reduced from **202** in FY 2009.

In the **Utility Budget**, **\$6,318,040** in operating revenues are projected, an **0.9%** increase. Recommended is a 5.5% Water and Sewer rate increase, from \$4.55 to **\$4.80** per one thousand gallons, beginning July 2013, per the **Five Year Water and Sewer Rate Analysis**. Comparing our water and sewer rates regionally:

Water and Sewer Rates (FY13) Per 1000 gallons	
Newport News	\$ 8.47
Portsmouth	\$ 8.47
JCSA Residential	\$ 6.07
JCSA Commercial	\$ 6.67
Norfolk	\$10.08
Chesapeake	\$10.90
Virginia Beach	\$ 8.10
Williamsburg	\$ 4.55

Budget Message

In the General Fund **Capital Improvement Program**, a total of **\$8,082,130** is projected in new capital spending, plus \$836,177 in debt service payments, for a total of **\$8,918,307**. (See **Capital Improvements** Section E)

The combined total of the four funds – General Operating Fund, Utility Fund, Sales Tax/Capital Fund and the Public Assistance Fund – amounts to **\$51,587,832**.

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

REVENUE PROJECTIONS

Next year (FY 2014) we forecast General Fund operating revenues of **\$33,176,575**, a **3.2%** increase from the current year (FY 2013) budget amount. Looking at four broad categories:

	Share of Budget	FY 2013 Adopted	FY 2014 Proposed	Change
All Property Taxes	38%	\$ 12,304,600	\$12,652,720	2.8%
Other Local Taxes	43%	\$ 14,276,600	\$14,211,000	(0.5%)
Fees, Charges, Miscellaneous	9%	\$ 2,670,759	\$3,115,968	16.7%
Intergovernmental	10%	\$ 2,893,561	\$3,196,887	10.5%

In the **Budget Guide** (Section F) are detailed explanations 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. **Real Estate Taxes.** Property tax projections are based on a total anticipated value of real estate of \$1.694 billion, an increase from current land book values of 4.0% (3.6% residential, 4.9% commercial), reflecting a long awaited reversal in the residential real estate market. Most of the gain in commercial valuation is the result of new construction (mostly Riverside Hospital) net of the loss of the Hospitality House as taxable property due to purchase by the College of William and Mary.

Each additional one penny on the tax rate should generate an estimated \$169,000. The Proposed Budget recommends continuing the tax rate of \$.57 per hundred dollars of assessed value yielding revenue of \$9,600,000.

Budget Message

2. **Personal Property Taxes.** Better known as the “car tax,” the personal property tax rate is currently \$3.50 per 100 of value (offset by tax relief from the state). City Council declined last year to increase this tax to \$4.00 matching the rate in York and James City Counties, as recommended, in order to help close the budget gap.

3. **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 \$14,211,000, a 0.5% decrease from the current year budget amounts.



The estimate for room and meal tax collections totals \$3,300,000 for room tax, 4.4% less than last year's estimate; and \$6,372,000 for meal tax, a 0.4% increase, from last year's adopted budget. These estimates remain below 2008 levels, reflecting continued weakness in the tourism sector, and an overly ambitious estimate for room tax last year. 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 \$1.3 million.

Taken together, all local sources of taxation, property and other local taxes, are expected to generate \$26,863,720, a 1.1% increase from the current year budget.

4. **User Fees, Charges, and Miscellaneous.** This broad category of locally generated revenue is expected to generate \$3,115,968, a significant increase of 16.7% from the current year. This increase is largely attributable to increasing Prince George Parking Garage income, and transferring rents from the Williamsburg Redevelopment and Housing Authority's (WRHA) Triangle Building to the City's operating budget. Also included is a yet undefined \$250,000 “Emergency Services Agreement” to account for the sudden loss of tax and fee revenue from the Hospitality House sale.
5. **Intergovernmental - Revenue from the Commonwealth.** Revenues from the state government in the amount of \$3,196,887, which includes support for constitutional officers and various categorical grants, are estimated to increase by 10.5%, based on the state's FY 14 budget. This is a welcome reversal of declines in intergovernmental revenue in recent years.

The estimate of Sales Tax for Education of \$985,974, based on State Department of Education calculations, is up by 27.6% due to increasing school census and growth in state sales tax receipts.

We also expect a \$30,000 increase in VDOT street maintenance payments to the city.

Budget Message

EXPENDITURE ISSUES

Next year we have proposed General Fund operating expenditures of **\$33,285,206**, an increase of 2.8% from the current year adopted budget. Broken down in four large categories:

	Share of Budget	FY 2013 Adopted	FY 2014 Proposed	Change
City Departments	53%	\$17,299,278	\$17,573,240	1.6%
Constitutional Officers and Judicial	7%	\$ 2,194,048	\$ 2,140,517	(2.4%)
Education and Library	27%	\$ 8,575,636	\$9,201,162	7.3%
Outside Agencies	13%	\$ 4,308,335	\$4,370,287	1.41%

Details on operating expenditures can be found under **Budget Summaries** (Section D). Highlights of significant expenditure issues are divided between “City Operational Issues” and “Outside Agency Issues.”

CITY OPERATIONAL ISSUES

1. Staffing. The total number of full time equivalent (FTE) positions authorized in city departments decreased from 202 in FY 09 to 183 in FY 13. The reduction has been 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. Next year we are bringing five WRHA positions on to the city payroll (four positions in Human Services department for public housing support, and one position in the Economic Development department. These changes will result in an FTE of **188** in FY 14.



