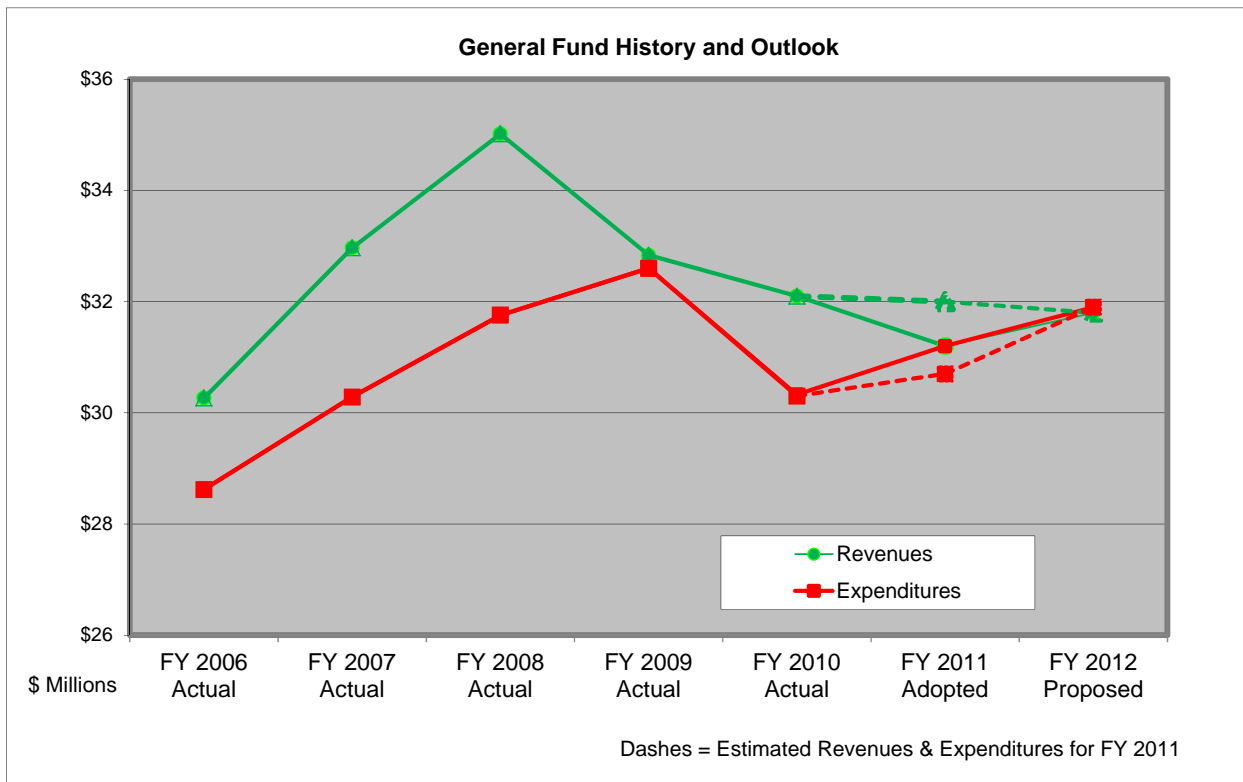


TO: Mayor and City Council  
 DATE: March 18, 2011  
 SUBJECT: City Manager's Budget Message

**INTRODUCTION**

Last year at this time the great recession of 2008 persisted and reflected a continued decline in Williamsburg's budget outlook.

During the first eight months of the current fiscal year, fortunately, the picture has begun to brighten. The chart below tells the story. It shows a steep decline in both income and spending from the peak fiscal year 2008 through 2010, followed by a leveling in fiscal years 2011 and 2012.



Next year we anticipate a modest increase of **1.9%** in adopted General Fund operating revenue, although still 6.5% less than the budget adopted a full three years ago (Fiscal 2009). It will likely take many years to equal the revenue results in Fiscal 2008 when over \$35 million was collected.



## Budget Message

Nevertheless, through these stressful times, Williamsburg has succeeded in at least three ways. It has maintained its financial strength, advanced its ambitious agenda, and focused on measuring performance.

\* As an indicator of financial health, Williamsburg obtained its first general obligation bond rating ever – AA+ Standard & Poor's and Aa1 Moody's – and issued \$10.64 million to refund existing debt at an interest rate of 2.75%.

