

WAYNESBORO, VIRGINIA

CITY COUNCIL BUDGET WORK SESSION MINUTES



Council for the City of Waynesboro, Virginia held a Budget Work Session on Monday, April 1, 2019, at 6:30 p.m. in the Council Chambers of the Charles T. Yancey Municipal Building, 503 West Main Street, Waynesboro, Virginia, with Mayor Short presiding and calling the meeting to order:

PRESENT: Council Members: Terry Short, Jr., Mayor
Bobby Henderson, Vice Mayor
Bruce Allen, Councilman
Elzena Anderson, Councilwoman
Sam Hostetter, Councilman

City Staff: Mike Hamp, City Manager
Jim Shaw, Deputy City Manager
Julia Bortle, Clerk of the Council
Cameron McCormick, Finance Director
Greg Hitchin, Economic Development Director
Michael Wilhelm, Police Chief
Stephanie Beverage, City Treasurer
Sabrina von Schilling, Commissioner of the Revenue

City Schools: Dr. Jeffrey Cassell, School Superintendent
Ms. Erika Smith, School Board Member

ABSENT: None

PRESENTATION OF CITY MANAGER'S RECOMMENDED FISCAL YEAR 2020 BUDGET AND DISCUSSION OF FISCAL YEAR 2020 BUDGET PREPARATION:

City Manager's Budget Message:

Improving employee compensation and capital improvement planning and implementation are the major themes of the City Manager's recommended budget for fiscal year 2020. The focus on compensation and capital reflects the guidance furnished at the Council's Budget Retreat and several ensuing budget focus work sessions. Increasing compensation for municipal employees will improve the organization's ability to compete for well-qualified candidates for employment and properly acknowledge employees who have devoted themselves to substantial service to the community. Enhancing intentionality in capital planning and implementation and will improve the delivery of capital projects and facilitate new investments in our community, thereby enhancing Waynesboro's ability to compete for healthy families and employers.

The budget is constructed with these two themes as objectives and meets external obligations in the General Fund, including funding for public education, social services and related programs for children and families, corrections, each requiring additional funding in the ensuing fiscal year, in some cases substantial additional funding. Because of the referenced increases, I regard these external obligations as significant influences if not themes.

The recommended General Fund budget relies on new revenue provided by an increase in real property tax receipts of approximately \$1.1 million resulting from the general reassessment of real property and a

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proposed \$.40/\$100 of evaluation increase in the personal property tax rate. The proposed rate increase produces an estimated \$350,000, the entirety of which is recommended for implementation of the capital improvement plan. It is important to note that as recommended the budget reflects a significant reduction in reliance on various fund balances, and as a result, the budget increases by only \$278,000 from the current fiscal year to the next which is approximately .54%.

Ultimately, I seek and recommend Council's favorable consideration of key decision points which are integral to the construct of the General Fund budget:

1. Maintain the real property tax rate at \$.90;
2. Increase the personal property tax rate from \$2.50/\$100 of valuation to \$2.90/\$100;
3. Affirm the 10% adjustment to pay grades; and
4. Affirm the capital funding strategy associated with the aforementioned personal property tax rate increase.

Recommended measures in pursuit of City Council's goal of improving compensation for municipal employees include increase entry and max points on all grades by 10%, provide a 3% merit opportunity for all full-time classified municipal employees, and fund up to a 13% increase in health insurance premiums.

Periodic survey and organizational experience recruiting employees indicate that the City is trailing significantly in prevailing wage and salary rates in the region and immediate labor market. The resulting competitive disadvantage is evident in nearly all recruitments undertaken and in exit interview data collected by the Human Resources Department. The wage and salary lag has been especially apparent in Public Works and Public Safety positions including telecommunication and building safety, but prevalent as well in general labor, managerial and director-level leadership positions. Applications are down in nearly every job classification in the municipal organization. Compensation is but one criterion on which employees and applicants derive satisfaction; however, it is first and primary consideration for typical applicants. While many local government organizations and employers generally are challenged to attract sufficient applicants for positions, it is especially detrimental for our organization to start from such a known disadvantage position in an already difficult labor market. The three measures identified above beginning with the 10% adjustment to the pay grades improve competitiveness for entry employees and enhance appreciation for employees who have dedicated their career and service to our community or are concluding a career of service in our organization.

It should be noted that strengthening the City's ability to attract and retain well-qualified employees has both immediate and longer-term implications. My experience is that attrition creates a persistent drag on our organization and limits organizational performance. Knowledgeable and experienced organizational depth is essential for developing leadership and succession planning which insulates the organization and community from damaging impacts of attrition with an undeveloped pool of qualified successors. Further, suppressed compensation expenses understate the cost of governmental services, making recruitment from outside organizations difficult. This measure should be regarded as a necessary initial step moving toward a market-based compensation for our employees. Staff is completing procurement of a classification and compensation study, and an ordinance appropriating funds for the study will be on an upcoming Council meeting agenda. The project schedule anticipates completion of the study in sufficient time to inform recommendations for the fiscal year 2021 budget. Funding market corrections will require increased revenue and commitment by the Council to stay the course and implement any identified solution.