2. Salary Ranges and Pay. A 2% allowance for merit pay increases has been included in the proposed budget, to be coupled with a 2% increase in pay ranges. The pay range increase will compensate in part for the 2.1% increase in the CPI for calendar 2012. This allowance will be apportioned to employees based on performance as indicated by annual performance evaluations, and by the relative position of the incumbent in their pay range as prescribed in the *Personnel*

Budget Message

Manual. In addition, a compensation allowance equal to .9 percent of pay and benefits has been included to make market adjustments for targeted compression and market issues.

3. Health Coverage. Last year the city changed the health care insurance coverage to Anthem's "Local Choice" product in order to control costs. The city received its Local Choice renewal notice calling for a 4.9% increase. It is recommended that this increase be apportioned equally between the city and the employees, so the budget reflects a 4.9% increase in the city's health care cost.

4. Virginia Retirement System. The contribution level set by VRS for Williamsburg in fiscal 2013 increased from 16.44% to 21.29% of payroll as a result of the latest biennial actuarial valuation. The 21.29% rate (16.29% city share, 5.0% employee share) remains constant in the fiscal 2014 budget.

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 in the **Budget Summaries** and the **Budget Guide** (Sections D and F), 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 or electronically, 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. Schools.** Based on 1) the Superintendent's proposed budget, 2) current expectations of State and Federal funding, and, 3) the current five-year Joint School Agreement with James City County with its three year enrollment averaging formula; we expect a city contribution to the schools in the amount of \$8,368,814, 8.1% increase from the current year. Over the past two years, since FY 2012, the city's increase in education funding is \$1,043,336, for a 14.2% jump in cost to city taxpayers. With this increase, next year the city's share of school cost will be 9.54%, compared to 90.46% for the county. Further, I expect FY15 will likely result in another large increase in city school costs.

The city's school population, for purposes of apportioning cost between the city and the county as determined by September 30, 2012 enrollment, is **902**, or 8.55% of the total.



Williamsburg Mayor Clyde Haulman reading to Matthew Whaley students

Budget Message

2. **Library.** The Williamsburg Regional Library is funded under the revised library agreement with James City County, effective July 1, 2006. (A new agreement is under review but will not drive the FY 2014 budget.) The existing 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 14 is 15.9% city, and 84.1% county. The Library's proposed budget of \$6,141,967 is an increase of 3.8%, which will result in a city contribution of \$819,506, level with the current year.
3. **Regional Jail.** Funding the city's share of the Virginia Peninsula Regional Jail is expected to be \$1,204,372, a 4.6% decrease 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 County, York and Poquoson) pays for their share of the inmate population, based on location where the offense occurred and the arresting authority. We expect to pay 18.5% of local jail costs this coming year.
4. **Health Services.** The three agencies named below provide health services to city residents, workers and visitors. The total recommended funding for FY 14 is \$434,576, an increase of 1.6%:

The Peninsula Health District budget request to the city is \$100,741, a 2.4% increase from the current year, based on a complex use-based formula.

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.

Finally, Colonial Behavioral Health, the agency through which the city provides mental health and retardation services to its residents, has requested a city contribution of \$250,405, which is a 1.85% over the amount the city provided in the current year.

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 \$74,444, an decrease of 15.6% due to moving Child Development Resources (CDR) city funding from a grant basis to a fee for service basis.

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

Tourism Promotion

The city has supported tourism advertising and promotion through Colonial Williamsburg as our premier "destination driver," and the Greater Williamsburg Chamber and Tourism Alliance as our regional "destination marketing organization."

This year Colonial Williamsburg Foundation has requested level funding of \$1,300,000. The Greater Williamsburg Chamber and Tourism Alliance, in its expanded role for destination marketing in cooperation with the Williamsburg Area Destination and Marketing Committee

Budget Message

(WADMC), has requested level funding of \$650,000. Despite the city's continuing budget challenges, funding for tourism promotion is necessary to grow the economic base for future city budgets.

The proposed budget also includes an estimated \$1,300,000 of pass through funding from the \$2.00 room surcharge to the coordinated Tourism Alliance and Williamsburg Area Destination Marketing Committees annual promotional campaign. The total city tax dollars for tourism promotion is \$3,250,000.



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. New this year is a proposed contribution of \$16,700 to This Century Art Gallery (TCAG) for the purpose of defraying the parking and landscaping fees due to the city as a result of TCAG's purchase of property in the Municipal Center for the purpose of constructing a new art gallery. Also city sponsorship for the Kingsmill Championship (LPGA) at \$15,000 is recommended to support this important regional tourism event.

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 (Williamsburg, James City County, and state challenge grant) arts funding of \$120,000. Of this amount, the city contribution would be \$55,000, level with current year. Also recommended is continued support of the Virginia Arts Festival at \$50,000; and the Virginia Symphony Lake Matoaka concert at \$6,000.

THE BUDGET AS A POLICY DOCUMENT

Before concluding this overview of the proposed budget, here is an introduction to important elements of public policy and managerial information contained in it:

- A. Budget Message providing management's introduction to the budget.
- B. City Council's Goals, Initiatives and Outcomes for the 2013 and 2014 Bennium. Adopted by City Council in November 2012, the "GIOs" set the strategic direction of the city to guide the annual budget process and to assess the performance of city government.
- C. Performance Metrics detailed by departments and cost centers.

Budget Message

- D. Budget Summaries provide precise budget information from the general to the specific, for all funds.
- E. Capital Improvement Program contains recommended capital appropriations in FY 2014, and the next four years of capital projections for planning purposes.
- F. Budget Guide contains background information helpful to understanding the complexities of a municipal budget in Virginia.

NEXT STEPS

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

City Council received outside agency proposals at the first Budget Work Session held on Monday, March 25. The school budget will be reviewed at the Monday, April 8 City Council work session. The formal budget hearing will be advertised for the April 11 City Council meeting. A second Budget Work Session is scheduled for Monday, April 29. Adoption is scheduled for the May 9 Council meeting.



Jackson C. Tuttle
City Manager