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March 23, 2021

The Honorable Mayor Richard W. West and Members of City Council
City of Chesapeake, VA

Dear Mayor West and Members of City Council:

It is my privilege to present the Proposed Operating Budget for FY 2022 and the Proposed Capital Improvement Program for fiscal years 2022 to 2026. The operating budget and capital improvement program are important elements of our efforts to align the entire organization and its resources to the City's three strategic anchors. These strategic anchors, noted below, have served as the decision-making framework during the FY 2022 budget process.

Strategic Anchor #1

- ✓ We help make Chesapeake an exceptional place to live, learn, work, farm, and play.

Strategic Anchor #2

- ✓ We provide outstanding service to Council, our community, our customers, and each other.

Strategic Anchor #3

- ✓ We will be fiscally responsible and sustainable.

Year in Review

2020 was a year like no other. In March, the City of Chesapeake, along with every other jurisdiction in the region and most jurisdictions around the country, declared a state of emergency and began to deal with the sudden impacts of the COVID-19 pandemic. COVID-19 rapidly transformed the most basic of everyday occurrences in the City to anything but typical. Schools that were normally full of children, teachers, and administrators were closed. Restaurants, movie theaters, libraries, parks, and community centers were no longer open to patrons. The world was changing, and no one knew when, or if, things would ever return to "normal."

Due to the timing of the onset of the pandemic in early March, we (like every other local government in Virginia) were in the final stages of developing the proposed FY 2021 operating budget. Every city and county in the Commonwealth went back to the drawing board, but no one knew how long the pandemic would last and what the impact would be to local, regional, state, national, and global economies. Practically every country across the globe was facing a crisis simultaneously. In order to

ensure the City's FY 2020 budget would remain balanced, revenue estimates for the final quarter of FY 2020 were reduced by approximately \$29 million. In addition, approximately \$46 million in cuts were made to the proposed FY 21 budget given that it was prepared prior to the pandemic declaration. Estimates for consumer-driven revenues like the sales tax, meals tax, and hotel tax were reduced, and expectations for collections of previously assessed revenues like real estate and personal property were jeopardized by the number of individuals losing their jobs. On the expenditure side of the ledger, I suspended new projects and instituted a hiring freeze as we increased our reliance on vacancy savings and fund balance to balance the budget. This was necessary in order to buffer against the possibility of having to cut critical programs and services during the uncertainty of the pandemic.

While the pandemic has had devastating impacts on many Americans, the dire economic situation that could have accompanied those outcomes was largely avoided in Chesapeake. Overall, revenue in the final quarter of FY 2020 outperformed our revised projections and, through the first half of FY 2021, we have continued to outperform the revised estimates. While we maintained all services throughout the pandemic even during the Governor's stay at home order period, we were the first city in Virginia to reopen to the public after that period ended, and we've maintained every effort to ensure that the pandemic does not have long-term negative impacts on our community. Having sufficient revenue will allow the City to continue to provide many of the programs and services that Chesapeake residents, businesses, and visitors have come to expect and rely upon.

Structural Changes

Even as revenues have performed better than anticipated throughout the pandemic, the City continues to have more needs than it has resources available to address those needs. Despite this fact, this budget includes no major tax or fee increases, excluding City Council's previously approved increase in water and sewer rates for FY 2022 (which become effective January 1, 2022). We have, however, laid the foundation for advancing Council's strategic priorities. We also intend to have some conversations with you over the coming weeks to identify ways to accelerate progress towards achieving our desired outcomes.

While no major tax or fee increases are proposed, the proposed budget does include several fee increases for various development review application fees. These fees have not been adjusted for a number of years and are now well below the market rate for the region. As these fees are charged to customers who receive a direct benefit for the service being provided, keeping these fees at a reasonable level of cost recovery is important to ensure that the Planning Department does not have to reduce their service levels which would increase review times and adversely impact our economy.

If there is one thing that the pandemic has taught us, it is that we must respond to changing conditions, challenge assumptions, and review our practices to ensure that we're most effectively utilizing our resources on behalf of our community. One such practice warrants particular consideration here. For the past several years, the City has utilized vacancy savings (as well as other anticipated budgetary savings) to balance the annual operating budget. This practice is commonly known as "budgeting for attrition" and is utilized by local governments throughout the country. The premise behind budgeting for attrition is a simple one. In an organization the size of the City of Chesapeake, not all authorized positions will be filled for the entire fiscal year. Turnover throughout the organization will create vacancies and the salary and fringe benefit costs of those vacant positions will not have to be paid during the period of time in which the City recruits a new employee to take the

place of the previous incumbent. Prior to the pandemic, the City utilized nearly \$11 million in FY 2020 to help balance the operating budget.

