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CITY MANAGER

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TO: The Honorable City Council

FROM: L. Kimball Payne, III, City Manager

SUBJECT: *Proposed FY 2009 Budget*

DATE: March 11, 2008

Introduction

The *Proposed FY 2009 Budget* for the City of Lynchburg, which includes the General, Capital, Airport, Water Sewer, and other minor funds as well as component units, minus transfers between funds, totals $375 million. The proposed budget responds to the precarious nature of the national economy and its impact on state and local revenues. Revenue streams, such as sales and meals tax, that have been relied on to provide modest increases from year to year are flat at best. In addition, the City budget, which has already absorbed cuts in state funding in the current fiscal year, will be impacted by further cuts in state funding in FY 2009. While, overall, General Fund revenues show a slight increase, the City budget faces many challenges including significant capital needs with resulting debt service, increasing energy costs, higher costs for employee retirement, and escalating caseloads for mandated services that demand significantly higher local funding.

The poor revenue forecast for the General Fund coupled with significant and unavoidable cost increases made the preparation of the *Proposed FY 2009 Budget* very challenging. The proposed budget can best be described as "maintenance". It includes no increase in the number of City employees, no new programs, minimal pay-as-you-go capital projects, and only a very modest salary adjustment for City employees. In addition, the proposed budget reduces local school funding by a small amount. As a result, it will be increasingly difficult to address the challenges facing the City of Lynchburg and the expectations of its citizens for quality services.

The enterprise funds reflect a more stable financial picture. The Airport fund will rely less on a subsidy from the General Fund. The two Utilities Funds, Water and Sewer, with modest increases in user fees, will be better positioned to address significant infrastructure challenges. The Solid Waste Management Fund will be eliminated as landfill operations move to the Regional Services Authority and it will provide some cash resources to address Public Works needs.

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 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 to help guide its choices for the ensuing 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. During its Fall 2007 retreat Council identified the following priorities for the coming year: Economic Development, Fiscal Accountability, Education, Infrastructure, and Public Safety.

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 2009 Budget* attempts to address each of these principles, however, the poor revenue picture, coupled with unavoidable costs, presents significant challenges for additional personnel, compensation, facilities maintenance and infrastructure. Ultimately, the quality of service delivery could suffer.

Budget Preparation

City departments and City Schools started preparing for the FY 2009 Budget in the Fall of 2007. That process consisted of an analysis of current revenues and expenditures compared to the *Adopted FY 2008 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 2009 Budget were identified. They included:

- The national economic picture with the bursting of the housing bubble, increasing federal deficits, challenges to federal programs that provide state and local funding, and an actual, perceived or imminent recession.
- Reductions in state funding in the current fiscal year that will carry over into FY 2009 in the areas of public safety (HB599), detention, libraries, and the loss of ABC and Wine tax revenues.
- Sales Tax revenues that were not meeting expectations in the FY 2008 Budget with a projection of a shortfall of over $1 million in the current year.
- Sharply climbing caseloads for Foster Care and the Comprehensive Services Act that will likely require $500,000 beyond budgeted expenditures for FY 2008.
- Anticipated requests for new positions in Public Safety, Social Services, and to support other program initiatives.
- Continued increases in the costs of employee benefits including payments to the Virginia Retirement System and health insurance.
- The desire to remain true to the principles of 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 $510,000.
- Other market adjustments to ensure salaries for certain positions remain market competitive. Adjustments made during the fiscal year will need to be fully covered in FY 2009.
- The requirement that localities account for and plan the funding of Other Post Employment Benefits (OPEB). Analysis has indicated an annual cost of $1.3 million to the General Fund if the benefits were to be fully amortized.
- Costs for the replacement of fleet vehicles including requests for specialized vehicles such as two fire pumpers, an ambulance, two sideloaders, a leaf barrel truck, a truck mount leaf vacuum, and a crack sealer.
- An anticipated request for increased local funding for Schools.
- Additional debt service of approximately $800,000 for major capital projects including a new Juvenile and Domestic Relations Court building, a new Sandusky Middle School, major building repairs, and the maintenance of streets and bridges.
- The need for the General Fund to pick up the costs (approximately $840,000) of certain Solid Waste Management activities (recycling, litter control, illegal dumping clean up, brush and bulk, etc.) previously funded by the Common Goods fee, which was eliminated in the FY 2008 Budget.
- Increasing costs for the maintenance of software that supports important City Information Technology (IT) systems.
- An increase in funding for the Greater Lynchburg Transit Company (GLTC) due to increased operational costs, particularly fuel.
- On the positive side, the City's use of the Blue Ridge Regional Jail has trended less than anticipated and a cost savings of as much as $300,000 is projected for the current fiscal year. Accurately projecting the number of City prisoners in the regional jail has proven to be difficult with costs significantly over budget one year (e.g. FY 2007) and significantly under the next due to fluctuations in use.

- Another positive occurrence is that revenue from the Communications Sales and Use Tax has been coming in greater than anticipated from this revised taxing approach.
- In addition, continued modest growth in Real Property Tax revenues due to new construction was expected to offset reduced revenues in other areas.

Budget Analysis

The *Proposed FY 2009 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 clarify or 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 $7 million.

