



TO: Honorable Mayor and Members of the City Council
FROM: Timothy J. Baroody, City Manager
RE: Adopted Operating and Capital Budget FY 2017
DATE: September 15, 2016

INTRODUCTION

I am pleased to transmit the Adopted Operating and Capital Budget for the FY 2017, which began July 1, 2016. The Adopted Budget addresses the needs and priorities of the City, but does so without increasing taxes or fees. The total General Fund budget for FY 2017 is \$90,401,800, a 2.08% increase over the FY 2016 base adopted budget. Maintaining the tax rate was especially important this budget cycle because of the property reassessment. The overall value of taxable property increased by 8.2%, however the taxable value of residential property increased by 15%. The General Fund is the primary fund for most City operations. The budget document also includes the following operating funds: City Grants, Social Services, Comprehensive Services Act, Water, Wastewater, Transit, Parking, and Stormwater Management. This is the first budget in which activities for Stormwater Management will be funded outside the General Fund.

The City Council also adopted the \$18.5 million FY 2017 Capital Improvements Plan (CIP). The capital budget continues to improve the City's position by addressing major maintenance, equipment replacement, and technology needs. A major component of the plan is the on-going renovation of the Original Walker Grant School site.

I would also like to highlight two major financial planning initiatives undertaken by this Council during the budget process that will help ensure the City's long-term financial stability. First, the City funded an Other Post-Employment Benefits (OPEB) Trust with a \$1 million contribution to meet future liabilities related to retiree benefits. Second, the City established a rate stabilization reserve of \$1.25 million to address costs related to the regional detention facilities.

OVERVIEW OF THE ADOPTED BUDGET

The FY 2017 Adopted Budget set a tax rate of 77 cents per \$100 of valuation. Every four years the City conducts a reassessment of all property. Since the overall property value increased, the adopted tax rate is "equalized" so that it will generate a levy equivalent to that produced by last year's rate of 82 cent per \$100 of valuation. The next reassessment will occur in 2020.

The Adopted Budget for Fiscal 2017 uses modest revenue growth from existing sources to support expenditure increases. Major changes in the budget include:

- A 2.0% Cost-of-Living increase for City employees
- Three new positions in the General Fund (a E911 Communications Officer, a Medic in the Fire Department, and a part-time Custodian)

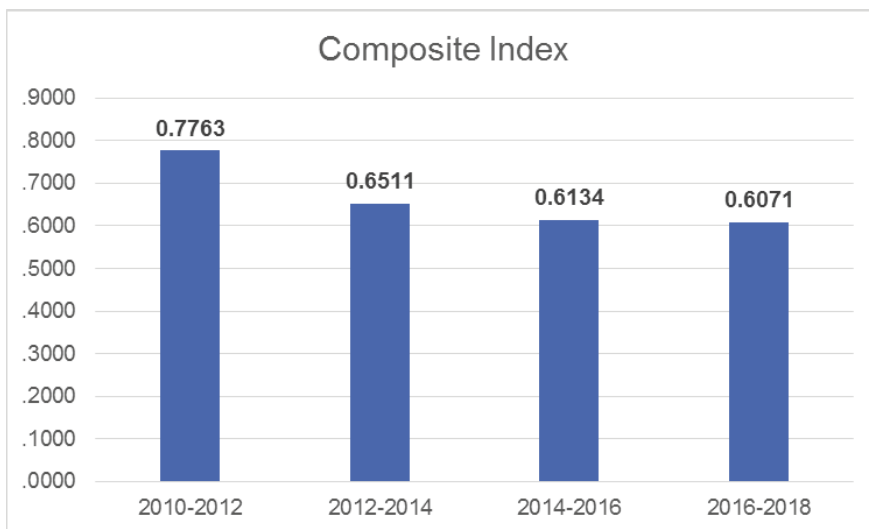
- Full-year funding for the Historic Resources Planner and Senior Environmental Planner – positions added by amendment during FY 2016
- Payment of debt service for the 2016 bond issuance for capital projects¹
- A General Fund Transfer of \$2,506,400 to support capital projects paid by cash
- A \$150,000 increase in City funding for Fredericksburg City Public Schools
- A 15% increase in budgeted health insurance costs

MAJOR OPERATING EXPENDITURE HIGHLIGHTS

City of Fredericksburg Public Schools

Funding for City Schools represents 30.6% of the City’s General Fund for FY 2017. The adopted transfer for City Schools is \$27,544,710, an increase of \$150,000 over the prior year. The City of Fredericksburg’s school system is a critical service provided to our citizens. The budget reflects a continued commitment to ensuring a high quality public education system. Major expenditure increases for City Schools are due to salary adjustments, higher benefit costs, and hiring additional teachers.

