

Operating Budget

Fiscal Year 2016-17

City of Chesapeake

Council Work Session – March 22, 2016

Topics for Review

- City Council's Guiding Principles
- Budget Process
- Improvements in Revenue
- Reserve Requirements
- Budgetary Savings – Employee Benefits
- Budget recommendations
- State Budget Update
- Remaining Action

City Council's Guiding 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

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Budget Process

- Revenue forecast completed by budget office
- 3 year budget plans prepared by departments
- Analytical inquiry and review by budget office
- Budget Review Committee
 - Includes City Manager, Deputy City Manager, 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

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Improvements in Revenue

- Entity wide revenue increases by \$49.6 million (5.2%)
- General Fund revenue increases by \$17.3 million (3.3%)
- Property tax revenues increase 3.4%
 - No change in tax rates recommended
 - Real estate assessments increased 1.5%
 - Net new construction increases revenue by 1.6%
 - Current real estate taxes contribute to preponderance of increase
 - Increase in collections of delinquent taxes, especially personal property
 - Current personal property taxes – very small increase
- Other local tax revenues increase 5.6%
 - Strength in consumer taxes: sales taxes up 6.8%; restaurant taxes up 8.2%
 - Improvements in business licenses (BPOL) and recordation taxes
 - No changes recommended in tax rates

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Improvements in Revenue, continued

- Permits up 12.7%
 - Relatively small source of revenue (\$2.5 million in FY 2017)
 - Most of the increases are related to construction activity
- Charges for services up 13.0%
 - General Fund increase primarily EMS collections
 - Public Utilities – 4.9% increase in water and sewer rates
 - Opening of Dominion Boulevard
 - Increased service billings – CIBH
- Chesapeake Public Schools increases 5%
 - Primarily state revenue
 - Rebenchmarking
 - New composite index

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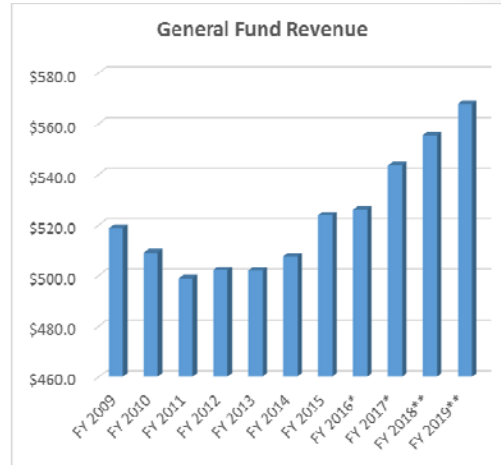
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Revenue Trends *(in millions)*

	General Fund		All Funds	
FY 2009	\$ 518.8		\$ 940.1	
FY 2010	\$ 509.0	-1.9%	\$ 925.3	-1.6%
FY 2011	\$ 499.0	-2.0%	\$ 902.8	-2.4%
FY 2012	\$ 502.2	0.6%	\$ 910.2	0.8%
FY 2013	\$ 501.9	0.0%	\$ 896.0	-1.6%
FY 2014	\$ 507.6	1.1%	\$ 913.5	2.0%
FY 2015	\$ 523.9	3.2%	\$ 937.5	2.6%
FY 2016*	\$ 526.1	0.4%	\$ 947.2	1.0%
FY 2017*	\$ 543.4	3.3%	\$ 996.8	5.2%
FY 2018**	\$ 555.4	2.2%		
FY 2019**	\$ 567.7	2.2%		

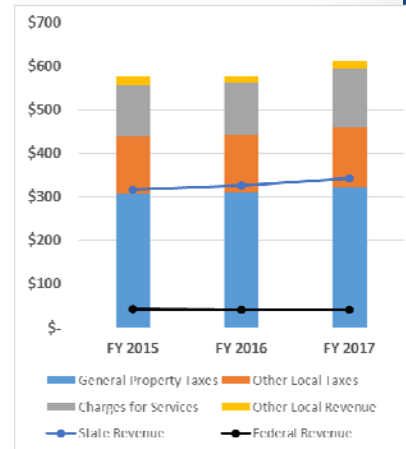
*Budgeted Revenue

**Revenue Projections



Revenue – All Funds

Revenue (in millions)	FY 2015	FY 2016	FY 2017	Increase	
	Actual	Budget	Budget	from FY 2016	
Local Revenue					
General Property Taxes	\$ 307.21	\$ 311.09	\$ 321.66	\$ 10.57	3.4%
Other Local Taxes	132.71	131.49	138.81	7.32	5.6%
Charges for Services	116.27	119.14	134.62	15.48	13.0%
Other Local Revenue	20.51	16.37	17.29	0.92	5.6%
Local Revenue	<u>\$ 576.70</u>	<u>\$ 578.09</u>	<u>\$ 612.38</u>	<u>\$ 34.29</u>	<u>5.9%</u>
State Revenue	317.59	327.03	342.47	15.44	4.7%
Federal Revenue	43.23	42.09	41.96	(0.13)	-0.3%
Total Revenue	<u><u>\$ 937.52</u></u>	<u><u>\$ 947.21</u></u>	<u><u>\$ 996.81</u></u>	<u><u>\$ 49.60</u></u>	<u><u>5.2%</u></u>



