

- (B) A RESOLUTION DIRECTING THE CITY MANAGER TO TAKE CERTAIN ACTIONS CONSISTENT WITH “OPTION 2” OF THE NOVEMBER 16<sup>TH</sup> STAFF REPORT IN THE PREPARATION OF THE PROPOSED FY 2023 OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM-BUDGET

At the City Council’s November 16, 2021 meeting, Council requested that the City Manager bring forward the actions necessary to implement amendments to the Human Resources Classification and Compensation Plan (“the Plan”) for sworn public safety employees. These amendments are estimated to cost \$13.1 million in FY 2023.

This item is the second action requested by staff to implement the Plan and it is a request to adopt a resolution providing formal budget guidance to the City Manager in the preparation of the FY 2023 operating budget and capital improvement program. The purpose of this item and the accompanying resolution is to request Council direction on budget mechanisms to provide ongoing funding for the Plan. This direction is consistent with “Option 2” as outlined in the staff report from November 16, 2021. “Option 2” outlined the actions listed on the table at the top of the next page as potential ongoing funding sources for the amended Plan.

<b>Action</b>	<b>Funding Made Available</b>
Redirect One Cent from the City Lockbox to the Operating Budget	\$3.0 million
Retain All TIF Surplus Declaration	\$4.0 million
Identify New Recurring Revenue in the FY 2023 Budget Process	Unknown
Raise Existing Fees to be Competitive in the Market	\$500,000
Eliminate Long-Term Vacancies	Up to \$250,000
Review/Eliminate Subsidies to State Functions (excluding Sheriff)	Up to \$250,000
Eliminate Curbside Recycling	\$2.0 million
<b>Total</b>	<b>\$10 Million +</b>

***Actions included in the resolution:***

1. **Redirect Capital Funding:** Direct the City Manager to redirect the one cent of the real estate tax allocated to the City Lockbox from the lockbox to the operating budget. In FY 2022 this amount was nearly \$2.8 million and initial projections for FY 2023 have one cent at nearly \$3 million. This means that resources available in the capital improvement program will be reduced and moved to operating budget for FY 2023 and beyond.
2. **Retain All TIF Surplus:** Direct the City Manager to retain all funds declared surplus from the City's two tax increment financing districts for use in the City budget. Since FY 2016, budget practice has been to share a portion of these surplus amounts with Schools. In FY 2022, \$10,124,364 was declared surplus for the purpose of supporting City and School operations and of this amount, \$5,062,182 was allocated to the Schools.

3. Tax/Fee Increases: Direct the City Manager to propose increases to tax and/or fee rates if the savings resulting from programmatic and service reductions to existing city services do not generate sufficient savings to fund the implementation of amendments to the Plan and remain in alignment with City Council's desired outcomes.

It is important to note that as the City Manager prepares the FY2023 budget, staff will conduct a thorough analysis of the estimated resources available and the projected costs necessary to deliver City programs and services, including sustainable funding for the classification and compensation plan. Sustainable funding options include reducing expenditures, increasing available resources, or a combination of the two. As part of the budget development process, the City Manager will review proposed expenditure reductions to existing programs and services to ensure service levels remain consistent with City Council's desired outcomes.

If estimated resources available are determined to be insufficient, the proposed budget will likely include increases to tax and fee rates which may include the meals tax, cigarette tax, automobile license fee, and/or other service fees. These proposed increases will be recommended in an amount to be determined based on the analysis of available resources and programmatic costs.

Any proposed rate increases for the aforementioned taxes and fees will be recommended at a level to remain competitive in the region. It is also important to note that final approval of any tax or fee rate increases associated with the FY2023 budget will occur after public engagement to include budget public hearings and other public hearings, as required.

4. Long-term Vacancies and State Subsidies: Direct the City Manager to review both long-term vacancies and certain City subsidies to State functions to identify possible savings.

This direction shall exclude sworn positions within the Sheriff's Office and, like item 3, shall only be implemented if the savings resulting from programmatic and service reductions to existing city services do not generate sufficient savings to fund the implementation of amendments to the Plan and remain in alignment with City Council's desired outcomes.