During the past six years, the City’s appropriation for schools has increased 14.8%, from \$24,028,000 in Fiscal 2011 to \$27,544,710 in Fiscal 2017. State funding has increased 97.6%, from \$7,113,908 in Fiscal 2011 to \$14,061,658 in Fiscal 2017. City Schools have benefited from additional State funding which arose from a change in the Local Composite Index over the past three recalculation cycles as shown in the following chart:



In FY 2017, the General Fund will also transfer \$522,000 to the School Capital Fund to provide resources for replacement of buses, technology upgrades, and capital lease payments for the school bus parking facility.

Debt Service

The FY 2017 Adopted Budget includes a General Fund transfer of \$7.352 million for debt service. Total General Fund supported debt is expected to increase by approximately \$203,000

¹ Principal and interest payments for the public safety radio system begin in FY 2017, for the Original Walker-Grant School renovations payments will begin in Fiscal 2018.

over FY 2016. This increase incorporates debt service related to the public safety radio system. The following is a breakdown of the required debt service transfers for FY 2017.

FY 2017 General Fund Debt Service Transfer	
Transfer to Courthouse Debt Service Fund	\$ 2,325,169
2004 GO School Bonds	\$ 3,426,904
Refunding Credit	\$ (153,884)
Transfer to Education Debt Service Fund	\$ 3,273,020
All Other GO Bonds	\$ 1,504,117
Winter 2016 Bonds (Est.)	\$ 250,000
Transfer to General Fund Debt Service	\$ 1,754,117
FY 2017 General Fund Debt Service Transfers	\$ 7,352,306

2004 GO School Bonds Refunding Credit: The City realizes savings from two debt service refundings of Virginia Public School Authority (VPSA) bonds. The City received a credit based upon savings from refunding the total bond issue. The credit has been placed in the Education Debt Service Fund. Each year over the remaining payment cycle the City will appropriate this funding to pay a portion of yearly debt service. This funding method allows for continual savings in our General Fund transfer over the life of the bonds, as opposed to one-time savings that would cause inconsistency in funding needs. The issuance of refunding bonds allows us to reduce the General Fund transfer by \$153,884 every year, which includes savings of \$47,400 from the first refunding and \$106,484 from the second. The yearly savings will continue through the final maturity of the bonds in FY 2030.

March 2016 General Obligation Bonds: The City issued \$14.525 million of General Obligation debt in March of FY 2016. Of the proceeds, \$2.025 million will be used to fund the City’s public safety radio system and \$12.5 million will be used to fund improvements to the Original Walker-Grant School. The estimated FY 2017 debt service of \$250,000 is anticipated to be funded through the use of General Fund balance.

Employee Compensation and Staffing Adjustments

The Adopted Budget includes a 2% cost-of-living adjustment for City employees. The adjustment will apply to all full-time and regular part-time employees. The past several years’ budgets have included several new positions in an attempt to meet the service demands of a growing City. The FY 2017 Adopted Budget includes two new full-time positions in the General Fund. An E911 Communications Officer was added in the Police Department to address ongoing staffing requirement at the E911 call center. Also, in support of the City Council’s initiative for 24/7 Advance Life Support (ALS) service, Emergency Medical Services (EMS) added an ALS Medic. The General Fund adopted budget also included funding for an additional part-time custodial position and a full year’s funding of the Historic Resources Planner.

Staffing changes were funded in other funds as well. The budget includes a full year’s funding for the Senior Environmental Planner in the Stormwater Management Fund. In the City Grants Fund, a part-time position was converted to a full-time position within the Victim Witness Program. Funding for the full-time position reflects additional state aid and future funding from

the state is required to maintain the position at full-time status. The adopted budget also includes funding for a new part-time data analyst in the Transit Fund.

Employee Benefits

Health Insurance – The Adopted Budget for FY 2017 includes additional funding to meet increasing costs for employee and retiree health insurance. The budget for health insurance totals \$5,889,410 in the General Fund and \$7,124,020 across all City funds.

