

MEMORANDUM

City Council met on June 9, 2015 and approved all recommendations as presented here.

TO: James E. Baker, City Manager
FROM: Steven Jenkins, Budget Director
DATE: May 27, 2015
SUBJECT: FY 2016 Budget Appropriation Revisions and Technical Corrections

Jenkins

On May 12, 2015 City Council approved the FY 2016 Operating Budget and appropriated \$935,970,049 in order to fund next year's operations. While the budget was approved, there remained a \$3.7 million variance between the School Board budget request and funds available through the City's shared revenue formula. Since then, the School Board has recommended several budget adjustments along with a request to utilize a small portion of the school capital lockbox for FY 2016 operating costs. In addition to revisions necessary for the school budget, there are also several budget revisions or corrections that are recommended for City departments. This memorandum explains budget adjustments that are recommended for the FY 2016 Operating Budget.

Revenue Adjustments

- Funding for Constitutional Officers: Based on wages authorized by the General Assembly, the State Compensation Board indicates that payments to Chesapeake will be \$563,980 greater than was estimated. Most of the increased funding is the result of improved state funding of deputy sheriffs; a lesser amount (\$36,762) is related to increased funding for staff of the Commonwealth's Attorney. Finally, the Comp Board has made nominal changes in funding for the Circuit Court Clerk, City Treasurer, and Commissioner of Revenue. Since current salaries paid by the City exceed State Comp Board payments, the increased Comp Board funding will not require wage adjustments.
- State Aid for Schools: The City budget includes state funding of Chesapeake Public Schools based on estimates provided by CPS and the Virginia Department of Education. More recent data from CPS indicates revisions in estimates for state sales taxes and other state payments. The net change results in an increase in state education payments by \$35,758.
- Reversion of Local Fines: The FY 2016 state budget includes a provision that requires the City to pay the State a portion of local fines collected if such collections are more than 65% of total fines collected. In FY 2014, local fines were 71% of total fines collected by the Circuit Court and the City is required to send a portion of the excess to the state. In addition to the state fines already remitted to the state, the City is required to surrender \$43,407 of local fines during FY 2016.

- **State Road Maintenance:** The operating budget includes state funds for the maintenance of primary and secondary roads located in the City. Funding for road maintenance is determined based on lane miles in the City and VDOT allocation rates. The revenue estimate for road maintenance that is included in the FY 2016 budget is unchanged from FY 2015 (\$31,755,412). Recently we have received notice that allocations will increase by nearly 4% and we now project state payments at \$33,284,580. This revision increases both state assistance payments and the road maintenance budget by \$1,529,168.
- **Grants:**
 - PSAP Wireless Education Grant – the City has received an award of \$2,000 that will partially cover the cost to send eight dispatch personnel to the fall Virginia APCO Interoperability Conference for training in next-gen technology, communications, and best practices.
 - PSAP Continuity Grant – the City has received an award of \$150,000 from the Virginia E-911 Board that will allow for the replacement of computer equipment needed to operate the new Computer Aided Dispatch (CAD) system.
 - Port Security Grant (FEMA) – the City has received an award of \$60,000 for the purchase of a 26 foot enclosed trailer for use in the Underwater Search and Recovery Unit. The funds will enhance capabilities of the dive team by providing a climate-controlled shelter and storage.
 - The operating budget as appropriated only includes grants that recur every year and which fund personnel. It does not include numerous grants that are awarded throughout the year. In recent years, these other grants were appropriated as they were awarded. In order to avoid frequent amendments to the appropriations ordinance, we recommend increasing it for estimated grants that are likely to be awarded during the year. We will hold the grant appropriation in abeyance until an award is received, at which point, we will ask Council to accept the award and approve a transfer of appropriation authority to a project established for the grant.

Between FY 2011 and FY 2014, grant awards totaled between \$4.5 million and \$8.0 million annually. The FY 2016 budget includes only \$2.8 million for grants. In order for the appropriation to cover expected grant awards, we recommend establishing a budget line for future grant awards that would be released if and when awards are received. We estimate the City will receive \$4,288,000 in grants during FY 2016 in addition to those already budgeted or listed above.

