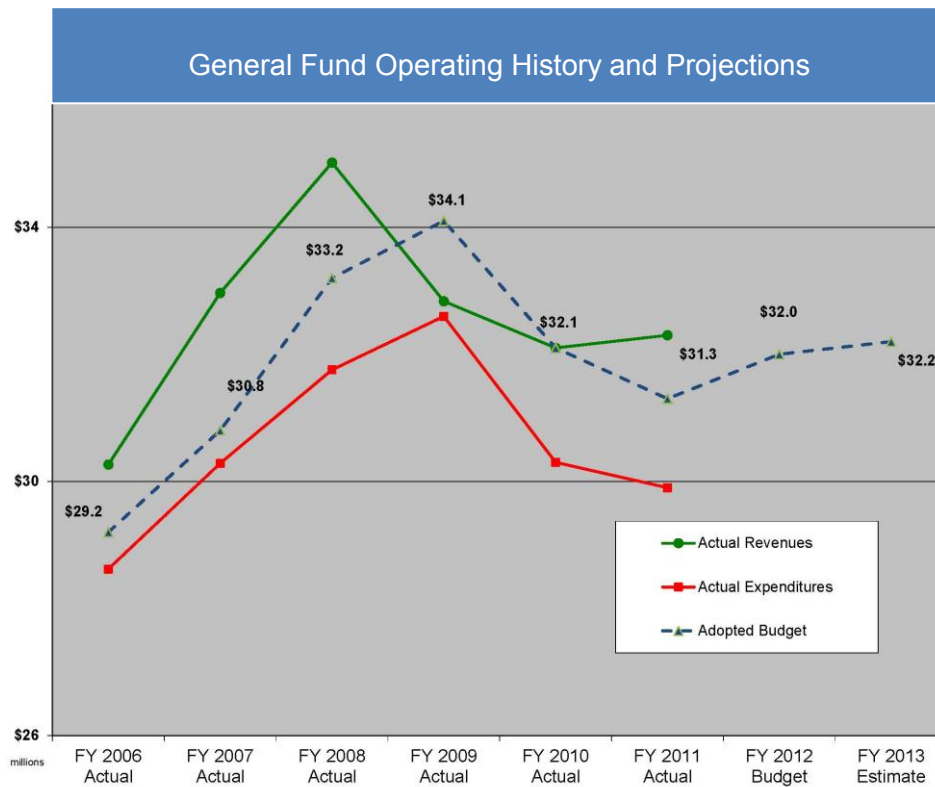


TO: Mayor and City Council
 DATE: March 16, 2012
 SUBJECT: City Manager's Budget Message

INTRODUCTION

With the past as prologue, the graph tells the story of a city government responding successfully to the recession of 2008 by taking action to remain financially strong.



The graph does not, however, demonstrate an equally important outcome: Williamsburg has

- Not noticeably curtailed the city services it provides to the public;
- Nor has it retreated from an ambitious strategic agenda per City Council's Biennial Goals, Initiatives and Outcomes (GIOs);
- Nor has it pulled back from measuring and reporting results through its Performance Management System.



Budget Message

To the contrary, this budget document contains an up-to-date assessment of progress in accomplishing the GIOs, and it reports performance information for each department and cost center (see Section B).

Despite strong past performance, the General Fund Budget for fiscal year 2013 begins with three big challenges to overcome in the form of additional burdens over the current year:

	<u>Added Cost</u>	<u>Percent Increase</u>
• Contribution to W/JCC Schools	\$415,000	5.7%
• Contribution to the Virginia Retirement System	\$350,000	29.5%
• Escalation of Healthcare Insurance	\$140,000	10.0%

Simultaneously, the 2013 budget has big challenges to overcome in the form of declining revenue:

	<u>Loss of Revenue</u>	<u>Percent Decline</u>
• Decline in Real Estate Tax Receipts	\$600,000	6.1%
• Decline in Sales Tax for Education	\$ 85,000	9.8%

The net effect of these five challenges is approximately **\$1,590,000**. The story of this budget is how it tackles the problem using a combination of spending cuts and tax/fee increases. Spending cuts continue the intensive efforts over the past few years to save money without noticeable reductions in services to our citizens. This year, for the first time in twenty years since I have served as Williamsburg's City Manager, I find no acceptable alternative to recommending increasing the real estate tax rate by three pennies, and the personal property tax rate by 50 cents. Further, there are increases proposed in EMS fees and the cigarette tax.

Without any changes in tax/fee rates, estimated revenue next year will fall to approximately \$31.3 million leaving a gap of nearly \$1 million.

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

- Projected Revenues of **\$32,223,520**, up by **1.3%**.
- Planned Spending of **\$32,291,878**, up by **1.0%**.
- Reserves brought forward of **\$68,358** to fund in part appropriated contingencies.
- Recommended increases in property tax rates, cigarette tax rates and EMS fees.
- Full time equivalent authorized positions of **182.5**, reduced from **202** in FY 2009.

