Chesapeake
VIRGINIA

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March 25, 2014

The Honorable Mayor Alan P. Krasnoff and Members of City Council
City of Chesapeake, Virginia

Dear Mayor Krasnoff and Members of Council:

Today I am pleased to submit the Proposed Operating Budget for Fiscal Year 2015. A year ago, we were struggling with considerable uncertainty even as the economy appeared moving towards recovery. Since then, we experienced a smaller impact from federal sequestration than we feared. Our tax base continues to recover, albeit at a slow rate. Property values have stabilized and are showing signs of growth for the first time since the start of the recession; on average, real estate assessments are increasing by nearly one percent. The consumer and business sectors of the economy are showing strength which translates into stronger collections of consumer taxes, business licenses, and building permit fees. On balance, the regional economy is expanding and government resources are slowly growing.

Chesapeake's economy continues to show signs of health and recovery from the protracted recession. Most government revenues are improving at modest rates and the five year outlook is positive. We are concerned about the regions' heavy reliance on federal contracting and aggressive measures to reduce federal spending and debt. While federal spending in Hampton Roads buffered us from the worst impacts of the recession, a significant contraction in federal spending will likely lead to a stagnant local economy. We are also concerned about the partnership we have with the Commonwealth of Virginia and its increasing reluctance to fund local services. On a more positive note, it appears that the impacts of federal sequestration are much smaller than we believed a year ago.

For FY 2015, we propose a spending plan that totals $923.7 million for the Operating Budget. This represents a modest increase of $16.5 million (1.8%). Increased costs are largely attributable to employee compensation and the need to address service gaps throughout the organization. This budget funds the first real pay raise for City employees since July 2008 along with increased costs of employee retirement, group life insurance, and health care. The operating budget is also increasing in order to take advantage of increased state road maintenance funds and to address new stormwater regulations. Aside from new stormwater regulations, we do not propose service expansions. However, a number of staff adjustments are necessary in order to improve service delivery and to avoid citizen inconvenience.

Council's Guiding Principles

The FY 2015 Operating Budget was developed with guidance from City Council. City staff adhered to the following principles that surfaced during the initial Strategic Planning Session:

- 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 all vacant positions for possible elimination
- Identify operating efficiencies and reduce spending accordingly
- Identify non-core services for possible consolidation, curtailment or elimination

The FY 2015 budget proposal is consistent with Council's guiding principles. The proposed budget assumes that real estate taxes will remain constant, currently $1.05 per $100 of assessed value (including the Mosquito Control tax). While we propose no new fees, the budget includes an increase in water and sewer utility rates consistent with long-term financial plans reviewed with City Council last year. We have critically evaluated service delivery and staffing requirements and have focused spending on core services.

Budget Drivers

Fortunately, we are in a period of relatively low inflation and most cost increases are moderate. Energy costs remain very volatile from month to month; however, the annual costs have remained stable as falling energy prices in the winter offset increases we incur during the summer. The City successfully controls vehicle fuel costs by strategically purchasing futures contracts when prices are below their twelve-month average. The major exception is health insurance. While medical inflation has moderated significantly in recent years, it continues to be much greater than the overall inflation rate.

Major changes in government costs proposed in this budget:

- **Productivity Enhancements**: the Budget Review Committee reviewed requests for 82 new positions (FTE) from departments throughout the City. After a thorough inquiry and analysis of departmental requests, we recommend the funding of 35.6 positions (FTE). The newly funded positions:

  Allow for a more effective use of scarce resources by lowering overtime and temporary service costs,
  Ensure that departments are able to address new stormwater regulations, and/or
  Improve the City's response to citizen service demands.

  A listing of the new positions costing $2.1 million appears on pages B-20 – B-24.

- **Employee Compensation:** the proposed budget includes funding that will improve employee retention and enhance our ability to recruit new employees. While City employees have received several pay raises in the last five years, they have ranged between 1.5% and 1.6% (within the inflation rate) and did not recognize improved employee productivity. Our employees are our most important resource and their productivity ensured the continuation of valuable services even as positions were eliminated during the recession. I believe it is time for us to recognize strong employee performance in a more tangible manner.

