

July 1, 2006

Mayor and Members of City Council
City Hall
Charlottesville, VA 22902

Dear Mayor and Council:

I am pleased to present the Adopted Fiscal Year 2006-2007 City Budget, a total budget of **\$120,145,206**, a **7.51%** increase over the current year's budget. Of this total budget, **\$109,712,324** is supported by City taxes and fees (operating portion) and the remainder, **\$10,432,882**, is funded from dedicated revenue sources, such as school funding for school pupil transportation and building maintenance, City/County Revenue Sharing funds for the Capital Improvement Program and Facilities Repair Fund, and the dedicated portion of Meals Tax revenue (1-cent) to Debt Service.

This budget not only serves as a blueprint for the upcoming year, but also frames the City's future fiscal picture. This budget continues to be presented in a format that details City services and programs in terms of costs, in a manner that is easy to read and understand. City staff has worked hard over the past several years to show full cost allocation, and the addition of the City's new financial system (City Link) has enabled us to do that to the greatest extent in this budget. Actual cost allocations are shown in the individual departmental budgets. And, finally, this budget is a work plan of objectives to be accomplished over the coming year. The purpose of this Manager's Message is to outline and summarize the budget that has been adopted and approved by City Council.

This budget, like ones in the past, offers few surprises: needs for increased City services are far greater than available funds. And, since this community has come to expect a high level of city services, it is becoming increasingly difficult to meet all those needs with the existing revenue structure. This budget in particular illustrates the dilemma that we drew attention to several years ago in our long term financial projections: the City's non property tax base is not growing enough to fulfill service needs and requirements, and that a greater and greater reliance on the real estate property tax to support city programs is needed. And, that is exactly what has happened.

So, once again, the principal fiscal impact that faces this budget is the real estate assessment increases, as required by State law for equitable assessments to the local real estate market. This trend does not seem to be cooling in the near future, so this final budget includes in a **6-cent reduction** in the **real estate tax rate**, from **\$1.05** to **\$.99 per \$100 assessed value**. This is the fourth rate reduction in four fiscal years. This reduction still recognizes that assessments are going up on increasingly valuable properties, which means property taxes will go up depending upon the assessment increase, but the rate reduction helps to offset some of that increase.

At the same time, this budget implements a new tax relief program that targets low to moderate income homeowners, regardless of age. The, **Housing Affordability Tax Relief Program**, with a funding pool of **\$420,000**, will provide a grant in the amount of \$250 on the tax bill of eligible homeowners and relief for a rapidly growing real estate market to those who need it most.

The next portion of this message will outline significant revenue and expenditure issues, including a few enhanced or new services and areas of reductions, including the elimination of **6 FTEs** (full time equivalent positions) from the General Fund.

Revenue Highlights

The following outlines the major revenue trends included in the FY 2007 Adopted Budget.

- Provides for a real property tax rate reduction of 6-cents, from \$1.05 to \$.99, with total net new money for FY 2007 equaling \$3.825 million;
- Increases sales and use tax by \$775,000 due to the City's economic development efforts, which have led to strong performance in the past several years;
- Increases local share of personal property tax by \$886,744 due to a Council approved change in the valuation method, from average-loan to trade-in, and strong projected assessment growth;
- Increases fees and permits charged to developers, generating an additional \$120,000 in revenue;
- Increases Interest Earned by \$400,000 due to improved performance of the City's investments and higher interest rates;
- Decreases Public Service Corporation Tax by \$300,000 due to adjustments made to depreciation methods which have decreased the assessments over the previous year;

Expenditure Highlights

Adopted General Fund Budget Decreases Include:

- Eliminating a total of 6 Full Time Equivalent positions through reorganization, resulting in net savings of \$159,290;
- Reducing Parks and Recreation by \$93,660 as a result of reducing hours and programming at pools and moving cemetery mowing services partially in-house;
- Reducing the Computer Replacement Reserve account by \$21,625 due to the decreasing cost of replacement desktop computers and extended warranties which have allowed us to extend the replacement schedule;
- Reducing the Police Department's salaries budget by \$100,000 to take advantage of attrition savings (vacancies) up front. This department is not losing any positions;
- Budgeting \$300,000 in citywide attrition and vacancy savings that are projected to occur during the year;
- Requiring City departments to identify and carry out operational savings totaling \$154,455 during the fiscal year;
- Reducing the cost of life insurance by \$85,576 due to the rebidding of the City's contract.
- Reducing General Fund contribution to the Capital Improvement Fund by \$525,000.

