



# CITY OF COLONIAL HEIGHTS

## OFFICE OF THE CITY MANAGER

Thomas L. Mattis  
City Manager

City Hall ■ 201 James Avenue ■ P.O. Box 3401  
Colonial Heights, Virginia 23834

Elke B. Gibbs  
Executive Assistant

April 8, 2014

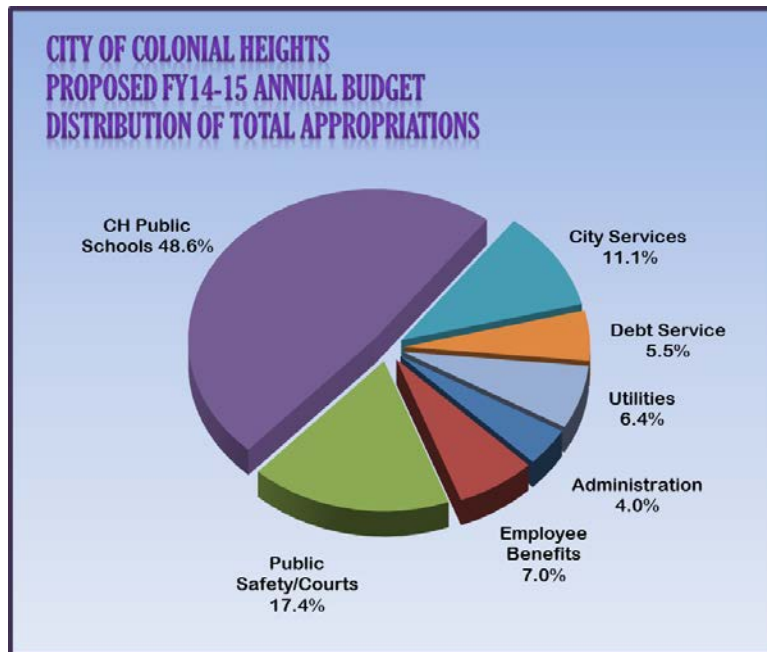
Mayor and City Council  
City of Colonial Heights  
201 James Avenue  
Colonial Heights, Virginia 23834

### Re: **FY2014-15 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, 2014 through June 30, 2015, is hereby presented for your consideration.

The grand total of all appropriations for all departments, operations, and functions proposed for the *FY2014-15 Annual Budget* is **\$74,920,017**; to be generally distributed as described below:



As we look forward through the next fiscal year developing the *FY14-15 Annual Budget*, the City is faced with the challenge of addressing a variety of new and rising costs at a time when revenues are generally flat. In order to maintain established service levels for all our citizens and local business community, the City must consider increasing revenues for the General Fund. While the City of Colonial Heights should be able to maintain a generally stable overall financial position, a variety of economic pressures will present definite challenges throughout the next fiscal year.

The *FY14-15 Budget* as proposed is a zero-based, balanced, and appropriately conservative financial plan wherein all operating expenditures are supported by revenue generated during the fiscal year. It was created with input from all departments' 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 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 five (5) basic funds:

- **General Fund** – (\$33.5M) revenues and expenditures related to the provision of primary and/or traditional city services whose main financial support comes from tax dollars.
- **School Fund** – (\$36.3M) revenues and expenditures related to funding of operations and services of the Colonial Heights Public Schools.
- **Recreation Fund\*** – (\$1.6M) revenues and expenditures relating to recreation services including athletic leagues, community events, youth sport sponsorships, classes, etc.
- **Stormwater Management Fund\*** – (\$4.5M) all financial transactions relating to the provision of stormwater management services and programs.
- **Water and Sewer Fund\*** – (\$4.4M) 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.

## **FY2014-15 ANNUAL BUDGET - Budget Highlights and Issues**

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

As we look to the near future, however, increased demands for services and general increases in costs will require additional financial support. Although every effort has been made to reduce departmental operating budgets and to enhance revenue projections (and the proposed budget does not include deficit spending and/or utilization of fund balance for operating expenses), a new or additional revenue stream must be created to adequately support General Fund operating costs within the proposed budget.

