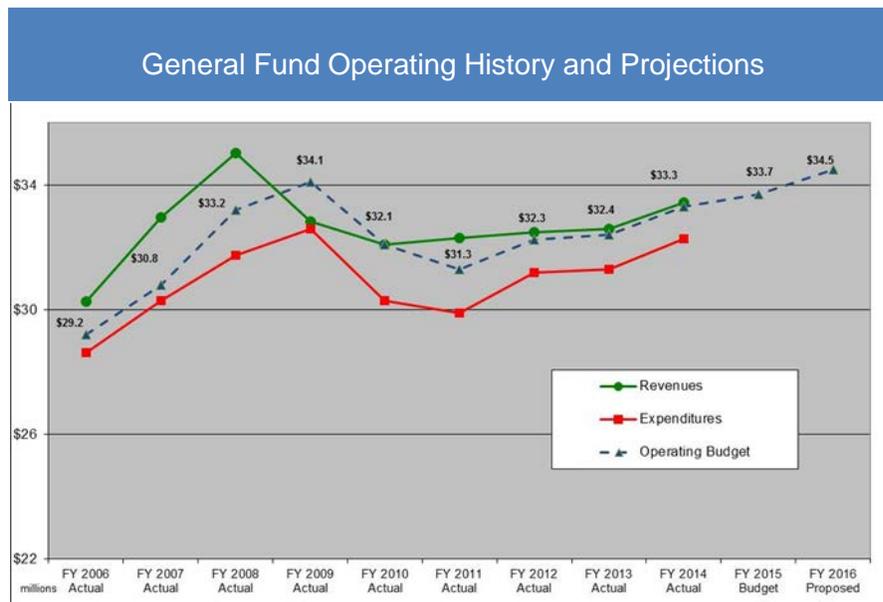


TO: Mayor and City Council
 DATE: March 27, 2015
 SUBJECT: City Manager's Budget Message

INTRODUCTION

The FY16 proposed budget can be summarized as cautiously optimistic as we start to see some growth in the city's revenues and continue to carefully manage spending. The city is well positioned moving forward with consumer confidence high, local retail sales predicted to grow by over 4% and gasoline prices falling according to Professor Emeritus Roy Pearson with the College of William and Mary. Futurist Rebecca Ryan, author of ReGENERATION: A Manifesto for America's Next Leaders would describe this time as a change in the 20-year life and societal cycle where we are getting further away from "winter" a time of "The Great Recession" and approaching "spring" a time of "peace and prosperity."



Trends for FY16 budget include:

- Property tax revenue continues to improve and increase by 2.8%.
- Intergovernmental revenue is projected to increase by 1% due to higher VDOT street maintenance payments.
- All other tax and fee revenue taken together are projected to be 3.3% higher than the FY15 budget.



Budget Message

- General Fund expenditures are expected to increase by 1.5% (increase goes to 2.27% with Williamsburg Health Foundation grant)

The FY16 General Fund Operating Budget can be summarized by:

- Projected revenues of **\$34,498,373** up by **2.9%**.
- Projected spending of **\$34,498,373** up by **2.27%**.
- No recommended increase in tax rates.
- Recommended increases EMS Recovery Fees.
- Full time equivalent authorized positions of **191**, one more than the current year.

A fiduciary fund for the Quarterpath Community Development Authority (QCDA) is again part of next year's budget. Fiscal year 2016 will be the second 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, \$6,551,200 in operating revenues are projected, a 2.3% increase. Recommended is a 3.5% Water and Sewer Rate increase, from **\$4.95** to **\$5.12** per one thousand gallons, beginning July 2015, per the Five Year Water and Sewer Rate Analysis. Comparing the city's water and sewer rates regionally:

Water and Sewer Rates (FY15) Per 1000 gallons	
Newport News	\$ 9.22
Portsmouth	\$ 8.48
JCSA Residential	\$ 6.07
JCSA Commercial	\$ 6.67
Norfolk	\$10.86
Chesapeake	\$10.69
Virginia Beach	\$ 8.10
Williamsburg	\$ 4.95
(Does not include HRSD)	

New capital spending in the amount of **\$10,216,242** in the General Fund Capital Improvement Program (CIP), plus \$1,239,190 in debt service payments bring the projected total capital spending for FY16 to **\$11,455,432**.

