



CITY OF COLONIAL HEIGHTS

OFFICE OF THE CITY MANAGER

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April 12, 2016

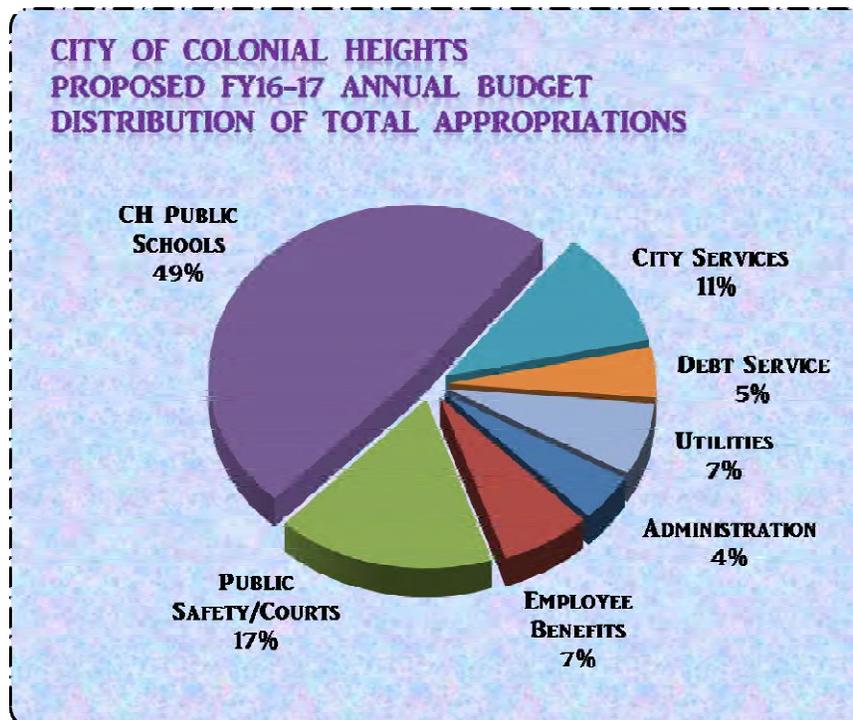
Mayor and City Council
City of Colonial Heights
201 James Avenue
Colonial Heights, Virginia 23834

Re: **FY2016-17 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, 2016 through June 30, 2017, is hereby presented for your consideration.

The grand total of all appropriations for all departments, operations, and functions proposed for the *FY2016-17 Annual Budget* is **\$78,037,047**; to be generally distributed as described below:



The proposed *FY2016-17 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 department heads and includes a comprehensive review of all existing programs, operations, and services.

The proposed budget includes 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. The proposed budget does not include deficit spending and/or utilization of fund balance for operating expenses.

The *FY16-17 Annual Budget* as proposed is delineated into five (5) basic funds:

- **General Fund** – (\$34.6M) revenues and expenditures related to the provision of primary and/or traditional city services whose main financial support comes from tax dollars.
- **School Fund** – (\$37.9M) revenues and expenditures related to operations and services of the Colonial Heights Public Schools.
- **Recreation Fund*** – (\$.15M) 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*** – (\$4.9M) 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.

FY2016-17 ANNUAL BUDGET – BUDGET HIGHLIGHTS AND ISSUES

The City of Colonial Heights has maintained a consistent practice of effectively responding to 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.

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 **two-thirds of total appropriations proposed for next year are devoted to schools and public safety.**

As we look to the future, however, we continue to face unresolved financial issues. While the City has effectively controlled spending on day-to-day operations and steadily grown operational income, unfunded capital needs – for both the City and Colonial Heights Public Schools - continue to increase without a foreseeable solution. These costs are too great to reasonably anticipate funding for same will become available through existing revenue streams. As such, a property tax increase (our most dependable revenues source) seems inevitable if the City is to make a significant step forward in addressing this issue.

GENERAL FUND OPERATING REVENUE

From a broad perspective, the proposed *FY16-17 Annual Budget* projects moderate, overall growth for the General Fund next year. Total General Fund revenue is anticipated to experience a **3.1%** increase in gross receipts over the current-year budget. While the majority of this growth is related to the proposed issuance of debt to fund major capital projects, ‘operating revenues’ are also anticipated to grow by approximately \$800,000; which (under the terms of our agreement) will be essentially shared equally with Colonial Heights Public Schools and will be utilized to fund increased general operation costs.