5. Recycling Services: Direct the City Manager to end the City's current contract with TFC Recycling. The contract has a six-month cancellation requirement. This would end the curbside recycling program July 1, 2022 and result in a net savings to the City of approximately \$2 million per year. These savings will be redirected in the FY 2023 operating budget. Any proposals related to the future of recycling programs or services will be evaluated as part of the FY 2023 budget development process.

In addition to these actions, the City Manager has asked all departments to provide programmatic and service reductions in preparation of the FY 2023 budget process. Both expenditure reductions and the reallocation of existing resources (as outlined in the actions above) will be the minimum necessary to provide sustainable funding to implement recommended amendments to the Plan for FY 2023 and beyond.

These actions align with City Council's outcome of Safety and Security. Specifically, these actions will fund changes to the Human Resources Classification and Compensation Plan for public safety personnel, which will aid the City's three public

safety departments in the recruitment and retention of qualified staff.

The alternative is to retain the current Human Resources Classification and Compensation Plan. By doing so, these actions would not be required to fund the recommended amendments to the Plan.


Adoption of the Human Resources Classification and Compensation Plan without also adopting the actions outlined above will require significant reductions of current programs and services. The level of reductions required would impair the ability of the City to provide these programs and services in support of City Council's desired outcomes.


Presented to City Council is a request to adopt a resolution directing the City Manager to take certain actions consistent with "Option 2" of the November 16<sup>th</sup> Staff Report in the preparation of the FY 2023 Operating Budget and Capital Improvement Program.

Staff: Jonathan Hobbs, Director of Budget

## Memorandum

**TO:** Christopher M. Price, City Manager

**VIA:** Laura A. Fitzpatrick, Deputy City Manager 

**FROM:** Jonathan Hobbs, Budget Director 

**DATE:** November 29, 2021

**SUBJECT:** Resolution Directing Certain Actions by the City Manager in the Preparation of the Proposed FY 2023 Operating Budget and Capital Improvement Program

### *Overview*

At the City Council's November 16, 2021 meeting, Council requested that the City Manager bring forward the actions necessary to implement recommended amendments to the Human Resources Classification and Compensation Plan ("the Plan") for sworn public safety employees. These amendments are estimated to cost \$13.1 million in FY 2023. Additionally, it is anticipated that the recommended amendments to the Plan related to the general workforce will be presented to City Council in March of 2022. There are two companion items related to this agenda item. The first item is the appropriation and transfer of funds necessary to fund the Plan amendments for the remainder of the current fiscal year. The final item is the amendment to the Plan.

This item is the second action requested by staff to implement the Plan and it is a request to adopt a resolution providing formal budget guidance to the City Manager in the preparation of the FY 2023 operating budget and capital improvement program. The purpose of this item and the accompanying resolution is to request Council direction on budget mechanisms to provide ongoing funding for the Plan. This direction is consistent with "Option 2" as outlined in the staff report of November 16<sup>th</sup> (Attachment A). "Option 2" outlined the actions listed on the table at the top of the next page as potential ongoing funding sources for the amended Plan.

### *Details*

Staff has prepared a resolution based on actions identified in "Option 2." The actions in this resolution are consistent with the City Council's guiding budgetary principles (Attachment B) and direct the City Manager to prepare the proposed FY 2023 operating budget and capital improvement plan in accordance with the actions outlined on the following pages.

