



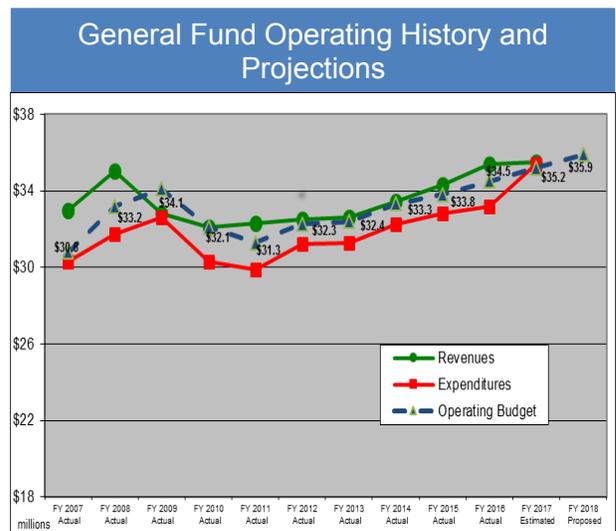
TO: Honorable Mayor and City Council
 DATE: March 24, 2017
 SUBJECT: City Manager’s Budget Message

INTRODUCTION

The fiscal year 2018 budget continues the trend of recent years with limited, positive increases and recovery in property values and revenues matched with the pressures of increased expenses for both core service provision and outside agency funding requests of jurisdictional and community partners. The budget is balanced and provides for increases in core services and outside agencies as limited by revenue without increasing property, sales, room, or meal tax rates or utility rates. Core service levels are maintained to provide excellence in municipal service delivery as in previous years. The focus of the FY 18 budget is to fund increases to core services using the modest increases in projected revenues and providing for an initial implementation of a compensation and classification study using existing operating funds from department budgets.

Core municipal services cross all departmental functions and are both valued and expected by the public. The increase from FY 17 adopted budget to the FY 18 proposed budget is \$515,976 (1.46%). The core services that receive the benefit by percentage of the new revenue are as follows: education (43%), police (17%), transit (7%), economic development (6%), streets (5%); library (4%); information technology (3%), Council – VML Conference (3%), Refuse Collection (2%) and health agencies (2%). The remaining 8% are increases that individually account for 1% or less of the new revenues.

In order to deliver on the Vision that Williamsburg will be “served by a city government – cohesively led, financially strong, always improving and innovating” the organization must provide resources to retain and recruit talent at all levels. The City committed to conduct a comprehensive Compensation and Classification Study in FY 17 to update job descriptions and competitive pay scales for the first time in over 20 years. The FY 18 budget provides funds to implement a portion of the study to place employees in new pay grades and scales and move compensation towards market recommendations. Funding provided to implement year 1 of the study was identified



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from the existing city department operating budgets. Full implementation will require additional funding in next budget year as resources allow.

Budget Trends for FY18 budget include:

- Property tax revenue continues to modestly improve and increase by 1.9%.
- Intergovernmental revenue is projected to decrease by 0.2% due to higher VDOT street maintenance payments, offset by reduced State tax for education and transfer of fire grants to the capital fund.
- All other tax and fee revenue taken together are projected to be 1.5% higher than the FY17 budget.
- Revenue classifications remain stable as a percentage of total revenues (see Revenues graph in Budget Summaries). Property taxes (38%) and other local taxes (42%) remain the top two revenue classifications.
- Expenditures are stable by classification as a percentage of total expenditures with a slight increase in Education (up 0.3%) and decrease in Public Safety (-0.8%) that remain the top two expenditure classifications (see Expenditures graph in Budget Summaries).

The FY18 General Fund Operating Budget can be summarized by:

- Balanced budget projects revenues and expenditures of **\$35,951,196**, up by **1.46%**.
- No recommended increase in tax rates.
- Full time equivalent authorized positions of **197**, 0.5 more than FY17 by adding a police officer position and eliminating a half-time administrative position in the City Manager's Office.

