



# CITY OF COLONIAL HEIGHTS

## OFFICE OF THE CITY MANAGER

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City Manager

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April 9, 2013

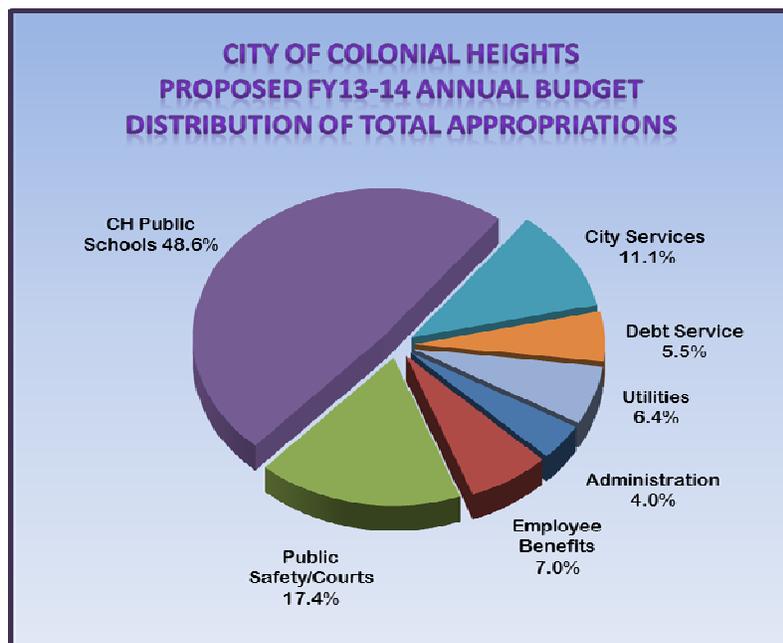
Mayor and City Council  
City of Colonial Heights  
201 James Avenue  
Colonial Heights, Virginia 23834

### Re: **FY2013-14 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, 2013 through June 30, 2014, is hereby presented for your consideration.

The grand total of all appropriations for all departments, operations, and functions proposed for the *FY13-14 Annual Budget* is **\$74,489,395**; to be generally distributed as described below:



**The *FY13-14 Annual Budget* is being developed in an environment of fiscal uncertainty - not only for the city but with our region and the nation in general. While the City of Colonial Heights has maintained a very stable financial position in recent years, a variety of economic pressures could adversely impact our ability to continue to maintain its high-quality service levels. With this budget proposal, it remains the staff's goal to continue to upgrade service areas wherever reasonably possible, but only in such a manner as can be supported by existing funding levels.**

**So, while there are reasons to be cautiously optimistic about the overall economy in Colonial Heights throughout the next year, the proposed *FY13-14 Annual Budget* is an appropriately conservative financial plan for city operations.**

The *FY13-14 Budget* as proposed is a zero-based, balanced financial plan wherein all operating expenditures are supported by revenue generated during the fiscal year. It was created with input from all departments and included 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 level funding for operating capital investment in the coming year. While the primary goal of the proposed budget is to maintain existing service levels, the staff is also focused on enhancing service levels wherever possible – all while effectively controlling costs.

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

- ***General Fund*** – (\$33.3M) revenues and expenditures related to the provision of primary and/or traditional city services whose main financial support comes from tax dollars.
- ***School Fund*** – (\$36.2M) revenues and expenditures related to funding of operations and services of the Colonial Heights Public Schools.
- ***Recreation Fund\**** – (\$.24M) revenues and expenditures relating to recreation services including athletic leagues, community events, youth sport sponsorships, classes, etc.
- ***Stormwater Management Fund\**** – (\$.47M) all financial transactions relating to the provision of stormwater management services and programs.
- ***Water and Sewer Fund\**** – (\$4.3M) 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.

Creating a balanced and affordable budget proposal was achieved through cooperation and teamwork; as all Department Heads submitted reasonable funding requests that properly reflected their departmental needs while remaining focused on cost containment.

### **FY2013-14 ANNUAL BUDGET - Budget Highlights and Issues**

The City of Colonial Heights has successfully responded to financial challenges of recent years through the effective distribution and utilization of available resources. Unlike nearly all other localities in our region, the City has continued to evolve and grow services while avoiding operating tax increases, major reductions in services, or job losses.

As we look forward to the next 12-18 months, however, general economic conditions warrant a cautious approach as it relates to funding – particularly anticipated revenues – and the City’s ability to financially support new or expanded services or staffing.

