Chesapeake VIRGINIA

City of Chesapeake

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The Honorable Mayor Alan P. Krasnoff and
Members of Council
City of Chesapeake
306 Cedar Road
Chesapeake, Virginia 23320

Dear Mayor Krasnoff and Members of Council:

The continued deepening through 2009 and into 2010 of the recession that began in 2007 has presented the City with enormous fiscal challenges not faced since its establishment in 1963. In November 2009, we presented to Council preliminary information on the Operating Budget for FY 2009-10 and the outlook for FY 2010-11. At that time and in subsequent briefings, we shared information regarding the prospect for revenue softness in the current year and next year. In January, we shared with you our estimate of a $24 million gap between projected General Fund revenues and expenditures, including declines in State and Local resources for the next fiscal year. This comes on top of revenue declines in FY 2008-09 and FY 2009-10.

We have conveyed to you in these briefings, our anticipation that the current and prospective years would likely result in what could be characterized as "sea changes." It is eminently clear that the State is making substantial revisions in the state-local relationship with regard to funding of public services, and the City must re-examine service priorities and levels and how services are produced and delivered. We also shared with you our outlook that the decline in resources and its effect on the provision of public services by the City would be long term, and that recovery to a rate of resource growth above that of rising unit costs could take as long as four years. While there are indications of recovery on the distant horizon, we believe it will be slow and arduous when it comes. Some observers caution that continuing foreclosures in the residential market and an impending wave of foreclosures in the commercial market may prolong the recession further through declining real estate values and constraints on new lending.

City Council defined a number of parameters and goals to guide our efforts in balancing this budget:

- No tax rate increases
- No new fees
- No supplanting of state aid
- Review vacancies for elimination
- Find/create efficiencies
- Program & service reductions
- Reduction goals by department
- Communication strategies

A number of strategies for augmenting the City's revenue stream as much as $1.2 million by achieving parity with neighboring cities with regard to rates for selected resources such as EMS fees and vehicle license taxes were not considered out of respect for these guidelines. No tax or fee increases or proposals for new taxes or fees are included in this budget.

The Real Property Tax Rate for General Government and Schools remains at $1.04. The Real Property Tax Rate with the $0.01 levy for Mosquito Control total $1.05. While the rate is unchanged from FY 2009-10, the reduction in real estate and personal property values translates to a net reduction of 5.519% in adjusted assessed value or $11.2 million in General Property Taxes. This reduction translates to taxpayers as approximately a $0.06 decrease in the tax rate to an effective tax rate of $0.98.

In the FY 2009-10 budget, total State revenues decreased from FY 2008-09 actual revenues by $14.8 million, adjusted from the American Reinvestment and Recovery Act (ARRA) substitution. State revenues for the General Fund remained basically level, while those for Chesapeake Public Schools were reduced by $14.5 million. In the interim, we have brought to you an additional $2 million in non-school State reductions and anticipate additional adjustments pending final budget actions. For FY 2010-11, the outgoing Governor's proposed budget reduced State support to Chesapeake Public Schools by $18.2 million and to City operations by over $4.5 million. Final General Assembly Acts will likely change these amounts. These reductions were not supplanted with local resources for FY 2009-10 and are not proposed to be supplanted in FY 2010-11.

The overall Proposed Operating Budget for FY 2010-11 reflects a total which is $84.3 million less than the FY2009-10 Approved Budget; $71.8 million of this variance is attributable to School grants and special funds which are appropriated at a later date.

Chesapeake Public Schools resources decreased by $14.6 million, of which $7.7 million is derived from State and Federal resources and $6.9 million is derived from the City of Chesapeake. Based on the revenue sharing agreement, the total City support to Chesapeake Public Schools Operating Fund for FY 2010-11 is $166,488,283. An amendment to the School budget will be required when final State budget data are available.

We addressed the fiscal challenge of reducing the cost of City operations to match resources while remaining faithful to our commitments to citizens and employees by working through very difficult alternatives to arrive at what we consider to be sustainable strategies that emphasize core services. Staff and service reductions are inevitable given the severity and persistence of the present economic and fiscal climate. However, a recursive process of building capacity in our leadership and line staff, and of defining core services, refining service levels, and continuous improvement in service efficiency and effectiveness will be an essential part of the City's strategy in the new economy.

