

**Office of City Manager**

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July 15, 2013

The Honorable Mayor Alan P. Krasnoff and Members of City Council  
City of Chesapeake, Virginia

Dear Mayor Krasnoff and Members of Council:

In May City Council approved the FY 2014 Operating Budget in the amount of \$906.3 million as we proposed in March. The budget addressed Council's guiding principles and positioned the City to sustain existing programs and services without addressing new demands. The Operating budget combined with adequate reserves ensures that we are able to continue services important to citizens and address negative impacts of federal budgetary austerity. The annual appropriation for the FY 2013-14 Operating Budget approved by Council in May is summarized as follows:

General Fund	\$ 260,481,304
School Funds	442,698,540
Special Revenue Funds	64,795,799
Enterprise Funds	72,458,464
Debt Funds	55,446,601
Other Funds	10,406,559
<b>TOTAL APPROPRIATIONS</b>	<b><u>\$ 906,287,267</u></b>

In June, at the recommendation of staff, City Council approved several amendments to the FY 2014 Operating Budget in order to address matters that emerged after we released the proposed budget. Most adjustments were minor and reflected refinements requested by departments to properly account for program costs. Additionally, costs for employee pay raises and changes in health care costs were included in the Non-Departmental Section of the proposed budget. Since these costs are charged to each department's budget, Council agreed to transfer the budget provisions to individual departments. Council also approved several modifications that resulted in a \$1.1 million increase in the total appropriation. In this letter, we have separated the budget adjustments into two groups:

- A. Revisions that increase the Operating Budget and total appropriation
- B. Reclassifications that shift funds between budget lines but do not change the total appropriation

With these changes, the FY 2014 Operating Budget was increased by \$1.2 million – rising from \$906.3 million to \$907.5 million. Revenue is reduced by \$699,104, largely because of school adjustments. A reduction in the increase in reserves for future purposes will fill the \$1.9 million gap caused by the budget and revenue adjustments. The remainder of this message explains the specific changes approved by Council in June.

**A. Increases in Operating Budget and Appropriation**

1. School Debt Payments – the proposed operating budget included debt service for all debt issued before March 2013. In order to avoid premature transfers to the Debt Service Fund, we do not anticipate debt service on upcoming debt issues. Recently, Chesapeake Schools issued bonds to finance the modernization of Indian River High School and the replacement of roofs and HVAC systems. The first semi-annual payments on the two debt issues total \$781,559 and are due on January 15, 2014. Since these payments were not included in the budget approved by Council last month, a budget amendment was required. Funding is provided from the School Lockbox (\$778,468) and from excess bond proceeds deposited to the Debt Services Fund (\$3,091).
2. Commonwealth Compensation Board Payments – in April, the state Comp Board issued final estimated payments based on the 2013 General Assembly action. Estimated payments for funding the state’s share of constitutional officers increased by \$249,629. As is the normal practice, City Council agreed to increase the budget of constitutional officers for the larger than planned Comp Board payments. Following below is the distribution of increased Comp Board payments.

City Treasurer	\$ 23,137
Commissioner of Revenue	\$ 14,907
Clerk of Circuit Court	\$ 58,247
Commonwealth’s Attorney	\$ 88,977
<u>Non-Departmental Accounts (Sheriff)</u>	<u>\$ 64,361</u>
Total Increased Comp Board Payments	\$ 249,629

Note that increased Comp Board payments were credited to the non-departmental accounts to partially offset additional City funding already provided to the Sheriff. Crediting non-departmental accounts reduces the provision for vacancy savings.