I propose that we recognize productivity improvements with a general wage increase of 3% starting October 1, 2014 for all eligible employees hired before on or before April 1, 2014. This proposed pay raise will cost $4.5 million and will ensure that the City remains attractive to both current and prospective employees. Further, we propose to spend $800,000 in order to address pay inequities that exist among public safety employees. An internal analysis indicates that approximately 40% of police, fire, and sheriff personnel are paid less than their peers with similar education and job experience with the City. We propose a one-time pay adjustment effective October 1, 2014 to address the issue. The affected employees would see an annual pay adjustment ranging from $42 (0.07%) to $5,800 (10.7%) in addition to the 3% general wage increase.

Finally, the operating budget includes $315,000 to recognize and reward superior performance by the most productive employees in the City. Under this proposal, the high performers in each department would receive a $1,000 increase in their base pay. These pay raises are limited to no more than 10% of the full-time employees in each department and would become part of the base pay of the high performing employees.

The total cost of the three pay proposals is estimated at $5.6 million of which $5.2 million would come from the General Fund. The remainder is funded by enterprise funds.

- **Health care**: while 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 18.6% increase in the renewal terms for the plan year beginning January 2014. By adjusting benefit and cost sharing levels, we have limited the budget increase to 10.5%. In addition to rising claims costs, the City is required to pay additional fees due to reforms in the Affordable Care Act (ACA). We anticipate the mitigation of some of the new fees as well as other savings by changing from a fully-insured plan to a self-insured model. Across the City, we expect employee health care to climb $2.1 million above the FY 2014 level.

- **Retirement reforms:** during its last several sessions, the General Assembly has enacted reforms that require all employees to contribute to the retirement plan. Starting July 2010, all new employees who were not already members of the Virginia Retirement System (VRS) were enrolled in Plan 2 and were required to contribute 5% of their earnings to the retirement plan. Starting in July 2012, all employees were required to contribute to the retirement plan. Reform legislation requires that existing Plan 1 employees (members before July 2010) contribute 5% of earnings to the plan by July 2016 and that the employer provide an equivalent pay adjustment to the affected employees. Plan 1 employees currently contribute 3% of their pay to the VRS. Under the recommended budget, they will reach the required 5% contribution level starting July, 2014 (two years ahead of the State's mandate). While the reforms reduce City retirement costs, each 1% shift in VRS costs to Plan 1 employees increases general fund costs by approximately $300,000.

  Starting in January 2014, all new full-time employees, except sworn public safety employees, are enrolled in a hybrid retirement plan that includes both defined contribution and defined benefit components. While City retirement costs should decline with the new hybrid plan, the City will also incur new costs for disability insurance that must be provided to the post 2013 employees.

We expect the new hybrid plan will be attractive to younger workers who do not plan to spend their entire careers in state and local government.

- **Other Post-Employment Benefits** (health and dental benefits for eligible retirees): while OPEB costs have claimed an increasing share of the budget over much of the last decade, in 2013 we have reached the required annual funding level. No increase is planned for OPEB even as the City continues its funding requirements and maintains its commitment to the viability of health care benefits for current and future retirees.
- **Opportunities for Citizen Recreation:** the proposed budget includes significant new resources for both city park facilities and the recreational programs valued by the community. We are increasing the City's support of therapeutic recreation for disabled citizens, senior day care, and other recreational activities. We have also included staffing for the Elizabeth River Landing Park that will reopen in April 2015 and additional funds for park and athletic field maintenance.
- **Street and Road Maintenance:** based on the current allocation of state road funds, we anticipate receiving $31.7 million from the Commonwealth, an increase of $623,000 (2%) above the FY 2013 Operating Budget. Consequently, we have passed the increased state funding to Public Works for road maintenance.
- **Debt Service:** during FY 2015, we anticipate that payments on general government debt will decline by $2.8 million. We are also reaching the end of a capital lease used to construct the existing tower on the City jail. During FY 2015, jail lease payments decline by $1.8 million. While general government debt payments are declining, the proposed budget includes $4.5 million of interest for borrowing in connection with the Dominion Boulevard project. While these costs are capitalized as part of the project cost, the interest costs are traditionally part of the operating budget.

