



# CITY OF COLONIAL HEIGHTS

## OFFICE OF THE CITY MANAGER

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April 14, 2015

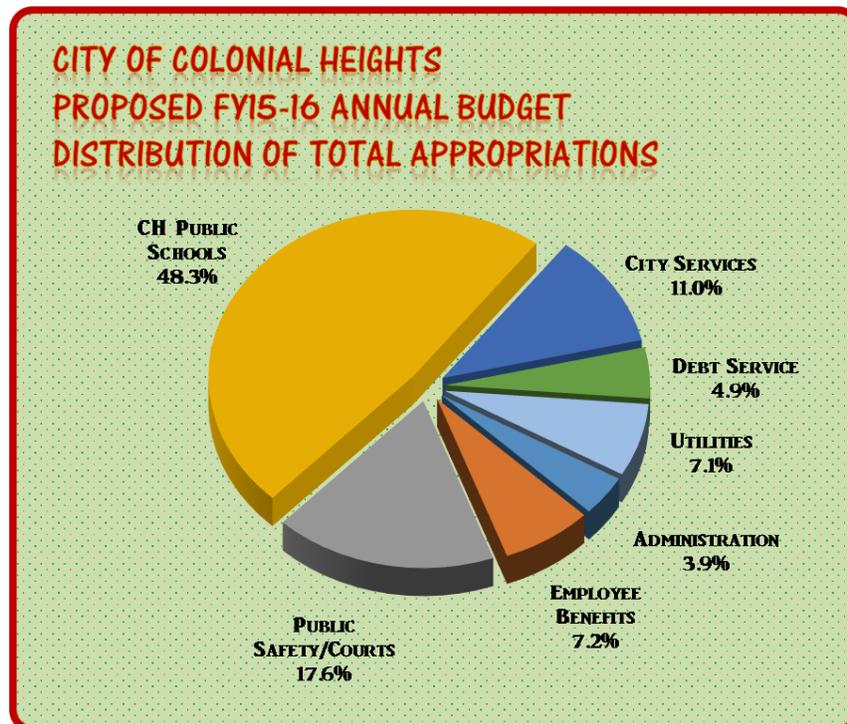
Mayor and City Council  
City of Colonial Heights  
201 James Avenue  
Colonial Heights, Virginia 23834

### Re: **FY2015-16 Proposed Annual Budget Message**

Dear Mayor Kochuba 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, 2015 through June 30, 2016, is hereby presented for your consideration.

The grand total of all appropriations for all departments, operations, and functions proposed for the *FY2015-16 Annual Budget* is **\$75,267,336**; to be generally distributed as described below:



The proposed *FY15-16 Annual Budget* 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' head and includes a comprehensive review of all existing programs, operations, and services.

The proposed budget includes the continuation of all existing services and programs; and full-year funding of all existing staff and operations. While the primary goal of the proposed budget is to maintain existing service levels, the staff remains focused on enhancing service levels wherever possible while effectively controlling costs. The proposed budget does not include deficit spending and/or utilization of fund balance for operating expenses.

The *FY15-16 Annual Budget* as proposed 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 operations and services of the Colonial Heights Public Schools.
- **Recreation Fund\*** – (\$.16M) revenues and expenditures relating to certain recreation services including athletic leagues, community events, youth sport sponsorships, classes, etc.
- **Stormwater Management Fund\*** – (\$.42M) all financial transactions relating to the provision of stormwater management services and programs.
- **Water and Sewer Fund\*** – (\$4.8M) all financial transactions relating to the provision of potable water and sanitary sewer 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.

### ***FY2015-16 ANNUAL BUDGET - Budget Highlights and Issues***

The City of Colonial Heights has maintained a consistent practice of effectively responding to recent financial challenges through the appropriate management of available resources. Unlike most 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 during that time.

Safety, education, and livability will continue to be the primary policy – and budgetary – focus of the City the coming fiscal year as is evidenced by the preceding chart which shows that more than **65%** of total projected appropriations next year are devoted to public schools and safety.

As we look to the future, however, growing demands for services and general rising costs will require additional financial support. Although every effort has been made to control operational spending and to enhance income, a new or additional revenue stream will likely be required in the foreseeable future to adequately support the desired service levels and capital improvements.

