



TO: Honorable Mayor and Members of the City Council  
FROM: Timothy J. Baroody, City Manager  
RE: City Manager's Recommended Operating and Capital Budget for FY 2018  
DATE: March 14, 2017

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## INTRODUCTION

I remain humbled by the trust you placed in me almost a year ago as you sought the replacement of outgoing City Manager Bev Cameron. With big shoes to fill, I have worked hard to understand and get to know our City, its stakeholders, our many assets, our workforce, our residents and businesses. In this work I have remained energized by his assertion that this City, the City of Fredericksburg is a place with "unlimited potential." I agreed with his statement when accepting the responsibilities of City Manager, and believe it even more heading into our next fiscal year.

As you prepared for the biennial offsite this past October, we began a renewed conversation on who we are - and wish to be in 10, 20 and even 50 years from now. That work has been critical, not because it solves our problems immediately but because as it comes to a conclusion it begins to communicate a shared sense of vision. Moving forward, this Vision (and your Desired Future States, and Priorities) present clarity of purpose for the City management team and workforce. This will better enable us to pull in the same direction on priorities, focusing our energy in community building efforts most impactful to our residents, businesses and visitors alike.

The work to create a community vision, an organizational vision/mission, and a revitalized organizational structure – is already making a difference in our ability to live your direction in preserving our past, while building a better future for all. With all of that in mind and to build on the momentum I see in living our higher potential, I am pleased to present the City Manager's Recommended Operating and Capital Budget for Fiscal Year 2018.

The total General Fund budget for FY 2018 is \$93,515,000, a 3.44% increase over the FY 2017 base adopted budget. The General Fund is the primary fund for most City operations. The budget document also includes recommendations for the following operating funds: City Grants, Stormwater, Social Services, Children's Services Act, Water, Wastewater, Transit, Parking, and Celebrate Virginia South Community Development Authority Funds.

This document includes recommendations for the City's capital budget for FY 2018. Also included is the recommendation for a five-year Capital Improvements Plan for FY 2018-FY 2022. The capital budget invests considerable resources in maintaining and replacing current facilities. In addition, there are significant resources dedicated to meeting existing Council

priorities and new initiatives included in the City Council’s draft Vision, Desired Future States and Priorities.

Presentation of the City Manager’s Recommended Budget represents the start of City Council’s annual budget review process. The staff and I look forward to reviewing this recommendation with you, incorporating the changes you may wish to make, and adopting a budget for the upcoming year that will best position the City of Fredericksburg for advancement. This budget works to create sustainability and ensures forward progress on your priorities, while keeping residents, businesses, visitors, future budgets, and our workforce in mind.

## OVERVIEW OF MAJOR BUDGET RECOMMENDATIONS

The Recommended Budget includes a recommendation to increase the real estate tax rate by \$0.02 per \$100 valuation for general government expenses and \$0.01 for ongoing and increasing federally mandated storm water management expenses – moving the current rate of \$0.77 to \$0.80.

Again, two cents of the recommended increase will be dedicated to funding operations and debt service within the General Fund. Major initiatives include:

- Additional \$530,141 net debt service increase for the renovation of the Original Walker-Grant School – a project advanced by City Council during FY 2016.
- Additional \$471,421 in the City’s share of funding costs for the Rappahannock Regional Jail.
- Implementation of Phase I, Phase II, and part of Phase III of a Classification and Compensation Study, a study authorized by City Council in FY 2017. The General Fund includes increases for salaries to accomplish this task of \$655,920.
- Increased transfer to City Schools for school operations in the amount of \$800,000.
- Transfer to support Capital Projects of \$2,000,000.