Action	Funding Made Available
Redirect One Cent from the City Lockbox to the Operating Budget	\$3.0 million
Retain All TIF Surplus Declaration	\$4.0 million
Identify New Recurring Revenue in the FY 2023 Budget Process	Unknown
Raise Existing Fees to be Competitive in the Market	\$500,000
Eliminate Long-Term Vacancies	Up to \$250,000
Review/Eliminate Subsidies to State Functions (excluding Sheriff)	Up to \$250,000
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<b>Total</b>	<b>\$10 Million +</b>

*Actions included in resolution:*

1. **Redirect Capital Funding:** Direct the City Manager to redirect the one cent of the real estate tax allocated to the City Lockbox from the lockbox to the operating budget. In FY 2022 this amount was nearly \$2.8 million and initial projections for FY 2023 have one cent at nearly \$3 million. This means that resources available in the capital improvement program will be reduced and moved to operating budget for FY 2023 and beyond.
2. **Retain All TIF Surplus:** Direct the City Manager to retain all funds declared surplus from the City's two tax increment financing districts for use in the City budget. Since FY 2016, budget practice has been to share a portion of these surplus amounts with Schools. In FY 2022, \$10,124,364 was declared surplus for the purpose of supporting City and School operations and of this amount, \$5,062,182 was allocated to the Schools.
3. **Tax/Fee Increases:** Direct the City Manager to propose increases to tax and/or fee rates if the savings resulting from programmatic and service reductions to existing city services do not generate sufficient savings to fund the implementation of amendments to the Plan and remain in alignment with City Council's desired outcomes.

It is important to note that as the City Manager prepares the FY2023 budget, staff will conduct a thorough analysis of the estimated resources available and the projected costs necessary to deliver City programs and services, including sustainable funding for the classification and compensation plan. Sustainable funding options include reducing expenditures, increasing available resources, or a combination of the two. As part of the budget development process, the City Manager will review proposed expenditure reductions to existing programs and services to ensure service levels remain consistent with City Council's desired outcomes.

If estimated resources available are determined to be insufficient, the proposed budget will likely include increases to tax and/or fee rates which may include the meals tax, cigarette tax, automobile license fee, and/or other service fees. These proposed increases will be recommended in an amount to be determined based on the analysis of available resources and programmatic costs.

Any proposed rate increases for the aforementioned taxes and fees will be recommended at a level so as to remain competitive in the region. It is also important to note that final approval of any tax or fee rate increases associated with the FY2023 budget will occur after public engagement to include budget public hearings and other public hearings, as required.

4. Long-term Vacancies and State Subsidies: Direct the City Manager to review both long-term vacancies and certain City subsidies to State functions identify possible savings.

This direction shall exclude sworn positions within the Sheriff's Office and, like item 3, shall only be implemented if the savings resulting from programmatic and service reductions to existing city services do not generate sufficient savings to fund the implementation of amendments to the Plan and remain in alignment with City Council's desired outcomes.

5. Recycling Services: Direct the City Manager to end the City's current contract with TFC Recycling. The contract has a six-month cancellation requirement. This would end the curbside recycling program July 1, 2022 and result in a net savings to the City of approximately \$2 million per year. These savings will be redirected in the FY 2023 operating budget. Any proposals related to the future of recycling programs or services will be evaluated as part of the FY 2023 budget development process

In addition to these actions, the City Manager has asked all departments to provide programmatic and service reductions in preparation of the FY 2023 budget process. Both expenditure reductions and the reallocation of existing resources (as outlined in the actions above) will be the minimum necessary to provide sustainable funding to implement recommended amendments to the Plan for FY 2023 and beyond.

### ***Strategic Alignment***

These actions align with City Council's outcome of Safety and Security. Specifically, these actions will fund changes to the Human Resources Classification and Compensation Plan for public safety personnel, which will aid the City's three public safety departments in the recruitment and retention of qualified staff.

### ***Alternative to Recommended Action***

The alternative is to retain the current Human Resources Classification and Compensation Plan. By doing so, these actions would not be required to fund the recommended amendments to the Plan.

Adoption of the Human Resources Classification and Compensation Plan without also adopting the actions outlined above will require significant reductions of current programs and services. The level of reductions required would impair the ability of the City to provide these programs and services in support of City Council's desired outcomes.



