



OFFICE OF THE CITY MANAGER
Noel C. Taylor Municipal Building
215 Church Avenue, S.W., Room 364
Roanoke, Virginia 24011
540.853.2333
www.roanokeva.gov

June 19, 2017

Honorable Sherman P. Lea, Mayor
Honorable Anita J. Price, Vice Mayor
Honorable William D. Bestpitch, Council Member
Honorable Michelle L. Dykstra, Council Member
Honorable Ralph E. Ferris, Council Member
Honorable Jon A. Garland, Council Member
Honorable David B. Trinkle, Council Member

Dear Mayor Lea and Members of City Council:

I am pleased to provide you with the Resource Allocation Plan as adopted by City Council for Fiscal Year 2017-2018. The adopted General Fund revenue and expenditure estimates both total \$282,785,000.

The Budget Summary section has been revised to reflect the adjustments outlined in the attachment to this letter. With the exception of these items, the content of the City Manager's message remains the same.

Respectfully submitted,

R. Brian Townsend
Acting City Manager

c: Daniel J. Callahan, City Attorney
Barbara A. Dameron, Director of Finance
Stephanie M. Moon, City Clerk
Sherman M. Stovall, Assistant City Manager for Operations

**FY 2017 - 2018
Adjustments to Recommended Budget**

Expenditures

Recommended Budget		\$282,785,000
Adjustments		
	Youth Summer Employment	\$ 40,000
	Budget Contingency	(40,000)
One-Time Funds (Excess Debt Service):		
	Capital Project Contingency	62,500
	Arts Endowment	(62,500)
Adopted Budget		\$282,785,000

Funding for debt service was also increased by \$44,296 due to a final adjustment. The appropriation to Capital Project Contingency was decreased by an equivalent amount.



OFFICE OF THE CITY MANAGER

Noel C. Taylor Municipal Building
215 Church Avenue, SW, Room 364
Roanoke, Virginia 24011
540.853.2333
www.roanokeva.gov

April 17, 2017

Honorable Mayor and Members of City Council:

We are pleased to present the Fiscal Year 2017-18 Recommended Budget, totaling \$282,785,000. This has been one of the most challenging budgets to prepare in recent City history. While nearly every major indicator points to a healthy, growing local economy, this has not translated into expanding revenue, forcing us to make some difficult decisions.

The City has reversed a 30 year population decline and we are now one of the fastest growing communities in southwest Virginia. Unemployment is down to pre-recession levels. Major industries have expanded and tourism is growing. 2016 was one of Roanoke's best years for economic development - evidenced by Deschutes' announcement that, after a four year search, Roanoke would be its east coast brewery and distribution center – but our revenue is currently performing below expectations.

In this message, we will describe the revenue challenges, the pro-active measures we have taken to reduce expenditures, the necessary new investments to foster continued economic growth, and our balancing strategies.

Intense, collaborative budget preparation

For several years, we have used a Budgeting for Outcomes approach to preparing our annual budget. We began in September 2016 with an all-day City Council retreat where the seven priority areas were affirmed, reviewed high level performance measures, discussed revenue and expenditure trends, and set policy direction for the budget process. Progress on budget preparation was then shared with City Council – and the public – through televised workshops each month beginning in January.

Recognizing the revenue challenges we would face in the next fiscal year, departments were instructed to pro-actively reduce their budget submittals by approximately \$7 million. Guided by City Council's policy direction, the seven priority teams - staffed by employee team members from throughout the organization – reviewed, scrutinized and ranked the reduced departmental offers.

Due to the great challenges this year, and with a goal to more deeply foster cross-departmental collaboration and innovation, we added an additional step to the budget preparation process. Using adaptive leadership skills, department directors were able to more clearly understand their peers' budget issues and concerns, and provide input

to the Budget Committee on how to best balance the budget. Our department director team met for two half-day sessions to further reduce their budgets and then worked together to determine priorities for any restored services if the revenue outlook improved.

Revenue challenges

Expenditure levels to maintain the current services and programs would require local tax revenue growth of \$5 million, and to cover cost increases in health care, pension, and important regional economic development initiatives, we would need growth of \$6.5 million. However, we project a \$3.4 million decline in local tax revenues, excluding growth in real estate, from the current year. This is driven primarily by a \$1.9 million or 9% decline in sales tax revenue and a \$1.1 million or 8% decline in business license tax revenue. Positive revenue growth in real estate taxes, food and beverage taxes and intergovernmental revenue are not sufficient to offset these declines. The total revenue estimate yielded a \$1.7 million increase when compared to the adopted FY 2016-2017 budget.

