Chesapeake
VIRGINIA

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

Dear Mayor Krasnoff and Members of City Council:

Today, I submit the Proposed Operating Budget for Fiscal Year 2016 reflecting a spending plan for next year that is tempered by disappointing revenue growth. While we believe the long-term outlook for the City is very positive, the local economy continues to struggle with the impacts of federal sequestration and uncertainty. The regional economy is recovering at rates well below both the national and state performance, thus, thwarting efforts to address emerging demands and expectations. Our tax base is growing very slowly and real estate values are still well below pre-recession levels (approximately 11%). A similar situation exists in the consumer and business sectors of the economy; we are experiencing lower than expected collections of consumer taxes, business licenses, and building permit fees. In summary, both the regional economy and municipal resources are growing very slowly.

For FY 2016, we propose a spending plan that totals $933.1 million for the Operating Budget. This represents a modest increase of $8.3 million (0.88%). Increased costs are largely attributable to employee compensation and the need to address service gaps in several departments. Aside from new state-mandated stormwater regulations and state-funded efforts to place juvenile offenders closer to their home, we do not propose service expansions. However, a number of staff adjustments are necessary in order to improve service delivery and to improve services to citizens.

Council's Guiding Principles

The FY 2016 Operating Budget was developed with guidance from City Council including the following principles that have served as a foundation of Chesapeake budgets for the last several years:

- No increase in the real estate tax rate,
- No new fees (though increases in existing fees may be considered),
- 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, and
- Identify non-core services for possible consolidation, curtailment or elimination.

The FY 2016 budget proposal is consistent with Council's guiding principles. The proposed budget assumes that the real estate tax rate will remain constant, currently $1.05 per $100 of assessed value (including the Mosquito Control tax). While no new fees are required for this budget proposal, we recommend adjustments in several fees:

- Increase in water and sewer utility rates consistent with long-term financial plans reviewed with City Council in 2013. The proposed budget requires a 4.9% increase in water and sewer rates in order to maintain a stable enterprise fund and to allow for system improvements required by emerging environmental regulations.
- Increase in Emergency Medical Services (EMS) fees consistent with prevailing reimbursement rates of Medicare and private insurers. The current EMS fee structure has been in place since 2002 and our current charges are significantly below the cost of providing services. Since most EMS fees are paid by private insurers and federal agencies, the proposed fee increase will have a very limited impact on residents.
- Replace the local fee structure for land disturbance with one developed by and used throughout the Commonwealth. These fees will accrue to the Stormwater Division in order to defray inspection costs that were delegated to localities last year by the Commonwealth's Department of Environmental Quality (DEQ). We propose the replacement of current land disturbance fees with those recommended by the Commonwealth.

No other changes are recommended in tax rates or fees for services.

Budget Drivers

The City's tax base continues to challenge our ability to maintain existing service levels and to address emerging demands. Because federal spending is such an integral part of the regional economy, austerity efforts in Washington have stymied growth throughout Southeastern Virginia. Economic expansion is essential in order for the City's revenue to grow and improvements in the local economy have been elusive. For FY 2016, General Fund revenue is projected to climb a mere 1.5% above the FY 2015 level. Slow economic growth and its impact on City resources make it difficult to address rising costs and impossible to address new service demands.

Fortunately, we are in a period of relatively low inflation and most cost increases are moderate. Energy costs dropped steeply from last year, but appear to have reached a floor and have now risen. While we expect continued volatility in the energy sector, it appears prices will remain well below historic highs and energy costs for FY 2016 will be similar to those of FY 2014. Health care costs remain an exception to the overall low inflation. In recent years, the City has experienced a rapid climb in health care costs related to an aging work force and a general increase in the cost of health care. We have only been able to hold health insurance costs in check by modifying benefits; a strategy that cannot be sustained if health care is to remain affordable for our employees.

Major changes in government costs proposed in this budget:

- **Productivity Enhancements**: the Budget Review Committee reviewed requests for 80.4 new positions (FTE) from departments throughout the City. After a thorough inquiry and analysis of departmental requests, we recommend the funding of 46.1 full-time equivalent positions (FTE).

Practically all of the new positions are funded with new programmatic revenue, by reducing other expenditures, or from enterprise revenue. The newly funded positions:

- ✓ Ensure effective use of scarce resources by lowering overtime and temporary service costs,
- ✓ Address new service demands and are funded with new revenue,
- ✓ Ensure the City is able to address new stormwater regulations, and/or
- ✓ Improve the City's response to citizen service demands.