#### ***General Fund Revenue***

From a broad perspective, the proposed *FY15-16 Annual Budget* projects a moderate, overall increase in total General Fund Revenue for the coming fiscal year. Total income for the General Fund is anticipated to increase by **1.72%** over the current-year budget; resulting in increased gross revenue of approximately \$910,000. It is important to note, however, that from this increased revenue (a) additional funding will be provided to Colonial Heights Public Schools in excess of \$407,000 and (b) one-time reserve funds of \$374,000 in the current-year budget will be funded. As such, these two items alone will essentially offset any net increase in overall resources.

## General Fund Revenue (continued)

- **Real Estate Taxes**

Although the City's annual budget in Colonial Heights continues to be 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 – similar to nearly all local governments. This stable source of revenue provides assurance as to funding each year for the most basic and essential city services – public safety, basic services, mobility, asset maintenance, schools, etc.

**The Annual Budget as proposed for FY15-16 is predicated upon a continuation of the total current real estate tax rate of \$1.14/\$100 valuation – throughout the entire fiscal year.**

It is important to note that a complete reassessment of property values will be completed by January 1, 2016. It is currently projected that the reassessment will not have an adverse effect on overall revenues for next year; however, if necessary, the tax rate will be adjusted to address any such shortfall at that time.

- **Personal Property Taxes**

The proposed *FY15-16 Budget* projects an increase of nearly \$200,000 in Personal Property Taxes over the current-year budget. Timing of this particular tax revenue typically occurs too late in the fiscal year to be included in the proposed budget; and projections are based on actual collections from prior years. As such, the projected increase for next year is not based on any significant change in tax base, but simply represents a more accurate projection based on updated information.

- **Refuse Fees**

Also included in the proposed budget is a decrease (\$1.85 per month) in rates charged to citizens for curbside collection of residential household solid waste and recyclables – or Refuse Fees. This decrease is proposed to offset the planned increase in utility rates to minimize overall impact on customer's bi-monthly bills. However, the resulting impact on the General Fund is an anticipated revenue loss of \$150,000.

- **Variable Local Taxes**

While property taxes provide financial stability in annual 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.

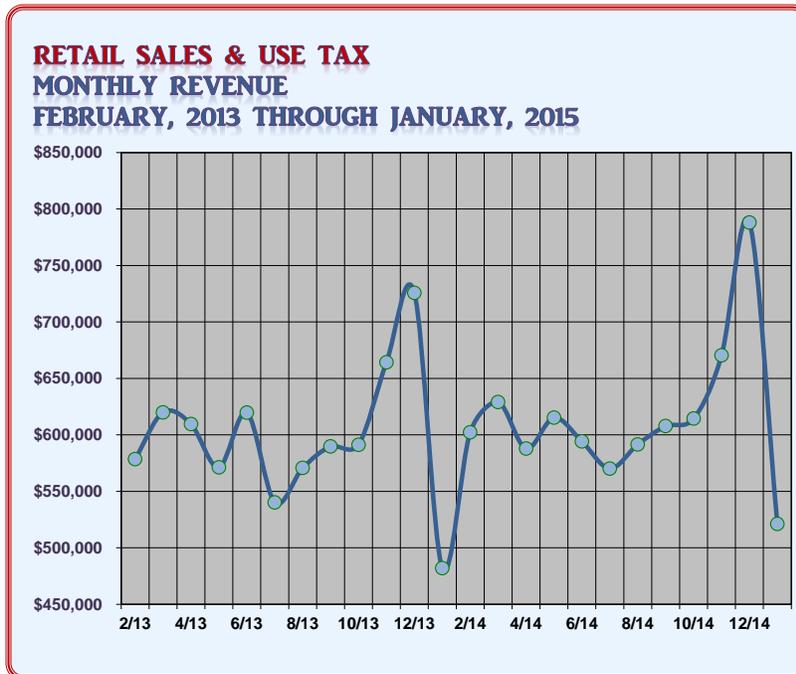
As the market center for the Tri-Cities Region and Fort Lee, such tax revenues are primarily driven by the retail business community located in the Southpark Mall area and along the Boulevard corridor. In fact, the City has typically ranked among the top Virginia localities for annual taxable sales per capita (the average amount of taxable sales per city resident).

