

Memorandum

TO: Christopher Price, City Manager
FROM: Laura Fitzpatrick, Deputy City Manager LF
Steven Jenkins, Budget Director *sjenkins*
DATE: April 24, 2020
SUBJECT: Amendments to Proposed FY 2021 Operating Budget

This is an informational item to accompany the public hearing for the FY 21 Budget. The recommendations contained herein will be presented to City Council on May 12th as proposed amendments to the FY 21 Budget. These recommendations are presented in three parts: (1) revenue reductions, (2) expenditure reductions, and (3) expenditure reductions that reduce the reliance on reserves.

As previously noted, the proposed FY21 Budget was prepared prior to the COVID-19 pandemic. We have reviewed revenue included in the FY 2021 Operating Budget in light of the pandemic and it is necessary to reduce projections based on the certain slowdown in economic activity. Our projections are very tentative and are subject to further amendment as we learn more about the impacts of the coronavirus. For now, we recommend revisions to the proposed FY21 budget as noted here.

- Reduce revenue \$ 46,118,355
- Reduce expenditures, including transfers to Chesapeake Schools \$ 31,508,165
- Reduce General Fund transfers to capital projects \$ 8,800,000
- Reduce General Fund transfers to special revenue funds \$ 5,679,464
- Reduce Stormwater transfers to capital projects \$ 675,000
- Reduce fund balance/reserves based on lower revenue projections \$ 5,138,245

It is important to note that these revisions do not include state funding reductions for public schools. We know that the CARES Act approved by Congress will provide funding to partially offset some of the state reductions in education funding, but have no definitive information at this time.

Specific Revenue Reductions

Across all funds, the reduction in City revenue represents 5.0% of the local revenue included in the FY 2021 budget proposal. The reduction for the general fund is \$37.31 million (6.1%). Specific revenue reductions for the General Fund include:

- General property taxes – overall we estimate property taxes will decline from \$359.6 million to \$348.4 million or \$11.2 million (3%) below the proposed budget amount. The impact on real estate taxes is relatively small (2%) as taxes are based on assessments at January 1, 2020 and we expect collections will remain strong since most payments come from escrow accounts. However, we expect some taxpayers, having lost their jobs, will have difficulty paying their personal property taxes. Accordingly, we estimate that personal property and delinquent tax payments will be 7.5% below the original estimates.
- Other local taxes – these include consumer and business taxes collected by the city. Overall, we estimate a decline of 12.4% or \$17.3 million. Most of these taxes are based on economic activity, including retail sales, utility consumption, business licenses, vehicle registrations, restaurant sales, hotel and lodging, and entertainment attendance. We estimate declines in these activities ranging from a modest 1% decline in electricity to 50% decline in taxes collected on admissions (largely movie theaters). We expect significant declines in sales taxes (\$3.5 M), restaurant taxes (\$3.4 M) and Business and Professional Occupation Licenses (\$6.5 M).
- Licenses, permits and fees – we estimate reductions in receipts for licenses, permits and fees of \$343,598 (12.1%) based on lower activity.
- Fines and forfeitures – we are confident that collections of fines will decline as court activity is delayed and individuals are unable to pay their fines. We estimate collections for fines will drop 14.4% or nearly \$200,000.
- Use of money and property – we estimate earnings on city reserves will drop since the Federal Reserve has dropped the federal funds rate to near zero. We also expect a decline in rental of city facilities because of the pandemic. We project revenue to drop \$1.0 million from the original \$2.7 million estimate (38%).
- Charges for services – we have lowered estimates of service fees based on reduced activity in areas such as Libraries and Parks and Recreation. We also expect lower collection of fees other areas because many citizens negatively impacted by the pandemic will not be able to pay fees. We estimate that most fees will decline between 8% for EMS and 15% for most other activities. We have lowered projections by \$1.5 million (12.4%).
- Miscellaneous local revenue – these include concession sales at parks, and the sale of EZ Passes by the City Treasurer. We estimate a 15% drop in this account (\$78,405).
- Non-categorical Commonwealth aid – these accounts include taxes collected by the state and remitted to the City along with the state’s reimbursement of personal property taxes (also known as car tax reform). In most accounts, we estimate declines of between 5% and 10%; however, we also estimate a 12% reduction in state personal property tax relief payments. The total reduction is \$3.6 million (11.6%).
- Categorical Commonwealth aid – we estimate a decline of \$1.0 million (2.2%) in categorical aid that is largely unrelated to the coronavirus. The General Assembly included new dedicated funding for Hampton Roads Transit; one of the sources was recordation taxes that were heretofore shared with localities. We were not aware of this change when we released the budget last month. The

proposed budget includes \$1.07 million in recordation taxes that will now go to HRT. We have been in discussion with HRT and they have assured us that locality losses will be offset by reallocating other federal and state assistance.

