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CITY MANAGER

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TO: The Honorable City Council

CORRECTED June 11, 2007¹

FROM: L. Kimball Payne, III, City Manager 

SUBJECT: *Proposed FY 2008 Budget*

DATE: March 6, 2007

Introduction

The *Proposed FY 2008 Budget* for the City of Lynchburg includes the General, Schools, Capital, Airport, Water, Sewer, and Solid Waste Management Funds, as well as other minor funds and totals \$294 million. The proposed budget takes advantage of an increase in General Fund revenues from higher City property values and healthy growth in consumption taxes (sales and meals) to fund several new initiatives and to restore funding to activities cut in previous years. The increased revenue reflects progress in the achievement of two long-standing City goals; to remain a center of commerce in the region and to maintain a growing tax base. Both are essential to producing the revenues necessary to support other City goals related to education, the provision of highly demanded services and the maintenance of city infrastructure.

The anticipated revenue growth provided greater flexibility in developing a reasonable spending plan for operations and the capital program. With the increased revenues, the proposed budget provides reasonable compensation adjustments to maintain market competitiveness, continues to support important activities such as schools and public safety, addresses certain desirable service enhancements, particularly with respect to public safety and communications, responds to mandates in the areas of stormwater management and post-employment benefits, and makes a significant investment in infrastructure.

The enterprise funds also reflect a more stable financial picture than in recent years. The Airport fund will rely less on a subsidy from the General Fund and the Solid Waste Management Fund will utilize established reserves to support major changes in operations. The two Utilities Funds, Water and Sewer, with modest increases in user fees, will be better positioned to address significant infrastructure challenges.

Overall, the *Proposed FY 2008 Budget* makes significant progress in addressing the challenges facing the City of Lynchburg and the expectations of its citizens for quality services.

¹ Portions of the published *Proposed FY 2008 Budget Message* have been corrected to fix errors only; its intent is unchanged. Text containing a line through it signifies an error in the original document; underlined text represents a correction.



Budget Development

In the abstract, budget development is shaped by a number of factors. They include Financial Management Policies, City Council's vision and priorities and certain principles of budgeting.

Financial Management Policies

City Council first adopted Financial Management Policies in 1999 and has amended and reaffirmed them as appropriate, most recently in December 2006. The policies address such areas as adopting a balanced budget, the appropriate fund balance to maintain, restrictions on its use for recurring operating expenses, debt management and the establishment of contingency reserves to address unexpected circumstances. If followed, sound financial management policies should do the following:

- Contribute significantly to the City's ability to insulate itself from fiscal crisis and economic disruption
- Enhance short-term and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible
- Promote long-term financial stability by establishing clear and consistent guidelines
- Direct attention to the total financial picture of the City rather than single issue areas
- Promote the view of linking long-term financial planning with day to day operations
- Provide City Council and the citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines
- Ensure that the organization is sufficiently resourced to perform mandated responsibilities
- Provide a foundation for evaluating financial analysis and condition

The Financial Management Policies are included in the General Budget Information section of the budget document. The proposed budget complies with adopted Financial Management Policies.

City Council's Vision

In November 2006 City Council adopted the following vision statement that will guide its choices for the next two years.

LYNCHBURG CITY COUNCIL VISION

We will work to ensure an environment in which all of the residents of Lynchburg are free to pursue their dreams, hopes, and aspirations through our understanding and commitment to meet the public's needs in the areas of:

Community Character

The character of our City is defined by the values and behaviors of its residents and its natural and built environments. We are a beautiful, safe and comfortable community with hospitable, friendly, and caring citizens who are free to pursue their values of faith and family according to their individual preferences.



Economic Prosperity

Our City will maintain a vibrant, industrious community that will expand economic opportunities for our citizens. We embrace policies that will enhance economic prosperity with the support of a strong Industrial Development Authority, emphasis on education, workforce development, and a continued commitment to business-friendly initiatives.

Good Government

City government will deliver, in an equitable manner, public services through the effective and efficient stewardship of resources.

Multicultural Vibrancy

Lynchburg acknowledges and values its rich cultural, ethnic, racial, and religious diversity while promoting a respectful and cohesive community.

A Compelling Destination

The City is a regional draw for entertainment, shopping and business. Our unique historic heritage and tourism attractions draw a national audience. With its breadth of recreational experiences, centers of interactive living history, and opportunities for educational excellence, our City appeals to all generations.

City Council's vision provides a baseline for City policy development and operational priorities.

Budget Principles

There are a number of operating principles important to the sound fiscal management of an organization that must meet mandated and contractual financial commitments while delivering quality services to the citizens of Lynchburg. Those principles include:

- Fund debt service
- Fund mandated programs
- Maintain a fund balance in accordance with fiscal policy
- Provide appropriate compensation for City employees
- Preserve employee benefits
- Replace essential equipment, especially vehicles and computers
- Maintain existing facilities and infrastructure
- Provide excellent core services
- Provide quality customer service

The *Proposed FY 2008 Budget* addresses each of these principles, with facilities maintenance and infrastructure presenting the greatest challenge.

Budget Preparation

City departments and City Schools started preparing for the FY 2008 Budget in the Fall of 2006. That process consisted of an analysis of current revenues and expenditures compared to the adopted FY 2007 Budget, the gathering of information on significant events that might affect either costs or revenues,



monitoring budgets proposed by the Federal and State governments, and considering the resources required to address identified priorities. During those preliminary preparations, a number of issues that would affect the FY 2008 Budget were identified. They included:

- The biennial reassessment of Real Property was expected to result in an increase in total assessed value of City properties (after new construction) of at least 15%.
- Possible adjustments to HB599 funding from the Commonwealth.
- Uncertainty regarding the impact of the new Communications Sales and Use Tax.
- Anticipated requests for new positions in Public Safety, Social Services, and to support other program initiatives.
- Potential increases in the costs of employee benefits including payments to the Virginia Retirement System and health insurance.
- The desire to continue to implement the Compensation Philosophy through annual increases tied to both market and performance. The cost of a 1% adjustment to total General Fund salaries, with benefits, is approximately \$530,000.
- Other market adjustments to ensure that salaries for certain positions remain market competitive.
- The requirement that localities start to account for and plan the funding of Other Post Employment Benefits (OPEB). Preliminary analysis indicated an annual cost of \$1.3 million to the General Fund.
- A potential increase of 25% for electric costs.
- Significant increases in the cost of incarcerating City prisoners in the Blue Ridge Regional Jail. A possible funding shortfall of nearly \$700,000 was anticipated for FY 2007.
- The need to assume responsibility for the cable television local government channel, including broadcasts of City Council meetings and other programs. In the Fall of 2006 Council approved a plan with an estimated cost of \$250,000.
- Significant costs for the replacement of fleet vehicles including requests for specialized vehicles such as an armored vehicle, a street sweeper, a paint liner, a bucket truck, a ladder truck and an ambulance.
- An anticipated request for increased local funding for Schools to address salaries and capital needs.
- The affordability of additional debt service for major capital projects including a new Juvenile and Domestic Relations Court building, the renovation of Sandusky Middle School, major building repairs and the maintenance of streets and bridges.
- Projects to upgrade the City's Geographic Information and Work Management Systems.
- An increase in funding for the Greater Lynchburg Transit Company (GLTC) due to increased operational costs, implementation of the Transit Development Plan, and continued reductions in transit funding by the Federal and State governments.