The following actions were taken to close the "gap" of $7 million:

- All new position requests were eliminated for a savings of $1.4 million.
- The Schools request for local funding was cut by $500,000.
- After eliminating requests for new positions and related training and equipment, the Police Department was asked to identify an additional $350,000 in cuts, the Fire Department was asked to identify an additional $220,000 in cuts and the Public Works Department was asked to identify an additional $200,000 in cuts.
- Increased funding requested by the Greater Lynchburg Transit Company to expand service was reduced by $280,000.
- Funds for contractual services in the Community Development Department were reduced by $470,000.
- Approximately $200,000 from the Solid Waste Management Fund Balance will be used to purchase trash collection vehicles, reducing General Fund expenditures by that amount.
- Funding for Other Post Employee Benefits (OPEB) was reduced by $250,000 from the $500,000 funded in FY 2008.
- Remaining OPEB funding of $250,000 will be financed by the Solid Waste Management Fund to cover the retirement benefits of employees transferred to the Regional Services Authority.
- The debt reserve established in the current fiscal year will be utilized to reduce the impact of new debt service on the General Fund by over $800,000.

- Funds in the amount of $200,000 are anticipated to be carried over from the current year's Reserve for Contingencies into the same reserve for FY 2009.
- Anticipated Managed Vacancy savings were increased by approximately $300,000.
- A desired salary adjustment of 4% of payroll was reduced to 2%, saving approximately $1 million.
- Requests from External Services Providers for new or increased funding were eliminated, saving $670,000.
- Various other adjustments were made throughout the General Fund Budget. Many are outlined on individual department budget pages.

The actions noted above and the selective use of fund balance for one-time expenditures as allowed by the City's financial policies balanced the *Proposed FY 2009 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, the percent change from year to year, and a brief analysis of the FY 2009 proposal. 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 2009 to the *Adopted FY 2008 Budget* and a listing of major items requested by the department but not recommended for funding.

One change for FY 2009 is the elimination of the Solid Waste Management Fund as landfill operations will be transferred to the Regional Services Authority on July 1, 2008. The remaining functions of solid waste collection, recycling, litter control, etc. will be accounted for as part of the Public Works budget in the General Fund.

Performance Measures

For the fourth 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 (CPM)* of the International City/County Management Association (ICMA) and is a member of a 24 member consortium of Virginia 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. Data received annually is used to benchmark City performance. Additionally, performance measures are reviewed during budget preparation for appropriateness and relevance. This year a number of measures were revised to increase their relevance in an effort for continuous improvement in performance measurement and reporting. In addition, data from similar departments in other communities participating in the CPM is provided for benchmarking.

General Fund Revenues

Total General Fund revenues for FY 2009 are projected to be $154.7 million, representing an increase of $2.8 million or 1.8% above the *Adopted FY 2008 Budget*. General Fund revenues consist of both Dedicated Revenues ($26.7 million) and Non-dedicated revenues ($128.0 million).

Dedicated Revenues

Dedicated revenues are revenues 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 2009 Budget* total $26.7 million, an increase of approximately $200,000 over the current year. With the expectation of further cuts in state spending, projections may have to be reduced after the finalization of the state budget.

Federal Categorical Aid is primarily funding for social services programs and totals $6.5 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 $16.1 million, an increase of approximately $495,000. Cuts in the Juvenile Correction Block Grant ($8,600) and Financial Assistance to the Public Library ($12,000) were offset by slight increases in Highway Maintenance and Social Services programs funding.
Note: It is anticipated that the City may have to absorb additional state funding cuts of $1.5 million, or more, depending on the final resolution of the state's biennial budget.

Interfund Transfers of $20,000 are related to reimbursements from the Regional Detention Home to the General Fund for workman's compensation.

Miscellaneous Revenue totals approximately $2.1 million and is comprised mostly of indirect cost allocations to the Water, Sewer, Airport and Detention Home funds for services provided by General Fund departments. This category is being reduced approximately $440,000 due to the elimination of the Solid Waste Management Fund and reductions of indirect cost allocations to other funds.

Non-Dedicated Revenues

Non-dedicated revenues, or revenues that can be used at the City's discretion, are projected to increase approximately $2.6 million or 2.0% from the *Adopted FY 2008 Budget*.

Slightly less than eighty-five percent (84.6%) of non-dedicated revenues and more than two-thirds (70.0%) of total General Fund revenues are generated by seven local taxes: the Real Property Tax ($48.2 million), the Personal Property Tax ($19.5 million, including the state reimbursement), the Local Sales Tax ($14.2 million), the Meals Tax ($10.3 million), the Business License Tax ($7.7 million), Consumer Utility Taxes ($4.6 million) and the Communications Sales and Use Tax ($3.8 million). With the exception of modest growth in the Real Property Tax revenue, these revenue sources are projected to show little to no growth and Sales Tax revenue is projected to be less than assumed in the *Adopted FY 2008 Budget*. A significant recession could further erode revenues dependent on gross receipts and consumption.

General Property Taxes

Real Property Tax revenues are projected to total $48.2 million, an increase of approximately $1.7 million, or a little over three and one half percent (3.6%) from the *Adopted FY 2008 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 ($621,550), and rehabilitation tax credits ($413,000). For budget discussions, each penny on the Real Property Tax rate will generate approximately $440,000. This revenue source represents approximately thirty-seven percent (36.9%) of General Fund non-dedicated revenues.