While the proposed *FY13-14 Annual Budget* does include an overall increase in spending and new staff, we propose to do so only within the existing tax and fee structures within the General Fund. **There is no property tax increase recommended for FY2013-14;** and for the third consecutive year, the budget does not include deficit spending and/or utilization of fund balance for operating expenses.

**FY13-14 Budget Highlights and Issues**

Following is a brief discussion of the primary issues related to the formulation of the proposed *FY13-14 Annual Budget*:

**Variable Local Taxes**

Clearly, the most important financial attribute of the City of Colonial Heights that sets us apart from other localities is revenue generation from the “top three” variable local taxes: (1) Retail Sales & Use Tax, (2) Food Tax, and (3) Lodging Tax.

As the retail market center for the Tri-Cities Region, annual revenues created from these taxes is primarily driven by the substantial retail business community located in and around the South Park Mall and along the Boulevard corridor. In fact, the City has typically ranked among the top five Virginia localities for taxable sales per capita (the advantage amount of taxable sales generated each year per city resident).

And, while the City continues to experience great financial benefits from the mall-area and our other retail businesses, the lack of consistent trends in revenue flow over the past year adversely impacts our confidence in projecting growing and or significantly “new” revenues in FY13-14.

**Retail Sales & Use Taxes** are collected by local businesses as imposed on gross receipts from retail sales. Revenue generated from this particular tax represents one of the most important sources for funding of the City’s annual budget (second only to real estate property taxes) and is vitally important to the overall stability of the City’s General Fund.

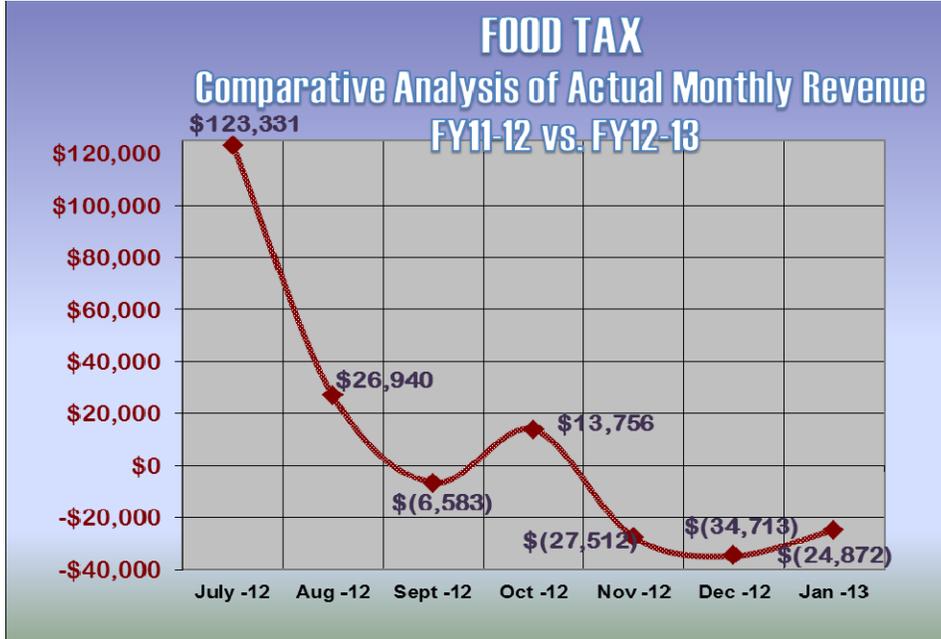
As depicted by the graph below, monthly revenue *collections* have been unusually sporadic over the first half of the current fiscal year and have followed an unpredictable pattern. While receipts by year’s end are currently projected to remain stable and meet budget expectations, no dependable trend can be established based on our most recent experience:



**Food Tax** is a source of revenue provided by taxes on food sold by retail establishments whose gross receipts are primarily derived from the sale of food for immediate consumption. Given Colonial Heights role as a regional center for shopping and restaurants, this is a large and important source of revenue supporting the overall financial stability of the city.

