



CITY OF COLONIAL HEIGHTS

OFFICE OF THE CITY MANAGER

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April 11, 2017

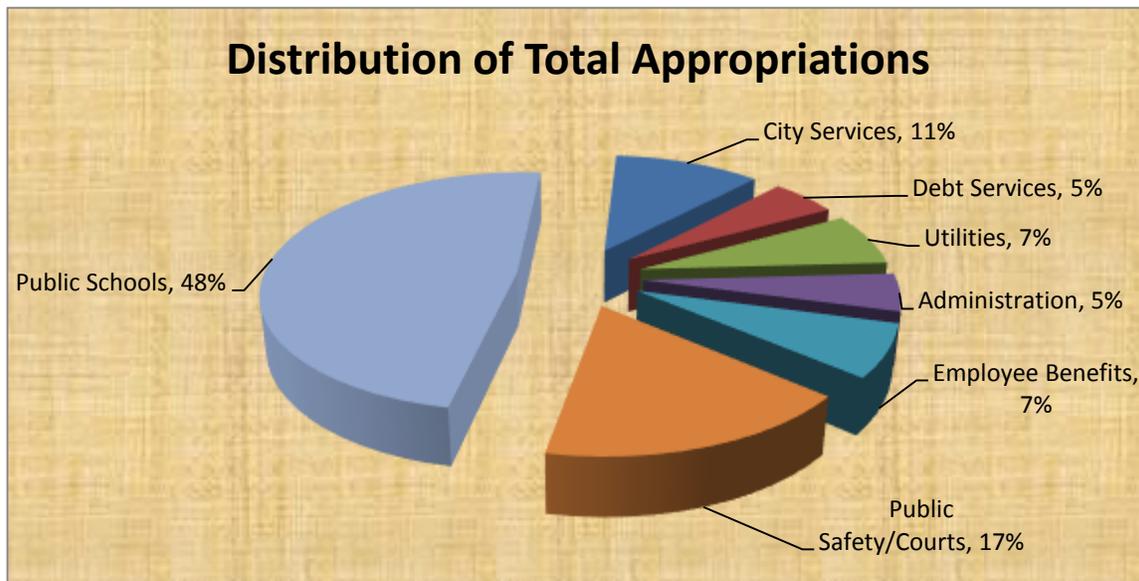
Mayor and City Council
City of Colonial Heights
201 James Avenue
Colonial Heights, Virginia 23834

Re: **FY2017-18 Proposed Annual Budget Message**

Dear Mayor and Councilmembers,

In accordance with the provisions of Chapter 6, Sections 6.1 through 6.20 of the Colonial Heights City Charter, the proposed *Annual Operating Budget* for the City of Colonial Heights for the Fiscal Year of July 1, 2017 through June 30, 2018, is hereby presented for your consideration.

The grand total of all appropriations for all departments, operations, and functions proposed for the *FY2017-18 Annual Budget* is **\$81,190,559**; to be generally distributed as described below:



As we look forward in developing the *FY17-18 Annual Budget*, the City continues to be faced with the challenges of addressing a variety of new and rising costs at a time when revenues are generally flat and established businesses are undergoing changes and redevelopment. While the City of Colonial Heights should be able to maintain a generally stable overall financial position, a variety of economic pressures will present challenges throughout the next fiscal year.

The *FY17-18 Budget* as proposed continues to be a zero-based, balanced, and appropriately conservative financial plan. All operating expenditures are supported by revenue generated during the fiscal year. It was created with input from all department heads and includes a comprehensive review of all existing programs, operations, and services.

The proposed budget includes the continuation of all existing services and programs; full-year funding of all existing staff and operations; and funding for operating capital investment as presented in the 2018 Five-Year Capital Program. While the primary goal of the proposed budget is to maintain existing service levels, the staff is also focused on enhancing current service levels wherever possible – all while effectively controlling costs.

The proposed budget is delineated into five (5) basic funds:

- **General Fund** – (\$35.9M) revenues and expenditures related to the provision of primary and/or traditional city services whose main financial support comes from tax dollars.
- **School Fund** – (\$39.7M) revenues and expenditures related to funding of operations and services of the Colonial Heights Public Schools.
- **Recreation Fund*** – (\$17M) revenues and expenditures relating to recreation services including athletic leagues, community events, youth sport sponsorships, classes, etc.
- **Stormwater Management Fund*** – (\$49M) all financial transactions relating to the provision of stormwater management services and programs.
- **Water and Sewer Fund*** – (\$5.0M) all financial transactions relating to the provision of potable water and sanitary services through the city’s systems.