\* As for the ambitious agenda, City Council adopted its Goals, Initiatives and Outcomes for the 2011 and 2012 Biennium in November 2010. The GIOs set forth ten major goals, 78 concrete initiatives, and 69 outcome measures and National Citizen Survey ratings. (See **City Council Goals** Section B)

\* Concerning performance measurement, Williamsburg's Performance Management System recently won the 2010 Governor's Technology Award for "IT as Efficiency Driver," and the 2010 International City/County Management Association (ICMA) Center for Performance Measurement "Certificate of Distinction." Performance metrics, in addition to the outcome measures in the GIOs, are incorporated into this budget. (See **Performance Metrics** Section C)



Lt. Gov. Bolling Presents Governor's Technology Award

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

- Projected Revenues of **\$31,783,737**, up by **1.9%**.
- Planned Spending of **\$31,872,170**, up by **2.2%**.
- Reserves brought forward of **\$88,433** to fund in part appropriated contingencies.
- No recommended change in Tax Rates, no other General Fund fee or tax increases.
- Full time equivalent authorized positions of **183**, reduced from **202** in FY 2009 to **182** in FY 2011.

In the **Utility Budget**, **\$5,754,250** in operating revenues are projected, a **2.3%** decrease. Recommended is a 2.5% Water and Sewer rate increase, from \$4.20 to **\$4.30** per one thousand gallons, beginning July 2011, per the Five Year Water and Sewer Rate Analysis.

In the General Fund **Capital Improvement Program**, a total of **\$3,948,000** is projected in new capital spending, plus \$1,144,898 in debt service payments, for a total of **\$5,092,898**. (See **Capital Improvements** Section E)

## Budget Message

The combined total of the four funds – General Operating Fund, Utility Fund, Sales Tax/Capital Fund and the Public Assistance Fund – amounts to **\$45,892,081**.

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 2012) we forecast General Fund operating revenues of **\$31,783,737**, a **1.9%** increase from the current year (FY 2011) budget amount. Looking at four broad categories:

	Share of Budget	FY 2011 Adopted	FY 2012 Proposed	Change
All Property Taxes	39%	\$ 12,695,020	\$12,355,150	(2.7%)
Other Local Taxes	44%	\$ 13,140,600	\$13,920,600	5.9%
Fees, Charges, Miscellaneous	8%	\$ 2,585,184	\$2,588,177	0.1%
Intergovernmental	9%	\$ 2,761,091	\$2,919,810	5.8%

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. **Property Taxes.** Property tax projections are based on a total anticipated value of real estate of \$1.756 billion dollars, a decrease from current land book values of 3.9%, reflecting the persistent soft real estate market. Assuming no change in the tax rate of \$.54 per hundred dollars of assessed value, we estimate real property tax collections of \$9,400,000 next year.

Other property taxes include personal property (car tax) and business property. All property taxes (real and tangible) taken together are expected to generate \$12,355,150, a 2.7% 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 \$13,920,600, a 5.9% increase from the current year budget amounts.

## Budget Message

The estimate for room and meal tax collections totals \$3,400,000 for room tax, a 6.3% increase; and \$5,900,000 for meal tax, a 9.3% increase, from last year's adopted budget. These estimates reflect an upturn from last year's poor performance, but still below 2008 levels. 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, property and other local taxes, are expected to generate \$26,275,750, a 1.7% increase from the current year budget.

3. **User Fees, Charges, and Miscellaneous.** This broad category of locally generated revenue is expected to generate \$2,588,177, nearly level with the current year. No changes in fees for licenses and permits, nor for charges for service, are proposed in the budget.
4. **Intergovernmental - Revenue from the Commonwealth.** Revenues from the state government in the amount of \$2,919,810, which includes support for constitutional officers and various categorical grants, are estimated to increase by 5.8%, based on our predictions of final state action on the FY 12 budget.

The estimate of Sales Tax for Education of \$856,098, based on State Department of Education calculations, is up by 10.8%, driving much of the increase in this category.

## EXPENDITURE ISSUES

Next year we have proposed General Fund operating expenditures of **\$31,872,170**, an increase of **2.2%** from the current year adopted budget. Broken down in four large categories:

	Share of Budget	FY 2011 Adopted	FY 2012 Proposed	Change
City Departments	54%	\$16,891,441	\$17,052,319	1.0%
Constitutional Officers and Judicial	7%	\$ 2,031,791	\$ 2,216,678	9.1%
Education and Library	25%	\$ 7,744,648	\$8,090,601	4.5%
Outside Agencies	14%	\$ 4,514,015	\$4,512,572	0%

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 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. Next year we recommend adding back one police officer position for an FTE total of **183**.