A listing of the new positions costing $3.5 million appears in the Section B of the budget document.

- **Employee Compensation:** in FY 2015 we were able to provide a 3% general wage increase and address wage compression for public safety employees. Although employee compensation and the competitiveness of our pay plan remain high priorities, we could not identify the funding needed to provide a general wage increase for City employees next year (approximately $2 million dollars for each 1% percent increase). However, we have included $1.8 million to address pay compression in the general work force; an adjustment we committed to make for our civilian employees after it was provided to uniformed public safety employees in FY 2015.

  While we are not able to fund a general wage increase for all employees, I believe it is very important to recognize strong employee performance in a tangible manner. Accordingly, the proposed budget includes $430,000 to recognize and reward superior performance by the most productive City employees. Under this proposal, the high performers in each department would receive a $1,000 increase in their base pay. These pay raises are limited to no more than 10% of the full-time employees in each department and would become part of the base pay of the high performing employees.

  <u>Career Paths for Public Safety Employees:</u> the budget also includes $370,000 to implement career paths for rank and file police officers, fire fighters, and Sheriff's deputies. This initiative establishes a compensation and recognition system designed to reward employees for their contribution to the organization, as demonstrated by the successful application of the desired knowledge, skills, abilities and competencies. We plan to implement career paths in January 2016.

- **Health care**: even as the City has taken steps to reduce the growth in employee health care costs, medical claims for the most recent contract period were significantly above estimates. While retiree utilization of health care outpaces that of active employees, increased claims by all participants resulted in a 28% increase in the renewal terms for the plan year beginning January 2015. By adjusting benefit and cost sharing levels, we limited the health insurance increase to 8%; an increase that will be shared with employees. In order to reduce future cost increases and to ensure a healthier workforce, we recently implemented an employee wellness program that we believe will address leading factors that cause health costs to climb. In the FY 2016 budget, we propose to accelerate our efforts by dedicating a full-time coordinator to improve employee wellness. We also continue to work with our health care consultant and insurer on the appropriate way to fund employee health care. For FY 2016, we recommend increasing City support of employee health care by $2.6 million (10.5% above the FY 2015 level).

- **Other Post-Employment Benefits** (health and dental benefits for eligible retirees): recent benefit and cost sharing changes to the employee health insurance program have translated into lower OPEB costs for FY 2016. We expect this trend will continue as Medicare-eligible retirees migrate from the City's health plan to more affordable plans offered on the Federal

Healthcare Exchange. The FY 2016 budget includes $1.5 million in savings for post-employment health benefits.

- **Police Officers Hired with Federal COPS Grant:** several years ago, five police officers were hired and trained with federal funds. The federal grant committed the City to funding the positions after three years. During FY 2016, the City will begin paying these police officers with local funds; in FY 2017 the City is responsible for the full year's pay and benefits of the five officers.

- **Payroll Efficiencies:** the budget includes a provision for changing employee payroll procedures. Currently there are two payroll cycles: weekly and semi-monthly. Weekly employees are paid in arrears, generally five to seven days after the last day of their pay cycle. However, semi-monthly employees are paid current rather than in arrears (on the 15^{th} and 30^{th} day of the month). For example, on March 15, employees were paid for the period ending on March 15; there is no lag between the end of the pay period and the pay date. This causes significant rework and added procedures in order to avoid overpaying employees who are absent from work, but may not have sufficient leave accruals to cover their pay. In cases of holidays and months with 31 days, the pay check is issued before the pay period is actually completed. The absence of a lag period increases the risk of overpayments and payroll errors.

  In order to remedy the inefficiencies and error-prone payroll process, we propose to change payment practices of semi-monthly employees so that they are also paid in arrears. At this point, it is uncertain how or when the transition will occur. We are considering semi-monthly, weekly, and biweekly pay, but have not determined the appropriate course of action. What is clear is that we will need to advance a transitional payment to affected employees when the change occurs if employees are to be held harmless. We estimate transitional payments will total approximately $3.5 million.

  Since this is a one-time occurrence, we recommend funding the transition from City reserves (Undesignated Fund Balance). We estimate that the transition payment will range between five and seven days depending on the employee's work schedule. We also propose to forgive 20% of the transition advance in each of the following five years. Employees who remain with the City five or more years would not repay the transitional advance. For employees leaving employment before the end of the five years, all or a portion of the advance would be recaptured from the final wage and leave payment.