Budget Message

Highlights for CIP FY16 funding include:

- Repaving Program with VDOT Revenue Sharing Funds
- York Street Corridor Improvements
- South Henry Street, Second Street and/or York Street at Quarterpath Underground Wiring Projects
- Ironbound Road (Richmond Road to Longhill Connector) Phase I Engineering
- Bicycle Facility Improvements - Monticello Avenue Shared-Use Path
- Quarterpath Park and Kiwanis Park Improvements
- Technology Projects including Computer Network Replacement, Prince George Parking Garage Equipment, and Arts District WiFi
- Fourth Middle School at James Blair School

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 **\$56,084,176**.

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 FY16 budget we forecast General Fund operating revenues of **\$34,498,373** a 2.91% increase from the current fiscal year. Looking at four broad categories:

	Share of Budget	FY 2015 Adopted	FY 2016 Proposed	Change
All Property Taxes	39%	\$12,982,540	\$13,352,140	2.8%
Other Local Taxes	42%	\$14,225,000	\$14,487,000	1.8%
Fees, Charges, Miscellaneous	10%	\$2,961,280	\$3,272,146	10.5%
Intergovernmental	9%	\$3,354,167	\$3,387,087	1%

Budget Message

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 \$1.79 billion, an increase of 2.8% (3.8% residential and 1% 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 \$179,000. The 2016 Proposed Budget recommends continuing with the current rate of \$.57 per hundred dollars of assessed value generating revenue of **\$10,024,000** (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, level with FY15.

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 **\$14,487,000**, 1.8% over the current fiscal year budget.

Room and meal tax collections for FY16 are anticipated to total **\$9,910,000**; room tax totaling **\$3,160,000**, a 1% decrease and meal tax collections totaling **\$6,750,000**, a 5.5 % 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 **\$1,122,000**.

Together, sources of taxation including property and local taxes are expected to generate **\$27,839,140**, 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 **\$3,272,146**, a 10.5% increase.

EMS Recovery fees for FY16 are projected to grow by 14.5% as a result of utilizing a new billing vendor and increasing fees to Medicare allowable rates and comparable rates in the region. The new rates would be: Basic Life Support \$501, Advance Life Support (ALS1) \$595 and \$860 (ALS2), and a \$10.50 mileage rate. Additional revenue in this category also includes rental revenue from a fully leased Triangle Building.

5. **Intergovernmental - Revenue from the Commonwealth.** Revenues from the state, which include support for constitutional officers and various state grants, are estimated to be **\$3,387,177**, a 1% increase.

The estimated Sales Tax for Education of **\$1,072,946** based on State Department of Education calculations, is down 2% due to a decline in school-aged (5 to 19) population as of July 1, 2013 as reported from the Weldon Cooper Center for Public Service.

EXPENDITURE ISSUES

Proposed General Fund operating expenditures for FY16 total **\$34,498,373**, a 2.27% increase from the current adopted budget. Expenditures are broken down into four large categories:

	Share of Budget	FY 2015 Adopted	FY 2016 Proposed	Change
City Departments	54%	\$17,721,960	\$18,480,919	4.3%
Constitutional Officers and Judicial	6%	\$2,147,151	\$2,162,740	.7%
Education and Library	28%	\$9,498,985	\$9,663,865	1.7%
Outside Agencies	12%	\$4,365,545	\$4,190,849	(4%)

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. In March 2015, Council approved a new five-year residential refuse services contract with Republic Services to provide curbside trash collection for the entire city starting July 2015. This change in service will allow the city to budget \$125,000 less in next year’s operating budget.

A new Stormwater Operations cost center has been added to next year’s budget which includes three staff positions transferred from the Streets Division, mosquito control costs, equipment and operating costs. This new cost center will help the city better track current and future costs of managing stormwater.

A Williamsburg Health Foundation grant totaling \$260,000 for a pilot program to achieve better health outcomes for city children has been added to next year’s operating budget. If funded, the program will begin in July 2015 and will 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 FY15 totaled 190, 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. The proposed FY16 budget includes one new FTE officer position in the Police Department, bringing total FTEs for FY16 to **191**.

3. Pay. A 2% allowance for merit pay increases has been included in the proposed budget, totaling \$199,281 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*. A Personnel Contingency has been added in the amount of \$175,000 to cover anticipated retirement leave payouts in FY16 and to make adjustments for targeted compression and market issues.