Because local economic indicators are positive, we believe our revenue challenges are due primarily to a changing economy, based more and more on internet sales, while our revenue model was developed based on 19th and 20th Century economies. The City of Roanoke has been a national leader on urging the U.S. Congress to adopt common-sense legislation to implement a system to simplify payment of internet sales tax which is already owed by the purchaser. While we will continue these efforts, we will balance the budget assuming Congress does not adopt this legislation. As we move forward, it is clear that a new mix of revenue must be considered to fund and offer services in the emerging economy.

Expenditure reductions

We have pro-actively addressed the financial challenges created by the great recession and the ongoing revenue issues. Since fiscal year 2007 we have made reductions totaling approximately \$30 million to facilitate budget balancing in prior years. We have done this by restructuring and reducing our five-year capital plan, reducing our workforce by over 8%, and driving efficiencies in the delivery of services. As we were making these reductions, we were also increasing funding to our schools, increasing reserves, reforming our pension plan, and tightening our financial policies. For FY 2018, additional expenditure reductions include unfunding Public Safety positions, funding one Peak-Time EMS unit through vacancy savings, reduced alley and sidewalk maintenance, Capital Building Maintenance, Library books and materials, Fleet Replacement funding and Technology Capital funding. In addition to the elimination of 1 position, we have also unfunded an additional 22 positions.

City Council has provided strong policy leadership and made difficult decisions that will make Roanoke stronger and more resilient in the long term. Our staff team has

embraced change, relentlessly looked for efficiencies, and worked collaboratively to help the organization through these challenging times.

Strategic investments

You can't simply cut your way to prosperity; you also need to invest to build a healthy, resilient economy for the Roanoke community. The City's strategic investments include education, libraries, and parks and greenways, as well as incentives for economic development such as the Roanoke Center for Innovation and Technology (RCIT), the Roanoke Valley Broadband Authority, and the Western Virginia Regional Industrial Facility Authority. We must also invest in our Capital Improvement Program to ensure our facilities are maintained and city equipment is reliable. It is also essential for us to increase our Parking fees to sustain the Parking Fund and continued maintenance of existing facilities and to anticipate future parking needs. Roanoke's focus on these investments has already yielded some major returns with our population growth reaching 99,897 in 2016, as well as continued success in our early childhood literacy program, Star City Reads, which earned the national Pacesetter Award again this year. And we've seen some big wins with the RCIT being an important factor in Deschutes' decision to build its East Coast Brewery in Roanoke.

Continued revenue challenges will impact the funding available to address the rising costs of medical insurance, pension benefits, and competitive compensation for city employees. These challenges also test our ability to follow best practices such as funding the City's Debt Service and General Fund Reserves, but we must continue to hold strong to our commitment to make these investments and keep Roanoke's financial health sound.

Conclusion

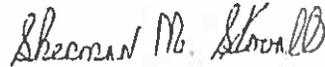
We have balanced the FY 2017-2018 budget through expenditure reductions and selected funding of supplemental requests. The reductions were made to facilitate addressing inflationary cost increases and funding selected new funding requests. The Recommended Budget includes the implementation of a Solid Waste fee to provide incremental revenue of up to \$1.3 million for FY 2017-2018 per year. While most cities and many towns enacted solid waste collection fees in the 1990's, Roanoke continued to pay for residential refuse collection through real estate taxes, even as services were expanded to include weekly bulk item collection, weekly brush collection, and weekly single stream recycling along with seasonal bagged leaf collection. The cost of these services is approximately \$6.5 million per year. To partially recover some of this cost, we recommend an \$8 per month fee per single family dwelling, \$16 per month per multi-family dwelling and \$12 per month for businesses, commercial establishments and institutions to help prepare for anticipated revenue challenges in years to come. For FY 2017-2018, the Solid Waste fee revenue will be utilized to protect against further potential revenue decline during the fiscal year.

In closing, the balancing of the FY 2017-2018 budget has been accomplished through making difficult decisions in a challenging economic climate. The expenditure reductions, though manageable, will require continued operational diligence as we provide core services, though modified, with fewer base resources and positions. We will continue to collaborate and realize efficiencies to move the city forward into a bright future for those we serve.

Sincerely,



R. Brian Townsend
Acting City Manager



Sherman M. Stovall
Assistant City Manager for Operations

BUDGET OVERVIEW

The recommended budget for FY 2017-2018 is \$282,785,000. The total budget increase is \$1,693,000, or 0.60% from FY 2016-2017.