The fiduciary fund for the Quarterpath Community Development Authority (QCDA) for Fiscal year 2018 is the fourth year special assessments will be collected by the city for the QCDA. Funds are used to repay the public improvement bonds on the Quarterpath at Williamsburg development. More information on the fiduciary fund is in the Budget Summaries section.

In the Utility Budget, \$7,083,394 in operating revenues are projected, a 1.1% increase. No increase is recommended for Water and Sewer with rates remaining at **\$5.30** per one thousand gallons, 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 (FY17) Per 1000 gallons

Newport News	\$ 8.79
Portsmouth	\$ 8.48
JCSA	\$ 5.79
Norfolk	\$11.68
Virginia Beach	\$ 8.10
Williamsburg	\$ 5.30

(Does not include HRSD or fixed service fees)

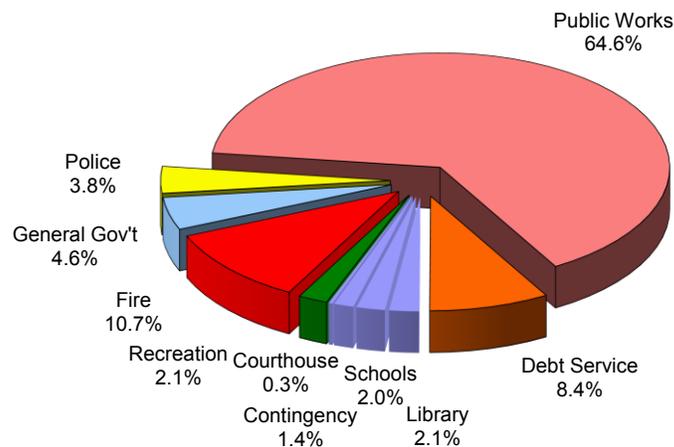
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New capital spending in the amount of **\$13,138,260** in the General Fund Capital Improvement Program (CIP), plus \$1,211,191 in debt service payments bring the projected total capital spending for FY17 to **\$14,349,451**.

Highlights for CIP FY18 funding include:

- Ironbound/Longhill Road Intersection Relocation
- Capitol Landing Road Redesign
- Second Street Underground Wiring Project (FY17 carryover)
- Bicycle Facility Improvements – Monticello Avenue Shared-Use Path Design
- Improvements to Quarterpath Park (FY17 carryover), Kiwanis Park, and Waller Mill Park
- Fire and Police Station Renovation Design
- Public Safety Equipment Replacement
- Enterprise Resource Planning System Replacement (plus FY17 carryover)
- Scheduled Vehicle Replacement
- Williamsburg Regional Library Mechanical Systems

General Capital Improvement Projects (Sales Tax) Fund
FY 2018



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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 **\$60,970,250**.

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 FY18 budget we forecast General Fund operating revenues of **\$35,951,196** a 1.46% increase from the current fiscal year. Looking at four broad categories:

	Share of Budget	FY 2017 Adopted	FY 2018 Proposed	Change
All Property Taxes	38%	\$13,560,907	\$13,821,900	1.9%
Other Local Taxes	42%	\$14,929,000	\$14,996,000	0.5%
Fees, Charges, Miscellaneous	10%	\$3,349,577	\$3,545,445	5.9%
Intergovernmental	10%	\$3,595,736	\$3,587,851	-0.2%

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 \$1.85 billion, an increase of 1.2% (1.4% residential and 0.9% commercial) in landbook value. This continues the positive trend in the residential real estate market seen in the past four fiscal years.

An additional one penny on the real estate tax rate would generate an estimated \$185,000. The FY18 Proposed Budget recommends continuing with the current rate of \$.57 per hundred dollars of assessed value generating revenue of **\$10,400,000** (budgeted at 98% collection rate).

2. **Personal Property Taxes.** Personal property tax, known as the "car tax," is currently \$3.50 per \$100 value (offset by tax relief from the state). We recommend keeping the current rate of \$3.50 per \$100 value yielding **\$2,795,000** in operating revenue, up by 3.5 % from FY17.

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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 **\$14,996,000**, 0.45% over the current fiscal year budget.

