

Proposed Operating Budget

City of Chesapeake
March 2015

Council's Budget Principles

- No increase in the real estate tax rate
- No new fees
- No supplanting of losses in state or federal funds with local revenue
- Review all vacant positions for possible elimination
- Identify operating efficiencies and reduce spending accordingly
- Identify non-core services for possible consolidation, curtailment or elimination

Budget Process

- Revenue forecast
- 3 year budget plans prepared by departments
- Analytical inquiry and review
- Budget Review Committee
 - Includes City Manager, Deputy City Managers, City Attorney, Chief Information Officer, Purchasing Officer, and Directors of Budget, Finance, and Human Resources
- Reconcile budget plans with available resources
- City Manager Recommendation
- Council Appropriations

Economic Conditions

- Slowly recovering real estate market
 - Increasing new construction activity
 - Property assessments are improving
 - Commercial sector slightly outperforms residential sector
- Slowly improving business activities
 - Consumer spending appears to be above FY 2014 levels, but below FY 2015 budget forecast
 - Improved building and related permit issuances



Revenue – Historical Perspective

Fiscal Year	General Fund	All Funds
• FY 2009	\$ 527.3	\$ 950.7
• FY 2010	\$ 517.5 - 1.8%	\$ 925.4 - 2.7%
• FY 2011	\$ 497.5 - 3.9%	\$ 903.1 - 2.4%
• FY 2012	\$ 501.0 +0.7%	\$ 910.1 +0.8%
• FY 2013	\$ 501.9 +0.2%	\$ 896.4 - 1.5%
• FY 2014	\$ 507.6 +1.1%	\$ 913.5 +1.9%
• FY 2015	\$ 516.1 +1.7%	\$ 925.3 +1.3%
• FY 2016	\$ 524.0 +1.5%	\$ 945.1 +2.1%

Note revenue has not completely recovered to pre-recession levels.

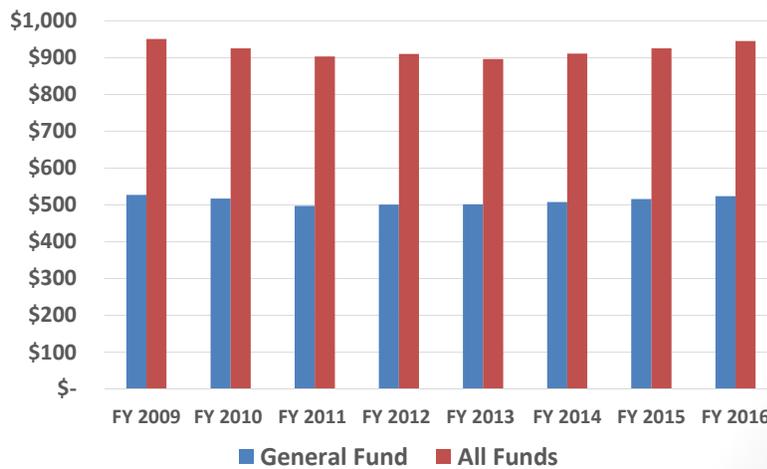
Amounts in millions

Prior years were restated for changes in accounting for Parks and Recreation and Solid Waste Disposal Funds.

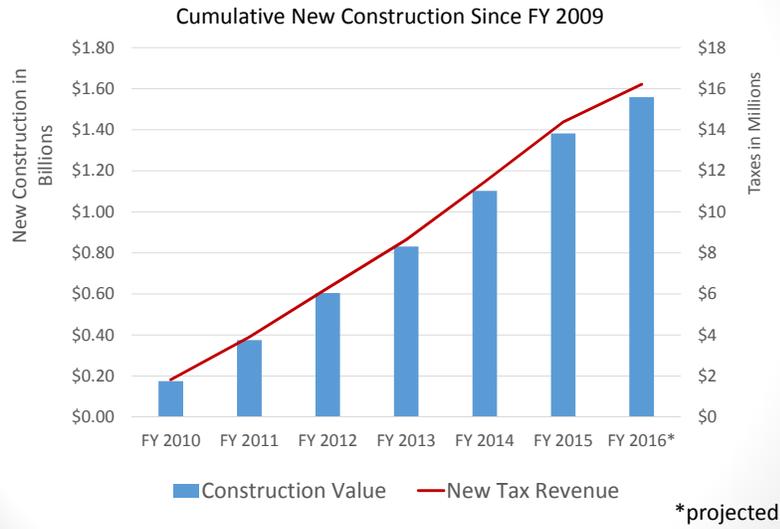
No adjustments are made for inflation.