## CITY REORGANIZATION PLAN

During FY 2017, the City organization undertook an internal organizational review. After observing City operations and meeting with members of the staff and City Council, we instituted several changes in the overall structure of the City organization to help re-align departments and personnel to meet the changing needs of the community. These moves have created better alignments in work teams and will drive efficiencies in the organization moving forward. The re-organization creates a few shifts in the budget of the organization, which are summarized below:

Summary Table – Changes from Re-organization

Department	Position	Former Department
<b>City Manager’s Office</b>	Add ACM	Public Works – Administration
<b>Transportation</b>	Add Transportation Administrator	Community Planning & Building
<b>Public Works</b>	Add Public Facilities	Parks & Rec
<b>Public Works</b>	Add Account Clerk	Parks & Rec – Admin
<b>Parks &amp; Rec</b>	Add PT Special Events	Economic Development & Tourism

### *City Manager's Office*

The City Manager's Office added an Assistant City Manager position to the office. The new position has responsibility over Public Works (including Utilities), Transit, the new Transportation Administrator, and major capital projects. The City Manager retains overall responsibility, and direct oversight over Police; Fire; Parks, Recreation, and Events; Community Planning & Building, and Economic Development and Tourism. The other Assistant City Manager position has oversight over Budget, Fiscal Affairs, Human Resources, Safety, Information Technology, and serves as liaison with Social Services.

### *Parks, Recreation, and Events*

The Parks, Recreation, and Events Department is adding additional responsibility for the City's special events functions. A part-time position that serves to oversee the special event permit application process for community events is transferring from Economic Development and Tourism over to Parks & Recreation.

The Public Facilities division, which is responsible for the maintenance and upkeep of the City's facilities, has moved over to Public Works. An Account Clerk position which assisted Public Facilities with the financial transactions of the division also transferred to Public Works from the Administration Division of the former Parks, Recreation, and Public Facilities Department.

The re-organized Department has a new name – as you will note above, Parks, Recreation, and Events. The City Manager's Recommended Budget reflects this change.

### *Public Works*

As noted, the Public Facilities division has been moved to Public Works. The division has also physically moved to the City's rented warehouse space on Harkness Boulevard, and out of the Dorothy Hart Community Center.

As a result of the re-organization and associated changes, one of the two Assistant Public Works Director positions has been unfilled during part of FY 2017. The City Manager's Recommended Budget reflects the restoration of funding for this position in FY 2018. The funding will assist the Department with the administration of both the current duties of Public Works as well as the additional duties associated with Public Facilities.

### *Transportation Administrator*

The City has created a new Transportation Administrator position, which is a direct report to the new Assistant City Manager. The position improves coordination with regional and state transportation authorities and improves the City's ability to compete for a variety of federal and state transportation grants. The incumbent currently serves on the FAMPO Technical Committee.

As a result of the re-organization and associated changes, the Department of Community Planning and Building has a Deputy Director / Long-Range Planner position that has been left unfilled during part of FY 2017. The City Manager's Recommended Budget reflects the restoration of funding for this position at the midpoint of FY 2018. The restored position will be focused on long-range planning in the Department of Community Planning and Building, and will be responsible for assisting with the maintenance of the Comprehensive Plan and in assisting in the continued development and completion of the Small Area Plans.

#### *Public Works – Drainage Crew Shifted to Stormwater Fund*

The City Manager's Recommended Budget for FY 2018 contains a recommendation to shift the budget for the four-person Drainage Crew currently within the Public Works Department over to the City's Stormwater Fund (Fund 229). The Drainage Crew, which is housed in the City Shop, is dedicated to the maintenance of the City's stormwater culverts and catch basins. Most of these, but not all, are part of the street network of the City.

This represents a shift in funding of \$301,728 from the City's General Fund over to the Stormwater Fund.

## FREDERICKSBURG CITY PUBLIC SCHOOLS

The City Manager's Recommended Budget for FY 2018 provides a substantial investment in the Fredericksburg City Public School system.

#### *School Operating Fund 205*

The Fredericksburg City Public Schools requested a budget transfer from the City of \$29,199,371, which represents an increase of \$1,439,161 (5.18%) over the current year transfer of \$27,760,210. These totals include the City transfer of \$215,500 to the School Operating Fund for the support of the Head Start Program. The City Manager's Recommended Budget provides for an additional \$800,000 in the City's transfer, for a total transfer (including Head Start) of \$28,560,210.

The City's Head Start Transfer is included at the same level as the prior year. The proposed increase in the Recommended Budget of \$800,000 represents a 2.9% increase in the level of the transfer for operations net of the Head Start Transfer.