For the City’s group health insurance plan, the following table shows the trend over the past several years, including the FY 2016 “expected” and the FY 2017 “projected” claims and costs based upon the renewal proposal.²

Fiscal Year	Total Claims & Plan Charges	Notes
FY 2012	\$4,523,530	
FY 2013	\$5,557,495	Includes run-out with Anthem
FY 2014	\$5,004,200	Cigna Transition – Immature Claims Year
FY 2015	\$5,881,367	
FY 2016	\$5,990,338	Original Expected Claims + Fixed Costs
FY 2016	\$6,300,000	Current Trend Estimate for FY 2016
FY 2017	\$7,086,271	Renewal

The proposed FY 2017 renewal from our insurance carrier reflects a difficult claims year for City employees. The current trend shows \$6.3 million in claims and fixed costs for FY 2016. In addition, the carrier is basing the renewal on inflation factors of 12% for medical and 22% for prescription drugs.

The City includes a weighted average premium per employee per year in the budget for all full-time employees. The FY 2016 weighted average for full-time employees is \$12,525; the FY 2017 weighted average included in the Adopted Budget for FY 2017 is \$14,400, an increase of 14.97%. The growth in the weighted average is shown in this table.

Fiscal Year	Cost Per Full-time Employee	Notes
FY 2012	\$8,500	
FY 2013	\$9,150	
FY 2014	\$10,300	Transition Year
FY 2015	\$12,000	
FY 2016	\$12,525	
FY 2017	\$14,400	Renewal

Virginia Retirement System – The City’s total contribution rate for FY 2017–2018 is decreasing significantly, from an employer rate of 15.94% to 12.55%.³ The lower contribution rate will result in significant savings for the City for FY 2017 and FY 2018, compared to prior periods. For example, the General Fund budget for VRS contributions by the City in FY 2017 is \$2,407,782. In FY 2015, the actual expenditure in the General Fund was \$3,166,815 – a difference of \$759,033.

² Total Claims and Plan Charges include both the employer and the employee’s share.

³ These rates do not include the “member contribution” of 5%, which is now the responsibility of the employees after the funding during FY 2016 of the final “5-for-5” wage increase for employees who were employed prior to July 2012.

Rappahannock Regional Jail

The City of Fredericksburg is a member jurisdiction, along with the Counties of King George, Stafford, and Spotsylvania, of the Rappahannock Regional Jail. Costs to operate the Regional Jail are generally based upon the prisoner days assigned to the City compared to the prisoner days assigned to the other three jurisdictions. Prisoner days are assigned based upon the location of the offending incident that led to the detention, as opposed to the home address of an offender. The most recent *Jail Cost Report* prepared by the State Compensation Board (Fiscal 2014) shows operating costs of \$54.55 per inmate per day at the Rappahannock Regional Jail, well below the statewide average of \$77.26.

The City’s prisoner days have risen over the past few years, and the City’s share of operating costs for the Regional Jail has increased substantially. However, the City’s proportionate share of usage dropped in FY 2015 and thus creates a temporary reprieve from ever-growing costs. The adopted allocation for the jail for FY 2017 is \$3,853,904 which amounts to a decrease of \$84,816 (-2.15%) over the FY 2016 budget. Overall, the City’s share of prisoner day usage is 23.19% of the total for the four jurisdictions.

Rappahannock Regional Jail	City Contribution	City Prisoner Days
FY 2008	\$3,038,960	85,338
FY 2009	\$3,240,880	89,849
FY 2010	\$3,495,961	87,562
FY 2011	\$3,245,028	80,347
FY 2012	\$2,855,352	96,985
FY 2013	\$3,026,000	110,520
FY 2014	\$3,474,045	117,652
FY 2015	\$3,783,720	108,066
FY 2016	\$3,938,720	117,266 (Projected)
FY 2017	\$3,853,904	-

Jail costs are allocated to the four participating jurisdictions based on the number of “inmate days.” This is a proportionate usage formula. The jail budget for FY 2017 is based on the inmate census from FY 2015, a two-year lag. This approach helps the City, and all localities, have certainty in budgeting for jail costs during a specific fiscal year. Unfortunately, this approach inadvertently creates volatility in the distribution of jail costs from one year to the next as each locality’s proportion of inmate days rises and falls due to a multitude of uncontrollable factors.

Capital improvements are also factored into the jail costs. During FY 2016, the Rappahannock Regional Jail issued bonds to fund \$14 million of capital improvements. These improvements included security software system upgrades, kitchen floor reinforcement, roof repairs, and the installation of energy efficient heating and cooling replacement equipment. In FY 2018 debt service on these bonds will increase the City’s costs of the jail.

During the FY 2017 budget process the City Council established a rate stabilization reserve of \$1.25 million in the City’s General Fund. This reserve will assist in lessening the budget impact of future increases. The City’s future jail costs are likely to increase as a result of the following:

- City-responsible inmates;
- The loss of Federal revenue for housing inmates from the U.S. Immigration and Customs Enforcement division of the Department of Homeland Security;

- Planned use of jail fund balance in previous years depleted unassigned jail reserves; and
- Higher jail debt service payments beginning in FY18.