Revenue – Historical Perspective

In millions



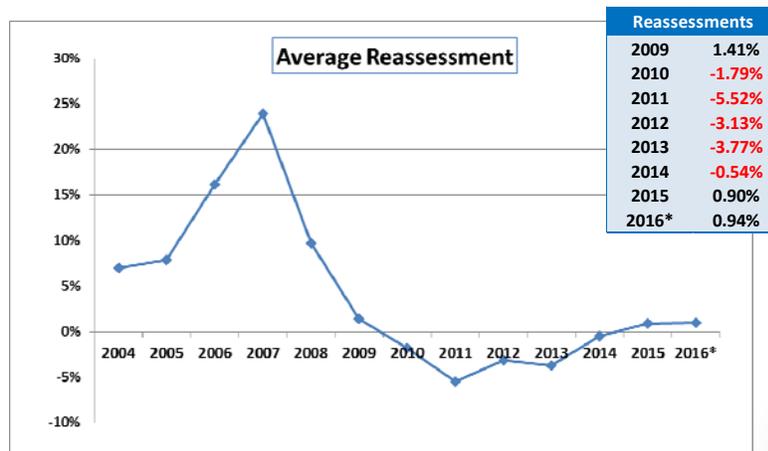
New Construction/GF Impact



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Average Reassessment %



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Revenue – FY 2016

- **Overall improvement – \$19.8 million (2.1%)**

- State funding of schools up \$2.3 million (1.1%)
- Real estate taxes up \$6.5 million (2.9%)
- Personal property taxes up \$4.95 million (13.6%)
- Consumer taxes
 - Sales taxes up \$1.0 million (2.7%)
 - Restaurant taxes up \$298,000 (1.4%)
 - Electric and gas utility minimal change
- Business licenses (BPOL) down \$413,000 (1.6%)
- Recordation taxes down \$1.8 million (46%)
- Interest and rents down \$656,000 (13%)
- Permits and licenses down \$423,000 (14%)
- Service charges up \$7.8 million (7%)

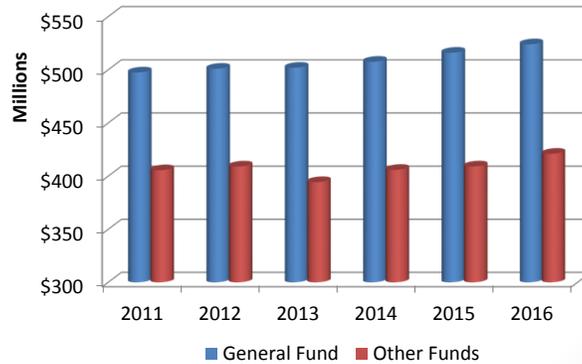
User/Service Fees

Three rate increases proposed for July 2015

- **Water and Sewer Rates**
 - 4.9% increase as recommended in rate study
 - Third of five annual increases approved February 2013
- **Emergency Medical Services (EMS) Fees**
 - First fee adjustment since 2002
 - Adjust fee structure to align with allowable charges of private and public insurers
 - Minimal impact on residents
- **Stormwater Inspection Fees**
 - Related to state mandated inspections of building sites by City
 - Recommend adoption of fees as developed by state
 - Would replace fees adopted by Council for land disturbance
 - Small negative impact on General Fund fees

Revenue Forecast

	2011	2012	2013	2014	2015	2016
General Fund	\$ 497.5	\$ 501.0	\$ 501.9	\$ 507.6	\$ 516.1	\$ 524.0
Other Funds	\$ 405.6	\$ 409.1	\$ 394.4	\$ 405.9	\$ 409.2	\$ 421.1
All Funds	\$ 903.1	\$ 910.1	\$ 896.4	\$ 913.5	\$ 925.3	\$ 945.1