GENERAL FUND OPERATING REVENUE (CONTINUED)

• REAL ESTATE TAXES

Although the City's annual budget continues to be uniquely supported by our retail business community, Real Estate and/or Property Taxes still provide the basic foundation for revenue in support of the General Fund – similar to nearly all local governments. This stable source of income provides assured funding each year for the most basic and essential city services – public safety, basic services, mobility, asset maintenance, schools, etc.

As it relates to Operations & Maintenance, the proposed FY16-17 Annual Budget is predicated upon a continuation of the current real estate tax rate of \$1.14/\$100 valuation (It is important to note, however, that an increase in the total real estate tax rate is proposed for FY16-17 to fund various capital improvements as discussed later herein).

• 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. 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).



The City has continued to experience moderate, but steady growth in this combined revenue, having averaged an annual increase of 4.7% over the past five years. **Looking forward to FY16-17, a conservative analysis of recent trends warrant an anticipated collective increase in these three categories of nearly 3%; projecting increased gross income of approximately \$450,000.**

CAPITAL IMPROVEMENT FUNDING FOR COLONIAL HEIGHTS PUBLIC SCHOOLS

In recent years, the City Council and administration has encouraged Colonial Heights Public Schools (CHPS) to engage in a comprehensive planning effort to identify and address major capital improvements needs for school buildings and facilities.

As a result, the CHPS Board and administration developed a “Five-Year Capital Improvement Plan” that has been shared with the City; and includes a prioritized list of nine (9) major capital projects representing the most urgent needs – estimated at total cost of \$5.1M. Unfortunately, CHPS has no funding available to address these needs nor do they anticipate that sufficient funding will become available to them in the foreseeable future.

The Capital Improvement Plan projects as determined and prioritized by the CHPS Board are:

(1) HIGH SCHOOL SCIENCE LABS

Cost: **\$121,687***

Project: Renovation of existing science labs, adjacent classrooms, and fitness room into two (2) Science/Biology Labs, with a shared Lab Prep; existing general classrooms to be renovated into six (6) Science Classrooms with dedicated storage

Timing: Anticipated start of construction: May, 2016 Completion: January, 2017

*Total project cost is estimated at \$1,523,600, initially split between City & CHPS Reserve Funds, with the City having already provided \$700,952. The amount listed is to fund costs overruns with the project as now revised.

(2) 800MHZ RADIOS

Cost: **\$250,000**

Project: Upgrade of CHPS communication systems in conjunction with the Capitol Region Radio Project, an upcoming renovation of the City’s radio communication systems. Safety enhancement for CHPS system utilized in all student transportation vehicles & site radios for communication with transportation.

Timing: Anticipated radio acquisition and system upgrade – September, 2016

(3) NORTH ELEMENTARY DRIVE AND PARKING LOT IMPROVEMENTS

Cost: **\$450,450**

Project: Redesign, construction, and expansion of student drop-off/pick-up area and parking lot at North Elementary School to enhance safety and provide greater efficiency in traffic flow.

Timing: Anticipated start of construction: January, 2017 Completion: April, 2017

(4) HIGH SCHOOL LOCKER AND TEAM ROOM RENOVATIONS

Cost: **\$889,285**

Project: Complete renovation and upgrade of Boy’s and Girl’s Locker rooms and associated spaces at CH High School; current facilities are outdated, dysfunctional, and well past useful life.

Timing: Anticipated start of construction: January, 2017 Completion: October, 2017

(5) ROOF REPLACEMENT AT NORTH ELEMENTARY AND MIDDLE SCHOOL

Cost: **\$266,200**

Project: Recoating of exterior roofs at both North Elementary School and CH Middle School prior to current warranty expiration; proactive maintenance will reduce long-term costs, improve energy efficiency, and prevent leaks/damage/loss.