- Recommended adjustments to General Fund Revenue are as follows:

REVENUE ADJUSTMENTS

Increase Revenue from the Commonwealth - Constitutional Officers	\$ 563,980
Increase Revenue from the Commonwealth - School Board	35,758
Increase Revenue from the Commonwealth - Road Maintenance Funds	1,529,168
Decrease Fines and Forfeitures	(43,407)
Increase Grant Revenue for PSAP and Port Security Awards	212,000
Increase Grant Revenue for Future Awards	4,288,000
Total revenue adjustments	\$ 6,585,499
Estimated Revenues - May 12, 2015 Appropriations Ordinance	947,964,673
Revised Estimated Revenues	\$ 954,550,172

Continued on next page.

School Budget – Expenditures and City Transfers

As noted in the introduction, the School Board budget request exceeds funding available under the revenue sharing formula. The School Board met Thursday, May 21, 2015 and approved the final revisions to the operating budget:

• Remove duplicate funding request for teacher salary funding	(1,900,000)
• Reduce health costs based on plan changes	(776,920)
• Revise budget estimates for transportation, utilities, and contract services	(716,043)
• Revise (decrease) budget estimates for textbooks	(213,000)
• Revise (increase) budget estimates for retiree health insurance costs	<u>1,136,181</u>
• Total budget revisions (decrease) adopted by School Board May 21, 2015	\$ (2,469,782)
• Add back reduction included in City Budget adopted by City Council May 12, 2015	<u>5,626,721</u>
• Recommended increase in City Budget for Chesapeake Schools	\$ 3,156,939

The School Board also requests adjustments to the school capital lockbox and other school reserves held by the City in order to increase funding for operations as follows:

• Use proffers to pay debt service on Indian River HS and divert savings to textbooks	\$ 387,000
• Divert a portion of the FY 2016 capital lockbox allocation to textbook fund	1,000,000
• Utilize settlement from FY 2014 revenue sharing formula on operations (GF)	<u>598,000</u>
• Total increase in transfers to Chesapeake Public Schools	\$ 1,985,000

Included in the revisions above is an increase in the budget for the Self-Insurance Fund (SIF) from \$7.96 million to \$9.1 million. Since current trend analysis projects that adequate funds are not present in the SIF, funding of retiree health costs during FY 2016 will be provided from the OPEB Trust Fund. Based on current estimates, most of the OPEB Trust Fund will be depleted during FY 2016.

The table to the right provides a reconciliation of the current FY 2016 appropriation for Chesapeake Public Schools with the School Board’s new budget request.

Chesapeake Public Schools	Current Budget	Amendments	Revised Budget
Revenue			
State School Aid	\$ 221,000,815	\$ 35,758	\$ 221,036,573
Federal Assistance	31,154,538	-	31,154,538
Use of Money and Property	1,342,500	-	1,342,500
Charges for Services	5,417,046	-	5,417,046
Miscellaneous Revenue	<u>897,635</u>	-	<u>897,635</u>
Total School Revenue	\$ 259,812,534	\$ 35,758	\$ 259,848,292
Other Funding Sources			
Transfers from City of Chesapeake	\$ 181,237,000	\$ 1,985,000	\$ 183,222,000
Self-Insurance Fund Balance *	7,963,819	1,136,181	9,100,000
Textbook Fund Balance	1,091,958	-	1,091,958
Other Fund Balances	<u>211,654</u>	-	<u>211,654</u>
Total Resources Available	<u>\$ 450,316,965</u>	<u>\$ 3,156,939</u>	<u>\$ 453,473,904</u>
<i>* Funding to pay for retiree health care comes from OPEB Trust Fund</i>			
Expenditures			
General Fund	\$ 398,617,565	\$ 633,758	\$ 399,251,323
Cell Tower Fund	100,000	-	100,000
Textbook Fund	1,131,958	1,387,000	2,518,958
Grant Fund	29,592,723	-	29,592,723
Self-Insurance Fund	7,963,819	1,136,181	9,100,000
Food Services Fund	<u>12,910,900</u>	-	<u>12,910,900</u>
Total Expenditures	<u>\$ 450,316,965</u>	<u>\$ 3,156,939</u>	<u>\$ 453,473,904</u>

City Budget – Expenditures

The following adjustments are recommended to the City’s budget (spending plans) for FY 2016:

1. Revise appropriations for grants noted on page 2 above.

a. PSAP Continuity Grant	\$ 150,000
b. PSAP Continuing Education Grant	2,000
c. Port Security Grant	60,000
d. Contingency for future grants (for use if and when received)	4,288,000
Total recommended increase in budget for grants	\$4,500,000

The PSAP and Port Security Grants have already been awarded. The contingency amount will be held and will only be released with City Council authorization and acceptance of future grant awards.

