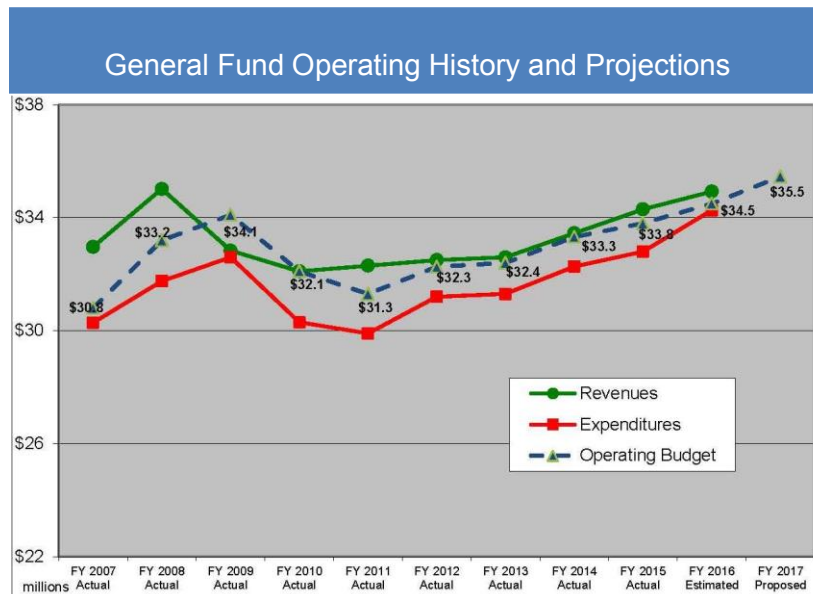


TO: Honorable Mayor and City Council  
 DATE: March 25, 2016  
 SUBJECT: City Manager's Budget Message

## INTRODUCTION

The budget for fiscal year 2017 balances community and organizational needs with recurring, operational revenues and produces reserves in accord with City policies. The focus of the FY17 budget is to take advantage of positive trends in revenue and operating efficiencies to advance policy goals of City Council and the Williamsburg community. The budget provides for reinvestment in the City organization to replace dated technology and infrastructure in combination with promoting the greatest asset of a public service organization, its workforce. The positive fiscal outlook provides the opportunity to address risk caused by deferred maintenance and make capital investments to position the City to experience planned redevelopment and placemaking.

Placemaking is defined by the Project for Public Spaces as “a multi-faceted approach to the planning, design and management of public spaces that capitalizes on a local community’s assets, inspiration, and potential, with the intention of creating public spaces that promote people’s health, happiness, and well-being”. Planning initiatives carried over from FY16 will be conducted in FY17 including the Parks, Recreation, and Culture Master Plan; Downtown Vibrancy and Design Plan; and North East Triangle Redevelopment Plan. Additional funding is provided for education, the arts, and parks to build upon the exemplary sense of place expected by the residents, businesses, and visitors of Williamsburg.



## Budget Message

Budget Trends for FY17 budget include:

- Property tax revenue continues to improve and increase by 1.6%.
- Intergovernmental revenue is projected to increase by 6% due to higher VDOT street maintenance payments, and state sales tax.
- All other tax and fee revenue taken together are projected to be 3.1% higher than the FY16 budget.
- Revenue classifications remain stable as a percentage of total revenues (see Revenues graph in Budget Summaries). Property taxes (39%) and other local taxes (42%) remain the top two revenue classifications.
- Expenditures are stable by classification as a percentage of total expenditures with slight increases in Education (up 0.4%) and Public Safety (0.2%) that remain the top two expenditure classifications (see Expenditures graph in Budget Summaries).

The FY17 General Fund Operating Budget can be summarized by:

- Balanced budget projects revenues and expenditures of **\$35,453,091**, up by **2.75%**.
- No recommended increase in tax rates.
- Full time equivalent authorized positions of **196.5**, four more than FY16.

A fiduciary fund for the Quarterpath Community Development Authority (QCDA) is again part of next year's budget. Fiscal year 2017 will be the third year special assessments will be collected by the city for the QCDA, which will be used to repay the public improvement bonds on the Quarterpath at Williamsburg development. More information on the fiduciary fund can be found in the Budget Summaries section.

In the Utility Budget, \$7,005,400 in operating revenues are projected, a 6.9% increase.

Recommended is a 3.5% Water and Sewer Rate increase, from **\$5.12** to **\$5.30** per one thousand gallons, beginning July 2016, per the Five Year Water and Sewer Rate Analysis as shown in the Appendix. The graph to the right compares the city's water and sewer rates regionally.