Based upon the City Schools' projections for increased state support (estimated at an additional \$520,000) and the recommended transfer from the General Fund, the total budget for the School Operating Fund is recommended to be \$43,440,830. This represents an increase in total funding for FCPS (local and state combined) in their operating budget of 3.13% over the FY 2017 original budget of \$42,120,900.

#### *Original Walker Grant Middle School Renovation Debt Service*

The Fredericksburg City Public Schools is currently working to complete a project to renovate the Original Walker-Grant School Building on Gunnery Road. The newly renovated building will provide classrooms to help meet our community's education needs, plus provide space for the administrative offices of the Fredericksburg City Public Schools. Most of the administration is currently housed in the original Wallace Library building on Princess Anne Street, as well as the first and fourth floors of the Executive Plaza Building at 601 Caroline Street.

During FY 2016, the City issued bonds for the renovation of the school building and the purchase of a new public safety radio system. The debt was structured so that the impact of the renovated Walker-Grant portion of the debt service began in FY 2018. The portion of the debt related to the renovation of OWGS is \$830,141.

The City will use \$300,000 of the School Operating Fund balance for the next five years to help offset the debt service costs. The net impact of the new debt service for the school renovation to the General Fund is **\$530,141**.

The following table shows the impact of the 2016 issue including both the school and the public safety radio projects. The table is a partial table – only through FY 2024. The bonds will be fully retired in FY 2037.

**2016 General Obligation Bond Issue Partial Schedule (OWG School Portion)**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>School FB Credit</b>	<b>2016 Debt Service Net of Fund Balance Credit</b>
2017	-	-	-	-	-
2018	345,000	485,141	830,141	(300,000)	530,141
2019	360,000	469,325	829,325	(300,000)	529,329
2020	380,000	452,113	832,113	(300,000)	532,113
2021	400,000	432,725	832,725	(300,000)	532,725
2022	420,000	411,713	831,712	(300,000)	531,712
2023	440,000	391,484	829,675	-	829,675
2024	465,000	367,013	831,484	-	831,484

**Summary Table – Increased Local Support of City Schools – Operating & Debt Service**

	<b>FY 2017</b>	<b>FY 2018</b>	<b>Increase</b>
Operating Fund Transfer	\$27,544,710	\$28,344,710	\$800,000
Head Start	\$215,500	\$215,500	-
New Debt Service for Walker-Grant Renovation (Net)	-	\$530,131	\$530,131
<b>Total - Operating &amp; New Debt Service</b>	<b>27,760,210</b>	<b>29,090,341</b>	<b>\$1,330,131</b>

*Fredericksburg City Public Schools – Capital Needs*

The City Manager’s Recommended Capital Budget includes a significant new investment in the school facilities for FY 2018. The major new investments include a replacement for the roof at the Walker-Grant Middle School and the first installment of a several-year program to replace the HVAC Units at Hugh Mercer Elementary School. The roof replacement at WGMS is \$1,300,000, and is recommended to be bond funded. The replacement of the HVAC unit will cost \$100,000 in FY 2018, and an additional \$325,000 over the next three years to complete this project. These projects are necessary investments in the maintenance and upkeep of our schools.

The Recommended Budget also funds other capital budget items for the schools, including regular capital maintenance for facilities, replacement school buses, and the cost of a leased facility to move the school bus lot away from the current location at City Shop. The total local funds for City Schools’ capital needs in FY 2018 is \$2,015,000.

**HUMAN RESOURCES DEVELOPMENTS**

*Classification and Compensation of City Employees*

In FY 2017 City Council authorized a Classification and Compensation study, the first comprehensive review in two decades. Evergreen Solutions, the winning vendor, assisted the

City in comparing itself to 14 Virginia localities and the private sector. After significant data gathering and workforce engagement, Evergreen has concluded that the City of Fredericksburg is modestly off the market (as defined by the market mid-point in our current pay scale) by an average of approximately 6%. The study also concluded that benefits are generally comparable to other localities. It also was noted that the City's work schedule for many employees is below the current 40 hour standard commonly found elsewhere.

Other findings suggested that while generally satisfied, the workforce desired more career ladders and additional compensation for certificates. Training and tuition assistance was also noted by Evergreen as a concern of employees.