- **Opportunities for Citizen Recreation:** the proposed budget continues expanded funding that was included in the FY 2015 budget. The additional resources ensure improved maintenance of City parks and community centers and that quality recreational programs are available. The FY 2016 operating budget also includes a full year's funding for Elizabeth River Landing Park that will reopen in April 2015.

- **Debt Service:** since several large debt issues from the mid-1990s were retired (paid off), payments on general government debt will decline by $14 million during FY 2016. Further, the portion funded with undesignated General Fund revenue will drop by $15.5 million as the portion of debt funded by locked revenue increases. In the Capital Improvement Program, we recommended that savings from lower debt service requirements be reinvested in the CIP in order to address capital requirements. To that end, an additional $15.4 million is recommended for designation into the City and School lockboxes during FY 2016.

Items Excluded from the Budget

The very slow growth in revenue projected for next year means that we are not able to address numerous funding requests that would improve City productivity and citizen services. These include:

- As mentioned already, we are not able to include a general wage increase for City employees. While employee pay remains a leading priority, funding is not sufficient after addressing increased employee health care costs.
- Community para-medicine program that refocuses the Fire Department's emergency medical services (EMS) towards better patient outcomes at a lower overall cost to the community. Under the current model, emergency personnel stabilize patients and deliver them to emergency rooms for further medical attention. With community para-medicine, emergency medical responders work with other medical providers to improve patient outcomes while reducing their need for emergency medical care at a hospital. This initiative remains an integral part of the Fire Department's long-term strategic plan. They, along with other City staff, continue to study community para-medicine and engage in dialogue with key community medical providers, but we are not prepared to move forward at this time.
- Additional police personnel to address emerging criminal activity. While the crime rate has been declining in recent years and Chesapeake's crime rate is significantly lower than that of central cities, the City's police staffing is lean by most standards. The department requested additional officers for routine patrols and to better address internet crime, economic crimes, and vice/narcotics. Although we are not able to add significant police resources during FY 2016, the Police Department continues its effort to focus resources on crime prevention.
- Benefits workers and quality assurance personnel for Social Services – additional personnel were requested for eligibility screening, quality assurance, and fraud reduction. These are lower priorities than child and adult protection and therefore, were deferred.
- Chesapeake Arboretum – for some time, operations and management of the Arboretum has shifted from a private foundation (largely composed of volunteers) to the City's Parks, Recreation and Tourism Department. The PRT budget includes funding to maintain Arboretum grounds, but does not include funding for programs or for operation and maintenance of a historical structure on the premises. City officials continue working with the foundation and the community to address the Arboretum's future.
- Chesapeake Jubilee – in past years, the City budget included a direct cash subsidy to the Jubilee, an annual festival held at City Park. The City is in negotiations with the Jubilee Committee regarding the appropriate level of support for the festival. During FY 2014, the City provided $142,000 of direct and in-kind services to the Jubilee. Direct support totaled $80,300 and included overtime paid to police officers, firefighters/medics, Sheriff's deputies, park staff, and Public Works staff. While the FY 2016 budget includes provisions in each of the affected departments for the Jubilee, it does not include a cash contribution to the Committee.

In the future we will review proposals that have merit and that are consistent with Council's long-range plans, however, we do not expect that the existing tax base is sufficient to address many of the requests noted above. If service expansions are desired by policy makers, we likely will need to identify new funding sources sufficient to address growing service demands.

<u>Looking Forward:</u> In developing the annual operating budget we carefully considered the long-term impacts of current budget decisions. Each department provided a three-year budget that addressed not only their immediate requirements, but also strategic plans and requirements beyond FY 2016.

Discussion of Major Funds

General Fund

General fund revenue is expected to grow by $8.0 million to $524 million, or 1.5% above the FY 2015 level. All of the revenue growth is related to increases in property taxes as real estate assessments improve, new construction is brought onto the tax rolls, and the values of personal property (vehicles) grows. Real estate assessments have climbed by nearly one percent (1%) as the anemic housing market slowly recovers. Stronger growth in personal property taxes are anticipated as residents replace older automobiles and the used vehicle market improves. Revenue projections for other local taxes, including licenses and permits, fines and forfeitures, and interest earnings are below the level projected for the current fiscal year. While property tax collections are expected to improve in FY 2016, receipts are still $11 million below pre-recession level.

