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City Manager

Staunton Virginia

Office of the City Manager

Birthplace of the Council-Manager Form of Government

March 26, 2020

Dear Mayor and Members of Council:

INTRODUCTION

This is the second version of my budget message to you as a body. In the days since my initial message was finalized and the entire budget package was sent to the printer, it is not hyperbole to say the world has changed. We find ourselves in the midst of the COVID-19 pandemic, which has disrupted us as a community and as individuals in ways we have not experienced in our lifetimes and could not have imagined.

Forecasts and assumptions made by staff in the development of the proposed FY2021 Budget were based on a level of economic activity now certain not to occur, as commerce and trade have quite literally ground to a halt. While we recommend that Council proceed with the consideration of the budget as proposed, there is no doubt that in the coming weeks and months significant modifications—both before and after adoption of the budget—will be required. We anticipate changes to the budget just adopted by the Virginia General Assembly that will have a ripple effect on local governments and school divisions across the Commonwealth of Virginia, including Staunton's. We expect a significant—though not yet quantifiable—decrease in the city's direct revenues, with taxes at variance with those included in the proposed budget. It will all drive the need for adjustments to the city's expenditures, with visible and considerable impacts. Difficult decisions will be required as the full impact begins to unfold.

City staff is prepared to work with Council to address the challenges presented by these historic circumstances. During the budget process, to help you make the best decisions possible, staff will make you aware of the tools and strategies available to the city now and during FY2021 to navigate the crisis in which we find ourselves.

BUDGET SUMMARY

I submit to you, for your consideration, the proposed FY2021 Budget for the City of Staunton for the fiscal year beginning July 1, 2020. As always, it is balanced and provides a spending plan for the next fiscal year, which will end on June 30, 2021.

The total proposed FY2021 Budget is $122,153,526 for all funds, which is an increase of $2.24 million (or 1.86%) over the adopted FY2020 Budget of $119,916,740. About half of the total budget is the General Fund, proposed at $60,947,666, a $1.67 million (or 2.8%) increase over FY2020.

The budget comprises numerous governmental and proprietary funds. Governmental funds include the General Fund, Education Fund, Capital Improvement Fund, Debt Service Fund, and various special revenue funds for grant programs. Proprietary funds include the Water, Sewer, Parking, Stormwater, and Environmental funds.

For FY2021, increased pressures on the expenditure side—specifically driven by a mandated increase in the city's contribution to the Virginia Retirement System and a significant increase in the city's share of the cost of operations of Middle River Regional Jail—combined to create an exceptionally challenging budget environment. In this environment, we find it necessary, simply to maintain existing programs and services with limited funding of new initiatives, to propose an increase in the real estate tax rate from $.95 to $.97 per $100 of assessed value. City departments proposed over $1.9 million in new requests, with all but $86,810 remaining unfunded in this proposed budget, and various strategies were used to balance this budget, as detailed in this letter. Nevertheless, with this budget the city can continue to provide the high level of services expected by the city's residents and businesses, and to promote a quality of life that 89% of the 2019 Citizen Survey respondents characterized as good or excellent.

VISION AND PRIORITIES

On June 13, 2019, City Council adopted a set of 3-year priorities from its *Vision for 2030* that encompasses the following seven distinct subject areas:

- Economic Development
- Education
- Culture
- Inclusiveness
- Resilience
- Responsive, Efficient Government
- Built Environment

The proposed budget works toward the fulfillment of some of Council's priorities.

REVENUES

General Governmental Revenues

Real Estate Taxes

The proposed budget includes an increase in the real estate tax rate from $.95 to $.97 per $100 of assessed value. As noted previously, the increase is necessitated by a mandated increase in the city's contribution to the Virginia Retirement System, a significant (and proportionate) increase in the city's share of the cost of operations of Middle River Regional Jail, and the maintenance of existing programs and services. As of January 1, 2020, $.01 on the real estate tax rate equates to $205,161; consequently, the higher rate will yield $410,322 in additional revenue.

The average assessed value of residential property in the city is $179,260. Foregone Agricultural and Forestal District real estate taxes total $171,606, which is unchanged from FY2020. The city's housing rehabilitation abatement program results in forgone real estate taxes totaling $166,752, or $75,022 more than in FY2020. The total cost of these two programs is $338,358, reflecting the high value the City of Staunton places on the conservation of open space and historic preservation.

