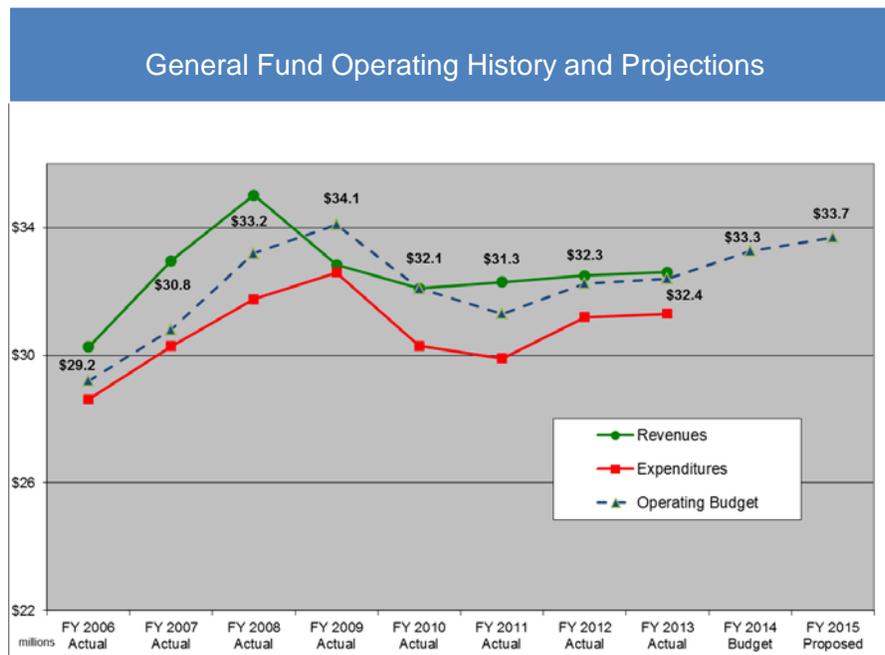


TO: Mayor and City Council
 DATE: March 27, 2014
 SUBJECT: City Manager's Budget Message

INTRODUCTION

Little revenue growth is anticipated for fiscal year 2015 as the city continues to tightly manage its spending and still provide high quality services to citizens. Six years later, the city will continue to operate below the fiscal year 2009 operating budget which exceeded \$34 million.



Trends for FY15 budget include:

- Property tax revenue continues to improve and increase by **2.6%**.
- Intergovernmental revenue is projected to increase by **4.9%** due to higher state sales tax for education and VDOT street maintenance payments.
- All other tax and fee revenue taken together are projected to be **level** with FY14 budget.



Budget Message

- General Fund expenditures are expected to increase by **1.45%**

A fiduciary fund for the Quarterpath Community Development Authority (QCDA) has been added to next year's budget. Fiscal year 2015 will be the first 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.

The FY15 General Fund Operating Budget can be summarized by:

- Projected revenues of **\$33,522,987**, up by **1.04%**.
- Projected spending of **\$33,753,444**, up by **1.45%**.
- Reserves brought forward of \$230,457 to balance the General Fund.
- No recommended increase in tax rates, and no net increase in fees for service.
- Full time equivalent authorized positions of **190** are the same as the current year.

In the Utility Budget, **\$6,404,540** in operating revenues are projected, a **1.4%** increase. Recommended is a 3% Water and Sewer Rate increase, from **\$4.80** to **\$4.95** per one thousand gallons, beginning July 2014, per the Five Year Water and Sewer Rate Analysis. Comparing the city's water and sewer rates regionally:

Water and Sewer Rates (FY14) Per 1000 gallons	
Newport News	\$ 9.04
Portsmouth	\$ 8.47
JCSA Residential	\$ 6.07
JCSA Commercial	\$ 6.67
Norfolk	\$10.47
Chesapeake	\$11.32
Virginia Beach	\$ 8.10
Williamsburg	\$ 4.80

New capital spending in the amount of **\$5,247,500** in the General Fund Capital Improvement Program (CIP), plus \$1,240,562 in debt service payments bring the projected total capital spending for FY15 to **\$6,488,062**.

Highlights for new CIP FY15 funding include:

- York Street Corridor Improvements
- South Henry and York at Quarterpath Underground Wiring Planning
- Quarterpath Park and Waller Mill Park Improvements
- Parking Terrace Rehabilitation

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 **\$50,383,549**.