City Employees Receive Service Awards

2. **Salary Ranges and Pay.** No additional funds have been budgeted for general employee pay raises or salary range increases since July 1, 2008, three years ago. The proposed budget includes an allowance of \$175,000 in the General Fund, and a comparable amount in the Utility Fund, for compensation purposes. This amount equals nearly 2% of payroll and payroll driven expenses. It is premature, however, to decide how this allowance should be deployed until we know reliably what will happen with health coverage costs next year, as discussed below.

In principle, if funds are available in the Compensation Allowance after health care is covered, then this money can be deployed for merit pay raises. Per the Personnel Manual, merit pay is awarded based on 1) an employee’s annual performance evaluation, 2) the incumbent’s standing within the pay range, and 3) known market conditions. For comparison, the Consumer Price Index in calendar 2010 rose 1.7%.

It is important to recognize that our employees have been primarily responsible for the city’s strong financial performance since the recession hit. Without any appreciable reduction in service, and with high and still improving performance ratings in the 2010 National Citizen Survey; annual surpluses of \$1.8 million in fiscal 2010 and \$1.3 million estimated in Fiscal 2011, were achieved by the policies of City Council and the performance of city staff.

3. **Health Coverage.** The city’s largely self-insured health care plan through Anthem has risen in cost dramatically in recent years. Over a five year period from 2005 to 2010 employee health care plan costs rose 75%, from \$990,611 to \$1,731,882. The City now pays 84%, and employees pay 16%, of the expense. Last year we issued a Request for Proposal to look at alternative providers and found no taker other than Anthem. For next year, Anthem’s preliminary estimate is for another cost increase in the 12% to 15% range. The proposed budget includes an allowance for a 10% increase.

Therefore, the city should

- Wait to get the final premium number from Anthem,
- Take another look at a competitive alternative, specifically by getting a quote from the Commonwealth of Virginia’s “Local Choice” program,

## Budget Message

- Reassess the city/employee share formulas,
- Reassess plan benefits and features, and
- Make a final determination on health care spending in conjunction with a final determination of the amount available for pay adjustments.

A decision needs to be made by June 15 for July 1 implementation.

**4. Virginia Retirement System.** The contribution level set by VRS for Williamsburg in fiscal 2012 will remain at 16.44% of payroll. The latest actuarial valuation of our pension plan (2010), however, shows an actuarial accrued liability of \$55.6 million, and an actuarial value of assets of \$42.6 million. The actuaries now deem our plan 76.6% funded. Therefore, we can anticipate an increase in the contribution rate in FY 2013, although the amount is unknown at this time.

### 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 the Superintendent's proposed budget, and expectations of State funding, we should expect a city contribution to the operational budget in the amount of **\$7.3** million, 4.6% 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 791 to 828), while the county's has been nearly level (from 9,640 to 9,679). City children numbering 828 now account for 7.88% of the children enrolled in the system. Under the Joint School Agreement, in FY 12 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.



2. **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 12 is 16.1% city, and 83.9% county. The Library's proposed budget of \$5,763,840 is a decrease of 0.2%, which will result in an increased city contribution of \$775,576.



3. **Regional Jail.** Funding the city's share of the Virginia Peninsula Regional Jail is expected to be \$1,269,018, up 16% from the current budget. State cuts in jail funding continue to drive up local jail costs. 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% of local jail costs this coming year.

4. **Health Services.** The four agencies named below provide health services to city residents, workers and visitors. The total recommended funding for FY 12 is \$439,677, nearly level with the current year.

The Peninsula Health District budget request to the city is \$91,038, a 1.5% 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.

Finally, Colonial Behavioral Health, the agency through which the city provides mental health and retardation services to its residents, requests an increase, but level funding in city contribution of \$245,860 is recommended again this year.



City Youth Achievement Participants Win Tae Kwon Do Scholarships

**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 near level with the current year for a total amount of \$81,244.

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 \$1,300,000, below FY 10 funding and above FY 11 funding. The Greater Williamsburg Chamber and Tourism Alliance, which in turn lends some support to the advertising campaigns of the Williamsburg Area Destination and Marketing Committee (WADMC), has requested an increase to \$725,000. Additionally, the Williamsburg Hotel & Motel Association has requested \$325,000 to support marketing through their gowilliamsburg.com website (“pay per click,” and web display ads).