Budget Drivers

- Slow revenue growth
- Share revenue growth with schools
- Maintain existing service demands
- Employee compensation
 - Annualize October 2014 pay raises
 - Recognize superior performance
 - Address pay compression for general work force
- Health care and OPEB costs
- Continue improved recreational opportunities for citizens
- Debt service and capital requirements
- Regional Jail commitment



City Staffing Requirements (1)

- New positions requested 82.16 FTE
 - *General Fund* 40.16 FTE
 - *Social Services Fund* 8.00 FTE
 - *Juvenile Services Fund* 12.00 FTE
 - *Public Utilities Fund* 8.00 FTE
 - *Stormwater Fund* 11.25 FTE
 - *Dominion Boulevard (tolls)* 1.00 FTE
 - *Other Funds* 1.75 FTE
- GF positions recommended 10.53 FTE \$1.3 M
- Non-GF positions recommended 38.57 FTE \$2.3 M

City Staffing Requirements (2)

GENERAL FUND

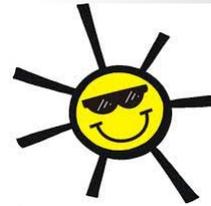
- City Attorney *asst. attorney, PT legal secretary*
- Fire Department *career paths*
- Human Resources *convert wellness coordinator to FT*
- Parks & Recreation *Eliz. River Park, Arboretum, seniors*
- Police Department *COPS grant, career paths, OT*
- Registrar *Presidential election and primaries*
- Real Estate Assessor *eliminate 1 unfunded position and fund a second position*
- Treasurer *land sales for delinquent properties*

City Staffing Requirements (3)

OTHER FUNDS

- Social Services *family svc supervisor, benefits worker
Hospital outstation services (4 FTE)
reorganization under review*
- Juvenile Services *Community Corrections Program*
- Public Utilities *storeroom accountant
safety officer
customer service clerk
water meter technicians (2 FTE)
construction inspector*
- Dominion Boulevard *customer service manager*
- Stormwater *state mandated inspection crew (5 FTE)
overtime – supvr. inmates, emergencies
ditch and drain cleaning (6 FTE)*

Parks and Recreation



- Continue resources added in FY 2015
 - Therapeutic recreation for the disabled and senior day care
 - Elizabeth River Landing Park (opens April 2015)
 - Park and athletic field maintenance
 - Capital outlays in operating budget for playground equipment, park benches, picnic tables, fencing, trash cans, athletic fencing, light replacements, and tennis court resurfacing
 - Cash funding of capital projects (CIP) for ADA compliance, athletic field, community center, and park improvements (year 2 of 10)
- Full year funding for Elizabeth River Park
- Address Chesapeake Arboretum – maintenance of grounds and limited program funding

Capital Projects Cash Funding

Transfers to Capital Funds – \$23.9 million

- | | |
|--|----------------------|
| • Stormwater Fund (current) | \$5.1 million |
| • Public Utilities (current) | \$3.3 million |
| • City Lockbox (current) | \$5.6 million |
| • School Lockbox (current) | \$4.8 million |
| • <u>CTS for future paving (current)</u> | <u>\$0.8 million</u> |
| • General Fund Balance (undesignated) | \$2.5 million |
| • Technology Fund Balance | \$1.3 million |
| • Conference Center Fund Balance | \$0.5 million |

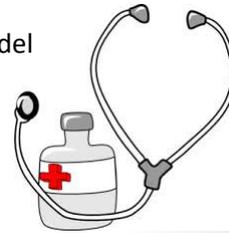
Employee compensation

- Employee pay raises since start of recession:
 - Three cost of living adjustments (1.5% - 1.6%)
 - Virginia Retirement System Reforms (5% offset contributions)
 - 3.0% general wage increase October 2014
 - Pay compression for Public Safety October 2014
- Proposed for FY 2016:
 - Pay compression and market adjustments for general workforce
 - Added cost - \$2.2 million for General Fund
 - Pay for performance – \$1,000 awards to top performers
 - Added cost - \$430,000
 - Career Paths for rank and file public safety (sworn)
 - Added cost - \$370,000 (effective January 2016)
 - No general wage increase proposed
 - Added cost for 1% raise - \$2 million for General Fund



