

Operating Budget

Fiscal Year 2018-19

City of Chesapeake

Council Work Session – March 27, 2018

Topics for Review

- City Council's Guiding Principles
- Budget Process
- Major Cost Drivers
- Revenue Trends and Projections
- Reserve Requirements
- Budget recommendations
- 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 projections 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 Managers, Chief Information Officer, Purchasing Officer, and Directors of Budget, Finance, and Human Resources

Rotating Members for 2018: Directors of Public Utilities and Public Works

- Reconcile budget plans with available resources
- City Manager Recommendation
- Council Appropriations

Service-Based Budget

- Link services to annual budget and performance measures
- Provides better understanding of how resources impact services
- Helps identify performance gaps
- Requires allocation of costs among the services each department performs
- Results in shifting of costs between funds
 - E.g., Police administrative costs are allocated to Dispatch Services (E-911 Fund)
- Report of department information also revised

Service-Based Budget – Department Example

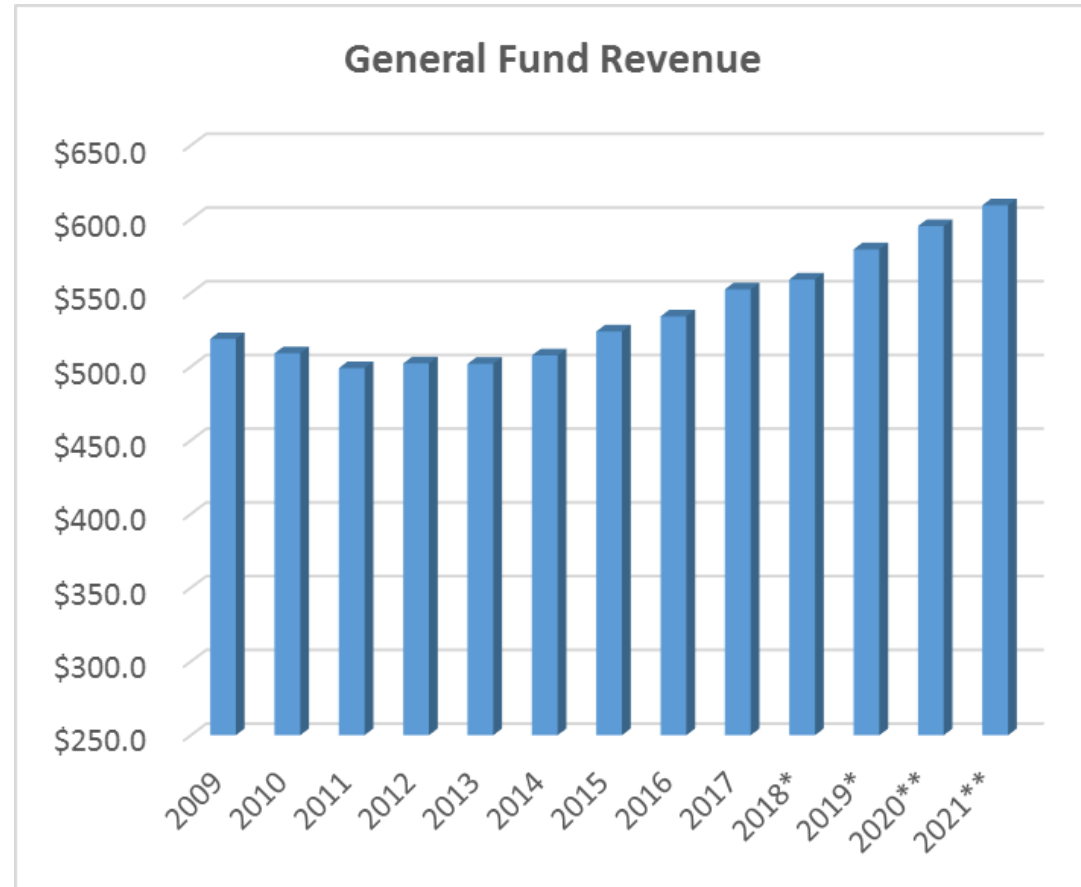
DEPARTMENT SERVICE INFORMATION		
32401 Fire & Arson Investigation		
<ul style="list-style-type: none"> ● Thoroughly investigates to determine the origin and cause of every fire, including those that are illegal, accidental, and Intentionally set. ● Investigate and prosecute bomb threats, threats to burn, terrorist threats, deaths involving fires, and hazardous materials chemical spills. ● When a criminal element is present in an incident, the Deputy Fire Marshals, which are also sworn law enforcement officers, will ensure that the case is prosecuted and that justice is served. 		
FY 2019 Budget and Staffing	\$ 390,376	2.90 FTE
Operating and Performance Measures		
Work Load Measures		
# of fires		550
Efficiency Measures		
% of fires where origin and cause is identified		80%
Performance Measures		
Maintain or improve property value to property loss ratio due to fire: Goal is 15%		Progressing
Improve the city's Insurance Services Office (ISO) rating: Goal is 2/2X		Progressing

Major cost drivers

- Employee recruitment and retention
- Rapidly rising costs of employee health care
- Community mental health services
- Emergency dispatch services
- Savings in solid waste disposal
- Community Corrections Facility – opens Spring 2018