### Water and Sewer Rates (FY16) Per 1000 gallons

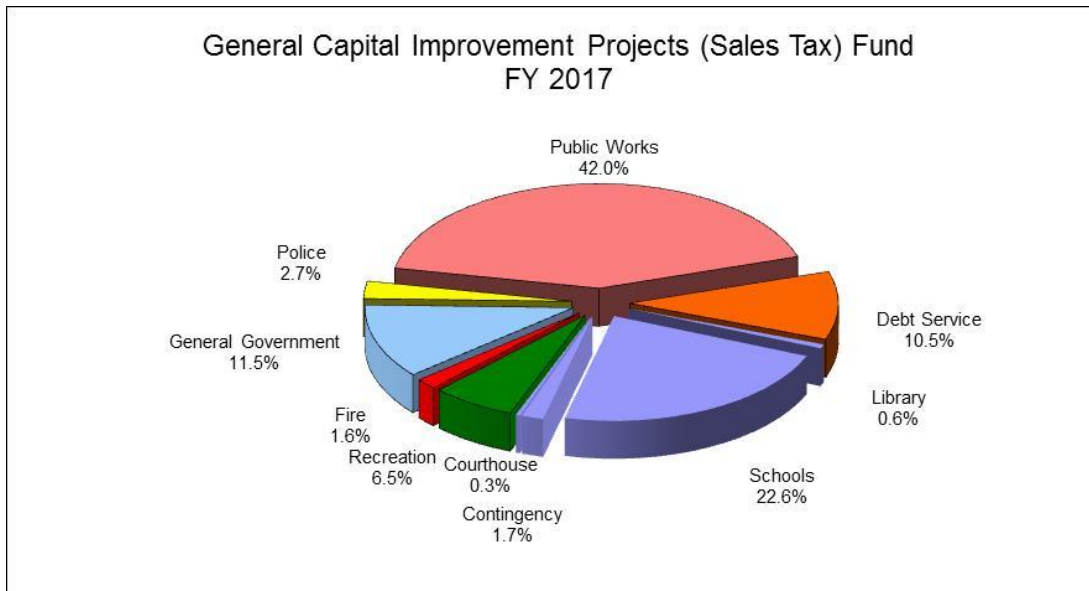
Newport News	\$ 8.87
Portsmouth	\$ 8.48
JCSA	\$ 5.40
Norfolk	\$11.27
Virginia Beach	\$ 8.10
<b>Williamsburg</b>	<b>\$ 5.12</b>

(Does not include HRSD or fixed service fees)

New capital spending in the amount of **\$10,534,800** in the General Fund Capital Improvement Program (CIP), plus \$1,236,584 in debt service payments bring the projected total capital spending for FY17 to **\$11,771,384**.

Highlights for CIP FY17 funding include:

- Ironbound/Longhill Road Intersection Relocation
- Second Street Underground Wiring Project
- Bicycle Facility Improvements – Monticello Avenue Shared-Use Path Design
- Improvements to Quarterpath Park, Kiwanis Park, and Waller Mill Park
- Police Station Space Needs Study
- Police Body Worn Camera Implementation
- Enterprise Resource Planning System Replacement (Finance Technology)
- Scheduled Vehicle Replacement
- Fourth Middle School at James Blair School – Project Contingency



Descriptions for all the capital improvement projects are located in the CIP Section.

The combined total of the five funds: General Operating Fund, Utility Fund, Sales Tax Capital Fund, Public Assistance Fund, and QCDA Fiduciary Fund amounts to **\$58,203,466**.

Beginning with revenue projections for the General Fund, the remainder of the Budget Message discusses issues helpful in understanding and reviewing the proposed budget.

## REVENUE PROJECTIONS

For the FY17 budget we forecast General Fund operating revenues of **\$35,453,091** a 2.75% increase from the current fiscal year. Looking at four broad categories:

	Share of Budget	FY 2016 Adopted	FY 2017 Proposed	Change
All Property Taxes	38%	\$13,352,140	\$13,560,907	1.6%
Other Local Taxes	42%	\$14,487,000	\$14,929,000	3.1%
Fees, Charges, Miscellaneous	10%	\$3,266,771	\$3,359,577	2.9%
Intergovernmental	10%	\$3,397,658	\$3,603,607	6.1%

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 \$1.83 billion, an increase of 2.2% (1.4% residential and 3.6% commercial) in landbook value. This continues the positive trend in the residential real estate market seen in the past two fiscal years.