Budget Message

In the **Utility Budget**, **\$6,261,000** in operating revenues are projected, an **8.8%** increase. Recommended is a 6.0% Water and Sewer rate increase, from \$4.30 to **\$4.55** per one thousand gallons, beginning July 2012, per the Five Year Water and Sewer Rate Analysis. Comparing our water and sewer rates regionally:

Water and Sewer Rates (FY12) Per 1000 gallons	
Newport News	\$ 7.20
JCSA Residential	\$ 5.65
JCSA Commercial	\$ 6.25
Norfolk	\$ 9.72
Chesapeake	\$10.90
Virginia Beach	\$ 8.10
Williamsburg	\$ 4.30
(Does not include HRSD)	

In the General Fund **Capital Improvement Program**, a total of **\$6,065,950** is projected in new capital spending, plus \$892,946 in debt service payments, for a total of **\$6,958,896**. (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 **\$48,734,497**.

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 2013) we forecast General Fund operating revenues of **\$32,223,520**, a **1.3%** increase from the current year (FY 2012) budget amount. Looking at four broad categories:

	Share of Budget	FY 2012 Adopted	FY 2013 Proposed	Change
All Property Taxes	39%	\$ 12,355,150	\$12,629,600	2.3%
Other Local Taxes	44%	\$ 13,920,600	\$14,026,600	.8%
Fees, Charges, Miscellaneous	8%	\$ 2,588,177	\$2,673,759	3.3%
Intergovernmental	9%	\$ 2,960,171	\$2,893,561	(2.3%)

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 \$1.63 billion, a decrease from current land book values of 6.1% (5.0% residential, 7.9% commercial), reflecting a continuing declining real estate market. Backing up to the high watermark, since 2009 property tax revenue will have fallen 14.2% through 2013.

Each additional one penny on the tax rate would generate an estimated \$163,000. The Proposed Budget recommends a three cent tax increase from \$.54 to \$.57 per hundred dollars of assessed value. For a \$200,000 house, this adds \$60.00 to the tax bill. Very importantly, the decline in assessed value on average of 5% results in a near identical tax bill (\$1080 @ 54 cents v. \$1083 @ 57 cents).

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). In order to close the revenue gap in this year's budget, I recommend an increase to \$4.00 which matches the rate in York and James City Counties. The increase will generate \$325,000 in new revenue. On a \$20,000 vehicle, it will cost an extra \$56 (\$280 @ \$3.50 v. \$336 @ \$4.00).

Tax Rates (FY 12) Per \$100 of Assessed Value		
	<u>Real Estate</u>	<u>Personal Property</u>
James City County	.77	4.00
York County	.6575	4.00
Newport News	1.10	4.25
Hampton	1.04	4.25
Poquoson	.92	4.15
Williamsburg	.54	3.50

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 \$14,026,600, a 0.8% increase from the current year budget amounts.

The estimate for room and meal tax collections totals \$3,400,000 for room tax, level with last year's estimate; and \$6,150,000 for meal tax, a 4.2% increase, from last year's adopted budget. These estimates remain 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 \$1.3 million.

Currently, the cigarette tax in the city is \$.25 per pack. An increase to \$.30 generating an additional \$30,000 in revenue is proposed.

Budget Message

Taken together, all local sources of taxation, property and other local taxes, are expected to generate \$26,656,200, a 1.5% increase from the current year budget.

4. **User Fees, Charges, and Miscellaneous.** This broad category of locally generated revenue is expected to generate \$2,673,759, nearly level with the current year. An increase in Emergency Medical Services transport fees, bringing the scale of service charges closer to rates covered by insurance providers, is recommended for next year to help fill the revenue gap. This change is projected to net an additional \$100,000, or 23% in revenue. No other changes in fees for licenses and permits, nor for charges for service, are proposed in the budget.



5. **Intergovernmental - Revenue from the Commonwealth.** Revenues from the state government in the amount of \$2,893,561, which includes support for constitutional officers and various categorical grants, are estimated to decrease by 2.3%, based on current predictions of final state action on the FY 13 budget.

The estimate of Sales Tax for Education of \$772,468, based on State Department of Education calculations, is down by 9.8%, driving much of the decline in this category.

EXPENDITURE ISSUES

Next year we have proposed General Fund operating expenditures of \$32,291,878, an increase of 1.0% from the current year adopted budget. Broken down in four large categories:

	Share of Budget	FY 2012 Adopted	FY 2013 Proposed	Change
City Departments	53%	\$17,100,715	\$17,234,953	.8%
Constitutional Officers and Judicial	7%	\$ 2,216,472	\$ 2,197,183	(.9%)
Education and Library	27%	\$ 8,119,872	\$8,551,407	5.3%
Outside Agencies	13%	\$ 4,534,630	\$4,308,335	(5.0%)

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 183 in FY 12. 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 I recommend another reduction of one revenue technician in the Finance Department, and moving one employee in the Recreation Department from temporary part-time to permanent part-time status. These changes will result in an FTE of **182.5**.



Redoubt Park preserves & interprets two of the fourteen Civil War earthwork forts of the Battle of Williamsburg, May 5, 1862.

