



## MEMORANDUM

TO: Honorable Mayor and Members of City Council

FROM: Timothy J. Baroody, City Manager

RE: City Manager's Recommended Operating Budget for FY 2021

DATE: March 10, 2020

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### Introduction

I am pleased to present the FY 2021 Recommended Operating Budget, which begins on July 1, 2020. The Recommended Budget for FY 2021 is a balanced budget that represents a responsible spending plan for the upcoming fiscal year, with an eye to future needs as well. Significant work has gone into ensuring that this Recommended Budget is fiscally responsible, advances the City Council's Vision and Priorities, supports our schools and our workforce, and meets the needs of a growing community.

The total General Fund budget for FY 2021 is recommended to be \$103,478,725 – an increase of \$3.3 million over the FY 2020 adopted budget (\$100,174,000). The General Fund is the primary fund for most City operations. This budget document also includes recommendations for a variety of other operating funds, including the City's main enterprise funds: Water Operating, Wastewater Operating, Transit Operating, and the Parking Fund.

Recommended funding levels are also provided for a variety of special revenue funds to help account for special activities, including the Stormwater Management Fund, the City Grants Fund, the Social Services Fund, and the Children's Services Act Fund.

The City's Recommended Capital Budget and Capital Improvements Plan for FY 2021 through FY 2026 are still under development and will be provided slightly later this spring.

This budget does not recommend any increase to the real estate tax rate. Since the City's four-year assessment is currently concluding, equalization adjustments will be made to the current combined rate of \$0.85 per \$100 in valuation. More information will be available when the assessment is complete in April 2020.

## FY 2021 Recommended Budget in Context

The City of Fredericksburg is the central locality to the fastest-growing region in the Commonwealth. The annual budget process reflects the City’s efforts to maintain and improve our schools, public safety, services, and infrastructure in a growing region with a strong economy.

### Regional Population Growth – 2010 – 2019<sup>1</sup>

Year	City	Stafford	Spotsylvania
2010 (Census)	24,286	128,961	122,397
2011	25,484	131,067	123,997
2012	26,024	132,719	124,526
2013	27,945	135,141	125,555
2014	28,213	138,230	126,337
2015	26,969	140,176	128,998
2016	27,025	141,915	129,668
2017	27,645	145,699	131,549
2018	28,387	149,110	133,441
2019	28,532	151,689	135,715

The City’s growth and the strong economy drive increased revenues, which help fund the majority of the growth in this Recommended Budget. The Recommended Budget also continues to strategically utilize the City’s fund balance to meet the City’s ongoing capital needs.

The City’s departments, officers, and partner agencies strive to meet growing and ongoing service and maintenance needs. Although the City Manager’s Office always reduces the requested amount prior to forming a final recommended budget for Council consideration, the total requested General Fund budget for FY 2021 included twenty-six full-time positions and totaled over \$119 million, which suggests the magnitude of growth in demand for City services and infrastructure.

## Budget Highlights – General Fund

- Overall revenue forecasts, removing the use of fund balance, is to grow to \$99,655,725, or 3.4% over the original adopted budget revenues for FY 2020;
- An increase of \$447,418 in the transfer to the Fredericksburg City Public Schools;
- A recommended 4% increase in City salaries, effective the first full pay period in October 2020;
- A \$500,000 set-aside for public safety pay enhancements – the second year of a multi-year process to increase public safety pay to maintain competitiveness in the region;
- A new recurring savings in General Fund debt service of \$150,000 beginning in FY 2021 from a proposed refinance of GO bonds; and
- A recycling fee of \$3 per two-month billing cycle to offset significant cost increases for this program.

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<sup>1</sup> Source: Weldon Cooper Center

## Budget Highlights – City Schools

The recommended budget includes an increase in the transfer to City Schools of \$447,418, for a total of \$30,907,628. The transfer to City Schools is the largest item in the City’s General Fund.<sup>2</sup>

The City schools requested a transfer of \$31,047, 628 from the City, which would be an increase of \$540,983. Part of the schools’ proposal was to fund half of the cost of a School Resource officer from the School Budget, but the City Manager’s Recommended Budget fully funds this new position from the General Fund through the Police Department.

