



# CITY OF COLONIAL HEIGHTS

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## Office of the City Manager

March 31, 2009

The Honorable Mayor and Members of City Council  
City Hall  
Colonial Heights, Virginia 23834

Ladies and Gentlemen:

In accordance with Section 6.3 of the City Charter, the Recommended Budget for the fiscal year ending June 30, 2010 is hereby submitted for your review and subsequent deliberation.

### INTRODUCTION

The City Manager's Recommended FY10 Budget totals \$55,064,861 for all Operating Funds. For the first time in many years, the Recommended Budget has less annual revenue than the prior year. Declining national economic conditions have caused the City of Colonial Heights to experience progressively reduced consumer-based revenue for about 18 months. Adjustments have been made to reduce budgeted expenditures in both FY08 and FY09. In addition, declining consumer revenues have also reduced the growth of the Commonwealth and its budget. The General Assembly has passed these revenue reductions on to local governments. We are also seeing an unprecedented level of depreciation in some vehicles that, coupled with limited new car sales, is causing the total value of our personal property tax base to decline. The slowdown of the economy has also reduced real estate transactions and business license taxes. These economic conditions necessitate a reduction in the operating budget and a kind of maintenance mode for municipal operations in FY10.

The City Manager's FY10 Recommended Budget for the General Fund includes a fiscal policy recommendation to use 7% of our undesignated cash reserve to avoid personnel reductions (layoffs) in FY10. That equates to one of the fifteen percent we currently have in reserve. This budget was also developed with targeted operating expenditure cuts of 10% in all departments and offices of the City. Both of these actions result from City Council's direction prior to the formal development of the Recommended Budget. City Council expressed the desire to avoid personnel reductions for at least one year in an effort to "ride-out" the national

recession. With population growth projections resulting from the expansion of Fort Lee and regional industry, we hope improved consumer spending will bring us out of this declining revenue picture during FY11. In the meantime, the Recommended FY10 Budget simply tries to preserve our staffing levels and operations for a year until economic conditions improve. We can afford to use cash reserves to preserve staff and make these expenditure cuts to get through FY10; however, the cuts are not sustainable. If economic conditions decline in a prolonged manner, it will be increasingly difficult to maintain the City workforce and programs at current levels.

In addition to the use of cash reserves to avoid personnel reductions, there is another unusual personnel component in the Recommended FY10 Budget. Once every 10 years, the fiscal year calendar provides for 27 pay dates in a fiscal year, as opposed to our usual 26 dates. FY 2010 is a fiscal year with 27 pay dates. For the past nine years, the City's auditors have been allocating money to a designated reserve on the books to handle this 27<sup>th</sup> payroll when it occurs. The appropriation of \$500,000 in designated payroll accrual reserves is included in this budget. The actual number of working days is not any different from any other year. The calendar simply rotates around based on our bi-weekly pay date to include the additional payroll. While not detrimental to the City's financial standing, it does inflate the FY10 Budget and make it appear as if all full-time employees are receiving a 4% salary increase. That is not the case. This is simply an accounting matter tied to the calendar that we prepare for each year. The actual disbursement of the additional payroll just happens to occur on the FY2010 calendar.

In addition to the targeted 10% operating expense reductions, the FY10 Recommended Budget reduces the purchase of capital equipment by almost 50% for the coming year. We also find ourselves significantly under-budgeted for incarceration expenses and energy in FY09. As a result, corrections and facility management budgets are unable to attain the targeted operating levels. Even with the targeted operating expense reductions and cutting our capital spending in half, we are still unable to afford any compensation increases for our employees. The FY10 Recommended Budget does not contain cost of living or merit increase for any of our employees. In addition, no fringe benefit increases are proposed as well. Fortunately, the City's health insurance coverage does not require any additional contribution for FY10. That helped avoid additional expenses to the City and eliminated the need to increase employee health deductions for those employees with family health insurance coverages.

In the case of the FY10 Budget, both staff and City Council established some goals for the budget preparation process. These goals helped guide us through these recommendations. The FY10 Budget goals were as follows:

1. Reduce departmental operating expenses 10%
2. Avoid personnel reductions (layoffs)
3. Maintain the level of recurring capital outlay
4. Maintain all operations and programming
5. Identify additional cost savings

While staff was able to meet four of the five budget development goals, we were not able to maintain our commitment to capital outlay. In addition, we have slightly reduced some of our part-time personnel budgets which will decrease the hours worked by our part-time employees. We believe we can maintain our service levels with this budget, but we may not be able to address increased requests.

