

March 28, 2017

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 am pleased to submit the Proposed Operating Budget for Fiscal Year 2018. General fund revenue is projected to be 2.8% above the FY 2017 budget, with real property values (reassessment plus new construction) increasing by 4.6%. While the local economy continues to underperform the nation as a whole (due in part to the impacts of federal sequestration), the city's revenue trends are showing definite improvement. We remain confident about the future and expect current growth rates will be sustained over the next three to five years.

For FY 2018, we propose a spending plan that totals \$1.013 billion for the Operating Budget. This represents an increase of \$37.8 million or 3.9% of the FY 2017 budget. This budget proposal is balanced and it provides resources necessary to:

- Improve wages of city and school employees;
- Address the most urgent funding requirements for Chesapeake Public Schools;
- Address the rising cost of employee healthcare;
- Reduce the backlog of individuals requiring crisis response and prevention services through Chesapeake Integrated Behavioral Healthcare;
- Provide sufficient staff for a major expansion of the city jail (192 bed annex);
- Begin transition to full-day kindergarten at all elementary/primary schools; and
- Improve emergency response and dispatch (E911) by adding staff in the Police Department.

Council's Guiding Principles

The FY 2018 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 of all vacant positions for possible elimination;
- Identification of operating efficiencies and reduction of spending accordingly; and
- Identification of non-core services for possible consolidation, curtailment or elimination.

This budget proposal is consistent with the 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, the budget includes an increase in water and sewer utility rates of 4.9%. The fifth and final scheduled rate increase approved in 2013 will take place July 2017. This rate increase is necessary to maintain a stable enterprise fund and to allow for system improvements required by emerging environmental regulations. We also anticipate recommending smaller annual utility rate increases starting in July 2018.

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

Budget Drivers

Fortunately, we are in a period of relatively low inflation and most cost increases have been moderate (during the last five years, the Consumer Price Index rose an average of 1.3% annually). Prices in the more volatile energy sector climbed during calendar year 2016 but are still lower than four years ago. We expect energy prices will continue rising during FY 2018 as the general economy improves, but that prices will remain below the 2014 levels. Healthcare costs remain an exception to the overall low inflation. The combination of employee utilization of healthcare related to an aging population, new medical technologies, and rapidly growing pharmacy costs continues to challenge city leaders.

Other major changes in government costs proposed in this budget:

- **Staffing Requirements:** The Budget Review Committee evaluated requests for 108 new positions from departments throughout the City. After a thorough inquiry and analysis of departmental requests, we recommend the funding of 61.73 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 staffing requirements at the new jail annex scheduled to open in March 2018;
 - ✓ Address new service demands that are funded with new revenue; and/or
 - ✓ Improve the City's response to citizen service demands.

Most of the new positions are needed for the Sheriff (11.0 FTE), the Police Department (10.63 FTE), the Water and Sewer Utility Fund (16.75 FTE), and for Chesapeake Integrated Behavioral Healthcare (16.00 FTE). The utility fund is supported exclusively with user fees and the added

positions in CIBH are related to a statewide effort to improve the delivery of behavioral health services. FY 2018 also represents the second year of a three year planned program to increase the authorized number of City Police Officers. Last year, five officer positions were added to the budget; we are recommending two added positions for FY 2018. A listing of the new positions costing \$4.65 million appears in Section B of the budget document.