Revenue Trends *(in millions)*

Fiscal Year	General Fund		All Funds	
2009	\$ 518.8		\$ 940.1	
2010	\$ 509.0	-1.9%	\$ 925.3	-1.6%
2011	\$ 499.0	-2.0%	\$ 902.8	-2.4%
2012	\$ 502.2	0.6%	\$ 910.2	0.8%
2013	\$ 501.9	0.0%	\$ 896.0	-1.6%
2014	\$ 507.6	1.1%	\$ 913.5	2.0%
2015	\$ 523.9	3.2%	\$ 937.5	2.6%
2016	\$ 534.1	1.9%	\$ 956.7	2.0%
2017	\$ 552.4	3.4%	\$ 1,003.1	4.9%
2018*	\$ 559.1	1.2%	\$ 1,039.6	3.6%
2019*	\$ 579.5	3.6%	\$ 1,072.1	3.1%
2020**	\$ 595.3	2.7%		
2021**	\$ 609.4	2.4%		



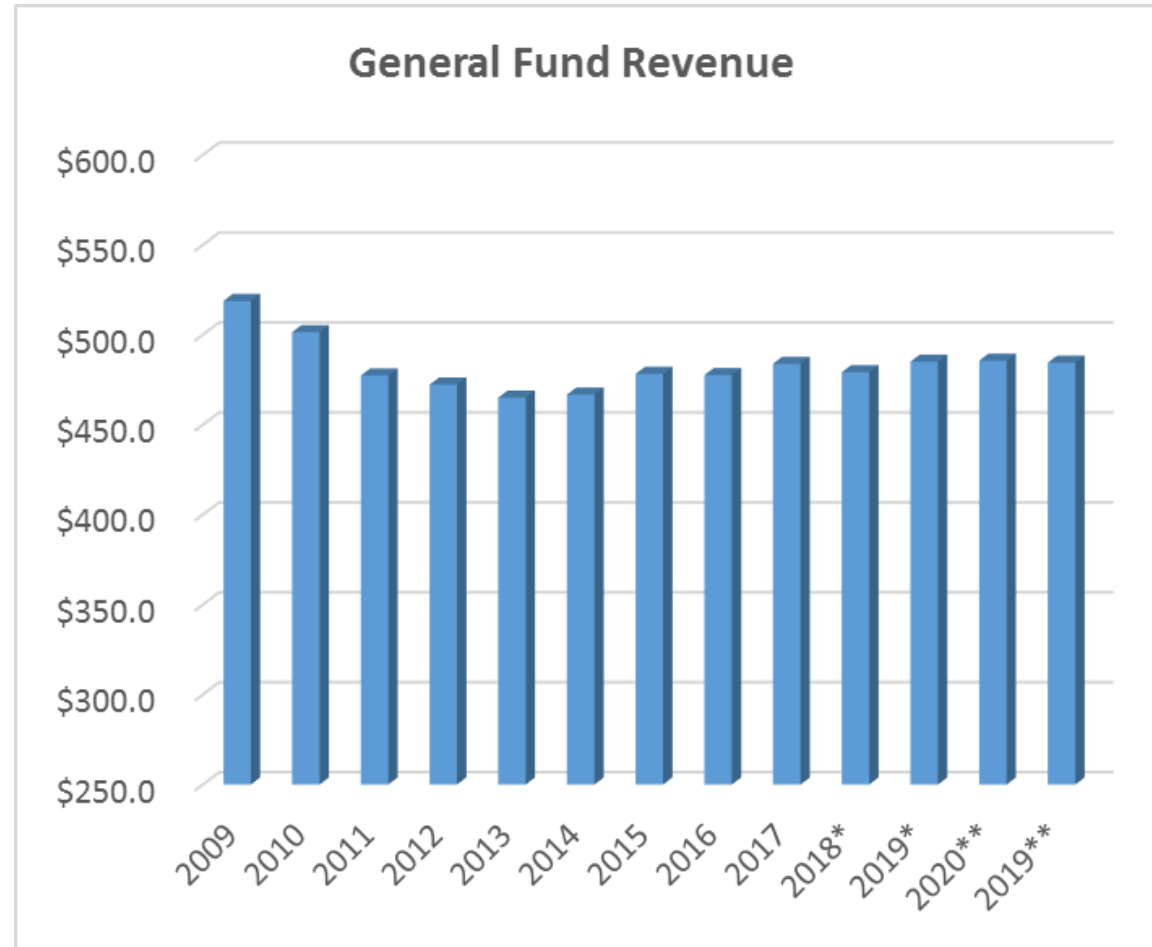
*Budgeted Revenue

**Revenue Projections

Inflation Adjusted Revenue *(in millions)*

Inflation Adjusted (2009 Dollars)