Reserve Requirements

- Charter and Policy Reserve
 - Add \$1.04 million of GF revenue to reserve required by Charter (6%)
 - Add \$2.08 million of GF revenue to unassigned fund balance (policy-12%)
 - Add \$188,000 of TIF revenue to reserves (18%)
- Locked Revenue for Capital
 - Schools – \$26.2 million of locked revenue
 - Debt service and cash funding of capital – \$20.3 million
 - City – \$20.1 million of locked revenue
 - Debt service and cash funding of capital – \$13.7 million
 - Up to \$8.5 million of capital locked revenue is needed for Spring 2016 debt issuances
 - Excess locked revenue is added to Fund Balance as a commitment

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Budgetary Savings – Employee Benefits

- Other Post-Employment Benefits (OPEB)
 - FY 2016 Budget based on estimates of Annual Required Contributions – \$10.7 million
 - FY 2017 Budget based on estimates of Annual Required Contributions – \$2.9 million
 - Savings for FY 2017 – \$7.8 million (73% reduction)
 - Primary factor – Medicare eligible retirees
 - Future risk – investment returns
- Virginia Retirement System – Employee retirement costs
 - FY 2016 Budget – \$18.5 million
 - FY 2017 Budget based on estimates of Annual Required Contributions – \$16.6 million
 - Savings for FY 2017 – \$1.9 million (10% reduction)
 - Primary factors – positive investment returns, hybrid program
 - Future risk – investment returns

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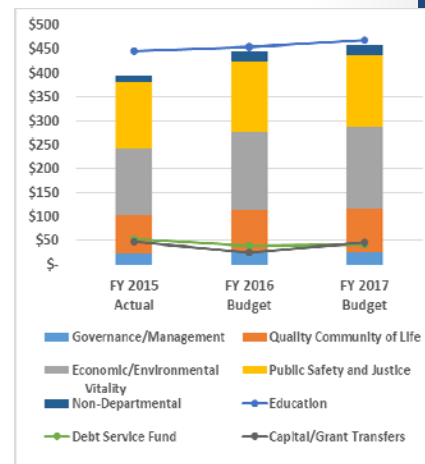
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Other Employee Benefits

- Employee healthcare increases \$534,500
 - Moderate largely because FY 2016 budget understated non-participants
 - Health care budget based on December 2015 employee selections with 6% increase starting December 2016
 - 6% of Employer’s annual subsidy = \$1.5 million
- Disability benefits increase \$187,300
 - Most of increase (\$150,000) provides new coverage to Plan 1 and 2 employees
 - Most of remainder is for new hybrid participants
- Group life insurance increases \$97,800 (increased rates)
- Worker compensation increases \$586,600
 - Prior year trends
 - Increased funding of Risk Fund to address fund deficit

Expenditures and Transfers – All Funds

Expenditures (in millions)	FY 2015	FY 2016	FY 2017	Increase	
	Actual	Budget	Budget	from FY 2016	
Governance/Management	\$ 23.78	\$ 26.77	\$ 26.21	\$ (0.56)	-2.1%
Quality Community of Life	78.71	88.07	89.37	1.30	1.5%
Economic/Environmental					
Vitality	139.60	161.04	171.71	10.67	6.6%
Public Safety and Justice	137.81	148.90	150.18	1.28	0.9%
Education	446.37	453.47	467.99	14.52	3.2%
Debt Service Fund	52.93	39.40	42.30	2.90	7.4%
Non-Departmental	13.91	20.16	19.69	(0.47)	-2.3%
Total Expenditures	\$893.11	\$937.81	\$967.45	\$29.64	3.2%
Capital/Grant Transfers	46.92	25.66	45.55	19.89	77.5%
Expenditures + Transfers	\$940.03	\$963.47	\$1,013.0	\$49.53	5.1%



BUDGET RECOMMENDATIONS FY 2016-2017

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City Portion of Operating Budget