Items Excluded from the Budget

While we are recommending the investment of significant new resources towards employee compensation and an expansion of City government, there are numerous funding requests that were either rejected or deferred to future budget cycles. These include:

- While we have proposed an adjustment to address wage inequities within the public safety ranks, a similar adjustment is likely necessary for the general work force. At this time, we have neither completed the required analysis to determine the extent of the problem nor identified resources that are required to address any inequities identified. We plan to complete a thorough analysis of compensation for civilian employees and will recommend alternatives to address any inequities. We expect to complete our analysis in the first half of FY 2015 so that a recommendation can be made for the FY 2016 budget.
- Community para-medicine program that refocuses Fire Department towards better patient outcomes at a smaller cost. Under the current model, emergency personnel stabilize patients and deliver them to emergency rooms for further medical attention. With community para-medicine, emergency medical responders work with other medical providers to improve patient outcomes while reducing their need for emergency medical care at a hospital. While we are not proposing this program for FY 2015, we did include $75,000 to conduct a feasibility study of the program.
- Additional police personnel to address emerging criminal activity. While the crime rate has been declining in recent years and Chesapeake's crime rate is significantly lower than that of central cities, the City's police staffing is lean by most standards. The department requested

additional officers for a midnight shift as well as additional officers for internet crime, economic crimes, and vice/narcotics. In the coming years we will continue efforts to focus police resources on crime prevention.

- Community resident program that allows eligible police officers to commute between home and job with a patrol car – currently we have 26 more eligible officers than we have vehicles to assign. Without even addressing the efficacy of the program we do not have available resources to sustain our current program. For that reason, we have not included the $928,000 request in the budget proposal.
- Benefits workers and quality assurance personnel for Social Services – additional personnel were requested for eligibility screening, quality assurance, and fraud reduction, these were lower priorities than child and adult protection and were deferred.
- Fleet replacements – funding is not available to replace all vehicles that should be retired based on best practices. While Central Fleet continues to meet department vehicle needs, the costs of maintenance and down time grow as the fleet ages.
- Deferred maintenance – the City has been able to address the most critical facility issues in order to keep buildings open and comfortable to both citizens and employees. However, we recognize that many facilities are not aging well and that carpets need replacing, exteriors need painting and/or power washing, and that some furnishings have seen better days. We have included small amounts towards facility maintenance, but recognize more will be needed in the future.
- Expansion of community centers – our parks staff has requested the enlargement of many of our community centers in order to better address recreational needs of a growing population. We have not included the requested expansion in the capital projects budget since we are not able to identify either funding for the physical expansion or the required operating costs for program expansions.

In the future we will review proposals that have merit and that are consistent with Council's long-range plans, however, we do not expect that the existing tax base is sufficient to address many of the requests noted above. If service expansions are desired by policy makers, we will likely need to identify new funding sources that are sufficient to address growing service demands.

Looking Forward

In developing the FY 2015 budget we carefully considered the long-term impacts of current budget decisions. Each department was asked to provide a three-year budget that addressed not only their immediate requirements, but the emerging issues on the horizon.

Discussion of Major Funds

General Fund

General fund revenue is expected to grow by $8.9 million to $516.8 million, or 1.8% above the FY 2014 level. Growth in other local taxes, especially business and consumer taxes drive most of the increased revenue. Property taxes are expected to grow $6.35 million (2.3%) as the real estate market recovers and the collection of delinquent accounts improves.

<u>Transfers to Chesapeake Public Schools</u> – Under revenue sharing procedures in place since 2004, most local tax revenues are shared with and allocated to Chesapeake schools on a formulaic basis. For FY

2015, the revenue sharing formula provides $176.1 million dollars for the School Operating Budget, an increase of $3.2 million (1.8%) above the FY 2014 allocation. While the annual school allocation increases, actual transfers to the Chesapeake Schools are scheduled to drop by $1.3 million because the FY 2014 budget included $4.5 million that was carried over from FY 2012. The FY 2013 settlement would permit the inclusion of $3.3 million in the FY 2015 School Operating Budget; however, the FY 2013 settlement remains un-programmed at this date.