- **Employee Compensation:** The FY 2018 operating budget includes a 2.5% general wage increase effective in July 2017 for all eligible employees. It also includes a provision for performance recognition and market adjustments for select employee classifications whose pay is significantly below neighboring municipalities. Market adjustments ensure we are able to attract and retain qualified personnel. Both the performance recognitions and the market adjustments will be effective in October 2017. The total cost of employee pay enhancements planned for FY 2018 is \$6.8 million. A more complete description of changes in employee compensation follows the new position listing in the summary section.
- **Healthcare:** 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 an 18.5% increase in the renewal estimates for the plan year beginning January 2017. In order to hold employee premium increases to 8%, the City increased its funding of the program by 21% and continued a three-pronged approach to stabilize future costs. First, it moved from a fully-insured plan to a self-insured plan starting January 2016. While the City assumes greater risk under the new funding model, we believe the self-insurance plan will provide new opportunities that benefit all participants and help to stabilize costs in the long run. The second strategy was to strengthen the employee wellness program by providing greater incentives for employees to get full physicals from their physicians. Finally, we are encouraging more active participation by members through the addition of options involving a new high-deductible health plan.
- **Payroll Efficiencies:** Employees are paid in two payroll cycles: weekly and semi-monthly. Weekly employees are paid in arrears, generally seven days after the last day of their pay cycle. Semi-monthly employees are paid current rather than in arrears (on the 15th and 30th day of the month) causing significant rework and added procedures in order to avoid overpaying employees who are absent from work. In 2014 the City Auditor recommended that we evaluate the conversion of semi-monthly personnel to arrears pay and implementation of a bi-weekly payroll schedule. The FY 2017 budget included a \$3.6 million one-time provision to implement arrears pay for all employees. While we continue to study implementation of a weekly or bi-weekly payroll schedule, no provision for further implementation of payroll changes is included in the FY 2018 budget.

Looking Forward

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 2018. Each year we will also review proposals that have merit and that are consistent with Council's long-range plans. Proposals that meet these criteria, and which are sustainable, will be recommended for funding.

We have included a three-year spending plan on page B-15 of the budget document with underlying assumptions immediately following. We anticipate City revenue will grow from \$729 million in FY 2017 to \$783 million in FY 2020 (7.4% over three years). City spending, including transfers to the School Board, are expected to rise from \$696 million in FY 2017 to \$775 million in FY 2020 (11.4% over three years). While costs are rising faster than projected revenue, we are confident that future revenue growth will be adequate to address current and foreseeable service demands.

Conclusion

This spending plan balances existing revenue and other resources with overall service demands. No changes are proposed in general tax rates and only modest fee increases are proposed. The FY 2018 Proposed Operating Budget honors our commitment to Chesapeake Public Schools while also addressing retention, recruitment, and health care costs of City employees.

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

I am confident that the strategies recommended in this proposed budget meet most citizen expectations for quality levels of community services, 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 the current and future needs of Chesapeake citizens.

Sincerely,



James E. Baker
City Manager

MEMORANDUM

City Council met on June 27, 2017 and approved all recommendations as presented here.

TO: James E. Baker, City Manager
FROM: Steven Jenkins, Budget Director
DATE: June 14, 2017
SUBJECT: Amendments and Technical Corrections to Operating and Capital Budgets

City Council approved the FY 2018 Operating and Capital Budgets on May 9, 2017 as proposed and revised by the City Manager with one exception. Council amended the Manager’s recommendation in order to fund two additional police officers. With Council’s revision for the Police Department, the total FY 2018 Operating Budget was approved for \$1,023,376,044. In a separate action, City Council also approved the FY 2018 Capital Budget for \$134,348,169 as recommended by staff.

Since adoption of the FY 2018 budgets, we have encountered several matters that were omitted from the budget or for which corrections are necessary. Listed below are revisions that are recommended for the Operating Budget followed by recommendations for the Capital Budget.

Tax Levy Ordinance

Language in the tax levy ordinance inadvertently included an exemption that was neither discussed with nor requested by City Council. The amended tax levy ordinance removes the special tax rate for private horse trailers , and inserts the applicable state code reference on camping trailers and motor homes used for recreational purposes. The original ordinance was not consistent with the operating budget; the revised ordinance aligns with the budget and mirrors exemptions already granted by City Council.