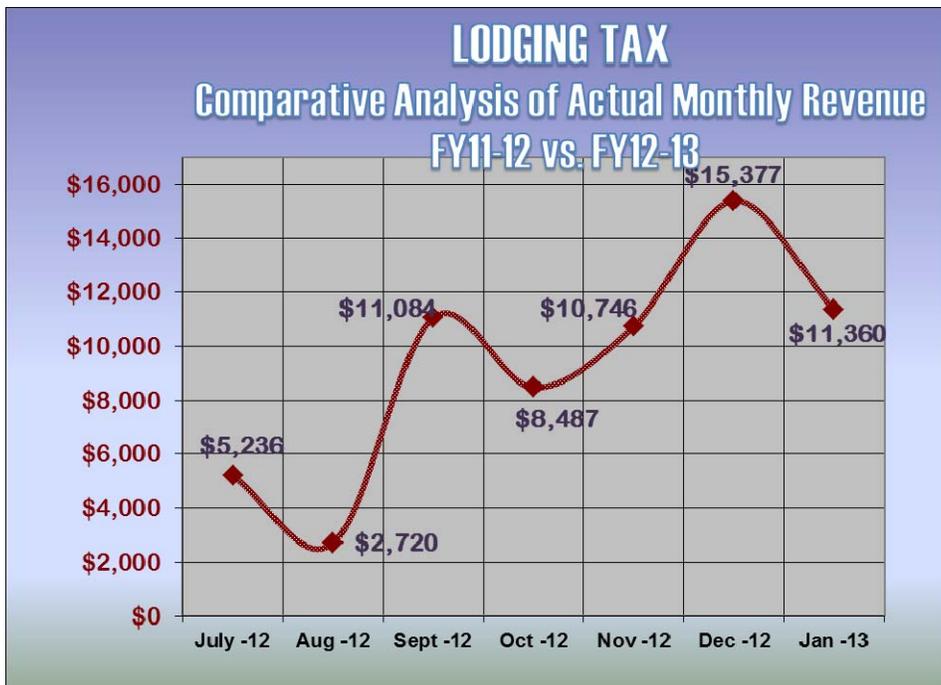
**FY13-14 Budget Highlights and Issues – Variable Local Taxes**

Again, similar to sales taxes, monthly revenue *collections* of Food Tax has been uneven over the first half of the current fiscal year. While total receipts by year’s end are currently projected to stabilize overall and actually exceed the budgeted amount for FY12-13 (possibly topping \$5M for the first time in the City’s history), no consistent trend can be established as to such increase continuing through the next fiscal year.



**Lodging Tax** is a tax paid by hotels, etc. that rent rooms or spaces to any person on a transient basis.

Although Lodging Tax collections have also been sporadic, overall receipts are up as each monthly amount has exceeded the staff’s original FY12-13 budget projections.



### *FY13-14 Budget Highlights and Issues – Variable Local Taxes*

**Lodging Tax (cont'd)** - In this particular category, however, other issues are currently affecting our ability to anticipate continued revenue growth through next year. This past January, a new lodging facility opened at Fort Lee that could ultimately have a negative impact the occupancy rates of the City's various hotel and/or motels. While there are different opinions as to what the long-term financial impact of this new facility will be on Colonial Heights lodging businesses, we obviously have no current data that can help us establish reasonably predictable revenue outcomes for the coming year.

While the property tax base in Colonial Heights provides the strongest and most dependable revenue source for the City to fund its most basic services, the local taxes described above provide a vital supplement to the city's annual operating budgets – and represent the key financial element to our ability to enhance services and its reinvestment in community assets from year to year.

And while the proposed *FY13-14 Annual Budget* anticipates continuing growth in these primary revenues sources, the inconsistent trends in collections throughout the current fiscal year has caused us 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.

### ***Emergency Communications Upgrades***

There two significant projects included in the proposed *FY13-14 Annual Budget* at a total cost of **\$380,000** that will provide important enhancements to the City's emergency communication services - the Capitol Region Radio Project and the 9-1-1 Switch Upgrade.

The **Capitol Region Radio Project** is a wide ranging, multi-year project to design and replace the 800MHz radio system that provides vital communication capabilities for all City public safety services including Police, Fire/EMS, and Sheriff. This project is a wide-ranging capital improvement project that will be done in conjunction with our continuing partnership with Chesterfield County – and will include Henrico and Hanover Counties as well as the City of Richmond. The City's existing radio system will become obsolete by 2016, as it will no longer be supported by the manufacturer and parts/maintenance will no longer be available. Funding included in the proposed *FY13-14 Annual Budget* is **\$150,000**, which represents the first of a two-year funding effort for system planning and design (total \$250,000). The current estimated of ultimate total project costs to the City is \$5.3M.