Other Local Taxes

In other local tax revenues, increases are projected in personal property taxes, in the amount of $150,000; sales taxes, in the amount of $225,000; transient occupancy taxes, in the amount of $155,000; and meals taxes, in the amount of $150,000.

State Funding

State funding is estimated at 21.4% of the General Fund budget, with a projected increase of $210,244, totaling $12.6 million. The largest categories of state aid are personal property tax relief, health and welfare, and Children's Services Act. Street and highway maintenance, also funded by the state, is expected to decrease $75,344.

Federal Funding

Federal revenue accounts for $1.28 million, or only 2.1%, of the city's General Fund budget and is expected to increase by only $1,466, a net increase resulting from a decrease in grant funding and a significant increase in funding for health and welfare programs commensurate with increased service needs.

Proprietary Fund Revenues

The budget includes recommended fee increases in the Water Fund and Environmental Fund. There are no increases proposed in the Wastewater, Stormwater or Parking funds.

A water rate increase of 5% is proposed to cover the increased cost of operations of, and capital improvements to, the water system infrastructure.

The Environmental Fund includes the cost of collection and disposal of solid waste and recyclables. Refuse and recycling fees are proposed to increase 10% to cover the cost of operations of waste removal, recycling, and landfill and landfill capital costs.

These increases are consistent with plans to which Council agreed during the FY2020 budget process.

EXPENDITURES

Personnel

As with any service-based organization, the largest portion of the city's operating budget is devoted to personnel costs, including compensation and benefits. A stable and proficient workforce is the cornerstone of effective service delivery to the community. Recruitment, development, retention and support of a skilled city workforce—in the face of historically low unemployment—remain a priority in the budget.

Effective January 1, 2021, a 2% pay adjustment is proposed for all full- and part-time employees to help the city remain market competitive as an employer in the Shenandoah Valley. Consistent with action by the Virginia General Assembly, schools' employees will receive a 2% pay adjustment effective as of July 1, 2020.

The city's Virginia Retirement System contribution is proposed to increase $233,000, based on a state-mandated adjustment in the city's contribution rate from 13.59% to 15.28%. Health care rates for the city are proposed to decrease by 11.46%, as the city adjusts rates for a single year to take advantage of recent favorable claims experience. This adjustment results in savings of over $270,000. Employees' contributions to their premiums will remain unchanged.

Two new positions are included in the FY2021 Budget in comparison to the amended FY2020 Budget. The Sheriff's Office adds one additional full-time position to assist with an increase in caseload in the Circuit Court resulting from the assignment of two additional judges to our region. The city will receive $36,036 from the State Compensation Board to partially fund this position.

The Clerk of the Circuit Court transitions a current part-time position into a full-time position to assist with the same increased caseload. The city will be reimbursed for this position through payments received from the state for court-reporting services.

Education

Education remains one of the city's highest priorities and its largest expenditure. The proposed transfer to the Education Fund from the General Fund, totaling $13,934,160, accounts for 22.9% of the General Fund budget, an increase of $84,160. The Staunton School Board has adopted a total school budget of $39,543,556, an increase of 3.2%, or $1,236,006, over FY2020.

Public Safety

Public safety operations are proposed to increase 4.4%, or $528,475. This category includes police, fire, the E-911 center, juvenile detention, Office on Youth, building inspections and animal control. Funded expenditures include vests and vest carriers for the Police Department, and funding for Life Scans medical screenings for the Fire & Rescue Department. The largest portion of the increase, $449,465, is attributable to increased cost of operations at Middle River Regional Jail, including a 2% pay adjustment for jail staff, the addition of four nurses and one transportation driver, and increased costs of health care for inmates.

Health and Welfare

Health and Welfare operations are proposed to increase 4.0%, or $282,475, due to an increase of $231,432 in the city's share (26.65% of total costs) of administrative expenses for Shenandoah Valley Social Services and an increase of $50,000 for costs associated with the Children's Services Act.