The total assessed value of real property in the City is estimated to be over four and a half billion dollars ($4,570,780,887) as of July 1, 2008. The slight increase of approximately 2.2%, as compared to the revised revenue estimate for FY 2008, results from new construction in the City.

Personal Property Tax revenues are projected to show slight growth (2.6%) from the current year. The local share of the Personal Property Tax category totals $14.0 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 $950 million cap on total reimbursement set by the General Assembly and is based on the amount of taxes collected by the City in 2005 in proportion to the total collected across the state. 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 will fall from 53.40% in Tax Year 2007 to 52.94% for Tax Year 2008. The State Code requires that the state relief percentage be determined with the adoption of the local FY 2009 budget. The combination of the local and state portions of the Personal Property Tax represents about fifteen percent (15.3%) of General Fund non-dedicated revenues in the proposed budget.

Public Service Corporations Tax revenue is projected to decrease by about $250,000 or twelve and a half percent (12.5%) from $2.00 million to $1.75 million. The value of public service corporation real property in the City is assessed by the state, which has determined that the assessed value continues to fall.

Other Local Taxes

Local Sales Tax revenue is the third largest portion of non-dedicated revenues received by the City, representing eleven percent (11.1%) of those funds. In the current year, FY 2008, due to the slow

down in the economy and new commercial activity in the surrounding counties, Sales Tax revenues will not meet projections. Accordingly, the estimate for FY 2009 has been reduced by $1.2 million from the *Adopted FY 2008 Budget* to $14.2 million.

Electric and Gas Utility Consumption Tax revenues are projected to remain stable at $4.6 million in FY 2009. (**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 categorical 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 $3.8 million, an increase of nearly $1 million from the *Adopted FY 2008 Budget*.

Meals Tax revenues continue to grow although at a slower pace than in recent years. The revenue estimate of $10.3 million represents slightly over eight percent (8.1%) of General Fund non-dedicated revenues. Revenue growth of two percent (1.9%) is projected for FY 2009.

Business License Tax revenues of $7.7 million reflect an increase of approximately $200,000 from the current year. This source makes up six percent (6.0%) of General Fund non-dedicated revenues.

Motor Vehicle License revenues are projected to increase slightly to approximately $1.59 million.

Amusement Tax revenues are projected to increase slightly from $373,000 to approximately $408,000.

Other revenues in this category make up approximately $4.5 million of the FY 2009 revenue stream. This category includes **Right of Way Fees** ($271,000), **Electricity and Gas Consumption Taxes** ($361,000), **Bank Stock Taxes** ($597,000), **Recordation Taxes** ($640,000), **Tobacco Taxes** ($1.05 million), and the **Transient Occupancy and Lodging Tax** ($1.6 million).

Permits, Fees, and Licenses ($921,000) and **Fines and Forfeitures** ($570,000) are projected to show no increase in FY 2009 and **Revenue from the Use of Money and Property** ($1.6 million) is expected to be reduced in FY 2009 as interest rates fall and capital funds are spent.

Charges for Services are projected to be $3.3 million. The majority of this ($2.1 million) will be from charges for Ambulance Services. New in FY 2009 is revenue from Residential Disposal Fees (decals and tags, approximately $800,000) that will now be recorded in this category. Previously this revenue was accounted for in the Solid Waste Management Fund.

Non-Categorical State Aid totals $9.5 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, in the amount of $3.5 million, are the second largest source of non-categorical state aid. HB 599 funds have been cut by approximately $185,000 in the current year due to the state's fiscal challenges. This cut will carry over into FY 2009 and could be larger depending on the

final resolution of the state budget. Additionally, the Governor has eliminated ABC and Wine Tax payments to localities in the current year and for the upcoming biennium. This resulted in a loss of $78,000.

Revenue from Lynchburg City Schools and Miscellaneous revenues are projected to be approximately $1.2 million. This includes approximately $675,000 in lottery proceeds (a reduction of nearly $150,000 from the current year) to be used for debt service in support of Schools capital projects. **Note: Lottery proceeds may be further reduced as a result of General Assembly action.**

General Fund Expenditures

Proposed General Fund expenditures of $164.3 million represent an increase of $9.6 million or 4.7% over the *Adopted FY 2008 Budget.* The difference between $164.3 million in expenditures compared to $154.7 million in revenues is explained by the use of cash reserves, in an amount of $9.5 million, for one-time purposes as allowed by adopted financial policy. Excluding the use of cash reserves, there is virtually no change in total General Fund expenditures from FY 2008 to FY 2009.

The General Fund finances all government activities with the exception of the Airport and 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 2009

	General Fund Expenditures	Percent of General Fund
General Government	$13,238,975	8.1%
Judicial Administration	4,500,772	2.7%
Public Safety	32,024,905	19.5%
Public Works	14,060,960	8.6%
Health and Welfare	17,467,488	10.6%
Parks Recreation and Cultural	5,284,712	3.2%
Community Development	6,955,852	4.2%
External Service Providers	6,649,824	4.1%
Non-Departmental	4,753,575	2.9%
Schools	32,442,103	19.8%
Greater Lynchburg Transit Company	1,128,884	0.7%
Transfers	2,655,253	1.6%
Transfer to City Capital	3,410,238	2.1%
Reserves	5,825,535	3.5%
Debt Service	13,852,939	8.4%
TOTAL GENERAL FUND	**$164,252,015**	**100.0%**

General Government includes the Council/Manager Office, 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 Magistrate's 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, Solid Waste Management, 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 Services Providers (referred to as "Contributory Agencies" in budgets prior to FY 2008) 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 they provide are typically not offered 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.