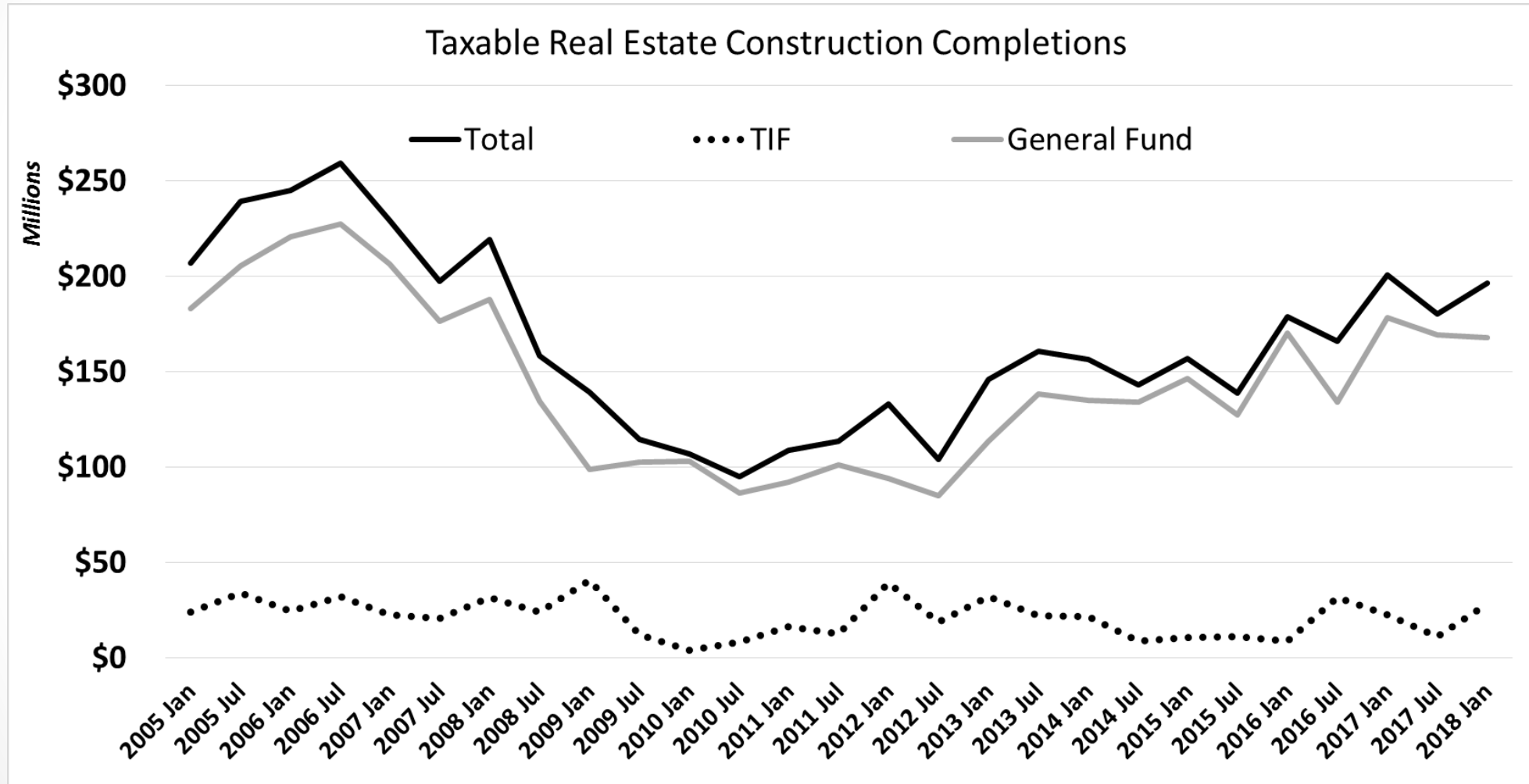
Fiscal Year	General Fund		All Funds	
2009	\$	518.8	\$	940.1
2010	\$	501.5	-3.3%	\$ 911.6 -3.0%
2011	\$	477.5	-4.8%	\$ 863.9 -5.2%
2012	\$	472.3	-1.1%	\$ 856.1 -0.9%
2013	\$	465.1	-1.5%	\$ 830.2 -3.0%
2014	\$	466.8	0.4%	\$ 840.1 1.2%
2015	\$	478.3	2.5%	\$ 855.9 1.9%
2016	\$	477.7	-0.1%	\$ 855.7 0.0%
2017	\$	483.9	1.3%	\$ 878.7 2.7%
2018*	\$	479.2	-1.0%	\$ 891.1 1.4%
2019*	\$	485.1	1.2%	\$ 897.4 0.7%
2020**	\$	485.7	0.1%	
2019**	\$	484.6	-0.2%	