Community Development

Community Development, which includes planning and development, Economic Development and Tourism, is proposed to increase by $408,803. The majority of this increase results from payments due from the city to developers pursuant to two economic development incentive programs, one for Frontier Center, in the amount of $348,155, and the other for The Villages at Staunton, in the amount of $125,000. The budget increase from FY2020, a total of $315,655, results from refined estimates of payments under these two programs now that the city has a full year of data for Frontier Center and a more accurate account of these incentives. The proposed budget also includes $13,500 for implementation of the Staunton Crossing Marketing Plan.

City Council Vision for 2030 3-Year Priorities

Economic Development: *Continue to support tourism activities and enhance Staunton's reputation as a tourist destination*

The Tourism budget is proposed to increase by $80,926, the majority of which is due to an increase in the allocation to the department of transient occupancy tax revenues. Those funds, in particular, are utilized to enhance tourism revenues through additional promotion, sales and marketing of the city.

General Government

General Government Administration (including City Council, City Manager, City Attorney, Communications, Finance, audit, Assessor, Information Technology, Registrar, insurance and two constitutional offices) is proposed to increase 0.7%, or $44,230.

City Council Vision for 2030 3-Year Priorities

Responsive, Efficient Government: *Move more transactions to the online environment and simplify and improve the efficiency of City processes*

Staff is moving forward with an initiative that will allow payment of all taxes and fees by credit card. The FY2021 Budget includes a savings of $70,000 that represents a discontinuance of the city's prior practice of absorbing fees associated with credit card transactions. In accordance with best practices, a 2.3% fee will be charged to the payer in addition to the amount paid to the city (except when payment is for utility payments and Parks and Recreation transactions, in which event the city will continue to absorb the fee, as required by credit card issuers).

Built Environment: *Continue to develop a long term financial strategy to ensure that we can meet major needs for public buildings that are not currently in the CIP*

Under the leadership of the Finance Department, the city refinanced and restructured city debt in 2019, saving the city over $1.4 million over a 14.5-year period. This strategy will provide additional flexibility in funding currently unfunded projects in the Capital Improvement Plan.

Public Works

Funding for Public Works and engineering operations is proposed to decrease by $65,990. This net decrease is due to reductions in repair of traffic signals, traffic signal supplies and street lighting, to align with historical expenditures. Additional funding is proposed for bridge inspections and for the purchase of a new truck-mounted attenuator, which will increase the safety of city staff in work zones.

Recreation, Parks and Library

This category will decrease by 0.8%, or $31,579. This net decrease is the result of a reduction in the maintenance of facilities and the purchase of various supplies and chemicals used by Parks and Recreation.

City Council Vision for 2030 3-Year Priorities

Inclusiveness*: Review and modify as necessary all city policies to ensure that they are aligned to achieve inclusiveness, including attention to the diversity of staff and management and salary equity*

In line with a policy statement made by the American Library Association, and the actions of other libraries across the country (the largest being Chicago Public Library), this proposed budget eliminates as a revenue source library fines for overdue materials. This will increase access, create a more equitable lending procedure for library users and relieve feelings of shame and emotional barriers to library usage. The library will enhance its reputation as a center for free access to information and a community hub to pursue lifelong learning and leisure activities. This change will immediately impact over 2,300 city patrons, including 244 juvenile patrons, whose borrowing privileges have been suspended due to non-payment of fines.

Resilience: *Continue to nurture the growing local food economy through strategies such as the Farmers Market, community kitchen, food hub, etc.*

While budget neutral, starting in summer of 2020, the Wednesday summer Farmers Market will be located in Gypsy Hill Park, and will run from the first Wednesday in May through the last Wednesday in September, 7:00 a.m. to noon. It is hoped the move will attract more vendors and clientele to this midweek market that has a strong emphasis on local food and goods.