The **9-1-1 Switch Upgrade** is an equipment upgrade/replacement that will be mandatory for the City to continue to provide 9-1-1 communications services to our citizens. After next year, the City's existing equipment will no longer be supported by the manufacturer and parts/maintenance will no longer be available. The Fire/EMS staff has been successful in obtaining a \$150,000 grant to help offset the total estimated projects costs of **\$230,000** – but the City will still have to absorb net one-time costs of \$80,000 in the *FY13-14 Annual Budget*.

### ***Employee Health Insurance Costs***

The City will be absorbing a significant overall increase in employee health insurance costs in FY13-14. Each year, routine adjustments are made to group health insurance premiums (a) based on recent claims experience and (b) to properly reflect the various changes in individual coverage consistent with the changes in personnel that occurred in the prior year. There will also be additional costs associated with the two new full-time positions proposed for next year. The net overall effect of these items is an increase in insurance premiums for FY13-14 - for both the City and those employees with dependent coverage. The overall cost increase for the City impacting next year's budget is currently estimated to be just over **\$262,000**.

*FY13-14 Budget Highlights and Issues*

***Employee Compensation***

As one of its Annual Goals for 2013, the City Council reaffirmed its commitment to “*Strive to continue efforts to provide appropriate and market-competitive compensation for all city employees; and to effectively address any increased costs for employee benefits*”. In an effort to attain this goal in a fiscally responsible manner, the proposed *FY13-14 Annual Budget* includes a Cost of Living Adjustment (COLA) of **2.0%** in base salaries or rates of pay for all full-time city employees - that will go into effect on **January 1, 2014** (the mid-year point of the fiscal year).

***Staffing***

The proposed budget includes full-year funding in FY13-14 for up to **three hundred forty (340) total city employees**: two hundred forty-eight (248) full-time positions, thirty-seven (37) part-time positions, and fifty-five (55) seasonal positions.

***New Personnel***

For the first time in a number of years, the proposed operating budget includes a recommendation to create and fund two new full-time positions: (1) a Director of Economic Development in the City Manager’s Office and (2) a Facilities/Groundskeeper in Parks & Grounds:

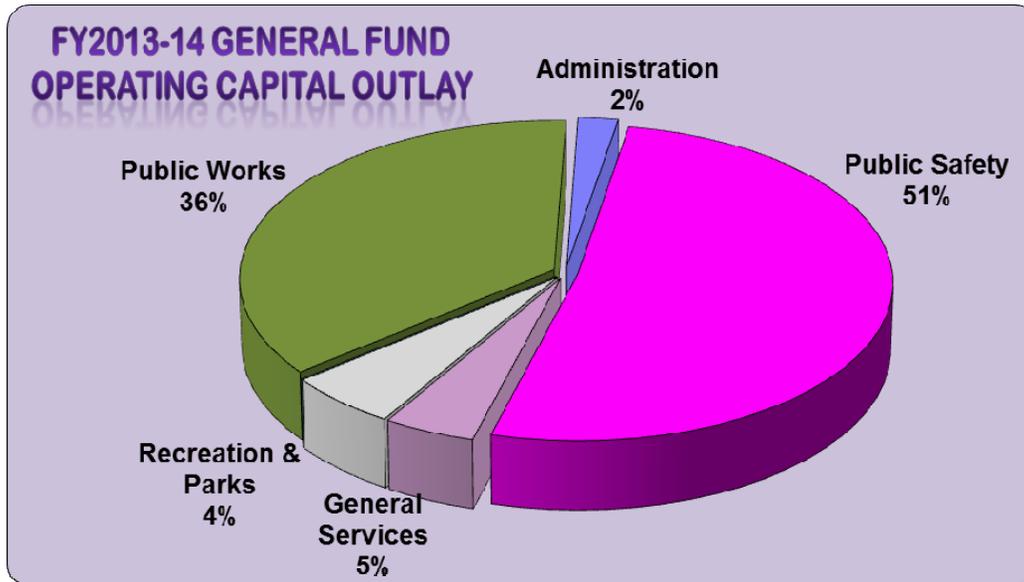
**Director of Economic Development** – As part of its commitment to continued business growth and development and to effectively support the existing business community, the City Council has expressed its desire to have a full-time professional devoted to economic development on city staff. Although it is believed that our overall business development and related support services will be greatly enhanced through this upgraded commitment, one of the first objectives associated with this new position will be the creation of the City’s first Economic Development Strategic Plan – further defining policy goals and expectations in this regard. The proposed *FY13-14 Annual Budget* includes full-year funding of this position at a total estimated annual cost (salary and benefits) of **\$106,000**.