Net Increases (Decreases) in Budget

• Chesapeake Public Schools (revenue sharing formula adds)	\$ 7.4 million
• Employee compensation	
• Across board general wage increase – 2.5% effective July 1, 2016	\$ 5.8 million
• Recognition of superior performance	\$ 0.5 million
• Public Safety Career Path – added funds to cover full year	\$ 0.4 million
• Compression adjustment – part-time/seasonal/substitute employees	\$ 0.1 million
• Estimates include adjusting all pay scales by 1.5%	
• Payroll efficiencies – Convert to arrears pay for all employees	\$ 3.5 million
• New positions added (44.8 FTE net), including reclassifications	\$ 3.2 million
• Debt service for Spring 2016 borrowings (city and schools)	\$ 8.5 million
• Regional jail commitment	\$ 1.6 million

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New Positions Recommended

• CIBH – new and expanded services	17.5 FTE	\$1.12 million
• City Attorney – attorney (PT offset)	0.4 FTE	\$ 88,500
• City Manager – records manager (citywide)	1.0 FTE	\$ 64,300
• Develop & Permits – reorganization	– 1.0 FTE	\$ 1,200
• Finance – continue spec. project (payroll)	1.0 FTE	\$ 64,200
• Fire – fiscal administrator (with offset)	0.0 FTE	\$ 26,800
• Human Resources – continue spec project	1.0 FTE	\$ 59,900
• IT – reorganization/mainframe transition	0.0 FTE	\$ 74,700
• PRT – recreational specialists and leaders	6.2 FTE	\$225,200
• Housekeeping – new PS Operations Bldg. (part year)	2.0 FTE	\$ 17,300
• Public Utilities – service gaps/productivity	10.0 FTE	\$536,850

New Positions Recommended, continued

• Police – Animal Services – Outreach	0.6 FTE	\$ 22,700
• Police – FOIA office spec, video technician	2.0 FTE	\$ cost offset
• Police – additional police officers (incl. equipment)	3.0 FTE	\$ 339,600
• PW Stormwater – office asst. compliance reports	1.0 FTE	\$ 40,400
• PW Traffic – traffic signal technician	1.0 FTE	\$ 51,700
• Sheriff – reclassification data control techs	0.0 FTE	\$ 87,500
• Central Fleet – add PT drivers for vehicle delivery	1.3 FTE	\$ 34,000
• Mosquito Control – reactivate mechanic tech	1.0 FTE	\$ 31,600
• Other reclassifications/part-time citywide	4.8 FTE	\$ 57,500
• Removed from Complement:		
• Agriculture – transferred to state payroll	– 4.0 FTE	cost offset
• Development & Permits – temporary positions	– 4.0 FTE	CIP funding

Dominion Boulevard Completion

- Capital project must be complete by April 2017
- Considerable incentives are available for early completion
- Current estimates indicate completion between September and December 2016
- CTS Budget Increased for Dominion Boulevard:
 - Dominion Boulevard tolls \$ 6.55 million
 - Interest expenses on outstanding debt \$ 8.97 million *
 - Toll system service contract \$ 4.37 million
- CTS Budget Increased for Chesapeake Expressway:
 - Additional tolls increase by (rate and traffic) \$ 1.03 million
 - Renewal and replacements (FY 16 omission) \$ 0.77 million
 - Interest on outstanding debt (FY 16 omission) \$ 1.36 million *

* Includes interest accruals on outstanding loans that will be paid in future years.

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Public Utilities

- Revenue Estimates:
 - Actual for FY 2015 was \$70.2 million
 - Budget for FY 2016 was \$69.4 million (even with 4.9% rate increase)
 - Budget for FY 2017 is \$76.5 million (also includes 4.9% rate increase)
- Average annual increase assumed in FY 2017 forecast is 4.5%
- Recommended increases (decreases) in spending:

• Capital outlays, including small improvements and repairs	\$ 2,196,700
• 9 added positions incl. operations, meter reading, customer service	510,000
• Other wage/benefit changes (savings)	(691,300)
• Reimburse General Fund for overhead	250,000
• Water contracts with neighboring localities (savings)	(314,000)
• Interest and payments on utility debt (savings)	(817,900)
- Increase transfers to Capital Projects Fund \$ 5,996,700

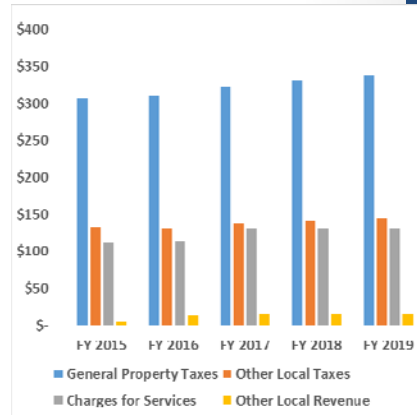
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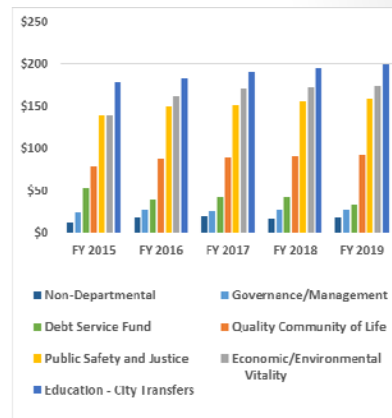
3-Year Projection (Excludes School Revenue)