While the rate stabilization reserve will not be used in the FY 2017, the City will most assuredly use some of it in FY 2018.

Partner Agency Funding

The City provides funding to various human services agencies, intergovernmental agencies and other nonprofit organizations that provide arts, cultural, educational and other services to the community. The FY 2017 Adopted Budget includes approximately \$3.04 million in funding to our Partner Agencies. This includes an increase of approximately \$138,000 or 4.8% over the FY 2016 budget. Included in this increase were two changes recommended by City Council during the budget process. City Council funded a \$17,763 request from the Fredericksburg Regional Alliance which was an increase of \$12,563 over FY 2016 funding level of \$5,200. The Council also included \$3,000 for the Sister City programs. Funding for most agencies was level with FY 2016. This includes \$250,000 for the Fredericksburg Rescue Squad and \$414,280 for the Rappahannock Health District. The following is a summary of other major Partner Agency funding and increases:

Central Rappahannock Regional Library – The recommendation includes approximately \$1.34 million for the Library, an increase of approximately \$52,000 or 4% over last year's budget. Funding for the Library has been relatively flat over the past two fiscal years. The Library used its Fund Balance in FY 2015 and FY 2016 for operating costs and to fund a 2% cost-of-living salary increase in FY 2016.

Rappahannock Area Community Services Board (RACSB) – Included in RACSB's request is funding for a second Child and Adolescent Psychiatrist for the Mental Health Outpatient program. The RACSB psychiatrist is the only child psychiatrist in the region to accept Medicaid. This physician's current caseload is 960 patients and the average appointment wait time is twelve weeks. Also included in the request is a 2% cost-of-living adjustment for employees. The adopted budget of approximately \$247,000 includes an increase of 14.8%, or \$32,000.

Germanna Community College - Germanna Community College operating funding is \$8,719 for FY 2017. In addition to operating funding, the Adopted Budget includes a capital commitment of \$35,000 per year for 7 years, totaling \$245,000, to pay for a share of the cost to construct the Science, Engineering and Information Commons Building at the Fredericksburg Campus. FY 2017 will be the fourth year of this contribution to Germanna Community College.

Additionally, the City is partnering with Germanna Community College to provide technical workforce training in the City of Fredericksburg through the Fredericksburg Center for Advanced Training (Fred CAT). The focus is on high wage skilled positions that often require postsecondary education and training, but generally not a college degree. Fred CAT's goal is to expand needed career programs and provide a pipeline of trained, skilled employees in support of the City's manufacturing, construction, and industrial trades businesses. The total project cost is \$1.3 million over five years. The City will provide approximately \$25,000 per year for the next five years for a total of \$125,000. The Fredericksburg EDA has committed to match the City's funding level.

Rappahannock Area Office on Youth (RAOOY) and Chaplin Youth Center – The Adopted Budget for RAOOY / Chaplin Youth Center is approximately \$55,700, an increase of \$14,500. The request reflects an increase in health insurance costs, the implementation of a new case management system, and increases in the City's utilization rate of the Agency's programs.

Fredericksburg Area Museum – The FY 2017 budget of \$95,975 is equal to the FY 2016 budget. City Council also authorized up to \$150,000 for the reimbursement of costs associated with the relocation, storage, and display of the Museum collection.

REVENUES

The Adopted Budget for FY 2017 is based on a General Fund with no real estate tax rate increase or other fee increases. The adopted tax rate of 77 cents is an equalized rate based on the 2016 real estate assessment designed to produce the same levy as the 82 cent tax rate of the prior year's assessment. The overall budget forecast for the General Fund includes \$1,841,545 in new revenues. The Adopted Budget includes fund balance use in the amount of \$3,697,300, which is an increase of \$477,300 over the prior year's use. The increase in fund balance usage is attributed to a larger transfer to the capital funds.

Real Estate Tax

The General Fund forecast for real estate tax revenue is \$29,265,000 – an increase of \$200,000 over the FY 2016 budget amount. The City is forecasting growth of approximately \$25,000,000 in taxable real estate. Final figures will be available in the fall after the appeals process of the Board of Equalization is complete.

Personal Property Tax

Personal property tax revenue is projected at \$ 8,470,500 for FY 2017. This is an increase of 2.41% from the FY 2016 budget of \$8,271,400.

Meals Tax

Meals tax revenue is projected at \$10,450,000, an increase of \$500,000 over the FY 2016 budget of \$9,950,000. The City continues to benefit from a thriving restaurant community and this source of revenue in FY 2016 year-to-date has continued to grow.

