SIGNIFICANT ASSUMPTIONS UNDERLYING EXPENDITURE PROJECTIONS

REVENUE

1. The City budget is based on a plan of revenue collections that assumes current trends will continue, modified by the known events such as changes in fees or tax rates and in real estate assessments. Economic prognostications inform the evaluation of revenue trends, but do not drive the values. Recognizing the uncertainties and blind risks of forecasts about future economic conditions, estimated revenues constitute a baseline planning scenario rather than a prediction of the future with known probabilities. The budget process addresses risk and uncertainty by setting aside contingency appropriations and financial reserves for unexpected variances and events, and allows for modifications through amendment based on monitoring and periodic management reviews.

2. With the impact of the COVID-19 pandemic, revenue growth in FY 2021 across all funds, excluding internal billings, is projected at $6.9M (0.6%) under FY 2020 budget. FY 2021 change in relation to FY 2020 budget includes -$26.5 (-4.4%) General Fund, -$0.8M (-0.6%) Enterprise and Mosquito Control Funds, $1.4M (2.0%) Special Revenue Funds, and $19.4 M (6.4%) School Funds

3. Property taxes compose about 71% of City General Fund revenues. Real estate taxes the largest portion of property taxes. They are projected to grow at a moderate pace. The January 2020 reassessment showed an increase in taxable real property values of 3.35%. Combined with new building activity, taxable real estate tax assessments are projected to increase 2.0% in FY 2021. Growth in real estate values from a combination of new construction and increasing values is estimated at about 3.5% each year for FY 2022 and 2023 if conditions prevailing during calendar 2019 continue

4. Personal property taxes are cyclical in pattern, with considerable volatility. The FY 2020 budget reflects 2.9% growth over FY 2019 actual for Total Personal Property Tax (including Personal Property Tax Relief, refunds and delinquent collections). Revised estimates assume some of that growth will be realized in FY 2021 instead. FY 2020 revenues are now projected to be about 2.3% over FY 2019 actuals. With the effects of the pandemic, FY 2021 is projected to be 7.3% below FY 2020 budgeted. Long term growth is projected as averaging about 2%.

5. Other local taxes comprise about 23% of the City General Fund revenues and 28% of its local revenues; they are primarily taxes on business and consumer transactions, including retail sales, food service, lodging, utility services, and business gross receipts. Growth in this revenue source is strongly dependent on employment and income, and is greatly impacted by the continuing pandemic. Communication sales tax is expected to continue to decline. Business and Professional Occupations License Tax (BPOL) is projected to decline 10.86% in FY21. Tobacco Tax recently increased due to an increase in the tax rate from 25 mills (2.5 cents) to 32.5 mills (3.25 cents) per cigarette reserved for public health initiatives, but is likely to continue its long-run decline. As a result of the current pandemic, a decline of 11.36% is projected for other local taxes in FY 2021. Long term growth is projected as averaging around 1.5%.
6. Fines and forfeitures as well as service charges and miscellaneous revenues are trending below budget in FY 2020 and are thus projected below current levels in FY 2021. Change in State aid is projected as minor pending the outcome of the State budget process.

EXPENDITURES

Spending projections for the second and third years of the Operating Budget are based on past spending patterns and plans for the FY 2021 budget year. With the exception of Public Utilities, no new positions are included in projections for fiscal years 2022 or 2023. There are two positions planned for Public Utilities in FY 2023. List below are assumptions for major expenditure categories.

1. Employee wages - we have eliminated 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.
2. Healthcare inflation
   (a) City Employees – we expect that health care costs will continue to exceed the general

SIGNIFICANT ASSUMPTIONS UNDERLYING EXPENDITURE PROJECTIONS

inflation rate and estimate rising employee health costs. Based on our claims history over the past five years, we project these costs to rise ten percent (10%) annually for the next three years. While these rates are not affordable, we do not currently have a strategy that can successfully lower the growth rate.

(b) Sheriff/Jail – we project jail medical costs to rise by 5% each year based on current inmate populations that have been declining in recent years.

3. Other employee benefits are expected to remain stable over the next three years.
4. Board of Elections – costs for election varies based on the number and type of election. Presidential elections require added staffing and supplies as there is typically greater voter turnout.
5. Central Fleet
   (a) Fuel prices are expected to remain stable over the projection period.
   (b) Garage Annex – the City anticipates opening a joint fleet servicing facility with Chesapeake Public Schools. The FY 21 budget includes two new service technicians starting January 2021. We have not included provisions to staff all of the new bays (six for the City) that will open during FY 2021.
   (c) Aging fleet – we plan to increase funding to replace the City fleet by $500,000 annually through FY 2023.
6. Debt service is expected to rise based on the need to issue bonds for upcoming Capital Improvement projects. Budget projects include payments on new debt issues that are planned over the next three years. Further information is available in the Capital Improvement Plan (CIP).
7. Economic Development Authority – the city funds grants awarded Economic Development Authority. In 2017, the City agreed to a number of incentives for the Dollar Tree Headquarters. The agreement requires annual payments of $750,000 per year for each of six years. The first installment was paid during FY 2020; funding for incentives is provided from surpluses in the Greenbrier TIF.
8. Hampton Roads Regional Jail Authority – we estimate the daily rate will increase by four dollars per inmate in each of the next three years. The FY 2021 daily rate is projected at $77/per inmate.
9. Health Department – anticipates opening a new wing on existing building in September 2020. The expansion is needed to address overcrowding of the existing facility. We have included increased operation costs as well as state reimbursements.
10. Human Services - Interagency Consortium - services for at-risk youth are stable over the next three years.
11. Chesapeake Integrated Behavioral Healthcare
    (a) The cost to provide services to patients is projected to rise based on the availability Medicaid funding.
    (b) The department is expanding its main facility to relieve crowding and to address rising service demands. We anticipate growing Medicaid reimbursements will cover much of the additional operational costs.
12. Public Works
    (a) Curbside recycling – we assume the program will continue at existing service levels.
    (b) Road and street resurfacing – the department has identified the need to significantly increase the level of repaving non-arterial streets. We have not identified funding to address this growing challenge.
13. Risk Management and Workers' Compensation charges are anticipated to increase each fiscal year in line with rising employee compensation.
14. Greenbrier TIF – the fund currently collects substantially more in real estate taxes than is needed to meet existing obligations. We are recommending a considerable increase in the annual surplus declarations to meet on-going city operations and school facility requirements. The annual surplus would increase from $3.8 million in FY 2020 to $11.3 million in FY 2023.