Following is a brief discussion of the primary issues impacting the proposed *FY14-15 Annual Budget*:

### **Staffing**

The proposed budget includes full-year funding in FY14-15 for up to **three hundred fifty-one (351) total city employees**: two hundred fifty-three (253) full-time positions, fifty (50) part-time positions, and forty-eight (48) seasonal positions. Although requests were made by certain departments for increased personnel, there are no new positions included within the proposed *FY14-15 Annual Budget* – except for those new positions within the Sheriff's Office already approved by Council.

FY14-15 Budget Highlights and Issues

**Full-Year Funding of Prior Year Costs**

The current-year budget includes certain items that were only partially funded in the FY13-14 Budget; primarily to lessen the impact on said budget. The challenge associated with that decision, however, is that full-year funding of these items next year will result in increased costs for the *FY14-15 Budget*. Specifically, the current year budget included (1) a 2.0% Cost of Living Adjustment (COLA) in pay for all full-time city employees that was effective January 1, and (2) a new full-time Facilities/Groundskeeper position in the Recreation & Parks Department that was filled in January. Full-year funding of each of these items is included in the proposed *FY14-15 Annual Budget* and represents total new costs of nearly **\$170,000** within the General Fund.

**Increased Staffing – Sheriff’s Office**

As we enter the FY14-15 fiscal year, the Sheriff’s Office is faced with three (3) primary issues that adversely affect its annual operating costs:

- (1) The new Courthouse that opened late in 2013 included a variety of safety and security enhancements for courthouse staff and the general public. Said upgrades, however, have created increased demands on Sheriff’s deputies to properly staff operations at the new Courthouse.
- (2) It is anticipated that the new Juvenile and Domestic Relations Courtroom will begin operating soon, which will create the possibility of all three courtrooms operating at once.
- (3) It is anticipated that the Affordable Care Act will adversely impact the Sheriff’s existing dependency on part-time employees. Compliance with the Act will require either increased part-time personnel or conversion of existing part-time to full-time to maintain existing services levels.

In response to this overall situation, City Council recently authorized **two (2) new full-time** and **two (2) new part-time** Deputy positions for the Sheriff’s Office. While warranted given the overall situation, full-year funding of this new staff represents significant, new permanent/annual costs in excess of **\$200,000** within the General Fund for next year and \$180,000 per year into the future :

Salaries & Benefits - Two (2) Full-time positions.....	\$ 105,276
Salaries & Benefits - Two (2) Part-time positions.....	75,355
Equipment/Fees/Miscellaneous.....	<u>21,207</u>
	<b>\$ 201,838</b>

Although there are certain court-related fees generated to support the Sheriff’s Office that will be utilized to offset some of these costs - including the use of one-time reserve funds of \$120,000 in FY14-15, this item alone necessitates a permanently increased revenue stream if we are to absorb these new annual costs without adversely affecting other city services.