- Commonwealth aid for Constitutional Officers – we estimate that state payments for the jail and constitutional officers will be 6% lower than was included in the proposed budget. We assume that the state will pass a portion of its revenue losses to localities; our estimate of reductions in these payments is slightly above \$1.0 million.

In total, we estimate General Fund revenue collections will be \$37.31 million below the amount shown in the FY 2021 Operating Budget. That is approximately \$11.4 million below actual revenue for FY 2019 and \$26.5 million below the original budget estimates for FY 2020.

Expenditure Reductions

In order to address the projected drop in revenue, we must also reduce/delay spending. We recommend amendments to the Operating Budget that would eliminate the pay raise, continue the hiring freeze, revise the capital plan to increase borrowing in order to free cash for operations, and reduce the amount that would be added to reserves. Specific spending changes for the General Fund are noted in the table below.

General Fund Budget Reductions – FY 2021

Reduction	Details and Impact	Budget Amendment
Employee Compensation	Eliminate proposed pay raises to include 2.25% general wage increase and performance award payments (\$0.75 million). We will closely monitor revenues in the first part of the fiscal year. If funds become available for either a one-time or across-the-board wage increase, we will present options to City Council.	\$ 4.58 million
Hiring Freeze	We have implemented a hiring freeze for most positions except those related to public safety and other mission critical services. We anticipate continuing the freeze through FY 2021 and anticipate budgetary savings.	\$10.98 million
Chesapeake Schools	School funding is based on the sharing of most tax sources. With the drop in city revenues, the school funding requirements under the formula are also lower. Note this is a reduction both in the School Operating Budget and General Fund transfers.	\$12.88 million
Hampton Roads Transit	The General Assembly redirected state recordation taxes from Chesapeake to Hampton Roads Transit. Accordingly, HRT has revised federal allocations for regional routes in a manner that reduces the City's subsidy.	\$ 1.07 million
Vehicle Fuel	Recognize savings from near collapse in fossil fuel market. Estimate savings of 25% in fuel costs.	\$ 597,200
Travel – Conferences	Numerous professional development conferences have been cancelled and travel has been curtailed. Savings are from 50% reduction in travel budgets except for Economic Development.	\$ 139,075

Reduction	Details and Impact	Budget Amendment
Historic Preservation	We proposed the addition of two positions for Historic Preservation. We recommend delaying these positions to FY 2022.	\$ 107,139
Central Fleet	We proposed adding three positions to Central Fleet on January 1st largely in preparation for staffing the new satellite maintenance facility. Note that this amount reflects only the General Fund portion of these positions. The majority of the expense is in the Fleet Fund. We recommend delaying these positions to FY 2022.	\$ 83,222
SUB-TOTAL	REDUCTION IN GENERAL FUND EXPENDITURES	\$30.43 MILLION
Transfers to Other Funds	Similar adjustments are recommended for several funds that are supported by the General Fund. Most adjustments are related to employee compensation. Therefore, less GF support is needed as follows: Social Services Fund Interagency Consortium Fund Juvenile Services Fund Integrated Behavioral Healthcare Fund E-911 Fund Subtotal	\$ 1.83 million \$ 0.01 million \$ 1.37 million \$ 1.48 million \$ 0.99 million \$5.68 million
Charter and Policy Reserves	The City Charter and Council policy require that the City maintain cash reserves equivalent to 18% of revenue. Revenue reductions result in a commensurate decline in reserve requirements.	\$ 1.24 million
Budget Savings Estimated	In calculating the ending fund balance we anticipated that some of the budget would not be spent because of vacancy savings. We are now recommending a reduction in the budget from holding many positions vacant. In order to avoid double counting the vacancy savings we are removing such savings from our estimates of the ending fund balance.	\$ (8.83) million
Revise Capital Funding	Reduce cash funding of capital projects and related transfers to Capital Fund. Instead, we recommend borrowing \$8.8 million to finance capital projects and redirect cash that was intended for capital projects to fund current operating costs; future debt payments on the borrowed funds (starting at \$720,000 per year) would be paid from future revenue through the City Capital Lockbox. <i>Note this measure proposes the substitution of a one-time reduction in revenue with fund balances. While this action funds ongoing operations with one-time money, best practices recognize calamities, such as a pandemic, as valid reasons to use reserves.</i>	\$ 8.80 million
	TOTAL GENERAL FUND REVISIONS	\$37.31 million