2. City Attorney’s Office – the budget included \$4,050 for the upgrade of paralegal position that was reviewed by Human Resources, but not recommended. Since the request was not approved, we recommend transferring the cost of upgrading the position back to the Non-Departmental Environmental Account (outside counsel).
3. Information Technology – recently a network engineer position was hired in the Network Support area of the department (program code 12513). The salary of the person hired exceeds the budgeted amount for the position by \$16,012. We recommend transferring \$16,012 to the wage and benefit accounts with an offsetting reduction to the travel account, all within program code 12513.
4. Public Works – several positions were incorrectly described or omitted on the position complement appearing on pages F31-32 of the budget document. Corrections are noted below.

Public Works	Grade	Original	Corrected
Laborer	103	28.000	32.000
Bridge Operator I	105	20.280	15.680
Bridge Mechanic I	110	2.000	5.000
Motor Equipment Oper II	111	32.000	34.000
Solid Waste Mgmt Oper I	111	12.000	11.000
Safety Inspector I	TBD	-	1.000
Welder	118	1.000	2.000
Customer Service Manager	126	1.000	2.000
Toll Operations Manager	130	2.000	1.000
Summer Intern (analyst)	TBD	-	0.250
All other positions (no change)		369.460	369.460
Total Positions		467.740	473.390

While the positions were not correctly listed, the department’s budget was correctly stated.

5. City Treasurer – several positions were reclassified during FY 2015; the complement appearing on page D12 of the budget document does not reflect the reclassifications. Corrections to the complement are noted on the next page.

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Treasurer	Grade	Original	Corrected
Office Assistant I	105	0.275	-
Account Technician II	114	0.625	0.900
Customer Service Clerk III	114	8.000	12.250
Collection Agent I	117	6.813	2.563
All other positions		32.900	32.900
Total Positions		48.613	48.613

While the position listing contained errors, the department’s budget was correctly stated. Note that a part-time customer service clerk (0.625 FTE) works in the Treasurer’s Office, but is funded the Police Department’s Photo Red program. The position appears on the Police complement rather than the Treasurer’s.

6. Human Services – reclassify one Management Analyst to Chief Family Services Supervisor. This is a new position that was included in the budget and which has recently been selected from the existing staff of management analysts. At the time the budget was written, we did not know from which program the analyst would be selected. The selected candidate was assigned to the Joint Staff program (#53110), but the position is assigned to Service Staff program (#53111). We recommend transferring \$127,263 from the Joint Staff program to the Service Staff program so the budget aligns with the assignment of personnel. The former Management Analyst was removed from the July 2015 complement.
7. Economic Development – the department’s budget includes funding for a marketing research assistant (currently vacant) that is responsible for collecting and analyzing data and supporting business development personnel with market research. Because this position addresses all of the department’s research activities, the department has requested an upgrade for the position to allow for recruitment of persons who are more experienced, are capable of working with a greater degree of independence, and are able to perform more complex analysis. The upgraded position, marketing research specialist is graded at 122 vs. 118 for the assistant; the estimated wages and benefits are \$10,000 greater than the department’s budget for the assistant. We recommend additional funding through a budget transfer from the City’s salary contingency (non-departmental account).
8. Public Works – Road and Street Maintenance – as noted in the revenue section on page 2, state road maintenance payments are projected above the amount included in the FY 2016 budget. We expect to receive \$33,284,580 based on VDOT allocation rates and the street inventory. That is \$1,529,168 more than was included in the budget to maintain roads and streets. A revision in the road maintenance budget is recommended.