Transfers to Chesapeake Public Schools – Under revenue sharing procedures in place since 2004, most local tax revenues are shared with and allocated to Chesapeake schools on a formulaic basis. Initial allocations are based on projected revenues, but are trued-up after the end of each year. For FY 2016, the revenue sharing formula provides $180.2 million dollars for the School Operating Budget, an increase of $4.1 million (2.3%) above the FY 2015 allocation. An additional $1 million is provided for school operations from a proposed declaration of surplus in the Greenbrier TIF.

Actual transfers to schools differ from the annual allocation because of the true-up from previous years. Below is a comparison of transfers to schools for fiscal years 2015 and 2016.

School Allocations (in millions)	FY 2015	FY 2016	Change	%
School allocation based on revenue sharing formula	$ 176.1	$ 180.2	$ 4.1	+2.3%
Recommend declaration of surplus in Greenbrier TIF	0.0	1.0	1.0	n/a
True up based on actual revenue from previous years	3.3	0.0	(3.3)	-100%
Total transfers to school operations	$ 179.4	$ 181.2	$ 1.8	+1.0%

The City also owes the School Board $598,000 from the FY 2014 true-up; that amount has not been included in the School budget.

Employee Compensation - Under the proposed budget, General Fund expenditures increase $9.1 million over the FY 2015 level. Most of the increase is related to personal service costs and the addition of 6.7 FTE positions. Listed below are the major components contributing to the increased personnel costs in the General Fund budget:

Employee pay raises – cost to continue October 2014 raises	$ 1.4 million
Compression and market adjustment – proposed October 2015	2.2 million
Arrears pay adjustment *(from Undesignated Fund Balance)*	3.5 million
Employee health care	2.1 million
New positions (6.7 FTE) and employee reclassifications	1.2 million
Career Path for public safety employees	0.4 million
Worker compensation costs	0.4 million
Savings from employee turnover	(2.8 million)
OPEB – reduction based on revised future health costs	(1.5 million)
Total increase in personal service costs	$ 6.9 million

Transfers to Other Funds – General Fund resources support a number of other funds, including several Human Service funds, the Chesapeake Integrated Behavioral Healthcare, and the Debt Service Fund. Operating transfers to special revenue funds are proposed to decline by $20.7 million primarily because of a large reduction in debt service and capital cash requirements. We also reduced transfers to the Public Assistance, Interagency, and Juvenile Services Funds by $1.3 million in order to recapture excess transfers during FY 2014. Transfers to the Debt Service Fund will drop by nearly $14 million as older debt issues are retired. Further, FY 2015 included an unusually large cash contribution to the Capital Projects Funds; a much smaller amount is required in FY 2016. A summary of fund transfers appears below.

General Fund Transfers	FY 2015	FY 2016	Change from 2015	
Virginia Public Assistance Fund	$ 7,200,982	$ 7,294,708	$ 93,726	1.3%
Interagency Consortium	1,790,646	1,450,979	(339,667)	-19.0%
Integrated Behavioral Health	7,342,301	7,805,913	463,612	6.3%
Juvenile Services Fund	2,381,970	2,412,027	30,057	1.3%
Grant Fund (local match)	-	5,000	5,000	
Debt Services Fund	44,459,087	30,466,966	(13,992,121)	-31.5%
Capital Improvement Fund	19,943,301	12,964,189	(6,979,112)	-35.0%
Total Transfers	$ 83,118,287	$ 62,399,782	$ (20,718,505)	-24.9%

With respect to the Debt Service and Capital Funds, most transfers are provided from locked revenue discussed below (Fund Reserves and Dedicated Revenue). In preparing the Capital Improvement Program, we previously recommended that savings realized from the significant reduction in debt service requirements be reinvested into the Capital Program through the existing capital lockboxes. The proposed FY 2016 budget is consistent with recommendations for the CIP.

Other Post-Employment Benefits – In the introduction we indicated that the cost of providing OPEB will decline during FY 2015 as changes to the health and dental benefit plans are reflected in the actuarial report. Citywide, OPEB costs are equivalent to 37% of the cost of providing health insurance for active employees. The most recent actuarial report reduces General Fund annual contributions by $1.5 million.