Adopted General Fund Budget Increases Include:

- Providing the Schools an additional \$1,912,000, for a total contribution to the City Schools of over \$34 million, a 5.96% increase over this current years' contribution;
- Creating the Housing Affordability Tax Relief Program, a new program in this budget, at an initial cost of \$420,000, which will provide tax relief to eligible homeowners, regardless of age;
- Supporting a good work environment for our employees, and for attracting future employees, who in the end provide the quality City services to our residents through a 4% salary increase;

- Funding the full actuarial requirements of the retirement fund (increase of \$947,607) and funding a 10% increase in health care costs (increase of \$231,295);
- Increasing funding to account for the rising cost of utilities, estimated at a 30% to 40% increase, for a total dollar increase of \$569,414;
- Creating a Technology Infrastructure Reserve account, in the amount of \$134,836, in order to save funds for current and future purchase of the backbone systems of the City's information technology structure;
- Fully funding school bus replacement (increase of \$239,602) to be paid entirely by the Schools, and the first year of debt service for replacement of a fire apparatus (\$250,000 in new money);
- Fully funding the requests of the Regional Jail, the Blue Ridge Juvenile Detention Center and the Emergency Communications Center (\$726,577);
- Increasing funding to outside arts, educational and human service agencies in the amount of \$388,364;
- Funding an afternoon refuse pickup on the Downtown Mall (\$28,500) and increasing temporary salaries in the Department of Public Works by \$35,000 to assist with leaf collection in the fall and winter months. The afternoon refuse pickup on the Downtown Mall was piloted this past year and was seen as a service improvement of great value to the community.
- Budgeting for an additional position in Neighborhood Development Services, a Zoning Administrator/Erosion and Soil Administrator, which will be fully funded by the increase in building fees and permit charges to developers. This position is necessary in order to keep up with the pace of development and free neighborhood planners to devote additional time to their neighborhoods (\$73,201).

The City's Adopted Capital Improvement Program for FY 2007 includes:

- Increasing funding for streets and sidewalk paving by \$350,000 as proposed to City Council in the fall;
- Creating several new funding streams for new sidewalks (\$100,000), citywide and neighborhood drainage projects (\$275,000), housing trust fund (\$150,000) and \$1.5 million for major Downtown Mall reconstruction;
- Continuing the commitment to Jefferson School by proposing an additional \$2,000,000 in funding, for a total City commitment of over \$6,000,000 over the past several years.

Looking Ahead

The City's Leadership Team has made a major effort over the past year and through this budget to analyze carefully all city expenditures, and to rethink how to best provide city services. In addition, the City has taken careful attention to fully allocated out the true costs of City services in the various departments, which is contributing to some of the increases being experienced. And, future budgets will include as a major decision making tool the City's Strategic Plan, which is currently being developed.

The FY 2007 Adopted Budget, while it does not meet the complete needs of either our community and taxpayers, or our employees, it continues to reflect the fiscal realities we face. With the rising housing market, this budget attempts to positively impact that trend that has resulted in increases in property taxes, by the reduction in the real estate tax rate, and the proposal for targeted homeowner tax relief that could be of great benefit to many Charlottesville taxpayers. And, I do believe though that this budget will continue our commitment to quality city services that help keep Charlottesville one of the best places to live in America.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary O'Connell". The signature is stylized and cursive, with a large loop at the end.

Gary O'Connell
City Manager

City Council Amendments to the Manager's FY 2007 Proposed Budget

Manager's Recommended FY 07 Revenue Estimates **\$ 121,195,206**

Amendments to FY 07 Revenue Estimates

Decrease Revenues

Decrease Real Estate Tax Rate by 4 cents (Rate = \$.99/\$100 Assessed Value)	(1,680,000)
PPTRA (State Portion)	(41,744)

Increase Revenues

Revised Real Estate Tax Revenue Estimate	420,000
Reinstate Large Item Pickup Fee	50,000
Revised Personal Property Tax (Local Portion) Revenue Estimate	201,744

Total Revenue Amendments **\$ (1,050,000)**

Total Amended FY 07 Revenue Estimates **\$ 120,145,206**

Manager's Recommended FY 07 Expenditures **\$ 121,195,206**

Amendments to FY 07 Expenditures

Decrease Expenditures

Charlottesville Community Center for the Arts	(1,444)
Central Virginia Small Business Development Center	(10,000)
General Fund Contribution to Dept of Social Services	(94,131)
General Fund Contribution to Capital Improvement Program	(300,000)
General Fund Contribution to Debt Service	(200,000)
City Wide Attrition Savings	(300,000)
City Wide Departmental Operational Budget Savings	(154,455)
Fund Balance Target Adjustment	(121,843)
City Contribution to Schools	(88,000)
Council Reserve	(50,000)