An additional one penny on the real estate tax rate would generate an estimated \$183,000. The FY17 Proposed Budget recommends continuing with the current rate of \$.57 per hundred dollars of assessed value generating revenue of **\$10,230,000** (budgeted at 98% collection rate).

2. **Personal Property Taxes.** Personal property tax, known as the “car tax,” is currently \$3.50 per \$100 value (off set by tax relief from the state). We recommend keeping the current rate of \$3.50 per \$100 value yielding **\$2,700,000** in operating revenue, up slightly by .04% from FY16.

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3. **Other Local Taxes.** Other local taxation sources include various consumer utility taxes and franchise fees, business licenses, and transient lodging and prepared food (“room and meal” taxes). Together the other local taxes will generate **\$14,929,000**, 3.1% over the current fiscal year budget.

Room and meal tax collections for FY17 are anticipated to total **\$10,300,000**; room tax totaling **\$3,340,000**, a 5.7% increase and meal tax collections totaling **\$6,960,000**, a 3.1% increase. Room tax estimate does not include the \$2.00 destination marketing surcharge used for destination marketing which is included in a separate line item of the budget in the amount of **\$1,130,000**.

Together, sources of taxation including property and local taxes are expected to generate **\$28,489,907**, a 2.3% increase from the current year budget.

4. **User Fees, Charges, and Miscellaneous.** The broad category of locally generated revenue is expected to provide **\$3,359,577**, a 2.9% increase.

EMS Recovery fees for FY17 are projected to be level at \$475,000 utilizing the billing system implemented in FY16.

5. **Intergovernmental - Revenue from the Commonwealth.** Revenues from the state, which include support for constitutional officers, sales taxes for education, 599 police funds, and street maintenance payments, are estimated to be **\$3,603,607**, a 6.1% increase.

The estimated Sales Tax for Education of **\$1,167,595** based on State Department of Education calculations, is up 7.8% based on the latest calculations for school-aged (5 to 19) population as of July 1, 2014 as reported from the Weldon Cooper Center for Public Service.

## EXPENDITURE ISSUES

Proposed General Fund operating expenditures for FY17 total **\$35,453,091**, a 2.75% increase from the current adopted budget. Expenditures are broken down into four large categories:

	Share of Budget	FY 2016 Adopted	FY 2017 Proposed	Change
City Departments	53%	\$18,458,507	\$18,793,087	1.7%
Constitutional Officers and Judicial	6%	\$2,185,153	\$2,263,885	3.6%
Education and Library	28%	\$9,559,061	\$9,952,933	4.1%
Outside Agencies	13%	\$4,300,849	\$4,443,186	3.3%

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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. Services.** The recommended budget reflects stability in the core services provided to the public in FY17 with an emphasis on building upon past efforts to provide improvements in communication, resiliency, and implementing innovative practice.

Communication enhancements will be provided as staff completes development of a new performance management system designed to provide clear, informative data to the public in six major policy goal areas. The Information Technology Department budget includes a recurring software expense of \$23,400 for the Socrata performance management dashboard system. The enhanced dashboard system will be presented to City Council in the summer of 2016 and incorporated into the 2017-2018 Biennial Goals, Initiatives, and Outcomes (GIO) process. The new performance management system will also be coordinated with a new website and communication plan.

The ability to respond and adapt to change is often referred to as resiliency. The FY17 budget promotes organizational resiliency by providing additional resources for training. An example is the increase in the Police Department training line funding being increased \$10,000. The additional funding is matched by a Federal grant. The “Train the Trainer” program on “Fair and Impartial Policing” will support the implementation of the body camera project.

A Williamsburg Health Foundation grant totaling \$260,000 for a pilot program to achieve better health outcomes for city children has been again included in next year’s operating budget. If funded, the second year of the innovative program will continue to be managed by the Human Services Department in partnership with Child Resource Development and WJCC Public Schools.

**2. Staffing.** The number of full time equivalent (FTE) positions in FY16 totaled 192.5, down from 202 in FY09, but an increase of 10 positions during the previous five fiscal years (FY11 – FY16). The proposed FY17 budget includes four new positions including three new FTE Fire Department positions and one FTE in the Finance Department, bringing total FTEs for FY17 to **196.5**.

The three new Fire Department positions are designed for medical response with basic firefighting training. The medical focus to the positions reflects the transition of calls of service answered by the Fire Department from fire service calls to medical calls. The positions will provide flexibility in scheduling and operations to reduce medical call response times. Further, the positions address the increasing work load on the Fire Department staff to provide public safety staffing to special events.