The aforementioned General Fund reductions necessitate numerous reductions in other funds. These changes are in Attachment A. Finally, since the City has financed a significant portion of its capital program in cash, we are comfortable with increasing the level of debt financing in FY 2021. The impact of the additional debt on the City’s debt policies is minimal. The proposed borrowing raises the debt-to-revenue metric from 7.5% to 7.6% and well within the 10% policy limit. However, if City Council prefers to eliminate or lessen the proposed reduction to cash funding, we have also identified several alternatives to increased borrowing for capital projects. These alternatives are outlined below.

Budget Alternatives to Avoid Using Reserves:

If City Council prefers to eliminate or lessen the proposed reduction to cash funding (and increased borrowing) for capital projects, the following alternatives have been identified.

- 1. Delay start of public safety academies by three months – reduces budget by: \$ 528,000
- 2. Delay purchase of public safety vehicles for six months – reduces budget by: \$ 2,576,000
 This action will delay the purchase of 22 police cruisers, 4 medical units, and 4 fire prevention/command units until FY 2022. If necessary, 4 medical units could be substituted for a planned purchase of one (1) ladder truck. Savings are net of \$228,000 estimated maintenance costs expected by a delay in vehicle replacements. We expect to resume normal funding in FY 2022.
- 3. Cancel joint stadium master planning/site analysis study and transfer appropriation to one of the projects planned for FY 2021 – this action reduces transfers to Capital Projects by: \$ 450,000
 Note: the stadium study is an existing project; this action transfers an existing appropriation. This project was budgeted at \$750,000. No funds have been spent. However, we propose that \$300,000 of these funds be earmarked to fund the employee classification and compensation study previously discussed.
- 4. Delay capital projects that use cash funding (frees cash for use in operations and avoids additional debt). The table on the next page includes lower priority projects that could be delayed for one or more years. Delaying capital projects reduces General Fund transfers to the Capital Projects Fund of up to: \$9,007,000

Capital Project Title	Description/Action Proposed	Budget FY 2021
LED Lighting Retrofits - Various Buildings	Project replaces lighting fixtures with more energy efficient fixtures. Plan to spend \$100,000 annually for four years. Recommend delaying project start to FY 2022.	\$100,000
Municipal Center Master Plan Update	Study to determine capacity and condition of municipal campus and recommend long term strategy for future replacements and expansions. Recommend delaying project start to FY 2026.	\$150,000
Advanced Right-of-Way Acquisition Program	This project provides funding for strategic property acquisitions to support future road and stormwater projects. CIP includes \$600,000 over three years. Recommend delaying project start to FY 2022.	\$200,000
Heron Landing Park on the Indian River	Project would develop park with access to Elizabeth River in Indian River area on a parcel obtained through a grant from Virginia Dept. of Conservation & Recreation. Project budget is \$750,000 over three years. Recommend delaying project start to FY 2026.	\$225,000
Citywide Sidewalk Installation	Provides funding for sidewalk installations throughout city. Annual funding of \$300,000 through FY 2024. There is currently \$900,000 in the sidewalk fund. As such, this action does not deplete all sidewalk funding. Recommend suspending funding one year and adding \$300,000 in FY 2025.	\$300,000
Fire Station #16 - Joint Fire & Police Station - Grassfield	Provides funding for the purchase of land for a future fire station in Grassfield area of City. Recommend delaying project start to FY 2026.	\$500,000
Rural Roads Safety Improvement Program	Provides City funding to improve rural roads in areas that property owners have provided ROW dedication. Recommend suspending funding one year and adding \$500,000 in FY 2022.	\$500,000
Edwin Drive Improvements	Converts a one-way section of Edwin to two-way. Recommend two year delay (FY 2023).	\$1.28 million
Johnston Road Ditch and Shoulder Improvements	Road and ditch improvement along Johnston and Benefit Roads between Elaine Street and Buskey Road. Project is dependent on \$10.0 million revenue sharing grant from VDOT. Recommend delaying project start to FY 2023.	\$5.0 million
Johnstown Road at Battlefield Blvd. - Right Turn Lane	Land acquisition for future installation of right turn lane on Johnston Road. Recommend delaying project start to FY 2022.	\$750,000
Revisions to Capital Improvement Program	Increase (decrease) in Capital Budget by year	
	FY 2021	\$(9,007,000)
	FY 2022	\$(4,475,000)
	FY 2023	\$ 3,482,000
	FY 2024	\$ 5,200,000
	FY 2025	\$ 2,900,000
	After FY 2025	\$ 1,900,000

