

July 28, 2011

The Honorable Mayor Alan P. Krasnoff and
Members of the City Council
City of Chesapeake
Civic Center
Chesapeake, VA 23322

Dear Mayor Krasnoff and Members of the City Council:

On May 10, 2011, the City Council adopted the Fiscal Year 2011-12 Operating Budget. The approved budget maintains the current real estate tax rate of \$1.05 (including the 1¢ mosquito control tax) and totals \$829.4 million, an increase of \$9.4 million above the FY 2010-11 Operating Budget. The FY 2011-12 Budget provides the necessary resources to meet critical basic services.

On June 8, 2011, City Council approved several amendments to the FY 2011-12 Operating Budget. A summary of the amendments is noted below:

- A. Amend the school portion of the operating budget to include programs and activities financed outside of the school's general fund. These included school grants, food services, and textbook funds. The modification increased the school appropriation by \$73,833,349.
- B. Amend the City portion of the operating budget to distribute funds for employee pay raises between the General Fund and several special revenue funds. This modification did not change total budget amount but did result in the transfer of \$1.06 million between the General Fund and the several special revenue funds.
- C. Several amendments and technical corrections totaling \$3.3 million and explained in more detail on the accompanying schedule (page iii).

The Approved FY 2010-11 Operating Budget as amended provides a total of \$951.3 million for all governmental activities beginning July 1, 2011. This represents a 0.6% increase above the FY 2010-11 spending plan. This small change indicates that we must continue to search for efficiencies and rigorously monitor our financial position to ensure the City's long term financial health and commitment to quality services. Of the \$951.3 million for FY 2011-12, \$484.5 million supports School operations, debt service, and capital requirements. This represents 50.1% of all available resources.

The FY 2011-12 Operating Budget reflects the successful efforts of our City Council, staff, and input from citizens in shaping a spending plan which reflects the highest priorities and needs of the City. This plan will ensure our continued quality of life for the future as we navigate these challenging economic times.

Sincerely,

A handwritten signature in black ink, appearing to read 'William E. Harrell', written in a cursive style with a long horizontal flourish at the end.

William E. Harrell
City Manager

Amendments and Technical Corrections to FY 2011-12 Operating Budget

A – Amendment to the School Portion of the Operating Budget

School Board (Education) – the School Board has revised its budget to include programs and activities financed outside of its General Fund. Additionally, the Board revised the School General Fund budget to align revenue and expenditures with state budget revisions from the 2011 General Assembly session. None of the proposed revisions affects City funding of Schools. The following revisions have been requested by the School Board:

1.1.	School General Fund	\$ 2,115,546
1.2.	School Grants Fund	53,127,414
1.3.	School Food Service Fund	13,545,786
1.4.	School Textbook Fund	4,764,603
1.5.	Cell Tower Fund	280,000
1.6.	Total revisions to School budget	\$ 73,833,349

The modifications to the school operating budget recognize increased revenue of \$70,832,320, inter-fund transfers of \$2,000,000 between General and Textbook Funds, and use of accumulated fund balances of \$3,001,029.

B – Amendment for Employee Pay Raises Approved January 25, 2011

Distribute Non-Departmental Provision for Employee Pay Raises – this provision is reduced by \$4,798,872 and added to the budgets and appropriations of departments and special revenue funds as noted below.

2.1.	General Fund (City departments)	\$ 3,733,464
2.2.	Human Services Fund	319,607
2.3.	Interagency Consortium Fund	5,982
2.4.	Community Services Board Fund.....	316,009
2.5.	E-911 Fund.....	92,777
2.6.	Juvenile Services Fund	117,260
2.7.	Parks and Recreation Fund	155,435
2.8.	Garage/Central Fleet Fund	58,338
2.9. Total distribution of non-departmental contingency		\$ 4,798,872

These transfers do not change the total City operating budget, however, they do result in a shift of appropriations between funds. Additionally, we recommend increasing TIF wages and benefits by \$3,656 funded by a reduction in the increase in fund balance for the TIF districts.