Sales Tax

Sales tax revenue is projected at \$11,070,000, the same as FY 2016. Unlike meals tax, sales tax collections have been flat overall. FY 2016 collections year-to-date are on pace to meet budget projections.

Lodging Tax

Lodging tax revenue is projected at \$1,395,000, an increase of 1.45% from the FY 2016 estimate of \$1,375,000.

EMS Service Fees

EMS service fee revenue is projected at \$845,000, an increase of 3.05% over the budget estimate of \$820,000 for FY 2016. The Adopted Budget does not propose to increase these fees during FY 2017. However, the additions of staff in the past three years should increase the total calls answered by the Fredericksburg Fire Department as opposed to relying on mutual aid from other jurisdictions.

Solid Waste Collection Fees

Solid waste collection fee revenue remains the same in FY 2017 at \$981,650. The Adopted Budget does not include a fee increase in FY 2017.

State Revenue – General Fund

The General Fund receives revenues from the Commonwealth of Virginia for a variety of items, including aid from the Compensation Board for Constitutional Officers, aid for the Registrar, Urban Street Maintenance, and Law Enforcement Assistance (HB 599).

The FY 2017 budget for state aid for these main sources in the General Fund (not including state aid for schools, social services, or the Comprehensive Services Act) is forecasted to total \$5,476,600. This is up significantly from the FY 2016 forecast of \$5,140,200. The majority of the increase is a \$200,000 increase in the forecast for the Urban Street Maintenance payment program.

The state also characterizes the Telecommunications Sales Tax as revenue from the Commonwealth, and that is projected as \$1.75 million in FY 2017. The Personal Property Tax Relief Act amount, which is also considered state aid, remains unchanged at \$1.72 million.

Fund Balance Usage

The Adopted Budget includes total use of fund balance in the General Fund as follows:

Fund Balance Category	Amount	Use
Unassigned	\$500,000	Contingency
Unassigned	\$441,000	Winter 2015 G.O. Debt Service
Unassigned	\$250,000	Winter 2016 Estimated G.O. Debt Service
Assigned for Capital	\$2,506,400	Transfer to Capital Funds
Total Use	\$3,697,400	

CAPITAL IMPROVEMENTS PLAN – HIGHLIGHTS OF MAJOR PROJECTS

The Adopted Budget includes the FY 2017 Capital Budget and the recommended FY 2018 – FY 2021 Capital Improvements Plan (CIP). The CIP includes both major capital projects that represent new community facilities, and smaller projects that represent maintenance of existing assets or improvements to facilities. Major community facilities included in the recommended CIP include:

- New elementary school (FY 2021)
- Downtown parking garage (FY 2020 and FY 2021)
- Fire Station #3 (FY 2018)
- Riverfront Park – Construction (FY 2018).

These major projects are to be financed through future bond issues. Highlights of these projects, and other significant projects, are discussed below.

Public Education Capital Fund

Original Walker-Grant School Renovation

The City and the School Board have approved a contract to renovate the Original Walker-Grant School. This facility will be used for the Head Start Program, Early Childhood Special Education, and School Board administrative offices. Funding in the amount of \$12.5 million was approved by the City in FY 2016, and the project is expected to be completed in August 2017.

New School Bus Lot Lease

The City and the School Board are working with a private developer to design and construct a facility in the City’s Battlefield Industrial Park for school bus parking. Funding is included in each of the upcoming years of the CIP, based on the projected lease payments. In FY 2017 funding is \$102,000.

New Elementary School

The School Board has requested that a new elementary school be placed in the Capital Improvements Plan. The school is projected to be 95,000 square feet and accommodate approximately 750 students. The CIP includes funding for architectural and engineering design in FY 2020 and construction of the new school in FY 2021. The projected construction cost is \$26,000,000. Staff recognizes that this cost is subject to change based on inflation and design of the facility.

Walker-Grant Middle School Roof Replacement

The CIP includes funding to replace the roof at Walker-Grant Middle School. The cost of the project is \$1.2 million in FY 2019.

Public Facilities Capital Fund

The Adopted Capital Budget for FY 2017 and the recommended CIP include several key projects in the Public Facilities Capital Fund.

Memorial Park Restrooms

The Adopted Capital Budget for FY 2017 includes funding in the amount of \$105,000 for the construction of a permanent restroom facility in Memorial Park. This facility will replace the existing portable restrooms.