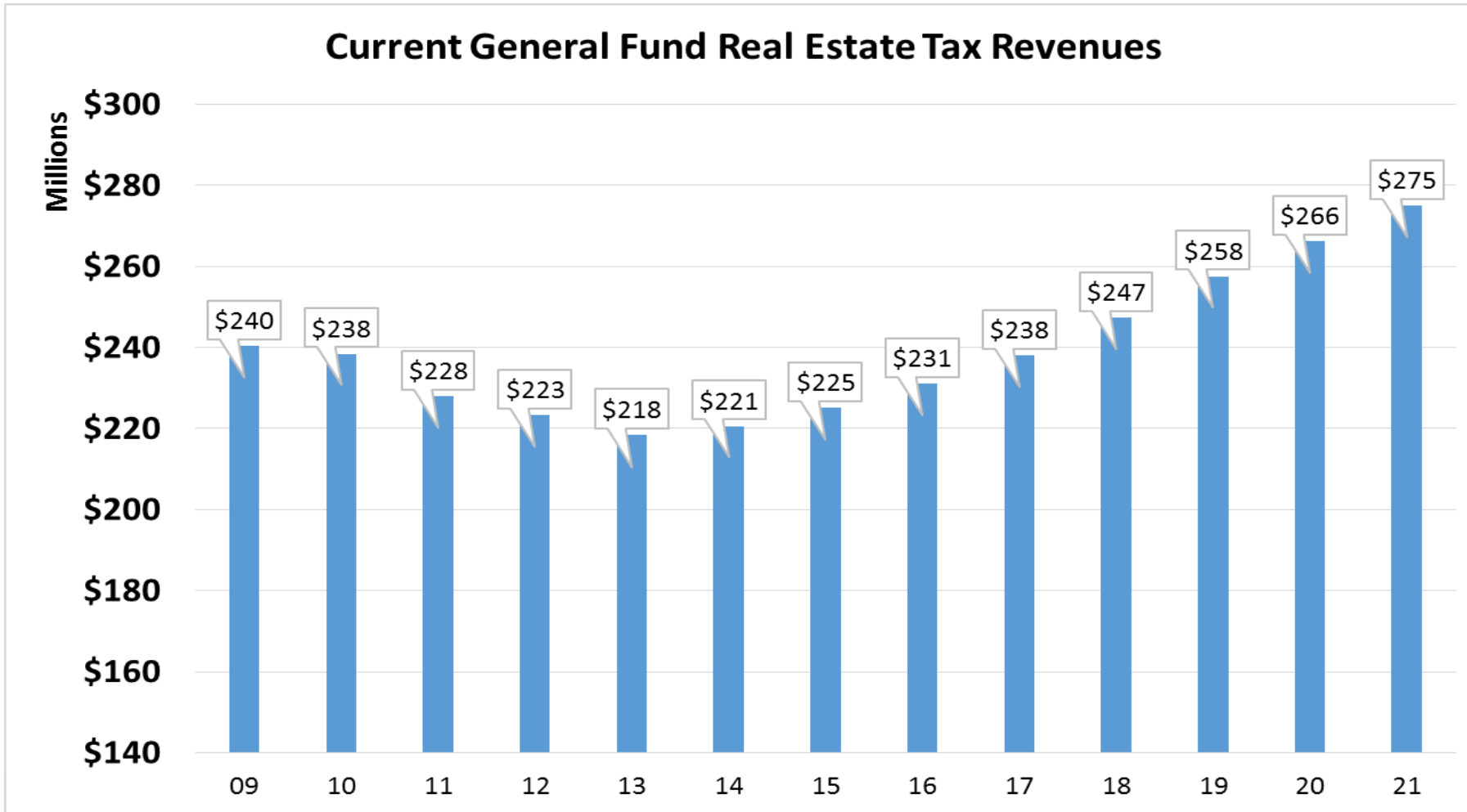
*Budgeted Revenue

**Revenue Projections

New Construction Activity (Assessor)