Local Contribution to City Schools

Local funding in an amount of $38.3 million is proposed for school operations ($32.4 million) and debt service ($5.9 million). This represents a reduction from current year funding of approximately $126,000, and is $500,000 less than requested by the School Board.

The budget proposal approved by the School Board includes state funding as designated in the Governor's proposed budget. Separate budgets approved by the Senate and the House of Delegates would both impact 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 8,414 students in FY 2009, local per student support for operations will increase 3.5%, from $3,783 to $3,915. In the *Proposed FY 2009 Budget* total appropriations for Schools, including all activities and funding sources, is $94.7 million.

Significant Expenditure Increases

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

- Funding in an amount of 2% of total payroll for salary increases ($1.02 million).

- Increased funding for services mandated by the Comprehensive Services Act (CSA) ($600,000).
- New debt service of approximately $800,000.
- Increased costs for Property Insurance ($150,000).
- Increased funding for Tourism ($133,000).
- Additional Highway Maintenance Funds ($60,000).
- A shift of Social Services positions from the Federal/State Aid Fund to the General Fund. This action has taken effect in the Amended FY 2008 Budget; and, although there is no net impact on the overall budget, it is reflected as an additional $1.2 million in General Fund expenditures.
- The elimination of the Solid Waste Management Fund results in the shift of positions, landfill disposal fees, and costs for other solid waste management activities to the General Fund. While these actions result in no net cost, the General Fund does have to absorb new costs related to the elimination of the Common Goods Fee in FY 2008 ($840,000).

New Initiatives

The proposed budget includes no new initiatives other than an increase ($133,000) in funding for the Tourism Program.

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 2009-2013 CIP a bond sale is planned for the Spring of 2009. Due to the timing of that sale, additional debt service will not accrue in FY 2009 but will need to be budgeted for in FY 2010. Although spending on some major debt-financed projects will start in FY 2009 it will be funded by temporary borrowing through a Line of Credit until permanent financing is put into place. This approach will allow for progress on the new Juvenile and Domestic Relations Court building, the new Sandusky Middle School, the Ivy Creek Nature Center, various transportation projects, and continued work downtown and on the riverfront. A $1.0 million Reserve for Debt Service is included in the proposed budget to offset the impact of additional debt service in FY 2010.

City Council's Debt Management Policy requires annual debt service expenditures for tax-supported debt not to exceed 10% of total General Fund expenditures plus transfers to the School Operating Fund and Reserve Allocations. FY 2009 debt service as a percent of operating expenditures is projected at just over six percent (6.1%).

Reserves

The *Proposed FY 2009 Budget* includes adding or increasing the following reserves:

Reserve for Snow, Streets and Bridges	$250,000
General Fund Reserve for Contingencies	$1,000,000
Reserve for Community Dialogue Initiatives	$25,000
Reserve for FY 2009 General Assembly Action	$2,030,535

Reserve for Debt Service	$1,000,000
Other Post Employment Benefits (OPEB) Reserve	$250,000
Reserve for FY 2008 Revenue Shortfall	$1,500,000

The Reserve for Snow, Streets, and Bridges serves as a contingency should the costs of snow removal exceed budgeted resources. These funds are transferred from the General Fund to the City Capital Fund; unspent funds are used 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. $200,000 from FY 2008's Reserve for Contingencies is proposed to be carried forward to FY 2009 to achieve the financial management policy goal of $1.2 million for this reserve.

The Reserve for Community Dialogue Initiatives, a new reserve, will help to fund actions resulting from the FY 2008 City-sponsored *Community Dialogue on Race and Racism*.

A Reserve for FY 2009 General Assembly Action has been set up in anticipation of further reductions in state funding that will affect the proposed budget.

A Reserve for Debt Service is established to lessen the impact of new debt issued in Spring 2009 on the FY 2010 Budget.

Rules promulgated by the Governmental Accounting Standards Board require localities to address the costs of Other Post Employment Benefits. The OPEB reserve has been established to address that requirement; however, budget challenges limit the City's ability to fully fund the reserve. Funding for the FY 2009 contribution will come from the Solid Waste Management Fund balance to offset retirement benefits costs of employees that will transfer to the Regional Services Authority.

Finally, due to the slow down in the economy and probable shortfall in FY 2008 revenues, a reserve has been established to handle the deficit.

Fund Balance

City Council's Financial Management Policies require an Undesignated Fund Balance equal to 10% of General Fund revenues. In the event 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 10.9% fund balance, amounting to $16.9 million. It recommends utilizing $3.4 million in fund balance for pay-as-you-go capital outlay.