Employee Compensation - Under the proposed budget, General Fund expenditures increase $10.9 million over the FY 2014 level. Most of the increase is related to personal service costs and the addition of 31 FTE positions. Listed below are the major components contributing to the increased personnel costs in the General Fund budget:

Employee pay raises and additional retirement costs	$5.85 million
Employee health care	1.51 million
New positions	1.55 million
Worker compensation costs	0.25 million
OPEB costs transferred to other funds (see below)	(1.91 million)
Total increase in personal service costs	$7.25 million

Transfers to Other Funds – General Fund resources support a number of other funds, including several Human Service funds, the Chesapeake Integrated Behavioral Healthcare, and the Debt Service Fund. Operating transfers to special revenue funds are proposed to increase by $3.14 million in order to address increased operating costs of the other funds. Transfers to the Debt Service Fund are expected to decline by $1.3 million as older debt issues are retired. Finally, we propose a $8.1 million increase cash transfers to the Capital Projects Funds. Much of the capital transfers will come from designated fund balances and locked revenues. A summary of fund transfers appears below.

Table 1 - Fund Transfers	FY 2014	FY 2015	Increase from 2014	
Virginia Public Assistance Fund	$ 5,945,093	$ 7,200,982	$ 1,255,889	21%
Interagency Consortium	1,744,745	1,790,646	45,901	3%
Integrated Behavioral Health (CSB)	6,019,030	7,342,301	1,323,271	22%
Juvenile Services (Detention)	1,866,100	2,381,970	515,870	28%
Grant Fund (local match)	225,000	225,000	-	0%
Debt Services Fund	45,776,146	44,459,087	(1,317,059)	-3%
Capital Improvement Funds	9,479,975	17,530,701	8,050,726	85%
	$ 71,056,089	$ 80,930,687	$ 9,874,598	14%

With respect to the Debt Service and Capital Improvement Funds, most transfers are provided from locked revenue discussed below.

Other Post-Employment Benefits – In the introduction we indicated that the cost of providing OPEB will remain stable between FY 2014 and FY 2015. With the exception of enterprise funds, OPEB costs were included in the non-departmental section of the General Fund in previous years. Citywide, OPEB costs are equivalent to one-half of the cost of providing health insurance for active employees. Starting in FY 2015, these costs have been distributed to each department and fund in amounts proportionate to the budget for employee health care. Accordingly, we have reduced non-departmental costs appearing in the General Fund by $10.5 million. These costs now appear in each department's budget. OPEB costs range between 2% and 7% of department budgets depending on the number of participating employees, the plans selected and the number of family members included on an employee's plan. This change reduces OPEB costs charged to the General Fund by $1.91 million and adds those costs to enterprise and special revenue funds.

Capital Equipment Replacements – The proposed General Fund Budget includes increased funding to address department needs to replace equipment. New funding is provided as follows:

• Parks – funding for athletic fields (fences, lighting, tennis court resurfacing)	$265,000
• Parks – shelter repairs, replace benches, picnic tables, playground equipment	50,000
• Parks – new truck for turf management (includes lift and special equipment)	50,000
• Replace carpet in libraries – first of three annual allocations	57,500
• Court Building – address courtroom evidence display technology requirements	50,000
• Public Works – replacement equipment funded with State road funds	823,396
• Sheriff – jail kitchen and security equipment	50,000
Total increased funding requirements for equipment	$1,345,896

Purchase of Internal Services – The General Fund Budget reflects increased costs of $1.01 million for the maintenance of the City's fleet, for information technology services, and for risk management. These functions are administered in separate internal service funds through internal service charges to each department for the services provided. Increases in internal service costs are related to additional pay and benefits, rising insurance costs, and increased technology maintenance costs for major business systems. Note that the General Fund's share of internal service charges exclude costs pertaining to enterprise or special revenue funds.

Fund Reserves and Dedicated Revenue – We have also reserved appropriate funds to address cash flow and emergency reserves required by the City Charter and Council policy. The City Charter requires the maintenance of a cash flow reserve equal to six percent of General Fund revenue. Council also adopted a policy requiring an additional five percent reserve to address emergencies. The budget includes an allowance to increase both reserves proportionate to the increase in revenue estimates. Operating revenues were also reserved for current capital purposes through two lockbox mechanisms. Finally, several tax or fee levies are dedicated by City Council or the Virginia State Code for specific purposes. In order to comply with such mandates, reserved funds are either added to the ending fund balance of the General Fund or included in a department budget specifically to address the reservation requirement. All dedicated and reserved revenue for FY 2014 and 2015 appears in Table 2 on the next page.