Purchase of Internal Services – The General Fund Budget reflects increased costs of $676,000 for the maintenance of the City's fleet, information technology services, and risk management. These functions are administered in separate funds through internal service charges to each department for the services provided. Increases in internal service costs are related to additional pay and benefits, rising insurance costs, increased funding of the worker compensation program, and increased technology maintenance costs for major business systems. Note that the General Fund's share of internal service charges exclude costs pertaining to enterprise or special revenue funds.

Allocation of General Fund (GF) Overhead Costs – The City allocates a portion of general and administrative costs to Public Utility, Stormwater, and Chesapeake Transportation System enterprise funds. Overhead allocations are limited to estimates contained in the annual Cost Allocation Report which indicates the portion of GF costs that are attributable to each enterprise fund. Overhead allocations are also limited to available funding in the enterprise or special revenue fund and, in previous years, have varied from 59% of allowable costs for Public Utilities to 91% of allowable costs for the Transportation System. No overhead allocations have been made to the Mosquito Control Commission as the Commission lacks sufficient resources. Similarly, overhead allocations are not made to other special revenue funds that already rely on the General Fund to meet direct operational costs.

We propose to significantly increase the allocation of overhead costs for the Public Utility Fund so that general tax funds do not indirectly support the enterprise fund. The FY 2013 Cost Allocation Report indicates the City provides $1.2 million of indirect support to the Utility Fund, but only allocates $500,000 of the costs annually. We propose to increase annual allocations over the next several years so that the enterprise fund is covering all administrative costs. Cost allocations are reviewed annually to insure that the enterprise or special revenue fund can absorb the overhead allocation. The table below indicates cost allocations for applicable funds along with overhead allocations during FY 2015 and 2016.

General Fund Overhead Allocated to Other Funds	FY 2015 Overhead Allocated	Most Recent Cost Allocation Report (2013)	FY 2016 Overhead Allocated	Portion Recovered	Increase from FY 2015
Stormwater Fund	$ 420,000	$ 683,969	$ 420,000	61%	0%
Chesapeake Transportation System *(toll roads)*	100,000	133,409	100,000	75%	0%
Public Utility Fund	500,000	1,187,912	750,000	63%	50%
Mosquito Control Commission	-	118,175	-	0%	0%
Total Overhead Recapture	$ 1,020,000	$ 2,123,465	$ 1,270,000	60%	25%

Fund Reserves and Dedicated Revenue – The City Charter requires the maintenance of a cash flow reserve equal to six percent (6%) of General Fund revenue. In addition to reserves required by Charter, City Council recently adopted a policy requiring an undesignated fund balance of at least ten percent (10%) in order to address emergencies and other unpredictable events. In order to ensure compliance with the policy provision, Council also requires that we budget for a 12% undesignated fund balance. We project that both the City Charter requirement and the undesignated fund balance policy will be compliant for FY 2016 without reserving any portion of FY 2016 revenue. More information is available on the Charter reserves and undesignated fund balances on page B-16.

For FY 2016, operating revenues of $39.5 million are reserved for current and future capital purposes through two lockbox mechanisms. Of this amount, $19.7 million will be transferred to the Debt Service Fund and $10.4 million will be transferred to the Capital Projects Funds. Finally, several tax or fee levies are dedicated by City Council or the Virginia State Code for specific purposes. In order to comply with such mandates, reserved funds are either added to the ending fund balance of the General Fund or included in a department budget specifically to address the reservation requirement. Dedicated and reserved revenues appear on page B-17.

School Operating Fund

In accordance with the Virginia Constitution, school funding is a shared responsibility of the Commonwealth and its localities. Unlike many school divisions throughout the United States, Virginia school districts do not have taxing authority, and are, therefore, fiscally dependent upon the locality in which they are located. For this reason, the school operating budget is part of the City budget. Earlier this month the School Board proposed a $455.9 million operating budget for Chesapeake Public Schools (CPS) that includes:

School General Fund	$404,244,286
School Nutrition Services (breakfast and lunch programs)	12,910,900
Federal and State Categorical Grants	29,592,723
Other school funds	9,195,777

Total proposed school budget	$455,943,686

Funding for the proposed school budget includes $221.0 million in state funding, $31.2 million of federal grants and other assistance, $9.3 million from school fund balances, and $186.8 million from the City's General Fund. The school spending plan for FY 2016 is $9.7 million (2.2%) above FY 2015 budget and includes a 2.0% pay raise for all school employees.