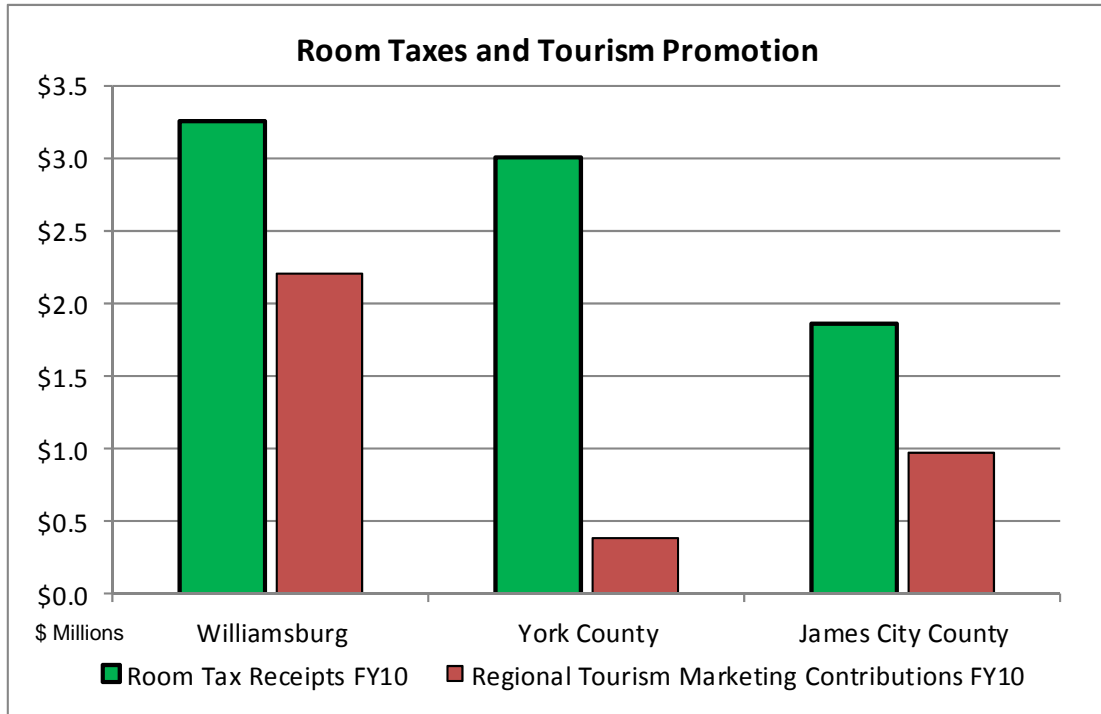


Last year at this time, due to sharp declines in room tax dollars and the inability to make up all the difference from other sources, the city decreased its support for CWF and the Alliance by \$250,000, to \$1.95 million. For the coming year with an improving room and meal tax picture, I recommend that the city fund CWF and the Alliance, two thirds/one third, resulting in \$1.3 million for CWF, and \$650,000 for the Alliance. I am not recommending funding for any new agencies, in this case, for the Hotel/Motel Association. In my view, the city should only support one regional visitation website. The Alliance/WADMC website is visitwilliamsburg.com. Customer confusion and marketplace dilution results from multiple, non-destination driven, regional websites.



In terms of relative contributions to tourism promotion relative to room tax revenue, the chart below demonstrates that the city continues to support regional tourism aggressively through dollars to the destination’s biggest driver (Colonial Williamsburg), and to the region’s visitor/convention promotion agency (Tourism Alliance). The city continues to carry more than its share of the load.





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 \$3,450,000.

**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. There are no significant changes from current year allocations, and no new requests have been recommended for funding.

- 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.



**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.

The Budget Work Sessions, principally to look at outside agencies, are scheduled for Monday, March 21 and Tuesday, March 22. The school budget will be reviewed at either the Monday, April 11 City Council work session, or at the Thursday, April 14 City Council meeting depending on availability of the School Board members. The formal budget hearing will be advertised for the April 14 City Council meeting. Adoption is scheduled for the May 12 Council meeting.



Jackson C. Tuttle  
City Manager