Finally, we have reduced the amount budgeted for employee pay raises by \$109,527 since the raise for IT Department personnel was inadvertently included both in the non-departmental contingency and the department’s budget.

E-911 Communications Budget – in order to fund the scheduled pay raise for the E-911 budget, it is necessary to increase the allocation of communications revenues to the E911 Fund by \$92,777 and reduce communications revenues retained in the General Fund by the same amount. An offsetting increase in salary expenditures in the E-911 fund and an offsetting decrease in the non-departmental contingency for salary increases are recommended above. This reclassification does not change the city-wide operating budget.

C – Other Revisions and Technical Corrections

3. School Lock Box – proposed budget erroneously omitted \$1.0 million transfer from the South Norfolk TIF to the School Lock Box. We recommend revising the budget to reflect the transfer from the South Norfolk TIF and to redirect \$1.0 million of restricted General Fund revenue with a transfer to the Debt Service Fund. This adjustment will also reduce the City’s reliance on the Debt Service Fund Balance from \$6.31 million to \$5.31 million during FY 2011-12.

4. Juvenile Services
 - 4.1. Recommend reducing salary and benefits budget by \$175,000 to recognize savings realized from employee attrition over last several years.
 - 4.2. Recommend increasing department budget by \$100,000 in order to complete interior painting. The center has been cited as in need of paint by the Virginia Department of Juvenile Justice.
 - 4.3. Reduce expected receipts from other localities by \$227,690 based on \$190 per diem and estimated number of residents from other localities.
 - 4.4. Increase use of Juvenile Services Fund Balance in order to pay for cost of painting and offset reduction in service revenue. Anticipated usage of the fund balance rises by \$152,690 to \$189,090.

5. Chesapeake Expressway Revisions
 - 5.1. Reduce budgeted revenue by \$3,848,266 based on tolls approved by City Council. Original budget reflected tolls recommended by Steer Davies Gleave (consultants).
 - 5.2. Remove \$1,500,000 for resurfacing of Expressway from the operating budget (under separate cover, we recommend \$3.0 million of resurfacing be included in the Capital Improvements Budget).
 - 5.3. Add \$2,702,617 to operating budget for debt payments owed on expressway; the proposed budget omitted loan repayments to the Virginia Toll Facility Revolving Account (TFRA).
 - 5.4. Remove \$5,050,883 of residual funds that would increase in Expressway Fund balance.

6. **Transfers to the Capital Projects Fund** – the proposed operating budget included \$1,350,000 of transfers to the Capital Projects Fund while the capital improvement budget only included \$1,250,000. We recommend lowering the operating budget by \$100,000 so that it is in agreement with the capital budget.

7. **Revisions from the Virginia Compensation Board** – we recommend reducing both general fund operating revenue and related department expenditures as noted below:

7.1. Sheriff’s Department	\$ 58,021
7.2. Commonwealth’s Attorney	43,180
7.3. Circuit Court Clerk	14,527
7.4. Commissioner of the Revenue	8,532
7.5. City Treasurer	8,895
7.6. Total Compensation Board Revisions	\$ 133,155

8. **Hampton Roads Transit Agreement (Non-departmental)** – final projections for HRT were received after the proposed operating budget was released. We recommend an increase in the operating budget based on the updated agreement with HRT as noted here:
 - 8.1. Expansion of services – route 14 to provide services to Community Services Board and Dominion Commons Shopping Center
 - 8.2. Increased funding of existing services.....
 - 8.3. Total increase in budget from revisions to HRT agreement

8.1. Expansion of services – route 14 to provide services to Community Services Board and Dominion Commons Shopping Center	\$ 188,775
8.2. Increased funding of existing services.....	35,527
8.3. Total increase in budget from revisions to HRT agreement	\$ 224,302

9. **Public Health Department** – we recommend an increase in budget of \$31,127 consistent with the revised agreement with the State Health Department (agreement completed after release of original budget).