Operating Budget Amendments and Corrections

1. Increase budget to correct provision for performance pay awards – in previous years we included a provision for performance pay awards in the non-departmental section of the operating budget and subsequently allocated funds to the individual department budgets. This year, provisions were established in most of the individual department budgets for performance pay awards. Unfortunately, the provision was inadvertently omitted for several departments.

In order to correct the omission, we need to add \$168,574 to the personal service accounts of the following departments.

Police Department	\$55,811
Public Works	\$46,586
Public Utilities	\$23,985
Human Services Department	\$18,460
Chesapeake Integrated Behavioral Healthcare	\$ 7,214
Sheriff.....	\$10,974
Development and Permits	\$ 7,380
Parks and Recreation	subtract \$10,050 (remove duplicate entry)
Other departments	\$ 8,214

2. Reclassification of one Principal Planner in the Planning Department to a Planning Administrator. This change was omitted from the department budget but is necessary due to the transfer of administrative oversight of the CDBG program from the Chesapeake Redevelopment and Housing Authority to the Planning Department. The position has assumed new supervisory responsibilities for several CDBG positions that are classified at or higher than a Principal Planner. The new responsibilities support a classification and wage adjustment for the affected planner. The department’s budget is increased by \$7,218 to address increased wage and benefit costs.
3. Increase budget for Central Fleet by \$83,418 related to additional vehicles necessary for the two additional police officers authorized by Council in May. The budget increase is offset by an increase in internal revenue transferred from the Police Department. (No change in total appropriation.)
4. Revise Public Works (Solid Waste Division) budget by \$135,000 to fund the automation of waste collection at townhouses. Due to space constraints, current collection practices at many townhouse communities involves traditional waste collection methods that rely on waste management workers rather than mechanical lifts. Several townhouse communities have agreed to switch to larger city-issued waste bins which can be collected using automated vehicles with only one operator. Funding is available from the SPSA credit (rate stabilization fund) received in January 2017.
5. Increase City Council contingency (non-departmental accounts) by \$140,000 – we recommend adding to the contingency so that money is available in the event City Council authorizes funding requests made by outside agencies. While several requests are outstanding, this line item would only be drawn upon to address Council authorizations.
6. Corrections to identification of new or reclassified positions – no change in budget amounts:
 - a. Office of City Manager: reclassification of Office Assistant II to Office Specialist I (reclassified position mistakenly noted as Office Specialist II).
 - b. Human Resources: Human Resources Coordinator was mistakenly described as a Human Services Coordinator.
 - c. Human Services (Social Service Division): two (2) Office Assistant positions were reclassified to Benefit Program Aides. The report of new positions incorrectly stated that four (4) office assistant positions were reclassified to data control technicians.
 - d. Police Department: one part-time Payroll/Human Resources Technician was added; the report of new positions incorrectly identified the position as a payroll technician.

- e. Police Department: the budget includes the addition of eight (8) Virginia Crime Information Network (VCIN) Office Specialists. The report of new positions and the department report on the police complement misstated the number of VCIN office specialists and their pay grades.
 - f. Public Works: reclassified one Construction Inspector to an Engineering Technical Supervisor; the original position was mistakenly described as a Construction Inspector Supervisor.
 - g. CIBH: requested four (4) Peer Recovery Specialists which were not recommended.
 - h. Office of City Manager: correct office specialist position (0.5 FTE, grade 113). The correct description is an Office Specialist I (grade 109) at 25 hours per week (0.625 FTE).
7. Transfers to Capital Improvement Funds – several revisions noted in the next section of this memorandum also revise the funds that are transferred from operating funds. The first three capital revisions increase transfers from the operating budget by \$5,679,000. All transfers to the Capital Funds are from operating funds assigned to or reserved for one-time capital spending.

The modifications noted above would increase the Operating Budget by \$450,792. With these revisions, the FY 2018 Operating Budget is increased to \$1,023,826,836. Additionally, transfers to other funds (largely capital) are increased from \$53.34 million to \$59.02 million. There are no changes in revenue. The combination of increased expenditures and additional transfers to Capital Funds reduces ending Fund Balances to \$374.23 million. While smaller than initially stated, ending Fund Balances remains consistent with Council policy.