The *Proposed FY 2009 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 66.5%, 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 who 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 periodically measures market competitiveness and makes recommendations to improve the City's position. The budget proposes devoting two percent (2%) of overall payroll ($1.02 million) for employee pay adjustments. An additional $23,000 has been programmed to provide additional performance based increases to senior employees who have demonstrated exceptional performance. Although the preference is to continue with the performance-based pay system implemented on January 1, 2006, the inability to dedicate more than two percent of payroll to this initiative raises questions about its effectiveness. The Human Resources Department is studying the situation and will have a proposal prior to budget adoption. Ideally, a minimum of three percent (3%) of payroll would be set aside to support a reasonable across-the-board increase plus additional performance-based increases. That, however, would cost an additional $510,000 in FY 2009. An alternative to utilizing two percent (2%) of payroll for adjustments effective in July 2008 would be to delay the salary adjustments until January 2009 and then dedicate four percent (4%) of payroll for adjustments in the second half of the fiscal year. While the FY 2009 cost would be the same as using two percent (2%) in July 2008, additional funds ($1 million) would have to be found for the FY 2010 budget to sustain the increase.

Note: Final balancing of the proposed budget identified a positive balance of approximately $418,000 that could be applied to compensation.

The City continues to do a good job managing health care costs. An increase of less than two percent in City contribution is estimated for FY 2009. An additional 5.2% increase is included for retiree benefits. No medical plan design changes are anticipated and employees will see dependent coverage rate increases of about five percent in October. An increase of approximately $20,000 in City contributions is proposed for employee and retiree dental coverage to cover projected cost increases. The enterprise funds will see proportional increases for medical and dental coverage.

Twenty-one (21) new full-time positions were requested by General Fund departments. None are recommended for funding.

Positions requested but not funded in the proposed budget included five (5) sworn officers in the Police Department, four (4) additional personnel for the Emergency Communications Center (LynCom), six (6) positions in Social Services, three (3) positions in Community Development/Engineering, two (2) positions in Public Works, and one (1) Firefighter.

The proposed budget includes the elimination of four (4) positions: one (1) position in Financial Services (Billings and Collections), one (1) in Public Works (Building Maintenance), one (1) in Juvenile Services, and one (1) in Community Development (to be grant funded). The proposed budget also transfers the Emergency Services Coordinator position from the Council/Manager Office to Emergency Communications (LynCom) and moves a position in Public Works from Streets to Buildings and Grounds. Finally, twenty-five (25.09) positions previously included in the Solid Waste Management Fund are transferred into the General Fund and twenty-one (21) positions in Social Services are transferred from the City/Federal/State Aid Fund to the General Fund.

The General Fund workforce supported by the *Proposed FY 2009 Budget* totals 1,172.11 Full Time Equivalent (FTE) employees, composed of 989.70 full-time classified, 41.33 part-time classified, 5.00 grant full-time, 72.58 wage, and 63.50 state positions. The City's workforce in All Funds totals 1,394.34 FTEs. This includes 1,177.80 full-time classified, 45.58 part-time classified, 26.68 grant full-time, 80.78 wage, and 63.50 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 Director reports to a Board of Directors consisting of representatives from various departments that utilize fleet services. The total operating budget of $6.8 million for Fleet Services decreased approximately three percent (-3.1%) from FY 2008, primarily as a result of fewer major equipment purchases.

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. For the first time, for FY 2009 a vehicle/equipment depreciation component was factored into the annual charges to departments for fleet replacement. In this and subsequent budgets, depreciation charges will be included in the non-departmental budget of the General Fund and in the departmental budgets of the enterprise funds as contributions to the annual replacement costs in the Fleet Services Fund. The General Fund depreciation amount for FY 2009 is $1.6 million while the replacement cost of vehicles/equipment is $1.9 million. An additional $300,000 transfer from the General Fund will be used to fund the full replacement cost.

Capital Fund

The *Proposed FY 2009-2013 Capital Improvement Program* (CIP) includes $94.0 million for City capital projects and $35.1 million for school capital projects. With the addition of the planned capital projects in the Airport, Water and Sewer funds the proposed five year CIP totals $268.5 million. Adoption of the CIP is anticipated coincident with adoption of the annual budget. Proposed capital project appropriations total approximately $32.8 million in FY 2009 for both the City and Schools. Major projects include the new Sandusky Middle School and the Juvenile and Domestic Relations Courthouse. The FY 2009 Capital Budget also includes contributions for major building repairs and roof replacements. Major transportation projects include completion of the Breezewood Drive project, improvements to Greenview Drive, continued planning for the Midtown Connector, Expressway overlay, and repairs to Rivermont Bridge. The capital budget also supports continued investment downtown and

in the Fifth Street corridor. Planning will be undertaken to address two buildings in need of significant work; the Police Department's West Building and Parks and Recreation's Miller Center on Grove Street.

Capital funding will be primarily provided through the issuance of general obligation bonds. The City will also apply for Literary Loan funding to support Sandusky Middle School. Although the City does not plan to issue new long term debt until the Spring of 2009, a Line of Credit will be established to provide interim financing.

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 2009 Budget* provides $3.4 million for pay-as-you-go projects.