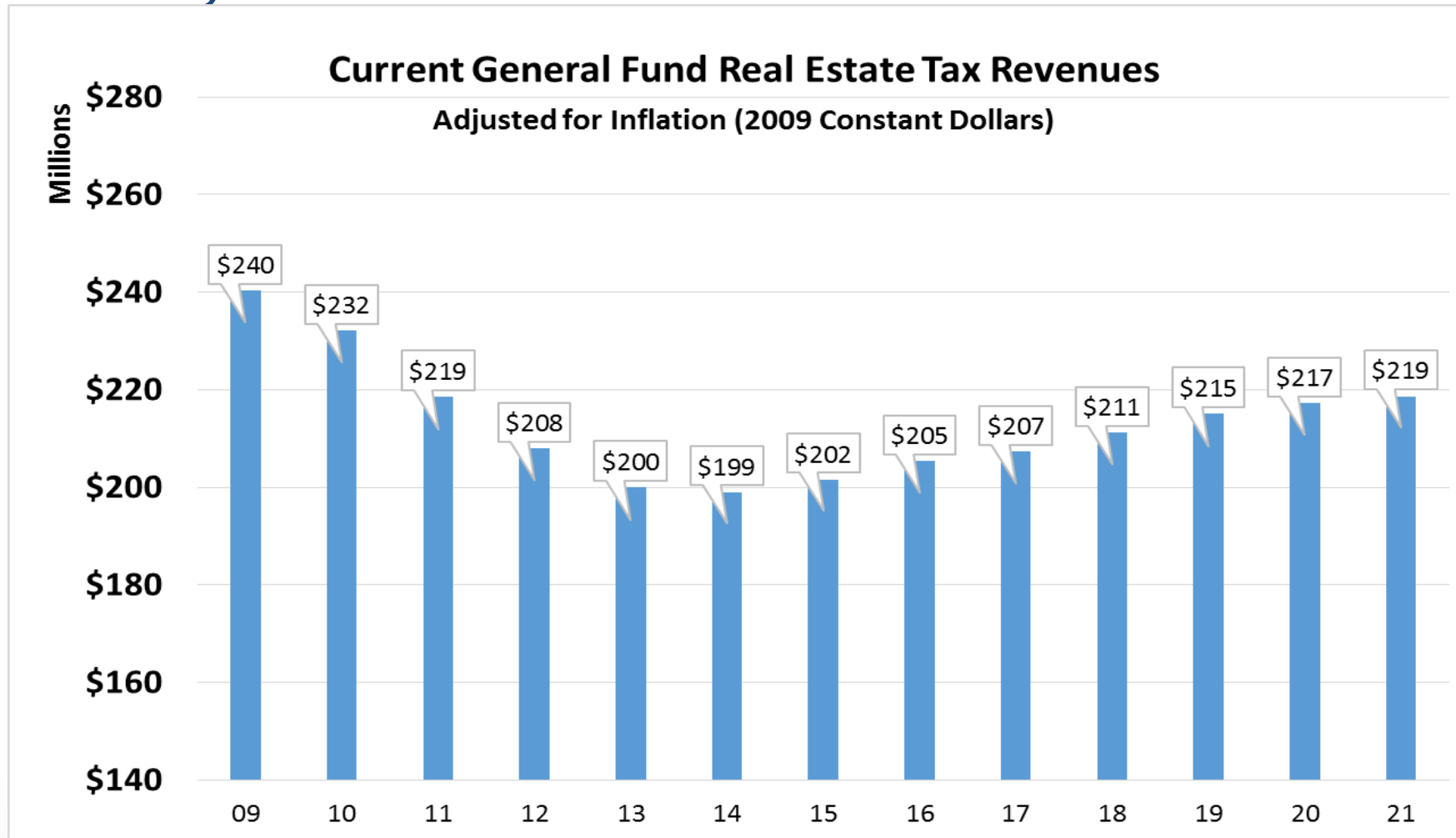


Current Real Estate Taxes



Current Real Estate Taxes

Inflation Adjusted



Improvements in Revenue

- Entity wide revenue increases by \$32.6 million (3.1%)
- General Fund revenue increases by \$20.4 million (3.6%)
- Property tax revenues increase by \$16.9 million (5.0%)
 - ✦ No change in tax rates
 - ✦ Real estate assessments up 2.14%
 - ✦ Net new construction adds 2.45%
 - ✦ Personal property taxes up 7.9%
- Other local tax revenues increase \$2.7 million (+2.0%)
 - ✓ Strength in sales, business licenses, and lodging
 - ✓ Restaurant, tobacco, admissions, and recordation taxes are weak – flat or declining
 - ✓ No changes recommended in tax rates

Improvements in Revenue, continued

- Permits down slightly (1.2%)
 - Relatively small source of revenue (\$3.26 million in FY 2017)
 - Collections are closely related to construction activity
- Charges for services up slightly (0.25%)
 - General Fund – increases \$547,000 (3.6%)
 - Public Utilities – drops \$3.16 M (4.1%) with 2017 cancelation of rate increase
 - Chesapeake Transportation System – increases \$3.0 M (12.9%)
- Chesapeake Public Schools increases \$9.1 million (3.2%)
 - Primarily state revenue and federal grants
 - State basic aid and sales taxes

Revenue Summary– All Funds

Revenue (in millions)	FY 2016 Actual	FY 2017 Actual	FY 2018 Budget	FY 2019 Budget	Increase from FY 2018	
Local Revenue						
General Property Taxes	\$ 313.61	\$ 325.40	\$ 336.07	\$ 353.02	\$ 16.95	5.0%
Other Local Taxes	135.52	137.47	139.10	141.76	2.66	1.9%
Charges for Services	122.16	132.75	143.77	144.13	0.36	0.3%
Other Local Revenue	20.75	25.19	23.49	23.78	0.29	1.2%
Local Revenue	\$ 592.04	\$ 620.81	\$ 642.43	\$ 662.69	\$ 20.26	3.2%
State Revenue	322.40	339.90	354.02	365.01	10.99	3.1%
Federal Revenue	39.84	42.34	43.02	44.38	1.36	3.2%
Total Revenue	\$ 954.28	\$ 1,003.05	\$ 1,039.47	\$ 1,072.08	\$ 32.61	3.1%

Reserve Requirements

- Charter and Policy Reserve – add \$3.9 million
 - Add \$1.17 M of GF revenue to reserve required by Charter (6%)
 - Add \$2.33 M of GF revenue to unassigned fund balance by policy (12%)
 - Add \$398,700 of TIF revenue to reserves (18%)
- Locked Revenue for Capital – Schools – \$29.1 million
 - Includes \$1 million annual transfer from SN TIF
 - Debt service and cash funding of capital – \$26.35 million
 - June 2019 balance - \$19.46 million
- Locked Revenue for Capital – City – \$22.9 million
 - Debt service and cash funding of capital – \$19.6 million
 - June 2019 balance - \$10.12 million
- Excess locked revenue is added to Fund Balance as a commitment (\$6.1 Million)

BUDGET RECOMMENDATIONS FY 2018-2019

Expenditures and Transfers – All Funds

Expenditures <i>(in millions)</i>	FY 2016 Actual	FY 2017 Actual	FY 2018 Budget	FY 2019 Budget	Increase from FY 2018	
Governance/Management	\$ 23.70	\$ 24.30	\$ 27.95	\$ 29.61	\$ 1.66	5.9%
Quality Community of Life	80.75	82.90	95.20	97.96	2.76	2.9%
Economic/Environmental						
Vitality	145.11	155.19	178.61	179.01	0.40	0.2%
Public Safety and Justice	139.47	146.18	159.95	169.52	9.57	6.0%
Education	430.73	469.74	488.69	503.92	15.23	3.1%
Debt Service Fund	39.46	34.66	41.94	44.29	2.35	5.6%
Non-Departmental	14.66	19.80	22.27	21.48	(0.79)	-3.5%
Total Expenditures	\$ 873.88	\$ 932.77	\$ 1,014.61	\$ 1,045.79	\$ 31.18	3.1%
Capital/Grant Transfers	29.76	91.68	59.02	43.11	(15.91)	-27.0%
Expenditures + Transfers	\$ 903.64	\$ 1,024.45	\$ 1,073.63	\$ 1,088.90	\$ 15.27	1.4%

Anticipate savings from employee attrition of between \$8.7 and \$9.0 million annually

City Portion of Operating Budget

Changes in Budget from FY 2018

Part 1

- Chesapeake Public Schools (operating transfers) add \$5.1 million
 - *Revenue sharing formula adds \$8.0; prior year true-up is smaller*
- Employee compensation add \$6.2 million
 - *Across board general wage increase – 2.5% \$5.7 million*
 - *Recognition of superior performance \$0.5 million*
 - *Estimates include adjusting all pay scales by 2.5%*
- New positions added (33.50 FTE net) add \$2.4 million
- Employee health care add \$3.5 million
- Worker compensation add \$2.5 million
- Savings from attrition (employee turnover) near zero