Technology Replacements & Other Technology Projects

The CIP includes funding in each year for technology replacements, including \$237,500 in FY 2017. Also included is the replacement of the Enterprise Resource System, estimated at \$1.5 million over the FY 2018 through FY 2020 period. There is also funding adopted for implementation of the IT Resilience Plan (FY 2017 – FY 2019), funding for a replacement telephone system for the Police Department (FY 2018), and replacement of the Parking Garage access and revenue control system (FY 2018).

Alum Springs Park Projects

The CIP includes funding in FY 2020 in the amount of \$1,310,000 for a bridge to replace the existing ford. In addition, the FY 2018 plan year includes \$224,000 for renovations to the restroom facility.

Parking Garage Facilities

In FY 2018, the CIP includes funding of the City's agreement to develop an underground parking facility at the Liberty Place development in downtown. The amount is \$2,150,000 in FY 2018 which includes purchase of the parking condominium from the developer and installation of a parking access and revenue control system. The CIP also includes a total of \$10 million in FY 2020 and FY 2021 for the development of a second structured parking garage in the downtown.

Planning Area Updates

The development of small area plans is included in each year of the CIP. Funding for one area plan is included in FY 2017, in the amount of \$75,000. Funding is included in future years for two plans per year.

Public Works Capital Fund

The Adopted Capital Improvements Plan for FY 2017–2021 includes several major projects in the Public Works Capital Fund.

Fall Hill Avenue Widening Project

The Virginia Department of Transportation is currently administering the widening of Fall Hill Avenue from the I-95 area to the Rappahannock Canal, and the construction of a new road from the Canal area to Mary Washington Hospital. The FY 2017 Capital Budget includes \$2,880,000 as the City's portion of funding through the state's Revenue Sharing program. The City will issue bonds for its share of project cost.

Riverfront Park

Riverfront Park will be developed along Sophia Street on the Rappahannock River between Hanover Street and just south of Charlotte Street. The Capital Budget for FY 2017 and the Capital Improvements Plan for FY 2017–2021 include \$500,000 in FY 2017 for continued design development and \$5,000,000 in FY 2018 for construction. In FY 2017 the source of funding is proceeds from debt issued in 2015 for design and other pre-construction services. Funding for construction will be provided by future general obligation debt.

Embrey Dam / Rappahannock Canal Footbridge

The footbridge on the Embrey Dam / Rappahannock Canal trail washed out during a severe rainstorm in autumn 2015. Replacement of the bridge will re-open the trail to full use. The Adopted Capital Budget for FY 2017 includes \$100,000 to for this project.

Asphalt Program

The Adopted Capital Budget for FY 2017 included an amount of \$1,400,000 for the asphalt program. Since the adoption of the budget, the City received notification from the Virginia Department of Transportation (VDOT) of funding for the VDOT Revenue Sharing and Primary Extension programs. Due to \$180,900 of additional state funds, the City's Asphalt Program will be increased to \$1,580,900.

Bridge Replacement – U.S. Route 1 and Rappahannock Canal

The CIP shows funding awarded through VDOT for the replacement of the bridge on Jefferson Davis Highway over the Rappahannock Canal. This would be a major community project, as Jefferson Davis Highway is a key north-south transportation corridor not just for the City, but throughout the region. The bridge is nearing the end of its useful life. Should VDOT or the Fredericksburg Area Metropolitan Planning Organization (FAMPO) adjust the timing of this project, the City will need to adjust the timing in the CIP.

Public Safety Capital Fund

Fire Station #3

The City currently has a project in the planning stage for a third fire station which will be located in Celebrate Virginia South. Funds for design were included in the FY 2015 bond issue, but the City will need to borrow additional funds for construction. The CIP includes \$6,500,000 in FY 2018 for this station to be delivered as a PPEA project, and an additional \$1,000,000 in FY 2019 for equipment to furnish the station upon completion.

Ambulance Replacement

The FY 2017 Adopted Capital Budget includes \$260,000 for a replacement ambulance for the use of the Fredericksburg Rescue Squad. There are additional replacement ambulances planned for FY 2019 and FY 2020 for career and volunteer emergency medical services.

E911 Center Improvements

The FY 2017 Adopted Capital Budget includes \$275,000 for the replacement of the Digital Voice Logger and the VESTA Pallas call-taking system at the E911 Center at the Police Department. The City expects to receive grant funding of \$150,000 for this project.

New Courts Capital Fund

Renovations to Renwick Complex

The Adopted Capital Budget for FY 2017 includes an amount of \$250,000 in FY 2017 as a set-aside for potential repairs that might be needed to the Renwick Courthouse, the Old Wallace Library, or the Old Jail building that may result from the historic structures evaluation. This funding will enable the City to handle critical structural repairs that may be identified by the historic structures report, but is not intended to provide a full renovation.

