

City Manager's Budget Message to City Council, April 4, 2011

This morning I respectfully present the City Manager's recommended budget for the General Fund which is balanced at \$40,521,423.

The budget, in my professional opinion, meets the fundamental obligations of municipal government by funding public safety and public works; supporting public education; meeting local funding obligations for court operations and corrections; providing appropriate general government administration; providing for community planning; meeting obligations with respect to health and human services and the environment; and providing appropriate recreational and cultural facilities and programs for our citizens and visitors to the community. These are the essential functions of local government, the City's legal obligations, and the City's reason for existing as an incorporated entity.

In the subsequent weeks, the municipal staff will work with City Council to adopt a budget that meets Council's expectations and goals for Waynesboro's municipal government.

My immediate goal of providing the City Council a balanced budget that fulfills its financial, functional, and legal obligations is successfully satisfied.

Recommendations of particular significance concerning revenues for Fiscal Year 12 include:

- Increasing the real property tax rate to \$.78/\$100
- Increasing the Lodging Tax by 1% (from 5% to 6%)
- Increasing the Meals Tax by 1% (from 5% to 6%)
- Increasing Dog Licenses from \$2.50 to \$7.50 per year
- Increasing the Cigarette Tax from \$.20/pack to \$.24/pack.

My recommendation to increase the real property tax rate to \$.78 is in response to the fact that the completed general reassessment reflects a 7.4% overall decrease in property values which would result in a General Fund revenue decrease of \$969,000 at the current \$.70 rate. The recommended \$.78/\$100 rate is the calculated equalized rate as prescribed by the Code of Virginia.

Of significance as well is the fact that tax revenues from the Machinery and Tools tax are forecasted to decrease by \$296,000.

My recommendations to increase the meals tax rate and the lodging tax rate are based on the facts that these revenues are derived from sales that are often discretionary in nature, and in the case of the lodging tax, is borne by nonresidents, and in the case of the meals tax is borne to some extent by nonresidents. The meals and lodging taxes provide opportunities to raise necessary funds to provide municipal services and without placing the entire burden of the increases on residents of Waynesboro.

The recommendation to increase the dog license fee is intended to bring Waynesboro's fees to a level comparable to area jurisdictions. The City began selling dog licenses (tags) around 1964 for \$2.50. The fee has never been increased.

Recommendations of particular significance concerning expenditures, as presented in the 2012 budget include:

- Provides, effective July 1, a one-time bonus of \$750 for fulltime employees and a \$375 one-time bonus for regular, non-seasonal part-time employees
- Funds an increased contribution to the MRRJ
- Funds Line Duty Benefits for public safety reservists and volunteers, previously funded by the Commonwealth
- Funds an Increased Membership Expenses for the Central Shenandoah Criminal Justice Academy
- Restores 2.5 positions in Constitutional Offices eliminated in FY 2011
- Provides for an Administrative Secretary for Economic Development
- Provides increased crew availability for storm water maintenance and construction
- Increases street paving through VDOT funds by \$480,000
- Funds additional expense for Landfill Regulatory compliance
- Recommends re-appropriating \$136,720 to the School System
- Anticipates an increase in Health Insurance
- Reduces Service and Service Expense for certain Public Works Functions
- Converts a fulltime custodial position into two part-time custodial positions
- Meets expected increases in regular gasoline, diesel fuel, and electric utility charges.

I think it is important also to identify organizational needs and requests that are not included in my recommended budget:

Replacement vehicles

Police

Regular Fleet

Replacement Equipment

Dump Trucks

Work Trucks

Backhoes

Motor Grader

Positions

Fire Marshall (1)

Firefighters (3)

Human Resources Administrative (1)

Sufficient employee training and development

Appropriate merit and cola opportunities for employees

Sufficient investment for replacement computer hardware and software

Investment in new technology, hardware and software

Sufficient expenditure in facility maintenance, security

Carpet Replacement DSS

HVAC

Fire Station

Security Measures for Certain Courts and Court Support, Treasurer, Utilities

Funding for new requests for support from Community Agencies.

In addition to the General Fund Budget, I present recommended balanced budgets for the Enterprise Funds. The Garbage Fund does not require a rate increase and reflects a decrease in overall operating expenses of \$3,691.