## MEMORANDUM

**TO:** The Honorable Mayor and Members of City Council

**FROM:** Christopher Price, City Manager

**DATE:** November 12, 2021

**SUBJECT:** Ordinance Establishing a Solid Waste and Recycling Fee

The City is experiencing significant labor market challenges that have impacted and will continue to impact our ability to provide essential services. This market volatility has been particularly severe in a few core areas including solid waste, public safety, emergency response, and critical infrastructure. Thus far, we have been able to manage our way through this situation by utilizing short term measures including bonuses and targeted reductions in service levels (e.g. trash pickup), however we've also experienced service level reductions in areas that we can't manage in traditional ways, such as increased emergency response times due to a shortage of dispatchers. While we will continue to utilize short term measures such as those noted above, it is not a sustainable long-term strategy; particularly given the critical nature of some of the services that we provide.

As you know, it is very expensive to recruit and train new employees and the cost of turnover is significant, both from a budgetary perspective as well as in the reduced service levels experienced by our citizens and businesses. City Council has long recognized this and has implemented policy choices to ensure that we remain competitive in the labor market. In early 2020, Council directed staff to prepare a classification and compensation study to ensure that we establish and maintain a position within the top three in our market. This past summer, some of our neighboring jurisdictions significantly increased public safety pay and established recruitment programs to incentivize our sworn law enforcement officers to leave the City. In response, we implemented a bonus program for sworn law enforcement officers and accelerated the public safety portion of the classification and compensation study. At the September 29<sup>th</sup> retreat, Council reaffirmed that implementing the study's recommendations is the top priority and directed staff to bring forward possible funding sources, including a potential solid waste fee, as quickly as possible. The solid waste fee was chosen because we are the only one of the seven Hampton Roads cities that does not have this fee and because even after implementing the fee we could retain our current position as having the lowest combination of taxes and fees among those cities. In addition, it would establish a dedicated funding

source for solid waste collection that would recognize the essential nature of the service and allow for it to be operated as an independent business line.

However, throughout this process, we have been consistent in noting that our choices to fund the pay study include reductions in existing expenditures, new revenues, or some combination of the two. As such, on November 9<sup>th</sup>, I presented information regarding alternatives to the solid waste fee so that you would have complete information prior to making your choice. A public hearing is scheduled for November 16<sup>th</sup> in order to preserve the opportunity for Council to consider a solid waste fee should you so choose.

As noted above, Council has made policy choices to ensure we are competitive in the labor market. In addition, Council has adopted budget guiding principles to consider as we make choices. Those principles are:

- No increase in the real estate tax rate
- Do not add new fees
- Do not supplant losses in state or federal funds with local funds
- Deviation from above only when addressing Council's strategic priorities

This is the lens we use when making our recommendations. Given that Council has reaffirmed implementation of the classification and compensation study's recommendations as the top priority, we have prepared the following options that are consistent with your pay philosophy, budget guiding principles, the information that has been previously shared with you, and the direction that you've given to date. As the goal of each option is the same (i.e. implementing the classification and compensation study), the focus of each option presented below is on the funding and timing mechanisms to achieve that goal and any resultant impacts to programs and services.

### **Option 1 – Establish solid waste fee and recycling fee**

This allows for full implementation of the pay plan as quickly as possible, maintains our curbside recycling program, provides capacity to address other Council priorities, and allows us to retain our current position as having the lowest combination of taxes and fees in the region. It is also consistent with Council's budget guiding principles should you determine that implementing the pay plan is a strategic priority. As previously noted, the choices to fund the pay plan include reductions in existing expenditures, new revenues, or some combination of the two, and implementation of the full pay plan does not need to rely solely on new revenues. As such, should Council choose to implement a solid waste fee, three options are presented for your consideration:

- A. Adopt a solid waste fee of \$14/month – generates enough revenue to immediately implement the public safety pay plan upon adoption of the plan by Council
- B. Adopt a solid waste fee of \$22/month – generates enough revenue to immediately implement the public safety pay plan upon adoption of the plan by Council and to implement the general workforce pay plan upon completion and adoption by Council
- C. Adopt a solid waste fee of \$27/month – fully funds our trash and recycling service as an independent business line and generates enough revenue to immediately implement the public safety pay plan upon adoption of the plan by Council, implement the general workforce pay plan upon completion and adoption by Council, and to either address other Council priorities (e.g. public safety training facility) or allow for reduction in other taxes and fees (or both)

If Council chooses to implement a solid waste fee, staff recommends implementing the program as a full cost recovery service (\$27/month) and to continue our curbside recycling program.