General District Courtroom Completion

The Adopted Capital Improvements Plan also includes funding in FY 2019 for the completion of the second General District Courtroom, in the amount of \$500,000.

Water Capital Fund

The FY 2017 Capital Budget includes only one major new capital construction initiative in the water fund – the balance of the Caroline Street water line project. Other projects have been deferred until future years, although the budget requests that \$400,000 be retained in an Internal System Improvements account to enable small-scale repairs or replacements that may become necessary during the fiscal year.

Caroline Street Water Line

The City has awarded a contract to W.C. Spratt to replace the water line on Caroline Street. The FY 2017 Capital Budget includes \$1.4 million for the completion of this project.

Wastewater Capital Fund

The Adopted Capital Budget for FY 2017 includes an acceleration of a project – the replacement of the sewer line in a section of Caroline Street.

Caroline Street Sewer Replacements

The City's Public Works Department is recommending the replacement of the sanitary sewer line along Caroline Street in sections: from Route 1 to the Pump Station at Ford Street, from the Pump Station to Lafayette Boulevard, and from Lafayette Boulevard to the southern end of the line at the City Dock Interceptor.

The City's engineer has preliminarily identified the section between Lafayette Boulevard and the City Dock Interceptor as a priority for replacement. This work could be done to coincide with the City's work on the water line for Caroline Street. The FY 2017 Adopted Capital Budget includes \$500,000 for this replacement.

The other phases are adopted for future funding, including:

- Route 1 to Pump Station (\$1.3 million, FY 2021)
- Pump Station to Lafayette Boulevard (\$500,000 in FY 2020 and \$1,000,000 FY 2021).

The CIP also includes \$400,000 to renovate the Caroline Street pump station in FY 2021. All of these future projects would be eligible for funding from a future bond issue, and could be

combined with other major capital needs during that time frame (for example, a second downtown parking garage or the proposed elementary school).

Wastewater Treatment Plant Improvements

The Adopted Capital Budget and the proposed CIP also include several projects at the City's Wastewater Treatment Plant. Future projects include rehabilitating the oxidation ditch (\$250,000 in FY 2018); renovating the influent pump station (\$1,000,000 in FY 2019); and various improvements or replacements to the sludge systems (\$80,000 in FY 2017 and \$210,000 in future years).

OTHER FUNDS – HIGHLIGHTS

City Grants Fund

Funding of \$1,352,053 in the City Grants Fund is included in the adopted budget. This is a decline of 0.69% from FY 2016. Parks and Recreation programs that have been inactive for several years, such as First Fridays and the Frejus Sports Exchange, are no longer included for in the budget. Appropriations for other Parks and Recreation programs have decreased to reflect anticipated spending. The budget also includes an increase for the Midnight Madness program. During the city budget process, the City Council increased the appropriation to the City Art Commission by \$5,000.

Due to the availability of additional federal and state funding, the budget include increases in the Community Development Block Grant Program, the Virginia Domestic Violence Program, and the Victim Witness Program. Additional funding in Victim Witness will be used to convert a part-time position to full-time. In order to support programs in the City Grants Fund, the budget includes a \$381,810 transfer from the General Fund. This is an increase of \$16,310 or 4.5% over last year.

Stormwater Management Fund

The FY 2017 Adopted Budget includes \$210,500 for a new fund, the Stormwater Management Fund. Activities of this fund will be supported by Virginia Stormwater Management Plan (VSMP) permit fees, fines, and other revenues estimated at \$85,000. A General Fund transfer of \$125,500, will fund the remaining program costs. This fund will support the new Senior Environmental Planner position approved mid-year of FY 2016 and a Stormwater Administrator/Planner previously included in the Department of Community Planning and Building. This new division will be responsible for plan review, managing the Municipal Separate Storm Sewer System (MS4) permit requirements and Total Maximum Daily Load (TMDL) Action Plan for the City.

Social Services Fund

The Department of Social Services' budget, as well as the General Fund transfer, have decreased slightly. Budget savings in FY 2017 reflect the elimination of one-time capital expenses in FY 2016 and the removal of certain rental payments. The overall budget is \$5.26 million, a decrease of 0.5% from the previous year. The City's General Fund transfer is \$1.089 million, a decrease from \$1.24 million in FY 2016. The Department's FY 2017 budget includes the use of \$21,293 in fund balance (Social Services Fund).