Knowing that it is important to positively react to findings, this budget includes a recommendation to reduce grades from 41 to 27, broaden the range within grades, and move the salary scales to better reflect the market. To accomplish this, this budget recommends that all employees move to minimum (Phase I), that all employees advance in the market with a 1.5% salary adjustment for full time employees and a 1% increase for part time employees (Phase II), and that all of those below midpoint after Phase I and Phase II implementation begin movement toward midpoint – as resources allow.

This budget recommendation fully funds Phases I and II and partially funds Phase III in the coming fiscal year. Additionally, this budget creates some opportunities for tuition and training assistance so that employees can more easily pursue degree/credential programs that advance our organization in ways that better serve our community. Lastly, efforts will be made to institute a 40 hour work week for employees not currently working that schedule.

#### *Health Insurance*

The City provides health insurance to full-time employees on a self-insurance basis, with re-insurance coverage for individual claims beyond \$120,000 per individual. In addition, the City has re-insurance for aggregate stop loss for all claims so that the maximum liability for any one year is 120% of the expected medical claims that are projected by the underwriter. The City contracts with a health insurance company to administer claims and provide access to a network of health care providers.

The City is currently in the process of evaluating proposals for the administrative services and re-insurance services for health insurance. Preliminarily, the Recommended Budget includes an 8% increase for health insurance for FY 2018. Final recommendations for contract award and the setting of premiums will be brought to City Council during the budget review period, in time for open enrollment in May and the new insurance year that begins in July. If projected increases come in below budget, it is recommended that those budgeted monies be reallocated to further Phase III implementation in FY 2018.

## STAFFING ADJUSTMENTS

The City Manager's Recommended Budget for FY 2018 includes recommendations for two new positions in the General Fund, and several others outside the General Fund.

#### *General Fund*

Funding is included for a Deputy Fire Marshal position for the Fire Department. The Fire Department had a Deputy Fire Marshal position added during FY 2006, but the position was removed during the Great Recession through attrition. However, the need for an additional Fire

Marshal to assist with the enforcement of the Statewide Fire Prevention Code has only grown as Fredericksburg continues to expand and develop. The cost of the restoration of this position is \$71,790.

Funding is also recommended for a Business Analyst for the Information Technology Department. The Business Analyst will assist the entire organization with the implementation of the new Enterprise Resource Platform (“ERP”) software system, and assist in its operation after implementation. The replacement of the City’s ERP system is one of the City Council’s identified Goals over the next three years. The cost of this position is \$100,900.

#### *Water & Wastewater Operating Fund*

Funding is included for a full year of the Utility Line Locator position that was authorized by City Council during FY 2017. The Utility Line Locator position is an additional position which helps meet the City’s obligations to locate underground utilities (such as water, sewer, storm sewer, and fiber optic) when requested for construction. The volume of requests for such locations has risen considerably over the last several years, and the City will now have two positions dedicated full-time to this function.

The Recommended Budget also includes a Utility GIS Technician for FY 2018 at ½ year. This position will improve the City’s GIS data layers for the water and sewer system. It is very important to update the City’s water and sewer data layers based upon new construction, and the position will be dedicated to this purpose.

#### *Transit Fund*

The City Manager’s Recommended Budget includes several recommendations concerning human resources in the Transit Fund. The Transit Department requested, and the Recommended Budget includes, the conversion of two part-time Transit Driver positions to full-time. This recommendation increases the total number of full-time drivers to nine. For perspective, there are currently 61 part-time drivers on the roster for FRED. Increasing the total number of full-time drivers aids retention of experienced personnel and aids greatly in scheduling.

Also included is an additional full-time position for an Assistant Operations Manager, and a part-time maintenance mechanic. The Assistant Operations Manager will support the current Operations Manager for FRED, particularly with scheduling duties and the oversight of the maintenance function. The Operations Manager would dedicate more time to assist FRED management with strategic planning, budget development, fleet specifications, and long-range planning.

The cost of these recommendations is largely offset by a proposed reduction in the number of part-time hours by approximately 8% of the budgeted total, or 7,300 hours.