Summary of Expenditure Changes:

School Operating Budget	\$ 3,156,939
City Budget – Item 1, Grants	4,500,000
City Budget – Items 2-7 do not impact total operating budget	-0-
City Budget – Item 8, Road Maintenance	<u>1,529,168</u>
Total Revisions in Operating Budget	\$ 9,186,107

Corrections to Opening Fund Balances and Fund Transfers

The appropriations ordinance establishes spending limits for City operations in the coming year, but it also includes estimates of the beginning and ending fund balances based on the June 2014 CAFR, original adopted budget for FY 2015, and the proposed budget for FY 2016. During the current year, Council amended the budget several times to appropriate fund balances; the FY 2015 revisions are not reflected in the appropriations

ordinance. The beginning and ending fund balance stated in the FY 2016 appropriations ordinance should be reduced for the following appropriations that occurred during FY 2015:

- Relocation of the Mosquito Control Facility – reduce fund balances by 3,382,320.
In February, Council authorized the use of \$2,132,320 of the General Fund Balance and \$1,250,000 of the Mosquito Control Fund Balance for the relocation of the Mosquito Control Operations.
- General Fund – further reduce fund balance by \$699,851 as follows:
 - Change funding method for Public Communication’s replacement of audio and video equipment from lease financing to General Fund with repayment from cable fees - \$404,200,
 - Purchase/replace evidence and security systems (including cameras) - \$31,023,
 - Research and related costs in support of registration of Cornland School on historical register - \$10,000,
 - Appropriate \$72,136 from FY 2014 school reversion to school textbook fund,
 - Appropriate \$147,492 of overweight fees to Public Works operating budget for road maintenance, and
 - Appropriate \$35,000 for the demolition of two vacant facilities.
- Greenbrier TIF – reduce fund balance by \$5,236,618.
In June 2014, Council amended financing of the Woodlake Extension to reduce the reliance on debt and substitute available funds in the TIF. (The amendment to effect in July 2014.)
- Information Technology – reduce fund balance by \$691,570 as follows:

○ 09/19/14	Reconfiguration of school and city financial system	\$292,025
○ 12/15/14	Fire Department alerting system	\$ 49,545
○ 01/09/15	Disaster recovery initiative	\$350,000
- Garage/Central Fleet – reduce fund balance by \$35,446 to replace shop tools destroyed by fire.
- HEAT Program – reduce fund balance by \$57,500 for one-time costs related to shifting inspection schedules.
- Development & Permits Demolition Program – reduce fund balance by \$200,000 to address dangerous buildings ordinance.
- Stormwater Fund – reduce fund balance by \$500,000 to replace two street sweepers.
- South Norfolk TIF – reduce fund balance by \$185,000 appropriated to complete Elizabeth River Park.
- E911 Fund – reduce fund balance by \$17,046 for repairs on cell towers.
- Debt Service Fund – transfer VPSA refunding savings received and credited to Debt Service Fund during FY 2014 to school lockbox - \$1,394,681.

Total reductions to fund balance by Council appropriations during FY 2015 - \$12,400,032.

In identifying available funds to address the budget demands, we included all fund balances as noted in the most recent CAFR with modifications to remove non-expendable funds, including those invested in infrastructure and property and equipment. We also excluded the Capital Fund for general government activities, the Grant Fund, and other funds not pertinent to the operating budget. However, in the case of enterprise funds, we mistakenly included balances that are designated for capital projects; these should have been excluded since the funds are not available to meet operating costs. Staff continues to analyze fund balance accounts to determine which balances are already designated and are not available to support operations. Once the analysis is completed, we will recommend an amendment to remove capital and other non-operating balances from the appropriations ordinance. In order to better inform Council of the City’s various fund balances, a future Council work session is planned.

Recap and Conclusion

A summary of appropriated expenditures for the FY 2016 Operating Budget is noted below.

Recap of Expenditure Amendments:	
Operating Appropriation 05/12/15	\$ 935,970,049
Revisions to Chesapeake Public Schools	3,156,939
Revisions to Categorical Grants	4,500,000
Revisions to Public Works for Road and Street Maintenance	<u>1,529,168</u>
Recommended Appropriation with Revisions	<u><u>\$ 945,156,156</u></u>

The revisions recommended here address the gap currently existing between the School Board and City budget by:

- Recognizing additional state funding available for school operations,
- Utilizing a small portion of capital lockbox and proffer funds to meet debt service and school operating expenditures and
- Refining the estimated costs of school employee health care and other operational costs.

All of the adjustments were approved by the School Board on May 21, 2015.