Table 2 - Reserves and Dedicated Revenue	FY 2014	FY 2015	Change
Cash Flow Reserve - 6% of growth in revenue	$ 1,057,100	$ 632,182	$ (424,918)
Emergency Reserve - 5% of growth in revenue	880,900	526,818	(354,082)
Subtotal	**$ 1,938,000**	**$ 1,159,000**	**$ (779,000)**
Revenue locked for capital and debt service:			
One penny of real estate taxes reserved for each lockbox (2₵)	$ 4,231,227	$ 4,300,000	$ 68,773
Hotel taxes (3.5₵) reserved for school lockbox	2,147,571	1,937,969	(209,602)
Other City lockbox allocations	5,600,000	6,350,000	750,000
Other School lockbox allocations	9,556,000	10,306,000	750,000
Subtotal - lockboxes	**$ 21,534,798**	**$ 22,893,969**	**$ 1,359,171**
Other reservations:			
Late vehicle license fees (70%) dedicated to Treasurer for collections efforts (included in Treasurer's budget)	$ 545,706	$ 515,046	$ (30,660)
Tobacco taxes (10%) dedicated to Economic Development Incentive Program (included in non-departmental budget)	469,013	451,815	(17,198)
Animal service fees for animal care (included in Police budget)	-	14,021	14,021
Overweight vehicle citation fees for bridge maintenance (excluded from budget - remains in ending fund balance)	400,000	400,000	-
Technology fees (permits) reserved by state code for permit inspector technology (excluded from budget - remains in fund balance)	66,959	68,225	1,266
Profits from sale of toll road transmitters reserved for Treasurer (excluded from budget - remains in fund balance)	-	2,160	2,160
Subtotal - other	**$ 1,481,678**	**$ 1,451,267**	**$ (30,411)**
Total Reserved or Dedicated Revenue	**$ 24,954,476**	**$ 25,504,236**	**$ 549,760**

Of the reserved or dedicated revenue above, some is included in the current appropriation while others are part of the City's Fund Balance. The cash flow and emergency reserve are not appropriated, but remain in the Fund Balance. The same is true for overweight citations and profits from the sale of transponders. All of the lockbox revenue is transferred either to the Capital Improvement Fund or to the Debt Service Fund; in fact, the ending balances in both lockboxes are scheduled to decline as noted in table 3 below. The late vehicle license, tobacco taxes, and animal service fees are included in the budget in a manner consistent with Council's authorization.

Table 3 - Projected Ending Fund Balance Reservations for:	FY 2014	FY 2015	Change
City capital lockbox	$ 885,775	$ 486,038	$ (399,737)
School capital lockbox	5,934,777	2,694,612	(3,240,166)
Total capital lockboxes	$ 6,820,552	$ 3,180,649	$ (3,639,903)

The reductions in the two lockboxes noted above are consistent with the Capital Improvement Plan and projections of future locked revenue and capital financing requirements.

School Operating Fund

In accordance with the Virginia Constitution, school funding is a shared responsibility of the Commonwealth and its localities. For this reason, the school operating budget is part of the City budget. Last month the superintendent of schools proposed a $451.06 million budget for Chesapeake Public Schools (CPS) that requires approximately $9.6 million more resources than are available under existing revenue sharing practices. The school's General Fund portion of its budget is $11.8 million above the FY

2014 level. Under the superintendent's proposed budget, state revenue increases by $4.5 million, and City transfers increase by $2.15 million; however, the one-time carryover of $4.5 million from prior years is not included for FY 2015. The resulting difference causes a $9.6 million mismatch. While the City owes the schools $3.3 million to settle the FY 2013 revenue sharing formula, the superintendent prefers to apply the settlement to the FY 2016 textbook budget.

Nearly 60% of the increased school budget is related to increasing retirement and group life insurance costs. The increase for these two components is estimated to be $7.0 million. Since employee benefit costs are shared with the state, CPS expects to receive an additional $2.86 million in state funding leaving the district to pick up the difference ($4.14 million). Practically all of the remaining budget increase is related to a 2% general wage increase for all school employees.

The Proposed City Operating Budget includes the CPS budget, but is $8.6 million smaller than the budget proposed by the superintendent. Our recommendation excludes the carryover of funds from FY 2013. It includes an increase in current City funding of $3.15 million (approximately $1 million more than projections used for the school proposal) and adjustments for increases in state school funding. Note that in addition to increasing school transfers by $3.15 million, the City is also increasing transfers to the School's capital lockbox by $750,000.