Major increases in state funding for City Schools play a large role in the City Schools’ FY 2021 budget and the overall budget for the City. The City Schools’ proposed budget includes an increase of approximately \$2.2 million in state funding. The City’s Local Composite Index score, which is the formula that the Commonwealth uses to apportion state aid for education to local school divisions, changed from 0.6210 to 0.5840, which means that the state will be providing more support for Fredericksburg City Public Schools than in the past. The new LCI score combines with increased enrollment and increased state funding for education overall for a major increase in state support for the schools.

	FY 2019 Actual	FY 2020 Budget	FY 2021 Recommended
City Transfer	\$29,185,892	\$30,244,710	<b>\$30,907,628</b>
City Transfer – Head Start	-	\$215,500	-
Subtotal: City Support	\$29,185,892	\$30,460,210	<b>\$30,907,628</b>
State Revenue	\$15,175,969	\$15,994,843	<b>\$18,146,671</b>
Local School Revenue	\$371,362	\$244,000	<b>\$269,000</b>
Use of School Fund Balance	-	\$550,000	<b>\$1,000,000</b>
Total	\$44,733,824	\$47,249,053	<b>\$50,323,299</b>

Please note that the \$215,500 transfer to the School Operating Fund shown in FY 2020 and in budgets for years past for the Head Start program has been combined with the main transfer line for FY 2021 and for future years. The City Schools also transfer \$300,000 back to the City General Fund to assist with the debt service for the Walker-Grant Center project.

The City & Schools’ Joint Task Force is also working on recommendations for the City Council regarding capacity issues at the City Schools. These recommendations will be part of the forthcoming Recommended Capital Improvements Plan for FY 2021 through FY 2026.

## Budget Highlights – Public Safety Compensation

Over the past year, the north-central Virginia region has seen a major increase in wage competition for public safety personnel – for the City, our Police, Fire, E-911, Emergency Medical, and Sheriff personnel. As an initial response, the City Council during FY 2020 amended the budget mid-year to provide for a 5%

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<sup>2</sup> Part of the Schools’ proposal was to fund half of the cost of a School Resource Officer from the School Budget, but the City Recommended Budget fully funds this position from the General Fund in the Police budget. Please see the Personnel narratives for further detail.

salary increase, and adopted an increase in multiplier for the Virginia Retirement System. The increased multiplier serves as an enhancement to the retirement benefit for public safety personnel. The mid-year increases provided \$305,000 in higher salaries and associated benefits to public safety personnel, and the increased multiplier for VRS costs \$185,000 per year beginning in FY 2021.

The City is working with a human resources consultant to analyze the regional public safety labor market and make recommendations concerning increasing compensation to stay competitive. The FY 2021 Recommended Budget will include funding some measures to maintain a path towards these goals. One is that all employees, including public safety employees, will receive a 4% salary adjustment on the first pay period in October. This measure will assist in maintaining competitive balance not just for public safety, but across the entire workforce, which is seeing competitive labor pressure across a variety of positions. The second measure is an additional \$500,000 in set-aside funds for the implementation of additional measures, in what is a multi-year process to increase public safety pay to maintain competitiveness in the region. The consultant, public safety management, and human resources management will work to present this plan during the spring to City Council for review and adoption.

## Revenues

Overall revenue growth for the City is forecasted to be strong. The City’s revenues, not including the use of fund balance, are projected to grow to \$99,655,725 in FY 2021 – which is 3.4% higher than the revenue forecast for FY 2020. Several major revenue sources are presented in the table below:

**Revenue Forecasts – Key Local Revenues**

	FY 2020 Adopted Budget (\$)	FY 2021 Recommended (\$)	Change, FY 2020 - FY 2021 (%)
Real Estate	32,150,000	33,300,000	3.6%
Personal Property	9,150,000	9,650,000	5.5%
Sales Tax	11,700,000	12,825,000	9.6%
Meals Tax	12,300,000	12,450,000	1.2%
BPOL	6,300,000	6,575,000	4.4%
Consumer Utility	1,850,000	1,875,000	1.4%
Telecommunications Sales	1,575,000	1,475,000	(6.3%)

## Real Estate

The City Manager’s Recommended Budget does not recommend any increase to the real estate tax rate. Since the City’s four-year assessment is currently concluding, equalization adjustments will be made to the current combined rate of \$0.85 per \$100 in valuation. The City’s current real estate rate of \$0.85 per \$100 valuation serves to fund both the General Fund activities and the City’s Stormwater Management Fund.