	<u>Recommended Funding Level</u>	<u>Dollar Change from FY 16-17</u>	<u>Percent Change from FY 15-16</u>
General Fund Budget	\$282,785,000	\$1,693,000	0.6%

The following items outline incremental cost adjustments which comprise the balanced budget sorted by priority. Additional summary statements for each offer are included in each priority section.

ORGANIZATION-WIDE EXPENSES – \$3,824,892

Retirement Contribution Increase – \$834,875 – Increase in funding for retirement contribution.

Medical - \$1,212,939 – Incremental increase due to anticipated fiscal year medical insurance cost increase.

Compensation – \$1,641,559 – Increase in funding for compensation including a 1.75% general wage increase.

Line of Duty (LODA) - \$30,605 – Increase in budgeted funding for actuarially determined Line of Duty Act expense projection.

Other Post Employment Benefits (OPEB) – (\$168,000) – Decrease in budgeted funding for actuarially determined OPEB expense projection.

Contingency - \$46,948 – Increase in budgeted funding for Contingency.

Solid Waste Fee - \$1,300,000 – Funding generated from proposed implementation of a Solid Waste fee for which incremental revenue utilized to protect against further revenue decline.

Unfunded/Eliminated positions – (\$1,074,034) – Unfunded 22 positions and eliminated 1 position in various departments.

EDUCATION – (\$781,850)

Roanoke City Public Schools – (\$810,600) – Operating funding for Roanoke City Public Schools decreases by (\$810,600).

Youth Services – (\$11,250) – Decrease in funding for Youth Services Initiative. Youth Summer Employment

Youth Summer Employment – \$40,000 – Increase in budget for partnering with Goodwill Industries of the Roanoke Valley and local businesses to provide employment to the youth over the summer.

SAFETY – (\$131,257)

Fire-EMS – (\$115,280) – Decreases funding for fire inspections and a second peak-time ambulance. Increases funding for REMS, fire training and software/internet costs.

BUDGET OVERVIEW

Sheriff - \$21,312 – Provides funding for medical contract cost increases and phase two of a career development program. Decreases funding for jail food costs.

Police - \$42,297 – Provides funding for VSTOP & VDVF grant matches for Police.

Residential Juvenile Detention – (\$29,586) – Decreases funding residential detention expenses.

Transportation – (\$50,000) – Decrease in funding for signs and pavement markings and signal maintenance.

HUMAN SERVICES – (\$50,497)

Human Services – \$69,599 – Provides additional funding for overtime, one Resource Parent Recruiter, four positions in the Family Services Division and adjustments in funding for Children's Services Act as well as Social Services programs based on trend.

Emergency Relief – (\$70,000) – Eliminates funding for the Emergency Relief program.

Grant Matches - \$6,904 – Homeless Assistance Team grant match.

Youth Haven – (\$57,000) – Eliminates funding for rent.

INFRASTRUCTURE – \$555,821

Capital Building Maintenance – (\$186,063) – Decrease in funding for capital building maintenance.

Fleet Management – (\$595,000) – Decrease in funding for vehicular and equipment replacement.

Paving – \$366,000 – Increase in funding for paving activities.

Public Works - \$20,846 – Increase in stormwater fees for city-owned property and decrease for Environmental Management regulated waste disposal and other administrative costs.

Technology – (\$100,000) – Decrease in funding for technology capital.

Transportation – (\$61,604) – Decrease in funding for contracted alley maintenance and sidewalk maintenance and repair.

GOOD GOVERNMENT – \$115,168

Electoral Board - \$28,887 – Provides funding for operating expenses for new office location.

Human Resources - \$65,083 – Provides funding for wellness initiatives which are fully reimbursed by Anthem and maintenance funding for the applicant tracking system.

Risk Management - \$21,198 – Provides funding for incremental insurance costs.

BUDGET OVERVIEW

LIVABILITY – (\$99,917)

Libraries – (\$91,985) – Decrease in funding for books, materials and subscriptions.

Parks and Recreation – (\$38,535) – Decrease in funding for recreation programs and aquatics. Increase in funding for landscape and park management.

Planning, Building and Development – (\$45,900) – Decrease in funding for demolition, graffiti abatement, weed and trash removal.

Public Works - \$19,407 – Increase in funding for Q-Alert system maintenance.

Solid Waste - \$57,096 – Provides funding for collection of small brush piles.