## HIGHLIGHTS OF OTHER OPERATING FUNDS

#### *Social Services Fund*

The Social Services Fund is recommended to be \$5,709,619. This includes a transfer from the General Fund to support the local share of their operating costs of \$1,040,000. The FY 2017 original adopted budget for the Social Services Fund is \$5,260,233, so the total budget is recommended to increase 8.54% even though the local transfer is reduced by 4.53%.

### *Stormwater Management Fund*

The Stormwater Management Fund increases significantly from the FY 2017 total of \$210,500 to an FY 2018 recommendation of \$575,530. The increase is largely due to the transfer of the Public Works Drainage division to the Stormwater Management Fund.

The Recommended Budget includes real estate tax revenues decicated to stormwater of \$395,000. In addition, the General Fund transfers \$100,000 to the Fund. The balance of revenue in the Fund is from permit fees, plus the use of \$38,530 from the fund balance of the Stormwater Fund.

### *City Grants Fund*

The City Grants Fund is recommended to increase to \$1,469,958 from the original FY 2017 total of \$1,352,053. The City Grants Fund accounts for the City's ongoing state or federal grant programs and other special revenue programs.

### *Water Operating Fund*

The Water Operating Fund is recommended to increase to \$5,098,992, an increase of 15.63% over the FY 2017 total of \$4,409,765. The increase is related to the transfer of \$1,959,940 to the Water System Capital Improvements Fund. The transfer is an increase of \$669,000, or 51.83%. This transfer will fund improvements at the Motts treatment plant. The City's Water Operating Fund includes a rate increase of 2% in water fees. The last rate increase in water fees was July 2015 for the FY 2016 budget.

The City's operating costs have increased in the water fund as debt service has been added to fund water line replacements such as the Caroline Street water line project which is currently underway. The Caroline Street water line project will provide a new water line from Amelia Street south to the end of the street.

### *Sewer Operating Fund*

The Wastewater Operating Fund is recommended to increase to \$7,892,882 from a total of \$7,073,784 in FY 2017. This is an 11.58% increase in the operating fund. The Recommended budget does include a rate increase of 4% in sewer fees. The last rate increase in sewer fees was July 2015 for the FY 2016 budget.

The City's operating costs have increased in the sewer fund as debt service has been added to fund sewer line replacements and improvements at the Wastewater Treatment Plant such as the replacement belt filter press.

### *Transit Operating Fund*

The Transit Operating Fund is recommended to increase to \$5,879,889 from a total of \$5,624,033 in FY 2017. Most of the Transit Fund is paid through federal and state grants. The local governments throughout the region that are served by FRED also contribute, as does the University of Mary Washington for the "Eagle Express" routes. The City's share of the Transit Operations, expressed in the motor fuels tax transfer is \$480,000.

### *Parking Fund*

The City's Parking Fund is recommended for funding at \$872,000 in FY 2018, which is an increase of 11.65% over the FY 2017 original adopted budget of \$781,000. The Recommended Budget includes a major maintenance project for the garage in FY 2018 – the replacement of the hardware and software operating systems for the pay-on-foot and gate systems. The projected cost of this project in FY 2018 is \$150,000.



The Parking Fund is also accounting for the lease and / or maintenance of three surface lots in the City: the lot behind the 904 Princess Anne Street Building, the lot at the corner of Charles and Amelia Streets, and the lot at the corner of William and Barton Streets.

#### *CSA Fund*

The Children's Services Act Fund accounts for the services provided to at-risk youth and their families mandated through the Children's Services Act.<sup>1</sup> The City Manager's Recommended Budget includes funding in the amount of \$1,951,768 for these services. This is a 4.13% increase from the adopted total in FY 2017. Of that total, \$1,118,142 is projected from state funding. The City's contribution is recommended to be a transfer of \$675,275 from the General Fund and the use of \$106,493 in the fund balance in the CSA Fund.