Capital Budget Revisions and Corrections

1. CIBH – Psychosocial Day Support Building (Coastal Clubhouse) – this project was approved for \$500,000 during FY 2015 and was considered fully funded. The latest study of the existing structure and an alternative structure indicate the cost to expand the facility is approximately \$2.1 million. While the project report for the project was updated in the CIP, the additional financial requirements were inadvertently omitted from the FY 2018 capital budget. We recommend an increase in the FY 2018 Capital Budget in the amount of \$1,579,000 and an amendment to the CIP for the same amount. The funding source for the project is the CIBH fund balance.
2. Chesapeake Expressway Interchange at Mount Pleasant Road – this project addresses damages caused in October by Hurricane Matthew and was funded with an amendment to the FY 2017 Operating Budget following the storm. Unfortunately, significant engineering was required for the interchange and a contract to repair the facility cannot be issued until July at the very earliest. The estimated cost to repair the interchange is \$2.5 million; funding is provided from unspent funds in storm recovery provision of the FY 2017 Operating Budget. We anticipate an eventual recovery of most of the project cost from the Federal Highway Authority.
3. Fentress Encroachment Protection – The state budget includes \$2.6 million for mitigation of encroachment around NALF Fentress. State funding will cover 50% of encroachment costs. The capital budget includes only \$2.0 million funded equally with city and state funds. We recommend increasing the encroachment protection budget by \$3.2 million with funding split equally between the state and the city capital lockbox.
4. State Funding for Stormwater Projects – The city has received grant awards from the Virginia Department of Environmental Quality (DEQ) for two stormwater projects. The grants require an equal match from the city. We recommend establishing two new stormwater projects as follows:

(1) New Mill Regional BMP for \$2,045,950 and (2) Meads Court BMP for \$1,368,456. One half of each project is funded by the DEQ (\$1,707,203) and the local portion is funded with a transfer of funds previously allocated to the Stormwater Quality Program (#05-140). The two new projects will be established as subprojects of the larger Stormwater Quality Program.

5. Correct error on financing plan for school projects – the financing plan understates the amount of available proffers by \$150,000 and overstates the amount of borrowing necessary by the same amount. We recommend an adjustment to correct the error.

The above revisions total \$8,986,203 bringing the FY 2018 Capital Budget to \$143,334,372. The revisions are financed with \$5.68 million of city cash along with \$3.46 million of proffers and grants. Finally, borrowing is reduced by \$150,000 as noted in item 5 above. These revisions, if approved, are also reflected as revisions to the first year of the five-year Capital Improvement Program. The five-year plan is amended from \$425.65 million to \$434.63 million.

Summaries of revisions for the Operating and Capital Budgets appear on the next two pages.