OUTSIDE AGENCIES – \$244,327

Blue Ridge Behavioral Healthcare – \$9,260 – Increase in budgeted funding to support mental health services.

Broadband Authority – \$118,648 – Increase in budgeted funding for support of the Broadband Authority operating and debt service expense.

District Taxes – (\$25,000) – Decrease in funding for Williamson Road and Downtown tax districts.

Regional Center for Animal Control and Protection - \$33,604 – Increase in funding for regional center operations.

Western Virginia Regional Industrial Facilities Authority - \$220,315 – Provides funding for the Western Virginia Regional Industrial Facilities Authority.

Visit Virginia's Blue Ridge – (\$112,500) – Decrease in funding for Visit Virginia's Blue Ridge based on 3% of the transient occupancy tax for marketing and promotion of the region based on revenue estimate.

ECONOMY – \$154,400

Performance Agreements – \$154,400 – Increase in budgeted funding for performance agreement expenditures.

OTHER – (\$946,445)

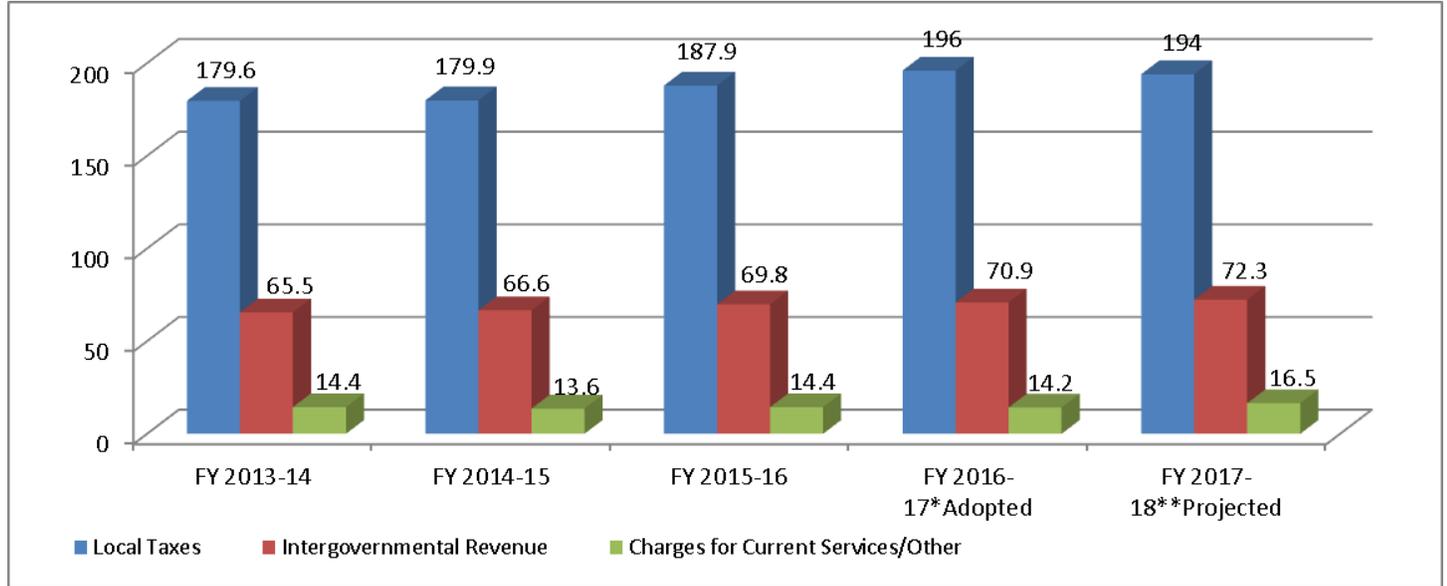
Other – (\$946,445) – Decrease in budgeted funding for other operating expenditures.

BUDGET OVERVIEW

Revenue estimates are developed using a conservative and practical approach based on general economic conditions, historic experience, and expected changes in activities and services. The Department of Finance is responsible for the revenue estimate or income side of the budget while the City Manager's office and areas of responsibility define the expenditure side of the budget. The separation of duties provides independence in the process for both revenue and expenditure development during the budget process.

GENERAL FUND REVENUES:

(Dollars in Millions)



General Fund FY18 estimated revenues total \$282,785,000, an increase of \$1.7 million, from the FY17 adopted budget. The increase was primarily attributable to increased property values and the establishment of a sanitation fee. General property tax revenues increased \$1.5 million and the fee for solid waste collection generated \$1.3 in revenues. The chart shown above illustrates a five-year General Fund revenue trend for the City of Roanoke. Revenues are divided into three major categories: (1) Local Taxes, (2) Intergovernmental Revenue (State and Federal), and (3) Charges for Services/Miscellaneous. More detailed trend information for these three categories is presented in the following pages.