For at least a dozen years, Chesapeake has shared growth in tax revenue equally with the School Board. The proposed City Operating Budget uses the existing revenue sharing formula to allocate resources between the City and the School Board. Excluding a one-time settlement of FY 2013 revenue growth ($3.3 million), the FY 2016 School Board has requested $10.7 million more in local support than was provided in FY 2015 (growing from $176.1 million in the current year's budget to $186.8 million next year). For FY 2016, we project that shared revenue will only grow by $7.7 million. Under the long-standing revenue sharing formula, the City's contribution to schools is $180.24 million or $6.6 million lower than the School Board requested.

As is discussed in more detail under TIF Funds, we are recommending that City Council declare a surplus in the Greenbrier TIF at the end of FY 2015 and that $1 million (one-half) of the surplus transfer to the School Board for FY 2016 operations. Using surplus TIF funds lowers the difference between the School Board request and our recommendation, but still the budget proposed here is $5.6 million lower than the School Board has requested. It should also be noted that the school spending plan includes $9.3 million of fund balances from the textbook, nutrition, and insurance funds in available resources. Using these non-recurring/surplus funds to support continuing operational needs present a risk of future budget shortfalls when all surplus funds have been depleted.

To completely fund the School Board request, it would be necessary to make substantive reductions in City services or to increase the real estate tax rate by 2.5¢. While a tax increase would fix the immediate school imbalance, it would not address the school budget in a sustainable fashion. Nor does it address the schools' reliance on non-recurring funds.

Debt Service Fund

Debt service payments are declining by $14.0 million in FY 2016 as older debt issues are retired. Since 2004, the City has designated certain revenue for capital lockboxes that support financing of school and City capital projects. Since that time, the debt payments on all <u>new</u> debt issues have been paid from the designated revenues. During FY 2016, pre-lockbox debt payment declines by $15.5 million while debt payments funded by the City lockbox increased by $1.5 million.

At June 30, 2014, the Debt Service Fund (DSF) balance was $28.8 million which the City plans to use for future debt payments. The FY 2015 budget draws $4.5 million from the available fund balance in order to pay pre-lockbox debt; a similar amount is planned for FY 2016. The City will continue utilizing the DSF fund balance until pre-lockbox debt is entirely retired (FY 2024); at which point, the DSF fund balance will be depleted.

Virginia Public Assistance Fund (Social Services)

The Social Services Division of Human Services is the local agency that administers federal and state public assistance programs. Social Services' primary function is to determine the eligibility of local residents for a variety of federal and state social benefit programs. The Social Services budget is increasing from $21.1 million in FY 2015 to $21.6 million in FY 2016, an increase of $533,000 (2.5%). The primary factors propelling the VPA budget are:

- Increased employee compensation (includes new positions added in 2015) $ 650,000
- Outpatient Medicare eligibility partnership (Chesapeake Regional Hospital) 236,500
- New positions for protective services and citizen benefits 119,000
- Eliminate one-time funding of vehicles in FY 2015 (160,000)
- Programmatic changes funding reductions by state (337,500)
- Increased software maintenance and licenses 33,000

The department is working with Chesapeake Regional Medical Center on a partnership that will place Medicaid benefits workers (city employees) at the hospital to assist eligible patients with application for benefits. The initiative includes four employees and funding is provided by the hospital and from Medicaid. The hospital will also provide office space for Social Services personnel. Aside from supervision of the new employees, no further resources are required of the City.

Department caseloads for benefits have grown 31.2% during the last three years. Applications for Medicaid, Supplemental Nutritional Assistance (formerly food stamps), and Temporary Assistance to Needy Families (TANF) continues to grow each year. Further growth in the benefits caseload is anticipated as:

- Medicaid outreach continues with the goal of adding more uninsured children,
- The population of aging and disabled individuals eligible for Medicaid benefits continues to grow,
- The implementation of Medicaid for children held in detention by Juvenile Courts, and
- The implementation of Virginia's CommonHelp, an on-line system that makes it easier for citizens to apply for public assistance.

The additional resources proposed for Social Service will ensure that it is able to meet state and federal mandates for the programs it administers.