Timing: Anticipated start of construction: April, 2017 Completion: August, 2017

CAPITAL IMPROVEMENT FUNDING FOR CHPS (CONTINUED)

(6) MIDDLE SCHOOL CAFETERIA ADDITION AND RENOVATION

Cost: **\$1,986,150**

Project: Upgrade and expansion of cafeteria at CH Middle School; existing cafeteria is overcrowded, inefficient, and outdated; project will include expansion of dining area and service lines, as well as replacement/upgrade of kitchen equipment.

Timing: Anticipated start of construction: January, 2017 Completion: January, 2018

(7) HIGH SCHOOL BLEACHERS

Cost: **\$210,000**

Project: Upgrade and modernization of CH High School Gymnasium bleachers; project will replace bleachers and motorized equipment that is over 30 years old; will improve aesthetics and seating comfort.

Timing: Anticipated start of construction: January, 2017 Completion: August, 2017

(8) MIDDLE SCHOOL AUDITORIUM RENOVATION

Cost: **\$585,000**

Project: Complete renovation and upgrade of CH Middle School Auditorium; includes replacement of outdated seating, ceiling, lighting, stage lighting, and window curtains; upgrade in sound system and installation of wall panels.

Timing: Anticipated start of construction: January, 2017 Completion: January, 2018

(9) LAKEVIEW ELEMENTARY WINDOWS

Cost: **\$307,250**

Project: Design, acquisition, and installation of ninety (90) exterior windows at Lakeview Elementary School; upgrade will enhance overall building appearance, reduce maintenance, and improve energy efficiency.

Timing: Anticipated start of construction: January, 2017 Completion: September, 2017

Nearly all of the proposed projects and/or improvements are focused on extending the useful life of CHPS' largest fixed assets through a long-term investment in school facilities and buildings. Without the proposed enhancements, maintenance costs will continue to increase and future replacement costs will likely be higher. Service levels, educational opportunities, and community pride will suffer if these needs continue to go unaddressed.

To appropriately address these overdue capital needs and preserve important CHPS assets, **the proposed FY16-17 Annual Budget is recommended with a \$.06 increase in the real estate tax rate**, specifically to fund these important and necessary capital improvements for Colonial Heights Public Schools. It is currently estimated that this tax increase will provide sufficient annual revenue to service a \$5.1M debt issuance over a 15-year period.

CAPITAL REGION RADIO PROJECT

The City's Emergency Communications Center provides 24-hour service of all emergency and non-emergency Police, Fire, EMS calls, as well as 9-1-1 and other city services. Our operation is also part of the Capital Region Radio Communications Network that consists of an integrated 800 MHz Public Safety trunked radio system utilized by Henrico County, the City of Richmond, Chesterfield County, and the City of Colonial Heights. Henrico, Chesterfield, and the City of Richmond each maintain distinct radio subsystems that are networked to a common network control site.

CAPITAL REGION RADIO PROJECT (CONTINUED)

Each of the four primary users of network rely on seamless roaming for public safety operations and the backup radio dispatch capabilities provided by the networked 911 Centers. Henrico County transitioned to the 800 MHz system in 1999, Chesterfield began using its subsystem in 2001, and Richmond completed its transition to the network later that year. In 2002, Colonial Heights contributed a remote simulcast site and remote dispatch center to the larger Chesterfield County subsystem.

However, Colonial Heights and its network partners now face a major issue in terms of the continued operability of the current radio system platform. Vendor support for many of the network elements and subscriber radios is waning; and, by 2017, the primary system vendor will no longer service the equipment as replacement parts will no longer be manufactured. This obviously creates a major risk to network public safety operations and associated users who rely daily on these mission-critical systems. Since February 2014, Colonial Heights has been working diligently with its Capital Region partners (which now also includes Hanover County and the Capital Region Airport Commission) on a competitive procurement process to modernize and replace the current Capital Region Radio System. The City’s share of the costs for this significant upgrade is currently estimated at \$6M.

The City does not have reserves available to fund this project nor can it be absorbed within the existing annual budget without adversely affecting other services or operations. The **\$.06 increase in the real estate tax rate** as proposed, however, will provide sufficient annual revenue to service the required debt issuance to fund both the CHPS CIP as described above and the Capital Region Radio Project.