**Emergency Communications Upgrades**

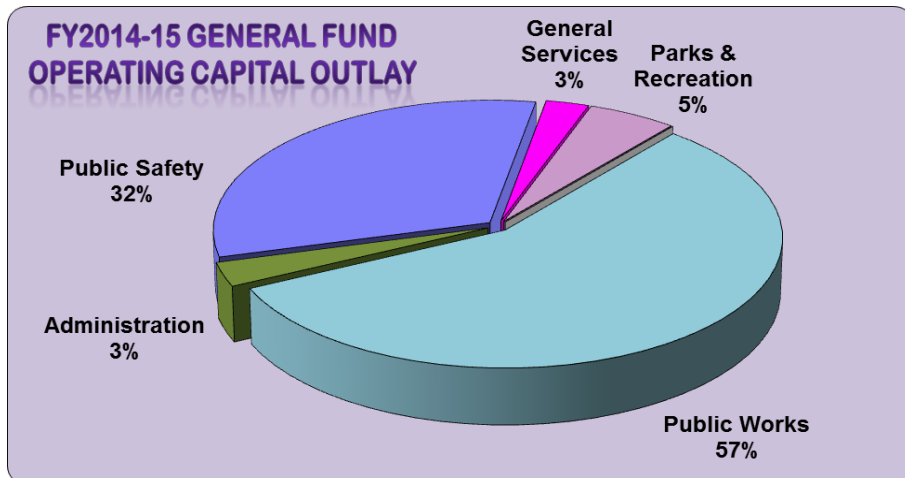
Also included for funding within the proposed *FY14-15 Annual Budget* is the second installment of a two-year funding effort of the Capitol Region Radio Project at a total cost of **\$100,000**.

The Capitol Region Radio Project is for the design and replacement of the City’s 800MHz radio system that provides vital communication capabilities for all 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. The recently-revised estimate of ultimate total project costs for the City is **\$7M**.

## FY14-15 Budget Highlights and Issues

### Operations-Capital Outlay

Total capital reinvestment into General Fund Operations for FY14-15 (vehicles, equipment, furniture & fixtures, street resurfacing, etc.) is proposed at a total of **\$1.23M**; consistent with the *Five-Year Capital Program-Operations* and represents a slight decrease over current-year capital investment.



### Cuts in Departmental Requests for Funding in FY14-15

As part of the administration's commitment to keep overall costs as low as possible, particular emphasis was given this year to producing a lean budget proposal that included special attention to all line-item expenditures. As such, not only were all new costs kept to an absolute minimum, a final review by Director of Finance and City Manager resulted in cuts of **more than \$1.1M** from the total amount of funding requested by staff and what is included in the proposed *FY14-15 Annual Budget*. This is certainly not to suggest that any departmental request was unreasonable, but more an illustration that the revenue increases proposed for *FY14-15 Budget* are required to maintain existing service levels.

### Revenue - 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.

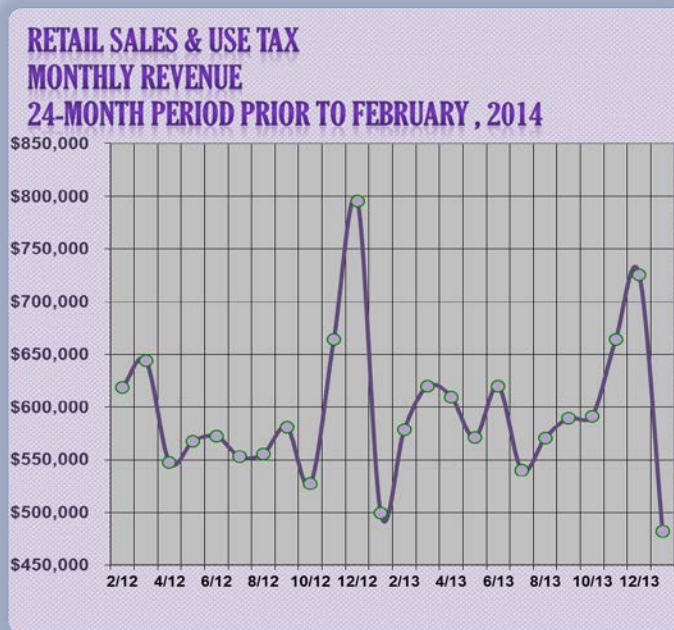
As the market center for the Tri-Cities Region and Fort Lee, annual revenues provided by these taxes are primarily driven by the retail business community located in and around the Southpark Mall and along the Boulevard corridor. In fact, the City has typically ranked among the top five Virginia localities for annual taxable sales per capita (the average amount of taxable sales 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 upward overall trends in revenue flow over the past two years adversely impacts our confidence in projecting growing and or significantly “new” revenues in FY14-15.