Chesapeake Juvenile Services

Chesapeake Juvenile Services provides for the operation of a regional facility that holds juveniles who are either awaiting trial or who have been detained by the Juvenile and Domestic Relations Court. In addition to Chesapeake, the facility serves the cities of Franklin, Portsmouth and Suffolk, and the Counties of Isle of Wight and Southampton. The budget for FY 2016 is proposed to increase $771,000 above the FY 2015 level (12.8%). Most of the increase is related to a state contract that funds the detention of youth who are completing sentences in a state facility and are transitioning back to their home community. The new state contract will provide $657,000 annually for the placement of 10 residents formerly detained at state facilities.

Chesapeake Integrated Behavioral Healthcare (Community Services Board):

Chesapeake Integrated Behavioral Healthcare (CIBH) was established as a community services board to provide mental health, development, and substance abuse services in accordance with Virginia statute. These services are provided through CIBH, the agency that reports to a local board appointed by City Council. The FY 2016 operating budget for CIBH is proposed to increase by $469,000 (2.1%) to $22.9 million. An increased use of tele-psychiatry is anticipated and budgeted for FY 2016 along with consulting services toward the refinement of the electronic health record system. The balance of the increase is for current employee wage and benefit charges, including an increase in the cost of employee health care.

Tax Increment Funds (TIF)

Generally, state statute only permits the use of TIF funds for the acquisition or construction of projects within the TIF district or for payment of debt on such projects. A total of $87,000 has been included in the two funds to fund feasibility studies and conceptual planning for the South Norfolk and Greenbrier areas of the City. This is a reduction from $850,000 budgeted for such studies in previous years and is based on historical spending trends.

The statutes governing TIFs allow for the transfer of surplus TIF funds to the General Fund. In accordance with past practice, this budget includes provisions to transfer surplus funds from both the South Norfolk and Greenbrier TIF Funds to the General Fund in order to address maintenance cost of projects funded by the TIFs and other costs that are directly related to the TIF districts. We recommend the transfer of $293,660 of surplus funds from the Greenbrier TIF to the General Fund to fund the maintenance of improvements to the district and to fund the Police Department Hotel Interdiction Program. We also recommend the transfer of $115,700 from the South Norfolk TIF to fund the maintenance of improvements to that district along with the cost of the Sheriff's work crew assigned to South Norfolk.

In addition to transfers of TIF resources for the maintenance of TIF improvements and related costs, we also transfer $1 million annually from the South Norfolk TIF to the General Fund to pay a portion of the debt service costs related to the renovation of Oscar Smith Middle School. Ten annual transfers were planned for the OSMS renovation; the transfers are scheduled to end in FY 2021.

Finally, for FY 2016 we recommend the declaration of a surplus and the transfer of $2 million from the Greenbrier TIF to the General Fund. The surplus funds would be shared equally with schools and would address operational costs of each organization. The additional funds will help Chesapeake Public Schools address the recruitment and retention of teachers as well as increasing employee health insurance. The City's share of surplus TIF funds will address existing commitments to residents and employees. Since these surplus funds would include uses outside the TIF district boundaries, an amendment to City ordinances will be needed to implement this budget proposal.

Public Utility Fund

In February 2013, the City Council approved a plan to increase water and sewer rates by 4.9% in each of the next several years. The FY 2016 operating and capital budgets include the third scheduled rate increase starting July 1, 2015.

Utility expenditures reflect a continuation of current service levels with an allowance for modest growth as new residential and commercial properties are built. Spending by Public Utilities is expected to grow by $3.2 million rising from $61.1 million in FY 2015 to $64.3 million in FY 2016. The primary factors contributing to the budget increase are:

• Increased routine capital costs (small improvements and replacements)	$1,441,800
• Increased repair and maintenance costs and other purchased services	1,098,400
• Increased contract costs of purchased water	745,900
• Increased salaries and benefits, including October 2014 pay raise, overtime, and employee reclassifications	472,000
• Add 8 new positions: storeroom accountant, motor equipment operator, safety officer, customer service clerk, two water meter technicians, construction inspector, and an engineer	397,000

- Increased supplies, small equipment, and equipment rentals 393,900
- Increased overhead (General Fund cost allocation) 250,000
- Increased cost of employee and retiree medical and dental care 118,500
- Increased worker compensation 92,800
- Partially offset by reductions in chemical costs, electricity, postage, internal service charges, and debt service requirements (1,953,000)

The proposed budget increase will allow the department to improve its response to citizen requests, improve maintenance and dependability of the water and sewer systems, and improve department productivity.