Budget Analysis

The *Proposed FY 2008 Budget* was developed using a modified zero-based process. The zero-based process requires each department to prepare a budget request that reflects the actual costs of performing its responsibilities as if it was being done for the first time. Merely proposing incremental additions to a previous year's budget is not acceptable. In a zero-based approach, the fact that a dollar



was spent the year before is not relevant to a request for that same dollar in the new fiscal year. Each dollar must be justified as supporting the functions and operations of the department.

After the submission of departmental budget requests, Budget Office staff conducted a line item review of each budget. In addition, the City Manager met with selected departments to discuss the submissions. During those meetings additional information was provided or requested for later review to further justify proposed spending.

Balancing the General Fund Budget

The initial compilation of anticipated revenues and requested expenditures, without adjustment, resulted in a budget in which expenditures exceeded revenues by approximately \$4 million. The process of balancing the budget required a serious consideration of requirements versus priorities and other wants followed by hard choices and selected adjustments based on the latest information.

The following actions were taken to close the “gap” of \$4 million:

- Revenue estimates were increased by approximately \$1 million, primarily in the areas of Real Property, Sales, Meals, and Lodging Taxes.
- The Schools request for \$3.1 million in additional local funding was cut by \$700,000.
- A number of requested positions were not recommended for approval, reducing costs by approximately \$700,000.
- Certain expenditures were covered with existing resources either in the current year or from reserves (approximately \$500,000).
- Three major departments, Police, Fire and Public Works were asked to find a total of \$225,000 in operational cost reductions other than personnel.
- The proposed subsidy to the Greater Lynchburg Transit Company (GLTC) was cut by approximately \$200,000, which will result in the elimination of Sunday service and will defer certain planned service enhancements.
- Fleet replacements were deferred or shifted to bond funding, reducing costs by approximately \$500,000.
- Funds for the development of a Housing Plan (\$100,000) were not recommended and funding for consultants to assist with a rewrite of the Zoning Ordinance and the review of the Comprehensive Plan were reduced by \$100,000.
- Various other small adjustments were made throughout the General Fund Budget. Many are outlined on individual department budget pages.

The actions noted above and the use of fund balance for one time expenditures as allowed by the City’s financial policies balanced the *Proposed FY 2008 Budget*.

The Budget Document

The budget document provides a complete description of the resources received by the City from all sources and their uses. All of the various funds utilized by the City are shown along with their proposed revenues and expenditures and balances.



For major revenue categories, generating in excess of \$1 million annually, information is provided on the enabling legislation, rate history, the amount of revenue generated and the percent change from year to year. Graphs are included to illustrate revenue history. This information can be found in the summary pages behind the General Fund tab.

Major categories within the General Fund are grouped substantially in accordance with guidance provided by the State Auditor of Public Accounts for comparative cost reporting. The budget document also includes organization charts for each department/division that show which positions are supported by local revenues and which are supported by other means such as federal or state aid or grants. Finally, under each General Fund department is a comparison of the request for FY 2008 to the adopted FY 2007 Budget and a listing of major items requested by the department but not recommended for funding.

Performance Measures

For the third year, the budget document includes performance measures for each department. The measures are meant to demonstrate the City's commitment to results oriented government that promotes the City's mission of providing services in the most efficient, effective and equitable manner possible and improving the quality of life in Lynchburg. Just as overall financial performance is measured against adopted policy goals, program performance can be measured against set objectives.

The City is a member of *The Center for Performance Measurement* of the International City/County Management Association (ICMA) and is a member of a 28 member Virginia consortium of local governments utilizing performance measurement. In addition to providing the opportunity to learn best practices for the use of performance measurement, membership in the consortium provides comparative data to help the City judge its efforts. The City recently received its first compilation of data based on last year's submissions to ICMA. Staff is reviewing the data and intends to brief City Council on the comparisons.

General Fund Revenues

Total General Fund revenues for FY 2008 are projected to be \$152.4 million, representing an increase of \$12.5 million or 8.9% above the *Adopted FY 2007 Budget*. General Fund revenues consist of both Dedicated Revenues (\$26.2 million) and Non-dedicated revenues (\$126.2 million).

Dedicated Revenues

Dedicated revenues are those revenues that are specifically designated by the Federal, State or City government to be used for specific programs and include federal and state categorical aid and grants, interfund transfers, charges for services and reimbursement for indirect costs from enterprise funds. Dedicated revenues in the *Proposed FY 2008 Budget* total \$26.2 million, an increase of approximately \$554,000 over the current year. Projections may have to be adjusted after finalization of the state budget.

Federal Categorical Aid is primarily funding for social services programs and totals \$6.3 million.

State Categorical Aid provides funding for Constitutional Officers, juvenile corrections, highway maintenance, social services programs and supports the public library. Funding is



expected to total \$15.4 million, an increase of approximately \$600,000 million, due to increased State funding for Constitutional Officers (\$190,000) and Social Services programs (\$400,000). Revenue from the E-911 Wireless Tax is anticipated to decrease by \$170,000 due to its elimination as a stand-alone tax by the General Assembly when it established the Communications Sales and Use Tax.

Interfund Transfers of approximately \$46,000 are related to reimbursements for various costs to the General Fund.

Miscellaneous Revenue totals approximately \$2.6 million and is comprised mostly of indirect cost allocations to the Solid Waste, Water, Sewer, Airport and Detention Home funds for services provided by General Fund departments.

Non-Dedicated Revenues

Non-dedicated revenues, or those revenues that can be used at the City's discretion, are projected to increase approximately \$12.0 million or 10.5% from the *Adopted FY 2007 Budget*.

Slightly less than eighty-five percent (84.5%) of non-dedicated revenues and seventy percent (70.0%) of total General Fund revenues are generated by six local taxes, the Real Property Tax (\$47.7 million), the Personal Property Tax (\$19.0 million, including the state reimbursement), the Local Sales Tax (\$15.5 million), the Meals Tax (\$10.3 million), Consumer Utility Taxes (\$6.6 million) and the Business License Tax (\$7.5 million). With the exception of the real property tax, these revenue sources are especially sensitive to economic conditions and they have been performing well recently.

General Property Taxes

Real Property Tax revenues are projected to total \$47.7 million, an increase of approximately \$7.2 million, or about eighteen percent (17.9%) from the FY 2007 adopted budget, not including the allowances mentioned below.

