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

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
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

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
Revenue Trends *(in millions)*

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>All Funds</th>
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</thead>
<tbody>
<tr>
<td>FY 2009</td>
<td>$518.8</td>
<td>$940.1</td>
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<tr>
<td>FY 2010</td>
<td>$509.0</td>
<td>$925.3</td>
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<td>FY 2012</td>
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<td>$910.2</td>
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<td>FY 2013</td>
<td>$501.9</td>
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<td>FY 2014</td>
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<td>$913.5</td>
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<tr>
<td>FY 2015</td>
<td>$523.9</td>
<td>$937.5</td>
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<tr>
<td>FY 2016*</td>
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<td>$947.2</td>
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<tr>
<td>FY 2017**</td>
<td>$543.4</td>
<td>$996.8</td>
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<td>FY 2018**</td>
<td>$555.4</td>
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<td>FY 2019**</td>
<td>$567.7</td>
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</table>

*Budgeted Revenue

**Revenue Projections

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Revenue – All Funds

<table>
<thead>
<tr>
<th>Revenue (in millions)</th>
<th>FY 2015 Actual</th>
<th>FY 2016 Budget</th>
<th>FY 2017 Budget</th>
<th>Increase from FY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Property Taxes</td>
<td>$307.21</td>
<td>$311.09</td>
<td>$321.66</td>
<td>$10.57 3.4%</td>
</tr>
<tr>
<td>Other Local Taxes</td>
<td>$132.71</td>
<td>$131.49</td>
<td>$138.81</td>
<td>$7.32 5.6%</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>$116.27</td>
<td>$119.14</td>
<td>$134.62</td>
<td>$15.48 13.0%</td>
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<tr>
<td>Other Local Revenue</td>
<td>$20.51</td>
<td>$16.37</td>
<td>$17.29</td>
<td>$0.92 5.6%</td>
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<tr>
<td>Local Revenue</td>
<td>$576.70</td>
<td>$578.09</td>
<td>$612.38</td>
<td>$34.29 5.9%</td>
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<tr>
<td>State Revenue</td>
<td>$317.59</td>
<td>$327.03</td>
<td>$342.47</td>
<td>$14.44 4.7%</td>
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<tr>
<td>Federal Revenue</td>
<td>$42.23</td>
<td>$42.09</td>
<td>$41.96</td>
<td>(0.13) -0.3%</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$937.52</td>
<td>$947.21</td>
<td>$996.81</td>
<td>$49.60 5.2%</td>
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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

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
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

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

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
## 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.

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
### 3-Year Projection (Excludes School Revenue)

#### Revenue (in millions)

<table>
<thead>
<tr>
<th></th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
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<tr>
<td>General Property Taxes</td>
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<td>$330.29</td>
<td>$338.70</td>
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<td>$132.71</td>
<td>$131.49</td>
<td>$138.81</td>
<td>$141.98</td>
<td>$145.51</td>
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<tr>
<td>Charges for Services</td>
<td>111.94</td>
<td>113.75</td>
<td>130.66</td>
<td>130.76</td>
<td>130.97</td>
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<td>Other Local Revenue</td>
<td>5.32</td>
<td>14.10</td>
<td>14.96</td>
<td>14.95</td>
<td>15.01</td>
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<td>Subtotal</td>
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<td>$570.43</td>
<td>$606.09</td>
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<td>$630.19</td>
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<td>State Revenue</td>
<td>117.01</td>
<td>106.13</td>
<td>107.06</td>
<td>107.56</td>
<td>108.10</td>
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<tr>
<td>Federal Revenue</td>
<td>12.67</td>
<td>10.80</td>
<td>10.86</td>
<td>10.86</td>
<td>10.86</td>
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<tr>
<td>Total Revenue</td>
<td>$686.86</td>
<td>$687.36</td>
<td>$724.01</td>
<td>$736.40</td>
<td>$749.15</td>
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#### Expenditures (in millions)

<table>
<thead>
<tr>
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<th>FY 2016</th>
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<td>$27.11</td>
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<td>Quality Community of Life</td>
<td>78.71</td>
<td>88.07</td>
<td>89.37</td>
<td>91.02</td>
<td>92.73</td>
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<td>Economic/Environmental</td>
<td>139.60</td>
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<td>171.71</td>
<td>172.93</td>
<td>174.47</td>
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<tr>
<td>Vitality</td>
<td>138.43</td>
<td>149.75</td>
<td>151.03</td>
<td>155.13</td>
<td>158.96</td>
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<td>Public Safety and Justice</td>
<td>177.77</td>
<td>183.22</td>
<td>190.32</td>
<td>194.65</td>
<td>200.27</td>
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<tr>
<td>Education - City Transfers</td>
<td>52.93</td>
<td>49.40</td>
<td>42.30</td>
<td>41.80</td>
<td>34.46</td>
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<td>Debt Service Fund</td>
<td>13.29</td>
<td>19.11</td>
<td>19.49</td>
<td>17.00</td>
<td>17.98</td>
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<tr>
<td>Non-Departmental</td>
<td>46.93</td>
<td>25.66</td>
<td>45.55</td>
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<td>30.01</td>
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<tr>
<td>Total Expenditures</td>
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<td>$667.56</td>
<td>$690.63</td>
<td>$699.64</td>
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<tr>
<td>Capital/Grant Transfers</td>
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<td>25.66</td>
<td>45.55</td>
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<td>30.01</td>
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<td>Expenditures + Transfers</td>
<td>$671.44</td>
<td>$693.22</td>
<td>$736.18</td>
<td>$735.32</td>
<td>$736.31</td>
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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

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
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