**Although the City has experienced very moderate overall growth in this combined revenue over the past four years, a conservative analysis of recent trends warrant an anticipated increase of nearly 5% in FY15-16; creating increased gross income of a little over \$828,000.**

*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).*

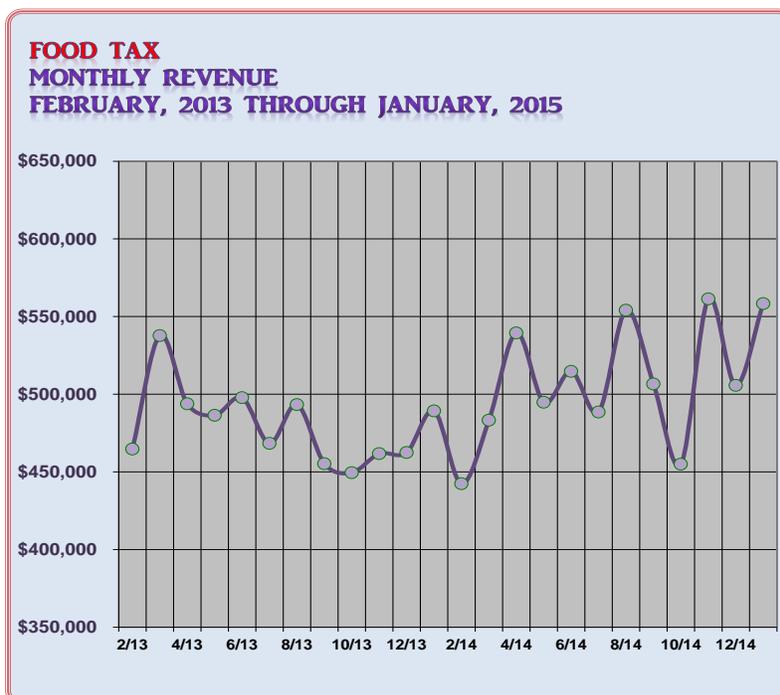
As depicted by the following graph, Retail Sales Tax collections over the past twenty-four months have followed a consistent pattern – including spikes during the holiday season. By comparison, however, collections for the most recent 12-month period were consistently higher than the preceding 12 months; and it is anticipated this general trend will continue through the next fiscal year.

**General Fund Revenue - Variable Local Taxes (continued)**



*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.*

Revenue from Food Tax has also followed a fairly consistent pattern over the past two years (as shown in the following graph) and has also followed a trend of consistently increased revenue in calendar year 2014 over 2013. For FY15-16, revenue growth from Food Tax is expected to continue; and is projected to exceed \$6M in total collections for the first time in the City’s history.

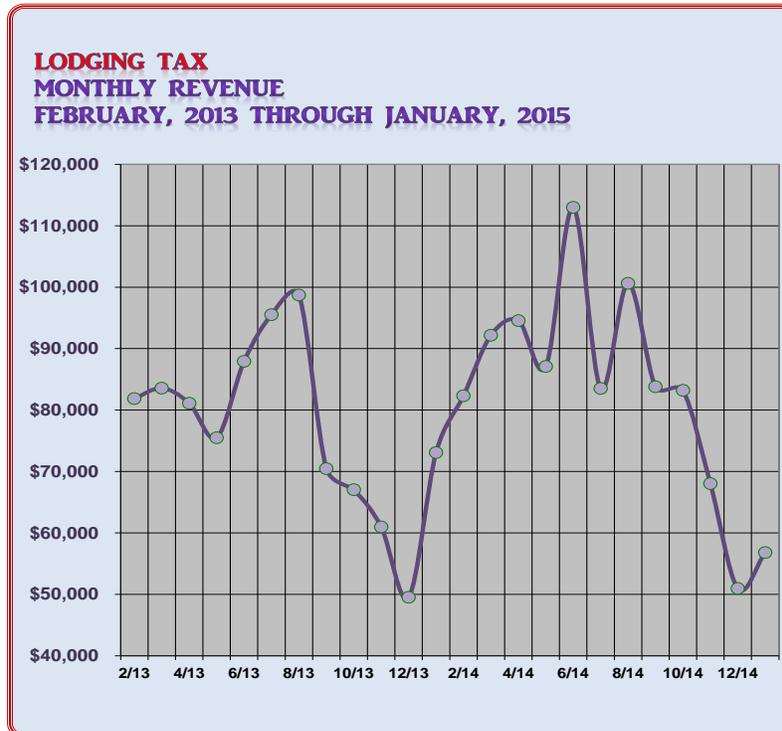


## General Fund Revenue - Variable Local Taxes (continued)

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

Although an important source of annual revenue for the General Fund, income from this tax has been very sporadic in recent years – and has been adversely affected for various reasons. In the 28-month period from July, 2011 through October, 2013, Lodging Tax averaged \$93,919 per month. In the 28 months since then (through February, 2015) average monthly revenue is \$79,496 – an income decrease of more \$14,423 per month – which equates to decreased revenue of more than \$173,000 per year.