**Facilities/Groundskeeper** - Currently, the City has three maintenance divisions under the Recreation & Parks Department (Buildings & Grounds, Horticulture and Parks) that carry the full responsibility for maintenance of all city-owned parks, grounds, and buildings - including more than fifteen athletic fields, nine parks/playgrounds, nine buildings and more than forty other sites. Over the last fifteen years, the City has maintained the same staffing levels in these departments, while during the same time period adding maintenance responsibilities for the City Hall, Garage, Public Safety Building, Library, Community Center, Appamatuck Park, Roslyn Landing Park, and the Appomattox River Trail System. And, beginning later this year, the department will also assume additional responsibilities when the new City Courthouse is opened. Even though these divisions work together to maximize available resources, staffing levels must be increased if we are to maintain the high service levels in this area that citizens have come to expect. As such, the proposed *FY13-14 Annual Budget* includes partial funding of a new full-time Facilities/Groundskeeper-II position (starting January 1, 2014) at a total estimated (salary and benefits) of **\$20,600**. Full-year funding of this position will cost \$41,200.

FY13-14 Budget Highlights and Issues

**Operations-Capital Outlay**

Total capital reinvestment into General Fund Operations for FY13-14 (vehicles, equipment, furniture & fixtures, street resurfacing, etc.) is proposed at a total of **\$1.32M** and follows the *Five-Year Capital Program-Operations* – representing a significant increase over last year’s capital investment in day-to-day operations and services.



**Utility Rates**

Another challenge facing the City in FY13-14 was identified in the past year’s Annual Audit Report and confirmed the staff’s prior recommendations that revenues generated from water and sewer service fees are no longer sufficient to absorb costs associated with those services – thereby indicating the need for a rate adjustment to keep these funds and/or services economically viable. The Water and Sewer Fund is managed as an Enterprise Fund, meaning that costs for services are supported entirely by fees charged for such services. Maintaining such funds in this manner eliminates any potential burden on taxpayers; and is a universal practice endorsed by most service providers.

Accordingly, the Council has previously authorized an independent rate study to address this situation. It is anticipated that such study will be completed – and determinations made as to appropriate rate adjustments – prior to the beginning of the FY13-14 fiscal year.

**Other Miscellaneous Issues**

- **New City Courthouse** – We look forward with great anticipation to the completion and planned opening of the new City of Colonial Heights Courthouse later this year. Its opening will obviously represent a positive addition for the City in many ways, but will also represent increased annual costs and responsibilities. While the City has already absorbed into its annual budget the debt and repayment structure associated with the primary costs of construction, the new facility will also significantly increase annual costs for building maintenance and operations. To that end, the proposed *FY13-14 Annual Budget* includes increased maintenance costs of approximately **\$30,000** (projected at \$40,000 for full-year funding).

It will only be after a few years’ experience, however, that we will be able to more accurately project what the true increased operating costs for the Courthouse will be.

FY13-14 Budget Highlights and Issues

***Other Miscellaneous Issues (cont'd)***

- **Increased Staffing at New Courthouse** – Also associated with the move to the new Courthouse is discussion of appropriate staffing and/or funded personal for the departments operating out of that facility. There have already some been preliminary discussions initiated by certain departments - namely the Commonwealth's Attorney and Sheriff – as to their belief that increased staffing is warranted within their particular operations. The proposed *FY13-14 Annual Budget* includes no such provision for increased funding for personnel at the new Courthouse. However, this is an issue that is anticipated to be reviewed at some point during the next fiscal year.
- **Finance Department staffing** – Earlier this year, the administration submitted a proposal to the City Council aimed at an effective reorganization of the city's financial management structure and operations. The proposal was designed, among other things, to provide a more effective allocation of available resources. While the majority of Council could not agree to support this recommendation, the problems illustrated by the administration in that proposal remain - particularly as it relates to the proper allocation of resources and workload. The staff will continue to seek guidance from the Council on how best to address this situation – including the possible addition of staff to assure the proper management of city funds and the continued excellence in financial administration long-established by the City Finance Department.

The 2013-14 year should provide another challenging – but rewarding - year for the City of Colonial Heights and will also include unique opportunities for the continued growth and 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. We look forward to working with you during the coming year.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Mattis", written in a cursive style.

Thomas L. Mattis  
City Manager