10. **Information Technology** – we recommend the following changes to the technology budget:

10.1.	Increase budget for radio replacements (E-911 Fund) from the carryover of funds remaining in the FY 2009-10 budget	\$ 1,500,000
10.2.	Increase budget for radio replacements (E-911 Fund) from funds designated in the General Fund Balance for radio replacements	732,507
10.3.	Increase transfers from General Fund to E-911 Fund (items 8.1 and 8.2)	2,232,507
10.4.	Reduce revenue – revised service agreement - Chesapeake Public Schools	39,804
10.5.	Delete one position based on revised service agreement with CPS	54,580

11. **Registrar** – we recommend a \$6,700 reduction in the department’s budget as noted below:

- 11.1. Increase the recommended \$18,300 to ensure sufficient funding for three elections that are scheduled to occur in FY 2011-12 (March Presidential primary, May municipal election, and November general election). The current budget amount is not sufficient to cover costs for three elections.
- 11.2. Reduce the budget by \$25,000 for estimated annual savings anticipated from the replacement of voting machines. It is anticipated that replacement would not occur in time for August election and that a part of the license agreement on existing machines would be paid.

12. **City Operations Contingency** – reduce the contingency for City operations by \$24,427 reflecting additional Registrar and Public Health costs.

13. Transfers to Capital Improvement Funds – the following cash transfers to Capital Improvement Funds are included in the Capital Budget but were omitted from the Operating Budget:

13.1.	South Norfolk TIF for library	\$ 500,000
13.2.	Greenbrier TIF for extension of Woodlake Drive	\$ 1,500,000
13.3.	Chesapeake Expressway for major renewal of roadway	3,000,000
13.4.	General Fund transfer for voting machines and PeopleSoft upgrade	1,600,000

Note that all of the cash transfers to capital projects noted here are derived from accumulated funds that will be on hand at the beginning of the year. These transfers have no impact on funds available for current operations. Budget documents are also restated to reduce the previously stated increase in the fund balances of the TIFs and the Expressway funds.

14. Reclassify \$93,891 of Sheriff’s internal billing for mowing from Charges for Services to Miscellaneous Revenue. This adjustment is only a reclassification and has no impact of the total budget.

15. Reclassify \$81 from Transfers to Schools to Reserve for Capital and Debt Service (School Lockbox).

16. Increase General Fund expenditures and related Internal Service Fund recoveries by \$43,561 based on revised billings related to employee pay raises.

The revisions noted here will increase total appropriations by \$77,152,820; increasing from \$874,193,976 to \$951,346,796. A summary of the changes are noted in Schedules 1 through 3 starting on page 5. Staff will be available to address Council questions regarding these changes.

Schedule 1
SUMMARY of REVISIONS to OPERATING BUDGET
FY 2011-12

	Original Budget	Revisions	Revised Budget
City Operating Funds			
Revenue	\$ 470,752,457	\$ (4,243,916)	\$ 466,508,541
Expenditures	\$ 461,834,383	\$ 3,295,820	\$ 465,130,203
Other Requirements	44,527,598	23,732	44,551,330
Total Appropriations and Requirements	\$ 506,361,981	\$ 3,319,552	\$ 509,681,533
School Operating Funds			
Revenue	\$ 367,831,995	\$ 70,832,320	\$ 438,664,315
Expenditures	\$ 367,831,995	\$ 73,833,268	\$ 441,665,263
Total Appropriations and Requirements	\$ 367,831,995	\$ 73,833,268	\$ 441,665,263
GRAND TOTAL	\$ 874,193,976	\$ 77,152,820	\$ 951,346,796