Revenue (in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Property Taxes	\$ 307.21	\$ 311.09	\$ 321.66	\$ 330.29	\$ 338.70
Other Local Taxes	\$ 132.71	\$ 131.49	\$ 138.81	\$ 141.98	\$ 145.51
Charges for Services	111.94	113.75	130.66	130.76	130.97
Other Local Revenue	5.32	14.10	14.96	14.95	15.01
Subtotal	\$ 557.18	\$ 570.43	\$ 606.09	\$ 617.98	\$ 630.19
State Revenue	117.01	106.13	107.06	107.56	108.10
Federal Revenue	12.67	10.80	10.86	10.86	10.86
Total Revenue	\$ 686.86	\$ 687.36	\$ 724.01	\$ 736.40	\$ 749.15



3-Year Projection (Excludes School Revenue)

Expenditures (in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Governance/Management	\$ 23.78	\$ 26.97	\$ 26.41	\$ 27.11	\$ 27.43
Quality Community of Life	78.71	88.07	89.37	91.02	92.73
Economic/Environmental Vitality	139.60	161.04	171.71	172.93	174.47
Public Safety and Justice	138.43	149.75	151.03	155.13	158.96
Education - City Transfers	177.77	183.22	190.32	194.65	200.27
Debt Service Fund	52.93	39.40	42.30	41.80	34.46
Non-Departmental	13.29	19.11	19.49	17.00	17.98
Total Expenditures	\$ 624.51	\$ 667.56	\$ 690.63	\$ 699.64	\$ 706.30
Capital/Grant Transfers	46.93	25.66	45.55	35.68	30.01
Expenditures + Transfers	\$ 671.44	\$ 693.22	\$ 736.18	\$ 735.32	\$ 736.31



Chesapeake Public Schools

- Additional funding from revenue sharing formula \$ 7.4 million
- Additional state funding
 - Rebenchmarking cost of education \$ 6.4 million
 - Change in local composite index (relative ability to fund) \$ 4.7 million
 - Programmatic changes \$ 1.2 million
- Other net reductions (reliance on fund balances, grants, etc.) – \$ 5.2 million

- Net increase in school operating budget \$14.5 million

- Note that superintendent’s budget recommendation for annual city funding is \$12,000 greater than final revenue sharing formula.

School Board Action of School Budget

- School Board approved budget proposal on March 14 largely as recommended by superintendent with several modifications:
 - Increased projected student enrollment by 150 students and state funding accordingly – adds \$749,000 (not included in city budget)
 - Recommended appropriation of \$1,691,834 to Textbook Fund from FY 2014-15 reversion (included in city budget)
 - Recommended appropriation of \$2,382,235 to School Capital Fund for Full-Day Kindergarten Program from FY 2014-15 revenue-sharing settlement or true-up (not included in city capital budget)
- With exception of small difference in final revenue sharing projection for FY 2017, city staff is in agreement with modifications.

State Budget Update

- General Assembly approved budget March 11
- Governor may sign, veto, or recommend amendments
- Lawmakers return in April to consider Governor's amendments or vetoes
- Anticipate additional funding that is not in the budget proposal:
 - School budget – amendments include eliminating additional instructional personnel recommended by Governor, restoring Lottery funding, and accelerating teacher pay raises
 - Constitutional officers – anticipate additional funds from State Comp Board for staff pay raises
- Anticipate amendments to revenue and school budget based on final state budget

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Recap of What's in the Budget

- Solid growth in City revenue with no increase in tax property tax rates
- Address school funding issues and teachers receive raises
- Add police officers over next three years
- Address public safety career path
- Invest in city and school facilities
- Strengthen city's financial reserves as required
- Realize huge reduction in cost of employee retirement benefits
- Provide 2.5% pay raise to all city employees

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Remaining Action

- Council work sessions – April 12, 19 and 26
 - As requested by Council
- Public hearings – April 26 and May 10
 - Charter requires public hearing at least one public hearing
- Adoption of budget and appropriations ordinances – May 10
 - City Charter requires adoption 45 days before year begins
- Technical amendments and corrections – June 14
- First day of new fiscal year – July 1