City of Chesapeake, Virginia
Operating Appropriation - FY 2018

<i>Listed below is the annual appropriation, including sources used to finance the operating budget.</i>	Adopted Budget 05/09/17	Proposed Revisions	Recommended Final Budget
BEGINNING FUND BALANCES	\$ 399,689,148	\$ -	\$ 399,689,148
REVENUES			
General Property Taxes	\$ 336,067,100	\$ -	\$ 336,067,100
Other Local Taxes	139,105,400	-	139,105,400
Charges for Services	143,766,464	-	143,766,464
Other Local Revenues	23,490,007	-	23,490,007
Revenue from the Commonwealth	354,021,586	-	354,021,586
Revenue from the Federal Government	43,024,358	-	43,024,358
Categorical Grant Awards	9,205,605	-	9,205,605
Total Revenue	\$ 1,048,680,520	\$ -	\$ 1,048,680,520
TOTAL FUNDS AVAILABLE	\$ 1,448,369,668	\$ -	\$ 1,448,369,668
APPROPRIATIONS			
General Fund	\$ 295,879,078	\$ 381,009	\$ 296,260,087
Special Revenue Funds			
Virginia Public Assistance	21,888,323	15,985	21,904,308
Interagency Consortium	3,958,903	923	3,959,826
Fee Supported Activities	1,064,693	-	1,064,693
Integrated Behavioral Healthcare	27,261,482	7,215	27,268,697
Conference Center & Tourism	4,305,626	-	4,305,626
E-911 Operations	6,806,071	6,458	6,812,529
Chesapeake Juvenile Services	7,203,973	1,380	7,205,353
Tax Increment Financing-Greenbrier	3,000	-	3,000
Tax Increment Financing-South Norfolk	25,000	-	25,000
City Wide Debt Fund	41,937,225	-	41,937,225
Enterprise Funds			
Public Utilities	65,805,877	23,985	65,829,862
Stormwater Management	11,084,961	9,686	11,094,647
Chesapeake Transportation System	25,386,619	4,151	25,390,770
Internal Service Funds (net of department billings)			
Central Fleet / City Garage	2,462,930	-	2,462,930
Information Technology	484,900	-	484,900
Risk Management	-	-	-
Health Insurance	5,441,000	-	5,441,000
Mosquito Control	4,481,888	-	4,481,888
Education	488,688,890	-	488,688,890
Categorical Grant Awards	9,205,605	-	9,205,605
Total Appropriations	\$ 1,023,376,044	\$ 450,792	\$ 1,023,826,836
Transfers to Capital and Grant Funds	53,341,231	5,679,000	59,020,231
Estimated Budgetary Savings	(8,708,145)	-	(8,708,145)
ENDING FUND BALANCE	\$ 380,360,538	\$ (6,129,792)	\$ 374,230,746

City of Chesapeake
Capital Improvement Budget - FY 2018

July 1, 2017 – June 30, 2018

	Adopted Budget 05/09/17	Proposed Revisions	Recommended Final Budget
Funding Sources			
Cash Funding:			
Cash Transfers from Operating Funds	\$ 55,099,730	\$ 5,679,000	\$ 60,778,730
Grants and Developer Proffers	5,650,000	3,457,203	9,107,203
VDOT Revenue Share	21,200,000	-	21,200,000
Subtotal – Cash	\$ 81,949,730	\$ 9,136,203	\$ 91,085,933
Debt Financing:			
General Obligation Bonds	\$ 45,409,739	\$ (150,000)	\$ 45,259,739
Revenue Bonds - Enterprise Funds	6,988,700	-	6,988,700
Subtotal – Debt Financing	\$ 52,398,439	\$ (150,000)	\$ 52,248,439
Total Resources Available	\$ 134,348,169	\$ 8,986,203	\$ 143,334,372

Improvement Plans by Category

General Government:

Community Facilities	\$ 2,589,000	\$ 1,579,000	\$ 4,168,000
Economic Development	29,200,000	3,200,000	32,400,000
Education	26,293,500	-	26,293,500
Information Technology	3,465,000	-	3,465,000
Parks, Recreation and Tourism	4,045,000	-	4,045,000
Public Safety	17,405,374	-	17,405,374
Transportation	25,895,000	2,500,000	28,395,000
Subtotal – General Government	\$ 108,892,874	\$ 7,279,000	\$ 116,171,874

Enterprise Funds:

Chesapeake Transportation System	\$ 1,507,850	\$ -	\$ 1,507,850
Public Utilities	18,247,445	-	18,247,445
Stormwater Projects	5,700,000	1,707,203	7,407,203
Subtotal – Enterprise Funds	\$ 25,455,295	\$ 1,707,203	\$ 27,162,498
Total Cost Requirements	\$ 134,348,169	\$ 8,986,203	\$ 143,334,372