Nonetheless, a comparison of collections over the past two years again indicates a stabilizing, if not increasing, revenue stream that is anticipated to also continue through the next fiscal year.



## Staffing

The proposed budget includes full-year funding in FY15-16 for up to **three hundred fifty-one (351) total city employees**: two hundred fifty-five (255) full-time positions, fifty (50) part-time positions, and forty-six (46) seasonal positions. This represents a slight decrease in total overall, although total full-time positions proposed for funding *increased* by two positions:

- (1) A new support staff position of Community/Economic Development Specialist has been added and will be shared between the Planning & Community Development and Economic Development departments. Costs associated with this new position will be partially offset by the elimination of a similar part-time position previously funded in the Planning & Community Development budget.
- (2) The Recreation and Parks department has added one full-time position of Recreation Specialist 1 in the Recreation budget for next year. To fund this position, departmental appropriations for Temporary & Seasonal Help will be reduced by over \$32,000 – and the job functions performed by said temporary staff will now be performed by the new full-time employee. This additional full-time staff should enhance overall service delivery; and the costs associated with same will be budget neutral.

### **Employee Compensation**

As one of its Annual Goals for 2015, 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 *FY15-16 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 – effective **September 1, 2015**. This pay increase carries a projected overall cost of just over \$250,000 in FY15-16 and future full-year, on-going costs of just over \$300,000.

### **Employee Health Insurance Costs**

Although the City has maintained a history of providing excellent health insurance benefits to its employees at a reasonable costs, general conditions and issues within the current marketplace make this an appropriate time for reassessment of the benefits provided with an eye towards future cost containment. With this in mind, the proposed *FY15-16 Annual Budget* includes an overall costs savings that is anticipated through a partial adjustment to employee health insurance benefits.

For a number of years, the City has provided a comprehensive dental coverage through its group health insurance plan. The City’s provider will now give employees the option to choose to continue with its current comprehensive plan; or move to a preventative and diagnostic plan with no copayment or deductible (which historically is the basic services accessed by most employees on an annual basis).

Employees wishing to maintain the current comprehensive coverage will now be required to contribute a greater amount to its costs (\$18.00 per month for the highest/family coverage). Employees with Dual or Family coverage choosing the preventative option, however, will actually see their current monthly costs *reduced* – and in the end, the City will save approximately **\$25,000** in overall annual costs.

### **Public Safety Career Development**

The City has encountered growing difficulty in recent years funding and maintaining its Career Development Program (CDP) for public safety employees. The CDP supports certain Police Officers and Firefighter/EMS staff to improve job skills, knowledge, and performance; and provides an alternative to the supervisory/management career paths that have traditionally been their only means of professional advancement. Qualified employees who participate in the CDP achieve professional development and recognition – as well as increased compensation. The City’s CDP was initiated in 2006 and has provided a 5% increase in base salary to each participating employee for each performance threshold achieved. While the CDP is professionally – and financially – rewarding for existing employees, it has also been viewed as an important enhancement in the recruitment and retention of new employees.

The CDP has been very successful in achieving its goals – so successful, in fact, that overall costs have increased to a challenging level. Continued at current funding, the City would project costs exceeding \$100,000 for approximately forty-five (45) employees over a 2-year period ending in 2016.

While the CDP is somewhat commonplace among public safety agencies within our region, many such localities do not fund their CDP at the 5% level – and some are having difficulty continuing to afford the program at all.

The *FY15-16 Annual Budget* as proposed includes continued funding for the City’s CDP, but at a lower compensation level of **three (3%) percent** for qualifying employees. Next year alone, this change will save the City over **\$27,000** – and will provide greater stability and assurance that such funding can continue into the future. In addition, this program change will also help address salary “compression issues” that have been a concern of both departments for some time.

### Courthouse Operation and Maintenance Costs

The new City of Colonial Heights Courthouse opened in late 2013 and has quickly become a local civic landmark that has greatly enhanced court services. The facility has proven to be a one-of-a-kind venture, as it is the single largest building project ever accomplished in the City's history. It is also simply the nicest commercial/government building in Colonial Heights.

Given the uniqueness of this project, the ongoing maintenance and upkeep of this facility is also a work in progress. Not only has the City not had a facility of this size to maintain before, we are also committed to an overall upgrade in courthouse operations and services. As such, we enter the next fiscal year still assessing and defining on-going maintenance costs for this part of the operation.