Real Property Tax revenue projections are adjusted for an historically uncollectible percentage of two percent (2%), tax relief for the elderly (\$572,000) and rehabilitation tax credits (\$291,000). For budget discussions, each penny on the Real Property Tax rate will generate approximately \$414,000. This revenue source represents forty-three percent (43.0%) of General Fund non-dedicated revenues.

While there has been some growth in this revenue due to new construction and the rehabilitation of existing structures, the main component of the increase results from the biennial general reassessment of real property. State law requires the periodic reevaluation and adjustment of real property values to reflect current market conditions. Although the City of Lynchburg has not seen the sharp increases experienced in other parts of the state, as a whole the market value of city properties is growing. This is particularly important for older core cities where it is a challenge to maintain property values in certain areas, making it more difficult to produce the revenues necessary to fund a high demand for services. The increase in property values experienced over the last two years reflects progress in meeting a long standing goal of increasing the assessed value of properties in the City. Past actions by City Council, including the creation of historic districts, policies to encourage middle income housing, the approval of



new developments such as Wyndhurst, and the improvement of public infrastructure to support private investment have contributed to this success.

The Assessor's Office is currently completing the biennial reassessment of real property which will take effect on July 1, 2007. Notices to property owners will go out March 7. As this message was being prepared, it was projected that the total assessed value of taxable real property on the City land book will increase, from July 1, 2006 to July 1, 2007, sixteen and one half percent (16.5%) to over four billion dollars (\$4,289,938,100). In addition, the City will have over \$1 Billion in non-taxable property on the land book. Excluding new construction and corrections to assessment records, the total assessed value of taxable property will grow by thirteen and one half percent (13.5%). Adjusting the Real Property Tax rate to produce the same amount of revenue for FY 2008 as during FY 2007 would require a reduction from \$1.11 to \$0.97 per hundred dollars of assessed value (the "equalized tax rate"). Such a reduction, which is not recommended in this budget, would require an adjustment of approximately \$5.8 million to estimated revenues for FY 2008. Council will be required to hold a public hearing on the effective tax increase (from \$0.97 to \$1.11) prior to budget adoption. (**Note:** The increase in assessed value utilized for the proposed budget will be adjusted after the completion of assessment calculations and notice to property owners on March 7.)

Personal Property Tax revenues are projected to increase approximately one percent (1.1%) from the current year. The local share of the Personal Property Tax category totals \$13.5 million with the State reimbursement component totaling \$5.5 million. The State reimbursement for the Personal Property Tax is a fixed amount determined by the \$900 million cap on total reimbursement set by the General Assembly multiplied by the City's share of that total reimbursement in FY 2007. Over time, as the value of personal property assessments grows, the State share of individual personal property tax payments will fall. The percentage of State reimbursement that makes up an individual's Personal Property Tax bill is estimated to fall from 56.87% in FY 2007 to 53.19% in FY 2008. The combination of local and State shares represents about eighteen percent (17.8%) of General Fund non-dedicated revenues in the proposed budget.

Public Service Corporations Tax revenue is projected to decrease by about \$117,000 or six percent (5.5%) from \$2.12 million to \$2.0 million. The value of public service corporation real property in the City is assessed by the State which has determined that the assessed value has actually fallen.

Other Local Taxes

Local Sales Tax revenue is the third largest portion of non-dedicated revenues to the City, representing ~~eleven~~ approximately twelve percent (12.3%) of those funds. Projections indicate an increase of approximately \$2.2 million from the *Adopted FY 2007 Budget*, to \$15.5 million.

Electric and Gas Utility Consumption Tax revenues are projected to remain stable at \$4.5 million in FY 2008. (**Note:** In previous budgets this category was referred to as the "Utility Consumer Tax" and it included taxes for telephone and cellular services in addition to electric and gas. Legislation adopted by the 2006 General Assembly eliminated the taxes on telephone and cellular service and established a broad-based Communications Sales and Use Tax.)

Communications Sales and Use Tax is a new revenue category established by General Assembly action in 2006. It is based on a 5% tax on various telecommunications services. The projected



revenue from this source is \$2.1 million. The commitment from the State was that the Communications Sales and Use Tax would be revenue neutral for localities. Accordingly, no change in total revenues is projected for FY 2008.

Meals Tax revenues continue to grow. The revenue estimate of \$10.3 million represents over eight percent (8.1%) of General Fund non-dedicated revenues. Revenue growth of \$1.1 million, or 11.82%, is projected for FY 2008.

Business License Tax revenues of \$7.5 million reflect an increase of approximately \$450,000 from the current year. This source makes up about six percent (5.9%) of General Fund non-dedicated revenues.

Motor Vehicle License revenues are projected to increase slightly to approximately \$1.7 million.

Amusement Tax revenues are projected to increase slightly from \$339,000 to approximately \$373,000.

Other revenues in this category make up approximately \$5.0 million of the FY 2008 revenue stream. This category includes **Right of Way Fees** (\$300,000), **Cable Franchise License Fees** (\$580,000), **Electricity and Gas Consumption Taxes** (\$350,000), **Bank Stock Taxes** (\$597,000), **Recordation Taxes** (\$638,000), **Tobacco Taxes** (\$1.0 million), and the **Transient Occupancy and Lodging Tax** (\$1.7 million).

Permits, Fees, and Licenses (\$938,000), **Fines and Forfeitures** (\$570,000) are projected to increase slightly in FY 2008 and **Revenue from the Use of Money and Property** (\$1.3 million) is expected to remain stable as increased interest rates offset capital spending that reduces cash for investment.

Charges for Services are projected to be \$2.3 million. The majority of this (\$2.0 million) will be from charges for Ambulance Services.

Non-Categorical State Aid totals \$9.7 million and includes a number of sources. The largest is the state reimbursement for the Personal Property Tax Relief Act (\$5.5 million) which is fixed by State law. House Bill 599 funds are the second largest source of non-categorical state aid. HB 599 funding of \$3.6 million is expected to increase slightly although the final amount will depend on General Assembly action.

Miscellaneous revenues are projected to be approximately \$1.1 million. This includes approximately \$824,000 in lottery proceeds to be used for debt service in support of Schools capital projects that will be used in a debt service reserve. It is expected that the lottery proceeds will be a continuing source of revenue for Schools debt service.

General Fund Expenditures

Proposed General Fund expenditures of \$157.2 million represent an increase of \$8.6 million or 5.7% over the *Adopted FY 2007 Budget*. The difference between \$157.2 million in revenues



expenditures compared to \$152.4 million in revenues is explained by the use of cash reserves, in an amount of \$4.8 million, for one time purposes as allowed by adopted financial policy.

The General Fund finances all government activities with the exception of the Airport, Solid Waste Management, Water, and Sewer utility operations. All major funds contribute to the operations of the Fleet Internal Services Fund. A comparison of each of the General Fund operating departments as a percentage of total General Fund expenditures demonstrates the impact of these service areas on the entire proposed spending plan.

