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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Fund</th>
<th>All Funds</th>
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<tbody>
<tr>
<td>FY 2009</td>
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<td>$950.7</td>
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<td>FY 2010</td>
<td>$517.5</td>
<td>$925.4</td>
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<td>-1.8%</td>
<td>-2.7%</td>
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<tr>
<td>FY 2011</td>
<td>$497.5</td>
<td>$903.1</td>
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<tr>
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<td>-3.9%</td>
<td>-2.4%</td>
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<tr>
<td>FY 2012</td>
<td>$501.0</td>
<td>$910.1</td>
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<tr>
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<td>+0.7%</td>
<td>+0.8%</td>
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<tr>
<td>FY 2013</td>
<td>$501.9</td>
<td>$896.4</td>
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<td>+0.2%</td>
<td>-1.5%</td>
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<tr>
<td>FY 2014</td>
<td>$507.6</td>
<td>$913.5</td>
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<tr>
<td></td>
<td>+1.1%</td>
<td>+1.9%</td>
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<tr>
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<td>$516.1</td>
<td>$925.3</td>
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<tr>
<td></td>
<td>+1.7%</td>
<td>+1.3%</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$524.0</td>
<td>$945.1</td>
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<tr>
<td></td>
<td>+1.5%</td>
<td>+2.1%</td>
</tr>
</tbody>
</table>

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.

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Note revenue has not completely recovered to pre-recession levels.
New Construction/GF Impact

Cumulative New Construction Since FY 2009

Construction Value
New Tax Revenue
*projected

Average Reassessment %

Reassessments
- 2009: 1.41%
- 2010: -1.79%
- 2011: -5.52%
- 2012: -3.13%
- 2013: -3.77%
- 2014: -0.54%
- 2015: 0.90%
- 2016*: 0.94%
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

<table>
<thead>
<tr>
<th>Year</th>
<th>General Fund</th>
<th>Other Funds</th>
<th>All Funds</th>
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<tr>
<td>2011</td>
<td>$497.5</td>
<td>$405.6</td>
<td>$903.1</td>
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<tr>
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<td>2013</td>
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<td>2014</td>
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<td>$405.9</td>
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<tr>
<td>2015</td>
<td>$516.1</td>
<td>$409.2</td>
<td>$925.3</td>
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<tr>
<td>2016</td>
<td>$524.0</td>
<td>$421.1</td>
<td>$945.1</td>
</tr>
</tbody>
</table>

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)
- 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
- CTS for future paving (current) $0.8 million
- 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

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
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

General Fund Balance

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<tr>
<th>in millions</th>
<th>June 2014</th>
<th>June 2015</th>
<th>June 2016</th>
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<td>General Fund Balance</td>
<td>$147.41</td>
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<td>Restriction, Commitments and Designations:</td>
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<td>City Charter</td>
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<td>Capital lockboxes</td>
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<td>School reversions and settlements</td>
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<td>Litigation liability designation</td>
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<td>Other commitments and designations</td>
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<td>$53.59</td>
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<td>Undesignated Fund Balance</td>
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<td><strong>$81.08</strong></td>
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<td>Council Policy for Undesignated Balance</td>
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<td>$64.02</td>
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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 $29.20 million
  - Budget for use during FY 2015 $4.56 million
  -预算 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 vector 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