Overall, the proposed *FY15-16 Annual Budget* includes increased costs of over **\$55,000** associated with courthouse operations. This is not to fund upgrades, but represents a more accurate reflection of costs associated with operating the facility as it exists today.

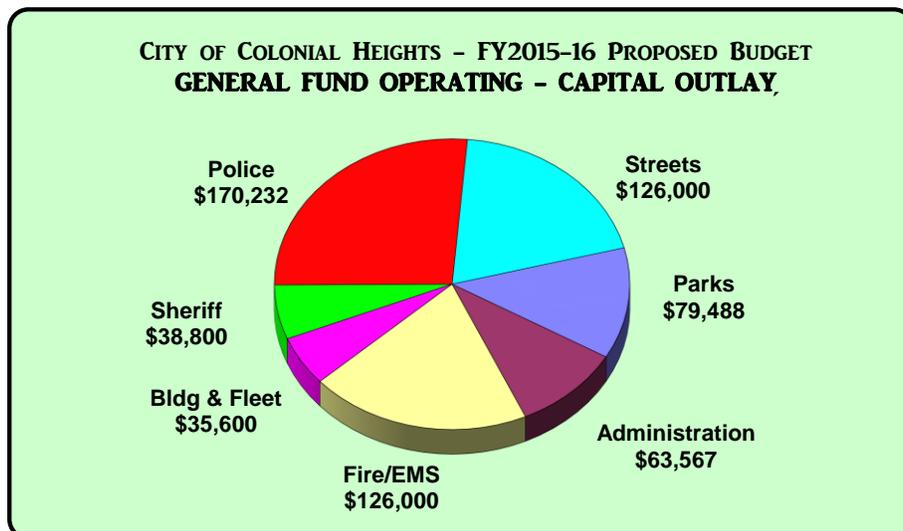
### Utility Increase/Capital Charge

The City has also encountered difficulty in recent years in securing the necessary financial resources to properly address capital improvements needs with its water distribution and wastewater collection systems. In addition, due to emergency needs in recent years, the City has significantly depleted its unencumbered cash reserves previously available to address these issues.

To properly address this situation and to financially position the City to preemptively achieve necessary capital improvements in the coming years, the proposed *FY15-16 Annual Budget* recommends the creation of a monthly "Capital Charge" of **\$1.50 per month** – for both water and wastewater customers (a total flat rate increase of \$3.00 per month or \$6.00 per bi-monthly bill). This new charge is projected to create up to \$268,000 per year for water and wastewater capital projects. These funds will remain segregated and will be expended at the exclusive discretion of the City Council; on a project-by-project basis.

### Operations-Capital Outlay

Total capital reinvestment into General Fund Operations for FY15-16 (vehicles, equipment, furniture & fixtures, etc.) is proposed at over **\$640,000**. Combined with the planned investment in street reconstruction and/or resurfacing, the *FY15-16 Annual Budget* as proposed anticipates a total reinvestment in capital assets of total of **\$1.05M** during the coming year.



### **Cuts in Departmental Requests for Funding in FY15-16**

As part of the administration's commitment to keep overall costs as low as possible, continuing 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 \$740,000 from the total amount of funding requested by staff in the proposed *FY15-16 Annual Budget*.

### **Other Miscellaneous Issues**

- **Riverside Regional Jail Costs** – Various issues have come together at this time that warrant an upward adjustment in anticipated costs for incarceration in the coming year - including consistent trends over the past two years and a number of changes in the local judiciary. As such, the proposed *FY15-16 Annual Budget* includes an increase in projected incarceration costs of **\$90,000** over the current year budget.
- **Public Safety Building Roof** – The city building at 100 Highland Avenue that is home to the Colonial Heights Police Department and Fire Department (and also serves as Fire Station No. 1) was originally built in 1957 and is still heavily utilized by city operations. In similar situations, consideration would now be typically given to building a new facility. It is recognized, however, that prioritization of such a project nor the resources to fund same is unlikely in the foreseeable future. So, a focus needs to be given to building upkeep and reinvestment to effectively prolong its useful life. As such, a three-year plan has been proposed to complete much-needed roof repairs that are currently projected to cost a total of \$80,000. The proposed *FY15-16 Annual Budget* includes the first phase of such funding of **\$30,000**.

The coming year should be a very rewarding one for the city of Colonial Heights administration and staff as we continue to provide a high level of services to our residents and taxpayers, achieve the completion of a number of major capital projects, and support the growth and development of local businesses. 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