Expenditures as a Percent of Total General Fund Expenditures

Proposed FY 2008

	General Fund Expenditures	Percent of General Fund
General Government	\$12,724,034	8.1%
Judicial Administration	\$4,283,218	2.7%
Public Safety	\$31,023,443	19.7%
Public Works	\$11,086,549	7.1%
Health and Welfare	\$16,656,571	10.6%
Parks Recreation and Cultural	\$5,034,164	3.2%
Community Development	\$7,159,691	4.6%
External Service Providers	\$7,898,172	5.0%
Non-Departmental	\$4,384,057	2.8%
Schools	\$33,113,730	21.1%
Transfers	\$4,344,257	2.8%
Transfer to City Capital	\$4,796,881	3.1%
Reserves	\$1,400,000	0.9%
Debt Service	\$13,291,553	8.5%
TOTAL GENERAL FUND	\$157,196,320	100.0%

General Government includes the Council/Manager Offices, the City Attorney, the City Assessor, the Commissioner of the Revenue, Communications & Marketing, Financial Services, Human Resources, Information Technology, Internal Audit, the Electoral Board, the Registrar and the Treasurer. Judicial Administration includes the Circuit, District and Juvenile and Domestic Relations Courts, the Clerk of the Circuit Court, the Commonwealth’s Attorney, the Magistrates Office, the Sheriff and the Court Services Unit. Public Safety includes the Police Department, the Fire and EMS Department, the Animal Warden, and Emergency Communications. Public Works includes Buildings and Grounds, Snow and Ice Removal and Streets. Health and Welfare includes Social Services and Juvenile Services. Parks, Recreation and Cultural includes Parks and Recreation, the Library, and the Museum system. Community Development includes Planning, Neighborhood Services, Inspections, Engineering, Geographic Information System (GIS), and Economic Development.

External Service Providers (previously referred to as “Contributory Agencies”) are groups that provide services to the City outside of general government activities. Some activities, such as the regional jail, are mandated. The City has contractual relationships with other agencies. Funding of some



organizations is discretionary. Some of the organizations historically funded in this area are non-profits that provide services through volunteers, private donations and grants along with a supplement from the City. The services that they provide are typically not provided by local government but may impact local government services indirectly.

Non-departmental includes those miscellaneous components of the City budget that generally do not fit nicely into an individual departmental budget but are widespread throughout, such as medical and dental costs and a general salary increase if programmed. **Transfers** include payments from the General Fund to other funds as a subsidy or payment for services. The most significant transfer is for City Schools.

Local Contribution to City Schools

Local funding in an amount of \$38.9 million is proposed for school operations (\$33.1 million) and debt service (\$5.8 million). This represents a \$2.4 million, or 7.7%, increase in local funding for school operations from the current year. The funding request from the School Board asked for an additional \$3.1 million in local funding compared to FY 2007.

The budget proposal approved by the School Board included state funding as designated in the Governor's proposed state budget. Separate budgets approved by the Senate and the House of Delegates would both provide additional state funding for Lynchburg City Schools. The final amount of state funding will be known shortly after the conclusion of this year's General Assembly session.

With a projected enrollment of 8,610 students in FY 2008, local per student support for operations will increase 7.3%, from \$3,583 to \$3,846. In the *Proposed FY 2008 Budget* total appropriations for Schools, including all activities and funding sources, totals \$99.0 million.

Significant Expenditure Increases

Significant changes from the current year in the proposed General Fund budget include the following:

- Additional funding for Schools operations (\$2.4 million).
- Funding for new positions (\$1.8 million).
- Funding in an amount of 3% of total payroll for salary increases (\$1.6 million).
- Public Safety salaries market adjustment (\$540,000)
- Additional funding for vehicle replacements (\$1.2 million).
- Increased costs of detention in the Blue Ridge Regional Jail (\$600,000) and juvenile detention center (\$180,000).
- Increased Public Assistance and Social Services programs (\$990,000).
- Increased subsidy to GLTC (\$473,000).
- Increased costs for utilities, supplies and training (\$500,000).



New Initiatives

The proposed budget includes a number of new initiatives. The most significant are:

- Re-establishment of the **Street Crimes Team** in the Police Department: five (5) new positions to enhance enforcement efforts.
- Staffing of a **fifth active medic unit** in the Fire Department: six (6) new positions.
- **Emergency Medical Dispatch** (pre-arrival instructions): six (6) new positions in Emergency Communications.
- A new **Work Management System** to be shared by Public Works and Utilities: includes one (1) new position for technology support.
- **Geographic Information System (GIS)** upgrade to a more universal format (funded by the Technology Fund).
- **Case load reduction** in the Social Services Department: five (5) positions with State funding support.
- **Cable Television Local Government Channel Programming**: two and one-half positions (2.5 FTE) plus equipment.
- **Stormwater Management Program**: one (1) Engineering Program Manager
- **Urban Construction Program**: one (1) Engineering Program Manager
- **Comprehensive Plan Revision and Zoning Ordinance Update**: consultant support.
- **Outreach Detention for the 24th Judicial District**: caseworker with regional funding.
- **Employee Wellness Initiative**: to promote better health with a goal of reducing the costs of health benefits.

Debt Service

The City finances a large component of the Capital Improvement Program (CIP) with general obligation bonds. To provide funding for some of the projects in the FY 2008-2012 CIP a bond sale is planned for the Spring of 2008. Because of the timing of that sale, additional debt service will not accrue in FY 2008 but will need to be budgeted in FY 2009. Although spending on some major debt-financed projects will start in FY 2008 it will be funded by temporary borrowing until permanent financing is put into place. This approach will allow for progress on the new Juvenile and Domestic Relations Court building, renovations to Sandusky Middle School, the Ivy Creek Nature Center, various transportation projects and continued work downtown and on the riverfront. A Reserve for Debt Service is included in the proposed budget to offset the impact of additional debt service in FY 2009.

City Council's Debt Management Policy requires annual debt service expenditures for tax-supported debt to not exceed 10% of total General Fund expenditures plus transfers to the School Operating Fund and Reserve Allocations. FY 2008 debt service as a percent of operating expenditures is projected at nearly nine percent (8.7%).



Reserves

The *Proposed FY 2008 Budget* includes the following reserves:

Reserve for Snow, Streets and Bridges	\$250,000
General Fund Reserve for Contingencies	\$1,200,000
Reserve for Court Facilities	\$102,985
Reserve for Health Insurance	\$495,000
Reserve for Debt Service	\$1,023,938
Other Post Employment Benefits (OPEB) Reserve	\$500,000

The Reserve for Snow, Streets and Bridges serves as a contingency should the costs of snow removal exceed budgeted resources. It is funded by the dedication of General Fund revenues. Unused funds are subsequently transferred to the Capital Fund for pay-as-you-go financing of street and bridge projects.