4. Health Insurance Coverage. This is the city's fourth year with the Commonwealth's "Local Choice" health care insurance administered by Anthem. The city received a renewal notice calling for a **12.7% increase** in next year's health care premiums (6% average increase over 3 years). It is recommended that the city and employee percentage split for the premium payment remain the same for FY16.

5. Virginia Retirement System. The VRS biennial actuarial valuation for Williamsburg in FY16 is 22.04% (17.04% city share, 5% employee share) of payroll, same as in FY15. This is the second year for this rate which will be reset 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.

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 **\$8,812,703**, a 1.76% increase, based on the Superintendent's proposed budget, 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 9.5% compared to 90.5% for James City County. Determined by September 30, 2014 enrollment, the city's school population for the purposes of apportioning cost between the city and county is 899, 8.20% of the total. The city's funding share of the fourth middle school on the James Blair site needs to be negotiated and finalized 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 \$6,266,322 is an increase of 1.28%, which results in a city contribution for FY16 of **\$838,320**, 16% of circulation.

3. Community Corrections Agencies. The city's share of the Virginia Peninsula Regional Jail is expected to be **\$1,156,822**, 1.7% decrease in funding from FY15. 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 will continue to increase for FY16, based on both recent population increases and rising per diems for member localities. City usage was 354 and 464 days respectively for FY13 and FY14. 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 FY16 is **\$435,495**, a .65% decrease from FY15.

The Peninsula Health District has requested \$97,065, 2.8% 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 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 **\$78,002**, a 10.45% increase from FY15. A new funding request from Williamsburg Faith in Action has been recommended for funding in the amount of \$2,500 to provide transportation, respite, and in-home services to city residents. The Healing Place of Hampton Roads, also a new request, has not been recommended for funding until sufficient data and additional resources are available.

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 **\$900,000** 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 \$250,000 increase over level funding of \$650,000.

The request by the Alliance for itemized project contributions on top of its base funding is certainly a legitimate approach, but it does depart from the city's long standing practice of block funding to CWF and the Alliance. Block funding, based on a percentage split between CWF and the Alliance, places the responsibility of allocating money between worthy but competing purposes on the agency, not the city.

For this reason, and recognizing the importance of tourism marketing to grow the city's economic base for the future, we recommend fully funding Colonial Williamsburg's request and level funding the Greater Williamsburg Chamber and Tourism Alliance totaling \$1,950,000. This maintains a 2/3 CWF and 1/3 Alliance split.

The FY15 budget includes 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 at City Council's discretion. The following events have been funded from this contingency: the Leonardo Da Vinci exhibit (\$50,000), Harvest Celebration event (\$10,000), and Winter Blues Jazz Fest (\$6,000) leaving a balance of \$184,000 for FY16.

The city has also received a request from the Virginia Arts Festival in the amount of \$50,000 to add another day to Festival Williamsburg and to significantly enhance the artist roster for the entire 2016 Festival Williamsburg event, which would bring the total contribution for Festival Williamsburg to \$100,000 in FY16. First Night Williamsburg also seeks support towards its goal of raising \$50,000 by May 2015 to stabilize finances as they look to secure sponsors and long term funding sources. This one-time funding from the City would allow First Night to move forward with executing contracts for the 2015 event. These additional "one time" requests from the tourism promotion fund (balance \$184,000) will be considered separately by the Council at its April 6, 2015 work session.

The proposed budget also includes an estimated \$1.12 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 **\$3,072,000**.

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.

Funding for the Hampton Roads Economic Development Alliance request in the amount of \$14,446 has been reprogrammed in the FY16 budget to support collaborative economic development marketing/promotion within our sub-region in partnership with James City and York Counties. In addition, funding has been included in next year's budget to update the functionality and design of the city's YesWilliamsburg economic development website, now nine years old.

Funding in the amount of \$200,000 has also been included in the FY16 CIP for demolition of the Country Hearth Inn and Suites and the White Lion motel structures with the goal of assembling these properties and returning them to the private sector for development. The city entered into contracts to purchase these properties in February 2015.

Added in the FY15 budget was 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 and to date has not been utilized. We recommend that this contingency be carried forward in FY16 to 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.

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 FY16, 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 23. The school budget will be reviewed and the formal budget hearing will be held at the Thursday, April 9, City Council meeting. A second Budget Work Session is scheduled for Monday, April 13, if required. Adoption is scheduled for the May 14 Council meeting.


Jodi M. Miller
Deputy City Manager


Jackson C. Tuttle
City Manager