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

REVENUE PROJECTIONS

For the FY15 budget we forecast General Fund operating revenues of **\$33,522,987**, a **1.04%** increase from the current fiscal year. Looking at four broad categories:

	Share of Budget	FY 2014 Adopted	FY 2015 Proposed	Change
All Property Taxes	39%	\$12,652,720	\$12,982,540	2.6%
Other Local Taxes	42%	\$14,211,000	\$14,225,000	.10%
Fees, Charges, Miscellaneous	9%	\$3,115,968	\$2,961,280	(5.0)%
Intergovernmental	10%	\$3,196,887	\$3,354,167	4.9%

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 \$1.73 billion, an increase of **2.6%** (3.8% residential and .3% commercial) in landbook value. This continues the positive trend in the residential real estate market seen in the current fiscal year. The small gain in the commercial valuation comes from commercial property improvements mainly on Second Street.

Budget Message

An additional one penny on the real estate tax rate would generate an estimated \$173,000. The 2015 Proposed Budget recommends continuing with the current rate of \$.57 per hundred dollars of assessed value generating revenue of **\$9,675,000** (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 **\$2,690,000** in operating revenue, a **4.5%** increase.

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 **\$14,225,000**, 0.1% over the current fiscal year budget.

Room and meal tax collections for FY15 are anticipated to total **\$9,590,000**; room tax totaling **\$3,190,000**, a 3.33% decrease and meal tax collections totaling **\$6,400,000**, a .4% 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 **\$1,300,000**.

Together, sources of taxation including property and local taxes are expected to generate **\$27,207,540**, a 1.3% increase from the current year budget.

4. User Fees, Charges, and Miscellaneous. The broad category of locally generated revenue is expected to provide **\$2,961,280**, a 5.0% decrease.

The revenue decrease can be attributed to an anticipated 21.7% reduction (based on last year’s budgeted amount) for EMS Recovery fees. Less overall medical transports, more Medicaid transports, possible changes in Medicare payments for transport, and implementation of the Affordable Care Act (ACA) all factor into the reduced revenue projection.

Additional revenue in this category includes an emergency services contribution (\$120,000) provided by the College of William and Mary and new rental revenue from the Triangle Building coming from the Jewish Mother restaurant scheduled to open in spring 2014.

Finally, there will be some code compliance fee additions to implement new stormwater management regulations.

5. Intergovernmental - Revenue from the Commonwealth. Revenues from the state, which include support for constitutional officers and various state grants, are estimated to be **\$3,354,167**, a 4.9% increase.



The estimated Sales Tax for Education of **\$1,094,254** based on State Department of Education calculations, is up 10.98% due to continued growth in the school census and state sales tax receipts.

Budget Message

We expect to see some growth (2.88%) in VDOT street maintenance funds totaling **\$1,610,000** next year.

EXPENDITURE ISSUES

Proposed General Fund operating expenditures for FY15 total **\$33,753,444**, a **1.45%** increase from the current adopted budget. Expenditures are broken down into four large categories:

	Share of Budget	FY 2014 Adopted	FY 2015 Proposed	Change
City Departments	53%	\$17,569,137	\$17,721,960	.9%
Constitutional Officers and Judicial	6%	\$2,131,844	\$2,161,601	1.4%
Education and Library	28%	\$9,201,162	\$9,504,338	3.3%
Outside Agencies	13%	\$4,370,287	\$4,365,545	(.1)%

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. Starting in July 2014, residential recycling services, managed by Virginia Peninsulas Public Service Authority (VPPSA), will convert to biweekly wheeled cart service for city neighborhoods. This change in service will allow the city to budget \$53,000 less in next year’s operating budget.

2. Staffing. The total number of full time equivalent (FTE) positions in FY14 totals **190**. During FY14 the addition of two positions (Public Housing Administrator and Eligibility Worker/Tenant Counselor) in the Human Services Department completed the WRHA reorganization. Total employment is down from 202 in FY09. The reduction has been accomplished through transfer and reorganization (including the 13 positions to York County as part of the 911 consolidation), job consolidations, and reductions in work force. A position in the Utility Fund Budget will be filled and part-time hours will be added to the Codes Compliance Division next year to manage the new federal stormwater management requirements.

3. Pay. A 1% allowance for merit pay increases has been included in the proposed budget, totaling \$98,000 with benefits. 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*.