The general property re-assessment currently underway will be completed during the spring. The City’s proposal is to levy the same real estate tax as in FY 2020, after accounting for new construction in the City. However, the re-assessment process will recalculate the real estate values across the City. The new rate that will be set by City Council will allow for reductions in taxes for properties whose values declined or increased at a lower rate, while properties whose values increased by a larger amount would pay more in taxes.

The budget staff did not have specific data on the re-assessment at the time this budget was prepared. However, staff is generally aware that residential property in the City has increased in value, and this is a factor in the recommendation not to increase the rate beyond the equalized rate.

### Sales Tax

The City forecasts strong sales tax collections in FY 2021. The City of Fredericksburg experienced major growth in sales tax revenue over the past eighteen months – particularly so in the last quarter of FY 2019 and the first six months of FY 2020. Average growth in the sales tax from FY 2014 to FY 2018 was fairly slow, averaging 1.16% per year over that time frame, and varying between negative 1.63% and a positive 3.93%. The sales tax in FY 2019 totaled \$11,925,147, and grew a total of 3.91% over FY 2018's final receipts of \$11,476,687. However, the last three months of FY 2019 increased 6.29% over the last three months of FY 2018.

This trend has only accelerated in FY 2020, with an average of 10.06% growth in receipts over the first six months of FY 2019. Sales tax receipts are on pace to exceed the FY 2020 estimate of \$11,700,000 by a substantial amount. This should be true even if the economy slowed significantly from this point to the end of the fiscal year. For this reason, the City's FY 2021 budget forecasts \$12,825,000 in sales tax revenue – an increase of 9.6% over the FY 2020 budget of \$11,700,000.

### Recycling Fee

The cost of recycling solid waste has increased dramatically over the past several years. In January 2018, China sharply curtailed the amount of recycled waste it accepts from around the world, which reduced demand for recycled materials. In the past, the R-Board landfill (the landfill jointly owned by the City and Stafford County) received revenue from processors for the recycling that was collected. Since the changes in the marketplace, the R-Board now has to pay processors to accept the materials. In July 2020, the R-Board will begin to charge the City a fee of \$50 per ton for recycling to offset the costs that the R-Board pays to handle the material. The City estimates this change will add \$54,000 per year to its cost for the recycling program.

Staff recommends that the City add a fee to utility customers of \$3 / bill (\$18 per year) to help defray the costs of the R-Board charges along with the costs to the City to collect the recycling and deliver it to the R-Board. This charge would apply to all utility customers, as the entire community benefits from the recycling program and the extension of the useful life of the landfill facility. The additional fee is projected to increase the City's General Fund revenue by \$125,000.

### Water & Wastewater Fees

The City continues to face challenges related to capital projects in the Water Operating Fund and the Wastewater Operating Fund in FY 2021 and beyond. FY 2020 marked the first full year of debt service payments for the 2018 bonds that funded a variety of improvements in both the Water and Wastewater Collection systems. The Recommended Capital Improvements Plan includes approximately \$75 million in additional debt in the next five years, the majority of which is attributable to the wastewater treatment plant consolidation project. The plan continues to be in negotiation with Spotsylvania County, and timeline continue to change and extend. It is important to remember that this level of capital investment will significantly increase the debt service payments required in these funds.

The rate model commissioned by the City was completed in late 2019; the City will recommend an increase in water and sewer rates based on the information in the model. Rate increases will be necessary over the next several years to fund required upgrades to the City’s critical water and wastewater infrastructure.