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

FY 2009 Proposed Pay-As-You-Go Capital Projects

Buildings	
Major Building Repairs	$1,503,078
Total Buildings	**$1,503,078**
Transportation	
Public Transit Improvements (GLTC)	$380,400
Total Transportation	**$380,400**
Economic Development	
General Development Support	$250,000
Street and Utility Extensions	300,000
Total Economic Development	**$550,000**
Parks and Recreation	
Blackwater Creek Nature Area Master Plan Upgrade	$79,000
General Park Improvements	78,840
New Trail Development	46,440
Parks Paving and Lighting	222,480
Total Parks and Recreation	**$426,760**
Miscellaneous	
Mobile Radio Replacement	$300,000
Total Miscellaneous	**$300,000**
Reserves	
Snow, Streets and Bridges Reserve	$250,000
Total Reserves	**$250,000**
TOTAL GENERAL FUND PAY-AS-YOU-GO	**$3,410,238**

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 $378,000 cover total expenditures of $2.4 million. FY 2009 operating expenditures are not projected to differ significantly from the current year. One currently vacant position will be eliminated. Despite a reduction in scheduled flights, revenues from airport operations, particularly parking lot revenues, rental car concessions, and fuel flowage fees, continue to show modest growth resulting in increased self-sufficiency. Accordingly, the City's subsidy to the airport is projected to decrease about $52,000 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 22,060 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 Water Fund is challenged in several areas including the recruitment and retention of qualified personnel; aging infrastructure, which requires increased maintenance costs and capital expenditures; increasing and costly regulations; and new development. The proposed budget includes additional expenditures to cover mid-year salary adjustments required to maintain market competitiveness, additional chemical costs for treating James River water, and increases for maintenance and repair, safety supplies, automated meter reading equipment, and vehicle depreciation. Decreased costs are anticipated for contractual services and the indirect cost allocation to the General Fund.

The FY 2009 utility rate study proposes a 4% increase in the water rate.

Water Fund total revenues are projected to increase by approximately $700,000, from $11.4 million to $12.1 million. Expenditures, including debt service, are projected to decrease from $12.1 million to $11.4 million. Operating expenses are expected to total $8.1 million, with debt service of $2.8 million. There will also be a transfer of $500,000 from fund balance for pay-as-you-go capital projects.

With the proposed rate increase, the unrestricted cash balance is projected to be thirty-nine percent (39%) of total fund expenditures for FY 2009 with a debt coverage ratio of 1.43, 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.

As with the Water Fund, the Sewer Fund is challenged to recruit and retain qualified personnel, by an aging infrastructure that requires additional maintenance and capital expenditure, increasing regulation, and higher energy and equipment costs. The biggest challenge facing the Sewer Fund, however, is the requirement to eliminate the environmental problems caused by the City's combined sewer/stormwater system. This effort requires significant capital expenditure, with resulting debt service, and places a heavy burden on City utility users. The proposed budget includes additional expenditures to cover mid-year salary adjustments required to maintain market competitiveness and funds a supervisory/working custodial position at the wastewater treatment plant.

The *Proposed FY 2009 Budget* projects revenues of $18.8 million, compared to expenditures of $17.6 million ($8.8 million for operations, $6.8 million for debt service, and a $2.0 million transfer to capital for pay-as-you-go funding), and includes a four percent (4%) rate increase as required by the Department of Environmental Quality (DEQ). That magnitude 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.

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 $116 million on the CSO control program since 1993, the estimated cost to complete the remaining necessary work is over $312 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 33% of fund expenses for FY 2009, with a debt coverage ratio of 1.49. Based on 2000 Census data, adjusted to July 1, 2008, the annual sewer bill for the average residential customer is estimated to be at or above1.25% of median household income.

Solid Waste Management Fund

The Solid Waste Management Fund, previously operated as an enterprise fund, is being eliminated in FY 2009. Landfill operations will be taken over by a Regional Services Authority operating under the umbrella of the Region 2000 Partnership. As of July 1, 2008, the Regional Services Authority will own and operate the Lynchburg landfill. Once that landfill is full, operations will shift to the Campbell County landfill. The landfills will take solid waste from the cities of Lynchburg and Bedford, Appomattox, Campbell and Nelson counties and, from commercial haulers. Both public and private users will be charged a per ton tipping fee. The cost of landfill disposal is a new General Fund item for FY 2009.

Similarly, the costs of other Solid Waste Management activities that the City will continue to provide will shift to the General Fund for FY 2009. This includes refuse collection, bulk and brush, recycling, litter control, illegal dumping response, and related personnel costs. These activities are included in the Public Works budget for FY 2009.

Cash reserves remaining once the Solid Waste Management Fund is eliminated will revert to the City's fund balance with the intent to use them for one-time capital items. Some funds are programmed

into the *Proposed FY 2009 Budget* to purchase trash collection vehicles and to fund OPEB obligations for employees transferring to the Regional Services Authority. Anticipated uses for remaining funds include implementation of a master plan for the Public Works facilities at 1700 Memorial Avenue and the development of a plan for the use of the closed City landfill and adjoining City owned property once landfill operations move to Campbell County.

Outstanding Issues

There are several outstanding issues that may impact budget deliberations.