2. Salary Ranges and Pay. No funding for pay increases has been included in the proposed budget. Except for the 2% average merit increase in FY12, there have been no general pay increases since July 1, 2008.

3. Benefit Reductions. A number of employee benefit programs are recommended for elimination or curtailment to reduce spending. The total savings will be approximately \$93,000.

- Reduce the annual cap for the Dental Reimbursement benefit from \$2000 per family per year to \$1500.
- Reduce the Employee Education Assistance program by dropping eligible tuition reimbursement by 50%.
- Eliminate funding for employee Estate Planning Assistance which now pays up to \$350 one time for the preparation of wills.
- Eliminate the Retiree Health Insurance Supplement program which provides up to \$120 monthly to help retirees with their health insurance premiums. Elimination of this program also saves the cost of biennial post-employment benefit actuarial reports.



The City's 1949 fire engine carries City staff and their children -- a.k.a. "Colonial Snowpeople" -- in the 2011 Christmas Parade.

4. Health Coverage. The city's largely self-insured health care plan through Anthem has risen in cost dramatically in recent years, continues to rise. Over a five year period from 2005 to 2011,

employee health care plan costs rose 75%, from \$990,611 to \$1.74 million. The City now pays 82%, and employees pay 18%, of the expense. For next year, Anthem's preliminary estimate is for another cost increase in the 10% to 12% range. The proposed budget includes an allowance for a 10% increase.

Therefore, the city should

- Obtain the final premium number from Anthem,
- Relook at a competitive alternative, specifically by getting another quote from the Commonwealth of Virginia's "Local Choice" program, and
- Reassess the city/employee share formulas to limit the city's expense to no more than 10% increase.



The City's Public Works Department staff worked throughout Hurricane Irene to clear street debris.

5. Virginia Retirement System. The contribution level set by VRS for Williamsburg in fiscal 2013 will increase from 16.44% to 21.29% of payroll as a result of the latest biennial actuarial valuation. This increase will add \$350,000 of expense to the General Fund, and \$58,000 to the Utility Fund. Group life insurance rates at 1.3% of payroll will add approximately \$73,000 expense to the budget. These increased costs are mostly the result of poor investment performance relative to actuarial assumptions. The problem is common to nearly all pension plans in recent years.

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) current expectations for renewal of the five-year Joint School Agreement with James City County; we should expect a city contribution to the schools in the amount of \$7.741 million, 5.7% increase from the current year. The final

amount will be determined by formula as set forth in the new five-year city/county Joint School Agreement to be effective July 1, 2012.

The city's school population has increased 88 students (from 828 to 916), while the county's has dropped (from 9,679 to 9,647). City children numbering 916 now account for 8.67% of the children enrolled in the system. This dramatic rise in students relative to the County, and the decline of state and federal dollars, will put a greater burden for school funding on city taxpayers in FY13 and in the years to follow. I expect FY14 to be another challenging budget to balance due to a projected large increase in school contributions.

- 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 13 is 16.6% city, and 83.4% county. The Library's proposed budget of \$5,822,178 is an increase of 0.3%, which will result in a city contribution of \$796,565.
- Regional Jail.** Funding the city's share of the Virginia Peninsula Regional Jail is expected to be \$1,262,414, nearly level with the current budget. State cuts in jail funding continue to drive up local jail costs, but 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.
- Health Services.** The three agencies named below provide health services to city residents, workers and visitors. The total recommended funding for FY 13 is \$427,629:

The Peninsula Health District budget request to the city is \$98,339, a 12.6% decrease 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. The Comprehensive Health Investment Program (CHIP) is no longer in operation. Part of the city support for this program has been transferred to Child Development Resources (CDR) as noted below.



Graduates of the City's 2011 Summer Youth Achievement Program.

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.

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 \$88,244, an increase of 8.62% primarily the result of CDR funding.

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, which in turn lends some support to the advertising campaigns of the Williamsburg Area Destination and Marketing Committee (WADMC), has requested an increase to \$850,000. I am recommending level funding for these two agencies. Despite our tremendous budget challenges, funding for tourism promotion is necessary to grow the economic base for future city budgets.



The City and Colonial Williamsburg have partnered with the EDA to create Williamsburg Celebrates Arts Events.



Tribe Square, opened in fall 2011, is an example of College of William & Mary investment in the City to provide additional student housing and new retail and dining options near campus.

The proposed budget also includes an estimated \$1,300,000 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 \$3,250,000.

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. No new requests have been recommended for funding (except Child Development Resources as

noted previously), and only a few minor changes from the current year (such as reinstating the TNCC Discovery Center lease and no funding request from Crossroads).

- 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.



One of 7 new businesses that have opened since February 2011 in the newly created Arts District, accounting for 32 new jobs.

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 19 and Tuesday, March 20. The school budget will be reviewed at the Monday, April 9 City Council work session. The formal budget hearing will be advertised for the April 12 City Council meeting. Adoption is scheduled for the May 10 Council meeting.

Jackson C. Tuttle
City Manager