Health care and OPEB costs

- January 2015 renewal required 8% increase in premiums
 - Initial renewal proposed at December 2014 was up 28%
 - Plan amendments reduced premium increases to 8%
 - *Premium increase applies to both employee and employer*
- Anticipate 8% increase in health and dental premiums – January 2016 renewal
- Increases budget by \$2.6 million
 - 10.5% above FY 2015 level
- Expect to revisit self-insurance funding model
- OPEB cost declined by \$1.5 million
 - We are at Annual Required Contributions
 - Assumed rate of return – 7.5% annually



Transition to Arrears Payroll

- Current two payroll cycles
 - Semi-monthly employees paid currently
 - Weekly and part-time employees paid in arrears
- Objective
 - Simplify payroll processes and address error-prone procedures
- Under consideration
 - A consistent and effective payroll cycle
 - Pay all employees in arrears (leaning towards 7 day deferral)
- Transition
 - Change will mean employees go without pay for 7 days
 - Recommend one-time advance of 1 week's pay to bridge gap
- Estimated cost of advance payment - \$3.5 million
 - One-time charge to City Fund Balance
 - Advance forgiven for employees staying 5 years

Jail Overcrowding

- In 2014 joined Hampton Roads Regional Jail Authority
- July 2014 – sent first 50 inmates to regional jail
- July 2015 – regional jail will hold 150 Chesapeake inmates
- By April 2016 – regional jail will hold 225 Chesapeake inmates
- FY 2016 budget \$4.32 million
 - Increased \$2.32 million above FY 2015 payments
 - Second installment of entrance fee included in capital budget
- Continue working with architects on City jail expansion for Community Corrections and Work Release
- Must discontinue usage of temporary facilities March 2018

Greenbrier TIF Surplus

- Projected fund balance – July 2015 ... \$19.6 million
- Capital Fund includes \$5.26 million for signage, pedestrian safety, and other improvements
- Woodlake extension is underway and fully funded
- Annual revenue projected ... \$5.5 million
- The leading objectives of TIF have been accomplished or are in progress
- Servicing existing debt with requires \$1.55 million annually
- \$16 million project for 2017 will require \$1.50 million annually to service associated debt
- Recommend \$2 million annual declaration of surplus that is shared equally with schools

School Operating Budget Request

- School General Fund
 - FY 2016 proposal \$404.24 million
 - FY 2015 budget \$394.48 million
 - Increase \$ 9.76 million (+2.47%)
 - Additional state funding \$ 2.32 million (+1.12%)
 - Remove one-time settlement (1) \$ 3.30 million
 - Additional local funding required \$10.74 million
- City funding available for FY 2016
 - Revenue sharing agreement adds \$ 4.14 million (+2.35%)
 - Imbalance \$ 6.60 million
 - Greenbrier surplus \$ 1.00 million
 - Remaining imbalance \$ 5.60 million

School Revenue Sharing

- City shares growth in general tax revenues with schools
 - Includes: property taxes and most other local taxes
 - Excludes: service fees, permits, licenses, fines, and state aid
- Shared revenue – FY 2015 \$437.0 million*
- Shared revenue – FY 2016 \$444.8 million*
- Increase in shared revenue \$7.80 million
- Increase in lockbox funding** \$0.12 million
- Adjust for reserve policy change \$0.30 million
- **School share for operations \$4.14 million**