#### *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 requested for the special fund is \$1,951,836.

## REVENUE DISCUSSION

Other than the recommendation for an increase in the real estate tax, the budget includes no other recommendations to raise tax rates. There is a recommendation to include an increase in fees for land development. The overall budget forecast for the General Fund includes \$2,895,400 in revenue, which is growth of 3.34% over the prior year revenue forecast (not including the use of fund balance.) The new recommendations for the City's real estate tax, plus the recommendations for fees for land development, produce a forecasted additional \$840,000 for the FY 2018 budget. There is also a special transfer included in the FY 2018 budget of \$300,000 in the use of fund balance of the School Operating Fund to offset the increase in debt service for the Original Walker-Grant renovations. The City Manager's Recommended Budget includes fund balance use in the amount of \$2,775,000, which is a decline in the use of Fund Balance. The adopted budget for FY 2017 included a use of fund balance in the amount of \$3,697,300.

#### *Real Estate Tax*

The General Fund forecast for real estate tax revenue is \$30,490,000 – an increase of \$1,675,000 over the FY 2017 budget amount. The City is forecasting base growth of \$40,000,000 in taxable real estate, based on new construction in the City. The base growth is projected as \$29,700,000, and the recommendation for an increase in the rate of \$0.02 is projected to add \$790,000 to the base forecast.

The Recommended Budget does not include a rate increase for the below in FY 2018:

#### *Personal Property Tax*

Personal property tax revenue is projected at \$8,475,000 for FY 2018. This is an increase of 3.99% from the FY 2017 forecast of \$8,150,000.

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<sup>1</sup> This was formerly the Comprehensive Services Act, but the legislation was renamed during the 2015 session of the General Assembly.

Personal property tax revenue increased by 1.36% in FY 2014 and 1.77% in FY 2015. The FY 2016 increase was slightly higher, at 2.91% over FY 2015. The FY 2018 forecast is 2.58% higher than the City's FY 2016 actual collections.

#### *Meals Tax*

Meals tax revenue is projected at \$11,100,000, an increase of \$650,000 over the FY 2017 budget of \$10,450,000. This is an increase of 6.22% over the FY 2017 budget forecast. The City continues to benefit from a thriving restaurant community, and recent meals tax returns have been very positive.

#### *Sales Tax*

Sales tax revenue is projected at \$11,350,000, which is an increase of 2.53% over the FY 2017 forecast of \$11,070,000. Sales tax collections grew fairly significantly from FY 2015 to FY 2016 at 3.67%.

#### *Lodging Tax*

Lodging tax revenue is projected at \$1,450,000, an increase of 3.94% from the FY 2017 estimate of \$1,395,000. Lodging tax revenue growth has fluctuated over the past several years, but has increased in FY 2015 and FY 2016 after declining in FY 2014.

#### *Recordation Tax*

The City's collections for the Recordation Tax has varied significantly over the past several years – from \$567,172 in FY 2014 to \$456,665 in FY 2015 to \$711,421 in FY 2016. The City is on track to well exceed the FY 2017 forecast of \$450,000, but this is a revenue source that will vary significantly depending upon the volume and value of property transactions in the City. The City Manager's Recommended Budget increased the forecast for FY 2018 to \$600,000.

#### *Business License Tax*

The City's estimate for Business License Tax collection for FY 2018 is \$5,950,000, which is an increase of 3.93% from the City's FY 2017 forecast of \$5,725,000. Business License taxes are assessed on a calendar year basis, and the majority of collections are received in March and April every year.

#### *EMS Service Fees*

EMS service fee revenue is projected at \$900,000, an increase of 6.51% over the budget estimate of \$845,000 for FY 2017. The Recommended Budget does not propose to increase these fees during FY 2018. However, the City's increase in coverage over the past two years should continue to impact fee collections as more calls are answered by City crews and fewer on mutual aid from other jurisdictions. The City now provides coverage on a 24-hour basis with at least one unit.

#### *Solid Waste Collection Fees*

Solid waste collection fee revenue is forecast for FY 2018 at \$1,025,600. This represents an increase of 4.42% over the FY 2017 adopted budget forecast of \$981,650.

The Recommended Budget does include fee increases for the below in FY 2018:

#### *Land Development and Other Permits*

The City Manager's Recommended Operating Budget includes a recommendation from the City's Department of Community Planning and Building to increase several permit and application fees for FY 2018. The fees recommended for increase have not been increased since 2008 or earlier.