Comprehensive Services Act Fund

The City's Comprehensive Services Act (CSA) Fund totals \$1,874,432 for FY 2017. The CSA program budget reflects mandated costs for special needs children, and is a shared responsibility between the City and the State government. The FY 2017 adopted budget is a

decrease of 2.8% from the FY 2016 adopted budget. The decline is primarily due to a decrease in salary and benefits and a decrease in the requested amount for purchased services related to Special Education Day placement costs. The transfer from the General Fund is level with FY 2016 at \$675,265. The use of the CSA Fund balance is \$72,815.

Water Operating Fund

The City's Water Operating Fund is \$4,409,765, a decline of 0.68% over the FY 2016 budget. The debt service is budgeted at \$832,000, a decline of 12%, reflecting that actual debt service on the 2015A Bonds was below the estimate included in the FY 2016 budget. The FY 2017 budget includes two items that will be split between the City's Water Fund and the Wastewater Fund. First is \$15,000 for a water and sewer rate study. The last study was conducted during FY 2012. Also included is \$55,500 for a new dump truck. Revenues are expected to be on par with FY 2016 and do not include an increase in water rates.

Wastewater Operating Fund

The City's Wastewater Operating Fund is adopted for approval at \$7,073,784, an increase of 1.14% over the FY 2016 budget. The debt service is budgeted at \$1.61 million, a decline of 4%, reflecting that actual debt service on the 2015A Bonds was below the estimate included in the FY 2016 budget. In addition to the two items mentioned above that will be split between the City's Water Fund and the Wastewater Fund, funds are included for equipment replacements including replacement parts at pump stations and heaters for the wastewater treatment plant. Revenues are expected to be on par with FY 2016 levels and do not include an increase in rates.

Parking Fund

The FY 2017 budget for the Parking Fund is \$781,000. The Parking Fund is an enterprise fund and includes the 297-space Sophia Street Parking Garage and surface lots at 904 Princess Anne, and Amelia and Charles Streets. The adopted budget is an increase of \$95,380 or 12.21%. The increase provides funds for maintenance improvements identified in an analysis performed by Walker Parking Consultants. These improvements are estimated at \$90,000 and include waterproofing and minor repairs at the parking garage. The increase is also impacted by employee benefit costs and maintenance costs for the lot at Amelia Street and Charles Street.

FY 2017 operating revenues are projected to cover expenses. Debt service of \$301,505 is expected to be funded from a combination of the City's motor fuel tax account and revenue generated from parking fees.

Transit Fund

The adopted budget for the City's Transit Operating Fund is \$5,606,633. This is a reduction of 1.8% or approximately \$104,000 from FY 2016. The reduction is due to trends in fuel prices and the capital spending on bus replacements. Included in the budget are additional hours for a part-time analyst. The analyst will assist with the Transit System's reporting requirements related to Federal and State funding, especially regarding data analysis of ridership trends.

Celebrate Virginia South Community Development Authority Fund

The City serves as the fiscal agent for the Celebrate Virginia South Community Development Authority. As part of the ongoing agreement with the Authority, the City includes in the annual budget the amount of the debt service for the year. The Treasurer is responsible for billing and collecting the special assessments, and for paying the debt service on the CDA bonds. The appropriation amount for the special fund is \$1,951,836.

CHANGES DURING THE BUDGET REVIEW PROCESS

City Council approved several initiatives which increased the recommended budget. First was the addition of an EMS Medic in the Fire Department. The new Medic position increases the staffing level to fourteen for Emergency Medical Services. Second, as discussed in previous sections, City Council also increased funding for partner agencies and the Fredericksburg Arts Commission.

During the budget process, the City Council approved two major long-term financial planning initiatives, namely the previously discussed jail rate stabilization reserve and an Other Post-Employment Benefits (OPEB) Trust. The City's OPEB liability is related to health insurance benefits for retirees. Due to the large magnitude of the actuarial liabilities for OPEB benefits, a trust fund is one way to address the challenges that Fredericksburg and all public sector employers are facing. The City's actuarially accrued liability (AAL) in FY 2015 was \$22.6 million. The initial contribution to the trust fund was approved by City Council during the budget process in the amount of \$1.25 million.

CONCLUSION

The FY 2017 Adopted Budget makes many positive investments in worthwhile services and infrastructure that will greatly benefit the citizens of Fredericksburg. The budget does an excellent job of balancing the need of the City while respecting the limits of our financial resources and the impacts of the reassessment on the citizens. Additionally, the financial planning initiatives are especially important as we look forward to FY 2018. That budget will need to incorporate debt service related to renovations at the Original Walker Grant School site and anticipated increases in jail costs, as well as other needed operational and capital priorities.