The General Fund Reserve for Contingencies funds expenditures during the fiscal year that were unanticipated during budget development. Any funds remaining in this reserve at the end of the fiscal year revert to the General Fund Balance. The Financial Management Policies establish a goal of \$1.2 million for this reserve.

The Reserve for Court Facilities is funded through the collection of Criminal Court Fines. The State gives localities authority to collect a small fee for each case to be dedicated to court improvements. These funds will be used for costs related to the Juvenile and Domestic Relations Court capital project.

A Reserve for Health Insurance was funded in FY 2003 and FY 2004 to be used in the event that health insurance claims exceeded budgeted funds. The reserve is being increased by \$300,000 as a result of savings in FY 2006.

A Reserve for Debt Service is established to lessen the impact of new debt issued in Spring 2008 on the FY 2009 Budget. This reserve includes state lottery proceeds allocated to the school system which can be used for debt service for school capital projects.

Rules promulgated by the Governmental Accounting Standards Board require localities to address the costs of Other Post Employment Benefits. The OPEB reserve will be used to begin to address that requirement.

Fund Balance

City Council's Financial Management Policies require an Undesignated Fund Balance equal to 10% of General Fund revenues. In the event that the Undesignated General Fund Balance is used to provide for temporary funding of unforeseen emergency needs, the fund balance shall be restored to 10% within five fiscal years. The proposed budget provides for a 10% fund balance, amounting to \$15 million. It recommends utilizing \$4.7 million in fund balance for pay-as-you-go capital outlay and \$100,000 to partially fund a new wellness program initiative for a total of \$4.8 million.



The *Proposed FY 2008 Budget* complies with the financial management policy of matching ongoing expenditures with annual revenues. Utilizing fund balance to cover recurring costs is inconsistent with the financial management policies and would require actions to either increase revenues or reduce recurring expenditures in subsequent years.

Personnel

As with any service organization, the largest part of the City's operating budget, approximately 61%, is devoted to employee compensation through salaries, wages and benefits. City Council understands the value of competitive employee compensation in recruiting and retaining a qualified, competent and diverse workforce capable of maintaining excellent core services. In furtherance of that goal, in November 2003, City Council adopted a *Compensation Philosophy* that articulates the principles under which the City's compensation plan will be managed. The City continues efforts to promote workforce stability and has experienced acceptable voluntary turnover rates and positive recruiting experience for most vacant positions.

The foundation of the City's compensation plan rests on the goal of attracting and retaining employees that are qualified, competent and representative of the community through pay ranges with minimums and benefits levels that are competitive with the relevant labor market. Using the Compensation Philosophy principles that guide periodic review of the pay plan, the Human Resources Department most recently measured market competitiveness in January 2007. That review indicated that, on average, the current pay range minimums lag the market by approximately five percent (5%) and average actual pay is approximately seven percent (7%) below the market average actual pay. This indicates slight improvement from previous years, from 6% and 10% respectively, as a result of actions to improve market competitiveness. The proposed budget includes \$25,000 to fund pay range and salary adjustments for positions where the annual market survey and internal factors indicated an adjustment to pay range minimum was justified. It also includes \$540,000 to fund public safety salary adjustments to maintain market competitiveness. The budget proposes devoting three percent (3%) of overall payroll (\$1.6 million) for employee pay adjustments effective July 11, 2007. The City will continue with its program of performance based pay implemented on January 1, 2006 and intends to provide increases based on performance rating and individual comparison to the market average for the position. The minimum increase for employees with acceptable or better performance will be two percent (2%) and depending upon the individual factors may be as high as ten percent (10%).

While the City continues to experience rising health costs, primarily due to the increase of specialty health and pharmacy services as well as substantial escalation of re-insurance costs, the rate of increase has slowed somewhat over the past eighteen months. This slowing rate, coupled with higher than actually needed City contributions in FY2007, creates the unusual situation where no increase in the City contribution for employee and retiree medical coverage is needed. No medical plan design changes are anticipated and employees will see dependent coverage rate increases of less than 7%. An increase of \$16,700 is proposed for employee and retiree dental coverage to cover projected cost increases. The enterprise funds will see proportional increases for dental coverage.

Despite some significantly large claims, factors such as the effects of prior year plan design changes and the shift to Medicare Part D for Medicare eligible members resulted in a small surplus of City funds appropriated for health benefits at the end of FY2006. Therefore, the budget proposes a transfer of \$300,000 to the Health Insurance Reserve to continue building a buffer for unexpected costs.



The City has taken many actions over recent years to equitably share the cost of medical and dental benefits with plan members while maintaining single coverage at no cost to its employees. We believe that we have reached the point where further plan changes are not feasible as a mechanism to contain cost escalation. Therefore, we are turning our attention to reducing the costs of poor health through a wellness program promoting good health. The proposed budget includes funds to design and begin implementation of an Employee Wellness Initiative that is expected to utilize an on-site Certified Nurse Practitioner to provide a variety of services such as age specific health screenings, proactive clinical and behavioral intervention, awareness of emerging conditions, more effective health service decisions and lower cost primary care service options.

Forty-four (44) new full-time positions were requested by General Fund departments. The *Proposed FY 2008 Budget* recommends funding for thirty-three (33) new full-time positions as follows:

- Five (5) Police Officer II positions and one (1) Network Administrator in the Police Department.
- Six (6) Firefighters to facilitate staffing of the fifth medic unit and one (1) recruit to replace the Emergency Coordinator position transferred to the Council/Manager Office.
- Five (5) Communications Specialists and one (1) Training Coordinator to establish Emergency Medical Dispatch.
- One (1) Systems Analyst/Programmer III in Information Technology to support GIS and the new Work Management System.
- One (1) Recreation Specialist-Naturalist for Parks & Recreation to support additional hours at the Nature Zone.
- One (1) Housing Program Coordinator in Community Development (grant funded).
- Two (2) Engineering Program Managers for in Community Development for Stormwater Management and the Urban Construction Program.
- Five (5) positions in Social Services to reduce case loads (one Senior Benefits Program Specialist, two Benefits Programs Specialists, and two Social Workers with associated State funding).
- One (1) Juvenile Services Caseworker (regional position).
- One (1) City Cemetery Supervisor in Public Works to assume some duties of the retiring volunteer director.
- One (1) Communications Specialist and one (1) Video Technician in Communications and Marketing to support cable television programming.

In addition, the proposed budget restores funding for four (4) positions eliminated in the FY 2007 Budget. They are an Administrative Associate IV in the Assessor's Office, a Community Services Coordinator in the Police Department, an EMS Billings and Collection Liaison in the Fire Department, and an Economic Development Specialist. Experience has shown that these positions are important to the effective function and service delivery in these departments.

Positions requested but unfunded in the proposed budget include an Assistant to the City Manager, two (2) Cadets and five (5) sworn officers in the Police Department, an Assistant Fire Marshal, an Administrative Associate in Community Development, and a Benefits Program Specialist in Social Services.