Schedule 2
REVENUES and OTHER FUNDING SOURCES

	Original Budget	City Adjustment	School Adjustment	Revised Budget
RESOURCES AVAILABLE:				
REVENUE				
General Property Taxes	\$ 293,841,460	\$ -	\$ -	\$ 293,841,460
Other Local Taxes	120,696,370	-	-	120,696,370
Licenses and Permits	2,193,150	-	-	2,193,150
Fines & Forfeitures	2,862,750	-	-	2,862,750
Use of Money & Property	5,249,839	(200)	37,500	5,287,139
Charges for Services	99,449,741	(3,942,157)	6,743,660	102,251,244
Miscellaneous Revenue	5,324,730	54,286	296,433	5,675,449
Recovered Costs	1,641,010	(222,690)	61,000	1,479,320
Revenue from the Commonwealth	292,739,520	(133,155)	15,167,385	307,773,750
Revenue from the Federal Government	14,585,882	-	48,526,342	63,112,224
TOTAL REVENUES	838,584,452	(4,243,916)	70,832,320	905,172,856
OTHER FUNDING SOURCES:				
Use of Funds Designated for Capital and Debt	\$ 17,784,949	-	-	\$ 17,784,949
Use of FY 2009-10 surplus	7,546,689	1,000,000	-	8,546,689
Use of other accumulated reserves	10,277,886	6,563,387	3,001,029	19,842,302
TOTAL RESOURCES AVAILABLE	\$ 874,193,976	\$ 3,319,471	\$ 73,833,349	\$ 951,346,796

Schedule 3
APPROPRIATIONS and REQUIREMENTS

	Original Budget	City Adjustment	School Adjustment	Revised Budget
APPROPRIATIONS and REQUIREMENTS:				
APPROPRIATION for EXPENDITURES				
General Fund	\$ 250,988,145	\$ (1,040,227)	\$ -	\$ 249,947,918
Public Assistance Fund (Human Services)	20,786,023	319,607	-	21,105,630
Interagency Consortium Fund	3,732,720	5,982	-	3,738,702
Fee Supported Fund	1,058,176	-	-	1,058,176
Community Services Board Fund	17,971,449	316,009	-	18,287,458
Conference Center / Conventions & Tourism Fund	4,646,760	-	-	4,646,760
E-911 Operations Fund	6,335,724	2,325,284	-	8,661,008
Juvenile Services Fund	5,455,023	42,260	-	5,497,283
Tax Increment Financing District Funds	1,025,360	3,656	-	1,029,016
Open Space & Agricultural Preservation Fund	205,570	-	-	205,570
Parks & Recreation Fund	8,432,533	155,435	-	8,587,968
Internal Service Funds (net of billings)	4,106,205	(34,803)	-	4,071,402
Grants Fund	2,870,343	-	-	2,870,343
Debt Service Fund	54,869,283	-	-	54,869,283
Public Utilities Funds	57,004,793	-	-	57,004,793
Stormwater Fund	8,800,178	-	-	8,800,178
Chesapeake Expressway Funds	8,798,417	1,202,617	-	10,001,034
Mosquito Control Fund	4,747,681	-	-	4,747,681
Education Funds:				
Operating Fund	367,831,995	-	2,115,465	369,947,460
Grants Fund	-	-	53,127,414	53,127,414
Textbook Fund	-	-	4,764,603	4,764,603
Food Service Fund	-	-	13,545,786	13,545,786
Cell Tower Fund	-	-	280,000	280,000
TOTAL EXPENDITURES	829,666,378	3,295,820	73,833,268	906,795,466
TRANSFERS, RESTRICTIONS AND COMMITMENTS:				
Transfers to Construction Funds	\$ 11,864,917	\$ 6,500,000	\$ -	\$ 18,364,917
Reserves required by Charter or Council Policy	389,900	-	-	389,900
Restricted for Future Usage:				-
School Capital and Debt	14,530,734	81	-	14,530,815
City Capital and Debt	7,789,747	-	-	7,789,747
Greenbrier TIF District	924,075	(924,075)	-	-
South Norfolk TIF District	2,499,314	(501,391)	-	1,997,923
Enterprise Funds	6,132,613	(5,050,883)	-	1,081,730
All Other	396,298	-	-	396,298
TOTAL APPROPRIATIONS and REQUIREMENTS	\$ 874,193,976	\$ 3,319,552	\$ 73,833,268	\$ 951,346,796