### Planned Use of Fund Balance FY 2020 and FY 2021

The City judiciously uses fund balance to offset the costs of ongoing capital improvements and other one-time types of expenditures. The City also uses fund balance to set aside a contingency for the General Fund operating budget.

#### Use of Fund Balance in FY 2020 Adopted and FY 2021 Recommended Budget

Category	FY 2020 Original	FY 2020 Amended	FY 2021 Recommended
Restricted	-	-	-
Committed			
Committed: Future Capital Projects	\$2,723,000	\$3,023,000	\$3,323,000
Committed: School Capital Projects	-	-	-
Other Committed	-	\$573,626	-
Subtotal: Committed	\$2,723,000	\$3,596,626	\$3,323,000
Assigned – Jail Stabilization	\$635,000	\$635,000	-
Unassigned	\$470,000	\$536,580	\$500,000
<b>Planned Use of General Fund Balance</b>	<b>\$3,828,000</b>	<b>\$4,768,206</b>	<b>\$3,823,000</b>

## Human Resources Highlights

### Salary Increase

The Recommended Budget for FY 2021 includes funding for a 4% salary increase effective October 1, 2020. Increased pay is essential to maintaining the City’s competitive position in the labor marketplace, both in terms of recruitment and retention. The cost of the adjustment is \$757,337, including wages and associated benefits, in the General Fund. The total cost for all funds is \$996,931.

### Virginia Retirement System

The City of Fredericksburg is a member of the Virginia Retirement System (VRS), which serves state employees, school employees, and participating local government employees throughout the Commonwealth of Virginia. The Virginia Retirement System notifies the City every two years of the cost of retirement benefits, which is expressed as a percentage of payroll. The City’s current rate, known as the “employer contribution,” for FY 2019 & FY 2020 is 12.37%. All eligible employees also pay a “member contribution,” which is set at 5% of their salary.

The City has received a new, higher rate of 14.10% for the “employer contribution” that will apply for the next two fiscal years. This higher rate is primarily the result of an updated VRS actuarial analysis of the City’s plan costs as well as the City’s decision to enhance VRS retirement benefits for public safety personnel.

- The actuarial study that the Virginia Retirement System uses to calculate the rate resulted in an increased cost to the City – from 12.37% to 13.43%. Using the FY 2020 original salaries as a base, to control for the effect of pay adjustments and new positions, this portion of the increase cost approximately \$293,000.
- The City increased the retirement benefit for public safety employees as part of a broader conversation about maintaining competitive compensation for these positions. The multiplier used to calculate monthly benefits for public safety retirees was increased from 1.7% to 1.85%, which resulted in an additional 0.67% increase. This portion of the increase in retirement costs \$185,000. The overall increase across all funds is \$478,000.

## New Positions

As part of the budget process, various City Departments and agencies requested twenty-six new positions (17 full-time, 3 converted part- to full-time, and 6 part-time). These requests are driven in part by City Council priorities and by the City’s recent growth, both in terms of population and in terms of developed areas. However, the additional pressure placed upon the City budget by a variety of factors, including the additional costs for schools, salaries and wages, social services, the jail, among others, limited the number of new positions recommended for funding in this budget. The Recommended Budget includes six new full-time positions and three converted part- to full-time positions for a total of nine new full-time positions; and one new part-time position.

### New Positions in the FY 2021 Recommended Budget

City Department	Full-Time	Part-Time	Total Cost
Economic Development & Tourism	1	1	\$153,163
Human Resources	1	0	\$115,681
Information Technology	2	0	\$201,066
Police	1	0	\$88,590
Parks, Recreation, & Events	1	0	\$50,485
Voter Registrar	1	0	\$61,838
Community Planning & Building	2	0	\$104,925
<b>Total, All City Departments</b>	<b>9</b>	<b>1</b>	<b>\$775,748</b>

### Community Planning & Building

The Community Planning & Building Department requested to convert two existing part-time staff positions to full-time staff positions effective July 1, 2020; a Permit Clerk, and an Administrative Support Specialist III. The transition of the two part-time positions to full-time will enhance the customer service capability of the department and better position the department as it begins setting up systems in the Tyler Munis software next fiscal year.