TAX INCREASE IMPACT ON HOMEOWNERS

	\$100,000 Valuation	\$144,416* Valuation	\$200,000 Valuation
\$.01 Increase (0.9%)	\$10.00	\$14.44	\$20.00
\$.03 Increase (2.6%)	\$30.00	\$43.32	\$60.00
\$.06 Increase (5.3%)	\$60.00	\$86.65	\$120.00
\$.11 Increase (9.65%)	\$111.00	\$158.86	\$222.00
\$.12 Increase (10.5%)	\$120.00	\$173.30	\$240.00

*Based on 2016 Valuations

Funding the nearly \$12M investment in capital improvements as described above will require a \$.06 increase in the current property tax rate. While the need for increased revenues to address capital needs is inevitable, the City is always most concerned about the impact of any tax increase on residents and homeowners.

As shown, the proposed increase amounts to a 5% increase in the tax rate; and the net cost to the average Colonial Heights homeowner for the proposed increase will be approximately **\$87 per year** – or \$7.22 per month.

ANNUAL STREET MAINTENANCE

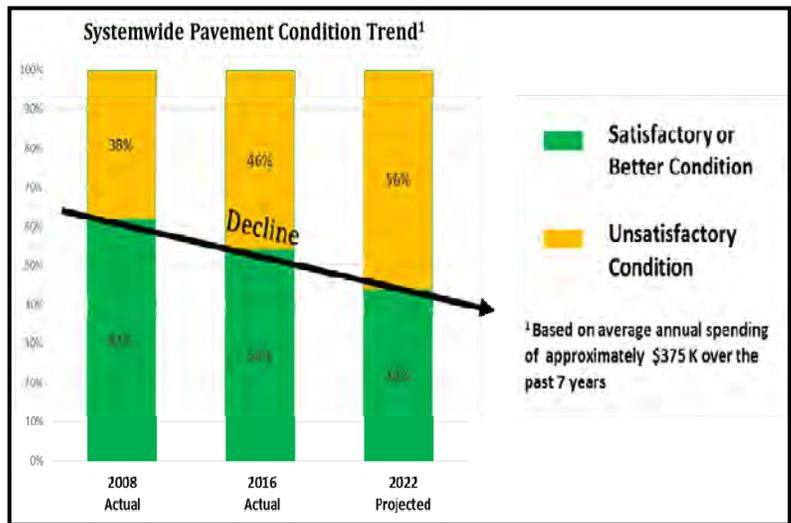
Another challenge the City continues to face is the effective and timely maintenance and resurfacing of city streets. Although major street reconstruction projects have been completed in recent years (and similar projects are slated for the near future), resurfacing of existing streets continues to be plagued by limitations on available resources; and recent analysis by the staff indicates a future adverse trend in this regard unless more aggressive corrective action is taken.

ANNUAL STREET MAINTENANCE (CONTINUED)

City staff deploys a systems approach to managing street pavement assets and it is our goal to complete a pavement survey every three years to collect data on pavement conditions citywide. The last survey was performed in 2011, but was deferred starting until 2014 due to fiscal constraints. Still, the results from that survey aids staff’s analysis and decision-making process in selecting the type and timing of pavement preservation and reconstruction projects.

To summarize the findings, resources made available for pavement preservation have been inadequate to arrest the decline in system-wide conditions. Although it’s a high benchmark, the City Engineer’s conclusion is that annual spending levels would have to average *three times* more than what the city has historically spent to bring the overall condition to “Good.”

This graph illustrates the trend in pavement asset condition, which clearly is one of decline. **If the trend continues, more than half of all city street pavement will be in unsatisfactory condition within a few years and fall below 50% by the year 2022.**



A 50/50 split between *Satisfactory* and *Unsatisfactory* conditions is considered a point of instability in asset management. A system-wide level below 50% requires increased funding, since it’s more expensive to restore the asset to a better condition later in its service life than it is to avert a loss of service life in earlier years – which is why a preventive approach to pavement management is the most cost effective.

To initiate an effort to reverse this trend, the FY16-17 Annual Budget as proposed includes **\$400,000 in additional funding for Street Maintenance and/or Re-paving** – *essentially double the amount traditionally budgeted each year* for this purpose. While completely reversing this trend will require a long-term commitment, this new funding will start the City’s system moving in the right direction.