The budget contains sufficient funds for a 3% merit opportunity for employees. While a 3% increase will be the largest in a decade, such an increase does not close existing wage and salary gaps with most immediate neighboring localities which have provided 3% increases consistently in recent history.

Based on initial forecasts, staff anticipates an increase to health insurance premiums of 13% or possibly higher. Coverage for a 13% increase in premium expense is provided in the recommended budget. In the face of such an increase, I would typically recommend a plan for cost sharing with employees. However, as previously stated, the 3% merit opportunity is a valued component of the budget, and I recommend we make every effort to preserve the full value of the increase. Cost sharing with employees erodes a positive benefit of the raise but will be necessary should the actual increase exceed 13%.

In recent years favorable claims experience has provided modest increases to premiums which have been borne entirely by the employer. The City continues to evaluate and implement cost-containment measures for the benefit of the group.

Recommended measures in pursuit in pursuit of the goal of improving capital planning and implementation:

The budget reflects several measures which I believe will enhance our organization's ability to plan and deliver capital projects, also a stated goal generally of the Council.

1. An improved Plan. At the March 18 work session, Council received a presentation of a newly organized and formatted capital improvement. It includes projects that have been identified and prioritized by the Council, projects identified by staff, required facility maintenance, and projects identified through the Comprehensive Plan. It is expected as well that school construction renovation projects are and will continue to be included in the plan.
2. The proposal to increase the personal property tax to \$2.90 with the \$350,000 marginal increase in revenue dedicated to fund the capital plan providing a predictable funding mechanism to deliver and plan projects more certainly.
3. An intentionally reduced reliance on fund balance for equipment replacement, small and medium capital needs.

Careful and sound management has positioned the City on solid financial footing, however, the current approach to fund balance utilization and replenishment relies too heavily on good fortune and various intended and unintended consequences of submarket wage and salary rates. The plan, and more essentially, the dedicated revenue coupled with some policy work will move the City toward even healthier practices and position and reflect commonly recognized best practices among choice cities.

While our organization has accomplished significant and valuable capital investment in the last decade, there remain projects that we as a community must do to sustain service levels and projects that we may choose to do to enhance the quality of life and compete for citizens and businesses. Improvement to capital investment our community requires a revenue commitment that is reliable and of known value.

I think a fair balance has been struck between movement toward improvement and recognizing the fee and tax increases should not be treated cavalierly. Likewise, I would discourage a similar cavalier view that any meaningful improvement in compensation or capital investment can be optimistically considered absent a concurrent willingness to approve well-justified recommendations to increase revenues. In my experienced estimation, we deliver a solid value for the various taxes and fees the local government imposes. Affordability has been a recognizable characteristic of our community. It is apparent to me and I hope apparent to the members of Council that we need to do better by the women and men who work in this organization, and I assert that the tax and fee recommendations contained in the budget are reasonable and if enacted would not erode the reputation as an affordable community in which to live. Moreover, the increases would produce appreciable improvement to the ability to deliver strategic improvements to our community.

It is noted that as the numbers go with limited exceptions, the most significant and detectable changes from the current year to the next occurs in the areas of compensation and benefits and the reliance on fund balance. Departmental non-salary and wage operating expenses remain flat or are reduced.

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I offer my thanks to Mr. Shaw, Mr. McCormick and Ms. King for their service on what we regard as the budget committee. I extend gratitude as well to our department directors for their leadership and participation in the production of this recommended budget. More importantly I extend sincere gratitude to our workforce broadly who convert the plan into action for the benefit of the citizens and visitors in our community. My sincere thanks to the Council as well for your commitment to service to our community and your participation in the process thus far.

My objective here has been to focus attention on the most substantial impactful components of the General Fund. Local government differs from state government in that budget construction is accomplished with the executive and legislative leadership working in tandem. As such, the Council is not assigned responsibility to develop a budget independent of the executive, but is rather tasked with responding to the City Manager's recommendation, judging alignment with commonly shared and articulated goals. As such, it is not expected the Council will necessarily know how every dollar is spent but whether the budget itself pursues and accomplishes commonly shared objectives. If the Council is unable to confirm alignment with objectives and comfort with revenue recommendations presented this evening, staff needs to know as soon as possible if not immediately and set about a plan to revise the fundamental construct of the budget.

Mr. Shaw and Mr. McCormick will provide additional detail in the key budgetary components.

Report and Discussion:

At the conclusion of the City Manager's statement, the Deputy City Manager and Finance Director reviewed the budget highlights, covering sources of and proposals for increasing revenues, capital improvements and the CIP Plan for 2020, fund balance policy and use of fund balance, debt service, proposed rates and next steps in the budget process. The Finance Director then provided a more in-depth review of the budget document by category.

Council members stated their concern about the increases in this budget and those needed in the future but acknowledged the need to pay for current services, the school renovation and capital projects.

Council will spend a few days reviewing the budget document. Council will provide staff with topics they would like to discuss further at the Tuesday, April 9, 2019 budget work session, to begin at 9:00 a.m.

The budget work session concluded at 7:58 p.m.

Julia Bortle, MMC, Clerk of Council

Terry Short, Jr., Mayor