Stormwater Management Fund

The Operating Budget for Stormwater Management is proposed to increase by $4.2 million growing from $10.4 million in FY 2015 to $14.6 million in FY 2016. We plan to spend $2.7 million of the additional funding to purchase new equipment, including two (2) suction vactor trucks, two (2) street sweepers, one dump truck, and one pipe-washer truck. Other significant increases in operating costs include:

- Hire five (5) new construction inspectors to ensure compliance with state mandated erosion control at commercial and residential building sites ($289,000),
- Increased mowing of ditches and outfalls, cave-in repairs, and beaver dam removal ($402,000),
- Salaries and benefit costs, including increasing health care and employee compression/market wage adjustments ($140,800), and
- Overtime for on-call emergencies and supervision of inmates utilized in mowing ($279,000).

The increased spending addresses new stormwater regulations (effective July 2014) that are focused on reducing the release of sediments into the Chesapeake Bay and its tributaries. A significant portion of the FY 2016 spending is for non-recurring heavy equipment purchases; funding in FY 2017 for equipment will fall back to historical levels. In order to fund spending plans for FY 2016, we anticipate reducing the available Stormwater Fund balance from $8.1 million as of June 2015 to $3.9 million as of June 2016 (a reduction of approximately $4.2 million or 52%).

Chesapeake Transportation System Fund (toll roads):

The Chesapeake Transportation System (CTS) includes the tolled section of Route 168 and a section of Dominion Boulevard (Route 17) that is under construction. The Operating Budget for CTS increases from $4.8 million for FY 2015 to $5.3 million in FY 2016 and includes:

- Increased funding will permit the replacement of a 50 foot bucket truck ($100,000),
- The renewal and/or replacement of Expressway infrastructure, equipment, and fixtures ($465,600), and
- Additional employee compensation costs related to October 2014 pay raises, health care, and compression/market adjustments.

As part of financing the new road, the outstanding senior debt on the Expressway was refunded. This allowed the Expressway to take advantage of more favorable interest rates. Under terms of the new bonds, all principal payments for both Routes 168 and 17 are deferred for four years while the new road is constructed. A substantial portion of the new project is funded from a $152 million subordinate loan from the Virginia Transportation Infrastructure Bank (VTIB). Under the agreement with VTIB, payments for subordinate Expressway debt held by the Commonwealth of Virginia and the City of Chesapeake are also deferred while the new road is under construction. The operating budget includes only principal and interest payments that are due and payable; no provision is included for deferred interest payments.

The Dominion Boulevard project is scheduled for completion during FY 2017; at that point, CTS will begin making principal payments to bond holders and the annual operating budget will increase accordingly. Recent projections indicate the Dominion project will be substantially complete in September 2016. In order to prepare for the reopening of the new road, the CTS budget includes $60,000 to hire a new toll operations manager. The new toll operations manager is needed approximately a year in advance to ensure a seamless reopening of the new road.

Central Fleet Fund

The Central Fleet Fund operates as an internal service fund providing services to other City departments. It also supplies fuel to Chesapeake Public Schools and is exploring opportunities to sell compressed natural gas (CNG) to private fleets. Operating expenses for Fleet Services will increase from $14.1 million in FY 2015 to $14.7 million in FY 2016 (4.1%). Increased costs include $117,000 of OPEB charges previously included in the General Fund, an increase in vehicle parts ($833,000), and a reduction in fuel costs ($620,000).

Conclusion

This spending plan balances existing revenue and other resources with immediate demands without compromising our ability to sustain the most critical citizen services. No changes are proposed in general tax rates and only modest fee increases are proposed. The FY 2016 Proposed Operating Budget honors our commitment to Chesapeake Public Schools and addresses employee retention, recruitment, and health care costs.

In the coming weeks we will schedule work sessions for Council to review this proposed budget in light of sustainability. The City staff remains committed to providing quality public services. While recommending a prudent spending plan that protects the City's financial position, we also propose selectively adding resources in areas that have been underfunded or face new demands.

I am confident that the strategies recommended in this proposed budget meet citizen demands while also sustaining the City's strong financial position. I look forward to working with the entire City Council in the coming weeks as you review this proposal and adopt a budget plan that meets current and future needs of Chesapeake citizens.

Sincerely,

James E. Baker
City Manager