Both the Water and Sewer Funds require increases in consumption and base rate charges. Water charges based on consumption increase by 9.63% to a per 1,000 gallons rate of \$3.87. Base rates are increased as well by appreciable amounts. The increases in base rate charges are recommended for two reasons; first, to reflect more industry common billing methods, and second, to compensate for the fact that earlier rate models relied on consumption assumptions that have not been realized over time. In the Sewer Fund, the per 1,000 gallons consumption charge increases by 35% to \$7.56. Base rates increase in the Sewer Fund as well. The additional revenue produced by the rate increases in the Sewer Fund is necessary to fund the debt service on the new waste water treatment plant. It is important to note that while these increases are indeed significant, the potential expense of the project was mitigated by grants, no-interest, and low interest loans secured by staff. While some of my remarks in this presentation concerning the Commonwealth are not entirely favorable, the financial support provided by the State on this project is appreciated for its benefit to the community.

The water treatment facility and the wastewater treatment facility were constructed in response to State mandates concerning detected ground water influence on the City's water supply and new effluent standards for wastewater discharges. The City is under a Consent Order concerning its sanitary sewer collection system and is carrying debt to fund construction of projects to comply with that order and improve the performance and environmental compliance of the collection system.

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The balance of my presentation will communicate remaining challenging and sometimes harsh realities that exist with respect to our municipal budget and future prospects for funding our municipal services and operations. Doing so requires healthy measures of courage and honesty. This is not easy information to deliver, but leaders are required to be courageous and honest. Respected and effective leaders are not afforded the liberty to be selective as to when they demonstrate courage and honesty.

The organization's current, near term, and long term ability to generate sufficient revenue to provide core municipal services, make appropriate investment in economic and community development, and build "rainy day" reserves requires intelligent and deliberate examination. My assertion today is that such an examination leads inevitably to the conclusion that sufficient revenue is not available. Consequently, the services and functions of our local government must be reduced by elimination or curtailment perhaps to the point of requiring some form of

government other than a City of the First Class. Alternatively strategic action and funding must be applied to existing efforts to create new private and public sector capital investment in the community.

Local revenues are of primary concern currently and for the future of the community. As the manufacturing sector diminishes as a percentage of our local economy, revenues decline. While the community has benefitted from expansions in retail, service, lodging and restaurant sectors, they do not provide equivalent capital investment, wages, or salaries. Nor do they produce equivalent revenue on which to operate government when compared to manufacturing. Nonetheless, hotels, restaurants, service and retail establishments require the equivalent levels of municipal services. Consideration should also be devoted to the reliability of the revenues and the cash flow characteristics of transactional based revenues. Retail and service sectors are more closely tied to short term fluctuation in the economy. The resulting concerns for administrators and elected officials are a less stable environment in which to operate the municipal government, an inability for managers and elected officials to plan for and invest in the community's future, and uncertainty with respect to annual revenue receipts.

The recent growth in Waynesboro's retail, food service and lodging sectors have to some extent served as a timely economic safety net for the community by providing jobs, services, and investment, thereby partially mitigating declining revenues from machinery and tools and job loss in manufacturing. Complete reliance on these economic sectors to compensate for the decline of manufacturing is risky; as stated previously, these revenue sources are less reliable and incapable of producing the necessary financial resources to sustain municipal services and make necessary investments to attract private sector investment, and retain existing employers.

Another significant contributing factor to our current financial circumstance is that the recent economic downturn was preceded by years of significant commercial and residential growth which produced increases in government receipts in a number of areas, including but not limited to property taxes, permitting fees, sales taxes, and the broad benefits of economic prosperity. I assert that to a certain extent the level of sustained growth combined with increasing assessments created an economic environment which allowed the gradual lowering of the property tax rate from \$.97 to \$.70 in less than a decade.

The two previous budgets I have recommended to City Council have contained, and reduced operating expenditures by:

- Eliminating ten positions through reductions in force,
- Eliminating one department head position through reorganization, and held vacant ten additional positions in the General Fund. In total, 21 total positions have been held vacant or eliminated in the General Fund. There are approximately 10 positions in the Enterprise Funds (8) and Internal Service Funds (2) that have been eliminated or held vacant.
- Suspending merit and cola opportunities for municipal employees
- Reducing employee training and development expenses
- Limiting the purchase of replacement equipment and vehicles
- Limiting expenditures in building maintenance, and security
- Limiting computer hardware and software replacement and improvement

- Relying on one-time sources of funds, and fund balance to accomplish major purchases and projects,

In the short term and in order to contend with severe economic conditions these measures were necessary, appropriate and successful. In each of the previous years, the General Fund Operating Budget has concluded the year in a positive cash position. In each of the previous years employees have successfully fulfilled service responsibilities and done so with exemplary levels of dedication, courtesy, and professionalism.

This municipal organization has proven itself through the sacrifice, dedication to the cause and overall performance of each individual employee, and that should be acknowledged and celebrated.