The Department's recommendation will bring these fees, which include building permit and site development fees, more in line with neighboring and like-size jurisdictions, while keeping fees modest for individual residential lot owners.

Although development activity can fluctuate within the City limits from year to year, the new revenue from the recommended fee increases is projected at a total of \$50,000.

#### *Water and Sewer Fees*

The City Manager's Recommended Budget for the Water Operating Fund and the Wastewater Operating Fund are including a requested rate increase of 2% for water and 4% for sewer in the bi-monthly fees. These fees are requested because of recent increases in operating costs, plus increases in debt service tied to recent capital projects. The City did not increase water and sewer fees in FY 2017.

The City Manager's Recommended Budget also includes a decrease in the permit fee for concealed weapons, to \$25 per permit. This is based on an examination of the current costs for the processing of the permit by law enforcement.

#### **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).

#### *Compensation Board*

The state Compensation Board supports the operations of five constitutional officers in the City: the Sheriff, the Commonwealth's Attorney, the Commissioner of the Revenue, the Treasurer, and the Clerk of the Circuit Court. The total revenue for these five offices for FY 2018 is forecasted to increase from \$1,705,000 to \$1,760,000 – a total of 3.23%.

#### *Street Maintenance and HB 599*

The City also receives money under the Urban Street Maintenance program from the Virginia Department of Transportation to assist the City in the maintenance of urban streets. The City receives amounts from VDOT on a per lane mile of street basis, with differing levels of reimbursement for different types of streets (for example, local streets are reimbursed at a lower rate than major highways). The City's street mileage is increasing, and the Recommended Budget includes an increase in the forecast of \$200,000 in this revenue source for FY 2018 – to \$2,950,000.

The City receives state support for our law enforcement activities as well through the "HB 599" program. The Recommended Budget currently forecasts a total of \$810,000 for that support in FY 2018, which would be an increase of 3.85% over the FY 2017 forecast of \$780,000.

#### *Other State Revenues*

The state also characterizes the Telecommunications Sales Tax as revenue from the Commonwealth, and that is projected as \$1.75 million in FY 2018. The Personal Property Tax Relief Act amount, which is also considered state aid, remains unchanged at \$1.72 million.

## **FUND BALANCE DISCUSSION**

The City Manager’s Recommended Budget includes fund balance use in the amount of \$2,775,000, which is a decline in the use of Fund Balance from the FY 2017 budget.

The proposed uses of Fund Balance in FY 2018 included with the Recommended Budget are shown in the following table.

Proposed Use	Amount	Category of Fund Balance
Pay-as-you-go Capital Transfer	\$2,000,000	Assignment for Capital
Contingency	\$500,000	Unassigned
Assist with City Share of Rappahannock Regional Jail	\$275,000	Assignment for Jail Stabilization Reserve
<b>Total</b>	<b>\$2,775,000</b>	

It is important to note that the City began the year with \$3,717,255 in the Assignment for Future Capital Projects, and Assignment for Future Capital Projects will need to be supplemented before the close of FY 2017 in order to provide for a sufficient amount to fund the proposed FY 2018 use.

For context, the original adopted budget for FY 2017 included a use of fund balance in the amount of \$3,697,300. Amendments to the FY 2017 budget have increased the use of fund balance to a total of \$6,027,004. The amendments included a “loan” in the amount of \$1,175,534 to the R-Board landfill that will be repaid beginning in FY 2018. The revenue from the “re-payment” of the loan has been included with the FY 2018 Capital Budget to help fund capital projects. The actual use of fund balance in FY 2016 was \$2,766,554 – of which \$1 million went to set aside a trust fund for Other Post-Employment Benefits (OPEB).

## DISCUSSION ON KEY PARTNER AGENCIES

### *Rappahannock Regional Jail*

The City in FY 2018 faces an increase in costs for the Rappahannock Regional Jail based upon several different factors. The overall funding for the Rappahannock Regional Jail in FY 2018 is recommended to be \$4,325,325. The increase in cost to the City is \$471,421, an increase of 12.23% over the adopted FY 2017 budget.