In addition to addressing the school budget, we also recommend:

- Several revenue adjustments based on the state budget,
- Corrections to the complement of authorized positions for several departments,
- Several transfers between individual budget lines of the existing appropriation,
- The appropriation of grants that are reasonably likely to be awarded next year,
- Adjustments in the street and road maintenance budget, and
- Reductions in fund balances for appropriations approved by Council during FY 2015.

The impact of these revisions on the appropriations ordinance is noted in the attachment on pages 8 and 9.

FY 2016 Operating Budget: Appropriation and Recommended Revisions

June 9, 2015

Operating Appropriation

<i>Listed here is the annual appropriation and sources used to finance the operating budget.</i>	Approved 05/12/15	Revisions	Recommend 06/09/15
BEGINNING FUND BALANCES	\$ 357,464,115	\$ (12,365,031)	\$ 345,099,084
REVENUE			
General Property Taxes	\$ 311,091,976	\$ -	\$ 311,091,976
Other Local Taxes	131,487,100	-	131,487,100
Licenses and Permits	2,573,970	-	2,573,970
		-	
Fines & Forfeitures	2,854,800	(43,407)	2,811,393
Use of Money & Property	4,269,248	-	4,269,248
Charges for Services	119,143,365	-	119,143,365
Miscellaneous Revenue	5,084,873	-	5,084,873
Recovered Costs	1,625,795	-	1,625,795
Revenue from the Commonwealth	324,903,563	2,128,906	327,032,469
Revenue from the Federal Government	42,086,733	-	42,086,733
Categorical Grant Awards	2,843,250	4,500,000	7,343,250
Total Revenue	\$ 947,964,673	\$ 6,585,499	\$ 954,550,172
TOTAL FUNDS AVAILABLE	\$ 1,305,428,788	\$ (5,779,532)	\$ 1,299,649,256
EXPENDITURES			
General Fund			
Governance and Management	\$ 26,777,617	\$ (4,050)	\$ 26,773,567
Quality Communities	28,567,537	-	28,567,537
Economic and Environmental Vitality	71,027,715	1,539,168	72,566,883
Public Safety and Justice	143,543,568	-	143,543,568
Other Expenditures	16,375,107	(5,950)	16,369,157
Sub-total	\$ 286,291,544	\$ 1,529,168	\$ 287,820,712

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FY 2016 Operating Budget: Appropriation and Recommended Revisions, continued

June 9, 2015

<i>Listed here is the annual appropriation and sources used to finance the operating budget.</i>	Approved 05/12/15	Revisions	Recommend 06/09/15
Special Revenue Funds			
Virginia Public Assistance	\$ 21,618,827	\$ -	\$ 21,618,827
Interagency Consortium	3,812,937	-	3,812,937
Fee Supported Activities	982,041	-	982,041
Integrated Behavioral Healthcare	22,867,948	-	22,867,948
Conference Center & Tourism	3,757,541	-	3,757,541
E-911 Operations	6,264,668	-	6,264,668
Chesapeake Juvenile Services	6,777,081	-	6,777,081
Tax Increment Financing-Greenbrier	12,000	-	12,000
Tax Increment Financing-South Norfolk	75,000	-	75,000
Open Space and Agricultural Preservation	-	-	-
City Wide Debt Fund	39,402,840	-	39,402,840
Enterprise Funds			
Public Utilities	64,299,471	-	64,299,471
Stormwater Management	14,567,289	-	14,567,289
Chesapeake Transportation System	5,330,848	-	5,330,848
Internal Service Funds (net of internal billings)			
Central Fleet / City Garage	1,597,500	-	1,597,500
Information Technology	731,174	-	731,174
Risk Management	-	-	-
Mosquito Control	4,421,125	-	4,421,125
Education	450,316,965	3,156,939	453,473,904
Categorical Grant Awards	2,843,250	4,500,000	7,343,250
Total Appropriations	\$ 935,970,049	\$ 9,186,107	\$ 945,156,156
Transfers to Capital Projects Funds	23,964,360	449,867	24,414,227
Estimated Budgetary Savings	(7,500,000)	-	(7,500,000)
Total Expenditures and Transfers to Capital	\$ 952,434,409	\$ 9,635,974	\$ 962,070,383
ENDING FUND BALANCE	\$ 352,994,379	\$ (15,415,506)	\$ 337,578,873