* Net of reserve requirements

** Includes city and school lockboxes
(excluding debt service savings)



Options to Address School Request

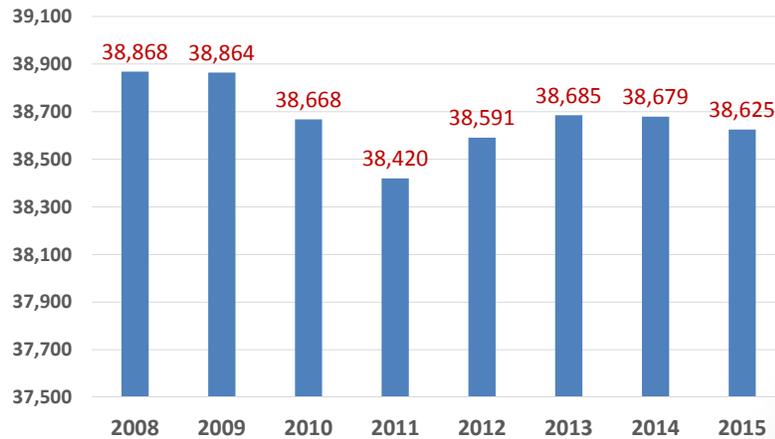
- Draw down existing City reserves
 - Recurring needs funded with non-recurring revenue source
 - Likely to produce an even greater deficit in FY 2017
 - Not a responsible or permanent solution
- Make cuts in the City's operational budget in order to fund this School request
 - Would require major program changes or reduction in City personnel costs
 - Pits School employees against City employees
 - Not a permanent solution. Similar or larger shift would be needed in future years
- New, Annually Recurring Revenues (Tax Increase)
 - 2.5 cent tax increase would fully fund the FY 2016 School Request
 - Unfortunately, not a sustainable solution

Importance of Sustainability

- **Best Practice** – fund annually recurring operating expenditures from recurring revenue. Limit the use of fund balances or other one-time revenue sources to one-time/non-recurring expenditures.
- School budget includes \$9.3 million of funding from its reserves (Fund Balances)

• Self Insurance Fund	\$7,963,819
• Cell Tower Fund	70,000
• School Nutrition Fund	141,654
• School Textbook Fund	1,091,958
- Take careful note of the \$3M dollar reduction in settlement revenues indicated above
- Before considering a tax increase, we need to plan for a sustainable solution and avoid options that just get us through one more challenging year at the cost of even bigger shortfalls in the future

School Enrollment – October 1



Chesapeake Public Schools Proposed Budget 03/09/2015

City of Chesapeake 03/24/2015

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Beyond Immediate Horizon

- Revenue (resources)
 - Federal sequestration and other austerity measures may be loosening
 - Real estate market and consumer spending are growing at much smaller rates than typically occurs following a recession
- Expenditure (demands)
 - New or expanded facilities: Public Safety Operations Building, Jail expansion, Replace Fire Stations (2018 and beyond)
 - Service demands in CSB, Human Services, Technology, and Police Departments
 - Employee health care
 - Competition between capital and operations



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Other Issues

- Debt service requirements
 - Drop in debt payments – \$15.4 million added to lockboxes for capital program
- Non-Departmental
 - Transit operating agreement – modest change
 - Regional agencies and partners – see pages 16-17 of non-departmental section of budget

What's Not Included?

- Community para-medicine – Fire/EMS
- Police personnel to address emerging criminal activities
- Benefits and quality assurance personnel for Social Services
- Fleet replacements – *limited progress with Capital Plan*
- Cost of living and merit pay raises
- Chesapeake Arboretum – *included only limited funding*
- Chesapeake Jubilee – *no direct contribution*
- Healing Place of Hampton Roads – *homeless/substance abuse*
- Norfolk State University – *scholarship funding*
- River Star Home Project – *Elizabeth River Project*

Ordinances/Council Action

- Appropriation of Operating Budget
- Appropriation of Capital Budget
- Appropriation establishing tax rates
- Revise Ordinance governing EMS Fees
- Revise TIF Ordinances governing surpluses
- Revise Ordinance governing land disturbance and inspection fees
- Revise Ordinance governing employee holidays

MAJOR FUNDS

City of Chesapeake
Operating Budget

General Fund

- Revenue grows \$7.97 million (1.5%)
- School sharing formula – up \$4.1 million
- School transfers from prior year true-up – down \$3.3 million
- Employee pay and benefits – up \$3.4 million
- One-time transition payments (arrears pay) – \$3.5 million
- Organizational productivity – up \$1.31 million
- Transfers to Human Svc and CSB Funds – up \$680,000
- Transfers to Debt Service Fund – down \$14 million
- Transfers to Capital Funds – down \$7 million
- Strategic reliance on undesignated fund balance – \$5.7 million