We have received some questions about whether or not we can implement a trash fee and eliminate curbside recycling in order to reduce the amount of the fee. While the short answer is yes, the cost savings per household is relatively low (approximately \$2.50 per month) and as such staff does not recommend implementing a solid waste fee and eliminating curbside recycling. However, regardless of the option selected, we will continue to examine ways to both improve our recycling performance and reduce costs.

**Option 2 – Do not establish a solid waste fee and recycling fee. Implement the options presented on November 9<sup>th</sup>.**

On November 9<sup>th</sup>, staff presented a series of alternatives that do not include a solid waste fee. Option 2 reflects those alternatives. This option is consistent with your budget guiding principles, allows for implementation of the pay plan subject to Council policy choices and budget actions (listed below), and allows us to retain our current position as having the lowest combination of taxes and fees in the region. If this option is selected, we will bring forward an implementation plan utilizing the following policy actions:

- Eliminate curbside recycling
- Redirect one penny of the real estate tax from the City lock box to the operating budget and pursue non-local funds (e.g. federal infrastructure spending) to advance capital improvement program projects. Project revenues will be shifted throughout the CIP and funding may need to be delayed or eliminated for a number of currently programmed projects.
- Eliminate long term vacancies

- Direct staff to prepare FY 23 budget declaring the maximum possible Tax Increment Financing (TIF) surplus and retain all TIF surplus funds (this is a deviation from recent practice of splitting the surplus with the schools but is consistent with our historic practice)
- Identify new recurring revenues through the FY 23 budget process in order to sustain the plan
- Direct staff to review subsidies to state functions for possible elimination
- Raise existing fees (e.g. permits) to be competitive in the market and/or to full cost recovery
- Give City Manager additional authority to transfer funds. This will help to enable the pay plan to be funded using budgeted, but unspent operating funds by transferring these funds where needed during the fiscal year, but in and of itself is not a sustainable strategy and does not supplant the need to implement the above referenced items.

If Council chooses this option, we will bring forward the steps necessary to implement the pay study and to adopt the policies necessary to fund that implementation. In order to expedite implementation, we would fund the pay plan with one-time funds (e.g. bonuses) for the remainder of FY 22 and fully fund the pay plan utilizing the actions listed above for FY 23 and beyond. Please note that while we can implement the pay plan with no new revenue sources (assuming Council takes the actions noted above), in order to sustain the pay plan moving forward, the FY 23 budget will likely need to include some new revenue sources. In addition, we will not be able to advance many other Council priorities until such time that alternative funding is secured. Unless directed otherwise, when considering new revenue sources, we will continue to utilize Council's budget guiding principles and ensure a competitive position within the market. If Council selects this option, we will immediately begin to bring forward the agenda items necessary to effectuate.

**Option 3 – Do not establish a solid waste fee and recycling fee. Complete the entire pay plan study (public safety and general workforce), finalize all recommendations, and bring forward an implementation plan as part of the FY 23 budget.**

This option would allow Council to consider implementation of the pay plan in its entirety, weigh it against all other budget choices, and identify the combination of expenditure reductions and revenue increases necessary to fully fund and sustain the plan. However, it delays implementation and continues to rely on short term measures to ensure adequate staffing.

### **Summary**

Each of the options presented above can provide the capacity to implement the classification and compensation study. Option 1 is consistent with the direction that Council has given staff to date

and provides the most reliable funding source to sustain the pay plan, but it does require establishment of a new fee. Option 2 provides a near term implementation strategy and is consistent with your budget guiding principles, but will have impacts to programs and services that we will need to address in the existing budget year and subsequent years in order to sustain the pay plan in the future and address other Council priorities. Option 3, while providing a pathway to implementation, delays that implementation until at least July 2022. As a result, we would continue to rely on short term measures to ensure that we are able to continue to provide services.