The cost of the Permit Clerk, including salary and benefits, is \$43,126. The cost of the Administrative Support Specialist III, including salary and benefits, is \$61,799. The total cost of new positions in Community Planning & Building is \$104,925. This total cost is partially offset by a reduction in part-time personnel costs for the Department.

### Economic Development & Tourism

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The Economic Development & Tourism Department requested a new full-time Assistant Director of Economic Development and Tourism (dedicated for Tourism) and a new part-time Tourism Assistant. The first step in the Plan of Action set forth in the study *Tourism 2020: Findings and Recommendations for the City of Fredericksburg, VA* recently completed by DMO Proz and adopted by City Council in February 2020, recommends hiring a Tourism Manager and increasing overall funding to further develop the City's tourism industry. This budget's recommendation to create both new positions is a first step towards implementing the study's recommendations.

The cost of the Assistant Director of Tourism, including salary and benefits, is \$125,443. The cost of the Tourism Assistant is \$27,720. The total cost of new positions in Economic Development & Tourism is \$153,163.

### Human Resources

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The Human Resources Department requested an Assistant Human Resources Director to assist with its growing workload, and this budget recommends creation of this new position. General guidelines suggest an appropriate staffing ratio ranging between 1 and 1.4 full-time equivalent positions per 100 employees to meet the human resources needs of an organization. With a full-time Human Resources of three including the Director, the City's ratio currently stands at 0.73 FTE per 100 employees. The City has not added a full-time Human Resources position to the HR Department since the restoration of the Director position in FY 2007, and the growth of the number of employees in other departments since that time is creating a workload challenge for the existing staff.

The City HR Department is participating in a major special project – the upgrading of the City's accounting and finance computer database to the Tyler Munis system. This project will provide a welcome upgrade to the public personnel systems of the City, but as it is underway it adds to the workload strain felt by the Department.

The cost of the position, including both salary and benefits, is \$115,681.

### Information Technology

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The Information Technology Department requested three new positions to support City-wide technology initiatives, daily operations, and strategic needs; an Information Security Manager, an IT Project Manager, and an IT Support Technician. This budget recommends the addition of two new positions (Information Security Manager and IT Support Technician).

This budget recommends hiring an Information Security Manager to provide a dedicated IT Security professional able to respond to a changing and ever more threatening computer security environment. This budget recommends the addition of an IT Support Technician in response to an ever-increasing number of support calls for assistance across a wide-variety of platforms. The IT Support Technician would be particularly focused on additional support for public safety platforms to ensure that those systems receive support and remain operational.

The cost of the Information Security Manager, including salary and benefits, is \$138,752. The cost of the IT Support Technician, including salary and benefits, is \$62,314. The total cost of new positions in Information Technology is \$201,066.

### Police

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The Police Department requested three new full-time positions; two full-time, permanent police officers and partial funding for one school resource officer to be based at Lafayette Upper Elementary School and Walker Grant Middle School. The Recommended Budget includes full funding for the School Resource Officer through the Police budget.

The City already staffs a School Resource Officer position for James Monroe High School. The new School Resource Officer is a high priority of both the Fredericksburg City Public Schools and the City, and will provide support and protection to Lafayette Upper Elementary School and Walker-Grant Middle School during the school year. The SRO would be able to fulfill other duties while school is not in session.

The cost of the position, including both salary and benefits, is \$88,590.

### Parks, Recreation, & Events

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The Parks, Recreation & Events (PRE) Department requested 5 positions: one new full-time, one part-time, and one seasonal position in Maintenance in anticipation of the completion of Riverfront Park; one Administrative Support Assistant III in Administration; and one Sports Program Manager in Supervision.

This budget recommends creation of one full-time Park Maintenance Worker II position to help maintain the City's new Riverfront Park. This position was mentioned in the FY 2020 budget documentation as likely to be recommended for the FY 2021 fiscal year. PRE has requested additional Maintenance personnel to keep pace with current acreage in recent years, and this position will help address that need.