One full-time equivalent Financial Technician was eliminated in the Finance Department during the recession. To ensure essential coverage at the Finance counter, I am recommending the position be restored in FY17. This will also provide cross-training for utility billing and delinquent

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account collections. In addition, the pending replacement of the financial ERP software will add workload demands on staff in a number of City departments, and especially in the Finance Department as staff will be running parallel systems in numerous applications as they are rolled-out in phases over the next few years.

**3. Pay.** A 2% allowance for merit pay increases has been included in the proposed budget, totaling \$237,734 including benefits for the General Fund and Utility Fund. 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 Manual*.

Funding for a Pay and Classification Study (\$40,000) is included in the General Fund in FY17 to evaluate existing salary and benefit levels to ensure the City retains an exceptional workforce. The study will provide a market comparison for the existing pay and benefit levels of the organization compared with like positions in the public and private sectors. The City will implement findings in future budget years to address inequities identified in the market, address compression, and promote and acquire talent by planning for succession.

**4. Health Insurance Coverage.** This is the city's fifth year with the Commonwealth's "Local Choice" health care insurance administered by Anthem. The city received a renewal notice calling for a **6.4% increase** in next year's health care premiums (6% average increase over 4 years). It is recommended that the city pay the increase in the premium payment for FY17 to maintain existing employee contribution levels. The recommended budget includes an 8% increase in health insurance to cover the City and employee shares of the premium increase.

**5. Virginia Retirement System.** The VRS biennial actuarial valuation for Williamsburg in FY17 is 19.09% (14.09% city share, 5% employee share) of payroll. This is the first year for this rate which will hold for the biennium by VRS next year. The new VRS Hybrid Retirement Plan, implemented in July 2014, is blended with pre-hybrid plans in a single VRS contribution rate. The FY 16 biennial valuation was 22.04%. The City-wide savings in the reduction is approximately \$311,000 for FY17.

## 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 of 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 Library budgets.

A number of issues concerning outside agency requests need to be highlighted:

**1. Schools.** We expect the city's contribution to the schools to be **\$9,081,895**, a 4.34% increase, based on the WJCC School Board's adopted budget, current state and federal funding, and the current five-year joint contract with James City County. Next year's city share of school

## Budget Message

costs will be 9.46% compared to 90.54% for James City County. Determined by September 30, 2015 enrollment, the city's school population for the purposes of apportioning cost between the city and county is 942, 8.44% of the total.

The city's funding share of the fourth middle school on the James Blair site will be negotiated per the current joint school contract and finalized during the contract negotiations for the next 5-year period during FY17. The City allocated a total of \$3,066,285 in FY15 and FY16 to the project which represents 10% of the project cost estimate (\$30,781,044). The FY 17 CIP includes a \$2,200,000 contingency line for the fourth middle school project. The allocation is recommended to provide sufficient funds to complete the project. The allocation is a contingency and the school system will only be provided funds after project funds are expended and additional funds are deemed necessary in compliance with the final construction contract based following the value engineering process. Remaining funds will be reallocated in future CIP processes.

**2. Regional Library.** The Williamsburg Regional Library is funded under an agreement with James City County and York County. The fifth restated and amended contract was approved in September 2013 including York County for the first time. The current contract calls for funding operational costs based on proportion of circulation by residency. The Library's proposed budget of \$6,402,063 is an increase of 1.73%, which results in a city contribution for FY17 of **\$858,196**, which represents 15.9% of circulation.

**3. Community Corrections Agencies.** The city's share of the Virginia Peninsula Regional Jail is expected to be **\$1,191,527**, 3% increase in funding from FY16. The city share of jail costs is based on the average use rate over the past five years. Each member of the regional jail (Williamsburg, James City County, York County and Poquoson) pays for their share of the inmate population, based on the location of where the offense occurred and the arresting authority. A new contract to house U.S. Immigration and Customs Enforcement (ICE) detainees provides added revenue to the jail.

Juvenile detention costs at the Merrimac Center are estimated to be level with last year. City usage was 464 and 315 days respectively for FY14 and FY15. Usage is estimated for FY15 and FY16 at 500 days, an estimated cost of \$100,000 for each year.

**4. Health Services.** The agencies below provide health services to city residents, workers and visitors. The total recommended funding for FY17 is **\$438,399**, a .67% increase from FY16.

The Peninsula Health District has requested \$99,969, 3% increase from the current year budget. The request is based on a complex use-based formula.