Increase Expenditures

Virginia Municipal League Annual Dues	550
Virginia First Cities Annual Dues	1,563
Jefferson Area Board on Aging	31,143
Children, Youth and Family Services	7,555
Piedmont Housing Alliance	24,209
C'Ville Community Design Center	25,000
Reinstate Large Item Pickup Service	179,853

Total Expenditure Amendments **\$ (1,050,000)**

Total Amended FY 07 Expenditures **\$ 120,145,206**

FY 2007 Revenue Changes
(Budget FY 2006 to Budget FY 2007)

Adopted Revenue Increases

Real Estate Tax	6,345,000
Personal Property Tax (local portion)	886,744
Sales and Use Taxes	775,500
Transient Room Tax	87,065
Meals Tax	110,000
Utility Taxes	98,612
Business License Tax	134,338
Building Related Permits and Fees	141,110
State Revenue	577,391
Interest Earned	400,000
City/County Revenue Sharing	392,068
Rent Revenue	178,666
Parks and Recreation Income	80,468
Payment in Lieu of Taxes: Utilities Funds	482,302
Misc. Revenue, Taxes and Fees	235,012
Designated Revenue from Schools: School Pupil Transportation	414,474
Designated Revenue Schools: School Building Maintenance	339,849

<u>Total Increases</u>	11,678,599
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Adopted Revenue Reductions

Real Estate Tax (6-cent tax rate reduction)	(2,520,000)
Public Service Corporation Tax	(300,000)
PPTRA (State portion)	(191,744)
Waste Disposal Fees	(125,000)
E-911 Service Charge	(11,000)
Misc. Intergovernmental Revenue	(133,421)

<u>Total Reductions</u>	(3,281,165)
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<u>Net Revenue Increase</u>	8,397,434
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FY 2007 Expenditure Changes
(Budget FY 2006 to Budget FY 2007)

Adopted Expenditure Reductions

Fire Department - Eliminate 5 Fire Dispatchers	(355,042)
City Manager's Office - Eliminate 1 Project Communications Specialist	(45,613)
Parks and Recreation - Pool Hours and Programming Changes	(58,660)
Parks and Recreation - Cemetery Mowing Contract	(35,000)
Computer Replacement Pool	(21,625)
Contribution to Capital Improvement Program	(525,000)
Life Insurance Contribution	(85,576)
Police Department Attrition Savings	(100,000)
City Wide Attrition Savings	(300,000)
City Wide Departmental Operational Budget Savings	(154,455)
Transfer to Debt Service Fund	(33,500)

Total Reductions	(1,714,471)
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Adopted Expenditure Increases

Fixed Costs Increases

Technology Infrastructure Replacement Pool	134,836
Vehicle Fuel	207,993
Vehicle Maintenance	62,233
Fixed Costs: HVAC Fees, IT User Fees, Risk Insurance, Warehouse Charges	430,786
City Wide Utilities	569,414

Other Increases

City Contribution to Schools	1,912,000
City Council Reserve	10,373
Fund Balance Target Adjustment	78,157
Contributions to Outside Agencies and Organizations	304,293
Contributions to Newly Funded Outside Agencies and Organizations	84,071
Transfer to Department of Social Services, Community Attention and Comprehensive Services Act	483,025
Transfer to Transit (CTS) Fund	264,383
Contributions to Regional Jail, ECC and Juvenile Detention Center	726,577
Landfill Remediation	300,000
Transfer to Facilities Repair Fund	50,000
Other City Departmental Changes	607,296

Salary and Benefits Increases

4% Salary Increase and Associated Benefits	1,590,980
Health Insurance (City Contribution)	231,295
Public Safety Employee Retirement	773,375
General Government Employee Retirement	174,232
Public Safety Overtime and FLSA (legal) Requirements	47,898

New Initiatives

Housing Affordability Tax Grant Program	420,000
Downtown Mall Afternoon Refuse Pickup	28,500
Leaf Collection Service (Additional Temporary Workers)	35,000
Zoning Administrator/Erosion and Soil Administrator	73,201
Fire Department Medical Equipment (Defibrillators) - Grant Match	22,385
School Bus Replacement (100% School Funded)	239,602
Fire Truck Replacement (Transfer to Debt Service Fund)	250,000

Total Increases	10,111,905
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Net Expenditures Increase	8,397,434
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