The cost of the position, including both salary and benefits, is \$50,485.

### Voter Registrar

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The Elections Board approved the conversion of the existing part-time position to a full-time Assistant Voter Registrar, and also approved the addition of two additional full-time positions in February 2020. This budget does not recommend creation of all three full-time positions in FY 2021, since the Commonwealth legislation has not yet moved fully through the legislative process and final requirements are still uncertain. Should additional new positions above and beyond what is recommended in this budget ultimately be required, staff will bring forth a proposal for City Council to amend the budget in FY 2021.

Consistent with the Voter Registrar's request, this budget recommends conversion of an existing part-time position to a full-time Assistant Voter Registrar effective July 1, 2020.

The cost of the position, including both salary and benefits, is \$61,838. This total cost is partially offset by a reduction in part-time personnel costs for the Voter Registrar.

### Health Insurance

The City Manager's Recommended Operating Budget for FY 2021 anticipates significant health insurance savings, which impacts the General Fund and several operating funds. The renewal from Anthem was excellent, and the anticipated costs for claims and reinsurance for the City is 3% less than FY 2020. In

addition, the City is proposing a policy change to increase the specific stop loss cap from \$125,000 per year to \$150,000 per year, which will lower the cost of reinsurance premiums. The combination of the good renewal, good claims experience for FY 2019 and FY 2020, and the policy change creates a recommendation for a one-month premium holiday during FY 2021 for the City, employees, and retirees with dependent coverage. The premium holiday will save the City approximately \$430,000 and employees approximately \$65,000 in premium contributions.

This is the third year in a row where positive claims experiences contributed to a good renewal for the City's health insurance premiums. Claims experience is in many ways a matter of fortune. However, the City's wellness committee and City employees' hard work on their health & wellness is noteworthy.

The proposed changes and the improved renewal will save the City \$425,466 in budgeted premiums for the General Fund and \$482,590 across all funds.

### Turnover Credit

The FY 2021 budget includes a Turnover Credit of \$350,000, which represents an increase of \$100,000 from the FY 2020 budget. This line item lowers the overall expenditure number in the General Fund.<sup>3</sup>

### Children's Services Act Fund

The City's funding for the Children's Services Act "CSA" Fund is recommended to increase in FY 2021 to \$3,899,450. The City's transfer from the General Fund is \$1,175,000 – a 16% decrease from the FY 2020 transfer of \$1,400,000. Residual fund balance of the Children's Services Act Fund is used to make up the difference between State and City transfers (\$243,577).

The overall fund is a combination of state and local funding to meet the needs of identified at-risk children in the community for a variety of services. The City's population of children served has increased in recent years, as has the cost of special education day placements for the children served by CSA. The overall fund, including state revenue, is recommended for funding at \$3,899,450 in FY 2021. By contrast, the original adopted budget for FY 2020 for the CSA Fund is \$3,924,510.

### Regional and Local Partners

#### Central Rappahannock Regional Library

The budget includes increased City funding for the Library. The FY 2021 Recommended Budget includes support for the Central Rappahannock Regional Library of \$1,566,570, which is an increase of 7.0% over FY 2020 funding of \$1,463,835.

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<sup>3</sup> The turnover credit is entered as a negative number in General Fund Expenditures at the beginning of the fiscal year. Based on prior experience, departments will experience turnover throughout the year as employees separate from City employment for various reasons. During the year, budget authority is transferred from departments to the turnover credit as savings from turnover is realized. At the close of the fiscal year, the turnover credit will be zero as a result of these activities.

## Rappahannock Regional Jail

City support for the Rappahannock Regional Jail will be lower in FY 2021 than in the current fiscal year. The FY 2020 budget used \$635,000 of the Jail Stabilization Reserve to help offset increases in costs for the detention centers in the current year’s budget, in accordance with the policy governing this reserve. This reduces the potential use of the Jail Stabilization Reserve to \$435,000 in the current fiscal year.