- Revenue projections in the *Proposed FY 2009 Budget* are based on an analysis of actual revenues and trends up to January 1, 2008. Staff will re-examine revenues after April 1, 2008 and suggest appropriate adjustments.
- The proposed budget was finalized just prior to the Governor's announcement of an additional 5.4% cut in state funding to localities. While it is not yet known how that cut will be applied, the potential impact to the City in lost revenue could be as high as $1.5 million. Some funds have been set aside to buffer such cuts but they are not recurring. To sustain the cuts expenditures will have to be reduced on an ongoing basis or other revenue sources identified.
- Legislation adopted by the General Assembly could add additional costs or further impact revenues coming to localities. Staff will analyze how the actions of the General Assembly impact the proposed budget as information becomes available.
- The threat of a perceived or real recession could further slow the national, state, and local economies resulting in continued poor or worse performance in Sales, Meals, and Business License taxes.
- Tax Relief for the Elderly and Disabled has not been adjusted for the proposed budget. Because this is not a reassessment year, no major adjustment is necessary unless Council wishes to increase coverage by providing additional resources.
- A staffing analysis by the State Compensation Board has indicated that the Sheriff's Department has more state-funded staff than required. As a result, the State may stop funding the positions. For the City to assume the cost of the positions would require approximately $60,000 in funding. It is not known when the State will make a final determination on the two positions.
- Currently, staff is analyzing the extent that wage (seasonal and non-seasonal) employees are used in the various departments. It appears that there is little consistency in either how such positions are defined or how they are utilized. Over utilization of wage positions can have an impact on anticipated savings from vacancies which is a line item in the budget.
- Staff was asked to include a discussion of funding Public Access Television during the budget deliberations. Cost estimates of several options are being prepared.
- Council members have expressed an interest in two capital projects that are not included in the proposed CIP. They are City participation in the Liberty University tunnel project at Wards Road and Harvard Street to add a third tunnel and preliminary planning for the development of access from Odd Fellows Road to Rt. 460.

Outlook

The outlook for City finances includes challenges and opportunities. Perhaps the biggest challenge facing the City is the maintenance of the infrastructure in which and by which citizens, businesses and visitors are served. The maintenance and replacement of roads, bridges, buildings, water mains, and sewer lines will call for significant investment, straining both the City's debt capacity and its ability to service new debt. The first two new City buildings in over 30 years will be under construction in FY 2009. The City can be proud that both the new Juvenile and Domestic Relations Courthouse and Sandusky Middle School are designed to take advantage of the latest sustainable and energy saving designs that promise reduced operating costs over the life of the buildings. Nevertheless, the $15 million and $28 million costs for the courthouse and school, respectively, will add a significant burden in terms of new debt service over the ensuing fiscal years. At the same time there are ongoing needs for capital investment in existing City buildings, particularly the Police Department's two facilities, the Parks and Recreation Department's Miller Center on Grove Street, and Heritage High School. Unfortunately, fiscal constraints will hinder progress in addressing those needs in the near term.

Progress is anticipated in terms of transportation capital improvements. The Breezewood Drive project should be completed in FY 2009 and long awaited work on the first phase of the Midtown Connector (from the Expressway to Memorial Avenue) should finally commence. The City is managing these important projects with funds provided by the Virginia Department of Transportation through its Urban Initiative. As a result of participation in that program the City received about $20 million in funding from VDOT in September 2007 for transportation projects. Although all of the money is programmed for the Midtown Connector projects, it does give the City the ability to earn interest on the funds and move forward in a timely manner. Other major transportation projects anticipated in FY 2009 include Expressway paving, improvements to Greenview Drive and its intersection with Leesville Road, and work on the Rivermont Bridge.

Providing funds for debt service to support capital projects will be a challenge in the coming years. New debt payments must compete with increasing service demands and higher costs in the General Fund operating budget. In FY 2009 the City will use the Debt Service Reserve established in FY 2008 to pay new debt service. Other funds will be placed in reserve for FY 2010 debt service. The City, however, needs to quickly establish an ongoing and sustainable source to fund new debt service.

In the past the City has counted on the biennial reassessment of real property to provide a boost in revenues to fund increased costs and support new initiatives. Over the years, the City's total assessed value of real property has shown a consistent, although modest, increase from assessment to assessment. The City has also enjoyed steady development bringing new buildings onto the tax roll. The next reassessment is scheduled to be effective for FY 2010 and the picture regarding residential property values is cloudy. Current analysis by the Assessor's Office indicates the City could anticipate reasonable growth in residential assessments next year. Of concern, however, is the impact of the national slump in the housing market as a result of the subprime mortgage crisis and other factors such as a national recession. This year, localities in the Commonwealth's "Golden Crescent," from Tidewater to Northern Virginia have seen historic increases in residential property values reverse and fall with significant negative impacts on local budgets. Although the Lynchburg region typically is not subject to the major economic swings experienced elsewhere, the question is whether or not there will be an echo of the burst housing bubble that will impact residential property values. A significant reduction in the assessed value of residential properties would increase the fiscal stress on the City.

Another matter of concern regarding property taxes is the proposed constitutional amendment that would establish a Homestead Exemption for owner occupied residences of up to 20% of the assessed value. Approximately 60% of the dwellings in the City are owner occupied and if the full exemption was granted the impact on City revenues could be in the $3-4 million range. If the exemption program was enacted, the City would be faced with the choice of either reducing services or shifting the burden of taxation to business and industrial properties. It is because of that possibility that the State and local Chambers of Commerce, as well as other business groups, have come out against legislation bringing the proposed constitutional amendment to referendum. The latest news from Richmond indicates that legislation bringing the proposed constitutional amendment to referendum has been defeated for this year. The reintroduction of similar legislation can be expected next year.