**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).

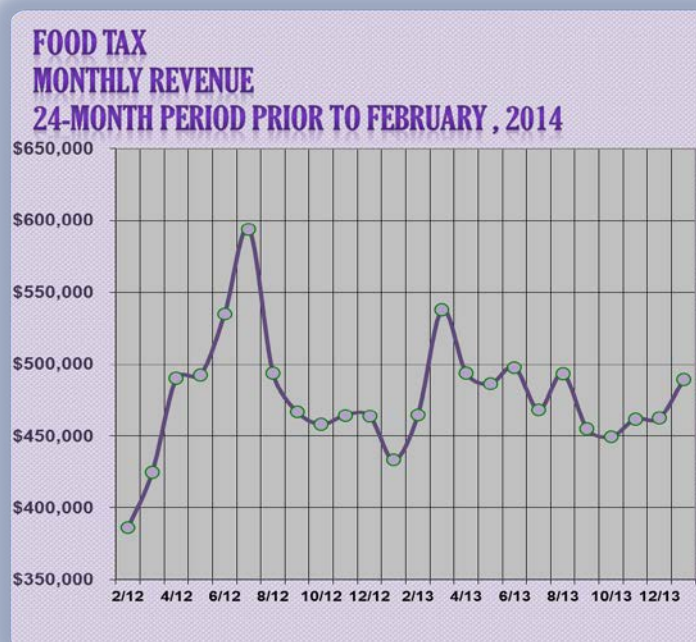
As depicted by the graph below showing actual collections over the past two years, Retail Sales Tax has been generally consistent – following a general trend with spikes during the holiday season. In fact, over the past ten years, total year-end Retail Sales Tax revenue has been very consistent, with a high of \$7.3M in FY2006-07 and a low of \$6.7M in FY2009-10. As such, the staff is most confident about the continued stability and growth of this particular revenue than the other variable taxes.

FY14-15 Budget Highlights and Issues



**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.

Although the staff anticipates a slight budgetary shortfall in the current year, Food Tax revenues have also followed a fairly consistent pattern over the past two years. Although recent collections have been a bit low, past trends indicate that overall revenues should be on the increase, which would enable us to finish close to the budgeted totals for FY13-14. However, it remains the staff projection that this line item will likely finish under budget for the current year which, in turn, adversely affects our confidence about anticipating significant new revenue from this source in FY14-15.



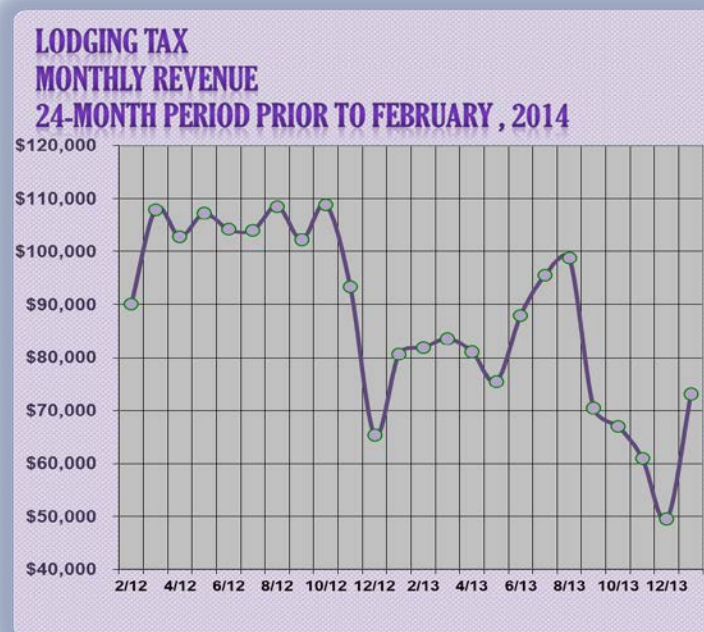
## FY14-15 Budget Highlights and Issues

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

Of greatest concern entering the new fiscal year is the fact that revenue generated by Lodging Tax has clearly been uneven over the past two years. After a period of strong collections from March through October, 2012, the city experienced a significant drop in the same revenue from December, 2012 through May of last year. Some recovery then occurred last summer, but was followed by some of our lowest numbers over the Fall and Winter. Only with the most recent receipts do we see the beginnings of an upward trend.