### Historical Funding – Rappahannock Regional Jail

	City Funding	Change	In FY 2020, the City recommends
FY 2015	3,741,869	-	decreasing the use of the Jail
FY 2016	3,917,709	4.7%	Stabilization Reserve Fund by
FY 2017	3,861,804	-1.4%	\$200,000. The Jail Stabilization
FY 2018	4,327,955	12.1%	Reserve policy would require a
FY 2019	3,086,764	-28.7%	contribution to the Jail Reserve in FY
FY 2020 Revised	4,021,017	30.3%	2021 based on the fact that the
FY 2021 Recommended	3,780,000	-6.0%	contribution to those facilities for the

City are recommended to decrease in FY 2021. The FY 2021 contribution is \$226,978 lower than the required contribution for FY 2020, which would normally require that the City set aside \$113,489 in FY 2021 to add to this reserve. The staff proposes that this use of sales tax revenue in FY 2020 offset the FY 2021 required contribution, which helps to balance the FY 2021 budget.

## Other Regional Governmental Agencies

The City’s cost for the Rappahannock Juvenile Center is included in the budget recommendation at \$427,493, which is an increase of 3.5% from the FY 2020 funding level of \$413,236. The City’s share of cost for the Rappahannock Health District and the Rappahannock Area Community Services Board are recommended for level funding from FY 2020 - \$414,280 for the Health District and \$286,306 for the RACSB.

## Baseball Stadium Fund

FY 2021 is the first full fiscal year where a new multi-purpose baseball stadium in Celebrate Virginia South will impact the City. The Fredericksburg Nationals are scheduled to play their first home game on April 23, 2020 in the newly completed stadium. The total appropriation recommended for the Baseball Stadium Fund is \$1,050,000 – equivalent to the agreement executed between the City and Potomac Baseball, LLC.

## Other Operating Funds

### City Grants Fund

The City Grants Fund is included in the FY 2021 recommendation for \$1,579,474, a 4.4% increase from the FY 2020 original adopted budget of \$1,512,484. The City Grants Fund is amended from time to time throughout the fiscal year as the City receives grant awards. The transfer to the City Grants Fund from the General Fund is recommended at \$308,000, which is level funding from FY 2020.

### Stormwater Management Fund

This budget recommends a total appropriation of \$865,000 for the Stormwater Management Fund. This is a 10.9% decrease from the FY 2020 revised budget of \$970,805. The Stormwater Management Fund is funded largely by a two-cent per \$100 value levy on the value of real estate here in the City.

The Stormwater Management Fund includes personnel and activities related to the regulation of stormwater runoff from private development in the City.

In addition, the Stormwater Management Fund includes the City's efforts to meet the mandates of the Municipal Separate Storm Sewer ("MS4") program permit. The City's MS4 permit requires improvements to help clean stormwater runoff before it returns to the Rappahannock River and ultimately, the Chesapeake Bay. The City Council amended the FY 2020 budget mid-year to add a position to Public Works, through this fund, to assist in these efforts. The first full year of funding for this position is in the Stormwater Management Fund in FY 2021.

### Social Services Fund

The City's Social Services Fund consolidates federal, state, and local funds for a range of social service programs, and the Social Services Fund accounts for the operations of the City's Department of Social Services. This budget recommends total funding at \$6,690,588, a 4.4% increase from the FY 2020 original adopted budget (\$6,411,125). The transfer to the Social Services Fund from the General Fund is \$1,000,000 which is level funding from FY 2020. Federal funds are anticipated at \$3,089,977; State funds are anticipated at \$2,182,126.

### Blight Abatement Fund

The City's Blight Abatement Fund is recommended for level funding in the FY 2021 recommended budget, at an amount of \$95,000.

### Fredericksburg Opportunity Fund

The Fredericksburg Opportunity Fund, which assists with various economic development activities as the need arises throughout the year, is recommended for funding at \$75,000 in FY 2021. This is the same funding level as FY 2020 and FY 2019.

### Water Operating Fund & Wastewater Operating Fund

The Water Operating Fund is recommended to be funded at \$6,570,800, which is a 13.6% increase over the FY 2020 revised budget level of \$5,786,218.