Room and meal tax collections for FY18 are anticipated to total **\$10,295,000**; room tax totaling **\$3,300,000**, a 1.2% decrease and meal tax collections totaling **\$6,995,000**, a 0.51% 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 and projected to remain **\$1,130,000**.

Together, sources of taxation including property and local taxes are expected to generate **\$28,817,900**, a 1.2% increase from the current year budget.

4. **User Fees, Charges, and Miscellaneous.** The broad category of locally generated revenue is expected to provide **\$3,545,445**, a 9.9% increase.

EMS Recovery fees for FY18 are projected to increase to **\$631,000** based on the rising costs of service delivery and to maintain comparable rates in the region. The new rates are Basic Life Support \$540, Advance Life Support (ALS1) \$640 and \$925 (ALS2), and a \$10.95 mileage rate. The increased fees are collected from insurance carriers and will not impact the patient co-pay that is currently waived for Williamsburg residents but will be charged to non-residents.

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 **\$3,587,851**, a 0.2% decrease.

The estimated Sales Tax for Education of **\$1,142,018** based on State Department of Education calculations, is down 1.5% based on the latest calculations for school-aged (5 to 19) population.

EXPENDITURE ISSUES

Proposed General Fund operating expenditures for FY18 total **\$35,951,196**, a 1.46% increase from the current adopted budget. Expenditures are broken down into four large categories:

	Share of Budget	FY 2017 Adopted	FY 2018 Proposed	Change
City Departments	53%	\$18,886,193	\$19,151,567	1.4%
Constitutional Officers and Judicial	6%	\$2,260,698	\$2,220,786	-1.8%
Education and Library	28%	\$9,845,143	\$10,083,456	2.4%
Outside Agencies	13%	\$4,443,186	\$4,495,387	1.2%

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 a continuation of services provided to the public in FY18 with an emphasis on maintaining core services to provide improvements in communication, infrastructure maintenance, and implementing innovative practice. The budget also includes support for planned capital improvements and redevelopment.

Communication enhancements continue as staff works to implement a new phone system, implementing enhanced operating reports using existing Socrata software, and initiating year 2 of the Tyler ERP (Finance) system implementation.

The ability to respond and adapt to change is often referred to as resiliency. The FY18 budget promotes organizational resiliency by providing additional resources for public safety equipment replacement and maintenance. The Fire Department is replacing 32 self-contained breathing apparatus, air cylinders, and related equipment for all fire apparatus to operate safely in hazardous environments. Ongoing EMS training also requires equipment replacement including five automated external defibrillators, three video laryngoscopes, and three pediatric restraint kits. The Police Department will be maintaining and evaluating the Taser non-lethal units and body worn cameras in FY 18.

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 third 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 FY17 totaled 196.5, down from 202 in FY09, but an increase of 13 positions during the previous five fiscal years (FY12 – FY17). The proposed FY18 budget includes one new police officer position in the Police Department and eliminates a half-time administrative position in the City Managers Office, bringing total FTEs for FY18 to **197**.

The new police officer position will provide for 20 additional hours per week assigned to community affairs and community emergency response team (CERT) programming and 20 additional hours per week assigned to school resource officer programs with the opening of the 4th middle school in the City at the James Blair site in September 2018.

The half-time administrative assistant position in the City Manager’s Office will be eliminated and the vacant, existing full-time City Clerk/Administrative Assistant position will be filled. Part-time funding is retained to continue the summer internship program to provide local college students and opportunity to learn about local government and gain professional experience.

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3. Pay. Funding to implement a portion of the findings of the Compensation and Classification Study (\$450,000) is included in the General Fund in FY18. The study evaluated existing salary scales and job descriptions to ensure that staff is competitively compensated for completed work. The study will provide a market comparison for the existing pay of the organization compared with like positions in the public and private sectors. The City will implement findings in future budget years to address and remaining inequities identified in the market, address compression, and promote and acquire talent by planning for succession.

The City operates on a merit based pay system. An additional \$40,000 is budgeted to recognize 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*.