4. Health Insurance Coverage. This is the city's third year with the Commonwealth's "Local Choice" health care insurance administered by Anthem. The city received a renewal notice calling for a **0% increase** in next year's health care premiums, after a 4.9% increase in the current budget. It is recommended that the city and employee percentage split for the premium payment remain the same for FY15.



5. Virginia Retirement System. The latest VRS biennial actuarial valuation for Williamsburg increases the rate from 21.29% to 22.04% (17.04% city share, 5% employee share) of payroll for FY15. Implementation of the new VRS Hybrid Retirement Plan 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 **\$8,659,877**, a 3.48% increase, based on the Superintendent's proposed budget, the 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 9.68% compared to 90.32% for James City County. Determined by September 30, 2013 enrollment, the city's school population for the purposes of apportioning cost between the city and county is **890**, 8.24% of the total. The city's share of the possible fourth middle school and new school administration building capital improvement projects will be negotiated when the projects are approved per the current joint school contract.



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 **\$6,220,538** is an increase of 1.28%, which results in a city contribution for FY15 of **\$831,619**, 15.9% of circulation.

3. Regional Jail. The city's share of the Virginia Peninsula Regional Jail is expected to be **\$1,191,240**, level funding from FY14. 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.

4. Health Services. The agencies below provide health services to city residents, workers and visitors. The total recommended funding for FY15 is **\$438,345**, a .9% increase over FY14.

The Peninsula Health District has requested \$99,915 a slight decrease 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 funding of \$83,430, level funding from the current budget year.

Lastly, Colonial Behavioral Health has requested \$255,000, a 1.84% increase, 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 **\$70,623**, a 5.1% decrease from FY14.

It is recommended that Information & Referral services provided by the United Way of Greater Williamsburg not be funded in next year's budget. The city's Human Services Department provides direct emergency outreach services to residents. The United Way's Information and Referral services has received and can reapply for Emergency Food and Shelter Program (EFSP) funding, provided by FEMA, for emergency outreach services. It is also recommended that the city continue to fund Child Development Resources (CDR) on a fee for service basis pending the renewal of its federal grant to provide services in the city.

6. Community and Economic Development Agencies.

Tourism Promotion.

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



Budget Message

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 **\$650,000** for city tourism promotion and business services, plus an additional \$50,000 to support the development of an Arts Month major weekend event either focusing on the performing or culinary arts and \$25,000 to implement a destination social media initiative.

Even with the city's continuing budget challenges, it is important to continue to invest in tourism marketing to grow the city's economic base for future budgets. We recommend fully funding Colonial Williamsburg's request and level funding the Greater Williamsburg Chamber and Tourism Alliance at \$650,000.

Next year's proposed budget includes bringing forward a one-time tourism promotion contingency from Capital Fund reserves in the amount of \$250,000 to be used for additional tourism marketing and/or tourism initiatives in FY15 at City Council's discretion. If Council decides to invest in an Arts Month weekend event or a destination social media initiative, as proposed by the Chamber and Tourism Alliance, the additional \$50,000 or \$25,000 would come from this tourism promotion contingency line-item.

The proposed budget also includes an estimated \$1.3 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 **\$3,250,000**.

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 Summary section.

Added in the proposed budget is a one-time economic development contingency in the amount of \$250,000 from Capital Fund reserves to be used for economic development incentives and projects. If supported by City Council, this contingency can be used for economic development incentives, as requested by the Williamsburg Economic Development Authority.



7. Cultural. The Williamsburg Arts Commission has once again performed the task of receiving, reviewing, and recommending funding for the arts. Their report is provided in the Appendix to the Proposed Budget. They recommend local arts funding of **\$120,000** (Williamsburg,

James City County, and state challenge grant included). The city's contribution would remain level at \$55,000. Also recommended is continued support for the Virginia Arts Festival at \$50,000 for Festival Williamsburg now in its tenth season.

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 Biennium. Adopted by City Council in November 2012 and updated in March 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 FY15, 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 24. The school budget will be reviewed and the formal budget hearing will be held at the Thursday, April 10, City Council meeting. A second Budget Work Session is scheduled for Monday, April 14, if required. Adoption is scheduled for the May 8 Council meeting.



Jodi M. Miller
Assistant City Manager



Jackson C. Tuttle
City Manager