One of the lessons that has been reinforced over the past year is that unexpected events can strike at any time. By reducing our reliance on vacancy savings, we can create a buffer in the event of a future emergency by ensuring that a greater percentage of the work force's salaries and benefits are fully budgeted. If the funding is not utilized in the operating budget, the surplus amount will lapse into the City's fund balance and can be used in subsequent years to fund major capital needs such as roadway resurfacing, construction of a new public safety training facility, construction of the "Chesapeake Connects" fiber optic broadband ring, new/replacement police and fire facilities, new and expanded parks and community centers, and various roadway projects to improve connectivity and transportation efficiency throughout the City. While this budget only reduces our reliance on vacancy savings by \$1 million, my goal is to continue to reduce our reliance on vacancy savings, with a goal of decreasing its use in the General Fund to 2% (approximately \$5 million) of compensation costs over the next five to seven fiscal years. Reducing the reliance on vacancy savings to balance the operating budget is one of the most important steps that we can take to ensure that we are being fiscally responsible and sustainable as an organization.

Strategic Priorities

After two retreats with City Council over my first year as City Manager, it is clear that there are a number of priority areas that we must address as an organization if we are going to make Chesapeake an exceptional place to live, learn, work, farm, and play. This starts with our most important resource, our employees. I could not be more proud of how our employees performed during this past year as they navigated the challenges of the pandemic and continued to provide outstanding service to Council, our community, our customers, and each other. That is why one of the first things addressed in this budget is employee compensation.

As you know, we are in a highly competitive labor market. As such, I have set aside \$4.5 million to provide an FY 2022 salary increase that is competitive with the regional market. However, being mindful of the continued impact of the pandemic, I intend to closely monitor both revenues and expenditures as well as the regional market to determine the timing of that pay increase. In addition, prior to the pandemic, City Council directed me to conduct a comprehensive Classification and Compensation Study to ensure that we remain competitive. While the study timeline was impacted by the pandemic, it was the first discretionary spending initiative that I authorized once sufficient funding became available. We are commencing that study now and it will be complete prior to the end of the calendar year. However, in order to advance this priority as quickly as possible, I have set aside \$2.25 million to begin implementation of the study's recommendations should Council so choose. While this amount is not expected to fully fund all of the recommendations, it will certainly provide the ability to address some of our most difficult to fill positions as well as positions with high rates of turnover, and will set the stage for full implementation.

In addition to employee compensation, City Council has identified several capital projects as strategic priorities. As we endeavored on my first complete budget process as your City Manager, I wanted to ensure that resource allocation decisions were aligned to City Council's three strategic anchors and, in the case of the capital improvement program, the Comprehensive Plan. As such, all budget decisions

that were made throughout our deliberations were evaluated through the lens of adherence to our strategic anchors and alignment with Council's adopted policies.

In an effort to demonstrate the alignment between project outcomes and the City's objectives as identified in the Comprehensive Plan, the CIP includes a new section titled "Aligning the CIP to the Comprehensive Plan." In this section, specific projects are highlighted to demonstrate alignment with each of the 16 goal areas of the Plan. Each project detail sheet in the document also identifies the Comprehensive Plan goal area to which it is most directly aligned.

In addition to producing a CIP document for FY 2022 - 2026, the Budget Office, in partnership with the Information Technology Department, is also releasing a new CIP website that shows all current projects on an interactive map of the City. This new tool will allow users to click on areas of interest and explore the projects in the area. In addition, the tool will contain information about each project similar to what is provided in the CIP document including financial information, project description, project justification, comments about the project, and estimated completion dates. Finally, this tool will also allow information about projects to be updated throughout the fiscal year as amendments to the CIP are adopted. In the future, we plan to add pictures, videos, and other media related to significant projects. We believe that this is an important step to ensuring that our budget is transparent, equitable, and aligned with Council's priorities.

Outcomes

Now that I have discussed some of the new initiatives related to the CIP, I want to highlight just a few of the outcomes that we hope to achieve through the investments included in these two spending plans. While this is not an exhaustive list, each of these investments, as well as the multitude of others included in the operating budget and the CIP will directly contribute to making Chesapeake an exceptional place to live, learn, work, farm, and play, help us to provide outstanding service to Council, our community, our customers, and each other, all while being fiscally responsible and sustainable. While we were not able to fund all of City Council's priority areas this year, the proposed budget is a big step in the right direction.