The General Fund workforce supported by the *Proposed FY 2008 Budget* would total 1143.63 Full Time Equivalent (FTE) employees, composed of 951.03 full-time classified, 40.66 part-time classified, 22 grant full-time, 66.44 wage and 63.50 state positions. The City's workforce in all funds totals 1421.19 FTE's. This includes 1175.8 full-time classified, 44.91 part-time classified, 59.55 grant full-time, 77.43 wage and 63.5 state positions.

Fleet Services Fund

The Fleet Services Fund is an internal services fund that manages the City's fleet of over 700 vehicles and equipment. The Fleet Services Manager reports to a Board of Directors consisting of representatives from various departments that utilize fleet services. The total operating budget of \$7.0 million for Fleet Services increased approximately thirty-one percent (31%) from FY 2007, primarily as a result of major equipment purchases and projected increases in fuel.

Annually, Fleet Services, in consultation with each department, determines the most efficient fleet replacement program for the next year based on actual miles driven and maintenance costs. A General Fund transfer of approximately \$1.5 million is provided for fleet replacement in FY 2008. This represents an increase of \$548,000 from the *Adopted FY 2007 Budget*. Due to fiscal constraints, an equipment depreciation component has not been factored into the annual charges to departments for fleet replacement.

Capital Fund

The *Proposed FY 2008-2012 Capital Improvements Program* (CIP) includes \$96 million for City capital projects and \$61.7 million for school capital projects. The Planning Commission has reviewed the proposed CIP for compliance with the Comprehensive Plan and has recommended priority projects. Adoption of the CIP is anticipated coincident with adoption of the annual budget. Proposed capital project appropriations total approximately \$61.2 million in FY 2008 for both the City and Schools.

Ideally, a portion of the Capital Improvement Program should be funded each year on a "pay-as-you-go" basis. Beginning in FY 2001, a portion of the fund balance above the targeted ten percent (10%) of General Fund Revenues was allocated to pay-as-you-go capital construction for smaller projects and/or projects that have a life of less than 20 years. The *Proposed FY 2008 Budget* provides \$4.7 million for pay-as-you-go projects.

A list of proposed pay-as-you-go projects is provided on the following page.



FY 2008 Proposed Pay-As-You-Go Capital Projects

Buildings	
Major Building Repairs	\$1,428,303
Total Buildings	\$1,428,303
Transportation	
GLTC Bus Replacement	\$887,187
Culvert Replacement (FY 2007 Appropriation)	316,945
Total Transportation	\$1,204,132
Economic Development	
Cornerstone Development	\$350,000
General Development Support	225,000
Street and Utility Extensions	200,000
Total Economic Development	\$775,000
Parks and Recreation	
City Armory Improvements	\$172,000
Fencing Improvements	84,000
General Park Improvements	56,000
Miller Park Pool House Improvements	322,000
New Trail Development	85,000
Parks Paving and Lighting	66,000
Total Parks and Recreation	\$785,000
Miscellaneous	
Mobile Radio Replacement	\$300,000
Total Miscellaneous	\$300,000
Reserves	
Snow, Street and Bridge Reserve	\$250,000
Total Reserves	\$250,000
TOTAL GENERAL FUND PAY-AS-YOU-GO	\$4,742,435

Airport Fund

The Lynchburg Regional Airport is budgeted as a separate fund to clearly delineate its financial operation and the support from the General Fund. Cost Center revenues and a General Fund subsidy of approximately \$430,000 cover total expenditures of \$2.4 million. FY 2008 operating expenditures are projected to differ insignificantly from the current year. Revenues from airport operations, particularly parking lot revenues, rental car concessions, and fuel flowage fees continue to show modest growth resulting in increasing self-sufficiency. Accordingly, the City's subsidy to the airport is projected to decrease by a little over \$50,000 from the current fiscal year. The completion of the runway extension



project and efforts to attract a third commercial carrier, if successful, should further strengthen the Airport's financial position.

Water Fund

The City's water system can be characterized as having low rates and ample capacity, while being positioned for significant growth opportunities in its customer base. In addition to serving 21,960 City accounts, water is sold by contract to the counties of Amherst, Bedford and Campbell and to several large industrial customers. The Water Fund operates as an enterprise fund and requires no subsidy from the General Fund. In fact, it makes a contribution to the General Fund in the form of an indirect cost allocation.

The FY 2008 utility rate study proposes a 4% increase in the water rate.

Water Fund total revenues are projected to increase by approximately \$900,000, from \$10.5 million to \$11.4 million. Expenditures, including debt service, are projected to increase from \$10.7 million to \$11.7 million. The difference between revenues and expenditures will be covered by the use of fund balance for capital projects. In addition to personnel costs, the Water Fund is impacted by increased costs for energy, materials and supplies and contractual services. The proposed budget includes a new Work Management Specialist position to support the new Work Management System and splits a Utility Line Maintenance Coordinator position with the Sewer Fund.

With the proposed rate increase, the unrestricted cash balance is projected to be forty-three percent (43%) of total fund expenditures for FY 2008 with a debt coverage ratio of 1.31, in compliance with City Council's policy to maintain a fund balance at forty percent (40%) of annual fund expenses and a debt coverage ratio of no less than 1.2.

Sewer Fund

The City's sewer system serves Lynchburg and portions of the surrounding counties. Although operated by the City, the wastewater treatment plant is a regional asset with capital and operating costs shared proportionally by the localities. The City also has contracts with several large industrial users. Like the Water Fund, the Sewer Fund is operated as an enterprise fund and requires no subsidy from the General Fund. It also provides an indirect cost allocation to the General Fund.

The *Proposed FY 2008 Budget* projects revenues of \$17.5 million, compared to expenditures of \$17.4 million, and includes a four percent (4%) rate increase as required by the Department of Environmental Quality (DEQ). The level of rate increase is intended to maintain the fund balance and debt coverage ratio at levels that ensure compliance with a Special Order between the City and the DEQ for the correction of Combined Sewer Overflows (CSO) and to provide for operating and debt service costs. As with the Water Fund, the Sewer Fund is experiencing increased costs for personnel, energy and chemicals. The proposed budget funds one-half of the Utility Line Maintenance Coordinator position shared with the Water Fund.



The special order with DEQ establishes a compliance schedule and project priorities for implementation of the CSO control plan. Although the City has spent over \$110 million on the CSO control program since 1993, the estimated cost to complete the remaining necessary work is over \$300 million. The compliance schedule does not contain fixed dates for implementing the CSO control plan, but rather provides for implementation based on three criteria that reflect the limits of the City's financial capability. These criteria are:

1. The City is required to maintain rates so that the annual sewer bill for the average residential customer, using 7 hundred cubic feet (hcf) a month, equals or exceeds 1.25% of median household income (MHI).
2. The City is required to maintain a sewer operating debt coverage ratio within a range of 1.15 to 1.5.
3. The City is required to have reserve funds equal to no more than 25% of the prior year's budgeted operating expenditures.