Summary

Across Special Revenue, Enterprise, and Internal Services, funds, these revisions reduce the expenditure budget by \$12.05 million. The total reduction in expenditures across all funds is \$42.48 million, including a \$12.88 million reduction in City transfers to Chesapeake Schools. Below is a recap of specific actions we are recommending, including changes in transfers and fund balances.

Reduction in General Fund expenditures and transfers to schools	\$30,430,134
Reduction in expenditures – non-general fund accounts	12,054,031
Reduction in transfers to capital projects (stormwater)	675,000
Issuance of debt to fund capital projects (diverts cash to operations)	8,800,000
Revise ending fund balances	(5,837,755)
Total Revisions to Expenditures, Inter-Fund Transfers, and Fund Balances	\$46,121,410
Reduction in Revenue	\$46,118,355

ATTACHMENT A

In addition to General Fund revisions, we recommend reductions in other funds as noted below.

Social Services Fund	No significant change in revenue, but spending is reduced by \$1.83 million because of removal of pay raises and savings from hiring freeze. Smaller savings are also realized in vehicle fuel and travel expenditures.
Interagency Consortium	No changes in revenue, but spending is reduced by \$12,433 with removal of pay raises and savings in travel expenditures.
Juvenile Services Fund	No significant change in revenue, but spending is reduced by \$1.37 million because of removal of pay raises and savings from hiring freeze. Smaller savings are also realized in vehicle fuel and travel expenditures.
Integrated Behavioral Healthcare	We estimate a reduction in service fees of \$684,150. Removal of pay raises, savings from holding additional positions vacant, and reductions in travel and fleet charges provide savings of \$2.16 million allowing a reduction in transfers from the City's General Fund (\$1.5 million).
Fee Supported Programs	We expect fee revenue to be \$226,100 less than the proposed budget. We expect reductions in related spending.
E911 Fund	No changes in revenue, but spending is reduced by \$990,763 with removal of pay raises and savings from the hiring freeze, and travel expenditures. Transfers from the General Fund are reduced accordingly.
Conference Center/Tourism	We expect revenue to be \$1.4 million less than the proposed budget. Reductions in facility operating costs and savings from cancelation of pay raises saves \$304,386. A reduction in the ending fund balance will address the difference.
Tax Increment Financing Funds	We expect revenue to be lower than the proposed budget for the Greenbrier TIF (\$465,680) and South Norfolk TIF (\$376,183). The reduction will result in a lower ending fund balance. No spending changes are proposed.
Public Utilities	We project revenue will fall by \$848,733 (1.1%) because of business closings and from lower interest rates on cash reserves. However, collections of revenue are projected to decline by another \$1.54 million (1.5%) and thus increase bad debt expenses. Savings from cancellation of the pay raise, a hiring freeze, and reductions in operating expenses and capital outlays will offset revenue and bad debt losses.
Stormwater Fund	We project fee revenue will be \$482,780 less than budgeted because of reduced permitting activities. We also expect a reduced collections to increase bad debt costs by \$339,774. Savings of \$201,554 from elimination of pay raises, fuel costs, and travel will partially offset the decline in revenue and increase in bad debts. We recommend reducing capital funding for the remaining \$675,000.

Recommended revisions to other funds, continued

Chesapeake Transportation System	Toll revenues are expected to be \$4.35 million below the proposed budget because of a significant decline in travel. Public Works will provide a strategy to address the decline in toll revenue.
Internal Service Fund	Interest earnings are expected to decline by \$25,000. Savings of \$215,381 are proposed from suspension of the pay raise, delaying the addition of several garage positions, a reduction in fuel costs, and from the hiring freeze. Savings will accrue to operating funds.
Mosquito Control	We estimate revenue will fall \$190,146 below the budget estimates. Savings from elimination of the pay raise and from the hiring freeze are sufficient to address the revenue shortfall.