Other strategies include:

- Leaner service production through elimination of vacant positions, reclassification of positions to lower levels or part time status, re-engineering of core services, and by reducing non-controlled operational expenses such as supplies, vehicles, travel and contractual services. A total of 74 full time positions were removed from the personnel complement or converted to part time status. Departments worked collaboratively to provide specific departmental decreases yielding sustainable program restructurings and alternatives to meet target reductions.

- We did not propose any increases in the City and School Lock Boxes for FY 2009-10 and again do not do so for FY 2010-11. There is sufficient contribution to the Lock Box to fund the established debt and the projects already approved by City Council and those proposed for FY 2010-11. The continuation of this policy is needed to ensure debt-to-operating ratios are maintained with flattening or limited growth in operational resources. These levels will support projects already approved by City Council, but will limit additional large projects for both City and School needs.

- While there have been suggestions from employees and citizens to discontinue all capital projects, this is not recommended. Rather, projects are limited to those of a critical nature from Non-General Fund sources and those critical to maintain core services and to keep our local economy growing.

- The OPEB (Other Post Employment Benefit) Trust Fund contribution is increased by $1 million to incorporate the fourth year of the City Council's five year commitment to fund the cost of retiree health benefits for current and future retirees. This is a lower amount than the planned $2 million increase, but will allow the City to continue its commitment to funding the retiree health liability while being sensitive to the current economic climate.

- The Risk Management Fund is increased by $250,000 and a one time $1 million appropriation is made from the fund balance to help close the gap in this fund. While this will not address the total gap, we are putting in place a multi-pronged approach to the gap to include capital projects targeted to high risk roads, enhanced wellness programs for public safety to help these employees stay healthier and to reduce worker's compensation and city-wide safety awareness. Additional funding will be provided in the five year planning period to further close the risk management funding gap.

- Phase II of the Pay Plan will not be implemented for FY 2010-11. We remain committed to the plan, but cannot justify implementation in these difficult economic times.

- The employee share of health insurance will increase to help cover the 11% cost increase of health insurance for FY 2010-11. Likewise, a contingency has been established for an anticipated 1.6% increase in VRS and Group Life Insurance rates.

- No increase is budgeted for the General Fund Reserves (5% and 6%) because the required levels are already met due to the decrease in revenues.

- Contingencies, including the Council Contingency and City Operations Contingency were decreased.

- The attenuation in the waste volume by diversion to recycling combined with containment of the SPSA Tipping Fee for solid waste disposal to $170/ton allowed us to reduce the budget for disposal by $2 million. The Chief Administrative Officers' plan which detailed debt restructuring, downsizing of SPSA operations and the sale of excess assets has resulted in significant improvement to the balance sheet of SPSA. However, additional efforts must continue to bring this cost center into a more sustainable position.

- A remaining gap of $1.5 million, will be closed using a combination of furlough days, voluntary leave without pay, and vacancy savings. This action will avoid the imposition of a reduction in force (equivalent to approximately 27 employees), or a percentage reduction in pay to employees.

These strategies allow us to reduce current operational costs to balance against lower estimated revenues.

Economic indicators predict that the City will continue to experience very limited revenue growth for the next three to five years. We do not anticipate returning to the large growth driven by the unprecedented housing market appreciation of the past several years. This proposed budget continues to realign the organization on core services to our citizens while bringing increasing effort to bear on streamlining, process improvement, and building sustainable capacity in the organization. We will monitor the impact of these strategies to enable us to make adjustments, as needed, in critical areas.

Our staff is committed to provide quality service to the public. We have aggressively reached across boundaries to harness available resources to meet your goals while remaining within your guidelines. We are confident that this budget further engages the necessary restructuring of our resources to achieve the sustainable delivery of core services. We will be further developing tools such as service prioritization to help aid City Council in making the difficult policy choices that are before us.

I am confident that the strategies contained within this proposed budget sustain and enhance our already strong financial position. I remain bullish about the future of this great City, and look forward to working with City Council in moving the agenda of this community.

Sincerely,

William E. Harrell
City Manager

WEH/BJM:wbf