STAFFING

The proposed budget includes full-year funding in FY16-17 for up to **three hundred sixty (360) total city employees**: two hundred fifty-five (255) full-time positions, fifty-nine (59) part-time positions, and forty-six (46) seasonal positions.

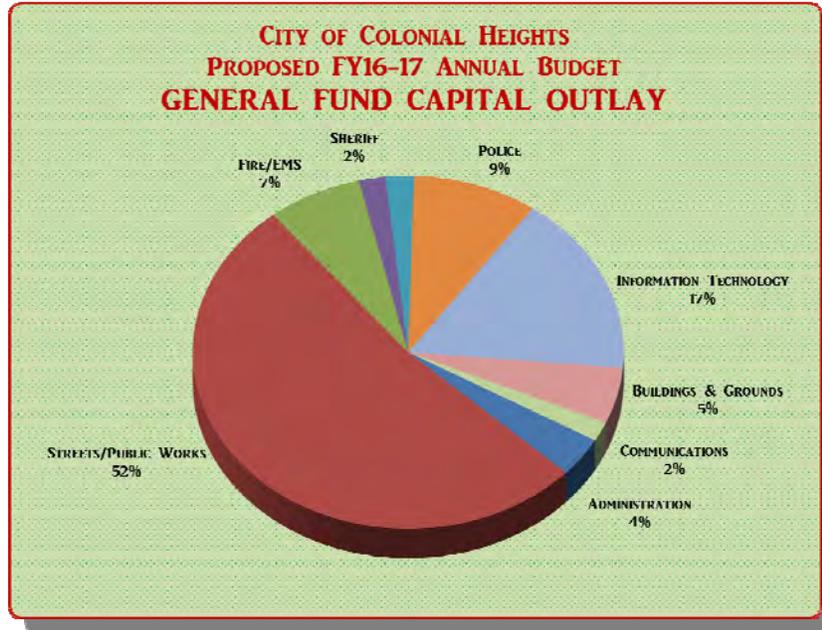
The FY16-17 Annual Budget as proposed does include the increased part-time funding or new part-time positions in the Animal Control, Horticulture, Community Corrections, Code Enforcement, and Fire/EMS departments.

EMPLOYEE COMPENSATION

As one of its Annual Goals for 2016, the City Council reaffirmed its commitment to “*Strive to continue efforts to provide appropriate and market-competitive compensation for all city employees.*” In an effort to attain this goal in a fiscally responsible manner, the proposed *FY16-17 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.

OPERATIONS-CAPITAL OUTLAY

Total capital reinvestment into General Fund Operations for FY16-17 (vehicles, equipment, furniture & fixtures, etc.) is proposed at over **\$1M**. Combined with the increase in street resurfacing, the *FY156-17 Annual Budget* as proposed anticipates a total reinvestment in capital assets of total of **\$1.8M** during the coming year, distributed as follows:



OTHER MISCELLANEOUS ISSUES

- **Finance Department Reorganization** – As a result of the recent amendment to the City Charter, the Finance Department will now manage all functions relating to the collection of city revenues that were previously the responsibility of the City Treasurer. All city funding previously devoted to support the Treasurer’s Office for this purpose will now be reassigned to the Finance Department.

While there will be no net increase in funding associated with this reorganization, a ‘Revenue & Billing Office’ will be created to replace functions eliminated in Treasurer’s Office. In addition, certain job titles, descriptions, and functions will be adjusted to reflect the new management structure.

- **Public Safety Building Roof and Sprinkler System at Fire Station No. 2** – 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. As such, a focus has been given to building upkeep and reinvestment to effectively prolong its useful life. The coming fiscal year will be the second in a three-year plan to complete a much-needed total roof repair/replacement that is currently projected at a total cost of \$80,000.

In addition, staff was notified this past year that the automatic fire suppression/sprinkler system at CHFD Station No. 2 at Dunlap Farms is dysfunctional, obsolete, and must be replaced in the coming twelve months.

As a preliminary cost control measure, the proposed *FY16-17 Annual Budget* includes total funding of **\$65,000** to address these issues. The sprinkler system, will be fixed; and whatever funding remains will be devoted to the Phase 2 effort to replace the roof at the Public Safety Building.

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,

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

Thomas L. Mattis
City Manager