As always, we are committed to helping you address your priorities and to implement whichever course Council chooses. Please contact me if you have any questions or if you would like any additional information.

/CMP

## Budget Guiding Principles

ATTACHMENT B

1. NO INCREASE IN THE REAL ESTATE TAX RATE
2. DO NOT ADD NEW FEES
3. DO NOT SUPPLANT LOSSES IN STATE OR FEDERAL FUNDS WITH LOCAL FUND
4. DEVIATION FROM ABOVE ONLY WHEN ADDRESSING COUNCIL'S STRATEGIC PRIORITIES

**A RESOLUTION DIRECTING THE CITY MANAGER TO TAKE CERTAIN ACTIONS CONSISTENT WITH "OPTION 2" OF THE NOVEMBER 16<sup>TH</sup> STAFF REPORT IN THE PREPARATION OF THE PROPOSED FY 2023 OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM**

**WHEREAS**, in July of 2020, at the direction of the City Council, the City Manager authorized the completion of a market-based analysis of the City's classification, compensation, and benefits plan to assess the City's pay competitiveness in the market; and

**WHEREAS**, Arthur J. Gallagher & Company was selected through a competitive procurement process to perform this study and began work in April of 2021; and

**WHEREAS**, the actions of other municipalities, in an attempt to recruit sworn law enforcement personnel away from Chesapeake, led City management to advance the timeline of the component of the classification and compensation study related to sworn public safety personnel and take other short-term measures to include a bonus paid in September 2021 for sworn law enforcement officers in order to remain competitive regionally; and

**WHEREAS**, the City Council has agreed that implementation of the recommendations of the classification and compensation study is its top strategic priority; and

**WHEREAS**, the City Council was presented with a number of options at its November 16, 2021 regular meeting to fund the implementation costs of the public safety portion of the classification and compensation study; and

**WHEREAS**, the City Council directed the City Manager to bring back the necessary actions consistent with "Option 2" of the November 16, 2021 staff report to implement the recommendations of the sworn public safety component of the classification and compensation study; and

**WHEREAS**, these actions are consistent with the City Council's budget guiding principles; and

**WHEREAS**, if available funding is found to be insufficient, the proposed budget will likely include increases to existing tax and fee rates; and

**WHEREAS**, final approval of any tax or fee rate increases associated with the FY 2023 budget will occur only after public engagement to include budget public hearings and other public hearings as required.

**NOW, THEREFORE, BE IT RESOLVED** by the Council of the City of Chesapeake, Virginia, that the City Manager is hereby directed to prepare the Proposed Operating Budget and Capital Improvement Program for FY 2023 by taking the following actions:

1. Redirect the one cent of the real estate tax allocated to the City Lockbox from the lockbox to the operating budget.
2. Retain all funds declared surplus from the City's two tax increment financing districts for use in the City budget.
3. Include proposed increases to tax and/or fee rates if the savings resulting from programmatic and service reductions to existing city services do not generate sufficient savings to fund the implementation and sustainment of the recommended amendments to the Human Resources Classification and Compensation Plan ("Plan") and remain in alignment with City Council's desired outcomes.
4. Review both long-term vacancies and certain City subsidies to State functions to identify possible savings. This direction shall exclude expenditures and positions within the Sheriff's Office and, like item 3 above, shall only be implemented if the savings resulting from programmatic and service reductions to existing city services do not generate sufficient savings (coupled with the actions listed above) to fund the implementation of amendments to the Plan and remain in alignment with City Council's desired outcomes.



5. Terminate the City's current contract for curbside recycling services with Tidewater Fibre Corporation (TFC) Recycling.

**ADOPTED** by the Council of the City of Chesapeake, Virginia, this 14<sup>th</sup> day of December, 2021.

APPROVED:

\_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_  
Clerk of the Council

APPROVED AS TO FORM:

\_\_\_\_\_  
Deputy City Attorney