### *Central Rappahannock Regional Library*

The City Manager’s Recommended Budget in FY 2018 includes a recommendation to take over from the CRRL the responsibility for facilities and grounds maintenance for the Library Headquarters Building at 1201 Caroline Street. The new arrangement would match the arrangement for maintenance for the other branches in the region.

The current arrangement includes a transfer of funds in the amount of \$135,000 for facilities maintenance at the Headquarters Branch. The City has included in the Recommended Budget a placeholder to increase this amount to \$185,000 based on an examination of the costs paid by the Library for these functions. If Council agrees with the Recommendation, then the placeholder amount would be transferred to Public Facilities prior to budget adoption.

After deducting the amount for facility maintenance in both FY 2017 and FY 2018 to provide a consistent base of comparison, the City’s funding for the library increases by 4.04% from \$1,201,914 to \$1,250,471.

## DISCUSSION OF OTHER MATTERS

### *Communications*

The Council has made it clear that they desire a more robust effort to communicate, both internally and externally. Although no funds are associated with this priority in FY2018, staff is very engaged in creating better communication internally. Several Departments have started (or restarted) regular internal communication e-newsletters. Additionally, the City Manager's office has created a weekly communication protocol with Council and is advancing on active pursuit of earned media externally. Lastly, the City will launch a social media initiative later this month through the combined efforts of a new internal Task Force.

Internally, these efforts are focused on creating more connectivity between employees, departments, organizational leadership, and Council. Externally efforts are meant to offer better transparency, better communicate with our businesses and residents, and to better market ourselves to economic development prospects and tourists. Moving forward, in future fiscal years it will be increasingly important to consider funding a full time public information officer in the City to better manage, coordinate, and disseminate information.

### *Property Inventory*

The City owns real property (either buildings or parcels) throughout the community, property that is not on the tax rolls. It is understood that much of this property, and their associated workspaces, are required and necessary in support of City government functions (i.e. the Police Station, Fire and Rescue Stations, Parks, Courts, City Shop, City Hall and Executive Plaza, etc.). However, a periodic review of asset inventory is helpful in understanding whether certain buildings or property is no longer needed – and to determine if new property is required. An analysis, being supported by the Planning Commission, will be undertaken in FY2018. The results of this work will be shared with Council in the coming year.

### *Riverfront Park*

This budget also advances the Riverfront Park project with a planned bond borrow in late FY2018 of \$5 million. This important project is now planned in two phases, with Phase I utilizing roughly 86% of the existing property. Value engineering will work to ensure the Task Force vision is lived, within budget, while considering parking carefully.

### *Parking Action Plan*

The City, in collaboration with the EDA and the University of Mary Washington, created a Parking Task Force in the Fall of 2016. This group has retained Walker Parking Consultants and is working to create a Parking Action Plan for the City of Fredericksburg. Recommendations are expected to be briefed to Council in the coming months. Many action items can be accomplished in house with existing resources (new management practices, new ordinances, new signage) at minimal costs. However, other Action items are likely to come at a cost – potentially at a significant costs. As the results of the Action Plan are better understood, staff will work to bring recommendations forward with funding alternatives for consideration.

### *Council Priorities*

Embedded in this budget, as in future budgets, will be funding required to fund Council priorities. In FY2017 Council developed a draft Vision, Desired Future States (8), and 35 associated Priorities. Many of those Priorities, meant to be realized in the next 3 years, will advance in FY 2018 and are funded accordingly. This body of work will be a main focus of the City organization, and quarterly updates will be offered to Council and the Public. Additionally, these

initiatives will be housed on the City Website so that citizens can follow progress. Success for many of these priorities is contingent on outside funding, outside support and other regional participants. Having said that, the City organization will work diligently to do its part to ensure success is achieved on Council Priorities.

## CONCLUSION

The above offers a high level review of budget priorities and recommendations for the coming year. Management staff and I are ready to support you as you consider this document and the City Manager's Recommended 2018 Fiscal Year Budget.

I believe this budget works to live your vision, supports our workforce and makes our compensation more competitive, offers significant support to our quality schools, continues our commitment to supporting our dedicated public safety teams, while allowing investments in community assets that enhance our quality of life. This budget works to advance the City of Fredericksburg as our community more rapidly begins to live its unlimited potential.