Aside from superintendent's General Fund budget proposal, the budget for other school funds is estimated to drop by $3.5 million. Most of the reduction ($3.16 million) is the result of decreased funding for school textbooks. The remaining reductions are attributable to reductions in state grants and the cell phone tower fund (rents).

Note that the superintendent has included $10.7 million of fund balances from the textbook and insurance funds in available resources. Using these non-recurring/surplus funds to support continuing operational needs presents a risk of future budget shortfalls when all surplus funds have been depleted.

Debt Service Fund

Debt service payments are declining by $2.8 million in FY 2015 as older debt issues are retired. Since 2004, the City has designated certain revenue for capital lockboxes that support financing of school and City capital projects. Since that time, the debt payments on all new debt issues have been paid from the designated revenues. During FY 2015, pre-lockbox debt payment declined by $4.14 million while debt payments funded by the City lockbox increased by $1.6 million. There is also a decline ($259,500) in lease payments on the jail annex as the lease expires in 2015.

At June 30, 2013 the Debt Service Fund Balance was $32.2 million net of $656,250 of prepayments from the school lockbox. The City plans to use the fund balance for future debt payments. The FY 2014 budget draws $5.25 million from the available fund balance in order to pay pre-lockbox debt; in FY 2015 we plan to reduce the fund balance by another $4.5 million. This will continue until pre-lockbox debt is entirely retired (FY 2024).

Virginia Public Assistance Fund (Social Services)

The Social Services Division of Human Services is the local agency that administers public assistance programs. Social Services' primary function is to determine the eligibility of local residents for a variety of federal and state social benefit programs. The Social Services budget is increasing from $19.4 million in FY 2014 to $21.1 million in FY 2015, an increase of $1.7 million (8.5%). The primary factors propelling the VPA budget are:

• Allocation of OPEB costs to departments	$593,850
• Increased wages and benefits	379,440
• New positions for protective services and foster parent training	139,300
• Additional vehicles to ensure staff safety during home visits	160,000
• Programmatic changes (mandates)	122,000
• Postage and communications costs	30,000

Note that the allocation of OPEB costs is offset by a reduction in non-departmental costs within the General Fund and does not represent new costs to the City.

Separately, Social Services requested the replacement of carpeting throughout the building and approximately 100 circa 1980 work stations. The Proposed Capital Improvement Program includes $1.1 million to address these facility needs.

Department caseloads for benefits have grown 31.5% since 2009 (early in recession). Applications for Medicaid, Supplemental Nutritional Assistance (formerly food stamps), and Temporary Assistance to needy Families continues to grow each year. Further growth in the benefits caseload is anticipated as:

- Medicaid outreach continues with the goal of adding more uninsured children,
- The population of aging and disabled individuals eligible for Medicaid benefits continues to grow, and
- The implementation of Medicaid for children held in detention by Juvenile Courts.

The additional resources proposed for Social Service will ensure that it is able to meet state and federal mandates for the programs it administers.

Chesapeake Integrated Behavioral Healthcare (Community Services Board):

Chesapeake Integrated Behavioral Healthcare was established as a community services board to provide mental health, development, and substance abuse services in accordance with Virginia statute. These services are provided through CIBH, the agency that reports to a local board appointed by City Council. The FY 2015 operating budget for CIBH is proposed to increase by $1.43 million (6.8%) to $22.4 million. Since no significant program changes are planned, nearly all of the increased cost is related to employee compensation and benefits. The department's allocation of OPEB costs is slated to increase by $542,700 as non-departmental costs are allocated to each department. Employee health care is estimated to increase by $399,000 and it will cost approximately $403,000 for the 3% general wage increase and VRS reforms included in the proposed budget.

Tax Increment Funds

Generally, state statue only permits the use of TIF funds for the acquisition or construction of projects within the TIF district or for payment of debt on such projects. A total of $850,000 has been included in the two funds to fund feasibility studies and conceptual planning for the South Norfolk and Greenbrier areas of the City.

The statue permits the transfer of surplus TIF funds to the General Fund. In accordance with past practice, this budget includes provisions to transfer surplus funds from both the South Norfolk and Greenbrier TIF Funds to the General Fund in order to address maintenance cost of projects funded by the TIFs and other costs that are directly related to the TIF districts. We recommend the transfer of $293,660 of surplus funds from the Greenbrier TIF to the General Fund in order to fund the maintenance of improvements to the district and to fund the Police Department Hotel Interdiction Program. We also recommend the transfer of $115,700 from the South Norfolk TIF to fund the maintenance of improvements to that district along with the cost of the Sheriff's work crew assigned to South Norfolk.