Capital Improvements

City Council approved the Capital Improvement Plan (CIP) for FY2020 – 2024 on February 13, 2020. Appropriations for the CIP include funds from a FY2020 Budget Amendment and from the FY2021 Budget. So-called "one-time" funds accumulated and designated for capital projects are not a source of funding for operations. Capital projects to be undertaken in FY2021 include:

Funded from FY2020 Budget Amendment, $1,625,000:

- $400,000 Police Department radio equipment replacement
- $500,000 Expansion of the Middle River Regional Jail
- $350,000 Replace roof on Cochran Judicial Center
- $125,000 Staunton Bicycle and Pedestrian Plan
- $150,000 Adaptive traffic control system for downtown corridor
- $100,000 Greenways project

Funded from FY2021 Budget, $941,050:

- $250,000 Fire truck replacement reserve
- $150,000 Ineligible street paving/repairs
- $100,000 Funding source for major repairs to city buildings
- $100,000 Acquisition of major equipment
- $100,000 New sidewalk projects and matching funds for VDOT grants
- $100,000 Replacement project from concrete sidewalks to brick
- $100,000 Matching funds for VDOT Street Construction Projects
- $ 41,050 Annual Share of Blue Ridge Community College Capital Building Fund

City Council Vision for 2030 3-Year Priorities

***Built Environment**: Complete and extend the streetscape plan as funds allow*
The adopted CIP includes funding for the Central Avenue Streetscape Project.

***Culture:** Implement improvements consistent with the adopted Bicycle and Pedestrian Plan as funding becomes available*
The CIP includes $125,000 each year to implement the Bicycle and Pedestrian Plan.

***Culture:** Review and adopt the Greenways Plan*
While the Greenways Plan will be reviewed and considered by the Planning Commission and City Council in 2020, the adopted CIP presently provides $100,000 each year for implementation of the plan, once adopted.

BUDGET CUTS, TRANSFERS, AND THE USE OF RESERVES

Budgets are all about choices. Staunton's budget process begins with the submittal of each department's budget request in December. Departments determine what resources they need to deliver quality services as efficiently as possible. Each department director has to justify the submitted budget request during subsequent budget review discussions. Ultimately, difficult decisions are made to balance the budget, based on an understanding of City Council's priorities, sound financial and management principles, and experience.

Unfunded departmental requests for FY2021 total over $1.9 million (not including the schools' unfunded requests), including $534,000 in personnel costs, and another $1.3 million in operational and capital expenditures. Some of the most critical one-time capital equipment requests that are not funded in the budget will be funded from the CIP reserve. Transfers from other funds to the General Fund are also utilized to balance the budget: $307,478 from the Capital Improvement Fund and $150,000 from the Health Care Fund, for a total of $457,478. The complete list of unfunded requests will be reviewed during one of Council's scheduled budget work sessions.

DEBT

The city's total outstanding debt for governmental and proprietary funds, as of June 30, 2019, is $82,946,289, well within the guidelines of the city's Debt Policy. The city will reduce its total outstanding debt by $5.4 million in FY2021, and is scheduled to retire 46.75% of the debt within the next 10 years, achieving a debt ratio 3.28% less than that required. With the $46 million in new debt that was issued in 2019 for the Staunton High School renovations and additions, the debt payment for schools as a percentage of General Fund debt is 75%, compared to 32% of General Fund debt before the bond issuance for the school.

OUTSIDE AGENCY FUNDING

Most outside agencies are proposed for level funding for FY2021. The following agencies will receive an increase in funding: Virginia Department of Health; Shenandoah Valley Regional Airport Commission; Staunton Victim-Witness Program; Valley Alliance for Education; Community Action Partnership of Staunton, Augusta, and Waynesboro; and Central Shenandoah Planning District Commission. Consistent with the direction of Council during last year's budget process, funding is included for the Beverley Street Studio School, without affecting funding for other arts organizations which receive city grants.

ACCOMPLISHMENTS

Though we are necessarily focused on our new reality, our achievements over the last year give me confidence that our city is resilient and will once again enjoy better days. I am hopeful these achievements will inspire all who love Staunton to devote themselves to her recovery once we have moved beyond the current crisis.

Staunton enjoyed another year of success this past year, thanks to Council's leadership and support of private sector investment. The Richmond Avenue corridor, The Villages at Staunton, and downtown continued to experience economic growth and vitality. In addition to last year's opening of the TRU by Hilton Hotel, Fairfield by Marriott Hotel, and The Blackburn Inn, the city also witnessed the restoration of the historic Beverley Hotel into 28 apartments with a restaurant, construction of the second phase of the Staunton Innovation Hub at the former *News Leader* building, and the renovation of Stuart Hall School's Eastham Building, across from City Hall, as a part of the school's *Staunton is Our Campus* initiative.