In this particular category, the rather obvious assumption would be to connect these decreasing revenues with the opening of the new lodging facility at Fort Lee. Given that the housing facility opened in January, 2013, there does seem to be a parallel to when the revenue decline began.

It is the staff's view, however, that it would be an overstatement to suggest that this is the *only* reason this particular revenue has experienced dramatic swings over the past 24 months. General cutbacks in spending and travel by the Army also appears to have impacted this situation, which would have resulted in a similar affect with or without the new Fort Lee facility.



In summation, while the *FY14-15 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 has 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.

## **Revenue – Property Taxes**

Although the City's annual budget in Colonial Heights is uniquely supported by our retail business community, Real Estate and/or Property Taxes still provide the basic foundation for revenue generation in support of the General Fund, just like most other localities. This stable source of revenue provides assurance as to funding each year for the most basic and essential city services – public safety, mobility, asset maintenance, schools, etc.

### *FY14-15 Budget Highlights and Issues*

In a year when the City will experience a significant cost increase related to some of these most basic services – combined with the fact that our recent reassessment of property values caused net decrease in overall revenue – it will be necessary for the City to adopt a slight increase in its property tax rate to fund such costs without negatively impacting overall existing service levels.

**This Annual Budget as proposed for FY14-15 is predicated upon an increase of \$.02 in the Real Estate Tax Rate – from the total current rate of \$1.14/\$100 valuation to \$1.16/\$100.**

The net overall impact of the proposed rate increase on individual residential taxpayers should be minimal, however, as such increase will be generally offset by the decrease in assessments that most homeowners experienced this year. In many if not most cases, the rate increase will essentially create an ‘equalization’ of most residential property tax bills.

It is important to note that any such tax rate increase will also have a positive effect on funding for Colonial Heights Public Schools (CHPS), as our tax-sharing agreement stipulates essentially an equal division of any such revenues. Any additional revenue will certainly be helpful to CHPS, as they face their own set of financial challenges entering the new fiscal year.

### **Other Miscellaneous Issues**

- **Employee Compensation** – Due to the various issues discussed herein and the overall financial challenges facing the City in the coming fiscal year, the proposed *FY13-14 Annual Budget* does not include any pay adjustments for employees. It should be noted, however, that by implementing the overall budget recommendations as proposed, it is reasonable to anticipate that the City will be in a position to afford a pay adjustment for employees in FY15-16.
- **Employee Health Insurance Costs** – There is no rate increase anticipated for employee health insurance (for either the employee or the City) in FY14-15.
- **Utility Rates** – For most of the current fiscal year, Council and staff have engaged in a review of water and sewer untidy rates, due primarily to continuing operating shortfalls as depicted in the City’s most recent annual audit report. While Council has already committed to increasing such rates assurance a proper balance of revenue and expenditures within the Utility Fund, the rates have not yet been increased as of this date. However, the proposed *FY14-15 Annual Budget* is fully predicated on implementation of the new/higher rate structure at the beginning of the fiscal year.
- **New City Courthouse** – Cost analysis associated with the new Courthouse is on-going, as the City has yet to have a full year’s experience with maintenance and operations of said facility. While the proposed budget includes reasonable expenditures in this regard, additional practical experience will be required before the staff can more accurately project true operating costs for the new Courthouse.

In spite of certain financial challenges, the coming year should be very rewarding, as the City will see the completion of a number of major 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,



Thomas L. Mattis  
City Manager