**Enterprise Funds - All costs are wholly supported by fees charged for associated services.*

The budget document itself is presented in a format consistent with prior years; and preceding each departmental budget is a title page that includes a brief narrative with information as to departmental activities, duties, and responsibilities. Also on this page are “*Performance Indicators*” - statistical data providing general overview of that department’s volume of work; and a review of personnel resources.

FY2017-18 ANNUAL BUDGET - Budget Highlights and Issues

The City of Colonial Heights continues to respond to the financial challenges through the effective management of its available resources. The City has continued to evolve and grow services while avoiding operating tax increases, major reductions in services, or job losses.

As we look into the future, increased demands for services, infrastructure replacement and general increases in costs will continue to stretch current financial resources. Every effort has been made to reduce departmental operating budgets and to enhance revenue projections. This proposed budget again does not include deficit spending and/or utilization of fund balance for operating expenses.

Following is a brief discussion of the primary issues impacting the proposed *FY17-18 Annual Budget*:

General Fund Operating Revenue

The proposed *FY17-18 Annual Budget* again projects moderate, overall growth for the upcoming fiscal year. Total General Fund revenue is anticipated to experience a 3.7% increase in gross receipts over the current-year budget. Again the majority of this growth is related to 2016 Real Estate Tax increase to fund the issuance of the General Obligation Bonds to fund capital projects. Operating revenues are anticipated to grow by \$1,306,927 which under the terms of the Memorandum of Understanding will be

essentially shared equally with Colonial Heights Public Schools and will be utilized to fund increased general operation and the bond payment costs.

Real Estate Taxes

Although the City's revenue stream continues to be uniquely supported by our retail community, Real Estate and/or Property Taxes still provide the basic foundation for our and most other local governments. This provides assured funding each year for the basic and essential city services. The 2018 city-wide real reassessment for existing residential properties is expected grow for the first time since the 2010 general reassessment.

Variable Local Taxes

While property taxes provide essential annual financial stability in support of basic services, variable local taxes – primarily Retail Sales & Use Tax, Food Tax, and Lodging Tax – typically provide the City with funding opportunities for new and/or enhanced services or capital investment each year.

As the market center for the Tri-Cities Region and Fort Lee, annual revenues provided by these taxes are primarily driven by the retail business community located in and around the Southpark Mall and along the Boulevard corridor. In fact, the City has typically ranked among the top five Virginia localities for annual taxable sales per capita.

And, while the City continues to experience great financial benefits from the mall-area and our other retail businesses, the absence of consistent upward overall trends in revenue flow, store reorganizations and closings nationwide adversely impacts our confidence in projecting growing and/or significantly “new” revenues in FY17-18.

Staffing

The proposed budget includes full-year funding in FY17-18 for up to three hundred fifty-one (351) total city employees: two hundred fifty-seven (257) full-time positions, forty-three (43) part-time positions, and sixty-two (62) seasonal positions. Although requests were made by certain departments for increased personnel, there are no new positions included within the proposed *FY17-18 Annual Budget*.