BUDGET OVERVIEW

An analysis of changes in the three major categories of revenue as compared to the Adopted FY17 Revenue Estimate is as follows:

A. LOCAL TAXES (\$1,952,000)

Local taxes are the largest category of revenues for the City. Local taxes will comprise 69% of all FY18 General Fund revenues. Changes in major revenues or categories of revenue are noted below.

1. Real Property – \$1,200,000 -The real estate tax is the single largest source of revenues for the City of Roanoke. Property values increased as the result of the general reassessment and new construction activity, which contributed to a 1.5% revenue increase in FY18. Important elements of Roanoke's real estate taxation system are programs that provide relief to certain taxpayers or on selected types of properties. For FY18 this relief is estimated at \$2.5 million and is comprised of relief to the elderly and disabled taxpayers including some Veterans of \$425,000, relief on agricultural properties of \$50,000, and relief for properties under rehabilitation of \$1.7 million. Additionally, leased and energy efficient properties receive tax exemptions totaling \$321,000. These relief programs are intended to benefit those on fixed incomes or with limited ability to cover the costs of increased taxes or to provide incentives for owners who invest in the rehabilitation of aged properties. The City's real estate taxes are due annually in two installments, October 5th and April 5th.
2. Personal Property – The personal property tax is the second largest local tax. FY18 is flat compared to the FY17 adopted budget. Annual assessments of the personal property tax are made in early April, and the tax due date is May 31st.
3. Public Service Tax - The major contributor to this categorical is public service corporations' real estate and personal property taxes. Public service corporations are assessed annually by the Commonwealth.
4. Sales Tax – (\$1,900,000) - Sales tax is Roanoke's third largest local tax, and it is expected to decrease when compared to the FY17 adopted revenue estimate. Sales tax has not performed very well in the current year as the impact of consumer spending through on line venues has decreased traffic through local brick and mortar businesses. As a result, the FY18 revenue estimate projects an 8.6% decrease.
5. Business License Tax – (\$1,121,000) – This tax is an economic indicator of the local economy and its performance reflects consumer confidence. The FY18 estimate includes a projected revenue decline of 8.2%.
6. Transient Occupancy Tax – (\$300,000) – This tax is a consumer-driven revenue source and its performance is impacted by tourism and consumer confidence. The FY18 estimate includes a projected revenue decrease of 6.5%.
7. Prepared Food and Beverage Tax – \$218,000 – This tax is also a consumer-driven source of revenue. This tax is projected to perform slightly higher in FY18, with an estimated increase of 1.4%.
8. Other – (\$49,000) – Local taxes not individually described include bank franchise taxes, cigarette tax, penalties and interest, consumer utilities, recordation and probate, admissions, communications tax and franchise fees. The estimated decrease in this area is related to declining motor vehicle license tax and communications tax revenues in FY18.

BUDGET OVERVIEW

B. INTERGOVERNMENTAL REVENUE \$1,437,000

This revenue category is primarily comprised of State funds designated for specific programs. Generally, there is little local discretionary use of these funds, much of which is paid to the City on a reimbursement basis. This category represents 26% of total revenue for the General Fund. The FY18 revenue estimate is projected to increase 2.0% from the FY17 adopted budget and is primarily a result of the reimbursement of social services expenditures and increased street maintenance funding. The major categories of intergovernmental revenues are discussed as follows:

1. Social Services – \$660,000 – Social services revenues in FY18 are projected at approximately \$30.7 million, a sizable component of the City's funding from the Commonwealth. This funding covers foster care, the Children's Services Act (CSA), employment services and other social services programs. These revenues are largely reimbursement based, and the City adopts an expenditure budget adequate to fund the state and local share of these programs. The increase in this revenue category is primarily a result of increased reimbursements related to Foster Care and children's services costs.
2. Other Federal and State Aid – \$777,000 - This category consists primarily of street maintenance, personal property tax relief, Compensation Board, rental car tax, Law Enforcement-HB599, E911 wireless and Virginia Juvenile Community Crime Control Act (VJCCCA) funding. The increase in this category is primarily attributed to street maintenance funding from the Virginia Department of Transportation (VDOT).