City Portion of Operating Budget

Changes in Budget from FY 2018

Part 2

- Fleet replacements – reclassified \$1.5 million GF transfer to department charges
- Technology – mainframe, licenses, and support add \$2.2 million
- Sheriff – regional jail, medical contract, new facility add \$3.3 million
- Police – operating costs (excluding E-911) add \$2.4 million
- Fire – operating costs add \$1.4 million
- Debt service – payments on new borrowings add \$2.3 million
- E911 Fund – competitive wages and police admin add \$1.8 million
- Stormwater Management – operating costs add \$0.75 million

- **SPSA savings – new use and support agreement subtract \$2.5 million**

New Positions Recommended

- Citywide
 - Requests of 64.9 positions costing \$5.04 million
 - Recommend 33.5 positions costing \$2.41 million
- Sheriff
 - Community Corrections Center – 2 security officers
 - Jail transport of inmates to/from other facilities – 2 deputy sheriffs
 - Part-time van driver – taxi work release inmates to/from work sites
- Public Works
 - Laborers for Street Division – 4 FTE
 - Engineer IV for Bridges and Structures Division for inspections – 1 FTE
 - Waste Management Operators – address gaps in routes – 2 FTE
 - Accounting Techs for CTS/Dominion Boulevard (accounting/collections) – 2 FTE
 - Eliminate 4.63 project positions – funded by Dominion capital project

New State Comp Board Funding will defray add cost of Sheriff

New Positions, continued

- Chesapeake Integrated Behavioral Healthcare
 - Expansion of mental health and school-based services
 - 8.5 positions with funding primarily from Medicaid and private insurance (\$452,000)
- Public Utilities
 - 8.0 positions recommended (\$481,600)
 - Eliminate 1 project Engineer (capital budget)
 - Motor equipment operator (2), data control tech, construction inspector, utility locator, utility business analyst, office assistant, and engineering tech
- Public Communications
 - Public Communications Coordinator – media liaison/manage website and social media
 - City Hall Receptionist – 1.0 FTE/part time employees to staff lobby desk

New Positions, continued

- Remaining positions:
 - Budget – convert part-time budget analyst to full-time
 - City Attorney – convert project attorney to permanent status (ROW)
 - Development & Permits – convert project business application specialist to permanent
 - Human Resources – add business application specialist and part-time office assistant
 - Human Services: Community Programs – add homelessness coordinator
 - Library – add library manager for Central Library
 - Parks, Rec and Tourism – add 2.875 FTE seasonal assistants – Battlefield Visitors Ctr.
 - Planning – add principal planner
 - Technology – add systems security manager

Employee Benefits

- Employee healthcare increases \$3.46 million
 - Approximately \$400,000 attributed to new positions
 - Remainder attributable to participant utilization and health care inflation
 - Budget based on December 2017 employee selections with 8.0% increase
 - Project 8.5% increase starting December 2018
 - 8.5% of Employer's annual subsidy = \$2.8 million
- Other benefits – increased costs consistent with pay raises and added positions
 - Social Security and Medicare – no change in rates
 - Virginia Retirement System – rate increased from 13.71% to 14.24% (4%)
 - Worker compensation – large increase based on claims experience (\$2.5 million)
 - Other Post-Employment Benefits (OPEB) – funding is level

Public Utilities

- Revenue History and Projections:

Fiscal Year	2015	2016	2017	2018	2019
Revenue in Millions	\$ 70.20	\$ 73.05	\$ 76.50	\$ 78.92	\$ 75.75
Change from prior year	4.1%	4.1%	4.7%	3.2%	-4.0%

- Recommended increases (decreases) in spending:

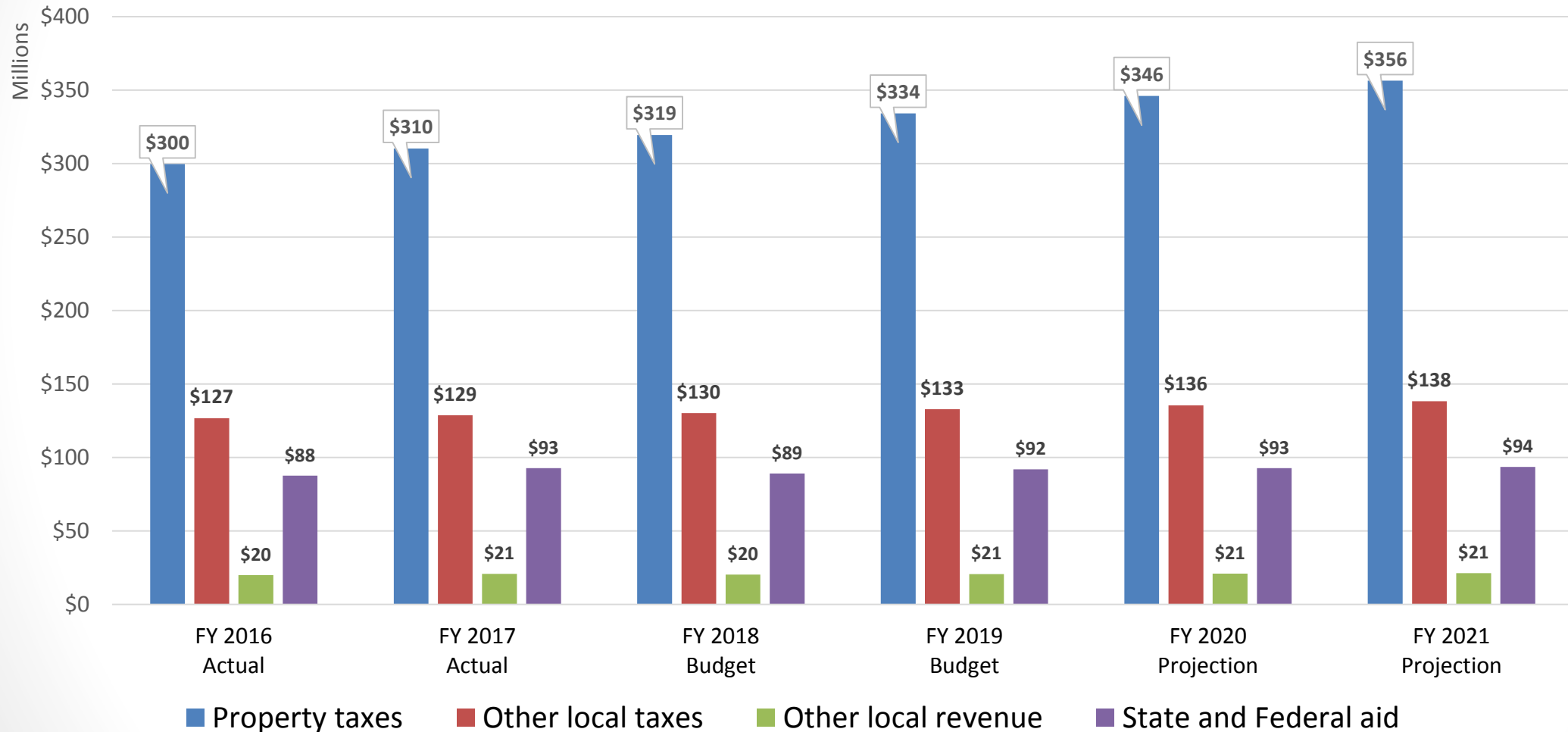
- Wages and Benefits \$ 0.84 million
 - Pay and benefit changes - \$462,400
 - 6.0 new positions - \$374,000
- Contract services, materials, other expenses \$ 0.56 million
- Water contracts with neighboring localities \$ 2.43 million saved
- Capital outlays \$ 0.53 million
- Reduced transfers to Capital Projects Fund \$ 1,440,800

Process Improvement Initiative

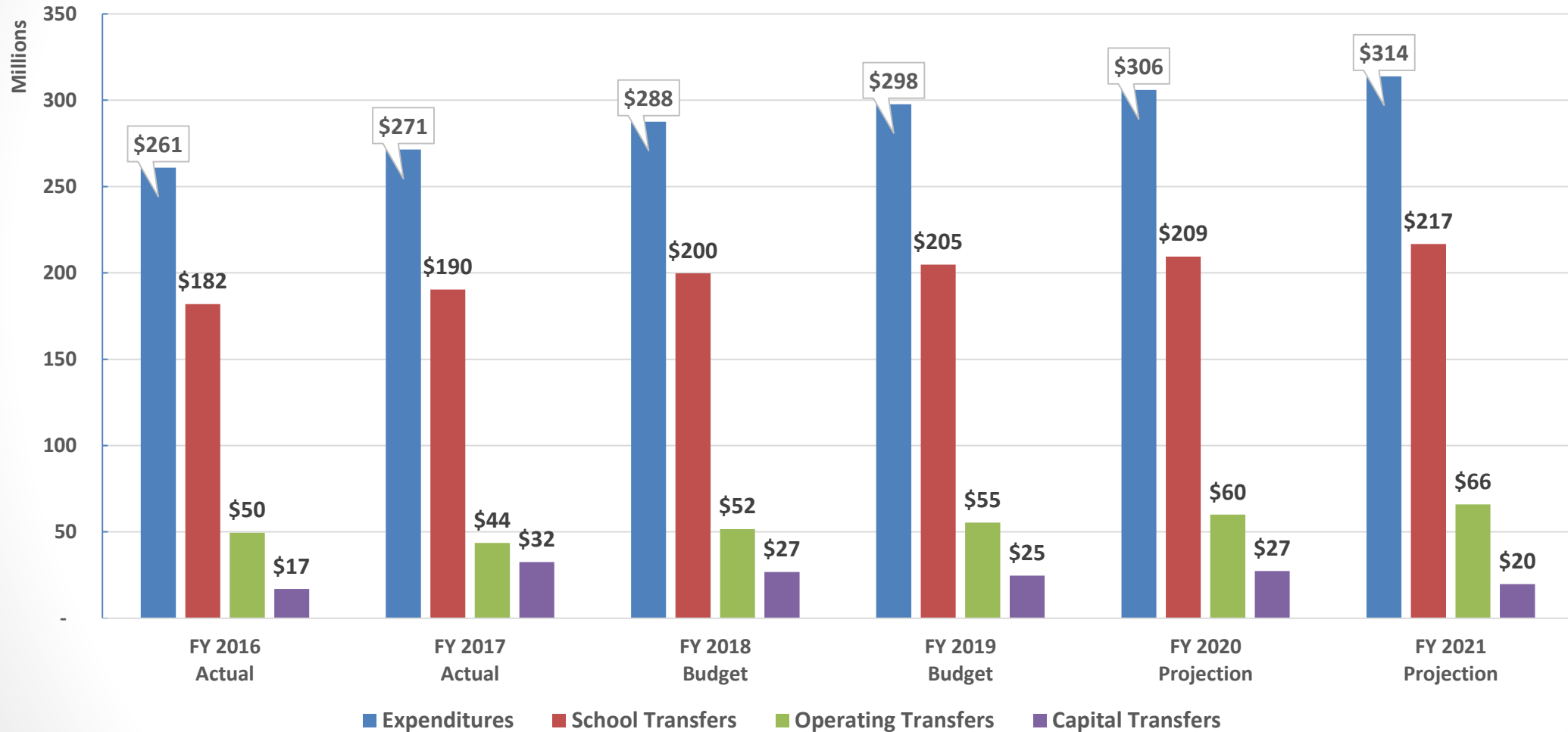
- Goals
 - Improve quality of city services and productivity of employees
 - Address rising service demand without additional resources
 - Improve employee morale
- Employee led initiative focused on how services are provided
- Requires facilitation of experts
- Recommend adding two employees with knowledge and experience in process improvement
- Recommend funding for employee training and other costs necessary for process improvement
- Initial annual investment - \$500,000 per year