With the rate increase recommended by the City's utility rate consultant, the unrestricted cash balance is projected to be 23% of fund expenses for FY 2008, with a debt coverage ratio of 1.38, therefore meeting the criteria defined by DEQ. Based on 2000 Census data, adjusted to July 1, 2006, the annual sewer bill for the average residential customer is estimated to be 1.22% of median household income.

Solid Waste Management Fund

The Solid Waste Management Fund is established as an enterprise fund. The fund assesses solid waste disposal costs through a tipping fee at the landfill, and a decal and tag system for residential collection. Collection costs are covered through a General Fund transfer. In addition, residents are charged a monthly fee of \$4.40, added to utility bills, to pay for certain "common good" services such as litter control, response to illegal dumping, recycling, and bulk and brush collection. The fund is in a strong financial condition as a result of actions taken by City Council in 2003.

FY 2008 revenues are projected to be \$8.1 million against expenses of \$6.4 million. Planned expenditures are in line with previous years. The fund will provide support to the new Work Management System (\$130,000) and to the upgrade of the GIS (\$60,000). One position, an Administrative Associate II, will be eliminated.

In 1999, City Council adopted financial policies that established a debt coverage ratio of no less than 1.2 and fund balance targets of 40% of annual fund expenses for enterprise funds. The *Proposed FY 2008 Budget* will meet the debt coverage ratio target. It is projected that the debt coverage ratio in the Solid Waste Fund will be 3.58. The fund balance is projected to be 140% of fund expenses after adjustment.

The Reserve for Landfill Construction, currently at \$2.2 million will be utilized in FY 2008 to open the last cell in the city's landfill. The reserve was created in order to avoid borrowing for cell construction. As a result, landfill operations will be debt free by the time the useful space in the current location is filled up. This will make the move to a regional landfill operation less expensive for the City.



An additional reserve of \$2.5 million has been dedicated to expenses related to the initiative to regionalize the solid waste disposal operations of selected Region 2000 localities and Nelson County. Again, the goal is to avoid the creation of debt when addressing any capital costs related to the regionalization of area landfills. Plans for the regionalization of solid waste disposal operations continue to advance with full implementation planned by July 1, 2008. Accordingly, it is anticipated that a portion of this reserve will be utilized in FY 2008.

Alternative Budget Proposal with Reduced Real Property Tax Rate

City Council directed that an alternative proposed budget be prepared that provided for a three cent (\$0.03) reduction in the Real Property Tax rate from \$1.11 to \$1.08 per hundred dollars (\$100) of assessed value. Such a rate reduction would require eliminating approximately \$1.242 million in planned expenditures. The following actions could be taken to cover the rate reduction:

- Defer the establishment of Emergency Medical Dispatch (\$295,000).
- Defer placing the fifth medic unit in service (\$270,000).
- Reduce Schools funding (\$250,000).
- Eliminate a portion of the Debt Service Reserve (\$200,000) and defer capital projects.
- Reduce the number of proposed new positions (\$227,000).

Obviously, there are many ways to reduce a \$157 million General Fund Budget by \$1.242 million. If City Council wishes to pursue the suggested reduction in the Real Property Tax rate, discussion should be held on whether the expenditure reductions listed above are appropriate.

Outstanding Issues

There are several outstanding issues that may impact budget deliberations.

- The estimate of taxable assessed value as of July 1, 2007 used to prepare the *Proposed FY 2008 Budget* was a preliminary figure subject to adjustment after final calculations are completed. It is anticipated that the final value will be somewhat higher than that used for budget preparation. Accordingly, the “equalized tax rate” that will be advertised for public comment will be lower than the \$0.97 mentioned in this message. It will be my recommendation that any additional revenue from the higher assessed value be devoted to address capital needs.
- Other revenue projections in the *Proposed FY 2008 Budget* are based on an analysis of actual revenues and trends up to January 1, 2007. Staff will re-examine revenues after April 1, 2007 and suggest appropriate adjustments.
- Legislation adopted by the General Assembly could add additional costs or impact revenues coming to localities. Staff will analyze how the actions of the General Assembly impact the proposed budget as information becomes available.
- Staff has been asked to explore possible alternatives to a reduction in the Real Property Tax rate that would provide relief to certain target groups rather than to all property owners, commercial as well as residential. A suggested target group is homeowners whose household incomes meet certain criteria. While a proposed constitutional amendment would establish a



homestead exemption, enactment of such a provision, if successful, is at least two years away. Staff has become aware of a program in Alexandria that provides grants to qualifying homeowners in the form of a credit against an individual's real property tax payment. Staff is looking into the authority to enact such a program and will share its findings with Council during budget deliberations.

Outlook

The Citizens' Survey conducted in the Spring of 2006 identified five major issues of concern to Lynchburg's residents. They were drugs, crime, taxes, traffic congestion, and aesthetics (specifically rundown buildings, overgrown lots and junk vehicles). Concerns about drugs and crime are addressed in the proposed budget with the recommended hiring of additional police officers to re-establish the Street Crimes Team.

The proposed budget also continues to support code enforcement activities regarding property maintenance. As this budget message was being written, however, the City's ability to address rundown buildings through the housing authority's spot blight program was being threatened by legislation before the General Assembly that would curtail localities' eminent domain authority.

The ability of a locality to address blighted structures and other detriments to neighborhoods are critical to the broader goal of maintaining and even increasing the total assessed value of property in the City. A growing tax base is vital to a city with increasing demands for service and with enormous infrastructure challenges. Because annexation is not an option for Virginia's cities, the total assessed value of Lynchburg's real property can only grow in two ways; by existing property becoming more valuable as measured by the market and through investment by either development or redevelopment. To be successful, the City must find the balance between denser development and the aesthetics and functionality that provide a good quality of life. How this is done is a matter of frequent community debate.

The success of the Wyndhurst development in matching an aesthetically pleasing environment with a boost to the tax base has been noted by many. The Cornerstone development on Greenview Drive was approved by City Council with the hope that it would replicate Wyndhurst's success. Other significant new development is planned for the area of the Route 501 Expressway/Route 221 intersection. The largest will be the Lakeside Centre with over 1 million square feet of new retail space. At buildout the development could generate significant real property, sales and meals tax revenues. Its location will make it convenient to residents of the Forest area, strengthening the City's position as the hub of commerce for the region.

The City expects to see continuing private sector investment downtown and in other inner city locations such as the Fifth Street Corridor and Midtown. The expansion of Centra Health's facilities, the bed tower addition to Lynchburg General Hospital and the new cancer treatment center, should bring more activity to the Medical Arts District of midtown. Downtown, the new fiscal year should see the Bluffwalk Center and City Market Lofts fully operational and adding significantly to the tax base. The Jefferson Street corridor is also seeing considerable private sector interest and plans are progressing for a condominium project in the 1200 block adjacent to Bluffwalk.