MEMORANDUM

TO: James E. Baker, City Manager
FROM: Steven Jenkins, Budget Director
DATE: April 28, 2017
SUBJECT: FY 2018 Budget Amendment

Early this week we received a request from the School Board to increase the school operating budget by utilizing \$1,311,509 in the City's General Fund Balance. The requested sum is derived from a surplus in school operations realized during FY 2016. Under state statute, unspent school funds are returned to the funding agency at the end of the year. Surpluses are often referred to as a reversion since funds revert to the City. Historically, Chesapeake has permitted CPS to utilize money that was unspent and returned to the City in accordance with state statute.

The recommended budget for schools is \$564,982 less than was originally requested by the School Board. By using the FY 2016 reversion, we are able to fully fund the CPS request and make an additional \$746,527 available for school operations.

If this amendment is approved by City Council, the citywide appropriation for operations would increase from \$1,021,864,535 to \$1,023,176,044 and the ending fund balance would decline by \$1,311,509. A summary of our original and revised recommendations for appropriation are summarized on the attached schedule.

Please place this amendment on City Council's agenda for May 9, 2017.

City of Chesapeake, Virginia
Operating Appropriation - FY 2017-18

<i>Listed below is the annual appropriation, including sources used to finance the operating budget.</i>	Original Proposed	School Revision	Revised Proposal
BEGINNING FUND BALANCES ⁽¹⁾	\$ 399,689,148	\$ -	\$ 399,689,148
REVENUES			
General Property Taxes	\$ 336,067,100	\$ -	\$ 336,067,100
Other Local Taxes	139,105,400	-	139,105,400
Charges for Services	143,766,464	-	143,766,464
Other Local Revenues	23,490,007	-	23,490,007
Revenue from the Commonwealth	354,021,586	-	354,021,586
Revenue from the Federal Government	43,024,358	-	43,024,358
Categorical Grant Awards	9,205,605	-	9,205,605
Total Revenue	\$ 1,048,680,520	\$ -	\$ 1,048,680,520
TOTAL FUNDS AVAILABLE	\$ 1,448,369,668	\$ -	\$ 1,448,369,668
APPROPRIATIONS			
General Fund	\$ 295,679,078	\$ -	\$ 295,679,078
Special Revenue Funds			
Virginia Public Assistance	21,888,323	-	21,888,323
Interagency Consortium	3,958,903	-	3,958,903
Fee Supported Activities	1,064,693	-	1,064,693
Integrated Behavioral Healthcare	27,261,482	-	27,261,482
Conference Center & Tourism	4,305,626	-	4,305,626
E-911 Operations	6,806,071	-	6,806,071
Chesapeake Juvenile Services	7,203,973	-	7,203,973
Tax Increment Financing-Greenbrier	3,000	-	3,000
Tax Increment Financing-South Norfolk	25,000	-	25,000
City Wide Debt Fund	41,937,225	-	41,937,225
Enterprise Funds			
Public Utilities	65,805,877	-	65,805,877
Stormwater Management	11,084,961	-	11,084,961
Chesapeake Transportation System	25,386,619	-	25,386,619
Internal Service Funds (net of department billings)			
Central Fleet / City Garage	2,462,930	-	2,462,930
Information Technology	484,900	-	484,900
Risk Management	-	-	-
Health Insurance	5,441,000	-	5,441,000
Mosquito Control	4,481,888	-	4,481,888
Education	487,377,381	1,311,509	488,688,890
Categorical Grant Awards ⁽²⁾	9,205,605	-	9,205,605
Total Appropriations	\$ 1,021,864,535	\$ 1,311,509	\$ 1,023,176,044
Transfers to Capital and Grant Funds	53,341,231	-	53,341,231
Estimated Budgetary Savings	(8,708,145)	-	(8,708,145)
ENDING FUND BALANCE	\$ 381,872,047	\$ (1,311,509)	\$ 380,560,538