## **GENERAL FUND**

The FY10 Recommended General Fund Budget totals \$48,467,664 which is a .4% increase over FY09. Considering the commentary previously contained in this message, that will surprise most readers. The use of undesignated cash reserves and the 27<sup>th</sup> payroll accrual reserves cause the FY10 Budget to be slightly higher than FY09. These reserves total \$982,638, and they are not new revenue. The actual revenue to be generated in FY10 is \$47,485,026 for the General Fund. In a comparison of budgeted revenues with FY09, the projected revenue for FY10 is actually 1.6% less. The City Manager has frequently spoken of the Big 6 local revenues that have provided for virtually all of the City's growth in the past several years. The actual reduction in all Big 6 revenues is less than 1% for FY10. The reduced projections for personal property and sales tax revenues are somewhat offset by the slight increase in real estate assessments along with continued strong performance in meals tax revenues. This helped avoid the need for additional expense reductions and kept our local school funding approximately the same as FY09. With increased revenue from the Commonwealth and the Federal Government, it looks like the School Division can maintain all of its operations for FY10 as well.

It should be noted that 2010 is a reassessment year in the City of Colonial Heights. This budget includes real estate tax revenues based on a 4% increase in the assessed value of real estate in the City, including new construction. As of right now, this projection seems reasonable. While most of our residents are not likely to believe real estate values have advanced in the City due to national housing conditions, calendar year 2008 and the first two months of 2009 show assessment to sale ratios to support our projection in most areas of the City. While the ratios are moving slightly upward and there are fewer sales, we believe an overall increase in the tax base will occur. Council is reminded that the first payment at the new assessment is included in this budget.

The FY10 General Fund Budget has very few highlights. We cut operating expenses and capital outlay to ensure that only a reasonable amount of our cash reserves were needed to maintain all of our personnel. Virtually nothing new is recommended for FY10. However, we do have a very small bright spot, of sorts. We are recommending the continuation of the Better Beginnings and Kids After School Programs. Both of these were funded through grants in past fiscal years. We have maintained both programs with local funding in FY10. In addition, we have included operational funding for the new Teen Center at the expanded Community Building. Where most of the budget simply attempts to maintain our personnel and operations, we are able to do something more for the youth of our City.

## **SOLID WASTE MANAGEMENT FUND**

Staff realizes that it is City Council's desire to avoid any increased payments by our citizens for City services. Our five-year contract for curbside recycling collection is up for renewal on July 1, 2009. The negotiated rate for this service increases 15% effective at the beginning of FY10. In order to accommodate these increased contractual costs, it is necessary to increase trash rates 5% effective October 1, 2009. This rate increase recommendation affects mostly residential customers who have City solid waste service. Council is aware that less than one-third of our trash customers actually use curbside recycling, but all of our solid waste services are incorporated into one trash charge. Should Council wish to avoid this trash rate increase, two alternatives could exist, but neither is considered acceptable at this point. We could avoid the rate increase by going to bi-weekly curbside recycling or we could further subsidize the Solid Waste Management Fund with General Fund revenues. Past City Councils have not seen bi-weekly recycling as an acceptable service level for the City. It would also be very difficult to cut the General Fund Budget Recommendation by about \$75,000 to provide cash toward a General Fund subsidy to solid waste. The undesirability of these alternatives necessitates the 5% trash rate increase.

The Recommended FY10 Solid Waste Management Budget totals \$1,204,502 which is actually a measurable 6.8% increase. Even though we expect to complete the relocation of our existing Convenience Center operations to the Water and Sewer Division, the FY10 Budget does not include bulky waste dumping services. We believe disposal of bulky waste can be handled for residents by a local business and therefore, we have not restored containerized bulky waste service by the City. Finally, solid waste functions continue to be subsidized by the General Fund. The General Fund has subsidized landfill closure in the past and will continue to do so in FY10. The General Fund provides \$80,000 to the Solid Waste Management Fund for these landfill closure expenses.

## **WATER FUND**

The FY10 Recommended Budget for the Water Fund totals \$1,792,227 which represents only a .6% increase. Last year, City Council increased water rates 10% to provide fiscal stability to the Water Fund. This rate increase recommendation was minimized due to declining economic conditions. As a result, last year's rate increase provided current revenues to support current operations, but it did not measurably improve the long-term fiscal condition of the Water Fund. It is able to operate in FY10 with revenues generated in FY10. We are also able to fund depreciation which will provide for some future capital replacements. It should simply be noted that we increased rates as little as possible in FY09 just to support operations. Therefore, major capital improvements to the water system are not really affordable at this time. When larger scale waterline replacements are needed in the future, we will need to consider increasing rates to pay for them.