4. Health Insurance Coverage. This is the city's sixth year with the Commonwealth's "Local Choice" health care insurance administered by Anthem. The city received a renewal notice calling for **no increase** in next year's health care premiums.

5. Virginia Retirement System. The VRS biennial actuarial valuation for Williamsburg in FY18 is 19.09% (14.09% city share, 5% employee share) of payroll. This is the second year for this rate. The new VRS Hybrid Retirement Plan, implemented in July 2014, is blended with pre-hybrid plans in a single VRS contribution rate.

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 **\$9,207,525**, a 2.41% increase, based on current state and federal funding and the current five-year joint contract with James City County. Next year's city share of school costs will be 9.46% compared to 90.54% for James City County. Determined by September 30, 2016 enrollment, the city's school population for the purposes of apportioning cost between the city and county is 934, down eight (8) students from the prior year and 8.26% of the total.

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 \$6,394,438 is an increase of 1.25%, which results in a city contribution for FY18 of **\$859,699**, which represents 16.04% of circulation.

3. Community Corrections Agencies. The city's share of the Virginia Peninsula Regional Jail is expected to be **\$1,151,327**, a 3.4% decrease in funding from FY17. 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. FY17 City usage was 315 and 400 days respectively for FY15 and FY16. Usage is estimated for FY17 at 400 days, an estimated cost of \$80,000 for FY17 and FY18.

4. Health Services. The agencies below provide health services to city residents, workers and visitors. The total recommended funding for FY18 is **\$448,719**, a 2.3 % increase from FY17.

The Peninsula Health District has requested \$105,208, 5.2% increase from the current year budget. The request is based on a complex use-based formula.

The Human Services Advisory Board and the proposed budget recommends Olde Towne Medical Center (Williamsburg Area Medical Assistance Corporation) receive funding of \$88,511, and increase of 6.1%.

Lastly, Colonial Behavioral Health has requested \$265,000 from the city to provide mental health services to city residents. The FY18 proposed budget supports the recommendation of the Human Service Advisory Board to retain level funding of \$255,000.

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 funding for next year is **\$86,883**, a \$2,000 (2.4%) increase from FY17. The increase fully funds the recommended amounts for previously funded agencies including a \$500 increase to Hospice of Williamsburg. Funding to one new agency request of \$1,500 was provided to ARC of Greater Williamsburg.

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 increased funding of \$1,500,000 (15.4%) to support increased costs to the Foundation's marketing media budget. The proposed budget provides level funding of **\$1,300,000** for FY18.

The Greater Williamsburg Chamber and Tourism Alliance has requested a total of \$875,000 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

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\$75,000 (9.4%) request increase over current funding. The proposed budget provides level funding of **\$800,000** for FY18.

All funds from the FY17 budget roll-over in the Capital Fund in the amount of \$53,835 for the continuation of the Tourism Contingency Fund were expended. 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 proposed FY18 budget does not fund the program.

The City has received a request from the Virginia Arts Festival in the amount of \$55,000 for FY18 to support Festival Williamsburg in 2018. The City provided a total FY17 contribution for Festival Williamsburg of \$75,000 with \$50,000 allocated through an outside agency funding request and \$25,000 provided in September 2016 from the operating 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 (total of CWF, GWCTA, and WADMC) is **\$3,230,000**, level with the FY17 approved budget.

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 was removed as requested by the organization in FY17.

The proposed budget includes \$110,000 for the Economic Development Authority (EDA). The amount reflects level funding from FY17 to FY18 as requested (Budget Appendix section G-62).

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) is included in the proposed budget with level funding from FY17.

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 2017 and 2018 Biennium. Adopted by City Council in November 2016, 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 provides graphic representation of metrics.
- 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 FY18, 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 20, 2017. Staff will present the proposed budget at the Council Work Session on Monday, April 10, 2017. The formal budget hearing will be held at the Thursday, April 13, 2017 City Council meeting. A second Budget Work Session is scheduled for Monday, April 17, 2017 if required. Adoption is scheduled for the May 11, 2017 City Council meeting.

Yours in public service,



Marvin E. Collins III
City Manager