The Human Services Advisory Board recommends Olde Towne Medical Center (Williamsburg Area Medical Assistance Corporation) receive level funding of \$83,430.

Lastly, Colonial Behavioral Health has requested \$255,000 (level funding) from the city to provide mental health services to city residents.

**5. Human Service Agencies.** The city's Human Services Advisory Board has evaluated human service agency requests for funding, as requested by the City Council. Their analysis and recommendations are in the Proposed Budget Appendix. Proposed for next year is **\$84,883** is a \$6,881 (8.9%) increase from FY16. The increase fully funds the requested amounts for



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previously funded agencies without expanding funding commitments to new agencies. Increased funding requests were provided for the Community Action Agency Inc., Hospice Support Care of Williamsburg, Peninsula Agency on Aging, and Williamsburg Area Faith in Action.

### **6. Community and Economic Development Agencies.**

#### **Tourism Promotion.**

The city has supported tourism promotion and advertising through the Colonial Williamsburg Foundation (CWF) as our premier “destination driver” and the Greater Williamsburg Chamber and Tourism Alliance (Alliance), as the regional destination marketing organization.

The Colonial Williamsburg Foundation has requested level funding of **\$1,300,000** to support 20% of the Foundation’s marketing media budget.

The Greater Williamsburg Chamber and Tourism Alliance has requested a total of **\$800,000** for city tourism promotion and business services, and for other specific seasonal marketing campaigns and promotions for the arts, sports tourism, and the Christmas holiday. This is a \$50,000 increase over current funding of \$750,000.

The FY17 budget includes a roll-over in the Capital Fund in the amount of \$53,835 for the continuation of the Tourism Contingency Fund. The program provides funding for additional tourism marketing and/or tourism initiatives at City Council’s discretion for new or expanded activity in the City.

The City has received a request from the Virginia Arts Festival in the amount of \$50,000 for FY17 to support Festival Williamsburg in 2018. The City provided a total contribution for Festival Williamsburg to \$100,000 in FY16 with \$50,000 allocated through an outside agency funding request and \$50,000 provided from the Tourism Contingency Fund.

The budget includes an estimated \$1.13 million of pass-through funding from the \$2.00 surcharge to fund the Williamsburg Area Destination Marketing Committee’s destination marketing campaign and efforts.

The total recommended city tax dollars for tourism promotion is **\$3,230,000**, an increase of 1.9%.

#### **Economic and Community Development.**

In addition to tourism promotion, city support is recommended for a number of other organizations that make important economic development and community development contributions to Williamsburg. These are listed in the Budget Appendix section (G-3).

The proposed budget includes requested funding for Thomas Nelson Community College and the Greater Williamsburg Partnership. Funding for the Historic Triangle Collaborative is removed as requested by the organization. Funding is increased for the Heritage Humane Society (\$4,667 increase for a total of \$19,667) to assist with providing additional veterinarian services at the

shelter. New funding is provided for the Virginia Cooperative Extension Master Gardener Program (\$5,451) and the Williamsburg Hotel and Motel Association (\$10,000).

The proposed budget includes \$110,000 for the Economic Development Authority (EDA). The amount reflects a \$10,000 increase from FY16 funding levels for new business recruitment (Budget Appendix section G-50).

The City Council approved the purchase of the Super 8 Hotel property on Richmond Road in FY16 for a purchase price of \$2,450,000. The budget amendment of \$3,000,000 for the total project cost (includes demolition) is not reflected in the current budget as the appropriation is not approved and the purchase may be completed prior to FY17. If the project is included in the CIP, the Reserve balance remains above the 35% minimum policy (reduces from 57.2% to 48.7%).

**7. Cultural.** The Williamsburg Arts Commission performed the task of receiving, reviewing, and recommending funding for the arts. Their report is provided in the Appendix to the Proposed Budget. The recommend funding for local arts funding of **\$160,000** (Williamsburg, James City County, and state challenge grant included) in included in the proposed budget and is an increase of \$30,000 from FY16 (\$130,000). The city's contribution would increase to \$75,000.

### 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 2015 and 2016 Biennium. Adopted by City Council in November 2014, 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. This section has been improved to show more metrics graphically.
- 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 FY17, 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**

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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 21. The formal budget hearing will be held at the Thursday, April 14, City Council meeting. A second Budget Work Session is scheduled for Monday, April 18, if required. Adoption is scheduled for the May 12 Council meeting.

Yours in public service,



Marvin E. Collins III  
City Manager