In my professional opinion, the expenditure reductions recommended and enacted in previous budgets should not be considered appropriate *permanent* budgetary measures because of their long term detrimental impacts to employees, the organization, and the community. Reliable motor equipment, vehicles, and technology are essential to a productive service organization. Repair and maintenance of the community's physical assets (roads, sidewalks, service facilities, pools, infrastructure) are essential to the financial position and economic vitality of the organization. Well trained employees who are appropriately compensated and supported by the organization are essential to service delivery. Finally, an adequate and carefully managed supply of cash to incentivize development, develop marketable investment opportunities, and match grants is an invaluable and necessary tool for local officials.

Our community and organization have much to celebrate and much on which to build. Through the years, our community has benefitted from conservative fiscal stewardship. Waynesboro enjoys unique natural resources, key transportation and geographic advantages, and a well trained and reliable labor base on which the community can further capitalize and grow our economy.

Our organization has demonstrated recent success in our ability to work effectively with the private sector to attract new business and expand existing businesses thereby preserving our heritage as a manufacturing community and providing good jobs for our residents.

Waynesboro's elected officials have maintained vigilance over tax rates and fees and Waynesboro compares favorably to its municipal peers in many categories and exceptionally in some categories, particularly with its real property tax rate. For calendar year 2010, Waynesboro's real property tax was the sixth lowest among the 39 cities in the Commonwealth.

While we all acknowledge and celebrate our current and recent successes in economic development and project completion, the same strong leadership that has brought us to this point must turn its attention to the reality that an examination of our fiscal position must occur, and we must think, plan and act strategically to meet our operational obligations and preserve the health of the community.

In short, the message today is that in my opinion, the municipal organization does not generate sufficient revenue to operate our municipal government in its current form, sustain current service levels, make reasonable and necessary capital investments, or grow our financial reserves.

Municipal government exists to provide services that are not, for economic reasons, delivered by the private sector but that are essential to creating and maintaining safe, prosperous and vibrant communities.

If a determination is made to not adequately fund municipal services, then we as a community should consider our status as an incorporated City of the First Class.

It is important to communicate as well that there is little to indicate that budgetary pressures will likely subside sufficiently in subsequent years to address this circumstance absent action on our part. First, the essential operational expenses that have been reduced and deferred in previous budgets require funding. Second, it would be foolhardy to anticipate that the Commonwealth will not continue to reduce their financial support of local governments, as they have in previous years, by capping contributions, modifying funding formulas, transferring costs to localities, and reclassifying revenue sources from local to State sources. In the end, the local government assumes new and additional financial responsibility (or is pressured to assume more responsibility) in the following functional and service areas:

- Constitutional Offices and Courts
- Regional Jails and Detention Homes
- K-12 Education
- Comprehensive Services Act programs
- Social Services
- Categorical and Non-categorical Aid Service
- Benefits and Insurance for Employees and Volunteers
- Libraries

It is reasonable to anticipate increases in subsequent years in local expenses for VRS contributions, landfill environmental compliance, and health insurance.

Some have observed that the recurring budget deficits and mounting debt at the federal level will no doubt be a burden to the generations that follow. I would suggest that a failure to adequately fund local government operations and make investments in essential transportation infrastructure, utility facilities and economic development present similar concerns for subsequent generations.

Waynesboro possesses a professional municipal organization capable of meeting any challenge placed before it. We have a number of strengths and advantages for growing its local economy but it would be irresponsible of me to suggest or recommend to the City Council that the budget presented today represents anything more than a plan to service the community in a challenging economic time. As we work together, attention must be afforded the financial operational needs of the organization, the need to more aggressively maintain our infrastructure, and partner with the private sector to grow our economy.

I appreciate your presence here today and your service to our community. I appreciate also the opportunity to deliver this information. As indicated above, I look forward to confronting the challenges identified here today in a cooperative and mutually supportive manner.

I would like to express sincere gratitude to all municipal employees who, over the last two and half years, have demonstrated dedication and professionalism. The success and accomplishment of this organization is achieved through the individual service and commitment of each municipal employee regardless of his or her position.

I thank the Department Heads and Constitutional Officers who provide enormous support in developing and implementing the budget.

I also extend particular appreciation to:

Mr. Jim Shaw, the Assistant City Manager who provides significant effort in preparing, communicating and implementing the budget;

Ms. Pat Nicosia, Director of Budget and Finance, who produces the budget, converts ideas to numbers, and makes sure that the numbers are in the proper column.

Mr. Cliff Prevete, who lends appropriate measures of observation and insight, and stands guard over the principles of accounting.

Mr. Shaw and Ms. Nicosia will provide presentations which will provide additional context and information for the recommended budgets and my remarks this morning.

Michael G. Hamp II, City Manager