Promoting private sector investment in the City requires a corresponding commitment from the public sector. The City will continue with its investment in downtown infrastructure with planned improvements to the Riverside Park and along Jefferson Street. There will also be an initiative to understand downtown parking patterns and to maximize the efficiencies of existing spaces. This is a necessary prerequisite to investing in new parking structures.

Significant capital investment will also be required in other areas of the City to support new development. Implementation of the Fifth Street Plan is an important goal that is delayed by a lack of capital. Midtown development, Cornerstone, and Lakeside Centre all require significant investment in road improvements to facilitate the private investment and address citizen concerns about traffic congestion. With the start of the new fiscal year the City will take responsibility for the urban road construction program that had previously been administered by the Virginia Department of Transportation (VDOT). Around September the City will receive a payment of approximately \$21 million from funds accumulated for the Midtown Connector project. After that the City will be the direct recipient of future urban construction program allocations. Not only is City administration of urban construction projects expected to shorten their schedules but the City will be able to capture interest from investing urban construction funds, providing more resources for road projects.

The maintenance and replacement of City infrastructure, roads, bridges, buildings, water mains and sewer lines is a major challenge. Despite the success of the \$28 million project to renovate E.C. Glass High School, large school renovation projects loom on the horizon; Sandusky Middle School and Heritage High School are estimated to cost \$20 million and \$30 million, respectively. A major project in the new fiscal year will be a new \$15 million Juvenile and Domestic Relations Courthouse. In addition, there are considerable costs associated with maintaining the roads and bridges in the City. Major projects in the capital plan include the rehabilitation of Rivermont Bridge and new asphalt overlay on the expressway. The water and sewer funds face enormous costs, in addition to the Combined Sewer Overflow program, to replace distribution and collection lines that are reaching the ends of their useful lives.

How the City will pay for its infrastructure needs is the single biggest financial challenge facing the City. Keeping up with depreciation would require \$5 to \$10 million a year. While there may be some capacity for additional borrowing in keeping with the City's financial management policies, the real issue is whether or not the necessary debt service can be funded in the annual budget given the operational demands on resources. Setting aside funds in the proposed budget for future debt service payments is a step toward addressing this issue.

Another challenge that will be addressed is stormwater management. Municipalities are facing increasingly strict requirements to manage both the quantity and quality of stormwater runoff into streams and rivers. The City's permit is up for renewal by the Department of Conservation and Recreation in the coming year and additional requirements could be costly in terms of both operational and capital expenses. To address such costs many localities have established Stormwater Utilities with fee structures based on some measure of impervious surface. With already high utility rates in Lynchburg such an approach could be problematic. The proposed budget includes an Engineering Project Manager to grapple with this issue.

Two other unrelated issues will require our attention in the near future. Mention has already been made in this message about the requirement that localities account for the future costs of Other Post



Employment Benefits. While it is not yet clear what the impact of these costs will be on financial ratings and local government operations, the clear trend is toward an expectation that funds will be set aside each year to fund the future liabilities. Many communities have already started taking such action. For Lynchburg the annual cost would be about \$1.3 million in the General Fund for FY 2008 and gradually decreasing over the next thirty (30) years. When faced with many competing demands for funding it is hard to set aside funds that do not directly provide services to the citizens.

The other issue that will be addressed in the upcoming fiscal year is the structure of the City's tourism program. The Tourism Task Force will make its recommendations by July 1, 2007. Regardless of what governance and organizational structure is recommended, it has become clear that expecting more results from the tourism program will require additional resources. While some have called for a regional tourism effort, the chances for more than periodic collaboration in advertising and for special events seem remote.

Regional efforts on a number of other fronts will continue in the new fiscal year. The process of developing a regional water supply plan will commence. This effort could lead to a stronger regional approach to the provision of utilities to Region 2000 localities. As always, the goal would be the efficient and effective delivery of services at the least cost to the public. It makes economic sense to consider a regional approach to delivering important public services when all can benefit. Considerable work has been done to consolidate solid waste disposal operations under a regional authority. In the near future, regional localities will be asked to formally act and create the governing mechanism to implement the plan. The new fiscal year will also see discussions on establishing the regional airport authority enabled by this session of the General Assembly. The goal is to strengthen this economic development asset and ultimately eliminate the City of Lynchburg's subsidy for airport operations.

One issue of concern from the Citizens' Survey remains to be addressed. That issue is taxes. There is a long-standing dichotomy between a community's desire for services and its willingness to pay for them. In essence, the annual budget process attempts to resolve the matter by finding an acceptable balance between the conflicting attitudes. This budget will continue that discussion. The proposed budget attempts to provide quality services to meet citizens' expectations without burdensome taxes. While there are additional resources in the current year due to economic growth, it is clear that there are costly challenges ahead, particularly in terms of capital needs. It is also clear that there are many individuals either in need of or desiring tax relief. It is ironic that the major tax revenue source available to fund local services is precisely the one that places the greatest burden on residents. State law limits a local government's ability to focus relief to specific groups but there is at least one model that may be applicable. Reconciling the relationships between services, infrastructure, costs and who pays and how will remain an important policy decision for City Council and the citizens of Lynchburg.

Conclusion

The *Proposed FY 2008 Budget* is offered for City Council consideration, deliberation, amendment and adoption. Over the next several weeks, Council will have the opportunity to hear from and question the representatives of the various departments and agencies seeking funding in FY 2008. Work sessions will be held on Tuesday afternoons throughout the months of March and April. A public hearing on the proposed budget is scheduled for March 27, 2007, at 7:00 p.m., in Council Chambers.



During Council's deliberations, staff is prepared to provide assistance and additional information as Council works towards budget adoption.

Copies of the *Proposed FY 2008 Budget* are available for public review at the main public library and the downtown branch as well as on the City's website at www.lynchburgva.gov.

Acknowledgements

A number of City staff assisted in the development and production of the *Proposed FY 2008 Budget* and I would like to acknowledge their hard work. Once again Deputy City Manager Bonnie Svrcek and Director of Financial Services Donna Witt provided outstanding leadership for the overall budget process. Michelle White and Cindy Speck in the Budget Office and Director of Human Resources Margaret Schmitt provided valuable analysis, review, and logistical support in the development and production of the budget document. Financial Services staff Barbara Hudson, Amanda Smith, Irina Fuller, Stacey Wilkes and Fred McWane also provided assistance. Assistant Director of Financial Services Rhonda Allbeck and Operations Manager Reid Lanham provided the extra effort needed to perform data integrity and cross-checking of all numbers.

Finally, I want to recognize the directors and staff of the various City departments who are committed to our mission to deliver services to Lynchburg's residents, workers and visitors in an efficient, effective and equitable manner and to build a stronger community. In the end, it is the City employees who put the annual budget into action. Every day, they respond directly or indirectly to the citizens of this community. They are the City government's greatest assets and they do an outstanding job.