There are many examples throughout the budget that demonstrate a commitment to the City's strategic anchors; however, I've chosen to focus here on some examples related to public safety that illustrate how those anchors relate to one another. Public Safety is at the forefront of ensuring that Chesapeake is an exceptional place to live, learn, work, farm, and play. It is also an area in which our commitment to providing outstanding service to our customers and our community is on display daily. One of the cornerstones of public safety is the ability to respond quickly to an emergency situation, when every second counts. The operating budget contains funding for six new positions in the Fire Department to staff the new Medic 10. Currently, the new Station 10 in Bowers Hill does not have a medic unit in service and the area is served by units from surrounding areas. The Bowers Hill, Airline Boulevard, Deep Creek, and Western Branch/Jolliff areas have all experienced significant growth and residents have requested a staffed medic unit for several years. Adding this unit will help the City meet the demands of increased call volume throughout the area. By adding Medic 10, we anticipate a decrease in average response time of approximately three-and-a-half minutes.

In addition to these positions, increased funding has been programmed in the CIP for FY 2022 to fully fund the replacement of Fire Station 11 at Dock Landing. The new Dock Landing station will be a

modern station that can comfortably expand the number of firefighters assigned each day and accommodate gender separation. This new facility also provides a significant safety upgrade important to the long-term health of the staff by including a modern ventilation system in the apparatus bays. This ensures that the exhaust from vehicles and equipment does not spread into the living areas of the building.

One of the first steps in any comprehensive public safety response model is planning. The operating budget also includes funding for a new Emergency Management Coordinator position. While the City's Fire Chief has traditionally held this role, the events of the past year have clearly demonstrated the need for a dedicated full-time resource to administer this program. The purpose of the position is to develop and manage a comprehensive disaster and emergency management program for the City, including disaster mitigation, preparedness, planning, training, education, response, and recovery.

The work of our Police Officers is at the forefront of keeping our community safe and secure. In return, it is vitally important that we provide our team with the tools that they need to do their jobs safely, efficiently, and effectively. Every day, many hours are spent on paperwork, incident reporting, etc. Police departments across the county are under intense scrutiny and subject to ever-increasing reporting requirements. While important, these documentation demands can impact the timely filing of reports and ultimately reduce productivity. Based on a recently completed pilot program, we've allocated funding for dictation software designed specifically for law enforcement to translate spoken words into written text. This should significantly increase efficiency as it's been demonstrated that both officers and detectives are able to reduce time spent writing reports and notes by 33%. This will ultimately allow them to return to available status faster and respond to the next call for service, helping to keep each other and our community safe and secure.

While the safety and security of our community is essential, so too is the safety and security of our information resources and our technology infrastructure. This is also critical to ensuring that we can continue to provide outstanding service to our customers and our community without interruption and can do so in a fiscally responsible and sustainable manner. It seems that every few months another report emerges about a major corporation or governmental entity that has been a victim of some type of cyber-attack. Sensitive data getting into the wrong hands can have devastating consequences for customers and the organization as a whole. Rest assured that we have a strong cybersecurity program today. However, as part of ongoing efforts to fortify the City against cyber-attacks, the FY 2022 budget includes a number of projects and initiatives related to improving our data security.

On the capital side, "Enterprise-Wide Next Generation Identity Access Management" funds the implementation of a suite of tools and technologies to improve Identity Access Management (IDAM) across the enterprise. This project will aid with the management of secure user authentication, user management, user authorization, and user access rights. These tools will aid the City in adhering to the Center for Internet Security (CIS) Critical Security Controls framework.

Another project focusing on ensuring data security is "Data Access Governance Design and Implementation." The project will improve the City's cybersecurity program by implementing a data access governance system that will help the City reduce the risk of exposure of sensitive information. This project will expand Information Technology's ability to track what data exists across the enterprise, its classification under various regulatory requirements, where the data is located, and who has access to it. This will enhance the City's ability to combat both external and internal threats.

Funding has also been included in Information Technology's operating budget for a new Systems Security Engineer position. This position, in coordination with the Systems and Network engineering teams, will be responsible for safeguarding the City's computer networks and systems to improve the City's security posture. Information Technology's operating budget also includes increased funding to procure security-related professional services. These services would include consulting services to assist the city to mature its security program and develop and expand our governance framework and policies.

These investments in securing City data and transactions improve the City's ability to provide outstanding service to Council, our community, our customers, and each other by helping to minimize the risk that our systems will be compromised, negatively impacting our ability to provide critical services to our customers.

Summary

As you can see, our goal with this budget is to begin the process toward aligning our resources to achieve Council's strategic priorities and to be transparent as we help Council and our community make important choices. Toward that end, I hope that you find the information in these two documents to be clear and informative. While aligning our budget to address Council's strategic priorities will be a multi-year journey, I believe that this budget represents an important first step. We look forward to working with you in the coming weeks as we endeavor to make Chesapeake an exceptional place to live, learn, work, farm, and play.

Sincerely,



Christopher M. Price
City Manager