3. Treasurer’s Sale of EZ-Pass Transponders – based on the Treasurer’s revised sales estimates for transponders sold by her office, City Council increased the department’s operating budget by \$9,390. Funding is provided from prospective transponder sales and the miscellaneous revenue account was also increased by \$9,390 with this amendment.
4. Stormwater Fund (Public Works) – in accordance with revisions to the personnel complement of Public Works, Council increased the Stormwater Operating Budget by \$64,498; it also approved a reduction in the fund’s surplus for FY 2014 by the same amount.
5. E-911 Operations (Fund 207) – Council approved an increase in the operating budget for additional personal service costs related to pay raises, VRS reforms, and changes in health care

costs. Current revenues are sufficient to cover the \$4,533 of additional costs; an offsetting reduction in the fund surplus was also approved.

6. Chesapeake Public Schools – Council approved a request from the School Board to (a) increase other local revenue for the sale of recycling materials and general operating expenditures by \$25,000, (b) increase state grant proceeds and the budget for categorical grants by \$47,152 to recognize the most recent estimates of prospective grant receipts and spending, and (c) revise revenue estimates for School Nutritional (Food) Services reflecting a \$1,212,775 reduction in fee/sales revenue that is partially offset by increased state revenue (\$7,500) and federal revenue (\$175,000). Council also approved the School Board’s proposal to balance the School Nutritional Service budget by relying on \$1,030,275 in available fund balance. These changes increased the School appropriation from \$442.7 million to \$442.8 million.

## **B. Budget Reclassifications**

City Council approved the following revisions to the FY 2014 Operating Budget:

1. City Auditor – request for the transfer of \$4,500 from the provision for the independent audit to the internal audit function in order to address peer review and for office supplies and furniture. Peer review is required every three years in order to maintain compliance with Governmental Auditing Standards. While no fee is charged for the review, participating localities must reimburse hotel and other travel costs. The department also needs to replace several chairs and computer desks and needs additional funds for ink cartridges. With this change, the budget is sufficient to cover the new contract for such services.
2. Information Technology – department’s request to establish a new program (code 12509) entitled Enterprise Application Services and reclassify \$1,465,699 of Systems Development costs (code 12511). This change improves the department’s management of commercial off the shelf (COTS) software applications by separating these costs from internally developed software. Simultaneously, we renamed the program from Systems Development to Enterprise Software Development.
3. Central Fleet/Public Utilities – a request to address the additional operating costs for a new combo vacuum truck acquired by Public Utilities for cleaning sanitary sewer lines and pump station wet wells. The adjustment shifts \$15,660 from Public Utilities’ personal service costs to the department’s budget for internal service costs incurred through Central Fleet.
4. Public Utilities – a request to reclassify sewer capital outlays. The operating budget for Water Operations includes \$400,000 for sewer pump station and wet well upgrades and \$525,000 for the replacement of sewer mechanical and operations equipment. These items should have been included in the Sewer Operations budget instead. In the past, small and routine capital outlays were included in the Capital Improvement Program; starting with FY 2014, these costs are part of the department’s operations budget. In the transition, these capital outlays were included in the wrong program.
5. Parks and Recreation – a correction in the classification of a Groundskeeper position by transferring position costs from Northwest River Park to Park Maintenance (\$27,390). This

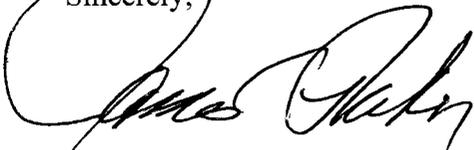
adjustment also increases spending in the General Fund while reducing the budget for the Parks and Recreation Fund.

6. Human Services (Social Services Division) – a reclassification of the local cash match for Promoting Safe & Stable Families grant. The \$21,121 reclassification reduces the budget for personal services and contingencies and increased the budget for transfers to grants. A request to appropriate grant funds will be forwarded to Council once an award is made.
7. Development and Permits – the transfer of \$19,000 from the Code Compliance and Zoning section to the Engineering and Construction section of the department. Personal service costs were over-estimated for Code Compliance and were insufficient for Engineering/ Construction.
8. Public Works – an \$18,910 reduction in the General Fund (GF) budget for Public Works related to the conversion of several positions (5.23 FTEs) to three new Engineering Technician IV positions, two of which are for the Stormwater Fund (see additions to operating budget, item A-4 above). The approved change decreased the GF budget for Public Works and was offset by an increase in the non-departmental budget.
9. Non-Departmental Costs – distributing the provision for employee pay raises, reforms to the Virginia Retirement System, and savings realized from the employee health insurance program to individual departments and funds. A summary of the distribution by fund is noted below:

General Fund Departments	\$ 470,145
Human Services Fund (Fund 201)	5,867
Community Services Board (Fund 205)	51,114
Juvenile Services (Fund 208)	(3,355)
Parks and Recreation Special Revenue Fund (Fund 213)	12,244
Total reduction in non-departmental provisions	\$536,015

Appearing on the following page is Summary of Resources and Appropriations based on Council’s June 2013 revisions to the FY 2014 Operating Budget. The revisions are more technical in nature and do not alter the overall focus of the FY 2014 Operating Budget. The final spending plan for FY 2014 balances existing resources with immediate demands without compromising our ability to sustain the most critical citizen services. The budget reflects the City’s commitment to providing quality public services while maintaining a careful stewardship over public funds.

Sincerely,



James E. Baker  
City Manager

<b>Summary of Resources and Appropriations</b>	<b>Original Appropriation</b>	<b>Revisions June 2013</b>	<b>Revised Appropriation</b>
<b>REVENUES:</b>			
General Property Taxes	294,141,850	-	294,141,850
Other Local Taxes	131,995,698	-	131,995,698
Licenses and Permits	2,564,214	-	2,564,214
Fines & Forfeitures	3,725,367	-	3,725,367
Use of Money & Property	4,858,824	-	4,858,824
Charges for Services	110,430,668	(1,212,775)	109,217,893
Miscellaneous Revenue	5,087,850	34,390	5,122,240
Recovered Costs	2,116,037	-	2,116,037
Revenue from the Commonwealth	316,924,778	304,281	317,229,059
Revenue from the Federal Government	38,682,617	175,000	38,857,617
<b>TOTAL REVENUES</b>	<b>910,527,903</b>	<b>(699,104)</b>	<b>909,828,799</b>
Locked revenues and reserve requirements	(4,240,636)	1,880,865	(2,359,771)
<b>TOTAL RESOURCES AVAILABLE</b>	<b>906,287,267</b>	<b>1,181,761</b>	<b>907,469,028</b>
<b>APPROPRIATIONS:</b>			
General Fund	260,481,304	221,079	260,702,383
Special Revenue Funds			
Virginia Public Assistance	19,434,462	7,808	19,442,270
Interagency Consortium	3,858,520	(1,941)	3,856,579
Fee Supported Activities	1,318,479	-	1,318,479
Community Services Board	20,920,309	51,114	20,971,423
Chesapeake Conference Center	4,438,565	-	4,438,565
E-911 Operations	5,723,104	4,533	5,727,637
Chesapeake Juvenile Services	5,474,772	(3,355)	5,471,417
Tax Increment Financing-Greenbrier	450,000	-	450,000
Tax Increment Financing-South Norfolk	400,000	-	400,000
Parks & Recreation	2,777,588	(15,686)	2,761,902
City Wide Debt Fund	55,446,601	781,559	56,228,160
Enterprise Funds			
Public Utilities	59,093,566	-	59,093,566
Stormwater Management	8,965,413	64,498	9,029,911
Chesapeake Transportation System	4,399,485	-	4,399,485
Internal Service Funds			
Central Fleet / City Garage	4,908,772	-	4,908,772
Information Technology	873,966	-	873,966
Self Insurance (Risk) Fund	-	-	-
Mosquito Control	4,623,821	-	4,623,821
Education	442,698,540	72,152	442,770,692
<b>TOTAL APPROPRIATIONS</b>	<b>906,287,267</b>	<b>1,181,761</b>	<b>907,469,028</b>
<b>Total Increase in Appropriations</b>			<b>1,181,761</b>