## **SEWER FUND**

The Sewer Fund Budget of \$3,015,900 for FY10 actually decreases slightly this coming year. The reason for this decreased spending level ties directly to the reduction in capital outlay proposed for FY10. As Council will recall, the City increased sewer rates 15% for FY09. This rate increase tied directly to increasing capital repairs and pending sewer treatment plant upgrades. However, we now find ourselves needing to repay the South Central Wastewater Authority for inaccurate sewer flow reporting in FY06 and FY07. The increased revenues from the FY09 rate increase will repay this short-term debt to the Sewer Authority over the next two fiscal years. Once that debt is repaid, we will be able to address additional capital repairs in the wastewater collections system. At this point, only \$35,000 of pump station repairs are proposed in the FY10 Budget.

City Council knows of the pending Nutrient Reduction Project at the treatment facilities of the South Central Wastewater Authority. The City of Colonial Heights has effectively delayed this project until 2012. That will give the City time to repay its flow-related debt from FY06 and FY07 and prepare for some increased debt expenditures with the Sewer Authority. Sometime over the next three fiscal years, the City will need to address a sewer rate increase to provide for this new debt at the treatment plant. Until then, sewer personnel will maintain sewer operations with minimal improvement.

## **STORMWATER MANAGEMENT FUND**

City Council created a separate Utility Fund to address mandated stormwater management operations beginning last year. The Stormwater Management Fund budget of \$254,568 is about 25% less than FY09 levels. The current year budget for the Stormwater Management Fund included consulting expenses to study the City's stormwater system to determine an appropriate mechanism for charging our residents and businesses to pay for this new mandated service. We expect that most of those expenses will be incurred with FY09 appropriations, so the FY10 Budget does not contain similar consulting expenses. Council is reminded that stormwater management as a utility operation is totally subsidized by the General Fund. At this point, staff believes a separate stormwater management charge is the appropriate way to support stormwater operations. We expect the coming year to be an interesting one as we explore the impact of stormwater maintenance on the City. Council will be repeatedly advised on the status of this study throughout the coming fiscal year.

## **RECREATION ACTIVITY FUND**

The FY10 Budget for the Recreation Activity Fund of \$240,000 represents an increase over FY09. Council is aware that we operate a separate Fund for recreation activities, namely trips and programs, that pay for themselves. All program revenues for these functions pay for program expenses. The Fund operates at a surplus each fiscal year. The Recreation Activity Fund is simply expected to clear greater program revenues and expenditures when compared to FY09. We think some of our residents who have historically taken trips on their own will use our very affordable recreation program trips as part of their time off or vacation. The operations of the Recreation Activity Fund have no direct effect on the expenses of other City operations.

## CONCLUSION

City Council has exhibited considerable leadership in its willingness to use undesignated cash reserves to maintain our workforce. City department directors have made cuts to operational expenditures to support reduced spending in times of reduced revenues. Unfortunately, staff does not believe that the proposed operating and capital expense levels are sustainable for more than a year or so. In our region, we will hope for the expansion of economic activity as a result of Fort Lee's growth. We will also hope the expansion of regional industry generates new customers to help with our sales, meals and lodging revenues. If such occurs, the recession could be short-lived for the City of Colonial Heights. If the recession is deeper and more prolonged, it could be necessary to reduce services in the future.

While we would all like to do more and accomplish new goals, considering the national economic conditions, keeping what we have is the best we can hope for right now. We are certainly happy that we can designate a small amount of local revenue toward maintaining youth programs previously funded by grants. Even though State revenues are down, we are able to absorb these further losses at this time. We are certainly pleased that we are able to maintain level funding to the School Division and that the Federal Stimulus Package could help the schools maintain their services. Otherwise, the budget recommendation is very uneventful and offers almost nothing new.

As a budget staff, we are honored by the collective teamwork of the senior management staff and Constitutional Officers when it came to meeting City Council's expectation for a 10% operating expense reduction. The department directors and middle management staff really pulled together to make cuts they did not want to make in order to avoid layoffs. Once again the City's Director of Finance, Mr. William E. Johnson, and Deputy Director, Ms. Kathy L. Sparks, have done a fine job putting the details of this recommendation together. We also saw fine performances from Mrs. Jennifer N. Carpenter, the Director of Human Resources, and Mrs. Elke B. Gibbs, Executive Assistant to the City Manager. It was a team effort across the board in the preparation of this maintenance budget recommendation.

We do not expect City Council's budget review to be particularly challenging this year. The budget recommendation has no real highlights or very few controversies. We understand that our residents will not react well to any form of tax or rate increases for the coming year. Therefore, we understand the belief that real estate tax assessments should not be advancing in the coming year. We also understand that folks do not want to pay more for their existing City services. Hopefully the increase to the trash rates can be used in a positive way to increase participation in our curbside recycling program. The management staff remains enthusiastic about its duties and looks forward to discussing its minimal budget request with City Council. We believe our staff efforts will continue to improve living conditions in Colonial Heights considering the national economic conditions.

Sincerely,

Richard A. Anzolut, Jr.  
City Manager