Public Utility Fund

In February 2013 the City Council approved a plan to increase water and sewer rates by 4.9% in each of the next several years. The first rate increase began July 1, 2013 and the second is scheduled to start July 1, 2014.

Utility expenditures reflect a continuation of current service levels with an allowance for modest growth as new residential and commercial properties are completed. Spending by Public Utilities is expected to grow by $2.04 million rising from $59.1 million in FY 2014 to $61.4 million in FY 2015. The primary factors contributing to the budget increase are:

• Increased repair and maintenance costs	$682,000
• Increased cost of electricity	484,000
• Increased routine capital costs (small improvements and replacements)	502,500
• Employee pay raises	352,600
• Increased internal service costs	209,900
• New electrician and electronics technician for sewer division	104,500
• Employee medical and dental care	57,100
• Increased OPEB costs	57,000

The department also identified a potential need to add as many as fourteen (14) new positions that were not included in the FY 2015 budget proposal. Management will conduct an organizational review during the coming year to determine appropriate staffing levels for the water and sewer divisions.

Stormwater Management Fund

The Operating Budget for Stormwater Management is proposed to increase by $1.3 million growing from $9.0 million in FY 2014 to $10.4 million in FY 2015. The increased costs are necessary to meet new stormwater regulations starting July 1, 2014. The new regulations are focused on reducing the release of sediments into the Chesapeake Bay and its tributaries. Below are the major changes to the FY 2015 Operating Budget:

• Increased engineering services (contracted) for infrastructure repairs	$349,000
• Increased garage expenses, including a dedicated mechanic	250,000
• New 6-person crew to maintain ditches and stormwater drains	220,000
• Increased allocation of OPEB costs	165,000
• Employee pay raises and health care	133,000
• Increased materials, technology equipment, and equipment rentals	223,500

The increased Operating Budget is largely offset by an $834,000 reduction to the Capital Improvement Budget.

Chesapeake Transportation System Fund (toll roads):

The Chesapeake Transportation System includes the tolled section of Route 168 and a section of Dominion Boulevard (Route 17) that is under construction. The Operating Budget for the Chesapeake Transportation System (CTS) increases from $4.4 million in FY 2014 to $9.3 million in FY 2015. The increase is related to construction-period interest expenses on debt issued for the Dominion Boulevard project. The FY 2014 operating budget for CTS operating fund did not include construction period interest on the Dominion project.

As part of financing the new road, the outstanding senior debt on the Expressway was refunded. This allowed the Expressway to take advantage of more favorable interest rates. Under terms of the new bonds, all principal payments for both Routes 168 and 17 are deferred for four years while the new road is constructed. A substantial portion of the new project is funded from a $152 million subordinate loan from the Virginia Transportation Infrastructure Bank (VTIB). Under the agreement with VTIB, payments for subordinate Expressway debt held by the Commonwealth of Virginia and the City of Chesapeake are also deferred while the new road is under construction.

The Dominion Boulevard project is scheduled for completion during FY 2017; at that point, CTS will begin making principal payments to bond holders and the annual operating budget will increase accordingly.

Central Fleet Fund

The Central Fleet Fund operates as an internal service fund providing services to other City departments. It also supplies fuel to Chesapeake Public Schools and is exploring opportunities to sell compressed natural gas (CNG) to private fleets. Operating expenses for Fleet Services will drop from $17.6 million in FY 2014 to $14.2 million in FY 2015. The FY 2014 budget included an extra $3.5 million for vehicle purchases; the FY 2015 budget is at the historical level.

Conclusion

This spending plan balances existing revenue and other resources with immediate demands without compromising our ability to sustain the most critical citizen services. No changes are proposed in general tax rates and no significant fees increases are planned. The FY 2015 Proposed Operating Budget honors our commitment to Chesapeake Public Schools and addresses employee retention, recruitment, and health care costs.

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

I am confident that the strategies recommended in this proposed budget meet citizen demands 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 current and future needs of Chesapeake citizens.

Sincerely

James E. Baker
City Manager