C. CHARGES FOR SERVICES/MISCELLANEOUS \$1,178,000

The Charges for Services/Miscellaneous category is the smallest revenue category. Most of the revenue in this category is generated from fees charged for services rendered to our citizens. This category comprises only 5% of General Fund revenues. The major charges for services categories are discussed as follows:

1. Permits, Fees, and Licenses – (\$236,000) - This category of revenue is comprised mainly of inspection fees and permits related to the construction industry. A decrease of 20.6% is expected based primarily on the projected decrease in building inspection permit fees, and storm water management permits and utility fees.
2. Public Safety Charges for Services – (\$45,000) – This category of revenue is comprised of emergency medical service charges as well as other fees charged by the Police and Fire departments. The decrease of 1.2% is primarily a reflection of decreased revenues for Off Duty Police Services.
3. Interfund Services – \$1,366,000 – Revenues in this category includes the transfer of revenues associated with previously separate funds for technology, fleet, and risk management, which will be included in the general fund for FY18 going forward. This category also consists of services provided to the school board for resource officers, the school share of CSA charges, and audit services. Charges for building maintenance, engineering, employee health and bus shuttle services are also included in this category. The increase in this area is mainly the result of the transfer of previously separate funds' revenues, an increase in employee health services and the School's share of CSA payments.
4. Sheriff/Jail, Charges for Services – \$168,000 – The revenue increase in this category is mainly due to an increase in temporary housing of prisoners from a neighboring locality during a construction project.
5. All Other Charges/Miscellaneous – (\$75,000) - Revenues in this category include sanitation charges, fines and forfeitures, recreational program charges, human services charges, grants and donations, sale of property and miscellaneous revenues which may be nonrecurring. The reduction in FY18 is related to fines and forfeitures and recreational programs offset by the implementation of a solid waste fee.

BUDGET OVERVIEW

PROPRIETARY FUND REVENUES:

A. ENTERPRISE FUNDS:

1. Civic Facilities Fund - Estimated FY18 revenues for the Civic Facilities Fund total \$5,327,337. Revenue is comprised of operating revenues of \$3,047,270 and a General Fund supplement of \$2,280,067. These revenues will fund total operating expenses of \$3,638,531 and \$1,688,806 in principal and interest payments due in fiscal year 2018.
2. Parking Fund – The City owns seven parking garages and several parking lots to provide for parking in the downtown area. In addition, parking ticket enforcement is included in the Parking Fund to align all parking strategies into one area of responsibility. Estimated FY18 revenues generated from the City's parking facilities through user fees and ticket violations will total \$3,675,000. The projected revenues will fund operating costs of \$2,327,904 and FY18 principal and interest payments of \$1,275,327.
3. Stormwater Utility Fund – Estimated FY18 operating revenues for the Stormwater Utility Fund total \$5,796,650. These revenues will fund total operating expenses of \$5,200,314 and \$596,336 in principal and interest payments due in fiscal year 2018.

B. INTERNAL SERVICE FUNDS:

1. Risk Management - The primary activity of this fund is to record health insurance premiums billed to other funds and related claim payments under the City's employee medical plan. Additionally, the City's self-insured workers' compensation and general and automotive liability plans are recorded in this fund. Projected FY18 revenues and expenses for this fund total \$17,553,161.

Revenue Adjustments

Fee Title	Current Fee/Rate	Proposed Fee/Rate	Incremental Revenue	Description
Fee for the removal and disposal of solid waste	N/A	-- \$96 per annum per parcel used as single family dwelling -- \$192 per annum per parcel used as multiple dwelling units -- \$144 per annum per parcel used for business, commercial establishment, institution, or other location uses -- \$60 per annum for elderly and disabled qualified residents	\$1,300,000	New fee

Revenue Adjustments (Continued)

Fee Title	Current Fee/Rate	Proposed Fee/Rate	Incremental Revenue	Description
Residential parking rate increase	\$20/month	\$25/month	\$36,000	Change in fee structure
Parking rate at Campbell garage	\$40/month	\$45/month	\$11,000	Change in fee structure
Parking rate at Gainsboro garage	\$45/month	\$50/month	\$18,000	Change in fee structure
Event parking at Elmwood Park	N/A	\$3	\$3,000	New fee
Early Bird daily rate parking special at Campbell Garage	\$3	\$4	\$4,500	Change in fee structure
Off-Street parking fines	\$10	\$20	\$5,000	Change in fee structure to match On-Street fines
Monthly parking late payment fees	\$5	\$10	\$6,000	Change in fee structure