Downtown also saw the opening of a number of new restaurants including Blu Point Seafood Co., in the former Mockingbird location, 101 West Bev, and The Green Room. A new food truck court located at 116 Baldwin Street opened with a 4,480-square foot space that accommodates three food trucks. In 2019, the city experienced a significant increase in commercial development. Compared to 2018, the estimated value of commercial construction/renovation, as self-reported by builders, more than doubled from $30.7 million to $63.7 million.

An Economic Development Business Plan for Staunton Crossing, which was approved by City Council, includes conceptual plans, a water and sewer infrastructure analysis, financial analysis and recommendations for future investments to maximize prospect awareness and interest. Business plan recommendations include extension of Crossing Way from Richmond Avenue to Valley Center Drive, utilizing an $8.7 million Virginia Department of Transportation SMART SCALE grant, and the demolition of the former Western State Hospital campus with financial assistance from Virginia Economic Development Partnership, in the form of a $431,200 Brownfields grant to remove and dispose of hazardous materials during the demolition. Once these tasks have been completed, future phases are projected to provide up to 3,000 jobs and local tax revenues of $4 million annually, and to more than provide for the eventual recovery of the city's investment. The Commonwealth of Virginia's commitment of $9.2 million in grants to Staunton Crossing speaks volumes about the state's belief in the city's approach to development of this prime site.

The city accepted the donation of a conservation easement protecting from future development approximately 36 acres on the Richmond Avenue corridor, immediately adjacent to the city's Betsy Bell Mountain Park.

The Finance Department received the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for the FY2020 Budget. In order to receive the award, the budget document must meet GFOA criteria requiring that the document be a policy document, a financial plan, and an operations guide, and serve as a communications device for the public.

The second Staunton Citizen University, a 12-week course on Staunton's government and services, was held last fall and received very positive reviews. A total of 23 participants graduated. The university is also a *Vision for 2030* 3-year priority under the subject area Responsive, Efficient Government.

A citywide citizen survey was conducted in the spring of 2019, to receive input on a variety of topics. Generally, the results were very favorable, with 89% of respondents rating the quality of life in Staunton as Good or Excellent, 83% rating the ease of travel as Good or Excellent, and 52% stating that city taxes were "about right."

Finally, our employees continue to excel in their fields, receiving awards and certifications, and national recognition for the city, and participating fully in their professional organizations.

CLOSING COMMENTS

Budget development is shaped by a number of factors, including City Council's vision and priorities, the city's financial policies, and certain principles of budgeting. Forecasting revenues and expenditures is difficult and requires staff to work with imperfect information. And as current events demonstrate, budgeting more so than ever must be adaptable, in the face of unpredictability.

I want to thank the following individuals for their diligent work in preparing this budget: Phil Trayer, Chief Finance Officer, for navigating a steep learning curve to develop his first budget with the City of Staunton; Assistant City Manager Leslie Beauregard, for bringing her considerable budget expertise to this year's process and working closely with Mr. Trayer; City Attorney Doug Guynn, for providing guidance and advice on the city's tax and budget ordinances; Paralegal Robin Wallace, for assisting with those documents; and Executive Assistant Morgan Smith for proofreading. Thanks also to Commissioner of Revenue Maggie Ragon and Treasurer Rick Johnson for their cooperation as they continue to expertly assess and collect the city's revenues.

In addition, I want to recognize all directors and staff of the various city departments and regional agencies who are committed to our mission to deliver services to Staunton's residents, workers, and visitors in an efficient, effective and equitable manner.

Budget work sessions are scheduled for April 2, April 9, April 16, and April 23, 2020, if needed. Public hearings on the budget and related budget ordinances are scheduled for March 26 and April 9, 2020, and budget adoption is scheduled for April 23, 2020. During Council's deliberations, staff will be prepared to provide assistance and additional information as Council works through the decisions necessary for adoption.

On a final note, this past year the city received a grant to commission a new mural downtown, *You Belong Here*, which is featured on the cover of this budget document. The mural captures the spirit of Staunton and reminds us of our charge as public servants to serve all, who do indeed belong—and are welcome and contribute—here in Staunton, Virginia. With commitment and resolve, we do so in good times and in bad.

Respectfully submitted,

Steven L. Rosenberg
City Manager