The Wastewater Operating Fund is recommended to be funded at \$8,736,540, which is a 7.0% decrease from the FY 2020 revised budget of \$9,390,257.

Both funds are impacted by the increase in debt service requirements related to the 2018 Bond Issuance, which included projects related to both the water distribution system and the wastewater collection system throughout the City.

The City's Water Operating Fund is recommended for funding at \$6,570,800, which is an increase of 14.75% over the original adopted budget of \$5,726,209 in FY 2020. The increase in appropriation level is due to several factors, including a slightly higher transfer to the Water Capital Fund for capital projects, an increase in depreciation expense, and an increase in the allowance for the purchase of treated water from Spotsylvania County.

The recommendations for the Water Operating Fund include a recommendation for a 9% increase in the rates, which was recommended by the City's rate model developed during FY 2019.

The City's Wastewater Operating Fund is recommended for funding at \$8,736,540, which is a 6.96% decrease in appropriation level from the FY 2020 original adopted budget of \$9,390,257. The recommendations for the Wastewater Operating Fund include a recommendation for a 10% increase in the rates, which is slightly lower than the 13% recommended by the City's rate model of FY 2019. The City's current debt service schedule decreased for this fund, which largely accounts for the decline in the appropriation level. The City's Wastewater Capital Fund will require additional issuance of debt during FY 2021 to fund major capital projects.

### Transit Operating Fund

The Transit Operating Fund is recommended for funding at \$7,224,829, which is an increase of 14.46% over the FY 2020 Adopted Budget level of \$6,312,360. Most of the funds for the City's transit service are contributed from the federal and state governments. FRED Transit also receives funding from partners in our community, the University of Mary Washington, and Stafford and Spotsylvania Counties.

FY 2021 funding in Transit includes special Route 17 service for Stafford County that is funded through the Virginia Department of Transportation. This route represents approximately \$400,000 in additional expenditures for the Transit Fund.

The City's contribution to the Transit Operating Fund is \$480,000, and is taken from the surplus motor fuels tax. The contribution level is the same as in FY 2020.

### Riparian Lands Stewardship Fund

The Riparian Lands Stewardship Fund is recommended to be funded at \$101,103, which is a 6% increase over FY 2020 (\$95,382). This fund accounts for the activities of the City's River Steward, who patrols the riparian lands owned by the City along the Rappahannock River. The City's proposed salary increase accounts for the increase in this fund.

### Parking Fund

The Parking Fund is recommended to be funded at \$722,513, which is a 2% decrease from the FY 2020 funding level of \$737,427. The Parking Fund includes the operations of the Sophia Street Parking Garage, along with some expenditures for parking lots that are currently under lease by the City in the downtown. The service level in the Parking Fund is not recommended to change in FY 2021.

## Celebrate Virginia South Community Development Authority Fund

The Celebrate Virginia South Community Development Authority utilizes the City as a fiscal agent for the billing of the special assessments required for their debt service. The annual amount included in the budget is recommended to be the same as the current year, at \$1,746,150.

## Conclusion and Next Steps

The budget document you have before you is the result of many hours of hard work on the part of our departments, Constitutional Officers, local and regional partners, and many others. I would especially like to thank our Budget Manager, our Finance Department, and both Assistant City Managers for their tireless efforts in bringing the recommended budget and the capital improvements plan together.

The FY 2021 budget is the first budget administered entirely in the Tyler Munis software. The chart of accounts has changed, although the Finance Department was able to utilize much of the current structure for the City in creating the new account numbers.

Again, these recommendations are fiscally responsible, strengthen public education, and support our workforce, all while meeting the needs of a growing community. They also work to advance Council's priorities to a point at which staff will be positioned to successfully report on achieving prescribed milestones throughout the upcoming year.

The City Manager's Recommended Budget will be updated with additional information over the next couple of months. The General Assembly is still in session, and there may need to be changes based on the budget adopted by the Assembly and ultimately signed by the Governor.

I look forward to working with you over the next couple of months to answer any questions you may have about the budget, to update any information that becomes available, and to make any changes you wish to make as you adopt a budget for FY 2021.