3-YEAR PROJECTION

3-Year Revenue Plan (GENERAL FUND)



3-Year Spending Plan (GENERAL FUND)



Recap of 3-Year Plan – General Fund

WITH FUND BALANCES

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	Actual	Actual	Budget	Projection	Projection	Projection
Beginning Fund Balances	\$ 154,929	\$ 184,447	\$ 203,093	\$ 200,377	\$ 201,222	198,141
Revenue	534,055	552,414	559,107	579,463	595,325	609,414
Transfers in	4,760	3,998	3,845	3,793	4,293	4,793
Total Funds Available	\$ 693,744	\$ 740,859	\$ 766,045	\$ 783,633	\$ 800,840	\$ 812,348
City Expenditures	\$ 260,879	\$ 271,435	\$ 287,520	\$ 297,568	\$ 305,963	\$ 313,729
School transfers	181,910	190,266	199,717	204,814	209,402	216,723
Operating transfers	49,561	43,568	51,663	55,342	59,960	65,980
Subtotal - Operations	\$ 492,350	\$ 505,269	\$ 538,900	\$ 557,724	\$ 575,325	\$ 596,432
Percent of Revenue	92%	91%	96%	96%	97%	98%
Capital transfers	16,946	32,495	26,768	24,687	27,374	19,791
Total Funds Used	\$ 509,296	\$ 537,764	\$ 565,668	\$ 582,411	\$ 602,699	\$ 616,223
Ending Fund Balance	\$ 184,448	\$ 203,095	\$ 200,377	\$ 201,222	\$ 198,141	\$ 196,125
Percent of Revenue	35%	37%	36%	35%	33%	32%

Uses of Fund Balances – *For Operations*

Purpose	Source	Amount
• Pre-lockbox debt payments	Debt Fund	\$ 4.00 million
• Human Services	Social Svc Funds	\$ 1.50 million
• Human Services	Juvenile Services	\$ 0.75 million
• CIBH – City share	CIBH Fund	\$ 0.88 million
• CPS – Operations	GF Rev Sharing	\$ 1.32 million
• CPS – Operations	School Funds	\$ 6.35 million
• Other Funds	Spec Revenue Funds	\$ 0.15 million
FY 2019 Uses of Fund Balances for Operating Costs		\$ 14.95 Million
<i>FY 2018 Uses of Fund Balances for Operating Costs</i>		<i>\$21.08 Million</i>
<i>FY 2019 General Fund Add to Fund Balance</i>		<i>\$12.50 Million</i>

Chesapeake Public Schools

School Budget - Funding Sources

<i>Amounts in thousands</i>	FY 2018	FY 2019	Change
City-School revenue sharing formula	\$194,522	\$202,491	\$7,969
State funding	245,455	253,423	7,968
Reliance on fund balances:			
From City General Fund Includes TIF surplus	5,195	2,323	(2,872)
From School Funds	5,349	6,351	1,002
Federal and state grants	30,922	32,046	1,124
Other Sources	7,247	7,289	42
Totals	\$488,689	\$503,923	\$15,234

Note that superintendent's budget recommendation is \$16.7 million greater than the sum of all available funds.

School Board Action of School Budget

- Superintendent's original budget proposal contained \$18.5 million deficit
 - Full day kindergarten at B.M. Williams
 - 4% pay raise for all full and part-time positions
 - Adds teachers, assistants, bus drivers, clerical support, social workers and psychologist
 - Increases in teacher supply and tuition reimbursements
 - Deferred equipment, vehicle and school bus replacements
 - Includes phones, sound systems, technology (computers, laptops, servers, printers, etc.)
 - Consultants – routing, redistricting, and compensation
- Recommend using \$1.32 million from FY 2017 balances (reversion/true-up)
- Updated revenue estimates adds \$572,000 to revenue sharing formula
- **Narrows deficit to \$16.7 million**

Recap of What's in the Budget

- Continued growth in City revenue with no increase in tax property tax rates
- Address immediate school funding issues
- Open and staff new Community Corrections Center
- Strengthen Public Utilities
- Strengthen city's financial reserves
- Provide 2.5% pay raise to all city employees
- Secure employee healthcare

Remaining Action

- Council work sessions – April 10, 17 and 24
 - As requested by Council
- Public hearings – April 24 and May 8
 - Charter requires public hearing at least one public hearing
- Adoption of budget and appropriations ordinances – May 8
 - City Charter requires adoption 45 days before year begins
- Amendments and corrections – June 12
- First day of new fiscal year – July 1