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General Fund Balance

<i>in millions</i>	June 2014	June 2015	June 2016
General Fund Balance	\$ 147.41	\$ 133.50	\$ 138.76
<u>Restriction, Commitments and Designations:</u>			
City Charter	\$ 31.31	\$ 31.94	\$ 32.01
Capital lockboxes	7.32	5.98	16.30
Solid waste designation	1.64	1.04	0.44
Treasurer's designations	2.24	2.27	1.96
School reversions and settlements	3.97	0.60	0.60
Open Space and Agricultural Preservation	1.11	-	-
Litigation liability designation	1.34	1.34	1.34
Other commitments and designations	4.67	4.53	5.04
Total reservations	\$ 53.59	\$ 47.71	\$ 57.68
Undesignated Fund Balance	\$ 93.82	\$ 85.80	\$ 81.08
Council Policy for Undesignated Balance			\$ 64.02

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School Funds

- City recommendation is \$5.6 million less than School Board proposed
 - No use of prior year settlement (City General Fund Balance)
 - Continued draw down on School Fund Balances (\$9.3 million)
- School Spending plans include
 - 2% salary increase for school staff
 - Textbook spending drops \$1.4 million
 - 15 positions eliminated through attrition
- State school funding increases \$2.33 million (1.11%)
 - Includes \$1.9 million that is contingent on state revenue collections during FY 2015
- City proposal based on existing revenue sharing formula

Social Services Fund

- Caseloads remain high ... 30% above pre-recession levels
- Budget increases \$533,000 (2.5%)
- Additions to Budget:

• Adult protective services supervisor	\$ 69,900
• Benefits program worker – Medicaid	\$ 49,400
• Out-stationed Medicaid – Chesapeake General	\$236,460
• Increased wages and benefits	\$649,000
- Budget Reductions:

• Remove on-time funding (vehicles)	\$160,000
• State mandates/funding (adoptions subsidies)	\$337,500

**Additional costs offset by increased GF transfers.*

Debt Service Fund

- Debt payments fall \$14 million
 - City lockbox debt up \$ 1.4 million
 - School lockbox debt up \$ 0.1 million
 - Tax Increment Financing debt up \$ 0.2 million
 - Pre-lockbox debt down \$15.5 million
- Debt service fund balance
 - Balance at June 30, 2014 \$29.20million
 - Budget for use during FY 2015 \$ 4.56 million
 - Budget for use during FY 2016 \$ 4.50 million
 - Projected fund balance June 2016 \$20.14 million

Public Utility Fund

- Recommend 4.9% water and sewer rate increase
- Budget increases by \$3.2 million (5.2%)
 - Eight (8) new positions \$443,000
 - Construction inspector, safety official, equipment operator, pump station laborer, customer service clerk, 2 water meter technicians, storeroom accountant
 - Increased cost for purchased water contracts \$746,000
 - Increased purchased services for system maintenance, engineering services, and temporary labor \$1,116,000
 - Increased overhead to City General Fund \$250,000
 - Increased routine capital costs \$1,442,000
 - Decreased debt service costs \$384,000

Stormwater Management

- Operating budget increases by \$4.2 million (40.5%)
 - 5 construction inspectors (state mandate) \$289,200
 - Overtime – mowing/inmate supervision \$287,200
 - 6 positions for system maintenance \$259,500
 - 4 laborers, 2 equipment operators
 - Sheriff mowing and beaver dam removal \$402,000

- Equipment purchases \$2.7 million
 - 2 suction vacor trucks, 2 street sweepers,
 - 1 pipe washer, 1 dump truck,
 - 8 extend cab pickups/mid-size SUV

Budget Calendar

- Opportunities for Council Discussion/Deliberation:
 - Strategic Planning – April 7
 - Council work sessions – April 14, 21 and 28
- Public hearings – April 28 and May 12
 - Charter requires at least one public hearing
- Adoption of budget and appropriations ordinances – May 12
 - City Charter requires adoption 45 days before year begins
- Technical amendments and corrections – June 9
- First day of new fiscal year – July 1