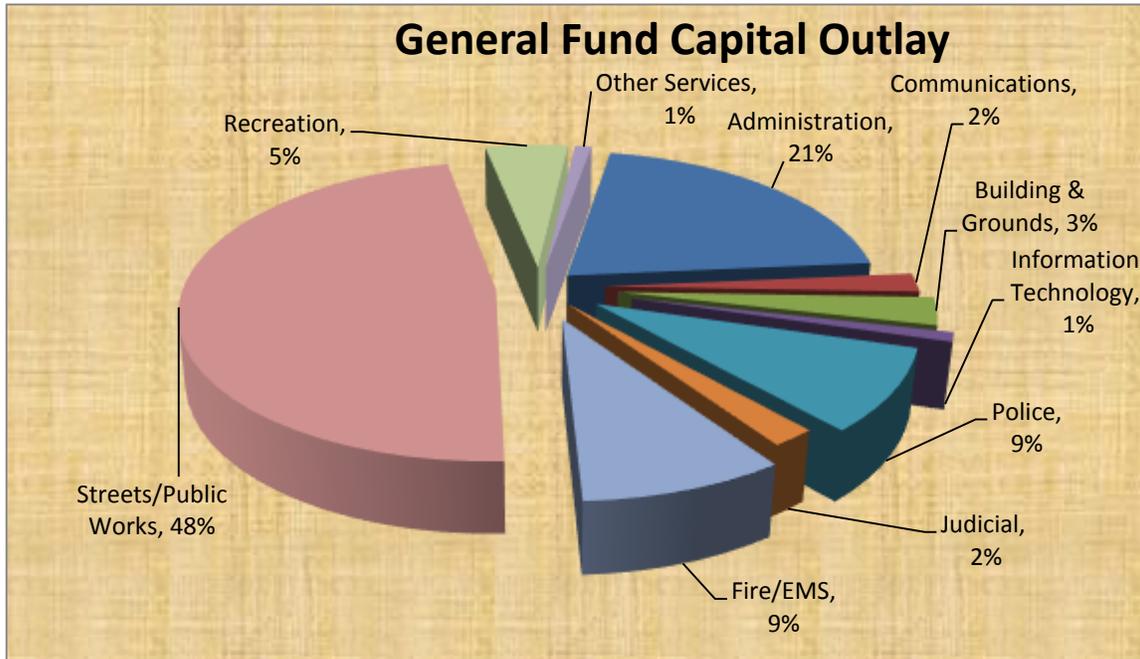
In its continued efforts to provide appropriate and market-competitive compensation for all city employees, this budget includes a 2.0% Cost of Living Adjustment (COLA) in pay that will be effective January 1, 2018. This COLA will be largely offset by increases in employees' health cost expenses this budget year.

Cuts in Departmental Requests for Funding in FY 17-18

As part of the administration's continued commitment to keep overall costs as efficient as possible, particular emphasis is given to producing a lean budget proposal that includes special attention to all line-item expenditures. As such, not only were all new costs kept to an absolute minimum, this final review resulted in cuts of *more than \$.9M* from the total amount of funding requested by staff and what is included in the proposed *FY17-18 Annual Budget*. This is not to suggest that any departmental request was unreasonable, but more an illustration that the additional revenue increases proposed for *FY17-18 Budget* were required to fund natural increases and growth to existing service levels. As with the change in any administration, current operations and processes will be naturally reviewed.

Operations-Capital Outlay

Total capital reinvestment into General Fund Operations for FY17-18 (vehicles, equipment, furniture & fixtures, street resurfacing, etc.) is proposed at a total of \$1.89M; consistent with the 2018 *Five-Year Capital Program-Operations* and maintains the additional funding for street maintenance and/or repaving of existing streets that was added in the current budget.



Other Miscellaneous Issues

- Employee Health Insurance Costs – There is an approximate 15 percent rate increase for employee health insurance in FY17-18, which was partially offset by the City’s contribution to this cost.
- This is the first budget with a full year of payments for the 2016 General Obligation Bonds that were issued for the Capital Improvements for Colonial Heights Public Schools and the Capital Region Radio Project.
- Refuse Rates – The contract for the City’s residential trash collection was required to rebid for the upcoming 5 year period by the Central Virginia Waste Management Authority. This competitive bid resulted in an increase of our basic monthly collection charge per household of \$2.33, which was added to the City’s basic charge. While a larger than normal increase, it was far less than the other bids and less than it would take to start our own collection process.

In summation, while the *FY17-18 Annual Budget* anticipates continuing general stability and growth in the local economy that will result in some revenue growth from these local taxes, the inconsistent trends

in revenue flow have caused the staff to recommend conservative projections of “new” revenue from these sources as we plan for next year; thereby limiting significantly increased funding for expanded operations or capital improvements.

In spite of ongoing financial challenges, the coming year should be very rewarding, as the City will see the completion of a number of capital projects, continued business growth, and the on-going enhancement of city operations and services. On behalf of the city staff, I wish to thank the Mayor and City Council for their past support and this opportunity to serve the citizens of Colonial Heights.

Sincerely,

William E. Johnson
Finance Department