An overarching concern is whether or not the nation will experience a recession and, if so, how severe it will be and how long it will last. Some say the nation is already in a recession, others that it is just a matter of time. What is known, however, is that state and local governments have already been forced to scale back revenue estimates as a result of declining economic performance. The City budget has already had to absorb cuts in state funding and more have been announced. Deeper cuts in the future could be a possibility. Unfortunately, the reality is that cuts in state funding do not come with a proportional reduction in state mandated services. In essence, what the state does is shift the costs of providing state mandated services to the localities where there are already fiscal challenges and little room to maneuver. As reported elsewhere in this budget message, Lynchburg has already seen locally generated revenue growth flatten and has had to adjust its expectations accordingly. A system of local revenues based so heavily on consumer spending (sales, meals, and personal property taxes) is particularly vulnerable to economic downturns, which can also increase demands for certain services.

Despite the bursting of the residential housing bubble, Real Property Tax is the most stable, and the largest, City revenue source. It also happens to be the tax the General Assembly has a propensity to want to tamper with the most, as demonstrated by the proposed Homestead Exemption and other proposals introduced annually to limit local flexibility in collecting the tax. This continues the recent trend in the Commonwealth of cutting state revenues to localities, shifting costs, passing down additional mandates, and considering legislation that would significantly reduce the ability of local governments to generate necessary revenues. Without sustainable alternatives, however, localities must continue to rely on the Real Property Tax as a source of income.

In cities such as Lynchburg the growth in assessed value of real property is further limited by a shortage of developable land. While society is starting to realize the longer term energy, environmental, and aesthetic consequences of continued, sprawling, greenfield development, many developers and potential tenants are still inclined to follow that practice. Cities provide an alternative. Without the ability to expand boundaries through annexation, core cities such as Lynchburg must look inward to development and redevelopment opportunities. Because of the reliance on the Real Property Tax and a reluctance to raise rates, cities are forced to consider strategies to enhance the assessed value of their limited acreage. This often leads to proposals to develop previously vacant parcels or to increase density on others. In Lynchburg, developments such as Wyndhurst and Cornerstone have followed this approach.

The City has also seen increasing demand for townhouse and other higher density residential development. Fortunately, the City has the amenities (parks, trails, etc.) and good schools to remain attractive for new residential development. On the other hand, concerns have been raised about the

negative consequences of higher density development on the environment, transportation networks, and the overall quality of life in the City. Balancing the need to increase the tax base with these concerns is both a challenge and an opportunity.

Cities have a history of being the center of commerce, culture, and entertainment for a region and Lynchburg has done better than many to maintain that characteristic. Nevertheless, increased development just outside the City boundaries has the potential to reduce that concentration with a subsequent loss of revenue from sales and meals tax. This has already started occurring along Wards Road in Campbell County and along Route 221 in Bedford County. To counter this trend the City has supported development of the Lakeside Centre on one of the last remaining large tracts of undeveloped property at the intersection of Lakeside Drive, Old Forest Road, and the Expressway. Although challenged by high infrastructure costs, the project provides the best opportunity for the City to capture new commercial development that will come to the Lynchburg region. Creative thinking will be required to make the Lakeside Centre a reality.

The redevelopment of older commercial areas of the City is generally accepted as a good thing with broad support from City residents. Areas such as downtown, Fifth Street, and the Midtown/Plaza district provide excellent opportunities for reinvestment that enhances property values in historically developed locations. These areas can either be a drain on resources or they can increasingly produce the revenues necessary for their maintenance and prosperity. This requires, however, a public investment either through infrastructure improvements, tax credits, or other programs to prime the redevelopment pump. Downtown Lynchburg is an example that shows such an approach works. Over the last ten years downtown has enjoyed a growing revival of cultural, residential, and business development. The openings of the Bluffwalk Center and City Market Lofts in 2007 were significant events in growing a more viable downtown. In the near future, construction should start on a condominium project on Jefferson Street, the first new building to be constructed downtown with totally private funds. A last major anchor the community needs to support is the renovation of the Academy of Fine Arts' historic Academy Theater. The City's investment in downtown is paying good dividends and needs to continue. A similar investment approach is appropriate on Fifth Street and in the Midtown area.

As in the past, the City will continue with regional efforts to better collaborate with neighboring jurisdictions and reduce the costs of commonly provided services. Work to develop a regional water supply plan will continue and new ways to more effectively and efficiently deliver utility services will be included in the study. It makes economic sense to consider a regional approach to delivering important public services when all can benefit. The creation of the Regional Services Authority under the Region 2000 umbrella is an important step in consolidating regional service delivery. If successful, this initiative in solid waste management could expand into other service areas. Discussions will continue in the upcoming year to establish a Regional Airport Authority by 2009, relieving the City of the sole responsibility for providing this important community service.

Conclusion

The *Proposed FY 2009 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 2009. 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 April 1, 2008, at 7:00 p.m., in Council Chambers. During Council's deliberations, staff is prepared to provide assistance and additional information as Council works toward budget adoption.

Copies of the *Proposed FY 2009 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

I would like to acknowledge the hard work of City staff who developed and produced the *Proposed FY 2009 Budget*. 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 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, Kathy Collins, and Fred McWane also provided assistance. Assistant Director of Financial Services Rhonda Allbeck, Operations Manager Reid Lanham, and Financial Technician IV Janice Christian 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 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.